Decision Making in IT Ventures

March 25th, 2014

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Laboratory for IT Entrepreneurship
Transforming IT ideas into ventures
Agenda

- Definition of Decision Making
- Key steps in the Decision Making Process
- Decision Making Process applied to assessing a business idea
- Peculiarities of the IT industry and decision making in IT
- IT 496 “Decision Making in IT ventures” – Fall 2014
- Q&A / Wrap up
Decision Making: Definitions

- “The thought process of selecting a logical choice from the available options”
  Business dictionary

- “Decision making is the process of identifying and selecting a course of action to solve a specific problem”
  James Stoner

- “Decision making involves the selection of a course of action from among two or more possible alternatives in order to arrive at a solution for a given problem”
  Trewartha and Newport
“IT’S NOT ABOUT IDEAS. IT’S ABOUT MAKING IDEAS HAPPEN.”
Key Steps in the Decision Making Process

Starting a new business

- Define the problem
- List the alternatives
- Identify the outcomes
- Determine the payoffs
- Make a decision
Step 1: Clearly Define the Problem

- What is (are) the problem(s)/need(s) you are trying to address?
  - Identify **unsolved problem(s)/need(s)** customers are experiencing
  - Why are they still unsolved?
    - technology not mature enough?
    - new problem?
    - market too small?
  - Expressed needs
  - Unexpressed needs
What does a man in the desert need the most?
Step 2: List the Possible Alternatives

How are you going to solve the problem(s) or satisfy the need(s)?

– Create a new product/service
– Improve an existing product/service
Identifying the Resources Needed

- Improving an existing product/service
- Creating a new product/service

Resources needed:
- Skills
- Floor space
- Time
- Services
- Equipment
Analyzing the Alternatives

New product/service?  

Yes  
Who are your competitors?  
Proof of concepts/estimate

No  
Is it patentable?  
Patent search

What is unique about your product?  
Feature, price, quality

Who are your competitors?  

Benefits to the customers
Step 3: Identify the Possible Outcomes

Possible outcomes

- Favorable market (people will buy your product)
- Unfavorable market (people will not buy your product)
Will People Buy Your Product/Service?

- Identify **value/benefits** for the customers
- Identify your **target** – who will buy your product/service
- Identify the right **price**
Identify Value/Benefits for the Customers

- **Measurable**
  - *For example*, a product that helps the customer *save money*

- **Non-measurable**
  - *Enjoyment* that a customer receives from a product or service in the face of the paid price
Defining a Value Proposition

VALUE PROPOSITION
(the business’ promise of value to be delivered to the customer)

- **Relevancy**: How your product solves customers’ problems?
- **Quantified Value**: Specific benefits delivered to the customers?
- **Differentiation**: Why customers should buy from you?
The party is over for thieves.
Prey lets you keep track of your laptop, phone and tablet whenever missing, whether you're in town or abroad. Open source, proven software with hundreds of documented recoveries all around the world.

http://preyproject.com/

Send beautiful email newsletters.
Campaign Monitor makes it easy to attract new subscribers, send them beautiful email newsletters and see stunning reports on the results.

http://www.campaignmonitor.com/
Who Will Buy Your Product/Service?

Who will buy your product/service?

Consumer Market
- Age, gender, income, spending habits, goals

Business/Organization
- Industry, size, annual sales, suppliers, customers
Customer Profile

Why should you create a customer profile?

– Understanding *why customers may want to buy from you*

– **Segmenting your market**
  - Target customer groups with different offers tailored to their specific needs

– **Making it easier to find new customers**
  - Look for similar prospects
Steps in Creating a Customer Profile

- **Describe your customers’ key features**
  - Demographics (age, gender, income, educational background, etc.)
  - Psychographics (personality, interests, lifestyle and values)

- **Locate your customers**
  - Where are your customers (geographical area)

- **Understand their buying process**
  - Where do they start their search?
  - What are the specific needs of each segment?
  - What benefits are they looking for?
  - What motivates them?
  - convenience, customer service, price and promotions
Identifying the Right Price

- What price are your competitors (direct and indirect) charging?
- How much are your customers able/willing to pay for your product/service?
- Is it profitable?
  - How much does the product cost to you?
  - What are the revenue streams (one or multiple)?
Step 4: Determine the Payoffs

- Estimate your sales for the 1\textsuperscript{st} year of operation

- Factors to consider:
  - Market size
  - Geographic area
  - Level of competition $\rightarrow$ Market share
  - Price
  - Plans for promotion
  - Growth potential (trends in your market/industry)
  - Capacity of your operations in the first year
  - Seasonal factors

- Scenarios: pessimistic, optimistic, and realistic
Step 4: Determine the Payoffs (cont’d)

- Estimate your costs

<table>
<thead>
<tr>
<th>Resources needed &amp; costs</th>
<th>Creating a new product/service</th>
<th>Improving an existing product/service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory (products)</td>
<td></td>
<td></td>
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<tr>
<td>Skills</td>
<td></td>
<td></td>
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<tr>
<td>Equipment/supplies</td>
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<tr>
<td>Floor space</td>
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<td></td>
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<tr>
<td>Services needed (i.e. consulting, legal)</td>
<td></td>
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<tr>
<td>Time</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (i.e. incorporation fees, insurance)</td>
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</tbody>
</table>
Step 4: Determine the Payoffs (cont’d)

- List the payoffs and make your decision

<table>
<thead>
<tr>
<th>Alternatives</th>
<th>Pessimistic scenario</th>
<th>Optimistic scenario</th>
<th>Realistic scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>Create a new product/service</td>
<td>-50,000</td>
<td>150,000</td>
<td>90,000</td>
</tr>
<tr>
<td>Improve an existing product/service</td>
<td>-20,000</td>
<td>80,000</td>
<td>40,000</td>
</tr>
</tbody>
</table>
Peculiarities of the IT Industry
IT industry - Peculiarities

- Cost Structure

  - High fixed costs
  - Zero/near zero variable costs

Pricing Strategies
Rapid Technological Progress
IT industry – Peculiarities (cont’d)

- Network Effects
IT 496 - “Decision Making in IT Ventures”

- **Content:** decision making processes; evaluating the impact and outcomes of decisions in IT ventures
- **Format:** team centered; hands-on approach
  - teams will be required to complete a specific phase of their business creation process
- **When:** Fall 2014
- **Where:** Prince Williams Campus – BRH 249
- **Day/Time:** Thursdays – 4:30 to 7.10
- **More info and Syllabus:**