Market Validation
What are the uncertainties?

- Will the technology work?
- Are the materials and components available at commercial scale?
- Will the manufacturing processes scale up?
- Can you test the technology cheaply?

UC DAVIS
CHILD FAMILY INSTITUTE FOR INNOVATION AND ENTREPRENEURSHIP
What are the uncertainties?

**TECHNOLOGY**
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**MARKET**
- Can the management team grow this business?
- Will the business make any money? How much?
- What are the start-up costs?
- What are the long term goals and opportunities?

**BUSINESS**
- Who is the customer? How many are there? What’s the “value” to the customer?
- What distribution partners/networks are available?
- What competing solutions are out there already?

**YOUR BUSINESS MODEL**
- Will the technology work?
- Are the materials and components available at commercial scale?
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- Can you test the technology cheaply?
Market Validation

Overarching hypothesis:

“The customer, as currently defined, will value, adopt, and buy our offering.”

(and)

... that there are enough of these customers to support a business,

... that distributors, retailers, and other critical partners will also value your offerings.

Hierarchy of Validation

Sales
Letters of Intent
Industry Experts (C-level, BD, engineering)
Customer surveys
End User opinions
Third Party recommendations
Personal Beliefs & Experiences
What is Due Diligence?

• **Contract review and intellectual property**
  – What obligations exist around the business?
  – Do they own their IP?

• **Technical assessment**
  – Does it work?

• **Personal references**
  – Are these good people?

• **Market sizing and validation**
  – Does anyone care?

Does Due Diligence Matter?

• No amount of due diligence will make a company perform better or return a greater multiple on investment

• Due diligence helps investors avoid mistakes and limit the number of lemons in the portfolio

• Due diligence helps you figure out if it makes sense to invest in an idea

  *deep due diligence can prevent deep doo-doo*
How to do it? (MVP)

- Release something first (Groupon) and gather feedback
- Sell first then Pivot (Netflix)
- Blog to an audience (Actively) – Talk to a set of customers
- Build your prototype then get feedback
- Kickstart it

Goals
Discover the customer

• Product Delivery vs. Service Delivery
  • Institutions
  • End User
  • Manufacturer

Market Validation

• What does the market think?
  – Who cares what the investors think…ask the buyers!

• What can you learn?
  – Is there really a relationship?
  – How does the company behave?
  – Will they buy? Why or why not? What are the drivers?
  – Will they be repeat buyers?
  – Is there a stronger competitor?

• Always be sensitive
  – These calls present an opportunity to build a relationship
Some Bad News…

We're doing it backwards: It’s easier to start with a customer problem and then find a solution.

- In this academy, we are starting with an idea and looking for a problem.
- That’s okay, we have to validate the solution with the problem! Without it, you will never get paid!!!

Segmentation

- **What is segmentation?**
  - Dividing customers into homogenous groups who will exhibit uniform purchasing behavior when exposed to the same marketing mix

- **How to do it: STP**
  - Segment, Target, Position

- **Segmentation methods**
  - Customer characteristics: demographics
  - Customer characteristics: psychographics
  - Benefits sought
  - Purchase behavior
How Do I Put This Into My Plan?

- **Identify your customer**
  - Who is the buyer?
  - Focus on the number of customers who might purchase your product or service, not the size of the market according to an industry analyst

- **Find out what the customer thinks is important**

- **Prioritize segments rationally**
  - Be able to explain why a particular segment will be attacked first: use rationale like size, affinity for new solutions, or intensity of market need
  - What are you going to do next?

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**Customer Adoption Cycle**

*Technology products follow a predictable adoption cycle by customer type—these types often determine segments*
Pricing Models

- From a marketing perspective, pricing:
  - reflects the stage of the product life cycle
  - approximates customers’ reservation prices
  - presents an appropriate image of product quality
  - positions the firm competitively
  - reflects a coordinated product line strategy

- Simple pricing models:
  - Cost Plus
  - Competitive
  - EVC (Economic Value to the Customer)

How Do I Put This Into My Plan?

- Pick a price
  - If you can multiply price by the # of potential customers, you can validate your assumptions about market size.
  - It doesn't matter if you are wrong but if you don't pick a number, we are going to make our own assumptions.

- Get paid now
  - Paid pilots projects validate your market well; if you have to give it away, that says something about its value.
Where do you fit in?

- Which market segmentation in the value chain are you in?
- Who fits in your value chain?

Competitive Positioning

example: pain relievers

<table>
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<tr>
<th>Effectiveness</th>
<th>Gentleness</th>
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</thead>
<tbody>
<tr>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

- Low Gentleness: Low Effectiveness
  - • Private-label
  - • Anacin

- Low Gentleness: High Effectiveness
  - • Bufferin
  - • Advil

- High Gentleness: Low Effectiveness
  - • Bayer

- High Gentleness: High Effectiveness
  - • Tylenol
  - • Excedrin
### Product, Price, Promotion, Place

<table>
<thead>
<tr>
<th></th>
<th>Product</th>
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<th>Promotion</th>
<th>Place</th>
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### Competitive Landscape

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<th>Exhibitions</th>
<th>Artist Education</th>
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</tbody>
</table>
Validating the market, one at a time

• What does the market think?
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Okay, let's try it...

What are the top 10 questions we would ask a potential customer of the following product/service?

Let's use an example: Kids Arts Classes

1. How old are your children?
2. What are their hobbies?
3. Do they take classes outside of school?
4. What do they like about school?
5. Does your child like to draw, paint, create?
6. How important is arts and innovation to you as a parent?
7. How do you foster this activity?
8. Where do you go to get extracurricular activities?
9. What characteristics does your ideal instructor have?
10. What is the cost limitation with extracurricular activities?
Customer Call

- Parents
- Grandparents
- Educators

Ben’s Advice Things
Swing for the fences
– Similar efforts
– Similar time

Focus on Simplicity not Tech
– Customer Acquisition
– Make Technology Disappear
– Great Products often are not complicated
Solve a Problem

– Focus on Impact
– Easier to sell

Advertising is a must

– Don’t rely on word of mouth
– Drive eyeballs to you
– Don’t write off
Free Work

- Leads to lucrative work
- Low Risk
- Small Experiments

Be Patient

- Focus on Profitability not exits
- Don’t expect miracles
Advantages of Premium Prices

– Cheap customers complain
– Perception (authority, quality, focus on profitability, growing a reputation)

Never Stop Closing

– Contacts do not mean sales
– Always look for customers
– Don’t stop
Essentials Only

– Do you really need it
– Listen closely and adjust
– Focus

Hire Carefully

– No friends, family, or personal recommendations
– Passion
– Talent before experience
Smart People

– Listen
– Evaluate
– Learn from other people’s mistakes
– Recognize Mentors
– Empathize