

Introduction

I regularly carry out strategic market assignments for my clients in the technology sector, in order to effectively inform their start-up or scaling strategic business plan.. In addition as an entrepreneur and investor, businesses which I am involved with or, investment opportunities I review, require a strong assessment of the Market. Frequently I am presented with very loose definitions of the market, large numbers and little evidence of what the true market opportunity is for a product, service or solution.

We all know that understanding your market is very important for business success, understanding is not just defining the number of potential clients, listing the big ones and then coming up with a financial number that describes the size of the market. We need to be able to demonstrate there is sufficient potential customers that our business can reach, where we have a compelling solution to a problem/opportunity they have and, we can with confidence convert them to paying customers.

So here are my ten step tips based on 35 years' experience in the technology sector and available research:-

10 Step Tips for Market Definition & Sizing

Evidence:-

It is important that for each aspect that defines our business and, the potential of that business that we think about the evidence we have for our statements, definitions and assumptions. Quantitative and Qualitative evidence is essential to assure stakeholders the plan has merit. Credible 3rd party opinions and data are important, however the teams opinions, feelings and statements based on experience only have strength if backed up by evidence. ***(Creating trust & belief)***

Advantage:-

What compelling business proposition/value proposition do we have in our offering to a customer that gives us clear advantage and differentiation greater than all the other options the customer has to solve the problem or address the opportunity. Before we dive into our market study and definition the team need to have clarity on the advantage that exists or can be created. ***(Visible Advantage to customers)***

Customer:-

Clear definition of who the customer(s) are, what are the traits of an ideal (sweet-spot) customer. This is very important, not just to list a few names of potential customers that might buy, but a clear definition of the main dimensions/traits such as Industry, Size(e.g., headcount, revenues, profits, by type), Geography, technology, structure, history etc. The nature and scale of the problem/opportunity and the pain/gain for the customer enabling the team to prioritise the target profile from "Low hanging fruit" to sustainable customer base. Here we need some indication of the business case for each customer type, which includes understanding the numbers around your pricing, their spend and costs and the resulting benefits. ***(Real customers are identifiable)***

Market Definition:-

The definition of the market is the explicit statement of the size and traits of the groups of customers you are targeting, what all customers have in common and any relevant differences that do not exclude the members from being a potential customer. Segmentation is a way of creating relevant sub groups where you have an advantage but, the presentation, positioning, provision and product may be different for the different groups. There are many different ways of segmenting the market but there should be a clear reason and, driver for your particular approach for each.

Segmentation could be by Industry, Geography, Technology, Maturity, Structure, Size of Organisation, Nature of use of your product and/or service and many other scenarios.

Demonstrating your understanding of the markets, its breakdown, its size and its dynamics is essential for strategic and operational decisions and plans. It's also essential to demonstrate and understanding of all the different players, roles and business models that go to make up the market and influence the market or its dynamics, so who are the stakeholders, customers, competitors, societal participants, regulators, government etc.

Market structure and dynamics:-

How is the market organised? How does it behave? What is its history?, What current changes are underway? What is happening in the environment that will cause future changes? And what are the opportunities, consequences and contingencies in your business to take advantage of the current and future market developments? Some organisations will claim they have a "Game Changer, or Market changer", these are few and far between, so beware of making these types of claims unless you have evidence. When we discuss Markets at this level we may be referring to segments and segments may have different dynamics and traits and therefore we have identified them as segments because our approach to each may be different. Is the market homogeneous or heterogeneous? in that customers and groups of customers are very similar or perhaps the other end of the spectrum they are very different, and how does that affect the business and business model? Is the market growing, static or declining and if so why? And what is it that makes this interesting for stakeholders? We know that a growing market is more attractive for most business in that you are not always trying to take market share from a competitor but also have new customers or growing customer needs becoming available.

Available Market:-

Sometimes the term available market is mixed up with the total market or the addressable market. The available market, excludes those components of the total market that either, are, or will not be available, or the team have decided they will not address a section of the market now or in the medium term. For example the size of the CRM software total market may include every cent spent on CRM whether it is an internal proprietary customer team that do everything internally, versus customers who procure products and services related to CRM. Or perhaps the broad definition of CRM includes many potential s/w products that are not core CRM products but have elements of CRM. Or for example the product offering is designed for a USA market and meets regulatory and language needs for the USA but is not localised for Asia.

Addressable Market:-

The addressable market is that market your organisation can reach and access, right now or within the resources of your plan. Most business organisations will have expressed an ambition for its future performance over the period of the plan, or within the strategic vision. Some will have global dominance and leadership as a vision, this will need careful scrutiny. Of course this is admirable and possible if the market is niche, your advantage is compelling and significant, and management and leadership have evidence they can realise the vision and execute the plan. Again the reality is attractive markets attract lots of competition, great products and services will be copied, not all management/leadership will be able to realise the potential. So the addressable market is that market that the companies resources and business model have the capability to reach over time whether it be direct or indirect, virtual (eBusiness) or physical (Traditional business).

Beach-head Market:-

The beach-head Market is the starting point, unless you have significant resources, knowledge, experience and relationships a big bang approach does not work. Naturally if you are entering new market or with new products and services from within a large organisation with global reach then you have the need and potential to have greater scale of entry ambitions. For most organisations there is a need to be really focused, to get the best return on the available resources and capability and to allow for learning. The beach-head may be what we have considered as “The low hanging fruit above”. It’s about creating early success and momentum in sales and adoption. It often comes from understanding the sweet-spot customer profile, the most attractive segment, and the capability to reach and sell quickly because of previous relationships, knowledge, proximity or other traits of your organisation and team.

Competition:-

Competition often calibrates your opportunity for success ,and achieving your goals. It can influence the feasibility and/or viability of the business. Every market study must demonstrate an understanding of the nature of competition and who the competition are? Competition is about the choices/options the customer has, from do nothing or do it ourselves to solving the problem using different types of suppliers , who come at the problem from different angles. There may be different groups of competitor types who can influence the customer or market buying behaviours so understanding the strengths and weakness of each type is important. Listing the key players and the most direct players for your organisation and offering are key, as is drawing out the competitive strengths and weakness of each. Creating the analysis of the data and evidence that are the basis for your plans and assumptions about the markets and customer acquisition and retention is essential.

Research:-

You must do the research and be able to demonstrate that you did the research, and that the data, information and basis for assumptions, decisions and recommendations are credible. There are two forms of research , both of which are essential. Primary research is direct research where there has been relevant and recorded meetings and contacts within the target market participants, who provide data and information relevant to your market study, who validate your assumptions and

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who are central target participants when you launch. Most important primary research targets are, of course are potential customers. Secondary research of course is equally important, it avoids re-inventing the wheel, it allows industry analyst, association and expert data and information to support your assumptions and business plans.

Conclusions

It is so easy to shortcut doing effective market research, leading to poor market definition and sizing, which results in dilution of the business plan and its potential to execute successfully. It's easy potentially to get stakeholders excited because you state that you are in the current "Hot Market" that everyone knows about, firstly you may not actually really be in that "Hot Market" and as we know business success is about doing many different things well, to realise the potential. Of course the other end of the spectrum is you get pigeon holed into what may be perceived as a dead market because you failed to demonstrate with evidence the real opportunity.

It's not difficult, It takes a bit of time, and it requires strategic, tactical and operational competence to in effect follow the 10 steps/tips and really create a solid foundation for your business and services. Between your team members you may have the capability to do it right but there are many competent and cost effective consultancies or individuals that can bring the complementary skills to your team and get the Market study completed.

Beware

- Market study and analysis is not a once off exercise, it becomes an organic and integrated way you manage your business continually sensing and adapting to create value.
- Use an advisor who understands your business and industry and has done it before, ideally a successful business leader.
- Offshore and freelancers who either do a poor "*cut and paste*" secondary research without any real analysis, or do expensive primary research that also could potentially misinform you.
- You must own the process and outcomes and be actively involved.

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