

THE SILICON VALLEY WAY

Discover the Secret of America's Fastest Growing Companies

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MAIN IDEA

Experienced and successful Silicon Valley decision makers have developed a set of questions by which they can evaluate which business concepts look commercially viable and which ideas are not. They use this as a simple screening test - if the business passes this test, it's worth allocating more time to developing a full business plan if it's their product concept, or conducting further due diligence if they are looking at the project as a potential investor. If not, that time can be more effectively spent elsewhere.

The questions are:

The Seven Critical Question Test

1. What is the product you envisage?
2. Who is your target market?
3. Who will sell the product?
4. How many people will actually buy this product?
5. How much will it cost to get the product to market?
6. What is the product's sales price?
7. When will the break-even point be reached?

Market Research

8. What do people in your target market think of the idea?
9. What's been published about your market?
10. What information is available on the internet?
11. What do the experts in this field say?
12. What's the hard data on actual market size?
13. What are the emerging market forces or trends?

The Competition

14. Who are your competitors?
15. What are they doing?
16. What are people buying from your competitors?
17. What are the competition's trade secrets?

The Product

18. Specifically why will anyone buy your product?
19. What will your product look like when developed?
20. When will the product ship?
21. How will this product be differentiated?
22. Can the product be simulated cost-effectively?
23. What will the product be called?

The Customer

24. What do potential customers think of the idea?
25. Who are your real target customers?
26. What do your potential customers really want?
27. Will a focus group provide useful feedback?
28. How can you predict how much a customer will pay?

The Marketing Strategy

29. What is your strategic objective?
30. What marketing objective complements that?
31. How will the product be sold and supported?
32. Who will be responsible for generating demand?
33. Will the product require marketing, sales or both?
34. What is the marketing plan?
35. What can you do to become front page news?

Eternal Factors

36. What is your personal motivation?
37. What is your personal core competency?
38. Can your business deliver on its promises?
39. Would your staff buy the product themselves?
40. What are your instincts telling you?

Raising Capital

41. Should you invest your own money?
42. What questions should you ask potential investors?
43. What attributes will impress venture capitalists?
44. Who are your allies or sponsors?

Why Study Silicon Valley?

Main Idea

More than 7,500 high-technology companies are concentrated in the Silicon Valley area of Northern California.

Silicon Valley:

- Generates more U.S. patents than any other region.
- Is the United States' most prolific export region.
- Annually consumes about one-third of total U.S. venture capital funding.
- Is less than 20 years old.
- Has achieved leadership in the global high-technology industry.
- Has a culture of innovation that thrives on turning new technologies into profitable companies.
- Has a history of successfully developing many of the world's most innovative consumer products and technologies.
- Is the model for more than 40 high-technology centers around the world seeking to replicate its success.
- Is often the birthplace of technology-driven changes in business and industry.
- Has out performed many other regions with longer commercial histories.
- Utilizes a pool of experienced business executives and engineers who have experience in the complex process of transforming research technology into viable and profitable new products.
- Is home to some companies for which 50% of next year's revenues will come from products not yet shipping.

Clearly, the companies that are based in Silicon Valley are doing something right. Therefore, it makes sense to study how Silicon Valley companies bring new products to the market.

Successful Silicon Valley companies:

1. Pass the paper napkin analysis
2. Answer seven critical questions (questions 1 - 7)
3. Pick the right markets to enter (questions 8 - 13)
4. Know their competitors very well (questions 14 - 17)
5. Design exceptional products (questions 18 - 23)
6. Know their customers (questions 24 - 28)
7. Market their products effectively (questions 29 - 35)
8. Understand all key external factors (questions 36 - 40)
9. Attract the necessary levels of funding (questions 41 - 44)

The Paper Napkin Analysis

Main Idea

Before taking the time and effort to develop a full business plan for a new company, a new product or a new service, take a minute and jump straight to the bottom line.

On one piece of paper - a paper napkin if necessary - make a miniature business case for the new company, the product or service. Answer the seven critical questions outlined in the next section in 1-page or less.

Until you can answer those seven questions and can crystallize your thinking into a 45-second business case presentation, you really haven't developed the concept sufficiently to be able to talk to other people yet.

Supporting Ideas

Paradoxically, the best and most profitable ideas are usually those that are the easiest to explain. Silicon Valley insiders are keenly aware of this. Therefore, before investing the months required to develop full business plans, they first try out the viability of a new idea with a 1- or 2-minute verbal presentation of the business case for the new product concept to their friends and associates. If they are unable to generate enthusiasm verbally, it is unlikely a written business plan will fair any better.

The paper napkin analysis allows you to identify, right at the outset, those products for which a viable market is unlikely to ever exist - even if the product exceeds your specifications. It encourages entrepreneurs to focus on real world results rather than on nebulous ideas about how the world should respond to their new products and services.

Think of the paper napkin analysis as a useful screening device. If a viable business case can realistically be made, it will soon become obvious. A successful paper napkin analysis can then be supplemented with a full written business plan, multimedia presentations and more.

Targeting the key issues of the seven critical question test and answering them briefly and succinctly will also optimize your effectiveness - you'll spend less time working on product concepts that are unworkable in the real-world and more time looking for that one innovative concept or rationale on which future fame and financial success can be founded.

Key Thoughts

"What tips me off that a business will be successful is that they have a narrow focus of what they want to do, and they plan a sufficient amount of effort and money to do it. Focus is essential."
- Eugene Kleiner, Venture Capitalist

"Many people can present smoke, but are unable to find the factual information that investors need to understand."
- Roy Rogers, Rogers Investment Corp.

"During a presentation, you are trying to convince very intelligent people to part with large amounts of money. If you don't believe it yourself, you won't be able to sell it to anyone else."
- John Montgomery, Partner, General Counsel Associates

"Silicon Valley moves very quickly; people don't spend much time looking at business plans. They look at the executive summary, the financials and the biographies."
- John Montgomery, Partner, General Counsel Associates

