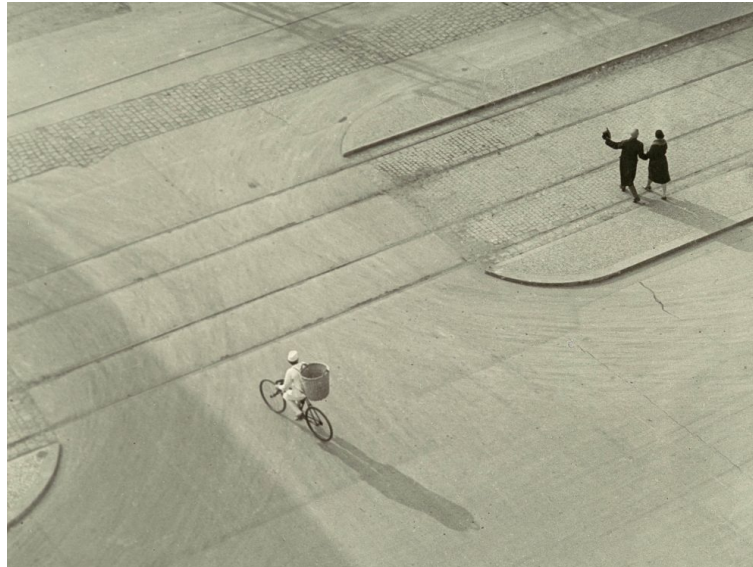


Market Logic of a Business: Seven Fundamental Questions

Published on Mar 08, 2017 by Niko Canner



One of the questions we often see in our work is about whether and how to launch a business that doesn't yet exist. This question comes up both in the context of early stage start-ups shaping their strategy and in the context of teams in larger companies considering the launch of new businesses.

Answering this question well requires focusing on two kinds of logic:

- **Internal logic:** What purpose are we looking to advance by launching this business?
- **Market logic:** Can this business be built to deliver value to customers/clients in a way that creates the required value for essential stakeholders, with the resources and capabilities that we have or can realistically expect to get along the way?

Imprecise **internal logic** can easily result in building the wrong business for the wrong reasons, which we'll cover in a future post. Faulty **market logic** often results in expensive failure to build a viable business at all.

While businesses in specific industries are commonly approached through different lenses - e.g., the clinical development phases for biotech, the milestones of raising a fund for asset management, the dynamics of building an audience for media - we've found that this set of **seven fundamental questions** form a starting point that can be adapted to any kind of business:

1. How are the market needs currently addressed?

- What is the "job to be done" that's currently not served?
- What segments of the market are currently being served poorly (or are unserved but high potential to serve with a new model)?

2. What specific end-points or other product specs needs to be delivered in order to have a significant advantage?
3. What price point can we achieve?
 - Who are the payers?
 - What gives us confidence that we can realize our target price?
4. What is the competitive landscape?
 - How do we know we can achieve an advantage?
 - What makes us believe that we can sustain the advantage?
5. How can we create demand?
 - How much do we need to spend?
 - What are the risks associated with reaching target demand volumes?
6. What are our economic expectations?
 - How do the resources we need to obtain (e.g., capital, talent) shape these economic expectations?
 - What are the risk parameters associated with these economic expectations?
7. What is our current understanding of the probability of success?
 - Probability of technical success?
 - Probability of achieving market entry, if technical success (e.g., regulatory approval; capital, deals, other factors needed to get to market)?
 - Probability of market success, if requirements for technical success and market entry are met?
 - Execution risk associated with other factors that could be a “friction loss,” preventing the enterprise from realizing its potential to succeed along the dimensions above?

Often, some of these questions can't be answered well at the outset. Where answers aren't achievable, we still believe it's important to “stare at the question” and reflect on:

- Must we be able to answer this question now, before proceeding further?
- When and how do we expect to answer this question?
- During the period in which we're moving forward without an answer, what *stance* are we going to take to the question? Will we “act as if” a certain assumption holds? Will we hedge our uncertainty in some specific way?

Sometimes the most practical choice is to drive blind on some important aspect of market logic, and to crash into a “known unknown.” What should be avoided at all costs is driving with one's eyes closed, failing through simply not having thought through questions of market logic and making clear, explicit decisions about what unknowns to resolve and what unknowns to accept.