NITSPAKATHON

From Idea to Theory

How Startups Create & Capture Value (and Prove & Pitch It)

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Why Theory-Based View (TBV) vs. 'Just Talk to Users'?

- **Lean Startup:**
  - “Fail early-and-often” based on customer feedback is useful in the context of information asymmetry, …
  - but not universally - avoid 'one-size-fits-all' MVPs and interviews.

- **Entrepreneurs as scientists:**
  - Generative rationality and belief asymmetry.
  - Your (contrarian) beliefs should *precede* validation and (customer) feedback.
  - Start from a causal theory, then test.
  - Advice:
    - Choose validation methods that fit your theory.
    - Utilize your theory to explain and pitch your venture idea.

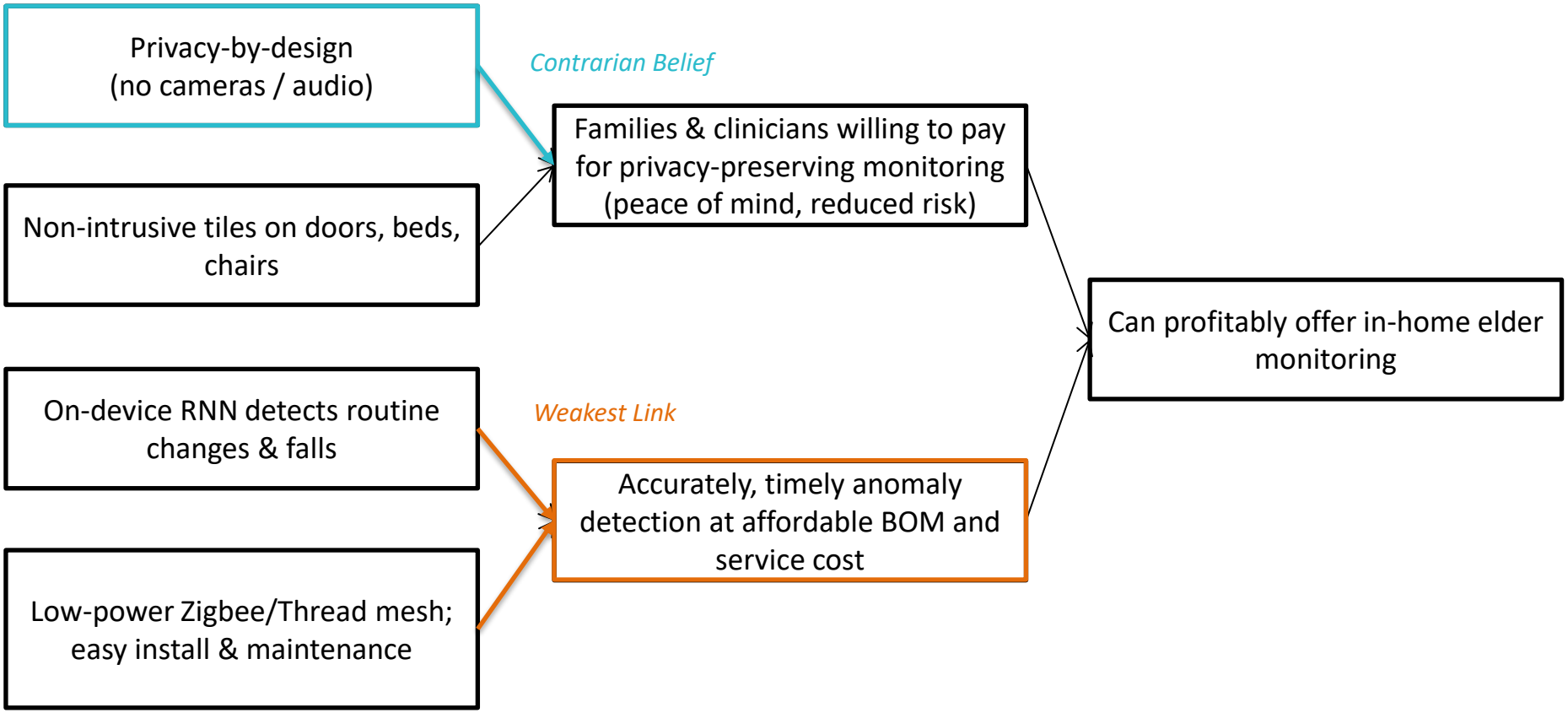
What Is a 'Theory of Value'?

- Actor-specific, forward-looking ***causal logic*** that guides search, experiments, and governance choices.
- Set of beliefs & assumptions.
- “If-Then” relationships that connect antecedents with consequences.

- Plain language:
  - “If [assumptions A] holds, then [problem P] for [who] gets stronger.”
  - “If we do [action X], then we solve [problem P] for [who].”
  - “If we do [action Y], then we capture [value V].”

What Is a 'Theory of Value'?

- **Box-and-arrow diagram:**
  - - Example: **Elder-Care Activity Tiles**



Keep Theories Small & Testable

- **Structure matters:**
  - Size, complexity, elaboration, and confidence in assumptions all impact experimentation & pitching effectiveness.
  - Smaller, simpler, lower-confidence early theories iterate faster.
  - Think like Kindergartners (vs MBA students) in a Marshmallow Challenge:

Where Do Good Theories Come From?

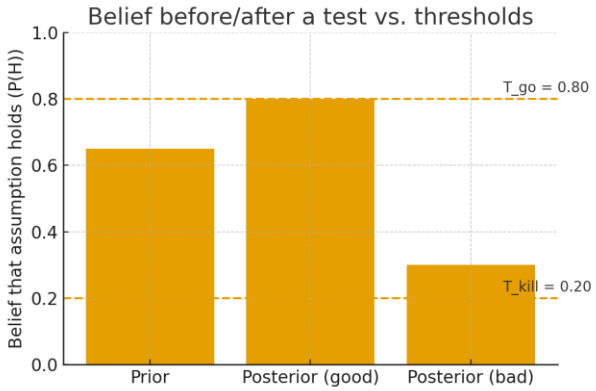
Theory Type	What It Means	Good First Experiments
Arbitrage	Value of an ***asset in a new use context*** that others do not see (*Information*)	Product-market/segment fit; channel/price discovery; time-to-market.
Recombination	Value of an ***new asset combination*** that others do not do or see (*Imagination*)	Interface/compatibility tests; access to complementary assets; two-sided activation.
Specialization	Value of a ***unique, specialized asset investment*** that others cannot do (*Transformation*)	Feasibility sub-problems; make-vs-buy; IP position before demoing.

- **Further useful theory foundations:**
  - Customer-problem fit (Jobs-to-Be-Done / problem framing
  - Resource-Based View (RBV; VRIO).
  - Capabilities/Dynamic Capabilities.
  - Network Effects & Platform Theory.
  - Transaction Cost / Make-or-Buy.
  - Signaling & Information Economics.
  - Learning Curves & Experience Effects.
  - Real Options.
  - Institutional Theory / Legitimacy.
  - Behavioral Economics.

Good Theories Improve Experimentation

- With a theory, experimentation is more targeted:
  - you start testing the weakest link in your causal chain, not random features.

- … and more discriminating & calibrated:
  - evidence is weighted against an explicit prior (belief strength in an assumption), so small, noisy signals don't whipsaw decisions.
  - Bayesian Updating:
    - Posterior odds =
      Prior odds × Test Quality (Bayes Factor)
    - Theory-informed decisions when to (1) proceed/scale; (2) stop/pivot or (3) continue testing …



Translate Your Theory into an Investor Pitch

- Replace “feature tour” with a **Theory Card** investors can underwrite:
  1. **Contrarian belief** (what you think is true that others miss).
  2. **Problem framing & subproblems** (your causal map; list the “must-be-true”s).
  3. **Theory type** (arbitrage / recombination / specialization) and how that matters for your venture dev approach (go-to-market speed, cooperation, R&D, etc.)
  4. **Weakest-link experiment** (fastest way to de-risk the theory) and **Bayesian update rule** (what evidence changes your mind).
  5. **Discriminating alignment** (your choices in experiments, team, partners, and financing fit the theory).

Translate Your Theory into an Investor Pitch

Classic Deck Section	TBV Insert (What to Add)
Title	One-line contrarian belief (what others miss).
Problem	State 2–3 must-be-true assumptions; mark the weakest link.
Solution / Product	If–then causal path + theory type (Arbitrage/Recombination/Specialization).
Why Now	Belief asymmetry: what changed that makes your theory true now.
Market	TAM/SAM tied to assumptions (who adopts first, where).
Business Model	Value capture that fits the theory type (IP/secrecy/platform/ownership).
Go-To-Market	First experiment stresses the weakest link; pre-set pass/fail.
Traction	Evidence Board: Prior → Test → Posterior → Decision (continue/stop/revert).
Competition	Compete on theory: why your causal story + tests beat feature-chasing.
Team	Roles/partners justified by theory type (builders/complementors/speed).
Ask / Use of Funds	Budget mapped to the sequence of de-risking tests; thresholds for go/kill.

1-Page Template: Theory of Value

Contrarian Belief (≤20 words):

Theory Type: Arbitrage / Recombination / Specialization:

Must-Be-True Assumptions (A, B, C):

Weakest Link & 1 Test (method, sample, timeline):

Update Rule (evidence that changes your mind):

Summary & Outlook

- “Act like scientists”:
  - Start with a contrarian / unique belief-
  - Build a simple theory around it-
  - Design experiments for the weakest links.
  - Focus your pitches around your theory.

- My Research:
  - Can we infer startups’ competitive positions over time from their website texts?
  - Can we fine-tune an LLM to infer the startups’ theory of value they use to compete?