Market and Opportunity Analysis

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Agenda

- Market types
- Opportunity analysis
- Customer types
- Group exercise/case study
What is a market?
Market

• Market refers to the group of consumers or organizations that is interested in the product, that has resources to purchase the product, and is permitted by law and other regulations to acquire the product.

http://www.netmba.com/marketing/market/definition/
What is a start-up?

• A startup is a *human institution* designed to *deliver a new product or service* under conditions of *extreme uncertainty*.

• Nothing to do with size of company, sector of the economy, or industry.

• In order to survive and grow, it needs to find a viable business model (defined business model last time).

Selected startups
3 years later
Many start-ups fail, not because....

• Lack of energy
• Lack effort
• Lack of passion
• Lack of product
They amongst other fail because..

• They don’t understand there are four types of start-ups
  – Start-ups entering an existing market
  – Start-ups creating a new market
  – Start-ups wanting to resegment an existing market as a low cost entrant
  – Start-ups wanting to resegment an existing market as a niche player
Example

• It’s October 1999
• You are Donna Dublinsky, CEO of Handspring
• Handspring is a start-up in the billion dollar PDA market
• Other companies in that market
  – Palm (original innovator)
  – Microsoft
  – HP
Hanspring’s mission

• Donna told her VP Sales
  – „I need you to take end user demand away from our competitors and drive it into our sales channel“

• VP Sales looked at the other PDA´s on the market and
  – Differentiated Handspring´s product by emphasizing expandability and performance
End result

• After 12 months
  – Hanspring’s revenue was $170 million.

  – This was possible because in 1999 Donna and Handspring were in an existing market
Go back 3 years to 1996
In 1996

• Before Handspring, Donna and her team had founded Palm Computing
  – Pioneer in Personal Digital Assistants (PDA)

• Before Palm arrived on the scene, the PDA market did not exist

• A few failed science experiments like Apple’s Newton had come and gone
What would have happened, if in 1996 Donna had have said to her VP sales „I want you to get 20% of the PDA market by the end of the first year“???
• The VP sales might have said to the VP marketing
  – „I want you to drive end user demand from our competitors into our sales channel“

• The VP of Marketing might have said
  – „let’s tell everyone about how fast the PDA is“
Outcome?
• If they had done this

• There would have been $0 in sales

• Why?
In 1996

• No potential customer had even heard of a PDA
• No one knew what a PDA could do
• There was no latent demand from end users
• Emphasizing its technical features would have been irrelevant
Palm in 1996 needed to

• Educate potential customers
  – What a PDA could do for them
Definition

A product that allows users to do something they couldn’t do before Is a new market

– Palm in 1996 created a new market
– Handspring in 1999 was in an existing market
Lesson

- Even with essentially identical products and team
  - Handspring would have failed
  - If it had used the same sales and Marketing strategy
  - Previously used successfully at Palm

And the converse is also true: Palm would have failed, burning through all their cash, using Handspring’s strategy!
## Type of market changes everything

<table>
<thead>
<tr>
<th>Existing market</th>
<th>Resegmented market</th>
<th>New market</th>
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</thead>
<tbody>
<tr>
<td>• Market</td>
<td>• Sales</td>
<td>• Finance</td>
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<tr>
<td>– Market size</td>
<td>– Distribution</td>
<td>– Customers</td>
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<tr>
<td>– Cost of entry</td>
<td>channel</td>
<td>– Need</td>
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<td>– Launch type</td>
<td>– Margins</td>
<td>– Adoption</td>
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<tr>
<td>– Competitive</td>
<td>– Sales cycle</td>
<td>– Problem recognition</td>
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<td>barriers</td>
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<td>– Position</td>
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<tr>
<td>– Positioning</td>
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<td>– Ongoing capital</td>
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Definitions: Three types of Markets

• **Existing market**
  – Faster/better=high end

• **Resegmented market**
  – Niche=marketing/branding driven
  – Cheaper=low end

• **New market**
  – Cheaper/good enough can create a new class of product/customer
  – Innovative/never existed before
Existing market definition

• Are there current customers, who would...
  – Need the most performance possible?
• Is there a scalable business model at this point?
• Is there a defensible business model?
  – Are there sufficient barriers to competition from incumbents?

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Existing market

Performance

Our Company

Existing Companies
Can competition catch up?

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Existing market risks

• „better/faster“ is an engineering driven concept
• Incumbents defend high-end, high-margin businesses
• Factor in:
  – Network effect of incumbent
  – Sustaining innovation of incumbent
  – Industry (or your own) „standards“
• Established companies almost always win
Existing Market = Linear Sales Growth
Examples

• Yet another LCD TV producer
• 100th pizzaria around the corner
• Antother TV channel, newspaper, radio station
• ..... 
• .....
Resegmented market definition (1)

• Are there customers at the low end of the market who would:
  – Buy less (but good enough) performance
  – If they could get it at a lower price
• Is there a business profitable at this low-end?
• Are there sufficient barriers to competition from incumbents?
Low-end Resegmentation „good enough“ performance

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Resegmented market definition (2)

Niche

• Are there customers in the current market who would:
  – Buy if it addressed their specific needs
  – If it was the same price
  – If it cost more?

• Is there a sensible business model at this point?

• Are there barriers to competition from incumbents?
Niche Resegmentation

„Branding“ has its place

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Resegmented market risks

• „Cheaper“ is a sales-driven concept
• Incumbents abandon low-end, low-margin businesses
  – For sometimes the right reasons
• Low-end must be coupled with a profitable business model
  – Maybe margins are too small to sustain a business

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Examples

• iPhone (niche), overall market mobile phones
• iPad (niche), overall market notebooks
• Red Bull (niche, Energy drinks), overall market beverages
• Android phones (low cost), overall market mobile phones
• Nokia/Microsoft smart phones (low cost)
• Ryanair and e.g. Lufthansa
New market definition

• Is there a large customer base who couldn’t do this before?
  – Because of cost, availability, skill....?

• Did they have to go to an inconvenient, centralized location?

• Are there barriers to competition from incumbents?
New Market

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New Market

• Good news
  – Product features are irrelevant at first
    • No competitors
    • Only pesky start-ups

• Bad news
  – Users unknown
  – Market undefined and unknown
New Market characteristics

• Not about competing with other companies about product features
• But to convince a set of customers your vision is not a hallucination
• Understanding whether there is a large enough customer base who could not do this before
• If the can be convinced the want or need your product
• Whether customer adoption occurs in your lifetime
• Financing: how do you manage the cash burn rate during the adoption phase?
New market risks

• **New** is a market-driven concept

• New has to be unique enough that:
  – There is a large customer base who could not do this before
  – They want/need/can be convinced

• Company manages adoption burn rates
  – Investors are patient and have deep pockets
New Market = Hockey Stick Sales Curve
New market examples

• Compaq: first portable computers for business executive
• Quicken: home accounting market
• Skype: VoIP
• Sony: first portable music device (walkmen)
• Sony: first digital music media (CD)
Hybrid Markets

• Some products fall into Hybrid markets
• Combine characteristics of both a new market and a low-end resegmentation
  – SouthWest Airlines
  – Dell Computers
  – Cell Phones
  – Apple iPhone?
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<th>Resegmented market</th>
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<tbody>
<tr>
<td><strong>Customers</strong></td>
<td>Existing</td>
<td>Existing</td>
<td>New/new usage</td>
</tr>
<tr>
<td><strong>Customer Needs</strong></td>
<td>Performance</td>
<td>1. Cost</td>
<td>Simplicity &amp; convenience</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Perceived need</td>
<td></td>
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<tr>
<td><strong>Performance</strong></td>
<td>Better/faster</td>
<td>1. Good enough at</td>
<td>Low in „traditional attributed“</td>
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<td></td>
<td></td>
<td>the low end</td>
<td>Improved by new</td>
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<td>2. Good enough for</td>
<td>customer metrics</td>
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<td>new niche</td>
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<tr>
<td><strong>Competition</strong></td>
<td>Existing</td>
<td>Existing</td>
<td>Non-consupiton/other start-ups</td>
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<td></td>
<td>incumbents</td>
<td>incumbents</td>
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<tr>
<td><strong>Risks</strong></td>
<td>Existing</td>
<td>1. Existing</td>
<td>Market adoption</td>
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<td>incumbents</td>
<td>incumbents</td>
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<td></td>
<td></td>
<td>2. Nicht strategy fails</td>
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New Lanchester Strategy to analyze and existing market

<table>
<thead>
<tr>
<th></th>
<th>Market Share</th>
<th>Cost of Entry (vs. Leader’s Sale/Marketing Budget)</th>
<th>Entry strategy</th>
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</thead>
<tbody>
<tr>
<td>Monopoly</td>
<td>&gt;75%</td>
<td>3x</td>
<td>Resegment/new</td>
</tr>
<tr>
<td>Duopoly</td>
<td>&gt;75% (combined)</td>
<td>3x</td>
<td>Resegment/new</td>
</tr>
<tr>
<td>Market leader</td>
<td>&gt;41%, 1.7 x market share of next largest company</td>
<td>3x</td>
<td>Resegment/new</td>
</tr>
<tr>
<td>Unstable Market</td>
<td>&gt;26% (biggest player)</td>
<td>1.7x</td>
<td>Existing/resegment</td>
</tr>
<tr>
<td>Open Market</td>
<td>&lt;26%</td>
<td>1.7x</td>
<td>Existing/resegment</td>
</tr>
</tbody>
</table>

The four steps to the Epiphany – Steve Blank
Example existing market

• Market: Office software
• Company: Microsoft, MS >90%
• Products: Excel, Word, Powerpoint
• Monopoly
Exercise (30 minutes)

Take Paul Graham‘s blog article „How to get good startup ideas“ (http://www.paulgraham.com/startupideas.htm) and prepare one slide that summarizes the content and that you present in class

- Give 5 examples for good startup ideas and type of market and
- 5 examples for bad startup ideas and types of market
Break
Market/Opportunity Analysis

How Big is It?: Market/Opportunity Analysis

– Identify a Customer and Market Need
– Size the Market
– Competitors
– Growth Potential

http://www.slideshare.net/sblank/class-1-course-overview-berkeleycolumbia-lean-launchpad-xmba-296t
How Big is the Pie?

Total Available Market

- How many people want/need the product?
- How large would the market be (in $’s) if they all bought?
- How many units would that be?

How Do I Find Out?

- Industry Analysts – Gartner, Forrester

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How Big is My Slice?
Served Available Market

- How many people?
- How many people have the money to buy the product?
- How large would the market be (in $’s) if they all bought?
- How many units would that be?

How Do I Find Out?
- Talk to potential customers

Total Available Market
Served Available Market

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How Much Can I Eat?

Target Market

- Who am I going to sell to in year 1, 2 & 3?
- How many customers is that?
- How large is the market be (in $’s) if they all bought?
- How many units would that be?

How Do I Find Out?

- Talk to potential customers
- Identify and talk to channel partners
- Identify and talk to competitors

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Segmentation
Identification of groups most likely to buy

- Geographic
- Demographic
- Psychographic variables
- Behavioral variables
- Channel
- etc…

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Total available Market, Served
Available Market, Target Market

TAM = how big is the universe

SAM = how many can I reach
with my sales channel

Target Market (for a startup) =
who will be the most likely buyers

http://www.slideshare.net/sblank/business-model-for-startups
Rent out your parking space

http://www.slideshare.net/sblank/xoom-park-bmcinternationalnewsp-autosaved
How to estimate Sales?
2 approaches

• Top – down forecast
• Bottom – up forecast
Top – down Example

• Company selling Internet access in China
  – 1.3 billion people
  – 1% want Internet access
  – We´ll get 10% of the audience
  – Each account yields $240 per year
  – 1.3 billion people X 1% addressable market X 10% success rate X $240/customer = $ 312 million!!
  – Very conservative numbers!!!
Bottom – up example

• Bottom–up is approach used by bootstrappers
• Each sales person can make ten phone sales calls a day that get through to a prospect
• There are 240 working days per year
• 5% of the sales calls will convert within six months
• Each successful sale will bring in $240 worth of business
• We can bring on board five sales people
• 10 calls/day X 240 days/year X 5% success rate X $ 240/sale X 5 salespeople = $ 144,000 in sales in the first year

Guy Kawasaki „The Art of the Start“ pp. 81
Where to start??

Customer types
Types of customers

In the Beginning
*Insight - The Chasm*

Customer discovery

early evangelists

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Early evangelists

- Special breed of customers
  - Willing to take the risk on your startup’s product/service
  - Envision its potential to solve a critical and immediate problem
  - Have the budget to purchase it
  - Unfortunately most customers don’t fit that profile
Example for late adopter

- Imagine a bank with a line around the block on Fridays as customers wait an hour or more to get in and cash their paychecks (problem in the US)
- You are one of the founders of a software company
  - Whose product could help the bank reduce the customers’ waiting time to ten minutes
  - You go into the bank and tell the president:
    - “I have a product that can solve your problem“
    - What problem? Customer who does not recognize he has a pressing need you can help him with

No time in the first two years of a start-up he will be a customer -> late adopter

Any feedback from him about product needs is useless
Example for pragmatist

• Another response from the president:
  – “Yes, we have a terrible problem. I feel very bad about it and I hand out cups of water to our customers waiting in the line during hot days.”

  He recognizes the problem and does something about it

  Has not been motivated to do more than putting paper over the symptoms

  He might provide useful feedback about the types of problems

  Likely not to be the amongst the first customers but maybe later
Example for earlyevangeslist

• It´s a good day and you run into a president who says

• „Yes this is a heck of a problem. In fact we are losing over $500,000 a year in business.
  – I have been looking for a software solution that will cut down our check cashing and processing time by 70%.
  – The software has to integrate with our bank´s Oracle backend, and it has to cost less than $150,000.
  – And I need it to be delivered in less than six months.“
Even better

• „I haven’t seen a single software package that solves our problem, so I wrote a request for our IT department to develop one.

• They’ve cobbled togther a solution, but it keeps crashing on my tellers and my CIO is having fits keeping it running“
You are almost there

- You have found a customer
  - Who has such a desperate problem
  - He has started to build a homegrown solution
  - He is willing to pay a proper price (and also mentioned it to you)
  - And wants it now
Early evangelist Characteristics

- Has or can acquire a budget
- Has put together a solution out of piece parts
- Has been actively looking for a solution
- Is aware of having a problem
- Has a problem
Case study – Aardvark – in Groups (40 mins)

• What market is the product in?
• How did the team test the market interest prior to building a product?
• What were their product design principles?
• What did they do to gather user feedback during the whole process?
• How did they act in case of difficult to build user interfaces or back end systems?
• What is a „Wizard of Oz“? What did they use it for?
• How did they use their blog to nail down the product-market fit?
• What was their MVP?
• How did they implement customer development in their company?
• How did they gather feedback for finetuning the product after the official launch? Did they ever stop gathering feedback on new features?
• What business/revenue model did they want to apply?
• How was their growth plan for 2009-2012? In terms of users and revenue?
  – Was it a realistic plan?
• What challenge did they face trying to achieve that growth?
• What did they try to accelerate growth? How well did it work?
• What was the risk in starting to sell the service to companies?
• What happened to Aardvark?
Acknowledgment

• This presentation is based on Steve Blank’s presentation „Lecture 2 – Business model and customer development, accessible at http://www.slideshare.net/sblank/lecture-1-business-model-customer-development

• And Customer Development Classes 1 and 2, accessible at http://www.slideshare.net/sblank/090409-class-1-and-2
Q&A

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