Market Sizing and Market Competition

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Session Agenda

- Competition – Where, Who, and How?
- TAM, SAM, and SOM – Why do they Matter?
- Your First 2% Market
- Competing for Attention -- Crossing the Chasm and Divides
- Competing Within. The Lean Start-Up and the Start-up Way
- Competing for your Dream – Starting Out or Starting In?

How should we see our competition?

Is Competition Good or Bad?

Is Competition Good or Bad?
The Good, The Bad, and The Ugly

Bad

- Eats your lunch and dinner
- Drive down prices
- Takes away your customers and keep them
- Distort the market
- Steals your best ideas and deliver them better, faster, cheaper, and made them stronger.

Good

- Provides evidence that a market exists
- Gives a price to something, with which you can undercut
- Makes mistakes that you could learn from (assuming you were paying attention).
- Market improves in the long run and customers are better served.

Airbnb

- **Who do they compete with?**
  - Your car
  - Your friends' couch
  - Youth hostels
  - Hotel rooms, 3 stars
  - Hotel rooms, 5 stars?

- **Whom do they serve? Have they served? Want to Serve?**
  - ✓ Explorer Travellers/Weekend Warriors?
  - ✓ Normal Travellers?
  - ✓ Business Travellers?

What would be their strategy?

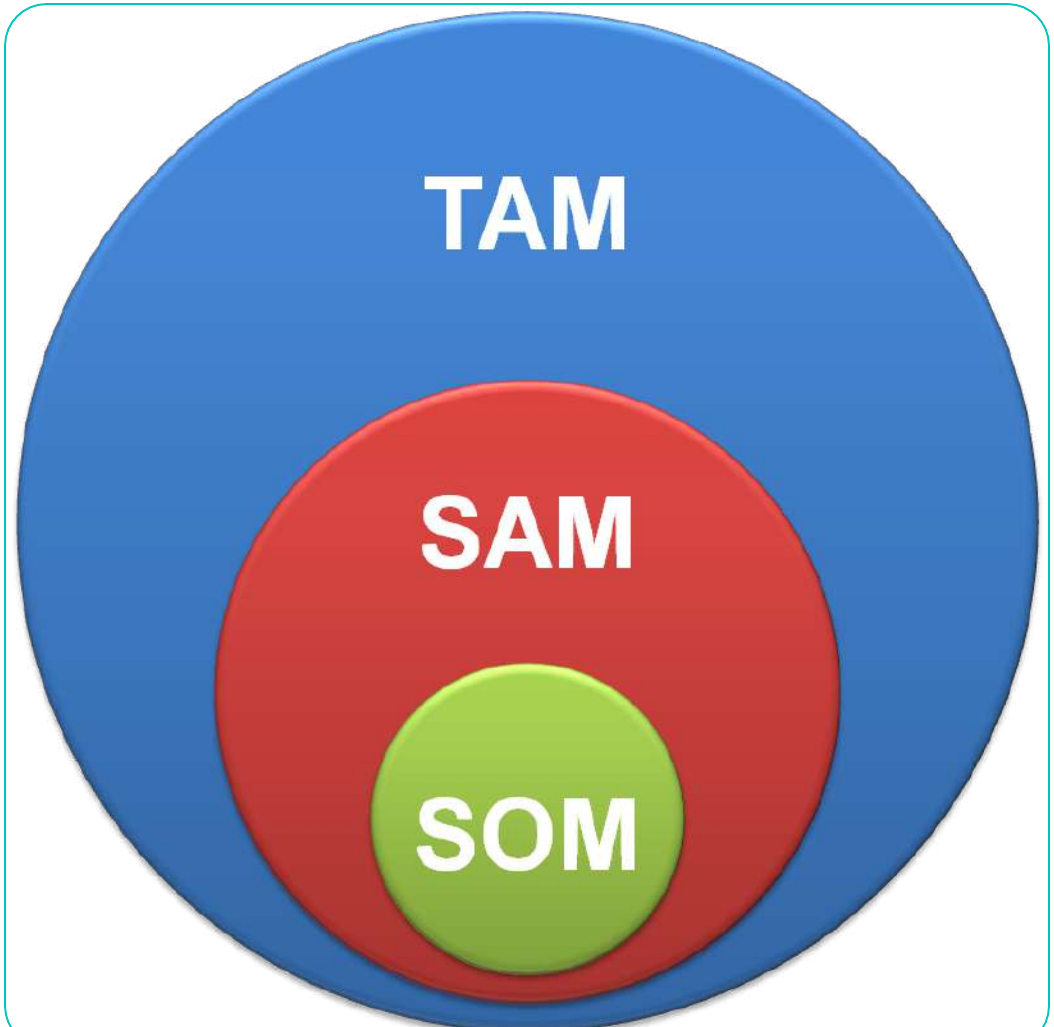
- Early adopters who don't need fresh towels
- Prefer non-standardization of services (Airbnb needs to move up the curve to standardization, but can it?)
- Price conscious (move to value shoppers)

The Investor's Dilemma

- If you were an investor of Airbnb, would you put a lot of money to see that Airbnb can provide a consistent level of quality, standardization, every time?
- Or, just enough to test their model actually works, as no one really knows "when" it would work?
- **Remember, investment only makes sense if you can get your money out.**

The “true” marketplace of competition exists in the mindset and habits of your customers.

This means your development plan for products and services requires tailoring to those “unknown” and “unmet” needs.



The SOM and SAM help de-risking the investment : TAM framing the upside potential.

- **TAM**: Total Available Market (when competition doesn't exist).
- **SAM**: Serviceable Available Market (Segment of TAM that is within your geographical reach).
- **SOM**: Serviceable Obtainable Market (portion of SAM that you can capture)

Company Valuation Sample

- Working Assumptions:
  - An investor has a target return of 10X
  - You are seeking US$ 250K investment in exchange for 20% of start up equity
  - Your initial assessment is that TAM is $2 Billion, SAM is $100M, and SOM is $5M within 2 years and $12M within 4 years
  - Valuation at exit = based on comparable company in that sector which is 8X.
  - Your EBITDA margin is 25%. (i.e., Operating Margin or % of revenue)

- What is the Short Term Market Share?
  - SOM => $5M within 2 years
  - SAM/TAM = $100M/2000M = 5%.
- What is the worth of your company at startup?
  - $250k/x = 20%/100%
  - X = US$ 1,250,000
- What is the investor's expected return?
  - 10 x $250K = $2.5M
- What is the future worth of your company? (Cetarus Paribus)?
  - US$ 1.25M x 10 = $12.5M

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Source: Business Plan Shop

- What happens if you deliver on your 2-year plan?
  - That is, you are able to hit your revenue target of $5M total in two years.
  - Thus, projected EBITDA of 25%, we have profit of $1.25M.
- What is the company worth at that time?
  - Take 8X the industry average.
  - 8X times $1.25M => $10M
- What is the worth when you deliver on four years of plan?
  - Take $12M as revenue
  - EBiTDA of 25% is $3M. Company is now worth, 8X $3 M or $24M.
  - For the investor who had put in $250K, his return is now 19,2 times. ($24M x 20% / $250K = 19.2 times)

- SOM indicates the short-term potential
- SOM/SAM is the target market share, which is 5%
- SAM/TAM is the long-term market share, which is 5%

Your 2% SOM

Getting to the first base or helping your investor to reduce their risks

Reality Check on Your 2%

- People want to buy your products and services…Really?
- Your marketing plan to reach these customers and get the products to them do work. Really?
- Competition is still sleeping during the initial 6 months. Really?
- Your investor has the financial muscle to help you reach your SOM. Really?
- You gave your promise that you can deliver the SOM based on your timescale, the investment you need from your investor, and your view of the world. **Really?**

What is a Market?

A market is defined as:

- a set of actual or potential customers
- for a given set of products or services
- who have a common set of needs or wants, and
- who reference each other when making a buying decision [particularly in an era of innovation]

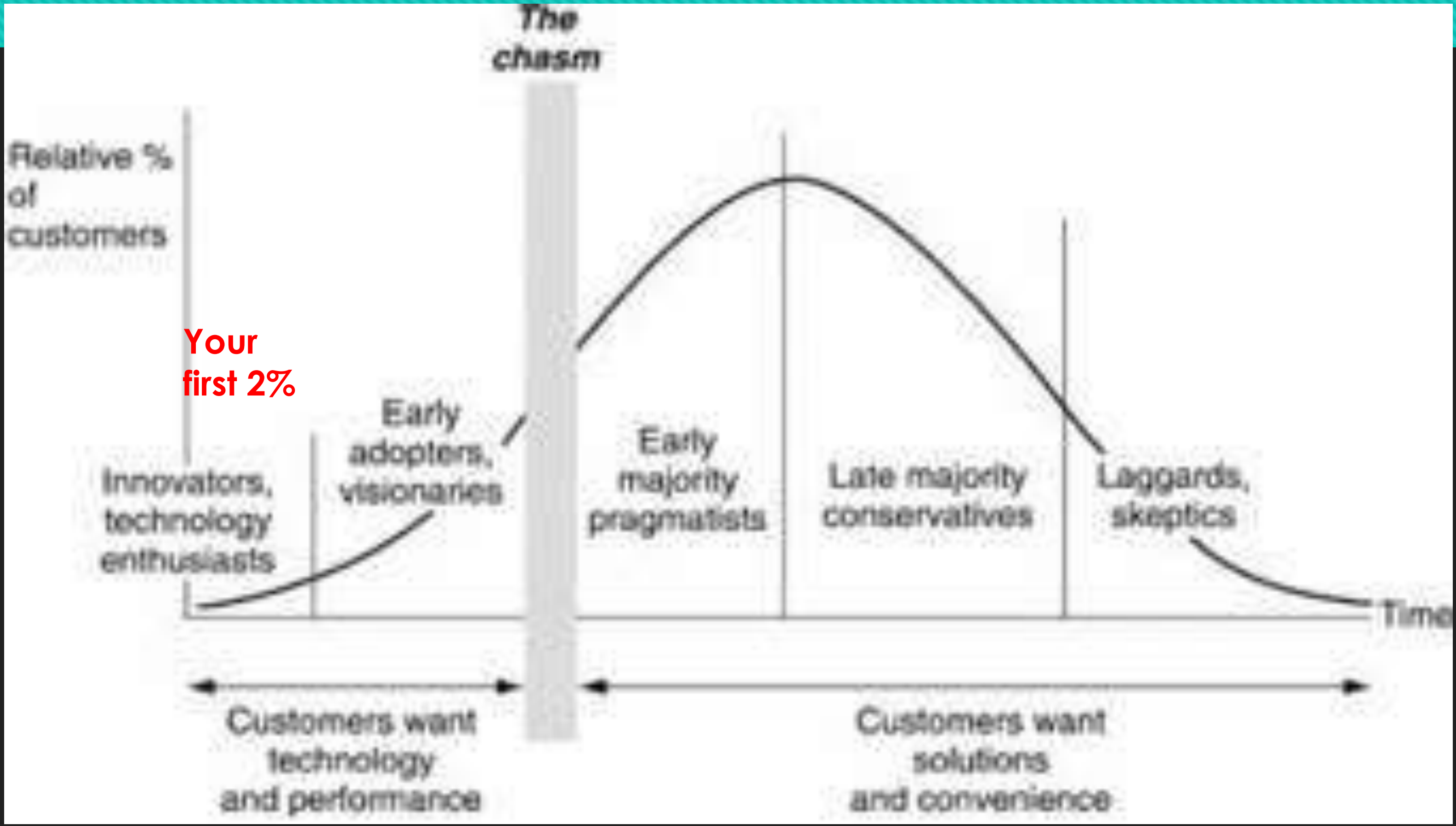
Geoffrey Moore, 2013

- Market sizing is at best, a snapshot taken yesterday.
- Every journey begins with the first step. The first step is the availability of your immediate market and the readiness of the ecosystem.
- Most customers do not know what they want. Doing a focus group can only get you so much. Remember Henry Ford's quote, "*If I had ask what customers wanted I would just have created a faster horse carriage*."
- At each stage of investment, a founder's role is to reduce risks for himself, his investors, his employees, and his customers. A founder is to validate and put certainty in customer demand.
- Your first product or service is not ready for the billion customers. At each stage, each company serves their customers differently.
- The marketplace of competition exists in the habits (biases and actions) of your customers. Thus, your product plan is really for you to learn these new habits and design a product/service to fit. So, begin with a MVP at first. Rapid prototyping.

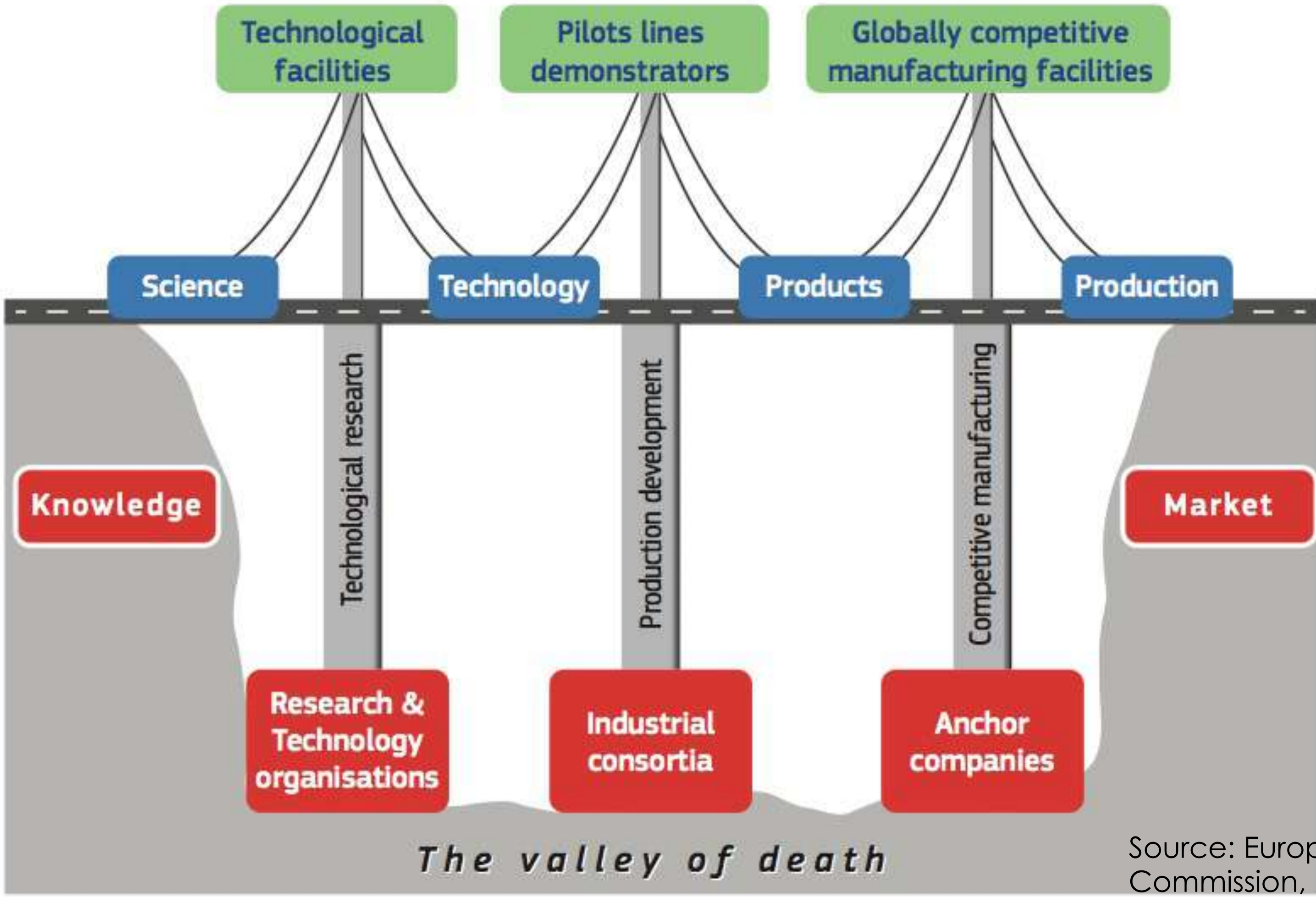
Your 2% SOM

	When to Ignite	Example	Competition and You
TAM (Total Available Market)	Pitch and just before IPO.	100 million customers worldwide.	Everywhere. Many new entrants, including start-ups and disruptors.
SAM (Serviceable Available Market)	Series C, D, and E.	Market share of 1%, which is 1 million customers in Asia.	Your competitions have noticed. You are now in a race for money, staff, and customers. *"The best employees don't work for you."*
SOM (Serviceable Obtainable Market)	Series A and B.	1% of 1 million in Greater Bay, 10,000 customers.	*You begin to notice the real competition is for the mindset and habits (biases and actions) of your customers.*
2%	Pre-Seed and Seed.	200 customers in Hong Kong.	Market may exist or sleeping. Or, you are going after the big guys.

Introducing Products with Technology to Progressively Larger Markets



Getting over the many chasms



Source: European Commission, 2013

Closing the Chasm

Early Adopters

- A rare breed, risk takers
- Dreams of results and may not believe in your technology

Early Majority

- Pragmatists. Want reliability.
- Will tell others. Need references. Won't buy from you until you are established. Will become your loyal customers if you give them real value.

Closing The Chasm between Early Adopters and Early Majority

- Pragmatists are not anxious to reference visionaries when buying. Pragmatists are cynical, don't trust colleague's referrals, may believe the adopters are dreamers and just too early.
- To close, **establish a beachhead.** Niche it. Assemble a task force to address all concerns of the buyer (first use to servicing to disposal). Create a brand, a slogan, an elevator pitch. Provide evidence. Use direct selling.

Geoffrey Moore, 2014

Changing Questions and Perspectives for Founders/Investors

A. Idea to Proof of Concept (POC) or MMM TWO

1. Can this work?
2. Will anybody buy this?

B. POC to Early Growth

1. Will a stranger buy?
2. Will others join me in this quest?
3. Do I have enough $$?

C. Growth to Expansion

1. Will my business scale?
2. Am I the right leader for this game?
3. Can we be profitable?
4. Are we getting 10x return on our money?

D. Expansion to Dominance

1. Have we lost our mojo for innovation?
2. Is bigger better?
3. Are my customers my advocates?

Investment Readiness Level

Version: Berkeley Method
Adapted from Steve Blank

Competing Within

For start-ups and creating start-ups in corporates

Recap, MVP

1. **Experimentation underpins everything**. Identify the leap-of-faith assumptions (LOFA)and design an experiment to remove each, one stage at a time. Don't ask what they want. Design an experiment to observe it.
   - Do they really have the problems you think they do?
   - How would they approach this problem today?
   - Is your concept a different mousetrap or just a better mousetrap?
2. **Work on the LOFA** that gives you the biggest opportunity for learning, where evidence would help your investors reduce their risks in your company.
3. **Today's world of MVP means whichever company learns the fastest…wins**. The cycle time for an investor is how long between an idea and validating that idea. (see CDL)
4. **MMM Two is to validate your business proposal.**

Can the Principles of Entrepreneurial Management be Applied in Start-ups and Mature Companies?

The Five Principles of the Lean Start-Up Way by Eric Reis

1. **Continuous Innovation**: Why is this difficult?
2. **Keep units small**. How to stop empire building?
3. **Harness the energy of entrepreneurship**. But founders may not be competent as managers of people?
4. **Protecting the flame**: But your product and service is unproven, how to protect?
5. **Keep up the spirit of experimentation and expect changing customer preferences:** But that is almost constantly going back to the customers?

Why start a company when you start it within a company?

Entrepreneurship?

- Freedom. Good for the ego!
- Start with one's own money
- Want to be held accountable and will fire self if unable to deliver
- Chances that someone will hire you as an entrepreneur isn't that high, but that's the only experience you have.
- And more more reasons…

Intraprenuership?

- Less Freedom. But can still be called a General Manager.
- Use the bosses' money.
- Will be held accountable and will be fired by boss if unable to deliver.
- Better chance that someone in the same industry may hire you.

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