

New Venture Creation

ESTIMATING THE OPPORTUNITY



A gentle reminder: On or before tomorrow

- Identify a founders using your network/ google/ linkedin or anything else
- Interview her/him to understand their mindset
 - For reference: Page no. 23, 'The interview'
- (option) you can go to a website like <https://yourstory.com> and watch an interview of the founder
- What do you have to do?
 - Write a blog on the theme 'what makes a good founder' and post the same on linkedin, tagging me.

What are we doing

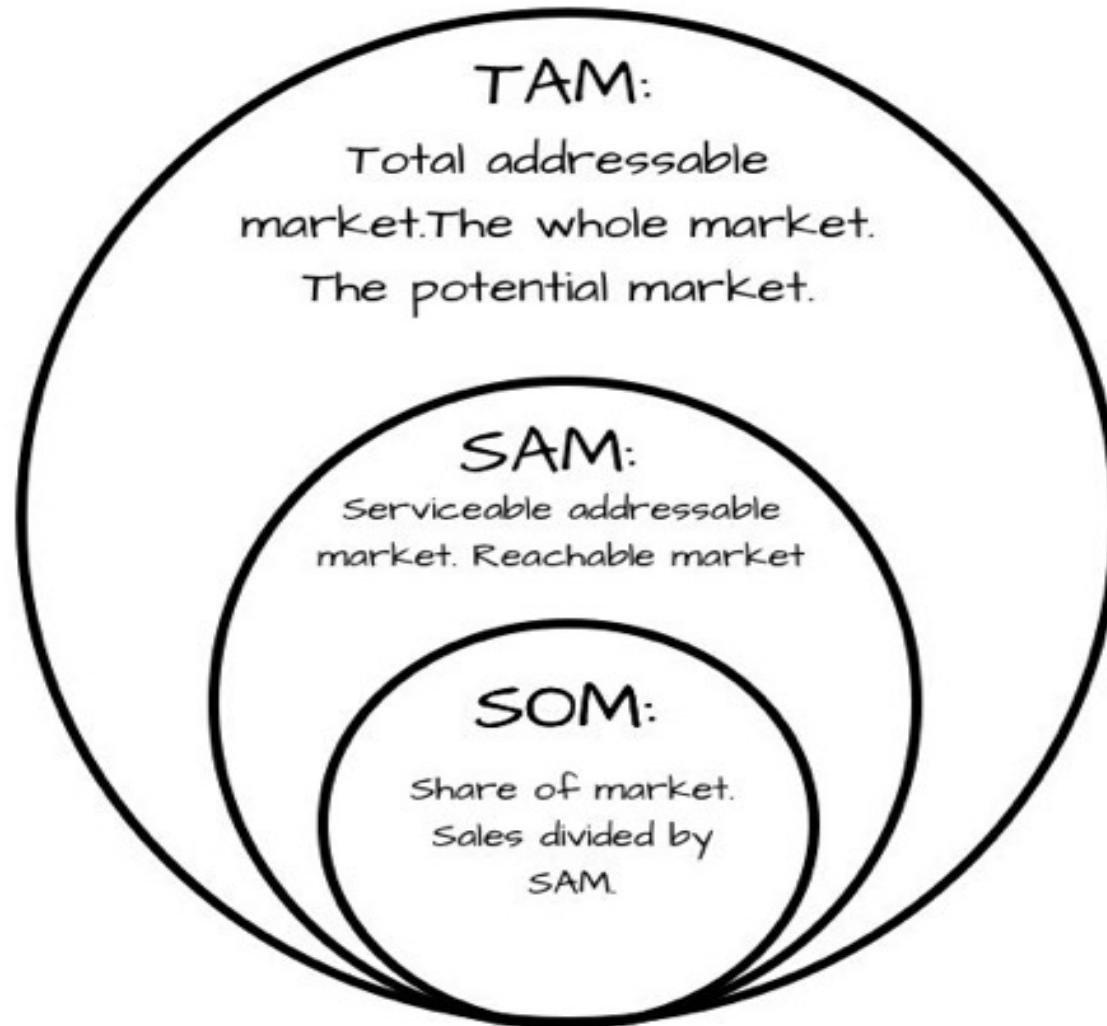


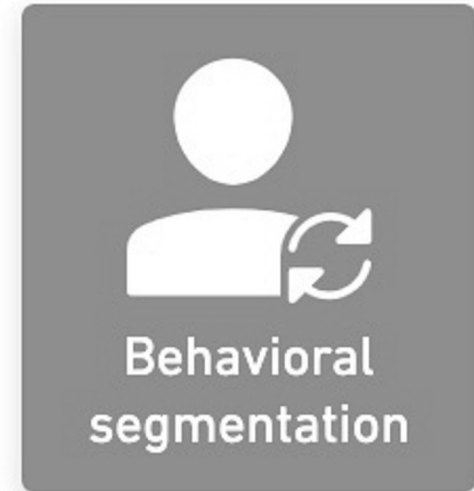
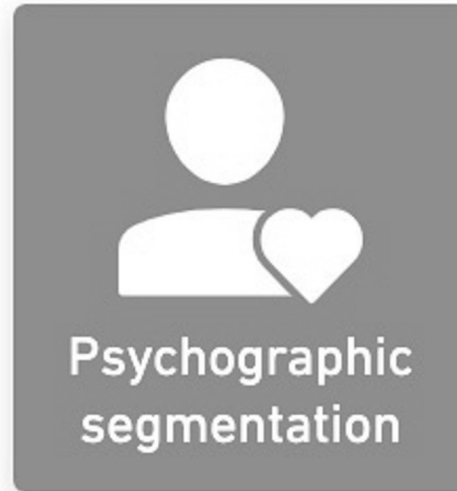
Illustration:

- TAM: India has 40 crore >40 years suffering from diabetes or cholesterol or hypertension or thyroid
- SAM: Of the above 50% use smart phone ~ 20 crore
- SOM: In next 3 years, I will convert 5% of the above who will start buying medicine from me on the phone ~ 1 crore

Segmenting the market

Identify “source of business”

The four types of B2C customer segmentation



- You can use any one or a combination of more than one
- The sharper you go, the better

B2C Demographic: The 'WHO'

Demographic segmentation might be the first thing people think of when they hear 'market segmentation'. This is perhaps the most straightforward way of defining customer groups, but it remains powerful. Demographic segmentation looks at identifiable non-character traits such as:

- Age
- Gender
- Ethnicity
- Income
- Level of education
- Religion
- Profession/role in a company

EDUCATION OF CWE

No. of Durables Owned	Illiterate	Literate but no formal school/ School upto 4 yrs	School- 5 to 9 years	SSC/ HSC	Some College (incl Diploma) but not Grad	Grad/ PG: General	Grad/ PG: Professional
	1	2	3	4	5	6	7
None	E3	E2	E2	E2	E2	E1	D2
1	E2	E1	E1	E1	D2	D2	D2
2	E1	E1	D2	D2	D1	D1	D1
3	D2	D2	D1	D1	C2	C2	C2
4	D1	C2	C2	C1	C1	B2	B2
5	C2	C1	C1	B2	B1	B1	B1
6	C1	B2	B2	B1	A3	A3	A3
7	C1	B1	B1	A3	A3	A2	A2
8	B1	A3	A3	A3	A2	A2	A2
9	B1	A3	A3	A2	A2	A1	A1

B2C Psychographic: The 'WHY'

Psychographic segmentation is focused on your customers' personalities and interests. Here we might look at customers and define them by their:

- Personality traits
- Hobbies
- Life goals
- Values
- Beliefs
- Lifestyles

B2C Geographic: The “WHERE”

- By comparison, geographic segmentation is often one of the easiest to identify, grouping customers with regards to their physical location. This can be defined in any number of ways:
 - Country
 - Region
 - City
 - Postal code

B2C Behavioral: The “HOW”

Behavioral segmentation is possibly the most useful of all for retail/ B2B businesses. As with psychographic segmentation, it requires a little data to be truly effective – but much of this can be gathered via your website itself. Here we group customers with regards to their:

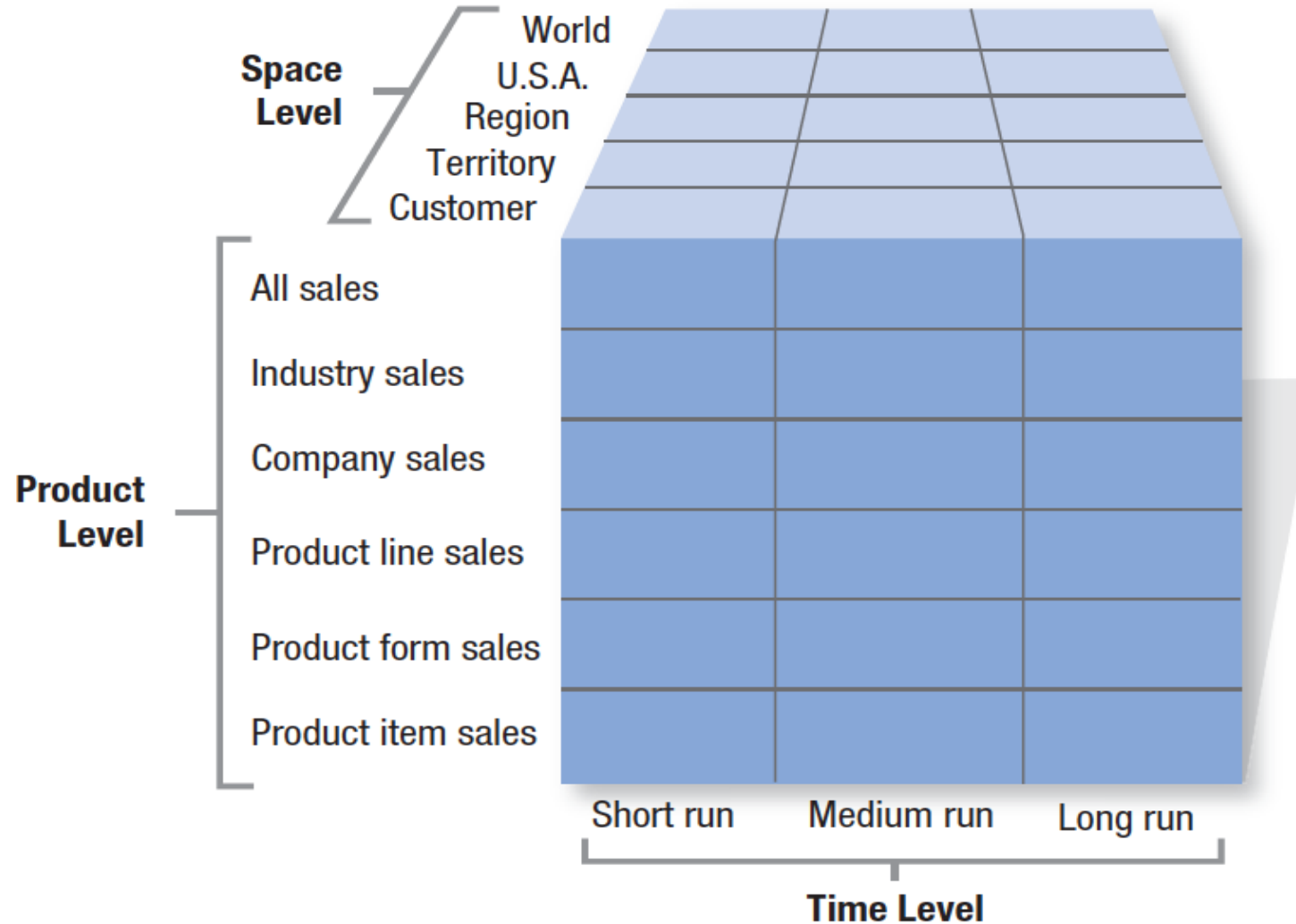
- Spending habits
- Purchasing habits
- Browsing habits
- Interactions with the brand
- Loyalty to brand
- Previous product ratings

B2B: Firmographic

Firmographics are descriptive attributes of organizations, companies, non-profits, governmental entities, corporations, or any other type of firm. This data is to organizations, as demographic data is to individuals — both used to segment and target potential prospects.

- Industry
- Annual revenue
- Company size
- Location
- Market Share and performance over time

How Many Segments?



Estimating & evaluation

Estimating Demand: Once you understand

$$\begin{array}{ccccccccccc} \text{Demand} & & & & \text{Personal} & & \text{Average} & & \text{Average} & & \text{Average} & & \text{Expected} \\ \text{for the} & = & \text{Population} & \times & \text{discretionary} & \times & \text{percentage of} & \times & \text{percentage of} & \times & \text{percentage of} & \times & \text{percentage of} \\ \text{new} & & & & \text{income} & & \text{discretionary} & & \text{amount spent} & & \text{amount spent} & & \text{amount spent} \\ \text{light beer} & & & & \text{per} & & \text{income} & & \text{on food that is} & & \text{on alcoholic} & & \text{on beer that} \\ & & & & \text{capita} & & \text{spent} & & \text{spent on} & & \text{beverages that} & & \text{will be spent on} \\ & & & & & & \text{on food} & & \text{beverages} & & \text{is spent on beer} & & \text{light beer} \\ & & & & & & & & & & & & \end{array}$$

Screening Opportunities (Pg139)...subjective

EXHIBIT 5.8

Criteria for Evaluating Venture Opportunities

Criteria	Attractiveness	
	Highest Potential	Lowest Potential
Industry and Market	Changes way people live, work, learn, etc.	Incremental improvement only
Market:	Market driven; identified; recurring revenue niche	Unfocused; onetime revenue
Customers	Reachable; purchase orders Remove serious pain point	Loyal to others or unreachable
User benefits	Less than one-year payback Solves a very important problem/need	Three years plus payback
Value added	High; advance payments	Low; minimal impact on market
Product life	Durable	Perishable
Market structure	Imperfect, fragmented competition or emerging industry	Highly concentrated or mature or declining industry
Market size	\$100+ million to \$1+ billion sales potential	Unknown, less than \$20 million or multibillion-dollar sales
Growth rate	Growth at 30%–50% or more	Contracting or less than 10%
Market capacity	At or near full capacity	Undercapacity
Market share attainable (Year 5)	20% or more; leader	Less than 5%
Cost structure	Low-cost provider; cost advantages	Declining cost

Evaluation Criteria (contd)

Criteria	Attractiveness	
	Highest Potential	Lowest Potential
Economics		
Time to breakeven/positive cash flow	Under 1½–2 years	More than 4 years
ROI potential	25% or more; high value	Less than 15%–20%; low value
Capital requirements	Low to moderate; fundable/bankable	Very high; unfundable or unbankable
Internal rate of return potential	25% or more per year	Less than 15% per year
Free cash flow characteristics:	Favorable; sustainable; 20%–30% or more of sales	Less than 10% of sales
Sales growth	Moderate to high (+15% to +20%)	Less than 10%
Asset intensity	Low/sales \$	High
Spontaneous working capital	Low, incremental requirements	High requirements
R&D/capital expenditures	Low requirements	High requirements
Gross margins	Exceeding 40% and durable	Under 20%
After-tax profits	High; greater than 10%; durable	Low
Time to break-even profit and loss	Less than two years; breakeven not creeping or leaping	Greater than four years; breakeven creeping or leaping up
Harvest Issues		
Value-added potential	High strategic value	Low strategic value
Valuation multiples and comparables	Price/earnings = +20x; +8 – 10x EBIT; +1.5–2x revenue; Free cash flow +8–10x	Price/earnings ≤ 5x, EBIT ≤ 3–4x; revenue ≤ .4
Exit mechanism and strategy	Present or envisioned options	Undefined; illiquid investment
Capital market context	Favorable valuations, timing, capital available; realizable liquidity	Unfavorable; credit crunch
Competitive Advantage Issues		
Fixed and variable costs	Lowest; high operating leverage	Highest
Control over costs, prices, and distribution	Moderate to strong	Weak
Barriers to entry:	Knowledge to overcome	
Proprietary protection	Have or can gain	None
Response/lead time	Competition slow; napping	Unable to gain edge
Legal, contractual advantage	Proprietary or exclusivity	None
Contracts and networks	Well-developed; accessible	Crude; limited
Key people	Top talent; an A team	B or C team
Sustainability		
	Low social and environmental impact	High social and/or environmental costs and consequences

(continued)

Evaluation Criteria (contd)

Criteria	Attractiveness	
	Highest Potential	Lowest Potential
Management Team		
Entrepreneurial team	All-star combination; free agents	Weak or solo entrepreneur; not free agents
Industry and technical experience	Top of the field; super track record	Underdeveloped
Integrity	Highest standards	Questionable
Intellectual honesty	Know what they do not know	Do not want to know what they do not know
Fatal Flaw Issue	Nonexistent	One or more
Personal Criteria		
Goals and fit	Getting what you want; but wanting what you get	Surprises; only making money
Upside/downside issues	Attainable success/limited risks	Linear; on same continuum
Opportunity costs	Acceptable cuts in salary, etc.	Comfortable with status quo
Desirability	Fits with lifestyle	Simply pursuing big money
Risk/reward tolerance	Calculated risk; low risk/reward ratio	Risk averse or gambler
Stress tolerance	Thrives under pressure	Cracks under pressure
Strategic Differentiation		
Degree of fit	High	Low
Team	Best in class; excellent free agents	B team; no free agents
Service management	Superior service concept	Perceived as unimportant
Timing	Rowing with the tide	Rowing against the tide
Technology	Groundbreaking; one of a kind	Many substitutes or competitors
Flexibility	Able to adapt; commit and decommit quickly	Slow; stubborn
Opportunity orientation	Always searching for opportunities	Operating in a vacuum; napping
Pricing	At or near leader	Undercut competitor; low prices
Distribution channels	Accessible; networks in place	Unknown; inaccessible
Room for error	Forgiving and resilient strategy	Unforgiving, rigid strategy

How do you get the data?

Search & search strings

- Google for published data. Google scholar for published research
- Existing companies:
 - Offer to write a case study for a leading company in ‘source of business’
 - Appear for an interview. Better still, join them for a while
 - Take up a franchisee or talk to franchise/ trade
- Talk to competitors and/or former employees (find them on glassdoor)
- Published data: Patents, research journals, Registered ideas
- Hire a consultant
- Published industry studies like IBEF, CII, PWC, FICCI...
- Use syndicated data: census, IRS, social research etc

THANK YOU