



CENTER FOR HOMELAND
DEFENSE AND SECURITY
NAVAL POSTGRADUATE SCHOOL



HSx MODULE: ENTREPRENEURSHIP (STEP 1 – MARKET SEGMENTATION)



APRIL 2017

WHAT IS MARKET SEGMENTATION

- The market segmentation process identifies multiple potential market opportunities.
 - What is Market Segmentation?
https://www.youtube.com/watch?v=fEQ9Kp2kYxM&list=PLQykyC1zr8f_ZcAZoTz-rruBBOP4Fmii5&index=18
 - Why is Market Segmentation So Important?
 - <https://www.youtube.com/watch?v=cKJ0Bx3N2tQ>
 - How to do Market Segmentation
 - <https://www.youtube.com/watch?v=11qEHsvq7ec>
- During this step you will;
 - Brainstorm a wide variety of potential customers and markets for your business.
 - Narrow your list down to your top 6-12 markets.
 - Gather primary market research on your top 6-12 markets.

THE SINGLE NECESSARY AND SUFFICIENT CONDITION FOR A BUSINESS

- The single necessary and sufficient condition for a business is a paying customer.
- The day someone pays you for your product or service is the day you have a business and not a day before.
- Therefore, you will take a customer driven approach by finding an unmet need and building your business around it.

STEP I-A: BRAINSTORM

- Think of all the various market opportunities.
 - Start by identifying various industries that could benefit from your idea.
 - Identify possible tasks your end users perform.
 - Begin grouping ideas into similar categories.
 - Be broad and expansive when segmenting ideas into categories as later the list will be further segmented.
- The following are resources for techniques on brainstorming and how to generate creative thoughts.
 - Brain Storming Done Right - <https://www.youtube.com/watch?v=9K8W4ooygUU>
 - Creative thinking - How to get out of the box and generate ideas: Giovanni Corazza at TEDxRoma - <https://www.youtube.com/watch?v=bEusrD8g-dM>
 - 7 steps of creative thinking: Raphael DiLuzio at TEDxDirigo - <https://www.youtube.com/watch?v=MRD-4Tz60KE>
 - A crash course in creativity: Tina Seelig at TEDxStanford - <https://www.youtube.com/watch?v=gyM6rx69iqg>

STEP I-B: NARROW

- Using the following selection criteria select the top 6-12 potential markets.
 - Is the target customer well funded?
 - Is the target customer readily accessible to your sales force?
 - Does the target customer have a compelling reason to buy?
 - Can you today, with the help of partners, deliver a whole product?
 - Is there competition that could block you?
 - If you win this segment could you leverage it to enter additional segments?
 - Is the market consistent with the values passions and goals of the founding team?

DECISION MATRIX

	Are Customers well Funded?	Customers accessible to your sales force?	Customers have a compelling reason to buy?	Can you deliver a whole product today?	Can competition block you?	If you win this segment can it be used to leverage other segments?	Is the market consistent with the values of Founders?	Total
Customer 1	1	2	3	4	1	2	3	16
Customer 2	3	4	2	3	3	4	1	20
Customer 3	4	3	1	2	4	3	2	19
Customer 4	2	1	4	1	2	1	4	15

Lower score wins

The lower the number the better.

1=best

4=worst

The lowest number in the total is the best customer segment to begin with.

STEP I-C: PRIMARY MARKET RESEARCH

- Time to interact with potential customers (end users) from the identified industries.
- How to Talk to Potential Customers
 - The goal of interaction is to discover the customers “pain points” and later ensure a the design of the product or service provides a solution to those points.
 - Encourage the flow of information; don’t restrain them.
 - Talk with as many end users as possible .
- Key factors in talking to end users.
 - You must have a high level of intellectual curiosity.
 - Must be fearless about getting on the phone or personally contacting individuals to pursue the information.
 - Listen and be very open minded.
 - Must have time and patients to devote to this important effort.
- Three important caveats when conducting your market research
 - You do not have the answer to your potential customers needs.
 - Your potential customer does not have the answer for you.
 - Talk with potential customers in inquiry mod, not advocacy/sales mode. Listen to what they have to say, and don’t try to get them to buy anything.

STEP I-C: PRIMARY MARKET RESEARCH

- The information you're trying to discover:
 - **End User**; Who specifically would be using your product.
 - **Application**; What would the end user be using the product for?
 - **Benefits**; What is the actual value the end user would gain by using your product?
 - **Lead Customer**; Who are your most influential customers that others for thought leadership?
 - **Market Characteristics**; What about this market would help or hinder the introduction of a new technology?
 - **Partner/Players**; Which companies will you need to work with to provide a solution that integrates into the customers work flow.
 - **Size of the market**; Roughly, how many potential customers exist if you achieved 100 percent market penetration.
 - **Competition**; Who if anyone is making similar products-real or perceived, remember this is from the customers perspective and not just yours.
 - **Complementary Assets Required**; What else does your customer need in order to get the full solution of your product. (e.g. if your developing a video game for an X Box customers need a X Box game system)
 - **Any other pertinent info** based on your product- required operating system for app, platform of most customers, etc..

MARKET SEGMENTATION CHART EXAMPLE

	First Responders	Department of Defense
End User	Firemen/Police	Soldiers/Marines
Application	Breaching structures	Breaching structures
Benefit	Light weight and durable	Light weight and durable
Lead Customers	Chicago FD	Army Special Operations Command
Market Characteristics	Lots of other tools on the market.	<ul style="list-style-type: none"> • Fast moving • Mil specifications
Partners/Players	<ul style="list-style-type: none"> • Iron Works Company • Association of Fireman Tools 	<ul style="list-style-type: none"> • Iron Works Company • Army contracting
Size of the Market	500,000+	500,000+
Competition	<ul style="list-style-type: none"> • Acme Fire Tools • Hulligan Tools Inc. 	<ul style="list-style-type: none"> • Ranger Tools • Marines Toys Inc
Complimentary Assets Required	none	none

SUMMARY

- The market segmentation process identifies multiple potential market opportunities. Once you have a list of potential markets, direct market research-based analysis on a finite number of market segments will help you determine which markets are best for your idea or technology. The goal of this process is to provide wide spectrum of market opportunities as you start to think about where you will focus your business. This process will help you identify a “beach head” market in the next step.

RESOURCES

- What is Market Segmentation?
 - https://www.youtube.com/watch?v=fEQ9Kp2kYxM&list=PLQykyC1zr8f_ZcAZoTz-rruBBOP4Fmii5&index=18
- Why is Market Segmentation So Important?
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- How to Do Market Segmentation
 - <https://www.youtube.com/watch?v=ZelUMuD3QGk>
- Market Segmentation - FAQ With Student Entrepreneur
 - <https://www.youtube.com/watch?v=Gj2lyU10Y84>
- Market Segmentation - Interview with Co-Founder of Testive
 - <https://www.youtube.com/watch?v=zWtdec0aWnQ>
- Who is Your Customer?
 - https://www.youtube.com/watch?v=i8QaZ3U9tTU&list=PLQykyC1zr8f_8O9AYcR4LAXiWG7LFu3wc&index=2
- Who is Your Customer? The Tale of Erdin & Laura -
 - <https://www.youtube.com/watch?v=vPqfUV-sukQ> Part 1
 - <https://www.youtube.com/watch?v=ZLt0JO8WHSg> Part 2
 - <https://www.youtube.com/watch?v=jmzd8l-cYsM> Part 3
 - <https://www.youtube.com/watch?v=WOGYjBSuQPU> Part 4
- Understanding Your Customer -
 - <https://www.sba.gov/tools/sba-learning-center/training/understanding-your-customer>
- How to Do Primary Customer Research – Demo –
 - https://www.youtube.com/watch?v=mz0eBTWIP0g&list=PLQykyC1zr8f_ZcAZoTz-rruBBOP4Fmii5&index=20
- How to Organize Primary Customer Research
 - https://www.youtube.com/watch?v=aynjAMT8N8A&list=PLQykyC1zr8f_ZcAZoTz-rruBBOP4Fmii5&index=21
- Fun with Primary Customer Research!
 - https://www.youtube.com/watch?v=T_3HAr6BvFM&index=22&list=PLQykyC1zr8f_ZcAZoTz-rruBBOP4Fmii5

Entrepreneurial Process – Market Segmentation

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Overview: While not exhaustive, the following resources provide a roadmap to understanding market segmentation and the process of identifying the full range of potential markets in the select industry. Understanding the various segments of the market place will help enterprisers decide where to start and allow them to focus on the segment that could provide the most advantage to the business and help in gaining a foothold in the market share that will help ensure initial momentum.

Educational Videos and Short Classes:

- What is Market Segmentation?
 - https://www.youtube.com/watch?v=fEQ9Kp2kYxM&list=PLQykyC1zr8f_ZcAZoTz-rruBBOP4Fmii5&index=18
- Why is Market Segmentation So Important?
 - <https://www.youtube.com/watch?v=cKJ0Bx3N2tQ>
- How to Do Market Segmentation
 - <https://www.youtube.com/watch?v=ZeIUMuD3QGk>
- Demo of How to Conduct Market Segmentation
 - <https://www.youtube.com/watch?v=11qEHsvq7ec>
- Market Segmentation - FAQ With Student Entrepreneur
 - <https://www.youtube.com/watch?v=Gj2lyU10Y84>
- Market Segmentation - Interview with Co-Founder of Testive
 - <https://www.youtube.com/watch?v=zWtdec0aWnQ>
- Who is Your Customer?
 - https://www.youtube.com/watch?v=i8QaZ3U9tTU&list=PLQykyC1zr8f_809AYcR4LAXiWG7LFu3wc&index=2
- Who is Your Customer? The Tale of Erdin & Laura –
 - <https://www.youtube.com/watch?v=vPqfUV-sukQ> Part 1
 - <https://www.youtube.com/watch?v=ZLt0JO8WHSg> Part 2
 - <https://www.youtube.com/watch?v=jmzd8l-cYsM> Part 3
 - <https://www.youtube.com/watch?v=WOGYjBSuQPU> Part 4
- Understanding Your Customer -
 - <https://www.sba.gov/tools/sba-learning-center/training/understanding-your-customer>
- How to Do Primary Customer Research – Demo –
 - https://www.youtube.com/watch?v=mz0eBTWIP0g&list=PLQykyC1zr8f_ZcAZoTz-rruBBOP4Fmii5&index=20
- How to Organize Primary Customer Research
 - https://www.youtube.com/watch?v=aynjAMT8N8A&list=PLQykyC1zr8f_ZcAZoTz-rruBBOP4Fmii5&index=21
- Fun with Primary Customer Research!
 - https://www.youtube.com/watch?v=T_3HAr6BvFM&index=22&list=PLQykyC1zr8f_ZcAZoTz-rruBBOP4Fmii5
- Small Business Administration: Understanding Your Customer <https://www.sba.gov/tools/sba-learning-center/training/understanding-your-customer>

Publications and Journal Articles:

- To run a successful business, you need to learn about your customers, your competitors and your industry. Market research is the process of analyzing data to help you understand which products and services are in demand, and how to be competitive. Market research can also provide valuable insight to help you:
 - Reduce business risks
 - Spot current and upcoming problems in your industry
 - Identify sales opportunities

<https://www.sba.gov/starting-business/how-start-business/understand-your-market>

Other Resources:

- The federal government is the largest producer of data in the U.S. with numerous offices dedicated to collecting, analyzing and providing free access to their findings – good news for budget-conscious small business owners. The following link provides five government sources of market data and statistics that may boost your market research efforts: <https://www.sba.gov/blogs/conducting-market-research-here-are-5-official-sources-free-data-can-help>