

Validating the Market For Your New Venture

A Canadian Innovation Centre
How-To Guide

What is Market Research?

- Process of gathering, recording and analyzing data about customers, competitors and market
- Learn more about current and potential customers needs and behaviours
- Used to launch a new product/service, fine tune an existing one or expand into new markets
- Used to provide insights on customer adoption
- Used to help create the business plan and identify growth potential and resource requirements



Entrepreneurial Market Research

- Used to validate the initial idea
- Helps determine if there is a real need
- Provides input on how to market the product.
- Helps to reduce risks at the earliest stage
- Helps to identify specific features of importance
- Provides confidence to allow you to move to planning the build-up of your business



Why is it important?

- Helps companies make better business decisions about development, launch and marketing of new products
- Understand customer's "pain" or need
 - Which are important?
 - Are the needs being met by current products?
- Get a pulse on what's happening and trends in the market the competitors
- Provides a vehicle to engage potential stakeholders

Market research vs. market validation

Market research is used to provide insights into the overall market for a specific technology product or service, with limited reference to the specific innovation.

Market validation looks at a specific innovation, identifies how it will fit into the market and likely competitor reaction.

The first is usually seen as top down and the second bottom up.

It is important to use a third party to perform this type of work to avoid bias and blindspots

Types of Research

- Primary research - Primary data is original information gathered for a specific purpose.
- Secondary research – Already exists and has been collected
 - Faster and less expensive
 - Helps identify or better define the problem
 - Helps to interpret primary data more insightfully
 - Sets up the primary interview questions

Collecting Data

- Telephone surveys, mail surveys, personal interviews or group surveys
- Ask questions or observe
- Structured - Structured questionnaires list close-end questions and
- Unstructured - open-ended questions. Respondents can answer in their own words

Market Validation: Critical Questions

- What is the proposed product or service?
- What is the underlying technology and business model?
- How have you validated that the market/opportunity exists (personal research, third party feedback)?
- Who are current/future potential competitors, how will you compete?
- What are the longer term opportunities for growth?
- Can you develop a realistic timescale?
- What needs to be done to turn this opportunity into a viable opportunity and what resources do you need?



Assessing the need

Applies to both products and services:

- What is the need?
- Can you meet it?
- Can you sell it for more than it costs you to produce?
- How will competitors react?

How do existing companies identify needs and how can you take advantage of this?

Existing companies

- Talk to existing customers – stay in same markets
- Look for enhancements to current products
- Focus on improving existing technology

New ventures

- Identify unmet needs
- Address gaps in current market
- Don't worry about upsetting current customers



New companies can beat existing companies in the market

- Overcome core rigidities of current suppliers who can not re-organize to take advantage of new opportunities
- Workaround current market practices, for example by dealing direct with customers
- Address problems of user myopia, which make it difficult for existing companies to reposition product or service
- React more quickly to opportunities and setbacks
- Identify best possible technology from global sources
- Create strategic new partnerships quickly



The most important thing for a new venture is to understand technology adoption patterns

Launching a disruptive product or service requires you to:

- Understand the characteristics of early adopters and find a way to engage them in your launch
- Identify how subsequent customers will make their purchase decision
- Develop specific mechanisms to help early adopters satisfaction with the product or service tell others
- Embed feedback and feed forward into your communications strategy that engages directly with customers



Diffusion of innovation

Categories and Characteristics

- innovators (2.5%) - venturesome, educated, multiple info sources, greater propensity to take risk
- early adopters (13.5%) - social leaders, popular, educated
- early majority (34%) - deliberate, many informal social contacts
- late majority (34%) - skeptical, traditional, lower socio-economic status
- laggards (16%) - neighbours and friends are main info sources, fear of debt

Five stage model for the diffusion of innovation:

- *Knowledge* - learning about the existence and function of the innovation
- *Persuasion* - becoming convinced of the value of the innovation
- *Decision* - committing to the adoption of the innovation
- *Implementation* - putting it to use
- *Confirmation* - the ultimate acceptance (or rejection) of the innovation

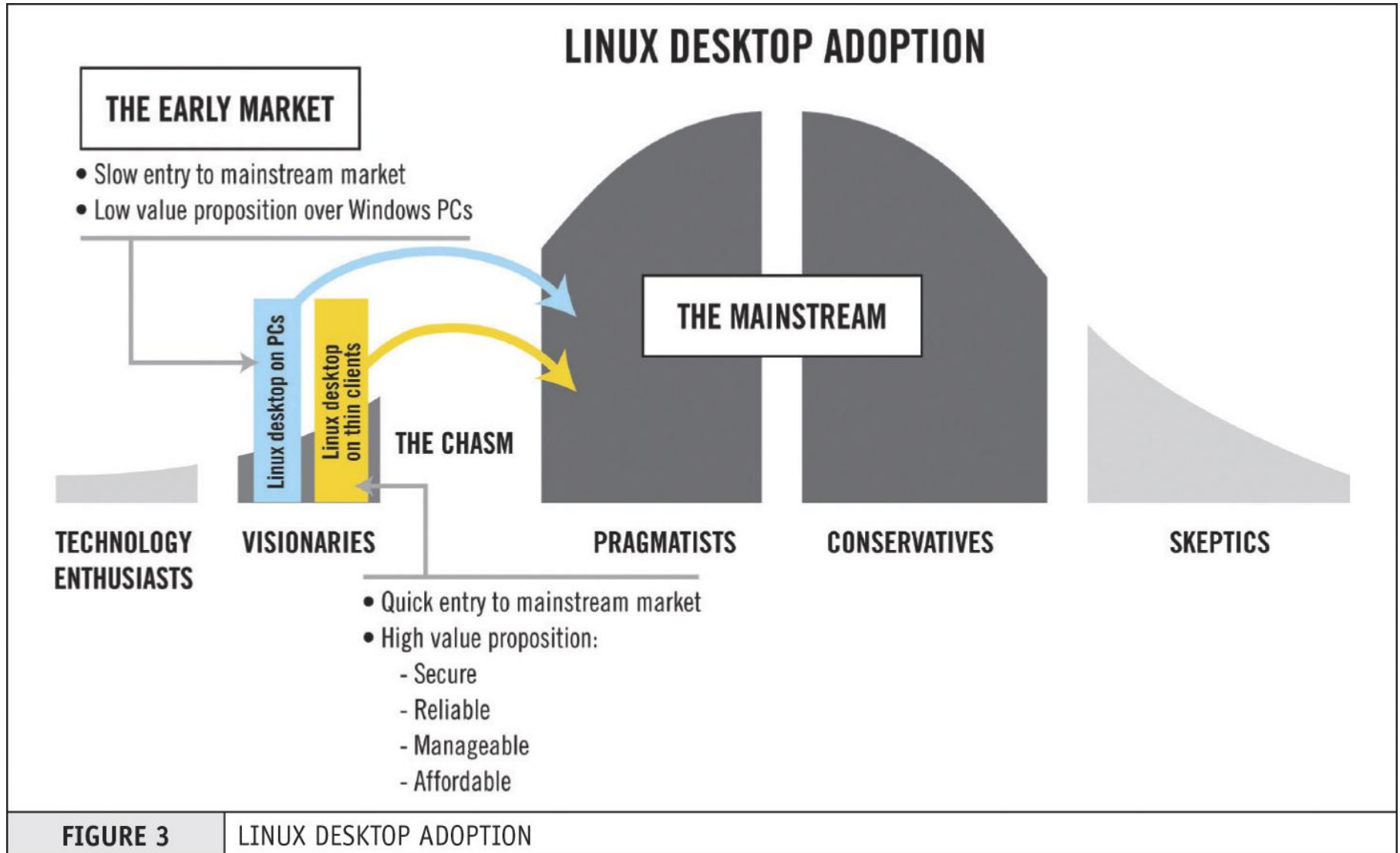
Source Rogers, E. Diffusion of Innovation 1983

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Crossing the chasm



(Based on model originally depicted in *Crossing the Chasm*, by Geoffrey Moore)

How to identify market size

Three stages:

1. Identify initial customers who are willing to adopt product/service based on features/benefits and ask them how they will make their purchase decision.
2. Identify strategy to get product into mainstream and identify potential users in larger, but focused, market.
3. Identify broader market opportunities, either by extending original market geographically or to other applications, or by identifying parallel applications.

This approach can then be used to help you calculate forecast revenues and the resources required to achieve them.



Two approaches to identifying market size

Macro economic

- Market size and trends - Number of people and demographics
- Competition – who, how many, price, distribution, brand
- Channel to market
- Regulatory issues

Micro economic

- Who is likely to be your first customer
- Why do they need your solution - vitamin or pain killer
- What will make them buy
- What else needs to happen to start sales (i.e. strategic partners)

The micro-economic approach is better and will not only help you identify market size, but provide insights into the identification of early customers and how to approach them.



The results of your market research should shape your go-to-market plan

- Define initial target market segment
 - Identify key characteristics, needs and buyer behaviour
 - Identify competition (including do nothing and DIY)
 - Identify early adopters
- Develop market launch
 - Identify specific first customers
 - Develop detailed action plan to overcome adoption issues
 - Build partnerships and develop strategies to gain acceptance
- Build feedback and ongoing interaction into your launch strategy
- Be prepared to rapidly adapt your plan, speed up, slow down and be ready for the big opportunity – then jump on it.



Validating the market for your new venture: Take-Aways

- Market research is used to launch a new product/service, fine tune an existing one or expand into new markets
- Helps make better business decisions
- Critical questions for new ventures:
 - Is there a market?
 - Is there competitive advantage?
 - Can we make money?
- Use research to confirm opportunity, build links with stakeholders and guide the Go-to-market plan



Appendix 1: Market Research Links

- Canada Business Service Centre

http://www.cbsc.org/servlet/ContentServer?pagename=CBSC_ON%2Fdisplay&lang=en&cid=1081945275683&c=GuideFactSheet

- GD Sourcing <http://www.gdsourcing.com/works/conmarket.htm#geographic>

- GD Sourcing - Canadian Market Research Resources

<http://www.gdsourcing.ca/works/conmarket3.asp#5>

- Interntaional Market Research Reports

<http://strategis.ic.gc.ca/epic/internet/inimr-ri2.nsf/en/gr-01000e.html>

Similar to the CIA fact book

- Researching Markets – Canada & US

http://strategis.ic.gc.ca/sc_x/engdoc/researching_markets.html?guides=e_res



Appendix 2: Market validation services from the Canadian Innovation Centre

- The Canadian Innovation Centre (CIC) has helped many entrepreneurs validate their markets
- The CIC's Market Evaluation Validation (MEV) service focuses on the issues around the adoption of your new product / service
- MEV employs both primary and secondary research
- The result is a very focused report targeted at the questions that are most critical to your business
- For more information, visit

www.innovationcentre.ca/services/innovation-management-services/

