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**Mid Term Prep**

1. You are trying to do a feasibility analysis for your business model assignment. You realize that the “economic model” is pretty important, and also reflects the true nature of the opportunity you are evaluating. Explain, in moderate detail, the four components of the economic model. Discuss also how they need to be informed by and satisfy: 1) the needs of the target market, 2) your entrepreneurial aspirations, and 3) your differentiation from competitors. Summarize by explaining how the economic model informs the true feasibility of your opportunity.

The four components of the economic model are operating leverage, margins, revenue sources, and volume. Operating leverage is an analysis of its fixed costs versus its variable cost. Margins are the amount per unit of sale that’s left over and is available to contribute to covering the business’s fixed costs and producing a profit. Revenue sources are ways an organization can make money and can be a fixed or flexible pricing. Volumes refer to the number of transactions over time and are best with low volumes and high margins, or high margins with low volumes.

If your target market buys your product very often, you can operate at selling high volume, however if they buy your product on occasions, then you have to sell it at high margins. To differentiate from your competitors you can offer the same product at lower prices to gain more volume, or lower your fixed cost for the product so you can offer it at the same price as your competitors while increasing your margins. Entrepreneurial aspirations effect the economic model as well because how you might proceed to solving a problem will shape what type of products you sell and for what market, and therefore effect the margins, volume, and revenue drivers.

2.Compare  and  contrast  Sarasvathy’s  effectuation  and  causation.  Include  discussion  of  the   starting points and principles for each. When might you prefer causation over effectuation?

1. Describe segmenting. What is it? How does one do it? Why is it important? How does the term segmenting and targeting fit into a discussion of opportunities?

Market segmentation is to study an industry in which you intend to enter and determine the different potential target markets in that industry, and then divide it into segments based on demographic, geographic, psychographic, or behavioral segments. A firm then must rank which category is most important for it to fully understand. It is important to establish segmentation because a new firm typically has only enough resources to target one market segment initially. You can test segmentation by the likeness of needs and wants within the market, the difference of needs and want within the market, and if differences within the segment are small compared to differences across segments.

This helps firms understand what opportunities exists within the market and helps them to narrow down what opportunity they are taking advantage of in their business model.

1. New firms are frequently started by teams. What are the advantages of working in a team in the context of a new, startup firm? What are the disadvantages? If you were to start building a team for your startup, what types of things would you look for in other team members? Why? Don’t  forget  to  include  what  should  be  heterogeneous  and  homogeneous.

The advantages of working in a team, especially in a startup, are that it takes many different talents and minds to come together. For example, if you were to build a tech startup, it would take a computer-educated person, a general manager, finance oriented person, and a marketer. All of these are skills are extremely specialized, and very different from each other. However, the general skills such as a business versus an engineering mind are shared by multiple members of the team, and are the homogenous traits shared across team members.

This has its advantages because it allows for a common mindset within the group. The disadvantages arise when a decision needs to be made and everyone has a different perspective on what the decision should be, thus creating positive conflict.

1. Describe in moderate detail the four environmental trends that are most instrumental in creating business opportunities. Provide an example of each environmental trend and the type of business opportunity that it might help create.

Environmental trends are economic trends, social trends, technological advances, and political and regulatory changes. Economic trends are the income levels and disposable income your market might have, and the business cycles and spending patterns. For example if you have a business that is aimed toward kids, you would want to know of the income level of the kids parents that your toys are aimed at. Social forces are based on trends, demographic changes, level of education, and income distribution among the population. An example would include the eyeglass industry benefit on the trend of the aging population.

Technological advances involve changing technology including technological and engineering feats that allow for a solution to a problem that a company might have. An example is the introduction of PHP into the software market that allowed Facebook to be written due to its efficiency in communicating with a database. This trend also covers the new uses of technologies already created.

Political changes are trends that revolve around government stability, taxation policies, foreign trade, and legal and regulatory changes such as the introduction of analog TV’s in the US and telecommunication laws surrounding bandwidth. An example would be the regulation of digital TV’s for Time Warner made them have to give out free digital conversion boxes unless they risk losing a large portion of their market.

1. What is a feasibility analysis and what are the main components? What are the main benefits? What is primary and secondary research and how do they help in carrying out feasibility analysis?

A feasibility analysis is the process to determine if a business idea is viable. The main components are recognizing a business idea, testing the feasibility of the idea, writing a business idea, and launching the business idea. The benefits of doing the entire process is that it decreases the mistakes of jumping from identifying an idea to writing a business plan. Doing a well thought out plan also helps to establish a methodology in creating a venture.

Primary research is research that is collected by the person or persons completing the analysis, and secondary research is research around data that is already collected.

1. What is Entrepreneurship? Why is it important for society, businesses, and for you?

Entrepreneurship is the pursuit of an idea that solves a problem in a market. It’s the pursuit of new opportunities without regard to resources. It is important to society because it creates new jobs, advances a society, and eases everyday problems the people encounter. It is important for businesses because it creates new opportunities for businesses to increase their organization profits through a new technology or a different application of a business model. It is important for me because I am an inspiring entrepreneur, and studying entrepreneurship gives me somewhat of a guide in the world where extreme uncertainty exists and you don’t know where to go next.

1. All entrepreneurs need money in order to operate their firms. However, there are different methods for entrepreneurs to acquire money, including bank loans, venture capital, and family/friends. Explain these three types of financing and specifically compare and contrast them in terms of the demands placed on the entrepreneur, the entrepreneur’s need for   control, financial returns, and the amount of money needed.

Venture capital is receiving money from an angel or an investor that expects a stake in terms of equity in the company, and is normally in large amounts of money. Investors set milestones for organizations to meet before they unlock certain amounts of money called seed rounds, which delays the process of getting cash when a start up desperately needs it fast. Another drawback is that the milestones are normally influenced by the investors terms, and so you cannot always make decisions based on what you want to do. This is a low risk option because it doesn’t involve putting in your own money.

Taking a bank loan is a very risky option because of the stress you put yourself through to perform with that money or risk putting yourself in debt. It also is normally a large amount of money at once because of the financial needs of starting a venture and interest can accumulate if you don’t reach your agreements with the bank. The positives are the amount of control you have in decision making because it all yours or the teams money, and therefore there is no outside influence. You also can pick the amount of money you need and receive it instantaneously.

Friends and family can also contribute and this comes in the form of loans or investment. The hard part about this is that your family is willing to help you, and you have to keep the request in a business manner or risk putting your friends or family in financial trouble. This can damage personal relationships very quickly. This money is normally instantaneous, but not as much as a personal bank loan. However, this type of money comes with less stress because it doesn’t involve an agreement with a bank and doesn’t have interest. You also have less control than a bank loan because it involves outside sources that will ultimately want a say and stake in your venture.

1. Why do people become entrepreneurs? In what way might these differ depending on 1) the “type”  of  entrepreneur,  and  2)  the  background  (ethnicity,  gender,  employment  and  financial   situation, etc.)? Why?

People become entrepreneurs because of push or pull factors. Push factors are when the conventional of working is not attractive, and pull factors are on the virtue of the attractiveness of being an entrepreneur like being your own boss.   
These differ through the types of entrepreneur, which are aspiring entrepreneurs, salary substitute entrepreneurs, lifestyle entrepreneurs, and growth entrepreneurs.

A salary substitute entrepreneur is normally on push factors and an aspiring entrepreneur has more pull factors. Normally people that travel here from other countries have more push factors as they cannot find employment as easily in America. People in a bad financial situation are pulled toward entrepreneurship because they have nothing to lose, and are going all or nothing. People without employment are pushed towards it because they have no other means of income at the time.

1. Different geographic areas (countries, regions, cities) differ in terms of their level and type of entrepreneurship. Why? If you were in a position of power to create a new entrepreneurial ‘environment’  encouraging  high-potential/growth startups, what three specific things would you prioritize in order to get the largest number of high-potential firms?

Different areas in the world have different religions, forms of government and lifestyles. This also goes for different regions and cities. Different demographics have different levels of education, cultural perspectives, role models, and entrepreneurial training, and capital support. Also, they have different ideas of what it means to be successful.

I would prioritize having a huge necessity for e-ship, a huge diversity in regards to culture, and lots of capital to fund this environment. I would stress heavily on making sure an incubator was provided with educated entrepreneurs in residence to guide the entrepreneurial thoughts in the environment.

1. Explain contribution margin. How does the contribution margin fit in with other vital aspects of the financial performance of the firm, such as breakeven and profit? Why is the contribution margin important for understanding the economic model and strategy of the firm?

Contribution margin is the amount left over after the sale that a company can contribute back to covering the fixed costs and producing a profit. If your business has more than one revenue driver, you should figure out the contribution model for each.

This helps you to determine the breakeven point as it is a representation of the total revenue received if you were to multiply your contribution margin per unit by the amount of units moved. Take that number and subtract it by the total costs associated with the output of the organization to figure out the break-even point.

The contribution margin includes profit as well as it is what is available to contribute to turning a profit and covering fixed costs. It’s important to understand this margin entirely because it helps you build a base for your economic model. The margin allows you to see if you are making enough from selling your product or service to cover your fixed costs first and then make a profit to pay your employees and yourself.

1. What is bootstrapping? Explain its fundamental principles and what it (practically) involves. Relate it to cash flow. Provide examples from the course about how bootstrapping could be used.

Bootstrapping is covering your startup cost through using creativity, ingenuity, or other methods to obtain resources rather than borrowing money from a traditional source such as a bank or investor. This basically is finding a way to cut out external sources of money. This involves finding new ways to buy something for your business without having to cover the costs of starting up. This is the most recommended method for starting up as it gives the entrepreneur total control with little risks. This relates to cash flow as it reduces the burn rate of an organization and keeps the firm from running out of money.

An example would be Steve Jobs selling a Volkswagen to finance the initial seed money for Apple. Another example could be trading a product you produce to get a fax machine form Xerox.

13 After having earned  an  “A”  in  EEE370,  your  friends  and  family  see  you  as  being  very   knowledgeable  about  entrepreneurship.  One  of  your  friends  has  a  “great  idea”  and  wants   you to carry out an industry analysis for her. What industry factors are you going to look at in doing  this?  In  an  ideal  world  and  in  support  of  this  really  being  a  “great  idea”,  what   specifically  (!)  would  your  analysis  of  these  factors  show?  Make  sure  to  refer  to  Porter’s  five   forces as well as other factors.

I would look at the position that the venture is taking in the market, and how the firm is differentiating from its competition. I would also look at environmental trends and business trends to see if the idea is catching onto something that is trending in the market or if it is solving a problem that the market is trending towards.

Porter’s five forces would be a great framework to follow, as it is a standard for industry analysis. The five forces are threat of new competition, threat of a substitute, the bargaining power of customers and suppliers, and the intensity of competitive rivalry. It is good to have low threats, little bargaining power by outside forces, and low intensity of a competitive rival.

14. A business concept is different from both an opportunity and a business model. Explain what a business concept consists of and its components. What are the differences between features and benefits? In what ways can the firm create value for its customers?

A business concept is based on an opportunity, and is the step after you think of a new product or service. A business concept is different from an opportunity, as an opportunity is the set of circumstances that creates a problem in a market for a product service or business.

A business concept consists of four main parts. What is the product/service being offered? Who is the customer? What is the benefit? (vs. features) How do you get the product or service to the customer? Features are what your product or service is going to have, while benefits are what these features actually provide toward solving the problem. A firm can create value for its customers by providing features with benefits that satisfy a need in the market, while maintain a sustained competitive advantage.

1. What are the six distinctive parts of the entrepreneurial process? What is the relationship among the parts?

The six distinctive parts of the entrepreneurial process are to identify an opportunity, develop a business concept, assess the necessary resources, acquire the needed resources, implement, manage & harvest. The relationship among the parts is that they all lead to one another, and must be taken in succession to properly reach the final step.