



...and \$10,000  
competition

# Practical Entrepreneurship

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CLASS 2: TESTING YOUR IDEA

Your Product, Your Customers, and the Competition

# Today's Plan

Understanding the market

Understanding the competition





# Three steps to analyzing an idea

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Understand your market

- Figure out what kind of market you have and how you're going to get customers to pay

Pick your target customer

- Segment the market and narrow it down to a target

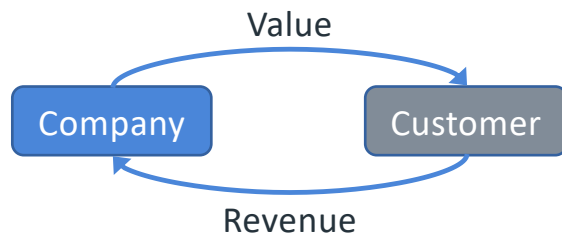
Size your market

- Figure out just how big the opportunity is

# 1. What kind of market/paying customer do you have?



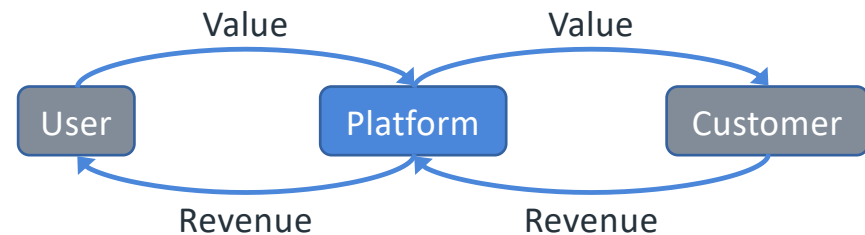
## One-sided markets



Most companies produce a product or service which they then sell to customers in a supplier/customer relationship (example: Taco Bell sells tacos to hungry customers)

**Who pays? The customer...of course**

## Two or more sided markets



Some companies help make connections between customers and suppliers (example: Uber connects drivers to riders), this is called a two-sided market.

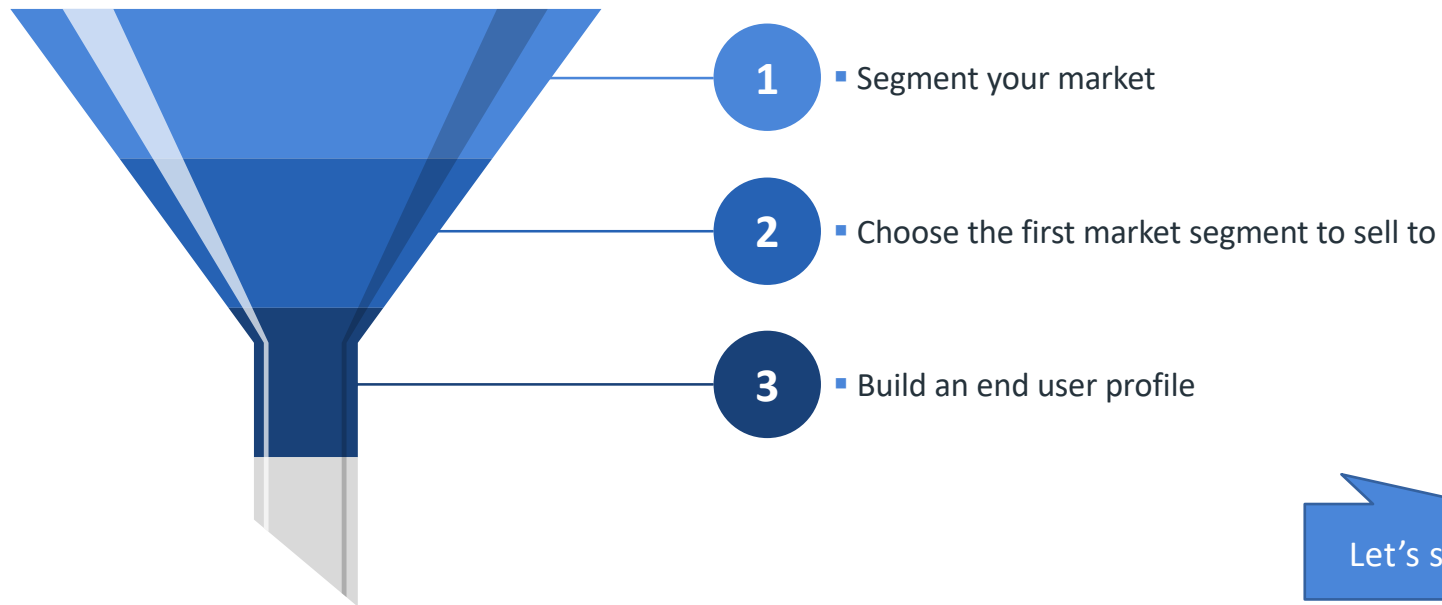
**Who pays? The side that extracts the most value from the platform pays (frequently that's advertisers)**



## 2. Who's your target customer?

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Figure that out with 3 steps:



# Let's consider Hinton Real Estate Company

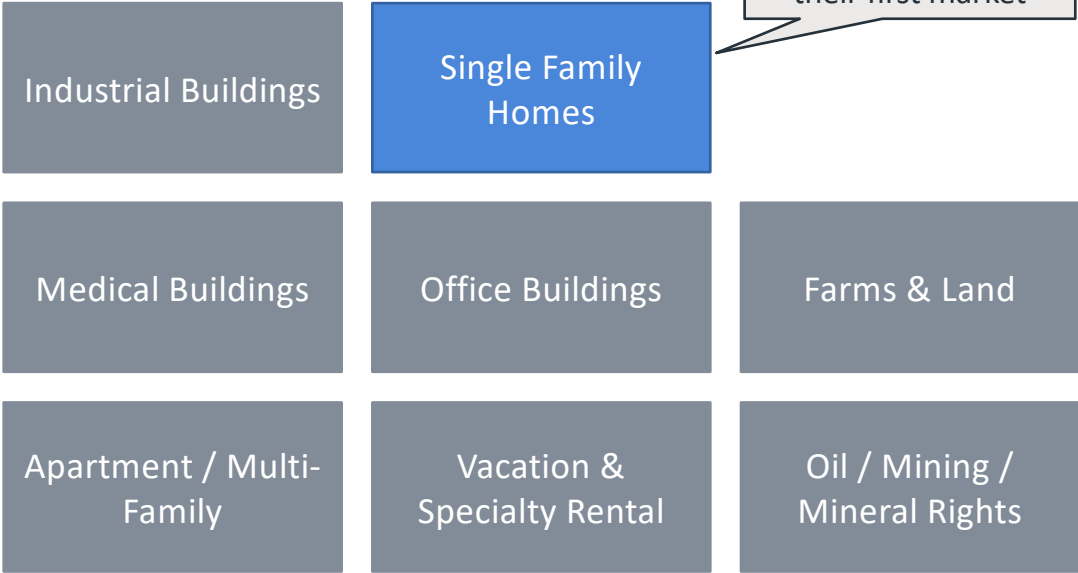


## About HRC

Hinton Real Estate Company wants to make money by selling Real Estate.

The first question is what type of real estate market do we want to target?

## Brainstormed market segments





## Table Talk

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What was your last purchase for  
\$20 or more?

How did you learn about this product/service?

When did it happen?

Was it a product or service?

Did you use your own money?



# Things to think about when picking your first market

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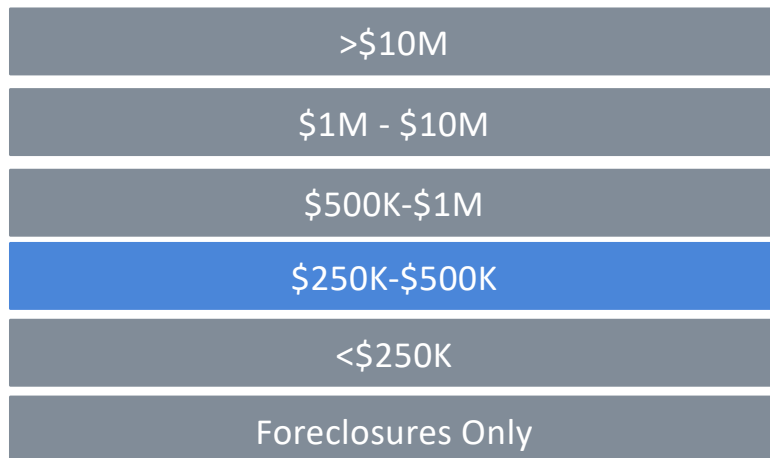
1. Can the customer afford my product?
2. Does the target customer have a compelling reason to buy / why do they need my service or product or expertise?
3. Are there any legal or regulatory hurdles that would prevent you from entering this market?
4. How many competitors or substitute products would you face?
5. If you are successful with this market or product, can it naturally lead you into other revenues or products?
6. Is the market consistent with the values, passions, and goals of the founding team?





# HRE then created a target customer profile

Inside of Single Family Real Estate – we need to focus on a home price range



Example home seller profile

Age	30-40, but the average is ~34
Sex	Females tend to drive housing decisions in this age group (moms)
Income	\$85-150K/yr depending on region
Education	Some College
Context	This is the age when most people are having young families, moving out of city into suburbs, and mom's want a place to raise their kids with good schools

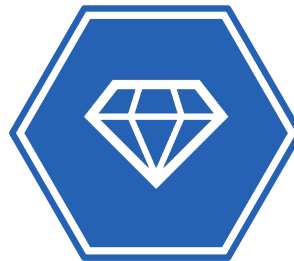


# Use that target customer profile to pressure test your idea



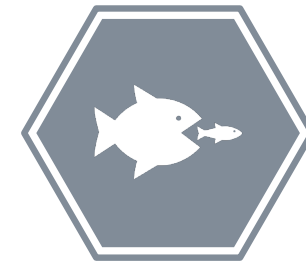
**How will you sell to / acquire this customer?**

- Advertising? Word of mouth?  
Free give-a-aways?
- How much will this cost per customer



**How much value do you create for the end user?**

- For a rational customer, this is the incremental profit you generate for them
- For an irrational one...it's their willingness to pay



**Do you have competitors or substitutes? If so, why are you better?**

- The more unique the better
- Focus of next section



Key to next slide



### 3. How big is this opportunity- Total Addressable Market (TAM)?

TAM Forsyth County GA = \$60.4M of Annual Buyer's Commissions

#### Number of customers

- Example for Forsyth County GA
  - 3,771 Homes Were Sold in Last 12 Months
  - Average Home Price of \$533,450
- Average Single Family Home Commission for Seller's Agent is 3% of Sales Price



#### Lifetime Value (LTV) per customer

- LTV = Value you extract – cost of customer acquisition
- Value you extract
  - \$533,450 Avg Price x 3% Average Commission = \$16K Commission
- Cost of Customer acquisition
  - What do you have to pay (like advertising) to acquire that customer (*lets assume 50% or \$8K to get home seller*)
  - *\$8K per customer per house they buy (maybe you sell a few houses for them over their life)*

# Today's Plan

Understanding the market

**Understanding the competition**



# Let's talk about your company first...what is your core?



This is what we'll compare your competitors against

The Core is what allows you to create value for customers better than any competitor

## Are core competencies



Customer service



Network effects



User experience



Pricing Strategies

## Are not core competencies



First mover advantage...not sustainable



Locked up suppliers...not scalable, loses leverage



# How does your core stack up against competitors in 4 steps

- List your **competitors** and your **substitute goods**
- Remember, the toughest competitor of all is the customer's status quo
- Identify your target **customer's top priorities**
- Examples:
  - Price
  - Quality
  - Customizability
- Determine how well both you and your competitors can serve those top priorities
- **Graph it!**

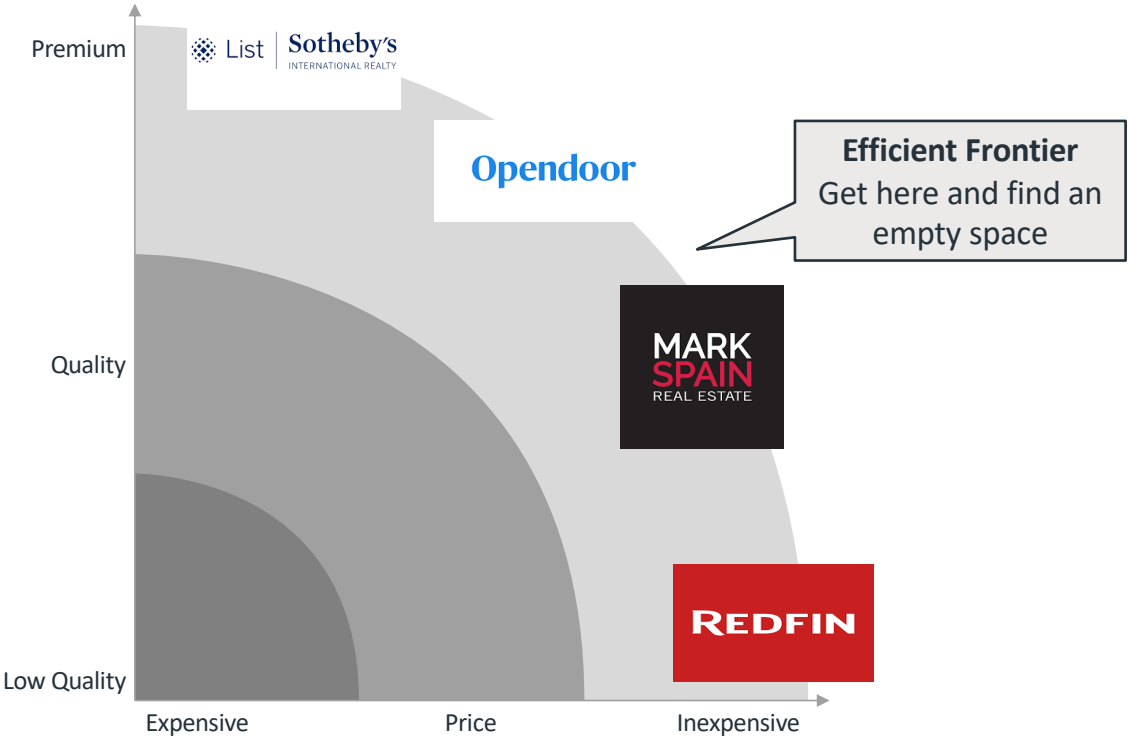
Yes! Graph it! We'll see how that looks on the next slide



# Get to the “efficient frontier” and find an empty space



**Example**  
Sellers of homes use price of sale, commission rate, and services of seller to pick a broker



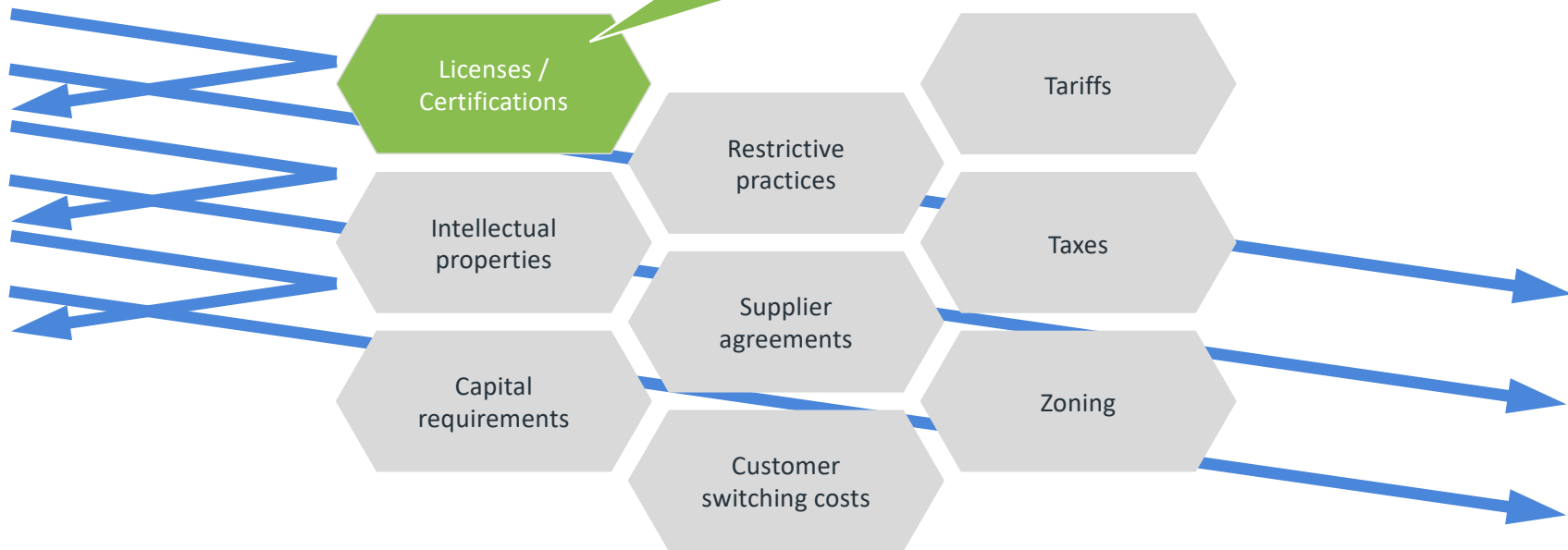
# Then get over barriers and build your own



What barriers to entry stop you from competing?

Must have a RE license to sell real estate for commission

What barriers can you erect to keep other out?







# Three key take aways...

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1. To analyze the quality of your idea consider (1) how big the opportunity is and (2) what your competition for that opportunity looks like
2. The total size of an opportunity is the number of customers times the LTV of a customer
3. Box out competition by reaching the efficient frontier, finding an empty space, and building barriers to entry





# Coming up next class

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MONEY MATTERS



Don't forget to  
fill out our quick  
survey



<https://forms.gle/wE82LZyLrSsik2as9>

