



Stanford eCorner

Types of Risks

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Video URL: <http://ecorner.stanford.edu/videos/370/Types-of-Risks>

Kaplan talks about the different kinds of risks (market, financial and technical) that an entrepreneur faces when starting a company. The trick is to get the risk out as soon as possible. If your product is not obvious to the market you must go out into the market and explain it to them, he says. He shares the example of TiVo.



Transcript

There are many kinds of risks that you have in starting a company. There's technical risks, there's financing risks, there's market risks. Those are some major categories, this is the stuff you will learn in business school. The trick is get the risk out as early as possible and take as few risks as possible. Back to the GO example, that had high market risk, high technical risk and high finance risk. It was one of the dumbest ideas I ever undertook. But the fact is that you want to get the marketing risk out as early as possible. And if you've got a great a product, then you've got to go explain to everybody why it's great and what they've got to do with it. If it's not obvious to them, that's just one more risk that you have. You just have to weigh that along with everything else.

I mentioned TiVo before, I don't know why this is on my mind at the moment, but that was a great example. Anybody here have one, or a digital video recorder? OK, there's several people. The rest of you all use your PCs to rip the stuff off I guess. How many people here who have one think they can live without it? One. OK. Two. OK. Most people who try that, I don't know if it's such a good idea, once you start to use it, you're hooked. That's it. I can watch an hour long show in twenty minutes.

And you know what? It's just as bad. But the fact is, that's an idea where it was very hard to explain, to get the market going. "Why do I need to buy another box to do this? It's recording shows. Can't I do that on videotape?" It's not the same thing. Little tiny changes in the way technology's handled make a huge difference in the effects that it has in terms of having a market. That was an example of a great concept. Terrific buzz. But you had to go out and explain it to everybody. And it's still not where it will be or should be, precisely because they had to go out and build a market for it. So, you're better off picking things where people know the market, or they accept that they need something.

"Yeah, I need a microwave." "OK. Well, I've got one that cooks stuff in half the time." That's an easy sale. I remember trying to get a microwave for my mother twenty years ago. It was like, "Why do I need that for? I have a stove. I don't need a microwave." She hadn't experienced it. Now she only cooks in the microwave and the stove doesn't work. If I have one final piece of advice for you on this, never eat my mother's cooking.