Market Validation

Cleveland Justis
Executive Director

Academy Schedule Meets Curriculum

Day 1
- The Idea (as a pitch)
- The Problem (and Solution)

Day 2
- Market Hypotheses
- Business Hypotheses
- Technology Hypotheses
- The Deliverables

Day 3
- The Team
- The Milestones
- The Summary & Next Steps
- The Investment
Overview of 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.

Learning Objectives

• Identify / evaluate uncertainties related to the market
  ✦ Value of your solution to the customer
  ✦ Size of overall market
  ✦ Customer response to your offering

• Refine value proposition

• Identify market segment and customers

• Set key milestones to move forward in the next 9-12 months
What are the uncertainties?

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

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

**BUSINESS**
- Can the management team grow this business?
- How much revenue would the business generate? How much profit?
- What are the start-up costs?
- What are the long term goals and opportunities?

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, just identify the right problem! Without it, you will never get paid.
So, what’s the problem?

- Who has it?
- How many are there?
- What’s the magnitude of the problem?
  - Does it cost them lots of pain, money, or distress?
  - How much do they care about it?

Who is the customer?

Definition of terms (see your coursebook)

- Customer
- Market
- Market Segment

Who makes the purchasing decision?

Where do you fit in the value chain?
How many customers are there?

- What is market 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

Where do you fit in?

- What’s your part in the value chain?
- Example: Telecommunications
How do I put this into my plan?

- Identify your customer
  - Who is your 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 targeted first. Use rationale like size, affinity for new solutions, or intensity of market need.
  - What are you going to do next?

Customer Adoption Cycle

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

- 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 pilot projects validate your market well; if you have to give it away, that says something about its value.
### Competitive Positioning: Example

**Example: Pain Relievers**

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<td>• Tylenol</td>
<td>• Bufferin</td>
<td>• Advil</td>
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### Competitive Landscape

The table below shows the competitive landscape across different features for various companies.

<table>
<thead>
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The 4 P’s of Marketing: Product, Price, Promotion, Place

<table>
<thead>
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<td>Place</td>
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Validating the market, one at a time

- What does the market think?
  - Who cares what the scientists think, *ask the buyers*!
- What can you learn?
  - 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.
Preparing for the Customer Call

- What are the top 10 questions we would ask a potential customer of the following product?
- Let’s use an example

Making the Customer Call
Now you try it...

Get in your groups and brainstorm the top 10 questions you would ask to find out if your technology solves a significant problem for your target customers.

- **Motivation**...
  If you collect good information over the next day or so, you can learn valuable information to refine your business model.

- **Patience and persistence**...
  You probably won’t learn everything you need to know in the next few days, so keep using this tool as you explore your business idea this year.

Apply What You’ve Learned

**See your coursebook.**

1. Identify critical uncertainties around your market.
   - Come up with at least 5 major uncertainties.

2. Rank order the uncertainties.

3. Identify which should be resolved first (e.g., in the next 9-12 months)—*these are your business milestones.*

4. List resources needed (people, equipment, $) you need to reach those milestones.