15.390 New Enterprises

MARTIN TRUST CENTER FOR MIT ENTREPRENEURSHIP

Massachusetts Institute of Technology

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"Idea Filtering/Sanity Check"

Class Three

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Case Study:

- Stealth Wax; makes cars “stealth” invisible to police radar.
- -you own IP; you have some startup money.

- Q: How can you make this idea better?
- Q: How can you make sure that your sea turtle makes it to the sea?

A few facts..

- 1. product is legal… but there might be legislation in some states to make it less so (example: radar detectors are illegal in Connecticut)(radar detectors:$200 Million dollar/year business)
- 2. vehicles per 1000 people:

  US 765 total: 230 Million
- Germany 558 45
- Israel 263 2

A few more

- Car washes:
  - U.S. 80,000
  - Germany 50,000

So… as you think about your "product"…ask yourself …

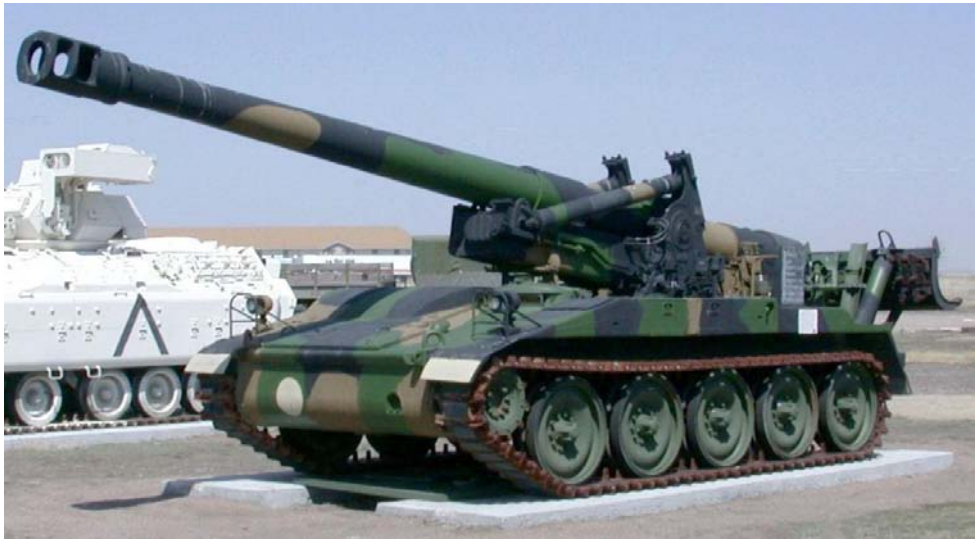
Stealth Wax – What we want to know:

1. What's the Problem? Who suffers because of it? How do you propose to solve it? What's the best *existing* solution? What makes this solution inadequate? Why is your solution better?
2. How much will it cost you to solve the probem? Whose help will you need? Who will pay for your solution? How much? Will more people pay over time?

More…

- 3. How many of them are there? Where are they? Who are they? How will you find them? Convince them?
- 4. Who else is trying to solve the same problem? Why can't they do what you are doing?
- 5. If I give you money, who quickly will you spend it? On What? How many years?

In short, How will you go to market? What is your Internet Strategy?



This image is in the public domain.

- Today:
- Every major company has an IT Department. 40% of capex goes to IT.

- Why can't companies buy computing as a service, abandon their own "generators", just like Insull did.
  - Example: Marc Benioff, Salesforce.com
  - Everything that can be done with a PC, storage, appls… can be done on a computing grid.

Q: how could you combine cloud computing and stealth wax to make your product more viable?

- 1. What would social networking offer?
- 2. Who do you want to be the first users?

Who is your market?

- 1 individuals who got a speeding ticket in the last three years (proven speedies)?
- 2. individuals who want “speed insurance”.. Or those whose livelihoods depend on the ability to drive
- Assumption: Speedies x 10 + Speed Insurance x 5 = market potential
- Which States give the most tickets/cap?

Where can you test?

- Porsche Club of New England?
- New Car Dealers… of Audi, BMW?
- Owners of Performance Cars?
- Could you make an offer to PAY the speeding tickets…? Co – pay?

OK, How do you go from an "idea" to a "viable" idea?

- In Class #2, you learned how to generated lots of ideas to put into the funnel
- Wild ideas to expand your landscape
- Now how do we evaluate & prioritize to come up with the best idea
- How do we determine viability?
- 27 simple rules follow

1. At First, Don't Worry if an Idea Is Viable

A. The process will begin to sift out viable from non viable, non feasible from feasible

B. See how many ideas can come out of one thought process. Example: Build a Video Game Company. Build a video game company that centers on teen age girls. Build a video game for teen age girls where the object is getting the right prom date.

example

- RCA: invented radio… then
- Needed programming..so
- Started radio networks to sell
- Radios…

2.Getting the right idea may come from wrong ideas.

A. The process is looking at what makes the idea wrong….and correcting it.

B. Example: Meals Ready To Eat…. May lead to a line of camping/dry food meals using a new irradiation process.

examples

- Viagra
- Post it Notes

3. Look for ideas that require as little capital as possible.

A. Capital-inefficient ideas (start an airline) are non starters. Use as little capital as possible. Or use other people's capital.

<$1m: can probably be pulled together by angels

$1m-$5m early stage and boutique VCs

$5m-$20m reasonable size of first round from major VC players

B. Assets are liabilities; liabilities are assets

C. Find resources that can be rented, not bought. (outsourcing)

Example: Virgin Airlines

- Branson was stuck at a
- Carribean resort with others;
- Chartered a plane, flew for
- Free….

- (build the traffic; only buy planes when you have the volume)

4.Look for ideas that will generate some sales quickly

A. Long development cycles scare everyone

B. Look for a family of products, the first of which can come early and help finance the later ones.

Example: Japan stuffs circuit boards, then builds circuit boards, then builds subsystems, then builds computer

Example: India does data entry, the does maintenance on code, then writes software

Example: Pharma company takes existing drug and makes it for aerosol, then makes proprietary (Alkermes)

5. Look for ideas where the volume does not have to be extraordinary for the company to break even.

- Example: Need 1,000,000 games to get costs down
- Big companies can live with the loss until volume is reached. Small companies can not.
- Example: The Source @$1.75/hour

6. Look for products where perfect execution is not a requirement

A. You won't execute perfectly with a new company. No one will.

B. Look for products where mediocre execution can win…at first

Example: Fed Ex

7. Look for products/services that are egregiously profitable

A. Don’t worry, they won’t be.

B. Big gross margins allow you to make mistakes and still make money

Example: The Yankee Group

8. Look for products and services where the management team does NOT have to be excellent

Why?

A. You may not really be able to recruit a super management team.

B. Best players may be on the other team

C. You may not be at a stage where you can afford them.

D. You can and will upgrade

9.Look for a product where you can identify some quantifiable number of customers

- Example: Enterprise Software that converts to different currencies..
  - Quantity: 100 companies
- Example: wrench for left-handed plumbers

10. Look for a product where the sales and promotion costs are reasonable

- Example: Avoid packaged goods that require television advertising
- Example: Could a Tupper-Ware model work for your product?

11. Look for a product where the buyer does not have all the power

- Example: Selling to Wal-Mart
- Example: Gross profit per cubic inch per hour metrics

- 15,000 SKU's

12. Look for a product that will be attractive to the more intelligent customers

A. Avoid selling to dumb customers. There aren't enough of them

Example: new power tools based on better battery life

13. Avoid products that appear to be just fads.

- Example: hula hoops with memory (bad)
- Example: Wet suits that can keep divers 5 degrees warmer (good)

14. Avoid products/services that require a global market

A. Cost justify your decision on the local market

B. Export is hard, expensive, time consuming and frustrating

15. Avoid products that require an OEM for you to succeed, or where some big company has life-or-death control over you

A. Big company may say No

B. Margin will be eaten up

C. You need some self reliance

D. Ok if it is part, but only part, of plan

Example: Iridium

16. Avoid products that require a change in government policy

- Example: Government mandates archival procedures… in 3 years.
- Example: Pollution controls

17. Avoid products that are simply product extensions of a competitor

A. They will get there before you… with a brand name

B. Your distribution will leave you.

18. Avoid products where the lead time to decision making is long (6months +)

- Example: new accounts receivable package

19. Avoid products where the justification is too soft

A. “Staff not hired”

B. Savings are 6 minutes per day per employee

20. Avoid products where the buying decision is too diffuse, or lots of big players all have to line up and cooperate

- Example: a Hospital information system
- Various banking/bill payment systems that require banks, consumers, and Visa/MC to all buy-in.

21. Avoid products where the market is non profit organizations

- Example: Universities

22. Avoid Products where the cost justification cuts across departmental lines

- Example:
  - Will save 5% in manufacturing, 10% in engineering, 8% in shipping.
  - Make the equation reasonable for any department to justify on its own

23. Select products where the benefit can be 400 – 1000% of what they are currently doing

- Packaged software

- Find metrics that work for the customer

24. Avoid Swiss Army Knives

- … a dive computer that also keeps track of calories and works as a compass.
- …. Product is usually not the best of any

25. Pick products where a trained salesperson can get X sales/year

A. You want an idea that you can scale

B. $2 million /year/salesman achievable in the second or third year

C. Enough potential customers

D. Add enough channel

26. Pick products where the user experience is close to his existing behavior

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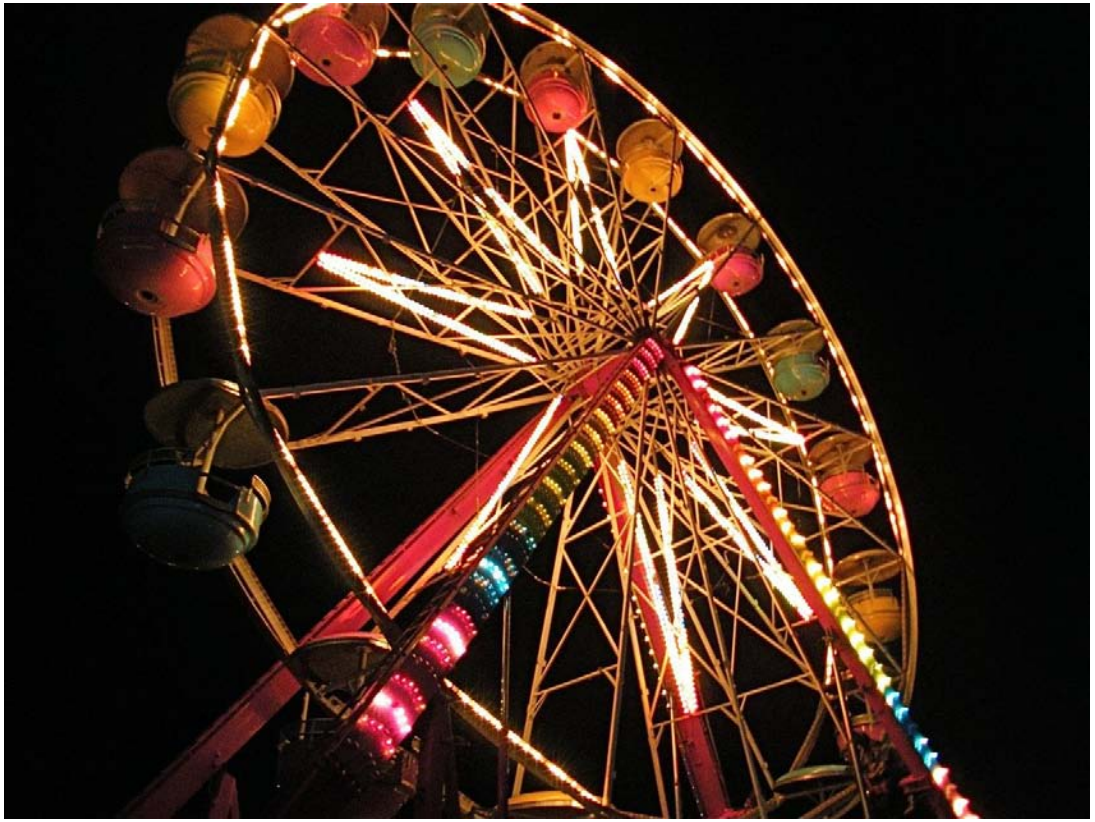

27. Pick Products that can be part of the family

- New Products to existing customers
- Same Products to new types of customer

- Avoid: New Products to New Types of Customers

Jeff Bezos' List

- Obsess over customers
- Invent
- Think long term
- It's always day

http://tinyurl.com/jeffbezoslist

Summary

1. You now have general rules to analyze the viability/attractiveness of your three ideas
2. You may have new ones now too
3. You must now narrow this down to one idea before the next class
4. Enter it online for analysis by your classmates
5. Review and analyze your classmates ideas online and comment (on at least 3 of them)
6. Come to class on Monday with a 2 minutes elevator pitch summarizing your idea – and be ready to give it & listen to others
7. Darwinian selection process

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Spring 2013