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*Success consists of going from failure to failure without loss of enthusiasm.*  
Winston Churchill (1874-1965) British Prime Minister through WWII

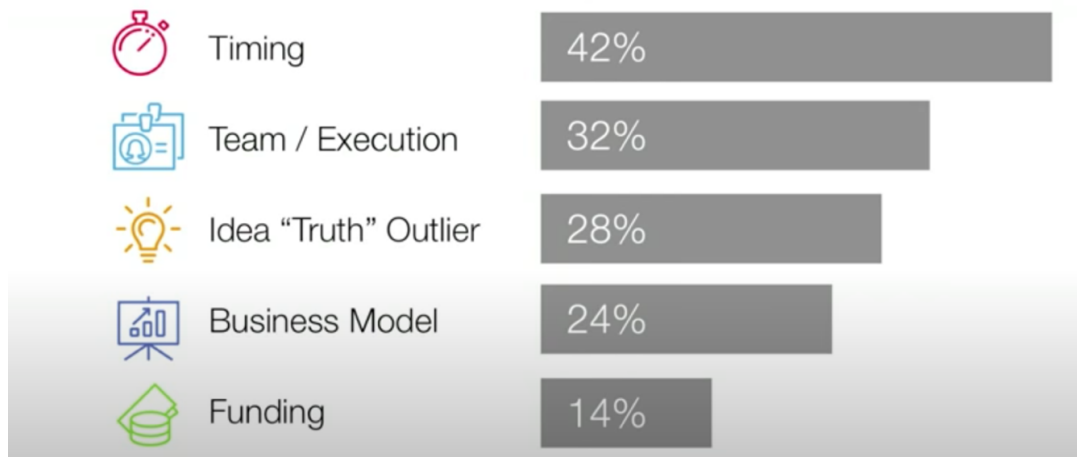
## Why start-ups succeed

*(Reading time: 6 minutes)*

Bill T. Gross is the founder of Idealab (<https://www.idealab.com/>), a Pasadena-based start-up incubator that has supported over 150 companies and 45 exits. In 2015, he gave a 7' TEDxVancouver talk entitled, "The single biggest reason why start-ups succeed."<sup>1</sup>

After surveying a large number of start-up successes and failures, he determined to his surprise that timing was the most important factor, not the idea or team as is generally believed.

Figure 1: Top 5 factors in success across more than 200 companies<sup>1</sup>



<sup>1</sup> Gross, B.T. (2015, June) The single biggest reason why start-ups succeed [Video file]. Retrieved from [https://www.youtube.com/watch?v=mGY\\_9sFg2qM](https://www.youtube.com/watch?v=mGY_9sFg2qM)



#### CRASH OF IDEAS SERIES

'Integrative thinking': a conscious way of synthesizing two or more ideas to come up with one new and superior idea. Roger Martin, past-Dean Rotman, Univ. of Toronto



**CRASH** – My 6 Tenets!<sup>2</sup> Relating this to my own experience and teaching: The idea underlying the opportunity is what I term the "Magic."<sup>3</sup> It is that vital creative, differentiated and defensible idea for a product or service. Without it, strong competitive offerings will arise rapidly. The team is often seen as even more important, because they must execute on the plans and without execution there is nothing. The old venture capitalist adage is, "I'd rather invest in an A team with a B product, than a B team with an A product." Business models are indeed all the rage, especially as facilitated by the excellent Business Model Canvas construct (BMC)<sup>4</sup>. However, start-ups are often defined as good opportunities still searching for the appropriate business model.<sup>5</sup> At the early stage, the team and firm are often required to "pivot" or shift the offering, business model or both. As far as obtaining financing is concerned, it is always a tough slog. However, as another adage goes, "The best deals always get funding." To be one of these best deals you need a good team, a good idea, and perhaps even a business model, priced at the appropriate level for the degree of risk and expected return involved.

So where does timing come in? Why did Bill Gross' research find it to be the most important? And more importantly can it be managed? What have we forgotten? The above-mentioned items were primarily focused on value creation. What about the customer and value capture? What is the customer pain or more importantly how big is that pain? Timing is a reflection of the size of the pain. In discussing examples of perfect timing, Bill Gross uses examples like AirBnB and Uber which launched in 2008 and 2009, right in the recession when people were looking to earn some extra money. They became sellers, renting rooms or driving people around as part of these multi-sided platforms (the other customer group being the buyers or users). This need for some extra money, i.e. these customers' pain was high enough to overcome past objections to the idea. The first of my 6 tenets is "Strategic" and four of the twelve prompts for entrepreneurs focus directly on the customer:

- What is the customer/industry pain?
- What is the job-to-be-done?
- What is the value proposition?
- What are the industry (i.e. macroeconomic) drivers?

In the case of Facebook, LinkedIn and Youtube, these technologies flourished just as broadband usage surpassed dial-up improving speed and increasing internet participation

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<sup>2</sup> Jones, D.V. (2013) Enhancing your strategic innovation efforts [Blog] Retrieved from <https://www.scribd.com/doc/138666088/enhance-strat-innov>

<sup>3</sup> Jones, D.V. (2015, April) No magic = no business opportunity [Blog] Retrieved from <http://hexagoninnovating.weebly.com/1/post/2015/04/no-magic-no-business-opportunity.html>

<sup>4</sup> Osterwalder, A. and Pigneur, Y. (2013) Business Model Generation. Hoboken, NJ: Wiley.

<sup>5</sup> Steve Blank (2010, January) What's a startup? First Principles [Blog] Retrieved from <https://steveblank.com/2010/01/25/whats-a-startup-first-principles/>



in 2005<sup>6</sup>. Netflix streaming service success, launched in 2007 occurred right after large LCD TV prices dropped, driving sales growth and just before the 2008 recession which pushed people to watch TV at home as opposed to going to the movies.<sup>7</sup> These successes leveraged the timing of major advances in technology, providing customers value while addressing existing pains of wanting to connect and share on a global scale.

Timing is generally considered retrospectively and hence it is attributed to luck. Not that there isn't a significant amount of luck in the success of a start-up, but when viewed this way timing is not actionable. Instead, timing must be viewed prospectively and prescriptively. Microbiologist Louis Pasteur (1822-1895) said it best, "Le hasard ne favorise que les esprits préparés" or "Chance favours the prepared mind."<sup>8</sup> Thus to increase awareness and take advantage of timing in a start-up, you need to look beyond your own business. This is achieved by actively and continuously monitoring the various specific as well as macroeconomic factors influencing the pain level of your potential customers. Employing a macroeconomic framework like PEST analysis or the variant STEEPLED<sup>9</sup>, which is an acronym for social, technological, economic, environmental, political, legal, ethical and demographic, to carry out this so-called environmental scanning is a start. In many cases, participating in the appropriate associations and lobby groups as well as collaborating or partnering with related industries and companies can influence the timing in your favour by accelerating advantageous STEEPLED changes. Perhaps not a recession, but environmental and social opinions and norms, tax and regulatory frameworks, and technological advances can be influenced.

The efforts of Elon Musk and Tesla to encourage competitive electric car manufacturers as a means to further encourage the building out of electric highways is an example of attempts to shift timing in their favour. In doing so, they hope to address the existing environmental customer pain of polluting and contributing to climate change. However, they are also addressing the prevailing technological pain of the limited range of an electric car in the absence of ubiquitous charge stations. This hampers widespread customer adoption as well as the potential and the timing of Tesla's desired success.

**CRASH** – Geoffrey Moore's Crossing the Chasm which discusses the difficulty of increasing sales by shifting from early adopters to mainstream customers!<sup>10</sup>

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<sup>6</sup> Murphy, M. (2019, October) From dial-up to 5G: a complete guide to logging on to the internet [Blog]

Retrieved from <https://qz.com/1705375/a-complete-guide-to-the-evolution-of-the-internet/>

<sup>7</sup> Sams, G. (2019, February) The reasons behind Netflix's success [Blog] Retrieved from

<https://www.filmink.com.au/reasons-behind-netflixs-success/>

<sup>8</sup> Thickstun, P (2018, July) Chance favours the prepared mind [Blog] Retrieved from

<https://translationjournal.net/journal/54prof.htm>

<sup>9</sup> PEST analysis (2020, April) In *Wikipedia*. Retrieved April 24, 2020, from

[https://en.wikipedia.org/wiki/PEST\\_analysis](https://en.wikipedia.org/wiki/PEST_analysis)

<sup>10</sup> Moore, G. A. (1991). *Crossing the chasm: Marketing and selling technology products to mainstream customers*. New York, N.Y.: HarperBusiness.



**CRASH** – Pitching! When pitching a business opportunity, it is best to start with a pain statement.<sup>11</sup> An example of a pain statement for Tesla, that illustrates their efforts to influence timing, might go like this:

1. Fact(s): There are over 140 million personal vehicles in the US, each emitting an average of 2.3 kg of CO<sub>2</sub>/l of gasoline or 10 km driven<sup>12</sup>. As a result, personal vehicles account for 10% of all harmful emissions in North America.<sup>13</sup> Zero-emission electric vehicles, like those made by Tesla, are the solution.
2. Problem: Despite improvements in range of Tesla vehicles to 400-500 km, long-distance travel remains a concern.
3. Solution/Value proposition: We have already installed a network of 15,000 superchargers at 1,716 locations around the world to support worry-free riving.<sup>14</sup> The new 250kW, “V3” Supercharger can deliver enough power for 290 km of range in 15 minutes.

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<sup>11</sup> Erica Swallow (2012, June) How to craft a winning startup pitch [Blog] Retrieved from <https://www.forbes.com/sites/ericaswallow/2012/06/27/elevator-pitch/#45172df4b571>

<sup>12</sup> 1l of gasoline x 750 gm/l density x 1 mole/93 gm average C<sub>6.5</sub>H<sub>15</sub> = 8.1 moles of gasoline  
8.1 moles of gasoline x 6.5 carbons/mole of gasoline x 44 gm/mole CO<sub>2</sub> = 2.3 kg of CO<sub>2</sub> ✓  
5.18 x10<sup>12</sup> km driven/year x ~1/2 cars x 1l gas/10km x 2.3 kg of CO<sub>2</sub>/l of gasoline = 0.6 x10<sup>12</sup> kg of CO<sub>2</sub>  
5.9 x10<sup>12</sup> kg of CO<sub>2</sub>/year in NA /0.6 x10<sup>12</sup> kg of CO<sub>2</sub> = 9.9% ✓  
5.18 x10<sup>12</sup> km driven/year /280 x 10<sup>6</sup> vehicles = 18,500 km/vehicle-year ✓

Schaper, D. (2017, February) Record number of miles driven in the U.S. last year Retrieved from <https://www.npr.org/sections/thetwo-way/2017/02/21/516512439/record-number-of-miles-driven-in-u-s-last-year>

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<sup>13</sup> Better Meets Reality (2019, Oct) Which form of transportation pollutes most” (CO<sub>2</sub> Emissions) Retrieved from <https://www.bettermeetsreality.com/which-form-of-transport-pollutes-the-most-co2-emissions/>

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National Resources Canada (2014) Learn the facts: fuel consumption and CO<sub>2</sub> Retrieved from [https://www.nrcan.gc.ca/sites/www.nrcan.gc.ca/files/oeef/pdf/transportation/fuel-efficient-technologies/autosmart\\_factsheet\\_6\\_e.pdf](https://www.nrcan.gc.ca/sites/www.nrcan.gc.ca/files/oeef/pdf/transportation/fuel-efficient-technologies/autosmart_factsheet_6_e.pdf)

<sup>14</sup> Fred Lambert (2019, December) Tesla Supercharger network reaches 15,000 chargers - still one of its best assets [Blog] Retrieved from <https://electrek.co/2019/12/19/tesla-supercharger-reaches-15000-chargers-best-assets/>

