Innovation and entrepreneurship in the space between "magic" and "science"

European Computer Science Summit
October 7, 2013

Prof. Dr. Sc. math. Dr. h.c.
Mark Harris
CEO and Founder
Adjunct Professor for Technology Entrepreneurship & Innovation
Where I am coming from...

While at Intel, responsible globally for Intel’s Entrepreneurship Programs, since 2006 brought Technology Entrepreneurship to:

- 40 Countries
- 100 Technical Universities
Prof. Dr. Mark Harris

Prof. Dr. Mark Harris is a seasoned executive with over 30 years of experience in the high-tech industry and in entrepreneurship. Prof. Harris recently retired from Intel to follow his passion in entrepreneurship and in new venture creation. While at Intel, Prof. Harris built Intel’s global Technology Entrepreneurship program together with UC Berkeley California’s Lester Center for Entrepreneurship. During this period Prof. Harris experienced first hand the difficulties, especially in Europe of building entrepreneurial Eco-Systems. Prof. Harris brought technology entrepreneurship curricula to over 100 technical Universities in over 40 countries.

Prof. Harris holds Masters Degrees in Computer Science and in Economics from the Technical University in Munich. He also holds a Professorship as Associated Professor for Technology Entrepreneurship and Innovation at the University Politehnica of Bucharest as well as at the University St. Kliment Ohridski of Sofia. He is also an expert for the Executive MBA Program at the Technical University of Munich and is a Senior Fellow at the International Entrepreneurship Academy Intentac. Prof. Harris is also on the executive board of Informatics Europe as well as on advisory boards of collaborating or invested companies.

In 2007 Prof. Harris received a Doctor honoris causa from the St. Kliment Ohridski University of Sofia and also received the “Blue Ribbon of Sofia” the highest recognition for academic achievement the University of Sofia awards.

In 2010 Prof. Harris received a Doctor honoris causa from the University Politehnica of Bucharest.
Prof. Dr. Mark Harris

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Tel.: +49 8063 256 9070

Mobile: +49 15 12 12 388 12
Literature:

Accompanying Literature:

Timmons/Spinelli
Steven Gary Blank
Steve Blank, Bob Dorf
Geoffrey A. Moore
Clayton M. Christensen
Henry Chesbrough

New Venture Creation
The Four Steps to the Epiphany
The Startup Owner’s Manual
Crossing the Chasm
The Innovator’s Dilemma
Open Innovation

Recommended Literature:

David J. Teece
Annalee Saxenian

Managing Intellectual Capital
Regional Advantage

ISBN 978-007-125438-0
ISBN 0-87584-585-1
ISBN 1-57851-837-7

> www.innovaventures.com >NEWS>Blog>24 October American University in Bulgaria 3 Youtube Videos about 5 hours total.
Technology Entrepreneurship & Innovation MSc Discipline

Core Courses

- Student Company ~60 hrs
- Innovation Management In IT ~75 hrs
- Financial Management And Venture Funds ~75 hrs
- Organizational Behavior ~60 hrs
- E-Commerce Fundamentals ~60 hrs
- E-Government Fundamentals ~60 hrs
- Knowledge Management And Technology Transfer ~60 hrs
- Project Management ~60 hrs
- Strategy Management ~60 hrs
- Legal Issues and E-Business ~60 hrs
- Marketing Strategies for High-Tech Companies ~60 hrs
- Customer Relationship Management ~60 hrs
- Innovation Management In IT ~75 hrs
- Financial Management And Venture Funds ~75 hrs
- Organizational Behavior ~60 hrs
- E-Commerce Fundamentals ~60 hrs
- E-Government Fundamentals ~60 hrs
- Knowledge Management And Technology Transfer ~60 hrs
- Project Management ~60 hrs
- Strategy Management ~60 hrs
- Legal Issues and E-Business ~60 hrs
- Marketing Strategies for High-Tech Companies ~60 hrs
- Customer Relationship Management ~60 hrs

90 ECTS credits
- 60 credits courses
- 30 credits Master’s Thesis

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Syllabus

1. Technology Entrepreneurship & Innovation Core Courses

Objective
This module is the core piece of a Master’s discipline in Technology Entrepreneurship & Innovation offered in a number of Universities in Europe. The course was built by Prof. Dr. Mark Harris based on course materials and books from several Professors of UC Berkeley CA, adding though many aspects and concepts that are default for the "Bay Area", but predominantly missing in Europe. The master's degree program in Technology Entrepreneurship and Innovation aims to provide additional, interdisciplinary training of specialists with bachelor or master degree in related technical specialties. It extends students' knowledge in the field of common management and entrepreneurship and in particular international standards and trains for starting a business in a technology field, provides strategies for introducing new high tech products into the market, teaches the management of the innovation process and knowledge transfer, provides strategies for sustainable development and growth.

The students who complete the program may become entrepreneurs (company external) or intrapreneurs (company internal) with deep analytical knowledge and skills in management and innovation transfer of high-tech intellectual property.

The students will be provided with a good base for research and PhD work concerning management, technology transfer and innovation in high-tech area’s.

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Syllabus

1. Technology Entrepreneurship & Innovation Core Courses cont’d

Short description
This course has been put together to provide students with a high-level overview of Entrepreneurship. You cannot teach someone to be an entrepreneur, but you can teach the skills needed to become one. This course is for both aspiring entrepreneurs as well as those simply interested in learning more about the field. It aims to inspire you and give you a perspective on what life as an entrepreneur is like. If you hope to start a company this course will help to prepare to fully-utilize the resources available and maximize your potential for success. The course also provides students perspectives by prominent entrepreneurs from organizations at various stages of development and representing a broad range of industries and topics. Entrepreneurs speak on how they created their organizations and the lessons they learned. A major element is also creating, preparing and presenting a business plan based on a technical innovation. Participating in a business plan competition is another program element.
The modules are always a lively mix of theory, insights into industry examples and personal practice of the content.
At the end of this lecture series you will have a broad understanding of entrepreneurship and how entrepreneurship may become your career of choice!

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1. Technology Entrepreneurship & Innovation Core Courses cont’d

Part 1 – The Concepts of Entrepreneurship and Technology Entrepreneurship
Technology Entrepreneurship is filling a gap in entrepreneurship education. While students of business schools are educated in the principles of entrepreneurship, this is not so for the technical disciplines. Yet, the technical disciplines are where most innovation happens. Students creating new companies out of technical innovations were previously amateur entrepreneurs (lacking formal training). This module is focused on filling this gap and to create professional entrepreneurs.

Part 2 – Markets & Customers
It is the technical students that typically innovate and during a very fragile phase are running the new venture, but with a very limited understanding of markets and customers. They assume that a "cool" technological innovation will sell itself. Many examples out of the ".com era" show that in most cases the technical students were unable to address market and customer needs and thus failed.

Part 3 – Innovation and Innovation Management
This module discusses the different concepts of closed and open innovation, where they have been successful and where they have failed and why. It discusses the innovator’s dilemma in managing sustainable innovations within a company and what effect disruptive technologies may have. It discusses technology "S" curves and potential strategies around innovating from inside and acquiring from outside. At the end it focuses on the dangers but also opportunities of globalization on entrepreneurship.

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1. Technology Entrepreneurship & Innovation Core Courses cont’d

Core topics

Part 1
The Entrepreneurial Process
The four Phases of Entrepreneurial Ventures
The Value of Failure
The Business Plan
Venture & Growth Capital
The Four Steps to the Epiphany(I)

Part 2
Crossing the Chasm
The Four Steps to the Epiphany(II)
Customer Discovery, Customer Validation, Customer Creation, Company Building
Presenting for Success

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1. Technology Entrepreneurship & Innovation Core Courses cont’d

Core topics

Part 3
Open Innovation
The Innovator’s Dilema
Sustainable and Disruptive Technologies
Technology "S" curves
Venture Capital and Private Equity
Value, Risk and Return in Private Equity
Entrepreneurship and Globalization

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2. INNOVATION MANAGEMENT IN IT

The aim of the course “Innovation management in IT” is to present the fundamentals, stages and methods for innovation management combining both theory and practice. Innovations are the engine of the modern economy, and the companies’ capacity to launch new products and services is one of the major factors for their further success and sustainable development. In the course there are investigated the modern trends in the process of innovation, and a focus is put on the Information technologies. Some of the major topics to be discussed include: global trends for open source, IP protection, networked innovations, customers innovations and others. The students will develop as well technical skills for innovation processes management and will benefit from the opportunity to meet the main engines of the knowledge based economy.

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Syllabus

3. FINANCIAL MANAGEMENT AND VENTURE CAPITAL FUNDS

The aim of the course “Financial management and Venture Capital Funds” is to introduce the fundamentals of the financial management of the start-up companies and to emphasize on the financial decisions concerning initial stage of the company launch. Some of the major topics discussed include: financial analyses, financial forecasts, strategic financial management, and development of strategic and operating financial plans. In the second part of the course, there will be presented the mechanisms for finding external financing, functions and roles of the major players on the financial system as banks and bank system, financial markets, VCs and financial instruments supporting high-tech companies. The students will learn more about start-up financing on IPO and financial markets, VCs funds financing, bank instruments and other financial sources.

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The aim of the Organizational Behavior course is to familiarize the students with the main problems of human interaction in organizations and the approaches and means of analyzing them as well as generating effective solutions. These problems manifest themselves on individual, group and organizational levels and their proper understanding requires a combination of knowledge and techniques from the subject areas of psychology, sociology and organization theory. By the end of the course the students should have a good working knowledge of concepts and applications related to motivation, group/team dynamics, leadership, and organizational culture, among others. From a methodological point of views, an important emphasis of the course is the encouragement and development of team work skills.

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5. E-COMMERCE FUNDAMENTALS

The discipline aims to discover basic knowledge and skills for the organization and principles of building and use of business processes and business models and to learn the basic standards, concepts and services, good practices of the leading companies in the field of e-commerce.

The program combines the opportunities of the ICT technologies and strategy management of the trade and business transactions. There are developed the basic business directions and theories, as well the dynamics of their development. There are presented the basics of the e-business and e-commerce, standards and technologies.

During the course, lectures and practical cases will be presented of systems for e-commerce and phases of e-commerce and its technical realization.

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6. E-GOVERNMENT FUNDAMENTALS

Recently, good governance principles gain growing popularity among the publicly discussed topics. The issue about the increasing opportunities for application of current information and communication technologies in the economical, political and social sphere at national and multinational level is also up-to-date. Notwithstanding the variety of the topics under consideration, at the core of most of them stands the “management” issue and the issue about the capability of solving governance problems which affect the interest of many and different stakeholders.

The objective of the “e-Governance fundamentals” course is:

- to introduce the important management and governance issues, because exactly these exercise significant influence on the social, personal and professional growth of each of us
- to prove the fact that the governance of the State is not only an obligation and responsibility of the politics and the state leaders
- to demonstrate the role and the place of every subject, participating in the public and social relations, the opportunities for exercising control and placing mutual expectations and requirements
- to point out the opportunities for active participation and involvement of each citizen or business in the regulation of State’s decisions, actions and activities
- to demonstrate that the quality of the management process and the basic management functions can be significantly improved through the use of the latest technical and scientific accomplishments.

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7. LEGAL ISSUES AND E-BUSINESS

The use of information technologies in modern life brings changes and introduces new models of doing business and commerce. The electronic means of communication offer simplified and more direct ways of demand and supply, of contracting and payment via Internet. Nevertheless, the legal problems existing in the commercial transactions outside Internet remain valid in doing e-commerce via Internet. Therefore, it is necessary for the companies, as well as for the citizens to be acquainted with the specificity of contracting on Internet.

The present course aims to familiarize the students with basic legal definitions and problems related to e-commerce. It is adapted to the background of the students: Each one of the lectures shall begin with brief introduction and presentation of a basic legal definition (e.g. jurisdiction; contracting; intellectual property rights – copyright, trademarks; data protection, etc.), after that it shall focus on particular, specific for the Internet environment problems such as how to determine jurisdiction on Internet; at which moment the contract is deemed concluded; how the intellectual property rights are protected on Internet; who can have access and who can disseminate the personal data gathered on Internet, etc.

A special focus is put on the difficulties and challenges in the regulation of the commercial transactions in the Internet environment, arising mainly because of the lack of the well-known physical parameters such as place of concluding the contract, place of performance, identification of the contracting parties, etc., combined with the free access to the global market via the “net” where no state borders exist, and, therefore, there is no clearly defined jurisdiction. In that connection, during every lecture, examples, related to the regulation of e-commerce in Bulgaria and in the Member States of the EU, shall be given.

After each of the lectures, the students shall be recommended additional literature to read and cases, related to a specific topic, which shall serve as a basis for the preparation of the exercises.

The exercises aim to present to the students how in practice the e-commerce is done through discussions of real cases. Each of the students shall prepare a presentation on a topic chosen by him.

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8. STRATEGY MANAGEMENT

Balanced Scorecard (BSC) methodology translates strategy into action. Working through the balanced scorecard process enables management to define those key perspectives that will drive the business to success, as well as to define how to measure them.

This course offers an intensive examination of the current state of the art of good governance and management, with attention to balanced scorecards (BSC) topics. This course is based on the premise that organizational governance is difficult. It frequently involves management one’s viewpoint, as well as managing conflict and opposition from others who don’t share your viewpoint. The course explores organizational governance from four perspectives and levels.

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9. PROJECT MANAGEMENT

Project management course presents the basic knowledge and skills necessary for planning, execution and controlling of projects. The course considers the modern practices, standards and theories for project management. Students will learn more about project managers’ roles, tasks and obligations, will identify different management and communication approaches, methods of planning and execution of projects as well as techniques for budgeting and risk assessment.

The program combines opportunities of the ICT and strategies for project management. It will explore lectures and practical work with Microsoft Project 200X program in order to build knowledge and skills for project management in practice.

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10. KNOWLEDGE MANAGEMENT AND TECHNOLOGY TRANSFER

The main purpose of the course “Knowledge management and technology transfer” is to introduce the basic processes, strategies and approaches for knowledge management and technology transfer. The course presents introduction in the KM and its specifics into its application in the framework of the company strategy. The students will learn more about functions and methods of KM, main purposes, processes, and stages of KM, systems and technologies for KM and KM systems architectures and implementations.

The students will learn more about knowledge transfer mechanisms, methods for innovation management and knowledge sharing, implementation of practices for KM in organizational context.

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11. CUSTOMER RELATIONSHIP MANAGEMENT

Customer relationship management comprise a pull of knowledge, practices and technologies, allowing the organization to achieve its purposes while identifying, acquiring, serving and retaining the clients. The course presents methods and techniques for acquisition and use of clients’ information from various sources within and outside the company. There are discussed different points of view – demographics, historical, cultural, as well as different customer behaviors, helping the company to improve its CRM practices. Call centers and contact centers are presented and discussed as well. The purpose of the discipline is to acquire basic competences for CRM, its standards, concepts and best practices. The CRM approach is fundamental for effective technology entrepreneurship and is of big value for the start-up companies.
12. MARKETING STRATEGIES FOR HIGH-TECHNOLOGY COMPANIES

The purpose of the course “Marketing strategies for high-technology companies” is to introduce students to the main marketing processes, strategies, and approaches for launching of high-tech products and services on a competitive market. The course presents the basic elements of the marketing mix from the point of view of business strategy. The course will enable students to identify, evaluate and develop marketing strategies for introduction of high-tech products and services, to assess environment opportunities to create sustainable competitive advantages.

Students will be introduced as well with methods for new products launching, processes of innovation and work with clients, market evaluation, pricing, distribution network development and logistics, marketing strategies and business models in IT.

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13. STUDENT COMPANY - JUNIOR ACHIEVEMENT

The purpose of the practical course “Student company” is to introduce students with the basics of entrepreneurship in order to build skills for starting their own business. In theory classes there will be presented main features for organization and management of real student company.

Students are introduced to basic management skills and organizational functions. During the classes, students register a student company – Joint Stock Company, realize real product or service and realize financial profit. The student company has about 8 members and all students have signed roles and positions. The course is part of the international initiative “Junior Achievement”, and student companies compete on local and international competitions.

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Differences are Valuable

innoVaventures – UC Berkeley come with their own view – the Silicon Valley perspective

Regional effects cause entrepreneurship to take its own unique form everywhere

Through the identification of major regional trends, and an appreciation for the success models of Silicon Valley, each participating University can chart its own course to build a successful program.
Innovation and entrepreneurship in the space between "magic" and "science"

European Computer Science Summit
October 7, 2013

Prof. Dr. Sc. math. Dr. h.c.

Mark Harris
CEO and Founder

Adjunct Professor for Technology Entrepreneurship & Innovation
Is this an innovation?
Is this an innovation?
Is this an innovation?
Is this an innovation?
What is Science?

Science (from Latin scientia, meaning "knowledge") is a systematic enterprise that builds and organizes knowledge in the form of **testable explanations and predictions** about the universe. In an older and closely related meaning, "science" also refers to a body of knowledge itself, of the type that can be rationally explained and **reliably applied**. A practitioner of science is known as a scientist. (Source: Wikipedia)
Math:

\[ 2 + 2 = 4 \]
\[ 2 + 2 = 4 \]

All the time....

Testable, explainable, predictable, reliable 100% of the time.
Physics:

Testable

Explainable

Predictable

reliable

100% of the time?

In Physics most experiments work 95% of the time. 200 years ago, it was maybe 60% of the time. Enough not to be random, but still too complex to understand and control all of the complexities.

Even recently CERN had to do more than 1 trillion collisions to be able to prove the Higgs boson subatomic particle.
Entrepreneurship:

One must recognize that the field of start-ups and entrepreneurship is not yet a «pure» science. Outcomes cannot yet be guaranteed.

Entrepreneurship is more like Physics 200 years ago. There is enough knowledge and expertise to be able to get satisfactory results, but still not enough to be as predictive as Mathematics.

Most expertise has been acquired through years of “experimenting” and “evaluating”.
Innovation and Entrepreneurship
What is innovation?

Innovation is an invention, paired with a process and a market.
## Light Bulb Hall of Fame

<table>
<thead>
<tr>
<th>Date</th>
<th>Inventor</th>
<th>Nationality</th>
<th>Filament</th>
<th>Atmosphere</th>
</tr>
</thead>
<tbody>
<tr>
<td>1802</td>
<td>Davy</td>
<td>English</td>
<td>platinum</td>
<td>air</td>
</tr>
<tr>
<td>1840</td>
<td>Grove</td>
<td>English</td>
<td>platinum</td>
<td>air</td>
</tr>
<tr>
<td>1840</td>
<td>Göbel</td>
<td>German</td>
<td>carbon</td>
<td>Vacuum*</td>
</tr>
<tr>
<td>1841</td>
<td>De Moleyns</td>
<td>English</td>
<td>platinum</td>
<td>vacuum</td>
</tr>
<tr>
<td>1845</td>
<td>Starr</td>
<td>American</td>
<td>platinum</td>
<td>air</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>carbon</td>
<td>Vacuum*</td>
</tr>
<tr>
<td>1846</td>
<td>Greener</td>
<td>English</td>
<td>carbon</td>
<td>air</td>
</tr>
<tr>
<td>1848</td>
<td>Staite</td>
<td>English</td>
<td>platinum</td>
<td>air</td>
</tr>
<tr>
<td>1850</td>
<td>Shepard</td>
<td>American</td>
<td>carbon</td>
<td>vacuum</td>
</tr>
<tr>
<td>1852</td>
<td>Roberts</td>
<td>English</td>
<td>carbon</td>
<td>vacuum</td>
</tr>
<tr>
<td>1856</td>
<td>de Changy</td>
<td>French</td>
<td>platinum</td>
<td>air</td>
</tr>
<tr>
<td>1859</td>
<td>Farmer</td>
<td>American</td>
<td>platinum</td>
<td>air</td>
</tr>
<tr>
<td>1860</td>
<td>Swan</td>
<td>English</td>
<td>carbon</td>
<td>Vacuum*</td>
</tr>
<tr>
<td>1872</td>
<td>Lodyguine</td>
<td>Russian</td>
<td>carbon</td>
<td>nitrogen</td>
</tr>
<tr>
<td>1875</td>
<td>Woodward</td>
<td>Canadian</td>
<td>carbon</td>
<td>N/A</td>
</tr>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>1876</td>
<td>Konn</td>
<td>Russian</td>
<td>carbon</td>
<td>nitrogen</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>vacuum</td>
</tr>
<tr>
<td>1876</td>
<td>Fontaine</td>
<td>French</td>
<td>carbon</td>
<td>vacuum</td>
</tr>
<tr>
<td>1877</td>
<td>Maxim</td>
<td>American</td>
<td>platinum</td>
<td>air</td>
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<tr>
<td>1878</td>
<td>Sawyer</td>
<td>American</td>
<td>carbon</td>
<td>nitrogen</td>
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<tr>
<td></td>
<td>Maxim</td>
<td>American</td>
<td>carbon</td>
<td>hydrocarbon</td>
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<tr>
<td></td>
<td>Lane-Fox</td>
<td>English</td>
<td>platinum-iridium</td>
<td>air-nitrogen</td>
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<tr>
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<td>Farmer</td>
<td>American</td>
<td>carbon</td>
<td>nitrogen</td>
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<td>1879</td>
<td>Jenkins</td>
<td>American</td>
<td>platinum</td>
<td>air</td>
</tr>
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<td></td>
<td>Hall</td>
<td>American</td>
<td>platinum</td>
<td>air</td>
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<td></td>
<td>Edison</td>
<td>American</td>
<td>carbon</td>
<td>Vacuum*</td>
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</tbody>
</table>

* Means it was patented
# Computer Hall of Fame

<table>
<thead>
<tr>
<th>Who</th>
<th>What</th>
<th>Proposed</th>
<th>Finished</th>
<th>Commercial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charles Babbage</td>
<td>Analytical Engine</td>
<td>1837</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Konrad Zuse</td>
<td>Z1</td>
<td>1936</td>
<td>1938</td>
<td>No</td>
</tr>
<tr>
<td>Tommy Flowers</td>
<td>Colossus</td>
<td></td>
<td>1943</td>
<td>No</td>
</tr>
<tr>
<td>Atanasoff-Berry</td>
<td>ABC</td>
<td>1937</td>
<td>1942</td>
<td>No</td>
</tr>
<tr>
<td>Eckert/Mauchly</td>
<td>ENIAC</td>
<td>1943</td>
<td>1946</td>
<td>No</td>
</tr>
<tr>
<td>UK</td>
<td>EDSAC</td>
<td></td>
<td>1949</td>
<td>No</td>
</tr>
<tr>
<td>US GOV</td>
<td>UNIVAC</td>
<td></td>
<td>1950</td>
<td>No</td>
</tr>
<tr>
<td>Konrad Zuse</td>
<td>Z4</td>
<td>1942</td>
<td>1950</td>
<td>1950</td>
</tr>
<tr>
<td>IBM</td>
<td>701</td>
<td></td>
<td>1953</td>
<td>1953</td>
</tr>
<tr>
<td>IBM</td>
<td>PC</td>
<td></td>
<td>1981</td>
<td>1981</td>
</tr>
</tbody>
</table>
Observations:
- EU 2020 declaration highly focussed (#1 issue) on innovation and entrepreneurship.
- Invention (ideas, patents) is good, but commercialization is not.
- Very low VC activity in EU (1/5th US), huge equity GAP
- Attitude of entrepreneurship and failure not being an option a big hindering factor.
- Need to catch-up on some 20+ years of entrepreneurship education
- Need to broaden where and how entrepreneurship is taught
- Need to get EU success rates (20%) close to US (30%).

<table>
<thead>
<tr>
<th>Criteria</th>
<th>US</th>
<th>Europe</th>
<th>Comparison</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (2012)</td>
<td>16.82 T$</td>
<td>16.56 T$</td>
<td>Arrow</td>
<td>Economies in same Ballpark</td>
</tr>
<tr>
<td>Domestic Patents (2009)</td>
<td>82000</td>
<td>135000</td>
<td>Arrow</td>
<td>Europe invents +65% more (actually much more because no SW patents in Europe, CII)</td>
</tr>
<tr>
<td>VC activity (2012) (New Ventures)</td>
<td>26.5 B$</td>
<td>3.6 B$</td>
<td>Arrow</td>
<td>Europe only a fraction of US (EVCA)</td>
</tr>
<tr>
<td>% of population that consider entrepreneurship</td>
<td>67%</td>
<td>45%</td>
<td>Arrow</td>
<td>US is 50% higher</td>
</tr>
<tr>
<td>% of Population that become entrepreneurs</td>
<td>13%</td>
<td>4.5%</td>
<td>Arrow</td>
<td>US is 289% higher</td>
</tr>
<tr>
<td>% of population that accept possible failure in a startup</td>
<td>75%</td>
<td>54%</td>
<td>Arrow</td>
<td>US 40% higher</td>
</tr>
<tr>
<td>Entrepreneurship Education since</td>
<td>1980’s</td>
<td>Early 2000’s</td>
<td>Arrow</td>
<td>Trying to catch up 20–25 years of Education and attitude</td>
</tr>
<tr>
<td>Breadth (# types)</td>
<td>8</td>
<td>1–2</td>
<td>Arrow</td>
<td>Programs in HE and now starting in K12</td>
</tr>
</tbody>
</table>
To increase/accelerate innovation:

Increase #inventions = research

Entrepreneurship

Learn this and get this right

invention  process  market

Address diverse markets
What is Entrepreneurship?

What is Technology Entrepreneurship?
Entrepreneurship is:

A process

Not a person

About BIG companies that happen to be small

Not about small business

Important to BIG business
What is Entrepreneurship?

„The pursuit of opportunity beyond the resources one currently has under control“. *

* Source: Professor Howard Stevenson
Can entrepreneurship be taught?

YES IT CAN!
You can teach the skills and knowledge!

Students can practice the entrepreneurial process

Students become more adept at the decision making and skills of OPPORTUNITY RECOGNITION and RESOURCE ACQUISITION

You can help them decide if entrepreneurship is right for them, and how they should participate
Components of Entrepreneurship Education

THEORY to PRACTICE

Standard Business Disciplines
- Finance
- Economics
- Accounting
- Marketing
- Management
- Strategy
- Accounting
- Product Development

Entrepreneurship Curriculum
- Entrepreneurship Flagship
- Venture Capital and Private Equity
- Management Finance
- Managing Innovation and Change
- Opportunity Recognition
- Managing the New Product Development Process
- Social Entrepreneurship
- Life as an Entrepreneur
- Special Topics in Entrepreneurship
- Case Studies in Entrepreneurship
- Marketing for High Tech Entrepreneurs
- "Top-Down" Law
- Sales, Marketing & Business Development in a Startup
- Policy – Corporate Governance

Guided Entrepreneurship
- Fellowships
- Starting Companies
- Competitions
- Case Writing
- Incubators
- Mentorship

Entrepreneurial Learning Environment

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High Impact Ventures
Professional Entrepreneurs

Theory
Faculty
Classroom Activities
Case Studies
Guest Lectures
EIRs

Practice
Adjunct Faculty:
Experienced Entrepreneurs
Internships
Mentorship
Competitions
Incubation

Students
Technologies
Business Concepts

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Entrepreneurship Bridges the Gap

Technology/Opportunity → Entrepreneurship → Value
What is Technology Entrepreneurship?

So Technology Entrepreneurship is not only „What“, but also „When“!!
The Entrepreneurial Process
The Entrepreneurial Process

Identify
- Need
- Solution
- ‘Unfair Advantage’

Acquire
- Technology rights
- People
- Money

Opportunity

Resources
The Entrepreneur’s Task....

Key Resources

• Technology
• Money
• People
Who is the Professional Entrepreneur?

Personal Entrepreneurship Styles

Entrepreneurship is a team sport

• Many can play – even if they are not ‘born’ entrepreneurs

Three modes

• Lead
• Follow
• Execute

Three functions

• Create
• Manage
• Innovate

Which role is right for you?
Personal Entrepreneurship Styles: Modes: Lead or Follow

High Performance entrepreneurial teams are:
- Self organizing
- Flexible
- Self disciplined
- Common goal
- Common priorities
- Common values
- Enabled by shared ownership

Same people may play different roles on different teams within the same company.
Personal Entrepreneurship Styles Functions: Create or Manage

Innovation requires a combination of creativity and management – brought by a team

- Creation requires the greatest technical competency
- Management requires technical affinity
- Different functions are best suited for different people
- Functions rarely are exchanged
- All collaborate in BOTH dimensions
Entrepreneurship is a Team Sport Results are What Count

High performance technology entrepreneurship

- Is a BLEND of Innovation and Execution
- Requires collaboration and discipline
- It is best performed by a team
  - Alignment of incentives directly and dramatically related to the outcome
Who is the Entrepreneur?

<table>
<thead>
<tr>
<th></th>
<th>Inventor</th>
<th>Promoter</th>
<th>Manager, administrator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creativity and innovation</td>
<td>High</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>General management skills, business know-how, and networks</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
</tr>
</tbody>
</table>

Source: J. Timmons, New Venture Creation, p. 25.
The Zero-Stage CEO's Task

Define Vision and Concept ➞ Build Team ➞ Obtain Financing

“Technology” X People X Money

= Value Creation
The Importance of Teamwork

Entrepreneurship is a team sport
The Professional Entrepreneur, The Entrepreneurial Venture
The Professional Entrepreneur

Visioning the Future into the Present

I

The technical innovation

II

The company

The business innovation

III

IV

Cash Flow

Needed: Technology Entrepreneurship Skills

Entrepreneurship Skills (MBA etc)
The Professional Entrepreneur

The technical innovation

The company

The business innovation

Zone of Collaboration

Zone of Competition

Needed: Technology Entrepreneurship Skills

Entrepreneurship Skills (MBA etc)

Cash Flow

I

II

III

IV

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The Entrepreneurial Venture
FOUR PERIODS of DEVELOPMENT
The Entrepreneurial Venture
FOUR PERIODS of DEVELOPMENT

1. The technical invention
2. The company
3. The business innovation
4. Management Skills (MBA etc.)

Needed: Technology Entrepreneurship Skills

Cash Flow

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# The Entrepreneurial Venture

## Attributes that characterize each Phase

<table>
<thead>
<tr>
<th>Period I: Pure Entrepreneurship</th>
<th>Period II: Strategic Focus</th>
<th>Period III: System Building</th>
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</thead>
<tbody>
<tr>
<td>Defining the concept of the business</td>
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<td>Financial Controls</td>
<td>Hiring „outsider”</td>
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<tr>
<td>Gathering Financial Resources</td>
<td>IMPLEMENTING the business we are in!</td>
<td>Stable division of labor</td>
<td>Going Public</td>
</tr>
<tr>
<td>Assembling the startup Team</td>
<td>Knowing better than ANYONE else:</td>
<td>Reporting relationship and authorities</td>
<td>Making acquisitions</td>
</tr>
<tr>
<td>Identifying customers</td>
<td>What will people pay</td>
<td>Developing systems of internal control</td>
<td>Adding the follow-on Products(s)</td>
</tr>
<tr>
<td>Analyzing the competition</td>
<td>How many will they buy</td>
<td>Formalizing the terms of a sale</td>
<td>Shedding those who can’t keep up</td>
</tr>
<tr>
<td>Building the prototype</td>
<td>How to distribute</td>
<td>Operational systems</td>
<td>Formalizing the culture</td>
</tr>
<tr>
<td>Getting your first customer</td>
<td>How to service the customer</td>
<td>Production, Outsourcing</td>
<td>Rationalizing the strategy</td>
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<tr>
<td></td>
<td></td>
<td>Distribution, Sales</td>
<td></td>
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<td>Service, Warranties</td>
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*Sources: Professor John Freeman, Professor Jerry Engel, UC Berkeley*
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The Professional Entrepreneur

Visioning the Future into the Present

Needed: Technology Entrepreneurship Skills

Entrepreneurship Skills (MBA etc)
The Value of Failure
The Value of Failure

Is this an Oxymoron ??

Can failure be of value ?

Why would someone value failure ?
The Value of Failure

Through failure we typically have the greatest learning. We tend to evaluate our failures more than our successes.

Failure without learning = Loss!
Failure with learning = Value!
The Value of Failure

Why do we see that learning so valuable?

Typically VCs will want to see experience. They will want to see that one is not naively going down a path that leads to the same failures as already experienced.
The Value of Failure

So how do we gain experience (learning) without running into disaster?

⇒ We exercise these multi-disciplinary skills in a “safe” environment.
⇒ We exercise these skills while independant of that income and without the risk that failure will brandmark us for the next years.
The Value of Failure

⇒ We practice being entrepreneurs while we are still studying!

⇒ We write business plans based on our ideas.

⇒ We compete against others (regionally, globally) to learn the tricks of the trade of being an entrepreneur.
The Value of Failure

What is a business plan??
The company will engage in research, development, manufacture and sales of integrated electronic structures to fulfill the needs of electronic system manufacturers. This will include thin films, thick films, sputtered components used in hybrid and monolithic structures. Production will involve laboratory and process planning, mask making, etching, polishing, bonding, testing, and testing, as well as processing and testing of devices, photo sensitive integrated circuits, and subsystems commonly referred to by the phrase "large scale integration." 

Principal customers for these products are expected to be the manufacturers of advanced electronic systems for communications, radar, control and data processing. It is anticipated that many of these customers will be located outside California.

Today ~53+B$ revenue
~65% pre-tax profits
The Business Plan
The Business Plan
A Metaphor for Entrepreneurship Education

1. They are obsolete as soon as completed
2. They are unreliable as predictors of future events...

So why is the Business Plan so important for Entrepreneurship Education??

A Business Plan’s content is directly applicable to every step in entrepreneurial venture development.

It is an opportunity for immersion in a simulated entrepreneurial experience.
The building blocks of your business planning pitch . . .

**Elevator Pitch**
- 30-second/1 minute synopsis of your venture: core idea, market, potential, analogy, etc.

**“Chalk Talk”**
- 2-10 minute summary of key venture elements
- Informal “on the fly” media: white board/flipchart/etc.

**Power Point***
- 10-30 minute formal rehearsed presentation of your venture
- Allow >50% available time for Q&A
- Handouts/leave behinds

**Demo**
- Brief demonstration of prototype/example/illustrative transaction/model/etc. that makes your venture “real” if this is feasible

**Business Plan**
- 20-40 page professional explanation of your venture, with all relevant supporting analyses
- Lays out your case: why your team/why this venture/why now/why this strategy/etc.
Business Plan truths:

The business plan is IMPORTANT

• Preparing the plan builds the team’s business vision and commitment

• The planning PROCESS never stops

Plan your work and construction of the plan

Use a guide/outline – modified to fit your context

How you communicate the plan is as crucial

Who has written a plan before?

How many of you were happy with it?
Outline of a Business Plan
...not the ‘magic’

Executive Summary (2-3)
Company/Business (4-5)
Market Analysis (1-2)
Competition/Competitive Advantage (1-2)
Marketing/Key Customers (2-3)
Technology (2-3)
Operations (1-2)
Management (1)
Financial Summary (1-2)
Funds required and uses (.5-1)
Appendices
The Process

Opportunity Recognition

Test the Plan

Write the Plan

Test Assumptions
Who Should Write The Business Plan?

Primary author: The CEO
- Must internalize the plan

Team Members
- Must understand their responsibilities
- Must understand the overall plan
- Validates the team’s ability to work together

Input from advisors
Who is the audience for the plan?

1. YOU

2. Your team

3. Your advisors

4. Your investors
How do you start?

Just start writing?
Create an executive summary or pitch?
Start with an outline from a guide?
Plan your activities to build your plan?

Focus your activities/writing on the unknowns
What a plan *must* do

Be original

Present a compelling opportunity

Present a dedicated, passionate team that “fit”

Be coherent

Shows your work

• Point to supporting documents

What is the toughest section to write?
A Note About Supporting Documents

Where the real work is done?

Largely confidential and *behind the scenes*:

- Customer Development plan
- Product Development plan, MRDs
- Partnerships
- Hiring Plans / Key Hires / Contractors
- Market research / International
- Intellectual property details
- Competitive Research
- Agreements and Contracts
The Executive Summary

“A good executive summary gives me a sense of why this is an interesting venture. I look for a very clear statement of their long-term mission, an overview of the people, the technology, and the fit to the market.”

Ann Winblad
Hummer Winblad Venture Partners

In a real scenario:
Do this last - REALLY!
The Executive Summary

It will become a stand-alone document
Start with a problem/solution paragraph
Summarize each section of the business plan
But, spend most time on:
• Product description
• Competitive advantages
• Business model & projections
• Management team

What about a Mission Statement?
Company Description

Vision

Basic product offering and problem solved

Markets served

Company history and location

Compelling highlights...the opportunity

• People/technology, achievements, trends
• Value Proposition/competitive advantage

Stage of business
On Pitches

Remember what VCs are looking for
• Market
• Team
• Traction

Introduce your idea...but quickly talk about market, team, & traction
• Most people put team at the end...and often never get to it before the VC has to leave

More discussion of idea, technology, etc. can follow
• but the VC can then evaluate it based on the team, market, and traction
Pitch Details

Wear your uniforms
• Business cards
  – Professionally printed...not from Laserjet
• Dress nicely
  – Sign of respect
  – Unless you are an Uber-geek CTO...you won’t get away with jeans and a T-Shirt

Be on time
• VC’s really do have a busy schedule
• Know how much time you have and plan accordingly

Bring key team members
• So VC can evaluate team first hand
• Have multiple people talk...we are evaluating the team

Stand up when talking

Practice...and know your story
• Make sure your stories match

Show enthusiasm
Elements of Elevator Pitch
...in 60 seconds or less

For ________________ (customer)
who ________________ (need)
the ________________ (Product)
is a ________________ (Description)
that ________________ (Benefit)
unlike ________________ (competition)
our Product ________________ (differentiation)
Elements of Elevator Pitch
...in 60 seconds or less

What do you do?
What problem do you solve?
How are you different?
Why should I care?
Four Take Home Messages

Guides are great, but your plan must be your own work

Action → Information → Unique, Rich Plan

Writing the plan is a process of convergence

How you communicate the plan can be more important than the plan!
The Intel – UC Berkeley Technology Entrepreneurship Challenge (IBTEC) (The Practice)

Dedicated focus on global technology innovation

Truly global nature

Focus on innovation from educational institutions

Strong educational component

A feeder system of branded competitions focused on finding technology focused business plans

Powerful brand name hosts in Intel and U.C. Berkeley
The Role of Partners

Who can be a partner
- Regional competitions
- Institutions
  - Must have prestige along with marketing and screening skills and a technology focus

The Challenge gives its partners:
- Guaranteed seats at finals and financial support for team(s)
- Faculty access to event
- Use of the mark and marketing support

The Challenge gets:
- Quality deal flow
  - Regional (or local) marketing
  - Screening services
- Reputation and academic quality
The De-hydrated Business Plan

Approx. 4-10 pages
Covers Keypoints (similar to Exec Summary)
Can be prepared in a few hours
Not intended exclusively for fund raising
It is a map of the battle ground, but does not have enough detail to actually conduct the battle.

New Venture Creation Chapter 12.
The Business Plan (Homework)
3. Venture & Growth Capital
New Venture Funding Stream

- **Sales**
- **IPO**
- **Cash Flow**

**Venture Capital Rounds**

- $1
- $8
- $20
- $40
- $80

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Structuring the Financing
The "Why" of multiple rounds

Value is a Step Function:
- Technology/Product
- Marketing
- Management

Value

Time
Adding Technology Value

Value

Time

Concept

Feasibility or Prototype

Patent Application

Working Prototype

Manufacturing Prototype

Regulatory Approvals

Market Introduction
Adding Market Value

Value

Time

Market Analysis - Published Data

Qualitative Research (Focus Groups)

Surveys/Concept Testing

Technical Reports Published

Beta Test

Market Launch

Satisfied Customers

Backlog
The Entrepreneurial Venture
FOUR PERIODS of DEVELOPMENT

Time

Cash Flow

I  II  III  IV

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Valuation in Steps

- **Early Validation**
- **Concept Defined**
- **Market Traction**
- **Scale Validated**
- **Predictable Scale**

Time

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Staged Financing

- Early Validation
- Concept Defined
- Market Traction
- Scale Validated
- Predictable Scale
- Series A
- Series B
- Series "n"
- Series B
- Seed
- Time

IPO
Venture Capital

Investment Capital for Entrepreneurial Ventures tends to clump

• By Region
• By Industry

It is important to encourage local investment in Entrepreneurial Ventures
Perspective on European Market

Funds raised by fund stage focus

2007-2012 - Incremental amount raised during the year

<table>
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<th>Later-stage</th>
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</tbody>
</table>

Source: EVCA / PEREP_Analytics
Perspective on European Market

Funds raised by type of investor & region of the fund

2012 - Incremental amount raised during the year

Source: EVCA / PEREP_Analytics

DACH: Austria, Germany, Switzerland
Southern Europe: Greece, Italy, Portugal, Spain
Nordics: Denmark, Finland, Norway, Sweden
CEE: Central Eastern Europe

| Source: EVCA / PEREP_Analytics | Creating lasting value | 18 |
Amount invested: size of market

European angel investment still represents only 30% of US activity

www.eban.org
Average investment amount by BANs (k€)

Average = 1,1M€

www.eban.org
Growth Capital
Founders A, B and C each purchase 1M shares of Common Stock at a purchase price of $.001 per share.

<table>
<thead>
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</table>
Hiring a President/CEO
Creation of an Option Plan

The company hires a chief executive officer who purchases 1M shares of Common Stock at a purchase price of $.01 per share. Additionally, in order to attract additional key employees, the Company establishes an employee stock option plan and reserves 1M shares of Common Stock for issuance under this plan. The pre-financing valuation is $30,000.

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Post-Money Valuation $50,000
Initial Venture Capital Round

$5,000,000 venture capital financing at a purchase price of $1 per share, representing a pre-financing valuation of $5,000,000 (5M shares with a value of $1 per share). The new shares are typical venture capital Series A Preferred Stock, with each share of Series A Preferred Stock being convertible into one share of Common Stock.

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Post-Money Valuation $10,000,000
$10,000,000 Series B Preferred Stock financing at a purchase price of $2 per share, representing a pre-financing valuation of $20,000,000 (10M shares with a value of $2 per share). Like the Series A Preferred Stock, each share of Series B Preferred Stock is convertible into one share of Common Stock.
A total of 5M shares to be sold in the offering, including 3M shares sold by the Company and 1M shares sold by each of the Series A and Series B investors. Shares will be sold at a price of $10 per share, representing a pre-financing valuation of $150,000,000 (15M shares with a value of $10 per share.)

Series A and Series B Preferred Stock automatically converted into Common Stock. All shares sold in offering will be Common Stock. Note that the interest of each founder has decreased from 33.33% at the Company's formation to 5.55% following the IPO. However, the value of the interest of each founder has increased from $1,000 to $10,000,000.

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Growing the Equity Pie

- **Concept Defined**
- **Early Validation**
- **Market Traction**
- **Scale Validated**
- **Predictable Scale**
- **Series A**
- **Series B**
- **Series “N”**
- **IPO**

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Post-Money Valuation: $3,000
Growing the Equity Pie

- **Concept Defined**
- **Early Validation**
- **Market Traction**
- **Scale Validated**
- **Predictable Scale**
- **IPO**

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Post-Money Valuation: $50,000
Growing the Equity Pie

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Post-Money Valuation: $30,000,000
Growing the Equity Pie

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Post-Money Valuation: $180,000,000
4. Opportunity Recognition
How to Evaluate a Deal from the Company’s Perspective

Founder’s Issues

Employee’s Issues

Corporate Issues
• Sufficient Capital
• Freedom of Operation

Previous Investor and Creditor Issues

Etc.
How to Evaluate a Deal from the Investor’s Perspective

Potential for Adequate Return

Opportunity for a Home Run?

Potential ‘Fatal Flaws’

Time Requirements

Follow-on Investment Requirements

Portfolio and Fund Compatibility

Etc.
## Effect of Eleven Factors on Company Valuation

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<thead>
<tr>
<th>Variables</th>
<th>Lower Valuation</th>
<th>Higher Valuation</th>
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<td>- Patent Status</td>
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<td>Issued</td>
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<td>Short</td>
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<tr>
<td><strong>Market</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Demonstrable Need</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>- Size &amp; Growth</td>
<td>Small</td>
<td>Large</td>
</tr>
<tr>
<td>- Market Penetration</td>
<td>Slow</td>
<td>Rapid</td>
</tr>
<tr>
<td><strong>Management Team</strong></td>
<td>Novice</td>
<td>Tested</td>
</tr>
<tr>
<td><strong>Financial</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Profit Margins</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>- Total Capital Required</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td><strong>Return on Investment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Potential Future Valuation</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>- Time to Liquidity</td>
<td>Long</td>
<td>Short</td>
</tr>
</tbody>
</table>
Evaluate Several Opportunities (Exercise)
# Opportunity Screening Framework
*(Timmons, New Venture Creation)*

<table>
<thead>
<tr>
<th>Attractiveness</th>
<th>High Potential</th>
<th>Low Potential</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market</strong></td>
<td>Current, Must-have need</td>
<td>Weak need that must be developed</td>
</tr>
<tr>
<td><strong>Harvest</strong></td>
<td>Near, High Margins</td>
<td>Far, Low Margins</td>
</tr>
<tr>
<td><strong>Competitive</strong></td>
<td>High Barriers</td>
<td>Severe Pricing Pressure</td>
</tr>
<tr>
<td><strong>Management</strong></td>
<td>Complete; Strong</td>
<td>Inappropriate</td>
</tr>
<tr>
<td><strong>Fatal Flaws</strong></td>
<td>None</td>
<td>One or more</td>
</tr>
</tbody>
</table>
Team Report-outs (5 mins each)
The Four Steps to the Epiphany
The Four Steps to the Epiphany

The Path to Disaster
The Product Development Model

„…for the gate is wide and the road broad that leads to destruction, and those who enter through it are many.“

Mathew 7:13

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

The Product Development Diagram

- Concept/Seed
- Product Development
- Alpha/Beta Test
- Launch 1st Ship

This approach, though often used in R&D of established companies, has proven disasterous for start-ups.

CASE Example: Webvan (groceries via the web)
Despite excellence in execution, Webvan was bankrupt 24 months and 800M$ later.

Source: The Four Steps to the Epiphany
Steven Gary Blank

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The Four Steps to the Epiphany

The Product Development Diagram

Concept/Seed Stage:
- Capture passion and vision (proverbial napkin)
- Product or service concept? Features, benefits?
- Who are the customers? Where are they?
- Distribution channels? Competition? Differentiation?
- Leads into pricing concept, product cost, R&D, first revision of a financial plan.
- Webvan did all this excellently, raising 10M$ and another 393M$ before IPO.

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

The Product Development Diagram

Product Development:
- **Everyone stops talking and starts working**
- **Company starts to specialize by function**
- **Engineering focusses on building the product**
- **Key milestones, delivery dates, development costs**
- **Marketing refines market size, targets first customers**
- **Marketing creates sales demo, sales materials, hire PR agency and VP of sales**

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

The Product Development Diagram

Concept/Seed → Product Development → Alpha/Beta Test → Launch 1st Ship

Alpha/Beta Test:
- **Engineering** works with small select group of customers, tests for bugs.
- **Marketing** develops marketing comms plan, provides sales with full support materials.
- **Sales** signs up first beta customers, builds distribution channel, scales sales staff.
- **Venture investors** start measuring progress by number of orders in place by first customer ship.

Source: The Four Steps to the Epiphany
Steven Gary Blank
Product Launch and First Customer ship:
- **The product is working (sort of), company goes into „Big Bang“ spending mode.**
- Sales force is expanding, marketing is at its peak
- Marketing increases demand creation programs
- Board measures performance of sales against initial business plan.
- Marketing is burning through a lot of cash, additional fund raising is needed.
- Webvan filed for IPO just 60 days after first Beta testing, raised another 400M$ and had a market capitalization of 8.5B$ on the day of 1st IPO, greater than the top 3 grocery chains combined.
The Four Steps to the Epiphany

The Product Development Diagram

Concept/Seed → Product Development → Alpha/Beta Test → Launch 1st Ship

What is wrong with this picture/model??

- Considering this is used by almost every organization launching a new product, the question seems wrong.
- The first hint lies in the name: “product development model” not a marketing model, not a sales hiring model, not a customer acquisition model, not even a financing model.
- Largest risk for startups is not product development, but the development of customers and markets. Startups don’t fail due to lack of a product, they fail due to lack of customers and a proven financial model.
- Where are the customers?? Why is everyone setting their watches and expectations on the „first customer ship date“?
- This is a „fire, ready, aim“ strategy.
- Customer discovery is missing totally!!

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

The Product Development Diagram

Concept/Seed → Product Development → Alpha/Beta Test → Launch 1st Ship

What is wrong with this picture/model??

- Emphasis is on execution instead of learning and discovery.
- Lack of meaningful milestones for customer development.
- The use of a product development methodology to measure sales. (Webvan had only 2500 orders/day instead of 8000/day as in its business plan)
- The use of a product development methodology to measure marketing. (all marketing activities occur before customers start buying. (Webvan had an impressive 47000 customers, though 71% of its 2000 orders/day were repeat customers)
- Having all the marketing activities executing before FPS resulted in premature scaling and spending at a level sales could not support.
- This results in a death spiral (Webvan accumulated a deficit of 612M$ and was bankrupt soon after)

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

The Technology Lifecycle Adoption Curve

%  

Source: The Four Steps to the Epiphany by Steven Gary Blank

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The Four Steps to the Epiphany

The Customer Development Model

Customer Discovery → Customer Validation → Customer Creation → Company Building

The Major difference between this model and the product development model is that each step is a circular track with recursive arrows. This highlights the fact that each step is iterative. It will take multiple iterations of each of the four steps before you get it right, giving you the "escape velocity" to go on to the next step. Here failure is valued if you learn from it! Left to right is not a straight line!
The Four Steps to the Epiphany

The Customer Development Model

Customer Discovery: Who are the customers for my product? Is my product important to them? Are there customers and a market for my product? Get out in the field and listen to customers, discovering how they work and what their key problems are.

Source: The Four Steps to the Epiphany
Steven Gary Blank
**Customer Validation:**
Build a repeatable sales road map for sales and marketing teams that will follow later.
Customer validation proves you have found a set of customers and a market who react positively to the product (by buying it).
Find a group of repeatable customers with a repeatable sales process that equals a profitable business model.

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

The Customer Development Model

Customer Discovery → Customer Validation → Customer Creation → Company Building

Customer Creation:
Create end-user demand that drives that demand into the company's sales channel.
This step is placed AFTER customer validation to move heavy marketing spending AFTER the point where the startup acquires its first customers, allowing the company to control its cash burn rate.
Building a strong brand and heavy advertising only makes sense in markets where your customers understand your product or service.
The Four Steps to the Epiphany

The Customer Development Model

Customer Discovery → Customer Validation → Customer Creation → Company Building

Company Building:
The company transitions from its informal, learning and discovery oriented customer development team into formal departments with VPs of Sales, Marketing and Business Development. Premature scaling is the bane of startups.

Source: The Four Steps to the Epiphany
Steven Gary Blank

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Crossing the Chasm (New)

Recommended Literature:
Crossing The Chasm
Geoffrey A. Moore
Crossing the Chasm

The Technology Lifecycle Adoption Curve

Ideal World

% vs. t

Innovators, Early Adopters, Early Majority, Late Majority, Laggards

Source: Crossing the Chasm
Geoffrey A. Moore
Crossing the Chasm

**Innovators:**
Pursue new technology Products aggressively. They sometimes seek them out before a formal Marketing Program has been launched. This is because technology is a central Interest in their Life.

**Early Adopters:**
Similar to innovators early in the adaptaion phase, but are typically not technologists. They can appreciate benefits of new technology. Rely on their own intuition and vision.

Source: Crossing the Chasm
Geoffrey A. Moore
Crossing the Chasm

**Early Majority:**
Share some of Early Adoptors ability to relate to technology, but driven by a strong sense of practicality. Need to see well established references before investing substantially. ~ 1/3 of the Life Cycle

**Late Majority:**
Shares all the concerns of the Early majority, but with one major additional one: They are not comfortable with their own ability to handle a technology product. ~1/3 of the Life Cycle. This market is interesting as, while product prices have decreased so have manufacturing costs and R&D costs, margins rise !!

**Laggards:**
These customers simply don’t want to have anything to do with new technology. Laggards are generally regarded as not worth pursuing on any other basis.

Source: Crossing the Chasm
Geoffrey A. Moore
Crossing the Chasm

The High-Tech Marketing Model:

Generally the way to develop a high-tech market is to work the model from left to right.

Innovators → grow the market → endorsement →
Early Adopters → grow the market → endorsement →
Early Majority → grow the market → endorsement →
Late Majority → grow the market → endorsement →
Laggards → grow the market

Utilize the „Window of Opportunity“

Source: Crossing the Chasm
Geoffrey A. Moore
Illusion and Disillusion
Cracks in the Bell Curve

The (revised) Technology Lifecycle Adoption Curve

Source: Crossing the Chasm
Geoffrey A. Moore
Illusion and Disillusion
Cracks in the Bell Curve
The (revised) Technology Lifecycle Adoption Curve

Source: Crossing the Chasm
Geoffrey A. Moore
Illusion and Disillusion
Cracks in the Bell Curve

The (revised) Technology Lifecycle Adoption Curve

As you can see there are some cracks in the curve.

Between any of the previously discussed groups there has been a GAP introduced.

This symbolizes the dissociation between the two groups...meaning the difficulty a group will have in accepting a new product if it is presented in the same manor as it was in the group to the immediate left.

Source: Crossing the Chasm
Geoffrey A. Moore
Illusion and Disillusion
Cracks in the Bell Curve

The (revised) Technology Lifecycle Adoption Curve

Going from left to right in the revised Technology Lifecycle Curve means first identifying if that „crack“ can be overcome...i.e. Can the Product serve the needs of the new target group or is it as simple as endorsement („Ideal Model“).

But then there is the Mega-Crack, the CHASM. This is by far the most unforgiving transition and it is all the more dangerous as it typically goes unrecognized.

Source: Crossing the Chasm
Geoffrey A. Moore
Illusion and Disillusion
Cracks in the Bell Curve

The (revised) Technology Lifecycle Adoption Curve

The reason this transition can go unnoticed is that with both groups (Early Adopter and Early Majority) the customer list and size of the orders can look the same..... but the basis for the sale – what has been promised, implicitly or explicitly, and what must be delivered is radically different. The Early adopter is looking for a jump on the competition, the Early Majority looking for a productivity improvement (evolution versus revolution)

Source: Crossing the Chasm
Geoffrey A. Moore
Illusion and Disillusion
Cracks in the Bell Curve

The (revised) Technology Lifecycle Adoption Curve

For Technology Products its important to realize there is a lot of emotion and opinion.

While its „easy“ to find the innovators, getting to the early market can be extremely difficult. Something we will be addressing in the next chapter.

Also to consider:

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage of the Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovators</td>
<td>~ 1/27</td>
</tr>
<tr>
<td>Early Adoptors</td>
<td>~ 2/27</td>
</tr>
<tr>
<td>Early Market</td>
<td>~ 1/3</td>
</tr>
<tr>
<td>Late Market</td>
<td>~ 1/3</td>
</tr>
<tr>
<td>Laggards</td>
<td>~ 2/9</td>
</tr>
</tbody>
</table>

Which markets do you want?

Source: Crossing the Chasm
Geoffrey A. Moore
Presenting for Success

Why do we Present at all?

1. To exchange information
2. To get formal approval
3. A combination of the above
Presenting for Success

Why are so many presentations unsuccessful?

Top 10
• We Underestimate the audience
• Too much detail
• No clear message
• No clear intent
• Foils too cluttered
• Presentation not structured
• not enough presenter power
• Weak presentation skills
• Content and timeslot not in sync
• Hostility in the room
Presenting for Success

Lets sort those between „content“, „structure“ and „people“.

Content:
1. Too much detail
2. No clear message
3. No clear intent

Structure
1. Foils too cluttered
2. Presentation not structured
3. Content and timeslot not in sync

People
1. Hostility in the room
2. We Underestimate the audience
3. not enough presenter power
4. Weak presentation skills
Presenting for Success

Content:
1. Too much detail
   • Probably #1 issue. We try to bring the audience up to our understanding within the presentation. That's not possible.
   • Focus on conveying the idea at a level that doesn't need that much detail.
2. No clear message
   • How many presentations have you heard where you got information but not a message?
   • We need to have a crystal clear message in the presentation.
3. No clear intent
   • How many presentations have you heard where at the end you were asking yourself why is this person presenting at all?
   • The audience needs to know why you are here and why they are spending their time with you.
Presenting for Success

Structure

1. Foils too cluttered
   - 42 bullets on one page?
   - Are people reading rather than listening
   - Try to stick to 4-5 main bullets per slide.
   - "Use builds" if you like, it keeps the audience from reading ahead.

2. Presentation not structured
   - How many presentations have you seen that were structured like a research document?
   - Very clearly AND CRISPLY structure your presentation (examples later)

3. Content and timeslot not in sync
   - Always be aware of the time you have, create the presentation around the timeslot. 60% content 40% Q&A and be able to be flexible.
   - I have often had to reduce a 30 minute presentation to a 15 minute presentation. Sometimes that doesn’t work.
Presenting for Success

People

1. Hostility in the room
   • You may be in a hostile environment with peer groups or even those to whom you are directly presenting to.
   • If you know who will be there and know they are not in favor of what you are presenting, try to get them offline ahead of the presentation and try to win their buy-in or at least fair playing ground.

2. We underestimate the audience
   • to often we try to educate the audience.
   • We need to inform them and if we need support ask for it

3. not enough presenter power
   • This is a learnable skill that needs excersize. We will!

4. Weak Presentation skills
   • This is a learnable skill that needs excersize. We will!
Presenting for Success

Structure Example:

Intent (use Elevator Pitch)
Vision
Opportunity at hand
Objective
Status
Issues
Recommendations
Q&A
Backup
Example:

Intent (Elevator Pitch):

For ________________________ (customer) who ________________________ (need) the ________________________ (Product) is a ________________________ (Description) that ________________________ (Benefit) unlike ________________________ (competition) our Product ________________________ (differentiation)
Example:

Our Vision is to create a machine that can convert CO$_2$ into its components C and O$_2$ at a huge industrial level while binding C into other compounds and releasing O$_2$ back into the atmosphere.

The Opportunity at hand is to create this fabulous machine which will have worldwide positive impact and demand while making a significant profit.
Example:

Our Objectives Are:

1. To create a prototype by xx.xx.xx
2. Acquire a patent
3. Prove with this prototype that the vision is viable and can be done at huge industrial level
4. Achieve next level VC funding of xxM$
5. Get orders for 10 such Oxygen plants
6. Do an IPO
Example:

Our Status is:

1. To create a prototype by xx.xx.xx

We have designed the product and have purchased the BOM.

....

....
Example:

The Issues are:

1. prototype will have only 80% of calculated efficiency.
   This can be solved, but needs a redesign of component xyz

....

....
Example:

Recommendations are:

1. Receive xxM$ to finalize prototype and file for patent
2. Hire....
   ....
Example:

Q&A
6. Communication Channels
6. Communication Channels

<table>
<thead>
<tr>
<th>CHANNEL</th>
<th>IN</th>
<th>OUT</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRESENTATION</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>VOICE</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>EYES</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>EARS</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>LEFT HAND</td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>RIGHT HAND</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>BODY</td>
<td>✔</td>
<td>✔</td>
</tr>
</tbody>
</table>

CH 1: PRESENTATION

CH 2: VOICE

CH 3: EYES

CH 4: EARS

CH 5: LEFT HAND

CH 6: RIGHT HAND

CH 7: BODY
Case studies on Presentation skills:

- Harmony
- World of Good
- 10 most popular lies
Implementing into your Business Plans

HOMEWORK

Implement into your Business Plan Presentations for tomorrow.
Coaching / Feedback

Business Plan Presentations

Peer Feedback (only positive)
Video Feedback
Your own Feedback
5. Open/Closed Innovation and the Innovator’s Dilemma

Recommended Literature:
Open Innovation
Henry Chesbrough
ISBN 1-57851-837-7
Obviously, talking about Open Innovation, there must be something like „Closed Innovation“.
So let's first cover the „Closed Innovation Paradigm“
Open Innovation (Intro)

Open Innovation Paradigm

Research Projects

Research

Development

Boundary of the firm

The Current Market

The New Market

Source: Open Innovation
Henry Chesbrough

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Open Innovation (Intro)

Comparison: Closed / Open Innovation:

- **Examples of Industries:**
  - Nuclear reactors, mainframe computers
  - PCs, movies

- **Largely internal ideas**
  - Many external ideas

- **Low Labor mobility**
  - High Labor mobility

- **Little VC**
  - Active VC

- **Few, weak start-ups**
  - Numerous start-ups

- **Universities unimportant**
  - Universities very important

Source: Open Innovation
Henry Chesbrough
5. The Innovator’s Dilemma

Recommended Literature:
Open Innovation
Henry Chesbrough
ISBN 1-57851-837-7
The Innovators Dilemma (Intro)

The Impact of Sustaining and Disruptive Technological Change

Performance Demanded At the high end of the market

Performance Demanded At the low end of the market

Disruptive Technological innovation

Progress due to Sustaining technologies

Revolutionary Innovation

Source: The Innovator’s Dilemma
Clayton M. Christensen
“Sustaining” Technological Innovation

Big Companies Need A Continuous Process

Strategy: Using Small Markets as “Beach Heads”

First Technology
Second Technology
Third Technology

Disruptive Technology takes over the larger established market!

New entrant dominates

Older BIG company playing catch-up

Disruptive Technology
• new market niche
• small markets
• small companies

7. Smart business models?

• How to become the next Facebook, Google, etc. ????

• If this was a pure science and any of us new the exact formula, we wouldn’t be here...

• Much of that is a function also of the right product at the right time and (besides greatness) tons of luck....

• Larry and Sergey first failed with their strategy to offer a new search algorithm to Yahoo.... (I wonder if that Yahoo employee who turned it down is still there ???)

• Or look at the Intel founders Robert Noyce and Gordon Moore, they left Fairchild to follow their passion !!
Smart business models?

• Follow your passion !! Being passionate about your new business will help you survive 😊
• Create your new venture as “global born”. Focusing initially on a local market is fine, but don’t lose sight of the global opportunity
• Know and understand your customers !!!
• Know and understand your market !!!
• Focus on YEAR ONE !! Get that right.
• Have several exit strategies already when you start.

• Work with global enablers like InnoVaventures™
Your path to success !!!

Innoya Ventures™
Backup
A short excursion in Math:

Question: What is the shortest distance between points A and B?

Sure, a straight line: A __________________ B

as long as we are in two dimensional space....

in three dimensional space, for example on a globe it is the

GREAT Circle (ARC)
So what is the shortest path for a new venture?

The Path (Trail) to New Ventures

Start(up)

Gazelle

loop
forever
Phase 1
entrepreneurship education, Educational BizPlan Competitions

Phase 2
Coaching
Consulting
Mentoring
Experimental labs
Industry connections

Phase 3
1st real BizPlans
Summer schools
Bootcamps
Seed Funding

Phase 4
Angel Funding infrastructure

Phase 5
VC / further scale

Start(Up)
Team(Up)
Start-in-Garage
Win the Market
Experimental Labs
Summer School
Boot Camp
Deep Dive
Get Traction (US)
NoCoI (other Markets)

Entrepreneurship Education
Seed Funding

Real-life practice
Real companies
Educational Process
InnoVaventures Global Network of Experts
InnoVaventures Network of

- in negotiation (Phase I)
- planned (Phase II)
- planned (Phase III)
Network of Global Clusters of Innovation
The Four Steps to the Epiphany
...continued

Recommended Literature:
The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Discovery

Customer Validation

Customer Creation

Customer Building

STOP

STOP

STOP
The Four Steps to the Epiphany

Customer Discovery

STOP

Customer Validation

STOP

Customer Creation

STOP

Company Building

It all starts with a VISION:

- of a new Product
- of the distribution model
- of why lots of people will buy the product

....but these are just guesses

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Discovery

To turn the vision into reality a startup must:

Test those guesses, hypotheses, prove them correct

Get in-front of customers, but don’t:

-try to understand all their needs or wishes
-try to make a feature list from their input
-hand your engineers all the features customers have requested
-run focus groups to test customers reaction to your Product

Instead, you develop your Product for the few, not the many.
Build a Prototype (even before you have customers)

Sound backwards?
The Four Steps to the Epiphany

Customer Discovery

The traditional product management and marketing Process is rational for an established company entering an existing market.

No startup can afford the engineering effort or time needed to build all the features a mainstream customer would want into the first product release.

Focus on every small group of early corporate or consumer customers that have bought into your vision.

These small groups will give you the feedback needed.

Also these Enthused Customers can become Earlyvangelists

Source: The Four Steps to the Epiphany
Steven Gary Blank
Customer Discovery

Earlyvangelists

- Has or Can Acquire a Budget
- Has put together a solution out of pieceparts
- Has been actively looking for a solution
- Is aware of having a Problem
- Has a Problem

The most important Customers you will ever know!

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Discovery

Phase 1
Test Hypotheses

Phase 2
Test Problem Hypotheses

Phase 3
Test Product Concept

Phase 4
Verify

Source: The Four Steps to the Epiphany
Steven Gary Blank

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The Four Steps to the Epiphany

Customer Discovery
Phase 1: State your Hypotheses

Product Hypothesis → Customer & Problem Hypothesis → Distribution & Pricing Hypothesis → Demand Creation Hypothesis → Market Type Hypothesis → Competitive Hypothesis

Source: The Four Steps to the Epiphany
Steven Gary Blank
# The Four Steps to the Epiphany

## Customer Discovery

### Phase 1: State your Hypotheses

<table>
<thead>
<tr>
<th>Hypothesis Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product &amp; Problem Hypothesis</strong></td>
<td>- Product features (1 page, 10 top features)</td>
</tr>
<tr>
<td></td>
<td>- Product Benefits (new ?, better ?, faster ?, cheaper ?)</td>
</tr>
<tr>
<td></td>
<td>- Intellectual property (unique ?, patentable ?, need other's IP ?)</td>
</tr>
<tr>
<td></td>
<td>- Dependancy analysis (here is what has to happen that is out of control)</td>
</tr>
<tr>
<td></td>
<td>- Product Delivery schedule (feature schedule, FCS, future releases)</td>
</tr>
<tr>
<td></td>
<td>- Total cost of ownership / adaptation (cost of customers of buying/using the product)</td>
</tr>
</tbody>
</table>

Source: The Four Steps to the Epiphany  
Steven Gary Blank
The Four Steps to the Epiphany

Customer Discovery
Phase 1: State your Hypotheses

Customer Brief:

- Types of Customers (Users, influencers, recommenders, Economic Buyer, Decision maker)
- Customer Problems (...solve his problem with your product...)
- A day in the life of your customers (how does your customer “work”, how will your product effect that)
- Organizational and customer influence map
- ROI (Return on Investment) justification
- Minimum feature set

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Discovery
Phase 1: State your Hypotheses

Product Hypothesis → Customer & Problem Hypothesis → Distribution & Pricing Hypothesis → Demand Creation Hypothesis → Market Type Hypothesis → Competitive Hypothesis

Channel Brief:

Your Company

- OEMs
- System Integrators
- Direct Salesforce
- Value Added Reseller (VARS)
- Dealers
- Distributors
- Retail / Mass Merchants/Online

Your Customers
The Four Steps to the Epiphany

Customer Discovery
Phase 1: State your Hypotheses

Product Hypothesis → Customer & Problem Hypothesis → Distribution & Pricing Hypothesis → Demand Creation Hypothesis → Market Type Hypothesis → Competitive Hypothesis

Demand Brief:
• How will you create demand that drives customers into the channel you have chosen?

• Advertising?
• Public Relations?
• Retail promotions?
• Spam?
• Website?

• Word of mouth?
• Seminars?
• Telemarketing?
• Partners?
• Influencers?

Source: The Four Steps to the Epiphany
Steven Gary Blank

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InnoVaVentures™
The Four Steps to the Epiphany

Customer Discovery
Phase 1: State your Hypotheses

Market Brief:

<table>
<thead>
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<th>Resegmented Market</th>
<th>New Market</th>
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<td>Market adoption</td>
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<td>2. Niche Strategy fails</td>
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Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Discovery
Phase 1: State your Hypotheses

- **Product Hypothesis**
- **Customer & Problem Hypothesis**
- **Distribution & Pricing Hypothesis**
- **Demand Creation Hypothesis**
- **Market Type Hypothesis**

Competitive Brief:

- What competitive features does my product have?
- What Market share do others have? (largest<30% or 80%)
- What is the basis for competition? (product attributes, service, new usage model)
- Who are your competitors today? In features? In performance, in channel? In price?
- Winning startups understand why customers buy!! Losers never do!!

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Discovery
Phase 2: Test your Hypotheses

Friendly First Contacts ➔ „Problem“ Presentation ➔ Customer Understanding ➔ Market Knowledge

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Discovery
Phase 2: Test your Hypotheses

Friendly First Contacts → „Problem“ Presentation → Customer Understanding → Market Knowledge

- Make a list of 50 potential customers you can test your ideas on.
- Get them from friends, investors, founders, lawyers, recruiters, trade magazines, business books, any source you can think of.
- Look for the innovators (company or department)
- Use these contacts to build your network!! Ask: „Who is the smartest person you know?“
- Get a referral, find someone to help you „get-in-the-door“
- The best introduction is through a peer in the same organization.
- The first 50 contacts should yield 5-10 scheduled visits

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Discovery
Phase 2: Test your Hypotheses

Friendly First Contacts → „Problem“ Presentation → Customer Understanding → Market Knowledge

<table>
<thead>
<tr>
<th>List of Problems</th>
<th>Today's solutions</th>
<th>Your company's Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1.</td>
<td>1.</td>
</tr>
<tr>
<td>2.</td>
<td>2.</td>
<td>2.</td>
</tr>
<tr>
<td>3.</td>
<td>3.</td>
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</tr>
</tbody>
</table>

- Present what you understand as your customers current Problems.
- Pause and ask if this is the right list? Anything missing?, Are the priorities right? This is GREAT FEEDBACK !!!! LISTEN !!!! (This is what your product should solve)
- Now Do the same with „Today’s Solutions“…LISTEN (this is your competition)
- Finally display your solution (THE BIG PICTURE).

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Discovery
Phase 2: Test your Hypotheses

- Understand your Customer's Job/workflow
- How do they interact with other departments, other companies (next potential customers!)
- What would make your customer change the current way they do things? (Price ?, Features ?, a new standard ?...)
- Ask: If you had a product like this (describe yours) what percentage of your time would you be using it? Is it mission critical? Nice to have?
- Become an expert in your customer's field / Problems.

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Discovery
Phase 2: Test your Hypotheses

Friendly First Contacts → „Problem“ Presentation → Customer Understanding

Use your network to answer:

• What are the industry trends?
• What are key unresolved customer needs?
• Who are the key players in the market?
• What should I read?
• Who should I know?
• What should I ask?
• What customers should I call on?

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Discovery
Phase 3: Test Product Concept

First Reality Check ➔ Product Presentation ➔ More Customer Visits ➔ Second Reality Check ➔ 1st Advisors

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Discovery
Phase 3: Test Product Concept

First Reality Check:

- Go back to those "qualified" 5-10 customers
- Invite as much company management as you can get (not just VPs, but directors and managers)
- Reflect with them what is your understanding of their problems, workflow etc
- If you LISTEN you will learn again a lot about your customer.
- Are you in sync with them or orthogonal?
- How well does your "envisioned product" solve their problems?
- Totally? Not at all? Do you need a new product Definition or new customers?
- Define the MINIMUM first feature set for first release (not new features!)
The Four Steps to the Epiphany

Customer Discovery
Phase 3: Test Product Concept

First Reality Check -> Product Presentation -> More Customer Visits -> Second Reality Check -> 1st Advisors

Product Presentation:

- Start again from scratch!
- The goal of the presentation is to test your revised assumptions about the product itself.
  - Reconfirm your product will solve a serious customer problem
  - Validate your product and features
- Develop a solution oriented presentation that describes the product in terms of solving the customer's problem.
- Draw the customers workflow describing:
  - Life before your product
  - Life after your product
- Leave away all the marketing fluff and detail the entire future of the product at least 18 months out, broken down into features by release.

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Discovery
Phase 3: Test Product Concept

More Customer Visits:

- Just as in Phase 1 go do the 50/10 approach
- Target CIO and VPs of branch operations
- Describe what problem your product is designed to solve.
- Describe why your company believes it is important to solve that problem
- Demo your product (even only certain parts) to help understand your solution or go through the 5 (no more) key features.
- No more than 20 minutes
- Ask them if the feature and role out fit their needs, what features on day one, in 18 months, what does a complete product look like?
- Ask the customer how they think your product is different? (New market, existing market?)
The Four Steps to the Epiphany

Customer Discovery
Phase 3: Test Product Concept

First Reality Check ➔ Product Presentation ➔ More Customer Visits ➔ Second Reality Check ➔ 1st Advisors

Second Reality Check:

• Coming back with more customer feedback you can now start to sort the reactions:
  • The customers love our product, no changes needed?
  • Customers like our product, but we have heard consistently that they want this or that feature at first customer shipment.
  • The customers can understand our product after a long explanation, but no one was jumping up and down to buy it.
  • The customers didn’t see a need for our product.
• As a startup your goal should be to be „fast to market“ implying getting your first release to paying customers as quickly as you can.

Source: The Four Steps to the Epiphany
Steven Gary Blank

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The Four Steps to the Epiphany

Customer Discovery
Phase 3: Test Product Concept

**First Reality Check**
**Product Presentation**
**More Customer Visits**
**Second Reality Check**

1st Advisors:

- During your customer visits you should think of who might be a potential advisor on your board.
- Advisors can help solve technical problems, introduce you to key customers, provide you with domain specific know-how and share business expertise and wisdom.
- In Customer Validation the advisory board process will be formalized.

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Discovery
Phase 4: Verify

- Verify the Problem
- Verify the Product
- Verify the Business Model
- Iterate or Exit

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Discovery
Phase 4: Verify

Verify the Problem
Verify the Product
Verify the Business Model
Iterate or Exit

Verify the Problem:

• Summarize everything you have learned about the problem
• Check whether you have the problem nailed or need another loop
• Capture what you have learned in a clear, precise Problem statement document
• Are you confident that you have nailed a customer problem that people are willing to pay to solve?
• If yes, Proceed, if not loop again.
The Four Steps to the Epiphany

Customer Discovery
Phase 4: Verify

Verify the Problem
Verify the Product
Verify the Business Model
Iterate or Exit

Verify the Product:

• Summarize everything you have learned about „your product“
• Verify first release features, subsequent release features, pricing, channel etc.
• Capture what you have learned in a clear, precise Expanded Product requirement Document.

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Discovery
Phase 4: Verify

Verify the Problem → Verify the Product → Verify the Business Model → Iterate or Exit

Verify the Business Model:

• You understand the customer’s problem
• You’ve nailed the product features
• Your product vision matches customer needs
• Now you need to re-run the financial model resulting in:
  • An Updated sales and revenue plan
  • A sound business and product plan.
• These will include data such as projected selling price, # of units in 3 years, lifetime value of each customer, channel and cost, length of sales cycle, third party support needed, direct support, cost per customer, cost to acquire a customer, market size, new/existing market and consequences, development costs: FCS, vision, manufacturing costs, partners etc etc.
• At the end you should know if the business will be profitable enough for your needs.

Source: The Four Steps to the Epiphany
Steven A. Blank
The Four Steps to the Epiphany

Customer Discovery
Phase 4: Verify

Verify the Problem → Verify the Product → Verify the Business Model → Iterate or Exit

Iterate or Exit:

- Have we identified a problem a customer wants solved?
- Does our product solve these customer needs?
- If so, do we have a viable and profitable business model?
- Can we draw a day in the life of our customer, before and after the purchase of our product?
- Can we create an organizational chart of users, buyers and channels?

- Keep all customer data you have acquired, it will be helpful in the next phase.

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

1. Customer Discovery
2. Customer Validation
3. Customer Creation
4. Customer Building

STOP

STOP

STOP
The Four Steps to the Epiphany

The Customer Development Model

Customer Discovery → Customer Validation → Customer Creation → Company Building

Customer Validation:
Build a repeatable sales road map for sales and marketing teams that will follow later.
Customer validation proves you have found a set of customers and a market who react positively to the product (by buying it).
Find a group of repeatable customers with a repeatable sales process that equals a profitable business model.

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Validation

Phase 1
Get ready
To sell

Phase 2
Sell to
Visionary
Customers

Phase 3
Develop
Positioning

Phase 4
Verify

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Validation
Phase 1: Get ready to Sell

Articulate a value proposition
Prelim Sales & Collateral Materials
Prelim Distribution Channel Plan
Prelim Sales Roadmap
Hire a Sales closer
Align Executives
Formalize Advisory Board

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Validation
Phase 1: Get ready to Sell

Articulate a value proposition:

• What does your company stand for?
• What does your Product do?
• Why should the customer care?
• Can you reduce your business into a single clear compelling message?
• This is the first step to the “elevator pitch”
• The VISION needs to be credible… “cuts costs by 50%” need to be proven...

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Validation
Phase 1: Get ready to Sell

Articulate a value proposition
Prelim Sales & Collateral Materials
Prelim Distribution Channel Plan
Prelim Sales Roadmap
Hire a Sales closer
Align Executives
Formalize Advisory Board

Prelim Sales & Collateral Materials:

• First figure out who you want to reach.

• Figure out how they typically retrieve information (web, data sheets, sales presentations, magazines, etc)

• Figure out through which channels this information should be distributed.

• Create materials in the format that best reach those customers.

Source: The Four Steps to the Epiphany
Steven Gary Blank

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The Four Steps to the Epiphany

Customer Validation
Phase 1: Get ready to Sell

Articulate a value proposition → Prelim Sales & Collateral Materials → Prelim Distribution Channel Plan → Prelim Sales Roadmap → Hire a Sales closer → Align Executives → Formalize Advisory Board

Prelim Distribution Channel Plan:

• The entire customer development process is predicated on developing a repeatable and scalable sales process.

• The elements to build your distribution channel plan are:
  • Channel “food chain” and responsibility
  • Channel discount and financials
  • Channel management

Source: The Four Steps to the Epiphany
Steven Gary Blank
Customer Validation
Phase 1: Get ready to Sell

Prelim Sales Roadmap:

• Your goal is to determine who your true customers are and how they will purchase your product.

• The elements to build your sales road map are:
  • Organization and influence maps
  • Customer access map
  • Sales strategy
  • Implementation plan

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Validation
Phase 1: Get ready to Sell

- Articulate a value proposition
- Prelim Sales & Collateral Materials
- Prelim Distribution Channel Plan
- Prelim Sales Roadmap
- Hire a Sales closer
- Align Executives
- Formalize Advisory Board

Hire a sales closer:

- You are not looking for a VP of sales
- You are looking for someone who is:
  - Aggressive
  - Wants a great compensation package for success
  - Have no interest in building a sales organization
  - Love to close deals
  - Isn’t ready to retire behind a desk

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Validation
Phase 1: Get ready to Sell

Align Executives:

- Selling a product implies a contractual commitment between the company and a customer on product features, delivery dates, liability.
- Executives need to review and agree on the following:
  - Engineering schedule, product deliverables and philosophy
  - Sales collateral
  - Engineering’s role in selling, installation, and post-sales support

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Validation
Phase 1: Get ready to Sell

Articulate a value proposition
Prelim Sales & Collateral Materials
Prelim Distribution Channel Plan
Prelim Sales Roadmap
Hire a Sales closer
Align Executives

Formalize Advisory Board:
- Until now have had advisory support on an informal basis
- Now you need to formally engage the people

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Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Validation
Phase 2: Sell to the Visionary Customers

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Validation
Phase 2: Sell to the Visionary Customers

Contact Earlyvangelists:

• During Customer Validation spend your time with true visionary customers, not mainstream customers.

• In Customer Discovery you have identified a number of customers, also probably some of the Earlyvangelist type.

• In this step the rubber meets the road i.e. Your task is to see if you can sell to early visionary customers before your product is shipping.

• Find the 5% that actually will buy in this phase.

• Having a sales closer already on board should help.
The Four Steps to the Epiphany

Customer Validation
Phase 2: Sell to the Visionary Customers

Sell and redefine Sales Roadmap:

• Can you sell to 3-5 early visionary customers before your product is shipping?

• You need to find Earlyvangelists that are high-level executives, decision makers and risk takers.

• You don’t need many, the goal is not to generate a whole lot of revenue, but to validate your sales roadmap.

• While finding customers that are saying YES, more important is to understand why those others are saying NO.

Source: The Four Steps to the Epiphany
Steven Gary Blank
Sell to channel Partners and redefine Channel Roadmap:

- In customer discover you defined a channel strategy.
- Now you need to see if you can get a preliminary order or at least a commitment from the channel.
- Having sold the product to Earlyvangelists that can enthusiastically become references will help.
- The questions „why would a customer buy“ can be answered through the discovery and validation you already did.
- Be careful not to mix-up sales to a channel and sales-out.
Customer Validation
Phase 3: Develop Positioning

Product Positioning → Company Positioning → Present to Analysts & Influencers

Source: The Four Steps to the Epiphany
Steven Gary Blank
Product Positioning:

- You do not yet necessarily need a Marketing team to do this.
- Best is customer development team with feedback from product development.
- Hmmm... am I selling into an existing market, resegmented or a new market?
- Depending on that answer your Product positioning will change.
- In an existing market you compete on features, price etc. (incremental improvement)
- In a new market you need to describe what problem your product will solve (transformational improvement)
- In a re-segmented market, is it price or niche?
Customer Validation
Phase 3: Develop Positioning

Company Positioning:

• Hmmm… am I selling into an existing market, resegmented or a new market
• Depending on that answer your Company positioning will change.
• In an existing market describe how your company is both different and credible
• In a new market, communicate the vision and passion of what could be.
• In a re-segmented market communicate the value of the market segment and the innovation your company brings to it.

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Validation
Phase 3: Develop Positioning

Present to Analysts & Influencers:

- In customer discovery you probably found analysts and influencers
- The task is now to take your initial positioning and get their feedback and insights
- If you are meeting with analysts understand what market they are specialists in (and only meet with those in your market !!)
- Tell them why your company is going to shake up that market and why your company is so important.

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Validation
Phase 4: Verify

Verify the Product → Verify the Sales Roadmap → Verify the Channel Roadmap → Verify the Business Model → Iterate or Exit

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Validation
Phase 4: Verify

Verify the Product: Show that you have a product that customers will buy and review all the objections and feedback you have been getting and the conclusions you have made.

Verify the Sales Roadmap: summarize everything you have learned and check to see if you have the selling process nailed or whether you need to loop again.

Verify the Channel Roadmap: Now that you have sold through a direct and indirect sales channel, review if your assumptions about the distribution channel were correct or not.

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Validation
Phase 4: Verify

Verify the Product ➔ Verify the Sales Roadmap ➔ Verify the Channel Roadmap ➔ Verify the Business Model ➔ Iterate or Exit

Verify the Business Model: Your product solves customer problems, you believe to have a repeatable, scalable business sales and distribution process, but is the business model profitable?

Now that you have real critical variables of your business (how much customers will pay, how much will it cost to sell...etc), you need to re-run your business model based on these criteria and see if the model is a profitable and viable business model.

Iterate or Exit: The really hard and impactful decision lays here. Do I need to go through phases 1-3 again (lack of understanding of the sales process)? or all the way back to Customer Discovery? Or am I confident that everything checks out?

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany
Customer Creation
The Four Steps to the Epiphany

The Customer Development Model

Customer Discovery → Customer Validation → Customer Creation → Company Building

Customer Creation:
Create end-user demand that drives that demand into the company's sales channel.
This step is placed AFTER customer validation to move heavy marketing spending AFTER the point where the startup acquires its first customers, allowing the company to control its cash burn rate.
Building a strong brand and heavy advertising only makes sense in markets where your customers understand your product or service.
# The Four Steps to the Epiphany

## Customer Creation

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<tr>
<th></th>
<th>Company Positioning</th>
<th>Product Positioning</th>
<th>Company Launch</th>
<th>Product Launch</th>
<th>Demand Creation Activities</th>
<th>Year One Objectives</th>
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<tr>
<td><strong>Existing Market</strong></td>
<td>Differentiation and credibility</td>
<td>Product differentiation</td>
<td>Credibility &amp; delivery</td>
<td>Existing basis of competition</td>
<td>create drive demand into the sales channel</td>
<td>market share</td>
</tr>
<tr>
<td><strong>New Market</strong></td>
<td>Vision and innovation in the new market</td>
<td>Defining new the market, the need, the solution</td>
<td>credibility and innovation</td>
<td>market education, standards setting, and early adopters</td>
<td>customer education, drive early adopters into the sales channel</td>
<td>market adoption</td>
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<tr>
<td><strong>Resegment an existing Market</strong></td>
<td>segmentation and innovation</td>
<td>Redefining an existing market &amp; product differentiation</td>
<td>segmentation, delivery and innovation</td>
<td>new basis of competition</td>
<td>educate users about what's changed in the market, drive demand into the sales channel</td>
<td>market reframing and new market share</td>
</tr>
</tbody>
</table>

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Creation

Phase 1
Get ready To Launch

Phase 2
Position Company & Product

Phase 3
Launch Company & Product

Phase 4
Create Demand

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Creation
Phase 1: Get ready to Launch

Market Type
Choose Market Type
Choose 1st Year Objectives

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Creation
Phase 1: Get ready to Launch

Market Type Questionaire:

**Customer Focus:** Does the Startup?
- Understand the Business you are in?
- Understand what you do?
- Understand the top 3 problems you have?
- Do you believe the startup’s product will solve these problems?

**Market Focus:**
- Are there other similar Product on the market?
- ...

**Competition:**
...

**Positioning:**
...

**Trends:**
...

Source: The Four Steps to the Epiphany
Steven Gary Blank
Chosing the right Market Type can save you from making expensive errors. For example if you are in a new market no amount of spending on demand creation and branding would create customers (remember WebVan!).

Equally important the revenue projections would be unrealistic.

Assess the risk attached to each market type:

**Existing Market:** dominance of competitors and resulting cost to enter the market

**New Market:** defining the new market in a way that aligns the user’s perceptions of their problem and your solution.

**Resegmented Market:** a combination of the two above.
The Four Steps to the Epiphany

Customer Creation
Phase 1: Get ready to Launch

Choose 1st Year Objectives:

Now that the market type has been selected, you can define year one revenue, spending, market-share objectives for both customer creation and sales can be set.

Existing Market: take as much market-share as possible -> implications

New Market: create the market and get the adoption of this market accepted.

Resegmented Market: the difficulties of both of the above.

Source: The Four Steps to the Epiphany
Steven Gary Blank
Customer Creation begins with thinking and planning (Strategy) rather than just spending on marketing communications (execution).

What the company needs now is help in strategic communications to:

- Position the company and its products
- Articulate its message and refine its audience
- Get industry influencers and messengers to communicate the company’s message

You will need to evaluate the PR agency just as much as your customers. They need to understand your business and be able to "consult" you rather than just scheduling press conferences.

Source: The Four Steps to the Epiphany
Steven Gary Blank
Positioning Audits:

Before you spend money on positioning, you need to get some external facts with a market tool called "audit".

An audit is an unbiased way of learning how others perceive your company and products. You should gather information on: Recognition, Market Focus, Customer Focus, Product Focus, Positioning, Competition, Sales/Distribution, Strengths/Weaknesses, Trends, Acquisition Information....

Getting honest feedback may be a shock, but helps you close the perception gap and spend your comms budget wisely.

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Creation
Phase 2: Position the Company and Market

Positioning to Market type:

Existing Market: creating the notion that your company is both different and credible.

New Market: communicating a vision and a passion of what could be.

Resegmented Market: communicate the value of the market segment you have chosen and the innovation your company brings to it.

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Creation
Phase 3: Launch the Company and Product

Select Launch Type → Select Customer Audience → Select the Messengers → Craft the Messages → Message Context

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Creation
Phase 3: Launch the Company and Product

Select Launch Type

Select Customer Audience → Select the Messengers → Craft the Messages → Message Context

Select Launch Type:

**Existing Market:** Onslaught Launch (full frontal assault on the market)

**New Market:** Early Adopter Launch (targeted low-cost approach, but to gain maximum mind share in those early adopters)

**Resegmented Market:** Niche Launch (puts all its demand creation effort into acquiring a single identifiable market segment and customer. Depending on the Niche you are choosing this could be handled as onslaught or early adopter Launch)

Source: The Four Steps to the Epiphany
Steven Gary Blank
Customer Creation
Phase 3: Launch the Company and Product

**Select Customer audience:**

**Existing Market:** the launch audience is the user or organization responsible for choosing (not necessarily using) the product

**New Market:** the launch audience consists of potential Earlyvangelists

**Resegmented Market:** the launch audience is the user or organization who will appreciate the segment you have chosen.

Source: The Four Steps to the Epiphany
Steven Gary Blank
Select the Messengers:

In order to communicate a new idea or product you only need to reach a few well placed and highly leveraged individuals called “Messengers”.

(Malcom Gladwell: *The Tipping Point*)

Messengers are very networked, they spread the news, others rely on their opinion.

There are three types of Messengers your company needs to educate:

- **Experts**: These could be industry analysts, private research firms.
- **Evangelists**: your Earlyvangelists could be these
- **Connectors**: individuals who seem to know everyone, they can bridge across multiple worlds.
The Four Steps to the Epiphany

Customer Creation
Phase 3: Launch the Company and Product

Select Launch Type → Select Customer Audience → Select the Messengers → Craft the Messages → Message Context

Craft the Messages:

The messages you deliver at launch are the cumulative result of all the positioning work you have done to date.

Message need to be SHORT, memorable and "sticky" and needs to immediately link your company to that message.

There are many greatly engineered advertisements that everyone remembers, but also for many of them you cannot remember for which company the advertisement was for...

Something like: "7 UP...the Un-Cola" says what it is not and ties it to the brand.

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Creation
Phase 3: Launch the Company and Product

Message Context:
No Message is an Island!
All messages operate in context.
While you are releasing your message, hundreds of other messages from other companies are also being “aired”.
How can your message shine through that fog? Stay memorable and “sticky”.
Take the current economical, political and popular hot topics of today into account when crafting your messages. Maybe you can relate to one of them that lets your product and company “shine through the fog”.

Source: The Four Steps to the Epiphany
Steven Gary Blank
Customer Creation
Phase 4: Create Demand

- Demand Creation Strategy
- Demand Creation Measurements
- Iterate or Exit

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Creation
Phase 4: Create Demand

**Demand Creation Strategy:**

Select a strategy that matches First-Year Objectives

**Existing Market:** create qualified end-user demand and drive it into the sales channel

**New Market:** educate customers about the market and drive the early or niche adopters into the sales channel.

**Resegmented Market:** educate customers about the new benefits that resegmenting the market has created and drive demand into the sales channel.

Source: The Four Steps to the Epiphany
Steven Gary Blank
Demand Creation Measurements:

Demand Creation budgets are the largest components of an ongoing marketing department.

The activities are also more „art“ than „science“ !! but they need to be honestly measured in their outcome and corrections taken when they fail, and some will fail.

Understanding where the cost per customer is cheapest is extremely valuable.

Also understanding where there are more customers to be had.

So a balance between scalability and cost efficiency can be met.

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Customer Creation
Phase 4: Create Demand

**Demand Creation Strategy** → **Demand Creation Measurements** → **Iterate or Exit**

**Iterate or Exit:**

While at this stage the company is “off the ground” delivering revenue, demand creation is driving end user demand into the sales channel, you might still want to loop back on some of the positioning you have done.

Maybe your customer creation is not giving you as many customers as you anticipated and only slightly changing some of your messaging could give you the bang that you wanted (Diet Beer, Light-Beer).

At the end decide if you should loop or Exit.

Source: The Four Steps to the Epiphany
Steven Gary Blank
Customer Creation
Phase 4: Create Demand

Iterate or Exit:

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Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany
Company Building
Company Building:
The company transitions from its informal, learning and discovery oriented customer development team into formal departments with VPs of Sales, Marketing and Business Development. Premature scaling is the bane of startups.

Source: The Four Steps to the Epiphany
Steven Gary Blank
Now you are at a stage where you need to move from being a start-up to being a company with mainstream customers. This evolution requires three actions:

• Build a mainstream customer base beyond the first Earlyvangelist customers
• Build the company’s organization, management and culture to support greater scale.
• Create fast-response departments to sustain the climate of learning and discovery that got the company to this stage.
The Four Steps to the Epiphany

Company Building

Phase 1
Reach Mainstream Customers

Phase 2
Review Management/Create Mission Culture

Phase 3
Transition to Functional Departments

Phase 4
Build Fast-Response Departments

Chasm

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Company Building
Phase 1: Reach Mainstream Customers

Understanding which market you are in helps
You understand where and how much effort you will need to
move from the Earlyvangelists to the Mainstream Customers.
Also to estimate future sales and resulting cash flow it's essential
to approach sales growth with the realities of the market type.

Source: The Four Steps to the Epiphany
Steven Gary Blank
Company Building

The (revised) Technology Lifecycle Adoption Curve

Customer Development

- Innovators
- Early Adopters
- Early Majority
- Late Majority
- Laggards

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Company Building

The (revised) Technology Lifecycle Adoption Curve

Existing Market

Some Cracks
But no Chasm!
Company Building

The (revised) Technology Lifecycle Adoption Curve

%

New Market

Huge Chasm

Innovators
Early Adopters
Early Majority
Late Majority
Laggards

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The (revised) Technology Lifecycle Adoption Curve

Resegmented Market
The Four Steps to the Epiphany

Company Building: Some Realities

New Market vs Existing Market

Year 0 Year 1 Year 2 Year 3 Year 4 Year 5 Year 6 Year 7

Existing Market

New Market

Source: The Four Steps to the Epiphany
Steven Gary Blank

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The Company board now has a good sense of what skills the CEO and executive team have as entrepreneurs. This evaluation though is not looking at what they have achieved, but forecasting what they are capable of in the future. These founding executives might have been the "superstars" as individual contributors, the next phases of the company though need more a leader that is mission and goal driven.

So the very attributes that made these executives successful at startup, might be the reason of their own dismissal by the board for future growth.

Source: The Four Steps to the Epiphany
Steven Gary Blank
We have been focussing our attention towards customers. Have we communicated our Vision and gained buy-in by the board and the executive team? We need to sell the “Vision” internally just as effective as externally. The company is growing quickly, new people are joining almost every day. We need to put that Vision to paper in a crisp way so that those joining can quickly comprehend and buy-in and own than Vision.

We need Vision and Mission statements. This aligns the Company.

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Company Building
Phase 4: Building Fast-Response Departments

Mission-Centric Management has five unique parts:

1. Mission intention (the why you are doing things)
   - 10M$ in sales make our cashflow breakeven and 45% make us profitable.
2. Employee initiative
   - Success in a startup is about searching, finding exploiting opportunities.
   - Employee initiative is part of their implicit employee contract.
3. Mutual trust and communication
   - Good news should travel fast, bad news should travel even faster.
   - Both executives and employees trust each other in executing their roles.
4. “Good enough” decision making
   - In general the company that consistently makes and implements decisions rapidly gains a tremendous, often decisive competitive advantage.
5. Mission synchronization
   - Synchronization Meetings now have three functions:
     1. Ensure that all departments still understand the corporate mission
     2. All department missions are mutually supportive
     3. CEO understands and approves the way each department will execute its mission.

Source: The Four Steps to the Epiphany
Steven Gary Blank
Create an Information Culture:

Executives need three basic views of information to truly understand what is going on:

1. First-hand knowledge
2. An overall view
3. The view from the eyes of customers and competitors

Source: The Four Steps to the Epiphany
Steven Gary Blank
The Four Steps to the Epiphany

Company Building
Phase 4: Building Fast-Response Departments

Management is focused on inspiring, guiding, and supporting committed employees and encouraging them to perform freely within set limits.

Do:
- reward (informed) risk-taking
- Learn to delegate (difficult as the company founder)
- Reward initiative
- Reward taking ownership

Don't:
- micro-manage
- Try to keep control of all

Source: The Four Steps to the Epiphany
Steven Gary Blank
VC / Industry Q&A