

# Chapter 1: Practicing Entrepreneurship

# Introduction

- Entrepreneurship methods:
  - Thinking.
  - Acting.
  - Identifying opportunities.
  - Approaching problems.
- Entrepreneurship: Vehicle for developing a set of skills.

# Entrepreneurship Requires Action and Practice

- Entrepreneurship: A way of thinking, acting, and being.
  - The pursuits of entrepreneurs have affected every aspect of the way we live.
  - Turbulence creates new opportunities for economic progress.

# Entrepreneurship May Be Different from What You Think (1 of 4)

## Media Images of Entrepreneurs

- The media exaggerates “overnight global sensations.”
  - These people are inspirational but not identifiable.
  - There is no such thing as an overnight success.

# Entrepreneurship May Be Different from What You Think (2 of 4)

## Debunking the Myths of Entrepreneurship

- Analyzing a few truths:
  - Separating truth from fiction is important.
  - Entrepreneurship can be a path for many.

# Entrepreneurship May Be Different from What You Think (3 of 4)

## Debunking the Myths of Entrepreneurship

- Truth #1: Entrepreneurship is not reserved for startups.
- Truth #2: Entrepreneurs do not have a special set of personality traits.
- Truth #3: Entrepreneurship can be taught.
  - It's a method that requires practice.

# Entrepreneurship May Be Different from What You Think (4 of 4)

## Debunking the Myths of Entrepreneurship

- Truth #4: Entrepreneurs are not extreme risk-takers.
- Truth #5: Entrepreneurs collaborate more than they compete.
- Truth #6: Entrepreneurs act more than they plan.
- Truth #7: Entrepreneurship is a life skill.

# Types of Entrepreneurship (1 of 7)

## Corporate Entrepreneurship

- Process of creating new products, ventures, and processes.
- Corporate entrepreneurs see opportunities and create something of value.
  - To enhance competitive competition.



# Types of Entrepreneurship (2 of 7)

## Entrepreneurship Inside

- Consist of employees who think and act entrepreneurially.
  - They need to gain support from senior managers.
  - Inside entrepreneurs and other entrepreneurs both wish to create something of value.

# Types of Entrepreneurship (3 of 7)

## Franchising

- It is a license purchased by an entrepreneur from an existing business.
  - Allowing the entrepreneur to trade under the name of that business.
  - A franchise is beneficial for entrepreneurs to launch their own businesses

# Types of Entrepreneurship (4 of 7)

## Buying a Small Business

- Buying out the existing owner and taking over operations.
  - Example: Chris Cranston of FlowDog.

# Types of Entrepreneurship (5 of 7)

## Social Entrepreneurship

- A global movement with initiatives launched every year to improve social problems.
  - A process of sourcing innovative solutions to social and environmental problems.
  - Benefit corporation, or B-Corp.

# Types of Entrepreneurship (6 of 7)

## Family Enterprising

- Each generation has an opportunity to bring the organization forward in new, innovative ways.
  - Important for the US economy.
  - Considered more stable because they take a long-term view.

# Types of Entrepreneurship (7 of 7)

## Serial Entrepreneurship

- Serial entrepreneurs: People who start several businesses.
  - They look out for the next big thing.
  - Explore ways to implement their diverse range of ideas.

# Entrepreneurship Is A Method Not A Process (1 of 3)

- Method: Systematic way of approaching task.
- From entrepreneurship to business success.
- The Entrepreneurship Process: An Outdated View.
  - Emphasizes planning and prediction.
  - 10-step process: Ineffective in new ventures.
  - Entrepreneurship: Non-linear process.
  - Majority of startups fail after the first 5 years.

# Entrepreneurship Is A Method Not A Process (2 of 3)

- Assumptions Underlying the Entrepreneurship Method
  - Applies to novices and experts.
  - Is inclusive.
  - Requires continuous practice.
  - Works in an unpredictable environment.
  - Changes how we think.
  - Entrepreneurship needs to be viewed as a method.



# Entrepreneurship Is A Method Not A Process (3 of 3)

- Method Versus Process

TABLE 1.5 Method Versus Process

ENTREPRENEURSHIP AS A METHOD	ENTREPRENEURSHIP AS A PROCESS
A set of practices	Known inputs and predicted outputs
Phases of learning	Steps to complete
Iterative	Linear
Creative	Predictive
Action focus	Planning focus
Investment for learning	Expected return
Collaborative	Competitive

**Source:** Neck, H. M., Greene, P. G., & Brush, C. (2014). *Teaching entrepreneurship: A practice-based approach*. Northampton, MA: Edward Elgar.

# The Method Involves Creating the Future – Not Predicting It (1 of 4)

- Entrepreneurship: No longer about growing a venture using a linear step-by-step process.
  - It is an ongoing method of creating opportunities to navigate an ever-changing world.

# The Method Involves Creating the Future – Not Predicting It (2 of 4)

## Managerial Versus Entrepreneurial Thinking

- Managers lead corporations but entrepreneurs lead startups.
- A startup environment has to face many more risks than a corporate organization.

# The Method Involves Creating the Future—Not Predicting It (3 of 4)

- Managerial versus Entrepreneurial Thinking

**TABLE 1.6** Managerial Versus Entrepreneurial Thinking

MANAGERIAL	ENTREPRENEURIAL
Big planning	Small actions
Wait until you get what you need	Start with what you have
Expected return	Acceptable loss
Linear	Iterative
Optimization	Experimentation
Avoid failure at all costs	Embrace and leverage failure
Competitive	Collaborative
Knowable	Unknowable
Plan to act	Act to learn

**Source:** Sarasvathy, S. D. (2008). *Effectuation: Elements of entrepreneurial expertise*. Cheltenham, UK and Northampton, MA: Edward Elgar; Schlesinger, L., Kiefer, C., & Brown, P. (2012). *Just start: Take action, embrace uncertainty, create the future*. Cambridge, MA: Harvard Business School Press. <http://www.e-elgar.com/>

# The Method Involves Creating the Future—Not Predicting It (4 of 4)

## Entrepreneurial and Managerial Thinking in Action

- Experiment: Curry in a Hurry.
  - Making a start in the restaurant business: This approach is based on two big assumptions.

# The Key Components of the Entrepreneurship Method (1 of 3)

- Means: Embracing and confronting uncertainty.
- Method to be learnt and repeated.
- Offers a few powerful assurances.
- The practice includes prediction and creation.

# The Key Components of the Entrepreneurship Method (2 of 3)

- Eight Components of the Practice of Entrepreneurship
  - Identify your desired impact on the world.
  - Start with means at hand.
  - Describe the idea today.
  - Calculate affordable loss.
  - Take small action.

# The Key Components of the Entrepreneurship Method (3 of 3)

- Eight Components of the Practice of Entrepreneurship (Contd.)
  - Network and enroll others in your journey.
  - Build on what you learn.
  - Reflect and be honest with yourself.
- Continuing with the Practice sees affordable loss increases with each action.



# Entrepreneurship Requires Deliberate Practice (1 of 3)

- Entrepreneurship is both a mindset and practice.
- Repeating the same action makes one reach a plateau of capability.
- It is importance to carry out deliberate practice.

# Entrepreneurship Requires Deliberate Practice (2 of 3)

## Deliberate Practice Shapes the Brain

- Engaging in deliberate practice shapes the brain and improves performance.
- Regular practice without focused effort only reinforces mindless, automatic habits.

# Entrepreneurship Requires Deliberate Practice (3 of 3)

## Deliberate Practice and Entrepreneurs

- Sustained efforts have cognitive benefits.
- Entrepreneurs who engage in deliberate practice benefit more.
- Entrepreneurs make common mistakes leading to risk and failure.
- Feedback is important.
- Skills are transferable to entrepreneurship.

# How This Book Will Help You Practice Entrepreneurship

- The world is in need of entrepreneurs.
- Action and practice are the keys.
- Entrepreneurship all around us.
  - Everyone can think entrepreneurially and create social and economic value.

# Chapter 2: Activating an Entrepreneurial Mindset

# The Power of Mindset

- Right mindset is crucial to begin or develop a business.
  - Example: Franklin Yancy's mindset motivated him to start his own business.
  - Selling comfortable stadium seats for sporting events.

# What Is Mindset? (1 of 5)

- Mindset: The established set of attitudes held by someone.
- Mindsets can change or be altered.
- Carol Dweck's two different types of mindsets.
  - Fixed mindset.
  - Growth mindset.

# What Is Mindset? (2 of 5)

- It is possible to learn and develop a growth mindset.
- One needs to become aware of the “voice” in one’s head and take action.
- Adjust our mindset and take action even in uncertain circumstances.



# What Is Mindset? (3 of 5)

## The Entrepreneurial Mindset

- Has the ability to alter one's way of thinking to see the endless possibilities.
- Quickly sense, take action, and get organized under uncertain conditions.
- Employs numerous cognitive strategies.
- Requires the capacity to control our impulses.

# What Is Mindset? (4 of 5)

## Passion and Entrepreneurship

- Entrepreneurship has the element of passion.
  - It is connected to the desired impact.
- Passion is an intense positive emotion.
  - Dysfunctional side to passion.
  - The problem with the “find your passion” adage is that people are less likely to try new things.
  - Develop your passion is a more effective means.

# What Is Mindset? (5 of 5)

## Entrepreneurship as a Habit

- Anyone can develop an entrepreneurial mindset.
  - Good approach: Developing new habits.
  - Good habits can be learned through a habit loop.

# The Self-Leadership Habit

- Self-leadership: Process where people can influence and control their own behavior.
  - To build their entrepreneurial business venture.
- It consists of three main strategies:
  - Behavior-focused strategies.
  - Natural reward strategies.
  - Constructive thought pattern strategies.

# The Creativity Habit (1 of 3)

- Creativity: Capacity to produce new ideas.
  - A developed skill and not something we are born with.
- Personal creativity is higher in students who enrolled in entrepreneurship programs.

# The Creativity Habit (2 of 3)

## The Fear Factor

- Six roadblocks that prevent creativity:
  - Fear.
  - No appetite for chaos.
  - Preference for judging over generating ideas.
  - Dislike for incubating ideas.
  - Perceived lack of challenge.
  - Inability to distinguish reality from fantasy.

# The Creativity Habit (3 of 3)

## A Creative Mind

- Creativity is reflected in our biology.
- Personality types: Left-brained and right-brained orientations.
- There are commonalities in entrepreneurial mindsets.

# The Improvisation Habit (1 of 3)

- Improvisation: The art of spontaneously creating something without preparation.
- There is always the possibility of obstacles.
  - Need to find a way to quickly adapt to circumstances.
  - Major business schools offer courses on improvisation to teach: Creativity, leadership, negotiation, teamwork, and communication.



# The Improvisation Habit (2 of 3)

## • Improvisation Guidelines

TABLE 2.2 Improvisation Guidelines

• Improvisation is not just for actors or musicians.
• There's no such thing as being wrong.
• Nothing suggested is questioned or rejected (no matter how crazy it might sound!).
• Ideas are taken on board, expanded, and passed on for further input.
• Everything is important.
• It is a group activity—you will have the support of the group.
• You can trust that the group will solve a certain problem.
• It's about listening closely and accepting what you're given.
• It's about being spontaneous, imaginative, and dealing with the unexpected.

Source: <http://iangotts.files.wordpress.com/2012/02/using-improv-in-business-e2-v1.pdf>

# The Improvisation Habit (3 of 3)

- People who engage in improvisation are more tolerant of failure.
- Studies on the effects of improvisation on the brain threw up interesting results: Analyzing the brain scans, they found the musicians.

# The Mindset As the Pathway to Action (1 of 4)

- The mindset is antecedent to action.
- No new venture, product, organization:  
Without a mindset with a bias toward action.
- Self-efficacy is needed to take action.

# The Mindset As the Pathway to Action (2 of 4)

## Self-Efficacy and Entrepreneurial Intentions

- Increasing number of studies on entrepreneurial self-efficacy (ESE).
- Entrepreneurial self-efficacy can enable the entrepreneur to effectively confront demands.
- Self-confidence, self-efficacy, and arrogance.
  - GSES: Measure of self-efficacy levels worldwide.

# The Mindset as the Pathway to Action (3 of 4)

## Self-Efficacy and Entrepreneurial Intentions

- The General Self-Efficacy Scale (GSES)

**TABLE 2.3** The General Self-Efficacy Scale (GSES)

1	I can always manage to solve difficult problems if I try hard enough.
2	If someone opposes me, I can find the means and ways to get what I want.
3	It is easy for me to stick to my aims and accomplish my goals.
4	I am confident that I could deal efficiently with unexpected events.
5	Thanks to my resourcefulness, I know how to handle unforeseen situations.
6	I can solve most problems if I invest the necessary effort.
7	I can remain calm when facing difficulties because I can rely on my coping abilities.
8	When I am confronted with a problem, I can usually find several solutions.
9	If I am in trouble, I can usually think of a solution.
10	I can usually handle whatever comes my way.
<b>Response Format</b>	
1 = Not at all true. 2 = Hardly true. 3 = Moderately true. 4 = Exactly true.	

**Source:** Schwarzer, R., & Jerusalem, M. (1995). Generalized self-efficacy scale. In J. Weinman, S. Wright, & M. Johnston (Eds.), *Measures in health psychology: A user's portfolio. Causal and control beliefs* (pp. 35-37). Windsor, UK: NFER-NELSON. Scale retrieved from <http://userpage.fu-berlin.de/~health/engscal.htm>

# The Mindset as the Pathway to Action

(4 of 4)

## The Role of Mindset in Opportunity Recognition

- Reflects in recognizing and creating opportunities.
  - Recognize the importance of an optimal mindset.
- Strong mindset enables to identify exciting opportunities.
- Growing mindset is the key to successful entrepreneurship.

# Chapter 3: Creating and Recognizing New Opportunities

# The Entrepreneurial Mindset and Opportunity Recognition (1 of 6)

- Entrepreneurial mindset positions entrepreneurs to identify opportunities.
- Entrepreneurship: Openness to new ideas, new goals, and new ways of attaining them.



# The Entrepreneurial Mindset and Opportunity Recognition (2 of 6)

## What Is an Opportunity?

- Three central characteristics of opportunity:
  - Potential economic value.
  - Novelty or newness.
  - Perceived desirability.

# The Entrepreneurial Mindset and Opportunity Recognition (3 of 6)

## What Is an Opportunity?

- Opportunity: Generating value through unexploited products, services, or processes.
- Forms of value:
  - Economic value.
  - Social and environmental value.

# The Entrepreneurial Mindset and Opportunity Recognition (4 of 6)

## What Is an Opportunity?

- Envisioning how a product or service can generate value.
- Idea constituting an opportunity must
  - Be new or unique.
  - Involve something that people need or desire.
  - Solve a problem.

# The Entrepreneurial Mindset and Opportunity Recognition (5 of 6)

Innovation, Invention, Improvement, or Irrelevant?

- Opportunity recognition: Identifying ideas likely to succeed.
- Rating an idea on four different dimensions:
  - Innovation: a novel and useful product.

# The Entrepreneurial Mindset and Opportunity Recognition (6 of 6)

## Innovation, Invention, Improvement, or Irrelevant?

- Inventions: a novelty for customers.
- Improvement: enhanced existent products.
- The irrelevant category: non-useful products.
- Bizarre inventions can be marketable too.

# Opportunities Start with Thousands of Ideas (1 of 4)

- Idea generation is the first step toward finding strong opportunity.
- Important to embrace the openness of an entrepreneurial mindset.
- The initial difficulty lies in ascertaining whether an idea is a good or bad one.

# Opportunities Start with Thousands of Ideas (2 of 4)

## The Myth of the Isolated Inventor

- Ideas don't spring fully formed into our minds.
- Well-known inventions were worked upon in collaboration.
- There is little reason to credit one person for the creation of a product or service.

# Opportunities Start with Thousands of Ideas (3 of 4)

## Seven Strategies for Idea Generation

- Analytical strategies: Generating ideas about how products can be improved.
- Search strategies: Making links based on past experiences.
- Imagination-based strategies: Creating unrealistic states.



# Opportunities Start with Thousands of Ideas (4 of 4)

## Seven Strategies for Idea Generation

- Habit-breaking strategies: Gaining a new perspective.
- Relationship-seeking strategies: Making links between ideas.
- Development strategies: Modifying existing ideas.

# Four Pathways to Opportunity Identification (1 of 3)

- An opportunity can be many things: products or services, among others.
- Favorable opportunities are those that are
  - Valuable: There is a market for customers.
  - Rare: They are a novelty for customers.
  - Fit: They are made based on skills and knowledge of the founding team.
  - Costly to imitate: Those which create barriers for other entrepreneurs.

# Four Pathways to Opportunity Identification (2 of 3)

FIGURE 3.3

Increasing Complexity and Unknowingness in Opportunity Creation



**Source:** Neck, H. (2019). *Beyond the entrepreneurial mindset*. Keynote presentation for the Kern Entrepreneurial Engineering Network Annual Conference, January 5, 2019, Dallas, TX.

# Four Pathways to Opportunity Identification (3 of 3)

**TABLE 3.1** Discovering or Creating Opportunities

	<b>DISCOVERY</b>	<b>CREATION</b>
Opportunity pathways	Find and Search	Effectuate and Design
Assumptions	The opportunity exists and is waiting to be identified	The entrepreneur creates the opportunity
Role of the entrepreneur	Be alert to and scan the environment	Take action, build, iterate
Level of experience and prior knowledge needed to identify	Low	High
Potential value of opportunity	Lower	Higher
Action orientation	Risky	Uncertain

**Source:** Alvarez, S. A., & Barney, J. B. 2007. Discovery and creation: Alternative theories of entrepreneurial actions. *Strategic Entrepreneurship Journal*, 1(1-2): 11-26.

# Opportunities through Alertness, Prior Knowledge and Pattern Recognition (1 of 7)

- Access to the right information is one of the key influences to opportunity recognition.
- How the information is used makes the real impact.

# Opportunities through Alertness, Prior Knowledge and Pattern Recognition (2 of 7)

## Alertness

- Discoveries are made by those entrepreneurs who have alertness.
  - For example, Post-its and the origin of the football.

# Opportunities through Alertness, Prior Knowledge and Pattern Recognition (3 of 7)

- Some entrepreneurs are more adept at spotting opportunities because
  - They have access to more information.
  - They are risk takers.
  - They may possess different cognitive styles from those of non-entrepreneurs.

# Opportunities through Alertness, Prior Knowledge and Pattern Recognition (4 of 7)

- Cognitive styles attributed to successful entrepreneurs:
  - Intelligence.
  - Creativity.
  - Self-efficacy.
- Some entrepreneurs are more likely to be aware of opportunities.



# Opportunities through Alertness, Prior Knowledge and Pattern Recognition (5 of 7)

## Building Opportunities: Prior Knowledge and Pattern Recognition

- Prior knowledge is gained from life and work experiences.
  - Allen Lim's natural food and drinks for athletes.
  - Sara Blakely and her seamless pantyhose.

# Opportunities through Alertness, Prior Knowledge and Pattern Recognition (6 of 7)

## Building Opportunities: Prior Knowledge and Pattern Recognition

- Successful entrepreneurs have prior knowledge which they apply to their own ventures.

# Opportunities through Alertness, Prior Knowledge and Pattern Recognition (7 of 7)

## Building Opportunities: Prior Knowledge and Pattern Recognition

- Pattern recognition: A key factor in building opportunities.
  - Selin Sonmez and Niko Georgantas's luggage storage company.
- Important to keep an open mind and move from ideas to opportunities.

# From Idea Generation to Opportunity Recognition (1 of 4)

- For an opportunity to be viable, the idea must be unique.
- Three processes before identifying opportunity include:
  - Generating ideas for something new.
  - Sorting ideas during the creativity stage.
  - Assessing at the opportunity recognition stage.
  - Transcending existing knowledge structures to move from idea to opportunity.

# From Idea Generation to Opportunity Recognition (2 of 4)

**TABLE 3.2** The IDEATE Model for Opportunity Recognition

Identify	Identifying problems that customers are currently trying to solve, are spending money to solve, but are still not solved to the customers' satisfaction. Also identify the underlying causes of the problem.
Discover	Actively searching for ideas in problem-rich environments where there are social and demographic changes, technological change, political and regulatory change, and/or changes in industry structure.
Enhance	Taking the ideas and expanding to new applications or adding innovative twists. Or simply enhancing existing ideas.
Anticipate	Studying change and analyzing future scenarios as they relate to social, technological, and other global changes and trends.
Target	Defining and understanding a particular target market, validating new ideas with early adopters.
Evaluate	Evaluating whether the solution solves a problem, size of target market, degree of personal interest by the entrepreneur, and skills and abilities of the entrepreneur.

**Source:** Adapted from Cohen, D. Hsu, D. & Shinnar, R. (2018) Enhancing Opportunity Identification Skills In Entrepreneurship Education: A New Approach and Empirical Test (forthcoming); and Ideate: An empirically proven method for identifying and selecting high potential entrepreneurial ideas. Workbook.

# Chapter 4: Using Design Thinking

# What is Design Thinking? (1 of 2)

- A toolkit to solve problems.
- Has a human-centered approach.
- It is a tool and not entrepreneurship itself.

# What is Design Thinking? (2 of 2)

- Seven Skills of Designers that Entrepreneurs Should Have
  - Observation.
  - Listening.
  - Desire change.
  - Context and integration.
  - Solutions-driven.
  - Consideration.
  - Unbound.



# Design Thinking as a Human-Centered Process (1 of 2)

- A design-thinking approach: What do people need?
- An idea is successful if it strikes a balance among three main criteria: Feasibility, viability, and desirability
  - The starting point is desirability.
  - Understanding emotional and cultural realities.

# Design Thinking as a Human-Centered Process (2 of 2)

- Design thinking as a social technology.

**TABLE 4.2** Design Thinking as a Social Technology

PROBLEM	DESIGN THINKING	IMPROVED OUTCOME
Entrepreneurs are either trapped by their own expertise and experience or they have no expertise and experience.	Provides immersion in the user's experience	A better understanding of their customer and who they are designing for
Entrepreneurs are overwhelmed by the amount of data.	Makes sense of the data by organizing it into themes, patterns, and surprises	Leads to new insights, possibilities, and opportunities
Entrepreneurs are divided by different perspectives on the team.	Builds alignment because data and insights from actual users or customers don't lie	Convergence around what matters most to users and what their needs are
Entrepreneurs are confronted by too many ideas or ideas that are not innovative.	Encourages the emergence of fresh ideas and approaches, given the focus on customer inquiry and empathic understanding	A diverse set of potential new solutions that would not otherwise have been developed
Entrepreneurs lack feedback from users and may have the mentality of "if you build it they will come."	Offers user testing through very rough and early prototypes	Accurate feedback at a low cost that conveys what's most important to users
Entrepreneurs are afraid of uncertainty and ambiguity.	Delivers learning in action as experiments engage all stakeholders	A shared commitment and confidence in the desirability, viability, and feasibility of the idea

**Source:** Liedtka, Jeanne (2018). Why Design Thinking Works. Harvard Business Review, September-October, pp. 72-79.

# Design Thinking Requires Empathy

- Empathy: An essential skill for design thinkers.
- Developing empathic ability allows us to understand: How people do things and why.
- It looks at the emotional as well as the functional side of problems.

# The Design-Thinking Process: Inspiration, Ideation, Implementation

(1 of 8)

- Design-thinking process: System of overlapping phases.
- The IDEO approach consists of three main phases:
  - Inspiration.
  - Ideation.
  - Implementation.

# The Design-Thinking Process: Inspiration, Ideation, Implementation

(2 of 8)

- Design Thinking Phases and Outcomes.

TABLE 4.3 Design Thinking Phases and Outcomes

DESIGN THINKING PHASE	OUTCOME
Inspiration	Design challenge and user needs
Ideation	Potential solutions to meet needs
Implementation	Prototyping and testing solutions

# The Design-Thinking Process: Inspiration, Ideation, Implementation

(3 of 8)

- Based on two main types of thinking called divergence and convergence.
  - Divergent thinking: Generates many ideas.
  - Convergent thinking: Narrow down ideas generated through divergent thinking.

# The Design-Thinking Process: Inspiration, Ideation, Implementation

(4 of 8)

## Inspiration

- Involves defining the design challenge and learning about users.
  - Have freedom to imagine while having boundaries.
  - Ask questions to enhance, create, improve.

# The Design-Thinking Process: Inspiration, Ideation, Implementation

(5 of 8)

## Ideation

- Involves generating and developing new ideas.
- Period of divergent thinking.
- Ideas generated in collaboration.



# The Design-Thinking Process: Inspiration, Ideation, Implementation

(6 of 8)

## Ideation

- Ground rules for brainstorming:
  - Suspending all judgment;
  - Being open to wild suggestions;
  - Generating as many ideas as possible; and
  - Putting ideas together and improving on them.

# The Design-Thinking Process: Inspiration, Ideation, Implementation

(7 of 8)

## Implementation

- Answers a set of questions.
- Low-cost experimentation is the key.
- Focuses on early, cheap, and fast testing.

# The Design-Thinking Process: Inspiration, Ideation, Implementation

(8 of 8)

## The Three Phases of Design Thinking in Action

- Design thinking is a non-linear process.
- Successful ideas: Revisited to identify weaknesses and remedy them.
- Uncovering the real problems and needs through observation.

# Needs Discovery Technique #1: Observation (1 of 2)

- Observation and insight or need development: Two techniques entrepreneurs use.
- Observation: Monitoring the behavior and activities of users.
- Insight: A statement that identifies a customer need and explains why.

# Needs Discovery Technique #1: Observation (2 of 2)

## Observation Techniques

- Meaningful insights lead to innovative solutions.
- Types of observations:
  - Complete observer, observer as participant, participant as observer, and complete participant.
- Another technique to guide observations is the AEIOU framework.

# Needs Discovery Technique #2:

## Interviewing (1 of 4)

- Interviewing: Important part of the inspiration stage to understand user needs.
  - Feedback interviews.
  - Need-finding interviews.

# Needs Discovery Technique #2: Interviewing (2 of 4)

## Preparing for an Interview

- Who you really want to learn from is the key to deciding whom to interview.
  - Ask one broad question, listen, then probe.
  - Peeling the Onion.

# Needs Discovery Technique #2: Interviewing (3 of 4)

## Conducting the Interview

- Have a list of broad questions and a specific approach.
  - Take notes throughout.
  - Parroting.
  - Record basic facts.



# Needs Discovery Technique #2: Interviewing (4 of 4)

## After the Interview

- Revisit notes and write down any additional observations.
- Look for themes and patterns.
- Reflection is important to consider the results.
- The Empathy Map.

# Variations of the Design-Thinking Process (1 of 3)

- Four questions to ask during the design-thinking process:
  - What is?
  - What if?
  - What wows?
  - What works?

# Variations of the Design-Thinking Process (2 of 3)

- The Stanford Design School Five Phases of Design Thinking

TABLE 4.7 The Stanford Design School Five Phases of Design Thinking

• <i>Empathy</i> is getting out and talking to your customers directly
• <i>Define</i> is defining a problem statement from that empathy work
• <i>Ideate</i> is brainstorming lots of ideas that could help you solve the problem you identified
• <i>Prototype</i> is building a crude version of the solution that you want to test with users
• <i>Test</i> is getting out and testing with users

Source: Hasso Plattner Institute of Design at Stanford. (n.d.). *An introduction to design thinking: Process guide*.

# Variations of the Design-Thinking Process (3 of 3)

- The Google Design Sprint method to develop hypotheses.
  - Shared vision to move toward faster product launch.
  - Each approach focuses on the importance of people and their needs.
- Design thinking can also be used to build organizations.
  - Entrepreneurs can find effective solutions to complex problems.

# Chapter 5: Building Business Models

# What is a Business Model? (1 of 2)

- Describes how a new venture creates, delivers, and captures value.
- Evidence is gathered from talking to people, investigating and asking questions.
- Built over time by collecting evidence that what you are creating works.
- Startup: Temporary organization in search of a scalable business model.

# What is a Business Model? (2 of 2)

- Helps entrepreneurs understand what they are doing.
- Types of Business Models: Innovation, disruption, differentiation, and imitation.
  - Easier to make quick changes to the business model during the startup stage.
  - The ability to change business models is not as quick for established organizations.

# The Four Parts of a Business Model

(1 of 5)

- Four interlocking parts of a business model:
  - Offering, customers, infrastructure, and financial viability.
- Innovation and advantage over the competition.
- Competitive advantage can come from other areas of the business.



# The Four Parts of a Business Model (2 of 5)

## The Offering

- Identifies what you are offering to a particular customer segment.
- Customer value proposition describes what products your business offers.
- The “value” part of the CVP: How much your product or service is worth to customers.

# The Four Parts of a Business Model

(3 of 5)

## Customers

- Individuals or businesses willing to pay for what you are offering.
  - Bryan Bitticks, franchise owner of Great Clips hair salons, created a virtual online experience.

# The Four Parts of a Business Model

(4 of 5)

## Infrastructure

- Inclusive of all the resources an entrepreneur must have to deliver the CVP.
  - Justin Gold of the nut butters brand created a competitive advantage using infrastructure.

# The Four Parts of a Business Model

(5 of 5)

## Financial Viability

- Defines the revenue and cost structures a business needs to meet its operating expenses.
- A business model is more than a financial model.

# The Customer Value Proposition (CVP) (1 of 4)

- It is the value generated for the customer.
- The three qualities of an effective CVP.
  - Better value than the competition.
  - Measurable in monetary terms.
  - It must be sustainable.
- Design thinking is a collaborative effort.
  - It is business from the customer's viewpoint.

# The Customer Value Proposition (CVP)

## (2 of 4)

### Jobs, Pain Points, & Needs

- Successful CVP: Understanding what the customer wants.
  - Businesses survive because they successfully answer three questions.
  - It is about one big benefit.
  - Credibility in the eyes of the customer.
  - Dramatic difference relates to uniqueness.

# The Customer Value Proposition (CVP) (3 of 4)

## Four Problems Experienced by Customers

- Customers face problems when it comes to getting a job done.
- Lack of time: The example waiting time in hospitals.
- Lack of money: Delivering previously unaffordable products or services for less money.

# The Customer Value Proposition (CVP) (4 of 4)

## Four Problems Experienced by Customers

- Lack of skills: People might like to accomplish a task but lack the specialized skills to get the job done.
- Lack of access: Prevents them from getting a job done.



# Different Types of CVPs and Customer Segments (1 of 5)

- Convincing people about a great product.
- Problems with marketing and execution.
- Delineating the value of an idea to meet customer needs.

# Different Types of CVPs and Customer Segments (2 of 5)

## Types of Value Propositions

- The all-benefits approach to CVP.
- The points-of-difference approach.
- A CVP that stems from the resonating-focus approach.

# Different Types of CVPs and Customer Segments (3 of 5)

## Types of Customer Segments

- Different CVPs for different customer segments.
- Creating a product or service that the customer would be willing to buy.

# Different Types of CVPs and Customer Segments (4 of 5)

## Types of Customer Segments

- Mass market: Many customers.
- Niche market: Customers with specific needs.
- Segmented market: Breaking customer segments into groups.

# Different Types of CVPs and Customer Segments (5 of 5)

## Types of Customer Segments

- Diversified market: Variety of services.
- Multisided markets: Two or more customer segments.

# The Business Model (1 of 3)

- Knowing how a customer intends to create, capture and deliver value.
- The BMC introduced in 2008.
- The four parts of the BMC:
  - What the offering constitutes.
  - What customers relate to.
  - What the infrastructure includes.
  - What financial viability means.

# The Business Model (2 of 3)

- Exploring the nine components through an idea for a new retail store that sells trendy T-shirts:
  - Customer value proposition.
  - Customer segments.
  - Channels.
  - Customer relationships.

# The Business Model (3 of 3)

- Exploring the nine components (Contd.)
  - Key activities.
  - Key resources.
  - Key partners.
  - Revenue streams.
  - Cost structure.



# Chapter 6: Developing Your Customers

# Customers and Markets (1 of 4)

- Focus on customer.
- Entrepreneurs with limited resources can use methods to identify and target their customers.
- Customer identification: Essential to business success.
- Difference between customer and consumer.

# Customers and Markets (2 of 4)

- Market: Place where people can sell goods and services.
  - Supply refers to sellers.
  - Demand is the desire held by prospective customers for goods and services.
- Four main elements to define a market:
  - A set of customers for products or services who have needs or wants, and who reference each other when making a buying decision.

# Customers and Markets (3 of 4)

- Market opportunity: Market demand.
- Product application: Goods and services.
- Importance of market research.

# Types of Customers (4 of 4)

- Chain of customers to be identified.
- The customer may play all three roles.
- Five different types of influencers:
  - Users.
  - Influencers (or opinion leaders).
  - Recommenders.
  - Economic buyers.
  - Decision makers.
- The saboteurs should not be ignored.

# Customer Segmentation (1 of 3)

- Important building block in the business model canvas (BMC).
- Companies often group these types of customers into specific groups.
- BMC: Tailored around customer needs.
- Customers can be divided into segments.

# Customer Segmentation (2 of 3)

- Defining customer segments
  - Who are they?
  - Where are they?
  - How do they behave?
  - What are their needs?

# Customer Segmentation (3 of 3)

## Creating an End-User Profile

- It is composed of six main items:
  - Demographics.
  - Psychographics.
  - Proxy Product.
  - Watering Holes.
  - Day in the Life.
  - Biggest Fears and Motivators.



# Target Customer Group (1 of 4)

- Targeting process in traditional marketing vs. entrepreneurship.
- Technology adoption life cycle.
- Five market categories of potential customers:
  - Innovators (2.5 percent of customers).
  - Early adopters (next 13.5 percent of customers).
  - Early majority (next 34 percent of customers).

# Target Customer Group (2 of 4)

- Five market categories of potential customers (Contd.)
  - Late majority (next 34 percent of customers)
  - Laggards (final 16 percent of customers)
- The ideal case: All five categories in the adoption life cycle.

# Target Customer Group (3 of 4)

## Crossing the Chasm

- Transition between early adopters and the early majority.
- Crossing the chasm involves focusing your resources on the beachhead market.
  - It is key to generating a larger following.
- Factors defining a beachhead market:  
Customers buy similar products, have similar expectations, and Communication.

# Target Customer Group (4 of 4)

## Crossing the Chasm

- Steps to successfully cross the chasm:
  - Create the entire product first.
  - Position the product.
  - Distribute the product through the right channels.
- Moore refined the steps using the analogy of a bowling alley.
  - Tornado and Main Street.

# Customer Personas (1 of 4)

- Using social networks and peer reviews.
- Buyer personas: Profiles of ideal customers.
- Demographics and psychographics: Give limited information.
- Building personas is a powerful way to predict buyers' behavior.

# Customer Personas (2 of 4)

- Interviews and data generate key buying insights:
  - Interested and non-interested buyers.
  - Relevant and irrelevant features of the solution.
  - Buyers and negative experience.
  - Resources that buyers trust.
  - Buyers involved in decisions and influence.

# Customer Personas (3 of 4)

- Key points for building a persona

**TABLE 6.3** Key Points for Building a Persona

Demographics (age, gender, salary, location, education, family)
Goals and challenges
Value and fears
Pain points or complaints
Hobbies
Where they get their news or other information
Blogs they read
Shopping preferences
Apps used most frequently
General lifestyle description
Day in their life
Work and/or school activities
Relationship with friends
Culture
Relationship with technology
How is free time spent?
Social media usage
Views on health and well-being
Quotes from interviews

# Customer Personas (4 of 4)

## Exclusionary Personas

- Helps refine the customers.
- Importance of buyer insights and buyer profiles.



# Customer Journey Mapping Process

(1 of 7)

- Focuses on the buyer's experience.
- Visual representation of customer experience.
- Allows for the identification of pain points.
- Benefits of customer journey mapping:
  - Clear picture of customer interaction.
  - Clarifies what customers think.
  - Confirms the journey of the customer.

# Customer Journey Mapping Process

(2 of 7)

- Benefits of customer journey mapping (Contd.):
  - Highlights the gaps between desired customer experience and actual experience
  - Connects with customers on an emotional level
- The risk of not doing customer journey mapping: Unsatisfied customers.

# Customer Journey Mapping Process

(3 of 7)

## Confirming your findings

- Many sources of data to confirm your findings
- Website Analytics: Customers' location, the amount of traffic to your site.
- Social Media Tools: Useful source of data.
- Direct Customer Contact: Feedback about customer experience.

# Customer Journey Mapping Process (4 of 7)

## Six Basic Steps to Creating Your Own Customer Journey Map

- Materials you need: Whiteboard, stick notes, and markers.
- Identify the segment of customers you would like to map.
- Write down as many touchpoints you can think of for the entire journey.

# Customer Journey Mapping Process

(5 of 7)

## Six Basic Steps to Creating Your Own Customer Journey Map

- Identify three or four aspects of the customer journey.
- Think about how you can resolve these problems.
- Create a visual version of the journey.

# Customer Journey Mapping Process

(6 of 7)

## Six Basic Steps to Creating Your Own Customer Journey Map

- Five key phases of customer interaction:
  - Discovery.
  - Research.
  - Purchase.
  - Delivery.
  - After the sale.

# Customer Journey Mapping Process

(7 of 7)

## Six Basic Steps to Creating Your Own Customer Journey Map

- Factors to keep in mind:
  - Key touch points, tasks, knowledge, pain points, happy points, emotions, wish list, and influencers.

# Market Sizing (1 of 5)

- Estimating potential customers.
- Investors and target market.
- Subgroups of the market:
  - TAM, or Total Available Market
  - SAM, or Serviceable Available Market
  - SOM, or Share of Market
- Entrepreneurs: Establish a launch market.



# Market Sizing (2 of 5)

## Launch Market

- Creating is similar to the beachhead or bowling pin strategies.
  - Proving you already have a group of launch customers.
- Convincing investors you have a niche customer base.
- Key Questions Relating to Customer Segments

# Market Sizing (3 of 5)

## Key Questions Relating to Customer Segments

- Size of customer segment.
- Buying power of customers.
- Customers and the Segment.
- Accessibility of the customers.
- Stability of the customer segment.

# Market Sizing (4 of 5)

Why market sizing is important

- Calculates sales and profits.
- Identifies growth opportunities.
- Pinpoints competitive threats.
- Thinking of exit strategies.
- A sense of market trends.
- As proof for investors.

# Market Sizing (5 of 5)

## Calculating Market Size

- Methods: To estimate of your market size.
  - Define the segment.
  - Conduct top-down market sizing.
  - Conduct a bottom-up analysis.
  - Don't forget to do sanity checks.
  - Check out the competition.

# Chapter 7: Testing and Experimenting New Ideas

# Experiments: What They Are and Why We Do Them

- Implementation phase: Early, fast, low-cost testing and experimentation.
  - Involves trying something new, and building that learning into the next iteration.
- Experiment: Test to help learn about feasibility and viability.
  - Guide us toward customer opinions.

# Types of Experiments (1 of 11)

- Entrepreneurs have many different types of experiments available.
- Effort correlates to the believability of the information coming out.
- The concept of truth curve.

# Types of Experiments (2 of 11)

## Interview

- Fast and inexpensive way to get insights from target customers before the experiment.



# Types of Experiments (3 of 11)

## Paper Testing

- Simple way to outline vision and to spot any mistakes.
- Can be carried out using techniques like
  - Wireframe (or blueprint).
  - Storyboarding or drawing the product you envision.

# Types of Experiments (4 of 11)

## Advertising

- This involves spreading the word about your business using brochures or social media.
- Directed toward target market and assessing the level of response.

# Types of Experiments (5 of 11)

## Button to Nowhere

- Used to test if your customers will click on a new feature on your website before building it.
- Great way of measuring user interest.

# Types of Experiments (6 of 11)

## Landing Page

- Include a particular call to action such as “click here for more information.”

# Types of Experiments (7 of 11)

## Task Completion or Usability Testing

- Watching someone using your product to understand what works.
  - To understand what works and what doesn't.

# Types of Experiments (8 of 11)

## Prototype

- A prototype is an early and often crude version of a product.
- The crudest version is called rapid prototyping: A model made out of out of foam, wood, boxes, plastic, or other scrap-like material.

# Types of Experiments (9 of 11)

## Preselling

- A testing technique where you try to book orders for your product beforehand.

# Types of Experiments (10 of 11)

## Concierge & Wizard of Oz

- Concierge: The customer interfaces with the product with technology behind the scenes .
- Wizard of Oz: It is actually you behind the scenes manually providing the service



# Types of Experiments (11 of 11)

## Live Product and Business

- Post the tests carried out, you have gathered enough insights and validation to launch your live product.
- Some of the experiments in Constable's Truth Curve also count as prototypes.

# A Deeper Look at Prototypes (1 of 5)

- Prototypes can come in the form of basic models, or sketches that communicate what our ideas look, behave and work like.

# A Deeper Look at Prototypes (2 of 5)

## Different Types of Prototypes

- MVP.
- Rapid Prototypes.
- Mock-up Prototype.
- High Fidelity Prototype.
- Lego Prototypes.

# A Deeper Look at Prototypes (3 of 5)

## Different Types of Prototypes (Contd.)

- Role-playing (or experiential prototyping).
- Wizard of Oz Prototypes.
- User-Driven Prototypes.
- Pilots and Prototypes.
- Storyboards.

# A Deeper Look at Prototypes (4 of 5)

## The Power of Storyboarding

- Thoughts and ideas arranged in sequence in the form of drawings.
  - Generate ideas and questions and communicate.
- The problem–solution–benefit framework:
  - What is the problem?
  - What is the solution?
  - How will your customer benefit?

# A Deeper Look at Prototypes (5 of 5)

## The Power of Storyboarding

- Back of a Napkin
  - Simplest of all entrepreneurial plans is sketching out the idea on the back of a napkin.
- Sketches on a Page
  - Sketches on a page help you think about the idea today and also what it could become in the future.

# Hypothesis Testing & the Scientific Method Applied to Entrepreneurship

(1 of 4)

- Matching the results of tests to the original hypothesis.
- Experiments can involve observations of students, etc.
- The scientific process of experimentation includes six steps.

# Hypothesis Testing & the Scientific Method Applied to Entrepreneurship

(2 of 4)

## The Six Steps of the Scientific Experimentation in Action

- Ask lots of questions.
- Carrying out background research.
  - Most successful entrepreneurs become experts.
- Developing Hypotheses:
  - Without a clear hypothesis, it is impossible to abandon assumptions.



# Hypothesis Testing & the Scientific Method Applied to Entrepreneurship

(3 of 4)

## The Six Steps of the Scientific Experimentation in Action

- Testing the hypotheses by running experiments.
- Analyzing the data.
- Assessing Results:
  - Once the accuracy of the data has been determined, it is time to draw conclusions.

# Hypothesis Testing & the Scientific Method Applied to Entrepreneurship

(4 of 4)

## The Six Steps of the Scientific Experimentation in Action

- Entrepreneurial experimentation: Acting to learn.
- Experimenting quickly: Better chance of refining ideas into viable opportunities.

# The Experimentation Template (1 of 4)

- A good experiment is well-planned.
- Design is important to support or reject a hypothesis and ask questions.

# The Experimentation Template (2 of 4)

## Low-Cost Customer Engagement

- Important part of an experiment is customer engagement.
  - Involving customers in the experiment to test hypotheses.
  - An excellent way of making connections.
  - Major benefits: Real-time data.
  - Entrepreneurs can gather evidence and data from conducting simple, low-cost experiments.

# The Experimentation Template (3 of 4)

## Generating Data and the Rules of Experimentation

- Organizations relied on historical data to gauge customer tastes.
- With insufficient data, people tend to use intuition or experience.
- Fear of failure tends to discourage entrepreneurs from experimenting.

# The Experimentation Template (4 of 4)

## Generating Data and the Rules of Experimentation

- Today's entrepreneurs are required to experiment to prove a concept.
- Ignoring data is detrimental to the success of any venture.
- Experimentation is an opportunity for learning and better decision making.

# Interviewing for Customer Feedback

## (1 of 4)

- Used to get feedback on prototypes: Useful when used in conjunction with experimentation.
- To build a business:
  - Research the companies and experts and establish contacts.
  - Draft an introduction to the interview.
  - Prepare interview questions.

# Interviewing for Customer Feedback

## (2 of 4)

### The Case for Curiosity

- Strength for entrepreneurs: Experimenting, prototyping, hypothesizing, and interviewing.
- Curiosity increases perseverance and boosts performance.



# Interviewing for Customer Feedback

## (3 of 4)

### How to Stay Curious

- Connect with other curious people.
- Be a curiosity ambassador.
- Focus on learning.
- Broaden your networks.

# Interviewing for Customer Feedback

## (4 of 4)

How to Stay Curious: some tips to help you build your curiosity strength

- Ask “Why?” “What if...?” and “How might we...?”
- Without risk there is no rewards; entrepreneurs need to foster curiosity
- Leap to be curious!

# Chapter 8: Developing Networks and Building Teams

# The Power of Networks (1 of 2)

- Entrepreneurship is about collaboration.
- Human capital is our talent and intellect; social capital is our source for ideas.
- Networks can provide entrepreneurs with access to external sources of information.
- Network building is a dynamic process.
  - Networking develops social capital: Bonds, Bridges, and Linkages.

# The Power of Networks (2 of 2)

- Social capital creates a sense of shared value to the people who are connected in the network.
- When bonds are too strong, social capital can have a negative impact on society.
- It is important to expand and capitalize on the external relationships.

# The Value of Networks (1 of 4)

- An entrepreneur is required to interact with investors, potential employees, etc.
- In a networking group of about 40 people, the leads you could obtain is almost incalculable.
  - Benefits of informal networks.
  - 78 percent of startups benefited from informal networking.

# The Value of Networks (2 of 4)

## Advantages to Networks

- There are three main advantages to networks:
  - Private information.
  - Access to diverse skillsets.
  - Access to power.

# The Value of Networks (3 of 4)

## Impression Management and Self-confidence

- Impression Management: Paying conscious attention to the way people perceive you.
  - Managing impressions others form of you.
  - Implicit bias when forming impressions.
- Lack of confidence results in reluctance to make connections with others.
- Never underestimate the value of networking with your peers while in college.



# The Value of Networks (4 of 4)

## Self-Selected Stakeholders

- People who self-select into an entrepreneur's network.
  - Do not need to be pitched to or sold to.
- Three guidelines for enrollment:
  - Be enrolled yourself, be truthful, and let the other person choose.
- New ventures require a variety of talents.

# Building Networks (1 of 5)

- Entrepreneurs get support and networking opportunities from many areas.
  - Civic organizations.
  - Seminars.
  - Incubators.
  - Accelerators.
  - Many other organizations dedicated to supporting entrepreneurs.

# Building Networks (2 of 5)

## Incubators and Accelerators

- Incubator: Helps early-stage entrepreneurs to refine an idea.
- Accelerator: Provides tailored support for existing startups.

# Building Networks (3 of 5)

## Learning How to Network

- It's a targeted search, with a philosophy of contributing.
- Networking events:
  - Relationships can be forged on mutual personal interests.
  - The skill of networking can be learned.
  - Good networkers will listen and show interest.

# Building Networks (4 of 5)

## Learning How to Network

- The give and take of networking:
  - The quid pro quo strategy is often used by networkers.
  - Doing favors helps to find ways to capitalize on opportunities.
- Approach people at events.
- Make an effort to remember names.

# Building Networks (5 of 5)

## Networking to Find Mentors

- Mentors are invaluable as they help you progress with your venture.
  - Entrepreneurs may build up a network of mentors over time to gain multiple perspectives.
- It is also possible to network from a remote location.

# Virtual Networking (1 of 5)

- Evolved with online social networks.
- Social Media: One of the speediest ways to connect.
  - Twitter, LinkedIn, Facebook, Instagram, and YouTube all provide ways to connect with people who are experts in the field.

# Virtual Networking (2 of 5)

## Networking through Social Media

- Twitter: Easiest ways to find potential stakeholders.
- You can interact through LinkedIn by asking questions or posting comments.
  - Provides you with a view into the real-life challenges that business people face and solutions.



# Virtual Networking (3 of 5)

## Networking through Social Media

- Entrepreneurs can meet and exchange ideas on Facebook groups.
- Competitors are a valuable source of learning and inspiration.
- YouTube can be used as a resource for identifying experts.
- Instagram is also a useful networking tool.

# Virtual Networking (4 of 5)

## Networking through Social Media

- Stakeholders can provide valuable resources to entrepreneurs.
- Cocreation: Strategy that focuses on bringing people together.
- Online startup support networks: Popular for funding early-stage ventures.

# Virtual Networking (5 of 5)

## Maintaining Your Network

- Involves staying in touch through occasional interaction.
  - This interaction can take many forms like answering a question or tweeting.
  - Writing a blog is another useful way.
  - Participation builds credibility.

# Networking to Build the Founding Team

(1 of 4)

- Founding team: Group of people with complementary skills.
  - Consists of founders and cofounders.
  - The goal of the founding team is to build and grow the company.
  - Most founding teams have a lead entrepreneur.
- Team members are generally found in the network of the lead entrepreneur.

# Networking to Build the Founding Team (2 of 4)

## The Value of Team Diversity

- Diversity is found in people's career paths and goals.
- Homogeneous teams: Members feel included.
- Heterogeneous teams: Greater mix of experiences and skills.

# Networking to Build the Founding Team (3 of 4)

## The Value of Team Diversity

- Team commitment and cognitive comprehensiveness matters.
- Groupthink and healthy conflict: A healthy team could be considered as one whose members are from diverse backgrounds.

# Networking to Build the Founding Team

## (4 of 4)

### The Value of Team Diversity

- Devil's advocate: Preventing groupthink and promoting healthy conflict.
- Healthy and constructive conflict is good.
  - Provided team members are clear on the organization's goals.

# Chapter 9: Creating Revenue Models



# What is a Revenue Model?

- Revenue: Income gained from sales.
- A revenue model identifies how the company will earn and generate profits.
  - As an entrepreneur, this will give you a better chance of attracting investment.

# Different Types of Revenue Models

(1 of 11)

- Some companies operate on one primary revenue model while others use a combination of models.
  - Each type determines different ways in which revenue is generated.

# Different Types of Revenue Models

(2 of 11)

## Unit Sales Revenue Model

- Measures the amount of revenue generated by the number of items sold.
- Retail businesses: Rely on the unit sales model by selling directly to consumers.
  - Includes physical goods and intangibles like digital products.
  - The razor and razor-blade model.

# Different Types of Revenue Models

(3 of 11)

## Advertising Revenue Model

- Amount of revenue gained through advertising products and services.
  - Has evolved from its traditional format to encompass the digital world.
  - It depends on developing a niche.
  - Another form is called promoted content.

# Different Types of Revenue Models

(4 of 11)

## Data Revenue Model

- It is used when they generate revenue by selling high-quality, exclusive, valuable information to other parties.
- Data brokers: Collect third-party information with people with whom they have no relationship.
  - Facebook, Google, and Amazon collect data directly from users.

# Different Types of Revenue Models

(5 of 11)

## Intermediation Revenue Model

- Describes the different methods by which third parties can generate money.
- Brokers: People who organize transactions between buyers and sellers.
  - Various entrepreneurial ventures have emerged to put a new creative spin on the role of the middleman.

# Different Types of Revenue Models

(6 of 11)

## Licensing Revenue Model

- Gives permission to other parties to use protected intellectual property.
- Licensing frequently takes place in the technology industry .
  - Many people design iPhone apps and then license them to Apple.

# Different Types of Revenue Models

(7 of 11)

## Franchising Revenue Model

- Describes how the owner of an existing business sells the rights to another party to trade under the name of that business.
- The franchisor helps the franchisee by providing support in:
  - Marketing.
  - Operations.
  - Financing.



# Different Types of Revenue Models

(8 of 11)

## Subscription Revenue Model

- Involves charging customers to gain continuous access to a product or service.
  - Traditionally applied to magazines and newspapers.
  - Growing number of startup companies also use the subscription revenue model.

# Different Types of Revenue Models

(9 of 11)

## Professional Revenue Model

- Provides professional services on a time and materials contract.
- Consultants, lawyers, and accountants often charge by the hour for their services.

# Different Types of Revenue Models

(10 of 11)

## Utility and Usage Revenue Model

- Charges customers fees on the basis of how often goods or services are used.
- Mobile phone carriers use this model:
  - Charge users a fee for the number of minutes used on calls.

# Different Types of Revenue Models

(11 of 11)

## Freemium Revenue Model

- Involves mixing free basic services with premium or upgraded services.
  - Businesses create at least two versions or tiers of products or services.
  - The company gives away the low-end version of the service for free.

# Generating Revenue from “Free”

(1 of 4)

- Offers a product or service for zero cost.
  - Skype is an example of a freemium model that provides the functionality.
  - It earns its revenue by charging for Skypeout.

# Generating Revenue from “Free”

(2 of 4)

## Direct Cross-Subsidies

- Pricing a product or service above its market value.
  - Cell phone companies lose money by giving away the phone handsets for free, but then cover the loss by charging monthly service fees.

# Generating Revenue from “Free”

(3 of 4)

## Multiparty Markets

- It is a free model that involves giving a product or service to one party for free.
  - It is the ad-supported free content model so common on the Internet.
  - The challenge is to prevent costly overuse.
  - It is often a viable option for web-based companies.

# Generating Revenue from “Free”

## (4 of 4)

### Multiparty Markets

- Ideas for Multiparty Markets

**TABLE 9.3** Ideas for Multiparty

Markets IDEA	EXAMPLE
Give away scientific articles, charge authors to publish them	Public Library of Science
Give away document readers, sell document writers	Adobe
Give away listings, sell premium search	Match.com
Sell listings, give away search	Craigslist New York Housing
Give away travel services, get a cut of rental car and hotel reservations	Travelocity
Give away house listings, sell mortgages	Zillow
Give away content, sell stuff	Slashdot/ThinkGeek
Give away résumé listings, charge for power search	LinkedIn

**Source:** Anderson, C. (2009). *Free: The future of a radical price*. New York, NY: Hyperion.



# Revenue and Cost Drivers (1 of 5)

- Revenue models influence who your customers are and how you reach them.
  - Important to have an understanding of what is driving both your revenue and your cost.

# Revenue and Cost Drivers (2 of 5)

## Revenue Drivers

- More factors than just buying or selling need to be taken into consideration.
  - The first key revenue driver is customers.
  - The second key driver is frequency.
  - The third driver is selling process.
  - The fourth driver is price.
  - Testing hypotheses is the best way.

# Revenue and Cost Drivers (3 of 5)

## Cost Drivers

- Two different types of costs should be taken into consideration:
  - COGS and operating expenses.
- COGS occur when a sale takes place.
- Operating expenses are the costs of running your business.

# Revenue and Cost Drivers (4 of 5)

## Income Statement

- Report that measures the financial performance of your business.
  - Subtracts the COGS and expenses from the total revenue.
  - The pro forma income statement is a projection of what the company could do.
  - Reflects depreciation and amortization of your company's assets.

# Revenue and Cost Drivers (5 of 5)

## Income Statement

- Operating profit: Amount left over from revenue.
- Interest expense: Good indicator of the company's debt.
- Net income: What is left after all costs, expenses, and taxes have been paid.
- Comparing income statements: Helps set goals and strategies.

# Pricing Strategies (1 of 4)

- Startup entrepreneurs struggle with how much to charge for products or services.
  - The key to sustaining a new business is to create consistent revenue streams.
- Competition and planning the pricing strategy.

# Pricing Strategies (2 of 4)

## Pricing Products and Services

- No right way to determine pricing strategy.
  - Prices will adjust as per demand.
  - Positioning and brand of product or service will affect how much it sells for.
- Think of 3 to 5 words to describe your business.
  - Carry the theme through your packaging, website, etc.

# Pricing Strategies (3 of 4)

## Different Types of Pricing Strategies

- There are many different pricing strategies:
  - Competition-led pricing: Copy the prices of other businesses.
  - Customer-led pricing: Ask customers.
  - A loss leader: Offering a product or service at a below-cost price.
  - Introductory offer: Encourage people to try your new product by offering it for free.



# Pricing Strategies (4 of 4)

## Different Types of Pricing Strategies

- There are many different pricing strategies (Contd.):
  - Skimming: For new products or services.
  - Psychological pricing: Encourage customers to buy based on their belief .
  - Fair pricing: Both businesses and customers believe that the pricing is reasonable.
  - Bundled pricing: Packaging a set of goods or services together.

# Calculating Prices (1 of 4)

- Calculate prices that will help you decide which one is best for your business.
  - The key to pricing is to ensure you make a profit.
- Breakeven analysis can also help set price.
- The formula is:
  - $\text{Breakeven units} = \text{Fixed costs} / (\text{sales price per unit} - \text{variable cost per unit})$ .

# Calculating Prices (2 of 4)

## Cost-Led Pricing

- Involves calculating all the costs involved in manufacturing or delivering the product or service.

# Calculating Prices (3 of 4)

## Target-Return Pricing

- Involves setting your price based on the amount of investment.

# Calculating Prices (4 of 4)

## Value-Based Pricing

- Involves pricing your product based on how it benefits the customer.
  - The buyers have a major influence over pricing strategy.

# Chapter 10: Planning for Entrepreneurs

# What is Planning?

- Planning is the future you envision for your business.
  - It helps you see your idea for what it is.
  - Plans help crystalize your thoughts.
  - A plan helps you organize your actions.

# Planning Starts with a Vision

- Vivid Vision challenges the entrepreneur to imagine what a business could be.
  - Aim is to create a document no more than three pages long.
  - This step is simply a description of how your business might look in the future.
- There are many types of plans available to entrepreneurs today.



# Plans take Many Forms (1 of 7)

- Plans are an important way to develop a vision, gain clarity, etc.
  - Many entrepreneurs feel that they lack the time for this task.
- Different plans include the business model canvas, the business brief, and so on.

# Plans take Many Forms (2 of 7)

## Business Model Canvas

- Useful for identifying gaps in the business idea.
- It's visual and depicted on one page by filling in the nine blocks.
- By thinking through all nine components, you will be able to visualize how all the parts work together.

# Plans take Many Forms (3 of 7)

## The Business Brief

- A brief document outlining the company overview.
- Give stakeholders an at-a-glance understanding of the business.

# Plans take Many Forms (4 of 7)

## Feasibility Study

- Tests the possibilities of an initial idea.
  - Focuses on the size of the market, the suppliers, distributors, and so on.
  - Identifies the essentials to make the business work.
  - Entrepreneurs can assess if they have the time, energy, abilities, and resources.

# Plans take Many Forms (5 of 7)

## The Pitch Deck

- A presentation highlighting elements found in a feasibility study and a business plan.
  - Has replaced the formal business plan in most venues.
  - Needed for collegiate competitions, applications to accelerators, etc.

# Plans take Many Forms (6 of 7)

## The Business Plan

- Traditional investors and bankers require a traditional business plan.
- It is a work in progress.
  - A traditional business plan usually consists of 20 to 40 pages.
  - Includes the organization's mission and strategy.
  - Come after idea generation, BMC, etc.

# Plans take Many Forms (7 of 7)

## Summary of Different Types of Plans

- Summary of Different Types of Plans

**TABLE 10.7** Business Plan Resources

WEBSITE ADDRESS	DESCRIPTION
<a href="https://www.sba.gov/writing-business-plan">https://www.sba.gov/writing-business-plan</a>	The U.S. Small Business Administration guide to writing a business plan
<a href="http://www.entrepreneur.com/landing/224842">http://www.entrepreneur.com/landing/224842</a>	Entrepreneur magazine's "How to Write a Business Plan"
<a href="http://www.entrepreneur.com/formnet/form/561">http://www.entrepreneur.com/formnet/form/561</a>	A free template for writing a business plan from Entrepreneur magazine's Business Form Template Gallery
<a href="http://www.caycon.com/resources.php?s=4">http://www.caycon.com/resources.php?s=4</a>	A collection of business plan resources in the Entrepreneur's Library—Startup Resources from Cayenne Consulting
<a href="http://www.businessnewsdaily.com/5680-simple-business-plan-templates.html">http://www.businessnewsdaily.com/5680-simple-business-plan-templates.html</a>	Eight simple business plan templates for entrepreneurs from Business News Daily

# Questions to Ask During Planning

(1 of 8)

## What is Your Business and How Does it Add Value?

- Write a concept statement: A written representation of your vision.
  - It should include all the features of your product or service, potential problems, and target market.



# Questions to Ask During Planning

(2 of 8)

## Who Is Your Customer?

- Write down who your target customers are.
- It will help you gain clarity on the right customer segments for your business.

# Questions to Ask During Planning

(3 of 8)

## How Big Is the Market?

- Conduct market sizing analyses to establish the size of your market.

# Questions to Ask During Planning

(4 of 8)

## How Will You Enter the Market?

- Write down your strategy: For entering the market.
  - Describe needs the product or service fulfils.
  - Problems being solved.
  - Any evidence for potential customers.

# Questions to Ask During Planning

(5 of 8)

## What Do You Know About the Industry?

- More knowledge means you will be able to find ways to differentiate your own ideas.
- Write down research you have carried out.

# Questions to Ask During Planning

(6 of 8)

Who Is Your Competition? Why Are You Better?

- A competitive analysis is the best way.
- Compare your venture with other competitors.

# Questions to Ask During Planning

(7 of 8)

Who is On Your Team and What Do They Bring to the Table?

- Note down their key duties and key skills.
- Add details about new team members.

# Questions to Ask During Planning

(8 of 8)

## What Are Your Financial Projections?

- Include a concise forecast of future revenues.
- Take stock of where your company is right now.

# The Business Plan Debate (1 of 2)

- The business plan takes the longest to create.
- Helps you gain clarity.
  - Some entrepreneurs find writing a simple business plan a great exercise.
  - Others believe writing a business plan helps you shape an idea into an opportunity.



# The Business Plan Debate (2 of 2)

- Allows to articulate vision.
- Growing support for the advantages of not writing a business plan.
  - Based on untested assumptions.
- Business plan is the first step: Outdated view.
  - May not necessarily be relevant to the new entrepreneur.

# Tips for Writing Any Type of Plan

(1 of 10)

- Business plan needs to be tailored to fit customer needs.
- Potential investors will be keen to know more about the financials.
- The key to any written plan is knowledge.

# Tips for Writing Any Type of Plan

(2 of 10)

## Remove Any of the Fluff

- Do not use decorative language in business plans.
- Too much wordiness or jargon can detract from the main message.
- Introduction to the business:
  - Describe what it is, its current location, and the target market.

# Tips for Writing Any Type of Plan

(3 of 10)

## Define Your Target Audience

- Important to specify your target market.
- Present how and why you have drawn these conclusions.
- Explain how you intend to target that particular customer segment.

# Tips for Writing Any Type of Plan

(4 of 10)

## Be Realistic

- Outline challenges ahead, risks, lessons learned etc.
- Everything must be based on facts.

# Tips for Writing Any Type of Plan

(5 of 10)

## Focus on Your Competition

- There is no such thing as no competition.
  - Regardless of how unique you think your business is.
- Focus how you plan to compete.

# Tips for Writing Any Type of Plan

(6 of 10)

## Avoid the Exaggerated Hockey Stick

- Be conservative in your approach to financials.
- Present a more credible percentage of the market you plan to capture.
- Overly-optimistic projections are sure to put your investors off.

## Tips for Writing Any Type of Plan

(7 of 10)

### Avoid Typos, Grammatical Mistakes, and Inconsistencies

- Revise your plan thoroughly for mistakes.
- Ask other people to review your plan.
- Avoid exaggerated language.



# Tips for Writing Any Type of Plan

(8 of 10)

## Understand Your Distribution Channels

- Know how your product will be delivered.
- Any vagueness: Put off for investors.

# Tips for Writing Any Type of Plan

(9 of 10)

## Be Honest About Your Weaknesses

- It's better to be upfront.
- Explain how you plan to address issues.

# Tips for Writing Any Type of Plan

(10 of 10)

## Use Visuals

- Bring ideas to life.
- Write a business plan when your business is more established.
- Write if you are expanding the business.

# Chapter 11: Learning from Failure

# Failure and Entrepreneurship (1 of 2)

- Important to include the topic of failure while discussing entrepreneurship.
- A business failure is the termination of a commercial organization.
- Entrepreneurs who see failure as a part of the journey bounce back quicker.
- A business failure can be quite traumatic for an entrepreneur.

# Failure and Entrepreneurship (2 of 2)

- Failure factors often include lack of market need, poor marketing, etc.
- Pivot: Turn “small fails” around quickly.
  - Include making directional changes.
- Learning from small failures can nullify the risks of big failures.

# The Failure Spectrum (1 of 5)

- The failure spectrum ranges from big to small.
  - Runs from blameworthy to praiseworthy.
  - Has positive and negative outcomes.
- Deviance: Defiance of ethical boundaries leading to venture mismanagement.
- Inattention: Happens by delegating too much too soon without following up.

# The Failure Spectrum (2 of 5)

- Lack of ability: Entrepreneur lacks the skillset to get the job done.
- Process Inadequacy: Wrong processes are set up in the organization.
- Uncertainty: Makes entrepreneurs take unreasonable actions due to lack of clarity.
- Exploratory Experimentation: Market tests needed even though experiments may fail.



# The Failure Spectrum (3 of 5)

- Failure viewed in a negative: Not beneficial.
- Antifailure bias: Makes us avoid the learning we can gain from it.
- It is hard to separate personal from professional failure.

# Fear of Failure (4 of 5)

## Signs of Fear of Failure

- Origins lie in parent–child relationships.
- People raised to believe that failure is unacceptable and avoid it at all costs.
  - Stunts the maturity and growth of such individuals.
  - Develop coping strategies.

# Fear of Failure (5 of 5)

## Global Fear of Failure

- The GEM measures fear of failure globally.
- The GEM study focused on how people's perceptions influence decisions.
  - Perceived opportunities.
  - Perceived capabilities.
  - Fear of failure.
  - Entrepreneurial intentions.

# Learning from Failure (1 of 3)

- Important for entrepreneurs to learn from those who have experienced failed businesses.
- Failure: Intentional iteration.
  - Involves prototyping, testing, etc.
  - Involves making intelligent failures.

# Learning from Failure (2 of 3)

## Lessons Learned by Successful Entrepreneurs

- Kurt Theobald: CEO of the e-commerce firm, Classy Llama, the 11th of ten failed startups over five years.
  - His 11<sup>th</sup> venture: Over \$8 million in annual revenue.

# Learning from Failure (3 of 3)

## Building a Blame Free Environment

- Blame culture isn't healthy.
  - Building blame-free cultures is needed.
  - Employees need to feel assured of no negative reactions when admitting to a mistake.
- Key: Clear communication on acceptable and unacceptable failures.

# Getting Gritty: Building a Tolerance for Failure (1 of 3)

- Traditional wisdom: Talent predicts achievement.
- Grit: Quality that enables people to work hard and sustain interest.
  - The fixed mindset avoids failure; the growth mindset learns from setbacks.
- Deliberate practice is the key to success.

# Getting Gritty: Building a Tolerance for Failure (2 of 3)

## Building Grit

- It includes several attributes
  - Courage: No fear of failure.
  - Conscientiousness: Working despite challenges.
  - Perseverance: Commitment to long-term goals.
  - Resilience: Recovering from failure and overcoming obstacles.
  - Excellence: Committing to activities that enhance skills.



# Getting Gritty: Building a Tolerance for Failure (3 of 3)

## Removing the Stigma of Failure

- Initiatives are springing up to remove the stigma associated with failure.

# Chapter 12: Bootstrapping and Crowdfunding for Resources

# What is Bootstrapping? (1 of 3)

- Bootstrapping: Starting really small and lifting yourself by your own efforts.
  - It means applying the eight principles of entrepreneurship.
- Practice of Entrepreneurship: Enables in thinking creatively about starting a business.
- The “3Fs” for financial assistance.

# What is Bootstrapping? (2 of 3)

## Bootstrapping or External Financing

- Procuring resources without long-term external financing.
  - Benefits to the formal financing.
- New businesses: Hard time finding investors.
- The entrepreneur who bootstraps needs to be clear about product and goals.

# What is Bootstrapping? (3 of 3)

## The Bootstrapped Startup

- The shoestring norm: As the business grows so does the customer base.
- Financing: Could be from cash from your savings, your salary, etc.
- Sweat equity: Increase in value or ownership interest.

# Bootstrapping Strategies

- Involves being creative and using resources to get started.
- The focus should be on the amount of cash you have at your disposal.
- Be mindful of the cash flow: To keep your business afloat.

# Crowdfunding versus Crowdsourcing

(1 of 4)

- Crowdfunding: Raises cash for a new venture from a large online audience.
  - Draws on small contributions from a large number of people.
- Crowdsourcing: Uses inexpensive labor from enthusiastic like-minded people.

# Crowdfunding versus Crowdsourcing

## (2 of 4)

### Crowdsourcing to Improve Medical Treatment

- Gamers and the model of a retrovirus enzyme .
- WHO set up a crowdsourcing initiative since then.



# Crowdfunding versus Crowdsourcing

(3 of 4)

## Crowdsourcing to Reduce Labor Costs

- Harness creative talent through crowdsourcing or websites.
  - The XPRIZE Foundation: Focuses on finding solutions to social problems through competitions.

# Crowdfunding versus Crowdsourcing (4 of 4)

## Crowdsourcing Through Technology

- Technological advances: Reducing the costs of designing, manufacturing, and sales.
  - Free software tools like Google's Sketchup enable users to create a sketch of a 3D model.
  - Once your prototype is approved, you can have it manufactured in China.

# Crowdfunding Startups and Entrepreneurships (1 of 3)

- Crowdfunding: Raised resources for all types of businesses.
  - A democratized method of raising money for upcoming entrepreneurs.
- Approx. \$34 billion was raised globally through crowdfunding in 2017.

# Crowdfunding Startups and Entrepreneurships (2 of 3)

## Types of Crowdfunding Sites

- U.S.-based Kickstarter is the most well-known crowdfunding site.
  - Charges processing fees and a percentage of funds collected.
  - Backers receive some reward for contributing.
  - Alternative to Kickstarter: Indiegogo, the largest global fundraising site.

# Crowdfunding Startups and Entrepreneurships (3 of 3)

## Equity Crowdfunding

- Gives backers the opportunity to become shareholders in a company.
- Give investors the opportunity in exchange for: Ownership or the promise of future returns.

# The Four Contexts for Crowdfunding

(1 of 5)

## Patronage Model

- Financial support given by backers without any expectation.
  - Patreon gives patrons the option to fund illustrators, authors, podcasters, musicians, and other independent creators.

# The Four Contexts for Crowdfunding

## (2 of 5)

### Lending Model

- Funds are looked at as a loan to be repaid.
  - Reimbursement can be in different ways.
  - Backers may waive off loans also in some instances.

# The Four Contexts for Crowdfunding

## (3 of 5)

### Reward-Based Crowdfunding

- Rewards backers for support.
- Entrepreneurs often give unique offerings.



# The Four Contexts for Crowdfunding

(4 of 5)

## The Investor Model

- Gives backers an equity stake in the business.
- Backers can buy shares in the company or get a share of future profits.

# The Four Contexts for Crowdfunding

(5 of 5)

## The Advantages of Crowdfunding for Global Entrepreneurs

- Saves money on marketing.
- Build relationships with customers.
- Committed customers: Spread the word.
- Make new contacts.

# A Quick Guide to Successful Crowdfunding

(1 of 11)

- Crowdfunding: Involves thought, commitment, and hard work.

# A Quick Guide to Successful Crowdfunding

(2 of 11)

## Make Sure Your Product or Service Solves a Real Problem

- Create what people need to buy.
  - Convey this message to your backers.
  - Communicate within two sentences.

# A Quick Guide to Successful Crowdfunding

(3 of 11)

## Test and Refine Your Idea

- Essential to successfully crowdfund:
  - Testing.
  - Refining.
  - Planning.

# A Quick Guide to Successful Crowdfunding

(4 of 11)

## Be Prepared

- Many entrepreneurs fail to plan for the delivery.
- Successful entrepreneurs prepare in advance with suppliers, distributors, and customers

# A Quick Guide to Successful Crowdfunding

(5 of 11)

## Seek and Accept Advice

- Seek guidance from other entrepreneurs.
- Get feedback for your idea.

# A Quick Guide to Successful Crowdfunding

(6 of 11)

## Get Your Campaign Started—Now!

- Build customer base and spread the word.
- Release drawings or post a photo of the prototype on social media.



# A Quick Guide to Successful Crowdfunding (7 of 11)

## Money Matters

- Make sure of some financing beforehand.
- Set a funding goal carefully.
- Do your financial homework.

# A Quick Guide to Successful Crowdfunding (8 of 11)

## Focus on the Pitch

- Making a video is effective.
  - Should be free of sound and signal problems and writing should be error-free.

# A Quick Guide to Successful Crowdfunding (9 of 11)

## Make the Most of Crowdfunding Opportunities

- Get feedback from backers.
  - Press coverage.

# A Quick Guide to Successful Crowdfunding (10 of 11)

## Commit to Your Campaign

- Respond to emails.
  - Continue the dialogue after the campaign is over for further opportunities.

# A Quick Guide to Successful Crowdfunding (11 of 11)

## Avoid the Crowdfunding Curse!

- Delays in delivery and failure to deliver the promised rewards.
- Backers who've been disappointed can ruin reputation.
- Be honest to your backers about any situation or setback.

# Chapter 13: Financing for Startups

# What is Equity Financing? (1 of 6)

- Equity Financing: Sale of shares of stock in exchange for cash.
  - Includes financial resources to produce and sell the product.
- Secure a better deal with investors at a later stage.
- Competition: Driving force for investment.

# What is Equity Financing? (2 of 6)

## Splitting the Ownership Pie

- Investment to enhances growth: Pie becomes bigger.
- Dividing the pie after investment can cripple a startup team .



# What is Equity Financing? (3 of 6)

## Stages of Equity Financing

- Seed-stage financing: Modest money paid to entrepreneurs to prove a concept.
- Startup financing: Money to enable them to implement their idea.

# What is Equity Financing? (4 of 6)

## Stages of Equity Financing

- Early-stage Financing: Larger amounts of funds for companies with a product or service piloted.
- Second or later stage financing.
- Third or mezzanine stage of financing through IPOs.

# What is Equity Financing? (5 of 6)

## Forms of Equity Financing

- Entrepreneurs have several equity-financing options:
  - The 3 Fs (family, friends and fools).
  - Angel investors: Fund young startups.
  - Venture Capitalists: Long-term growth potential.

# What is Equity Financing? (6 of 6)

## Forms of Equity Financing

- The Differences Between Angels and VCs
  - Seed-stage and startup entrepreneurs tend to seek out angel investors.
  - VCs invest in companies in the early to third-stage of business.

# The Basics of Valuation (1 of 5)

- Before entrepreneurs seek equity investment, they must know the value of their company.
- Fund raising: Investors will expect to see an approximate valuation of your business.

# The Basics of Valuation (2 of 5)

## How Can Entrepreneurs Value Their Companies?

- Use available tools to assess their company's worth.
- Value companies based on its market potential.

# The Basics of Valuation (3 of 5)

## How Do Investors Value Startups?

- Investors fund startups for different reasons:
  - Know the criteria to attract investors.
  - Have a distribution channel.
  - Negotiate to decide on a valuation.
- Pre-money value: Before financing.
- Post-money value: After financing.

# The Basics of Valuation (4 of 5)

## The Age of the Unicorn

- Unicorn: Tech startup that has received a \$1-billion-dollar valuation.
  - Rare, but becoming common.



# The Basics of Valuation (5 of 5)

## Convertible Debt

- Short-term loan that can be turned into equity.
  - The initial debt converts to shares of stock.
- Benefits and advantages:
  - Valuation becomes easier.
  - Investors may be entitled to a discount.
- Cautions and Disadvantages:
  - Early lenders and risk.

# Angel Investors (1 of 5)

- Use personal capital to invest in an entrepreneurial venture.
- Add significant value by providing skills, expertise, and lucrative contacts.

# Angel Investors (2 of 5)

## Finding an Angel Investor

- Sites like AngelList.
- Referrals and unsolicited idea submissions.
- Tap your network.
- Having a professional vouch.

# Angel Investors (3 of 5)

## Types of Angel Investors

- Business angels: Range from silent investors to those who want full involvement.
  - Entrepreneurial Angels: Have started and operated their own businesses.
  - Corporate angels: Former business executives.
  - Professional Angels: Doctors, lawyers, dentists, accountants, consultants, etc.

# Angel Investors (4 of 5)

## Types of Angel Investors

- Business angels (Contd.) :
  - Enthusiast Angels: Wealthy retired or semiretired entrepreneurs.
  - Micromanagement Angels: Entrepreneurs who have achieved success in their own companies.

# Angel Investors (5 of 5)

## Angel Groups

- Angels pool funds to invest in a venture to work together.
  - Meet regularly to hear pitches, and ask the entrepreneurs questions.
  - Spread all over the country and specialize in specific areas.
- Research suggests that women are better investors than men.

# Venture Capitalists (VCs) (1 of 5)

- Professional money managers.
  - Look for opportunities for return on their investments.
  - Earn through ownership of equity.
  - The fund goes through a 10-year cycle.
  - Look for ventures that have received seed funding.
  - Not impossible for startups to receive venture capital.

# Venture Capitalists (VCs) (2 of 5)

## A Brief History of Venture Capital

- Trace its roots back to the early 20th century.
  - The ARD is mostly recognized for its enormously successful investment in DEC.
  - The Small Business Investment Act.
  - The dotcom bubble.
  - Smartphones spawned the growth of a whole new generation of VCs.



# Venture Capitalists (VCs) (3 of 5)

## How Venture Capital Works

- VCs have defined list of businesses to invest.
  - Take an interest in entrepreneurs who surround themselves with talented supporters.
  - Ensure that your goals are aligned.
  - Look for great teams, big markets, and innovative ideas.

# Venture Capitalists (VCs) (4 of 5)

## How Venture Capital Works

- Finding the right VC for your venture.
  - Be prepared with your ideas and goals.
- Why VCs might say no.
  - Your venture really has to stand out from the crowd.
  - Have a policy to review opportunities only via a referral.

# Venture Capitalists (VCs) (5 of 5)

## What About a Bank Loan?

- They typically don't give loans: Startups too risky.
- Expect entrepreneurs to have:
  - Capital.
  - Collateral.
  - Capacity.
  - Credit rating.

# Due Diligence (1 of 4)

- Rigorous process carried out to evaluate an investment opportunity.
  - Prior to a deal being finalized.
- Angel investors and groups do not carry out as much due diligence:
  - Time, resource constraints, and lack of information.

# Due Diligence (2 of 4)

## The Due Diligence Process for VCs

- VCs need to identify any potential red flags.
- Entrepreneurs and the company undergo a vigorous appraisal.
  - The backgrounds of the entrepreneurial team are verified.

# Due Diligence (3 of 4)

## Exits/Harvesting

- VCs expect a return when the firm exits the investment.
  - This money is repaid through an IPO, mergers and acquisitions, or buyback.
- Getting through the due diligence process is the final step.

# Due Diligence (4 of 4)

## Rich or King/Queen? The Trade-off Entrepreneurs Make

- Investment comes with a price.
- A startup may not have the expertise to market and sell a product.
  - People with different skills need to be hired in that case.
  - Full control can negatively impact success.

# Chapter 14: Navigating Legal and IP Issues



# Legal Considerations (1 of 10)

- Legal costs vary depending on the kind of business.
- Use online sites to identify the kind of legal counsel.
- USPTO: Provides a pro bono legal support.
- The SCORE association.
- Important to choose the right kind of legal structure.

# Types of Legal Structures (2 of 10)

## Sole Proprietorship

- A person owns a business.
  - But has not formed a separate entity to run it.
- Exposed to all the risks and liabilities.
- A common choice of business structures.

# Types of Legal Structures (3 of 10)

## General Partnership

- Two or more people manage and share the profits and losses.
  - Taxes are paid at your personal income tax rates.
  - Each partner is personally liable for the financial obligations.
- A high level of trust is needed between two partners.

# Types of Legal Structures (4 of 10)

## C Corporation

- Separate legal entity created by the state government.
  - The corporation is legally liable for its actions.
  - Advantage is transferable ownership.
- Benefits from continuous existence.

# Types of Legal Structures (5 of 10)

## C Corporation

- Owned by one or a few stockholders.
- Corporate profits are paid out to the owners.
- Corporate tax is calculated at a rate without adding the additional income.

# Types of Legal Structures (6 of 10)

## S Corporation

- Stockholders elect special treatment for income tax purposes.
  - Must have no more than 100 shareholders.
- Income and losses: Passed through company's shareholders' tax returns
- Losses act as a “tax shelter.”

# Types of Legal Structures (7 of 10)

## Limited Liability Company

- Combines the pass-through taxation aspects of:
  - A partnership with the limited liability benefits of a corporation.
- Profits and losses are reported on individual tax returns.

# Types of Legal Structures (8 of 10)

## Limited Partnership and Limited Liability Partnership (LP and LLP)

- Pass-through tax entity with either general or limited partners.
  - Limited partnership replaced by the limited liability.
- Does not prohibit members from involvement in management.
- Grants limited liability to all members.



# Types of Legal Structures (9 of 10)

## Benefit Corporation

- Ensures that strict standards of social and environmental performance.
  - Ensures that the for-profit company fulfills its social mission.
  - Declares in its charter one or more social benefit goals.
- B-Corp's managers need to balance between profit and social benefit goals.

# Types of Legal Structures (10 of 10)

## Not-For-Profit Entities

- Tax status available to corporations, LLCs, trusts, and other structures.
- All not-for-profits are exempt from income tax.
  - Organization's earnings do not benefit individuals.
  - Cannot have shareholders.

# Legal Mistakes Made by Startups (1 of 2)

- Choosing the wrong business structure incurs higher taxes.
- Experienced investors generally invest only in C corporations.
  - It is easy and inexpensive to convert to a C corporation.

# Legal Mistakes Made by Startups (2 of 2)

## The Founders Agreement

- Agreement between founders on key issues.
- Comes before formal written agreements.
- Shows how co-founder relationships will work.
- Right vesting schedule to protect cofounders.

# Intellectual Property (IP) (1 of 3)

- Describes intangible personal property.
  - Legally protects inventions.
- Startups are dependent on IP protection.
- Valuable asset for startups.
- Complicated when related to employee contracts.
- Seek legal advice from an IP attorney early on in the startup.

# Intellectual Property (IP) (2 of 3)

## The Four Types of Intellectual Property

- Copyright: Protection of original works.
- Trademark: Word, name, symbol used to identify a product.
- Trade secret: Confidential information that provides a competitive edge.
- Patent: A grant of property rights on inventions.

# Intellectual Property (IP) (3 of 3)

## Non-Disclosure Agreement (NDA)

- IP can be protected through the NDA.
  - Should not be used when you just have a half-baked idea.
  - Essential for entrepreneurs to protect against the growing threat of IP theft.

# Global IP Theft

- IP theft has negative impacts on businesses.
- Global online piracy is rife in the area of digital content.
- IP rights are territorial.
- Entrepreneurs must register for local IP ownership within that country.
  - Should not rely on your patent for business strategy.



# Common IP Traps (1 of 5)

## Publicly Disclosing Your Invention

- Disclosing means you might not be able to even patent your product.
  - File a provisional patent application.
  - File a full patent application within 12 months.

## Common IP Traps (2 of 5)

### Failure to Protect Product and Processes

- Some inventors protect their products by building unique markers into them.
- Another option is to license their innovation to a larger organization.
- The inventor profits through royalties.

# Common IP Traps (3 of 5)

## Inability to Determine Originality

- Entrepreneurs often build on existing products to create their innovations.
  - The outcome must be both novel and useful for IP protection.
  - Products and services must contain enough features to improve the way they are used.

# Common IP Traps (4 of 5)

## Failure to Assign Ownership

- Best to make formal agreements regarding IP ownership.
- Ownership can even vest in:
  - People you haven't paid.
  - People you have paid but who haven't signed a formal assignment of ownership.

# Common IP Traps (5 of 5)

## Failure to Protect IP in Global Markets

- To sell in different territories need to get the right legal advice.
- Can face some serious legal problems along the way if they fail to do so
  - Case in point: Apple Inc.

# Hiring Employees (1 of 10)

- More to the hiring process than interviewing and selecting.
  - Understand labor laws.

## Equal Employment Opportunity.

- Federal laws prohibit discrimination.
- Workers with disabilities are also protected.
- No discrimination with regard to sexual orientation.

# Hiring Employees (2 of 10)

## Equal Employment Opportunity

- Federal laws prohibit discrimination.
- Workers with disabilities are also protected.
- No discrimination with regard to sexual orientation.

# Hiring Employees (3 of 10)

## Employer Identification Number (EIN)

- Get an EIN number.
- EIN is used on documents and tax returns.
- Register newly hired employee with your state directory.



# Hiring Employees (4 of 10)

## Unemployment and Workers' Compensation

- Register with labor department to pay unemployment compensation taxes.
- Depending on business size: Register for workers' compensation insurance.

# Hiring Employees (5 of 10)

## Employee Forms

- Set up personnel files containing important documents for each employee.
  - Fill out a W-4 form.
  - The Form 1-9 needs to be completed within three days.
  - File IRS Form 940 every year.

# Hiring Employees (6 of 10)

## Benefits

- Decide the benefits you plan to provide your employees.
  - Pay and withhold Social Security taxes.
  - Provide family and medical leave and health insurance.
  - Optional benefits are subject to regulations.

# Hiring Employees (7 of 10)

## Safety Measures

- Maintain a safe and healthy workplace.
  - Train employees to do their jobs safely.
  - Have provisions such as medical treatment in place.
- Maintaining records, filing tax returns, etc. go a long way.

# Hiring Employees (8 of 10)

## Hiring a Contractor or an Employee?

- Distinguish between contractors and employees.
  - Startups and small businesses use independent contractors.
  - Working with independent contractors gives employers greater flexibility.

# Hiring Employees (9 of 10)

## Hiring a Contractor or an Employee?

- Valuable cost savings in hiring contractors.
- Misclassifying contractors and employees has legal consequences.
- Significant factor is the amount of control the employer has.
  - Over the work being carried out.

# Hiring Employees (10 of 10)

## Compensating Employees

- Startup's need for employees outstrips the company's ability to pay in cash.
- Entrepreneurs often come up with alternative ways to compensate employees.
- Compensation in the form of equity.
- Unpaid Internships.

# Chapter 15: Engaging Customers Through Marketing



# What is Entrepreneurial Marketing?

(1 of 2)

- Processes adopted based on new practices to gain traction in markets.
- Word-of-mouth and social media marketing.
  - It's about chasing reputation, credibility, and buzz.
  - The web has changed the rules of marketing.

# What is Entrepreneurial Marketing?

(2 of 2)

## How Entrepreneurial Marketing is Different

- Marketing: Solve customers' problem or fulfill a need.
  - Build community through social media.
  - The buyer is more in control today.
  - Main features: Innovation, risk taking, and resourcefulness.
  - Marketing and sales are not separate units.

# The Basic Principles of Marketing

- Basic principles are grounded in the marketing mix.
- The four Ps:
  - Product, Price, Promotion, and Place.
- Newer marketing models extend the 4 Ps to 7 Ps:
  - People, Packaging, and Positioning.

# Building a Brand (1 of 6)

- Differentiate your product or service from others: Name, term, design, symbol.
  - The face of your brand is your logo.
- Investing in brands and emotional connection.
- Brand strategy: Long-term plan to develop a successful brand.

# Building a Brand (2 of 6)

How to build your brand

- Building a brand helps your customers understand what your product is.
- Choose a name.
- Design a logo.
- Spread the word.

# Building a Brand (3 of 6)

How to build your brand

- Know your customer.
- Become your brand.
- Write a tagline.
- Always deliver on your brand promise.
- Be consistent with your brand.

# Building a Brand (4 of 6)

## Marketing Tools

- VR is becoming more popular in marketing strategies.
- The demand for more AI tools is growing.
- Honesty is still valued greatly.
- Influencers on social media.
- Experiential marketing and hands-on experience.
- Marketers through education.

# Building a Brand (5 of 6)

## Reframing the 4 Ps

- The 4 Ps model over emphasizes product technology and quality.
- Harvard study and the S.A.V.E framework.
- Solution rather than product: all customers really want to know is how the product solves their problems.



# Building a Brand (6 of 6)

## Reframing the 4 Ps

- Access rather than place: How accessible your company is to your target customer.
- Value over price: Customers are drawn to value more than to price.
- Education rather than promotion: Businesses are in a good position to educate customers.

# Marketing Tools for Entrepreneurs

(1 of 9)

- Difficult to reach their chosen audience at the right time.
- Wide range of entrepreneurial marketing tools.

# Marketing Tools for Entrepreneurs

(2 of 9)

## Guerrilla Marketing

- Low-budget strategy that focuses on interacting with a target group.
  - Enhances the customer's perception of value.
- Understand target market and traffic.
- Difficult to measure.
- Have a good sense of the community, and any restrictions.

# Marketing Tools for Entrepreneurs

## (3 of 9)

### Marketing Through Social Media

- Can launch businesses into new levels of success.
- Valuable way of following market trends.
- Popular sites provide ways to connect with experts in the field.

# Marketing Tools for Entrepreneurs

(4 of 9)

## Getting the Most from Social Media

- Start with Research.
- Think about your goals.
- Design your strategy.
- Post regular updates.
- Monitor your social media.

# Marketing Tools for Entrepreneurs

(5 of 9)

## Creating Content that Drives Sales

- Creative content aims to educate, inspire, and entertain people.
- A way for your customers to get to know the human side of your business.
- Make your content about them, not you.
  - 90% about them, and 10% (or less) about you.

# Marketing Tools for Entrepreneurs

## (6 of 9)

### Creating Content that Drives Sales

- Develop a fresh point of view.
  - Broaden your scope to other areas.
- Pick you Battles.
  - Taking divisive standpoints may put off some of your customers.

# Marketing Tools for Entrepreneurs

(7 of 9)

## Creating Content that Drives Sales

- Be authentic.
  - Social media is about building long-lasting relationships.
- Use your gut.
  - Ask yourself who your content best serves
- Quality is the key.



# Marketing Tools for Entrepreneurs

(8 of 9)

## Building Your Website

- Websites with crisp, clean designs are the most successful.
  - Your website must be easy to navigate.
  - Attracting an audience takes time.
- Evolves over time in line with industry fluctuations.

# Marketing Tools for Entrepreneurs

(9 of 9)

## Building a Fan Base

- True fans: People that will buy anything you produce.
  - Megabrands such as Levi and Gap have slowed down or are on the decline.
- Focus is shifting toward a wide variety of smaller niche markets.

# Creating Your Personal Brand

## (1 of 2)

- You are marketing yourself just as much you are marketing a product.
- It is worth spending time figuring out how you're going to market yourself.
- The nonvisual dimension is important.

# Creating Your Personal Brand

## (2 of 2)

### How to Build your Personal Brand

- We look at the people behind the companies rather than the companies themselves.
- Successful entrepreneurs build a personal brand based on trust and authority.

# Chapter 16: Supporting Social Entrepreneurship

# The Role of Social Entrepreneurship

- Sourcing innovative solutions to social and environmental problems.
- Social entrepreneurs measure performance by advancing goals.
  - New nongovernmental organizations (NGOs).
- Social entrepreneurs and protecting future generations.

# Social Entrepreneurship and Wicked Problems

- Wicked problems: Complex social problems with no clear solution.
- Issues:
  - Environment, poverty, sustainability, equality, education, child mortality, sanitation, terrorism, and health.
- Wicked problems pose challenges and opportunities to social entrepreneurs.

# Types of Social Entrepreneurship

(1 of 5)

## Social Purpose Ventures

- The aim is to resolve a social problem and make a profit.
  - Koe Tech is a good example of a social purpose venture.



# Types of Social Entrepreneurship

(2 of 5)

## Social Consequence Entrepreneurship

- Describes a for-profit venture whose primary market impact is social.
  - A good example of a for-profit venture with a social impact is Sword & Plough.

# Types of Social Entrepreneurship

(3 of 5)

## Enterprising Nonprofits

- Both the venture mission and the market impact are for social purposes.
  - Any profits made must be channeled back into the organization.
- Enterprising nonprofits include earned-income activities, and venture philanthropy.

# Types of Social Entrepreneurship

(4 of 5)

## Enterprising Nonprofits

- Earned-income activities: Used as a source of revenue generation.
- Venture philanthropy funding: Combines financial assistance such as grants with a high level of engagement by the funder.
  - These drive social change.

# Types of Social Entrepreneurship

(5 of 5)

## Hybrid Models of Social Entrepreneurship

- Emphasizes economic and social goals.
- Hybrid models exploit the advantages of both for-profit and nonprofit models.

# Capital Markets for Social Entrepreneurs (1 of 2)

- Social entrepreneurs need capital.
- Impact-investment funds:
  - Look for a return on investment and to make a social/environmental impact.
- Community fund: Invest in economic development.

# Capital Markets for Social Entrepreneurs (2 of 2)

## Microfinance as a Source of Social Financing

- Describes financial services to people ineligible to receive banking services.
  - Loans.
  - Insurance.
  - Savings.

# Social Entrepreneurs and Their Stakeholders (1 of 4)

- Social entrepreneurs cannot resolve wicked problems in isolation: Gain support from stakeholders.
  - Communicate to stakeholders the value derived and the potential loss.
- Attributes of stakeholders to be considered:
  - Power, legitimacy, and urgency.

# Social Entrepreneurs and Their Stakeholders (2 of 4)

## Types of Stakeholders

- Dormant stakeholders are sleepers.
- Discretionary stakeholders have no power to influence.
- Demanding stakeholders possess the urgency attribute.
- Dominant stakeholders have both power and legitimacy.



# Social Entrepreneurs and Their Stakeholders (3 of 4)

## Types of Stakeholders

- Dependent stakeholders lack the power to influence.
- Dangerous stakeholders use power to coerce.
- Definitive stakeholders: Possess all three attributes.

# Social Entrepreneurs and Their Stakeholders (4 of 4)

## Conclusions from the Mitchell Stakeholder Typology

- Stakeholders can evolve: Either gain or lose attributes.
  - Vital to social entrepreneurship.
- Connecting and collaborating is the key to resolving wicked problems.

# Differences Between Social Entrepreneurship and Corporate Social Responsibility

- CSR: Company's effects on environmental and social well-being.
- Many models place equal emphasis on social and economic goals.
- CSR initiatives motivate employees.

# Social Entrepreneurship and Audacious Ideas

- Social entrepreneurs need funding to achieve their goals CSR initiatives.
  - TED: Narrowing the gap between social entrepreneurs and philanthropists.
  - The Audacious Project: Invites social entrepreneurs to submit their ideas for creating global change.

# Global Entrepreneurship (1 of 6)

## Global Entrepreneurship

- GEM measures entrepreneurial activity across 112 economies.
  - The process begins with potential entrepreneurs.
  - The next phase focuses on nascent entrepreneurs.
  - Third phase studies new business owners.
  - Final phase explores established business owners.

# Global Entrepreneurship (2 of 6)

## Global Entrepreneurship

- Necessity-based entrepreneurs are pushed into starting a business.
- Opportunity-based entrepreneurs may start their own businesses.
- Main focus of the GEM study: Level of Total Entrepreneurial Activity in different countries.

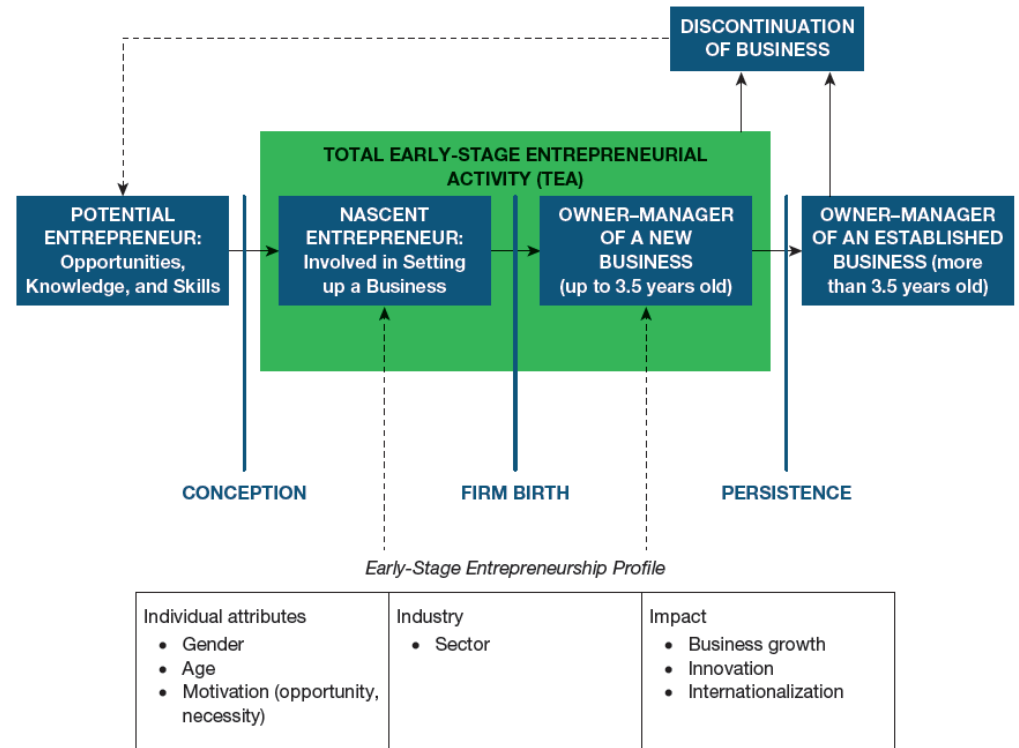
# Global Entrepreneurship (3 of 6)

## Global Entrepreneurship

- Global Entrepreneurship Monitor Measuring Entrepreneurial Activity

FIGURE 16.6

Global Entrepreneurship Monitor Measuring Entrepreneurial Activity



Source: GEM Report 2018-9; pg 16, GEM Consortium, <http://www.gemconsortium.org/>. Reprinted with permission.

# Global Entrepreneurship (4 of 6)

## Gender and Entrepreneurship

- Myth: Entrepreneurship is a male-only profession.
- Most countries have a similar proportion of men to women early stage entrepreneur.
- Women in less developed countries are more likely to be driven by necessity.



# Global Entrepreneurship (5 of 6)

## What Makes a Country Entrepreneurial?

- The Entrepreneurship Ecosystem:
  - Financial resources.
  - Support from government.
  - Entrepreneurship Education.
  - Research and Development (R&D) transfer.

# Global Entrepreneurship (6 of 6)

## What Makes a Country Entrepreneurial?

- The Entrepreneurship Ecosystem (Contd.)
  - Commercial and Legal Infrastructure.
  - Entry Regulation.
  - Physical Infrastructure.
  - Cultural and Social Norms.