**ASSIGNMENT 1A**

**TEAM CONCEPT MEMO**

**Due Monday 9/29 - 11:59pm – Please submit via** [**msande273@gmail.com**](mailto:msande273@gmail.com) **(header: “ASSIGNMENT 1A <team number>”)**

**SUGGESTION: Read through the 5 questions below BEFORE you settle on an idea. Use these metrics to help pick the right opportunity.**

**Please describe your opportunity in 5 sentences or less. For each of the questions below, give yourselves a score of 1(worst)-5(best) with an optional one-sentence explanation for each.**

The following 5 screening questions comprise a reasonable generic first cut in evaluating an entrepreneurial business opportunity. It is not necessary for an opportunity to score perfectly on all dimensions; rather, this set of questions provides a first cut at how strong an opportunity is. It allows for an entrepreneur to adjust the idea over time to increase its score against these questions.

Of course, these questions are generic. In all cases an entrepreneur should add his or her own questions to this screen, which are personalized to that person’s passions.

1. **Is the Market Big Enough?**

A big enough ($1B) market provides a more forgiving environment. Such a market size contains numerous segments that your product/service can target for success. If you are slightly off target, you can shift multiple times to be successful. Most businesses make such shifts many times.

If the market is modest ($100MM) you have to capture a huge % of that entire market. You better be right. Also, you will have a fairly small sliver of that market for whom the product is a “must have,” making your likely revenue achievement more modest. Such a market is less forgiving, if original assumptions (inevitably) are off-base. Some VCs don’t even want to talk with you unless the market is at least $1B.

* If your market is w*ell-defined* and a *bottom’s up* analysis leads to a market size of $1B or more, give yourselves a 4-5.
* If your market is not very well-defined, but a top down analysis (market reports, etc.) lead to a $1B or more market size, give yourselves a 2-3.
* If your market is *poorly defined* and less than $1B, give yourselves a 1.

1. **Is there a Burning Need?**

There has to be at least some segment of the market for whom their hair is on fire! This group will pay almost anything to have their problem solved. For them, they are willing to trust you as a small company because they are desperate. This group can be beta customers, references, pre-order customers, even NRE customers. For some, there is a huge ROI versus existing opportunities. For others it is an easy adoption. In all cases, think in terms of barriers to adoption (sometimes discussed as friction). What do we need to do to reduce the risk of adoption? What do we need to do to eliminate obstacles or annoyances to adoption? How can we reduce or eliminate any need for the customer to change his or her behavior?

Often the term “Value Proposition” is used as a proxy for the softer and harder elements of “ROI.” Also, an understanding of the relative ROI versus existing solutions is important. Often a 2x-10x improvement in ROI is necessary to allow the entrepreneur to reap significant benefits, while allowing the customer as well as others in the value chain to benefit.

When raising money, there is a spectrum to how much validation you have of this burning need. The range is something like:

* 1. Revenue
  2. Orders
  3. Binding agreement
  4. Letter of Intent
  5. Referenceable prospective customers
  6. Nice meetings
* If you can identify and have used any of the above metrics to validate the burning need, give yourselves a 4-5, depending on your method of validation.
* If you have a strong belief that some segment has a burning need, but you can at least identify a specific segment, give yourselves a 2-3.
* If you have many different ideas about who has a burning need, and have not validated any, give yourselves a 1.

1. **Can you Sustain a Differentiated Positioning? 1(worst)-5(best)**

First you need to have an *unfair advantage*. Either your product or the way you are bringing it to market must be significantly novel that it allows a small company to succeed in a market that is often currently dominated by larger players. This differentiation often includes *intellectual property*, though not always. It can also be achieved through using completely novel *distribution systems* or *supply chain*. It could involve strategic *partnerships* will big players who stand to gain from the loss of other big players.

Regarding partnerships, investigate which large players in the value chain benefit most from your success, as well as which are hurt most. Think through a series of chess moves as you move up the food chain with partners and customers. Each chess move should be played with the end goal and future moves in mind.

The differentiation, if product-based, needs to stand alone as an offering that some customers will believe to be a complete solution to their needs. It cannot be merely a feature of a broader product (or system) offering.

An overarching approach to this point is whether the product meets the market “hand-in-glove.” Is there a strong fit between the market need and the product you are offering?

Next, that differentiation must be sustainable. You need to have a good answer to the question, “What happens when and if \_\_\_\_\_ (insert name of large competitor here) decides to copy you?” Specifically, why won’t or can’t others copy you.

Of course, if the investors are concerned foremost about the sustainability of your advantage, the implied positive is that they inherently believe that you have a differentiation to begin with!

* If you have an unfair advantage in the form of patentable technology, and have thought through a plan for maintaining this advantage, give yourselves a 5.
* If you have an unfair advantage in the form of patentable technology or partnerships or a novel delivery method, but have not thought through a plan for maintaining this advantage, give yourselves a 3-4.
* If you have a strong belief that you can create an unfair advantage, give yourselves a 1-2.

1. **Do You Have a Scalable Business Model? 1(worst)-5(best)**

Possibly no other concept is more misunderstood than the “Business Model.” Different schools have different interpretations of this concept. We like to ask the following questions:

* Who pays for the product/service? Where does the money flow? Where do the goods flow?
* How much is it worth to them versus how much are they asked to pay?
* What type of payment (subscription, capital, ongoing fees, and/or maintenance) is contemplated?

Often a simple diagram is important. That diagram can show the flow of goods and money. It can include your salespeople, partners, distributors, yourself and the customer. Common mistakes:

* “We have 2 or 3 different customers, all of whom are paying.” You should have *one* defined type of customer who wants to part with money. If you are expecting different players in the value chain to part with money, perhaps you have not thought through the value chain clearly enough.
* “We have 3 different business models, subscription, advertising/free, and one-time.” Well, perhaps you have no idea which will work, so you are trying all of them.
* “This group is our customer (who is getting most of the value) and this other group is the one who is paying.” You should be able to answer why the person who is getting little benefit is paying!

Before tackling scalability, we need to be certain that the “unit economics” work. You need to define a relevant unit, whether it is 1 customer, 1 market, 1 transaction, or some other metric. You need to consider the lifetime value of a customer, incorporating churn and customer acquisition cost. It is ok if those change over time (and it is even ok if the business model changes over time). You just need to have a dominant set of assumptions at each point.

Regarding scalability, there are businesses that scale inherently well, either due to the ease of replicating, low variable costs, or low friction. (An example of a business that does not scale well is consulting.)

As you approach how you scale your business, tie the milestones well to the funding events. Tie the strategy of scaling to the funding strategy. Understand the important milestones form an investor perspective.

* If you know what customer will pay for your product, the lifetime value of that customer, how much it costs to acquire that customer, the payment type AND have shown that you make substantial annual revenue then give yourselves a 5.
* If you are uncertain on one or more of these points, give yourselves a 1-4.
* Explain in a sentence or two which aspects are clear and uncertain.

1. **Is this the Right Time and the Right Team for this Opportunity?**

Regarding timing, we tend to discuss technology and market enablers. Specifically, what has happened with core technology, customer readiness, regulation, or market dynamics that allows this particular entrepreneurial opportunity to flourish now, where it could not have done so previously. Often an investor will ask, “Why hasn’t someone done this type of business before?” When there is a particular discontinuity in technology or market, it is a help to the investor.

Conversely, if there still needs to be significant changes to the market or technological advances in order for you to be successful, that discontinuity can be a barrier to success, and thus a barrier to investment.

Regarding team, the term “authenticity” is thrown around often. Does this team seem to be authentically passionate about this opportunity? Why? What core DNA and/or experience do they have to make me feel comfortable entrusting them with my money? Why them? What other people do they need?

* If one or more of you are a domain expert in your field AND you can answer the question “why now?” give yourselves a 5.
* If have a domain expert, but can’t answer “why now?” give yourselves a 4.
* If you have no domain expertise, but believe you can answer the question “why now?” give yourselves a 3.
* Give yourselves a 1-2 depending on your team’s passion for the idea.

In a sentence, tell us who the domain expert is and succinctly answer “why now?”