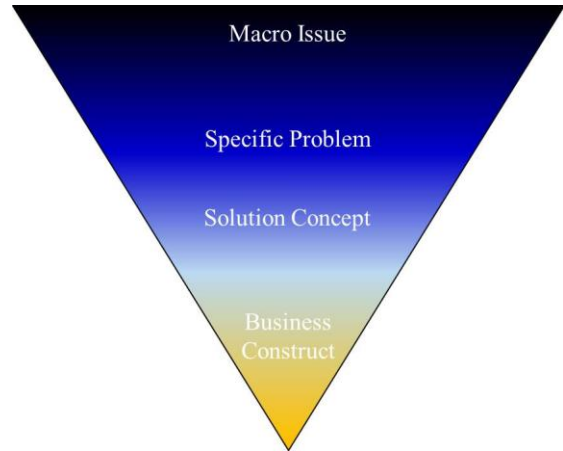


Venture Shaping Application: Identifying Opportunities

The **deliverable** (the work you are required to complete once you are awarded a grant) of the Venture Shaping process is a defined Business Construct – the framework for a differentiated, financially sustainable business that your team is capable of executing that also meets a un- or under-met market need. It is a non-trivial exercise to meet all these criteria. It all begins with a complete understanding of the opportunity space from which your business will be crafted.

In the Venture Shaping application, you are asked to discuss the bigger issues related to your solution. It is human nature to focus on the solution. That's okay, but we want to make sure that you fully understand the problem/opportunity, before you get too lost in the weeds of crafting the specifics of your business. Problems have many potential solutions. Yet, not every solution resonates with potential customers. Worse yet, not every solution can be transformed into a differentiated, financially-sustainable new venture. By fully understanding the problem and clearly understanding the opportunity, it will be easier for you to shift away from your initial solution concept should this initial solution concept not lead to a differentiated, market-desired business construct.



It is also important to understand that solutions are not businesses. Solutions are starting places for defining businesses. Businesses need to be constructed based upon your team's capabilities, the existing business environment, and the customer feedback that you will acquire during the Venture Shaping process.

The **application** (the two page document that becomes the basis of who will receive the grants) is not simple to complete and represent some serious thought on the opportunity identification that you as an entrepreneur are engaged in. Here are two examples that may clarify the concepts above. One example will be "technology centric" and one will be "market centric," as these are the most common Venture Shaping applications that we receive.

Example One: Emerging / Underserved Market

Colombia has the fourth largest economy in Latin America. Inequality and unequal distribution of wealth are widespread. Families struggling to stay or move into Columbia's growing middle class require two incomes. During the past years, Columbia has witnessed one of the highest rates of women entering workforce in the world. (*Editor's note: this is the Macro Issue.*) These women face a number of issues as they break-away from multi-generational histories of working at home.

One issue that new-to-the-workforce women of Columbia face is the need to boost their self-esteem. After generations of working at home, they lack confidence in being "public people." To address this issue, women that are transitioning from stay-at-home housewives and mothers would like to wear

cosmetics to work in order to look and feel more professional and confident in this new environment. These women, who do not necessarily follow the latest fashion trends, are simply looking for good quality products at affordable prices that are easy to find in the market. (*Editor's note: this is the Specific Problem.*)

Current cosmetic options in Columbia are limited. There are some current solutions in the cosmetic's Colombian market. First, there are large and renowned cosmetics brands, such as Lancome, Estee Lauder, Clinique, and Mac that can only be purchased in top end stores or through authorized distributors such as La Riviera. There is also a high end brand of natural products, L'occitane, that sells its products in its own stores. The second alternative is less expensive products that can be found in supermarkets, retail stores and pharmacies, such as Ponds products and L'oreal. Finally, there are some brands that sell the cosmetics products through catalog such as L'bel, Avon and Natura for which prices range from high to low respectively.

The current solutions are inadequate because they do not provide a comprehensive solution to the needs of middle-income women of Columbia entering the workforce. Most cosmetics products sold in the Latin American region are imported products that were not designed for the particular geographic and weather conditions of tropical countries where, for example, high altitudes make skin more prone to sun burns, or high humidity make hair less manageable. This creates a market opportunity to produce and offer high quality products at affordable prices suited for tropical environments, and for the Colombian and Latin American women's needs. The renowned high end cosmetics brands offer a wide variety of high quality products, but at prices that are out of the range of the purchasing power of most Colombian women. Thus, only a very small percentage of the population can have access to them. In the specific case of L'occitane, product prices are not only high but the brand only offers creams and body care products but not make-up. The less costly cosmetics are more generic, lack of specialized features and are not specifically designed for the needs of Colombian women. Natura sells natural products through catalogues at more affordable prices, but this is a Brazilian company, so this makes its products less promptly and widely available for the Colombian women. (*Editor's note: Two previous paragraphs address how people are currently coping with the problem.*)

Our company will manufacture and sell quality, middle-price cosmetics, particularly skin care products, facial make-up and hair care products to middle-income women of Columbia. We aim to be the first nation-wide Colombian-based manufacturer and distributor of cosmetic products for women. (*Editor's note: this is the Solution Concept. Q5 of the application details, among other things, how the team is heavily networked into this market and has the passion to improve the lives of these women.*)

The common misconception is that the initial Solution Concept (manufacture and distribute locally-produced, quality, affordably-priced cosmetics) is “the business.” It is not. It is a starting point to create a business. The Venture Shaping process may reveal that this Solution Concept may not even be addressing the right problem ... “right” as defined in the minds of the paying customer. We will look at both how to refine the Solution Concept into a business and how to move to another Solution Concept if this one misses the mark with your customers.

Solution Concept to Business Construct. Assuming for a moment that the problem is accurately identified and the Solution Concept is a good one, the business still needs to be defined. Meeting the needs of the consumer (providing quality, reasonably-priced cosmetics) can be achieved in many ways. Yes, cosmetics could be developed, manufactured, distributed and sold... but these are a lot of critical

activities to put on the plate of a newly-formed startup company. And how do all of these activities mesh with the Capabilities of the company's founding team? Perhaps the company should simply develop cosmetics that can be affordably produced. The company could then outsource the production to a local manufacturer. The cosmetics could then be distributed and sold through an existing chain of pharmacies. However, if quality is one of the key customer needs, how does this company ensure quality of the manufactured product if it does not produce it? It is possible to do so, but that question would need to be addressed.

A totally separate business concept that would also solve this identified problem would be to become a cosmetic import business, identifying and importing quality -- and less expensive -- cosmetics than the name-brand cosmetics currently being imported into Columbia from France.

There are innumerable other businesses that could be created to meet these underlying needs. Key needs of the consumer must be identified during the Venture Shaping process in order to select an optimal option. Some of those questions are:

- What are the key decision-drivers for purchasing cosmetics: price, brand, availability?
- Through what channel is the consumer willing/likely to purchase cosmetics: Local pharmacies, department stores, internet, "Avon-style" in-home sale/parties?

The kind of business that is formed will be greatly influenced by the answers to these questions. That is why it is important, during the application process, to focus on the opportunity and not the "answer" as the "answer" is likely to change.

Altering Solution Concepts. The Venture Shaping Process may also reveal that the identified problem (provide quality, reasonably-priced cosmetics for the newly-entering-the-workforce women of Columbia) is completely wrong. Interviewing this group, as part of the Venture Shaping process, may reveal that while these cosmetics are "nice to have" what they *really* want is business decorum training, or professional-looking, affordable clothing, or any number of other issues. If this turns out to be the case then the Specific Problem initially identified is wrong and needs to be re-crafted. Once the new Specific Problem is clear, new Solution Concepts to this problem will need to be brainstormed. Solutions that do not address what this market believes is their biggest issue will not be embraced by this group. "Need to have" problem solutions trump "nice to have" problem solutions every time. The company needs to be addressing "need to have" or "strongly desire" market wants.

You can see that even with a clearly defined market, either the Solution Concept or the Specific Problem could need to be adjusted. Understanding the overall Opportunity Space from which your initial Solution Concept was originally derived will make this adjustment easier.

Example Two: Differentiated Technology

The spread of Sexually Transmitted Diseases (STDs) continues to rise at alarming rates. This is particularly true among young adults (18-25 year olds). According to the American Health Association, it is estimated that 65 million people are currently infected with an STI and each year, another 19

million new infections are diagnosed. (*Editor's note: this is a condensed version of the Macro Issue as described in the original application.*)

While early-diagnosis and treatment could help stem the spread of STDs, early treatment is often not pursued because early disease diagnosis is not pursued. As a result, improving the spread of STDs comes down to early diagnosis. One reason early testing is not pursued is that people are embarrassed or ashamed to admit that they “may” have contracted an STD. A study by Johns Hopkins revealed that 89% of women under the age of 25 would prefer the privacy of a home test over going to a clinic. The result of waiting to get tested/treated until after it is very obvious they have contracted an STD continues the propagation of the diseases. (*Editor's note: this is the Specific Problem.*)

Currently, when a patient needs to be tested for STDs, s/he must make an appointment with a physician whom they see at a later date, undergo both urine and blood tests, wait a week for results, and finally receive a diagnosis from the clinician. This method is both very public and inconvenient for the patient in that s/he must involve many people (the receptionist, the nurse, the clinician, the laboratory technician, etc.) in a process that can be an extremely sensitive issue and would like to be kept private. Because the urine analysis and blood work must be analyzed separately, different assays must be conducted to determine the presence of STDs, thereby driving up the cost up to \$300 for each test. Unfortunately, there are no other cost-effective and safe methods of STD testing and the patient is forced to cope with the stigma of STI testing in a public domain. (*Editor's note: this is the current state of dealing with this problem.*)

The Solution Concept is to create, manufacture and distribute an accurate, at home, affordable STD testing device. The team has the know-how and the technology (intellectual assets) that will allow them to create such a device. (*Editor's note: the team's capabilities are further expanded in Q5 of application, which is not provided as part of this example.*) The proposed device will test for multiple sexually transmitted infections (STI) within minutes. The device consists of a microfluidic channel system combined with micro-machined integrated circuits (IC) and micro-electromechanical system (MEMS) structures. The system is capable of accepting a drop of whole blood at the input, sorting out irrelevant components, and dividing the flow into multiple sub-channels, which act as simultaneous yet separate laboratory tests. This device is designed to give positive or negative test results in regards to herpes, gonorrhea, syphilis, and chlamydia. In-clinic testing operates using the same principle; however, greater speed can be achieved in our device as a result of smaller test volumes. (*Editor's note: this is the Solution Concept.*)

Like the previous example, the common misconception is that the initial Solution Concept (manufacture and distribute an accurate, at home, affordable STD testing device) is “the business.” It is not. It is a starting point to create a business. The Venture Shaping process may reveal that this Solution Concept may not even be addressing the right problem ... “right” as defined in the minds of the paying customer. In addition, since in this example it is the technology that is our differentiator, as opposed to the market connections of the first example, if it turns out that this is not the “right” market or product, this team will have to brainstorm other products that could be enabled by this technology that solve other issues for other groups. In other words, the team will have to uncover another problem that can be solved with their technology. That means the team will have to be open to other problems and even to other Macro Issues.

Solution Concept to Business Construct. Assuming for a moment that the problem is accurately identified and the Solution Concept is a good one, the business still needs to be defined. Exactly how the new venture will provide accurate, affordable, at home STD testing needs to be defined. Will the company design, manufacture, market, and distribute an at home device? Like example one, not likely given the limited resources of this new venture. What businesses exist that they can leverage? Should they outsource the manufacturing? If so, how do they protect their IP? Do they sell the product on-line (allows for privacy of purchase), but then how do they make customers aware their product exists? If they sell through existing pharmacy chains, does this satisfy the privacy need of the potential customers? The Venture Shaping process will help answer these questions.

Not just new Solution Concepts, entirely new Problems. Let's say that the Venture Shaping process reveals that the targeted customer is simply not interested in this testing device.... or there is no product delivery channel that will satisfy their needs... or creating such a device would involve a long and expensive FDA approval which would be too costly for this new venture. Any one of these reasons could cause this team to abandon their initial solution. However, unlike example one where the team's Capabilities were their knowledge of and connection with the market, this team's differentiated Capabilities revolves around the technology. In order to leverage this team's strengths, the team must ask itself "what other problems could be solved with this technology?" As a result, not only does the Solution Concept need to be altered, the team must work their way all the way back up the inverted opportunity pyramid: the Specific Problem will need to be altered and very likely the Macro Issue from which the initial Specific Problem was derived will also need to be changed. This is clearly why technology is difficult to commercialize. Unlike the market-centric opportunities, technology-centric opportunity identification requires working your way all the way back up the inverted opportunity pyramid. You have a technology that can enable a number of solutions and you need to uncover a compelling market need for which one of these technology-based solutions creates a differentiated market advantage. The result is that the initial stages of technology commercialization are far less about the technology or product development and far more about market and need identification. This is why a diverse team is extremely helpful, even in the earliest stages of technology-based business development.

Both of these examples highlight the process of Opportunity Identification and Venture Shaping. These are two very interactive and iterative phases of developing a new business. The Venture Shaping process will lead you through the iterative nature of that business development phase. The questions of the Venture Shaping application are meant to expand your thinking about the Opportunity Space you are working on -- not simply your initial solution to your initially identified problem -- as various aspects of that Opportunity Space may change as a result of information you gather during the Venture Shaping process. The better you understand that Opportunity Space, the more readily and more quickly you can hone in on a differentiated, financially sustainable Business Construct that your team is capable of executing.