Is your idea an opportunity?

Simon Stockley
Senior Teaching Faculty in Entrepreneurship
Knowledge and Awareness

‘There are known knowns. These are things we know that we know. There are known unknowns. That is to say, there are things that we know we don't know. But there are also unknown unknowns. There are things we don't know we don't know’.

Donald Rumsfeld

Unknown unknowns kill start-ups
Common ‘Unk-unks’

- Reasons people have for NOT buying
- Whether you’ll love ‘plan B’
- The true cost of customer acquisition
- Who has the real power in your value chain
- The motives, values and commitment of your team
- How long it can take to raise money
- The *actual* value of your social capital
Evaluation is crucial

- Most new businesses fail
  - Folklore says 80% but difficult to measure
- Most fail because of poor opportunity evaluation
  - 65% of all failures are avoidable
  - Due to a weak business proposition and poor management
- Knowing *when to walk away* is a key strength

*Avoiding non opportunities is a core competence*
Ten tests of an entrepreneurial opportunity

1. Market conditions
2. Industry conditions
3. Access to required resources
4. Technology – proof, prototype, patent, platform
5. Timing – Market, funding
6. Scalability
7. Exit route
8. Personal fit – skills, experience, interest
9. Team – fit and function
10. Revenue model

100 Business ideas
33 Market opportunities
10 Business opportunities
1 Realised opportunity
The dream ticket..!

- The idea creates or adds significant value to a customer or consumer
- It does so by solving a major problem for which customers will pay a premium
- The idea is protectable (patent)
- Large (> €100m) market
- Strong market growth (20% pa)
- High gross margin (40% plus)
- High potential for net profit (10 to 15%)
- Early break-even point
- Strong cash flow
- Clear exit evident from the start
- Attractive returns for investors (>30% IRR)
Crafting your business model

Simon Stockley
Senior Teaching Faculty in Entrepreneurship
What is a ‘Business Model’?

‘A business model is how an organisation creates, delivers and captures value’

Osterwalder (2010, p14)
What should we build that people must buy?
<table>
<thead>
<tr>
<th>Key Partners</th>
<th>Customer Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who are our Key Partners?</td>
<td>For whom are we creating value?</td>
</tr>
<tr>
<td>Who are our key suppliers?</td>
<td>Who are our most important customers?</td>
</tr>
<tr>
<td>Which Key Resources are we acquiring from partners?</td>
<td></td>
</tr>
<tr>
<td>Which Key Activities do partners perform?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Activities</th>
<th>Value Proposition</th>
<th>Customer Relationships</th>
<th>Customer Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>What Key Activities do our Value Propositions require?</td>
<td>What value do we deliver to the customer?</td>
<td>What type of relationship does each of our Customer Segments expect us to establish and maintain with them?</td>
<td></td>
</tr>
<tr>
<td>Our Distribution Channels?</td>
<td>Which one of our customer’s problems are we helping to solve?</td>
<td>Which ones have we established?</td>
<td></td>
</tr>
<tr>
<td>Customer Relationships?</td>
<td>What bundles of products and services are we offering to each Customer Segment?</td>
<td>How costly are they?</td>
<td></td>
</tr>
<tr>
<td>Revenue streams?</td>
<td>Which customer needs are we satisfying?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Resources</th>
<th>Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>What Key Resources do our Value Propositions require?</td>
<td>Through which Channels do our Customer Segments want to be reached?</td>
</tr>
<tr>
<td>Our Distribution Channels?</td>
<td>How are we reaching them now?</td>
</tr>
<tr>
<td>Customer Relationships?</td>
<td>Which ones work best?</td>
</tr>
<tr>
<td>Revenue Streams?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost Structure</th>
<th>Revenue Streams</th>
</tr>
</thead>
<tbody>
<tr>
<td>What are the most important costs inherent in our business model?</td>
<td>For what value are our customers really willing to pay?</td>
</tr>
<tr>
<td>Which Key Resources are most expensive?</td>
<td>For what do they currently pay?</td>
</tr>
<tr>
<td>Which Key Activities are most expensive?</td>
<td>How are they currently paying?</td>
</tr>
<tr>
<td></td>
<td>How would they prefer to pay?</td>
</tr>
<tr>
<td></td>
<td>How much does each Revenue Stream contribute to overall revenues?</td>
</tr>
</tbody>
</table>
Understanding your context

Key Trends
- Societal and cultural trends
- Regulatory trends
- Technology trends
- Socioeconomic trends

Market Forces
- Needs and demands
- Key segments
- Market dynamics
- Switching costs
- Revenue potential

Industry Forces
- Suppliers and other value chain actors
- Stakeholders
- Competitors
- New entrants
- Substitute products and services

Competitive Analysis
- Commodity and Resources
- Economic Infrastructure
- Capital markets
- Economic cycles

Macroeconomic Forces
The lean start-up road map

Initial screening

Business model v1

GET OUT OF THE OFFICE!

Business model v2

Business model v3

Business model v4

Raise money + Early revenues

Primary Research

Secondary Research

Initial screening

Business model v1

GET OUT OF THE OFFICE!

Business model v2

Business model v3

Business model v4

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Business model v4

Raise money + Early revenues

Primary Research

Secondary Research
What should you test?

• The value proposition(s) of your product or service
• Which segments (user groups) to target
• Your revenue model
• Your position in the value chain and key partnerships
• Communication, distribution and sales channels
• Will people actually buy it?

‘You will learn nothing of value inside your own office’...
Useful models and techniques

Simon Stockley
Senior Teaching Faculty in Entrepreneurship
The Customer Activity Cycle

1. **Awareness**
   How do we raise awareness about our company’s products and services?

2. **Evaluation**
   How do we help customers evaluate our organization’s Value Proposition?

3. **Purchase**
   How do we allow customers to purchase specific products and services?

4. **Delivery**
   How do we deliver a Value Proposition to customers?

5. **After Sales**
   How do we provide post-purchase customer support?

**Key Questions:**

1. How do customers currently think, feel and behave?
2. Where is the pain?
3. How can we add value?
4. How can we make it easy?
Bottom up (primary) research methods

To identify unknown - unknowns

DO THESE FIRST

Identify explicit needs

Interviews with expert witnesses & target customers

Identify ‘latent’ needs

Lead user research

mail, phone & on-line surveys

DO THIS SECOND

To quantify and validate known-unknowns

techniques

macro large numbers quantitative

micro small numbers qualitative

purpose of research

UNIVERSITY OF CAMBRIDGE Judge Business School
<table>
<thead>
<tr>
<th>Sample Size</th>
<th>Approximate margin of error at 95% confidence level</th>
<th>Implications</th>
</tr>
</thead>
</table>
| 100         | 9.8 %                                               | Jones has 45% plus or minus 10% (35% to 55%)  
               Smith has 41% plus or minus 10% (31% to 51%)  
               Smith could be leading by as much as 51% to 35% |
| 500         | 4.5 %                                               | Jones has 45% plus or minus 4.5% (40.5% to 49.5%)  
               Smith has 41% plus or minus 4.5% (36.5% to 45.5%)  
               Smith could be leading by as much as 45.5% to 40.5% |
| 1000        | 3 %                                                 | Jones has 45% plus or minus 3% (42% to 48%)  
               Smith has 41% plus or minus 3% (38% to 44%)  
               Smith could be leading by as much as 44% to 42% |
What people say is not what they do!

<table>
<thead>
<tr>
<th>Purchase intent</th>
<th>Percentage response</th>
<th>Reduction for forecasting purposes</th>
<th>Percentage of market likely to buy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definitely would buy</td>
<td>27%</td>
<td>Multiply by 0.8</td>
<td>21.6%</td>
</tr>
<tr>
<td>Probably would buy</td>
<td>43%</td>
<td>Multiply by 0.3</td>
<td>12.9%</td>
</tr>
<tr>
<td>Might or might not buy</td>
<td>22%</td>
<td>Count as zero</td>
<td></td>
</tr>
<tr>
<td>Probably or definitely would not buy</td>
<td>8%</td>
<td>Count as zero</td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>100%</td>
<td></td>
<td>34.5%</td>
</tr>
</tbody>
</table>

# Chain ratio forecasting

<table>
<thead>
<tr>
<th>Research results for</th>
<th>Data from research</th>
<th>Chain ratio calculation</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of households in target market</td>
<td>77.4 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Concept purchase intent</td>
<td>34.5% will try product</td>
<td>77.4 million x 34.5%</td>
<td>26.7 million households will try if aware</td>
</tr>
<tr>
<td>Awareness adjustment based on planned advertising level</td>
<td>48% will be aware of product</td>
<td>26.7 million x 48%</td>
<td>12.8 million households will try if they find product at their store</td>
</tr>
<tr>
<td>Distribution adjustment</td>
<td>The product will achieve distribution reaching 45% of households</td>
<td>12.8 million x 45%</td>
<td>5.8 million will try the product</td>
</tr>
</tbody>
</table>
1. What does she see?
Describe what the customer sees in her environment:
• What does it look like?
• Who surrounds her?
• Who are her friends, her colleagues?
• What types of offers is she exposed to daily (as opposed to all market offers)?
• What problems does she encounter?

2. What does she hear?
Describe how the environment influences the customer:
• Who really influences her and how?
• Which media Channels are influential?
• What do her friends say? Her partner?

3. What does she really think and feel?
Try to sketch out what goes on in your customer’s mind
• What is really important to her (which she might not say publicly)?
• Imagine her emotions, what moves her?
• What might keep her up at night?
• Try describing her dreams and aspirations.

4. What does she say and do?
Imagine what the customer might say, or how she might behave in public
• What is her attitude?
• What could she be telling others?
• Pay particular attention to potential conflicts between what a customer might say and what she may truly think or feel.

5. What is the customer’s pain?
• What are her biggest frustrations?
• What obstacles stand between her and what she wants or needs to achieve?
• Which risks might she fear taking?

6. What does the customer want?
• What does she truly want or need to achieve?
• How does she measure success?
• Identify some strategies she might use to achieve her goals.

The Empathy Map
Identifying Needs, Wants and Desires

What are they short of?
What do they have too much of?
What are they afraid of?
What are their insecurities?
What do they dislike doing?
What do they enjoy doing?
What are their dreams?

⚠️ How do you really know?
“We must believe in luck. For how else can we explain the success of those we don't like?”

Jean Cocteau