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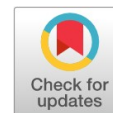


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3-ELEVATOR QUESTIONS A SHORT AND SHARP METHODOLOGY FOR EVALUATING BUSINESS IDEAS

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Abstract. “3- Elevator Questions” presents a simple and sharp methodology for accessing the critical elements of any business idea. Many Startups spend a lot of time and resources on developing a product or service. Yet after launching the product, the market is less than enthused with the offering, and slowly the product and the company that launched it go into the background discontented, resulting in a high failure rate in startups. Our proposed methodology provides entrepreneurs with an investor’s point of view about their company. The “3-Elevator Questions” Framework provides a simple framework for testing the commercial success of the business. Following this methodology enables the Entrepreneur to communicate his product/service offering, target market, and value proposition concisely. It also enables the Entrepreneur to build a competitive advantage to compete with his competitors. In this paper, we will discuss cases where companies executed a winning strategy by adopting this methodology. In the study conducted, we have obtained desired results with startups, and we feel that established businesses can obtain similar desired results by using this methodology in commercializing new products/services.

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INTRODUCTION

Start-ups play a key role in the development of a nation’s economy. Many of the modern corporate giants like Microsoft, Yahoo, Google, Apple, and Infosys to name a few started as start-up companies. Historically start-ups are prominent growth drivers in the western economies. However in the recent years several factors have contributed to the evolution of start-up cultures in developing economies and Asian economies. Some of the prominent Asian start-ups like Alibaba, Infosys, Flipkart, and Yahoo have proven themselves more than a match for their western rivals.

Two prominent aspects that have led to the evolution of start-ups in the Asian markets are Globalization and Internet. Globalization has enabled global consumption of products & services. This has enabled the Asian economies to target global markets, access funds from global markets and grow at an unprecedented speed. The increase in internet penetration globally has created platforms to reach customers irrespective of geographic boundaries.

Start-ups however are risky ventures and have a low success percentage. In established capital markets where access to angel investment and venture capital is abundant, entrepreneurs can mitigate the risk to some extent by cutting down their own personal losses. However in Asian markets where the average income levels are lower, entrepreneurs are putting their hard

saved money and launching their start-ups. The fear of losing this invested money inhibits rational thinking. This further hinders the objective analysis of the business venture’s scope, which ultimately leads to failure.

LITERATURE REVIEW

Several researchers have studied the start-up industry. Benjamin Oviatt and Patricia Phillips MacDougall in their research stress how globalization has enabled to start Global Startups (Oviatt, MacDougall & Loper, 1995; Gabrielsson & Politis, 2012) that have global foot print in functioning. R.G. Cooper in his research identifies the key factors that differentiate products for commercial success from the one that failed (Cooper, 1979). Arnold C. Cooper, F. Javier Gimeno-Gascon and Carolyn Y. Woo in their research correlate the level of success achieved by the start-up to the strength of human capital and financial strength (Cooper, Gimeno-Gascon & Woo, 1994). However, all these studies concentrate on post analysis of events that already occurred.

Steve Blank in his research on the concept of “Lean Startup” (Blank, 2013) illustrates the fallacies of relying on concrete business plan and proposes the “Lean Start-up” concept. Our Framework is an extension of this train of thought where we go further and provide a framework for planning and pitching your

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start-up.

Research Objective

The objective of this research is to provide a framework for objective analysis of a business idea. The entrepreneur from the concept stage itself can apply this framework. This is a tool which objectively can be used to chart a business strategy and focus on the immediate next step. This is also a powerful tool for an investor to assess the potential of the business, size wise, scope wise, and calculate his return.

The 3-Elevator Questions Framework

I developed this Framework during my stint with the Venture Creations Business Incubator at Rochester Institute of Technology. I had the opportunity to work with many start-ups in their first 2 years of inception. In my first meeting with them, I asked them to present me their case by answering the following three questions:

Question 1: What is your product/service and whom are you planning to sell it to?

Question 2: Why will the customer pay for your product/service?

Question 3: Why will the customer Purchase it from you and not from another company?

I asked them to think hard and prepare two-three line answers for the above-mentioned three questions. Most of them find it easy to prepare a twenty-page business plan but find it difficult to answer each of these questions in 3 lines. Let us see the significance of each question and how concisely answering it is helpful.

Question 1: What is your product/service and whom are you planning to sell it to?

If you think hard this question answers two important aspects of the business. First aspect is the product or service offering. Any start-up will start with a single product line or service offering. You need to figure out what is going to be the first offering that you will be offering for the customer. The second aspect is the initial target market/lead customer (Thomas, 1985; Ucbasaran, Westhead, & Wright, 2009). Your offering may be useful to a broad spectrum of market users, but not all of them will have the same level of need and paying capacity. Therefore, you need to segment the market and identify the lead users or the initial target market. The lead users are the ones usually with the highest need for the product and with a means to pay for it. Remember if the entire market is your target market in effect, nobody is your target market. Answering this question will make you focus on your first offering and your initial target market.

Question 2: Why will the customer pay for your product or service?

The answer to this question is the perceived value proposition of your product/service offering. Statistically most of the times the entrepreneur overvalues the perceived value of the product offering by 3 times due to attachment with the product. Similarly, a customer devalues the value proposition to 1/3rd of the actual value due to the unfamiliarity with the product. This will in effect cause a disconnect of 9X regarding the perceived value (Gourville 2006). Identify the key functional, aspiration and emotional benefits the customer is fulfilling by using your product or service. List out the top 3-5 features. These will be the foundations on which to base your offering.

Question 3: Why will the customer purchase it from you and not from another company? The answer to this question will provide you with an objective assessment of your competitive advantage. Although your product/service idea may seem very novel to you there will be a closely resembling product or another complementary product that is already catering to the market. Even if your product offering is superior, you cannot expect all the customers to migrate to your product offering. The market is segmented and you need to understand which segment of users will be the first one to adopt your product offering and then the next segment etc.

Another important factor would be the competitive barriers you can erect to protect your customer base from existing and prospective competitors. You need to do market research and understand your competition and their impact on your business prospects. Understanding this will enable you to come up with a realistic estimate of your market size and will enable you to form market entry and market penetration strategies.

Application of 3-Elevator Questions Framework

I used this framework while working with companies in their first 2 years of inception. We will list two such cases in this article.

CASE 1: Company that developed filter attachment for reducing NOx and Particulates

Company "A" (real name not disclosed) is a start-up company that developed a filter that is connected to the catalytic convertor that significantly reduces the NOx emissions and Particulates. During my first meeting with them the inventors were pretty excited and were talking about targeting the entire auto industry including the passenger cars, trucks, tractors etc.. I worked with them using the 3 Elevator Questions framework for a period of 2 months and came up with the first selling strategy that resulted in actual sales. In the table below I have listed their answers in the first meeting and 8th meeting after 2 months of market research.

TABLE 1
Response of Respondent of Case 1

SI No.	Initial Meetings	After Applying 3 Elevator Questions Framework
Question 1: What is your product/service and whom are you planning to sell it to?	A. Our product is an emission control solution for Engines. We are planning to sell it to major automakers, Truck manufacturers and ATV manufacturers.	A. Our product is filter that reduces NOx and particulates; we are planning to sell it to school districts for fitting it to their buses. We will be also responsible for installation and maintenance of our product.
Question 2: Why will the customer pay for your product or service?	A. Emission norms are getting tighter and companies are looking for reducing emissions. Our product will reduce the emissions in all four wheelers, trucks and ATVs.	A. NOx and Particulates are main emissions in diesel engine powered buses that are in idling. School Districts have strict norms for air quality on their location. They have the means and motive to pay for our product.
Question 3: Why will the customer purchase it from you and not from another company?	A. We are the first company to develop this. We have applied for patent for this product.	A. We will be the first company to cater to this market. Other manufactures rely on independent dealers to cater to the service requirements of clients. It will take time to build a sales and service channel to this market.

The firm initially looked to market its product to a broad spectrum of automakers. Auto market comprises of several segments and it was tough to plan a market entry strategy. Therefore, instead of a top down approach we concentrated on a bottom up approach. We identified end customers who will have the biggest need for this product. After extensive research, we found that in school bus market there is an unsatisfied need. School buses are idled in school premises for a long time while students board the buses. NOx emissions are high during idling and this hampers the air quality in the school districts, which violates their air quality norms.

This market size is significantly small but by serving this untapped market, the company is able to generate its initial sales. As the sales in this segment picked up and the product delivered on its promise, they expanded slowly by selling this product directly to the bus manufacturers and 18-wheeler truck markets.

CASE 2: Company that Developed Beltless Continuous Variable Transmission

Company "B" has developed a design for Beltless Continuous Variable Transmission (CVT). It was still in design state and

a prototype had not been built. They are exploring various markets for commercializing this product. We have used the 3-Elevator Questions framework to identify our lead users. Below listed are their responses after the first week of our meeting and after 3 months of research.

Initially the Entrepreneurs wanted to develop the design for the automobile market. However, after assessing the market we felt it to be a very hard market to sell as several auto makers already had teams working on designing a similar product. Hence we have taken a step back, understood the functionality of the design and researched alternative markets where this technology can be utilized.

We found a need in the wind energy market. After getting a favorable interest from this market, we were able to build a prototype in a span of six months and complete the first major installation in 18 months. Now after 5 years the company is making custom installations based on individual client requirements and is a profit making venture with sales >15 million USD.

TABLE 2
Response of Respondent of Case 2

SI No.	Initial Meetings	After Applying 3 Elevator Questions Framework
Question 1: What is your product/service and whom are you planning to sell it to?	A. Our product is Beltless Continuous Variable Transmission. We are planning to sell this component to Truck manufacturers, Snow mobile manufacturers and ATV manufacturers.	A. Our product is a Beltless Continuous Variable Transmission. This delivers constant output speed while taking variable input speed. We are planning to sell it to Wind Energy segment.
Question 2: Why will the customer pay for your product or service?	A. In the mentioned markets gear shifting is tiresome. Using a CVT reduces the effort but belt failure rate in CVTs is higher. Beltless CVT offers higher life than conventional Belt CVTs.	A. Wind turbines rotate at various speeds based on wind direction and speed, but the coil generating electricity should move at near constant speed. Currently they are using a complex combination mechanism to achieve this and our CVT provides an easy solution to this.
Question 3: Why will the customer purchase it from you and not from another company?	A. We are the first company to design a Beltless CVT. We have already applied for a patent and will be the first company to receive a patent.	A. The use of CVT technology in this segment is a novel idea. Currently no CVT manufacturer has a presence in this market for serving this need.

CONCLUSIONS

I have worked on other business proposals; A company with a unique wine packaging solution, A company that manufactures Infra-Red Windows, A company that manufactures Solar Simulator Filters, to name some using the 3-Elevator Questions Framework. Through all these exercises I have observed that many entrepreneurs get too excited about the product and look at the huge market opportunity. Most of them plan for the long term by listing out the expected market in 10 years but more important than that is the initial lead user segment. The 3-Elevator Questions framework enabled the companies in finding the first paying customer. This enabled them to build a small but significant business success. When you are small

start-up the amount of time and expense spent to get your first customer is more or less inversely proportional to the success of your business.

Further Work

So far I have utilized the 3-Elevator Questions framework with Technology Start-ups which are product-based. Application of this framework in a predominantly service industry needs to be explored. I also believe that this framework can be applied for evaluating new product/service offerings in established corporate companies. Further work in this area is needed to validate or modify the existing framework.

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