

Developing a Viable Product for an Emerging Market

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INTRODUCTION

Launching an e-comm, dot-com, or Internet-based venture carries significant risk, and unfortunately failure is often the result. Yet, given the possibilities of large profits, entrepreneurial teams continue to come forward with new venture proposals, and venture capitalists continue to fund them. This case example illustrates the challenge and risk of developing a new product for a potentially emerging market. In this instance, the market did not evolve as expected and there were no profitable customers. An attempt to redefine the product/market focus was also unsuccessful. In the period of some two years, the company went from concept to start-up to closure.

This article starts with a brief review of venture creation and business model literature, considers an unsuccessful start-up, and concludes with lessons learned. References and a glossary follow.

NEW VENTURE FOUNDATIONS

Timmons and Spinelli (2004) identify three pillars upon which a new venture is built (Figure 1). All three are necessary; none are sufficient alone. First, an opportunity must exist. This opportunity must include a product/service for which a viable market exists (customers, distribution channel(s), sales and service support, etc.). With technology ventures, a 'whole product/service' is often required—a comprehensive package of products and services needed by customers to achieve the desired

result, including such things as installation, training, and system integration support. High-tech ventures usually start with a concept that needs to be developed into an actual product/service. This requires significant time and effort, with a risk the market may reject the product/service, or a competitor may get there first. Second, a team is needed. This team must capably cover both technical and business sides of the venture, from conception to launch to successful market penetration. An ideal team has prior experience in developing and taking products to market. It is common for the initial team to be heavy on the technical side, with additional expertise added as the venture progresses. Third, sufficient resources are needed to carry the venture through the development phase and into active marketing, to at least the point of positive cashflow. These resources include financing, people, the business plan, and other assets. Venture capital sources exist to fund high-growth potential ventures through successive rounds of financing. So financial resources will follow, rather than lead, in venture creation.

Every new venture needs to be built around a specific business model, supported by these three pillars, and articulated in a written business plan. There has been considerable confusion about the terms *business plan*, *business model*, *e-business model*, *Internet business model*, and *business strategy*. Sometimes the terms are used interchangeably. Other times they are used in a broad or narrow sense.

Chesbrough and Rosenbloom (2002) provide an excellent discussion of business models, identifying six functions (Table 1). A less detailed view of business models is articulated by Magretta (2002), who says, "A good business model begins with an insight into human motivations and ends in a rich stream of profits." To her, a business model contains a story (narrative) that explains how the enterprise will work. A financial model (pro forma P&L, etc.) supports this narrative and shows the numbers side. There are two tests to apply (Table 2).

Others have suggested alternatives. Clarke (2004) succinctly states a business model answers the question, "Who pays what, to whom, and why?" Hoppe and Breitner (2004) apply business models to e-learning, distinguishing three interdependent submodels (market, activity, asset) which comprise the holistic model. Mahadevan

Figure 1. New venture foundations

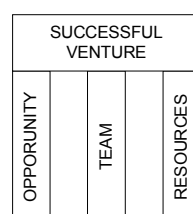


Table 1. Functions of a business model (Chesbrough & Rosenbloom, 2002)

| |
|--|
| 1. Articulates a customer value proposition |
| 2. Identifies a market segment (<i>who</i> will use the technology for <i>what</i> purpose; specifies the revenue generation process) |
| 3. Defines the venture's specific value chain structure |
| 4. Estimates the cost structure and profit potential |
| 5. Describes the venture's positioning within the value network linking suppliers and customers (includes identification of potential complementors and competitors) |
| 6. Formulates the venture's competitive strategy |

Table 2. Testing a business model (Magretta, 2002)

| Narrative Test | Numbers Test |
|--|--|
| Does the business model tell a logical story, explaining who the customers are, what they value, and how the venture will successfully provide them with that value? | Does the pro forma P&L make sense? Are the assumptions reasonable? |

(2000) sees three streams: the value stream (value propositions for various stakeholders), revenue stream (plan for assuring revenue generation), and logistical stream (addressing various issues related to supply chain design). Singh (2002) defines a business model as a method of doing business, and provides a taxonomy of current and emerging e-commerce models (emphasizing technology and participants). Weill and Vitale (2002) identify eight different 'atomic e-business models', each describing a different way of conducting business electronically and supported by various IT infrastructure capabilities.

On the strategy side, Porter (1996) provides several frameworks to guide firms in selecting their strategy and business model. His "5-forces" model, physical value chain network, and generic strategies are useful frameworks. Rayport and Sviokla's (1995) virtual value chain framework is particularly useful for firms using the Internet.

A complementary approach to viewing venture creation and growth is given by frameworks which segment evolution of the new firm. Kaulio (2003) identifies four perspectives: (1) milestones and time-pacing, (2) venture capital financing, (3) growth stages, and (4) market entry focus. Depending upon one's purpose, any (or all) of these frameworks can be useful. For purposes of this article, a growth stages model is considered: conception, start-up, growth, maturity; our emphasis here is on the first two stages, whereby the venture establishes itself and its business model.

Building upon this introduction, the following section tracks the history of an entrepreneurial team and its software venture. Initial failure during execution of the

team's business plan led to refinement of the business model (a change in the product/market focus). This also proved unsuccessful.

BACKGROUND OF THE BUSINESS

The founders had backgrounds as independent application developers. While their university education was not in computer science or information systems, together they had well over a decade of experience in application development. Two of the team members had run a multimedia company for three years, developing advanced multimedia sales applications. The third founder had spent seven years running his own development firm, providing contract information systems design and marketing automation solutions for a diverse group of customers. In 1998 they joined forces and founded Ardesic. Their product was to be an eRM (electronic Relationship Management) package, aimed at the B2B e-comm market.

Developing this product would be expensive, and the founders did not have sufficient funds to even resource the development of a beta product. Timing was critical, and the market opportunity could be filled by competitors. The contribution of the venture team was the product concept and their preliminary work. This was sufficient to find financial backing, and in late 1999 a local venture capital firm agreed to provide seed financing (initial funding used to develop a business concept). Most of the funds were for product development, to get the code to beta stage. The remainder of funds were primarily for working capital, with a small amount for marketing and

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