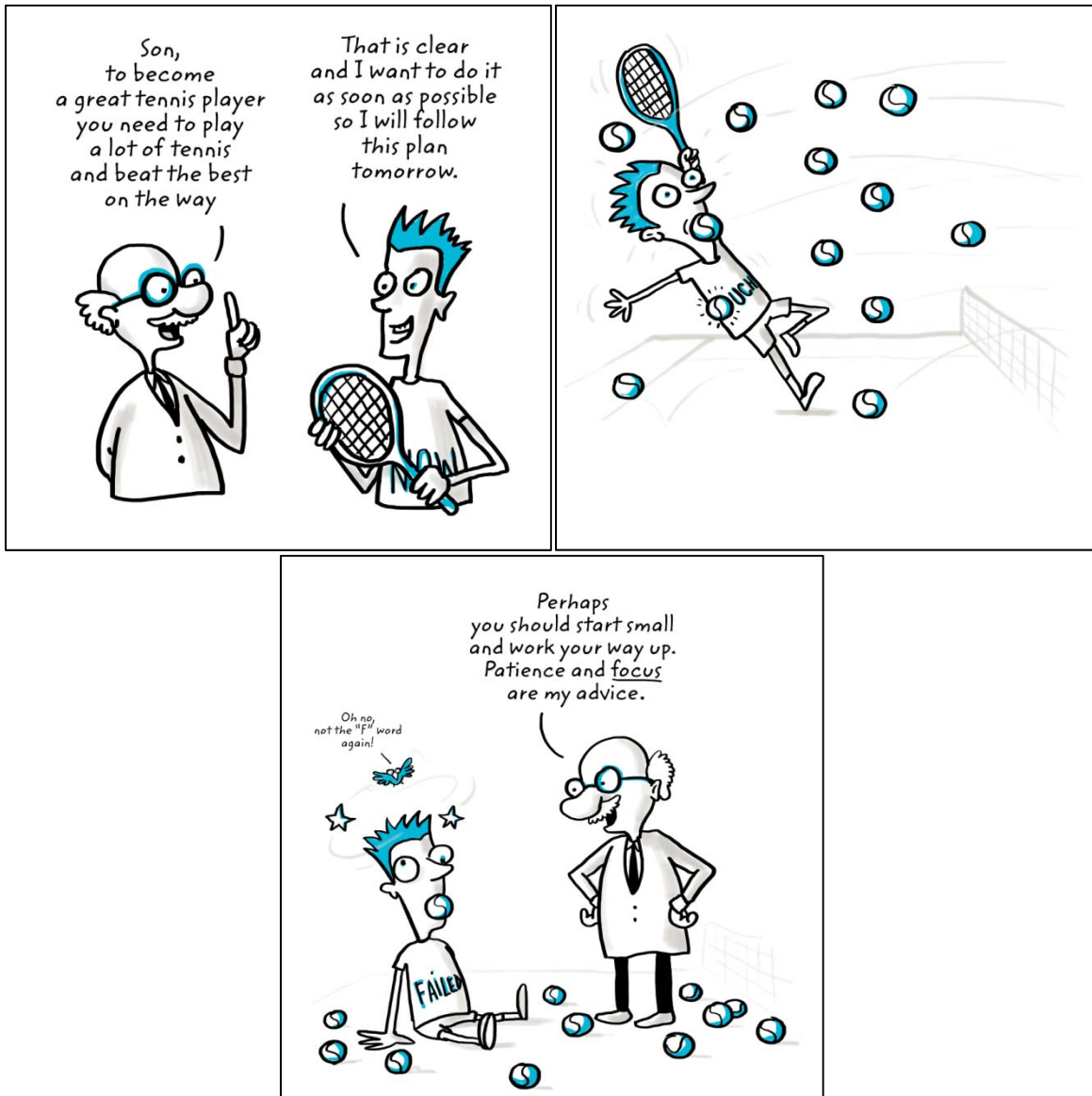


Step 2: Select a Beachhead Market



Selecting a beachhead market is part of the critical process of focusing

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::: In This Chapter, You Will:

::: Analyze your top 6-12 market opportunities and choose one to pursue

::: Further segment that market to determine your beachhead market

In the Market Segmentation, you built a matrix of primary market research on your top 6-12 markets. Now, you are going to pick just one market opportunity from the matrix to pursue as your beachhead market, and ignore the other markets.

Almost all first-time entrepreneurs find that ignoring market opportunities is difficult. They doggedly hold on to the idea that more markets increases their odds of success and that they are best to hedge their bets until one market takes off.

In fact, such thinking will decrease your odds of success, because you lack focus. A key measure of success for an entrepreneur is both their ability to select a market and to stay disciplined by ***de-selecting*** the other markets.

Focus can be difficult, especially for entrepreneurs. People keep options open even when it is not in their best interests, according to former MIT professor Daniel Ariely, who discusses his research on the topic in his 2008 book *Predictably Irrational*. His research found that when people are given what appear to be multiple paths to success, they will try to retain all the paths as options, even though selecting one specific path would have guaranteed them the most success.⁸

By choosing a single market to excel in, your startup can more easily establish a strong market position, and hopefully a state of cash flow positive, before it runs out of resources. You will benefit not just your cash flow, but also the capability of your startup to succeed, and the credibility of your startup in the market. In such a way, you will position yourself to most quickly achieve the all-important positive word of mouth (WOM) that can be the source of success or failure for entrepreneurs.

How to Choose Your Beachhead Market

You are not looking for the “perfect” market opportunity, lest you fall into a state of “analysis paralysis.” Your goal is to start a company, not become a professional market analyst. Therefore, you will focus on the market opportunities you have already researched, and choose one that fits well with the criteria presented below.

I recommend you stay away from larger markets, even if they seem like the “best” markets. The first market you attack will be a significant learning experience for you, so you are better off learning in a

⁸ Tierney, John, “The Advantages of Closing a Few Doors,” *The New York Times*, 26 February 2008, <http://www.nytimes.com/2008/02/26/science/26tier.html>.

smaller market where you can quickly get high exposure among the base of potential customers. This principle is similar to learning a sport – you will learn a lot from playing against someone slightly better than you, but if you start by playing against a top professional, you will learn only that the professional is very good at the sport – you might as well be watching from the sidelines. Choose a beachhead that is a smaller market – for example, if you live in Quebec, start there before attacking the larger United States market. Large companies do the same thing, test-marketing new products in lower-exposure countries and regions before rolling them out worldwide.

In most cases, there are probably multiple paths to success, so it is not imperative to choose the absolute best market. (SensAble is a good example where we could have been successful in any number of market segments.) Therefore, get started doing, rather than get stuck analyzing. Action will produce real data that will tell you quickly if the market will not be viable, which will allow you to go back to your matrix and attempt a second market.

Geoffrey Moore in *Crossing the Chasm* proposes six criteria to determine the best market opportunity, and I believe these criteria are spot-on for selecting a beachhead market. I have added a seventh item to this list as well.

1. **Is the target customer well-funded?** – If the customer does not have money, the market is not attractive because it will not be sustainable and provide positive cash flow for the new venture to grow.
2. **Is the target customer readily accessible to your sales force?** – You want to deal directly with customers when starting out, rather than rely on third parties to market and sell your product, because your product will go through iterations of improvement very rapidly, and direct customer feedback is an essential part of that process. Also, since your product is substantially new and never seen before (and potentially disruptive), third parties may not know how to be effective at creating demand for your product.
3. **Does the target customer have a compelling reason to buy?** – Would the customer buy your product instead of another similar solution? Or is the customer content with whatever solution is already being used? Remember that on many occasions, your primary competition will be the customer doing nothing.
4. **Can you today, with the help of partners, deliver a whole product?** – No one wants to buy a new alternator and install it on their car, even if the alternator is much better than what they currently have. They want to buy a car. You will likely need 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.
5. **Is there entrenched competition that could block you?** – Rare is the case where no other competitors are vying to convince a customer to spend its budget on products to meet a specific need. How strong are those competitors, from the customer's viewpoint (not your viewpoint or from a technical standpoint)? Can/will the competition block you from starting a business relationship with a customer?
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 your 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. Moore uses the metaphor of a bowling alley, where the beachhead market is the lead pin, and dominating the beachhead market knocks down the lead pin, which crashes into other pins that represent either adjacent market opportunities or different applications to sell to the customer in your beachhead market.

7. **Is the market consistent with the values, passions and goals of the founding team?** – Presumably, this question was addressed in the Market Analysis, but you want to make sure that the founders' personal goals do not take a back seat to the other criteria presented here. In the case of SensAble, we wanted to get liquid (go public or get bought) within 4-5 years, a relatively short time horizon for the technology, because inventor Thomas and his wife wanted to move back to Kentucky, so an important factor for us was whether we could show results in an acceptable timeframe in a particular market.

As you can see, these are quite similar to the criteria we chose the market segments to begin with but now we will do so in much more rigorous and in-depth manner as the number of segments is narrowed down. We want to make sure our beachhead clearly meets the above seven criteria.

Your Beachhead Market Still Needs to be Segmented Further

As you begin to focus on your beachhead market, you will quickly learn that it almost surely can be segmented much further. This is standard and is a good practice. You should not worry about getting too focused (we will check the Total Addressable Market size in a later step) as I have yet to see an entrepreneur focus too much – it is always the other way around, where the entrepreneur doesn't focus enough. You want to get to a market where you have great ability to dominate it in a relatively short time period, and a narrow, focused market is the best way to do so.

How do you tell if you have focused enough? You want to continue segmenting until your market opportunity matches the three conditions that define a market.

Three Conditions That Define a Market

1. The customers buy similar products.
2. The customers have a similar sales cycle and expect products to provide them value in similar ways. That is to say that your salespeople can shift from selling to one customer to selling to a different customer and still be very effective with little to no loss of productivity.
3. There is word of mouth between customers in the market.

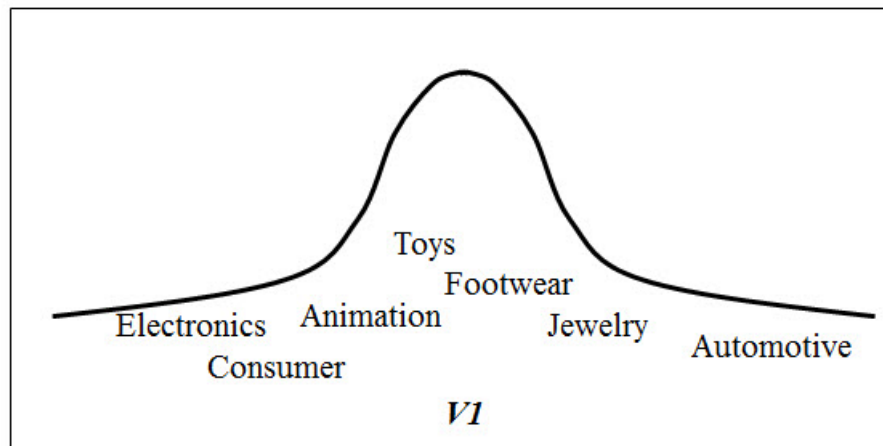
Example

SensAble Technologies

After much deliberation, we chose industrial design as our beachhead market, but we had not segmented the market any further, so after choosing the market, we discovered that industrial

designers could be divided into three distinct groups. One group handles rectangular shapes with sharp edges, incorporating a lot of simple geometry. A second group handles highly stylized shapes with smooth surfaces, best represented by mathematical equations. A third group works with highly organic and sculpted forms, often designing with clay.

Our product was best suited for free-form designing, so the third group was the best for us to focus on. The customers in this group were primarily toy and shoe companies with extensive clay studios and many sculptors among their designers.



The toy and footwear markets were our primary focus. The next adjacent markets were likely animation and jewelry, but we would need to do more research when we prepared to scale.

We were able to group toy and shoe companies as one market, much to our surprise, because industrial designers in the toy and shoe industries acted so similar that they completely met the three conditions of a market presented earlier in this step. They both used a lot of clay to sculpt highly organic 3D art shapes that were shipped to China on a very tight schedule. They would buy the same design products and use them in the same way. The pressures they faced were the same. The sales process and value proposition were identical. And in a very telling sign, the designers frequently moved between toy and shoe companies to advance their careers, and even belonged to the same subgroup in the Industrial Design Society of America.

Summary

Choose a single market to pursue, and then keep segmenting until you have a well-defined market opportunity that meets the three conditions of a market. Focus is your ally.