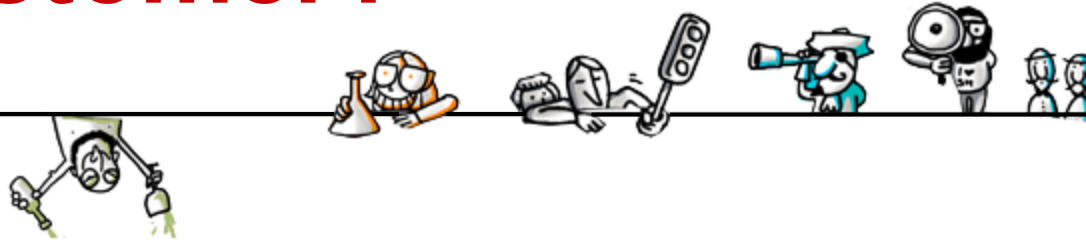


15.390x

Who is your customer?



Market Segmentation

March – May 2014

Review Notes

The Point of 15.390x



Seeing the world
through
the eyes of the
customer

vs.



Seeing the world
through
the perspective
of the company

15.390x

Who is your customer?

THE SINGLE NECESSARY AND
SUFFICIENT CONDITION FOR A
BUSINESS IS...

A PAYING CUSTOMER

Who is my customer?

“Customer” refers to the entity, such as a household, organization, or individual who pays for, acquires, and uses your product

Customer and End User aren't always the same!

Within the broad definition of a customer are:

- End User: who ultimately uses your product
- Economic Buyer: who makes the final decision to purchase your product

Watch out for complex cases!

The customer and end user can be the same person or different persons depending on the situation.

In multi-sided markets or business-to-business settings, your customers and end users are likely to be different people.

Market Segmentation: Objective

The Big Picture:

Identify a multitude of markets that could be potential opportunities – markets with a problem that your product/service can solve. Break these markets into segments, do direct market research on a several to decide which of these markets is best for you.

Market segmentation allows you...

... to capture a wide spectrum of market opportunities and understand the pain points of your consumer in order to be able to design a solution that will be of great value to them. This research will also help you to select a beachhead market.

Market Segmentation

- Step 1A: Brainstorm
- Step 1B: Narrow
- Step 1C: Primary Market Research

Market Segmentation: Brainstorm

- Start by brainstorming a wide array of market opportunities
 - Include all the “crazy” long-shot ideas because they are helpful in expanding the boundaries of possibilities to where some of the most interesting opportunities might exist

Then identify potential industries for your idea

- List who might benefit in each industry from your idea
- Focus on end users, not costumers, because you need a committed group of end users to have a sustainable business

Next, identify the different tasks your end user performs

- There may be similarities between certain subcategories that you can group but do not start combining categories without knowing more about your customer

Important Note!

- When you segmenting, you will find there are a lot of segments and that seemingly broad categories have a lot of important differences
- Be broad and expansive when segmenting end users for your new product. You are brainstorming now, later you will narrow the list as you analyze each segment

Market Segmentation: Narrow

- After identifying numerous potential end users and applications for your idea or technology, the next step is to list the top 6-12 interesting market opportunities
- Market opportunity = specific end users + unmet need

Start by asking the following 7 questions at an industry level

- Then consider what the answers would be for the end user of your product
- Since you will be researching each of these markets in depth, you don't have time to consider an unlimited number of options. 6-12 market opportunities is more than sufficient (with 6 being a much more realistic number)

Narrow – QUESTION 1

1. Is the target customer well-funded?

- If the customer doesn't have money, the market is not attractive because it will not be sustainable and provide positive cash flow for the new venture to grow

Narrow – QUESTION 2

2. Is the target customer readily accessible to your sales force?

- You want to deal directly with customers when starting out instead of relying on third parties to market and sell your product, because your product will go through iterations of improvement very quickly, and direct customer feedback is an essential part of that process. Also, since your product is relatively new and never seen before (and potentially disruptive), third parties may not know how to be effective at creating demand for your product

Narrow – QUESTION 3

3. Does the target customer have a compelling reason to buy?

- Would the customer buy your product instead of another similar option? Or, is the customer content with whatever solution is already being used?

Remember, on many occasions, your primary competition will be the customer doing nothing

Narrow – QUESTION 4

4. Can you today, with the help of partners, deliver the whole product?

- Your customer usually wants to buy a whole functional solution, not one they have to assemble themselves. You will likely have to work with other vendors to deliver a solution that incorporates your product, which means that you will need to convince other manufacturers and distributors that your product is worth integrating into their workflows

Narrow – QUESTION 5

5. Is there entrenched competition that could block you?

- It is rare to enter a market with no other competitor.

How strong are these competitors, from the customer's viewpoint (not your viewpoint or from a technical standpoint)? Can the competition block you from starting a business relationship with a customer? And how do you stand out from what your customer perceives as alternatives?

Narrow - QUESTION 6

6. If you win this segment, can you leverage it to enter additional segments?

- If you dominate this market opportunity, are there adjacent opportunities where you can sell your product with only slight modifications to your product or sales strategy? Or will you have to radically revise your product or sales strategy in order to take advantage of additional market opportunities? While you want to stay focused on your beachhead market, you do not want to choose a starting market from which you will have a hard time scaling your business

Narrow – QUESTION 7

7. Is the market consistent with the values, passions, and goals of the founding team?

- You want to make sure that the founders' personal goals do not take a back seat to the other criteria presented here

Market Segmentation: Primary Market Research

How:

- Start a market matrix
- The matrix is filled in from Primary Market Research – this information is not collected by you sitting in a class room, debating in a library, by doing internet searches or reading reports
- This needs to be Primary Market Research from direct interaction with real potential customers about their situations, pain points, opportunities, and market information!

Example Market Matrix

Industry	Entertainment	Industrial Design	Medical Visualization	Surgical Simulation	Micro Surgery	Geophysical Visualization	Non Visual C.H.I.	Prototyping	V.R.
End User	• Animator	• Stylist • Designer	• Radiologist • Surgeon	• Med Student • Surgeon	• Surgeon	• Geophysicist	• Blind Person	• Engineer	• Researcher • Designer
Application	• Sculpt • Animation • Paint	• Sculpt • Paint • Modeling	• Segment-ation • Navigation • Surgical planning • Diagnosis	• Training • Surgical planning	• Ophthalm. Surgery • Neurosurgery	• View enhancement • Drill plan	• H.U.I.	• Design review • Model evaluation	• Architect Render • Simulation • Training
Benefits	• Ease of use • Reduce cycle	• Reduce cycle • Increase accuracy	• Ease of use • Increase accuracy	• Increase use of new tech. • Increase accuracy	• Reduce cycle • Increase accuracy	• Reduce errors • Increase yields	• Increase access, “mainstream”	• Reduce cycle • Improve designs	• Realism • Increase Accuracy
Lead Customers	• Disney • ILM • Dreamworks	• Toyota • Ford • Rollerblade	• Brigham & Women's • German Cancer Rsrch	• U of Colorado • Penn • BDI	• Dr. Ohgami • Ottawa Eye	• BHP • WMC / CSIRO	• Certec • U Delaware	• Volkswagen • Stratasy's • Toyota	• Boeing • Corrie Latham • NASA
Market Characteristics	• Early adopt. • High-priced talent • High growth	• Dislike CAD & computers • High-priced talent	• Mainstream • High-priced talent • HMO	• Mainstream • High-priced talent • HMO	• Early adopt • High Priced talent • HMO • Not computer automated	• Late main. • Oligopoly	• Late main • No money • Gov't sponsor	• Mainstream • Pressure to reduce prod. cycle	• Early adopt • Fuzzy ROI • Slow accept
Partners/ Players	• Alias • Soft Image • Discrete Logic	• PTC • Alias • Imageware	• GE • Siemens • Picker	• Smith & Neph • Heartport • Ethicon • US Surgical	• Toshiba • Hitachi	• Landmark • Fractal Graphics	• IBM • Apple • SUN • HP • Microsoft	• PTC • Solid Works	• Sense 8 • Division • Coryphaeus
Size of Market	40,000	X00,000	X0,000	X0,000	X,000	X,000	X,000,000	X00,000	X,000
Competition	Watcom	None yet	None yet	Immersion	None yet	None yet		None yet	• None yet
Platform	• SGI • Windows	• SGI • SUN	• SGI • SUN	?	None	• SGI • SUN	• Windows	• SUN, HF	• SGI • SUN, HF
Needs	• NURBS • Stylus • Dynamics	• NURBS • Stylus	• Voxels • Stylus • VRML	• 6 DOF • Custom devices	• 3 Finger scaling	• Voxels • Stylus	• Windows I/F • P300	• NURBS • VRML • Dynamics	• Polygons • Dynamics • 2-finger?

Market Segmentation: Primary Market Research

3 important things to keep in mind when conducting primary market research:

1. You do not have “the answer” for your potential customers and their needs
2. Your potential customers do not have “the answer” for you
3. Talk with potential customers in “inquiry” mode, not “advocacy/sales” mode. Listen to what they have to say, and don’t try to get them to buy anything

Market Segmentation: Primary Market Research

The 9 main categories you want information on for each market include:

1. End User: Who specifically will be using your product?
2. Application: What would the end user be using your product for? What is the task that would be improved by your new venture?
3. Benefits: What is the actual value that the end user would gain from the use of your new product? What specifically does the user gain from the product.

Market Segmentation: Primary Market Research

4. Lead Customers: Who are the most influential customers that others look to for thought leadership and adoption of new technology?
5. Market Characteristics: What about this market would help or hinder the adoption of new technology?
6. Partners/Players: Which companies will you need to work with to provide a solution that integrates into the customer's workflow?

Market Segmentation:

Primary Market Research

7. Size of the Market: Estimate, how many potential customers exist if you achieve 100% market penetration?
8. Competition: Who, if anyone, is making similar products – real or perceived? This is from the customer's perspective, not yours.
9. Complementary Assets Required: What else does your customer need in order to get the “full solution,” or full functionality from your product?

Market Segmentation: Primary Market Research

How Much Time To Spend:

- Full attention to research should last at least a few weeks or a bit longer if your situation allows
- The amount of time you spend mainly depends on how good your team is at getting primary market research
- You should spend enough time so that you can fill out the matrix for all your top segments with some accuracy

Market Segmentation: Primary Market Research

- DO NOT just search the internet.
- Don't get stuck in analysis paralysis. This should not be a never-ending process.
- Goal is to get an accurate assessment of the market opportunities so you can move on to the next step

4 mistakes in Primary Research

1. You ask people questions who give you the answer they think you are looking for
2. Your research is based on “friends” and is not replicable
3. Your sample size or methodology is flawed
4. You bias your research to give you the answers you want

Good luck!