Building Startup

Unit – V

Kelly Johnsons KISS Principle

Road map for building a startup, identify, analyze and evaluate funding

Advantages of crowd funding

Pricing strategies

Determining factors for Monetizing Innovation,

Process of Monetization

Fixing the price of an Innovative Project

Detailed study on Market Potential

Pitfalls and Negative effects of Monetizing innovation

Reasons for failure of Monetization of Innovation.

Kelly Johnsons KISS Principle

- **KISS (Keep it Simple, Stupid) - A Design Principle**
- From scientific concepts to products, the end-user doesn't care how clever the creator or designer of something is.
- They care about being able to take that person's output and make it useful to their own lives.
- The simpler the explanation and the simpler the product, the more likely it is that the output will be useful to others.
- The phrase; **"keep it simple, stupid"** is thought to have been coined by the late **Kelly Johnson**, who was the lead engineer at the Lockheed Skunk Works.
- On the contrary, it is usually associated with intelligent systems that may be misconstrued as stupid because of their simplistic design.

- Kelly explained the idea to others with a simple story. He told the designers at Lockheed that whatever they made had to be something that could be repaired by a man in a field with some basic mechanic's training and simple tools.
- The theater of war (for which Lockheed's products were designed) would not allow for more than that.
- If their products weren't simple and easy to understand – they would quickly become obsolete in combat conditions and thus worthless.
- Albert Einstein: "Everything should be made as simple as possible, but not simpler." This means that one should simplify the design of a product and success is achieved when a design is at its maximum simplicity.
- Simpler means **less complicated**.
- Simple means **uncomplicated** with nothing added

- Today the KISS principle is celebrated in many engineering professions (including software engineering) and is often brought to bear by managers in many professions as well as by trainers and educators.

The First Usability Principle?

- KISS may have been the first usability principle for product design – though it was never formally presented as a usability principle.

- It focuses on the idea that if we can't understand a product, we can't use it properly and that the widest possible audience must be able to understand it, if the product is to gain maximum market share. This is a true for mobile applications as it is for fighter planes.

Variants of KISS

- The KISS principle is also offered in two other forms (for those who feel delicate about the inclusion of the word "stupid"):

  Keep it short and simple

  Keep it simple and straightforward

- They both deliver the same message as "keep it simple, stupid". The objective of any process is to deliver the simplest possible outcome.

A Note of Caution When Applying KISS to Design

- Simplicity is an admirable goal and can lead to enhanced user experiences, it is important not to let simplicity interfere with the design objective.
- The user must still be able to carry out their task requirements with the finished products or the design process has failed – no matter how simple the final design.
- Products such as DSLR Cameras are by nature more complex than the cameras found on the latest generations of smart phones. Complexity is to be resisted when it exists for its own sake and not when complexity can enhance the design for the user.

- However, it is also important not to make things so simple that they compromise the functionality of the final design – users will live with a little complexity if it enhances their overall experience.

Road Map For Building A Startup

- The five necessary steps you'll need when creating that roadmap to startup success.

1. Identify a Problem in a Proven Market
2. Build Your Niche and Generate Buzz
3. Assemble Your A-Team
4. Have a Vision, Mission and Strategy, But Be Flexible
5. Build The Best Product

1. **Identify a Problem in a Proven Market** Instead of wasting your time trying to develop a product or service that's the "Next Big Thing," focus on fixing a problem in a proven market.

2. **Build Your Niche and Generate Buzz** This means that you have to create quality content--graphs, videos, blog posts--that can be shared across all social media channels.

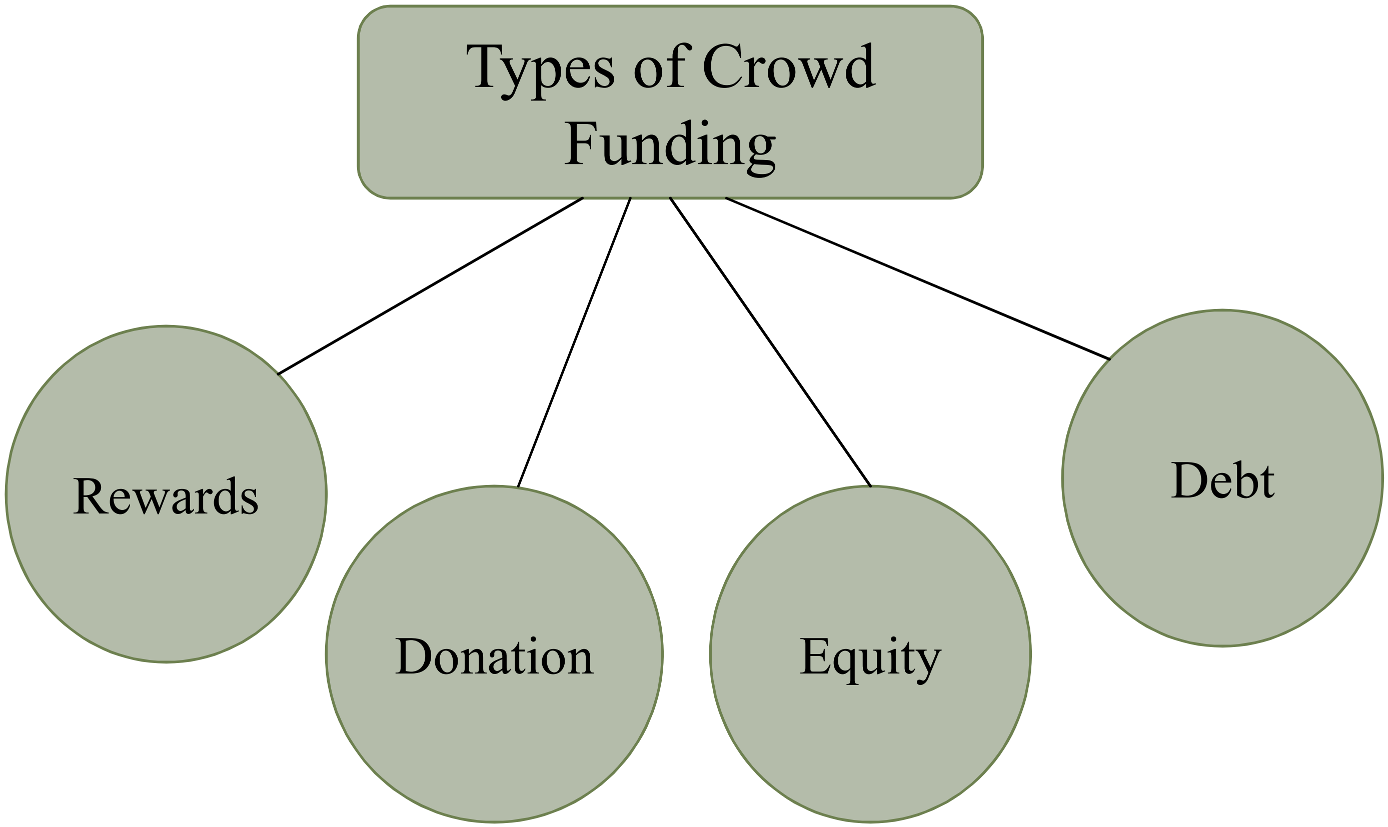
3. **Assemble Your A-Team** There a number of skilled professionals who will be needed to build, promote and sustain your startup.

4. Have a Vision, Mission and Strategy, But Be Flexible having a crystal clear vision, mission and strategy will guide through the entire startup process, as well be used to attract talent entice investors.

5. Build The Best Product If you build a great product not only will the customers come, so will investors. In fact, if investors see that the product or service is up and running with people lined up to buy it, they will be more inclined to fund your startup.

Advantages Of Crowd Funding

- The advantages of crowd funding as a way of financing a project depends really on the type of the crowd funding itself.



1. **Rewards-based,** This type of crowd funding is likely to attract patrons, who invest because they enjoy your project or initiative and want to support it. The most popular reward-based sites are Kickstarter and Indiegogo.

- **Main advantage:** you won't launch your venture in debt (like in debt-based crowd funding),or give out shares of your project to patrons (like in equity-based crowd funding)

2. **Donation-based,** This type of fundraising is typical for a non-profit or a cause. Example : Go found me.

- **Main advantage**: same as with rewards-based model, you don't need to take a loan to launch your project.

3. **Equity-based,** This type of crowd funding is aimed towards technological, industrial and professional businesses and services rather than other causes. Examples of equity crowd funding aimed sites are Crowd cube, Fundable, Seedrs, and Fig.

- **Main advantage**: you will be able to collect a larger amount of money, that will allow you to launch your business, and do it without taking a credit.

4. **Debt-based,** also known as peer-to-peer (P2P). It is like a credit from the bank, but instead of borrowing one larger amount of money, you borrow smaller amounts from multiple people. Examples of debt-based crowd funding platforms are Funding Circle and Zopa.

- **Main advantage**: There is no need to apply for a loan and go through the bank paperwork as well as to have a strict, demonstrable credibility that bank requires

DIFFERENT PRICING STRATEGIES

- Pricing is a market consideration, not a cost consideration. Understand your customers' primary goals. Be clear on what the customer wants first, then set pricing.

Pricing Strategy	Meaning	Examples
Skimming Pricing	High Price low volume	Play Station, Digital Technology & DVD
Penetration Pricing	Low' price to secure high volumes	chocolate bars, food stuffs, household goods
Loss Leader Pricing	Goods/services deliberately sold below cost to encourage sales elsewhere	'Free' mobile phone when taking on contract package
Value Pricing	Price set by the company as per the perceived value of the customers	Status Products/ Exclusive Products.
Psychological Pricing	High value goods priced according to what consumers think should be the price	Rs .9.99 instead of Rs.10.99

Pricing Strategy	Meaning	Examples
Going Rate Pricing	May follow pricing leads of rivals especially where those rivals have a clear dominance of market share	Banks, petrol, supermarkets, electrical goods
Tender Pricing	Many contracts awarded on a tender basis. Mostly done in secret	Bulk orders of materials / Products.
Price Discriminati on Pricing	Charging a different price for the same good/service in different markets	Prices for rail travel differ for the same journey at different times of the day .
Cost Plus Pricing / Mark-up pricing	Is used to maximize the rates of return of companies	X company has designed a product that contains : Direct material costs = 40.00, Direct labor costs = 5.50 overhead = 8.25 The company applies a standard 30% markup to all of its products, X adds together the stated costs to arrive at a total cost of 53.75, and multiplies this amount by (1 + 0.30) to arrive at the product price of 69.87 rs.

Pricing Strategy	**Meaning**	**Examples**
Price Inelastic	% change in Q < % change in P	a 5% increase in price would be met by a fall in sales of something less than 5%
Price Elastic	% change in quantity demanded > % change in price	A 4% rise in price would lead to sales falling by something more than 4%
Destroyer Pricing or Predatory Pricing	Deliberate price cutting to force rivals (normally smaller and weaker) out of business or prevent new entrants	'free gifts/products', Reliance JIO
Target Pricing	identifying the price at which a product will be competitive in the marketplace,	A marketing manager sets a target price based on competitor product pricing. The R&D group then design to that price constraint

Process of Monetization

"**Monetize**" something is to convert non-revenue generating assets into sources of revenue. In economic terms, monetize means to convert any event, object or transaction into a form of currency or something with transferable value.

- For example, over time, a company may develop any number of systems or assets that are part of the company's overhead and infrastructure, supporting the company in selling its products or services.
- Examples of these may include a safe storage system or an innovative and efficient distribution system or an information system to track sales, monitor projects, track personnel time, account for funds or even report on company activities.
- These systems are typically non-revenue generating, in that they are not sold to generate revenues independently of the company's core product or service.

Determining Factors for Monetizing Innovation.

- Nine Rules from Monetizing Innovation:

1. Have the “willingness to pay” talk with customers early
2. Don’t force a one-size-fits-all solution
3. Product configuration and bundling is more science than art.
4. Choose the right pricing and revenue model.
5. Develop your pricing strategy
6. Draft your business case using customer willingness-to-pay data, and
7. Communicate the value of your offering clearly and compellingly;
8. Understand your customers’ irrational sides,
9. Maintain your pricing integrity

1. **Have the "willingness to pay" talk with customers early:** The key is to determine what the customer values and is willing to pay for. Pricing is key to product market fit.
2. **Don't force a one-size-fits-all solution:** Build segments based on differences in your customers' willingness to pay for a new product. This is also true for messaging: demos, presentations, and proposals.
3. **Product configuration and bundling is more science than art:** Here a jobs-to-be-done approach is much more useful than demographics for B2B offerings.
4. **Choose the right pricing and revenue model:** How you charge is often more important than how much you charge. Linking this to how the customer realizes value from the offering is essential.

5. **Develop your pricing strategy:** The realities for a startup is that early customers may require a discount or pricing model that reflects the considerable risks of your offering not delivering value.

6. **Draft your business case using customer:** willingness-to-pay data, and establish links between price, value, volume, and cost.

7. **Communicate the value of your offering clearly and compellingly** otherwise you will not get customers to pay full measure.

8. **Understand your customers' irrational sides**, because whether you sell to other business or to consumers, your customers are people.

9. **Maintain your pricing integrity.** Control discounting tightly. If demand for your new product is below expectations, only use price cuts as a last resort,

Reasons for Failure of Monetization

- Cramming too many features into one product creates a product that does not fully resonate with customers and is often overpriced. We call this *feature shock.*
- A *minivation* is an innovation that, despite being the right product for the right market, is priced too low to achieve its full revenue potential.
- There are also *hidden gems*, or potential blockbuster products that are never properly brought to market, generally because they fall outside a company's core business.
- Finally, when companies bring to market an innovation that customers don't want, we call it an *undead.*

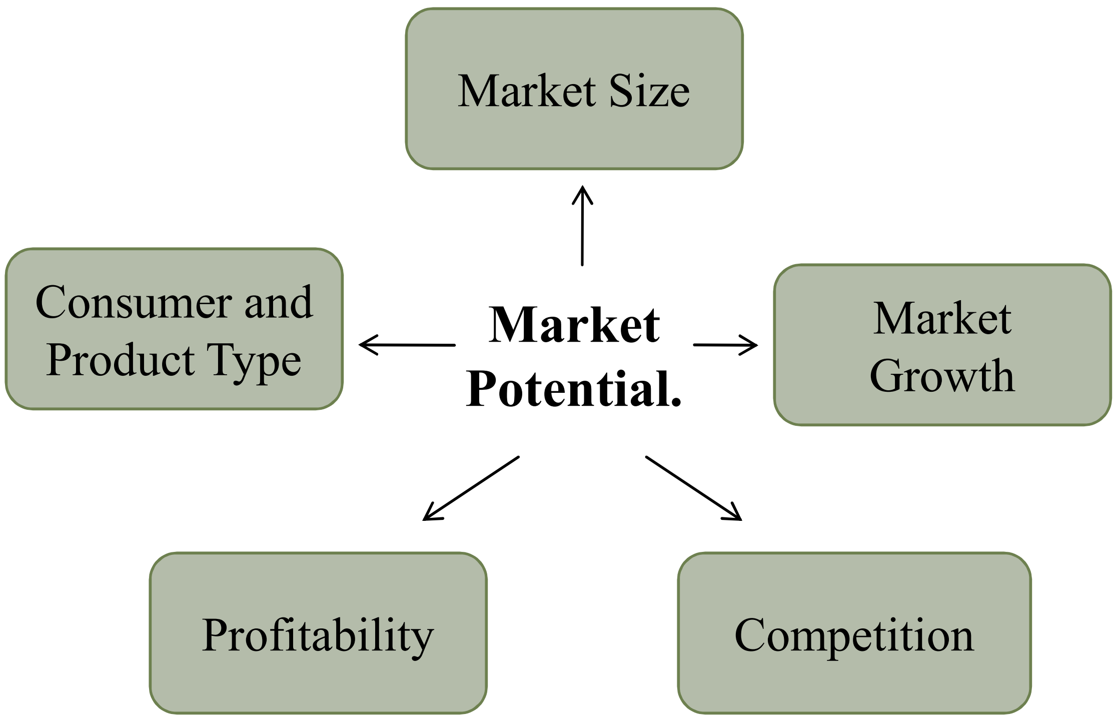
Fixing the Price for an Innovative Project

- There are only three pricing strategies startups should pursue: maximization, penetration and skimming.
- Startups should pursue *maximization* in the short term when there are no clear differences in customer segments' willingness to pay, and when the optimal short term and long term prices are equal.
- A bottoms-up *penetration* strategy is used to win dominant market share. You price the product low to minimize adoption friction, grow quickly, and then move up-market after developing broad adoption.

- Starting with a high price and systematically broadening the product offering, or *skimming*, addresses more of the customer base at lower prices.
- Apple sells the latest iPhones at the highest prices, and repackages older models at lower prices to address different customer segments.
- You know, Steve Jobs was both a product genius and pricing genius. He's not given credit for his pricing genius. It was by pairing the two skills that he led Apple to record-breaking profits quarter after quarter.

Detailed Study on Market Potential

- It is known very well that you need to **calculate** **Market Potential** before you launch a new product or a service. Market potential, quite simply, is the total demand for a product in a given business environment.
- **Elements to determine Market Potential.**



1) **Market Size:** Market size is the total market sales potential of all companies put together.

- Example: If I planned on launching a new soap or Shampoo, then all the different companies such as HUL and P&G are my competitors.
- And the combined sales of soaps, including branded and non branded products is my complete market size.

2) **Market growth rate:** Market growth rate can be determined by checking the facts and figures of the last 5 years of the industry that you are in.

- Example: The PC market as compared to the laptop market or the smart phone market is declining. So if you are a company which makes PC's, then you have to be aware that you are entering an declining market.

3) Profitability: Determining and forecasting your profitability is important to understand the market potential. Calculation of profitability to determine Market potential can use four main elements

- ROI – Return on investment
- ROS – Return on sales
- RONA – Return on net assets
- ROCE – Return on capital employed

4) Competition: You need to know and understand the competition in an industry to determine the market potential for the product you are going to launch. If the industry has high competition, the entry barriers are going to be high

- When competition is low, your competitor is equally likely to influence the potential buyer as you are.

5) Product and Consumer Type

- How frequently is your product going to be bought again? Many toothpaste companies actively push the consumer to brush twice in a day.
- One of the reasons is that your teeth will be better. But another reason is that the toothpaste will be consumed faster and you will buy another toothpaste soon. Hence the push for brushing twice daily!!
- Is your product completely new in the market?
- How likely is the customer to accept and adopt the same and what are the hurdles to be faced in product adoption? Can you forecast them right now?
- Because that will help in determining market potential.

Pitfalls and Negative effects of Monetizing Innovation

- Information already known to the market
- Low upper bound to capital deployment
- Widely diffused information content
- Limited history for robust out-of-sample testing
- Customer mismatch
- Future shocks
- Minivations
- Hidden gems
- Undeads

Reasons for Failure of Monetization of Innovation.

The Four Failure of Monetization of Innovation are:

- Feature shocks
- Minivations
- Hidden gems
- Undeads

1. Feature shocks : New Products that are Over-Engineered

   The problem is that when too many features are unnecessary customers don’t want them, or won’t pay extra for them they increase the cost and the complexity of the product, and thus raise its price to an unacceptable level.

- Example of Fire Phone, the smart phone Amazon introduced in 2014. Amazon stuffed its entry with too many marginal features: a screen that provided a 3-dimensional effect without the need to wear those geeky 3D glasses.
- It apparently didn't impress consumers. A side effect of the feature – draining the battery life – was a negative.
- Amazon priced the phone high (at $649, or $199 with a phone service contract from AT&T).
- To avoid feature shocks, product development must do a number of things. They must segment by what different groups of customers need from different versions of the product, and what they'd be willing to pay for a version that met their expectations.

2. Minivations: Products That Sell Themselves Short

- These products are created by product developers who didn't realize just how much value their offerings provided to customers.
- They then grossly underestimated how much customers would be willing to pay for them and charged prices that were far below what they could have charged, leaving big profits on the table.
- Example Audi's Q7 luxury SUV, launched in 2006 for EUROS 55,000. Audi predicted selling 70,000 units, however first-year demand turned out to be 80,000.
- A supply-demand curve suggests that given Audi had fixed production at 70,000 units, it should have priced it at EUROS 58,000, which would have yielded an additional EUROS 210 million.

3. Hidden Gems: Would-Be Winners That Don't Leave the Starting Gate

- These products are brilliant ideas that are viewed as anything but brilliant at the top of the companies in which they are born. Senior management don't recognize the value of the product for its intended audience,
- In a company that had made a fortune manufacturing film for cameras, a young Kodak engineer named Steven Sasson had invented the initial technology behind the digital camera, and the company even went so far as to patent it.
- However, Kodak sat on that technology for 21 years, failing to introduce its first digital camera until 1995, and it didn't get serious about the product until 2001. Since then, the digital camera has become a staple in smart phones, a time in which Kodak declared bankruptcy.

4. Undeads: Destined to Become Zombies

- Products that came to market dead on arrival or a product that still exists in the marketplace but for all practical purposes is non-existent.
- These are products a company should have never launched
- Example: Google Glass, a pair of glasses with a small camera that could take pictures and record videos, was another notorious undead.
- It came to market in 2012 for $1,500 and answered a question no one was asking.
- In 2015, Google announced the end of Glass for everyday consumers.