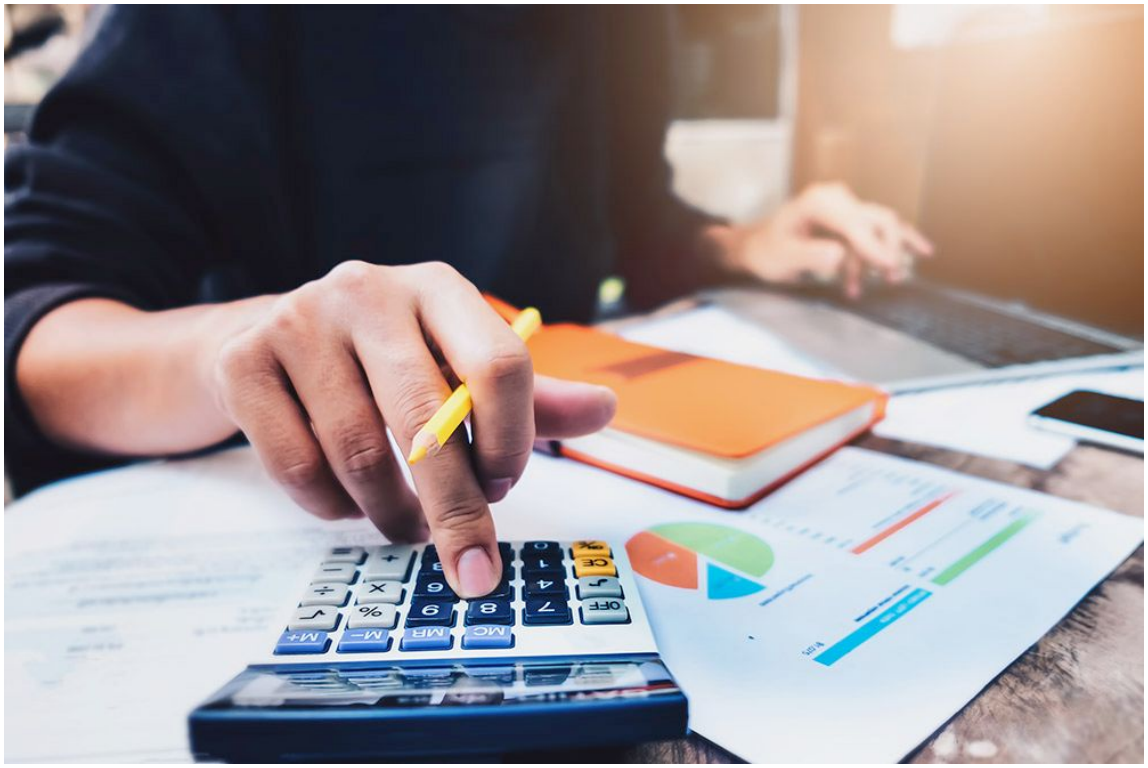
Market Projection

Predict Sales



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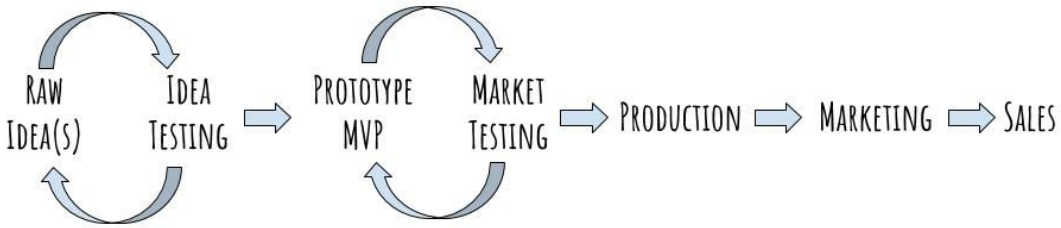
Once your team has developed and tested a prototype using the Build-Test-Learn loop, it is time to determine a reasonable estimate of sales volume and associated costs, a first step in production, estimating costs and setting a price for the product or service.



Lean Startup Cycle
Build - Measure - Learn

The cost to make a single functioning prototype such a Beta release (not just an MVP) is the highest possible cost for a product: a production run of one item. Fortunately, economies of scale come into play when multiple units are produced. This is why market projections are required--how many items should be produced?

Economies of Scale

The more items produced, the less expensive each item is to produce. Only a little more money in needed to make 10 items than it does 1. Divide total cost by the number of items produced.

Example:
$100/1 item = $100 per item
$120/10 items = $12 per item

What You'll Be Doing

Using a spreadsheet to show customer segment statistics and reasonable, estimated sales projections.

About Spreadsheets

A spreadsheet is the best tool for this deliverable. It is a great way to record the basis for calculations and performing the calculations. When correctly created, the spreadsheet can easily be modified to reflect changes in assumptions. Results are displayed immediately. If you need training developing and using a spreadsheet, it may be assigned as homework. The following session provides a

demonstration. Be sure to practice using the multiplication formula if this is unfamiliar.

Estimating Market Size

Fixed Costs--costs that don't change or are one-time only

Variable Costs--are those associated with each product made or service delivered. May apply to development, raw materials, manufacturing, shipping, possible tariffs and testing.

Demonstration

The Facilitator will demonstrate how to create a digital spreadsheet. The following four headers are used--each one goes in its own cell in row 1:

Name of Segment | Size | Percentage | Sales (size * percentage)

> **Example:** *EasySwitch* research shows that the first customer segment is sized at 4,000,000 (the total number of potential customers in the segment). Depending on how ambitious the marketing strategy, a percentage of penetration into this segment needs to be derived. For now, an estimate will suffice. Once sales have started and the numbers are known, this can be modified. For a startup, a high penetration estimate for a given segment with direct customer sales, would be 1% (0.01) of that segment. A more realistic penetration is one-half (0.005) to one-tenth (0.001) of a percent.
>
> The template contains a formula in column D that multiplies the size of the segment (column B) by the estimate (column C).
>
> The formula in D:17 looks like this:

=B:2*C:2

If you copy row 18 and paste it to a new row below, the formula is copied as well.

Result:

Name of Segment	Size of Market	Percentage share	Sales (size * percentage)
Smart Wall Switches	832 million units	.0001	83,200

Column D is the estimated number of customers who may buy *EasySwitch* each year: 83,200 customers. This information was found online in a market report.

Team Meeting

Take time to determine your team's projected sales.

The Expense/Income Template (Part Two) may be used for calculations like these. The whole template will be introduced in a later session. For now, see the Market Statistics row where this information may be entered--use the bright orange cells. The spreadsheet calculates the total market share your company may expect to reach.

You may insert additional rows below "row 18" for each customer segment from the BMC (each segment gets its own row). In column B, enter the overall market size (number of people) for that customer segment. In column C, enter an estimated percentage of that segment the business is most likely to attract in the first year.

Do this for each customer segment or product statistic in the spreadsheet (you may have only one, depending on your market). Finally, Total Predicted Sales is calculated by adding up the sales column (if more than one).

Customer segment or product sales statistics are needed. In the first case, estimate the number of customers who could buy your product or service. In the second case, gather market information on the number of similar products sold annually (usually a better number to use).

If customer segment or similar product sales information is missing, your team should complete that research. If more time is needed, create tasks and assign them to members using Kanban.

Print your completed spreadsheet and show it to a Facilitator.

Assignment for next session

If more time is needed for this Deliverable, complete it at home and bring your spreadsheet to the next Session.

Your team also needs to gather information on the cost of production. Your prototype is the starting point. Make a list of the known items or parts and the cost of each. In some cases, raw materials will be needed, then manufactured into parts and assembled into a final product. The assignment answers the question: “What does it cost to build a single MVP (or Beta release)?

Don’t overlook shipping and distribution costs. If a product is not manufactured locally, then shipping costs occur. That must be included in the calculation. What other related costs are there? Make a list. Itemize the costs on a spreadsheet.