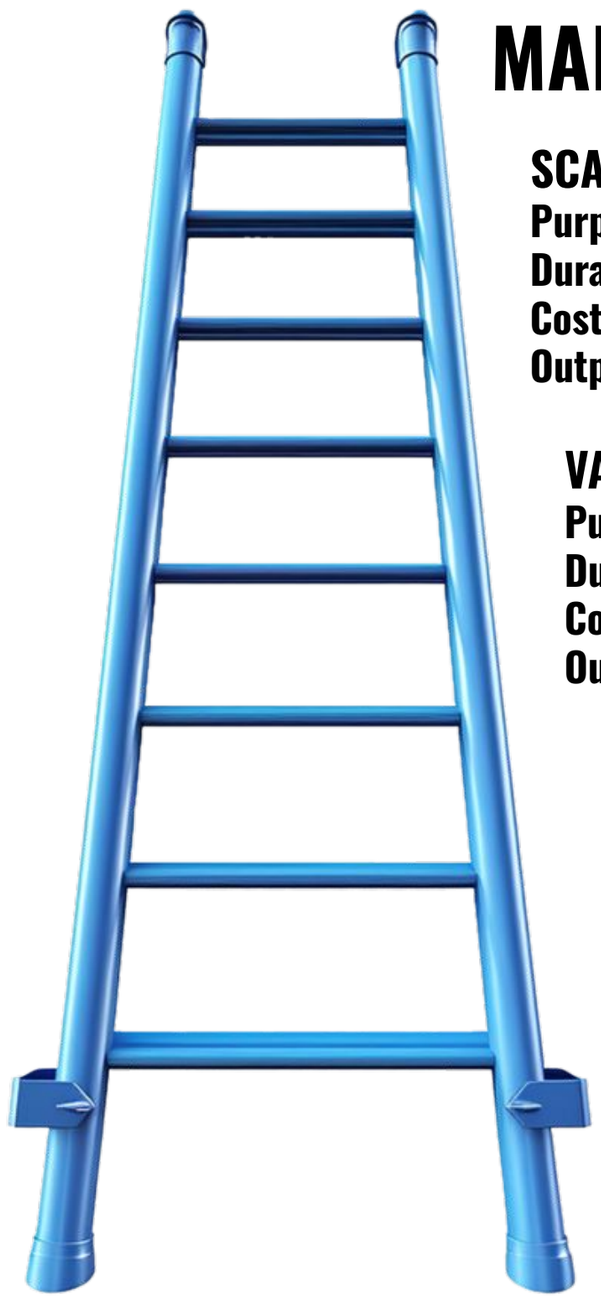
The Real Options Portfolio:
A Framework for Funding Learning, Not Just Launching

1. The Tranche Ladder (Gated Funding Steps)



MARKET SUCCESS

SCALE (Tranche 3)
Purpose: Full market launch & growth
Duration: 12-18 months
Cost: Extra Large $3-8M
Output: Production release & live operations

VALIDATION (Tranche 2)
Purpose: Prove unit economics & market fit
Duration: 12-16 weeks
Cost: Large $500K-1M
Output: Beta product & validated business model

PROTOTYPE (Tranche 1)
Purpose: Test core value prop & engagement
Duration: 8-12 weeks
Cost: Medium $150-250K
Output: Working prototype & key metrics

DISCOVERY (Tranche 0)
Purpose: Validate problem exists & customer demand
Duration: 4-6 weeks
Cost: Small $50-75K
Output: Research findings & go/kill decision

2. Kill Criteria Checklist (Stop if...)

Objective 'Stop' Signals at Each Gate:

- ☒ **DISCOVERY:** Customer interest/demand scores below threshold. No clear differentiation from alternatives.
- ☒ **PROTOTYPE:** Key user engagement metric below threshold (e.g., daily usage). Technical build not feasible at reasonable cost.
- ☒ **VALIDATION:** LTV < CAC (unit economics fail). Retention/churn rates don't support business model.

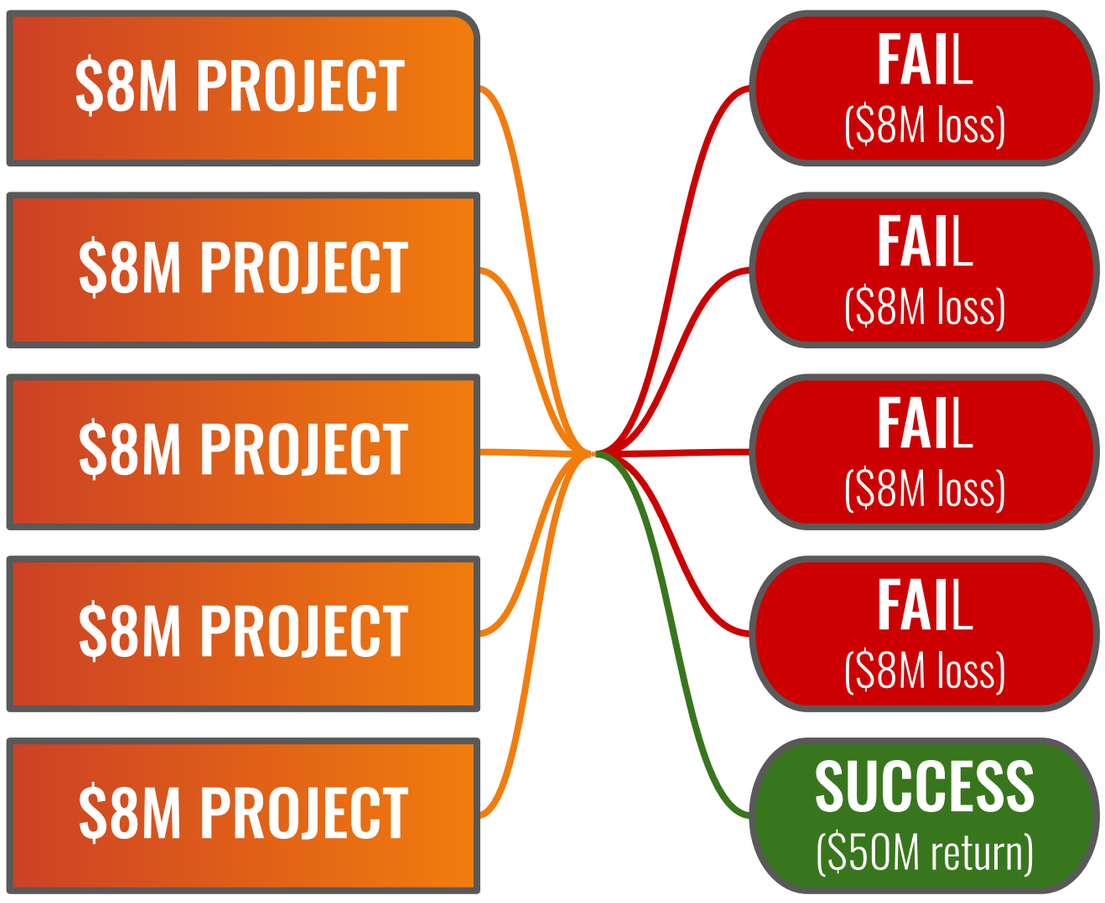
OUTCOME:REALLOCATE CAPITAL AND LEARN

3. Execution vs. Learning Model (Mindset Shift)

TRADITIONAL PROJECT FUNDING	REAL OPTION FUNDING
	
FOCUS: Execution efficiency	**FOCUS:** Learning Velocity
COMMITMENT: Full funding amount up front	**COMMITMENT:** Small tranches, buy options to learn
RISK: High, assumptions locked-in	**RISK:** Managed, incremental, validated
FAILURE: Seen as disaster	**FAILURE:** Expected and valuable learning
OUTCOME: "Zombie" projects, or late, expensive failure	**OUTCOME:** Fast kills, capital efficiency, better winners

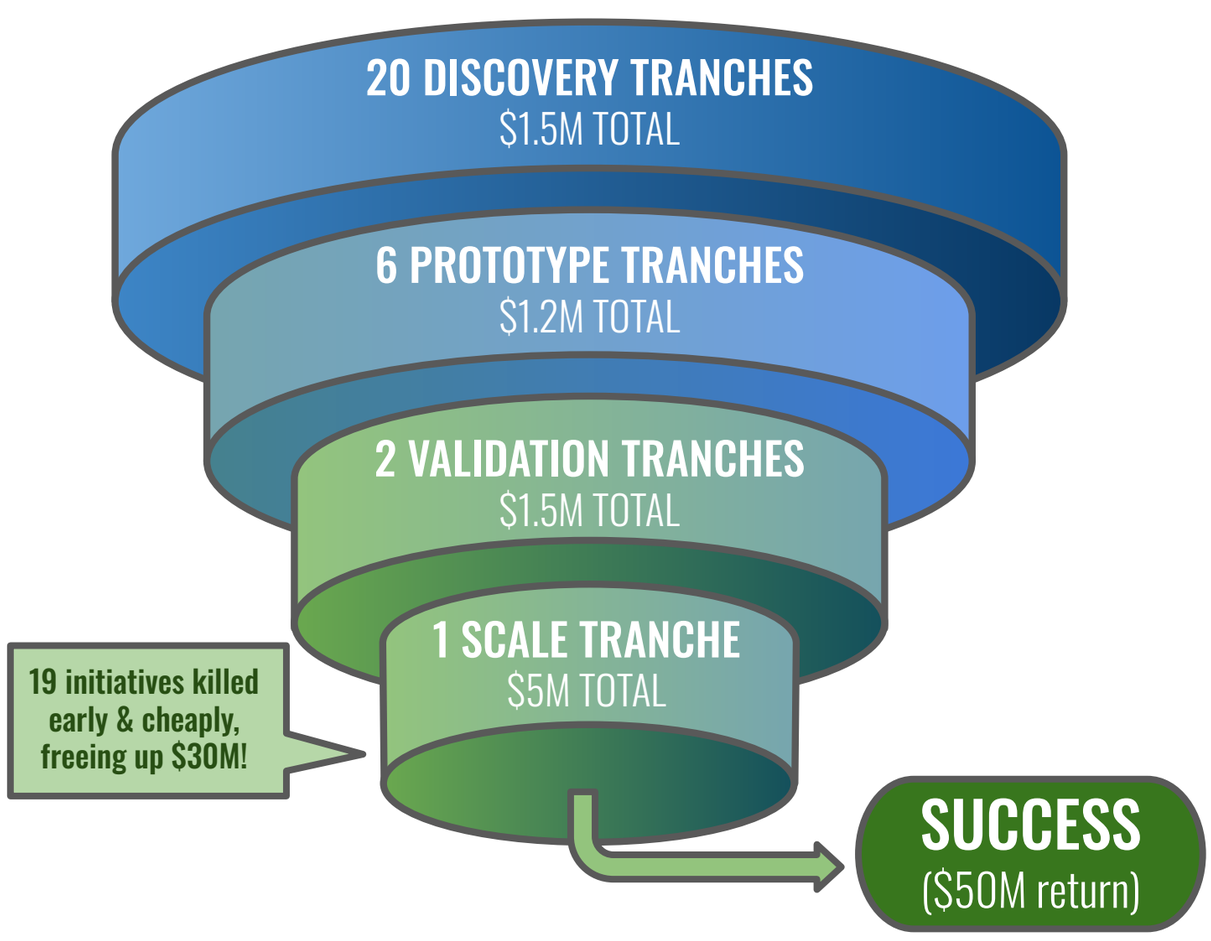
4. Portfolio Math (The Capital Efficiency Case)

TRADITIONAL: 5 BIG BETS



TOTAL CAPITAL DEPLOYED: $40M
NET OUTCOME: +$10M
CAPITAL EFFICIENCY: LOW

OPTIONS-BASED: 20 SMALL BETS



TOTAL CAPITAL DEPLOYED: $9.2M
NET OUTCOME: +$40.8M
CAPITAL EFFICIENCY: HIGH

SOURCE: https://www.chrisspagnuolo.info/blog/the-real-options-portfolio

Create a culture of disciplined experimentation and rapid capital reallocation