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Market Comprehension

Doug Green

When making a comprehensive evaluation of a business I spend at least twice as much time on understanding the market as I do anything else. That's because a failure to fully comprehend a market can be the source of so many problems in other areas and even company failures. I use the word *comprehend* because most entrepreneurs and investors realize that they need to *understand* their market. The problem is that their definition of "understand" is too narrow.

One striking example of this was a startup company developing telecommunications equipment to sell to large telephone companies. The product had tremendous value to the company's customers, and the customers liked it and wanted to buy it. What could go wrong? One problem: they failed to take into account the budgeting and buying process that all of their target customers used. These large companies planned for new equipment in the summer, budgeted for it in the fall, and purchased it throughout the next year. This startup did not time their development schedule in synch with the buying cycle of their market. As a result, when the product was ready, their customers could not buy it for almost another year. They had to go back to their investors to ask for more money than they had expected to stay afloat when they had believed they would be generating revenue.

Another issue that startups often face is a lack of understanding of HOW and WHERE their customers want to buy products. One example is a recent new designer eyewear company. Their strategy was to revolutionize the industry by eliminating stages in the distribution channel and selling online. This would enable them to offer quality and design similar to $600 designer glasses for under $100. With this plan they were able to raise over $50 million in venture funding. The company did an excellent job of execution, delivering quality products and establishing a powerful brand.

What they failed to consider is the process that most people go through when choosing eyewear. The look of a person's face is very important to them. They want to see what glasses look like on their face, and to compare them to other alternatives. They tried to accommodate this by allowing customers to have several pair of glasses shipped to them to try on at home. While this did satisfy many people, it did not give them access to the broader market that would justify their funding. As a result, the company has now begun to open high end brick and mortar stores and at the time of this writing has stores open in seven states. While they still have a good brand and quality product, they have had to change their entire business model to account for the additional expenses of having their own stores. It is still uncertain whether or not they will turn out to be a good investment.

The final example is that of an entrepreneur with a very good recipe for salsa. He looked at offering his product online but was smart enough to realize that people wanted to buy it in stores. He had plenty of margins in his financial model to accommodate a retail outlet taking a cut. He found several high end grocery chains enthusiastic about his product and began to raise money. When the time came to come to negotiate purchase agreements, however, he found the stores unwilling to buy directly from him. Their logistics strategy precluded them from buying directly from individual vendors as this would result in too many deliveries to a store that carries thousands of products. They required that he sell through a distributor, who would also take a cut of the profits. This didn't leave enough profit to justify the investment.

All of these stories are real, and they represent only a few ways in which a business can fail to comprehend their market. Unfortunately, these types of issues are far from uncommon. In fact they are more the rule for inexperienced entrepreneurs.   To comprehend a market is to take into account every aspect of the buying process and customer buying behavior.

Doug Green is the founder and principal of the Bradam Group, a consulting firm specializing in marketing, strategy, and early stage execution with a focus on new ventures. He is also teaches entrepreneurship and marketing at Duke University. For more information on Doug and The Bradam Group visit www.thebradamgroup,com.