<div align="center">**MEMORANDUM**</div>

From: Mary Gerhardt. CEO

To: Henry Morgan

Subject: NewCo Start-up Funding Request

You will be developing your start-up funding request soon. So that we all work from the same basis, I have had Budgeting develop a tool that we can use to manage the process. The tool contains all the data needed and the researched relationships. It forces you to think through your strategy; this is important as you will have to satisfy LegacyCo that you are using their resources wisely.

As you will realize your requests for top people are likely to put the legacy company under considerable risk. Hopefully we can keep the negotiation civilized.

The Tool

NewCo will construct the request as follows:

1. To be seen as rooted in reality, you will need to explain your entry strategy and which niche market(s) in virtual reality you wish to enter first (education, military, entertainment)..
2. You will be asked about your entry strategy. Do you intend to focus on a niche or given the speed of market development, will you go full throttle for all niches at once. What are the implications for scalability implied by your choice?
3. As we know, each niche has established players that are recognized market visionaries e.g., cinema chains that wish to include virtual reality in their offerings. You will need to form relationships with one or several such visionaries in order to effectively co-develop the product. It is accepted that co-development speeds development and provides legitimacy to early potential customers.
4. NewCo will have to compete with other firms to form relationships with their desired visionaries. The visionaries seem to value four things:
   a. The trust they have with the salespeople who will be with them through the process. You have been provided by HR with a list of your most appropriate people and an assessment of the influence they yield over different visionaries have been built into a calculation tool
   b. The recommendations from independent technology experts. These experts are independent, but in order to fulfill their role they encourage relationships with developers. The developers give them access to the beta versions. To influence the specific experts that in turn can influence the desired visionaries. You will need developers that have formed such relationships. You will be provided a list

of the appropriate developers and an assessment of the level of influence they have over the experts. Additionally, the V Strategy has commissioned a study of the influence each expert has over each visionary, these are being built into the tool.

    c. We know from experience that the visionary is risking his or her career working with NewCo. If the project does not work, it could be disastrous for them and us. The visionary is therefore looking for commitment from you; visionaries equate commitment with resources committed and the level of project management and technical expertise those resources embody. In the resource request this is expressed on time – being days of available development time. Such time requires a team that has to be paid for; payment that will spread over three periods.

    d. NOTE: the developers hired will work on a co-development basis with the visionary. This means that revenue earned from the projects is assumed to cover all out-of-pocket expenses (discretionary costs).

    e. Finally, the visionary must be able to justify a decision to go ahead to their own Board. This requires providing the arguments in a sales pitch. This requires deciding how many visionaries to pitch to then translating that into funding.

5. You will send the tool to Legacy Excom. When you send it be aware that the legacy company faces significant business risk.

    a. Each time you request a sales person or developer you impact the competence of their sales and development operation generally. This loss of competence can be quite profound. You must take that into account when making the request that recognized competence is one of the major factors in retaining market share for the legacy company versus its competitors. Of course, you will be requesting the specific people *because* they are competent and that will be a major issue when *you* go to market.

    b. Don't forget, the funds you request to support the transferred people must last at least 3 periods. These funds plus the costs of the development time and pitches add up to a substantial sum. The total amount will be transferred as soon as you both agree. The funds are transferred as an intra-company loan

6. When you agree to the response click CONFIRM. If you do not agree click RETURN and negotiate. Continue until a conclusion is reached.

From: George Pickett, VP Strategy

To: Henry Morgan CEO NewCo

Subject: B2B VR Market

As you requested, I had a team research the likely structure of the B2B Virtual Reality market and develop an assessment of the possible market size and entry strategy. I would caution you that the market size number is heavily based on guesswork at this point. Clearly, our estimates will firm-up as we get more experience of the market.

MARKET STRUCTURE

- The market is expected to be divided into three niches: Education, Government and Entertainment
- The estimated final total number of customers in each niche by the time it is mature is
    - TO BE TUNED:
    - TO BE TUNED:
    - TO BE TUNED: percent of total can be calculated

REVENUE BY NICHE

- The estimated average potential revenue per customer to NewCo per niche per period from VR systems is:
    - Education: $187,500
    - Government: $250,000
    - Entertainment: $275,000

CUSTOMER STRUCTURE

The leading theory for B2B markets is by Geoffrey Moore. He talks about adoption of discontinuous offering through a progression of different customers each with a distinct buying behaviour. they are….INSERT

These patterns of adoption repeat in each niche. Just because you have early acceptance by visionaries in one niche does not mean you will gain acceptance in another niche.

MARKET LEGITIMACY

- Entry into the niches will depend on the 'legitimacy' you project that is peculiar to that niche. Legitimacy in this situation is a 'social' construct that captures your perceived ability to meet the niche customer's needs as vouched for by others in the market.

- Most early customers at the start of the growth curve are convinced that their needs are totally unique, so why would <u>you</u> be able to meet them. This group seeks evidence of legitimacy from early adopters (in your case the business visionaries you intend co-developing with).
- Further up the growth curve customers assume that if you have achieved market share then 'not everyone can be wrong' and 'my needs are not so special'. Thus legitimacy is underpinned by market success giving you momentum.
- The problem then is building early legitimacy so you can get launched into the secular growth curve. Accepted theory says that early customers will look at:
  - Your parent company's history of the markets it has served and its success in introducing new categories and/or
  - Any people in their industry with whom you co-developed the offering. Called <u>Visionaries</u> these are people who have pinned their careers to the co-development of the product and who are usually known and respected in the industry.
  - Visionaries in turn will only work with you if they trust your commitment and your technology has been approved of by independent technology experts.

    The Visionaries do not necessarily carry legitimacy across all niche boundaries. We have identified two visionaries recognized in each niche that we think you may like to approach. They are:

    Education: VRKidEd and AdEdVR

    Government/ Military: GovVR and MilitaryVR

    Entertainment: VRGames and VRCinema

HALO EFFECT

Although legitimacy in one niche in the early days of growth does not necessarily carry across to other niches, as the offering moves up the curve two things happen. You tend to generalize the offering so that it fits into more niches. Second, buyers become more likely to accept that accrued success may be applicable to their market.

The above is why, it is well-established in marketing that success in one niche can create what is called a 'halo effect in another niche. This means that legitimacy accrued with customers in say the Military market may influence buyers in the Government market.

The expected 'halos' in the BB-AR market are:

- INSERT TABLE/LIST

COMPETING FOR VISIONARIES

Working with a desired Visionary is not guaranteed. The visionary's decision to co-develop is often a huge career-risk so they will seek reassurance. They may elect to work with other competitors. The keys to landing a co-development relationship are:

- The quality and strength of prior relationships: this is typically prior experience with individual sales people either directly or through third-party recommendations. I know John Rouse in HR is sending you a note on this to complement the note he sent on product developers.
- The commitment you display, measured in development time you are willing to commit
- The degree to which independent technical experts support our technology. I understand you have received a note from John on this issue.
- Remember, it is worth repeating that Visionaries are typically highly ambitious individuals, willing to take a risk to advance their careers and most of all have a lot to lose!! The competition to work with the best visionaries is intense. Before you approach any I suggest you think through your entry strategy into the growth curve.

ENTRY STRATEGY

There are at least two approaches to market entry in a new market

- **Charge in and try to serve all niches at once.** This assumes that we have enough resources to enter all three niches with their different offering needs and buyer behaviour at the same time. The argument assumes there is sufficient overlap in the niches that sheer weight of effort will give us share in each niche. The risk is that we diffuse our efforts and lose focus so that we fail to get dominance anywhere. Additionally, in the early periods no-one really knows the offering and so it is difficult to argue that a 'halo' exists.
- **The 'bowling ball' approach.** This approach proposes that we enter one niche first and concentrate our resources on maximizing our market share in that niche. We would then carry that share with us into a related niche that accepts our customers as evidence of product suitability. The image is from 10-pin bowling and involves knocking over a head pin then using that to knock over the others.

WHICH VISIONARY?

Technology experts are important for technology. However, in terms of customers the really important people are the Early Adopters that adapt the technology to a business need. Regardless of which the above entry strategies you need to establish early legitimacy through your first round of customers the Visionaries. Applying resources to forming a relationship with 'high legitimacy' visionaries for the niches you wish eventually to enter is critical.

I recommend that when choosing the Visionaries you want to work with you consider the following.

- You chose the entry approach: charge-in or bowling ball.
- If 'bowling ball' you decide on your entry point: education, entertainment, education.
- You select the visionaries that you would like to win based on their links to the niche you selected
- You select the sales and product development people who you would like to acquire from LegacyCo; people that can give you maximum influence with the selected visionaries., either directly or indirectly through the technology experts/ This maximizes the chances of winning a visionary relationship
- You build a development team of sufficient size to allow you to commit enough development time to ensure the success of the co-development project. Remember your competitors are doing what you are doing: having enough development resources to convince the visionary you are committed to his or her project is hugely important.
- Note: no-one gets a second chance to land a visionary. Fail to get the right person and you are hamstrung for the rest of the development process.

SALES PEOPLE

With the help of HR, I have interviewed the potential top sales people in LegacyCo. Below is a list of those you need to approach. I assessed them based on their known relationships with potential visionaries. They are a major source of trust and will influence different visionaries to different degrees.

PRODUCT DEVELOPMENT

Again with the help of HR, I have spoken to the top developers in LegacyCo. These individuals can exercise influence over specific visionaries. However, they cannot influence them directly. They influence a visionary through their relationship with independent technology experts. So to release this influence you need to select product developers that have strong relationships with well-established independent tech experts who in turn will write (usually) positive reviews of our technology and its applicability to visionary business opportunities and so influence those visionaries to work with you!

TECHNOLOGY EXPERTS

I commissioned a study of technology influencers in the B2B-VR market. It turns out there are six recognized experts. Interviews in the market allowed us to create a rough weighting of the influence a specific expert has on a desired visionary. The numbers in this table have no meaning in and of themselves; they merely illustrate the relative influence.

ASSESSING INFLUENCE

After puzzling how to help you think through this relatively complex set of relationships, I have had Budgeting create a 'calculator'. All the numbers are embedded in the calculator. All you have to do is click boxes and it will develop an influence number. Again the influence numbers in and of themselves mean nothing; it is their relative size as you bring different people on board.

ASSESSMENT TOOL

Budgeting has developed a tool to help you assess how much start-up money you need for the next three periods. This tool takes into account the size of your initial development team and the marketing monies you need.