

Tool #8:

How to Assess Your Market

Seven Steps for Assessing the Market for a New Venture

1. Define your relevant market

Establish boundaries --- where will 90+ percent of your customers come from? You will get random customers that fall outside these boundaries, but do not focus on them. Set specific boundaries that delineate where most of your customers will come from.

An entrepreneur discovers he can take discarded Styrofoam (which is fairly easy to get), cut it up, treat it with a fire retardant, and sell it as home insulation for a very attractive price. His business is based in Oklahoma. He defines his relevant market as building contractors with 20 or more employees in the major metro areas of Texas, Oklahoma and Kansas who specialize in re-modeling existing homes.

Similarly, the entrepreneur who starts a barber shop might define the relevant market as African American males over the 16 years of age who reside within three miles of the barber shop location.

2. Estimate how big your market is (market size)

There is no one way to do this. You have to develop a method based on the kind of data you can put your hands on. In poverty communities the data is often very scarce. You usually rely on data from existing secondary or published sources, by doing a survey, or by getting multiple estimates from people in the know (e.g., competing firms, suppliers, distributors, government officials) and averaging them). Finding useful data is a bit of a scavenger hunt. It is critical to come up with an approach that is logical and believable, and is based on conservative assumptions.

There are two general approaches: build up and break down. The build up method starts with a single customer and then builds up to capture the total number of customers in your relevant market. The break down method starts with an aggregate or total population number and then breaks it down until one gets to your relevant market.

Sample Build Up Approach

I am selling photography services and specialize in weddings. I want to know the size of the Orlando, Florida market.

- The average couple getting married in Central Florida spends \$22,000 (a)
- 15% of wedding costs tend to be for photography services (b)
- Videos represent roughly 20% of the photography expenditure (c)
- About 8600 weddings occur in Central Florida each year (d)

$$\text{Market size} = (a) \times (b) \times (c) \times (d) = \$5,676,000$$

Sample Break Down Approach

An entrepreneur is going to open a retail fashion store in Indianapolis, Indiana that specializes in professional women's wear sold to individuals who wear big and tall sizes. She is primarily focused on women between the ages of 20-35 years of age:

- There are 320 million Americans (a)
- 51% are female (b)
- 35% of females wear big and tall sizes (c)
- 23% of females are 20-35 years of age (d)
- .006% of U.S. population lives in Indianapolis metro market (e)
- The average female white color worker owns 3 professional suits (f)
- The average professional suit costs \$165 (g)

$$\text{Market size} = (a) \times (b) \times (c) \times (d) \times (e) \times (f) \times (g) = \$39,018,672$$

3. Understand buyer descriptors

The entrepreneur needs to know the market he or she is going to operate in. Specifically, you are trying to get a feel for the answers to two questions:

- a. What are the characteristics of the prospective customers who make up your relevant market?*

Here, you are trying to determine the composition of your relevant market --- with an emphasis on customer characteristics that relate to what you are selling. Twelve examples include:

- gender
- age groups
- income categories
- marital status and those who are single heads of households
- race or ethnicity
- education level
- number who are full-time employed, part-time employed, unemployed, or a student
- people with and without their own vehicles
- people who own versus rent their place of residence
- people receiving public assistance
- current users of the product or service category versus those that have never used this type of product or service
- people who use social media versus those who do not

b. Who makes the buying decision?

For many purchases, the actual decision-maker may be different from the person who is actually using or consuming your product or service. This is one reason why it is important to go and talk with potential customers before you launch your business. For example, the female head of household may play the dominant role in making certain purchase decisions, and the male head of household might make others. Or, while a child is the consumer, a parent may actually decide where the child buys clothes or gets a haircut. Or, the purchase may be made by someone as a gift for someone else. And if you are selling to businesses, the question of who actually makes the buying decision can get more complicated. Consider an entrepreneur who runs a cleaning company or a landscaping business and is trying to sell his or services to a local bank, health center, school or factory. The decision maker could be the president or owner of the business, the director of operations, an office manager, a purchasing manager, or someone else.

4. Examine how your customer buys

Customers go through a set of steps that lead to a purchase. And they purchase dresses differently than they purchase alcohol products or cooking stoves or cell phones. Some purchase decisions are made in seconds, and others can take months or years to make. The entrepreneur should take the time to examine how people buy the type of product or service he or she is selling. Below is a simple model of how people buy:



Not all of these steps are necessarily involved in every purchase decision. For instance, some purchases may not involve any information search, and others may involve a single alternative (there are no alternative to compare) where the customer is just deciding whether to buy or not buy. The key is for the entrepreneur to walk in the shoes of his or her customer, and try and understand the decision process that leads the customer to buy from one provider versus another—or to choose not to buy at all. How does the customer become aware they have a need?

What information sources do they rely upon when considering purchasing a particular product or service. How many alternatives do they consider? What are the factors they consider when evaluating the available alternatives? Once they make a purchase, what factors determine how satisfied they are with the purchase and if they will buy from you again? How long does it take the customer to make the buying decision?

5. Segment your overall market into groups of customers with similar needs and buying behaviors

Markets consist of many different kinds of customers, and it is important that the entrepreneur break these customers down into groups or categories or what we call 'market segments'. A market segment is a set of customers that have common needs or buying behaviors when it comes to the particular product or service you are selling. So, older married men may differ from younger single women when it comes to how they buy shoes, or select a bank, or purchase a laptop computer.

The best way to segment depends on what you are selling, where you are selling, the resources you have, and the constraints faced by the entrepreneur. So segmenting based on income categories might be relevant for the products or services of some entrepreneurs, while ethnicity, gender or age might be more relevant in other situations. Most typically, market are segmented based on more than one customer characteristic.

Below are examples of market segments for a) companies making and selling bread products, and b) companies selling financial services, both in South Africa

Segmentation Example #1: The Financial Services Market

	SEGMENT 1	SEGMENT 2	SEGMENT 3	SEGMENT 4
	BEGINNER INVESTORS	STABLE NON-PROFESSIONALS	PRIME PROFESSIONALS	RETIREEES
AVERAGE AMOUNT THEY CAN INVEST	\$200 - \$2 000	\$ 10 000 - \$ 20 000	\$ 20 000-\$ 400 000	\$ 40 000 - \$ 200 000
TIME HORIZON	1-5 years	10-30 years	10-20 years	1-10 years
KNOWLEDGE or SOPHISTICATION	low	low	high	moderate to high
RISK PROFILE	Low/high	low to moderate	high	moderate to low
PORTFOLIO MANAGEMENT	broker	broker	self, financial consultant	broker, financial consultant
DECISION PARTICIPANTS	self	spouse	self	spouse, children
INFORMATION SOURCES	newspaper friends	newspaper mailshot broker	brochure, business publications	friends social clubs
AMOUNT OF INFO SOUGHT	little	moderate	extensive	extensive
KEY ATTRIBUTES EMPHASISED	recognized name, growth record	stable, conservative	aggressive, innovative	established record ethical record
FINANCIAL GOALS	immediate growth	long term growth	income, growth, tax efficiency	income
INVOLVEMENT LEVEL IN INVESTING DECISIONS	low	moderate	high	high
INSTITUTIONAL LOYALTIES	moderate	moderate to high	low	moderate
INFLUENCERS	parents, employers friends	employers, friends	professional colleagues	associations, social friends

Segmentation Example #2: The Bread Market

Segment 1: UPPER CRUST	Segment 2: FIT 'n TRIM	Segment 3: FAST LANERS	Segment 4: VALUE SEEKERS	Segment 5 SUSTAINERS
Higher Incomes	Younger	Range of Incomes	Low to moderate incomes	Low incomes
Smaller households	Range of incomes	Tend to have smaller families	Consume high amounts of bread	Large households
Buy bread as a convenient easy meal, but also for special occasions	See bread as a healthy food	See bread as a quick convenient meal more so than others	See bread as basic necessity	See bread as low cost meal
See bread as less expensive	Bread as source of energy	Like raisin loaf, sunflower bread, and onion bread	See bread as good value for money	Consume greater bread amounts
More interested in bread specialties	Enjoy whole-wheat bread	Use bread in great number of different applications	More likely than other to buy in afternoon	More likely to shop daily
Buy less often	Shop in supermarkets and bakeries	Like bread with egg on it	Less concerned with brand name	More likely to shop in early morning
Will not always buy same bread product	Actively seek out product information	More likely to experiment with new products based on advertising	Like raisin loaf	Purchase white and brown bread exclusively
Shop at supermarkets, bakeries, gourmet and specialty stores		Ease of preparation is very important to them	Consume bread as a snack more than do other segments	Are more price conscious
				Shop at supermarkets and spazas

6. Prioritize who you are going to target

For entrepreneurs having very little in the way of resources, you cannot be all things to all people. Stated differently, you cannot serve all the different market segments. Each segment has distinct requirements that affect what you should be selling to them, how you reach them, what the most effective message will be when it comes to communicating with them, what they are willing to pay, and other decisions made by the entrepreneur.

For the low income entrepreneur, the question becomes one of determining which are the most attractive segments for his or her particular business. While there are other criteria, a good starting point is to rate each of the identified segments on the following four criteria and see what emerges.

1. How many potential customers with a willingness and ability to buy your product or service are there in each segment? (*IS THE SEGMENT BIG ENOUGH?*)
2. How well entrenched are competitors in each segment and how many competitors are there? (*IS COMPETITION PRETTY INTENSE IN SERVING CUSTOMERS IN THE SEGMENT*)
3. In which segments do you have the most potential advantage in terms of your solution compared to those of competitors? (*IN WHICH SEGMENT ARE YOU LIKELY TO HAVE THE BIGGEST ADVANTAGE COMPARED TO COMPETITORS?*)
4. From a marketing segment, how hard will it be to penetrate the segment? (*HOW MUCH TIME, MONEY, AND EFFORT WILL YOU HAVE TO SPEND ON MARKETING?*)

Based on this evaluation, the entrepreneur determines the one or two segments that will receive priority. These are the segments where more time and money will be spent, at least for the next year or two. These priority segments become the entrepreneur's target market.

7. Assess the competition

Once the entrepreneur has a clear sense of the market segments on which the venture's resources will be concentrated, our final step in assessing the market is to evaluate the competition that is attempting to serve the same market segments. A common mistake made by some entrepreneurs is to assume there is no competition because what the entrepreneur is doing is so different or so much better. But there is always competition. Even if you are the only firm in the market, you are competing for a share of what the customer's budget. The approach here is to create simple table in which the entrepreneur identifies the direct and indirect competitors in the market, and objectively assesses their key strengths, highlighting what they do best, and their key weaknesses, highlighting where they have shortcomings or could do better. It is helpful to ask a mix of customers their opinions on this.