TIM 80C Lecture #6 (4/16/15)

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 the financial objectives of the Start-up.

Key Goals:

1) Revenue ($): Sale of the product or service to the customer

Example: Revenue for a start-up
Year 1: no revenue (product development)
Year 2: $1 M
Year 3: $5 M
Year 4: $25 M

2) Growth (%): Growth in revenue each year (YoY)

Example: 20 successful (IPO) Start-up
(Source: techcrunch.com)

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Growth</th>
<th>Start-up's</th>
<th>220% YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td>$25 M</td>
<td>80% - 160%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$50 M</td>
<td>30% - 80%</td>
<td></td>
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<tr>
<td>$150 M</td>
<td>30% - 60%</td>
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<tr>
<td></td>
<td>Mature company</td>
<td></td>
<td>&lt;10% YoY</td>
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<tr>
<td></td>
<td>Apple ~7%</td>
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</tbody>
</table>
3) Profit (dollars): 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: (entrepreneurs.com)

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

Apple has ~50% profit margin on the iPhone

Apple's high profit margin is largely due with Samsung.

Extremely efficient Supply Chain  
(See TIM Supply Chain Management)
③ Market Strategy

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

Process for creating a market strategy:

1) Identify the industry/market that the startup will be operating in.
   High-level: Consumer Electronics, health-care, aerospace
   Low-level: Wearable tech, pharmaceutically, drones

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

Example

Consumer electronics: $223 B, 3%
Wearable technology: $5 B, 30%
(source: CE.org 2015 predictions)
3) Segment the market with respect to the following:
   a) types of customers
      (e.g. enterprises, small business, consumers)
   b) types of products
      (depends on the market)

4) Determine the size ($) and growth (%) for each of customer type and product type:
   - Market Research (Gartner, Forrester, etc.)
   - Estimation

5) Decide which "cells" or segments 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 Students/health</td>
<td>$300M</td>
<td>5%</td>
<td>$15M</td>
</tr>
<tr>
<td></td>
<td>health monitor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working Professionals</td>
<td>$500M</td>
<td>1%</td>
<td>$5M</td>
</tr>
<tr>
<td></td>
<td>health monitor</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>$20M</td>
</tr>
</tbody>
</table>

- Total size: $5B
- Total growth: 30%
- Revenue

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</thead>
<tbody>
<tr>
<td></td>
<td>$600M 40%</td>
<td>$750M 40%</td>
<td>$1.5B 30%</td>
<td>$150M 20%</td>
</tr>
<tr>
<td></td>
<td>$100M 40%</td>
<td>$300M 30%</td>
<td>$500M 30%</td>
<td>$100M 50%</td>
</tr>
<tr>
<td></td>
<td>$50M 20%</td>
<td>$200M 30%</td>
<td>$200M 30%</td>
<td>$50M 40%</td>
</tr>
</tbody>
</table>

**Smart Watches (phone accessory)**
- Apple Watch ($3B)
- Fitbit ($6B)

**Health Monitors**
- 20%

**Augmented Reality**
- Google Glass ($500M)
- 10%
6) Determine the "marketing mix" for the target market segments

4 Ps of Marketing:

Product: What do the customers in the segment want from the product?

Example: Fitness tracker for college students

Functions (/ Features):
- Social media updates
- Monitor and track vitals (e.g., heart rate)
- Plan and motivate workout
- Location tracking

Price: What are customers willing to pay for the product?

Example: College students are willing to pay $50-100 for a fitness tracker
Placement: What are the distribution channels (e.g., wholesale, retail, direct) for the product?

Example: College students will buy the fitness tracker at retail/wholesale stores (Costco) or from online retailers (Amazon).

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

Example: The startup will advertise the fitness tracker to college students using social media (Facebook, Snapchat, Spotify, etc.).
5. Project Phase I and Homework 2

Each project group must meet with the instructor (Tyler) on Tuesday (4/21/15) during office hours (E2 553 1-7pm) to review Phase I.

Two options for turning in the Phase I report:

1) In-class today (4/16/15)

2) At the project meeting on Tuesday (4/21/15)

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

Homework 2 will be due on Thursday (4/23/15)