



**MaRS** | ENTREPRENEUR  
WORKBOOKS  
**Market Strategy Development Series**

Building Block 1  
**The Analytical Foundation**

# MARKET STRATEGY DEVELOPMENT

## Introduction: What to expect?

In his book *Outliers*, Canadian author Malcolm Gladwell looks at the relationship between statistical probabilities and the chance of success in your chosen field of work or sports. His essential claim is that you need around 10,000 hours of practice to become really good in a particular field.

This workbook will not take 10,000 hours to complete, so you should not expect that you will become an expert in Market Strategy by going through the activities outlined within. Rather, the purpose of the workbook is to help you understand and focus on the key issues in the field of Market Strategy, and to introduce you to frameworks within which to think and discuss essential areas of your business. The process offered will provide sufficient grounding in the topic so that you will know what questions to ask advisors and consultants, and, in the case of consultants, how to evaluate their work.

Additionally, this workbook provides a launch point for a number of vital business decisions you will have to make to develop your start-up. As a best practice, it is critical to return to these workbooks and revisit facts and assumptions on a continuous basis. This will ensure not only that you build on your learning experience but that you adjust your assumptions to maintain the right course for your business.

## Building Block 1: The Analytical Foundation

This workbook is part one of three covering market strategy. It is designed specifically for entrepreneurs in the high-tech space.

The market strategy development process consists of three major parts, or “Building Blocks,” each adding to the foundation of the previous one:

<b>Building Block 1:</b>	<b>The Analytical Foundation</b>
Building Block 2:	Critical Value Factors
Building Block 3:	Strategic Marketing Approach

Each of these Building Blocks addresses an essential part of your market strategy. Once you have finished all three workbooks, you will have a complete market strategy document for your company.

With this document in hand, you will be ready to begin work on tactical programs designed to implement your strategy, including sales, marketing communications, and product management.

**Business Planning:** If you are seeking external financing, the market strategy workbook will also help you generate most of the analytical information you need to create a business plan, a pitch deck and other required documents.

## How to use these workbooks

### 1. Make it a team exercise—but make it quick!

Creating a market strategy can be very time-consuming, especially if you do a lot of market research upfront. But it does not have to be. We believe that much of the information you need is already known to your management team and advisors, so we recommend that you make the creation of your market strategy a team effort. However, time is of the essence for high-tech start-ups. Work through the Building Blocks thoroughly, but as efficiently as possible.

### 2. Record and test your assumptions

As you go through the exercises in these workbooks, record all your key assumptions in the accompanying planning document so you can test them later. This will be helpful when you do your market research, which will validate (or invalidate) the key assumptions you made when creating your market strategy.

### 3. Use the icons for help

The workbooks are structured under the assumption that this is the first time you, the reader, has undertaken a market strategy planning exercise. To help provide context for some of the ideas in these workbooks, we have clarified the ideas by defining key terms and offering real-world examples. In addition, we have provided links to online articles. For this reason, you may find it easiest to use these workbooks on a computer with an Internet connection.

Look for these icons:



denotes a key HR term that will recur in these workbooks



indicates an example drawn from a real-world business in order to illustrate an important idea



denotes a link to a more in-depth online article, video or template



appears wherever you are asked to record something in the accompanying planning document while completing the exercises



indicates key information for your business plan, pitch deck or other documents you might be preparing for potential external investors

## Assumptions

These workbooks are designed to assist entrepreneurs and leadership teams in early-stage high-tech companies with *discontinuous innovations*—that is, offerings that are fundamentally new to the market.

The workbooks are based on tried-and tested-strategy concepts and marketing theories that are relevant for start-ups within a wide range of industries including medical devices, software, clean-tech, advanced materials, and high-tech electronic and IT products. They are less relevant for start-ups in the biopharmaceutical industry, because of the regulatory environment surrounding that sector.

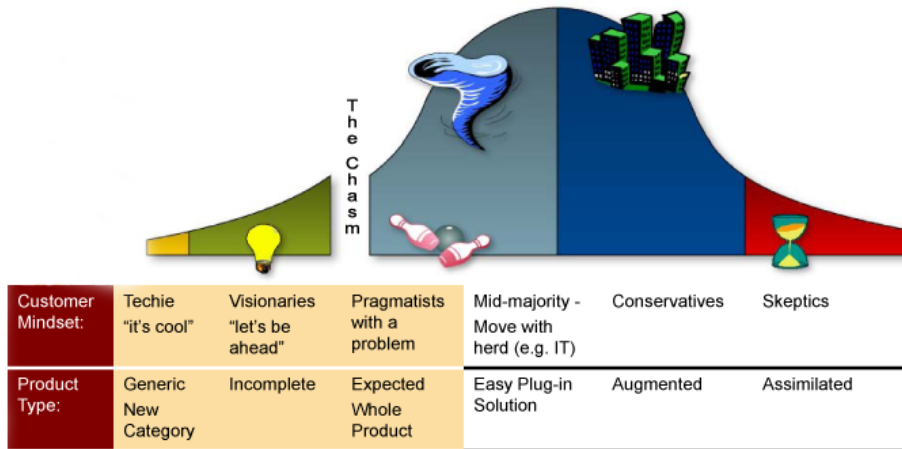
Many start-ups in Ontario fall into a broad group that is variously called Web 2.0, interactive media, or digital media. These companies build businesses using the Internet as an access/distribution platform for applications they developed using standard web technologies. In most cases, their offerings are not truly discontinuous innovations: they are evolutionary rather than revolutionary. These companies will still find these workbooks helpful, but should assume that their starting point is the Chasm (see below).

## Before you start

Building a market strategy in the technology industry is a bit like playing the dark, because entrepreneurs may know little about the market—and the market, in turn, knows very little about their technology. In trying to improve this situation for our clients, we decided to take the work of Geoffrey Moore (author of *Crossing the Chasm*) and Paul Wiefels (author of *The Chasm Companion*) as starting points for this series of connected workbooks on market strategy. Both authors are well-known experts in the field of technology marketing, and many in the technology industry will be familiar with their work.

A key concept in their work is the observation that technology markets develop differently than normal market lifecycles. In *Crossing the Chasm*, Moore points out that, following a time in the Early Market, disruptive technologies enter a pause of indeterminate length in their market development which he calls “the Chasm” (see figure below).

## Technology Adoption Lifecycle (TALC)



\*"Inside the Tornado" Geoffrey A. Moore and "The Chasm Companion" Paul Wiefels  
Image used with permission of the Ottawa Centre for Research and Innovation

**Note:** In these workbooks, we will focus on the first three stages: the Early Market, the Chasm, and Niche Markets. These are the most relevant for start-ups. Once a company is ready to move beyond these three stages, it is typically able to hire the staff and service providers needed to grow.

For those who are not familiar with the Chasm theory and its implications, the following link (see icon) will take you to an article summarizing its key ideas. **Much of the terminology introduced in this article will be used throughout these workbooks. We strongly advise you to familiarize yourself with the technology adoption lifecycle before moving on to the market strategy process.** In the figure below, we have used an example to illustrate the Chasm theory.



Learn more about using the [technology adoption lifecycle](#).



## Languishing in the Chasm

Here is an example of the Chasm, as described by marketing guru Geoffrey Moore:

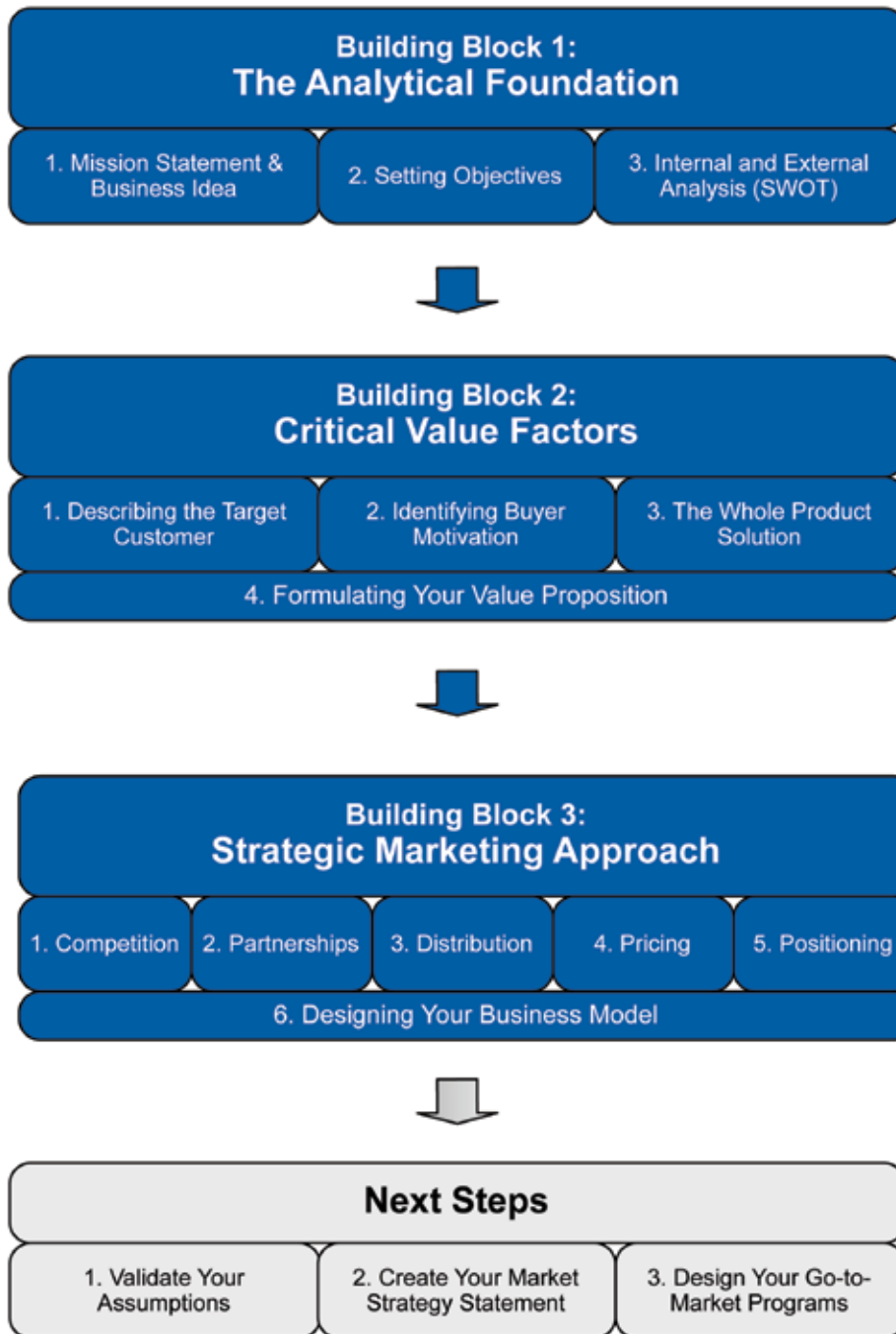
One of the hottest technologies in the early 1980s was **artificial intelligence** (AI). Dubbed “brains in a box,” AI was featured on the covers of major magazines and newspapers, and early adopters embraced pioneering companies such as Intellicorp, Symbolics and Teknowledge. They saw the potential for using computers to help humans make better decisions.

However, almost three decades later, the early majority in the mainstream market has still not embraced artificial intelligence. There are many obstacles yet to overcome: its incompatibility with familiar hardware, its inability to integrate with existing systems, and a lack of people with the specialized training needed to use it effectively. Several businesses continue to develop artificial intelligence, but none of them trumpet that phrase in their marketing material.

Although it remains a promising technology, AI is still languishing in the Chasm.

Source: Moore, G. A. (2006). *Crossing the Chasm: Marketing and Selling Disruptive Products to Mainstream Customers*. New York: Collins Business Essentials.

## Building Blocks of Market Strategy Development



## BUILDING BLOCK 1: The Analytical Foundation

This section will help you generate the basic insights and background data needed to create a market strategy. It will address the following questions:

- Where are you?
- Why are you here?
- Where are you headed?
- What are your options?

### 1. Mission Statement & Business Idea

#### a. Mission statement

A mission statement explains your reason for being in business. Developing it should be a team exercise: everyone should agree on what it says about your company. A good mission statement will have a motivating effect on your organization, so you should formulate it carefully.

A mission statement may be as brief as one sentence, or as long as several pages. Use the following questions as guidance:

- What business are we in? What (generic) needs do we serve?
- Why do we exist?
- What is the scope of our business? What markets do we (and don't we) occupy?
- How do we believe these markets will grow and develop in the future?
- What type of organization is this? What assets and skills do we bring to the market?
- How do we serve our customers?

For the purposes of this exercise, we suggest keeping the mission statement short—about a sentence in length.



Learn more about formulating a [mission statement](#).





## Examples: Mission statements

**3M:** To solve unsolved problems innovatively.

**Amazon:** To be Earth's most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online.

**Bayer:** To prevent, diagnose, alleviate and cure diseases; to contribute to ensuring a sufficient supply of high-quality food for an ever-increasing global population; and to help people to lead fulfilling, active lives through the contributions made by our products in the fields of communications, mobility, sports and home living.

**Bristol-Myers Squibb:** To extend and enhance human life.

**Bullfrog Power:** To provide practical energy choices that enable people to create a sustainable world for future generations.

**Dell:** Dell listens to customers and delivers innovative technology and services they trust and value.

**Facebook:** To give people the power to share and make the world more open and connected.

**Google:** To organize the world's information and make it universally accessible and useful.

**McDonald's:** To be our customers' favorite place and way to eat.

**Nike:** To bring inspiration and innovation to every athlete in the world.

**Opera Software:** To deliver the best Internet experience on any device.



*Write your company mission statement in the corresponding section of the Analytical Foundation planning document.*

## b. Business idea

While the mission statement defines the space you operate in and the high-level reason for your existence, the business idea defines your specific concept, product or invention. The purpose of this section is simply to describe the key aspects of your idea so that we have a clear understanding of the starting point for the market strategy process.



*In the corresponding section of the Analytical Foundation planning document, describe your business idea. (If your product is not yet ready for launch, describe what the product will be like at the time of launch). Use the questions below as a guide.*

- What is the name of your business/product/service idea?
- What kind of problem do you solve for the customer? Is this an important problem for these customers? Is there a big potential market for your idea?
- What is your competition and how do they solve this problem for their customers today?
- What makes you qualified to solve this problem better than your competitors? What is unique about your way of solving the problem? Is your uniqueness sustainable over time or will others be able to copy your idea easily?

As you describe your business idea, bear in mind the assumptions on which your idea rests, including customer problems, market potential, competition and your own qualifications.

Once you've defined your business idea, the remainder of the market strategy process will help you systematically validate the rationale and assumptions behind your business idea. It will also flesh out the market approach via a succinct value proposition (Building Block 2), and a sound business model and strategic market approach (Building Block 3).

## 2. Setting Objectives

Setting objectives will help your company stay focused during its strategic and tactical decision-making. Start-ups tend to be consumed by the needs of short-term survival, without much opportunity to think about the long-term. However, it is important for young companies to regularly analyze their business to determine where they would like to take it. Together with the rest of the leadership team, you should map out your key objectives on a quarterly basis for the next 12 to 18 months to make sure you stay on track.

In the early stages of the start-up, your objectives will be mainly financial: liquidity, cash flow, and financing. A number of marketing objectives are intertwined with these financial objectives. Potential investors will be concerned about your product's market possibilities, so be prepared to do the following:

- demonstrate that your target market is big enough to allow your company to grow
- recruit charter or pilot customers in the target market, and generate positive feedback as evidence of market acceptance
- validate your business model by showing you can produce an attractive mix of revenue
- show market momentum by adding customers and revenue from quarter to quarter
- prove scalability by ensuring that the cost of new customers is substantially less than the revenue added



Read more about [setting objectives](#).

Note that setting objectives is an ongoing process: you may have to revisit and change your objectives as you learn more about your market and customers. Changes in areas such as technology, financing, competition and the regulatory environment may also require you to revisit your objectives.



External investors will want to know the milestones you have achieved, and which you will target over the next 12 to 18 months.





### Examples: Market objectives

In 2009, **Bayer HealthCare** plans to achieve currency-adjusted growth rates ahead of the market average in all divisions, aiming to further improve the EBITDA\* margin before special items toward 28 percent.

In the direct-to-consumer communications of **Bristol-Myers Squibb**, the goal is to have the right patient get the right medicine at the right time.

**Google's** goal is to provide a much higher level of service to all those who seek information, whether they're at a desk in Boston, driving through Bonn or strolling in Bangkok.

**Opera's** main business objective is to earn global leadership in the market for PC/desktops and embedded products.

**3M Canada's** goals are to achieve:

- growth, productivity, and customer satisfaction
- employee satisfaction
- the enhancement and protection of 3M's reputation

*\*EBITDA= earnings before interest, taxes, depreciation, and amortization*



*Write your market objectives in the corresponding section of the Analytical Foundation planning document.*

### 3. Internal and External Analysis (SWOT)

After your team has agreed on market objectives, it is time to consider your company's strengths and weaknesses (an internal analysis), and to assess the environment in which you will conduct business (an external analysis).

A common framework for this discussion is called SWOT: Strengths, Weaknesses, Opportunities and Threats. A SWOT analysis provides a solid basis for considering strategic choices. It is also versatile, as it can be applied to a product, business unit or an entire company. It has two key purposes: to help a company determine its strategic goals, and to provide the foundation for developing a strategy.



Read more about [SWOT analysis](#).

Many have suggested the acronym should be TOWS, since the analysis starts with threats and opportunities (i.e., the external analysis) before moving on to the internal analysis.

#### a. External analysis

Businesses use a number of common frameworks to evaluate their threats and opportunities: a PEST analysis, an industry analysis, the technology adoption lifecycle, and a market analysis. While this might sound like a lengthy process, remember the initial premise for these workbooks: work quickly based on the information that you and your team already know. As you go through the various analytical frameworks, you may realize you are unsure of certain facts; in these cases, make an assumption—a qualified guess, if you like—and move on. The accompanying planning document has a section where you can record your assumptions so you can test and validate them once the market strategy development process is finished, *before* you implement the strategy.



Read more about [PEST analysis](#).

**I. PEST analysis:** PEST is an acronym for Political, Environmental, Social/Cultural and Technological market forces. This framework summarizes high-level trends as they relate to your target customers, markets and technology. The key outcome of a PEST analysis is the identification of opportunities and threats relevant to your business idea, including indicators of market size.

Conduct a PEST analysis by answering these questions:

- What key **political** and regulatory changes are taking place now? How do these changes affect your market and customers? How do these trends affect your



industry, as well as your suppliers, partners and customers?

- Are **economic** changes affecting your company, your customers or your suppliers? Does this create opportunities, or does it threaten your market potential or your customers' economy?
- What **social and cultural** changes are occurring? How are these changes relevant to the potential of your business in the short- and long-term?
- What key **technological** trends are impacting your business? Consider also technology changes that affect your customers and suppliers. Do any of these changes create opportunities or threaten your potential?



### Example: PEST analysis

What might a PEST analysis look like for a grocery business in Toronto?

#### Political factors

- In June 2009, Toronto enacted a bylaw forcing all retailers to charge at least 5¢ per plastic bag.
- Concern is growing in the industry over the increased potential for the abuse of market dominance.
- Supermarkets in Toronto must now post a colour-coded health inspection card at the front door: green represents a pass, yellow if work is needed, and red if the store has been closed due to food safety issues.

#### Economic factors

- Grocers face increased transaction fees imposed by credit and debit card companies.
- Grocery stores expect to benefit from difficult economic times as more consumers opt to dine at home.
- Food prices rose 7.4% in the 12 months leading up to February 2009. Food was the largest single factor driving up consumer prices, contributing to higher inflation.

#### Social and cultural factors

- Time-pressed consumers prefer one-stop shopping.
- Larger grocery chains are feeling their market share crowded by smaller, independent ethnic food shops that target profitable niches.
- Regional labour shortages exist across Canada.

#### Technological factors

- Radio frequency identity (RFID) tags are microchip transmitters embedded within a product's packaging. They do not require close proximity or a clear line of sight to a scanner for reading, so shoppers will be able to roll their cart onto a platform and all items will be scanned simultaneously and rung up quickly. RFID tagging in grocery stores remains in the experimental stage.
- Smart carts (essentially shopping carts with interactive video consoles) can use in-store wireless technology to update shoppers on inventory, specials and product launches. The device can scan items, update cost totals and allow the customer to pay without standing in a checkout line.



*Write the results of your PEST analysis in the corresponding section of the Analytical Foundation planning document.*

**II. Industry analysis** (also known as Porter’s Five Forces): This framework focuses on the immediate environment surrounding the company—competitors, substitutes, customers, suppliers and new entrants. It complements the PEST analysis by allowing you to map the structure of your industry and the forces that determine profit potential.

Note that an industry analysis looks primarily at the current structure of an industry, while the PEST analysis is concerned with the trends that may impact market and industry dynamics. Another way of describing this difference is that the industry analysis deals with the static forces in the industry, while the PEST analysis describes the dynamic forces that may change the future state of the industry.

Conduct an industry analysis by considering the five basic competitive forces:

- **Industry rivalry:** What is the degree of competition among existing firms? Intense competition leads to reduced profit potential for all companies in the same industry.
- **Threat of substitutes:** What is the availability of substitute products or services? If customers can easily switch to a competitor’s product, this will limit your ability to raise prices.
- **Bargaining power of buyers** (see also “Assessing the technology adoption curve” below): Does your business rely on a small number of customers who hold a significant market share? Powerful buyers have a significant impact on prices.
- **Bargaining power of suppliers:** Can powerful suppliers demand premium prices and limit your profit?
- **Barriers to entry:** What factors (such as government regulations, patents and economies of scale) act as a deterrent against new competitors?



Read more about [industry analysis](#).



Write the results of your industry analysis in the corresponding section of the Analytical Foundation planning document.

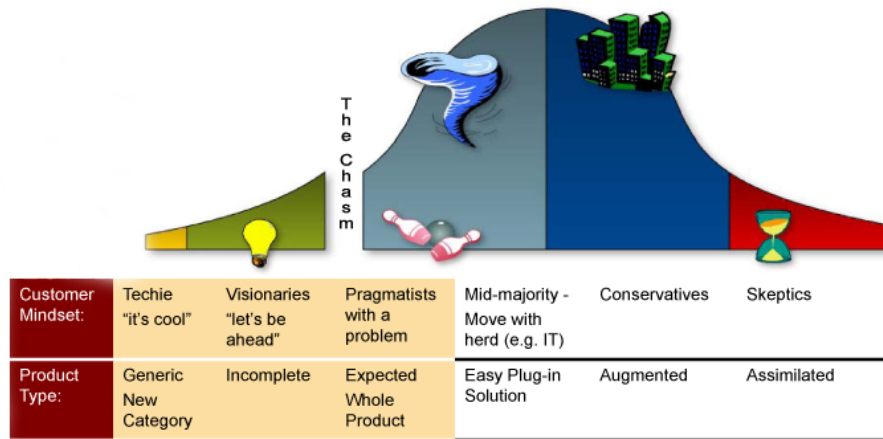
**III. Assessing the technology adoption curve:** In the 1950s, sociologists created a model called the *technology adoption lifecycle* (TALC). The model is a bell curve that describes the maturity of a new product. In the beginning, a small number of innovators get things rolling. Their influence spreads to early adopters, and then to a growing number in the early majority. After the technology has become mainstream,





the curve slopes downward again as the product is adopted by the late majority, and finally by the laggards.

### Technology Adoption Lifecycle (TALC)



"Inside the Tornado" Geoffrey A. Moore and "The Chasm Companion" Paul Wiefels  
Image used with permission of the Ottawa Centre for Research and Innovation

In his 1991 book, *Crossing the Chasm*, Geoffrey Moore identified a delay in this process for radically innovative products. Moore argued that companies with disruptive technologies faced a particularly difficult time moving from the early-adopter stage to the early majority. He called the gap between these two stages "the Chasm." He held that recognizing and then bridging the Chasm provided the key to success for high-tech start-ups.

When developing your market strategy, use the technology adoption lifecycle to help you understand the maturity of the product categories that are relevant to your technology. The purpose of considering the category is to allow you to identify strategic options with regards to your optimal place in a particular value chain. Following that, the next step is to determine how discontinuous your product will be in the marketplace.



*A **discontinuous** (or disruptive) innovation is one that is fundamentally new and unexpected, with the potential to displace the leading companies in the existing market. It represents a revolution rather than an evolution. For example, digital photography and desktop publishing were discontinuous technologies. Faster microprocessors and larger monitors are not.*

#### Position yourself on the curve

While the TALC presents a useful model, it is a blunt tool that offers little chance for precision. Keeping this in mind (and recognizing that your assessment will never be entirely accurate), work with your team to achieve consensus on an approximate placement of your product category on the curve. We suggest that each member of the strategy team write down where they believe the category is placed. After everyone has shared his or her opinion, the team can discuss the choices and search for common ground.



Learn more about using the [technology adoption lifecycle](#).

Think about the following as you discuss where to position your product on the TALC curve. Above all, remember Moore's warning about the Chasm, and avoid the common mistake of thinking that your product is more mainstream than it really is.

- As you observe the Technology Adoption Lifecycle develop for a category, try to maintain a distinction between your product's development and that of the category: If you entered a category in the Early Market, but are struggling to develop sustained growth, look across to the other players in the category – are they gaining traction in a specific market niche or are they also struggling? If it is the former, the problem might have to do with your performance, but if it is the latter, it might be that your category is stuck in the chasm.
- The placement of the product is geographically sensitive: its maturity will vary depending on where it is in the world.
- Many high-tech products constantly evolve. For now, concern yourself with where your product will enter the TALC at the time of launch.
- A product's rapid early acceptance may be confined to technology enthusiasts and visionaries. Wait until pragmatists adopt the product before positioning it outside the Early Market.
- The product may enter Niche Markets when it resolves problems that are particular to a given market segment. However, you should wait for evidence that this success carries over into other segments.
- If other segments do not adopt the product, it may enter Main Street without developing into a mainstream market. In other words, the product may only be effective in those initial Niche Markets.
- Each product and company must survive on its own. An individual product's success (or failure) does not guarantee the success (or failure) of the wider category, or others in it.

Please note that your success does not depend on your placement in the technology adoption lifecycle. More important is the realization that each stage of the lifecycle has its own requirements for success.



*Write the results of the assessment of your place in the technology adoption lifecycle in the corresponding section of the Analytical Foundation planning document.*



*When conducting an external analysis, one of the key exercises is to estimate the size of your target market. This provides a critical piece of information for potential investors, so we advise you to examine any indication of market needs and potential when you do your external analysis.*

**IV. Market analysis:** The final point of the external analysis is to conduct a market analysis. The purpose of the market analysis is to describe the key factors affecting your customers and the market they are in. The market analysis takes you one step closer to understanding the dynamics required to select and later target specific customers.



*Read more about [market analysis](#).*

Having already done a PEST, industry, and technology adoption lifecycle assessment, much of the data needed for a market analysis will already be familiar. Nevertheless, the market analysis will allow you to categorize and explore specific facets that will aid in later decisions relating to your strategy, customers and product.

The market analysis consists of five steps, each designed to cover different facets of the demand side:

- i. Market issues:** Consider the issues that may affect the market's customers and offerings.
- ii. Market segments:** Evaluate various aspects of the market and identify the most attractive segments.
- iii. Needs and demands:** Highlight gaps in the current market (i.e., underserved customer needs).
- iv. Switching costs:** Weigh the difficulties and costs for potential customers to switch from their current supplier/solution.
- v. Revenue attractiveness:** Consider the elements that affect pricing power and profit margins

As you conduct the market analysis, keep in mind that the overarching purpose of the external analysis is to identify opportunities and threats.



*Write the results of your market analysis in the corresponding section of the Analytical Foundation planning document.*



## b. Internal analysis

Now you are ready to start the internal analysis to determine your company's strengths and weaknesses. Start by considering the following factors:

- current performance
- brand power
- cost structure
- product portfolio
- R&D pipeline
- technical mastery
- employee skills
- company culture

Assess your strengths and weaknesses in relation to the opportunities and threats you identified in your external analysis. What can you leverage to capture new opportunities? Where do you need to add capability to exploit the opportunity? How can you overcome a potential threat? Will this threat erode a strength or amplify a weakness?

Remember to rate your strengths and weaknesses as they pertain to your ability to secure opportunities. For example, if you see an opportunity to grow your business in Quebec, do not rate your network in Alberta as a strength.

It is also important to examine strengths and weaknesses in relation to the competition. What do you do better than your competitors? What do they do more effectively than you? Identify the opportunities that you are best positioned to capture compared with the competition.



### Example: SWOT analysis

Reflect on what a SWOT analysis might reveal about **Google**:

#### Strengths

- strong reputation and familiarity
- speed and user-friendliness
- relevance ranking based on citations
- control of nearly two-thirds of the query market share

#### Weaknesses

- too reliant on search-based advertising revenue
- English-language orientation
- lack of expert search capability
- content is arbitrary, inconsistent

#### Opportunities

- new user groups
- expert search capability
- use of cost-based content
- display advertising

#### Threats

- privacy concerns
- legal challenges
- click fraud
- competition from Yahoo, MSN



*Write the results of the internal analysis in the corresponding section of the Analytical Foundation planning document.*



### **c. Formulate key strategies**

The findings from the SWOT analysis form the basis for revisiting your objectives and formulating your key strategies.

#### **Revisit objectives**

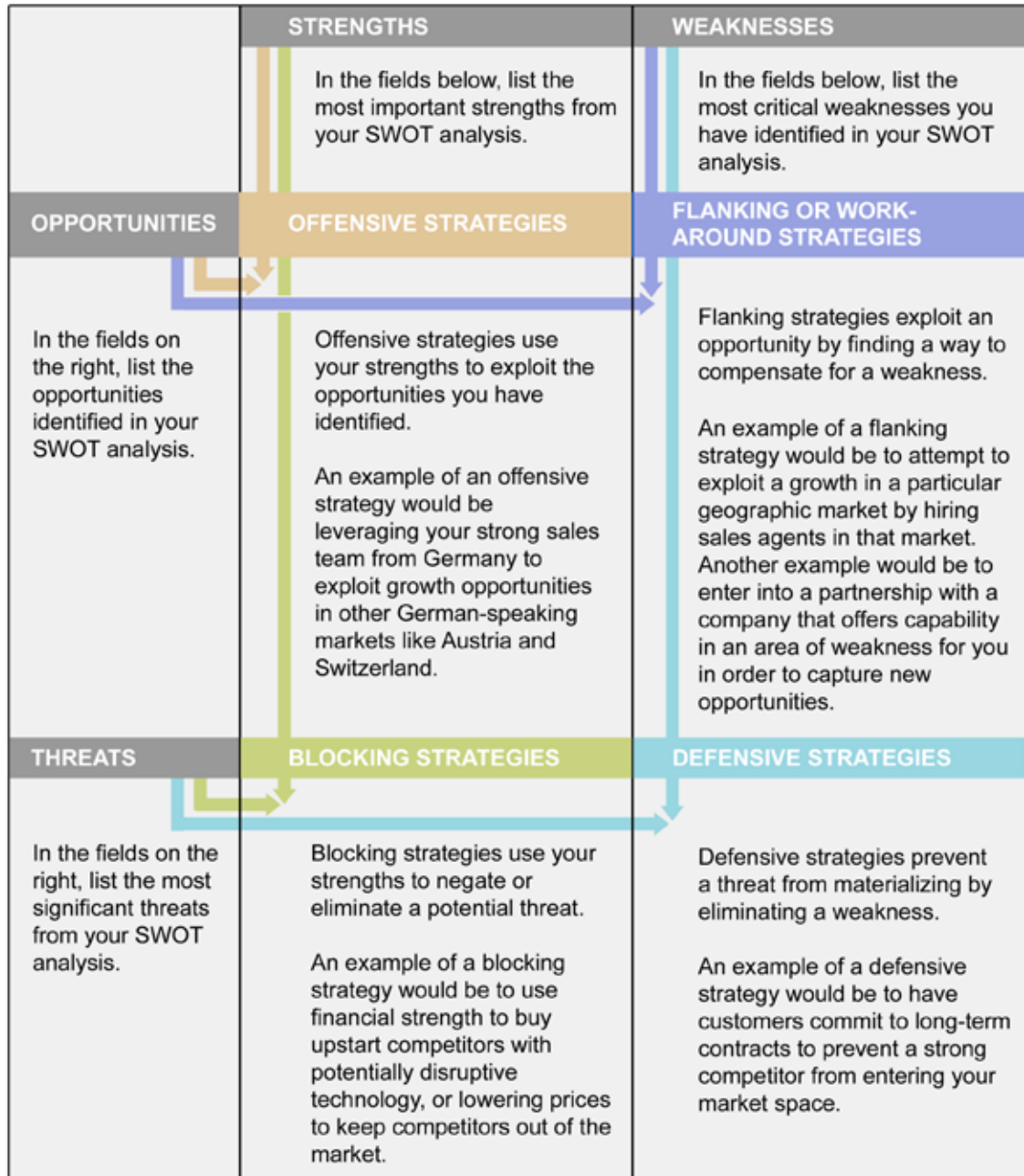
Once you have completed your SWOT analysis, go back to your objectives and assess whether they are realistic. Have you overestimated your revenue growth rate? Are you trying to reach your goals too quickly? Make any adjustments you feel necessary. Be honest in your assessments.

#### **SWOT analysis**

With your objectives newly validated, prioritize your market opportunities. Look for the low-hanging fruit—which opportunities are you best positioned to capture? What capabilities can you leverage to exploit them? Do you see attractive opportunities that, because of your weaknesses, you cannot pursue? When will you be able to target these?

Also consider which threats appear most imminent. Evaluate which, if any, must be mitigated, managed or monitored before you move forward.

The following figure—popularly referred to as a “WOTS-UP analysis”—serves as a great tool to summarize your SWOT analysis. It can help you answer all the questions above and identify how to proceed.



**Using the WOTS-UP analysis**

To start, list the results from your SWOT analysis in the respective boxes for strengths, weaknesses, opportunities and threats.

- Create *offensive strategies* by considering how you can leverage some of your strengths to capture opportunities.
- Identify *flanking strategies* by considering how you can capture opportunities by working around your weaknesses.

- Develop *blocking strategies* by taking your list of strengths and determining how you can use them to eliminate threats.
- Design *defensive strategies* by looking at ways to compensate for a weakness in order to mitigate a potential threat(s).



*Summarize the results of your SWOT analysis and document your relevant strategies in the corresponding section of the Analytical Foundation planning document.*