# Starting Your Start -Up

Book 2

BOOK 2 Market Size and Strategy
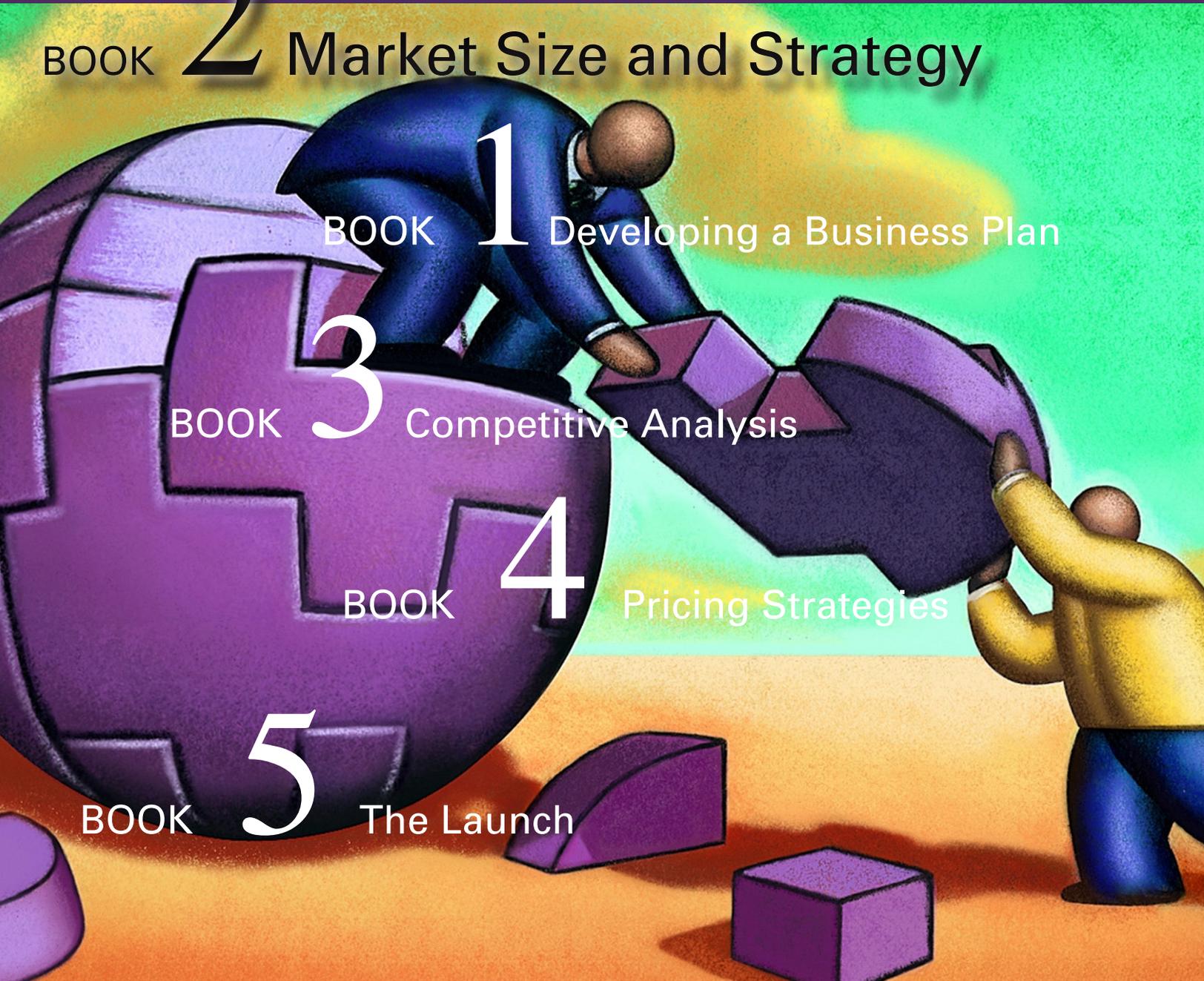
BOOK 1 Developing a Business Plan

BOOK 3 Competitive Analysis

BOOK 4 Pricing Strategies

BOOK 5 The Launch

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# Table Of Contents

# The Startup Guides

*The Starting Your Startup Guides* are designed for engineers or entrepreneurs who have a great product or service idea, but no real marketing expertise. With a small budget and big dreams, it is difficult to know where to start. This second book in the series is designed for engineers and entrepreneurs who are in the process of determining their early target markets, value proposition, go-to-market strategy, and/or market segment. This book is equally applicable to entrepreneurs seeking outside investment, and those who simply want to better understand the market and how to capture it. It shows how to develop defensible market size numbers, fine-tune the market definition, understand the role of market share and penetration, and devise a method for understanding and communicating the value of the product, while developing a go-to-market strategy.

*The Startup Guides* help you build out your understanding of your business and maximize your chances for success.

- Book 1: *The Two-to-Four Page Business Plan*, shows you how to develop an initial business plan that contains just enough information to get started. It helps you define your concept clearly and concisely, build an effective elevator pitch, communicate your product and company positioning, and identify your critical success factors.

- Book 2 (this book): *Market Size and Strategy*, helps flesh out the initial plan. It helps you find the real market size, even when dealing with disruptive technology where market size data is hard to come by. This book also helps the entrepreneur better understand the target buyer, and how to communicate the value of their product or service, increasing the probability of early and ongoing sales.

- Book 3, *Competitive Analysis*, guides you through the competitive landscape, helping you to understand who your real competition is, and why it's important to see the landscape the way your customers do. This book will help you develop an effective positioning strategy, determine the true value of your product or service to your target customer, and find ways to ensure your solution is the ideal one.

- Book 4, *Pricing Strategies*, tackles one of the most difficult tasks for entrepreneurs—pricing the product properly. It will help you determine which time-tested pricing approach is best for you, show how to validate pricing, and explore how to develop a long-term strategy. Book 4 helps ensure that your pricing is not too high or too low—but is a rate that will both satisfy customers and help you meet your revenue goals.

- Book 5, *The Launch*, will present a detailed roadmap to successfully launching your company and product. From setting realistic goals for the launch, determining the key messages, and preparing the sales team, to briefing the  press and analysts, finding the right venue, and enlisting the help of early customers, this book will walk you through all the necessary steps to a successful launch.

# Book 2 – Market Sizing and Strategy

## Introduction

This e-book is designed for engineers and entrepreneurs who have decided to start a company, and are in the process of determining their early target markets, value proposition, go-to-market strategy, and/or market segment. For those seeking outside investment, regardless of whether it will come from friends and family, crowd funding, angel investors, or venture capital firms, this exercise will be invaluable in determining market size data in defensible terms—a rarity when dealing with disruptive technology. More importantly, going through this process will help entrepreneurs better understand their target buyers, and how to communicate the value of their products or services. It is specifically aimed at technologists who are not ready for a full-time marketing executive, yet must overcome some of the early obstacles to building momentum for their company.

This information has proven to be invaluable to many startups around the world. Since many people who seek funding stumble early on in the process, due to lack of solid data, this guide-book helps them quickly get past the obstacles and move forward with a plan and timeline to take their product to market. It addresses an area that is often ignored by entrepreneurs and technologists: market positioning and segmentation. We provide within a clear explanation of why it is important to narrowly define the market to be addressed. And we show exactly how to achieve this goal.

Our experience is a combination of engineering, project management and marketing. Over the past 25 years, we have worked with literally hundreds of startups around the world, learning from their experiences, while we helped guide them to build successful companies and grow market share. Along with the other books in The *Startup Guides* series, this book encapsulates that knowledge and experience, presenting it in a way that is easy for busy entrepreneurs to act upon and internalize.

## Why are you in business?

Ask entrepreneurs why they started a company, and the most common answer will be *"I wanted to bring a better product to the market."* But that statement is often followed by the admission that fame and fortune are also important, as is the need to prove that they are ready to face this next big challenge.

The overarching goal of a startup should be to grow market share, which is the secret to all of the above wishes. First you will grow market share in a small segment of the market, and then you will annex adjacent market segments, continuing to grow market share until your company dominates a significant market. Don't even enter a market unless you intend to dominate it. A startup will inevitably require a tremendous amount of hard work, long hours and sacrifice. If you want to settle for second-best, then it's not worth it.

## Why Does Market Leadership Matter?

Why the fixation on market leadership?

It is desirable, not only for the obvious reasons of revenue and profit; it also enables lower sales costs; makes it easier to access decisionmakers, increases publicity, lengthens product lifecycles, facilitates recruiting, and more. Market leadership makes everything better. Yet, one of the most frustrating issues for a sales force in a startup company is the enormous distance between where the company is today *("Nobody knows who we are!")* and actually dominating the market.

The key is to very carefully define a small but important market, build a plan to dominate it, execute that plan, and then attack adjacent markets to systematically build share in a continuously larger market. By choosing a small yet significant market, and working diligently to dominate it, then carefully choosing adjacent markets and working diligently to dominate them, you can eventually reach the position to which you aspire. This reasoning may sound counterintuitive, and risky. Many entrepreneurs feel that they cannot afford to ignore any potential buyer, and that the more markets they cover, the better. Experience shows that such a strategy almost always leads to failure—failure to "own" a market, failure to achieve significant traction in a market, and failure to produce a product that is a must-have.

## Choosing a Market

Choosing a market cannot be done lightly, yet many startups ignore this step and rush to market with a product that they feel is suited to anyone. We have often heard CEOs claim: *"As soon as anyone sees this product, they will want it."* That attitude is understandable, and it may, in fact, lead to some early victories, but it cannot hope to yield the early market segment dominance that leads to sustainable growth.

**Choosing the first market segment involves several steps:**

- Select the candidate industries/markets
- Segment the markets
- Define characteristics of each segment
- Determine the optimal category
- Short-list and size the segments
- Select your first target market and segment
- Determine your market share and competitors' shares
- Understand your customer
- Develop the go-to-market strategy: sales
- Develop the go-to-market strategy: marketing
- Finalize your market size and share projections

# STEP 1
## Select the candidate target industries/markets

There are two ways to select potential target markets, depending on the type of product you have built. The first is easy: your product was built to solve a problem that is specific to a given industry – e.g. it facilitates production of regulatory documentation required in the pharmaceutical industry. In this case, the exercise consists of drilling down into the pharmaceutical industry and understanding not just the obvious problem you solve, but other related problems you can also solve. With that understanding will come more information about sub-segments of the market that you may not be aware of.

The second way is more common with technology companies, where the products could potentially solve any number of problems across many industries. In this case, you should start with a broad-brush approach to potential target markets. Keeping in mind both your initial bias as to the best target market, and the evidence gathered from early sales, you can expand your thinking through a brainstorming process. It is important to put aside any preconceived notions about why people will use the product, since you may well find that it solves different problems.

There are obvious markets: financial services, manufacturing, government, pharmaceutical, healthcare, education and technology. However, other less-obvious markets should not be ignored. These might include agriculture, mining, heavy industry, transportation and warehousing, energy and utilities, telecommunications, wireless and internet, media, automotive, entertainment, construction, etc. Keep in mind that each of these can be further broken down into multiple industry segments, each of which has a distinct size and characteristics.

## STEP 2
# Segment the markets into smaller, easily-identifiable chunks

A market segment is a set of customers with common requirements and buying patterns that can be marketed to. Startup companies spend a great deal of effort identifying the best target market segment for their solution. To accomplish this goal, they look for a set of prospects that share these characteristics:

> - They have application requirements in common
> - They are easy to identify, and are self-qualifying
> - They are self-referencing
> - They provide a target for marketing programs

Marketing segmentation can be a frustrating exercise, since there are so many potential markets, early customers are widely divergent in their reasons for buying the product, and focusing is counter to the instincts of both the sales and the executive teams. It is important to keep in mind the reasons for doing it: the world and you cannot hope to conquer it all at once.

By segmenting the market, and directing all the company's resources toward one segment, you can focus scarce engineering, marketing and sales resources, limit the competition, more quickly come to market leadership, and then use success in this segment to springboard your company into other segments over time.

Each of the major industries you have identified above as candidates can be broken down into a series of segments with similar needs, that will respond predictably to a marketing or sales offer. For example, in the automotive industry, identifiable segments might include dealers, brokers, fleet managers, and others related to sales and service, as well as a multitude of segments that make up the supply chain: entertainment system vendors, manufacturers of brakes and steering systems and tires, as well as embedded systems developers. Keep an open mind when identifying the segments in each industry, since one potential group of buyers may lead to other equally promising groups.

One caution when segmenting the industry: make sure that each segment is made up of individuals who read similar publications, attend the same industry events, and rely on one another for recommendations and advice. Importantly, members of the segment share the same problems and pains, and have similar needs when it comes to solutions to their problems.

For example, auto dealers share common concerns and have similar requirements for solutions, and attend major industry events. It is relatively easy to target them through industry publications, blogs and websites. However, "people who like orange cars" is a useless segment, since they are not reachable through typical marketing or sales efforts.

## STEP 3
# Define the characteristics of each segment

Once the primary industry and segments have been identified, it's time to dig deeper into what makes each segment a good or poor candidate for your early target market. This involves looking carefully at customer problems that your product is expected to address. For each segment, how important is the problem? Is it one of the top three problems that keep the target buyer awake at night? Are the target buyers budgeting for a solution today? Are budgets for this type of solution growing or shrinking? What is the overall business environment? Does the target buyer have the infrastructure necessary to adopt your solution, or will there be barriers to overcome before they can implement it? Are they likely to adopt a breakthrough technology solution, or would they rather wait for something more established to come on the market before adopting?

The answers to some of these questions will be obvious, but others will require a bit of research. Our best advice is to try to quickly gain the information you need; at this stage, statistical significance is not as important as your overall feel for the market segments. Where possible, make a call to someone in the industry and ask for five minutes of their time to explore the problem and the importance of the problem, and gain an idea as to whether or not they would be open to a solution such as yours. Alternatively, put together a short (five question, max) survey and send it to your connections on LinkedIn, or another social network, and ask for their opinions. You may be surprised at the response. People love being asked their opinions, especially if there is no obligation to buy something in return!

Example:

We worked with a company that produced a high-quality streaming video product, and early sales covered a number of markets, including the financial services and technology industries. However, these industries were too broad to allow a focused approach to product development, sales and marketing. In addition, some people in the company felt that the product should be very applicable to the movie industry, the real estate market, or others.

We embarked on a series of lunchtime brainstorming sessions to try to narrow the market to a single segment with a high probability of successful sales in the first year. The brainstorming team included representatives from Marketing, Sales, Product Development, Finance and Pre-Sales. (It was a small company, so this was almost everyone.) During the first session, we developed a matrix that we would use to evaluate various markets. Shown below, it included important categories, such as industry, segment, target buyer, problem to be solved, importance of the problem, propensity to adopt technology solutions (innovators or early adopters,

who would accept a disruptive solution, vs. late adopters or laggards who would shy away from anything new and different), availability of other options, budget, infrastructure, etc.

We met over a period of four weeks, brainstorming various target markets and exploring their fit. As a team, we determined the best early market for the product (Financial Services industry, brokerage segment) and also developed a short list of second-stage markets that we could pursue after we had established a firm footing in the initial target market. More importantly, together we learned a lot about the product, the problems to be solved, and the characteristics that were important to the target buyers. This collaboration not only built a much stronger team, it enabled us to do a much better job of articulating the value proposition, determining which features to put into the product, and fine-tune the corporate messaging.

**FINANCIAL SERVICES INDUSTRY**

| Segment | Tech Adoption Position | Tech Sophistication | Infrastructure Issues? | Target Buyer | Problem | Ranking | Budget | Referenceability | Other Solutions |
|---|---|---|---|---|---|---|---|---|---|
| **Brokers** | Innovators | High | None | Deal Floor Manager | Need to view multiple live data streams simultaneously | 1 - critical | Yes | High | Multiple monitors |
| **Retail Banking** | Early adopters | High | None | Regional Manager | Bring live feeds into branch | 4 - no urgency | Yes | Low | Live TV |
| **Investment Banking** | Early adopters | High | None | Managing Partner | Want to provide bankers with real-time data feeds | 3 - competitive advantage | Yes | Medium | Single window on desktop |

# STEP 4
# Determine the optimal category

Look at your product in light of general industry categories. Does it fit cleanly into a category, such as an algorithmic trading application, a customer relationship management product, a security or storage solution? If your product fits cleanly into an established category, you will be able to more easily find the market size, since the size of the market involves not only the market and segment, but also the category of solution. For example, the market size for a web-based medical office billing system will be vastly different from the market size for an on-premise hospital operating room scheduling system.

If your product does not seem to fit cleanly into a known category, you will have to find a way to characterize the product, such that it can be understood by your buyers, the press and industry analysts. It is best to focus on the problem you have identified above, and make a list of the various ways that target buyers are solving the problem today. Based on this understanding, you will be able to come up with a category that makes sense,

As an example, suppose your product enables a security manager to prevent a certain type of security breach from happening. Today, there are two common ways to react to a breach, but few ways to prevent one.

a. An experienced manager would look through reams of after-the-fact data to try to figure out how the breach occurred.

b. The manager can use several available tools to help filter and isolate the important information.

Both approaches are security analysis tools, used after a breach has occurred. But your product doesn't fit. Perhaps your product can be characterized as a security breach prevention tool, rather than a security analysis tool. This characterization leverages a known and accepted category, but builds on it. In this case, finding market size data will involve both gathering information on the security analysis tool market for your industry segment, and determining the total potential market (including those who have not yet purchased a security analysis tool.)

# STEP 5
# Short-list and size the segments

This step is where the actual market sizing takes place. It would be premature to size the market before it has been clearly segmented, since a startup will want to attack a segment of the market to build momentum for dominating a larger market over time. The list of potential market segments produced in a previous step will probably be very long, and will include a number of industries and segments that do not appear to be good candidates for your product, at least in the early days. However, you will probably find three to five segments that look very promising, especially in light of the category of solution you provide. Focus on those segments, and determine the market size for each.

There are various ways to obtain market data: targeted data is available from market research and/or industry analyst firms; financial analyst firms often produce reports about a given market or sector; published reports (including government reports) may contain detailed or summary information on market size and trends. However, no substitute exists for primary research, especially when dealing with a disruptive product, or one that is a true breakthrough.

## Market Research Firms

If you are a client of a market research or industry analyst firm, such as Gartner or IDC, you can obtain market size data from their published reports. These firms and others track market size, market share and important trends. Such firms constantly gather and evaluate data on product categories, adoption rates, usage by vertical market segments, and the like, through discussions with both vendors and buyers. Important categories, such as vertical applications (healthcare, financial and government are commonly tracked), software and hardware acquisition trends, infrastructure software (such as storage, security management and application integration) and services are regularly followed.

Some well-known industry analyst firms—have a variety of practices. Examples include Gartner (**www.gartner.com**), Forrester Research (**www.forrester.com**), Frost & Sullivan (**www.frost.com**), International Data Corporation (IDC) (**www.idc.com**), Ovum (**www.ovum.com**), and others, such as Enterprise Management Associates, ARC Advisory Group and Current Analysis. While it may be easy to find analysts in these groups who cover your specific area of interest, there are also literally hundreds

**Market research and industry analyst firms help vendors fine-tune their product feature set, messaging and overall vision. At the same time, they evaluate customer strategies, and suggest products and potential partnerships that help buyers achieve their goals. Experience shows that it is well worth the investment to become a client of a reputable firm. Not only will you gain access to the research you need, you will gain access to the analysts. Such firms and information can be invaluable to you, as you fine-tune your initial product launch approach. Analysts can be opinionated, brutally honest and, at times, extremely critical of your assumptions and approach. It is good to hear feedback from someone who wants to help your company, than to go out on the road with your product launch, and find that you have hopelessly misjudged the market. We recommend signing as a client with one quantitative firm in the first year of the company's existence.**

of analyst groups that are less well-known that may be much more tightly focused on your areas of interest. Look through directories of analyst firms to find those who might be the perfect fit. For a directory of analyst firms, see **http://www.techra.com/analyst-firm-directory-mainmenu-27** or **analystdirectory.barbarafrench.net**. You will be able to see information on a wealth of analyst firms that cover specific topics.

If you are not a client of a market research or industry analyst firm, and don't have the budget to become one, you may still be able to locate some information produced by them. You can often find information on the analyst firms' websites, including summary information that may meet your needs. If you find "the perfect report" that promises to show the detailed data you need, you can purchase the report directly from the firm. This approach is usually somewhat less expensive than becoming a client, but you will not have access to the analysts themselves, as you would if you became a client.

> Example: We recently participated in a messaging workshop with an analyst from a major analyst firm. The analyst was able to give very clear, actionable guidance to the client, based on her years of experience in the field, coupled with her in-depth knowledge of the target customers and the competition. Instead of spending lots of money on market research, the client was able to understand how the product positioning would be received by the market, and gain insight into the ways that customers perceive competing products. For example, the analyst told the client to: "Be very careful about your choice of words. For instance, you boast that your product is "comprehensive" but to most buyers that translates as "complicated," or "difficult." so your word choice is actually working against you." She went on to point out that competitors have actually made this claim, intensifying the perceived disadvantage. This type of feedback would have been very difficult for the company to gain on its own.

## Financial Analysis Firms

There may be financial analysis firms, such as venture capital (VC) firms, investment banks, private equity firms, and the like, that cover your target market or industry. It is not difficult to find out which VC firms and private equity firms are experts in your industry. Visit their websites and determine which ones have the best understanding of your target market. Many of them publish research on market size and trends. It's usually available at no cost, and can be a valuable resource for you.

It is also worthwhile making a call on the top firms that seem to understand your industry. Explore the possibility of getting a little time with one of the advisors who really knows this market. It is probably not easy to do, since financial analysts are always quite busy, and are committed to helping clients first, but it's worth a try to see if you can get some time to discuss your ideas with one of them. This type of networking may also lead to other firms or people who are potential buyers of your product, industry pundits, or advisory board members.

Example: A client developed a product that was ideally suited for enabling energy company planners to make instantaneous decisions related to fluctuating supply and demand on the Smart Grid. Since the company was a very early entrant in the market, and the Smart Grid was in its infancy, few industry analysts had begun to cover this aspect of the utilities industry. However, the company knew that a major technology vendor was entering this market. Our client did research to find which specific industry analysts and, more importantly, which financial analysts were following this company, and its entry into this market. The research uncovered a presentation, freely available on the Web, which included market size and growth data and its sources. In this case, the client found that the work had already been done, and it only remained to verify some of the numbers to ensure they were still up-to-date.

## Published Material

Do an internet search, or go to the public library or a university library to search for published material related to market size and trends. Many sources are often overlooked. Examples include government publications (see published studies from the Department of Commerce, the Census Bureau, the World Trade Commission and similar organizations) that show growth rates for various industries, number of employees in specific vertical markets, important trends in spending by geography, etc.

If your product has several very large competitors, and just a handful of smaller ones, it may be relatively easy to build solid market size estimates just by fully understanding the large competitors. Look at their annual reports to find market size data, as well as corporate initiatives that drive future growth and areas of focus. Keep in mind, however, that if the large company has several product lines, they may not break out revenues and spending based on individual products, so you may need to do some interpretation of the data you find. Armed with this information, you may be able to estimate 80-90% of the market size, even in the absence of other firm data.

Don't forget to network as you search for market size data.  Ask your advisory board members if they have access to any relevant research. Ask friends or associates who might have access to such data, or might know someone who could get it for you.

## Primary Research

Perform customer-level or supplier-level research to try to estimate market size, market share, average order value, market penetration, and other relevant metrics. This type of research could involve surveys or focus groups that can offer valuable information on market size and characteristics. However, this type of analysis can be costly, time-consuming, and subject to interpretation. Developing a survey that will yield valid results can require expert help to ensure that bias is reduced and results are reliable. Focus groups can be quite expensive, and also require the expert help to ensure that the answers will lead to the quantity and quality of results you need. Although expensive, such research can bring valuable information about competitor

strongholds, target areas for marketing, and other information that can help you fine-tune your go-to-market approach.

## The value of triangulation

If your product has no ready-made category, you will need to do some triangulation to find defensible market size numbers. In this process, you will need to find two or three related markets for which market size and trend information is available. Based on that information, and a set of well-documented assumptions, you should be able to build a strong case for your product's target market size and growth.

> An example of triangulating, or backing into, market size data:
>
> Several years ago we worked with a startup that was building software to secure wireless devices. Security analysts at market research firms tracked enterprise and consumer security, while other analysts tracked wireless devices. No one tracked the two together. In that case, the company looked at the total number of wireless devices (and anticipated growth rates), as well as the total amount spent on security software (and anticipated growth rates.) They picked the segments of the security market that best matched the functionality of the product, as well as those that showed growth that could carry the product along in the future. They also looked at past trends related to corporate uptake of security products for devices that entered the enterprise, and tracked corporate adoption of security products for those devices. In this way, they were able to develop defensible data on market size and growth.

The result of this analysis will be solid numbers for the size and growth rates of the short list of target markets you may want to pursue. Rank-order them in terms of preference, whether due to size, growth rates, ease of access, domain expertise, or other characteristics.

STARTING YOUR START-UP—BOOK 2: MARKET SIZE AND STRATEGY

# STEP 6
# Select your first target market and segment

Your research will lead you to the top segment that has the greatest need, as shown in the previous analysis; and the highest growth rate and largest potential market. This top segment is your first target market. Keep track of the segments that are close to this one, in terms of market size and characteristics, that make them good candidates. You should be able to leverage the work you do in marketing and selling to the first segment for other segments, especially if they are adjacent. For example, if you choose the semiconductor segment of the manufacturing industry, adjacent markets might be foundries or automatic testing equipment vendors.

There is one potential pitfall at this point: there may be people in your company, or advisors or board members, who balk at the idea of focusing so narrowly on one market segment. They may say that you can't afford to "put all your eggs in one basket," and ignore other potential markets. After all, they will say, what if the choice is wrong? Then you will have lost precious time, and will not meet your revenue goals. Expect this feedback, and prepare for it. The experience of countless experts, including venture capitalists, and the famous work by Geoffrey Moore *(Crossing the Chasm)*[i], have shown that a focused approach is by far the best. By concentrating your energies on doing one thing extremely well, you can become Number One in your niche. And the niche is almost always much bigger than you think—when you zoom in, you will find that there are ample opportunities to meet your revenue goals and build a strong, sustainable leadership position.

**EXAMPLE OF THE VALUE OF FOCUS:** We once worked with a company that wanted to address two markets: Market A, with a market size of $250M and a growth rate of 14%; and Market B, a "sexy" market that appealed to the executive team, due to buzz in the marketplace and relatively few competitors. The execs felt that it would not be difficult to go after two markets at the same time, and they encouraged the team to include, not one but two, initial markets. This inclusion would have required rather substantial enhancements and extensions to the product. We did our research and found significant barriers to adoption, making it unlikely that Market B would grow significantly in the coming years. In fact, the total available market was less than $20 million. Armed with the evidence, we were able to discuss these obstacles with the executives in a dispassionate manner, and they agreed we should focus all our energies on Market A. Even if we could have dominated Market B, the revenues would not have compensated for the added effort and distraction.

[i]Geoffrey Moore, *Crossing the Chasm: Marketing and Selling High-Tech Products to Mainstream Customers* (New York, Harper Collins, 2002)

# STEP 7
# Determine your market share, and that of your competitors

Now that you have determined the size and growth rate of your target market segment, take a moment to determine your market share and that of your competitors. You might think this comparison is a waste of time, since you probably have almost no market share. However, it is important for two reasons:

- You need to set a baseline against which to measure progress.

- If you are planning to get external funding, you will need this data (as well as projections of the market share you expect to reach in one, two and three years.

If your product fits neatly into a recognized category, you can obtain market share information from industry analysts and market research reports. Obtaining the information this way is somewhat subjective, but it is very useful as a starting point. If you cannot find analyst reports that directly provide market share information, you can look at annual and quarterly reports from publicly traded competitors. However, such reports might not always break down revenues and expenses in terms of individual products.

If your product has no ready-made category, you will need to use the data you gleaned from the previous triangulation exercise to find defensible market share numbers. Find products that fit into each of the two or three categories identified in the exercise, and determine their share of the market you have constructed for your product. The process can be long and arduous, so do not invest more time and energy than is warranted. For example, if the market is huge and growing rapidly, and no major competitors exist, that could knock you out of the running quickly. Do not spend months on the analysis. However, if funding depends on solid market share data, invest the time and money to do a comprehensive job.

So far, we have only talked about the total market size, and the market share of your competitors. What is your market share? Miniscule? Too small to be measured? That's Ok—you are a startup. But you need to be ready to commit to a bigger market share over time. The commitment is a bit tricky, since you know that your expectations need to be reasonable; yet, if you are going for funding, investors like to see impressive growth. You will need to decide what is comfortable for you. To apply a bit of math to the problem, use a model such as the one shown below to try to determine what your market share will be after one, two and three years. Note that the following numbers are not recommendations, but are merely presented as an example.

| SEGMENT 1 (100M market) | Year 1 | Year 2 | Year 3 |
|---|---|---|---|
| Units (K) | 50 | 200 | 500 |
| License Revenue ($K) | 1,500 | 6,000 | 15,000 |
| Support /Maintenance ($K) | 270 | 1,350 | 4,050 |

| SEGMENT 2 (250M market) | Year 1 | Year 2 | Year 3 |
|---|---|---|---|
| Subscriptions (K) | 0 | 75 | 250 |
| License Revenue ($K) | 0 | 3,750 | 12,500 |
| Support/Maintenance ($K) | 0 | 0 | 0 |
| Market Share (%) | 0 | 1 | 5 |

# STEP 8
# Understand your customer

Developing a go-to-market strategy is important, so you can take a closer look at the actual personas of the individuals who will pay money for your product. This step will help you more fully understand the magnitude, cost and importance of the problem you solve, and determine who in your target industry feel the most pain relative to the problem.

If you have already sold the product to early buyers, you will have some information on the target buyer and any burning problems. However, early sales can be deceiving. The early customers will probably come from a variety of industries, and will have widely divergent reasons for buying. Some will be innovators or early adopters, who are not afraid to try new things. Often, the value they perceive is very different from what you think you are providing. It is vitally important for you to speak with the customers and dig into the problems they face, and find out how important those specific problems are in the overall landscape of things they worry about. Speaking with customers can give you valuable hints and information about their environment, and can even uncover other potential buyers in their industry.

> **Example:** A startup that had developed a digital rights management technology (to protect documents from unintended access) marketed it to Chief Compliance Officers, as a way to ensure compliance with various regulatory requirements, but had limited success. The early sales were brisk, however, and were actually based on the need for BOD communications. Board Secretaries were using the product to secure communications among board members, due to the extreme sensitivity of the information. The company was trying to sell to one type of buyer, while the actual sales were coming from an entirely different part of the target company. As a result, the company changed its marketing approach, revised the target market description and size, and redirected its efforts toward understanding and meeting the needs of this important market.

Include information on your target buyer in terms of the actual job titles and/or functions within the organization. If you don't have many early customers, you can use a brainstorming exercise to come up with the potential target buyers, and determine the best way to access them. Use a worksheet (see the example following), and enter the possible end-users and decisionmakers, and map against all possible ways in which your product could be used. For each potential user or influencer, note whether the product solves an important, difficult, or costly problem (must-have or M); solves a less-important problem, or only partially solves a problem (should-have or S); is a cool feature the user might enjoy (nice-to-have or N); or is not relevant (empty cell).

| Applications End Users | Sales Forecasting | Data Mining | Production Planning | Master Scheduling |
|---|---|---|---|---|
| CEO | M | N | N | N |
| CFO | M | N | S | N |
| Finance Manager | M | N | S | S |
| VP Sales | M | M | N | S |
| Sales Director | M | S | | |
| Sales Rep | S | | | |
| VP Marketing | M | S | N | S |
| Marketing Manager | N | N | | |
| VP Manufacturing | M | S | M | S |
| Production Manager | M | N | M | M |
| Production Planner | M | N | M | M |

Once you have developed this matrix, pick the most likely candidate and develop an application scenario that clearly spells out the situation before your product, the specific problem to be solved, and the situation once your product has been adopted. Do the best you can, based on the information you know. Then ask colleagues and domain experts to evaluate it, and give you candid feedback on areas for improvement. In this way, you will get an intimate understanding of your target buyer, and will clearly understand how to communicate your value proposition.

This Application Scenario will include some key elements:

| Title | Clearly indicate the target market segment and buyer |
|---|---|
| **Target customer profile** | Who is the customer? What are the responsibilities? |
| **Situation** | What is the environment in which the customer operates? |
| **Day in the life – before** | Explain in as much detail as possible exactly how this person spends the day, including the time and effort spent addressing the specific areas that your product is designed to help with |
| **Problem to be solved** | Specify the problem and indicate its importance/impact |
| **Day in the life – after** | Explain in detail the ways in which your product can save time, money and effort, streamline workflows, or otherwise make a material contribution to solving the problem |

**Application Scenario Example:**

**Target Customer Profile:** Alex Jones is the IT Director for a large regional bank in Portland, Oregon. He is responsible for the internal infrastructure for the bank, as well as for the bank's web site and all customer-facing systems. He is also responsible for ensuring that the bank's information technology systems conform to regulatory requirements.

**Situation:** Alex uses a number of different tools to accomplish IT operations management. There is a help desk system for bank employees, and another for the bank's customers. Spreadsheets are used to track assets and software licenses. Various monitoring tools are in place to track network and server performance. However, the systems are not integrated, and information does not flow from one to another. Problems in one area could be causing problems in other areas, and systems may fall out of compliance with bank and regulatory policies.

**Day in the life—Before:** Alex gets to the office only to find out that there has been a huge spike in customer incidents, a financial analysis project is behind schedule, and the self-service website is extremely slow. Reports from the various tools are not helpful in diagnosing the root cause of the problem. He calls together his technical leads and they compare notes. It turns out that one of the web servers has been having intermittent problems. This difficulty is the direct cause of the website slowdown, and resources have been "borrowed" from the financial analysis project. The head of the customer help desk reveals that 80% of the incidents over the past two hours are related to the Website. When all the pieces are seen together, the cause of the various problems becomes obvious. The steps to resolution are largely manual: reallocating resources, requesting a memory upgrade for the web server, checking to see if memory is in stock; and if not, issuing a purchase order, issuing a work order to get the upgrade installed, etc. The process, from start to finish, takes more than four hours.

**Problem to be solved:** Alex needs a 360 degree overview of the entire IT operations environment, from one location, with a way to visualize the problem systems and applications holistically. Data must be integrated, so that the effect of a problem in one area can be clearly seen in all its ramifications. He also needs the ability to drill down into any specific problem and perform contextual analysis of all the related systems. It would be really good to include not only the IT systems, but the purchasing, inventory and financial systems and project management systems, to make workflows more seamless.

**Day in the life—After:** Alex manages in minutes, not hours, through his new web-based solution that incorporates all the necessary modules: help desk, asset management, server and network monitoring, financial systems, change management, and more. The data from each module flows seamlessly into all other modules, and is presented in a graphical dashboard. He is able to view all IT operations information as a whole, segmenting it in terms of projects, departments, applications, user communities and more. He can drill down, via the dashboard, into any suspicious area and get real-time information on the state of IT operations as a whole. He is alerted when a threshold is in danger of being exceeded, or when an SLA is not being met. Tight integration into the purchasing and inventory systems means that he can instantly allocate resources, requisition materials, perform charge-backs, and ensure that his environment operates at an optimal level. No more hours-long meetings, tedious manual processes, or cumbersome workflows.

# STEP 8
# Develop your go-to-market strategy: sales

How will you bring your product to the target customer? Both the sales and the marketing approaches you take will have a profound impact on predictability and profitability. We will deal with the possible sales approaches in this section, and then explain how the marketing approach will map to each of these approaches in the next section.

The basic sales approaches include field sales, inside sales, telesales, channel sales and web-based sales.

## Field Sales Force

Field sales force is generally a high-cost, high return group of direct sales representatives that are located in geographical areas for the purpose of selling to major customers. The group focuses on specific prospects, and spends much time face-to-face with prospects and customers. They are generally put in place when the average order value is high, such as $150,000+. For products that sell for much less, the cost of direct sales may seriously erode margins. However, a startup company may feel that a field sales force is worth the expense, in the early days, to sign marquee customers that can be used to validate the company and product.

The field sales force is generally made up of seasoned, self-managing sales professionals who know how to sell to large organizations, feel comfortable speaking with senior executives, and understand how to navigate a complex sales cycle that often involves a buying committee.

## Inside Sales Force

For purposes of this discussion, an inside sales force is a team of sales representatives that supports the field sales force. This team uncovers opportunities, qualifies them, hands them over to the field sales force, and then runs backup for them—ensuring that needed collateral material is provided, meetings are coordinated, follow-up is achieved. And when the field sales force actually gets in front of a prospect, everything is set to achieve forward movement.

The role of inside sales as a partner with the field implies that both parties will operate to the same business plan for targeted accounts or verticals. They will have identified their target prospects, and developed, individually or jointly, a plan of attack for each strategic account.

## Telesales Sales Force

Telesales can be an extremely cost effective, and a simple, efficient way to sell high-tech products. In general, it costs less to establish a telesales force than a direct sales force, and the productivity over time can be as great or greater. Telesales representatives do not need to be seasoned direct sales reps. In fact, deep understanding of technology is not a must. While this may be counterintuitive (after all, even good field sales reps find that they often need the assistance of systems engineers), it relates more to intelligence and people skills, than to technical depth.

Telesales is more about listening and responding than it is about lecturing or explaining.

> Example: A company based in Southern California hired housewives and stay-at-home mothers to sell dynamic load balancing software for enterprise data centers. While the product itself was quite complex, the value proposition was not. The women quickly learned the benefits of the product, and the corresponding pain points of the prospect. They were able to tease out the problems faced by the IT manager, and could very effectively present their product as a means of solving the problem. When it came time to talk the "bits and bytes," they would send a technical spec sheet or white paper to the prospect, or point to a section of the website with testimonials from other users. Occasionally, they would set up a phone call with a field sales or support person. The company was extremely successful with this telesales model.

## Channel Partners

Partnerships hold the promise of quick time-to-market, and are generally referred to as "having more feet on the street.  And it is often a quick way for a small company to achieve early momentum. The partner has already invested in acquiring expertise in a specific segment or industry; the cost to your company to acquire this knowledge can be tremendous, and the time to market will be much longer.

There are three prevalent types of channel partners: the Value Added Reseller (VAR), the Systems Integrator (SI) or the Original Equipment Manufacturer (OEM).

- The VAR has a customer base, selling complementary products, and sometimes services, and knows the market. If the VAR sees a ready-made market for your product, you are likely to reap the time-to-market benefit.

- The SI provides a full solution to customers: products, services and consulting. SI's are already aligned with major accounts around the world; they understand the organizational structure and politics, procurement practices, business initiatives, key decision-makers, and so on.  It might seem much easier to just piggy-back on the SI than to try to sell to major accounts by yourself.

- The OEM is focused on providing a complete product to its customer, and may see an opportunity to embed your product into its own. While the sales through an OEM don't require much investment on your part, the tradeoff is that you lose your own branding (because the OEM sells under its own brand). If your goal is market awareness and brand recognition, then an OEM may not be the ideal partner in the early years.

## Web Self-Service Sales Approach

Many startups today are producing products that are suited to a very large prospect base, including consumers, gamers, etc.   There are certainly many examples of companies that have invested just a little in a web presence, and have then seen their concept "go viral" with tens of thousands of hits and downloads in a very short timeframe. However, it is naïve to believe that this strategy will bring stellar results to everyone. For each company whose sales spread like wildfire, hundreds or thousands more see sales languish, and struggle to get their message out to potential buyers. There are some basic requirements for a successful web self-service model. Key among these are:

- A well-designed website that is easy to navigate

- Strong messaging that grabs the visitors in their first seconds on the site

- A compelling offer that is easy to obtain

- Marketplace buzz

# STEP 10
# Develop your go-to-market strategy: Marketing

How will you let the market know that your product exists? What type of marketing/promotion approach will you take? If you don't have a lot of extra money, there are very cost-effective ways of getting the message out, described in the first e-book in this series. Once again, the watchword is "focus," because it is all too easy to try to do too much with limited resources. The type of marketing approach you use will depend on the sales approach you take.

It is great to decide that you want to reach all senior executives who need to preserve their reputation, but how will you reach them?  Try to identify groups of people that attend the same trade shows, read the same trade journals, belong to the same societies; and in general, communicate with one another. One of the biggest aids to early market recognition is customer referencing, and that means selling to enough customers in a given market to enable them to build the buzz. Your prospects will listen to their peers, who understand their problems and can testify that your product has helped them solve those problems.

The more cleanly you can find and reach such potential buyers, the better your chance of achieving traction in that market. Conversely, if the target customer can only be identified as someone who cares about integrity of data, target marketing becomes much more difficult.

Marketing is all about communicating with potential buyers. While this sounds straightforward, it is not a quick process; and many wrong decisions can be made. The Go-to-Market plan should increase brand awareness and increase revenues. Increasing brand awareness can take a long time, yet it is common for executives in startups to expect it to happen quickly.  They often look for a "big bang" effect. They believe that if you will just run an ad in the *Wall Street Journal,* or put in your name for a Best of Show prize at an important trade show, your company will become a household name. Don't fall victim to this type of wishful thinking. Remember that marketing is a cumulative process, with multiple impressions on the target audience. Only by repeatedly bringing the message to the audience, in a variety fo ways that they expect and understand, can you soften the prospective customer for the eventual meeting with Sales.

You can build marketing awareness and increase revenues in many ways: through advertising, direct mail campaigns, the Web, social media, trade shows and events, webinars, demos, sales tools, public relations, industry analyst relations, collateral material, contributed articles, and much more. For the startup, the Go-to-Market plan should focus on no more than three. Naturally, one will need to be the website. Another will probably be sales tools, and the third should definitely be public relations. Does that mean you will ignore product collateral material? Will you avoid industry events? Not necessarily—but the important point is to narrow your focus in the beginning, and do a few things very well.

Here we present two GTM plans that illustrate the tight focus that leads to early success.

**Example 1: Web Self-Service Model**

Our company will employ a web self-service model to build awareness and drive sales. The program relies on a well-designed website that is easy to navigate, and that grabs the visitor's attention in the first few seconds on the site. It is clean, captivating and dynamic. It conveys our messaging in a way that maps perfectly to the ideal customer's expectations. Most importantly, it presents a compelling offer that is easy to obtain. We will begin to build buzz using a multi-faceted approach. We will rely on heavy use of public relations, including targeted pitches to relevant journalists, contributed articles and regular, interesting blogging, as well as active promotion through Facebook, Twitter, LinkedIn, and other social media forums. The intent is to drive visitors to the website, where the clear messaging will speak to them in the first few seconds they are on the site, with an easy way to obtain the compelling offer. The site will make it easy and worthwhile for the buyer to enlist friends and family to participate in the offer. Metrics will be carefully tracked during the first months of the company's existence, with quick mid-course adjustments to ensure optimal results.

In this case, the three elements are: website SEO, public relations and a public launch.

**Example 2: Channel Sales Approach**

Our go-to-market plan consists of selling through specialized channel partners (dental office supply vendors) and through focused telesales efforts, aimed at small and medium-sized dental offices. The initial geography will be Canada only. As we develop experience with channel partners, we will expand our coverage to other geographical areas. Our marketing approach will start with a launch at a major industry trade show, and will rely heavily on search engine marketing, a proven effective way to drive prospective customers to our website (including search engine optimization, and targeted web advertising driving prospects to sign up for a free trial). An aggressive public relations strategy that will build awareness; visibility by targeting key bloggers and influencers in relevant publications; and delivering a steady stream of news about the product—new customers, success stories, awards, and other relevant information--are all equally important.

Once your Go-to-Market plan has been built, you will want to go back and revist your assumptions about the market share you can obtain in the first three years. Look at the numbers again, and ask yourself if they still seem reasonable. Is the average order value in line with your sales approach? For example, it is unreasonable to expect that a telesales or web sales model can sustain an average order value of more than $20,000? Can your marketing approach generate enough demand to meet your revenue expectations? Revise the figures, as well as the market share percentages, accordingly.

| SEGMENT 1 (100M market) | Year 1 | Year 2 | Year 3 |
|---|---|---|---|
| Units (K) | 50 | 200 | 500 |
| License Revenue ($K) | 1,500 | 6,000 | 15,000 |
| Support /Maintenance ($K) | 270 | 1,350 | 4,050 |

| SEGMENT 2 (250M market) | Year 1 | Year 2 | Year 3 |
|---|---|---|---|
| Subscriptions (K) | 0 | 75 | 250 |
| License Revenue ($K) | 0 | 3,750 | 12,500 |
| Support/Maintenance ($K) | 0 | 0 | 0 |
| Market Share (%) | 0 | 1 | 5 |

# STEP 11
# Finalize the Market Size and Share Projections

Start by encapsulating your positioning in the overall market, including information about the market size, and your expected market share.

> Company X provides affordable, easily-adopted Dental Billing Management Systems to small and medium-sized dental offices in the United States and Canada, a market of more than one billion. Unlike current products that are too costly and inflexible for the SMB market, Company X provides a cloud-based solution that is easy to implement, cost-effective and flexible, as proven by awards, endorsements and market share of two percent in the first six months.

Then, revise your Business Plan (see *Starting Your Start-Up Book 1: Developing a Business Plan*) by encapsulating your positioning in the overall market, including information about the market size and your expected market share. The Business Concept will probably be unchanged: it is intended to be a quick overview of your entire concept, and unless that has changed appreciably, the Business Concept section will probably remain as it was originally written.

However, the Market Analysis and Strategy (Part 2 of the Business Plan), can be greatly enhanced after going through the market sizing work. Can you expand that section to incorporate what you have learned through the market sizing and share exercise? As an example, the Market Analysis and Strategy, as originally written, read:

> **Part 2: Market Analysis and Strategy**
>
> Company X will provide affordable, easily-adopted Dental Billing Management Systems to the huge underserved market of small and medium-sized dental offices in the United States and Canada. While market size data show the overall market to be $1.1 billion in 2010 (growing to $1.9 billion by 2015), this number represents only large enterprise purchases. Most small- and medium-sized dental offices fall outside the scope of the visible market, yet they represent some 60% of the total number of dental offices. The market for our solutions has the potential to be in the range of $1-1.5 billion.

Based on the work you have done to determine the target market, market segment, market size and share, you can revise that section. A possible new section might read:

## Part 2: Market Analysis and Strategy—Revised

Company X will provide affordable, easily-adopted Dental Billing Management Systems to the huge underserved market of small and medium-sized dental offices in the United States and Canada. Initial research showed the overall market for large dental offices to be $1.1 billion in 2010 (growing to $1.9 billion by 2015), with small and mid-sized offices representing an additional 1-1.5 billion. However, subsequent research resulted in segmenting the second market segment into several smaller, identifiable markets including:

- Small dental offices (1-3 dentists) – United States: market size 325 million
- Small dental offices (1-3 dentists) – Canada: market size 150 million
- Mid-sized dental offices (4-8 dentists) – United States: market size 500 million
- Mid-sized dental offices (4-8 dentists) – Canada: market size 230 million

Given the size and accessibility of the various market segments, the initial target market segment for Company X will be the mid-size dental offices in the United States.

Similarly, the Go-to-Market section of the Business Plan can be revised and enhanced with the information gained in the market sizing exercise. More specific information about the initial target market, and the sales and marketing approaches to be used, can enhance this section. Include specifics about the sales model, the product introduction and subsequent marketing efforts, as well as the expectations for sales and market share over the first three years. Include details of your assumptions, and the data you have found during your market size research, to help explain your new conclusions.  Don't forget to include your market size and share data in this section of the Business Plan.

| SEGMENT 1 (100M market) | Year 1 | Year 2 | Year 3 |
| --- | --- | --- | --- |
| Units (K) | 50 | 200 | 500 |
| License Revenue ($K) | 1,500 | 6,000 | 15,000 |
| Support /Maintenance ($K) | 270 | 1,350 | 4,050 |

| SEGMENT 2 (250M market) | Year 1 | Year 2 | Year 3 |
| --- | --- | --- | --- |
| Subscriptions (K) | 0 | 75 | 250 |
| License Revenue ($K) | 0 | 3,750 | 12,500 |
| Support/Maintenance ($K) | 0 | 0 | 0 |
| Market Share (%) | 0 | 1 | 5 |

# Next Steps

The exercises and explanations in this book should help you determine your initial target market, understand the buyer, and develop a strong go-to-market approach. Equally important, it should arm you with the tools you need to withstand the pressure to go after a broad, unfocused market—that, can lead to failure.

As you expand your Business Plan to encompass a solid awareness of the market and how to address it, you may find the other books in this series helpful to you.

- Book 1 in the *Starting Your Startup* series shows companies how to build a short Business Plan that can serve as the basis for future growth.

- Book 3, *Competitive Analysis*, will help you discover the many competitors that may still be unknown to you, and devise strategies for effectively competing against them.

- Book 4, *Pricing Strategies*, will guide you through a more detailed analysis of where you really should price your products, and will debunk some common myths about pricing in general.

- Book 5, *The Launch*, provides a step-by-step guide, complete with timelines, dependencies and responsibilities, to help make sure you carry out all the necessary steps in launching your company, and focus on doing just the right amount to ensure success.

# About the Author

Tanya Candia has worked in high-tech companies for more than 25 years. She began her career in the Silicon Valley with Ford Aerospace, as a product manager and systems analyst, and later worked at ASK Computers, where she ran the statistical quality control programming group.  After managing software quality and release with AIDA Corporation (acquired by Tera-dyne), Candia worked in marketing with a series of startup companies. At Unison Software, her work in streamlining the product line and strengthening the value proposition was instrumental in the company's successful IPO. The company was later acquired by IBM/Tivoli.

Candia served as vice president of worldwide marketing at F-Secure, the Finnish security software company, which she took through its initial public offering. She successfully helped grow F-Secure to over $40M in revenue, by renaming and repositioning the company as the leader in managed wireless security for the distributed enterprise. Candia holds an MA in Communications from the Monterey Institute of International Studies, and an MS in Systems Management from the University of Southern California. She runs the award-winning international business consulting firm Candia Communications LLC, with offices in California, Maryland, and Italy. Candia alsoholds a third degree black belt in Tae Kwon Do.