



Finding a Viable Market

Quantifying the True Opportunity for Your Innovation

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Overview

Identifying a viable market for a new product or business starts by understanding what is happening in the market. In this document, we'll explore:

- Industry - is the opportunity large enough to pursue?
 - Size/trends
 - Segments within the market
 - Funnel from total market, to who will actually buy your product and why
- Competition
 - Who's competing currently; directly or indirectly
 - Who might be competing in the future given the trends
 - How entrenched is inertia as a competitor (ie: what are the odds that the target customer will continue to do nothing)
- Channel/Distribution
 - How you will reach your customer
 - How much it will cost
- Lifetime value of the customer
 - Understand the costs and effort to acquire, engage and retain customers
 - Confirm you'll make more money than the cost to acquire and service clients

Market Size

The primary goal is to understand how big the market is. Try to answer the following questions:

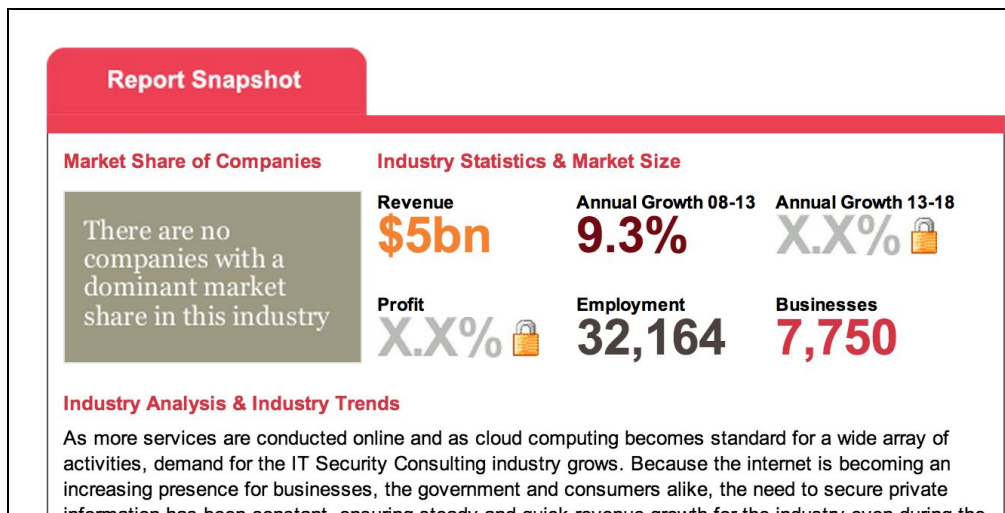
- How many people are affected by the problem you're solving? Is it hundreds? Millions?
- How much money are people spending annually to solve this problem? (Look for industry reports for total spending in the category.)
- Is the market trending up or down? (Look at total revenue and venture investment.)
- Who is being served? Who is being underserved?

Sizing the Market

Identifying market sizes intimidates a lot of people. However, there are many resources available that make it easy. The sites below can help you gain perspective. While most of these require you to purchase their full reports, you will often find useful summaries and charts that will outline the information you need.

The goal is to identify how attractive the market is. However, keep in mind that the opportunity for your specific product is much smaller than the market as a whole. You will continue to get more specific information over time. At this stage, you want to know it's big enough to gain the support of your investors.

1. [Cbinsights.com/industry-analytics](https://www.cbinsights.com/industry-analytics) - a great site for industry trends, investment activity and key startups. Two week free trial will give comprehensive access and newsletter regularly send valuable and free information.
2. [Forrester.com](https://www.forrester.com) and [Gartner.com](https://www.gartner.com) are two of the leading industry analyst sites. Paid engagements will give you direct access to the analysts, but you can often find their industry reports distributed for free and can offer relevant high-level information.
3. [Hoovers.com](https://www.hoovers.com) - a standard provider of high-level information across a number of industries.
4. [Ibisworld.com](https://www.ibisworld.com) a simple tool to gather industry research statistics related to a company's space providing estimated revenue, number of employees, growth rate and companies in the category.



5. Marketsandmarkets.com and Intel.com - paid reports across a wide range of industries but often offer at-a-glance numbers of how big a market is and in different geographies.

Here are a couple other ways to discover market information and insights:

1. Do a web search (e.g. Google.com) for an industry or company name plus the words "market size" or "size of <industry name> industry" or even a competitive company name plus the words "market share" Examples: Cognitive computing market size, size of cognitive computing industry and IBM Watson market share.
2. Facebook Ads offer detailed targeting. By going through the steps of creating an ad, you'll gain insights into how big the market is based on number of users meeting your description. You can also do the same with Google Keyword Manager to find the volume of queries related to your keywords of interest as well as what you'd pay for each click on a keyword. The higher the price, the more valuable the market.

Once we have this information, we can start to define how much of that market we can reach and ultimately convert. These should be informed decisions, but recognize they will be guesses. We will confirm our assumptions and continue to refine this data to see if we have a business in a market we can win.

The better your customer is defined, the more precise you can be with estimating the market size. Rather than use a general description of "Consumer" add a little more detail. For example, Wal-Mart segments consumers into three groups:

1. "Value-price shoppers" (customers who like low prices and cannot afford much more)
2. "Brand aspirational" (people with low incomes who are obsessed with brand name goods)

3. “Price-sensitive affluents” (wealthier shoppers who love bargains)

Alternatively, identify what the consumer is trying to address: functional, social, emotional or basic need.

The following details can help identify the customer segment.

- Is it a business or consumer?
- If a business, how big is it?
- If a consumer, what age group and/or gender?
- What is at least one interesting detail about them?
- Details can be based on geography, demographics, psychographics, or behavior.

Market Trends

Knowing how a market is trending (up or down) is important for managing your business and expectations. The following are some good sites for discovering information about the markets and its trends.

- Startup and Investment Research: <https://www.cbinsights.com/> (valuable for investing trends, investors and companies in the market)
CB Insights mines terabytes of information in patents, venture capital financings, M&A transactions, hiring, startup and investor websites, news sentiment, social media chatter, and more.
- Search trends to identify growth/decline/seasonality <http://www.google.com/trends>
Google Trends shows how often a particular search-term is entered relative to the total search-volume across various regions of the world, and in various languages.
- Industry Trends
<https://www2.deloitte.com/us/en/pages/outlooks/industry-outlooks.html>
Deloitte explores the trends that will impact a market to prepare companies to navigate the year ahead. These free industry outlook papers provide high-level insights into the business conditions.

Whether you’re selling your investors or your spouse, information that shows a growing and lucrative market is a huge positive.

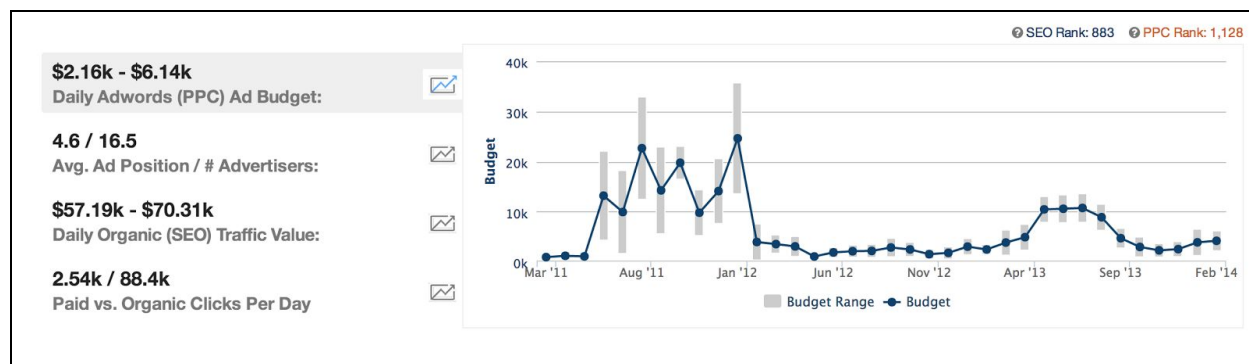
Competitive Market

It’s always good to understand who your competitors are and what they’re doing. Knowing who is serving your target audience is important for your own positioning. We want to provide an overview of the entire competitive environment. A deep dive into specific

competitors can come later. Don't forget — competition is frequently an end user choosing to do nothing.


Taivara uses a handful of powerful and free tools to assess competition and can start to put data behind some of the assumptions. The following are some of our favorites.

SpyFu



This is one of the best resources to see what your competition is paying in advertising. It will show the top organic (non-paid search results) and paid competitors (companies that have bought ads for your keywords), along with profitable ad campaigns, daily clicks, and costs per click. Spyfu will show who they think the competitors are for any URL you submit. This can be helpful in early information gathering. <http://www.spyfu.com/>

StatsShow



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(↑+15%)

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Statistical Summary: fireeye.com rank has increased 15% over the last 3 months. fireeye.com was launched at July 24, 2003 and is 13 years and 196 days. It reaches roughly **26,220** users and delivers about **57,720** pageviews each month. Its estimated monthly revenue is **\$167.40**. We estimate the value of fireeye.com to be around **\$2,220,000,000.00**. The domain fireeye.com uses a *Commercial* suffix and its server(s) are located in *unknown* with the IP number 208.94.146.81. fireeye.com is also listed on Dmoz.

Webmaster and SEO Tools

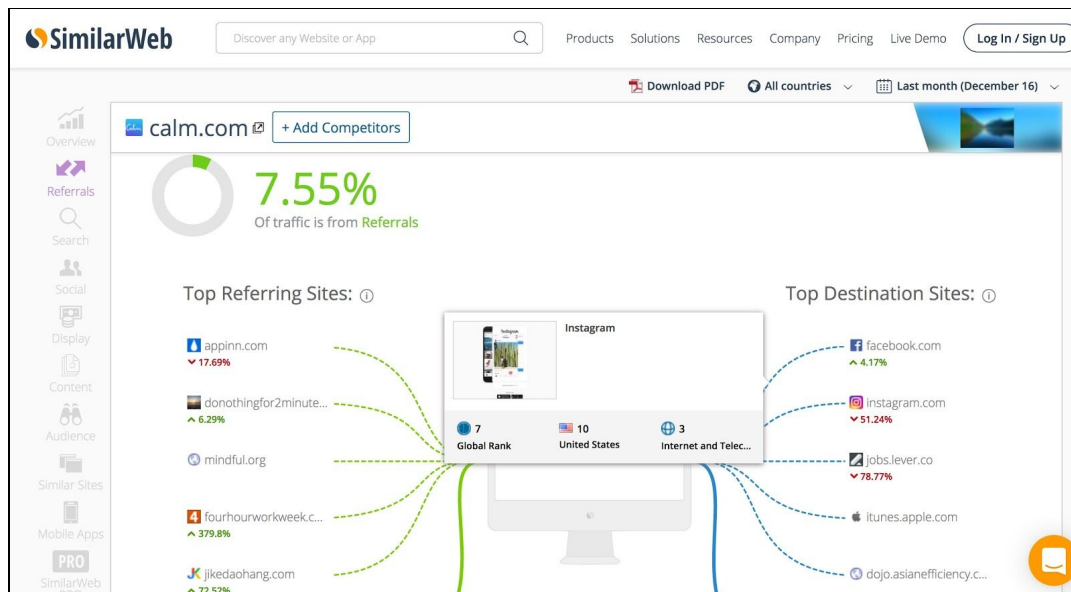
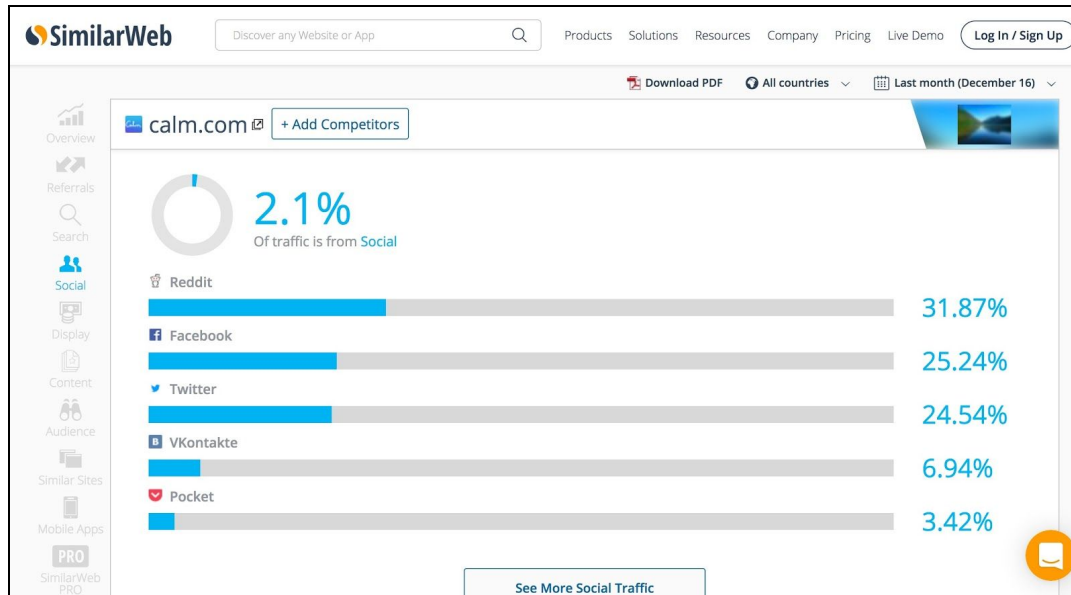
[View more domains on this server](#) | [Nslookup](#) | [Page load speed](#) | [Ping](#) | [Keyword Density Check](#)

Company information of fireeye.com

Company Name: FireEye, Inc.

StatsShow provides a single summary of business information, search performance, backlinks estimation, Alexa ranking, bounce rates and time-on-site stats. Great for a fast and comprehensive overview of metrics that indicate if your site is resonating with people on the web. <http://www.statshow.com/>

SimilarWeb



This site is the one-stop-solution for all things web traffic. It can give an estimation of traffic, site referrals; organic vs paid search terms (with referring search engines), social pages generating the most conversation about your site, and the general interests of your audience. You'll get a sense of where you rank against your competition as well as opportunities for traffic that you may be missing. There's a Pro version where you can do an even deeper dive.

<http://www.similarweb.com/>

Is This a Sustainable Business?

Lifetime value (LTV) of the customer is important for comparing tactical marketing programs and channels. It also helps you understand the acquisition costs of customers and if you have a scalable business. The cost of acquiring a user should be less than the total revenue made from a user. Realize, however, this is a data point for your business and not a strategy for long-term success as efficient markets will always squeeze margins over time.

This is a simplified version of the LTV formula:

$$LTV = \sum_{x=1}^n \frac{ARPU_x - Costs_x}{(1 + WACC)^x} - SAC$$

The key statistics are as follows:

- ARPU - average revenue per user
- n - Avg. Cust. Lifetime (This is the inverse of the churn, $n=1/[\text{annual churn}]$)
- WACC - weighted average cost of capital
- Costs - annual costs to support the user in a given period
- SAC - subscriber acquisition costs, sometimes referred to as CAC = customer acquisition costs

Organic users, users that discover you on their own or by word-of-mouth referrals, typically have a higher Net Present Value, a higher conversion rate, a lower churn, and more satisfaction than customers acquired through marketing spend. Customers that “choose” your product tend to be more satisfied than ones persuaded to buy it through marketing spend. It’s a powerful thing to grow your business through organic growth, growth generated from discovery and sharing, but it’s not a viable path for every business and quantified acquisition cost is essential information to have.

It’s important to know that changing some of these variables will affect others. For example:

- Raising ARPU (price) will likely increase churn
- Spending more on marketing and SAC will rise (assuming a finite amount of opportunities to buy customers, which is true)

- Churn may rise also, as more aggressive marketing programs will likely capture customers of a lower quality
- Strengthening customer service to improve churn, directly impacts future costs, and therefore deteriorates the potential cash flow contribution

As long as the sum of the discounted future cash flows are significantly higher than the SAC, then people will argue it is warranted to “push the accelerator,” which typically means burning capital by aggressively spending on marketing.

The LTV formula, when used correctly, can be a good tactical tool for monitoring and comparing like-minded variable market programs, especially across channels. But like any model, its proper use is entirely dependent on the assumptions used in that model.

Moving Forward

As you conduct your research, you need to keep in mind that you will rarely find definitive answers. This guide is to help you make more educated assumptions for you to test. Chances are slim that you will ever calculate the exact market size, lifetime value, etc. However, using these tools will allow you to make your case to whoever is investing in your idea.