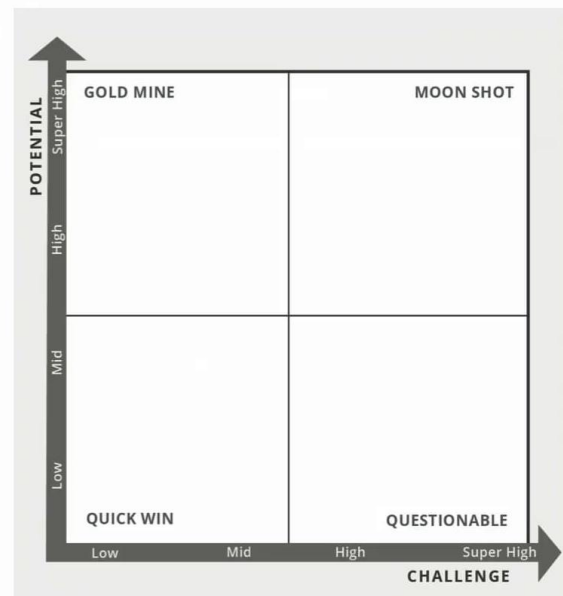


An attractive Market Opportunity

Potential: how BIG is this opportunity? Is it at all worth pursuing? And if so, how much value can we create if we choose this path?

Challenge: which obstacles lie ahead of us if we decide to pursue this option? What are our main challenges and risks? How difficult will it be to overcome them and conquer this opportunity?



Which markets to play in?

Hello and welcome back. In this section, we will explain in details how to estimate the value creation potential of a market opportunity. This is part of the evaluation process which is necessary for mapping your options on the attractiveness map. As we already mentioned, an attractive market opportunity is one that will likely produce significant potential for value creation and it poses relatively few challenges in capturing that value. The potential dimension refers to how big this opportunity is, is it at all worth pursuing, and if so how much value can we create if we choose this path. In the following video, we will describe the different factors that influence the value creation potential of an opportunity and how we should estimate them to evaluate the overall potential. Now that the potential dimension refers to the opportunity in itself regardless of your own capabilities to succeed in it, your ability to successfully explore the market opportunity will be evaluated in the challenge dimension.

Notes

Summary



0m 04s

Worksheet 2: Market Opportunity Evaluation

2

WORKSHEET 2
MARKET OPPORTUNITY EVALUATION

NAME
DATE

Use this worksheet for every market opportunity you would like to evaluate.

Market Opportunity:

POTENTIAL

LOW MID HIGH SUPER HIGH

COMPELLING REASON TO BUY
Unmet need
Effective solution
Better than current solutions

LOW MID HIGH SUPER HIGH

MARKET VOLUME
Current market size
Expected growth

LOW MID HIGH SUPER HIGH

ECONOMIC VIABILITY
Margins (value vs. cost)
Customers' ability to pay
Customer stickiness

LOW MID HIGH SUPER HIGH

OVERALL POTENTIAL

LOW MID HIGH SUPER HIGH

OVERALL CHALLENGE



Which markets to play in?

Worksheet 2 provides a clear framework for evaluating the potential and the challenge of a market opportunity. The structured process helps us to make sure that we have not missed any important consideration. The left side of worksheet 2 refers to the potential dimension, which is shaped by three main factors. The idea is to examine and rate each factor separately on a scale from low to super-high, and then combine these ratings into an overall potential score.

Notes

Summary



1m 20s

Value Creation Potential

The potential of a market opportunity is shaped by three primary factors:



Compelling reason to buy

Will someone really want our offer and be willing to pay for it?



Market Volume

How big is this market, now and in the near future?



Economic Viability

Is it worthwhile from a business perspective to pursue this market?

Which markets to play in?

Let's examine the three factors that shape the value creation potential of a market opportunity. The first factor that we need to assess is the compelling reason to buy. If no one wants to buy it, it isn't worth anything. So the first thing that you need to learn about a market opportunity is whether someone will really want what you have to offer. If the compelling reason to buy is low it's probably a no-go because demand will just not fly. The next factor that we need to assess is market volume. Of course satisfying a real need is an important condition for creating value, but it is the market volume that will determine to what extent you can sell your product and create that potential value. To understand market volume, you need to estimate how many customers are expected to face this need in the near future, and how much they will be willing to pay. The size of the market provides key indications for how big this market opportunity is. The last factor for assessing the value creation potential of an opportunity estimates the economic benefit of this option for you without getting into the detailed financial plan. It refers to the basic elements that influence the economic value of a market opportunity to check if it is worthwhile to pursue this option from a business perspective.

Notes

Summary



1m 56s

Use this worksheet for every market opportunity you would like to evaluate.



Market Opportunity:

POTENTIAL



LOW MID HIGH SUPER HIGH

COMPELLING REASON TO BUY

Unmet need
Effective solution
Better than current solutions



LOW MID HIGH SUPER HIGH

MARKET VOLUME

Current market size
Expected growth



LOW MID HIGH SUPER HIGH

ECONOMIC VIABILITY

Margins (value vs. cost)
Customers' ability to pay
Customer stickiness

CHALLENGE



LOW MID HIGH SUPER HIGH

IMPLEMENTATION OBSTACLES

Product development difficulties
Sales and distribution difficulties
Funding challenges



LOW MID HIGH SUPER HIGH

TIME TO REVENUE

Development time
Time between product and market readiness
Length of sale cycle



LOW MID HIGH SUPER HIGH

EXTERNAL RISKS

Competitive threat
3rd party dependencies
Barriers to adoption

OVERALL POTENTIAL

LOW MID HIGH SUPER HIGH



OVERALL CHALLENGE

LOW MID HIGH SUPER HIGH



Use the overall ratings to situate each market opportunity on the Attractiveness Map.

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Which markets to play in?

Let's look in more details on how to assess each of these three factors that shape the potential of a market opportunity. First, the compelling reason to buy.

Notes

Summary





Compelling reason to buy



How to evaluate?

Look deeply into three important questions:

- ? Is there a real unmet need?
- ? Can we provide an effective solution to this need?
- ? Can we address it better than current solutions?



Which markets to play in?

To estimate this factor and rate it from low to super high, we need to look deeply into three important questions. First is there a real unmet need? Think carefully about the problem that you are addressing, who exactly has this need, how do they currently solve the problem. Do they make any effort to actually solve the problem and is it a nice-to-have or a must-have offer. Next you should ask yourself if your firm can provide an effective solution to this need. Can you fully address it and provide your customers with a whole solution? What strengths do you have that allow you to address this need or do this job well, and what weaknesses do you have that hinder you from addressing this need? Lastly think carefully if you can address this need better than current solutions. To be able to answer this question, you first need to understand what other solutions exist for your customers, and then think what are the upsides of your solution relative to others. Why would customers prefer your product, and just as important, why would customers not prefer your product. In other words, are the advantages of your solution really meaningful for your customers. Once you thoroughly go over these three questions and strive to provide an honest answer, you will be able to score your compelling reason to buy.

Notes

Summary



3m 43s



Compelling reason to buy



Important to Remember

The only way to score this factor is to look through the eyes of your customers:

It's not what you think, it's what they think- what they say, and what they do.

Validate your beliefs, go out of the building and talk about this market opportunity with as many potential customers as possible.



Which markets to play in?

Now, remember that the only way to score this factor is to look through the eyes of your customers. It is not what you think, it's what they think that counts- what they say, and even more importantly, what they do. So validate your beliefs, go out of the building and talk about this market opportunity with as many potential customers as possible.

Notes

Summary



5m 14s



How to evaluate?

Look deeply into two important questions:

- ? What is the size of the current market?
- ? How much is it expected to grow over time?



Which markets to play in?

The second factor that shapes the potential of an opportunity is the market volume so to estimate this factor and rate it from low to super high look deeply into two main questions. First, what is the size of the current market? Try to estimate how many customers need your solution and also how many customers can actually use it or buy it. Use this as an initial filter to narrow down the universe of all customers. How many units will these customers buy annually and what would be the estimated revenue per customer. Combine the figures to estimate the total market size, that is how large is if they would all buy your product. Second, you need to examine how much is the market expected to grow over time? Is this a mature market by now, has it grown in the last two years and how much do you expect the need or the number of customers to grow in the next 2-5 years. Once you go thoroughly over these questions and strive to find an objective answer, you will be able to score your market volume. By the way, it is interesting to note that a market which is not significantly big may still be an interesting option, especially if it can serve as a stepping stone towards a larger market that will be exploited in the future.

Notes

Summary



5m 39s



Important to Remember



You can measure the size of a market in a top down or a bottom up approach.

For completely new markets – that have no customers, no competitors, and no products yet - measuring the size of the opportunity is more of a ‘guesstimation’ than an exact evaluation.

Which markets to play in?

Now, few things that you should keep in mind when estimating the market volume. We recommend to break down the size of the market into two element- units and dollars. These complementary measures provide a better overview of the expected volume. You can estimate the size of the market in a top-down approach. That is, narrowing down the universe of customers or in a bottom-up approach that is often termed nose counting as it is actually based on counting your potential customers. Clearly there are some markets which are more difficult to estimate than others. In fact, Steve Blank suggests that there are three main types of markets- existing, resegmented, and new. The first two are easier to guage because customers can be more explicit about their needs and data about the market is often readily available. New markets however have no customers, no well-defined competitors, and no products yet. So measuring the size of the opportunity is more of an estimation rather than an exact evaluation.

Notes

Summary



7m 11s

2

WORKSHEET 2

MARKET OPPORTUNITY EVALUATION

NAME

DATE

EPFL
ÉCOLE POLYTECHNIQUE
FÉDÉRALE DE LAUSANNE

Use this worksheet for every market opportunity you would like to evaluate.

Market Opportunity:

POTENTIAL

LOW MID HIGH SUPER HIGH

COMPELLING REASON TO BUY
 Unmet need
 Effective solution
 Better than current solutions

LOW MID HIGH SUPER HIGH

MARKET VOLUME
 Current market size
 Expected growth

LOW MID HIGH SUPER HIGH

ECONOMIC VIABILITY
 Margins (value vs. cost)
 Customers' ability to pay
 Customer stickiness

LOW MID HIGH SUPER HIGH

OVERALL POTENTIAL

CHALLENGE

LOW MID HIGH SUPER HIGH

IMPLEMENTATION OBSTACLES
 Product development difficulties
 Sales and distribution difficulties
 Funding challenges

LOW MID HIGH SUPER HIGH

TIME TO REVENUE
 Development time
 Time between product and market readiness
 Length of sale cycle

LOW MID HIGH SUPER HIGH

EXTERNAL RISKS
 Competitive threat
 3rd party dependencies
 Barriers to adoption

LOW MID HIGH SUPER HIGH

OVERALL CHALLENGE

Use the overall ratings to situate each market opportunity on the Attractiveness Map.

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Which markets to play in?

The last factor that shapes the value creation potential of a market opportunity estimates the economic benefit of this opportunity for you.

Notes

Summary

Week 3 - How to evaluate your market opportunities

10 of 14



How to evaluate?

Look deeply into three important questions:

-  Do you have sizeable margins?
-  Are the customers well-funded enough to pay the price?
-  How sticky will customers be?



Which markets to play in?

At this early point of the evaluation, the creation of a detailed financial plan that forecasts the profit and the loss for this opportunity in the next five years is typically not feasible because the required information is simply too vague. Instead, you can get relatively good understanding of the economic potential of your market opportunity by examining three main questions. First, do you have a sizable margin? Try to estimate the price that customers will be willing to pay and the cost of your product or service. What are their expected margins and are they expected to change or grow over time? The second question examines if customers are well-funded enough to pay the price. Do they already have a budget to solve the problem that you are addressing with your offering and is there someone who is economically responsible for that. Lastly, you want to understand how sticky will customers be, how frequently will they use your solution or rebuy it, and how difficult will it be for them to switch to other alternatives. Once again, an objective answer to these questions will help you to estimate the economic viability of this opportunity, and of course to rate it from low to super high.

Notes

Summary



8m 38s

Use this worksheet for every market opportunity you would like to evaluate.

 Market Opportunity:

POTENTIAL



LOW	MID	HIGH	SUPER HIGH
-----	-----	------	------------

COMPELLING REASON TO BUY

Unmet need
Effective solution
Better than current solutions



LOW	MID	HIGH	SUPER HIGH
-----	-----	------	------------

MARKET VOLUME

Current market size
Expected growth



LOW	MID	HIGH	SUPER HIGH
-----	-----	------	------------

ECONOMIC VIABILITY

- Margins (value vs. cost)
- Customers' ability to pay
- Customer stickiness

OVERALL POTENTIAL

LOW	MID	HIGH	SUPER HIGH
-----	-----	------	------------



CHALLENGE



LOW	MID	HIGH	SUPER HIGH
-----	-----	------	------------

IMPLEMENTATION OBSTACLES

- Product development difficulties
- Sales and distribution difficulties
- Funding challenges



LOW	MID	HIGH	SUPER HIGH
-----	-----	------	------------

TIME TO REVENUE

- Development time
- Time between product and market readiness
- Length of sale cycle



LOW	MID	HIGH	SUPER HIGH
-----	-----	------	------------

EXTERNAL RISKS

Competitive threat
3rd party dependencies
Barriers to adoption

OVERALL CHALLENGE

LOW	MID	HIGH	SUPER HIGH
-----	-----	------	------------



Which markets to play in?



Use the overall ratings to situate each market opportunity on the Attractiveness Map.

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Remember that the economic viability of your opportunity is essential because it will ultimately allow your venture to survive and grow. While it is definitely challenging to know the future price tag of your offering now, it is important to make sure that you have enough slack between the cost of your offer and how much customers are willing to pay for it. In any case, talk with your economic buyers to understand their perspective. Additionally, you can try to seek for comparable offers that can provide a signal for how much you can charge for your offering. Once you've analyzed these three key factors, it is time to combine your ratings into an overall score that indicates the value creation potential of the market opportunity.

- Notes

Summary



Potential- the overall rating

OVERALL POTENTIAL



- ✓ Combine the ratings of the three key factors into an overall score
- ✓ You can assign different weights to different factors, but if you do so - make sure to be consistent across options



Use your individual ratings to arrive at an average score that ranges from low to super high. It will later be used to locate this market opportunity on the attractiveness map because the potential is the y-axis of this map. As we work with entrepreneurs they often ask us if all the factors have the same importance. This is a clear question with no clear answer. While the overall potential really depends on all three factors, you can choose to assign different ways to different factors if you find it more appropriate. But be careful, if you do weigh factors differently make sure to be consistent across all your options.

Notes

Summary



11m 01s

Summary



Assessing the **Potential** of a market opportunity is critical, as it allows you to understand how valuable it will be to pursue this option.

While the average Potential score enables you to easily distinguish between and compare options, remember that the main goal is to understand the key up- or downsides of your opportunities.

Which markets to play in?



Let's summarize. Assessing the potential of a market opportunity is critical to your evaluation because it allows you to understand the value that could be created by exploiting this opportunity. While the average potential score enables you to easily distinguish between your options, it may also hide some important information regarding the key upsides or downsides of the market opportunity. However, by now you should be clearly familiar with the main advantages and disadvantages of your opportunity and that is actually the main goal of this analysis.

Notes

Summary



11m 44s