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# Lesson 1: Market Potential

## INTRODUCTION

If you completed EPS150AA, you identified and described your entrepreneurial venture. If you did not complete that course, you will need to take some time now to either complete that course (recommended), or identify and describe in detail a prospective entrepreneurial venture because you will be using this venture throughout the rest of the course and into EPS150AC if you choose to continue the sequence of courses. This lesson allows you to explore the market potential of the business venture you selected.

In this lesson, market potential is further defined as identifying your target market, examining your customer demographics and competitors, determining the size of your market, and exploring market trends that exist. This lesson is important because it allows you to combine both the customer and market information with the existing information you gathered in the last lesson. At the end of this lesson, you will write a short essay about your market and your customers.

## LEARNING SEQUENCE

Required Reading	Read the following: Online Lesson Material
Multimedia Resources	View the following: None
Required Assignments	Complete the following: Short Essay: Market Potential

## CHECK PRIOR KNOWLEDGE

When thinking about customer demographics, every company needs to define who its customers are and determine who they are not. This warm-up activity puts you in the role of the customer. In Lesson 1, you interviewed an entrepreneur. Now, think about yourself as a customer for that business and answer the following question: What makes you attractive as a customer?

- Is it your age?



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- Is it your income bracket?
- Is it where you live?
- Is it your lifestyle?
- Is it your habits?
- If not one of these factors, what is it?

Every business is a part of an industry, a market, and a distribution channel, and every business must have customers. Without customers, there is no business. Therefore, determining the factors that create the perfect customer is extremely important. Take a few minutes to ponder what type of customer is the perfect customer for the new business venture identified in Lesson 5.

*Recommendation:* Capture your responses to the “Check Prior Knowledge” activities and other various exercises presented in this course in a journal or notebook. Since many of these activities and exercises will not be turned in to your instructor, you should capture the information in one place. By writing this information down and reviewing it, you will begin to see themes emerge that will help you as you complete the course.

## FOCUSING YOUR LEARNING

### Official Course Competencies

*By the end of this course, you should be able to:*

1. Describe how to evaluate the potential of the market.

#### ***Lesson Objectives***

***By the end of this lesson, you should be able to:***

1. Define the phrase market potential.
2. Evaluate and determine the size of a market.
3. Examine market trends.

### Key Terms

As you read your assignment for this lesson, pay close attention to the key terms and phrases that are listed throughout the lesson. These terms and concepts are important to your understanding of the information provided in the lesson.



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GBS258 – Lesson 6

Actual Cash Value (ACV)

Previous Card      Click on the notecards to reveal the definition.      Next Card  
1 of 10

## INSTRUCTION

Market potential is defined as the possible number of customers who will pay an average price for products and/or services for a specific period of time. The market potential is an estimate of the amount of money that a business makes from the customers in a business venture. Writing down possible market potential scenarios allows the entrepreneur to manage business costs, estimate prices, and ensure the goals of the business venture are met.

Determining the market potential for your business venture is the same for all small and large businesses in all geographic areas. First, build your customer profile, which describes who will be purchasing your product or service. Next, determine the geographic size of the market or how many potential people live and work in your vicinity that are available to purchase from the business. When examining the size of the market, you might also identify trends that could affect your business. Finally, understand the number and strength of the competitors in your estimated area to determine your full market potential, specific to your business venture.



**Determine your Customer Profile:** As you think about your potential customer, you should ask yourself a series of questions. When you are finished, you should have a mental picture of your ideal customer.

- What is the age range of your typical customer?



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- What gender is your typical customer or does it even matter?
- What are the likes and dislikes of your typical customer?
- What is your typical customer's occupation or background?
- What makes your customer want to buy your product or service more than a competitor's?
- What does your customer want from your product or service?
- Do your potential customers have color or design preferences?
- What factors will your customers consider before buying your product or service?
- Does the cost of your product or service encourage your customers to buy from you compared to a competitor?

After this in-depth analysis, describe the type of person who could be your typical customer. The information you discover about your customer will become part of your market potential analysis.

**Geographic Size of the Market and Trends:** Your business venture will determine how you define the geographic size of your business and trends that might impact your business venture.

***For Example***

If you are opening a restaurant or other neighborhood establishment, the geographic size of your market may be a 5-mile radius around your business. If 10 restaurants have closed in the area in the last year, opening a restaurant in that area may not be the best decision. If you are running an Internet-based business, determining the geographic size of your business and corresponding business trends will be much more difficult.

Here are some suggestions for determining the geographic size of your market and trends that could influence your business.

1. The U.S. Department of Commerce – [US Census Bureau Web page](#). You can input the zip code of your business (and those that surround your business) into the Community Facts search window and retrieve information about the population surrounding your business. This type of search will assist you with determining the total population who could possibly come into your business. For the purposes of this example, assume that only 10% of the population will come into your business. Your guestimate can be a part of the assumptions you build for your market potential analysis.

2. If your product or service fits within an industry and your potential customers are in the United States, you will want to search through industry trade magazines or contact industry associations that serve a specific area to determine how many potential customers are in a given area. This is especially important if you are selling as business-to-business. For example, if you are a flooring wholesale outlet, your target market is flooring stores in a given area. You should be able to figure out how many flooring stores there are in a city, county, or state. That becomes your potential customer base.

3. Network with industry professionals such as vendors, suppliers, sales representatives, and even competitors. Through interacting with these professionals, you should be able to gain valuable



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information that will help you understand the market potential and business trends that could have an impact on your business venture.

The information you learn when determining your market size and any marketing trends becomes another critical component for your market potential analysis.

**Competitor Profile:** The third component of your market potential analysis is analyzing your competitors and measuring the amount of business you will be able to carve out of the current competitive market space. A competitor analysis is simply an assessment of your competitors' strengths and weaknesses. This type of analysis allows you to determine how you will conduct business differently in an effort to attract their customers to your business.

If you are building your business in a local market, you will want to visit your competitors' locations in an effort to assess their business operations. In addition, looking at their Web sites will also inform you of your competitors' marketing strategies, products and services, and prices. The more you understand about your competitors, the more you will be able to differentiate your products and services.

If you are servicing a large geographic area, like the entire U.S. market, your competitor analysis will be a much more daunting task. You will need to use publicly available information about your competitors, possibly engage a research firm to help you analyze the competitive market, review your competitors' Web sites to determine how they are attracting customers, and review industry magazines and other industry Web sites to understand your competitors.

From this analysis, you will need to determine how much of the market share you can capture away from your competitors. For example, if you are selling women's shoes, you can search on the Internet for [Footwear Industry Statistics](#). If you conducted a search for recent figures, you would discover that the footwear industry's annual revenue is \$48 billion dollars (verified as of August, 22, 2012). Women's shoes make up approximately 40% (approx. \$19 billion) of the market share. If you were to capture 2% of the women's shoe industry with your shoes, your business would earn approximately \$380 million a year.

Today, so much information is available to you on the Internet as you continue to research your selected business venture. The information is at your fingertips. As you complete the assignment for this lesson, you will see how easy it is to gather the information you need from Internet data. A simple search allows you to analyze your business venture's market potential.

## SUMMARY

In this lesson, you learned how to examine the market potential of your business venture through identifying your typical customer, analyzing the geographic size of the market and market trends, and investigating competitor profiles.

In the next lesson, you will learn more about your customers' psychographics, purchasing power, and lifestyle demands.



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## ASSIGNMENTS

### Non-Graded Activities

The following activities will help you practice the concepts from this lesson. They will help you prepare for your exams/final projects lesson. You are not required to submit them to your instructor.

1. Read the online lesson material and watch all videos.
2. Complete the “Check Prior Knowledge” activity.

### Graded Assignments

The following is a required assignment for this lesson.

1. Short Essay, Market Potential, worth 50 points



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