



Stanford eCorner

Market Risk and Technology Risk

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Market risk is the concern that you'll find your customers before you run out of funding. A technical risk asks if the innovation is in place to bring your start-up idea to market successfully. Both of these concerns are paramount for an entrepreneurial venture, says serial entrepreneur Steve Blank, and both have the potential to cause a young business to shutter.



Transcript

Is your startup at risk for market risk, technology risk or both? Let me just give you some simple definitions. Market risk is simply will customers adopt and buy within my lifetime or funding? And is getting the product to market and engineering execution problem or is it a customer problem? If it's technical risk, the question is, can the product be built and do I know the answer as of yet? Are there still technology unknown to solve? What's an extreme example of technology risk? Anybody knew? For a startup, what's the most technology risk startups that get funded here in the United States? Any idea? I'm sorry, NASA? Anything else? Biotech. Biotech. How long does it take to find out the answer? Ten to fifteen years. Ten to fifteen years. Those of you thinking of doing a Web startup and upset that you haven't gone public in nine months, be in one of these things. And how do you find out? What do you go through? FDA approval. FDA approval. How many steps? Four? Four steps. Four steps of spending ever increasing money - yes, give the man an egg - to find out your product may not work.

And by ever increasing money, we're talking about hundreds of millions of dollars in an FDA trial. That's an example of a company with technology risks. Yet, if you have a drug that cures cancer and the FDA says, "Why, yes, it really does," do you think you have a customer or market adoption risk? Probably not. In fact, what you have is, "Where do I file the money risk?" That's the only problem you're going to have in that startup. Yet if you're a Web startup, with all due respect to those of you who think Python is harder, whatever it is this week, do you have a technical risk? Not really. I mean, yeah, OK. You're going to convince your co-founders, "I'm really necessary because this is hard." Excuse me, not really. Your risk is all the way at the other extreme. What your risk about is about customer market adoption. Did we actually expect something that could be a viable business? I'm not going to have people in my dorm or my university use it, but will there be enough business to make it a profitable and sustainable business model? I tend to ask those questions in aggregate.

Is this a technology-risk company or is this a market risk? It turns out that some startups actually have both risks. And when they do, that's when you got to go, "Are we sure we want to do this?"