



## A Note on Defining the Market Opportunity & Target Markets

This Note is the second in a series prepared to help participants in EnterPRize Business Plan Competition develop their executive summaries and business plans. These notes should not be considered “the definitive approach” as there are numerous “right ways” of thinking through and developing the concepts discussed. These notes are offered to provide some guidance on how one might approach the concept discussed and offer examples of how it has been dealt with by others. For this note we will refer to the Virtual Ink. Business Plan posted on the MIT \$50K Website and in our Resources Section in our Website.

Virtual Ink was the first runner up in the 1997 MIT \$50K business plan competition and went on the raise venture capital funding (<http://www.mimio.com/>) and is currently selling the product globally.

### Market Opportunity

Different users and readers of business plans have varying ways of evaluating market opportunities. There is no one “checklist” of characteristics to point to or rely on. However we offer some suggestions on how to approach evaluating market opportunities based on our own experience as well as from the suggestions and writings of leading entrepreneurial thinkers and educators at Babson, Harvard, MIT, Stanford and other major university and entrepreneurship centers.

Great Market Opportunities:

- Do arise from major change in: industry dynamics, regulatory environment, technological advances and other sources of socio-economic change.
- Are found in emerging industries with little information available, no clear leader, fragmented competition and high margins and growth potential
- Is, or will become big enough, to provide substantial financial upside but not so big as to attract major competition
- Do arise when a new technology or business process is designed/invented which improves price/performance characteristics by a quantum leap over the existing offerings.
- Are found in industries and/or companies which are seriously “under-managed”
- Do arise from serious “pain” where the customer has the money to pay, sometimes even a significant premium to reduce or eliminate the “pain”

It would appear that Virtual Ink’s Market Opportunity arises from several of the above examples. It appears the new technology they propose to use will improve price performance by a large factor. If someone is spending from \$3,000 to as much as \$42,000 to achieve electronic transcription, capture and storage, there is probably quite a bit of pain being felt. On the face of it, the market looks pretty big.

### Target Market

Ideal Target Markets:

- Are experiencing real “pain” and/or seeking dramatic improvements in price/performance
- Are readily identifiable, with specific needs that can be met by your solution in a superior manner
- Have money to spend on your solution
- Are “reachable” – your ability to access them in a cost effective manner

In reading Virtual Ink’s description of the market opportunity, in section 2 . Market Research and Analysis we find they the entrepreneurial team defines the total market to be “the intersection of personal computer

owners and dry erase market board owners". This seems a reasonable assumption, but they then make the assumption that every "commercial" computer owner is a potential dry erase board owner. That makes the total potential volume 112 million units or \$47 billion. This appears to be a very aggressive assumption. Although it is important to make "top down" estimates of market size it is critically important that you do a "bottom up" analysis by segmenting and sub-segmenting markets focusing on those markets that are experiencing major pain and have the money to be able to pay for the "relief"

Indeed, the Virtual Ink Team does exactly that. An obvious segment to start with might be universities and school systems. They certainly use lots of blackboards and whiteboards and would have a need to electronically transcribe data; but, but is electronic transcription "critically" important to instructors, and more importantly, do they have the budget to spend?

Instead the team does their research and finds where the real money is. Management consultants are major users of black & white boards to both work through idea development and to present to fellow consultants as well as clients. Any they travel and "live" with their clients most of the time. The ability to have a fully functional, portable electronic transcription device would appear to be critically important for both storage and distribution purposes within the consulting firm as well as in their dealing with clients. More importantly, consultants are very high revenue generators – according to Virtual Ink's plan - \$281,000 on average for each of the 51,042 consultants they have identified or a much more manageable market size of \$112 million.

If Virtual Ink is successful with this very demanding group of customers in their entry strategy, what kind of references do you think they will have when they pursue their broader growth strategy?

Identifying, creating or defining a solid market opportunity is just the first step towards developing a solid business plan and opportunity. A well thought out, and executed market entry strategy, can make all of the difference between a highly successful enterprise and another startup gone bust.