Market Validation

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Lecture Overview

• Definition of Due Diligence
• The Five W’s (and an H)
  • What: Product Identification Process
  • Who: Customer Identification and Segmentation
  • Why: Defining the Value Proposition (Position)
  • When: Product Consumption Timing and Frequency
  • Where: Identifying where your product will be utilized
  • How: Determining Distribution Methods (Place)
  • Price: Estimating Price Based on Position and Value
• Customer Validation & Improvement
• Quantifying the Opportunity
My Background

Education:

– UC Davis: BS in Managerial Economics (1993)

Career Highlights:

– 15 years in the Banking Industry
– First CFO Then CEO at Horizon West Healthcare
– Formed Innovations Health Systems (2011)
  • Innovations Health Devices
  • Innovations Health Commons
  • Future Growth through acquisition
Due Diligence

- What is Due Diligence?
- Does Due Diligence Matter?
  - Lack of Due Diligence is Primary Cause of Failure
    - Restaurants (McDonalds and Other Franchises)
- Why Do We Do It?
  - It Validates Our Assumptions
  - It Mitigates our Concerns
  - It Guides Us on a More Direct Path to Success
- Consider from What Perspectives it is Relevant
  - Entrepreneur, Investor, and Banker
Types of Due Diligence

• Intellectual Property Rights (Patents, Trademarks, Etc.)
  – Shark Tank

• Identifying Other Barriers to Entry
  – Capital, Regulatory, Etc.

• Discovering Market Competition
  – What are the Competing Products in the Space?
    • Never Say, “There is No Competition” (Fools Paradise)
    • How Well Positioned are They in the Market Place?
  – Research: Are there Studies that Validate Your Solution?
  – How Mature is this Market?
Technology Products Follow a Predictable Adoption Cycle by Customer Type—These Types Often Determine Segments
The what

- Most Inventors Experience a Problem and Create a Solution
  - The Wijit Lever Drive & Braking System (New)
  - The JACO Robotic Arm (New)
  - The ERGOntrons (New)
- Some Opportunities are Derived as an Improvement of an Existing Solution
  - The Braketherough Wheelchair Brake (Enhancement)
- Other products are designed to complement an existing product.
- Contra Market Forces – A Better Mouse Trap Does Not Ensure Success (Electric Vehicles and Elon Musk – Tesla)
The Why

• Why Will Your Product be Consumed?
• Defining a Value Proposition
  – What Positive Outcome is Created by Consumption
    • Save Time, Money, Frustration, or Reduce Risk
• Is the Increased Value Measurable?
• How Many People Share the Problem that is Solved by Your Product?
• Can You Easily Validate Your Claims? (Flex Seal)
  • Be Sure to Identify All Caveats (Pharma Commercials)
• Does the Value Justify Action? (Pros Versus Cons)
• Can You Articulate the Proposition Clearly? (One Sentence)
The Who

- Who Will Buy Your Product?
- Identify the Total Population of Potential Consumers
  - Segment into Groups with Similar Characteristic
    - Economic – Disposable Income Levels
    - Social –
    - Age –
    - Gender –
    - Cultural –
- Many Segments Can be a Blessing and a Curse
- Order the Segments Based on Lowest Acquisition Costs
Market Sizing

• This is where most trains go off the track….
• Be realistic!!!!
• Calculate the total population of your audience
  – Create sub-markets
  – Make very conservative adoption rate assumptions
    • Estimate a percentage for each stage of the cycle
  – Describe pricing behavior as you penetrate the market
    • What happens to your margins?
The when

• When Will Customers Buy Your Product or Service?
  – Single Sale Versus Repeat Sales
  – Staple Versus Novelty Item
  – Is there Seasonality to Your Product?
  – Can Product Promotions be Used Effectively?
  – What is Necessary to Promote Early Adoption?
    • Free Product Trials/Costco (Road Shows/Samples)
  – What are the Customer Acquisition Costs?
    • How do they Change Based on Timing and Frequency?
Technology Products Follow a Predictable Adoption Cycle by Customer Type—These Types Often Determine Segments
The Where

- Where Will Your Product be Consumed?
  - B2B Sales
  - In-Home
  - Institutional Setting
- Where Will Customer Get Your Product?
  - Info-commercial
  - Web-Based Purchasing
  - Representative Groups/Sales Force
  - Retail Stores
The How

- Determining Distribution Methods
  - Licensing to a Third Party (Royalty Agreement) or Direct to Distributor
  - Products Can Have Different Distribution Strategies
- There is Not Necessarily a Need to Reinvent the Wheel
  - Utilizing Existing Channels MAY Create Greatest Speed and Efficiency
  - Allows You to Focus On Innovation (New Enhancements/Products)
- What Costs do we need to consider?
  - Manufacturing/Fulfillment Costs
  - Customer Acquisition
  - Profitability
Pricing Models

• From a Marketing Perspective, Pricing Should:
  ...Reflect the Stage of the Product Life Cycle
  ...Approximate Customers’ Reservation Prices
  ...Present an Appropriate Image of Product Quality
  ...Position the Firm Competitively
  ...Reflect a Coordinated Product-Line Strategy

• Simple Pricing Models:
  – Cost Plus
  – Competitive
  – EVC (Economic Value to the Customer)

• Price must yield profits which allow for a growth plan
Competitive Positioning & Pricing

Example: Pain Relievers

- High
  - Tylenol

- Low
  - Bayer
  - Private-label
  - Anacin
  - Bufferin
  - Advil
  - Excedrin

Effectiveness

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Communication Strategy

• A Promotional Plan has Integrated Elements:
  – Message (An Appeal, Rational/Emotional)
  – Medium (The Carrier Wave for Your Message)
  – Budget (What are the Campaign Economics?)

• 4 Methods for Communication and Positioning:
  – Advertising
  – Public Relations
  – Sales Incentives (Promotions)
  – Personal Selling

• Push vs. Pull:
  – Begins with Advertising, Develops in the Channel

• Key: Each of these methods need to be different for all segments
Promotion Decisions & Costs

• Make Your $ Count
  – No VC Wants to See Your Business Plan Depend on Outspending the Next Best Competitor
  – In the Early Going, PR Creates More Impact than Advertising

• Show and tell
  – Create Prototypes for testing – Seeing is Believing
  – Create Quality Mock Collateral Materials so that Potential Customers and Investors Can See What You're Thinking
  – Develop your logo, branding and website consistently
  – Don’t go cheap on the business cards
Customer Validation

• **What Does the Market Think About Your Product?**
  – Who Cares what the VC Thinks, Ask the Buyers!
  – 40% Fail / 40% Marginal Returns / 20% Meet/Beat Expectations

• **Create a Focus Group to Test the Product with Consumers**

• **What Can You Learn from Customers?**
  – Will They Buy? Why or Why Not? What are the Drivers?
  – Will They Recommend the Product to Others?
  – What Additional Benefits Could be Added?
  – Are They Aware of Competing Products?
  – Is There a Stronger Competitor? How and Why?

• **Always be sensitive and listen constructively**
  – These customers represent your first Raving Fans
Potential Market Size

• VCs Will Focus on Market Size Immediately, So Make Sure it's Big (As a General Rule > $1 Billion)
  • Sum of (Segment Population*Adoption Percentage*Price)
  • Robotic Arm Example

• Make Sure Your Plan Contemplates All the Elements of the Marketing Mix
  – Order Segment Penetration by Total Acquisition Costs
  – Desirability is a Function of Your Product & Price Decisions
  – Availability is Created by Your Channel Plan
  – Awareness is Generated by Your Promotional Plan
Wrap Up

- All of the elements discussed tonight are required to fully flush your product opportunity
- Due diligence is the game changer
- How well you prepare for this presentation will speak volumes about your commitment level now and later
- Question?