Start Your Business

Module 2: Define Your Market

March 2023

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Zwolle, the Netherlands
March 2023

Module overview

Objectives

- To understand what makes a product or service 'better'
- To understand the importance of clearly defining your customer(s)
- To learn how to conduct a customer research
- To understand the importance of knowing your competitors
- To learn how to conduct a competitor research
- To learn how to calculate your Market Share
- To learn how to assess your business viability on basis of an analysis of the market and your competitors

Materials

- Flipcharts and markers
- Figure with roadmap towards a successful business
- Figure of the Start Your Business training steps
- Diagram of shoe-making business
- Figure of the 3 elements of a good business idea
- Picture of funnel leading to a Business Plan
- One physical product to showcase
- Example of Customer Research table
- Figure of the market share pie diagram
- Market Share Calculation form

Duration

Element	Duration
Introduction	15 minutes
5. A 'better' product or service	60 minutes
6. Defining your customer	60 minutes
7. Your customers (homework)	60 minutes
8. Your competitors (homework)	60 minutes
9. Calculate your market share	90 minutes
Closure	15 minutes
Total	**6 hours**

Introduction

- Welcome the participants and make sure everybody feels at ease.
- Introduce the session of today to the participants and go through the objectives of this Module.
- Show them schedule of the day, including the breaks.
- Explain the ground rules of the training.
- Make sure that everybody understands how the current Module fits within the total picture of the Start Your Business training (show picture).
- Do a short recap of the main learning points of the previous module: Business Plan (Intro).

Roadmap to a Successful Business

5. A 'better' product or service

Theory: A 'better' product or service

Introduction
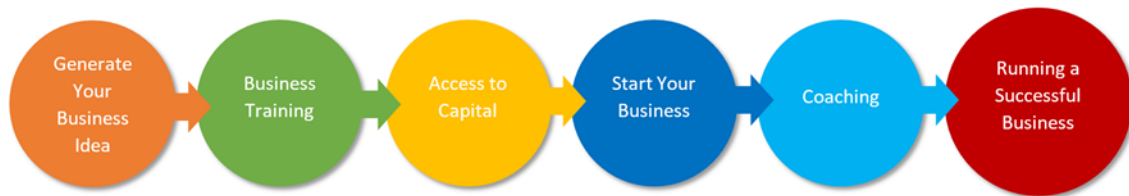
Read and explain the first two paragraphs (until ■) of the Theory 'A 'better' product or service'. (For the facilitator: you will need one product to showcase in front of the group.)

During the Generate Your Business Idea training we already talked about the importance of identifying your customers and meeting their specific needs. If there is not a clear need for a certain product or service your customers will not buy it from you which means that your business is doomed to fail.

Exercise

- Ask students to group in pairs of two.
- Ask students in pairs to discuss the question: What does it mean to have a 'better' product or service? What determines if a product or service is 'better' than something else?

Not only is it important to meet your customers' needs; equally important is that your product or service meets the needs of your customers more than the products or services of anybody else. In other words: your products or services have to be "better" than those of others. ■

- Ask each pair to share their answer with the larger group. Write down the answers on a flipchart. ■
- Read the last two parts of the Theory 'A 'better' product or service' (from ■), and compare it to the answers on the flipchart.

For most customers, "better" means:

- The facilitator takes one product of his/her choice and places it in front of the group (for example: a shoe, a cell phone, a bag of rice). Ask the students: How can this product be made better? Try to refer back to the answers on the flipchart given on the previous question.
  - **More reliable:** people find that the product or service meets their need the same each time that they use it. It does what it is supposed to do.
  - **More complete:** people find that the product or service meets more of their needs than the same products or services from competitors.
  - **More economical:** the product or service you offer costs less money than somebody else's product or service.

Reflection

- **More convenient:** People can get the product or service at the time they need it, at the place they need it, and without too much trouble.

Remind the students that 'better' can mean a lot of different things. For a business owner it is important to identify which property is most important for clients. This is not always what you yourself think is most important!!! (refer back to the exercise and the different opinions about making the showcase product 'better').

- **More satisfying:** People find that the experience from buying the product or service is something that brightens up their day and makes them feel good about themselves.

Your product or service does not have to be better than your competitor's products or services on all of these things at once. But it does have to be better on enough of them to be seen as better overall – and the better it is, the more successful you are likely to be.

6. Defining your customer

Theory: Defining your customer

Introduction:

Read and explain the Theory 'Defining your customer'. Refer to the figure of the funnel leading to a Business Plan, and tell the students that we are in the second step (Defining the Market). Tell the students that in this exercise they are going to define the customer(s) for THEIR selected business idea.

Now that you have generated your Business Idea, you have to clearly define who your customers will be. This is important because – as we saw before – different groups of people have different needs, and thus require different kinds of products and services. You have to be sure that your product or service meets the needs of your customer in the best possible way. This requires that you know your customers very well! For example: if you run a women's clothes shop you need to know what colours and styles they prefer. You also need to know how much they are willing to spend and what kind of service they like. Else they may go to your competitor.

Exercise

• Give each student a paper and a pen.
• Tell students to group into pairs.
• Ask the students - in pairs - to question each other on the 4 questions listed in the Theory about your customers. Let them take turns on the questions and write the answers down on their paper.

There are a number of questions that can help you to define your customers. Important to note, this is all related to YOUR selected business idea.

• Tell students to look at each other's answers critically. The answers have to be as concrete as possible. Very general answers are not very helpful.

1. **Whose needs will your product or service be fulfilling?** Here you would give a general description of likely customers (the customer profile). For example, the customer profile for irrigation pumps would be farmers in the village who have a certain amount of land, who have access to a water source, who are innovative and business minded and have a medium income level.

• Ask the students to make an estimation of the total number of customers for their products or services within the area that they want to serve. This information will be used later on in the training.
• Let two people present their answers to the bigger group. Ask the group to give their feedback.

2. **Which are the most likely customers for your product or service?** (think about categories of people, for example: children, youth, elderly, parents, sports people, government people, tourists, farmers, etc.)

3. **Where (geographically) will your customers come from?** Only from your neighbourhood? From your whole community? From nearby communities?

Reflection

Tell the students that the more accurately they can define their customer(s), the more accurately they will be able to design their business strategy.

4. **From whom and where do they currently get what they need, and in what way?** For example: they may buy their products from a competitor in a nearby village.

You may have already answered part of the above questions during the GYB training, but at this point it is time to really narrow down your customers. There is often a tendency to over- generalize the customer (for example: "the community", "women" or "my neighborhood"). You need to be very specific in order to be able to say something useful about specific needs.

If you want to get better than your competitors you will have to understand your customer better than your opponent does. You will have to know what your customers see as a better product or service, and what is most important to them. For example: a short distance, a low price, a nice and helpful seller.

One way to find these things out is to talk to the people that would be your customers. One option is to wait until they have bought something from a competitor and just ask them something like: 'That looks nice, where did you get it?'. You can then carry on wherever the conversation takes you. Try to keep it as natural as you can. Some good questions might be:

- What is a good product in your opinion?
- Why do you buy the product from this place?
- I've been thinking about selling/doing something like that myself and I was wondering how I also could do it, preferably in a way that is better – do you have any ideas on that?

7. Your customers | homework

Introduction

Tell the students that in this exercise they will do a customer research in their own community. This exercise is similar to Exercise 8 of the GYB training, only that now they already have a specific business idea and they also have a more clearly defined customer in mind.

Exercise

- Ask students to group in pairs.
- Ask the students to look again at Exercise 6 and to the particular characteristics of their potential customers.
- Tell the students that they will prepare some questions that they will ask to their potential customers. The questions that they ask should give them information about:
- Frequency of purchase: How often - on average - do they buy the product or service per week/month/year?
- Personal preferences: What do customers perceive as being most important issues when purchasing the product or service? These can relate to quality, service, availability, presentation, distribution points.
- Price: How important is the price in their purchase decision? How much are they currently paying for the product/service? How do they perceive this price?
- Suggestions for improvements: What would your customers like to see different? Are there things that could improve the product or service? What would make customers switch from one seller to the other?
- Ask students to write down a number of questions that they would like to ask to their potential customers in their community, and which cover the above aspects.
- Let the students – in pairs – look at each other's questions and let them make suggestions for improvements.
- Tell the students that as homework they will talk to people who match with their customer profile (as defined in Exercise 6) and collect the needed information from them.

Reflection

Tell the students that the interviews don't have to be very formal. They can just start a casual conversation and cover one or more questions. They don't need to ask all the questions to the same person. Since they talk to several people they can spread the questions among these people. Tell them to talk to at least 10 customers.

8. Your competitors | homework

Introduction

Read and explain the Theory 'Your competitors'. Tell the students that they will conduct a competitor research in their own community. They will focus on competitors relating to their own business idea. Before going into the field they will first prepare their research.

Exercise

- Group the students into pairs.
- Give each student a paper and a pen.
- Tell students to carefully review – in pairs – the findings of Exercise 6. Tell them to focus specifically on 2 questions that were addressed:
- Where will your customers be located geographically?
- Where are your customers currently buying their products/services?
- The answer to these questions will help them to identify where to look for their competitors. Should they only look in their neighbourhood or also in the wider community? Or maybe even in other nearby communities? Let students identify their research area and let them write it down on their paper.
- Let students make a table with four columns. Label these columns: "Competitors", "Price", "Strengths" and "Weaknesses" (see Annex).
- Let students – in pairs – consider their research area. Which competing businesses do they already know in the research area? Let them write the name of these businesses in the column "Competitors" of the Competitor Research table.
- Tell them that as homework they will have to identify all their other competitors in their research area and fill in the Competitor Research table. To do this, they will have to consider the questions mentioned in the Theory. Tell them to make a small plan about how they will collect the needed information. Who will they talk to and what questions will they ask? Let the students – in pairs – check on each other's plans an suggest improvements where necessary.

Reflection

Tell the students that identifying their competitors is very important to assess their business viability. Let them remember the session about the Market Share during the GYB training. As facilitator you can show again the graph of the market share (pie diagram) and point to the importance of taking into account your competitors.

Theory: Your competitors

More often than not, there will be several businesses selling the same kind of product or offering the same kind of service in a certain area. For example: you may find several grocery stores operating in the same village. These businesses are said to be competitors of each other because they are targeting the same potential customers. Or to say it in different words: they are trying to meet the needs of the same potential buyers. This means that the business that is able to meet the needs in the best way, is the one who will sell the most, and probably make the most profit.

When planning to set up a business it is crucial to know your competitor's strategies and the ways in which they are trying to meet the needs of their clients. Not only can you learn from your competitors, but you can also see what you could do to become better than they are. Before starting your business you should therefore conduct a competitor research. This research is conducted in the field and tries to answer the following questions:

1.   Who are your competitors?
2.   How do they attract customers?
3.   How do they treat their customers?
4.   What are similarities between competitors?
5.   What are differences between competitors?
6.   Why are some competitors more successful than others? What is their clue to success?

In researching your competitors you should also need to understand how the competition works. Do your competitors keep their customers based on product price? Or are there other important factors such as quality and friendliness? Are they competing individually, or is there some sort teamwork going on to get supplies cheaper or to keep out new competition?

A good way of collecting information from your competitors is to personally visit their store and buy something from them. While you do this you can have a closer look at their strengths and weaknesses. You may even start a conversation with them and ask them specific things about their business.

Another way of collecting information is to talk to customers of your competitors. You can ask them why they buy from that particular business, why they prefer that business above other businesses, what price they are paying and what could be improved.
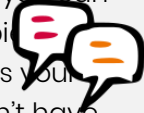
9. Calculate your market share

Introduction

Read and explain the Theory 'Calculate your market share'. Tell the students that in this exercise they will calculate the market share for their own business idea, taking into account the area that they are planning to serve. For this exercise they will need information that they collected during previous exercises.

Exercise

- Ask students to pair up. Tell the students that each student will work on his/her own business idea, but that they will check on each other's calculations.
- Give each student a Market Share Calculation form and ask them to fill it in (see Annex). While doing so the students – in pairs – can discuss and help each other out.
- As facilitator make sure to check up on the students and support them where needed. Some calculations may be difficult for them.
- Ask the students if their expected Market Share is bigger or smaller than the required Market Share.

Reflection

Tell the students that this exercise is a first estimation to assess if their business idea has a chance of being successful. If the expected Market Share is smaller than the required Market Share it does not automatically mean that it is not a viable business. In that case it is good to look at the calculations together with the facilitator. Still, other options are possible, for example: enlarging the area that you want to serve.

Theory: Calculate your market share

In the SYB training we introduced the concept of market share, that is, the proportion of the market (the number of potential customers of your product or service) that you can serve with your business. We also saw that the bigger your market share (your piece of the pie) is, the bigger your profit will be. In Exercise 9 we also saw that sometimes your market share can be too small to survive as a business. In that case you just don't have enough clients to make a sufficient profit.

But what is 'enough'? How big should the market share be for your business to be viable or successful? If we want to answer this question, we first need to find out three things:

1. How big is the total market worth for your product or service?

How big is the total amount of money being spent on the product or service that you and your competitors offer?

To calculate this, you need to know:

a. How many customers (roughly) are there for this product or service in the area that you serve?

b. How many times per month does a customer tend to buy your product or service? (or: how many times does a customer tend to buy your product or service)

c. How much does each customer spend on their product or service each time on average?

d. To calculate the total market worth you simply multiply: a x b x c.

Example

Suppose your business idea is to sell bottled water in your community.

a. Your customers are family households. In your community there are 500 households.

b. On average, every household buys 8 bottles of purified water each month.

c. On average consumers pay $ 1.00 for a bottle of water.

d. The total market worth for bottled water is therefore: 500 x 8 x $ 1.00 = $ 4,000/month. So every month there is $ 4,000 being spent on bottled water in your community. This would be your maximum monthly revenue if you were the ONLY business selling bottled water.

2. How much money do you need coming in every month to make your business work?
How big does your slice of the total pie have to be?

To calculate this you will need to know:
e. How much money do you need 'free to spend' each month in order to pay for your basic things, like education, food, clothes, rent?
f. How much do you need to sell in order to end up with that 'free to spend' amount? The income from sales of your business must be higher than the 'free to spend' amount, because you first need to deduct from this the costs of your business. At this point we assume that these costs will be 50% of the money that comes into your business from sales. In other words: each month you need to sell for an amount that is twice as much the amount that you need 'free to spend'.
g. Once that you know how much money has to come in every month from your business, you can now compare this figure to the total market worth (which you calculated in point 1). What proportion is the amount you need to sell of the total market worth? Divide the amount that you need to sell by the total market worth and multiply this with 100%. This gives you your required market share.

Example
e. Suppose that you need $ 500 per month 'free to spend' to make a decent living (to cover schooling, rent, food, clothes, transportation, etc.).
f. If we assume that half of the money from your income from sales of bottled water is used to cover the costs of your business, then you would need to sell $ 1,000 per month to end up with $ 500 'free to spend'.
g. The total worth of the market is $ 4,000. You need to sell $ 1,000. So the proportion of the total market that you need is: $ 1,000/$ 4,000 x 100% = 25%. This is the minimum size of your 'slice of the total pie' that you need in order to make a decent living.

3.How realistic is it that you will obtain the market share that you need?
(Is it possible to obtain the slice of pie that you need?)

To answer this question you first need to know:
h. How many competitors are serving the same area as you will be serving? The answer to this question can be found in Exercise 7.
i. What proportion of the market does each competitor have currently? You can calculate this by simply dividing 100 by the number of competitors. It will give you an indication of the 'size of the slice of the pie' that each competitor currently has.
j. Now, suppose that you would enter the market. This means that there is one more player in the market. The proportion that every business (including your business) would cover can be calculated by dividing 100 by the total number of businesses (the number of your competitors + 1).

Finally, you can compare the proportion that you would probably obtain (point 3j.) with the proportion of the market that you would need (point 2g.). Is the first bigger than the latter? Than you have a good chance your business is going to succeed.

Example
h. There are 2 businesses in your community who are selling bottled water.
i. Each of these businesses is covering 50% of the total market (100 divided by 2). So each business is selling for an amount of $ 2,000 per month.
j. If you would join the market, each one of you would cover 33% of the total market (100 divided by 3). Your monthly sales would thus be: $ 4,000 x 33% = $ 1,333.

In this example, your market share (33%) would be bigger than the market share that you need (25%). This means that you have a good chance that your business will succeed!

Even though the market share calculation will never be 100% accurate, it does provide you with a fairly good indication about the potential of your business idea. If your expected market share is quite below your required market share, then it may be a good idea to review your business idea. Maybe you should consider your 2nd or 3rd option.

Closure

Evaluation

Discuss the lesson with the students. What went well, what could have gone better, and what have they learned?
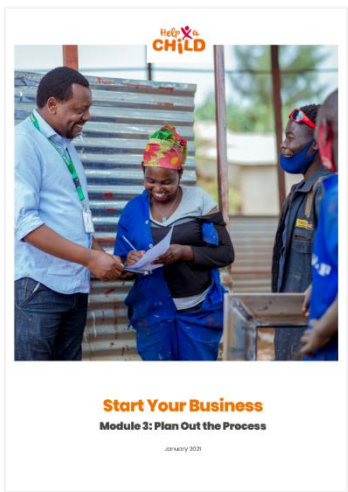
Annexes

On the next pages, you find the annexes for this module:

•   Competitor Research Table

•   Market Share Calculation Form

Follow-up

This is the end of module 2 of the 'Start Your Business ' training. Continue with module 3: 'Plan Out the Process'.

Annex: Competitor Research Table

Competitor	Price	Strenghts	Weaknesses

Annex: Market Share Calculation Form

Calculating Your Market Share

1. Total Market Worth

a. How many customers (roughly) are there for this product or service in the area that you serve? *(see Exercise 6)*	
b. How many times per month does a customer tend to buy your product or service? (from you or your competitors) *(see Exercise 7)*	
c. How much does each customer spend on the product or service each time, on average? *(see Exercise 7)*	
d. How much is the total Market Worth per month? *(a x b x c)*	

2. Needed Market Share

e. How much money do you need 'free to spend' each month in order to pay for your basic things, like education, food, clothes, rent, etc.?	
f. What would be your required monthly sales in order to end up with the amount mentioned in point *e*? *(2 x e)*	
g. What proportion is this of the Total Market Worth? *(f / d)*	

3. Expected Market Share

h. How many competitors are serving the same area as you will be serving? *(see Exercise 7)*	
i. What proportion of the market does each competitor have currently? *(100 / h)*	
j. What proportion of the market could you cover, given the competition? *(100 / (h+1))*	

4. Expected Sales

k. How many products or services do you need to sell to achieve your required proportion of the market? *(d x g)*	