How to Size Your Market and Evaluate an Opportunity

Sean Murphy, SKMurphy Inc.

SDForum KickStart Your Startup

Nov-2-2010

Who's In The Audience?

- ☐ Role
  - ◼ Engineering / Development
  - ◼ Marketing & Business Development
  - ◼ Sales
- ☐ Company Size
  - ◼ Large Company – Many Product Lines
  - ◼ Smaller Company – One Main Product / Line
  - ◼ Startup – First Product

Market Sizing
What Are You Trying To Determine?

- ☐ **Does A Market Exist?**
  - ■ Will Customers Want & Pay For Your Solution?
  - ■ How Can You Differentiate Yourself?
  - ■ How Large Is The Pie?
  - ■ How Many Others Will Share The Pie?
- ☐ Seeking Investment
- ☐ Risk Reducing Milestone

What Brings You Here Today

☐ **Developing a Funding Presentation**

　■ Need a Market Size for Potential Investors

☐ **Considering Developing a Product**

　■ Want to Determine If a Market Exists

☐ **Developing A Product**

　■ What Features Drive Potential Market Share

☐ **Other ?**

Let's Compare Two Pitches

☐ Real Examples From About 2006

■ On-Line Spreadsheets

☐ Pitch 1: Numbers – Market Size Focus

☐ Pitch 2: Customer Focus

Pitch 1: Typical Pitch

- □ $8 B Market

- □ 300-500 Million Excel Seats Worldwide

- □ Product Mix
    - ■ Corporate $5 B
    - ■ Small/Medium Business $2 B
    - ■ SOHO/Personal $1 B

SKMurphy

Pitch 1: Five Year Projections

Pitch 1:Our Powerful Features

- ☐ SaaS
- ☐ Edit Cells
- ☐ Macro Support
- ☐ Addon Store
- ☐ Visual Basic
- ☐ Templates
- ☐ 10 Cursor Styles

- ☐ Click & Drag Cell Merge
- ☐ Auto Fill
- ☐ Multiple Sheets
- ☐ Shortcuts
- ☐ Support 50 Charts
- ☐ Database Interface

Pitch 1: 2% of $8B

☐ This is a 160M Market!

   ■ Your $4M Gives You 10%

   ■ Value at Exit 10 x Sales (160M) = 1.6B

   ■ 10% of 1.6B = 160M For a 40X Return

☐ Product Mix / Channels

   ■ Internet Direct Sales $120M

   ■ Reseller (ISP) Sales $40M

Pitch 2: Understanding Your Market

☐ Problem: Team Sharing a Spreadsheet

☐ Current Solution: Emailing Spreadsheet

- ■ Who has the Latest Copy
- ■ Cannot Read Your Version
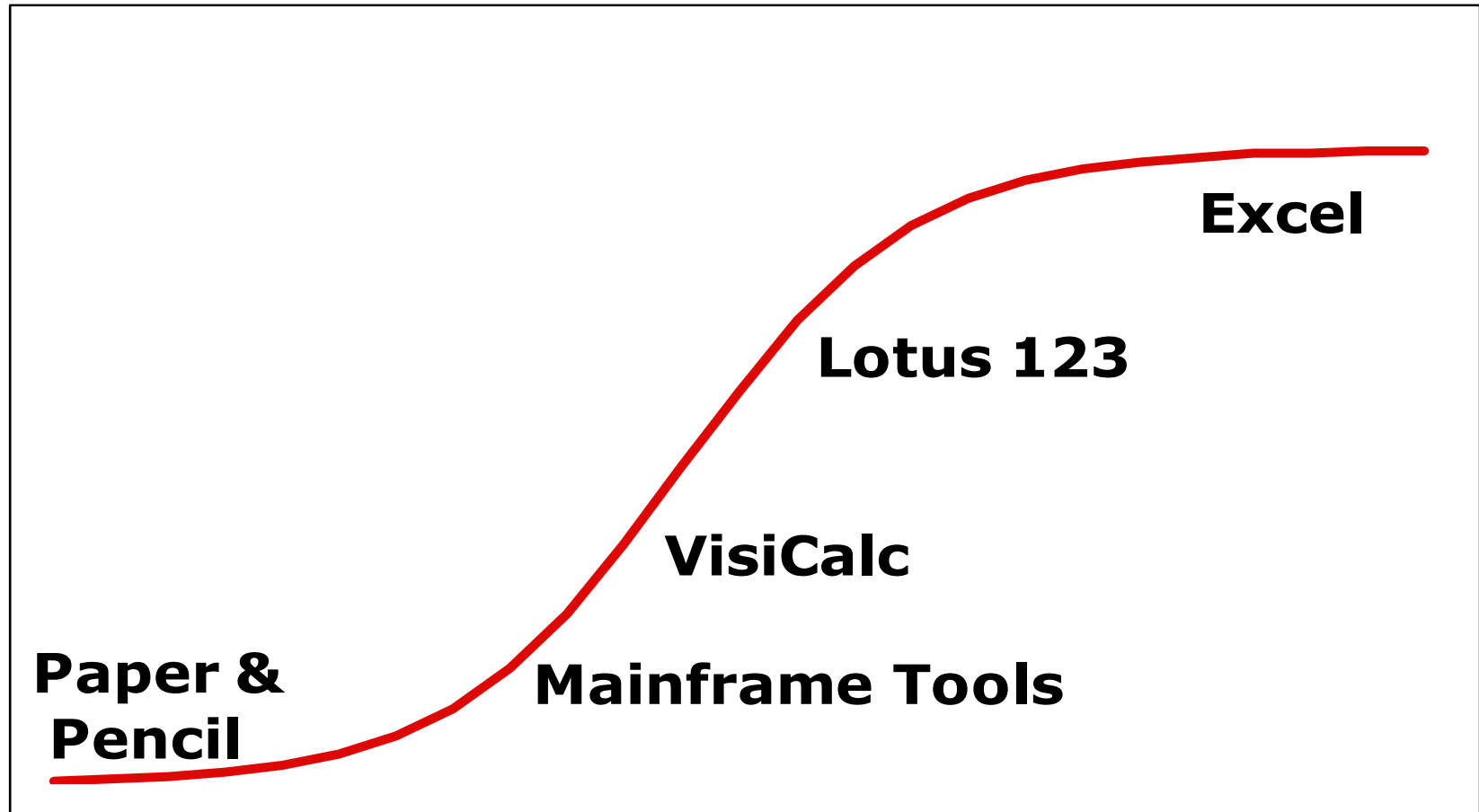 - ☐ Old
  - ☐ New

Pitch 2: Trends Making This Worse?

☐ Global Team

☐ Remote Workers

☐ Work from Home

Pitch 2: Our Initial Niche

- ☐ **High-tech Global Teams**
- ☐ **Why Them?**
  - ■ Early Adopters
  - ■ Global
  - ■ Pain to IT
  - ■ Team Crosses Administrative Boundaries
  - ■ Need to Punch Holes in Firewall for Suppliers

Pitch 2:
Understanding Excel Trends

Excel

Lotus 123

VisiCalc

Paper & Pencil

Mainframe Tools

SKMurphy

Pitch 2:
Team Productivity Is A New Curve

Excel

VisiCalc

EditGrid, Zoho, Google Spreadsheets

Pitch 2: Why Us Not Microsoft?

- ☐ IT is Microsoft's Biggest Customer
    - ■ IT Okay With Email Solution
    - ■ IT Does NOT Want To Solve This Issue
    - ■ Annoyance to IT
- ☐ SaaS Model vs Desktop

Pitch 2:Growth Beyond Initial Niche

☐ $8 B Excel Market

☐ Will Grow Based on Focus on Team Needs

Which Pitch?

☐ Number – Market Size Focus

☐ Customer Focus

What Makes Pitch 2 Compeling?

☐ Clear Understanding of Customer Problem

   ◼ Target Group Poorly Served By Status Quo

   ◼ Trends Making This Worse

☐ Initial Niche – Just The Start

   ◼ Everyone Agrees Market Is Big

☐ Second Group Has Clear Focus: Teams

   ◼ Not Just Moving Excel to SaaS

How To Explore The Market

☐ What You Need To Determine

- ■ Will Customers Pay For Your Solution?
- ■ How Many of them Are There?
- ■ How Can You Differentiate Yourself?
- ■ What Are Alternatives You Need to Position Against

SKMurphy

Large Company Approach

1. Market Research
2. Market Analysis
3. Market Sizing
4. Competitive Analysis
5. Opportunity Assessment
6. Interviews / Focus Groups

Startup Customer Development

- ☐ Leverage Resources Of Your Team
- ☐ In Particular Social Capital
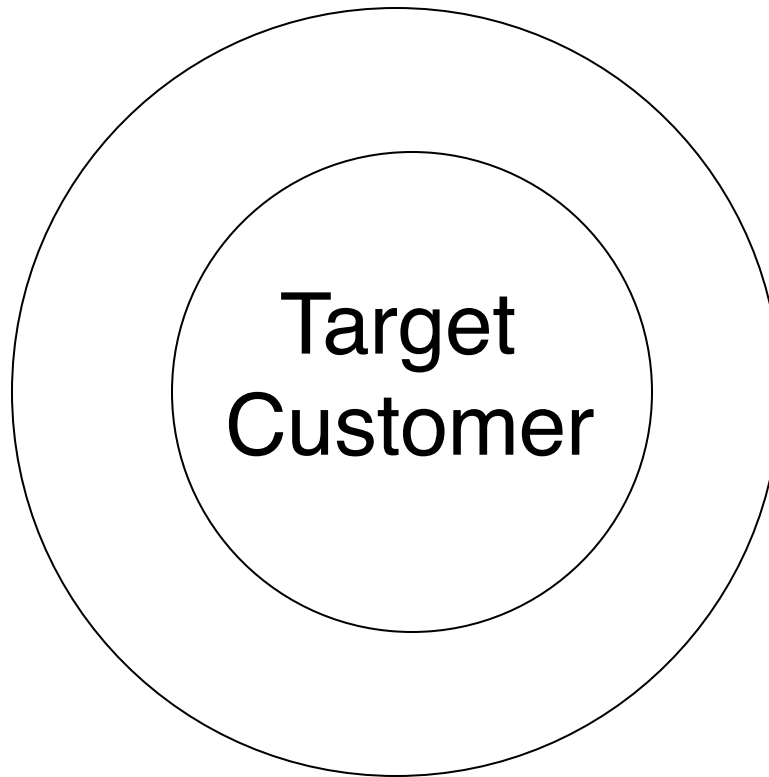- ☐ Use Social Navigation

Trusted Feedback Is Essential

- ☐ Forget Gartner: Talk to 30 People
  - ◼ With Knowledge of Market and/or Technology
  - ◼ These are NOT Sales Calls
- ☐ Spend Social Capital to Ask
  - ◼ Do You Have This Problem?
  - ◼ Tell Me More About Your Problem
  - ◼ Is This Solution Interesting? Is It Compelling?
  - ◼ What Doesn't Work? How To Improve?

How To Reach a Target Customer?

You

Target Customer
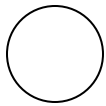
Social Navigation

- ☐ **Networking With a Goal**
  - ■ Clear Criteria For Target (Updated As You Go)
- ☐ **Costs**
  - ■ Spending / Enhancing Established Trust
- ☐ **Transactions**
  - ■ Introductions
  - ■ Serious Conversation
  - ■ Follow-Up

SKMurphy

Social Capital

- ☐ Relationships & "People Skills"
  - ■ Prior Shared Success that You can Reactivate
- ☐ You Will Spend Social Capital On
  - ■ Trusted Feedback
  - ■ Finding Prospects
  - ■ Early Sales

SKMurphy

Navigating To Trusted Feedback
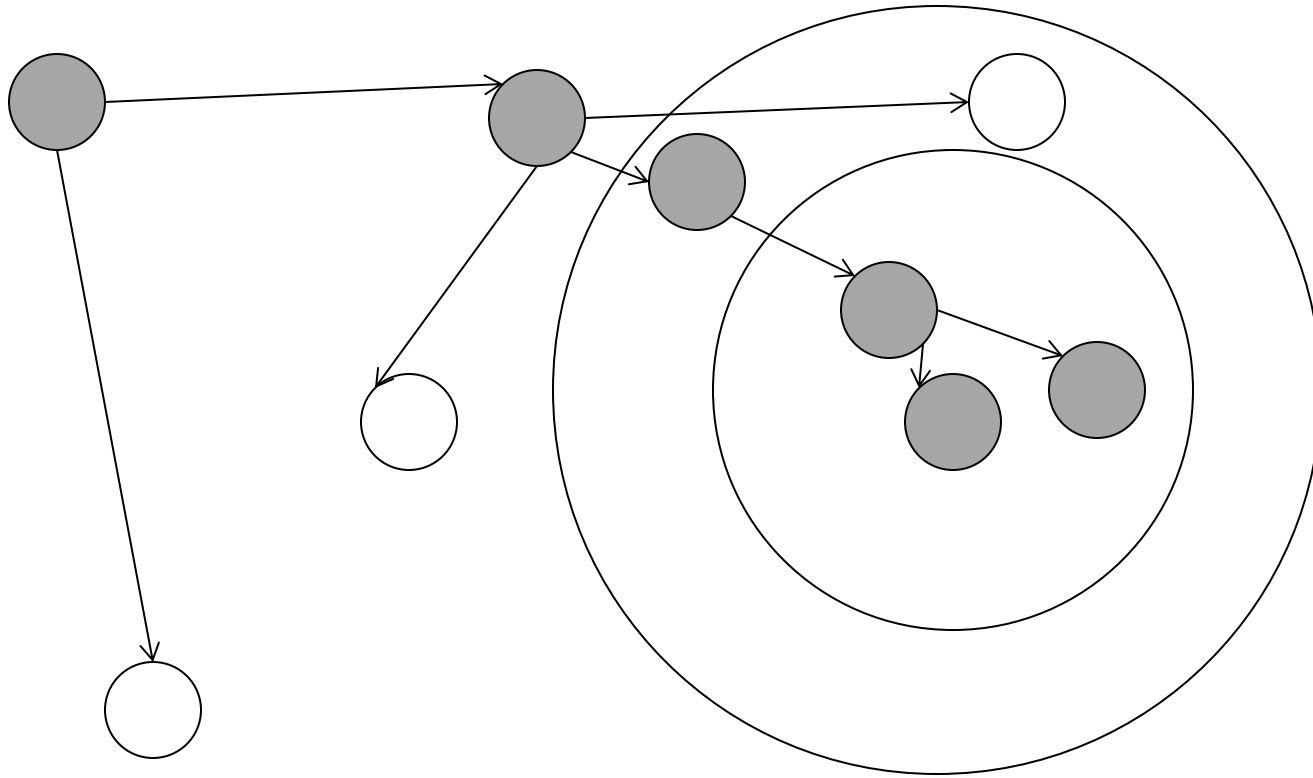
Word of Caution:
Don't Start with a Broadcast

- ☐ Email, Forum Posting, etc..
- ☐ This Is Junk Mail Addressed to "Occupant"
  - ■ Least Engaging, Least Energizing
  - ■ It Doesn't Build Relationships
- ☐ You Know the Least,
  - ■ Message is Weakest
  - ■ Selection Criteria Still Fuzzy

A Serious Conversation Is Always An Opportunity

- ☐ Most New Products are Incomplete
  - ■ What's Missing To Make it Compelling
- ☐ What Other Problems are Top of Mind?
- ☐ If They Ask For Help On Another Problem
  - ■ Carry More Than Your Own Bag
  - ■ Vector Them Inside Your Firm
  - ■ Introduce Them to Other Firms

SKMurphy

Outcomes From Conversation

1. Do Not Have Need / Problem

   ■ Not a Fit – Revise Target Selection Criteria

2. Have Problem, No Interest in Solution

   ■ Why – What's Missing Or Mis-Assessed

   ■ What Are They Interested In

   ■ Revise Criteria

3. Have Problem, Interested In More Info

   Always Close Loop With Introducer

Exercise - Prior Shared Successes

- ☐ Make a List of Projects You Have Worked on in the Last 5-10 years
- ☐ Pick 6 initially but Expand Later
- ☐ Project Achieved Result From Teamwork
- ☐ Result Viewed as Shared Success

Prior Shared Successes Part 2 For Each Project List People

- ☐ Nature of Success
  - ■ Identify Their Contribution
  - ■ Use For Reconnection, Testimonial, Thanks
- ☐ Where are They Now?
  - ■ (do you have phone # or e-mail)
- ☐ When Did You Last Speak or E-Mail?

Let's Take Five Minutes

Prior Shared Success - Debrief

☐ How Did it Feel to Answer These Questions?

☐ Who Came Away With Someone They Should Re-Connect With?

Circle Two People And Reach Out This Week

Prior Shared Success – Next Steps

- ☐ Consider Updating This List Going Forward
- ☐ Send A Thank You Note
- ☐ Write a LinkedIn Endorsement
- ☐ Hold a Re-union of Project Team
- ☐ As Your Situation Changes, See If You Can Assist These Folks

Market Exploration Looks Good

☐ Buyers Not Well Served By Status Quo

☐ Clear Pain

☐ Reason Why the Problem is Getting Worse

■ May Start Out Small

■ Will Grow Large

Example: On-line Spreadsheets

- ☐ **Not Well Served: Group Collaboration**
- ☐ **Email In Box Pain**
  - ■ Where Is Current Copy?
  - ■ One Or More Team Members Cannot Read That Version
- ☐ **Global Teams Make It Worse**

How Big Is The Market?

☐ Bottoms Up: A*B*C = Market Size Where
   A = # of Customers
   B = Average Transaction Size
   C = # Transactions Per Customer (Yearly)

Challenge Can Be # of Customers

- ☐ Part Of Your Market Exploration
- ☐ Titles, Professions, Business Size
- ☐ Where: Geography, Industry, Verticals
- ☐ Triggers For Buy Decision
    - ■ E.g. Regulatory Deadlines (Taxes)
    - ■ Related to Other Purchases (e.g. New Home)
    - ■ New Employee Hiring

Distinguish Between Available and Addressable Market

- ☐ TAM: Total Available Market
  - ■ Total Revenue of All Competitors / Total Spend
- ☐ SAM: Served Available Market
  - ■ Also Called Addressable Market
  - ■ Portion of TAM You Can Actually Serve
  - ■ Typical Limits: Geography, Industry, Features
    - ☐ Channels / Distribution Models Also Key

About SKMurphy, Inc.

- ☐ We Offer Strategy and Business Development Consulting & Products
- ☐ Our Focus is on Software Entrepreneurs
- ☐ We Help Them Find
  - ■ Early Customers / Early References
  - ■ Early Revenue

SKMurphy

Thanks For Your Time

Innovation is Psychological and Cultural

Technology Does Not Drive Change At All.

Technology Merely Enables Change.

It's Our Collective Cultural Response

To The Options And Opportunities

Presented By Technology

That Drives Change.

Paul Saffo

SKMurphy

Drucker on Innovation

"Innovation requires us to systematically identify changes that have already occurred but whose full effects have not yet been felt, and then to look at them as opportunities. It also requires existing companies to abandon rather than defend yesterday."

Innovation & Entrepreneurship (1985)

Sources of Innovation: How to Systematically Search for Opportunities

- ☐ The Unexpected
- ☐ The Incongruous
- ☐ Weak Link In Existing Process
- ☐ Industry Or Market Structure Change
- ☐ Demographics: Size, Age Structure
- ☐ New Zeitgeist: Perception, Mood, Meaning
- ☐ New Knowledge