# Innovation Process

Keep Iterating & Market Segmentation (Who is your customer?)

Learning Outcomes

- To understand the concepts on keep iterating.

- Understand who your customer is.

- Define market segmentation.

- Understand the process of market segmentation and select the target market (Beachhead Market).

- Understand on how to build an End User Profile for Beachhead Market.

- Estimate the *Total Addressable Market* (TAM) for Beachhead Market.

Build, Gather Feedback, Iterate

- Absorbing feedback from your users through prototype testing is useless if you don't put the new information into use in your next iterations of prototype ideas.

- You need to develop a habit with your team such that you actively integrate what you have learnt back into your process, and consciously develop new iterations of your solutions as you move forward.
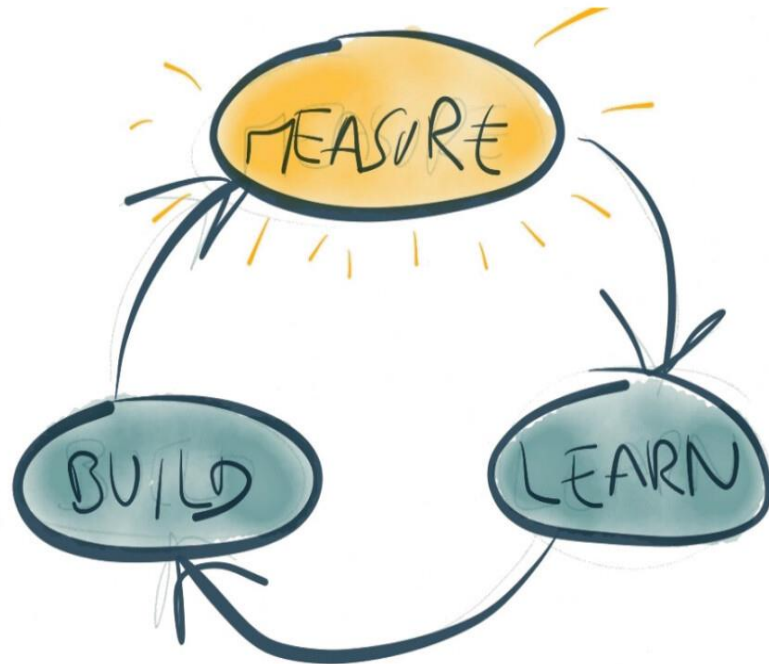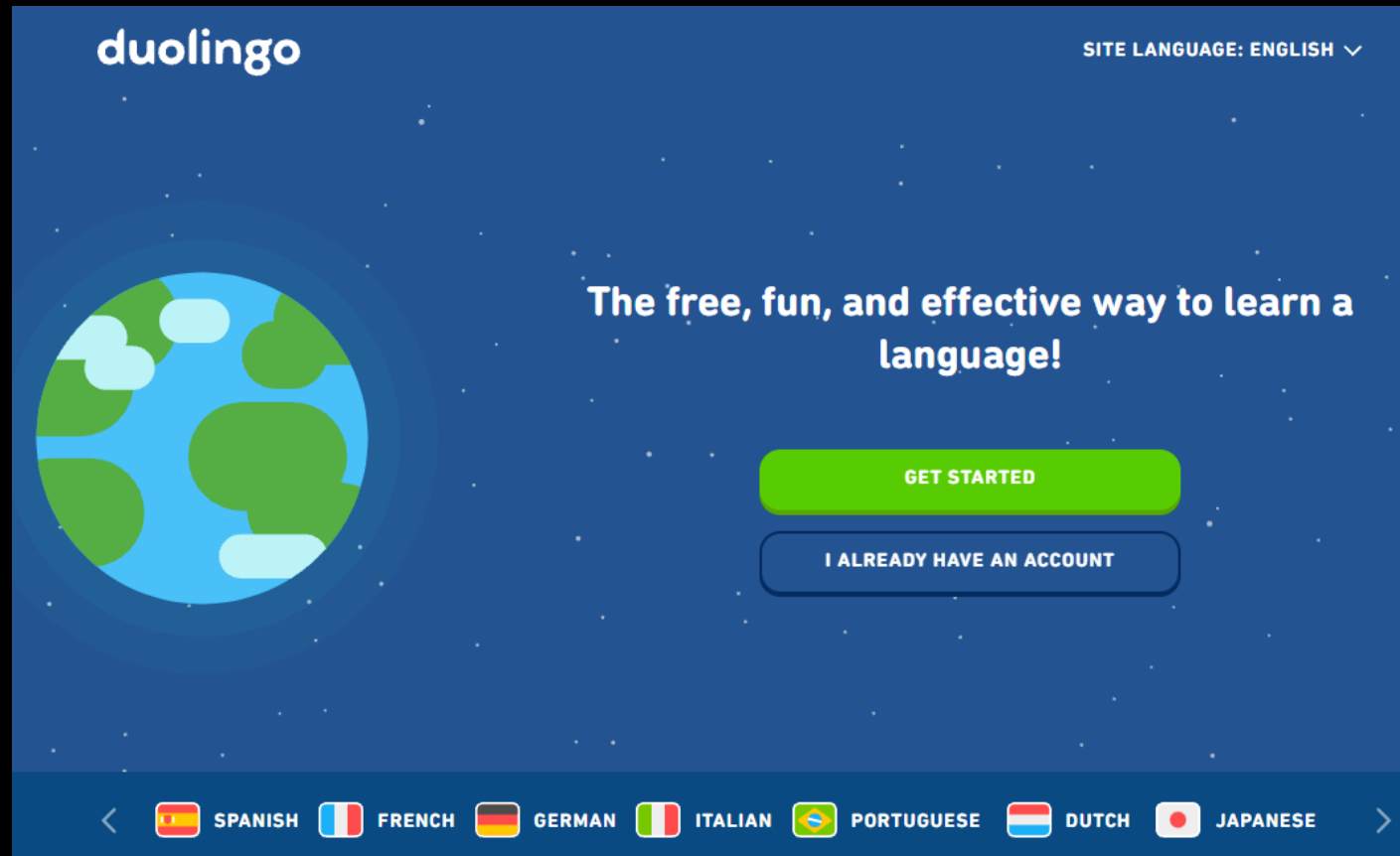

Keep iterating on both the **community** and the **project**.

Start-up Case Studies

- Duolingo is an American language-learning website and mobile app, as well as a digital language proficiency assessment exam.

- The company uses a freemium model: the app and the website are accessible without charge, although Duolingo also offers a premium service for a fee.

Sources to be referred

- 30 Best Startup Case Studies to Read: https://businessnamegenerator.com/30-best-startup-case-studies-to-read/

- My Start-up Failed in 22 months: https://www.youtube.com/watch?v=oz4Tce_uMpM

- The five lessons I learned from failing a start-up: https://www.youtube.com/watch?v=kowJmwHqqOQ

- Lessons from a startup that scaled up: https://www.youtube.com/watch?v=m4MjzBSCLx0

- Who is your customers and why it's important? – Bill Aulet: https://www.youtube.com/watch?v=1HDrKKRLGNs

- Market segmentation – Interview with Co-Founder of Testive: https://www.youtube.com/watch?v=zWtdec0aWnQ

Who is your customer?

Disciplined Entrepreneurship is a systematic and rigorous 24 step to build new innovation-based ventures, created at MIT.

- It has proven extremely valuable for hundreds of thousands of entrepreneurs globally at all experience levels.

- Rather than invent new concepts, Disciplined Entrepreneurship assembles the tools that have already established track records of success in practice from many different sources.

- It then integrates them together in an easy to access and prescriptive road map.

    – Source to be referred: https://www.d-eship.com/en/book-workbook/

Who is your customer?

- To get started, discover a **customer's 'pain point'** that can be solved with an idea/product.   Source to be referred: https://www.paldesk.com/popular-customer-pain-points/
- Customer pain point is a problem that bothers them enough that they would be willing to pay for your solution.

4 PAIN POINT TYPES

Financial pain points

Productivity pain points

Process pain points

Support pain points
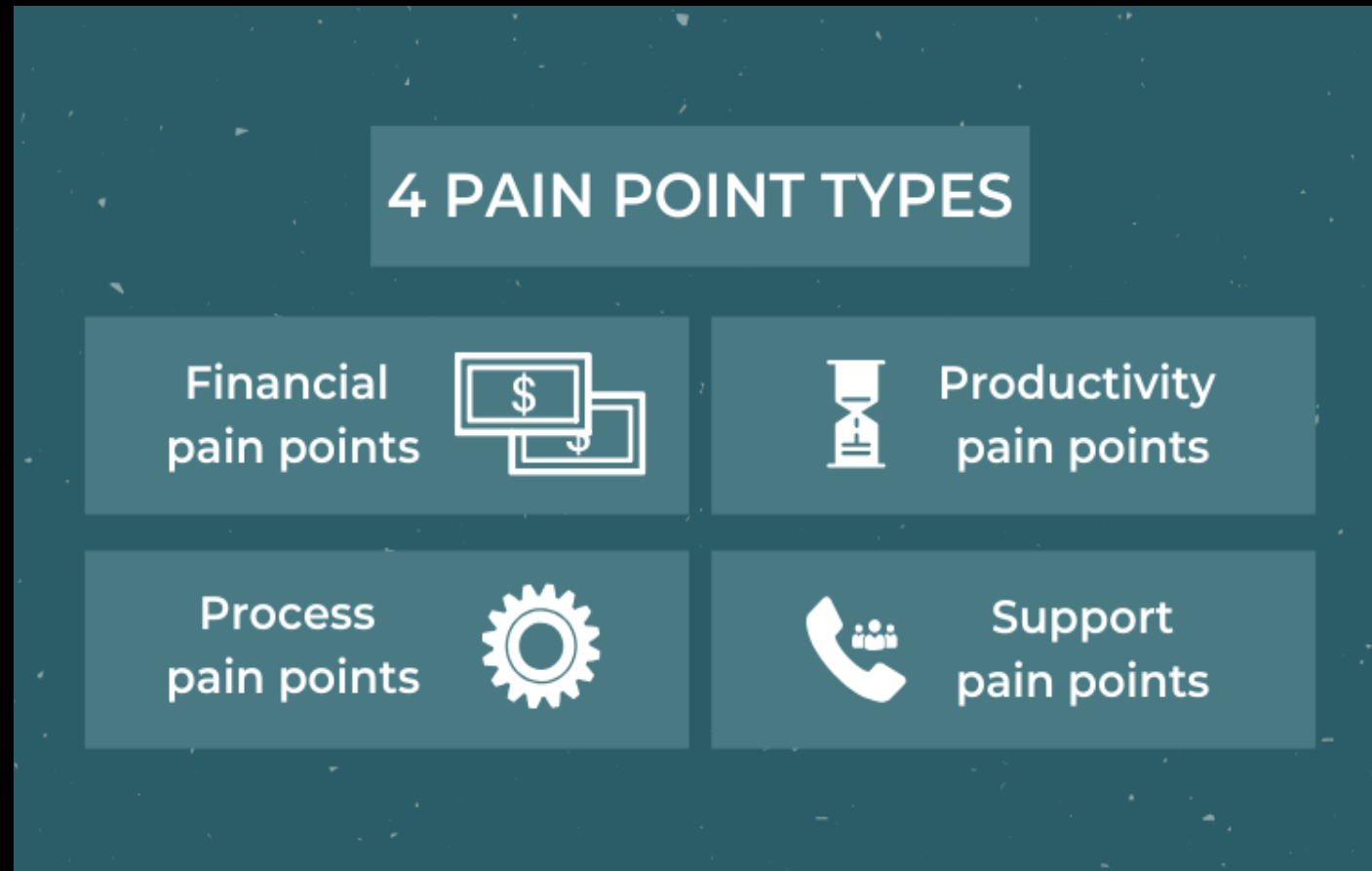
Customer's pain points

- People mostly spend money on 2 things: to reduce pain and to increase happiness.
- Imagine your ideal customer is a watermelon lover, but at the same time, he doesn't like having sticky fingers after cutting the watermelon.
- Or, even worse, he doesn't like to spend the time to slice through the thick skin.
- This is a pain point — a specific issue that drives customer nuts and is as diverse and varied as your prospective customer.
- Sometimes, just acknowledging a pain point can lead to an entirely new product.   Hence, you want to position it as a solution to their problem to make them happy.
- So, in this case, a giant watermelon slicer.

    – *Sources to be referred:*
        - https://www.wordstream.com/blog/ws/2018/02/28/pain-points
        - https://www.paldesk.com/customer-relations-what-is-the-road-to-loyal-customers/

Pain Points Discussion Questions

Why are my customers churning?

**What** are my competitors doing better?

Where are customers dropping off before purchasing?

Who is responsible for working on these initiatives?

What's Next

- Start by exploring opportunities in multiple markets and then **narrow down to a single beachhead market**.
- Conduct **primary market research** on potential markets.
- Findings from the research will help you choose a beachhead market.
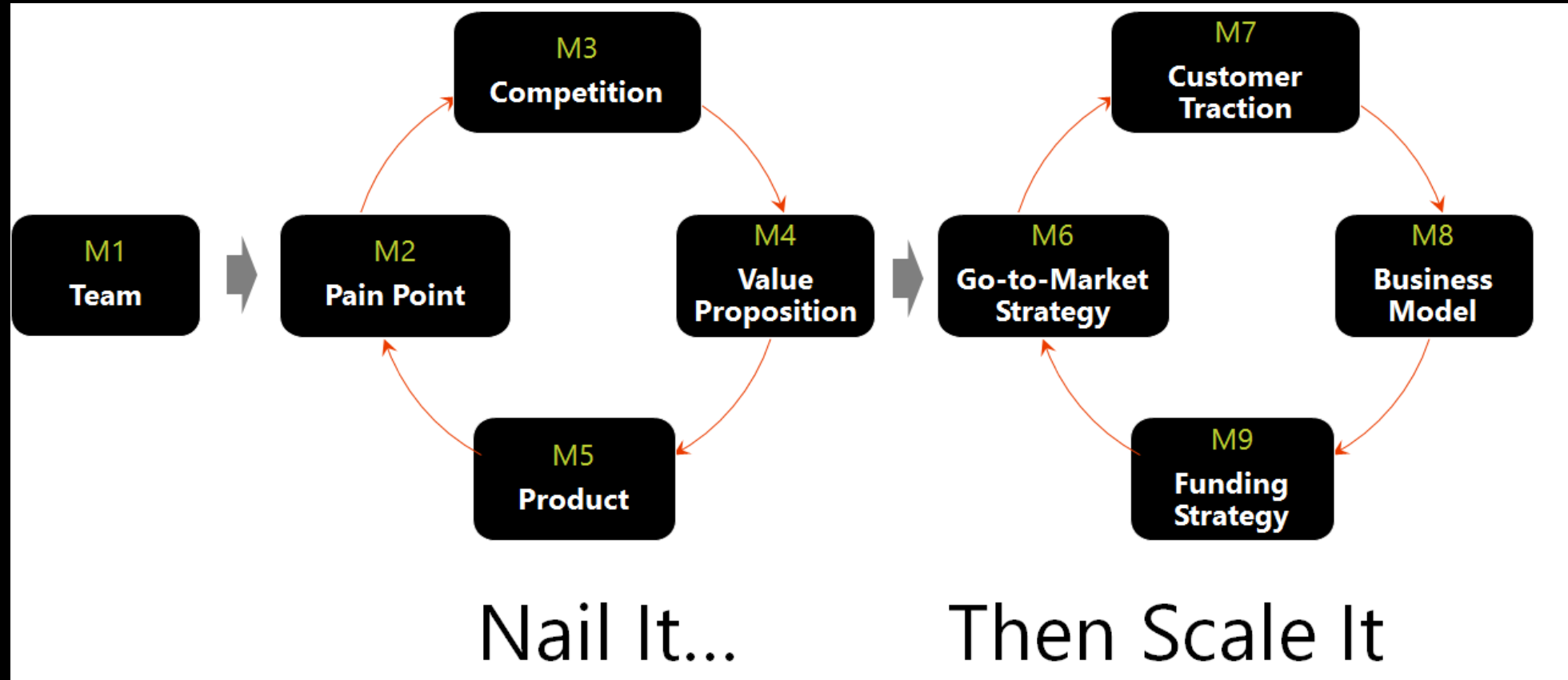
Market Research

- Market research is essential when you're starting your new business.
- By researching your target market and customers, you can see if there's a demand for your products and services as well as determine the best branding, pricing and marketing strategies to ensure your business is a success.
- Market research is vital to test your new business idea.
- Discovering there's a demand for your products and services helps you write your business plan.
- If you're looking to raise funding, having research that supports your business idea can help convince investors that your start up is a good bet.
- Market research can be divided into 2 main types: primary research and secondary research.
- The main difference between primary and secondary research is down to how data is collected, and the type of information you want to find out.

Primary research is characterised by

- Gathering fresh data that has not been previous collected.
- Research that's conducted by yourself, your team or by a market research firm you hire for the purpose.
- The collected information being up-to-date, unlike secondary data which may be old and therefore no longer accurate.
- Specific results.

  - Primary research aims to answer questions that are relevant only to your company, allowing you to can gain valuable insight into the key issues that affect your business; and the data you collect belongs to you.
  - Competitors cannot get the data and information unless you publish it, which gives your business a competitive advantage.

Examples of Primary Research

- Surveys, one-to-one interviews, focus groups and observations are the most common methods of conducting primary research, though there are lots more.   The main examples of primary research are:

- **Surveys:** You can ask the same questions to several people by email, phone, face-to-face, survey hosted on your company website, or using social media.   For example, you could email existing customers asking them to complete survey or use Facebook to get feedback on a new product or service idea you may have.

- **Focus groups:** Involve getting a group of around 6-8 people in a room with a moderator to discuss a given subject and answer in more detail.   Often used by companies to get feedback on new product concepts, product packaging, pricing and marketing, but can be used to answer any primary research topic.

- **Interviews:** One-to-one interviews may involve a questionnaire or a free-flowing discussion between the researcher and interviewee.

- **Observations:** This is a qualitative method of collecting information either by overtly or covertly watching and observing others in natural or planned environments.   For example, an online retailer may set up a computer and observe how a test subject navigates their online store to purchase an item, with the aim of getting feedback that will help improve the online buying experience.

The Beachhead Market

- The beachhead market is the most important place from which to launch your invasion of the market, because it's where the paying customers are found.

- Historical aspects: The beachhead market is named after the WWII battle of Normandy where Allied soldiers stormed the beachheads of Normandy enabling them to dominate one of the most important battles of WWII; without this win, the war may have ended in German victory.

- Finding your beachhead market is one of the most important strategic moves you make in setting up the foundation of your business.

- Beachhead market is selected after evaluating target customers spending power, willingness to purchase the product, intensity of competition, company's capabilities, scalability potential etc.

    - *"A beachhead market is the place where, once you gain a dominant market share, you will have the strength to attack adjacent markets with different opportunities, building a larger company with each new following,"* says Bill Aulet.

Sources to be referred

- How to select a Beachhead Market: https://www.youtube.com/watch?v=Yhi8rbc54k0

- [Good example] Launching a successful start-up #3: The Beachhead Market: https://exec.mit.edu/s/blog-post/launching-a-successful-start-up-3-the-beachhead-market-MC7FUMDZ6IU5AIPP4WGIPN2PZJI4

The 3 conditions that define a beachhead 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.
- *Word of mouth* communication exists between customers in the market.
  - For example, existing customers serve as high-value references for potential customers.
  - In fact, they may belong to the same professional organisations or operate in the same region.
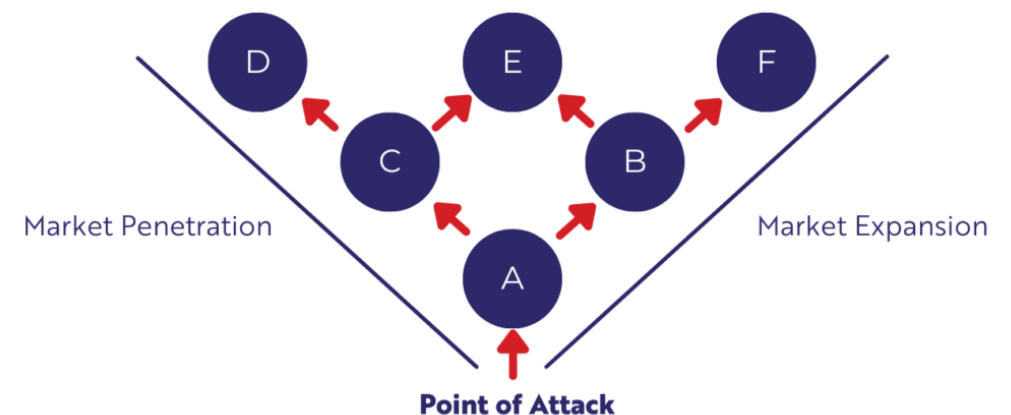
- **Has to be segmented** until the market satisfies the following conditions:
  – Customers within the market all buy similar products and they expect products to provide value in similar ways.
  – Sales cycle is similar and the tactics to acquire customers are not different.
  – There is *word-of-mouth* between the customers, or the customers serve as strong references for one another.
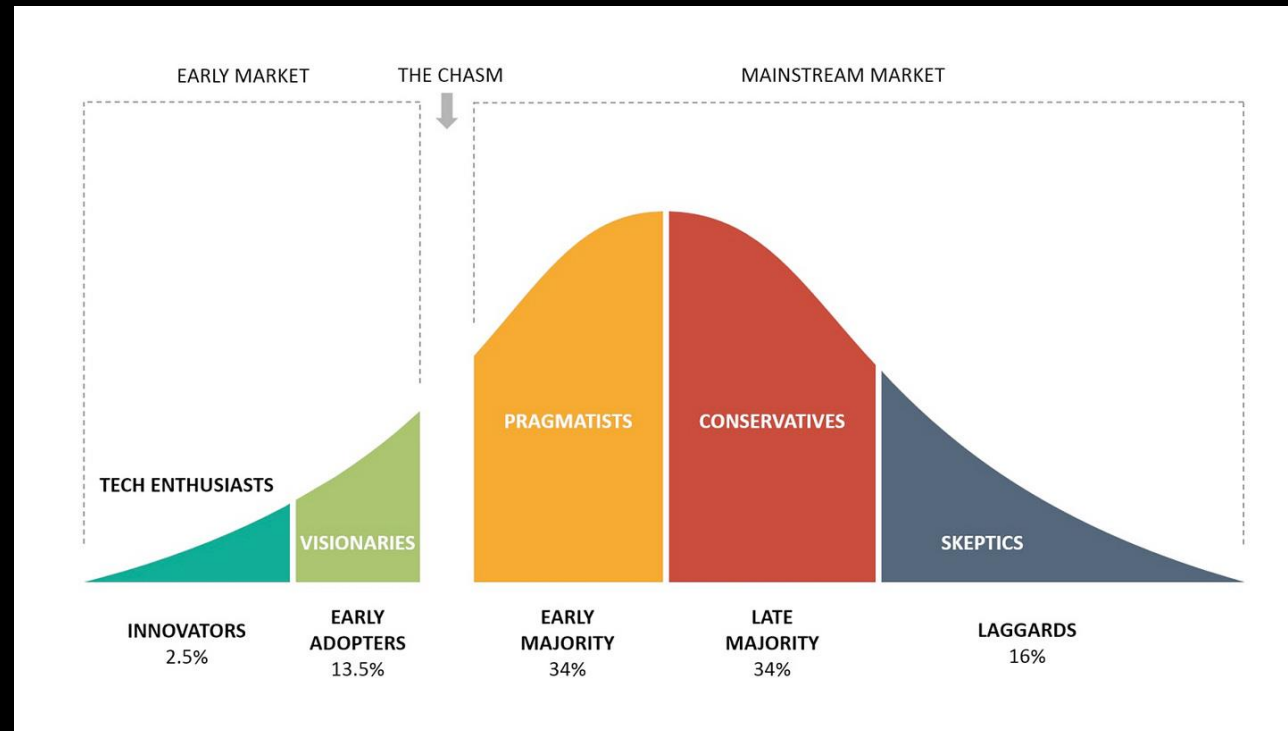
Customer Persona

- After selecting the beachhead market, chalk out a **customer persona**.

- This should include needs, behaviours, motivations of the customer and most importantly purchasing priorities.

- This helps in creating a shared understanding of the customer and guides the company to take business decisions in line with customers interests.

  – Source to be referred: https://venngage.com/blog/user-persona-examples/

Julia's Cafe / Ideal User Persona

Janelle Robinson

Age: 26
Status: Undergraduate

Customer Profile: A busy PhD Student who needs a quiet place to study and read without distractions. She spends a lot of time on campus, refuels often and is a major coffee lover. She is the ideal customer for Julia's Cafe. She wants to receive quick and professional service; order online from her smartphone to avoid lineups, and not deal with over-conversational staff members.

Motivations
- High quality, strong coffee.
- Quiet atmosphere for studying.
- On or close to the college campus.

Frustrations
- Hates waiting too long for her coffee.
- Doesn't want to be bothered by the staff while studying.
- Actually relies on strong coffee to help her concentrate later in the day.

Goals
- She needs information on the type of coffee a cafe serves, in order to determine the quality.
- She wants to find the menu and the daily specials as quickly and easily as possible.
- She wants to order with her smartphone, avoid the usual line-up, and experience minimal distractions.

Favorite Coffee Beans
- Ethiopian Yirgacheffe Coffee
- Sumatra Mandheling Coffee
- Ethiopia Charbanta Natural

Create 3-5 unique and detailed personas to start

EXAMPLE

Highlight products your audience already uses in your industry

LISA MONTOYA

" We must optimize our processes, implement new systems, learn to adapt. It's worth the effort in the end. "

Age 32
Occupation Software Architect
Status Married
Location New York, NY
Tier Multi-use
Archetype Problem-solver

Bio

Lisa is the software architect at Blue Cable. She sees that larger companies have a difficult time implementing improvements. She wants to streamline communications and automate as many things as possible, to maintain an agile team.

Goals
- Discover new tools for communication, reporting, tracking and measuring
- Use small teams for large projects
- Update old frameworks to meet present standards

Frustrations
- Change is always met with resistance
- Learning curves slow down productivity
- Larger companies are more risk averse

Technology
- IT & Internet
- Design Software
- Mobile Apps
- Social Media

Trusted Brands
patagonia
Audi
MOZ
NETFLIX
UBISOFT

Motivations
- Ease of Use
- Creativity
- Problems Solved
- Price
- Updates

Personality

Introvert — Extrovert
Intuitive — Sensing
Thinking — Feeling
Judging — Perceiving

Total Addressable Market (TAM)

- Most startups grow from a great idea – or, at the very least, what seems like a great idea to the founders.   But how many other people might be interested?

- That's an essential question to ask, because, after all, it helps to know how much growth potential is on the horizon for your startup.   **Total Addressable Market (TAM)** is an excellent metric to look at when trying to gauge your startup's growth potential.

- TAM is the annual revenue generated from all the customers in the beachhead market *(assuming you achieve 100% market share)*.

- It can be arrived at by multiplying the total number of customers in the beachhead market and the revenue per customer.

- The goal is to have a big enough TAM so you can get healthy, positive cash flows.

- It is good to have an idea about the *compounded annual growth rate* (CAGR) of TAM.

Top-Down Estimate of
Number of End Users in Beachhead Market

Number of People In Your Largest Demographic or Psychographic Characteristic = _____

Based on End User Profile Characteristic: _____
Assumption(s): _____
_____
Source(s): _____

1st Segmentation Based on End User Profile = _____

Based on End User Profile Characteristic: _____
% of Previous Segment: ____%
Assumption(s) for Calculation: _____
_____
Source(s): _____

2nd Segmentation Based on End User Profile = _____

Based on End User Profile Characteristic: _____
% of Previous Segment: ____%
Assumption(s) for Calculation: _____
_____
Source(s): _____

3rd Segmentation Based on End User Profile = _____

Based on End User Profile Characteristic: _____
% of Previous Segment: ____%
Assumption(s) for Calculation: _____
_____
Source(s): _____

End Users in Beachhead Market = _____

Based on End User Profile Characteristic: _____
% of Previous Segment: ____%
Assumption(s) for Calculation: _____
_____
Source(s): _____

TAM for BHM

- The TAM for your beachhead market is the amount of annual revenue, expressed in dollars or RM per year, your business would earn if you achieved 100% market share in that market.

- TAM = 100% of Beachhead x RM (Revenue)

- Don't spend too much time on TAM – other factors also determine success but later.

Realistic Market Share

- **SAM** = serviceable available market; is the segment of the **TAM** targeted by your products and services which is within your geographical reach
- **SOM** = serviceable obtainable market, is the portion of **SAM** that you can capture.
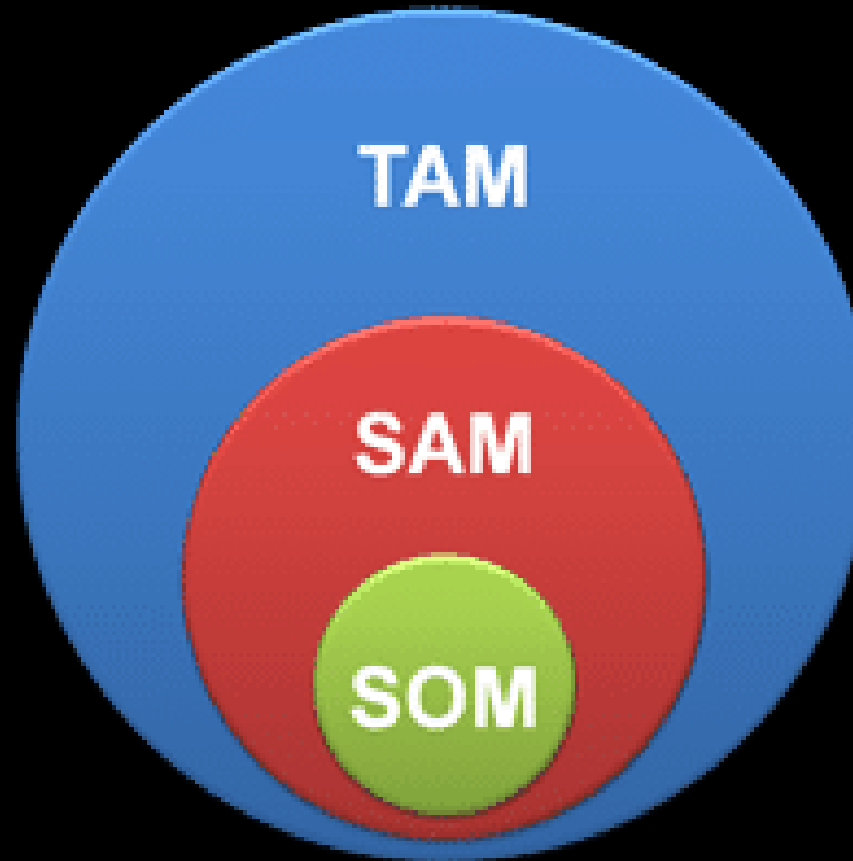
- Each group should pick any famous company they want.

- They should identify 3 market segments the company is probably most interested in and 3 market segments that the company probably avoids. They need to justify their selections.

  – Discuss why do companies divide populations into market segments?