

Enterprise Management and Entrepreneurship MIEIC 2021-2022



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Entrepreneurship: from idea to business

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Content

- Introduction
- Strategic Learning and Experimentation
- Business Models
 - Product-Market Fit
 - Connecting to customers
 - Operations
- Entrepreneurial Strategy – An integrative logic

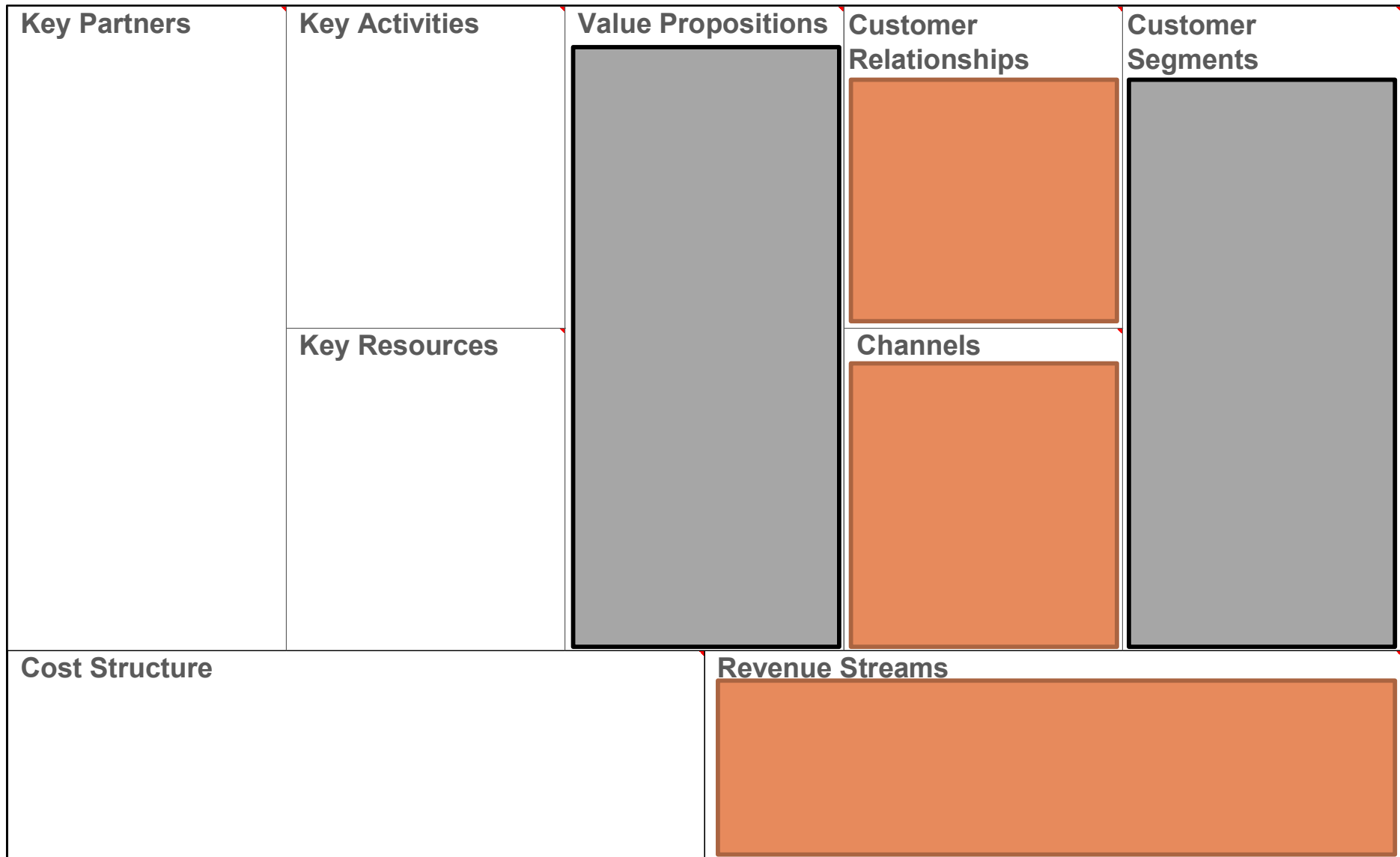
Entrepreneurship

Business Models

Connecting to customers

Business Models – Connecting to customers

Business Model Canvas



Business Models – Connecting to customers

Channels

- **Types of channel used**
 - Direct / Indirect (/ Licensing)
 - Virtual / Physical
- **Channel partners**
 - Who are your channel partners? (-> **Key Partners**)
 - How and why are they interested in partnering?
- **Channel flow diagram**
- **Channel economics** (-> **Costs** + **Revenue Streams**)

Business Models – Connecting to customers

Channels

- **Types of channel used** – What influences channel choice
 - Customer needs
 - Product/service, experience, complementary products and services
 - Industry channel capabilities and costs
 - Time, quality, flexibility, cost
 - Power and influence
 - Uniqueness
 - Market access and intelligence
 - Scale
 - Dependence
 - Competition
 - Nature of overall industry competition and of channel competition

Business Models – Connecting to customers

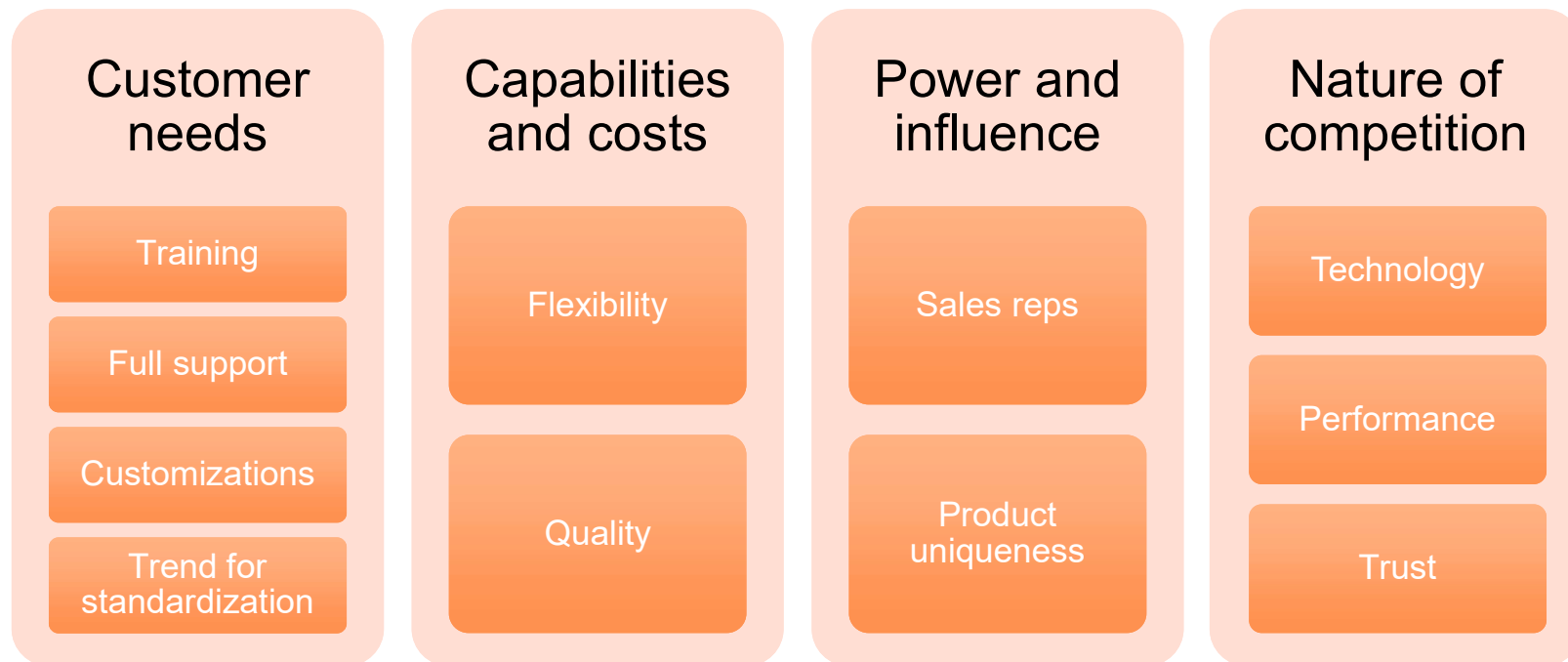
Channels

- **Types of channel used** – Designing channels
 - Structure – Direct / Indirect
 - Size and distribution of customers
 - Level of education required and breadth of applications
 - Individual or bundled purchase
 - Credibility and specific knowledge requirement
 - Comparative size
 - Strategy – working capital, scale, learning, etc.
 - Coverage
 - Intensive – well known and branded products, or commodities
 - Selective – significant sales effort or strategic partnership required – avoid channel conflicts due to, e.g., free riding

Business Models – Connecting to customers

Channels

- **Types of channel used** – Examples in medical devices
 - High value medical products for medical doctors

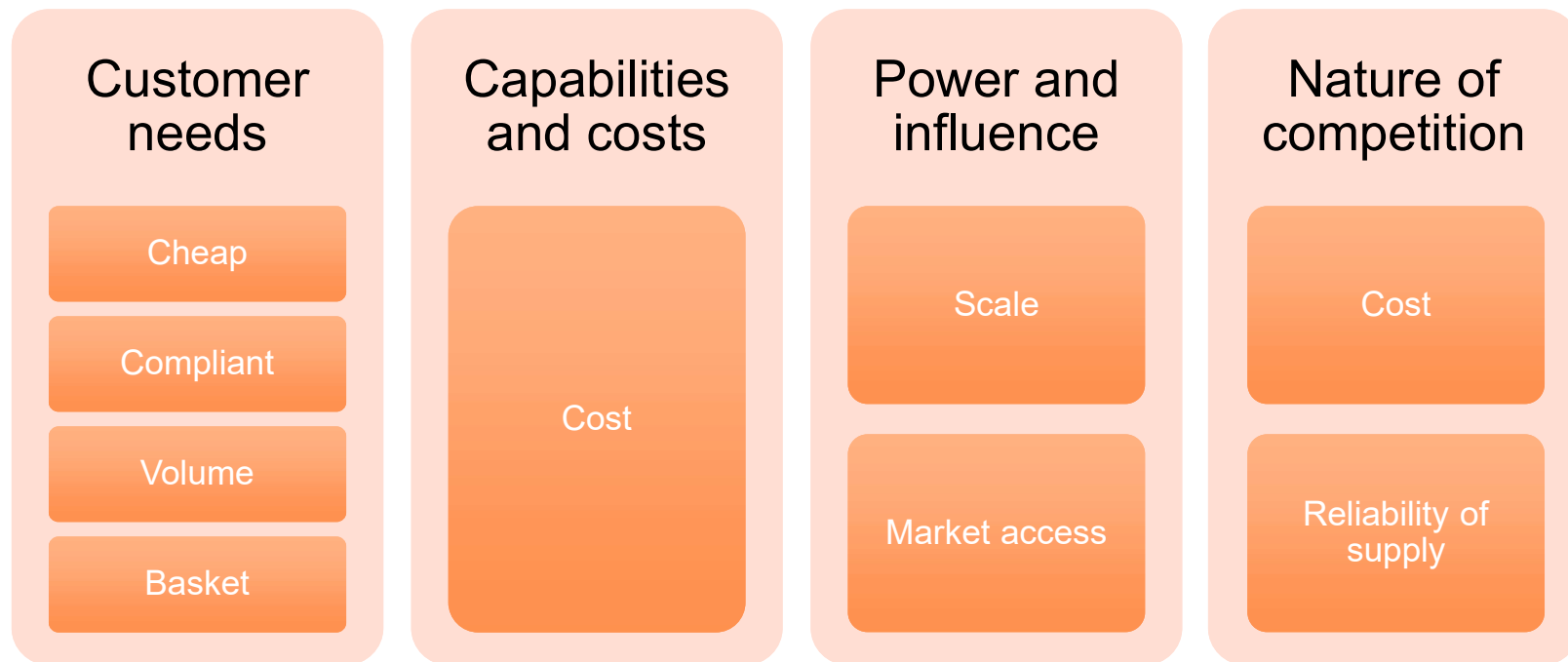


- Direct and selective sales

Business Models – Connecting to customers

Channels

- **Types of channel used** – Examples in medical devices
 - Commodity medical products for administrative purchasers



- Indirect and intensive sales

Business Models – Connecting to customers

Channels

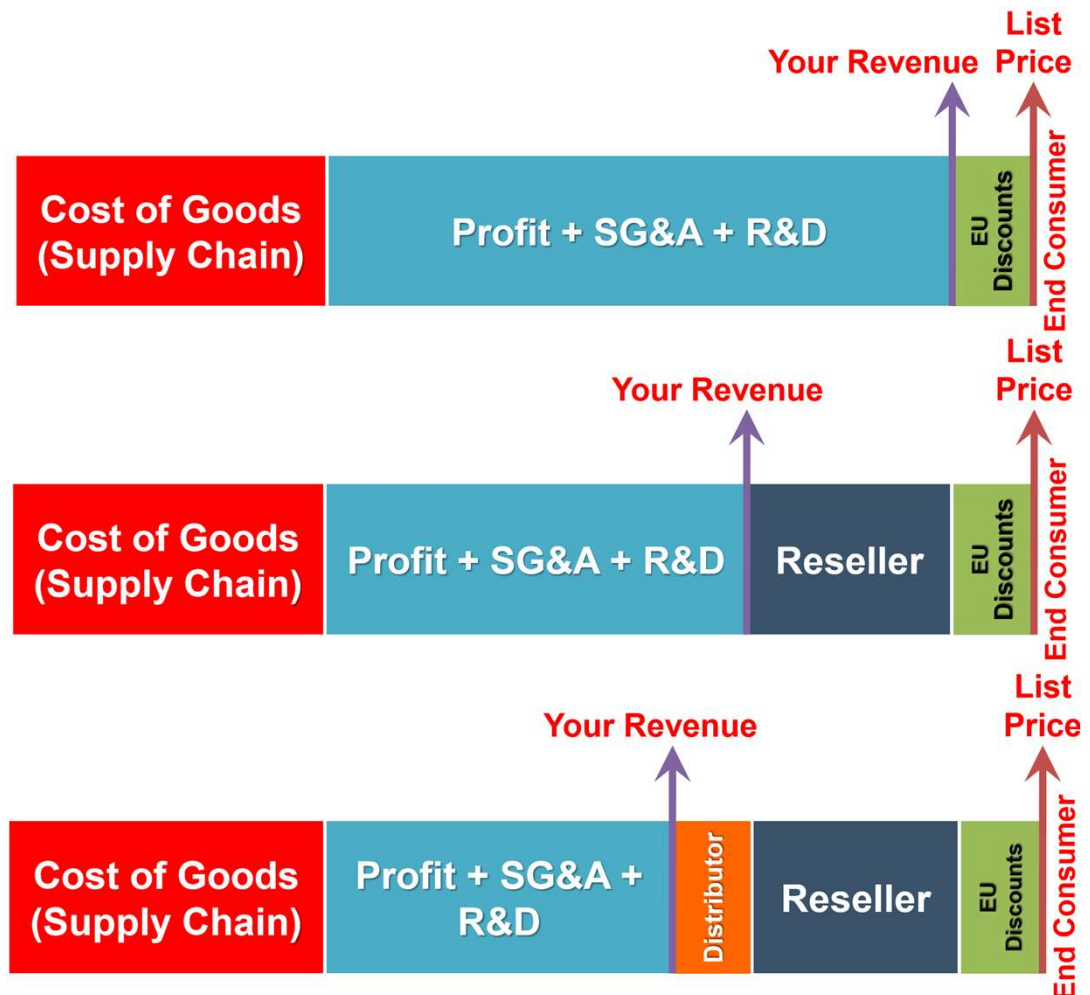
- **Types of channel used** – Web (Virtual) vs. Physical

		<u>Channel</u>	
		Virtual	Physical
<u>Product</u>	Virtual	<ul style="list-style-type: none">• Google• Facebook• Twiter• ...	<ul style="list-style-type: none">• Insurance• Enterprise software• Stocks and Bonds• ...
	Physical	<ul style="list-style-type: none">• Consumer electronics• Movies (Streaming)• Books (Amazon)• ...	<ul style="list-style-type: none">• Food• Household goods• Automobiles• Planes• ...

Business Models – Connecting to customers

Channels

- **Channel economics**
 - Direct sales
 - Indirect sales



Business Models – Connecting to customers

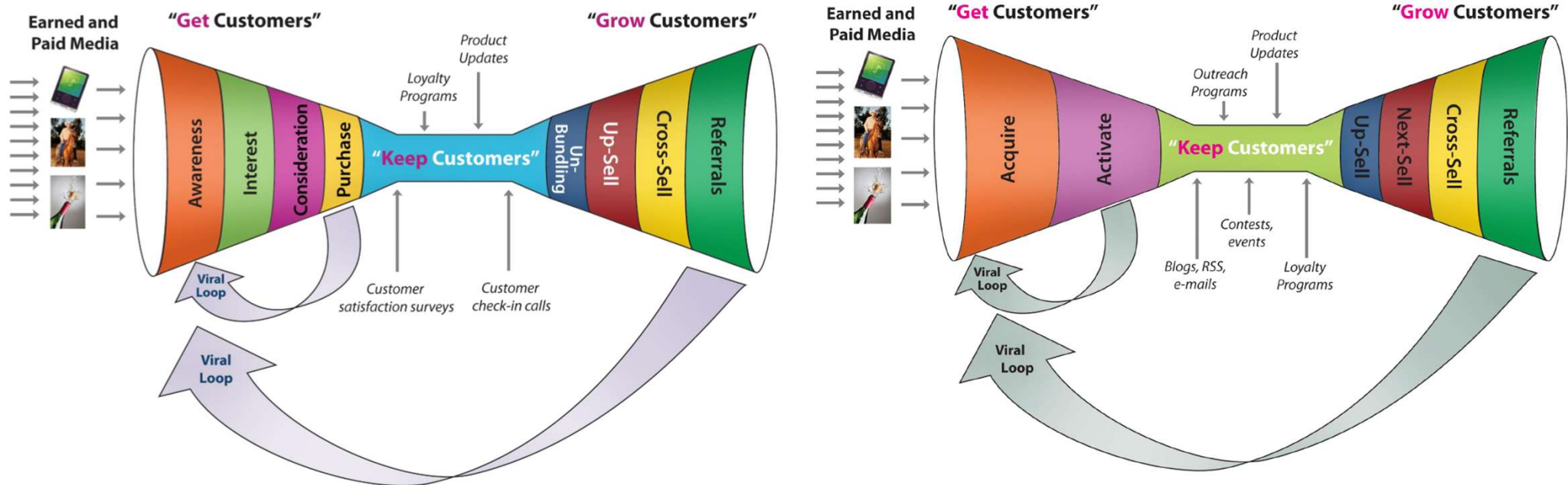
Customer Relationships

- **Strategy for Get / Keep / Grow customers**
 - How to get / keep / grow customer?
 - What key metrics / indicators to use?
- **Customer Acquisition Cost (CAC) (-> Costs)**
- **Customer Lifetime Value (LTV) (-> Revenue Streams)**

Business Models – Connecting to customers

Customer Relationships

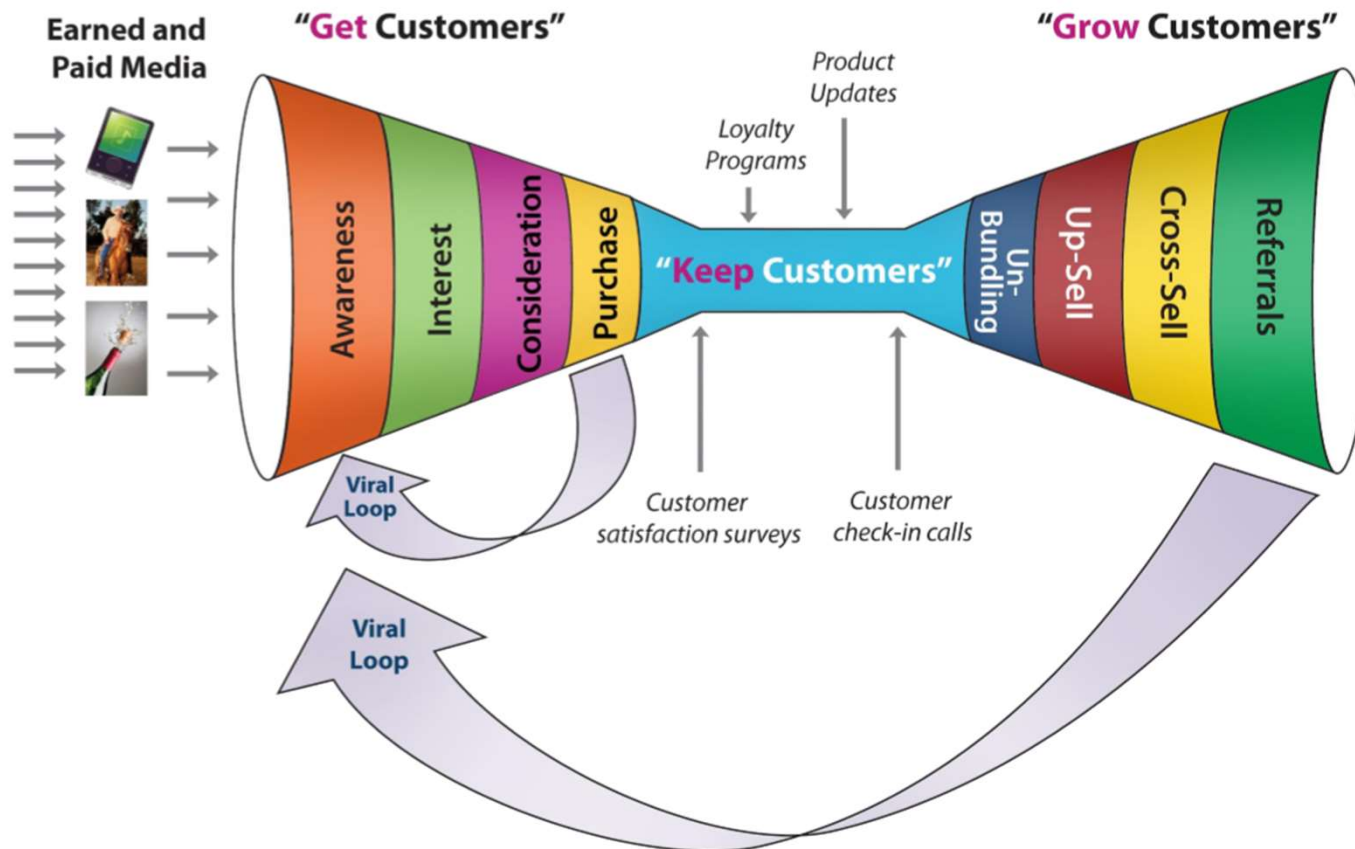
- Strategy for Get / Keep / Grow customers



Business Models – Connecting to customers

Customer Relationships

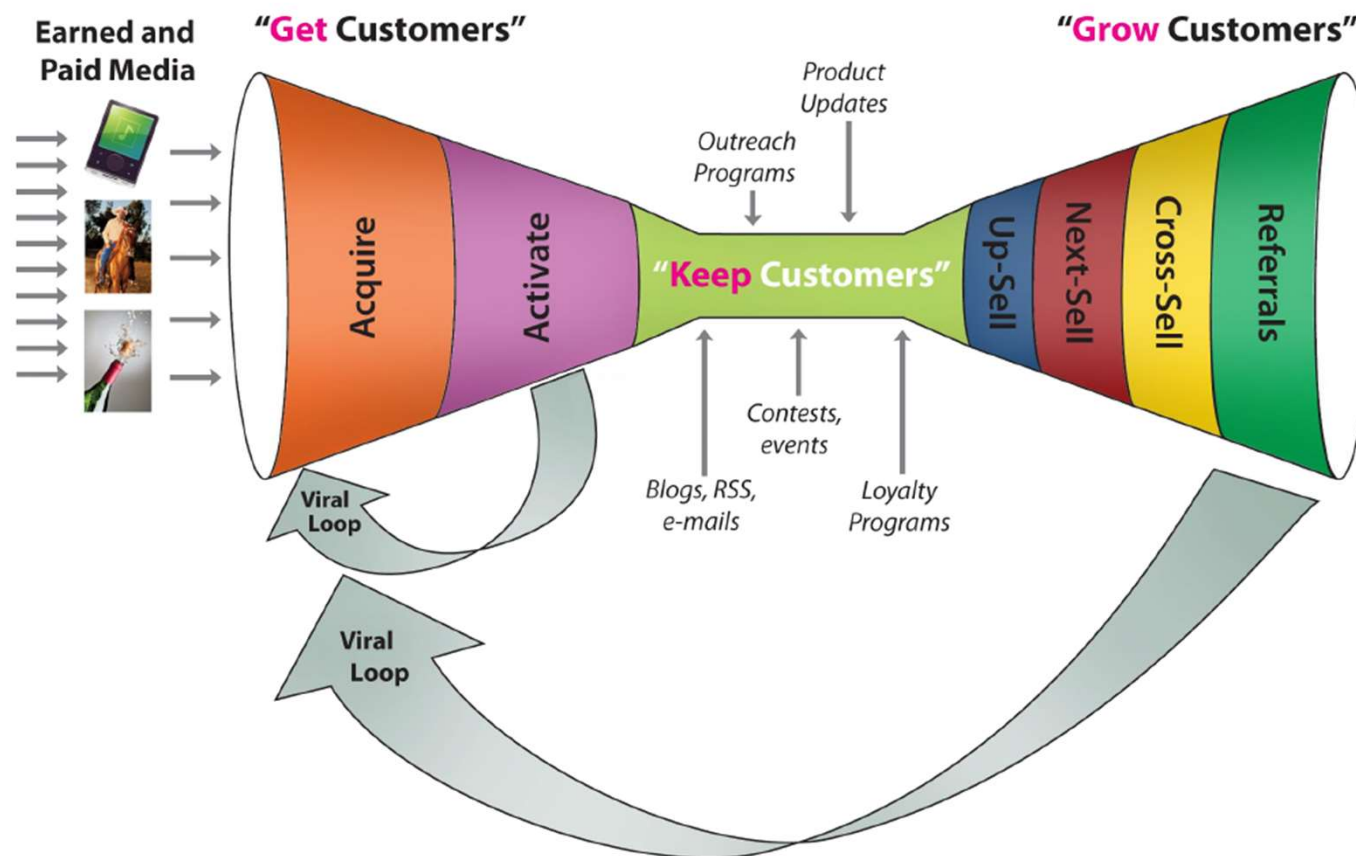
- Strategy for Get / Keep / Grow customers
 - Physical products



Business Models – Connecting to customers

Customer Relationships

- Strategy for Get / Keep / Grow customers
 - Virtual products

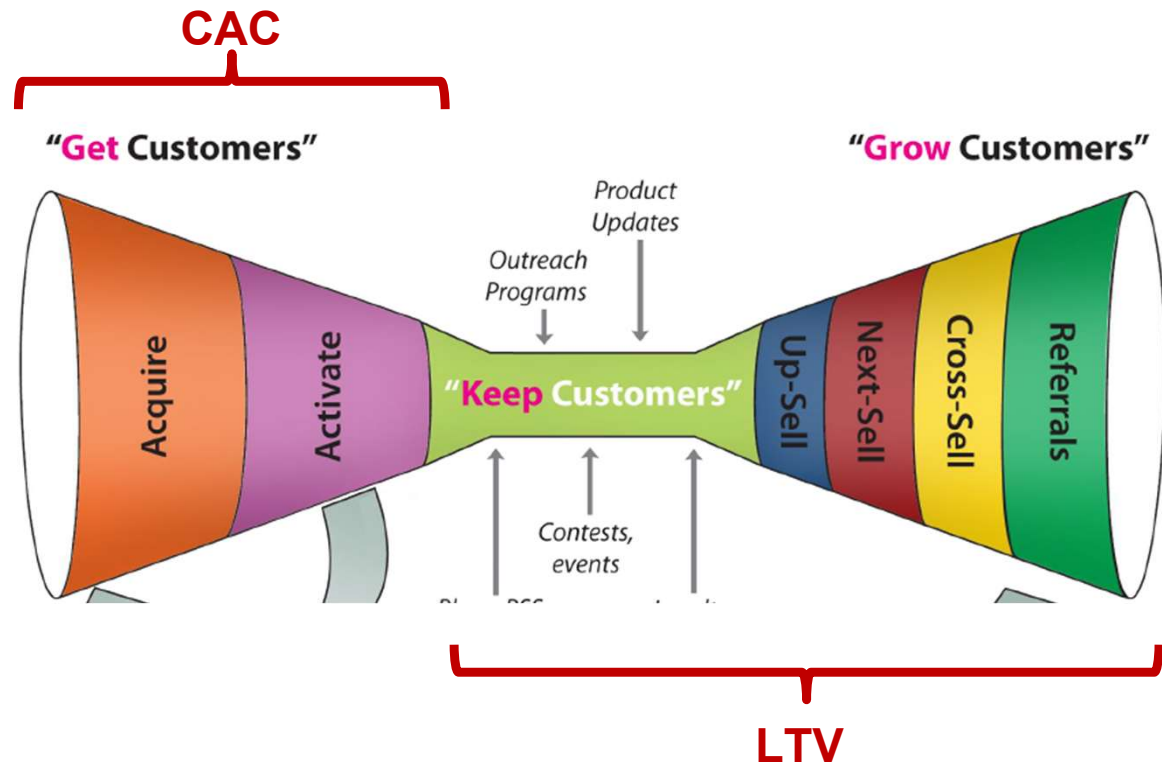


Business Models – Connecting to customers

Customer Relationships

• Customer Acquisition Cost (CAC) vs. Customer Lifetime Value (LTV)

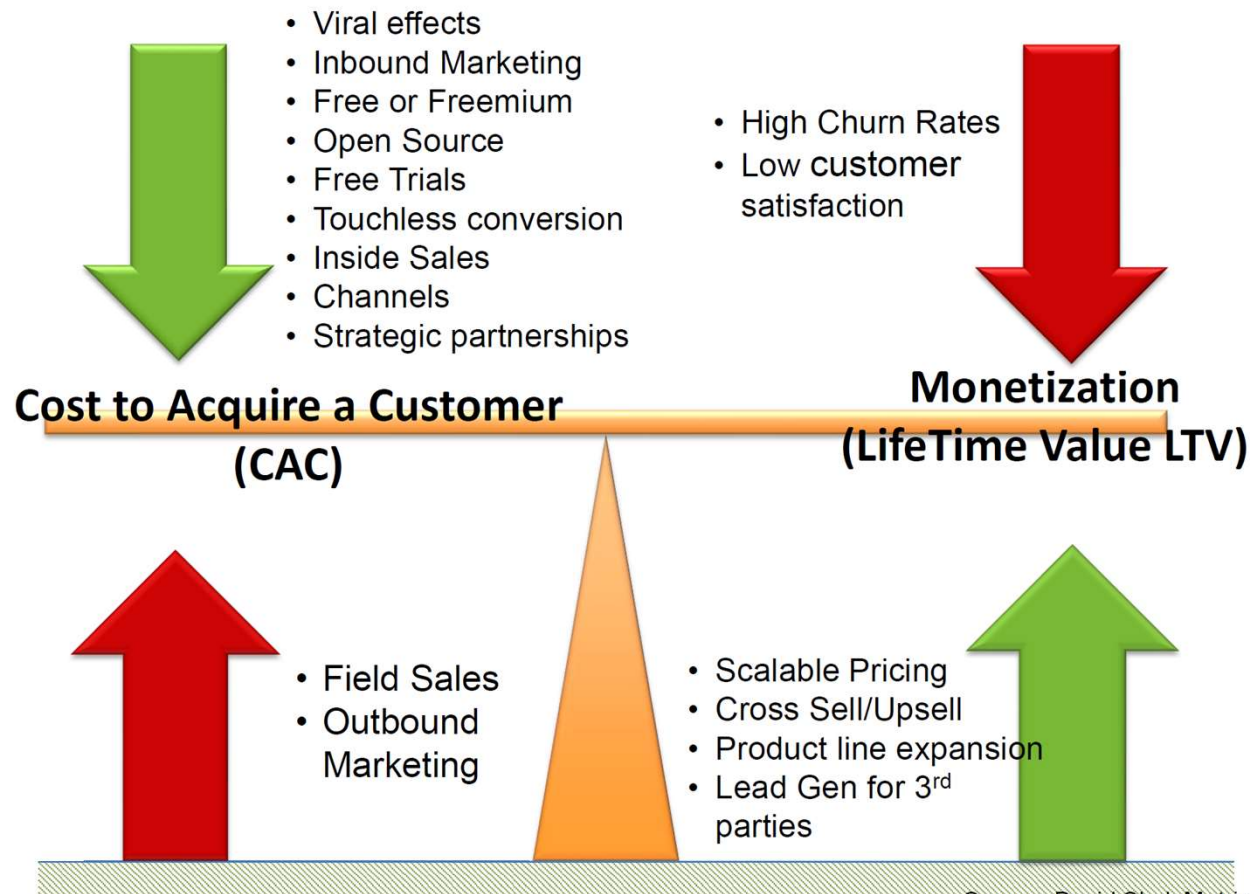
- $LTV > 3 \times CAC$
- < 12 months to recover CAC



Business Models – Connecting to customers

Customer Relationships

• Customer Acquisition Cost (CAC) vs. Customer Lifetime Value (LTV)



Source: David Skok Matrix Partners

Business Models – Connecting to customers

Revenue Streams

- **Revenue model / Pricing model**
 - Direct sales; Licensing; Subscriptions; “Razor-blade” model; Leasing; ...
- **Payment flow**
- **Define and Size Target Market**
- **Sales Projections (Market model)**
 - Top-down vs. Bottom-up approaches
 - How many must we sell? At what price?

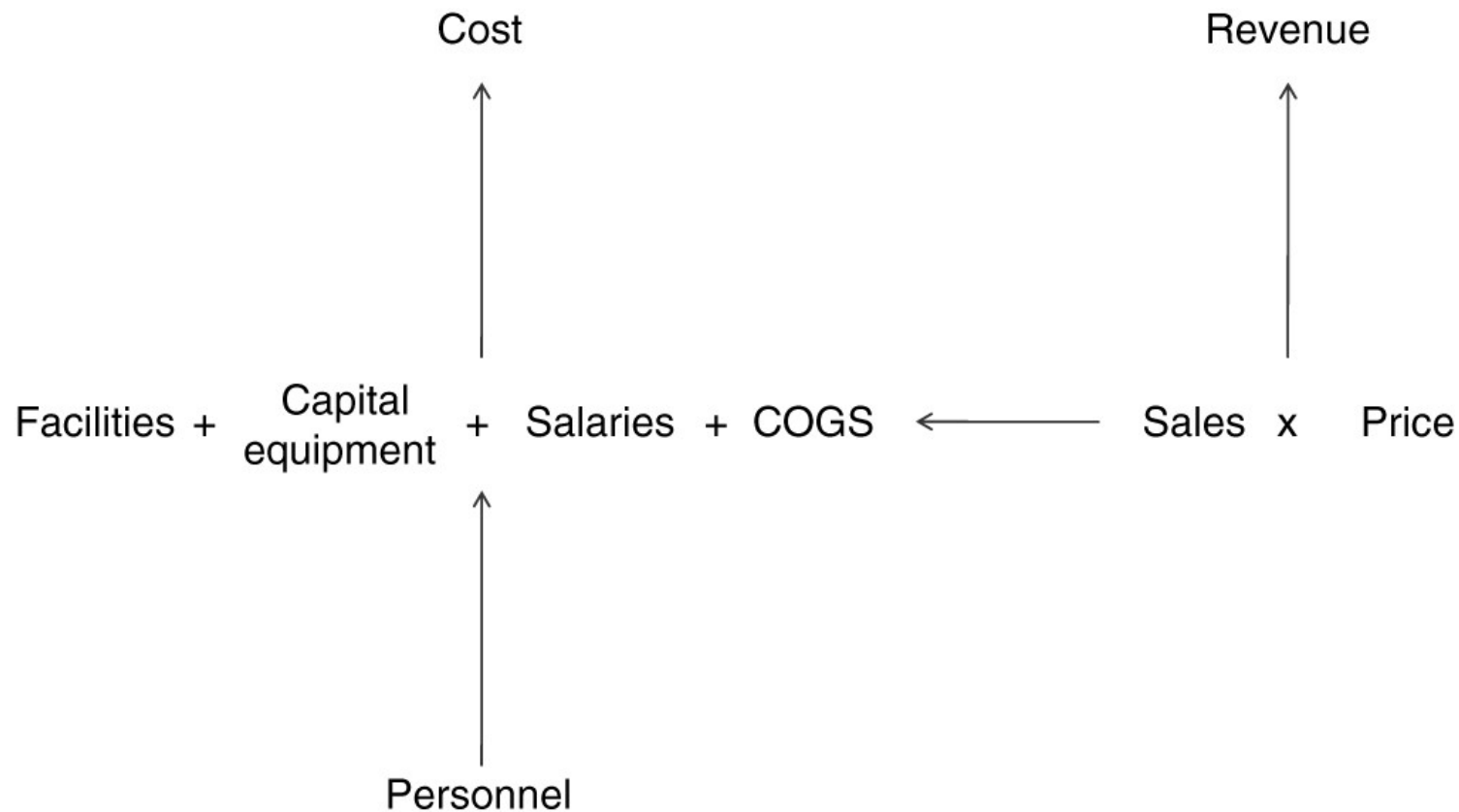
Business Models – Connecting to customers

Revenue Streams

- **Revenue model (Examples)**
 - Direct sales / asset sale: Continente; Ford...
 - Usage fee: Amazon web services; CTT...
 - Subscription fee: Netflix; Disney+...
 - Renting: Europcar; Sixt...
 - Licensing: Microsoft...
 - Intermediation fee: Airbnb...
 - Advertising: Google, Facebook...

Business Models – Connecting to customers

Revenue Streams



Business Models – Connecting to customers

Revenue Streams

- **Sales Projections (Market model)**
 - Top-down approach
 - “Back of the envelope” market estimates (based on statistics)
 - Forecasts are projected as yearly revenues
 - Outline segments of addressable market (How many customers? Will there be growth? ...)
 - Quick estimation of how attractive the market is

Business Models – Connecting to customers

Revenue Streams

- **Sales Projections (Market model)**

- Bottom-up approach

- Focus on individual sales first*

- 1. Define fundamental unit of the business (what drives the business in the market?)
 2. Consider sales cycle (time and cost of selling 1 unit)
 3. Consider adoption curve (rate of adoption)

- Focus on building/growing the business*

- 4. Build the commercial effort (how many sales reps to hire)
 5. Consider market development factors (external environment)
 6. Consider product evolution (new releases in the future)
 7. Consider other factors (seasonality, trends...)

Business Models – Connecting to customers

Revenue Streams

- **Sales Projections (example)**
 - Top-down approach
10% of a million-person market = 100 000 customers
 - Bottom-up approach
1000 customers/month 1st year => 3000/month 3rd year

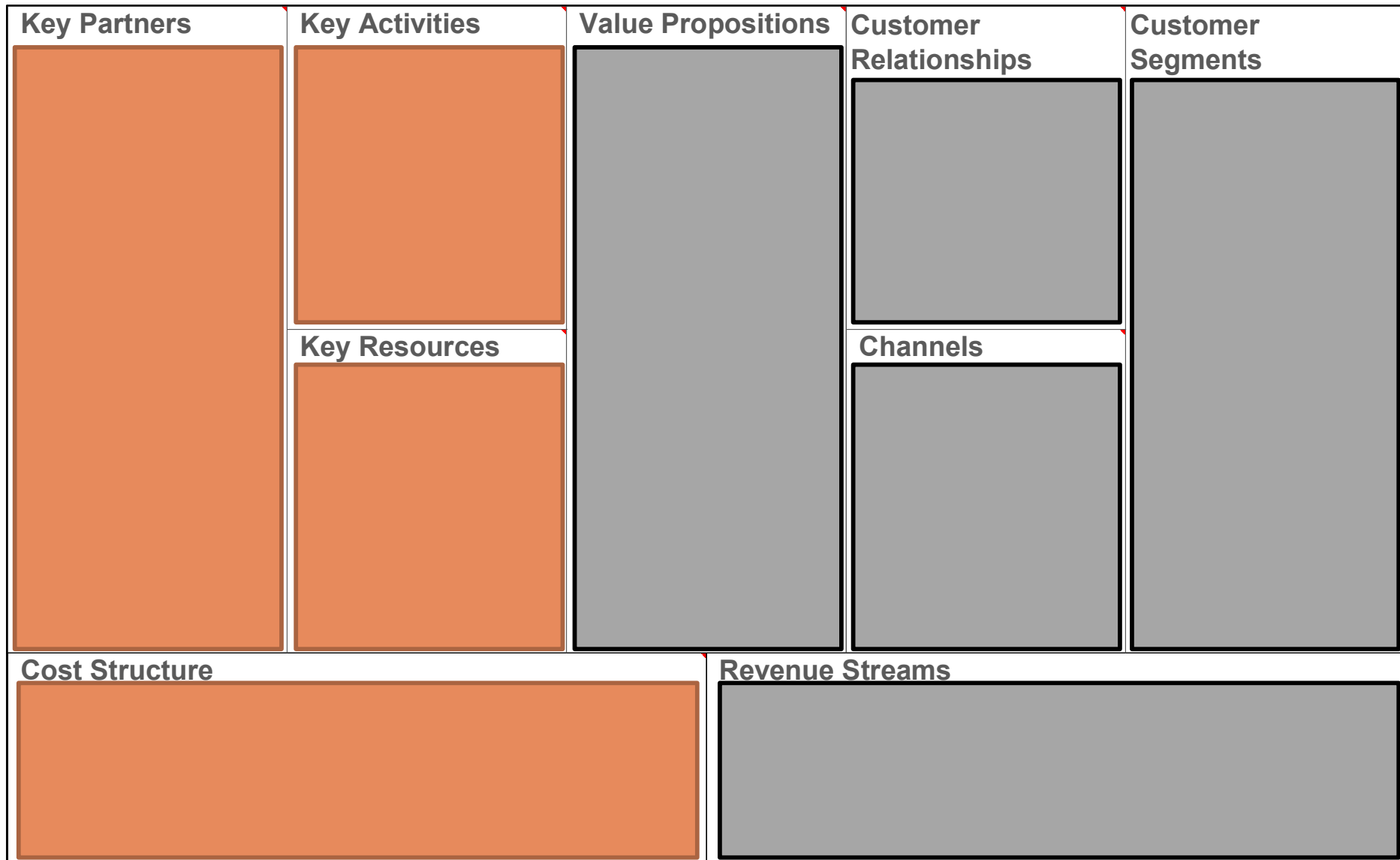
Entrepreneurship

Business Models

Operations

Business Models – Operations

Business Model Canvas



Business Models – Operations

Key Partners

- **Partners**
 - What partners will you need?
 - What type of partnerships will you have?
- **Reasons for partnering**
 - Why will you need them?
 - Why will they partner with you?
- **Risks and Costs**
 - What are the risks and impediments for you and for them?
 - What costs might be associated with the partnership?

Business Models – Operations

Key Partners

- **Partners – What type of partnerships will you have?**
 - Strategic alliances
 - Joint ventures
 - Coopetition
 - Key suppliers

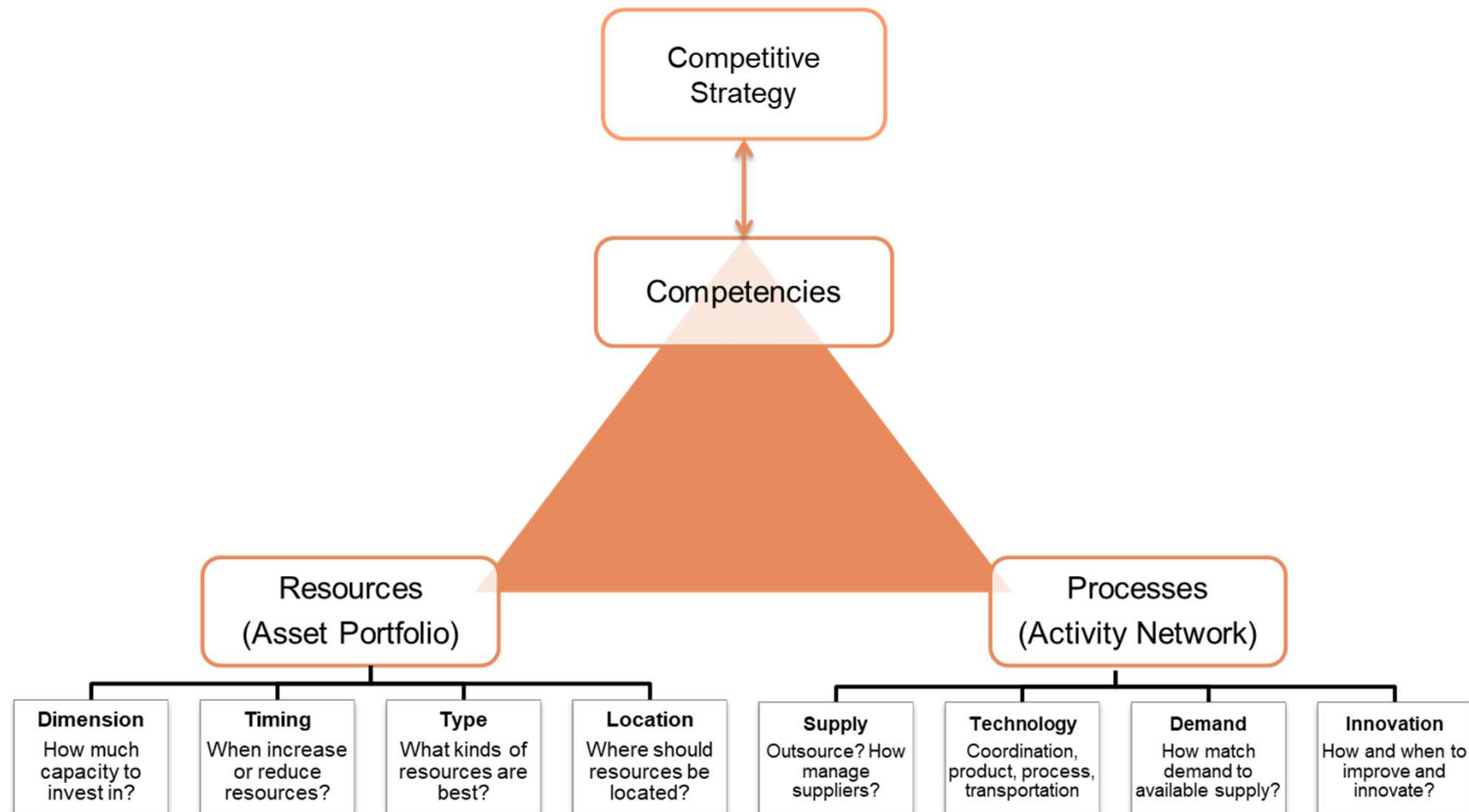
Business Models – Operations

Key Resources & Key Activities

- **Most important Resources** to make the business work
 - Physical
 - Intellectual: Trademarks; Copyrights; Secrets; NDAs; Patents...
 - Human
 - Financial
- **Most importante Activities** to make the business work
- **Alignment** among Resources and Activities, and with **Value Propositions** and **Customer Segments**

Business Models – Operations

Key Resources & Key Activities



Business Models – Operations

Costs

- Operating plan to build the business

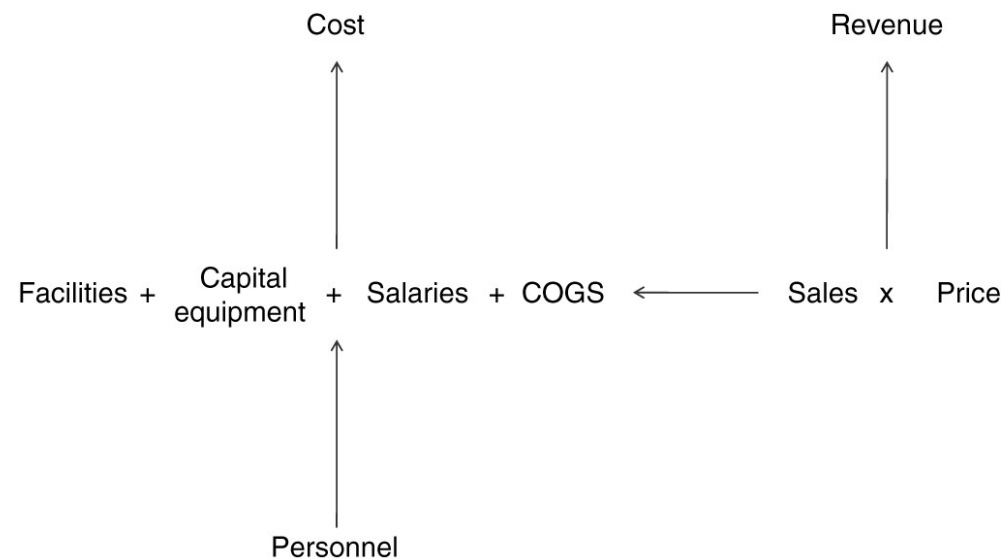
	Quarter																				Year	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	6	7
Phase 1: Proof of concept																						
Hire CEO																						
Initial catheter prototyping																						
Generator prototyping																						
Clinical proof of concept testing																						
Phase 2: Final product development																						
Finalize catheter design																						
Finalize generator design																						
Complete manufacturing design																						
Phase 3: FDA approval																						
Complete animal and bench top testing																						
First in man																						
510k approval process																						
Finalize manufacturing processes																						
FDA approval																						
Phase 4: Reimbursement																						
Payer engagement																						
Preparation of payer materials																						
Payer communication																						
Reimbursement support																						
Phase 5: Market availability																						
Initial sales force hires																						
Design training program																						
Limited pilot study and availability																						
Product generally available																						

- **Costs** associated to the operating plan

Business Models – Operations

Costs

- **Underlying questions**
 - How much does R&D cost? How long does it take?
 - How much does it cost to take it to the market?
 - How many people do we need?
 - Where will we do it (R&D and/or production)?
 - How many must we sell? At what price?



Business Models – Operations

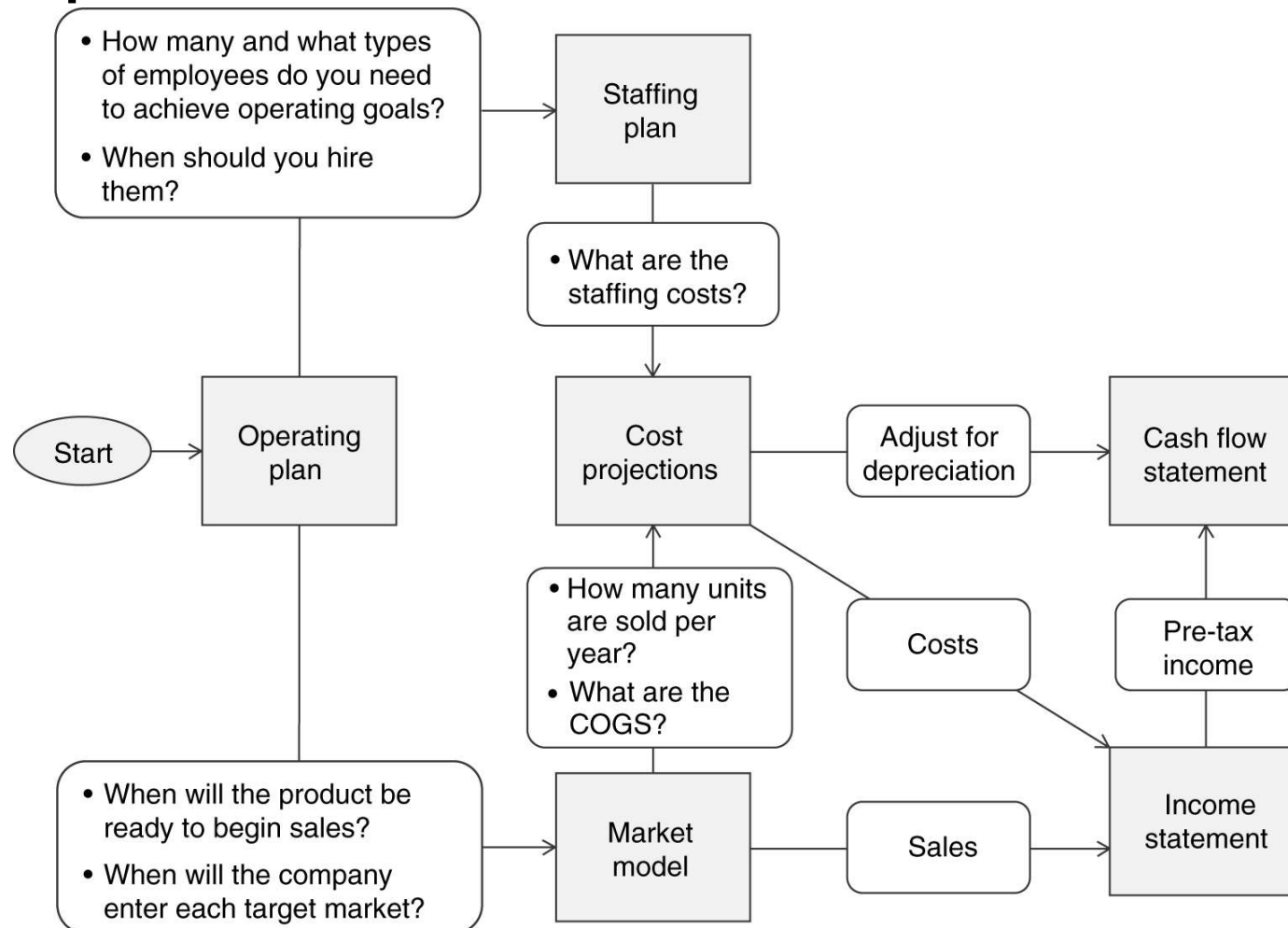
Costs

- **Six steps**
 1. Operating plan
 2. Market model (<- Revenue Streams)
 3. Staffing plan
 4. Cost projections
 5. Income statement
 6. Cashflow statement

Business Models – Operations

Costs

- **Six steps**



Entrepreneurship

Entrepreneurial Strategy – An
integrative logic

Entrepreneurial Strategy – An Integrative logic

- Entrepreneurship begins with the **Search** for a **Business Model**
- **Experiential learning** to validate hypothesis about business model (and identify patterns)

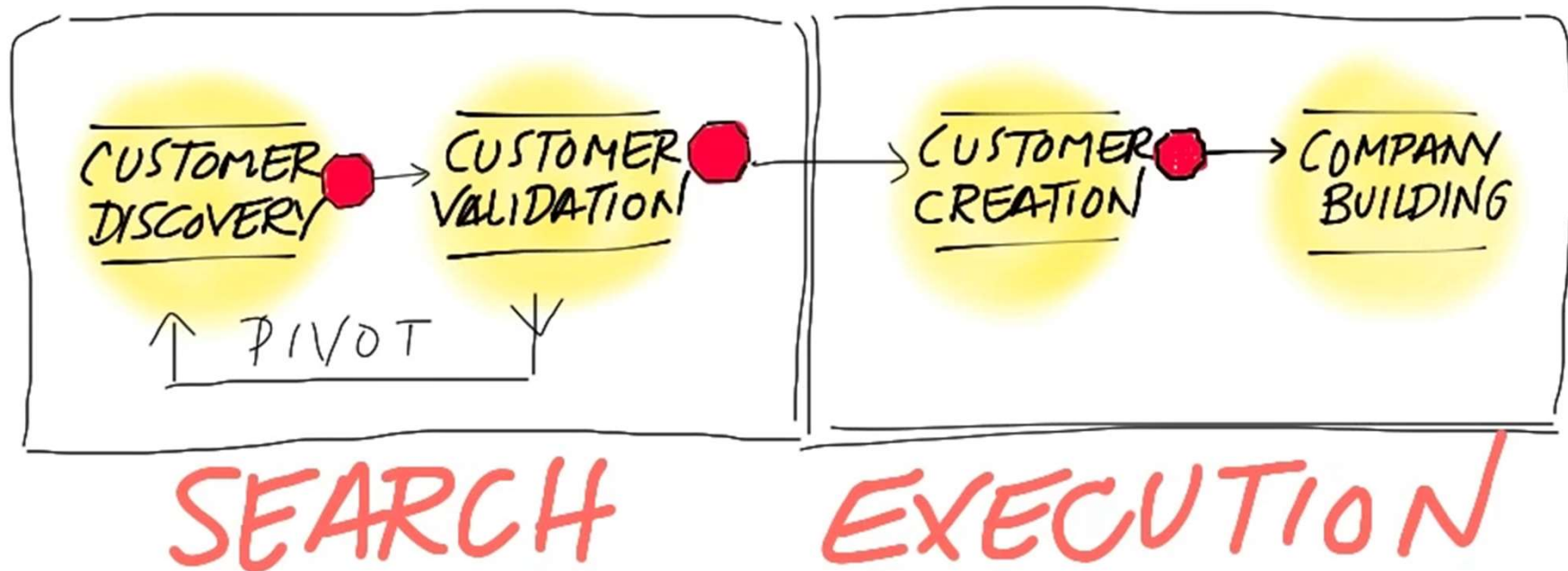
Entrepreneurial Strategy – An Integrative logic

How do we **create**, **deliver** and **capture** value?

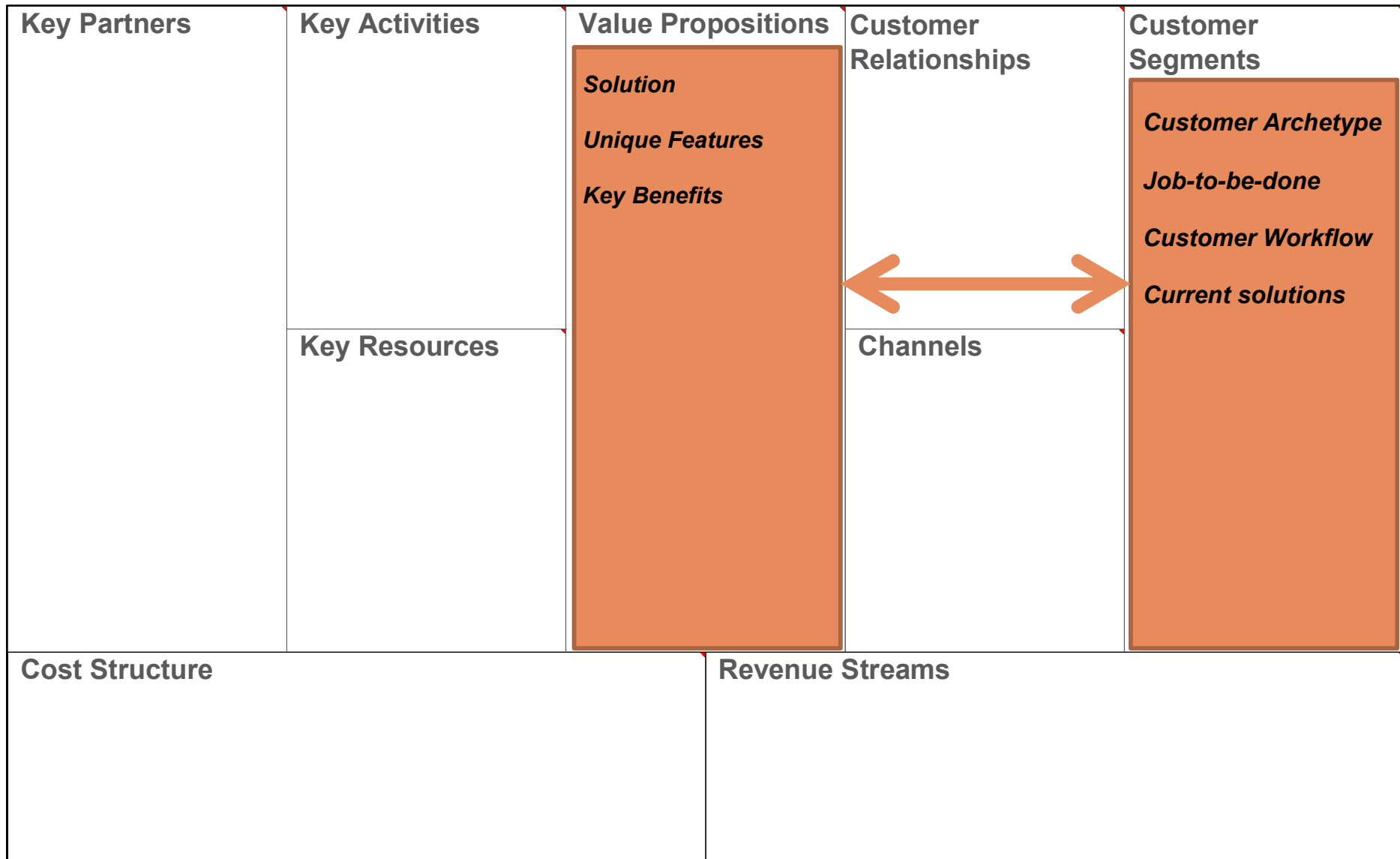
<p>Key Partners</p> <p><i>Who are the key partners and suppliers needed to make the business model work?</i></p>	<p>Key Activities</p> <p><i>What are the most important activities to make the business model work?</i></p> <p>Key Resources</p> <p><i>What are the most important assets to make the business model work?</i></p>	<p>Value Propositions</p> <p><i>What are we building and for whom?</i></p>	<p>Customer Relationships</p> <p><i>How do we get, keep and grow customers?</i></p> <p>Channels</p> <p><i>How does the product get to customers?</i></p>	<p>Customer Segments</p> <p><i>Who are our customers?</i></p> <p><i>Why would they buy?</i></p>
<p>Cost Structure</p> <p><i>What are the costs to operate the business model?</i></p>			<p>Revenue Streams</p> <p><i>How does the company make money from each customer segment?</i></p>	

Entrepreneurial Strategy – An Integrative logic

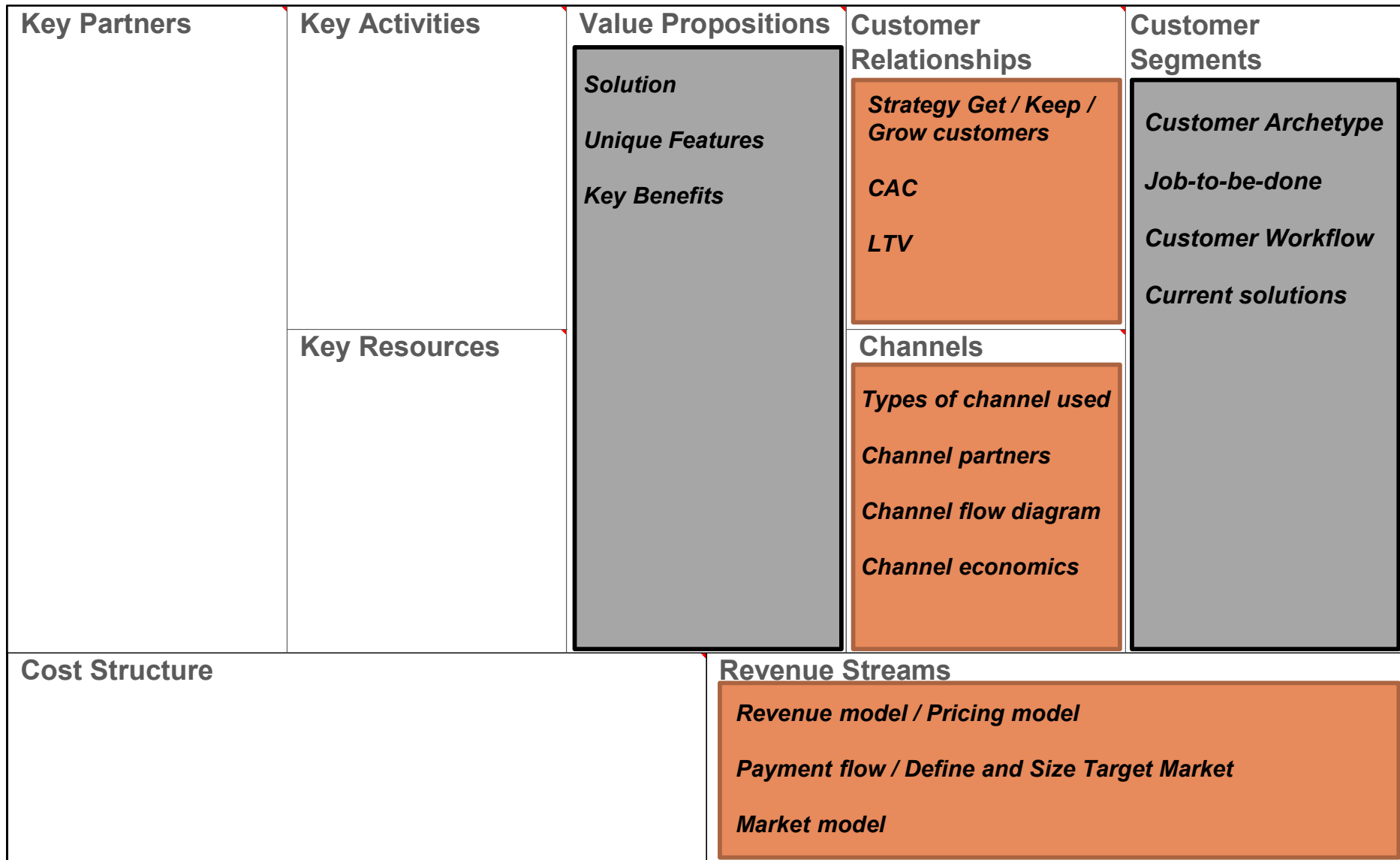
- Changing **hypothesis** into **facts**
- The **customer development** process



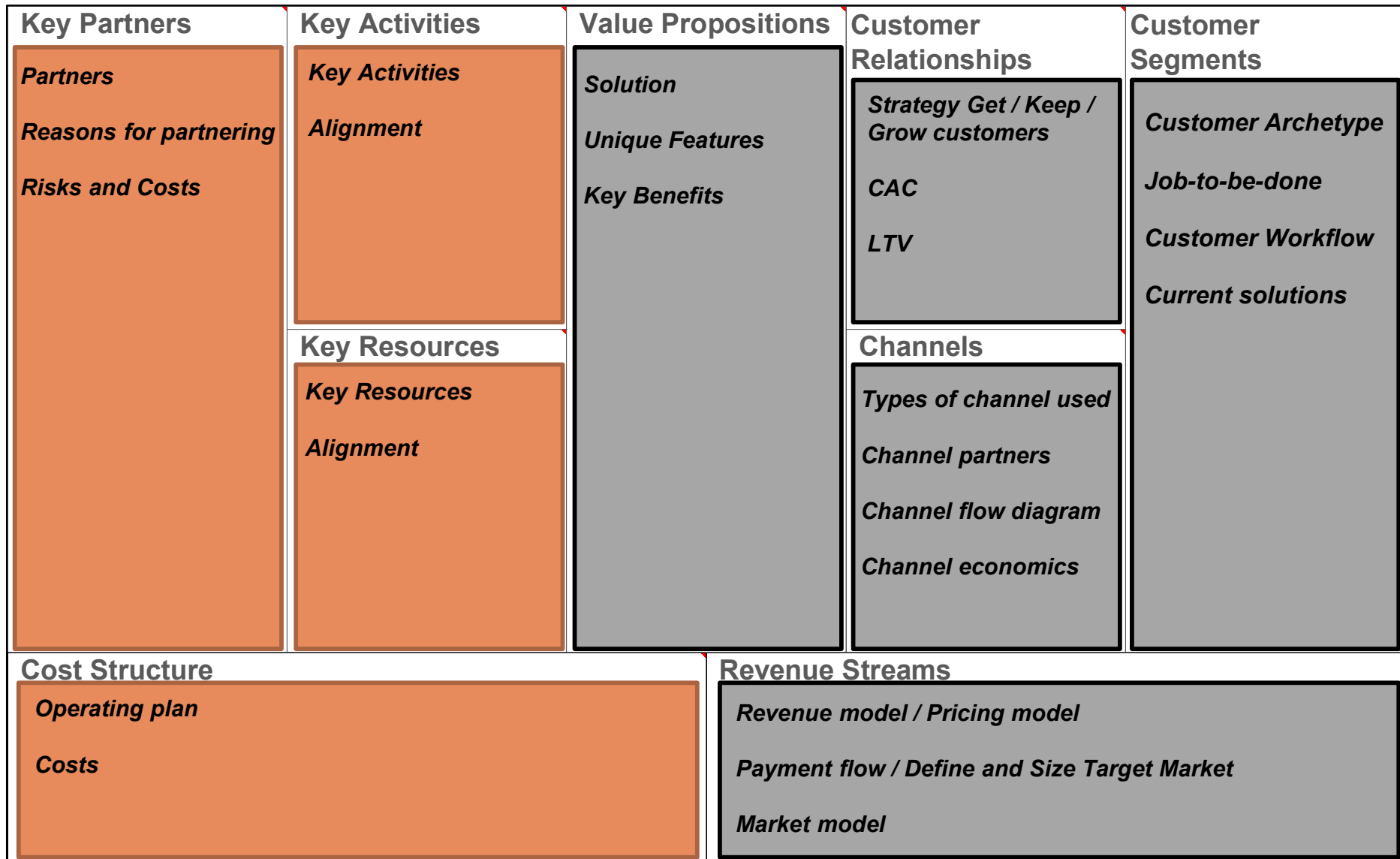
Entrepreneurial Strategy – An Integrative logic



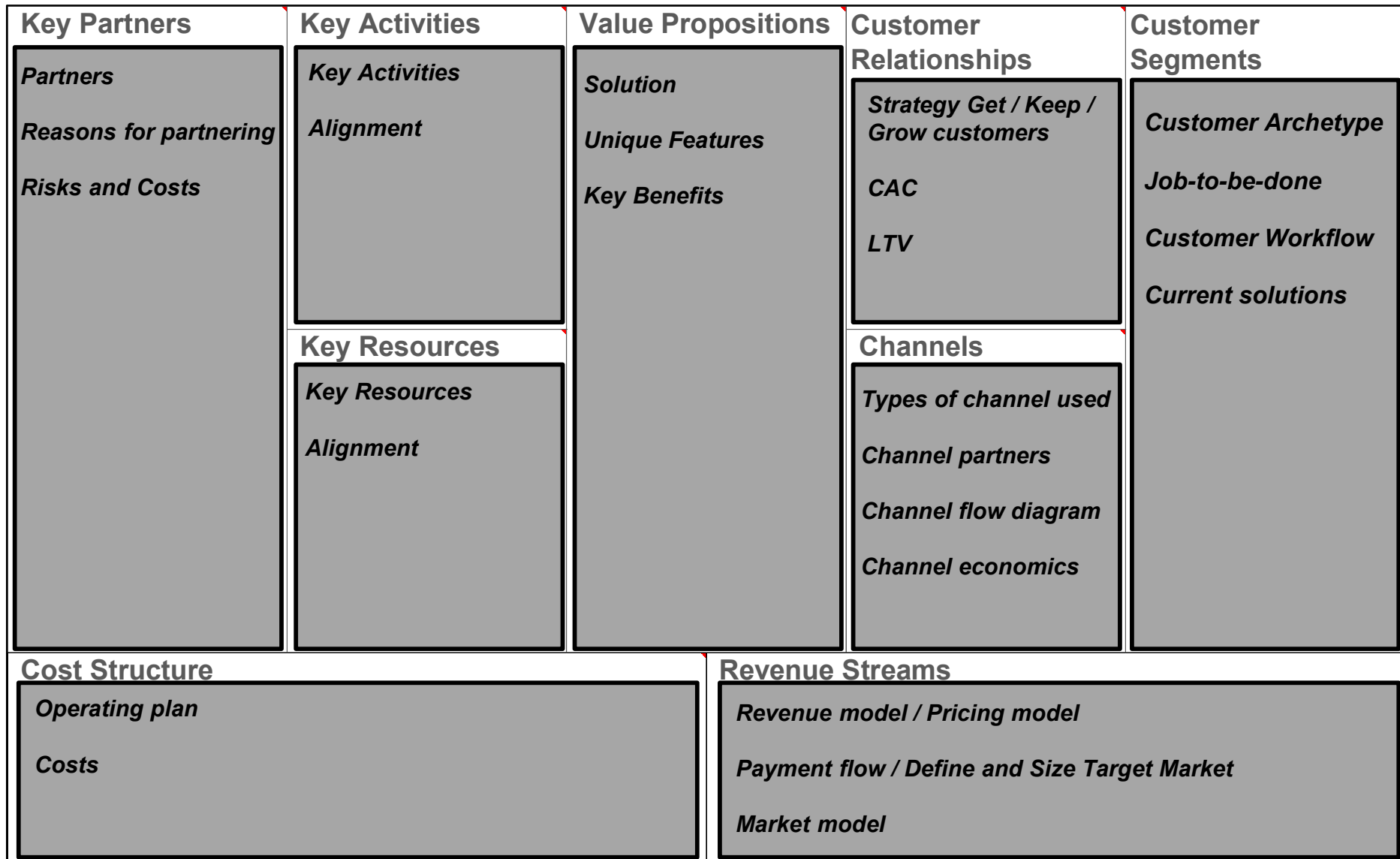
Entrepreneurial Strategy – An Integrative logic



Entrepreneurial Strategy – An Integrative logic



Entrepreneurial Strategy – An Integrative logic



References

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