

USING THE TRAFFIC LIGHTS ASSIGNMENT

1. Choose a volunteer from your group who has a new business idea or recent new business investment that can be tested using the Traffic Lights
2. Start by assessing the impact on existing businesses considering carefully the distraction risks. Score the project green, yellow or red.
3. Next, assess the leader/sponsor quality and score the project green (clearly better than competitors), yellow (average), red (clearly worse than competitors)
4. Then, assess the profit pool and score the project green (even weak players can earn good returns), yellow (normal) or red (even advantaged players earn bad returns) (see attached)
5. Finally, assess the "value advantage" (see attached)
 - a. List the sources of unique contribution
 - b. Estimate the impact in terms of percentage increase in profitability (e.g. increased return on sales from 5% to 7% is 40% impact on profitability)
 - c. Deduct proportion of "impact" that can be "traded" through sale, licence, royalty or JV
 - d. Deduct unique contribution of competitors
 - e. Deduct probable learning costs (10% if low, 30% if high)

Is the score red (clearly negative), green (clearly positive) or yellow (not sure or about neutral)?

PROFIT POOL POTENTIAL

- **Business model potential for high margins**
 - Value perceived by customer is high relative to production cost
 - Volumes needed to break even are low relative to the size of the market
- **Industry structure potential for high margins** (5 forces analysis)
- **Leadership opportunity** (potential for the company to become the industry/segment leader)
- **Size of opportunity relative to cost of proving the potential**
- **Business model vulnerability** (number of enablers needed to make it succeed, likelihood of changes in key variables)

VALUE ADVANTAGE EQUATION

Unique value we bring (at both unit and parent level)

Less Value we could 'trade' (through sale, JV, license)

Less Unique value our competitors bring

Less Cost of learning the new business
(at both unit and parent level)

= Our value advantage
(green if significantly positive, red if significantly negative)

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