

Step 1: Market Segmentation

The single necessary and sufficient condition for a business is a paying customer

Target market: a group of potential customers who share many characteristics and who would all have similar reasons to buy a product

Three conditions of a target market

- Customer within the market all buy similar products
- Customers within the market have a similar sales cycle and expect products to provide value in different ways
- ‘Word of mouth’ exists between customers in the market, meaning they can serve as compelling and high-value references for each other in making purchases

Common customer pitfalls

- Selling to everyone
- China syndrome → finding a huge market and overestimating your portion of market share

Primary and secondary customers

- Potentially the same person
- Heavily connected to determining the DMU (step 12)
- Primary → end user
- Secondary → economic buyers
- Likely to not delineate primary/secondary customers until step 15 → until then focus on primary

Multisided markets

- Needs both sellers and buyers to operate → supply and demand
- If multisided, need to complete each step for **each side** of the market
- Examples → eBay (buyers and sellers), Airbnb (hosts and guests), Xbox (games and players)

Questions to ask in segmentation

- Well-funded?
- Accessible?
- Compelling reason to buy?
- Competition?
- Does the market share consistent company values?
- If you win this segment, can you leverage it to enter new segments?

Organising Segmentation → Main Categories

- **End users** → who is specifically using your product? Champion
 - ‘Champion’ (eg. child who wants a video game, advocates parents to buy)
- **Application** → what would the end user be using your product for?
- **Benefits** → what is the actual value the end user would gain from the product?
 - Time savings? Cost savings? Additional profit?
- **Lead customers** → who are the most influential customers that others look to for leadership and adoption of new technology? ‘Early adopters’ who are respectable and aspirational
- **Market characteristics** → what about this market will promote or hinder the adoption of product
- **Market size**
- **Competition** → who is making similar products – real or perceived?

Step 2: Select a Beachhead Market

Beachhead: a well-defined and homogenous market opportunity, the term is used metaphorically like how the military pick one specific beachhead out of many others (eg. Gallipoli)

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- **‘Starting point for invasion’**
- **Select a specific market, not necessarily largest to attack first**
- **If you can be successful in this market, then opportunity to expand arises**

Idea follows market segmentation, to narrow down and choose one specific segment opportunity

- First market you enter will be the biggest learning curve
- Domination in this market can lead to expansion into other markets
- Does not have to be the largest market → better to dominate a smaller one

Beachhead does have to generate positive cash flow

Three Conditions to do this

- Sufficient size
- Profitability
- Significance

Textbook Example: SensAble Technologies

- Initially chose the industrial design industry as beachhead
- Realised could be further segmented into three distinct categories
 1. Handles rectangular shapes with sharp edges, requiring geometry
 2. Handles highly stylised shapes with smooth surfaces, requires mathematical equations
 3. Handles highly organic and sculpted forms, uses clay to design
- Product suited for group 3 to focus on
 - Group included toy and footwear companies
 - Able to group as one market because so similarly and faced same pressures and sales

Focus is your ally – choose a single market to pursue and keep segmenting until you have a well-defined and homogenous market opportunity that meets the three conditions

Step 3: Build an End-User Profile

End User: the individual who uses your product, likely an integral part of the DMU

Allows you to define your beachhead customer with a target customer profile

‘Representational’ rather than real

- Real will come in the persona development (step 5)

Not necessarily an actual person but rather the ideal person in the target market (of your own making)

Potential characteristics to include in the end-user profile (some are not always relevant and you may not be able to answer them all)

- Gender
- Age
- Income range
- Geographical location
- Motivations and fears
- Leisure time
- Media outlets → newspapers, tv, websites, etc

Step 4: Calculate the TAM size for Beachhead

Note: Massimo says won't have to perform numerical calculations in the exam, but important to be able to make reasonable and justifiable assumptions

Total Addressable Market (TAM): the size for the beachhead market

Calculation: TAM = price of product (\$) x no. of sales (if 100% share of beachhead market)

Two approaches to calculation

- Bottom Up Analysis (**impossible to do in an exam**)

- Calculate the number of end users in total

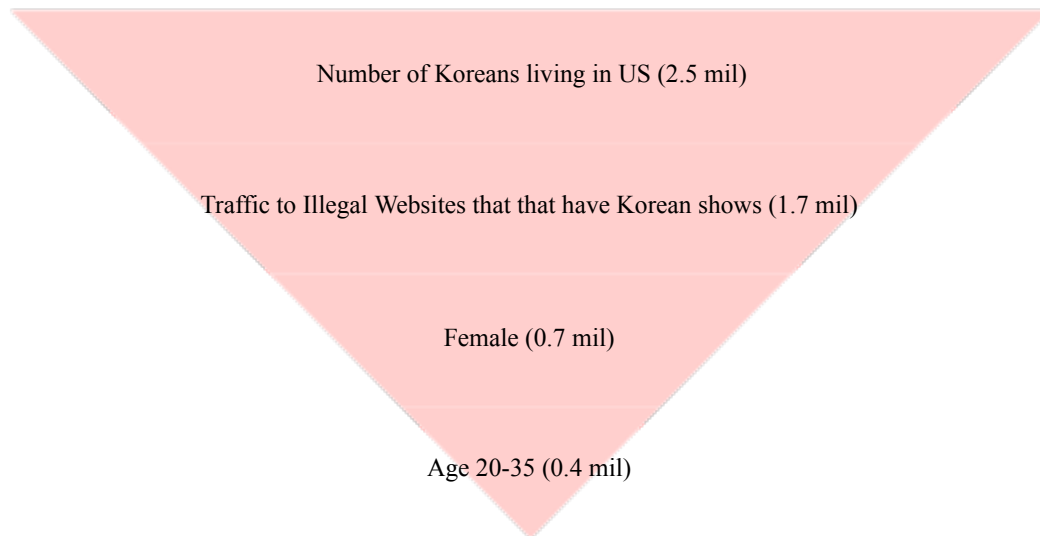
Two approaches to calculation

- Bottom Up Analysis (**impossible to do in an exam**)
 - Calculate the number of end users in total
 - Primary market research à know **every** potential customer
- Top Down Analysis
 - Start with whole population
 - Textbook suggests should be done (theoretically) complementing the bottom up approach
 - Challenge à potential to overestimate

A pessimistic estimation of numbers is much better than an overestimation

OnDemand Korea Top Down Analysis (textbook example)

- Trick is to start with largest possible market
- Slowly segment further down by identifying similar characteristics of your market segment then further reducing this to your beachhead



Calculating TAM from example

Total market size: 400 000

Price: \$15/year per user

$$\text{TAM} = 400\,000 \times 15 = \$6\,000\,000/\text{year}$$

Company's low costs and high margins generates positive cash flow à important to state!