

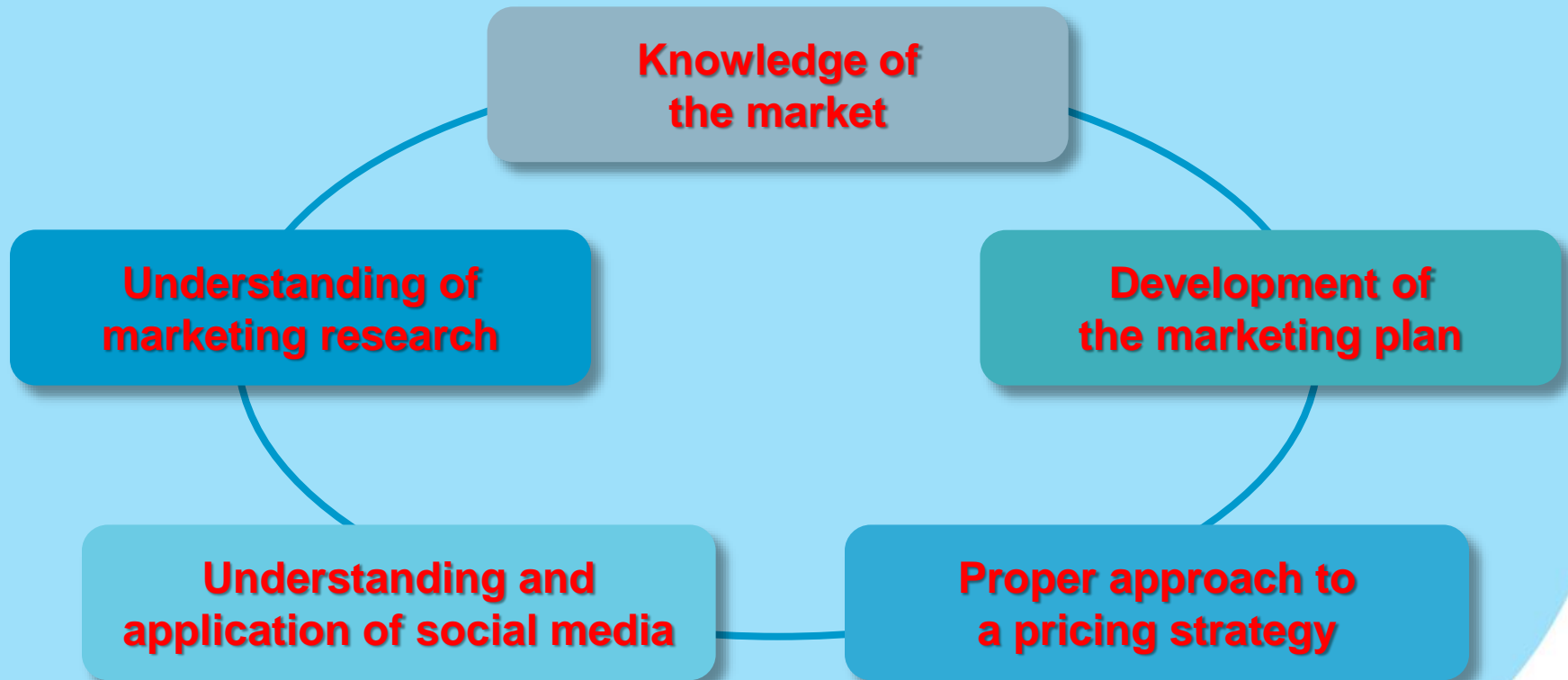
Developing the Entrepreneurial Plan

Marketing Challenges for Entrepreneurial Ventures

The New Marketing Concept for Entrepreneurs

- Shift from the 4Ps to the 4Cs:
 - From Product.....to *Cocreated*
 - From Promotion....to *Communities*
 - From Price.....to *Customizable*
 - From Place.....to *Choice*
- The Era of Generation C (as in Content)
 - Connected, creative, collaborative, and contextual.
 - The customer is central to all effective marketing activity.

The New Marketing Concept for Entrepreneurs



Common Elements in the Marketing Skills of Great Entrepreneurs

1. They possess unique environmental insight, which they use to spot opportunities that others overlook or view as problems.
2. They develop new marketing strategies that draw on their unique insights. They view the status quo and conventional wisdom as something to be challenged.
3. They take risks that others, lacking their vision, consider foolish.
4. They live in fear of being preempted in the market.
5. They are fiercely competitive.
6. They think through the implications of any proposed strategy, screening it against their knowledge of how the marketplace functions. They identify and solve problems that others do not even recognize.
7. They are meticulous about details and are always in search of new competitive advantages in quality and cost reduction, however small.
8. They lead from the front, executing their management strategies enthusiastically and autocratically. They maintain close information control when they delegate.
9. They drive themselves and their subordinates.
10. They are prepared to adapt their strategies quickly and to keep adapting them until they work. They persevere long after others have given up.
11. They have clear visions of what they want to achieve next. They can see further down the road than the average manager can see.

Marketing Terms

- Market
 - A group of consumers (potential customers) who have purchasing power and unsatisfied needs.
 - A new venture will survive only if a market exists for its product or service.
- Marketing Research
 - The gathering of information about a particular market, followed by analysis of that information.

Defining the Research Purpose and Objectives

- Where do potential customers go to purchase the good or service in question?
- Why do they choose to go there?
- What is the size of the market?
How much of it can the business capture?
- How does the business compare with competitors?
- What impact does the business's promotion have on customers?
- What types of products or services are desired by potential customers?



Gathering Information

- Secondary Data
 - Information that has already been compiled.
 - Advantage: Less expensive and available
 - Disadvantages: outdated, lacks specificity, questionable validity
 - Sources: internal and/or external sources
- Primary Data
 - Information that is gathered specifically for the research at hand.
 - Surveys
 - Experimentation

Comparison of Major Survey Research Techniques

| | Door-to-Door Personal Interview | Mall Intercept Personal Interview | Telephone Interview | Mail Survey | Internet Survey |
|--|--|---|---|--|---|
| Speed of data collection | Moderate to fast | Fast | Very fast | Slow; researcher has no control over return of questionnaire | Instantaneous; 24/7 |
| Geographic flexibility | Limited to moderate | Confined; possible urban bias | High | High | High (worldwide) |
| Respondent cooperation | Excellent | Moderate to low | Good | Moderate; poorly designed questionnaire will have low response rate | Varies depending on website; high from consumer panels |
| Versatility of questioning | Quite versatile | Extremely versatile | Moderate | Not versatile; requires highly standardized format | Extremely versatile |
| Questionnaire length | Long | Moderate to long | Moderate | Varies depending on incentive | Moderate; length customized, based on answers |
| Item non-response rate | Low | Medium | Medium | High | Software can assure none |
| Possibility for respondent misunderstanding | Low | Low | Average | High; no interviewer present for clarification | High |
| Degree of interviewer influence on answer | High | High | Moderate | None; interviewer absent | None |
| Supervision of interviewers | Moderate | Moderate to high | High; especially with central-location interviewing | Not applicable | Not applicable |
| Anonymity of respondent | Low | Low | Moderate | High | Respondent can be either anonymous or known |
| Ease of call back or follow-up | Difficult | Difficult | Easy | Easy, but takes time | Difficult, unless email address is known |
| Cost | Highest | Moderate to high | Low to moderate | Lowest | Low |
| Special features | Visual materials may be shown or demonstrated; extended probing possible | Taste tests, viewing of TV commercials possible | Fieldwork and supervision of data collection are simplified; quite adaptable to computer technology | Respondent may answer questions at own convenience; has time to reflect on answers | Streaming media software allows use of graphics and animation |

Developing an Information-Gathering Instrument

- Make sure each question pertains to a specific objective in line with the purpose of the study.
- Place simple questions first and difficult-to-answer questions later in the questionnaire.
- Ask: “How could this question be misinterpreted?”
Reword questions avoid misunderstanding.
- Avoid leading and biased questions.
- Give concise but not complete directions in the questionnaire.
- Use scaled questions rather than simple yes/no questions.

Quantitative versus Qualitative Marketing Research

- Quantitative Research
 - Involves empirical assessments that work from numerical measurements and analytical approaches to compare the results.
 - The researcher is an uninvolved observer so that the results are “objective.”
 - Requires larger samples to be able to perform the statistical analyses.
- Qualitative research
 - Requires smaller sample size as it involves the researcher into the process and is able to delve deeper into the questions with the respondents.
 - Relies less on analytical testing, and the researcher is engaged in the process, the results are considered “subjective.”

Interpreting and Reporting the Information

- Data organized and interpreted is information.
 - Tables, charts, graphs
 - Descriptive statistics—mean, mode, median
- Market research subject areas:
 - Sales
 - Distribution
 - Markets
 - Advertising
 - Products



Inhibitors to Market Research

- Mistaken beliefs that inhibit the use of marketing research:
 - **Cost:** research is too expensive.
 - **Complexity:** research techniques rely on overly complex sampling, surveying, and statistical analysis.
 - **Strategic Decisions:** only major strategic decisions need to be supported through marketing research.
 - **Irrelevancy:** research data will contain either information that merely supports what is already known or irrelevant information.

Social Media Marketing

- Social Media Marketing
 - The use of social networks, online communities, blogs, wikis, and other online collaborative media tools for marketing purposes.
- Effective Social Media Marketing
 - **Create** value with an event, a video, a tweet, or a blog entry, that attracts attention and becomes viral.
 - **Enable** customers to promote a message themselves with multiple online social media venues.
 - **Encourage** user participation and dialogue that fully engages customers with online conversations.

Key Distinctions of Social Media Marketing

- Control Versus Contributions
 - Social media marketing emphasizes audience contribution and relinquishes organizational control over large parts of the content.
- Trust Building
 - Firms cannot fully control the content users create, development of trusting relationships is required.
- Two-Way Communication
 - Social media creates an ongoing interactive conversation between the firm and the customer.

Traditional versus Entrepreneurial Marketing

| | Conventional Marketing | Entrepreneurial Marketing |
|--|--|--|
| Basic premise | Facilitation of transactions and market control | Sustainable competitive advantage through value-creating innovation |
| Orientation | Marketing as objective, dispassionate science | Central role of passion, zeal, persistence, and creativity in marketing |
| Context | Established, relatively stable markets | Envisioned, emerging, and fragmented markets with high levels of turbulence |
| Marketer's role | Coordinator of marketing mix; builder of the brand | Internal and external change agent; creator of the category |
| Market approach | Reactive and adaptive approach to current market situation with incremental innovation | Proactive approach, leading the customer with dynamic innovation |
| Customer needs | Articulated, assumed, expressed by customers through survey research | Unarticulated, discovered, identified through lead users |
| Risk perspective | Risk minimization in marketing actions | Marketing as vehicle for calculated risk-taking; emphasis on finding ways to mitigate, stage, or share risks |
| Resource management | Efficient use of existing resources, scarcity mentality | Leveraging, creative use of the resources of others; doing more with less; actions are not constrained by resources currently controlled |
| New product/service development | Marketing supports new product/service development activities of R&D and other technical departments | Marketing is the home of innovation; customer is coactive producer |
| Customer's role | External source of intelligence and feedback | Active participant in firm's marketing decision process, defining product, price, distribution, and communications approaches. |

Education to take you places

Source: Minet Schindehutte, Michael H. Morris, and Leyland F. Pitt, *Rethinking Marketing* (Upper Saddle River, NJ. 2009), p. 30.

Developing a Social Media Marketing Plan

Listen

- To determine the current social media presence

Identify

- The target market (niche)

Categorize

- Social media platforms by target market relevancy

Appraise

- The location, behavior, tastes and needs of target audience

Implement

- Choosing the right tools is accomplished by finding sites where target audience resides

Collaborate

- With platform members as means of establishing a mutually beneficial relationship

Contribute

- Content to build reputation and become a valued member, helping to improve the community

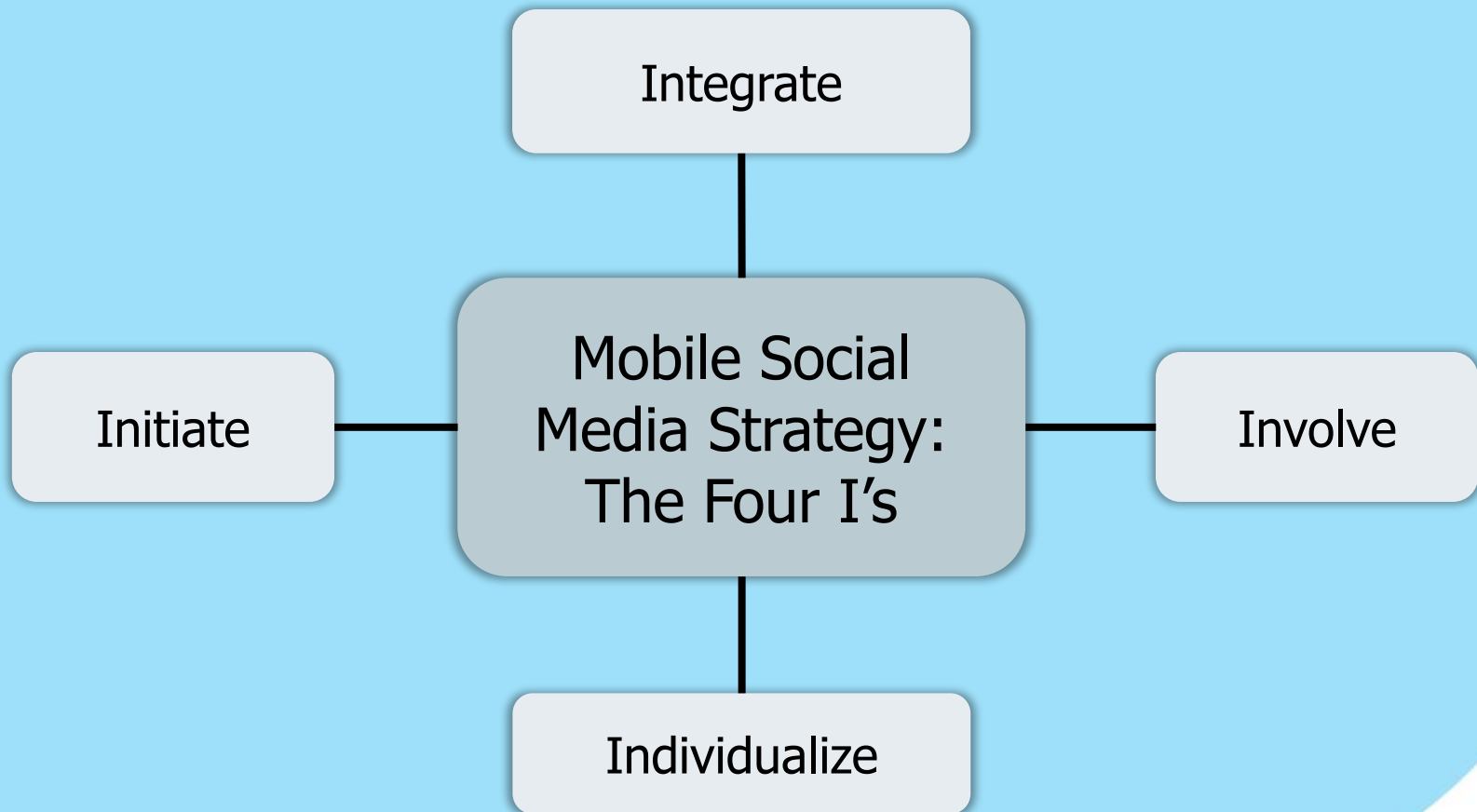
Convert

- Strategy execution into desired outcomes such as brand building, increasing customer satisfaction etc

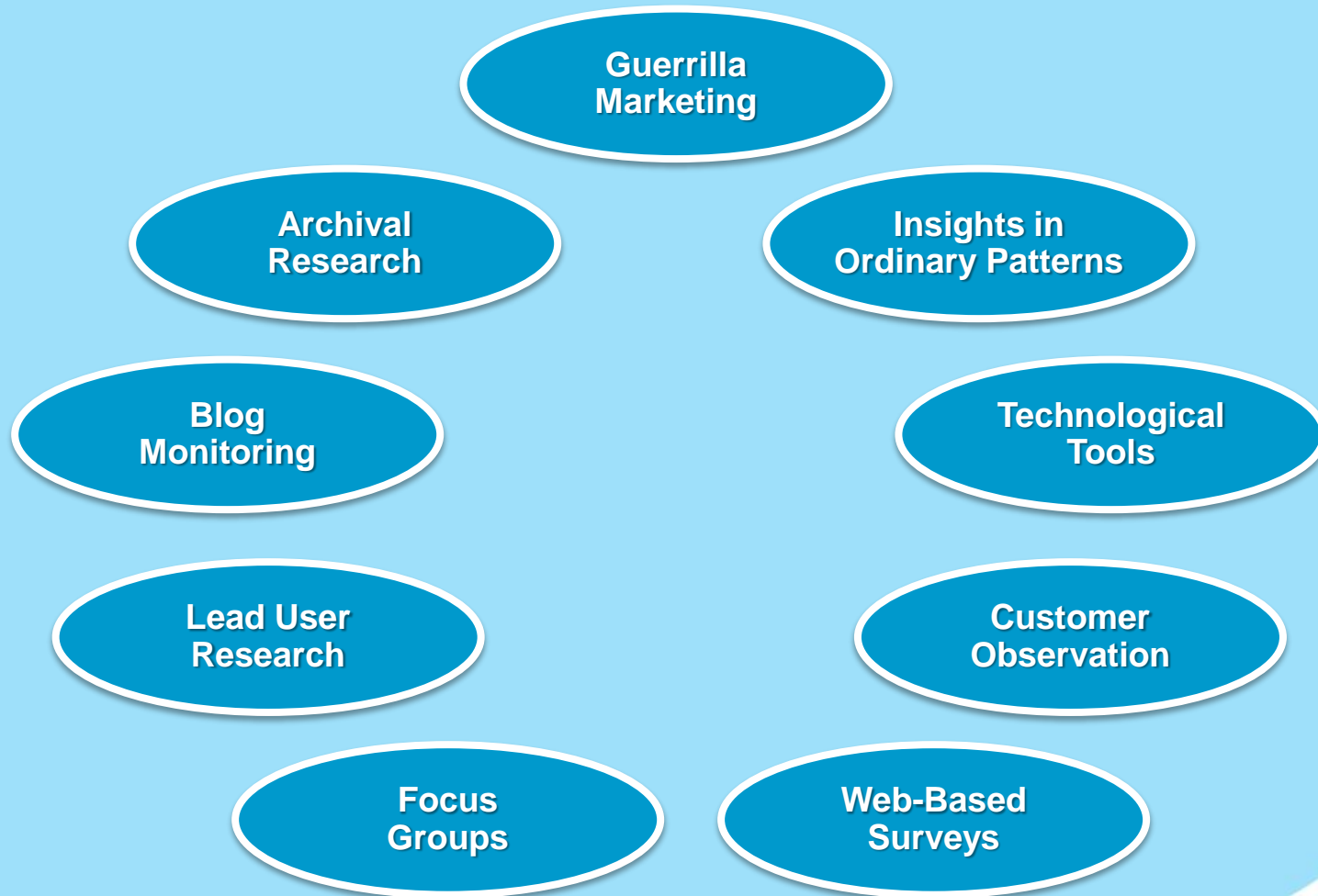
Monitor

- Evaluate the organization's social media marketing initiatives

Mobile Marketing



Entrepreneurial Tactics in Market Research



Developing the Marketing Concept

- Marketing Philosophies
 - Production-driven philosophy
 - Sales-driven philosophy
 - Consumer-driven philosophy
- Factors in Choosing a Marketing Philosophy
 - Competitive pressure
 - Entrepreneur's background
 - Short-term focus

Developing the Marketing Concept (cont'd)

- Market Segmentation
 - The process of identifying a specific set of characteristics that differentiate one group of consumers from the rest.
 - Demographic variables
 - Age, marital status, sex, occupation, income, and location
 - Benefit variables
 - Convenience, cost, style, trends (depending on the nature of the particular new venture)

Developing a Marketing Plan

- Marketing Plan
 - The process of determining a clear, comprehensive approach to the creation of customers.
- Elements of the Marketing Plan
 - Current marketing research
 - Current sales analysis
 - Marketing information system
 - Sales forecasting
 - Evaluation

Developing a Marketing Plan (cont'd)

- Current Marketing Research
 - The purpose of marketing research is to identify customers—target markets—and to fulfill their desires.
- Areas of Market Research
 - The company's major strengths and weaknesses
 - Market profile
 - Current and best customers
 - Potential customers
 - Competition
 - Outside factors
 - Legal changes

Current Sales Analysis

- Sales Research Questions:
 - Do salespeople call on their most qualified prospects on a proper priority and time-allocation basis?
 - Does the sales force contact decision makers?
 - Are territories aligned according to sales potential and salespeople's abilities?
 - Are sales calls coordinated with other selling efforts, such as trade publication advertising, trade shows, and direct mail?
 - Do salespeople ask the right questions on sales calls? Do sales reports contain appropriate information? Does the sales force understand potential customers' needs?
 - How does the growth or decline of a customer's or a prospect's business affect the company's own sales?

Marketing Information System

- Marketing Information System
 - Compiles and organizes data relating to cost, revenue, and profit from the customer base for monitoring the strategies, decisions, and programs concerned with marketing.
- Factors affecting the value of a system:
 1. Data reliability
 2. Data usefulness or understandability
 3. Reporting system timeliness
 4. Data relevancy
 5. System cost

Market Planning

- Sales Forecasting
 - The process of projecting future sales through historical sales figures and the application of statistical techniques.
- Evaluation
 - Evaluating marketing plan performance is important so that flexibility and adjustment can be incorporated into marketing planning.



The Market Plan: A Structured Approach

1. Appraise marketing strengths and weaknesses, emphasizing “competitive edge” factors.
2. Develop marketing objectives, along with short- and intermediate-range sales goals.
3. Develop product/service strategies.
4. Develop marketing strategies to achieve intermediate- and long-range sales goals and long-term marketing objectives.
5. Determine a pricing structure.

Pricing Strategies

- Factors affecting the pricing decision:
 - The degree of competitive pressure
 - The availability of sufficient supply
 - Seasonal or cyclical changes in demand
 - Distribution costs
 - The product's life-cycle stage
 - Changes in production costs
 - Prevailing economic conditions
 - Customer services provided by the seller
 - The amount of promotion
 - The market's buying power

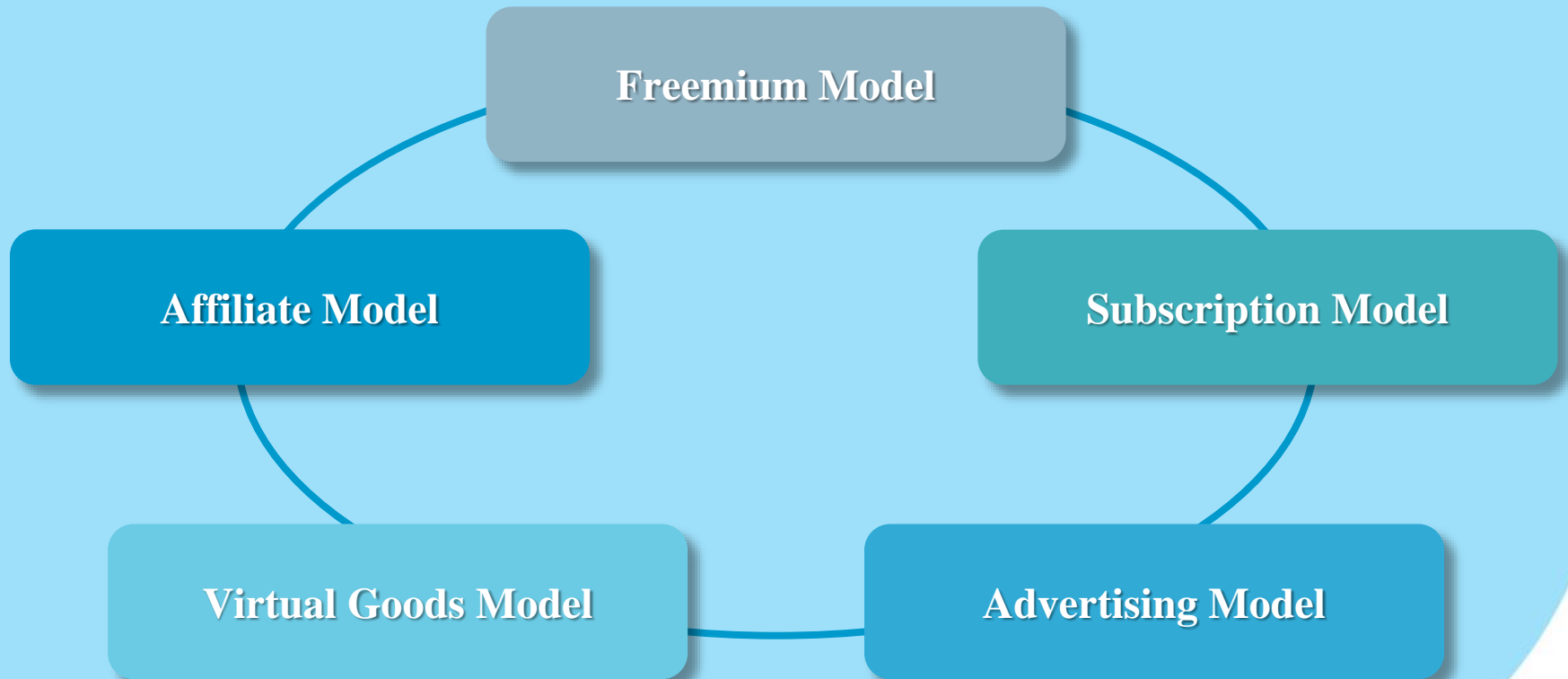
Pricing Strategies (cont'd)

- Psychological factors affecting the pricing decision:
 - The quality of a product is interpreted by customers according to the level of the item's price.
 - Customer groups shy away from purchasing a product where no printed price schedule is available.
 - Emphasis on the monthly cost of purchasing an expensive item results in greater sales than an emphasis on total selling price.
 - Buyers expect to pay even-numbered prices for prestigious items and odd-numbered prices for commonly available goods.
 - The greater the number of customer benefits the seller can convey about a product, the less will be the price resistance.

Pricing for the Product Life Cycle

| Product Life Cycle Stage | Pricing Strategy | Reasons/Effects |
|---------------------------|---|---|
| Introductory Stage | | |
| Unique product | Skimming —deliberately setting a high price to maximize short-term profits | Initial price set high to establish a quality image, to provide capital to offset development costs, and to allow for future price reductions to handle competition |
| Nonunique product | Penetration —setting prices at such a low level that products are sold at a loss | Allows quick gains in market share by setting a price below competitors' prices |
| Growth Stage | | |
| | Consumer pricing —combining penetration and competitive pricing to gain market share; depends on consumer's perceived value of product | Depends on the number of potential competitors, size of total market, and distribution of that market |
| Maturity Stage | | |
| | Demand-oriented pricing —a flexible strategy that bases pricing decisions on the level of consumer demand | Sales growth declines; customers are very price-sensitive |
| Decline Stage | | |
| | Loss leader pricing —pricing the product below cost in an attempt to attract customers to other products | Product possesses little or no attraction to customers; the idea is to have low prices bring customers to newer product lines |

Pricing in the Social Media Age



Developing the Entrepreneurial Plan

Developing an Effective Business Plan

The Importance of Planning

- Planning is essential to the success of any undertaking. Critical factors that must be addressed when planning are:
 - **Realistic goals.** These must be specific, measurable, and set within time parameters.
 - **Commitment.** The venture must be supported by all involved—family, partners, employees, team members.
 - **Milestones.** Subgoals must be set for continual and timely evaluation of progress.
 - **Flexibility.** Obstacles must be anticipated, and alternative strategies must be formulated.

What Is a Business Plan?

- A written document that details the proposed venture:
 - Describes the current status, expected needs, and projected results of the new business.
 - Covers the project, marketing, research and development, manufacturing, management, critical risks, financing, and milestones or a timetable.
 - Demonstrates a clear picture of what that venture is, where it is projected to go, and how the entrepreneur proposes it will get there—a *road map* for a successful enterprise.

Pitfalls to Avoid in Planning

- Pitfall 1: No Realistic Goals
- Pitfall 2: Failure to Anticipate Roadblocks
- Pitfall 3: No Commitment or Dedication
- Pitfall 4: Lack of Demonstrated Experience
(Business or Technical)
- Pitfall 5: No Market Niche (Segment)

Who Reads the Business Plan—And What Are They Looking For?

There are two primary audiences for a firm's business plan

| Audience | What they are looking for |
|---|---|
| A Firm's Employees | A clearly written business plan helps the employees of a firm operate in sync and move forward in a consistent and purposeful manner. |
| Investors and other external stakeholders | A firm's business plan must make the case that the firm is a good use of an investor's funds or the attention of others. |

Benefits of a Business Plan

- For the Entrepreneur:
 - The time, effort, research, and discipline required to create a formal business plan forces the entrepreneur to view operating strategies and expected results critically and objectively.
- For Outside Evaluators:
 - The business plan provides a tool for use in communications with outside financial sources.

Benefits of the Business Plan (cont'd)

- Specifically for the Financial Sources:
 - Details the market potential and plans for securing a share of that market.
 - Shows how the venture's intends to service debt or provide an adequate return on equity.
 - Identifies critical risks and crucial events with a discussion of contingency plans.
 - Contains the necessary information for a thorough business and financial evaluation.

Developing a Well-Conceived Business Plan

- The Five-Minute Reading

1. Determine the characteristics of the venture and its industry.
2. Determine the financial structure of the plan (amount of debt or equity investment required).
3. Read the latest balance sheet (to determine liquidity, net worth, and debt/equity).
4. Determine the quality of entrepreneurs in the venture (sometimes the most important step).
5. Establish the unique feature in this venture (find out what is different).
6. Read the entire plan over lightly (this is when the entire package is paged through for a casual look at graphs, charts, exhibits, and other plan components).

Putting the Package Together

- Appearance
- Length
- The cover and title page
- The executive summary
- The table of contents



Guidelines to Remember

- Keep the plan respectably short
- Organize and package the plan appropriately
- Orient the plan toward the future
- Avoid exaggeration
- Highlight critical risks
- Give evidence of an effective entrepreneurial team
- Do not over-diversify
- Identify the target market
- Keep the plan written in the third person
- Capture the reader's interest

Common Business Plan Phrases: Statement versus Reality

| Statement | Reality |
|---|--|
| We conservatively project . . . | We read a book that said we had to be a \$50 million company in five years, and we reverse-engineered the numbers. |
| We took our best guess and divided by 2. | We accidentally divided by 0.5. |
| We project a 10 percent margin. | We did not modify any of the assumptions in the business plan template that we downloaded from the Internet. |
| The project is 98 percent complete. | To complete the remaining 2 percent will take as long as it took to create the initial 98 percent but will cost twice as much. |
| Our business model is proven . . . | . . . if you take the evidence from the past week for the best of our 50 locations and extrapolate it for all the others. |
| We have a six-month lead. | We tried not to find out how many other people have a six-month lead. |
| We need only a 10 percent market share. | So do the other 50 entrants getting funded. |
| Customers are clamoring for our product. | We have not yet asked them to pay for it. Also, all of our current customers are relatives. |
| We are the low-cost producer. | We have not produced anything yet, but we are confident that we will be able to. |
| We have no competition. | Only IBM, Microsoft, Netscape, and Sun have announced plans to enter the business. |
| Our management team has a great deal of experience . . . | . . . consuming the product or service. |
| A select group of investors is considering the plan. | We mailed a copy of the plan to everyone in <i>Pratt's Guide</i> . |
| We seek a value-added investor. | We are looking for a passive, dumb-as-rocks investor. |
| If you invest on our terms, you will earn a 68 percent internal rate of return. | If everything that could ever conceivably go right does go right, you might get your money back. |

Education to take you places

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Questions to Be Answered

- Is your plan organized so key facts leap out at the reader?
- Is your product/service and business mission clear and simple?
- Are you focused on the right things?
- Who is your customer?
- Why will customers buy? How much better is your product/service?
- Do you have a competitive advantage?
- Do you have a favorable cost structure?
- Can the management team build a business?
- How much money do you need?
- How does your investor get a cash return?

Elements of a Business Plan

- Section I: Executive Summary
- Section II: Business Description
 - A. General description of business
 - B. Industry background
 - C. Goals and potential of the business and milestones (if any)
 - D. Uniqueness of product or service
- Section III: Marketing
 - A. Research and analysis
 - 1. Target market (customers) identified
 - 2. Market size and trends
 - 3. Competition
 - 4. Estimated market share

Elements of a Business Plan (cont'd)

- Section III: Marketing (cont'd)
 - B. Marketing plan
 1. Market strategy—sales and distribution
 2. Pricing
 3. Advertising and promotions
- Section IV: Operations
 - A. Identify location advantages
 - B. Specific operational procedures
 - C. Personnel needs and uses
 - D. Proximity to suppliers

Elements of a Business Plan (cont'd)

- Section V: Management
 - A. Management team—key personnel
 - B. Legal structure—stock and employment agreements, and ownership
 - C. Board of directors, advisors, and consultants
- Section VI: Financial
 - A. Financial forecast (pro forma financial statements)
 1. Profit and loss
 2. Cash flow
 3. Break-even analysis
 4. Cost controls
 5. Budgeting plans

Elements of a Business Plan (cont'd)

- Section VII: Critical Risks
 - A. Potential problems
 - B. Obstacles and risks
 - C. Alternative courses of action
- Section VIII: Harvest Strategy
 - A. Liquidity event (IPO or sale)
 - B. Continuity of business strategy
 - C. Identify successor
- Section IX: Milestone Schedule
 - A. Timing and objectives
 - B. Deadlines and milestones
 - C. Relationship of events
- Section X: Appendix or Bibliography

Helpful Hints for Developing the Business Plan

I. Executive Summary

- No more than three pages. This is the most crucial part of your plan because you must capture the reader's interest.
- What, how, why, where, and so on must be summarized.
- Complete this part after you have a finished business plan.

II. Business Description Segment

- The name of your business.
- A background of the industry with history of your company (if any) should be covered here.
- The potential of the new venture should be described clearly.
- Any uniqueness or distinctive features of this venture should be described clearly.

III. Marketing Segment

- Convince investors that sales projections and competition can be met.
- Use and disclose market studies.
- Identify target market, market position, and market share.
- Evaluate all competition and specifically cover why and how you will be better than your competitors.
- Identify all market sources and assistance used for this segment.
- Demonstrate pricing strategy. Your price must penetrate and maintain a market share to produce profits; thus, the lowest price is not necessarily the best price.
- Identify your advertising plans with cost estimates to validate proposed strategy.

IV. Operations Segment

- Describe the advantages of your location (zoning, tax laws, wage rates). List the production needs in terms of facilities (plant, storage, office space) and equipment (machinery, furnishings, supplies).
- Describe the specific operations of the venture.
- Indicate proximity to your suppliers.
- Mention the need and use of personnel in the operation.
- Provide estimates of operation costs—but be careful: Entrepreneurs underestimate their costs.

V. Management Segment

- Supply résumés of all key people in the management of your venture.
- Carefully describe the legal structure of your venture (sole proprietorship, partnership, or corporation).
- Cover the added assistance (if any) of advisors, consultants, and directors.
- Give information on how and how much everyone is to be compensated.

VI. Financial Segment

- Give actual estimated statements.
- Describe the needed sources for your funds and the uses you intend for the money.
- Develop and present a budget.
- Create stages of financing for purposes of allowing evaluation by investors at various points.

VII. Critical-Risks Segment

- Discuss potential risks before investors point them out—for example:
- Price cutting by competitors
- Any potentially unfavorable industry-wide trends
- Design or manufacturing costs in excess of estimates
- Sales projections not achieved
- Product development schedule not met
- Difficulties or long lead times encountered in the procurement of parts or raw materials
- Greater than expected innovation and development costs to stay competitive
- Provide some alternative courses of action.

VIII. Harvest Strategy Segment

- Outline a plan for a liquidity event—IPO or sale.
- Describe the plan for transition of leadership.
- Mention the preparations (insurance, trusts, and so on) needed for continuity of the business.

IX. Milestone Schedule Segment

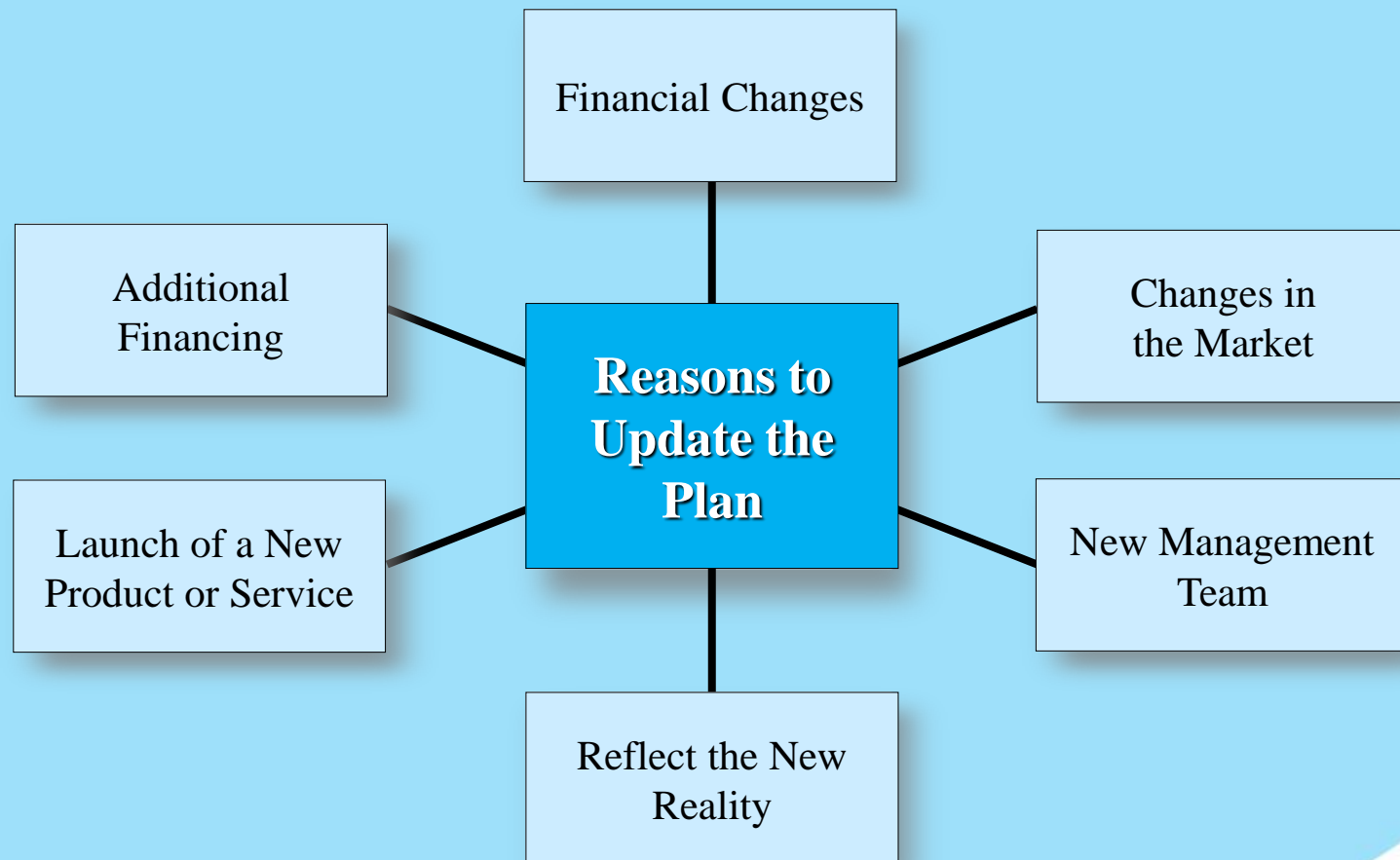
- Develop a timetable or chart to demonstrate when each phase of the venture is to be completed. This shows the relationship of events and provides a deadline for accomplishment.

X. Appendix or Bibliography

Milestone Schedule Segment

- Timetable for the activities to be accomplished:
 - Incorporation of the venture
 - Completion of design and development
 - Completion of prototypes
 - Hiring of sales representatives
 - Product display at trade shows
 - Signing up distributors and dealers
 - Ordering production quantities of materials
 - Receipt of first orders
 - First sales and first deliveries (dates of maximum interest because they relate directly to the venture's credibility and need for capital)
 - Payment of first accounts receivable (cash in)

Updating the Business Plan



Presentation of the Business Plan: The “Pitch”

- Know the outline thoroughly.
- Use key words that help recall examples, visual aids, or other details.
- Rehearse the presentation to get the feel of its length.
- Be familiar with any equipment to be used in the presentation—use your own laptop.
- The day before, practice the complete presentation by moving through each slide.



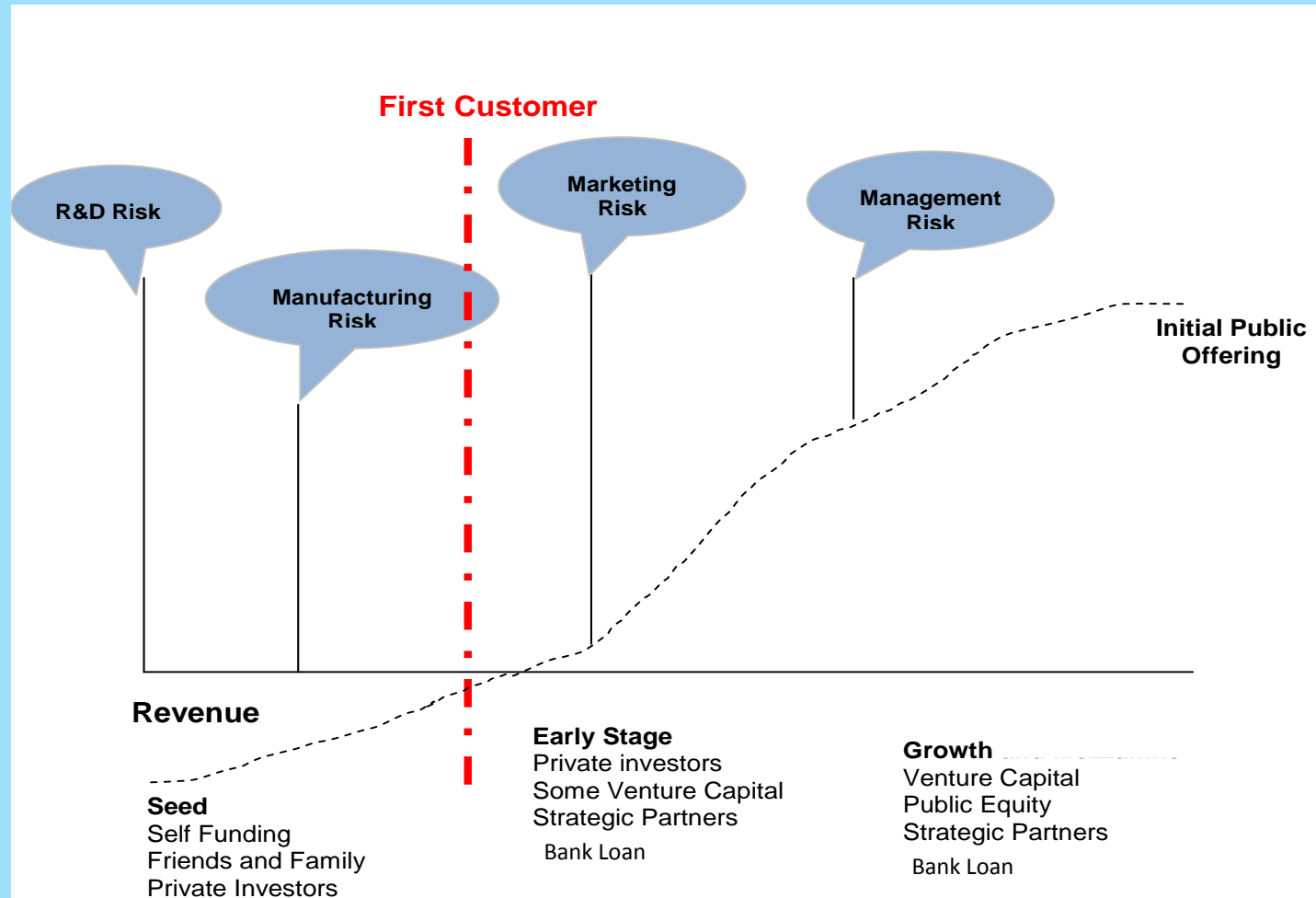
Suggestions for Presentation

- Focus on the **pain** for which your venture will be the solution.
- Demonstrate the **reachable market**.
- Explain the **business model**.
- Tout the **management team**.
- Explain your **metrics/methods of measurements**.
- Motivate the **audience**.
- Why **you** and why **now**?

Start-up Financial Strategy

Funding the Technology Start-up

Risks and Stages of Funding



Risk Points

- Seed capital stage
 - Funding for product development and business launch
 - Risk associated with technical feasibility and manufacturing
- Early stage or start-up
 - Secure first customer
 - Risk associated with capturing enough customers for product acceptance
- Growth stage
 - Focus on managing growth
 - Risk associated with systems and controls

Cost of Raising Capital

- Up-front costs: preparation of financial statements, business plan, prospectus, legal advice, marketing to potential investors
- Back-end costs: investment banking fees, legal fees, marketing costs, brokerage fees, government fees.

Bootstrapping

- Use existing resources
 - Get into business quickly to prove the concept
 - Hire as few employees as possible
 - Lease or share as much as possible
 - Use other people's resources
 - Favorable terms from suppliers
 - Customers pay a portion up front

Start-up Funding

- Risk factors for investors
 - Degree of uncertainty
 - Asymmetric information in favor of the entrepreneur
 - Asset base is principally intangible (e.g. IP, know-how)
 - Market conditions are often erratic