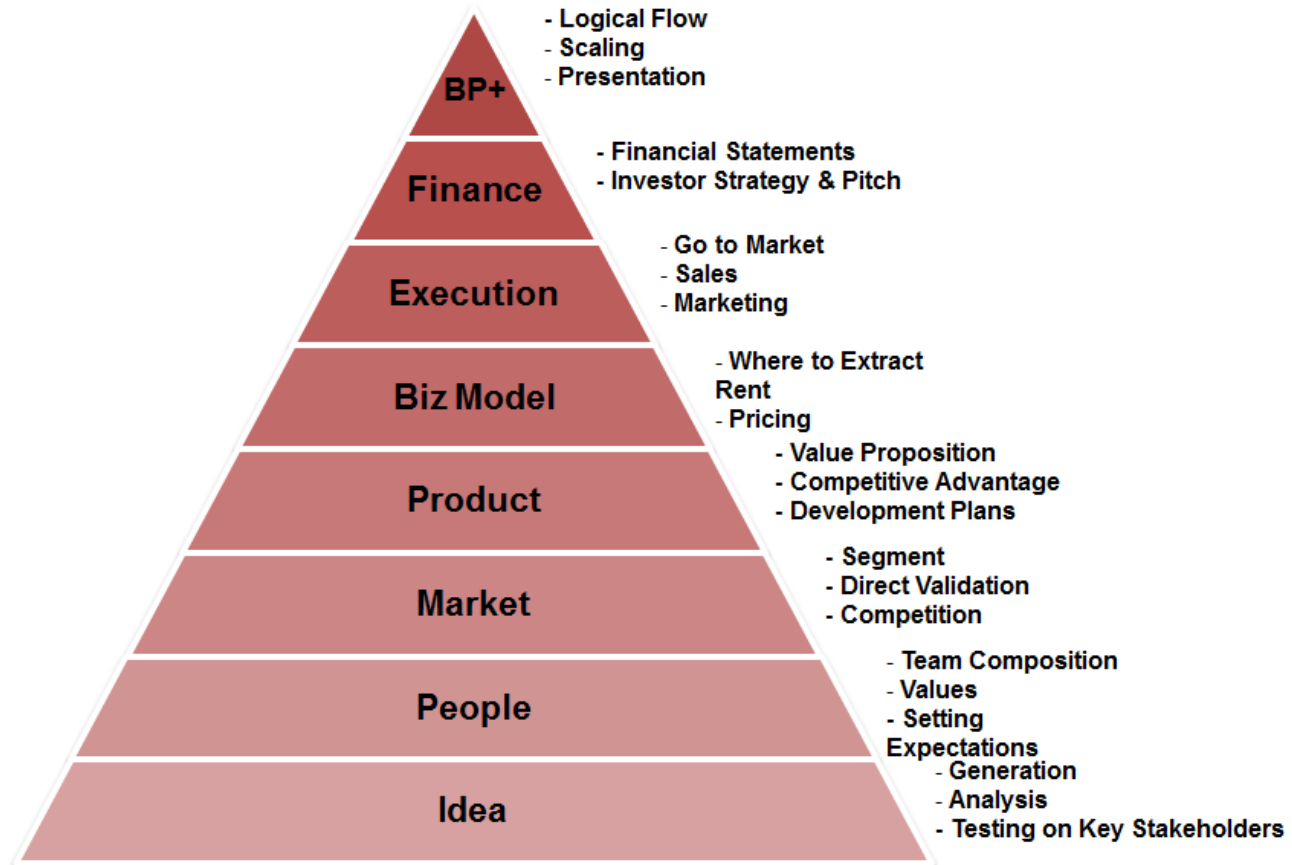# Review, Next Steps and Team Formation

Lecture 4
GSL Peru 2014

Housekeeping

- Homework due Monday at beginning of class
  - Please submit printed copy
  - Individual work
- Do not forget the pitch excercise
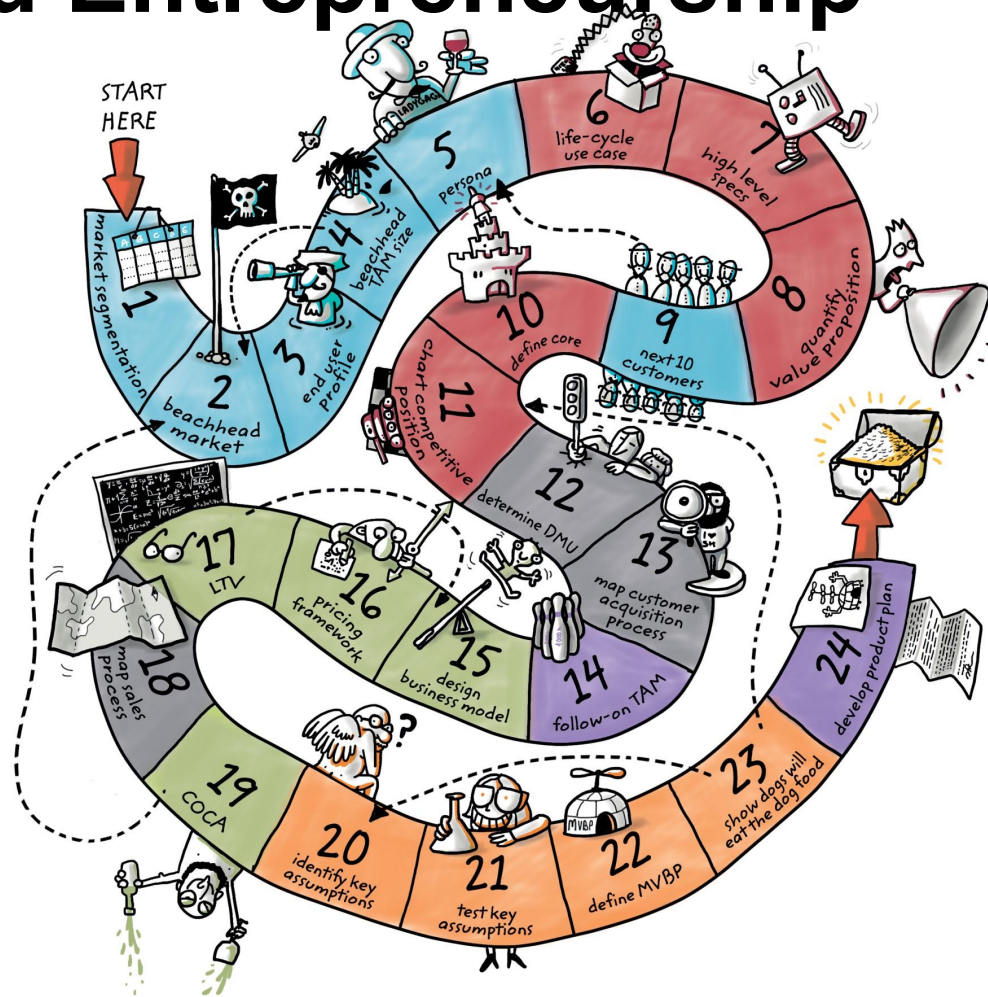- Will try to provide presentation ahead of time
- GSL website - http://gsl.mit.edu/program/peru-summer-2014
- No video recording
- Name Tag/Badges

General Flow of Class

Pyramid from bottom to top:

- **Idea** — Generation, Analysis, Testing on Key Stakeholders
- **People** — Team Composition, Values, Setting Expectations
- **Market** — Segment, Direct Validation, Competition
- **Product** — Value Proposition, Competitive Advantage, Development Plans
- **Biz Model** — Where to Extract Rent, Pricing
- **Execution** — Go to Market, Sales, Marketing
- **Finance** — Financial Statements, Investor Strategy & Pitch
- **BP+** — Logical Flow, Scaling, Presentation

MIT   GS1   M movistar

Disciplined Entrepreneurship

Review - Ideation

- Myths about Entrepreneurs and Startups
- Types of Innovations
- neXt framework
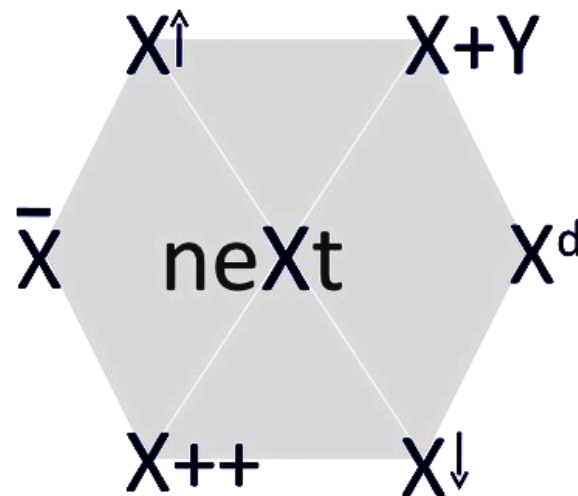
Review - Improvisation and Innovation

- Play
- Fail
- Say YES AND
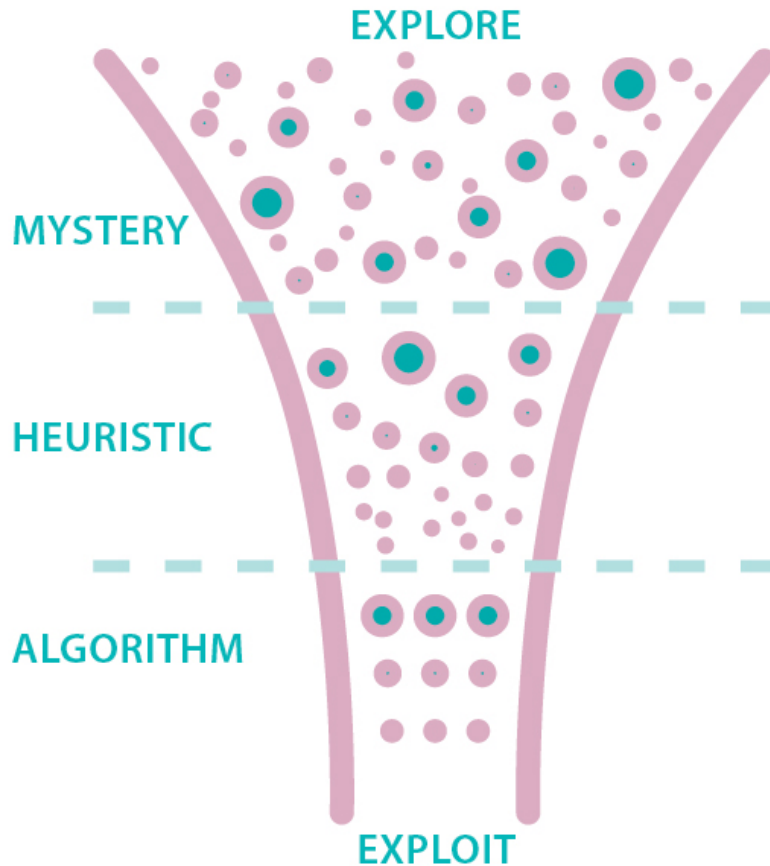- Listen - keep an open mind
- Play the game
- Relax and have fun!

Review - IDEO's Rules in Brainstorming

- One conversation at a time
- Stay focused on topic
- Encourage wild ideas
- Build on the ideas of others
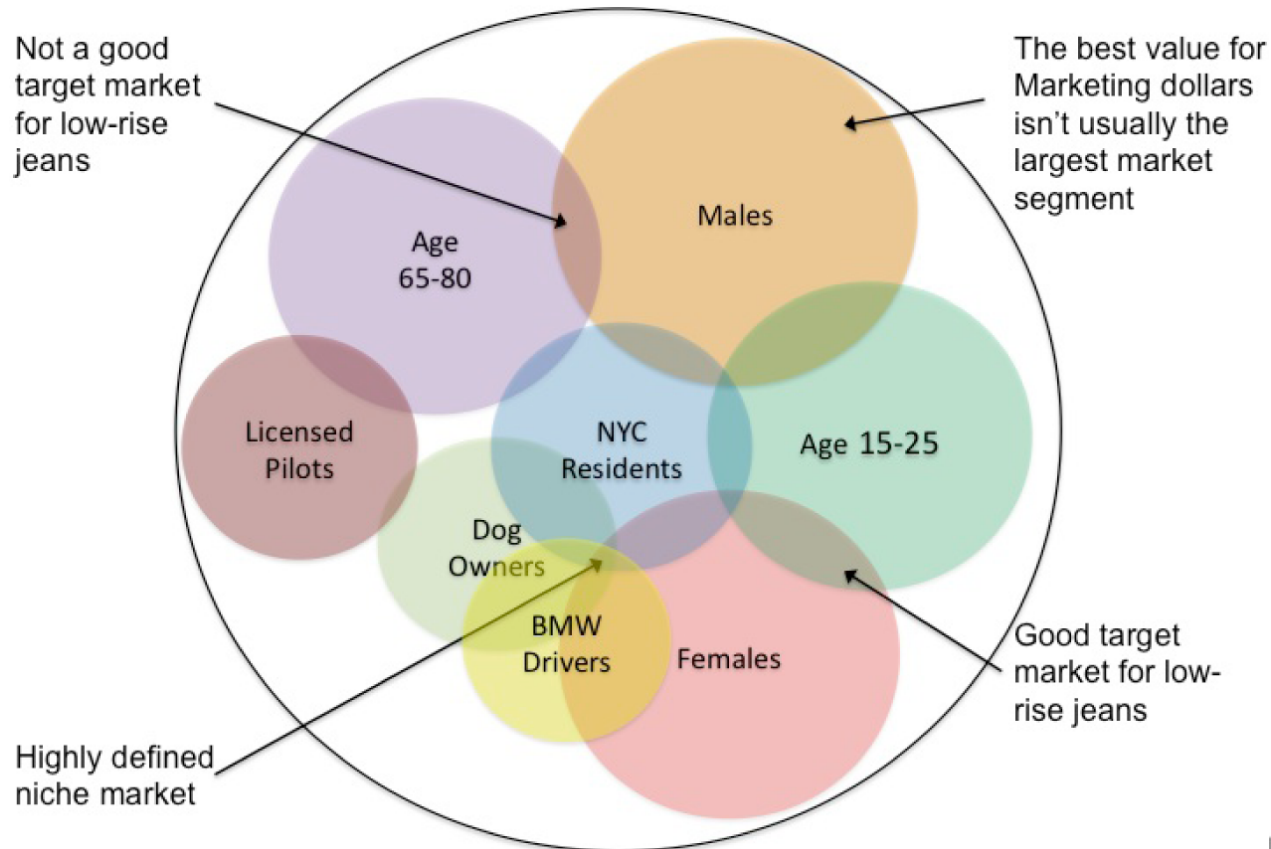- Defer judgment
- Do not fear failure

Knowledge Funnel

- Mystery
  - Exploration of the problem
  - Just like our idea generation excercise
  - Create many ideas as possible
- **Heuristic**
  - Use rule of thumb (educated guess) to narrow down scope
- Algorithm
  - convert rule of thumb to a formula

Making Ideas Better
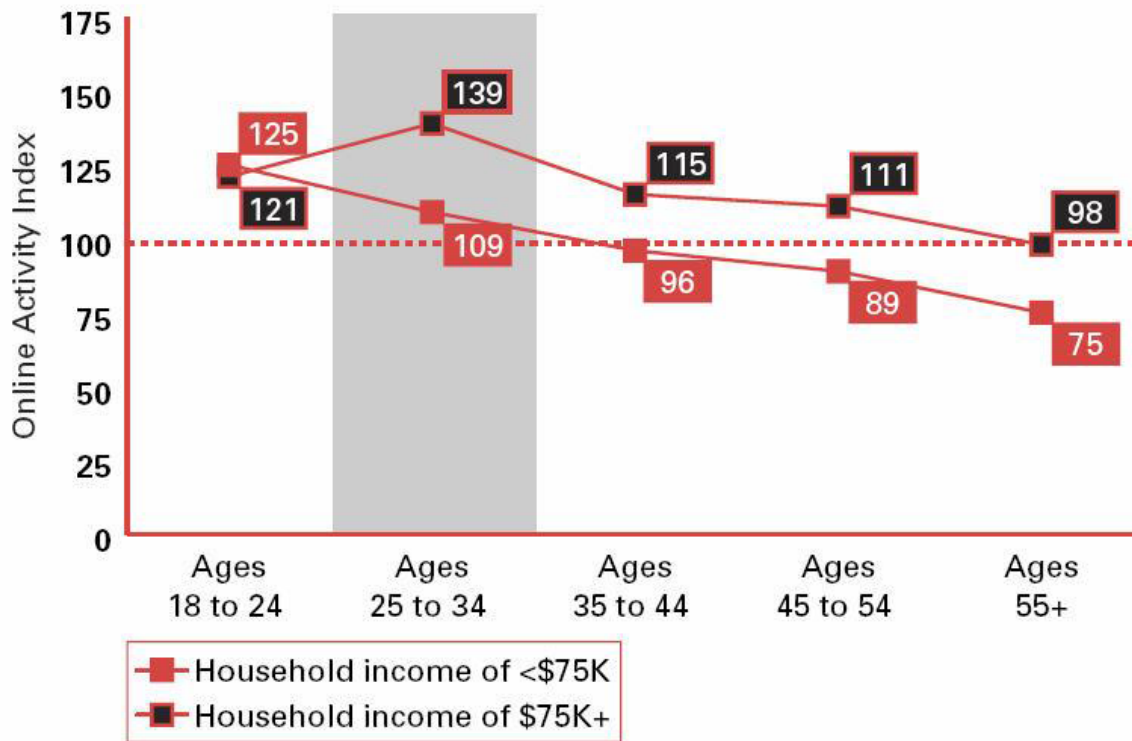

Roger Martin's
Knowledge Funnel

Market/Market Segmentation

Not a good target market for low-rise jeans

The best value for Marketing dollars isn't usually the largest market segment

Age 65-80

Males

Licensed Pilots

NYC Residents

Age 15-25

Dog Owners

BMW Drivers

Females

Good target market for low-rise jeans

Highly defined niche market

Target Customer Definition

Online Activity Index by age group:

Age group	Household income of <$75K	Household income of $75K+
Ages 18 to 24	125	121
Ages 25 to 34	139	109
Ages 35 to 44	96	115
Ages 45 to 54	89	111
Ages 55+	75	98

Legend:
- Household income of <$75K
- Household income of $75K+

Target Audience:
- Males
- 18-34 years old
- Online
- Making $75K+
- 26-30 million

Target Audience Interests:
- Females (70%)
- Sports (50%)

Source: ComScore Media Metrix

Source: Juniper Research, "Demographic Profile of Young Affluents"

Example - Target Customer Profile

|	
Gender	Male, female
Age	17-40 y.o.
Region	Moscow (during initial growth stage)
Occupation	Student, young professional, internal migrant, middle management
Social level	Medium, high
Characteristics	Has a smartphone
User category	Early adapters, technologically advanced
Other	Active users of social networks, outgoing personalities

Ride Sharing

Step #4 - Beachhead Market

- Select one opportunity to pursue with focus.
- Does not have to be the best; entry point into the market as the whole.
- Requires sufficient size, profitability and significance for future success of the startup.
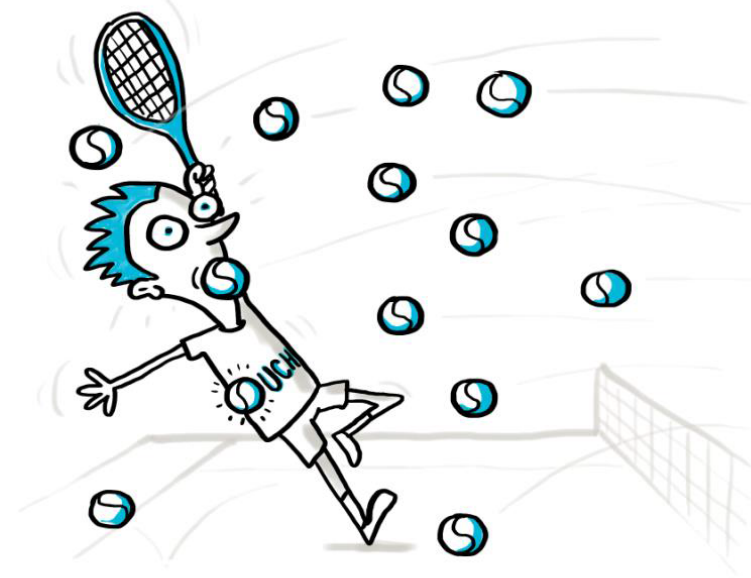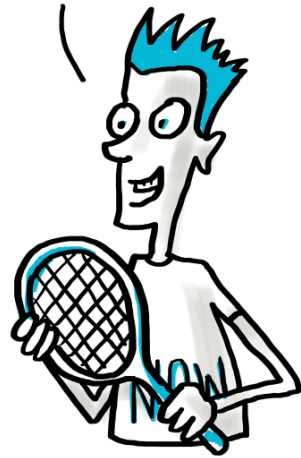
Who and Where are these paying customers?

Persona

Twitter | Facebook | Google Buzz | digg it | LinkedIn

18-40 years old

Urban (Europe, Russia)

University degree

Weekend traveler

Middle manager

Single

Adventurous

Brand conscious

Outgoing

Open minded

anotel
Budget Boutique Accommodation

ANSWER: WAY TOO GENERAL

MIT   GS1   M movistar

Persona - Better

Persona - Best

Chuck Kirby, Facilities Manager, IBM NE Data Center in Littleton, MA

•20K Blade servers today growing at 15% per quarter for past two year and for the foreseeable future

•Second generation American

•Lives in Medford

•Medford High to Middlesex Community College

•Moved to Winchester

•Family with 2 kids (12, 15)

•Mid-career, many years at company, technical, maintenance focus, vocational degree
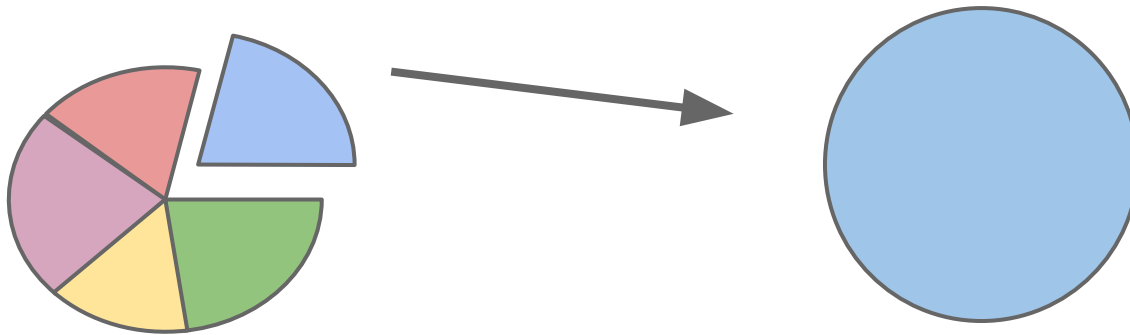
Persona - Best

- Been in job for 5 years and seen three managers already

- Promotion path forward is to manage more facilities

- AFCOM, Uptime Institute, Green Grid, starting to read blogs (Hamilton & Manos)

- Ford 150 pickup truck, Beeper always on, volunteer fireman mentality

- Customers' Customer and Their Priorities (think mindset of a utility customer)

1. Reliability, 2. Growth, 3. Costs, 4. "Greeness" – PUE
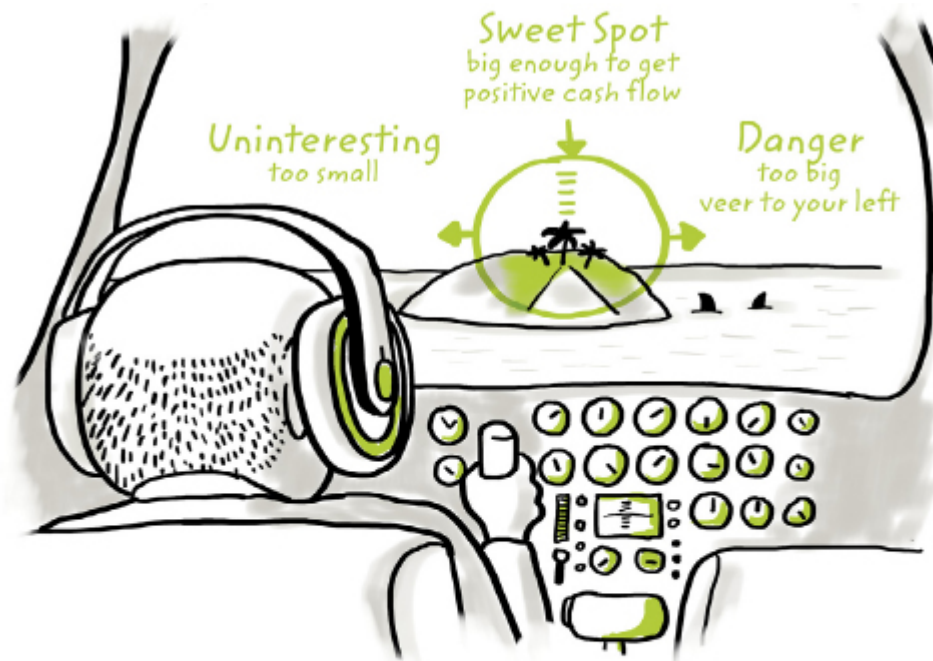
Key to Persona Development

- It must be a real person
- Be visual
- Deeper than demographics
- Understand All Dimensions: Rational, Emotional and Social
- Priorities
- What do they fear most in the world?
- What motivates them more than anything else?
- What "water holes" do they go to?
- i.e., where do they congregate with others like them?
- Do this as a team – it will help unify your team and will get everyone on the same (and proper) wavelength

Total Addressible Market (TAM)

Amount of annual revenue that the business would earn if you had 100% market share.
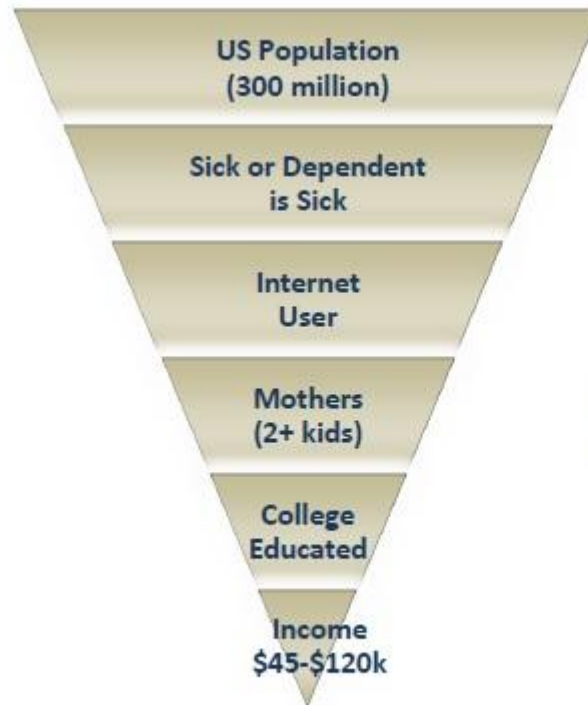
TAM Sizing for Beachhead Market

TAM Example

Funnel (top to bottom):
- US Population (300 million)
- Sick or Dependent is Sick
- Internet User
- Mothers (2+ kids)
- College Educated
- Income $45-$120k

6.3 million mothers

6.3	million mothers
4	consultations per year
x $7.99	per consultation

= **$201 million/year**

Competiton

- WHO do we compete with?
- HOW do we compete?
- Know where they are strong/weak
- Know where YOU are strong/weak
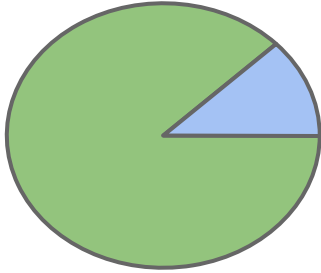- WHY will some set of customers choose us?

Porter's Competitive Advantage

- Lower Cost
- Differentiated (Innovation)
- Focus

Competition - Key Factors

- Ownership and control of strategic resource
  - Cost Advantage
  - Relationship
  - Human capital
  - Proprietary Technology
  - Switching cost
- Differentiation
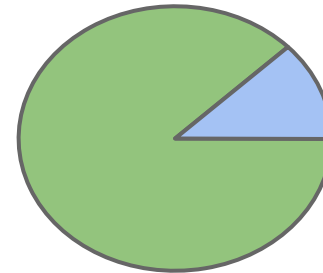- Sustainability
- Statisfy customers

Market Strategies

**Compete FOR the Market
(You set the price)**

**Compete IN the Market
(Market sets the price)**

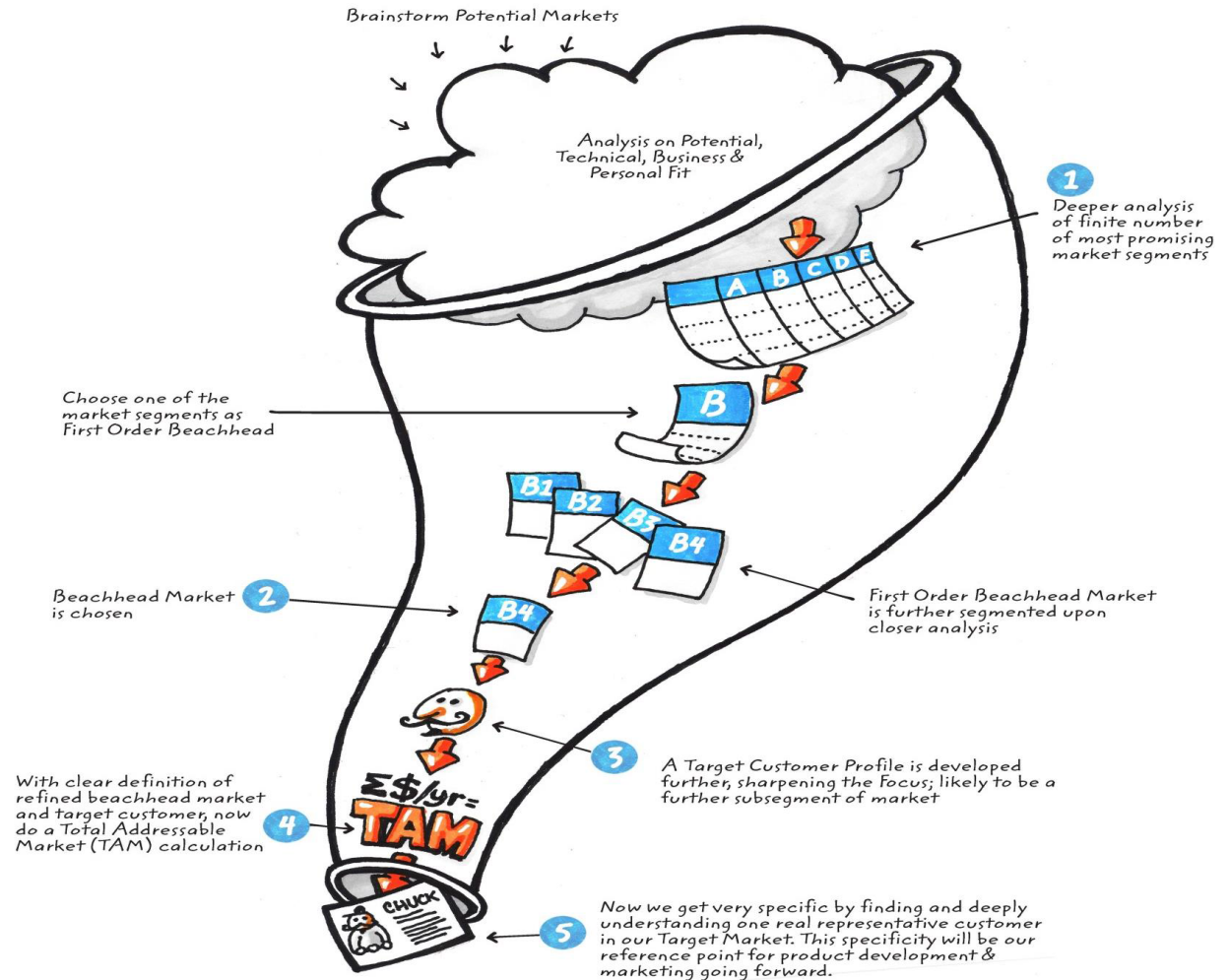**Enter EXISTING Market
(Market sets the price)**

**Enter/Create NEW Market
(You set the price)**

Don't Underestimate Competitors

- They have all of the customers
- They have proven products and more being developed
- They have infrastructure and money
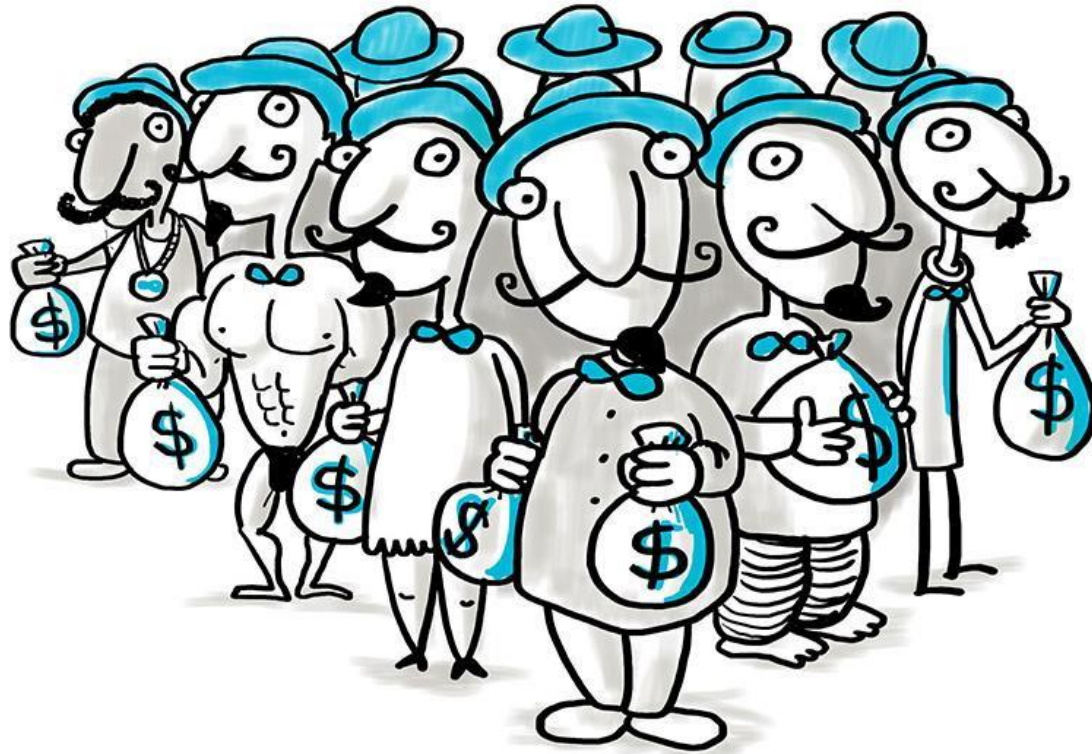- They have many friends
- They will respond!

Summary
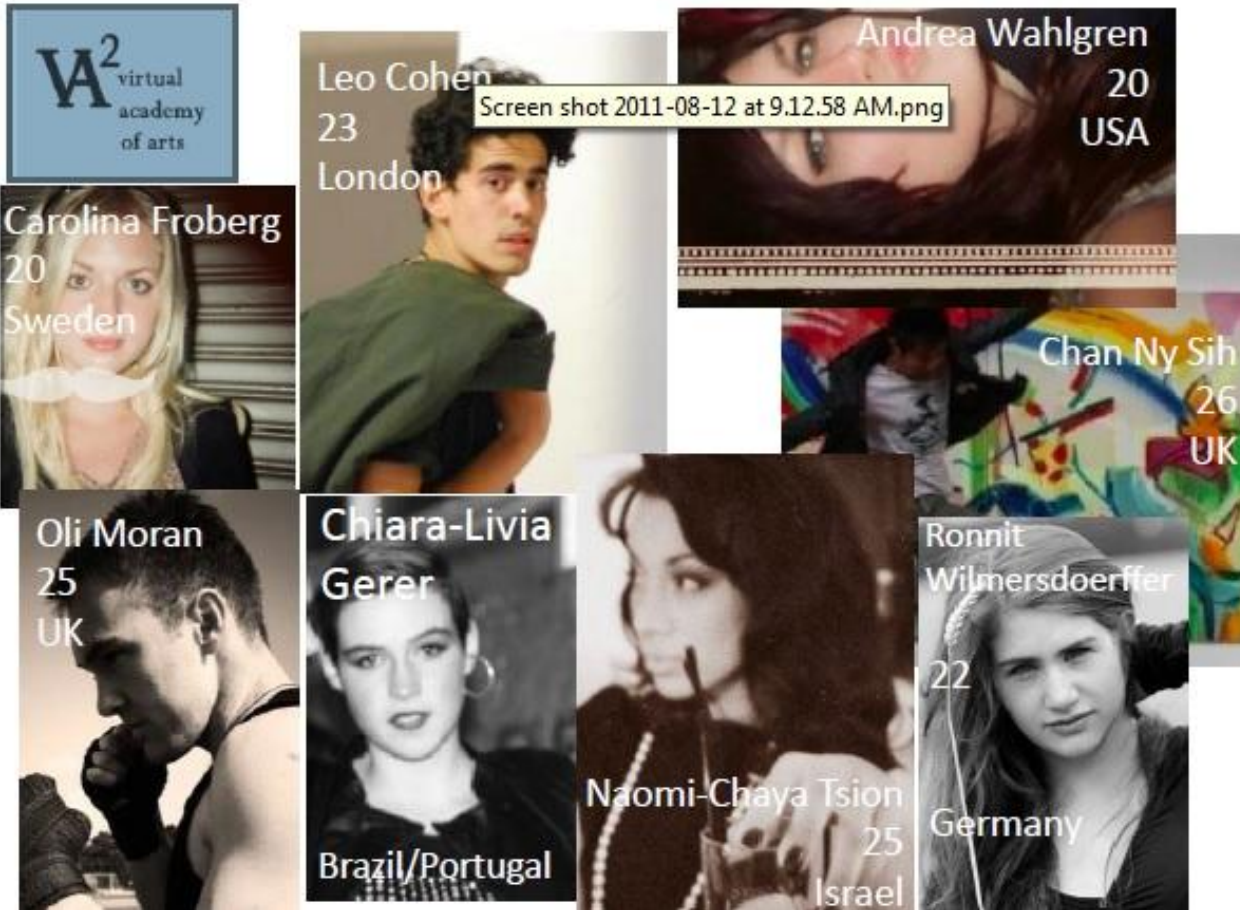

THE JOURNEY FOR THE **HOLY GRAIL** OF **SPECIFICITY**

Step #9
Find the First Ten Customers!

Target Customer Example

Target Customer Example

	Project Owner – Location	Total MW Installed	Name/Contact Info (withheld)	Contacted
1	Waste Management – City Name, State	9.8	Site owner	Y
2	Casella Waste Systems – Morrisonville, Clinton County, NY	4.8	Site owner	Y
3	Innovative Energy Systems, Inc. Waterloo, NY	18.4	3rd Party Oper.	N
4	Waste Management – City Name, State	16.8	Site owner	Y
5	Waste Management – City Name, State	16.5	Site owner	Y
6	Innovative Energy Systems, Inc. City Name, State	12	3rd Party Oper.	N
7	Waste Management – City Name, State	9.8	Site owner	Y
8	Waste Management, City Name, State	7.9	Site owner	Y
9	Fortistar Methane Group, City Name, State	7.34	3rd Party Oper.	Y
10	Fortistar & Waste Management, City Name, State	6.9	3rd Party Oper./Site Owner	Y

Team Formation

What do VC's look for in a startup?

1. Opportunity/Problem - Market
2. Growth - TAM
3. Competition
4. Revenue Potential - Market Share
5. A **team** that has entrepreneurs with unique insights

Management Team

- Good management team can overcome mediocre business plan.
- A good team is more important than ideas!
- "Ideas mean something, but execution means far more." - Paul Graham

Why?

- An idea by itself has very little value.
- Ideas are dime a dozen.
- An idea is not tangible.
- Much easier to change the idea than to change the team.
- Plenty of ideas in the startup world. VC wants to see results.

Startup Failures

- Wrong management team is major cause of startup failure.
- Co-Founding with friends or family. Social connection only leads to unstable and possibly toxic management.
- Founder roles change over time.
- Incorrect equity split leads to resentment.

Change in Roles over Time
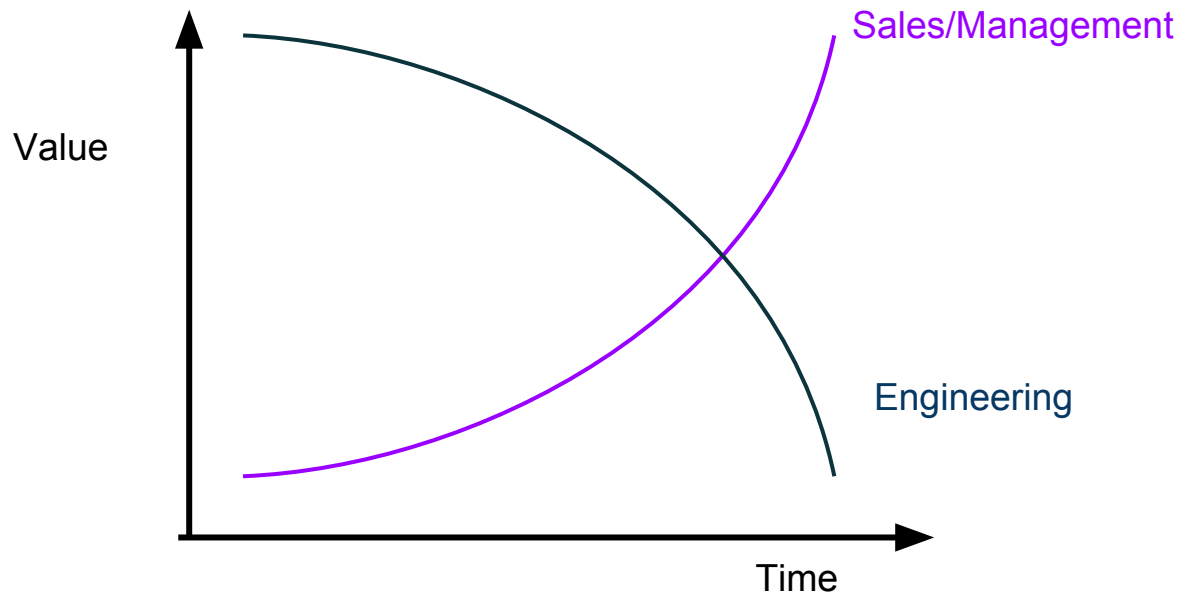
Sample Organizational Chart
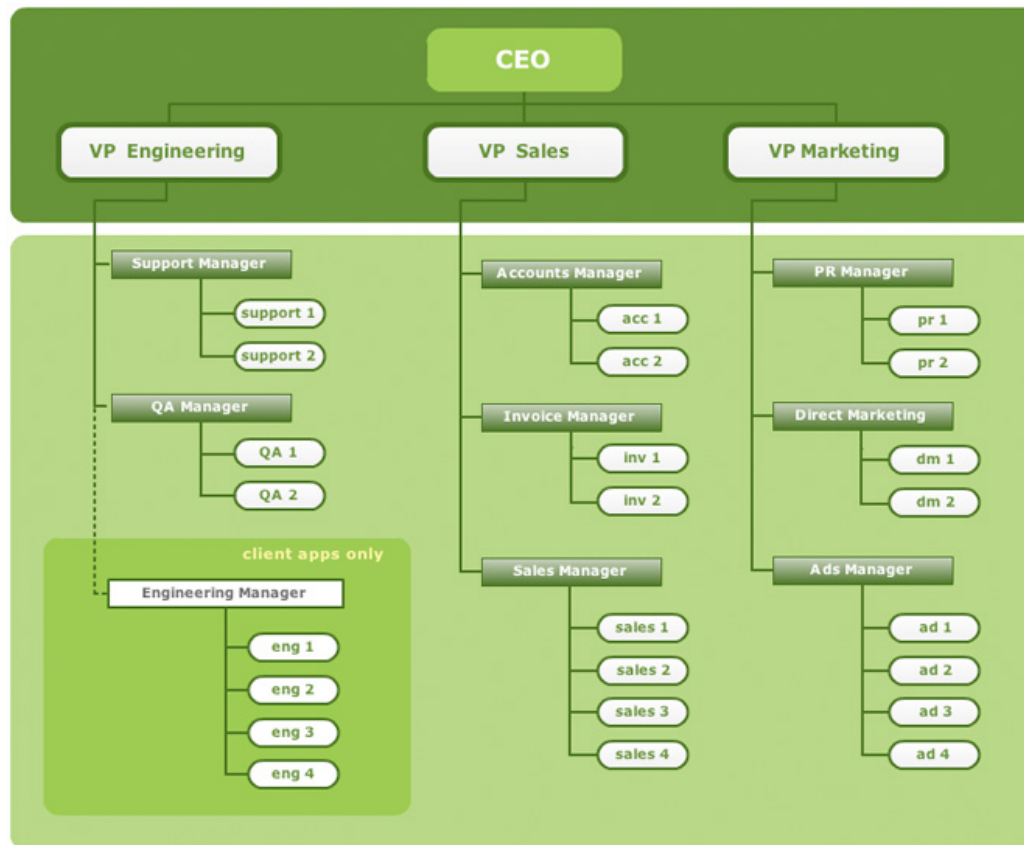
Desired Characteristics

- Drive
- Entrepreneurial instincts
- Domain knowledge
- Intelligence
- Track record
- Credentials
- Past collaboration
- Shared vision, values and passion

Company Culture Issues

- **MBA/Sales driven**
  - Tend to focus on business model innovation versus technological innovation
  - Overlook technical/interaction issues
- **Engineering driven**
  - Heavy focus on technology
  - Too research oriented and not market oriented
  - Lack of focus on business model

Avoiding Issues

- Shared Vision
- Shared Commitment
- Ways to resolve disagreements
- Mix of Skills

References

- 15.390 New Enterprises, Bill Aulet
- http://brandalyzer.wordpress.com/2014/03/28/why-the-team-means-more-than-the-idea-in-a-start-up/