CHAPTER 5: INDUSTRY AND COMPETITOR ANALYSIS

I. INDUSTRY ANALYSIS

- **Industry analysis:** business research that focuses on the potential of an industry
- **Industry:** a group of firms producing a similar product or service

II. STUDYING INDUSTRY TRENDS

1. Environmental Trends: Economic trends, social trends, technological advances, and political and regulatory changes. Ex: eyeglasses industry, benefit from the social trend of the aging of the population

2. Business Trends: liên quan đến cost + profit. One way to do this is via participation in industry **trade associations, trade shows, and trade journals**, as illustrated in the nearby "Partnering for Success" feature.

III. FIVE FORCES MODEL determine the **average rate of return** for the firms competing in a particular industry. Well-managed companies try to position their firms in a way that **avoids or diminishes these forces**

1. Threat of Substitutes products or services from other industries can't easily serve as substitutes for the products or services being made and sold in the focal firm's industry..

2. Threat of New Entrants: industries are more attractive when the threat of entry is low.

a. Barrier to entry

- **Economies of scale:** mass-producing a product results in lower average costs
- **Product differentiation:** soft-drink industry that are characterized by firms with strong brands are difficult to break into without spending heavily on advertising
- **Capital requirements:** The need to invest large amounts of money to gain entrance to an industry is another barrier to entry
- **Cost advantages independent of size:** existing competitors in an industry may have purchased land and equipment in the past when the cost was far less than new entrants
- **Access to distribution channels:** For a new sports drink to be placed on a convenience store shelf, it typically has to displace a product that is already there
- **Government and legal barriers:** knowledge-intensive industries, such as biotechnology and software, patents, trademarks, and copyrights

b. Nontraditional Barrier to entry

- **Strength of management team:** a start-up puts together a world-class management team
- **First-mover advantage:** a start-up pioneers an industry or a new concept within an existing industry.
- **Passion of management team and employees:** highly motivated by its unique culture, willing to work long hours because of their belief in what they are doing, and anticipate large financial gains through stock options
- **Unique business model:** a start-up is able to construct a unique business model and establish a network of relationships that make the business model work
- **Internet domain name:** Internet domain names are so "spot-on" in regard to a specific product or service
- **Inventing a new approach to an industry and executing the idea in an exemplary fashion:** a start-up invents a new approach to an industry and executes it in an exemplary fashion

3. Rivalry Among Existing Firms:

a. Number and balance of competitors: Price-cutting causes problems throughout the industry, all competitors are about the same size and no clear market leader.

b. Degree of difference between products: degree to which products differ from one producer to another

c. Growth rate of an industry: competition in a slow-growth industry stronger than in fast-growth industries

d. Level of fixed costs: firms that have high fixed costs must sell a higher volume of their product to reach the break-even point than firms with low fixed costs.

4. Bargaining Power of Suppliers:

a. Supplier concentration: only a few suppliers to provide a critical product to a large number of buyers

b. Switching costs: fixed costs that buyers encounter when switching or changing from one supplier to another

c. Attractiveness of substitutes: Supplier power is enhanced if there are no attractive substitutes for the products or services the supplier offers

d. Threat of forward integration: power of a supplier is enhanced if there is a credible possibility that the supplier might enter the buyer's industry

5. Bargaining Power of Buyers:

a. Buyer group concentration: only a few large buyers, and they buy from a large number of suppliers, they can pressure the suppliers to lower costs

b. Buyer's costs: greater importance of item is to a buyer, more sensitive the buyer will be to price it pays

c. Degree of standardization of a supplier's products: degree to which a supplier's product differs from its competitors' offering affects the buyer's bargaining power

d. Threat of backward integration: power of a buyer is enhanced if there is a credible threat that the buyer might enter the supplier's industry

IV. INDUSTRY TYPES AND OPPORTUNITIES

1. Emerging industries: Recent changes in demand or technology; new industry standard operating procedures have yet to be developed. **First-mover advantage**: sometimes insurmountable advantage gained by the first company to establish a significant position in a new market:

2. Fragmented industries: Large number of firms of approximately equal size. **Consolidation.**

Geographic roll-up strategy: firm starts acquire similar firms that are located in different geographic areas

3. Mature industries: Slow increases in demand, numerous repeat customers, and limited product innovation. **Process and after-sale service innovation**

4. Declining industries: Consistent reduction in industry demand **Leaders, niche, harvest, and divest**

- **leadership strategy:** firm tries to become the dominant player in the industry
- **niche strategy:** focus narrow segment of industry, encouraged to grow through product/ process innovation
- **cost reduction strategy:** accomplished through achieve lower costs than industry incumbents through process improvements

5. Global industries: Significant international sales. **Multinational and global**

- **multidomestic strategy** compete for market share on a country-by-country basis and vary their product or service offerings to meet the demands of the local market
- **global strategy** use the same basic approach in all foreign markets

V. COMPETITOR ANALYSIS

1. Identifying Competitors

a. Direct competitors: Businesses offering identical or similar products

b. Indirect competitors: Businesses offering close substitute products

c. Future competitors: Businesses not yet direct or indirect competitors but could be at any time

2. Sources of Competitive Intelligence The information that is gathered by a firm to learn about its competitors is called **competitive intelligence**

3. Completing a Competitive Analysis Grid

- **competitive analysis grid** is a tool for organizing the information a firm collects about its competitors. It can help a firm see how it stacks up against its competitors, provide ideas for markets to pursue, and, perhaps most importantly, identify its primary sources of competitive advantages
- **vertical axis:** price; selection; perception of providing good, wholesome food; dining environment; speed of service; availability of gluten free, non-GMO, organic, etc.; and social consciousness/ philanthropy
- **horizontal axis:** name of main competitors
- **Sources of Competitive Intelligence**

a. Attend conferences and trade shows: Participants talk about latest trends in industry and display products

b. Purchase competitors' products: use a competitor's products provide insight intobenefits + shortcomings

c. Study competitors' websites and social media pages: Many companies put a lot of information on their websites, including product information and the latest news about the company.

d. Set up Google e-mail alerts Google e-mail alerts: are updates of the latest Google results, including press releases, news articles, and blog posts, on any keywords of interest

e. Read industry-related books, magazines, websites, and blogs: Many of these sources contain articles or features that have information about competitors

f. Talk to customers about what motivated them to buy your product as opposed to your competitor's product: Customers can provide a wealth of information about adv and disad of competing products.

CHAPTER 6: WRITING A BUSINESS PLAN

I. BUSINESS PLAN A business plan: written narrative, 25 to 35 pages long, describes what a new business intends to accomplish and how it intends to accomplish it. **A dual-purpose document** that is used **both inside** (helps develop a "road map" to follow to execute its strategies + plans) **and outside** (introduces potential investors and other stakeholders to the business opportunity the firm is pursuing and how it plans to pursue it)

Reasons writing business plan

- **Internal reason:** Forces the founding team to systematically think through every aspect of its new venture
- **External reason:** Communicates the merits of a new venture to outsiders, such as investors and bankers. A relatively **large percentage of entrepreneurs** do **not write business plans** for their new ventures

II. WHO READS THE BUSINESS PLAN

A Firm's Employees: help a firm's rank-and-file employees operate in sync and move forward in a consistent and purposeful manner.

Investors and Other External Stakeholders: investors, potential business partners, and key employees are the second audience for a business plan. Plan must be **realistic and not reflective of overconfidence**

III. GUIDELINES FOR BUSINESS PLAN

1. Structure of the Business Plan a business plan should follow a conventional structure

Red Flags in Business Plans

- **Founders with none of their own money at risk:** If the founders aren't willing to put their own money at risk, why should anyone else?
- **A poorly cited plan:** plan should be built on hard evidence and sound research, sources for all primary and secondary research should be cited.
- **Defining market size too broadly:** => true target market not clearly identified
- **Overly aggressive financials:** Projections that are poorly reasoned or unrealistically optimistic
- **Sloppiness in any area:** typos, balance sheets that don't balance, or sloppiness in any area

2. Content of the Business Plan

a. Style or Format of the Business Plan

- **Summary Business Plan: 10–15 pages** Works best for new ventures in early stages of development that want to "test the waters" to see if investors are interested in their idea
- **Full Business Plan: 25–35 pages** Works best for new ventures that are at the point where they need funding or financing; serves as a "blueprint" for the company's operations
- **Operational Business Plan: 40–100 pages** Is meant primarily for an internal audience; works best as a tool for creating a blueprint for a new venture's operations and providing guidance to operational managers

b. Recognizing the Elements of the Plan May Change

IV. OUTLINE OF BUSINESS PLAN

I. Executive Summary: short overview of the entire business plan; provides everything about the new venture's distinctive nature. **part of the business plan** and **stand-alone document**; it should be written last

II. Industry Analysis:

1. Industry Size, Growth Rate, and Sales Projections: focus strictly on the business's industry and not its industry and target market simultaneously

2. Industry Structure: how concentrated or fragmented an industry is. Fragmented industries are more receptive to new entrants

3. Nature of Participants: whether the major participants are innovative or conservative? quick or slow to react to environmental changes?

4. Key Success Factors: Industries have 6 to 10 key factors as a foundation for competing successfully

5. Industry Trends: including both environmental and business trends

6. Long-Term Prospects: should conclude with a brief statement of your beliefs regarding the long-term prospects for the industry

III. Company Description

1. Company History: origin of the idea for the company and the driving force behind its inception

2. Mission Statement: defines why a company exists and what it aspires to become. **tagline** is a phrase that a business plans to use to reinforce its position in the marketplace

3. Products and Services: Include a description of how your product or service is unique and how you plan to position it in the marketplace - **position** how it is situated relative to its rivals

4. Current Status: reveal how far along your company is in its development - **milestone** is a noteworthy or significant event

5. Legal Status and Ownership: indicate who owns the business and how the ownership is split up

6. Key Partnerships (if any)

IV. Market Analysis: breaks the industry into segments and zeroes in on the specific segment (or target market) to which the firm will try to appeal.

1. Market Segmentation and Target Market Selection: process of dividing market into distinct segments (geography, demographic variables psychographic variables)

2. Buyer Behavior: >> a start-up knows about consumers in target market, >> it can gear products or services to accommodate their needs

3. Competitor Analysis: detailed analysis of a firm's competitors

4. Estimates of Annual Sales and Market Share: develop an estimate that is based on sound assumptions and seems both realistic and attainable. **4 methods**: - Utilize the Multiplication Method - Find a Comparable Firm - Contact Industry Trade Associations - Conduct Internet Searches

V. The Economics of the Business

1. Revenue Drivers and Profit Margins:

- **costs of goods sold** are the materials and direct labor needed to produce the revenue driver
- **contribution margin:** amount per unit of sale left over + available to "contribute" to coverthe business's fixed costs and produce profit.

2. Fixed and Variable Costs:

- **variable costs:** vary by sales - **fixed costs:** costs a company incurs whether it sells something or not

3. Operating Leverage and Its Implications: operating leverage is an analysis of its fixed versus variable costs; highest in companies that have a high proportion of FC relative to their VC

4. Start-up Costs: include legal expenses, fees for business licenses and permits, website design, business logo design, and similar one-time expense

5. Break-Even Chart and Calculation: analysis of how many units of its product a business must sell before it starts earning a profit

VI. Marketing Plan: how the business will market and sell its product or service; deals with the nuts and bolts of marketing in terms of price, promotion, distribution, and sales.

1. Overall Marketing Strategy: overall approach for marketing its products and services; how it positions itself in its market and how it differentiates itself from competitors

2. Product, Price, Promotions, and Distribution: Price + promotion + distribution in sync with your positioning and points of differentiation. Price is important bc determine how much money a company can make

3. Sales Process (or Cycle): how a product or service will actually be sold. **4. Sales Tactics**

VII. Design and Development Plan

1. Development Status and Tasks: describe present stage of the dev of product or service; includes product conception, prototyping, initial production, and full production

- **product prototype** first physical manifestation of a new product, in a crude or preliminary form
- **virtual prototype** computer-generated 3D image of a product or service idea

2. Challenges and Risks: major anticipated design and development challenges and risks that will be involved in bringing the product or service to market.

3. Projected Development Costs: insights into challenges and risks you anticipate with your particular offering.

4. Proprietary Issues: describe any patents, trademarks, copyrights, or trade secrets that you have secured or plan to secure

VIII. Operations Plan: how your business will be run and how your product or service will be produced

1. General Approach to Operations: what's most important and what the make-or-break issues - **"back stage"** or behind-the-scenes activities - **"front stage"** or what the customer experiences

2. Business Location: Describe the geographic location of your business.

3. Facilities and Equipment: Briefly describe how they will be acquired, in terms of whether they will be purchased, leased, or acquired

IX. Management Team and Company Structure

1. Management Team (Including a Skills Profile): consists of the founders and key management personnel

2. Board of Directors: individuals elected by a company's shareholders to oversee the management of the firm

3. Board of Advisors: experts asked by a firm's management to provide advice on an ongoing basis.

4. Company Structure: outline how the company is currently structured and how it will be structured **organizational chart** how authority and responsibility are distributed within the company; in graphical format

X. Overall Schedule: shows major events required to launch business, in format of milestones critical to the business's success

XI. Financial Projections

1. Sources and Uses of Funds Statement: document that lays out specifically; answers 3 questions: how much money firm needs, where money will come from, how money will be used.

2. Assumptions Sheet: explanation of most critical assumptions on which financial statements are based.

3. Pro forma (or projected) financial statements: heart of financial section, include pro forma income statement, pro forma balance sheet, pro forma cash flow statement. 3-5 years of pro forma statements recommended

4. Ratio Analysis: Most business plan writers interpret /make sense of pro forma financial statements through

Appendices: Show any material that does not easily fit into the body of a business plan

V. PRESENTING BUSINESS PLAN TO INVESTORS

1. Oral Presentation of a Business Plan: The first rule in making an oral presentation is to follow instructions. 20-minute presentation and a 40-minute question and-answer period

2. Questions and Feedback to Expect from Investors: In first meeting, investors focus on whether a real opportunity exists and whether management team has experience and skills to pull off the venture

CHAPTER 9: BUILDING A NEW-VENTURE TEAM

I. Liability of Newness as a Challenge: companies often falter bc **people who start aren't able to adjust quickly enough to their new roles** and bc **firm lacks a "track record" with outside buyers + suppliers**

II. Creating a New-Venture

- **Team New venture team:** group of founders, key employees, and advisers that move a new venture from an idea to a fully functioning firm
- **Elements of new venture team:** Mgt team, Key employees, Board of directors, Board of advisors, Lenders and investors, Other professionals

1. Founder or Founders of a Venture:

a. Size of founding team teams team have worked together before have an edge. New ventures started by team have adv over those started by a sole entrepreneur

- **heterogeneous** they are diverse in terms of abilities and experiences
- **homogeneous** their areas of expertise are very similar to one another
- **psychological support** that cofounders of a business can offer one another can be an important element in a new venture's success

b. Qualities of founders:

- **prior entrepreneurial experience**: one of most consistent predictors of future entrepreneurial performance
- **relevant industry experience** entrepreneur's ability to successfully launch and grow a firm has been studied
- **networking**: building and maintaining relationships with people whose interests are similar or whose relationship could bring advantages to a firm.

2. Management Team and Key Employees

- Preferred Attributes of the Founder: Firm started by a team, Higher education, Prior entrepreneurial experience, Relevant industry experience, Broad social and professional network

- Skills profile is a chart that depicts the most important skills that are needed and where skills gaps exist

3. Roles of the Board of Directors:

a. Board of directors: a panel of individuals who are elected by a corporation's shareholders to oversee the management of the firm; made up of **both inside** (person who is also an officer of the firm) and **outside** (someone who is not employed by the firm) directors.

Three formal responsibilities: **(1)** appoint the firm's officers (the key managers), **(2)** declare dividends, **(3)** oversee the affairs of the corporation.

Most boards meet formally three or four times a year. The boards for publicly traded companies are required by law to have audit and compensation committees.

b. Attributes of Effective Boards of Directors and Effective Board Members

Attributes of Effective Boards of Directors - Strong **communication** with the CEO **- Customer-focused** point of view - Complementary **mix of talents** - **Decisiveness** - **Mutual respect** and regard for each other and the firm's mgt team - Ability and **willingness to stand up** to CEO and the firm's top managers - Strong **ethics**

Attributes of Strong Board Members - Strong personal and professional networks - Respected in their field - Willingness to make personal introductions on behalf of the firm - Strong interpersonal communication skills - Pattern recognition skills - Investment and/or operating experience - Ability and willingness to mentor the CEO and the firm's top managers

c. Provide expert guidance: Although a board of directors has formal governance responsibilities, its most useful role is to provide guidance and support to the firm's managers

d. Lend Legitimacy: Well-known and respected board members bring instant credibility to firm. **Signaling:** Without credible signal difficult for potential customers, investors, or employees to identify high-quality start-ups.

III. Rounding Out the Team: The Role of Professional Advisers

1. Board of advisors: a panel of experts who are asked by a firm's managers to provide counsel and advice on an ongoing basis

Difference from BOD: **no legal responsibility** for the firm and gives **nonbinding advice**

Similar to BOD: **main purpose** of a board of advisors is to **provide guidance and lend legitimacy to a firm**

People are willing to serve on a company's board of advisors bc it **requires less time and no legal liability**.

A board of advisors can be established for general purposes to **address a specific issue or need**.

2. Lenders and investors: Lenders and investors have **a vested interest** in the entrepreneurial firm's success. Lenders and investors tend to be more involved in **supporting the new venture's efforts** to gain traction in the marketplace as a foundation of organizational success. Help to recruit key employees, provide information ab industry, and serve as a sounding board for potential competitive actions

IV. Other Professionals: Attorneys, accountants, and business consultants are often good sources of counsel and advice **Consultant:** an individual who gives professional or expert advice.

Consultants fall into **two categories: paid consultants** and **consultants who are made available for free** or at **a reduced rate** through a nonprofit or government agency.

CHAPTER 10: GETTING FINANCING OR FUNDING

I. Importance of Getting Financing or Funding: entrepreneurs go about the task of raising capital haphazardly, because they **lack experience** in area and because they **don't know much about their options**

II. Why Most New Ventures Need Funding

1. Cash Flow Challenges Inventory must be purchased, **employees** must trained and paid, and **advertising** must paid before cash is generated from sales. **burn rate** rate at which it is spending its capital until it reaches profitability.

2. Capital Investments cost of buying **real estate, building facilities, and purchasing equipment** typically exceeds a firm's ability to provide funds for these needs on its own.

3. Lengthy Product Development Cycles Some products are under development for years before they generate earnings. The **up-front costs** often exceed a firm's ability to fund these activities on its own.

III. Sources of Personal Financing

1. Personal Funds: Involves both financial resources and sweat equity. Sweat equity represents the value of the time and e-ort that a founder puts into a firm

2. Friends and Family: Often comes in the form of loans or investments, but can also involve outright gifts, foregone or delayed compensation, or reduced or free rent

3. Bootstrapping: Finding ways to avoid the need for external financing through creativity, ingenuity, thriftiness, cost-cutting, obtaining grants, or any other means

IV. Preparing to Raise Debt or Equity Financing

Step 1 Determine precisely how much money the company needs.

Step 2 Determine the most appropriate type of financing or funding

Equity financing (funding): exchanging partial ownership of a firm, in the form of stock, in return for funding.

Sources of equity funding: Angel investors, private placement, venture capital, initial public offerings (IPO)

Equity funding not a loan, money received is not paid back => equity investors become partial owners of firm

Equity investors have a **three- to five-year investment horizon** and expect to get their money back, along with substantial capital gain, through sale of stock.

Equity investors consider a firm has **unique business opportunity, high growth potential, niche market, and proven mgt** to be an ideal candidate

Debt financing is getting a loan or selling corporate bonds

Step 3 Developing a strategy for engaging potential investors or bankers: elevator speech (or pitch) a brief, carefully constructed statement that outlines the merits of a business opportunity

V. Sources of Equity Funding

1. Business Angels: individuals who invest their personal capital directly in start-ups. The number of angel investors has increased dramatically over the past decade. **Business angels** are valuable because of their willingness to make relatively small investments. **Business angels** invest in more startups on a yearly basis than venture capitalists. **Business angels** usually take a seat on the BOD of firm they invest

2. Venture Capital:

a. Venture capital: money that is invested by venture capital firms in startups and small businesses with exceptional growth potential

b. Venture capital firms: limited partnerships of money managers who raise money in "funds" to invest in start-ups and growing firms.

- A distinct difference between **angel investors** and **venture capital firms** is that angels tend to invest earlier in the life of a company, whereas venture capitalists come in later

c. Aventure capitalist makes an investment in a firm, subsequent investments are made in rounds (or stages) and are referred to as **follow-on funding.**

d. Obtaining venture capital funding is going through the due **diligence process** - process of investigating the merits of a potential venture and verifying the key claims made in the business plan

e. Rounds (or Stages) of Venture Capital Funding

- **Seed funding** Investment made very early in a venture's life to fund the development of a prototype and feasibility analysis.
- **Start-up funding** Investment made to firms exhibiting few if any commercial sales but in which product development and market research are reasonably complete. Management is in place, and the firm has its business model. Funding is needed to start production.
- **First-stage funding** Funding that occurs when the firm has started commercial production and sales but requires financing to ramp up its production capacity.
- **Second-stage funding** Funding that occurs when a firm is successfully selling a product but needs to expand both its capacity and its markets.
- **Mezzanine financing** Investment made in a firm to provide for further expansion or to bridge its financing needs before launching an IPO or before a buyout.
- **Buyout funding** Funding provided to help one company acquire another.

3. Initial Public Offering

- Initial public offering (IPO). An IPO is the first sale of stock by a firm to the public

- Investment bank institution that acts as an underwriter or agent for a firm issuing securities; acts as the firm's advocate and adviser and walks it through the process of going public.

- Investment bank takes the top mgt team of the firm wanting to go public on **a road show**, which is a whirlwind tour that consists of meetings in key cities, where the firm presents its business plan to groups of investors.

VI. Sources of Debt Financing involve getting a loan or selling corporate bonds

2 major advantages (1) none of the ownership of the firm is surrendered **(2)** interest payments on a loan are tax-deductible

1. Commercial Banks Historically, commercial banks have not been viewed as practical sources of financing for start-up firms bc risk averse + have internal controls and regulatory restrictions

2. SBA Guaranteed Loans Commercial banks, savings and loans, credit unions, and other specialized lenders are eligible to participate in the SBA Guaranteed Loan Program - **7(A) Loan Guaranty Program.**

3. Other Sources of Debt Financing

- Peer-to-peer lenders underwrite borrowers but don't fund the loans directly **Prosper** = peer-to-peer network

- Factoring is a financial transaction whereby a business sells its account receivable to a third party, called a factor, at a discount in exchange for **cash**

Source of labor

- **Full- or part-time employee** work for a business, at the business' location, utilize business' tools and equipment and according to the business' policies and procedures
- **Intern:** work for a business as an apprentice or trainee for the purpose of obtaining practical experience.
- **Freelancer (or contractor):** in business for themselves, works on their own time with their own tools and equipment, and performs services for a number of different clients
- **Virtual assistant:** freelancer who provides administrative, technical, or creative assistance to clients remotely from a home office => important that all members of a new venture team work effectively together.

VII. Creative Sources of Financing and Funding

1. Crowdfunding: the practice of funding a project or new venture by **raising monetary contributions** from **a large number of people**, typically via the Internet.

2. Leasing

Lease is a written agreement in which the owner of a piece of property allows an individual or business to use the property for a specified period of time in exchange for payments.

Major advantage of leasing enables a company to acquire the use of assets with very little or no down payment.

venture-leasing firms that act as brokers, bringing the parties involved in a lease together.

3. SBIR and STTR Grant Programs

a. STTR program requires the participation of researchers working at universities or other research institutions.

b. SBIR Program is a competitive grant program that provides over $2.5 billion per year to small businesses for early-stage and development projects **A three-phase program**

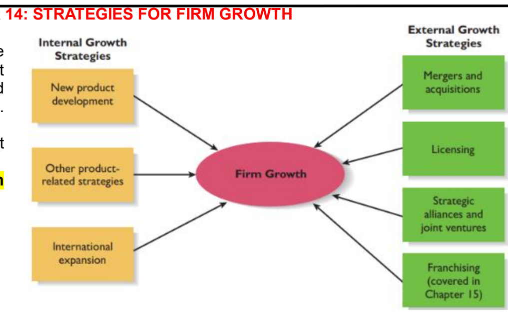
- **Phase I** To demonstrate the proposed innovation's technical feasibility.
- **Phase II** to develop and test a prototype of the innovation validated in Phase I
- **Phase III** Period in which Phase II innovations move from the research and development lab to the marketplace.

4. Other Grant Programs A limited number of other grant programs available to entrepreneurs. Granting agencies are, by nature, low-key, so they normally need to be sought out

5. Strategic Partners Strategic partners often play a critical role in helping young firms fund their operations and round out their business models.

CHAPTER 14: STRATEGIES FOR FIRM GROWTH

I. Internal Growth Strategies



- Internal growth strategies involve efforts taken within the firm (new product development, other product-related strategies, and international expansion).

Purpose: ↑ sales revenue + profitability

Often called **organic growth** because it does not rely on outside intervention.

- Ads and Disads of internal growth strategies

(+) - Incremental, even-paced growth
- Maximum control
- Preserves organizational culture
- Encourages internal entrepreneurship
- Firms to promote from within

(–) - Slow form of growth
- Need to develop new resources
- Investment in a failed internal effort can be difficult to recoup
- Adds to industry capacity

- New product development involves designing, producing, and selling new products (or services) as a means of increasing firm revenues and profitability.

In many fast-paced industries, new product development is a **competitive necessity**

Keys effective new product development	The Top 5 Reasons New Products Fail
- Find a need and fill it	1. The potential market was overestimated.
- Develop products that add value	2. Customers saw the product as too expensive.
- Get quality and pricing right	3. The product was poorly designed.
- Focus on a specific target market	4. No different than the competition's ("me too" products).
- Conduct ongoing feasibility analysis	5. The costs of developing the product line were too high

II. Additional Internal Product-Growth Strategies

1. Improving an Existing Product or Service: enhancing quality, making it larger or smaller, making it more convenient to use, improving its durability, or making it more up-to-date.

2. Increasing the Market Penetration of an Existing Product or Service:

- Market penetration strategy involves actions taken to increase the sales of a product or service through greater marketing efforts or through increased production capacity and efficiency

- Outsourcing is work that is done for a company by people other than the company's full-time employees

3. Extending Product Lines

- Product line extension strategy involves making additional versions of a product so that it will appeal to different clientele or making related products to sell to the same clientele

4. Geographic Expansion

Geographic expansion is another internal growth strategy; grow by simply expanding from their original location to additional geographic sites. This type of expansion is most common in **retail settings**

The keys to successful geographic expansion
- Perform successfully in the initial location
- Establish the legitimacy of the business concept in the expansion locations
- Don't isolate the expansion location

III. International Expansion: International new ventures are businesses that, from inception, seek to derive competitive advantage by using their resources to sell products or services in multiple countries.

1. Assessing Firm's Suitability for Growth through International Markets: (a) **Management/Organizational Issues** (Depth of management commitment, Depth of international experience, Interference with other firm initiatives) (b) **Product & Distribution Issues** (c) **Financial & Risk Management Issues** (Financing export operations, Foreign currency risk)

2. Foreign Market Entry Strategies: majority of entrepreneurial firms first enter foreign markets as exporters

3. Selling Overseas: by responding to an unsolicited inquiry from a foreign buyer.

• **Exporting**: process of producing product at home & shipping it to a foreign market **(+)**: relatively inexpensive way **(-)** High transportation costs can make exporting uneconomical, particularly for bulky products

• **Licensing** agreement: proprietary rights to product grants permission to another firm to manufacture_product for specified royalties/other payments. Proprietary services & processes can be licensed **(+)** licensee puts up most of capital needed to establish overseas operation **(-)** effect "teaches" foreign company how to produce its proprietary product. Foreign company will probably break away & start producing variation of product on its own.

• **Joint ventures**: establish of firm that is jointly owned by 2/more otherwise independent firms **(+)** gain access to foreign partner's knowledge of local customs & market preferences **(-)** loses partial control of busi operations

• **Franchising**: Franchise: agreement btw franchisor (parent company has proprietary product) & franchisee (indi/firm is willing to pay franchisor fee for right to sell product) **(+)** Franchisee puts up majority of capital needed to operate in foreign market **(-)** Quality control.

• **Turnkey projects:** contractor from 1 country builds facility in another country, trains personnel that will operate the facility, turns over keys to project when it is completed & ready to operate **(+)** Ability to generate revenue **(-)** one-time activity, relationships_are established in a foreign market may not be valuable to facilitate future projects

• **Wholly owned subsidiary:** has made decision to manufacture in foreign country & establish permanent presence **(+)** Provides firm total control over its foreign operations **(-)** cost of set up & maintain manufacturing facility & permanent presence in a foreign country can be high

→ **Rules of thumb for sell products in foreign markets**:- Answer requests promptly & clearly - Keep promise - A file should be set up to retain copies of all foreign inquiries - All correspondence should be personally signed - Be polite, courteous, friendly, and respectful - For personal meeting, make sure to send individual who is of equal rank - Rplies to foreign inquires should be communicated through some form of airmail/ overnight delivery

IV. External Growth Strategies: rely on establishing relationships with third parties

Advantages and Disadvantages of Emphasizing External Growth Strategies: **(+)** Reducing competition, Getting access to proprietary products or services, Gaining access to new products and markets, Obtaining access to technical expertise, Gaining access to an established brand name, Economies of scale, Diversification of business risk **(-)** Incompatibility of top management, Clash of corporate cultures, Operational problems, Increased business complexity, Loss of organizational flexibility, Antitrust implications

1. **Mergers & Acquisitions**: **Merger**: pooling of interests to combine 2/ more firms into one. **Acquisition**: outright purchase of one firm by another. In acquisition, **Acquirer**: surviving firm. **Target**: firm is acquired

Process of completing acquisition of another firm: S1: Schedule meeting with target firm's executives → S2: Evaluate feelings of target firm's executives about acq → S3: Determine how to most appropriately fiancé acq. → S4: Actively negotiate with target firm → S5: Make offer if negotiations indicate that doing so is appropriate → S6: Develop noncompete agreement with key target firm employees who will be retained → S7: Hire attorney to prepare closing documents → S8: As soon as practical, meet with all employees to explain acq → S9: Move forward with plan for add acquired firm to org.

2. **Licensing**: granting of permission by 1 company to another comp to use specific form of its intellectual property under clearly defined conditions. **Licensing agreement**: formal contract btw **licensor** (company that owns the intellectual property) and **licensee** (company purchasing the right to use it)

• **Technology licensing**: of proprietary tech that licensor typically controls by virtue of utility patent

CHAPTER 1: INTRODUCTION TO ENTREPRENEURSHIP

I. What Is Entrepreneurship and Why Is It Important? - **Entrepreneur:** as a risk bearer, an organizer, an innovator
- **Entrepreneurship**:process_indi pursue oppor without regard to resources they currently control for purpose of exploit future goods/services (*art of turn an idea into a busi)*
- **Corporate entrepreneurship**: encourages & emphasizes entrepreneurial behavior throughout its various divisions.
- **3 characteristics of entrepreneurial firms**: Proactive, Innovative, Risk taking → high level of **Entrepreneurial intensity** (Google)

II. Why Do People Become Entrepreneurs? 3c: 3) **Pursue Financial Rewards**: typically secondary to the first two
1. Be Their Own Boss (most impt & commonly) b/c either they have had long-time ambition to own their own firm/ have become frustrated work. in traditional jobs.
2. Pursue Their Own Ideas: people are naturally alert, & when they recognize ideas for new products/services, they have a desire to see those ideas realized.

III. 4 Primary Characteristics of Successful Entrepreneurs
1. Passion for Business: (most impt for for-profit, not-for-profit org) in context of new firm/existing busi → stems from entrepreneur's belief_busi will positively **influence people's lives**
→ **5 primary reasons passion is important for launch of successful entre org:**
- Ability to learn & iterate *(lặp đi lặp lại)*
- Willingness to work hard for an extended period of time
- Ability to overcome setbacks & "no's"
- Ability to listen to feedback on limitations of org. & yourself *(ko cố chấp)*
- Perseverance & persistence when going gets tough *(kiên trì & bền vững)*

2. Product/Customer Focus: underscores 2 of most important elements in any business-products and customers
3. Tenacity Despite Failure: (*bại ko nản*) b/c try sth new, failure rate associated with efforts is high. Litmus test for ability to persevere through setbacks & failures
4. Execution Intelligence: develop busi. model, put together new venture team, raise money, establish partnerships, manage finance, lead & motivate employees → demands ability to translate thought, creativity, & imagination into action & measurable results

IV. Common Myths About Entrepreneurs (5c) 1) **Entrepreneurs Are Born, Not Made:** pp are genetically predisposed to be entrepreneurs
2) **Entrepreneurs Are Gamblers** B/c 1) jobs are less structured → face more uncertain possibilities than managers/rank-and-file employees 2) have strong need to achieve & often set challenging goals → **Common traits & characteristics of entrepreneurs:** - A moderate risk taker - Optimistic disposition - Persuasive - A networker - Promoter - Achievement motivated - Resource assembler/leverager - Visionary – Creative - Alert to opportunities - Self-confident - Self-starter - Decisive - Tenacious - Energetic - Tolerant of ambiguity (*chấp nhận mơ hồ*) - Strong work ethic - Lengthy attention span.
3) **Entrepreneurs Are Motivated Primarily by Money** 5) **Entrepreneurs Love Spotlight**/ flamboyant: work on proprietary products/ services, avoid public notice.
4) **Entrepreneurs Should Be Young and Energetic**: strength of entrepreneur as most impt criterion in decision to fund new ventures → **strong entrepreneur** (*exp, skills, abilities, reputation, track record of success, passion*) with mediocre busi idea rather than fund strong busi idea & mediocre entreur.

V. Types of Start-Up Firms
1) **Salary-substitute firms**: small firms that basically provide their owner/owners a similar level of income to what they would be able to earn in conventional jobs *(ex: Dry cleaners, convenience stores, restaurants, accounting firms, retail stores, hairstyling salon)*
2) **Lifestyle firms**: provide oppor to pursue particular lifestyle, make a living at it (*ex: personal trainers, golf & tennis pros, owners of bed & breakfasts, tour* guides)
3) **Entrepreneurial firms**: bring new products/services to market by create & seizing oppor regardless of resources they currently control → Create **value** *(including worth, importance, utility)* & disseminate to customers *(ex: computer software, biotechnology, medical devices)*

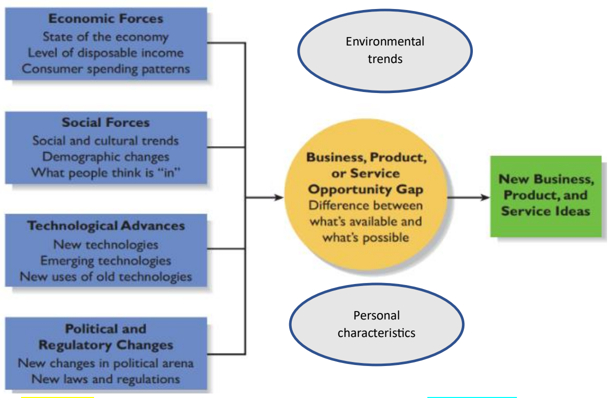
VI. Positive Effects of Entrepreneurship and Entrepreneurial Firms
- **Creative destruction = Innovative discruption**: develop new products/tech that over time make current these obsolete → stimulates economic activity
1) **Economic Impact of Entrepreneurial Firms** → strength & stability.
- **Innovation**: process of create sth new & central to entrepreneurial process - **Job Creation**: create a substantial number of net new jobs
2) **Entrepreneurial Firms' Impact on Society**: make lives easier, enhance productivity at work, improve health, entertain but create moral & ethical issues.

VII. Entrepreneurial Process **S1: Decision to become entrepreneur → S2: Develop successful busi. ideas → S3: Move from an idea to entre. firm → S4: Manage & grow entre. Firm**
Decision to Become an Entrepreneur: **Triggering event** prompts an indi. to become entre. (*lost job, inherit money, accommodate lifestyle, lifestyle issues*)
1) **Developing Successful Business Ideas**: **- S1: Recognize oppor. & generate ideas**
- **S2: Fasibility analysis** → to determine recognize oppor. & generate ideas whether an idea represents a viable business oppor.
- **S3: Develop effective busi.model** → **Business model:** is its plan or recipe for how it creates, delivers, & captures value for its stakeholders
- **S4: Industry & competitor analysis**: to compete is crucial to an entrepreneur's success
- **S5: Write busi plan** → **Business plan**: written document_describes all aspects of busi venture in concise manner→ raise money & attract high-quality busi partners
2) **Move idea to entre. firm:** prepare proper ethical,legal foundation→assess new venture's financial strength/viability→build new venture team→get finance/ fund
3) **Manage & grow an entre. firm:** Unique marketing issues, imp of intellectual property, prepare/evaluate challenges of growth, strategies for growth, franchising

CHAPTER 2 RECOGNIZING OPPORTUNITIES & GENERATING IDEAS

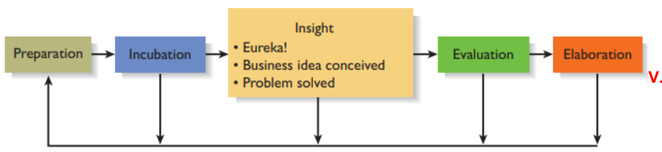
I.Differences Between Opportunities and Ideas - **Idea**: a thought/ impression/ notion → Idea may/may not meet the criteria of opportunity
- **Opportunity**: a favorable set of circumstances that creates a need for a new product, service, business → tough to spot (khó xác định)
➔ **4 essential qualities: Attractive, timely, durable, anchored** in a product, service, busi that create or adds value for its buyer or end user.
- **Window of opportunity**: a metaphor describing the time period in which a firm can realistically enter a new market
- **Distinction btw idea & oppor**: impt b/c entrepreneurial ventures fail not b/c launched them didn't work hard, but rather b/c there was no real oppor to begin with → **It's important to discern whether a particular idea meets the criteria for an opportunity**

II.Three Ways to Identify Opportunities **Observing trends → Solving a problem → Finding gaps in the marketplace**
1) **Observing trends**:study how create oppo to pursue → **Need to concern**:a) distinguish btw trends & fads b)consider simultaneously when brainstorm new ideas



Economic factors, social factors, technological advances, political action & regulatory changes: most impt **environmental trends** to follow in trying to identify oppo
2) Solving a prob: recog prob & find ways to solve → prob can be pinpointed through observe trends,more simple means *(intuition, serendipity, chance)* → Every prob is brilliantly disguised oppo.
3) Finding gaps in the marketplace: products_consumers need/want_aren't available in a particular location/aren't available at all.

II. Personal Characteristics of the Entrepreneur
- Opportunity recognition: process of perceive possibility of profitable new busi/product/service → oppo cannot be pursued until it's recognized.
1) Prior Industry Experience: **5 criteria start-up must satisfy if it is to succeed**: experience, genuine need, adequate resources, buying customers, sound business model.
2) Cognitive Factors: Oppo recognition may be innate skill (*bẩm sinh*)/ cognitive process.
Entrepreneurial alertness = 6th sense: ability to notice things without engage in deliberate search + largely learned skill+ more knowledge, more alert+ research findings are mixed+ see oppo_others miss.
3) **Social Networks:** extent & depth of individual's social network affects oppo recog → substantial network of social & professional contact will have more oppo.
- **Solo entrepreneurs**: identified their busi ideas on their own; **Network entrepreneurs**: through social contacts → more oppo.
- **Strong-tie relationships**: charac. by frequent interaction (coworkers/friends/spouses). **Weak-tie relationships**:infrequent interaction (casual acquaintance)
→ Get new busi idea through a **weak-tie** than a **strong-tie** b/c **strong-tie** form btw like-minded individuals-tend to reinforce insights & ideas already have → **Weak-tie** are not as apt to be btw like-minded indi, so 1 person may say sth to another that sparks a completely new idea.
4) **Creativity**: process of generating a novel/useful idea. a) **Preparation**: background, experience, knowledge that entrepreneur brings to oppo recog process
b) **Incubation** = "mulling things over" phase: considers an idea/ thinks about a prob at both conscious & unconscious level
c) **Insight** = "eureka" experience: flash of recognition when solution to a prob is seen/an idea is born.
d) **Evaluation**: of creative process during which an idea is subjected to scrutiny & analyzed for its viability
e) **Elaboration**: creative idea is put into a final form: details are worked out & idea is transformed into sth of value *(ex:new product/service/business concept)*.



V. Techniques for Generating Ideas
1) **Brainstorming**: process of generate several ideas ab a specific topic →create atmosphere-enthusiasm,originality → **Rules for formal brainstorm session**
a) R1: No criticism is allowed (chuckles/raised eyebrows/facial expressions) that express skepticism/doubt. Criticism stymies creativity & free flow of ideas.
b) R2: Freewheeling: carefree expression of ideas free from rules/restraints, is encouraged; the more ideas, the better.
c) R3: Moves quickly & nothing is permitted to slow down its pace → more impt to capture essence of an idea than to take time to write it down neatly.
d) R4: Leapfrogging is encouraged → using one idea as a means of jumping forward quickly to other ideas
- **Mind map:** diagram used to visually organize information → hierarchical and shows the relationships **Flip chart:** used to record all the ideas.
- Leader: is instructed to come up with ideas-one person shares an idea, another person reacts to it, another person reacts to reaction,..
2) **Focus Groups:** gather of 5 to 10 pp who are selected b/c relationship to issue being discussed → group of people who are familiar with a topic
3) **Library & Internet Research**: careful & extensive searches of physical library's holdings & Internet sites
4) **Other Techniques**: - **Customer advisory boards:** meet regularly to discuss needs/wants/prob may lead to new ideas - **Day-in-the-life research:** type of anthropological research → Send employees to facilitate of cus

CHAPTER 3 FEASIBILITY ANALYSIS

I.Feasibility Analysis: is the process of determining if a business idea is viable
- **Primary research**: is collected by person/persons completing analysis & is original research & collected by entre. - **Secondary research**: is already collected

II.Product/Service Feasibility Analysis: an assessment of the overall appeal of product/service being proposed
1) **Product/Service Desirability**: to affirm that proposed product/service is desirable & serves a need in marketplace
- **Concept statement = concept test**: *(include: description, mana team. how positioned/sold/distributed, benefit, target market. BUT NOT how much money needs)*
- Involves showing a preliminary description of a product/service idea to prospective customers to gauge customer interest, desirability, purchase intent
- Shouldn't exceed one page. Should be used to get initial feedback & input regard busi. idea
- Temptation to show concept statement to friends/family members should be avoided b/c they are predisposed (khuynh hướng) to give positive feedback
- A **short survey** should be attached to the concept statement to **solicit feedback**
- Should be shown to at least 25 pp who are familiar with industry/ used in a **iterative manner** (cách lặp đi lặp lại) & **distributed to several groups** of pp

2) **Product/Service Demand**:
- **Talking Face-to-Face with Potential Customers**: only way to know if your product/service is what people want & need is by talking to them → to gauge customer reaction to the general concept of what you want to sell
- **1 approach to finding qualified people** is to contact trade associations and/or attend industry trade shows
- **Utilizing Online Tools to Assess Demand:** (surveys, Q&A sites, online mkt research) Careful to avoid **confirmation bias**_tendency to search for infor that validates preconceptions → ask for wide range of responses
- **Landing page** is a single web page that typically provides direct sales copy
- **Library, Internet, and Gumshoe Research**:
- **Gumshoe** *(quan sát thị hiếu khách hàng, chứ ko hỏi)*:is detective/investigator_scrounges around for infor or clues wherever they can be found. - Can take creative forms
  ✓ Is simply being inventive regarding activities that can be undertaken to better understand industry & target market's attractiveness.
  ✓ Is simply doing what it takes to collect sufficient infor to assess target market feasibility of product idea.

III. Industry/Target Market Feasibility Analysis: is assessment of overall appeal of industry & target market of product/service being proposed
- **Industry**: group of firms producing a similar product/service → Most firms do not try to service their entire industry. Instead, they select/carve out a specific target market & try to service that market very well

• **Target market:** limited portion of the industry that it goes after or to which it wants to appeal.
- **Industry Attractiveness:** → **the most attractive industries have the characteristics** *(3 cái đầu qtrong nhất)*
• Are young rather than old, are early rather than late in their life cycle, are fragmented rather than concentrated, are more receptive to new entrants than industries with opposite charac, Are growing rather than shrinking
• Not crowded, Have high rather than low operating margins, Sell products/services cus must have rather than want to have, Not highly dependent on historically low price of key raw material (gasoline/flour) to remain profit
- **Target Market Attractiveness:** is a segment within a larger market that represents a narrower group of cus with similar needs
• Can avoid head-to-head competition with industry leaders & can focus on serve a specialized market very well
• Challenge in identify attractive target market: find a market that is large enough for proposed busi but yet small enough to avoid attracting larger competitors, at least until entrepreneurial venture can get off to successful start.
• While it is generally easy to find good infor to assess attractiveness of entire industry, discerning attractiveness of a **small target market** within an industry is **tougher**, particularly if the start-up is pioneering target market

III.Organizational Feasibility Analysis: to determine whether a proposed business has sufficient management expertise, organizational competence, resources to successfully launch (focus on nonfinancial resources)

1) **Management Prowess**: **2 of the most important factors** are passion solo entrepreneur or management team has for business idea & extent to which management team/ solo entrepreneur understands markets in which the firm will participate
• **New-venture team**: is the group of founders, key employees, and advisers that either manage or help manage a new business in its start-up years
2) **Resource Sufficiency**: to determine whether proposed venture has or is capable of obtaining sufficient resources to move forward
• **Objective**: identify the most important nonfinancial resources & assess their availability • **Key issue**: ability to obtain intellectual property protection on key aspects of busi
• **To test resource sufficiency** → firm should list 6 to 12 most critical nonfinancial resources → to move its business idea forward and determine if those resources are available

IV.Financial Feasibility Analysis: is quick financial assessment of viability of a busi idea. For feasibility analysis, a preliminary financial assessment is usually sufficient → Not very detailed & comprehensive financial ana.
• If new venture moves beyond feasibility analysis stage → complete pro forma (projected) financial statements that demonstrate firm's financial viability for first one to 3 years of its existence must be completed
• **A negative** as it pertains to financial feasibility of a business venture → inability to forecast income and expenses with a reasonable degree of accuracy.
• **A positive** as it pertains to he financial feasibility of a business venture → high percentage of recurring revenue
1) **Total Start-Up Cash Needed:** to prepare the business to make its first sale
• It's necessary to complete actual budget of startup expenses • There are worksheets posted online that help entrepreneurs determine startup costs to launch their venture.
• When explaining where startup funds will come from, avoid cursory explanations ("I plan to bring investors on board"/ "I'll borrow money")
• If money will come from friends & family/ is raised through other means, a reasonable plan should be stipulated to repay money.
- **Types of Nonfinancial Resources That Are Critical to Many Start-Ups' Success:** ■ Affordable office space ■ Lab space, manufacturing space, space to launch a service busi ■ Contract manufacturers/service providers ■ Key management employees (now & in future) ■ Key support personnel (now & in future) ■ Key equipment needed to operate busi (computers, machinery, delivery vehicles) ■ Ability to obtain intellectual property protection on key aspects of busi ■ Support of local governments & state government if applicable for business launch ■ Ability to form favorable business partnerships
2) **Financial Performance of Similar Businesses**: is estimating a proposed start-up's potential financial performance by comparing it to similar, already established busi → results in approximate rather than exact numbers.
• **Way to obtain financial data**: (1) Online: but hard to find on small/ more comventures, (2) ask owner/manager of business to share (3) simple observation and legwork
3) **Overall Financial Attractiveness of the Proposed Venture**: based primarily on a new venture's projected sales and rate of return (profitability)
• To gain perspective, start-up's projected rate of return should be weighed against factors to assess whether venture is financially feasible: ■ amount of capital invested ■ risks assumed in launching busi■ existing alternatives for money being invested ■ existing alternatives for entrepreneur's time & efforts

V.Feasibility Analysis Template
- **First Screen**: a template for completing a feasibility analysis
• Because is entrepreneur's (or group of entrepreneurs') initial pass at determining feasibility of busi idea. If a business idea cuts muster at this stage, the next step is to complete a business plan.
• Mechanics of filling out First Screen worksheet are straightforward, not complicated. • Completing a First Screen is not meant to be a lengthy process & shot in dark
• Value of the First Screen is that it (1) provide an entrepreneur an overall sense of feasibility of a business idea (2) draws attention to issues that suggest idea has low potential.
• Section of worksheet include: Part 1: Strength of the Business Idea, Part 2: Industry-Related Issues, Part 3: Target Market & Customer-Related Issues, Part 4: Founder's- (or Founders'-) Related Issues, Part 5: Financial Issues, and Overall potential → "Overall Potential," includes a section that allows for suggested revisions of busi idea to improve its potential for attractability.
- **Types of Nonfinancial Resources:**■ Steady & rapid growth in sales during first 5 to 7 years in clearly defined market niche ■ High % of recurring revenue—once a firm wins a client, client will provide recurring sources of revenue ■ Ability to forecast income/expenses with reasonable degree of certainty ■ Internally generated funds to finance/sustain growth ■ Availability of exit oppo (acquisition/IPO) for investors to convert equity into cash

CHAPTER 4 DEVELOPING AN EFFECTIVE BUSINESS MODEL

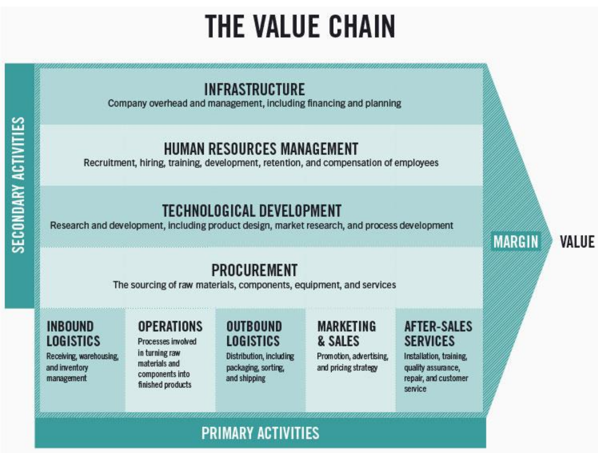
- **Two fatal flaws** can render a business model untenable from the beginning: a complete misread of the customer and utterly unsound economics
- **Business model** is a firm's plan or recipe for how it creates, delivers, and captures value for its stakeholders. Business model should not be completed in isolation. It takes it beyond its own boundaries
• Is foundational to a firm's ability to succeed, both in short & long term, especially when it is the first one to introduce new product/service to customers. It describes how core aspects fit together & support 1 another
• Plan for how her firm will compete, use its resources, structure its relationships, interface with customers, create value to sustain itself
• Inherently dependent on collection of resources controls & capabilities possesses. • No standard business model dictates how firms in a particular industry should compete
• **Purpose**: (1) Serves as ongoing extension of feasibility analysis, (2) Focuses attention on how all te elements of busi fit together & constitute working whole, (3) Describes why network of participants needed to make busi idea viable is willing to work together, (4) Articulates (trình bày) company's core logic to all stakeholders, including employees → **important for firm to have a well-thought-out business model**
• **Business model innovation** refers to initiatives, such as Netflix in movie rentals and Zipcar in car sharing, which revolutionize how products are sold in an industry.

I. Business Models and Their Importance: **Initial validation of business idea → Preparation of business model → Fleshing out the operational details of the company**

II. General Categories of Business Models
1) **Standard Business Models**: depict existing plans/recipes firms can use to determine how they will create, deliver, capture value for their stakeholders.
a) **Advertising Business Model**: providing advertisers access to highly targeted customer niches. b) **Auction Business Model**: provide a platform for indi & busi to sell items in auction format.
c) **Bricks and Clicks Business Model**: integrates both offline (bricks) & online (clicks) presences.
d) **Franchise Business Model** successful product/service (franchisor) licenses its trademark & method of doing busi to other busi (franchisees).
e) **Freemium Business Model**: provide basic version of service for free, makes money by sell premium ver. f) **Low-Cost Business Model**: relies on driving down costs & make money by servicing many cus.
g) **Manufacturer/Retailer Business Model**: manufacturer both produces & sells (online, offline, or both) product.
h) **Peer-to-Peer Business Model**: busi acts as matchmaker between individuals with service to offer & others who want service.
i) **Razor and Blades Business Model**: involves the sales of dependent goods for different prices—one good (a razor) is sold at discount, with dependent good (blades) sold at a considerably higher margin.
j) **Subscription Business Model**: customer pays a monthly, quarterly, or yearly subscription fee to have access to a product or service
k) **Traditional Retailer Business Model** firm to sell its products/services, made by others, directly to consumers at a markup from original price. Can be sold online or offline.
• It is important to note that a firm's business model takes it beyond its own boundaries.
• It is important to understand that there is no perfect business model
2) **Disruptive Business Models**: do not fit profile of a standard business model, are impactful enough that they disrupt or change the way business is conducted in an industry or an important niche within an industry
a) **New market disruption** addresses a market that previously wasn't served
b) **Low-end market disruption**: is possible when firms in an industry continue to improve products/services to point where they are actually better than a sizable portion of their clientele's needs/desires
• are also introduced to offer a simpler, cheaper, or more convenient way to perform an everyday task.

III. Barringer/Ireland Business Model Template: is a tool that allows an entrepreneur to describe, project, revise, and pivot a business model until all 12 parts are decided upon
1) **Core Strategy:** describes how the firm plans to compete relative to its competitors.
a) **Business Mission/Mission statement**: describes why it exists & what its business model is supposed to accomplish. Indicates how a firm intends to create value for stakeholders.
→ **Rules of thumb for writing mission statements**: ■ Define its "reason for being" ■ Describe what makes company different ■ Be risky/challenging but achievable ■ Use tone that represents company's culture/values ■ Convey passion & stick in mind of reader ■ Be honest & not claimed to be something that the company "isn't"
b) **Basis of Differentiation**:is what causes consumers to pick one company's products over another's
c) **Target market**: segment within larger market that represents narrower group of cus with similar interests → selects affects everything it does, from key assets to financing/funding it will need to partnerships it forms
d) **Product/market scope**: defines products & markets on which it will concentrate
2) **Resources**: are the inputs a firm uses to produce, sell, distribute, and service a product or service → should list 3 to 4 key assets that it possesses that support its business model
a) **Core competency**: a specific factor or capability that supports firm's business model & sets it apart from its rival (in form: technical know-how, efficient process, trusting relationship with cus, expertise in product design)
b) **Key assets**: assets that a firm owns that enable its business model to work. Can be physical (space/equipment/vehicles/distribution networks), financial (cash/lines of credit/ commitments from investors), intellectual (patents/trademarks/copyrights/trade secrets/reputation), human (founder/key employees/advisors)
3) **Financials**: describes how it earns money
a) **Revenue streams** describe the ways in which it makes money
• **Advertising:** in newspaper/magazine/website/some other manner
• **Commissions:** by bringing two parties together to complete a sale
• **Download Fee:** by allowing a user to download a digital product
• **Licensing:** charging for the use of a protected intellectual property
• **Product Sale:** sell physical good
• **Renting/Leasing**
• **Service Sale:** sell service
• **Subscription Service:** sell subscription
• **Matchmaking:** someone wants temporary access to asset/competency with who owns asset/has a competency & willing
b) **Cost structure** describes the most important costs incurred to support its business model. **Fixed costs**: remain same despite volume of goods/services provided. **Variable costs**: vary proportionally with volume
→ **Goal:** identify whether business is a costdriven/ value-driven business, identify nature of business' costs, identify business' major cost categories
c) **Financing or funding** to bring their business model to life.
4) **Operations**: are both integral to firm's overall business model & represent day-to-day heartbeat of a firm
a) **Product/Service Production**: how a firm's products/services are produced.
b) **Channels** describe how it delivers its product/service to its customers. Businesses sell direct, through intermediaries, or through a combination of both.
c) **Key Partners**: Supplier/vendor:company_provides parts/services to another comp →**Types of busi partnerships**:
• **Joint venture**: entity created by 2/more firms pooling portion of resources to create separate/jointly-owned org
• **Network**: hub-and-wheel configuration with local firm at hub organizing interdependencies of complex array of firms
• **Consortia**: group of org with similar needs that band together to create ew entity to address those needs
• **Strategic alliance**: arrangement btw 2/ more firms_establishes exchange rela but has no joint ownership involved
• **Trade associations**: org (typically nonprofit) are formed by firms in same industry to collect & disseminate trade info, offer legal/technical advice, furnish industry-related training, provide a platform for collective lobbying
→ **Approach to partnering**: (1) **Insourcing**: takes place when a service provided comes inside a partner's facilities and helps the partner design and manage its supply chain (2) **Crowdsourcing** = freelancer (3) **Outsourcing**

V. Value chain: string of activities that moves product from raw material stage, through manufacturing & distribution, ultimately to end user → can **identify ways to create additional value & assess whether it has means to do**
Supply chain: network of companies_participate in production of product, from acquisition of raw mat. to final sale



VI. 4 components of a firm's business model
a) **Core strategy**: include (1) **business mission**, (2) **product/market scope**, (3) **basis of differentiation**.
→ **2 generic strategies to affect busi model: (1) Cost leadership**: strategy strive to have lowest costs in industry, relative to competitors' costs, & typically attract cus on that basis **(2) Differentiation**: compete based on providing unique/different products & typically compete on basis of quality, service, timeliness, some other important dimension.
b) **Strategic resources:** how firm acquires & uses its resources → has affects its business model substantially
→ **Include:** (1) **Core competencies**: resource/capability_serves as source of firm's competitive advantage over its rivals. **Resource leverage**: process of adapting firm's core competencies to exploit new oppo (2) **Strategic assets**: are anything rare & valuable that a firm owns. → try to **combine core competencies & strategic assets** to create a sustainable competitive advantage.
c) **Partnership network**: (1) **Supplier** (2) **Partners**: Almost all firms partner with others to make business models work (3) **Other key relationships**
d) **Customer interface**: how a firm interfaces with its customers → type of customer interface depends on how a firm chooses to compete. Include (1) **Target customer = target market**: limited group of individuals/businesses that it goes after/tries to appeal to, (2) **Fulfillment & support:** way firm's product/service "goes to market" or how it reaches its customers, (3) **Pricing structure**

• **Merchandise & character licensing:** recognized trademark/brand_licensor controls through registered trademark/copyright

3. Strategic Alliances and Joint Ventures

• **Strategic alliance**: partnership btw 2/more firms that is developed to achieve a specific goal

Technological alliances feature cooperation in research & development, engineering, & manufacturing

Marketing alliances has distribution system with company _has product to sell to increase sales of product/service

• **Joint venture**: entity created when 2/more firms pool portion of resources to create a separate, jointly owned org

Scale joint venture: partners collaborate at single point in value chain to gain economies of scale in production or distribution → be a good vehicle for developing new products or services

Link joint venture: position of the parties is not symmetrical, and the objectives of the partners may diverge

• **Advantages & Disadvantages of Participating in Strategic Alliances & Joint Ventures**: **(+)** Gain access to a particular resource, Economies of scale, Risk and cost sharing, Gain access to a foreign market, Learning, Speed to market, Neutralizing or blocking competitors **(-)** Loss of proprietary information, Management complexities, Financial and organizational risks, Risk of becoming dependent on a partner, Partial loss of decision autonomy, Partners' cultures may clash, Loss of organizational flexibility.

V. **Key strategies** **(1) Acquisition (Takeover):** take control of company by acquiring shares/properties. **Acquired company (Target)** loses economic independence & right to make autonomous decisions. **Acquiring company (Buyer)** often needs to obtain more than 50 percent of shares to assume control.

(2) Vertical Integration: expands into busi that either produce supplies needed to make products (upstream/backward VI)/distribute & sell products (downstream/forward VI). Focal comp is increasing control over supply chain. Vertical integration can be done through acquisition/greenfield investment.

(3) Horizontal Integration company expands into busi that are on same level of supply chain. This is usually done through merger/acquisition of competitors. A company increases its market power over both suppliers (upstream) and distributors/customers (downstream) → can lead to oligopoly/monopoly & different from vertical integration.

(4) Greenfield Investment: form of FDI in which a multinational sets up a foreign subsidiary or foreign operations from scratch. It entails the establishment of a completely new Wholly Owned Subsidiary (WOS) from the ground up on a location where formerly no existing facilities were present. It is therefore the opposite of a foreign acquisition in which a company purchases a complete foreign facility that already exists.

(5) Joint Venture (JV) arrangement in which 2/more parties agree to pool resources for purpose of accomplishing a shared goal. Parties involved set up a separate legal entity (a venture) in addition to the parties' own business interests. All parties involved own some part of the Joint Venture. JVs are therefore in fact equity alliances

(6) Foreign Direct Investment (FDI) multinational company from 1 country has ownership position in org. unit located in another country. Multinational company owns, in part/whole, value-adding activity/operation in another country. The degree of ownership, however, should be enough to be in control of activity. This means that an organization needs a controlling interest with enough voting stock shares to be able to actively manage foreign asset. It is thus distinguished from Foreign Portfolio Investment by a notion of direct control

(7) Franchising form of a licensing agreement in which a company provides franchisee with a complete package of materials and services, including equipment, products, product ingredients, trademark, trade name rights, managerial advice & standardized operating system. In return, franchisee pays franchiser a royalty fee.

(8) Licensing contractual agreement btw licenser & licensee. Licensers have a valuable patent, technological know-how, trademark, company name, another available resource that they provide to licensee in return for monetary compensation. Licensing offers 1 of easiest, lowest-cost, least risky mechanisms for company to go international.