Market Segmentation (Step #1) & How to Do Primary Customer Research

Class Seven

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Howard Anderson
**Note:** All classes in this course are important but today’s might be the most important of all
15.390 – Class #6
Market Segmentation & How to Do Primary Market Research
or
“Now that I have my idea and team, what do I do next?”
3 Stories

• DiPol – Revolutionary membrane technology for direct methanol fuel cells

• Lamborghini Dealership

• SensAble
Entrepreneurship 101 Quiz

What is the singular necessary and sufficient condition to have a company?

1.
Case 2: Lamborghini Dealership

Photo of a red Lamborghini sports car and photo of silver Volvo SUV removed due to copyright restrictions.
What Should We Be?

Market-Driven

Target Customer-Driven

Customer-Driven
Basic Concepts in Entrepreneurship

• “Crossing the Chasm” and/or “Inside the Tornado” by Geoffrey Moore

• “Blue Ocean Strategy” by W. Chan Kim & Renee Mauborgne
Strategy to Cross the Chasm

Diagram removed due to copyright restrictions. See Moore, Geoffrey A. 
Successfully Crossing the Chasm

Market Analysis Criteria: How to Choose Beachhead Segment

1. Is the target customer well funded and are they readily accessible to our sales force?
2. Do they have a compelling reason to buy?
3. Can we today, with the help of partners, deliver a whole product to fulfill that reason to buy?
4. Is there no entrenched competition that could prevent us from getting a fair shot at this business?
5. If we win this segment, can we leverage it to enter additional segments?
6. Can we show results in a time frame consistent with the founders personal agendas?
Case #3: SensAble Devices

Thomas Massie's "Phantom" 1993 from the MIT Museum removed due to copyright restrictions.
Step #1: Market Segmentation/Evaluation

Systematically identify and evaluate the top market opportunities. This generally is a long process but it is important to not let it go on indefinitely. There will likely be many paths to success and it is important that you choose one but not necessarily the perfect one. There likely is no perfect one. It is better to try a market and find out if it will work out and learn that it will not rather than be a state of “analysis paralysis”.

Set a reasonable time frame and aggressively explore multiple markets in an exploratory fashion (not a sales manner) with primary open mind market research techniques.
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Image by MIT OpenCourseWare.
Class Exercise with Team

• Make a matrix for the various market segments for your team’s project
• Just the top line – don’t need to fill in the other parts unless you have time
How Do We Fill In the Matrix?

• This is the process of doing primary market research

• You are creating a new market or better yet addressing an existing market that is significantly underserved today.

• It is highly unlikely that anyone has done the research that is appropriate to your opportunity and if they have, you should wonder if it is too late

• Therefore, the best market research is what you will do yourself NOT something you will buy

• Hence you have to learn how to do primary market research with a well defined target market & really understand their needs & opportunities
Zen and the Art of Entrepreneurship

- Become one with your customer
- Become like a great actor
- Make the lines very blurry between you and your target customer
Primary Customer Research

• From MIT Course Catalogue

15.821 Listening to the Customer

Graduate Level, Fall Term; first half of term (H1)
Prereq: None
Units: 3-0-3
Lecture: MW8.30-10 (ENDS OCT 19) (E51-151) or MW10-11.30 (ENDS OCT 19) (E51-151)

Introduction to soft consumer research methods, useful for getting quick customer input into decisions on product design and development, strategic positioning, advertising, and branding. Covers interview techniques, observational methods, voice of the customer, focus groups, and analyses suitable for qualitative data. Introduces new information-gathering methods in development at MIT.

D. Prelec

• “Customer Development” - Steve Blank and his disciples but this is at conceptual level but great summary of concepts – phrase “Get Out of the Building”
2 Important Tenets of PCR/PMR

• Inquiry vs. Advocacy

• Immersion: Stew Leonard

http://www.youtube.com/watch?v=qTWfxZS9dow
Two Fundamental Steps...

1. Understand your customer

2. Understand what your customer thinks about your potential product
But, why?

• …I *am* the target customer
  ▸ No one knows the problem space better
  ▸ No one knows how to tailor the product better than I do

• This may be the case, but…
  ▸ You can’t assume so because you are a data point of one; not statistically valid yet. If you are right, data will bear you out.
  ▸ Be very careful of “confirmation bias”. Include a skeptic in the process too.
1. Understand Your Customer

• Ask yourself:

How is the customer overcoming the problem I’m solving?

What insights can I draw from the customer’s current behavior?
Nature of Primary Research

• Primary Market Research requires you talking to real potential customers
• Profile them so you can statistically evaluate their feedback by group
• Don’t ignore qualitative data
• There are no customers in Frost & Sullivan reports
• Talk to people
• Can use Social Media too to engage
Guidance

• Don’t introduce the product too soon
• Understand the customer first
• Don’t put the onus on them to find the solution for your crazy technology
2. Customer & Your Product

• Ask yourself:

Does my solution make sense?
Simple Math

• Step 1 + Step 2 =

Market knowledge that will drive your product
Suggestions

• Strategy: Get to Step 2 as quickly as possible
  ▸ Develop test approach
  ▸ Create draft brochure as soon as possible
  ▸ Iterate

• Tools:
  - Observation
  - Surveys
  - Interviews
  - Focus Groups
Spiraling to a Solution
Logical Flow of Course

- Logical Flow
- Scaling
- Presentation

- Financial Statements
- Investor Strategy & Pitch

- Go to Market
- Sales
- Marketing

- Where to Extract Rent
- Pricing

- Value Proposition
- Competitive Advantage
- Development Plans

- Segment
- Direct Validation
- Competition

- Team Composition
- Values
- Setting Expectations

- Generation
- Analysis
- Testing on Key Stakeholders

Plan to Capture Value

Plan to Create Value
15.390 New Enterprises
Spring 2013

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