

CHAPTER

Target Market

It's easier to get a piece of an existing market than it is to create a new one.

Know Your Customers


Essential to business success is a thorough understanding of your customers. After all, if you don't know who your customers are, how will you be able to assess whether you are meeting their needs? Since success depends on your being able to meet customers' needs and desires, you must know who your customers are, what they want, how they behave, and what they can afford.

Is Your Company Market Driven?

Moreover, if you are using your business plan to secure financing, defining the nature and size of your market is critical. Many investors look for companies aimed at substantial-sized markets and that are market driven. In other words, they seek to fund companies whose orientation is shaped by the demands and trends of the marketplace rather than the inherent characteristics of a particular product or service.

Being attuned to your market may lead you to make changes in your advertising, packaging, location, sales structure, even the features and character of the product or service itself. In the long run, a market analysis will save you money. When deciding which marketing vehicles to use (advertising, trade shows, or other), you can then choose approaches based on whether they reach your specific target market.

A market analysis differs from a marketing plan. An analysis enables you to identify and understand your customers; a marketing plan tells how you are going to reach your customers. Laying out a marketing plan is covered in Chapter 10.

 *You have to be market driven. Who will buy it? What do they feel about it? Do they think it's a luxury or a commodity? Do they need a big bottle or a small bottle? Particularly with a brand-new product, you have to understand your market. >>*

Larry Leigon
Founder, Ariel Vineyards

“Be willing to look at different market segments instead of just the obvious or largest market, to secure some degree of market penetration. Take, for instance, the credit card electronic key for hotels. Even though these keys represented substantial savings, established hotels at first were reluctant to make the changeover from traditional locks. Instead, new hotels were the first to put in this type of lock, and existing hotels followed later, once the benefits were well known.”

Eugene Kleiner
Venture Capitalist

“Customers can be categorized in several ways, by income level or by lifestyle issues. The income levels can fall into one or more of the following categories: luxury, upscale, upper moderate, moderate, and budget. Lifestyle issues are more subjective. The target customer is less dependent on income level and more on her attitude about how she spends her disposable income.”

Nancy Glaser
Business Strategies Consultant

If you do not sell your product or service directly to the end-user but rather to retail outlets, distributors, or manufacturers, you have two markets, and you should define the characteristics of both of them—the ultimate consumer and the intermediary who is your actual customer. These target markets may have very different habits and concerns, and you need to understand both of them, as they each affect your sales. For instance, you may sell software you develop to a computer manufacturer that then includes it with the computers they sell to consumers. The computer manufacturer’s biggest concern may be cost; the consumer’s may be ease-of-use.

To gather information for this chapter, use the methods discussed in Chapter 2.

Defining Your Target Market

You may be tempted to describe your market in the broadest possible terms, choosing to include all those who might potentially use your product or service. Doing so gives you the comforting sense that you have a huge market to exploit. Unfortunately, this gives you little genuine information on which to base your business decisions. You could end up defining the market for furniture as everyone who lives indoors, hardly helpful if you’re trying to come up with a marketing plan for your furniture store.

Instead you need to identify the particular market segments you wish to reach. These segments describe distinct, meaningful components of the overall market and give you a set of specific characteristics by which to identify your target market.

Let’s say you are considering opening a discount dry cleaning establishment. You plan your service to be less expensive and faster, but, as a result, it may also be of slightly less quality than the dry cleaner now serving the area.

Thus, you might define your target market in these terms: “Employed women in white-collar jobs, price and time sensitive, commute by car, ages 25 to 50, household incomes of \$20,000–\$50,000 per year, children living at home, reside in the Laurelwood neighborhood.” You then need to determine whether the neighborhood has enough consumers who fit this profile to support your business.

To be a useful planning tool, the definition of your target market must meet these criteria:

- **Definable.** It should have specific characteristics identifying what the potential customers have in common.
- **Meaningful.** The characteristics must meaningfully relate to the decision to purchase.
- **Sizable.** It must be large enough to profitably sustain your business.
- **Reachable.** Both the definition and size must lead to affordable and effective ways to market to your potential customers.

Once you have defined your market, you should then assess its size and trends, evaluate your competitors for that particular market, and probe the market for strategic opportunities.

Demographic Description

Begin describing your market by the most basic, objective aspects of the customer base. These details are the specific and observable traits that define your target market.

Demographic information is particularly useful when devising your marketing plan. Many marketing vehicles, such as publications, mailing lists, radio, and TV, accumulate this kind of data about the market they reach. Thus, you are better able to judge whether such vehicles are appropriate for your company.

Remember, you want to define those characteristics of your target market that meaningfully relate to the interest, need, and ability of the customer to purchase your product or service.

In the previous definition of the target market for the Laurelwood dry cleaner, for instance, the definition “white-collar jobs” directly relates to the need for regular dry cleaning; “women” relates to the fact that most dry cleaning nationally is purchased by women; “commute by car” is important because the location is not near public transportation; and “\$20,000–\$50,000” relates to the customer’s ability to pay for dry cleaning while being less likely to afford the more expensive cleaners.

On the Demographic Description worksheet on the next page, describe the demographic details of your target market, whether you are marketing to consumers or businesses.

Geographic Description

Next, define the primary geographic area(s) you intend to serve. This definition should be as concrete as possible, indicating whether your business serves a particular neighborhood, city, state, region, nation, or portion of the international market.

Also, look at the density of the area—whether urban, suburban, or rural—and, if customers will be coming to your place of business, indicate whether the location is in a mall, strip center, business district, or industrial area, or will be a stand-alone facility. Some businesses define their geographic market by climate, serving only cold-weather or hot-weather locations.

If you are making your product or service available globally—especially on the Web—you may be tempted to view the entire world as your geographic target market. However, even online, there are limitations to which geographic areas are your primary target markets. These limits may be due to issues of fulfillment (e.g., shipping goods), language, licensing, or legal issues, and there are certainly limits of realistic market demand from different areas.

On the worksheet on page 103, describe the geographic details of your target customers, whether consumers or businesses, domestic or international.

“It’s very difficult to create a new market, even if there’s a need. Developing a new market takes years, even if you’re 100% right about the need and the product. The best market to look for is a market that already exists, that is already being served, but being served in a marginal fashion.”

Eugene Kleiner
Venture Capitalist

“The decision to locate in Napa was a marketing decision. We could have made our product anywhere, but “Napa” is associated with premium wines. We wanted Napa on the label.”

Larry Leigon,
Founder, Ariel Vineyards

Demographic Description**CONSUMER**

Age Range: _____

Income Range: _____

Sex: _____

Occupation: _____

Marital Status: _____

Family Size: _____

Ethnic Group: _____

Level of Education: _____

Home Ownership: _____

Other: _____

_____**BUSINESS**

Industries: _____

Sector: _____

Years in Business: _____

Company Revenues: _____

Number of Employees: _____

Number of Branches: _____

Square Footage: _____

Company Ownership: _____

Other: _____

Domestic Geographic Description

Area Served (city, region, nation, etc.): _____

Density (urban, rural, suburban, etc.): _____

Nature of Location (mall, strip center, business district, etc.): _____

Climate Conditions: _____

Globalization: International Target Market

Countries Served: _____

Population: _____

Targeted Areas within Country (cities, rural, suburban): _____

Level of Development (developed, emerging): _____

Climate Conditions: _____

Languages Spoken: _____

Quality of Infrastructure (e.g., roads, telecommunications, utilities): _____

“I had a strong sense of my target market from the beginning. I clearly defined the user profile: 30 years and up, \$35,000-plus income, urban, sophisticated palate, leisure travel, exposure to foreign foods, subscribe to a food magazine, busy. Then I looked at retail outlets that I thought served that profile end-user. My customer is really the retail outlet, and I had to focus on them as well. There’s a tendency to look only at the end-user and neglect your real customer. But ultimately, to serve the retailer, you have to make a product that sells.”

Deborah Mullis
Entrepreneur

Lifestyle/Business-Style Description

In the Target Market section of your plan, convey a sense of the concerns and interests of your customers. How do they spend their time? What issues are they facing in their lives or businesses? With whom do they associate? How do they relate to their employees and community?

Your natural instincts and experience with customers gives you some sense of what your customers are interested in. It’s logical, for instance, to assume that receptive targets for your expensive specialty food product are fairly likely to subscribe to *Gourmet* or other food magazines and might belong to local food and wine organizations. Or, if the market for your business service is law firms, you would naturally assume they belong to the local Bar Association.

A little research can help you identify other aspects of your target market’s lifestyle or business style. Observe customers in places where they shop or live. What other products or services do they buy? What kinds of cars do they drive? What kinds of clothes do they wear?

Review the publications you think target customers subscribe to. What other companies are advertising? What are the articles about? Survey your customers, either in person, by mail, or on the phone, and ask them about some of their activities.

What kind of people or businesses need or want your product or service? Do they go to the movies, watch TV, or rent videos? Do they entertain at home? If so, for whom? What other kinds of products or services would be used in the same setting with yours?

Develop a mental picture of your customer’s entire week. Be creative, but logical and realistic. You want to relate to your customer as a whole, which makes you more responsive to their needs and gives you ideas for marketing vehicles and approaches. The worksheet on the following page helps you achieve this.

Psychographic Description

In addition to the observable, objective characteristics of your market, less tangible but equally important psychological factors also influence your targeted customer’s purchasing decisions. These are aspects of self-image: how customers see, or want to see, themselves. Some of these are fairly self-conscious attributes, for example, a homemaker priding himself or herself on being a smart shopper. Some are less conscious, perhaps being status-seeking or gadget-happy. Marketing experts segment consumers into different psychographic and lifestyle groups. Some of these segments become well-known, for instance, the term “early adopters” is widely used for those consumers who are eager to be among the first to try new technologies.

Business customers as well as consumers can be described in psychographic terms. Some companies view themselves as being on the cutting edge of technology, others as fiscally responsible, and others as socially responsible. These distinctions can help you determine marketing efforts and positioning of your product or service.

Lifestyle/Business-Style Description**CONSUMER**

Family Stage: _____

Vacation Choices: _____

Television Shows Watched: _____

Favorite Websites: _____

Hobbies/Sports/Other Forms of Entertainment: _____

Publication Subscriptions: _____

Organizations/Affiliations: _____

Political Affiliation: _____

Type of Car Owned: _____

Other: _____

_____**BUSINESS**

Business Stage: _____

Employee Relations: _____

Trade Association Memberships: _____

Business Products & Services Used: _____

Workforce Type: _____

Publication Subscriptions: _____

Community Activities: _____

Management Style: _____

Other: _____

On the checklist below, check off the psychographic traits that characterize your target customer.

Psychographic Description	
CONSUMER	BUSINESS
<input type="checkbox"/> Technically Adept	<input type="checkbox"/> Technically Advanced
<input type="checkbox"/> Status Seeking	<input type="checkbox"/> Industry Leader
<input type="checkbox"/> Trend-Setting	<input type="checkbox"/> Innovative
<input type="checkbox"/> Conservative/Responsible	<input type="checkbox"/> Conservative/Responsible
<input type="checkbox"/> Socially Responsible	<input type="checkbox"/> Socially Responsible
<input type="checkbox"/> Environmentally Conscious	<input type="checkbox"/> Environmentally Conscious
<input type="checkbox"/> Smart Shopper	<input type="checkbox"/> Smart Business Operator
<input type="checkbox"/> Family-Oriented	<input type="checkbox"/> Fiscally Prudent
<input type="checkbox"/> Fun-Seeking	<input type="checkbox"/> Good Manager of Employees
<input type="checkbox"/> Good Housekeeper	<input type="checkbox"/> Influenced by Leading Companies
<input type="checkbox"/> Other: _____	<input type="checkbox"/> Other: _____

Purchasing Patterns Description

In planning, it's particularly important to understand the buying patterns of your customers. For instance, if Fortune 500 companies are your target market, you must recognize that these large companies have slow decision-making processes and, due to their size, resist change even when presented with compelling facts. You must keep these realistic constraints in mind when forecasting your sales to this market.

Complete the worksheet on the following page to describe the likely purchasing patterns of your target customers, whether consumers or businesses.

Buying Sensitivities Description

What factors are most important to your customer when deciding to buy? Of course, all customers would say that they want the highest quality, best service, and greatest convenience, at the lowest price. But in reality, customers know they have to make trade-offs: paying a little more for extra features, driving farther to get a lower price. What aspects are your customers least willing to give up? What are the areas of their greatest sensitivity?

The checklist on page 108 helps you indicate how sensitive your customers (consumers or businesses) are to various factors.

Purchasing Patterns Description

Reason/occasion for first purchase: _____

Number of times they'll purchase: _____

Interval between purchases: _____

Amount of product/service purchased: _____

Motivation for continued use: _____

How long to make decision to purchase: _____

Where customer first learned about product/service: _____

Place where customer purchases product/service: _____

Where customer uses product: _____

How customer uses product: _____

Method of payment: _____

Special needs: _____

Other: _____

Market Size and Trends

Once you have defined the characteristics of your target market, you must then assess the size of this market and evaluate the trends likely to influence both market size and customer behavior in the near future.

Size

You want to make sure your customer base is large enough to sustain your business and, if seeking funding, to convince potential investors that your company can grow to a size that will make their investment profitable.

Surprisingly, you generally don't want your target market to be either too small or too large. Markets that are too small are obviously in trouble from the start, as you won't have enough customers. (The exception: Niche markets may be quite small, serving a limited number of customers with a very specific need, but can still be lucrative and able to support a well-defined business if the product or service meets a very specific need and is aggressively priced.) Very large markets, however, invite numerous well-financed competitors, and require extremely expensive marketing campaigns. (The exception: if you are developing a very large, well-financed business.)

For some businesses, particularly smaller retail operations, determining whether your market is sufficiently sizable will be mostly a matter of intuition and observation. You needn't do a scientific study. But if you are unsure about your market, or need to convince investors, you must gather data to support your plan.

“As I was writing my business plan, I was forced to come up with a two-to-five-year sales forecast, and mine was laughable. But if I hadn't been forced to think how many units I would have to sell a month to stay afloat, I wouldn't have known how to price my products.”

Pauline Lewis
Owner, oovoo design

Buying Sensitivity Description				
	High	Medium	Low	Not at All
Price	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Quality	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Brand Name	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Product Features	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Salesperson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sales/Special Offers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Advertising	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Packaging	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Convenience of Use	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Convenience of Purchase	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Location	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Store Decor/Environment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Customer Service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Return Policy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credit Availability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Maintenance Program	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Warranty	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Nature of Existing Customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other: _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

When assessing the size of the market, you will find demographic and geographic information easiest to locate. Much of this data is available from U.S. Census Bureau reports, local governmental agencies, real estate brokerages, chambers of commerce, and business directories.

Information about other characteristics of your market can be gleaned from existing market research studies about the general population or from trade associations. For more information on how to research market size, refer to Chapter 2.

Trends

Equally important as estimating the size of your current market is evaluating the trends that may affect the market in the coming years. Doing so will give you a sense of your company's continuing viability, the strategic opportunities the market presents, and how the company must plan to respond to changing behavior of customers.

Preparing for change is not so much a matter of predicting the future as analyzing the recent past. Much of your analysis can be based on observable changes in demographics and customer behavior. For instance, let's say your product is designed to appeal to retired individuals in the American Southwest. You can analyze increased population figures for that age group in particular states and membership trends in organizations such as the American Association of Retired People (AARP). This will provide you with a sense of how the market size is changing. Studies of new hobbies, disposable income growth, and altered buying habits for the age group will give you indicators of the issues and opportunities facing your company in the near future.

Use the worksheets on the following page to describe your market size and the trends likely to affect customer behavior in the next few years.

Preparing the Target Market Section of Your Plan

Based on what you have learned by analyzing your potential market, you are now ready to prepare the Target Market section of your written business plan.

Using the Plan Preparation Form on the next page as a guide, focus primarily on these three areas:

- Description
- Trends
- Strategic Opportunities

This section of your plan particularly lends itself to the use of bullet points, which makes writing easier.

Chapter Summary

A concise description and thorough understanding of your target market will give you focus when developing your product or service, designing your marketing plan, and forecasting sales and expenses. Potential investors want reassurance that your market is sizable and that you comprehend the opportunities and limitations of the market. You need to make certain your target market is definable and reachable.

“We like to fund companies for which there is a real need for their product—a need that's there right now. We're conservative that way.”

Damon Doe
Managing Partner,
Montage Capital

“Before they'll fund a company, a venture capitalist will always do due diligence; test out the market; call potential customers.”

Mark Gorenberg
Venture Capitalist

Domestic Market Size and Trends

What is the current approximate size of your target market? _____

What is the rate of growth of the target market? _____

What changes are occurring in the makeup of the market? _____

What changes are affecting the ability to afford the product/service? _____

What changes are affecting the need for the product/service? _____

How are customers changing the use of the product/service? _____

What changes in social values and concerns are affecting the product/service? _____

Globalization: Market Size and Trends

Answer the following questions for each of the countries or regions you are targeting.

What is the current approximate size of your target market? _____

What is the rate of growth of the target market? _____

What changes are occurring in the makeup of the market? _____

What changes are affecting the ability to afford the product/service? _____

What changes are affecting the need for the product/service? _____

How are customers changing the use of the product/service? _____

What changes in social values and concerns are affecting the product/service? _____

Target Market Plan Preparation Form

Outline the Target Market portion of your plan on this form. More detailed descriptions of your market and results of market research can be included in your plan's Appendix.

Market Description: _____

Market Size and Trends: _____

Strategic Opportunities: _____

Use this information as the basis of your plan's Target Market section.

SAMPLE PLAN: TARGET MARKET

Indicates specific geographic market.

TARGET MARKET**Market Description**

ComputerEase operates in the Greater Vespucci, Indiana area. Online, the target geographic market location includes English-speaking countries with high levels of business automation. In person, the geographic area includes the incorporated cities of:

- Vespucci
- Whitten Park
- Murray

And the suburban communities (with business centers) of:

- Karen's Springs
- Gaspar
- Lake Bonneau

Market Size and Trends

The online market for computer training is large and growing exponentially as high-speed Internet access becomes more ubiquitous and people become more comfortable with the idea of interacting with remote software via a Web browser. Also, as companies automate more of their business processes, they require quick and efficient ways to get their employees up to speed on new or updated business software—both off-the-shelf and specifically designed for their organizations. Vespucci and its surrounding communities make up a large and economically healthy area. According to census figures, the city of Vespucci has a population of approximately 675,000, making it the 16th-largest city in the U.S. The Vespucci Metropolitan Statistical Area (MSA) has an overall population approaching 1,500,000.

Relates health and diversity of target market.

The business climate has been consistently strong due to Vespucci's diverse economic base. The Vespucci MSA includes three county seats and is the home to numerous government offices. The Vespucci Chamber of Commerce estimates that, of the more than 2,000 companies and institutions with more than 50 employees in the Greater Vespucci area, at least 1,500 are in the primary industries targeted by ComputerEase.

Also located in the Greater Vespucci area are:

- An international airport
- The regional processing centers for three national insurance companies
- The data processing center for the state's highway patrol
- A state university and six other colleges and universities
- A major medical center

SAMPLE PLAN: TARGET MARKET (continued)

The economic base has been expanding, and recently a national research institute with 280 employees announced its intention to relocate to Vespucci. A survey for the local newspaper, *The Vespucci Explorer*, showed that 43% of larger companies intended to add employees in the next 24 months.

The breakdown of employment by industry is approximately:

- 25% retail and wholesale sales
- 25% government
- 25% manufacturing
- 25% education, health, and services

Target Customers

ComputerEase primarily targets large- and medium-sized businesses with high computer use. They have:

- More than 50 employees
- High employee turnover
- An expanding number of employees
- A high dependence on computers

They are in the following industries:

- Government
- Insurance
- Financial/Banking
- Accounting
- Colleges and universities
- Engineering
- Hospitals and other medical facilities
- Airlines

Management personnel in these industries generally view themselves as responsible and professional. They prefer to deal with service companies that present a stable, conservative image. They are generally more sensitive to quality than price, and can be considerably influenced by the fact that similar companies already use the service provider.

Clearly identifies characteristics of target customers.

Indicates self-image and sensitivities of potential customer.

SAMPLE PLAN: TARGET MARKET (continued)

*Shows real
market exists.*

Market Readiness

ComputerEase's Vice President for Marketing conducted a market research survey with a selection of targeted companies. This survey indicated the particular patterns of these companies in relation to computer training need:

- 97% indicated a need for employees trained in computer use.
- 83% indicated some need for company-provided computer training.
- 67% indicated a need for occasional or specialized training.
- 41% indicated a need for continuing training programs.

The survey also revealed how such companies do or would spend funds on computer training. Specific data indicates:

- 42% of these companies have a "training" amount allotted in their current year's budget.
- 18% specifically have "computer or software training" budgeted for the current year.
- 34% have purchased software training services in the last year.
- 66% indicated they would purchase more training than at present if better-quality, more-reliable training were available.
- 72% said they wanted to minimize the amount of time employees spent out of the office for training, and that they would pay a premium for online training that workers could complete without leaving their desks.

Fully 74% of those using computer training said they were either highly unsatisfied or somewhat unsatisfied with their current training arrangements. This level of dissatisfaction is substantially higher than the satisfaction level with other business services (27% average dissatisfaction level with services such as accounting and legal).

Strategic Opportunities

Computer training services in these companies are overwhelmingly purchased, recommended, or approved by the Human Resources/Personnel Director (83%), providing a clear target for marketing efforts. Clearly, there is a real need for ComputerEase's services in the Vespucci area and online. An expanding and healthy market, a highly dissatisfied market, and an identifiable way to reach the market all provide a substantial opportunity for ComputerEase to fill a void in the provision of software training services.