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Understanding the market for your business

A short, practical guide to no-cost validation

Business-to-business edition

A Figure.NZ data use guide

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Introduction

This guide is for anyone with an idea for a product or service that they plan to sell directly to businesses in New Zealand. It will be especially useful for people who don't have a lot of money to spend on researching and validating their idea.

Specifically, we'll show you how to **validate your market** using public data. Market validation is one step in the product validation process.
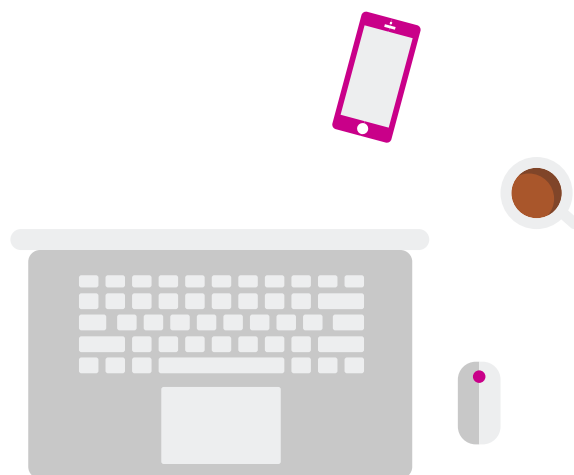
What is product validation?

Product validation is the process of working out whether your idea will appeal to the people you're targeting.

There are many different kinds of product validation. Some of them are free, some of them cost money, and some just take a lot of time. You've probably heard of market research — that's a form of product validation.

> **Public data** is information or datasets that were created with public funding.
>
> **Total addressable market** is the total market demand for a product or service. It's the maximum amount of revenue a business can possibly generate by selling their product or service in a specific market.

Why validate?

It puts your idea to the test.

Validation helps you figure out whether your idea will turn into a successful product or service. Doing this upfront helps you find any flaws in the idea and decide whether to go ahead with it.

It can help you raise capital.

If you're planning to raise capital from investors, they'll want to understand your market opportunity. Validating gives you a good grasp of your total addressable market, and whether there's a real demand for your idea.

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Lean validation

Lean validation is a 4-step process that many startups use, because it provides a structured but accessible form of validation.

Once you've completed all 4 steps, you'll have a good idea whether your idea is worth pursuing.

Step 1: Problem validation

Find out if people agree there's a problem or a need. If people don't think there's a problem, they won't buy your solution — no matter how great it is.

Step 2: Market validation

Are there enough people who share the problem to make it financially viable to create and sell a product or service? Is the market already full of other people solving this problem?

Step 3: Solution validation

Find out if your proposed solution actually solves the problem people have, and if it does so better than other solutions in the market.

Step 4: Payment validation

Even if enough people agree there's a problem and they like your solution, you don't have a business unless they're willing to pay for it.

What we'll cover in this guide.

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Market validation

What it does

- Identify your target market.
- Identify how many people or organisations there are in your target market.
- Indicate what would be financially viable and affordable for those customers.

What it doesn't do

- Tell you if people agree there's a problem to be solved.
- Indicate whether your product or service solves that problem.
- Confirm whether people will pay for your solution.

How do I validate my market?

To validate your market, you first need to know a bit about your target audience.

You could spend a lot of money on this, but if — like many people starting out with an idea for a product or service — you don't have a lot of money to spend, there are other ways to approach it.

Start by answering these 4 questions about your target audience.

- Who are they?
- How many of them are there?
- Can they afford what you're selling?
- Is anyone else selling the same thing?

This guide covers **selling directly to businesses.**
If you're selling to consumers, check out our market validation guide for B2C businesses.

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Who are they?

You probably have an idea of who your target customer is. Start by writing that down.

You might consider the following.

- Where is their company based?
Small town, main centre, rural, urban?
- What type of organisation is it? Limited liability company, sole trader, non-profit, social enterprise, something else?
- What industry are they in?
- How long have they been operating?
- How many employees do they have?
- What's their turnover?

Some of these questions may not apply, or there might be some other characteristics that describe them.

Even if you plan to eventually reach a wide audience, it's easier and more effective to start by targeting a smaller group of organisations. That way, you can tailor your marketing, language, and platforms to appeal to your target customers.

Keep in mind that your target customers may also change over time as you learn more.

How many of them are there?

This is where public data comes in.

Public data

As part of their function, governments collect and release public data, including demographic data like age, gender, ethnicity, income, and more.

Public data has some limits. Governments group data together to protect people's privacy — this is called "aggregating". Sometimes the levels of aggregation mean you won't get a perfect answer to your question, but you'll get a good starting point.

There are 3 main types of public data.

- **Open data released by the Government.** This can be found on many Government websites, as well as on Figure.NZ's website, where thousands of datasets have been collected, tidied up, and published in easily usable forms, like simple charts and tables. You can use all of Figure.NZ's charts and data for free.
- **Official Information Act (OIA) requested data.** If the open data that's available doesn't answer your questions, you could try making an OIA request, either for a more detailed breakdown of the data that is available, or for data that's not currently available. Note that this will only work if the data you want is collected by a government agency. You can check for existing OIAs at fyi.org.nz, or you can make a new OIA request. New OIA requests can take up to 20 working days to process.
- **Data made available by private organisations.** Some organisations (like Google) share data on things like search analytics, which you can use.

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How to find public data

Listed below are several tools you can use to find public data and identify your market size.

Pick one of more of these tools and search for data that tells you how many businesses meet your criteria.

For example:

- How many women's clothing retail businesses are there in Christchurch?
- How long do these businesses stay active?
- What are their turnover ratios like?

Ideally, you'll want the most recent data available.

Figure.NZ Business Figures
www.figure.nz/business

Business Figures helps New Zealand businesses find data to support smart decisions. Choose the industry your customers are in, and choose the location in New Zealand you're planning to sell to — it could be the whole country, or it could be a smaller area. Once you've selected this information, Business Figures will show you relevant data. You can also click the "Industry and Trade" tab to find information about the business operations of the area you're selling to.

Figure.NZ
www.figure.nz

Figure.NZ's website has over 43,000 charts and datasets. The website search can be particularly helpful for finding data about things specific to your target market, like sports or hobby interests.

If you can't find what you're looking for, email data@figure.nz.

Government websites

Most Government agencies collect and release data. Figure.NZ has collected, tidied up, published, and charted thousands of public datasets, but if we don't have what you're after, you might find it on a Government agency website.

It can be tricky to figure out where to look — first you'll need to figure out which agency was most likely to have collected and released it.

For example, for data on student numbers, you'll want the Ministry of Education. For data on health, you'll want the Ministry of Health.

Sometimes, agencies choose to release their data through Stats NZ, so their website is a good place to start.

Here are some Government websites to try.

- data.govt.nz
- Stats NZ
- Tourism NZ
- Ministry of Education

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Can they afford what you're selling?

Even if you're targeting businesses in a particular income bracket, it helps to look at the overall expenses and spending of your target audience.

Stats NZ, Ministry of Business, Innovation and Employment, and Inland Revenue all release data on business finances.

Figure.NZ publishes a range of this data, including the following.

- Financial benchmarks for 43 industries by turnover band
- Financial performance by industry
- Linked Employer-Employee Dataset (LEED) measures by industry and firm size

Is anyone else is selling the same thing?

Before you start your product or service, you need to identify your competition.

Your product doesn't have to be completely new to succeed, but you do need to be aware of who the competition is, and what their strengths and weaknesses are. This will help you figure out if the market is saturated, and if your idea has what it takes to stand out from the competition.

Here are a few ways you can research the competition.

- Google or Facebook search for the type of product or service you want to sell.
- Look up bloggers, YouTubers, or influencers in your area and see which products they're promoting.
- Talk to your target customers and find out what products or services they're using.
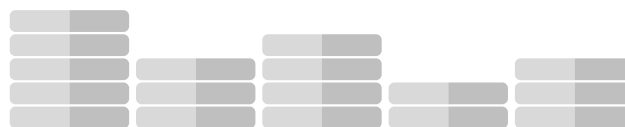
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Extra for experts: Google Trends

Google Trends can help you assess interest in your product or service idea.

Using Google's search data, Google Trends tracks trends in what's being searched for. This helps you figure out if people in your target area are interested enough in a given topic to search for it.

Using Google Trends

- Set your location to New Zealand, even if you're planning to aim global eventually. Starting with a specific local market is a smart way to prove your idea.
- Search for the product or service you want to offer, or the problem you're trying to solve. This data can also be useful when you're making your website or writing copy, because you can make sure to use the words people are interested in.

Next steps

Want to know more about product validation, or how to work through the other 4 steps of Lean Validation?

Smashing Magazine has a great detailed breakdown to follow.

It's especially relevant if you're building a web or software product, but the basic principles also apply to other products and services.

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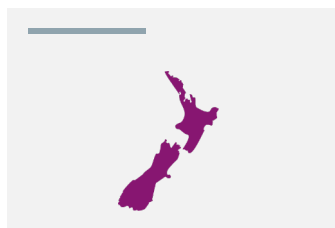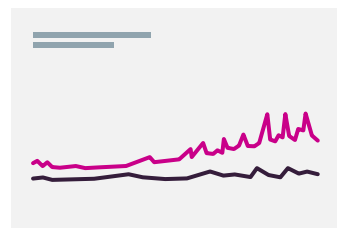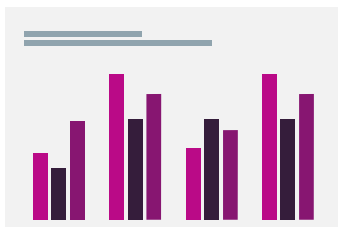
Market validation worksheet

Who are your target customers?

Consider characteristics like business size, market, location, and maturity.

How many potential customers are there?

Find out how many there are in New Zealand, and where they are.

Can your potential customers afford your product?

Research revenue, expenditure, and profit margins for these businesses.

Who are your competitors?

Think globally as well as locally.

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About Figure.NZ

Figure.NZ's mission is to get the people of New Zealand using data to thrive.

We do this because we want to live in a country where everyone can take part in creating a delightful New Zealand.

We believe we can progress towards that by helping everyone in our country understand the things they care about so they can make great choices.

We're committed to making New Zealand's public, aggregate data available through our website — for free, for everyone, forever — because we believe data is not just for experts, and its true value lies in people using it in their day to day lives.

We've put data about New Zealand from over 175 different organisations into one easily searchable place, where more than 43,000 charts and datasets are available.

Now that we've established the technology, systems, and processes needed to make our country's data easily available, we're focused on getting it into the hands of New Zealanders, and providing the support they need to make good use of it.

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