

MEMORANDUM

From: Mary Gerhardt. CEO

To: LegacyCo ExCom

Subject: Evaluating Newco Funding Request

You will soon be receiving a request from NewCo for Start-Up resources. They will be requesting key people and dollars. You are not obliged to accept their request in full, which may impose some serious market penalties on your operations at a time of unprecedented volatility in the market. However, you are obliged to negotiate and you will be required to support NewCo. If an impasse is reached I will decide. . This memo sets out the terms of the negotiation.

The Request

NewCo will construct their request as follows:

1. They will have decided which niche market(s) in virtual reality they wish to enter first. This may be one or all of the three identified niches. The niches are education, military, and entertainment.
2. Each niche has established players that are recognized market visionaries e.g., innovative cinema chains that wish to include virtual reality in their offerings. NewCo needs to form relationships with one or several such visionaries in each niche in order to effectively co-develop the product. Co-development speeds development and provides legitimacy to early potential customers.
3. NewCo will have to compete with other firms to form relationships with their desired visionaries. The visionaries value four things:
 - a. The trust they have with the salespeople who will be with them through the process. NewCo has been provided by HR with a list of your most appropriate people and an assessment of the influence they yield over different visionaries
 - 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 influence the desired visionaries NewCo will need developers that have formed such relationships. NewCo has a list of the appropriate developers and an assessment of the level of influence they have over the experts. Additionally, NewCo has commissioned a study of the influence each expert has over each visionary, which will guide their requests for product developers.
 - c. Finally, the visionary is risking his or her career working with NewCo. If the project does not work, it could be disastrous. The visionary is therefore looking for commitment from NewCo; 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. 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.
4. **You will receive a document** from NewCo. It will provide the details you need to make a funding decision. You will need to take the following into account:
 - a. Each time NewCo requests a sales person or developer they impact the competence of your sales and development operation generally. This loss of competence can be quite profound. You must take that into account when assessing the request as competence is one of the major factors in retaining market share versus your competitors. Of course, NewCo requested the specific people because they are competent and that will be a major issue when *they* go to market.
 - b. The funds that 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 agree. The funds are transferred as an intra-company loan
5. If you agree to the request click CONFIRM. If you do not agree click RETURN and negotiate. Continue until a conclusion is reached.

MEMORANDUM

From: VP Strategy

To: Henry Morgan CEO NewCo

Subject: B2B AR Market

As you requested, I had a team research the likely structure of the B2B Augmented Reality (the latest market term for Virtual Reality) market and develop an assessment of the possible market size. 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 revenue per customer to NewCo per niche per period from AR systems is:
 - Education: \$187,500
 - Government: \$250,000
 - Entertainment: \$275,000

MARKET LEGITIMACY

- Entry into the niches will depend on the ‘legitimacy’ you project. Legitimacy in this situation is a ‘social’ construct that captures your perceived ability to meet the customer’s needs. Most early customers are convinced that their needs are totally unique, so why would you be able to meet them. Later in the age of the market customers assume that if you have achieved share then ‘not everyone can be wrong’ and ‘my needs are not so special’. Thus legitimacy is underpinned by market success.
- The problem then is building early legitimacy. 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 Visionaries 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 experts.

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

Education: VRKidEd and AdEdVR

Government/ Military: GovVR and MilitaryVR

Entertainment: VRGames and VRCinema

COMPETING FOR VISIONARIES

- Working with a desired Visionary is not guaranteed. They may elect to work with other competitors. The keys to landing a co-development relationship are:
 - The quality and strength of prior relationships
 - The commitment we display, measured in development time we are willing to commit
 - The degree to which technical experts support our technology
- Remember, Visionaries are typically highly ambitious, willing to take a risk to advance their careers and most of all have a lot to lose!!

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 knocking over a head pin then using that to knock over the others.

Regards