Plan

- Today assessing ideas
- Next week more assessment and planning research
- Following week – begin performing the research / trial
- Start of December present your findings

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Today

- Assessing idea viability
- Outcomes of assessment
- Hypotheses
- Decision rules
- Return on investment / Expected Value
- 20 minutes presentations of your BMC

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Assessing your idea – what is the baseline?

% of ideas that become established? I.e. it is up and running – and active.

Not necessarily a success per se.

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Assessing your idea – what is the baseline?

- Consider the stage – just an idea, a plan, in development, operating
- What percentage of new businesses (established formally) **survive** 5 years?

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Of Established Firms

I.e. up and running – and active

https://www.independent.ie/business/small-business/one-in-three-firms-fails-in-its-first-five-years-38801226.html

https://www.investopedia.com/financial-edge/1010/top-6-reasons-new-businesses-fail.aspx#:~:text=Data%20from%20the%20BLS%20shows,to%2015%20years%20or%20more.

- **66% survive 5 years in Ireland and US**

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From idea to success (5 years in operation)?

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What are the potential outcomes from assessing your idea?

We will use 3 outcomes

1. Abandon idea (for another idea?)
2. Pivot or change based on insight gained
3. Proceed with idea, develop further and test again.

All 3 are potentially valid.

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Outcome 1 - Abandon an idea

- This is the correct decision if there low or very low chance of success and high cost to pursuit
- This is incorrect if pursuit had a good chance of success relative to the investment of time and effort

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Outcome 2 Pivot or change

- A pivot is when you identify a more promising related approach.
- Pivots are normal – most start ups will be pivot once or twice.
- They should be concerted and deliberate (don't jump from one failing idea to a poorly defined idea).
- Part of why we do the BMC and not a business plan is to not lock people into the business plan
- Need to be open to changing and adapting your idea

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Outcome 3 - Proceed

- Your research and development indicate the idea has a good enough chance of success
- This ideal outcome: What does it look like for your idea?
- This is incorrect if your idea is unviable or not the best use of your efforts

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Task 9 How would you make your decision about your idea?

- Can you describe the steps or process that will go through to decide if you will proceed, pivot, or abandon?
- Give 3 or more steps.

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Typical answers

How could I increase my streams (musicians)?

- I could pay for ads and see if it is worth it.
- I could try collaborating with someone and see if that increases the streams

But little structure and ambiguity about reaching the eventual outcome,

Still a vague process – we want to be clearer about the process

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Good answer

1. I will run a promotion on social media and see if there is a big enough demand for my services (almost a hypothesis)
2. I proceed if the extra revenue generated covers the cost of the promotion (a testable hypothesis)

But how will you make the final decision?

Begin with clear hypotheses

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What is an hypothesis? Can you define it?

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- Proposed explanation made on the basis of limited evidence as a starting point for further investigation.
- The hypotheses we will test relate to the viability of your idea
- Several things will influence the viability of your idea -> multiple hypotheses to be tested

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Which one is a correctly formulated business hypothesis?

I will interview 20 potential customers and

a) will make my decision based on these
b) If I get positive feedback I will proceed
c) If >50% of customers prefer a group class @ €20, compared to a 1-1 service @ €50 I will create a group class

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Quiz - Which of the following are clear hypotheses?

a) I will develop a new prototype of my product if less than 50% of the visitors of my webpage click to read the product description
b) I will change the design of my product every six months
c) I will change the design of my idea if less than 50% of interviewees tell me it's a good design

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How do we aggregate multiple hypotheses? – Decision rules

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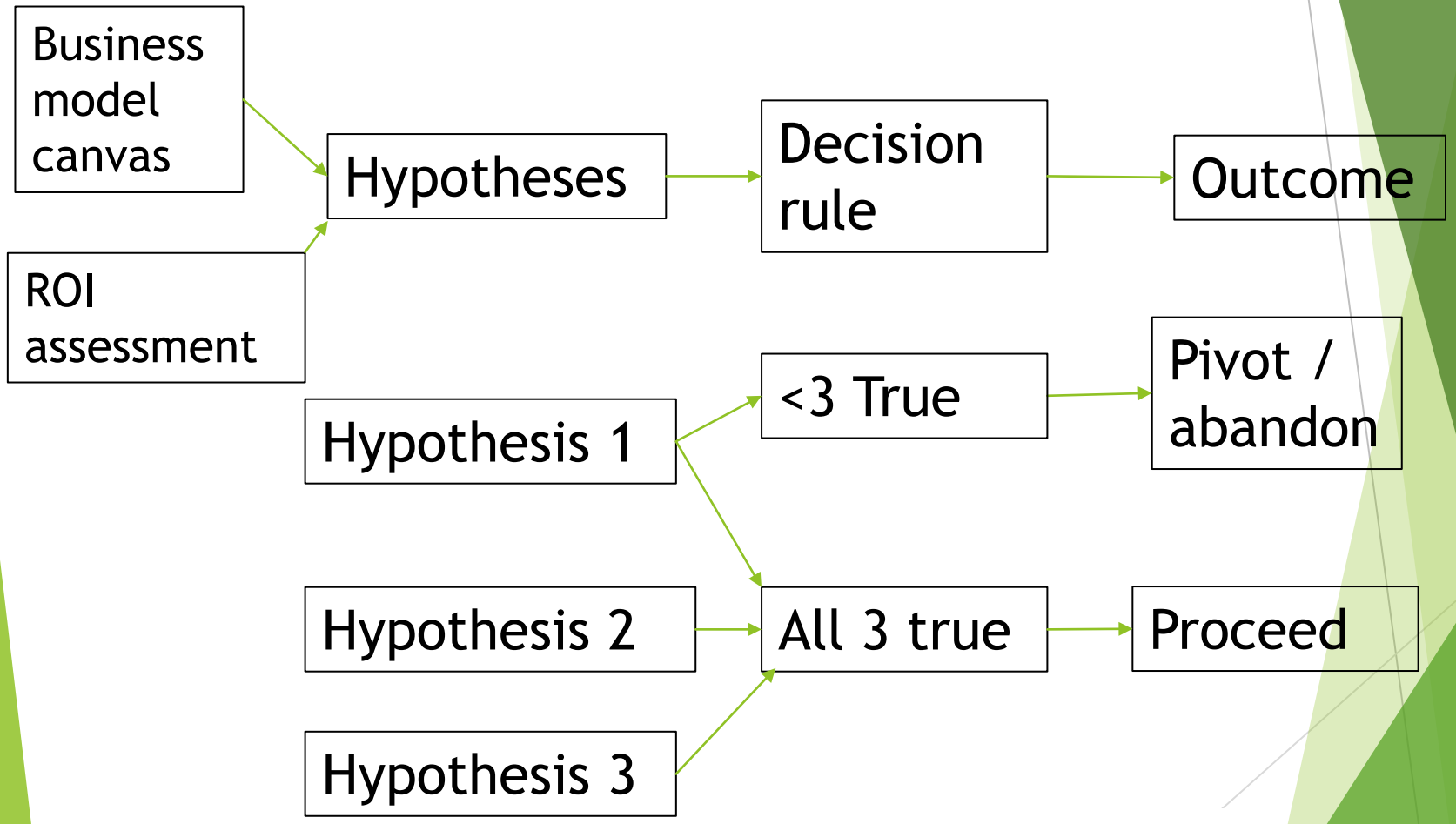
Decision rules



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Decision rules

- Set explicit **decision rules (if then statements)** based on clear metrics. E.g. minimum threshold % of interviews required to support its hypotheses.
- Without a clear set of hypotheses and a rigorous method for testing them, you are likely to
  1. collect less useful feedback,
  2. made incorrect inferences, and
  3. continue with low viability business ideas.

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Can you quantify how good an idea is?

- We will now generate a number that will give us an indication of the potential Return on Investment
- For this, we need to estimate 3 inputs

1. The effort/investment
2. The reward/payoff if successful
3. The chance of success

$$\left(\frac{\text{Reward €}}{\text{Effort €}}\right) \times \text{chance of success} = \text{ROI}$$

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1. Think about the effort (time doing work you don't enjoy) and money required for the project. What other benefits do you get from the project, the experience, the knowledge, the networking.

What would someone have to pay you to do this work?

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2. Think about the reward if successful in quality of life, income and value. Give this in € - but it doesn't need to be monetary.

3. What is your current estimation of the % chance of success?

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Expected value

$$\left(\frac{\text{Reward €}}{\text{Effort €}}\right) \times \text{chance of success} = \text{ROI}$$

Estimate the 3 of these figures roughly now and let us know your answer

E.g. (Reward €50,000/ Effort €10,000)* chance of success (30%) = ROI of 1.5

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How do we interpret this?

- If <1 this indicates a pivot or abandon may be wise
- If ~ 1 it is unclear
- If >1, it is indicates it is promising

All require further work before making a final decision.

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What is your threshold?

If you want to be more cautious, increase your threshold (e.g. 1.2)

If you have few other options, you can reduce it to be less cautious (e.g. 0.8)

You may not care that your project has a low ROI – and that is okay – but do it with open eyes!

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Task 13

Lets look again at the key variables:

- Effort – what might make this harder or easier? (Say having partner)
- Reward – what might make the reward bigger or smaller?
- Chance of success - what would increase or reduce the chance of success?

Take a 5 minutes now to start this.

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Task 14 – posing more questions

- This video illustrates how one can take an idea, develop multiple questions about them, and test them sequentially
- What are your untested guesses?
- Watch for 5 minutes until 6:08 but the remainder of the talk is interesting.
- https://youtu.be/sBUI6rKnvr0?t=94

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3 minute presentations of your BMC + 2 minutes feedback

Tasks

- Task 10 What feedback did you get from your BMC presentation?
- Task 11-How will you apply this feedback to your BMC?
- Task 12-What feedback did you give your classmates on their BMC?

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