

Workshop 3 – Market Analysis

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WORKSHOP 3 - Market Analysis

Rick O'Connor

How much money can I make?

- Who are my target customers (the addressable market)?
- How big is this market and what share can I get?
- What are their key characteristics and selection criteria?
- How much will they buy?
- What economic, political, social, etc. trends may affect them?

About the Speaker

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- Rick is a proven industry executive with 25 years of experience who has been recognized as one of **Canada's Top 40 Under 40TM** business leaders. His work has been focused on leading-edge product & business development with emphasis in the areas of strategy formulation and execution, marketing and business development, new product development and introduction, strategic relationship management and driving M&A activity.
- Rick is also President of  a grassroots, community-based, organization focused on stimulating new opportunities in Ottawa's hi-tech community. The network is driven by a dedicated and passionate team of business leaders devoting their time to help our community and by the financial support of corporate sponsors who believe in the benefits of a strong and innovative local hi-tech industry.

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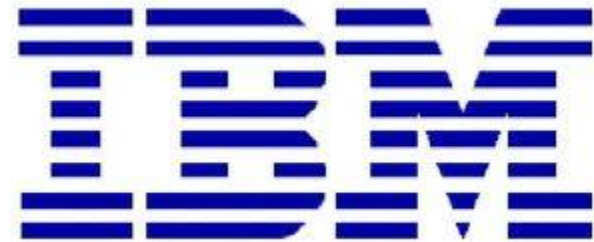
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- With the proud support of our sponsors, The Ottawa Network is hosting our 3rd Startup Boot Camp weekend 25th – 27th Feb 2011.
- Details & Registration here...

<http://tonsbc.theottawanetwork.com/tonsbc-overview/tonsbc-format>



What is Market Strategy?



The Challenge: A New Offering



- I don't know who you are.
- I don't know your company.
- I don't know your company's product.
- I don't know what your company stands for.
- I don't know your company's customers.
- I don't know your company's record.
- I don't know your company's reputation.

- Now—what is it you wanted to sell me?

The “Deal-closing” Challenge: Four Parties



Thought Leaders

Trends – New Categories
Paradigm Shifts – Value Chains



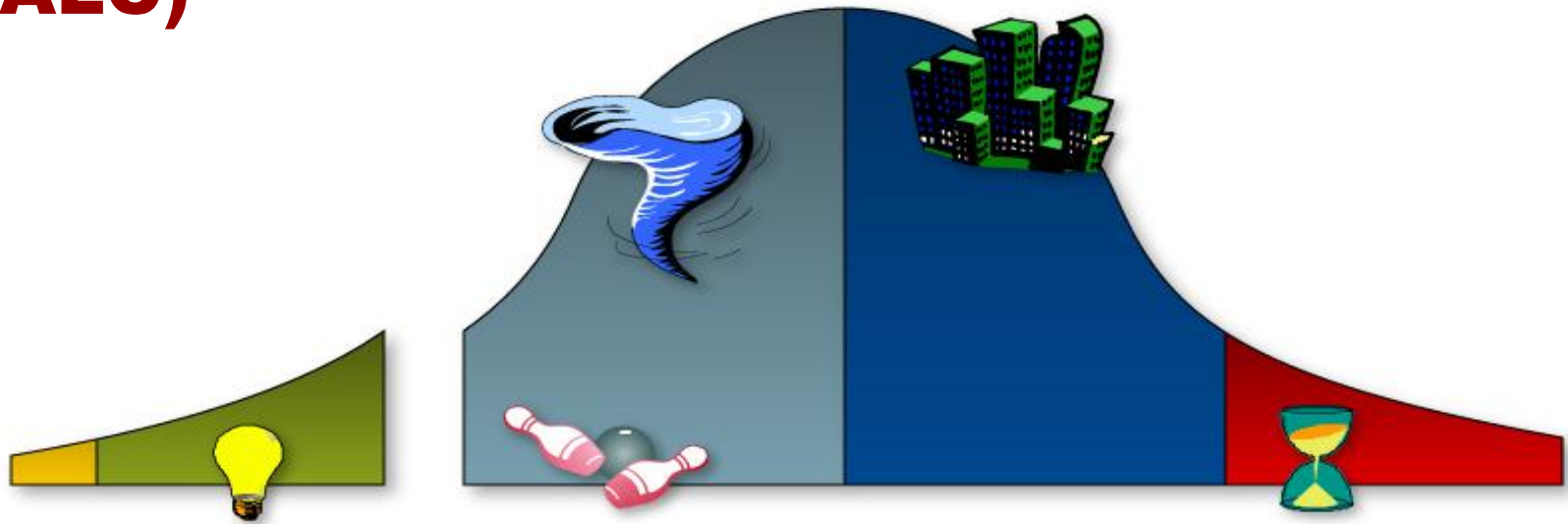
You

Competition

Direct – Indirect – Old paradigm
Status Quo



Technology Adoption Life Cycle (TALC)



Customer Mindset: (Stage)	Techie “cool!”	Visionaries “let’s be ahead”	Bowling Alley Pragmatists with a problem	Tornado Move with herd (e.g. IT)	Mainstreet Conservatives	Skeptics
Product Type:	Generic New Category	Incomplete	Expected Whole Product	Easy Plug-in Solution	Augmented	Assimilated

“Inside the Tornado” Geoffrey A. Moore and “The Chasm Companion” Paul Wiefels

Acknowledgement



- Much of this content was developed as part of OCRI's Entrepreneur's Edge program
- Visit <http://entrepreneurship.ocri.ca/> to learn more about how OCRI can help you start your business.

4 Key Areas to Address

1. Market Segmentation
 - What market(s) will we serve?
2. Market Sizing
 - How big is the opportunity?
3. Understanding the Value Chain
 - What does the consumption model look like?
4. Nailing Customer Value
 - Why will they buy from me?

1 - What is our target segment?

- A market:
 - people or organizations with needs
 - money to spend
 - willingness to spend it
 - Consumer or Business
- Market segmentation
 - Groups consumers into clusters based on similar characteristics
 - Basis of segmentation must be measurable with accessible data
 - Segments must be accessible
 - Segments must be large enough to be profitable

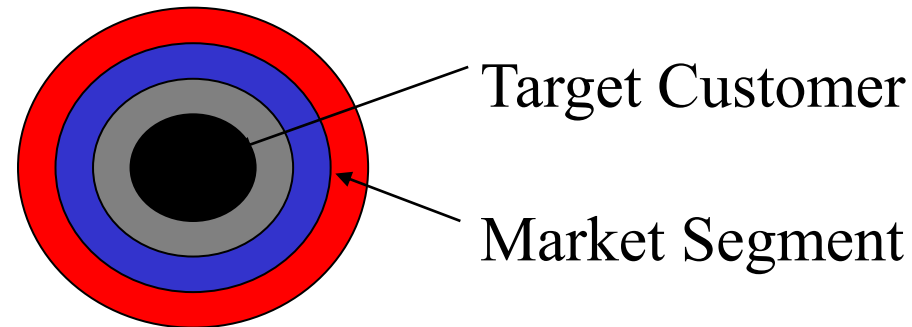
Traditional Market Segmentation

- Define by physical attributes
 - Geographic location
 - Demographics
 - Socioeconomic
- Define by behavioral attributes
 - Psychographics (lifestyle, social class, attitude)
 - Behavioral (perceptions, preferences, image)
 - Product-related (usage [high, med, low], benefit)
 - Behavioral is a much better indicator of willingness to buy...
...but VERY DIFFICULT to address

EXPENSIVE TO DO & TIME CONSUMING

Build Segments from Target Customer out

- Define segments by their center point
- Work with target customer
- REPEAT with others - Is this a market?
- Look for validation of value
 - Customer will not tell you a solution but will often tell you the problems



Choose most lucrative segment

- Profile customers in each segment
- Analyze and Rank
 - Profitability of segments - Can you make money?
 - Competitors - who are they, and can you compete?
 - Segment sales potential - Quick Revenue projections
 - Cost to address segment
 - Is this a growing market
 - Is there a compelling reason to buy - **a burning problem**
- Focus on one market segment

2 – Market Sizing

- Forward Projections
 - Top down - Market research
 - Bottom up - number of seats/ customers/ installed base/ frequency of purchase/ average price
- Projections for PC market in 1978 were that the market would grow to \$2B by 1985 [Actually was \$25B US]
 - Even the pundits can get it wrong!
- Objective is to estimate revenue potential
 - Determine if this segment is worthwhile pursuing
- Be realistic - most projections overestimate customer take up and revenue

How do you get the data?

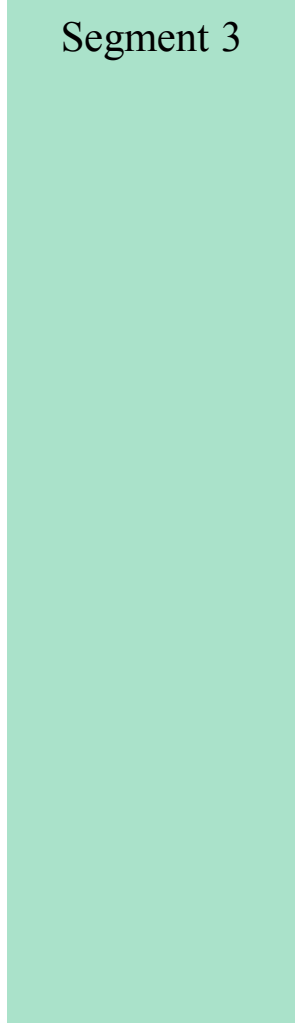
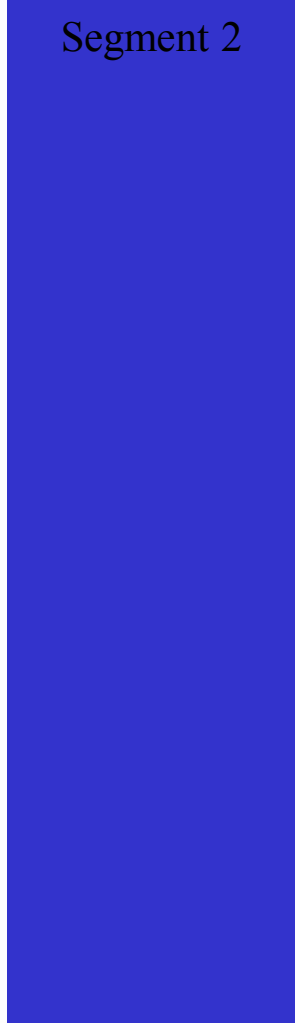
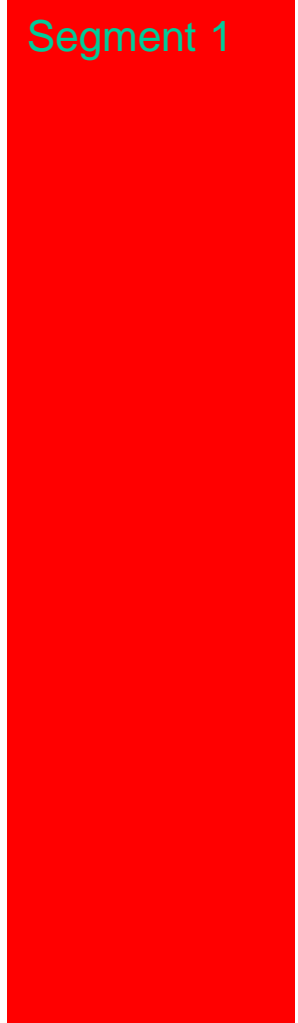
- Primary Market Research
 - Key Techniques- focus groups, interviews, trade shows etc.
 - Can be very expensive & resource intensive
 - Large companies spend \$100's of millions
 - However – we can use the web
 - survey monkey, stats on the web, demos and trials.....
- Secondary Market Research
 - Key Techniques
 - Professional market research reports
 - Competitors
 - Web searches
 - Trade magazines and professional associations - especially the publications your target customer reads, including the ads
- Beg / borrow
 - Web (teasers), journals, government, libraries, investors

Market Size – “Available”, “Served” & “% Share”

- Identify key target markets – & sizing info
- Create TAM, SAM & SOM analysis – 5 years
 - TAM (Total Available Market) – Total solution spending
 - SAM (Served Available Market) – Apps, Companies, Buyer types, Geographies we can serve
 - SOM (% Share of Market) – The % we aim to win
- Show key trends & customers
- Rank markets by attractiveness

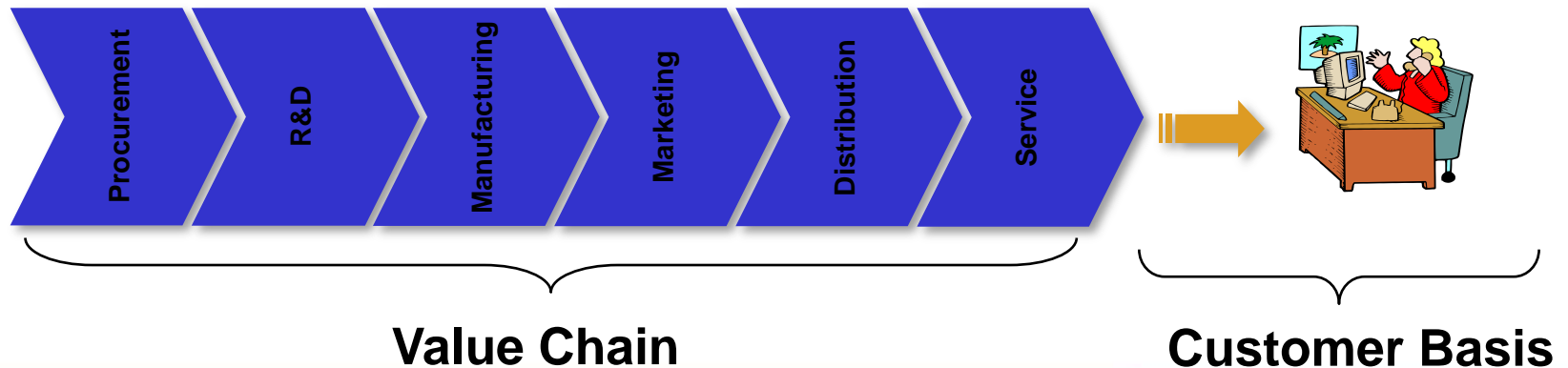
Segment Ranking (beyond size)

<i>Segment Characteristics</i>	<i>Wt.</i>
Accessible, Well Funded Target Customers	20
Painfully Compelling Reason to Buy (CRTB)	30
Feasible Whole Product	10
Known Partners & Allies	5
Effective Whole Product Distribution	5
Attractive Pricing	5
Competition	10
Consistency with Current Positioning	5
Follow on Segment Potential	10



3 - Value Chain (Consumption Model)

- Value chain describes full range of business activities
 - Linked set of value creating activities
 - From raw material to end use product
 - Components – Systems – Services – End Consumer / Application
- You are not alone!
 - Every company has inputs (suppliers)
 - Requirement for specialists (manufacturing and field support)
 - Outputs (distribution and sales)



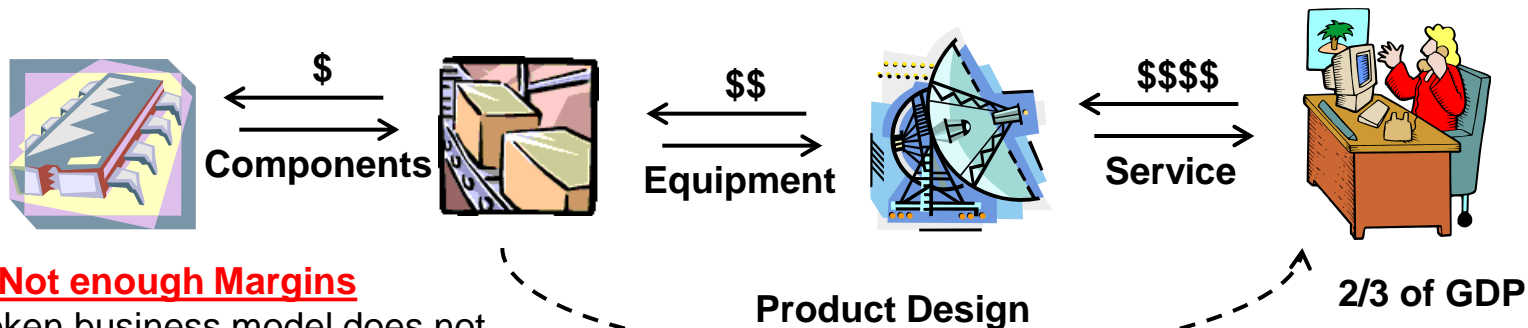
High Tech Value Chain Failure Modes

#3 - Don't have TOTAL PRODUCT

Major part of product is support and financing
- difficult to sell against major players
Understand customer's problem - what is it that they want? A complete offering!

#2 Don't understand your Customer

Manufacturer does not understand service provider business model
Know who is next in chain



#4 Not enough Margins

Broken business model does not provide enough margin - costs too high
Redesign and simplify to reduce costs,
Are you in the wrong market?

#1 - No BURNING End Customer need

Push technology at customer instead of designing to customer need
Test and validate your value proposition with end user and your customer!

4 - Nailing Customer Value.....

- Understand who our customer is and why they are going to buy from us - key to building value in our company - VALUE PROPOSITION
 - For (target customer) who have (need/problem) the (product/service) is a (category) that delivers (key benefit/ compelling reason to buy)
- What do they need – Category / Need
- Why do they need it- Compelling Reason to Buy
- When do they need it – Burning Problem
- Who is the target customer – Segment
- How will they buy it – Value chain
- How many will they buy – Revenue Forecasts

Benefits of Strong Value Proposition

- Deep penetration of specific segments
 - #1 versus “me too”
- Deliver tangible results like:
 - Increased revenues
 - Faster time to market
 - Decreased cost
 - Better use of limited resources
 - Increased market share
 - Decreased employee turnover
 - Improved customer retention levels
- Almost always exhibit higher profitability

Value Proposition Template

For: _____ (target customer) _____

Who have: _____ (need/problem) _____

The: __ (product name) __ is a __ (category) __

That delivers: _____ (key benefit-CRTB) _____

Unlike: _____ (primary competitive alternative) __

Our Product has: __ (primary differentiation) __

“It’s not what you write down, but what you have to give up.”

Geoffrey Moore

Value Proposition – Example

For: _____ typical families

Who have: _____ a local transportation need

The: __Model T__ is a__ horseless carriage

That delivers: _____affordable transportation

Unlike: _____ a horse and buggy

Our Product: __does not require the long term care and maintenance of a horse, or the space required for a barn

Understand Customer's Pain

- Do they have a **Burning Problem** and what does it cost them
 - Look for 4x minimum value difference (10x is preferred) over 'do nothing'
- Is this a real problem or mild disturbance
 - “vitamin” or “pain reliever” ?
 - What might our solution save them?
- What do we need to do to solve the client's pain today
- Customers hire products to get a job done

How do we find our Value?

- **Brainstorm** on what we believe our value is and how it solves their **burning problem**
 - INTERNAL ANALYSIS:
 - How does our company create value?
 - What are our core competencies?
 - EXTERNAL ANALYSIS:
 - How are we different from our competitors? Are there substitutes?
- **Talk (and Listen)** to Prospective Customers
 - Pitch them your value proposition
 - “The logical approach is the wrong way to go about understanding customer needs. You must talk to them, watch them; this is the only way to understand their interests, motives, needs” Donald Norman
 - IDENTIFY ONE CORE VALUE
- **Validate** the benefit
- Test with other customers
- Use this to identify right: **price**, risk, channel and availability

Summary - 4 Key Areas to Address

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