Milestone 2: Market Segmentation

At this point, you are expected to have identified a single problem to move forward with in the program. Keeping in mind that the single necessary and sufficient condition for a business is a paying customer you will:

1. Brainstorm 12 potential customers and markets for your business.
   a. Start by identifying potential industries for your idea. Then, list who might benefit in each industry from your idea. Recall, this is an exercise we did on Week 1, if the problem you’re moving forward with is one you brainstormed on last week it would be beneficial to pull out your notes.
   b. Consider these three conditions when defining a market:
      ■ The customers within the market all buy similar products.
      ■ The customers within the market have a similar sales cycle and expect products to provide value in similar ways. Your salespeople can shift from selling to one customer to selling to a different customer and still be very effective with little or no loss of productivity.
      ■ There is “word of mouth” between customers in the market, meaning they can serve as compelling and high-value references for each other in making purchases. For example, they may belong to the same professional organizations or operate in the same region. If you find a potential market opportunity where the customers do not talk to each other, you will find it difficult for your startup to gain traction.

2. Narrow your list down to your top 4-6 markets asking yourself the following questions.
   a. 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.
   b. 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.
   c. 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.
   d. Can you today, with the help of partners, deliver a whole product? No one wants to buy a new alternator and install it in their car, even if the alternator is
much better than what they currently have. They want to buy a car. That is, they want to buy a whole functional solution, not assemble one themselves. 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.

e. **Is there entrenched competition that could block you?** Rare is the case where no other competitors are vying to convince a customer to spend their budget on some product to meet the identified need. How strong are those 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?

f. **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?

g. **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. Take as an example the company, SensAble Technologies, the founders wanted to “get liquid” (go public or get bought) within four to five years, a relatively short time horizon for the type of technology created, because co-founders Thomas and Rhonda Massie wanted to move back to Kentucky, where they were from. Therefore, an important factor for them was whether they could show results in an acceptable time frame in whichever market was chosen.

3. Gather primary market research on your top 4-6 markets

a. How to approach this research is up to you and your team, we suggest to consider the interviews you made in Milestone 1 or conduct additional interviews.

b. The main categories you are trying to obtain information on for each market are:
   - **End User:** Who specifically would be using your product? The end user is often your “champion,” who you need on board so that your product is successfully adopted. You have narrowed down your end user some already, but as you do primary market research you may find the category can be even further segmented. (The end user is not necessarily the person who decides to purchase the product. If you are making a children’s video game, the kid who plays it is your champion, because he tries to get his parents, the economic buyer, to purchase it.)
   - **Application:** What would the end user be using your product for? What is the task that would be dramatically improved by your new venture?
   - **Benefits:** What is the actual value that the end user would gain from the use of your new product? Not feature or functions, but specifically what
the end user gains from the product. Is it a time savings? A cost savings? Additional profit?

- **Lead Customers:** Who are the most influential customers that others look to for thought leadership and adoption of new technology? These are sometimes referred to as “lighthouse customers” because they are so respected that when they buy, others look to them and follow their lead, gaining you instant credibility. Some people call these customers “early adopters,” but lead customers are not technological enthusiasts. They must be respected by others as innovative and successful customers who purchase because the product provides them with real value and not simply bragging rights.

- **Market Characteristics:** What about this market would help or hinder the adoption of new technology?

- **Partners/Players:** Which companies will you need to work with to provide a solution that integrates into the customer’s workflow? Sometimes, this category will tie into the “Complementary Assets Required” category below.

- **Size of the Market:** Roughly, how many potential customers exist if you achieve 100 percent market penetration?

- **Competition:** Who, if anyone, is making similar products—real or perceived? Remember, this is from the customer’s perspective and not just yours.

- **Complementary Assets Required:** What else does your customer need in order to get the “full solution,” that is, to get full functionality from your product? You will likely need to bundle your product with products from other manufacturers so that customers can easily buy your product and have full functionality. At the very least, you will need to identify which other products your customer will need to buy to use your product. For instance, if you are developing a game for the Sega Dreamcast video-game console, your customers will need to be able to purchase the console as well. Since the console is not sold anymore, this need will limit your customer’s ability to purchase your product.

**Summary:**

1. Brainstorm 12 potential customers and markets for your business.
2. Narrow your list down to your top 4-6 markets asking yourself the following questions.
3. Gather primary market research on your top 4-6 markets.
**Deliverables**

Create a project spreadsheet titled “Market Segmentation” and organize this information in a matrix, where each potential market is a column header, and each category of information is a row. Consider the example presented during lecture.

**Due Date: 4:05 pm on Tuesday (July 7th, 2015).**

*Adapted for MIT's Global Startup Labs program in Sri Lanka from Bill Aulet's *Disciplined Entrepreneurship.*