



A critical component of any start-up business plan, and a key driver of business value, is understanding real market potential. Most investors are only interested in chasing significant opportunities which, over time, have global potential. The demands of the investors in their funds, means they are under constant pressure to hit a “home run”. Market potential is fundamental to picking the right venture.

Startup companies can find it tough to understand the market for their new invention, and where they should focus their sales efforts. Through experience in developing market sizing and segmentation for clients in the new ventures space, SPP has been able to develop an approach which we believe combines quantitative and qualitative methods, to deliver actionable results.

Our client had discovered a significant water treatment technology – but narrowing down the market to focus on was a significant challenge. The organization, a spin-out from a government agency, had discovered a new treatment technology that was potentially disruptive across a wide range of industries – from industrial and large scale municipal, through to smaller scale domestic plants. This created a significant dilemma – **which market to focus on?**



EXHIBIT – APPROACH TO PICKING THE MARKET...

Steps - “picking the market”	Market attractiveness guides	Outcome
Market & cust features	<ul style="list-style-type: none"> • Significant customer need & high uptake • Customers are accessible • Customer pay back is timely 	<ul style="list-style-type: none"> • Of the 5 markets to consider, 2 were clearly the standout in terms of their ability to solve customer problems, and in terms of barriers to take-up • A third remained as a strong option due to the significant size of the contracts on offer – even at a low probability that market sector was worth a “bet” • A fourth was eliminated altogether due to a less than attractive market opportunity and limited financial gains as a result
Value proposition	<ul style="list-style-type: none"> • Alignment between price/utility and value delivered • Easy for the market understand 	
Industry structure	<ul style="list-style-type: none"> • Fragmented emerging markets where there are resource gaps and lack of scale • Competition is profitable but not overpowering 	
Market size/growth	<ul style="list-style-type: none"> • Total market is significant (eg. >\$100m) • Not populated by large scale operators • Market growing significantly (eg. 20-40%) 	
Market capacity	<ul style="list-style-type: none"> • Markets which are at capacity (demand > supply) • Current players not investing in production, market not about to peak 	
Market share attainable	<ul style="list-style-type: none"> • Significant share must be attainable to attract investors • No major hurdles to take-up 	
Financials	<ul style="list-style-type: none"> • Cost per unit is attractive and balanced between fixed and variable costs ie. scale will not prevent attractive economics • Sustainable margins and cash flows which meet hurdle rates 	

Source: Based on SPP experience, and framework by “Timmons, JA. & Spinelli, S. New Venture Creation 2007 pg.130, 131”

To tackle this problem, SPP went back to the facts, firstly to understand the value proposition. This involved getting a handle on the core features of the technology, and then “productizing” these into a series of market-based propositions. From there, the specific benefits of the technology could be understood, particularly as they related to market segments. The value proposition for each of these market segments could be properly developed, based firmly on customer problems solved by the technology. That proposition was carefully tested with customers (end buyers) and the feedback was incorporated back into the ultimate proposition.

It was only then that a market assessment could be undertaken, which was tempered by the speed at which buyers make decisions. The ultimate test, however, was to then apply likely market take-up back to the financials for each product.

The result was that, in a crowded field, SPP was able to help the client pick the market to chase. This has a range of follow on benefits for the client, including increasing their focus, speeding their time to market on the 2 market solutions with the most potential, and in the longer term increasing the likelihood of success of the venture.

To find out more about our offer to early stage Ventures, please contact Phil Noble on phil.noble@sppconsulting.com.au (0438 000 200), or Cameron Clarke at cameron.clarke@sppconsulting.com.au (0428 590 437)