

Topic 1.2: Target Market

Who are you developing your product for, exactly?

The Target Market is the subset of all possible buyers or users of an offer for whom it is specifically intended. For example, the motorcycle manufacturer Harley-Davidson defines its Target Market as “macho men (or wannabe machos), mainly in the USA, who want to join a gang of cowboys”.

The Target Market does not include everyone who could theoretically buy the product. (This group is called the *Selling Target*). Harley-Davidson's Target Market does not consist of all the motorcycle owners in the world, although all of them could, in principle, buy and use their product. Instead, their Target Market is a precisely described subset for which the company can develop a product that is tailored to their specific needs. Harley Davidson's bikes look very different to those made by other manufacturers and the company also maintains an image to match them.

There is only one winning strategy. It is to carefully define the target market and direct a superior offering to that target market.

Philip Kotler

The choice of Target Market has three important functions for startups:

- It generates requirements for the future product. (What must it do? What Customer Benefits must it provide?)
- It determines the marketing strategy. (How do we present the product? What arguments should we present?)
- It indicates where test users might be found and how to approach the first customers.

Startup founders should have a Target Market in mind right from the very beginning. Without one, they cannot make any significant progress in their planning.

As Precise as Possible

Startup founders are often tempted to define their Target Market too broadly. This makes them too heterogeneous and thus unmanageable. It is not usually possible to develop a product that delights everybody in a heterogeneous group, because their expectations vary too much. And even if this were possible, the development of such a product would take too long and overstretch the startup's limited resources.

Having a well-defined, homogeneous Target Market has several advantages for startups:

- The needs of its members are similar or identical. This allows the product to be developed faster, and the result is more satisfying for everyone.
- The startup can reach all members of the Target Market with the same channels and the same messaging. This makes marketing simpler and more efficient.

In large markets, atypical customers are usually not served well by large companies' products. This leads to startups that specialize in these niches. For example, there are several startups such as Wire who build secure communication software. Their Target Market consists of people who are not happy that their messages can be read by others and that their user profiles are passed on to third parties and who therefore want to avoid the products offered by large corporations.

Precision does not Mean Exclusion

Founders sometimes reject the suggestion to define their Target Markets narrowly, because they are afraid that this will inhibit their growth potential. However, this is a mistake: The Target Market defines the people on whom the company is focusing; it does not imply that others are excluded. If, for example, a man wants to buy a women's magazine, the publishers will not object, even though their editors didn't create the contents with men in mind. Besides, after a startup has made a successful start, their growth strategy will successively address additional markets.

Finding Target Market Attributes

Target Markets should be defined using Customer Needs, for example:

- School leavers who do not know which study program is best for them
- “Macho men who want to join a gang of cowboys”
- Companies who have to dispose of their oil-contaminated waste in the manner prescribed by law.

These three examples correspond to the Pain, Gain and Job-to-be-done from Topic 1.1 Customer Need.

Ideally, a Target Market fulfils the following criteria:

- It is the people for whom the Customer Need from Topic 1.1 is strongest.
- It is the people who will be most excited about the solution.
- It is the people who will profit most from the specific advantages of the offer.
- It is the people who will most probably buy the product.

Traditional Attributes Alone are Not Enough

Traditionally, Target Markets were defined simply by demographic or statistical attributes, for example age, marital status or income for consumers, or industry, numbers of employees or annual turnover for companies.

However, attributes like these are not enough. “Companies with annual sales over 100 M€” does not help an innovation consultant to design his or her service. By contrast, “Companies with annual sales over 100 M€ with an acute need to update their products” might. Here, the additional information indicates what kind of company might have a strong interest in professional innovation consulting.

Demographic and statistical attributes should be used as optional information that gives additional hints about Customer Needs. Of the two alternatives...

- “Women who want to do more sport” and
- “Women over 50 who want to do more sport”

the added age specification implicitly supplies a lot of information about possible Customer Needs.

Multi-Sided Markets

Some business models have so-called *multi-sided markets*. That means that they have to serve two or more customer groups. Some examples are:

- Ebay: Buyers and sellers
- Airbnb: Apartment owners and travellers
- Google: Internet users and advertisers

Trading and matching platforms like Ebay and Airbnb automatically have multi-sided markets. Similarly, advertising platforms like Google and Facebook always have both advertisers and the users who those advertisers are targeting.

Startups with multi-sided markets have twice the amount of work to do, since they have to define two Target Markets and two sets of Customer Needs and develop an offer that satisfies both simultaneously.

Organizations as Target Markets

If the target market is made up of organizations, it is sufficient in Phase 1 to characterize those organizations. Topics 4.1 Customer Profile and 5.1 Customer Acquisition describe how to deal with the individuals inside those organizations who influence the buying decision.

This Topic's Key Question

- *Who needs the product you want to develop and why do they need it?*

Link

- Topic 1.2 at [founders-playbook.de](https://founders-playbook.de/plausibility/target-market/):