Lecture 3:
Idea Refinement

12/20/2012
CURRICULUM

Week 1
Context, techniques, and idea generation
Programming tools, and backend

Week 2
Week 3
Week 4
Week 5
Week 6
Week 7

Hackathon #1
Executive summary, early adoption testing
Android and UI design

Networking Event

Hackathon #2 Baguio
Growing, financing, and demo
Discretion of Instructors (based on class projects)

Project Showcase
## SCHEDULE FOR TODAY

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TECHNOLOGY PUSH VS. MARKET PULL

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<tr>
<th></th>
<th>Technology Push</th>
<th>Market Pull</th>
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<tbody>
<tr>
<td>Risk</td>
<td>Higher risk</td>
<td>Lower risk</td>
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<tr>
<td>Unit Profitability</td>
<td>Higher profit</td>
<td>Lower profit</td>
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SEEING THE FUTURE OPPORTUNITY

Wayne Gretzky

• Average height, average size
• Neither the fastest nor the strongest
• Didn’t have the best dribbles or the hardest shot
Yet arguably the best player that ever played hockey

He had the best ‘vision’

“Skate where the puck is going”
MINIMUM VIABLE PRODUCT

What is the smallest set of features that you need to make your users happy?

Can you make your product simpler to use and/or to learn?

Can you make your product easier to build?

Can you build prototype over a weekend?

Can you build your MVP in 3 months?
# COMPANY SUCCESS FACTORS

<table>
<thead>
<tr>
<th>Horse</th>
<th>Jockey &amp; trainers</th>
<th>Race</th>
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<tbody>
<tr>
<td><strong>Technology or Innovative Idea</strong></td>
<td><strong>Team and advisors</strong></td>
<td><strong>Market Selected</strong></td>
</tr>
<tr>
<td>10-15%</td>
<td>65-75%</td>
<td>15-20%</td>
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*Source: David Morgenthaler, Morgenthaler Ventures*
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On Thursday this week, we will hold an idea pitching contest

Everyone in the class will have a chance to promote their idea

At the end of the contest, we will select the top 6 ideas based on the following judging criteria:

- Fun factor
- Team interest
- Business viability
- Technical feasibility

Around each of these ideas we will form teams, which will partly of your choosing but final team composition will be at the instructors’ discretion (diversified teams work better)
From now on, all your submissions constitute “public disclosure”

Do not write “confidential” or “proprietary” on your assignments or submitted plans

We will freely distribute submitted plans to your classmates, & will use non-secure email/websites

This is an academic environment – information is free. You have no stake to a claim in a company because of your work in this class. Any companies that start, start after this class with a clean slate
RECRUIT ADVISOR

Our grading of your assignments is not sufficient

Up to you to be more proactive in seeking guidance

Assignments will be scanned for the essentials, and randomly checked in-depth

You will have to find an advisor outside of the class to review your business model and executive summary; this advisor could be a family member, a faculty at UP, or even better a professional who knows about the market you are targeting (e.g. if you build an app for taxis, find yourself a dispatcher or a driver!)
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THE 9 BUILDING BLOCKS

1. **Customer Segments**
   An organization serves one or several Customer Segments.

2. **Value Propositions**
   It seeks to solve customer problems and satisfy customer needs with value propositions.

3. **Channels**
   Value propositions are delivered to customers through communication, distribution, and sales Channels.

4. **Customer Relationships**
   Customer relationships are established and maintained with each Customer Segment.

5. **Revenue Streams**
   Revenue streams result from value propositions successfully offered to customers.

6. **Key Resources**
   Key resources are the assets required to offer and deliver the previously described elements...

7. **Key Activities**
   ...by performing a number of Key Activities.

8. **Key Partnerships**
   Some activities are outsourced and some resources are acquired outside the enterprise.

9. **Cost Structure**
   The business model elements result in the cost structure.
REVENUE POTENTIAL

Average Revenue Per User (ARPU)
- Will you selling it to your customers or will you be deriving revenue another way (e.g. advertising)?
- Will you have only a single price or many prices for different customer segments (e.g. student discounts)?
- Will you be charging a one time fee or a subscription model (if subscription, is it based on volume consumed or time, or both)?

Number of users
- Can you divide your potential users into categories (e.g. market segmentation)?
- What does your typical user look like (age, sex, income, tastes, etc.)?
- Are all users equal (e.g. some more profitable, others easier to serve)?
- Will you have a beachhead market (i.e. customers you will go after first)?
- Who are your most desirable users (not necessarily most profitable but often it is the case)?
- How many users do you expect to have in one year, in three years (and how many are there in total your market)?

Revenue potential(t) = Number of users(t) * ARPU(t)
COSTS

Time
- How long does it take to build your minimum viable product?

Engineering (more immediate)
- How many developers?
- How many testers?
- How many technical writers?
- How many system administrators?
- When will you need a project manager?
- When will you need a CTO?

Marketing
- When will you need a product manager?
- When will you need a marketing and communication expert?

Sales
- How many sales rep?
- How many sales support?
- When will you need sales managers?

Admin
- When will you need an accountant?
- When will you need a CEO?

For software development, assume 2/3 of your costs will be labor, and majority of that will be development for the first year – so need to add another 1/3 for materials, licenses, legal fees, etc.
## BACK OF THE ENVELOP PROFIT CALC

**Student Name:**

**Idea Title:**

| Revenue | Year 1 | Year 2 | Year 3 | Example*:
|---------|--------|--------|--------|-----------------
| Average revenue per user |        |        |        | PHP 80 per user, per year |
| Number of users |        |        |        | 50,000 every UP student in country |
| Total Rev = ARPU * #users |        |        |        | PHP 4,000,000 |

<table>
<thead>
<tr>
<th>Cost</th>
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<th>PHP 420,000 PHP 35K per month (incl. tax, insurance, etc)</th>
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</thead>
<tbody>
<tr>
<td>Average annual salary</td>
<td></td>
<td></td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Number of developers</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Num marketers, sales, and admin</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>AAS*Nemployees=</td>
<td></td>
<td></td>
<td></td>
<td>PHP 1,680,000</td>
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<tr>
<td>Materials (+50% of labor)</td>
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<td></td>
<td></td>
<td>PHP 840,000.0</td>
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<tr>
<td>Total Cost =</td>
<td></td>
<td></td>
<td></td>
<td>PHP 2,520,000.0</td>
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| Gross profit |        |        |        | PHP 1,480,000.0 |
| Total GP = TR – TC = |        |        |        | |

* Example is that of an Android application that students would use to register for their courses which would cost PHP 80 per student per year
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IDEA SPEED DATING

Form into assigned pairs

Pick your favorite business model canvas
1. Minute one: pitch it to your counterpart
2. Minute two: your counterpart repeats your pitch (“what have you heard from what I just said”)
3. Minute three: with the help of your counterpart, answer the following questions about the idea (using provided template):
   a) What is the revenue potential? (R=N*ARPU)
   b) How long does it take to build it?
   c) How much will it cost to build it? (C=number of developers*annual salary)
4. Minutes four and five: have your counterpart read your business model canvas and make (or suggest) at least 3 improvements
PAIRS ASSIGNMENTS

Goes First
APRYL ROSE BISAIS
AUBREY JOANNA PASCUAL
BENJAMIN JR CUETO
BERLYN ANNE DECENA
CASSANDRA LEIGH WANG
DANIELLE ANNE AYAG
DIANA MAE PACAPAC
EMERY DELA CRUZ
JEWEL LEX JAVIER
JULES ALBERT CAPACILLO
NATHAN LEMUEL SANTI
NORVIN YECLA

Goes Second
JUSTINE ARNON RAZON
FRANCIS JOMER GALLARDO
ALDRIC MANZANO
ADRIAN ORENSE
VICTORIA CASSANDRA REAL
ROD XANDER BONDOC
ARMOND AVE
NOEL NICANOR II SISON
RAMON JOSE NILO SALVADOR
RITZ DANIEL ANG
MARIA AZRIEL THERESE EALA
RICARDO BAUTISTA

(Random allocation)
ENTREPRENEURSHIP ASSIGNMENT

Individual assignment

1. Do some basic market research to calculate total revenue and total cost for years 1, 2, and 3 (try to use Google Search to make better guesses or ask friends and family)

2. Submit online in your Dropbox (due Thursday 28th at 4PM)

3. Please use the provided template

4. Prepare at home to pitch your favorite idea (again, you will have a maximum of 60 seconds). Note: best way to prepare is to tell your pitch to your friends and have them repeat what they heard – this will help you improve how you explain your idea and the idea itself

5. Come equipped with an updated copy of your favorite business model canvas (it could be an improved version of your old 3 canvases, or an entirely new one – it’s up to you) and a copy of your 3 year projected revenue cost model