Seven Secrets of Small Business Success - Secret two, part 2, an attractive market

This week, we'll continue our seven part series called the Seven Secrets of Small Business Success, where I'll share important information for those wanting to start a business; or for those who care about someone planning on starting a business.

These secrets are important to the listener, whether you personally, a family member or friend wants to start a very small, or maybe even a big business.

We've talked before about how important it will be to find a pain, need or gap to start your business and we spoke about how that is done just a few weeks ago.

The takeaway from that show was to be a student of life, to observe the struggles of others to *discover the many opportunities that really are all around us.*

Today we'll talk about three elements of this second secret of success, *market attractiveness.*

- First, about how to assess the pains, needs and gaps you discover, so you can choose the most desirable market to serve. *Marketers call this market attractiveness.*

- Next, we'll show you how to choose a subset of potential customers most likely to make your business successful. *This is called your target market segment*

- Finally, we'll look at a big mistake too many startups make, and how you can avoid making this mistake. *Entrepreneurs call this minimum viable startup*

An attractive market has four attributes

- A pain, need or gap with an appropriate number of potential customers you are uniquely qualified to serve, and who need your product or service repeatedly - this market is *adequate*

    - Let's say you found a market serving homeowners. There's about 10,000 single family homes in Port Angeles. If people need this product or service four times each year, *you have 40,000 potential annual customer sales*

- ○ Let's also say that you need 3,000 customer sales to reach your financial goals. This means you only need 7-½ percent of the market to be successful. *Only needing a small percentage of a total market gives you the greatest chance of success.*

- You want potential customers who are easy to reach and serve, they are *accessible*

    - ○ In the 1600s you could only reach people who saw your sign or who heard your "promotional announcement" from the town crier. *You could only serve people you could reach on horseback*

    - ○ The founder of Twitter once said that the *Internet just makes it possible to reach and serve more people faster*

- You want potential customers who have money to spend and the ability to accept your offer - they are *actionable*

    - ○ Customers of vending machines have the money and proximity to quickly choose and purchase a product - *actionable*

    - ○ A newborn also has needs but can only consume through third parties - *not actionable*

- You want potential customers who have strong preferences in common, they are *associated*

    - ○ If you only need a small part of the total market, you can select the potential customers for whom you will be the best match. You can focus on those customers and make them especially happy. Being especially happy makes customers less concerned about the price they pay, *so you can charge more and earn more money*

    - ○ Because these potential customers are associated, there is a very high likelihood these customers will promote you to their friends, *growing your market of similar customers for you*

- ○ This group of associated potential customers who promote your business for you is called *your target market segment*

Define your target market segment in five dimensions

As you think your way through this process, you can predict who will be in your target market by using the three customer assessment frameworks, which are

- Demographics - Demographics are statistics that describe populations and their characteristics. Demographic often serve as *a "first cut" of a target market*

  - ○ Age
  - ○ Gender
  - ○ Location
  - ○ Income
  - ○ Affiliations

The US Census is the master of demographics

- Psychographics - Psychographics are the psychological and cognitive attributes of a consumer that reveal their beliefs, values, and goals. In marketing, psychographics are used in conjunction with demographics to understand and market to consumers' *purchasing habits.*

  - ○ Personality characteristics
  - ○ Social class
  - ○ Habits
  - ○ Behaviors
  - ○ Interests
  - ○ Fears

Donald Trump is the undisputed master of psychographics. He reaches people using these five dimensions and he does it masterfully, maybe even intuitively. His sales training guide for Trump University is the best psychographics based approach I have ever seen.

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- VALS, or Values Attitudes and Lifestyles - VALS is a framework that segments consumers into eight distinct types, or mindsets, using a specific set of traits believed to drive consumer behavior.

    - Innovators
    - Thinkers
    - Believers
    - Achievers
    - Strivers
    - Experiencers
    - Makers
    - Survivors

VALS is especially useful in defining markets for luxury brands, who prefer Believers, Achievers, Strivers and Experiencers. VALS is also useful for defining markets for complex products and something marketers call latent needs, or needs we have but are not yet personally aware of - like an iPod :-)

We don't have time to go into VALS in detail but if you enter V-A-L-S into your favorite search engine, the first few results will provide a good background.

Use these three frameworks to develop a deep understanding of why your customers do what they do.

Avoid the big mistake too many startups make

Let's say you've identified your attractive market and your target market segment - what's next? Now it's time to *check yourself before you wreck yourself.*

This is where you avoid the biggest mistake too many startups make. Rather than go all in and start your business, it's time to *validate your assumptions.* In all of our research and analysis, we just might have forgotten one little thing - *it's still just a guess.*

Rather than push all your chips to the center of the table, look for ways you can get your value proposition in front of prospective customers right now, *with the lowest possible investment of money, time and effort. This is called minimum viable form.*

Entering the market in minimum viable form gives you time to learn more about customer motivations and preferences *before you make any big investment of effort, money or time.* In almost every instance of a minimum viable startup, the entrepreneur gathers critically important market information that was not available any other way.

When you start working with customers, you get real time, real world information you can use to better align your business with your target customers' most urgent needs.

It is terribly sad to work with a business that discovers this information only after investing all its resources in an ineffective service model.

"I invested thousands in my dining room but most of my customers want to-go orders"

"My research indicated my mild chili would be the most popular, but after I invested in a production run, everybody says they want spicy."

"I thought my customers would be interested in purchasing from my inventory but I only get calls for repairs. What am I going to do with all this product?"

Now unable to adapt to the lessons the market taught, these "all in" businesses sputter and die. Remember the 90s when they said, "Go big or go home?" *Well, they all went home in 2001!*

I say, *"Go small and stay in the game!"* Marc Cuban of Shark Tank reminds entrepreneurs *to start where they are, to use what they have and to do what they can easily do* to get their product or services in front of customers as quickly as possible.

Start at a craft fair, farmers market or with a website you can put up yourself. Put polls on Facebook, advertise on Craigslist or your church newsletter. Hand out flyers or send 100 postcards.

These kinds of activities will bring you closer to your customers and bring your customers closer to you. You will have *validated your assumptions* so that when you are ready to go all in, you will be building a *customer-driven* business that enters the market from *a position of strength.*