McCombs
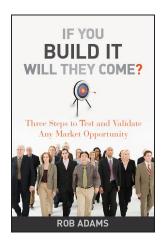# Knowledge To Go

November 9, 2010

Market Validation - Slide 1

If You Build It Will They Come?

Three Steps to Test and Validate Any Market Opportunity
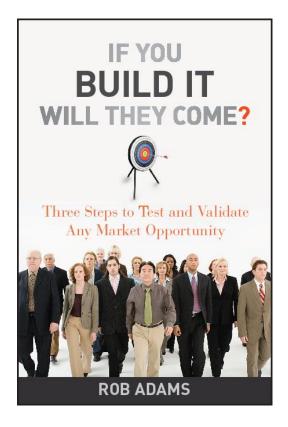

UT Alumni Network – Knowledge to Go
Tuesday, November 9, 2010

Electronic version of this presentation available
at www.drrobadams.com/events

- **What is this book about?**
  - Ready, Aim, Fire

- **What do most companies do?**
  - Ready, Fire, Fire, Fire, Aim

IF YOU **BUILD IT** WILL THEY COME?

Three Steps to Test and Validate Any Market Opportunity
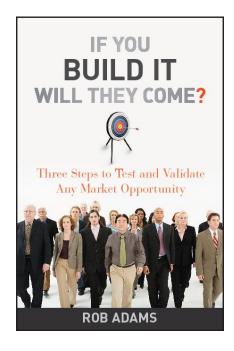
ROB ADAMS

If You Build It Will They Come?

- **What are the facts behind this?**
  - 90% of all start-up businesses fail
  - 65% of all new products fail
  - North America alone spends a whopping $260 billion annually on failed products
  - … and only $140 billion on successful products

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Market Validation

- Why do 90% of news businesses and 65% of new products fail?
    - Companies focus on operational issues
        - Educated to manage, not create
        - Tendency to gravitate to data so it can be analyzed
        - Development is a process with an endpoint
        - Engineers work in the world of the tangible
        - None of the above issues are critical to product sales
    - Companies don't focus on markets
        - Products fail because they don't sell
        - 85% of product failure can be traced to market related issues
        - Marketing is not a process driven effort
        - Marketing and engineering are opposite functions
            - If you want to differentiate yourself have credibility in both worlds

Market Validation

- **How can this be addressed?**
- **Market Validation**
    - Market Validation is a process applied to the unstructured, serendipitous task of doing a complete evaluation of the market for a product before the product is built.

    - Market Validation is a series of standard business practices applied using an objective, market oriented and fact based data collection process.

    - A complete Market Validation process takes 60 days and has a budget of 10% of the expected cost of developing the product.

        - For those of you in start-ups the book covers how to use your own labor and save on the costs

Market Validation

- The philosophy behind Market Validation is that success is achieved through a series of fast failures.

- Market Validation lets you figure out in a matter of two months, for 10% of your development budget, whether your product or service will work in the market

- The alternative is to spend 100% of your budget and 2-3 years coming to the same conclusion

Market Validation

- Case Study: Motorola's Iridium

- Case Study: Apple's iPod

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Market Validation

- The three steps of Market Validation
  - Ready
    - A fast triage of your idea to understand if more time and effort should be invested
    - Time investment of 2 days
  - Aim
    - A deep dive into the target market using primary research techniques to develop a product with unique, differentiable features that are compelling to your target audience
    - Time investment of 60 days
  - Fire
    - The art of converting market data into product features and getting a product out the door quickly
    - Time investment is management diligence from the end of the Aim process until the product ships

- The Ready Step

  - Domain knowledge

  - Market size and growth rate

  - Lifecycles and trends

  - Competitive analysis

  - Outside data sources

Market Validation

- The Ready Step
  - Domain knowledge
    - Where does your idea come from?
    - Is it part of your work experience?
    - Is it part of your consumer experience?
    - Areas to be careful around
      - Consumer: margins are tight, marketing is expensive
      - Medical: Large volumes of money do not mean success
      - China: Big markets do not mean easy money

- The Ready Step
  - Market size and growth rate
    - What is the size of the overall market?
      - What are the submarkets?
    - What are the sizes of the submarkets?
    - What are the growth rates?
    - What is the growth rate of the economy?
    - What is the growth of your market relative to the economy?
      - Above
      - Same rate
      - Below

Market Validation

- The Ready Step
  - Lifecycles and trends
    - What is the lifecycle of your market?
    - What are the trends affecting your market?
      - Population
      - Expanding and contracting industry sectors
      - Technology adoption
      - Competitive rivalry
    - What business model does your industry use?
      - Consumer
      - Manufacturing
      - Life Sciences
      - Technology
      - Services

Market Validation

- The Ready Step
  - Competitive analysis
    - Who are your competitors?
    - Why are they successful?
    - What do their customers think of them?
    - What are substitutes for your product?
    - What are the economics of your product?
    - How much competition is the customer keeping their money?

Market Validation

- The Ready Step
  - Outside data sources
    - Is your market established enough to have analyst firms?
    - What other sources of data can give your market data credibility?
    - What analyst firms follow your market?
    - What are the names of the analysts?
    - How big do they say the market is?
    - What do they say the trends are?
    - How do you get your hand on their reports?

- ## The Aim Step
  - Primary market research
  - Who to interview
  - Interviewing, interpreting the data and analyzing the results
  - Using outside firms
  - Getting the market ready for your product

- ## The Aim Step

  - ### Primary market research

    - What kind of data we're after

    - Types of surveys

    - Types of questions

    - Developing and conducting interviews

      - Initial interviews

      - Mid-stage interviews

      - Late-stage interviews

    - Who to interview

      - Sourcing names

Market Validation

- The Aim Step
    - Who to interview
        - Sources
        - Doing the math on the available listings
        - Similarity to the sales process

Market Validation

- ## The Aim Step

  - ### Interviewing, interpreting the data and analyzing the results

    - Conducting the interviews
    - Analyzing the data
    - Interpreting the data
    - Using the data to target your market
    - Using the data to design your product

- The Aim Step
  - Using outside firms
    - Multifaceted process
      - Assembling questionnaires
      - Conducting interviews
      - Crunching data
      - Analyzing data
  - Objectivity
  - You can't outsource the whole process

Market Validation

- **The Aim Step**
  - Getting the market ready for your product
    - Similarity to the sales process
      - Target market
      - Suspects
      - Prospects
      - Closing
    - Customer use and success stories
      - Case studies
      - References
      - Credibility
    - Press, industry analysts and pundits included
      - Up to speed on your product
      - Know the approach you've taken in evaluating the market

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- The Fire Step

    - How to get a market oriented product out quickly
    - Written product specifications and schedules
    - Design Partner Programs, Advisory Board Programs
    - Launch
    - Sustained sales and marketing efforts

- The Fire Step
  - How to get a market oriented product out quickly
    - Tightly targeted, narrow markets
    - Minimally acceptable feature sets
    - Fast product iterations
    - Why quality doesn't always matter

- The Fire Step
  - Written product specifications and schedules
    - Market Validation team of engineering and marketing talent
    - Written product specs
    - Written schedules
    - Killing features early in the development process
    - The product manager

Market Validation

- The Fire Step

  - Design Partner Programs
    - Drawn from target market
    - Product usage and design
    - 10-20% of your primary research base
    - Complete understanding of usability usage, and support issues
    - Early sales pipeline
    - Case studies for launch efforts

  - Advisory Board Programs
    - Drawn from target market and analysts
    - Executives in your buying chain
      - Economic buyer, user buyer, installer, supporter, budget owner, …
    - Sales pipeline
    - Case studies for launch efforts

Market Validation

- The Fire Step
  - Launch
    - Been through it before with Ready and Aim steps of Market Validation process
    - Large amount of supporting content
      - Ready step data
      - Aim step data
      - Early users, analysts and executive
    - Fact based approach to product development should be emphasized
    - Budget is a critical universal benchmark for success…

Market Validation

- The Fire Step
    - Sustained sales and marketing efforts
        - Budget for first year sales and marketing needs to equal the budget for development
        - No excuses; this is the only way to assure the market is made aware of what you're offering

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