

Defining your target market

A central goal for most emerging technology ventures is to develop clear market and customer focus. This can be challenging. There may be many potential markets for your products and services. Through our work with dozens of early stage technology companies, we have developed a simple but powerful model for market definition that comprises three steps:

- **Identify and evaluate a range of market options.** The first step is to assess the size, nature of demand and vendor ecosystem (competitors and channel participants) in a range of potential markets. The goal is to develop a clear understanding of the attractiveness of each market as a basis for a priority ranking of your possible market options.
- **Understand customer needs in your target market.** The next step is to develop an in-depth understanding of customer needs within your best market option. Begin by clarifying exactly who is the customer. Next, develop a deep understanding of both core needs (what the customer needs to do) and buying needs (the customer's ability to buy). Both these sets of needs must be addressed in order to secure a purchase order from the customer!
- **Understand customer options – your competitors.** Finally, you need to understand customer options from the customer's perspective. Frequently this is an uncomfortable exercise for new venture managers, who are reluctant to recognize that customers do have other viable options to solve the problem. Identify and analyze at least half a dozen or so direct competitors, so that you can refine your offering and positioning to clearly present your advantages against each competitor.

In this article, we will discuss in more depth these three components and the role they play in clearly defining your target market

Market opportunity assessment

A market opportunity assessment is a summary overview of the size and nature of demand in a potential market, as well as the vendor ecosystem (competitors and channel participants) that exists to serve that market. The goal is to develop a clear understanding of the “big picture” - how the industry is operating, and what are the key trends.

You can gather most of the information you need for this analysis through online research. Supplementing and sense-checking this research with a few conversations with industry insiders will pay big dividends. Industry insiders include leading customers, vendors, trade association executives, journalists and research analysts.

Your market opportunity assessment should include:

- a definition of what is and what is not included in the market
- market size and growth rate
- primary customer segments and a short profile on each
- overview of the vendor eco-system (the key players at each stage of the supply chain) with a short profile on each vendor category
- a summary of your:
 - best target customer segment/s
 - likely competitor categories
 - possible channel partner categories.

Customer research

Having identified your best target customer segment, you need to develop an in-depth understanding of these target customers, their needs and options.

The first step is clarifying exactly who is the customer. For consumer and small ticket business purchases, this is normally fairly easy to identify and define. For high-ticket business purchases, frequently a number of people are involved playing different roles, such as champion, recommender, decision maker, and approver. In all cases, you need to identify the typical profile and motivations of these different players, so you can tailor your marketing and sales approach accordingly.

Next, you must develop a deep understanding of the needs you address. Customer needs can be analyzed in two primary categories:

- **Core needs** – these are the functional needs customers have that you address, normally driven by increasing revenue, reducing costs and / or managing risks.
 - **Buying needs** – these needs are to do with the customer's ability to buy - what must happen from both a process and budget point of view to get to a purchase commitment.
- Both these sets of needs must be clearly understood and addressed in order to secure a purchase order from the customer!

You also need to understand, *from the customer's perspective*, what their options are. Frequently this is an uncomfortable exercise for new venture managers, as with so much at stake in the venture, they are reluctant to recognize that customers do have other viable options to solve the problem. In many cases, though the innovation is clearly superior, other options are "good enough" to delay addressing the need for now. New ventures ignore a clear understanding of options from the customer's perspective at their peril.

While you can gather some information on customer needs from online research, nothing beats talking directly to prospective customers. This should be one of the earliest market development activities a new venture undertakes, and it should never end. The fundamental requirement for winning customers is to talk to them on an ongoing basis, and to continuously refine every aspect of your market development model until you have perfected the formula for unleashing the market's potential.

The rise of social media offers a powerful new option for companies to understand customers and their needs. Paying attention to, and participating in, the ongoing conversations online about your market and product category enables you to get the pulse of your target customers quickly.

To understand customers more rigorously, it is useful to think in terms of both qualitative and quantitative research. Start with qualitative research, typically conducted through one-to-one telephone or face-to-face interviews, or focus groups (talking to a small group of customers). Qualitative research is about rich conversations with customers, using discussion guides to get customers talking in-depth about their needs and options. It often doesn't take more than five or ten in-depth interviews to uncover and begin to see the patterns in customer needs within a specific market.

Once you have developed a reasonable understanding of the range of customers, needs and options from the qualitative research, you can use quantitative research (surveys, typically

done online) to assess how these apply across the market. This ensures your understanding reflects the actual market, and is not biased by a particularly vocal interviewee. There are a number of tools to allow you to conduct online surveys quickly and inexpensively. The challenge is to get people to respond. This requires you to think of and execute the survey like any direct marketing campaign, with a clear offer of interest to the recipient, a call to action and an incentive to respond.

Competitor analysis

It is normally important to identify and analyze at least half a dozen or so direct competitors, so that you can refine your offering and positioning to clearly present your advantages against each competitor.

There are a great many things you can analyze about competitors, but for new ventures much of traditional competitor analysis is unnecessary. The key elements to focus on understanding for each competitor include:

- Who is the competitor's primary target customer?
- What are the key benefits of the competitor's offering when compared with the customer's core needs?
- What key benefits does the competitor offer to meet the customer's buying needs? What are the total costs and risks of the competitor's offering?
- To what extent is the competitor able or likely to respond to your offering? What are they likely to do?

Competitive analysis can be accomplished by aggregating data from a number of sources.

These include:

- Online research, particularly of the competitor's website
- Review of competitor's literature
- Interviews with customers and prospects
- Interviews with channel partners
- Review of booths and chatting to salespeople at trade shows
- Engaging a third party to make direct approaches to competitors to request information and product demos.

About the author

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