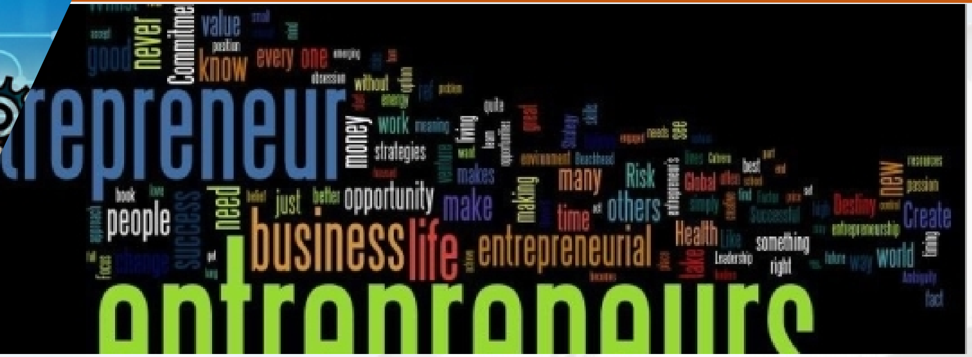

Foundations of Entrepreneurship

Manoj Kumar Mondal

Rejendra Mishra School of Engineering Entrepreneurship, IIT Kharagpur

Topic: Introduction

Lecture #: 01 (06.01.2021)

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Socio-Economic Contributions of Entrepreneurs: Multiplication Effect

Questions to Be Answered

- Techno-economic contributions of entrepreneurs?
- Why should one aspire to become an entrepreneur?
- Roles of entrepreneurs in the progression of our civilization?
- Entrepreneurship and GDP growth?
- What makes the present situation perfect for startups?
- Is it the right time to start a startup?
- Can we compete with global companies?

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Definition of Some Keywords

- Entrepreneur and entrepreneurship
  - Innovation, vision, alleviate pain, calculated risk
- Value proposition
- GDP
- Velocity of money
- Value of money

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Founders have three main traits:

- **an insurgent's mission,**
- **an owner's mindset, and**
- **obsession with the front line.**

Entrepreneurs identify opportunities in adversities.

Opportunities without much risk will vanish in no time.

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Some of the Serious Crisis that Humanity Faces Today

- The COVID-19 Pandemics
- Growing inequalities
- Lost diversity, and
- Climate change

are some of the existential crisis that are threatening the humankind.

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Crisis and Opportunities

- **Winston Churchill is credited to have *said*:**

"*Never let a good crisis go* to *waste*".

Crisis opens up new opportunities

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Entrepreneur

- Dictionary definition of entrepreneur: ‘one who organizes, manages, and assumes the risks of a business or enterprise’.
- Entrepreneurs have a *compelling vision* or a dream to achieve something extraordinary and a *comprehensive plan to execute it*.
- They identify opportunities in adversities or translate adversities into opportunities. Failures don’t deter them.
- Identify solutions to workaround the adversities or risks and accomplish desired goals.
- Comfortable with uncertainties and ambiguities, the ability to identify opportunities that others will never see and to focus on them, to be resolute, persevering, brave, open to ideas and advice.

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Types of Business Ventures

- **Innovation- and Vision-Driven Entrepreneurship –** characterised by easy scalability and growth of the business model.
- **Corporate Entrepreneurship or Intrapreneurship**
- **Small Business**
- **The large corporate entities and cooperatives.**
- **Social Entrepreneurship**
  - For profit enterprise
  - Not-for profit enterprise

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Innovation and Entrepreneurship

Entrepreneurs use innovation

- **To develop solutions to alleviate problems persisting in a group of people.**
- **To create differentiation in products or services gaining competitive advantage.**
- **To alleviate risks.**
- **Use factors of production efficiently to delineate superior value propositions and, in the process, innovate new business models.**
- **Innovation can be perceived under many contexts and not merely in products and services development. Doing anything differently that makes better value for customers may be termed as innovation.**

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Innovation and Entrepreneurship

- **Schumpeter Propounded**
- **Creative Destruction as a way of innovation and entrepreneurship. It leads to superior economic growth.**

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Innovation and Entrepreneurship

- Innovation disrupts existing business model by introducing better products with superior value proposition at increasingly higher speed.

Fortune 500 firms in 1955 vs. 2014.

- In about 60 years, almost 88% of the Fortune 500 companies no longer feature in the list because they have either become bankrupt or are no longer significant.
- And we're all better off because of that dynamic 'creative destruction'.

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Innovate or Perish

- Every new employee gets a copy of the "*Facebook's little red book*" that famously says:

"If we don't create the thing that kills Facebook, someone else will"

It's a way to communicate the history, mission, and values of the company.

One of the last pages says:

"Embracing change' isn't enough. It has to be so hardwired into who we are that even talking about it seems redundant. The internet is not a friendly place. Things that don't stay relevant don't even get the luxury of leaving ruins. They disappear."

The Vision

- Vision is where the company wants to be or what it aspires to accomplish in the long run.
- It relates to the dream and passion.
- Bill Gates envisioned to see personal computers in every home [and not really the progression of business].
- One of Elon Musk's visions is to see humankind travel to Mars and live there. [But the design of the spacecraft is not part of that vision. But the vision guides the designs.]
- Vision sets the direction for your business planning.
- Founders have to be able to articulate and share a vision. A shared vision is one of the hallmarks of business success.

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Motivation

01 **To study entrepreneurship**

- To become entrepreneur
- To become job-market-fit
- To prepare to be corporate entrepreneur

02 **To become an entrepreneur**

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Why should one aspire to become an entrepreneur?

Individualistic choices

- Be own boss - autonomy & freedom
- Personal wealth creation
- Economic value creation
- Social responsibility
- Corporate entrepreneurship
- Accomplishment
- Opportunity exploitation
- Solve an acute & agonizing pain
- Deep knowledge in a domain
- No other option but to start a business
- Favorable ecosystem

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Why should one aspire to become an entrepreneur?

- Some contribution of entrepreneurs are highly profound.
- Wealth for self &family
- Economic value creation for the nation
- Socio-economic value creation
- Contribution to the progression of our civilization

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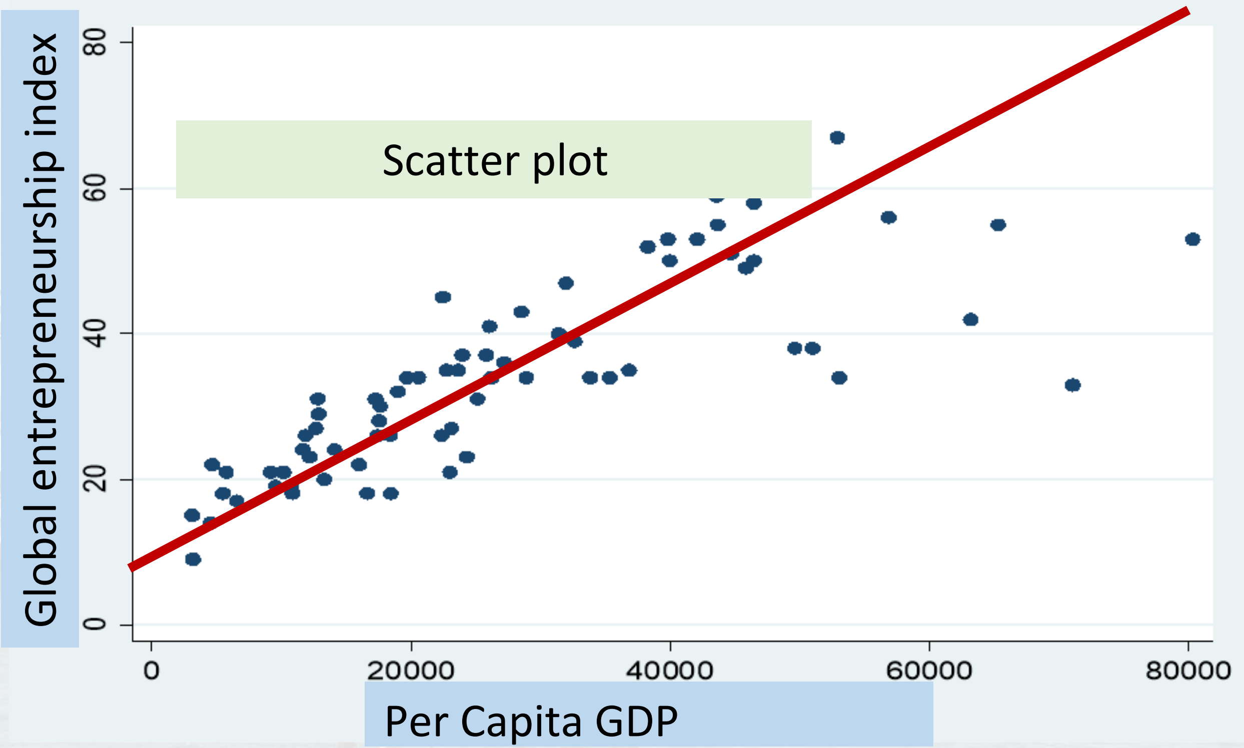
Create Something New and Feel the Sense of Achievements

- Create a venture
- Give jobs
- Government income
- Nation building

- Create wealth for self, family and community

‘Global Entrepreneurship Index’ and ‘Per-Capita GDP’

Note: Annual GDP is the monetary value of all goods and services produced within the country in a year. Divide that by the number of people to get per-capita GDP.



Clearly, countries with higher entrepreneurial activities generate higher per-capita GDP, which in turn leads to higher government income that leads to better infrastructure, better healthcare and better public amenities.

Data source https://thegedi.org/2019-global-entrepreneurship-index-data/

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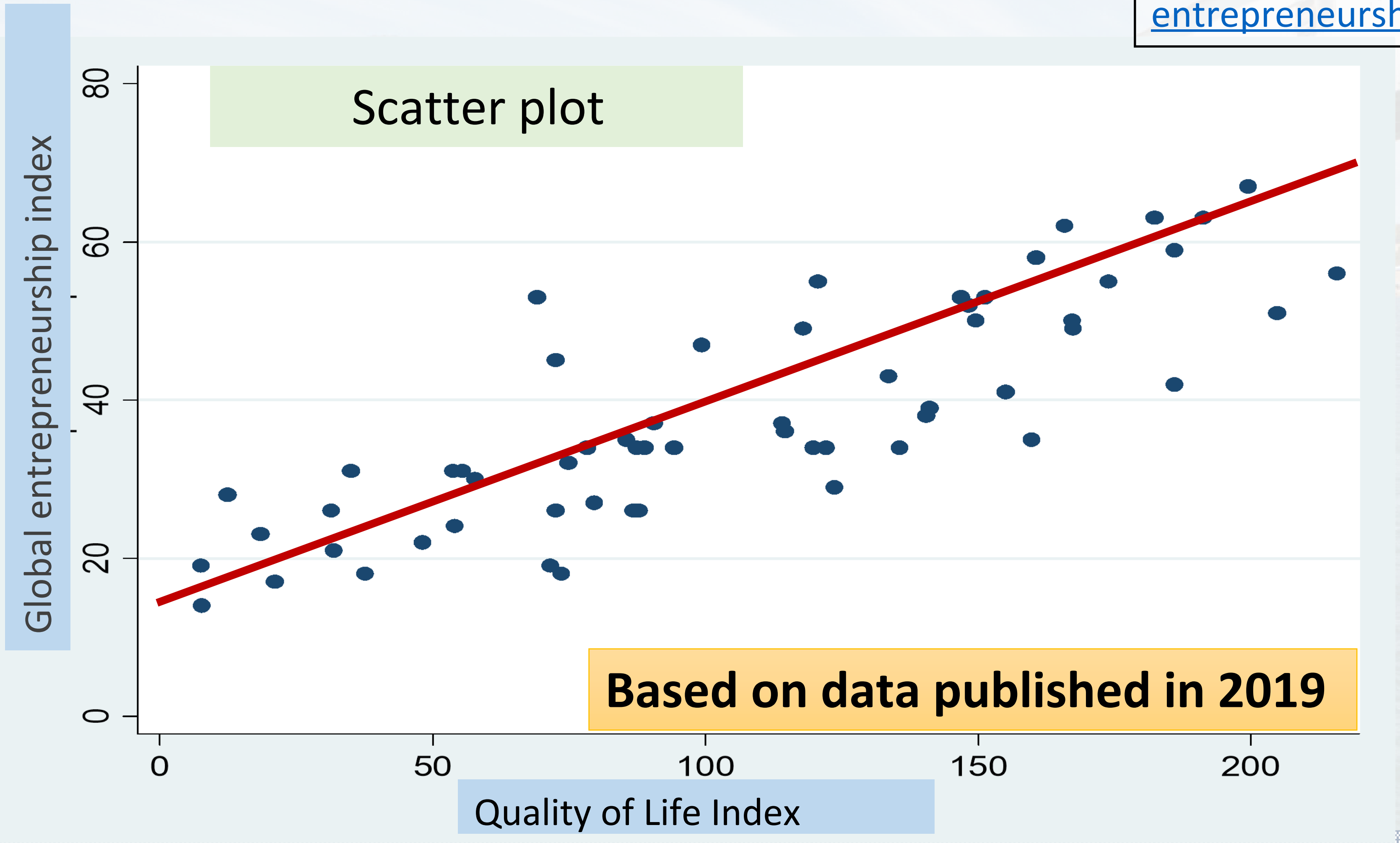
'Global Entrepreneurship Index' and 'Quality of Life Index'

Source https://thegedi.org/2019-global-entrepreneurship-index-data/



Economic Contributions of Entrepreneurs

Entrepreneurs

- **Increase government income resulting in higher expenditure and more consumption.**
- **Generate employment.**
- **Promote savings.**
- **Increase consumption.**
- **Stimulate new demand by offering products of higher esteem.**

It is important to know what all an entrepreneur executes and facilitates.

Economic Contributions of Entrepreneurs … contd.

- Improve technological landscape through innovations in all key areas.
- Facilitate diffusion of technologies from abroad into domestic industries resulting in technological self-reliance.
- Bring foreign exchange that increases value for local currency. Increased forex reserves provide enormous power to a nation while increasing purchasing power to its citizens.
- Improve quality of life of citizen.
- Earn foreign exchange

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Reliance Industries Ltd.

Reliance Industries contributes about 10% of the direct tax collection of our country.

Reliance Jio's disruptive entry will expand India's per capita GDP by about 5.65%, says a report by Harvard Business School#.

Imagine that we have many more such companies and the GDP and government's income would soon multiply.

Appeared in the Mint on 06 April 2018

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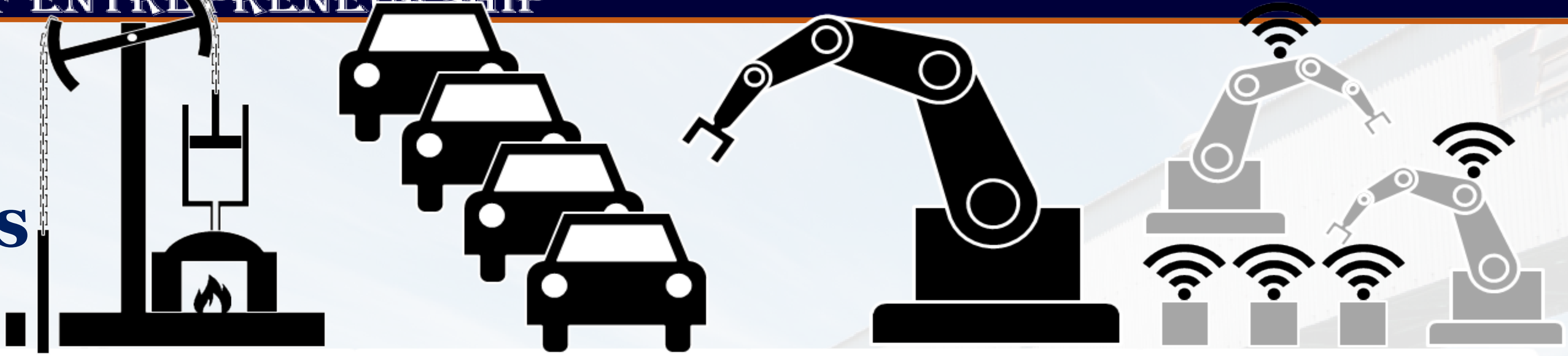
Industrial Revolutions

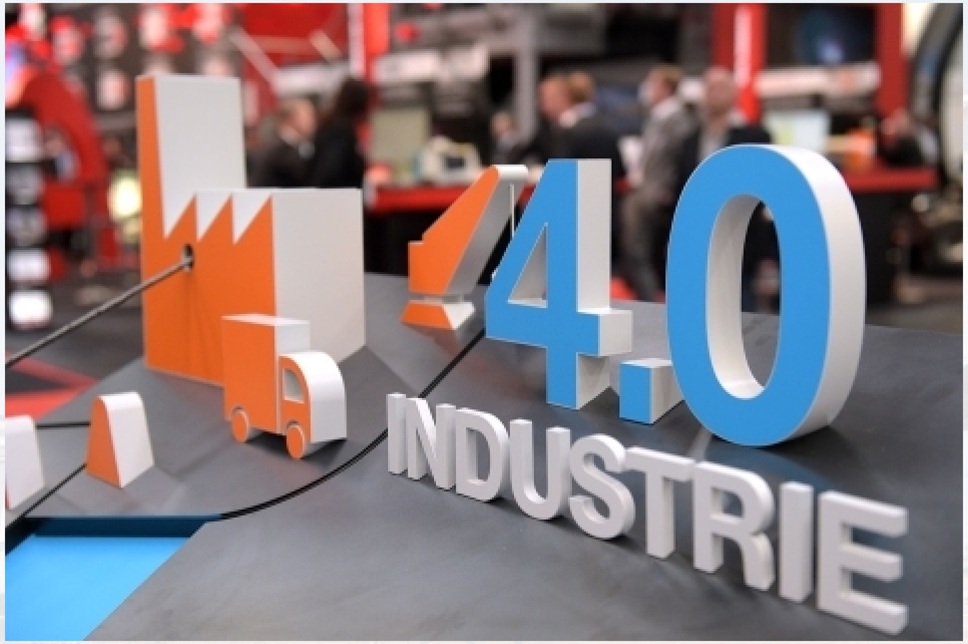


0th	1st	2nd	3rd	4th
Hand tools, animal -based manufacturing	Mechanization, water power, steam power	Mass production, assembly line, electricity	Computer and automation	Cyber Physical Systems
Till 1770s	1784	1870	1969	Late 20th Century
Handheld roller gins had been used in the Indian subcontinent since AD 500 and then in other regions.	First **Cotton Gin** was put into operation. Steam engine: in 1776.	Gas & Oil, synthetic fabric, dyes & fertilizer, telegraph, telephone	Nuclear energy, electronics (PLC) & Biotechnology,	Integrations of computation, networking, and physical processes

Image adopted from http://canadamakes.ca/industry-4-0-next-industrial-revolution/

Computer and automation

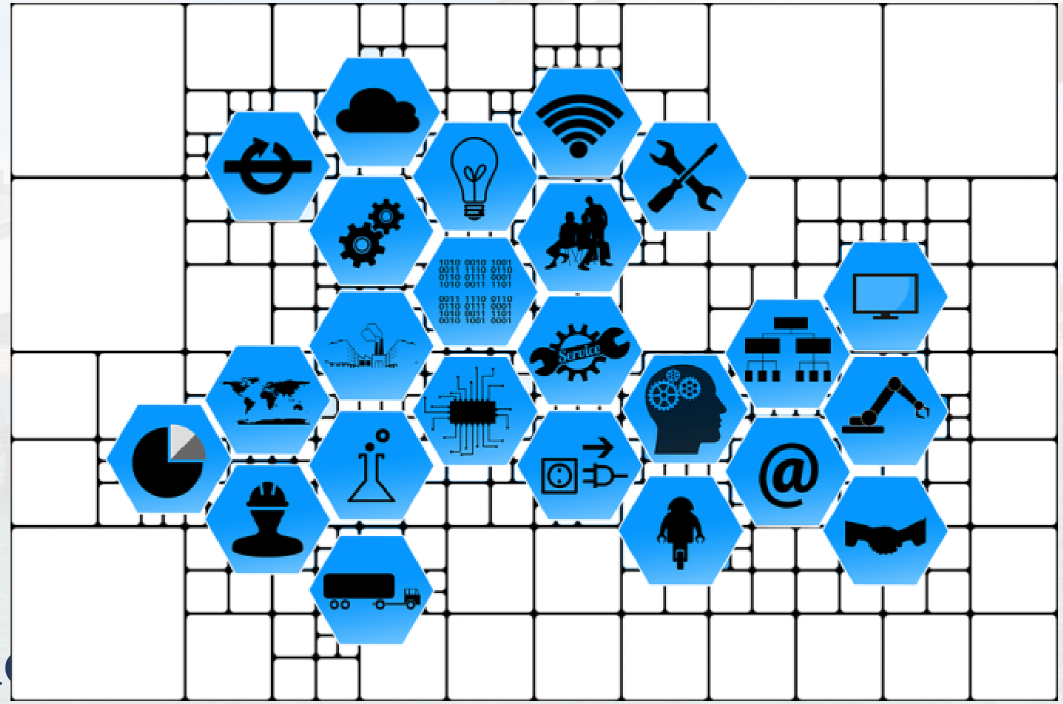
Industry 4.0



- **Industry 4.0: started during 1990s.**
- **IoT, additive manufacturing, Cloud computing, AI, e-vehicles, Autonomous vehicle, Business intelligence, Smart machines, etc.**

4.0

- Business intelligence
- Smart factory
- Cloud computing
- Big data
- AI-ML
- Digitization
- Blockchain
- Electronic healthcare
- Autonomous transportati
- Cryptocurrency



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But where are we in this technological revolution landscape?

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Historical GDP of India vis-à-vis the World

Year	GDP (1990 dollars)	% of world GDP	Population	% of world population	Period
1	33.750	32.00	70.000	30.3	Classical era
1000	33.750	28.00	72.500	27.15	Early medieval era
1500	60.500	24.35	79.000	18.00	Late medieval era
1600	74.250	22.39	100.000	17.98	Early modern era
1700	90.750	24.43	165.000	27.36	
1820	111.417	16.04	209.000	20.06	
1870	134.882	12.14	253.000	19.83	Colonial era (British era)
1913	204.242	7.47	303.700	16.64	
1950	222.222	4.17	359.000	14.11	Republic of India

Historical GDP of India vis-à-vis the World

Fig 2 Global economy – Estimated relative size (1990 GK Dollars) (%)

	China	India	China+ India	Britain	Japan	US
1400	30.0%	25.0%	55.0%	1.0%	3.0%	N/A
1500	24.9%	24.4%	49.3%	1.1%	3.1%	N/A
1700	22.3%	24.5%	46.8%	2.9%	4.1%	0.1%
1900	11.1%	8.6%	19.7%	9.4%	2.6%	15.8%
1930	7.5%	6.4%	13.9%	6.7%	3.4%	21.8%
1950	3.8%	4.1%	7.9%	6.4%	3.0%	26.8%
1970	4.2%	3.1%	7.3%	4.0%	6.7%	20.4%
1990	5.5%	3.7%	9.2%	3.2%	7.8%	19.4%
2000	9.1%	5.2%	14.3%	3.3%	7.1%	22.2%
2015	17.1%	9.0%	26.1%	2.6%	4.8%	17.5%

Source: Stephen Broadberry, Hanhui Guan, David Li, 'China, Europe and the great divergence', July 2014; TED data base, September 2015; Maddison Data base, 2013, Macquarie Research, January 2017

What went wrong?

- We were under seize
- We lost our entrepreneurial zeal
- It made us risk averse
- Now our parents motivate us to think that a government job is the most coveted career objective.
- In the process, we have become victims of many myths
- Data on failure rate of startups intimidate us
- The imperial world focused on R&D and entrepreneurial venture creation.

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Myths that we are victim of and the reality

- **Myth: Entrepreneurs are born, not made**
- **Fact:** Dhirubhai Ambani, Narayana Murthy, Sunil Bharti Mittal, Sabir Bhatia, Steve Jobs, John D. Rockefeller, Andrew Carnegie
- **Myth: It takes a lot of money to start a business**
- Facts: More than 80 percent of new ventures are bootstrapped.
- **Myth: Entrepreneurs are born in business families**
- Entrepreneurship is mostly associated with 'First Generation Entrepreneurs'.
- **Myth: Entrepreneurs are extroverts**
- Fact: Blake Masters and Peter Thiel have shown that 10 out of 11 successful entrepreneurs are introvert.

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Is failure so obvious?

- **42% of the well funded ventures fail as they want to sell something that nobody wants to buy.**

Remedy: Validated learning

- **29% of the well funded ventures fail as they run out of cash**

Remedy: Understand finance and do the projected cash flow.

- **23% fail due to disharmony among founders**

Remedy: follow the time-tested team building process

"All I Want To Know Is Where I'm Going To Die So I'll Never Go There." – Charlie Munger

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The greatest success factor

- **Timing**
- **Bill Gross provided evidence that timing is the single biggest reason that startups succeed.**
- **Victor Hugo said:** *There is one thing that all the military in the world can not defeat that is an idea whose time has come.*
- **Why the present time is so great**

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Why the present time is so great

- India now has the consumption power
- If we do not create capability, our dependence on foreign goods will only increase making them richer.
- We have demographic advantage.
- We are rich in natural resources.
- No dearth of knowledge workers.
- Government policies are very favorable.
- Matured ecosystem in place.

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Can we compete or is it just pipe dream?

- Hero Motor, Bajaj, TVS has driven competition out whichever markets they entered.
- We are already the global producer of pharmaceuticals.
- Several Indian companies have reported early success towards possible treatment of COVID.
- Two COVID Vaccines have received approval.
- We are playing leading role in the technology sphere.

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Do you have the elements to successfully create and grow a venture?

- **Almost all the qualities of successful entrepreneurs such as leadership qualities, people skill, empathy, finance, marketing, strong peer network, tolerance to ambiguity can be inculcated to a large extent.**
- **<u>Unless you start, you will never know what you are really capable of.</u>**

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"If you're not failing, you're probably not really moving forward."

- *"Fail early, fail often, but always fail forward."*

— John C. Maxwell, Failing Forward: How to Make the Most of Your Mistakes

Intrapreneurship/ Corporate Entrepreneurship

Process or strategies of intrapreneurship or corporate entrepreneurship within a company:

Employees within the organization who are creative, proactive, have the gumption to embrace calculated risk to achieve higher goals can pursue disruptive innovation within the larger mission of the organization using the resources, capabilities and security of the company to draw upon.

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Anand Shanwal - cbinsight

- What do Uber, Facebook, and Starbucks have in common?
- They all have strong business moats — key competitive advantages that set a company apart and make it hard for competitors to enter.
- It’s what drove Amazon to post $96B in revenue in Q3’20. It’s how Google has maintained its hold on over 85% of the search engine market.
- Today, the most durable business moats are being built on advantages like network effects, data, and repeat engagement within a product ecosystem.

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Some Books You Can Reffer

- The hard thing about hard thing - by Ben Horowitz
- Zero to One - by Peter Thiel and Blake Masters
- Good to Great - by James C Collins
- Four Steps to Epipheny - by Steve Blank
- The E-Myth Revisited - by Michael E Gerber

- http://benbarry.com/project/facebooks-little-red-book
- Stel A. v, M. Carree and R. Thurik (2005), ***The effect of entrepreneurial activity on national economic growth***, Small Business Economics, Vol. 24, No. 3, pp. 311-321
- Praag C. M. Van, and P. H. Versloot (2007), ***What is the value of entrepreneurship? A review of recent research,*** Small Business Economics, Vol. 29, pp. 351–382
- Aparicio S., D. Urbano and D. Audretsch (2016) **Institutional factors, opportunity entrepreneurship and economic growth: Panel data evidence, Technological Forecasting and Social Change**, Technological Forecasting and Social Change, Vol. 102, pp. 45–61
- Rajiv Shah, Zhijie Gao, Harini Mittal (2015) **Innovation, Entrepreneurship, and the Economy in the US, China, and India** – Elsevier
- Sean Ammirati (2016) **The Science of Growth: How Facebook Beat Friendster—And How Nine Other Startups Left the Rest in the Dust**, St. Martin's Press.

maslow-needs4.webp

Thank You

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Foundations of Entrepreneurship

Topic: Three Inspiring Stories

Manoj Kumar Mondal
RMSoEE
IIT Kharagpur

Lecture #: 02 (07.01.2021)

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Concepts Covered:

Entrepreneurship can be learnt from successful and failed stories.

- **Stories of Dhirajlal "Dhirubhai" Hirachand Ambani, Karshanbhai Patel, and Sophia Amoruso.**
- **Successful entrepreneurs who started from humble background.**
- **Their stories bust all myths of entrepreneurship.**
- **Highly inspiring for any aspiring entrepreneur.**

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Our Primary Objectives from Today's Session

- **What are the takeaways from these stories?**

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- The story of a first generation entrepreneur per excellence – a rise from abject poverty to a great entrepreneur - Dhirubhai Ambani.
  - Know what it takes to succeed in entrepreneurship.
  - A real demonstration of a compelling vision and a well-crafted step-by-step strategies to achieve it.
- Karsanbhai Khodidas Patel is a perfect model of entrepreneurship to be emulated.
- Kalpana Saroj – the real “Slumdog Millionaire”.
- Sophia Amoruso - a story of rags to riches and back and fightback? The rollercoaster rise, fall and rise.
  - Example of an accidental ‘push-type’ entrepreneur.

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Dhirajlal (Dhirubhai) Hirachand Ambani

(28 December 1932 – 06 July 2002)

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Dhirajlal (Dhirubhai) Hirachand Ambani
(28 December 1932 – 06 July 2002)

An entrepreneur par excellence

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Dhirajlal (Dhirubhai) Hirachand Ambani

- **He built Reliance Industries Ltd., India's only private sector Fortune Global 500 company with market capitalization of ₹ 10 lakh crore[#].**
- **Set up world class refinery.**
- **Best in class petrochemical plant using the best technology in the world.**
- **That now contributes**
  - ✓ **3% of India's GDP.**
  - ✓ **and 5% of export.**
  - ✓ **nearly 10% of India's indirect tax collection.**
  - ✓ **Reliance Jio's disruptive entry will expand India's per capita GDP by about 5.65%, says a report by Harvard Business School.**

As on 28.11.2019

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Dhirajlal (Dhirubhai) Hirachand Ambani
(28 December 1932 – 06 July 2002)

- **Born in a poor family in a remote village in Gujarat.**
- **Son of a village school teacher. But the family was in financial difficulty.**
- **He used to retail cooking oil, onion / potato fry at the village market during weekends.**
- **He was <u>highly intelligent</u>. Had high levels of <u>physical and mental energy, strong will-power, zest for life</u>, could undertake <u>difficult activities</u> and <u>could complete them without looking back</u>.**

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The Entrepreneurial Story of Dhirubhai Ambani

- He had ambition to graduate and become successful businessman.
- But the financial condition of his family was deteriorating.
- On the advice of his ailing father, he dropped out of school and moved to Aden working as a petrol pump attendant.
- He soon joined A. Besse & Co., a French Company at Aden.

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The Entrepreneurial Story of Dhirubhai Ambani

- He had always been a knowledge seeker.
- He self-learnt export-import, commodity trading, marketing, distribution, currency trading, and money management.
- He learnt trading skill and made exclusive contacts in trading and export business.
- He extended free service to the Gujarati community at Aden to learn accountancy, banking, insurance, shipping documentation.

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The Entrepreneurial Story of Dhirubhai Ambani

- **During lunch hour he used to engage in commodity trading and during weekends used to learn English.**

- **When Shell Oil Refinery was set up in Aden, Dhirubhai was promoted to Manager of the new filling station of A. Besse & Co.**

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Dhirajlal (Dhirubhai) Hirachand Ambani

- His ambition was to find petrol in India and set up refinery.
- Returned to Bombay in 1958 with that vision.
- But he did not have the money to start.
- He looked for start-up opportunity.
- Started 'Reliance Commercial' as a spice trader in early 60s.
- His office comprised of a table and two chairs and he used to share a telephone with a neighbouring shop.

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- While doing a market research he realized Indian exporters were mostly focused on high margin and not on quality or delivery schedule. (they were focused on short term gain)
- He identified THAT as an <u>opportunity</u> and started offering quality goods and delivered even before schedule.
- He chose customers who valued quality.
- Realizing that spice has limited volume he diversified into yarn-trading, dominated by multinationals such as Forbes, by pooling resources from friends and associates.

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The Entrepreneurial Story of Dhirubhai Ambani

- **He made good money but distributed major part to the investors and gained their confidence and faith. His slogan was *"Loss is mine, profit I share"*. Thereafter, he could mobilize huge capital.**
- **He introduced a shiny variety of yarn known as 'Bamber' in Indian market for ceremonial dress and was an immediate success giving him substantial capital.**

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The Entrepreneurial Story of Dhirubhai Ambani

- In the 60s, India's foreign exchange reserves was very low.
- Import was allowed only for absolutely essential items.
- Otherwise, import was allowed with the currency gained from export.
- Many businessmen who were dependent on imported goods, went out of business.
- The import-dependent businesses were in real adversity.

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The Entrepreneurial Story of Dhirubhai Ambani

- **Dhirubhai could identify opportunity under such adverse situation.**
- **Dhirubhai exported rayon to contacts in Aden at a loss to earn foreign exchange and imported synthetic fiber to sell in India almost like a monopolist.**
- **He realised that converting nylon yarn into fabric adds more value than selling the yarn. So he put up a textile mill in Ahmedabad on a plot of 5000 sq yards that later was spread over 125 acres. He imported modern plant from Europe rather than buying second hand machine, the then tradition.**

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Dhirubhai Ambani

- **Maintaining best quality had always been his priority. The World Bank certified the textile mill as excellent even by developed country standard.**
- **He always maintained network with people he were familiar with. Most of his top employees were his associates during his Aden days.**
- **He bypassed the resistance by established mills by directly selling to retailers showing strong grit and determination.**
- **He introduced his own brand as Vimal (pure).**
- **Set up refineries that was regarded as the best in the world by a study by the World Bank.**

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Reliance Industries

- contributes to about 3% of India’s GDP,
- 5% of export,
- and nearly 10% of the country’s indirect tax revenues.

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Dhirubhai Ambani

- A poll conducted by The Times of India in 2000 voted him "The Greatest Creator of Wealth in the Century".
- Reliance Jio Infocomm's entry in September 2016 led to $10 billion in annual savings for India and an unprecedented surge in data consumption.
- A 10% increase in internet penetration lead to 3.9% increase in per capita GDP, if all else remains constant.
- 'Reliance Jio's entry would boost India GDP by 5.65%' [study by IFC]

Source: https://en.wikipedia.org/wiki/Dhirubhai_Ambani

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Karsanbhai Khodidas Patel

- Karsanbhai Khodidas Patel is an Indian industrialist, founder of the Rs. 42500 crore Nirma group with major interests in cements, detergents, soaps and cosmetics.
- Born in a family of farmer.
- Graduated in Chemistry at the age of 21.
- Worked as a lab technician.
- In 1969 at the age of 24, Karsanbhai started manufacturing phosphate-free detergent powder, Nirma in his backyard.
- He sold on his bicycle while going to his work place, which was 17km from his home.
- The handmade detergent packets were sold at Rs. 3 per kg, one-fourth of cheapest popular detergents in the market.

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- Nirma, is now being recognized as
  - Selected as the super brand of the country for 2003-04
  - Karsanbhai stayed focused on cost reduction strategies to derive competitive advantage and retain loyal customers.
- Adopted backward integration strategy and the latest technology to its production facilities to offer a better product at a reasonable price.

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Kalpana Saroj

- The original "Slumdog Millionaire" of India.
- Born to a Dalit family, she was subjected to all kinds of injustice and being a girl only added to her miseries.
- She was married away at the age of 12, faced mental and physical abuse.
- She attempted suicide after being ostracized by the villagers.
- She started working in a garment factory.
- She started a tailoring business.
- Identified opportunity in furniture business and achieved success.
- She further diversified into successful real estate business. Her success is attributed to her networking and entrepreneurial skills.
- She was on the board of Kamani Tubes. In 2001, it went into liquidation, she took it over, restructured it and brought it back to profit.
- Kalpana Saroj was awarded the Padma Shri in 2013. She was inducted to the board of

Her business process focus	
Quality	100%
Purity	99%
Design	90%
Product diversity	85%

Her advice
Hard work and only hard work can prevent you from failing. Apply yourself fully and work with single minded vision – Success will you yours.

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The Story of NastyGal

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Sophia Amoruso had a very difficult childhood.

She became an entrepreneur by sheer chance.

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Sophia Amoruso of Nasty Gal (nastygal.com)

Sophia Christina Amoruso – born on April 20 1984

- Rags-to-riches-to - (???)-to-riches story in the world of entrepreneurship

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Sophia Amoruso – Early life

- She is of Greek, Italian, and Portuguese descent.
- Diagnosed with depression and attention deficit hyperactivity disorder (ADHD) in her adolescence.
- Her parents divorced.
- Photography school dropout with taste of vintage clothing.

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Sophia Amoruso

- **At the age of 17, left home and travelled to Sacramento, California.**
- **Did various odd jobs, including working in a bookstore and a record shop.**
- **She found herself dumpster diving and stealing.**

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Sophia Amoruso

- Bought a leather jacket at a local Salvation Army store for $18.
- She posed herself as model wearing the jacket.
- Created page on Myspace by the name ‘Nasty Gal’ and posted the picture to sell the jacket.
- Sold the jacket for $1000. She repeated the process with unbelievable success.
- An entrepreneur and a business venture were born.

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NastyGal

- She continued this activity for a while.
- She launched a formal company - Nasty Gal at the age of 22 and quickly developed a loyal following.
- When the users of NastyGal crossed 60,000, Amoruso created her own brand of vintage clothing.

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Nasty Gal

- By 2010 Amoruso was entertaining offers from a host of venture capital firms. Mostly, she turned them down.
- However, when she expanded in 2012 she accepted a VC deal for $50 million equity investment.
- In 2013, Amoruso was 29 years old and in charge of a $240 million (₹1800 crore in present dollar value) technology based fashion retail empire.
- In 2016, she was named one of the richest self-made women in the world by Forbes.

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Some Enviable Metrics of Nasty Gal

Look at some of her metrics that any entrepreneur would envy:

- About a quarter of her customers used to visit the site at least once a day and stay there for at least seven minutes.
- The top 10% of these customers visit the site more than 100 times a month.
- Many admit that they refresh the site every half an hour or so.
- She sold 93% of inventory at <u>full price</u> whereas the industry is characterized by mark down.

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Five strategies were attributed to the Success of NastyGal

1. Her understanding of the customers
2. An eye on profit
3. Her social skills
4. Consistent philosophy
5. Uncompromised & consistent ethics.

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1. Her understanding of the customers

- Sophia knew the customers she was serving to, and knew that there is lack of understanding by competitors.
- Sophia could understand the changing tastes and aspirations of all her customers and that is why they came back to Nasty Gal repeatedly.
- She knew her customers so very well.

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2. An eye on profit

- **Her philosophy was to sell things for more than she bought them.**
- **Therefore, she made profit from day one.**
- **She developed a pin-sharp sense of who her customers were and what they were willing to pay a premium for.**

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3. Nasty Gal used to do the following to boost their social connection

- She created visibility by encouraging customers to use the hashtag #NastyGal across all social networks
- Engaged them into brand conversation and quickly responded to any question or comment.
- Everyone in the company were marketers and no separate marketing department.
- Every post in the portal had an actual image of the product.
- Content included useful DIYs on the topics of make up, hair, garment customisation.
- Boosted the ego by posting images of their customers, whether they are bloggers, celebrities or normal human beings.

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5. Uncompromised & consistent ethics.

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Sophia Amoruso: From Nasty Gal To Girlboss

- However, Sophia diverted her attention to too many other things and the business was neglected.
- In November 2016, she had to file for bankruptcy protection.
- Amoruso resigned as executive chairwoman.
- In February 2017, Nasty Gal was sold for $20 million.
- Amoruso founded Girlboss Media in the same year.
- Current net worth is around $10 million.

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Sophia Amoruso: Fight Back

- A Netflix comedy series “#GirlBoss” partially based on the story of ‘Nasty Gal’ was telecast in 2017.
- She recently raised a $3.1 million funding to grow the burgeoning media platform.
- Amoruso has expressed the desire to be the next Oprah Winfrey for the millennials and beyond with her mission to help women succeed on their own terms.

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https://www.girlboss.com/about

❑Our Mission

- We exist to redefine success for millennial women by providing the tools and connections they need to own their futures.

❑Our Purpose

- To create a new reality where women can make progress personally, professionally, and in service or others.

❑Our values

- We take our work seriously, but we don't take ourselves seriously.
- We do more with less, but raise our hands when the company or our wellbeing is at risk.
- we have real conversations about where we are and what we need to succeed-and are comfortable with change.

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Four Reasons Why it Failed

1. Cash is the king (you can't afford to burn cash at will).

One must always respect money.

- As success embraced Amoruso, she started growing a knack for everything, except for the business itself.
- After raising venture capital, she moved the company into lavish L.A. headquarters, opened two brick-and-mortar stores, leased a dedicated distribution centre and spent a fortune on marketing.
- This led to an enormous leap in burn-rate and was unsustainable.

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Reason 2.

2. If you want to be a CEO, you have to love your job.

Amoruso started loving everything else but her job as the CEO. She started writing a book, some podcast, and doing a TV show – all took her attention and the business became a victim.

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Reason 3.

3. Starting is easy, scaling is hard.

Mark Zuckerberg hired Sheryl Sandberg very early, as his chief operating officer, in order to flawlessly scale the business.

- **We must not be ignorant about our limitation and we should hire a talented executive team with complementary skills early on.**
- **The executive team would bring professionalism and you would feel as if the business is running autonomously.**

Amoruso failed on that. Her actions gave the sense as if success had been achieved. But success is mostly not a goal, but a process.

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Reason 4.

4. Success is not a goal, it's a way of life in the long run. If the objective is to make a quick million, entrepreneurship is not for them.

Amoruso did not have a long-term perspective.

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Words of wisdom

Source: https://www.linkedin.com/pulse/5-key-elements-brand-strategy-nasty-gal-context-denise-perez/

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- **Anyone can become an entrepreneur.**
- **One can choose to adopt type of business based on domain knowledge, experience, understanding of the particular business, tenacity and readiness to assume risk and have to be passionate about execution.**
- **Dream big, remain passionate, and focus your energy to execute the dream.**

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References:

- Book: Entrepreneurship by Robert D. Hisrich
- https://www.youtube.com/watch?v=rjEzg__6ztc
- Various Wikipedia pages
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Thank you

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Myths and Realities on Entrepreneurship

Lecture Note : 3
08.01.2021

Foundations of Entrepreneurship

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Concepts Covered:

- ❑ **Myths and assumptions about entrepreneurship.**
- ❑ **Facts and realities.**
- ❑ **How myths prevent people from creating their own venture.**
- ❑ **How myths can misguide and lead to failure.**

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True or False?

- People from business families are more likely to be successful entrepreneurs compared to others.
- Hailing from a rich family ensure that you never run out of money and that is why most successful entrepreneurs have rich family background.
- Failure should not deter you. Persistence is a great virtue. You should persist as long as you do not meet success.
- Entrepreneurship qualities are innate and they are difficult to be learnt. Therefore, one can go so far in trying to learn entrepreneurship.
- Extrovert people have better success rate in entrepreneurship.
- Most people presume that entrepreneurs are well-respected. But why only a small percentage of the people attempt to create new ventures?

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Myths are not frequently discussed but they cause great concerns and harm.

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E–Myth by Michael E Gerber

Three types of personalities

- **THE ENTREPRENEURIAL** personality is the visionary, the innovator of new products, new processes, new markets and new business models. He preempts and is always evolving. He turns every condition into an opportunity. He disrupts status quo. He lives in the FUTURE.

- **THE MANAGER IS PRACTICAL.** Without him, there is no planning and order. He needs order instead of control, consistently sees problems in events, and instinctively holds on to the status quo. The managerial personality lives in the PAST, and organizes and puts in order the things that the Entrepreneur creates.

- **THE TECHNICIAN BELIEVES** that if you want something done right, you should do it yourself. For him, things are supposed to be done. He lives in the PRESENT.

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Myths, Fantasies, Misconceptions and Realities

- Looking at successful entrepreneurs one may not realize the years they spent striving for a foothold in their businesses.
- Frequently, we believe that they are successful because luck favored them.
- The real story may be very different. Obviously, the background remains invisible to all of us.
- Misperceptions about what it takes to launch your own venture abound.

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Why Many of Us Do Not Start a New Venture? Why Many of Us Begin without Much Exploration?

- "ALMOST 70% of the adult population across 52 major economies believes that entrepreneurs are well regarded and enjoy high status within their societies" – GLOBAL ENTREPRENEURSHIP MONITOR report 2017-18
- We tend to believe that There's a secret, "silver bullet" key to success.
- Myths are the misconceptions that prevent people from dreaming big about entrepreneurship.
- The flip side is that you will know your capabilities only when you begin.
- Let us explore some of the myths.

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1. Myth: Entrepreneurs are born, not made

- "Entrepreneurship is a discipline that can be learned. Passion and persistence may be in your genes, but it takes work to develop the skills that entrepreneurs have." -*Peter Drucker*
- Majority of the successful entrepreneurs are first generation entrepreneurs.
- In the book 'Good to Great', Jimm Collins has identified the top 11 companies who scaled their company to more than a billion dollar valuation, 10 have been promoted by fist-generation entrepreneurs.

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Dhirajlal (Dhirubhai) Hirachand Ambani

(28 December 1932 – 06 July 2002)

A first-generation entrepreneur par excellence

- **Born in a poor family in a remote village in Gujarat.**
- **Dropped out of school due to poverty.**
- **Migrated to Aden looking for career and skills.**
- **Went ahead to create some of the best industries of our country.**
- **Created enormous wealth, jobs, and infrastructures for the nation.**

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Narayana Murthy

- Narayana Murthy co-founded Infosys in 1981, with a start-up capital of $250, which he borrowed from his wife Sudha Murthy.
- Today, the market value of Infosys is more than three lakh crore Rupees.

Image source
https://www.infosys.com/SiteCollectionImages/responsive/media/nrn.jpg

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Sunil Bharti Mittal –
A true first generation entrepreneur

- Sunil Mittal borrowed ₹20,000/- from his father (erstwhile Rajya Sabha MP) to start his first venture for manufacturing components for a local bicycle company.
- He went on starting one after another new businesses and never looked back. His present net worth is about $11 billion (as on 2020).

Image source https://indusbusinessjournal.com/wp-content/uploads/2017/04/Sunil-Bharti-Mittal-new.jpg

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Sabir Bhatia

Adversity transformed into opportunity

- **Sabeer Bhatia - an inspiring entrepreneur, has risen from scratch and used his education to become one of the most successful Indian entrepreneurs.**
- **Bhatia cofounded Hotmail.com with Jack Smith and later sold to Microsoft for $400 million.**

Image source: http://im.rediff.com/money/2013/jan/21sabeer1.jpg

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Dr. Govindappa Venkataswamy

- Dr. Venkataswamy envisioned to eradicate needless blindness in India. Given the huge number of people needing eye surgery, Dr. Venkataswamy has emulated the service efficiency model of McDonald's fast food to treat millions of patients.
- Invented business model that facilitate subsidization of the poor by the able, bringing quality and equity across people.
- Aurolab, a company by Aravind, indigenously developed low-cost high quality intraocular lens implants that are exported to more than 160 countries.
- Aravind has established and maintains four eye banks.

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Oprah Winfrey

- She is like a phoenix rising out of ashes.
- An incredibly successful woman – the daughter of an unmarried teen who worked as a housemaid, Oprah grew up in abject poverty.
- Her family was so poor that her school dresses were made of potato sacks.
- She is an American media executive, actress, talk show host, television producer and philanthropist.
- Her present net worth is about $ 3 billion.

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Andrew Carnegie

- The early life of Carnegie was really rough.
- He spent his childhood working in factories.
- He used to starve and sleep to forget constant hunger.
- However, Carnegie eventually worked his way up to create several businesses, most successful being the Carnegie Steel Mill.
- He remains one of the richest Americans of all-time.
- But, he is also one of the greatest philanthropists donating about $ 4 billion (in today's value).

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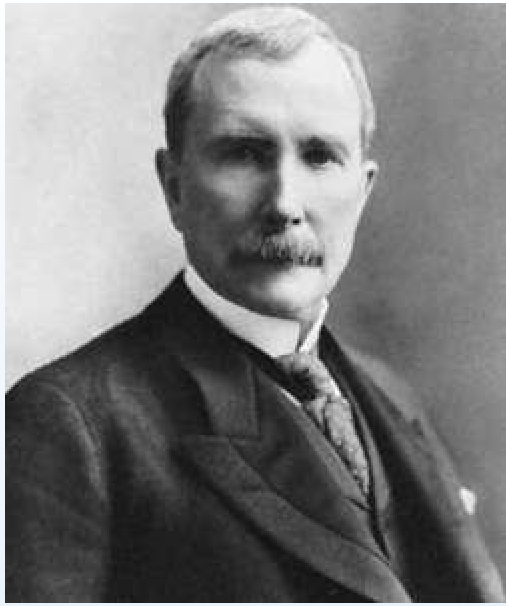
John D. Rockefeller



Rockefeller was the son of a traveling salesman.

He showed early entrepreneurial promise selling candy and doing odd jobs for neighbors

But went on to become one of the world's wealthiest individuals of all time.

He founded many companies, one of them being the Standard Oil Company. Would be valued $ 1 trillion today.

He was a major philanthropist.

His personal net worth would be $ 400 billion today.

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Steve Jobs

- One can't make a credible list of first-generation entrepreneurs without throwing in Steve Jobs.
- Jobs dropped out of college as his family could not support the cost.
- He unofficially continued to audit classes.
- He lived off free meals from the local Hare Krishna temple and used to collect empty beverage cans to exchange for some change.
- Jobs is widely recognized as a pioneering contributor to the microcomputer revolution of the 1970s and 1980s.
- Today, Apple is valued more than $ 2,200 billion dollar.

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2. Myth: Entrepreneurs Are High Risk Lovers

- In reality, entrepreneurs have the capability and the gumption to visualize the way to alleviate the risks that others can't and convert the risky business proposition into an opportunity.
- Entrepreneurs find opportunities in adversities. From outside, it may appear as if they are embracing undue risks. When they become successful, we give credit to luck for their success.
- The hard fact is that attractiveness of an opportunity is correlated with the amount of risks. Else, opportunities would vanish should their be no risk.
- If one has to target high growth, one has to embrace calculated risks.
- Therefore, it is right that entrepreneurs are not averse to risk, but it is wrong to think that entrepreneurs love risk.

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3. Myth: It takes a lot of money to start a business

- **Not true!**
- **More than 80 percent of new ventures are bootstrapped from personal savings, credit cards, friends and relatives, and sweat equity. In fact, every year *Inc* magazine profiles businesses that have started on $1,000 or less.**
- **In the annual list of the <u>5000 fastest-growing</u> private companies, no <u>relationship</u> is observed with the initial <u>investment capability</u>.**
- **The flip side: Some money at the beginning can accelerate the development process, reduce undue stress, and retain focus.**
  Unless you have something to demonstrate the validity of the idea, very few would like to chip in money.

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4. Myth: Entrepreneurs are in it for the Money

- Most, if not all, startups take several years to turn a profit.
- Those who create new ventures to make quick money frequently become frustrated with early failures and call it quit.
- Those who are passionate about solving a pain in the society, sustain even at the face of failure and have the energy to fight back.
- Most important reason for becoming entrepreneur is observed to be the desire to become independent and not get-rich-quick.

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5. Myth: Entrepreneurs are born in business families!

- Entrepreneurship is mostly associated with '<u>First Generation</u> Entrepreneurs'. They are the real wealth creators.
- Access to large capital is a major advantage for those from established business families.
- But this difference is <u>gradually diminishing</u> with transformation of ecosystem, growth of angel investors and venture capitalists.
- The real differentiators are the <u>entrepreneurial qualities, innovation contents, managerial capability, passion, and balanced skills</u> of the team members.

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Entrepreneurs Are Born in Business Families and those who are not … contd.

- First generation entrepreneurs are likely to educate them better so they do not make common mistakes.
- They may prepare themselves to be more resilient and ready to fail fast and pivot.
- They are likely to be free of the traditional business philosophy baggage and equipped with modern management tools.
- They develop superior value propositions to customers, maintain quality, maintain after-sale service, invest in creating trust, and build loyal customer base.

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6. Myth: One has to be Young and Restless

- As revealed in the Global Entrepreneurship Monitor report 2017-18, early stage entrepreneurship is almost evenly distributed among persons of age ranging from 18 to 64 years.
- As such, one can become an entrepreneur at any stage of life.
- Youth is characterized by high level of energy and remaining current with emerging technologies.
- Managerial experience, networking, knowledge of business operation process may give advantages to matured person.

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7. Myth: Entrepreneurs Give Little Attention to Their Personal Life

- New businesses demand attention. So does established companies. Expert entrepreneurs are not different from executives in established companies on this issue.
- The difference is that entrepreneurs do not mind working long hours, whereas, employees may have to attend emergency meeting during odd hours against their will.
- Entrepreneurs tend to schedule important meetings during the week so that they can have weekends off for their personal life.
- However, it is wrong to think that entrepreneur is the boss who sits back, while others do all the work and make him rich.

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8. Myth: Most Entrepreneurial Ventures Fail

- The reality is that collection of data are motivated by different objectives (Ref. Entrepreneurship by David H. Holt).
- In particular, data collection process fails to recognize transformation of companies through merger, takeovers, incorporation into larger organization, and change of names to align with changing technological landscape.
- Statistics in this regard can be misleading.
- Fatality is prevalent even in large established businesses. The average life of Fortune 500 companies have come down to 15 year from 61 years (projected to be 12 years in 2027).

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9. Myth: Entrepreneurs Are Often High-Tech Wizards

- There definitely are high-tech entrepreneurial wizards who have created successful enterprise.
- But there is no evidence of this to be a common phenomena.
- Chances are that the successful ones have taken care of all other aspects of business operation management.

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10. Myth: Entrepreneurs Are Loners. Only Extroverts Become Successful Entrepreneurs

Success in entrepreneurship very much depends on networking, and sharing ideas, experiences with others including employees to validate business ideas.

A loner can't be a successful entrepreneur.

In a comprehensive study of great ventures, Jim Collins in the book "Good to Great" says that majority of the CEOs of great companies are introvert.

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11. Entrepreneurs Finance Their Business with Venture Capital

- Two important points”
  - VCs have less risk appetite.
  - VC funds are costlier than other sources such as bootstrapping and angels.
- Early ventures are perceived to be very risky.
- As the ventures progresses on to the value chain, it gets its ideas validated by customers. They may even pivot several times over.
- In the process they keep alleviating the risks.
- Most entrepreneurs fund their businesses from personal savings, borrowing from friends, seed money, government grants, and fund from angels. Less than 1% of all new businesses are backed by VCs.

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12. Myth: Entrepreneurs are Often Ruthless or Deceptive, Dishonest, Unscrupulous

- Entrepreneurs need to spend maximum time addressing pressing needs of the business. The truly ruthless or deceptive entrepreneur will remain engaged in repairing relationships with employees, customers, and suppliers, or simply fail.
- Competitors who resort to unfair means to gain advantages would eventually implode.

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13. You need a business plan to succeed

- A business plan helps in planning in the long and short-term.
- But a business plan does not guarantee success. Neither lack of a business plan dictates failure.
- Getting the product or service validated by real customers early on is more important.
- A well-laid out business plan is essential if you are approaching to investors.
- Having an Operations Manual in place like the bedrock.

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14. Most successful entrepreneurs start with a breakthrough invention, usually technological

- Fact: Most successful entrepreneurs succeed by exceptional execution of ordinary ideas: See Google, Infosys and many others.
- Majority of the successes is attributed to exceptional execution of existing ideas.

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15. Myth: Being first to market is the key to success.

- The first-mover advantage gained by being the first to market, establishing strong brand recognition and customer loyalty even before any competitor enters into the arena is generally recognized.
- The first movers have advantages and disadvantages too.
- Those who execute better than others in a way that delight the customers are the eventual winners.
- There are many examples where first-mover advantage did not work.
- Yahoo versus Google is a glaring example.

Read the article "The Half-Truth of First-Mover Advantage" at https://hbr.org/2005/04/the-half-truth-of-first-mover-advantage

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16. You have to start a company to be an entrepreneur.

- Fact: People with passion and entrepreneurial zeal and vision to solve a problem of the society can find many ways to plan.
- Incubating the idea and creating a successful venture within an enterprise is also possible, which is known as corporate entrepreneurship
- Buying an existing company.
- Converting a non-profit are all the possibilities.

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17. Entrepreneurs strike it rich or miserably fail in their first venture

The reality is that most entrepreneurs pivot several times before meeting success or calling it quit.

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18. The Belief that Understanding the Technology or Product is the Same as Understanding how to Run a Business.

Michael E. Gerber, the author of the book E-Myth says – "Most small businesses in America fail because they are started by people who are struck by an Entrepreneurial Seizure. The majority of these persons are Technocrats who assume that understanding the technical aspect of a business is the same as understanding how to run a business."

Technology provides competitive advantages, but it is just one part of the many important elements to successfully run a business.

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Myth 18 … contd.

- Many technocrats with product ideas tend to think that they can start a business as soon as they are ready with the products.
- Many of them spend years to build the product only to realize that it does not make a good fit to the needs, aspiration, and likings of the customers.

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19. Passion Leads to Success

- Following your passion without an eye for product market fit and customers acceptance often lead to failure.
- Solving a problem for which people are ready to pay for and being passionate about executing the idea in a competitive way is synergistic.

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20. Entrepreneurship Cannot be Taught!

- While analyzing the reasons for failure of majority of the failed entrepreneurial ventures it would be evident that many of the failures could be averted with some prior knowledge that can be learnt through education.
- With some additional knowledge, many of the failed ventures would not have been created in the first place.
- It is also important that some entrepreneurial qualities are innate.
- Therefore, one should target to solve as difficult a problem as their capability or build a balanced team and empower them to manage the business.

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21. You Must Wear All the Hats

- It's true that during early stage, you may have to make all decisions and do most of the important works.
- But smart entrepreneurs quickly learn to hire out for tasks outside their core talent area.
- Operating as a one person show frequently leads to frustration and burnout.
- You need a support network including professionals.
- "Many hands make light work“ is a time tested adage.

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22. Myth: College Dropouts Make Better Entrepreneurs.

- Study by Vivek Wadhwa of the Washington Post shows that the greater the education of the founder, the lower the rate of business failure and the higher the business's profits, sales and employment.
- Surprisingly, attending an elite university doesn't provide a significant advantage in entrepreneurship. What matters is that the entrepreneur gains a higher degree.
- The likes of Mark Zuckerberg dropped out of Harvard to create some of the greatest companies. It can be said that college dropouts make great entrepreneurs.

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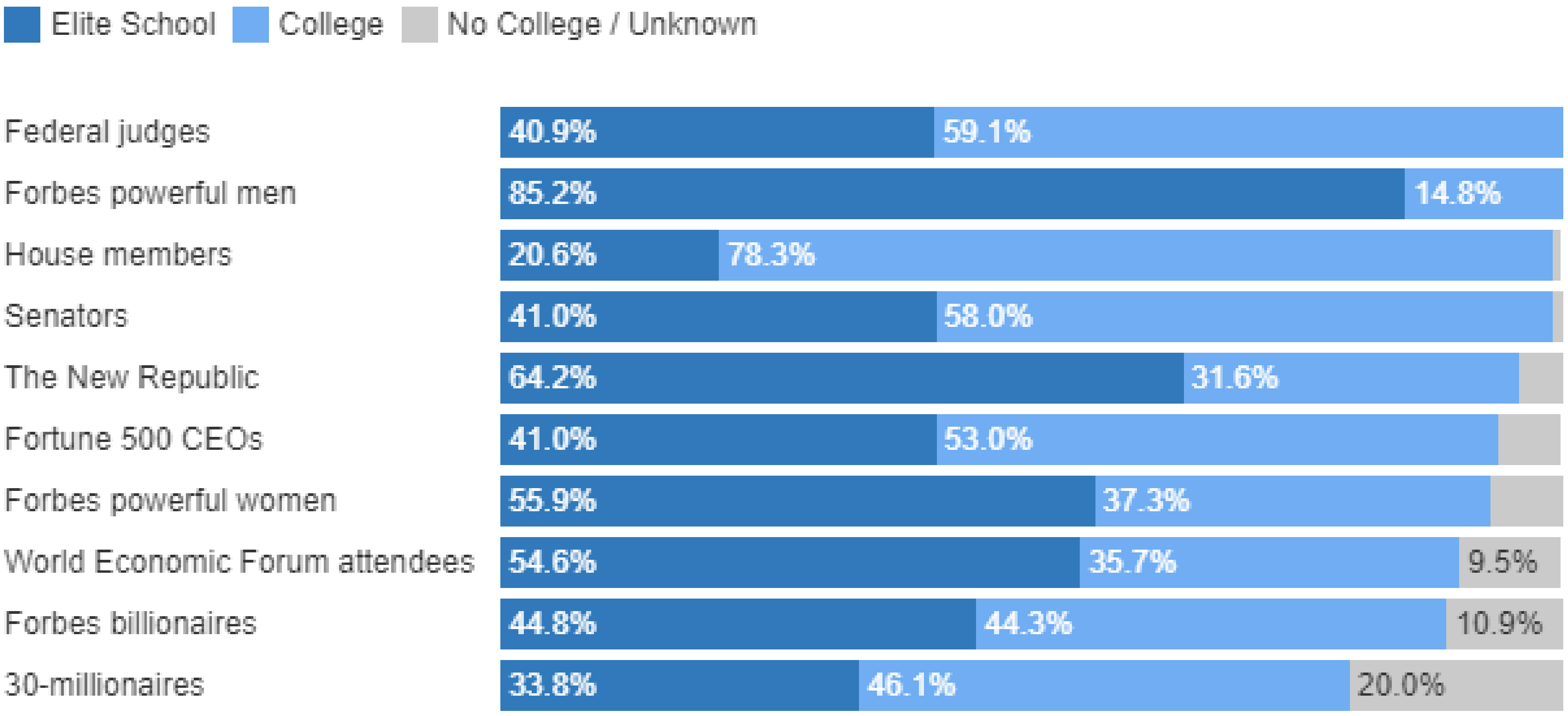
The myth of the successful dropout

In a study of 11,745 successful individuals from across the U.S., the vast majority had attended college – many of them elite schools.



The Conversation, CC-BY-ND

Source: Wai & Rindermann • Get the data

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23. Myth: Women can’t cut it in the tech world

- The Washington Post research found almost no difference in the factors driving success for male and female company founders.
- Women and men have the same motivations, are of the same age, have same levels of experience and both equally enjoy the culture of start-ups.
- ~~Men and women are equally likely to have children at home when they start their businesses. (But men were more likely to be married.)~~

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24. One Can Attain Success through Persistence

- Persistence is a great virtue for startup success.
- But one should not be blinded by this thought and persist beyond the moment it is time to pivot.
- If failure is the destiny of an idea, the earlier it fails the better. Persisting with such an idea is like flogging dead horse.

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Fake it Until You Make it

- Theranos
- Absolute power corrupts absolutely .

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Michael E. Gerber of the book: E-Myth

- Finally, understand that everything in your business is part of a system.
- It is either a Hard System, Soft System, or Information System.
- Everything that happens in one system affects everything else.

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Some final words

It is important to note that majority of the entrepreneurial ventures fail due to reasons that could have been avoided with some prior knowledge and actions.

For example: Experts are of the opinion that if Sophia Amoruso had hired professional CEO at the cusp of the growth phase, NastyGal would not meet the fate it did.

Knowing the story alone is not good enough to make judgment.

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- Zero to One – by Peter Thiel and Blake Masters, 2014, Penguin Random House - UK
- https://www.washingtonpost.com/opinions/five-myths-about-entrepreneurs

Concluding remarks

- Majority of the successful entrepreneurs are the first-generation founders.
- Family business tradition, wealthy background, and education may not guarantee success.
- Whereas, successful entrepreneurs share some common traits that can be learnt.
- Anyone can dream big and can be successful if they have a comprehensive plan of execution of an idea that solves an unmet pain of a large number of people.
- Myths, fantasies, and misconceptions are impediments to dream something big.

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Thank you

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Foundations of Entrepreneurship

Why Do Startups fail?

Manoj K Mondal

RMSoEE

Lecture Note 4

07.08.2020

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Concepts Covered:

- ❑ Real data on why startups fail.
- ❑ Data provide evidences that many of the failures could have been averted.
- ❑ Lack of planning, disregard to customers' needs, and obstinately refusing to learn from mistakes appear to be the overarching cause in most failures.
- ❑ Disregard to established knowledge also appears to be a dominant force behind many failures.

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- **You CAN solve huge problems and make other people's lives better.**
- **You CAN turn your ideas into reality, and it's completely within your control.**
- **However, most people fail because they make mistakes they could have prevented.**
- **Once you're aware of those mistakes, you can pursue success by averting them. Preventing them will allow you to work on things that actually create value.**

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- ***"All I Want To Know Is Where I'm Going To Die So I'll Never Go There."*** **— Charlie Munger**

Fail early, fail often, but always fail forward." **— John C. Maxwell, Failing Forward: How to Make the Most of Your Mistakes**

"If you're not failing, you're probably not really moving forward." **— John C. Maxwell, Failing Forward: How to Make the Most of Your Mistakes**

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Causes of Failure of Startups

- **You may read many post-mortems (some call them obituaries) on failed startups following the link below to understand what the founders attribute to their failures:**
- **https://www.cbinsights.com/research/startup-failure-post-mortem/**

"In the spirit of failure, we dug into the data on startup death and found that 70% of upstart tech companies fail — usually around 20 months after first raising financing (with around $1.3M in total funding closed)". **– cbinsights.com**

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The Valley of Death

- The "valley of death" is referred to the phase of startups when they fail to either generate sufficient cash flow or attract fund from external sources such as investors to cover the negative cash flow occurring during the early years (say during the first to third years).
- The majority of startups (some study places it at 90%) fail at this phase.
- Very few startup businesses generate positive cash flow (net of cash inflow and outflow) during the early years.
- On the other hand, many fail to come up with a validated prototype or proven business model that the investor would feel confident about.
  The investors usually prefer a somewhat proven business model.

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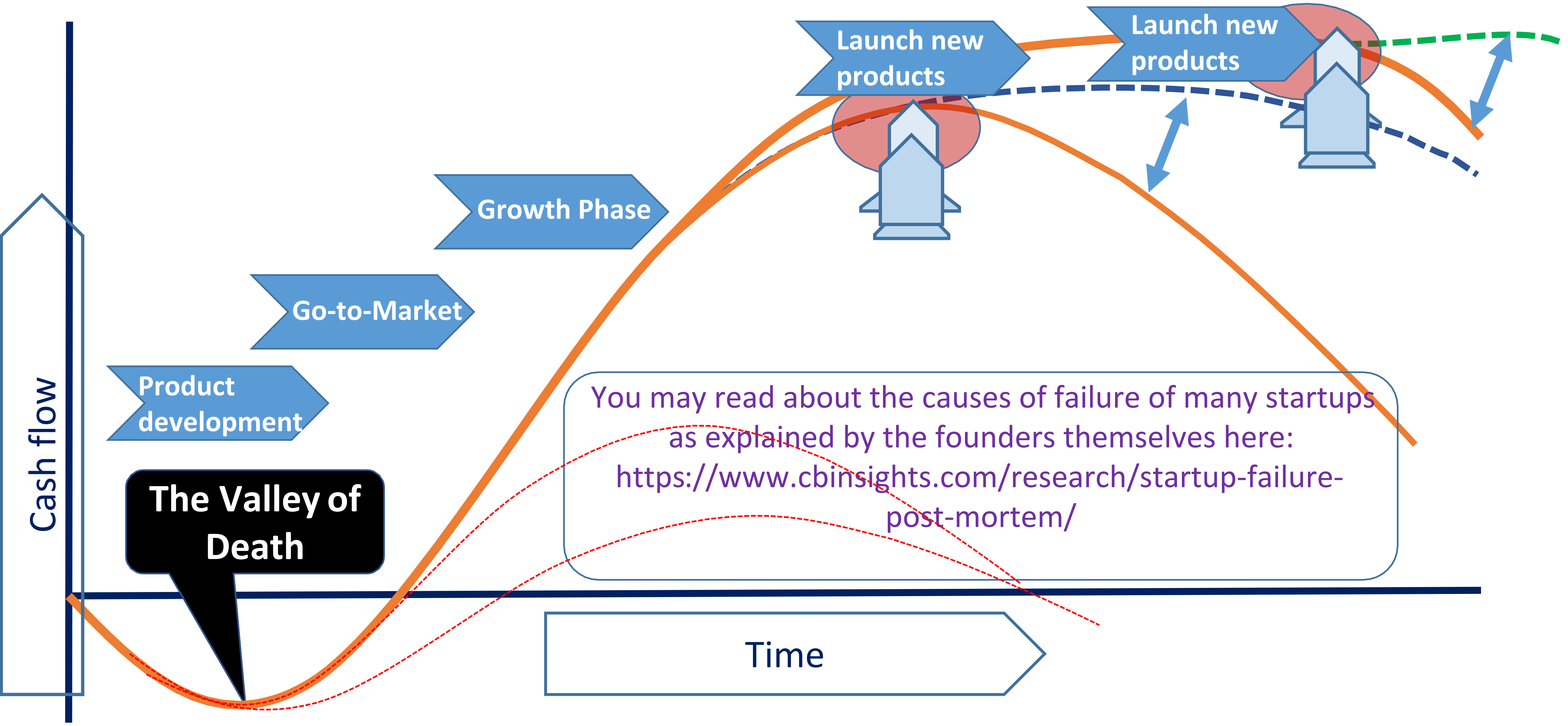

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Of his many failed experiments, Thomas Edison once said:

"I have learned fifty thousand ways it cannot be done and therefore I am fifty thousand times nearer the final successful experiment."

We neither have the resources to try fifty thousand times to reach to success nor we have the time, tenacity, or guts.

But we surely have access to information on why many ventures failed. These are analogous to experiments done by some people several thousand times and we learn from their failures–what tends to go wrong and where should we focus.

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- **Startups fail even after raising significant amount of fund and sales.**
- **Studies on recent developments show that 70% of the start-up failed after raising first round of fund.**
- **It also reveals that 70% of upstart tech companies fail — usually around 20 months after raising the first financing.**
- **The statistics on consumer hardware startups are particularly brutal with 97% of the seed or crowdfunded startups eventually dying or not gaining traction.**

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Should these Data Intimidate Aspiring Entrepreneurs?

- Once you know why majority of the startups fail you would tend to think that a good percentage of the failures could be averted by preemptive course corrections.
- For example, Tapzo was acquired by Amazon Pay for a valuation between $40-45 Mn. However, most databases show Tapzo as failed. The reason: the valuation during acquisition is almost half that of the last funding. [Tapzo raised a total of $29.8 Mn funding.]
- Ofo shuts down its dockless bike renting service in India is part of company's strategy to scale down its operations in international markets.

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- **eBay shuts down its business in India for strategic reasons.**

- **Almost always, more than one reasons are responsible for business failure and the real reasons are hard to uncover.**
- **Through extensive research on 101 failed startups www.cbinsights.com has documented the reasons for their failure.**
- **A glimpse on the list would give valuable insights on the things that should deserve attention for preemptive actions.**
- **It would also help to understand early symptoms of chronic ills and take decision to pivot and avoid further loss.**

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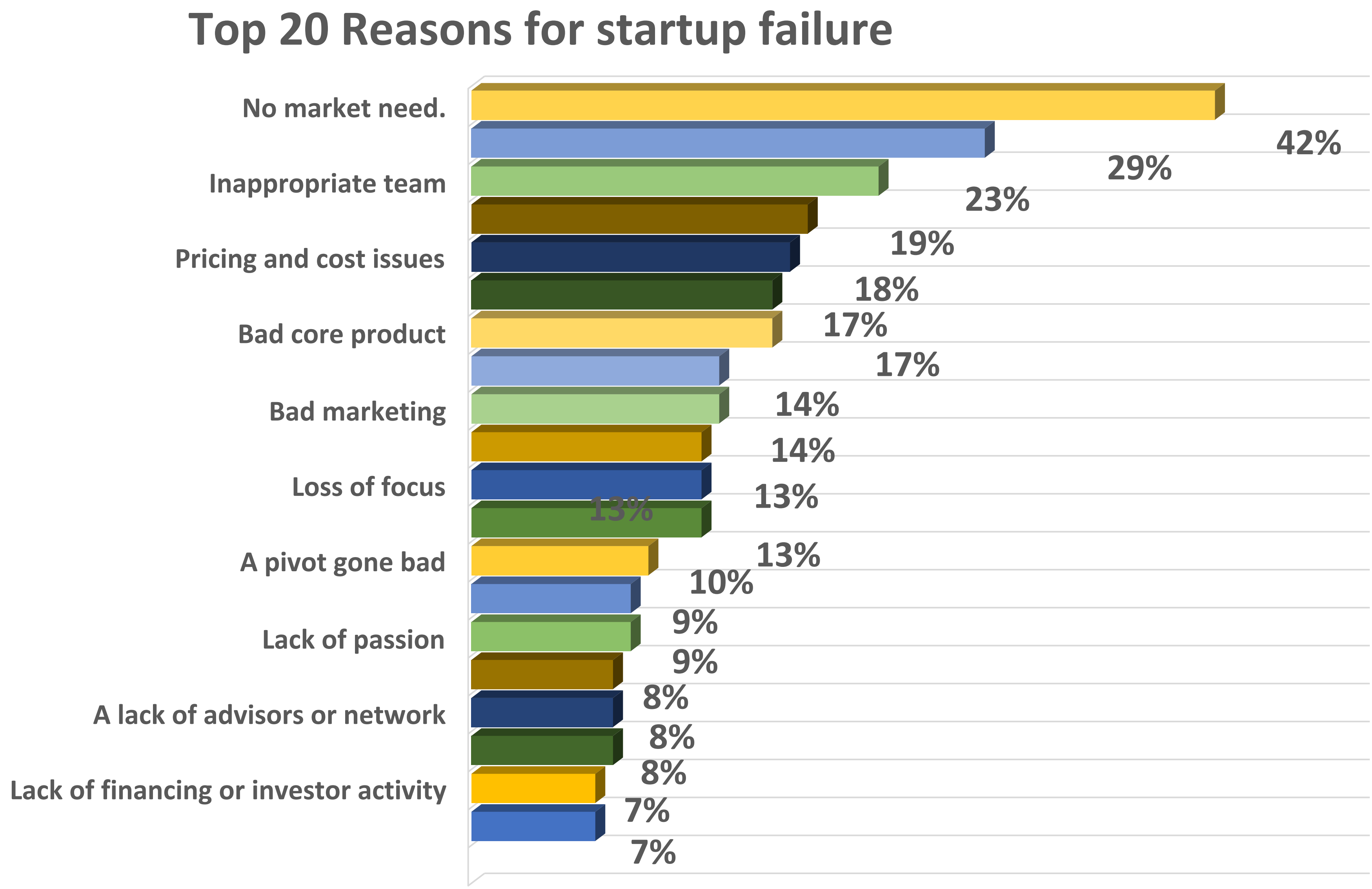

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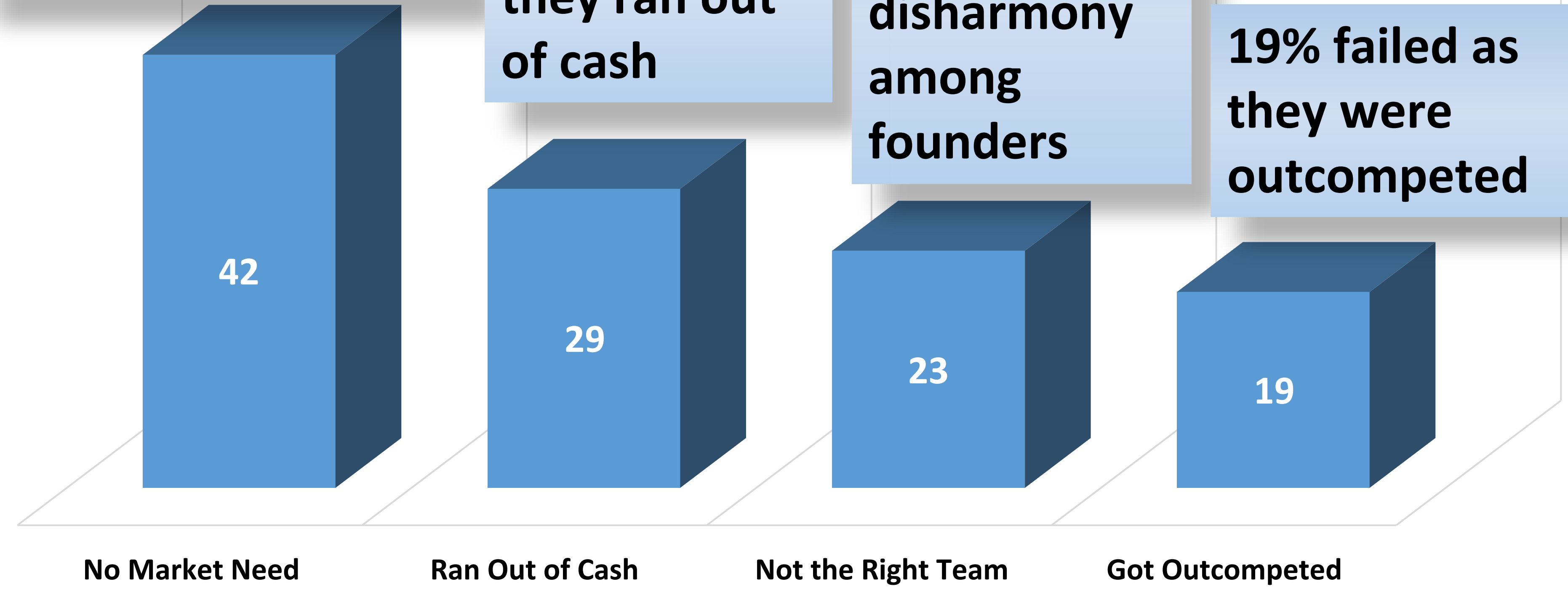
Top 20 Reasons why Startups Fail: Here are the top 4

42% failed because there was no market for their products.

29% failed as they ran out of cash

23% failed due to disharmony among founders

19% failed as they were outcompeted



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- **The main cause for failure of the largest percentage of ventures is that they create a product that customers don’t buy.**
- **The reason why customers do not buy these products may be diverse. It may meet their needs, the price may be high, the product may be ahead of time or lack latest features, the price may be higher, the product may fail to excite.**
- **This issue of customers’ likability is popularly referred to as product-market-fit. It is the degree to which a product satisfies customers’ need vis-à-vis that of the competitors.**
- **Maybe there were already better products out there. Or maybe the market just wasn’t ready for it. Or, maybe, the world just didn’t need what they were putting out there.**
- **Lesson learned: Talk to people before you build anything!**

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Example

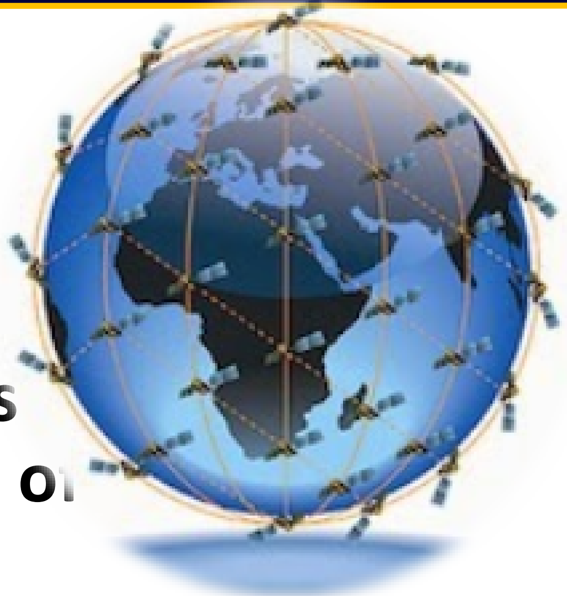

Image courtesy: http://i-marineapps.blogspot.com

- The Iridium communications service or Iridium SSC was launched on November 1, 1998 at a capital investment of billion.
- Motorola was the technology provider.
- What the founder assumed?
    - If communication made possible from anywhere to anywhere, people have every reason to lap it up.

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Facts

- **Nine months later, on August 13, 1999, filed for bankruptcy.**

❑ **Why?**

- **Every single call has to be routed through all satellites. Required entire constellation of 66 active satellites to make any call.**
- **The cost of service was prohibitively high for most users.**
- **Indoor reception was poor, if at all possible.**
- **The hand held device was bulky.**
- **Calls were expensive.**
- **The present owners bought it for US$35 million.**

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Why did Iridium fail?

- **The company lacked idea of the cost of the service and affordability.**
- **Customers were not ready to pay the price of the product and service.**
- **The products did not meet requirements of customers.**
- **The technology was ahead of time.**
- **Ancillary industries were not well developed.**

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Irridium was ahead of time!!

- **OneWeb**
- Indian telecom giant Bharti Enterprises and the UK government have jointly purchased at auction the bankrupt satellite operator OneWeb.
- The UK government and Bharti Global will invest US$500 million each.
- **SpaceX Starlink**
- OneWeb is competing with Elon Musk’s SpaceX Starlink project.
- **Kuiper**
- Jeff Bezos’s Amazon-linked Project Kuiper, as well as from incumbents such as Inmarsat, Intelsat SA and Eutelsat Communications SA.

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- **We have a tendency to overlook the fact that people are different and they are not likely to think what we are thinking. We must validate our proposition even before setting the journey and constantly get verified so that we are making the perfect customer-product fit and at the same time we are not adding features that they do not appreciate.**
- **Therefore, it is a seminal mistake to focus only on building the product that you think is brilliant and not getting it validated by customers.**
- **Many entrepreneurs do not make distinctions between 'must have' and 'nice to have' features and they end up spending too much time and resources building them only to realize that customers do not care about it.**
- **"Life's too short to build something nobody wants." - Ash Maurya**

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- **What we usually see is:**
- **A founder gets an idea >> builds the solution >>tries to sell it >> nobody buys the solution >> the founder runs out of money >> the startup dies.**
- **Your goal should be to solve a meaningful problem of target customers in a competitive way.**
- **Get customers' feedback right at the beginning and never lose focus on the changing needs of the customers.**

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Causes for Failure of Second Largest Number of Startups

Running Out of Cash

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Running Out of Cash (29%)

- The 2nd biggest reason for start-up failure is running out of cash.
- This may be triggered by lack of financial planning, failure to preemptively assess negative cash flow and arrange the money, not growing fast enough and losing attractiveness in the eyes of investors.
- **Just Buy Live:** an Indian e-commerce company raised $120 Mn (INR 900 Cr) of funding. Many sources mention the cause of failure as an unscalable business model and negative cash flow.

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Example: Ran Out of Cash

- Drone startup Airware shuts down after burning $118M
- Here is what the founder wrote in obituary

Obituary: "History has taught us how hard it can be to call the timing of a market transition. We have seen this play out first hand in the commercial drone marketplace. We were the pioneers in this market and one of the first to see the power drones could have in the commercial sector. Unfortunately, the market took longer to mature than we expected. As we worked through the various required pivots to position ourselves for long term success, we ran out of financial runway. As a result, it is with a heavy heart that we notified our team, customers, and partners that we will wind down the business."

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- "At age 27, I started a business using money in my savings account," Lyneir Richardson CEO of Chicago TREND and Executive Director of the Center for Urban Entrepreneurship and Economic Development at Rutgers University Business School.
- "My business grew rapidly from $600,000 in revenue to over $7 million. I was recognized by the U.S. Small Business Administration as a Young Entrepreneur of the Year.
- "But I had three major problems. First, I had a low profit margin on the product that I was selling. Second, I had a lot of payroll costs. Third, there was a long lag time between sales and no consistent recurring revenue. I now know that these are classic symptoms of a company with poor cash flow. The saying is that 'Cash is King,' but in my view, the saying should be 'Cash Flow is King.' Ultimately, I had to sell the assets of my company at a discount, and I went out of business."
- You can read the story at https://www.startups.co/articles/why-do-startups-fail

Another obituary: Running Out of Cash

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Ezytruk: Running out of cash and failed to raise more funds

- Ezytruk - Trucks and logistics platform raised fund of ₹1.00 crore.
- Run out of cash and failed to raise more funds. Shut down.

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Outcompeted: Monkeybox

- **Monkeybox,** the Blume Ventures-backed foodtech startup shut down in 2018 even after taking over the food delivery company '75 In A Box' and juice delivery startup 'RawKing'.
- **Monkeybox** misjudged the market and prevalent competition and had failed to garner adequate revenue to stay afloat amid fierce competition.

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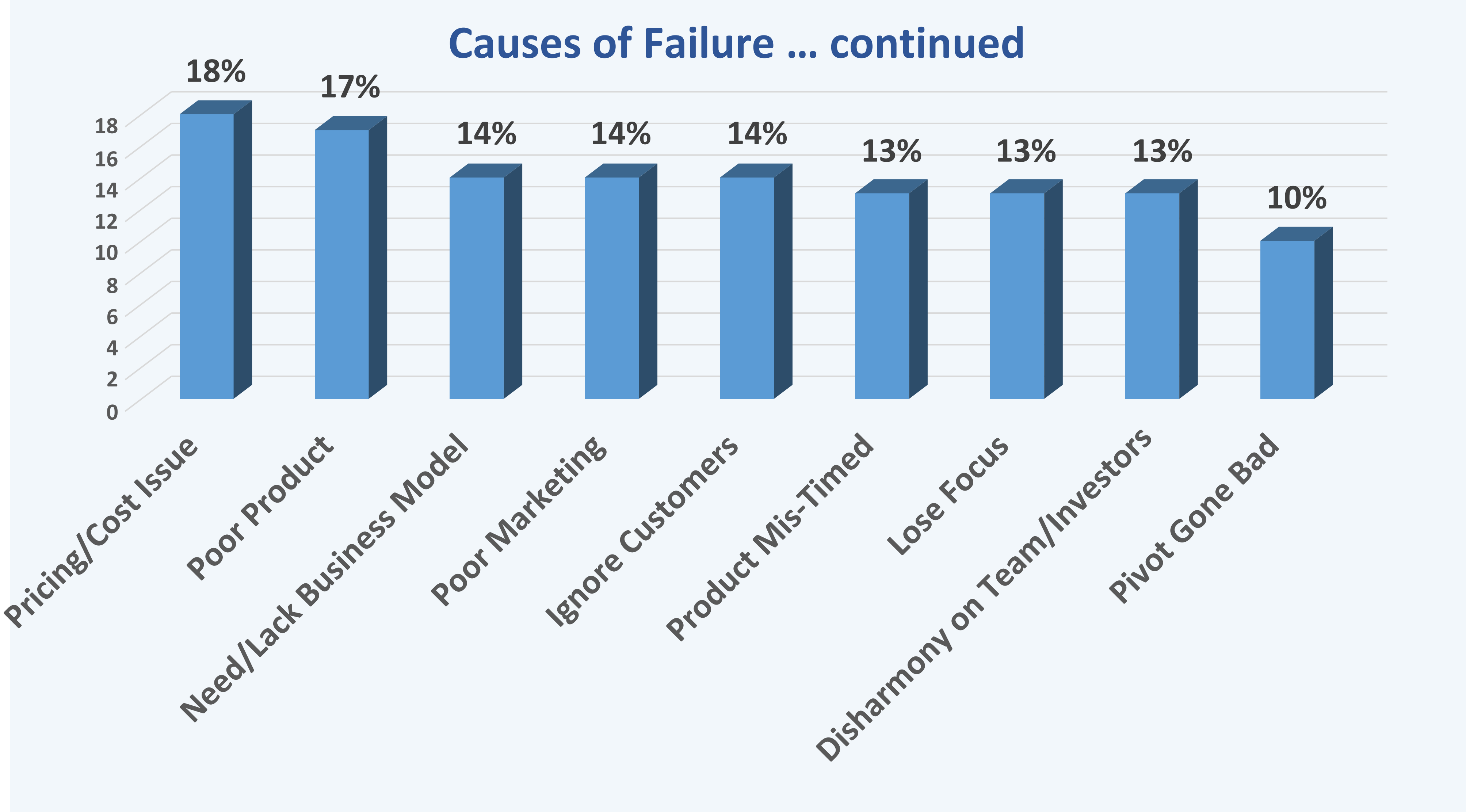

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Reasons not Included in the Above List

- Ignoring the business process - wonderful idea, great product, great technical team with complementary skills may not guarantee success.
- One strong pillar may not provide stability to a structure but one weak pillar may make it unstable. Entrepreneurs cannot afford to neglect anything.
- There is a trend that the CEO thinks that my job is to lead, the CMO thinks that my job is to market and lead, technology guy thinks that my job is to code. But whose job is business process?
- If business process is neglected it may be fatal!

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Business Process Management is Indispensable component for a business

- **It allows business and technology to better understand implications of how work is performed. It visually identifies problems with processes. It allows the business to define improved business processes and test them prior to implementation. BPM provides value throughout an organization by:**
- **Using process-enabled achievement of strategic objectives**
- **Accelerating time to market**
- **Delivering improvements in cost, productivity, timeliness and quality.**
- **Improving customer service levels and increasing customer satisfaction**

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BPM: Continued from the previous slide

- Transferring knowledge to ensure that customer teams achieve the necessary competence and autonomy to maintain and develop future capabilities
- Simplifying business processes to drive effectiveness, efficiencies and agility
- Managing risks and meeting compliance regulations
- Providing greater visibility into your organizational performance
- Introducing new process designs faster
- Reducing costs and improving revenue streams

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Being a One-Person Team

- **"Individuals don't build great companies, teams do."-Mark Suster.**

Y-Combinator President: Sam Altman says:

- **Twenty most valuable companies have at least two co-founders.**
- **Startups with 2 – 3 co-founders work best.**

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The solution

- Ideally, you should have a combination of people that covers the startup triangle: designer, engineer, and marketer.
  - Because, if you're with good people from the start, making something your customers actually want becomes 100X easier.
  - The long hours become way more bearable.
  - You can pull each other through the lows and celebrate the highs.
  - Your perspective changes because now you're with a team, working on something you believe in, with people you can learn a lot from. And that by itself is worthwhile.

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Premature scaling

- "Premature scaling is putting the cart before the proverbial horse. The more a company grows, the further away from profitability it becomes." -Michael A. Jackson

The problem

- This one is tricky, because it seems you're doing everything right. You're scaling, you're hiring, you're funded, you're growing.
- However, if they are not in order the impact is huge. According to the Startup Genome Project, up to 70% of startups scale up too early. They say that it affects performance of up to 90% of failed startups.
- Premature scaling basically means too much, too soon.

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The solution

- This comes down to a couple of stages with different focus.
- First: problem-solution fit. a) find a problem that is big enough, b) for enough people and c) where they will pay you to solve their problems in whatever way.
- Second: product-market fit. Creating an in-demand product that services a large enough market for your startup to grow. This means you test, validate and determine the core features, and use product feedback to build next version.
- Third: channel fit. The third phase is about lowering acquisition costs and increasing revenue so you can reach profit. This means you optimize your conversion funnel and find ways to retain more customers.
- Once you know that your cost to acquire a user will be lower than their lifetime value, you can step on the gas and scale up.

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Lack of focus

“Lack of direction, not lack of time, is the problem. We all have twenty-four hour days.”-Zig Ziglar

If you find yourself doing one of the following things without knowing they’re going to move the needle, STOP!

- **“Coffees,” whether that’s with potential partners, investors or acquirers.**
- **Networking. Seriously…**
- **Recruiting a board of advisors**
- **Doing partnerships without proof of extra revenue**
- **Spending time on PR and social media before knowing you’ve got the right product for the right customer.**
- **Going to conferences.**

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- Some companies over-promise and under-deliver???
- You only can fool some people some of the times. Sooner or later, you surely get caught.

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- A brilliant idea, passion and myriads other things define success or failure.
- One fatal mistake: understanding the technology is the same as understanding the business. A corollary to this is - building a new generation product guarantees success of a business. This has been proven wrong several times over.
- So, people rightly start business in the domain they are expert in; but they tend to neglect dozens of other things.
- They may be good technicians and not good managers or not good entrepreneurs. Michael E. Gerber, the author of E-Myth, calls it *entrepreneurial Seizure*.

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- **As business grows, founders need to find people to do things so that they (founders) can do founders' jobs.**
- **Problems crop up such as dissatisfied customers or suppliers, bankers etc. and you need managers to deal with them.**

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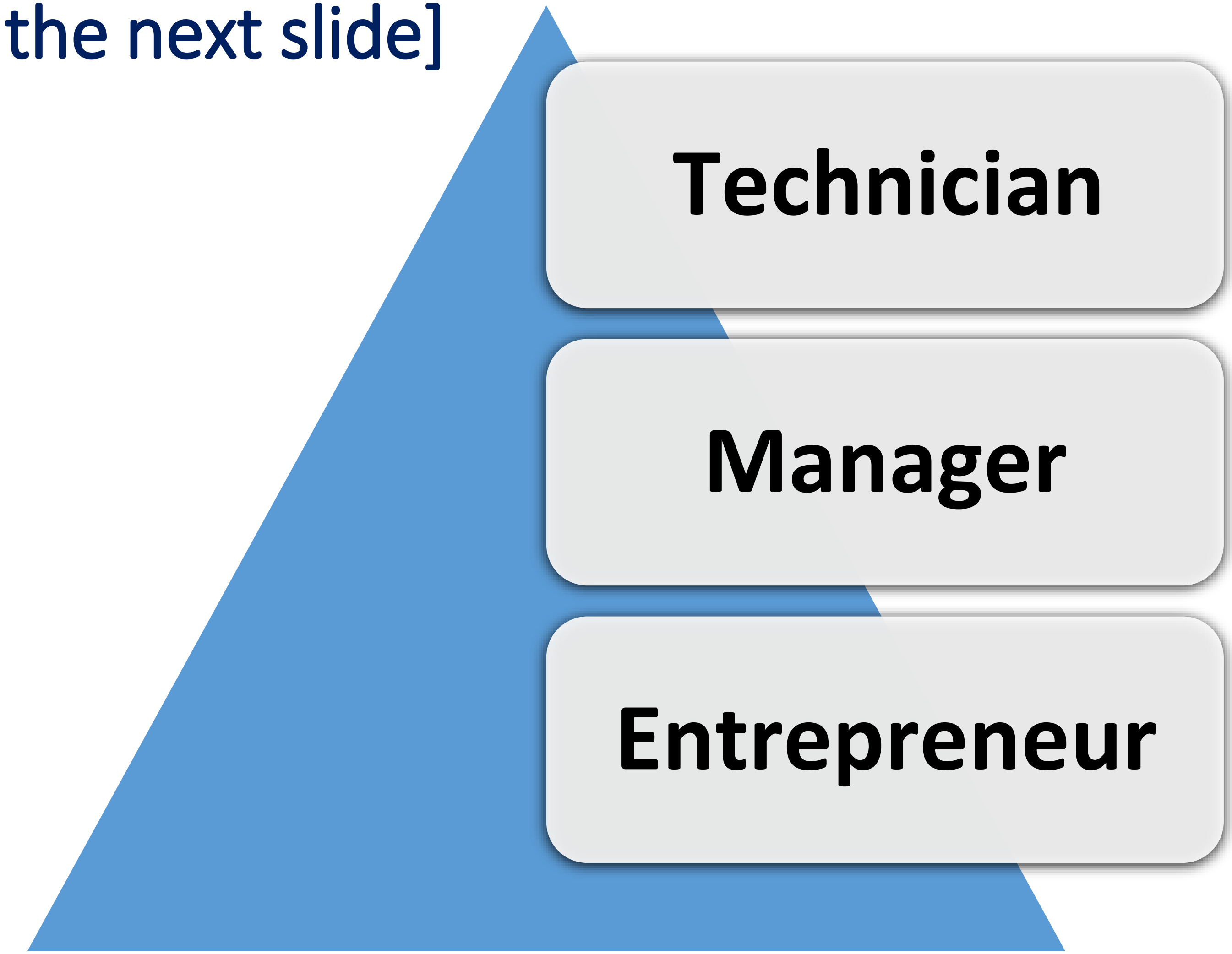
Three characters in an individual [Definition in the next slide]



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Entrepreneur, Managers, and Technicians

01 **The entrepreneur develop vision, explore business models to solve emerging challenges and disruptive futuristic technologies. His work is strategic in nature. S/He lives in the future. The focus is on equity.**

02 **The manager is the pragmatist, planner, and organizer who turns the vision into action and brings harmony in disruptions. Focus is on profit.**

03 **The technicians know how to efficiently develop a cutting-edge solution to a given problem using both existing knowledge and learning new ones. They relentlessly strive to finish the jobs at hand. They live in the present. Focus is on how cutting-edge the product can be made.**

 # Michael E. Gerber, the author of E-Myth

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Entrepreneur, Managers, and Technicians

Each of us is an entrepreneur, a manager, and a technician with varying degree of them - Gerber in E-Myth .

Technician, manager, and entrepreneur personalities are all critically important for business success. But very few individuals can assume all three of them. Even if anyone can, it is difficult to function all three roles simultaneously.

We need to realistically assess how much we are entrepreneurs, managers and technicians so that we can make a balanced team with complimentary skills.

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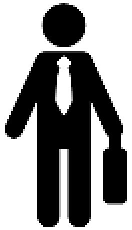
Entrepreneur, Managers, and Technicians



Technicians are doers and would think that business will not run without them doing. During early stage, the technician thrive but when it comes to go-to-market phase, it does not suffice. You need entrepreneurial vision.

As business starts growing, it needs managers for myriads of things such as logistics, finance, customer, brand, legal and many more business process management expertise.

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Business Process Management (BPM) Is a Continuous Process

1) **Brings about clarity on strategic direction,**
2) **alignment of the firm's resources, and**
3) **increases discipline in daily operations.**

- **BPM is an enterprise-wide, structured approach to providing the products and services that your customer's value most.**
- **It is grounded in the premise that you must take a process view in order to understand the products and services your customers value most.**
- **An understanding of the key business processes helps to meet key customer needs and you gradually realize the gap between customer expectations and your capability to perform.**

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- **BPM is a process approach to managing an organization.**
- **Business process management (BPM), as the phrase indicates, is a systematic (better even, a systems) approach to various functions of a business.**
- **BPM ensures smooth and seamless transition from one step in a business to another almost autonomously and avoid firefighting.**
- **For all events or eventualities, expected or unexpected, someone is always there and ready to handle.**
- **Paul Harmon of Business Process Trends defines BPM as, "a management discipline focused on improving corporate performance by managing a company's business processes."**

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More About BPM

- BPM is a holistic management approach that aims to align business processes with changing business needs by continuously focusing on optimizing them.
- In complex business environments, BPM offers a standard and scalable solution for managing processes.
- These solutions include person-to-person work steps, system-to-system communications, or combinations of both.
- It integrates various independent disciplines of process modeling, process simulation, workflow, process execution, process monitoring, Enterprise Architecture, Lean, and Six Sigma into one unified standard to manage change.

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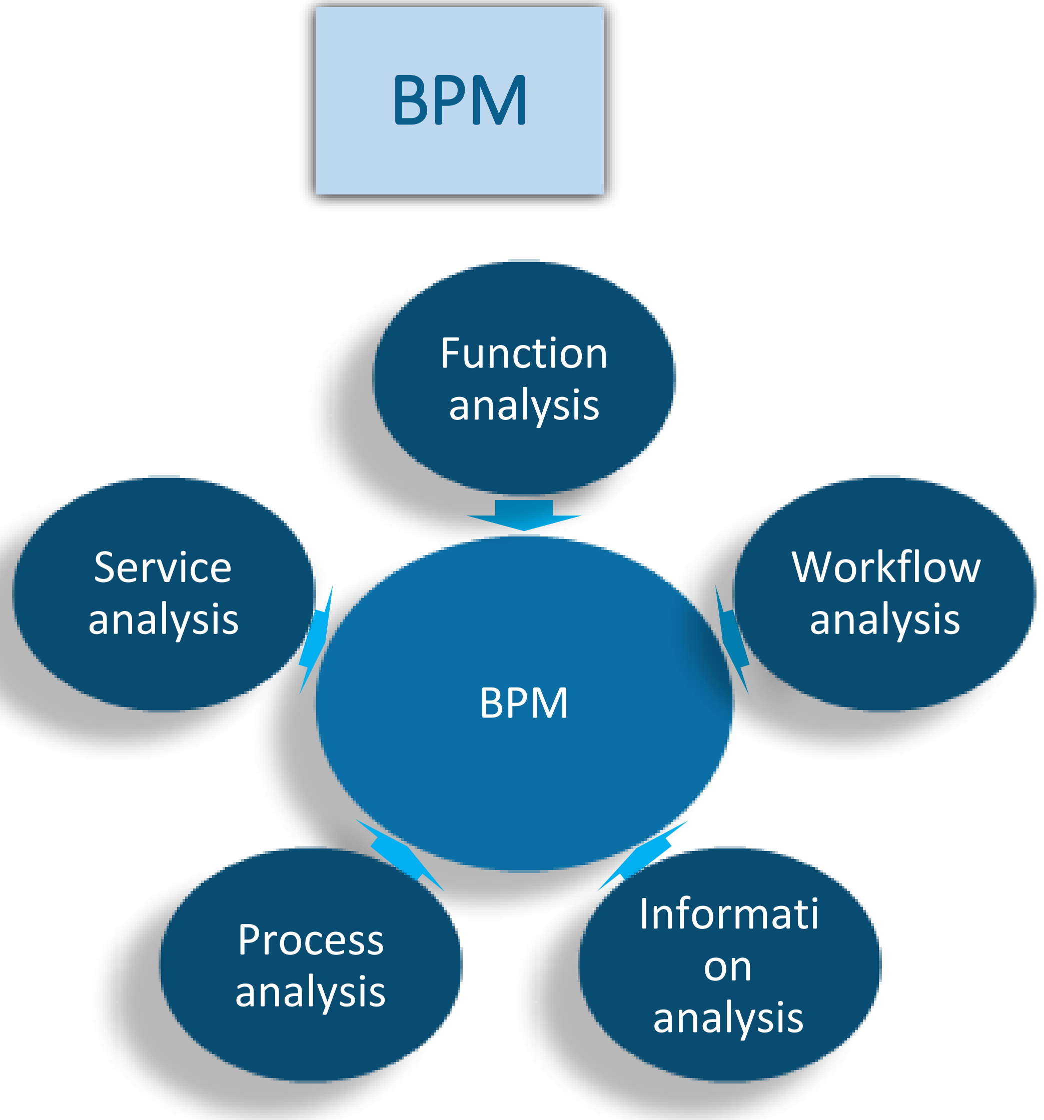
BPM is a comprehensive strategies that facilitates organizations to design, model, deploy, and efficiently manage business processes to respond changing market dynamics.

It generates actionable business intelligence in real time helping organizations to rapidly respond to emerging changes.



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Another Way of Looking at Failure

- **Failure may be due to mistakes/error, carelessness, accidents, ignorance, hypothesis going wrong.**

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Major reasons why Indian startups fail: Yourstory.com has identified 7 reasons behind failure of 81% of the startups.

1. Lack of innovation and original business ideas.
2. Lack of Vision
3. Lack of Market Understanding
4. Poor Competency
5. Poor Execution
6. Excessive Focus on Weaknesses
7. Every Founder Trying to be the CEO
8. Lack of Attention to Meritocracy

- https://yourstory.com/2018/07/7-major-reasons-indian-startup-failure?utm_pageloadtype=scroll

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Causes of Failure of Indian Startups

- A study by the IBM Institute for Business Value and Oxford Economics found that 90% of Indian startups fail within the first five years.
- And the most common reason for failure is lack of innovation.
- VCs (77%) believe that Indian startups lack new technologies or unique business models.
- Other major reasons are lack of skilled workforce, want of adequate & timely funding, inadequate formal mentoring and poor business ethics.

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India Lack Innovation

- India doesn't have meta-level startups such as Google, Facebook or Twitter.
- China, however, built its own Google named Baidu and Alibaba displaced Amazon.
- "Since 2015, as many as 1,503 startups have closed down in India. And the major reason is due to the replication of Western business models, and not lack of subsequent funding from the investors," says Rishabh Lawania, founder of Xeler8
- India filed 1,423 international patents in 2015-16, while Japan filed 44,235, China 29,846 and South Korea 14,626

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Lack of Vision

- **Creation of a large percentage of ventures are driven by the passion to start a startup without a compelling vision.**
- **Shared vision**
  - **synchronizes all members in a common thread of thought and they pursue the same aspiration.**
  - **The majority of the conflicts are avoided.**
  - **Unique synergies prevail in all actions.**
  - **There would be less stress and stress would be bearable.**

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Lack of Market Understanding

- This is intuitive. Many startups teams are made of close friends and complementarity of skills may not always be the central consideration.
- Most technology founders are besotted with the novelty of the solutions.
- Many of them fail to focus on the impact on the customers' pain, competitive advantages, and customers' readiness to buy.

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Poor Competency or Lack of Willingness to Hire Professionals (Founder's Dilemma)

- Founders' unwillingness to acknowledge limitations.
- Successful founder-CEOs are not non-existent, but they are rare breed.
- Less than 25% of founders led the IPO as CEO. Rest hired professionals to lead their companies to IPO as evidences Noam Wasserman – the author of "Founders' Dilemma" .
- Many founders think only they can lead the company. The fact is that CEO jobs need a lot of experience and networking.

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Poor Competency or Lack of Willingness to Hire Professionals (Founder's Dilemma)

It is important for founders to realize that their financial resources, ability to inspire people, and passion aren't enough to enable their ventures to capitalize fully on the opportunities before them.

Those who acknowledge their limitation and quickly bring the right people on board, greatly increase the odds of success.

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Early Success or Failure – Venture Needs Professionals

- Whether founders succeed in taking the venture up to developing the product and acquiring a early customers, or they fail at some stage, either way, the venture needs experienced CEOs to lead.
- Success makes founders less qualified to lead the company since managing the growth phase requires more experience.
- Most founders who dilute equity to attract adequate investment and relinquish CEO position to professionals create greater values than ones who prefer to control.

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Mark Zuckerberg on Hiring

- Mark Zuckerberg hired professionals early on.
- Zuc says that leadership is less about the skills outlined on your resume and more about your character.
- Incredible leaders are respectful and they demonstrate integrity.
- They think beyond themselves and make smart and thoughtful decisions that are best for the venture.
- They clearly understand what they're best at and delegate the rest to more capable people.
- They're passionate about what they're working on, and they let that shine through in everything they do.

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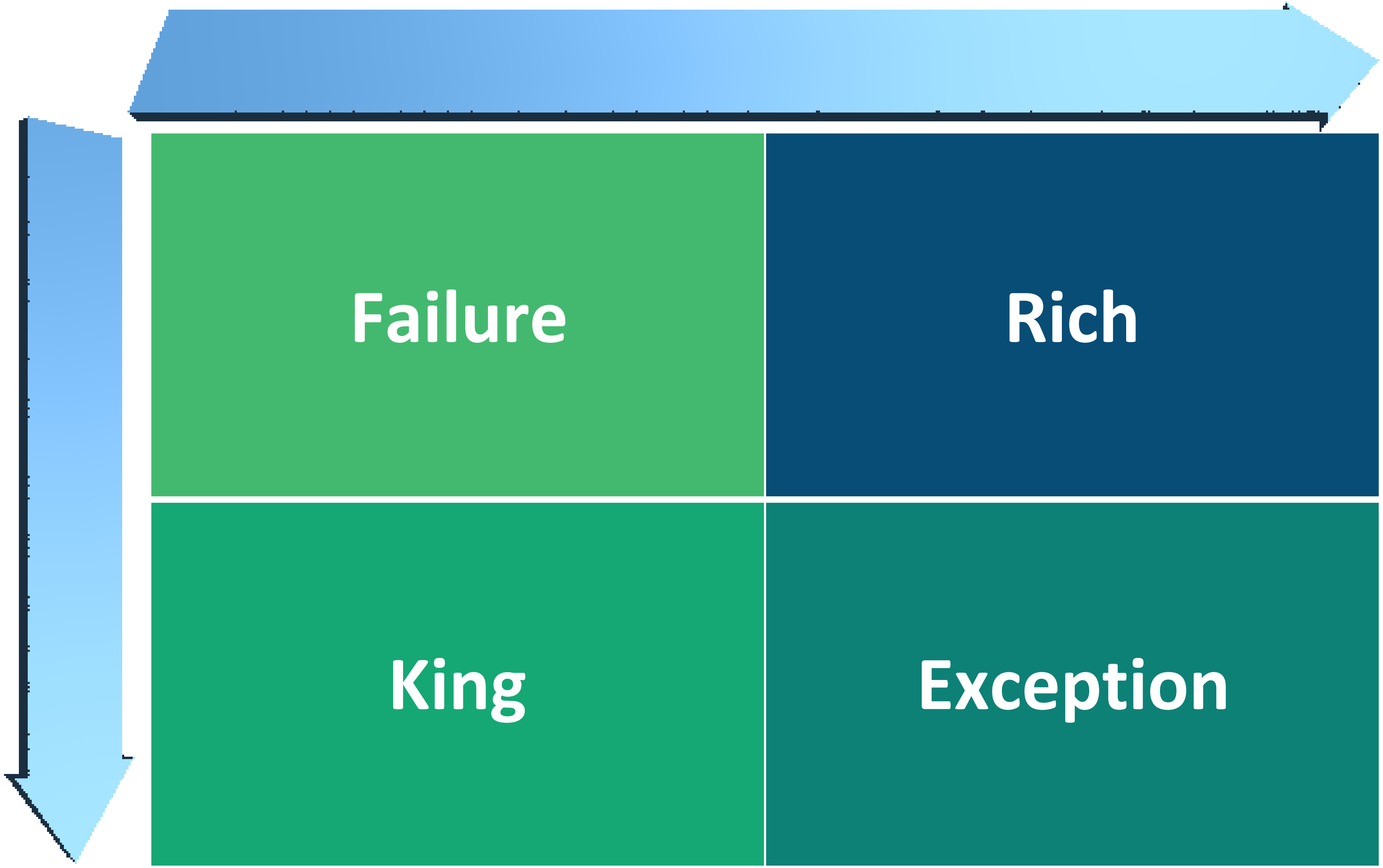

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Poor Execution

- **Great ideas are a dime a dozen. It's the actual execution that makes the difference.** (Molly St. Louis https://www.inc.com)
- **Strategy formulation & execution to create superior customer values, BPM, manpower planning and hiring, revenue model, marketing management, customers acquisition, customers retaining, brand building, managing growth, constant innovation to remain ahead of competition are all part of execution.**

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What Can be Done?

- Define clear objectives, goals, individual success metrics and accountability.
- Let everyone understand the big picture, provide with unfettered access to the plans and individual’s roles and implications of their actions.
- Seamless communication and collaboration among all members.
- Support creativity.

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Market Problem

- Lack of product-market-fit
- Founders need to focus more on creating value for the target customers than building cutting-edge products.
- Else customer acquisition cost may be higher than life time (roughly couple of years) value of a customer – recipe for disaster.
- Making (refining) change in products at the early stage is easy and more economic than doing it later.
- Understand attractive market structure.

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Meritocracy or the Lack of It

- **The most important asset of a startup is its human resource.**
- **Quality of the talent will make or break the enterprise.**
- **There must be no compromise on meritocracy.**
- **The agenda is to build a business and not really to create jobs.**
- **The best people doing the right tasks is the recipe for success.**
- **Talent must be timely rewarded based on a well-laid appraisal mechanism, be empowered, and put on a career growth path so that their personal aspirations align with those of the company.**

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Inability to Raise Capital in Time and Ignoring Cash Burn

- **The number of rejection in fund raising initiatives will surprise all founders.**
- **Many founders start the process too late, approach the wrong investors, and fail to make a compelling investment case.**
- **Make a medium term projection of activities, estimate cash flow and know when you need the fund. Plan at least six months before you want money to hit your account.**
- **Respect each rupee and do not be besotted with millions.**

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Not Following the Validated Learning Process of Product Development

- **Many founders refrain from receiving feedback from actual users for many reasons.**
- **They end up developing something that nobody want, they pivot too late, burn lot of resources, and demoralize their team.**
- **Early feedback is recipe for success and failure is usually fatal.**
- **Build a prototype with key features at minimum possible expenses that helps customers in meaningful evaluation and use feedback to refine the product. You should repeat this learning loop until potential customers demand your product.**

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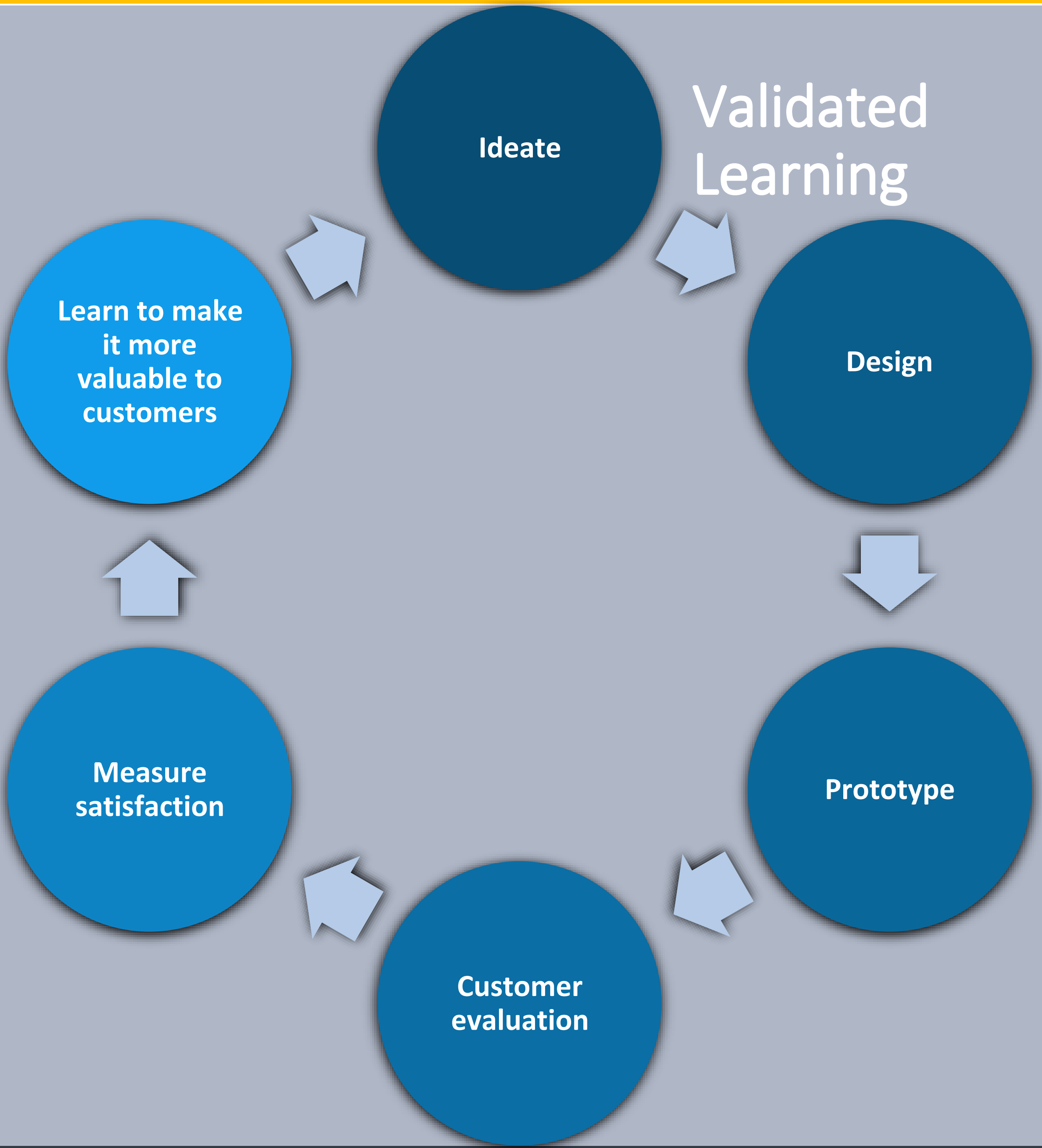

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Major Differences Between Average People and Achieving People

Average people fail backward Failing Backward	Achievers fail forward Failing Forward
• Blaming others • Repeating the same mistakes • Expecting never to fail again • Accepting tradition blindly • Being limited by past mistakes • Thinking I am a failure • Quitting	• Taking responsibility • Learning from each mistake • Knowing failure is a part of progress • Challenging outdated assumptions • Taking new risks • Believing something didn't work • persevering

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- **Maxwell says that the only thing or the difference between average people and achieving people is their perception of and response to failure.**

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Here Are Some Excerpts from 'The 21 Irrefutable Law Of Leadership' – John C. Maxwell

- Successful people learn to do what does not come naturally. Nothing worth achieving comes easily. The only way to fail forward and achieve your dreams is to cultivate tenacity and persistence.
- Success is in the journey, the continual process. And no matter how hard you work, you will not create the perfect plan or execute it without error. You will never get to the point that you no longer make mistakes, that you no longer fail.
- The fellow who never makes a mistake takes his orders from one who does. Wake up and realize this: Failure is simply a price we pay to achieve success.

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What is the root of achievement or success?

- **Family background? The fact is that high percentage of successful people come from broken homes.**
- **Wealth? Some of the greatest achievers come from households of average to below-average means.**
- **Opportunity? One of the two persons with the same background would view a situation as a tremendous opportunity while the other would see nothing or something too risky.**

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Some Final Words

- It is almost certain that failure is almost inescapable. But one's response to failure differentiates successful ones from the failed ones.
- Learning from failure is the best way to move forward. Failure is actually great investment provided you learn from it.
- Accept that failure is waiting there to happen and save your resources for restarting.

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- ***"Drive thy business or it will drive thee."* - Benjamin Franklin**

- ***"Every paisa counts and every second counts" - xxxx***

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"Failure is the sibling of success: you can tap failure as a strategic resource" - Madanmohan Rao [See reference section]

- **Fail Fast, Fail Early, and Fail Forward.**
- **With a broader view now about causes of failure and how to avert them:**

  Do not let failure statistics intimidate you.
- **Respect failure, anticipate failure, prepare contingency plans, simulate and rehearse, turn failure to a resource**

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Concluding remarks

- Most of the reasons for failure can be averted with preemptive strategies, comprehensive plan, and smart execution.
- Failure is an investment for gaining maturity and achieve success.

"Life's too short to build something nobody wants. "- Ash Maurya

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Thank You

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Foundations of Entrepreneurship

Entrepreneurial Qualities

Vision, Mission

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Lecture #6
Lecture Note # 05 (15.01.2021)

With 25,000 clients in 25 days, Just Buy Live could be next big wave in mom-and-pop retail

By Binjal Shah | 9th Feb 2016

They appeared too good to fail but they failed too quickly

Vijayakumar Pitchiah | 27 Mar, 2018

Just Buy Live Enterprise Pvt. Ltd, an e-distributor that connects shopkeepers with consumer brands, has suspended operations and is no longer active, a person familiar with the development told TechCircle.

"Just Buy Live appears to have shut down," the person mentioned above said.

Topics of the Day

- Successful entrepreneurs share some common traits.
- Experts have identified some of these traits.
- A team of members with complementary skills is necessary to succeed.
- Many of the traits can be acquired.
- Vision, Mission, and Values.

Google sheet for asking questions

https://docs.google.com/spreadsheets/d/11-hVC05i12zcpmq7kixjtxwaevDvrwM-A0SKe9fp260/edit?usp=sharing

- Some entrepreneurs are extremely successful.
- They seem to be successful in anything they start.
- Whereas, there are others, who struggle to remain afloat.
- While hard work is indispensable in entrepreneurship, but that is definitely not good enough.
- Successful entrepreneurs have many common traits. They have the capability to identify opportunities in adversities. They take action with confidence, with optimism.

Various Sources have Listed Many Qualities of Successful Entrepreneurs. Here are some of the common ones.

The list is incomprehensive, yet may appear intimidating by the sheer number.
The good news is that <u>not all of them are absolutely necessary</u> and <u>many of them can be acquired.</u>

Qualities of Successful Entrepreneurs

- Leadership qualities
- People skill
- Unique work style
- Empathy
- Financial savvy
- Prior entrepreneurial exposure
- Knowledge seeker
- Strong peer network
- Remain surrounded by great people
- Tenacious
- Tolerant to ambiguity
- A positive view on constructive criticism
- Readiness to delegate
- Confidence
- Disciplined and self-starters
- They are open to new ideas

Qualities of Successful Entrepreneurs … cont'd.

- Readiness to accept failure as an option and learn from every failure. Acknowledge mistakes and learn from them
- Ability to sell
- Frugal in their approach
- The ability to manage money
- They are reasonably passionate and know when to pivot and not driven by emotion
- Self-motivated
- They are systems thinker
- An eye for opportunities in adversities

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More Leadership qualities

- Their honesty and Integrity are unquestionable.
- They communicate effectively and can motivate all towards common goal.
- They inspire others while taking responsibility and giving credit for good performance.
- They set their mission, work passionately and are committed to achieve the goals.
- They take the challenge head on and do not give excuses.

Leadership qualities … cont'd.

- They educate, delegate and empower subordinates and help them grow and earn their trust and confidence, fostering an environment that proliferates such values through the team.
- They try to be creative & Innovative and try to foster innovation.
- They are prepared to face unexpected adversities/challenges/
- They are charismatic.

Charisma

Cambridge Dictionary define charisma as - a special power that some people have naturally that makes them able to influence other people and attract their attention and admiration. How to acquire it?

- They are self confident.
- They are polite.
- They are patient.
- Keep their words.
- Always have others' best interest in mind.
- Be experts in own field.
- Honest, ethical, and above-board.
- Not physically repulsive.
- They seem real.
- Listen twice as much as they talk.
- Helpful, flexible and accommodative.

People Skill

- Founders have to be able to communicate their vision to all the stakeholders including cofounders, employees, customers, suppliers, investors, even communities, (the whole ecosystem).
- Their ability to lead, get people invested in their ideas, gain confidence, give them a sense of belongingness, motivate to give their best.
- Success of a business rests on many pillars. Pillars are the people. One must communicate with confidence, give a sense of win-win and create an environment of optimism.

Elements of People Skill

- Leadership
- Persuasion
- Influence
- Network building
- Ability to excite people by vision
- Strong ethical and governance standard
- Abide by the laws of the land and respect ownership of others.

Recreated from the book → Harvard Business Review: Entrepreneur's Handbook

Work Style

- Goal oriented.
- Comfortable with uncertainty.
- Self-challenging.
- Solitary: don't like working for others; prefer being own boss.
- Rarely satisfied or complacent; can't sit still.
- Driven to plan and be prepared.
- Experimental mindset; ok with starting small and recognizing and moving past failures.
- Perseverance in the face of adversity.
- Tendency to continuously look for a better or different way to do things.
- Ability to close a deal.
- Inclination to listen, trust, take advice.

Recreated from the book - Harvard Business Review: Entrepreneur's Handbook

They are Empathetic to All Concerned

- They strive to feel the pain that they aim to solve.
- They engage with customers to understand how to match their expectations, what features would romance them and what are not appreciated.
- They believe that customers are always right and the company must strive to satisfy them to remain and grow business.

They are Empathetic to All Concerned … cont'd.

- They try to feel the pain of the employees by performing their tasks once in a while. In the process they learn the hardship and extraordinary efforts employees make to achieve company goals.
- They try to align company objectives with those of the employees and make generous package so employees are happy at home. Happy people deliver better.
- They make the employees feel as if the company belongs to them.

Empathizing the Customers

- **Empathizing with customers can never be overemphasized.**
- **No matter how ground-breaking an idea or product is, unless a good number of customers pay profitable price in exchange for it, there is no business. Understanding the customers is central to leadership.**
- **The hallmark of success for long-surviving companies is customer satisfaction and growing loyal & repeat customer base.**

Financially Savvy

- Comfortable with finance.
- Have clear understanding of cash flow and its significance.
- Understanding of the bottom-line, the burn rate or profit and how value is created.
- Comfortable with financial governance.
- Those who are incapable of managing money, surely fail in business. Poor fund management are frequently the cause of failure.

Internal Locus of Control

- Entrepreneurs believe that they have the power over events in their lives.
- They believe that they can create their future as they envision.
- They do not believe in fate or blame outside forces for the outcome of their actions.
- They may be spirituals but their thoughts on future are similar to those of the agnostic.
- People with external locus of control tend to blame outside forces for all the failures and credit themselves for all the success.

Prior Entrepreneurial Exposure

- **Work experience in a start-up.**
- **Close association with business of friends or family.**
- **Corporate entrepreneurship.**
- **Profit-center head.**
- **Some experience of managing events.**
- **Borrowing a phrase from a statement by Donald Rumsfeld, US Defense Secretary** *"… there are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns—the ones we don't know we don't know. …"*

Burning Desire for Learning: Knowledge-seeker

- Business operation requires knowledge of many domains.
- It may not be possible to be the best in everything.
- But knowing more about many things is a clear advantage. One can have better perspective about many things and can lead better.
- Successful entrepreneurs have constant passion for learning.
- Obviously knowledge is pivotal for managing business and identifying opportunities.

They Understand the Value of a Strong Peer Network

- In a competitive world, gaining success alone is a near impossible task.
- Contacts with business partners, financial partners, strategic resources, technology partners, peer entrepreneurs, investors are invaluable.
- At early stage of a technology start-ups one of the best assets is peer network with startups engaged in similar technologies.
- Effective nurturing of the relationship with people who can help to troubleshoot many hurdles.
- It has been propounded by many great leaders that one can constantly evolve stronger if surrounded by great people.
- You are as good a leader as the people you keep company.

They are Tenacious

- The tough competitive atmosphere of business demands unyielding, strong-willed and unfearful leaders.
- These leaders meticulously plan ahead, adjust themselves quickly to changing scenarios, adapt to market responses.
- Business at times has very high highs and very low lows. Expert entrepreneurs have the tenacity to absorb such shocks and capability to neutralize their impact on the organization.

They are Tolerant to Ambiguity and Uncertainties

- Entrepreneurs sets goals and are committed and convicted to reach them. They also inspire others to follow them.
- But, they should be open to unexpected developments and information and make mid-course corrections that mitigates adversities or better exploits the advantages.
- Their readiness and ability to face both at once, in the face of great uncertainty, is the tolerance for ambiguity that sets an entrepreneur apart from the rest.

Readiness to Accept Failure as an Option and Learn from Every Failure, Acknowledge Mistakes and Learn from them

- Entrepreneurs are often successful because they tend to comprehend the best possible course of action to get over the worst scenario.
- However, they are mindful that things may not always manifest the best of ways and they are ready to accept failure.
- They take lessons from failure to become stronger, smarter and invincible.
- They do not sit back ruminating “what if”.
- Almost all successful entrepreneurs mature through learning from failures and mistakes.

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Ability to Sell

- **When a customer makes payment in exchange for a product or service in a profitable transaction, only then some business is done.**
- **Ability to sell is highly essential to succeed in business.**
- **Mark Cuban repeatedly emphasizes (in Shark Tank) that knowing how to sell is an absolutely essential part of being a successful business owner.**

They are Frugal in their Approach

- They recognize that there is always a lean way of doing things.
- Frugality leads to faster execution, better economy, lesser risks, higher success possibilities, higher financial upside.

They are Reasonably Passionate and Know when to Pivot and not Driven by Emotion

- They are circumspect and act with determination and work passionately to achieve the goal.
- They continuously make assessment and have the capability to see the possible failure early on and pivot instead of persisting emotionally.
- Jack Ma was rejected in 30 job applications and many college admissions.
- Ma started business with determination. As a result, he could successfully launch Alibaba in 1999. In about 20 years, Alibaba is now valued nearly $500 billion.

They are Self-Motivated

- Entrepreneurs do not wait for opportunities to find them.
- They go out into the world and create solutions that make people happy.
- They adapt to changes and carry their teams along, motivate them toward new goals and opportunities.

Readiness and Capability to Delegate

- Entrepreneurs have too much to do. They should free their time and mind by delegating others. In the process they become more productive and bring in agility in the system.
- It is not always necessary that they do everything the best.
- They need to empower and train others to assume responsibilities.

Effective Time Management

- Prioritize tasks.
- Drop or delegate less important tasks to others.
- Manage time effectively.
- Know when to say ‘no’. People may demand their time, but frequently they may be addressed by others.

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Seeking Help from Others

- Many a times, we remain stuck in a line of thought, which is wrong.
- Frequently, someone would easily point out the right course and success is achieved very quickly.
- Being stubborn to do it ourselves, we deprive ourselves from achieving more than we do.
- Technologies are changing too fast and it is almost impossible to know everything.
- Help from others is synergistic.

Self-Discipline

- **Self-discipline is central to many of the traits mentioned above.**
- **Self-discipline is self-control and is the key to success in business.**

They are Systems Thinker

- A business is a system consisting of many small components and it itself is a component of larger systems. Systems thinking is understanding the interrelationships between all components.
- All components in a system interact, affect and promote each other in order for keeping a balanced progression. Disturbing one components can disrupt the whole system.
- Systems thinking is a holistic approach that focuses on how a system's constituent parts interrelate and how it works within the context of larger systems.

Persistence and Perseverance

- Persistence is the iron quality of character. Persistence is to the character of man as carbon is to steel. It is an indispensable quality that goes hand in hand with all great success in life.
- Inculcating persistence: Tell your subconscious mind to be persistent.

Decisive And Action Oriented

- They are decisive and they try many things.
- They believe in actions and take corrective actions based validated learnings. They are open to new ideas and are not emotionally overly passionate.
- The key to triumph is for you to try.

Circumspective & Confident

- Entrepreneur have a 360 degree view about the business and always assess their strengths, weaknesses, opportunities and threats (SWOT) with changing macro situation.
- They are confident in their actions and are not undecided.
- They inspire others with their confidence in everything they do.

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Best Promoter of the Business

- They are Independent and would do whatever it takes to succeed.
- They are the best spokesperson and promoter for their business.
- Relationship-Builder: They have high social intelligence and an ability to build relationships that aid their firm's growth.
- They have strong determination and battle their way through difficult obstacles.

Source http://www.forbes.com/

Risk Takers

- **They take calculated risk. They have good instincts when it comes to opportunity identification and understanding the risk-return perspective.**
- **They identify opportunities that are seemingly risky and achieve superior returns. Big rewards are associated with big risks.**

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- The founding team should preferably consist of more than one members.
- Ideally, members should possess complementary skills to balance the essential skill set.
- They are self starter. Every successful entrepreneur are fully conscious of the fact that if something has to be initiated, it needs to be done by themselves.
- So, aspiring entrepreneurs need to adopt these traits and make as many of them a part of their personality as possible to achieve success.

- An enterprise is almost like a living being and all its stakeholders are its limbs.
- To sustain and grow in the long run all its stakeholders need to share the same philosophies about its long-term goal, values that differentiate them from competitors and what its pride of place to be in the minds of customers and others.
- The vision, mission, and values are usually recorded in statements providing direction to all stakeholders for everything that happens in an organization.

The Vision

- Vision is where the company wants to be or what it aspires to accomplish in the long run.
- It relates to the dream and passion.
- Bill Gates envisioned to see personal computers in every home [and not really the progression of business].
- One of Elon Musk's visions is to see humankind travel to Mars and live there. [But the design of the spacecraft is not part of that vision. But the vision guides the designs.]
- Vision sets the direction for your business planning.
- Founders have to be able to articulate and share a vision. A shared vision is one of the hallmarks of business success.

Vision: as defined in Business Dictionary

An aspirational description of what an organization would like to achieve or accomplish in the mid-term or long-term future. It is intended to serve as a clear guide for choosing current and future courses of action.

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The Mission Statement

- The mission in simple words is what a company does, the purpose for which it exists, who it serves and why customers should perceive it as different or preferable.
- Mission statement explains its purpose(s) for being, defines its culture, values, ethics, and fundamental goals, and how these apply to its stakeholders.
- This statement serves to plan and keep all stakeholders including employees focused on the tasks at hand.
- It encourages the team to find innovative ways to achieve company goals.
- A company's stakeholders – employees, distributors, suppliers, investors, and partners – use this statement to align their goals with that of the company.

Mission Statement from the Business Dictionary

- A written declaration of an organization's core purpose and focus that normally remains unchanged over time. Properly crafted mission statements (1) serve as filters to separate what is important from what is not, (2) clearly state which markets will be served and how, and (3) communicate a sense of intended direction to the entire organization.
- A mission is different from a vision in that the former is the cause and the latter is the effect; a vision is something to be accomplished whereas a mission is something to be pursued for that accomplishment. Also called company mission, corporate mission, or corporate purpose.

Core Values

- Core values are to support an organization's vision.
- On a light note, it defines how the company behaves.
- It shapes the culture and tradition in the company.
- Employees strive to uphold the core values in all their transactions with all stakeholders.

Following are Some of Core Values:

- Empathy
- Quality
- Ethics
- Trust
- Consistency
- Conviction
- Honesty
- Accountability
- Transparency
- Confidence
- Fair and impartial
- Diversity
- Passion
- Imagination
- Intelligence
- Adventure
- Growth
- Safety
- Tradition
- Collaboration
- Experience
- Justice
- Creativity
- Action
- Steadfastness

ITC

❑ **Vision**

- **Sustain ITC's position as one of India's most valuable corporations through world class performance, creating growing value for the Indian economy and the Company's stakeholders.**

❑ **Mission**

- **To enhance the wealth generating capability of the enterprise in a globalising environment, delivering superior and sustainable stakeholder value.**

https://www.itcportal.com/sustainability/sustainability-report-2006/html/itc-mission.aspx

ITC

- Core Values
- Trusteeship - stakeholder value
- Customer Focus – Serve the customers increasingly better.
- Respect for people – both within and outside the company.
- Excellence – strive to excel in whatever we do.
- Innovation – constantly innovate and challenge the status quo.
- Nation oriented – broader value for the nation.

https://www.itcportal.com/sustainability/sustainability-report-2006/html/itc-mission.aspx

Company: Tesla

- Mission: To accelerate the world’s transition to sustainable energy.

- Vision: To create the most compelling car company of the 21st century by driving the world’s transition to electric vehicles.

- **Company: Amazon**
- **Mission:** We strive to offer our customers the lowest possible prices, the best available selection, and the utmost convenience.
- **Vision:** To be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online.

- **Company: TED**
- **Mission:** Spread ideas.
- **Vision:** We believe passionately in the power of ideas to change attitudes, lives and, ultimately, the world.

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Company: Google

- **Mission: To organize the world's information and make it universally accessible and useful.**

- **Vision: To provide access to the world's information in one click.**

- **Company: Uber**
  - **Mission: Uber's mission is to bring transportation — for everyone, everywhere.**
  - **Vision: Smarter transportation with fewer cars and greater access. Transportation that's safer, cheaper, and more reliable; transportation that creates more job opportunities and higher incomes for drivers.**
- **Company: AirBnB**
  - **Mission: Belong anywhere.**
  - **Vision: Tapping into the universal human yearning to belong—the desire to feel welcomed, respected, and appreciated for who you are, no matter where you might be.**
- **Ericsson (a global provider of communications equipment, software, and services) defines its vision as being "the prime driver in an all-communicating world."**

Source: https://www.clearvoice.com

Mission Statements of Some Popular Companies

- *Adobe:"To move the web forward and give web designers and developers the best tools and services in the world."*
- *Paypal: "To build the Web's most convenient, secure, cost-effective payment solution."*
- *Facebook:* "To give people the power to share and make the world more open and connected."
- *Intuit: "To improve its customers' financial lives so profoundly, they couldn't imagine going back to the old way."*
- *Kickstarter:"To help bring creative projects to life."*
- *LinkedIn*: "To connect the world's professionals to make them more productive and successful."
- *Twitter*: "To give everyone the power to create and share ideas and information instantly, without barriers."
- *Tumblr:* "To empower creators to make their best work and get it in front of the audience they deserve"
- *Alibaba:* "To make it easy to do business anywhere."

Vision Statement of Some Well-Known Companies

- *Google:* To provide access to the world's information in one click.
- *Toys R Us:* Our vision is to put joy in kids' hearts and a smile on parent's faces.
- *Sony*: "To be a company that inspires and fulfils your curiosity."
- *Walmart*: "We save people money so they can live better."
- *L'Oreal*: "Offering all women and men worldwide the best of cosmetics innovation in terms of quality, efficacy and safety"
- WWF: We seek to save a planet, a world of life. Reconciling the needs of human beings and the needs of others that share the Earth
- Charles Schwab: "Helping investors help themselves."

Strategies, Goals, Objectives, Action Plans

- **Strategies –** Strategies are actions to be taken to follow the mission statement so as to achieve the vision. Strategies are dynamically formulated based on changing environment.
- **Goals –** are milestones that are to be achieved on a short term horizon. Strategies are implemented to achieve the goals.
- **Objectives –** Objectives are related to the milestones with a specific timeline for achieving a goal. Set the objectives so you achieve the goal.
- **Action Plans –** are plan of actions to achieve the goals and objectives.

You want to start an e-commerce company.

You target the niche market of hand-made goods.

Vision

- **Make sustainable efforts to ensure Indian artisans earn decent income.**

Mission

- **To enhance the productivity, quality of products, reduce drudgery (improve health), and realize maximum value for goods and services of Indian artisans.**

Core values

Example: The e-commerce

- We shall never compromise on the interest of the artisans.
- We shall always endeavor to cut cost to maximize value for the artisans.
- We shall do everything to face maximum price for goods.
- Not charging more than 10% of the value of goods as commission.
- Maintain absolute transparency.
- Making no distinction between their money and our money.
- Try to identify innovative solutions for our artisans to reduce their drudgery (ensure health), increase productivity, and improve quality in order for them to get the maximum value.
- We shall always remain nation-oriented.

- The Harvard Business Review Entrepreneur's Handbook: Everything You Need to Launch and Grow Your New Business - Harvard Business Review (2018)
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- https://www.employeeconnect.com
- https://startupclass.samaltman.com/
- www.businessdictionary.com/definition/vision-statement.html

- **Expert entrepreneurs have dreams. They are confident and optimistic to manifest them. They are disciplined self starters. They are patient and they persevere. They are open to new ideas those cross their path.**
- **Success of a venture critically depends on many factors and entrepreneurial qualities are pivotal among them.**
- **It is important to note that many of these traits can be learnt.**

Conclusion:

- Expert entrepreneurs have dreams. They are confident and optimistic to manifest them. They are disciplined self starters. They are patient and they persevere. They are open to new ideas those cross their path.
- Success of a venture critically depends on many factors and entrepreneurial qualities are pivotal among them.
- It is important to note that many of these traits can be learnt.

Thank you

Foundations of Entrepreneurship

INTRODUCTION TO FINANCIAL STATEMENTS

Manoj K Mondal

RMSoEE, IIT Kharagpur

Lecture Note # 6

20.01.2021

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Topics to be covered

- Understanding financial statements
- Balance sheet
- Profit & Loss Account
- Cash Flow Statement

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How Important is Financial Statements

01

There is a saying:

If one can't manage finances, won't be able to manage a business.

03

The fact that a major cause of startup failure is 'running out of cash', reinforces the above statement.

04

All entrepreneurs and non-entrepreneurs who are directly or remotely connected to the past, present, and future financials of a company must have a grip on financial statements.

No Image

The primary purpose of financial statements is to report the actual financial state of any company to all stakeholders.

- **Stakeholders**
  - Founders/ Promoters / Owners
  - Shareholders
  - Lenders (bankers)
  - Government (Income tax and GST department)
  - Economists
  - Analysts
  - Investors
  - Employees
  - Policymakers or Statisticians

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- **Financial statements should be viewed from two perspectives: one from the entrepreneurs, and the other, from the other stakeholders' perspectives.**
- **Depending on which side you are in, you would like to look at it through different prisms.**
- **Owners of a company frequently under-report or over-report performance to derive values.**
- **The consumers of the data in financial statements are the victims of such wrong reporting.**

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From Owners' Perspective

- Decisions
  - Cost cutting
  - Pricing
  - Hiring
  - Hiving off
  - Capacity augmentation
  - Making-vs.- outsourcing
  - Borrowing
  - Capital raising

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Major Disaster for Accounting Frauds: Enron

- **At its peak, Enron was one of America's largest corporations with 22,000 employees.**
- Reported $111 billion revenues in 2000
- **Overstated profit and hide debt.**
- When it came to light,
  - Share price went from $90.75 in August 2000 to just $0.67 in 2002 to 0.0 soon.

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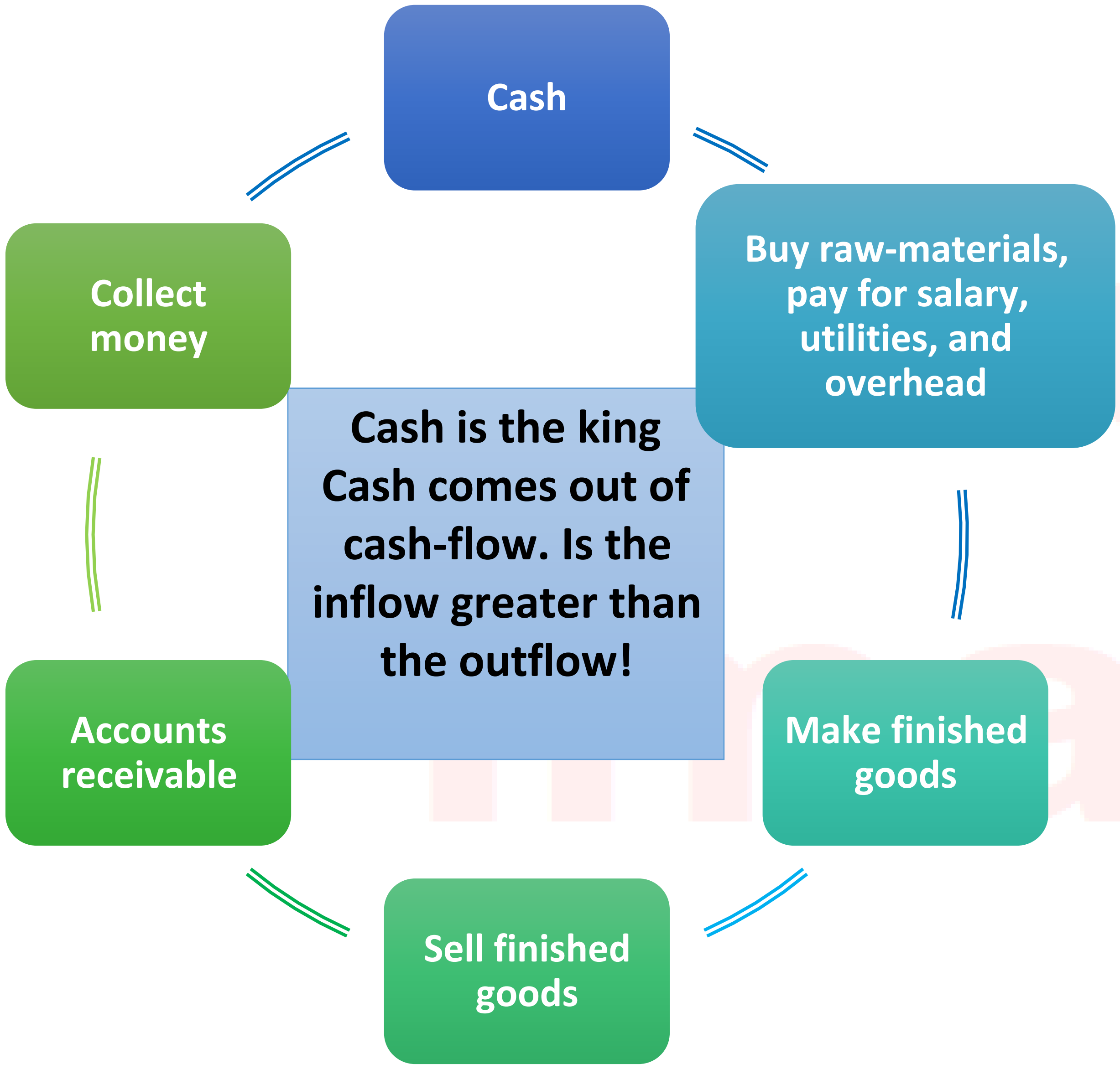
Major Disaster for Accounting Frauds: WorldCom

WorldCom, USA

- Was the second biggest phone company
- WorldCom fraudulently underreported cost of a staggering $3.8 billion (£3bn).
- In 2020, it filed for bankruptcy.

Satyam Computers of Hyderabad

- The chairman of Satyam Computers, Ramalinga Raju confessed that the company's accounts had been falsified to the extent of Rs 12,318 crore.
- The company went through turmoil rendering thousand of employees jobless and millions of investor poorer.

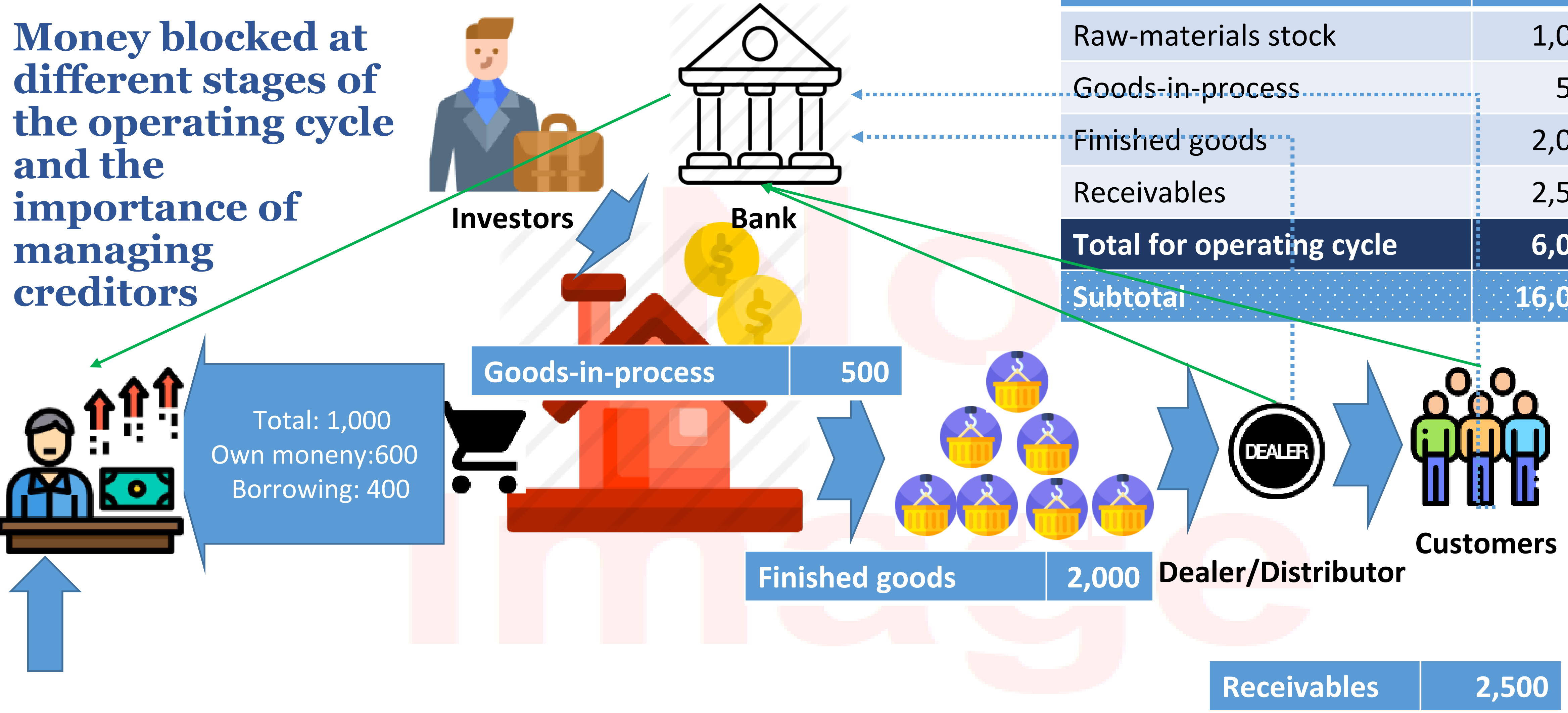


Operating cycle starts from cash and moves through purchase of raw materials, converting them into finished goods, selling them and receiving the cash.

In numeric term, the operating cycle is the average period of time required for a business to complete this process.

Money blocked at different stages of the operating cycle and the importance of managing creditors

Investment in fixed assets	10,000
Raw-materials stock	1,000
Goods-in-process	500
Finished goods	2,000
Receivables	2,500
Total for operating cycle	6,000
Subtotal	16,000



Adani Enterprises:

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Adani enterprise : has
Receivable cycle of 89.55 days and
Payable cycle of 117.66 days.

Define receivable cycle:	
Average outstanding in Receivable:	2,500
Annual sales:	10,000
Receivable turnover ratio:	10,000/2,500 = 4
Receivable cycle:	365/4 = 91.25 days

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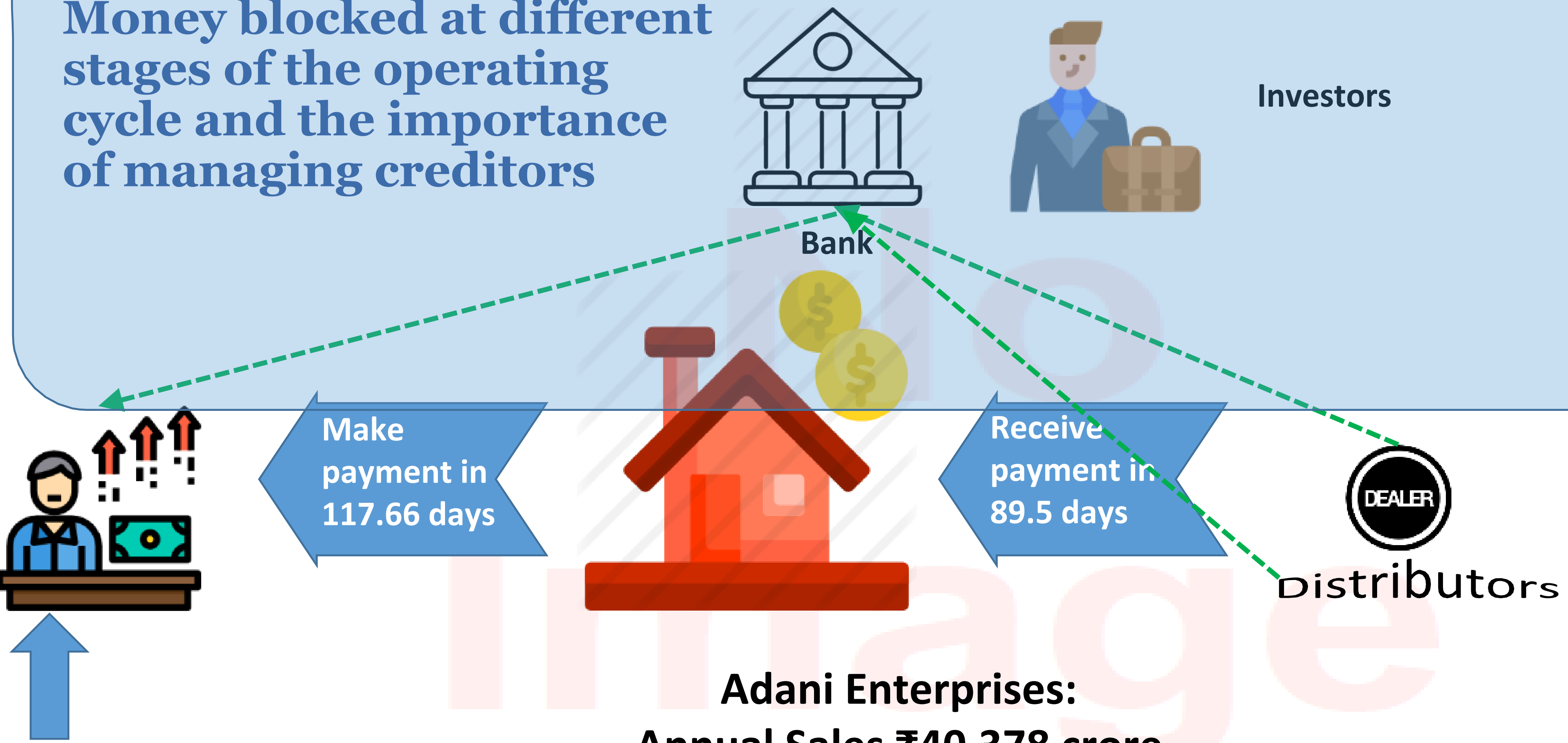
Money blocked at different stages of the operating cycle and the importance of managing creditors



Adani Enterprises:
Annual Sales ₹40,378 crore

Double entry system

- **Double entry system** of accounting means that every business transaction involves two or more accounts.
- Example: Your company 'A' purchases raw-materials (₹500) from company 'B' in cash. Your cash account reduces and raw-material purchase account increases. The books where you enter these data are called ledgers. For example 'Cash Ledger', 'Sales Ledger', 'Purchase Ledger', etc.

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Double Entry System

- **If your payment is partly on cash (₹300) and partly on credit,(₹200) three accounts will be affected:**
  - **Purchase: ₹500**
  - **Cash: ₹300**
  - **Accounts payable: ₹200**

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The debit – credit rule

The debit – credit rule is that asset account is debited when value increases; opposite is for liabilities.

Income account is credited when value increases; opposite is for expenses.

Purchase:	₹500	(Expense type account) Purchase ledger debited
Cash:	₹300	(Asset type account) Cash ledger credited
Accounts payable:	₹200	(Liability type account) Accounts payable ledger credited

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Three Major Financial Statements

- **Balance Sheet**
- **Profit & Loss or Income statement**
- **Cash Flow statement**

A fourth statement is also used

Statement of changes in owners' equity or stockholders' equity.

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Balance sheet

- **Balance sheet is a snapshot of financial position at a particular point in time.**
- **It aims to convey the position of the assets, liabilities and owner's equity at any particular point in time.**

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Profit & Loss or Income Statement

Profit & Loss Statement, also known as 'Income Statement' shows the operational performance of an enterprise for a certain period of time (contrary to balance sheet which refers to the status at a point in time).

Balance sheet as on 31.03.2021
Profit & Loss account for the year starting from 01.04.2020 to 31.03.2021

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Cash Flow Statement

- A cash flow statement is the financial statement that provides information on cash sources and uses from i. Operational activities, ii. Investment activities & iii. Financing activities, is the net cash flow of an enterprise for a specific period.
- Cash flow statement contains all the receipts and payments of cash and cash equivalent of an enterprise and the net cash receipt during an accounting period. It reveals whether net cash flow is increasing or decreasing.
- The net cash flow data is very useful in understanding liquidity position of a company and help eliminate any possible misperception stemming from profit data.

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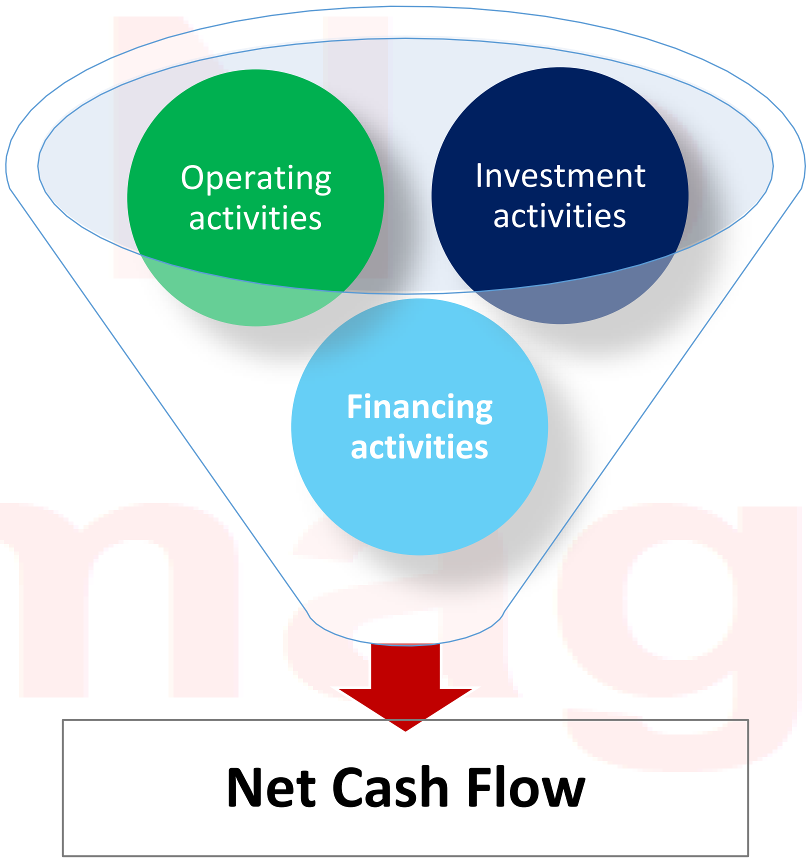
Cash flows from i. Operational activities, ii. Investment activities & iii. Financing activities



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Use of Cash Flow Statement for Startups

- Money gets used up in assets, dividend, investment, and accounts receivables, some of which becomes sticky and illiquid.
- Cash flow shows how liquid the business is and projected cash flow reveals if the company is likely to fall short of cash to make essential payments in the future.
- If cash shortage is imminent, the founders can take preemptive action to arrange fund.

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- **The fundamental and critical question to answer is how much money it will take to get the venture started.**
- **Let us take a very simplistic example. Let's start from setting up a new firm: a retail store.**
- **Financial statements for any company engaged in retail business are simpler compared to those of a manufacturing company. So, let us start with a retail store.**
- **Let us start something with which you all may connect very easily. Suppose you are starting a stationery shop at your hostel.**

- **Let us see what all you need to start the business and estimate the requirement of fund:**
- **Counter : ₹ 500**
- **Rack : ₹ 600**
- **Chair : ₹ 400**
- **Subtotal ₹ 1,500**
- **Purchase materials i.e. stationery items (pens, notebooks, files/folders, pencils, and the like): ₹ 5,000**
- **Suppose that you want to keep some small change (cash): ₹500**
- **Subtotal: ₹ 5,500**
- **Total : ₹ 7,000**

Your Business Has Two Kinds of Assets

Long-term or Fixed assets

Counter : ₹ 500
Rack : ₹ 600
Chair : ₹ 400
Subtotal ₹ 1,500

Short-term or Current assets

pens, notebooks, files/folders, pencils, and the like): ₹ 5,000
And some cash: ₹ 500

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Fixed Assets or Long-Term Assets

- All the above are assets of your business.
- Give a sharp look at the items in the first part and try to understand that these items are not for sale. You need them to facilitate your business. At some point of time you may like to replace them and sell them as used machine. But that is not part of the business.
- These assets are called "Long-Term Assets" or "Fixed Assets". They contribute to your business but they remain with you for a long time.

Short-Term Assets or Current Assets

Contrary to 'Fixed Assets' the raw-materials or the stationery items are meant for selling and they are meant to be with your business for shortest possible time so that you can convert them into revenue (sales) and make profit. These are "Short-Term Assets" or "Current Assets".

Arranging the Money

- How do you propose to fund purchase of these fixed and current assets?
- Suppose you have ₹ 3,000 with you. So, there is a shortfall of ₹ 4,000. Suppose you could borrow the remaining amount of ₹ 4,000 from your friend Rohit. So, your budgeted project outlay is fully tied up (your project reached financial closure).
- Let us now prepare the balance sheet.

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Balance sheet as on 31.03.2020	
Assets	₹
Current assets/ Short-term assets	
Cash	500
Accounts receivable	0
Inventory	5,000
Fixed assets/ Long-term assets	
Furniture/Fixture	1,500
Total of Assets:	**7,000**
Liabilities	
Current liabilities/ Short-term liabilities	
Accounts payable	0
Short-term Bank loan	0
Long-term liabilities	0
Long-term Bank loan	0
Other loan	4,000
Owners' equity:	3,000
Total of Liabilities and owners' equity	**7,000**

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You have now started the business on 1st of April 2020.

- Soon you realise that there is good demand and that you have your own engagements. So, you decide to hire an employee, say, with monthly salary of ₹ 5,000
- Now you need a billing machine to keep track of inventory and sales.

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Balance sheet as on 31.03.2020

Assets	₹
Current assets/ Short-term assets	
Cash	500
Accounts receivable	0
Inventory	5,000
Fixed assets/ Long-term assets	
Furniture/Fixture	1,500
Total of Assets:	**7,000**
Liabilities	
Current liabilities/ Short-term liabilities	
Accounts payable	0
Short-term Bank loan	0
Long-term liabilities	0
Long-term Bank loan	0
Other loan	4,000
Owners' equity:	3,000
Total of Liabilities and owners' equity	**7,000**

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Following are the transactions during the year 2020-21 (from 01.04.2020 to 31.03.2021)

Sales	5,00,000		
Purchase of materials	2,50,000	Depreciation	
Salary	60,000	Furnit	1500
Rent	12,000	Depreciation@10%	150
Closing stock	10,000	Book Value	1350
Transportation	5,000		
Telephone	3,000	Billing m/c	10000
Electricity	6,000	Depreciation @10%	1000
Trade license	5,000	Book Value	9000
Depreciation	1,150		
Closing cash in hand	?	Total deprn.	1150
Accounts payable	12,000		
Accounts receivable	15,000		
Gross profit			
Opening inventory	5,000		

- Gross profit = Sales – Cost of goods sold
- Operating profit = Gross profit – Operating expenses
- Profit Before Tax (PBT) = Operating profit – Interest expenses
- Net profit = Profit before tax – Income tax
- Retained profit = Net profit – dividend
- EBITDA = Earnings (profit) before Interest, tax, depreciation & amortization.

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Profit Margin is percentage profit with respect to sales

$$Gross\ Profit\ Margin = \frac{Gross\ profit}{Sales} x100$$

$$Operating\ Profit\ Margin = \frac{Operating\ profit}{Sales} X100$$

$$Net\ Profit\ Margin = \frac{Net\ profit}{Sales} X100$$

$$EBITDA\ Margin = \frac{EBITDA}{Sales} X100$$

Notice that the denominator is always ‘sales’.

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Why different types of profits??

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Why to Estimate Different Profits

- Each type of profit helps to make an apple-to-apple comparison.
- Some company may be efficient in managing the process better than others. Some may be efficient in managing the operating expenses.
- EBITDA helps to compare companies by eliminating the differences of depreciation, interest and tax.
- Some company's capital structure may have a high debt. So, even if they are more efficient in managing process and operation, may perform poorly on the PBT.
- You want to know the cause of certain performance.

	All figures are in Rupees billion					
	19-20	18-19	19-20	18-19	19-20	18-19
	Mahindra & Mahindra		Tata Motors		Maruti Suzuki	
Net Sales	951	1047	2610	3019	756	860
Operating Profit	136	162	209	276	106	135
Operating profit margin %	**14.30**	**15.47**	**8.01**	**9.14**	**14.02**	**15.70**
Interest	60.65	50.21	72	57	1	0.1
Interest % to OP	**44.60**	**30.99**	**34.45**	**20.65**	**0.94**	**0.07**
PBDT	75	112	137	218	105	134
Profit Before Tax	6	75	-105	-313	69	104
Provision for Tax	19	28	3	-24	14	29
Profit After Tax	-13	46	-109	-289	55	74
Net profit margin	-0.01	0.04	-0.04	-0.10	0.07	0.09
Share price ₹	**615**		**148**		**7128**	

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Why to Estimate Different Profits

- **Gross profit reflects efficiency of converting inputs into sales. If one company's gross profit margin (percentage) is more than others in the same industry, it is because one or more of the followings:**
  - **More efficiently converts raw-materials into finished goods.**
  - **More energy-efficient process.**
  - ***Sells at higher price than competitors.***
  - ***Bargaining power in buying inputs.***
  - ***Use more efficient manufacturing process than others.***
- **In short, they are more efficient and likely to be more profitable than competitors**

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Operating Profit Margin is Combination of Processing and Operational efficiency.
However, it does not take into account the differentiation caused due to cost of financing across companies.
PBT margin takes into account the finance costs.
Net profit margin takes into account the income tax management.

You prepare balance sheet at this point of time, i.e. as on a particular date: here, as on 31.03.2020

You prepare Profit & Loss Account for this entire period, i.e. from 01st April 2020 to 31st March 2021

You prepare balance sheet at this point of time, i.e. as on a particular date: here, as on 31.03.2021

Year 2019-20

Year 2020-21

Year 2021-22

PURCHASE DURING THE YEAR

Closing stock

Opening stock

You purchase a lot of stocks and sell a lot of them during the year. But some stocks remain unsold, they are the closing stock

Closing stock

Opening stock

Closing stock: ₹5,000
Year 2019-20

Opening stock: ₹5,000
Year 2020-21

Closing stock: ₹10,000
Year 2020-21

Opening stock: ₹10,000
Year 2021-22

Closing stock is the stock or inventory that remains unsold as at the close of business of any particular year. You begin the business in the next year with the closing stock of the previous year. Therefore, the closing stock of the previous year becomes the opening stock of the next year.

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Cost of goods sold	
Opening stock of materials	5,000
Purchase	2,50,000
Closing stock of materials	10,000
Cost of goods sold	**2,45,000**

Opening stock data is obtained from previous year balance sheet. It is the closing stock of previous year.

Cost of goods sold = Opening inventory + Purchase during the year – Closing Inventory

Cost of Goods Sold	
Opening stock of materials	5,000
Purchase	2,50,000
Closing stock of materials	10,000
Cost of Goods Sold	**2,45,000**

Opening stock data is obtained from previous year balance sheet. It is the closing stock of previous year.

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For the purpose of estimating 'Materials consumed' to derive 'Gross Profit' previous year's 'Closing stock' is current year's 'Opening stock'.

Year 2019-20	Year 2020-21			Year 2021-22
As on 31.03.2020	As on 01.04.2020	Purchase during the year ₹2,50,000	As on 31.03.2021	As on 01.04.2021
Closing stock: ₹5,000	Opening stock: ₹5,000		Closing stock: ₹10,000	Opening stock: ₹10,000

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Sales	**5,00,000**
Gross profit	
Opening stock of materials	5,000
Purchase	(+) 2,50,000
Closing stock of materials	(–) 10,000
Cost of goods sold (CoGS)	**2,45,000**
Gross profit = (sales - CoGS)	2,55,000

Opening stock data is obtained from previous year balance sheet. It is the closing stock of previous year.

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Depreciation

- Depreciation is an accounting method of gradual apportioning of the cost incurred to acquire a tangible asset as expense over its useful life.
- Businesses depreciate long-term assets differently for two different accounting purposes: i. for tax and ii. for reporting to stakeholders.

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Depreciation is the process of charging the loss of value of capital assets in Profit & Loss A/C

- Through depreciation, the procurement costs of capital assets are gradually charged in the profit & loss account.
- The other alternative is to charge the entire cost of acquisition as expense in the year the expenditure is incurred.
- But that would cause great volatility in the bottom-line (profit), which is not desirable.

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Depreciation	
Furniture	1500
Depreciation @10%	150
Book value net of depreciation	1350
Billing m/c	10000
Depreciation @10%	1000
Book value net of depreciation	9000
Total depreciation	**1150**

Depreciation is gradual apportioning of the cost of a tangible asset over its useful life span. Businesses depreciate long-term assets mostly differently for accounting and tax purposes.

Detailed discussion on methods of depreciation and their significance would be made later

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Following are the transactions during the year 2020-21 (from 01.04.2020 to 31.03.2021)

Sales	5,00,000
Purchase of materials	2,50,000
Salary	60,000
Rent	12,000
Closing stock	10,000
Transportation	5,000
Telephone	3,000
Electricity	6,000
Trade license	5,000
Depreciation	1,150
Closing cash in hand	?
Accounts payable	12,000
Accounts receivable	15,000

Depreciation	
Furnit	1500
Depreciation@10%	150
Book Value	1350
Billing m/c	10000
Depreciation @10%	1000
Book Value	9000
Total deprn.	1150

Let us estimate the operating expenses for the year 2020-21 (i.e. the year starting on 01.04.2020 and ending on 31.03.2021)

Salary	60,000	Furnit	1500
Rent	12,000	Depreciation@10%	150
Transportation	5,000		
Telephone expenses	3,000	Billing m/c	10000
Electricity	6,000	Depreciation @10%	1000
Trade license	5,000	Book Value	9000
Depreciation	1,150		
Operating expenses	92,150	Total deprn.	1150

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Gross profit margin %	51
Operating expenses	92,150
Operating profit	1,62,850
Interest	40
Profit before tax	1,62,810
Income tax @20%	32,562
Net profit	1,30,248

Note that the profit of proprietorship firm is clubbed with personal income of the proprietor. All income tax benefits of personal income is available. We have considered 30% only for demonstration. The Current rate is about 22%

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Net profit	1,30,248			
Suppose you pay yourselves some dividend	50,000			
Retained profit / earnings	80,248			
This amount belongs to the owners.				
Therefore, it is added to owners' equity in the form of				
Retained Profit or Reserves & Surplus				

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Balance sheet as on 31.03.2019

Assets	₹
Current assets/ Short-term assets	
Cash	61,898
Accounts receivable	15,000
Inventory	10,000
Fixed assets/ Long-term assets	
Furniture/Fixture	1,350
Machinery	9,000
Total of Assets:	**97,248**

Assets portion of the balance sheet

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Liabilities	₹
Current liabilities/ Short-term liabilities	
Accounts payable	12,000
Short-term Bank loan	0
Long-term liabilities	
Long-term Bank loan	0
Other loan Loan from your friend, Rohit	2,000
Owners' equity:	
Equity capital	3,000
Retained profit/earnings	80,248
Total of Liabilities and owners' equity	97,248

Liabilities portion of the balance sheet

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Balance sheet as on 31.03.2019

Assets	₹
Current assets/ Short-term assets	
Cash	61,898
Accounts receivable	15,000
Inventory	10,000
Fixed assets/ Long-term assets	
Furniture/Fixture	1,350
Machinery	9,000
Total of Assets:	97,248
Liabilities	
Current liabilities/ Short-term liabilities	
Accounts payable	12,000
Short-term Bank loan	0
Long-term liabilities	
Long-term Bank loan	0
Other loan	2,000
Owners' equity:	
Equity capital	3,000
Retained profit/earnings	80,248
Total of Liabilities and owners' equity	97,248

Complete balance sheet
As on 31.03.2018

The total assets and the total liabilities must be the same

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Statement of Profit and Loss

For the year ended 31st March, 2020

Reliance Industries Ltd

(₹ in crore)

	Notes	2019-20	2018-19
INCOME			
Value of Sales		5,91,778	5,85,540
Income from Services		67,427	39,672
Value of Sales & Services (Revenue)		**6,59,205**	**6,25,212**
Less: GST Recovered		47,560	42,118
REVENUE FROM OPERATIONS	23	**6,11,645**	**5,83,094**
Other Income	24	13,956	8,386
Total Income		**6,25,601**	**5,91,480**
EXPENSES			
Cost of Materials Consumed		2,60,621	2,75,237
Purchase of Stock-in-Trade		1,49,667	1,23,930
Changes in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade	25	(5,048)	(4,680)
Excise Duty		14,902	13,885
Employee Benefits Expense	26	14,075	12,488
Finance Costs	27	22,027	16,495
Depreciation / Amortisation and Depletion Expense	1	22,203	20,934
Other Expenses	28	89,211	78,067
Total Expenses		**5,67,658**	**5,36,356**
PROFIT BEFORE SHARE OF PROFIT / (LOSS) OF ASSOCIATES AND JOINT VENTURES, EXCEPTIONAL ITEM AND TAX		**57,943**	**55,124**
Share of Profit / (Loss) of Associates and Joint Ventures		**107**	**103**
PROFIT BEFORE EXCEPTIONAL ITEM AND TAX		**58,050**	**55,227**
Exceptional Item (Net of Tax)	28.2	(4,444)	-
PROFIT BEFORE TAX *		**53,606**	**55,227**
TAX EXPENSES *			
Current Tax	12	8,630	11,683
Deferred Tax	12	5,096	3,707
PROFIT FOR THE YEAR		**39,880**	**39,837**
OTHER COMPREHENSIVE INCOME:			
i. Items that will not be reclassified to Profit or Loss	24.1	22,286	77,470
ii Income Tax relating to items that will not be reclassified to Profit or Loss		(1,088)	(16,705)
iii. Items that will be reclassified to Profit or Loss	24.2	(7,085)	(2,177)
iv. Income Tax relating to items that will be reclassified to Profit or Loss		1,180	177
Total Other Comprehensive Income for the Year [Net of Tax]		**15,293**	**58,765**
Total Comprehensive Income for the Year		**55,173**	**98,602**
NET PROFIT ATTRIBUTABLE TO:			
a) Owners of the Company		39,354	39,588
b) Non-Controlling Interest		526	249
OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
a) Owners of the Company		15,311	58,773
b) Non-Controlling Interest		(18)	(8)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
a) Owners of the Company		54,665	98,361
b) Non-Controlling Interest		508	241
EARNINGS PER EQUITY SHARE OF FACE VALUE OF ₹ 10 EACH			
Basic (in ₹) – Before Exceptional Item	29	70.66	66.82
Basic (in ₹) – After Exceptional Item	29	63.49	66.82
Diluted (in ₹) – Before Exceptional Item	29	70.66	66.80
Diluted (in ₹) – After Exceptional Item	29	63.49	66.80
Significant Accounting Policies			
See accompanying Notes to the Financial Statements	1 to 42		

* Profit before tax is after Exceptional Item and tax thereon and Tax Expenses are excluding the Current Tax on Exceptional Item.

Balance Sheet

As at 31st March, 2020

Reliance Industries Ltd

(₹ in crore)

	Notes	As at 31st March, 2020	As at 31st March, 2019
ASSETS			
NON-CURRENT ASSETS			
Property, Plant and Equipment	1	4,35,920	3,02,115
Capital Work-in-Progress	1	59,096	1,50,178
Goodwill		10,259	11,997
Other Intangible Assets	1	86,479	84,262
Intangible Assets Under Development	1	50,010	29,285
Financial Assets			
Investments	2	2,03,852	1,64,612
Loans	3	21,732	5,452
Deferred Tax Assets (Net)	4	2,900	4,776
Other Non-Current Assets	5	37,407	17,676
Total Non-Current Assets		**9,07,655**	**7,70,353**
CURRENT ASSETS			
Inventories	6	73,903	67,561
Financial Assets			
Investments	7	72,915	71,023
Trade Receivables	8	19,656	30,089
Cash and Cash Equivalents	9	30,920	11,081
Loans		669	545
Other Financial Assets	10	27,434	10,283
Other Current Assets	11	32,763	36,804
Total Current Assets		**2,58,260**	**2,27,386**
Assets Held for Sale	39	-	**4,667**
Total Assets		**11,65,915**	**10,02,406**
EQUITY AND LIABILITIES			
EQUITY			
Equity Share Capital	13	6,339	5,926
Other Equity	14	4,46,992	3,81,186
Non-Controlling Interest		8,016	8,280
LIABILITIES			
Non-Current Liabilities			
Financial Liabilities			
Borrowings	15	1,97,631	2,07,506
Other Financial Liabilities	16	18,804	10,020
Deferred Payment Liabilities	17	18,839	18,839
Provisions	18	1,790	2,856
Deferred Tax Liabilities (Net)	4	54,123	49,923
Other Non-Current Liabilities		465	548
Total Non-Current Liabilities		**2,91,652**	**2,89,692**
Current Liabilities			
Financial Liabilities			
Borrowings	19	93,786	64,436
Trade Payables		96,799	1,08,309
Other Financial Liabilities	20	1,44,778	87,051
Other Current Liabilities	21	75,663	52,901
Provisions	22	1,890	1,326
Total Current Liabilities		**4,12,916**	**3,14,023**
Liabilities directly associated with Assets Held for Sale	39	-	3,299
Total Liabilities		**7,04,568**	**6,07,014**
Total Equity and Liabilities		**11,65,915**	**10,02,406**
Significant Accounting Policies			
See accompanying Notes to the Financial Statements	1 to 42		

Cash Flow Statement

- Cash flow statement is a summary of a company's cash inflows and outflows during a certain period of time.
- All cash flow items are grouped into three categories based on their origins: i. Operating activities, ii. Investment activities, and iii. Financing activities.
- Bankers and analysts are interested in all categories in order to understand if all three heads are in good shape.
- Founders are particularly interested in meeting cash requirements for all the three activities and the overall ending cash balance.

Cash Flow Statement

For the year ended 31st March, 2020

Reliance Industries Ltd

(₹ in crore)

	2019-20	2018-19
A. CASH FLOW FROM OPERATING ACTIVITIES		
NET PROFIT BEFORE TAX AS PER STATEMENT OF PROFIT AND LOSS (AFTER EXCEPTIONAL ITEM AND TAX THEREON)	53,606	55,227
Adjusted for:		
Share of (Profit) / Loss of Associates and Joint Ventures		
Loss on Buy back of Debentures		
(Profit) / Loss on Sale / Discard of Property, Plant and Equipment and Other Intangible Ass		
Depreciation / Amortisation and Depletion Expense		
Effect of Exchange Rate Change		
(Profit) / Loss on Divestment of Stake		
Net Gain on Financial Assets#		
Tax on Exceptional Item		
Dividend Income#		
Interest Income#		
Finance Costs#		
Operating Profit before Working Capital Changes		
Adjusted for:		
Trade and Other Receivables		
Inventories		
Trade and Other Payables		
Cash Generated from Operations		
Taxes Paid (Net)		
Net Cash Flow from Operating Activities*		
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Property, Plant and Equipment and Other Intangible Assets		
Proceeds from disposal of Property, Plant and Equipment and Other Intangible Assets		
Purchase of Other Investments		
Proceeds from Sale of Financial Assets (including Advance Received)	11,73,330	11,03,615
Upfront Fibre Payment	(16,439)	-
Net Cash Flow for Other Financial Assets	650	(1,960)
Interest Income	1,477	972
Dividend Income from Associates	18	3
Dividend Income from Others	70	498
Net Cash Flow used in Investing Activities	**(75,717)**	**(95,128)**

(₹ in crore)

	2019-20	2018-19
C. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Issue of Equity Share Capital	18	117
Proceeds from Issue of Share Capital to Non-Controlling Interest / Compulsory Convertible Debentures	111	113
Share Application Money	1	2
Payment of Lease Liabilities	(1,062)	-
Proceeds from Borrowings – Non-Current	28,665	80,299
Repayment of Borrowings – Non-Current	(18,179)	(20,245)
Borrowings – Current (Net)	25,095	26,402
Deferred Payment Liabilities	(1,370)	(870)
Movement in Deposits	(2,720)	(2,292)
Dividend Paid (including Dividend Distribution Tax)	(4,592)	(4,282)
Interest Paid	(28,508)	(23,338)
Net Cash Flow (used in) / from Financing Activities	**(2,541)**	**55,906**
Net Increase in Cash and Cash Equivalents	**19,816**	**3,124**
Opening Balance of Cash and Cash Equivalents	11,081	7,336
Add: Upon addition of Subsidiaries	23	621
Closing Balance of Cash and Cash Equivalents (Refer Note 9)	**30,920**	**11,081**

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For additional reading please visit the site of Ministry of Corporate Affair at http://www.mca.gov.in/Ministry/notification/pdf/AS_3.pdf

- **Cash equivalents are short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.**
- **For an investment to qualify as a cash equivalent, it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition.**

Indirect Method: Cash Flow from Operational Activities

Total cash flow from operating activities =

+ Net profit (known as Net Income in USA)

+ Depreciation (This was deducted as expense. But no cash went out)

+ Losses from sale of fixed assets, if any.

— Gains from sale of fixed assets, if any.

(Note that sales value of fixed assets will be included in in cash flow from investment activity)

— Increase in current assets.

+ Decrease in current assets.

+ Increase in current liabilities

— Decrease in current liabilities

Cash Flow from Investment Activities

+ Capital expenditure
+ Investment

No Image

Cash Flow from Financing Activities

+ Net borrowing.

— Net investment in equity or debt.

— Dividend paid

+ Fresh equity induction.

No Image

Cash Flow from Operating Activities		
A. Net profit	1,13,995	
B. Plus Depreciation	1,150	
C. Minus increase in current assets	20,000	
D. Plus increase in current liabilities	12,000	
E. Cash Flow from Operating Activities	**1,07,145**	**= A + B – C + D**
F. Cash flow from investment activities		
G. Purchase of new fixed assets	10,000	
H. Cash flow from Financing activities		
I. Decrease in loan	2,000	You have repaid ₹2,000 to Jack out of his loan of ₹ 4,000 during the year
J. Divident payment	50,000	
K. Net Cash flow	**45,145**	**= E – F – H**
L. Add previous cash balance	500	
M. Net cash balance as at the end of the	**45,645**	**= K + L**

- Estimate Net Profit
- Adjust for non-cash gains (add) and losses (subtract)
- Estimate net cash inflow and outflow out of changes in current assets and liabilities
- Add/subtract the above three to get cash flow from operating activities
- Cash flow from Investment activities:

  Changes in fixed assets/ investment
- Cash flow from financing activities: Changes in long-term liabilities and equity
- Add up cash inflows/subtract outflows from three activities
- Add the closing cash balance of the previous year (with signs)
- **Cash balance as at the end of the year**

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- https://www.caclubindia.comText 1
- http://www.mca.gov.in/MinistryV2/accountingstandards1.html
- Horngren, C. T., Sundem, G. L., Elliott, J. A., & Philbrick, D. R. (2002). *Introduction to financial accounting* (Vol. 8). Prentice Hall.

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Understanding financial statements is easy.
Having an understanding of the financial statements is essential for everybody, no matter which profession one is in.

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- **Determination Is The Biggest Predictor Of Long-term Success**

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Thank you

Foundations of Entrepreneurship

Lean Startups - Value Proposition

Lecture Note # 13
04.02.2021

- Product adoption curve
- Crossing the chasm
- How change is accelerating.
- Traditional linear process and lean process of product development
- What is minimum viable product?
- How to make minimum viable product?
- Example of minimum viable product

Value Proposition

- **The 'value proposition' is a bundle of benefits that a venture offers to its customers for which they would prefer the product or service of a venture over those of the competitors.**

Adventuresome, usually highly educated, inquisitive, innovative mind, risk takers.

Leaders in respective segment, educated and knowledgeable, ok with risk.

Socially active, take calculated risk, need a lot of validation to trust a new product.

Look for validation and revalidation, concerned for value for money. Averse to new experiment.

Moore, G. A., & McKenna, R. (1999). Crossing the chasm.

Complacent, averse to try lesser known product, risk averse.

Innovator 2.5%

Early Adopters 13.5%

Early Majority 34%

Late Majority 34%

Laggards 16%

Product Adoption Curve

Types of consumers from new product adoption perspective

Geofrey Moore: Crossing the chasm.

Adventuresome, usually highly educated, inquisitive, innovative mind, risk takers.

Leaders in respective segment, educated and knowledgeable, ok with risk.

Socially active, take calculated risk, need a lot of validation to trust a new product.

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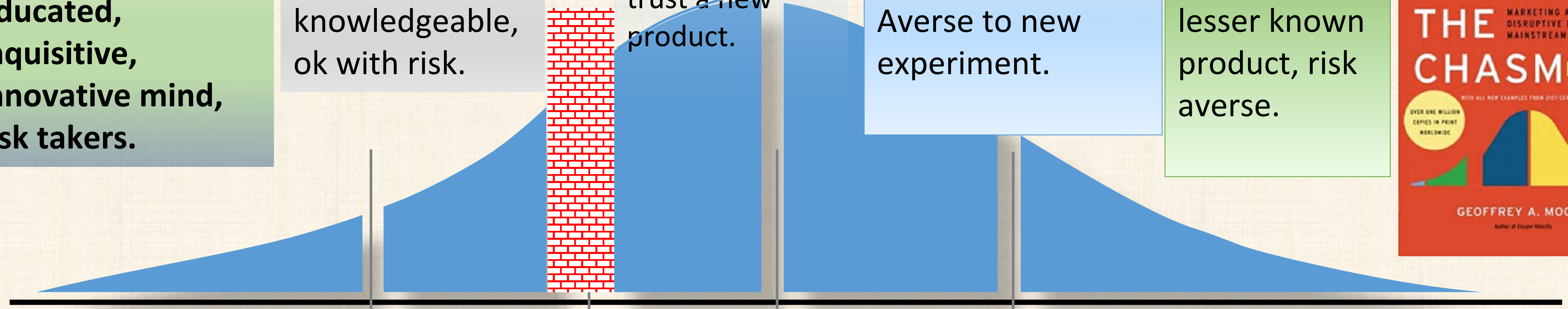

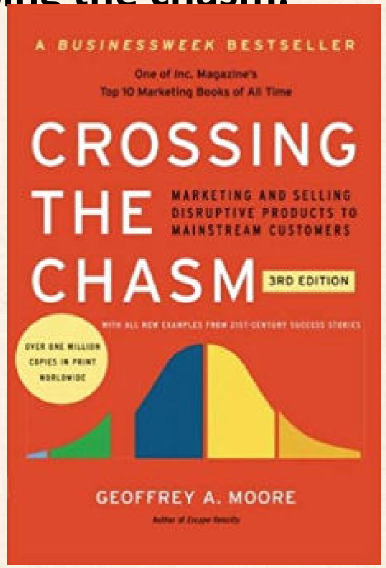

Innovator 2.5%

Early Adopters 13.5%

Early Majority 34%

Late Majority 34%

Laggards 16%

Product Adoption Curve

Types of consumers from new product adoption perspective

Crossing the Chasm

- Moore's concept is about diffusion of innovation and is essential element of tech entrepreneurship.
- Early adopters of a product are mostly technology enthusiasts and visionaries and the early majority are the pragmatists. The stimulation does not work for them. So, there exists a chasm.
- Visionaries and pragmatists have different expectations.
- Techniques to successfully cross the "chasm":
- Plan the growth much ahead, prepare to put in place the required infrastructure including manpower, deep understanding of the product concept, position, build marketing strategy, choose the most appropriate distribution channel and price attractively.

Things are changing too fast. Survival is getting more difficult by the day.

Change Itself Is Accelerating:

Trends Driving Market Turbulence

1) The dual transformation through digital disruption in retail.
2) The rising dominance of digital technology platforms continues to shift market value in a big way.
3) Disruptive change through business model innovation across industries. [Trivago, Ola, Byju's, Paytm]
4) Cleantech and the downward pressure on energy prices has created new winners and losers in some of the world's biggest industries.
5) The rapid explosion of private "decacorn" companies signals accelerating turbulence in the years ahead.

Changing Perspectives

Uncertainty

- Shareholders’ demanded incremental improvements
- Financial capital is dominant
- Innovation was steady
- Prices reflected costs
- Customers were loyal
- Investors and regulators ignored ethical standards

- Shareholders demand “best-in-class” performance
- Intellectual capital is dominant
- Innovation is rapid
- Globalization is driving prices down
- Customers are fickle
- Investors and regulators are demanding higher ethical standard

1960

2030

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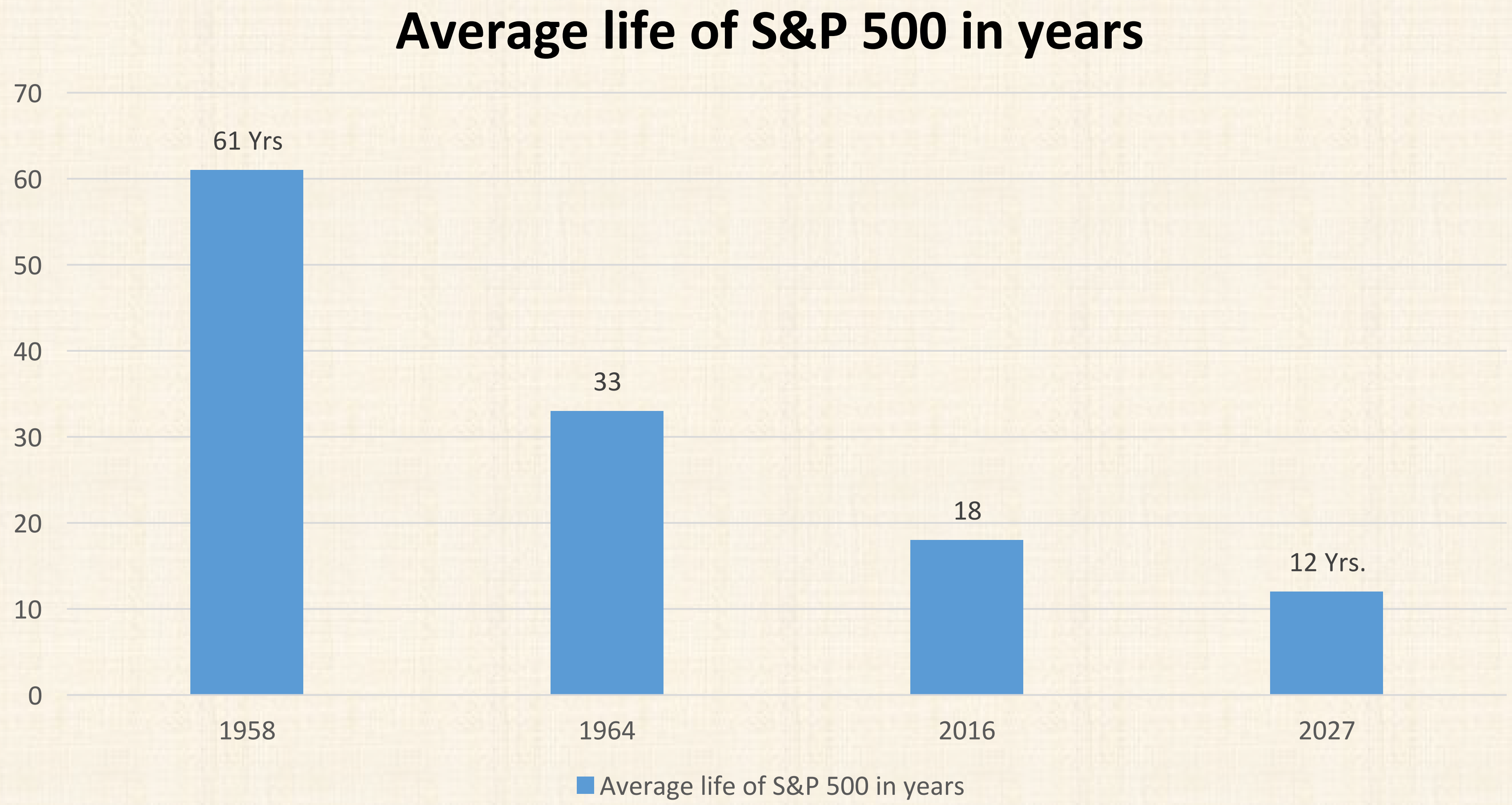
Life Span of S&P500 Companies Reduced from 61 Years in 1958 to just 18 Years in 2017

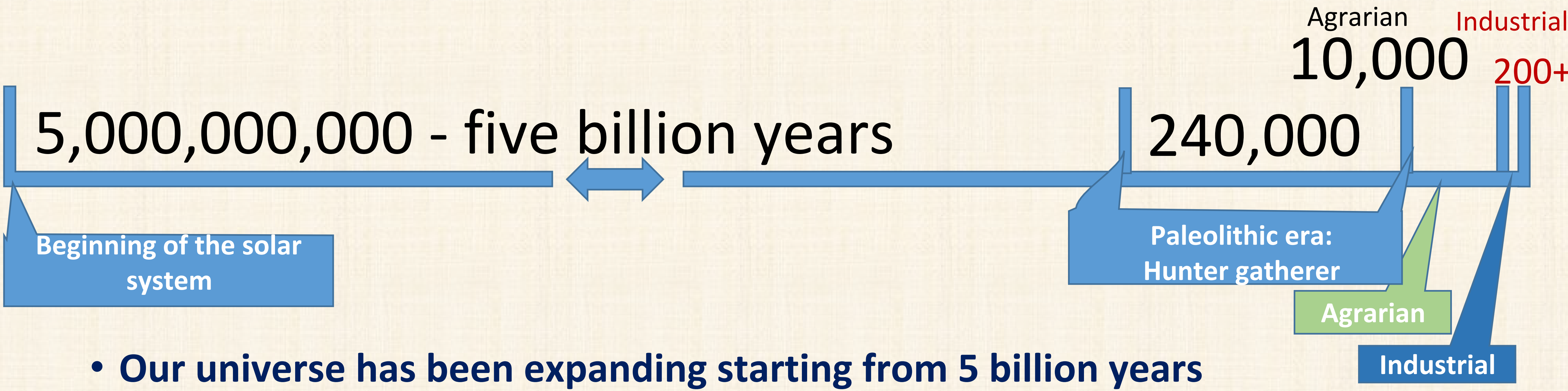


Over the past five years alone, the companies that have been displaced from the S&P list include many iconic corporations

Table 1: Sample Companies Exiting and Entering the S&P 500 (2013-2017)

EXITED THE S&P 500 (TENURE)	ENTERED THE S&P 500
Yahoo! (18 years)	Facebook
DuPont (50 years)	Incyte Corp
Urban Outfitters (7 years)	Foot Locker
Staples (19 years)	Regency Centers
Dun & Bradstreet (9 years)	Gartner Inc.
Starwood Hotels (16 years)	Hilton Worldwide
DirecTV (9 years)	Dish Network
Auto Nation (14 years)	Alliant Energy
Murphy Oil (12 years)	Under Armor
Transocean (4 years)	PayPal
Ryder Systems (35 years)	Activision Blizzard

https://www.innosight.com/insight/creative-destruction/



- **Our universe has been expanding starting from 5 billion years ago. And it has been expanding faster and faster ever since.**

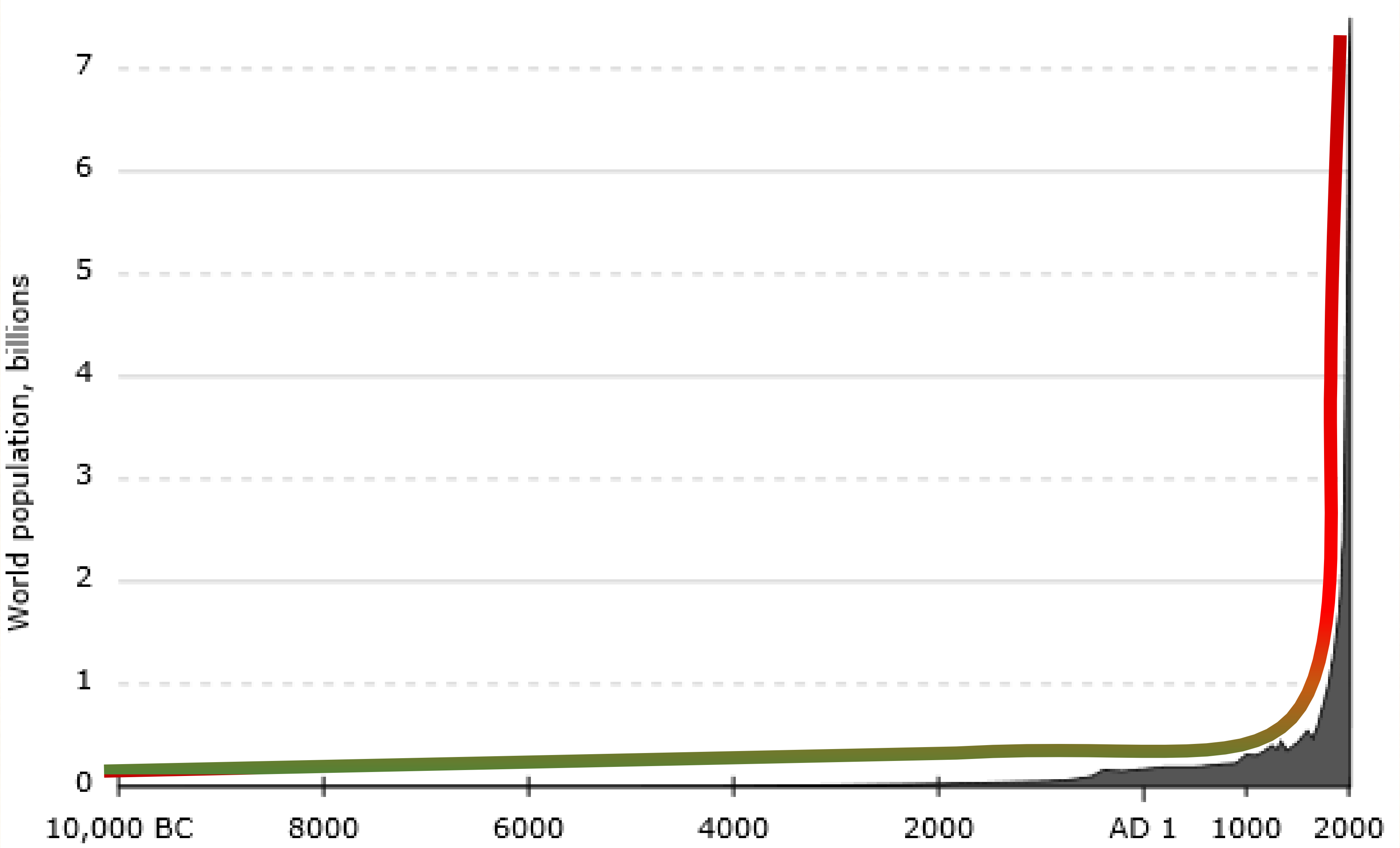
A different kind of acceleration has been happening here on earth. For humans, acceleration means that the rate and scale of cultural and technological changes have been increasing.

- Britain by the early 18th century came to possess the combination of social needs and social resources that provided the necessary preconditions of commercially successful innovation and a social system capable of sustaining and institutionalizing the processes of rapid technological change once they had started.
- **Steam engine - In** 1765 James Watt greatly improved the Newcomen engine by adding a separate condenser to avoid heating and cooling the cylinder with each stroke. But became mainstream technology in early 1800s. First cotton ginning machine emerged during 1760s.
- **Windmill** in early 1800s.
- **Benjamin Franklin of Pennsylvania, Alessandro Volta of the University of Pavia, Italy, and Michael Faraday of Britain 1810-20. But gained the present shape only at the turn of the century.**
- **Internal combustion engine:** German inventor Nikolaus Otto in 1878 improved the gas engine & it became a commercial success.
- **Electricity - G**erman inventor Nikolaus Otto in 1878 that the gas engine became a commercial success.
- Gottlieb Daimler and Carl Benz equipped the first motorcycle and the first motorcar respectively with engines of their own design in 1885. By the end of the 19th century, the internal-combustion engine was challenging the steam engine in many industrial and transport applications.
- **Electronics' history** began with the invention of vacuum diode by J.A. Fleming, in 1897
- The word *electronics* began to be used in the 1940s.
- The electronics industry was revolutionized by the inventions of the first transistor in 1948, the integrated circuit chip in 1959, and the silicon MOSFET (metal-oxide-semiconductor field-effect transistor) in 1959.

1990	World Wide Web
1991	First hydrogen fuel cell
1992	Digital cell phone
1995	DVDs
1997	Toyota hybrid car
1998	HD TV
2000	Nano-Textile fabrics
2001	Artificial heart & lever
2004	Facebook
2005	YouTube
2007	High efficiency in solar cells
2010	iPad

Autonomous vehicle, human traveling and settling down in other planets, **Hyperautomation, blockchain, AI security, distributed cloud and autonomous things drive disruption, scientists could augment the brain to increase memory storage, or implant a chip to decode neural patterns.** Exoskeletons may become a standard uniform for autoworkers, enabling them to lift superhuman weights. Doctors may implant sensors to track how drugs travel inside a body. Technology is now on the cusp of moving beyond augmentation that replaces a human capability and into augmentation that creates superhuman capabilities. .

World Population: Source - Wikipedia



- David Chrisman wrote in his book Maps of Time that it might not be an exaggeration to claim that "more change has occurred in the 20th century than in all earlier periods of human history."
- Do you think that the present century will achieve something similar? If yes, almost everything that you are part of today may not remain relevant at the turn of the century!
- Why this analogy is important? Because our traditional understanding of business and career may not hold for long and we should expect change to manifest faster. So, constantly update with new knowledge to remain relevant.

It is absolutely unaffordable to spend years in developing a product.

It would become obsolete or irrelevant by the time it is ready.

Quick validation, redesign and rebuilding based on learning is the answer.

Intugine - smart ring called Nimble. The company has now been revolutionizing the logistics sector of India, which is still at its nascent stage as compared to its foreign counterparts.

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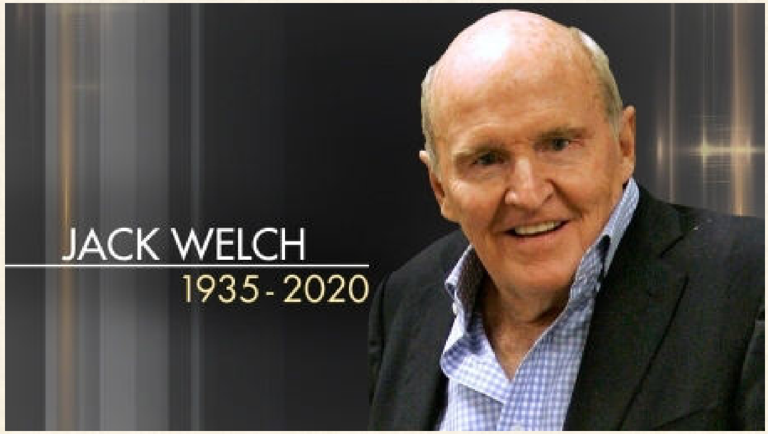
"If the rate of change on the outside exceeds the rate of the change on the inside, the end is near" – Jack Welch

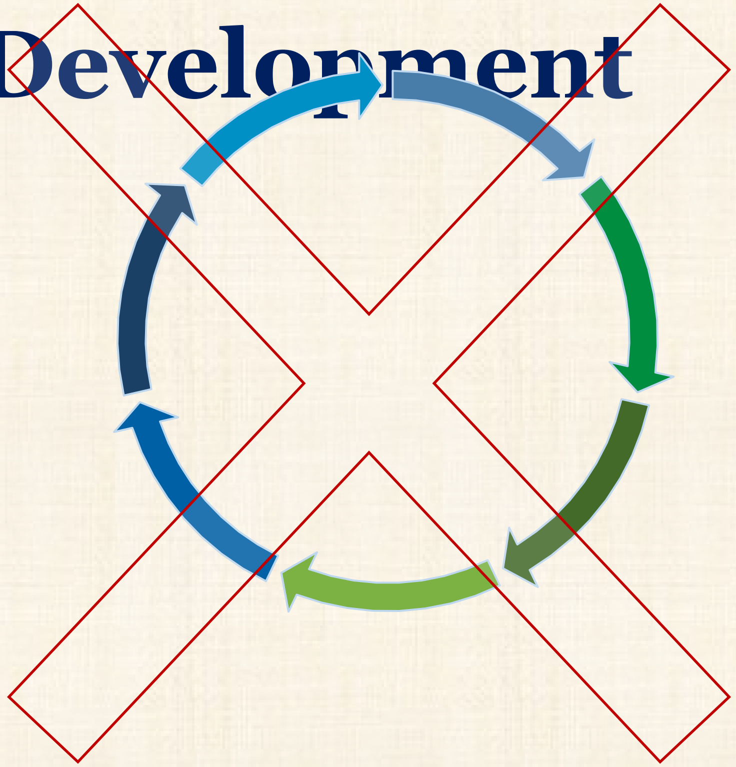


The quotation has been acquiring increasing significance with each passing day because of the continuing rapid pace of change in technologies.

Reducing product development lifecycle and ensuring that customers would buy what you produce is central to success.

Lean product development method that applies customer validation process at every stage of product development is an answer.

Waterfall Approach of Product Development



Requirements — Product requirement document

Design — Software architecture

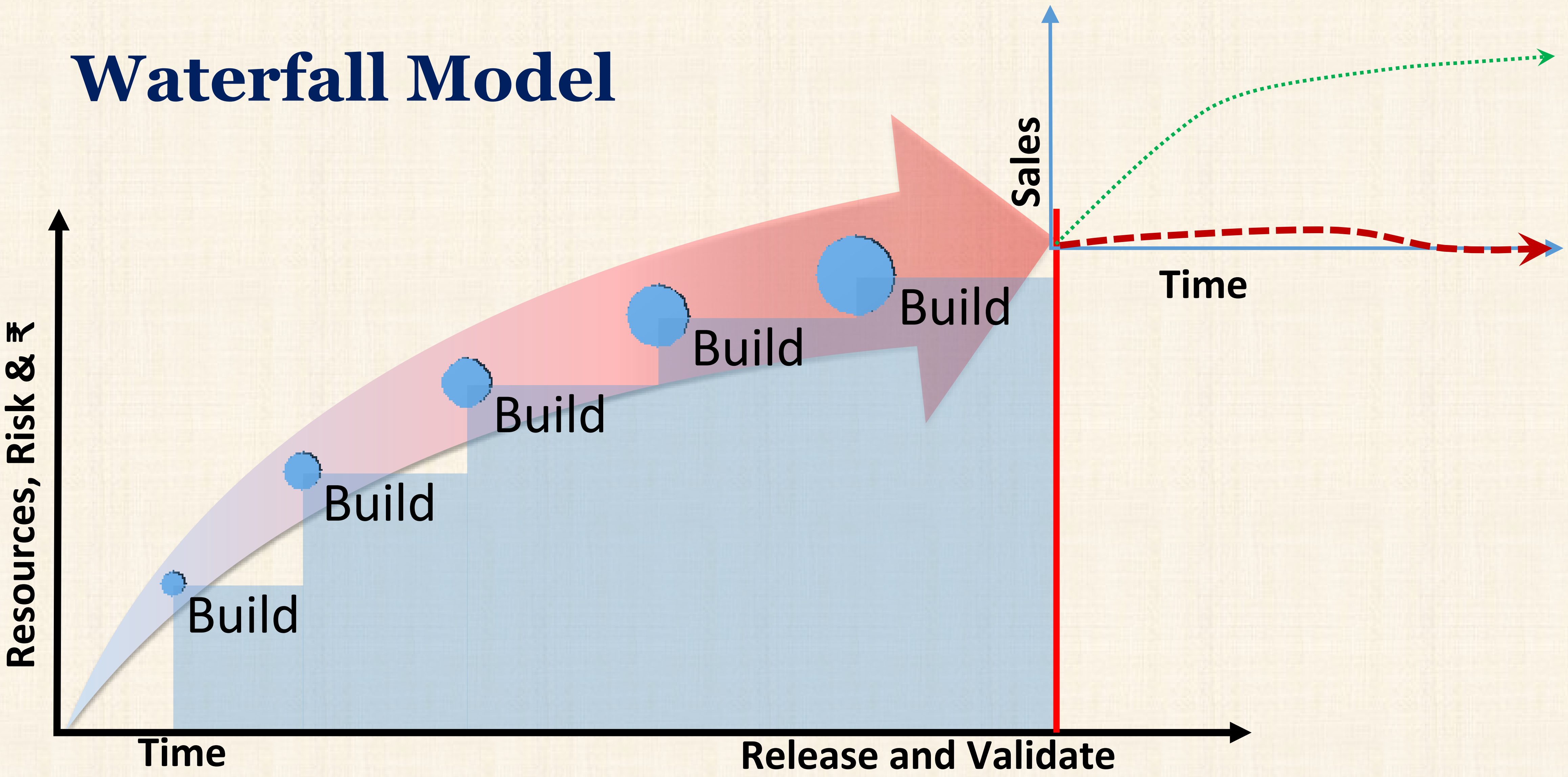
Implementation — Software

Verification

Maintenance

Linear Process

Waterfall Model



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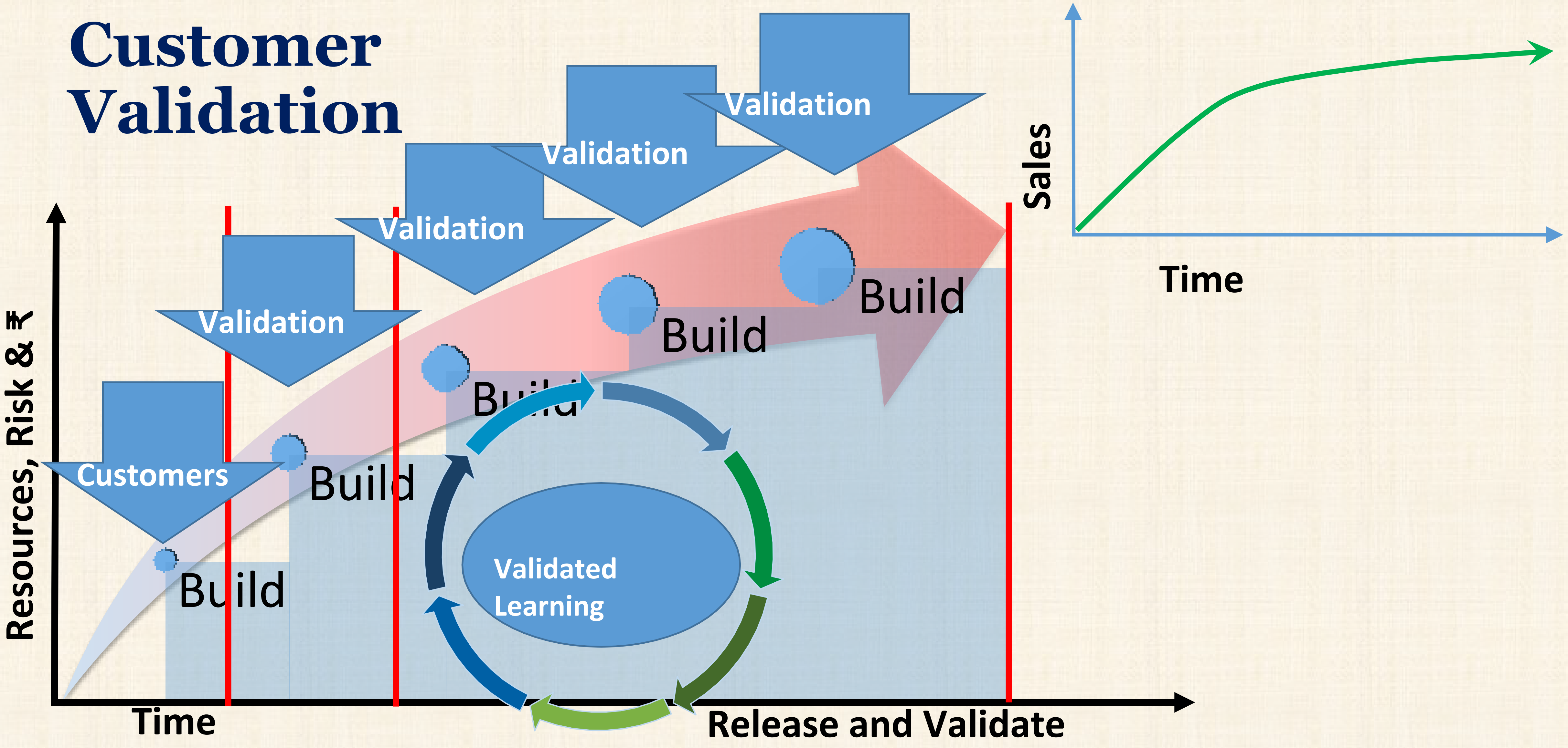
Customer Validation



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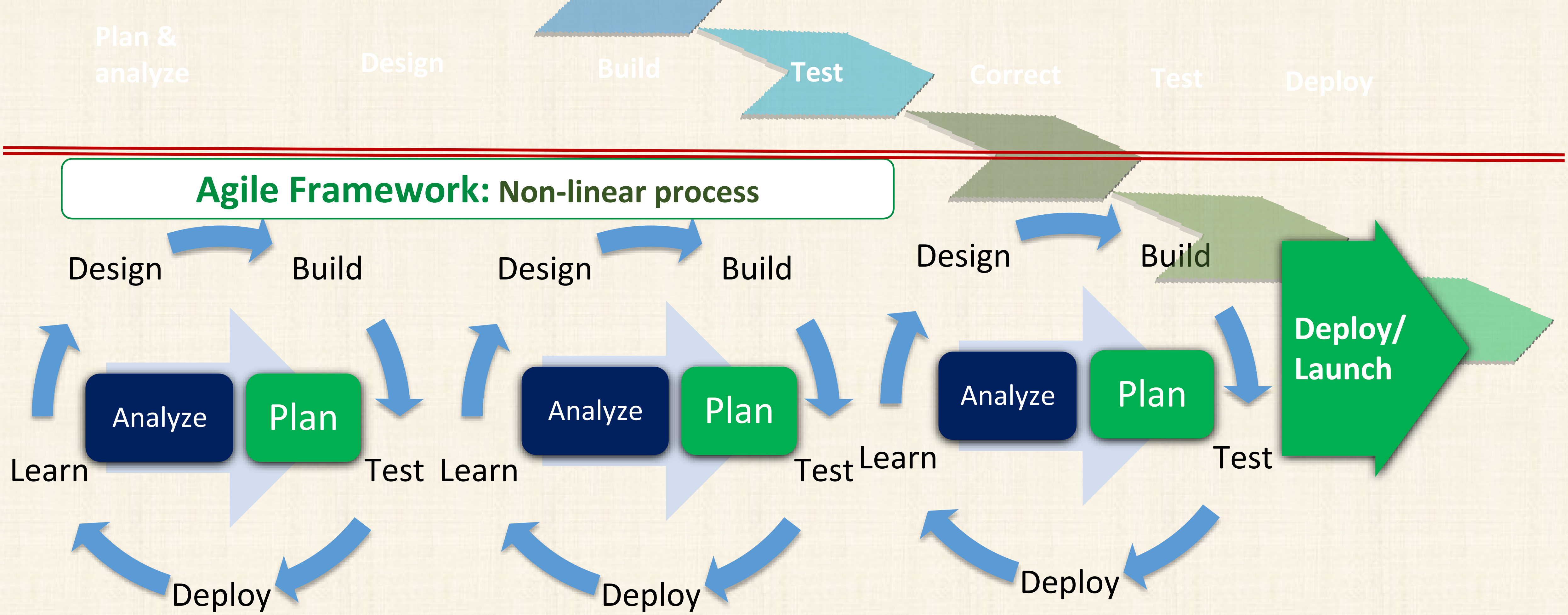
Waterfall Method: Linear process of product development

Agile Framework: Non-linear process



Agile System (build, measure, learn cycle)

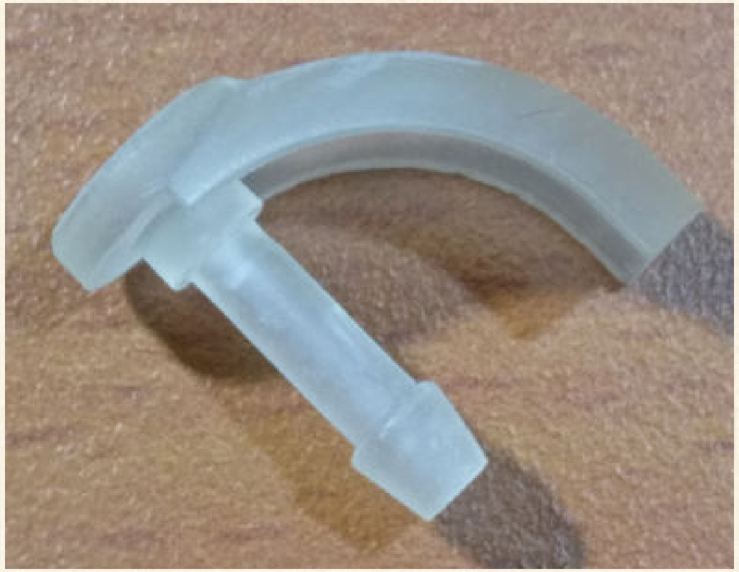
An enabling factor in an agile manufacturer is that it allows the marketers, the production personnel and the designers to share a common source of information so that any correction in product can originate from the design itself.

A small initial problems may have larger downstream effects. It is a general proposition of manufacturing that the cost of correcting quality issues increases as the problem moves downstream.

It is cheaper to correct quality problems at the earliest possible point in the process.

Lean Concept

- Define the problem as completely as possible.
- Build the MVP with the key features that define the value proposition or product differentiation.
- Eliminate all features that you think customers may not attribute value. Cut cost.
- Eliminate waste in all possible ways.
- Try charging the early customers. That is better validation and keep the cash flowing.



The Lean Start-up Process

- Identify a suitable business model around a compelling pain (people are crying for a better solution).
- Identify essential components for customer to appreciate.
- Build a Minimum Viable Product (MVP).
    - An (MVP) is a product with just enough features to give the customers the sense of value proposition. It helps early customers evaluate the core functionalities and to provide meaningful feedback for future product development.
- Validate your hypothesis and thus the business model.
- Use the data and learning to repeat the process.
- Add more features and reduce some and repeat the process.
- Optimize and avoid waste.
- Gather data, learn, refine

Lean and Agile

- Lean recommends elimination of waste of all kinds of resources and waste is defined as the use of that part of resources, which does not add incremental value to customers.
- Agile requires processes, tools and training so as to quickly and economically respond to customers' needs and market changes.
- Applying both Lean and Agile can ensure better success of business.

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Lean Startup

- **Eric Reis seems to have combined the idea of elimination of wastes in lean manufacturing with the validated learning of Agile method, and expounded the Lean startup process.**

How to Validate?

- Validation is assessing the possible product-market-fit through user testing.
- Validation is early test of your hypothesis.
- The process, when done early, helps to make faster, informed, and de-risked decisions.
- For validation of early prototype, develop Minimum Viable Product (MVP).

Creating the MVP

- Identify the most critical feature of your product or service that would help the customers make a decision about your value proposition.
- You need to understand the user stories – their pain point.
- Suppose you are planning to prepare contents for school kids that would engage them in hands-on learning. The user story is that "The school does not have the infrastructure to demonstrate practical experiments for wholesome understanding of many topics."
- Prepare one module and evaluate its power to engage kids by asking them to use it.

Hypothetical Example

- You prepare a few tools using which students can learn a small topic.
- Present it to a batch of students, check their response, and evaluate levels of learning (ease) and retention.
- Decide on further course of action based on the data.
- You can postpone the huge investment to create content and make informed decisions.

Example

After limited success in multiple startups, Nick Swinmurn wanted to start a business of online shoe selling. He was driven by his own frustration of not finding a suitable pair of shoes in couple of stores he visited.

People did not believe - customers would buy shoes without trial.

- But Nick believed that people do not see what he can see.
- His hypothesis was - people have limited choices when they visit a store.
- His 'leap of faith' was - given a chance to choose from thousands of designs, most people would not mind buying online.
- Instead of putting in place huge logistics, hiring people, buying huge number of shoes to display on his portal to start his business, Nick decided to pilot his idea through an MVP.
- And he had a unique plan.

Traditional Process of Product Development

- Epiphany, serendipity, eureka or just a problem.
- Identify product to be developed based on market survey.
- Frequently, the problem is faced by the entrepreneurs. Phanindra Sama of redBus. Burs to Velcro. Sticky notes.
- Ideation and idea screening based on technical feasibility and market potential. Only a few ideas would eventually emerge as a marketable product.

Traditional Process of Product Development … cont'd.

- Design & Develop, Test and refine.
- Check the design for manufacturability.
- Cost & demand analysis, pricing, Go-to-market strategy.
- Create awareness.
- Launch - manufacture, distribute through distributor network or sell online.
- Maintain or improve quality.

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The strategy is to understand the pain, the product/service, the competition, and to create value proposition by evolving solution that serves the customer better than that of the competitors.

The longer it takes for the product to reach to the customers the longer is the time to know whether the product is acceptable by the customers.

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The Lean Startup – by Eric Ries

- How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses

The Lean Startup – by Eric Ries

Define

01 **Lean thinking:** shrinking batch sizes, just-in-time inventory & production management, and acceleration of cycle times.

02 **Progress measure:** through validated learning.

03 **Productivity:** Make things that people like and pay profitable price and do it fast and economic way.

04 **Build-measure-learn feedback loop:** instead of building based on lot of assumptions, keep adjusting with a steering wheel called build-measure-learn. Through this process we can learn if and when to make a sharp turn – a pivot.

05 **Charge early** – a paying customer is a real validation of the hypothesis and it helps the most critical element: the cash flow.

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The Lean Startup – by Eric Ries

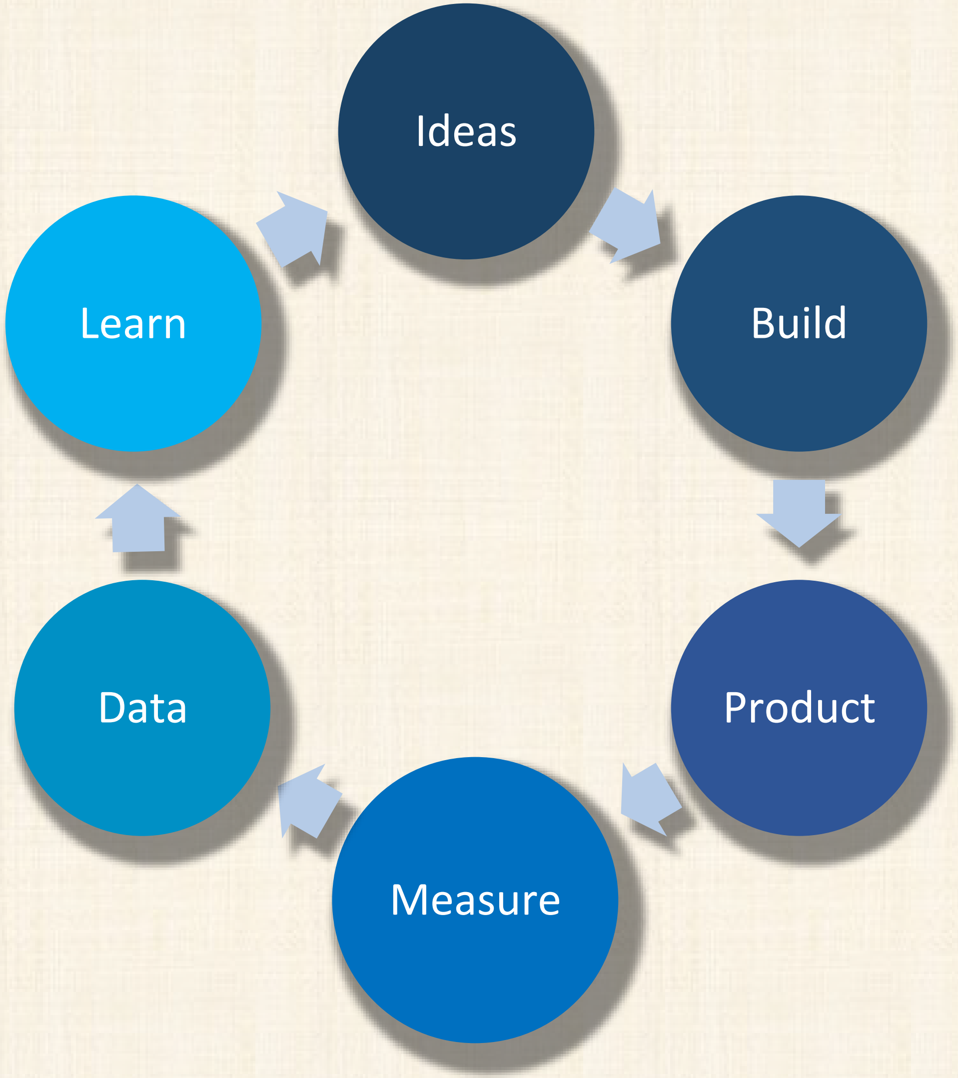
01 **Innovation factory:** Use lean startup technique and continuously create disruptive innovations.

02 **Culture and systems:** Empower people to think out of the box without risk and innovate at the speed of the experimentation system.

The Lean Startup – by Eric Ries

- Learn
- Experiment with two hypothesis
  - Value hypothesis
  - Growth hypothesis
- Leap-of-faith assumptions
- Steer
  - Minimizing the total time
  - Minimum Viable Product
  - Learning milestones

Ideas > build > product > measure > data > learn > ideas > and so on (circle)



The Lean Startup – by Eric Ries

- We must always ask: what if the user doesn’t care about the design in the same way we do?

The Lean Startup – by Eric Ries

- Pivot and Preserve
- Pivot – course correction based on learning. Pivot early if you have to. Vanity metrics prevent pivoting.
- Preserve resources
- Charge early

Useful Metrics

- **Actionable - when cause and effect is clearly understood.**
- **Accessible - Understandable and measurable.**
- **Auditable - meaningful to understand real performance, employees get insight of the output of their efforts.**

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- **The Lean Startup process is a way to test your hypothesis continuously, to adapt and adjust before it's too late.**
- **It is a scientific approach to creating and managing successful startups in an age when companies need to innovate too rapidly.**

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Long Before You Are Ready with a Product Ask These Questions

1. Are consumers crying for the solution you are trying to develop?
2. Would they prefer your solution over existing ones?
3. Would they buy at the price and through the channel you propose?
4. How prepared and capable are we to develop the solution and how soon can we do that?

Success is not developing a nice product even if it appears nice to the customers; success is developing something that customers buy.

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Lean and Agile Process

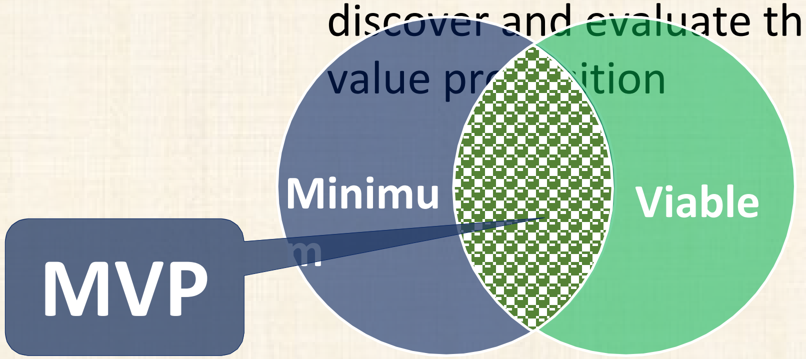
- Lean startup process derives the waste reduction ideology of the lean manufacturing and the validated learning process of Agile method.
- Lean manufacturing is about cutting wastage of all resources as far as possible and continuously creating better value for customers.
- In Agile process, execution moves forward with validated learning and handles uncertainty on the way.
- Agile is directly in contrast with the traditional linear models such as waterfall model.

Vision - as espoused by Eric

A startup is a human institution designed to create a new product or a service under conditions of extreme uncertainty. Success under such scenarios requires rapid experimentation. – Eric Ries writes in his book "The Lean Startup"

The stepping stone is the Minimum Viable Product (MVP).

Minimum + Viable
Product that help users discover and evaluate the value proposition



Eric Ries, defined an MVP as that version of a new product which allows a team to collect the maximum amount of validated learning about customers with the least effort.

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MVP

- A key premise behind the idea of MVP is that you produce a product with essential features, say a landing page with minimum features or a product with no aesthetics, that your customer can use and give you feedback.
- Sometimes, just seeing what people do with on a product is much more reliable than asking people what they would do.

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Align Pricing with Personas

- The MVP helps to understand the eventual cost of the product.
- Get a chance to understand affordability by target customers.
- Understand the price- competitiveness.

Learn

- Learning through failure is an integral part in a startup journey.
- However, validated learning can accelerate the process of product development and help achieve success with minimum resources.
- The goal is to quickly evolve a marketable product that is an absolute product-market-fit with minimum possible cost.

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The Solution is to develop Minimum Viable Product and put it through validated learning, following the Build-Measure-Learn cycle – the lean product development process formally explained by Eric Ries in his book "The Lean Startup".

The goal is also to discover the minimum features that customers definitely want and eliminate those they do not.

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Charge Early

- Start with a prototype of essential but minimum features.
- Try charging customers early, preferably from day one.
- Some early cash inflow goes a long way.
- If customers are paying for the MVP, that is the real validation.

Summary

- Understand customers' pain and available solutions
- Define existing solutions, ideate means to maximize customer value
- Identify the features that add value and eliminate those that do not and eliminate waste.
- On-board some customers for evaluating the early prototype.
- Learn and refine to improve.
- Charge early for keeping the cash flow running.

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Thank you

Foundations of Entrepreneurship

Forms of Legal Entities

- **Different legal forms of ownership**
- **Comparative analysis of their types and features.**
- **Which legal form is suitable to your business?**

Forms of Legal Entities

- Sole Proprietorship
- Partnership
- One Person Company (OPC)
- Limited liability partnership (LLP)
- Private limited company
- Public limited company
- Co-operative
- Joint Hindu family business
- Subsidiary Company

Sole Proprietorship Firm – Single Owner

- Sole proprietorship or simply proprietorship - a single individual is the sole owner of the business.
- It is the simplest form of business entity.
- The firm has no legal existence separate from its owner.
- The sole owner and the business are the same as regards, ownership of assets, income tax and legal liabilities.
- The proprietor has UNLIMITED LIABILITIES.

Sole Proprietorship firm – other features

- Owner has complete control over all the aspects of the business.
- Owner alone enjoys the benefits or profits of the business and bears all the losses.
- The capital required by the firm is supplied wholly by the owner and from the profits of the business.
- Lack of continuity i.e. the existence of a sole proprietorship business is dependent on the life and death of the proprietor.

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Income Tax

- The income of the sole proprietor/owner is added to the profit of the business to arrive at taxable income. No separate IT for the business.

Income tax - Example

- Suppose the owner earns ₹0.6 million in a year from sources other than the business.
- And the profit from the business is ₹1.5 M in the same year.
- The owner has to pay income tax on ₹2.1 M: (0.6 + 1.5 = ₹2.1 M)
- Both will use the same PAN number.

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Proprietorship - Unlimited Liabilities

Since the business and its owner are one and the same, any legal claimant can recover dues from the personal assets of the owner. The liability of the proprietor is unlimited.

Unlimited liability - Example

- **Suppose the business borrows money from bank and default amount is ₹1.0 million. The bank can recover their dues by liquidating the assets of both the business and of the proprietor.**
- **Suppose that by selling all the assets of the business the bank can recover only ₹0.6 million. The bank will now recover the remaining ₹0.4 M by selling the personal assets of the owner.**

Proprietorship - Unlimited Liabilities

Unlimited liability - Example

- **Suppose the business borrows money from bank and the default amount is ₹1.3 million. The bank can recover their dues by liquidating the assets of both the business and the personal properties of the proprietor.**

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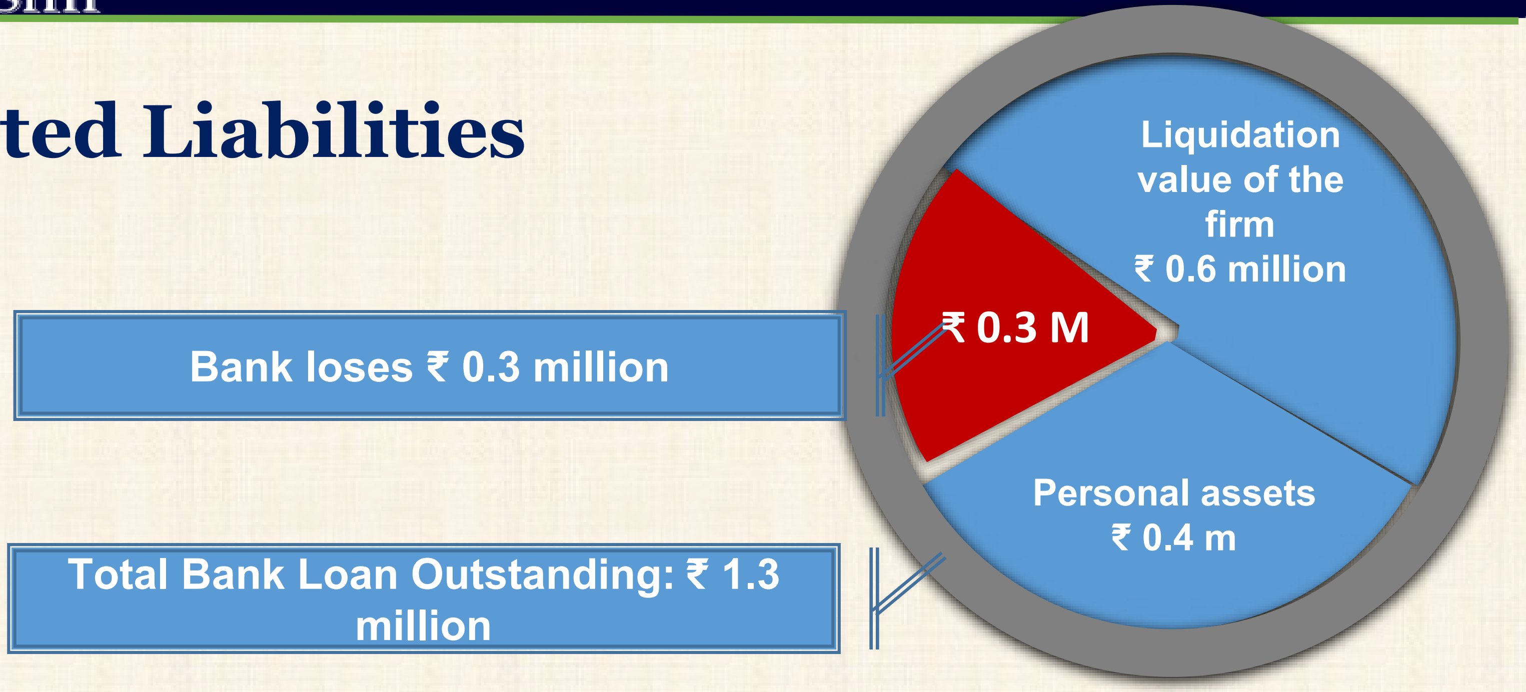
Proprietorship - Unlimited Liabilities

Unlimited liability - Example



01 Company assets

₹0.6 million

02 Personal assets

₹0.4 million

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Sole Proprietorship Firm – other features

- The primary legal formality is to obtain a trade license, PAN (for the proprietor) and GST.
- Trade license is issued by the panchayat within the panchayat area and by Municipal Corporation in corporation area.
- For obtaining a trade license one needs the proof of an address for the business.
- For own premises for the business, a copy of the title deed of the premises can be submitted as proof of business premises.
- For rented premises, the rent agreement is to be provided.
- GST registration has now become simple. One can initiate the process online at www.gst.gov.in.

Sole Proprietorship – other features

- For special businesses, specific licenses may be necessary.
- For example, for restaurant 'Food Safety and Standards Authority of India license (FSSAI)' is required.
- For running a shop, one should register under the Shops & Establishments Act. This process can also be done online.

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Proprietorship

Advantages

- Ease of formation: trade license, business premises, GST registration
- Maximum incentive for hard work.
- Secrecy of business.
- Quick decisions and flexibility of operations.

Proprietorship

Disadvantages

- Limited capital depending on the capability of the owner.
- Managerial ability limited to sole proprietor. [Of course, they can engage professionals to manage the activities.]
- Limited life – the business is automatically dissolved on death of the proprietor.
- Unlimited liability.
- Clubbing of income may lead to higher income tax. (Above Rs. 10 lakh, LLP or company income tax rate is lower than that of proprietor)
- In the present context, proprietorship business is disadvantaged as the personal tax rate is much higher at 30% compared to corporate tax of 17 to 22%.

- **Many of the small businesses such as retailer, grocers, stationary shops, small manufacturing units are proprietorship firms.**

- **Ankur is a Senior Vice President at Nirvana Venture Advisors.**
- **Abishek is an Associate Vice President at Nirvana Venture Advisors.**
- **The session is scheduled at 9.00 p.m. tomorrow (06.02.2021)**

Partnership – multiple owners

- A partnership is formed between two or more persons.
- Partnership is formed by an agreement – either written or oral.
- Partnership is formed to carry on business by all partners or by any of them on others' behalf.
- When the written agreement is duly stamped and registered, the document is called "Partnership Deed".
- Ordinarily, the rights, duties, contribution to equity capital and liabilities of partners are laid down in the deed. But if there is no such deed or where the deed does not specify the rights and obligations, the provisions of the Indian Partnership Act, 1932 apply.

Registration of Partnership Deed

- One may decide to get the partnership deed registered.
- Done at the Office of the Registrar of Firms.
- Every state has an office

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Advantages of Partnership Form

- Ease of formation compared to limited liability companies.
- Greater capital and credit resources compared to proprietorship.
- Better judgement and more managerial abilities.
- Income tax of the firm is treated independent of the partners.

Disadvantages of Partnership Form

- Absence of ultimate authority
- Liability for the actions of other partners
- Limited life. Usually the firm is dissolved when any of the partners expires.
- Unlimited liability

- Partnership is an appropriate form of ownership for small and medium sized businesses owned by more than one persons involving limited own capital.
- This may include small scale industries, wholesale and retail trade, small services firms like transport agencies, real estate brokers, professional firms like chartered accountants, doctors' clinic, attorney or law firms.

Partnership - Unlimited Liabilities

Legal claimant such as banks and creditors can recover dues from the personal assets of the owners. The liability of the partners are unlimited.

Unlimited liability - Example

Suppose the firm borrows ₹1.0 M from a bank and defaults in repayment. The bank can recover the dues by liquidating the business as also by selling personal assets of the partners.

Now suppose that by selling all the assets of the business the bank can recover only ₹0.6 M. The bank will now recover the remaining ₹0.4 M by selling the personal assets of the partners. Assets of which partners would be liquidated first would be decided as per the terms in the partnership deed or mutually decided later.

Income Tax

- Partnership firms are not separate legal entities.
- However, for the purpose of income tax, firm is different from the partners and the firm has separate PAN number.
- The firm pays income tax independently of the partners and the present income tax rate is approximately @ 20% of profit.
- The firm can pay salary to partners and interest on borrowing from partners, which are deductible expenses in profit & loss account.

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Limited Liability Company

- Limited liability form of legal entities are those where the members or owners of the company are not PERSONALLY liable for the liabilities of the company.
- The creditors and lenders to such companies can recover their dues only to the extent possible by liquidating the company and they can not claim anything from the personal assets of the owners.

Limited liability - Example

- Suppose the company borrows ₹1.0 M from a bank and defaults in repayment. The bank can recover the dues by liquidating the business as also by selling personal assets of the partners.
- Now suppose bank can recover only ₹0.6 M by liquidating the company. They will not be able to recover the remaining amount by selling any personal asset of the members.

One Person Company (OPC)

Companies Act 2013

- One person company or OPC is a single person economic entity with features similar to a limited liability company.
  - One Person Company has only one member.
  - There may be a nominee besides the one member.
  - There can be outside directors without shareholding.
- The main advantage of a OPC is that a single individual can register and run a (limited liability) company whereas a minimum of two persons are necessary for private limited company.

Steps to Form OPC

STEP 1	STEP 2	STEP 3	STEP 4	STEP 5
DSC	DIN	RUN	Documents	MCA
Apply for Digital Signature Certificate	Apply for Director Identification Number	Name approval Request for Unique Name	MoA, AoA and other required documents	File forms and documents for approval

RoC issues certificate of incorporation. Company is registered

The Salient features of an OPC include the following:

- An OPC can primarily be of two categories :
  - Company limited by shares.
  - Company limited by guarantee (has shareholders who act as guarantors promising to pay small sum in the event of winding up of the company).
- An OPC limited by shares shall comply with following requirements :
  - Shall have minimum paid up capital of ₹ 1 L and maximum ~~₹ 50 L~~ no maximum limit now.
  - Are not allowed to transfer its shares.
  - Are not allowed to invite public to subscribe to the shares of the company.

Comparison between OPC and Sole Proprietorship

OPC	Sole Proprietorship
• Limited liability • Tax is applicable in the same bracket as of any private company. • Nominee who is a natural born citizen of India becomes the successor in case of death of the sole member/director. • Compliance: Has to submit annual report and audited accounts.	• Unlimited liability • Tax bracket same as individual • Succession through court • Compliance – no annual returns, auditing of account only after reaching a threshold turnover

Conversion of OPC into a Private Limited Company:

- As per the Act, an OPC can be voluntarily converted into a Private Limited Company
- An OPC has to be compulsorily converted itself into a Private Limited Company:
  - ~~If at any time the paid-up capital of the OPC exceeds Rs. 50 Lacs.~~
  - ~~If the average turnover in any of the three consecutive financial years is more than Rs. 2 crores.~~

Voluntary Conversion

- An OPC can be converted into Private Limited after minimum of 2 years of existence as OPC.
- ~~Then it has to increase its paid-up share capital to ₹ 50 Lakhs and an annual turnover should not be less than 2 crores.~~
- ~~If the company fails to comply these provisions it shall convert back itself to an OPC by passing a special resolution.~~

Motivations for registering a One Person Company

- Single Promoter – full ownership and control
- Uninterrupted Existence (nominee becomes new owner in case of death of owner)
- Easy Transferability (Ownership can be transferred easily)
- Borrowing capacity – lenders prefer company over proprietorship or partnership firm.
- Owning property – a company is an artificial person and therefore own assets.

Transfer of Ownership

Ownership of a one person company can be transferred by transferring the shareholding, directorship and nominee director in the registrar of company.

Limited Liability Partnership (LLP) Limited Liability Partnership Act 2008

- LLP is a corporate structure that combines the flexibility of the partnership and the advantages of limited liability form of ownership but at a lower compliance cost.
- It allows its members the flexibility of organising their internal management on the basis of a mutually arrived agreement, like in a partnership firm.
- small and medium enterprises, in general, and enterprises in services sector, in particular prefer this form owing to the flexibility in its structure and operation.
- Globally, LLPs are the preferred form by service industry or for activities involving professionals

Private Limited Company

- A private limited company is a form of corporate entity that is a voluntary association of not less than TWO and not more than TWO HUNDRED members.
- The liability of each member/owner is limited to the extent of the ownership in the company.
- In the case of default, the creditors or lenders to the company can not lay their hands on the personal assets of the owners.
- Transfer of shares is limited to its members and not allowed to invite the general public to subscribe to its shares.
- They keep control over the business within a limited circle and maintain the privacy of their business.

Limited liability - Example

- **Suppose the company borrows ₹1.0 M from a bank and defaults in repayment. The bank can recover the dues by liquidating the business but can't sell personal assets of the directors.**
- **Now suppose bank can recover only ₹0.6 by liquidating the company. They will not be able to recover the remaining amount by selling any personal asset of the members.**

Private Limited Company

Advantages

- Continuity of existence.
- Liabilities of its members are limited to their contributions to equity.
- Shares are transferable with some formalities, and thus, can invite new members as directors/shareholders.
- Less legal restrictions, need not hold statutory general meeting or file statutory report.

Disadvantages

- Shares are not absolutely freely transferable.
- Not allowed to invite public to subscribe to its shares.
- Scope for promotional frauds.
- Undemocratic control (since major decisions are not based on public shareholders).

Private Ltd. Company vs. LLP

Private Limited Company	LLP
Minimum share holders: 2 Minimum directors: 2	Minimum partners: 2 2 designated partners
Maximum shareholders: 200	No maximum number of partners
Memorandum of Association defines the activities.	LLP Agreement or Schedule 1 of the Act
Articles of association: procedure to follow	LLP Agreement or Schedule 1 of the Act
Transfer of shares restricted.	Transfer allowed. Transferee does not become partner automatically.
Management by Board of Directors	Two partners authorized in agreement
Company can be converted into LLP or public limited company	Can be converted into company following complete procedure and LLP is wound up.
Common seal compulsory	Optional
Change of registered office or dissolution of entity involves lot of formalities	Less formalities. Dissolution or windup is easy.

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Public Limited Company

Public Limited Company

- An entity with the legal form of public limited company is a legal entity independent of its owners i.e. it is an artificial juridical person.
- It has perpetual existence or successions.
- Unlike private limited company, the shares of a public limited company are easily transferable.
- A company must have a minimum of seven members but there is no limit as regards the maximum number.
- The company collects its capital by the sale of its shares and those who buy the shares are called the members. The amount so collected is called the share capital.

Comparison between Public Limited and Private Limited Company

Feature	Public Limited Company	Private Limited Company
Minimum number of members	7	2
Minimum number of directors	3	2
Maximum number of members	Unlimited	200
Minimum capital	5,00,000	2,00,000
Invitation to public to subscribe to share capital	Yes	No
Managerial remuneration	No restriction	Should not exceed 11% of annual net profit

Joint Hindu Family

Joint Hindu Family or Hindu undivided family (HUF) is a legal form of business entity wherein the members of an undivided family can only be a member of the business. It is governed by Hindu Law.

Subsidiary Company

Subsidiary company is owned by another company or companies or mix of companies and individuals. If it is exclusively owned by one company it is referred to as wholly owned subsidiary. The company that owns the subsidiary is called the parent company or holding company. The subsidiary may be of any legal form. Many foreign companies have subsidiaries in India.

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Co-operatives

- Co-operative organisation is a society which has as its objectives the promotion of the interests of its members in accordance with the principles of cooperation.
- It is a voluntary association of ten or more members residing or working in the same locality, who join together on the basis of equality for the fulfilment of their economic or business interest.
- The basic feature which differentiates the co-operatives from other forms of business ownership is that its primary motive is service to the members rather than making profits.

There are different types of cooperatives like consumer co-operatives, producer's co-operatives, marketing co-operatives, housing co-operatives, credit co-operatives, farming co-operatives etc. The aim of all such co-operatives is to promote the welfare of their members. Its main features are:-

- It is a voluntary organisation as a member is free to leave the society and withdraw his capital at any time, after giving a notice.
  The minimum number of members is 10, but there is no limit to the maximum number of members. However, the members must be residing or working in the same locality.
- Registration of a co-operative enterprise is compulsory. A co-operative society may be registered with the Registrar of Co-operatives Societies.
  After registration a co-operative enterprise becomes a body corporate independent of its members i.e. a separate legal entity.
  It is subject to the provisions of the Co-operative Societies Act, 1912 or State Co-operative Societies Acts.
- It has to submit annual reports and accounts to the Registrar of Societies.
  The liability of every member is limited to the extent of his capital contribution.
- The shares of co-operative society cannot be transferred but can be returned to the society in case a member wants to withdraw his membership.
  Being a separate legal entity a co-operative enjoys continuity of existence which is not affected by death, insolvency, retirement, etc. of the members.

Factors Determining Forms of Businesses

- The nature and size of business.
- Scale of operation
- The degree of control desired by the owner(s).
- Amount of capital required for the establishment and operation.
- The degree of risks and liabilities as well as the willingness of the owners to bear it.
- Comparative tax liability.
- Degree of compliance and government formalities.

- **http://www.mca.gov.in/**
- https://en.wikipedia.org/wiki/List_of_legal_entity_types_by_country
- **https://yourstory.com/2015/03/business-legal-entity**
- http://www.mca.gov.in/MinistryV2/classification+and+registration+of+companies.html
- **https://www.flaticon.com/** **for icons**

Thank you

Foundations of Entrepreneurship

Competitive Advantage

Lecture Note # 14

10.02.2021

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- Parameters determining competitive advantages.
- Porter's five forces model of competition.

- “Of course you can still battle it out in the marketplace, but you need something that can’t be duplicated, something they could never beat you on, then hang your hat on that and don’t look back.”

- Don’t despair if you don’t have an unfair advantage yet. You can build it eventually. You have to earnit.

Competitive Advantage

- **Competitive advantage is the skill necessary to outpace your rivals.**
- **Most successful companies derive such advantages through knowledge, technology, information (data), and by adapting or restructuring their offerings as the market evolves.**
- **Companies come up with product-market-fit and customers love the product/service they offer.**
- **Create great brand with such narrative that customers fall in love with their story and the brand.**

Drivers of Competitive Advantages of Business Model

01	Attractive market structure
02	Growth potential
03	Entry barrier
04	Scalability
05	Repeatability
06	Easy product extension
07	Core competency
08	Logistic advantage
09	Great brand - loyal followers
10	Pricing power
11	New experience/ meaning

Entry barrier

Technological edge	Capital requirements to enter a market
Intangible assets	Customers' cost of switching
Economies of Scale and cost advantage thereof	Access to distribution channels
Geographical Barriers	Government policy and
Access to strategic resources	The degree of firm concentration
Product differentiation	Brand loyalty, core competency

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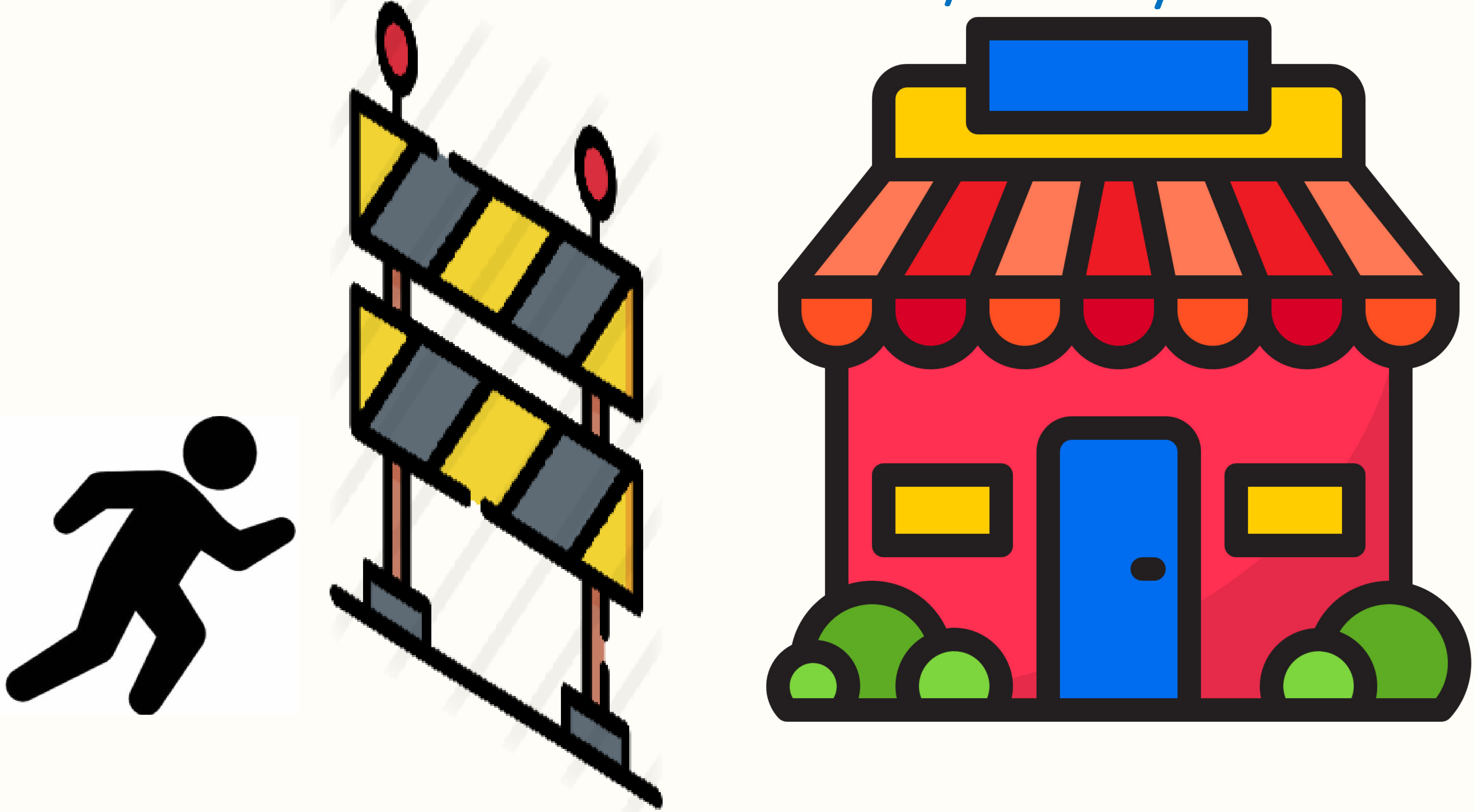
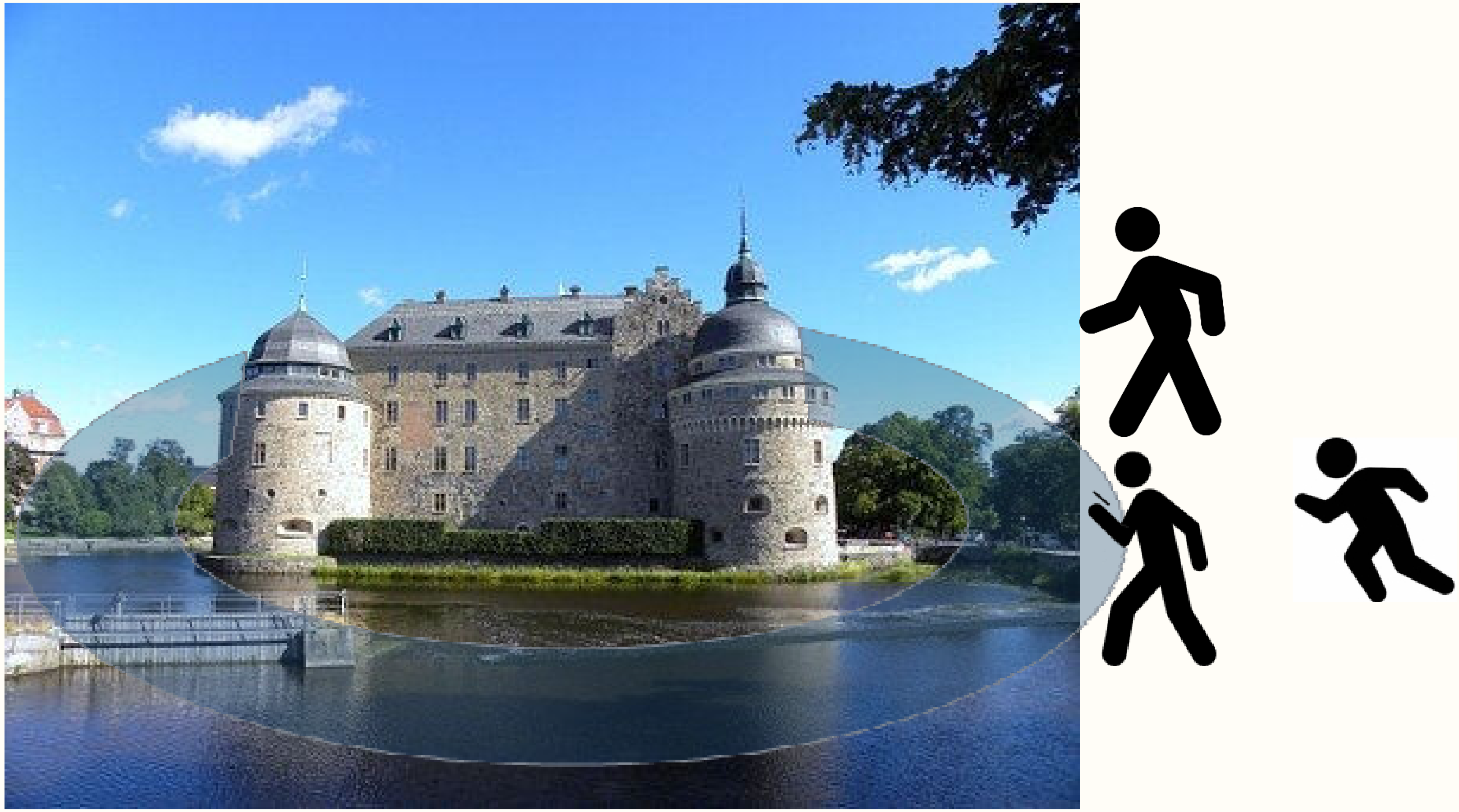
Entry Barrier for You to Enter into a Market /Industry



Entry Barrier for Others to Enter into the Market You Serve

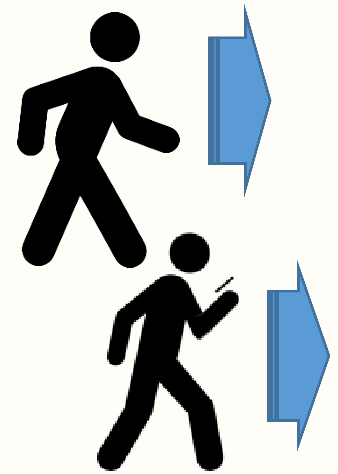
Entry barrier – Moat

Entry barrier – Moat



Entry barrier – Moat

If you can build a bridge, you may break the entry barrier and enter into the market place with your offering.
Example: Huggies
They build a bridge by connecting with the customer through unique story telling that empowered them with information. This method of reaching out is known as 'Content Marketing'



Scalability

- Scalability – how easily business can scale or grow. Software application is a classical example of scalable solution. Developing it is costly but can be cloned at very little marginal cost.
- Many of the E-commerce businesses are easily scalable.
- Good examples are Amazon, Flipkart, Practo
- In network based companies, scalability is a must for sustainability.

Pricing power

- Pricing power is the capacity to increase price without affecting the level of customers' demand for the product.
- Say you are the sole manufacturer of a life-saving drug. You can increase the price without much impact on the sales volume. Monopoly, brand loyalty, trust, superior value proposition give pricing power.
- The ability to raise prices is one of the most important characteristics that determines sustainability and profitability of a business.
- Whenever input costs go up, firms can pass it over to customer by increasing price without the fear of losing customers.

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Example of Monopoly, Pricing Power, and Extreme Greed/ Notoriety

HOME SEARCH The New York Times

BUSINESS DAY

Drug Goes From $13.50 a Tablet to $750, Overnight

By ANDREW POLLACK SEPT. 20, 2015

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Save

Specialists in infectious disease are protesting a gigantic overnight increase in the price of a 62-year-old drug that is the standard of care for treating a life-threatening parasitic infection.

The drug, called Daraprim, was acquired in August by Turing Pharmaceuticals, a start-up run by a former hedge fund manager. Turing immediately raised the price to $750 a tablet from $13.50, bringing the annual cost of treatment for some patients to hundreds of thousands of dollars.

Martin Shkreli

toxoplasmosis

The New York Times

Martin Shkreli Faces New Accusations Over High-Priced Drug

A lawsuit by the Federal Trade Commission and New York's attorney general says his company blocked generic rivals after sharply raising the cost of Daraprim.

By Cecilia Kang

Jan. 27, 2020

WASHINGTON — Martin Shkreli, a former pharmaceutical executive serving a seven-year prison sentence for defrauding investors, was accused on Monday of trying to maintain a monopoly over the lifesaving drug Daraprim through anticompetitive tactics.

The Federal Trade Commission and the office of the New York attorney general, Letitia James, jointly sued Vyera Pharmaceuticals and the company's owners, Mr. Shkreli and Kevin Mulleady, in a federal court in Manhattan. They say Vyera and its

Sustainability of Pricing Power

HOME SEARCH The New York Times

BUSINESS DAY

Drug Goes From $13.50 a Tablet to $750, Overnight

July 27, 2016 :
Imprimis Pharmaceuticals waiting FDA approval for **$1** copycat of Daraprim.

The same drug is already being made by many generic drug companies in **India**, where it can cost as little as **4 cents**.

Tweet

Save

More

Australian high school students developed process to make the drug at a cost of **$1**

"What is it that they are doing differently that has led to this dramatic increase?" said Dr. Judith Aberg, the chief of the division of infectious

One has to always pay huge price for notoriety.

Drucker's Five Deadly Sins in Business

- Seeking high profit margins and premium pricing
  - One should seek an optimum profit margin and high sales that will maximize profits.
- Charging what the market will bear
  - Analogy Xerox & Nylon of DuPont
- Using cost-driven pricing
  - Try price-driven costing instead
- Focusing on past winners
  - "slaughtering tomorrow’s opportunity on the altar of yesterday"
- Giving problems priority over opportunities

Market Structure

Market structure provides a holistic view of the competitive landscape of the industry and market attractiveness of a new businesses.

- The present market-growth
- Likely growth in the future
- The number of firms
- The market share of the largest firms
- Market size
- The nature of costs
- The degree to which the industry is integrated
- The extent of product differentiation
- The customer turnover

Market Types

Most common types of markets	Number of companies	Product type	Barrier for new entrant	Pricing power
Monopolistic	Ideally single company	Simple	High	High
Oligopolistic	Small number of companies	Differentiated	High	High. Usually collude themselves.
Perfect Competition	Many	Homogenous	Nonexistent	Absent

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Repeatability

- Cost of acquiring a customer is huge. This cost includes cost of product, research, marketing, and accessibility.
- Firms incur such huge cost on customer acquisition with the understanding that the customers would make repeated transactions and the life time value would give considerable profit to the firm.
- Therefore, the business model should ensure that customers come repeatedly.

Easy product extension

- **Creating awareness among customers requires valuable resources.**
- **Create impression among your target market segment through one product.**
- **Introduce new products targeting the same segment as a natural extension at low marketing cost.**

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Core Competency

- **A core competency is a concept in management theory propounded by C. K. Prahlad and Gary Hamel.**
- ***"A core competency is an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity." ~ C. K. Prahalad***
- **In other words, it is unique capability or efficiency gained through harmonized combination of multiple resources and skills giving a company unique competitive advantage.**
- **This advantage of the company is invisible and thus cannot be copied.**
- **It greatly and sustainably contributes to stakeholders' value.**

Logistic Advantage

- Nearness to inputs.
- Closeness to markets.
- Availability of knowledge workers or cheap labor.
- Access to ready and efficient distribution network.
- Ready or presence of ecosystem.

Strong Brand Presence / Brand Loyalty

- Brand Storytelling can be a powerful and effective way to make emotional connection with customers & build lasting relations.
- Use the story to engage consumers and elicit emotion to foster loyalty, forging a meaningful relationship that goes far beyond product and service.
- Loyal customers will be ready to pay higher price for your product than that of similar competing products.
- Thus you gain huge competitive advantage and sustain above average profit.

The Bélo
Belonging

More Strategies to Gain Competitive Advantages

- **Cost leadership strategy** – you may place yourselves ahead of the pack by offering attractive price. But must avoid a low-quality image.
- **Product differentiation and positioning strategy** - Nike
- **Operational effectiveness** – do what you do best or at least better than others.
- **Adaptability competitive advantage** – adapt to change in this age of unpredictability and rapid change.
- **The information advantage** – All other strategies can benefit from data and analysis to translate into information.

Product Differentiation

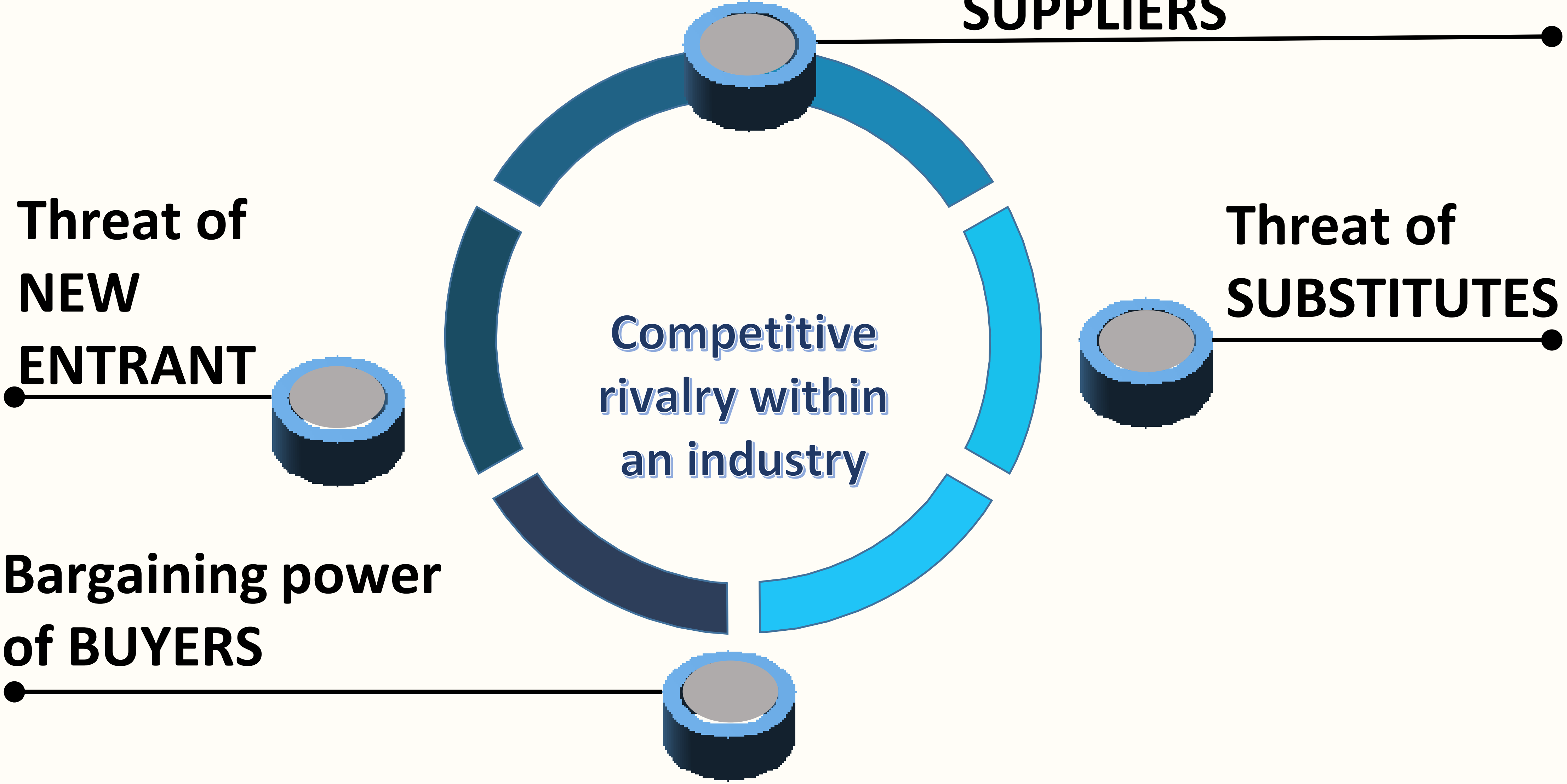
- Quality (low, average, high, best)
- Features
- Forms
- Shapes
- Style
- Packaging
- Size
- Price
- Variety
- Composition
- Availability
- Durability
- Reliability
- Maintainability
- Ease of installation
- Ease of purchase
- Return policy
- Repurchase
- Exchange offer
- Loyalty program

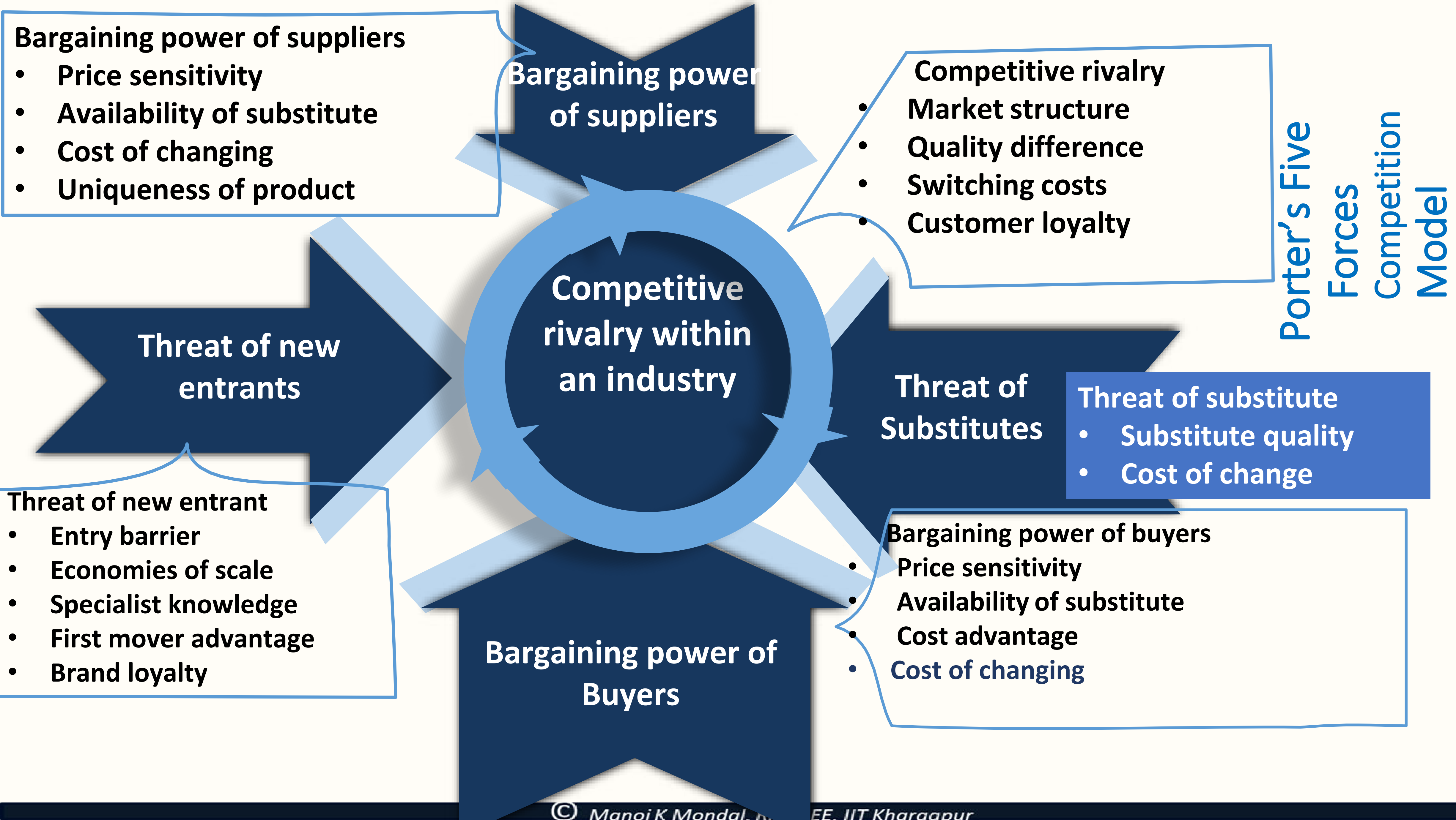
Porter's Five Forces Competition Model

Michael E. Porter of Harvard Business School placed the competitive landscape or the micro environment of any industry in the form of five forces.

The five forces that determine the competitive intensity and therefore attractiveness of a market.

Porter's Five Forces Competition Model




Bargaining power of suppliers
• Price sensitivity
• Availability of substitute
• Cost of changing
• Uniqueness of product
Bargaining power of suppliers
Competitive rivalry
• Market structure
• Quality difference
• Switching costs
• Customer loyalty
Porter's Five Forces Competition Model
Threat of new entrants
Competitive rivalry within an industry
Threat of Substitutes
Threat of substitute
• Substitute quality
• Cost of change
Threat of new entrant
• Entry barrier
• Economies of scale
• Specialist knowledge
• First mover advantage
• Brand loyalty
Bargaining power of Buyers
Bargaining power of buyers
• Price sensitivity
• Availability of substitute
• Cost advantage
• Cost of changing

Porter's Five Forces: The Horizontal Forces

- Competitive Rivalry – strengths and weaknesses of your competitors vis-à-vis your advantages. Intense rivalry may lead to aggressive price cut and more power to suppliers and buyers. Moderate competitive rivalry may lead to healthy profit.
- Threat of New Entrants – If you are making good profit, others will start doing the same business. If there is barriers for new entrant, you may maintain your advantages.
- Threat of Substitution – there may not be many sellers of the product that you sell. But if buyers can manage with a substitute product and that is available at attractive terms, they may switch to that putting pressure on you to reduce price.

Porter's Five Forces: The Vertical Forces

- Supplier Power – how dependent is the suppliers on your business and vice versa. If you have many suppliers, you may command terms of supply and control price. Else, you are in a sellers' market (sellers can dictate terms).
- Buyer Power – are there many buyers? Does it cost them much to switch to new sellers? If they can dictate terms you may have to price vary competitively? Else you may make healthy profit.

- Life span of companies are shrinking, so is the life span of products and services.
- It may not bode well to target sustainable competitive advantage on a past winning product since the product itself may not sustain.
- Those who are nimble enough to constantly build or refine products and meet the changing needs and taste of the customers are likely to create great companies.

Business Model & Business Model Innovation (BMI)

- *"A business model describes the rationale of how an organization creates, delivers, and captures value, in economic, social, cultural or other contexts. The process of business model construction and modification is also called business model innovation and forms a part of business strategy."* - Wikipedia

Business Model

- Business model is core aspect as to how a business creates and profitably delivers value to a group of satisfying customers.
- **It is imperative that a business creates social, environmental, and cultural values for sustainability in the long run.**
- Business model includes the purpose, vision, target customers, offerings, the value proposition, organizational structures, business process, infrastructure requirement, values and culture.

Innovation

- Innovation is the process of turning new ideas and knowledge into value, in the form of new products, services, or ways of doing things.
- It is deceptively complex, and goes beyond mere creativity and invention to include the steps necessary for benefiting people.
- Very few innovations are groundbreaking. Majority are value addition to on earlier versions.
- Evidently, innovative firms significantly outperform others.
- Innovations fuel the majority of the world's long-term productivity and economic growth.

Necessity Is the Mother of All Innovations

- If you are wondering which direction new technologies will emerge,
- Perhaps the best place to look at is the severest of pains the society is facing or likely to face in the immediate future.
- Pipping into research laboratories may not be much help.
- Go out and do something. You may encounter problems and start building solutions to that.
- Many entrepreneurs built solutions to problems they faced themselves. Phanindra Sama of redBus, Mahendra Pratap of Integra Micro Systems and many more.

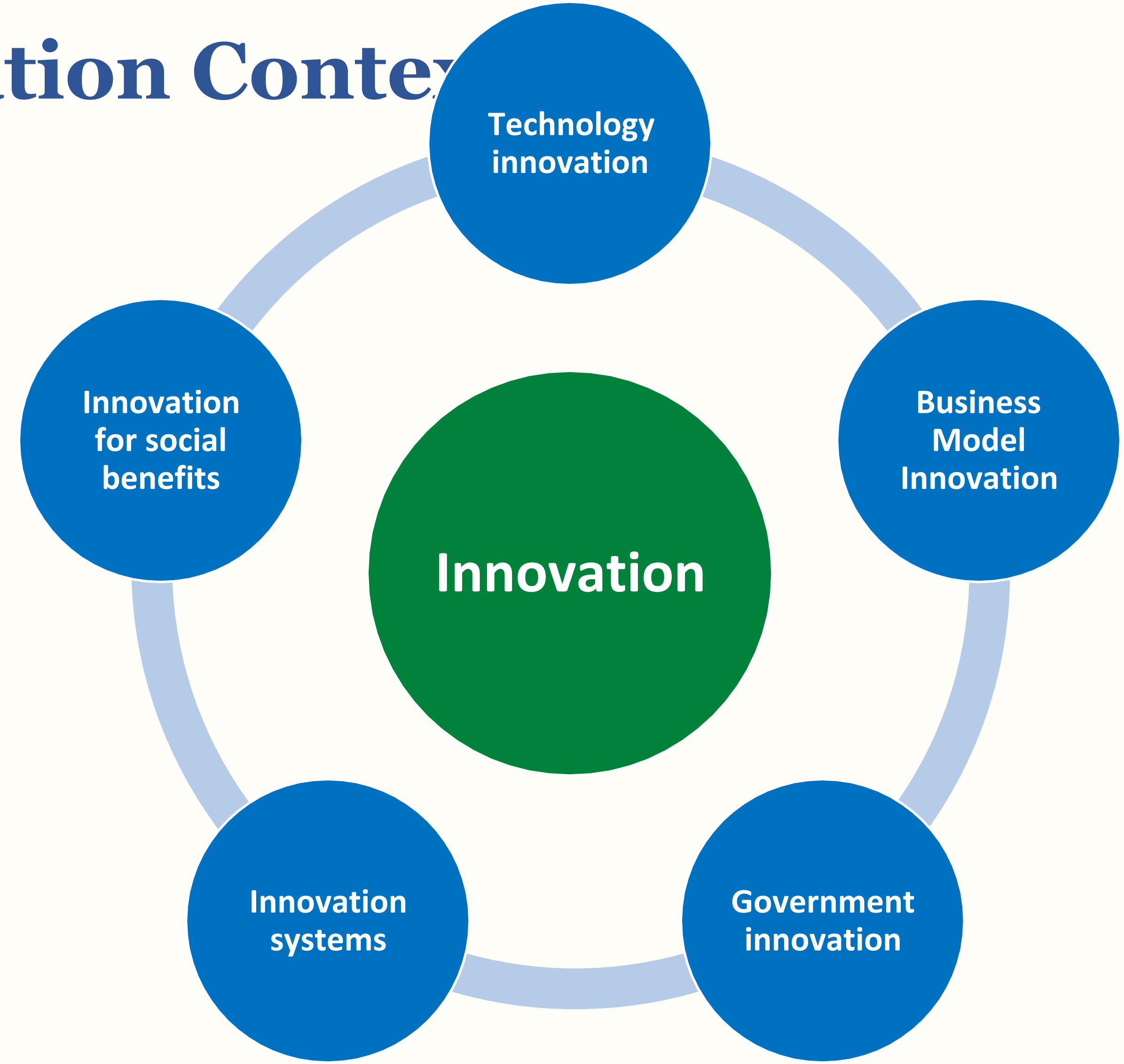
Business Model Innovation (BMI)

- A business model is a business context explaining how an organization creates and delivers values in economic, social, cultural or other forms.
- The process of reconstruction of various aspects of the business for meeting changing market behaviour and delivering increasingly superior value to customers is business model innovation.
- Execution of the plan is an integral part of BMI and thus, management is inextricable part of BMI. Management innovation is a continuous process.

- **When the game gets tough, change the game.**

Example: Dhirubhai

Innovation Context



Source
https://intelligence.weforum.org

Technology Innovation – Emerging Areas

- Fourth industrial revolution
- Biotechnology
- 3D printing
- Virtual and augmented reality
- Artificial Intelligence & Robotics
- Human enhancement
- Advanced materials
- 5G
- Internet of things
- Autonomous transportation
- Digital communication
- Blockchain
- Quantum computing

Business Model Innovation: Industrial Revolution - 4.0

- Disrupts status quo to provide better comforts to people or alleviate pain.
- The future of economic progress
- Shape corporate governance
- Next generation information technology
- Will promote new multinationals

Is Technology Innovation Different from BMI?

- All technology innovations are part of BMI
- Some BMIs are through technology innovation

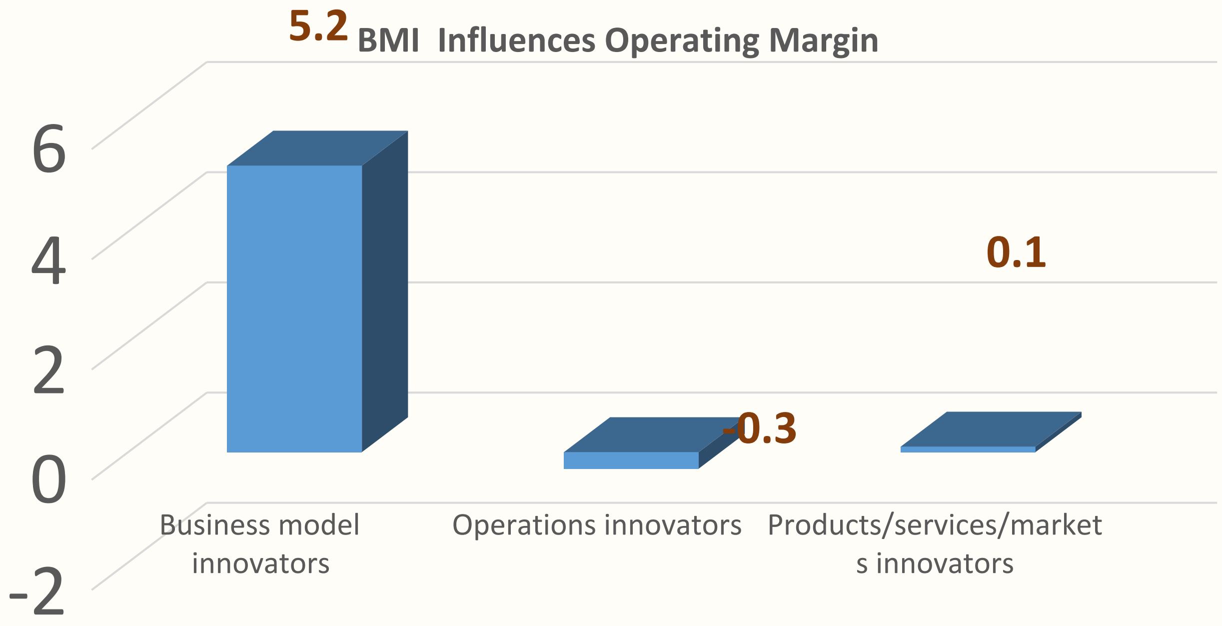
"Get the business model wrong and there is no business" – Prof. David Teece, University of California, Burckley

The What, Why, How, and Whom of BMI

- **What – What innovations are you executing?**
- **Why** to innovate business model – will it create more value to your customers and bring advantages to your organization?
- **How – how are you going to create and deliver economic, social, cultural and environmental values?**
- **For whom – Whose problems are you aiming to alleviate?**

Add to this, the when of BMI?

Business Model Innovators Outperform Competition in Terms of Operating Margin, Shareholders' Return



Business Model Innovation is Possible in Several Forms

Value Proposition	**The product as service and outcome** *General Electric* *SaaS*	**The products as an experience** *Apple – iPod* *Candle with aroma*	**Trust premium** *Whole Foods* *TATA*	**Free (or nearly free)/ Freemium** *Google* *Gaana* *Spotify*
Operating Model	**Deconstruction** *Li & Fung Ltd.* *Adani*	**Integration/ acceleration of the supply chain** *Zara* *Reliance*	**Low cost** *Aravind* *Tata Motors*	**Direct distribution** *Google* *CCD* *Nestle Nespresso*
Business System Architecture	**Open** *Apple* *Facebook*	**Person to person** *PayPal* *PayTM*	**Adjacency** *Ikea's Mega Mall Division*	**Serial** *Virgin Group*

Recreated from BCG Research

Management Innovation

- General Electric.
- DuPont.
- Procter & Gamble.
- Visa.
- Linux.

- **What makes them stand out?**
- **Great products? Yes.**
- **Great people? Sure.**
- **Great leaders? Usually.**

- **But if you dig deeper, you will find that the fundamental reason for their success: management innovation.**

Management Innovation
Example of Focused R&D

- In the early 1900s, General Electric of Thomas Edison disciplined the chaotic process of scientific discovery into a systematic process of innovation.
- Results: over the next 70 years, won more patents than any other company in the US.
- Much of GE's competitive prowess during the century following it can be traced to that extraordinary accomplishment.

Management Innovation
Example: Accounting & Finance - DuPont

- In 1903, DuPont systematized capital-budgeting techniques. A few years later, the company also developed a standardized way of estimating return on investment.
- They used it in comparing the performance of its numerous product departments.
- These innovations and more helped DuPont become one of America's industrial giants.

BMI
Example: Brand management - Procter & Gamble

- Procter & Gamble pioneered to formalize brand management since 1930s.
- In the decades since, P&G has steadily built brands with loyal customer followings.
- Brand and other intangible assets have been driving the success of the company ever since.
- Today, P&G owns some 16 brands that have been producing more than $1 billion in sales every year.
- P&G is pioneer in 'Corporate Entrepreneurship', and is an aggressive promoter (and beneficiary) of 'Open Innovation'.

Business Management Innovation
Virtual office - Visa Inc.

- Visa's success is attributed to organizational innovation.
- Visa is almost a virtual company and their main asset is their brand (intellectual property) with global visibility.
- Starting in the 1970s, Visa has created a global network that links more than 21,000 financial institutions and 1.3 billion+ cardholders.

Open source: Linux

- Linux – the open source computer operating system.
- Linux is the initiative that extended the concept of other innovations like the general public license and online collaboration tools.
- Open source development has proven to be a highly effective mechanism for engaging people without geographical or cultural boundary.

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Aggregator
Uber

- Uber could really define the pain points and applied latest technologies to solve it. In urban places of high mobility -
- It is very difficult to get a taxi.
- One that would come and pick you up
- One with some identity for reliability and safety
- To know when a taxi will arrive.
- Ease of paying for the tip.
- They innovated the solution based on the pains.

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Netflix

- Netflix has specialized in online on-demand video streaming.
- Starting in 1999, the company now has over 117 million subscribers in 190 countries.
- The company constantly innovates to give new experience to customers.
- In 2018, Netflix innovated ‘choose-your-own-adventure’ programming, that presents a vision for interactive television.

iPod

- A single invention of iPod has affected many markets at once
- – the music industry,
- hardware vendors,
- the labor market,
- artists and
- consumers themselves.
- In a quest to make music more portable and on-demand designers, engineers and marketers at Apple got together to create the iPod and achieved huge success.

- They all expand the market. There are customers and there are producers. But there always is a gap that separates the two and brings in huge inefficiencies.
- Entrepreneurs come up with new business model to bridge the gap that multiplies the demand and supply.
- Netflix, Uber, all aggregators, etc.

Innovation Lessons from Steve Jobs: The story of iPod

- Explore the customer experience and work backwards to technology.
- Know the competitors' value proposition and offer superior value.
- Recruit a balanced and excellent team.
- Connect the dots.
- Obtain feedback and simplify constantly.

- *“You can’t connect the dots looking forward; you can only connect them looking backwards. So you have to trust that the dots will somehow connect in your future. You have to trust in something – your gut, destiny, life, karma, whatever. This approach has never let me down and it has made all the difference in my life.” – Steve Jobs*

Hindustan Unilever: BMI

- Fast moving consumer goods (FMCG) companies were focused mainly to the urban markets.
- In the face of steep competition, Hindustan Unilever in 2004, shifted the focus to rural India.
- Smaller sachets of personal care products were made available.
- Distribution and warehousing were redesigned.
- New products were launched.

Business Model Innovation in India

ZIPDIAL (zipdial)

The business model

1. Customer wants to know about a product
2. Customer gives a missed call using mobile phone to a given number
3. The mobile user is now subscribed with the customer service section
4. The desired information is immediately sent to the inbox
5. Customer relation is established without spending a single paisa

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Novelty

- No unsolicited push message.
- Only the interested gives a missed call to get information about some offer.
- No cost on the part of the company and the customer (missed call does not cost).
- One of the cheapest process of building customer awareness and relationship.
- Times of India's initiative Against Corruption campaign received 4.6 million unique missed call.
- Its clients include Coca-Cola, Disney, P&G, Dove and many more.
- Founded in 2010, Twitter acquired zipdial for about US $ 50 million in 2014.
- Facebook uses the same idea in its Click-to-Missed-Call Ad that helps advertisers in customer acquisition.

Covered up to this slide. Ignore the rest

Goonj: A non-government organization (NGO)

- Goonj collects used cloths in donation
- Distributes them among the poor in exchange of some work.
- Founder: Anshu Gupta
- Revenue: $ 9.2 M (old data: 2011-12)
- Employees: 75
- Goonj has partnered with Puma to promote circular economy.
- Facebook for its Click-to-Missed-Call Ad product that helps advertisers in customer acquisition.

Interview Street

- Key People: Vivek Ravishankar, Harishnkaran K
- It has been started by two alumni of NIT Trichy, a premier institution in India.
- They conduct real programming tests to help companies to screen candidates using their web-based tools.
- If you can write brilliant codes, you will be hired, no matter what your qualification is.
- They provide services to companies such as Amazon, Facebook, Morgan Stanley and Walmart.

Mitra Biotech

- Key people: Mallikarjun Sundaram
- Boston and Bengaluru
- Mitra Biotech develops and provides novel technologies that personalize cancer treatment.
- Founded by a group of researchers from Harvard and MIT, Mitra Biotech tries to lessen the risk of chemotherapy.
- They have developed a technology CANScript to create an artificial tumor of the patient outside the patient's body.

Some Recent Disruption for BMI

- Thomas Cook, Cox & Kings. Company blamed surge of online booking for its failure.
- Kodak – started in 1841 and failed in 2019.
- Borders (were selling books in physical stores)

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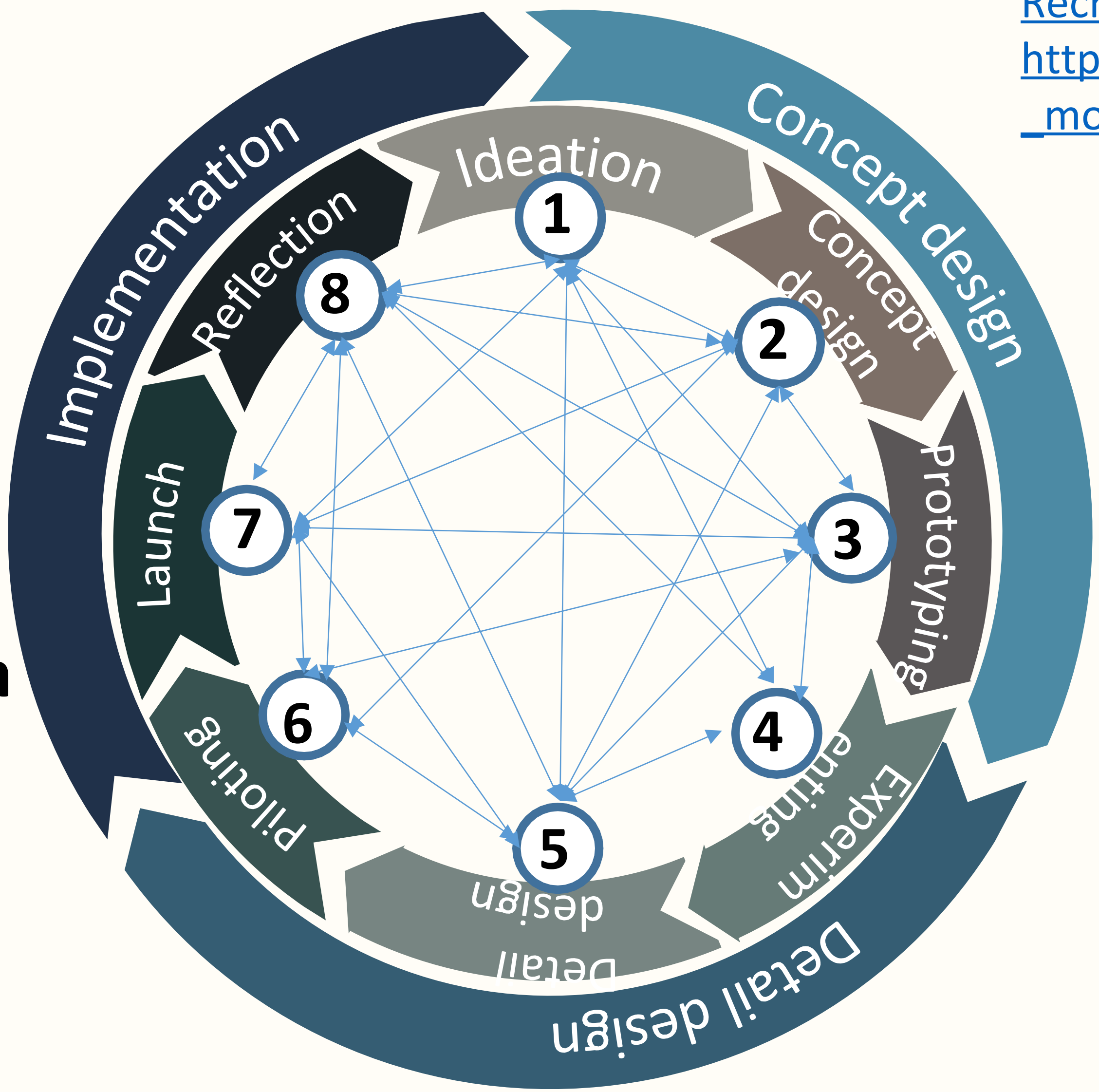
Business model innovation is a dynamic, iterative, and continuous process that seemingly moves in circle



[Recreated from https://en.wikipedia.org/wiki/Business_model](https://en.wikipedia.org/wiki/Business_model)

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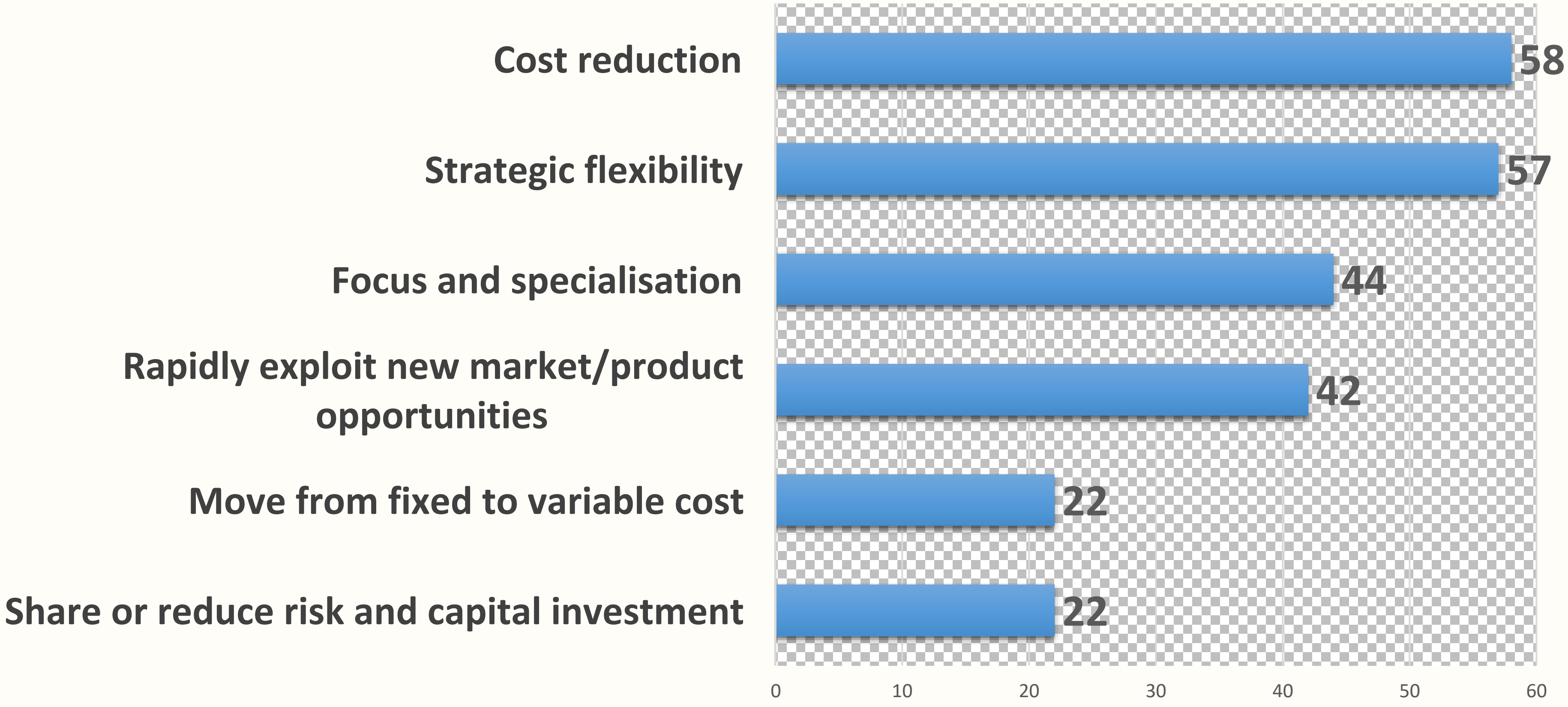
Why Do Companies Engage in BMI



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Thank you

FOUNDATIONS OF ENTREPRENEURSHIP

BUSINESS MODEL CANVAS

Lecture Note # 16
12.02.2021

- **Business model definition**
- **Business model canvas template**
- **Example**

Business Model: Definition

- A business model is an opportunity for a business with all its features including risks, advantages, complexities, customer segment, market structure & potential, competition landscape, socio-political challenges and opportunities, commercial attractiveness, environmental challenges, techno-economic feasibility, profitable sustainability, growth potential, legal tenability and the execution plan.
- A business model describes the rationale of how an organization creates, delivers, and captures value – Alexander Osterwalder

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- A business model describes the rationale of how an organization creates, delivers, and captures value, in economic, social, cultural or other contexts. The process of business model construction and modification is also called business model innovation and forms a part of business strategy.

Business Plan

Business plan is a document containing the detailed plan of execution of a Business Model, its unique strengths, weaknesses, opportunities, threats, the complementary skills of the team, operation plan, marketing plan and the financial projections, demonstrating how the company acquire, retain and grow customer base, create value for customers and other stakeholders, derives competitive advantages, sustain and grow in the long run.

Business Model Innovation

- Starting from identifying the pain point, Business Model innovation includes developing solutions, sustaining profitable growth and creating value for companies, customers, and society.
- It is about innovating new products, process, services, and businesses replacing outdated models.
- Apple created an innovative new business model with its iPod digital media player and iTunes online music store.
- Skype brought us cheap global calling and free Skype-to-Skype calls with an innovative business model built on peer-to-peer technology. So has done WhatsApp.
- Grameen Bank, in Bangladesh, is promoting social entrepreneurship and alleviating poverty through innovative micro-lending to the poor.

Business Model Template

- Thankfully for us, Alexander Osterwalder has developed a template for business model.
- It is known as Business Model Canvas.

Business Model Canvas

- Alexander Osterwalder has presented nine building blocks for describing business model.
- These blocks are arranged in a canvas, called Business Model Canvas.
- The heart of the canvas is the Value Proposition and the Customer Segment blocks.
- Any business is related to customers and customers are there for the value provided to them through the product or service and they would provide profit to the company .

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Data Show that:

- 7 out of 10 products flop (in Silicon Valley)
- All the money, time, resources and talent that go into making these 7 products are all wasted.
- Majority, if not all, of the products fail because the targeted customers do not buy them.
  - They do not buy because they do not find them attractive.
    - They do not find them attractive because these products are unable to meet customers' essential needs.
    - 42% Well-Funded startups fail.

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Wufoo founded by Kevin Hale

- Founded in 2006 and exited in 2011
- Raised only $1,18,000
- Sold to SurveyMonkey for $35 million in 2011.
- Gave a return of 29,561% to investors.
- Product: A web app that lets people create forms
- Motivation for the product: "We looked at other form builders, and we were like, 'All these people are crappy. And we don't want to be in that space."

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Value Proposition

- A VALUE PROPOSITION represents the sum total of features of your product or service that customer would perceive as value for their money.
- Your value proposition would provide reasons why customers would prefer to buy your product or service over those of competitors.

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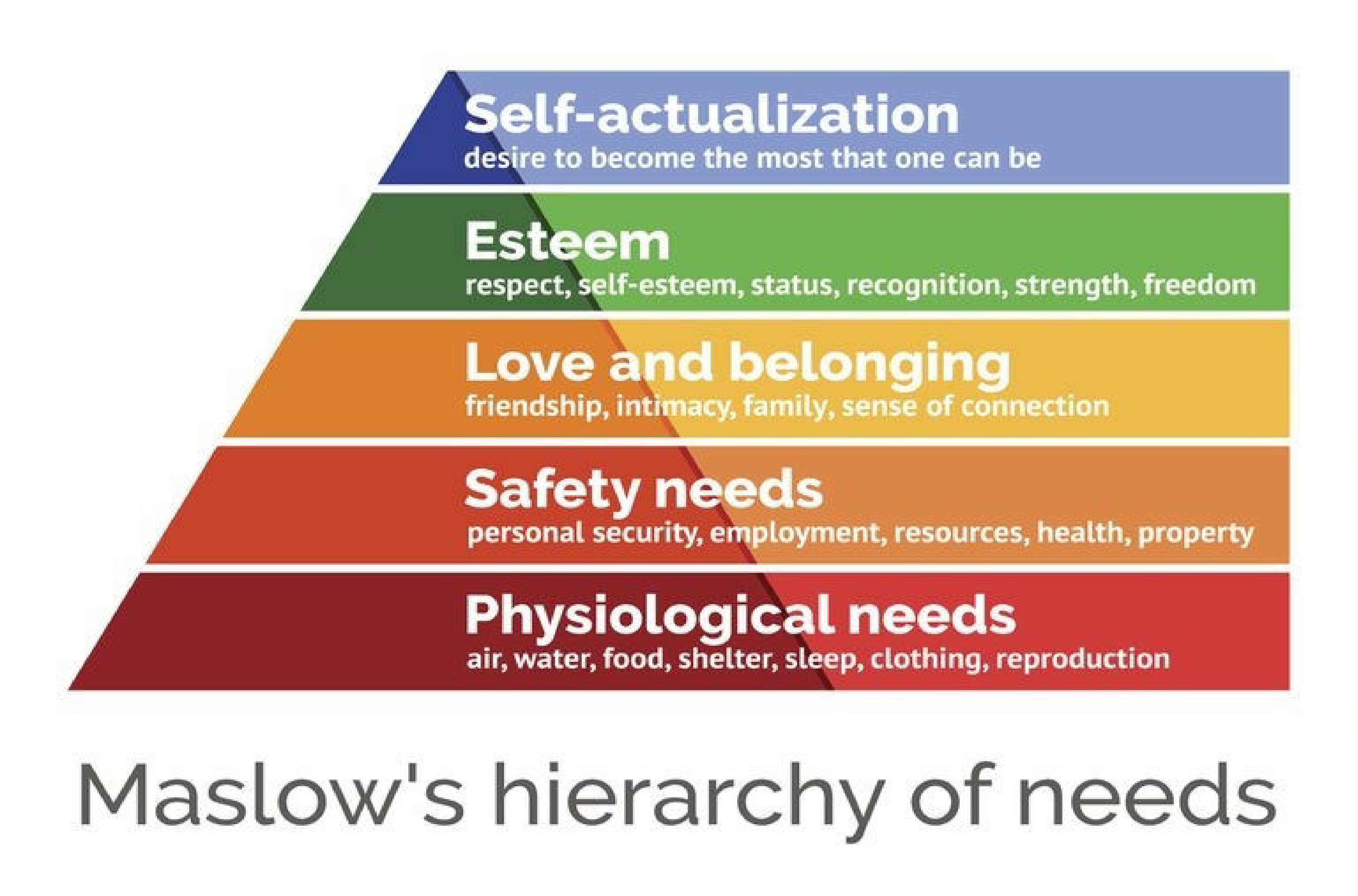
Know Your Customers' Aspiration



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Create a Correct Buyer-Persona

- A buyer-persona (a.k.a. “customer avatar”) is a semi-fictional person who represents your ideal customer.
- The objective of defining a ‘buyer persona’ is to get crystal clear on the individuals who you are marketing to.
- Until you nail this down, you can’t really be sure that your offerings and your marketing messaging are going to be successful. That’s why the buyer persona is often based on real customers, and/or extensive research.

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Value Proposition

Value proposition is the sum total of the benefits of product or service to be offered including:

Quality	Ease of use	Cost
Efficacy	Re-sale value	Warranty
Usefulness	Power efficiency	Aesthetic value
Esteem	Serviceability	Convenience to buy
Ease of installation	Storability	Delivery
Configuration	Shelf-life	Return policy
Maintainability	After-sale service	Trouble shooting and such.
Safety	Reliability	

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Example: Failed because they did not focus on value proposition

- The Iridium communications service or Iridium SSC was launched on November 1, 1998 at a capital investment of US$6 billion (Indian ₹ 42,000 crore).
- Motorola was the technology provider.
- This was launched at a time when cell phone service was in its infancy.
- What the founder assumed?
- Communication made possible from anywhere to anywhere. People have every reason to lap it up.

Image courtesy: http://i-marineapps.blogspot.com

Why did Iridium fail?

- The company lacked idea of the cost of the service, affordability, usefulness of the product and adequacy of supporting technologies.
- Customers were not ready to pay the price of the product and service.
- The products did not meet requirements of customers.
- The technology was ahead of time.
- Ancillary industries were not well developed.

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Value Proposition Template

- Value proposition may be succinct one-liner or it may be elaborate for clear understanding.
- The book by Alex Osterwalder has provided a template for a one-liner value proposition.
- Your business's value proposition is arguably the most important element of your overall market messaging.
- A value proposition tells prospects why they should do business with you rather than your competitors, and makes the benefits of your products or services crystal clear from the outset.

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Some Value Proposition Statements

- Uber – The Smartest Way to Get Around
- Apple iPhone – The Experience 'is' the Product
- Digit – Save Money Without Thinking About It
- CrazyEgg – Website Behavior Tracking at an Unbeatable Price

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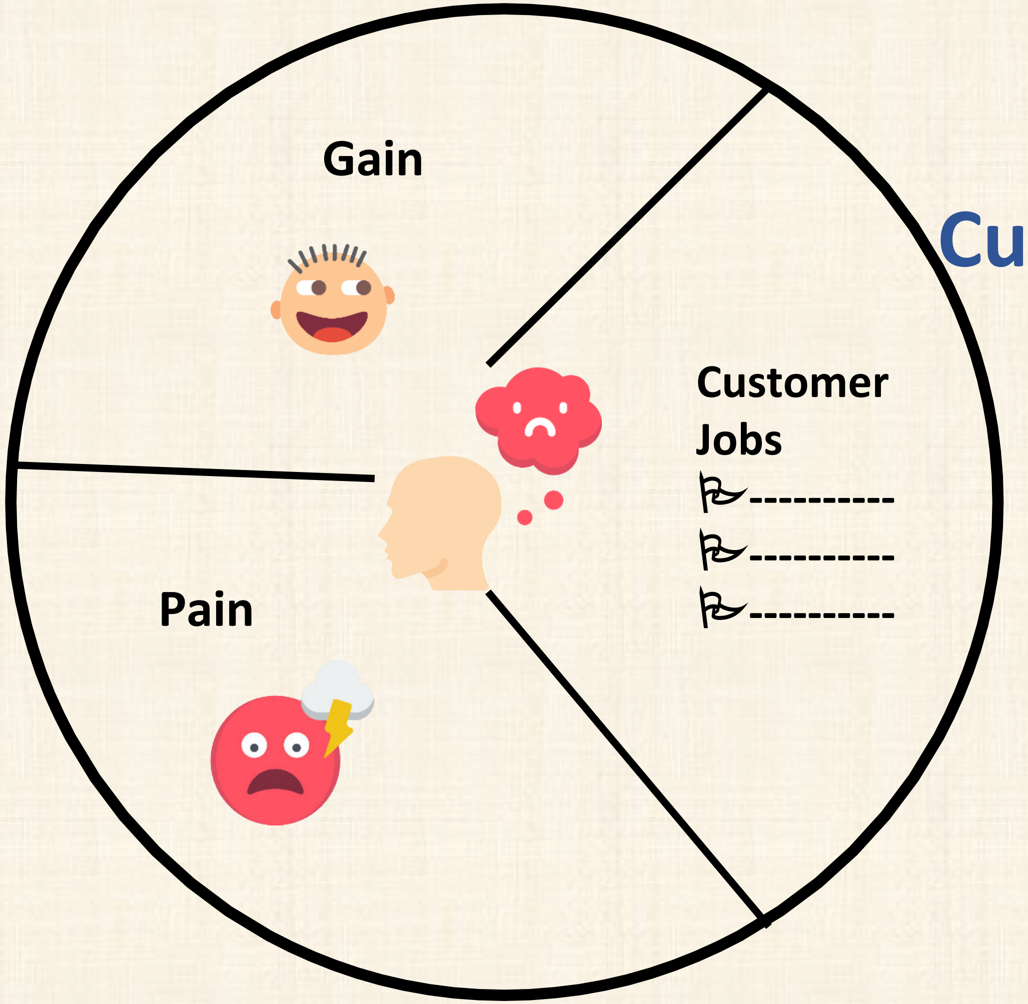
https://strategyzer.com/canvas/value-proposition-canvas

Video by Osterwalder



Customer Segment

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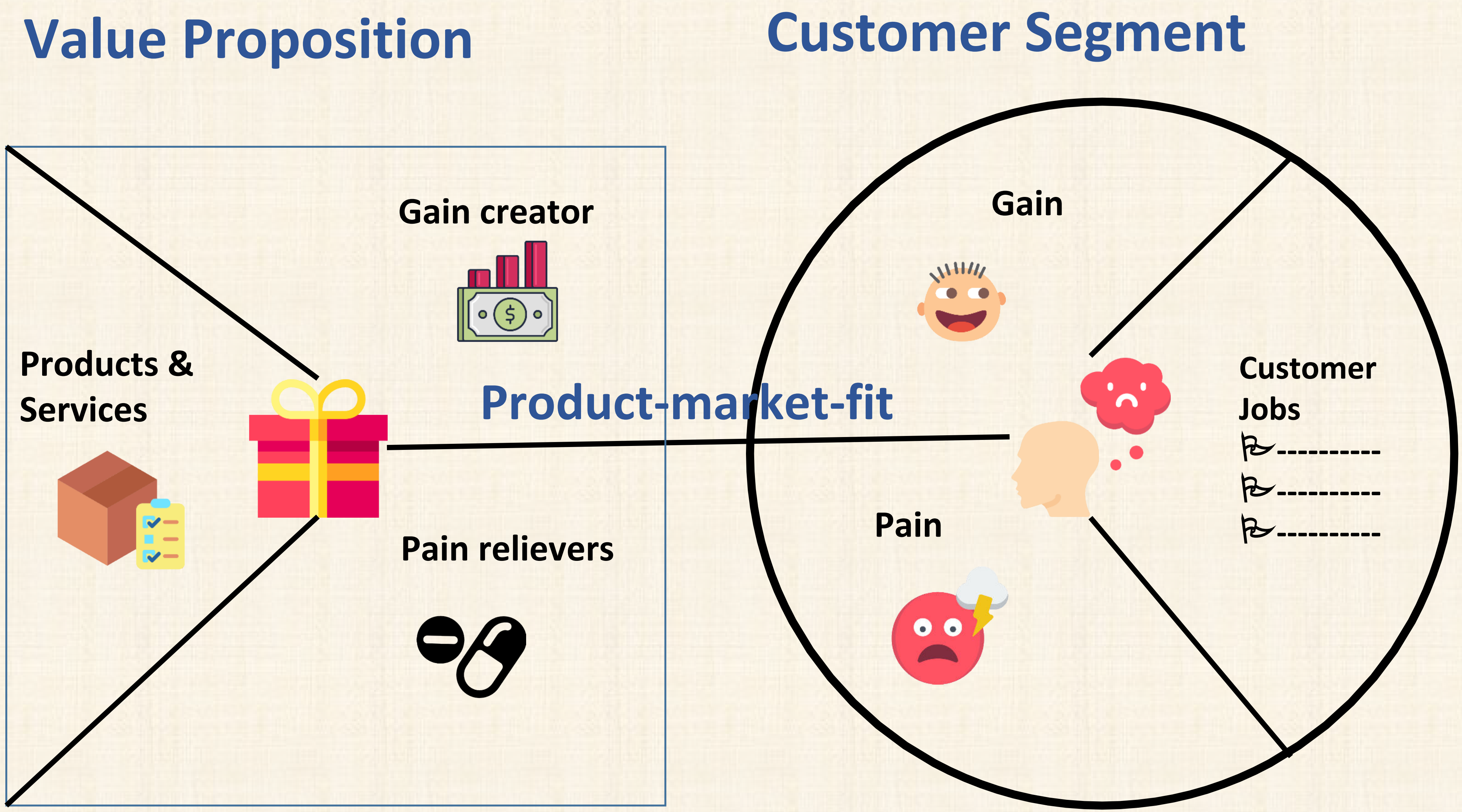

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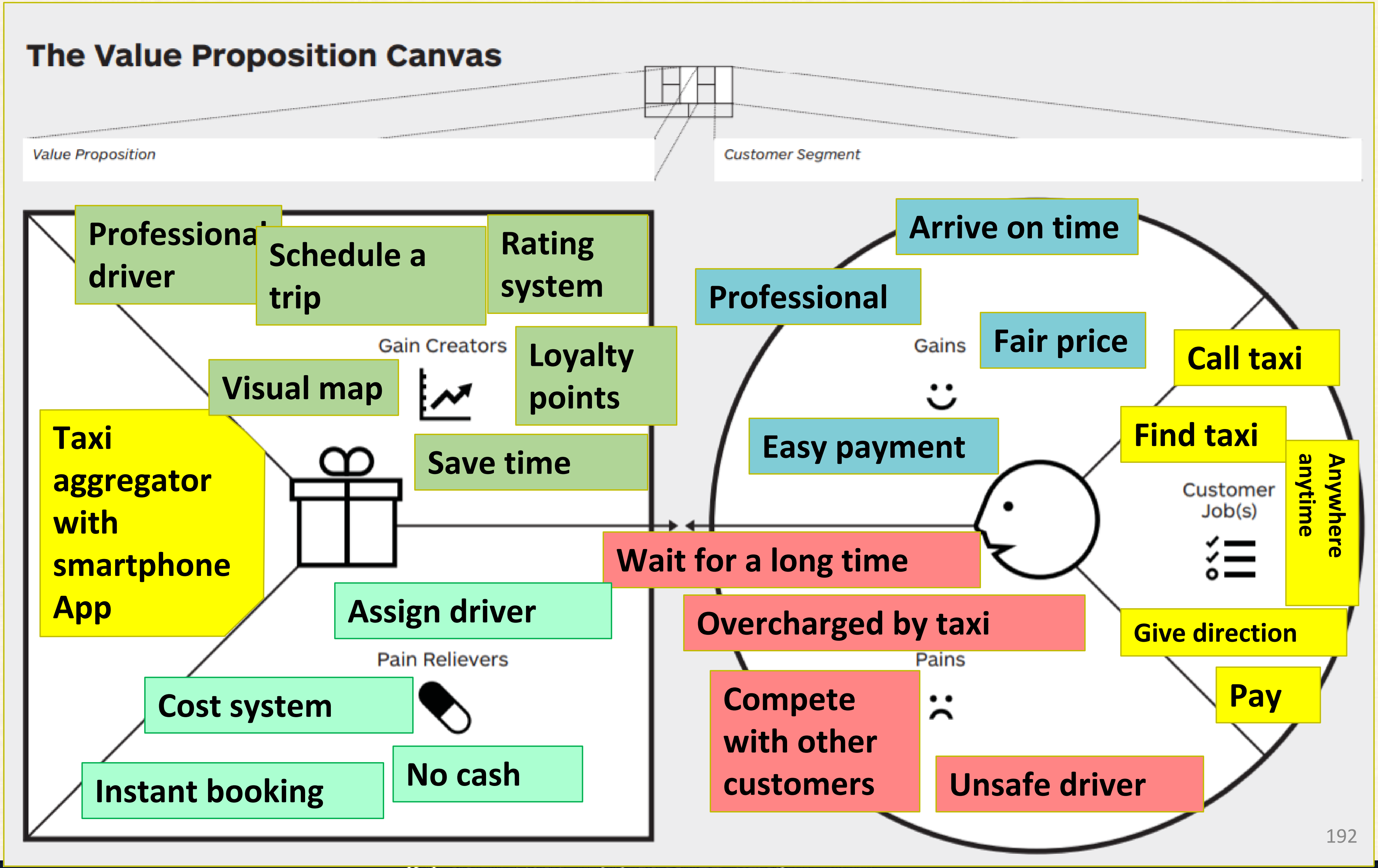
Recreated from the book: Value Proposition Design by Osterwalder



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Value Proposition

Must be defined as clearly as possible so that the advantages become glaringly and doubtlessly visible requiring no explanation (nobody will approach to get clarification. When in confusion, they would buy others' product).

State how your product better solves the problem than competition.

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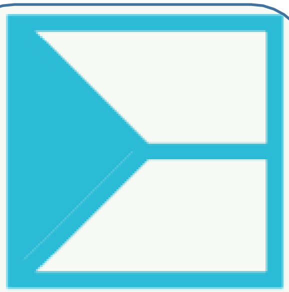
Value Proposition Is Usually a One-Sentence statement

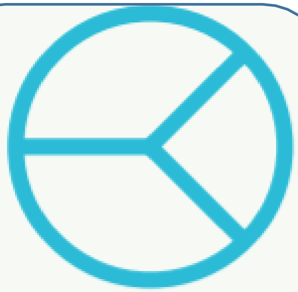
- Our (products or service) help(s) (customer segment) who want to (jobs to be done) by (your own verb such as reducing avoiding) and (your own verb such as increasing or enabling). You may also add a mild criticism of the competing products in general, writing (unlike: competing value proposition).
- Our (book) help(s) (business professionals) who want to (improve or build a business) by (gaining latest knowledge on strategies) and (gaining deep insight) unlike books without focus on the real issues.

Our



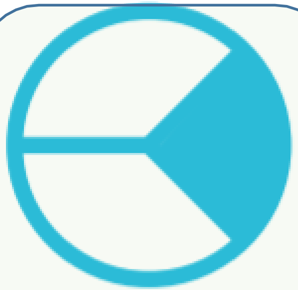
Product or service

help(s)



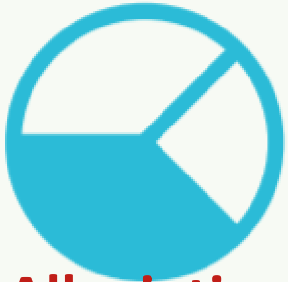
Customer segment

who want to



Get them done

by

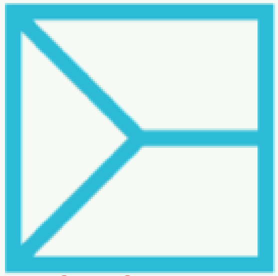


Alleviating pains

and

Creating gains

(unlike)



Existing products or services

Images are from the book: Value Proposition Design by Alexander Osterwalder

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Value Proposition: Example of 10 carat gold jewelry

- Our (jewelry) help(s) (affordability) of middle class people (to enjoy jewelry as glittering as the best gold ornament and increase happiness) by (buying more with less money) and (save money) unlike the 22 carat gold jewelry.
- Our innovative technology, developed in advanced laboratory and crafted by the best professionals has created gold jewellery as glittering as any other gold jewellery that has enhance affordability and saving potentiality while increasing the happiness unlike any other jewelry available in the market.

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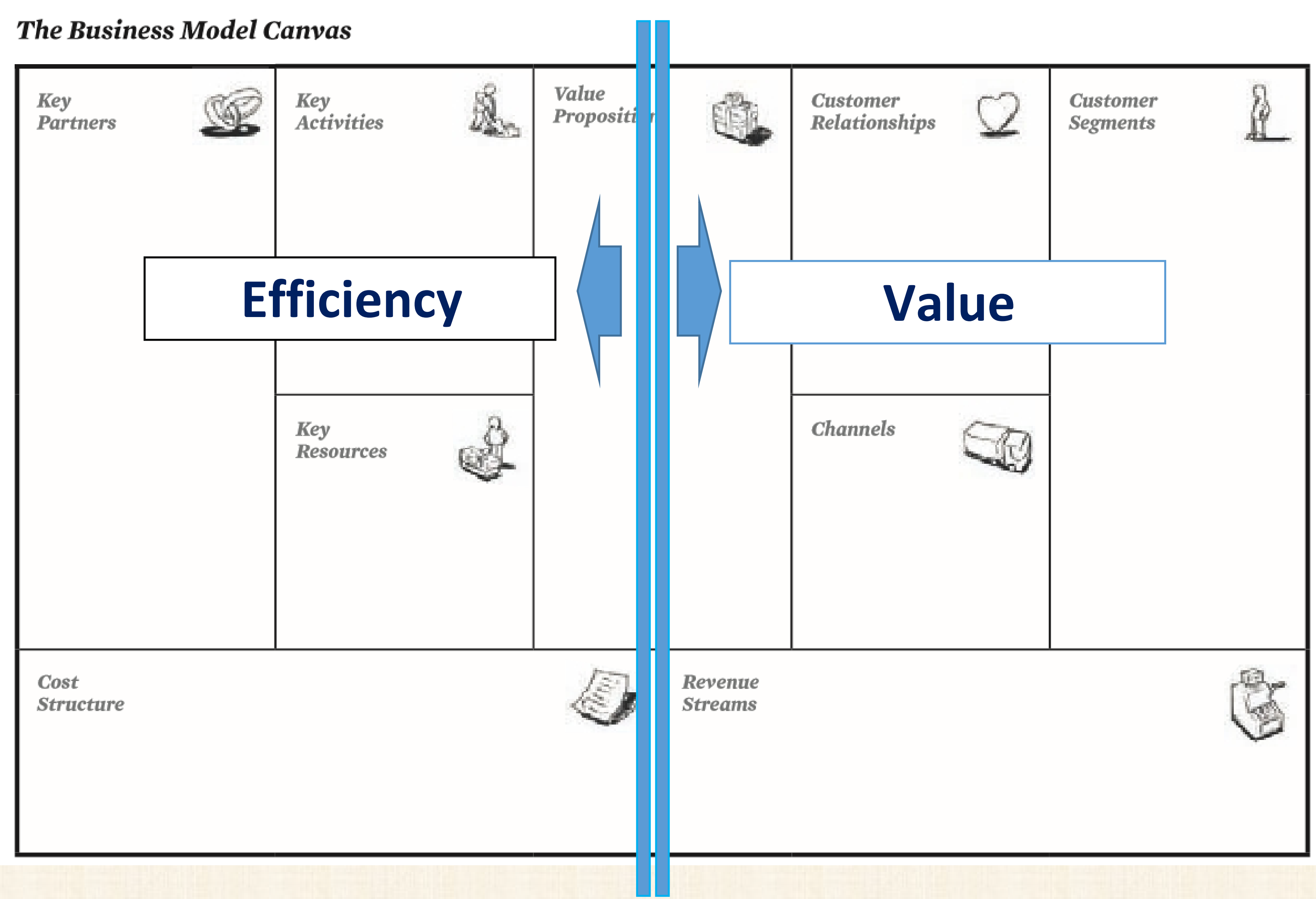
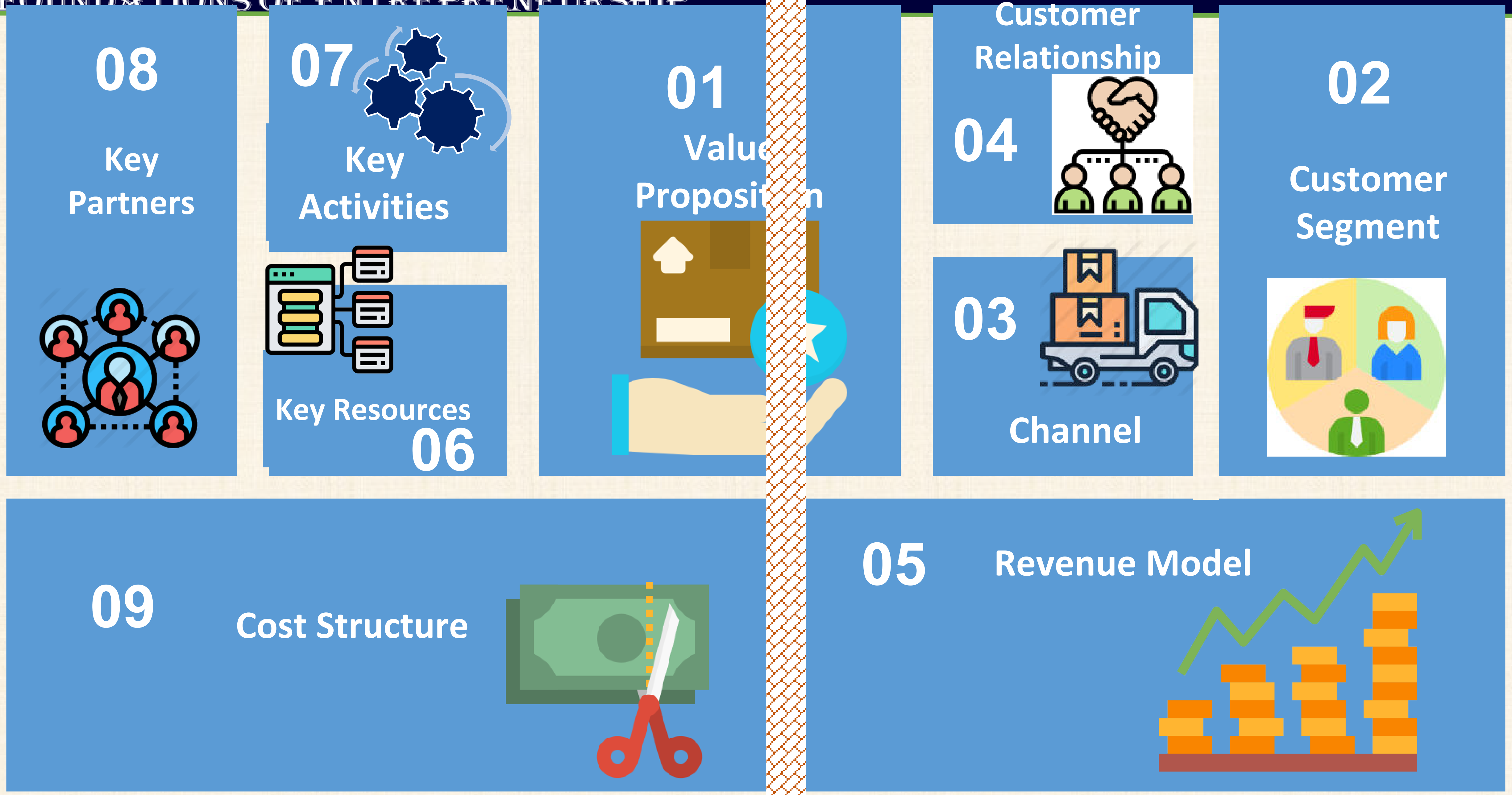
Business Model Canvas

Book: Business Model Generation by Alexander Osterwalder, 2010

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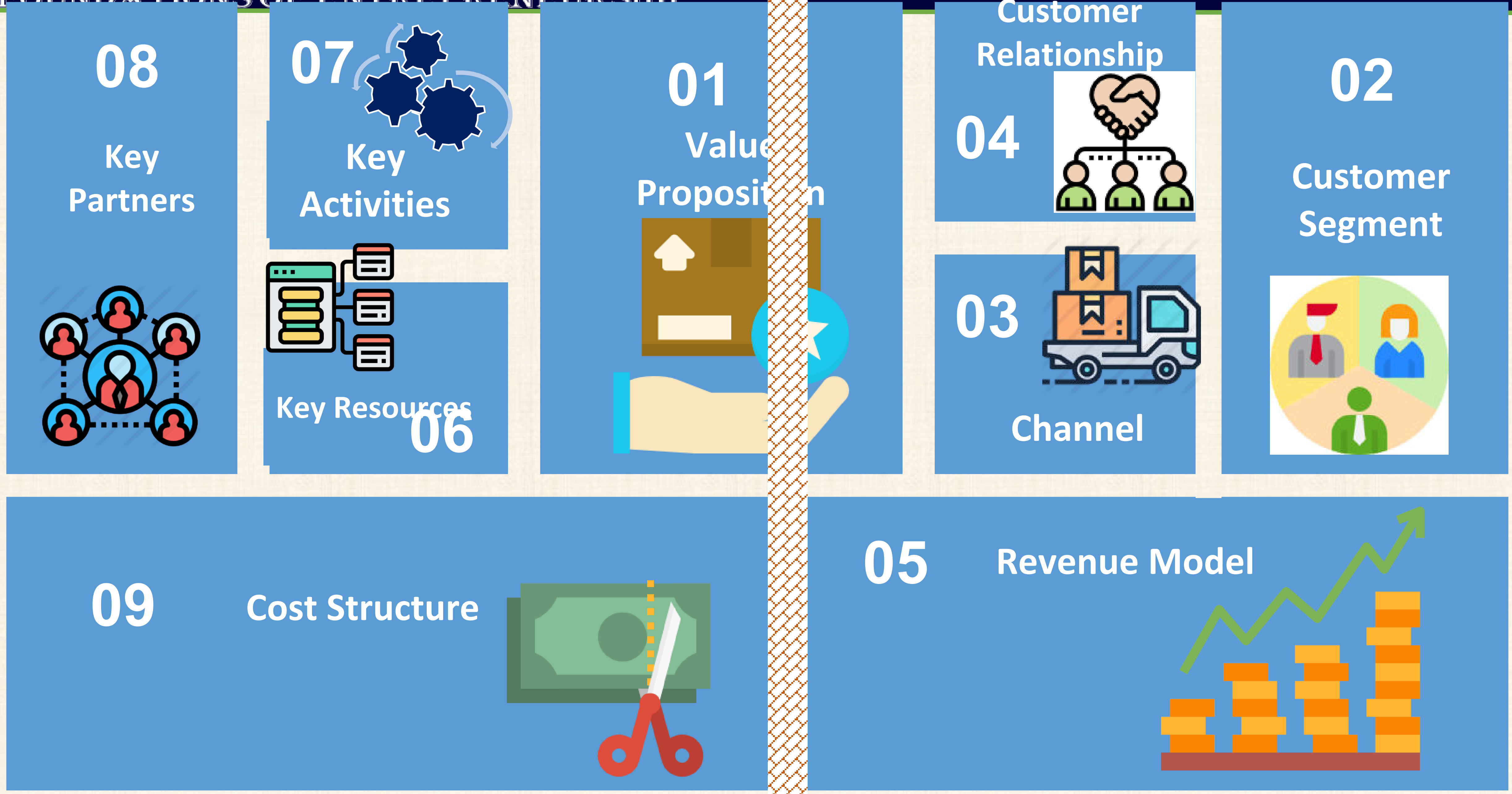
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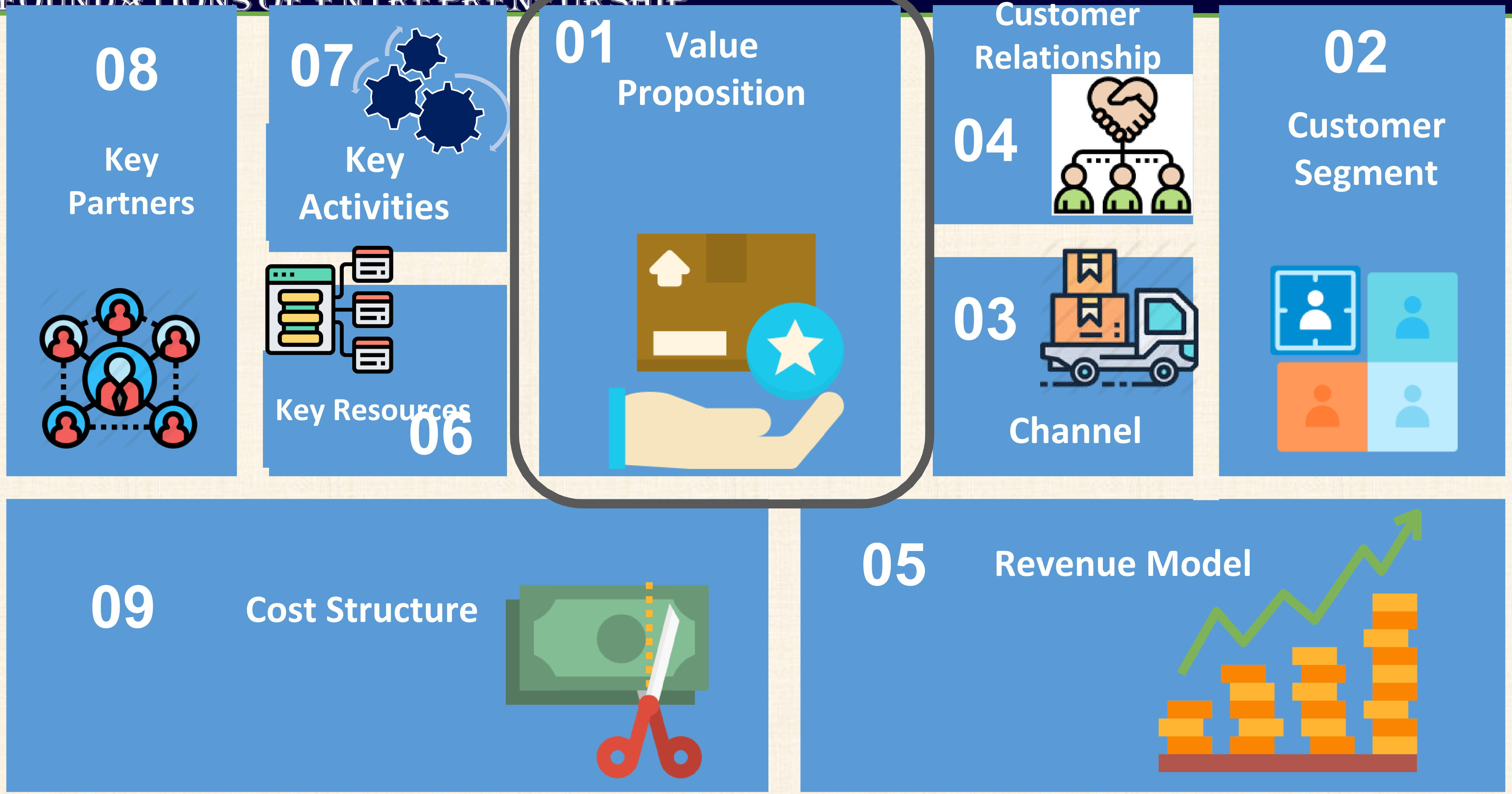
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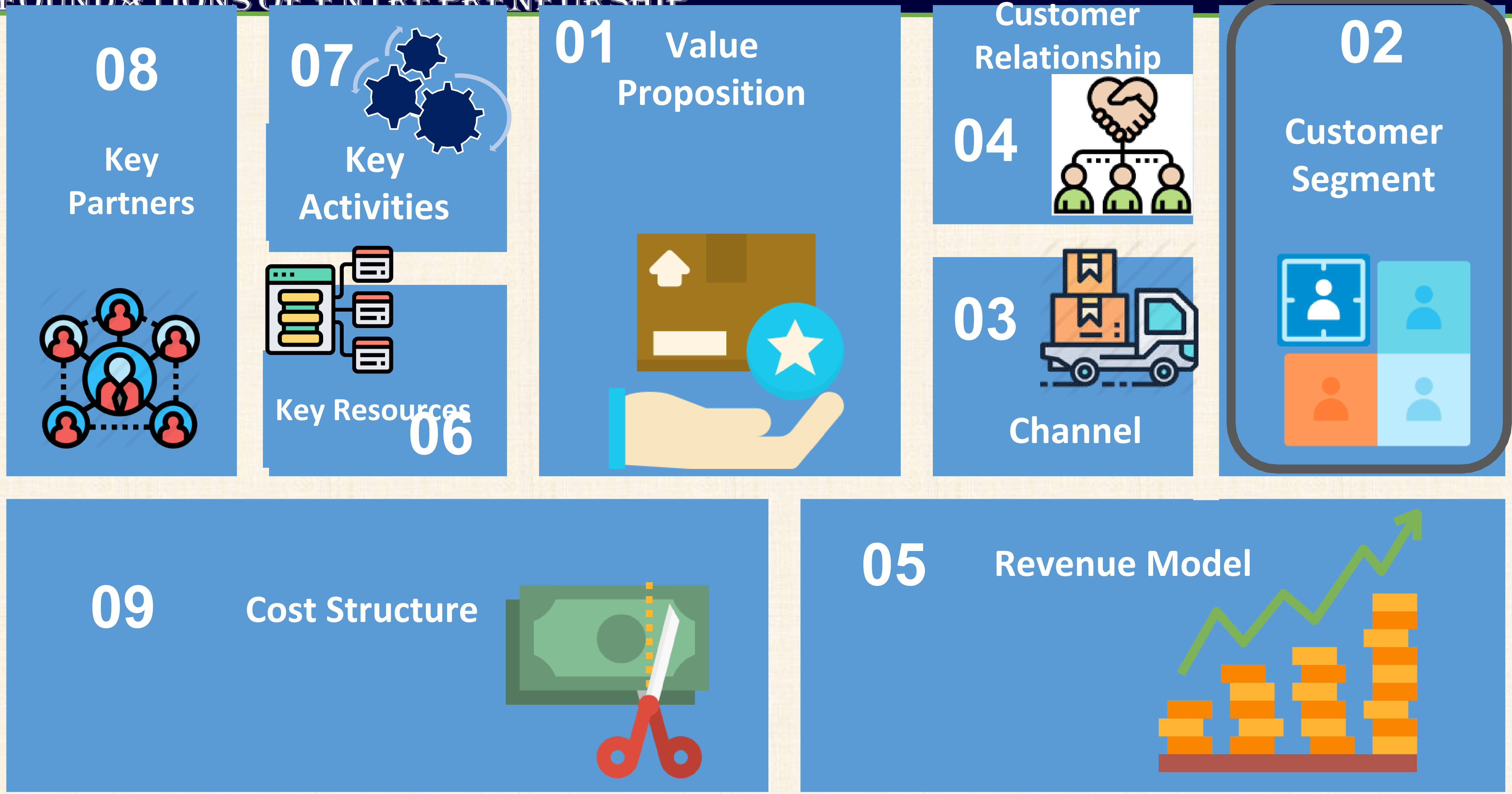
Value Proposition

- The Value Propositions Building Block describes the favorable features of products and services that would be perceived by the customers in the targeted segment as superior value for money.
- The Value Proposition provides reasons to customers why they would buy product of one company over another.
- Customers would consider the bundle of features and the price to be paid vis-à-vis with those of competing products.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Market / Customer Segment

- Market segmentation is the act of dividing a broad consumer or business population into sub-groups of consumers based on some shared characteristics relevant for marketing particular product or service.
- Dividing the market for common characteristics such as similar needs, common interests, similar lifestyles or even similar demographic profiles.
- Ideally the market segment should hold promise of profitable relationship with growth potential.

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More About Segment

- Distinct groups with common needs, common behaviors, common taste or other attributes.

Customer groups represent separate segments if:

- Their needs, behavior, and conveniences are unique and they are ready to pay the extra price (or revenue) justifying additional cost to meet them.
- The more sharper the focus to meet specific needs of a group of customers, smaller the segment becomes. More ‘niche’ is the marketing – catering to specialized needs.

Segmentation

The features of the products or services include newness, performance, customization, ‘getting the job done’, design, price, brand, cost reduction, risk reduction, accessibility, convenience, usability and such (Osterwalder 2010).

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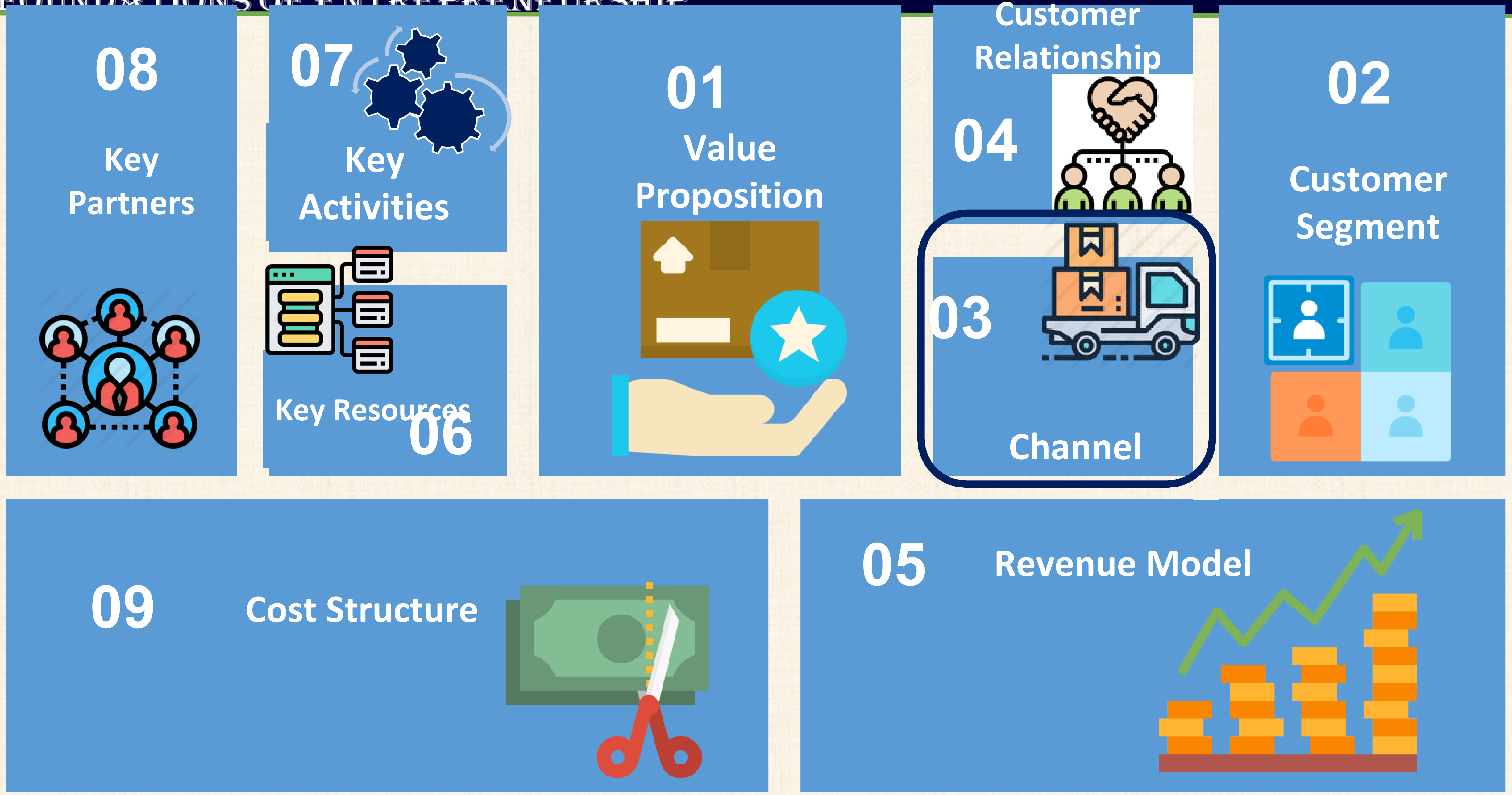
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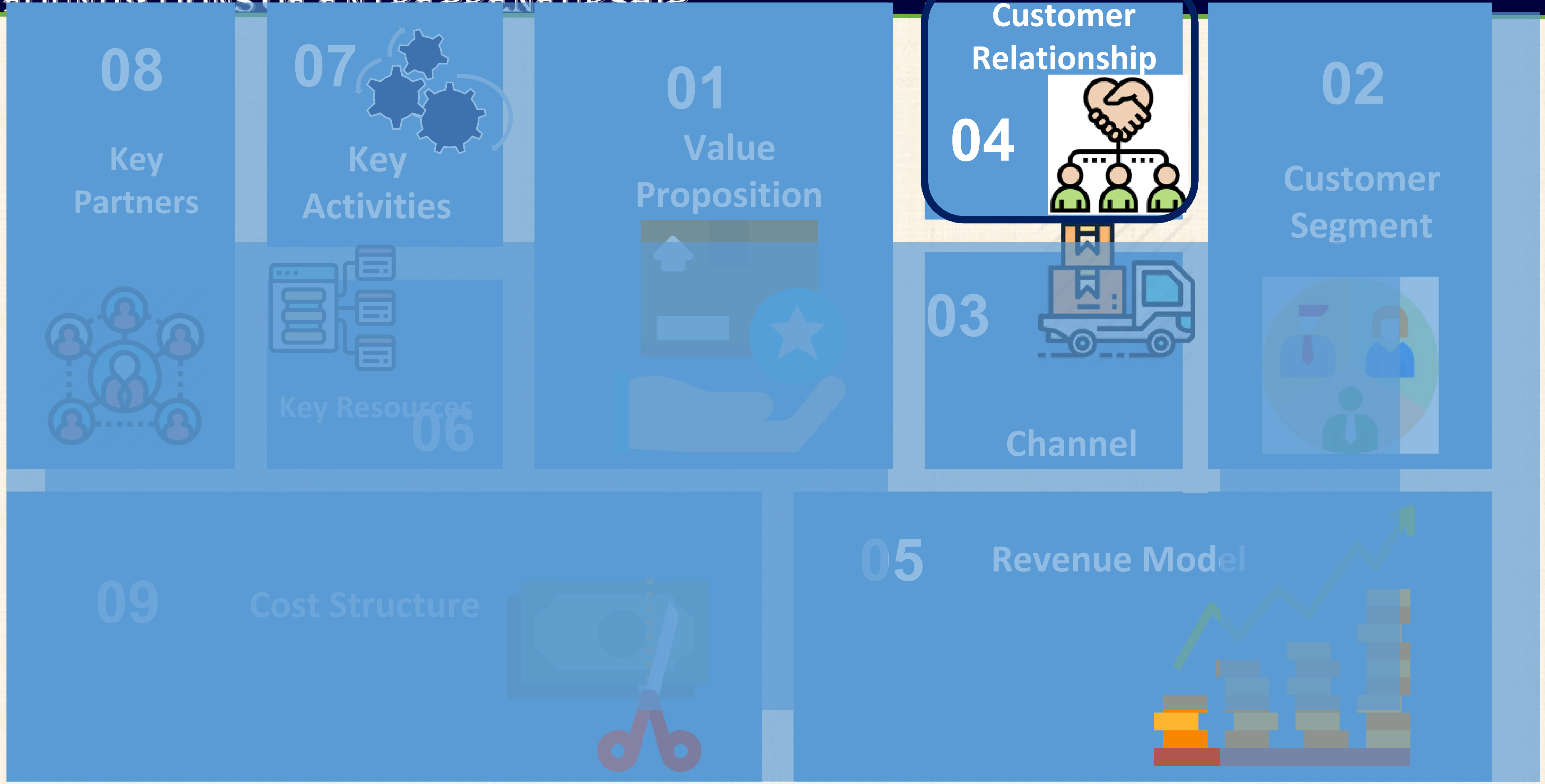
Channels

- The Channels Building Block describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition.

It includes:

- Creating awareness among customers of the value proposition.
- Helping customers evaluate a company's Value Proposition.
- Facilitating easy purchase of the product or service by the customers.
- Delivering the product or service conveniently to customers.
- Providing after-sale customer support as part of value proposition.
- Allowing to return in case of mismatch. Exchange of old with new.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Customer Relationships

- The Customer Relationships Building Block describes how the company would build and maintain relationship with targeted customers on a sustainable long-term basis.

Motivations:

- Customer acquisition
- Customer retention
- Acquiring more customers for sustainable & profitable growth.
- Making profit from life-time-value of customers.

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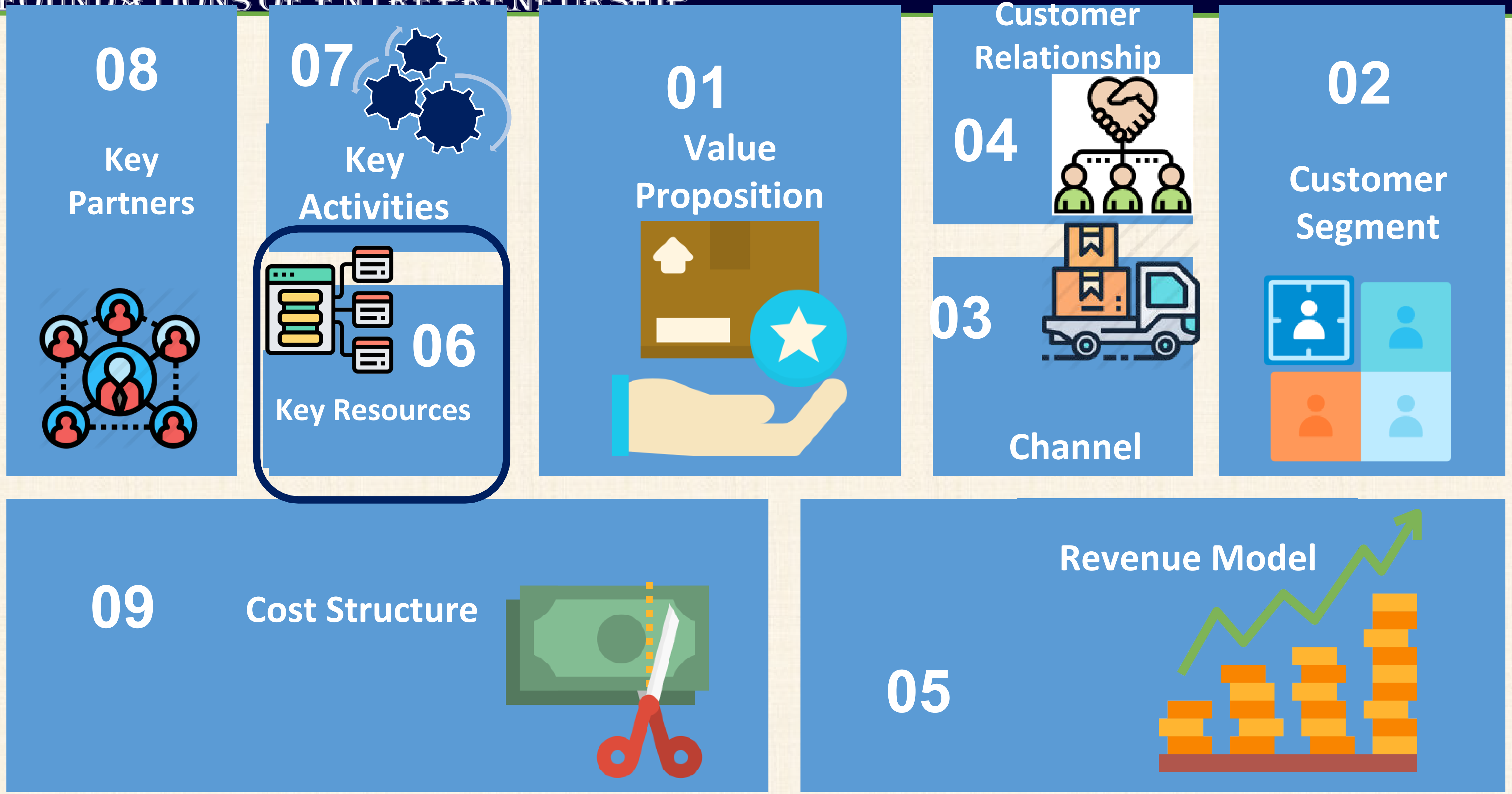
Revenue Streams/Model

- The Revenue Streams Building Block represents the cash a company generates from each Customer Segment
- If customers comprise the heart of a business model, Revenue Streams are its arteries.
- A company must ask itself, For what value is each Customer Segment truly willing to pay?
- Successfully answering that question allows the firm to generate one or more Revenue Streams from each Customer Segment.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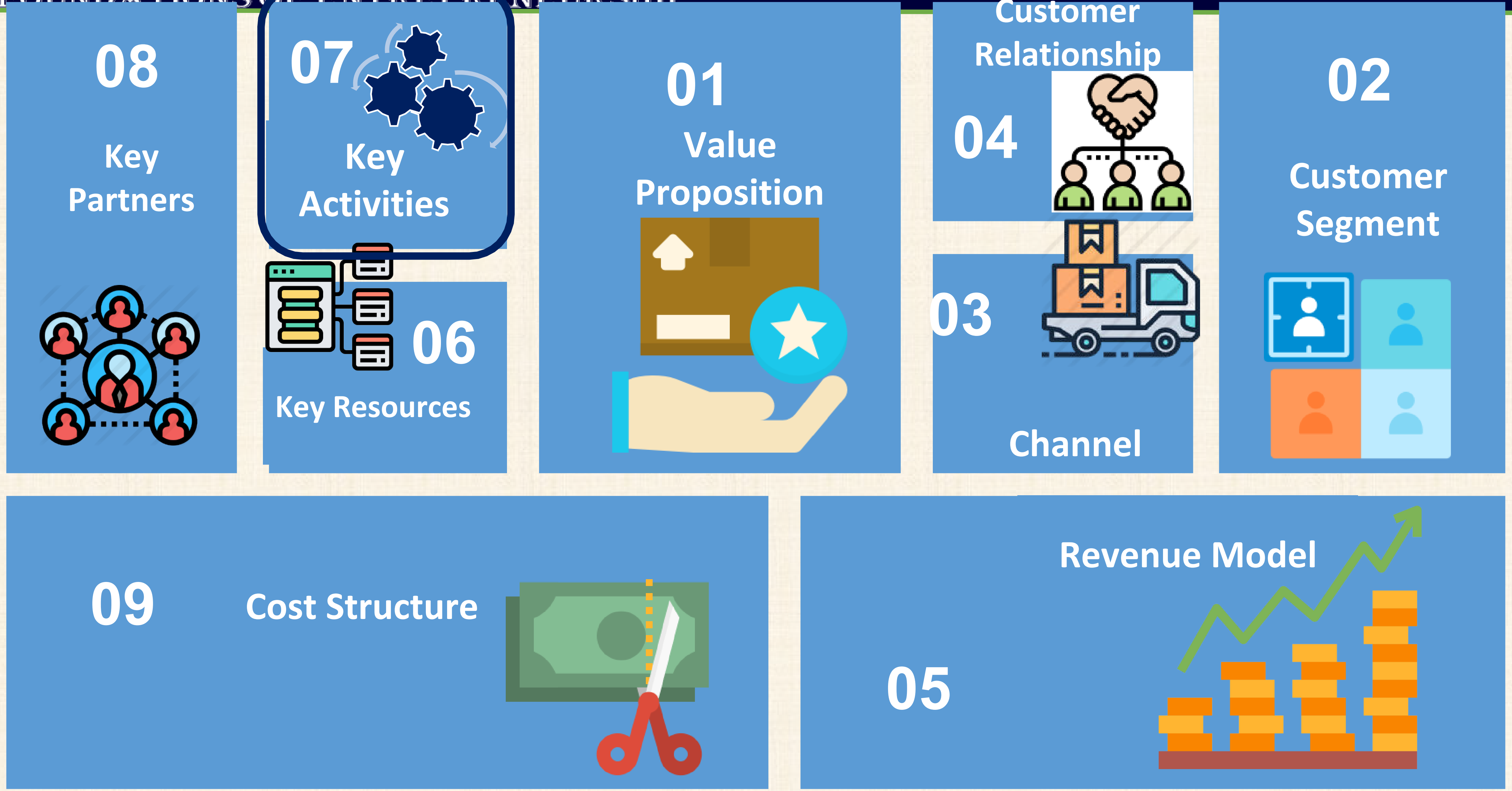
Key Resources

- The Key Resources Building Block describes the most important resources required to make a business model work
- These resources allow an enterprise to create the Value Proposition.
- Depending on type of business, different Key Resources are needed.
- An E-car manufacturer requires batteries, whereas a battery manufacturer requires materials such as lithium, cobalt, nickel, manganese, graphite, copper and aluminum.
- Key resources can be physical, financial, intellectual, or manpower. Key resources can be owned or acquired from key partners.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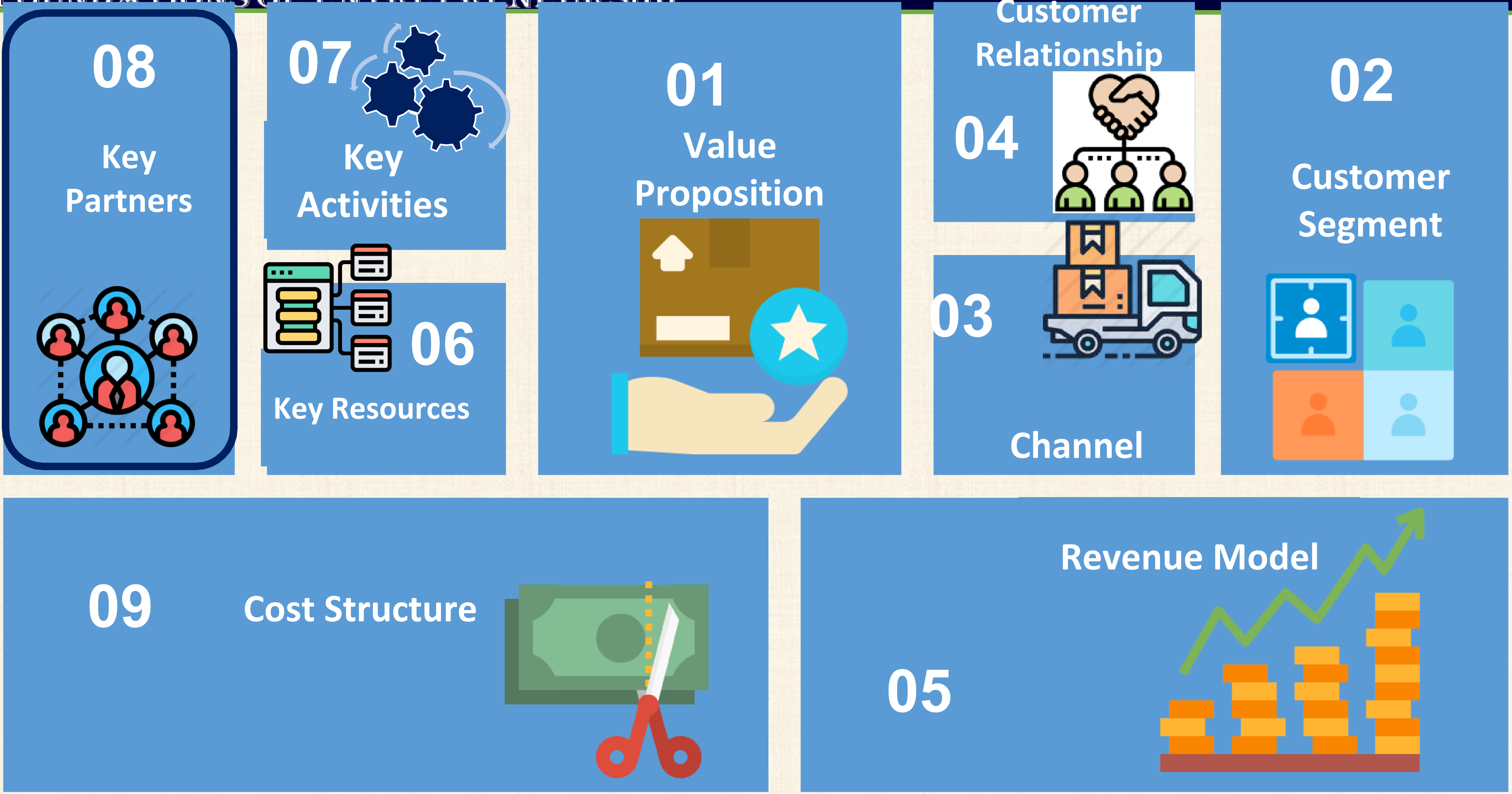
Key Activities

- The Key Activities Building Block describes the important processes or actions through which it delivers the value.
- For a car maker, Key Activities include manufacturing and supply chain management. For a software consultancy firm, Key Activities include problem solving.
- For an e-commerce company, the key activities are maintaining the virtual market place, maintaining logistics, connecting with vendors, maintaining data, payment gateway, handling customer complaints, managing reverse logistics (return of goods), and many more.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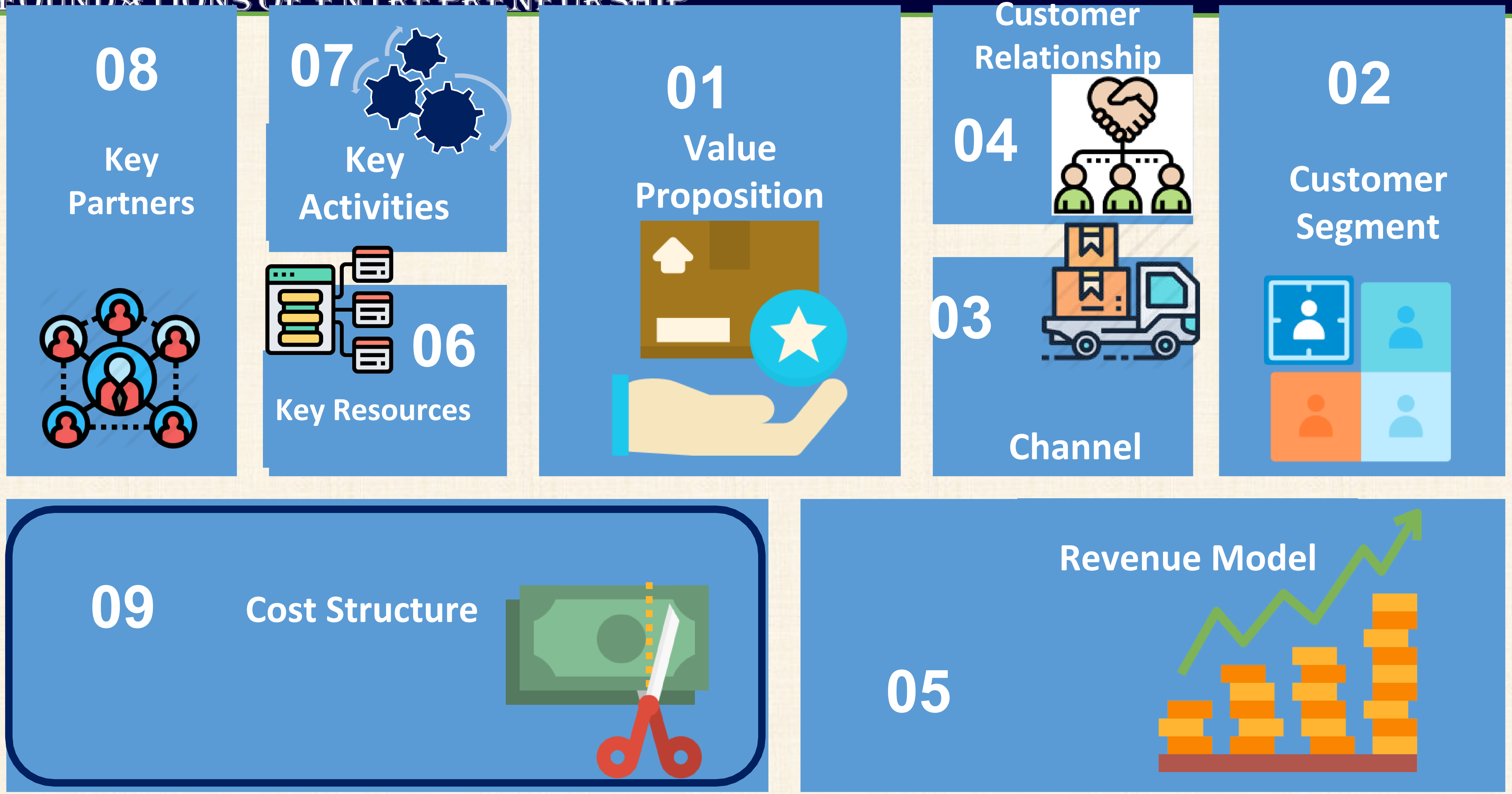
Key Partnerships

- The Key Partnerships Building Block describes the network of suppliers, providers of other resources, and facilitators.
- Companies create alliances to optimize their business models, reduce risk, or acquire resources.
- Key Partners include key suppliers of inputs, funding, consulting, manpower providers, investors.
- Co-founders are partners, but this block refers mostly to outside partners who play key role in smooth running of the venture



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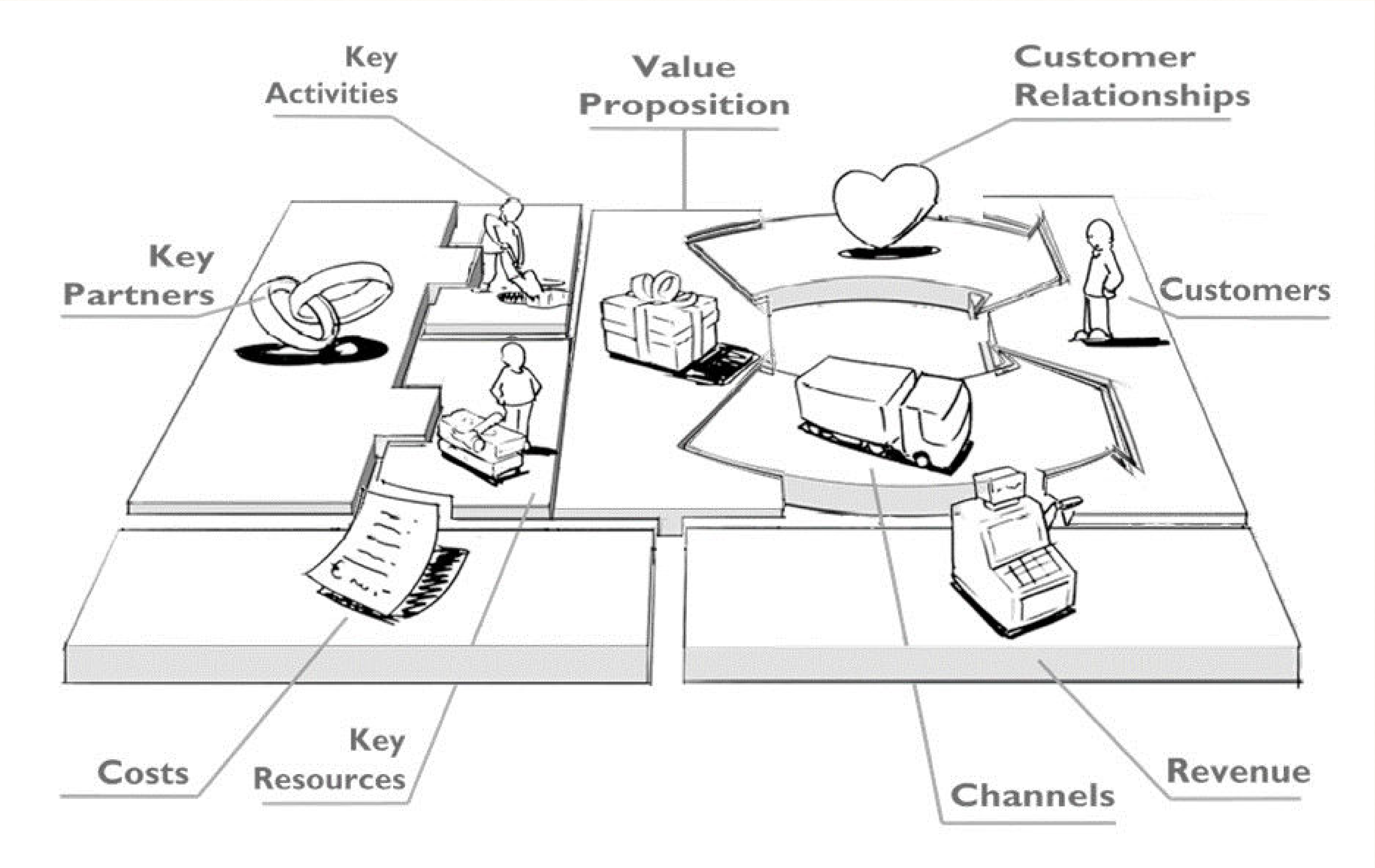
Cost Structure

- The Cost Structure describes all costs incurred to operate a business model.
- Cost to be incurred in creating and delivering value, maintaining Customer Relationships, and generating revenue.
- Raw-materials, rent, salary & wages, transportation, insurance, webhosting, internet service, advertisement, depreciation, interest on loans, royalty, research & Development cost, server rental cost, administrative overhead cost are part of the costs.

Book: Business Model Generation by Alexander Osterwalder



The Business Model Canvas *for taxi aggregator*

Key Partners
- † Individual car owners
- † Transport operator
- † Digital wallet companies
- † Technology provider
- † Advertisement agencies
- † Driver association
- † Hardware provider

Key Activities
- Manage booking
- Optimize vehicle logistics
- Maintain customer registration, travel record

Key Resources
- Hardware
- Software
- Contract with key partners
- Key employees

Value Proposition
- Easy booking
- Easy payment
- Direction
- Safety
- Competitive rate (transparent)
- Schedule tour in advance
- No waiting
- Pickup from home
- No parking
- Good interior

Customer Relationships
- Security
- Feedback
- Loyalty bonus
- Fidelity bonus

Channels
- Phone App
- Computer
- Call center
- Google advert
- Sponsor event

Customer Segments
Segment by profession
- People commuting daily
- Working people
- Tourist

Segment by age
- People above 18 and below 70

Cost Structure
- Hardware cost
- Software maintenance cost
- Employee cost
- Network / hosting / database server cost

Revenue Streams
- Pay per ride
- Registration fee, hardware rent
- Advertisement on the App
- Advertisement on taxis
- Event contract

Criticism of Business Model Canvas

- It does not have any reference to exogenous forces.
- It focuses mostly on economic value and not environmental and social value.
- How to create competitive advantages, entry barrier, scaling business and such.
- Overly simplistic and narrow in terms of diversity of business challenges.

- Osterwalder, A., & Pigneur, Y. (2010). Business model generation: a handbook for visionaries, game changers, and challengers. John Wiley & Sons.
- Bocken, N. M., Short, S. W., Rana, P., & Evans, S. (2014). A literature and practice review to develop sustainable business model archetypes. Journal of cleaner production, 65, 42-56.
- Toro-Jarrín, M. A., Ponce-Jaramillo, I. E., & Güemes-Castorena, D. (2016). Methodology for the of building process integration of Business Model Canvas and Technological Roadmap. Technological Forecasting and Social Change, 110, 213-225.
- Icons from https://www.flaticon.com/

- Business model canvas explains how a business creates and delivers values.
- Clear understanding of business model is critical for success of a business.
- Business model canvas is almost like a ready reckoner for conceiving various aspects of the business.
- However, business model canvas is only a part of the understanding of challenges and opportunities of a business.

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Thank you

Foundations of Entrepreneurship

Lecture Note #17

Marketing Research?

17.02.2021

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Ignore the slides with a cross mark

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Concepts Covered:

- Define marketing research.
- Highlight the importance of market-information at every stage of a company.
- Outline the step-by-step marketing research process.
- Sources of information
- Discuss how companies use the information for decision making.

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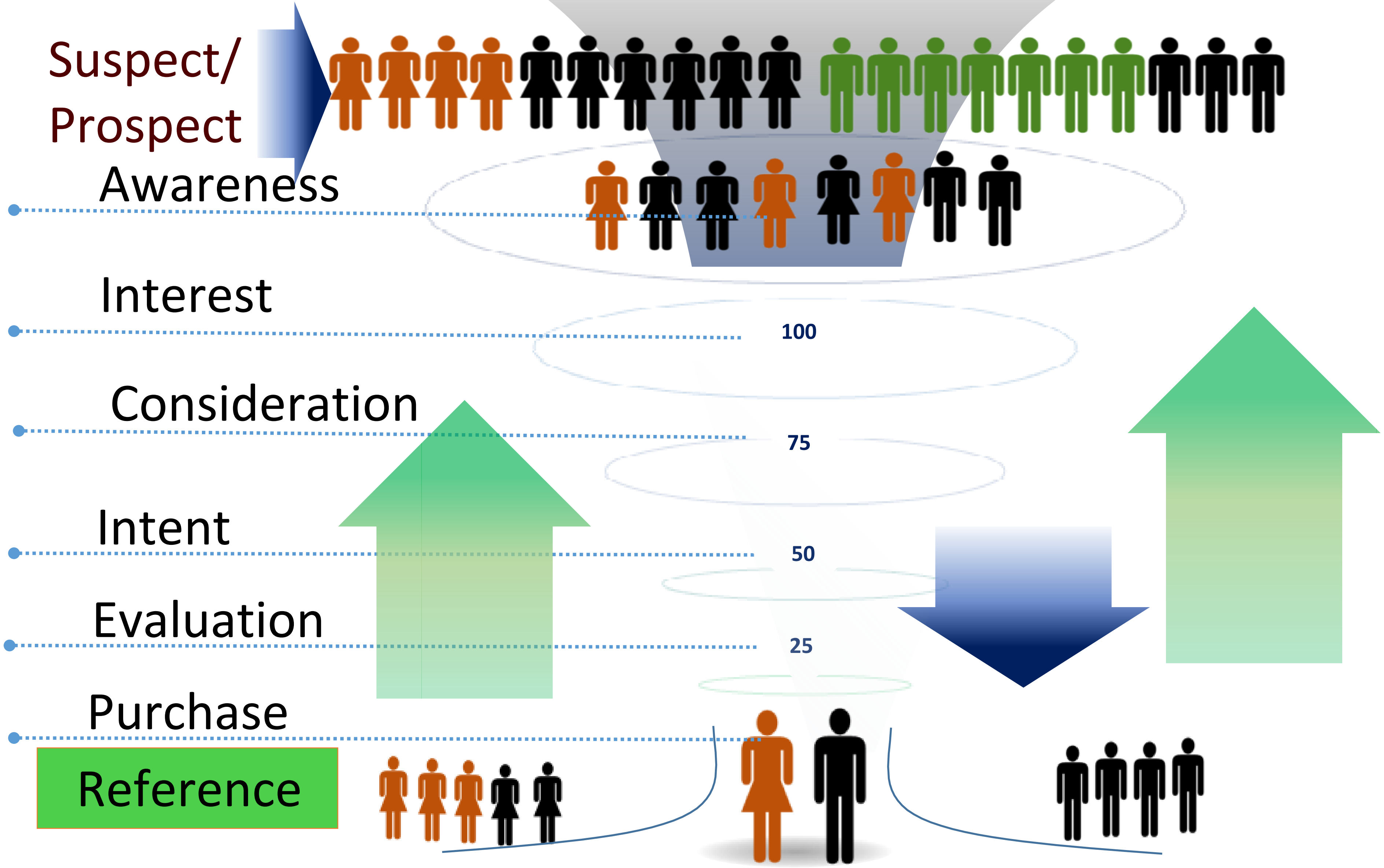

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"It is a capital mistake to theorise before one has data"

Sir Arthur (Ignatius) Conan Doyle

(22 May 1859 – 7 July 1930)

The author of detective stories (crime fiction) Sherlock Holmes

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Market(ing) Research: Definition.

Is about gathering relevant information

Marketing research is the systematic design of experiment, collection of data, their analysis and reporting the information relevant to a specific marketing situation facing the organisation and to help making decisions.

Market research provides data helping to identify market pain, understand market structure, customer segment, target market, competition, product positioning, design advertisement campaign to identify and reach your target market at a price customers are willing to pay.

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Definition of Market Research (MR)

The American Marketing Association defines

"Marketing Research: as the function which links the consumer, customer and public to the marketers through information that is used to identify and define marketing opportunities and problems; refine and evaluate marketing actions, monitor marketing performance and improve understanding of marketing as a process."

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American Marketing Research Association

The function which links the consumers, the customers, and public to the marketers through INFORMATION.

Companies use marketing research in a wide variety of situations. It helps marketer to understand customer satisfaction & purchase behaviour. Thus, it helps them to assess market potential & market share or to measure the effectiveness of pricing , product, distribution, & promotion activities.

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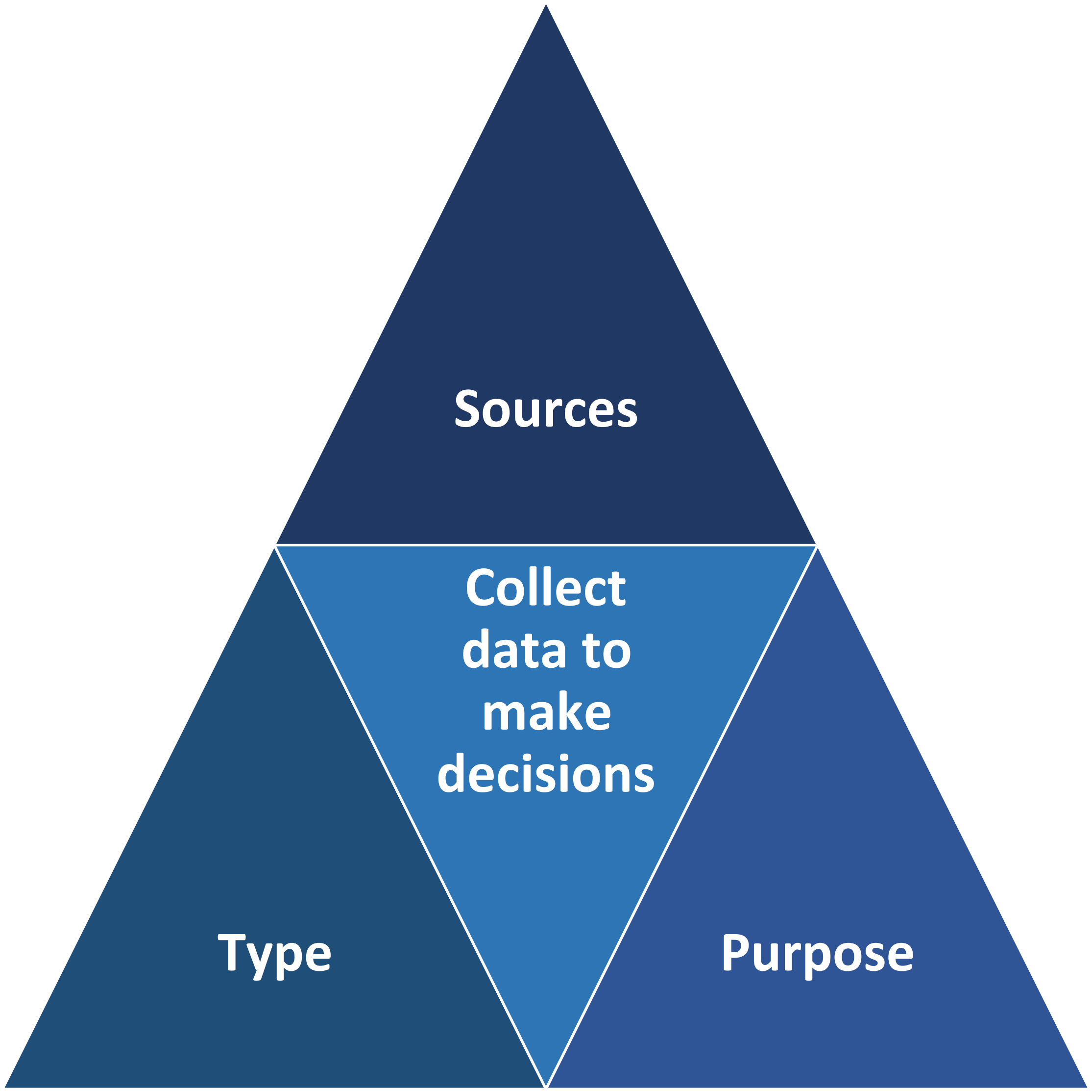

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Definition in Wikipedia

Marketing research is "the process or set of processes that link(s) the **producers, customers**, and **end users** to the marketer through information used to identify and define marketing opportunities and **problems; generate, refine, and evaluate marketing actions**; monitor marketing performance; and improve understanding of marketing as a process. Marketing research specifies the information required to address these issues, **designs** the method for **collecting information, manages and implements** the **data collection process, analyses** the **results**, and **communicates** the **findings** and their **implications**."

Marketing Research Helps to

Information emerging out of market research helps to

- Identify unmet demand and identify opportunities
- Understand market needs, preferences, aspirations and helps to refine offerings
- Evaluate customers' satisfaction and marketing performance
- Improve product/service, customer satisfaction, and acquire and retain growing number of loyal customers

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Marketing Research is a Systematic and Objective Process of

- design research methodology,
- collect market data,
- analyze to generate information,
- disseminate the information to decision makers,
- use the information for improving decision making to create customer value and satisfaction and gain increasing access to market for achieving profitable growth.

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Marketing research gives decision-makers the information they need to find solutions to business problems, such as the following:

- How satisfied are customers with your product and service offering?
- How will customers react to a decision to change a price or product or to a new product or service?
- What are service representatives hearing from customers?
- What responses to competition will bring you success in a given market?

Role of Marketing Research

- The task of marketing research is to provide management with relevant, accurate, reliable, valid, and current information.
- Competitive marketing environment and the ever-increasing costs attributed to poor decision making require that marketing research provide sound information.
- Sound decisions are not based on gut feeling, intuition, or even pure judgment. It must be based on data.

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Importance of Marketing Research

Managers make numerous strategic decisions in the process of identifying potential opportunities, target market selection, market segmentation, planning and implementing marketing programs, marketing performance, satisfying customer needs, and control.

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An Example: Research on Agatha Christie

In 1985, HarperCollins found sales of Agatha Christie novels declining.

- **They commissioned quantitative & qualitative research.**
- **It revealed that readers liked the "niceness" of the crimes, but covers were gruesome and bloody.**
- **New cover designs commissioned.**
- **Results: the first year sales rose 40%.**

Image courtesy: https://www.flickr.com/

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Activities for Which Market Research Is Performed

- **Awareness, Attitudes & Usage research**
- **Public relation research**
- **Advertising research**

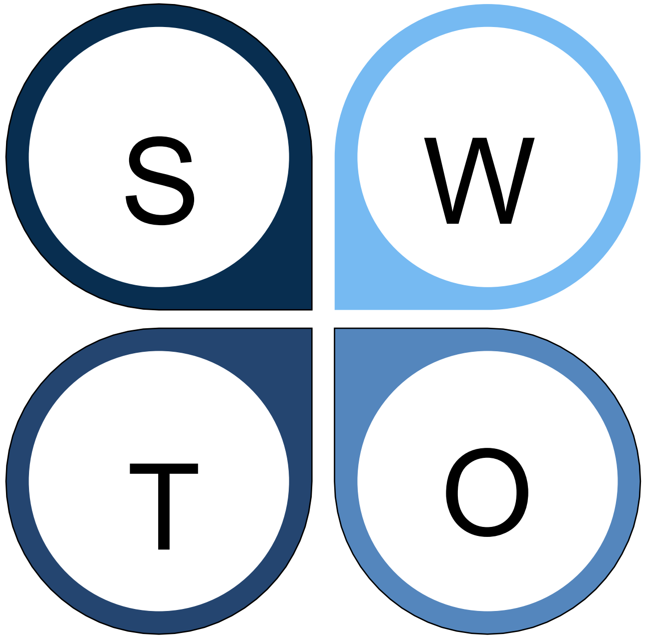
- **Market segmentation**
- **Positioning, Branding research**
- **Industry & Competition analysis**

Customer satisfaction & loyalty research
Customer communication testing
Usability testing
Customer experience / Shopper insights

- **Concept testing**
- **Product optimization**
- **Pricing research**
- **Advertising research**
- **Usability testing**

Objectives for Marketing Research

SWOT Analysis



Strengths

Where the company excels better than competitors

Weaknesses

Areas where the company is weak and needs to improve

Threats

Factors that can harm the performance of the company or weaken its competitive advantage

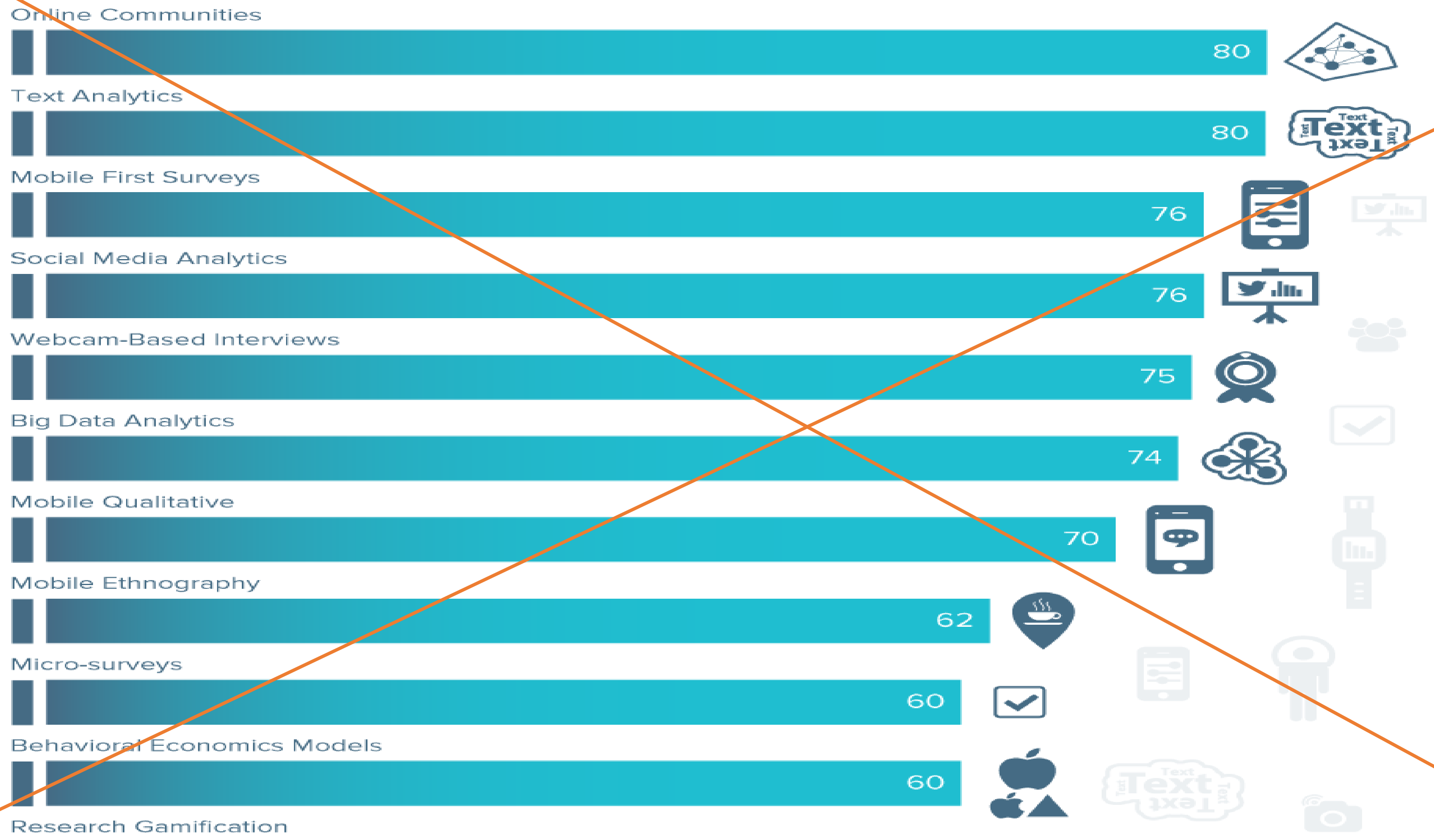
Opportunities

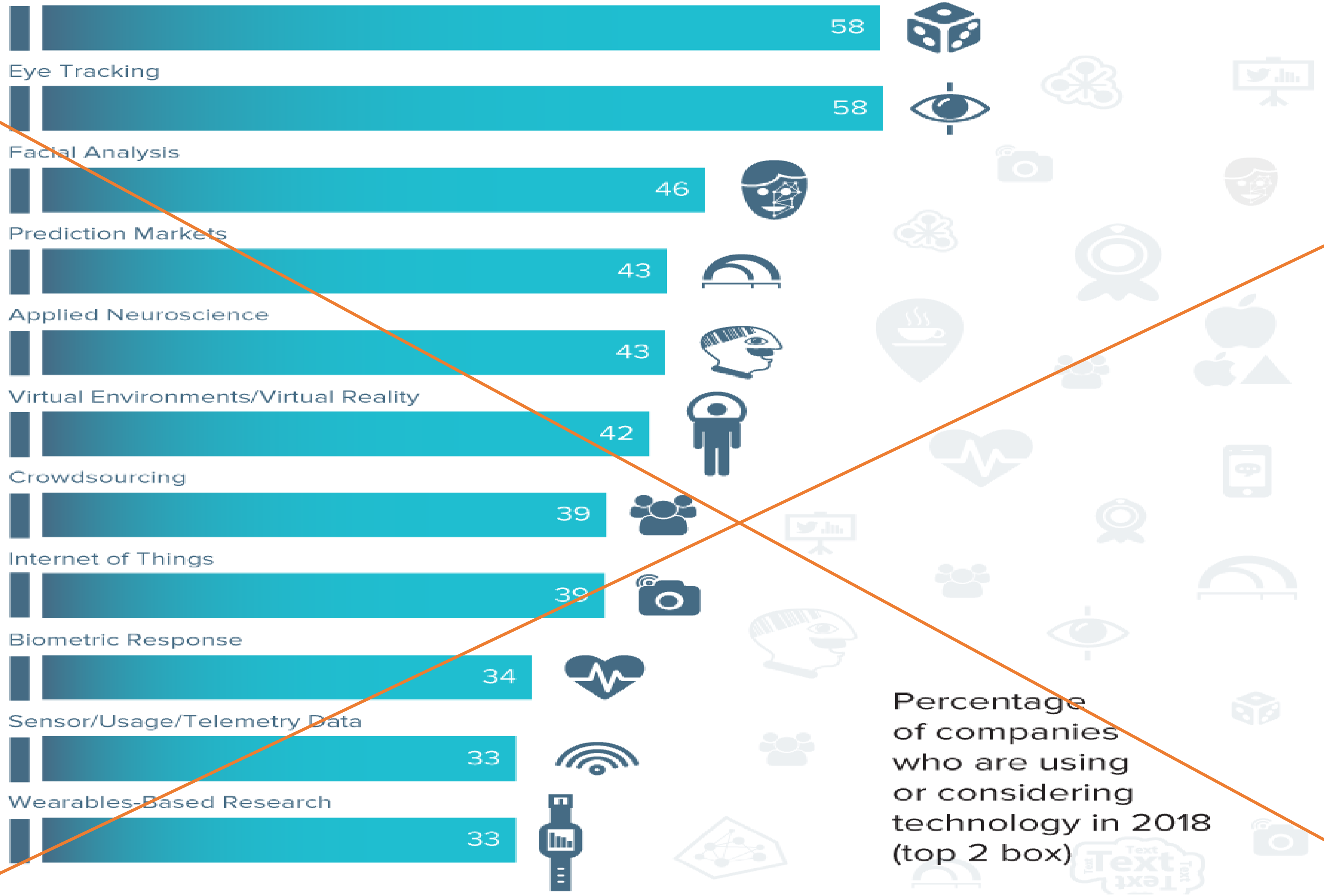
Favourable external and internal factors that the company can exploit to build competitive advantage

Research Approaches/Methods Currently in Use

- The following two slides provide information on the adoption of the research approaches/ methods in use or under consideration by the market research population.
- This information is purely for personal use by entrepreneurs. You are not expected to memorize any data from these tables.
- The full data are available in the following site.
- https://www.greenbook.org/PDFs/2018_Q3_Q4_GRIT_Report.pdf

EMERGING METHOD ADOPTION

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Eye Tracking
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Facial Analysis
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Prediction Markets
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Applied Neuroscience
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Virtual Environments/Virtual Reality
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Crowdsourcing
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Internet of Things
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Biometric Response
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Sensor/Usage/Telemetry Data
33
Wearables-Based Research
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Percentage of companies who are using or considering technology in 2018 (top 2 box)

Marketing Research Starts at the Very Outset

- **The first step to start a business is to know 'who are your customers'.**
- **Where to find them?**
- **What do they buy at present that your product would replace?**
- **What features and quality standards?**
- **At what price?**

Marketing Research Starts at the Outset … cont’d.

- Understanding customers’ response at every stage is indispensable.
- Notably, feedback from innovator kind of customers may not be any good to gauge the purchase decisions of the majority.

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Marketing Research Continues as Long as the company exists

- Market research has to be a regular activity and would help to decide
  - whether you need to continue to develop further,
  - what features to focus more/less,
  - what features to discard/add.
- Customers are integral part of product development process and they can help avert developing the wrong product.
- Market research, thus, may eliminate the chance of customer rejecting/not buying the product when launched.

Why market research for start-ups

- Ideally, marketing research starts while 'identifying pain point'.
- Attractiveness of the market depends on:
  - The size of the market
  - Historical growth
  - Present growth
  - Future growth potential
  - Market types (perfect competition, monopolistic competition, oligopoly, monopoly)

Market structure

- Market research helps to understand above features.

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Why market research for start-ups … cont'd.

- Market research helps to understand customers' likely acceptance of product or service even before they are launched.
- In line with the lean method, one should continue the development process based on validated learning.
- You need to engage with customers to validate, learn and decide.

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DECIDE Model of Steps in Marketing Research

- D – Define the marketing problem
- E – Enumerate the controllable and uncontrollable decision factors
- C – Collect relevant information
- I – Identify the best alternative method and type of data
- D – Develop and implement a marketing plan
- E – Evaluate the decision and the decision process

Issues in Market(ing) Research

- Spend on Market(ing) Research
- Types of Market(ing) Research
- Potential Problems

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Types of Market Research

By Source of Data or information	By Methodology or type of data	By Objectives
- Primary - Secondary	- Quantitative - Qualitative	- Exploratory - Descriptive - Causal or Experimental

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Qualitative and Quantitative Market Research

- The quantitative research answers the what, where, when and who of decision making.
- The goal of quantitative research is to quantify and generalize the results so that the marketer can come to a final conclusion about the best course of action.
- Large sample, statistical data that describe a market.
- Survey technique

- Qualitative market research is done using observation or unstructured questioning.
- The qualitative research, on the other hand answers the why and how.
- The goal of qualitative research is to gain insights into the deeper motives behind consumer purchases.
- To understand trend and motivation to buy.
- Focused group, individual interview, group discussion.

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QUALITATIVE

Objectives and Method

- The quantitative research answers the what, where, when and who of decision making.
- The goal of quantitative research is to quantify and generalize the results so that the marketer can come to a final conclusion about the best course of action.
- Large sample, statistical data that describe a market.
- Survey technique

QUANTITATIVE

Objectives and Methods

- Qualitative market research is done using observation or unstructured questioning.
- The qualitative research, on the other hand answers the why and how.
- The goal of qualitative research is to gain insights into the deeper motives behind consumer purchases.
- To understand trend and motivation to buy.
- Focused group, individual interview, group discussion.

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Information Sources

- **Primary source – information collected directly and primarily for the problem at hand.**
- **Secondary source – information collected routinely for general consumption or for other specific problem and are used for the current problem.**
- **The cost, resources and time requirement for gathering primary information are generally high and at times prohibitive.**
- **Secondary information is cheaper and faster to collect than primary information.**
- **Some secondary information is available in published sources.**

Primary and Secondary sources of data

Data gathering from primary source

5 Methods

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Primary Market Research: 5 Methods

If you want objective decision making based on specific metric, using a large sample, you have the resources: adopt the primary method of data collection.

Survey	Focus groups	Interview	Experiment & field trial	Observation
Most widely utilized	**Target demographic**	**Deep Exploration**	**Scientific testing**	**Observe closely**
Objective, specific metric, large sample, need adequate resources.	Particular demographic response to product. Focus groups suitable for exploratory & qualitative research.	Qualitative method. Deeper perspective on customer problems, psychological motivations and underlying perceptions.	Can test specific hypotheses. Quantitative in nature. A/B test used by Barak Obama team for donation.	Use usability test, eye tracking, contextual inquiry, in-home observation, mystery shopper.
Food	Game console or voting	New product launch	New product testing0	Testing of hypothesis/ Feature testing/ price, packaging, aesthetics

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Primary Research Methods

Survey | Focus groups | Interview | Experiment & field trial | Observation

- **Survey:** **You want objective decision making based on specific metric. You have a large sample and have the necessary resources.**
  - **People of particular demographic are chosen to respond to product or service. Quantitative.**
- **Focus group: Focus groups are people of similar demographic, homogenous in certain parameters, such as college gamers, newly wed women, new moms. They are brought together and interacted by a moderator to gain information relevant to the research problem. Excellent for exploratory and qualitative research.**

Primary Research Methods

Interview | Experiment & field trial | Observation

- **Individual interviews:** Is a qualitative market research method. Use this method to dig into a specific issue very deeply, to search for customer problems, understand psychological motivations and underlying perceptions.
- **Experiments & Field Trial:** Scientific testing, where a specific hypothesis can be tested. Quantitative in nature. A/B test used by Barak Obama team for donations.
- **Observations**: Use usability testing, eye tracking, contextual inquiry, in-home observation, mystery shopper.

- **Create simple user personas – a semi fictional character based on psychographic and demographic data from people relevant to your products. Use a short and direct questionnaire.**
- **Conduct observational research – you received unbiased reflection of customers on your products.**
- **Conduct individual interviews – One-on-one conversation. Listen more and talk less. Avoid leading or loaded questions.**
- **Analyze the data – wrap your head around the data without losing yourself in it.**
- **Try to visualize/create an actionable customer journey map – steps in the sales cycle from awareness to repurchase and advocacy**

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- Market research (or marketing research) is any set of techniques used to gather information and better understand a company's target market. Businesses use this information to design better products, improve user experience, and craft a marketing message that attracts quality leads and improves conversion rates.

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Experimental or Field Trial: A/B Test in Action

Screenshot from https://www.mymarketresearchmethods.com/

Lessons Learned from the Experiment

- Every visitor to your website is an opportunity – they may or many not convert into customers. You may know what motivates them.
- Question assumptions – they learned that images did better than video. Question your own assumptions!
- Experiment early and often – they experimented early and discovered the necessary change, and achieved unexpected success.

Screenshot from https://blog.optimizely.com

Types of Market Research

By Source of Data or information	By Methodology	By Objectives
- Primary - Secondary	- Quantitative - Qualitative	- Exploratory - Descriptive - Causal or Experimental

Market Survey Considerations

1. Make sure that every question is necessary
2. Keep it short and simple
3. Ask direct questions
4. Ask one question at a time
5. Avoid leading and biased questions
6. Speak your respondent's language
7. Use response scales whenever possible
8. Avoid using grids or matrices for responses
9. Rephrase yes/no questions if possible
10. Take your survey for a test drive

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Careful how you ask the question

Q. Do you approve of smoking whilst praying?

A: No

Q. Do you approve of praying whilst smoking?

A:Yes

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Example of successful research

- Coke saw decline in the market share in the late 1970s and early 1980s
- The Coca-Cola company had evidence that taste was the cause.
- A new product dubbed “New Coke” was developed that was sweeter than the original-formula Coke. Sale declined further.
- Almost 200,000 blind product taste tests were conducted in the United States, and more than one-half of the participants favored Old Coke over New Coke.
- Ultimately, New Coke was withdrawn from the market.

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Coca Cola Failure and Success

Coke was losing market-share

May 1985 Old Coke withdrawn

New Coke introduced presuming customer prefer sweeter taste

The strategy failed.

July 1989 Old Coke reintroduced as Coke Classic and ales went up.

Methods		Qualitative or Quantitative	Cost	Time	Suggestions
Secondary		Both	Low. Free in some contexts.	Short	Get a bird's eye view or a ballpark estimate. Good to start with.
Primary	Survey	Qunatitative	Usually costly. Cost elements: Participants incentive, survey design, survey administration	Medium	Gain insight on specific parameters. Get reliable information.
	Focus groups	Qualitative	Medium. Cost elements: Group moderation and participant incentives.	Medium	Slightly deeper probing than exploratory.
	Interviews	Qualitative	Medium. Depends on the sample size.	Short-Medium	Deeper than exploratory. Gain insight on specifics.
	Experiments & Field trial	Qunatitative	Most expensive	Usually long	Used for testing hypothesis. Reliable inference.
	Observation	Qualitative	Medium. Depends on complexity of the problem.	Medium	Gain knowledge about actual behavior free of bias of respondents

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Market Research: By Methodology

By Source of Data or information	By Methodology By data-type	By Objectives
- Primary - Secondary	- Quantitative - Qualitative	- Exploratory - Descriptive - Causal or Experimental

Qualitative Versus Quantitative

- Qualitative research is exploratory in nature. Usually gathers data using focus groups, triads, dyads, in-depth interviews, uninterrupted observation, bulletin boards, and ethnographic participation or observations. Less objective.

- Quantitative research looks to quantify a problem, involves collection of data through surveys in different modalities (online, phone, paper), points of purchase (purchase transactions), and click-streams.
  More objective.

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Types of Market Research: By Methodology

	Qualitative	Quantitative
Type of Question	Probing	Simple
Sample Size	Small	Large
Information per respondent	High	Low(ish)
Questioner's skill	High	Low(ish)
Analyst's skill	High	High
Type of analysis	Subjective	Objective
	Interpretive	Statistical
Ability to replicate	Low	High
Areas probed	Attitudes	Choices
	Feelings	Frequency
	Motivations	Demographic

Benefits of Qualitative Market Research over Quantitative

Qualitative	Comment/Example
Cheaper compared to quantitative	Smaller sample size
Probes in-depth motivations and feelings	Allows managers to observe (through one way mirror) 'real' consumer reaction to the stimulation - e.g. comments and associations regarding a new product fresh from the lab
Often useful precursor to quantitative research	Gives a low cost and timely sense of which issues to probe in quantitative research

Market Research by Objectives

By Source of Data or information	By Methodology	By Objectives
- Primary - Secondary	- Quantitative - Qualitative	- Exploratory - Descriptive - Causal or Experimental

Market Research: By Objective

• Exploratory	Preliminary data needed to develop an idea further. e.g. outline concepts, gather insights, formulate hypotheses.
• Descriptive	Describe an element of an idea precisely. e.g. who is the target market, how large is it, how will it develop.
• Causal	Test a cause and effect relationship, e.g. price elasticity. Done through experiment.

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Research Design : Exploratory

- Exploratory - Exploratory research is less structured, undertaken to gain background information on the general nature of the research problem. Example: Ray Kroc – McDonald.
- Clarify Problems and Hypotheses.
- Exploratory research allows the researcher to define the problem more precisely and to generate hypotheses for the upcoming study.
- Uses secondary data analysis, experience survey, case analysis.

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Research Design : Exploratory

- Exploratory research is unstructured and informal.
- Usually no formal set of objectives, sample plan, or questionnaire are involved.
- It is undertaken to gain background information about the general nature of the research problem.
- No predetermined set of procedures and the nature of the research changes as the researcher gains information.
- Flexible. Conducted at the idea stage.
- Exploratory research is simple, quick and less costly.

Burns A. C. A. Veeck & R. F. Bush (2017) Marketing Research, Pearson Education Limited

Research Design : Descriptive

- **Descriptive research** is undertaken to describe answers to questions of who, what, where, when, and how.
- In order to know who our customers are, what brands they presently buy and in what quantities, where they buy that brands, when they shop, and how they found out about our products, we turn to descriptive research.

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Descriptive Research

Two basic types of descriptive research studies are available to the marketing researcher:

Cross-sectional and

Longitudinal.

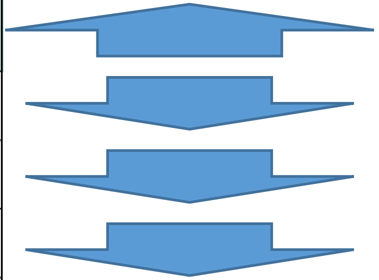
Cross-Sectional

- Cross-sectional studies measure units from a sample of the population of interest at only one point in time.
- Example: say a magazine surveys a sample of their subscribers
- Questions such as their age, occupation, income, and educational level are asked.
- These sample data, taken at one point in time, are used to describe readership of a magazine in terms of demographics.
- Election surveys are cross-sectional studies.

Longitudinal Studies

- Longitudinal studies repeatedly measure the same sample units of a population over a period of time.
- Data gathered from same sample units at different point in time is also referred to as Panel data.
- Firms such as IRI and Nielsen have been maintaining panels consisting of hundreds of thousands of households for many years.

	Year 1	Year 2	Year 3
	Survey 1	Survey 2	Survey 3
Brand 1	200	250	300
Brand 2	300	300	290
Brand 3	400	370	350
Brand 4	500	480	460
Total	1400	1400	1400



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Research Design : Causal/ Experimental Research

Causal or Experimental

- Causal research is used to measure cause-effect relationships, such as "if x_i increases, what happens to y?"
- An experimental design is critical to understand the exact change in a dependent variable caused due to change in an independent variable.
- Example: to know if higher expenses on advertising lead to rise in sales. Percentage reduction in price leads to what growth in sales or how sensitive is demand to price change?

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The Market Research Process in Brief

	1. Defining the problem and objectives	2. Developing the research plan	3. Collecting the information	4. Analysing the information	5. Presenting/ applying the findings
Steps	Distinguish between the research type needed e.g. - exploratory - descriptive - causal	Decide on - budget - data sources - research approaches - research instruments - sampling plan - contact methods	Information is collected according to the plan (N.B. it is often done by external firms)	Statistical manipulation of the data collected (e.g. regression) or subjective analysis of focus groups	Overall conclusions to be presented rather than overwhelming statistical methodologies
Comments	If a problem is vaguely defined, the results can have little bearing on the key issues	The plan needs to be decided upfront but flexible enough to incorporate changes/ iterations	This phase is the most costly and the most liable to error	Significant difference in type of analysis according to whether market research is quantitative or qualitative	Can take various forms: - oral presentation - written conclusions supported by analysis - data tables

Comprehensive Step-by-Step Process of Marketing Research

1. Establish the need for marketing research. Is there real need for information to make decision(s)?
2. Review the environment and the context of the problem. Define the problem. Establish research objectives.
3. Determine research design. The research approach depending on the problem and objectives.
4. Identify information types and sources. Primary and secondary.
5. Develop research plan.

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Step-by-Step Process of Marketing Research

6. Determine methods of accessing data.
7. Design data collection forms.
8. Determine the sample plan and size.
9. Collect data.
10. Analyze data.
11. Prepare and present the final research report.
12. Formulate strategy, implement, repeat the process from step 1 to 12.

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Not arranged in any order.
There are many more such firms.

Some marketing research firms

- IMRB International
- The Nielsen
- IDC India
- RNB Research
- Market Xcel Data Matrix Private Limited
- Majestic MRSS

May ignore

Know Your Consultant Before Engaging

- Make a thorough credibility check.
- Did their findings have clear linkage to business objectives?
- Marketing research is one part data and other part consulting: making actionable recommendations what strategic decisions the business should take is the consulting part.
- Satisfaction with the consulting components of research is very low at just 49% (GRIT report 2018).
- How rigorous is their process and analysis.

- Countercheck with their clients in the similar field as of yours.
- Quality of insight generated.
- Can they communicate well?
- Are they known for maintaining high ethical standard?
- They must understand your business.
- Must generate actionable measurable metrics.
- They should be flexible.

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How Much Data Is Good Enough?

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Pareto 80:20 Principle or the law of the vital few

In product development, marketing, manufacturing, and several other events, roughly 80% of the effects come from 20% of the causes.
In marketing, 80% of your sales comes from 20% of your customers.

Jeff Bezos on information economy of decision making

- “Most decisions should probably be made with somewhere around 70% of the information you wish you had. If you wait for 90%, in most cases, you’re probably being slow...If you’re good at course correcting, being wrong may be less costly than you think, whereas being slow is going to be expensive for sure.”

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- **Try generating 70% of the information and make fast decision on market and move forward.**
- **More information may take huge incremental time and may be overly costly, whereas, may not meaningfully add to accuracy.**
- **The new reality: fast and steady wins the race.**
- **We must be able to do increasingly more with increasingly less.**

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Market Segment

- Is a subset of the market consisting of those people or businesses among the entire people or businesses in the market who have similar likes, dislikes, taste and aspirations, similar pains and look for similar solutions, similar needs, and affordability.
- Market segment is identified for the purpose of understanding particular unmet pain in any group of people and developing solution to alleviate the unmet pain in a manner that would be regarded as superior value for money.
- Segmentation is the process of dividing the total market of heterogeneous customers into subgroups of homogenous customers with similar needs, wants and aspirations concerning a particular type of product or service.

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Understanding Market Segment

The story of the 10 Carat Gold Jewelry

- Indians love gold jewelry.
- Gold price has gone up and has remained at an elevated level for a long time. The making charge of an ornament is some percentage of the price of the gold, which has made it even costlier.
- You are exploring the idea of 10 carat gold jewellery.
- These jewellery have less gold (close to 10 parts Gold and 14 parts other metals such as copper, zinc, silver or nickel).
- Therefore, they are cheaper, though they look good and remain shiny for a long time, like gold.

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Understanding Market Segment

The story of the 10 Carat Gold Jewelry

- With increasing price of gold you presume that people would prefer to buy these jewellery.
- You have decided to manufacture and sell 10 carat gold jewelry.
- You are planning to set up a mechanized manufacturing facility with an investment of Rs. 1 crore.
- You have identified a village with 500 households (families) to start marketing.
- You want to directly approach to the families.

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Understanding Market Segment

The story of the 10 Carat Gold Jewelry

You have two options

A. Option 1: Go and meet all the households to sell the jewelry
   - ❑ You start from one end of the village and move to the other end.
   - ❑ This may take more than a month to cover the whole village.
   - ❑ May cost huge sums of money to communicate and meet.
   - ❑ Engage manpower for a long time leading to opportunity cost.
   - ❑ Eventually you may find that only a few families are your actual customers.

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Understanding Market Segment

The story of the 10 Carat Gold Jewelry

B. Option 2: Identify those who are most likely buyers of your products

- ❑ You know the profile of families who are your likely customers.
- ❑ You collect demographic data on the population of the village.
- ❑ Identify families with middle to high income.
- ❑ Out of those, identify families with women in the age-group of say 18 to 60 years.
- ❑ Attend this smaller group of families.

➢ You can see the benefit of identifying the people who are potential customers. So you adapt the option 2.

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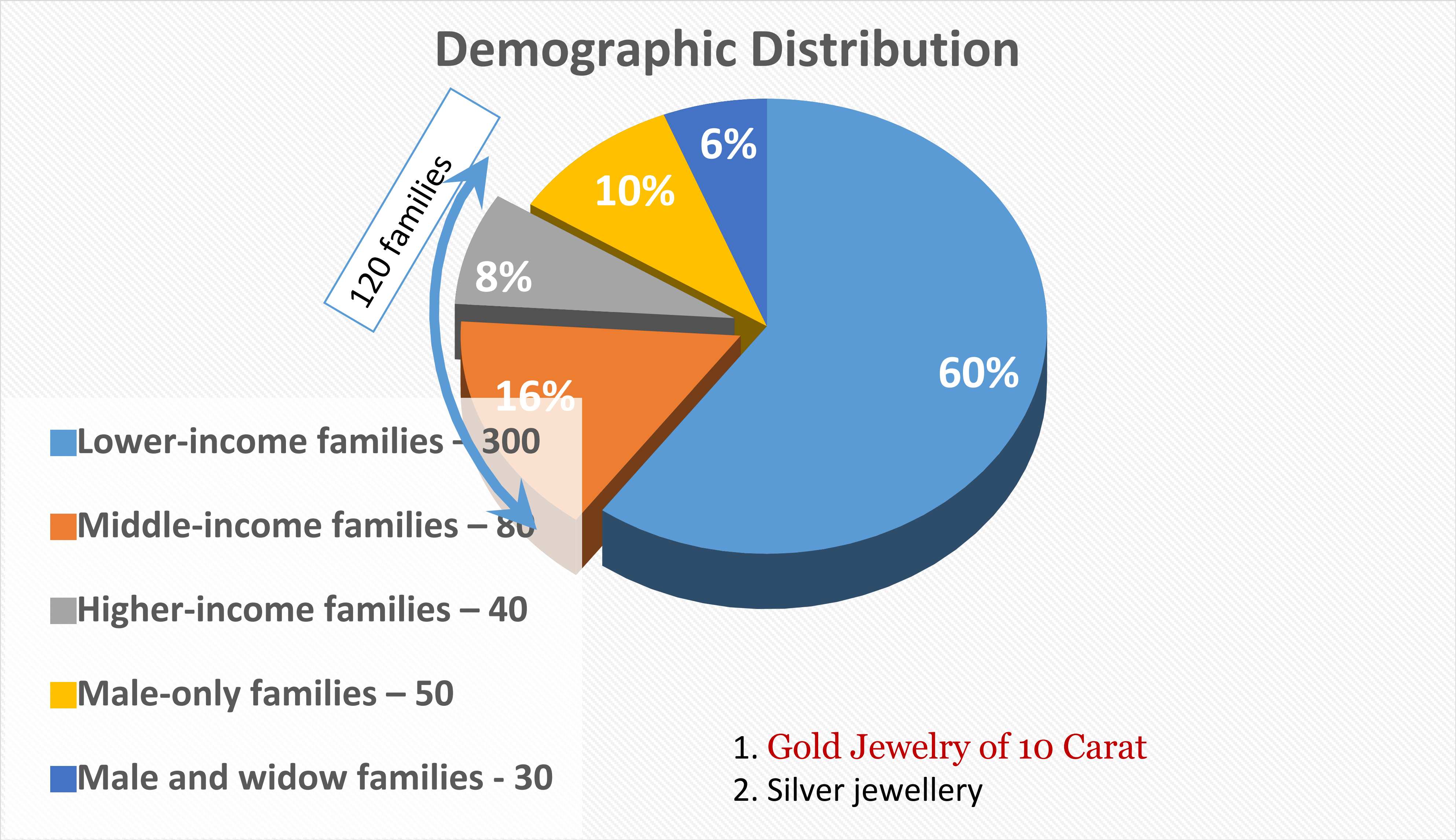

1. Gold Jewelry of 10 Carat
2. Silver jewellery

Understanding Market Segment

The story of the 10 Carat Gold Jewelry

- You send brochure containing nice pictures of variety of products to these prospective families.
- In the process, you create awareness of your products and people start discussing about them and aspiring to have them.
- You send letters to families intimating that a representative will come to demonstrate. You announce special discount for inaugural sale.
- You complete meeting all the prospective families in a week.
- You are likely to close deals with majority of the families you attend.
- You save time and resources for achieving the same success as in approach 1.

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Understanding Market Segment

The story of the 10 Carat Gold Jewelry

What do we learn from the story?

- The village has heterogeneous families in terms of parameters that determine suitability as your customers. Many are not your potential customers.
- You want to avoid wasting time approaching to families with remote chance of being interested in your products.
- So you have shortlisted the families you think have reasons to be your customers. You have identified only those families who are potential buyers.
- These families are homogenous from the perspective of the needs of your product.
- Thus segmentation is to identify out of a heterogeneous population, a homogenous group of persons (or entities in case of B2B business model) with needs and aspirations that your product or service can fulfill. They are your potential customers.

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Market Segment: Definition

The process of creating a homogenous sub-group of people based on criteria suitable for marketing a particular product or service out of a heterogeneous population is segmentation.

For the 10 Carat Gold Jewelry

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Market Segmentation

- It is the process of dividing the total market of heterogeneous customers into subgroups of homogenous customers with similar needs, wants and aspirations concerning a particular type of product or service.
- Consider the market of the same village in the example cited above, the segment would change if you are planning to sell low-cost detergent or say soap.
- Therefore, the concept of homogenous group is in direct reference to a product.
- Any population can be broken into many homogenous subgroups, i.e. segments, depending on what you are trying to market.

The story of the 10 Carat Gold Jewelry

By segmenting the market,

You have reduced

- the cost of sending letters so as to make them aware of the nice jewelry at such low cost,
- the cost of communicating about availability at the door step,
- and cost of reaching the customers – a smaller group of families.
- It has now become easier to manage them; particularly to serve them better.
- You can get feedback from them easily and add or remove features/ designs that the majority do not like.

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Why Segmentation?

- To be able to address a small but relevant group of customers and exclude those who are not potential customers.
- To identify unmet pain.
- To understand types of pains.
- To understand types of existing solutions offered by competitors.
- To understand the parameters of a better solutions.
- To understand the size of the market and growth potential.

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Why Segmentation? ...Contd.

- To assess the entry barrier and competitive landscape.
- To explore developing such a solution at competitive rate and offer a superior value proposition.
- To understand whether the proposed solution is really appreciated by the segment and the customers would buy at the desired price.
- To understand the channel for reaching out to the customer, making the product/service available and reaching the product to them.
- Save money on channels to create awareness, logistics, and delivery.

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- https://ccsearch.creativecommons.org/ for some images

- **Market Research is usually an integral part of startup – one would ignore it at their own peril.**
- **But it must be timely, objective and relevant. Else, it is worse than useless, leading you down the wrong path.**
- **So, be involved as far as you can be, especially up front and don't let the jargon deter you.**
- **Marketing research is not an exact science. It has to capture the purchase behavior of diverse people and their changing needs, which are influenced by countless subjective factors.**
- **Business leaders should share the market research insights with employees at all levels. This democratization of data and research would open the door for non-researchers to contribute ideas, engage with the research, and ask questions.**

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Thank You

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- **How does market research help in segmentation**
- **Circle of competency**

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Foundations of Entrepreneurship

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Topic: Marketing for Startups

Lecture Note #: 17 **18.02.2021**

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Brand Power

- iPhone parts cost ₹ 30,000
- It is sold for ₹ 80,000

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Trend: Selecting business model based on TREND

- Trend provides great opportunity for starting new & winning ventures.
- Those who are ahead of the trend or at least at the forefront of the trend, tend to enjoy natural advantages.
- Therefore, it is important to be able to forecast the technology trend, fashion trend, social trend, lifestyle, economic and environmental trend for creation of attractive new businesses

Recent trends defining the opportunity landscape

- **Green**
- Clean energy
- **Organic orientation**
- Economic
- **Social**
- Healthcare
- **Web**
- Analytics
- **IoT**
- FinTech
- **Digital wallet**
- Digital currency (cryptocurrency
- **Robotics**
- Drone based technologies
- **Artificial intelligence, machine learning**
- Energy storage – Battery technology, Super capacitor /Ultra capacitor
- **Electric vehicles**
- Block chain
- **E-commerce**
- Digital communication (5G)
- **Quantum computing**
- Smart irrigation
- **Virtual reality (VR)/Augmented reality (AR)**
- Additive manufacturing
- Serverless computing

Trend is driven by

- Technology trend or emergence – 5G, Autonomous, E-Vehicle, CC
- Social change – retail, smart home
- Environmental change – global warming, pandemic
- Economic change – decentralizing financial services
- Fashion – media

- Define marketing
- Overview on marketing
- Digital marketing
- Market segmentation, target marketing, and product positioning.
- Marketing mix

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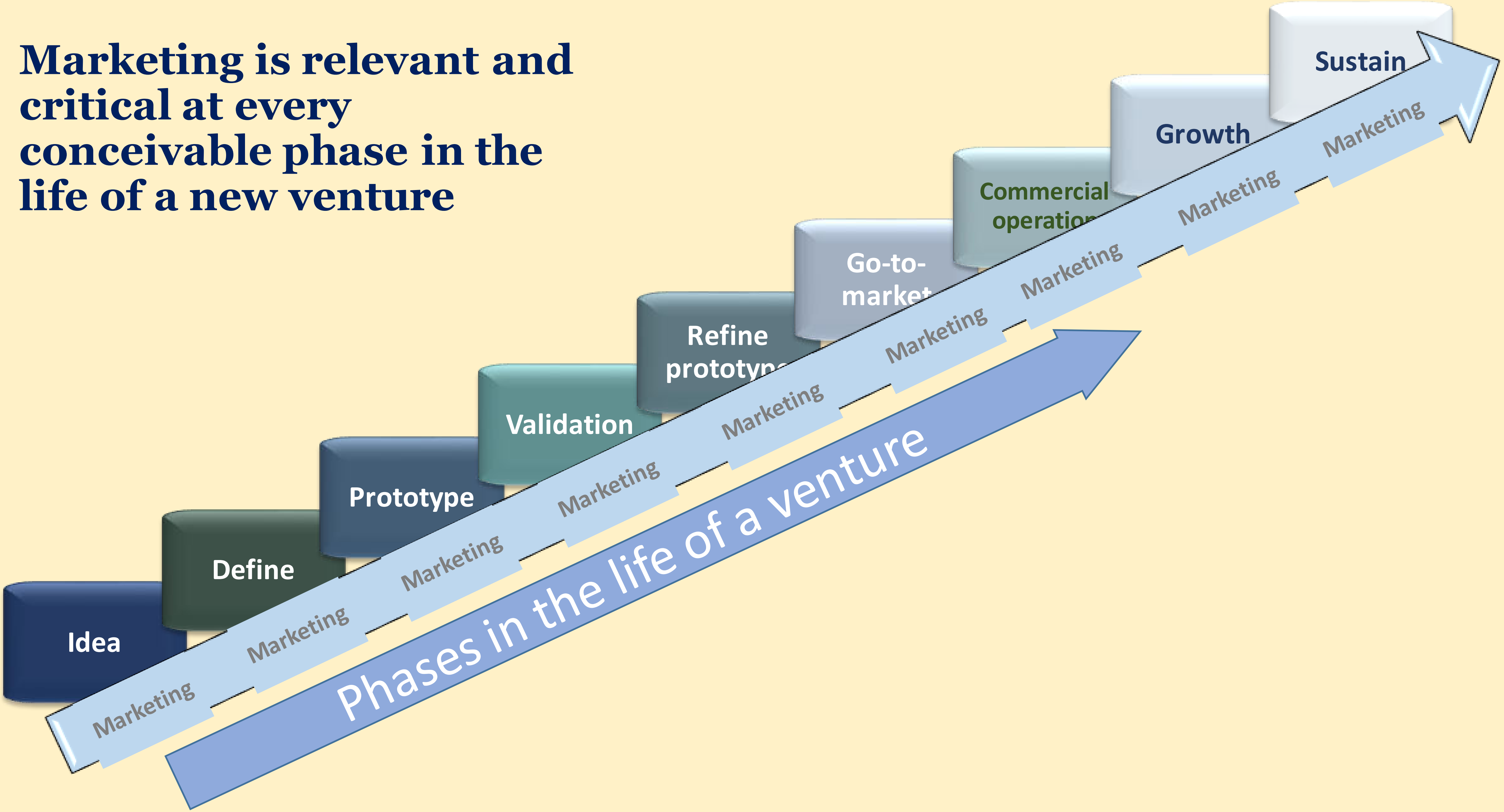
- Marketing starts from the time of identifying a pain point and continues as long as the company remains a going concern.
- Marketing is about building relationship with customers through a strong brand, reaching to increasing audience to acquire and retain satisfied customers, establishing credibility/trust, and building a satisfied & loyal customer base.

The best product does not always win.
The best marketing does. - Steve Denning

Marketing is relevant and critical at every conceivable phase in the life of a new venture



Marketing

Social definition

- Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others.

Peter Drucker

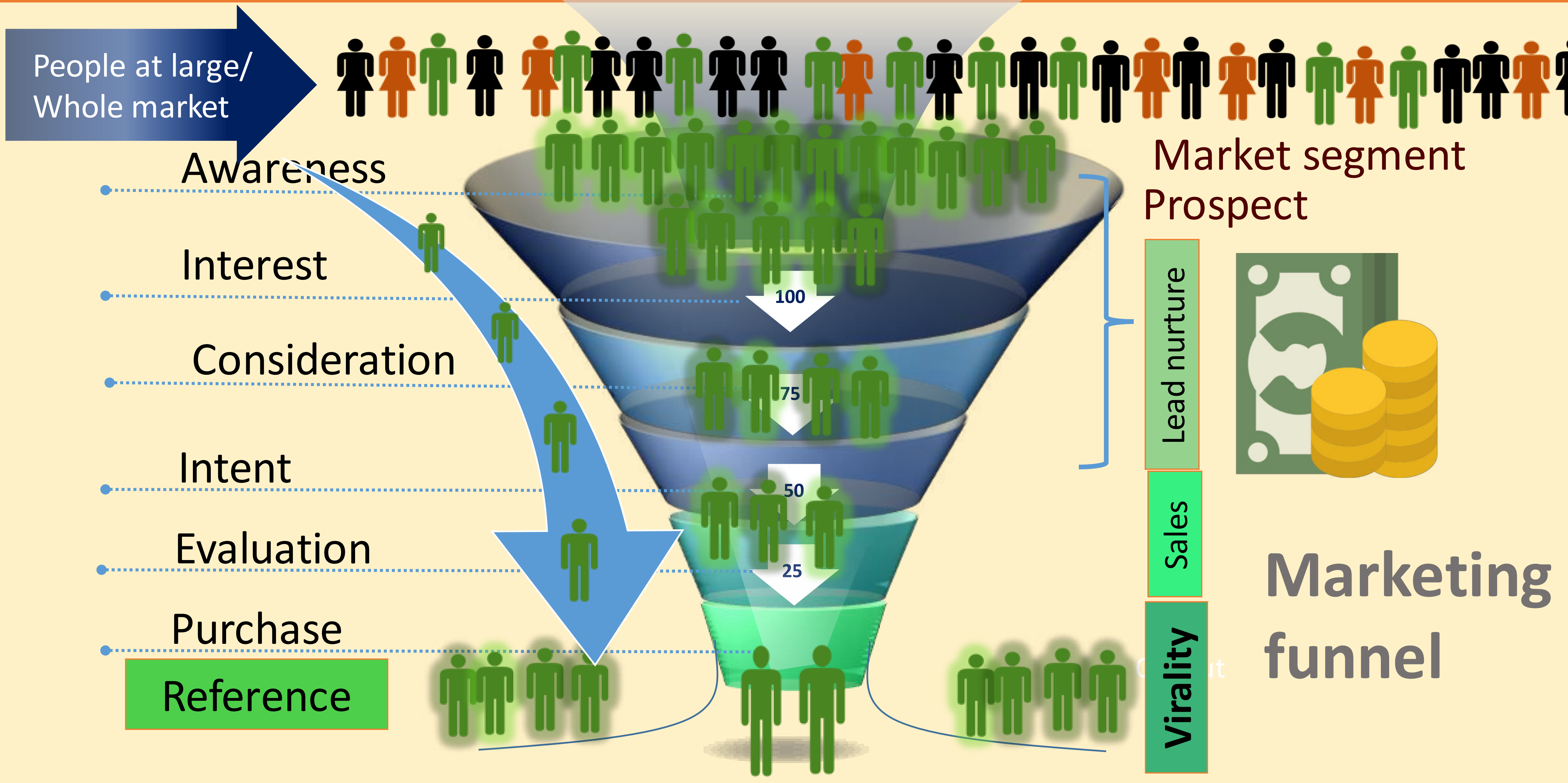
- The aim of marketing is to make selling superfluous. The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself.

American Management Association

- Marketing management is the process of planning and executing the conception, pricing, promotion, distribution of ideas, goods, services to create exchanges that satisfy individual and organizational goals.

Phillip Kotler

- We see marketing management as the art and science of choosing target markets and getting, keeping and growing customers through creating, delivering and communicating superior customer value.



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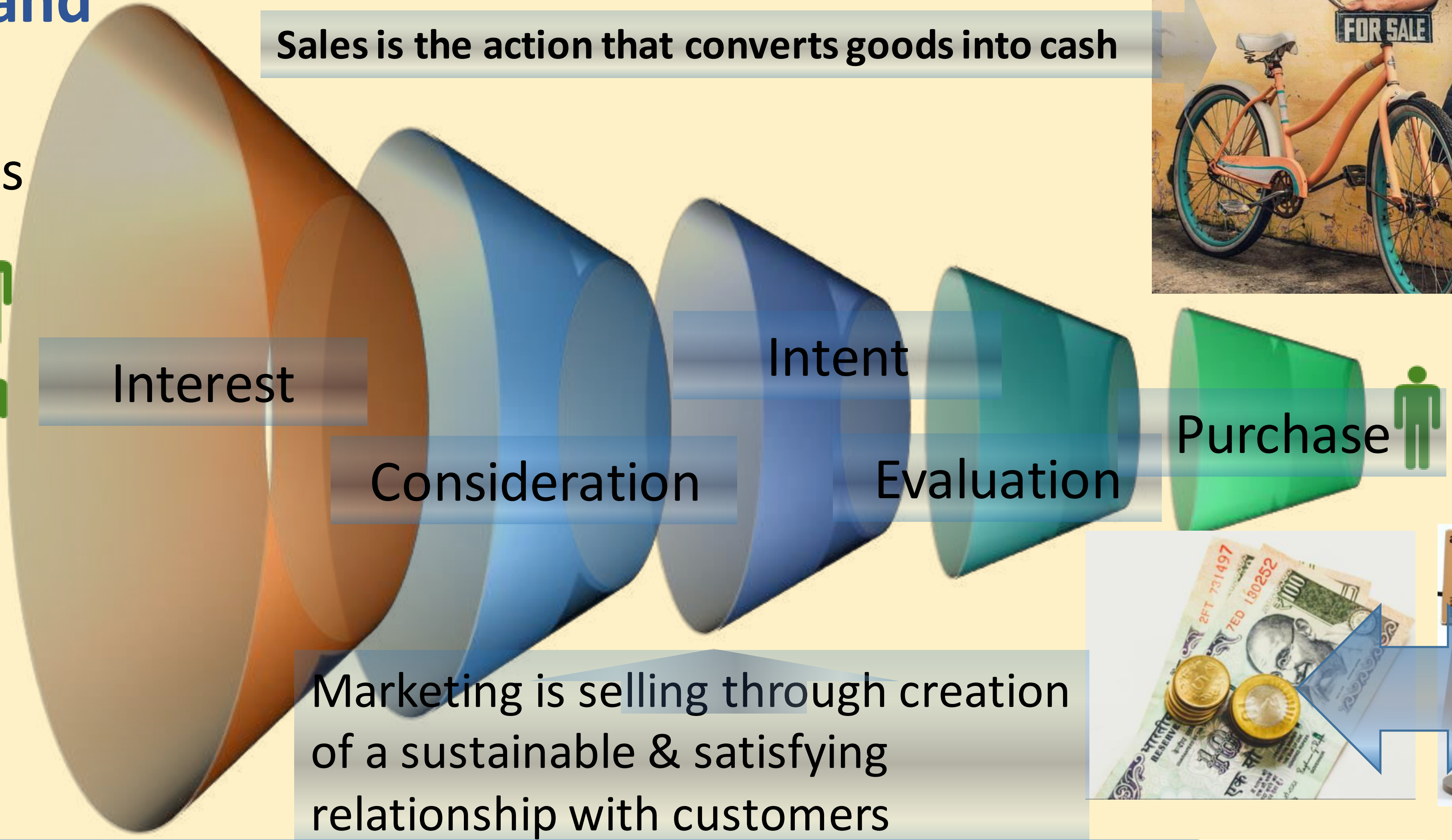
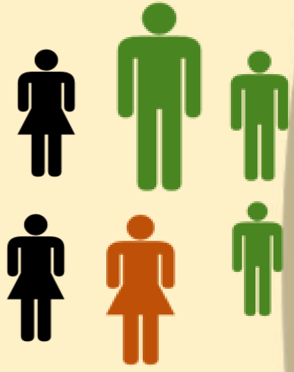
Marketing and Selling

Sales is the action that converts goods into cash



Marketing is selling through creation of a sustainable & satisfying relationship with customers



Marketing | **Sales**

Marketing is a Process by Which Companies -

1. Convey the value proposition to market segment.
2. Create value for customers – both perceived and real.
3. Build strong customer relationship – your story should resonate with customers
4. Understand changing needs and choices.
5. Refine or redesign products and services to meet them to give customers a sense of higher value.
6. Build strong brand by establishing emotional connectivity with customers. Create premium brand equity and gain pricing power.
7. Create value for stakeholders and sustain for a long time.

Goals

Marketing helps to

01 know who are the customers and what are their attitudes, behaviour, needs and beliefs? What are their expectations?

02 discover their persona and how to resonate with that.

03 know which of their unique needs and aspirations can be fulfilled.

04 discover how to design value proposition to attract them? attract new customers by promising superior value.

05 keep current customers and grow by delivering satisfaction.

Marketing Tools

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Branding

- Brand is your promise, and customers' trust on it, to your customers about superior performance of a product or service compared to that of the competitors and customers' level of trust on your promise.
- A brand is like a channel of communication. Having a strong brand indicates that you have a group of loyal customers who repeatedly buy your product. Stronger the brand, deeper is the relationship and commitment to your products and lower is the risk of your business.
- A brand may represent a low-cost medium performance product or a high-cost premium one or anything in between.
- Thus, brand represents a promise of certain quality, trust, performance, and reliability.

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Branding

- is the process of building trust in customers' mind on a product, service or the company as a whole by promising certain values and delivering better than what is promised.
- The goal is to establish a positive impression in the minds of consumers to attract and retain loyal customers.
- Branding needs to deliver values and to communicate it through various marketing media such as advertisement and promotion.

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Brand

- Branding has two definite components: one rational (tangible: quality, features, price), and the other, emotional (Intangible: mental image, esteem, trust, experience, meaning).
- It has been proven that many customers become passionate on certain brands though they cannot make distinction in blind tests.
- By showing association of celebrities with a product or company, companies try to create perception in peoples' mind about quality, trust, and esteem. It is also a process of co-sharing of brand equity. For example, Nike associates its products with star athletes.

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Building a Strong Brand

Storytelling is a powerful and effective way to make emotional connection & build lasting relations with your audience.

- Design a compelling story. Advertise to create awareness.
- Use the story to engage consumers and elicit emotion to foster loyalty, forging a meaningful relationship that goes far beyond product and service.
- Use promotion to call-to-action with an offer that they can't refuse.
- Over-deliver on your promise and give unexpected satisfaction.

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Example of Brand Storytelling: Huggies

- In Canada, Huggies was pitted against Pampers, which had 100% market share in Canadian hospitals.
- Competing with Pampers they needed to provide tangible & emotional reasons for mothers to choose them before arriving at the hospital to give birth.
- The answer was found in their name: Hugs
- Research has proven hugs help stabilize babies' vital signs, build immune systems, ward off illness, and improve brain development.
- The brand went on a mission to leave no baby un-hugged.

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The campaign hinged on two initiatives

- They educated mothers on the benefits of skin-to-skin contact with their babies.
- Motivated Canadian hospitals to have volunteer ‘huggers’ for babies in need of hugs.
- They achieved growth much higher than industry average, huge engagement rate, and have emerged as a lead brand against all odds.
- Amul, Nestle chocolate, and many more are increasingly adopting content marketing strategies.
- The trend is increasingly moving towards content rather than advertisements.

Brand Equity

- Strong brand means high brand equity.
- Brand equity is the premium commercial value that can be derived from consumers’ loyalty to it and the emotional attachment.
- The value depends on how strong is the loyalty and the number of loyal people who are loyal.
- Branding is the process of creating lasting connectivity with customers. The process creates a unique impression for a product in the consumers' mind, mainly through storytelling through advertising campaigns.
- Branding aims to establish a significant and differentiated presence in the market that attracts and retains loyal customers.
- Companies with strong brands enjoy premium valuation in the market.
- Each rupee of profit is valued:- RIL: ₹24, Marico: ₹ 42, ITC: ₹ 30, Nestle: ₹ 88, HindUnilever: ₹ 92, P & G: 94

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Airbnb

- Founded in 2008 and was doing brisk business till 2013, marketing themselves as a service that provided homes for travellers rather than just accommodation.
- They conducted interviews with hundreds of people all over the world who used the platform as hosts and as holidaymakers.
- The simple idea of 'belonging' became the centre of the Airbnb brand story.
- 'Belong Anywhere' became the official tagline of Airbnb and led to the creation of their new logo and their entire brand story.
- "We imagine a world where you belong anywhere" is the new tagline.

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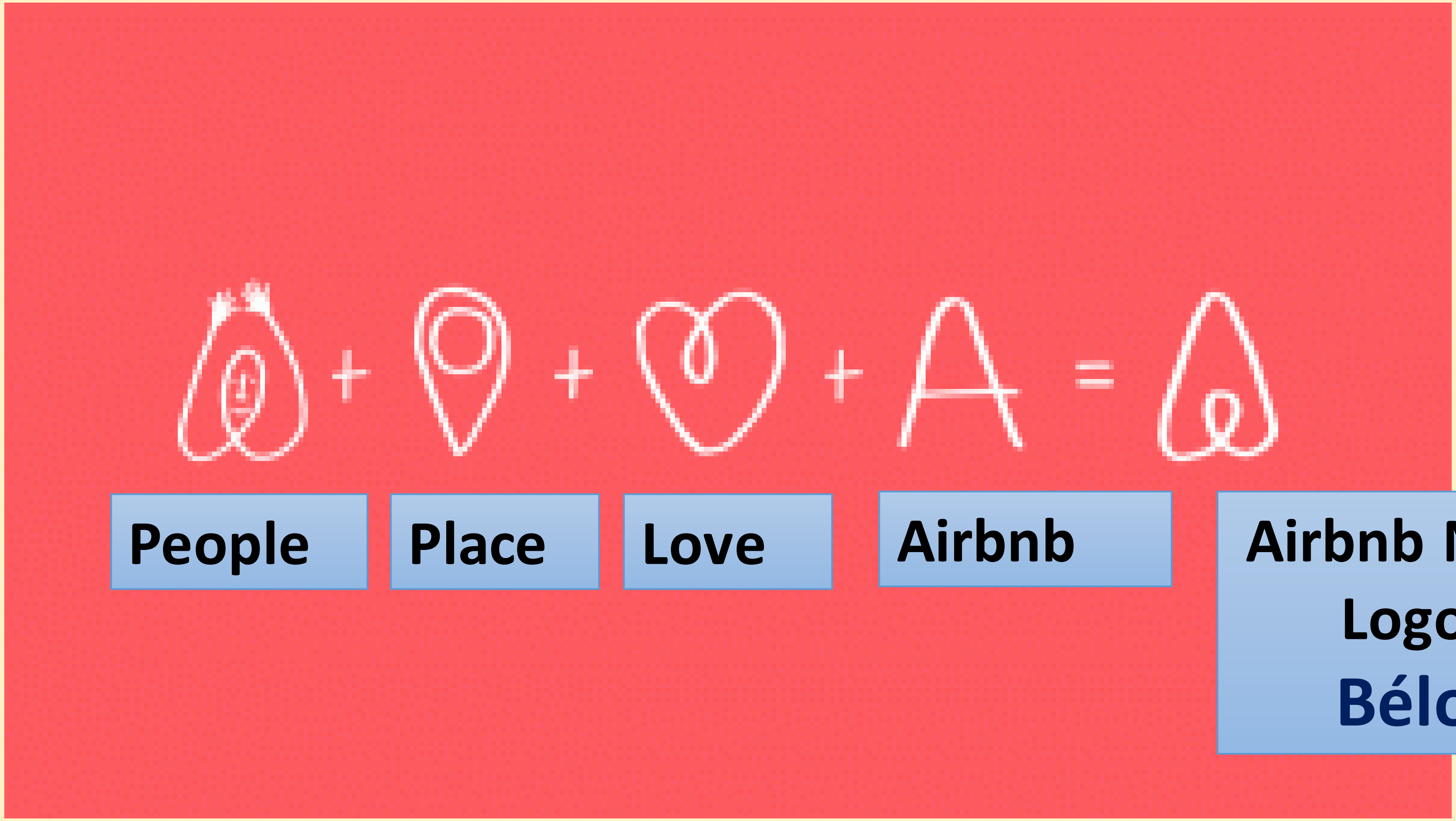
Airbnb changed the logo after it was value $10 billion



Airbnb

- **Airbnb started with three broke students and an air mattress.**
- **When they were in college, Brian Chesky, Joe Gebbia and Nathan Blecharczyk rented a mattress on their floor to strangers to make both ends meet.**
- **From there, Airbnb has gone onto be valued more than $40 billion.**

Their mission

To provide travellers with authentic experience and to foster a sense of belonging anywhere in a community of like-minded individuals.

	Sales	Profit Valuation
Booking Holdings	$3.3 billion	$1.3 billion Valuation $ 58 billion
Expedia Group	$2.7 billion	$478 million Valuation $ 8 billion
Airbnb	$1.1 billion	**($276.4 million)** Valuation $ 40 billion
Tripadvisor	$335 million	$92 million

Learning from AirBNB Branding

- 1 – Keep People At the Centre – you learn from your own community.
- 2 – It's Not Too Late to Find Your Story – continuously evolve.
- 3 – Content is the Key –The consistently post contents and their content is heavily user-driven and centres on stories from within the Airbnb community.

Branding

- Brand represents what your company stands for and is the purpose of your company? How is your company going to connect with people? And why should people care?
- " If people believe they share values with a company, they will stay loyal to the brand."
- Brand connected strongly and emotionally with large customer base are regarded as of high brand equity. Strong brand equity gives pricing power.
- A company with a strong brand equity can charge higher price than competitors for similar product and earn above average profit.

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Brand

- You want your customers to talk about it everywhere, every time, on dinner table, at public gathering, at home, at market place. You want your customers to be evangelists.
- People must believe they receive values from your company, they should build trust in their mind, they should feel comfortable buying what you offer. Then they will stay loyal to the brand.
- The connecting thread between the company and customers is the brand. Brand is the container of all the values you provide to attract and retain customers and the value for which you exist.
- Brand may appear like a symbol or text. But it is the holder of everything that you want your customer to value in your offering.

The Brand Symbol

- A meaningful logo, color mix, a brand message or tagline aligning with your mission/vision.
- It should transmit the message you want your customers to perceive about your product/service and company.

Public Relations

- Michael Dubin stumbles upon a warehouse full of surplus razor blades
- He started the Dollar Shave Club offer, Posted a YouTube video about the offer and launched on March 6, 2012.
- The YouTube video attracted an unanticipated amount of traffic, that crashed the company's server in the first hour. [It eventually had 25 million views]
- Within 48 hours, they received 12,000 orders.
- In 2016, dollar shaving club was acquired by Unilever for $ 1 billion.

What do you learn from this story?

An ordinary unemployed person is entrusted to find solution to a problem and he creates a unicorn without borrowing or taking huge investment. Michael would never think he had the entrepreneurial talent. But someone wanted help and he was forced to think of plausible solution. And an entrepreneur was born from nowhere. He converted a liability/CHALLENGE into a huge wealth/OPPORTUNITY.

https://www.youtube.com/watch?v=ZUG9qYTJMsI

Public Relations

- . Drew Huston was confident about his idea. But nobody invested in him. Dropbox early MVP was just a video showing how the file sharing service is different from all other existing ones They received 10,000 plus signups in the first day.
- Warby Parker's PR firm helped place a story in *Vogue*—a piece that dubbed the company the "Netflix of eyewear" and generated so many sales that the startup ran out of inventory.
- If those companies' founders hadn't decided to spread the word about their companies—each in their own way—they may have never become household names.

Public Relation

- Many startups fail—even if they offer a great product or groundbreaking service—because they fail to get the word out.
- They may think the product will sell itself – if we produce, it will sell.

People generally do not think rationally. They are mostly emotional and they eventually settle with a combination of rationality and emotional stimulation.
So superior value proposition and storytelling to resonate with the customers will only help win them.

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Make no mistake! Product-market-fit is the most important element for success. But the sooner potential customers get to know of the value proposition, higher is the success potential.

PR – Create Awareness

Product-market-fit

Advertising

- Like PR, advertising is an outbound marketing to push your message out. But you're not filtering it through a reporter.
- The wonderful digital world offers boundless new opportunities to advertise in a cost effective way compared with the traditional media advertising, like billboards and TV, to Google AdWords and the latest social media advertising.
- Like PR, it's important to pick advertising destinations that engage your target market. Online advertising in particular can be incredibly granular—allowing you to laser-focus on the specific demographics and even the mindset of your target market.
- Use of appropriate media depends on the type of targeted customers.

Content Marketing Strategy

- Content marketing is about educating the customers.
- is a strategic marketing approach focused on creating and distributing valuable, relevant, and consistent content to attract and retain a clearly defined audience — and, ultimately, to drive profitable customer action.
- Leads to
  - ❖Increased awareness and a deep sense of trust.
  - ❖Increased sales.
  - ❖Cost savings.
  - ❖Increasing number of customers with strong loyalty.

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Quality Content Is a Win-Win for Both

- Instead of pitching your products or services, you are delivering information that makes your buyer more intelligent.
- It helps buyers to make informed decisions and feel confident while making the purchase.
- Through contents, businesses try to deliver consistent, valuable information to buyers, educate them of the pros and cons of features. They ultimately reward us with their business and loyalty.

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Online Presence

- Online presence is the conspicuous presence of a business that can be found via an online search.
- Online presence management is the actions of presenting and drawing traffic to your brand online.

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Online presence: to create a long-term positive presence for a business, or product in search engines and on the web in general.

The actions involves combination of

- web design and development,
- blogging,
- search engine optimization,
- pay per click marketing,
- reputation management,
- directory listings,
- social media,
- link sharing - get the word out about a product, service or brand.

Social Media Marketing

- Social media marketing is the promotion of product or services through the use of social media platforms and websites.
- Businesses can use online media platform to gather customer data, understand behavior, track customer retention in response to actions by the businesses, analyze data using AI, take corrective strategies, engage with customer for promotion.
- Social media marketing can also be promoted through customers' feedback mechanism.

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What can you do to get connected?

- Join all the big networks.
- Write sensible comment on issues, display politeness, positivity and humor.
- Like, share, connect and spread/expand your visibility.
- Prepare compelling contents, Target specific audiences at first and build.
- Use emojis — it helps make your image personal and human. Stats released by Adweek showed that 92% of people use emojis as they feel it expresses better than words do.
- Most importantly, don’t pester — engage with users strategically

Marketing through Messaging or Messenger App

- Message marketing is one-to-one conversations to build relationships with your audience unlike email marketing which is one-to-many messaging. Facebook IQ research finds that:
- **56%** prefer to message rather than call a business.
- **61%** are favorable to personal messages from businesses.
- **50% plus** are more likely to shop with business they can message.
- **63%** reported that their messaging with businesses is increasing.

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Marketing through Messaging or Messenger App

- Average email open rates is around 19 percent and click-through rates capped at around 2 percent.
- For message marketing, open rate is greater than 80 percent and click-through rate is greater than 30 percent.

Focus on Engaging With Your Customers Rather Than Just Selling

- It is necessary to engage with people to help to know more about your company and your products. Social media is the easiest way to engage with your target audience. Get involved in conversations and backlink your opinions to your product.
- Let the customers notice you, understand your concerns about their satisfaction and, eventually, they will begin to trust your brand.
- Be consciously very careful to be genuine, real and sober. Nobody will come back if you sound artificial or humbug.
- Empower customer with information on features that they should know about. Let them know that you have their best interest in mind.

Engaging With Your Customers

- Create a Niche and Build Credibility
- Know and Share Your "Why"
- Make your Content Easy to Discover
- Frequently giveaway Samples

https://kickideas.com/how-to-marketing-your-startup-on-a-tight-budget/?gclid=Cj0KCQiA_rfvBRCPARIsANlV66M1Jci4iccqize00bgwYNXkmKSAQ0OL6WQTs-5mg-osI-2Aw_ose80aApYREALw_wcB

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How much of what you have to do for furthering your business is to be discovered through experimentations and moving up the learning curve.

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Thank you

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Market Segmentation, Targeting and Positioning

Topic: Market Segmentation and Target Marketing

Lecture Note #: 13 03/10/2020

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Three Steps to Know and Serve the Customers

- Market segmentation
- Target marketing / market niche
- Product or Service Positioning
- Influencer marketing
- Hype before launch – start with escape velocity

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Segmentation

- The mission is the statement of purpose for which an organization exists.
- Mission contains information on the customers the company serves, the products and services it provides and the unique value proposition differentiating it from the competitors.
- Mission and market are, thus, inextricably associated.
- Marketing management, therefore, begins as the idea of the startup germinates.

Segmentation

- The most critical event in an enterprise is the one when customers pay money in exchange for products or services.
- Even before we start designing a product, we need to know who our customers are.
- We define a clear persona of our customers delineating their unique characteristics, taste, choices, behavior, aspirations and pains.
- This helps us to identify a homogenous group of people, though, they may be spread over a vast geography.
- This homogenous group of people constitutes the segment.

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Segmentation

- Once we define the persona, we can customize our products or services to best suit our target customers.
- We can now identify the media for creating awareness that is visible to our specific group of customers.
- We can choose the channel for selling and delivering the product as preferred by them.
- Since we know the customer persona, deciding on the promotion process should also be easy.
- We want to pay close attention to our customers to keep them happy so that they remain loyal to our brand (positioning) for a long time to come.

Market Segment

- Is a subset of the market consisting of those people or businesses among the entire people or businesses in the market who have similar likes, dislikes, taste and aspirations, similar pains and look for similar solutions, similar needs, and affordability.
- Market segment is identified for the purpose of understanding particular unmet pain in any group of people and developing solution to alleviate the unmet pain in a manner that would be regarded as superior value for money.
- Segmentation is the process of dividing the total market of heterogeneous customers into subgroups of homogenous customers with similar needs, wants and aspirations concerning a particular type of product or service.

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Understanding Market Segment

The story of the 10 Carat Gold Jewelry

- Indians love gold jewelry.
- Gold price has gone up and has remained at an elevated level for a long time. The making charge of an ornament is some percentage of the price of the gold, which has made it even costlier.
- You are exploring the idea of 10 carat gold jewellery.
- These jewellery have less gold (close to 10 parts Gold and 14 parts other metals such as copper, zinc, silver or nickel).
- Therefore, they are cheaper, though they look good and remain shiny for a long time, like gold.

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Understanding Market Segment

The story of the 10 Carat Gold Jewelry

- With increasing price of gold you presume that people would prefer to buy these jewellery.
- You have decided to manufacture and sell 10 carat gold jewelry.
- You are planning to set up a mechanized manufacturing facility with an investment of Rs. 1 crore.
- You have identified a village with 500 households (families) to start marketing.
- You want to directly approach to the families.

Understanding Market Segment

The story of the 10 Carat Gold Jewelry

You have two options

A. Option 1: Go and meet all the households to sell the jewelry
- ❑ You start from one end of the village and move to the other end.
- ❑ This may take more than a month to cover the whole village.
- ❑ May cost huge sums of money to communicate and meet.
- ❑ Engage manpower for a long time leading to opportunity cost.
- ❑ Eventually you may find that only a few families are your actual customers.

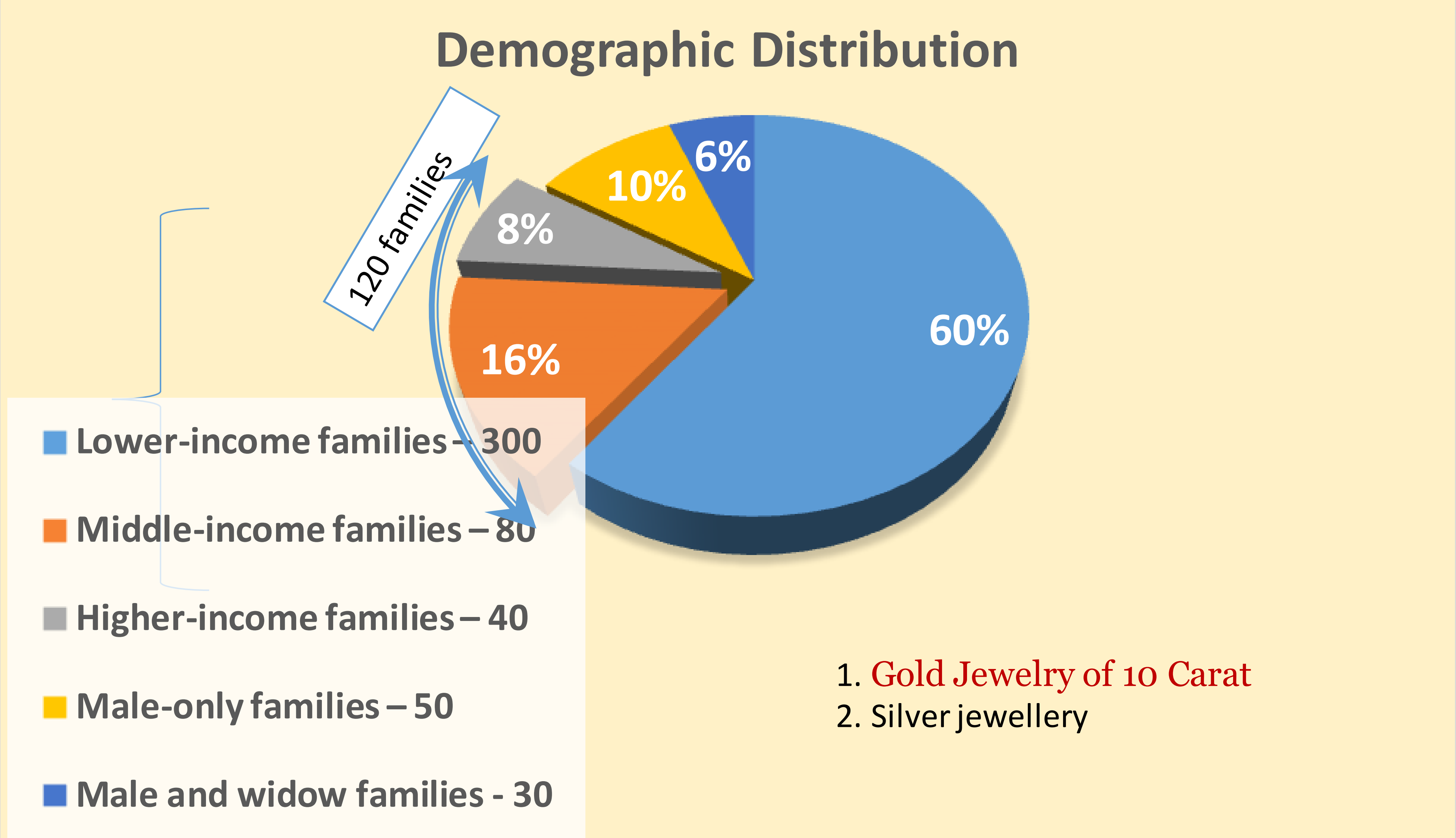
Understanding Market Segment

The story of the 10 Carat Gold Jewelry

B. Option 2: Identify those who are most likely buyers of your products

- You know the profile of families who are your likely customers.
- You collect demographic data on the population of the village.
- Identify families with middle to high income.
- Out of those, identify families with women in the age-group of say 18 to 60 years.
- Attend this smaller group of families.

➢ You can see the benefit of identifying the people who are potential customers. So you adapt the option 2.



1. Gold Jewelry of 10 Carat
2. Silver jewellery

Understanding Market Segment

The story of the 10 Carat Gold Jewelry

- You send brochure containing nice pictures of variety of products to these prospective families.
- In the process, you create awareness of your products and people start discussing about them and aspiring to have them.
- You send letters to families intimating that a representative will come to demonstrate. You announce special discount for inaugural sale.
- You complete meeting all the prospective families in a week.
- You are likely to close deals with majority of the families you attend.
- You save time and resources for achieving the same success as in approach 1.

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Understanding Market Segment

The story of the 10 Carat Gold Jewelry

What do we learn from the story?

- **The village has heterogeneous families in terms of income and demography. Many are not your potential customers.**
- **You want to avoid wasting time approaching to families with remote chance of being interested in your products—at least not in the early stage.**
- **So you have shortlisted the families those** you think can be your **customers.**
- **These families are homogenous from the perspective of the needs of your product, though they may be heterogeneous from many other aspects.**
- Thus, segmentation is done to identify a homogenous group of persons out of a heterogeneous population (or entities in case of B2B business model) with needs and aspirations that your product or service can fulfill. They are your potential customers.

Market Segmentation: Definition

The process of creating a homogenous sub-group of people based on criteria suitable for marketing a particular product or service out of a heterogeneous population is segmentation.

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Market Segment us Product Specific

- Consider the market of the same village in the example cited above, the segment would change if you are planning to sell low-cost detergent or lower-end body soap, male dresses, or say insecticide.
- Therefore, the concept of homogenous group is in direct reference to a product.
- Any population can be broken into many homogenous subgroups, i.e. segments, depending on what you are trying to market.

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The story of the 10 Carat Gold Jewelry

By segmenting the market,

You have reduced

- the cost of sending letters so as to make them aware of the nice jewelry at such low cost,
- the cost of communicating about availability at the door step,
- and cost of reaching the customers – a smaller group of families.
- It has now become easier to manage them; particularly to serve them better.
- You can get feedback from them easily and add or remove features/ designs that the majority do not like.

Why Segmentation?

- To be able to address a small but relevant group of customers and exclude those who are not potential customers.
- To identify unmet pain.
- To understand the size of the market and growth potential.
- To be able to understand the pain.
- To understand types of existing solutions offered by competitors.
- To understand the features/parameters of a better solutions.

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Why Segmentation? …Contd.

- To assess the entry barrier and competitive landscape.
- To explore developing such a solution at competitive rate and offer a superior value proposition.
- To understand whether the proposed solution is really appreciated by the segment and the customers would buy at the desired price.
- To understand the channel for reaching out to the customer, making the product/service available and reaching the product to them.
- Save money on channels to create awareness, logistics, and delivery.

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Basis of Segmentation

Geographic	Demographic	Behavioural	Psychographic
Region Climate Market density Market size	Gender Income, Age & Lifestyle Occupation Marital status Socio-economic group, Ethnicity Education, Religion	Readiness to purchase Attitude Rate of usage Benefit sought Loyalty status	Lifestyle Personality Belief Values
Example: Customers in area of snowfall	Example: Newly married women	Example: Active in social media	Example: Vegetarians

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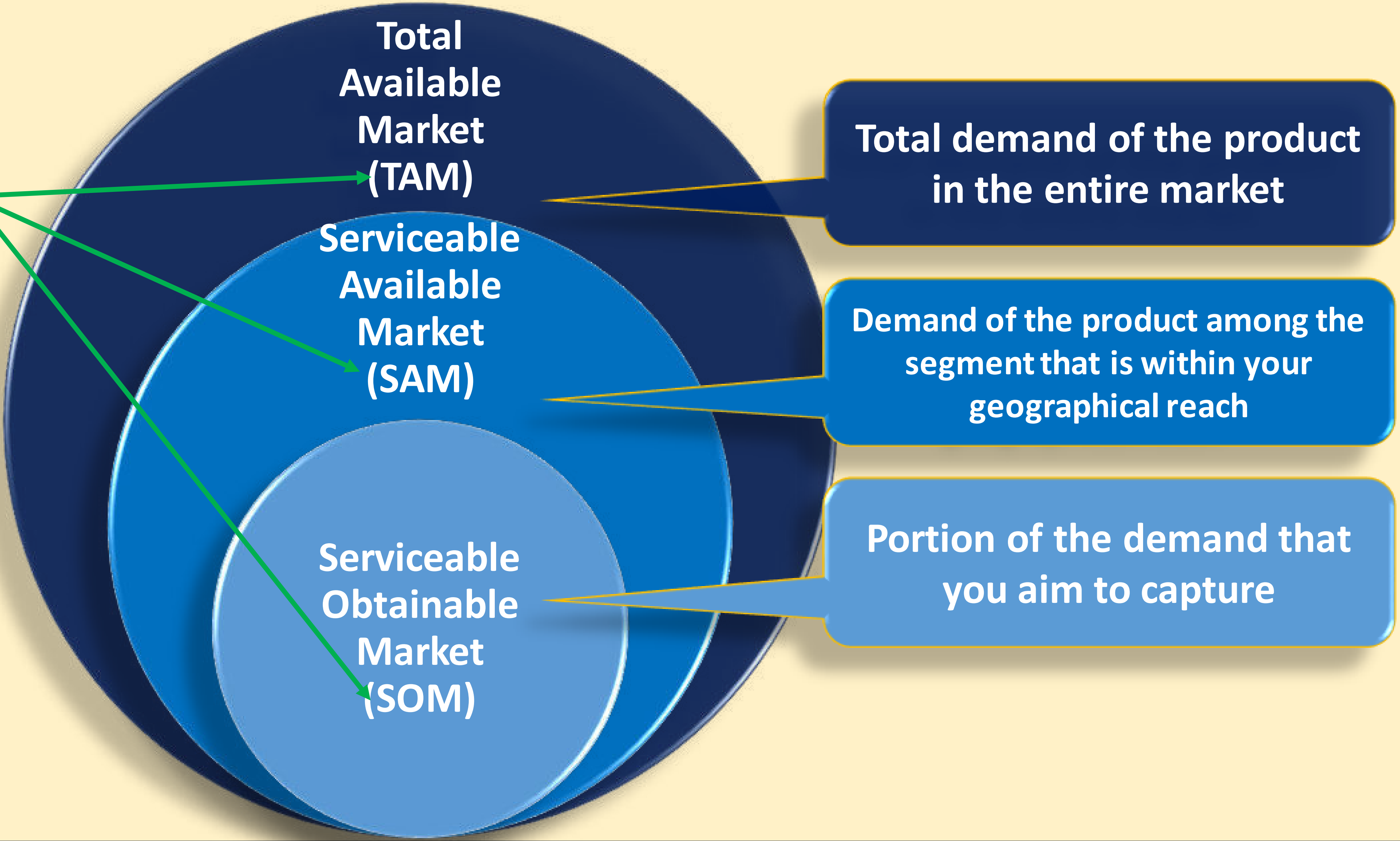
Market Segment and Target Market



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Use of TAM, SAM, SOM

- Make fair assessment of the market size to be targeted.
- Making meaningful sales projection.
- Valuation of startups.
- Estimate investors' returns.

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Market Segment and Target Market: Example

- Total Addressable Market (TAM) – understand market size & growth
- Middle income household jewellery market in India : Say ₹1,00,000 Crore

- Serviceable Available Market (SAM): Target market – know market structure
- Middle income household jewellery market in the target village: ₹10 cr

- Serviceable Obtainable Market (SOM) – market size to target
- You target to capture 10% of the jewellery market of middle income household in the village in two years: ₹1 cr

Positioning

- You want to provide a product that appeals to your target customers.
- You already know what attributes the customers are interested in.
- You also know which of these attributes of your product are better than those in competing products.
- Say you are selling motorcycles. Attributes such as fuel efficiencies, acceleration, maximum speed, safety, style, sporty or adventurism etc. are of concern for customers.
- Ultimate goal of positioning is to serve the unmet needs of the market. You serve it better than competitors and your product will sell.
- For the 10 carat jewelry, classical design and modern design may be liked by different persons.

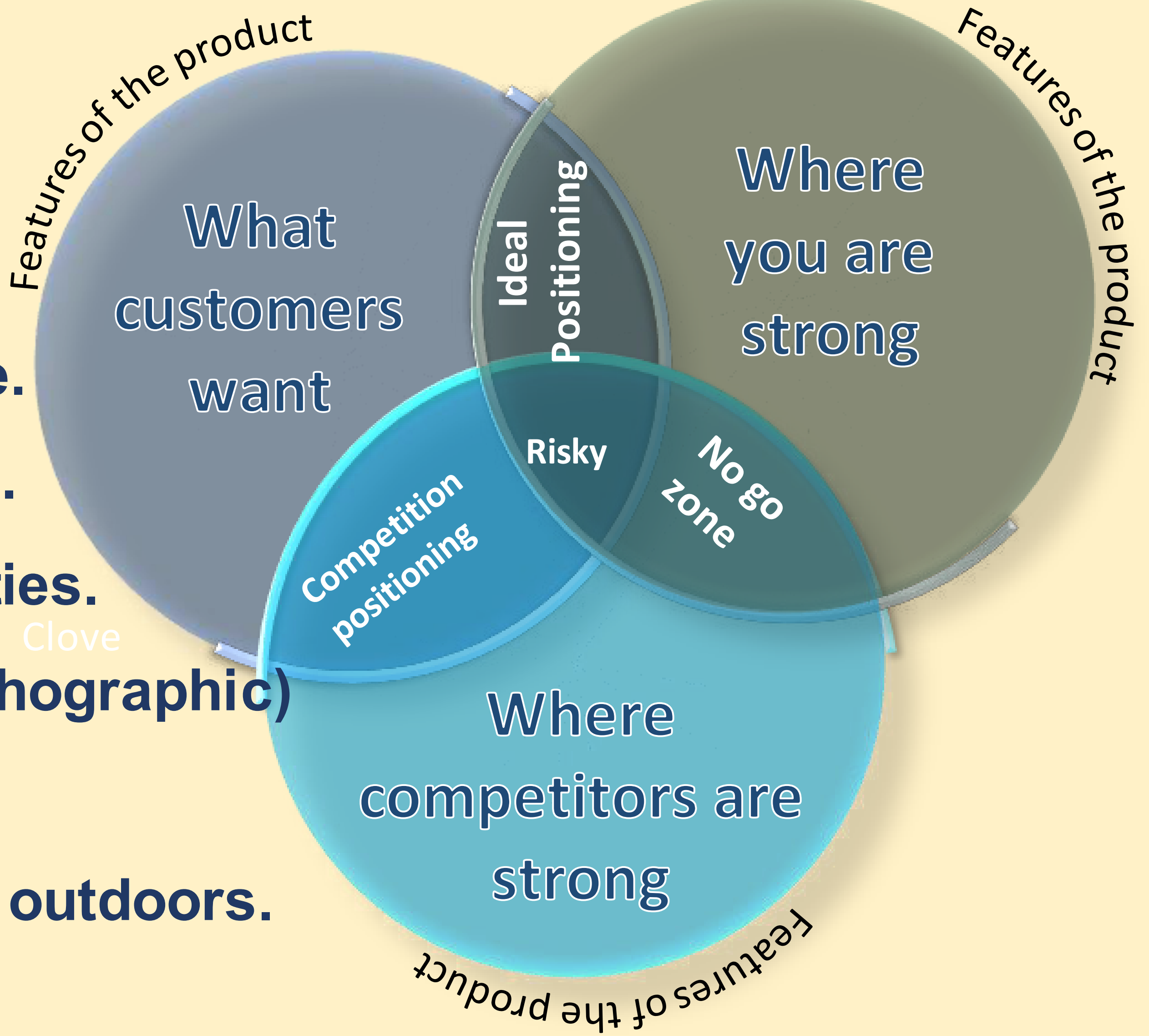
Positioning/ Brand positioning

Examples of Brand Positioning

- Colgate is positioned as protective.
- Patanjali claims to be fully organic.
- Sensodyne targets tooth sensitivities.

Clove

- Dabur – natural & Ayurvedic (psychographic)
- Pepsodent – complete family
- Woodland is tough and perfect for outdoors.
- Coca-Cola brings happiness.
- Axe deodorants have a sexual appeal.



Positioning

- The 10 carat gold jewellery is affordable by the targeted people.
- The jewellery looks like real gold and they do not have the cheap impression of imitation.
- You provide value for money and do not compromise on esteem associated with jewellery.
- Therefore, you create a positive and attractive image of your product in the minds of the customers.

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Positioning …continued

- You maintain the quality you assure and keep the promises you made providing a happy feeling about your company or the brand in the minds of the customers.
- Assure exchange value with minimum loss.
- In the process you get loyal customers who build a bond with your products. This process of creating a favourable image of a product or service in the minds of targeted customers is known as positioning.
- Your customers prefer your products over those offered by competitors and spread positive message to others. Soon your brand becomes a household name.

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Process of Product Positioning

- Know your customers well.
- Know the competing products or services.
- Create differentiators that you can use as unique selling proposition.
- Convey the superior value proposition to create awareness.
- Launch promotional scheme to convert ‘willingness to buy’ to ‘execute purchase’.
- Maintain the value and constantly improve to remain ahead of competition.

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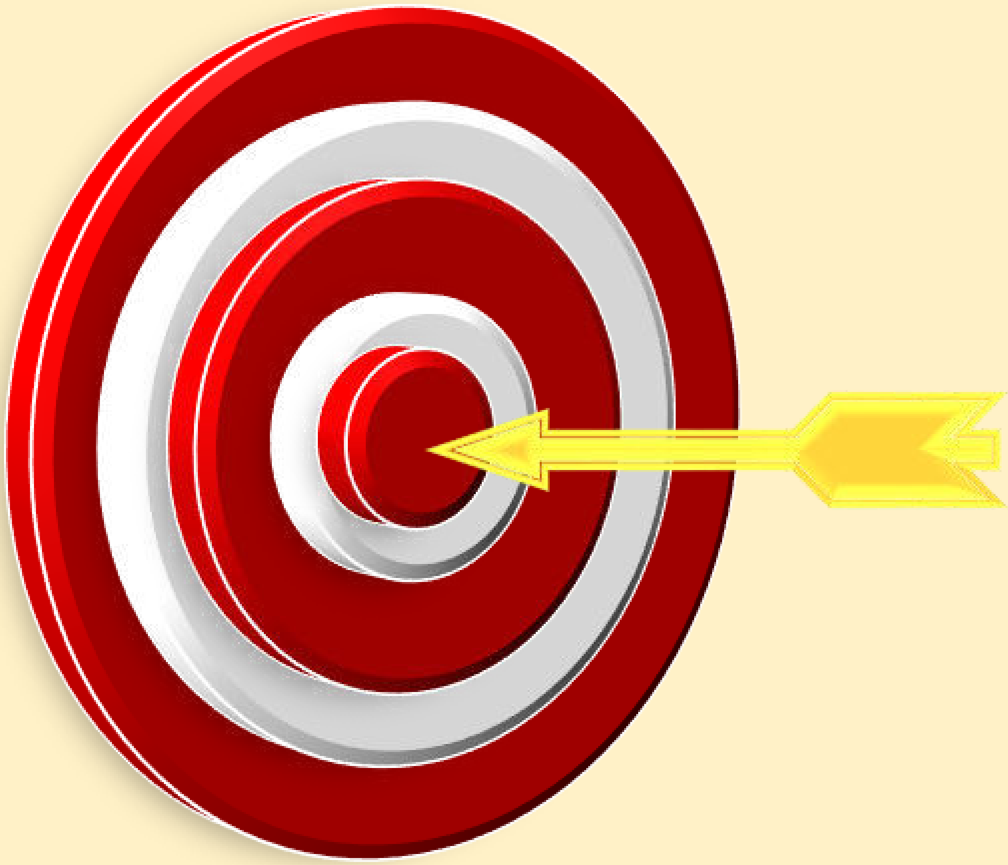

Target marketing

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Target Marketing

- While selling the 10 carat jewelry, you will realize that the choices of young girls are different from those of the matured women.
- You have to have products that suit the moods and aspirations of each such group within the broad market segment.
- That will help you to attract all sub-groups of customers with fascination towards specific nuances.
- Strategy to meet the differentiated needs and aspiration of different groups of customers by customizing solutions to fit their unique requirements is target marketing.

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Target Marketing Steps

- **Segment The Market:** Segment your business's serviceable market according to any of the demographics, geographic, psychographics, and behavioural patterns.
- **Analyze the Unique Needs of your Customers:** Know what the customers value most and what the competitors lack.
- **Analyze Competition Landscape:** What are their value proposition, how are they attracting, acquiring and retaining customers?
- **Identify Your Differentiators:** Your superior value proposition differentiates you from the competitors. It is why the customers will prefer your product over others.
- **Promote:** Introduce promotional schemes that is viewed as attractive by the target customers.

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Target Marketing

- Target market / market niche
  - Target a niche within segment (a place within a market segment that represents a narrower group of customers with similar interests but with some fineness.)
  - Understand the specific needs.
  - Meet its customers' specific needs.
  - You solve specific problem of a niche market.
  - Provide customers with wholesome satisfaction and unique experience.

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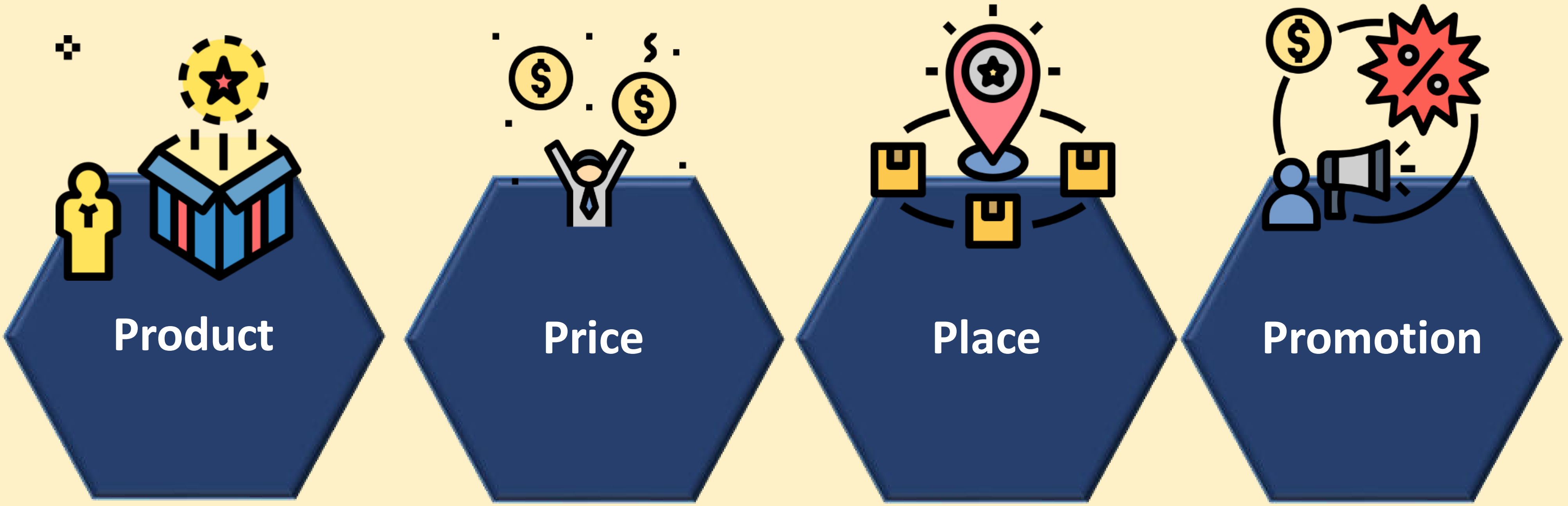
Marketing Mix

The marketing mix refers to the set of constructs and actions, or tactics, that a company manoeuvres to promote its brand or product in the market.

Marketing Mix Variables are

Product, Price, Place, and Promotion – the four Ps of marketing



Marketing Mix

- The marketing mix is a business tool used in marketing and by marketers.
- The marketing mix is often crucial when determining a product or brand's offer, and is often associated with the four Ps: product, price, place, and promotion.
- The marketing mix refers to the set of actions, or tactics, that a company uses to promote its brand or product in the market.

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Marketing Mix

• Product	• Customer Solution or pain reliever.
• Price	• Customer Cost.
• Place	• Communication & delivery.
• Promotion	• Convenience.

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Marketing Mix: Components & Functions

Differentiators
Product-market-fit
Quality, efficacy
Packaging
Branding
Warranties

Pricing strategies
Discount
Payment terms
Bundle offer

Promotion through:
Advertising
Public relation
Social network
Content marketing
Promotion schemes

Channels to customers
Delivery & payment
Purchase
Transport
Aftersales support
Geographical coverage

Growth Hacker Marketing

- It is possible to start a company on a shoestring budget and create product that customers will love.
- New generation companies such as Facebook, Dropbox, Airbnb, Twitter have not been spending a dime on traditional marketing.
- They do not advertise on TV, no billboards, no newspaper ad.
- They rely on a new strategy — growth hacking — to reach many more people despite modest marketing budgets.
- Growth hackers have thrown out the old playbook and replaced it with tools that are testable, trackable, and scalable.
- They believe that products and businesses should be modified repeatedly until they're primed to generate explosive reactions.

Growth hacking

- A new marketing tool to achieve rapid growth on small budget.
- Growth hacking helps to acquire many users at a nominal cost.
- A team usually involve marketers, developers, engineers and product managers.
- The growth hacker often use social media, viral contents, content marketing, influencers.
- They build a story that resonate with customer's emotion.
- It must be supported by a compelling product-market-fit in order for retaining the satisfying customers once acquired leading to a viral loop of evangelists – a self-promotional model.

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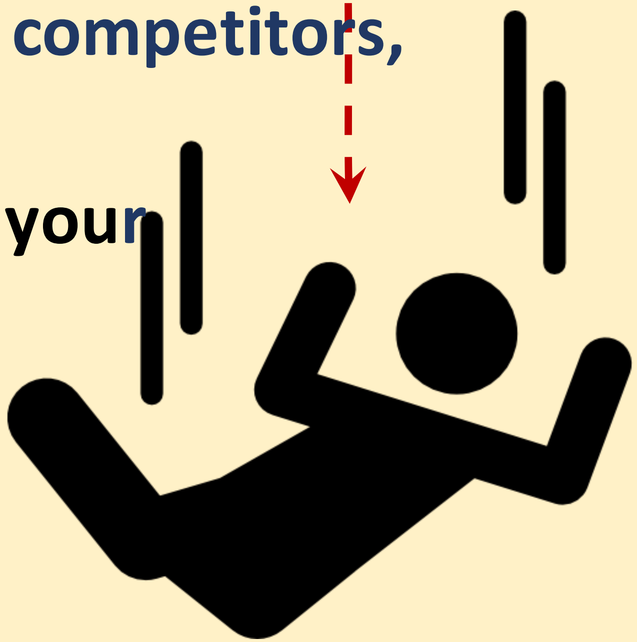
Growth Hacking

- It reduces customer acquisition cost, help increasing margins, ease of product extension, and promote long term sustainable growth. Else, you will pour water in a leaky bucket.
- growth hacking uses iterations to rapidly test persuasive copy, email marketing, SEO and viral strategies, to increase conversion rates and achieving rapid growth of the user base.
- Techniques such as search engine optimization, website analytics, content marketing and A/B testing are used.
- Growth hacker use validated learning with the help of minimum viable product.

Growth Hacking

- Growth appears like a magic wand: as if growth is the end (success).
- This can be one of the greatest of mistakes in startup marketing.
- The product-market-fit, positioning the product to the target customers and meeting their exact needs better than competitors, vibrant sales funnel are indispensable.
- Premature growth may ruin your business and waste your resources.
- While you celebrate the growth, you may suddenly fall over the precipice.



How fast to grow?

Every decision that a growth hacker makes is driven by seeking measurable growth.

Vanity metrics do not indicate anything (!!!) towards a profitable and scalable business.

- Create a viral loop
- Choose the right growth engine
- Leverage everywhere including marketing

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Viral Loop

- You must be able to make your customers do the advertisement of your products to their friends (word-of-mouth advertisement or referral).
- Your customer acquisition cost will be minimized and you will soon move towards profitable business.

Growth Hack, Vanity Metrics, and Strategies

01
- Constantly review your sales funnel
- Upgrade the sales funnel to create a viral loop so customers spread your message

02
- Be cautious and do not follow vanity metrics. Check if it is leading to long-term value.
- Check the customer acquisition cost and how quickly the cost is recoverable.

03
- Define sales funnel metrics.
- Are the increasing number of foot-fall getting translated into profitable sales?

04
- Estimate possible virality effect
- Plan, execute and measure virality to achieve real growth.

05
- Update marketing plan
- Put appropriate information system to collect and process data to monitor the metrics

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Influencer Marketing

- The process of creating awareness and trust on your brand through endorsement by internet celebrity or other persona.
- It involves unique contents and paid media. Thus, it is a hybrid of traditional advertisements and content marketing using the internet.
- Influencer are usually anybody with a large fan-following and need not be an entertainment celebrity. It can be an ordinary person with YouTube channel showing particular popular knowledge. The person can endorse a particular product just by using it in his/her content. So, it becomes natural choice for the viewers to trust that brand. Thus, influencers may be product-specific.
- https://www.nytimes.com/2019/03/01/business/media/social-media-influencers-kids.html

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A 7-year-old boy is making $22 million a year on YouTube reviewing toys

- Surely the envy of elementary-school kids worldwide, the YouTube star reviews new toys in videos that his family produces.

  Ryan ToysReview took the No. 1 spot this year (2018) on Forbes' annual list of the highest-earning YouTube accounts, up from 8 last year.

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Hype before launch so that your customer start buzzing on social media

- A video teaser
- Give a sneak-peak
- Tell a captivating story – say you start a chain of coffee shops
- Create a hashtag (catchy) for interested people to follow the developments and invite them to retweet the hashtag.
- Be creative on a promotional schemes.
- Start a Blog
- A short video in the youtube: Video shows visuals and is effective [dollarshavingclub, dropbox)
- Influencer : Reebok with Chetan Bhagat
- Yezdi bike
- Mahindra Thar
- Apple iPhone

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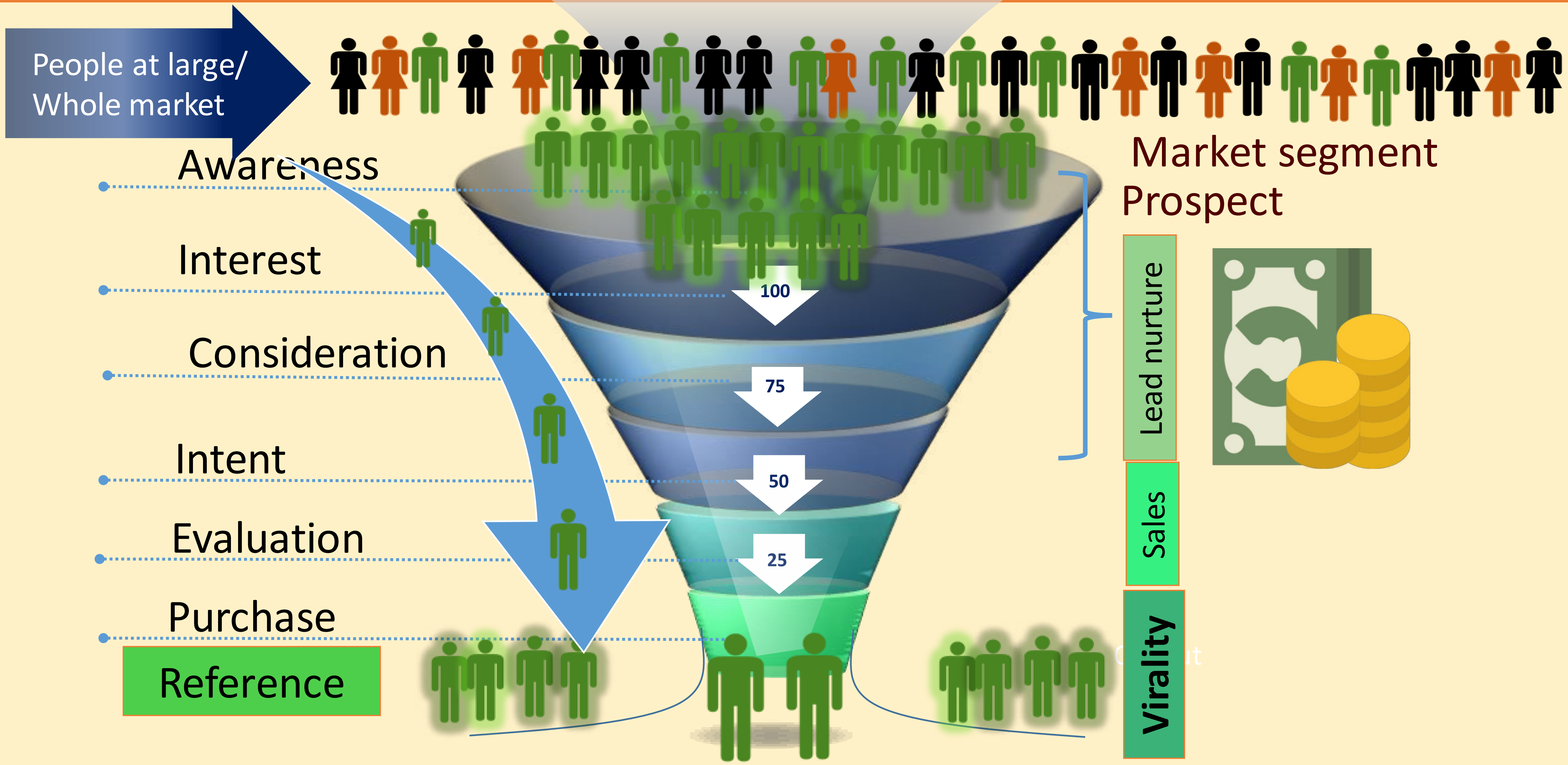

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- Brant Cooper and Patrick Vlaskovits (2010) The Entrepreneur's Guide to Customer Development
- Steve Blank (2013) The Four Steps to Epiphany
- Brant Cooper and Patrick Vlaskovits (2013) The Lean Entrepreneur: How Visionaries Create Products, Innovate with New Ventures, and Disrupt Markets by Brant Cooper
- Simona Covel - Marketing Your Startup_ The Inc. Guide to Getting Customers, Gaining Traction, and Growing Your Business (2018, AMACOM)
- https://blog.globalwebindex.com/marketing/brand-storytelling/
- http://www.flaticon.com/free-icon/ for various icons downloaded free

Thank you

Founding Team and Early Recruits

Foundations of Entrepreneurship

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- **Importance of the founding members.**
- **Issues to be considered for selecting co-founders.**
- **Founders' mentality**
- **The considerations for recruiting employees at early stage.**

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“There is one thing stronger than all the armies in the world, and that is an idea whose time has come.”
Victor Hugo

That tries to show that an idea at an appropriate time is the most powerful in entrepreneurship

But if you do not have the PEOPLE to smartly execute the idea, someone else will do.
Team is the greatest differentiator

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A Perfect Team Can Circumvent Any Odd

Photo by Quino Al on Unsplash

Photo by Rune Haugseng on Unsplash

Even the Most Adventurous one

- The team: individuals with complementary skills.
- A great team has all critical competencies for efficient execution.
- A high level of collaboration among the team members.
- Committed to a common goal.
- Share the same vision.
- Initial employees are as good as cofounders and hiring decision should be based on missing skills.

The Team

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The Entrepreneurial Journey

Shared Commitment at its best:

The story courtesy the book: **Creating Teams With an Edge: The Complete Skill Set to Build Powerful and Influential Team by Harvard Business Publishing**

Photo by Luis Villasmil on Unsplash

Importance of Balanced Team

Some experts relate selecting co-founders with finding prospective match for marriage.

But co-founders have greater challenges to resolve together and need full commitment.

Many startups fail very early due to founder disputes.

About 70% of the weight on investment decisions by VCs is on the team elements or the human capital and their commitments.

A balanced team is very critical to success of any venture

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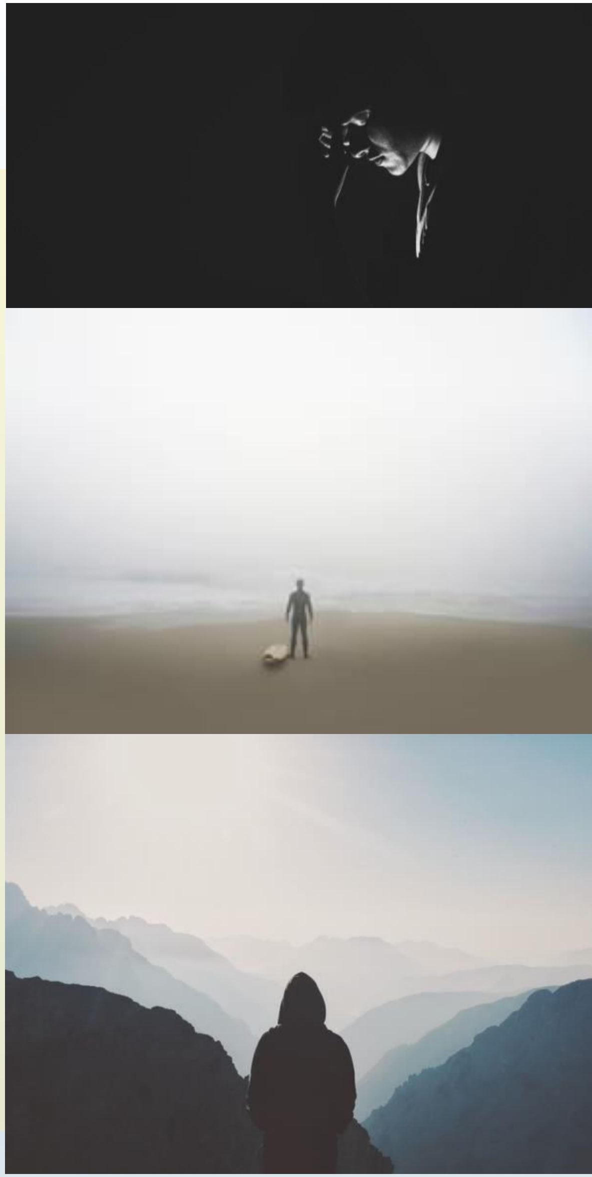
Building a Balanced Team

- **New ventures are replete with enormous uncertainties and risks. Co-founders, early employees, advisors, and mentors can break barriers, overcome problems and can translate a losing proposition into a winning one.**
- **In today's world, startups, in general, have access to need-based capital and technologies. Team of co-founders, early employees, and mentors are the real differentiators for a start-up .**

- **On the flip side, you end up spending all your time and energy resolving conflict with the cofounders and the progress will take a back seat .**

Life as a CEO Can Be Very Lonely

- Your journey as a founder is likely to be harder than you envision as the worst-case-scenario.
- Your hard skills, resilience, vision, passion, and courage can take you so far.
- While these are prerequisite to create new venture, complementary skills of co-founders are real ammunitions for success.
- Steve Jobs, Larry Page and Elon Musk — have achieved greatness by investing in building well balanced teams early on and sustained all the way.
- Thomas Alva Edison had attributed his 2332 granted patents and commercialization to different teams spearheading different innovation initiatives.



A Great Team is Key to Success of a New Venture

- **"You may have a great business idea, solid financial backing, and optimistic market research, but if your founding team doesn't have the right balance of personalities and skills, you could soon be closing up shop"**
- **"Having the right team determines the path and outcome of a new venture more than any decision in the lifecycle of a company," Bernd Schoner, the author of *The Tech Entrepreneur's Survival Guide (McGraw-Hill, May 2014).***
- "The founding team **cannot be changed**, and **no one can speak** to investors or customers with authority like a founder," he says. "It's a great asset to have at the beginning and hard to add later.“
- *"Adding a cofounder with whom you do not have a long history is almost always fatal" - Sam Altman.*

As per Sam Altman (Y-Combinator President) https://www.ycombinator.com

https://startupclass.samaltman.com

- Twenty most valuable companies have at least two co-founders.
- Startups with 2 – 3 co-founders work best.
- Five and more co-founders should be avoidable.
- Never choose co-founders without long-term acquaintance.
- Lone founder is absolutely avoidable.
- However, it is better to have no co-founder than bad co-founder. So continue to look for suitable co-founders.

Know What You Need

- Clearly define your vision and values.
- Make clear assessment of the skills you need.
- Assess your own strengths and weaknesses.
- Identify suitable persons with the critical missing skills and who would share the same vision.

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Know What you Need

- **Check the level of drive and motivation in individuals.**
- **Humility, openness to new ideas, and readiness to collaborate on decisions are very important.**
- **Emotional buoyancy – keeping cool at times of despondency.**
- **Personal honesty.**

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A Team Member may Bring the Following Values

- Drive
- Entrepreneurial instincts
- Domain knowledge
- Business process management skill
- Intelligence / Creativity
- Track record / Credentials
- Past collaboration
- Shared vision and values

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The Google Team

1995	Larry Page and Sergey Brin meet at Stanford. Larry, 22, a University of Michigan graduate, is considering the school; Sergey, 21, is assigned to show Larry around.
1996	Larry and Sergey begin collaborating on a search engine called BackRub. BackRub operates on Stanford servers for more than a year—eventually taking up too much bandwidth.
1997	Google.com is registered as a domain on September 15. The name—a play on the word "googol," a mathematical term for the number represented by the numeral 1 followed by 100 zeros—reflects Larry and Sergey's mission to organize a seemingly infinite amount of information on the web.
1998	Sun co-founder Andy Bechtolsheim writes a check for $100,000 to an entity that did not exist yet—a company that was later called Google Inc.

Issues to Consider for Building a Team

1. Team Size: A team of two to three founders seems ideal.
2. A leader to break deadlock among parties
3. History of founder working in stressful situation:
4. Founders Goals: All founders need to be on the same page as regards future goals – financially, career wise, socially and geographically – with timeframes? (e.g. “exit” scenarios)

Issues to Consider for Building a Team

5. CEO role.
6. **Equity Philosophy:** Initial allocation and future accretion.
7. Shared Vision: Is there a core vision drawing the team together?
8. **Shared Values:** Common core values make the team a strong unit?

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Issues to Consider for Building a Team

9. Commitment: Commitment levels of each founder should be very clear?

10. Mix of Skills: Your business needs many skills. Find people with multiple skills and try to fill any gap.

11. Trust and Confidence: Do you have trust and confidence in your co-founders?

12. Likability: Can you see working with your co-founders for the next five years? Do they give you energy or not?

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More about Balanced Team

- Founders need to be unflappable, tough, they know what to do in every situation. They act quickly, they're decisive, they're creative, and they're ready for anything (Sam Altman).
- Communication – founders should be able to communicate effectively with the entire team to give a sense of belonging, common goal and for a shared vision.
- Team benefits from having an analytical thinker who is detail-oriented, process focused, identifies and focuses on the sub-tasks needed to achieve the goal.

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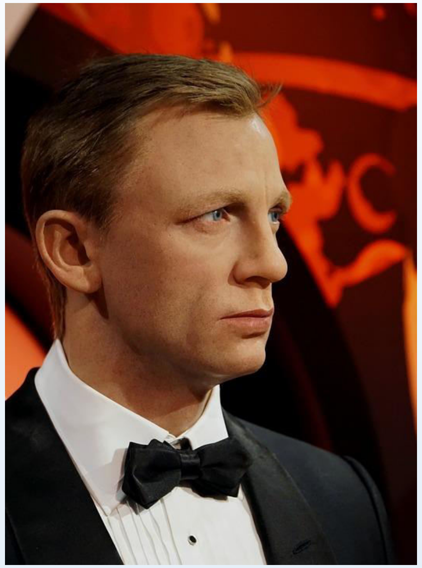
A Balanced Team to Have the Following Experts

- A product expert (Prima Donna and Superstar). That person would turns the problem and customer knowledge into a workable prototype and do things that scale.
- A Leader – who has sway on everybody and mitigates interpersonal crisis.
- An industry expert – with deep experience
- A marketing expert – who knows the mantra to sell whatever you make
- A financial expert – ensures need and source of money in time proactively.
- A person with a fat purse – who is ready with fund as and when necessary.



More about Balanced Team

- Sharing knowledge and skills - proactively sharing knowledge and skills with others in the team greatly benefits the team and the venture.
- A good test of goal alignment is to let each team member pitch before an independent person. If all the members articulate the same business model the team is synchronized to a common goal.
- The goal is not mere vision oriented; but requires strict adherence to performance metrics.
- A shared understanding of the goal is extremely important, but commitment to the goal is even more important.
- Every member contributes - every member benefits: Members showing up to attend meetings and rendering opinions but not doing work as expected, impair performance and demoralize the active teammates.

Experience of Bad Team Member

- **Schoner cofounded the radio frequency identification technology company ThingMagic with four fellow Media Lab graduates at the MIT, and experienced a year of "extreme turmoil."**
- ***"We had worked together before and were convinced we knew each other well," he says. "But once you start a company, outside pressure causes people to act differently. That was, for me, one of the most traumatic experiences in my early years. A fundamentally different environment changes people, and how they react."***
- ***"The founding team cannot be changed, and no one can speak to investors or customers with authority like a founder," he says. "It's a great asset to have at the beginning and hard to add later."*** **Schoner**

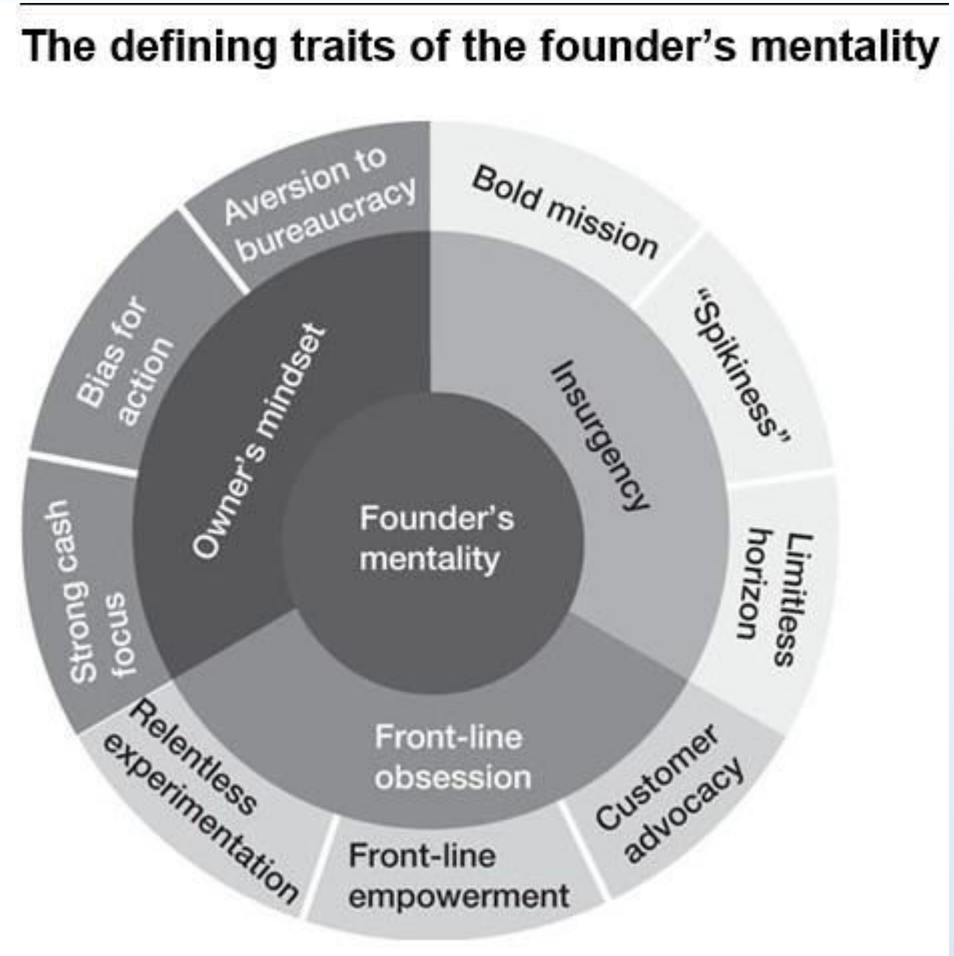
Know the Founder's Mentality

- **New ventures should begin with insurgents mission—fast, customer-focused, agile and adaptable.**
- **Research shows that causes of failure of 90% of the companies are internal – particularly as companies scales, their founder's mentality is lost, though there is always an external narrative.**
- **Founder's mentality consists of three traits: an insurgent's mission, an owner's mindset, an obsession with the front line.**

Know the Founder's Mentality

- **A strong insurgent mission keeps you externally focused on the problem you want to solve. You never lose focus and work relentlessly to keep the promises to customers, by continuing to innovate on their behalf. Almost radically passionate.**
- **The speed of execution, focus to value proposition, and connection to customers are part of insurgent mentality.**
- **Owner's mentality: Accountability, actions that are for the best interest of the company and voicing anything that goes against. In short, it is the growing sense that success of the company is their personal success.**
- **Front line obsession: Do everything to satisfy existing customers, acquire and retain new customers. Innovate continuously.**

- **The companies that have grown profitably to scale often consider themselves insurgents, as if they are waging war on their industry and its standards on behalf of an underserved customer, or creating an entirely new industry altogether.**
- **Such companies possess a clear sense of mission and focus that everyone in the company can understand and relate to.**



Zook, C., & Allen, J. (2016). The Founder's Mentality: How to Overcome the Predictable Crises of Growth.

Front-Line Obsession

- Most founders are the first salesperson, its first product developer, or both.
- They live and breathe the front line, driven by an intellectual curiosity about every detail of the customer experience.
- They use instincts formed at the ground level to make every decision.

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Owner's Mindset

- "The difference between employees who operate with the owner's mindset and those who don't, can be as great as the difference between devoted parents and restless babysitters."

Zook, C., & Allen, J. (2016). The Founder's Mentality: How to Overcome the Predictable Crises of Growth.

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You may ignore the remainder of the slide deck. I am keeping them for those who may be interested. For examination purpose, you may ignore.

Hiring Early Employees

Early Hire: Hire only the best talent

- You get to know them if you have worked with them for some time. So try to work in a project to know them. Are they among the top 5% of the people?
- Good communication skill is great asset.
- Risk taking attitude is essential.
- Work with people and check if you genuinely like and respect and you have known long enough to be sure.

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Mark Zuckerberg Would Hire Those Who

- Are Smart
- Get things done.
- He would like to understand: “Do I want to spend a lot of time around them?”
- “I would like those whom I shall feel comfortable reporting to”
- Those who are manically (obsessively) determined.
- People with good communication skill.

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Early Recruits

- Talented early employees can fill some of the skill gaps.
- They have the founder's mentality and drive company's sustainable growth.
- Top talents are in limited supply. Being at early stage, startups are at a disadvantage to attract and screen the best talents.
- Thankfully, highly creative talents like to experiment in early-stage startups. You have to find them.
- You have to seek them out instead of expecting them to seek you out.
- Batch mates, co-workers, and friends with long association are natural choices.

Early Recruit

- Many of them like to feel the excitement of the startup without having too much stake.
- They are motivated by the opportunity to work on a problem that is core to a company's main business.
- They look forward to an open environment where their activities are not bounded by rules.
- They get a chance to build brand, develop product from the ground up.
- Early-stage employees may also aspire to opportunity to create personal wealth through equity.

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Early Recruit

- One key issue to remember is that firing a person for non-performance is more difficult than hiring.
- You have to be sure about the right person.
- Hire only when scaling, balancing key skill deficit, diversifying, particularly when you are bursting at the seams.
- Number of employee is a vanity metric that must not be chased.
- More employees than what are necessary create huge problems such as high burn rate, slow decision process, complexities, lower efficiency and the list goes on.
- Hiring requires time; so plan in advance.

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Prepare yourselves

- Create a clear profile of the potential talent. Usually, people use the acronym CAPS, which stands for capacity (capability), attitude (self-motivated, adaptability to change, ethics, team player, hardworking, knowledge seeking, self-assured, passionate), personality, and skills.
- Take a marketing approach to recruiting. Create a compelling story about your company vision and see how it can align with objectives of individuals.

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Who Are the Right Persons

- Failed or successful startup cofounder
- Working experience in startups
- Person with demonstrable creative talent
- Founder aspiration
- Persons with international experience
- Person initiated personal projects
- Small business owner
- Openness to learn new techniques
- Action oriented, self motivated, result oriented,
- Treat customers as individuals rather than (great employees are focused on solving problems of customers)
- They are aware of the company mission and passionate to remain focused to achieve it.

Undesirable Traits

- People with long experience in established companies
- Job hoppers
- Interested in high designation
- Think money as main ingredients in everything

How to Identify Talent?

- **Participate in hackathons, conferences, and competitions and make connections.**
- **Use your peer network.**
- **Use social media.**
- **Must not be done in a hurry.**
- **Do reference check for antecedents.**

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Some Dos and Don'ts

- Do reference check for antecedents. Check if the person is a super performer. Even a fresher may have demonstrable capability in some of their projects.
- Try hiring and retaining the best talent even at a high salary (both cash and equity). One great employee can take the company to places.
- Check if the company mission is aligned with the personal mission.
- If in doubt, do not make a decision to hire. Investigate till you are absolutely sure.
- Test skill on actual environment such as pair-programming.

Some Dos and Don'ts

- If an employee is not effective or a trouble maker, fire early. The best time is now. Good for the company and for the employee.
- Train them in respective fields.
- One may not be a natural manager. You have to teach them.
- Every new employee redefines the cultural mix of the company at early stage. Keep that issue in mind.

- Zook, C., & Allen, J. (2016). The Founder's Mentality: How to Overcome the Predictable Crises of Growth. Harvard Business Review Press.
- Creating Teams With an Edge: The Complete Skill Set to Build Powerful and Influential Teams by Harvard Business Publishing, 2004
- https://medium.com/f2-capital/how-vc-investors-examine-startup-teams-fb7a436218c2
- Harvard Business Review Entrepreneur's Handbook (HBR Handbooks) by Harvard Business Review
- https://startupclass.samaltman.com/
- The Tech Entrepreneur's Survival Guide: How to Bootstrap Your Startup, Lead Through Tough Times, and Cash In for Success–by Bernd Schoner, McGraw-Hill, 2014
- Images are from (i) https://pixabay.com and (ii) https://pexels.com
- https://www.entrepreneur.com/article/240883 - article by Dharmesh Shah - Co-Founder and Chief Technology Officer, HubSpot

- **Complementary skills and professional abilities, mutual respect, strong leadership, synchronization, and communication of team members with one another, both on the professional and the interpersonal levels are key to decide on team members.**
- **Recruit only to fill critical skill deficiencies.**
- **Check that the potential talent gels well with rest of the team and is aligned with the company vision.**

Thank you

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Foundations of Entrepreneurship

Lecture Note # 21 26.02.2021

Business Plan

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Concepts Covered:

- **Elements of a business plan**
- **Importance of the various components**
- **Information contents**
- **Preparing winning business plan**

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Growth Hacking
How much growth is too much?

Kavin Mittal

- **Mittal took to Twitter to announce the shutting down of Hike Messenger.**
- **founded in 2012**
- **The startup showed promise, quickly got the attention of investors — including Chinese messaging giant WeChat's parent — and was valued at 1 billion dollars within four years of launch.**
- **Hike in late 2016 boasted having 37 million monthly active users (MAU) and 18 million daily active users (DAU).**
- couple of bad hiring mistakes which cost them dearly.
- "We should have adapted to the market, we couldn't. That was the key reason. There was a period in which we went from 150 people to 400 very fast," he said.
- "We had built a phenomenal culture at Hike until 150 people. But we were going too fast and when you make hiring mistakes at the top, it all comes tumbling down," he said.

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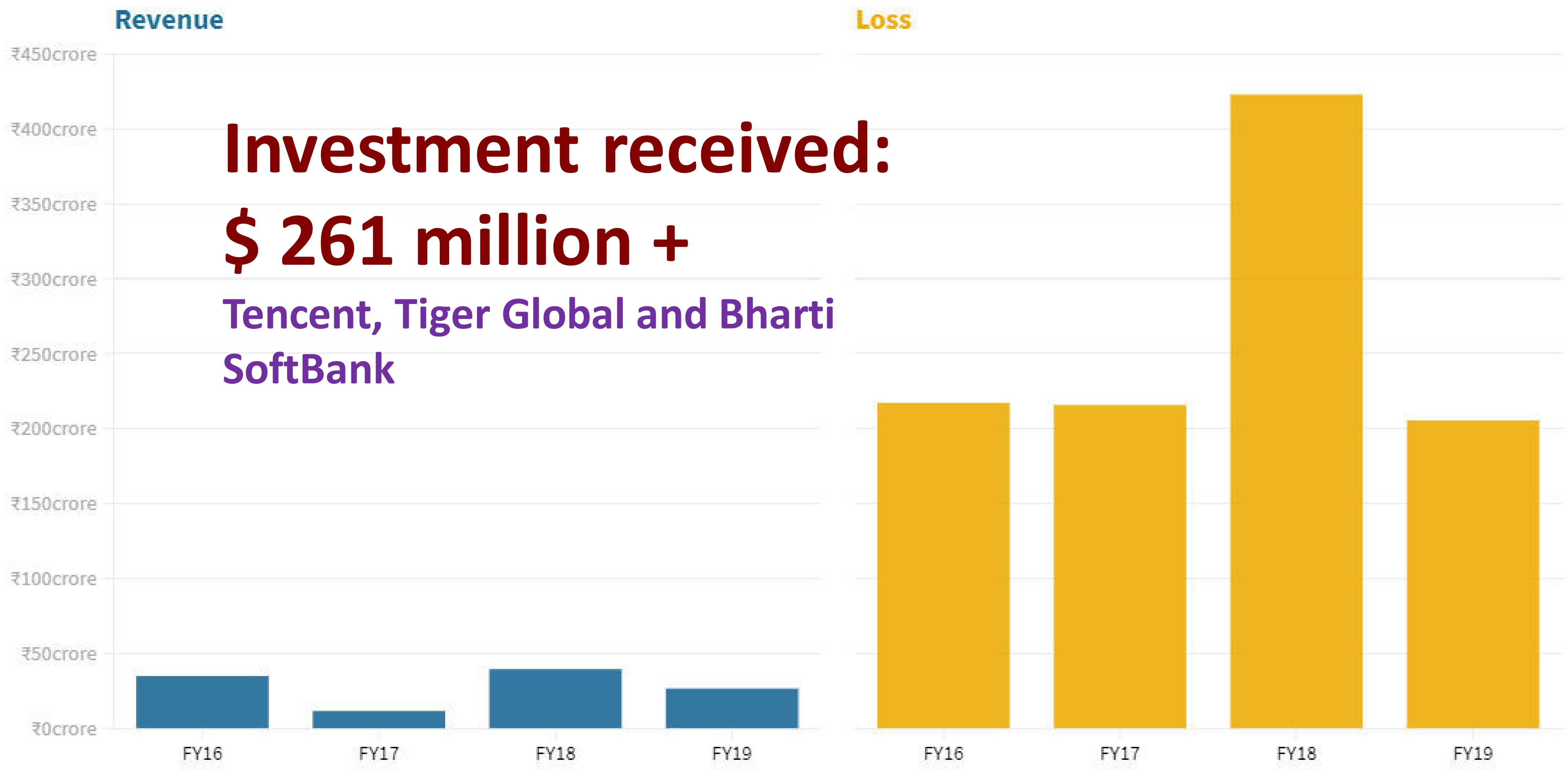
Hike's last declared revenue figures until 2019, according to regulatory filings



Investment received:

$ 261 million +

Tencent, Tiger Global and Bharti SoftBank

Source: MCA filings

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“Emotionally we have moved on, it’s a part of building a new company. We have seen a lot of success, we have seen some big downfalls,” he added after quoting a popular Silicon Valley adage, ‘building a business is like waking up in the morning and eating broken glass every day’. Kavin Mittal

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- Elon Musk makes the point that even if your product is failing, you should stick with it if you believe that your idea has what it takes to be successful. He provides a supplementary anecdote, stating that “Tesla almost failed”. However, Elon Musk stuck with Tesla and on the day Tesla was due to file bankruptcy, Elon Musk miraculously got enough investments to pay off his debts. Today, Tesla’s stock is booming, with everyone betting high on the advancements Tesla is projected to make.

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Distinction Between Business Model and Business Plan

Business model is the business that is taken up to solve a problem of a customer segment through superior value proposition and deliver the value in a competitive way to create wealth for the stakeholders.

Suppose you want to start a business to manufacture and sell e-bikes. Your business model is to manufacture and sell e-bikes with a value proposition to maximize customers' satisfaction and create an increasing and repeatable loyal customer base for sustainable growth and profit.

The value proposition includes meeting the needs of your target customers, offering superior value for their money compared to competitors, convenient delivery of the bikes, and ensuring pleasant experience of using the product, offer satisfactory aftersales service and such.

Distinction Between Business Model and Business Plan … cont'd.

Business plan on the other hand is a description of the business model.

Business plan is a document that delineates the detailed execution plan of the business model, its SWOT analysis, USP, its team, business process management, what are its strategies to be and remain competitive, how it will acquire and retain increasing number of customers, and what will be its financial performance.

Business plan also states how it plans to create value for its investors.

Definition

The Business Plan is actually your future story presented in a systematic way highlighting key features.

In its simplest form, a business plan is a guide—a roadmap for your business that outlines goals and how you plan to achieve those goals.

Ideally, the plan explains why you think you will be successful, leveraging the strengths and opportunities given the challenges ahead.

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As Dharmesh Shah, Co-Founder and Chief Technology Officer, HubSpot writes at Entrepreneurs.com

- “The problem with business plans is that things change so quickly in the startup world. Before the ink is even dry on that 100+ page business plan as it shoots out the printer, things have already changed and "the plan" is already outdated. …
- Very few startups I know – or companies I’ve invested in – resemble their original business plan.”

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The Purpose of Business Plan

The flavour may vary based on context

1. Entrepreneur's ready reckoner – a dynamic plan that continuously evolves over time: – more strategy and milestone oriented.
2. Fund raising – Angel and VC (equity) – focuses on success factors, risk factors & how do you plan to mitigate them, traction, progress in product development and validation, financial projection, exit strategy: - more traction and futuristic.
3. Fund raising (debt) – present and future financials.
4. Business plan competition as in '2.' above plus social values.

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The Purpose of Business Plan
The flavour may vary based on context

5. Incubation – as in (2) above.
6. Acceleration – as in (2) above.
7. Customer connection – past and present financials.
8. Mentor connection – as in (sl. no. 1).
9. Potential buyer of your company or acquirer (in merger & acquisition deal) – present and future financials, customer base, .

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The Purpose of Business Plan

The flavour may vary based on context

- Whatever is the motivation to write a business plan, your audience would be interested to know how you navigate through challenges to emerge successful and create value.
- Your focus must be to bring to light the story of that journey.

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Consideration for Building a Business Plan

- Words are tools for conveying ideas.
- Investors are busy.
- They want you to convey as much as possible in as less words.
- No poetic phrases
- Follow the lean philosophy. Give an MVP of the plan
- Anybody loves to hear a good story with strong words.
- Gather all possible information about pitfalls.
- Highlight the risks as much as the prospects.
- Show investors the money.

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Demonstration of a Working Model Is Very Convincing

- **It’s a good idea to demonstrate a working prototype, should you have one.**

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Four Factors Critical to Every New Ventures and They Should Receive Pride of Place in Your Business Plan

1) **The people – Founders, employees, mentors, directors: team chemistry, track record, .**
2) **The opportunity – what it will sell and to whom (what pain you alleviate with what efficacy: competitive advantages), how it will make money. The unique value proposition.**
3) **The context – the big picture – the present business scenario with particular reference to the opportunity. The growth prospect of the market segment. Market structure. Bill Gross! Victor Hugo!**
4) **The risk and reward – things that can go wrong and the potential gain if the team can do things right.**

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Your USP and Your Value Proposition to Customers

- The USP helps determine whether there is any reason for a buyers to purchase your product instead of continuing to use established ones.
- USP is combination of factors that set your product apart from competitors and conveying customers the reasons why they should buy your product (delivery, return policy, aftersales service).
- USP should be projected as if it is in your company's DNA.

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Examples of USP

- FedEx Corporation: "When it absolutely, positively has to be there overnight."
- Avis: "We're number two. We try harder."
- M&Ms: "The milk chocolate melts in your mouth, not in your hand."
- Dominos Pizza: "You get fresh, hot pizza delivered to your door in 30 minutes or less, or it's free."
- NyQuil: "The night-time, coughing, achy, sniffling, stuffy head, fever, so you can rest medicine"
- Target: "Expect More. Pay Less."
- Geico: "15 Minutes Could Save You 15 Percent or More on Car Insurance."
- Enterprise: "Pick Enterprise. We'll Pick You Up."

Major Components of Business Plan

i. **Cover page:** Invest in designing the cover so it stands out.
ii. Executive Summary
iii. **Contents:** it tells your audience what to expect in the report.
iv. The Detailed Plan (the core business plan)
v. Conclusion
vi. Appendices

1. **Executive summary**: give it your best shot.
2. **The Business (Background & business mix)**– how did you get here, the pain point, the market, why this business, why now, where are you now?
3. **The market & market demand** – segment, market size, growth, competition, channel, your advantages.

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4. Competitive advantage and your value proposition.
5. Strategies Operation management – your value, plan for a lean system, suppliers and buyers management.
6. The resources: The team – key skills in the field of technology, management, marketing, and operation.

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7. **Financial outlay and financial closure**, projected financials – gist of profit & loss, cash flow statement, break-even point
8. **Risks, Opportunities and Sensitivities**
9. **Conclusion**
10. **Appendices** – detailed profit & loss account, balance sheet, cash flow statement, detailed project cost, market survey report (if any) and other reports and images you think make a difference to the impression of your audience. The brief resume of all the founders and key employees may also be attached.

Essential Guides – Writing a Business Plan Vaughan Evans, Financial Times

Many Templates. Fundamentally they are similar.

The Template of HBP.

- Summary
- Business
- Market demand
- Competition
- Strategy
- Resources
- Financials and forecast
- Risk, Opportunities and Sensitivities

Template by Sequoia Capital

"We like business plans that present a lot of information in as few words as possible. The following business plan format, within 15–20 slides, is all that's needed."

- **Company Purpose**
- **Problem**
- **Solution**
- **Why now**
- **Market size**
- **Competition**
- **Product**
- **Business model**
- **Team**
- **Financials**

https://www.sequoiacap.com/india/article/writing-a-business-plan/

Business Plan Outline - 23 Point Checklist For Success

Source: Forbes, Created by Dave Lavinsky

- **Section I – Executive Summary**
- **Section II – Company Overview**
- **Section III – Industry Analysis**
  - *Market Overview*
  - *Relevant Market Size*
- **Section IV – Customer Analysis**
  - *Target Customers*
  - *Customers' Needs*
- **Section V – Competitive Analysis**
  - *Direct Competitors*
  - *Indirect Competitors*
  - *Competitive Advantages*
- **Section VI – Marketing Plan**
  - *Products & Services*
  - *Promotion Plan*
  - *Distribution Plat*

Continued …

www.forbes.com › sites › davelavinsky

Business Plan Outline - 23 Point Checklist For Success … contd.

- **Section VII – Operations Plan**
  - *Key Operational Processes*
  - *Milestones*
- **Section VIII – Management Team**
  - *Management Team Members*
  - *Management Team Gaps*
  - *Board Members*
- **Section IX – Financial Plan**
  - *Revenue Model*
  - *Financial Highlights*
  - *Funding Requirements*
  - *Use of Funds*
  - *Exit Strategies*
- **Section X – Appendix**
  - *Supporting Documentation*

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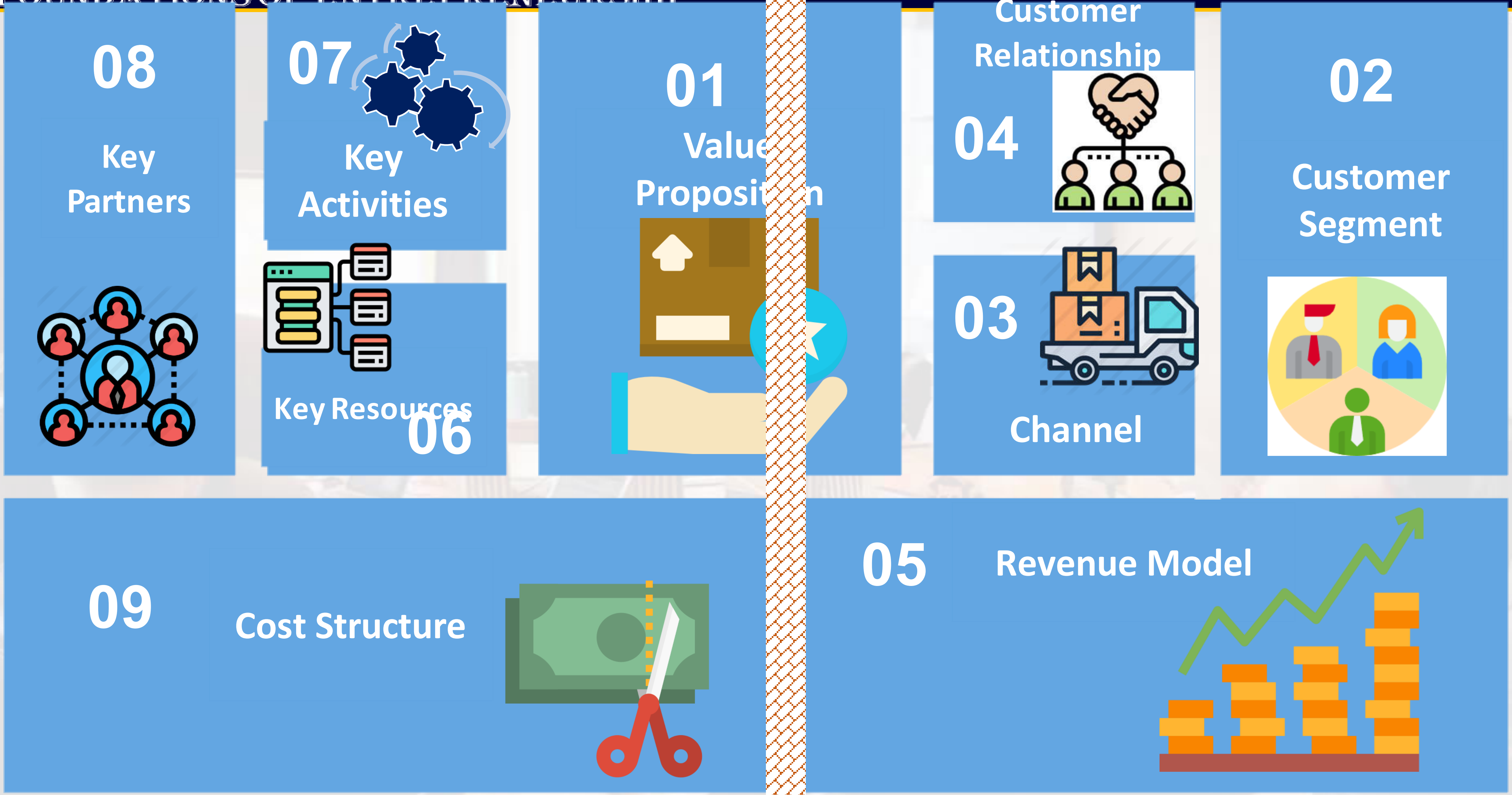

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Writing a winning business plan

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Chapter 1: Executive Summary

Chapter 2: The business

Chapter 3: Market demand

Chapter 4: Competition

Chapter 5: Strategy

Chapter 6: Resources

Chapter 7: Financial Outlay, Financial Closer, and Projected Financials

Chapter 8: Risks, Opportunities, Rewards and Sensitivities

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Chapter 1: Executive Summary

- The business
- The team
- The proposal
- Why now
- Why it will succeed
- What the rewards will be
- Major risks and how you can minimize them

Executive Summary

- **For most readers it will be the first few pages or the only pages they read. Some senior decision-makers will read nothing else.**

- *Spend time on it, nurture it, hone it and edit it remorselessly, even give it to a professional to edit. It may be the best investment you make.* - Vaughan Evans

Summary – Make the First Impression

- Research evidences that we create an impression about a person we meet in the first 15 seconds. If you are presenting for say 5 minutes, you create a lasting impression that is hard to shift later.
- Must be persuasive.
- Should cover all the key issues.
- Try to be detailed but brief - provide all key information in a precise way.
- Show your compelling reason for promoting the business.
- Why now?
- Make it short and interesting, and keep people expecting more.

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Chapter 2: The business

- Background
- Business mix by segment

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Background

- You brief your audience on the bare essentials – what the company does, for whom, why, where, with whom, with what and how it got to where it is now.
- Highlight the traction. you'll briefly set out why the business is poised to enjoy a sustainable competitive advantage.
- Introduce more detail on the background to your business than you will have set out in the executive summary. Remember that your plan is to be a short, sharp, punchy document aimed at hooking your audience.
- This is where the reader is introduced to the business, where you set out clearly and concisely what makes the business tick.

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The items in the 'Background'

- The opener
- Goals and objectives
- Strategies
- Resources
- Basic financials.

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Chapter 2: The Business: Background

The opener	Goals and objectives	Strategy	Resources	Basic financials.

The *opener* should be just one paragraph containing:

- Who you are – the name (or code name, if yours is a confidential plan) of your business.
- What products or services it focuses on.
- Which main customer groups your business serves.
- Where it is based, where else it has operations and where it sells.
- With what success, in terms of revenues and operating margin (operating profit divided by sales), and
- By Which year you will achieve.

The Goals and Objectives

- Your goal is to become customer-centric. So your objective may be %satisfied customers. Put a number: say 40% of our customers will rate highly satisfied 2020.
- You may set the goal in terms of market share. Now put data to set the objective: you are working to gain 10% market share by the end of 2020.
- Goals are directional, objectives are specific. You may have come across the useful acronym SMART for setting objectives, which stands for Specific, Measurable, Attainable, Relevant and Time-limited.

Chapter 2: The business: Background

Strategy

- What strategy you adopt to build and maintain competitive advantage.
- How is your offering differentiated, unique features that customers love, technically superior, convenient purchase & delivery, hassle-free maintenance, and many more.

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Chapter 2: The business: Background

Resources

- Highlight the key resources such as strategic location, existing infrastructure including office, access to strategic assets, technologies, IP, team and mix of skills, mentors, key employees, any arrangement with suppliers and distribution, any acquisition plan.
- Good to have an infographics and timeline.
- Write a separate paragraph on your team including key employees. Highlight the credentials of the team and how the skillset and experience will help in executing the business model.
- You may also mention their key responsibilities and ownership.

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Chapter 2: The business: Background

- List requirements for the following resources:
  - Personnel
  - Technology
  - Finances
  - Distribution
  - Promotion
  - Products
  - Services

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Basic financials

- Provide a summary of key financial metrics such as sales and operating profit.
- In case no sales has been made so far, state the major expenses incurred, the source thereof and the time it required.

The business *mix by segment*

- Clearly define which group of people or businesses constitute your main customers.
- What products or services you are offering them. Which of them will critically contribute to your business success?

The business: *Customer segment*

- Who are the target customers (define customer persona)?
- In which way will they benefit from your offering?
- How do you offer a superior product-market-fit compared to your competitors?
- How do you target them and position your product?
- You need to mention evidence such as market research data or validation by number of users and their responses.

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The business: *Customer segment*

- Try identifying niche and creating sub-segments to offer differentiated products to target customers of specific needs (features).
- But focus on the product-segment that will make or break your business.

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Chapter 3: Market demand

- It is important that there are enough customer to buy your product at a profitable price. Else, your plan will not materialize.
- Thus, this section is one of the most important and you must make all out effort to make it as convincing as possible with real data. Do not try to suppress facts. If it is declining you must have a plan to reverse the trend.
- Market size
- Market growth
- Market demand for a start-up
- Test marketing
- Estimate your addressable and obtainable market

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Market demand

- Market demand, risks and opportunities
- Market share change – give a competitive intensity of your market and your competitive position.
- That market must be of sufficient size, now and in the future, to support at least your business, not to mention your competitors.
- Your market must buy your product for you to have a business. Your market must look attractive. Else you should not pursue it.
- Your reader wants to know, before all else, who these buyers are, how much they are buying, how much they are paying, why they are buying, what has been influencing them, how those influences may change and how much they are likely to buy in the future.

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Chapter 4: Competition

- *" Competition's a bitch – but that's what gives us puppies."* – Unattributed

- **Understand and respect the competition & competitive intensity. Give competitors the space they merit in your plan. Dismiss them and your readers will dismiss you.**
- **Your USP: How you are going to stand out in the competition? What product features, quality, technology, service differentiator you have to beat competition.**
- **Porter's five forces analysis of your business.**

Chapter 5 Strategy

- *“ We shall either find a way or make one.”* - Hannibal
- you assess what your competitive position will be upon entering this market and how that may improve over the next three years.
- How competitive is your business in each of its main segments? What is your strategy for strengthening competitiveness in key segments? Or boosting the balance of your overall portfolio of segments? What risks may you face and what opportunities can you exploit?

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Strategy

- **Neither you exaggerate your opportunities nor you gloss over the risks.**
- **Be realistic.**
- **Tell your strategies to beat the competition.**

There are a number of ways you can try to sustain your competitive advantage

- Patent protection of key products you have innovated.
- Sustained innovation to stay ahead in product development.
- Continuous improvement of the process to reduce cost.
- Content marketing.
- Investment in branding and creating loyal customers.
- Investment in customer relationships, particularly for business-to-business ventures.

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Chapter 6: Resources

" It's not the size of the dog in the fight, it's the size of the fight in the dog." – Mark Twain

Most investors say that they back the team.

- **In startups, investors do not look for managers. They look for visionary leaders, a person who believes wholly in the product or service, who will inspire and motivate others in the team.**

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Resources

- Technology requirement
- Personnel requirement
- Inputs requirements – raw-materials, services, and utilities
- Logistic requirements – distribution, sale, delivery and aftersales services.
- Financial requirements

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Resources - Personnel

- **Management – how you will have the right team of managers, with the right experience, qualifications and skills to implement the strategy.**
- **Marketing – how you will create sufficient awareness of the firm's offering over the plan period, a crucial issue in a start-up.**
- **Operations – how you will deploy your resources to ensure that supplies, purchasing, manufacturing/service provision, R&D, distribution, sales, customer service, systems, control and compliance are sufficiently aligned to deliver the plan.**

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Chapter 7: Financial Outlay, Financial Closer, and Projected Financials

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Financial Outlay before commercial operation: to be given in Appendix

Startup Expenses	₹ '000
Early salary	100
Market research	40
Prototyping	500
Design of logo, etc.	30
Traveling	25
Legal expenses	60
Trial expenses	200
Advert. & Promo	100
Rent	60
Utilities	20
Website & hosting	20
Internet data plan	10
Telephone bill	5
Insurance	10
Consumables	20
(Prel. & Preop.)	1200

Assets:		Funding	₹'000
Current assets		Liabilities	
Cash	50	Accounts payable	100
Inventory	500	Other curr liabilities	50
Other current assets	100	Friends & Relatives	500
Long term assets		Long-term liabilities	0
Machinery	200	Sub-total	650
Computer	100		
Software	50	Equity	
Interior decoration	10	Owners	1000
Furniture & Fixure	50	Investors	0
Other long-term assets	20	Crowdsourcing	630
Sub total	430	Sub-total	1630
Total expenses	2280	Total funding	2280

Assets	₹ '000	Funding	₹ '000
Current Assets		Liabilities	
Cash	500	Short-term liabilities	
Accounts receivable	2000	Accounts payable	0
Inventory	10,000	Other current liabilities	0
Other current assets	2,500	Friends & Relatives	500
Sub total	15,000	Long-term liabilities	0
Long term assets		Sub-total	500
(Prel. & Preop.)	1,200		
Machinery	50,000	Equity	
Computer	1,000	Owners	2,000
Software	2,000	Reserves & Surplus	0
Interior decoration	500	Investors	70,000
Furniture & Fixture	300	Crowdsourcing	2,500
Other long-term assets	5,000	Sub-total	74,500
Sub total	58,800		
Total Assets	75,000	Total funding	75,000

Financial Outlay and Financial Closer

This part is for the Appendix. Only the brief should be provided in the main body.

You should present the following financial projections

- A forecast P&L account –the sales is framed using market research data and profit margins is determined based on competition.
- A forecast cash flow statement – this will indicate liquidity.
- A forecast balance sheet – will show that forecasts is achievable with an acceptable capital structure (the balance of debt and equity).

Present here only the gist and give the details in the Appendices.

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Chapter 8: Risks, Opportunities, Rewards and Sensitivities

" When written in Chinese the word 'crisis' is composed of two characters. One represents danger, and the other represents opportunity." - John F. Kennedy

Opportunities are hidden in adversities. Explain how you are transforming challenges into opportunities.

Sensitivities -

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Chapter 8: Risk, Opportunities, Rewards and Sensitivities

- Having forecasted the projected financials, provide the risks that you may encounter, what are the likelihood of their manifesting, how are you preparing to alleviate them? What are the worst and the best case scenario?
- You can depict the risk in a canvas with likelihood in one axis and impact on the other.

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Risk Opportunities Canvas

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Checklist on Risks and Opportunities

- Set out and weigh up the big risks and key opportunities on your way to achieving the targeted success.
- Their likelihood of occurrence
- The impact on bottom-line and cash flow if they do occur.
- Check if there is any risk that can potentially kill your business. You must have a clear and comprehensive plan to beat it.
- On balance, size and likelihood of opportunities should beat the foreseeable risks. Opportunities should outshine the risks.

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Rewards

- Provide some estimates of the pay-off to the investors and founders.
- This is important if you are pitching for fund.

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Sensitivities

- Sensitivities is numerical estimation of how your cash flow is affected if any of the big risks manifest.
- Say, selling price is down by 5%, estimate the cash flow and show how your business is affected.
- You can actually place a value to the negative impact of some of the key risks.
- You can also draw attention to the upside of something going more favorable than projected.

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'Conclusion' section of the business plan

- **The overall conclusion on why your business is worthy of backing (in which you summarize, preferably in bold, the main findings from the headlines below):**
- **Market demand prospects. State your conclusions on what's going to happen to market demand, by key business segment (Chapter 3 of your plan).**
- **Competition. Your conclusions on whether competition is intense and set to get tougher (Chapter 4).**
- **Strategy. Your conclusions on your firm's competitive position and its strategy for further developing competitive advantage (Chapter 5).**
- **Resources. Your conclusions on the resources your firm will deploy to implement that strategy and meet its goals (Chapter 6).**
- **Financials and forecasts. Your conclusions on how your firm will grow revenues and operating margin over the next few years (Chapter 7).**
- **Risk, opportunity and sensitivity. Your conclusions on why opportunities before your firm outshine risks in your plan.**

The length

- The main document should be 25–30 pages of A4, 35 pages maximum.
- The main chapters on market demand, competition and strategy should be three–four pages each; those on resources and financials/ forecasts perhaps a bit longer at four–six pages each.
- The chapters 2 and 8, should be just two pages each, while the conclusion should be a masterfully written, upbeat half a page.

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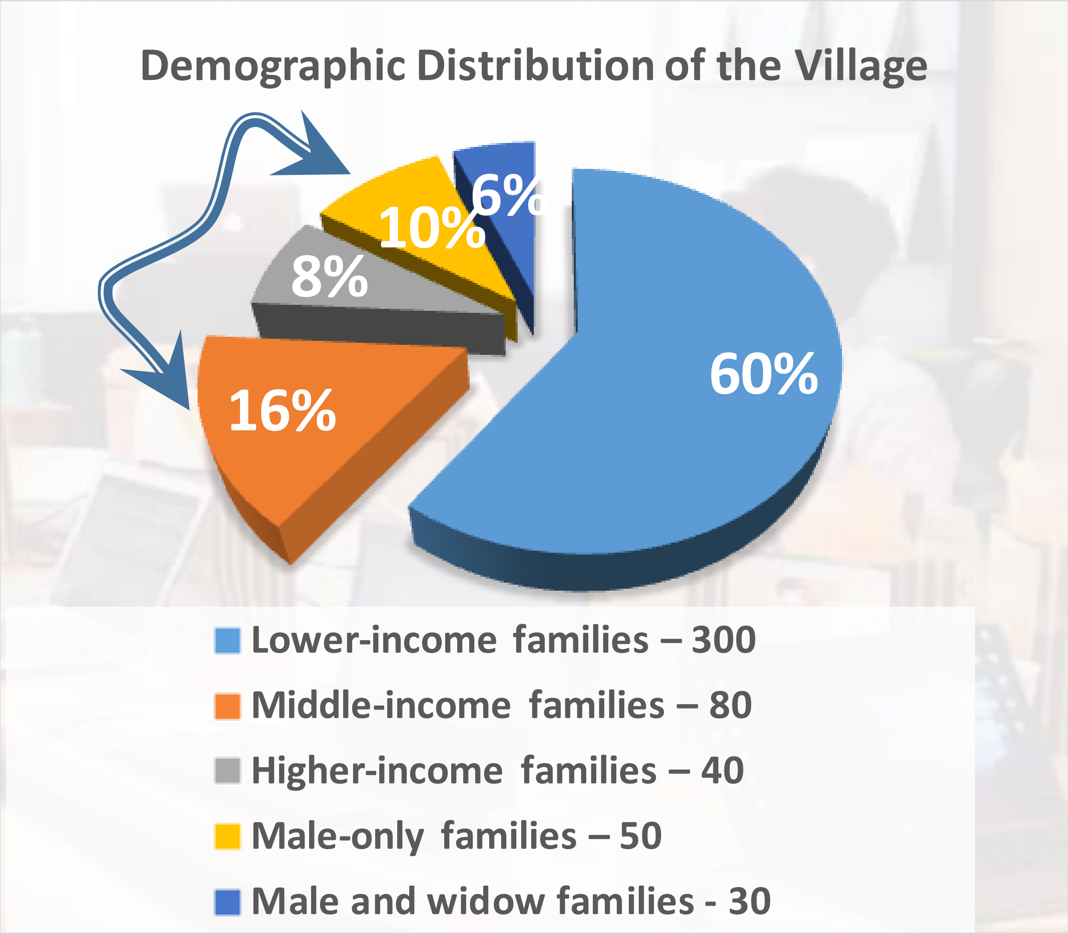
Style

- Style matters.
- Use words sparingly. No word should appear unnecessary. But do not sacrifice on communicating key information.
- Keep sentences simple but informative and of optimal carrying capacity. Remove any sentence if absence of it does not matter.
- Make the most of design elements: headings, subheads, lists, and graphics. A time-constrained reader can get pretty good idea even in 15 seconds to look through.
- Use graphics judiciously.

Information in 'Text' vis-a-vis 'Graphics'

- **Our market research shows that 16% of the population of 500, i.e. 80 families, can be classified as middle-income and forms our target customers.**



Should Be Able to Grab the Attention and Keep It

- Serial entrepreneur and investor Steve Blank says that 99.7% of the applications for funding are rejected and only 0.3% are accepted.
- That means that they receive & scrutinize 300 times more business plans than they eventually fund.
- Obviously, they would neither have the time nor tenacity to thoroughly scrutinize all proposals.
- Therefore, business plan should be precise but focused and should be able to convey the winning elements in minimum words.

Tell Your Story

"Stories are the single most powerful weapon in a leader's arsenal."

– Howard Gardner

- **Do you have a compelling story?**
- **Story does not mean the progression of events till date.**
- **Story relates to your why, how and why now.**
- **It may have some drama, but must have a compelling motivational reason**
- **Companies are positioned within a narrative. How your audience perceive that narrative will influence how they get invested in your vision.**

Know Your Audience and Give the Information They Need to Make Decision

Experts say that your business plan journey should traverse the Seven Cs

- C1 Clear good plan
- C2 Crisp
- C3 Concise
- C4 Consistent
- C5 Coherent
- C6 Credible and
- C7 Correctness.

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Conclusion:

Tell readers in a persuasive way everything they need to make a decision.

Try writing the plan yourselves involving key team members, and you will have better grip on key issues.

Investors are mostly concerned about cashing out. Show them how your business is poised in this regard.

Make your document easy to skim by using headings, subheads, graphics and lists.

Do not disparage competition. Deep understanding of competitors is as important as your value proposition. Understanding weaknesses in your business model is as important.

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- HBR book: Entrepreneur's Handbook – Everything You Need to Know to Launch and Grow Your New Business
- Robin Bruce https://www.forbes.com/sites/robinbruce/2017/03/17/building-your-entrepreneurial-story/#507b2a9211a9
- Covello, J. A., & Hazelgren, B. J. (1995). Your first business plan. Sourcebooks Inc.
- McKeever, M. (2016). How to write a business plan. Nolo.
- Finch, B. (2013). How to write a business plan (Vol. 35). Kogan Page Publishers.
- Essential Guides – Writing a Business Plan Vaughan Evans, Financial Times
- Praag C. M. Van, and P. H. Versloot (2007), ***What is the value of entrepreneurship? A review of recent research,*** Small Business Economics, Vol. 29, pp. 351–382
- Rajiv Shah, Zhijie Gao, Harini Mittal (2015) **Innovation, Entrepreneurship, and the Economy in the US, China, and India** – Elsevier
- Sean Ammirati (2016) **The Science of Growth: How Facebook Beat Friendster—And How Nine Other Startups Left the Rest in the Dust**, St. Martin's Press.

Good Video Lectures and Reading Materials

- http://startupclass.samaltman.com/
- http://darwine.nl/weblog/files/Stanford-How_to_Start_a_Startup.pdf

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Thank You

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Foundations of Entrepreneurship

Lecture Note # 21

Pitching

04.03.2021

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- Elevator Pitch
- Ideal size of the slide deck
- Guidance for a right pitch

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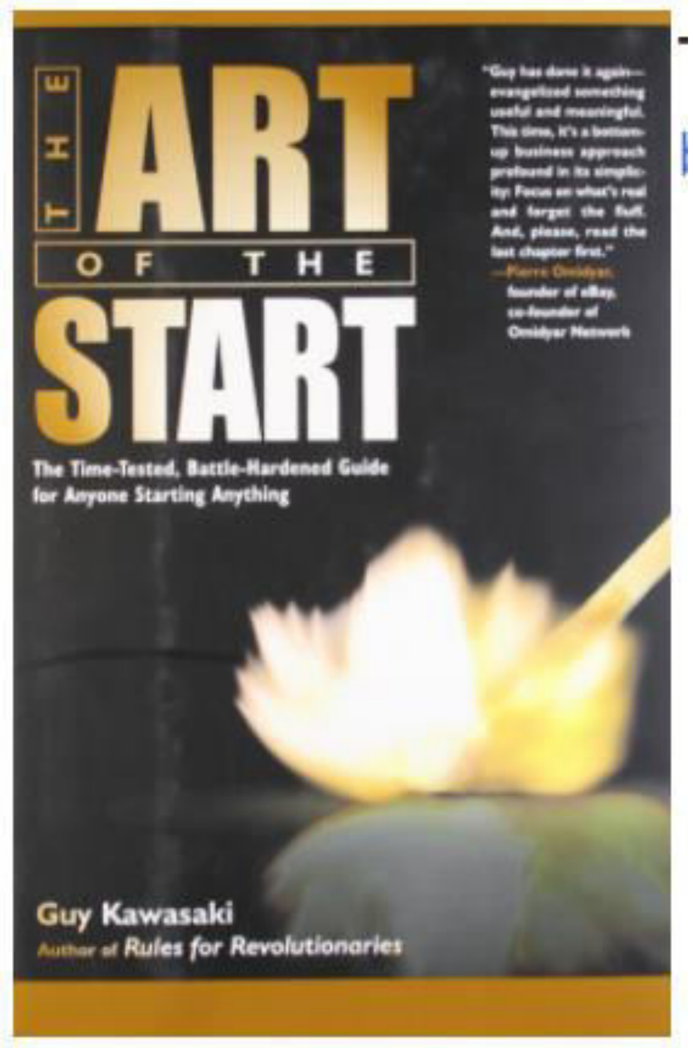
The Art of the Start: The Time-Tested, Battle-Hardened Guide for Anyone Starting Anything

"It begins with a dream that just won't quit, the once-in-a-lifetime thunderbolt of pure inspiration, the obsession, the world-beater, the killer app, the next big thing. Everyone who wants to make the world a better place becomes possessed by a grand idea."



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Elevator Pitch or speech

- Also known as an Elevator Speech or Elevator Statement
- It is a precise description of your company to convey the desired information in the least of words so that one can get a holistic view about your strengths.
- You want to convey your unique expertise and credentials quickly and effectively with people who matter but don't know you.
- It is a short well-prepared speech.

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Elevator Pitch or Speech

- No longer than 60 seconds, ideally 20 to 30 seconds
- Objective is to help your audience with relevant and enough information for them to decide if your proposition is of interest to them.
- Ideally, it should convey what makes your offering unique.
- Try explaining why should one think that you will succeed?

Elevator Pitch or speech in a nutshell

- Who you are. What is your vision?
- What you do.
- Why you have a winning proposition. What is your USP.
- Deliver something for future reference.
- You may seek an appointment for further clarification.
- Practice, practice and practice.

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An Example

We support the consumer durable companies to manage customer experience. Post sales by our clients, our company remains engaged with their buyers and service engineers to answer all queries and troubleshoot every complaint so that customers get exciting experience and the sellers get a five star rating. We charge 2% of sales value and our cost so far is about 50% of that. We are present in parts of Mumbai serving two multinationals who have recorded visible improvement in review and sales. It is still a niche market and we would like to spread in larger geographies before competition sets in. India's consumer durable market is $50 billion, thus the serviceable available market size is $5 billion and we target to obtain 10% of this market in the next two years giving us annual profit of $5 million. A million dollar of funding should take us there. The investment can potentially return 10X in five years.

Dos and don'ts While Pitching

- Do not be verbose.
- Keep something that you can give at the end both for reference and for refreshing memory later: say a brief but catchy flyer and a visiting card. [a calendar, something to place on the table, be innovative]
- Practice and practice. Refine as much as you can based on experience.
- Do not speak too fast. Mindfully, change the pitch of your voice.
- Don’t do rambling.
- Remain open to interjection by your audience at any time.

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Guy Kawasaki

Guy Kawasaki is the chief evangelist of Canva, an online graphic design tool. Formerly, he was an advisor to the Motorola business unit of Google and chief evangelist of Apple.

- **The 10 – 20 – 30 rule recommended by Guy Kawasaki**

"I am evangelizing the 10/20/30 Rule of PowerPoint. It's quite simple: a pitch should have **ten slides**, last no more than **twenty minutes**, and contain **no font smaller than thirty points**." - **Guy Kawasaki**

1. Title

Company name, your name & title, address, email, and cell number

2. Problem/ Opportunity

The pain that you are alleviating or the pleasure you are providing

3. Value Proposition

What reasons the customers will find to buy your's than competitors

4. Underlying magic

Technology, secret sauce, or magic behind your product

5. Business Model

Especially the revenue model and how you are going to earn it.

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6. Go-to-market plan

How you plan to reach customers at **minimum cost?**

7. Competitive analysis

What are your **strengths** vis-à-vis competitors

8. Management team

Complement-ary key skills of the **management team**

9. Financial Projection

Three year forecast of **revenue, profit,** number of customers

10. Traction, timeline, use of fund

Current status, immediate future, **how you plan to use the money**

Additional Information

- Product demo – if you are ready with it. Present it after slide No. 4
- The reward to the investors
- The desired fundraising

- All templates, more or less, contain the same information.
- It is not the format or the template that matters but the contents that you provide.
- Satisfy yourself of a winning proposition. Do not settle with ENOUGH REASONS for winning, but have compelling reason for anybody to ask you to take their money.

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Guy Kawasaky says

- The less text and the more diagrams, schematics, and flowcharts the better.
- If you have a prototype or demo, transition to it after slide No. 4.
- As Glen Sires of Google said “If a picture is worth 1,000 words, a prototype is worth 10,000 slides”.

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Example

- **AirBed&Breakfast – AirBnB – winning pitch deck**

The Airbnb Pitch Deck Slide Layout

- Cover
- Problem
- Solution
- Market Validation
- Market Size
- Product
- Business Model (revenue)
- Market Adoption
- Competition
- Competitive Advantages
- Team
- Press
- Users Testimonials
- Financial

https://slidebean.com/templates/airbnb-pitch-deck

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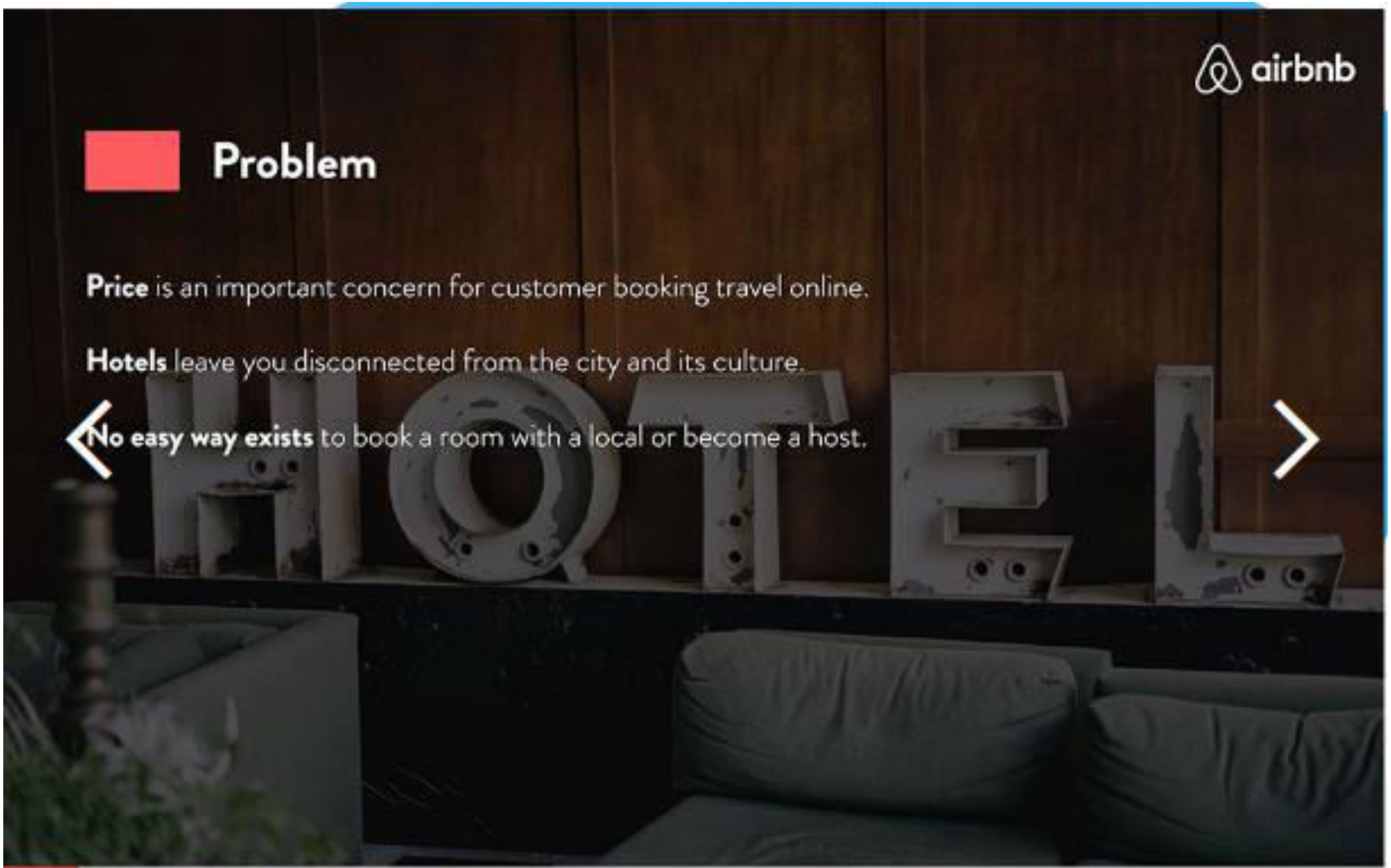
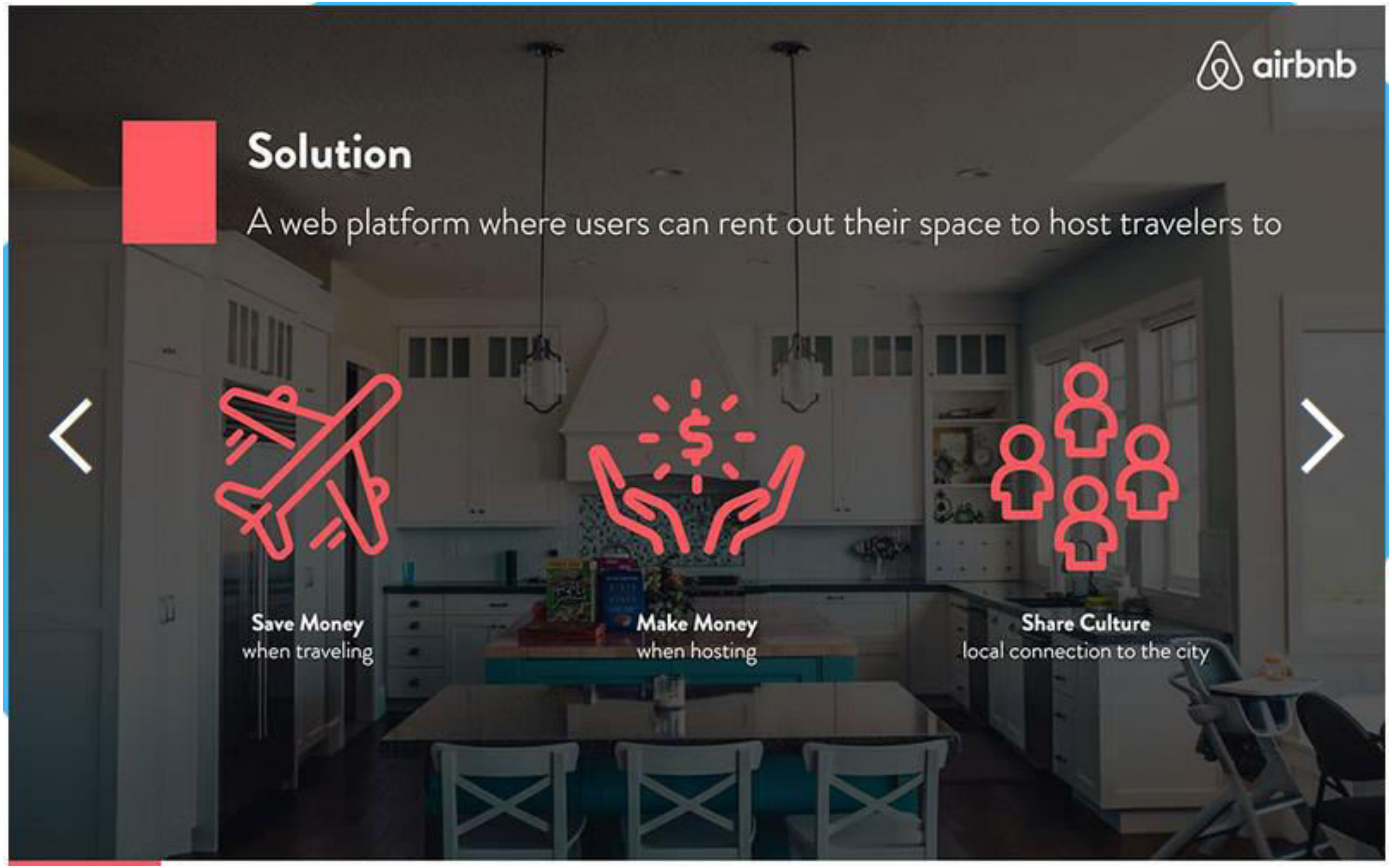
The Problem

- Price is an important concern for customer booking travel online.
- Hotels leave you disconnected from the city and its culture.
- No easy way exists to book a room with a local or become a host.

https://slidebean.com/templates/airbnb-pitch-deck


airbnb
Problem
Price is an important concern for customer booking travel online.
Hotels leave you disconnected from the city and its culture.
No easy way exists to book a room with a local or become a host.
HOTEL



airbnb
Solution
A web platform where users can rent out their space to host travelers to
Save Money
when traveling
Make Money
when hosting
Share Culture
local connection to the city

Market Validation

- **Total users in craigslist.com at 670,000**
- **Temporary housing listing at Couchsurfing.com at 17,000**

Market Size

- **Total users in craigslist.com at 670,000**
- **Temporary housing listing at Couchsurfing.com at 17,000**

2+ Billion	**560+ Million**	**84 Million**
Trips Booked (WorldWide) Total Available Market	Budget&Online Serviceable Available Market	Trips w/AirBnB 15% Obtainable Market

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Product – 4 slides

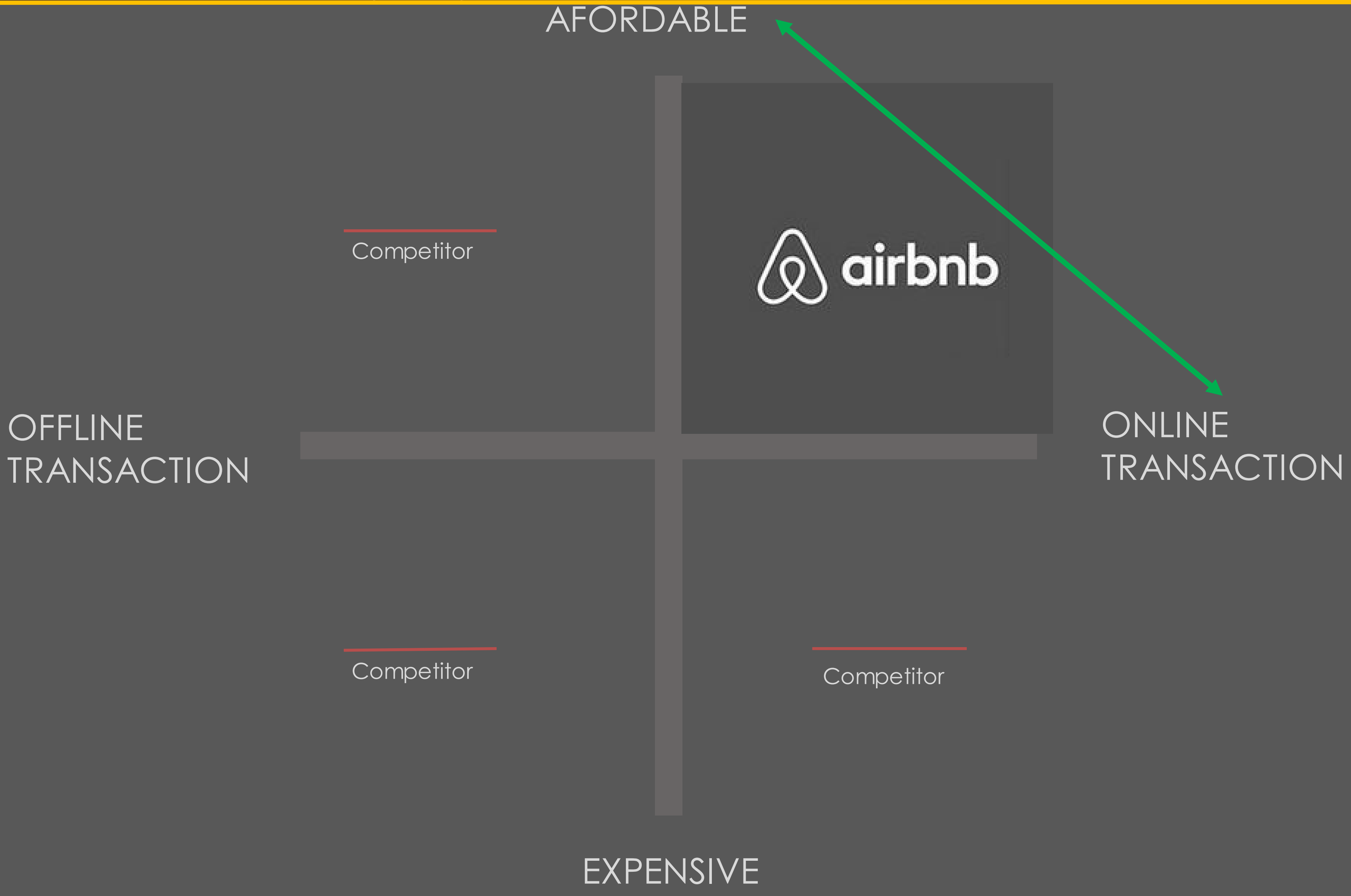
- Product showing interior of a room & a laptop
- Search by city with images from different countries
- Review listings – images of properties with map
- "Book it!" – with an image of beautiful interior of a room with the sea visible through the window.

https://slidebean.com/templates/airbnb-pitch-deck

Business Model

we take a 10% commission on each transaction

$84	$25	$200
MILLION DOLLARS	AVERAGE FEE	MILLION DOLLARS
Trips with AirBnB	**$80/night**	**Revenue**
15% of Available Market	for 3 night	Projected by 2011



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Competitive Advantage

First to Market

For transaction-based
Temporary housing site

Ease of Use

search by price, location &
check-in/check-out dates

Profiles

browse host profiles,
and book in 3 clicks

List Once

Hosts post one time vs.
Daily on craigslist historic

Design and Brand

Memorable name will launch at
DNC to gain share of mind

Host Incentive

they can make money
over couchsurfin.com

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- User testimonial
- Press reports

Financial

We are looking for 12 months financing to reach 80,000 transactions on AirBed&Breakfast

$500K	80K guests	$2 M
Angel Round	Trips w/AirB&B	Revenue
Initial investment opportunity	avg $25 fee	over 12 months

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- A good start can be a very short story explaining where you come from provided it captivate them in it.
- You may use your 20 – 60 seconds pitch as the introduction.

- **You must plan, rehearse and perform in front of a live audience.**

Some Dos and Don'ts

- Present yourself in good attire. We all judge a book by its cover. Dress is almost half of your presentation.
- Remain relaxed.
- Do not stick to the ground.
- Do not engage in self-praising or battering the competitors.
- Avoid the podium.
- "PowerPoint is not the message nor the messenger." - David Fernandez. "You are the messenger, and what comes out of your mouth is the message. PowerPoint is simply there to help."

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- Words are tools for conveying ideas.
- Investors are busy.
- They want you to convey as much as possible in as less words.
- No poetic phrases
- Anybody loves to hear a good story with strong words.
- Gather all possible information about pitfalls.

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- Let your movements mirror what you are saying
- Hold your gaze for a few seconds with each of your audience
- Listen as long as someone is talking. Let him/her complete.
- Mirroring body language may create bond and comfort/likability
- Mild smiling can make you seem approachable, pleasing, more sure of yourself.
- Fidgeting is a clear indication that you lack confidence and rather nervous. Be mindful of your facial expression and your limbs. Be aware of your actions.

Pitching

- Start with an infographics – if possible.
- Bring something tangible to show (if possible)

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Story Telling

- Many potential employees will feel passionate to work with you just for the purpose your company works for. Your story may make them dedicated and give their best.
- Potential investors buy into the narrative and try to gauge your conviction in the cause and your tenacity, and seriousness.
- Customers are getting increasingly connected to your narrative. Data shows that about 70% of millennials prefer to buy brands that supports great social cause, particularly those that they care about.
- Delivering a compelling story can be more persuasive than projecting growth. Do both.

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- **Entrepreneurial story tells the core vision, where you come from, where you aim to be, and where you are now.**
- **You can take all on board for a shared vision by your narrative. You can invigorate all the stakeholders into action that will further your story.**

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Example: Blake Mycoskie

- Blake Mycoskie traveled the world
- He discovered children walking without footwear.
- He realized it as a devastating reality of children in a small village, and was looking for idea to help.
- He hits upon an idea and executed. His idea not only provided children around the world with much needed footwear, but stakeholders rallied around the cause, and made 'TOMS' a household name.

The Elements of a Wining Entrepreneurial Story

Richard Maxwell and Robert Dickman recommended five building blocks of a compelling story:

1. **Hero** – **the agent of change** (Blake Mycoskie is the hero in his venture)
2. **Antagonist** – **the force against which your story pushes**
3. **Awareness** – **the moment at which a solution is discovered or the narrative reaches a turning point.**
4. **Transformation** – **the moment at which you realize the results of the hero's efforts.** **and**
5. **Passion** – **The driving force behind your entrepreneurial story**

These are your fundamental building blocks -- you don't have a compelling story if you don't have a firm grasp of these.

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- **You should remain prepared to pitch in one sentence, one minute, and ten minutes as the context demands.**

- ***"The success of your presentation will be judged not by the knowledge you send out but by what the listener receives." - Lily Walters***

- ***"It takes one hour of preparation for each minute of presentation time." - Wayne Burgraff***

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- It is a good idea to keep a short video pitch of about two minutes ready. Post it on a privately sharable YouTube channel.
- It would be handy in the context of a telephonic introduction.
- Your message should make a mark, something memorable and your audience should easily recount to others.

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30 seconds pitch

The pain point

How compelling is the pain and are people crying for a solution?

The solution

Core functions of your product/ service. The core value proposition. The USP.

The market and the reward?

What is the total market size, how much is serviceable and how much is obtainable?

Traction And financials?

You need to convey that you are moving quite fast. Idea to first prototype to market validation and go-to-market

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Two Minutes Pitch

Four points

- **Unique insight – competitive advantages the aha moment.**
- **How you make money – business model, how you monetize.**
- **Team – credentials, how many engineers, MBAs, experience, how you met, accomplishment.**
- **How much money ($$$) you ask – must do the homework. If questioned as to how do you propose to use it, must not blubber.**

When to fundraise?

- Ideally, try gaining as much traction before asking for money. At that point investors would be asking you to take their money.
- Empirical evidence indicates that 90% of the startup can actually take their product to market with very little money.
- Ask as much money that can take you to the next milestone even if that is small.
- Do not show desperateness.

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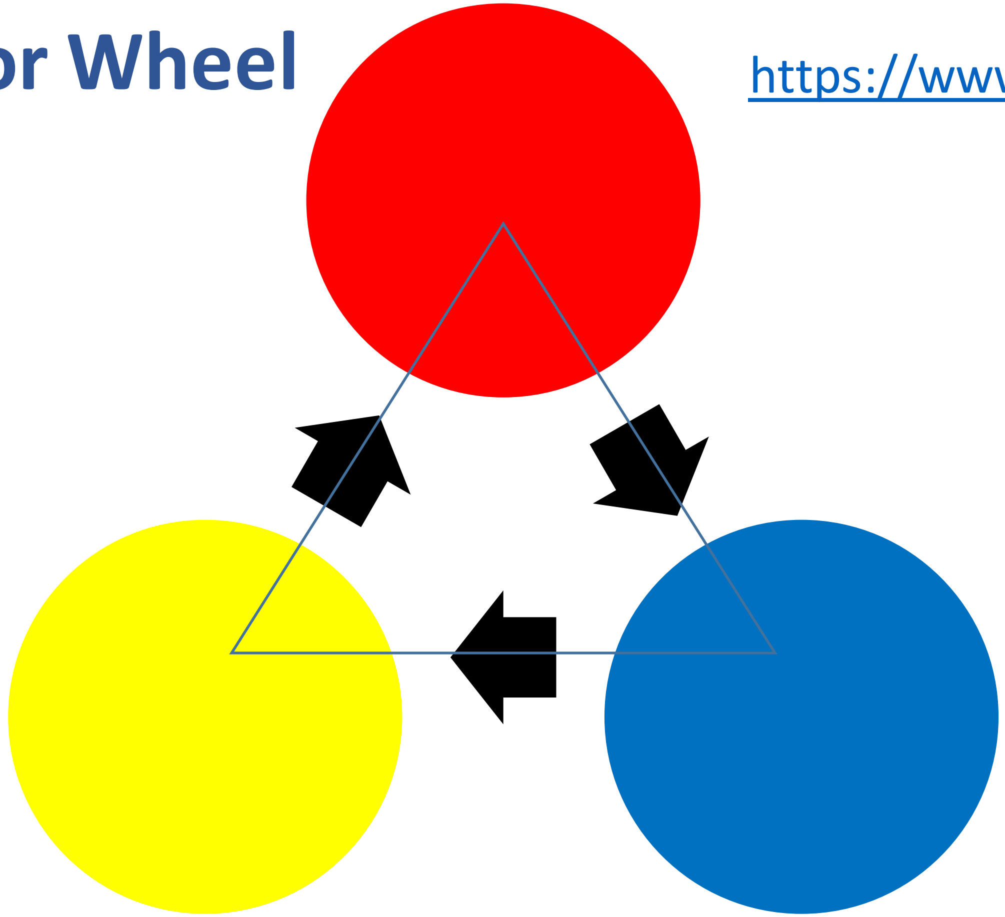
Design with colors

Colors Trigger Different Emotions

Color Wheel

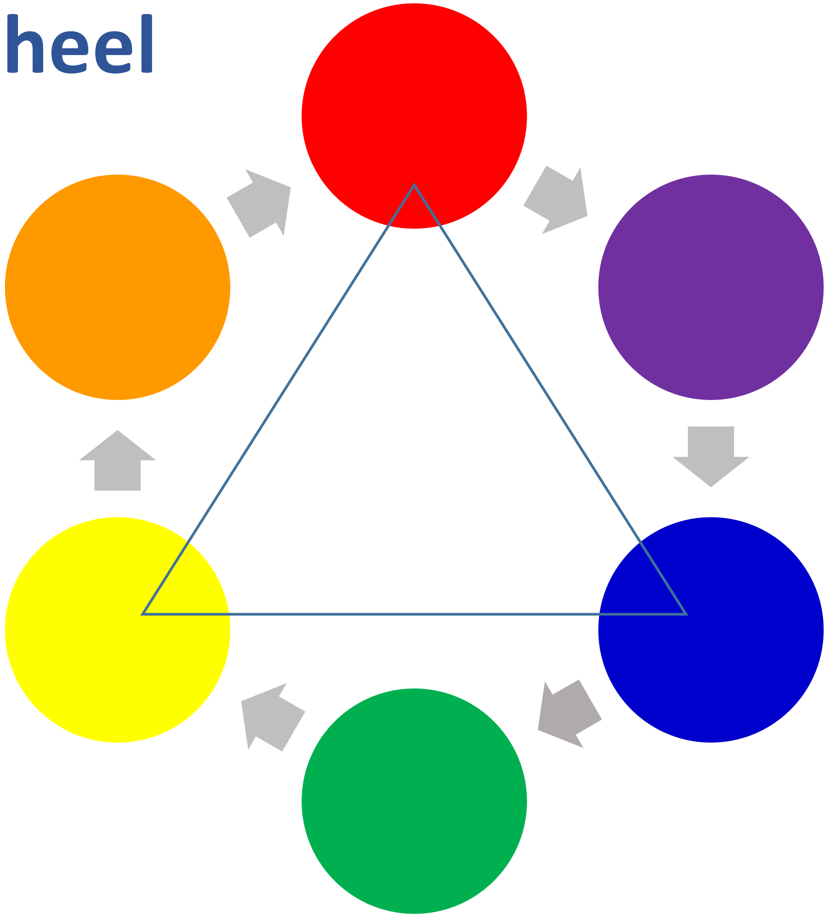


https://www.youtube.com/watch?v=L1CK9bE3H_s

Primary

- Red
- Blue
- Yellow

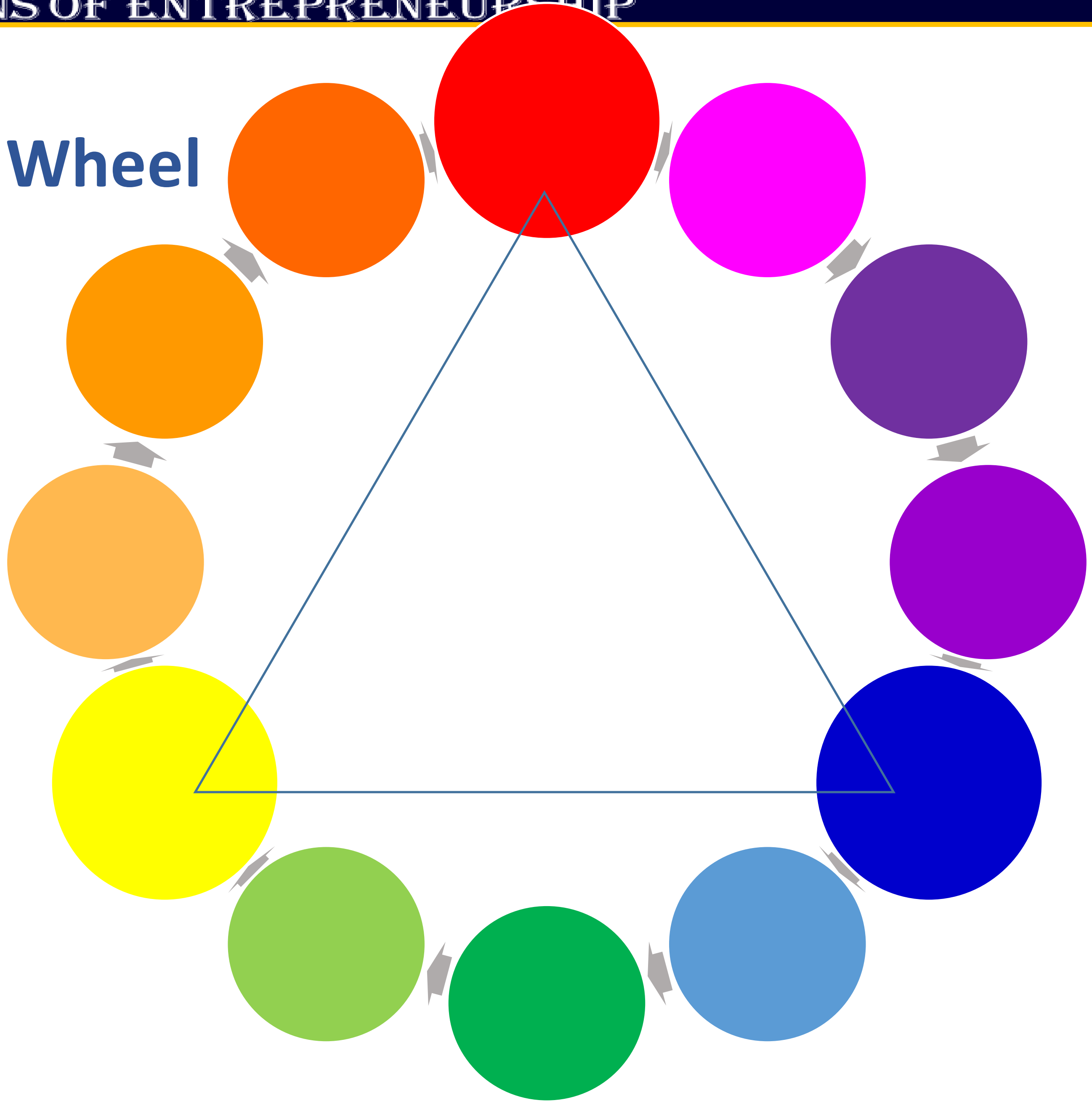
Color Wheel



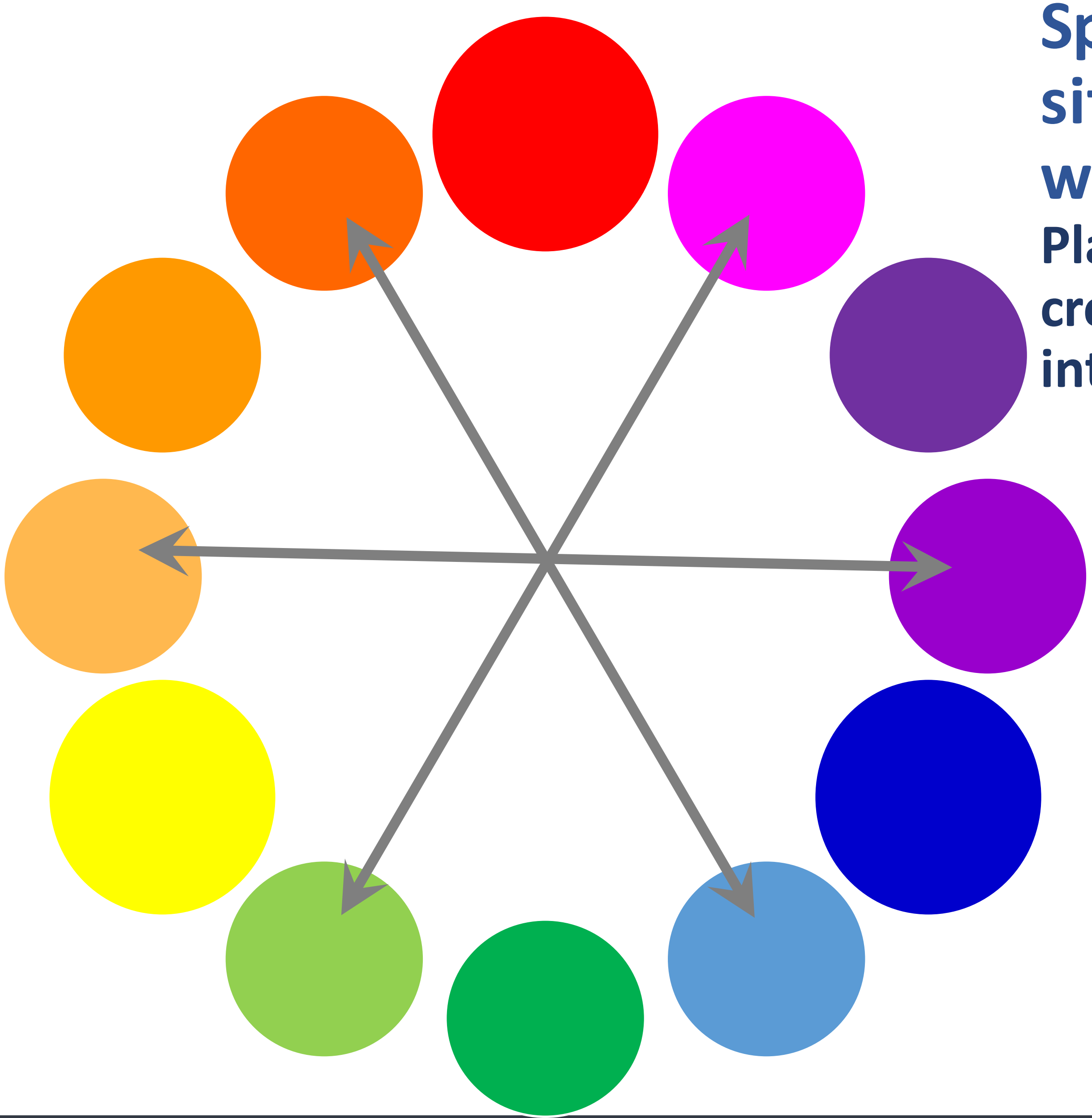
Secondary

- Purple
- Green
- Orange

Color Wheel



Tertiary colors



Complementary Colors or Split Complementary: Colors sitting across in the color wheel

Placing them side-by-side can create great contrast and visual interest

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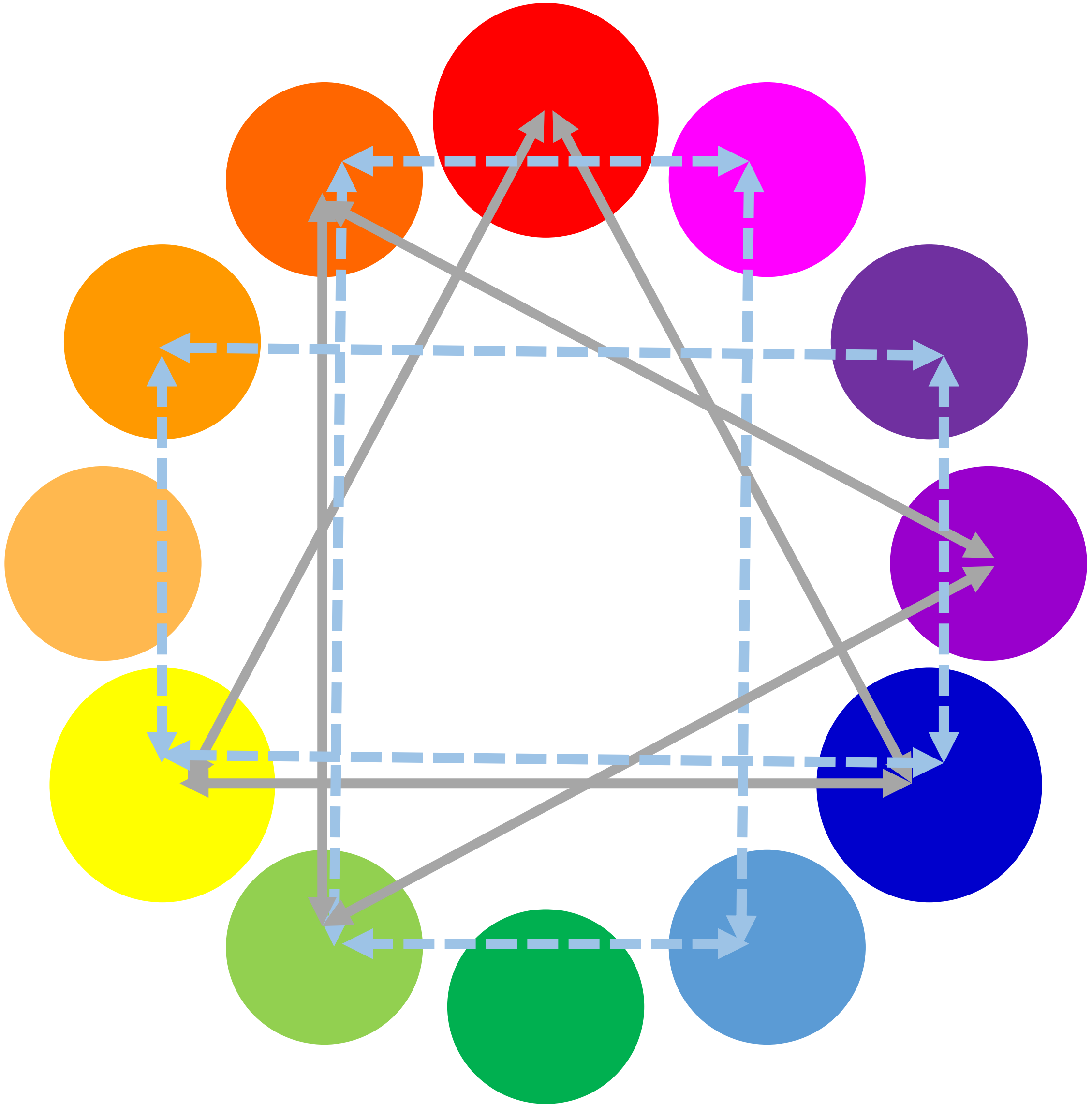
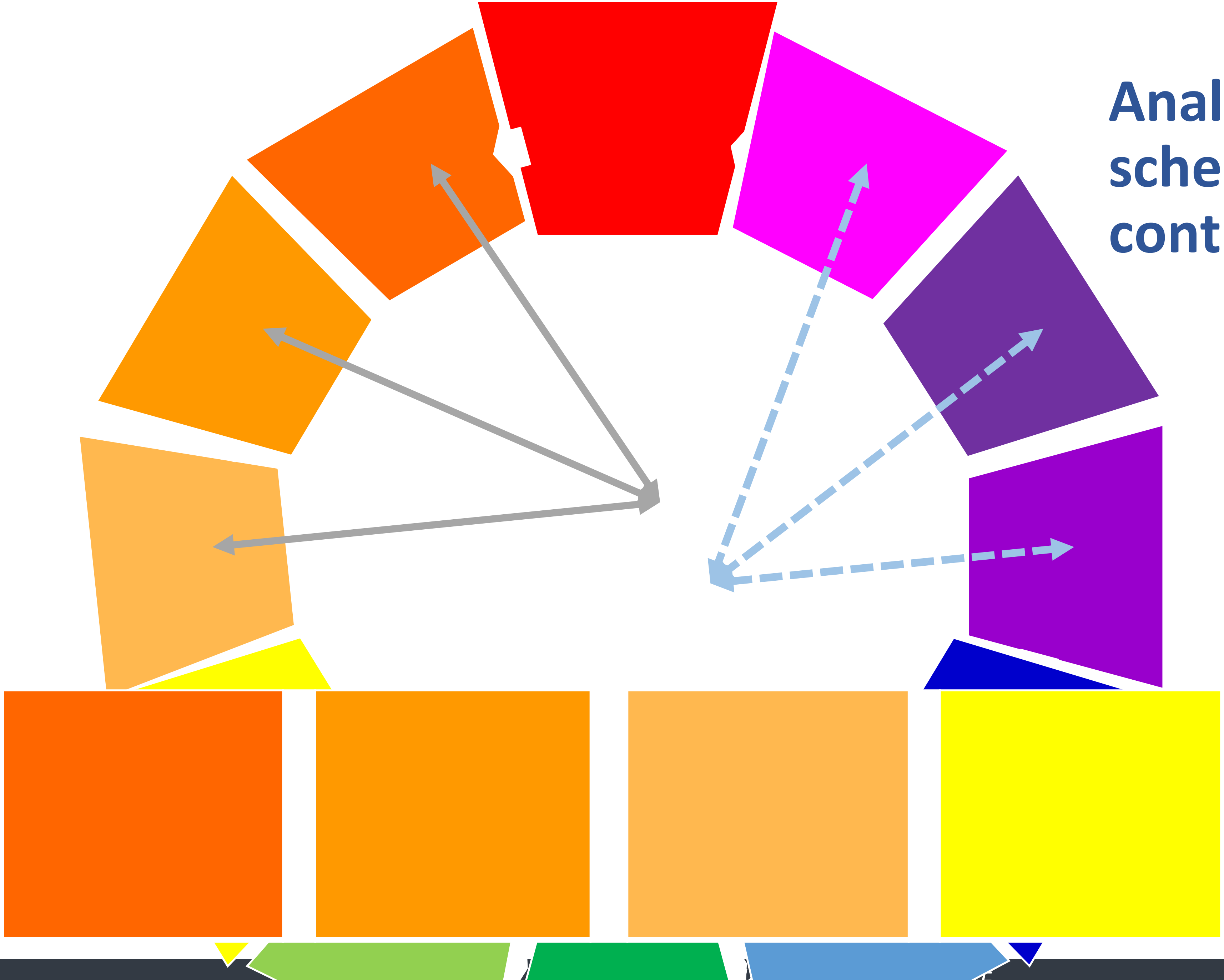


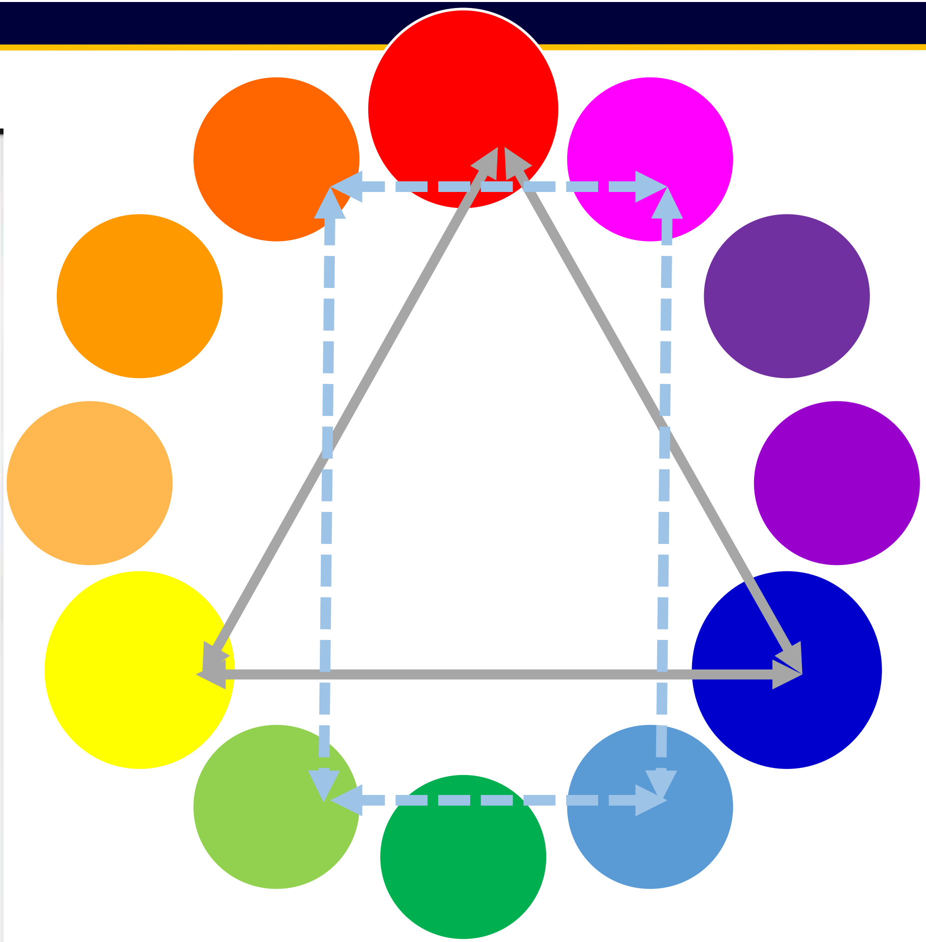
Triad & Tetradic Color Combination

Triadic scheme: is evenly spaced three colors.

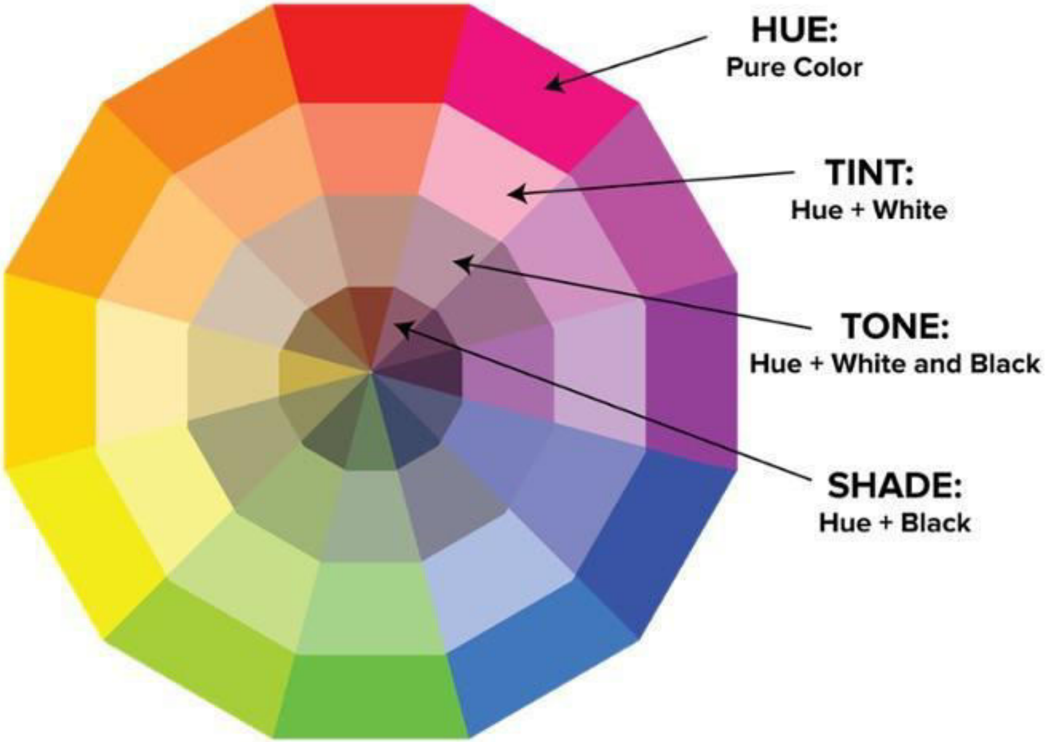
Tetradic Color: four colors arranged with two sets of complementary colors



Analogous color scheme: 2 to 4 contiguous colors



http://getdrawings.com/free-powerpoint-vector-graphics



Color terminology

- Hue: Pure color (different values)
- Chroma: degree of vividness of a *color*
- Saturation: the strength or weakness of a color
- Value: how light or dark a color is
- Tone: hue + white + black
- Shade: hue + black
- Tint: hue + white

Monochrome: Different Hues

Different hues of the blue

Monochrome

Different hues of the blue

Foundations of Entrepreneurship

Design with colors

Different hues of blue

Blue is the color theme here

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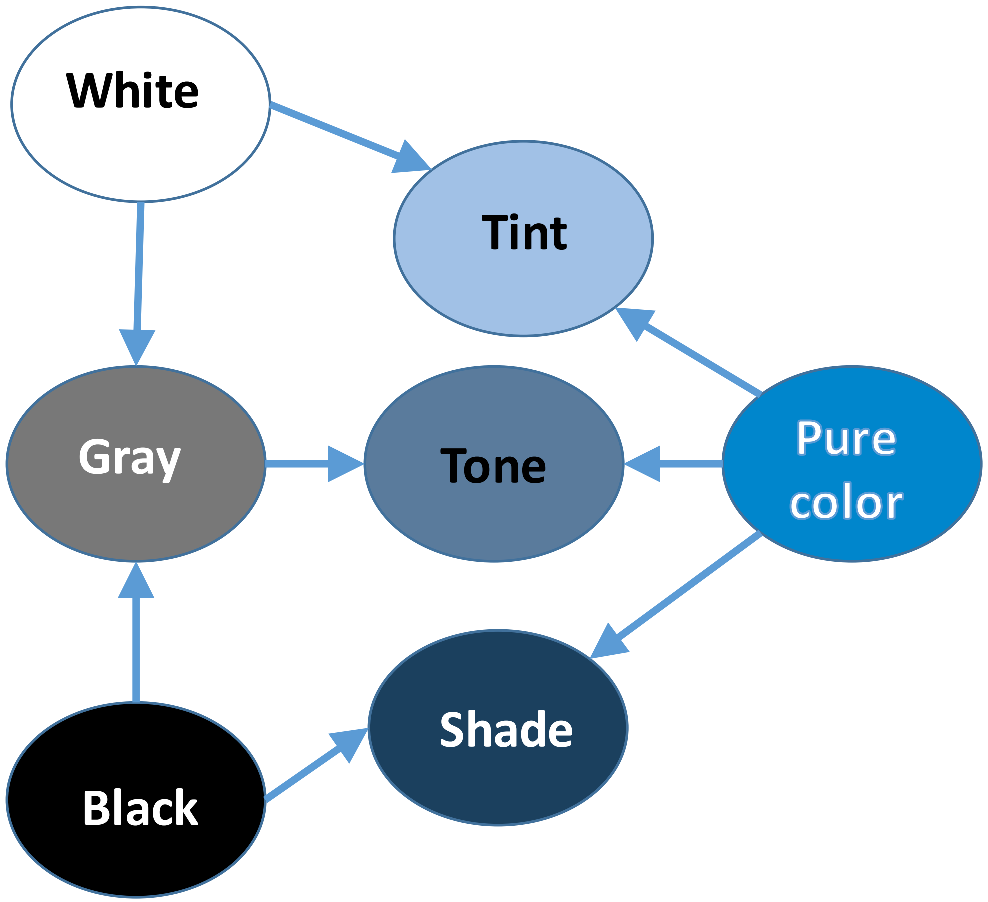
Painters' Color Mixing Terminology



Every Color is Associated to Some Emotion

Bright colors are for fun or modern vibes

Red	• energy, power, passion
Orange	• joy, enthusiasm, creativity
Yellow	• happiness, intellect, energy
Green	• ambition, growth, freshness, safety
Blue	• tranquillity, confidence, intelligence
Purple	• luxury, ambition, creativity
Black	• power, elegance, mystery
White	• cleanliness, purity, perfection

Develop a Visual Theme

- **Use theme to create a cohesive narrative of the entire presentation**

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Yellow

- Cheerful or warm
- Most likely to strain eyes or cause eye fatigue
- Makes babies cry – so avoid in places where babies are expected spend time.
- The happiest color in the color spectrum also increases metabolism and gives the body a surge of energy.

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Blue – the color of the sky and the sea

- Most preferred by men
- Represent calmness and serenity
- Offices largely use this color
- Water and peace are associated with this color
- Induce the minds to think creatively or think out of the box and to be productive and improve performance
- Color of corporate logos are sometimes blue in order to convey innovation-driven
- Flip side: blue suppresses appetite

Green

- Known to promote inner tranquility.
- Helps mind to trust and facilitate good health.
- Food items labeled in green evoked a sense of healthiness and usually sells more compared to those labeled in say, red.

Orange

- Lively and it excites the brain.
- Invigorates enthusiasm.
- A deeper shade is associated with warmth, and brighter shed indicates caution and one should be vigilant.

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Pink

- Calmness and warming
- Signifies love, womanhood and femininity.
- Many prisons paint the walls pink to calm down some of the most aggressive prisoners. Pink color calms children down.

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Purple

- The royal, wealthy and successful dress in purple. It provokes elitist thoughts.
- Lavender, the lighter purple, calms a person who is in an anxious or nervous state and helps them to relax.

Black

- Usually, death and mourning.
- In some contexts, represents sophistication.
- People wearing black tend to be aggressive.

White

- Purity and innocence, also emptiness.
- It reflects the full force of the spectrum into our eyes.
- White is purity and convey a sense of “touch me not”.
- Represents cleanliness, hygiene, and sterile.

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60-30-10 Rule

- 60% of your slide — primary color
- 30% — secondary color
- 10% — accent color

- 60% is your dominant hue, 30% is your secondary color, and 10% is for an accent color.

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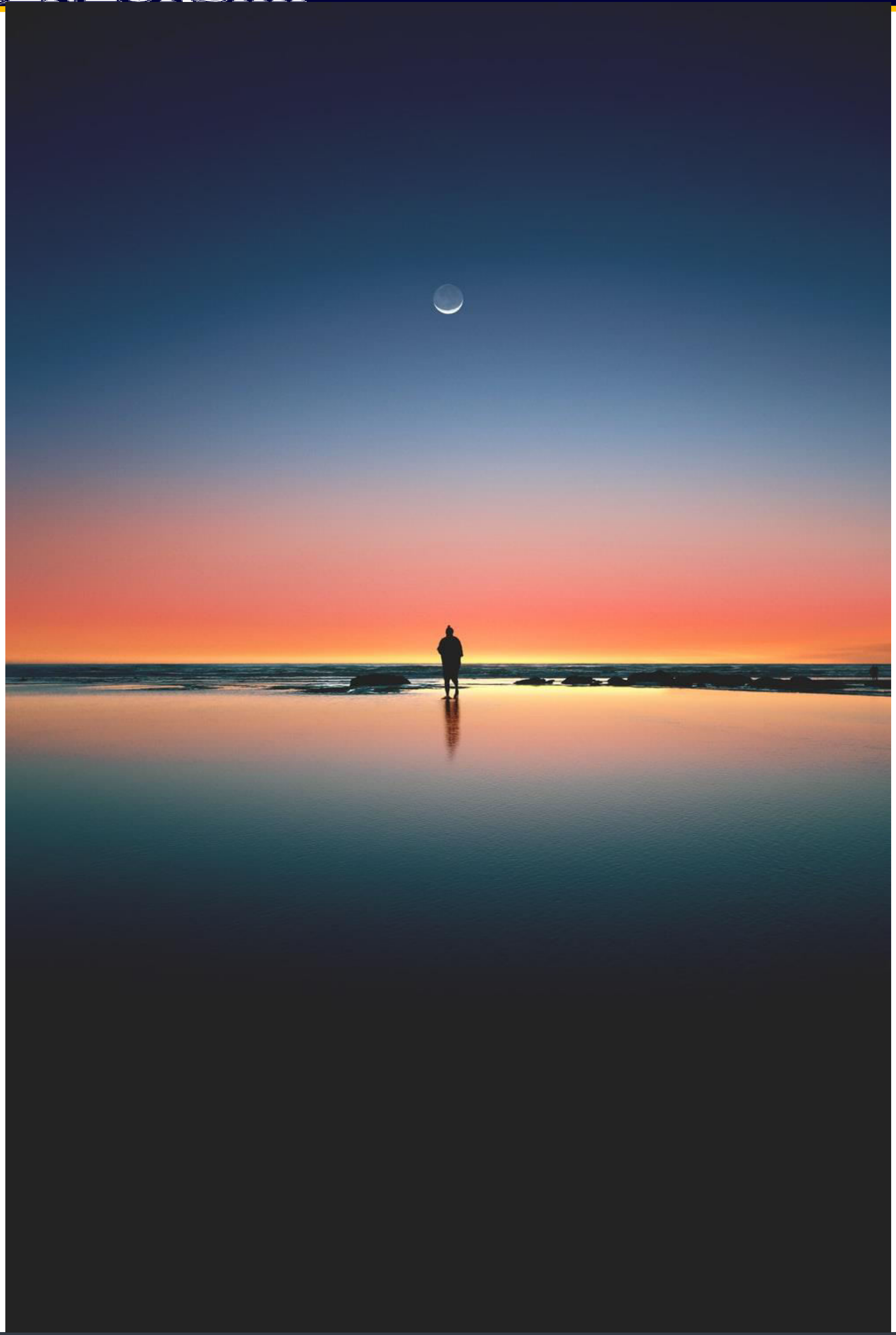

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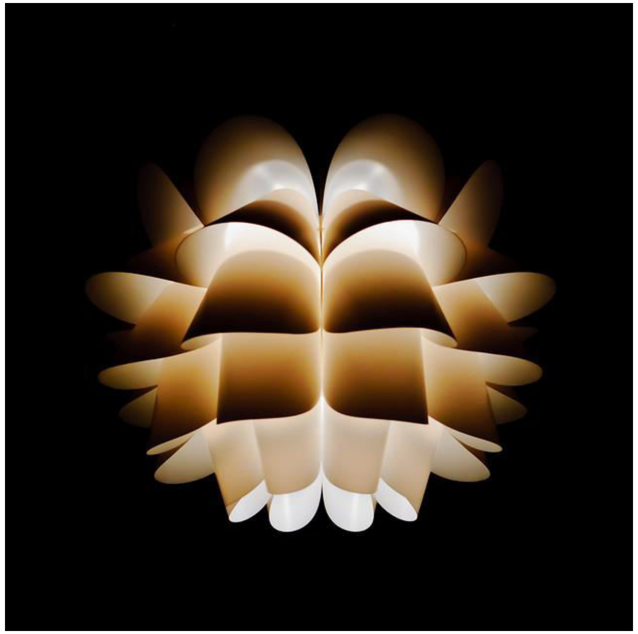
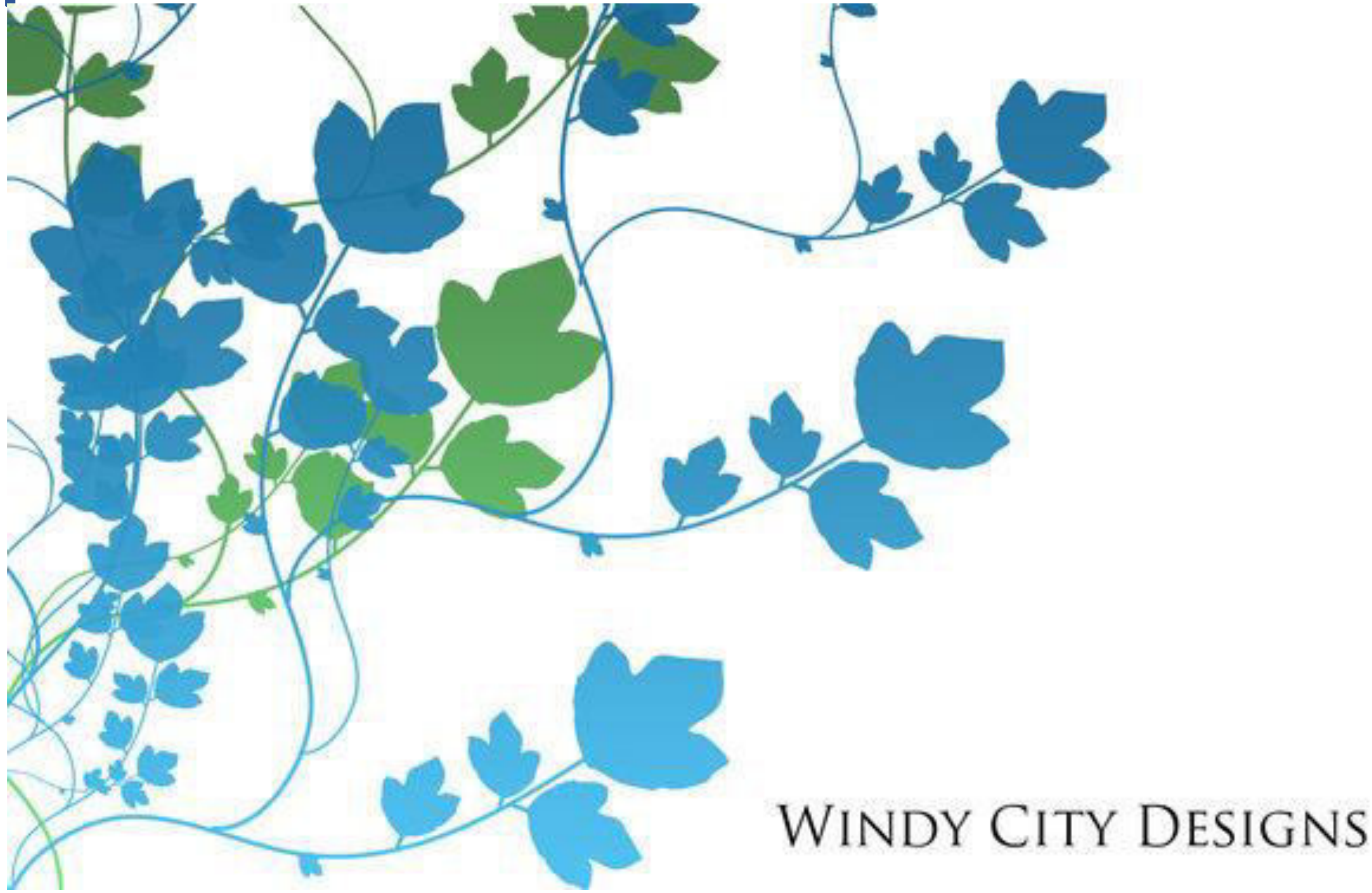
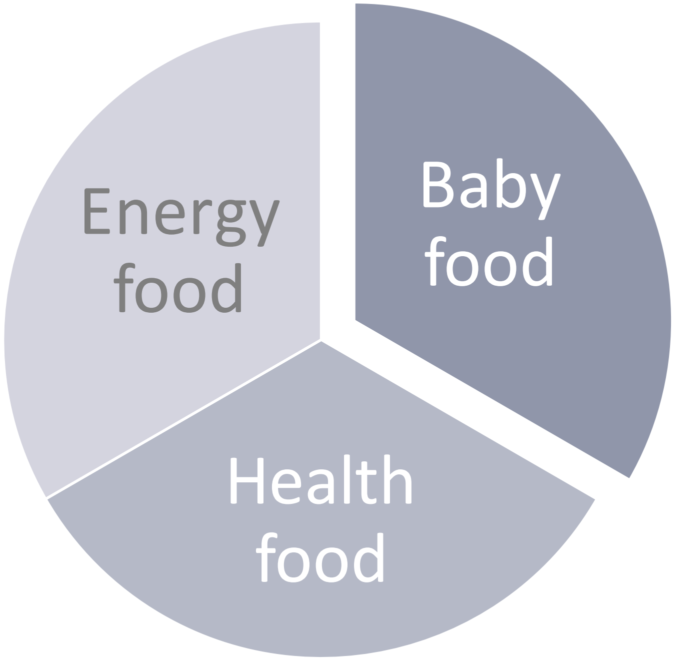
Contrast Adds a Lot of Visual Pleasure and Bring Sharper Focus



Simple is Beautiful

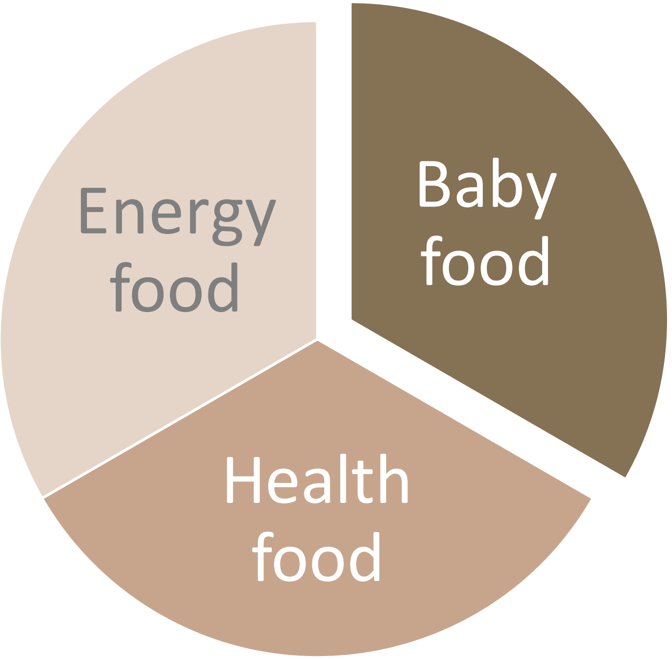




MARKET SEGMENTS

For the year 2019-20

Presented by
XYZ etc.



MARKET SEGMENTS

For the year 2019-20

Presented by
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- https://www.forbes.com/sites/robinbruce/2017/03/17/building-your-entrepreneurial-story/#1c9ce23511a9
- http://www.color-wheel-pro.com/color-meaning.html
- https://www.youtube.com/watch?v=L1CK9bE3H_s

- https://encycolorpedia.com/
- https://unsplash.com/s/photos/background for images
- https://www.youtube.com/watch?time_continue=231&v=SB16xgtFmco&feature=emb_logo
- **https://slidebean.com/templates/investor-deck-template**
- **https://guykawasaki.com/the-only-10-slides-you-need-in-your-pitch/**
- **https://slidebean.com/templates/investor-deck-template**
- **Various Wikipedia pages**

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- Create empathy with the investors, understand their risks and aspirations.
- Try eliminating questionable statements.

- https://unsplash.com/s/photos/background for images
- https://www.youtube.com/watch?time_continue=231&v=SB16xgtFmco&feature=emb_logo
- https://slidebean.com/templates/investor-deck-template
- https://guykawasaki.com/the-only-10-slides-you-need-in-your-pitch/
- https://slidebean.com/templates/investor-deck-template
- Various Wikipedia pages

- **Create empathy with the investors, understand their risks and aspirations.**
- **Try eliminating questionable statements.**

Thank You

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Foundations of Entrepreneurship

Manoj Kumar Mondal

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Topic: Cost, Volume, Profit Analysis – Break-Even Point Analysis

Lecture Note # 22 05.03.2021

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- Relation between cost and volume of sales with profit
- Break-Even-Point (BEP) analysis.
- Advantages and limitations of BEP.
- Margin of safety.
- Operating and financial leverage
- Cost-indifference point

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Managerial Accounting

- Managerial accounting involves the presentation of financial information for internal purposes to be used by management in making key business decisions.

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Managerial Accounting

- Budgeting, Trend Analysis, and Forecasting
- Accounts Receivable (AR) Management
- Constraint Analysis
- Inventory Turnover Analysis
- Financial Leverage Metrics
- Cash Flow Analysis
- Product Costing and Valuation

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Managerial Economics

- Managerial economics deals with the decision making process by mangers and entrepreneurs in response to changing macro and micro economic conditions.
- Managerial Economics provides the process of applying economic theories & methods and the tools of analysis of decision science in management decision process for appropriate actions under changing economic conditions.

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Managerial Economics – Seven Key Components

(i) Demand Analysis & Forecasting (helps to plan production, price, promotion and logistics)

(ii) Cost and Production Analysis – cost drivers, cost optimization by combining factor inputs,

(iii) Inventory Management – inventory cost money and disruption of supply affect production. Optimization is the key.

(iv) Advertising – Profit is related to sales, which can be increased by advertising. How much to spend and in what media is critical.

(v) Pricing Decision, Policies and Practices – profit is dependent on price, which has causal relation with sales.

(vi) Profit Management (how much profit to target and how to achieve that at what sales)

(vii) Capital Management (selection of alternative business models, capital investment decisions, hiring decisions, aiming to maximize return on capital)

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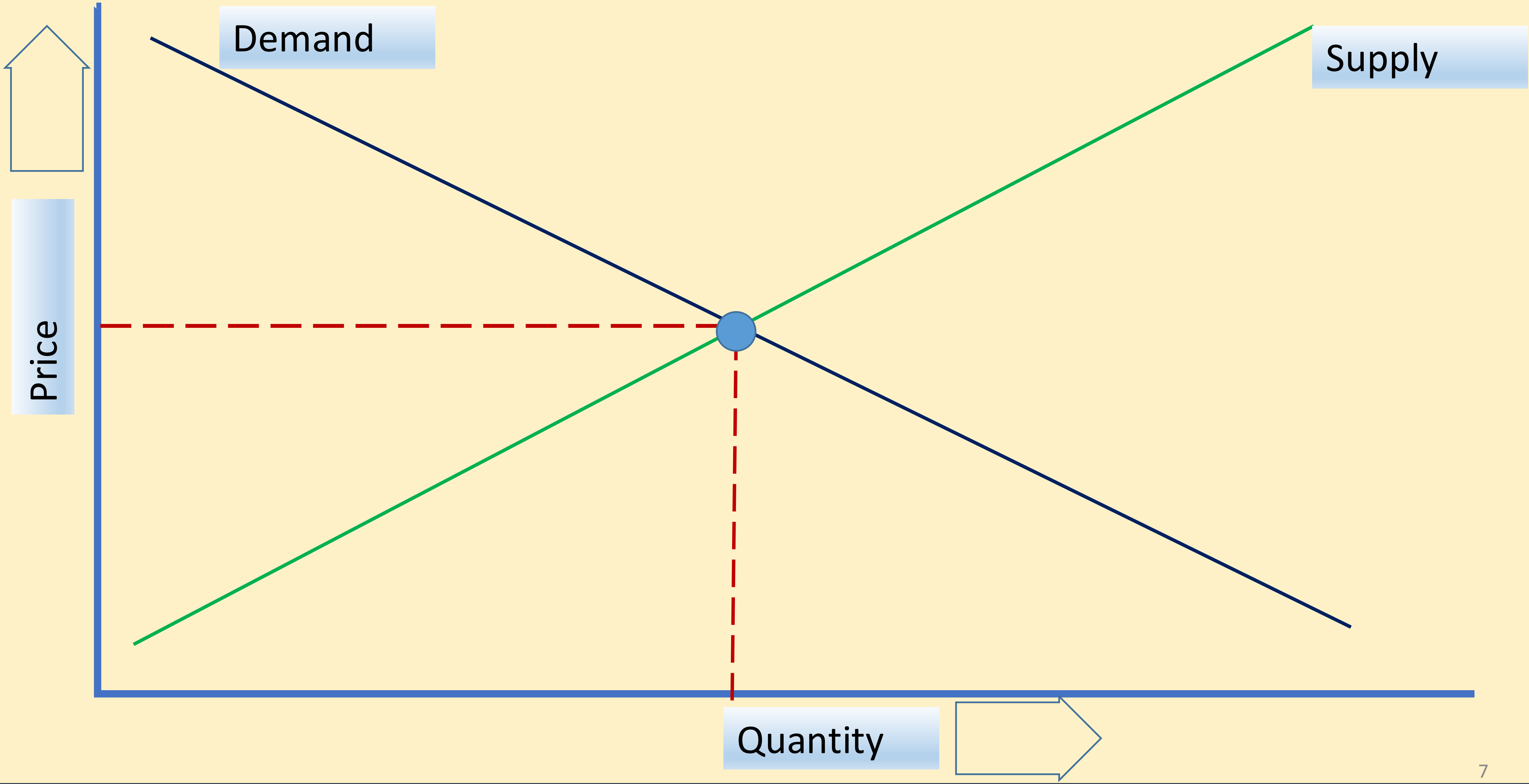

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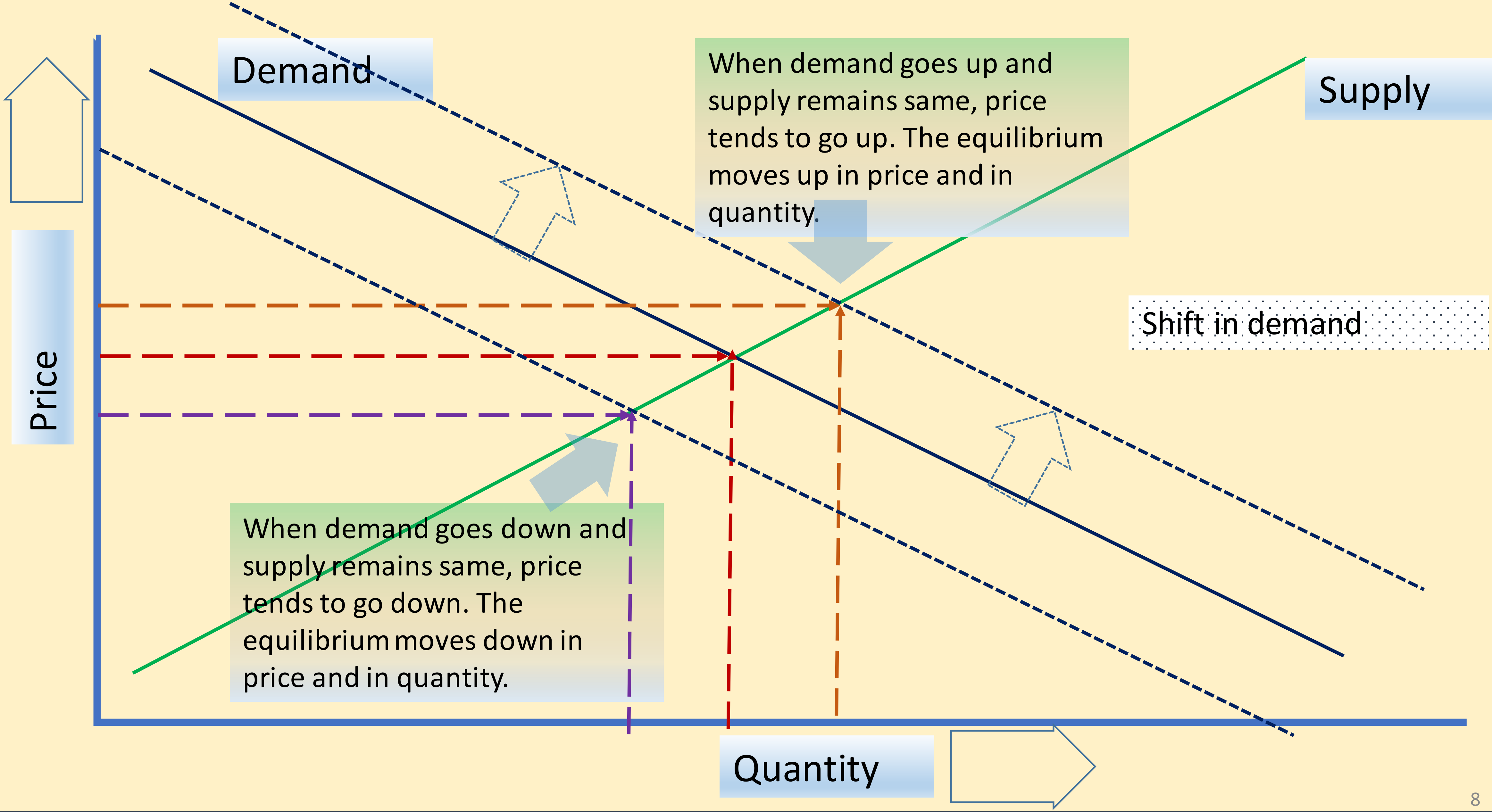

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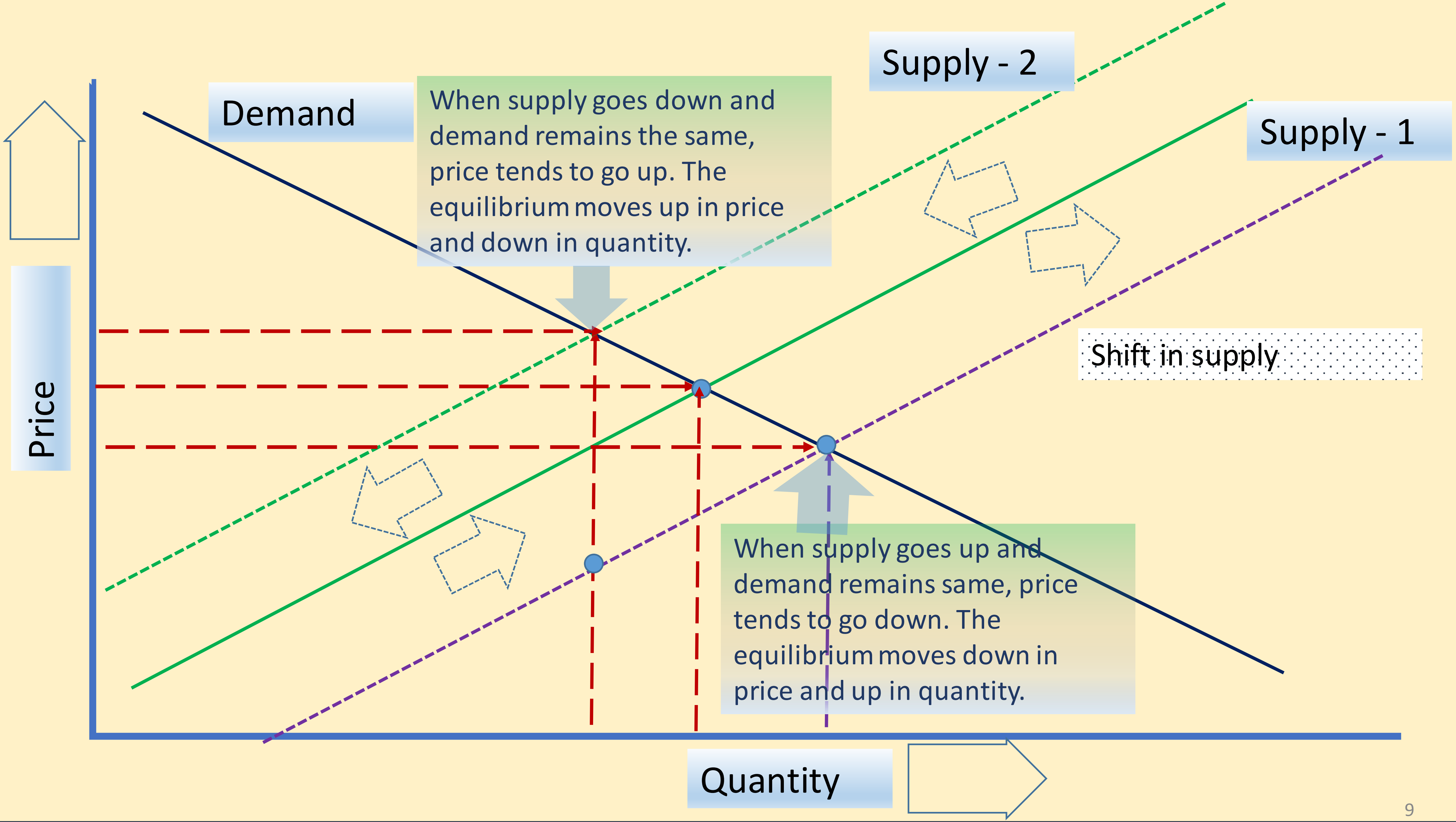
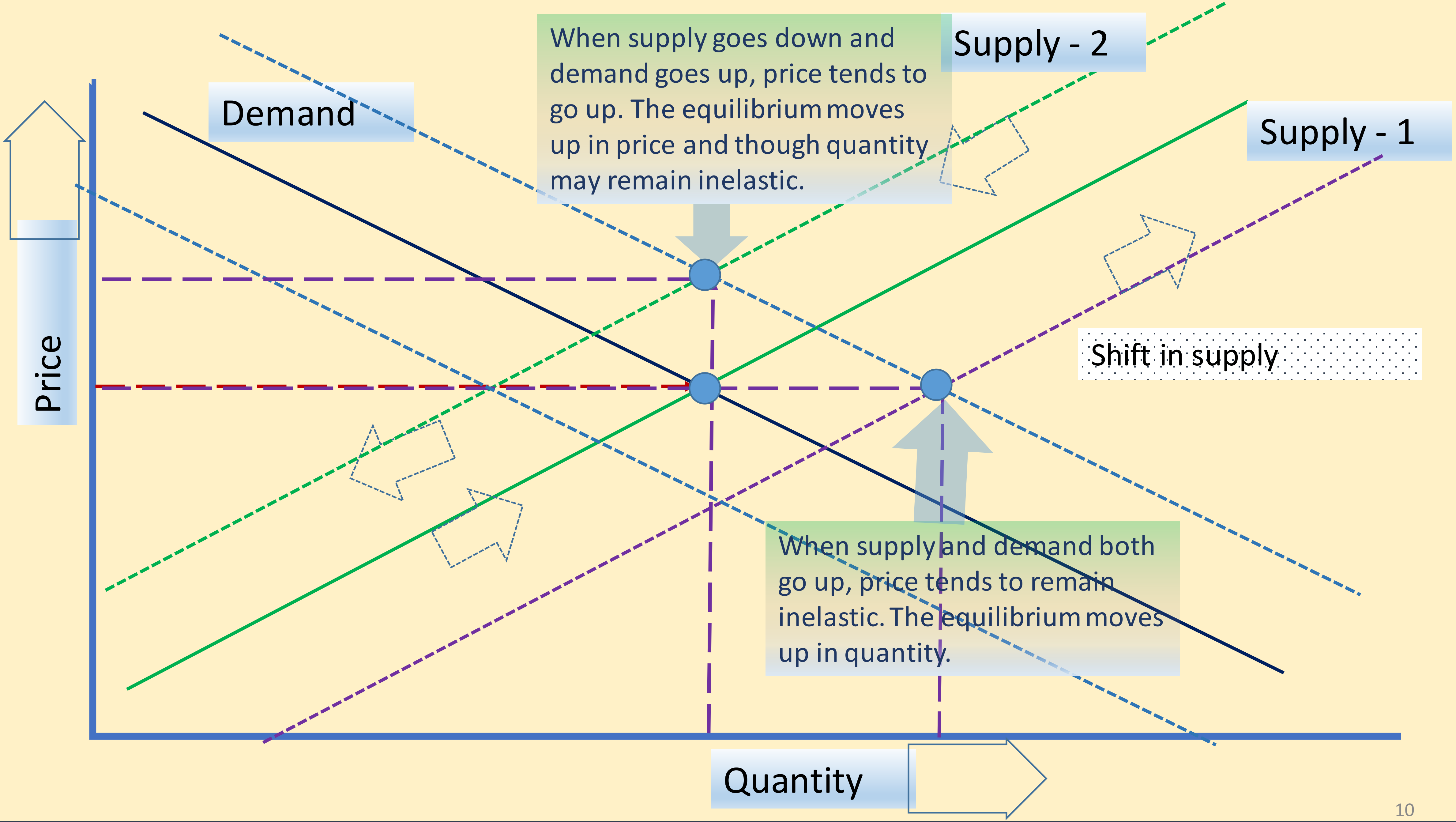

Supply - 2
Demand
When supply goes down and demand remains the same, price tends to go up. The equilibrium moves up in price and down in quantity.
Supply - 1
Price
Shift in supply
When supply goes up and demand remains same, price tends to go down. The equilibrium moves down in price and up in quantity.
Quantity



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Break Even Point

- Selecting a business model out of multiple choices or analyzing suitability of a particular business model based on market size.
  - How much minimum sales to be made to reach to profitable operation.
- To estimate profitability at different scale of operation
- Scenario analysis or sensitivity analysis with respect to change in selling price or cost structure – how it impact bottom-line (marginal cost & marginal revenue).
- Comparing two different technologies based on their cost structure or substituting one over another.
- Assessing the comfort under market distress
- Estimate how low value you can quote for a project

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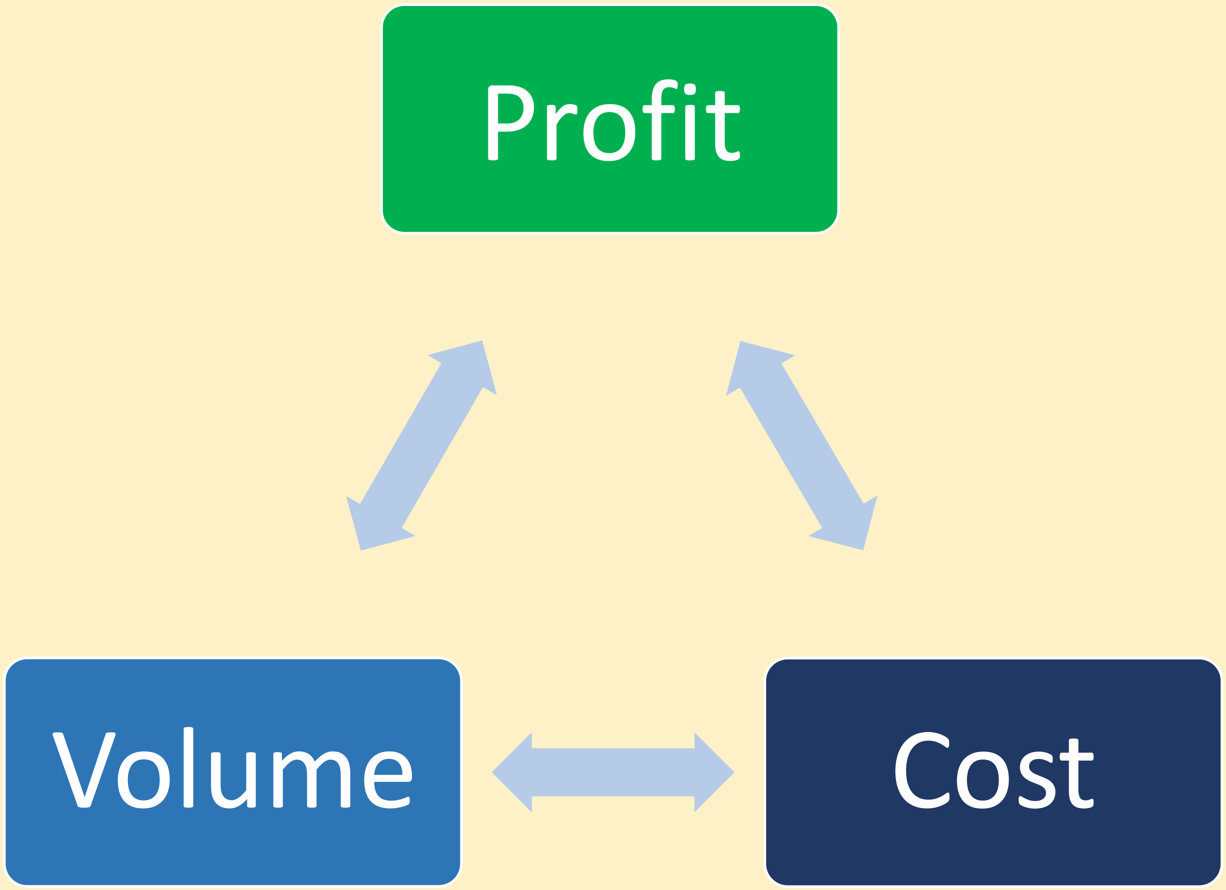
You want to maximize profit



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Your objective is to increase profit.

Profit is a percentage of sales (revenue).

To increase profit, needs higher sales.

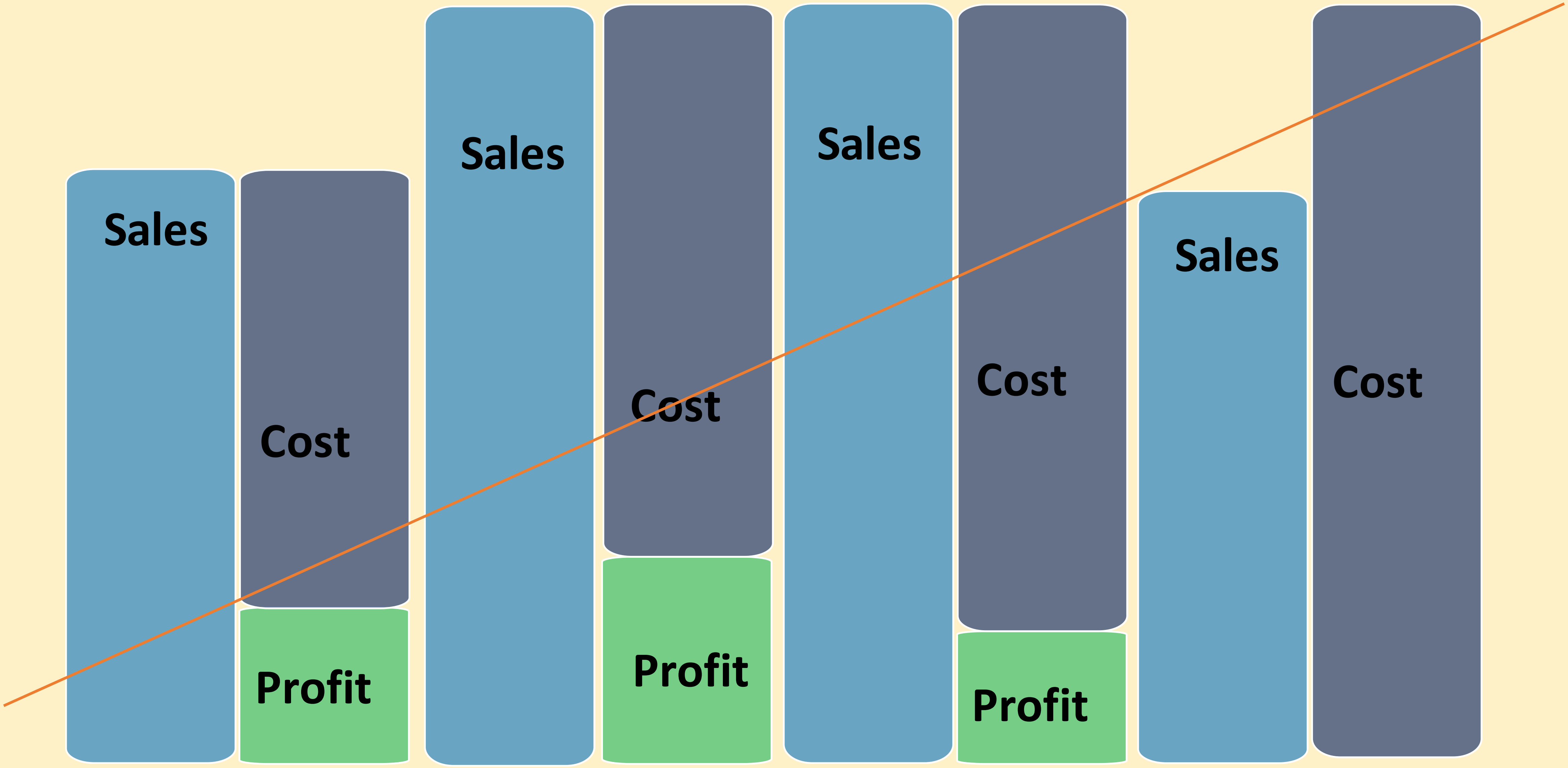
Alternately increase price, which may be unsustainable.

Or reduce the cost!! How to achieve that? Use automation! But the capital cost may be huge!

You try to sell more, but how do you achieve that?

You advertise, but you incur cost in the process.

How much to spend on advertisement and what is the gain?



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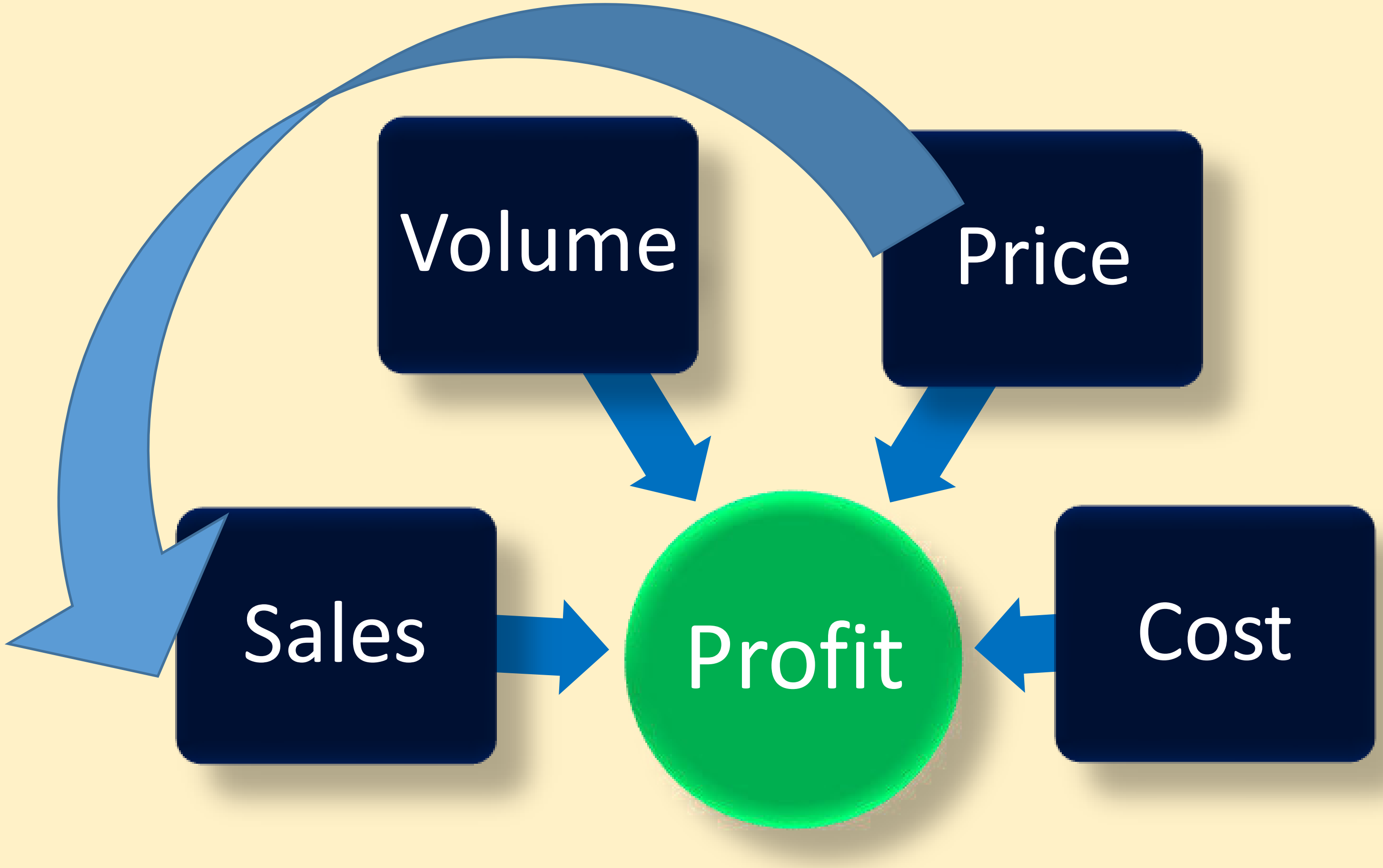
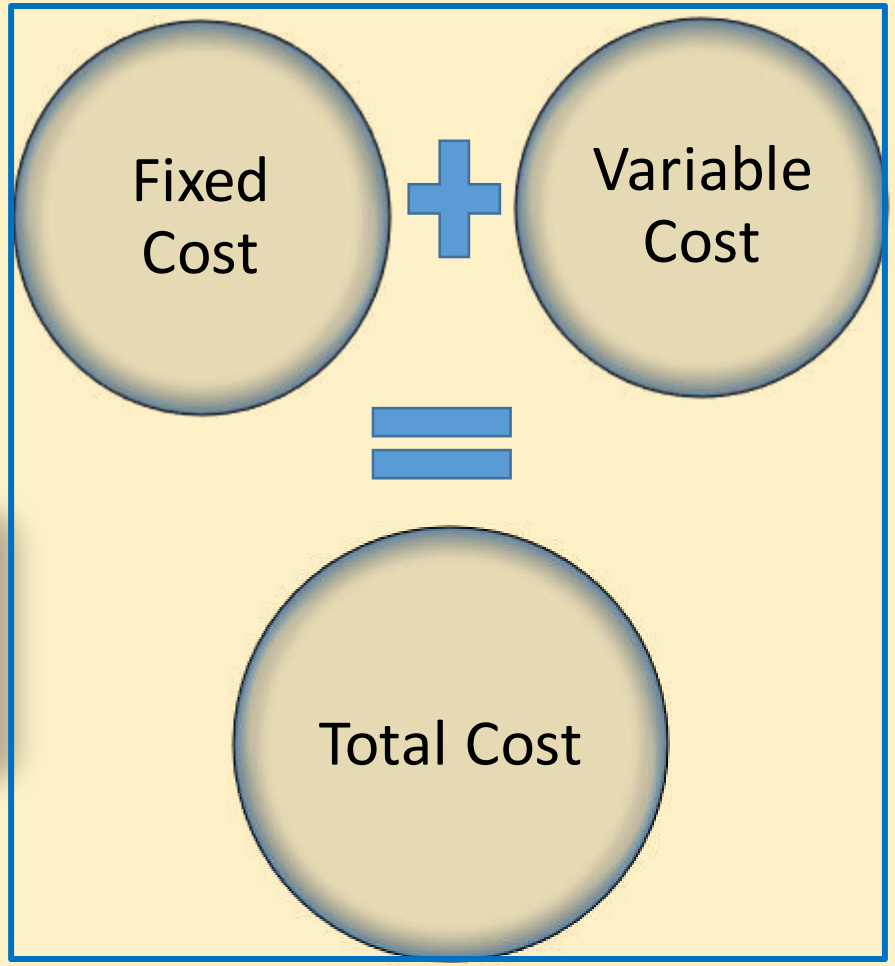
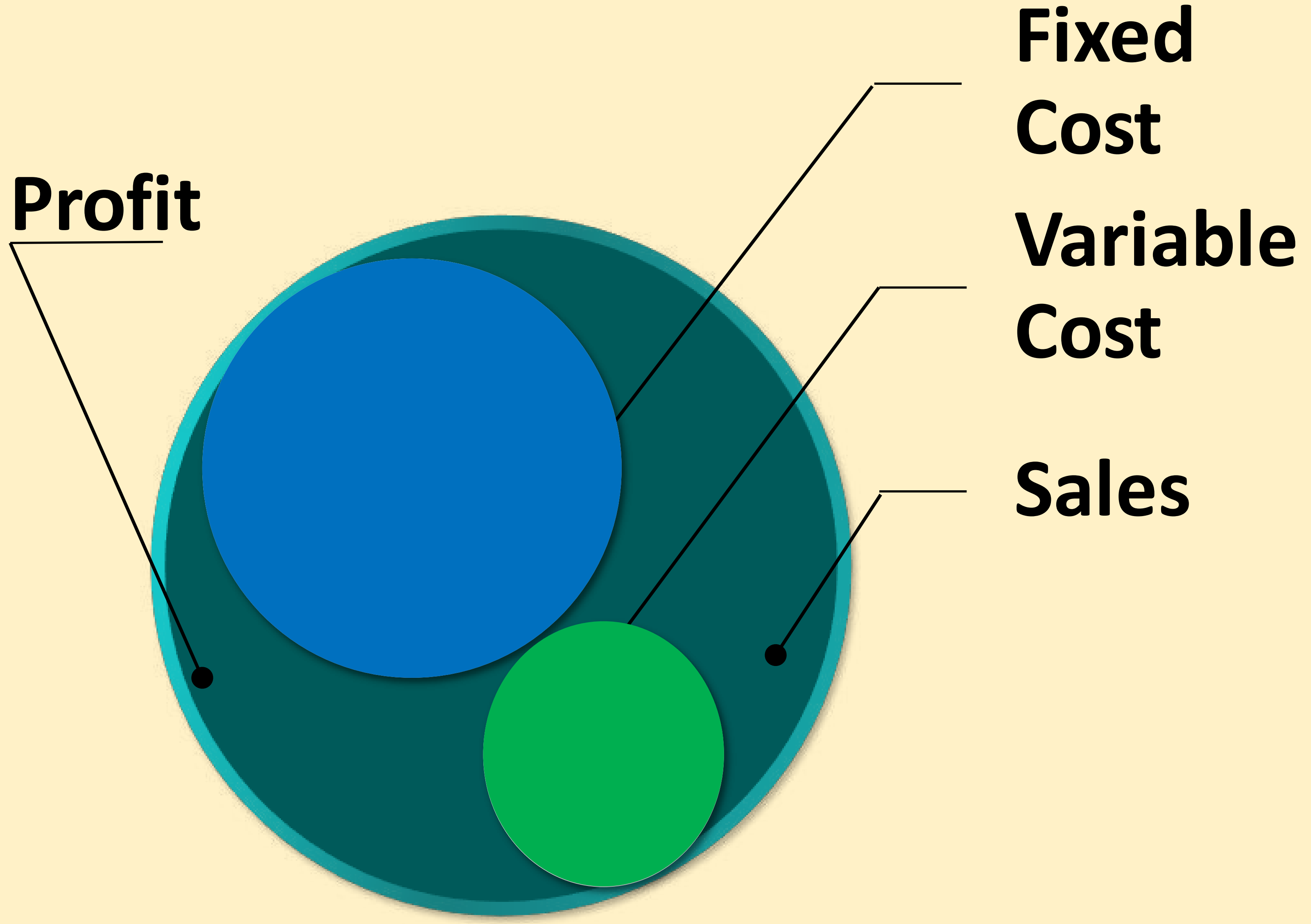
Profit = Sales – Total Cost
Sales = Unit Price X Number of Products Sold.






Profit
Fixed Cost
Variable Cost
Sales

Relation Between Cost, Volume and Profit

- Profit = Sales minus all the expenses
- Price of a product is fixed.
- But cost of single unit of product varies as production increases.
- And it may be difficult, if not impossible, to sell beyond certain quantity.
- Therefore, you need to find which business can potentially give profit at lower sales.
- But what if another business is profitable only at higher sales, but the profitability is much higher.

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Cost and Cost Drivers

- Cost drivers are the factors or inputs which cause change in the cost of an activity. The cost of an activity may be driven by more than one cost drivers.
  - In the context of a restaurant, suppose the selling price of a particular item is to be determined based on its cost of production:
  - For every plate of this item, a list of ingredients will add to the total cost. Say for 'mixed veg' cost of vegetables, spices, cooking energy etc. directly add to the cost of the item. Cost of each such item is cost driver.
- Say, you want to manufacture a plastic bucket: you need plastic granules, electricity to heat and melt the granules, machine hours to mould, labor, rent of the premises, depreciation of the machine etc.
  If requirement or cost of any of these items increases, the cost of the bucket will rise and vice versa.
- When an item or service is procured and used up immediately, the cost is easy to allocate. But when it is used for a long period, the cost is difficult to allocate.

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Cost Classification

Two ways of classifying costs

Product specific: Costing

- **Direct cost –** directly traceable on each product such as raw-materials, direct labor costs.
- **Indirect cost –** difficult to estimate exact cost on each product.

This method of classification is used in the process of costing of an activity for manufacturing a product or rendering a service.

Company specific: BEP

- **Fixed cost –** Cost that is not related to activity level - a company has to bear it even if there is no activity.
- **Variable cost –** proportional to level of operation.

This method of classification is used in estimating break-even point.

Cost Drivers

A factor, change of which, causes a change in the cost of an activity.

An activity can have more than one cost drivers attached to it. For example, change in cost of fabric, wages to tailor, cost of button, machine hour, electricity, thread, interest rate and rent of space are cost drivers for a shirt.

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Fixed and Variable Costs

- Fixed costs are defined as expenses that do not change as a function of the activity of a business, within the relevant period. For example, a manufacturer must pay rent of factory premises, utility bills, depreciation, salary to administrative staff, interest on term loan, etc. irrespective of the level of activities and sales.
- Interestingly, fixed cost on per unit basis decreases as production increases and
- Variable cost remains constant on per unit basis

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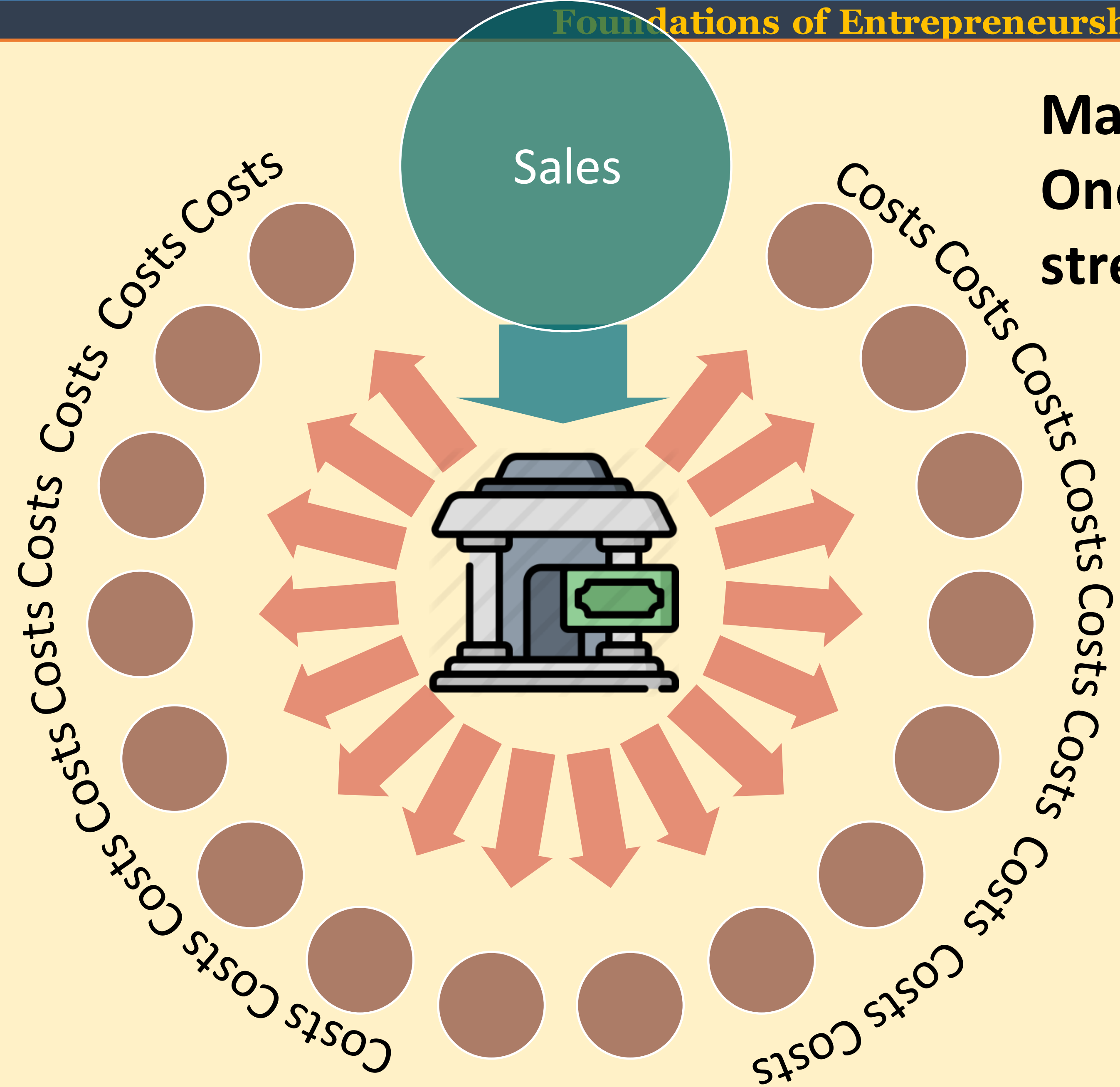

Many items of cost
One or very few revenue stream(s)

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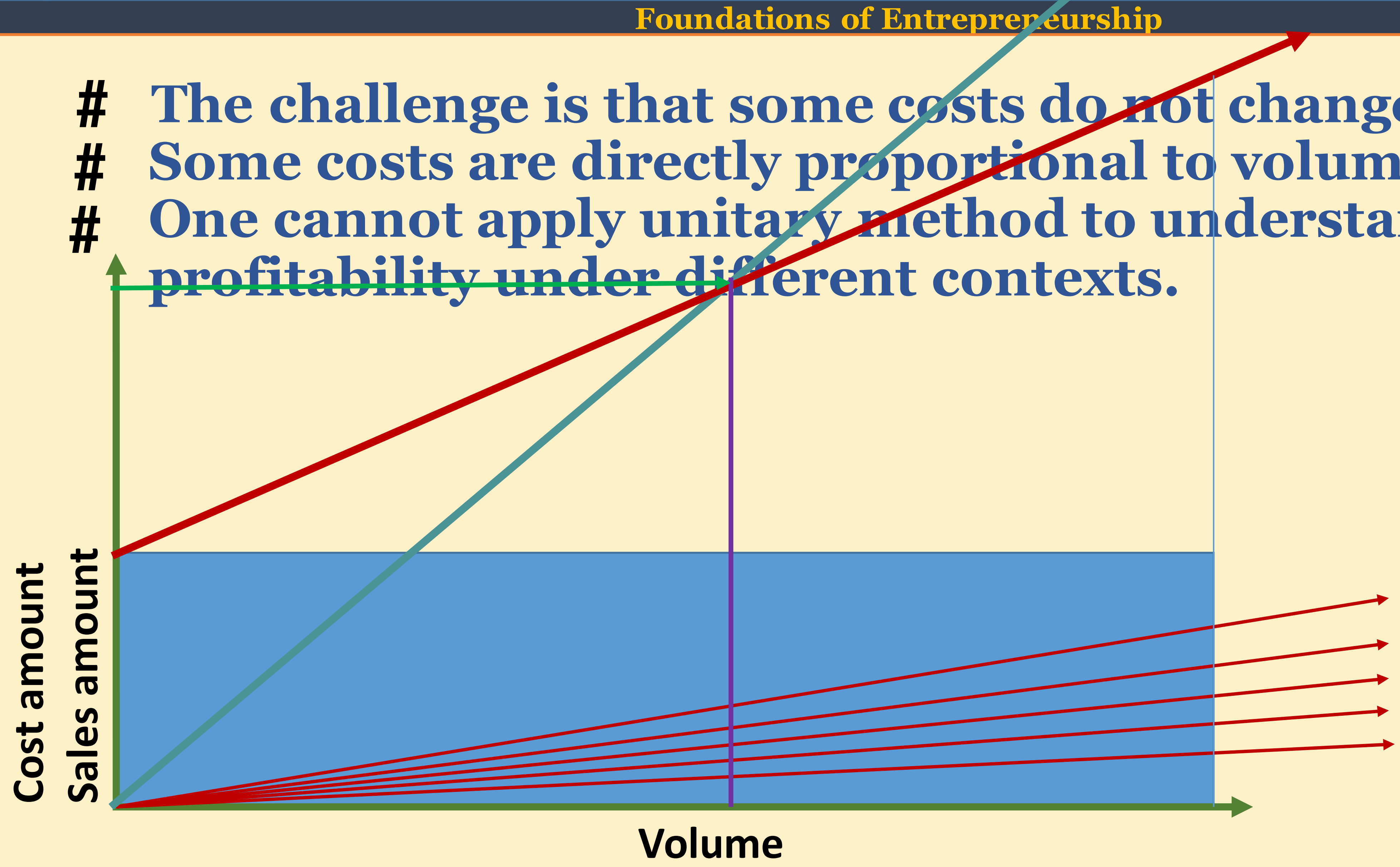
The challenge is that some costs do not change with volume.
Some costs are directly proportional to volume produced.
One cannot apply unitary method to understand profitability under different contexts.



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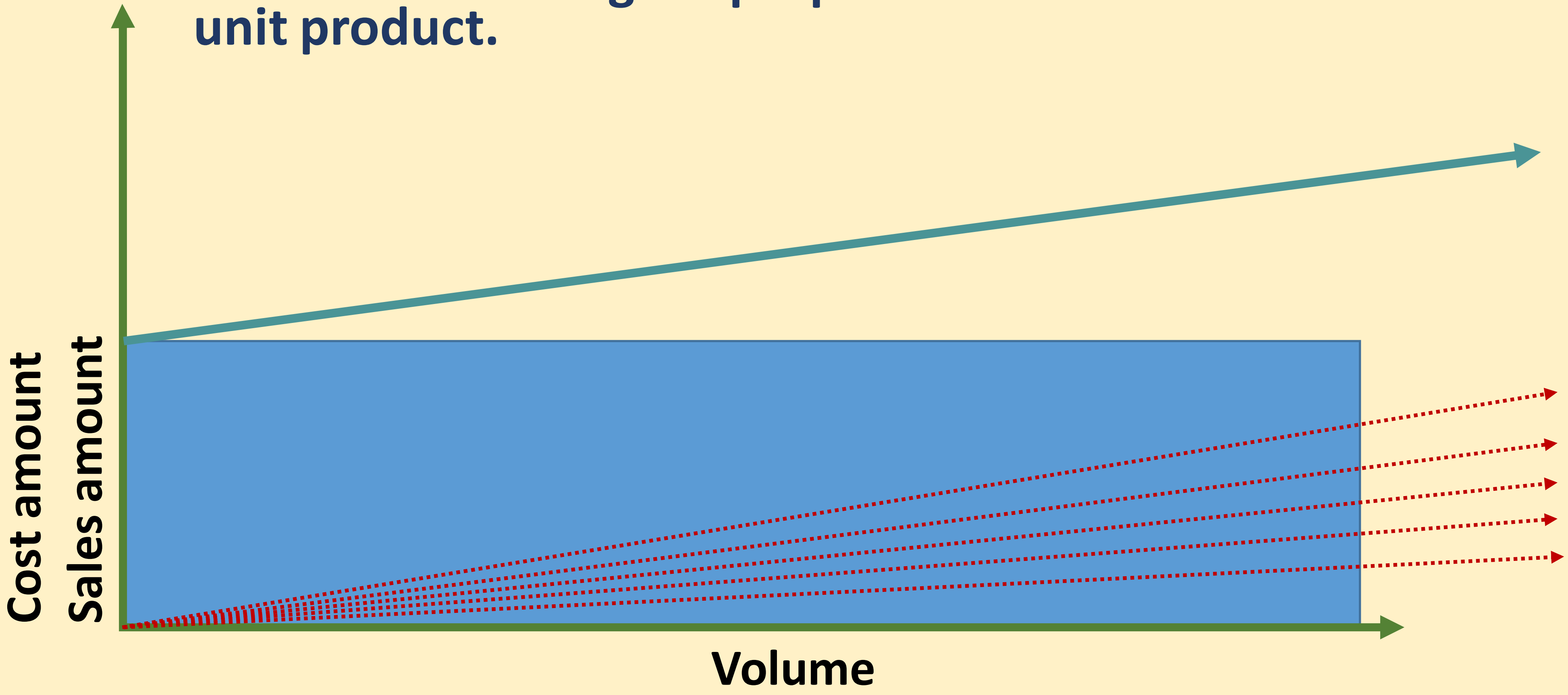
- Group all the costs into
  - Those which do not change with volume – add them up for the relevant period.
  - Those which change in proportion to volume – estimate their contribution to unit product.



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Why separating cost into fixed & variable?

- To be able to rationally and logically allocate costs.
- It is easy to allocate some direct costs to a particular product.
- But difficult to allocate many of the costs.
- Wrong allocation would lead to wrong costing and thus wrong pricing.

Example

Suppose you intend to set up a readymade garment business. Let us see the cost structure



Fixed Cost. Indirect Cost

Machinery

Machinery: Money spent on machinery has to be recovered in the form of annual depreciation.

Fixed Costs [for a full year]

- Rent: ₹ 120,000
- Depreciation: ₹ 15,000
- Administrative overhead:₹ 5,00,000
- Total fixed cost for a year: ₹ 6,35,000

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- Fixed costs are mostly those which are paid periodically such as rent, depreciation, salary, etc.
- However, costs such as electricity bills, telephone bill, and other utilities, though paid periodically, are not fixed in nature.

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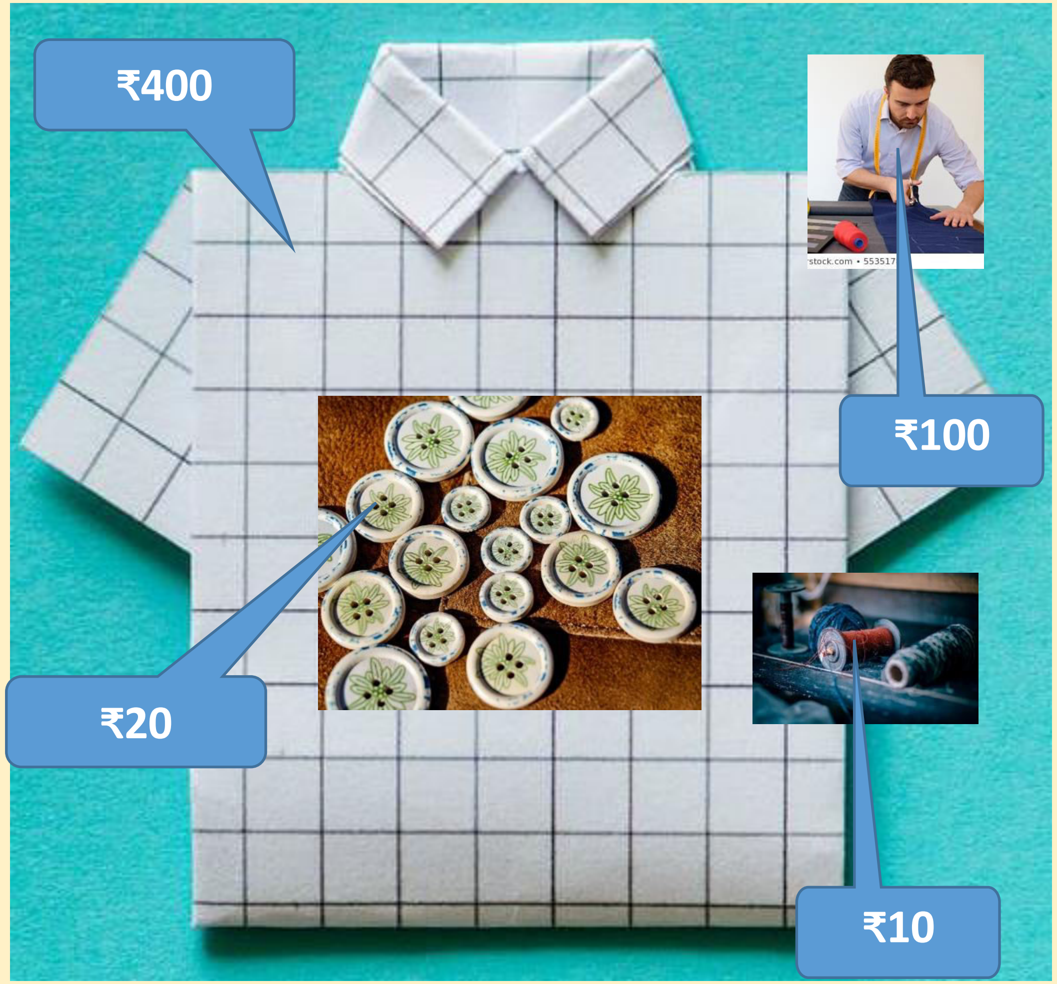
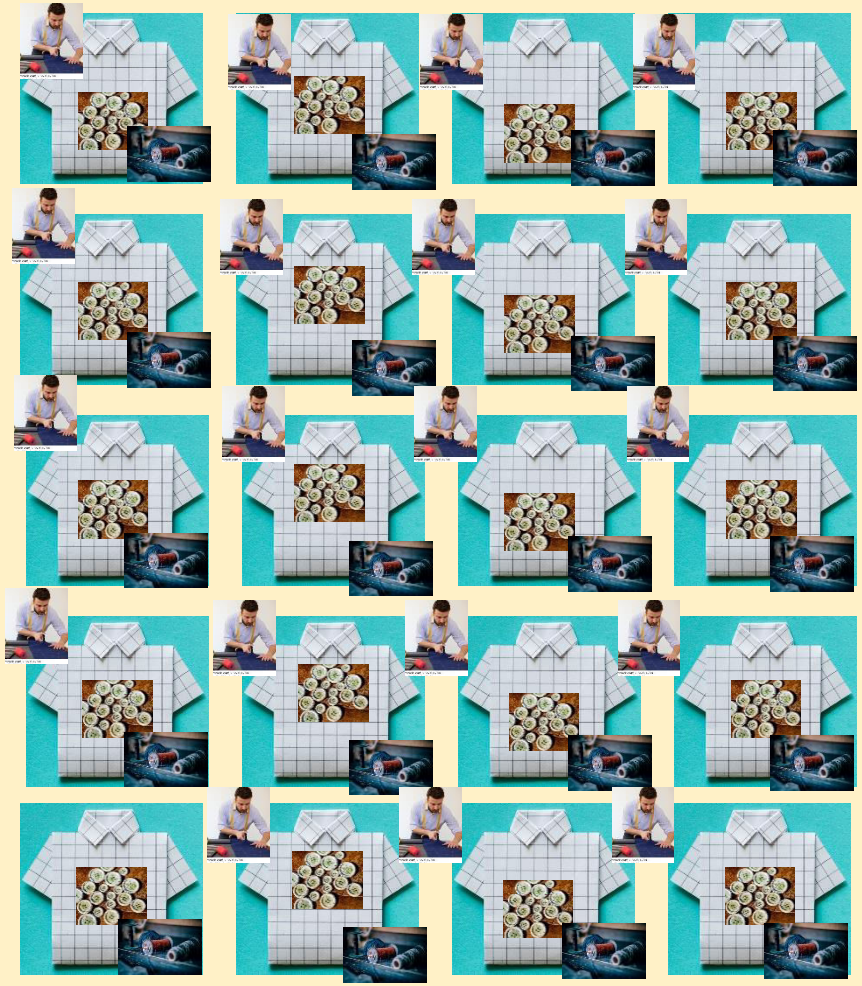
Variable Cost
Direct Cost

Materials

Materials & Labor cost





Total variable cost: ₹530 per unit. For n unit: nX₹530

Salary paid to regular employees – Fixed Cost.
Wages paid to contractual workers – Variable Cost

Variable Cost: Electricity

Maintenance: Usually variable. But may have both fixed and variable components. We shall consider it as variable

Suppose, you have both (i) schedule, routine or preventive maintenance and (ii) need-based or trouble-shooting maintenance. The first part is fixed cost and the second part is variable cost since the later will be related to level of operation.

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Insurance can have both fixed & variable components. We shall consider it as variable

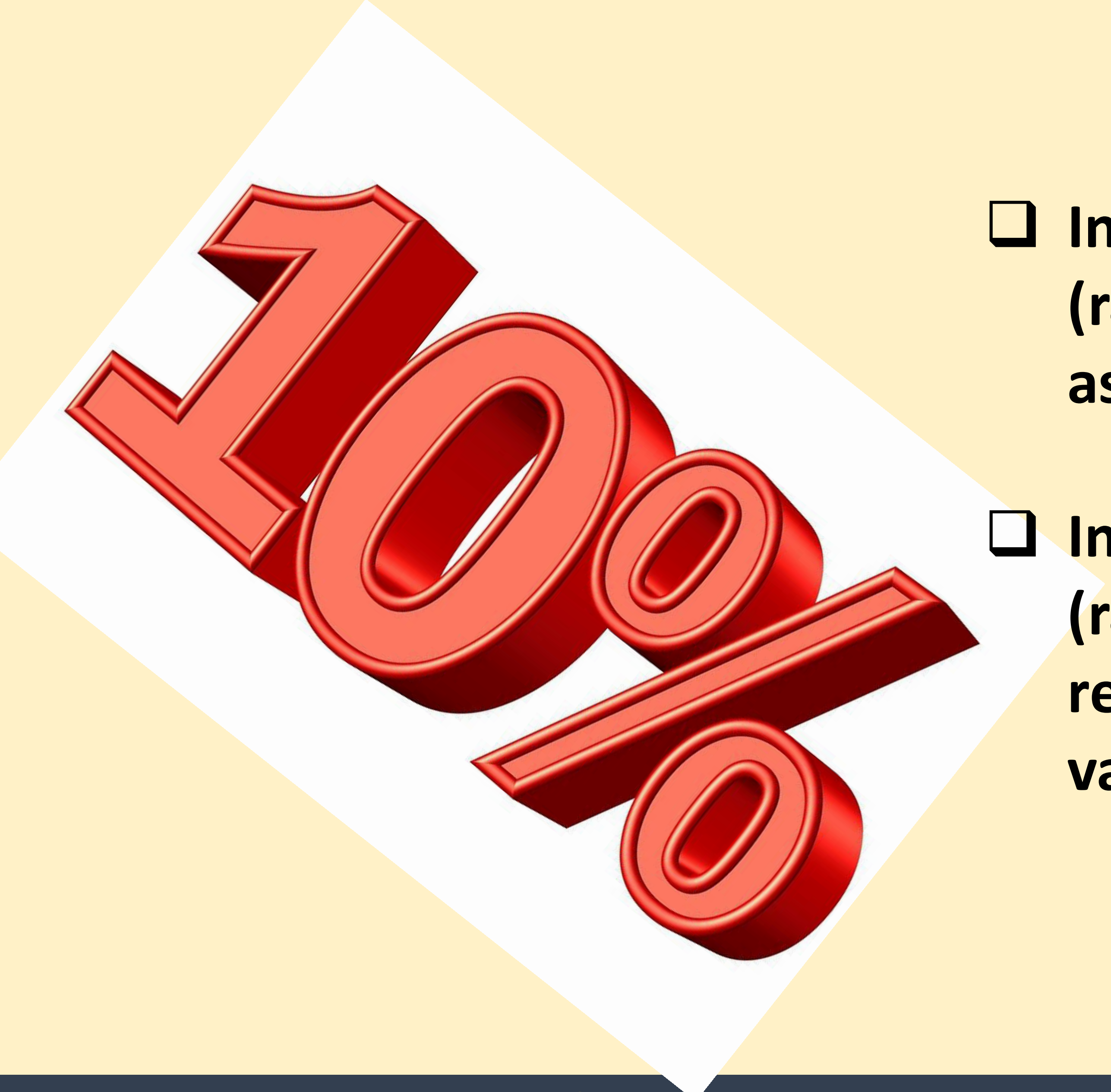
Insurance for fixed assets, if made exclusively, is fixed cost.

Insurance for inventory of raw-materials & finished goods is variable cost.

How to separate?

The percentage of the fixed component of insurance cost is determined based on historical

ratio or based on assets’ values.



- Interest cost for long-term loan (raised from bank to create fixed assets) is fixed cost.
- Interest cost on working capital loan (raised from bank to meet requirement of working capital) is variable cost.

Consumables are Variable Cost and Direct Cost

Consumables

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Variable Cost

Packaging and Delivery

Transportation: Variable Cost

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Variable Cost Per Unit

- Direct material cost: ₹ 530 per unit
- Consumables: ₹ 15 per unit
- Packaging: ₹ 10 per unit
- Transportation, delivery and other miscellaneous: ₹ 20 per unit
- Total variable cost per unit: ₹ 575

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Variable Cost

- Any cost that is proportional to the level of activities is variable cost.
- Raw-materials, power, labor cost, consumables etc. are variable cost.

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Using Formula: Estimating Break Even Point (BEP)

Profit *P* = Sales minus all the Costs

Costs: Fixed (F: total per period) and Total Variable (V: per unit)xQ

Assume, Selling Price = S; Quantity Sold = Q; Profit = P

Targeted Profit

Sales = Q*S; Total variable cost = Q*V; Total Cost =Q*V + F

$$P = Q*S - Q*V - F$$

Or

$$Q = \frac{(F+P)}{(S-V)}$$

Quantity to be Produced and Sold to Break Even

$$Q^* = \frac{(F + [P = 0])}{(S - V)}$$

$$Q^* = \frac{F}{(S - V)}$$

$$Q^* = \frac{Fixed\ Cost}{Contribution\ Margin}$$

Selling price(S) – Unit variable cost(V) = Contribution Margin

Total sales – Total variable cost = Contribution (total contribution)

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Contribution Margin

- Selling price per unit shirt: ₹ 800
- Variable cost per unit shirt: ₹ 575
- Contribution margin = Selling price – unit variable cost

  = ₹ 800 – ₹ 575 = ₹ 225

If you are manufacturing 'n' number of shirts, the contribution = ₹ nX225

Remember, you have to recover the fixed cost.

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Example

- Selling price: ₹ 800
- Variable cost per unit: ₹ 575
- Fixed cost: ₹ 6,35,000
- You plan to produce and sell: 5,000 units

- BEP quantity, Q*= $\frac{6,35,000}{(800-575)}$ = 2,822.22 = 2823
- Which means that you have produce and sell more than 2,822 number of shirts or 2,823 shirts to break even.

Contribution or Contribution Margin

- Selling Price of one unit of product (say one number or one kg) = S
- Variable cost **PER UNIT** (including materials, wages, electricity, transportation, fuel, maintenance, advertisement, etc.) = V
- Contribution = $S - V$
- Contribution is equal to the price per unit minus the variable cost per unit.
- It is also referred to as CONTRIBUTION MARGIN in the context of single unit.

Contribution from unit product
= Selling Price – Unit Variable Cost

Total Contribution = Total Sales – Total Variable Cost

Example

- Selling price: ₹ 800
- Variable cost per unit: ₹ 575
- Fixed cost: ₹ 6,35,000
- You plan to produce and sell: 5,000 units

- BEP quantity, Q*= $\frac{6,35,000}{(800-575)}$ = 2,822.22
- Which means that you have to produce and sell more than 2,822 number of shirts or 2,823 shirts to break even.
- The total cost = 2822.22X575 + 6,35,000 = 22,58,225
- Total sales = 2822.22 X 800 = 22,58,22

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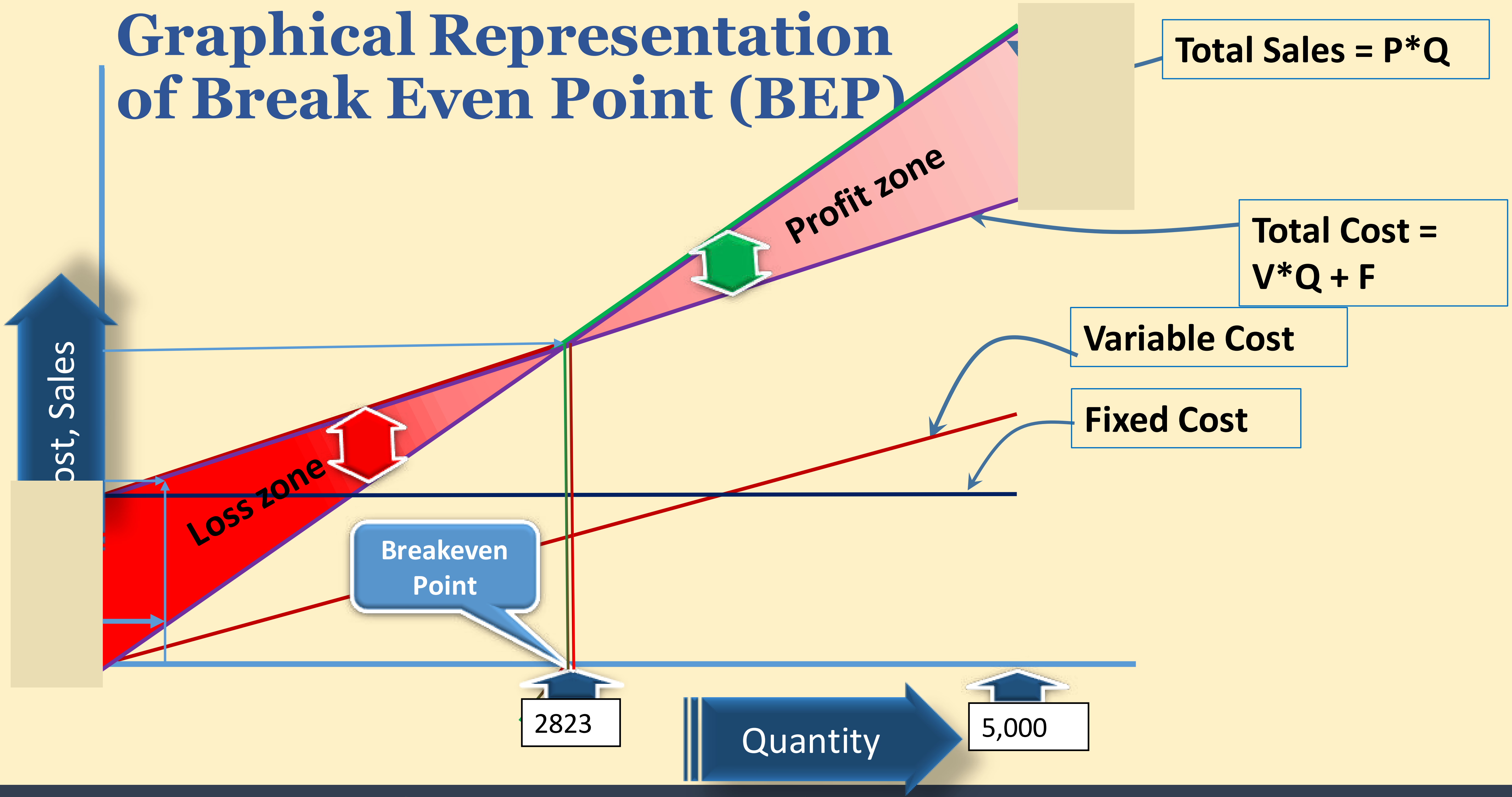
Graphical Representation of Break Even Point (BEP)



Margin of Safety

- Margin of safety is the number/amount by which the planned sales is above the break-even point.

- It indicates the number/amount by which the sales of a company may decrease without causing loss.

- Putting it differently, it signifies how sensitive is your present operation to the market fluctuation.

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Breakeven Point and Margin of Safety

- It is the number of units to produce and sell at which the total cost is just equal to total sales.
- The break even point is the level of production and sales where total revenue equals total expenses.
- In other words, the break-even point is where sales of a company is exactly equal to total expenses or costs.
- Costs are divided into two categories: Fixed cost and Variable cost
- Variable costs vary with the level of production and sales such as material cost, wages, consumable, transportation, etc.

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Margin of Safety

- Selling price: ₹ 800
- Variable cost per unit: ₹ 575
- Fixed cost: ₹ 6,35,000
- You plan to produce and sell: 5,000 units
- BEP quantity, Q*= $\frac{6,35,000}{(800-575)}$ = 2,822.22
- Which means that you have to produce and sell more than 2822 number of shirts or 2823 shirts to break even.
- Margin of safety = 5,000 – 2,823 = 2,177

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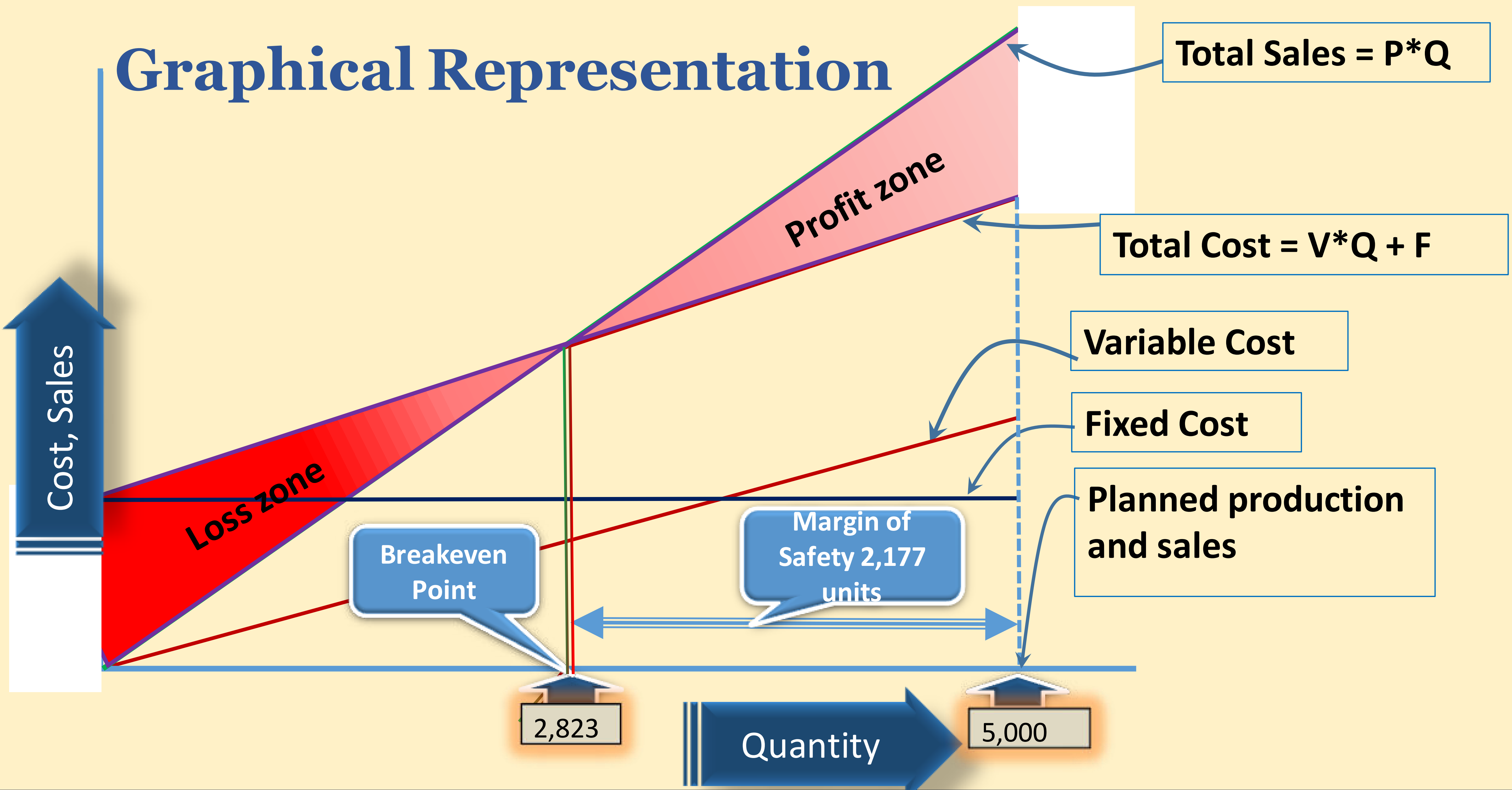
Graphical Representation



Some Assumptions

1	Cost can be divided into fixed and variable (semi-variable subdivided)
2	Linear relation assumed.
3	Selling price, variable cost per unit, and total fixed cost remain constant.
4	Volume is the only cost driver for variable cost.
5	Relevant range of volume is specified within which assumptions hold.
6	Inventory level is assumed to remain constant.
7	Sales mix is not changed for the estimation.
8	You sell all that you produce. No inventory build up.

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Some More Assumptions

1	Change in volume of sales does not affect the price of the product.
2	Labour cost (wages) per unit of product remains constant.
3	Either estimate the BEP for one product or the sales mix does not change during the estimation horizon.

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- **Break-even helps only to analyze different scenarios. It does not tell us if particular context is achievable.**

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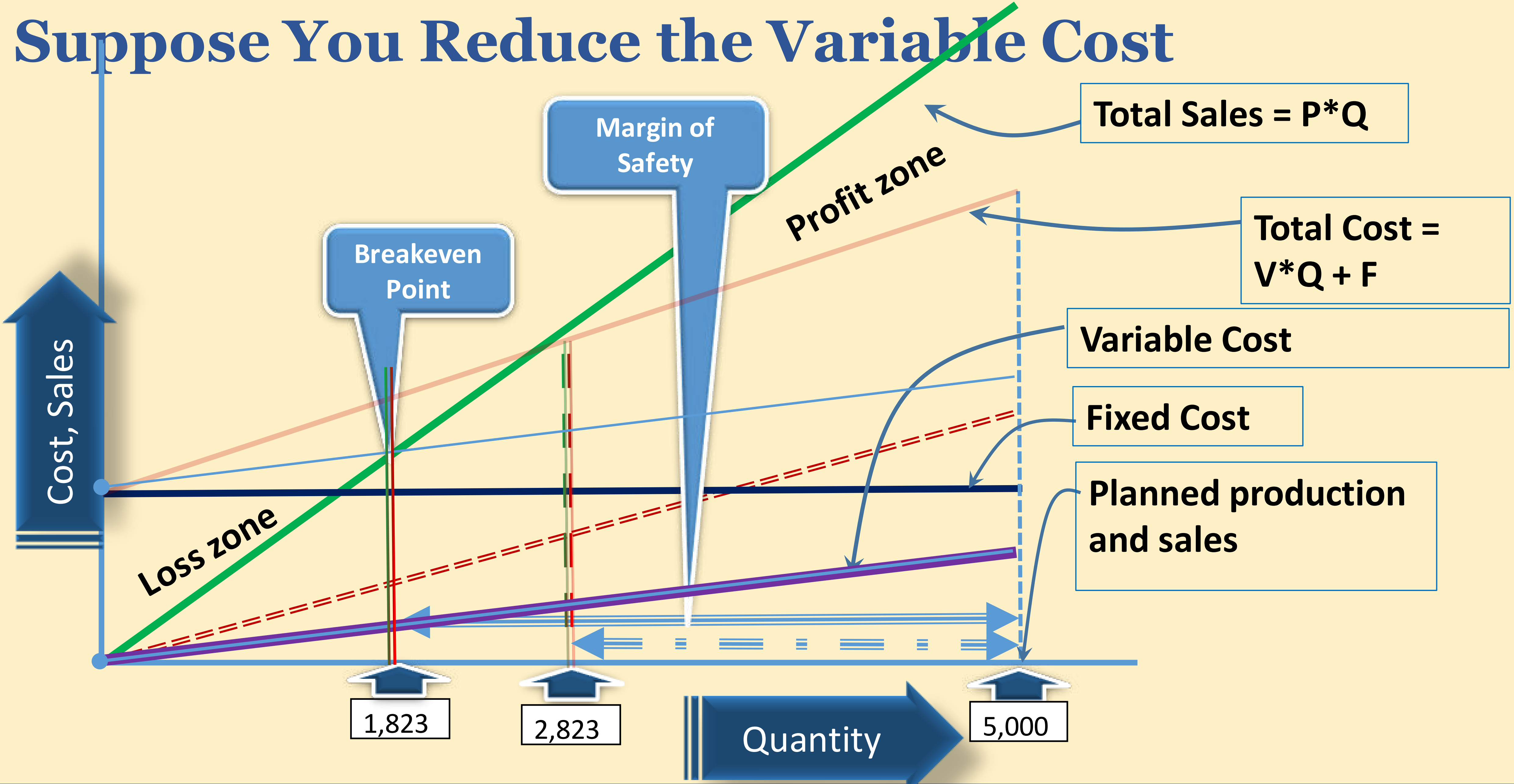
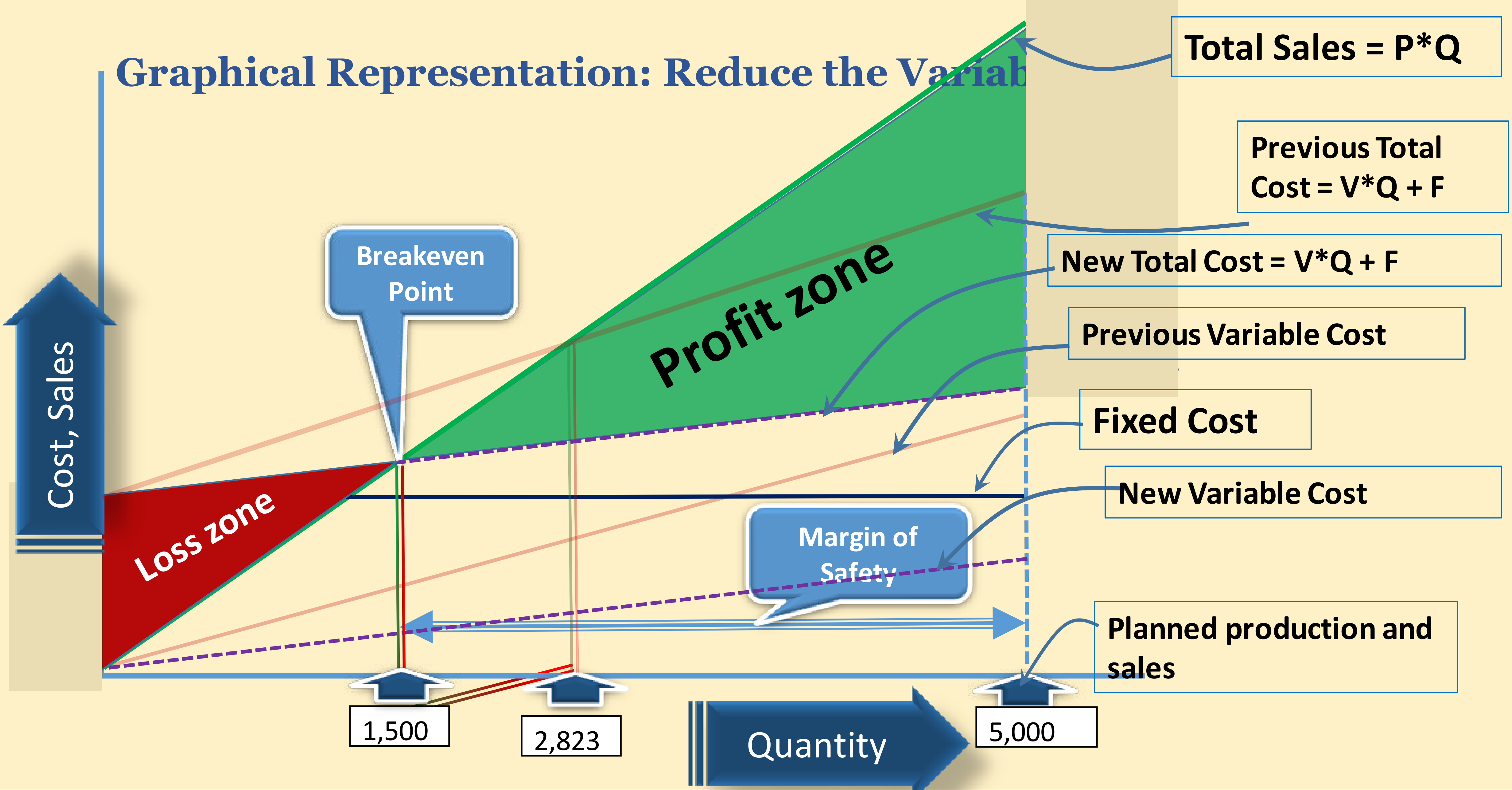
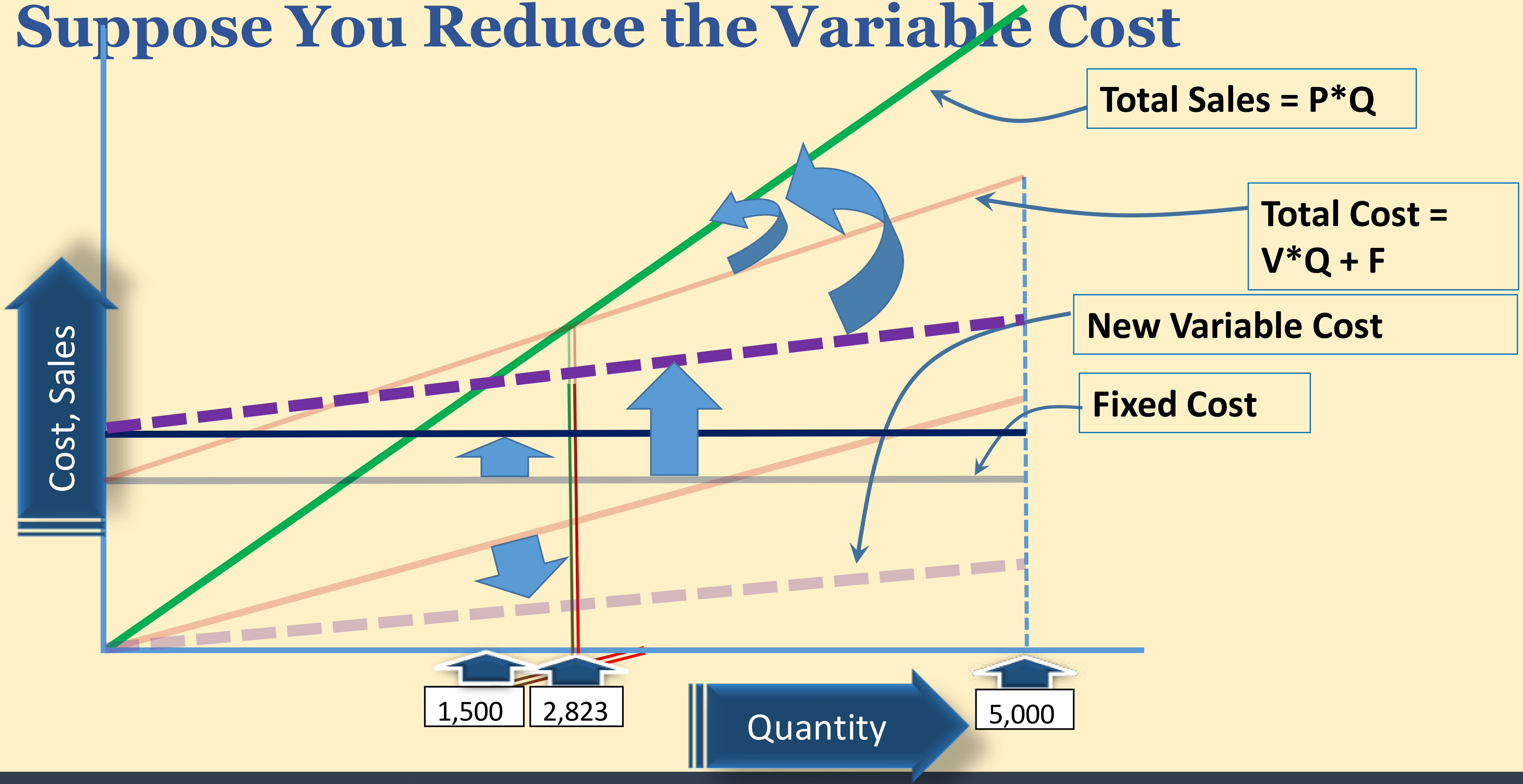
Suppose You Reduce the Variable Cost



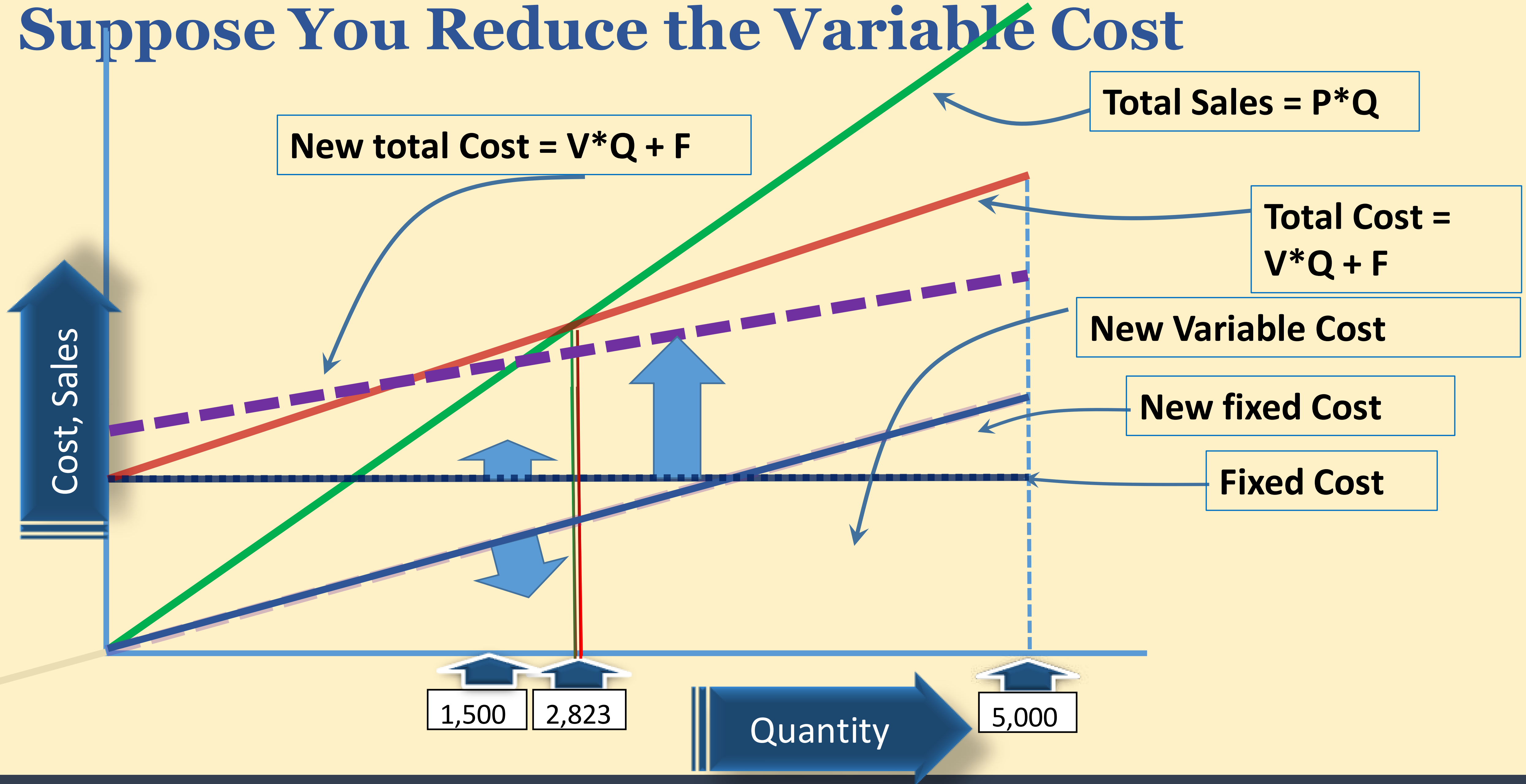
Graphical Representation: Reduce the Variab



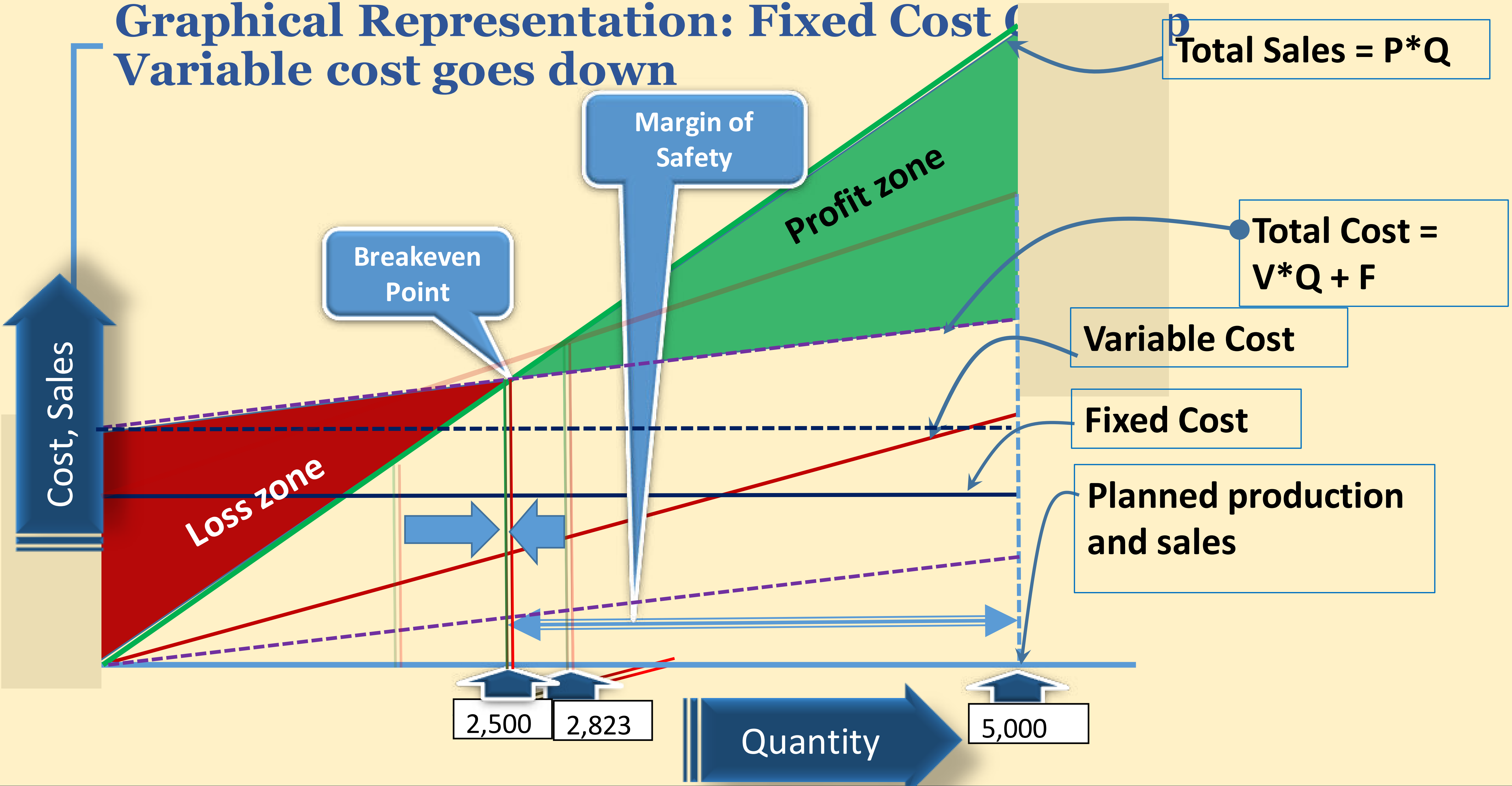
Suppose You Reduce the Variable Cost



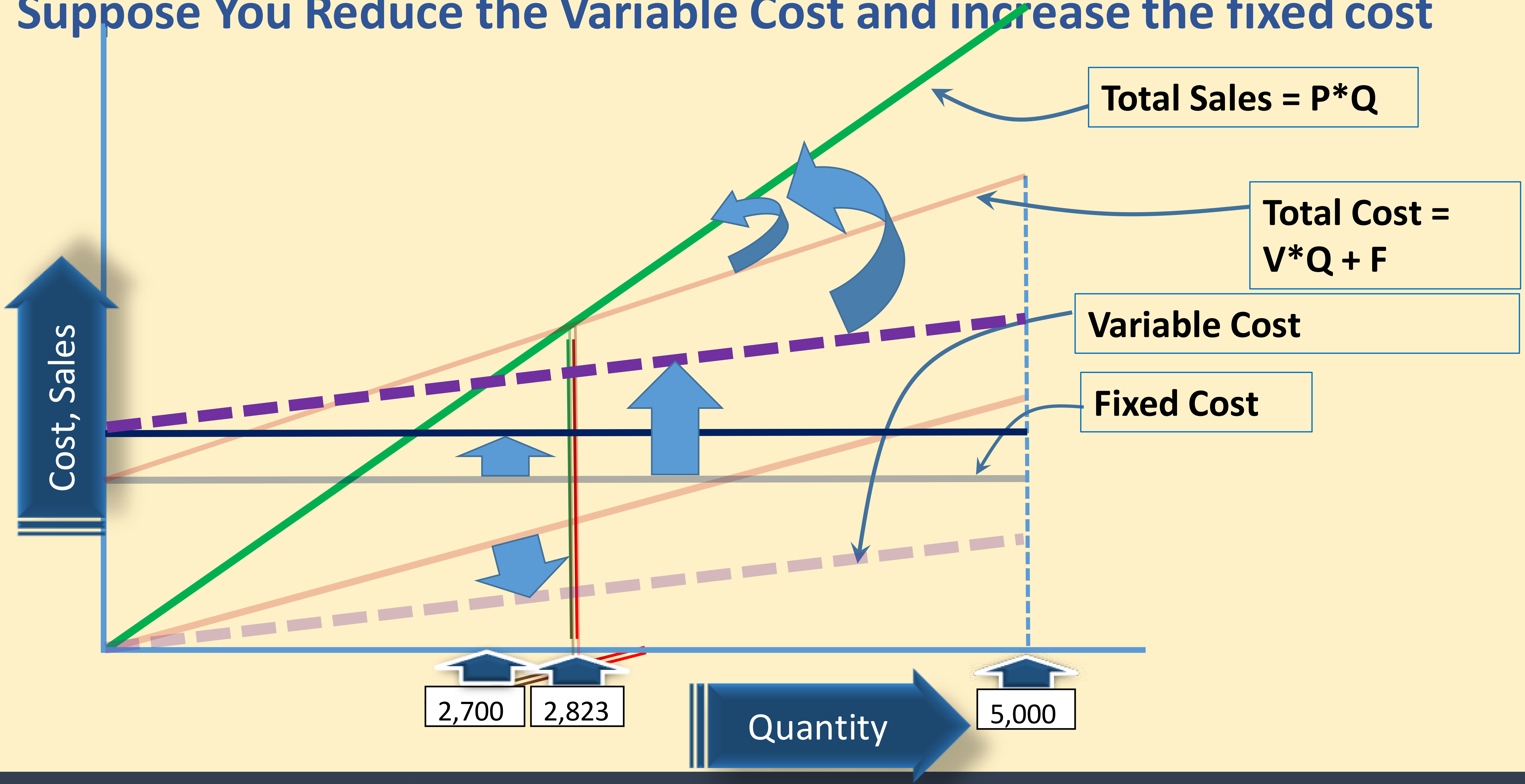
Suppose You Reduce the Variable Cost



Graphical Representation: Fixed Cost goes up Variable cost goes down



Suppose You Reduce the Variable Cost and increase the fixed cost



	Units	₹		BEP	
Sales	500	40,000			
Total variable cost	500	15,000			You have to classify
Total annual fixed cost		20,000		400	fixed and variable
What is the contribution margin?					costs
What is the contribution?					
Estimate BEP					
If the company produces 250 or 600 units, what is the margin of safety?					
If the company produces 250 or 600 units, how much is the profit?					

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Operating Leverage

- Operating leverage is the degree to which a firm can increase operating income by increasing sales.
- Lower the variable cost, higher the operating leverage.
- Operating leverage refers to the percentage of fixed costs that a company has compared to variable cost. Stated another way, operating leverage is the ratio of fixed costs to variable costs.
- Financial leverage refers to the amount of debt in the capital structure of the company. If you can visualize a balance sheet, financial leverage refers to the 'Equity & Liabilities' side of the balance sheet.

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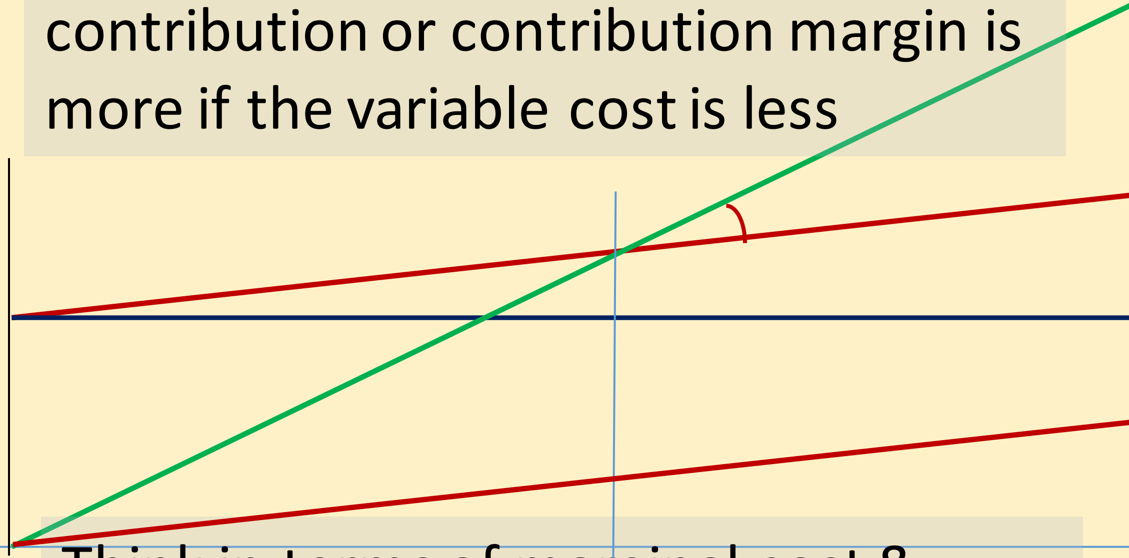
- **High operating leverage means that the fixed cost of a company is high compared to the variable cost. In this case, the firm, after break-even, earns a large profit on each incremental sale.**
- **But the break-even point of the company is at a high level indicating that the company must attain sufficient sales volume to cover its high fixed costs.**
- **Low operating leverage means the major part of the cost is variable in nature. In this case, the firm achieve break-even with small sales, but earns a small profit on each incremental sale post breakeven.**

Contribution = Selling price – unit variable cost

After meeting the fixed cost, unit contribution or contribution margin is more if the variable cost is less



Think in terms of marginal cost & revenue/contribution/profit

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Compare the following two alternatives

High DOL	Low DOL
• Annual production & sales: 1,000 units	• Annual production & sales: 1,000 units
• Variable cost per unit: 15,000	• Variable cost per unit: 20,000
• Annual fixed cost: 20,00,000	• Annual fixed cost: 2,00,000
• Selling price: 25,000 per unit	• Selling price: 25,000 per unit
• At the present production, unit fixed cost = 20,00,000/1,000 = 2,000	• At the present production, unit fixed cost = 2,00,000/1,000 = 200
• Profit/loss = Sales – total cost = 2.5 – 1.7 cr. = 0.8 cr.	• Profit/loss = Sales – total cost = 2.5 – 1.7 cr. = 0.8 cr.
• Marginal revenue: 25,000	• Marginal revenue: 25,000
• Marginal cost: 15,000	• Marginal cost: 20,000
• Profit for 1 extra unit: 10,000	• Profit for 1 extra unit: 5,000

Cost Indifference Point

- The cost indifference point is the level of production (and sales) at which the profit is indifferent of the two strategies with different cost structures.
- Used to compare two strategies, this analysis can be used to decide between different cost structures or selling prices.

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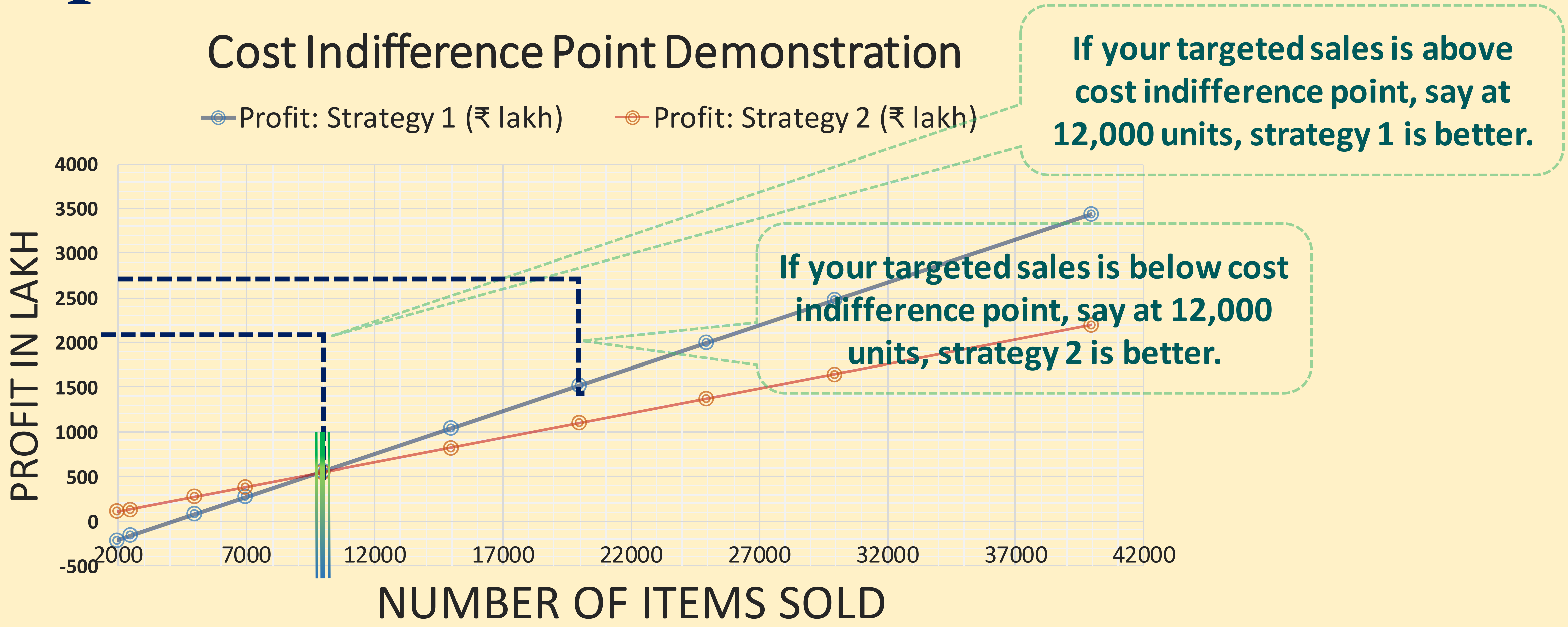
Graphical Estimation of Cost Indifference Point



Cost Indifference Point

- **The cost indifference point is used to compare two different strategies for executing the same business.**
- For example: You want to start a 10 carat gold jewelry business.
  Strategy 1: putting up a fully automatic plant that would cost huge capital investment, say ₹ 1.0 crore, but recurring expenses are low, say ₹ 4,000 per piece.
  Strategy **2: Setting up a labour-intensive unit with no automation. The capital investment is only ₹ 10 lakh. The capital cost is low but recurring expenses are high @ say ₹4,600 per piece and selling price is higher by (say) 100.**
- First question is which business is more attractive?
- **Where is the cost difference point?**

Cost indifference point: A company has two alternatives to implement a business: i. using automation, ii. Using labor intensive technology.

First alternative,

- Variable cost per unit: 40
- Total fixed cost per year: 50,000
- Selling price per unit: 100
- Contribution = 100 – 40 = 60

Second alternative

- Variable cost per unit: 60
- Total fixed cost per year: 30,000
- Selling price per unit: 100
- Contribution = 100 – 60 = 40

At cost indifference point, profit is equal in both alternatives.

- 60[contribution]*Q – 50,000[fixed cost] = 40[contribution]*Q – 30,000[fixed cost]
- 60*1,000 – 50,000 = 40*1,000 – 30,000
- At Q = 1,000, profit is same in both alternatives.

Revenue is all you have to recover all the expenses from and the surplus remaining after meeting all expenses is the profit that belongs to you.

Recovery of Cost of Fixed Assets in the Form of Depreciation

- Money spent on machinery has to be recovered.
- Any recovery of expense is done only through the mechanism of costing of you products or services – you add all the expenses to estimate total cost of a product and then set the price of the product accordingly.
- As customers pay you money, your cost is recovered.
- Money spent to acquire fixed assets such as machinery is charged in the cost in the form of Depreciation.

Another Simple Example

The following are the fixed and variable costs of a company during a particular year. The unit price of the item is Rs 30. Estimate the BEP production. Note that repair and maintenance cost is a semi-variable cost. So part of it has been considered as fixed cost and part as variable cost.

	Fixed Cost (Rs/year)	Variable Cost (Rs/unit)
Depreciation	20,000	
Insurance	5,000	
Repair & Maintenance	5,000	0.50
Material		9.50
Labour and Power		10.00
Total	30,000	20.00

a. Find the quantity to be produced to breakeven.
b. If the production plan is 2,000 units annually, what is the profit/loss?

Solution:

Given

F = ₹ 30,000 per year, V = ₹ 20 per unit, S = ₹ 30 per unit

The breakeven production quantity is given by

$$Q^* = \frac{F}{S - V} = \frac{30,000}{30 - 20} = 3,000 \text{ units/year}$$

The production plan during the year is Q_p = 2,000 units/year.

Total revenue during the year = (2,000)(30) = ₹ 60,000

Total cost during the year = 30,000 + (2,000)(20) = ₹ 70,000. Cost is more than sales.

Therefore, loss for the year = ₹ 10,000

How many units need to be produced to make profit of ₹ 10,000/-?

Solution of Second Part

- To make profit of ₹10,000, your sales should exceed aggregate of fixed cost and the variable cost by ₹10,000.
- Therefore: Q* X V + F + 10,000 = Q* X S
- Or, 20 X Q + 30,000 + 10,000 = Q* X 30
- Or, 10 X Q = 40,000
- Or, Q = 4,000, You have to produce and sell 4,000 units to make a profit of ₹ 10,000.
- Alternately: contribution margin is ₹10. BEP is 3,000 units. You have to produce 10,000/10 = 1,000 extra units after BEP, which is

  = 4,000 units.

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Classification of some regular cost items

Depreciation	Fixed
Insurance	Semi-Variable
Interest on Long-Term Loan	Fixed
Audit Fee, Trade license, Fire safety	Fixed
RoC Registration Fee	Fixed
Rent	Fixed
Salaries	Fixed
Raw-materials, consumable, Wages	Variable
Electricity Bill Payment	Variable
Fuel Cost	Variable
Transportation cost	Variable
Stationery	Variable
Annual renewal of export license	Fixed

Printing	Variable
Internet and data plan	Fixed
Income tax	Not c
Web-hosting cost	Fixed
Cost of security	Fixed
Production bonus	Variable
Traveling expenses	Variable
Dividend	Not a cost
Telephone bill payment	Variable
Sales promotion	Variable
Insurance of factory premises	Fixed
Insurance of vehicle	Fixed
Insurance of Inventory	Variable

Insurance and maintenance are semi-variable costs.

Uses of BEP

- Provides information on minimum sales for achieving profit.
- Helps to compare multiple business opportunities and multiple options for executing a business.
- Estimate amount of goods to be sold in order to meet all expenses.
- Level of production and profit thereof.
- Act as a milestone for the entire team to achieve targeted sales.
- Gives idea about margin of safety and risk thereof.
- Understand the price sensitivity of profit and decide on price.
- Cost control, decide on cost structure, and quick estimate.

Limitations of BEP

Many assumptions based on which BEP is estimated are unrealistic.

For example:

- Fixed cost may vary with turnover,
- Variable cost may go down as sales increases due to economy of scale,
- It is unlikely that you sell all you produce. Inventory either gets built up or reduces during course of business.
- Break-even estimation is easy for simple business such as one product company. It becomes difficult for multiple products.

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Final Thought

- Advantages outweigh limitations. Using it judiciously is very helpful in planning as also decision making.
- It is specially helpful for startups in selecting opportunities or projects out of many options and understanding level of operation to be profitable.

Inventory Costs You Money. Try Keeping it Low.

- Suppose you maintain inventory of fabric, button, consumable and finished goods stock of ₹ 13 million (on an average) over the year.
- Suppose you have borrowed ₹ 10 million from bank to maintain this stock (inventory) as working capital loan.
- Let us assume that the rate of interest on bank loan is 15% p.a.
- You have to pay interest on ₹ 10 million on average loan of ₹1.5 million. Say, you incur loss of 0.5 million in a year.
- If you can smartly manage your inventory, perhaps you can smoothly manage the business with ₹7 million and reduce bank loan to ₹5 million.
- Therefore, your interest will come down to ₹ 0.75 million only.
- Just by managing the inventory efficiently, you have transformed loss into profit.
- In case you do not borrow working capital, still you incur opportunity cost.

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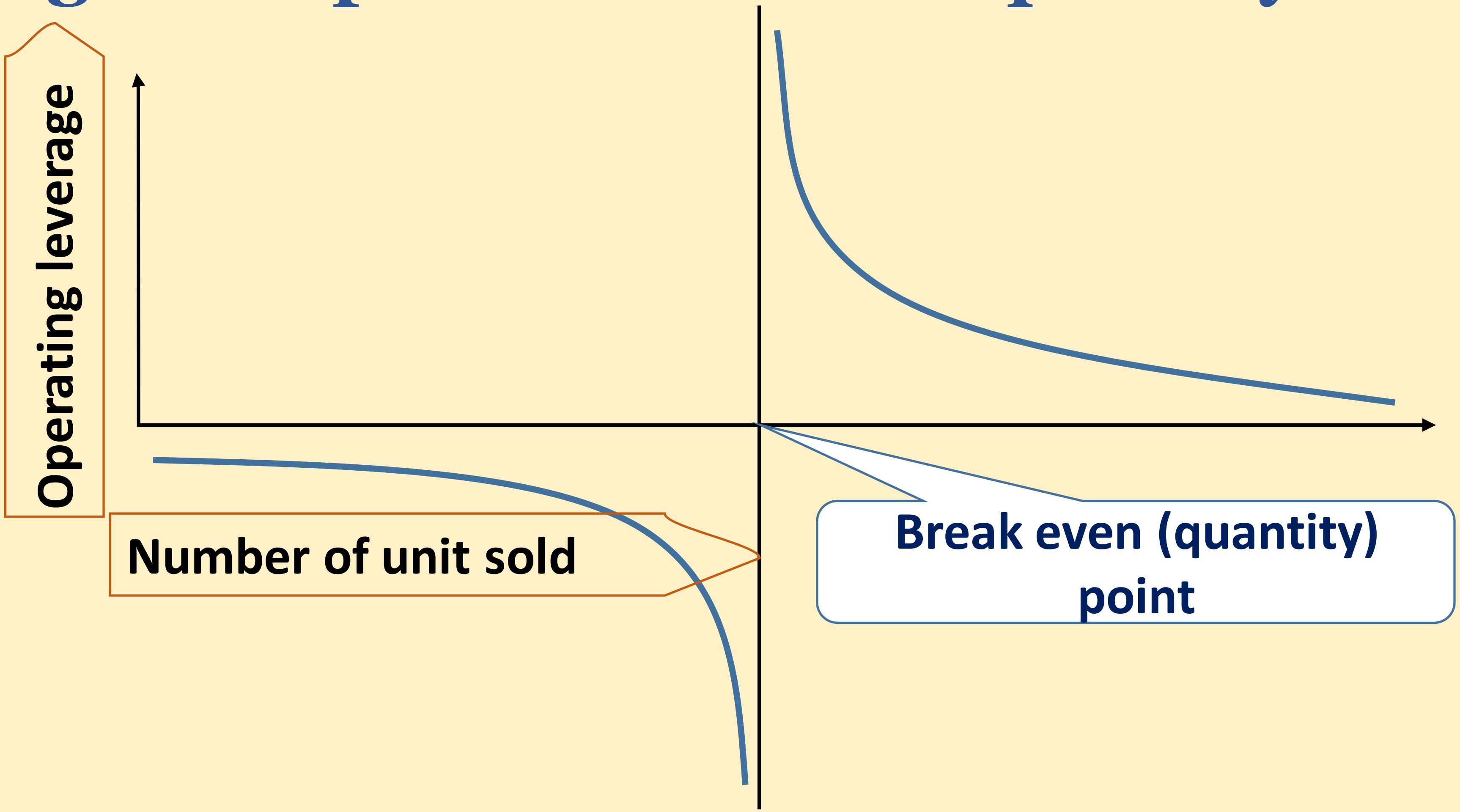
The operating leverage (OL) would look like the following if one plots the OL over quantity



You may neglect this slide for examination purpose. It is included only for those who may have questions.

- **For each unit of extra sales beyond BEP, Option 2 generates higher profit compared to Option 1.**
- **For each unit of lower sales from BEP, Option 2 inflict higher loss compared to Option 1.**

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Key Takeaways

- The degree of operating leverage (DOL) measures the change in operating income of a company in response to change in sales.
- The DOL helps analysts gauging the impact of change in sales on earnings.
- If sales increases in large measure for a company of high operating leverage, the profit will increase substantially.
- On the other hand, if sales declines beyond BEP, the loss will increase faster compared to a company with lower DOL. That is why DOL is a component of risk perception.
- DOL is exciting for companies operating beyond BEP and is too bad for companies operating below BEP.

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The 10 carat gold jewelry cost indifference point

- Fixed cost per year: 1,00,00,000
- Variable cost per unit: 4,000
- Selling price per unit: 5,000
- Contribution: 5,000 – 4,000 = 1,000

- Fixed cost per year: 10,00,000
- Variable cost per unit: 4,600
- Selling price per unit: 5,100
- Contribution: 5,100 – 4,600 = 500

- At cost indifference point: profit in option 1 is equal to profit in option 2, say at quantity Q
- Therefore, (5,000 -4,000)*Q – 1,00,00,000 = (5,100 – 4,600) – 10,00,000
- Q = 18,000

If you foresee sales much above 18,000 units, should go for automation model
If sales are to be much less than 18,000 units, adopt the labor-intensive model.
Both models are similar if sales is close to 18,000 units

Conclusion:

- BEP estimation is based on many assumptions that may not always hold.
- All data are futuristic and are subject to market change.
- However, most assumptions and future fluctuations would be neutralized when multiple businesses are compared.

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Thank you

- The financial leverage ratio indicates the overall debt load of a company compared to its assets or equity.
- Putting it differently, it shows what portion of its assets has been financed by (and owned by) the shareholders (owners of the company) and how much by the creditors (lenders).
- Shareholders owning a majority of the assets: low leverage
- Creditors owning a majority of the assets: highly leveraged.
- In all, financial leverage is an indicator of risk of the capital structure.

Degree of Financial Leverage

- $Degree\ of\ Financial\ Leverage\ (DFL) = \frac{EBIT}{EBIT - Interest}$

- **Measures the capability of the company to service interest.**
- **Measures the sensitivity of a company's net profit on the fluctuation of its operating profit as a results of the changes in capital structure.**
- "DFL is invaluable in helping a company assess the amount of debt or financial leverage it should opt for in its capital structure. If operating income is relatively stable, then earnings and EPS would be stable as well, and the company can afford to take on a significant amount of debt. However, if the company operates in a sector where operating income is quite volatile, it may be prudent to limit debt to easily manageable levels." – from Investopedia
- The DFL reflects the influence of debt on the difference between 'Operating profit' and 'Net profit'. You may remember that Operating profit is profit before interest and tax.
- Higher the DFL, higher is the risk of debt on the financial performance of the company. Some stress on sales may turn the company into loss and enters into a vicious circle of higher losses.

- People are generally infatuated about their own ideas. They mostly focus on the inventive steps, intellectual depth and novelty.
- They are frequently blind about the unique requirements of customers and cost of their products or services.
- They end up investing valuable time and resources only to eventually realize that the product or service they so assiduously made is not attractive to customers.
- A clear understanding of the value proposition, on the other hand, helps to choose the right idea early on saving the time and avoiding cash burn on potentially failing ideas.

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- Getting more out of less

- You get granular actionable insight

- Problem
- The solution
- The value
- Lead to the story
- Articulate value

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Comparison between companies of high and low DOL

On absolute basis

High DOL company

$$BEP = \frac{20{,}00{,}000}{25{,}000 - 15{,}000} = 200$$

One extra unit of sales will generate profit of 10,000

One less unit of sales will generate loss of 10,000

Low DOL company

$$BEP = \frac{2{,}00{,}000}{25{,}000 - 20{,}000} = 40$$

One extra unit of sales will generate profit of 5,000

One less unit of sales will generate loss of 5,000

On percentage basis

At the present position, DOL for the 'High DOL' company, the DOL% is = 1000*10000/(1000*10000-2000000) = 1.25, which means that for 1% increase in sales the operating profit increases by 1.25% and vice versa.

The DOL for the 'Low DOL' company, the DOL% is = 1000*5000/(1000*5000-200000) = 1.04, which means that for 1% increase in sales the operating profit increases by 1.04% and vice versa.

On percentage basis, the DOL changes as volume of sales changes.

- At the present position, DOL for the ‘High DOL’ company, the DOL% is = 1000*10000/(1000*10000-2000000) = 1.25, which means that for 1% increase in sales the operating profit increases by 1.25% and vice versa.
- The DOL changes to 1.02 at sales of 10,000 unit.

- The DOL for the ‘Low DOL’ company, the DOL% is = 1000*5000/(1000*5000-200000) = 1.04, which means that for 1% increase in sales the operating profit increases by 1.04% and vice versa.
- The DOL changes to 1.001 at sales of 10,000 unit.
- On percentage basis, the DOL changes as volume of sales changes.

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Foundations of Entrepreneurship

Funding New Venture

Lecture Note # 24

11.03.2021

Funding New Ventures

- **Section – I: Introduction, funding requirement, possible sources**
- **Section – II: Bootstrapping, crowdsourcing, incubation, acceleration**
- **Section – III: BA | VC**
- **Section – IV: Debt funding**
- **Section – V: Government assistances**

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- Introduction
- Requirement of fund
- Types of sources of fund
- Pros and Cons of various funding

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- In 1975, Malhotra co-founded HCL Group, where he served as vice chairman.
- Founded TechSpan and served as chief executive officer of US-based firm Headstrong after the two companies merged.
- Co-founded SPIC MACAY along with his college friend Kiran Seth for the promotion of Indian music and culture amongst youth.

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Malhotra started his career in 1970, when he joined Delhi Cloth Mills as Senior Management Trainee. In 1972 along with Shiv Nadar he was assigned to set up marketing division for DCM Data Patterns to sell pocket calculators. In 1975, he quit DCM and partnered with Shiv Nadar, Ajai Chowdhry, D.S. Puri, Yogesh Vaidya and Subhash Arora to set up a company known as Microcomp Limited, which sold digital calculators, eventually becoming its Vice Chairman. Microcomp created a joint sector company named Hindustan Computers Limited and began manufacturing mini and microcomputers. He led the company's joint venture with Hewlett Packard in India and also companys Hong Kong, Australia, and New Zealand business operations. He took over HCL's US operation in 1989.

Malhotra, along with Sandeep Sahai, Nagesh Mehra, Puneet Pushkarna, Aloke Paskar, Curt Terwilliger, Harsh Lohit, Adarsh Mehra, and Bonnie Singh started his IT consulting company TechSpan in 1998 with funding from Goldman Sachs and Walden. He later merged the company with IT services company Headstrong in 2003, and became that company's CEO. HeadStrong was later acquired by Genpact for US$550 million in 2011. Malhotra was described by Business Today as a "serial technology entrepreneur" who "was ahead of the learning curve" with each of his companies. He setup Magic Software, a software company in 2011. He serves as director for various other companies including Lumis Partners, Evolko Inc, Mapmygenome and Number Theory Software, an artificial intelligence and data science solution provider.

He is Chairman of Board of Vision 2020, an IIT Alumni lead initiative to help IIT raise endowment funds. He is on Board of Governors of IIT - Foundation (Kharagpur), Indian School of Business Hyderabad, IIM Udaipur, IIM Shillong. member of Indian Public Schools Society that runs the Doon School. He is also Executive Council member of NASSCOM.

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Shiv Nadar

- Hails from rural settings
- Engg. from SPG College
- Started career in Delhi Cloth Mill Calculator division.
- He met Arjun Malhotra and 4 others at DCM
- They started 'Microcomputer' under 'Televista' brand to market microcomputer.
- At a time when India had just 250 PCs, UP Electronic Corporation invested 26% eq. to set up Hindustan Computers Ltd. to compete with IBM (contemporary of Apple)
- 1977 Janata Party came to power George Fernandes expelled American companies IBM etc.
- 1978 HCL successfully developed and shipped first in-house Micro computer – concurrently with Apple.
- 1979 Opened manufacturing in Singapore
- 1981 – Started NIIT
- 1983 Developed Networking Operating System and Client-Server Architecture
- 1985 introduced Unix based 'Busybee'
- 1989 HCL America launched
- 1991 HCL-HP launched in USA
- 1994 Joint venture with Nokia and Ericsson to exploit marketing network
- 1997 Software outsourcing for foreign countries
- 1998 Arjun Malhotra quits
- 1999 IPO
- 2001 Largest BPO in Ireland
- Zero visibility landing for Boeing
- 2008 Padma Bhushan award

Exploiting the change in the environment is the characteristic of great entrepreneur

Capital is the “lifeblood” of a new venture.

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FUNDING NEW VENTURES

Decision to be entrepreneur – is primarily driven by your passion to alleviate a pain

Equity
Family
Friends

Idea, market research, prototype

Incubators
Accelerators
Crowd funding

Product development and validation
Define value proposition/ product differentiation

Company registration

Angel
High net worth individuals
Early stage VCs

Go-to-market strategies
Infrastructure for product or service creation
Set up Logistics for both inputs and sales
Begin awareness campaign
Recruit manufacturing, marketing, and service personnel
Build shopping portal
Setup Payment Gateway

VCs
Debt from banks/ Fintech

Growth strategy
Set up offices
Warehouses
Recruit more people to handle growth
Capture data, use analytics to know customer-satisfaction/ repeat customers
Refine products
Price strategy
Business process management
Recruit professional CEO and other C-suits

IPO/ Private Equity

Continuous value addition, new product development, maintain superior value proposition

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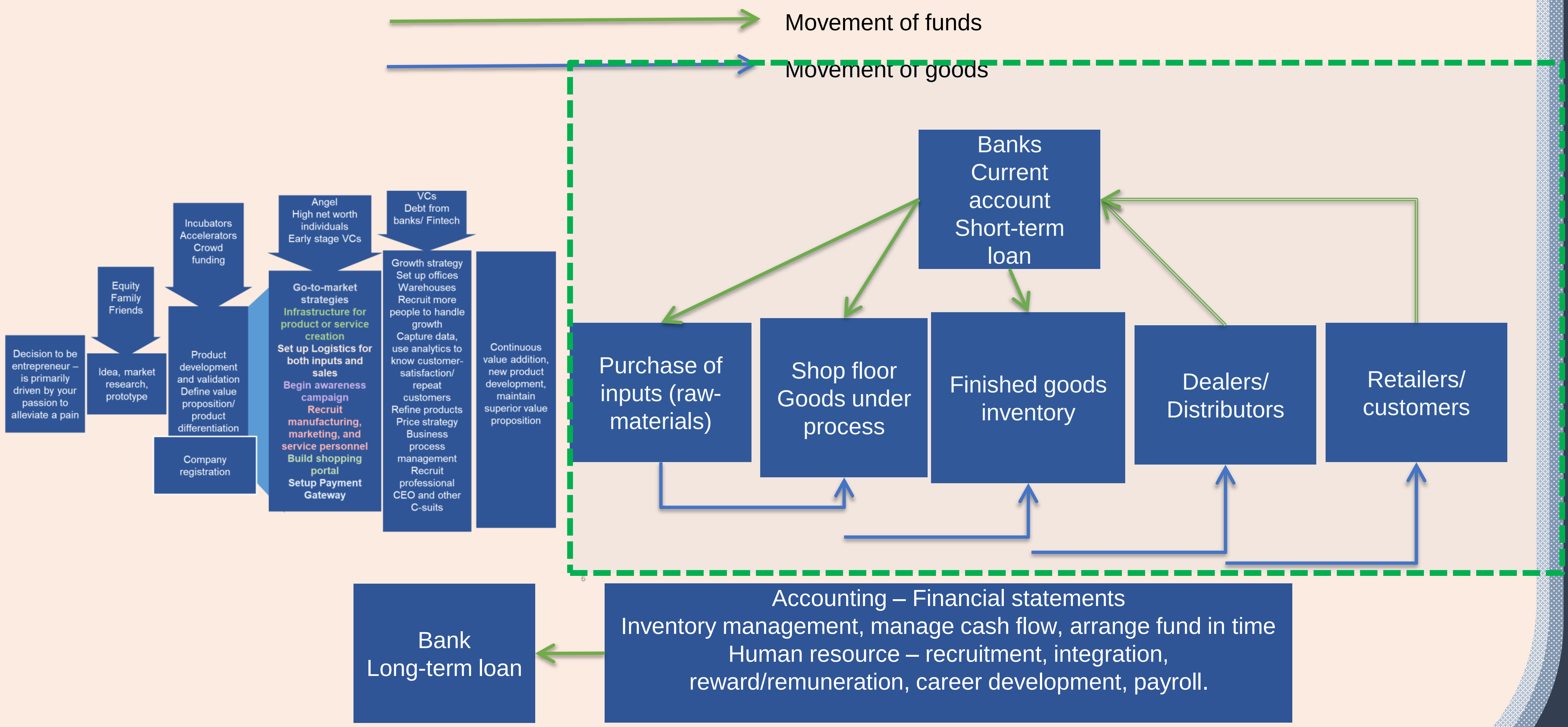

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Funding Decisions are Very Tricky

We hear stories of venture capitalists making nX returns from funding startup that achieve remarkable success.

Peter Thiel invested $500,000 in Facebook in 2004. Eight years later, he sold his stake for more than $1 billion.

But still many entrepreneurs face multiple rounds of rejection.

The success depends on attractiveness of the business model, timing, traction, team, and prospect.

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For example, Joe Gebbia, Brian Chesky, and Nathan Blecharczyk sought funding for their startup, Airbnb, in 2008.

They wanted to raise $150,000 in return for a 10 percent stake in their company.

Nine years later, Airbnb, was valued $31 billion.

If one of these investors had invested, their $150,000 investment would have been worth $3.1 billion in nine years.

Even the most accomplished venture capitalists invest in many startups that do not succeed and pass on a number of deals that could have been highly lucrative.

Every investor has at least one great regret.

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Forms of Capital

- Forms of capital – equity, preference shares, debt, grant
- Equity investment gives ownership to investors
- Investment in preference shares may have equity or debt or both flavours.
- Debt is loan taken on interest and has to be repaid – no matter what.
- Grant has no covenant.

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Expenses before going to market:

Startup Expenses	₹ '000
Early salary	100
Market research	40
Prototyping	500
Design of logo, etc.	30
Traveling	25
Legal expenses	60
Trial expenses	200
Advert. & Promo	100
Rent	60
Utilities	20
Website & hosting	20
Internet data plan	10
Telephone bill	5
Insurance	10
Consumables	20
(Prel. & Preop.)	1200

Assets:	
Current assets	
Cash	50
Inventory	500
Other current assets	100
Long term assets	
Machinery	200
Computer	120
Software	50
Interior decoration	10
Furniture & Fixure	50
Preliminary & Preop.	1200
Sub total	1630
Total expenses	3480

Funding	₹'000
Liabilities	
Accounts payable	100
Other curr	50
Friends & Relatives	500
Long-term liabilities	0
Sub-total	650
Equity	
Owners	2000
Investors	0
Crowdsourcing	830
Sub-total	2830
Loan fund	0
Total funding	3480

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For what purposes a startup requires money?

Once you are ready with you product, you need major amount of fund to

- Create infrastructure.
- Working capital.
- Sales promotion.
- Brand building.
- Logistics.
- Post sales service.
- Employee benefits.

- Website/app development
- Team hiring
- Legal and consulting services for your startup
- Licenses and certifications
- Marketing and Sales
- Office space and other admin expenses

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Sources and Uses of Capital
Balance Sheet

Assets	Equity & Liabilities
Cash	Equity capital
Trade receivables	Reserves & surplus
Inventory	Preference capital
Land	Trade payable
Building	Short-term debt
Machinery	Long-term debt

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Assets:	
Current assets	
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Other current assets	100
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Face value or per value: Say ₹10
2 lakh shares of ₹10 each

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Authorized, Fully and Partly Paid-up Capital

Post- and Pre-money value

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Equity Holding

Equity & Liability		
Equity capital – fully paid-up equity capital	Consisting of 2 lakh equity shares of face value ₹ 10 each.	Total equity capital: ₹ 20 Lakh i.e. 2 L shares
Co-founder A holds	50,000 shares	50,000/2,00,000 = 25% holding
Co-founder B holds	80,000 shares	80,000/2,00,000 = 40%
Co-founder C holds	70,000 shares	35%
		Total 100%

Shares provide you voting right

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Equity Holding

Equity & Liability		
Equity capital – fully paid-up equity capital	Consisting of 2 lakh equity shares of face value ₹ 10 each.	Total equity capital: ₹ 20 Lakh i.e. 2 L shares
Co-founder A holds	50,000 shares	50,000/2,50,000 = 20% holding
Co-founder B holds	80,000 shares	80,000/2,50,000 = 32%
Co-founder C holds	70,000 shares	70,000/2,50,000 = 28%
Investor	50,000 shares	50,000/250,000 = 20%
		Total : 100%

Number of shares held by the co-founders will not change. Therefore, to offer 20% of equity post-money, your combined holding will go down to 80%. So, post-money, number of shares is 2,00,000/0.8 = 2,50,000 number of shares

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Equity Holding

Founder A: 20%

50,000 shares out of total of 2,50,000 shares issued.

Founder B: 32%

80,000 shares out of total of 2,50,000 shares issued.

Founder C: 28%

70,000 shares out of total of 2,50,000 shares issued.

Investor: 20%

50,000 shares out of total of 2,50,000 shares issued.

A

B

C

Investor

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An Investor Can Invest in Equity, Preference Shares, Debt, Grant.

Seniority of Creditors

- If a company goes into liquidation, the sales proceeds of all its assets are distributed among all creditors and equity holders.
- Secured creditors are served first.
- Next are unsecured creditors and employees.
- Preference shareholders
- Stockholders are paid last.

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Raising money is an essential part of early stage entrepreneurial ventures

- **Most new entrepreneurs do not have enough money to fund the exact need of the business.**
  - **Unlimited risk.**
  - **Capital investment.**
  - **Cash flow challenges.**
  - **Long duration of product development and creation of market connectivity.**
- **Growth of business entails large amount of money.**
- **Money from external source somewhat reduces risk.**

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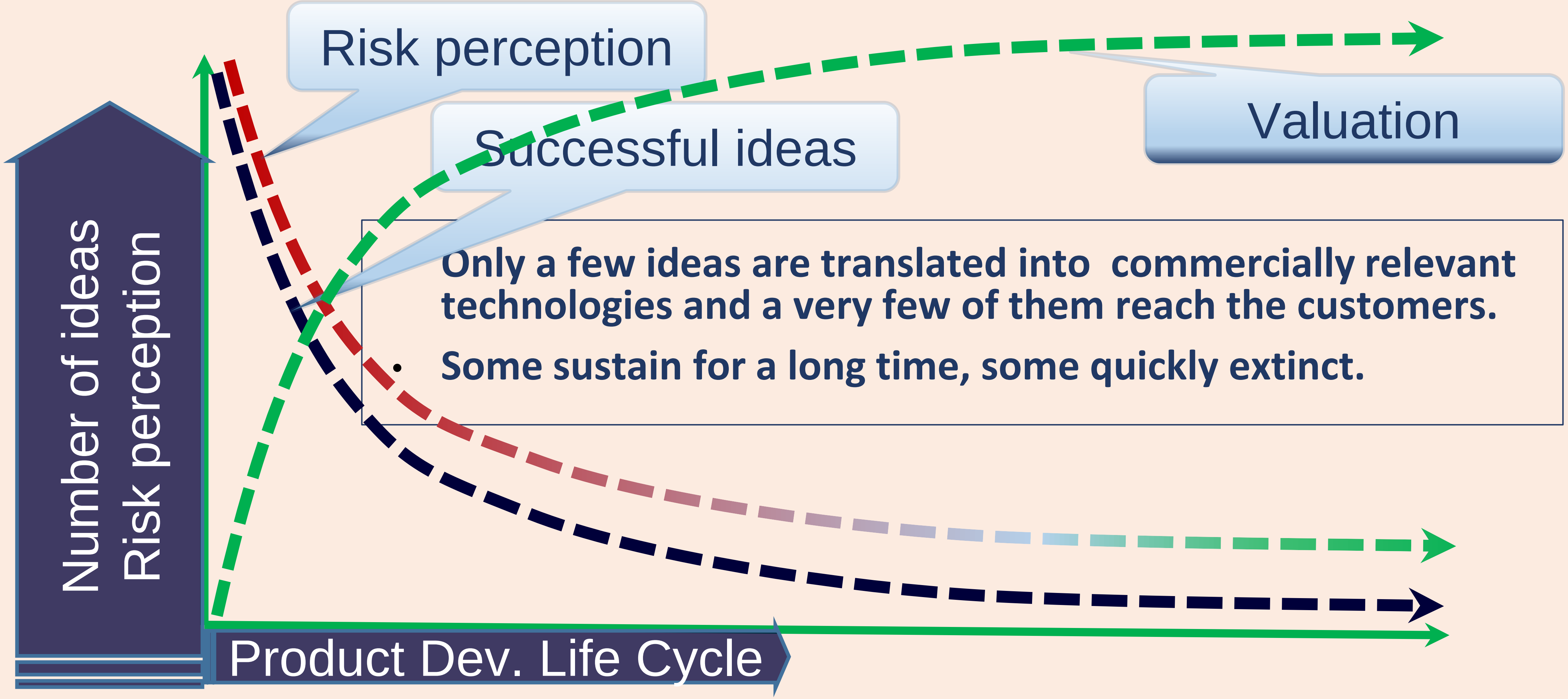
Startups Need Risk Capital at the Early Stage



Only a few ideas are translated into commercially relevant technologies and a very few of them reach the customers.

- Some sustain for a long time, some quickly extinct.

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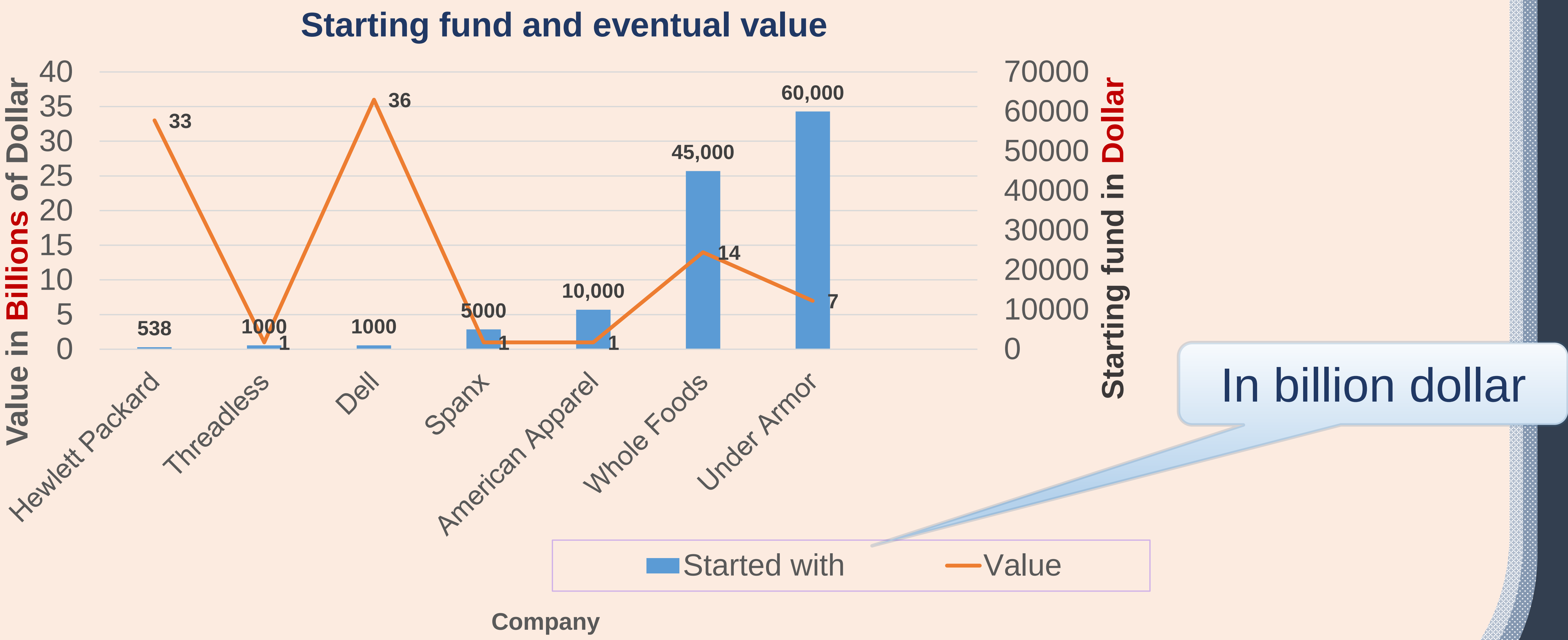
How Much Money You Need?



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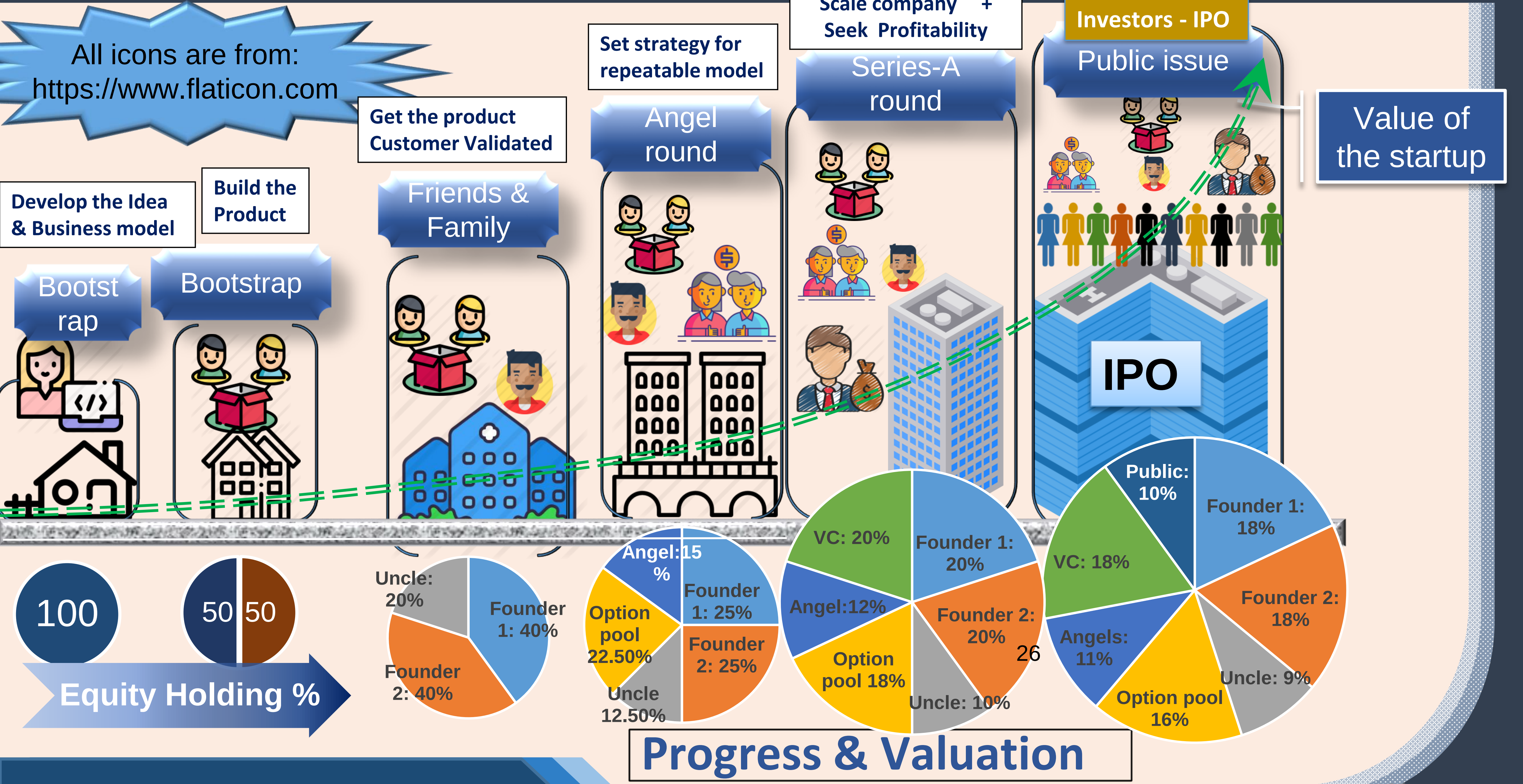

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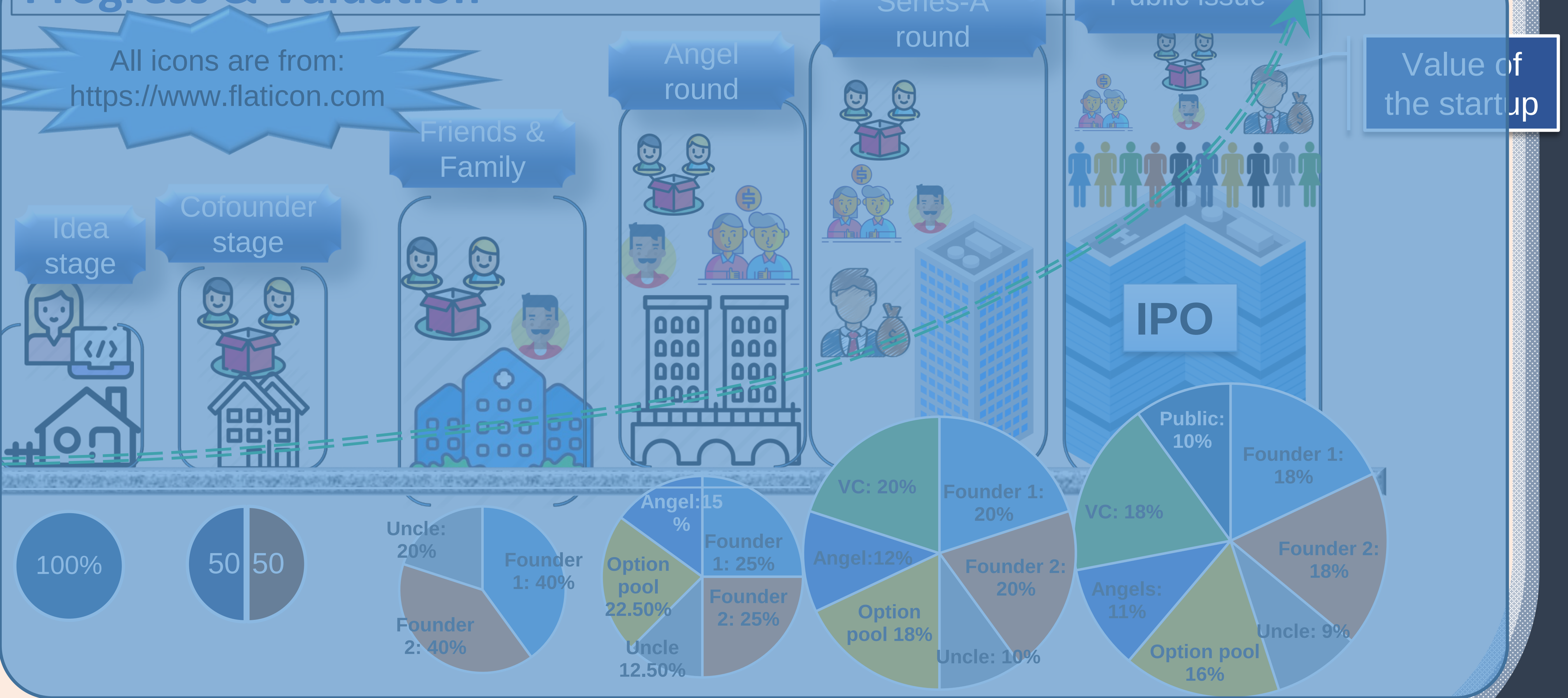
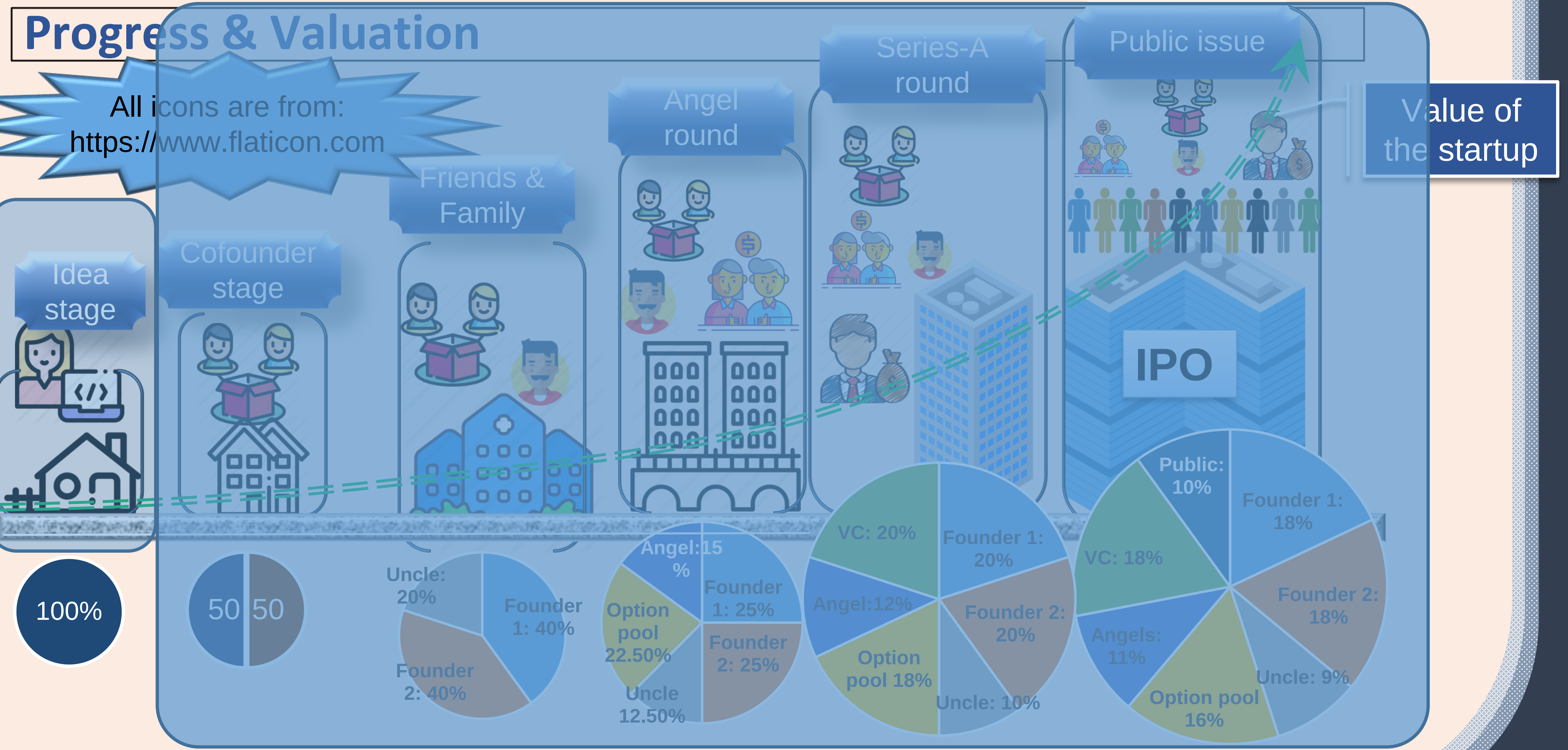
Progress & Valuation



Progress & Valuation



Progress & Valuation

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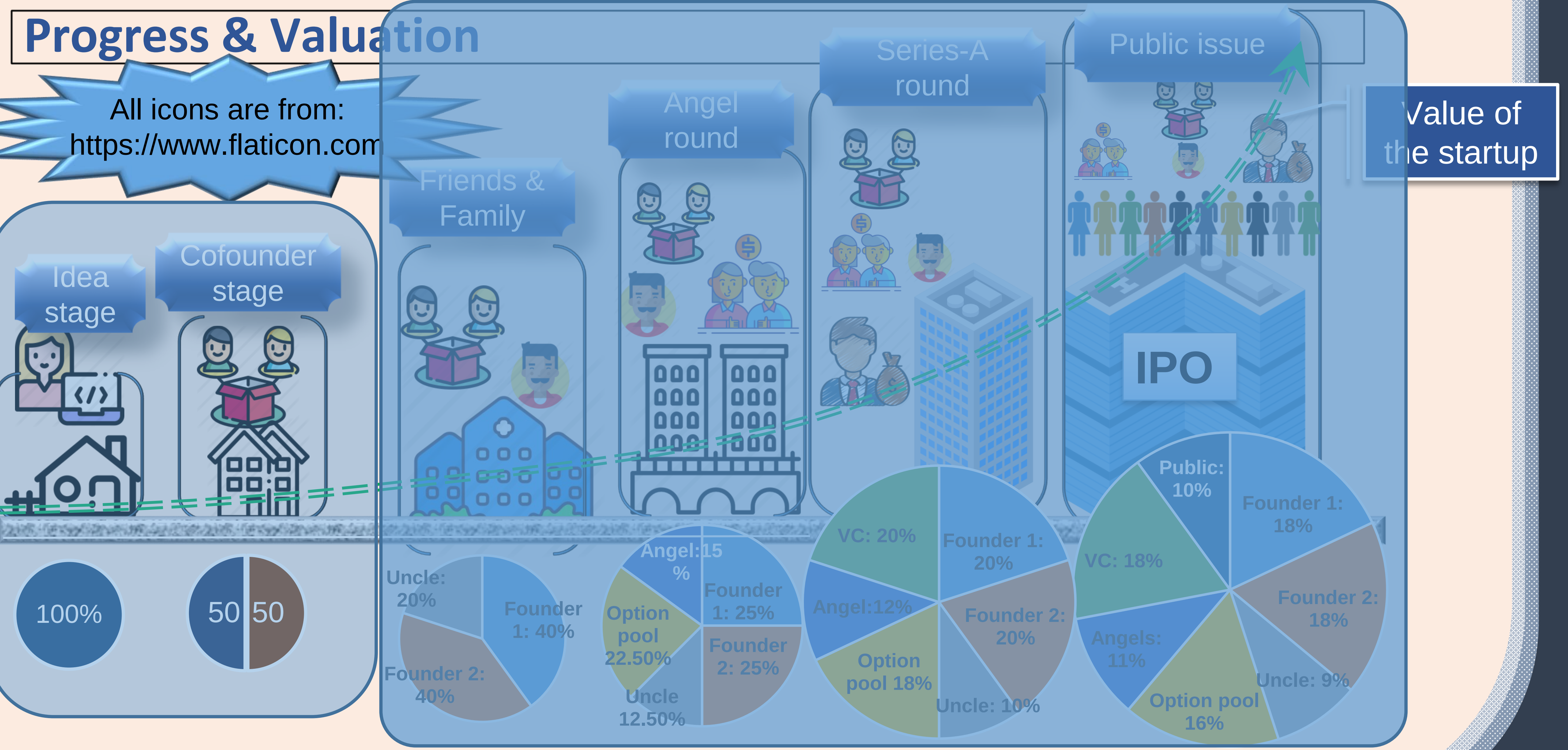

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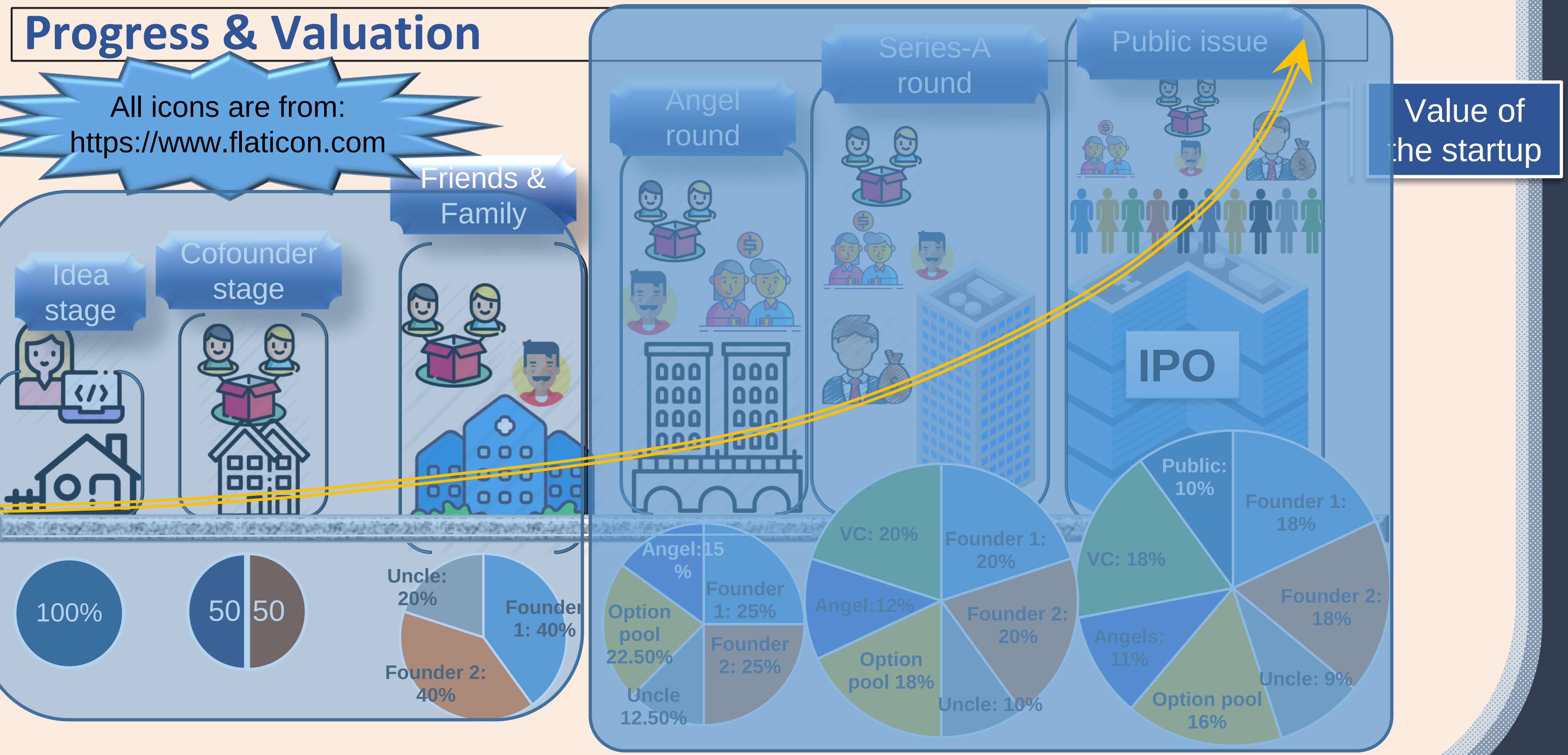

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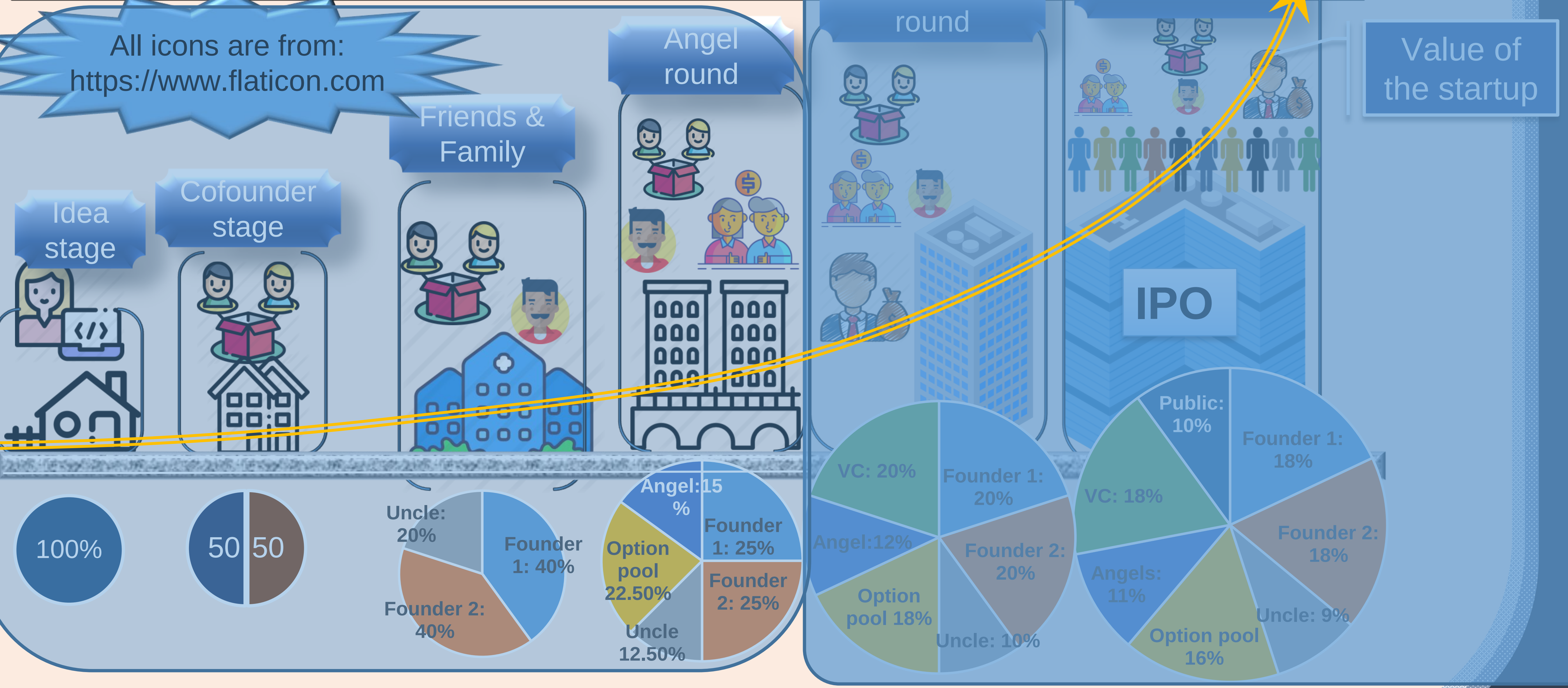

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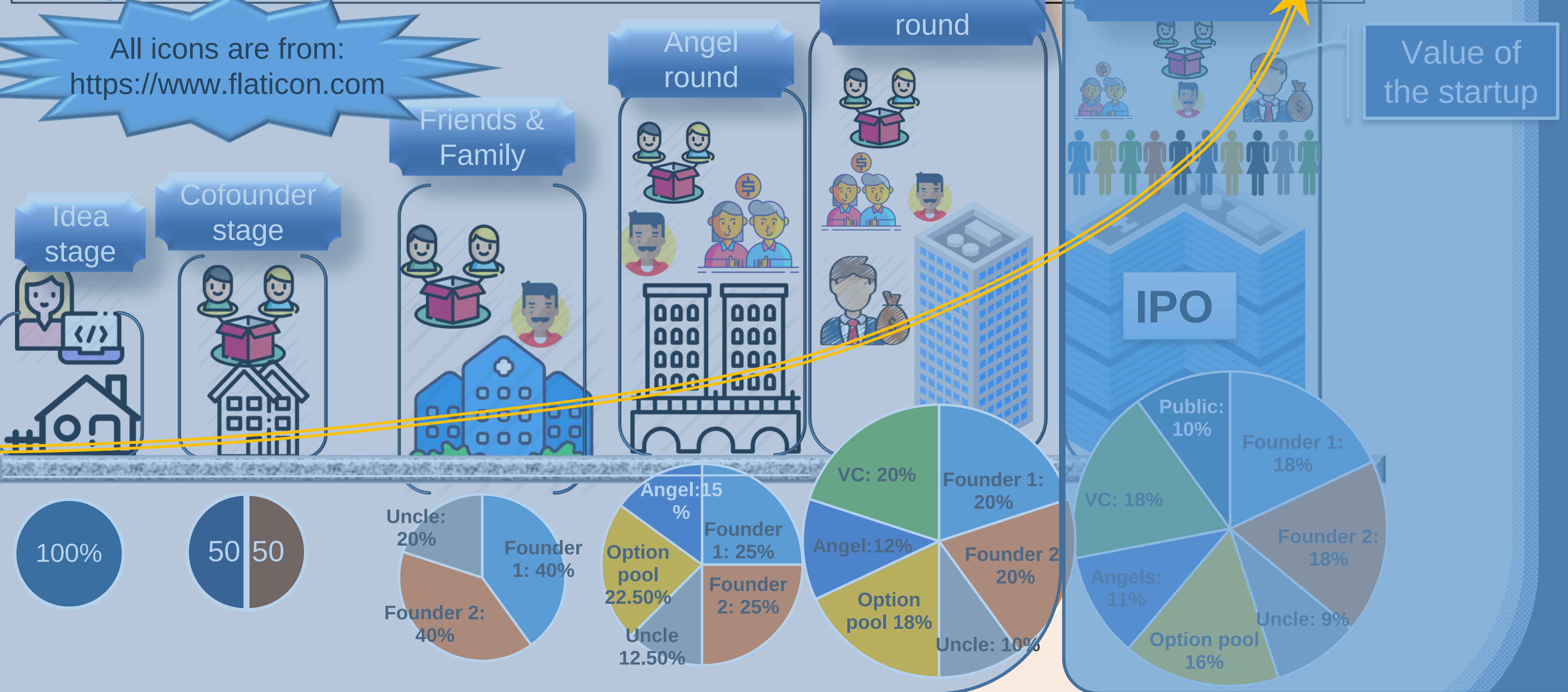

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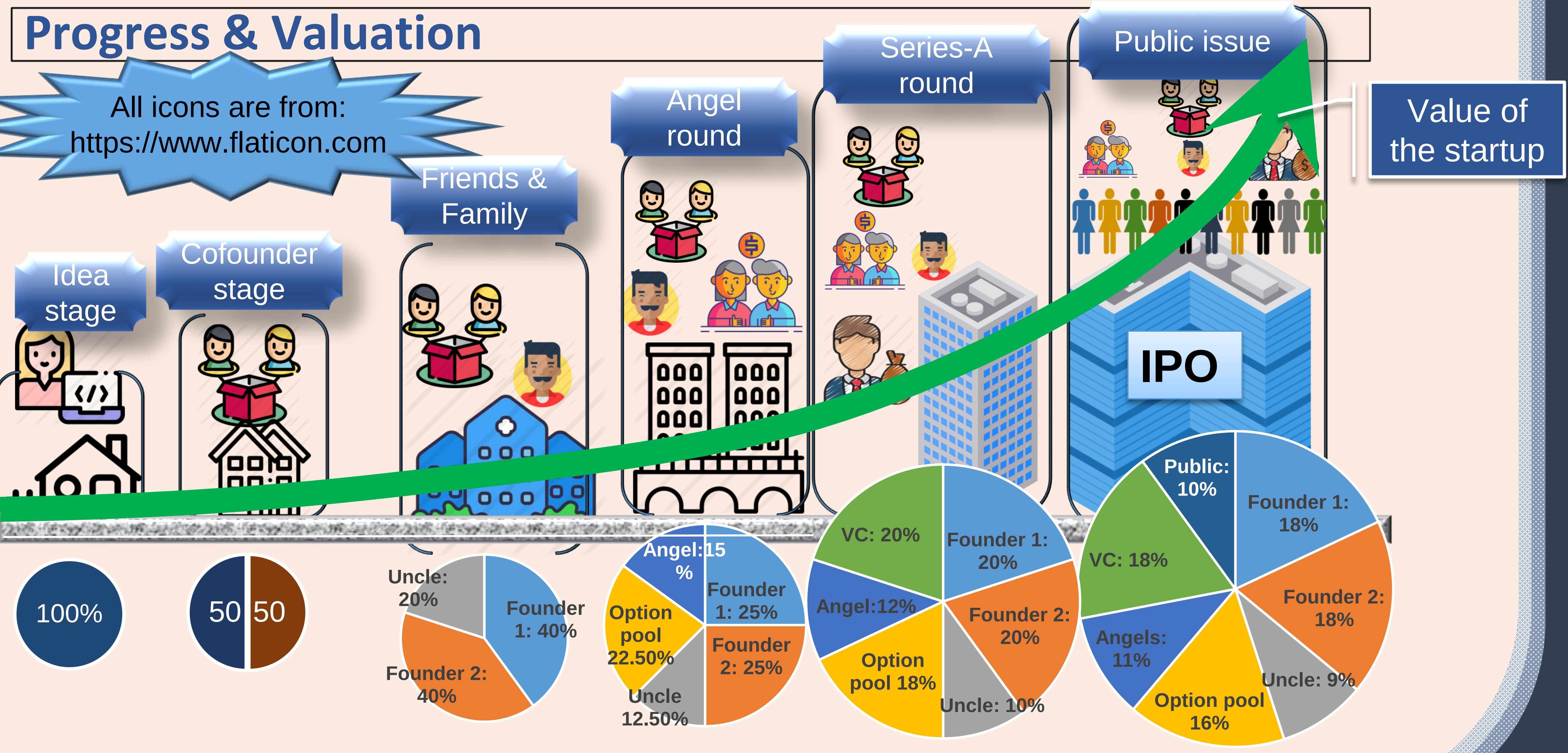

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- **Your holding in the company gets diluted as you obtain investment in the form of equity.**
- **Debt does not dilute equity, but have to be repaid with interest.**
- **Grant is the most attractive form of capital.**
- **Some private organizations also provide grant.**
  - For example: Villgro: www.villgro.org
  - Villgro is India's oldest and foremost social enterprise incubator, that supports social startups in the sectors of Agribusiness, Health, Education and Renewable energy.

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Security: In Two Contexts

Securing a debt (loan)	Securitization of assets
• Hypothecation • Mortgage • Lien • Pledge • Guarantee	• A document holding the right on a property. • A fixed deposit certificate • A share certificate (equity & preference share) • A bond certificate

You offer assets as security to secure a debt so that the lender can liquidate the assets to recover the loan in the event you fail to repay as promised.
Lenders' motivation to extend the loan depends on the value and liquidity of the assets that you pledge.
Assets other than what is financed by the loan and offered as security is known as collaterals.

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- This knowledge is important because investors' risk perception depends on the type of security that they receive.
- Furthermore, it is important to know that in the event of liquidation, the equity holders (the founders) may not receive anything if the proceeds are inadequate to meet all other liabilities.

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Seniority Ranking of Corporate Liabilities

Secured Creditors

- **Claim by the government**
- **Credit secured by collaterals (Bank loans)**
- **Subordinated (Subordinated bonds and loans)**

Unsecured Creditors

- **Unsecured (Public deposits, corporate bonds, corporate papers, trade creditors)**
- **Preference shares (Hybrid/quasi equity)**

Mezzanine

- **Preference shareholders**
- **Seed capital**

Equity

- **Equity**
- **Subsidy, grant,**

In finance, **seniority** refers to the order of repayment out of salvaged value in the event of a sale or bankruptcy of the issuer. **Seniority** can refer to either debt or preferred stock. Senior debt must be repaid before subordinated (or junior) debt.

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Types and Sources of Funds

Seniority

- **Grant, subsidy, donations (no cost and no obligation to return).**
- **Seed money (Zero to low cost, vary from grant to debt)**
- **Equity (cost obligation: dividend & capital appreciation, no repayment)**
    - Founders/promoters, accumulated surplus (profit)
    - Investors
    - Friends & relatives
    - Public
- **Preference equity (Mostly hybrid in nature: mix of Debt and Equity)**
- **Unsecured loan** (mezzanine senior to equity but subordinate to secured debt)
        - Most costly
- **Debt, Trade creditors**
    - Long-term debt
        - Banks/financial institutions, private lenders, trade creditors, non-bank finance companies
    - Short-term debt
        - Mostly banks

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Seniority of Sources (Nature) of Funds/ Seniority of Liabilities

- Seniority in the context of various types of sources of fund refers to the priority or order of payment (or repayment) in the event of liquidation of an enterprise.
- Seniority pertains to debt (loans, bonds, securities), preferred stock, various credits, and equity. Every security has relative seniority. Some securities such as bonds may be of same seniority, which is termed as pari passu.
- Say, based on court order, the assets of a company are being liquidated and the proceeds are to be distributed among all the creditors (banks and others).
- The senior most debt must be repaid before subordinated (or junior) debt is repaid.
- Preferred stock (preference capital) is senior to common stock (equity capital), which means that preference stock holders will be paid first. If anything is left after paying to preference shareholders, only then equity shareholders will be paid.

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Example

A company defaults on payment to a creditor and the court orders liquidation. How the payment will be made and will there be anything for the equity holder? Suppose, the following is the list of creditors and their receivables.

Creditors	Outstanding
Trade creditors	200
Unsecured loans	300
Bank loan	1000
Preference stocks	500
Loan on second lien (mortgage)	200
Total	2200

Liquidation proceeds:		1500	1300	2500
Bank loan	1000	1000	1000	1000
Loan on second lien (mortgage)	200	200	200	200
Trade creditors	200	200	100	200
Unsecured loans	300	100	0	300
Preference stocks	500	0	0	500
Equity holders		0	0	300

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How to Fund Your Startup?

- Bootstrapping (own sources including credit cards)
- Friends & Family
- Crowd-Funding/sourcing
- Startup competitions
- Impact Investors – Example: VillGro
- Incubators (mostly university based)
- Startup Accelerators (Surge by Sequoia Capital)
- Angel Investors
- Venture Capitalists
- Private Equity
- Bank Loans
- Advance/ Pre-payment from future customers
- Startup-Specific Credit Card: Example: LaghuUdhyami Card from IDBI
- Government Institutions – Example: DSIR, SIDBI, NABARD and MSME (NSIC)
- Indian government Startup Funds: India Aspiration Fund (IAF), SIDBI SMILE, Mudra Fund
- Government grants: visit

  startupindia.gov.in

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Our Impact

315
Enterprises incubated

₹671 Million
Seed funding deployed

84
Women-led enterprises incubated

4500
Direct Jobs Created

₹4 Billion
Follow-on funding raised

20 Million
Lives impacted

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Loan or Debt

- **Loans are primarily of two types**
  - Long-term – for capital assets (useful life longer than a year)
  - Short-term – for working capital
- **Securities are of two types**
  - Primary (charge on the assets funded by the loan)
  - Collateral (charge on assets other than those acquired with the loan)
- **Seniority of a loan or type of fund primarily depends on: whether it is secured or unsecured and is it primary or subordinated debt.**

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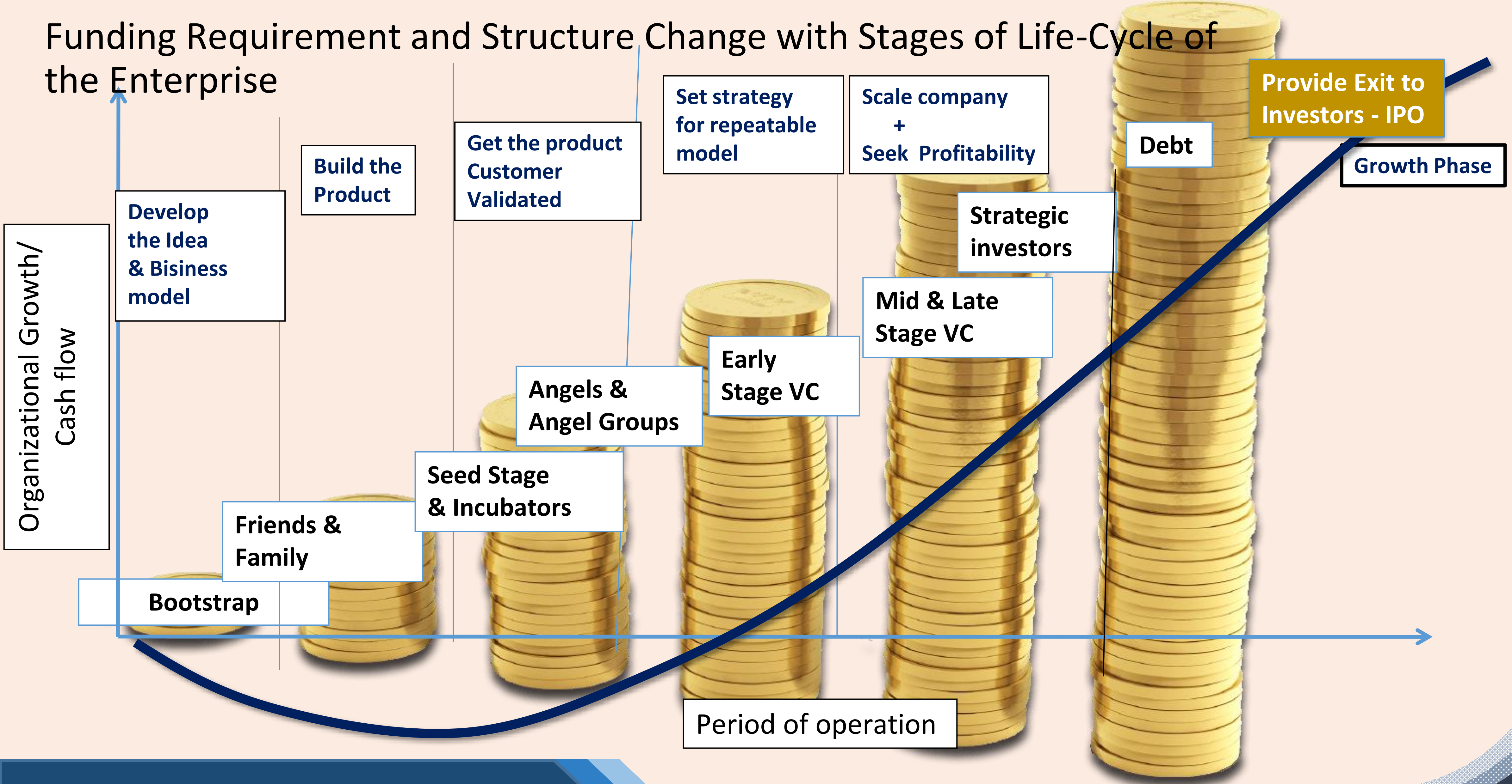
Funding Requirement and Structure Change with Stages of Life-Cycle of the Enterprise



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What Is Dilution

- Extent of dilution in a round of funding depends on valuation of your startup.
  Value of your startup goes up:
  as you move forward with development of your product,
  and as the risk perception on the success of your venture reduces.
- At idea stage, success appears uncertain. Value is very low.
- As you get your product customer validated, risk of success appears to reduce and valuation becomes higher.
- Early investment leads to higher dilution of equity because of lower valuation (though it may help in accelerating development), whereas, delay in raising money may lead to loss of opportunity (though it may help restrict dilution).

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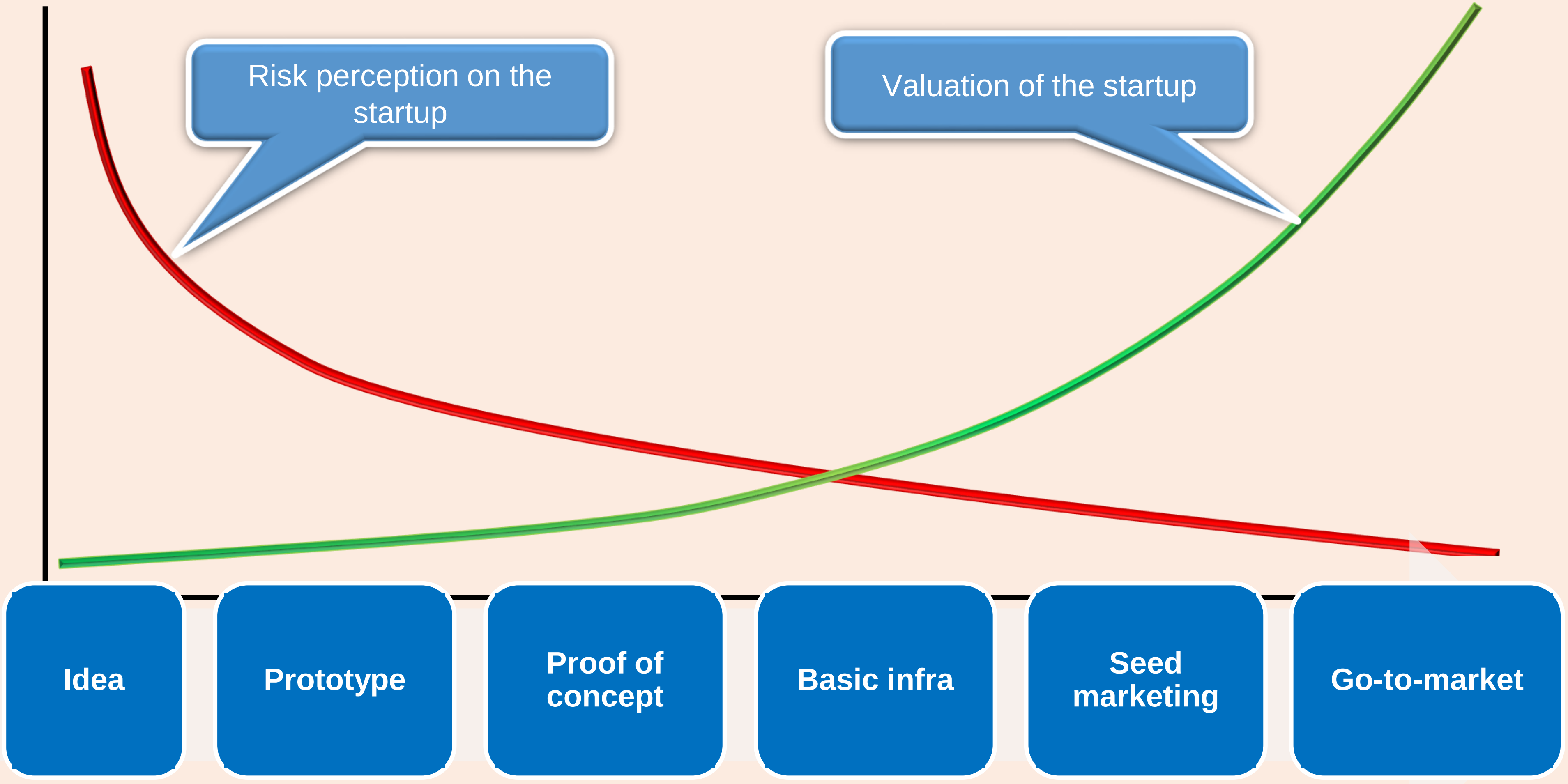
As you gain traction, risk reduces and valuation goes up



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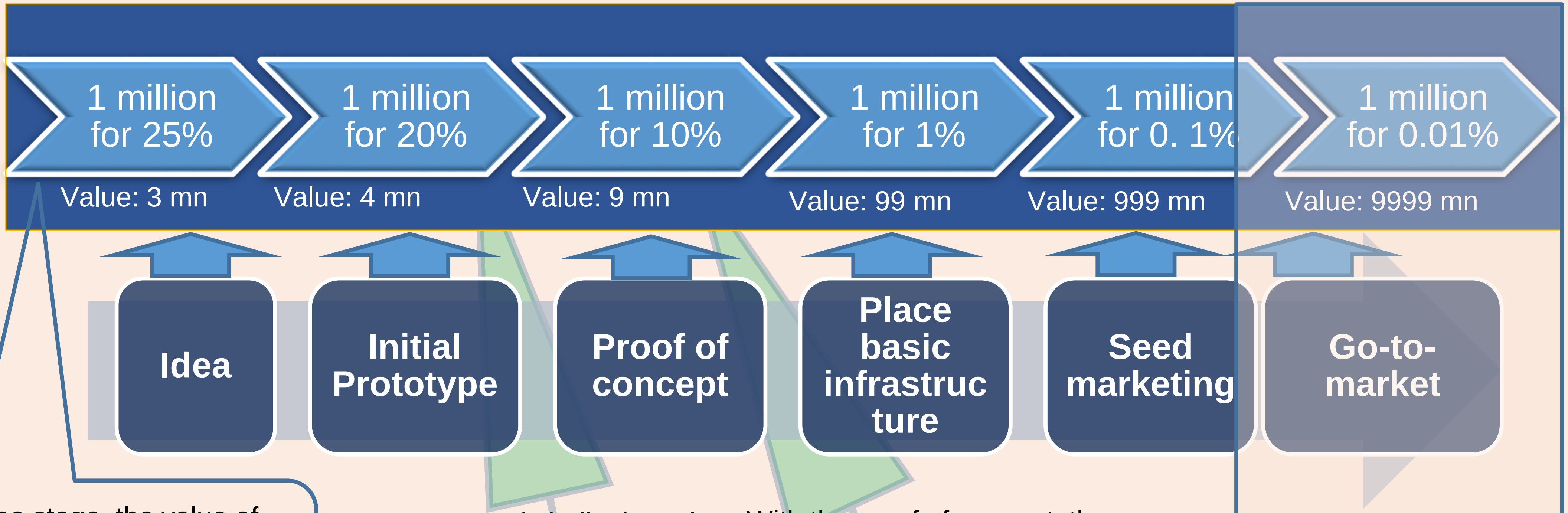
Understand Dilution

Suppose you raise ₹ 1 million from angel investor in exchange for equity. Likely dilution of equity for raising this sum at different stages of your start up?



At idea stage, the value of the company is low, say ₹3 million. The angel would invest ₹ 1 million for 25%

As a prototype is built, the value of the company grows to, say ₹4 million. The angel would invest ₹ 1 million for 20%

With the proof of concept, the value is much greater, say ₹9 million. The angel would invest ₹ 1 million for 10%

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Dilution and Speed of Development
To obtain investment or not to obtain investment

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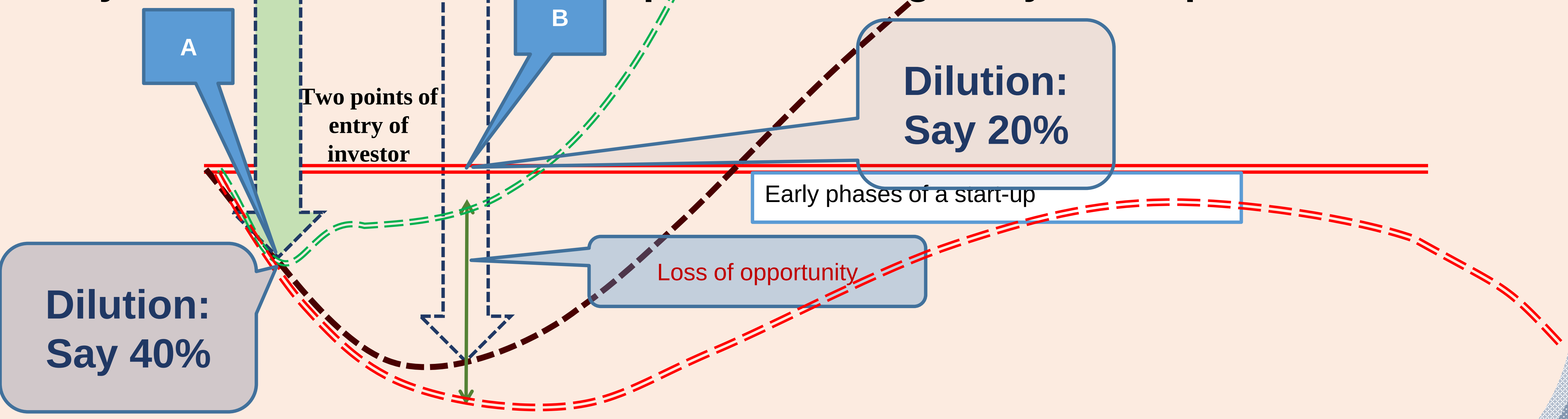
- Consider two scenarios: A. Say you plan to delay the fund raising till the point B hoping that the cash flow will follow the brown dotted line.
- But if your burn rate is more than you expect, your cash flow may actually follow the red dotted line.
- B. Suppose you raise fund at point A. With more fund at your disposal, you move in an accelerated pace and things may take a positive turn.



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When you can say you are ready to raise fund?

- **Promising concept**
- **Validated by early customers**
- **You are sure that additional fund can take you to the next phase.**
- **Typically, angels or seed stage VCs provide this kind of capital.**
- **But they prefer to invest in ventures located within particular area.**
- **They usually take an active role in the ventures they fund.**

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The Making Of BYJU'S: The World's Most Valuable Edtech Company

- "There were no investors in the beginning," Byju says candidly. "And, that was very useful. This helped us patiently create enough, in-depth and comprehensive content. We initially prepared content for 8th to 12th-grade students. We kept on creating content yet we didn't launch them before 2015."

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Understand Debt, Equity, & Preference Shares

Equity & Liabilities		
Equity		
Equity share capital		Voting rights, % control of the venture, dividends
Reserves & Surplus		Belongs to the owners but no other rights
Preference share capital		Quasi equity, have features of both debt & equity Compulsory dividend provided there is surplus
Liabilities		
Long-Term Loan		Debt: Have to pay interest. Repayment by installments. Interest is to be paid on monthly basis on outstanding.
Short-Term Loan		Debt: Have to pay interest. Repayment on demand not by installments. Interest is to be paid monthly on weighted outstanding balance.
Accounts Payable		Your bargaining power.

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Investors Prefer to Invest in Preference Shares or Convertible Debt

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Salient Distinctions between Preference Shares and Common Equity Shares

Preference Shares (PS)	Common Equity Shares (CES)
Dividends are paid before paying to common equity holders.	Dividends are paid out of surplus/net profit after paying to preference share holders.
Dividends are accrued and paid when surplus is generated.	Varies with surplus and declaring such dividend is prerogative to BoD.
Rate of dividend is fixed.	Dividends are paid out of surplus and is never accrued for paying in future.
Convertible preference shares may be converted to equity shares.	A company may buy-back CES.
PS holders do not have voting rights in management decisions.	CES holders participate in management through their right to vote on resolutions.
PS may be redeemed.	The entire surplus after meeting other liabilities is distributed among CES holders. Unlimited upside.
In case of liquidation or bankruptcy, PS holders are paid before CES. Limited upside.	

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Equity Funds

money is invested in the business in exchange for part ownership

- **Exit through IPO or acquisition**
- **Cost: No interest, dilution**
- **Part ownership**
- **Mentoring and supervision**
- **Security: No security**

Debt Funds

borrowed money, which is paid back over time with interest

- **Repayment**
- **Cost: Interest and charges**
- **No ownership**
- **Covenants**
- **Security: Charge on assets plus collaterals**
- **Claim on assets senior to the common share holders**

Government grant – No cost, in some cases no dilution, non-returnable
Hybrid securities (preference share/stock/capital) – Features of both equity and debt
Convertible bond/stock/

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- Bootstrapping
- Crowdfunding

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Bootstrapping

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Bootstrapping

- The dictionary meaning: "get (oneself or something) into or out of a situation using existing resources."
- Some say that bootstrapping is to pulling oneself up by own bootstraps.
- Arrange money from any source other than formal investors and lenders.
- It starts with personal savings, cutting costs to minimum, sharing office space, traveling by the cheapest option, hiring intern instead of regular employees, getting work done by freelancers, using used instead of new machines, minimize personal expenses avoiding unnecessary expenses, trying to obtain payment in advance or as early as possible, applying for grant wherever possible, etc.

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Funding by Bootstrapping

- personal savings
- sharing office space
- traveling by the cheapest option
- hiring intern instead of regular employees
- getting work done by freelancers
- using used instead of new machines
- applying for grant wherever possible
- trying to obtain payment in advance or as early as possible

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Crowdfunding

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Crowdfunding

Crowdfunding

- The global crowdfunding industry generated about $34.4 billion in capital last year.
- The biggest player in the Indian market is ‘Milaap’, which has raised the equivalent of over US$12.7m through donations and microloans. Spread across close to 50,000 projects, it has averaged around just $260 per project.
- Ketto charges 5 to 8% of the amount raised.

- https://crowdsourcingweek.com/blog/indias-top-ten-crowdfunding-platforms/

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Crowdfunding – Fund Raising Through a Online Platform

- **Refers to raising money from scores of individuals or donors to fund the development of a product or service and take it to market through setting up a startup.**
- **Some details about the product or service, progress made and the planned roadmap are shared with people for them to make an informed decision to give the money.**

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Reward-Based Crowdfunding

- Entrepreneur propose to reward potential investors / donors with their upcoming product or services or certain benefits
- If the founders are in businesses such as apparel, bags, jewelry, beauty products, lifestyle products and personalized stationery, they get valuable feedback in the process of response.

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Other Types of Crowdfunding

- **Equity-based Crowdfunding – not legal in India**
- **Lending-based Crowdfunding**
- **Pre-order Crowdfunding**
- **Donations Or Social Crowdfunding**

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- India has seen a rapid growth of crowdfunding platforms.
- The quantum of money raised through these growing number of platforms has also grown substantially.
- Besides the much needed capital, a startup may receive vital feedback about the acceptability or attractiveness of their product from a large audience with limited efforts early on.

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	Total Raised	Supporters	Platform Fee	Payment Fee	Important features
GoFundMe	$5B	50M	0%	2.9%+$0.30	Protects against fraud
INDIEGOGO	$1.5B	10M	5%	3.0%+$0.30	Do
KICKSTARTER	$3B	15m	5%	3.0%+$0.20	No
WISHBERRY					
FUELaDREAM					
FUNDABLE					
CATAPOOOLT					

Some Crowdsourcing Platforms

Crowdfunding/ Crowdsourcing of Capital

Type of crowdfunding model	1. Personal fund raising 2. Business or project fundraising 3. Charity/non-profit crowd funding
Features and performance	1. How fast you can access
Trust and fraud protection	1. All crowdfunding websites are required to use encrypted Secure Socket Layer (SSL) technology to process payments 2. Reporting fraud should be easy.
Customer support	1. 24/7 email support.
Fees	1. Mostly between 3 to 5%. But some platform charge up to 30%.

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Advantages & Disadvantages of crowdfunding

Advantages

- Usually easy to raise fund
- The crowd does not interfere
- Usually not associated with dilution
- Validation of product or service

Disadvantages

- Usually requires a social dimension.
- Have to build the story to resonate with investors
- Risk of sharing the product idea to public too early and run the risk of me-too copy-cat competition
- Not suitable for B2B

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Crowdfunding in India

- **Any kind of fund raising from the public is to be authorized by SEBI (Securities & Exchange Board of India).**
- **SEBI is yet to put in place formal regulatory framework for crowdfunding.**

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Microfinance

- ‘Rang De’ has been providing microloans online. ‘Rang De’ has been funded by the World Bank through ‘Development Marketplace’ (DM). ‘Rang De’ takes 2% of the money lent.
- ‘Milaap’ – online microlending portal.
- ‘Fuel A Dream’ charges about 10.3% as platform fees.
- ‘Wishberry’ charges a one-time non-refundable fee of USD 52.37 plus 10% commission of the funds raised.
- ‘Catapoolt’ charges around USD 23 as a project submission fee along with 10-15% of the total funding raised.

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Incubation

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Incubation

- The dictionary definition of incubation is the process of keeping something at the right conditions for it to desirably mature.
- A mother bird sits on her eggs to provide the warmth for the eggs to mature and hatch.
- In case of diseases, it is the time from the moment of exposure to an infectious agent and manifestation of the symptom. Incubation period of chickenpox is 14-16 days, just as the coronavirus.

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Incubation and Incubators

- The word in startup context is a take-off from the meaning in biology.
- Incubators are an ecosystem of startups where the basic infrastructures necessary for healthy unhindered progression of startup ideas into commercial ventures are provided at subsidized rates.
- Incubators provide space, utilities, connectivity, mentors, and considerable amount of seed money.
- Incubation centers are mostly created by academic institutions such as IITs, IIMs, universities, and engineering colleges and by some corporate entities.

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Incubators

- **Incubation centers house several startups at one place where they can share infrastructures, tools, expertise, and co-develop product in a synergistic process for faster progress at the early stage.**
- **Once any startup is ready to go-to-market, it is expected to move out to formal office of their own.**
- **Seed money provided by incubators are either grant or soft loan repayable in easy terms.**

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Accelerator

- A startup accelerator, also referred to as seed accelerator, is an organization who runs programs to support, in an accelerated pace, early-stage, growth-driven startups through
  - mentorship,
  - guidance,
  - networking, and
  - with small fund.
- It runs the program at its own space.

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Accelerator

- The acceleration programs run for a fixed and short durations ranging from 3 to 6 months.
- Most of the acceleration programs run as part of the cohort of companies who can learn from each other and collaborate for synergies.

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Accelerator

- The accelerator select the companies for the program based on potentials, provides resources, invites experts for delivering lectures & mentoring, invites investors for both advising and funding the supported companies.
- The accelerators usually charge the accelerated companies some equity that may range between 3 to 8%.
- Each program ends with an event referred to as “graduation” or “demo day” when startups pitch before a group of inventors and experts.

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Accelerator

Accelerators focus on one technology domain at a time for synergy.

Some of the preferred areas are tech hardware, AI and biotech, though all emerging technology domains are of interest.

Famous accelerator such as Plug and Play Tech Center in Silicon Valley helped Google, PayPal and Zoosk transform their ideas into businesses.

Y Combinator mentored Airbnb, Dropbox and Reddit and almost a thousand others.

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Established Accelerators are Highly Demanded:

Y Combinator and TechStars have application acceptance rates between 1% and 3%.

The focus is on teams, not on individual founders.

Accelerators tend to think that it is too difficult for one person to handle all the work associated with a startup.

Accelerator

- **Venture capital firm Sequoia Capital India has set up its startup accelerator programme called Surge in February 2019.**
- **The Surge picks up 10–20 early stage startups twice every year for mentoring.**
- **Surge invests $1 to $2 Mn in each startup.**
- **Byju Raveendran and Ritesh Agarwal are some of the mentors in Surge.**

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https://www.surgeahead.com/ landing page

Welcome to Surge, a rapid scale-up program for startups in India and Southeast Asia.

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https://www.surgeahead.com/ landing page

Surge combines $1 million to $2 million of seed capital with company-building workshops, global immersion trips and support from a community of exceptional founders.

Our Goal:

To supercharge your startup. And give you an unfair advantage, right out of the gate.

Log 9 Materials: Revolutionizing the energy sector with aluminum fuel cells

- 11 Jan'20

Log 9 Materials (Surge 02 2019) is leveraging its expertise in graphene nanotechnology to build and scale fully recyclable, emissions-free aluminium-air fuel cells that can power cars, homes and communities.

Estimating Requirement of Fund

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Project Cost

Year	1	2	3	4
Investment in land and building	10			
Investment in machinery	100			
Other expenses such as electrical connection (transformer), licenses, approach road, disposal arrangement	20			
Investment in trial production	5			
Contingency	10			
Total investment in fixed assets	145			
Turnover	200	250	300	400
25% of turnover	50	62.5	75	100
Working capital requirement (Turnover method)	50	62.5	75	100
Project cost	190			

Working Capital

Fixed Capital

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Working Capital (WC): Holding Period Method

		Annual Cost	Holding Period	Value thereof
Raw-Materials	Purchase cost plus transportation.	600	1 month	50
Goods-in-Process	Cost of production: Raw materials, labor, interest	720	0.5 m	30
Finished Goods	Cost of production: Raw materials, labor, interest,	840	1.5 m	105
Receivables	Cost of sales: Raw materials, labor, interest, selling and administrative expenses.	1200	2.5 m	250
Creditors	Total requirement of WC	540	1 m Total	(–) 45 370

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- **Requirement of Fixed Capital Investment:**
- **Requirement of Working Capital Investment:**
- **Margin Money to be brought in by founders:**

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Funding Through Equity

Issues

- **Pros**
  - No interest payment obligation. [If you raise ₹100 of debt (loan from bank) you have to pay ₹15 of interest in a year: assuming rate of interest is @ 15%. Raise the same money through equity, you don't have to pay any interest].
  - Comes with mentoring by the angels.
  - No repayment of the money received.
- **Cons**
  - Dilution of holding by founders
  - Payment of dividend
  - There may be undesirable interference by investors.

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Sources of Equity

- Founders' contributions to business are mostly in the form of equity., though at times, founders can lend money to the company as unsecured loan or preference capital.
- Incubator
- Accelerator
- High Net-Worth Individual
- Impact investors
- Business Angels
- Venture Capital Funds
- Private Equity Fund

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Project Report

- Need for fund (create long term and short term assets to maintain business operation)
- Sources of financing (equity, debt, and grants)

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- Business Angel – Angel Investor
- Venture Capital fund – VC
- Structuring a deal

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Business Angels or Angel Investors: Who Are Angel Investors?

- An angel investor is an individual who has surplus fund and provides capital to an early stage startup in exchange for part ownership. Invests personal capital in start-ups
- Angels usually support at the early stage when the risk of failure is higher compared to more matured stage.
- Usually they are experienced in particular domain or new venture creation in general and have a good perspective of the likely success of a venture.
- They take calculated risks, mentor the ventures closely, take all necessary actions for it to succeed.

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Who Are Angel Investors?

- **Business Angels are individuals, invest personal capital in start-ups**
- **The prototypical business angel …**

  is in the middle age; has high income and wealth; is well-educated;

  has succeeded as an entrepreneur;

  is interested in the start-up process.
- **Business angels are valuable because of their willingness to make relatively small investments, giving equity funding to a start-up needing about ₹ 2.00 million to ₹ 10.00 million.**
- **Venture capitalists usually fund above ₹ 50.00 million per unit.**

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- In recent time, angels also work in group or in network / consortium to neutralize risks.
- Individual members may bring in key skills and connections.
- In the last 50 years the number of angel investors has greatly increased.
- There is no set upper limit that an angel would like commit per venture.

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Angel Investors

Usually successful entrepreneurs

Have surplus fund

Experts in some field

Want to enjoy the excitement of venture creation

Ready to absorb high calculated risk

Identify potentially winning startup

Closely mentor

Supplement required key skilla

Connect with market

Connect with other investors

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Factors to consider while raising money: When and How Much to Raise?

- Conventional wisdom has it that entrepreneur should bootstrap and leverage every strand of non-diluting funding source to increase value in the business before raising fund from angels.
- But understand the values that BA can bring. The knowledge, experience, and connection with market & other investors.
- Look for seed fund (seed round) to cover beta testing of prototype (public test) and generate the first MVP.
- Amount in one round should be enough to take the venture to the next milestone. High-growth venture may raise more money to avoid delay in processing next round of funding.

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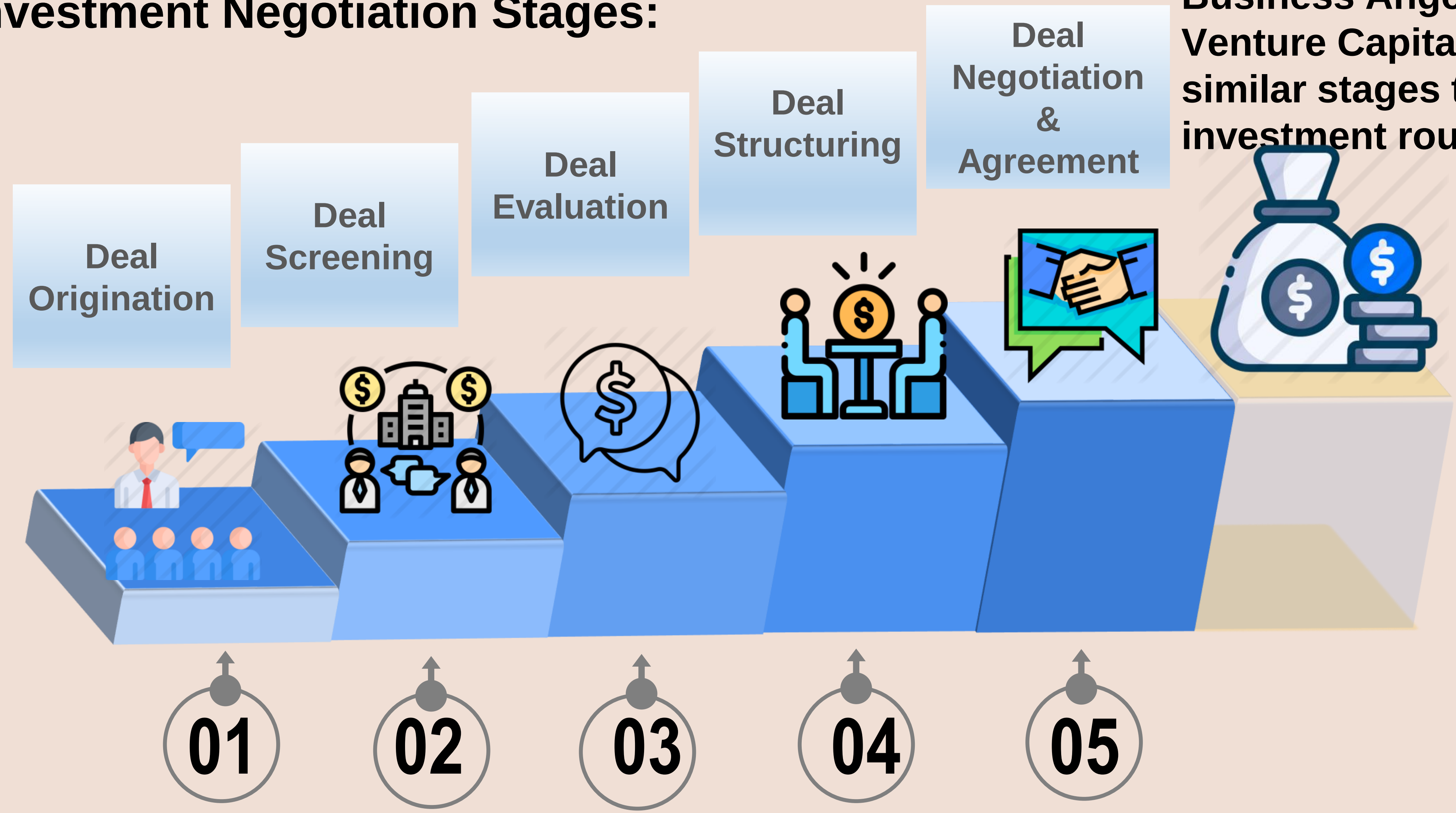
Investment Negotiation Stages:

Business Angel (BA) and Venture Capitalist (VC) share similar stages to close an investment round



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Common Reasons for Rejection of Investment Proposal by Angel

- **Business located outside the geographical reach of BA investors.**
- **Stage and type of venture: for example, long pre-revenue and product development phase.**
- **Unattractive sector or market: for example, low margins and high volatility (retail, hotels, restaurants, property); highly competitive or high technical risks or both (e.g. consumer goods, telecom, clean tech, drug development, computer hardware).**

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Other Common Reasons for Rejection

- Limited scalability or growth potential: for example, traditional service business.
- Weak business model: unclear value proposition; no clear customers; weak customer channels; no "go-to-market" strategy; insufficient profit margins; lack of exit potential.
- Size of initial investment and estimated total funding requirements exceeds capabilities of investor.
- Management team is weak, unconvincing, or has poor reputation.
- Investment is not eligible for tax relief (for example: the new Start-up India incentive scheme).

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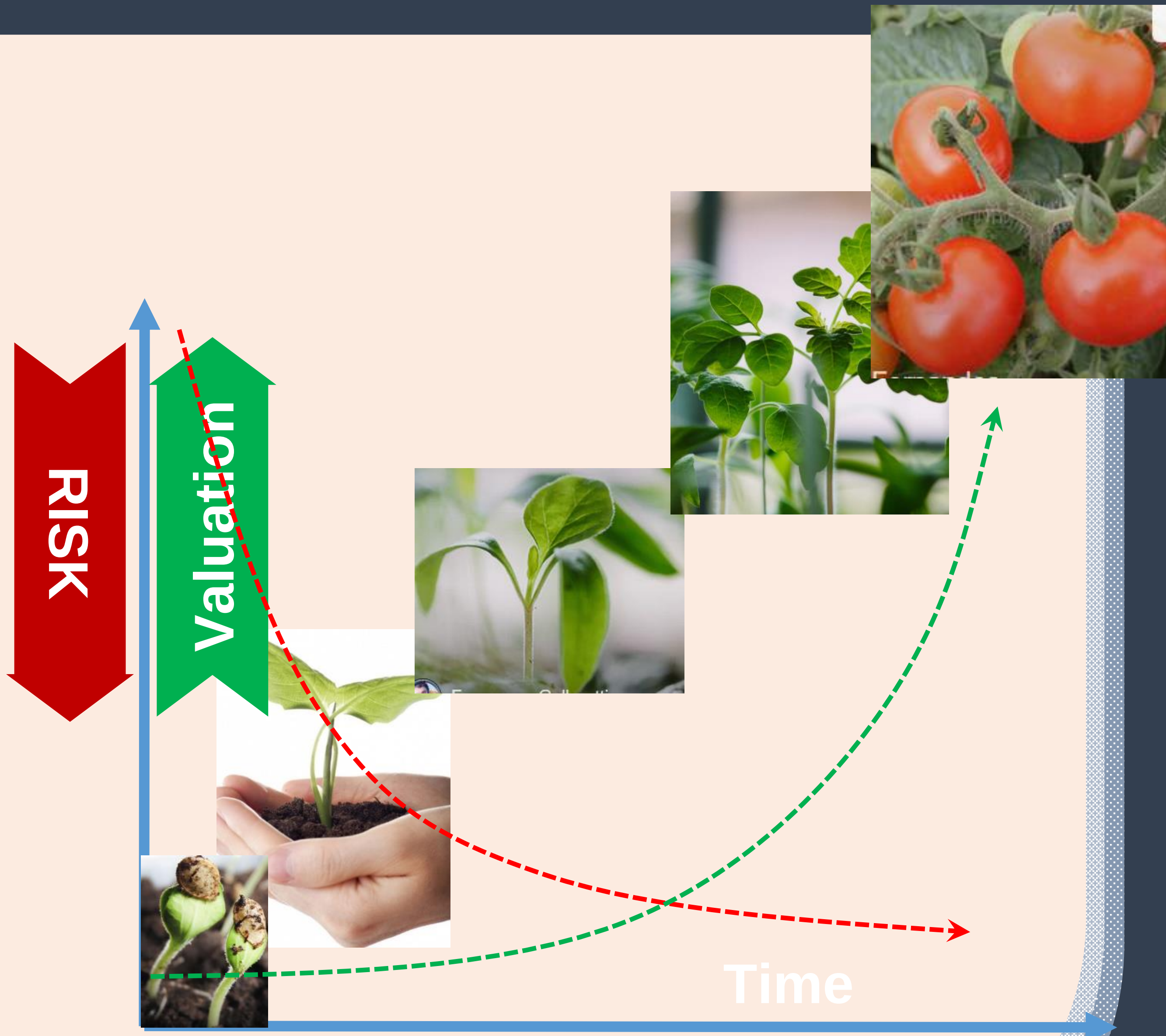
De-Risking The Deal!

Preserve equity by de-risking the deal

- You only raise enough money to get to the next proof point.
- At early stage: technology & team risk.
- As you go-to-market: execution risk, market acceptance risk, team
- Growth phase: risk associated with cost of manufacturing, marketing channel, skilled manpower, adequate finance, competition.



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Deal Structuring

Term Sheet

If investors are happy at the end of the presentation they make formal offer in the form of “Term Sheet”.

The conditions in the term sheet are non-binding on investors.

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Term Sheet

- Basic terms/conditions of an investment at the minimum:
  – Pre-money valuation
  – Amount of investment
  – Form of investment
  – Use of proceeds
  – Term and mode of exit
- Non-binding on investor
- Exclusivity or no-shop clause

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Term Sheet

- Terms in the term sheet are negotiable but with fairly significant limitations.
- Make deals based on future market and not based on past deal.
- They are hard bargainers and may be posturing.
- Be consistent and don't bluff; you may meet again; leave ego out of the deal.
- Try to have a short time horizon before it gets stale.

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Due Diligence

- You, your team and your company are under a microscope.
- Legal, financial and strategic review of organizational structure, history, contractual relationships and documents.
- Will be tedious, frustrating, time consuming and costly.
- Key to success: preparation and cooperation.

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Due Diligence – Art and Science

The "Art"

- – What to ask, how to ask, when to ask.
- – DD team is on a "search and destroy" mission.
  - Search for problems.
  - Destroy (eliminate) concerns or fairly allocate.

The "Science"

- – Comprehensive list of questions to ask.
- – System to organize and analyze data provided.
- – Quantitative analysis of risks uncovered.

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What are They Looking for?

- Overdue tax liabilities.
- Inadequate systems.
- Related-party transactions.
- Unhealthy reliance on customers/suppliers.
- Overdue accounts or unrecorded liabilities.
- Immediate need for major expenditures.

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Define Venture Capitalist and Venture Capital

- A venture capitalist (VC) is a private equity investor who pool funds from various investors and provides capital to companies exhibiting high growth potential in exchange for an equity stake.
- Venture capital is a form of risk capital that fund startup companies and small businesses that are believed to have long-term growth potential or companies that have grown quickly and appear poised to continue to expand.
- Venture capital generally comes from well-off investors, investment banks and any other financial institutions.

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Angels and VCs

- **An angel investor works alone or in group, while venture capitalists are part of a company.**
- **Angels invest smaller sums and investment decisions are quick.**
- **They have different responsibilities and motivations; Angel do get personally involved, but VCs usually get inextricably associated.**
- **Angel investors only invest in early-stage companies. VCs look for proven track record.**
- **They differ in due diligence. VCs are more formal & meticulous.**

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Preference Shares

- Preference shares represents quasi equity capital.
- It has features of both equity and debt.
- It does not give voting right to the holders.
- Fixed rate of dividend, but are performance-driven.
- It carries preferential rights over ordinary equity shares in sharing of profits and also claims over assets of the firm.
- Thus, it is ranked between equity and debt as far as priority of repayment of capital is concerned.

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Pre-money And Post-Money Valuation

Pre-Money	Angel-1 brings in	Post-Money value
₹5,00,000	₹10,00,000	₹15,00,000

Founders' holding: 5,00,000/15,00,000 = 33.33%
Investor's holding: 10,00,000/15,00,000 = 66.67%

Pre-Money	Angel-2 brings in	Post-Money value
₹100,00,000	₹45,00,000	₹1,45,00,000

Percentage holding is based on negotiation. It is not calculated based on investment committed
Investor's holding = 45/145 = 31.03%
Founder & Angel-1= 68.97%

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Distribution of Money in the Case of Exit

- Usually, money is distributed based on percentage holding.
- But some BA and most VCs structure the deal in a manner that they receive the lion's share of the sales (of the company) proceeds.
- The distribution depends on three terms:
  1. Liquidation preference
  2. Participation
  3. Forms of securities

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Two Features of Preference Shares

- **Liquidation preference (how they decide to get their principal money back)**
  - **Options**
    - no liquidation preference – no principal repayment.
    - 1X liquidation preference: get exactly what they invested.
    - nX liquidation preference: getting 'n' times the money they invested.
- **Participating & Non-Participating (receiving money proportional to % holding in the venture)**
  - **Both options are available concurrently.**
  - **Say 2X** liquidation preference AND participating preference share holder: Investor receives 2 times the money they invested and receives part of the remaining money proportionate to their holding in the venture.

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Liquidation Preference

- It states how the proceeds from liquidation event such as trade sale, initial public offering, or dissolution of company will be distributed.
- All VCs and some BAs provide this clause.
- In liquidation events, investors will be entitled to their investment and a minimum return ahead of founders.
- VCs will often set a liquidation preference such 1X, 2X, or 3X.
- Only after distribution of proceeds of liquidation to preferred shareholders—in accordance with respective liquidity preferences—the remaining proceed (if any) is distributed among common shareholders.

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Participating Preference Shares

- Preferred share (non-participating) – Investors get their money back.
- Preferred share with liquidity (1X, 2X or 3X) preference – Investor receives 1X (2X or 3X) times their money.
- Participating preferred equity with or without liquidity preference. Participating means if they hold 25% equivalent of equity in preferred stock they receive back their investment plus pro rata (25%) of the remaining money.

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Participating Preference Shares with assumed 1x liquidation preference

- Participating preferred shareholders not only receive back the amount originally invested along with unpaid dividends upon liquidation, but also part of the remaining assets as if they held common shares.
- A new venture raises ₹ 50 million at a pre-money valuation of ₹ 50 million with equity percentage split 50%-50%.
- The venture realizes a liquidity event and is acquired for ₹ 250 million.

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Example cont'd.

- The BA/VC holding participating preferred stock will receive their original investment of ₹ 50 million (liquidation preference) plus 50% of the remaining amount as they hold 50% ownership (participating) in the company.
- The entrepreneur would receive ₹ 100 million.
- 250M – [50M + 0.5X200)] = 250M – 150M = ₹ 100M
- [If BA/VC held "convertible preference shares", post conversion, the BA/VC and the entrepreneur would receive 50% of the exit proceeds or ₹ 125.5 million each.]
- However, with lower exit value, the share of the entrepreneur will go down faster.

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Anti-dilution Clause

- **Usually, the valuation of the company is expected to go up moving forward and thus, the per-share value. But, there may be situation when the valuation goes down.**
- **If the investee company issues stock at a price lower than what the existing shareholders paid, the former has to compensate the later by issuing new shares at a price such that the average price of their holding is not more than that of the subsequent round of funding.**
    1. **Average acquisition price**
    2. **Percentage holding**

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Anti-dilution Provision

- A company avails investment from an angel ABC by issuing preference shares. Subsequently, the company issues preference shares to another investor XYZ at a lower valuation, the existing shareholders i.e. ABC has the right to be compensated by granting additional shares at a price such that the average price of acquisition is not more than the new issue price.
- The existing investors may also insist on maintaining percentage holding in the company through fresh investment along with the new investors.
- Antidilution may be so structured that it would be automatically triggered in case of failure to meet milestones.
- If the investors do not subscribe to new equity, the antidilution protection may not be available.

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Other Preference

Drag-along provisions – it grants investors the right to compel the founders and other shareholders to vote in favor of the sale, merger, or other “deemed liquidation”.

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An Example of Preferred Shares

- **A BA group invests ₹ 50 million for 25% of a venture. The venture is sold for ₹ 100 million.**
- **Case I: no liquidity preference**
  - The BA group would receive ₹ 25 million and lose 50% of their original investment. The entrepreneur or common shareholders would receive ₹ 75 million.
- **Case II: BA group has a 1X liquidity (non-participating) preference**
- The BA group would receive ₹ 50 million. The entrepreneur or common shareholders would receive the remaining ₹ 50 million.
- **Case III: BA group negotiates a 1X ‘participating preference’**
  - The BA group receives their ₹ 50 million plus another ₹ 12.5 million (25% of the remaining ₹ 50 million). The entrepreneur or common shareholders would receive only ₹ 37.5 million.

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Another Example of Preferred Shares: Further clarified.

- A BA group invests ₹ 50 million for 25% of a venture. The venture is sold for ₹ 100 million.
- Post money valuation: 50M/0.25 = 200M
- Premoney valuation = 200M – 50M = 150M
- Case I: no liquidity preference
  - The BA group holds 25% of equity in the company. With no liquidation clause, they would receive only 25% of the proceeds: i.e. 25% of 100 M = ₹ 25 million.
  - Their original investment is ₹ 50 million. So, they lose 50% of their original investment.
  - The entrepreneur or common shareholders would receive ₹ 75 million.

Repeat slide: may ignore

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An Example of Preferred Shares Further clarification… contd.

Repeat slide: may ignore

- **A BA group invests ₹ 50 million for 25% of a venture. The venture is sold for ₹ 100 million.**
- **Post money valuation: 50/0.25 = 200**
- **Premoney valuation = 200 – 50 = 150**
- **Case II: BA group has a 1X liquidity preference (but not participating)**

- The 1X liquidation preference means that the BA group would receive one times the investment, which is equal to 1X50 = ₹ 50 million.
- Since it is not participating preference shares, the BA does not get a share of the remaining money.
- The entrepreneur or common shareholders would receive the remaining ₹ 50 million.

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An Example of Preferred Shares Further clarification … contd.

Repeat slide: may ignore

- A BA group invests ₹ 50 million for 25% of a venture. The venture is sold for ₹ 100 million.
- Post money valuation: 50/0.25 = 200
- Pre-money valuation = 200 – 50 = 150
- **Case III: BA group negotiates a 1X liquidation 'participating preference'**
  - The 1X liquidation clause gives the BA: 1X50 = ₹ 50 million.
  - The Participating clause gives the BA group 25% of the remaining money of (100 – 50 = 50) = 50 X 0.25 = 12.5 M.
  - The founders receive the remaining 37.5 M.

… contd. Case IV: Suppose the VC has a 2X 'participatory liquidity preference' in the above case:

- On liquidity event, the VC will get 2 times its investment plus their percentage equivalent of the rest of the money.
- In this case, VC gets 2 times 50 M, i.e. 100M plus 25% of the rest, which is zero.
- The founders and employees holding equity get nothing (the valuation 100M, whereas their holding is 75%).
- Therefore, it is not percentage holding that matters. One has to read between lines.

Repeat slide: may ignore

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In the above example, let us change only the value at which the company is sold and see how the money is distributed:

- Suppose, the venture is sold for ₹400M, 2X participatory liquidity preference would give the BA:
- 2X liquidation gives 2 times the investment = 2 X 50 = ₹100M
- Participatory clause gives the BA 25% of the remaining amount of 300M = ₹75 M
- Thus, total receipt by BA = 100 + 75 = ₹175M.
- The founders would receive the remaining sum of ₹225M (400 – 175)

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Increase the value further and see the shares of proceeds

- Suppose, the venture is sold for ₹1000M, 2X participatory liquidity preference would give the BA:
- 2X liquidation gives 2 times the investment = 2 X 50 = ₹100M
- Participatory clause gives the BA 25% of the remaining amount of 900M = ₹225 M
- Thus, total receipt by BA = 100 + 225 = ₹325M.
- The founders would receive the remaining sum of ₹675M (1000 – 325)M

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- **Moving forward, all convertibles get converted.**
- **Preference shares and convertible debts get converted into equity shares.**
- **All that the investors have is the percentage holding in the company and they received proportional amount in liquidation event.**

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- Debt fund
- Funding for innovation
- Government schemes

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Convertibles

- Convertible debt – investment made as debt is subsequently converted into equity, usually preferred equity, when the investee company raises the next round of funding.
- The valuation is determined by the next round of investors.
- Depending on the risk perception, discount may be allowed on valuation during conversion to shares - roughly in the range of 10% to 30% strictly based on the terms in the term sheet.

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Example

- An angel (Angel 1) agrees to invest ₹ 6 million in a startup (say ABC) as convertible debt and negotiates a 20% discount.
- The meaning of the above is that the debt will be converted into equity at some future date at a price that is less than 20% of the price at which the company will issue shares to another investor(s).
- Suppose, during the next round of financing a VC (say VC 1) values ABC at ₹ 100 per share (par value or face value of Rs. 10).
- A discount of 20% is allowed to 'Angel 1' on the price of ₹ 100 per share. i.e. the 'Angel 1' will be able to covert ₹ 6 million into equity shares at a valuation of ₹ 80 per share.
- So 'Angel 1' will receive ₹6M/₹80 = 75,000 shares of the company.

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Convertible Debt

Advantages and Disadvantages of Investee Company

Advantages	Disadvantages
• Funding does not dilute equity. • Can avoid estimating pre-money valuation. • Chances of lower dilution after value accretion. • Can avoid bias of earlier valuation when approaching to subsequent investors. Avoid down round. • Less processing and quick disbursal. • Investor may opt not to convert	• May have to pay interest on debt and stress cash flow. • May lead to higher dilution for the same amount of fund if it fails to meet performance milestones. • Higher discount rate may lead to higher dilution. • If there is ‘cap’ on premoney valuation, the investee company may not avoid dilution. • No voting right

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Convertible Debt with Cap

In case of very high valuation by a subsequent investor, the conversion of debt into equity may be at a high price (even after discount), leading to smaller holding by the original investors than anticipated, who actually contributed to the growth of the business.

Therefore, a maximum value may be fixed at which the debt will be converted.

- In the example above, suppose the 'Angel 1' originally puts a cap of ₹50 per share for conversion of debt to equity. This means, the company has to convert debt of 'Angel 1' into equity at price
  below or equal to ₹50 though shares are being offered to the 'VC 1' at ₹100 a piece.
- Suppose, 'VC 1' is being offered equity shares at ₹40, 'Angel 1' will receive the same share at 20% discount, i.e. @₹32.

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Supports from the Government through Various Schemes

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Startup in India

An entity is defined as a startup if its headquarter is in India, less than 10 years old, and an annual turnover of less than ₹100 crore (US$14 million).

The government has launched the I-MADE program under this initiative to help Indian entrepreneurs build 10 lakh (1 million) mobile app start-ups, and

The MUDRA Bank's scheme (Pradhan Mantri Mudra Yojana aiming to provide micro-finance, low-interest rate loans to entrepreneurs. Initial capital of ₹20,000 crore has been allocated for this scheme.

Startups and Entrepreneurs @ 1 MILLION STARTUPS
www.1millionstartups.com

https://www.startupindia.gov.in/content/sih/en/startup-scheme.html

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Definition of Startup for Availing Government Schemes

An entity shall be considered as a Startup:

- **Up to a period of ten years from the date of incorporation/ registration. Splitting up or reconstructed entities from existing ones are not eligible.**
- **Recognition is done by the Department for Promotion of Industry and Internal Trade (DPIIT).**
- **Turnover of the entity for any of the financial years since incorporation/ registration should not exceed Rs. 100 crore.**
- **Entity is working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation.**

https://www.startupindia.gov.in/content/sih/en/startup-scheme.html

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- **DPIIT Recognition**
- Under the Startup India initiative, eligible companies can get recognised as Startups by DPIIT, in order to access a host of tax benefits, easier compliance, IPR fast-tracking & more.

उद्योग संवर्धन और आंतरिक व्यापार विभाग
DEPARTMENT FOR PROMOTION OF INDUSTRY AND INTERNAL TRADE
सत्यमेव जयते

Government Supports for Prototyping

1. Department of Scientific & Industrial Research www.dsir.gov.in

- **Promoting Innovations in Individuals, Start-ups and MSMEs (PRISM): ₹ 2 lakh, ₹ 20 lakh and ₹ 50 lakh of grants in phases.**
- **Patent Acquisition and Collaborative Research and Technology Development (PACE)**

2. TIFAC and SIDBI - https://tifac.org.in/

SRIJAN scheme: Low-cost fund up to Rs. 10 million (1.00 crore) is provided by TIFAC through SIDBI. A rolling fund of Rs. 30 crore has been created by TIFAC that is dispensed and monitored by SIDBI.

3. Ministry of Small & Medium Enterprises (MSME) https://msme.gov.in/

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PRISM

Phase - I

- Category-I: Proof of Concept/ Prototypes/ Models
    - For prototyping ideas and testing hypothesis
    - Any Indian national including students can apply.
    - Maximum support ₹2.00 lakh (subject to 90% of the total requirement)
    - Form: Grant (no repayment obligation)

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PRISM

Phase - I

- **Category-II: Fabrication of working model/process know-how/ testing and trial/patenting/technology transfer etc. (Innovation Incubation)**
  - **For fabrication, refinement and validation of prototypes.**
  - **Any Indian national can apply.**
  - **Maximum support ₹20.00 lakh (subject to 90% of the total requirement).**
  - **Form: Grant (no repayment obligation).**

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PRISM

Phase - II

- Enterprise Incubation
    - The support is for scaling up technology based innovations, patenting/design registration/trademark registry/ technology transfer to develop a marketable product/process towards enterprise creation.
    - Successful PRISM innovators or those who have received assistance from any other government scheme and demonstrated success.
    - Maximum support ₹50.00 lakh (subject to 50% of the total project cost).
    - Form: Grant (no repayment obligation).

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PACE - Patent Acquisition and Collaborative Research and Technology Development - DSIR

- The scheme supports development and /or adoption of new technologies or creative/innovative application to solve unmet needs of industry.
- For projects in collaboration with R&D organization/ academic institution/ university, support is up to 100% of the project cost.
- For projects of industry alone, support is up to 50% of the project cost in the form of secured loan.

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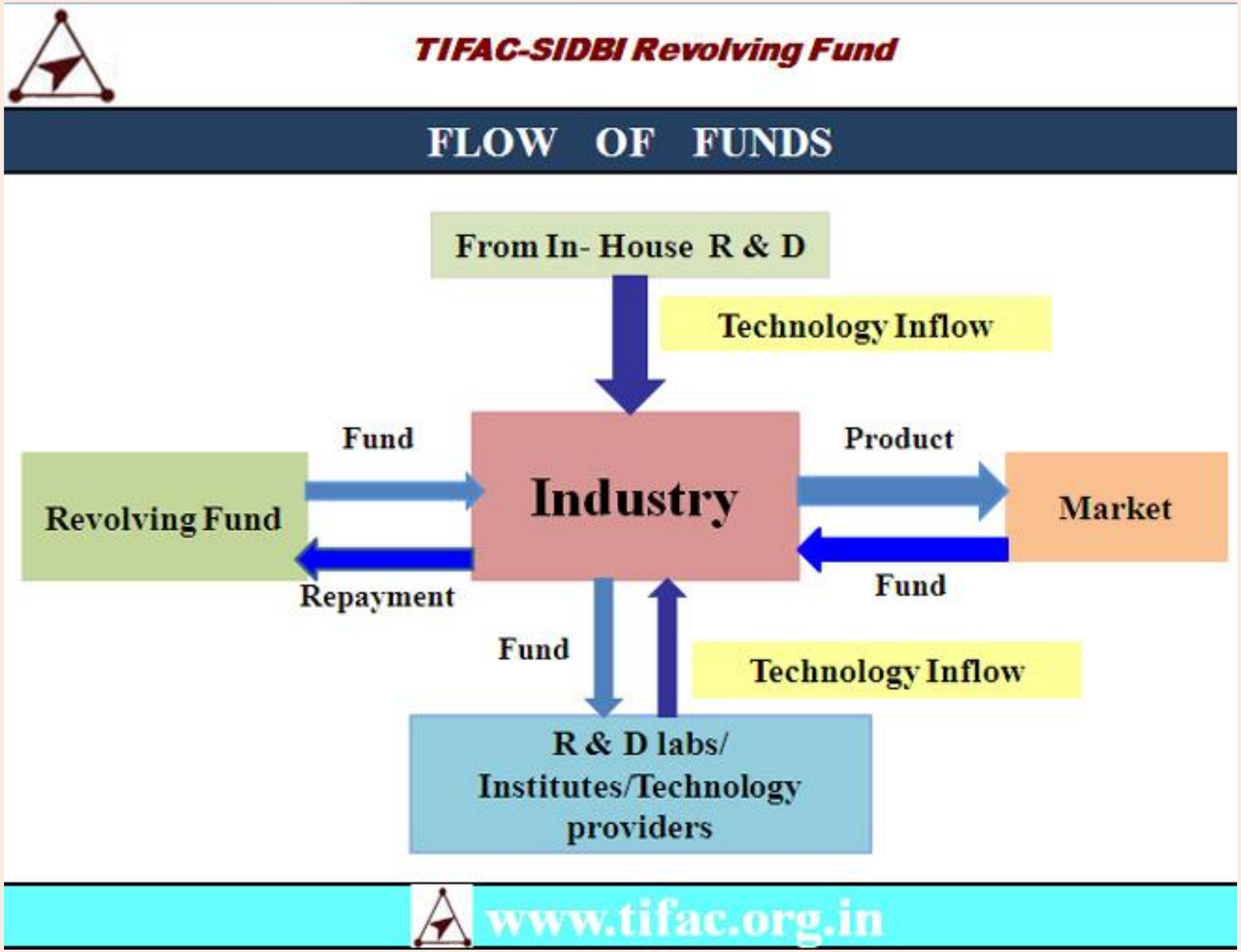

SRIJAN by TIFAC & SIDBI

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SRIJAN

- **Loan assistance is not more than Rs. 10 million for each project.**
- **This is development loan on soft terms & conditions.**
- **The interest rate is not more than 5% per annum (simple).**
- **The repayment shall commence within one year after the project completion and shall be fully repaid in five years.**
- **The duration of the project should not normally exceed 18 months.**
- **The soft loan is limited to maximum 80% of the estimated project cost and the promoter has to contribute minimum 20%.**

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Salient Features of सृजन (SRIJAN)

- Development Loan on flexible terms & conditions
- Assistance up to ~ 80% of total project cost with minimum ~ 20% contribution from promoter
- Loan assistance normally not more than `100 lakhs for each project
- Rate of Interest not more than 5% p.a.
- Repayment in easy installments spacing over 5 years from date of completion of project
- Security through personal guarantee, hypothecation of assets created / to be created under the project, collaterals, CGTMSE guarantee

www.tifac.org.in

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Funds for Prototyping

Besides the schemes of DSIR and TIFAC, several startup funds launched by the Government of India and is administered through the Ministry of Small & Medium Enterprises (MSME).

MSME has many funding schemes to support startups (http://msme.gov.in/).

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- Atal Incubation Centers (AIC)
- Atal Innovation Mission (AIM)
- AIM will provide a grant-in-aid of INR 10 Cr to each AIC for a maximum of five years to cover the capital and operational expenditures to establish the AIC.
- The applicant would have to provide at least 10,000 sq.m. space
- https://aim.gov.in/atal-incubation-centres.php

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SBIRI of Biotechnology Industry Research Assistance Council (BIRAC) under DBT

- SBIRI : The following structure of funding will be available to industry depending on the project cost and own resources brought in by the promoter to the project.
- If the actual project cost is up to Rs. 25 lakhs, 80% of the project cost will be available as a government grant.
- If the actual project cost is between Rs. 25 lakhs and Rs. 100 lakhs, 50% of the project cost will be available as government grant subject to a minimum of Rs. 20 lakhs and maximum of ₹50 lakhs.
- Higher grant is available for collaborative research project.

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Biotechnology Industry Research Assistance Council (BIRAC)

- **SEED - Sustainable Entrepreneurship and Enterprise Development Fund to incubators**
- **ACE – Accelerating Entrepreneurs' Fund [Fund of Funds]**
- **NABARD – fund for incubation agro-based startups.**

BIRAC Home
www.birac.nic.in

More Government Schemes

- Hardly 5% of MSMEs have access to formal credit. There is almost no possibility of getting credit at idea or early stage of startup.
- Indian government has recently rolled out initiatives to offer business loans for startups and MSMEs through authorized channels.
- One of the important ones was the recently-launched 59-minute loan platform enabling online easy access to credit for MSMEs.
- Furthermore, the Small Industries Development Bank of India (SIDBI) has started lending to companies directly bypassing banks.
- The interest rate on these loans is at least 300 basis points lower than the usual rates.

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- The initiative aims to automate various processes to loan appraisal in such a way that one gets an eligibility letter, in-principle approval in less than 60 minutes and chooses the bank that one may prefer to ease access to credit to smaller and micro enterprises.
- You update your credential online, choose the bank you prefer, and receive an in principle approval in 59 minutes.
- Actual sanction is expected within 7 to 8 days. Interest rate starts at 8%.
- Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE): Loans up to ₹ 1 crore is covered.

A number of other government startup loans and schemes for entrepreneurs in India have been introduced in the past few years. Here is a list of some of the most popular and notable government schemes that offer business loans for startups And MSMEs in India.

- **New Gen IEDC** (Innovation and Entrepreneurship Development Centre) **scheme.**
- **Bank Credit Facilitation Scheme**
- **Credit Guarantee Scheme (CGS)**
- **Credit Linked Capital Subsidy for Technology Upgrades**
- **Coir Udyami Yojana**
- **MSME Business Loans For Startups In 59 Minutes**
- **Pradhan Mantri Mudra Yojana (PMMY)**
- **SIDBI Make in India Soft Loan Fund for MSMEs (SMILE)**
- **Standup India**
- **Sustainable Finance Scheme**

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SIDBI Make in India Soft Loan Fund for MSMEs (SMILE)

Small Industries Development Bank of India (SIDBI)

- **New enterprises in manufacturing as well as the services sector can apply.**
- **Support 20 lakh or 10% of the project cost.**

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- **Comprehensive List Of Venture Capital Funds Managed By SIDBI That Have Catalysed More Than 500 MSMEs And Startups.**
- **SIDBI funds many venture capital funds.**
  - Maharashtra State Social Venture Fund (MS Fund)
  - **Investment Size:** Not more than $3.9 Mn (INR 25 Cr) per investee company.
- **West Bengal MSME VC Fund (WB Fund)**
  - **Investment Size:** Not more than $1.4 Mn (INR 9 Cr)
- **India Opportunities Fund**
- **SME Growth Fund**
- **Samridhi Fund**

See here for details
https://www.sidbiventure.co.in/

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- **Fund of Funds for Startups**
- **In April 2017, the Union Cabinet, chaired by PM Narendra Modi, approved the establishment $1.4 Bn (INR 10, 000 Cr) corpus for a 'Fund of Funds for Startups (FFS) proposed by the government in June 2016.**
- **ASPIRE Fund**
- **India Aspiration Fund**
- **SIDBI Make in India Loan For Enterprises (SMILE) Fund**
- **SAARC Development**

See here for details
https://www.sidbiventure.co.in/

REACHING SIDBI FUNDS

Fund	Where Startups Can Mail
Maharashtra State Social Venture Fund	msfund@sidbiventure.co.in
Tex Fund	texfund@sidbiventure.co.in
West Bengal MSME VC Fund	wbfund@sidbiventure.co.in
Samridhi Fund	samridhi@sidbiventure.co.in
India Opportunities Fund	iof@sidbiventure.co.in
Fund	Where Startups Can Mail
Maharashtra State Social Venture Fund	msfund@sidbiventure.co.in
Tex Fund	texfund@sidbiventure.co.in
West Bengal MSME VC Fund	wbfund@sidbiventure.co.in

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Tax exemption under section 80 IAC

- **The recognized startups are eligible to receive Income Tax exemption.**
- **They enjoy tax holiday for 3 financial years out of its first ten years of operation since incorporation.**
- **Eligibility Criteria (80IAC)**
  I. The entity should be a recognized Startup.
  II. Only Private limited companies and Limited Liability Partnerships are eligible for Tax exemption under Section 80IAC
  III. The Startup should have been incorporated after 1st April, 2016

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Some Does and Donts

- **Do not keep information from investors – both positive and negative.**
- **"I like to send out a monthly update to our entire investor base with most of our metrics, regardless of whether they're good or bad, to further nurture this trust with our partners." – Giuseppe Stuto**
    - **It Maximizes the Probability of Getting the Right Help at the Right Time**
    - **It prepares you to accept failure and move on.**
    - **It helps the investors to come to your rescue at times of distress.**

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- Financing New Ventures: An Entrepreneur's Guide to Business Angel Investment by **Andrew Zacharakis, 2013**
- Harvard Business Review Entrepreneur's Handbook (HBR Handbooks) Paperback – 23 Mar 2018
- https://encycolorpedia.com/
- https://unsplash.com/s/photos/background for images
- https://www.youtube.com/watch?time_continue=231&v=SB16xgtFmco&feature=emb_logo
- **https://slidebean.com/templates/investor-deck-template**
- **https://guykawasaki.com/the-only-10-slides-you-need-in-your-pitch/**
- **https://slidebean.com/templates/investor-deck-template**
- **Various Wikipedia pages**

- **Create empathy with the investors, understand their risks and aspirations.**
- **Try eliminating questionable statements.**

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