

EBU5608 Product Development and Management

Topic 18 – Start-ups and Entrepreneurship

1

Agenda

- Product development in a small company
- What is a 'start-up'
- Entrepreneurship
- Advantages and Disadvantages of starting a new business
- Challenges of a small business
- Types of business
- Putting a high-tech start-up together
- Raising capital
- Business plan
- Causes of business failure



2

2

Introduction

- **Free enterprise** is the economic basis for all entrepreneurial activity
 - It means that any individual is free to transform an idea into a business
- The opportunities for potential entrepreneurs are unlimited
- During the last 10 years, new ventures have emerged at the rate of 500,000 per year in the US



3

3


Product development in a small company

- We have talked about Product Development in **large companies**
- The same processes need to be used in **small companies** such as start-ups
- BUT:
 - There will be **less people** involved, and they may each have **multiple** roles
 - You may need to **simplify** some of the processes
- Do **not** make the mistake of thinking “we are too small to bother with a proper process”
- You need to understand the special **challenges** of starting a company to exploit your ideas




4

4




What is a ‘startup’ [2]

- A **startup company** or **start-up** is a company with a limited operating history
- These companies, generally newly created, are in a phase of development and research for markets
- Typically it involves some **novel technology, or use of technology**, but crucially...
 - a coherent means for **making money** from the technology
- High-tech (e.g. telecom, software) is very different from bio-tech or medical



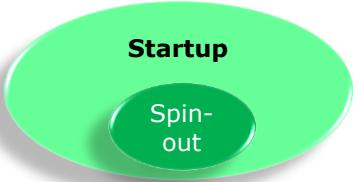
5

5



Startup vs. spin-out

- A **spin-out** implies that some part of the enterprise is owned by some third party, typically a university or a larger company
- A startup isn’t necessarily a spin-out, but a spin-out **IS** a startup



6

6




The entrepreneur [3]

- An **entrepreneur** is a person who
 - has possession over a new enterprise or venture and
 - assumes full accountability for the inherent risks and the outcome
- **Entrepreneurship** is the practice of starting **new** organisations or **revitalizing** mature organisations,
 - particularly new businesses - generally in response to identified opportunities



7

7




Two types of entrepreneurship [1]


Social

- Aim is to create social change rather than make money
- Often involves business, public & charity organisations
- Examples
 - poverty relief
 - environment
 - arts & culture

Technological

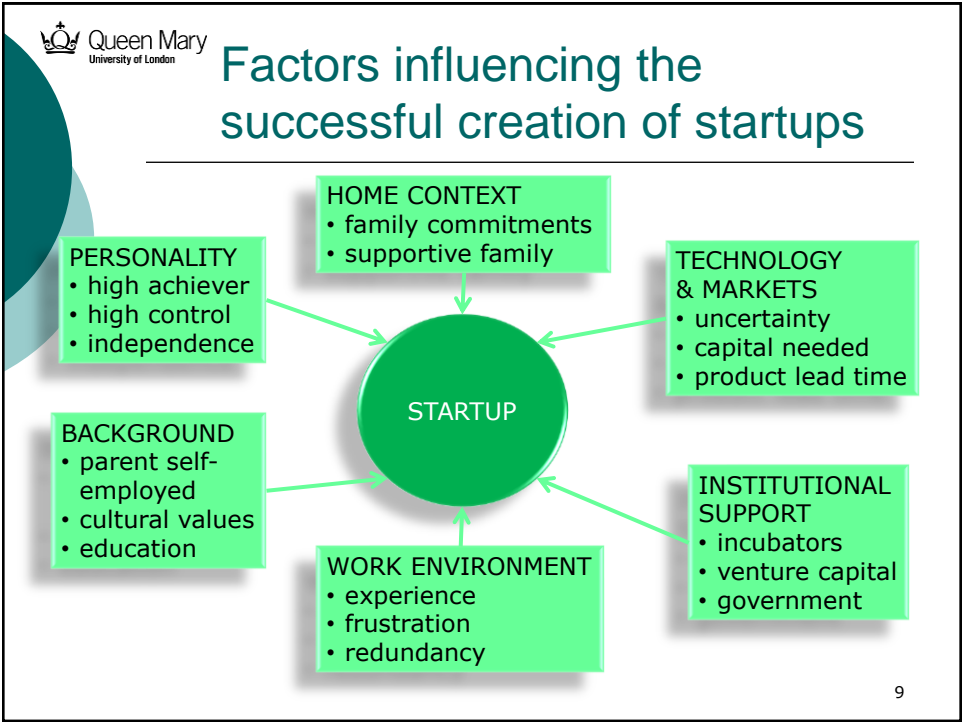
- Aim is to gain independence to exploit a technology
- Often results from being frustrated in a large company






8

8




9




Supporting entrepreneurship [4]

- Many kinds of organizations now exist to **support** would-be entrepreneurs, including
 - specialized **government agencies**
 - e.g. in the UK, Business Link is a free business advice and support service, available online and through local advisers [5]
 - **business incubators**
 - **science parks, and**
 - **Non-Government Organisations**
 - e.g. Chambers of Commerce in the UK [6]




10

10



Challenges of a small business

- Hard work, making most decisions on your own
- Considerable risks involved
- Costly to raise finance
- No economies of scale



11

11



Advantages and Disadvantages of starting a new business

Advantages	Disadvantages
<ul style="list-style-type: none">○ Independence○ Financial opportunities○ Community service○ Job security○ Family employment○ Challenge 	<ul style="list-style-type: none">○ Sales fluctuations○ Competition○ Increased responsibilities○ Financial losses○ Employee relations○ Laws and regulations○ Risk of failure 

12

12

Some early decisions

You need to take some early decisions about your company:

- What **type of business** – e.g. life style?
- What form of **ownership** – e.g. sole trader?
- Are you driven by the **technology** or the **market**?
- Who are your **customers**?



13

13

Types of business

- Scalable, global technology player
- Biotech business with long-term R&D plans
- Manufacturing facility with medium growth plans
- Service provider
- Lifestyle business



14




14

Queen Mary
University of London

What form of ownership?

- Sole Trader
- Partnership
- Limited Company

These were discussed in EBU5402
This is just a brief reminder



15

15

Queen Mary
University of London

What form of ownership? - sole trader

- Most **basic form** of organisation
- **Not a legal form** of organisation – the individual and the organisation are indistinguishable (they are similar)
- The 'sole trader' is responsible **financially** and **legally** for any debts, outstanding unfulfilled contracts etc.
- Very easy to establish
- Sole trader can have employees (despite the name)
- Examples – hairdressers, newsagents, window cleaners



16

16

Queen Mary
University of London

What form of ownership? - partnerships

- **Two or more people** combine resources and form a **partnership**
- Contract exists between the two (or more) parties; terms include:
 - The amount of **capital** subscribed by each partner
 - How **profits** will be determined and allocated between partners
 - **Salary** allocation for the partners
 - Procedure for **dissolving** the partnership
- Examples – solicitors, accountants etc.




17

17

Queen Mary
University of London

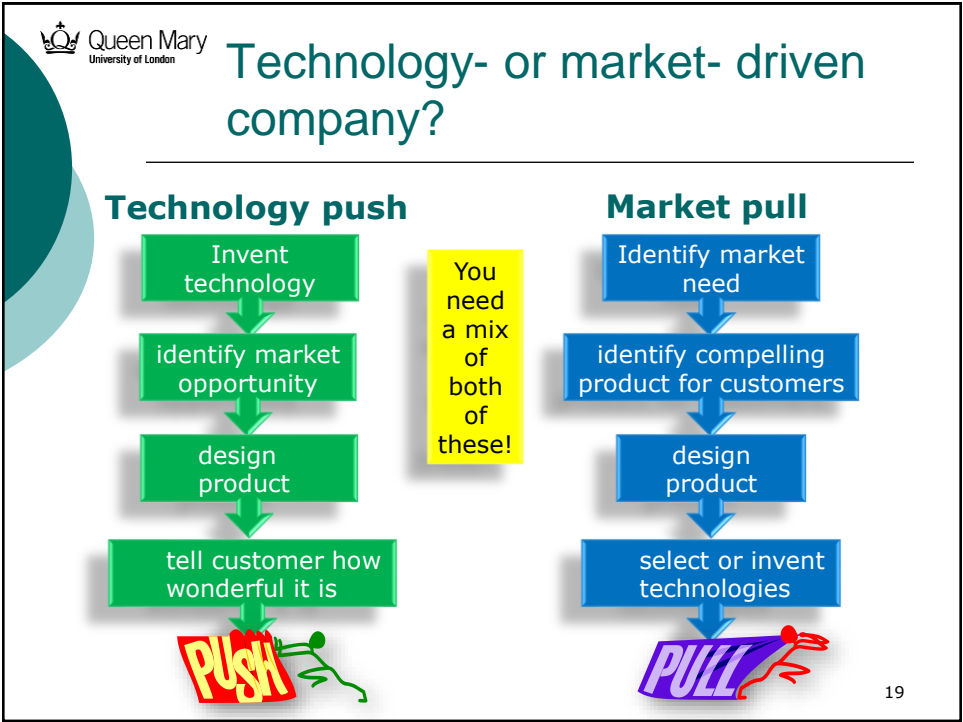
What form of ownership? - Limited companies


- **Limited** in this instance meaning that the owners no longer have unlimited liability for the **debts** of their companies
- In the US, these are known as **incorporated** companies
- All companies have **shareholders** who have invested in the company
- All companies have **directors** who are selected by the shareholders to run the company



18



18






Who are your customers?

- End-users, i.e. consumers
 - i.e. you are B2C (business to consumer)
- Business that has its own customers
 - i.e. you are B2B (business to business)
- You **must** know who your potential customers are








20



How a hi-tech start-up comes together


The Ingredients:

- Technology
- Intellectual Property (Protection)
- The Vision (Where can the technology lead? Is there a market for it)
- Personnel
 - Scientific leaders
 - Business managers
 - Fund Raisers
 - Scientists/Engineers
- Money




21

21



The stages for creating a hi-tech start-up

1. **Assess** the opportunities - generate, evaluate & refine the business concept
2. **Develop** the business plan and decide on the structure of the venture
3. **Acquire** the necessary resources and funding
4. **Grow** and harvest the venture




22

22

Queen Mary
University of London

Mentimeter



RAISING CAPITAL


23

23

Queen Mary
University of London

Raising capital

- **Why?**
 - Growth
 - Maintenance of operations
 - Survival
- **How?**
 - Re-mortgage or loan
 - Venture Capitalists or Angels
 - Grants
 - Family and friends







24

24

Queen Mary
University of London

Fund-raising Stages

- Pre-investment
 - University fund, friends, bank loan
 - £5k-£50k
 - build demonstrator, build business plan
- Round A
 - Angels, or special startup funds
 - £100k-£500k
 - Establish board, partial executive team
 - 5 - 10 employees
- Round B
 - Venture Capital
 - £1M-£5M
 - Complete board and exec team. Expand to 20+
- Exit


25

25

Queen Mary
University of London

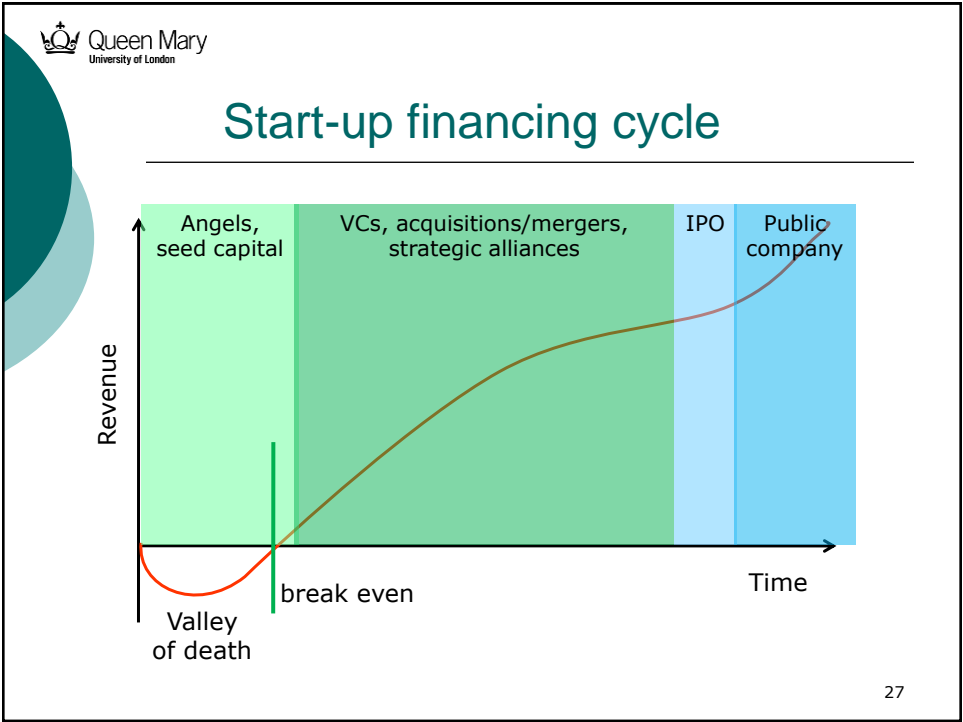
What are VCs (Venture Capitalists)?

- A company that collects funds (e.g. from pension funds) and then invests those funds in startups
- Go for high-risk, high reward
- Need very large uplift in value, 10 times or more
- Take large stake in company equity
- Expect only 1 in 10 to succeed



26

26



27

Queen Mary University of London

The fund-raising process

- Elevator pitch/executive summary
- Business plan, presentation, management team
- Business survey
- Due diligence
- Valuation, ownership, control, legal issues
- FUNDING


28

28

Queen Mary
University of London

Mentimeter

Business plan



29

Queen Mary
University of London

Two Essential Functions

1. Guiding the company by charting its future course and defining its strategy for following it.
2. Attracting lenders and investors who will provide needed capital.

30

30

What a Business Plan is

...the entrepreneur's **road map** for a successful enterprise

- Describes
 - The **market** you plan to enter
 - The unique and compelling **features** of your contribution to this market
 - **Intellectual property**
 - **Business model** and **Financials**
 - Team and Company development and **strategy**
 - **Investment** proposition
 - **Exit** strategy



31

31

Features vs. Benefits

- **Feature** – a descriptive fact about a product or service:
"an ergonomically designed, more comfortable handle"
- **Benefit** – what a customer gains or a satisfaction received from the product or service feature:
'better fuel consumption by a new car engine which reduces overall costs and increases efficiencies'

32

32

Why do you need a Business Plan?

A business plan...

- provides a **formal agreement** between the founders of a company about the direction to be taken
- can reduce **self-delusion** amongst the founders
- defines **responsibilities** & rewards
- helps to translate **abstract** goals into **explicit** operational needs

Without a business plan...

- nobody will invest in your company
- you will wander aimlessly



33

33

Business Model

- The Business Plan must describe your Business Model
- This shows how you will **make money** from your business, e.g.
 - Selling software
 - Selling services
 - Licensing software
 - Selling hardware
 - Selling/licensing Intellectual property
 - e.g. the ARM processor (CPU based)
 - Some mix of the above
- Will be supported by **Revenue predictions**



34

34

Key Elements of a Business Plan

- Title Page and Table of Contents
- Executive Summary
- Vision and Mission Statement
- Company History
- Business and Industry Profile
- Business Strategy
- Description of Products/Services



35

35

Key Elements of a Business Plan

- Marketing Strategy
 - Document market claims
 - Show customer interest
- Competitor Analysis
- Description of Management Team
- Plan of Operation
- Projected Financial Statements
- Loan or Investment Proposal

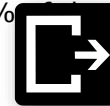


36

36

Exit strategy

- VC wants to know how it will get a return on investment (ROI)
 - Company **sale** (e.g. to Microsoft, Google, Philips, etc)
 - **IPO** (Initial Public Offering), i.e. making shares publicly available via a stock exchange (SSE – Shanghai Stock Exchange; AIM (London) – Alternative Investment Market, NASDAQ – New York, etc.)
- In how many **years**?
- If you get this right, you are now getting 10% value of a company worth £50M or more!



37

37

Guidelines for Preparing a Business Plan

- Remember: No one can create your plan *for* you.
- Potential lenders want to see financial projections, but they are more interested in the *strategies* for reaching those projections.
- Show how you plan to set your business apart from competitors; don't fall into the "me too" trap (copying other businesses – no advantage to this).
- Identify your target market and offer evidence that customers for your product or service exist.

38

38

Tips on Preparing a Business Plan

- Make sure your plan has an attractive cover. (First impressions are crucial.)
- Rid your plan of all spelling and grammatical errors.
- Make your plan visually appealing.
- Include a table of contents to allow readers to navigate your plan easily.
- Make it interesting.

39

39

Tips on Preparing a Business Plan

- Your plan must prove that the business will make money (not necessarily immediately, but eventually).
- Use spreadsheets to generate financial forecasts.
- *Always* include cash flow projections.
- Keep your plan “crisp” – between 25 and 40 pages long.
- Tell the truth – *always*.

40

40

Causes of business failure

Business failure is caused by a number of reasons but the most common of these are detailed below:

- lack of **skills**
- **sales** problem
- **financial** control
- lack of **funds**
- high cost of **finance**
- insolvent **customers**
- overtrading **development**
- **marketing** issues
- red tape (**bureaucracy**)



41

41

Summary

- There are no guarantees for success.
- Creating a business plan will be valuable primarily because of the process itself.
- The business planning process may provide insight to increase the chances for success.
- The business plan: Entrepreneurs benefit; lenders and investors demand it!

42

42

References

1. Innovation & Entrepreneurship, John Bessant & Joe Tidd, Wiley, Chapter 8
2. http://en.wikipedia.org/wiki/Startup_company
3. <http://en.wikipedia.org/wiki/Entrepreneur>
4. <http://en.wikipedia.org/wiki/Entrepreneurship>
5. <http://www.businesslink.gov.uk>
6. <http://www.britishchambers.org.uk/>
7. Essential of Entrepreneurship & Small Business Management (6th Edition), Norman M. Scarborough & Doug Wilson (2011); Pearson

43

43

Reading

Ebert, Ronald J. and Griffin, Ricky W. (2016) ***Business Essentials***, Global Edition, 11/E, Pearson, ISBN-10: 1292152249

- Chapter 3. Entrepreneurship, New Ventures, and Business Ownership
pages 58-85



44

44