

## Reader Exercises

Now it is your turn to apply these venture scoping ideas for how to establish a focus for your venture. The following exercises should be done sequentially.

Also, a few words about student project teams. This type of work is often performed in teams to emulate the venture team startup process. If you do recruit team members for a project, have a separate discussion offline in terms of roles and responsibilities. Do this early in the project so that everyone understands the amount of “skin in the game” that each team member is willing to contribute. Then, have a process for reviewing each other’s work.

This commitment to getting the work done on time is so important. You don’t want to have people join your team just because they think your idea is “cool.” They must be willing to work because it is only through that work that your venture idea will continue to improve. As a fledgling entrepreneur, you don’t have the time, nor should you have the patience, to carry noncontributors on your back.

Now on to the assignments for this chapter. It is time to define your industry and business focus!

### Step 1: Score Your Individual LOT-R Test (see Figure 1.1)

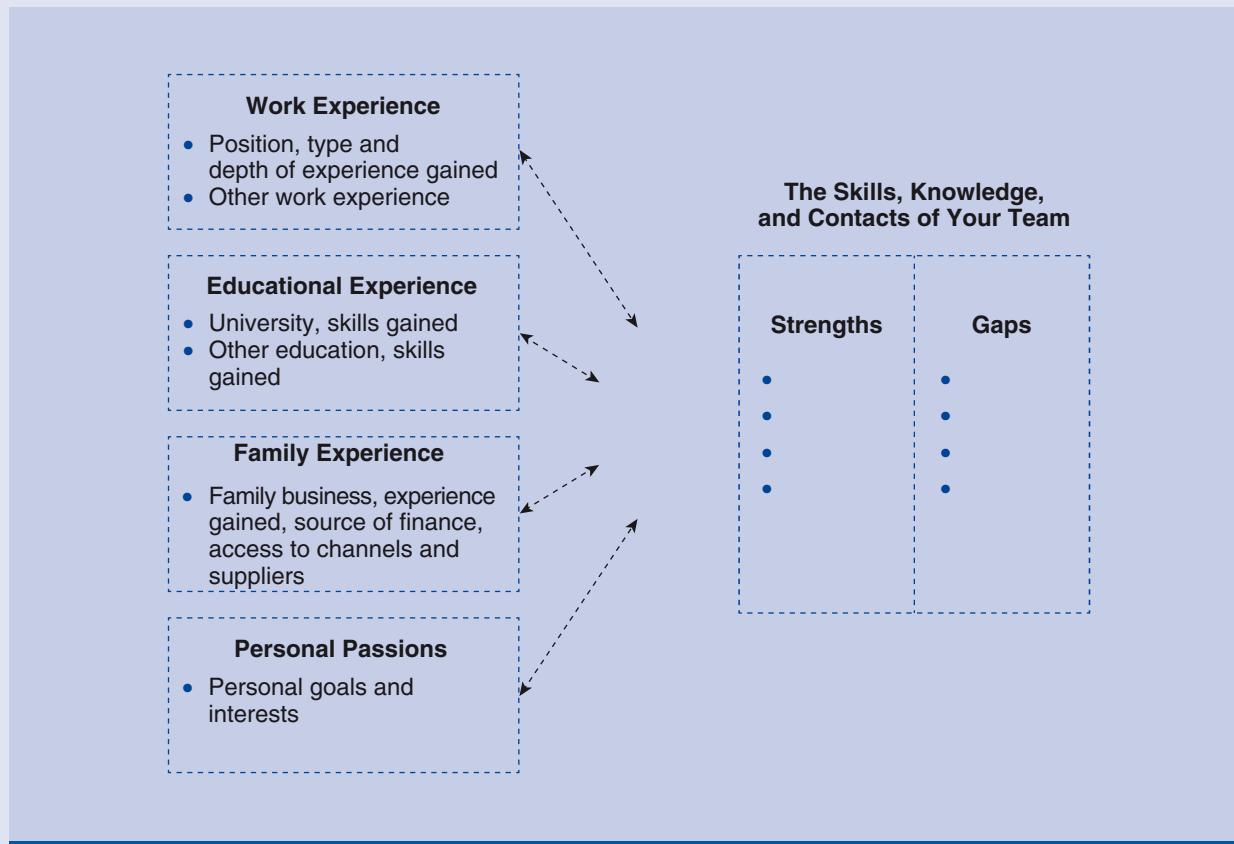
- You should score only statements 1, 3, 4, 7, 9, and 10. The other statements are “fillers.”
- Reverse score statements 3, 7, and 9. Reversing scoring means if you score a 5 make it 1, 4 make it 2, 3 make it 3, 2 make it 4, and 1 make it 5. For example, if for statement 3 you score a 5, add the score of 1 to your total.
- Sum your scores for statements 1, 4, and 10 and the reversed scores for statements 3, 7, and 9.

The scoring range is from 6 to 30. It should be pointed out that there are no true cut-offs for optimism and pessimism with this test since the constructs are a continuous dimension of variability. However, for the purposes of understanding your score, you should consider the midpoint score is 15. Therefore, any score below 15 would indicate that you tend to be pessimistic in your outlook. A score above 15 means you tend to be optimistic. That is, you tend to possess dispositional optimism. For the entrepreneurial journey, the higher the score the better. In fact, most of the successful entrepreneurs we have studied tend to score in the mid to high 20s. If your score is low, it does not mean you should give up on entrepreneurship. Don’t get depressed! But you might have to practice changing your mindset. Use this course to begin that effort. The work you do in this course will provide plenty of opportunities to practice!

For those readers who score a 30, just make sure that your tremendous optimism does not blind you from accepting certain realities such as customers telling you that your idea is plain wrong for their needs. In other words, it doesn’t work to be blindly optimistic and ignore the realities you may encounter as an entrepreneur. Instead, embrace “realistic optimism” and combine it with pragmatism—that makes a powerful combination!

### Step 2: The Team Needs to Collectively Complete Figure 1.6

Put down your specific work and educational experience as well as family history as it pertains to business and entrepreneurship. After each team member does this for him or herself, you then need to assemble a composite list for the entire team. In a different color (such as red), make an equally important list of the skills, work experience, and connections that appear to be lacking for the venture you have in mind. If you have gaps, don’t let that stop you; they can help direct your choice of new team members or the professors or advisers you seek out in the weeks and months ahead.



**Figure 1.6** Entrepreneurial Background Assessment

### Step 3: Conduct an Industry Analysis

This is a very important exercise. You need to search the Web and other data sources for information regarding your target industry. This includes hard numbers of the profitability of current market leaders and some intensive research on technology changes, channel changes, and competitors entering your industry. You also need to search sources such as *MoneyTree Report* ([www.pwcmoneytree.com](http://www.pwcmoneytree.com)) to see the current flow of angel and venture financing into that sector. Examples of industries might be biotechnology, software, medical devices, energy, media and entertainment, networking and equipment, or healthcare services.

Then, once you have gathered these data, we want you to score the attractiveness of each dimension in Figure 1.7 for your industry target. We have provided nine important dimensions for you to consider. Then, make an honest assessment of these dimensions, using data where possible. Is the segment/niche a good place to start a venture? Does it have favorable industry dynamics or not?

The highest possible score is 100. An industry scoring over 75 in this template is very much worth consideration as a venue for a venture. Any industry scoring below 25 should probably be avoided. If your industry scores in the midrange on the scale—say, 50—then you must think about how you will overcome industry problems and obstacles.

If the assessment score is low, you might wish to consider looking at a different industry or a different segment of the industry. Otherwise, you need to have a serious discussion about how to overcome the negative dynamics you have uncovered. When it comes time to raise money from professional investors, assume that they know the potholes just as well as anyone else. Seasoned professionals are good at uncovering “show stoppers,” defined as industry dynamics that make even a well-managed venture hard to grow.

	Facts/Data About Your Target Industry (Bullet points/facts)	Industry Score (1–10)
Current industry segment/niche size		
Industry segment/niche growth rate		
Favorable trends sweeping across industry		
Fragmented competition		
A feasible, money-making business model in the industry		
Activity in startups, financing, and deals in the segment/niche		
A favorable industry life cycle stage (not too early, not too late!)		
Existing channels of distribution in the industry		
Reasonably priced, widely available components, technologies, and ingredients		
No barriers to entry in terms of capital needed, production, and distribution		
	Total Score	

Scoring Key: 1 to 10, where:

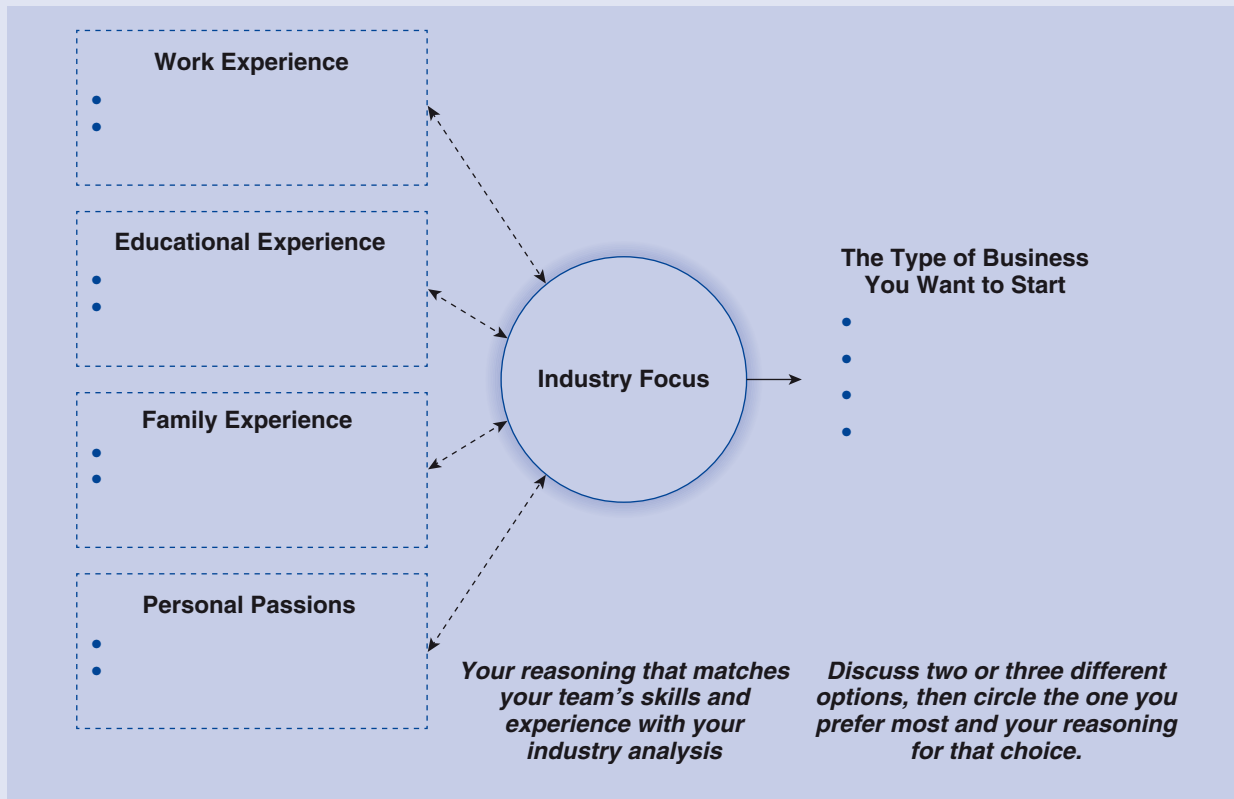
1 is “a potential show-stopper for a new venture”; 3 is “a significant challenge”; 5 is “neither a barrier nor supporting success”; 7 is “conducive to a new venture”; and 10 is “an ideal setup for venture success”.

**Figure 1.7** The Industry Dynamics Scorecard

## Step 4: Bring All of This Learning Together

Figure 1.8 integrates all of the prior work into a set of venture opportunities. Based on your personal work/education/family network and passions and your industry analysis, you should now be able to identify several venture ideas. At this point, you don’t need to get too specific about the products or services in these venture ideas. Instead, focus on what they will do—the value they will bring to users—and how a business providing them can make money. Circle your favorite choice for type of business. Then prepare a crisp, concise rationale for your choice of target industry segment/niche and the type of business you prefer to start. This, dear readers, is the first important step—you will now have an industry focus! The following chapters in this book will help you refine and test that venture idea.

Great work! Now it’s time to get feedback on your templates. Your professor may organize an in-class presentation session where you can share your ideas with the rest of your classmates and benefit from their experiences and insights. Don’t be surprised if some people want to join your team, or if you want to join theirs. And the very best thing you can do next is try to meet an experienced business person or investor who has already worked in your target industry segment. It might be an alumnus of your university, a contact of your professor, or a family friend. Or it might be someone you know from work. Present your ideas and listen carefully to the feedback. Doing this early on in the game will give you an advantage beyond compare.



**Figure 1.8** Your Industry Focus and Proposed Type of Business

Visit the Student Study Site at [www.sagepub.com/meyer2e](http://www.sagepub.com/meyer2e) to access the following resources:

- Web Resources
- Video Resources
- General Resources in Entrepreneurship