Is your idea an opportunity?

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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

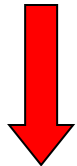- Knowing *when to walk away* is a key strength

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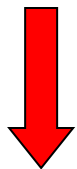
Ten tests of an entrepreneurial opportunity

100 Business ideas

↓
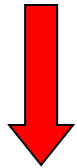
33 Market opportunities

↓

10 Business opportunities

↓

1 Realised 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**

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)

What is a 'Business Model'?

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

Osterwalder (2010, p14)

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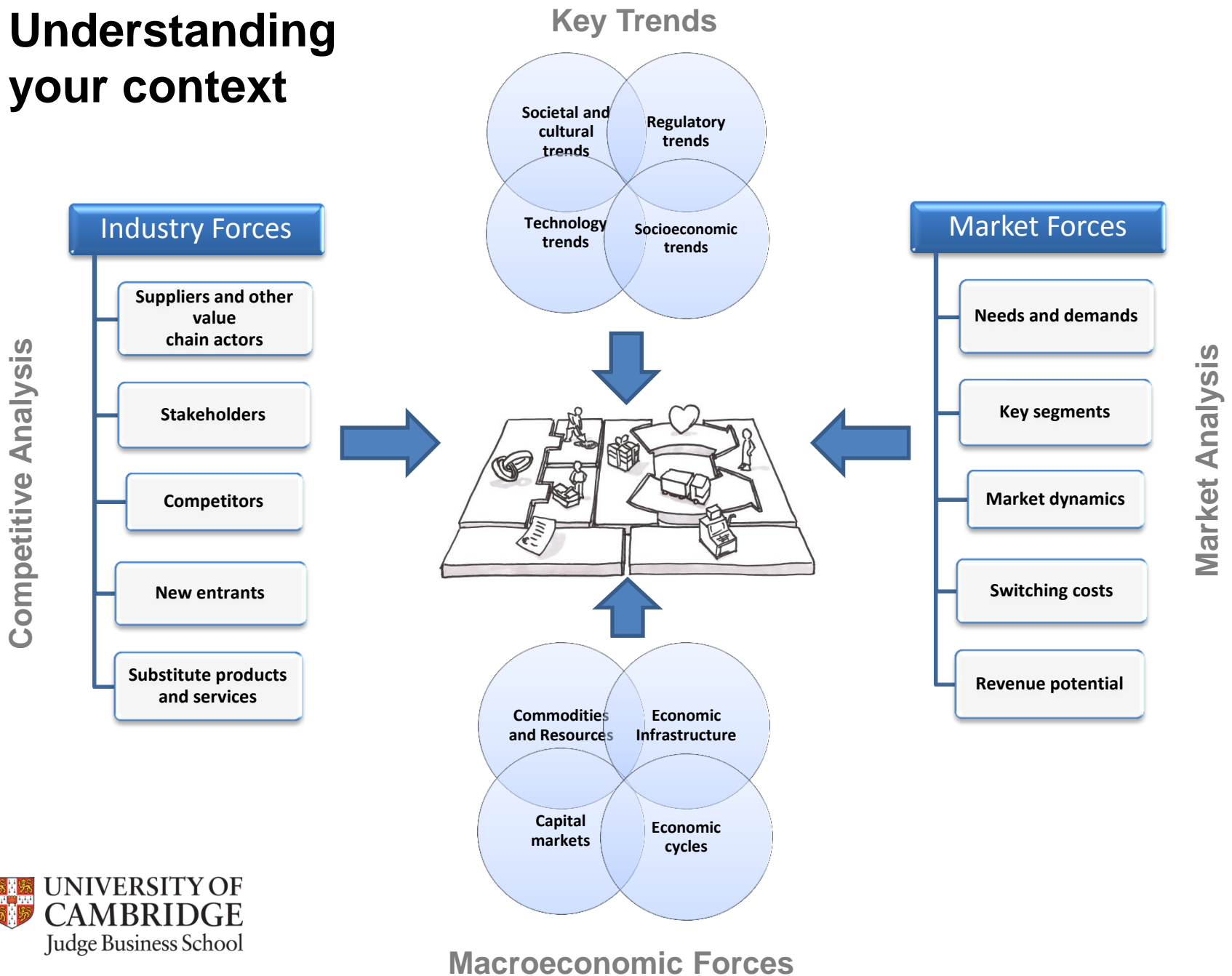
What should we build that people *must* buy?

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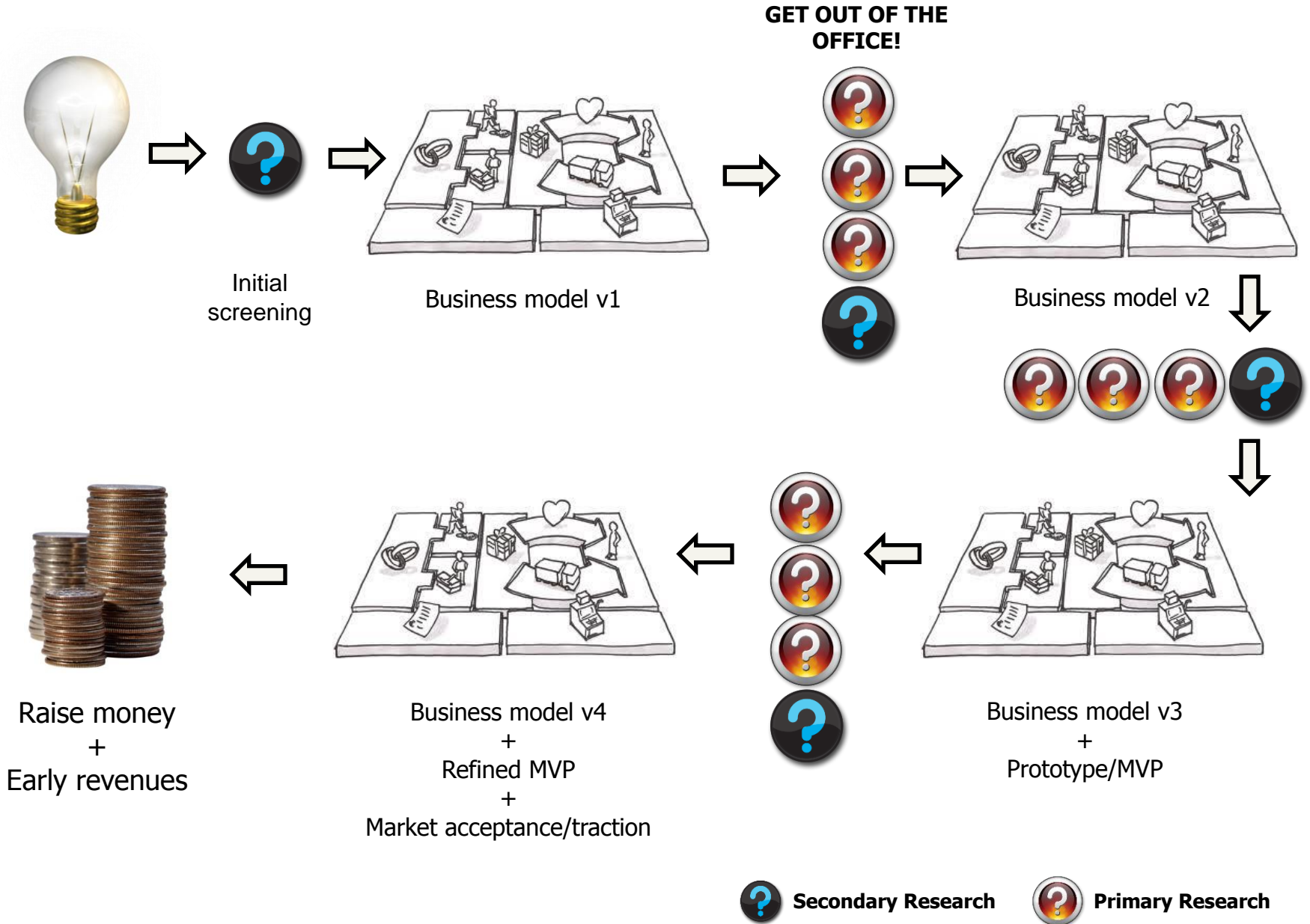CAMBRIDGE
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The 'Business Model Canvas'

Key Partners

Who are our Key Partners?

Who are our key suppliers?

Which Key Resources are we acquiring from partners?

Which Key Activities do partners perform?

Key Activities

What Key Activities do our Value Propositions require?

Our Distribution Channels?

Customer Relationships?

Revenue streams?

Key Resources

What Key Resources do our Value Propositions require?

Our Distribution Channels?

Customer Relationships?

Revenue Streams?

Value Proposition

What value do we deliver to the customer?

Which one of our customer's problems are we helping to solve?

What bundles of products and services are we offering to each Customer Segment?

Which customer needs are we satisfying?

Customer Relationships

What type of relationship does each of our Customer Segments expect us to establish and maintain with them?

Which ones have we established?

How costly are they?

Channels

Through which Channels do our Customer Segments want to be reached?

How are we reaching them now?

Which ones work best?

Customer Segments

For whom are we creating value?

Who are our most important customers?

Cost Structure

What are the most important costs inherent in our business model?

Which Key Resources are most expensive?

Which Key Activities are most expensive?

Revenue Streams

For what value are our customers really willing to pay?

For what do they currently pay?

How are they currently paying?

How would they prefer to pay?

How much does each Revenue Stream contribute to overall revenues?

Understanding your context

Key Trends

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

Industry Forces

Competitive Analysis

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

Market Forces

Market Analysis

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

Macroeconomic Forces

- Commodities and Resources
- Economic Infrastructure
- Capital markets
- Economic cycles

The lean start-up road map

Initial screening

Business model v1

GET OUT OF THE OFFICE!

Business model v2

Business model v3
+
Prototype/MVP

Business model v4
+
Refined MVP
+
Market acceptance/traction

Raise money
+
Early revenues

Secondary Research   Primary 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'...

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
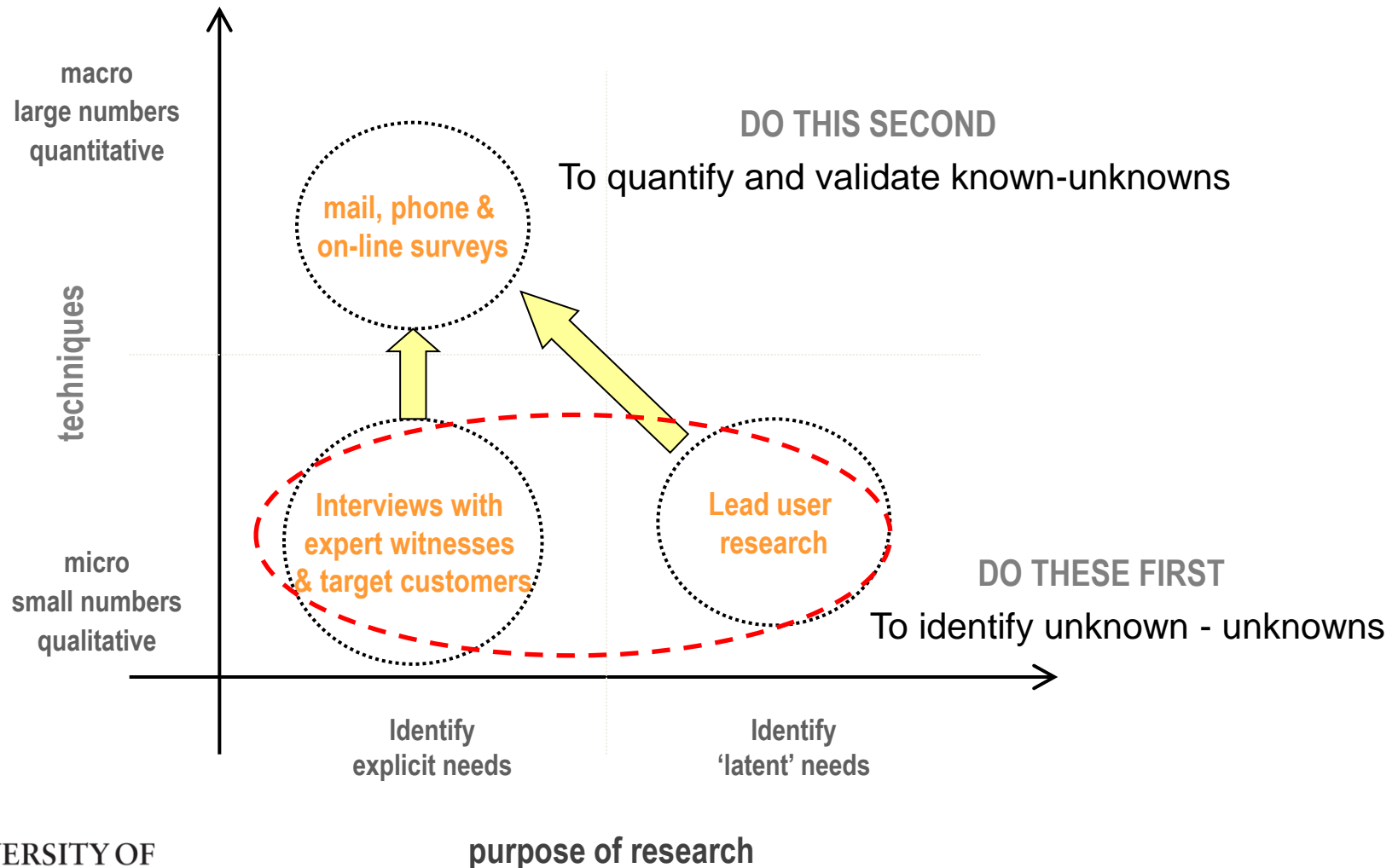

macro
large numbers
quantitative

techniques

micro
small numbers
qualitative

mail, phone &
on-line surveys

Interviews with
expert witnesses
& target customers

Lead user
research

DO THIS SECOND
To quantify and validate known-unknowns

DO THESE FIRST
To identify unknown - unknowns

Identify
explicit needs

Identify
'latent' needs

purpose of research

Margin of error associated with different sample sizes

Sample Size	Approximate margin of error at 95% confidence level	Implications
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!

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

Source: Bell and Rangan (1995) – Harvard Business School

Chain ratio forecasting

Research results for	Data from research	Chain ratio calculation	Result
Number of households in target market	77.4 million		
Concept purchase intent	34.5% will try product	77.4 million x 34.5%	26.7 million households will try if aware
Awareness adjustment based on planned advertising level	48% will be aware of product	26.7 million x 48%	12.8 million households will try if they find product at their store
Distribution adjustment	The product will achieve distribution reaching 45% of households	12.8 million x 45%	5.8 million will try the product

The Empathy Map

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.*

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.*

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?*

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.*

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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