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START UP YOUR STARTUP- THE OPPORTUNITY ASSESSMENT

BLANKET ACKNOWLEDGEMENTS

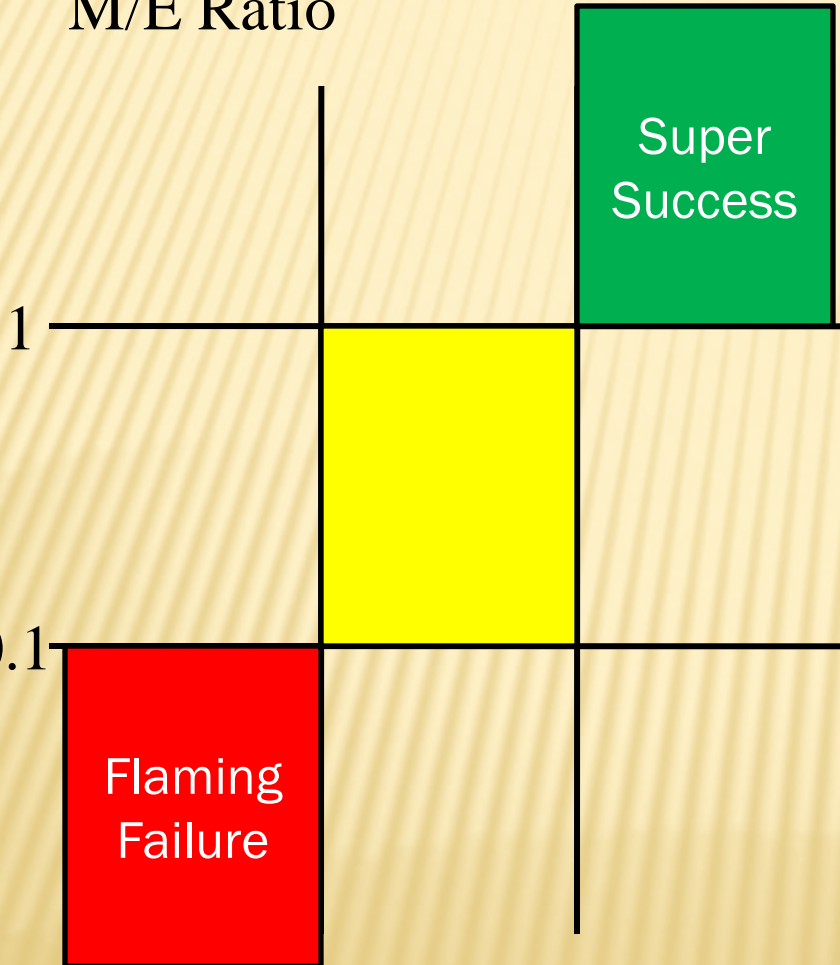
- ✘ Much of this material comes from:
 - + *The Four Steps to the Epiphany* by Steven Gary Blank. Buy it.
 - + Ralph Grabowski, *Who Is Going to Buy The Darn Thing?*, *11 Steps to Heaven™*
 - + Lynne Galligan of Hilltop Innovation via Stephanie Spong of Epic Ventures.
 - + Bill Bice, Ron McPhee, Bill Hartman, Stephanie Spong

CAVEATS

- ✘ This is biased towards B-to-B, but can be adapted to consumer
- ✘ It's also biased towards product, but can be adapted to service
- ✘ It's not terribly applicable to pharmaceuticals or other businesses in which the problem is clear

MARKETING/ENGINEERING RATIO

M/E Ratio



Intuit '90-93

Monster.com '98

Dell Computer '90s

EMC '90s

Lycos '97

Definition of Marketing:

- Up-Front Market Research
- NOT promotion or sales
- Secondary Research = <5% of the effort
- Primary Research = >95%

Polaroid '90s

Thinking Machines '90-'94

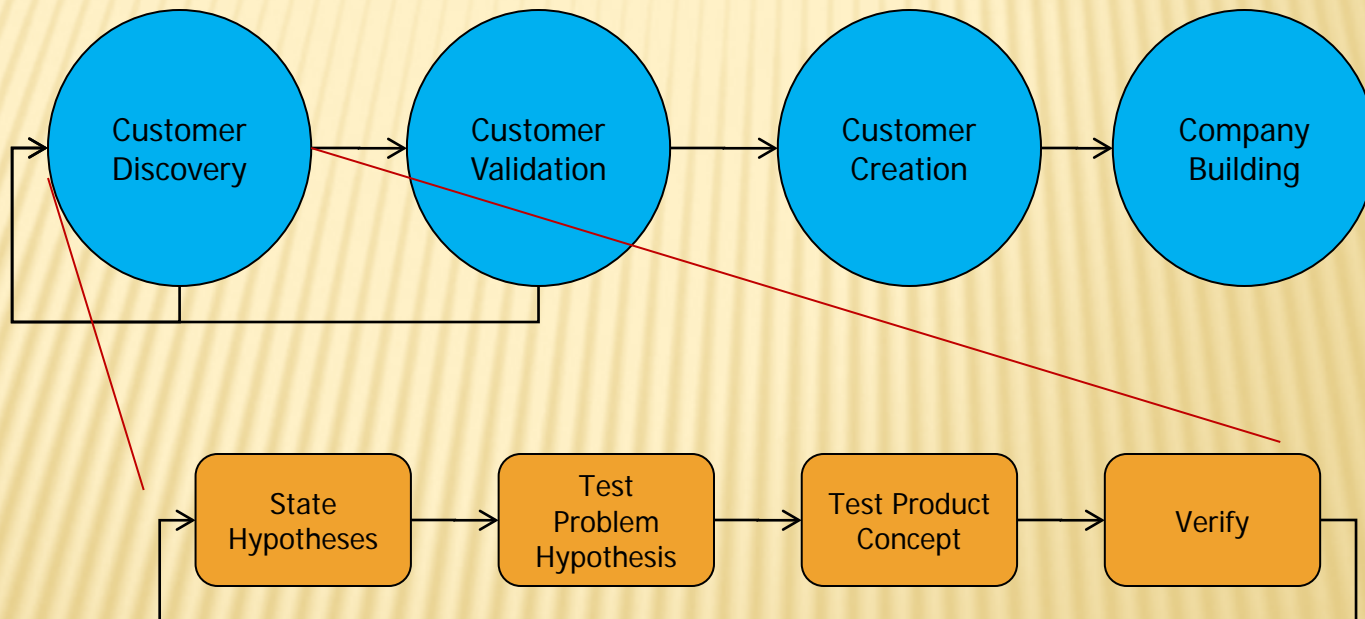
DEC '90s

WANG '84-'91

M/E Ratio invented and copyrighted by Ralph Grabowski

CUSTOMER DEVELOPMENT

What follows is a modified Customer Discovery process, based on *The Four Steps to the Epiphany* by Steven Blank with pieces of *The 11 Steps to Heaven* by Grabowski and a little original material.



OPPORTUNITY ASSESSMENT

- ✘ Prior to starting a business, you must answer 4 crucial questions:
 - + Is there an unmet need?
 - + Do you have a solution?
 - + Can you make money?
 - + What role should you play?

They cannot be answered behind a computer. 95% of the effort is TALKING TO CUSTOMERS

The work must be done by the founding team

This should be done before writing a business plan

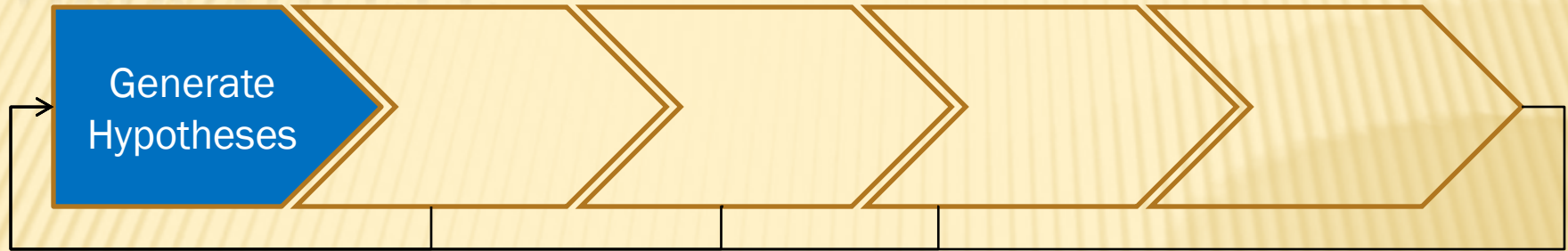
This should be completed before doing any product development

AN OPPORTUNITY ASSESSMENT PROCESS



- ✘ Use a scientific approach to answering the 4 questions
- ✘ You know nothing: start with *Hypotheses*
- ✘ Emphasis is on Primary Market Research – i.e. Talking to Customers
- ✘ Iterate, iterate, iterate – not a linear process

HYPOTHESES



- ✘ Document Hypotheses in a simple, disprovable style
- ✘ Take a cut at all areas of the market analysis but focus on:
 - + Problem & unmet need – if there’s no unmet need, there’s no business
 - + Customer – who is the customer, how do they buy, who makes the decisions?
 - + Competition – what are customers doing now?
 - + Product – how does your product solve the problem? What does the customer have to change in order to use it?

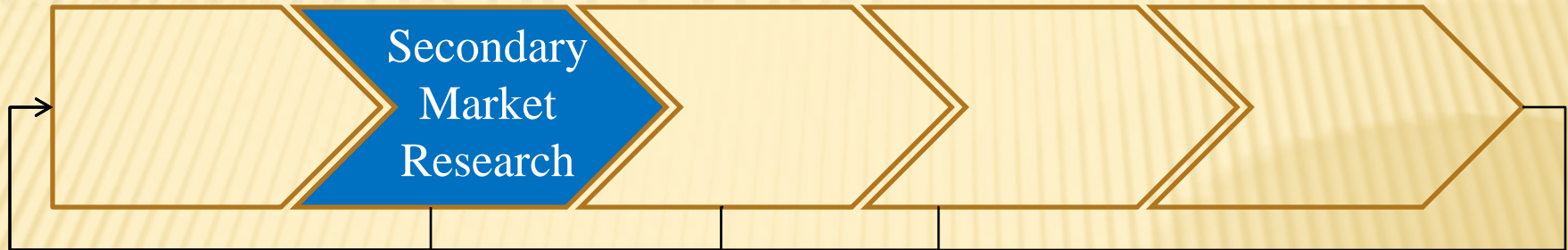
EXAMPLE HYPOTHESES – DAIRY PROBLEMS

- ✘ The cost of using Copper Sulfate is causing financial hardship to dairies
- ✘ Copper Sulfate causes environmental problems
 - + The Lagoon is less effective
 - + The Lagoon smells bad
 - + Copper Sulfate accumulates in the soil, and eventually makes growing crops less effective, and even totally impossible.
- ✘ Copper sulfate is under regulatory fire; there is movement to outlaw it altogether.

EXAMPLE HYPOTHESES – DAIRY CUSTOMER

- ✘ The customer is the dairy farmer himself. Dairies are largely small businesses run by independent producers. The decisions are made by the farmer or manager who is a close associate.

SECONDARY RESEARCH



- ✘ Use any and all resources
 - + Public Company Presentations & Reports
 - + Analyst Reports
 - + Research Reports (\$\$)
 - + Industry Groups
 - + Conferences
 - + Competitor Websites & Advertisements
 - + Government Reports
- ✘ Use the phone and get out of the office – call analysts, researchers, & groups.

PRIMARY MARKET RESEARCH



The Founding Team Must Perform This;
It Cannot be Delegated

PRIMARY MARKET RESEARCH



- Design to Prove / Disprove Hypotheses

- Include Customers, Competitors, Analysts, VCs, Suppliers, & more Customers
- >15-20 total interviews

- Conduct in pairs
- Document results to be reviewed during analysis

CUSTOMER INTERVIEWS - NEED

Weight	Problem/Need	How Handled Today	Possible Solution
0-5	State hypothesized unmet need		
0 = Not an issue			
3 = An issue			
5 = Critical Issue			

CUSTOMER INTERVIEWS - NEED

Weight	Problem/Need	How Handled Today	Possible Solution
4	Copper Sulfate Expensive to Dairies	Use only every other day	Eliminate Copper Sulfate
3	Lagoon Not Healthy	Breaking into two-stage	“
2	Lagoon Smells	Ignore	“
3	Copper Sulfate Accumulating	Hoping	“
4	Regulatory Pressure Increasing	Schmoozing the local guy	“

CUSTOMER INTERVIEWS - PRODUCT

Weight	Benefit	Us	Them	Them #2
0-5	Not features, but what the features give the customer	X	X	-
0 = Don't Care		X	-	X
3 = I'd pay, but not much		X	-	-
5 = I need this now		-	X	X

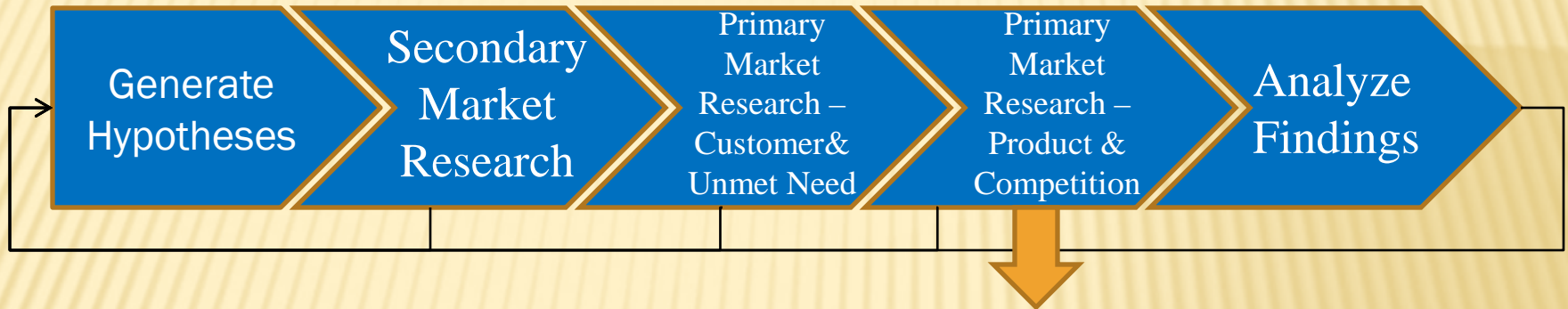
Benefits are described by Price, Performance, ROI, Packaging, Positioning, Promotion, Distribution

ITERATING



- ✘ Stop and Analyze:
 - + How are the answers matching your hypotheses?
 - + Is there a problem? Will customers pay to solve it?
 - + If yes, go on to Product & Competition Research
 - + If Maybe, iterate
 - + If no, totally rethink

ITERATING



✘ Stop and Analyze:

- + How are the answers matching your hypotheses?
- + Does your product solve the problem? Will customers change what they do?
- + If yes, go on to Analyze
- + If Maybe, iterate
- + If no, totally rethink

ANALYSIS

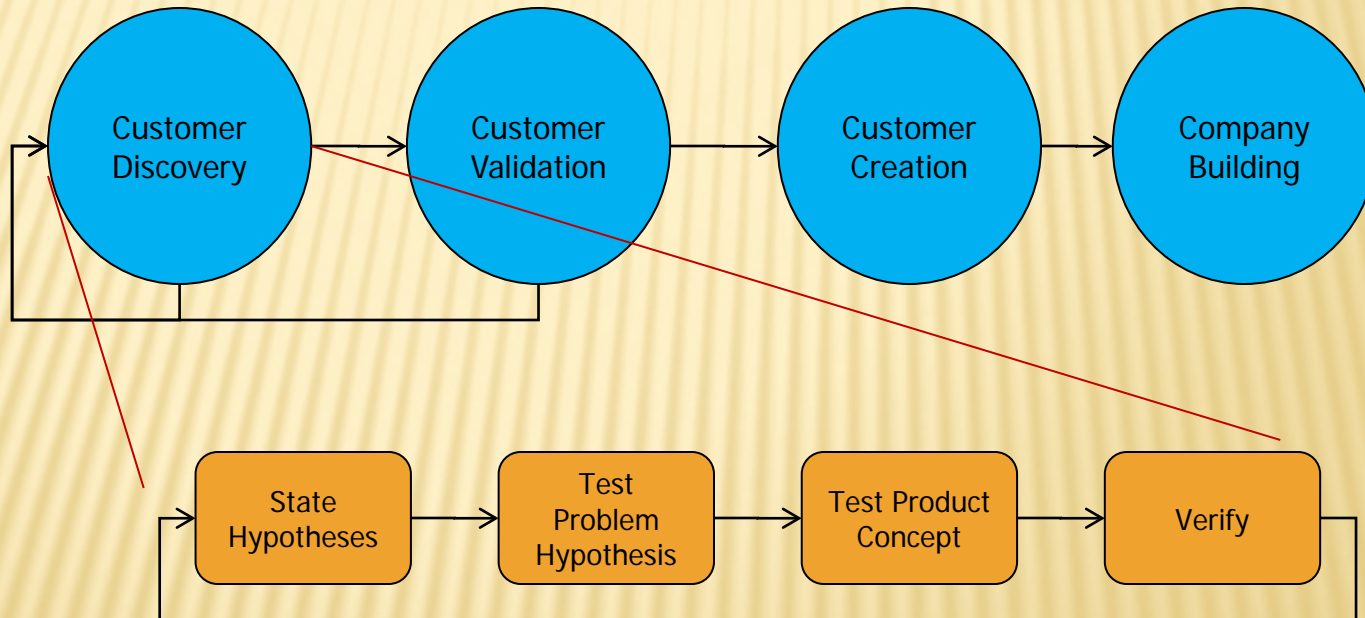
- ✘ Concisely state the following:
 - + The unmet market need
 - + Product Definition that meets the need
 - + Competitive Advantage
 - + Target Market – the exact definition of your customer
 - + How you make money
 - + Supporting Trends

If you cannot, iterate until you can
OR – kill it and move on

NOW YOU'RE READY TO WRITE A BUSINESS PLAN

HOWEVER....

You've just finished Step 1



LAST – BUT NOT LEAST



- ✘ Are you ready for this?
 - + YOU have to be the customer interface – it cannot be delegated
 - + Did you get the answers you needed?
 - + How did you manage the interviews? Nervous? Excited? Nauseated?
 - + If you can't handle customers, figure out how, or consider something else.