

# THE RIGHT STUFF: EIGHT CRITICAL FACTORS FOR VENTURE SUCCESS

Andrew Maxwell  
*Canadian Innovation Centre*

*June 21, 2011*

## Objective view of opportunity

- For every 3000 new business ideas only a couple succeed
- Many do not even get to the point of being put on paper
- Others fail because they can not attract the right resources
- Many fail because they simply do not have what it takes to justify a new venture
- Based on over 30 years of research, the CIC has developed a Critical Factor Assessment toolkit that helps increase the chance of success

## Learning from failure

- In a recent blog I highlighted that we don't spend enough time recognizing failure and identifying its causes to avoid making the same mistake again
- If doctors took the same approach, we would never have advanced medicine to its current state
- We use thousands of new opportunities and identify the specific factors that link to failure
- This allows us to identify both “fatal flaws” and things that could be improved
- Armed with this information an entrepreneur may be able to take action to increase their likelihood of success

## Why does it work

- Research identified 42 factors that could predict success\* or failure
- A component factor analysis enabled us to reduce this to eight critical factors – each unrelated to the other
- Looking at all eight makes sure that you don't forget any
- In my experience, entrepreneurs always address some of the key issues:
  - How the technology is protected
  - Why people will want the product
- But they forget others:
  - Route to market
  - Technology risk

# How do the factors affect the investment potential

- In general investors look to assess the likely return they will make on their investment
- They also look at the level of risk (and specifically the likelihood the venture will fail)
- As we look at each of the eight factors we will identify how they link to the assessment of:
  - investment return (related to the future value of the business)
  - a investment risk (related to the likelihood of failure)

# 1. Features and Benefits

Does your proposed product or service offer performance advantages compared to currently deployed solutions?

A) There are substantial advantages to our product or service over current deployed solutions, or there is no one yet offering a comparable solution.

B) Our solution has measurable benefits over current deployed solutions, or offers substantive advantages in a market niche.

C) Our solution meets the performance of current deployed solutions at a competitive cost.

## 2. Readiness

How far away are you from being able to deliver completed products or services to your first revenue customer?

A. The product or service offering is finished, customer beta tests completed and manufacturing/supply issues have been addressed. Some initial sales may have been obtained.

B. The product or service has been tested in and performs to expectation. Final sales require further work on testing, approvals or supply chain issues. No sales yet.

C. The concept of the product or service has been completed, but further research is needed to develop the product/service or address critical supply chain issues.

© CIC 2011



### 3. Barrier to entry

What is unique or patentable about your product that represents a barrier to entry for potential competitors?

A. The product or service has received a patent, or embeds proprietary technology or knowledge that is not easily replicated. Alternatively, the product or service has a unique feature (such as a brand) that creates a significant barrier to competitors.

B. There is a level of unique knowledge or know how deployed in the product or service, which might be patentable (or is patent pending). Or there is another unique property that makes it challenging, but not impossible for others to replicate.

C. The product or service is innovative, but there are limited formal mechanisms to reduce the likelihood that competitors will replicate key features in the future.





## 4. Adoption

Can you demonstrate that customers in your target market will purchase your product or service when it is available?

A. Customers have been intimately involved in the development process, and have committed to either purchase or try the product/service as soon as it becomes available.

B. Market research has confirmed a specific market for the product or service, but to-date no commitments have been made to test or purchase the product.

C. At present, there is no independent market validation of the product or service and no first customers have agreed to test or purchase it.

## 5. Supply chain

Can you provide confirmation that there are no success barriers either about your supply chain, or distribution channel?

A. Suppliers and channel partners have been engaged in the development process, and have made firm commitments to participate as soon as the product or service is ready for market.

B. Possible channel and supply chain partners have been identified and initial discussions held. While interested, there are no formal agreements in place with these partners.

C. At this point, although identified, no distribution or supply chain partners have yet been approached.



## 6. Market size

Is the overall size of the market and your likely market share, sufficient to generate the envisaged revenues? Further, is the overall market forecast to be large enough to be interesting?

A. There is direct evidence that the market potential for your product or service is large, and that you can achieve enough market share to achieve a sales target of over \$20 million.

B. There is some evidence that the market potential for your product or service is quite large, and that you can achieve enough market share to achieve a sales target of over \$5 million.

C. There is no direct evidence to support the overall size of your market, or to validate your likely market share. As a result, it is difficult to forecast with confidence that revenue will exceed \$1 million.



## 7. Entrepreneur experience

Do you or members of your team have any direct or relevant (entrepreneurial, industry, business) experience that can be directly applied to the challenges facing this business?

A. You or members of the management team have deep and significant relevant experience that will enable you to operate the business successfully. This experience enabled or encouraged you to start the business.

B. You or members of the management team have significant business (or equivalent, i.e. military) experience, which although not directly relevant, will help you to operate the business.

C. Your experience is primarily technical, or limited, and provides no direct evidence that it will help you meet the challenges of operating the business.



## 8. Financial expectations

Do your financial projections present a persuasive argument that your company can achieve cash-flow neutrality, based on your own investment, money you can borrow, and money you can raise from external investors?

A. You show high degree of confidence that revenues/profit margins forecast or external funding identified, helps you achieve cash flow neutrality within 12 months, either directly, or by enabling you to raise additional cash after 12 months.

B. You show a reasonable degree of confidence that revenues/profit margins forecast or external funding identified, helps you achieve cash flow neutrality within 24 months, either directly, or by enabling you to raise additional cash after 24 months.

C. You do not yet have a financial projection that provides this level of detail, or it shows that you will be in a negative cash flow position over the next 24 months, with limited confidence that after 24 months additional cash can be raised.



## But this is only for investors ... and entrepreneurs

- Investors look at these factors to make rapid decisions
- If you want to get investment you need to answer each
- But they are useful even if you don't want an investor
  - You will be investing your time or money
- This process helps you identify potential weaknesses
  - There may be solutions to address each
  - You may conclude that further actions is fruitless