Tim 80C, Lecture 6 (4/17/14)

Agenda

1) Review Vision and Mission Statement (Lecture 5)

2) Business Goals

3) Market Strategy

4) Project Phase I and Homework 2
2) Business Goals

The business goals define financial objectives of the Start-up

Key Goals:

1) Revenue ($): sale of the product(s) to customer

Example: Revenue for Start-up
Year 1: no revenue (ideal)
Year 2: $1M
Year 3: $5 M
Year 4: $25 M

2) Growth (%): growth in revenue each year (Y-o-Y)

Example: 70 successful (IPO) Start-ups
(Source: techcrunch.com)

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Growth</th>
<th>Start-up</th>
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</thead>
<tbody>
<tr>
<td>$25 M</td>
<td>80-160%</td>
<td>&gt;20% growth</td>
</tr>
<tr>
<td>$50 M</td>
<td>30-80%</td>
<td>Mature Company</td>
</tr>
<tr>
<td>$150 M</td>
<td>30-60%</td>
<td>&lt;10% growth</td>
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<td></td>
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<td>(Apple ~ 6%)</td>
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</table>
3) **Profit ($)**: revenue - costs

Cost of goods sold (COGS)

Operating costs

Net Income = revenue - COGS

4) **Profit Margin (%)** = \( \frac{\text{Net Income}}{\text{Revenue}} \)

**Example**

Software as a Service: > 80%
(e.g. Dropbox) (Source: Forentrepreneurs.com)

Hardware (e.g. iPhone): < 50% (Best in class)

Apple has ~50% profit margin on the iPhone
(Source: patent lawsuit with Samsung)

(TIM 125) Supply Chain Management
3) Market Strategy

The market strategy defines who (customers) the start-up will sell the product to in order to achieve the business goals.

Process for creating the market strategy:

1) Identifying the industry/market that the start-up will be operating in.
   - High-level: Consumer electronics, health care, aerospace
   - Low-level: Tablets, monitoring health, drones

2) Determine the total size ($) of the market, and the growth rate (%)

Example:
- Consumer Electronics: $204B revenue, 3%
- Tablets: $37B revenue, 20%
(Source: ce.org 2013 projection)

\[ \text{Revenue} \]
\[ \text{Time} \quad \text{years} \]
3) Segment the market with respect to the following:

(a) types of customers (e.g., enterprise, small business, consumers)

(b) types of products (depend on the market)

4) Determine the size ($) and growth (%) for each combination of a customer and product type.

Use market research and estimation.

- Gartner
- Forrester

5) Decide which "cells" (or segment) of the revenue map to target and what share (%) to try to capture.

<table>
<thead>
<tr>
<th>Market Segment</th>
<th>Size</th>
<th>Share</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>College / Production $3B</td>
<td>0.5%</td>
<td>$15M</td>
<td></td>
</tr>
<tr>
<td>College / Students / Tablets $3B</td>
<td>0.5%</td>
<td>$15M</td>
<td></td>
</tr>
<tr>
<td>College / Readys / Tablets $3B</td>
<td>0.5%</td>
<td>$30M</td>
<td></td>
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### Market Segmentation: Tablets Computers (2013)

- **Total Size**: $37B
- **Total Growth**: 20.9% $8B

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</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>$18B 5.0%</td>
<td>$2B 5.0%</td>
<td>$5B 20.0%</td>
<td>70% $25B</td>
</tr>
<tr>
<td><strong>MAP</strong></td>
<td>$250M 15.0%</td>
<td>$750M 30.0%</td>
<td>$3B 40.0%</td>
<td></td>
</tr>
<tr>
<td><strong>Proactive</strong></td>
<td>$4B</td>
<td>$1B</td>
<td>$3B</td>
<td></td>
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</tbody>
</table>

### Productivity
- **Tablet**: $1B
- **Notebook**: $1B
- **Kindle**: $3B

### Reading
- **Tablet**: $20B
- **Spoken**: $8B

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*Note: The table and diagram provide a breakdown of market size and growth by customer segment, along with revenue and market share. The additional notes at the bottom outline specific product segments and market strategies.*
6) Determine the "Marketing Mix"
for the target segments
(4 Ps of Marketing)

**Product**: what the customers in the
segment want from the product
(functions)

**Example**: productivity Tablet for college student

**Functions**: - Word processing / Excel / PowerPoint
(features) - Connectivity to other devices
- Video recording
- Information retrieved

**Price**: what are the customers willing to pay for the product

**Example**: college students are willing to pay $200-500 for a productivity
Placement: What are the distribution channels (e.g., wholesale, retail, direct) for the product?

Example: College students will buy productivity in either retail stores (Best Buy, Fry's, etc.) or direct from the manufacturer online.

Promotion: How should the company (startup) advertise the product to the target segment?

Example: We will use social media (Facebook, Twitter, etc.) to advertise the productivity tablet.
Project Phase I and Homework 2

Each project group must meet with the instructor (Tyler) on Tuesday (4/22/14) during office hours (E2 552 4-7 pm) to review the work on Phase I.

Two options for turning in Phase I:

1) In-class today (4/17/14)

2) At the project meeting on Tuesday (4/22/14)

Bring a description of what each individual group member has worked on for Phase I.

Homework 2 will be due on Thursday (4/24)