Entrepreneurship Development

Introduction: Discover yourself-Find you Flow, Effectuation,Identify your Entrepreneurial Style

Definitions

- **Entrepreneurship** is the process of designing, launching and running a new business offering a product, process or service for sale or hire.
- The people who create these businesses are called **Entrepreneurs.**
- The project or undertaking that is especially difficult, complicated or risky is known as **Enterprises.**

- (The person/ The Actor) (The process/The Act) (The outcome)

- The word "entrepreneur" is derived from a French root ‘entreprendre’, meaning, "to undertake” and is commonly used to describe an individual who organizes and operates a business or businesses, taking on financial risk to do so.
- The term "entrepreneur" seems to have been introduced into economic theory by Cantillon (1755)
- An entrepreneur is a person who starts an enterprise. He searches for change and responds to it.
- Entrepreneur is someone who perceives opportunity, organizes resources needed for exploiting that opportunity and exploits it.

What is Entrepreneurship?

- Entrepreneurship is the process of setting up one's own business as distinct from pursuing any other economic activity, be it employment or practicing some profession. The person who set-up his business is called an entrepreneur.
- Entrepreneurs not only search for new market demand, but also create demand by studying the market

Example:

- Just opening a new restaurant is neither innovative nor entrepreneurial
- McDonald's – while it did not invent anything, it is an entrepreneurship
  - By applying mgmt concepts and mgmt techniques
  - standardizing the "product"
  - designing process and tools
  - by training on the analysis of the work to be done and then setting the standards it required
- McDonald's both drastically upgraded the yield from resources, and created a new market and a new customer

- **E:** xamine needs, wants, and problems to see how they can improve the way needs and wants are met and problems overcome.
- **N:** arrow the possible opportunities to one specific "best" opportunity.
- **T:** hink of innovative ideas and narrow them to the "best" idea.
- **R:** esearch the opportunity and idea thoroughly.
- **E:** nlist the best sources of advice and assistance that they can find.

- **P:** lan their ventures and look for possible problems that might arise.
- **R:** ank the risks and the possible rewards.
- **E:** valuate the risks and possible rewards and make their decision to act or not to act.
- **N:** ever hang on to an idea, no matter how much they may love it, if research shows it won't work.
- **E:** mploy the resources necessary for the venture to succeed.
- **U:** nderstand that they will have to work long and hard to make their venture succeed.
- **R:** ealize a sense of accomplishment from their successful ventures and learn from their failures to help them achieve success in the future.

Factors Affecting Entrepreneurship

Factors affecting Entrepreneurship

- Individual factors
- Political Factors
- Economic Factors
- Social Factors
- Technological Factors
- Ecological Factors
- Legal factors

Individual Factors

- Desire to do something
- Technical Background
- No. of years of experience
- Occupational background-
- Educational background-
- Parental background
- Sometimes children continue their family business and make some changes in the existing business in the form of some new technology, new process, new product etc. they are called second generation entrepreneur.

Political Factors

The extent and process of government direct or indirect intervention and influence on businesses in an economy.

Political factors include

- tax policy, labour law, environmental law, trade restrictions etc.
- Political factors may also include goods and services which the government wants to provide or be provided (merit goods) and those that the government does not want to be provided (demerit goods).
- Furthermore, governments have great influence on the health, education, and infrastructure of a nation.

Economic Factors

Labour: Availability of quality rather than quantity of labour. Entrepreneurship is encouraged if there is a mobile and flexible labour force.

Capital: Adequate sources of capital

Market: Understanding of latest market trends and market techniques. The size and composition of market both influence entrepreneurship

Raw material: Adequate supply of raw material

Social Factors

- Caste Factor : There are certain cultural practices and values in every society which influence the' actions of individuals. It has also defined limits to the social mobility of individuals.
- Attitude of the Society: Certain societies encourage innovations and appreciate entrepreneurs' actions and rewards like profits.
- Certain others do not tolerate changes and in such circumstances, entrepreneurship cannot take root and grow.
- Similarly, some societies have an inherent dislike for any money-making activity

- Family background : This factor includes size of family, type of family and economic status of family.

Technological Factors

- Research and Development (R&D) activity, automation, technology incentives and the rate of technological change.
- They can determine barriers to entry, minimum efficient production level and influence outsourcing decisions.
- Technological shifts can affect costs, quality, and stimulate further invention, innovation and competition.
- Technology is the art of converting the natural resources into goods and services that are more beneficial to the society.
- Due to technological development new products, new production process, new raw material ,new researches are encouraged for modernization.

Legal Factors

- Included in this component are discrimination law, consumer law, antitrust law, employment law, and health and safety law.
- These factors can affect how a company operates, its costs, and the demand for its products.

Ecological Factors

- These include environmental aspects such as weather, climate, and climate change, which may affect industries like tourism, farming, and insurance.
- Growing awareness of the potential impacts of climate change is affecting how companies operate and the products they offer, both creating new markets and diminishing or destroying existing ones.

Motivation

- The word Motivation has been derived from the word "Motive" .Motive may be defined as an inner state of our mind that moves or activates or energise and directs our behaviour towards our goal.
- Motivation is a drive to achieve a target.
- Motives are the expressions of a person's goal or needs.
- They give direction to human behaviour to achieve goals or fulfil needs.

Motivating Factors

Internal Factors

- Desire to do Something
- Educational Background
- Experience External Factors
- Government Assistance and Support
- Availability of Raw material
- Encouragement from big business houses
- Promising demand for the product.

Other Factors Responsible for Emergence of Entrepreneurship

Background Factors

- Education ,Training and Experience
- Family ,Role models and association with similar type of individuals
- Financial Conditions

Economic Factors

- Supportive Government Policies
- Availability of financial assistance from various funding bodies
- Ancillary Support: Support from Suppliers , Distributors , Retailers etc.
- Availability of Technical factors like premises , electricity, Labour

Reward

- Recognisition
- Social Status

ENTREPRENEUR is a person who:

1. rather than becoming a part of the problem, proactively tries to solve it
2. uses personal creativity and intellect to develop innovative solutions
3. thinks beyond resources presently controlled in exploiting the emerging opportunities or attending to the impending problems
4. has the conviction to convince others of one’s ideas and seek their commitment towards the project
5. has the courage of heart to withstand adversities, persist despite setbacks and be generally optimistic

ENTREPRENEUR is a person who:

- Develops and owns his own enterprise.
- Is a moderate risk taker and works under uncertainty for achieving the goal.
- Is innovative.
- Is a persuader of deviant pursuits.
- Reflects a strong urge to be independent.
- Persistently tries to do something better.
- Is dissatisfied with routine activities.
- Is prepared to withstand the hard life.
- Is determined, but patient.
- Exhibits a sense of leadership.
- Exhibits a sense of competitiveness.
- Takes personal responsibility.
- Is oriented towards the future.
- Tends to persist in the face of adversity

Barriers to Entrepreneurial

ENVIORNMENTAL BARRIERS

- Raw material
- Labour
- Machinery
- Land and Building
- Infrastructure Requirements
- Financial Barriers

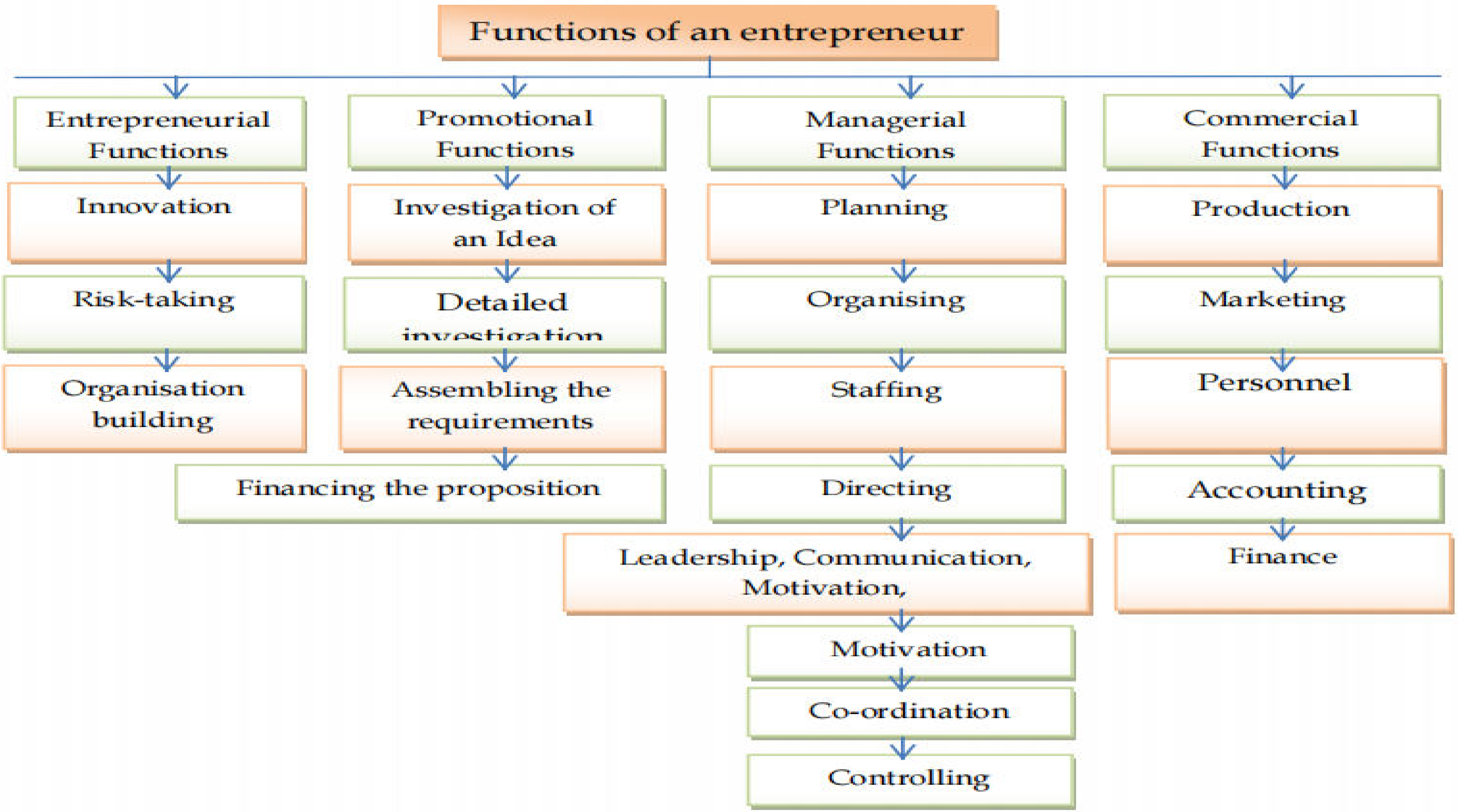
PERSONAL BARRIERS:These barriers are caused by emotional blocks of an individual.

- Lack of Confidence
- Lack of dependability on others
- Lack of Motivation
- Lack of patience
- Inability to Dream
- Sense of embarrassment

SOCIETAL BARRIERS

- Pressure from community
- Pressure from Family
- Pressure from peer group

Functions of an Entrepreneur



Entrepreneurial Myths:

- *Starting a business is easy*
- *Takes a lot of money to finance a new business*
- *Start-ups can't be financed with debt*
- *Banks don't lend money to start-ups*
- *Start business in mostly attractive industries*
- *Growth of start-up depends more on entrepreneurial talent*
- *Success is assured financially*

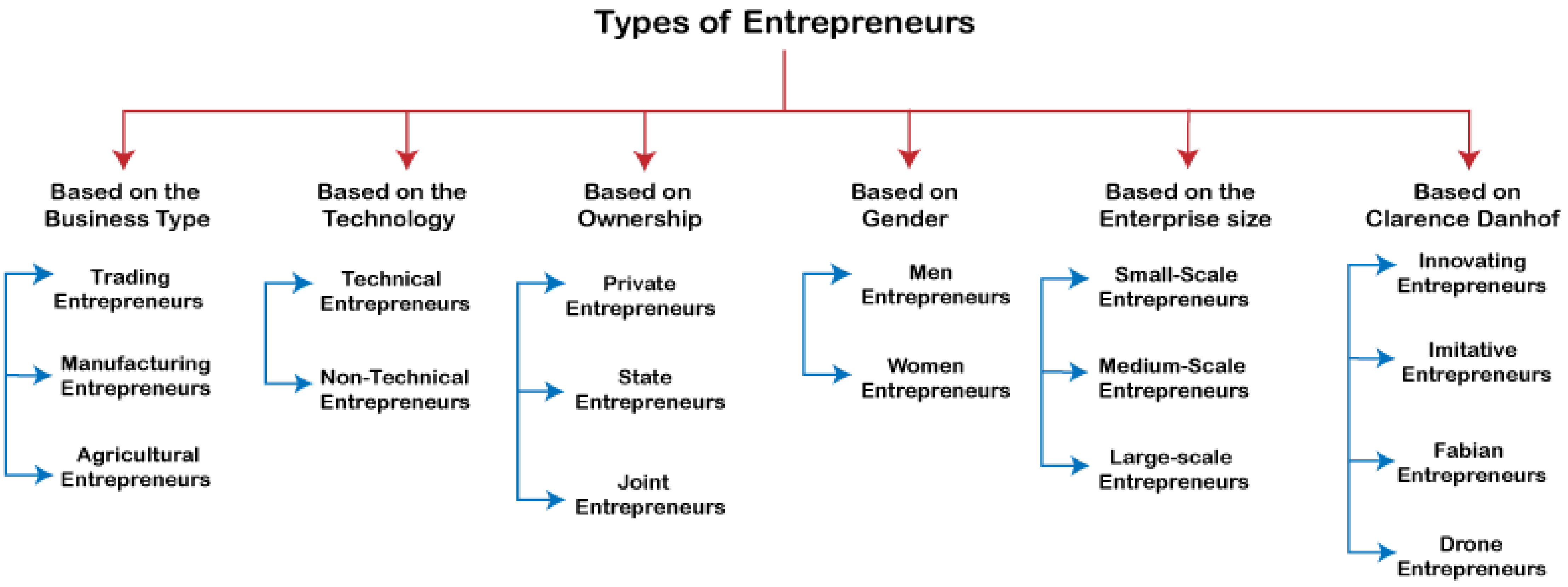
Advantages

Excitement, Originality, Independence, Rational Salary, Freedom

Disadvantages

Salary, Benefits, Work Schedule, Administration, Incompetent staff

Entrepreneurship Development



Types of entrepreneurs

According to Danh, there can be four types of entrepreneurs:

1. *Innovative*	2. *Imitative*	3. *Fabian*	4. *Drone*

On the basis of:

1. *Business*	2. *Trading*	3. *Industry*	4. *Corporate*
5. *Agriculture*			

Technology

1. *Technical*	2. *Non-technical*	3. *Professional*

Motivation

1. *Spontaneous*	2. *Induced*	3. *Motivated*

Others

1. *First generation*	2. *Second generation*	3. *Third generation*

Competency *is a set of defined behaviours that provide a structured guide enabling the identification, evaluation and development of the behaviours in individual.*

Entrepreneurial competencies can be broadly classified as:

a. *Entrepreneurial*

b. *Enterprise launching*

c. *Enterprise managing*

Types of Entrepreneurship

- Small business entrepreneurship
- Large company entrepreneurship
- Scalable start-up entrepreneurship
- International entrepreneurship
- Social entrepreneurship
- Environmental entrepreneurship
- Technopreneurship
- Hustler entrepreneurship
- Innovative entrepreneurship
- Imitative entrepreneurship
- Researcher entrepreneurship
- Cyberpreneurship

Varieties of Entrepreneurships

- Agricultural/Rural Entrepreneurship
  - FarmsNFarmers.org – soil & climate conditions to farmers
  - Barrix.in – pheromone based pest control
- Industrial entrepreneurship
- Technopreneurship
  - E-bay, Amazon, Google
- Netpreneurship
  - E-learning platforms
  - Netflix
- Green/Environmental or Ecopreneurship
  - Waste Ventures – nutrient-rich organic compost from waste
  - Fourth Partner Energy – rooftop solar projects
- Intra-corporate/firm or Intrapreneurship
- Social entrepreneurship
  - Charity: water – clean drinking water around the world
  - Better World Books – reuse or recycle books to promote literacy

Characteristics Of Entrepreneurship

1. Systematic Activity	• systematic, step-by-step and purposeful • temperamental, skill and other knowledge and competency requirements • can be acquired, learnt and developed
2. Lawful and Social	• Purpose of entrepreneurship is creation of value for personal profit and social gain legally
3. Innovation	• creation of value • introduction of new products • discovery of new markets and sources of supply of inputs • technological breakthroughs • newer forms for doing things better, cheaper, faster
4. Organiser / Leader	• knowledge about availability and location of the resources • the optimum way to combine them • product development and development of the market for the product

Characteristics of entrepreneurship

Here are a few characteristics of entrepreneurship:

- **Creativity and innovation:** Entrepreneurship is about coming up with new and creative ideas and implementing them to achieve substantial profits. For example, service innovation could be coming up with technologies to reduce cost and increase productivity.
- **Risk-taking ability:** The willingness to bear risk is the essential characteristic of entrepreneurship. Risk occurs when you implement a new idea and it fails. Entrepreneurs take calculated risks because they enjoy the challenges that come up with implementing a new idea.
- **Profit-making:** Except for social entrepreneurship, all other types of entrepreneurship work with the sole aim of making a profit. It is the reward that entrepreneurs get for taking a risk with a new idea.
- **Economic activity:** Entrepreneurship involves creating, managing and running an organization. Moreover, it generates employment and ensures optimum utilization of resources to earn the maximum profit.

Characteristics of Entrepreneur

- be passionate about achieving
- have a spirit of adventure
- have a strong need to achieve and seek personal accomplishment
- be passionate about achieving their goals
- be self-confident and self-reliant
- be goal-oriented
- be innovative, creative, and versatile
- be persistent
- be hardworking and energetic
- have a positive attitude
- be willing to take initiative
- have a strong sense of commitment

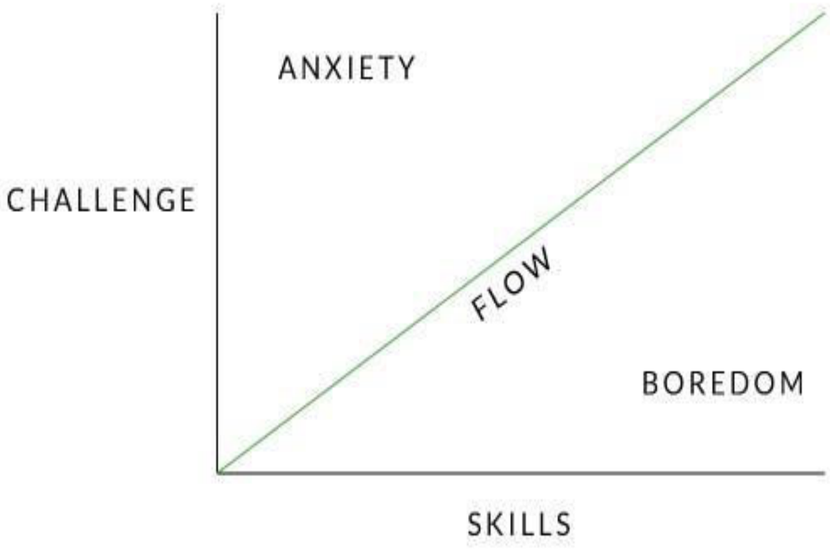
Entrepreneurship Development

A flow state of mind spontaneously arises when we become immersed in an activity so completely that we lose track of time.

1. **Music**
2. **Gaming**
3. **Learning**
4. **Hobbies**

Find Your Flow

When people find their fit, they experience a state of happiness and creativity called flow.



- **Be honest about your strengths and weaknesses**
- **Don’t let yourself get too comfortable**
- **Learn to take risks**

Entrepreneurial styles

- **1.Visionary Entrepreneur:**
- **Example:** Elon Musk, the founder of SpaceX and Tesla, is known for his visionary approach to space exploration and sustainable energy.
- **2. Serial Entrepreneur:**
- **Example:** Richard Branson, the founder of the Virgin Group, has started numerous businesses in various industries, including music, airlines, telecommunications
- **3. Lifestyle Entrepreneur:**
- **Example:** Tim Ferriss, known for his book "The 4-Hour Workweek," promotes a lifestyle that combines entrepreneurship with personal freedom and travel.
- 4. **Social Entrepreneur:**
- **Example:** Blake Mycoskie, the founder of TOMS Shoes, built a business model around the concept of "One for One," where for every pair of shoes sold, a pair is donated to a child in need.

5.Opportunistic Entrepreneur:

- **Example:** Nick D'Aloisio created Summly, a news summarization app, when he was just 15 years old after recognizing the need for concise news summaries on mobile devices. Yahoo later acquired his company.

6.Innovator/Inventor:

- **Example:** Steve Jobs, co-founder of Apple Inc., was known for his innovative products such as the iPhone, iPad, and Macintosh computer.

7.Franchise Entrepreneur:

- **Example:** Ray Kroc, who turned McDonald's into a global fast-food franchise, is a classic example of a franchise entrepreneur.

8.Solo Entrepreneur/Solopreneur:

- **Example:** Pat Flynn, the creator of Smart Passive Income, runs a successful online business independently, focusing on passive income strategies.

9. **Growth-Oriented Entrepreneur:**
   - **Example:** Jeff Bezos, the founder of Amazon, is a growth-oriented entrepreneur who aggressively expanded his company from an online bookstore into a global e-commerce and technology giant.
10. **Niche Specialist:**
    - **Example:** Brian Dean, founder of Backlinko, specializes in search engine optimization (SEO) and provides in-depth content and resources to a niche audience within the digital marketing space.
11. **Tech Entrepreneur:**
    - **Example:** Mark Zuckerberg, co-founder of Facebook (now Meta Platforms, Inc.), started a social media platform that has transformed the way people connect and share information online.
12. **Collaborative Entrepreneur:**
    - **Example:** Larry Page and Sergey Brin co-founded Google, which has formed numerous partnerships and collaborations with other technology companies and organizations over the years.

Entrepreneurial style

- CREATOR "Create a better product" Bill Gates, Steve Jobs, Richard
- SUPPORTER "Leading the Team" Jack Welch, Meg Whitman
- DEAL MAKER "Bringing People Together" Donald Trump, Rupert Murdoch
- TRADER "Buying Low, Selling High" George Soros, John Templeton
- ACCUMULATOR "Collecting Appreciating Assets" Warren Buffet
- LORD "Controlling Cash Generating Assets" Andrew Carnegie
- MECHANIC "Creating a Better System" Henry Ford, Ingvar Kamprad (IKEA),

The Principles of Effectuation

Effectuation is a way of thinking and decision-making that is based on the idea that entrepreneurs create their future by taking action and making things happen.

Bird In Hand Principle

Affordable Loss Principle

Crazy Quilt Principle

Lemonade Principle

Pilot in the Plane Principle

Effectual Cycle

Bird In Hand Principle

- When expert entrepreneurs seek to build a new venture, they start with their means. These means can be grouped into three categories:
- Who I am—my traits, tastes, and abilities
- What I know—my education, training, expertise, and experience
- Who I know—my social and professional networks.
- Using a combination of these means, the entrepreneur begins to imagine possibilities and take action.

Affordable Loss Principle

In much of the business world, the manager in charge of launching a new product analyses the market and chooses segments with the highest expected value. It is a natural reflex that is the result of years of training around a single mantra: maximize returns by selecting the optimal strategy for your target. Expert entrepreneurs turn this logic on its head—they think in terms of affordable loss rather than expected returns.

Crazy Quilt Principle

The crazy quilt principle of effectual reasoning is the focus on building partnerships rather than beating competitors. Since entrepreneurs tend to start the process without assuming the existence of a predetermined market for their idea, they don’t know who their competitors will be, so detailed competitive analyses have little value. Instead, entrepreneurs generally take the product to the nearest potential customer.

Lemonade Principle

If you come across lemons, make lemonade! The third principle of effectual reasoning is at the heart of entrepreneurial expertise—the ability to turn the unexpected into the profitable. Expert entrepreneurs learn not only to work with surprises but also to take advantage of them.

Pilot in the Plane Principle

The struggle for personal control is as old as humankind itself—primitive and innate. There is abundant evidence that most people desire control of the events in their lives, indeed over their lives, and that such strivings for control span history and cultures.

Focus on today, not next year.

Effectual Cycle

The entrepreneur's means provide the starting point. The action begins in earnest when the entrepreneur begins interacting with people. Sometimes the starting point of that interaction is an idea, a provisional goal the entrepreneur uses to initiate the interaction and complete the cycle.

Business Activities

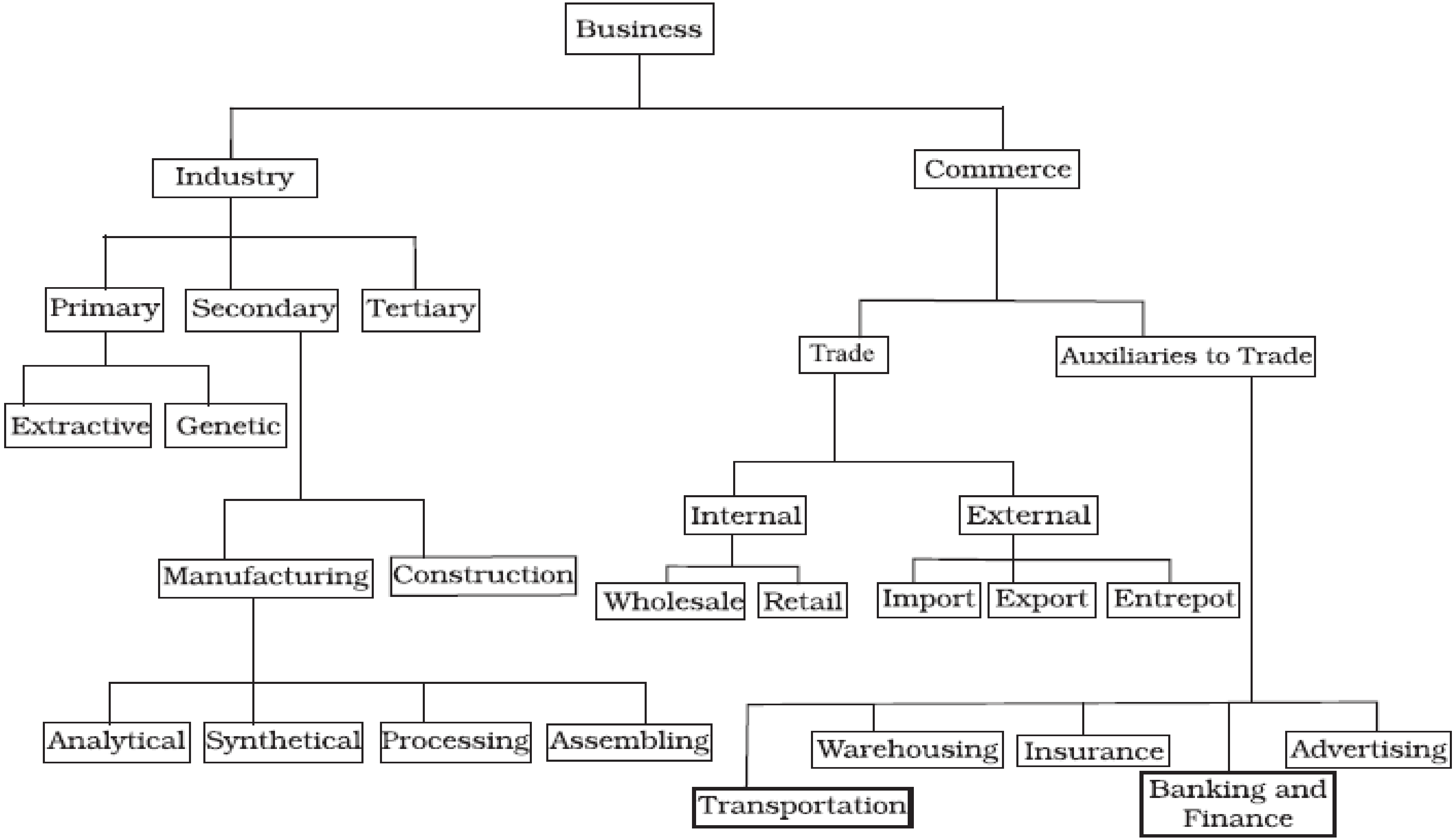
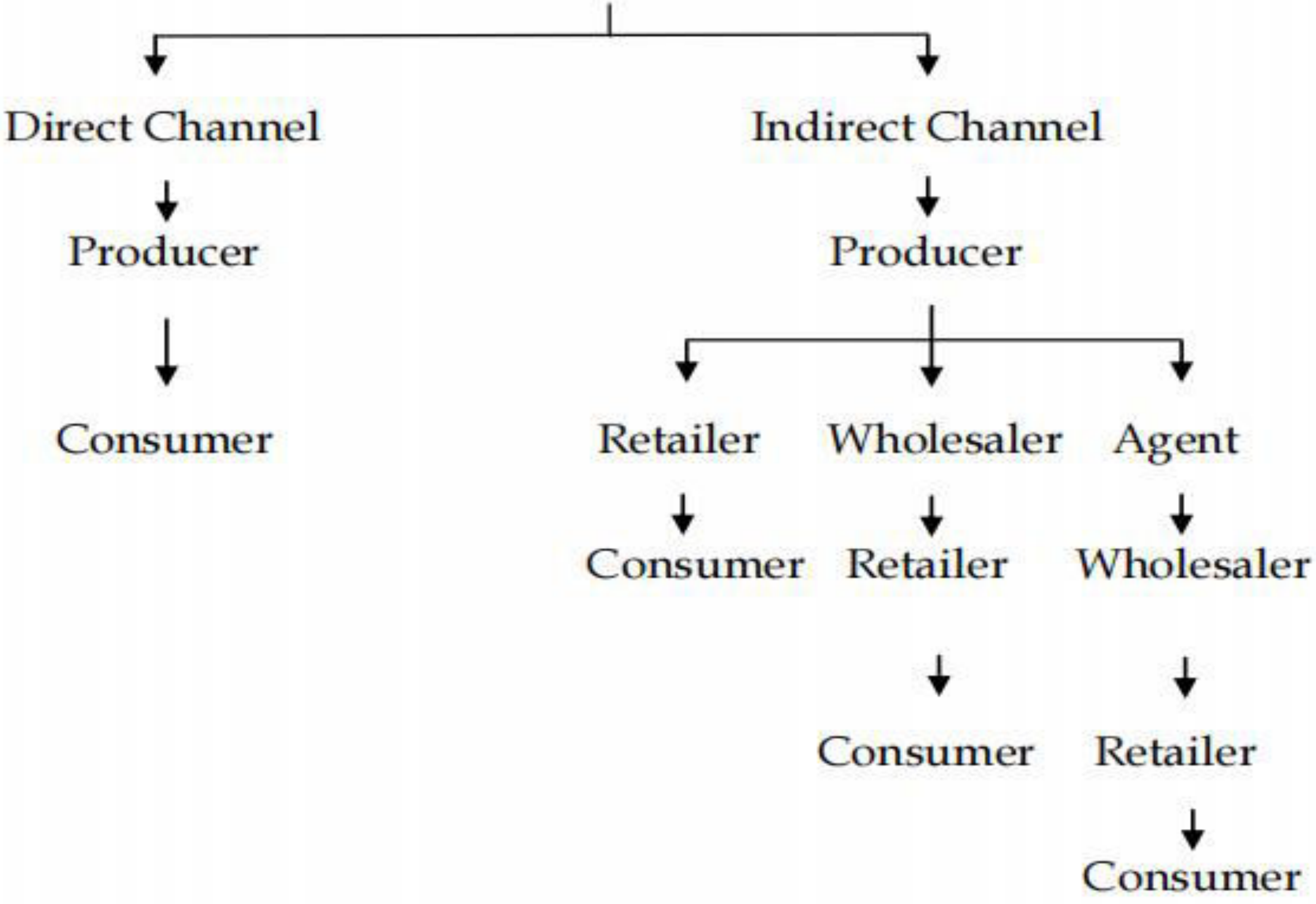


CHART SHOWING BUSINESS ACTIVITIES

Channels of Distribution



Factors Determining the Choice of Channel

Nature of Product	Nature of Market	Middlemen	Tendency of Producer
Unit value	Location	Availability	Quantity of production
Perishable	Quantity and frequency of orders	Customs of the trade	
Products	Number of buyers		Control over channels

- Startup Accelerator Chamber of Commerce
- Business Model Canvas
- Entrepreneurship Development

Ideation
&
Design Thinking

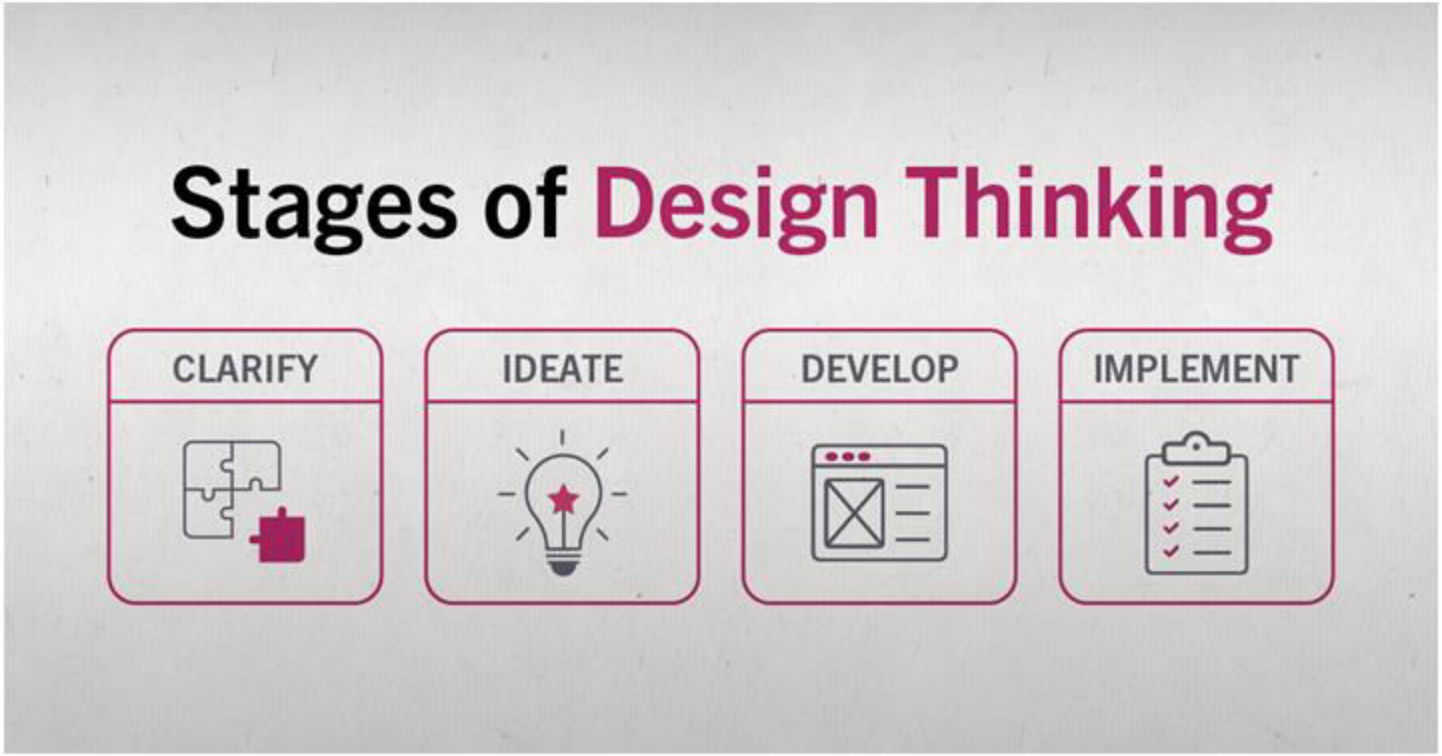
What is Design Thinking?

- Design thinking is a mindset and approach to problem-solving and innovation anchored around human-centered design. While it can be traced back centuries—and perhaps even longer—it gained traction in the modern business world after Tim Brown, CEO and president of design company IDEO, published an article about it in the Harvard Business Review.
- Design thinking is different from other innovation and ideation processes in that it's solution-based and user-centric rather than problem-based. This means it focuses on the solution to a problem instead of the problem itself.
- For example, if a team is struggling with transitioning to remote work, the design thinking methodology encourages them to consider how to increase employee engagement rather than focus on the problem (decreasing productivity).

4-phase version

- In the online course ”Design Thinking and Innovation”, Harvard Business School Dean Srikant Datar leverages a four-phase innovation framework. The phases venture from concrete to abstract thinking and back again as the process loops, reverses, and repeats. This is an important balance because abstract thinking increases the likelihood that an idea will be novel. It’s essential, however, to anchor abstract ideas in concrete thinking to ensure the solution is valid and useful.
- Here are the four phases for effective innovation and, by extension, design thinking.

4-phase version

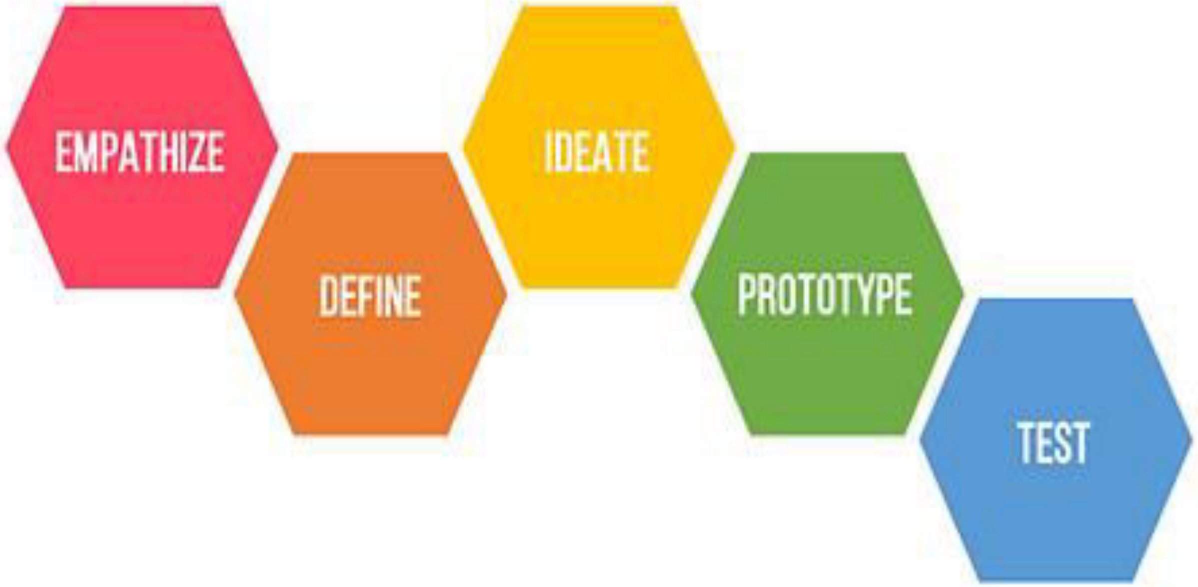


Rules of Design Thinking

Christoph Meinel and Harry Leifer of the Hasso-Plattner-Institute of Design at Stanford University (d.school) identified four rules of Design Thinking:

- **The human rule**: design is social in nature — problems must be solved in a way that satisfies human needs and acknowledge the human elements in all technologies.
- **The ambiguity rule**: ambiguity is inevitable — experiment at the limits of our knowledge, the limits of our ability to control events, and with the freedom to see things in a different light.
- **The re-design rule**: all design is re-design — technology and social circumstances are constantly evolving. We need to understand how our human needs were met in the past.
- **The tangibility rule**: making ideas tangible facilitates communication — this directly refers to creating *prototypes*.

5-phase version



The Design Thinking Framework

5-phase version

The 5 step process proposed by the Hasso-Plattner Institute of Design at Stanford is as follows:

1. Empathize

- The empathize stage is critical to understand where the problems you are trying to solve come from. Immerse yourself into the life of your user to understand their problems. This can also be thought of as finding “gaps in the market”, where there are no straightforward product solutions to a given issue. Identify the need and address it. This phase focuses on research.

2. Define

- Now that a need is identified and research is collected, you can define the problem in human-centric terms. You want this problem to be broad enough for a flexible and creative approach, but narrow enough to hone in on the problems niche.
- An example of a successful human-centric problem definition could be:
- *“Professionals need a way to virtually take notes, mark their calendar, set reminders, and sync them for access on work and home devices to streamline organization.”*

5-phase version

3. Ideate

- Now that you understand your users problems and have analyzed your research, you can begin generating ideas to solve the defined problem.
- A popular way to generate ideas is with a brainstorm. Arrange a meeting with at least four people to start off. Try to come up with as many phrases or word associations as you can — no limits, no rules! Bring in a couple individuals from other teams. People with outside experience contribute valuable ideas by looking at the problem through an alternative lens. The ideate phase focuses on free thinking and unconventional approaches.

4. Prototype

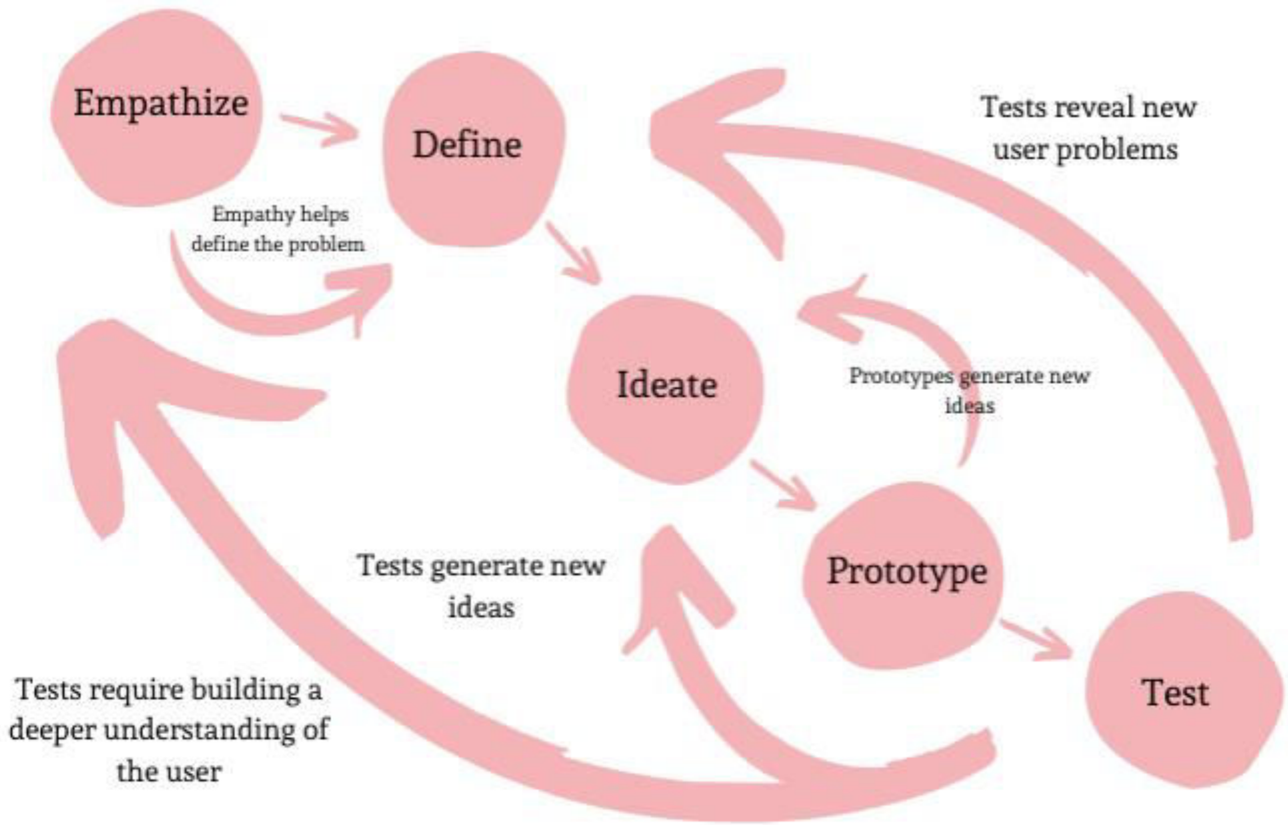
- Using the best ideas from the ideate phase, you can now produce several basic iterations of your problem solving product. Early stages of the prototype phase are generally where user testing allows designers to identify kinks or missing elements of their designs. This stage focuses on experimenting by creating multiple approaches to solving the problem.

5-phase version

5. Test

- The final stage of the design thinking process, designers now combine the best solutions from the prototype phase into one complete product. This phase involves the most user-testing.
- However, the *design thinking phases are not linear* and the test phase is not a strict ending point. Often, testing the final product surfaces new problems and is followed by another define phase, or redirects designers to the empathy phase to work on building a deeper understanding of the user. Even if designers do not need to back track to different phases, the test phase focuses on fine-tuning the product to create the best possible solution.

Summary



Empathize
Define
Empathy helps
define the problem
Ideate
Tests reveal new
user problems
Prototypes generate new
ideas
Prototype
Test
Tests generate new
ideas
Tests require building a
deeper understanding of
the user

Design Thinking Tools

- Beginner’s Mindset – Everyone has their own understanding, experiences and mindset. This forces us to think in certain ways. Assuming a beginner’s mindset enables us to set the biases aside and see the situation with fresh eyes.
- What / How/ Why – It is a tool to delve deeper into the problem. Observe what the subjects are doing, how they are doing the tasks and the motivations and emotions behind the actions.
- Extreme users – They give valuable insights into the work-arounds they may have implemented.

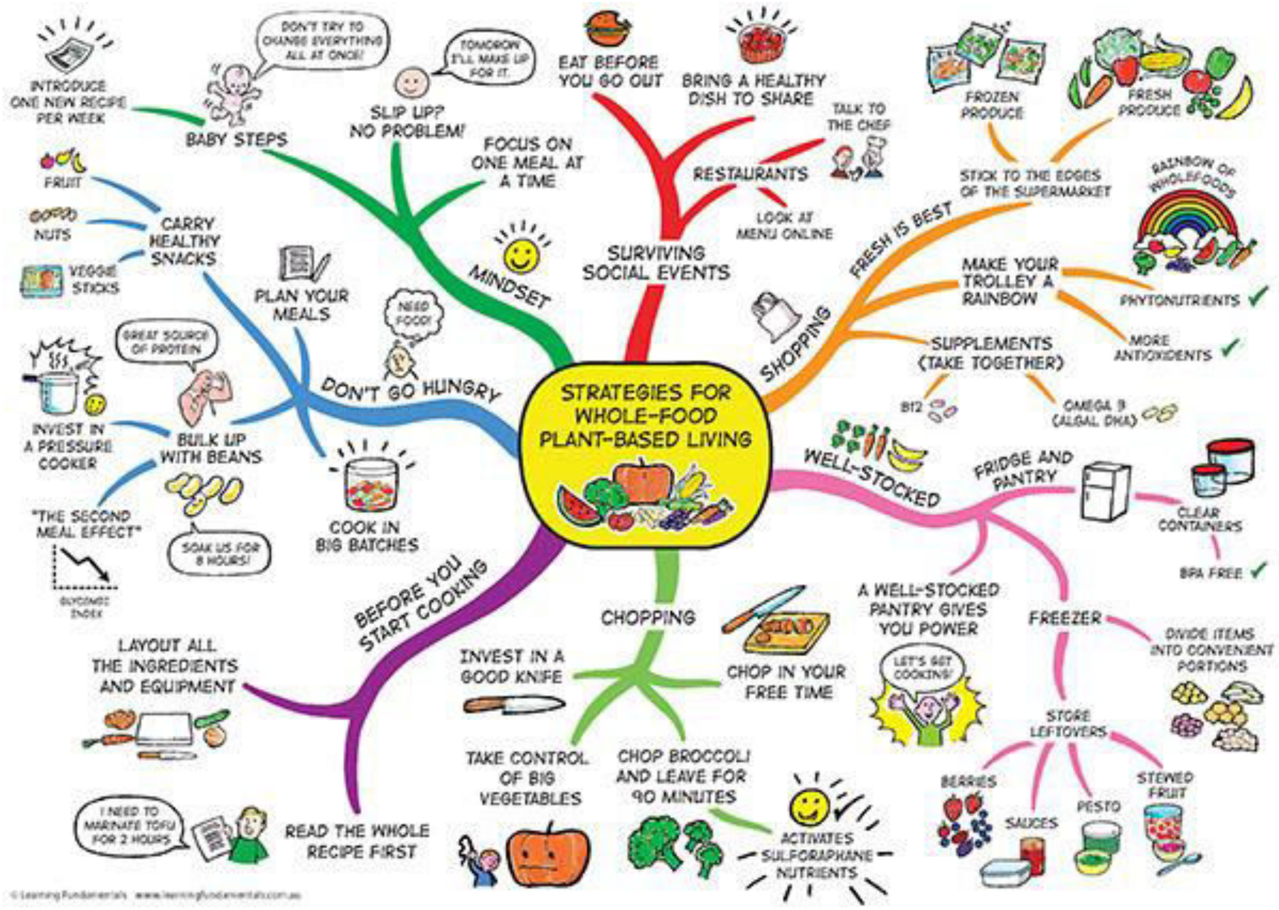
Design Thinking Tools

- **Journey mapping (or experience mapping)** is an ethnographic research method that focuses on tracing the customer's "journey" as he or she interacts with an organization while in the process of receiving a service, with special attention to emotional highs and lows. Experience mapping is used with the objective of identifying needs that customers are often unable to articulate.
- **Assumption testing** focuses on identifying assumptions underlying the attractiveness of a new business idea and using available data to assess the likelihood that these assumptions will turn out to be true. These assumptions are then tested through thought experiments, followed by field experiments, which subject new concepts to four tests: value creation, execution, scalability, and defensibility.

Design Thinking Tools

- **Mind mapping** is used to represent how ideas or other items are linked to a central idea and to each other. Mind maps are used to generate, visualize, structure, and classify ideas to look for patterns and insights that provide key design criteria.
- **Prototyping** techniques allow us to make abstract new ideas tangible to potential partners and customers. These include storyboarding, user scenarios, experience journeys, and business concept illustrations — all of which encourage deep involvement by important stakeholders to provide feedback.

Example Mind-Map

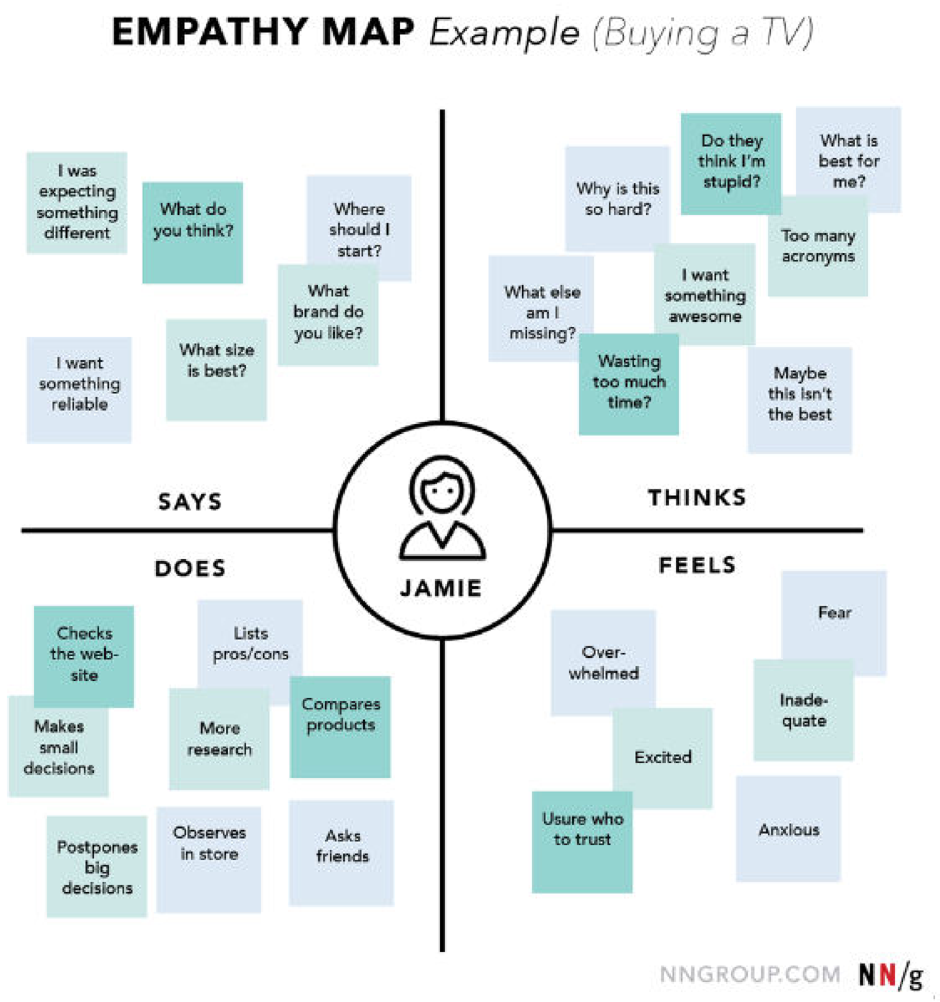


Design Thinking Tools

Empathy Map - An empathy map is a widely-used visualization tool within the field of UX and HCI practice. In relation to empathetic design, the primary purpose of an empathy map is to bridge the understanding of the end user.

- Both the process of making an empathy map and the finished artifact have important benefits for the organization:
  - **Capture who a user or persona is.** The empathy-mapping process helps distill and categorize your knowledge of the user into one place. It can be used to:
    - Categorize and make sense of qualitative research (research notes, survey answers, user-interview transcripts)
    - Discover gaps in your current knowledge and identify the types of research needed to address it. A sparse empathy map indicates that more research needs to be done.
    - Create personas by aligning and grouping empathy maps covering individual users
  - **Communicate a user or persona to others:** An empathy map is a quick, digestible way to illustrate user attitudes and behaviors. Once created, it should act as a source of truth throughout a project and protect it from bias or unfounded assumptions.

Design Thinking Tools



Six Thinking Hats

HAT	OVERVIEW	TECHNIQUE
BLUE	"The Big Picture" & Managing	CAF (Consider All Factors); FIP (First Important Priorities)
WHITE	"Facts & Information"	Information
RED	"Feelings & Emotions"	Emotions and Ego
BLACK	"Negative"	PMI (Plus, Minus, Interesting); Evaluation
YELLOW	"Positive"	PMI
GREEN	"New Ideas"	Concept Challenge; Yes, No, Po

Po (lateral thinking)

- The term po was created by Edward de Bono as part of a lateral thinking technique to suggest forward movement, that is, making a statement and seeing where it leads to.
- It is an extraction from words such as hypothesis, suppose, possible and poetry, all of which indicate forward movement and contain the syllable "po."
- Po can be taken to refer to any of the following: **p**rovoking **o**peration, **p**rovocative **o**peration or **p**rovocation **o**peration.

Po (lateral thinking)

For example, in response to "sales are dropping off because our product is perceived as old fashioned":

- po: Change the colour of the packaging
- po: Flood the market with even older-looking products to make it seem more appealing
- po: Call it retro
- po: Sell it to old people
- po: Sell it to young people as a gift for old people
- po: Open a museum dedicated to it
- po: Market it as a new product

- Some of the above ideas may be impractical, not sensible or not business-minded. The value of these ideas is that they move thinking from a place where it is entrenched to a place where it can move.

Ideation

- Warren Buffet says “Today’s successful companies live and die according to the quality of their ideas”
- In the real world, one needs to generate a bunch of ideas and evaluate them in the underlying hope that some of them would have some business potential.
- Creativity is thinking new things and innovation is in doing new things. Entrepreneurship is building a business around a new way of doing things.
- One can be creative by thinking differently about existing problems and solutions.

Sources of Business Ideas

- Past work experience
- Hobbies and Interests
- Strengths and Abilities
- Friends and Family
- Travel
- Books and Magazines
- Research Organizations e.g. CSIR
- The web and the current trends

Idea Evaluation

- The 3 step process helps evaluate ideas and focus on the best idea.
- The steps of this process are:
  - Decision matrix analysis – helps analyze all the ideas and shortlist a few
  - Paired comparison – helps compare pairs of ideas to find the better one
  - 5Qs exercise – final check to prioritize the ideas and arrive at the best one.

Decision Matrix Analysis

- The decision matrix helps bring all the ideas into one place and lets you put down the factors that affect them.
- The factors for business selection are:
  - Investment required
  - Ease of operations
  - Marketability
  - Fit with your strengths and interests
  - Product differentiation
- Each factor has to be given a relative weight.
- Assign a score to each idea-factor combination (scale: 0 to 5) and rank the ideas per the cumulative score.

Sample DMA

	Competency	Cost	Viability	Desirability	Alignment	Total
Criteria rating	3	4	5	4	2	
Idea A	1	3	3	1	1	
Weighted rating	3	12	15	4	2	36
Idea B	5	3	5	3	4	
Weighted rating	15	12	25	12	8	72
Idea C	1	2	3	1	1	
Weighted rating	3	8	15	4	2	32

Paired comparison analysis

- This tool helps compare one idea with the other and evaluate which idea is better.
- The comparison is based on the individual’s view of the potential of each idea.
- The combined scores from the Decision Matrix Analysis and Paired Comparison Analysis will help decide which of the shortlisted ideas has the best potential.

PCA Example

Paired Comparison Analysis

	Feature A	Feature B	Feature C	Feature D	Feature E
Feature A		A	C	A	A
Feature B			C	D	E
Feature C				C	C
Feature D					E
Feature E					

→

Score
C = 4
A = 3
E = 2
D = 1
B = 0

5Qs Exercise

The top few ideas can be put through this framework, which is based on 5 questions. The main questions help us group many more questions which address a wide range of concerns:

- Which is the market segment being targeted?
- What is the business model?
- How big is the market?
- How can you protect the business?
- What are you getting out of it?

Identify the right problem

Finding problems to be solved

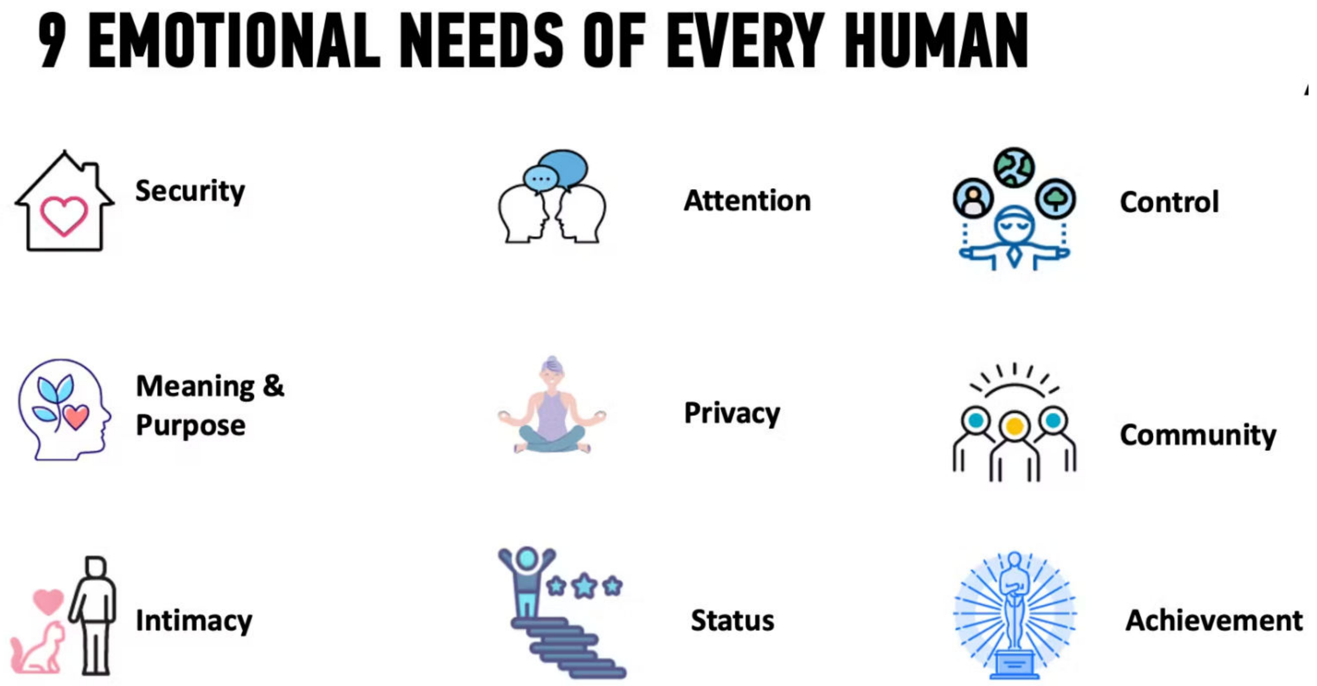
- If you closely look at any long-lasting business, you'll realize that their core idea germinated from a core customer problem. A significant and market-relevant problem.
- No surprise that *Uri Levine, the founder of Waze, suggests, "Fall in love with the problem, not the solution."*
- Problem-solving involves finding innovative and creative solutions to address societal, technological, or business-related problems.

What defines a heart-felt problem?

Customer problems exist across multiple layers. There’s a surface layer where they tell you a solution they have in mind—like I want to save money making international calls. But at its core, all problems distill down to one or a few of these emotions:

- Security
- Attention
- Control
- Meaning & purpose
- Privacy
- Community
- Intimacy
- Status
- Achievement

What defines a heart-felt problem?



What defines a heart-felt problem?

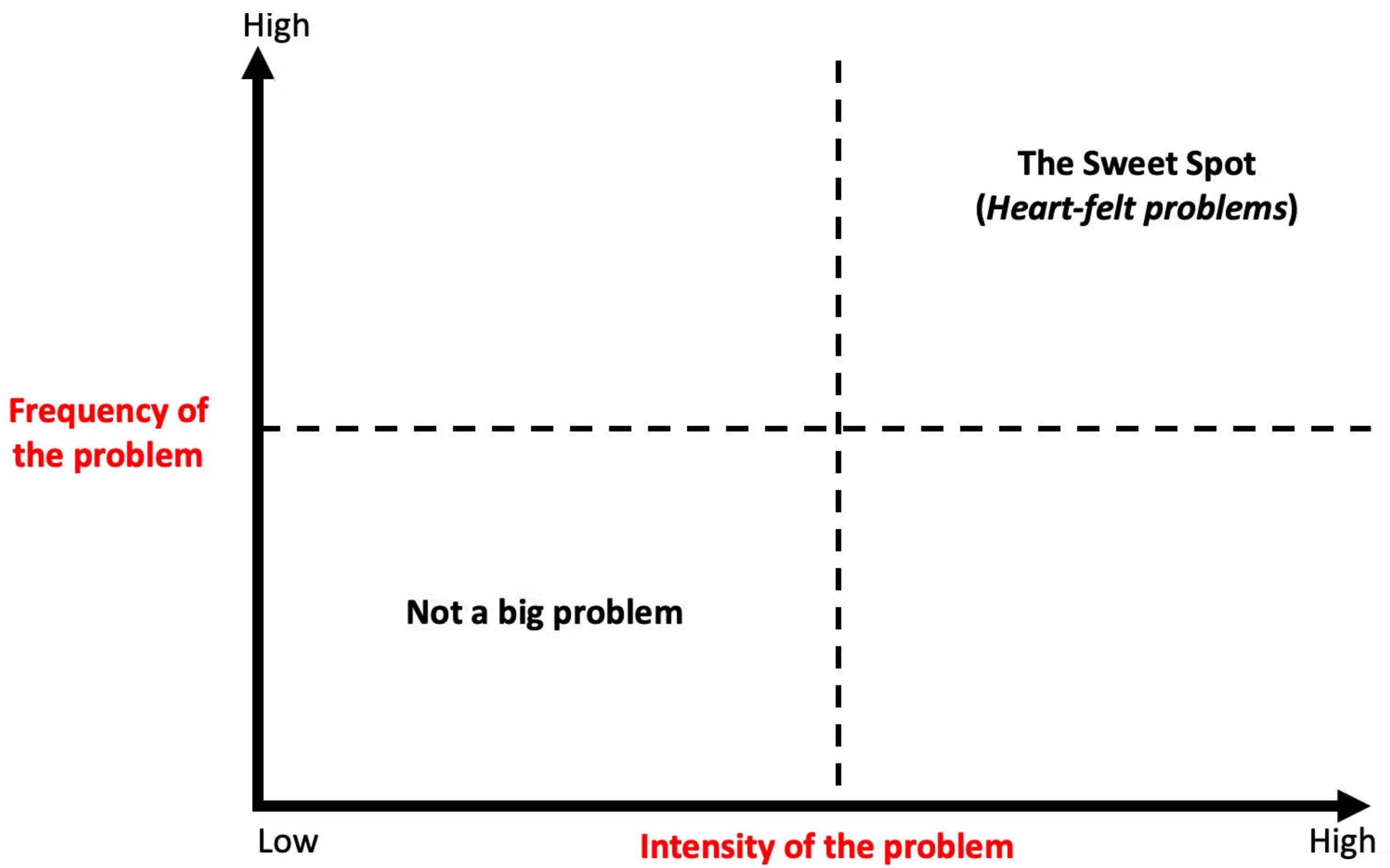
- Great entrepreneurs look beyond the customer-suggested problems. They ask “5 why’s” until they get to the emotional reason that causes a customer to seek out a product.
- Take the case of Slack, a workplace communication tool that has revolutionized how offices communicate.
- Before Slack existed, office communication relied on email. Email was designed to be formal and disposable. However, Slack channels allowed teams with a shared interest to create more inclusive communication for everyone.
- Suddenly, people working on the same project can create a project channel with a “searchable log of all communication and knowledge” (which is what SLACK stands for). What used to be an email thread now has a permanent space to foster a discussion around a common goal.

Five characteristics of heart-felt problems

Here are the five characteristics of heart-felt problems. The deeper the pain, the more value you can get from your customers:

- **Emotional** — the problem must have an emotion attached to it
- **Functional** — the problem must fulfill the basic functional need of the problem
- **Frequent** — the problem must happen frequent enough for the user to justify the value
- **Urgent** — the problem must have an impending deadline
- **Unavoidable** — the problem must not have an easier way to get around the problem

Heart-felt problems



Identify if a heart-felt problem is worth solving?

- You'll need to generate product ideas from market research and then identify customers' problems in that market to solve.
- The first step is to research the market you want to be a part of. The opportunity size is based on how much your customer is spending to solve the problem right now. This information can come from industry research, government websites, and annual reports of key competitors, or you may even need to commission research if it's too niche.

Identify if a heart-felt problem is worth solving?

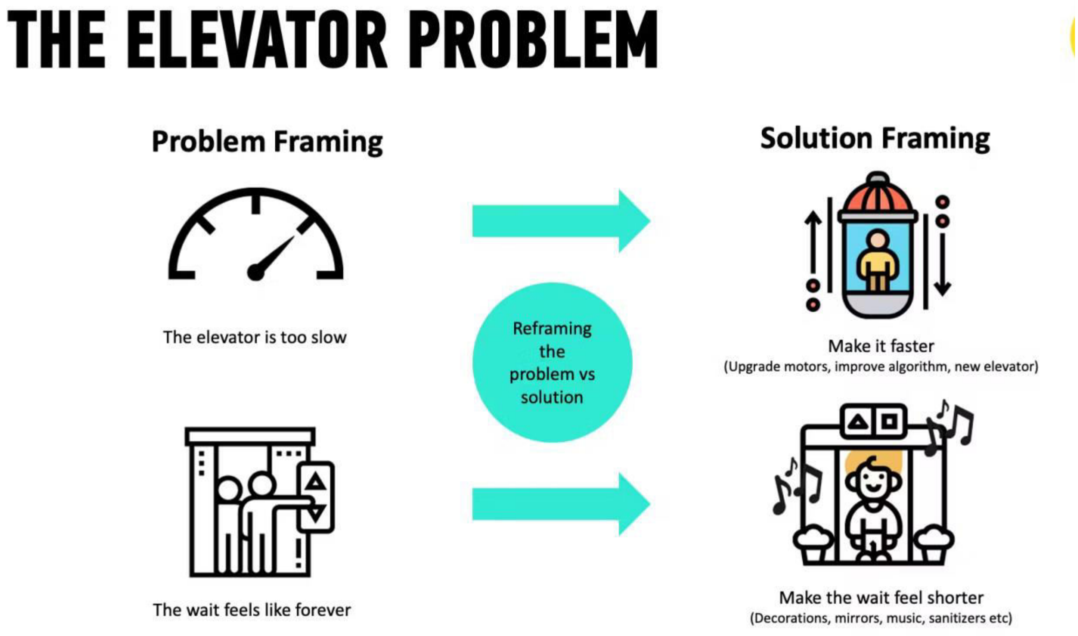
- You need to get out of your comfort zone and speak with your target customers. Put yourself in their shoes, and think about the problem you're trying to solve.
- Ask yourself: If this customer problem exists, where would your customers go to solve it?
- Chances are there are existing communities or media channels that connect your potential customers. Go there.
- And don't be afraid to speak with your competitor's customers to understand why they purchased the product and what problem it was solving for them.
- There is no magic number of how many customer interviews you speak with. Start with five customers first, then adjust the questions every five customers until you have honed in on a deep enough problem with a large enough market size.

Identify if a heart-felt problem is worth solving?

- The trick is to find a deep customer problem in a market that is large enough to sustain your vision. 99% of the worlds problems are not worth solving but if you persist, you’ll eventually find one.
- Using the Jobs-To-Be-Done interview popularized by Clayton Christensen is an excellent method to speak with customers. Using the Jobs To Be Done framework is a blog post on its own.
- Once you’ve found a heart-felt problem in a large enough market—the next step is to reframe the problem to look at it from varied perspectives. Doing so will help you make better decisions and arrive at radically better solutions.

Example

- Let's take the classic example of a slow elevator in a building. A heart-felt problem for tenants is “I feel like I’m wasting time” (an emotional problem that’s related to status, purpose and meaning).



GOOTB

- According to Steve Blank in his acclaimed book, ”The Four Steps to the Epiphany”, the ideal approach is to embrace a culture of cultivating a frequent customer feedback loop throughout the product development cycle with the mindset that a bulk of the answers are out there — not in our designer minds, sticky notes or computers and will only remain latent until we engage customers.
- Customer discovery which entails observing & interviewing customers seeks to discover their behaviors, motivations, and needs, expose problems and design opportunities, and find crucial information to drive design decisions.

- **Customer discovery which entails observing & interviewing customers seeks to discover their behaviors, motivations, and needs, expose problems and design opportunities, and find crucial information to drive design decisions.**
- GOOTB (Get out of the building) encourages an outside-in approach, a continuous customer feedback loop throughout the product development cycle. It religiously tilts away from the culture of building products with assumptions or pure logic.

Chapter Two: Problem Identification and Idea Generation

- Problem Identification: Concept, objectives and uses of problem identification
- Idea Generation
- Idea fields
- Sources of idea fields

Problem Identification Meaning

When there is a road block in a situation, which poses a conflict and forces for the entrepreneur to find solution, then this road block is the problem and when one identifies this road block , it is called as problem identification .

Objectives of Problem Identification :

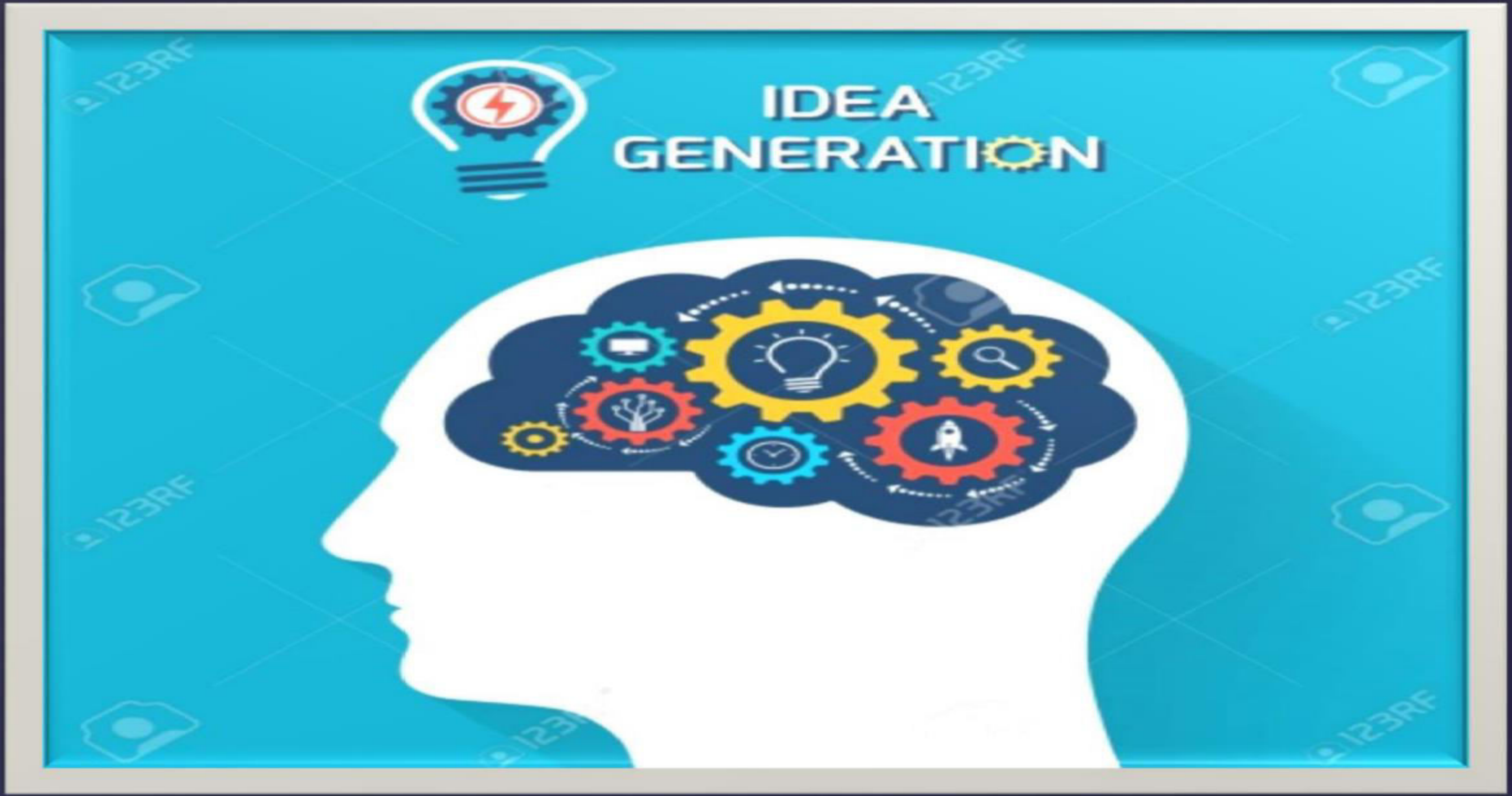
- It should clearly state the problem
- It should be able to identify the target groups facing the problem
- It objective is to find the market acceptability of the solution to problems of the target groups.

Uses of Problem Identification:

Identification of problem helps the entrepreneur in the following ways:

- To understand the need and problems of the market.
- To bring out new product in the market.
- To become creative
- To increase employment generation
- To increase the national income of the country

Problems are generally identified by the entrepreneur themselves. Sometimes, the problems are present for which the customer wants the instant solution. Here, the entrepreneur , finds out the solution to the problem by bringing new products or services in the market (example ready to cook meal)



IDEA GENERATION

Idea Generation:

CONCEPT and MEANING

Idea generation is an essential part of the design process that can be defined as the process of creating, developing and communicating the ideas that can be either concrete, abstract or visual.

The process comprises the various stages from

- constructing the idea
- innovating the concept
- develop a process
- and actualization of the concept.

Business ideas are the outcome of

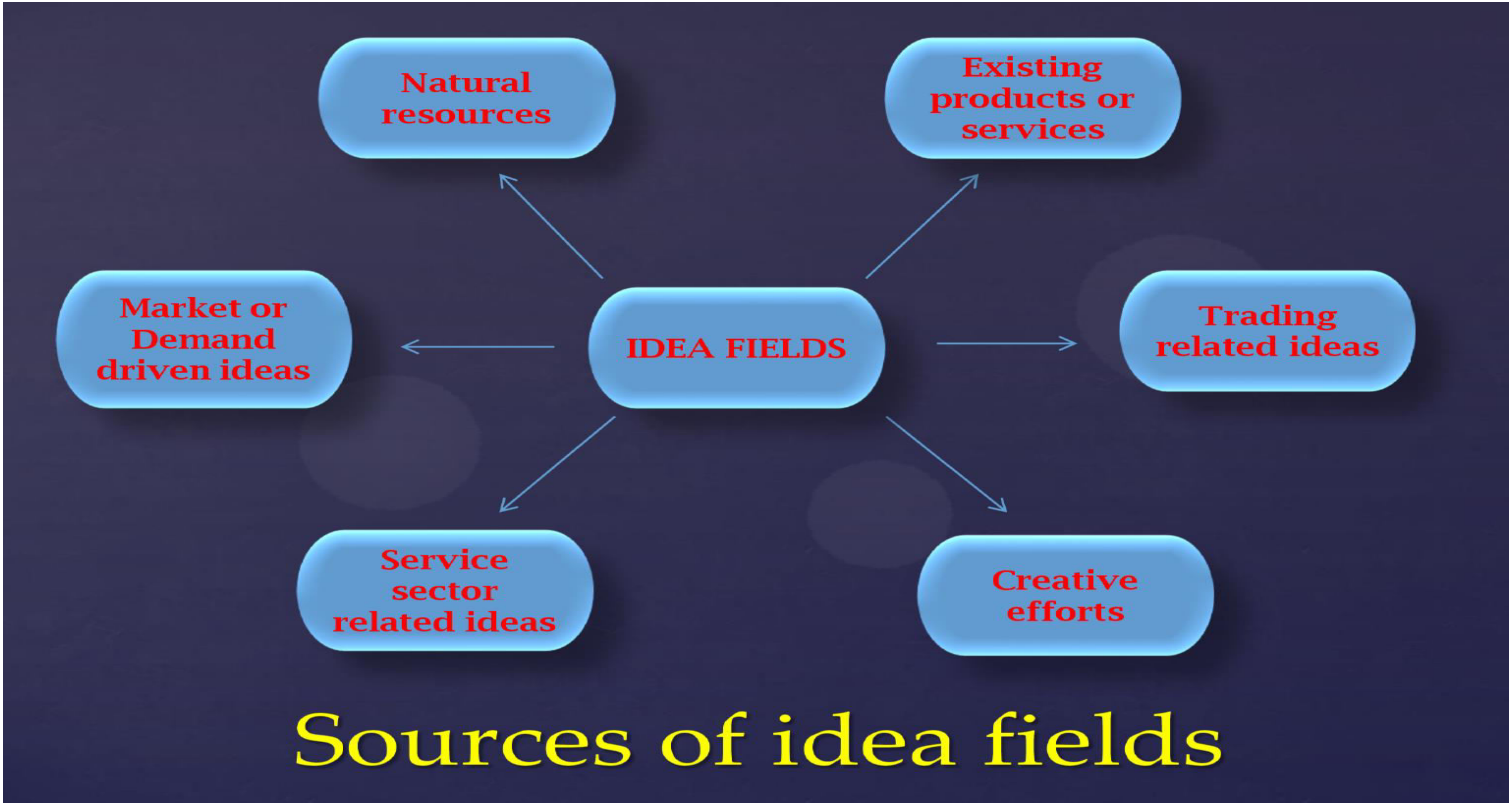
- Careful analysis of market trend
- Careful analysis of consumer needs
- Creation of something or discovery through accident
- Exploring the ways of getting new ideas.

Idea Fields:
concept and meaning

Idea fields are well defined frames of reference that guide the generation of ideas.

The process of generation of ideas can be streamlined by developing an awareness for different idea fields.

Idea fields help is enlarging the scope of thinking and also also provide benefit to the entrepreneur of structuring the ides based on convenient frames of reference.


Natural resources
Existing products or services
Market or Demand driven ideas
IDEA FIELDS
Trading related ideas
Service sector related ideas
Creative efforts
Sources of idea fields

Idea fields are well defined frames of reference that guide the generation of ideas. Various idea fields are examined below:

1. NATURAL RESOURCES

The idea for a product or service can be derived from the available natural resources like

- Agricultural
- Breeding and Caring of animals (animal husbandry)
- Cultivation or Horticulture
- Human
- Mineral or Soil
- Solar, Tidal, Wind

Entirely new products or service related ideas can be generated from these resources or ideas to supplement these natural resources can be derived.

2.Current products or services:

It requires careful analysis of the existing products or services and put the expertise and imagination to improve the current products or services. The demand for a product or service or the need to tackle the competition will also help in origination of a new idea. As the value addition to the existing product or service is as good as inventing a new product, the existing products or services also act as a good source of new ideas.

3. Demand or Market:

Conducting a research in the market to procure the information relation to the gap between demand and supply, changing consumer preferences, trends, technology helps in the generation of new ideas for products or services. The data gathered is analyzed using business intelligence and helps as a good sources of new ideas. In addition to this, the demand prevailing in the market will also help in generation of new ideas. The analysis of the products and services offered by the competitors will also act as a valuable source for generating a new idea.

4. Trade:

As the globalization has expanded the scope of business to the entire world, a careful analysis of the prevailing trades and methods will act as a good source of idea generation. Earlier the trading was limited to local distribution network or grocery stores. However the trade has expanded from the local market to import and export of goods. The most recent revolution in the trade is e-commerce and has broadened the scope of trading globally and is not time bound. Thus it became a valuable, most effective, less risk prone area for originating new ideas.

5. Service sector

As the society is becoming more educated and the as there is tremendous growth in information and technology, it opened up new challenges and opportunities and became a great source for generation of new ideas in various entrepreneurial sectors. Few of the sources are in the Service of home appliances

- Automobile servicing
- Fast food
- Cool drink outlets
- Ice cream outlets
- Tourism
- Personal grooming
- Career counseling
- Emigration services

6. Creativity

Creativity being one of the most important competency of an entrepreneur plays a vital role in getting an idea for a new product or service or improving an existing product or service. Most often it is noticed that the need to solve a problem triggers creativity to come up with new ideas. It helps in

- Adding additional value to an existing product or service
- Innovate a new product or service
- Innovate a new methodology or material to produce a product
- Expand the demand and market for the current product or service
- Expand the usability of an existing product or service

Customer Study and Value Proposition

Identifying your customer segments and early adopters is a crucial step in developing a successful business or launching a new product or service.

1. Define Your Target Market:

- Start by defining the characteristics of the market you intend to serve. Consider demographics (age, gender, income), psychographics (lifestyle, values, interests), and geographic location.

2. Conduct Market Research:

- Use surveys, interviews, and secondary research to gather data about potential customers. This can include information about their needs, pain points, and preferences.

3. Segment Your Market:

- Divide your target market into distinct segments based on common characteristics and needs. Segmentation can be done using criteria like demographics, behaviour, and psychographics. For example, you might have segments like "young professionals," "stay-at-home parents," or "small business owners."

4. Create Customer Personas:

- Develop detailed customer personas for each segment. These are fictional representations of your ideal customers within each segment, including their names, ages, job titles, goals, and challenges.

5. Identify Early Adopters:

- Early adopters are the customers most likely to embrace your product or service first. Look for characteristics like:
  - **Innovative mindset:** Early adopters are open to trying new things and embracing innovation.
  - **Problem solvers:** They actively seek solutions to their problems or pain points.
  - **Readiness to take risks:** Early adopters are willing to take a chance on new products or services.
  - **Strong influence:** They often have a network of followers or peers who trust their recommendations.

6. Validate Your Assumptions:

- Test your customer segments and early adopter assumptions through market research, surveys, or pilot programs. Collect feedback and adjust your strategies based on the results.

7. Refine Your Marketing Strategy:

- Tailor your marketing efforts to target each customer segment effectively. Craft messaging, channels, and offers that resonate with their specific needs and preferences.

8. Launch and Monitor:

- Launch your product or service with a focused approach targeting early adopters and the identified customer segments. Continuously monitor and gather data on customer behaviour and feedback.

9. Expand to Other Segments:

- Once you've gained traction with early adopters, gradually expand your marketing efforts to reach broader customer segments. Use the insights gained from early adopters to refine your offering.

10. Iterate and Evolve: - Be prepared to iterate and adapt your strategies as you gather more data and insights. Customer preferences and market dynamics can change over time.

Customer Segmentation Models: Types, Benefits & Uses

- What is a Customer Segmentation Model?
  - A customer segmentation model is a way of dividing a wide group of people into smaller groups based on their commonalities. How you divide your larger customer base into those smaller subgroups will vary based on what your brand does and who your customers generally are.
  - For a business-to-consumer brand, your customer segmentation models may focus on shared demographics like age, gender, and income level.

Further benefits of finding the right customer segmentation model include:

- Increase consumer engagement: Targeted ads and marketing messages connect the right-fit potential consumers to your brand and encourage continued engagement from existing consumers.
- Increase consumer satisfaction and loyalty: The customer that feels seen, heard, and understood by a brand is going to be far more satisfied, and loyal, than the one who feels like they’re just an order number.
- Improve ROI: Customer segmentation eliminates wasted time, and therefore money, on marketing efforts that don’t target the right audience. When you understand your consumers and what they need, you can help them fill that need faster and more efficiently.

The customer adoption patterns for a new product or service

- Customer adoption patterns refer to the stages through which customers embrace and integrate a new product or service into their lives or businesses. Understanding these patterns is crucial for businesses to effectively market and launch their offerings. The adoption process typically involves different categories of customers, and one key group is the early adopters.
- Customer Adoption Patterns:

- Innovators:
- Characteristics: Risk-takers and technology enthusiasts.
- Percentage of Population: Small percentage (around 2.5%).
- Role: Embrace new products or services at the earliest stage.

- Early Adopters:
- Characteristics: Visionaries, opinion leaders, and influencers.
- Percentage of Population: Around 13.5%.
- Role: Adopt innovations early and help create buzz and momentum.

- Early Majority:
- Characteristics: Pragmatic and deliberate decision-makers.
- Percentage of Population: Around 34%.
- Role: Adopt after the early adopters, validating the product's usefulness.

The customer adoption patterns for a new product or service

- Late Majority:
- Characteristics: Skeptical and risk-averse.
- Percentage of Population: Another 34%.
- Role: Adopt once the majority has already embraced the product.

- Laggards:
- Characteristics: Traditionalists and resistant to change.
- Percentage of Population: The final 16%.
- Role: Adopt very late, often when the product has become a standard.
- Importance of Early Adopters:

- Early Validation:
- Early adopters provide initial validation for the product's viability and appeal.

- Word-of-Mouth Marketing:
- Influential early adopters can generate positive word-of-mouth, attracting more customers.

- Feedback and Improvement:
- Early adopters offer valuable feedback, helping the company improve the product or service.

The customer adoption patterns for a new product or service

- Building Momentum:
- Early adopters create momentum and enthusiasm, attracting the attention of the early majority.

- Market Positioning:
- Success with early adopters helps position the product positively in the market.

- Reference Customers:
- Early adopters can become reference customers, providing testimonials and case studies.

- Credibility and Trust:
- Being embraced by thought leaders and influencers builds credibility and trust in the product.

- Reducing Market Risks:
- The acceptance of early adopters reduces perceived risks for the early majority.
- Strategies to Appeal to Early Adopters:

- Targeted Marketing:
- Craft marketing messages that resonate with the visionary and innovative mindset.

The customer adoption patterns for a new product or service

- Exclusive Access:
- Offer early access or exclusive features to incentivize early adoption.

- Engagement and Communication:
- Engage with early adopters, listen to their feedback, and communicate openly.

- Building a Community:
- Foster a community around the product to encourage collaboration and advocacy.

- Iterative Development:
- Demonstrate a commitment to continuous improvement based on early adopter feedback.
- In summary, understanding customer adoption patterns and recognizing the significance of early adopters is essential for a successful product or service launch. Early adopters play a pivotal role in shaping the product's trajectory and influencing its broader acceptance in the market.

What are the Types of Customer Segmentation Models?

1.Demographic Segmentation

- Demographics are population-related characteristics such as income, education level, gender, and age. The various demographic characteristics can be used together to create segmented customer groups, most useful to brands that sell a variety of products.

2.Behavioral Segmentation

- Behavioral segmentation groups consumers together by habits and behaviors, rather than external demographic factors. For example, purchase history and preferred social media platform usage. You can focus ads on a certain social platform to reach and/or create reminder or sales emails to regular or repeat online buyers.

3.Psychographic Segmentation

- Psychographic segmentation dives even deeper into the internal workings of your consumers by grouping them together based on psychological characteristics, including personality, habits, beliefs, and interests.
- Psychographics are great for lifestyle brands that want to align themselves with consumers who live or aspire to live the lifestyle that the brand promotes. Brands that sell outdoor camping gear, for example, want to connect with outdoor and travel enthusiasts.

4.Geographic Segmentation

- Geographic location is important to brands in a number of industries. Real estate agencies, for example, want to connect with homeowners selling their homes, potential buyers, and people looking to relocate to a specific area.

5.Technographic Segmentation

- Technographic segmentation, or creating subgroups and customer profiles around the technology your consumers use, is becoming increasingly popular. As more businesses have moved their operations online, this has opened the door to growth in industries like SaaS and online marketing analytics.
- Technographic segmentation lets you target consumers that use different types of software or online services in a highly personalized fashion.

6.Firmographic Segmentation

- Millennials vs. Gen X’ers vs. Gen Z vs. Boomers – we’re becoming more and more comfortable with the idea of these generational divides. So much so that firmographic segmentation, or creating subgroups simply around the decades or eras into which your consumers were born, is also on the rise.
- And it makes sense – someone born in 1980 will be at a different stage of life, with different needs and concerns, than someone born in 2000.

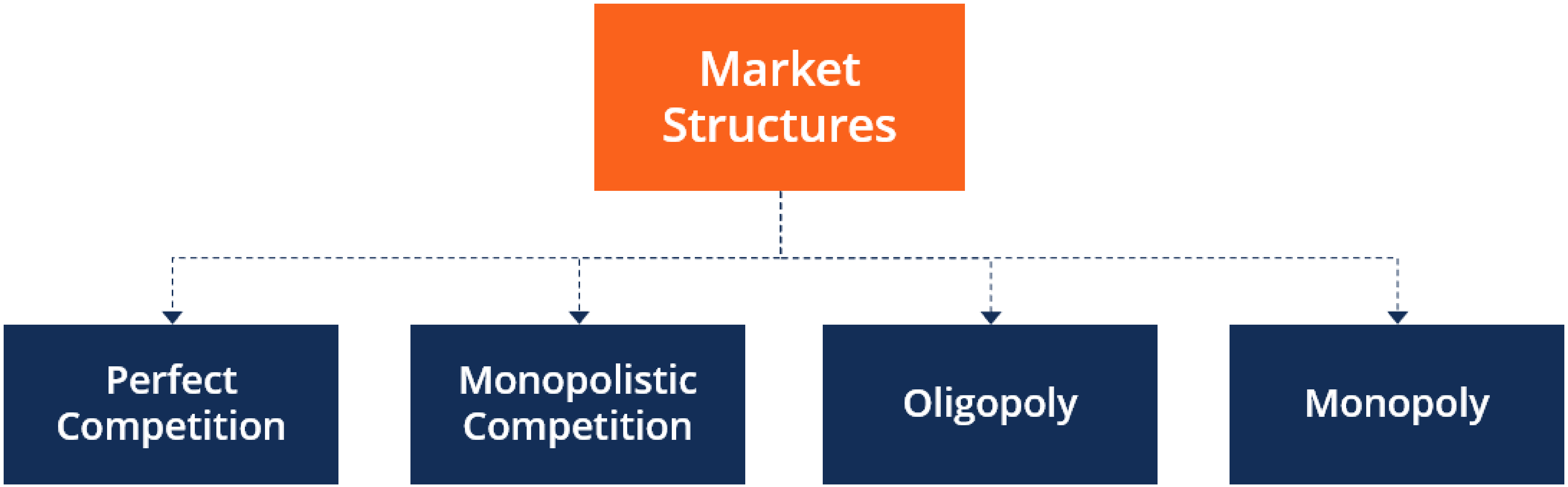
7.Needs-Based Segmentation

- Needs-based segmentation begins with a simple question: Who needs what you’ve got?
- Dividing your consumers into groups around their needs is a great way to keep your marketing messages focused tightly on your products or services and how they meet those needs. A clothing company can market office casual wear to business professionals, athletic gear to yoga enthusiasts, and kids' clothing to families.

8.Value-Based Segmentation

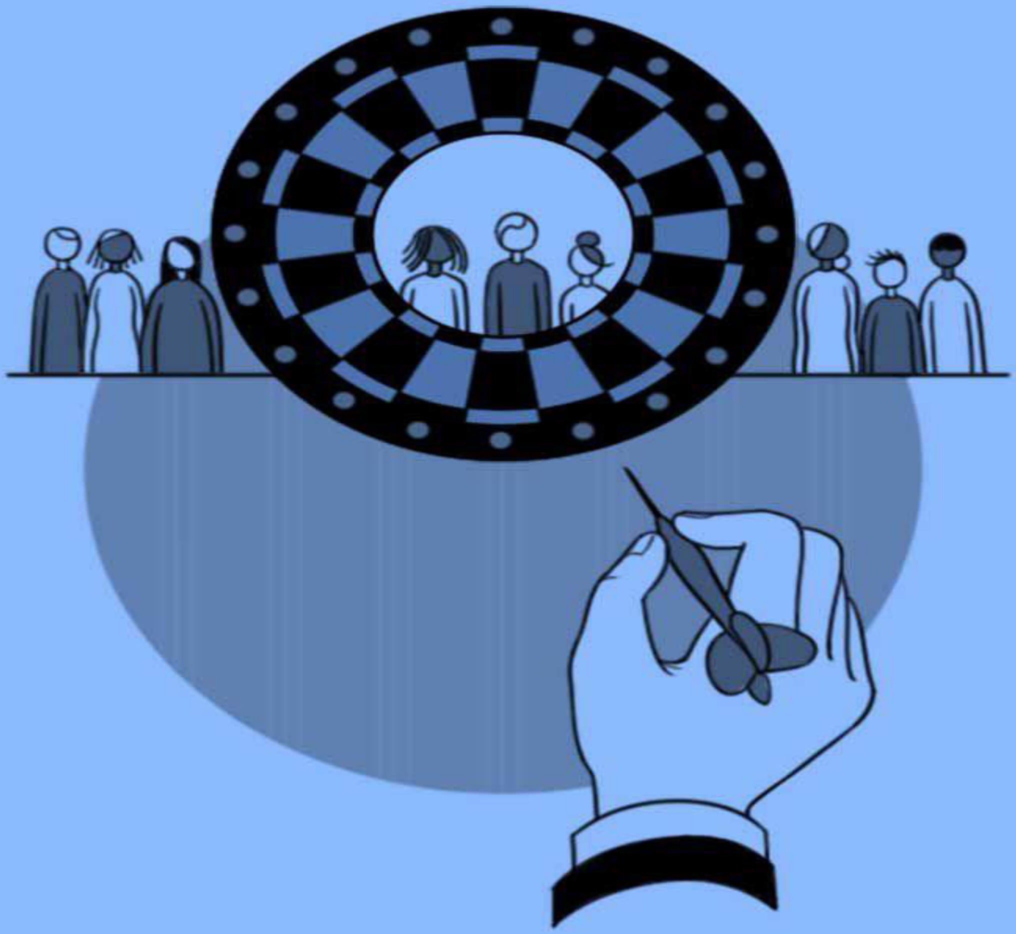
- This model takes the lens and focuses it more directly on what serves your brand. Which group or groups of customers are currently providing the most value – the most return business, the highest return on your ROI?
- Using lifetime value as your measuring stick, you can target your marketing messages to the consumers that are your biggest supporters and focus on continuing to build that loyalty and trust.

MARKET


Market Structures
Perfect Competition
Monopolistic Competition
Oligopoly
Monopoly

Customer Segmentation Models

What Is Target Market?

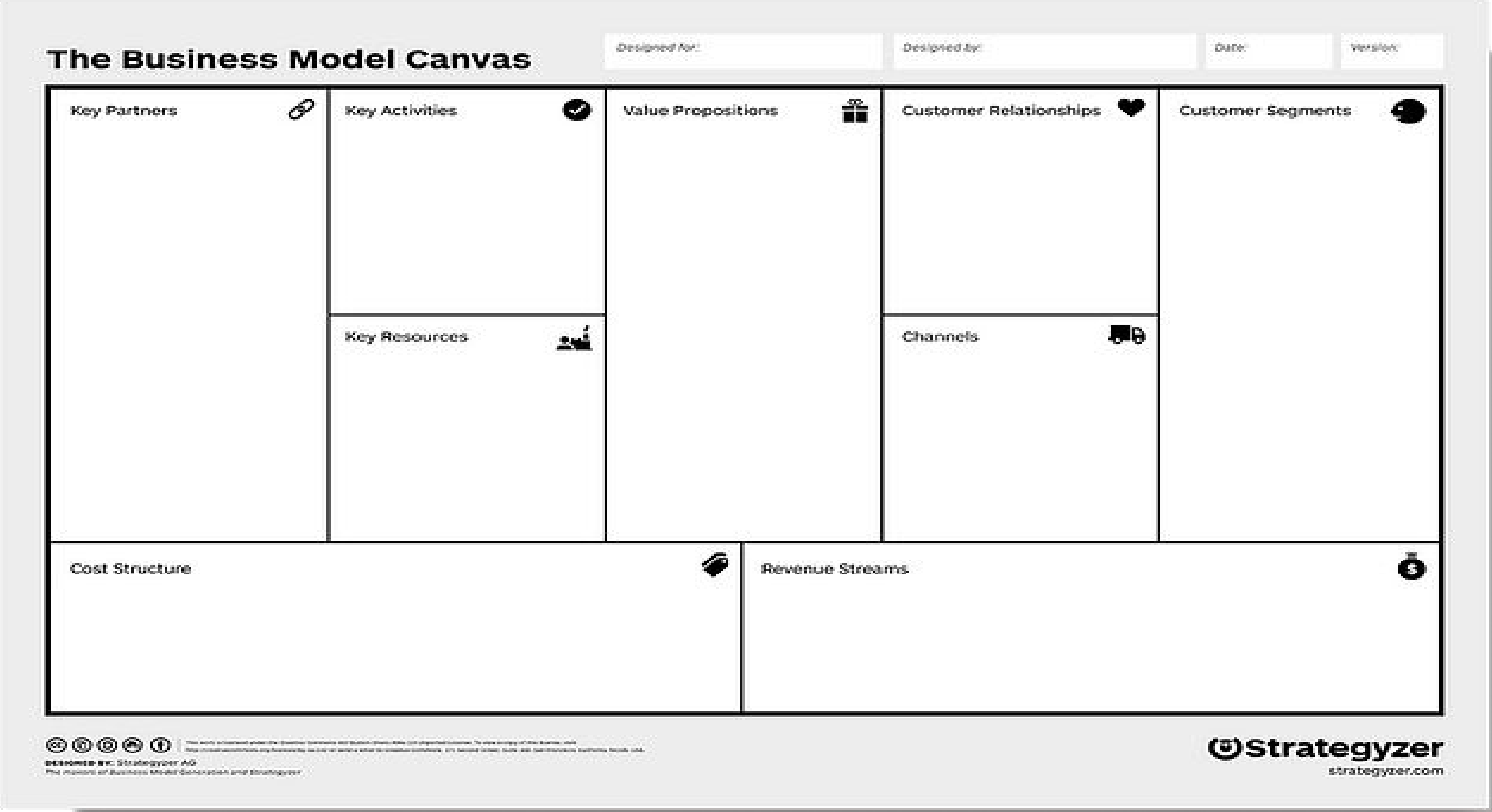


Target Market

['tär-gət 'mär-kət]

A group of people that have been identified as the most likely potential customers for a product because of their shared characteristics such as age, income, and lifestyle.

Investopedia



The Business Model Canvas

Designed for:

Designed by:

Date:

Version:

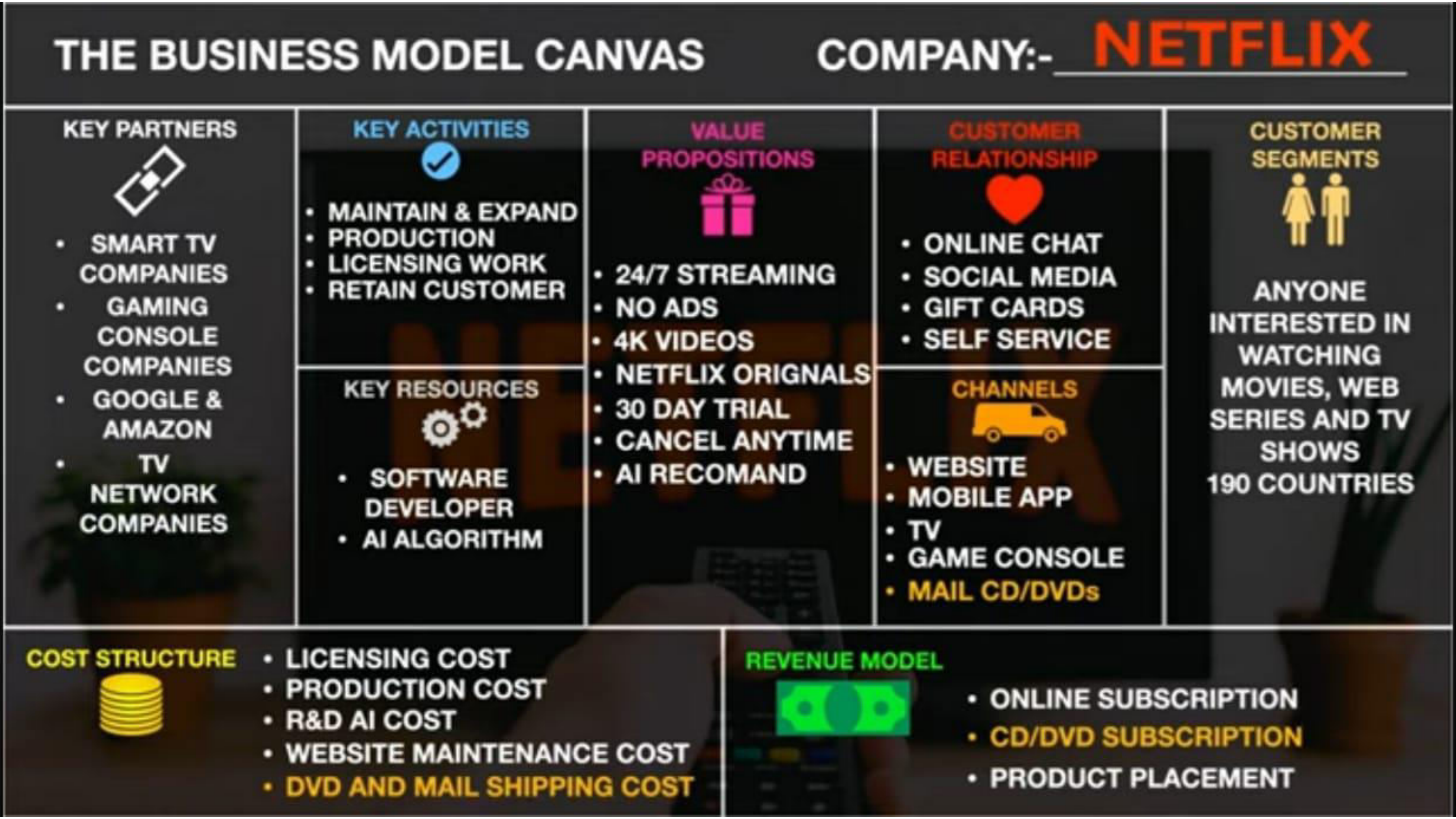
Key Partners	Key Activities	Value Propositions	Customer Relationships	Customer Segments
	Key Resources		Channels	

Cost Structure	Revenue Streams

DESIGNED BY: Strategyzer AG

Strategyzer

strategyzer.com


THE BUSINESS MODEL CANVAS
COMPANY:- NETFLIX
KEY PARTNERS
• SMART TV COMPANIES
• GAMING CONSOLE COMPANIES
• GOOGLE & AMAZON
• TV NETWORK COMPANIES
KEY ACTIVITIES
• MAINTAIN & EXPAND
• PRODUCTION
• LICENSING WORK
• RETAIN CUSTOMER
KEY RESOURCES
• SOFTWARE DEVELOPER
• AI ALGORITHM
VALUE PROPOSITIONS
• 24/7 STREAMING
• NO ADS
• 4K VIDEOS
• NETFLIX ORIGNALS
• 30 DAY TRIAL
• CANCEL ANYTIME
• AI RECOMAND
CUSTOMER RELATIONSHIP
• ONLINE CHAT
• SOCIAL MEDIA
• GIFT CARDS
• SELF SERVICE
CHANNELS
• WEBSITE
• MOBILE APP
• TV
• GAME CONSOLE
• MAIL CD/DVDs
CUSTOMER SEGMENTS
ANYONE INTERESTED IN WATCHING MOVIES, WEB SERIES AND TV SHOWS
190 COUNTRIES
COST STRUCTURE
• LICENSING COST
• PRODUCTION COST
• R&D AI COST
• WEBSITE MAINTENANCE COST
• DVD AND MAIL SHIPPING COST
REVENUE MODEL
• ONLINE SUBSCRIPTION
• CD/DVD SUBSCRIPTION
• PRODUCT PLACEMENT

Value Proposition Canvas

1. Introduction
- What is Value Proposition?
- What is a Value Proposition Canvas?
- Benefits of Using a Value Proposition Canvas

2. Basics of Design Thinking
- Principles of Design Thinking

3. Value Proposition Design Process
- Value Proposition Design Process
- An Integrated Suite of Tools
- Online Strategyzer Tools

4. Value Proposition Canvas
- Framework of the Value Proposition Canvas
- Examples – Tesla, Toyota, Adidas & Home Dialysis Machine

5. Customer Profile
- Customer Segment Profile
- Customer Jobs
- Customer Pains
- Customer Gains
- Steps to Create an Actionable Customer Profile

6. Value Map
- Value (Proposition) Map
- Products & Services
- Pain Relievers
- Gain Creators
- Steps to Create a Value Map

7. Fit: Aligning Customer Needs and Value
- Fit Overview
- Test Your Assumptions with the Customer
- Find the Best Fit

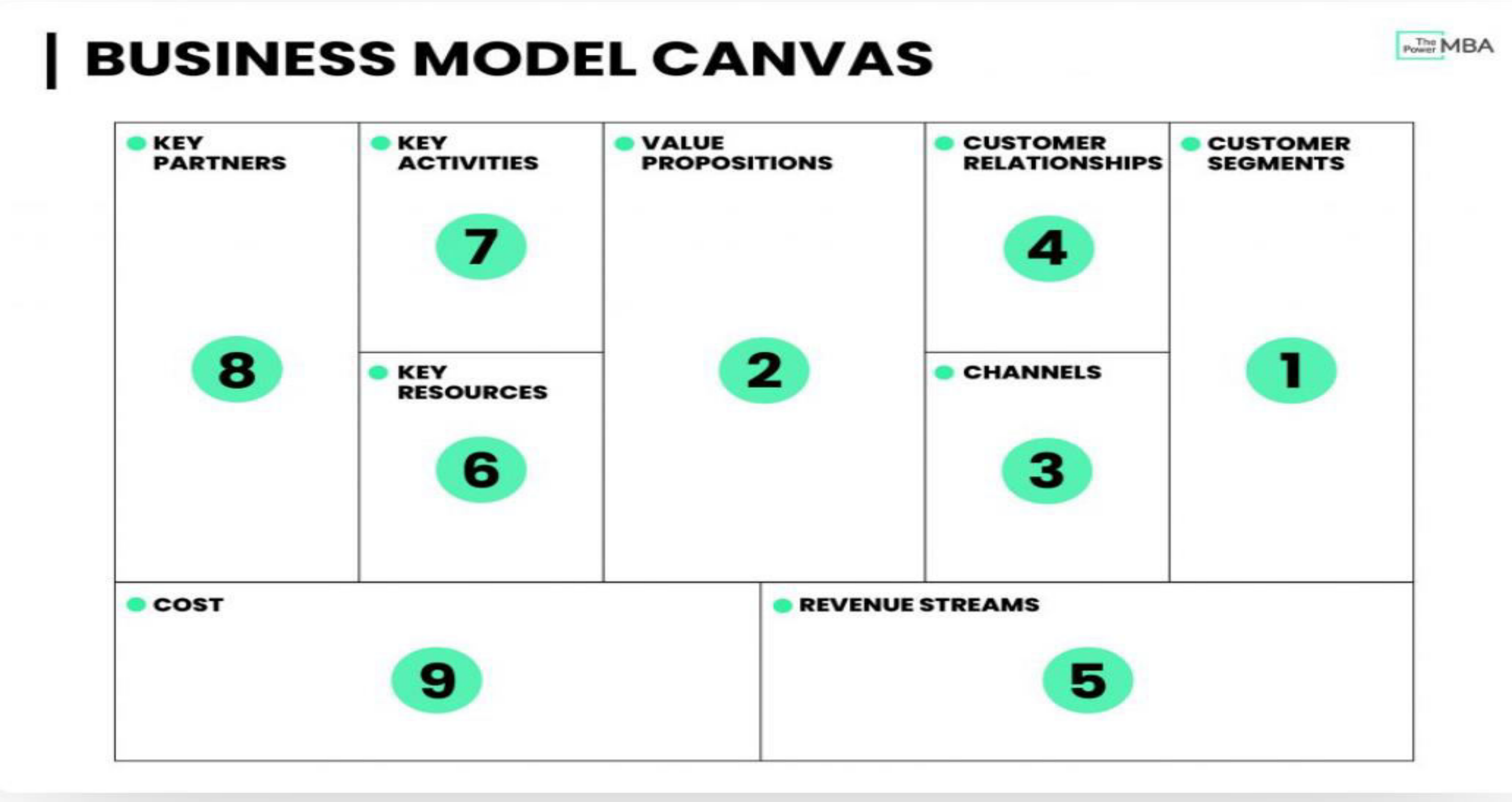
8. Best Practices
- Common Mapping Mistakes – Customer Profile
- Common Mapping Mistakes – Value Map
- Critical Success Factors

Business Model Canvas

- Business model canvas is a visual template that helps entrepreneurs document an existing business model or develop a new one. Alexander Osterwalder created it in 2005, based on his academic work on business model ontology.

- The business model canvas was designed with startups in mind. It quickly became an alternative to the traditional business plan which wasn’t agile enough to accommodate newly emerging companies.

- The revolutionary thing about the business model canvas was that it allowed entrepreneurs to capture a business model on a single page. This made business planning simpler and more structured.


BUSINESS MODEL CANVAS
The Power MBA
KEY PARTNERS
8
KEY ACTIVITIES
7
KEY RESOURCES
6
VALUE PROPOSITIONS
2
CUSTOMER RELATIONSHIPS
4
CHANNELS
3
CUSTOMER SEGMENTS
1
COST
9
REVENUE STREAMS
5

Fashion retail giant Zara

The first block of the Business Canvas Model is about understanding **who** is the most important customer(s) you're delivering value to. Or, in other words, who are they? What do they do? And why would they buy your product or service?

Buyer personas are fictional depictions of an ideal or hypothetical client. Typically when brainstorming a buyer persona you'd want to define certain characteristics (age, demographic, gender, income, industry, pain points, goals, etc.)

The second phase is about figuring out your company's **value propositions**, and importantly, your **UVP** (unique value proposition). The "what" that makes customers turn to you, over your competitors? Which of their problems are you best at solving? Zara's principal value propositions are fairly clear. They offer various ranges of stylish men's, women's, and children's clothing and accessories at an affordable price.

The next step is to ask yourself **how** you are reaching your customers, and through **which channels**?
This includes both the channels that customers want to communicate with you as well as how they'll receive your products or services.
Is it going to be a physical channel? (store, field sales representatives, etc.) Or is it a digital channel? (mobile, web, cloud, etc.).

Once you have acquired customers, you will need to think about how you can **build**, **nurture,** and **grow** those relationships.
Zara’s relationship with its customers is threefold, and lies somewhere in the middle of transactional and personal:

1. **Salesperson** at store
2. **Brand** through social media
3. **Sentimental attachment** to a product

Now that you've described how you are going to create real value for your customers, it's time to look at how you plan to capture that value.
At Zara, it's extremely simple. They make their money by selling clothes and accessories either at a store or online.

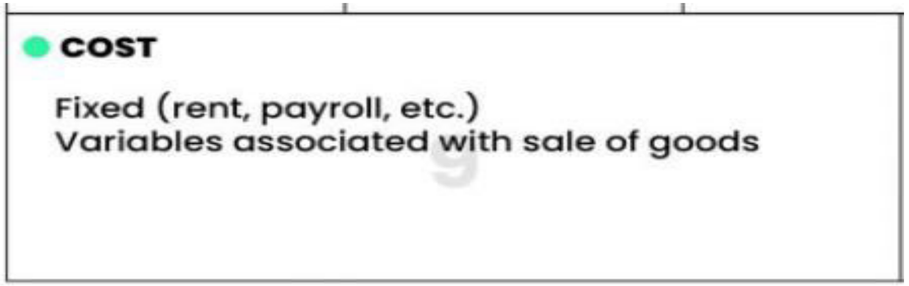
Now it’s time to move over to the left side of the business canvas model and look at what we need, **internally**, to deliver our value propositions.

The **key resources** are all things you need to have, or the assets required to create that value for customers.
This could be anything from **intellectual property** (patents, trademarks, copyrights, etc.) to **physical holdings** (factories, offices, delivery vans, etc.) right down to **finances** (the initial cash flow perhaps needed to start your brand)

The next step is to define the **key activities** – the areas you need to be good at to create value for your customers.

Most modern business models now require brands to build out and work with various **key partners** to fully leverage their business model.
This includes partnerships such as **joint ventures** and non-equity **strategic alliances** as well as typical relationships with buyers, suppliers, and producers.

Zara requires strategic partnerships with many different **providers** if they are to design and produce their collections.
Another key partner is their major holding company, **Inditex**.



The final step of the Business Model Canvas is to ask yourself, how much is it going to **cost** to run this model? This includes some of the more obvious needs such as manufacturing costs, physical space, rent, payroll, but also areas such as marketing activities.

BUSINESS MODEL CANVAS - ZARA

KEY PARTNERS

Providers

Holding company (Inditex)

KEY ACTIVITIES

Design
Manufacturing
Retail process (point of sale & 3rd party management)
Distribution channels and logistics

KEY RESOURCES

Stock

Large network of stores

Strong brand
Logistics and supply chain infrastructure

VALUE PROPOSITIONS

Fashionable clothes

Accessories

Great eCommerce experience

Flagship store experience

Fast-fashion

CUSTOMER RELATIONSHIPS

Salesperson at store
Brand through social media
Sentimental attachment to clothing/ accessories

CHANNELS

Direct store

Online

Social media

CUSTOMER SEGMENTS

Men

Women

Children

COST

Fixed (rent, payroll, etc.)
Variables associated with sale of goods

REVENUE STREAMS

Sales of clothing and accessories

BUSINESS MODEL CANVAS – NETFLIX

The Power MBA

KEY PARTNERS
- Internet service providers (ISP)
- 3rd party studios

KEY ACTIVITIES
- Content procurement
- Application development
- 3rd party licensing

KEY RESOURCES
- Streaming rights
- Internet bandwidth
- Recommendation algorithm
- Content library

VALUE PROPOSITIONS
- On-demand video
- Huge selection of content
- Original content
- Competitive price point

CUSTOMER RELATIONSHIPS
- Self-service platform

CHANNELS
- Website
- App store
- Affiliate partners

CUSTOMER SEGMENTS
- Mass market

COST
In-house content production
3rd party licensing
Streaming application (staff, maintenance, etc,.)

REVENUE STREAMS
Subscriptions

- **Advantages of the business model canvas:**
- Defines key activities that generate value and revenue for the business.
- Encourages strategic relationships with clients and partners.
- Enables testing of an existing business model against the market.

- **Disadvantages of the business model canvas:**
- It doesn’t accommodate businesses in very early stages of development.
- Enables risky assumptions within the business model, without offering a clear way to verify them.
- Focuses on the end-shape of the business without defining the strategy to get there.

- Both lean and business model canvas are visual representations of the reality in which your business operates. But, unlike the traditional business plan, they are sketches. You need to update them as you grow your business and learn.

- The lean and business model canvas allows you to capture your business model on a single page. The main difference between them is that lean canvas zeroes in on solving a problem. Meanwhile, the business model canvas centers around selling a specific product.

- The lean canvas is a variation of the business model canvas for lean startups. It was created by Ash Maurya who became concerned with risky assumptions enabled by the business model canvas.
- Lean canvas is a simpler approach, focusing on solving one problem at a time. It can be used even when you’re starting from scratch and helps you brainstorm solutions. It’s a good way to start if you want to identify a problem first - and derive your product from that.

Lean Canvas

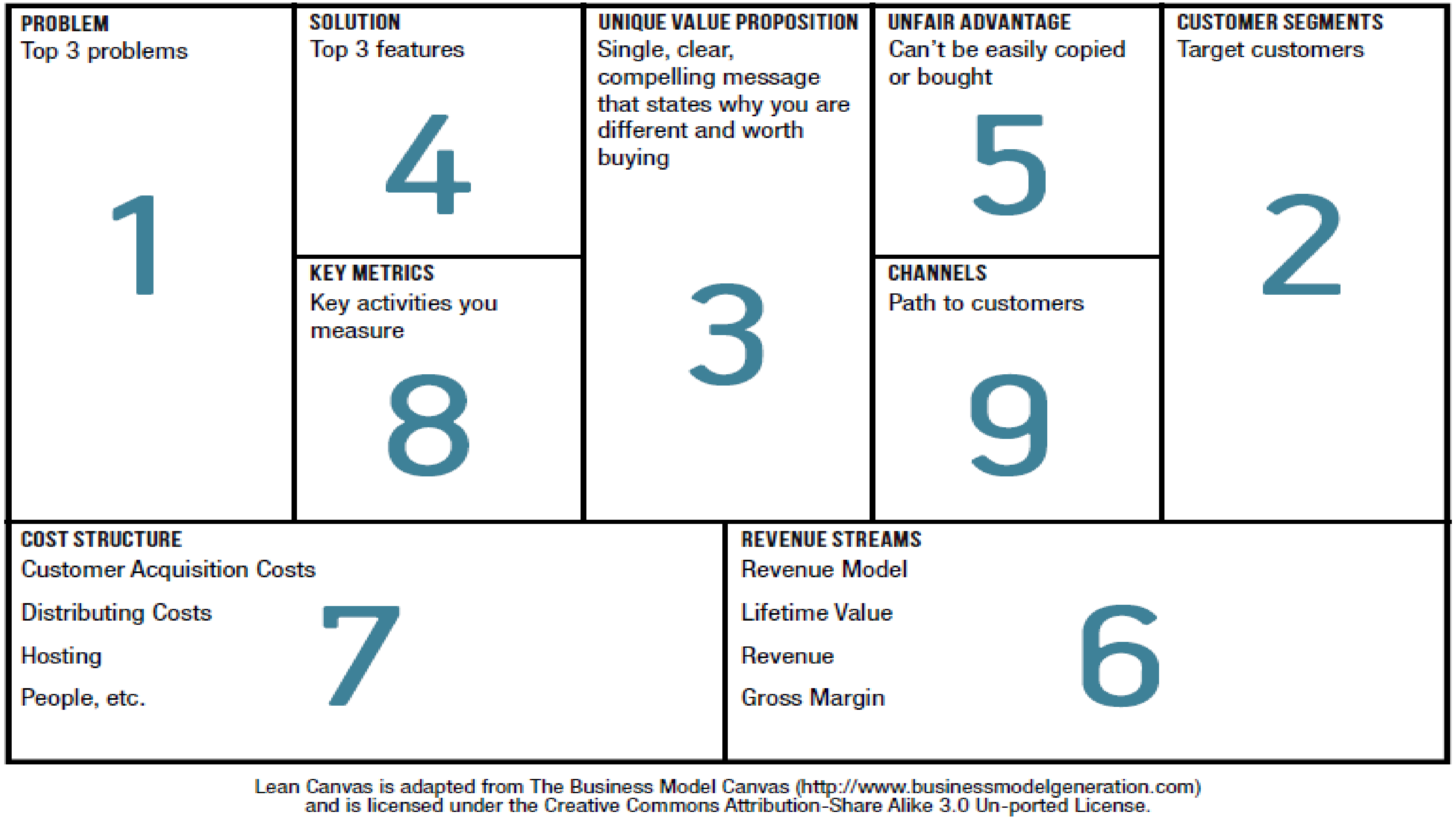
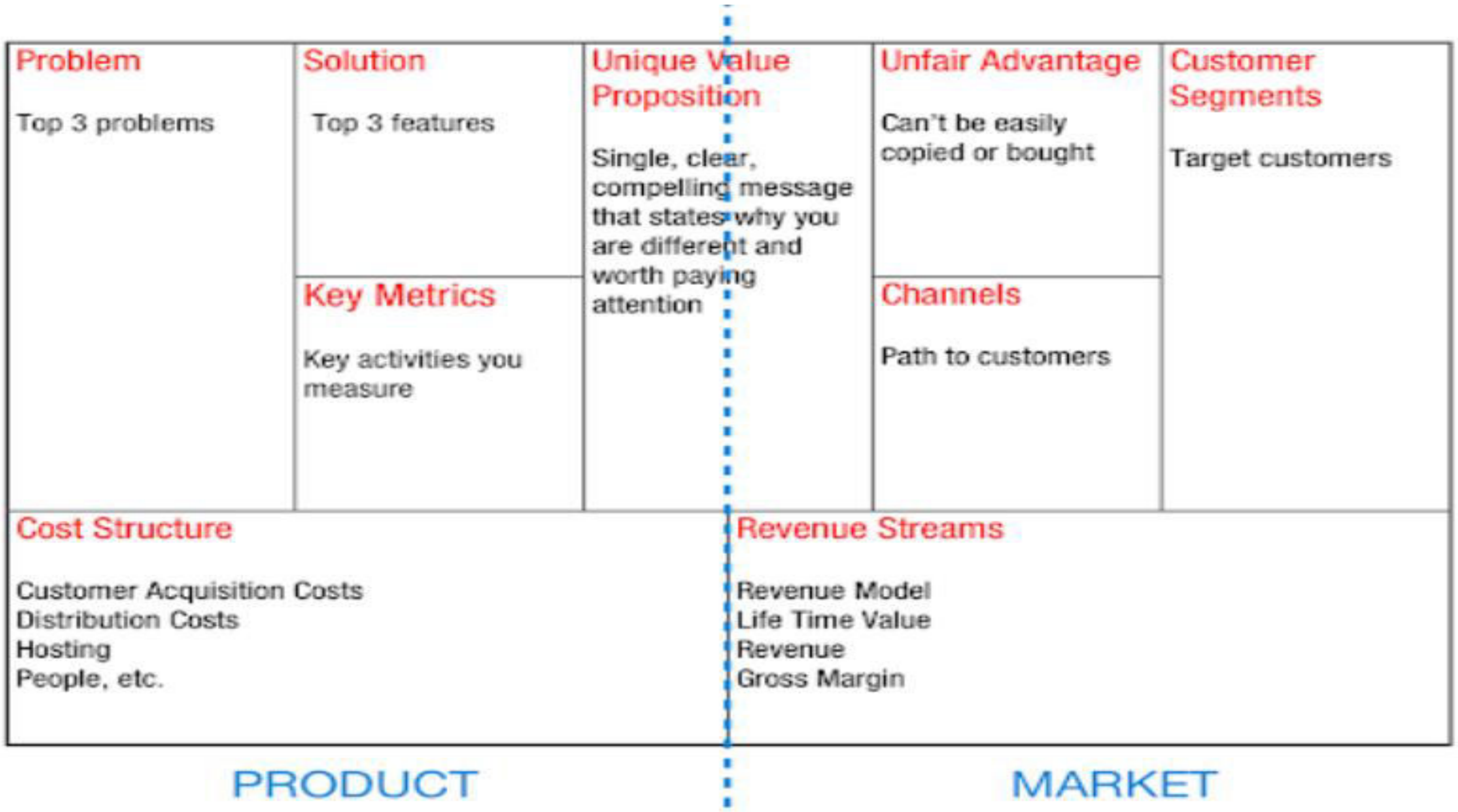


Figure 3-1. *Lean Canvas*

Lean Canvas


Problem
Top 3 problems
Solution
Top 3 features
Key Metrics
Key activities you measure
Unique Value Proposition
Single, clear, compelling message that states why you are different and worth paying attention
Unfair Advantage
Can't be easily copied or bought
Channels
Path to customers
Customer Segments
Target customers
Cost Structure
Customer Acquisition Costs
Distribution Costs
Hosting
People, etc.
Revenue Streams
Revenue Model
Life Time Value
Revenue
Gross Margin
PRODUCT
MARKET

- **The 9 elements of the lean canvas, with examples from the Uber London**

- Problem, e.g. difficult to find a cab when you need it
- Solution, e.g. guaranteed fast pick-up from your location
- Key metrics, e.g. apps installed, journeys booked
- Unique value proposition, e.g. taxi service, but cheaper, easier and safer
- Unfair advantage, e.g. high brand awareness
- Channels, e.g. friend referrals
- Customer segments, e.g. young, internet-savvy Londoners and tourists
- Cost structure, e.g. marketing, PR
- Revenue streams, e.g. 25% of fare based on route and idle time.

- **Advantages of the lean canvas**

- It focuses on understanding the problem that the business is trying to solve.
- Restrains the “solutions” box, encouraging simple and easily testable ideas.
- Proposes key metrics to evaluate whether the business is moving in the right direction.
- Accounts for uncertain conditions, assumptions, and incomplete data.

- **Disadvantages of the lean canvas**

- Overemphasizes the internal focus without accounting for the surrounding ecosystem.
- Lacks the “Resources” box which may lead to unrealistic product ideas.

The differences between lean canvas vs business model canvas

- **Adding the “Problem” and removing the “Key Partners” box**

- Charles Kettering once said that “a problem well stated is a problem half-solved.” Ash Maurya also believes that identifying the problem should be the starting point for any business.

- Many startups fail not because they can’t deliver the product, but because they misunderstand the problem they’re solving. The lean canvas makes sure the problem identification is a crucial step in the process.

- Meanwhile, Maurya decided to take out the “Key partners” box. Even though he recognizes the need to create business partnerships, he says that “when you are an unknown startup with an untested product, pursuing key partnerships from day one can be a form of waste.”
- With the lean approach, looking for partners comes later. The first concern is understanding the problem.

- **Adding the “Solutions” and removing the “Key Activities” box**

- The “Solutions” box in the lean canvas is small on purpose. This is aligned with the lean startup approach to MVP: developing a simple solution and checking if it works.

- Incorporating “Solutions” (in plural!) in the lean canvas prevents entrepreneurs from blindly following their first idea. Having it as a part of the lean canvas makes it subject to verification - just like any other part of the business model.
- At the same time, the “Key Activities” box from the original business model canvas was removed. That’s because key activities should derive from the “Solutions,” after they have been tested and validated through the MVP.

- **“Key metrics” instead of “Key Resources”**

- Key metrics were introduced to the lean canvas to give business owners a way to tell whether they’re on the right track.

- Initially, startups may be drowning in all kinds of data and numbers. It’s important to discern which of them are important and indicative of growth. Using the wrong (or too many) metrics as signs of growth can lead to enormous waste.

- Noah Kagan even said: “A startup can only focus on one metric. So you have to decide what that is and ignore everything else.”

- Why were the “Key Resources” removed? Ash Maurya argues that in the digital age, new-product development isn’t as resource-demanding as it used to be. On top, some of the key resources can also fall into the “unfair advantage” box.

“Unfair advantage” instead of “Customer Relationships”

- An unfair advantage in business is the shield against copycats and plagiarism. It’s the part of the business model that’s so unique and contextual that it’s extremely hard to replicate.

- When Ash Maurya added this box to the lean canvas, he was aware that few startups find their unfair advantage straight away. On day one, this box can be blank. But over time, it should inspire business owners to look for their unfair advantage that makes their solutions hard to copy.

- This box took the place of “Customer Relationships” in the business model canvas. That’s because startups don’t usually strategize their first relationships with clients. Rather, raw interactions emerge through customer interviews, product tests, and feedback.

Types of Business Model

Aspect	B2B Business Model	B2C Business Model
Definition	– B2B businesses sell products or services to other businesses or organizations. – Transactions are typically larger in scale and involve contracts and negotiations.	– B2C businesses sell products or services directly to individual consumers. – Transactions are often smaller and focus on individual customer needs.
Target Audience	– B2B businesses target other businesses, institutions, or organizations as their customers.	– B2C businesses target individual consumers as their customers.
Purchase Decision Process	– B2B purchases often involve a more complex decision-making process, with multiple stakeholders and a longer sales cycle. – Decision criteria may include cost savings, efficiency, scalability, and ROI.	– B2C purchases tend to have a shorter decision-making process, with individuals making purchasing decisions based on personal preferences, emotions, and immediate needs.
Sales Approach	– B2B sales typically involve direct sales representatives, account managers, and relationship-building. – Sales efforts focus on building long-term partnerships.	– B2C sales may use various channels, including e-commerce websites, retail stores, advertising, and promotions. – Sales efforts focus on brand awareness and consumer loyalty.
Marketing Strategies	– B2B marketing often involves targeted campaigns, industry-specific content, and trade shows or conferences. – Content focuses on educating and addressing the unique needs of businesses.	– B2C marketing utilizes mass advertising, social media, influencer marketing, and promotions. – Content focuses on emotional appeal and consumer benefits.

Aspect	B2B Business Model	B2C Business Model
Product/Service Complexity	– B2B products or services may be more complex, specialized, and customized to meet the specific needs of businesses.	– B2C products or services are often designed for simplicity and mass appeal.
Customer Relationship	– B2B relationships tend to be long-term, built on trust and ongoing support. – Customer feedback and customization are common.	– B2C relationships may be shorter-term and transactional, with less ongoing interaction.
Key Differences	– B2B transactions are often based on contracts and long-term agreements. – Sales cycles are longer. – B2B marketing focuses on educating and addressing business needs.	– B2C transactions are typically individual purchases with no long-term commitments. – Sales cycles are shorter. – B2C marketing emphasizes emotional appeal and consumer benefits.
When to Use Each Model	– Use a B2B model when your product or service is tailored to the needs of other businesses or organizations. – Ideal for complex or specialized solutions.	– Use a B2C model when your product or service is designed for individual consumers. – Suitable for products with mass appeal.

B2B (Business-to-Business) Examples:

- **Cisco Systems**: They provide networking hardware and software solutions primarily to other businesses.
- **Slack**: While individuals can use Slack for personal reasons, it's primarily a collaboration tool for teams and businesses.
- **Adobe's Creative Cloud for Enterprises**: Adobe offers special enterprise-level packages of its Creative Cloud software suite tailored for business needs.
- **Dropbox Business**: While Dropbox offers personal cloud storage solutions, its business variant provides enhanced storage and collaboration tools for companies.
- **Mailchimp**: Primarily used by businesses for email marketing campaigns and automations.
- **LinkedIn's Marketing Solutions**: LinkedIn offers advertisement and marketing solutions specifically targeting professionals and other businesses.
- **Boeing**: They primarily sell airplanes to airlines and governments, not to individual consumers.

B2C (Business-to-Consumer) Examples:

- **Netflix**: Directly provides streaming services to individual subscribers.
- **Coca-Cola**: While they do sell to distributors and retailers, their primary focus is on the end consumer who drinks their beverage.
- **Nike**: They design and sell footwear, apparel, and equipment directly to consumers, though they also have B2B operations.
- **Apple's iTunes**: While Apple has B2B components, iTunes primarily sells songs and movies to individual consumers.
- **Amazon Prime**: The subscription service offers individuals a range of benefits from fast shipping to streaming, although Amazon also has B2B operations.
- **McDonald's**: They primarily serve food directly to individual consumers, though there's a B2B component in sourcing ingredients and franchise operations.
- **Spotify**: Provides music streaming services directly to individual user

Types of business models and examples

1. Retailer model

- A retailer is the last link in the supply chain. These businesses purchase goods from manufacturers or distributors and then sell them to customers for a price that will both cover expenses and turn a profit. Retailers may specialize in a particular niche or carry a range of products.
- **Examples:** Many of the businesses you patronize day to day are probably retailers, from grocery stores to pharmacies to florists.

2. Manufacturer model

- A manufacturer converts raw materials into products. Then, they sell those products to distributors, retailers or directly to consumers.
- **Example:** Manufacturing businesses build everything from furniture to pharmaceuticals. They can be companies of any size and in almost any industry.

3. Fee-for-service model

- A business charges a set fee for a specific service. A business set up on this model can increase its earnings by doing work for additional clients or by raising its rate
- **Example:** Hairstylists, accountants and real estate agents all charge fees for their specialized services. They may work independently or be affiliated with their shops/organization.

4. Subscription model

- Essentially, the customer makes a recurring payment for ongoing access to a service or product. A company may directly ship its product in the mail, or you may pay a fee to use its services.
- **Example:** Many local farms offer farm shares or community-supported agriculture subscriptions, where clients get access to fresh produce on an ongoing basis while crops are in season.

5. Bundling model

- The bundling business model involves companies selling two or more products together as a single unit, often for a lower price than they would charge selling the products separately.
- **Example:** Many class-based fitness centers and gyms use a type of bundling model, where clients pay fees for a certain number of classes per month. The more classes a client buys, the cheaper each individual class becomes, even though their total spend increases.

6. Product-as-a-service model

- Product-as-a-service businesses charge customers to use physical products. They may charge a subscription fee, a per-use or per-mile fee, or a combination of both.
- **Example:** Bike rental companies offer products as a service. Customers might pay an annual membership fee plus a per-mile fee each time they ride, or they might have the option to rent a bike for the day.

7. Leasing model

- Under a leasing business model, a company buys a product from a seller. That company then allows another company to use the product they purchased for a recurring fee. Leases usually have longer terms — days or weeks compared to minutes or hours.
- **Example:** A business that rents machinery like backhoes, augers and dozers to individuals for their home construction projects is using a leasing business model.

8. Franchise model

- A franchise is an established business blueprint that a franchisee purchases and reproduces. The franchiser, or original owner, works with the franchisee to help them with financing, marketing and other business operations to ensure the business functions as it should. In return, the franchisee pays the franchiser a percentage of the profits.
- **Example:** Domino’s,

9. Distribution model

- A company operating as a distributor is responsible for taking manufactured goods to the market. To make a profit, distributors buy the product in bulk and sell it to retailers at a higher price.
- **Example:** A chain of beauty salons that buys supplies in bulk and sells some of them to other salons is using a distribution business model

10. Freemium model

- In a freemium model, customers can use parts of a product or service for free but must pay for access to more advanced features. This model is common in the software-as-a-service space — Spotify, for instance, has a free ad-supported tier, but subscribers get to listen ad-free.
- **Example:** Some news and internet publishing companies use a freemium model, where some or all content is free but premium content or special features are paywalled.

11. Advertising or affiliate marketing model

- With advertising, a business sell its audience’s attention. Advertisers pay for space — whether it’s in the pages of a magazine or on the side of a vehicle — with rates usually determined by the size of the business's audience.
- **Example:** A fashion blogger who sells ads on their podcast or website is using an advertising model.

- **Diversifications in B2B Business Models**

As you might have imagined, a model as complex as B2B ought to be divided into several categories. They are divided into 3 types basically.

A) Supplier Centric Model

- Supplier-centric models form the type of business where a supplier sets up a marketplace and intends to sell his customized solutions to various businesses. Most of them price their solutions according to the needs of the client/buyer.

B) Buyer Centric Model

- This type of business model is most popular among the big corporates who involve in transactions with huge purchasing capacity and high volume purchases. The company here sets up a portal, mostly online to accept quotations from different sellers. The sellers then approach the company with their quotations and the company chooses to go with a seller that they deem profitable after thorough analysis.

C) Intermediary Centric Model

- Intermediaries in the marketplace are the ones who provide a common platform for Buyers and Sellers to come together and interact, interactions in this sector can be in the form of transactions or plain communication. They maintain a database of buyers and sellers and their main goal is to profit from these associations.
- **B2B Business Model Example: Apple & Samsung**

Diversifications in B2C Business Models

- Reaching out to consumers and selling products to them is the primary goal of a B2C business model. To accomplish this, B2C has been divided into different categories based on the type of audience and the type of targeting used to reach them.

A) E-Retail or E-Tailing

- E-Retailing has become the latest trend. Most consumers have an online presence these days and reaching them online is the cheapest and fastest mode. Businesses have realized this and have started setting up websites and marketing campaigns to reach and sell products to netizens.

B) Brick & Click Retail

- You are all familiar with the typical brick and mortar shops, the kind where you walk in, select your goods, pay at the counter and take your goods.
- Now, these businesses have realized the potential of the Internet and have started reaching out to a wider audience by setting up websites for their shops.
- The best example of Brick and Click retail is TATA-owned electronic showroom chain Croma. They began with a brick-and-mortar shop which spread throughout the country garnering loyal customers for over a decade. Recently they started advertising their products through the croma.com website and now even have a dedicated online shopping portal called tatacliq.com

C) Virtual Malls

- Visiting a mall is an experience in its own, you get overwhelmed with the abundant choices that they portray, always providing a fair level of competition to all businesses. Now imagine an online version of the same, that is the whole concept of Virtual Malls.
- It is a website hosting several merchants, giving them a space on the web to showcase their products. The website owners charge a nominal fee from sellers to display and sell products.
- These types of malls are better for businesses who want to market their Books, Music, Movies, Software or something along that line.

- **Running Lean** offers a **systematic process** that allows startups **to iterate from their initial plan (Plan A) to a plan that actually works**, all while ensuring that resources are utilized effectively.

- **Step 1: Document Your Plan A**
- The first step is to **document your initial vision**. As entrepreneurs, we are most passionate about the solution box and what we are naturally good at; however, **our job isn't just building the best solution, but owning the entire business model and making all the pieces**. This can be done using the Lean Canvas, a one-page business model diagram that is fast, concise, and portable, designed to be a quick and evolving document that captures the key elements of your business model.
- **Sketch your initial canvas** in less than 15 minutes, leaving sections blank as needed. Think in the present and adopt a customer-centric approach.

What is Risk

Douglas Hubbard makes a clear distinction between the two in his book, *How to Measure Anything* (Wiley):

- *Uncertainty: The lack of compete certainty, that is, the existence of more than one possibility.*
- *Risk: A state of uncertainty where some of the possibilities involve a loss, catastrophe, or other undesirable outcome.*

The good news is that the Lean Canvas automatically captures uncertainties that also are risks—the loss here can be quantified both in terms of opportunity costs and real costs. But not all these risks are equal.

The way you quantify risk in your business model is by quantifying the probabilities of a specific outcome along with quantifying the associated loss if you're wrong. This is a key step to prioritizing what's riskiest on your business model and determining where to start.

- Risks in a startup can be divided into three general categories, listed here

and depicted in Figure

- ***Product risk (P)***

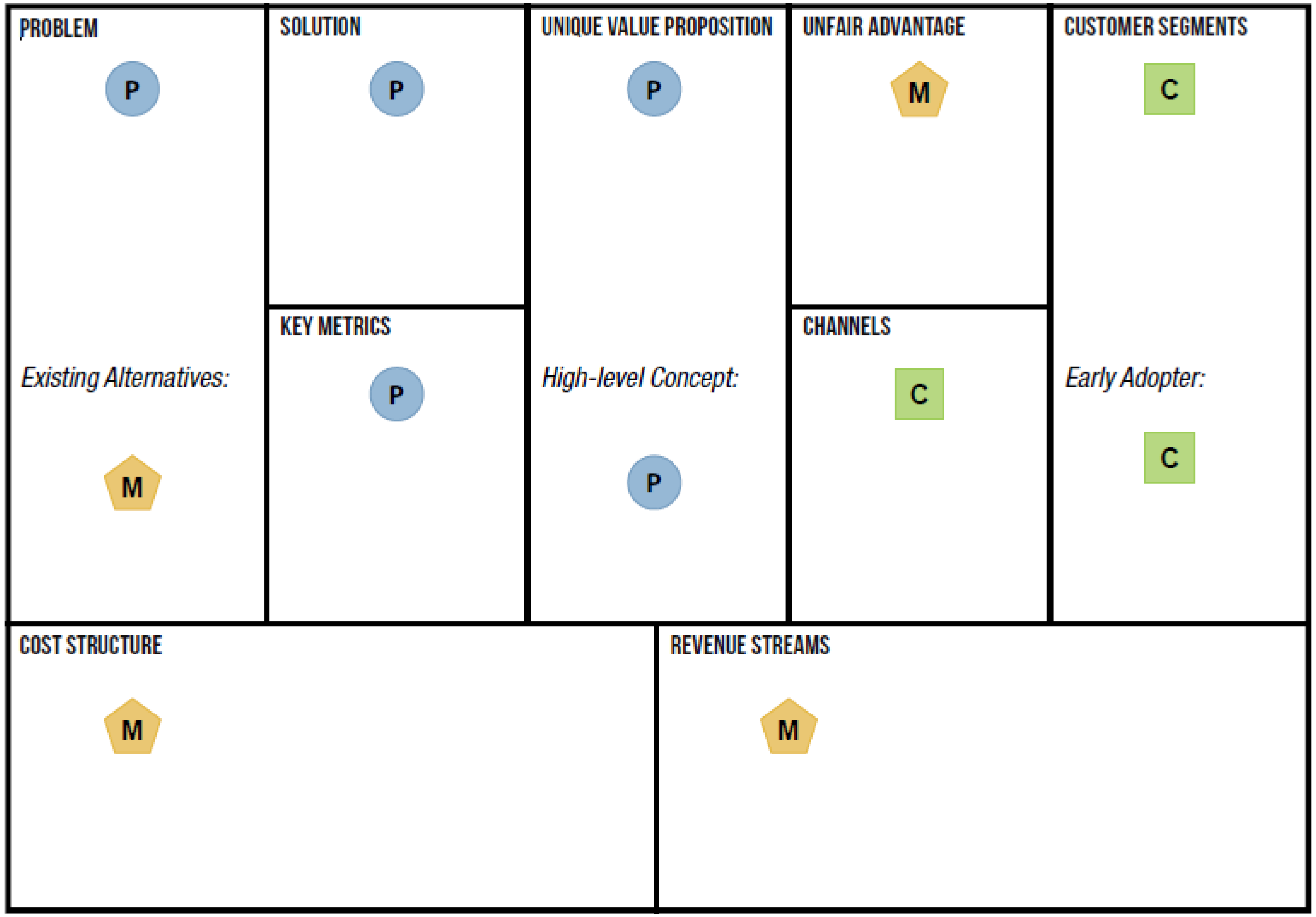
Getting the product right

- ***Customer risk (C)***

Building a path to customers

- ***Market risk (M)***

Building a viable business



Lean Canvas is adapted from The Business Model Canvas (http://www.businessmodelgeneration.com) and is licensed under the Creative Commons Attribution-Share Alike 3.0 Un-ported License.

Tackling all these risks at once can be overwhelming, which is why you need to prioritize them based on the stage of your product, and tackle them systematically

The different categories / types of risks faced by startups

- Startups face various types of risks that can impact their success and sustainability. Understanding and managing these risks is crucial for the long-term viability of a startup. Here are different categories or types of risks faced by startups:

- Market Risks:
- Customer Acceptance: The risk that the target market may not accept or adopt the product or service as expected.
- Competitive Landscape: Intense competition can impact market share and profitability.
- Market Size and Growth: The market may be smaller than anticipated, or its growth may not meet expectations.

- Financial Risks:
- Cash Flow Issues: Insufficient cash flow can lead to operational challenges and even bankruptcy.
- Budget Overruns: Exceeding planned expenditures can strain financial resources.
- Funding Shortfalls: Difficulty in securing funding or investor interest.

The different categories / types of risks faced by startups

- Operational Risks:

- Supply Chain Disruptions: Issues with suppliers or logistics can disrupt operations.
- Technology Failures: Technical glitches or failures can affect product/service delivery.
- Human Resource Challenges: Employee turnover, lack of skilled personnel, or team conflicts.

- Regulatory and Compliance Risks:
- Legal Compliance: Failure to comply with regulations and laws can lead to fines or legal actions.
- Policy Changes: Changes in government policies can impact the business environment.

- Strategic Risks:
- Execution Risks: Challenges in implementing business plans and strategies effectively.
- Partnership Risks: Dependence on key partners or collaborations may face challenges.
- Scalability Issues: Difficulty in scaling operations to meet demand.

The different categories / types of risks faced by startups

- Reputation Risks:
- Brand Damage: Negative publicity, customer dissatisfaction, or public perception issues.
- Social Media Risks: Viral negative feedback on social media platforms.

- Cybersecurity Risks:
- Data Breaches: The risk of unauthorized access to sensitive information.
- Hacking and Fraud: Security threats to digital assets and financial transactions.

- Environmental and External Risks:
- Economic Downturns: Economic fluctuations affecting consumer spending.
- Natural Disasters: Environmental events disrupting operations.

The different categories / types of risks faced by startups

- Intellectual Property Risks:
- Infringement Issues: Legal challenges related to the infringement of patents or copyrights.
- Lack of Protection: Failure to protect intellectual property adequately.

- Pandemic and Global Risks:
- Health Crises: Events such as pandemics impacting global operations.
- Political Instability: Geopolitical events affecting international business.
- Managing and mitigating these risks involves strategic planning, regular assessment, and agility in responding to changes in the business environment. Startups that proactively address these risks increase their chances of long-term success.

Seek External Advice

- effective technique for further calibrating your risks is getting out of the building and validating them with people other than yourself.
- *It is imperative that you share your model with at least one other person.*
- An early advisor might be a prototypical customer, a potential investor, or another entrepreneur with specific expertise, domain knowledge, or experiential knowledge that applies to you.

Here are some guidelines for running business model interviews:

- *Devote 20% of your time to setup, 80% to conversation.*

It's found that leaving the complete canvas open in front of people always evokes a reaction because people can visualize the entire model and they always have an opinion.

- *Ask specific questions.*

I specifically want to know:

– What do they consider to be the riskiest aspect of this plan? – Have they overcome similar risks? How? – How would they go about testing these risks? – Are there other people I should speak with?

- *Be wary of the "advisor paradox."*

Just as customer interviews aren't about asking customers what they want, these interviews aren't about asking advisors what to do.

The key is not to take this feedback as either "judgment" or "validation," but rather as a means of *identifying and prioritizing risk*.

- *Recruit visionary advisors.*

Much like early adopters want to help when you nail their problems, visionary advisors will want to help when you present them with interesting problems that trigger their strengths and passion.

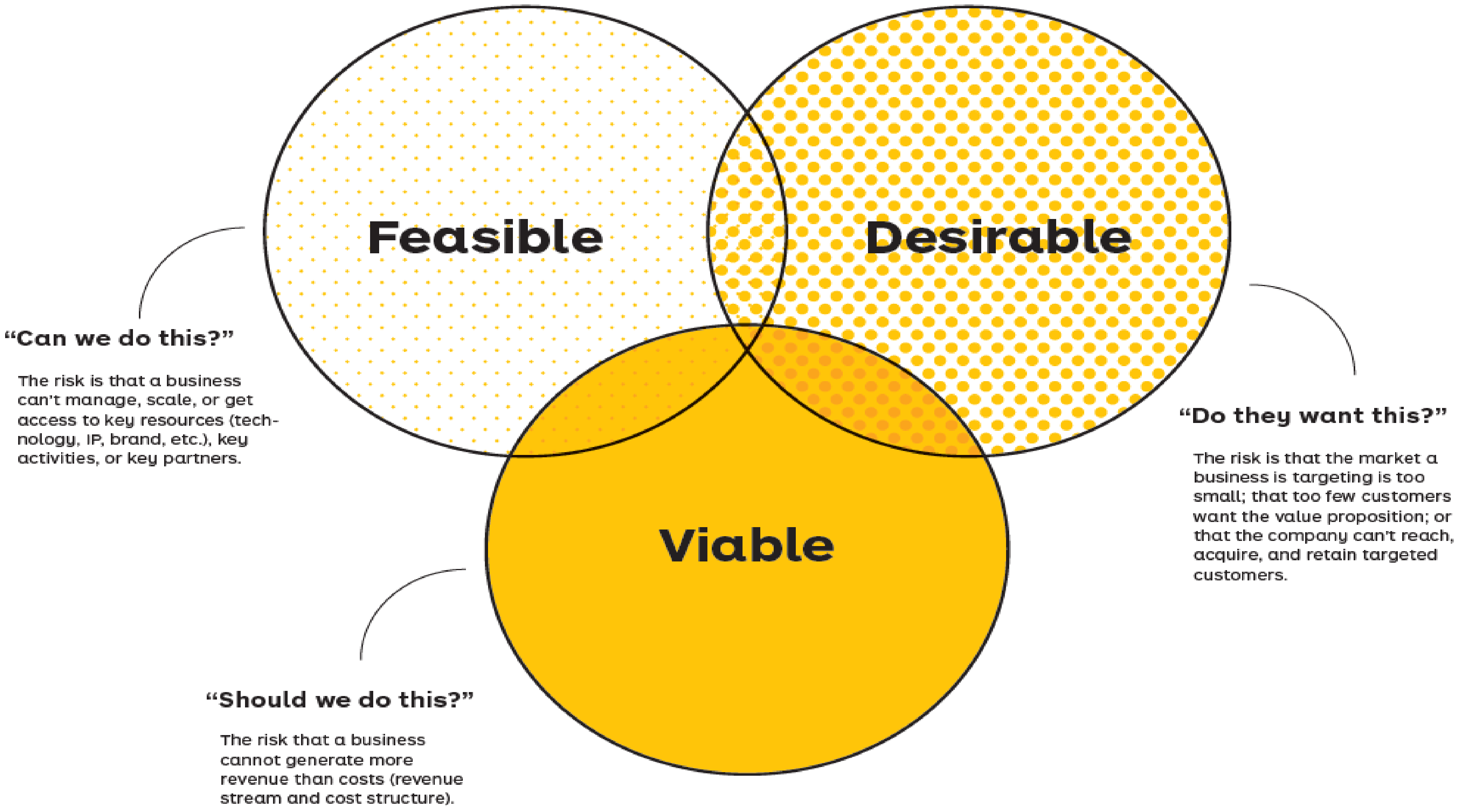
Hypothesis

For the purposes of Testing Business Ideas, we focus on your business hypothesis, which is defined as:

- an assumption that your value proposition, business model, or strategy builds on.
- what you need to learn about to understand if your business idea might work.
- When creating hypotheses you believe to be true for your business idea, begin by writing the phrase “We believe that…”
- **Characteristics of a good hypothesis**

subscription business.

	✕	✓
Testable Your hypothesis is testable when it can be shown true (validated) or false (invalidated), based on evidence (and guided by experience).	– *We believe millennial parents prefer craft projects.*	☐ *We believe millennial parents prefer curated science projects that match their kids' education level.*
Precise Your hypothesis is precise when you know what success looks like. Ideally, it describes the precise what, who, and when of your assumptions.	– *We believe millennials will spend a lot on science projects.*	☐ *We believe millennial parents with kids ages 5–9 will pay $15 a month for curated science projects that match their kids' education level.*
Discrete Your hypothesis is discrete when it describes only one distinct, testable, and precise thing you want to investigate.	– *We believe we can buy and ship science project boxes at a profit.*	☐ *We believe we can purchase science project materials at wholesale for less than $3 a box.* ☐ *We believe we can ship science project materials domestically for less than $5 a box.*



Types of Hypotheses

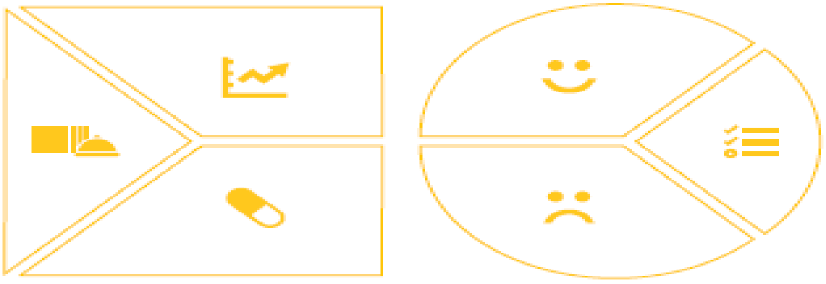
Adapted from Larry Keeley, Doblin Group and IDEO.

MARKET RISK

Desirability Hypotheses

Explore first

The Value Proposition Canvas contains market risk in both the Value Map and Customer Profile. Identify the desirability hypotheses you are making in:



Customer Profile

We believe that we...

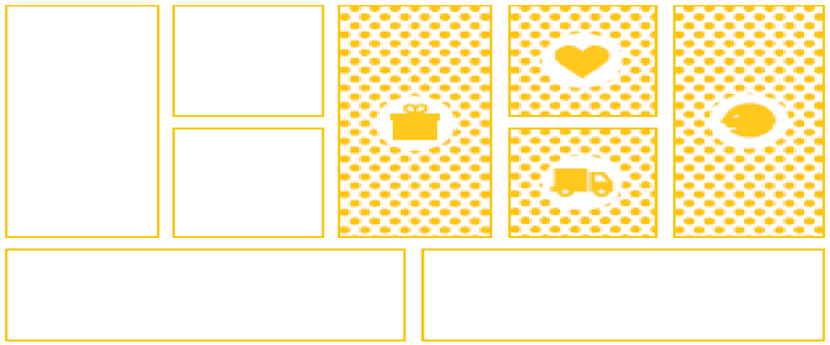
- are addressing jobs that really matter to customers.
- are focused on pains that really matter to customers.
- are focused on gains that really matter to customers.

Value Map

We believe...

- our products and services really solve for high-value customer jobs.
- our products and services relieve top customer pains.
- our products and services create important customer gains.

The Business Model Canvas contains market risk in the value proposition, customer segment, channel, and customer relationship components. Identify the desirability hypotheses you are making in:



Customer Segments

We believe...

- we are targeting the right customer segments.
- the segments we are targeting actually exist.
- the segments we are targeting are big enough.

Value Propositions

We believe...

- we have the right value propositions for the customer segments we are targeting.
- our value proposition is unique enough to replicate.

Channels

We believe...

- we have the right channels to reach and acquire our customers.
- we can master the channels to deliver value.

Customer Relationships

We believe...

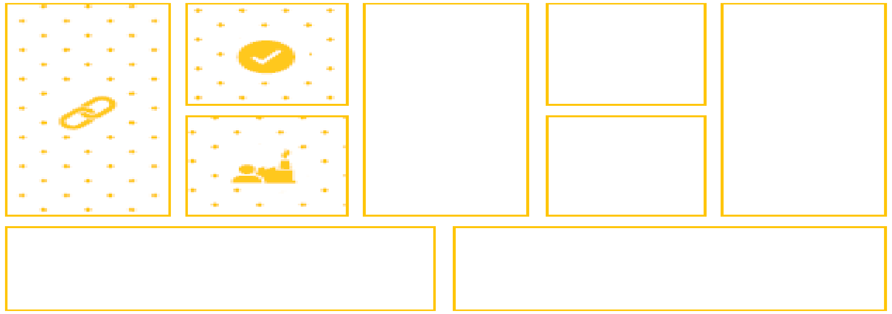
- we can build the right relationships with customers.
- it is difficult for customers to switch to a competitor's product.
- we can retain customers.

INFRASTRUCTURE RISK

Feasibility Hypotheses

Explore second

The Business Model Canvas contains infrastructure risk in the key partners, key activities, and key resources components. Identify the feasibility hypotheses you are making in:



Key Activities

We believe that we...

- can perform all activities (at scale) and at the right quality level that is required to build our business model.

Key Resources

We believe that we...

- can secure and manage all technologies and resources (at scale) that are required to build our business model, including intellectual property and human, financial, and other resources.

Key Partners

We believe that we...

- can create the partnerships required to build our business.

FINANCIAL RISK

Viability Hypotheses

Explore third

The Business Model Canvas contains financial risk in the revenue stream and cost structure. Identify the viability hypotheses you are making in:

Revenue Streams

We believe that we...

- can get customers to pay a specific price for our value propositions.
- can generate sufficient revenues.

Cost Structure

We believe that we...

- can manage costs from our infrastucture and keep them under control.

Profit

We believe that we...

- can generate more revenues than costs in order to make a profit.

Assumption(Hypothesis) Mapping

- *A team exercise where desirability, viability, and feasibility hypotheses are made explicit and prioritized in terms of importance and evidence.*
- **Core team**

The core team consists of individuals who are going to be dedicated to making this new business endeavor a success. They are cross-functional. This means they have product, design, and technology skills needed to ship and learn rapidly in the market with real customers. At a minimum, the core team needs to be present when mapping out the assumptions from your Business Model Canvas.

- **Supporting team**

The supporting team consists of individuals who are not necessarily dedicated to the business endeavor but who are needed for it to be a success. People from legal, safety, compliance, marketing, and user research will be required for testing assumptions where the core team lacks the domain knowledge and know-how. Without a strong supporting team, the core members may lack evidence and make uninformed decisions about what's important.

ASSUMPTIONS MAPPING

Identify Hypotheses

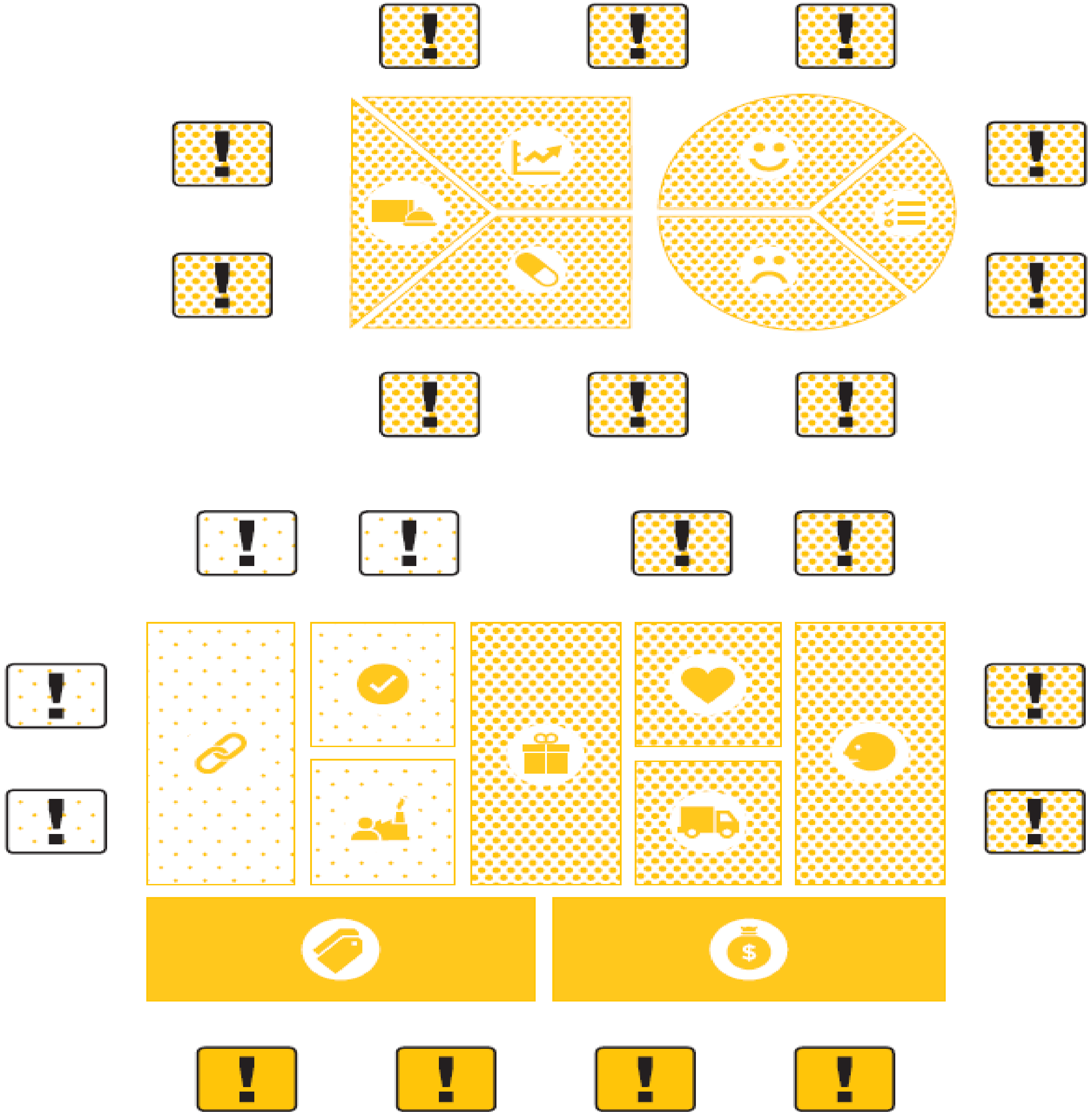
Step 1

Use a sticky note to write down each:

- desirability hypothesis and put it on your canvases.
- feasibility hypothesis and put it on your canvases.
- viability hypothesis and put it on your canvases.

Best Practices

- Use different color sticky notes for desirability, feasibility, and viability hypotheses.
- Your hypotheses should be as specific as possible, to the best of your knowledge, based on what you know today.
- Every hypothesis should be a single sticky note. Don't use bullet points; that makes it easier to prioritize your hypotheses.
- Keep your hypotheses short and precise. No blah blah blah.
- Discuss and agree as a team when writing.



ASSUMPTIONS MAPPING

Prioritize Hypotheses

Step 2

Use the Assumptions Map to prioritize all your hypotheses in terms of importance and existence or absence of evidence that supports different types of hypotheses.

x-Axis: Evidence
On the x-axis you place all your hypotheses positioned to show how much evidence you have or don't have to support or refute a specific hypothesis. You place a hypothesis on the left if you are able to produce relevant, observable, and recent evidence to support a hypothesis. You place a hypothesis on the right if you do not have evidence and therefore will need to generate it.

y-Axis: Importance
On the y-axis you place all your hypotheses in terms of importance. Position a hypothesis at the top if it is absolutely critical for your business idea to succeed. In other words, if that hypothesis is proven wrong, your business idea will fail and all other hypotheses become irrelevant. You place a hypothesis at the bottom if it is not one of the first things you'd go out and test.

Top Left

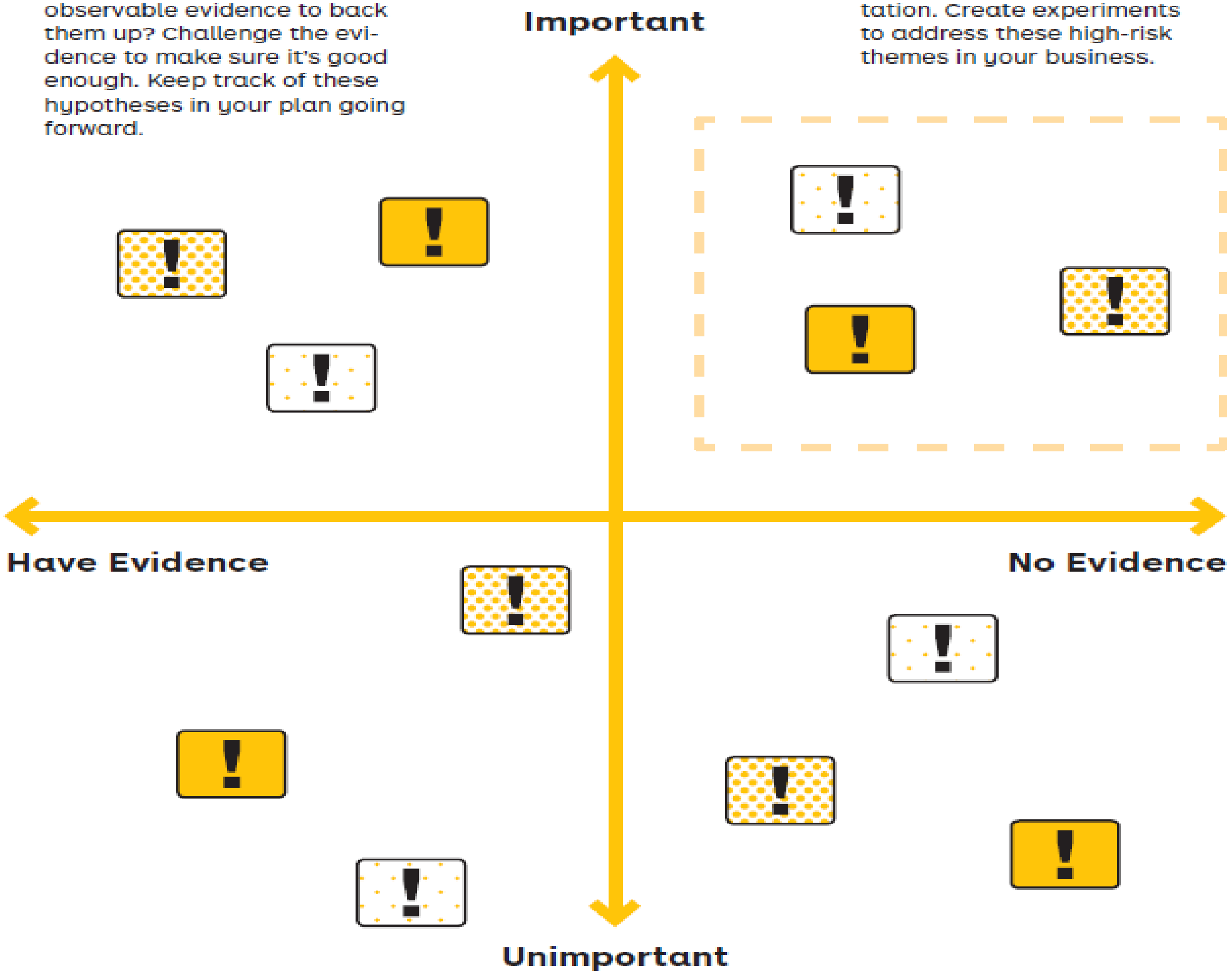
Share

Check the top left quadrant against your evidence and share it with the team. Do these hypotheses really have observable evidence to back them up? Challenge the evidence to make sure it's good enough. Keep track of these hypotheses in your plan going forward.

Top Right

Experiment

Focus on the top right quadrant to identify which hypotheses to test first. This defines your near-term experimentation. Create experiments to address these high-risk themes in your business.

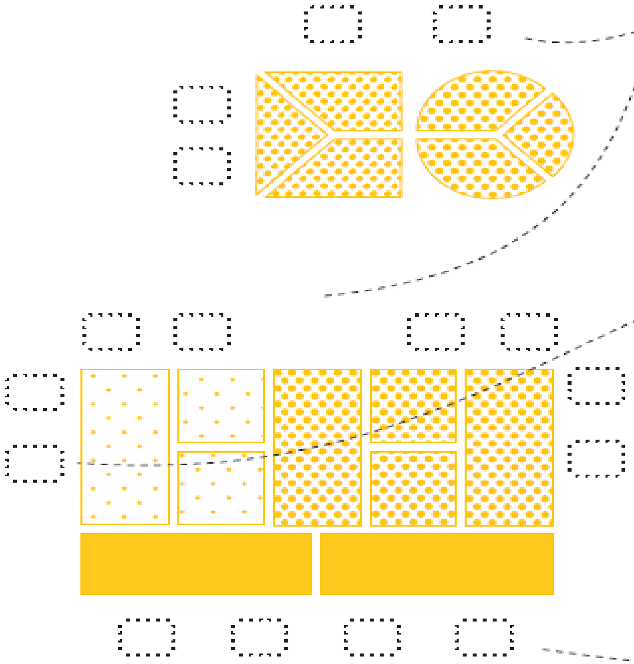


ASSUMPTIONS MAPPING

Identify and Prioritize Riskiest Hypotheses

Step 3

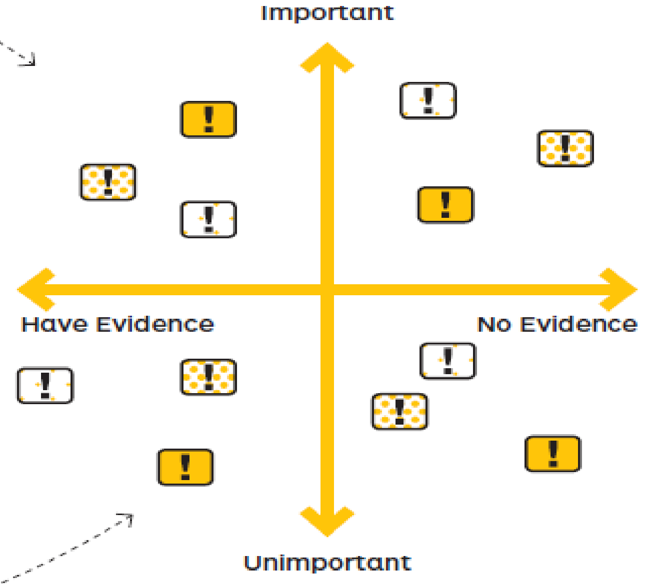
For the purposes of this book, the major focus will be on how to test the top right quadrant of your Assumptions Map: experiments with important hypotheses and with light evidence. These assumptions, if proven false, will cause your business to fail.



Prioritize Desirability Hypotheses
As a team, pull over each desirability hypothesis and place it on the Assumptions Map.

Prioritize Feasibility Hypotheses
Next, pull over each feasibility hypothesis and place it on the Assumptions Map.

Prioritize Viability Hypotheses
Then pull over each viability hypothesis and place it on the Assumptions Map.



Entrepreneurship Development

Develop the Solution Demo

Build solution (mockups) demo, how to run solution interviews, GOOTB: Run Solution interviews.

Does your solution solve the problem for your customers: The problem-solution test?

Sizing the Opportunity

Differences between a Startup venture and a small business; Industry Analysis

Understanding what Competition is and its role, Analyze competition

Case study: Blue Ocean Strategy

Building an MVP

Identify an MVP and build it - I; Document and validate your assumptions

Build-Measure-Learn feedback loop and the MVP/Javelin Board

How to do MVP Interviews

GOOTB: Run MVP interviews

Is there a market for your product --The product-market fit test

Validation

Develop the solution demo - build solutions Mockups demo as a part of validation entrepreneurship development

- Creating a solutions mockup demo is an essential part of validating entrepreneurship development.
- This process helps you visualize and communicate your business concept effectively to potential stakeholders, partners, and investors

Step-by-Step guide to developing a mockup demo

1. Define Your Problem Statement:

Clearly articulate the problem your solution aims to address.

Understand your target audience and their pain points.

2. Research and Ideation:

Research your target market to gather insights and understand the competition.

Brainstorm potential solutions and features that address the problem

3. Create a Value Proposition:

Define a compelling value proposition that highlights the unique benefits of your solution.

4. Sketch Your Solution:

Start with rough sketches on paper to visualize the user interface and user experience.

Focus on key screens and functionalities.

5. Choose the Right Tools:

Select design and mockup tools such as Figma, Sketch, Adobe XD, or even pen and paper.

Step-by-Step guide to developing a mockup demo

6. Create Wireframes:

Develop wireframes that represent the layout and structure of your solution.

Ensure that wireframes are easy to understand and navigate.

7. Design High-Fidelity Mockups:

Once wireframes are approved, move on to designing high-fidelity mockups.

Pay attention to colors, typography, and detailed design elements.

8. Prototype Your Solution:

Use your high-fidelity mockups to create interactive prototypes.

Prototypes help users navigate your solution as if it were a real product.

9. Test Your Mockup:

Conduct usability testing with potential users to gather feedback.

Make improvements based on user feedback.

10. Create a Pitch Presentation:

Develop a compelling pitch presentation that explains your solution.

Include mockup images, user scenarios, and market research.

11. Build a Landing Page or Website:

Develop a simple landing page or website that showcases your mockup and provides information about your solution.

Step-by-Step guide to developing a mockup demo

12. Validate Your Solution:

- Share your mockup demo with potential users, partners, and investors.
- Gather feedback, analyze the response, and make necessary adjustments.

13. Iterate and Refine:

- Use feedback to iterate and refine your mockup demo.
- Continue testing and improving your solution's mockup until you are confident in its viability.

14. Document the Process:

- Keep detailed records of the development process, user feedback, and changes made.

15. Develop a Business Plan:

- Use the validated mockup demo as a foundation for your business plan.
- Include details on how you plan to develop the actual product and scale your business.

16. Seek Funding and Partnerships:

- With a validated mockup demo and a solid business plan, approach potential investors, accelerators, and strategic partners.

17. Maintain Engagement:

- Continue engaging with your target audience and gathering feedback even after securing funding or partnerships.

Step-by-Step guide to developing a mockup demo

- Natural causes: Human beings have little control over natural calamities like flood, earthquake, lightning, heavy rains, famine etc.
- Human causes: include such unexpected events like dishonesty, carelessness or negligence of employees, stoppage of work due to power failure, strikes, riots, managements inefficiency etc.
- Economic causes: include uncertainties relating to demand for goods, competition, price , collection of dues from customers, changes of technology or method of production etc.
- Other causes: These are unforeseen events like political disturbances (JK), mechanical failure such as the bursting of boiler, fluctuations in exchange rates, etc., which leads to the responsibility of business risk.

Run solution interviews

Running solution interviews is a key step in validating your business idea or product concept. These interviews involve discussing your proposed solution with potential customers or users to gather feedback, insights, and validate whether your solution addresses their needs and pain points. Here's how to conduct solution interviews effectively:

1. Identify Your Target Audience:

Define the specific segment of potential customers or users that you want to target. Understand their demographics, behaviors, and preferences.

2. Create an Interview Plan:

Develop a structured plan for your interviews, including objectives, a list of participants, questions, and a timeline.

3. Develop an Interview Script:

Create a set of open-ended questions to guide your interviews. These questions should encourage participants to express their thoughts, needs, and experiences related to the problem your solution aims to solve.

4. Find Participants:

Reach out to individuals who match your target audience. You can find participants through personal contacts, social media, online forums, or by attending relevant events.

5. Conduct the Interviews:

Schedule interviews with participants, either in person, over the phone, or via video conferencing, based on your convenience and the participants' availability.

6. Introduce Your Solution:

- Present your solution and explain how it can address the problems or challenges they've described. Be concise and clear about your solution's key features and benefits.

7. Ask for Feedback

Encourage participants to provide honest and detailed feedback on your solution. Pose questions like:

  - "What are your thoughts on our solution's approach to addressing this problem?"
  - "Do you see any potential issues or limitations with our solution?"
  - "How does our solution compare to your current alternatives?"

8. Record and Analyze Responses:

Document participants' responses and feedback during the interviews. Look for common themes, recurring pain points, and suggestions for improvement.

9. Maintain Objectivity:

- Be objective and avoid leading participants toward favorable responses. You want to uncover their genuine thoughts and feelings.

10. Iterate and Improve:

- Use the feedback to make iterative improvements to your solution. Address identified pain points, incorporate valuable suggestions, and refine your solution based on user input.

11. Validate Your Solution:

- After making improvements, revisit participants or new interviewees and ask if the changes effectively address their concerns and needs.

12. Maintain an Ongoing Feedback Loop:

Continue to engage with potential and existing customers to ensure your solution continues to meet their evolving needs and expectations.

13. Make Data-Driven Decisions:

Use the insights gained from solution interviews to make informed decisions about your product or service, pricing, marketing, and overall strategy.

Solution interviews are a crucial part of the customer development process, allowing you to validate your solution and make necessary adjustments to increase its chances of success in the market. Listening to your potential customers and iterating based on their feedback is a key principle in entrepreneurial success.

Does your solution solve the problem for your customers?

To determine whether your solution effectively solves the problem for your customers, you need to conduct thorough customer validation and gather feedback. This is a critical step in the development and success of any product or service. Here's how to assess whether your solution addresses your customers' needs:

- Conduct Customer Interviews: Engage with your target audience through customer interviews. Ask open-ended questions to understand their pain points, challenges, and needs. These interviews help you gather insights into the specific problems your customers are facing.
- Introduce Your Solution: After identifying their pain points, present your solution and explain how it can address the issues they've mentioned. Be clear and concise about the key features and benefits of your solution.

- Gather Feedback: Encourage customers to provide honest and detailed feedback about your solution. Ask for their opinions, concerns, and suggestions for improvement. Be prepared to receive both positive and negative feedback.
- Observe User Behavior: If your solution is already in use, analyze user behavior and engagement. Metrics like user adoption rates, retention, and user satisfaction surveys can provide valuable insights into whether your solution is solving the problem.
- Iterate and Improve: Use the feedback and data you collect to make iterative improvements to your solution. Address identified pain points, enhance features, and refine your product or service based on user input.

- Validate Through Testing: Implement A/B testing, split testing, or other methods to compare the performance of your solution with variations. These tests can help confirm whether your solution is more effective at addressing the problem than alternatives.
- Measure Success Metrics: Define key performance indicators (KPIs) that will determine the success of your solution. These metrics may include user engagement, conversion rates, user satisfaction, and revenue. Regularly monitor these metrics to evaluate your solution's impact.
- Pilot Testing: If possible, offer your solution as a limited release or pilot program to a subset of your target audience. Collect feedback and data during this phase to make necessary improvements before a full launch.

- Seek Validation from Independent Sources: Consider third-party assessments, reviews, or endorsements. Independent validation can provide added credibility and assurance to potential customers.
- Continuous Feedback Loop: Maintain an ongoing feedback loop with your customer base. Stay engaged with them and seek feedback as you make updates and enhancements to your solution.
- Adapt and Pivot if Necessary: If your solution consistently fails to address your customers' problems or if the feedback suggests a fundamental issue, be open to pivoting or making significant changes to your offering.

The problem solution test

Testing your problem solution is a critical part of the entrepreneurial process. To effectively test your problem solution, you'll want to follow these steps:

1. Define Success Metrics:

- Clearly outline the key performance indicators (KPIs) that will determine the success of your solution. These metrics may include user engagement, conversion rates, user satisfaction, revenue, or any other relevant criteria.
- 2. Create a Testing Plan:
- Develop a structured plan that outlines how you intend to test your problem solution. Identify the target audience, testing methods, and a timeline for the testing phase.
- 3. Choose Testing Methods:

There are various methods to test your problem solution. Here are a few common approaches:

- User Testing: Have potential users interact with your solution and gather feedback on their experiences.
- A/B Testing: Compare different variations of your solution to see which one performs better.
- Surveys and Questionnaires: Collect user opinions and preferences through surveys.
- Focus Groups: Conduct group discussions with potential users to gain insights.
- Prototype Testing: Test early versions of your solution to identify design and usability issues.

The problem solution test

- 4. Conduct User Interviews:

Interview potential users to understand their pain points and gather their input on your solution. Ask for their feedback and suggestions for improvement.

- 5. Run A/B Tests:

If applicable, perform A/B tests to compare different versions or features of your solution to see which one resonates best with users.

- 6. Collect Feedback:

Encourage users to provide feedback through various channels, such as email, in-app feedback forms, or surveys. Analyze this feedback to identify areas for improvement.

- 7. Monitor Analytics:

Implement analytics tools to track user behavior and engagement with your solution. Analyze the data to gain insights into how users are using your product and where they might be encountering issues.

- 8. Iteration and Improvement:

Based on the feedback and data you collect, make iterative improvements to your solution. Focus on resolving identified pain points and enhancing user satisfaction.

The problem solution test

9. Validate the Market:

Test your solution in the market to see if it addresses a real need and if users are willing to pay for it. Consider offering your solution as a limited release or in a closed beta to validate demand.

10. Monitor Competition:

Keep an eye on your competitors and how they are addressing similar problems. Use this information to refine your solution and maintain a competitive edge.

11. Pivot if Necessary:

If testing reveals that your initial problem solution is not gaining traction or satisfying users, be open to pivoting. Adjust your solution based on the feedback and market dynamics.

12. Scale and Expand:

Once your problem solution has been tested and refined, develop a strategy for scaling and expanding your business. Seek additional funding and marketing efforts to reach a wider audience.

The testing phase is an ongoing process in entrepreneurship. Regularly assess your solution and be ready to adapt to changing circumstances and user needs. Ultimately, the success of your problem solution depends on your ability to listen to feedback, iterate, and consistently deliver value to your target audience.

Sizing the opportunity in entrepreneurship

Sizing the opportunity in entrepreneurship

- Sizing the opportunity in entrepreneurship involves evaluating the potential market for your business idea to determine its attractiveness, profitability, and feasibility. This is a critical step in the business planning process. Here's how to go about it:

1. Market Research:

- Start with comprehensive market research. Gather data on the industry, target market, and the specific problem or need your business aims to address. Use both primary (surveys, interviews) and secondary (industry reports, market data) research methods.

2. Define Your Target Audience:

- Identify your ideal customers. Create detailed customer personas to understand their demographics, behaviors, preferences, and pain points.

3. Market Size and Growth:

- Estimate the total addressable market (TAM), which is the maximum potential market for your product or service. Then, narrow it down to your serviceable, or obtainable, market (SAM) and your target market (SOM). Research market growth trends to understand if your target market is expanding.

4. Competitive Analysis:

- Analyze the competition in your target market. Identify key players, their market share, strengths, weaknesses, and their strategies. Determine where your business fits in this competitive landscape.

5. Market Trends:

- Explore current and future trends in the industry. Are there emerging technologies, consumer preferences, or regulatory changes that may affect your opportunity?

6. Customer Segmentation:

- Break down your target market into segments with similar characteristics and needs. Determine which segments are most likely to adopt your solution.

7. Customer Validation:

- Conduct surveys, interviews, or pilot studies to validate that there is a real demand for your product or service. Get feedback from potential customers to understand their pain points and whether your solution addresses them.

8. Pricing Strategy:

- Determine the optimal pricing strategy for your product or service. This should be based on a combination of production costs, competitor pricing, and what your target market is willing to pay.

9. Sales and Distribution Channels:

- Plan how you will reach your target customers. Identify the most effective sales and distribution channels for your business, whether it's direct sales, online sales, retail partnerships, or other methods.

10. Financial Projections:

- Develop financial projections based on your market research. Estimate revenue, expenses, and profitability over the short-term and long-term. Include factors like seasonality, customer acquisition costs, and customer lifetime value

- 11. Risk Assessment:
- Identify potential risks and challenges associated with your business opportunity. Evaluate how these risks might affect the size and viability of the opportunity.
- 12. Business Model Validation:
- Validate your business model by testing your value proposition, pricing, and distribution strategy through real-world experiments or pilot programs.
- 13. Pivot or Iterate:
- Be prepared to pivot or iterate your business idea based on the insights gathered during your opportunity sizing process. Your initial idea may evolve as you gain a deeper understanding of the market.
- 14. Document Your Findings:
- Document all your findings and market analysis in a well-structured business plan. This will be valuable not only for your own decision-making but also for attracting investors and stakeholders.
- Sizing the opportunity in entrepreneurship is a dynamic and ongoing process. It involves continuous monitoring of market dynamics, customer needs, and industry trends. A well-researched and properly sized opportunity will increase your chances of building a successful and sustainable business.

Startup Vs Small Business

- Facebook
- Twitter
- LinkedIn
- Pinterest
- WhatsApp

- A startup is a new buzzword in the corporate world. Almost every entrepreneur who starts a new business calls his/her venture a startup.
- But not every business is a startup.
- Many entrepreneurs realize later that their business was nothing but a small business from the very start.
- This creates a confusion of what exactly is a startup and how is it different from a small business.

What is a Startup

A startup is a business structure powered by disruptive innovation, created to solve a problem by delivering a new product or service under conditions of extreme uncertainty. For example – Headspace, Duolingo, etc.

Precisely, it’s a business structure that has the following characteristics

- Growth: Startup is a business structure designed to grow fast. According to Paul Graham, founder of Y Combinator, “A startup is a company designed to grow fast. Being newly founded does not in itself make a company a startup. Nor is it necessary for a startup to work on technology, or take venture funding, or have some sort of “exit.” The only essential thing is growth. Everything else we associate with startups follows from growth.”

- Business Model: Startups are known to have unconventional business models. This is because they venture into an untapped market or fulfil repressed demands of the market.
- Innovation: The mark of a true startup is disruptive innovation. Startups create new offerings or innovate the existing ones. They might also disrupt the way an offering reaches to the consumer and develop a new market for themselves.
- Uncertain Environment: Startups operate in a highly uncertain environment. The possibility of failure always hangs around an entrepreneur’s neck.

Any business structure that does not possess these four characteristics is not a startup.

What is a Small Business

A small business is a privately owned corporation, partnership, or sole proprietorship that requires less capital, less workforce, and little to no machinery. These businesses operate on a small scale to serve a local community and generate less annual revenue than a large corporation. For example, local grocery stores, hair salons, car garages, cafes, etc

Usually, a small business possesses the following characteristics –

- Limited Investment: Owners or a small group of individuals supply most of the capital requirements of the business. Since the scale of operations is small, the capital requirement is less.
- Labor-Intensive: Small businesses usually don’t require heavy or sophisticated machinery. It uses more labor-intensive techniques.

- Less Number of Employees: Small businesses employ a smaller number of employees as compared to large corporations. This is mainly due to their small scale of operations.
- Local Area of Operations: Businesses like groceries shop, bakeries, or hair salons are all small businesses. They operate locally and remain there for longer periods of time (years or maybe decades), this helps the businesses to build a strong relationship with local customers.
- Management: In most cases, the owner is also the manager of the business, which helps in quick decision making.

The challenges of new startup

- Starting a new business, while exciting, comes with a set of challenges that entrepreneurs must navigate. Here are some common challenges faced by new startups:

- Limited Resources:
- Financial Constraints: Limited funding can restrict operations and growth.
- Personnel: A small team may face challenges in managing various aspects of the business.

- Market Competition:
- Established Competitors: Competing with established businesses in the market.
- Differentiation: Standing out in a crowded market and differentiating the product or service.

- Uncertain Market Demand:
- Market Validation: Determining whether there's a demand for the product or service.
- Pivoting: Adjusting business models based on customer feedback and market response.

- Regulatory Compliance:
- Navigating Regulations: Complying with industry-specific regulations and legal requirements.
- Licenses and Permits: Obtaining necessary licenses and permits for operation.

The challenges of new startup

Building a Customer Base:

- Customer Acquisition: Attracting and retaining the first set of customers.
- Marketing: Developing effective marketing strategies on a limited budget.

- Talent Acquisition and Retention:
- Hiring Challenges: Attracting skilled and committed team members.
- Employee Retention: Retaining talent in the face of competition.

- Scaling Operations:
- Scaling Efficiently: Managing growth without compromising quality.
- Infrastructure: Ensuring the infrastructure can support increased demand.

- Cash Flow Management:
- Financial Planning: Balancing income and expenses for sustained operations.
- Invoice Payment: Dealing with delayed payments from clients.

- Technology Challenges:
- Adopting Technology: Keeping up with the latest technology trends.
- Cybersecurity: Protecting sensitive data from cyber threats.

The challenges of new startup

- Adaptability:
- Market Changes: Adapting to changes in market trends and consumer behavior.
- Pivoting Strategy: Being open to adjusting the business model based on feedback and trends.

- Building Brand Awareness:
- Marketing Effectiveness: Establishing and promoting the brand in the market.
- Brand Trust: Gaining the trust of customers in a competitive landscape.

- Time Management:
- Prioritization: Juggling multiple responsibilities and tasks.
- Meeting Deadlines: Delivering products or services on time.

- Legal Issues:
- Intellectual Property: Protecting intellectual property through patents, trademarks, etc.
- Contracts and Agreements: Ensuring legal agreements are clear and enforceable.

- Customer Feedback:
- Handling Feedback: Responding to both positive and negative customer feedback.
- Iterative Improvement: Continuously improving the product or service based on customer input.

The challenges of new startup

- Mental and Emotional Strain:

- Stress and Pressure: Managing the stress and pressure that comes with entrepreneurship.
- Work-Life Balance: Balancing work commitments with personal life.
- Navigating these challenges requires resilience, strategic planning, and a willingness to adapt. Successful startups often find creative solutions and learn from both successes and setbacks.

Startup	Small Business
Intent : The intention behind a startup is to disrupt the market with a scalable and impactful business model.	**Intent :** The sole intention of a small business' owner is to be her/his own boss and secure a place in the local market.
Innovation : Innovation is an essential part of startups as they always create a new unique offering or innovate an existing one.	**Innovation :** Small businesses deal in offerings that already exist in the market.
Business Model : Startups usually have unconventional business models that are new to the market. This puts a startup in a high-risk position.	**Business Model :** Small businesses adopt a tried and tested business model which creates a less risky situation.
Growth Rate : Startups witness an exponential growth which is without any limits.The biggest example is Facebook. After its launch, it grew exponentially throughout the world.	**Growth Rate :** Small businesses grow slowly and steadily. Their purpose is to maintain a steady income; therefore, the growth rate stops after reaching a certain level of income.
Source of Funding : Startups go through various rounds of equity funding. Their sources are angel investors, venture capitalists, corporates, etc.	**Source of Funding :** Small businesses acquire funds only in the initial stages of the business. Once established, they are either revenue financed or take business loans. They don't go through various rounds of equity funding like startups.
Revenue : A startup takes years to plan, collect funds, build a product, and execute. Therefore, it generates revenue in the later years.	**Revenue :** Small businesses make profits from the start since they operate on tried and tested business models, and provide offerings that already have a market.
Technology : Startups are often tech-oriented. Usually, startups use technology to disrupt the market.	**Technology :** Small businesses use traditional methods or minimum use of technology. The technology used in these businesses tends to be simple.

Differences Between Startups And Small Businesses

- **Scale and Growth**: Startups are typically focused on rapid growth and scaling their operations, aiming to disrupt existing markets or create new ones. Small businesses, on the other hand, are often focused on maintaining a stable and sustainable operation.
- **Innovation and Disruption**: Startups are driven by innovative ideas and disruptive technologies, aiming to solve a unique problem or address an unmet need in the market. Small businesses often offer established products or services in a specific niche.
- **Funding and Investment**: Startups often seek external funding from investors or venture capitalists to fuel their growth. Small businesses are often self-funded or rely on traditional financing methods like loans or personal savings.
- **Risk and Uncertainty**: Startups operate in a highly uncertain environment, taking risks to pursue ambitious goals. Small businesses, while still facing risks, often have a more stable and predictable business model.
- **Scalability and Replicability**: Startups aim to create scalable business models that can be replicated and expanded rapidly. Small businesses may focus on serving a specific local market and may not have plans for extensive scalability.
- **Time Horizon**: Startups are typically built with a long-term vision and the goal of eventually becoming a large company or being acquired. Small businesses often have a more immediate focus on generating consistent profits and sustaining their operations.
- **Organizational Structure**: Startups are often lean and agile, with a focus on experimentation and rapid decision-making. Small businesses tend to have a more defined organisational structure and may be more traditional in their operations.

Difference Between an Entrepreneur and a Small Business Owner

- Entrepreneurs tend to take big risks, have big-picture visions, and want to make a difference.
- Small business owners are often happy filling a need locally and supporting themselves.
- We need both in the world to meet the needs of our communities.

Industry analysis

- Industry analysis is a market assessment tool used by businesses and analysts to understand the competitive dynamics of an industry. It helps them get a sense of what is happening in an industry, e.g., demand-supply statistics, degree of competition within the industry, state of competition of the industry with other emerging industries, future prospects of the industry taking into account technological changes, credit system within the industry, and the influence of external factors on the industry.
- Industry analysis, for an entrepreneur or a company, is a method that helps to understand a company's position relative to other participants in the industry. It helps them to identify both the opportunities and threats coming their way and gives them a strong idea of the present and future scenario of the industry. The key to surviving in this ever-changing business environment is to understand the differences between yourself and your competitors in the industry and use it to your full advantage.

Types of industry analysis

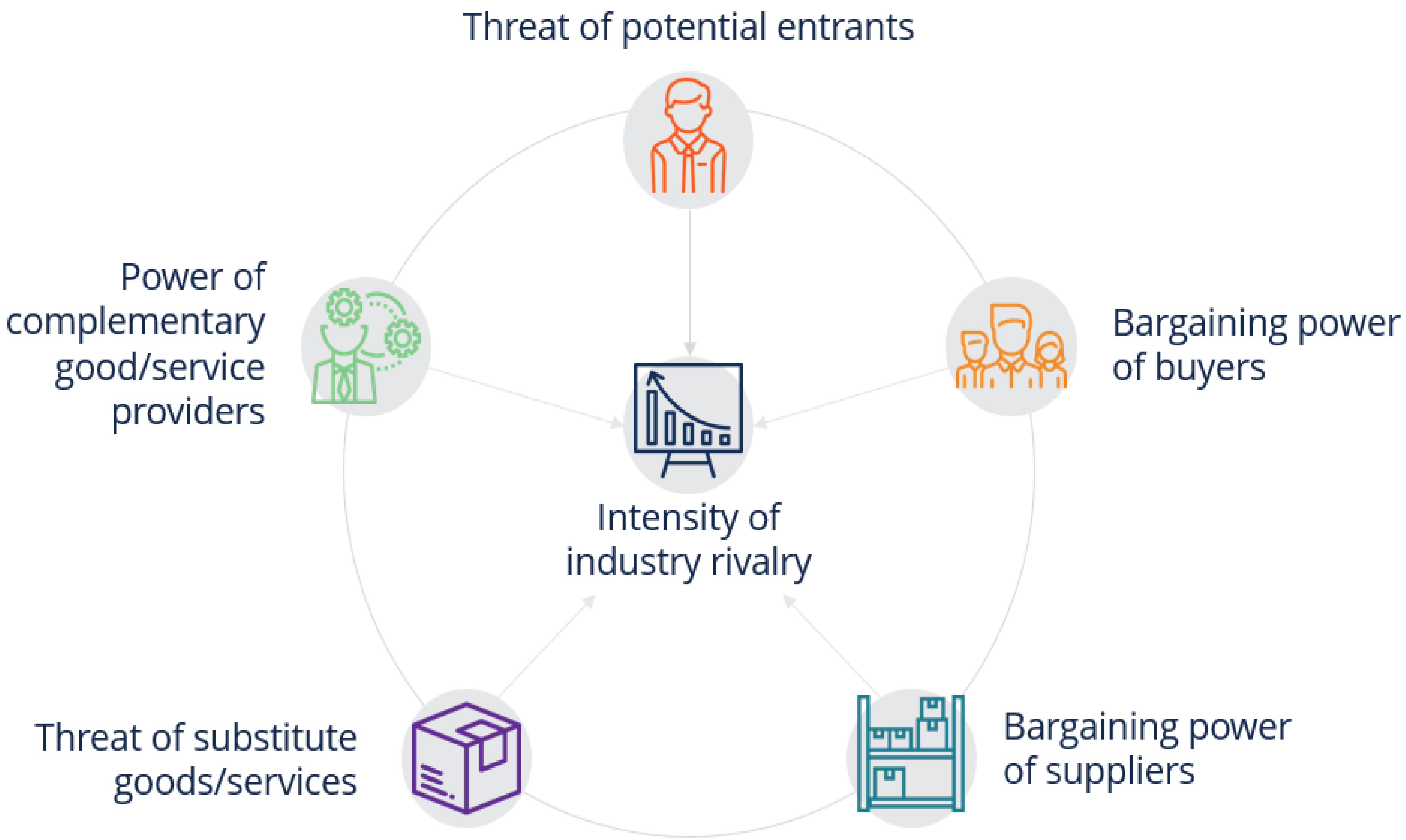
There are three commonly used and important methods of performing industry analysis. The three methods are:

- Competitive Forces Model (Porter's 5 Forces)
- Broad Factors Analysis (PEST Analysis)
- SWOT Analysis

1 Competitive Forces Model (Porter's 5 Forces)

- One of the most famous models ever developed for industry analysis, famously known as Porter's 5 Forces, was introduced by Michael Porter in his 1980 book "Competitive Strategy: Techniques for Analyzing Industries and Competitors."

- According to Porter, analysis of the five forces gives an accurate impression of the industry and makes analysis easier. In our Corporate & Business Strategy course, we cover these five forces and an additional force — power of complementary good/service providers.


Threat of potential entrants
Power of complementary good/service providers
Bargaining power of buyers
Intensity of industry rivalry
Threat of substitute goods/services
Bargaining power of suppliers

1. Intensity of industry rivalry

The number of participants in the industry and their respective market shares are a direct representation of the competitiveness of the industry. These are directly affected by all the factors mentioned above. Lack of differentiation in products tends to add to the intensity of competition. High exit costs such as high fixed assets, government restrictions, labor unions, etc. also make the competitors fight the battle a little harder.

2. Threat of potential entrants

This indicates the ease with which new firms can enter the market of a particular industry. If it is easy to enter an industry, companies face the constant risk of new competitors. If the entry is difficult, whichever company enjoys little competitive advantage reaps the benefits for a longer period. Also, under difficult entry circumstances, companies face a constant set of competitors.

3. Bargaining power of suppliers

This refers to the bargaining power of suppliers. If the industry relies on a small number of suppliers, they enjoy a considerable amount of bargaining power. This can particularly affect small businesses because it directly influences the quality and the price of the final product.

4. Bargaining power of buyers

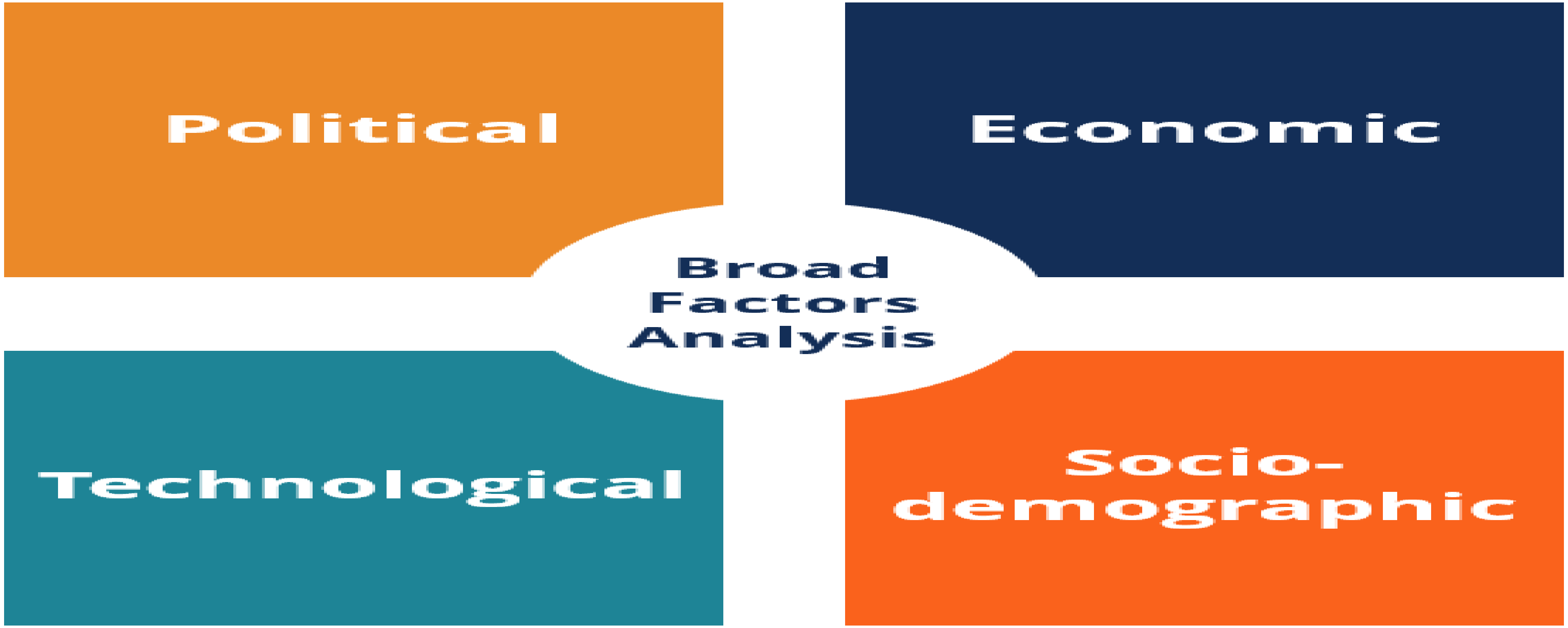
The complete opposite happens when the bargaining power lies with the customers. If consumers/buyers enjoy market power, they are in a position to negotiate lower prices, better quality, or additional services and discounts. This is the case in an industry with more competitors but with a single buyer constituting a large share of the industry’s sales.

5. Threat of substitute goods/services

The industry is always competing with another industry producing a similar substitute product. Hence, all firms in an industry have potential competitors from other industries. This takes a toll on their profitability because they are unable to charge exorbitant prices. Substitutes can take two forms – products with the same function/quality but lesser price, or products of the same price but of better quality or providing more utility.

Broad Factors Analysis (PEST Analysis)

Broad Factors Analysis, also commonly called the PEST Analysis stands for Political, Economic, Social and Technological. PEST analysis is a useful framework for analyzing the external environment.



Broad Factors Analysis (PEST Analysis)

To use PEST as a form of industry analysis, an analyst will analyze each of the 4 components of the model. These componentsinclude:

1. Political

Political factors that impact an industry include specific policies and regulations related to things like taxes, environmental regulation, tariffs, trade policies, labor laws, ease of doing business, and overall political stability.

2. Economic

The economic forces that have an impact include inflation, exchange rates (FX), interest rates, GDP growth rates, conditions in the capital markets (ability to access capital), etc.

3. Social

The social impact on an industry refers to trends among people and includes things such as population growth, demographics (age, gender, etc.), and trends in behavior such as health, fashion, and social movements.

4. Technological

The technological aspect of PEST analysis incorporates factors such as advancements and developments that change the way a business operates and the ways in which people live their lives (e.g., the advent of the internet).

Broad Factors Analysis (PEST Analysis)

SWOT Analysis stands for Strengths, Weaknesses, Opportunities, and Threats. It can be a great way of summarizing various industry forces and determining their implications for the business in question.

Strengths Characteristics of a business which give it advantages over its competitors	**Weaknesses** Characteristics of a business which make it disadvantageous relative to competitors
Opportunities Elements in a company's external environment that allow it to formulate and implement strategies to increase profitability	**Threats** Elements in the external environment that could endanger the integrity and profitability of the business

Industry Analysis

1. Internal

Internal factors that already exist and have contributed to the current position and *may* continue to exist.

2. External

External factors are usually contingent events. Assess their importance based on the likelihood of them happening and their potential impact on the company. Also, consider whether management has the intention and ability to take advantage of the opportunity/avoid the threat.

Importance of Industry Analysis

- **Industry analysis, as a form of market assessment, is crucial because it helps a business understand market conditions. It helps them forecast demand and supply and, consequently, financial returns from the business. It indicates the competitiveness of the industry and costs associated with entering and exiting the industry. It is very important when planning a small business. Analysis helps to identify which stage an industry is currently in; whether it is still growing and there is scope to reap benefits or has reached its saturation point.**
- **With a very detailed study of the industry, entrepreneurs can get a stronghold on the operations of the industry and may discover untapped opportunities. It is also important to understand that industry analysis is somewhat subjective and does not always guarantee success. It may happen that incorrect interpretation of data leads entrepreneurs to a wrong path or into making wrong decisions. Hence, it becomes important to collect data carefully.**

competition analysis

- understanding competition and analyzing competitors is a fundamental aspect of industry analysis. A thorough understanding of your competition and their role in the market is essential for making informed business decisions, identifying opportunities, and developing effective strategies. Here's how to analyze competition in your industry:
- 1. Identify Competitors:
- Begin by identifying who your direct and indirect competitors are. Direct competitors offer similar products or services to the same target audience, while indirect competitors may serve the same needs but in a different way.
- 2. Competitor Profile:
- Create detailed profiles for each of your competitors. Include information such as their size, market share, geographic reach, customer base, and key products or services.
- 3. Strengths and Weaknesses:
- Analyze the strengths and weaknesses of each competitor. This could include factors like brand reputation, technology, pricing, distribution, customer service, and marketing strategies.
- 4. Competitive Positioning:
- Determine how each competitor positions itself in the market. Are they known for quality, innovation, cost leadership, or some other distinctive factor?
- 5. Market Share:
- Estimate the market share held by each competitor. This helps you understand the relative influence and dominance of each player.

competition analysis

- 6. Pricing Strategy:
- Analyze the pricing strategies of your competitors. Are they pricing higher, lower, or at similar levels to your offerings? Understand the rationale behind their pricing.
- 7. Product and Service Offering:
- Evaluate the range of products or services offered by your competitors. Identify any unique features or offerings that set them apart.
- 8. Customer Base:
- Examine the customer base of each competitor. Do they target a specific demographic or market segment? Understanding their customer profile can help you identify gaps in the market.
- 9. Marketing and Branding:
- Study the marketing and branding strategies of your competitors. Analyze their advertising channels, messaging, and brand reputation.
- 10. Distribution Channels:
- Understand the distribution channels your competitors use to reach their customers. This may include direct sales, e-commerce, retail partnerships, or other methods.

competition analysis

- 11. Financial Health:
- Review the financial health of your competitors, if possible. This includes factors like revenue, profitability, and growth trends.
- 12. SWOT Analysis:
- Conduct a SWOT analysis for each competitor, highlighting their strengths, weaknesses, opportunities, and threats. This can provide a clear understanding of their competitive position.
- 13. Customer Feedback:
- Gather feedback from customers of your competitors. This can provide insights into customer satisfaction, pain points, and areas where competitors may be falling short.
- 14. Market Response:
- Monitor how competitors respond to market changes, trends, and emerging threats. This can reveal their adaptability and strategic agility.
- 15. Competitive Advantage:
- Assess whether your business can gain a competitive advantage over your competitors. Look for opportunities to differentiate, innovate, or reduce costs to gain a competitive edge.
- 16. Develop a Competitive Strategy:
- Based on your analysis, formulate a competitive strategy that addresses your competitors' strengths and weaknesses and positions your business effectively in the market.
- Analyzing competition is an ongoing process as the market evolves. Regularly monitoring your competitors and adapting your strategies accordingly can help your business thrive in a competitive landscape. Understanding your competition is not just about identifying threats but also recognizing opportunities to excel and capture market share.

What Is an MVP?

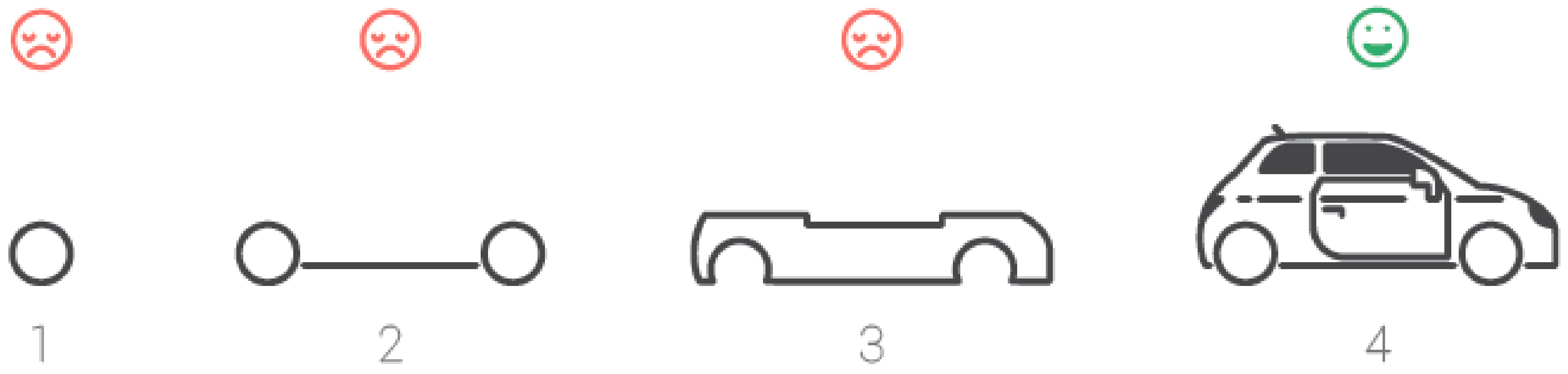
MVP, or Minimum Viable Product, is a beta, or a test, version of your product or service.

- When you decide to create customer-oriented software it's crucial to understand what the final users actually need.
- In this sense, to make sure you have the necessary information and understanding of what your customer wants you'll need to test your project– and this is where MVP comes in.
- The term **MVP (Minimum Viable Product)** is a part of Lean Startup methodology, that aims to reduce waste, optimize business processes, and make startup smarter, not harder.

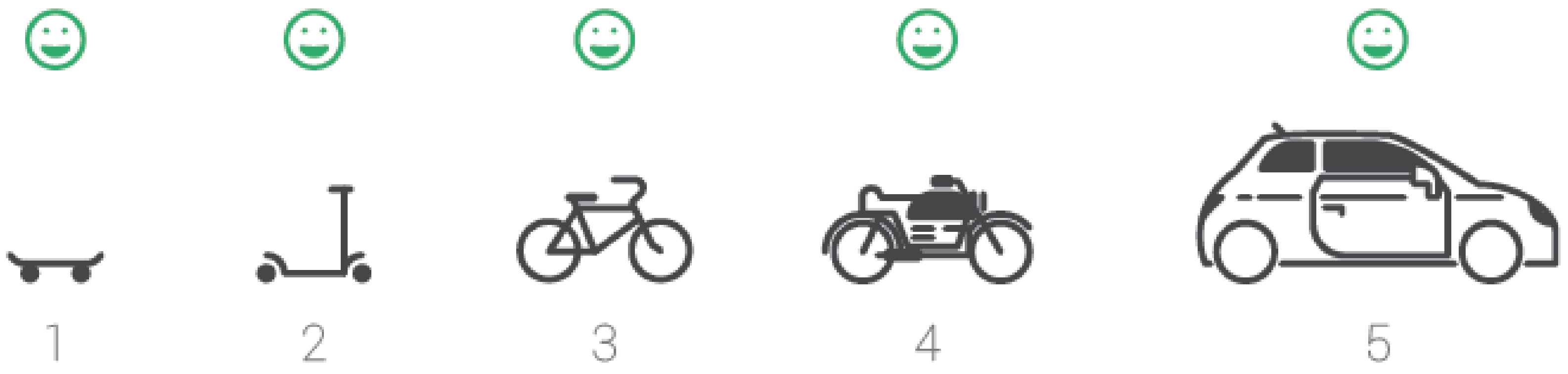
MVP is a perfect example of this methodology as it helps to reduce the cost and time waste of product launch while learning and optimizing the product in the process of development.

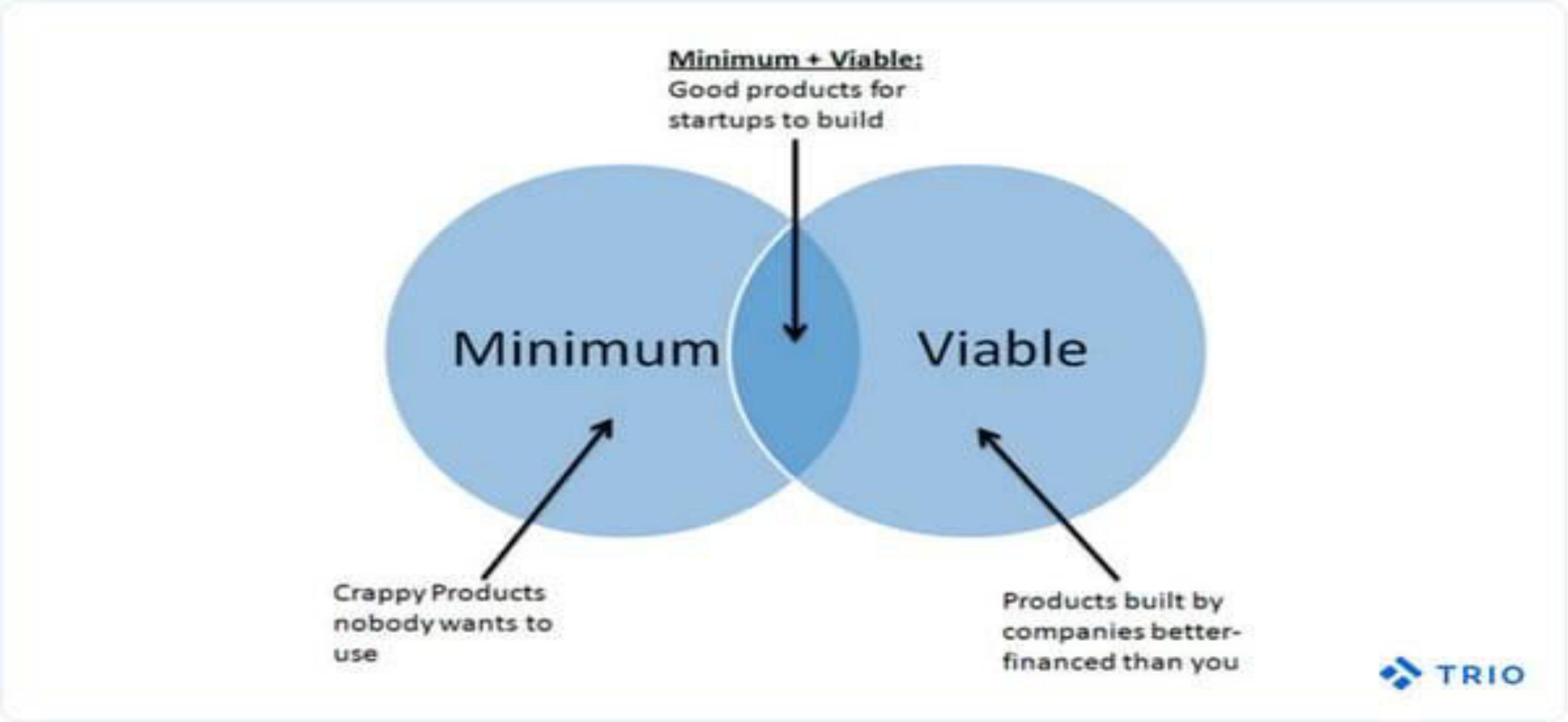
- When you build an MVP, it helps you to know the balance between the company's offer and customer's needs. Through several cycles of testing, this will help you to minimize errors and optimize your ideas during the development process.

How not to build a minimum viable product



How to build a minimum viable product




Minimum + Viable:
Good products for startups to build
Minimum
Viable
Crappy Products nobody wants to use
Products built by companies better-financed than you
TRIO

What Are the Main Benefits of an MVP?

- The process of building an MVP drives a lot of benefits for companies in the process of software and application development.
- **Without developing an MVP you might face a larger initial investment in software development and a higher risk when it comes to releasing your product into the market.**
- **MVP serves as a trial round** that allows you to see your idea in action and make the necessary adjustments to make it more appealing and valuable to the user. If you launch your app, with a lot of features, it'll be much harder to adjust in the future.
- Also, the **cost of building an MVP is much lower than a final version development**, due to step-by-step development. Furthermore, when your app starts to bring some profit, you can reinvest it into the development of additional features.
- At last, **building an MVP can also work to attract investors**. With a functioning product, you will have more chances to gather funds and attention from VCs or angel investors.

How To build an MVP: 5 Key Steps

- Market research
- Goal and main user identification
- Choosing features that are most relevant for the user
- Develop the MVP
- Receiving the feedback and analyzing results

How To build an MVP: 5 Key Steps

How To build an MVP: 5 Key Steps

1. Market research

No matter how innovative and interesting your idea maybe, you need to do market research to assess demand and competitors to avoid significant financial and time losses.

Familiarize yourself with your target audience before you get to the product development stage.

Market research helps you to identify your ideal customers, what makes your idea unique and viable, what problems it may solve, and how to make your product meet your customer's needs, before your even start to build an MVP.

Keep in mind that the key to successfully building an MVP is showing your target audience the value that your product will provide.

So during market research, it's crucial to decide how the user can benefit and how can you introduce the value to the customers.

2. Goal and main user identification

Establishing clear and specific metrics that will measure the launch success.

If you are developing an app, you can measure:

The number of downloads in a certain period of time

A total number of downloads

Review and feedback score

The time that users spend on the app

Anything else that helps you see if your MVP is meeting your customer's needs or if it needs adjustment

Facts and statistics can provide you with a realistic viewpoint and helps identify clear goals and what success would look like.

How To build an MVP: 5 Key Steps

3. Choosing features that are most relevant for the user

Once you get a clear idea of what value you are bringing to users, your business goals, and how you combine these two points, it's time to decide what your product will actually look like.

Think like the final user - mapping customer journeys provides you with information based on user behavior and helps you identify the sequence of actions that will solve the user's problem.

User journeys also include thoughts, feelings, and decisions that result in the user taking action. Journeys are a visual representation of the customer's relationship with your product.

Remember to take into consideration what your users are thinking and feeling while using your product as it will considerably affect their decision-making process. You can also use this information to redirect them from one feature to another within the product.

To understand your user's journey answer the questions that identify users and their personality, decision-making process, the final goal, and a series of actions that users need to take to meet this goal.

If you define several types of potential customers, focus on the one that you can most quickly provide the most value. That will save you time when you analyze the test results.

At this stage of the development process, you need to define which features will be included in MVP and which will not. Focus on a smaller number that provides the most benefit to the user as the core of your product. **These features have to solve the exact problems that you've identified earlier in your market in customer research.**

How To build an MVP: 5 Key Steps

4. Develop the MVP

Now that you have all the necessary information it's time to actually build an MVP.

The prototype should be user-friendly and engaging since it's a representation of the final product you are looking to develop and by no means can it fall behind in quality standards.

Focus on the main features that will deliver the solution for users as fast as possible.

Once your prototype is released you can consider which feature will be the priority for developing the final version of the product.

5. Receiving feedback and analyzing results

I believe that measuring the results is the most important part of the MVP development process. This is the real test for the viability of your product and it will determine the future direction in final product development.

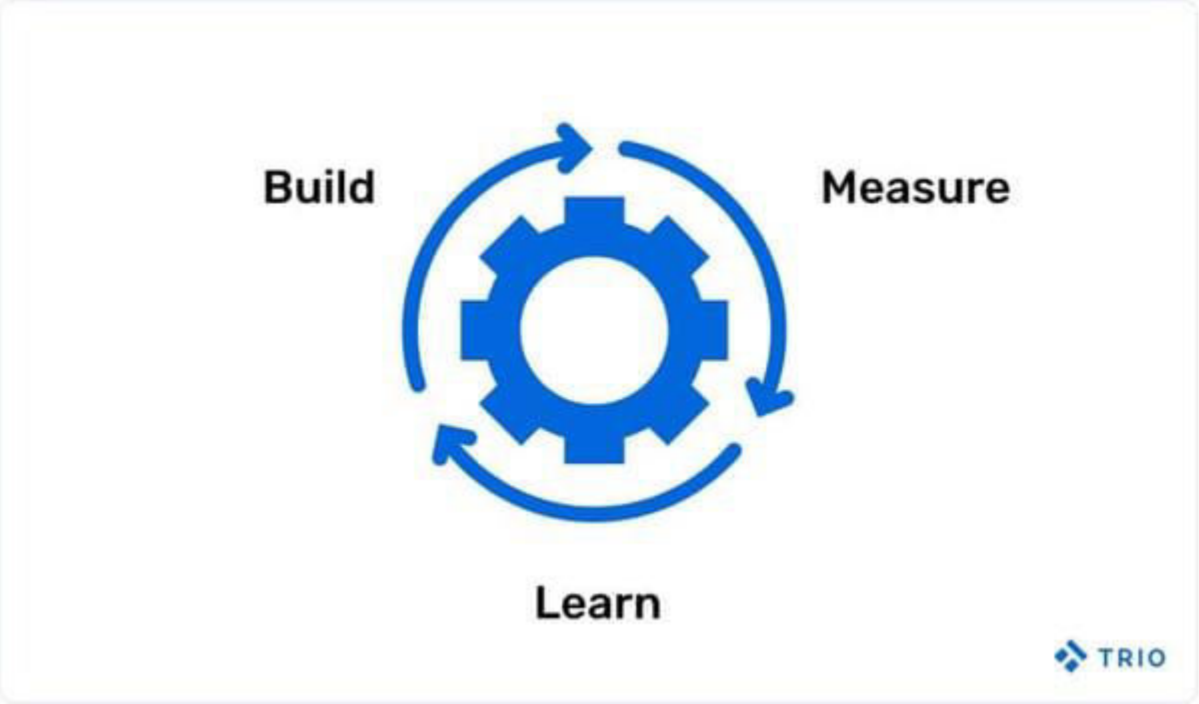
Listen carefully to what the users have to say. Even though you cannot satisfy every user in the market, user feedback can give you a very precise idea of the improvement of the features.

Modifying and tweaking are part of the development process of your product and you need to be prepared to adjust your product to the market needs.

You may need to run tests with adjustments several times before you are ready to develop the final product.

Adjusting and optimizing MVP for tests may seem like an unnecessary step but it gives you an opportunity to adapt the product perfectly to customer needs which can result in higher engagement and profit when the final version is released.

MVP Development
is the
Best Process for Idea Validation



Features of MVP

1. MVP should be focused on a single buyer persona. It works well when intended to solve the problems of one individual. You should always avoid building for multiple audiences.

2. It should be easy to build and facilitate a faster launch.

3. Despite building the MVP for a single individual, you should take into consideration several feedback. It is quite likely that diverse reviews can resolve most of the issues.

Take the feedback more seriously if the reviewer fits into the target audience of your product.

1. The minimalism of MVP does not imply that you expect more by putting in less efforts. It should highlight the problems that can be solved with the app and how it can do so.

Money

Fixed and Variable Costs

- Total Costs
    - Total Fixed Costs (TFC)
    - Total Variable Costs (TVC)
    - Total Costs (TC)
    - *TC = TFC + TVC*
- Average Costs
    - *Average Fixed Costs* (AFC)
    - *Average Variable Costs* (AVC)
    - *Average Total Costs* (ATC)
    - *ATC = AFC + AVC*

Average and Marginal Costs

$$AFC = \frac{\text{Fixed cost}}{\text{Quantity}} = \frac{FC}{Q}$$

$$AVC = \frac{\text{Variable cost}}{\text{Quantity}} = \frac{VC}{Q}$$

$$ATC = \frac{\text{Total cost}}{\text{Quantity}} = \frac{TC}{Q}$$

Average and Marginal Costs

- Marginal Cost
  - *Marginal cost* (MC) measures the increase in total cost that arises from an extra unit of production.
  - Marginal cost helps answer the following question:
    - How much does it cost to produce an additional unit of output?

Average and Marginal Cost

$$MC = \frac{\text{(change in total cost)}}{\text{(change in quantity)}} = \frac{\Delta TC}{\Delta Q}$$

The many types of cost: A summary

Term	Definition	Mathematical Description
Explicit costs	Costs that require an outlay of money by the firm	
Implicit costs	Costs that do not require an outlay of money by the firm	
Fixed costs	Costs that do not vary with the quantity of output produced	FC
Variable costs	Costs that vary with the quantity of output produced	VC
Total cost	The market value of all the inputs that a firm uses in production	$TC = FC + VC$
Average fixed cost	Fixed cost divided by the quantity of output	$AFC = FC / Q$
Average variable cost	Variable cost divided by the quantity of output	$AVC = VC / Q$
Average total cost	Total cost divided by the quantity of output	$ATC = TC / Q$
Marginal cost	The increase in total cost that arises from an extra unit of production	$MC = \Delta TC / \Delta Q$

Note how Marginal Cost changes with each change in Quantity.

Quantity	Total Cost	Marginal Cost	Quantity	Total Cost	Marginal Cost
0	$3.00	—			
1	3.30	$0.30	6	$7.80	$1.30
2	3.80	0.50	7	9.30	1.50
3	4.50	0.70	8	11.00	1.70
4	5.40	0.90	9	12.90	1.90
5	6.50	1.10	10	15.00	2.10

Table

Quantity of Lemonade (Glasses per hour)	Total Cost	Fixed Cost	Variable Cost	Average Fixed Cost	Average Variable Cost	Average Total Cost	Marginal Cost
0	$ 3.00	$3.00	$ 0.00	—	—	—	
							$0.30
1	3.30	3.00	0.30	$3.00	$0.30	$3.30	
							0.50
2	3.80	3.00	0.80	1.50	0.40	1.90	
							0.70
3	4.50	3.00	1.50	1.00	0.50	1.50	
							0.90
4	5.40	3.00	2.40	0.75	0.60	1.35	
							1.10
5	6.50	3.00	3.50	0.60	0.70	1.30	
							1.30
6	7.80	3.00	4.80	0.50	0.80	1.30	
							1.50
7	9.30	3.00	6.30	0.43	0.90	1.33	
							1.70
8	11.00	3.00	8.00	0.38	1.00	1.38	
							1.90
9	12.90	3.00	9.90	0.33	1.10	1.43	
							2.10
10	15.00	3.00	12.00	0.30	1.20	1.50	

The Cost of Producing Earrings							
Output	FC	VC	TC	MC	AFC	AVC	ATC
3	50	38	88	—	16.67	12.66	29.33
4	50	50	100	12	12.50	12.50	25.00
9	50	100	150	—	5.56	11.11	16.67
10	50	108	158	8	5.00	10.80	15.80
16	50	150	200	—	3.13	9.38	12.50
17	50	157	207	7	2.94	9.24	12.18
22	50	200	250	—	2.27	9.09	11.36
23	50	210	260	10	2.17	9.13	11.30
27	50	255	305	—	1.85	9.44	11.30
28	50	270	320	15	1.79	9.64	11.42

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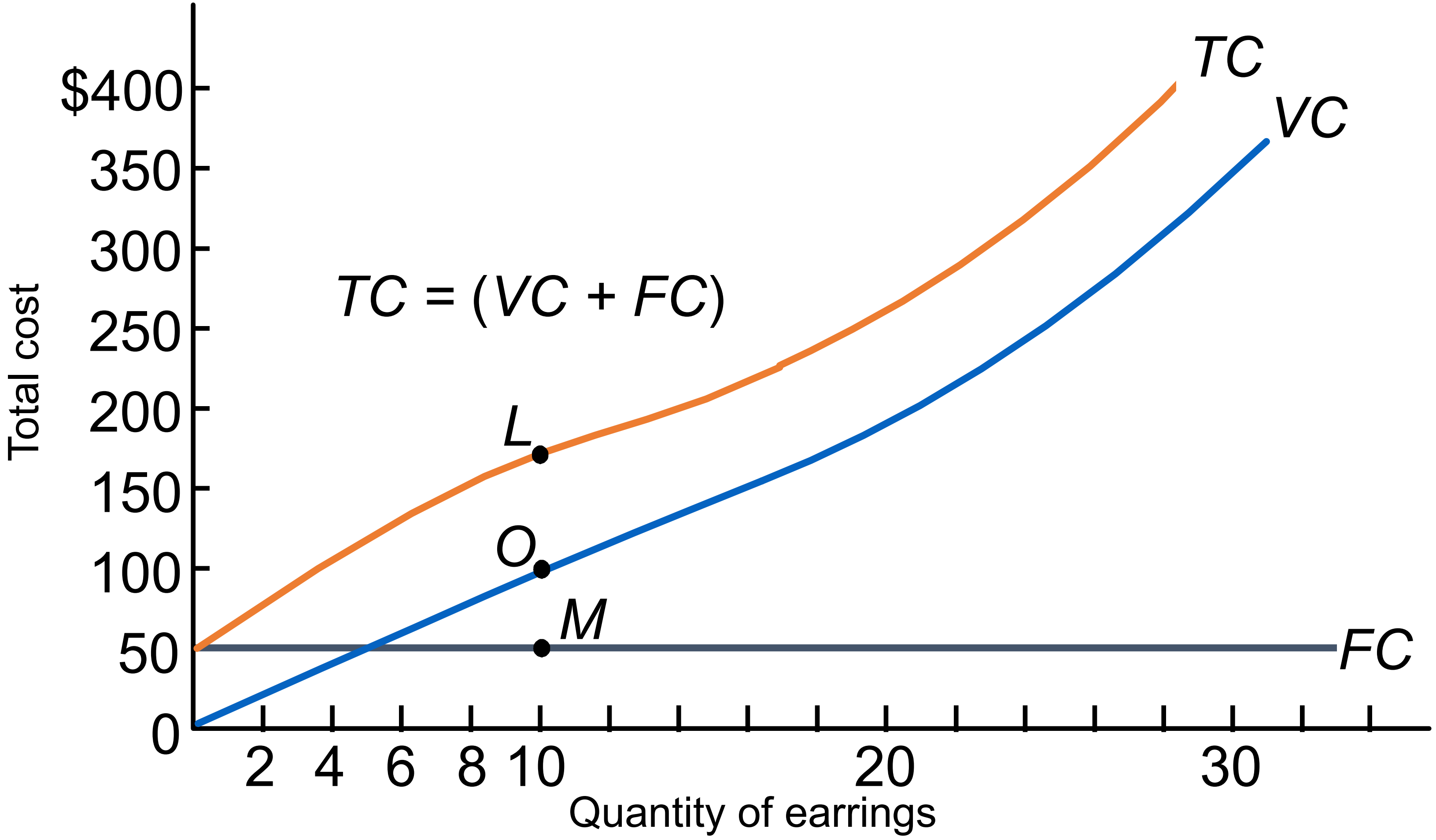
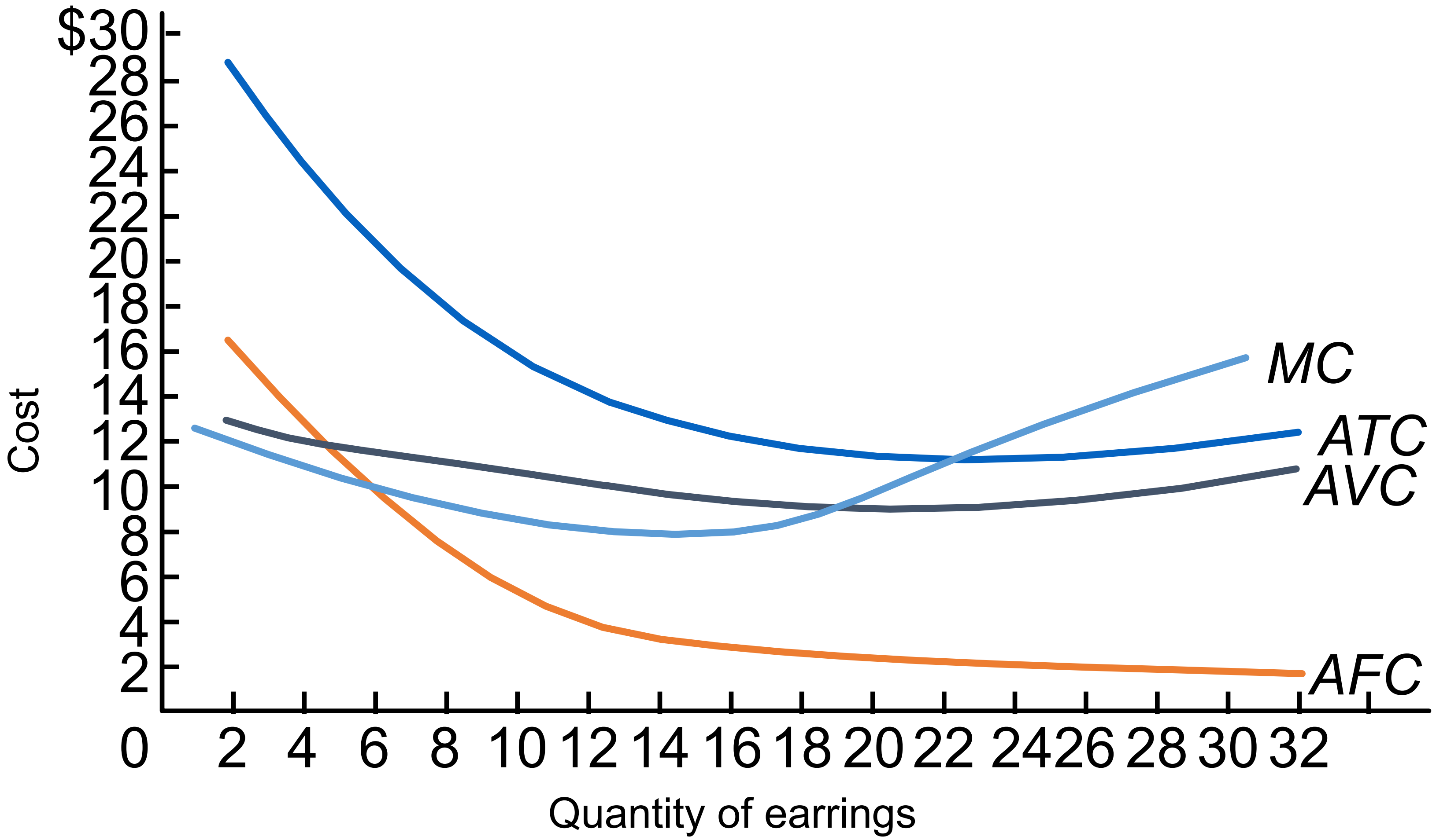
Total Cost Curves



Per Unit Cost Curves



Relationship Between Marginal and Average Costs

- The marginal cost and average cost curves are related.
  - When marginal cost exceeds average cost, average cost must be rising.
  - When marginal cost is less than average cost, average cost must be falling.

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Relationship Between Marginal and Average Costs

- This relationship explains why marginal cost curves always intersect average cost curves at the minimum of the average cost curve.

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Relationship Between Marginal and Average Costs

- To summarize:

  If MC > ATC, then ATC is rising.
  If MC = ATC, then ATC is at its minimum.
  If MC < ATC, then ATC is falling.

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MARGINAL COSTING

COST

VARIABLE COST

DEPENDS ON PRODUCTION

- DIRECT MATERIAL
- DIRECT LABOUR
- DIRECT EXPENSES

SEMI VARIABLE COST

PARTLY FIXED AND PARTLY VARIABLE

- ELECTRIC BILL
- TELEPHONE BILL

FIXED COST

DOES NOT DEDEPENDS ON PRODUCTION

- RENT

“MARGINAL COSTING IS TECHNIQUE TO ESTIMATE INCREMENTAL COST FOR INCREMENTAL PRODUCTION”

INCOME STATEMENT

PARTICULARS	AMOUNT
SALES	XX
(-) VARIABLE COST	(X)
CONTRIBUTION	XX
(-) FIXED COST	(X)
NET PROFIT	XX

- PROFIT/VOLUME RATIO (P/V) = $\dfrac{\text{CONTRIBUTION}}{\text{SALES}}$

- BREAK EVEN POINT (UNITS) = $\dfrac{\text{FIXED COST}}{\text{CONTRIBUTION PER UNIT}}$

- BREAK EVEN POINT (RS.) = $\dfrac{\text{FIXED COST}}{\text{P/V RATIO}}$

- ESTIMATED SALES (UNITS) = $\dfrac{\text{FIXED COST + EXPECTED PROFIT}}{\text{CONTRIBUTION PER UNIT}}$

- **ESTIMATED SALES (RS.)** $= \dfrac{\text{FIXED COST + EXPECTED PROFIT}}{\text{P/V RATIO}}$

- **MARGINAL OF SAFETY (UNITS)** = ES (UNITS) – B.E.P (UNITS)

- **MARGINAL OF SAFETY (RS.)** = ES (RS.) – B.E.P (RS.)

- **MARGINAL OF SAFETY (RS.)** $= \dfrac{\text{NET PROFIT}}{\text{P/V RATIO}}$

- **P/V RATIO** $= \dfrac{\text{DIFFERENT IN PROFIT}}{\text{DIFFERENT IN SALES}}$

Capital appraisal methods

Accounting Rate of Return (ARR)	*Profits*
Payback	*Cash flows*
Net Present Value (NPV)	*Cash flows*
Internal Rate of Return (IRR)	*Cash flows*

Capital appraisal methods

- The accounting rate of return is based on the use of *operating profit*. The operating profit of a project is the difference between revenues earned by the project, less all the operating costs associated with the project, including depreciation.
- All other appraisal methods use net cash flows as the basis for appraising capital projects. This is due to the nature of assessing capital investment projects where one must spend cash now and reap the cash rewards later.
- The calculation of accounting profit is not concerned with the timing of cash flows. This is due to its adherence to the accruals concept whereby profits are calculated by deducting expenses charged from revenues earned.

Net cash flow

Net cash flow =

operating cash flows + / - capital cash flows

Net profit and net cash flow

Net profit	**Net cash flow**
Related revenue earned *less* **All related costs** (including depreciation) *equals* **Profit**	**Related cash inflows (operating + capital)** *less* **Related cash outflows (operating + capital)** (NOT including depreciation) *equals* **Net cash flow**

Accounting rate of return (ARR)

- The accounting rate of return method calculates the estimated overall profit or loss on an investment project and relates that profit to the amount of capital invested and to the period for which it is required.
- A business will have a required minimum rate of return for any investment. This is related to the cost of capital of the business.
- If an investment yields a return greater than the cost of capital, then the investment would be considered suitable and profitable.
- The accounting rate of return is an average rate of return calculated by expressing average annual profit as a percentage of the average value of the investment.

Accounting rate of return (ARR)

$$\text{ARR} = \frac{\text{Average annual profit}}{\text{Average investment}}$$

Average annual profit

Total project profit after depreciation and before interest, tax and dividends, divided by the estimated life of the project.

Average investment

Initial investment, plus value of investment at project-end, divided by two.

Accept or reject criteria for ARR method

Accept the project	Reject the project
Project ARR greater than the minimum required return.	Project ARR less than the minimum required return.

Advantages of ARR

- It takes account of the overall profitability of the project.
- It is simple to understand and easy to use.
- Its end result is expressed as a percentage, allowing projects of differing sizes to be compared.

Disadvantages of ARR

- It is based on accounting profits rather than cash flows.
- The ARR does not take into account the timing of cash flows.
- The ARR does not take into account the time value of money. It does not take into account the cost of waiting to recoup the investment.
- The ARR takes no account of the size of the initial investment.

The payback method

- This method of investment appraisal simply asks the question '*how long before I get my money back?*'
- How quickly will the cash flows arising from the project exactly equal the amount of the investment.
- It is a simple method, widely used in industry and is based on management's concern to be reimbursed on the initial outlay as soon as possible.
- It is not concerned with overall profitability or the level of profitability.

Computing payback for the project

Capital Budgeting Project

Year		**CF**		**Cum. CFs**
0	$	(165,000)	$	(165,000)
1	$	63,120	$	(101,880)
2	$	70,800	$	(31,080)
3	$	91,080	$	60,000

Payback = year 2 +
+ (31080/91080)

Payback = 2.34 years

Do we accept or reject the project?

Accept or reject criteria for payback method

Accept the project	Reject the project
Payback period is less than that required by investors.	Payback period is greater than that required by investors.

Advantages of payback

- It is simple to understand and apply.
- It promotes a policy of caution in investment.

Disadvantages of payback

- It takes no account of the timing of cash flows (€100 received today is worth more than €100 received in 12 months time).
- It is only concerned with how quickly the initial investment is recovered and thus it ignores the overall profitability and return on capital for the whole project.

Time value of money

- The time value of money concept plays an important role in appraising capital projects because the time lag between the initial investment and payback can be quite long.
- €1 earned or spent sooner, is worth more than €1 earned or spent later.
- To evaluate any project taking into account the time value of money, the cash flows received in the future must be reduced or discounted to a present value, so that all relevant cash flows are denominated in todays value (present value).

The cost of capital

- All investment projects require funding. Generally, funding can be classified into:
  - Equity funding, where investors buy an equity or ownership share in a project. This is done through the issue of shares or by retaining profits in the business.
  - Debt, where the company can borrow or issue its own debentures.
- Each source of finance has a cost. The cost of debt is the interest rate that applies to the debt. The costs of equity finance are the dividends and increases in share price expected by shareholders.
- This cost of capital becomes the benchmark or minimum required return on a project.
- A project is only truly profitable when its actual return on assets is greater than the company's cost of capital.

Discounted cash flow (DCF)

- DCF is the investment appraisal technique that takes account of the time value of money.
- DCF looks at the cash flows of a project, not the accounting profits. It is concerned with liquidity not profitability.
- The timing of cash flows is taken into account by discounting all future cash flows to present value.
- The effect of discounting is to give a bigger value per euro for cash flows that occur earlier.
- The discount factor to use is the cost of capital to the business.

Net present value (NPV)

- Present value can be defined as the cash equivalent now of a sum of money to be received or paid at a stated future date, discounted at a specified cost of capital.
- The net present value is the value obtained by discounting all the cash outflows and inflows of a capital investment project, at a chosen target rate of return or cost of capital.
- The present value of the cash inflows, minus the present value of the cash outflows, is the net present value.

Net present value (NPV)

- *If the NPV is positive*, it means that the cash inflows from the investment will yield a return in excess of the cost of capital and thus the project should be undertaken, as long as there are no other projects offering a higher NPV.
- *If the NPV is negative*, it means that the cash inflows from the investment yield a return below the cost of capital and so the project should not be undertaken.
- *If the NPV is exactly zero,* the cash inflows from the investment will yield a return which is exactly the same as the cost of capital and thus the project may or may not be worth undertaking depending on other investment opportunities available.

The Net Present Value Method

If the Net Present Value is . . .	Then the Project is . . .
Positive . . .	Acceptable because it promises a return greater than the required rate of return.
Zero . . .	Acceptable because it promises a return equal to the required rate of return.
Negative . . .	Not acceptable because it promises a return less than the required rate of return.

Net Present Value

- The difference between the market value of a project and its cost
- Discounted Cash Flow (DCF) Valuation:
  - The first step is to estimate the expected future cash flows.
  - The second step is to estimate the required return for projects of this risk level.
  - The third step is to find the present value of the cash flows and subtract the initial investment.

NPV – Decision Rule

- ***If the NPV is positive, accept the project***
- A positive NPV means that the project is expected to add value to the firm and will therefore increase the wealth of the owners.
- Since our goal is to increase owner wealth, NPV is a direct measure of how well this project will meet our goal.

Computing NPV for the Project

- You are looking at a new project and you have estimated the following cash flows:
  - Year 0: CF = -165,000
  - Year 1: CF = 63,120;
  - Year 2: CF = 70,800;
  - Year 3: CF = 91,080;
- Your required return for assets of this risk is 12%.
- NPV = $63{,}120/(1.12) + 70{,}800/(1.12)^2 + 91{,}080/(1.12)^3 – 165{,}000 = 12{,}627.42$
- ***Do we accept or reject the project?***

Accept or reject criteria for NPV method

Accept the project	**Reject the project**
NPV is positive. *In choosing between mutually exclusive projects, accept the project with the highest NPV.*	NPV is negative.

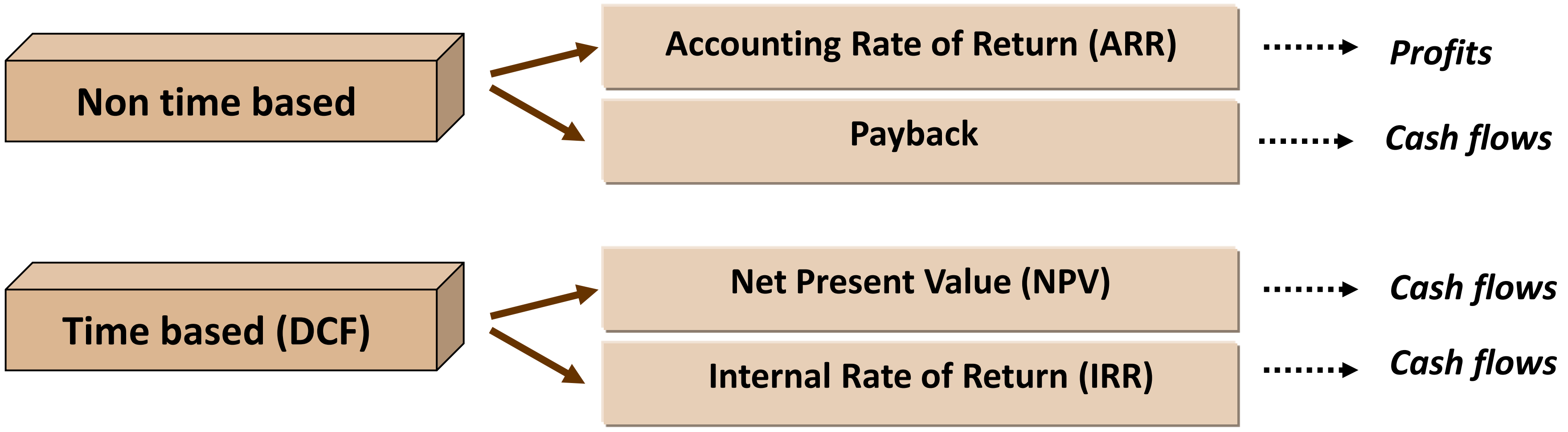
Advantages of NPV

- It takes into account the time value of money.
- Profit and the difficulties of profit measurement are excluded.
- Using cash flows emphasises the importance of liquidity.
- It is easy to compare the NPV of different projects.

Disadvantages of NPV

- It is not as easily understood as the payback and accounting rate of return.
- It requires knowledge of the company's cost of capital, which is difficult to calculate.

Appraisal methods



Appraisal methods

- Of the four appraisal methods presented, it is clear that the discounted cash flow methods (NPV and IRR) have a distinct advantage over the payback and accounting rate of return methods because they are cash based and they take the time value of money into account.
- The NPV approach is considered superior to the IRR because of the disadvantages associated with the IRR method.
- However it is clear that there is a place for all four methods, which inform judgement, not replace it.

Discounted payback

- One of the weaknesses of the payback period is that it does not take into account the cost of waiting. The discounted payback method overcomes this by simply discounting the cash flows of a project with the cost of capital for the business and calculating the payback period based on the present value of the cash flows.

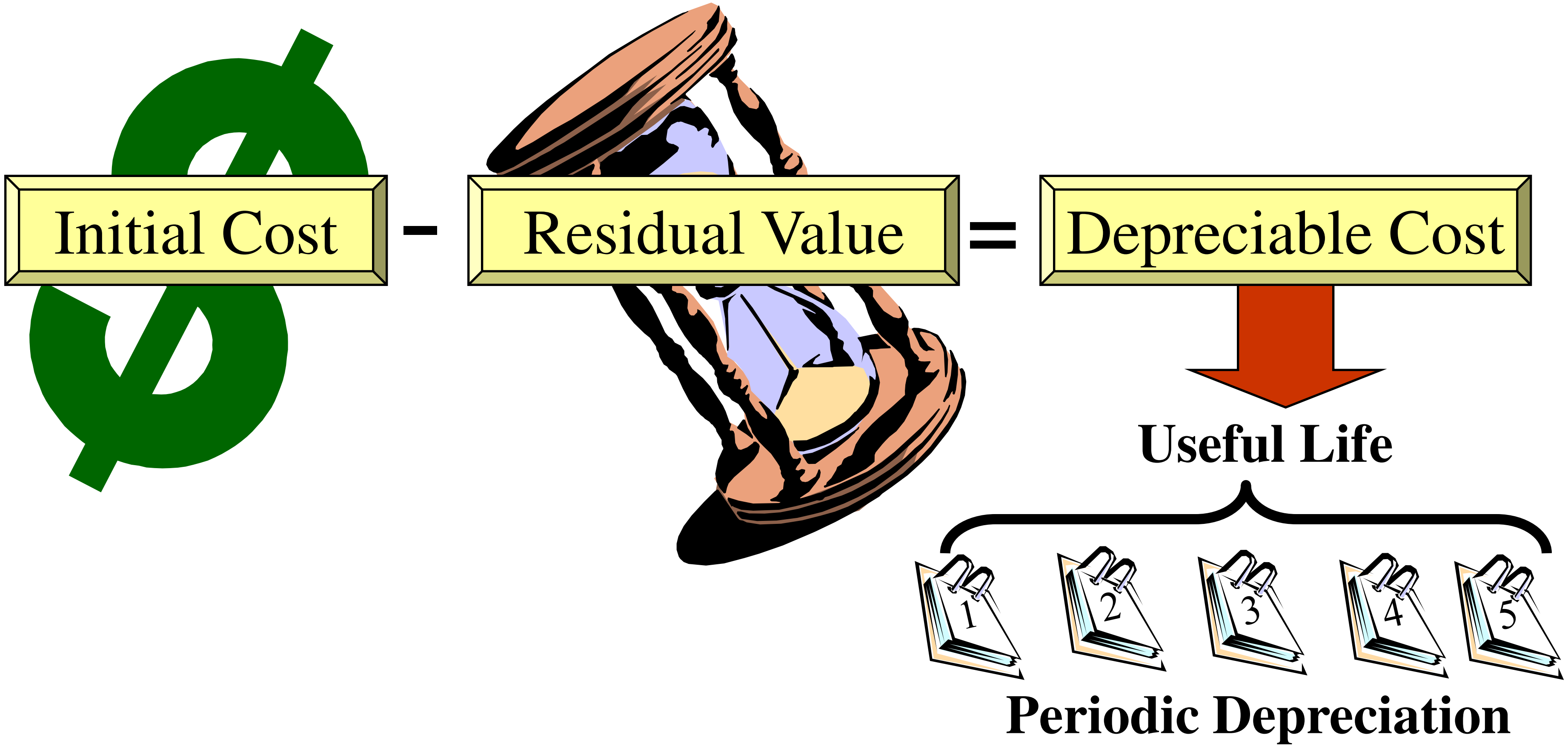
Discounted payback

Newport Leisure Park Ltd. – discounted payback

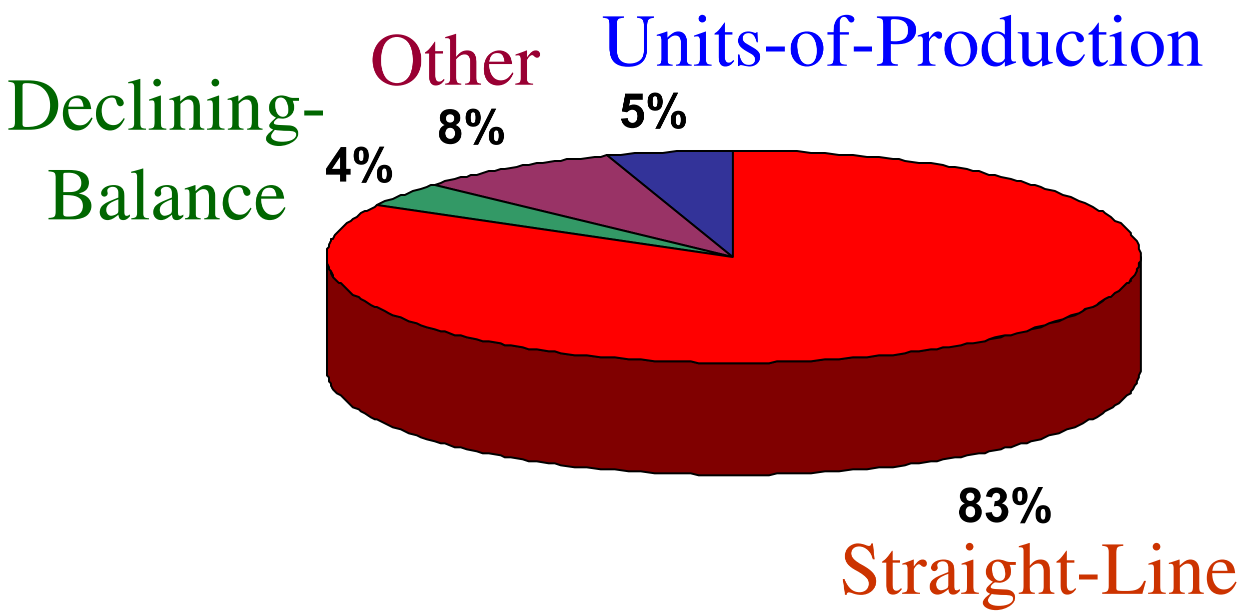
Year	Cash flow	Discount	Present value	Cumulative cash flows
	€	12%	€	
0	(135,000)	1.0	(135,000)	(135,000)
1	14,000	0.893	12,502	(122,498)
2	25,000	0.797	19,925	(102,573)
3	35,000	0.712	24,920	(77,653)
4	36,000	0.636	22,896	(54,757)
5	30,000	0.567	17,010	(37,747)
6	35,000	0.507	17,745	(20,002)

When using the discounted payback, it is clear that at the end of the project, the initial sum is not fully repaid. Contrast that with the non-discounted payback period of 4 years 10 months. The discounted payback period introduces an element of caution to the payback model and addresses one of its main criticisms, not taking into account the time value of money.

Depreciation Expense Factors



Use of Depreciation Methods



Source: *Accounting Trends & Techniques, 56th. ed.,* American Institute of Certified Public Accountants, New York, 2002.

Facts

Original Cost…………………	$24,000
Estimated Life in years…..	5 years
Estimated Life in hours…..	10,000
Estimated Residual Value…	$2,000

Straight-Line Method

$$\frac{\text{Cost} - \text{estimated residual value}}{\text{Estimated life}}$$

$$= \text{Annual depreciation}$$

Straight-Line Method

$$\frac{\$24{,}000 - \$2{,}000}{5 \text{ years}}$$

= $4,400 annual depreciation

Straight-Line Rate

$$\frac{\$24{,}000 - \$2{,}000}{5 \text{ years}} = \mathbf{\$4{,}400}$$

$$\frac{\$4{,}400}{\$24{,}000} = 18.3\%$$

Straight-Line Method

The straight-line method is widely used by firms because it is simple and it provides a reasonable transfer of cost to periodic expenses if the asset is used about the same from period to period.

Straight-Line Method

Year	Cost	Accum. Depr. at Beginning of Year	Book Value at Beginning of Year	Depr. Expense for Year	Book Value at End of Year
1	$24,000		$24,000	$4,400	$19,600
2	24,000	$ 4,400	19,600	4,400	15,200
3	24,000	8,800	15,200	4,400	10,800
4	24,000	13,200	10,800	4,400	6,400
5	24,000	17,600	6,400	4,400	2,000

$$\frac{\text{Cost (\$24,000)} - \text{Residual Value (\$2,000)}}{\text{Estimated Useful Life (5 years)}} = \text{Annual Depreciation Expense (\$4,400)}$$

Units-of-Production Method

$$\frac{\text{Cost} - \text{estimated residual value}}{\text{Estimated life in units, hours, etc.}}$$

$$= \text{Depreciation per unit, hour, etc.}$$

Units-of-Production Method

$$\frac{\$24{,}000 - \$2{,}000}{10{,}000 \text{ hours}}$$

= $2.20 per hour

Units-of-Production Method

The units-of-production method is more appropriate than the straight-line method when the amount of use of a fixed asset varies from year to year.

Declining-Balance Method

Step 1

Ignoring residual value, determine the straight-line rate

$$\frac{\$24{,}000 - \cancel{\$2{,}000}}{5 \text{ years}} = \$4{,}800$$

$$\frac{\$4{,}800}{\$24{,}000} = 20\%$$

Declining-Balance Method

There's a shortcut. Simply divide one by the number of years ($1 \div 5 = .20$).

Declining-Balance Method

Step 2

Double the straight-line rate.

$$.20 \times 2 = .40$$

For the first year, the cost of the asset is multiplied by 40 percent. After the first year, the ***declining book value*** of the asset is multiplied 40 percent.

Declining-Balance Method

Step 3

Build a table.

Declining-Balance Method

Year	Book Value Beginning of Year	Rate	Annual Deprec.	Accum. Deprec. Year-End	Book Value Year-End
1	**$24,000**	**40%**	**$9,600**		

$24,000 x .40

Declining-Balance Method

Year	Book Value Beginning of Year	Rate	Annual Deprec.	Accum. Deprec. Year-End	Book Value Year-End
1	**$24,000**	**40%**	**$9,600**	**$9,600**	**$14,400**

Declining-Balance Method

Year	Book Value Beginning of Year	Rate	Annual Deprec.	Accum. Deprec. Year-End	Book Value Year-End
1	$24,000	40%	$9,600	$9,600	$14,400
2	**14,400**	**40%**	**5,760**		

$14,400 x .40

Declining-Balance Method

Year	Book Value Beginning of Year	Rate	Annual Deprec.	Accum. Deprec. Year-End	Book Value Year-End
1	$24,000	40%	$9,600	$9,600	$14,400
2	**14,400**	**40%**	**5,760**	**15,360**	**8,640**

Declining-Balance Method

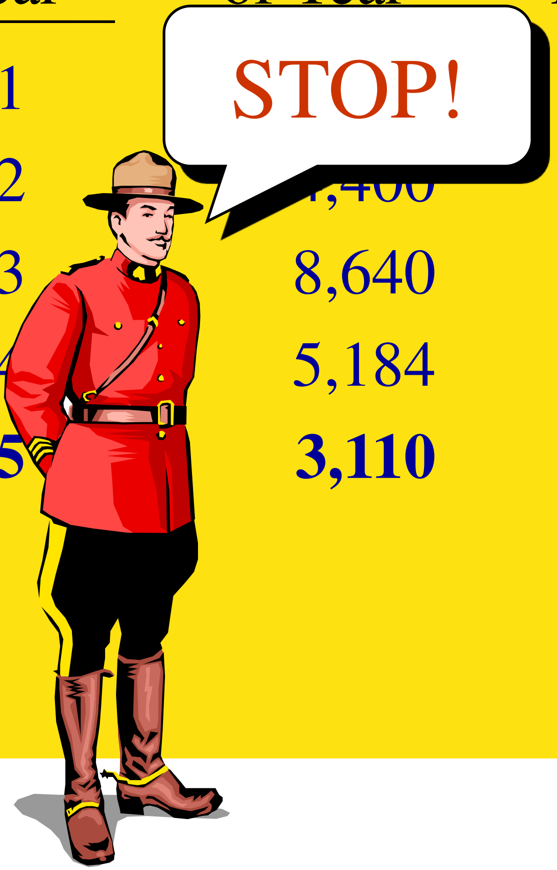
Year	Book Value Beginning of Year	Rate	Annual Deprec.	Accum. Deprec. Year-End	Book Value Year-End
1	$24,000	40%	$9,600	$9,600	$14,400
2	14,400	40%	5,760	15,360	8,640
3	**8,640**	**40%**	**3,456**	**18,816**	**5,184**

Declining-Balance Method

Year	Book Value Beginning of Year	Rate	Annual Deprec.	Accum. Deprec. Year-End	Book Value Year-End
1	$24,000	40%	$9,600	$9,600	$14,400
2	14,400	40%	5,760	15,360	8,640
3	8,640	40%	3,456	18,816	5,184
4	**5,184**	**40%**	**2,074**	**20,890**	**3,110**

Declining-Balance Method

Year	Book Value Beginning of Year	Rate	Annual Deprec.	Accum. Deprec. Year-End	Book Value Year-End
1	[illegible]	40%	$9,600	$9,600	$14,400
2	[illegible]	40%	5,760	15,360	8,640
3	8,640	40%	3,456	18,816	5,184
4	5,184	40%	2,074	20,890	3,110
5	**3,110**	**40%**	**1,244**	**22,134**	**1,866**



Declining-Balance Method

If we use this approach in Year 5, we will end the year with a book value of $1,866. Remember, the residual value at the end of Year 5 is expected to be $2,000, so we must modify our approach.

Year					alue nd
1					0
2					0
3	[illegible]	40%	3,456	18,816	5,184
4	5,184	40%	2,074	20,890	3,110
5	**3,110**	**40%**	**1,244**	**22,134**	**1,866**

Declining-Balance Method

Year	Book Value Beginning of Year	Rate	Annual Deprec.	Accum. Deprec. Year-End	Book Value Year-End
1	$24,000	40%	$9,600	$9,600	$14,400
2	14,400	40%	5,760	15,360	8,640
3	8,640	40%	3,456	18,816	5,184
4	5,184	40%	2,074	20,890	3,110
5	**3,110**	**---**	**1,110**		

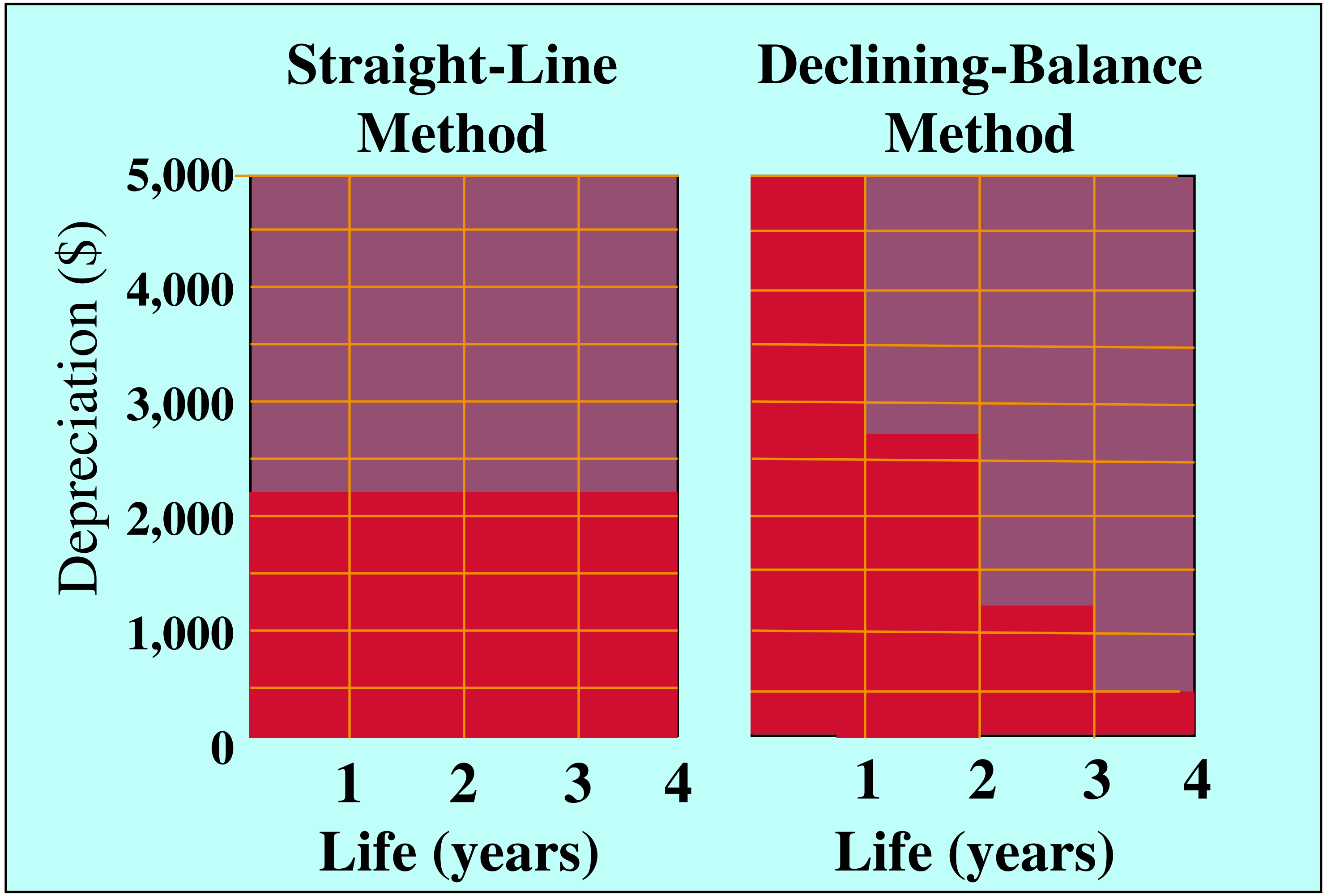
$3,110 – $2,000

Declining-Balance Method

Year	Book Value Beginning of Year	Rate	Annual Deprec.	Accum. Deprec. Year-End	Book Value Year-End
1	$24,000	40%	$9,600	$9,600	$14,400
2	14,400	40%	5,760	15,360	8,640
3	8,640	40%	3,456	18,816	5,184
4	5,184	40%	2,074	20,890	3,110
5	**3,110**	**---**	**1,110**	**22,000**	**2,000**

Desired ending book value

Comparing Straight-Line With the Declining-Balance Method



Depreciation - Method of Cost Allocation

Decreasing-Charge Methods

Illustration 11-2

Stanley Coal Mines Facts

Cost of crane	$500,000
Estimated useful life	5 years
Estimated salvage value	$ 50,000
Productive life in hours	30,000 hours

Sum-of-the-Years'-Digits. Each fraction uses the sum of the years as a denominator (5 + 4 + 3 + 2 + 1 = 15). The numerator is the number of years of estimated life remaining as of the beginning of the year.

Alternate sum-of-the-years' calculation $\frac{n(n+1)}{2} = \frac{5(5+1)}{2} = 15$

Depreciation - Method of Cost Allocation

Sum-of-the-Years'-Digits

Illustration 11-6

Year	Depreciation Base	Remaining Life in Years	Depreciation Fraction	Depreciation Expense	Book Value, End of Year
1	$450,000	5	5/15	$150,000	$350,000
2	450,000	4	4/15	120,000	230,000
3	450,000	3	3/15	90,000	140,000
4	450,000	2	2/15	60,000	80,000
5	450,000	1	1/15	30,000	50,000[a]
		15	15/15	$450,000	

[a]Salvage value.

Consider a piece of equipment that costs $25,000 and has an estimated useful life of 8 years and a $0 salvage value. It has an estimated total unit production of 100 million and the production schedule is as follows:

Year	Millions of units
1	4
2	7
3	4
4	23
5	32
6	12
7	6
8	12

Calculate the depreciation amounts using straight line, double-declining balance, units of production and sum-of-year-digits methods.

1. Straight-Line Depreciation:

The formula for straight-line depreciation is:

$$\text{Depreciation per year} = \frac{\text{Cost} - \text{Salvage Value}}{\text{Useful Life}}$$

$$\text{Depreciation per year} = \frac{\$25{,}000 - \$0}{8} = \$3,125$$

2. Double-Declining Balance Depreciation:

The formula for double-declining balance depreciation is:

$$\text{Depreciation per year} = \left(\frac{2}{\text{Useful Life}}\right) \times \text{Book Value at the Beginning of the Year}$$

Year 1:

$$\text{Depreciation} = \left(\frac{2}{8}\right) \times \$25,000 = \$6,250$$

Book Value at the end of Year 1:

$$\$25,000 - \$6,250 = \$18,750$$

Year 2:

$$\text{Depreciation} = \left(\frac{2}{8}\right) \times \$18,750 = \$4,687.50$$

And so on, until the end of the useful life.

3. Units of Production Depreciation:

The formula for units of production depreciation is:

$$\text{Depreciation per unit} = \frac{\text{Cost} - \text{Salvage Value}}{\text{Total Units of Production}}$$

$$\text{Depreciation per unit} = \frac{\$25{,}000 - \$0}{100 \text{ million units}} = \$0.00025 per unit$$

Now, we can calculate depreciation for each year:

$$\text{Year 1 Depreciation} = 4 \text{ million units} \times \$0.00025 = \$1,000$$

$$\text{Year 2 Depreciation} = 7 \text{ million units} \times \$0.00025 = \$1,750$$

And so on.

4. Sum-of-Years-Digits Depreciation:

The formula for sum-of-years-digits depreciation is:

$$\text{Depreciation per year} = \left(\frac{\text{Remaining Useful Life}}{\text{Sum of Years' Digits}}\right) \times (\text{Cost} - \text{Salvage Value})$$

First, calculate the sum of years' digits:

$$\text{Sum of Years' Digits} = 8 + 7 + 6 + 5 + 4 + 3 + 2 + 1 = 36$$

Now, calculate depreciation for each year:

Year 1:

$$\text{Depreciation} = \left(\frac{8}{36}\right) \times \$25,000 = \$5,555.56$$

Year 2:

$$\text{Depreciation} = \left(\frac{7}{36}\right) \times \$25,000 = \$4,861.11$$

And so on.

1. **Straight-Line Depreciation:**

Year	Depreciation
1	$3, 125
2	$3, 125
3	$3, 125
4	$3, 125
5	$3, 125
6	$3, 125
7	$3, 125
8	$3, 125

2. **Double-Declining Balance Depreciation:**

Year	Depreciation	Book Value at the Beginning	Book Value at the
1	$6, 250	$25, 000	$18, 750
2	$4, 687.50	$18, 750	$14, 062.50
3	$3, 515.63	$14, 062.50	$10, 546.88
4	$2, 636.72	$10, 546.88	$7, 910.16
5	$1, 977.54	$7, 910.16	$5, 932.62
6	$1, 483.16	$5, 932.62	$4, 449.46
7	$1, 112.37	$4, 449.46	$3, 337.09
8	$834.28	$3, 337.09	$2, 502.81

3. **Units of Production Depreciation:**

Year	Units Produced (Millions)	Depreciation
1	4	$1, 000
2	7	$1, 750
3	4	$1, 000
4	23	$5, 750
5	32	$8, 000
6	12	$3, 000
7	6	$1, 500
8	12	$3, 000

4. **Sum-of-Years-Digits Depreciation:**

Year	Remaining Useful Life	Depreciation
1	8	$5, 555.56
2	7	$4, 861.11
3	6	$4, 166.67
4	5	$3, 472.22
5	4	$2, 777.78
6	3	$2, 083.33
7	2	$1, 388.89
8	1	$694.44

Figure 2.1

Sources of New Venture Financing					
	R&D	Start-up	Early Growth	Rapid Growth	Exit
Entrepreneur					
Friends and Family					
Angel Investors					
Corporate Strategic Partner					
Venture Capital					
Asset-Based Lender					
Venture Leasing					
Government Programs					
Trade Credit/Vendor Financing					
Factoring					
Franchising					
Commercial Bank Lending					
Mezzanine Lender					
Public Debt					
IPO					
Acquisition, LBO, MBO					

Sources of New Venture Financing: Bootstrap Financing

- Financing that does not depend on an investor's assessment of the merits of the opportunity or on the value of the assets of the venture
- May be from entrepreneur's own resources or from friends and family
  - personal savings (90%)
  - credit card/personal loans (28%)
  - loans from family and friends (7%)
  - equity investment from family and friends (5%)

Sources of New Venture Financing: Angel Investors

- Individual freelance investors usually interested in investing fairly small amounts ($25,000 - $500,000) in early-stage ventures
- Willing to invest over long horizons
- Evolved to a quasi-institutional form with angels acting as groups and may co-invest
- Often bring significant industry experience and are interested in active involvement

Sources of New Venture Financing: Venture Capital

- Venture Capital (VC) funds are organized as limited partnerships
  - Limited partners (LPs) provide most of the capital
  - General partner (GP) is responsible for managing the fund, including investment selection, working with entrepreneurs, and harvesting the investments
- Focused on equity investment in high-risk ventures with large potential return

Figure 2.2

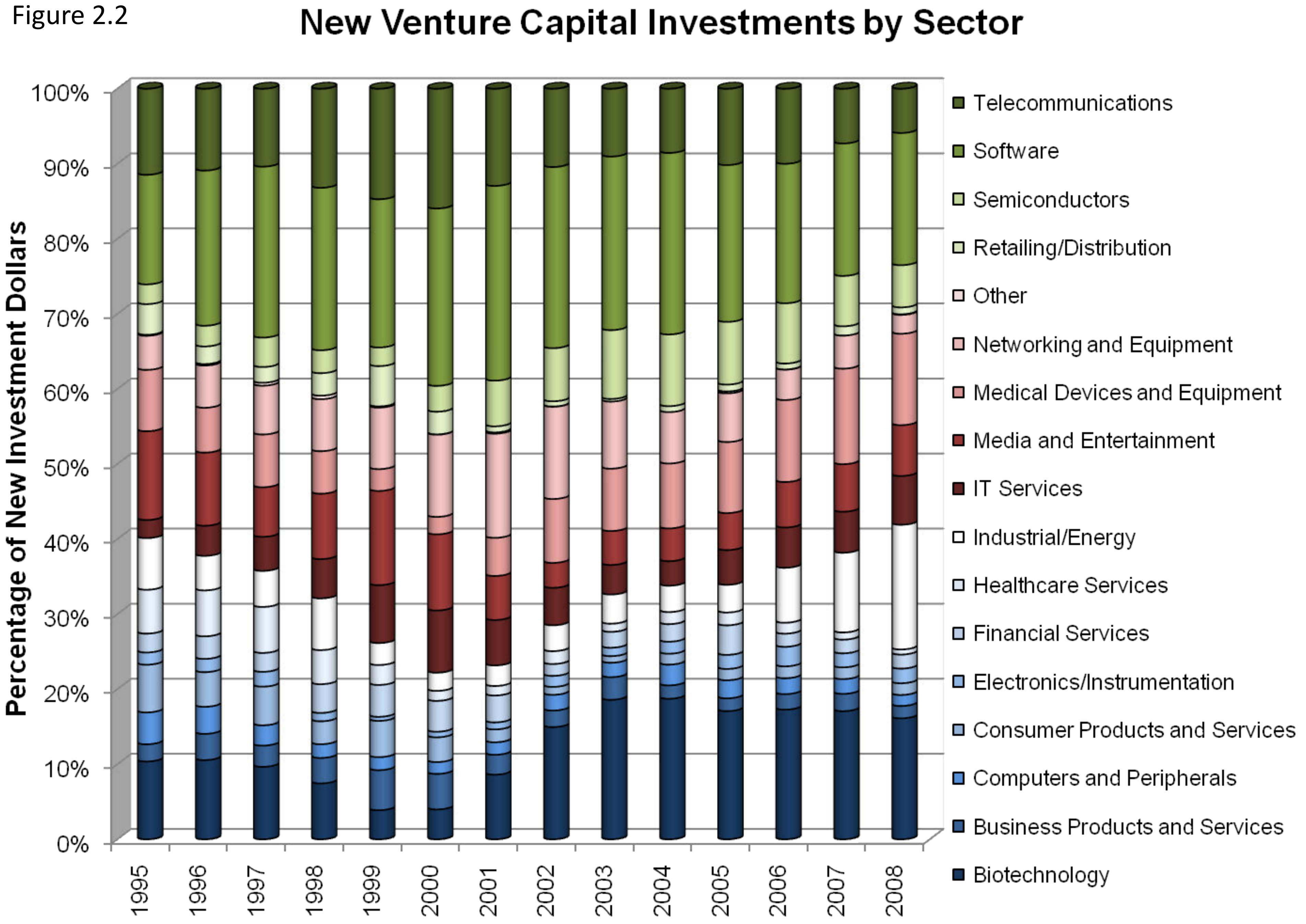
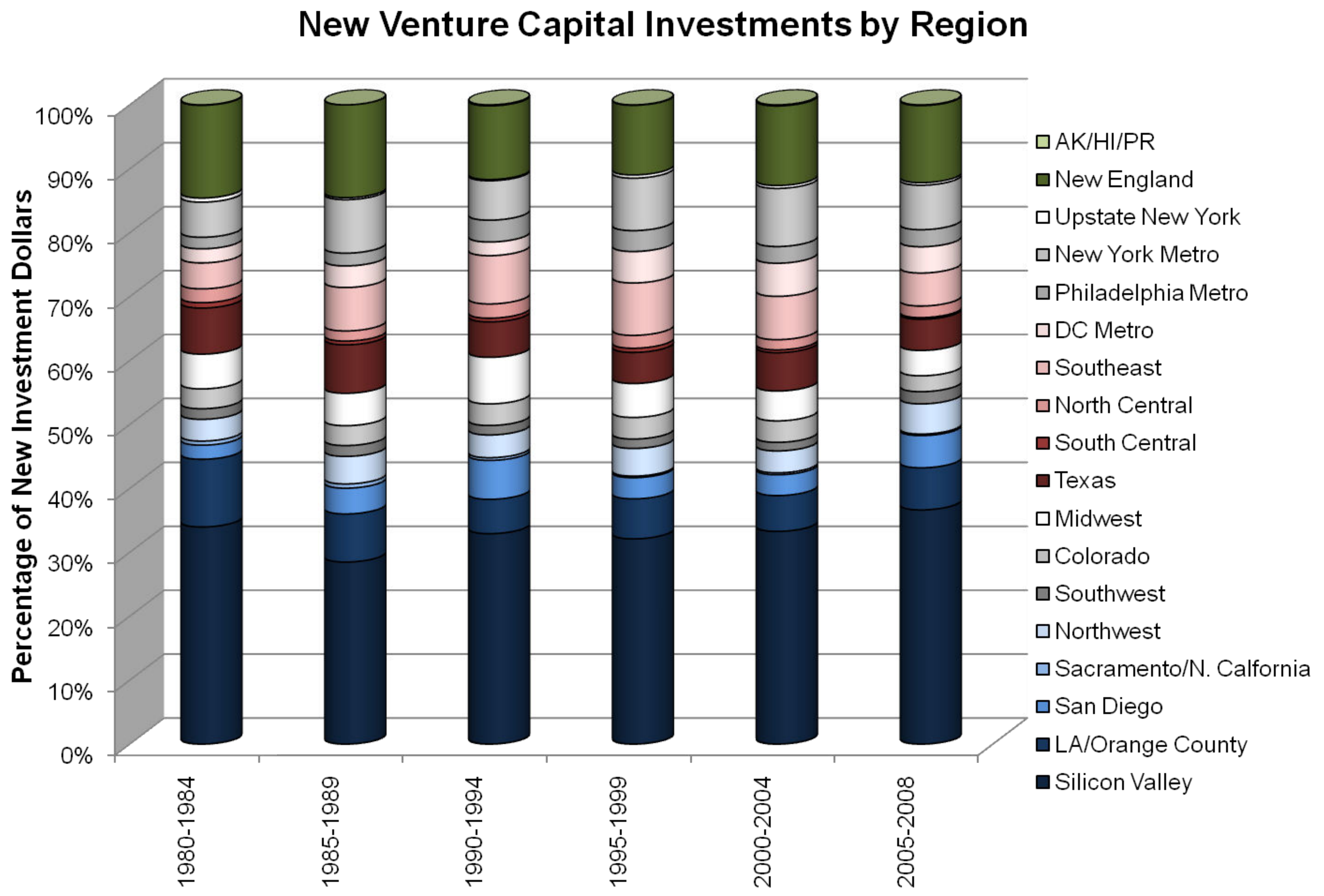

New Venture Capital Investments by Sector
Percentage of New Investment Dollars
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
Telecommunications
Software
Semiconductors
Retailing/Distribution
Other
Networking and Equipment
Medical Devices and Equipment
Media and Entertainment
IT Services
Industrial/Energy
Healthcare Services
Financial Services
Electronics/Instrumentation
Consumer Products and Services
Computers and Peripherals
Business Products and Services
Biotechnology

Figure 2.3


New Venture Capital Investments by Region
Percentage of New Investment Dollars
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
1980-1984
1985-1989
1990-1994
1995-1999
2000-2004
2005-2008
AK/HI/PR
New England
Upstate New York
New York Metro
Philadelphia Metro
DC Metro
Southeast
North Central
South Central
Texas
Midwest
Colorado
Southwest
Northwest
Sacramento/N. Calfornia
San Diego
LA/Orange County
Silicon Valley

Sources of New Venture Financing: Asset-Based Lenders

- Asset-based lenders, or “secured lenders,” provide debt capital to businesses that have assets that can serve as collateral
  - rely on the ability to liquidate business assets for debt servicing if necessary (rather than cash flow)
  - estimated at $590 billion in 2008 in the United States

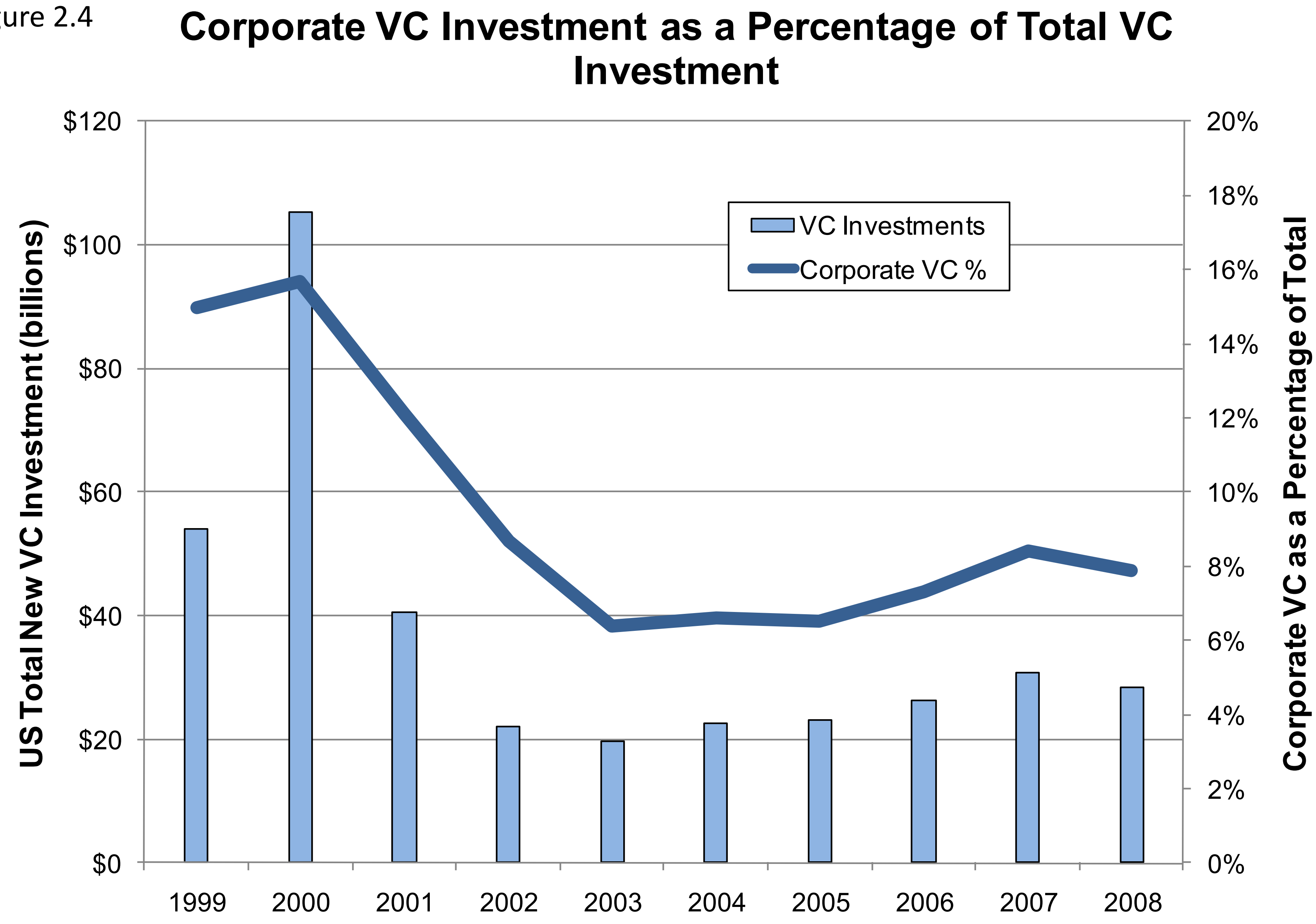
Sources of New Venture Financing: Venture Leasing

- An entrepreneur who requires tangible assets can lease, rather than purchase them
- Usually involves assets that are key to the operation of the venture
- The lessor’s return may be tied to the financial performance of the venture
- Tax advantages to leasing as compared to owning

Sources of New Venture Financing: Corporate Venturing

- Can be internally or externally managed
  - Internally managed venture investing
    - more likely to occur in firms that depend on innovation to sustain competitive advantage
    - attempts to keep good ideas from "escaping"
  - Externally managed venture investing
    - may seek only financial returns or strategic investments

Figure 2.4



Corporate VC Investment as a Percentage of Total VC Investment
VC Investments
Corporate VC %
US Total New VC Investment (billions)
Corporate VC as a Percentage of Total
$120
$100
$80
$60
$40
$20
$0
20%
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008

Sources of New Venture Financing: Government Programs

- Many countries have established agencies to support small business formation and growth
- The US Small Business Administration (SBA) funds entrepreneurship via
  - loan guarantee programs
  - Small Business Investment Companies (SBIC)
  - Small Business Innovation Research Program (SBIR)
- Research grants – National Science Foundation, National Institutes of Health

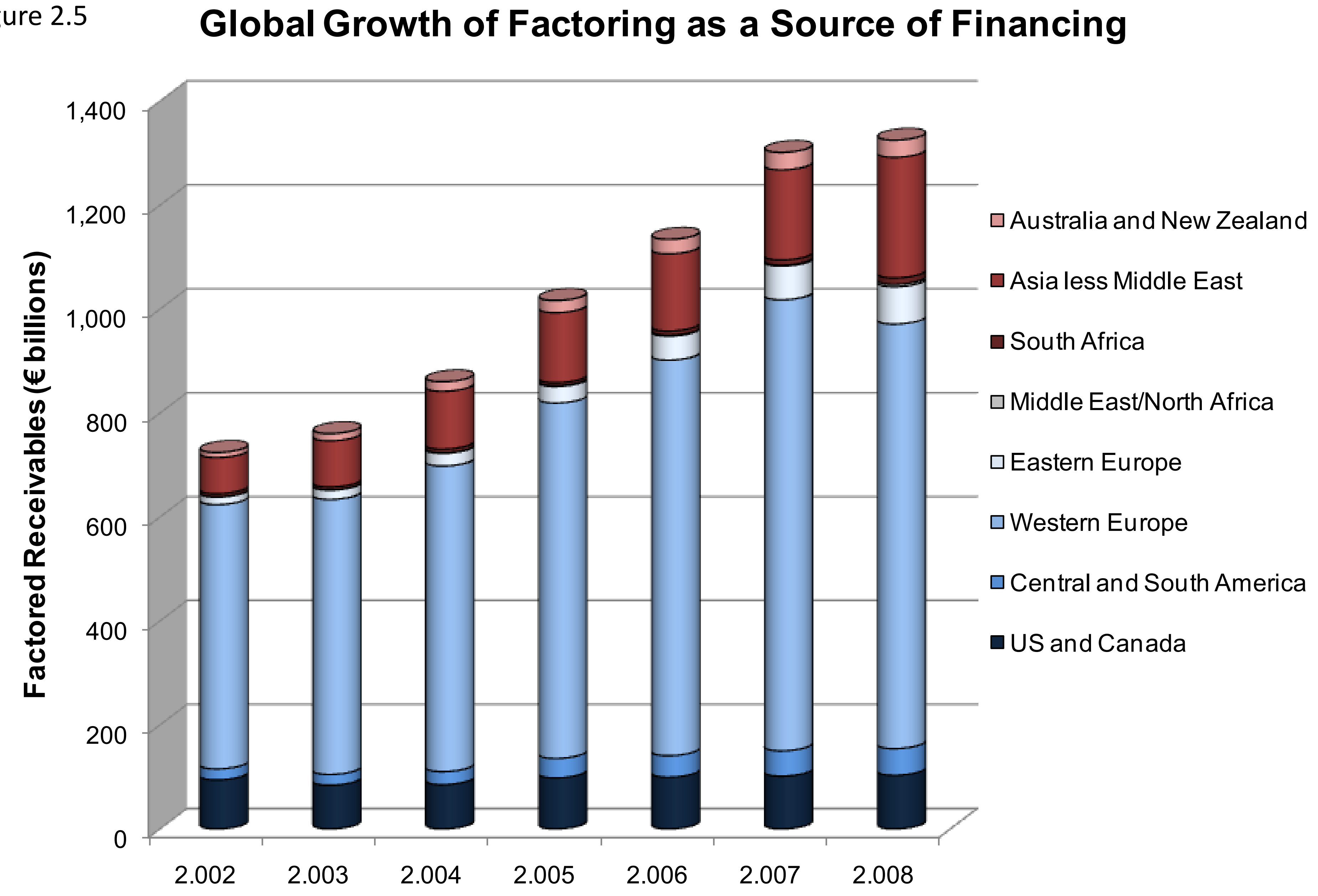
Sources of New Venture Financing: Trade Credit

- Trade credit, or vendor financing arises whenever a business makes a purchase from a supplier that offers payment terms
- Terms are usually industry-specific
- Largest source of external short-term financing for firms in the US
- More important in emerging economies, where risk capital is often scarce

Sources of New Venture Financing: Factoring

- A factor buys accounts receivable of the venture and manages the collection activities
- Factoring comes in two basic types
  - with recourse
  - without recourse
- Basic elements of a factoring transaction
  - advance: 70 to 90% of face value of receivables
  - reserve: a portion held back if with recourse
  - fees: 2 to 6% for handling, lending, and risk

Figure 2.5


Global Growth of Factoring as a Source of Financing
Factored Receivables (€ billions)
1,400
1,200
1,000
800
600
400
200
0
2.002
2.003
2.004
2.005
2.006
2.007
2.008
Australia and New Zealand
Asia less Middle East
South Africa
Middle East/North Africa
Eastern Europe
Western Europe
Central and South America
US and Canada

Sources of New Venture Financing: Franchising

- Franchising can enable a business concept to grow rapidly by using capital from franchisees
- Franchisor establishes a business format and offers franchising opportunities to prospective franchisees
- Examples:

Sources of New Venture Financing: Mezzanine Capital

- Capital raised after the firm has established a record of positive net income with revenues approaching $10 million or more
  - subordinated debt or preferred equity
  - a hybrid of senior debt and common equity “sweeteners”
  - often provided by some VC firms or other private equity funds

Sources of New Venture Financing: Debt

- Pros
  - interest is tax deductible
  - debt is usually less expensive than equity
  - no loss of control
- Cons
  - cash flow required for interest and principal payments
  - senior to equity and has contractual rights in the case of financial distress

Sources of New Venture Financing: Private Placements

- Both equity and debt can be issued via “private placement”
- Examples: VC and angel investments
- Benefits
  - can be faster and less expensive than a public offering
  - limits disclosure of strategic information
  - facilitates monitoring

Sources of New Venture Financing: Initial Public Offering (IPO)

- First sale of equity to public investors
- IPOs provide a very small fraction of overall new venture funding
- Provides exit for VCs and other investors in high-risk, high-growth ventures
- Company raises capital by selling registered equity shares to the public via a formal offering process

Sources of New Venture Financing: Initial Public Offering (IPO)

- Pros
  - establishes outside market for the venture's shares
    - investor feedback on managerial decisions
    - can be used to effect acquisitions
    - employee stock incentives
  - large amounts of capital can be raised
- Cons
  - relatively expensive
  - disclosure requirements
  - focus on short-term earnings

Sources of New Venture Financing: Direct Public Offering

- SEC regulations provide “safe harbors”
- Fall between private and public offering
- Firm issues equity to small numbers of “sophisticated” investors
- No formal public offering process
- Shares may eventually become freely tradable

What’s Different about Financing Social Ventures?

- Unable to issue equity
- Financing through
  - structured debt
  - royalty-based financing or revenue rights
  - philanthropic funding
  - may allow investors to make tax-deductible contributions to “giving funds”
  - philanthropic angel investors
  - social VC funds

Considerations When Choosing Financing

- Are not-for-profit status and the attendant tax exemption worthwhile?
- Should liability be limited, or should losses be passed on to the company's owners?
- Is it important to be able to switch corporate forms easily as the company evolves?
- How important is it to avoid corporate-style taxation (i.e., double taxation)?
- Who are the best monitors of the firm-owners, investors, or managers?
- How will the monitors be monitored?

Considerations When Choosing Financing

Table 2.1

Common Organizational Forms in the US

Organizational Form	Ownership Rules	Tax Treatment	Liability	Transferability of Ownership	Financial Capacity
Sole proprietorship	A single owner	Earnings pass through to owner	Owner is liable for business debts	Only through sale of the business	Limited by financial capacity of owner
Partnership	Two or more co-owners	Earnings pass through, flexibility concerning allocation of gains and losses	Each partner is fully liable for business debts	Partnership interests may be transferable through sale, subject to approval of other partners	Limited by combined financial capacity of the partners. Partners may disagree about borrowing to support the venture.
Limited-liability company	One or more co-owners, referred to as members	Earnings pass through, flexibility concerning allocation of gains and losses	Liability of members is limited to the extent of their investments	Membership interests may be transferable through sale, subject to approval of other members	Limited by combined financial capacity of the partners. Partners may disagree about borrowing to support the venture.
Limited partnership	General partner(s) with control and limited partners who are passive investors	Earnings pass through, flexibility concerning allocation of gains and losses	Each general partner is fully liable for business debts. Limited partners are liable to the extent of their investments.	Partnership interests may be transferable through sale, subject to approval of other partners	Limited by combined financial capacity of the partners. Limited partners may have substantial financial capacity.
S Corporation	Up to 75 shareholders, one class of stock	Earnings pass through to owners	Liability of shareholders is limited to the extent of their investments	Shares are transferable without approval of other investors as long as SEC and state rules are followed	Limited by constraint on maximum number of shareholders
C Corporation	Unlimited numbers of shareholders and classes of stock	Earnings taxable to the corporation when earned and to shareholder when received as dividends	Liability of shareholders is limited to the extent of their investments	Shares are transferable without approval of other investors as long as guidelines and SEC rules are followed. Registered shares of public corporations are freely transferable.	Unlimited, since number of investors is not limited

Investor expectation in entreprenurship development in terms of money, cost profit and finanace

Investors in entrepreneurship development often have specific expectations and considerations regarding money, costs, profitability, and finance. Their outlook is shaped by the potential return on investment, risk assessment, and the viability of the business model. Here are some key areas where investor expectations commonly intersect with financial aspects:

1. Revenue Growth and Profitability: Investors typically expect a clear path to revenue growth and eventual profitability. They evaluate whether the business model has the potential to generate substantial revenues and turn a profit over time.

2. Financial Projections and Realism: Expectations include well-structured and realistic financial projections. Investors assess whether entrepreneurs have conducted thorough market research and developed sensible financial forecasts based on those findings.

3. Capital Efficiency and Cost Management: Investors often favor businesses that demonstrate efficiency in capital usage and effective cost management. They expect entrepreneurs to optimize expenses, especially in the early stages of the venture.

4. Return on Investment (ROI) and Exit Strategy: Investors seek an understanding of the potential return on their investment. They want to know the entrepreneur's plans for providing a lucrative exit, whether through acquisition, IPO, or other means, where investors can realize their returns.

Investor expectation in entreprenurship development in terms of money, cost profit and finanace

5. Funding Allocation and Resource Utilization: There's an expectation that the capital raised will be wisely allocated to critical areas, such as product development, marketing, talent acquisition, and operational scaling, in line with the business strategy.

6. Financial Transparency and Reporting: Investors expect transparent and regular reporting regarding the financial health of the business. This includes providing financial statements, key performance indicators (KPIs), and updates on the use of invested funds.

7. Risk Assessment and Mitigation: Investors appreciate a comprehensive risk assessment that identifies potential financial risks and a plan to mitigate these risks. They seek entrepreneurs who understand the financial challenges and have strategies in place to manage them.

8. Flexibility in Financial Strategy: Flexibility in adapting the financial strategy based on changing market conditions is often valued. Investors recognize that business landscapes can shift, and a solid financial strategy should be adaptable.

9. Scalability and Investment Return Timeline: Investors look for ventures that demonstrate scalability potential. They often expect a timeline for when they might start seeing returns on their investment, based on the growth trajectory of the business.

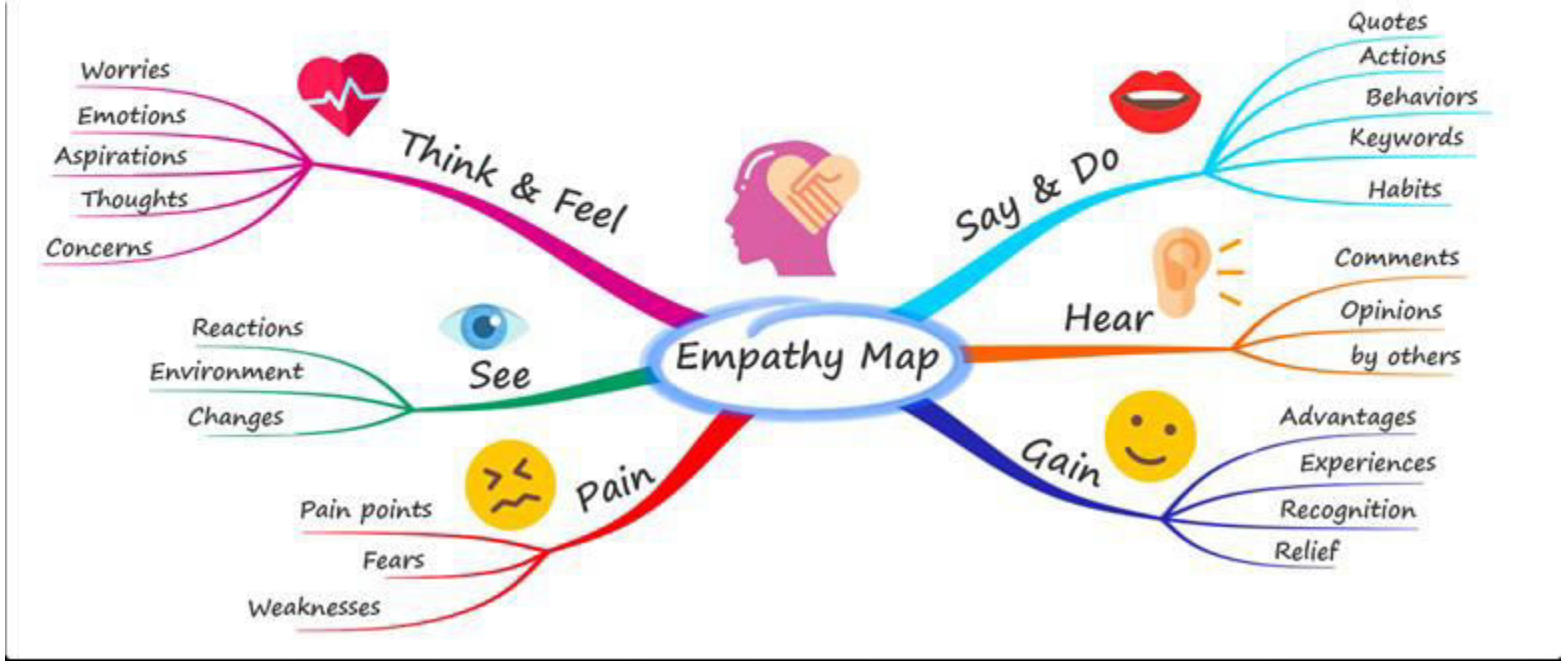
Understanding and meeting these financial expectations is crucial when seeking investment. Entrepreneurs must clearly articulate how their business model, financial strategy, and execution plan align with investor expectations in terms of financial performance and potential return on investment. Demonstrating a solid understanding of these financial aspects can significantly enhance the appeal of the business to potential investors.

Team Building

Brainstorm: to try to solve a problem by talking with other people : to discuss a problem and suggest solutions,

Fig. Rules for Brainstorming

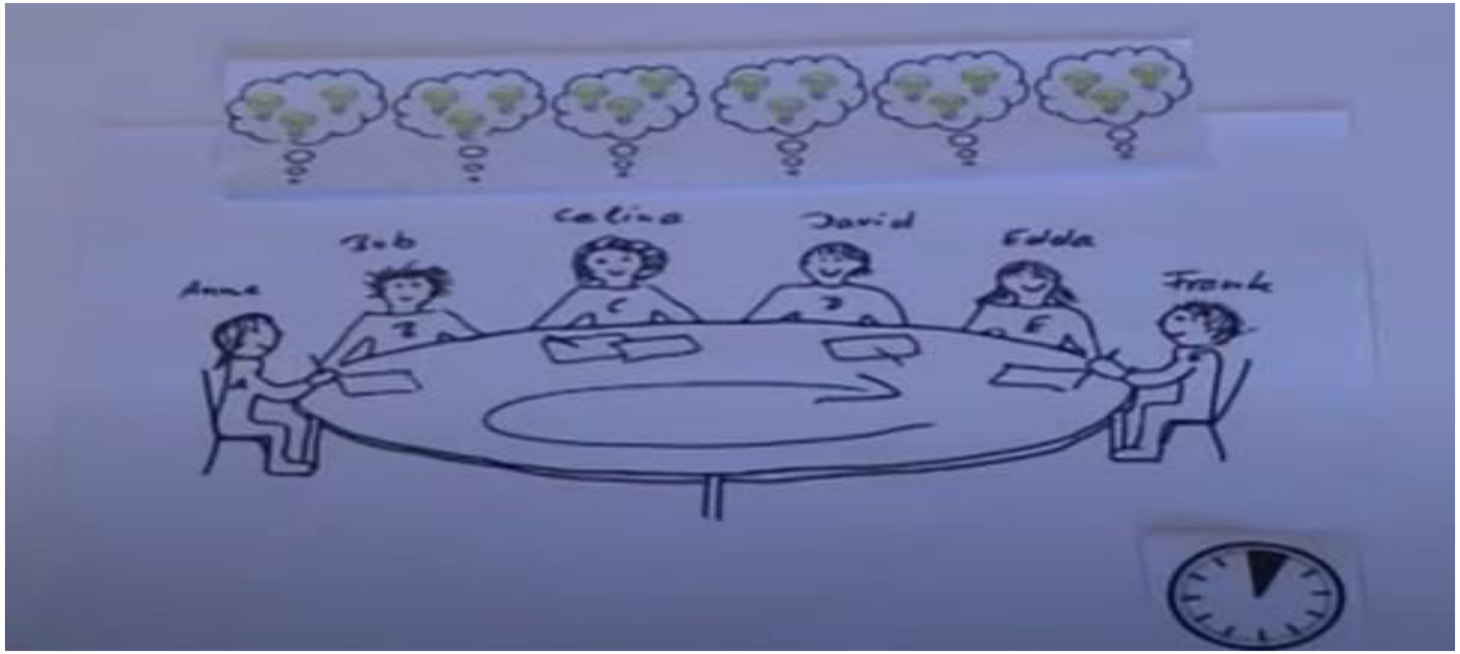
Fig 1.2 Mind Mapping



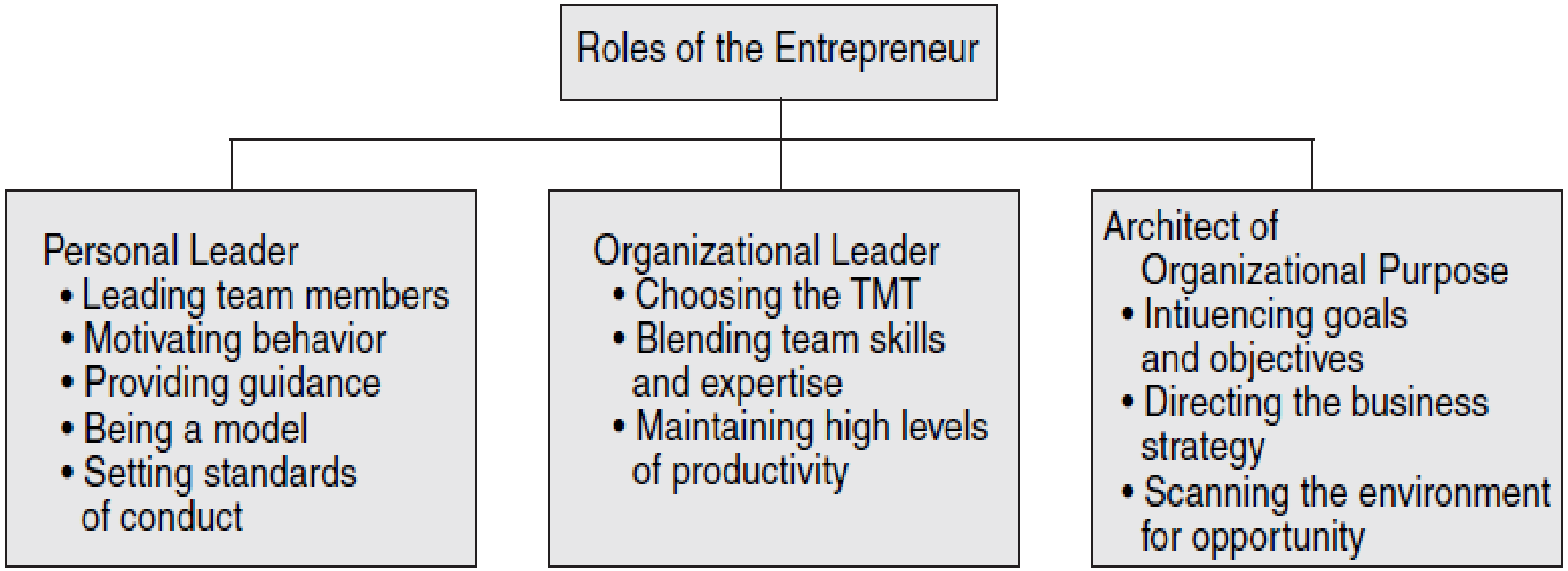
Mind Mapping

A mind map is an image that contains any sort of graphical element to express an idea, Brain writing

6-3-5 Six people sit in a table to write 3 ideas in 5 minutes. To write down their ideas about a particular question or problem on sheets



Roles of the Entrepreneur as General Manager



SOURCE: Adapted from K. Andrews, *The Concept of Corporate Strategy* (Upper Saddle River, NJ: Prentice-Hall, 1986).

Pitching to candidates to join your startup is a crucial step in attracting the right talent.

- **Understand Your Target Candidates:** Before you start pitching, you need to know your audience. Understand the skills, experience, and qualities you're looking for in a candidate. Tailor your pitch to address their specific needs and motivations.
- **Craft a Compelling Value Proposition:** What makes your startup special? What unique benefits can you offer to candidates? Your value proposition should highlight factors like the opportunity for growth, the chance to make an impact, a dynamic work environment, and any other perks or benefits you can offer.
- **Clear and Compelling Job Description:** Write a job description that clearly outlines the responsibilities, expectations, and potential for career advancement. Be specific about the role and its importance in the company's success.
- **Tell Your Startup's Story:** Every startup has a unique story. Share your journey, the mission and vision of the company, and the problems you're trying to solve. This creates an emotional connection with candidates and helps them understand the bigger picture.

Pitching to candidates to join your startup is a crucial step in attracting the right talent.

- **Highlight the Learning Opportunities:** Startups are excellent places for personal and professional growth. Emphasize the chance to work on challenging projects, learn new skills, and take on responsibilities that might not be available in larger organizations.
- **Culture and Work Environment:** Describe your company's culture and work environment. Is it a collaborative, flexible, or innovative space? Candidates want to know if they'll enjoy coming to work every day.
- **Show the Impact They Can Make:** Explain how their role will contribute to the company's success and the broader impact it can have on the industry or society.
- **Benefits and Perks:** Discuss the benefits and perks you offer, such as flexible work hours, remote work options, equity or stock options, healthcare, or other unique benefits.
- **Mentorship and Leadership Opportunities:** Highlight any opportunities for mentorship, leadership, or career advancement within the startup.

Pitching to candidates to join your startup is a crucial step in attracting the right talent.

- **Transparency and Communication:** Be open about the company's challenges and the steps you're taking to address them. Candidates appreciate honesty and transparency.
- **Address Concerns:** Be prepared to address common concerns such as job security, work-life balance, and compensation. Explain how your startup addresses these issues.
- **Offer a Vision for the Future:** Share your vision for the company's growth and the candidate's potential role in that growth. Help them see a long-term future with your startup.
- **Engage in Two-Way Conversations:** Encourage candidates to ask questions and share their thoughts. It should be a dialogue, not just a one-sided pitch.
- **Follow-Up and Personalize:** After the initial pitch, follow up with personalized messages to express your continued interest in the candidate and the role.
- **Be Authentic:** Authenticity is key. Be yourself and let candidates see the real people behind the startup.

Remember that the recruitment process is a two-way street. You want to attract candidates who are not only a good fit for your startup but also candidates who believe in your mission and vision.

A good team is essential for the success of any entrepreneurial venture.

- **Diverse Skill Sets:** A good team typically consists of individuals with diverse skills and expertise. This diversity can fill in the gaps and ensure that all necessary functions of the business, from product development to marketing to finance, are well-covered.
- **Innovation and Creativity:** A diverse team often brings a variety of perspectives and approaches to problem-solving. This can lead to greater innovation and creativity, helping the startup come up with unique solutions and ideas.
- **Execution and Implementation:** Ideas are only valuable when they are executed effectively. A good team is responsible for turning the vision and strategy into actionable plans and implementing them efficiently.
- **Risk Mitigation:** Entrepreneurship is inherently risky. A good team can help in identifying, evaluating, and mitigating risks. The collective experience and knowledge of the team can help make better-informed decisions.
- **Support and Motivation:** Entrepreneurship can be a challenging journey with highs and lows. A good team provides emotional support and motivation during tough times. The team's camaraderie can keep everyone motivated and focused on the long-term goals.

A good team is essential for the success of any entrepreneurial venture.

- **Accountability:** A strong team promotes accountability. Team members can hold each other responsible for their respective roles and responsibilities, ensuring that everyone is contributing to the best of their abilities.
- **Customer Focus:** A good team understands the needs of the customers and is focused on delivering value to them. This customer-centric approach is crucial for building a successful business.
- **Scalability:** As the startup grows, the team can adapt and scale with the business. A well-structured team can handle growth and expansion more effectively than a one-person operation.
- **Adaptability:** In the dynamic and ever-changing world of entrepreneurship, adaptability is key. A good team can pivot, adjust strategies, and navigate changes more effectively than a single founder.
- **Credibility:** Having a strong team can enhance the credibility of the startup in the eyes of investors, customers, and partners. It demonstrates that the venture is not a one-person show but a collective effort.
- **Mentorship and Learning:** Team members can mentor and learn from each other, fostering personal and professional growth within the team.

A good team is the backbone of a successful entrepreneurial venture. It provides the skills, diversity, support, and resources needed to overcome challenges and capitalize on opportunities.

key principles of setting up the right team of employees for the startup at all stages

Setting up the right team of employees for a startup is crucial for its success. Here are key principles to consider at each stage - recruitment, training, team building, and promotion/termination:

1. Recruitment:

a. Cultural Fit:

Principle: Prioritize cultural fit alongside skills. Ensure alignment with the startup's values, vision, and work culture.

Reasoning: A cohesive team shares common goals and values, fostering a positive and collaborative work environment.

b. Diversity and Skill Set:

Principle: Assemble a diverse team with complementary skills.

Reasoning: Diverse perspectives and skills enhance creativity, problem-solving, and adaptability, key for startup growth.

c. Passion for Startup Mission:

Principle: Recruit individuals passionate about the startup's mission.

Reasoning: Passion drives dedication and a sense of ownership, essential for overcoming challenges in the startup environment.

key principles of setting up the right team of employees for the startup at all stages

2. Training:

a. Continuous Learning:

Principle: Prioritize continuous learning and skill development.

Reasoning: Startups evolve rapidly; a learning culture ensures the team stays adaptable and equipped with the latest skills.

b. Cross-Functional Training:

Principle: Encourage cross-functional training to broaden skills.

Reasoning: Cross-functional skills enable team members to contribute beyond their specific roles, promoting versatility.

c. Mentorship Programs:

Principle: Establish mentorship programs for new hires.

Reasoning: Mentoring accelerates onboarding, helps navigate the startup environment, and fosters a sense of belonging.

3. Team Building:

a. Open Communication:

Principle: Foster open and transparent communication.

Reasoning: Open communication builds trust, resolves conflicts efficiently, and encourages idea sharing.

b. Team Bonding Activities:

Principle: Organize team-building activities.

Reasoning: Activities outside work enhance team cohesion, creating a positive and collaborative atmosphere.

c. Recognition and Rewards:

Principle: Recognize and reward achievements.

Reasoning: Acknowledgment boosts morale, motivates employees, and reinforces a culture of excellence.

key principles of setting up the right team of employees for the startup at all stages

4. Promotion/Firing:

a. Performance-Based Promotions:

Principle: Base promotions on performance and contributions.

Reasoning: Performance-based promotions motivate employees, demonstrating that hard work is valued.

b. Constructive Feedback:

Principle: Provide constructive feedback for improvement.

Reasoning: Regular feedback, both positive and constructive, guides development and addresses performance issues.

c. Fair and Transparent Processes:

Principle: Ensure fairness and transparency in promotion and termination processes.

Reasoning: Fairness builds trust, and transparency reduces uncertainty, fostering a healthy workplace culture.

d. Timely Termination for Misalignment:

Principle: Terminate employees promptly if misalignment persists.

Reasoning: Timely action prevents negative impacts on team morale and the startup's overall performance.

Conclusion:

Establishing the right team involves aligning values, fostering continuous learning, and creating an inclusive, collaborative culture. Regular assessments and adjustments ensure the team remains adaptable and supportive of the startup's mission at every stage of growth.

The role, types and features of remote team collaboration tools.

- Remote team collaboration tools play a crucial role in enabling effective communication, coordination, and collaboration among team members who are geographically dispersed. These tools are essential for remote or distributed teams to work together seamlessly. Here's an overview of their role, types, and features:
- Role of Remote Team Collaboration Tools:
- Facilitate Communication:
- Enable real-time communication and messaging.
- Provide channels for team discussions and updates.
- Support video and voice calls to enhance virtual meetings.
- Enhance Collaboration:
- Enable shared document editing and collaboration on projects.
- Facilitate file sharing for seamless information exchange.
- Support project management and task tracking.
- Promote Transparency:
- Provide visibility into team members' activities and progress.
- Ensure access to shared calendars, schedules, and project timelines.

The role, types and features of remote team collaboration tools.

- Improve Productivity:
- Streamline workflow and task management.
- Integrate with other productivity tools for a unified experience.
- Facilitate remote access to essential resources.

- Foster Team Bonding:
- Incorporate features for virtual team building and social interaction.
- Create channels for non-work-related discussions and celebrations.
- Types of Remote Team Collaboration Tools:

- Communication Tools:
- Examples: Slack, Microsoft Teams, Discord.
- Features: Real-time messaging, channels, video conferencing.

- Project Management Tools:
- Examples: Trello, Asana, Jira.
- Features: Task assignment, progress tracking, project timelines.

The role, types and features of remote team collaboration tools.

- File Sharing and Storage Tools:
- Examples: Google Drive, Dropbox, Microsoft OneDrive.
- Features: Secure file storage, version control, document sharing.

- Video Conferencing Tools:
- Examples: Zoom, Microsoft Teams, Google Meet.
- Features: Video calls, screen sharing, virtual backgrounds.

- Collaborative Editing Tools:
- Examples: Google Workspace, Microsoft 365.
- Features: Real-time document editing, collaboration on files.

- Task Management Tools:
- Examples: Todoist, Wrike, Monday.com.
- Features: Task creation, assignment, deadlines.

The role, types and features of remote team collaboration tools.

- Time Tracking Tools:
- Examples: Toggl, Harvest, Clockify.
- Features: Time tracking, reporting, invoicing.

- Virtual Whiteboard Tools:
- Examples: Miro, MURAL, Microsoft Whiteboard.
- Features: Digital whiteboard, collaborative brainstorming.
- Features of Remote Team Collaboration Tools:

- User-Friendly Interface:
- Intuitive design for easy navigation and usage.

- Cross-Platform Compatibility:
- Support for various devices and operating systems.

- Integration Capabilities:
- Compatibility with other tools and software for seamless workflows.

- Security and Privacy:
- Robust security measures to protect sensitive data.

The role, types and features of remote team collaboration tools.

- Notification and Alerts:
- Alerts for updates, messages, and approaching deadlines.

- Customization Options:
- Ability to tailor the tool to the team's specific needs.

- Scalability:
- Ability to grow and adapt as the team and projects expand.

- Collaboration Analytics:
- Insights into team collaboration patterns and productivity.
- Remote team collaboration tools, when chosen and implemented strategically, play a pivotal role in overcoming the challenges of working in a distributed environment and fostering effective teamwork.

Kanban Board

In Japanese, the word "Kan" means "visual" and "ban" means "card," so Kanban refers to visual cards.

Kanban is a fantastic way to get things done. A kanban system utilizes a visual cues that tell you what to produce, how much to produce and when to produce it.

Kanban is a lean scheduling system, developed by Taichi Ohno at Toyota (Japan) in 1940's. Kanban is based on PULL system.

Why Kanban Boards

Kanban boards simplify the way teams manage their work by visualizing complex project information such as tasks in progress, resource utilization and more.
As less time is wasted in communicating project information, there i
a rise in an automatic rise in productivity of teams - all thanks to Kanban boards.

How Kanban Works

1. Visualize work
2. Limit work in progress
3. Focus on flow
4. Continuous improvement

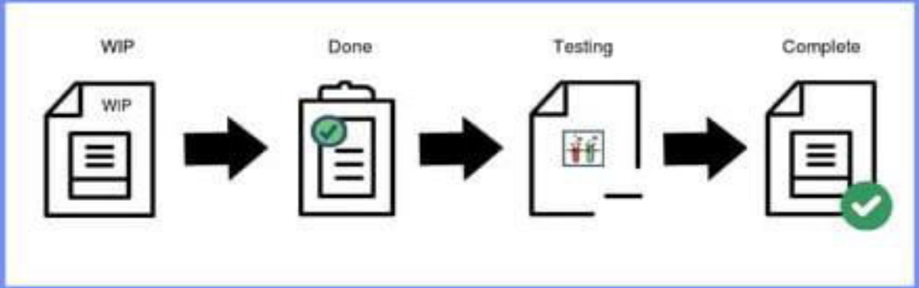
1 Visualise Work

- Visualization is core to kanban.
- Enable people to take a quick look at who is working on what and most importantly why.
- It helps to increase communication and collaboration.

2 Limit Work in Progress (WIP)

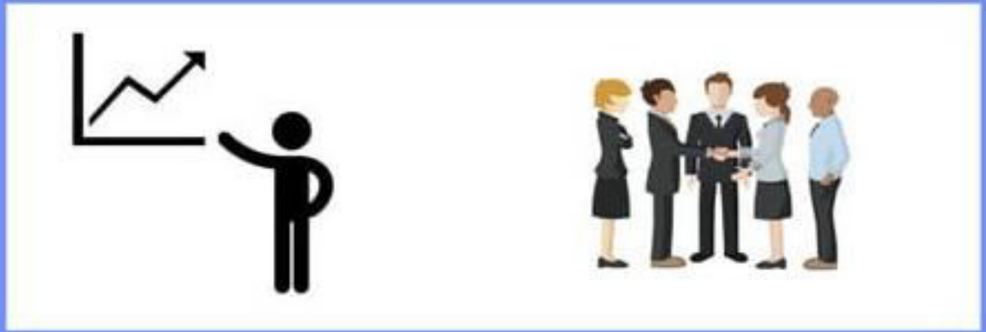
- Helps balance the flow-based approach so teams don't start too much work at once
- By limiting WIP- you can reduce the time taken by a task to travel through the system.
- It also improves quality.

3 Focus on Flow



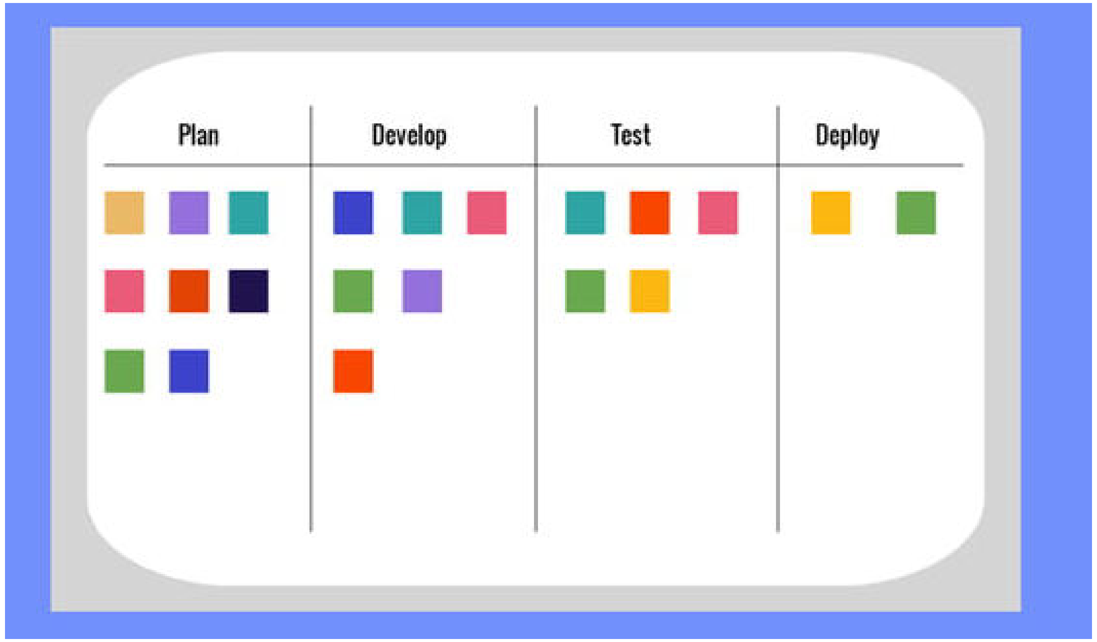
- Improve the flow of work.
- Collect metrics to analyze flow.
- When a task is finished, the next task from the backlog is pulled into play.

4 Continuous Improvement



- Tracking flow, quality, throughput, lead times and more.
- Quick analysis to improve the team's effectiveness.
- Foster a culture of continuous improvement.

How to start with Kanban Board



1. Map your workflow
2. Visualize work in process
3. Set your intial WIP limits
4. Get Kanban working
5. Look for bottlenecks
6. Inspect and Adapt

Map your workflow

- The first thing to do is to identify the major processes in your organization, and then identify the steps in the individual processes.
- Example: Software Project

  Backlog - Requirements- Design - Development - Testing- Acceptance - Deploy - Support

Visualize Work in Progress

- Once you have your process mapped and you have created your kanban board, you can start adding tasks to it.
- Tasks represent something that has to be done.
- Tasks should have a name that everyone recognizes and understands.

Set your initial WIP limits

- It reduces the time it takes to get any one thing done.
- It improves quality by giving greater focus to fewer tasks.
- Once you have set WIP limits for each phase, write them above the columns on your Kanban board that represent steps in the process.

Get Kanban Working

- Kanban is a "pull" system.
- When someone is ready to do work, they look on the board to see what needs to be done, and pull the next task into the column, representing the next step in the process.

Inspect and Adapt

- Kanban system allows you to compare your metrics at various points in the process and see your process improvements.

Basic Kanban Board

	To do	In progress		Done
		Next	Doing	
House chores	+ add task Place a complaint regarding books delivery last week Barcelona - book a hotel for July 13th to 20th Plan Barcelona holiday activites Prepare for book club discussion 0/6 Organize Danny's party	+ add task Order new soccer shoes for Mickey Set a dentist appointment for M. and I	+ add task Invite Tom and Carol for lunch / make a menu (incl. vegan options for C.)	+ 1 archived task + add task Print out Sam's best pictures Place online grocery order
Volunteering	+ add task Send invitations to the Comitee Prepare a presentation for TBD meeting Prepare a speech for UBF Write the speech for the XDP Gala	+ add task Set team rotation plan for May Follow up with Daria Garcia about key points of our meeting	+ add task	+ 4 archived tasks + add task Contact Mary Frisco Arrange a conference call with members of the Comitee Contact Free World Now

Entrepreneurship Development

Product Positioning

Why is product positioning important?

- Each brand has to know its customers to provide a product that resonates with their needs. A well-thought-out strategy can determine the position of this product within the market and identify its benefits for consumers.
- The process involves creating a particular image of a brand and its products in consumers' minds and identifying the key benefits to show how a particular product differs from competitors' alternatives. Afterward, the difference is communicated to a brand's target audience through the most effective communication channels. The messages brands convey to their customers should evoke interest.
- Marketers need to determine the best ways to present specific products and reach their target audience based on customers' needs, competitive alternatives, the most effective communication channels, and tailored messages. Implementing product positioning strategies enables companies to create messages that address their customers' needs and wants and entice them to purchase.
- There are even more pros this type of marketing can bring, so check out our list to know all of them.

Benefits of product positioning

We've prepared the top benefits of product positioning that show why it's one of the most effective marketing tactics. It helps in:

- identifying key benefits of a product and matching them with customers' needs;
- finding a competitive advantage even when the market changes;
- meeting customers' expectations;
- reinforcing your brand's name and its products;
- winning customer loyalty;
- creating an effective promotional strategy;
- attracting different customers;
- improving competitive strength;
- launching new products;
- presenting new features of existing products.
- Now that you know the advantages, we'll move to the next section to review product positioning strategies.

Product Positioning Strategies

- Characteristics-based positioning
- Pricing-based positioning
- Use or application-based positioning
- Quality or prestige-based positioning
- Competitor-based positioning
- Characteristics-based positioning. Brands give certain characteristics to their products that aim at creating associations. It's done to make consumers choose based on brand image and product characteristics. Let's take the automobile industry, for example. A person who worries about safety will probably choose Volvo because of the brand's positioning. At the same time, another customer who pays attention to reliability would prefer Toyota.

Product Positioning Strategies

- Pricing-based positioning. This strategy involves associating your company with competitive pricing. Brands often position themselves as those that offer products or services at the lowest price. Let's take supermarkets, for example. They can afford to provide customers with products for lower prices because of the lower costs they pay for shipping and distribution, huge turnover, and a large procurement of goods. As a result, many consumers already know the supermarkets with attractive prices and choose them without considering other options.
- Use or application-based positioning. Companies can also position themselves by associating with a certain use or application. People who adhere to a healthy lifestyle create a great demand for products that help increase performance in the gym. Hence, many businesses offer nutritional supplements. These brands sell supplements that are high in calories, vitamins, and minerals.
- Quality or prestige-based positioning. The brands we are talking about now don't concentrate on their price point; they focus on their prestige or high quality instead. Sometimes, it's the reputation that makes a brand attract customers. Let's take Rolex, for example. This famous watch brand is associated with achievement and excellence in sport and is popular among powerful and wealthy people.
- Competitor-based positioning. The strategy involves using competitors' alternatives to differentiate products and highlight their advantages. It helps brands distinguish their products and show their uniqueness.
- The difference is clear now, so it's time to jump to the steps required for successful product positioning.

Steps to Position Your Product

- Define your target audience
- Identify the key benefits of your product
- Establish brand credibility
- Offer a unique value proposition
- Consider audience segmentation
- Craft your messaging
- Do a competitive analysis
- Demonstrate your expertise
- Focus on your competitive advantage
- Maintain your brand’s position

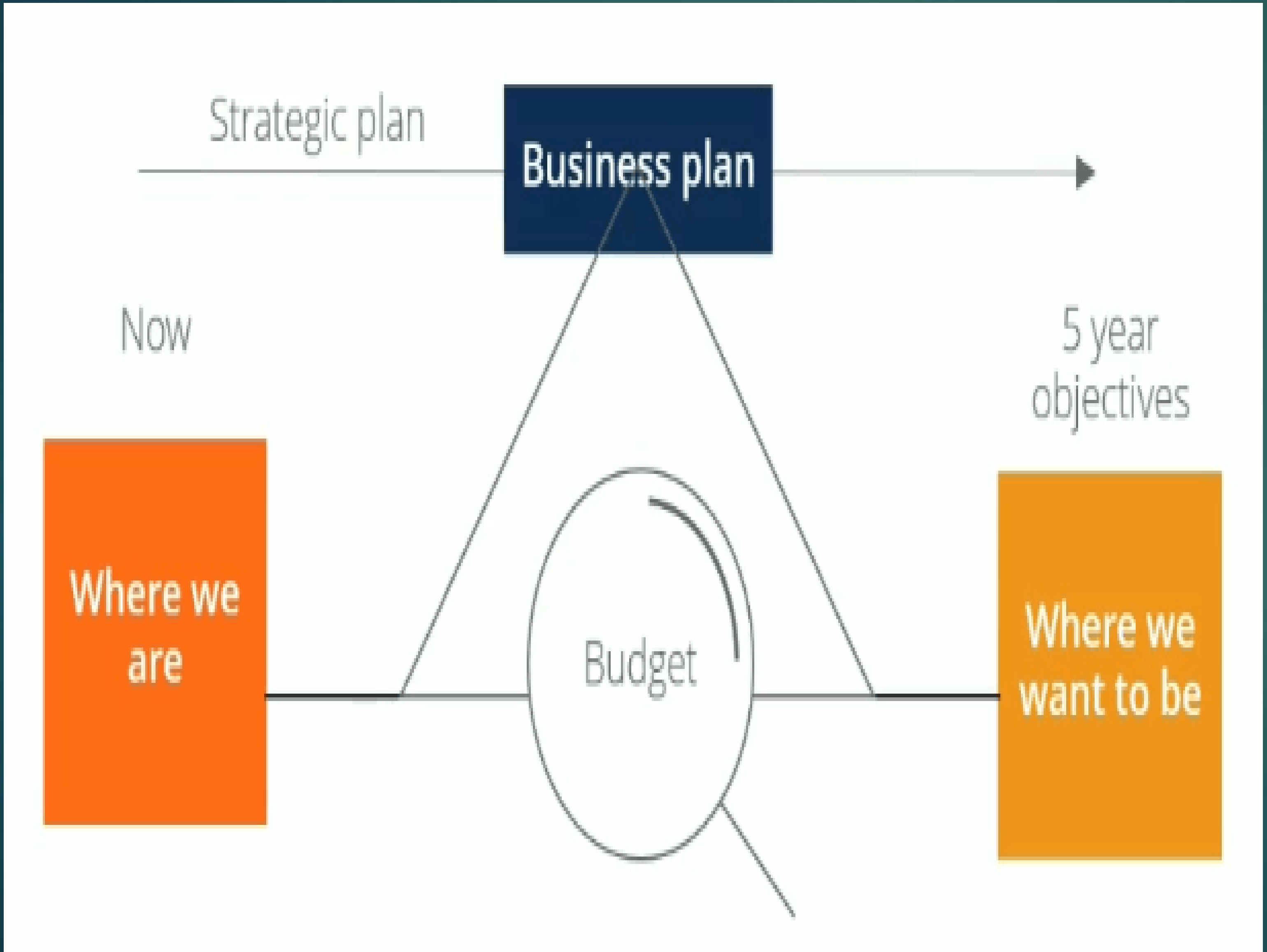
Steps to Position Your Product

- Define your target audience. Knowing your customers' needs, wants, demographics, and interests allows you to give them the product they strive for. This way, you can reach your target audience and motivate them to buy your products. For this purpose, you need to be well-prepared and operate the necessary information.
- Identify the key benefits of your product. Benefits are a top priority for any customer who wants to solve a particular problem. As a business owner, you need to know all the peculiarities of your products or services, including their features and advantages. You need to identify your key perks and communicate them to the masses so that they can consider your product when reviewing several options.
- Establish brand credibility. You need to create a brand that people can rely on to build trusting relationships and encourage your customers to make repeat purchases. Consumers are more inclined to make repeat purchases from companies with a good reputation and high credibility. Remember not to make promises you can't keep and claims that can't be verified. Prioritize honesty and transparency since they will help you build a healthy product positioning strategy.
- Offer a unique value proposition. Communicate the value your product can bring to your target audience. You need to be aware of the fact that consumers won't choose a product if they can't benefit from it. Explore your product, find its benefits, and search for the most appropriate communication channels to convey them to your leads and customers effectively.

Steps to Position Your Product

- Consider audience segmentation. If you want to obtain the best results, you need to segment your audience since your product can't satisfy all your customers' needs. You can divide them into groups based on their interests, traits, and needs to create customized messages. As a result, you'll be able to appeal to their individual wants and needs and provide them with your product as a solution.
- Craft your messaging. Once you segment your customers, it's necessary to select the right communication channels for each group. Some of them might prefer social media platforms, but others might use traditional channels like TV and radio. Give some thought to writing a positioning statement (a description of a product, its target audience, and how this product can solve a problem that arises). It will help you prepare personalized and effective messages that speak to the needs and preferences of each group.
- Do a competitive analysis. Once your message is ready, you need to evaluate your competitors' businesses and the products or services they offer. Competitor research gives you a clear understanding of your rivals, their offers, and what makes your product different in a positive way. Afterward, you'll be aware of the distinctive features and benefits your product has, your core values, innovations, and various improvements your company provides consumers with.
- Demonstrate your expertise. Explain to your customers why they should choose you over your competitors. You should also prove that your product is better and that it has several benefits useful for consumers. There are several ways to show the quality of your product or its benefits: testing, trials, demonstrations, etc.
- Focus on your competitive advantage. These are the factors that enable your company to manufacture better or cheaper products and outperform your competitors. You need to speak about the actual benefit your product provides. Customers should truly need this product and obtain its visible value. It also includes staying up-to-date and adapting to new trends and innovations.
- Maintain your brand's position. Once you reach this step, you need to maintain your brand's position so that customers continue buying your products. If you aim to operate this successfully, you should never compromise on quality and increase or reduce prices drastically since it can make customers suspicious.

Budgeting



What is Budgeting?

Budgeting is the tactical implementation of a business plan. To achieve the goals in a business's strategic plan, we need a detailed descriptive roadmap of the business plan that sets measures and indicators of performance. We can then make changes along the way to ensure that we arrive at the desired goals.

Translating Strategy into Targets and Budgets

There are four dimensions to consider when translating high-level strategy, such as mission, vision, and goals, into budgets.

Objectives	Strategies	Measures	Targets
What are you trying to achieve?	How are you going to achieve it?	What are the input and output measures?	Quantifiable and time-based
• Increase spend per customer	• Expand product offering • Source new suppliers • Promotion and marketing • Pricing	• Average weekly spend/customer • Spend by product type • Average price changes	• $ increase • Volume increase • % staff trained in new products

Goals of the Budgeting Process

1. Aids in the planning of actual operations

The process gets managers to consider how conditions may change and what steps they need to take, while also allowing managers to understand how to address problems when they arise.

2. Coordinates the activities of the organization

Budgeting encourages managers to build relationships with the other parts of the operation and understand how the various departments and teams interact with each other and how they all support the overall organization.

3. Communicating plans to various managers

Communicating plans to managers is an important social aspect of the process, which ensures that everyone gets a clear understanding of how they support the organization. It encourages communication of individual goals, plans, and initiatives, which all roll up together to support the growth of the business. It also ensures appropriate individuals are made accountable for implementing the budget.

4. Motivates managers to strive to achieve the budget goals

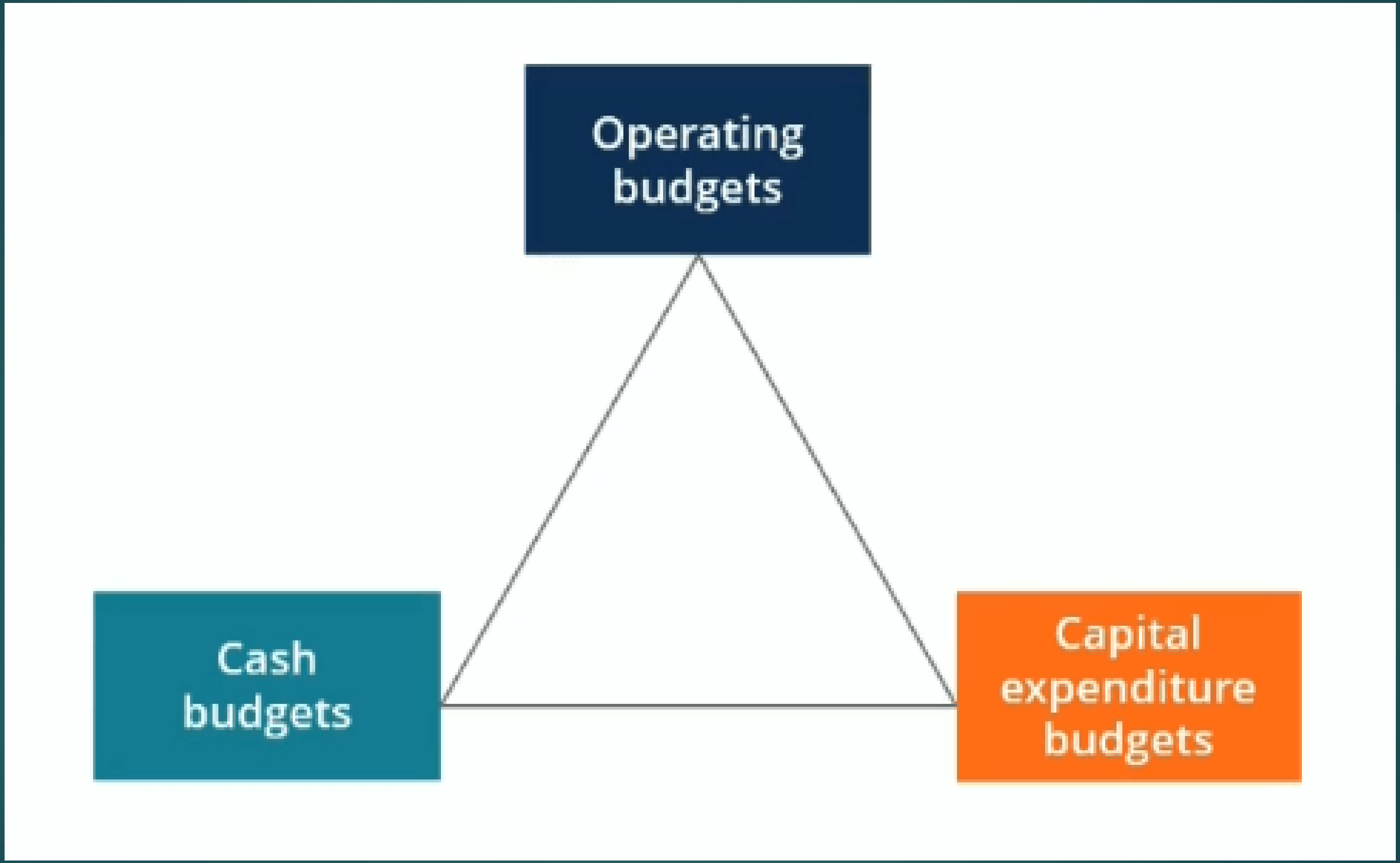
Budgeting gets managers to focus on participation in the budget process. It provides a challenge or target for individuals and managers by linking their compensation and performance relative to the budget.

5. Control activities : Managers can compare actual spending with the budget to control financial activities.

6. Evaluate the performance of managers

Budgeting provides a means of informing managers of how well they are performing in meeting targets they have set.

Types of Budgets



Types of Budgets

A robust budget framework is built around a master budget consisting of operating budgets, capital expenditure budgets, and cash budgets. The combined budgets generate a budgeted income statement, balance sheet, and cash flow statement.

1. Operating budget

Revenues and associated expenses in day-to-day operations are budgeted in detail and are divided into major categories such as revenues, salaries, benefits, and non-salary expenses.

2. Capital budget

Capital budgets are typically requests for purchases of large assets such as property, equipment, or IT systems that create major demands on an organization's cash flow. The purposes of capital budgets are to allocate funds, control risks in decision-making, and set priorities.

3. Cash budget

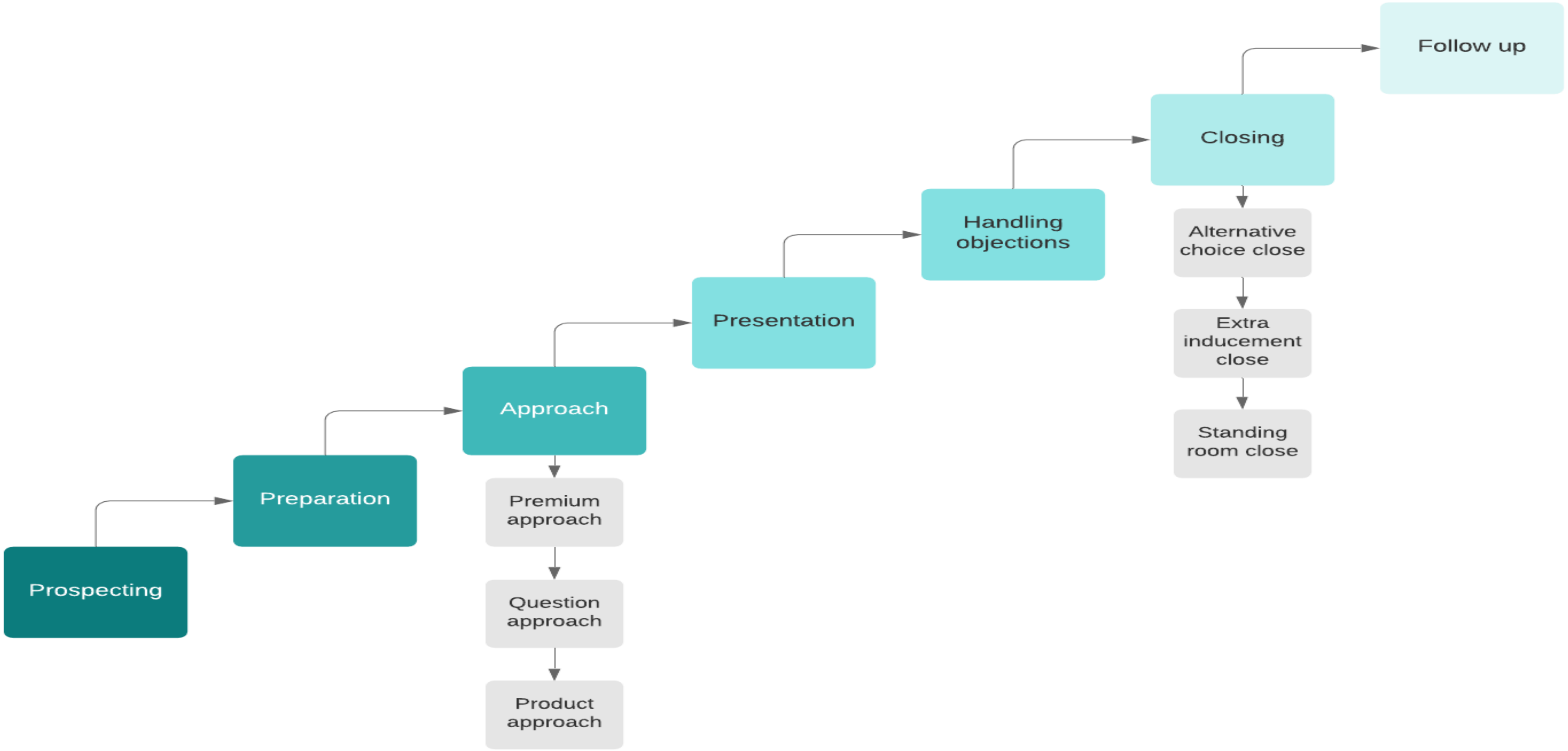
Cash budgets tie the other two budgets together and take into account the timing of payments and the timing of receipt of cash from revenues. Cash budgets help management track and manage the company's cash flow effectively by assessing whether additional capital is required, whether the company needs to raise money, or if there is excess capital.

Sales Planning

The 7-step sales process

- Prospecting
- Preparation
- Approach
- Presentation
- Handling objections
- Closing
- Follow-up

Sales Planning



1. Prospecting

The first step in the sales process is prospecting. In this stage, you find potential customers and determine whether they have a need for your product or service—and whether they can afford what you offer. Evaluating whether the customers need your product or service and can afford it is known as qualifying.

Keep in mind that, in modern sales, it's not enough to find one prospect at a company: There are an average of 6.8 customer stakeholders involved in a typical purchase, so you'll want to practice multi-threading, or connecting with multiple decision-makers on the purchasing side. Account maps are an effective way of identifying these buyers.

2. Preparation

The next step is preparing for initial contact with a potential customer, researching the market and collecting all relevant information regarding your product or service. Develop your sales presentation and tailor it to your potential client's particular needs. Preparation is key to setting you up for success. The better you understand your prospect and their needs, the better you can address their objections and set yourself apart from the competition.

3. Approach

Next, make first contact with your client. This is called the approach. Sometimes this is a face-to-face meeting, sometimes it's over the phone. There are three common approach methods.

Premium approach: Presenting your potential client with a gift at the beginning of your interaction

Question approach: Asking a question to get the prospect interested

Product approach: Giving the prospect a sample or a free trial to review and evaluate your service

4. Presentation

In the presentation phase, you actively demonstrate how your product or service meets the needs of your potential customer. The word presentation implies using PowerPoint and giving a salesy spiel, but it doesn't always have to be that way—you should actively listen to your customer's needs and then act and respond accordingly.

5. Handling objections

Perhaps the most underrated step of the sales process is handling objections. This is where you listen to your prospect's concerns and address them. It's also where many unsuccessful salespeople drop out of the process—44% of salespeople abandoning pursuit after one rejection, 22% after two rejections, 14% after three, and 12% after four, even though 80% of sales require at least five follow-ups to convert. Successfully handling objections and alleviating concerns separates good salespeople from bad and great from good.

6. Closing

In the closing stage, you get the decision from the client to move forward. Depending on your business, you might try one of these three closing techniques.

Alternative choice close: Assuming the sale and offering the prospect a choice, where both options close the sale—for example, "Will you be paying the whole fee up front or in installments?" or "Will that be cash or charge?"

Extra inducement close: Offering something extra to get the prospect to close, such as a free month of service or a discount

Standing room only close: Creating urgency by expressing that time is of the essence—for example, "The price will be going up after this month" or "We only have six spots left"

7. Follow-up

Once you have closed the sale, your job is not done. The follow-up stage keeps you in contact with customers you have closed, not only for potential repeat business but for referrals as well. And since retaining current customers is six to seven times less costly than acquiring new ones, maintaining relationships is key.

What is a sales strategy?

A sales strategy is a set of decisions, actions, and goals that inform how your sales team positions the organization and its products to close new customers. It acts as a guide for sales reps to follow, with clear goals for sales processes, product positioning, and competitive analysis.

Most strategies involve a detailed plan of best practices and processes set by management.

Why is a sales strategy important?

A clear sales strategy serves as a map for the growth of your business. Your sales strategy is key to future planning, problem-solving, goal-setting, and management.

An effective sales strategy can help you:

Give your team direction and focus. Strategic clarity can help your sales reps and managers understand which goals and activities to prioritize. This can lead to improved productivity and outcomes.

Ensure consistent messaging. Your sales strategy can help your team deliver a consistent message to prospects, partners, and customers. This can increase both trust and effectiveness.

Optimize opportunities. Strong sales strategies will help you target the right prospects and customize your approach. This can help your team make the most of every sales opportunity.

Improve resource allocation. Your sales strategy outlines priorities and resources. In turn, this can help your sales team use their time, effort, and resources efficiently. This efficiency can boost your team's ability to focus on high-potential deals.

Sales Strategies

- Increase online sales through social media.
- Become a thought leader.
- Prioritize inbound sales calls as hot leads.
- Properly research and qualify prospects.
- Implement a free trial.
- Don't shy away from cold calling.
- Offer a demonstration of the product.
- Provide a personalized, clear end result.
- Be willing to adapt your offering.
- Close deals with confidence.
- Nurture existing accounts for future selling opportunities.

Unique Selling Proposition

- A USP represents what your business stands for. It is a quality that sets your business apart from the competition. Choosing a highly specific unique selling proposition is key to creating a focused marketing strategy that carries a cohesive message across copywriting, branding, campaigns and other marketing tools.
- When you have a clear USP, your target customer will be able to answer one important question about your business: What makes it different from the competition? There are four USP pegs on which you can focus your marketing strategy. Known as the four Ps of marketing.

They include

- Product characteristics
- Price structure
- Placement strategy (location and distribution)
- Promotional strategy

How to Use USP Analysis

1. Understand the Characteristics That Customers Value

First, brainstorm what customers value about your product or services, and about those of your competitors. Move beyond the basics that are common to all suppliers in the industry, and look at the criteria that customers use to decide which product or service to buy.

As with all brainstorming, by involving knowledgeable people in the process, you'll improve the range of characteristics you'll identify. So talk to salespeople, customer service teams and, most importantly, to customers themselves.

2. Rank Yourself and Your Competitors by These Criteria

Now, identify your top competitors. Being as objective as you can, score yourself and each of your competitors out of 10 for each characteristic. Where possible, base your scores on objective data. Where this isn't possible, do your best to see things from a customer's perspective and then make your best guess.

3. Identify Where You Rank Well

Plot these points on a graph. This helps you spot different competitors' strengths and weaknesses. And, from this, develop a simple, easily communicated statement of your USP.

Tip : When you identify your USP, make sure that it's something that really matters to potential customers. There's no point in being the best in the industry for something that they don't care about.

4. Preserve Your USP (and use it!)

The final step is to make sure that you can defend your USP. You can be sure that as soon as you start to promote a USP, your competitors will do what they can to neutralize it. For example, if you've got the best website, they'll bring in a better web designer. Or if you've got a great new feature in your product, you'll see it in theirs next year.

What makes a strong USP?

Creating a strong USP is key to inviting the right audience to your product or service. Follow the below points to come up with a unique selling proposition:

1. Start thinking like your ideal customer

Identifying your target audience will make it easier for you to understand what your customer needs. To do this, answer the following questions:

2. Explain to your ideal customers how you can solve their problems

Your ideal buyer wants you to solve their problems. This goes beyond simple needs as the problem is usually far more complex. For example, designer brands aren't simply selling clothes. They are selling their ideal buyers a luxury lifestyle with their high-range fashion pieces. An airline is not simply selling flights, but it is selling luxury and comfort in the sky.

When you have a firm grasp of who your ideal customer is, then you can start coming up with the best unique selling proposition to solve their complex problem.

3. Become a must-have in the eyes of your customers

Tell your ideal buyers exactly what you plan on giving them. For example, years ago, FedEx's slogan was, "when it absolutely, positively has to be there overnight." This slogan distinguished the company from the many others out there. It told customers exactly what they could expect from FedEx. That's when customers knew that they needed FedEx to solve their shipping problems.

Best practices of USP

The three-step process for a strong unique selling proposition is an important process for your marketing strategy. When working on this process, it is important to keep the following best practices in mind to come up with an effective unique selling proposition. These are

1. Focus on value

When you are coming up with a unique selling proposition, avoid simply going for something unique. Instead, focus on what your ideal buyer values. It could be an eco-friendly quality, friendly service, cozy luxury or more.

2. Embody your slogan

Your slogan should be represented in every aspect of your business, not simply in what you are selling. For example, if your buyer is choosing your product because it is made from recyclable bottles, then your manufacturing space should also represent this slogan by implementing a recycling-friendly environment.

3. Do your research

When coming up with your unique selling proposition, it is good practice to do extensive research to see what your competitors are doing. Be aware of the unique selling propositions of your competitors and what the trends are.

4. Focus on prospect research

Besides market research, it is also helpful to focus on prospect research to see what people have already said about products similar to yours. Look for complaints. These same complaints may help you come up with a strong unique selling proposition.

Best practices of USP

Look for complaints in every area of your competitors' business — from the product to delivery and returns. For example, people buying eco-friendly beauty products could complain that the range of colors isn't as varied compared to those that are not eco-friendly. With this in mind, you can address their complaint and have that be your unique selling proposition.

5. Work on your SEO

Your ideal buyer will use specific keywords to find the product or service that will solve their problem. For example, "organic luxury fashion." Keyword research is important for other aspects of your online business — mainly so that you can rank higher on the search engine results page (SERP) and be found by your target audience. However, knowing what your keywords are can also help you come up with the best slogan to address your unique selling proposition.

6. Use your customer's language

If you know your ideal buyer, then you should know how your ideal buyer communicates. When you are coming up with your content, you should use the same language as your ideal customer. So, if your buyers are experts, speak the language. If your buyers are young, communicate in a way that resonates with them. Always be careful when educating your buyers. You should be helpful but never condescending.

7. Keep away from cliches

Avoid using cliches when coming up with your unique selling proposition. A cliche means a phrase has been overused and it is unlikely to appeal to your buyers. For example, when selling the features of your hotel, avoid the "relax by the pool" cliche. It's obvious and it has been done. Instead, talk about the state-of-the-art spa or the award-winning hotel restaurant.

8. Use the active voice

The active voice is shorter, clearer and stronger than the passive voice, so use it when you are writing your content. A famous and strong slogan with an active voice is Nike's "Just do it."

A startup can build a strong digital presence and its importance.

- Building a strong digital presence is crucial for the success and visibility of a startup in the modern business landscape. Here's an explanation of how a startup can achieve this and the importance of a robust digital presence:
- How to Build a Strong Digital Presence:
- Website Development:
- Responsive Design: Ensure the website is mobile-friendly for a seamless user experience.
- Clear Branding: Reflect the startup's brand identity through design, color schemes, and logo.
- Search Engine Optimization (SEO):
- Keyword Optimization: Research and incorporate relevant keywords to improve search engine rankings.
- Quality Content: Create valuable, engaging, and relevant content to attract and retain visitors.

A startup can build a strong digital presence and its importance.

- Social Media Engagement:
- Platform Selection: Choose platforms relevant to the target audience.
- Consistent Branding: Maintain a consistent brand image across all social media channels.
- Active Presence: Regularly post content, engage with followers, and participate in relevant conversations.

- Content Marketing:
- Blogging: Share informative blog posts to establish authority in the industry.
- Visual Content: Utilize images, infographics, and videos for diverse and engaging content.

- Email Marketing:
- Building a Subscriber List: Encourage website visitors to subscribe for newsletters.
- Personalized Campaigns: Send targeted and personalized email campaigns.

- Online Advertising:
- Google Ads: Utilize paid advertising on search engines.
- Social Media Ads: Run targeted ads on platforms like Facebook, Instagram, and LinkedIn.

A startup can build a strong digital presence and its importance.

- Influencer Marketing:
- Collaborate with Influencers: Partner with influencers relevant to the industry to reach a wider audience.

- Customer Reviews and Testimonials:
- Encourage Reviews: Request satisfied customers to leave positive reviews.
- Display Testimonials: Showcase positive testimonials on the website and social media.
- Importance of a Strong Digital Presence:

- Global Reach:
- Access to a Wider Audience: A digital presence enables startups to reach a global audience, breaking geographical barriers.

- Credibility and Trust:
- Establishing Credibility: A well-maintained digital presence builds trust among potential customers and partners.
- Social Proof: Positive reviews and testimonials contribute to a positive brand image.

A startup can build a strong digital presence and its importance.

- Customer Engagement:
- Interactive Platforms: Digital channels provide opportunities for direct interaction with customers.
- Real-time Engagement: Responding promptly to queries and comments demonstrates commitment to customer satisfaction.

- Brand Visibility:
- Increased Brand Awareness: Digital marketing efforts enhance brand visibility, ensuring the startup is top-of-mind for consumers.

- Data Analytics and Insights:
- Data-Driven Decision Making: Access to analytics helps in understanding customer behavior, preferences, and optimizing marketing strategies.

- Cost-Effective Marketing:
- Budget-Friendly Options: Digital marketing often provides cost-effective alternatives compared to traditional advertising.

- Adaptability and Innovation:
- Staying Current: A strong digital presence allows startups to adapt to changing trends and technologies.
- Innovation Opportunities: Digital platforms provide space for creative and innovative marketing campaigns.
- In summary, a strong digital presence is integral to the success of a startup in today's competitive environment. It enhances brand visibility, builds credibility, and provides avenues for customer engagement and feedback. By leveraging digital channels effectively, startups can establish themselves as key players in their respective industries.

The process of the sales pitch to the startup customer.

- The sales pitch to a startup customer is a critical process that involves presenting your product or service in a compelling way to generate interest and secure a sale. Here's a step-by-step guide on the process of delivering an effective sales pitch to a startup customer:
- 1. Research and Preparation:
- Understand the Customer: Research the startup customer's industry, challenges, and needs.
- Know Your Product: Be well-versed in the features, benefits, and unique selling points of your product or service.
- 2. Introduction:
- Build Rapport: Start with a friendly greeting to establish a connection.
- Brief Introduction: Introduce yourself, your company, and the purpose of the meeting.
- 3. Identify Customer Needs:
- Ask Questions: Understand the startup's pain points, goals, and specific needs.
- Listen Actively: Pay attention to the customer's responses and concerns.
- 4. Tailor the Pitch:
- Customize Messaging: Align your product's benefits with the identified needs of the startup.
- Highlight Solutions: Emphasize how your product addresses their challenges and adds value.
- 5. Present Key Features:
- Focus on Benefits: Clearly articulate how each feature translates into a benefit for the customer.
- Use Examples: Provide real-world scenarios or case studies to illustrate the product's effectiveness.

The process of the sales pitch to the startup customer.

- 6. Handle Objections:
- Anticipate Concerns: Be prepared for common objections and challenges.
- Provide Solutions: Address objections with solutions and demonstrate the value your product brings.
- 7. Demonstration (if applicable):
- Live Demo: If feasible, offer a live demonstration of your product in action.
- Visual Aids: Use visuals, such as slides or multimedia, to enhance understanding.
- 8. Value Proposition:
- Reiterate Value: Clearly state the unique value proposition your product offers.
- Quantify Benefits: If possible, quantify the benefits in terms of cost savings, efficiency gains, or revenue growth.
- 9. Call to Action:
- Propose Next Steps: Clearly outline the next steps, whether it's a trial, further discussion, or a purchase.
- Create Urgency: Encourage a timely decision by emphasizing limited-time offers or benefits.

The process of the sales pitch to the startup customer.

- 10. Closing:
- Ask for the Sale: Request a commitment or agreement from the startup customer.
- Handle Final Questions: Address any remaining questions or concerns.
- 11. Follow-up:
- Send Materials: Provide additional materials, such as brochures or documentation.
- Schedule Follow-up: Set a date for a follow-up discussion or meeting.
- 12. Thank You and Gratitude:
- Express Appreciation: Thank the startup customer for their time and consideration.
- Reiterate Value: Highlight your enthusiasm for the potential partnership.
- Tips for an Effective Sales Pitch:
- Be Concise: Keep the pitch focused and avoid unnecessary details.
- Adapt to Feedback: Be flexible and adapt your pitch based on the customer's reactions.
- Build Trust: Establish credibility and trust throughout the pitch.
- Practice: Rehearse the pitch to ensure a smooth and confident delivery.
- Stay Positive: Maintain a positive and enthusiastic demeanor throughout the presentation.
- Remember that every startup customer is unique, so tailoring your pitch to their specific needs and concerns is key to success.

Entrepreneurship Development

Project Management

What is a project Management?

A project plan is a detailed roadmap for achieving a specific goal or outcome. It is a comprehensive document answering the questions of who, what, why, how, and when, which guide the execution of a project.

Before starting a new project, every manager needs to know:

- **The objective:** This states why the project should be completed. It outlines the gains and purpose.
- **What to do (scope):** This is the list of tasks and activities. It outlines what needs to be done to reach the project's goal.
- **When to do it (schedule):** This provides a timeline that tells you when to start and finish each part of the project.
- **Who will do what (assignments and resources):** This determines who is responsible for each task and how much time, money, or other resources are allocated to each activity.

Key elements of a project plan

- **Project overview:** This is a summary of the project, including its purpose, goals, and key stakeholders.
- **Scope statement:** This defines what the project will deliver (the product, service, or outcome) and what it will not. It sets the boundaries for the project and prevents scope creep.
- **Work breakdown structure (WBS):** This breaks the project into smaller, manageable tasks. It helps teams understand the work to be done and who is responsible for what.
- **Project schedule:** This provides a timeline for when each task is to be completed.
- **Budget and resource plan:** This outlines the costs and resources (including money, time, personnel, and tools) allocated to each task.
- **Risk management plan:** This identifies potential risks or issues that may arise during the project and outlines strategies to manage or mitigate them.
- **Quality management plan:** This sets the project quality standards and how they will be achieved and measured.
- **Communication plan:** This outlines how information will be shared among team members and stakeholders, including what will be communicated, when, how, and to whom.
- **Change management plan:** This defines how changes to the project will be managed and controlled to keep the project on track.
- **Project governance:** This outlines the decision making structures and processes for the project, including escalation paths for issues.

Why is a project plan important?

Project plans bring order to the otherwise chaotic process of managing and executing projects. However, it is more than just a budget or task management tool.

Below are seven reasons why project plans are important

- **Provides clarity on how to proceed:** Beginning with a project plan makes it clear how best to break a project down to ensure a successful finish.
- **Makes project execution efficient:** A thorough project plan saves costs and reduces errors by carefully allocating resources to keep up with the schedule and managing potential challenges with available resources.
- **Improves team communication:** The communication plan is an integral part of a project plan. It establishes channels and communication systems, ensuring team members and stakeholders stay aligned and receive updates on the progress of the project.
- **Optimizes resource allocation:** Project plans ensure the best use of resources. They help to juggle competing project needs, manage time and tasks, and eliminate waste.
- **Facilitates goal tracking:** A project plan defines the project goals and key deliverables, allowing for easy tracking of project objectives and incisive course correction when necessary.
- **Maintains alignment among team members:** Project plans help to align teams and stakeholders toward the project goals. They delineate clear roles, responsibilities, and expectations for everyone involved.
- **Impacts employee retention:** Working with a well-defined project plan reduces ambiguity, miscommunication, and work-related stress, which contributes to a positive work environment and boosts employee retention.

What is a workflow?

- Workflow is the series of activities that are necessary to complete a task. Each step in a workflow has a specific step before it and a specific step after it, with the exception of the first and last steps.
- In a linear workflow, an outside event usually initiates the first step. If the workflow has a loop structure, however, the completion of the last step will usually restart the first step.
- Tools such as flowcharts and process maps are used to visualize the steps involved in a process and the order they should go in. Flowcharts use simple geometric symbols and arrows to define if-then relationships. Process maps look similar, but they may also include support information. That information documents the resources that each step in a business process requires.

Types of workflows

Workflows are categorized in various ways. At a basic level, they get grouped using one of these two approaches:

- Sequential. This type of workflow has a series of steps that happen one after the other to complete the task. A loan application approval typically follows a sequential workflow, where a step is finished before the next one starts. A rules-driven workflow is a subset; based on sequential workflow, a rules-driven workflow progresses along a sequential path based on which rules get triggered.
- Parallel. With this approach, a series of steps is tackled concurrently to move the task toward completion. Employee onboarding workflow often takes a parallel approach because many of the tasks required of a new hire -- from healthcare insurance enrollment to security clearances to direct deposit forms -- can happen simultaneously.

There are other ways to categorize workflows, including the following three:

- Process workflow. This approach is comprised of a predictable, repetitive sequence of tasks or steps.
- Case workflow. With these processes, the exact sequence of steps needed to complete the task are unknown at the start and can vary case by case.
- Project workflow. The flow of steps proceeds in a structured path similar to process workflow, but there is some flexibility in when, how and even if all those steps must happen.

More infrequently, some people categorize processes as delivery, request- or task-based workflows. A state machine workflow is another possible category. It's traditionally considered a modeling style for event-driven workflows.

Workflows are also sometimes distinguished as manual or digital. Digital workflows are usually automated workflows and ones that use artificial intelligence (AI). Manual and digital workflows are also sometimes called human-centered versus system-centered workflows, respectively.

What are the components of a workflow?

There are three basic components within every workflow:

- Input is also called *start* or *trigger*. It is the information, materials and resources required to complete each step within the task.
- Transformation is also referred to as *work*. It involves the actions taken to perform each step and move through the sequential or parallel steps.
- Output is also called *result* or *outcome*. It is the result of each step that then becomes the input for follow-on steps within the workflow. The finished task is the final output.

How to create a workflow

Workflows exist in organizations even if they're not well-defined or managed to any degree. However, workflows that are not planned or managed often have operational inefficiencies.

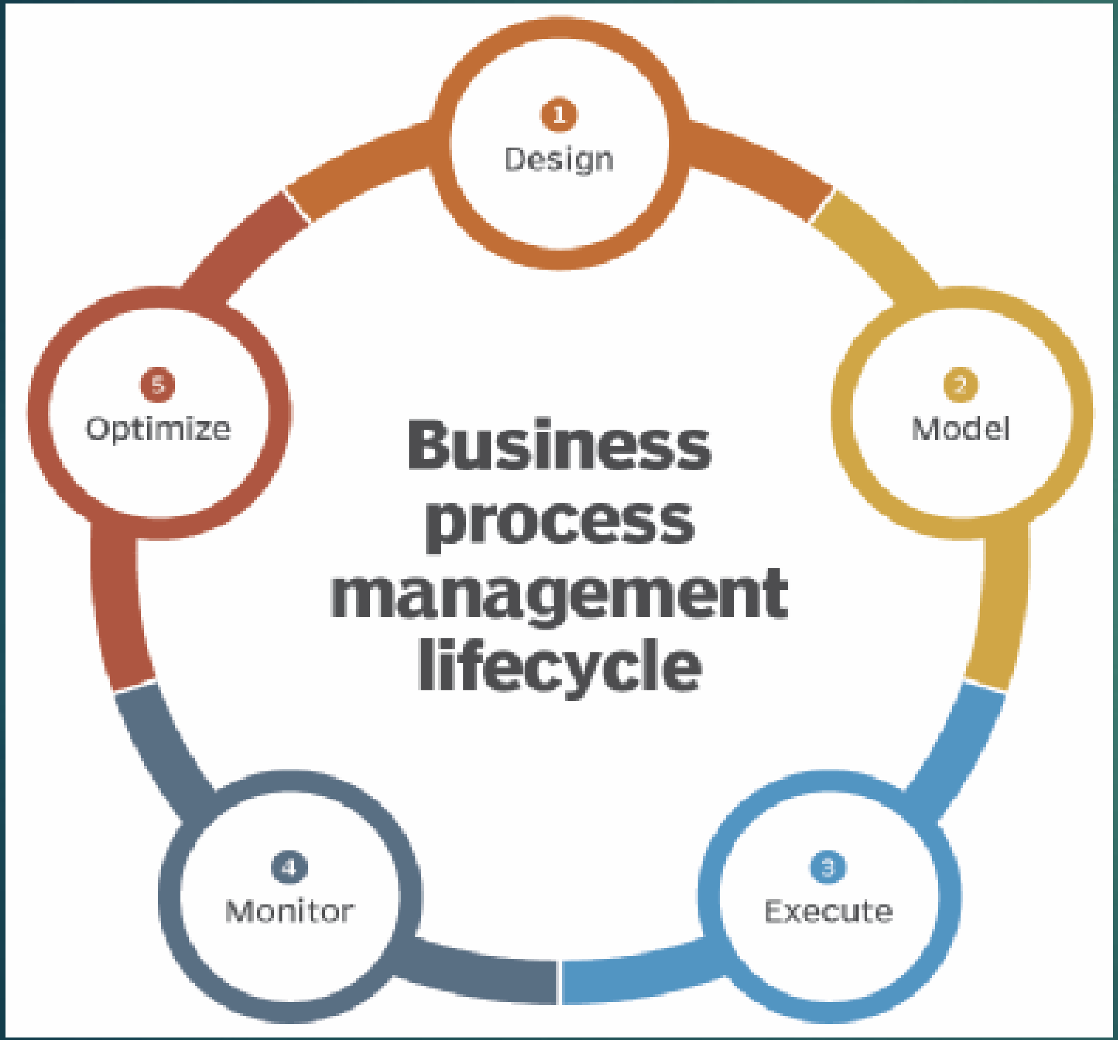
On the other hand, workflows that are thoughtfully created and well managed are efficient. They are also less prone to errors and likely to improve over time.

The creation of a workflow involves multiple steps, which can be depicted in a workflow diagram as a sequence of steps or written as a list of required actions.

Creating a process-improving workflow requires the following series of tasks:

- Identify the start and endpoint of the process.
- List or map out each step required to move from the start point to the endpoint.
- Assess whether these tasks must happen in a specific order and, if so, list or map them accordingly.
- Determine and document the resources and roles within the organization that are required to complete each step. Add required workflow rules or business process descriptions.
- Execute workflow.

What is workflow management?



- Once an organization has created and documented a workflow, it must manage it as part of its overall BPM efforts. Workflow management is the discipline of creating, documenting, monitoring and improving a workflow. This process enables organizations to optimize workflows, ensuring each step is completed correctly, consistently and efficiently.
- Workflow management is a part of business process management (BPM). See the five steps that make up the BPM lifecycle.

Time Management

Time management is the management of the time spent, and progress made, on project tasks and activities. Excellent time management requires the planning, scheduling, monitoring, and controlling of all project activities. Time management is one of the six major functions of project management, according to the Project Management Institute. When some people refer to project time management, they're also referring to the tools and techniques used for managing time.

The seven main processes in project time management

- **Plan schedule management:** Many resources don't mention this process when discussing time management. But, before you can complete the other steps, you need to plan how you will manage your schedule. Some questions you should answer are: What software or tool will you use? Who will be responsible for using the software? How often will the schedule be reviewed? What controls will be put in place to ensure everyone stays on schedule?
- **Define activities:** Once you have your time management plan, you can identify and define your project activities. Often a work breakdown structure (WBS) is used to help define activities and tasks within a project. Major milestones should also be determined.
- **Sequence activities:** Now that you know all of the tasks that must be completed, you can start sequencing them in the proper order with a network diagram.
- **Estimate resources:** In project management, the term 'resources' often refers to people. However, you also need to identify which tools, materials, systems, budget, and other resources you will need for each task to be completed.
- **Estimate durations:** Once you know which tasks must be completed and what you need to accomplish them, it's time to estimate how long it will take to complete each activity. Some project managers use PERT (Program Evaluation Review Technique) to come up with their durations, especially if there's a lot of unknown factors at play.
- **Develop the project schedule:** This can be done by inputting your activities, durations, start and end dates, sequencing, and relationships into a scheduling software.
- **Control the schedule:** Once your schedule is created, it needs to be monitored and controlled. Progress needs to be reviewed and updated on a regular basis so you can compare your actual work completed against the plan. This allows you to see if there are areas you're falling behind schedule

Business Regulation

1.Business Structure and Registration:

Choose a legal structure for your business (sole proprietorship, partnership, LLC, corporation) and register it with the appropriate government authorities. This typically involves obtaining a business license and registering with the local business registry.

2. Tax Obligations:

Understand your tax obligations, including income tax, sales tax, and employment taxes. Register for the necessary tax identification numbers and comply with local tax laws.

3. Permits and Licenses:

Obtain the required permits and licenses to operate legally in your industry and location. This may include health permits, environmental permits, zoning permits, or industry-specific licenses.

4. Employment Laws:

Familiarize yourself with labuor laws and regulations, including minimum wage requirements, working hours, overtime pay, and workplace safety standards. Comply with employment laws when hiring and managing employees.

5. Intellectual Property Protection:

Understand the basics of intellectual property laws, including trademarks, copyrights, and patents. Take steps to protect your intellectual property and respect the intellectual property of others.

6. Contractual Agreements:

Draft clear and legally binding contracts for your business transactions, partnerships, and employment relationships. Contracts help define expectations and protect your business interests.

Business Regulation

7. Consumer Protection Laws:

Be aware of consumer protection laws that apply to your business, especially if you sell goods or services directly to consumers. Comply with regulations related to fair business practices and consumer rights.

8. Data Protection and Privacy:

If your business handles personal data, understand and comply with data protection and privacy laws. Safeguard customer information and comply with regulations related to data collection, storage, and sharing.

9. Environmental Regulations:

Depending on your industry, you may need to comply with environmental regulations. This can include waste disposal, emissions standards, and other environmental considerations.

10. Accessibility Compliance:

Ensure that your business premises, website, and services comply with accessibility standards, making them accessible to individuals with disabilities.

11. Anti-Discrimination Laws:

Adhere to anti-discrimination laws that prohibit discrimination based on factors such as race, gender, age, and disability. Create a fair and inclusive workplace.

12. Financial Reporting:

Comply with financial reporting requirements, including the preparation of accurate and transparent financial statements. This is crucial for tax purposes and may be a legal requirement.

13. Ongoing Compliance:

Regularly review and update your compliance with relevant regulations. Laws and regulations may change, and staying informed is essential for ongoing legal compliance.

To ensure that you fully understand and comply with the specific regulations that apply to your business, it's advisable to consult with legal and financial professionals or government agencies in your area. This can help you navigate the

The Importance of being compliant and keeping proper documentations?

Being compliant and maintaining proper documentation is crucial for businesses across various industries. Here are some key reasons why compliance and documentation are important:

- **Legal Obligations:**

  Compliance with laws and regulations is a legal requirement. Failing to adhere to applicable laws can result in penalties, fines, legal action, or even the closure of the business. Proper documentation serves as evidence of compliance.

- **Risk Mitigation:**

  Compliance helps mitigate risks associated with legal, financial, and operational aspects of the business. Proper documentation ensures that the business has a record of its activities, decisions, and transactions, reducing the risk of disputes or misunderstandings.

- **Financial Accountability:**

  Accurate financial documentation is essential for tax reporting, financial audits, and overall financial accountability. It enables businesses to track income, expenses, and other financial transactions, facilitating transparency and accurate reporting.

- **Operational Efficiency:** Proper documentation streamlines business processes and contributes to operational efficiency. Clear procedures and guidelines documented in standard operating procedures (SOPs) help employees understand their roles and responsibilities, reducing errors and inefficiencies.
- **Employee Management:** Documentation is vital in managing employees, including hiring, training, performance evaluations, and terminations. It provides a record of employment contracts, policies, and any disciplinary actions, which can be crucial in the event of legal disputes.
- **Contractual Relationships:** Contracts and agreements should be properly documented to ensure clarity and enforceability. This includes agreements with clients, suppliers, partners, and employees. Well-documented contracts help prevent misunderstandings and disputes.

The Importance of being compliant and keeping proper documentations?

Intellectual Property Protection:

Documentation is essential for protecting intellectual property, such as trademarks, copyrights, and patents. Proper records and registrations provide evidence of ownership and can be crucial in legal proceedings.

Data Privacy and Security:

Compliance with data protection regulations, such as GDPR or HIPAA, requires businesses to document how they collect, store, and handle personal or sensitive information. Proper documentation helps ensure data privacy and security.

Quality Assurance and Standards:

Industries with quality standards or certifications (ISO, FDA, etc.) require businesses to maintain proper documentation to demonstrate adherence to these standards. Compliance with quality standards enhances the credibility and reputation of the business.

Audit Readiness: Businesses may undergo internal or external audits to assess compliance with regulations, financial practices, or industry standards. Proper documentation ensures that the business is prepared for audits, reducing the likelihood of non-compliance findings.

Corporate Governance : Proper documentation supports good corporate governance by establishing clear lines of responsibility, accountability, and transparency. This is particularly important for publicly traded companies and those with stakeholders.

Business Continuity: Documentation is critical for business continuity planning. It provides a record of essential processes, assets, and contacts, enabling the business to recover more efficiently in the event of disruptions or disasters.

In summary, being compliant and maintaining proper documentation is not only a legal necessity but also a strategic and operational imperative for businesses. It enhances transparency, reduces risks, and contributes to the overall success and sustainability of the organization.