



Stanford eCorner

The Need for Research and Prototypes

Mark Suster, *Serial Entrepreneur*

October 14, 2010

Video URL: <http://ecorner.stanford.edu/videos/2520/The-Need-for-Research-and-Prototypes>

Serial entrepreneur and venture capitalist Mark Suster urges entrepreneurs not to be lazy when it comes to doing necessary market research. This includes having a basic understanding of who will pay for your product or service. In the age of affordable research and engineering, smart venture capitalists now expect to see at least workable prototypes from startups seeking funding. Suster suggests numerous critical questions for entrepreneurs to ponder about their market, their product, and their competition.



Transcript

You need to do a bit of research. Silicon Valley, you're not going to want to hear this, is lazy. I don't mean lazy as in don't do your hard work or work long hours or productive. I certainly wouldn't accuse Silicon Valley of not being smart and innovative. It is a model or us all to learn from, myself included. But for whatever reason, this town has come up with the idea that doing research about a market is a bad thing, as though somehow I just have to launch products and learn. But the most basic of research, I'm not talking about writing an 80-page Word document. I'm talking about doing a spreadsheet, some basic economics, like if you're going to launch something, asking yourself the question, what do I imagine someday? Do I imagine someone's going to pay me for this product or am I going to monetize for third party? If they're going to pay me for it, what else are they paying for? Basic microeconomics, what am I replacing? If it's going to be third party revenues, is that going to be ad supported, is that going to be selling data? If it's ad supported, what are industry CPMs these days for a vertical offering, for a horizontal offering, for an email newsletter? If I'm in the email newsletter business, who else is in there? What are the click-through rates? What have the people who have come before done? What worked? What didn't work? When people come to see me and they don't know the history of the industry that they're choosing, I pass always because if you're not going to do that research, it tells me that you're probably not the kind of person in my opinion who's going to do big things. And yes, people win the lottery. Everyone likes to use that as an example of why I can just launch Twitter and see what happens, but the exception does not prove the rule.

I'm just talking about the most basic research. You do yourself all a favor and get a prototype built. When I started BuildOnline, it took about \$2 million to get the company off the ground. Why? I had to buy Sun servers; I had to buy Solaris; I had to get an Oracle license; I had to have expensive web hosting, bandwidth was really expensive. It's not longer the case. It costs \$15,000 to \$20,000, maybe even \$5,000 to \$10,000 to get initial prototypes built. I don't know. Are there engineers in the room or software developers? Can you raise your hand if you develop software? So for all you people, you have a huge advantage which is you can do most of this yourself. For anyone who can't do it themselves, I still encourage you even if it's throwaway software to get that first veneer built. Why? All this stuff Steve Blank talks about, going and testing it with customers.

They can't visualize their way into deciding if you've got an interesting offering. It is far better to sit with HTML mockups and walk people through what you do and get feedback on that and say, well, what are you using today to do this and how would you imagine working through this workflow? How much would you pay for an offering like this? And being able to show people. When you're raising money being able to show venture capitalists what you have is almost a requirement these days. I still see a lot of people who are pitching ideas of what they want to build and I just don't think in 2010 that's acceptable.