UCI New Venture Competition 2020

From Problem to Business
Professor Larry Wilk

UCI Paul Merage School of Business
Beall Center for Innovation & Entrepreneurship
A BIG Thank You to Our Sponsors

Agenda

5:00 pm - 5:30 pm Networking
5:30 pm - 6:30 pm Workshop
6:30 pm - 7:30 pm Snacks and Mentoring
RULES & REQUIREMENTS

YOUR IDEA

➢ Must be an ORIGINAL idea
➢ Not in existence before January 2018
➢ In pre-incubator form
➢ Have not received financial backing exceeding $10,000 in total by professional 3rd party incubators, accelerators, existing companies or VCs (Angels and Friends/Family not included) at the time of the concept paper submission

PARTICIPATION

➢ Open to ALL UCI graduate & undergraduate students
➢ Open to UCI faculty, staff and alumni
➢ Open to the community/Non-UCI
➢ Team Size:
  o 2 registered UCI students
  o 3-member minimum
  o 4-members recommended
  o 6-member maximum
Make sure you sign up for Kontess! UCI New Venture Competition 2020 is utilizing Kontess as a platform for teams to communicate and for participants to get updates. Use the platform to create your team or join a team. Go to ucinvc.kontess.com to learn more.
Is my Idea a Valid Business Model?
A Business Model Describes How You Will

✔ Create
✔ Deliver
✔ Capture

Value
Your Objectives

- **Viable**
- **Feasible**
- **Desirable**
What Assumptions Have to Come True?

- There are enough customers to buy my product at a profit
- We can bring the product to market
- We have an unfair advantage that will make us successful
- We’re better than the competition
• The Business Model Canvas
• Validate the Hypothesis
The Business Model Canvas
Customer Segment

Who are we creating value for?
Customer – Segments

• Group Customers Based on:
  • Unique offer/product requirements
  • Different distribution channels
  • Preferred Sales methods & communication model
  • Revenue & Profit Potential
<table>
<thead>
<tr>
<th>Question</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>What are the unique segments? Business, consumer, government? Mass market or niche?</td>
<td>Electric toothbrush:</td>
</tr>
<tr>
<td></td>
<td>- Kids</td>
</tr>
<tr>
<td></td>
<td>- Adults</td>
</tr>
<tr>
<td></td>
<td>- Seniors</td>
</tr>
<tr>
<td>Primary vs. secondary markets? Territory?</td>
<td>- Dentists</td>
</tr>
<tr>
<td></td>
<td>- U.S. first</td>
</tr>
</tbody>
</table>
Value Proposition

Validate your Idea/Concept
<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is the problem you’re solving?</td>
<td>Customer - Cabs are hard to find. Don’t know the fare. Don’t know the driver. Wait is too long. Not enough cash. Safety.</td>
</tr>
<tr>
<td>What pains are the customers experiencing?</td>
<td></td>
</tr>
<tr>
<td>What gains are we delivering?</td>
<td></td>
</tr>
<tr>
<td>What bundle of products and services are we offering?</td>
<td></td>
</tr>
<tr>
<td>What’s unique?</td>
<td>New market – car sharing built on cab base</td>
</tr>
<tr>
<td>Is this a new entry in a new area or a new entry into</td>
<td></td>
</tr>
</tbody>
</table>
• The Value Proposition Canvas
Customer Pains

Trigger Questions

Pains describe anything that annoys your customers before, during, and after trying to get a job done or simply prevents them from getting a job done. Pains also describe risks, that is, potential bad outcomes, related to getting a job done badly or not at all.

Use the following trigger questions to help you think of different potential customer pains:

1. How do your customers define too costly? Takes a lot of time, costs too much money, or requires substantial efforts?

2. What makes your customers feel bad? What are their frustrations, annoyances, or things that give them a headache?

3. How are current value propositions under performing for your customers? Which features are they missing? Are there performance issues that annoy them or malfunctions they cite?

4. What are the main difficulties and challenges your customers encounter? Do they understand how things work, have difficulties getting certain things done, or resist particular jobs for specific reasons?

5. What negative social consequences do your customers encounter or fear? Are they afraid of a loss of face, power, trust, or status?
6. What risks do your customers fear? Are they afraid of financial, social, or technical risks, or are they asking themselves what could go wrong?

7. What’s keeping your customers awake at night? What are their big issues, concerns, and worries?

8. What common mistakes do your customers make? Are they using a solution the wrong way?

9. What barriers are keeping your customers from adopting a value proposition? Are there upfront investment costs, a steep learning curve, or other obstacles preventing adoption?
Customer Gains

Trigger Questions

Gains describe the outcomes and benefits your customers want. Some gains are required, expected, or desired by customers, and some would surprise them. Gains include functional utility, social gains, positive emotions, and cost savings.

*Use the following trigger questions to help you think of different potential customer gains:*

1. Which savings would make your customers happy? Which savings in terms of time, money, and effort would they value?

2. What quality levels do they expect, and what would they wish for more or less of?

3. How do current value propositions delight your customers? Which specific features do they enjoy? What performance and quality do they expect?

4. What would make your customers’ jobs or lives easier? Could there be a flatter learning curve, more services, or lower costs of ownership?

5. What positive social consequences do your customers desire? What makes them look good? What increases their power or their status?
Customer Gains

Trigger Questions

6. What are customers looking for most? Are they searching for good design, guarantees, specific or more features?

7. What do customers dream about? What do they aspire to achieve, or what would be a big relief to them?

8. How do your customers measure success and failure? How do they gauge performance or cost?

9. What would increase your customers’ likelihood of adopting a value proposition? Do they desire lower cost, less investment, lower risk, or better quality?
• Value Proposition – Elevator Version

Our ____________________________

help(s) ____________________________

who want to ____________________________

by ____________________________

and ____________________________.

(Unlike ____________________________)
Customer Channel
Talk to Potential Partners and Sales Channels
Customer Channels – How do we sell to the various segments?

Typical Physical Channel
Retail Store Customer

Manufacturer → Distributor? ← Retailer → Consumer
Typical Physical Channel
On-Line Customer

Manufacturer -> Amazon
Shopify eBay -> Consumer
Direct to Consumer Model

Manufacturer → Consumer
Typical Digital Channel

Content Owner / App Developer

Platform

Consumer
Typical Digital Channel Multi-Sided

Content Owner -> Platform

Advertiser -> Consumer
Customer Relationship

How do we communicate with our customers?
<table>
<thead>
<tr>
<th>Question</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>What’s the model for each segment?</td>
<td>- Salesperson</td>
</tr>
<tr>
<td>- Personal assistance</td>
<td>- In-house vendor team</td>
</tr>
<tr>
<td>- Dedicated team</td>
<td>- Customer service center 800#</td>
</tr>
<tr>
<td>- Self-service</td>
<td>- On-line Information</td>
</tr>
<tr>
<td>- Automated services</td>
<td>- Chat Bot, VMI, “Instant Ink”</td>
</tr>
<tr>
<td>- Communities</td>
<td>- User Communities</td>
</tr>
</tbody>
</table>
Business Design

How will we organize and operate the business?
<table>
<thead>
<tr>
<th>Key Partners</th>
<th>Key Activities</th>
<th>Value Propositions</th>
<th>Customer Relationships</th>
<th>Customer Segments</th>
</tr>
</thead>
<tbody>
<tr>
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<table>
<thead>
<tr>
<th>Key Resources</th>
<th>Channels</th>
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<table>
<thead>
<tr>
<th>Cost Structure</th>
<th>Revenue Streams</th>
</tr>
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<tbody>
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</tbody>
</table>

Stratagyzer
## Key Activities

<table>
<thead>
<tr>
<th>Questions</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Which activities do you need to perform well in your business model?</td>
<td>Kylie Cosmetics – product idea &amp; social media presence</td>
</tr>
<tr>
<td>What is crucial?</td>
<td>Quality, authenticity, engagement</td>
</tr>
<tr>
<td>Proprietary?</td>
<td>Brand</td>
</tr>
<tr>
<td>What can be added later? What can be outsourced?</td>
<td>Design, manufacturing, distribution, marketing &amp; sales</td>
</tr>
</tbody>
</table>
## Key Resources

<table>
<thead>
<tr>
<th>Questions</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>What resources are necessary to launch:</td>
<td>Restaurants on the Run</td>
</tr>
<tr>
<td>- Staff : what type ?</td>
<td>- Staff – Developers, drivers, sales staff, dispatch</td>
</tr>
<tr>
<td>- R&amp;D , IP</td>
<td>- Technology : Order Platform</td>
</tr>
<tr>
<td>- Technology platform</td>
<td>- Facilities – office space</td>
</tr>
<tr>
<td>- Facilities : office, production, warehouse</td>
<td></td>
</tr>
<tr>
<td>- Equipment</td>
<td>- Platform &amp; operating staff</td>
</tr>
</tbody>
</table>

Which assets are essential ?
## Key Partnerships

<table>
<thead>
<tr>
<th>Questions</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Which partners and suppliers leverage your model? What can you outsource?</td>
<td>Retail product: Production, distribution, marketing, sales, customer service, finance &amp; accounting, technology</td>
</tr>
<tr>
<td>Who do you need to rely on? What’s critical?</td>
<td>Product design, sales, quality control</td>
</tr>
<tr>
<td>What is risk profile? Failure to deliver, quality, cost, profit, service?</td>
<td>Retain, supplement or monitor high risk areas – i.e. on site person at factory</td>
</tr>
</tbody>
</table>
Financial Model
How will you make money?
Revenue

How will we be paid?
# Revenue

<table>
<thead>
<tr>
<th>Questions</th>
<th>Examples</th>
</tr>
</thead>
</table>
| What is pricing model?  
• Purchase, rental, subscription, hybrid?  
• Freemium? Ad-supported?  
• “Customer Lifetime Value” | Netflix – Unlimited use – 3 tiers  
iTunes – Pay per download  
Auto – Lease & service contract  
YouTube – Share of advertising |
| What are customers really willing to pay for?  
• Benchmarking  
• Research | YouTube 55% ad share, $10 CPM average. 1% CTR = $550 for 10 million views |
| Market size and potential?  
- TAM – Total available market  
- SAM – Serviceable available market  
- SOM – Share of market | Airbnb – see next |
Market Size - Airbnb

1.9 Billion+
TRIPS BOOKED (WORDLWIDE)
Total Available Market

532M
BUDGET & ONLINE TRIPS
Serviceable Available Market

10.6 M
TRIPS W/AB&B
Market Share
The 4P Calculation

**CORE MARKET**

- Steady-state revenue target
  
  Ensure the organization has alignment on a steady-state number that would be attractive

- A. Core Population
  
  Define as tightly as possible – what constitutes your “dream customers”

- B. Transaction Pricing
  
  How much will the customer pay per transaction? What data supports this?

- C. Purchase Frequency
  
  How many purchases are there a year?

- Required Penetration
  
  Solve for this by dividing the revenue target by A x B x C

**OPTION VALUE**

What other markets open up as a result of following this strategy?
This technique can be conducted as a quick five-minute exercise, yet provides very solid learning. It serves as an efficient way to sanity check an idea and get rich insight into the viability of a particular business model.

Calculating the idea’s 4Ps:

- Start with the desired answer you determined (e.g. path to $6M in revenue)
- With the answer, determine the population of potential customers. Define it as narrowly as possible
- Assert the price of the offering
- Assess the purchase frequency. Is it a one-time purchase? A consumable good that people purchase a few times a year? A rental? A daily purchase?
- Finally, calculate the required penetration to achieve your target

Use the simple, five-minute, 4P (target Population, planning Pricing, expected Purchase frequency, and required Penetration) calculation to see quickly if your idea meets the minimum threshold and is worth pursuing.
## The 4P Calculation – Auto Emergency Climate Control

### Core Market

<table>
<thead>
<tr>
<th>Component</th>
<th>Value</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steady-state revenue target</td>
<td>1,000,000</td>
<td>Additional sales due to feature driving option</td>
</tr>
<tr>
<td>A. Core Population</td>
<td>100,000</td>
<td>Ioniq sales planned for 2020</td>
</tr>
<tr>
<td>B. Transaction Pricing</td>
<td>100</td>
<td>$100 value in $750 option package</td>
</tr>
<tr>
<td>C. Purchase Frequency</td>
<td>1</td>
<td>1 – no ongoing payments</td>
</tr>
<tr>
<td>Required Penetration</td>
<td>10%</td>
<td>Solve for this by dividing the revenue target by A x B x C</td>
</tr>
</tbody>
</table>

### Option Value

What other markets open up as a result of following this strategy?
Cost

What will be our costs to launch and then operate?
<table>
<thead>
<tr>
<th>Questions</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>What are direct costs? Indirect costs?</td>
<td>Product Costs $13 to manufacture &amp; warehouse</td>
</tr>
<tr>
<td>• Direct: Product – Cost of Goods Sold</td>
<td>• Monthly labor cost is $3,000/month fixed plus 10% of sales for commissioned rep</td>
</tr>
<tr>
<td>• Indirect: Support staff, office space</td>
<td>• Each shipment costs $3</td>
</tr>
<tr>
<td>Overhead? Fixed vs. variable?</td>
<td>• Using cloud so pay for actual usage</td>
</tr>
<tr>
<td>• Staff – salary vs. hourly vs. project vs. commission</td>
<td></td>
</tr>
<tr>
<td>• Distribution as a % of retail or per shipment</td>
<td></td>
</tr>
<tr>
<td>• Technology – fixed vs. usage</td>
<td>• $100,000 to develop molds and file patent</td>
</tr>
<tr>
<td>Development vs. on-going</td>
<td>• $13 ongoing cost, decreasing to $6 with scale</td>
</tr>
<tr>
<td>• Product development, patent &amp; testing</td>
<td>• Development costs assume 3 iterations of design and successful patent application</td>
</tr>
<tr>
<td>• Ongoing Cost of Goods Sold</td>
<td>• Manufacturing and distribution will be one year contract</td>
</tr>
<tr>
<td>Which are key elements?</td>
<td>• Risk if minimums not met</td>
</tr>
<tr>
<td>• Largest line items – development vs. scale</td>
<td></td>
</tr>
<tr>
<td>What is variability/risk? How sure are we?</td>
<td></td>
</tr>
<tr>
<td>Contracts?</td>
<td></td>
</tr>
</tbody>
</table>
To Summarize
The Business Model Canvas

**Key Partners**
- Who are our key partners?
- Who are our key suppliers?
- Which key resources are we acquiring from our partners?
- Which key activities do partners perform?

**Key Activities**
- What key activities do our value propositions require?
- Our distribution channels?
- Customer relationships?
- Revenue streams?

**Value Proposition**
- What value do we deliver to the customer?
- Which one of our customers’ problems are we helping to solve?
- What bundles of products and services are we offering to each segment?
- Which customer needs are we satisfying?
- What is the minimum viable product?

**Customer Relationships**
- How do we get, keep and grow customers?
- Which customer relationships have we established?
- How are they integrated with the rest of our business model?
- How costly are they?

**Channels**
- Through which channels do our customer segments want to be reached?

**Key Resources**
- What key resources do our value propositions require?
- Our distribution channels?
- Customer relationships?
- Revenue streams?

**Customers**
- How do we get, keep and grow customers?
- Which customer relationships have we established?
- How are they integrated with the rest of our business model?
- How costly are they?

**Revenue Streams**
- For what value are our customers really willing to pay?
- For what do they currently pay?
- What is the revenue model?
- What are the pricing tactics?

**Cost Structure**
- What are the most important costs inherent to our business model?
- Which key resources are most expensive?
- Which key activities are most expensive?
Next Steps
Next Steps

• Get Business Model Canvas
  • Get Blank Sheets from Us
  • Templates posted on NVC site

• Learn More
  • Visit Strategyzer.com
  • Read “Business Model Generation” by Osterwalder

• Start Business Model Canvas
  • Document Assumptions
  • Research, Test & Adjust
Next Workshop – We’ll Use BMC as basis for your Concept Paper
# KEY DATES

## PHASE 1

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov 6th</td>
<td>Kick-off and Beall Bash</td>
<td>Feb 18th</td>
<td>Demystifying Intellectual Property</td>
</tr>
<tr>
<td>Nov 20th</td>
<td>How to Come Up with a Billion Dollar Idea</td>
<td>Feb 20th</td>
<td>NVC Concept Papers and Videos Due</td>
</tr>
<tr>
<td>Jan 14th</td>
<td>From Problem to Business</td>
<td>Mar 3rd</td>
<td>Semi-Finalists Announced</td>
</tr>
<tr>
<td>Jan 22nd</td>
<td>How to Write a Winning Concept Paper</td>
<td>Mar 3rd - 6th</td>
<td>Wildcard Voting Open</td>
</tr>
<tr>
<td>Jan 28th</td>
<td>How to Form a Winning Team</td>
<td>Mar 9th</td>
<td>Wildcard Announced</td>
</tr>
<tr>
<td>Feb 11th</td>
<td>Is there a market for your product?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
JOIN US OUTSIDE FOR SNACKS AND MENTORING
THANK YOU!

Beall Center for Innovation and Entrepreneurship

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haleb@uci.edu