Transcription

Identifying Target Segment and Market Sizing

Understanding your Target Segment

When we were looking at market sizing one of the initial things was, we are going to build a consumer product but who do we build it for? And who we chose to build it for is the working couple. And basically our thesis was that if we can make this product work for a working couple then we will eventually over time use cases for how different people want to use it. So we wanted to make a product where you think about a working couple, they basically are probably in the office from 8am to 5pm or 6pm everyday they have a one hour commute or a thirty minute commute. The sheer hassle is that during the week, going and making a trip to the market is something that is not very pleasant and they would rather spend their time doing something else and we came at the problem from that side. That lets build a product that a working couple will actually be able to use for pretty much anything that they need in their house and if it works for them then we will figure out how it plays out for the other people.

ASHIMA CHALILL
PRESENTER, STARTUP INDIA LEARNING PROGRAM

That is a very specific target segment. Working couples do face a problem when it comes to going to a market and purchasing groceries due to lack of time. This is exactly the key pain-point that Grofers is trying to address. As an aspiring entrepreneur, one of the key questions that must come to your mind is "Is it very critical to have your target segment so specifically defined before you jump in and start your business?"

PROF. ABHA RISHI
CHAIRPERSON, ENTREPRENEURSHIP CENTRE, BIRLA INSTITUTE

It's important you clearly identify your Target Segment and get a firm understanding of who your customers are. At the end of this session you should be able to clearly define the Target Segment for your own venture. Let's start with an example –

Indigo Airlines – now this airline focuses on middle class Indian households who are price sensitive and value on-time performance. Imagine if Indigo airline which is a low-cost no-frills carrier, started promoting luxury full-service flights to its target segment - would you say that it has lost its way.
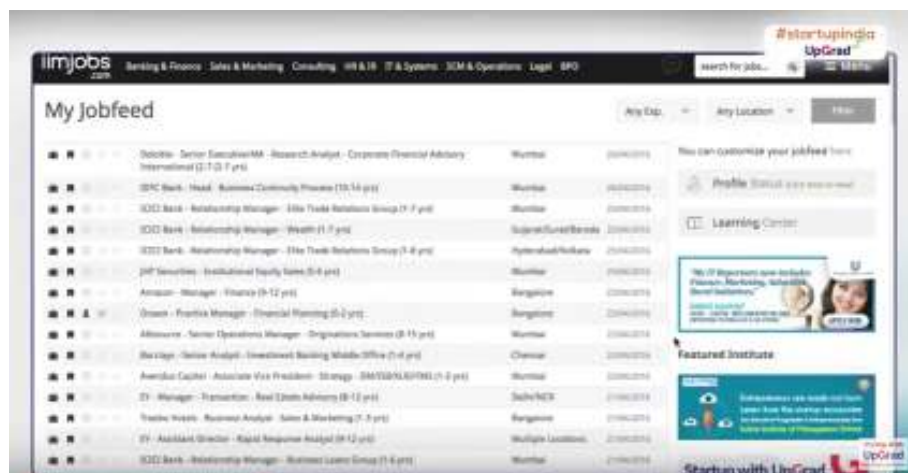
Another example is of a startup iim jobs, every job they post is a premium job and their target audience are aspirational jobseekers from the best schools and colleges in the country. Hence they avoid posting jobs which would be base level – entry level roles that their target audience would find irrelevant.

Most good ideas start off as niche. Facebook started only for Harvard students and Google started as just a search platform but look at them now. One of the key things that founders should keep in mind, as they start-up is – Staying focused helps. It is best to choose a smaller / niche segment of customers within the overall market and serve that one segment really well. As the venture grows, you can expand into other areas. Saavn is one such company that built its product keeping a niche in mind.

It's better to super-saturate and create a niche because that allows focus on market conditions, allows you to focus on sensitivities in products and pricing. So I think that we started as our core focus is in India which happens to be dais around the world and we are taking global rights to the company, when you start a company you want to look at it in a very fine kind of neighbourhood as you said and then we want to grow which too much too vast and it will be very distracting till this day, you know quest to launch Saavn in different continents and different countries but you have to get your epicenter right first that will my side of take away.

Before you start-up – defining the one customer - which your venture is going to serve is very important. Again – emphasising on "One" customer. Your understanding of that one customer will help you plan your product and market it correctly. Close your eyes – and think of who that one customer is going to be for you. Remember - start small & stay focused.

Identifying the right customer segment for your venture idea is important. Equally important is to slice and dice the customer segment. Break it down to narrow your focus to the right segment. Market segmentation can be based on geographic factors, that is by region, city, or rural/urban status, it can be based on demographics, that is by age, family, gender, income, occupation and education or market segmentation can also be based on behavioural factors such as benefits, attitude etc.

FOUNDER, SCIENCE UTSAV
HARSHA ATRI

Whenever I talk about Science Utsav, there are one or two stories that I always remember. In 2014, we were called by a school to conduct a science workshop and we were working with that school for past 3 months. And when we reached the school there was a student who was late to his class. As soon he saw us he went running to his class saying 'Today Science Utsav people have come and we'll have a lot of fun today'. Just to hear these things is really great because we were creating a difference in the lives of students. They were taking much more interest in their studies.

TV channels such as Disney, Hungama choose to target the children segment only, and so on. There are many examples of this. Most e-commerce companies started by targeting the urban male in the age group of 18-25 years. Let's look at the insights that Ambareesh Murty, founder of Pepperfry have to share on the e-commerce wave.

I think broadly there are a few waves in e commerce and the way it works is, the first wave in e commerce tends to be the wave of electronics and fairly standard products. So you have people buying mobile phones, digital cameras, books, DVDs, CDs etc. online. And that followed very often by a wave which is the fashion wave wherein people buy brands of fashion, they know what those brands stand for in real world and therefore when they are buying them online, they have fair degree of comfort on the kind of products that they will be getting and the third wave of e commerce tends to be even more non-standard products which are products such as the products which Pepperfry sells, which is furniture and home.

Now, if you look at the more developed part of the world right, it took about 15 years for these 3 waves to materialise and in India these three waves happened in a span of 5 years and today we know that customers buy a lot of furniture and home products online and so on. So that's the evolution of the shopping behaviour. Now what that results in, is a whole bunch of things related to the demographics of the customer change. So if you ask somebody who constitutes e commerce three years back, they would have quickly said, men. So, it was men who were buying shoes, men who were buying athletic sports gear, men who were buying the electronics, men who were buying mobile phones. Today i think and especially true for Pepperfry, it's all about the independent Indian women and women have become a large chunk of the overall buying segment in e commerce. So that's the underlying demographic shift that has happened. The other shift is, earlier e commerce was supposed to be the master of the metros, that is moving down class at a very rapid rate. So you have a large chunk of business for all players including us coming from tier 2-3 towns across India.

Sizing the Market

While evaluating the target customer for your own venture - you must ask the following question: Is there a target segment where I can offer the customer clear and compelling benefits at a price they are willing to pay? Be honest in answering this question. Let's take the example of Chaayos, whose aim is to be like Starbucks when it comes to Tea. The target audience for Chaayos is the upcoming middle class that has money but is equally conscious of the value they get. They work with a USP of Customisation – "Experiments with Chai" where they serve over 25 varieties of tea.

The next crucial question is are these benefits, in the customer's minds, different from, and superior, in some way-better, faster, cheaper or whatever – to what's currently offered by other solutions? These benefits should be reflected in your value proposition. Figuring the core value proposition is critical. The value proposition does not mean being incrementally better or cheaper than the current option, because by definition – if you try to be incrementally better – someone else will be better than you. You are then just waiting to be overtaken. Make sure that your value proposition is not marginally better – but significantly superior to the current options in the market.

The insight of connecting data from wearable and apps to fitness coaches and that is what when I wanted to start my next company I really said that if this has worked for me this could work for millions of people who are having literally the same problems. And the existing solutions are only giving you more data and confusing you more and trying to just say "hey walk ten thousand steps and you will get fit." but that's not the case at all. It is different for different people and it has to be customized and personalized to that. And that's what brought about GOQii. So the idea of GOQii was, I'm talking about 2013 almost three years back when I said that we are going to be launching a fitness wearable which is not we are selling.

The real product is not the hardware but a service which connects you data to real fitness coaches on the cloud who will be advising online and that's what brought the solution together. And today the solution is not only successful but we pretty much have the largest market share in India on the fitness wearable space and as we expand to other markets we believe this is going to be the future where you can't imagine a fitness device, wearable or app not be able to connect with the fitness coach on the cloud.

Now you have come to identify the narrowly focused customer segment. The next question is how large is this segment, and how fast is it growing? Yes the industry is huge but how huge is your potential segment. And how fast is it growing?

For instance, the Indian radio taxi market is currently anywhere between $6-$9 billion dollars, and is forecasted to grow at 17-20% annually.

The organized taxi market is still minuscule as compared to rest of the taxi market in India; it constitutes only 4-5% of the market in terms of sheer number of vehicles. The rest is by operators who own fleets of 2-50 cars and typically have a presence in 1 or 2 cities. Hence the aggregators like Ola, Uber have just conquered less than 3-4% of the total available market of India so far and have a huge opportunity in front of them.

Target Customer

1. Any clear benefits to customers that they would pay for?
2. Is the offering superior or differentiated?
3. How large is segment? How fast is it growing?
4. Is horizontal integration possible?

Another important question to answer is it likely that your entry into this segment will provide the platform to enter other segments you may wish to target in the future? Flipkart when it started, used to sell books and CDs, they then ventured into electronics and are now even retailing apparel. Another example is Nike, Phil Knight had started Nike as a niche player addressing the athletic players who needed special sports shoes. He started it because he himself was very passionate about sports. But what started as a niche segment has now gone into a very broad range of sports equipment. I don't think there would be anybody in the sports field who doesn't know Nike.

Target Segment
1. Social hierarchy – Middle class
2. Gender – Women
3. Age – 22-35 years

Value Proposition
"Renting fashion on the go"

Need-Gap
Renting clothes for occasions

Share of Offering
1. Western wear – 75%
2. Ethnic wear – 25%

Now, let's have a look at an example of a recent start-up, Flyrobe, which was launched in June 2015 – it is an on-demand fashion rental service for premium apparel brands. This is targeted at Indian middle-class women between the age groups of 22-35 years who are fashion enthusiasts and aspire for luxury garments at about three-fourth to half the price of a new product. Rentals hover at around 8-15% of the price of a garment. Their value proposition is "Renting fashion on the go". Women can pick something of their choice whenever they are going out – be it a small dinner, a date, an office party or a wedding. 75% of business comes from women ordering western wear for casual going out event and 25% comes from women ordering ethnic wear for occasions such as weddings, festivals, etc.

Let's look at what Differentiated and superior offering Flyrobe presents to the users; they guarantee 3 hours delivery of western wear. They provide superior customer experience. They also provide outfits with good fitting where they provide custom-fitting for their ethnic wear collection to ensure a great fit whereas for western wear collection they allow users to order a back-up dress.

When it comes to the market they operate in, the market size for ethnic wear is $15 billion and the market size for casual western wear is $4billion. Of this, they estimate the rental market to be about $4-5 billion. On their ability to enter adjacent verticals, the company, along with clothes, is planning to rent bags & accessories also.

Sizing the Market

CO-FOUNDER, REDBUS
PHANINDRA SAMA

We didn't know how to figure out how big the market is and etc. and all that and we googled like everybody would do but there were no answers, right. I mean nobody has done, this is completely unorganised, nobody knows how many buses are there, nobody knows who is running even the government would not know because some bus operators are known to be operating two buses on the same number plate. So, the actual numbers of buses were more than the number of registered buses and etc., so there is no way you could know that. But then we went in the raw way.

We went from one travel agent to another travel agent asking him what is his estimate of number of buses let's say from Bangalore to Chennai or Bangalore to Bombay and we would go to the next guy, ask him the same question and try to get some kind of a triangulation, right. We created one big excel sheet of all the buses and etc., all anecdotal data and that gave us confidence that it's a large market, how large actually I don't think even today we know how large because after eight nine years at least last year when we sold the business we though we almost have every bus operator in the market with us but to my surprise every month we were signing up thirty new operators. Which is I think this industry and likewise many industries are very deep, right. I mean even after eight years we didn't finish signing up the operators.

PRESENTER, STARTUP INDIA LEARNING PROGRAM
ASHIMA CHALILL

Wow! With such a huge market, how can one estimate the market size? There are obviously various factors that one should consider while sizing the market. while in the idea assessment stage. But what exactly are these factors? How can go about with the calculation of arriving at the exact market size.

Now that you have understood your target segment, let's look at how to size this offering. This is crucial for any start-up as it would help in marketing planning, and budgeting along with it being very critical for those who seek investor funding. There are 2 approaches to arrive at your potential market size:

1.   One is the Top Down Approach and
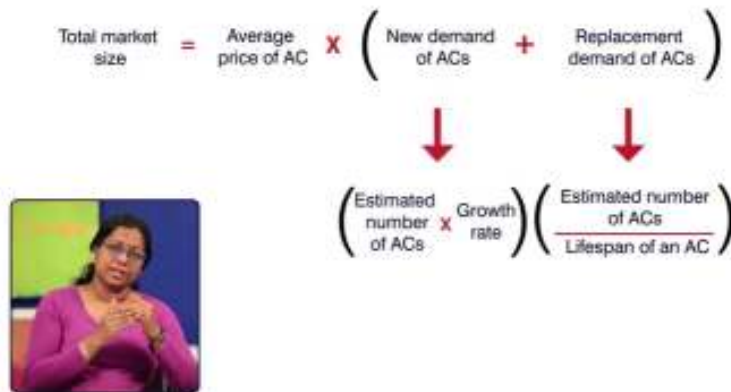2.   The other is the Bottom Up Approach.

In the top-down approach you would first look at the broad market and then move down to the target market segment. In the bottom-up approach you start by estimating the potential sales of a store in order to determine a total sales figure.

For Market sizing, the First step would be to gather secondary data from trade publications or any other relevant sources. A very good source to get data for any industry is IndiaStat. So what data are you going to collect? The first thing you would want to know is the market size. So you should measure market size by:

•   Number of customers in the market
•   The aggregate money spent by these customers on the relevant class of goods or services

The number of units of relevant products in a year and the usage occasions. Let's first look at the top-down approach. What are the data points we would need to consider in order to arrive at the market size? While calculating the market size for anything, some of the data points you can get using secondary research however for some data points you might need to make some assumptions.

Market Sizing of Air Conditioners

$$\text{Total market size} = \text{Average price of AC} \times \left(\text{New demand of ACs} + \text{Replacement demand of ACs} \right)$$

$$\left(\text{Estimated number of ACs} \times \text{Growth rate} \right) \left(\frac{\text{Estimated number of ACs}}{\text{Lifespan of an AC}} \right)$$

If we need to calculate the market size of Air conditioners in India, how would you go about doing that? For calculating the market size, we need to consider new demand and replacement demand of ACs. Now, what is Replacement demand? Replacement demand is demand due to replacement of existing ACs and can be calculated by dividing the estimated number of ACs by average lifespan of an AC. New demand considers demand due to new orders and can be calculated by multiplying the estimated number of ACs by growth rate. Now for estimating the number of ACs in India, we will use top down approach starting with population of India and moving down from there to arrive at an estimated number of ACs in India.

Market Sizing of Air Conditioners

	Urban	Rural
Total population		1.3 Bn
% of population	30%	70%
Population	376 mn	877 mn
Members per family	5	5
Total families		175 mn

Now for estimating the number of ACs in India, we will use top down approach starting with population of India and moving down from there to arrive at an estimated number of ACs in India. Okay, population of India is around 1.3 billion, of which we can assume that 70% people live in rural areas and rest 30% live in urban areas. This will give urban population to be approximately 376 million and rural population to be approximately 877 million. Now we have assumed each household has 5 members, this would give us about 175 million rural families and 75 million of urban families.

Market Sizing of Air Conditioners

	Urban				Rural			
	Percentage of population	Numbers of families (in mn)	Number of ACs per family	Total number of ACs (in mn)	Percentage of population	Numbers of families (in mn)	Number of ACs per family	Total number of ACs (in mn)
Upper class	2%	1.5	1.5	2.2	1%	1.8	0.2	0.4
Upper middle class	8%	6.0	1.0	6.0	10%	17.5	None	0.0
Lower middle class	50%	37.6	0.1	3.8	35%	61.3	None	0.0
Low Income	40%	30.0	None	0.0	54%	94.7	None	0.0

Total ACs (in mn) = 12.4

We would also need to assume the split of the population among Upper Class, Upper Middle Class, lower Middle Class & Low Income Class for both urban & rural regions. However, the percentages would vary for both, where in the Urban region it would be 2%, 8%, 50% & 40% respectively whereas in the rural region, it would be 1%, 10%, 35% and 54% respectively. Using the split of the population for both urban and rural that we have assumed we can get the total family split for each class within each of the regions by multiplying number of families within the region along with the respective percentage for each class.

Now assuming urban upper class families have on an average 1.5 ACs per house as some families will have two ACs and some will have one AC. Similarly assuming 1 and 0.1 AC per family for upper and lower middle class respectively and none in low income in the urban areas. Assuming only the upper class has 0.2 air conditioners in the rural market. This gives total of 12.4 million air conditioners.

Market Sizing of Air Conditioners

$$\text{Total market size} = \text{Average price of AC} \times \left(\text{New demand of ACs} + \text{Replacement demand of ACs} \right)$$

$$\text{Rs. } 25{,}000 \quad \left(1.2 \text{ mn} + 1.8 \text{ mn} \right)$$

$$\left(\text{Estimated number of ACs} \times \text{Growth rate} \right) \left(\frac{\text{Estimated number of ACs}}{\text{Lifespan of an AC}} \right)$$

$$\left(12.4 \times 10\% \right) \quad \left(12.4 / 7 \right)$$

Assuming average lifespan of the AC to be 7 years, we can arrive at a replacement demand of 1.8 million ACs by dividing the estimated number of ACs by the average lifespan of AC. As we have taken the growth

rate of the air conditioning market is to be 10% this would mean about 1.2 million of new demand each year. Hence estimated total demand of air conditioners from new & replacement demand would be 3.0 million per year. Assuming average price of an AC is around Rs. 25,000, we can arrive at market size of AC at approximately Rs. 75 billion. You arrive at this number by multiplying estimated total demand of ACs by the average price of an AC.

Now that you have understood the top-down approach, let's look at the bottom-up approach using another example. Let's say you want to open a burger chain in India and need to know how big the market is. How will you go about sizing the market? Existing burger chain players in India incude McDonalds, Burger King, Wendy's, Johnny Rockets. Of these players, McDonalds commands the highest market share and hence we can assume that market size for McDonalds will be close to overall market size for burger chains. So let's calculate market size for McDonalds. For estimating the market size, we will use bottom up approach. For this, we will estimate the number of burgers sold per outlet and then multiply it with number of outlets in India and the average price of a burger.

Burgers Sold Per Outlet

Outlet sales (Dine-In)
(Open from 8 am - 10 pm)

Timing	Peak 12 noon - 3 pm 7 pm - 10 pm	Non-Peak 8 am - 12 noon 3 pm - 7 pm
Total Hours	6	8
# orders per minute	1	0.25
# orders per hour	60	15
# orders per day	360	120
# burgers per order	2	2
# burgers sold per day	720	240

Total burgers sold per day per outlet (Dine-in) = 960

Market size for a burger chain = (Average price burger) * (Number of outlets in India)*(Estimated number of burgers sold per outlet)

Next to estimate the number of burgers sold per outlet, we would have to start by looking at the how each outlet functions. Assuming an outlet operates from 8am to 10pm and we categorize this into peak & non-peak hours where the peak would be between 12noon-3pm and 7-10pm which is the time when most of us feel hungry that would be about 6 peak hours and assuming non-peak hours to be 8am-12noon and then again 3pm-7pm which gives us 8 non-peak hours.

Now assume each outlet has an average of 3 counters and each counter can fulfil an order in 3 minutes during the peak hours. Now that gives the outlet average as one order per minute. Similarly, we assume that 1 order gets fulfilled every 4 minutes during the non-peak hours. So calculating would be like 0.25 orders per minute during non-peak hours. This would give us 60 orders per hour during peak hours and 15 orders per hour during non-peak hours. By multiplying orders per hour with the number of peak & non-peak hours, we arrive at 360 orders during the peak hours and 120 orders during non-peak hours per day. Assuming every order typically contains 2 burgers, this would give us 720 burgers sold during peak hours & 240 burgers sold during non-peak hours. You arrive at this number by multiplying number of orders per hour by the number of burgers per order respectively. We now arrive at 960 burgers sold per day. These are orders which are fulfilled in the outlet.

Burgers Sold Per Outlet

Home delivery orders
(Open from 8 am - 10 pm)

Timing	Peak 12 noon - 3 pm 7 pm - 10 pm	Non-Peak 8 am - 12 noon 3 pm - 7 pm
Total Hours	6	8
# orders per minute	0.2	0.1
# orders per hour	12	6
# orders per day	72	48
# burgers per order	2	2
# burgers sold per day	144	96

Total burgers sold per day per outlet (Home delivery) = 240

Total burgers sold per day per outlet (Dine-in + Home delivery) = 1200

Considering the outlet also receive home delivery orders. Assuming the outlet receives a call every 5 mins during peak hours and every 10 mins during non-peak hours. This gives us 12 orders per hour during peak hours and 6 orders during non-peak hours. This gives us 72 orders during peak hours and 48 orders during non-peak hours per day. Again assuming 2 burgers per order, we arrive at sales of 144 burgers during peak and 96 burgers during the non-peak hours which if you calculate comes to a total of 240 burgers sold through the home delivery method per day.

Market Size for Burgers

Total market size for a burger chain = Average price of burger × Number of outlets × Estimated number of burgers sold per outlet

$$= (\text{Rs. } 100 \times 300 \times 1200)$$

$$\text{Rs. } 13 \text{ bn} = \text{Rs. } 36 \text{ mn} \times 365 \text{ days}$$

If you total the outlet orders along with the home delivery orders, you would arrive at 1,200 burgers that an outlet would handle per day. Now taking the average cost per burger at Rs 100 and that this burger chain would have about 300 outlets in India. The total sales the chain can make per year would account to Rs 13 bn. Of course when you apply this to your own startup while sizing the market, make sure that your data points come from valid, vetted and really credible reports. Let's have a look at how some of the entrepreneurs look at market sizing.

CO-FOUNDER: ZOMATO
PANKAJ CHADDAH

Productivity of Market depends on

1. Size of market
2. Level of competition
3. Legalities involved
4. Policy & economic factors

How I think about our market size is not only how does the percentage of retail move online but also – but more importantly, how does the percentage of consumption in India move online and consumption in 10 years is going to be about 2.5 trillion dollars and I feel about 10% of consumption of India in 10 years should be happening online. So, it will be a 250 billion dollar market. Two very important things which dictate whether a market would be productive for us or not, the first one being the size of the restaurant

industry there. If there are 10000 restaurants in a city there must be millions of people who eat out on a daily basis and hence, we can fit into the communication or the discovery between consumer and the restaurant.

The other part is how – where I am entrenched the incumbents so if there is a monopoly from an incumbent in a market, then it might not make sense to start from scratch in that market. So if there is a monopoly and there's a big enough market it might make sense to acquire the target or if that's not possible then de-prioritize that market. If there is a small market with a huge monopoly then it might make sense to de-prioritize that as well. So, that's pretty much how we think and then the details after that are the legalities – is foreign investment allowed in that market or not and if that is one and the only thing that can actually not allow us from entering a market, the macro factors – the economies, the government policies and all those things.

Summary: Identifying Target Segment and Market Sizing

In this session, we understood how to lockdown on your target segment which can be identified on the basis of various factors, like your value proposition, your customer's willingness to pay, differentiated and superior offerings, market segment and growth and the ability to enter adjacent verticals.

And once you understood your target segment, you also understood how to size the market using the top-down & the bottom up approach. In the top-down approach you would first look at the broad market and then move down to the target market segment, while in the bottom-up approach you start by estimating the potential sales of a store in order to determine a total market sales figure. This sure was an informative session.

I hope you learnt as much as I did and I look forward to seeing you in the next session, where we will be understand how competitive advantage is gained in a crowded market in a structured manner through the use of Porter's Five Forces. We will understand how market segmentation was done by different players like eBay, Amazon, Dell and how it really made them successful.