

Idea to Enterprise- Theoretical Perspective

It all starts with an idea. No idea is small or big but the art is in its execution. To get started one should think about a business problem that persists in the market. Initially every one gets bundle of ideas and not be able to pick the best one. As per the study of Arnold Anderson of Demand Media, there are actually 6 stages to develop a business idea through which one has to undergo.



Creation

Brainstorming is the key to concept creation. You must also keep track of all the ideas that are generated. At this point all the ideas will be varied and potentially relevant. You must then review each idea to determine its appropriateness. Evaluate each idea and determine which one is most valuable and will generate the most profits.

Assessment

Concept assessment involves market research where information about your idea is collected and analyzed. It is essential for a small business owner to conduct market research to determine whether the concept is viable. The owner must understand

his target market, what the market needs and is looking for and what the market is willing to pay for the product or service. You must assess all aspects of the idea before moving on to the next stage.

Planning

You must create a thorough business plan. Within your business plan, you must clearly identify your business's goals. Provide information about your balance sheet, income statements and cash flow. A well-defined business plan will steer the business in the right direction and will increase the chances of having a successful product launch.

Development

During this stage, you will take your concept and put it into actual form. You will develop a prototype of your product/services that you can offer to the market. You should also create manufacturing and operations processes, plans for your marketing launch and your market testing plans.

Testing

This stage involves a test market that is as close to a real market situation as possible. You will release

your prototype into the public marketplace. Your prototype is tracked and your market test results should confirm that this is a valid idea to move forward as a product.

Launch

A successful product launch should address whether the appropriate number of products exists, whether you have correctly planned and executed your marketing activities, whether all of the appropriate documentations have been developed and whether your employees are properly trained and ready to support the product.

Let the game begin:

You need to think about the value that you are planning to offer for the customers. It should solve or serve the customer needs somehow. Your business model should drive your whole business. We will first understand what business model is and its interlocking elements and then try to look at the ways of using & applying strategies followed by an example. A business model is nothing but the logic by which organization creates, delivers and captures value. The concept of Business Model Canvas by Alexander Osterwalder & Yves Pigneur is very useful to start building a business model for your business. It gives you a proper structure to think and execute your plans.

Brief Overview of Business Model:

Customer Value Proposition:

It's a way through which you intend to help customers get an important job done. By "Job" I mean a fundamental problem in a given context that needs a solution. One need to understand the job and its underlying factors, including the process of getting the job done, then we would be able to design the offering. Value proposition is the reason why any customer switches from one company to other. Value proposition basically satisfies the customer need.

Profit Formula:

It is the blueprint that defines how the company creates value for itself by providing value to the customers.

Revenue Model:

Price times Volume (Price X Volume)

Cost Structure:

Direct Costs, Indirect Costs, Economies of Scale. The key resources required by the business model will drive cost structure.

Margin Model:

_It is the contribution needed per transaction in order to achieve desired profits.

Resource Velocity:

It is basically about how well one can utilize resources to support the expected volume and achieve anticipated profits.

Key Resources:

Key resources are the assets that the company that enables the company to perform some activities in order to deliver the value proposition to the customers. Resources could be the equipment, technology, people, channels, products, facilities etc. One should always try to have unique resource that can create competitive differentiation.

Key Processes:

One should always develop operational and managerial processes that help in delivering value in an efficient manner. It could be training, manufacturing, planning, budgeting etc. It also includes company's culture in particular to sustain and make a difference in the market.

Few examples to visualize:

Now before we get into the details of Business Model Canvas, let's just try to apply this as if we would have to really hit the market. So how does

one follow this process to create a business model? Let's look at few examples.

Imagine that you are standing on Indian roads in rainy season. You will find many bikes and scooters moving at snails pace surrounded by four wheelers. So normally the bikers have their family (Wife & 2 Children) with them and if it starts raining then it makes it terrible for them. Ratan Tata might have looked at this problem in different light. He saw the need: Providing a safer alternative for 2 wheelers such as bike and scooters. He knew that the cheapest car available would probably cost 6 times the cost of 2 wheelers and many people cannot afford to have a car. So he envisioned having the most economical car (Tata Nano) that could serve the purpose under the price band of INR 1 Lakh.

Ratan Tata knew that this couldn't be developed through the normal processes that TATA Motors would have been applying to other vehicles. So he also made sure that contractors use tools and equipment's efficiently. So he also looked at the various stages in a value chain to find out the possibility of cost reduction in conjunction with efficient processes. The only way to get the families off the 2 wheelers was to break the wealth barrier so the price band was set, thus a car under INR 1 Lakh. Another example could be of Food Trucks.

The idea broke the barrier of accessibility, as it would be available on the move. A food truck can



follow the customers depending on their needs. It would also save money, which could have been used for high rentals.

Another innovative idea to be looked is of Skype. It's based on Free-mium model; online calling is free for all the users but to call on landlines and mobiles customer has to pay. Lulu.com has revolutionized the publishing industry allowing the customers (writer) to self publish the books with other needed professional services (editing, designing, sales support, distribution, ISBN Number, PR & Media Activities etc.) by breaking the time barrier.

Let's get into the details of Business Model Canvas:

Customer Segment:

Customers are the sole reason for an organization existence. No organization can sustain long without paying customers. Every organization serves one or more distinct customer groups. Organizations directly dealing with other organizations are known as business-to-business enterprises (B2B). Organizations serving consumers are known as business-to-consumer (B2C) enterprises.

Know Your Customers

- Different customer segments may require different value, channels or relationships.
- Some customers' pay, others may not.
- Organizations often earn more from one customer segment than from other segments.

Who is your Customer?

The most important question that comes to mind is "Who is our Customer?" and it is the central part of any entrepreneurial task. It you think you have

something for everyone then it's a mass market. Coca-Cola uses a mass-market approach as it has a generic carbonated soft drink for everyone.

Many times companies focus on particular segment and target all the activities towards it. Segments are homogeneous groups with similar customer and needs. For example Coca-Cola uses a mass-market approach to get everyone drinking the "real thing". Another example is of Tulsi Ginger Tea, a speciality tea, appeals to a more narrowly defined market segment for people who are more health conscious. Segmentation of the market serves the following functions:

- To identify segments large enough to serve profitably.
- To identify segments that can efficiently be reached by marketing efforts.
- To help developed marketing programs.

By having a definite segment in mind, you can effectively aim and efficiently execute your activities to yield the most sales and profits. There are 4 major variables used in segmenting consumer markets:

- Geographic
- Demographic
- Psychographic
- Behavioural

Geographic Segmentation: Divides the market by country, state, region, country and city.

Demographic Segmentation: Divides a population based on the following measurable variables to reach a homogeneous group of people:

Age: Different generation's different wants and needs

Sex: Gender use and buying patterns

Income: The ability to purchase

Marital Status: Family needs

Family Life Cycle: Starting out, empty nesters, etc.

Education/Occupation: Indication of sophistication of the consumer

Ethnicity, Religion and Race: Particular taste and preferences

Psychographic Segmentation: Divides market by psychological differences

Lifestyle- Activities, interests and opinions.

Personality- Status seeking, risk taking, ambitious, conservative, compulsive.

However psychographic segmentation is difficult as personality variables are tougher to identify and quantify than demographics, but they can be valuable.

Behavioural Segmentation: Divides the market by observable purchase behaviours:

Usage- Amount of use, manner of use, benefits sought.

Purchase Occasion- Gift, Vacation, Seasonal, etc.

Brand Loyalty- Loyalty to one product indicates receptiveness to others

So now with these theoretical background, let's look at the sample demographic profile of coffee buyers:

- Twenty to Twenty Five years old
- College educated
- Professional
- Childless households
- Household incomes greater than INR 3 Lakh annually.

Value Proposition:

One should think of value provided as customer benefits created by set of services or products. The

ability to provide excellent value is the sole reason why customers select one organization over another.

Let's look at few examples of different value provided:

Convenience:

Saving customer's time or trouble is an important benefit. For example booking a bus ticket through redBus.in saves time. Similarly for many users, Redbox provides the convenient method for any movie rental services.

Price:

Many times customer chooses particular product/service because it saves them money. Skype provides better international voice calling services at better price as compared to other phone companies.

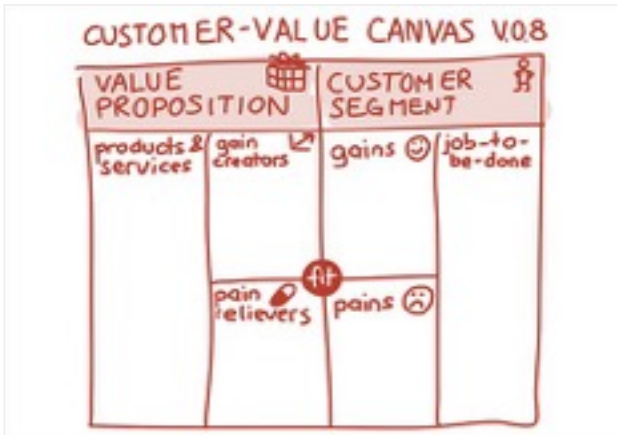
Design:

Some customers pay for excellent product or service design. If you look at the Apple products, all the products are beautifully designed for which customer pays premium price.

Cost Reduction:

Companies can help customers or other enterprises in cost reduction and increased earnings. Cloud

services managed by 3rd party, accessible via Internet is a good example.



Brand/ Status:

Some organizations provide value by helping customers feel distinguished. People worldwide are willing to pay premium price for Rolex watches. Rolex has shaped its brand to signify exclusiveness.

Template for designing Value Proposition:

businessmodelalchemist.com

The above template should be kept in mind while designing the value proposition. The right side of the customer value canvas (Customer Segment) comes through observation and market research.

Channels:

Now once you have defined your customer segment and have designed the value proposition and offering for customers, the next thing you should be focusing on how efficiently you can deliver these value propositions to your customer segment (How to reach out your customer?).

Channels perform several important functions:

1. Create awareness of product/services
2. Enable customers to purchase
3. Deliver value to the customers
4. Help potential customers to evaluate the product/services
5. Ensure post purchase satisfaction through support

The examples of typical channels:

- On-site or in-store
- Physical delivery
- Internet
- Conventional Media (Television, Radio, Newspapers etc.)
- In-person or telephone

Customer Relationships:

Organizations must clearly define the type of relationship customers prefer. It could be personal, automated, self-service or subscription. The purpose of maintaining customer relationship should be clearly defined; it could be for acquiring new customers, retain current customers or derive more revenue from existing customers.

Initially the purpose has to be very clear however it can change over the period of time. If we take an example of telecom sector in India we observe that initially all the mobile phone companies focused on acquiring customers using aggressive marketing tactics (offering free mobile, recharge coupons etc.) but as the market matured they all shifted their focus on retaining the customers and increasing revenue per customer.

Key Activities:

One needs to perform several sets of activities in order to deliver the value propositions to the customers. These activities' are important in any organization to make its business model work. Most common in terms of key activities include:

Making:

It is about manufacturing & developing products, designing/delivering/developing services and solving problems. For service companies, making

means preparing to deliver services in future as well as delivering those services.

Selling:

It is about advertising, promoting & educating customers about product/service value. Examples could be making calls, planning and executing advertisements & promotions, training etc.

Supporting:

It helps in efficient running of an organization. Examples could be hiring people, doing bookkeeping or other administrative work.

Key Resources:

In order to successfully carry out key activities, one needs to have resources. These are the resources with which any organization performs key activities. There are several types of resources:

Human Resource:

Although all organizations need people but some business models heavily depend on human resources. Any construction company, which is primarily into building construction, road construction, bridge construction; needs labour. Similarly any hospitals need people as doctors, nurses and helpers.

Physical Resources:

Land, Buildings, Equipment's, vehicles are critical components of many business models. Flipkart.com, for example requires warehouses with conveyors and other specialized equipment.

Intellectual Resources:

These are intangible assets that company has such as brands, copyrights or patents, software etc.

Financial Resources:

Financial resources include cash, lines of credit, or financial guarantees. Some companies can take debt from the banks at lower interest rate depending on the rating of the company.

Key partners:

This network helps make a business model more effective. It would not make sense for any organization to own every possible resource or perform activity by itself. Most organization go for outsourcing depending on the synergies with the partners. Partnerships can go beyond “make” & “buy” relationships. One might share customer lists with no cost to collaborate on promotional activities to benefit both parties.

Cost Structure:

Acquiring key resources, performing key activities and working with key partners, all incur costs. Cost can be approximately calculated as the

summation of cost needed to deliver value to the customers, to acquire resources, to carry out key activities. Scalability is an important factor related to cost and overall effectiveness of the model. Software firm has an advantage that once software gets developed then the replica of the same can be reproduced and distributed at lower cost. While analysing the cost structure, few things need to be looked upon:

What are the most important costs associated with our business model?

Which key resources are most expensive?

Which key activities are most expensive?

Although the goal is to minimize the cost structure in any business model but there are 2 broad categories of business models, one is **cost driven** where the aim is to bring down cost to the leanest possible figure. No frills airlines, such as Air Asia, Easy Jet, and Southwest are example of cost driven business models. Some companies are not much concerned about the cost implications and focus more on value creation. Premium value propositions with high level of personalized services form value driven business models. Luxury hotels fall into this category.

Cost structures have some characteristics:

Fixed Costs are the costs that remain same despite the volume of goods and services produced. Examples include salaries, rents, electricity etc.

Variable costs vary proportionally with the volume of goods and services produced.

Revenue Streams:

You need to look at the cash a company generates from different customer segments. You need to figure out for what value customers are willing to pay and also ways through which customer prefer paying (payment methods). It would also be beneficial to look at how are the customers currently paying and how much does each revenue stream contribute to overall revenue. It's always good to have multiple revenue streams.

There are 2 categories of revenue:

1. One time customer payments
2. Recurring payments for products/services

The business model canvas is an excellent way to create any business with fine details. This helps us to organize our ideas, create and analyse the model stage wise. One should follow the explained

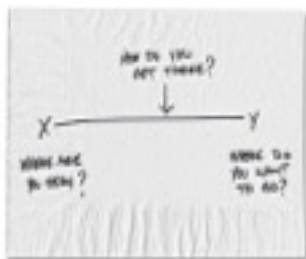


business model canvas for developing any business models.

How to Prepare a Business Plan?

A business plan is nothing but a written description of your business's prospects. It is a document that tells what you plan to do and how

you plan to do it. Business plans are normally strategic. You start here, today, with certain resources and abilities. You want to get there, a point in the future (usually three to five years out) at which time your business will have a different set of resources and abilities as well as greater profitability and increased assets. Your plan shows how you will get from here to there.



You need a business plan if you're applying for a business loan:

Most banks require it, and even those that don't strictly require it expect it. They expect it to be a summary of the business, with some predictable key points.

You need a business plan if you're looking for business investment:

The plan won't get you the investment, but not having a plan will mean you won't get investment. Investors require a business plan. They invest in the people, the idea, the track records, the market, the technology, and other factors; but they look to

the business plan to define and explain the business.

You need a business plan if you're working with partners:

The business plan defines agreements between partners about what's going to happen.

You need a business plan to communicate with a management team:

The day-to-day business routine is distracting, problems come up, opportunities appear, and commitments should be followed and tracked. How do you know where you are in business without establishing where you started and where you intended to go?

Simple Tips for Getting Started and Writing the Business Plan:

Read Sample Business Plans.

Schedule Business Planning time on the calendar.

Gather Key Financial Statements, like income statement, balance sheet and breakeven analysis. (Get some financial statement templates for start-ups)

List a goal for start date of business and also 3 years and 5 years business goals.

Identify the key strength and experience of the management team.

Create a personnel or key partners plan.

Create a marketing budget & plan and calendar of weekly, monthly and quarterly marketing activities.

Determine funding needs and possible sources.

KISS (Keep it simple and short): Highlight the key opportunities for growth and competitive advantage for company.

What is normally scene with most of the entrepreneurs, they waste too much time on numbers and devote very less time on the information that really matters to the investors. Every investor knows that financial projections for any new venture are nothing but act of imagination. Any entrepreneurial venture faces far too many variables to predict revenues and profits. Investors normally discount the figures in a business plan. So it is always advisable to incorporate most realistic projections in a business plan. Business plans have to have numbers, it's not like you ignore them completely but it should be aligned with your business model showing that you have looked at all possible options for your venture's success or failure. It should also look at the breakeven issue: At what stage of sales your business will start making profits? And also when does cash flow turn positive?

So on what factors you need to focus on while writing a Business Plan?

3. *The Team*
4. *The Opportunity*
5. *The Context*
6. *Risks & Mitigation*

The Team:

The most important part of any business plan is the team because without right team nothing matters to the investor. No matter how good your plan is, without right team the plan will not attract the investors. So the right questions to be answered would be: What do the team members know? Whom do they know? How well are they known?

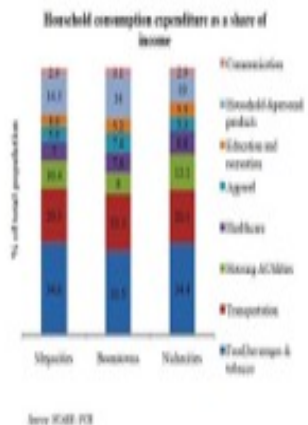
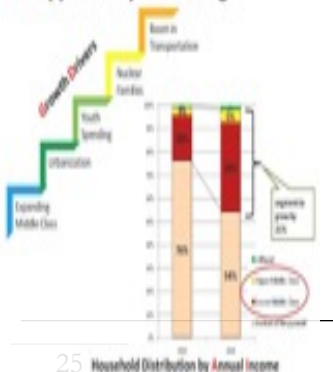
What and whom are related to insights and experiences. A business plan should clearly explain each member's knowledge about the new venture. One should talk about their experience and ability in great detail. So basically it's about the people starting out the new venture as well as the partners involved in providing the key services or as an important resource.

The Opportunity:

Here the questions to be answered are: Is the market for the venture big enough? Is the industry currently attractive or in future can become attractive? Investors are normally interested in rapidly growing market, as it is easy to gain market share as compared to the market densely populated with competitors (mature market). Investors won't invest in a company that could not achieve a significant scale in coming 5 years. You need to calculate how much money competitors are making and how much money your venture will make. You need to calculate the profit unit wise and then extrapolate that figure.

Now for example, suppose you plan to start a chain of coffee shops in India. Now how will you estimate the market size and seize the opportunity? Learning through example will help in understanding more about estimating the market size/opportunity.

The Opportunity is Growing...



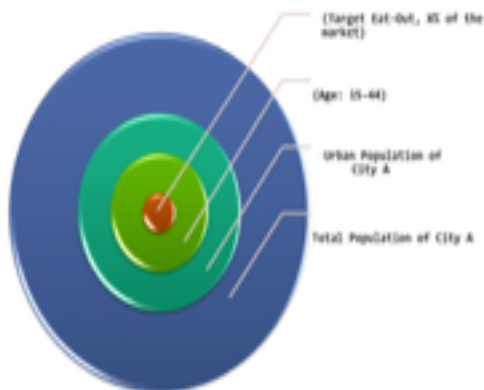
This is one way of looking at the available data and it will give the macro view of the opportunity available in the market. Now if want you to start a chain of coffee outlets in any city of India then how can you dig more deep to look out for market size and opportunity?

Of the whooping 1.2 billion Indians, roughly 302 million reside in the urban areas and based on market research ~10% of this population (i.e.31 million & growing) patronize eating out options. An average Indian person spends a between \$1 (Rs.50) to \$3 (Rs.150) daily eating out, which translates into a massive **\$20 billion (Rs.1.1 trillion)** market for restaurant's and eat-out's in Urban India. With rapid urban migration and change in lifestyles, there is no doubt this segment would grow at a significant pace in the future. Now look at the first city where you want to start your operations. Once you select a city, look for the overall population of the city and then eventually look at the urban population of that city considering you are targeting urban population. These data you will find in census report. Now do a bit of market research (survey) like how often people (of desired age group, if you intend to target any particular age group) eat/drink outside?

So if $x\%$ of the people from specified age group eat/drink outside at least once, then $x\%$ of specific age group of the urban population of the city are your total customers. Now you need to segment your market. So again you need to ask your customers (Total customers) what kind of item they eat/drink outside? And you will find some $y\%$ of your total customers go out to have coffee at coffee shops. The average price of a coffee at coffee shops can easily be found out. Now you know your target customers i.e. $y\%$ of your total customers (a numerical number) and when you multiply this by average price of coffee you will get your target segment size.



Once you have got the target segment size (in INR) then you need to decide your price band for your coffee and also how many customers you are expecting to be served at your coffee shop per day.



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Context:

Opportunities always exist in context. You need to look at the macroeconomic view of the business environment, various kinds of economic activities, inflation, exchange rates as well as interest rates. Another aspect would be taking a look at the government rules and regulations, which can affect the opportunity. A change in context can often turn an attractive opportunity to unattractive one and vice versa. In every business plan, one needs to show the awareness of the new venture's context and how can it help the specified proposal. The business plan should also highlight that the management team can handle the situation even if the context grows unfavourable. There has to be a way through which management team can turn the unfavourable context in positive direction.

Risk & Mitigation:

There could be possibly no business without having risks. So when you say it's a risk free business, just hang on; its not the line investors are interested in. Good business plans talks about the people, opportunities and the context tandem as a process. With time there could be changes in these factors as a firm evolves from being a start up to enterprise. People say entrepreneurs are risk seekers but this is a myth. Entrepreneurs always try to minimize the risks and the risks they take is the calculated one. Even if the opportunity is big having a sustainable business model but the question to be answered is "Is it possible to create competitive edge and defend it?" Risks should be listed and discussed properly and on the same lines mitigation strategy should be proposed. This is very important part of the business plan.

Business Plan Template

Information of key contact person:

Name:

E-mail:

Website:

City and Country:

Mobile number:

Landline Number:

Overview of the plan

Plan/company name:

Industry (choose one) from the following:

Customer Internet and information services

Mobile applications (products and services)

Software products, including web applications

Emerging Market Technology

IT, ITES, BPO, KPO

Others

Current revenue size:

Amount of funding required: U S D / I N R

Please provide the following details in no more than (4-5) pages

Brief business description (Executive Summary):

No more than one paragraph to describe your business and the business opportunity. If it takes more than a paragraph to describe your business, perhaps you need to revisit the drawing board. The simpler the message, the quicker you will draw investor attention.

Team

This section should answer the question 'Why is this team/entrepreneur best suited to implement this business opportunity'. Keep it simple. Include educational qualifications and work experience.

Who is your customer? What is the issue/pain point that your product/solution will address?

This section will reflect the clarity of your thinking about your business opportunity. Be precise and succinct.

What is the size of the market opportunity?

Please size the addressable market for your business, and outline key qualitative trends in the marketplace that either increase or decrease the relevance of your solution. (While describing market size please include overall market size as well as the part of the value chain addressed by you)

Product/Technology Overview

Highlight the uniqueness of the technology and application (not technical details of the solution).

What is the value proposition?

Who is going to buy your product/service and how much they would pay for it. Why would consumers choose this over others? Remember to articulate the key differentiators in customer

benefits, not an internal perspective on technology superiority (Attach Customer Value Canvas).

Business model / financial model

Business Model: This is about how you will make money from this business opportunity (example who will pay you, who will charge the customer, how, when etc.)

Financial Projections: Provide next 2-year quarterly financial projections and provide an estimate of the 5-year financial projection. Cover revenue, cost, gross margin and net cash flow.

Sales and Marketing model

How are you going to market and sell your products/services (Go to Market Model). What capability does the team have and plans to build to take the offerings to the market. What partnerships are critical to your business? What is the current status of customer and partner pipeline?

Competitive landscape

Who are you currently or in future likely to compete against and what is your plan to win this battle? Remember that competition is not just those providing a similar solution to yours, but all those addressing the same customer need through variety of approaches.

Risk factors to execution

What are the market risks, financial risks, business model risks, execution risks, etc. that may hamper your plans?

Funding objective and use of funds

Describe how much money you want to raise and what you intend doing with these funds.

Fundraising history and investors

Mention previous investment history including year, amount and investors.

Attach the Business Model Canvas Sheet



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competitions globally and has a deep interest in entrepreneurship and social innovation. He has authored, Brush Up Ur Quant, a book for management entrants & Dreams of The Mango People (Among the bestseller in 2014). Anis is an internationally rated chess player and also mentors students through various youth platforms.

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