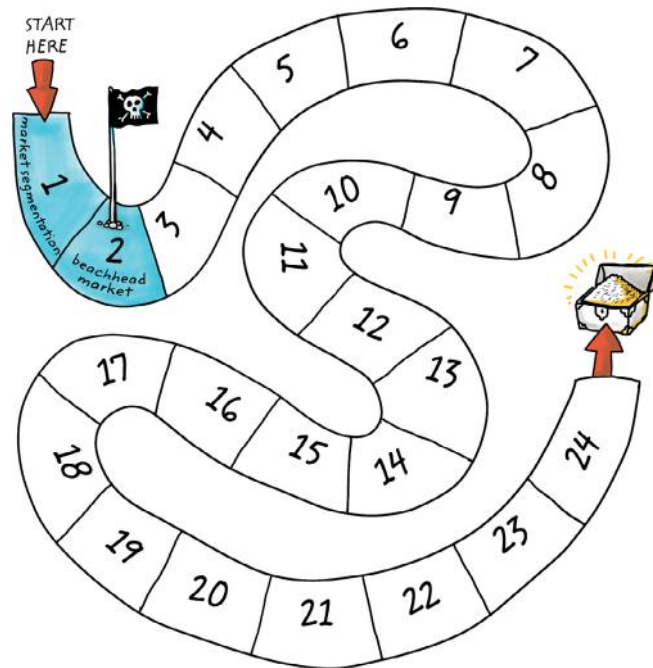


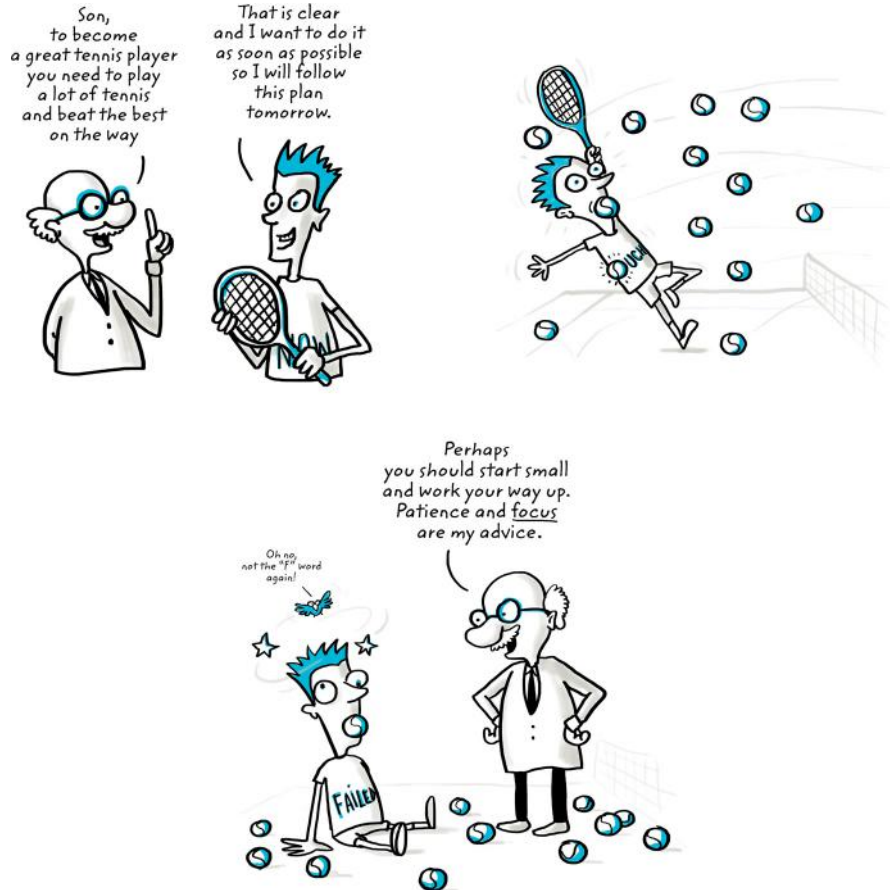
STEP 2

Select a Beachhead Market



IN THIS STEP, YOU WILL:

- Analyze your top 6–12 market opportunities and choose *one* to pursue.
- Further segment that market to determine your beachhead market.



Selecting a beachhead market is part of the critical process of narrowing your focus and attention to one critical area of attack.

In the previous step on market segmentation, you built a matrix based on your primary market research on your top 6–12 markets. Now, select just one market opportunity from the matrix to pursue as your beachhead market; ignore the other markets.

Almost all first-time entrepreneurs find that ignoring market opportunities is difficult and even painful. They doggedly hold on to the idea that more markets increases their odds of success and that they are best off hedging their bets until one market takes off.

In fact, such thinking will decrease your odds of success, because you and your new enterprise will lack the necessary focus required to succeed. A key determinant of success for entrepreneurs their ability both to select a market and to stay disciplined by deselecting the other markets.

Focus can be difficult, especially for entrepreneurs. People keep options open even when it is not in their best interest, according to former MIT professor Dan Ariely, who discusses the topic in his 2008 book, *Predictably Irrational*. According to his research, when people are given what appear to be multiple paths to success, they will try to retain all the paths as options, even though selecting one specific path would have guaranteed them the most success.

By choosing a single market to excel in, your startup can more easily establish a strong market position, and hopefully a state of positive cash flow, before it runs out of resources. By focusing in this way, you will position yourself to most quickly achieve the all-important positive word of mouth (WOM) that can be the source of success or failure for entrepreneurs.

HOW TO CHOOSE YOUR BEACHHEAD MARKET

In military operations, if an army wants to invade enemy territory with water access, the army may employ a beachhead strategy, where the army lands a force on a beach in enemy territory, controlling that area as their base to land more troops and supplies, and to attack other enemy areas. The 1944 invasion of Nazi-controlled Europe by the Allied forces is one of the most famous examples of a beachhead strategy. The Allied forces established beachheads on the shores of Normandy, which allowed them to gradually capture all Nazi-controlled territory on the European mainland. Without conquering the beachheads, they would have had no starting point for their invasion.

Likewise, your beachhead market is where, once you gain a dominant market share, you will have the strength to attack adjacent markets with different offerings, building a larger company with each new following.

In many cases, there are multiple paths to success, so it is not imperative to choose the absolute best market. (SensAble is a good example of a technology that could have been successful in any number of market segments.) Therefore, get started doing, rather than getting stuck in “analysis paralysis.” Your goal is to start a company, not become a professional market analyst. Action will produce real

data that will tell you quickly if the market will or will not be viable. If the one you have selected is a viable market, great. If not, you will still hopefully have time and resources because you acted quickly and efficiently, to allow you to return to your matrix and attempt a second market.

The seven criteria I mentioned in Step 1 for narrowing your market opportunities are also useful in choosing your beachhead market:

1. Is the target customer well-funded?
2. Is the target customer readily accessible to your sales force?
3. Does the target customer have a compelling reason to buy?
4. Can you today, with the help of partners, deliver a whole product?
5. Is there entrenched competition that could block you?
6. If you win this segment, can you leverage it to enter additional segments?
7. Is the market consistent with the values, passions, and goals of the founding team?

It is better to avoid selecting the largest or very large markets, even if they seem like the “best” segments. The first market you attack will be a significant learning experience for you, so you are better off learning in a smaller market where you can quickly get high exposure among the base of potential customers. This principle is similar to learning a sport—you will learn a lot from playing against someone slightly better than you. If you start by playing against a top professional, you will learn only that the professional is very good at the sport—you might as well be watching from the sidelines. Choose a smaller beachhead market—for example, if you live in a small geographic region, start there before trying to launch in a larger region. Large companies do the same thing; they test-market new products in lower-exposure countries and regions before rolling them out worldwide.

YOUR BEACHHEAD MARKET STILL NEEDS TO BE SEGMENTED FURTHER

As you begin to focus on your beachhead market, you will quickly recognize that it almost surely can be segmented into smaller markets. This is standard good practice. You should not worry about being focused on too small a market (we will check the Total Addressable Market size in a later step) as I have yet to see an entrepreneur focus too much—it is always the other way around, where the entrepreneur doesn’t focus enough. You want to start in a market where you have great ability to dominate in a relatively short time period; a narrow, focused market is the best way to do so.

How do you tell if your market is targeted enough? You want to continue segmenting until your market opportunity matches the three conditions that define a market. This definition expands on one that Geoffrey Moore presents in *Inside the Tornado*.

Three Conditions That Define a Market

1. The customers within the market all buy similar products.
2. 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.
3. 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.

These three criteria for defining a market mean that you will get efficiencies of scale in the market and you have a good chance to do that magical thing that all startups want, “to go viral.”

EXAMPLE

SensAble Technologies

After much deliberation, we chose the industrial design industry as our beachhead market based on the seven criteria above, but we had not segmented the market any further, so after choosing the market, we discovered that industrial designers could and should have for our situation be divided into three distinct groups. One group handles rectangular shapes with sharp edges, incorporating a lot of simple geometry. A second group handles highly stylized shapes with smooth surfaces, best represented by mathematical equations. A third group works with highly organic and sculpted forms, often designing with clay.

Our product was most appropriately suited for free-form designing, so the third group was the optimum market for us to focus on. The customers in this group were primarily toy and footwear companies with extensive clay studios and many sculptors among their designers (Figure 2.1).

Much to our surprise, we were able to group toy and footwear companies as one market, because industrial designers in the toy and footwear industries acted so similarly that they completely met the

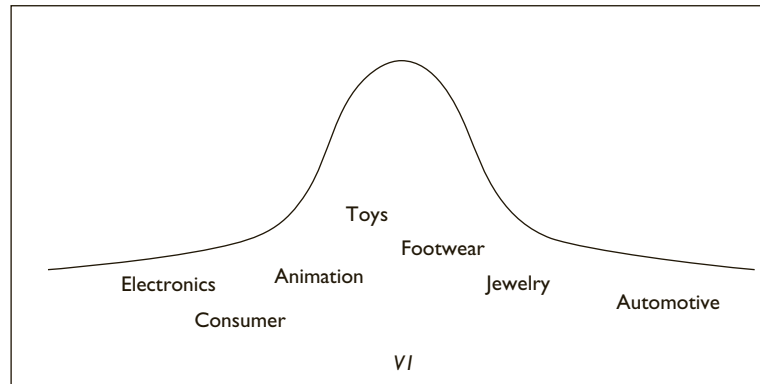


Figure 2.1 The toy and footwear markets were our primary focus. The next adjacent markets were likely animation and jewelry, but we would need to do more research when we prepared to scale.

three conditions of a market presented earlier in this step. They both used lots of clay to sculpt highly organic, 3D art shapes that were shipped to China on a very tight schedule. They would buy the same design products and use them in the same way. The pressures they faced were the same. The sales processes and value propositions were identical. Further, in a very telling sign, the designers frequently moved between toy and shoe companies to advance their careers; they even belonged to the same subgroup in the Industrial Design Society of America.

Smart Skin Care

In one of my classes, a PhD student entered with a promising new technology out of the laboratory of MIT professor Bob Langer. The student, Pedro Valencia, figured out how to synthesize more quickly nanoparticles for medical uses. One particular application was a nano-scale polymer coating that binds to skin and can slowly release medication over a 24-hour period.

Pedro and his team spent weeks researching different applications for this polymer, including medical applications in hospitals and outpatient services, including treating cancer. Another market segment they considered was sunscreen, using the time-release feature to slowly release sun-blocking chemicals over a long period of time. After deliberating, they found that a consumer market such as sunscreen required less time and money than medical markets, which need a thorough FDA review. The consumer market would allow the team to work closely with real customers and get a feedback loop going so they could more efficiently develop the technology into a product.

However, the sunscreen market proved to be too large and too diverse for the team, which continued to subsegment the market through primary customer research. Eventually, they settled on one of the subsegments, extreme athletes in their thirties who do triathlons. These athletes are extremely competitive with a lot of disposable income that they spend on their fitness. When the team approached a number of these athletes with their idea, they were extremely positive toward the concept (or potential product). The team also realized that if these extreme athletes bought the product, other markets would be easier to enter. The extreme athlete proved an appropriate choice for a beachhead market.

SUMMARY

Choose a single market to pursue; then, keep segmenting until you have a well-defined and homogenous market opportunity that meets the three conditions of a market. Focus is your ally.

