

Validating and Testing Your Idea

Enterprise Series Workshop

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Why bother?

- Key entrepreneurial responsibility
- Sets expectations of investors, employees and alliance partners
- Terrific way to establish credibility
- Avoids commercializing the wrong product
- Avoids developing a product with no market
- Curtails a start-up destined to fail

Agenda

- What's the product?
- Serving an existing market
- Serving a new market
- Who's the customer?
- Costs and pricing
- Assessment methods
- Market research: Promise
- Market research: Problems
- Accuracy of estimates
- Customer attitudes
- Adoption dynamics
- High tech products
- Estimating latent demand
- Available market
- Market access
- Distribution
- What next?
- Contact Information

What's the product?

- Precise definition is key
 - Must define in order to assess market opportunity
 - Must define in order to develop the right product
- Who's the user, and what are the benefits of use?
- How is it like and unlike competitive products — exactly?
- Will the product or service be sold, leased or donated for consideration?

Serving an existing market

- Market expansion unlikely; must take share
- More accurate estimates
- Easier to describe product to prospective customers
- Usually easier to establish purchasing criteria and customer profiles

Serving a new market

- Must create the market
- Little or no immediate competition
- Must face up to the adoption process
- Must fully explain product and its benefits to all prospective customers
- Certainly more scrutiny; must overcome inherent conservatism

Who's the customer?

- The essential question: Who must be satisfied in order to achieve success?
- Clearly, the user must be satisfied
- The purchaser must be satisfied, too; who is that?
- Is there also a payer who must be satisfied?
- Common failing: Focusing exclusively on user acceptance

Costs and pricing

- NEVER confuse cost with price:
 - Your operations set the cost
 - The “market” sets the price
- To assess opportunity, you must accurately estimate product pricing at the customer level and through all distribution channels
- And, you must project pricing over the product’s viable lifetime
- Base your pricing model on comparable competitive products whenever possible

Assessment methods

1. Start with published info, then extrapolate as appropriate for the defined product
 - Suitable for judging rough scale of opportunity, e.g. \$2 M versus \$20 M
2. Ask some prospective customers whether and under what circumstances they would buy
 - Sanity check used by professional investors in due diligence

Assessment methods

3. Use actual purchasing data to project market share by comparing all product offerings
 - Useful for ongoing budget-setting and commissioning
4. Conduct exhaustive surveys of customers, channels and competitors in all market segments
 - Useful for strategic planning, setting goals and expectations, and justifying investment

Market research: Promise

- Market research is a tool for opportunity assessment:
 1. Define your product and its various customers
 2. Characterize its available market
 3. Quantify that market (not the one described in the report on your shelf)
 4. Methods are well known: published data, competitor interviews, customer interviews, focus groups, industry experts, etc.
- Should be conducted thoughtfully using methods appropriate to circumstances
- Poorly executed research is worse than none at all

Market research: Problems

- Not being objective
- Inadequately defining your product for intended users
- Not talking to prospective customers at all
- Taking published market research data at face value
- Conducting focus groups without full product explanations
- Failing to fairly compensate interview respondents for their time and expertise
- Fudging market potential to match arbitrary revenue growth targets

Accuracy of estimates

- Absurd obsession with accuracy of market-size estimates
- \$102 M or \$122 M? It doesn't matter; it won't change decisions or behavior
- Uncertainty for existing markets is $\pm 20\%$; much greater for new markets
- What really matters are the analysis, the insights, the decision support, and the credibility conveyed by the assessment

Customer attitudes

- Prospective customers lie!
 - When not asked the right questions
 - When not expertly led to disclose their real attitudes
 - Because they're human and wish to please
- Must work through respondent attitudes and biases to answer the essential question:
 - What will it take for this prospective customer to choose, champion and routinely use your new product?

Customer attitudes

- No magic formula
- Engage prospective customers in a structured dialog:
 1. Fully describe your new product and its intended use in sufficient detail
 2. Address both apparent benefits and limitations
 3. Listen carefully to reactions and questions posed
 4. Summarize what was heard to be sure it was heard right

Adoption dynamics

- One can always make quick sales to early adopters, but these sales will not sustain a business
- You must convince the larger body of mainstream users to adopt your new product, and that requires resources and time
- The opinions and rationales you hear during opportunity assessment will establish the basis of your sales projection over time and the resources required to achieve it

High-tech products

- If your prospective product is “high tech”, don’t tout it as such
- In the minds of mainstream users, high tech = hard to learn, hard to use, and expensive
- Just describe the product and its benefits
- Early adopters with an affinity for high-tech stuff will recognize the attribute anyway

Estimating latent demand

- Latent Demand = Available Market = maximum number of units that would be purchased annually in the region of interest after the market has been fully saturated
- The Available Market can then be discounted to yield sales projections by accounting for adoption dynamics and share trends over time

Available market

Capital Equipment

1. Number of accessible sites of use
2. Fraction of sites that would deploy
3. Number of units per site

Supplies

1. Number of uses (procedures) per year
2. Fraction of uses involving product
3. Number of units consumed per procedure

Market access

- You will almost certainly overestimate your ability to access customers
- If your product requires a “concept selling” phase you will want direct access for some period of time (6-24 months)
- Otherwise, consider the use of distributors or marketing partners in your plans and in your opportunity assessment process

Distribution

- Objective: Engage a powerful ally to offset lower revenue per sale by achieving (much) greater volume
- Customers often prefer dealing with a few powerful firms — more efficient and more comfortable
- You must craft mutually beneficial relationships with channel partners
- Don't let the distribution process de-emphasize or derail your marketing program; it's always needed

What next?

If all looks favorable:

- Solidify your plans
- Document your findings and rationale
- Sell your validated ideas to potential investors, alliance partners, and prospective employees

If you find defects:

- Adjust your expectations and plans
- Consider redefining your product(s)
- If necessary, alter your business model
- Re-validate

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