

# Part I

## OVERVIEW

Before we begin, there are many ways to go into business for yourself. Consulting; acquiring a professional license to practice law, medicine, or accounting; buying a franchise; or taking over the family business all work. This book is for people who wish to pursue a new idea or innovation that responds to a need customers are waiting to have solved. It is also about finding an idea that has a high likelihood of someday being worth a considerable amount of money.

Another consideration before we get started is the personal circumstances of the entrepreneur. If you are starting a new business, it takes time. This goes for all new businesses, frankly, so it should come as no surprise. Securities and mortgage brokerage, law, medicine, and accounting are all demanding exercises in the first lean years. Starting

a new company is the same idea. You must build support for your product and then enjoy the fruit of your work. If you are raising money for your business, remember that the investor is not likely to allow you to walk away with a substantial salary until you have proven yourself and your products. The point is that if you are unemployed and considering a new venture as a possible means by which to support the family, be realistic. It could take longer than you think for you to bring home enough dollars to cover all the bills. The key is to calculate carefully the distance between today and that moment when you will receive cash remuneration. If it takes one month to land a great job for every \$10,000 in salary you are seeking, you have a rough rule of thumb against which to measure your chances. For those of you who believe that you are a victim of discrimination, the odds shift even more dramatically against your being hired soon.

Allow me to introduce my co-teacher. I have always used this wise owl to help teach my classes because he or she (I could never figure out the gender of my co-teacher) is absolutely, positively never wrong. Our co-teacher inspires great respect from me and the students. Ladies and gentlemen, meet Dr. Market:



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From time to time Dr. Market will offer special insight into a particular matter, garnered after years of experience in the field of new venture launching. Here is its very first observation: It is difficult to conjure up any business idea that cannot be grown to a logical and large critical mass. Let's look at golf caddying and seamstress work. Can they be grown to a greater scale and provide you with greater net worth and income? Absolutely. The golf caddying can grow into an institute with training, certification, distinctive jumpers or uniforms, and PGA/LPGA endorsement. The seamstress business can grow with training, licensing, practice standards, and possibly a trade association for independents that will register their voices in the congress and state legislatures. This book addresses the potential for bigger and better businesses at the very moment an idea pops into your mind. It does not address the possibility of keeping your business a solitary, one-person-band.

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## Finding the Right Idea

Let's pause for a moment and examine how people find ideas to pursue. The process of finding the right idea involves several questions that you should ask yourself and your friends. They can be answered from experience or personal knowledge. The first question is so important that it is one of the 44 elements of the Scorecard, and you will see it again soon. The other questions are calculated to trigger a thought in your mind, maybe several. The objective of this chapter is to help you find one or several ideas that are worthy of analysis with the Innovator's Scorecard.

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### *Dr. Market's Observation:*



Don't just quit with one idea! The Innovator's Scorecard is so quick and efficient that you should be able to analyze a number of ideas simultaneously. In my classes we routinely analyzed between 10 and 20 ideas and the students selected the ones that scored the highest, all in the limited confines of one class session.

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### **1. Identify a Compelling Unserved Need**

Here is the most potent of the idea-generating tactics. It can be a two-step process: the first step is to create a list of people you know who have a great understanding about some field of endeavor. Find as many people as you can who know much about a subject or industry you might be interested in pursuing, even if it is in the nonprofit sector. What friends of yours have worked for a significant period of time in their field? Easy question—you should know people who fill this description. Now that you have the list, here is the question to ask the people on it: “What compelling unserved (or underserved) need do you perceive in your specialty?”

Let them think it over—often it can take a few days. Don't be embarrassed to inquire about others who might be able to help, particularly if your contact has no answer for you.

It does not matter whether you are a suddenly unemployed janitor, secretary, senior executive, insurance adjuster, lawyer, or politician. Everyone knows people who know a lot about something. In other words, there are no excuses for not being able to turn up a great idea using this process. If you do this for one week and you approach one or two dozen people who really know what they are doing in some field, you will have at least one and most likely several ideas that could make you rich.

*Dr. Market's Observation:*



When you ask whether an industry has a compelling unserved or underserved need, you don't have to understand a thing about the business. That understanding will come in time. The key for now is finding an area in which you would feel comfortable working. Frankly, the older you are the more likely you will tap an old experience that could illuminate the trail of highest promise. I know a person who performed title examinations between college and law school, worked briefly as a real estate broker and then as a stock broker, and finally ended up creating a blockbuster financial services firm that brokered mortgages and registered securities all in the same transactions. In the middle 20 years he was doing something completely unrelated.

## **2. Identify an Irritation**

Another tactic is to accumulate a list of the things that really annoy you or your friends. Poor service at the cable company, egg cartons that hold a dozen eggs instead of four, five-day bank holds

on out-of-town checks, a confrontation with someone at the airline ticket counter, pop-up advertisements in your Web browser, impossible congestion at the screening areas of the local airport, the high price of air travel to certain cities, and so forth. List all of these irritations. It is not yet time to discard any idea. Believe it or not, there are remarkable new business venture potentials in each of these possibilities. I suggest you try this for one week, taking notes. You should come away with some serious candidates for further examination.

### **3. Look for “Sleeves Off the Vests” Potential**

The old saw about “sleeves off the vests” can reveal some suggestions for a new business.<sup>1</sup> Do you know of any business that has refuse or byproducts that are already manufactured or built and that are being discarded? Nothing is too insignificant for consideration. Natural gas being burned off the oil fields in Siberia was the inspiration to build a compact yet powerful electricity generation plant powered by that same natural gas. The same logic might apply to the events, people, and equipment that accumulate around a great ski lodge. What could you do with them in the summer? The key here is being alert to downtime or materials that go to waste. Do any ideas spring to mind?

### **4. React to Jealousy**

Jealousy can be yet another inspiration for a new business idea. Can you see some product or service that you can or should be offering except that someone else has “beaten you to the punch?”

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1. Somewhere way back in the lore of business is the wisdom of selling the sleeves from the manufacture of vests. It refers to the fact that the clothing manufacturer was able to use the cloth saved from not being used for sleeves and applying it to some other product. Never mind that the savings would pass directly to the vest manufacturing activities. It was the *image* of sleeves laying around the cutting room floor that was the source of the wisdom.

When Orion Satellite Corporation applied to the FCC for permission to compete with Intelsat (the international telecommunications satellite cartel),<sup>2</sup> it didn't take long for the late, great, Rene Anselmo to seek "me-too" authority to do the same thing with his PanAmSat. At least he had the decency to buy us lunch at The Palm before he filed. Be careful here, however, because you will derive some low scores in many critical elements of the Scorecard. Don't be surprised if your idea that is born out of jealousy fails to achieve a passing score. Try to restrict your jealousies to persons or enterprises and not products. Do any ideas spring to mind?

### **5. Find a New Technology or a New Use for an Existing Technology**

Within the past 20 years, we have witnessed the advent of PCs, Macs, cellular phones, direct broadcast satellites, 500 channels of video on cable and satellite, the Internet, email, three-pound laptops, and much, much more. What is coming next? My guess is that the next 20 years will see things we can hardly imagine now. Is there a new technology out there that can be tapped? Is there an ancillary development or application to any new technology that offers the potential for a new industry or business? Examples could include developing new sensor hardware and software for PCs, creating video stringing software for cell phones, or establishing an Internet service provider (ISP) in a foreign country and selling computers with your software (and access number) imbedded in each. Can you see a new technology blooming overseas? Do any ideas spring to mind?

### **6. Imagine a Scene You'd Like to See**

Think about *Mad Magazine*, a cultural icon in which a cartoonist would draw a picture of a commonly understood situation or

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2. For further explanation see Appendix I.

dilemma alongside a perfectly preposterous solution. Expand on that mischievous notion: can you envision a circumstance or situation in industry or everyday life that allows you to conjure up a “scene you’d like to see?” This line of reasoning is allowed to be wacky because the underlying objective is to find a path to riches that no one else has pursued. Can you spin the earth differently? Can you flatten a mountain? Can you make commercial use of a signal bounced off the moon? Can you launch a discount airline? The objective is to uncover an idea worthy of pursuit and sometimes it requires moving off in an odd direction. Never believe that “preposterousness” thwarts new ventures.<sup>3</sup> Quite the contrary, it can have a role in ensuring success. Do any ideas spring to mind?

### **7. Get People to Say “Holy Smoke!”**

What could be done with a new product or service that would cause people to stand back and mutter “holy smoke?” We will worry later about reason and practicality; for now we just want to uncover an extraordinary product or service. Is there a surprise somewhere? Remember that this exercise is calculated to trigger new ideas for consideration. Here are some “holy smokes”:

- Undertaking supersonic travel with no sonic boom
- Moving a smell across the Internet
- Creating a device on which to see full sight, sound, motion, color, high definition, 3-D video
- Communicating by thought

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3. This undercurrent of mischief in entrepreneurship has roots in the teachings of the one fellow who is widely viewed as the father of learning about entrepreneurship, Dr. Joseph Schumpeter. His views on the subject of “creative destruction” can be seen in Appendix III.

The Innovator's Scorecard has an uncanny feature: If you lob an idea into the analysis in a field in which you hope to succeed, you will probably find that a slightly different and much more potent idea emerges. The Scorecard will actually refine or groom your idea into one that has the maximum potential for success. If there is any hope at all for your idea to win, the path to success should become evident in the analysis. The point is this: You don't need to come up with the winning idea to launch your analysis. Try a "Hail Mary" lob and you are likely to walk away with a winner that is different from what you expected.

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*Dr. Market's Observation:*



Remember the happy factor. By now you should have at least a couple of ideas to pursue, maybe several. Pause for a moment and clear out the ones you simply cannot imagine yourself ever doing. For example, I always thought that the ownership and management of a portable toilet business would be a lucrative deal with solid margins and plenty of work. But I just couldn't imagine myself doing it...You get the point. If there are good ideas on your list better left to someone else to pursue, so be it. Make sure your happy factor will not be abused.

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Finally, it's time to score your ideas. Prepare a one-paragraph description of each idea, and then run each of them through the Innovator's Scorecard as explained in the next chapter and in the 44 elements that follow. It should take about 15 to 30 minutes per idea and at the end of each analysis you will have a score. With added time and thought, the scores are likely to improve somewhat in accuracy, particularly after you wrestle with them over the course of several days.

## The Scorecard Elements

Compelling Unserved Need	Delivery Advantages
Explainable Uniqueness	Resources Available
Sustainable Differentiation	Preemption & Domination
Demonstrable Now	Strategy to Penetrate Market
Good Competition	Strategy for Breaching the Chasm
Bad Competition	Proprietary Ownership
Compelling Pricing Possible	Partnering Candidates
Closable Customers	Appropriateness of Location
Quality of Evidence of Demand	Quality of Backup Plan
Ahead of the Market	Unfair Advantages
Ambush Exposure	Manageable Capital Requirements
“Hot Market”	Low Capital Required
Attitude of Confidence	Until Launch
and Fearlessness	Visible Capital
Commitment	High Potential Value
Staying Power	Foreseeable Harvest
Passion	Taboo
Management Competence	Lack of Showstoppers
Honesty and Integrity	Pretending Not to Know
Success Ethic	High-Profile Persons Available
Looking Good in the Lobby	Punchy, Compelling Story
Cash Flowing Now	Government Relevance
Revenue Model That Swamps	Low-Hanging Fruit
Costs	

Each of the 44 elements in the Innovator’s Scorecard will measure a specific aspect of your idea. The Scorecard, which is also downloadable at [www.\\_\\_\\_\\_\\_.com](http://www._____.com), can be seen in Appendix IV—you can calculate with it by hand with a simple calculator or you can enter the values and formulae into an Excel spreadsheet.<sup>4</sup>

4. Don’t forget to test your spreadsheet by entering 10s for each score—the total should equal 860. Divide that number into your idea’s weighted aggregate score to determine your grade. A 70 or more is passing.

The scoring of each element varies according to the subject matter of the idea. In the next few paragraphs we will explore the role of intuition, how to score and weigh the elements, a bonus method of using the Scorecard, how to deal with a bad score in an element, adjusting your scoring if an item is truly irrelevant, maintaining reality, synthesizing the scores, and dealing with overlap, that is, the possibility that two or more elements seem to be covering the same concept. Once we grasp these administrative details, we explore the various sections that are presented in each element. Each element has an actual scoring sample at the end so that you will understand how it can be applied to a real-life situation. Occasionally I will need to make assumptions that would be based upon my personal experience, such as my political contacts or my access to capital. I will describe these assumptions and disguise the names.

## Subjectivity and the Role of Intuition

In the first few precious moments of an idea's existence, a struggle emerges between objectivity and subjectivity. If you were perfectly objective, you might just toss away a very good idea. Perhaps objectivity can be thought of as an offshoot of the strategic planning process.

The key to the Innovator's Scorecard is therefore *intuition*, which *Webster's Dictionary* defines as "the act by which the mind perceives the truth of things immediately without reasoning and deduction, a truth that cannot be acquired by, but is assumed in experience." In a world that honors research and objective analysis, the possibility that a purely intuitive tool could be helpful is intriguing.

Clearly, the objectivity<sup>5</sup> that results from due diligence investigations has a place in the decision-making process. However, it is fair to

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5. Unfortunately the objective (that is, non-intuitive) approach to new enterprises as practiced in corporate America is sometimes vulnerable to corporate politics. For whatever reason, when large corporations try to launch new businesses, rational judgment sometimes is trumped by politics in the executive suite. Motorola's experience with Iridium is exhibit A. To professionals outside the company, Iridium simply never made sense as a commercial venture.

say that nearly every important innovation took its first steps on the basis of subjectivity and intuition. General Motors, AT&T, Motorola, Procter & Gamble and nearly every other Fortune 500 name began with little more than a hunch. Before the first automobile, phone call, portable radio transceiver, or bar of soap was ever sold, the prospect of success was 100% in the minds of the developers.

There are some remarkable success stories involving lesser-known endeavors, too. One of the most curious involves the US Navy submarine USS Scorpion (SSN-589), which sank May 22, 1968, and was discovered about six months later in more than 10,000 feet of water about 400 miles southwest of the Azores. The submarine was found after several highly experienced naval design experts and mathematicians guessed at the location in a betting exercise conducted by John Craven, the civilian specialist that the Navy hired to manage the investigation. The consensus opinion was that a torpedo motor had been activated, and that to activate its internal switch to turn the engine off, the submarine had reversed course precisely 180 degrees. Based upon their collective hunch, the submarine was found about 200 yards from the designated coordinates.<sup>6</sup> Intuition solved the puzzle.

## The Numbers on the Scorecard

Here is the description of the two numbering schemes used for each element. The first is scoring and the second is the weighting. Scores are unique to each business idea, while the weights are identical for each element for all business ideas.

### Scoring

The scoring continuum runs from +10 to -10. The first challenge is to determine whether the score is positive or negative. Essentially,

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6. Sherry Sontag et al, *Blind Mans Bluff: The Untold Story of American Submarine Espionage*, Chapter 5, Thorndike Press, 2000.

this means evaluating the risks and rewards of a certain action or behavior. You may not realize it, but that is something you do every day: What are the odds that I will maneuver around a slow poke if I were to take the far-right lane on the freeway? Would I be happier if I were to use the other cleaners? Should I overstay my welcome on a parking meter? In each of these cases we assess the odds of success against the penalty for failure.

Importantly, you must comfort yourself that a feeling you have about a particular score is sufficient. This is a critical component of the intuitive: the educated guess. You can always adjust the score later if after further consideration your score would “feel better” if it were adjusted. How do I score each element? I begin with a pass/fail mark, a 7 being the magic threshold. Does it deserve a score above 7? How much? Is it C (7), B (8), or A (9) level work? Is it a perfect 10? Since nearly all readers have had experience with this scale, it should be a manageable scoring proposition. If it is a flunk, is it a close 6? Or does it plunge down through a 5 (that is, a 50%), 4, or a 3? Does it deserve a flat zero, as in no possible way? Does it deserve something slightly more than a zero, say a 1 or a 2? I give a 1 or a 2 to elements that deserve a zero but that also have some redeeming value.

Some scores can be so low—even for ventures that ultimately are successful—that even zero is inadequate and we score the idea in the negative range. For example, Orion Satellite Corporation proposed to compete in international satellite telecommunications with a global cartel named Intelsat. The US representative and connecting service, Comsat, which owned the exclusive authority to operate into and from Intelsat satellites, was charging roughly 10 times the price of domestic satellite services for basically identical technology. At Orion we were convinced that we could provide a better service for a fraction of the price. But still, with 130 nations aligned against it, Orion deserved a dramatically bad score on the element called Showstoppers. In other words, if an element is not

merely weak but rather a colossal handicap, it deserves a score in negative territory. If this element deserves a score indicating absolute certain death, score it a -10. We'll return to Orion's Showstopper score later.

### **Weighting**

Each element has a unique “weight” that deserves to be multiplied against the score. This “weighting” is an acknowledgment that some elements are of heavier “weight” or importance than others. Rather than delve into a long explanation of precise weighting, I have taken the liberty of simply assigning a light, medium, or heavy weighting to each element. Naturally, if an element has no weight or relevance at all, it will not be found on the Scorecard. If the weight is light, medium, or heavy, the score will be multiplied by 1, 2, or 3. In keeping with the intuitive nature of the Scorecard, this weighting is simply a feeling based upon my experience. The individual weights of each element remain constant for all ideas, while the scoring of each element will naturally be quite different for each idea. For example, every time you score a Critical Unserved Need, that score will be weighted a 3 irrespective of whether you are launching a new airline or a nursing home.

## **A Bonus**

In addition to rating the viability of a new venture, the Innovator's Scorecard can be used years later as a diagnostic tune-up tool.<sup>7</sup> As experience mounts and the entrepreneur accumulates and synthesizes information over time, the Innovator's Scorecard gains accuracy. It is, after all, a snapshot of the imagined reality at any

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7. But beware of earning a “Game Caution.” See p. 311.

given point. The most valid picture is likely to be a sequence of several snapshots rather than any one single image.

## **Individual Bad Marks**

No individual element score should be low enough to bar a venture. Low scores are simply a map of the land mines on the business's landscape. If you can disarm the mines, you may be able to succeed even if you have a low score. The lowest possible Showstoppers score applied to Orion, as discussed on p. 255. We were confronted by 130 angry nations allied against us in a functioning and legal cartel. We deserved a -10 on the Showstoppers score, which would have derived a -30 for the project. Was it fatal? Not at all—we succeeded! The point here is to persist and keep nurturing solutions to poor scores. They could some day bloom into respectable passing marks. The key to successful analysis using the Scorecard is the aggregate score. Can it reach at least a passing 70%?

## **Irrelevant Elements**

From time to time you will be tempted to ignore an element or two. What, pray tell, could a famous person or a congressman have to do with your business idea? Plenty! I don't care if you are opening a commercial tool shed, if Tom Cruise loves your stuff, or if a congressman could stand guard over legislation that impacts tool sheds, you must pay attention. The moments that I have believed that an element was irrelevant were often followed by a revelation that I was being adversely impacted by an

opponent on precisely that element. All the elements are here for a reason and you need to “squeeze your brain” to address each one honestly. There is, in my opinion, no such thing as an irrelevant element.

## **Reality**

Be realistic. Intuitive estimates on a score are not excuses to be silly. Each one demands realism. One of the 44 elements indeed confronts the reality of the underlying business idea head on—see Pretending Not to Know on p. 261. A strength of this tool is its ability to derive practical results that are synchronized with reality across all of the elements.

## **Synthesizing the Scores**

If you were to score a perfect 10 on all 44 elements, you would accumulate 860 total points. This is because the individual score on each element is multiplied by the weight or importance of each element. When you are ready to determine how you fared on the Scorecard, divide your total points by the maximum possible—860. This is the score you need to use to determine if you should move forward. If you cannot reach a percentage close to 70, your idea really needs more work. Return to the elements that are below a 7 and improve those flunking scores until your aggregate exceeds 70%. If your score remains significantly below 70% even after you have twisted your idea and done all you can to improve the bad numbers, your idea could be in trouble.

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*Dr. Market's Observation:*

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It should be difficult to score below 70% if you have optimized your idea during the scoring process. Your idea is likely to have changed a little bit by the time you emerge from the scoring process so that it reconfigures itself into a passing score. Be as flexible as you can be and drive yourself into a situation that has a maximum chance for a successful launch. Don't be afraid to give up something about your idea if it can mean that you score higher and further assure yourself a big win. Also, don't forget to adjust all of the element scores to conform to the changes in your idea—if you change the idea halfway through the scoring, you need to start again from the top (it can't take long to redo the score!).

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## Overlap

Most of the scorecard elements slightly overlap other elements. You never know when you will catch a glimpse of a problem or a blessing that will have a material impact on the potential for success. If you believe that the product is sustainably unique but there is no way to confirm that the product is ahead of the market, there could be a problem. You may have stumbled onto a hidden competitor or product substitute, or even an ambush or something important that you were pretending not to know. Only after you score each item will you have a sense of the precise nature of the threat. Have patience.

## Features of each item

### Definition

Often the scorecard elements are idiomatic and where the dictionary is helpful in defining each term, we use it. Where we've used a phrase that you may not find in the dictionary, we will try to use common sense to explain what it means. This book uses the cultural lexicon of new venture launching. For example, while "showstoppers" and "low-hanging fruit" are not found in the dictionary just the way we require (showstopper here means something quite different from its dictionary meaning), the words themselves connote the appropriate image for our purposes.

### Relevance—Why Add This Element?

Each element is described in terms of its relevance to a successful launch. In some cases there is relevance for the long-term prospects of the enterprise (see *Strategy for Breaching the Chasm* on p. 181). This section is in keeping with the learning process from which the Scorecard emerged. Learning can often bloom after a moment's reflection upon context and relevance and it is in this section of each element that I hope to explain why it is that the element has been added. If you don't understand the relevance, then you may not grasp why it is being addressed.

### Where to find the answer?

Where can we find this information? Some of the information will be tough to unearth and some will be easy. In each case I will offer ideas about where you might quickly find a certain type of

information. As time permits and with deeper research, the tool can become more accurate. But you need not dig deeply just now. Speed and nimble thinking are needed first, before we turn to facts and objectivity.

### **Score Elevation Tactics**

How can we improve the score on this element? Unless the score is a 10, there is room for improvement on an element. I will suggest how to add points to the score directly, indirectly, or inferentially to improve the odds of launch success. Remember that the score must reflect reality. It is simply drawn from a different place on the analytical compass than objective research. If an item's score is low, we can drive it up in any legal way possible, including changing the law. This is where we consider how to make your idea simply perfect.

### **Practical Experience**

How has this element worked in the past? This feature shares my personal experience and observations regarding the element. I hope my first-hand understanding of all the elements and their fit within the Scorecard helps you make the best assessment of your idea that you can. It is here that I hope to provide a well-grounded set of experiences to bring your understanding of that element into sharper focus.

### **Examples**

How could this element look or feel if it materializes? This section offers some examples of what I believe is the essence of each

element. Hopefully these observations will spark a thought or two as you launch your venture.

## Putting the Number to the Scorecard

One surprising aspect of the Scorecard is the ease with which you can apply the scores. Let's try it a few times. What if we were trying to create a new broker-dealer securities firm that sells stocks and bonds? Compelling Unserved Need would absolutely deserve a negative score for element number one. It is so un compelling that I would score it a -10. What about a cure for prostate cancer? If that is not a 10, it certainly deserves a 9 in the same element. How about the High-Profile Persons Available element for the new securities firm? Perhaps something positive, but until you contracted with someone special, it would have to remain in the low positives, say a 3. Win the support of Warren Buffet and you are into serious passing territory, say a 9 on that element. High-Profile Persons Available and the cure for prostate cancer? Same drill—I would score it a 3 (primarily because it surely should attract someone) unless you could win the support of a famous victim of the disease and then I would award it a 9 or a 10. As you can see, the scoring flows very easily and does not demand anxious precision. One thing to remember is that negative scores are reserved for crushing and penalizing scores and 7 or above is reserved for scores that pass and do not require much scrutiny in the future. You will be returning to the poorer scores to try to improve them. Just post the mark you feel it deserves on this element and move on. You will review each one several times before you tally your final aggregate score.