

Market segmentation

The single necessary and sufficient condition for a business is a paying customer. The process starts not by focusing on the idea, but on who will be the end user. Therefore, you will focus on the customer and build the company from the endpoint, rather than trying to push out on the customer what we think they need. This is the first in a series of steps which will help you *define*, *test* and *understand* who your customer is.

In this first step, two things are critical:

- **See the world through the eyes of your customer.** Just because you want something, doesn't mean everybody else does or that they want it in the same way. What you want is not important. Did you start your company with the solution as the center of it—with customers rotating around it? Invert that. See the customer as the hub and the solution rotating around them.
- **Open up your mind.** Brainstorm all potential customers. Who can use your idea or technology? Let a thousand flowers bloom at this point—and stop and smell every one of them! Be careful to make distinct market segments that are not so broad as to be meaningless. For instance, *Market segment: consumers*, tells you absolutely nothing. But, *Market segment: 24–30 year old male, who is online and makes over \$75K per year, lives in urban environment*, tells you something very specific about your customer.

Single-Sided or Multi-Sided Market?

Do you serve only one type of “customer”, or will you serve multiple customers in order to create value? Will your “end-user customer” be different from the “economic-buyer customer”, or do you need both a “buyer” and a “seller”, like eBay, to make your idea work?. Don't confuse *types* with *segments*—a customer type has a very specific need (e.g. hosting for their website), while a segment is a specific group of customers who have that need (e.g. bloggers, SMEs etc.):

- ☐ **Single-sided market** (only one type of customer)
- ☐ **Two-sided market** (two complementary types of customers)
- ☐ **Multi-sided market** (a more complex approach, involving three or more types of customers)

Market Type

B2B (business-to-business) serves other businesses in various industries, while B2C (business-to-consumer) creates products or services which help individual consumers solve personal needs or problems. For multi-sided markets, focus on the primary (end user—i.e., the one who generates value) customer.

- ☐ **B2B** (business-to-business).
- ☐ **B2C** (business-to-consumer).
- ☐ Both.

Brainstorm Market Opportunities

Do primary market research by talking to at least 50 people about your idea and the problem it solves. Then sit down with your team and list all possible customer types. Do you think you have a crazy idea and it won't work? List it anyway, because it opens the aperture and expands the boundary conditions, and close to these boundary conditions may be where some of the most interesting markets will be for you. Open the windows and let as much sun and fresh air in as you possibly can.

- ☐ Get out of the building and talk to people.
- ☐ Brainstorm with your team and list ideas about possible types of customers.
- ☐ Segment these customers based on industry, geographic location, income, user types, and other criteria.
- ☐ List at least 15 potential market segments.

Narrow Down Market Opportunities

Ask the following questions in order to narrow down to the most promising 6-12 segments—but you only need to answer these in general now, to tightly focus your market segments. You will do more research later.

For each segment, evaluate the following aspects:

- ☐ purchasing power;
- ☐ ease of direct access to it;
- ☐ if each has a compelling reason to buy;
- ☐ whether you can deliver a full product (with or without partners);
- ☐ whether there is entrenched competition;
- ☐ whether you can leverage success to expand into other markets if you win this one;
- ☐ whether segment is compatible with values/passion and goals of funding team.

Research In-Depth Your Primary Market

Dig for more data on each segment, and analyze the following:

- ☐ **End users:** who are they, specifically?
- ☐ **Application:** what will they be using your product for?
- ☐ **Benefits:** what actual value do they gain?
- ☐ **Lead customers:** the most influential.
- ☐ **Market characteristics:** what will ease or hinder adoption of the new technology?
- ☐ **Partners and players:** who do you need in order to deliver value to the customer?
- ☐ **Market size:** how many customers is 100% of the market?
- ☐ **Competition:** who else tries to solve the same need or problem?
- ☐ **Complementary assets required:** what else does the customer need to get a full solution to his problems or needs?

Market Segmentation Conclusion

At this point you should have brainstormed a number of potential market segments for your idea without choosing one;—the choosing will come later.

In doing this exercise with your team, you will have started to get yourself and your team in the right mindset—*let's build this company with the customer at the forefront of our minds*. You will also have started the important process of doing primary market research. As you go forward, this will be a crucial skill employed many times your team. Remember, you need to do market research in *inquiry mode*, not advocacy mode. You are not yet selling. You are investigating and learning what should be done. Don't jump the gun.

Make a list of market segments to further pursue. Try to add enough detail for each segment to be meaningful. E.g.: *Young professionals (25-35) in Western Europe, heavy smartphone users, who are unsatisfied with the conservative and limited features of traditional banks, and want instant, fast and flexible access to all their money, credit cards or investments*. List all the segments in a similar manner.

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