

Reader Exercises

Step 1: Try Your Hand on Customer Segmentation by User and Uses for Flexible Solar Panels

Take a quick look on the Web for companies that are producing flexible solar films that can be wrapped around radios, backpacks, automobile rooftops, and so forth. It is very specialized technology relative to the fixed silicon solar panels that we see on homes and buildings. The flexible solar film market—or what ventures have called “plastic power”—is comprised of dozens if not hundreds of specific applications. Search the Web and use your imagination to segment this emerging market by “users” and “uses.”

Step 2: Spend Time With Your Target Customers and Their Uses

Create the Customers and Their Uses Template for your own venture. Remember, you have already selected an industry focus and the type of business you want to create from Chapter 1. Now we begin to dig deeper into that target industry segment/niche to develop a further focus on the types of problems you want to solve, and for whom you wish to solve them.

- Label the columns and rows for the Customers and Their Uses Template (Figure 2.6) for your venture. That means identifying the specific customer groups and their primary uses for products or services, such as the ones you might create.
- Take a quick visit (if possible) to your different customer groups in their places of work or leisure. Spend an hour with each. Observe. See the primary use cases. Look for emerging use cases (such as virtual training versus face-to-face training for complex computer systems).
- After constructing your customer segmentation grid, *circle your primary customer and use combination*. Start crafting the story behind why your customer target makes so much sense.

		Customers		
		Customer A	Customer B	Customer C
Uses	Use 3			
	Use 2			
	Use 1			
		% size & growth	% size & growth	% size & growth

- Label the rows and columns.
- Put in the relative size and growth rate for each Customer Group.
- Put in the relative value or spending of each Customer Group.
- Circle your target Customer and Use.

Figure 2.6 Customer Segmentation: Set Your Initial Target Customer and Use Case/Occasion

Step 3: Size Your Target Market

Next, hit the Web and try to find data for the relative size and spending for your target customer group and use occasion. Take another look at the travel industry fact sheet in the Tip Box provided in Chapter 1. (That was Figure 1.3.) Maybe you will be fortunate enough to find lots of data in a single, convenient source. Otherwise, keep digging and assemble the data yourself. Investors are definitely going to want to know the following:

1. The size of your target industry niche within the overall market
2. The market potential represented by your specific customer group in that industry niche and the use occasions you wish to serve
3. How you see your see that market size growing over the coming five years

Think about Aaron Gowell (the rail travel booking service) in the TIP box earlier in this chapter. He started with a very broad market (European train travel), got more specific (high-speed rail between two and four hours), and then got even more specific (another 50% or so that might be booked online) to size his "addressable market." He then estimated reasonable penetration rates and applied a standard 5% booking commission to get some revenue projections. Aaron did a "top-down" revenue projection. That's what we want you to get started on now. You cannot have a good business plan without a strong rationale for your revenue projections.

Later, in the Reality Check described in Chapter 7, we will teach you another method for revenue projection that is based on actually surveying prospective customers in your industry segment/niche. You will find their level of dissatisfaction with existing solutions, their "purchase intent" for your new solution, and how much they are willing to spend on your solution. We call this a "bottoms-up" approach to revenue projection. In reality, the entrepreneur needs to try to do both the top-down and bottoms-up approaches to market sizing and revenue projection, and then compare the results.

But for now, get started with the top-down approach. You need a healthy market to support all your hard work. This exercise is going to help you see if that is the case. If it doesn't feel sufficiently large, use your customer segmentation grid to explore adjacent segments/niches, or alternative or additional uses to enlarge the pie.

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