

ECON 529



Basic Market Research
Part 1

Getting To Positive Cash Flow

- Have More Coming In Than Going Out.
- No Flow, Won't Go.
- Making The Most By Spending The Least.
- If You Are Filling Your Bank Account,
What's The Point!



Companies ...

- Find Customers & Solve Their Problems.
- Design Products & Services.
- Sell Products & Services.
- Manufacture Products or Deliver Services.
- Companies Ship Products.
- Companies Collect Payment.
- Companies Pay Salaries, Expenses & Taxes.
- Keep What's Left Over.



Key Facts You Need To Know NOW!

- How Much Does It Costs To Make 1 Unit of My Product or Service?
- How Many Will You Sell Every Day, Week, Month & Year?
- What Bills Do I Need To Pay Every Month OTHER Than Parts & Labor?
- What Am I Going To Need To Spend To Get Started?



What Is Your Revenue Models

- Subscriptions or Membership
- Volume or Unit Based
- Advertising Based
- Licensing or Syndication
- Transaction Fee

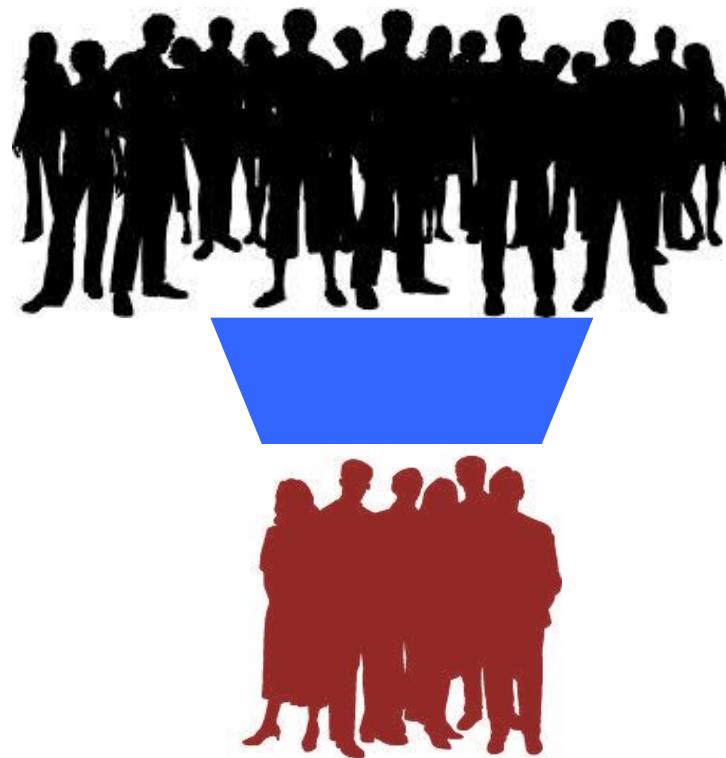


How Many Revenue Streams?

- Single Stream → One Product or Service.
- Multiple Stream → More Than One.
- Interdependent → Sell One To Sell Another
- Loss Leaders → Lose Money On One To Sell Another



Define The Market



*What Percentage of Potential
Customers/Clients Can You Get!*

How Big Is The Market? How Much Will You Capture Over 5 Years?



The Market

What is the Overall Market?

- What is the size and definition of the market? Units? Revenue? Is it growing? Are you entering an existing market or creating a new one?

Define your Total Addressable Market

- What's Your Target Market? How can the Overall market divided? Geographic, Demographic, Behavioral, psychographic
- What are the attributes of each customer that makes them unique, and how can you extrapolate on those features to define a market segment?

Define your target customer and key characteristics

- Who has the problem you are trying to solve? Ex. Small vs. Large businesses, independents vs. agencies, examples of ideal clients or individuals

What are the current needs of your customer?

Your Business Model

Define your Revenue Model. Who will pay for the solution and how will you make money?

- What are the key revenue streams?
- Discuss the scalability of your business model. Is this high volume? Low volume? Does it lend itself to rapid expansion?
- How many customers do you expect to capture and what is their buying decision cycle?
- Is there recurring revenue? What is the frequency?
- Show an example using basic revenue/math

Describe your pricing structure and how much you expect to generate in revenue from each customer.

- Discuss pricing - per unit, subscription, flat fee? % fee? transaction fee, advertising

Revenue Projections

Some General Guidelines

Years Projected:

- Startups: 6 year projections (accounts for ~1 year of getting started)
- Early-mid stage: 1-2 year historical, 3-5 year projections

Target Market Size vs. Acquired Clients:

- Total # Clients in Target Market (Show each year with growth)
- # Clients Acquired or Free Users vs. Revenue Generating Users (shows conversion rate)
- % Penetrated (be realistic: growing from 0% to 1%-5% penetration makes sense, 50%-100% is unreasonable)

High Level Financials:

- Revenue, Expenses, EBITDA, EBITDA Margin %
- Optional: Break out key revenue streams or Gross vs. Net Revenue
- Optional: Break out key expenses (Ex. # Employees)

Estimating Revenue

- First You Need To Hone In On Your Unit Price.
- What % of The Market Will You Capture?
- How Many Will You Sell Every Week?
- Multiply Times 4 Weeks?
- Multiply Times 12 Months?



Why Do You Need Research?

- Why Do You Think
- Creating A Great Business Is About
Creating A Great Strategy
- Can't Have A Great Strategy Without
Great Research

3 Types of Research

- What Are They
 - Market
 - Customer
 - Competition



Marketing Research

- What Are The Two Types of Data
 - Primary
 - Secondary
- Start With Secondary. Why?
 - It's Cheaper



Marketing Research

- Who Can Define Secondary Sources of Data?
 - Library, Internet, Anything Published
 - Go To Trade Associations In Your Area of Interest
 - Lots of Data
 - North American Industry Classification
 - SIC Codes Going Away

Marketing Research

- Primary Data
 - Observation
 - Sit In A Starbucks For 8 Hours And Watch What Happens
 - Capture and Interrogate
 - Talk With Customers, Employees of Rivals, Their Sales People, Surveys

Marketing Research

- Good Surveys
 - The Less Work The Recipient Does The Better
 - Use Stamps Rather Than Mail Meters
 - Need To Survey A Lot of People To Get Good Data
 - Sample Your Target Audience

Marketing Research

- What Are You Really Trying To Find With Market Research
 - A Niche
- What is A Niche?
 - Doing Something Different Than Your Rival
 - Doing The Same Thing, But Differently

Marketing Research

- What Are The Characteristics of A Niche?
 - If You Have Special Knowledge of An Area
 - It is Too Small For Bigger Companies To Care About
 - Not Big Enough For Their Effort
 - Big Enough For You To Make A Living

Marketing Research

- Once You Have A Niche, What Do You Do?
 - Seal It Off!
 - First Mover Advantage – Get There First
 - Create Technological Barriers
 - Patents
 - Map Your Operations To Your Niche
 - Hard To Copy

Market Research

- What insights can an entrepreneur gain through good market research?
 - Market size
 - Market growth
 - Customer need for the product

Market Research

- What does this information ultimately tell you?
 - If the business is viable

Market Research

- What are the key questions you want to answer with your research?
 - Market size
 - Market dynamics
 - Customer need

Market Research

- Why shouldn't an industry-experienced team solely rely on its collective experience?
 - Industry dynamics change in a heartbeat!
 - Get lazy
 - Rely on lazy customers

Market Research

- What to the entrepreneur want to find out with market research?
 - Is the business concept viable from market and technical perspective?
 - What are the risks and information holes?
 - Is the strategy likely to succeed?

Market Research Process

- Step 1: Prototype Business Design
- Step 2: Conduct Expert Interviews
- Step 3: Develop a primary and secondary research gathering plan
- Step 4: Conduct review of data
- Step 5: Revise Assumptions
- Step 6: Conduct further expert data reviews
- Step 7: Review and revise business assumptions and strategy based on data

Step 1a – Prototype Business Designs

- Why is developing a key set of assumptions about your business critical to a market research project?
 - It tells you which questions to ask.

Step 1a – Prototype Business Designs

- What are some of the key assumptions?
 - Sales channel
 - Product and service offering
 - Product prototypes

Step 1b – Prioritize Needs Based On Business Designs

- What key questions should you regarding markets?
 - Is it big enough
 - Is there a need?
 - Is the value proposition good enough?
 - How does my offer stack up against competition?

Step 1b – Prioritize Needs Based On Business Designs

- What key questions should you regarding business model and strategy?
 - Pricing
 - How will the market react?
 - What are the economics of the value chain?
 - Which segments are most attractive?

Step 1b – Prioritize Needs Based On Business Designs

- What key questions should you regarding the sales channel?
 - Who buys the product and can you sell it to them efficiently?
 - What is the sales cycle and does it fit within our financial model?
 - Are there sufficient early adopters?

Step 1b – Prioritize Needs Based On Business Designs

- What key questions should you regarding benchmarking?
 - R&D costs and development times?
 - Production costs and capital investment options?

Step 2 – Conduct Expert Interviews

- What is the benefit of expert interviews?
 - Reality checks on market and customer
 - Ideas to refine model
 - Help locate sources of secondary data

Step 2 – Conduct Expert Interviews

- Give me examples of people with whom to conduct expert interviews?
 - Retired executives
 - College professors
 - Consultants
 - Stock analysts
 - Investors
 - Industry association staffs

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Basic Market Research
Part 2

Step 3 – Develop Data Gathering Plans

- What type of data should you gather?
 - Secondary data
 - Primary data

Step 3 – Develop Data Gathering Plans

- Give me examples of sources of secondary data?
 - Market reports
 - News/trade journals/magazine articles
 - Competitor literature
 - Industry organizations

Step 3 – Develop Data Gathering Plans

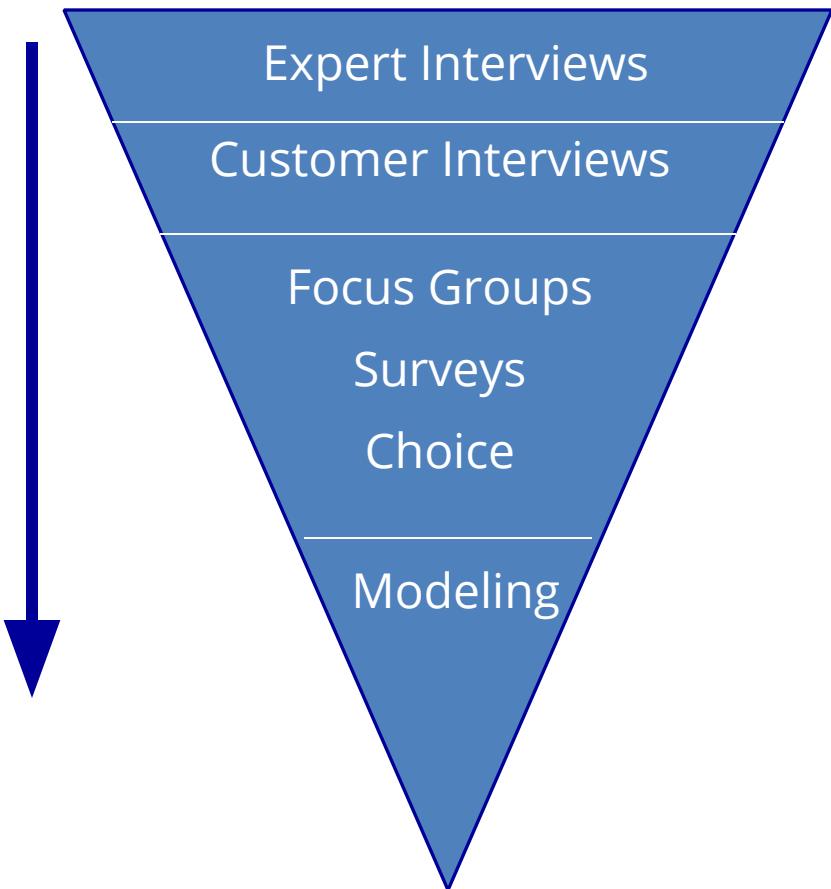
- What are you trying to learn with secondary data?
 - Industry trends
 - Market size and growth
 - Initial competitive intelligence

Step 3 – Develop Data Gathering Plans

- What are ways to get primary data?
 - Talk with customers
 - Talk with suppliers
 - Talk with industry experts

Step 3 – Develop Data Gathering Plans

Exploratory



Confirmatory

Step 3 – Develop Data Gathering Plans

- What are primary data gathering techniques?
 - Interviews
 - Focus Groups
 - Surveys
 - Choice Modeling and Concept Testing

Study Design

- What are different elements of market study design?
 - Objectives
 - Methods
 - Sample Sizes
 - Subject Selection Criteria

Study Design

- What is more important, determining customer needs or reaction to your concept and why?
 - Customer needs so you have better data to modify your offering

Study Design

- What should you identifying buying, influencing and usage players be highlighted in research?
 - Each person has a role in the purchase decision.
 - Your marketing needs to be unique for each.

Study Design

- What impacts the sample size?
 - How much you can afford to spend.
 - It is a balance for the entrepreneur.

Study Design

- What are the two most common components of entrepreneurial research and why?
 - Secondary reviews
 - Customer interviews
 - They are cheap and the most meaningful

Study Design

- What are examples of secondary research data gathering?
 - Go to library to get industry and analysts reports
 - Make calls to industry organizations
 - Go to competitors websites and get literature
 - Have industry expert give you reports

Study Design

- What are key elements of primary interviews?
 - Write set of questions
 - No more than 30 minutes
 - Do in person
 - People tell you less on the phone
 - Be careful who you interview
 - Thought leaders ahead of the curve

Study Design

- What is data triangulation?
 - Getting data on a subject from more than one source

Creating A Niche



Niche – How To Get There

- Consider Your Passion
 - If You Really Love A Subject, You Will Study It More Than The Average Person
 - If You Study More, You'll Find Problems That Need To Be Solved
 - Average Players Make Great Coaches
- Consider Your Expertise
 - If You Know A Lot About Something, You'll Think of New Ideas

Industry Research

- Timmons Model of Opportunity
 - Good To The Food!
 - Three Ms
 - Market Demand
 - XM Satellite & Music Down
 - Market Size
 - Room For Everyone
 - Market Opportunity
 - Timing Is Critical



Industry Research

- What Are Examples of HOT Markets Now?
 - Housing
 - Cyber Security
 - Taking Care of The Elderly
 - Spanish Products And Services

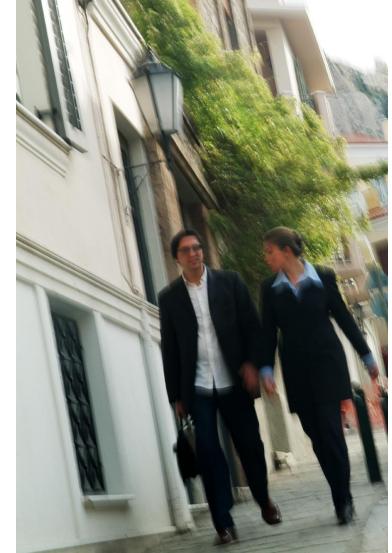


Industry Research

- What Does Uncovering A Good Niche Via Good Research Produce?
 - Being Unique
- What Does Being Unique Create?
 - Good Price
- What Does Good Price Create
 - Profit Margins
- Profit Margins Cover A Lot of Expenses!

Customer Research

- Be Careful.
 1. Never Assume The Customer Knows What You Know
 2. People Don't Fit Into The Same Mold
 1. Just Because Two White Males Are 21 Doesn't Mean Both Like Football
 3. Surveys Are Good, But The Proof Is What Someone Is Willing To Pay For A Product
 1. Who'd Have Thought You Could Get \$5 For A Cup of Coffee, i.e. STARBUCKS



Customer Research

- Be Careful (cont.).
 1. Customers Develop An Image of Who You Are
 2. Observation Is A Great Way To Discern Customer Behavior
 3. Key On “Cohort Marketing”
 4. Be Realistic – Don’t Be Fooled By Yourself
 5. Research Your Product In Use
 6. Understand How Long It Takes To Create A Product

Cohort Marketing

- Anyone know what it is?
 - We are all defined by the experiences that we have in our “coming-of-age” period
- Let use me as an example
 - What my Dad taught me about clothes
 - Brook Brothers, styles of shoes
 - The type of music that I buy
 - I like vocalists – Jim Croce & John Denver
 - The food that I eat
 - German upbringing

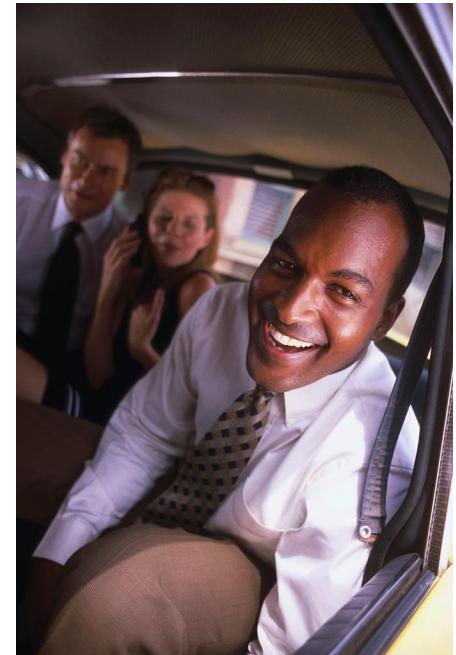


Researching Competition

- Your Competition Is Not Always Direct
 - What is The Competition For A Movie Theatre
 - Television
 - Video Stores
 - Video On Demand
 - Reading
 - Sporting Events
 - Health Clubs/Working Out
 - Meditation

How Research Would Change Conventional Thinking

- Did you know that African American adults outspend whites 4:1 in car purchases even though whites have 3 times the discretionary income?
- Did you know that only 40% of Latinos watched the 1995 Super Bowl while 90% of Latinos watched the World Cup?



Researching A Niche

- Why is it hard?
 - No Data Available
- Can find niches that are similar

Remember Why We Are Doing This?

- Doing Research To:
 - Do Something Different From A Rival.
 - Do The Same Thing, But Differently.



Establishing A Niche

- How Do You Do This With No Money
- Two Categories:
 - Category 1 – Source of Ideas
 - Category 2 – Get Data From Sources In Your Addressable Market

Category 1 – Source of Ideas

- Talk With People In The Know In Your Field
 - In-home pill dispensing systems
 - Talk To Pharmacists and Elder Care People
- Get Information From The Government
 - Government Information Is Free
 - Can Buy or Use Abandoned Projects

Category 2 –WORK Data From Sources In Your Specific Market

- Government
 - Department of Commerce
 - Small Business Association
 - College Professors
 - Trade Associations
- Can Get
 - Pricing Structures
 - Learn Strategies
 - New Products In Pipeline
 - Service Policies and Costs



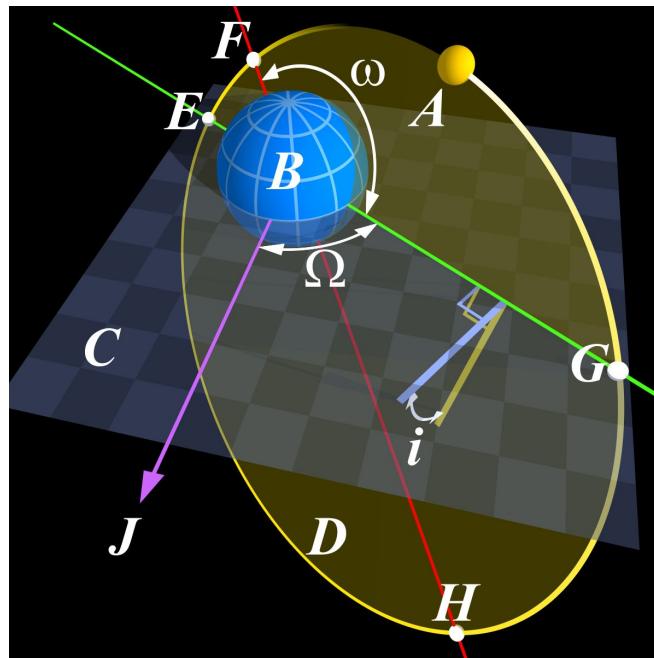
Beyond Eureka

- Step 1: Set The Stage
- Step 2: Let the Ideas Fly
- Step 3: Picking a Winner
- Step 4: Feasibility
- Step 5: The Prototype



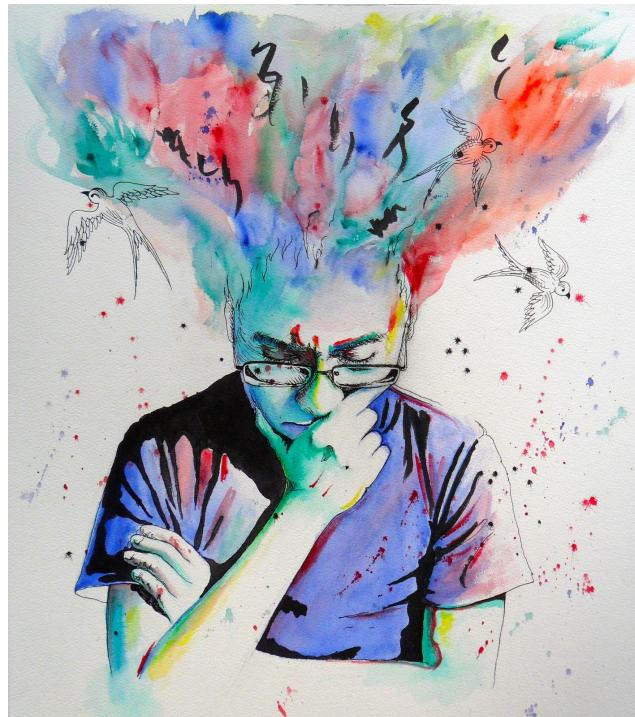
Step 1: Set The Stage

- Your first task is to set some parameters for the new business. How?



Step 2: Let the Ideas Fly

- Some call it idea generation, others brainstorming, still others ideation.



Step 3: Picking a Winner

- It's time to decide which ideas are worth your sweat and money.



Step 4: Feasibility

- **Can we make this product, or provide this service, and at what price?**
- **Do customers really want it?**
- **And how much will they pay?**



Step 5: The Prototype

- It's time to make your product or service real, with a fully functional prototype.



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Independent Study



Business Plans

Why Are We Discussing Plans Now?



Your Innovations Should Have Characteristics That Check The Boxes For A Great Business Plan!



What Must A Business Plan Do?

- Answer “YES!” to the following questions:
 1. Is it a real opportunity?
 2. Can you win?
 3. Is it worth it?



20,000 Foot Level Overview

- Define a solution to a significant problem in a potentially large and growing market
- Identify customers who accept and will purchase your product of service.
- Create a sustainable competitive advantage



Take Advantage of Your Non-Profit's CORE COMPENTENCIES!



What Do Your Non-Profits REALLY Know How To Do?



What Customers Do They Serve? What Are The Problems Faced By Those Customers?



The Opportunity

- Identify and address a problem that is significant to a customer who is willing to pay a premium price.
- “Identify the pain”, is it a “must have” product or service, or just “nice to have”?



20,000 Foot Level Overview

- Sell the team and its capacity to define and execute a credible strategy
- Project an outstanding IRR and credible exit strategy
 - Define cost, risks, and time frame
- Create a win-win scenario for the team, the donors, and the non-profit



Four Market Questions

- Is the value different?
 - Provide a unique, differentiable solution for the market
- Is the value sustainable?



How Are Your Non-Profit's Skill Sets **SPECIAL?**



Value Proposition

- Value is conveyed to customer through a compelling “selling proposition” or “value proposition”
 - Reduce cost/save money
 - Increase productivity or efficiency
 - Increase safety/quality of life/save lives



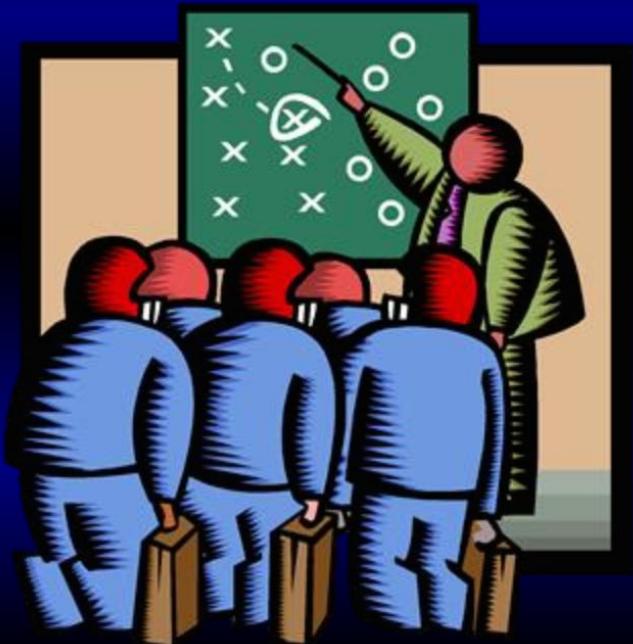
Value Proposition

- Permit customer to do something that can't be done without your product or service
 - disruptive technology or service!
- Use value proposition to construct your business model
 - how do you MAKE MONEY?



A Compelling Market Strategy

- What is your strategy to dominate your market?
- Pick a niche to dominate.
 - Market entry
 - Expand your niche
- Any Intellectual Property
- Unique “*disruptive technology*” or service.



What Is A Niche?

- Something SPECIAL That You Do That Others Can't
- Market That Is Big Enough For You, But Too Small For A Big Competitor
- Market You Can Provide High Service



A Sustainable Competitive Advantage

- High barriers to entry for others
 - A first mover advantage
 - Low cost and high margins
 - Your special expertise
 - Channel access via partnerships



A Good Market

- Is it large enough and accessible?
 - Growth possible
 - Access to customers (partners, distributors, value added resellers, direct)



A Good Market

- Demonstrable understanding of **competition**
 - **New** technologies or **alternative** solutions
 - Know the actions and plans of **competitors**
 - Strategy for **handling** competition



Are You A Winning Team

- Track record in this market
- Market driven and ability to sell
- Balance of skill sets
- A credible leader



A Winning Team

- Team approach and ability to work together
- Commitment, energy, motivation, ethics
- Presence of proven advisors



A Winning Product or Service

- A significant opportunity
- A good, receptive market
- A sustained competitive advantage
- Favorable economics
 - margins,
 - low investment cost
 - short time to payback



The Plan Should Show ...

1. Real opportunity
2. Credible market strategy
3. Team to execute it
4. All parties will achieve their goals.



Typical Plan Outline

- Cover
- Title Page
- Table of Contents
- Executive Summary
- Description of Business
 - The Company
- Marketing and Sales



Typical Plan Outline (cont.)

- Management Team
 - Products and Technology
 - Manufacturing and Operations
 - Schedule
 - Critical Risks and Assumptions
 - Financial Plan



Let's Hear More About Your Business Ideas

