

Entrepreneurship

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Lecture 1 -----

8 QUESTIONS ABOUT ENTREPRENEURSHIP

- ? What is entrepreneurship?
 - Discovery and Exploration of a market opportunity for a new product or service
 - Market pull** = First recognizing a problem, then building the product
 - Technology push** = Development of technology, then discovering market
 - Building an organization, able to produce & deliver
 - Therefore mobilize resources (raising capital, acquiring human talent, building relationships, ...)
 - Establishing structures (communication channels) and hierarchies, delegating tasks & developing the venture (Leadership)
- ? Why is entrepreneurship important?
 - Addressing needs, makes life better
 - Entrepreneurs ensure product is produced in sufficient quantity and delivered to customers (!= inventor)
- ? How is entrepreneurship related to economic development?
 - Entrepreneurship = **creative destruction**, because new ideas make old obsolete, which keeps capitalism alive
 - Higher density of new firms lead to higher growth of the GDP
 - Necessity-driven** = development countries (growing fruit)
 - Opportunity-driven** = developed countries (sophisticated tech)
- ? Who is an entrepreneur?
 - Individuals or teams with ideas because of specialized and diverse knowledge
 - Corporate entrepreneurship** = if existing firms discover and explore new opportunities (fe. BMW getting into E-Mobility)
- ? What distinguished entrepreneurial from traditionally managed firms?

	Traditionally managed	Entrepreneurial
Strategic goals	gain an advantaged position within their industry	capture territory for future options outside their industry
Success measurements	market share	share of opportunities for future products

Biggest threads	within own industry	also from other industries
Acquisitions	within own industry	firms from other industries to broaden their opportunities

- ? What is social, environmental and sustainable entrepreneurship?
 - Social = balancing social and economic goals (problems, faced by disadvantaged groups)
 - Environmental = balancing economic and non-economic goals (about environmental decline)
 - Sustainable = balancing social, economic and environmental goals = **Triple-bottom approach**
- ? Can I become an entrepreneur myself?
 - Need a desire for autonomy
 - Want to create something new
 - Want to create a meaningful impact

THE ENTREPRENEURIAL PERSONALITY

Understanding personality is important to get the big picture of entrepreneurship as well as the entrepreneurial cognition and behaviour. Especially at the beginning, the entrepreneur is the firm and the firm is the entrepreneur.

Key Questions:

- ? Why do some persons choose to become an entrepreneur?
- ? Why do some persons recognize opportunities?
- ? Why are some entrepreneurs so much more successful than others?

Personality itself is influenced by genetics, environmental factors and mainly by experiences in childhood.

- **Personality traits** are dispositions to (re)act in a certain way across various situations
- Can be decomposed into broad **personality factors**: The „Big Five“

Closedness: conventional, down-to-earth	OPENNESS	Curious, creative, artistic
Undirectness: disorganized, sloppy, unambitious	CONSCIENTIOUSNESS (=Gewissenhaftigkeit)	Organized, trustworthy, dependable

Introversion: reserved, quiet, task-oriented	EXTRAVERSION	Outgoing, talkative, energetic
Antagonism: self-centered, sceptical, unsympathetic	AGREEABLENESS (=Verträglichkeit)	Friendly, non-competitive, compassionate
Emotional unstable, lack of self-confidence, difficulties in new situations	NEUROTICISM	Even-tempered, hardly, self-satisfied

- Meta-analytics (many studies combined) facilitate the analysis of relationships across studies
- Still these are tendencies (small – medium effects)

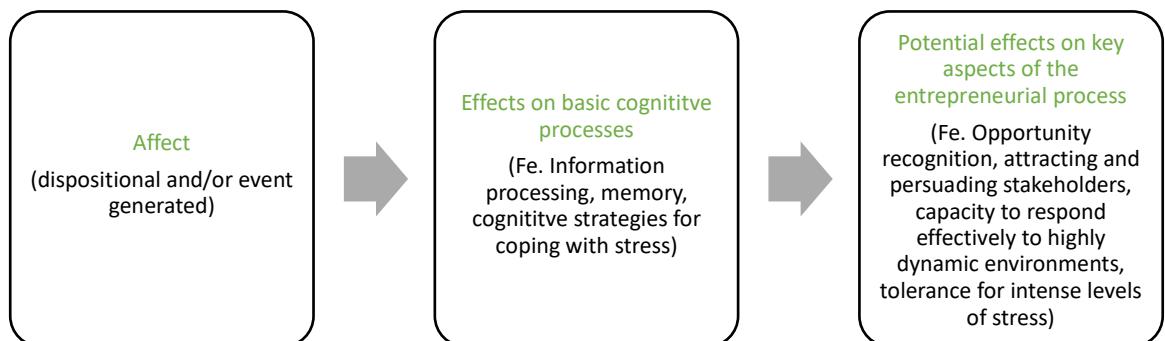
The knowledge of strengths and weaknesses connected to one's personality help entrepreneurs to choose their role, teammates to compensate, and their strategy or business model

→ As important are **motives**, internal forces that push people into certain actions

Need for achievement = Preference for high standards, desire for success, engagement in task-oriented behaviour

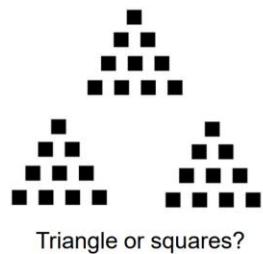
Need for autonomy = Preference for making decisions independently, setting one's own goals, being in control, avoidance of restrictions

→ **Affects** in entrepreneurship: entrepreneurial journey is full of ups and downs, which trigger positive and negative affects, which has key implication for entrepreneurial cognitions and behaviours



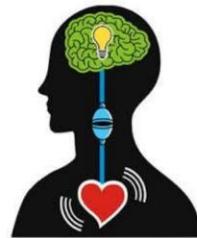
Information processing

- Positive affect triggers global perception (seeing "big picture")
- Positive affect leads to heuristics and less careful information processing.



Memory

- Mood is filter for information storage (mood congruent memory)
- Recall is facilitated if mood is similar to encoding (mood-dependent retrieval)



Coping with stress

- Positive affect leads to health benefits in terms of the immune system
- Positive affect is connected to bigger network of supporters



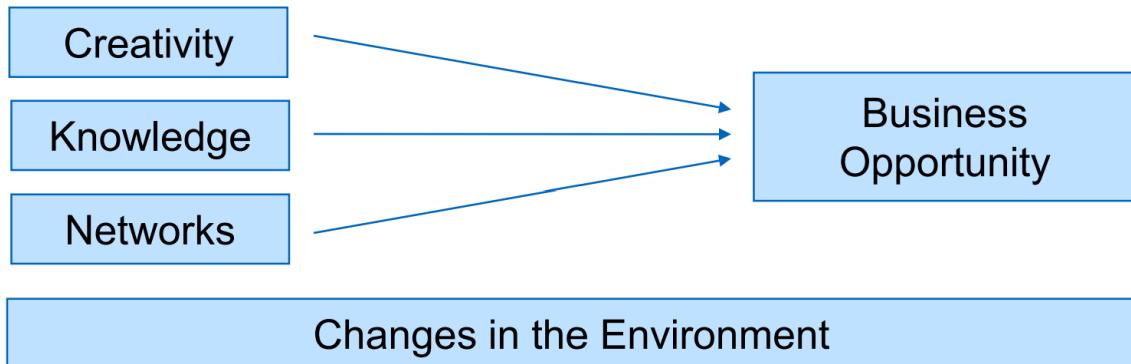
→ **Entrepreneurial passion:** Intensive and enduring positive affect experienced while engaging in entrepreneurial activities

Effects on the entrepreneur	Effects on stakeholders
<ul style="list-style-type: none"> Entrepreneurial passion as expression of personal identity Focus on activities that are objects of passion Drive and persistence Harmonious vs. obsessive passion = You feel good doing it vs. You feel bad doing it Passion can also be a burden! 	<ul style="list-style-type: none"> Passion can help attract stakeholders Investors value signals of competence much higher For employees, the object of passion is important. If object is not shared, effects are negative Passion limits feedback (afraid to hurt)

Lecture 2 -----

ENTREPRENEURIAL OPPORTUNITIES

To discover opportunities, you need Creativity, Knowledge, a Network and a Change in Environment



→ **Creativity** = „the generation of ideas, insights or problem solutions that are both novel and potentially useful“

- Creativity can be reactive or proactive
- It involves convergent and divergent thinking
- Can be learned, with the help of **Techniques of creativity**:

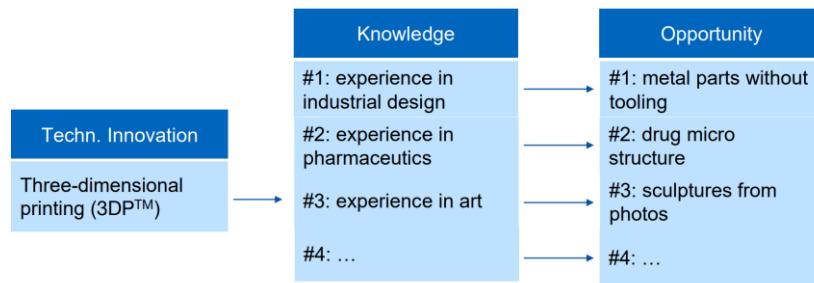
Analogical reasoning: Apply knowledge from one domain as a kind of model (fe. nature) to help in understanding or developing ideas in another domain

Conceptual combination: Mentally combining differed, previously unrelated concepts (fe. Glamping)

Checklist method: Put to other uses? Adapt? Modify?
Magnify? Minify? Substitute? Another process? Rearrange?
Reverse? Combine? Combine purposes?

WIBNI: Wouldn't it be nice if...

→ Knowledge identifies opportunities

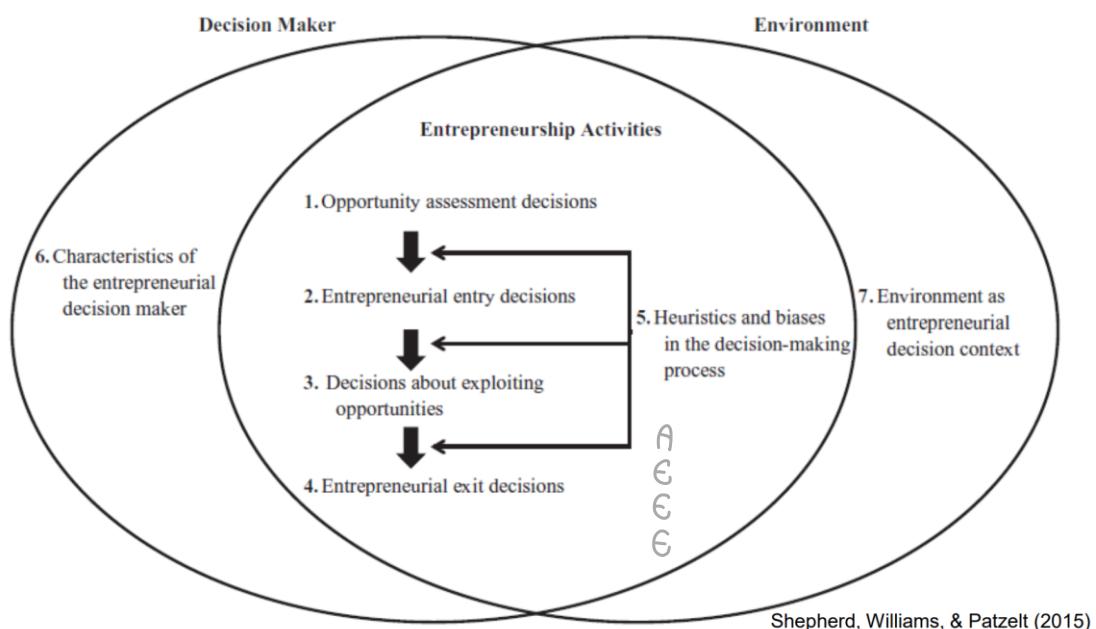


- People's prior knowledge about markets, customers, and other products influences their discovery of business opportunities – it determines whether or not they will find an opportunity

→ Social networks (Family, Friends, ...)

→ Environment: Opportunities emerge from a complex pattern of changing conditions – changes in political, economic, societal, technological conditions (PEST)

ENTREPRENEURIAL DECISION MAKING



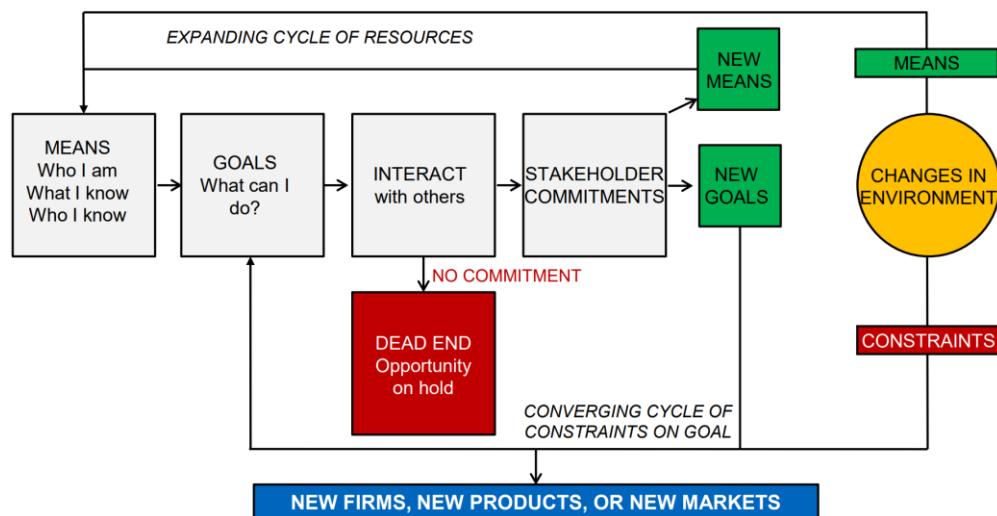
When making a decision, you have a risk or uncertainty:

Risk = when the probability of an outcome is possible to calculate or is knowable
Uncertainty = when the probability of outcome is not possible to determine or is unknowable

To cope with uncertainty, entrepreneurs tend to use effectuation processes:

Effectuation framework: Four key principles

Start with your resources/means (Cooking metaphor)	Affordable loss
Advantages: <ul style="list-style-type: none"> · Not chasing investors · Not waiting for the perfect opportunity · Working on your strengths · Forcing yourself to be creative with few resources 	<ul style="list-style-type: none"> · Calculate downside potential and risk no more than you can afford to lose · Set deadline: inbetween 1 year no customers, quit
Form partnerships	Leverage surprise
<ul style="list-style-type: none"> · Build your future together with customers, suppliers and competitors 	<ul style="list-style-type: none"> · Surprises and even failures can represent new opportunities · Unexpected is not a cost, but a resource · Change your idea/strategy = pivot



TASK 1: Steve Jobs and Ben Cohen

What unique resources did Steve Jobs and Ben Cohen have to start their ventures?

Steve Jobs – Apple	Ben Cohen – Ben & Jerry's
<ul style="list-style-type: none">➤ Audited calligraphy class in college (didn't give him credits)➤ Which credited to be the inspiration for Apple's typography➤ Diverse experiences let him connect design with technic	<ul style="list-style-type: none">➤ They made icecream, but Ben was never satisfied, because he couldn't smell or taste anything (rare sinus condition: anosmia)➤ He enjoyed texture in his food, because he can't taste➤ So he incorporates chunks like brownies and chocolate flakes into the recipies

TASK 2: Richard Branson

How did Richard Branson start Virgin Airlines?

- Business idea because of cancelled flight to Virgin Islands
- Called boeing: whether he could rent a plane
- Borrowed a blackboard and wrote „Virgin Airlines one-way: \$39 to Virgin Islands“ and filled up the flight with all bumped passengers
- Called boing again: whether they have secondhand 747s for sale, got leased for 1 year

TASK 3: FlixBus

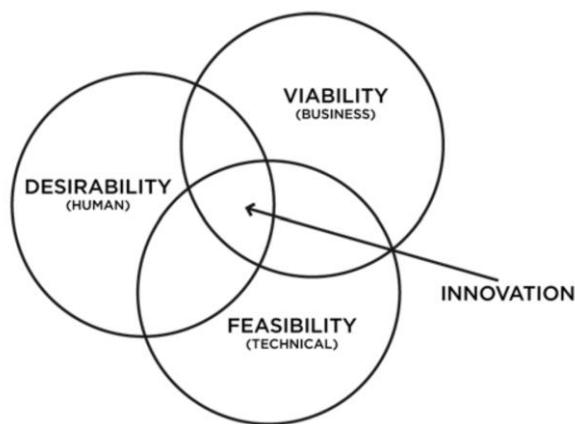
How did the FlixBus founders build their fleet? How many buses do they own?

- 2013 ended the German railway monopoly
- They don't own any vehicles, everything is rented and the bus companies drive the buses for them

Lecture 3 -----

DESIGN THINKING

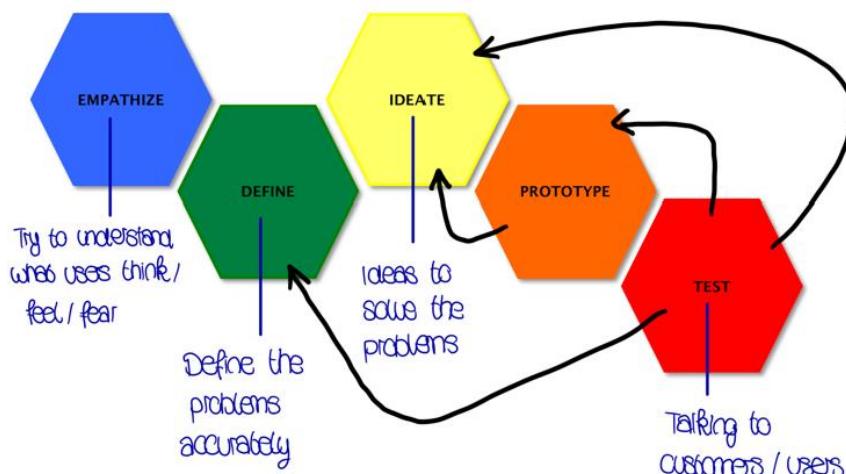
- Everyone designs who devises a course of action aimed at changing existing situations into preferred ones
- Human-centered approach to innovation that draws from the designer's toolkit to integrate the **needs of people**, the **possibilities of technology** and the **requirements for business success**



- Mindset: Curiosity, Reframing, Collaboration, Mindfulness of process, Bias towards action

Stages of the design process (iterative)

1. Understand important issues
2. Split group and find real experts (**Curiosity**)
3. Demonstrate, communicate and share what you learned
4. Work in teams to develop different prototypes (**Creativity**)
5. Combine prototypes
6. Present & test



Principles of teamwork

- Deadline to meet (**Time pressure**)
- Project leader and eclectic team members (**Diversity**)
- Sharing ideas with rules (one conversation at a time, encourage wild ideas, stay focused, defer judgement, build on ideas of others)

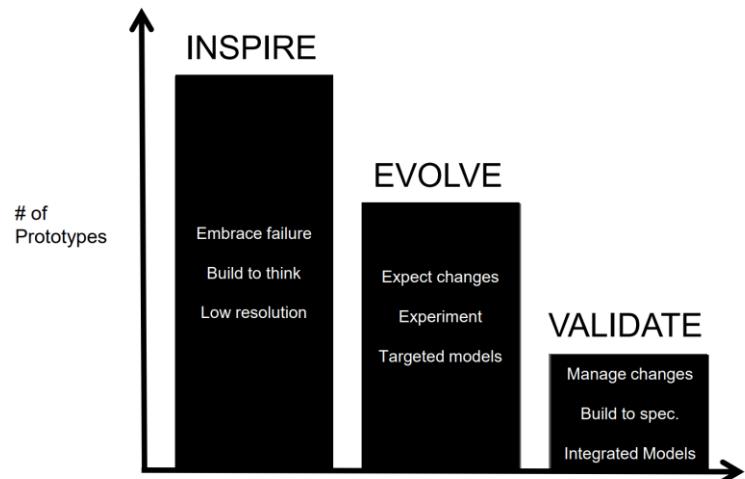
<u>EMPATHIZE</u>	<u>DEFINE</u>	<u>IDEATE</u>	<u>PROTOTYPE</u>	<u>TEST</u>
<ul style="list-style-type: none"> · To understand people, within the context of your design challenge (the way they do things, physical and emotional needs, how they think, what's meaningful) · Observe, Engage, Watch & Listen 	<ul style="list-style-type: none"> · Bringing clarity and focus · Becoming expert on the subject · Gaining invaluable empathy for the person you are designing for · Goal: meaningful and actionable problem statement 	<ul style="list-style-type: none"> · Mental process of „going wide“ – create fluency (volume) and flexibility (variety) · Transition from identifying problems to creating solutions 	<ul style="list-style-type: none"> · Something you create with the explicit understanding, that it's not the finished product, but instead is intended to be a stepping stone along the way 	<ul style="list-style-type: none"> · Most informative results are achieved if you test

ENTREPRENEURIAL PROTOTYPING - „**Think with your hands**“

- Prototype is something you create with the explicit understanding that it is **not the finished product**, but instead is intended to be a **stepping stone** along the way to it
- Can be **physical** (tangible), **analytic** (virtual) or **experiential** (behavioural)
- Prototyping in order to
 - Try out an idea
 - Learn about important issues
 - Fail quickly and cheaply (cost of failure vs. project time)
 - Communicate ideas to others – **Key for communication**
 - Bring a team together

Simply sketch idea (whether it focuses on one functionality or all)

Stages of Prototyping



TASK: How Google prototypes

What are the rules of prototyping at Google?

- Find the quickest path to experience
- Doing is the best kind of thinking
- Use material that move at the speed of thought to maximize your rate of learning

What types of materials should you use for prototyping and why?

- Things you can get easily: hairband, chopstick, ...
- Really basic materials: modeling wire, clay, paper

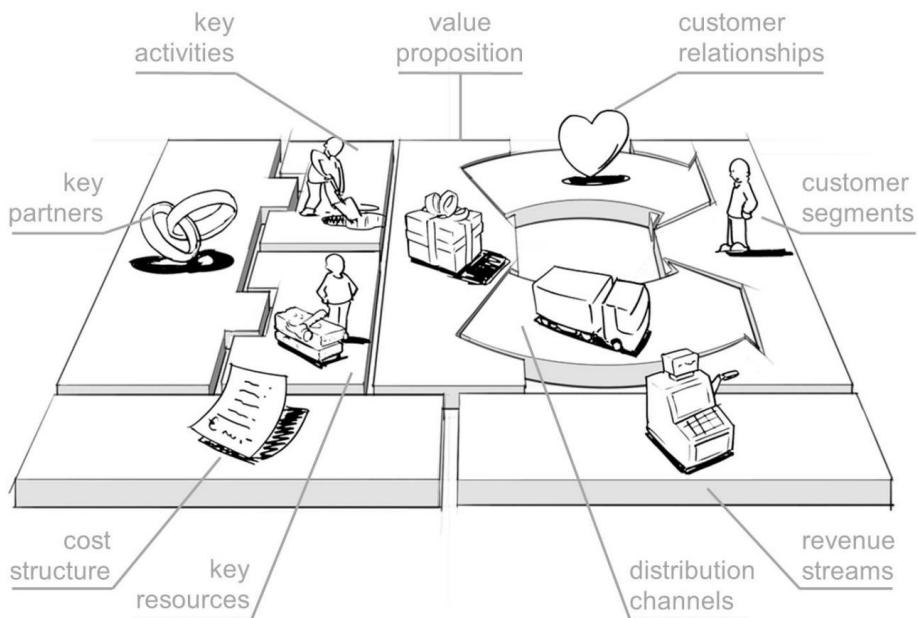
Lecture 4 -----

BUSINESS MODELING

A business model describes the rationale of how an organization creates, delivers and captures value

- more than a product/service because captures all aspects of the organization
- based on a set of assumptions or hypotheses (assuming customer's behaviours)
- different from strategy, because **strategy = choice of business model** through which the firm competes
- source of disruptive innovation
- key influence on firm performance

Business model exists of 9 different parts, crucial for success! (**BUSINESS MODEL CANVAS BMC**, as tool for development)

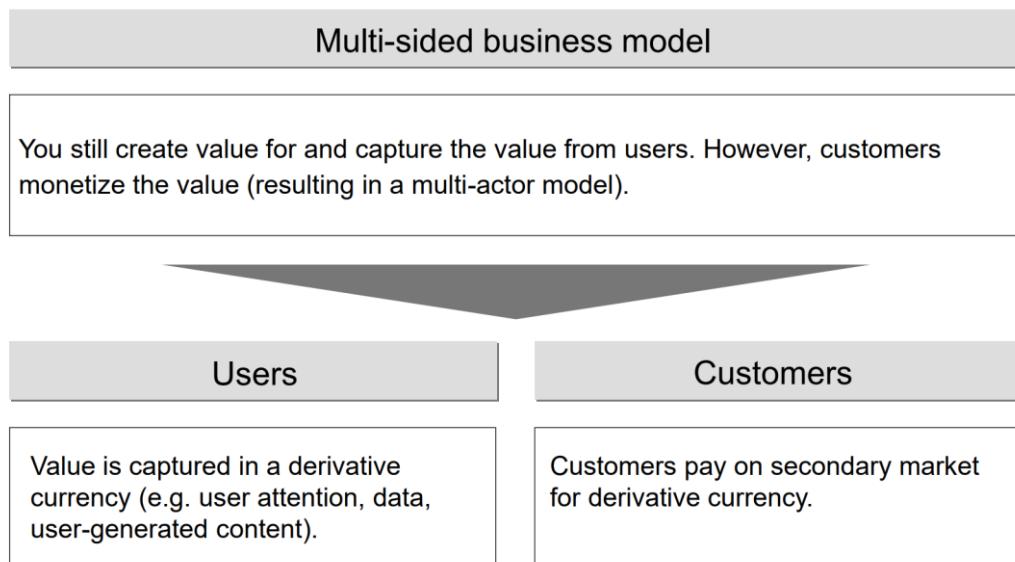


Part	Questions	Examples
Your Product /Service - Value Proposition	<ul style="list-style-type: none">• What value do we deliver to the customer?• Which customer problem are we solving?• Which customer needs are we satisfying?• What bundles of products/services are we offering to each customer segment?	Characteristics <ul style="list-style-type: none">• Performance• Customization• Design• Brand/Status• Price• Cost Reduction• Risk Reduction• Accessibility and Convenience• Usability

FRONT END		
Customer Segments	<ul style="list-style-type: none"> For whom are we creating value? Who are our most important customers? 	<ul style="list-style-type: none"> Mass Market Niche Market Segmented / Diversified Multi-sided Platform
Distribution Channels	<ul style="list-style-type: none"> Through which Channels do our Customer Segments want to be reached? How are we reaching them now? How are our Channels integrated? Which one works best? Which ones are most cost-efficient? How are we integrating them with customer routines? 	<ul style="list-style-type: none"> Own Sales Force Web Sales Own Stores Partner Stores Retail & Wholesale
Customer Relationship	<ul style="list-style-type: none"> What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How are they integrated with the rest of our business model? How costly are they? 	<ul style="list-style-type: none"> Personal Assistance Dedicated Personal Assistance Self-Service Automated Services Communities Co-creation
Revenue Streams	<ul style="list-style-type: none"> For what values are our customers willing to pay? For what do they currently pay? How are they currently paying? How would they prefer to pay? How large is each Revenue Stream? What range could each Revenue Stream have? 	<p>Types: Sales, Subscriptions, Rent, Licensing, Brokerage fees, Advertising</p> <p>Fixed Pricing: List price, Product feature, Customer segment dependent, Volume dependent</p> <p>Dynamic Pricing: Negotiation, Real-Time Market</p>
BACK END		
Key Resources	<ul style="list-style-type: none"> What key resources do our Value propositions (Product/service) require? Our distribution channels? Customer Relationships? Revenue Streams? 	<p>Types: Physical, Intellectual (brand, patent, copyright, data), Human, Financial</p>
Key Partners	<ul style="list-style-type: none"> Who are our Key Partners? Who are our Key Suppliers? Which key resources are we acquiring from partners? 	<p>Motivation: Optimization and Economy of Scale, risk reduction, acquisition of particular resources and activities</p>

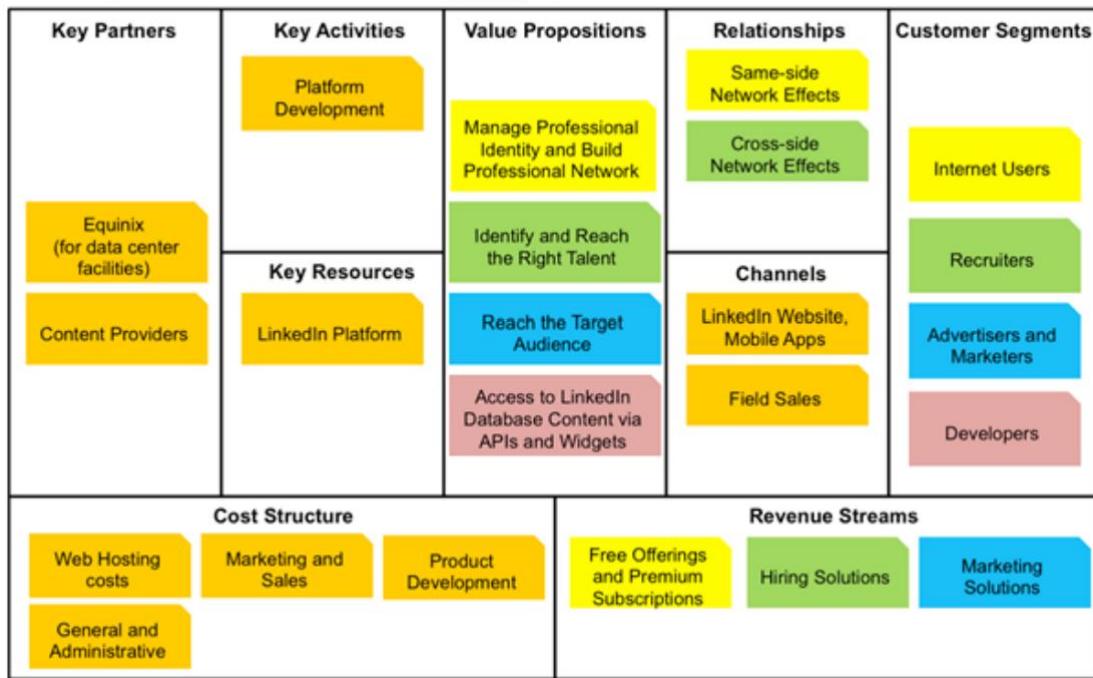
	<ul style="list-style-type: none"> Which key activities do partners perform? 	
Key Activities	<ul style="list-style-type: none"> What key activities do our value propositions require? Our distribution channels? Customer Relationships? Revenue Streams? 	Categories: Production, Problem Solving, Platform/Network
Cost Structure	<ul style="list-style-type: none"> What are the most important costs inherent in our business model? Which Key resources are most expensive? Which key activities are most expensive? How long is the invest period? 	Is your business cost or value driven? Characteristics: Fixed cost, variable cost, economies of scale, economies of scope Types: Production costs (raw material, human capital, energy), non-production costs

It's a **multi-sided business model** if your customers aren't your users (fe. Google Search Engine)



<p>Key Partners</p> <p>Who are our Key Partners? Who are our Key Suppliers? Which Key Resources are we acquiring from partners? Which Key Activities do partners perform?</p> <ul style="list-style-type: none"> • Bundesverband der Personalmanager • Bundesverband Deutsche Startups • CDTM • Gründerszene Jobbörse 	<p>Key Activities</p> <p>What KeyActivities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue streams?</p> <ul style="list-style-type: none"> • Development of HR platform and tools • Maintaining platform and ensuring high quality service • Establishing cooperation • Ensuring data security <p>Key Resources</p> <p>What Key Resources do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?</p> <ul style="list-style-type: none"> • Software • Human resources • Copyrights, contracts • Databases 	<p>Value Proposition</p> <p>What value do we deliver to the customer? Which one of our customer's problems are we helping to solve? What bundles of products and services are we offering to each Customer Segment? Which customer needs are we satisfying</p> <ul style="list-style-type: none"> • No paperwork • Digitization of human resources departments • Time saving • Single software for all HR processes • Open-minded but down to earth atmosphere for employees 	<p>Customer Relationships</p> <p>What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How are they integrated with the rest of our business model? How costly are they?</p> <ul style="list-style-type: none"> • Service and Support • Setting up the software • Data Security and Privacy <p>Channels</p> <p>Through which Channels do our Customer Segments want to be reached? How are we reaching them? How are our Channels integrated? Which ones work best? Which ones are most costefficient? How are we integrating them with customer routines?</p> <ul style="list-style-type: none"> • Direct sales • Targeted marketing • Conferences and expos 	<p>Customer Segments</p> <p>For whom are we creating value? Who are our most important customers?</p> <ul style="list-style-type: none"> • Small and medium -sized enterprises worldwide • HR departments • Recruiting agencies and freelance recruiters
<p>Cost Structure</p> <p>What are the most important costs inherent in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive?</p> <ul style="list-style-type: none"> • Platform development costs • Platform implementation costs • Marketing costs • Transaction costs • Salaries 		<p>Revenue Streams</p> <p>For what value are our customers really willing to pay? For what do they currently pay? How are they currently paying? How would they prefer to pay? How much does each Revenue Stream contribute to overall revenues?</p> <ul style="list-style-type: none"> • Annual subscription fee • Monthly subscription fee • Fees for add-ons • Implementation 		

Example: **LinkedIn**

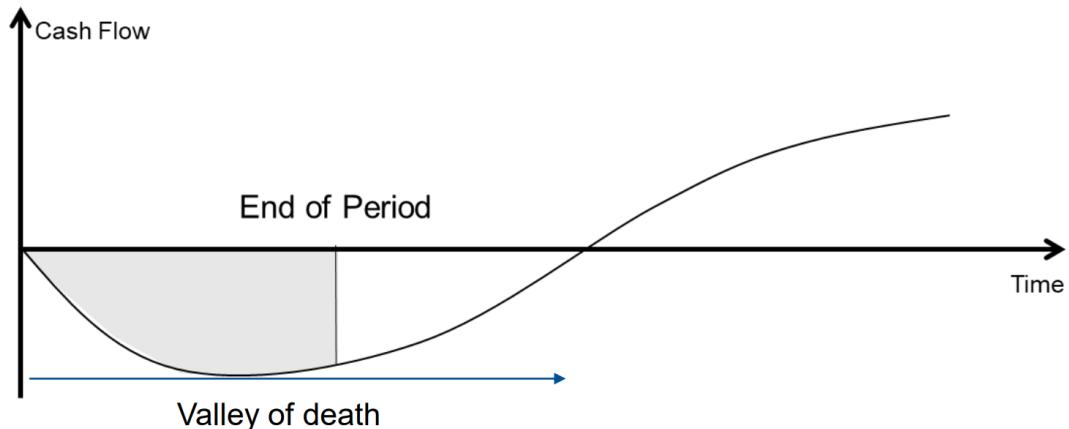


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Lecture 5 -----

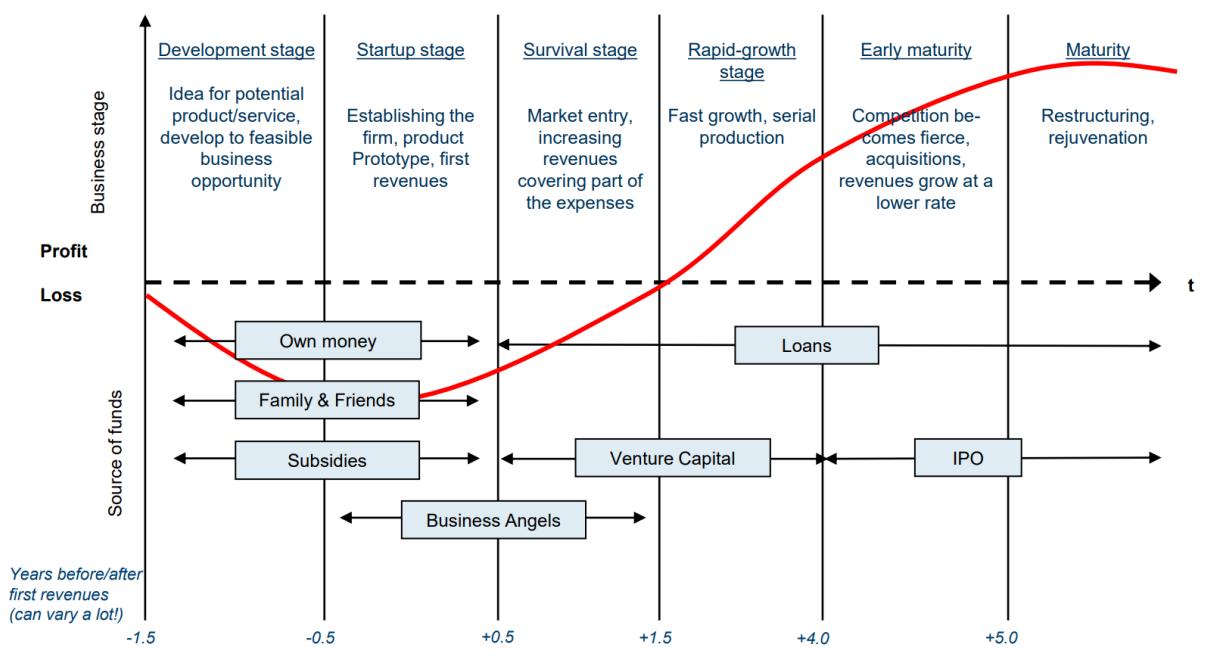
ENTREPRENEURIAL FINANCE

Cash flow of new ventures

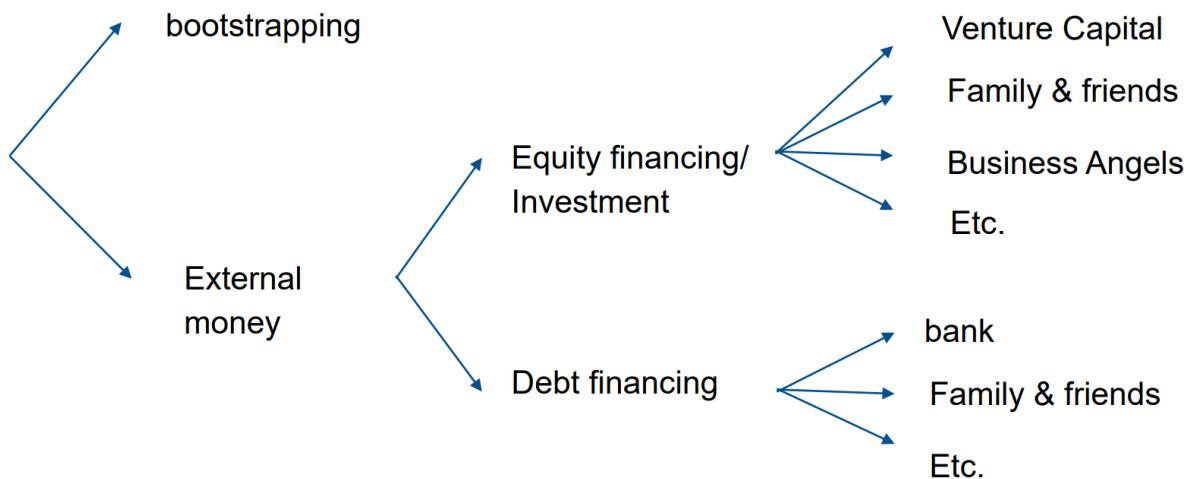


- The rate at which cash is consumed is called the **cash burn rate**
- **Cash burn rate:** If beginning cash is EUR 100'000 and cash at end of year is EUR 40'000, then the cash burn rate is $60'000/12 = \text{EUR 5,000 per month}$
- **Cash runway:** You have now EUR 40'000 left in cash left. With a burn rate of EUR 5,000 per month, it will take **8 months** until you run out of cash

Sources of new venture finance



Decisions you have to make:



<u>Decision</u>	<u>Definition</u>	<u>Benefits</u>	<u>Downsides</u>
Bootstrapping	Financing the venture without outside capital, only own money and the startup's cashflow	<ul style="list-style-type: none"> Ownership and control remain with founder Higher financial reward in potential later exit / IPO 	<ul style="list-style-type: none"> Need to generate cash flow soon Hard to develop the best possible (complex) product Slower growth Difficult to pay own salary Investors often add value (fe. network)
Equity financing / Investment va. R&D-intensive ventures	Investor provides capital to new venture and receives an ownership share in return (Family, Friends, Venture capitalists, angel investors)	<ul style="list-style-type: none"> No forcible repayments No bankruptcy risks from equity financing Can increase creditworthiness for future debt financing 	<ul style="list-style-type: none"> Investor takes a stake in the company (dilution of control) Less freedom in decision-making Buying out stake at later stage will cost more
Debt financing	New venture gets loan that has to be repaid (incl. interest) (Bank loans, loans from friends/family/...)	<ul style="list-style-type: none"> Creditor has no business control Debt can be cheaper than equity Financial planning is easier due to fixed and finite payment structures Return on equity may be positively influenced by financial leverage <p>Leverage effect = more possibilities with money</p>	<ul style="list-style-type: none"> Difficult to get without assets, good credit history, track record Obligation to pay back at fixed schedule

3F's: Family, Friends and Fools

The typical sources for initial new venture funding are:



Advantages of family as a source of financing:

Altruistic ties between borrower and lender, leading to:

- Easier access
- Longer time frame
- More flexibility in terms of contract form
- Lower cost
- Renegotiation opportunity

The downsides:

- Limited amount of funds
- Reciprocity
- Increased risk aversion to keep family assets safe
- Intervening family members
- Potential relational conflicts

More possibilities

→ Government subsidies (grants)

- Targeted toward very early stage venture
- Often linked to technology transfer
- Regional development
- Industry-specific programs
- Typically „free money“ – no ownership, interests

→ Business Angels

- Wealthy individuals often with expertise to add value
- Usually products related to personal interest
- Early stage, typical 50,000 – 500,000€
- More flexible for ventures, which may grow slower
- Individual or collaborative investors (Business Angel Network – BAN)
- Hidden secret network, hard to find and convince

→ Venture Capital (VC)

- Equity capital for young ventures, typically with management support
- Seed, early stage or expansion financing (often specialized)
- Risk reduction strategy: Portfolio, Specialization, Staged financing in several round, ...
- Explicit goal to sell within certain timeframe between 3-5 years (IPO, trade sale, ...)
- Typically at least 20-30% share of equity
- Out of 10: 1 star, 2-3 moderate, rest write-offs
- VCs are compensated by fund management fee and profit share
- Criteria: Team, Market Size, Market growth, competition, risk, ...

New ways of venture finance

Business incubators/accelerators <ul style="list-style-type: none">• Public or private organization that provides new ventures with offices, networks, advice for up to 3-6 month• Entrepreneurs provide an equity share (1-10%) in return	Microfinance <ul style="list-style-type: none">• Provides uncollateralized loans to people living in poverty without access to finance (especially women)• Loan is provided to an individual or a group (a group decreases the risk of loss and increases probability of repayment)• Entrepreneurs need to repay the loan and the interest
Peer-to-peer lending <ul style="list-style-type: none">• Uncollateralized loans from other individuals (equity or other ownership relations are generally not included)• Screening process involves credit history of the borrower and other criteria• Risk that entrepreneurs use money to finance consumption	Crowd-funding <ul style="list-style-type: none">• Collection of (small amounts) of capital from a large number of people through online platform/social media• Entrepreneurs present their projects on platform• Investors get a compensation in form of "tokens of appreciation" (e.g., personalized products) or equity stake

Exit

= Exit of investors or founders with **highest possible profit**

- For an successful exit you need fast growth & multiplication of start-up value, high valuation of start-up
- During an exit, investors/founders sell their shares in the company and **leave the company as shareholders**
- Investors: Generally don't plan to invest their capital in the long-term, they want to reinvest
Founders: An exit means financial and legal independence

Trade Sale = selling the start-up to a corporation or private equity investor

Leveraged Buyout = selling the start-up to an investor that already invested in the company before

IPO = Initial Public Offering, probably ideal way of an exit, only possible for very successful start-ups

Merger = merging the start-up with a competitor

TASK: Lilium



When is product launch planned?

- Scheduled for 2025

Why do investors provide so much money to a venture without a product?

- Takes time and investment, but outcome is valuable business and chance to have genuinely positive impact on the way we travel
- Deep confidence in physical product and business case
- Potential to tackle greatest challenges facion the world

What type of investors have invested into Lilium in this round?

- Tencent: Internet and tech company, develops innovative products
- Freigeist: Deep-Tech Investor (Frank Thelen)

Would debt financing be an option for Lilium?

- No, it's a high risk-high return project
- No or little collateral

Who was the lead investor?

- Led by Tencent, with participation from other previous backers (Atomico, Freigeist, LGT)

What is an “inside round”?

- Involving existing, not new, investors

Which investment stages/ rounds are in focus of Freigeist?

- Seed- / Early stage

What's Lilium's (supposed) valuation in the last financing round?

- Valuation isn't disclosed, but supposed to be between \$750 mio and \$1 billion

ENTREPRENEURIAL TEAMS

- At least two individuals with an active part in the creation and development of a business
- Key role in strategic decisions
- Equity ownership (>10%)
- **Heterogeneity of competence**, but homogeneity in values and visions!

Why? Skills and Know-How!

- regulatory and legal know-how
- management know-how
- finance and controlling know-how
- marketing know-how
- industry know-how
- technological know-how

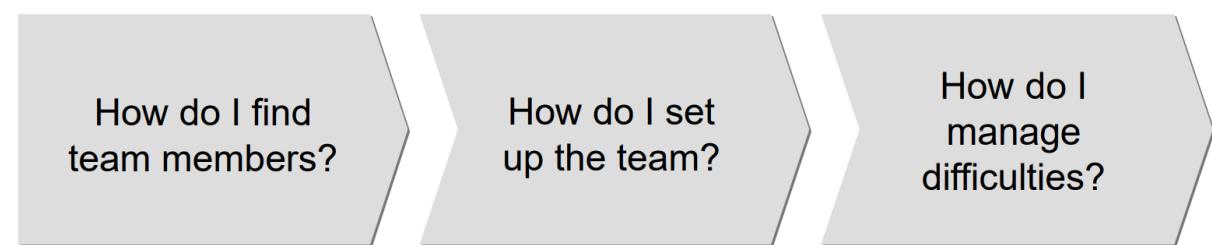
What do we know about entrepreneurial teams?

Past decades	2000s	2010s
Upper echelons perspective	Exploration of intermediary mechanisms	Integration of upper echelons approach with input-mediators-outcomes framework
→ Explores relationship between team characteristics and behaviors with venture performance	→ Provides more precise insights into the relationship of team inputs and team effectiveness	
(Strategic Management)	(Organizational and Entrepreneurial Behavior)	

Teamcharakteristik us.
Performance

Teambeziehung us. Effectiveness

Key questions for building entrepreneurial success teams



Team based on weak or strong ties?

Weak ties (Foreigners)		Strong ties (Friends, Family)	
Benefits	Challenges	Benefits	Challenges
<ul style="list-style-type: none"> · Flexibility in search for potential partners · Maximize human capital 	<ul style="list-style-type: none"> · Understand other's values and visions · Define relationship and potential transformations · Rules and roles for fairness and trust · Introduce certain rituals and routines 	<ul style="list-style-type: none"> · Avoid one type of uncertainty · Build on joint values, connect them to firm values and firm's culture 	<ul style="list-style-type: none"> · Learn to have fights · Potential changes in team composition · Old and new roles · Include others, such as future team members, employees, ...
Team charter can help to build up team!		Team charter can help to professionalize relationships!	

Team charter

F
TRE
C R
FD

Part 1: Laying the foundations

- What are your preferred work times, styles, ways of communication?
- What are your individual business-related strengths and weaknesses?

Part 2: Team roles and expectations

- What are your goals and visions?
- What is high/ low performance for you? Who will be responsible for what activities? Who takes care of general/ less comfortable tasks?
- How do you want to represent firm to the outside?
- Should there be a leader? Who?

Part 3: Contributions and rewards

- Who contributed what?
- How do you measure contributions (if you want to measure contributions)?
- How do you ensure expected contributions?
- How can team members be rewarded and sanctioned?

Part 4: Future development

- How could you build up or integrate new competencies?
- How would you like to work with investors?
- How could you "break up?"
- When and how should the charter be reviewed?

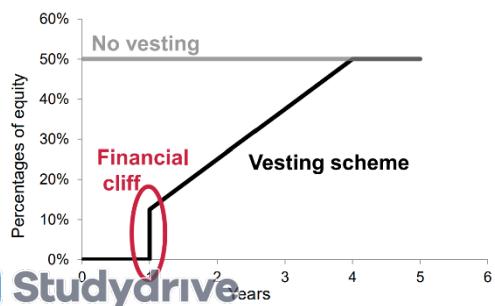
Equity distribution

- Distribution of equity is the entrepreneur's „first deal“
- Typically equal split (also power and control)
- Negotiations are often emotional and stressful

Equity split

Criteria for the equity split	
Backwards orientation	Forwards orientation
<ul style="list-style-type: none"> Idea premium Capital contribution Opportunity costs 	<ul style="list-style-type: none"> Prior experiences, eg. entrepreneurial or industry experience Level of commitment Titles
„More certainty about contributions (but not necessarily agreement)“	„When the pie is split, 95% of the work required for success remains in the future.“
Timing for equity split	
Split earlier	Split later
<ul style="list-style-type: none"> Attract team members with equity incentive Previous work experience with co-founders in another start-up Time for calm negotiation before pressure 	<ul style="list-style-type: none"> Team members' contributions and commitment not clear in beginning Future incentives are available Business model and roles form over time No renegotiations are necessary after fundamental changes
Static vs. dynamic	
Static	Dynamic
	<ul style="list-style-type: none"> Uncertainty Fair over time because founders need to earn equity stakes (based on time, based on milestones) Advantages if team members leave early Protection for all team members

Vesting model: Financial cliff after 1 year



Conflicts in entrepreneurial teams

Two views about consequences:	
Conflicts reduce trust, cooperation, and venture performance	Conflicts increase exchange of ideas, decision quality, and venture performance
Differences in content:	
Interpersonal incompatibilities, including tension, animosity, and annoyance among team members	Disagreements about the content of the team tasks, including differences in viewpoints, ideas, and opinions
Distinction:	
Relationship conflict	Task conflict
But: Task conflicts can turn into relationship conflicts!	

- Take breaks during discussions to avoid escalations
- Introduce some team rules
- Get to know fellow member's attitudes and understand goals, values and visions
- Reflect on your behavior
- Give feedback
- Ask for neutral support (Coaches, Mentors, Outsiders)

Team communication



Constructive communication can help prevent relationship conflicts, by allowing task conflict.

Constructive

- Is considerate
- Doesn't threaten
- Is timely
- Doesn't blame
- Is specific
- Focuses on performance
- Offers concrete suggestions for improvement

Destructive

- Is harsh
- Contains threats
- Is not timely
- Blames
- Is not specific
- Focuses on recipient
- Offers no concrete ideas for improvement



TASK: Max Levchin (Paypal)

What's Max Levchin's leadership approach?

- It's about transferring responsibility, which empowers people

What key issues does he mention as important to have a functioning team?

- Understand what people think, and what motivates them and use it to align them with the companies goal
- You should go the same way as your crew (otherwise they don't believe you)
- Work with empathy (see if people burn out)
- Believe in your team
- Ask your team, if you aren't satisfied with the work

What metaphor does he use for working in an entrepreneurial team?

- „I think he believes in me, more than I do“
- Head against the wall: You should focus on what truly is valuable not what's the hardest
- Founding a company vs. Deciding to get married: You need to feel inspired, and motivated, ... by your co-founder

Lecture 6 -----

ENTREPRENEURIAL STRATEGY

New entry means managing newness --> **Newness is liability and advantage!**

<u>Liabilities of newness</u>	<u>Assets of newness</u>
<ul style="list-style-type: none"> · Cost in learning new tasks · Conflict arising from overlaps or gaps in responsibilities · Unestablished informal structures of communication 	<ul style="list-style-type: none"> · Lack of established routines, systems and processes provide learning advantage · Heightened ability to learn new knowledge in changing environment = competitive advantage

How good is it to be (new and) fast?

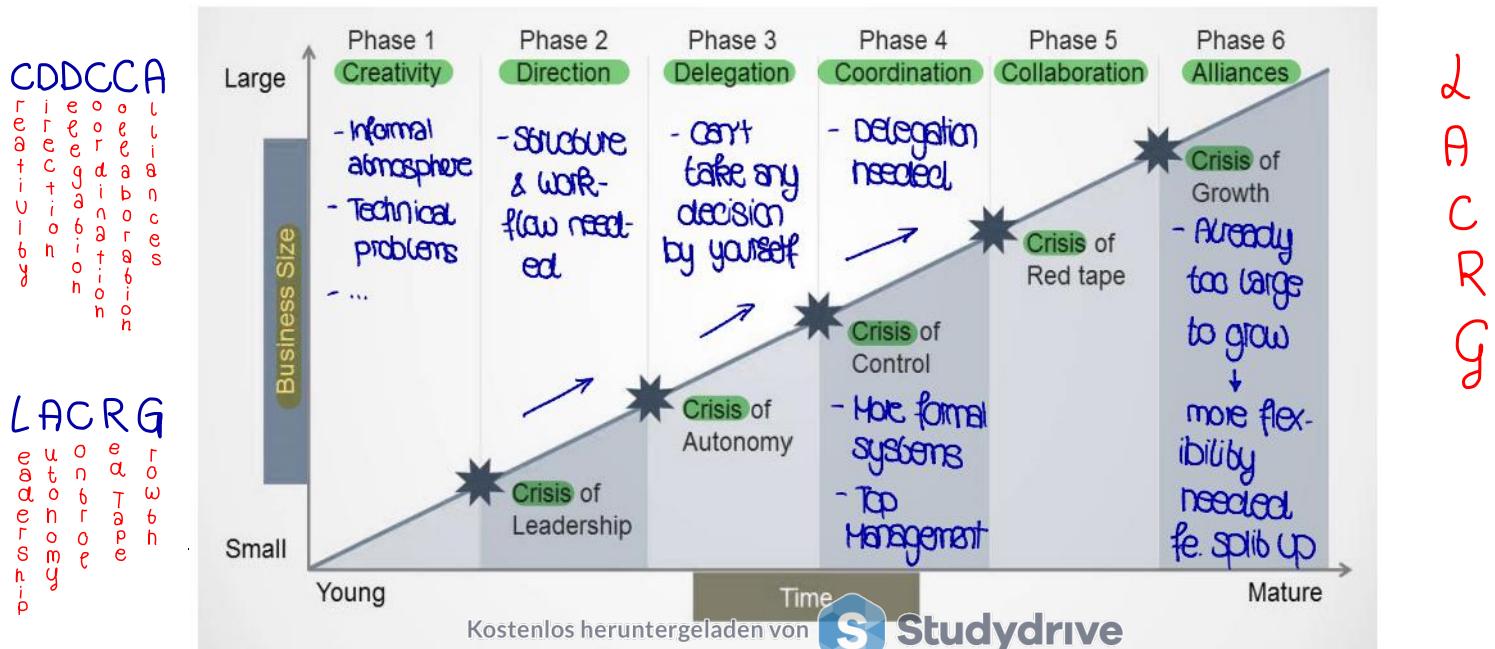
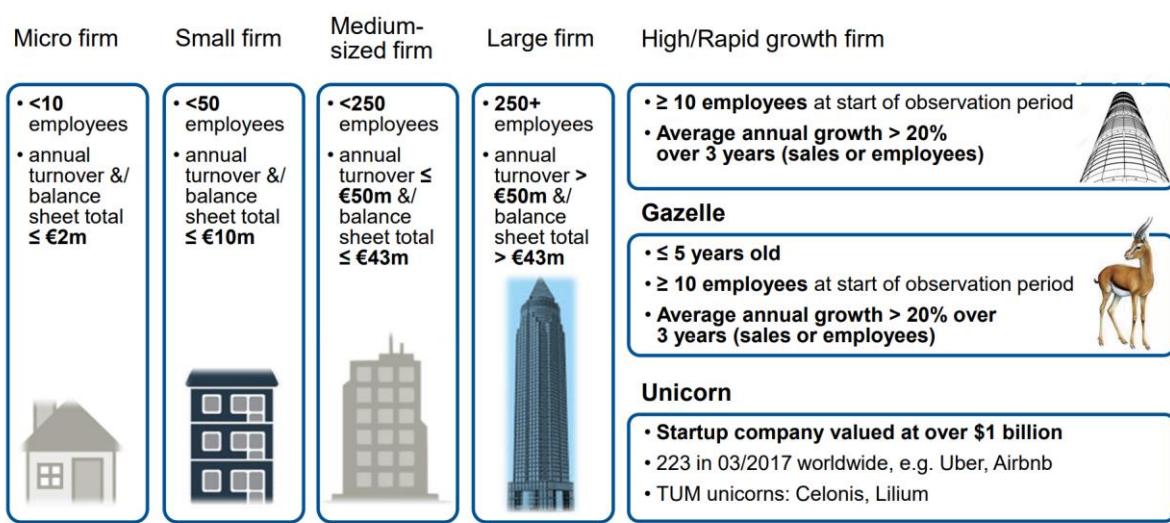
<u>First-mover strategy (Ebay)</u>		<u>Late-mover strategy (Google)</u>	
+	-	+	-
<ul style="list-style-type: none"> · Less competitive rivalry · Opportunity to secure supplier and distributor channels · Better position to satisfy customers · Gaining expertise through participation 	<ul style="list-style-type: none"> · Technological uncertainty · Market uncertainty · Uncertainty in value creation for customers 	<ul style="list-style-type: none"> · Refining is easier than inventing · Reduced R&D costs · More organizational legitimacy as type for business is known (fe. investors) · Lower uncertainty 	<ul style="list-style-type: none"> · Customers/Users might feel loyal to first · Access to resources more expensive · Need to catch up

Strategies

<u>Imitation strategies</u>	
Franchising – A franchisee acquires the use of a „proven formula“ for new entry from a franchisor	Copying – Copying products that already exist and attempt to build an advantage through minor variations

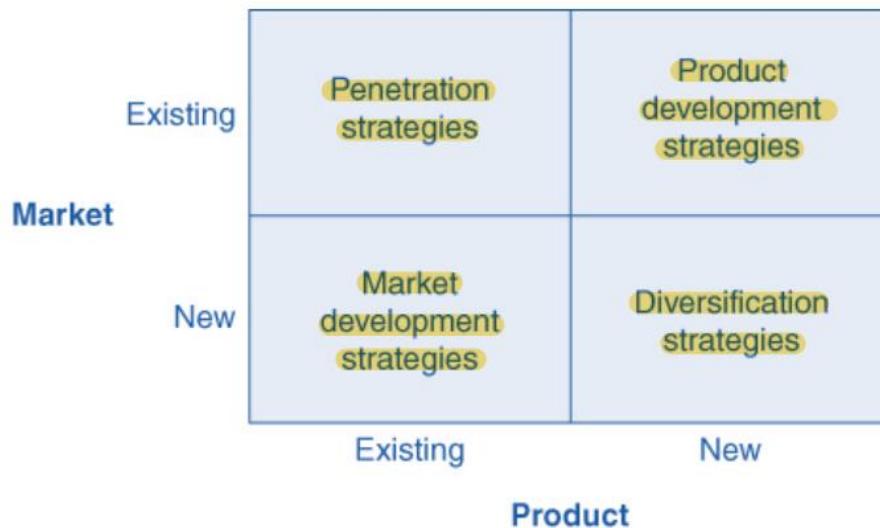
Entry strategies	
Narrow-scope strategy	Broad-scope strategy
<ul style="list-style-type: none"> Small product range to small number of customers Customized products, localized business operations, high level of craftsmanship Specialized expertise and knowledge High-end as highly profitable niche Reduce competition-related risks but increases risks associated with market uncertainties 	<ul style="list-style-type: none"> Range of products across many different market segments Strategy emerges through information provided by learning process Different „fronts“ of competition Reduces risks associated with market uncertainties but increases exposure to competition

Firm size & Growth challenge



Key activities of start-up entrepreneurs	Key activities of growth stage entrepreneurs
<ul style="list-style-type: none"> – Spider in its web – Broad overlapping roles – Focus on internal activities <ul style="list-style-type: none"> – Resource acquisition – Product development/ prototyping – Purchasing major equipment – Analytical / conceptual work – Environmental monitoring – Obtaining and dealing with customers 	<ul style="list-style-type: none"> – Recruiting and taking on supervisory role – Specialized roles – Focus on external & internal activities <ul style="list-style-type: none"> – Strategic management – Strategic alliances & personal networking – Supplier relationships – Management of culture and vision – Business and organizational development – Dealing with / empowering employees

Growth strategies: The Ansoff matrix



Penetration strategies	Product development strategies
<p>= Encouraging existing customers to buy more</p> <ul style="list-style-type: none"> · Marketing can be effective in encouraging frequent repeat purchases · Doesn't involve anything new for the firm 	<p>= Developing and selling new products to existing customers</p> <ul style="list-style-type: none"> · Chance to capitalize on existing distribution systems · Capitalize on corporate reputation

<ul style="list-style-type: none"> • Relies on taking market share from competitors or expanding size of the existing market 	
<p>Market development strategies</p> <p>= Selling existing products to new groups of customers</p> <ul style="list-style-type: none"> • New geographical market: new locations • New demographic market: different demographic group • New product use: existing product to new group of buyers • Uncertainty of new markets 	<p>Diversification strategies</p> <p>= Selling a new product to a new market</p> <ul style="list-style-type: none"> • Backwards integration: step back (up) in the value-added chain toward the raw materials • Forward integration: step forward (down) in the value-added chain toward the customers • Horizontal integration: occurs at the same level of the value-added chain but involves different, complementary, value-added chain

Example of growth strategies



- Case: Early days of the Head Ski Company; only produced and sold high-tech skis in the US market.
- **Penetration strategy:**
 - Increase in marketing budget focused on encouraging existing customers to "upgrade" their skis more often.
- **Market development strategy:**
 - Selling skis in Europe, Argentina, and New Zealand.
- **Product development strategy:**
 - Develop and sell new products (hats, gloves, boots, and other ski accessories).
- **Diversification strategies:**
 - Backward integration: design and manufacture of equipment used to make skis.
 - Forward integration: open of a chain of retail ski shops.
 - Horizontal integration: ownership of ski mountains.

TASK: Konux, Babo Blue, Proglove, Ridebee

Assessing entry strategies:

	Narrow scope	Broad scope
Early mover	 KONUX <i>Railway solutions</i>	
Late follower	 RideBee	

Growth strategies:

	Existing product	New product
Existing market	 <i>Flights booking service for students</i>	 <i>IT</i>
New market	 <i>Biotech material</i>	 <i>Kinexon (Corona-Warnsystem)</i>

NEW VENTURE INTERNATIONALIZATION

BMW vs. Logitech's internationalization --> New ventures' speed of and approach to internationalization has changed fundamentally over last decades

<u>BMW (1960/70)</u>	<u>Logitech (1990s)</u>								
<ul style="list-style-type: none"> Perceived uncertainty and knowledge about foreign markets determine internationalization process Increasing internationalization after long period of only home market 	<ul style="list-style-type: none"> Internationalization was always the goal of the founders Born global model 								
<u>Entry mode:</u> <pre> graph TD A[Sporadic export] --> B[Regular export] B --> C[Sales subsidiary] C --> D[Production subsidiary] </pre>	<u>Born global model:</u> <table border="1"> <tbody> <tr> <td>Environment</td> <td>Increasingly internationalized industries Advances in ICT and transportation technologies (patriot6)</td> </tr> <tr> <td>Product</td> <td>High degree of innovation and specialization (shorter product life cycles) Unique competitive advantage Products often standardized (quick international roll-out)</td> </tr> <tr> <td>Customers / Market</td> <td>Often niche segments Narrow market necessitates international growth 'Global' need (increasing homogenization of customer preferences)</td> </tr> <tr> <td>Management Team</td> <td>International background or experience: mindset High international entrepreneurial orientation Existing networks abroad → previous customers, suppliers, etc.</td> </tr> </tbody> </table>	Environment	Increasingly internationalized industries Advances in ICT and transportation technologies (patriot6)	Product	High degree of innovation and specialization (shorter product life cycles) Unique competitive advantage Products often standardized (quick international roll-out)	Customers / Market	Often niche segments Narrow market necessitates international growth 'Global' need (increasing homogenization of customer preferences)	Management Team	International background or experience: mindset High international entrepreneurial orientation Existing networks abroad → previous customers, suppliers, etc.
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Foreign market entry barriers vs. attractiveness

<u>Barriers</u>	<u>Attractiveness</u>
<p>Institutional barriers</p> <ul style="list-style-type: none"> Import tariffs or quota Local ownership restrictions (joint venture) Local content clauses for foreign direct investments 	<ul style="list-style-type: none"> Market volume: Amount of customers, Sales volume Market growth: Potential growth in customers and sales volume Price structure: Potential price, competitor prices, prices of substitute products

Market-based barriers	<ul style="list-style-type: none"> · Access to distribution systems hindered · Problems in finding skilled personnel · Customer preferences for local companies („buy-local“) 	<ul style="list-style-type: none"> · Cost structure: Labor cost, costs for resources · Infrastructure: Transport system, Internet
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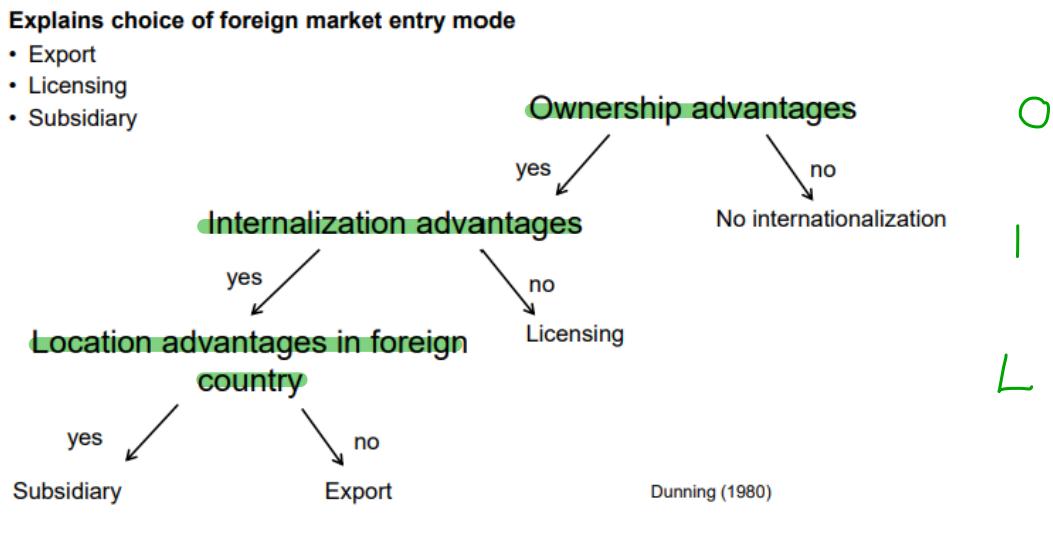
Entry modes

<u>Entry mode</u>	<u>Advantage</u>	<u>Disadvantage</u>
Exporting = Sale and shipment of products manufactured in one country to customers located in another country	<ul style="list-style-type: none"> · Small resource investments · Relatively small risk 	<ul style="list-style-type: none"> · Transportation costs · Problems with costs and for export management firms or agents
Licensing (Franchising) = Manufacturer (Licensor) gives a foreign manufacturer (Licensee) the right to produce and sell a product in return for the payment of a royalty	<ul style="list-style-type: none"> · Small resource investments · No transportation costs 	<ul style="list-style-type: none"> · Lack of control over licensee and licensed property (Quality)
Joint Venture = Two or more firms form a new enterprise in which they share equity	<ul style="list-style-type: none"> · Access to local partner's knowledge and technologies · Sharing development costs and risks 	<ul style="list-style-type: none"> · No autonomous decision making · Coordination efforts · Conflicts with partners (Instability)
Subsidiary = Separate, distinct legal entities that are controlled by a separate higher entity (parent company)	<ul style="list-style-type: none"> · Protection of knowledge and technologies · Autonomous decision making and strategic planning 	<ul style="list-style-type: none"> · High investment costs · High risks

Foreign market entry: Eclectic Theory

- Explains the choice of foreign market entry mode (Export, Licensing, Subsidiary)
- Useful decision tool for assessing entry modes
- Correlation between choice of market entry mode and certain advantages:

- **Ownership advantage** (Product innovations, Patent, technological advantage)
- **Internationalization advantage** (Advantages that are realized by keeping a resource internal – fe. technology or know-how)
- **Location advantage** (Resource costs, labor costs, infrastructure, transportation)



TASK: Starbucks Internationalization Fail

Starbucks Internationalization (Australia) --> Culture is key to internationalization success!

<u>Mistakes</u>	<u>Lessons learned</u>
<ul style="list-style-type: none">· Overconfidence in product· Wrong location· Insufficient understanding of local market· No product adaptation (coffee as a product, not as a social part, too sugary)· Wrong assessment of local meaning of a product· Wrong pricing· Underestimation of made-at-home preference	<ul style="list-style-type: none">· Give customers time to get to know the offering (they launched too rapidly, it was too available)· Create more value than locals· Find an appropriate customer segment and right location to reach this segment

- Starbucks closed back more than 2/3 of their stores in Australia
- \$105 mio losses
- Embarrassing for Starbucks
- High coffee culture in australia: everyone knew each other there

Lecture 7 -----

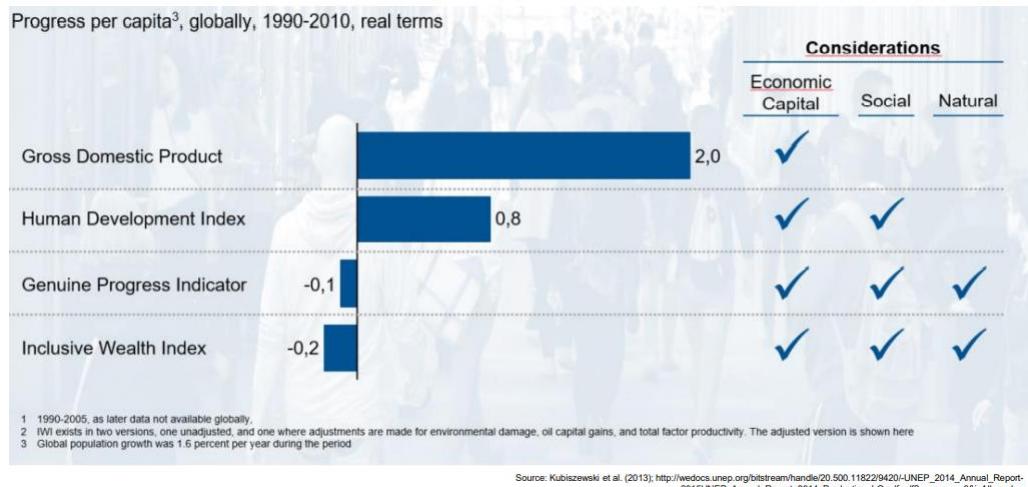
SUSTAINABLE ENTREPRENEURSHIP

Challenges for the 21st century

Impact = Population x Affluence x Technology

- Population: Steady demographic increase
- Affluence: Waste and system failure, Increasing energy consumption
- Technology: System inefficiency (losses by production, transportation)
- Impact: Resource-intensive and inefficient growth

GDP doesn't give information about social and nature wealth



Sustainable concepts: The origin

- **Sylvicultura oeconomica** as prudent management of forest resources
- Only harvest as much wood as could regrow
- Hans Carl von Carlowitz in 1713 (Saxonian chief mining official)
- Background: Tremendous population growth, wood as raw material



Defining sustainability

- World Commission on Environment and Development, 1987:
Sustainability is meeting „the needs of the present without compromising the ability of future generations to meet their own need.“
- Companies should operate in ways that secure long-term economic performance by avoiding short-term behavior that is socially detrimental or environmentally wasteful

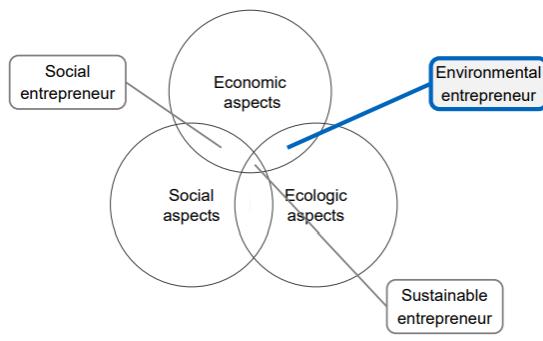
Triple-bottom-line approach

- John Elkington (1994)
- Economic, Ecological and Social dimensions
- „3Ps: Profit – Plant – People“



Sources: https://www.flaticon.com/free-icon/ecological_3047812

<https://www.un.org/sustainabledevelopment/news/communications-material/>



Prototypical form of environmental entrepreneurship

Core motivation	Contribute to solving environmental problems and create economic value
Main goal	Earn money by solving environmental problems
Role of economic goals	Ends
Role of non-market goals	Environmental issues as integrated core element
Organizational development challenge	From focus on environmental issues to integrating economic issues

Definitions

„**Sustainable entrepreneurship** is the preservation of nature, life support, and community in the pursuit of opportunities to bring into existence future products and services for profit, where profit is broadly construed to include gains to people, the economy, and society.“

„**Environmental entrepreneurship** is the process of discovering, evaluating, and exploiting economic opportunities that are present in environmentally relevant market failures.“

- Synthesizing the environmental economics and entrepreneurial opportunity perspective
- Some market failures which result in environmental damage provide entrepreneurial opportunities whose exploitation reveal profit and social welfare improvements

Understanding market failure: Welfare economics (Pigou 1932)

- Market failure
Departure from Pareto efficiency and perfect competition
- Distinguish
Private costs of production vs. social costs of production
- **Private costs of production**
Costs incurred only by the private firm or individual producing a good or service (Production costs, wages, rent, ...)
- **Social costs of production**
Private costs of production + Costs incurred by society at large, but not the private producer (CO2 emissions, pollution, ...)
 - Whenever social costs (or benefits) of production vary from private costs (or benefits), a socially optimal allocation of resources will not result!

Environmental economics perspective

- Various types of market failures create environmental damage
- Environmental assets (e.g., atmosphere) have characteristics which make them less amenable to market allocations
- Eradicating market failure leads to reduced environmental degradation and enhances economic and ecological sustainability



Environmental degradation results from market failures.

Entrepreneurial opportunity perspective

- Imperfect competitive markets as sources of opportunities for entrepreneurial action and economic profit
- Two sources of opportunities
 - **Exogenous shocks:** altered demand (i.e., taste or preference) or supply (i.e., new product or process technologies)
 - **Asymmetries in awareness:** different individual preferences (e.g., knowledge or alertness)



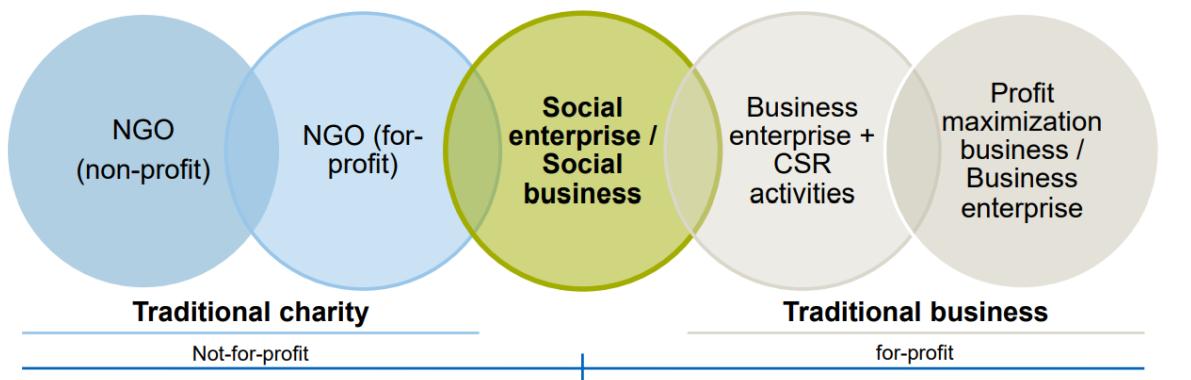
Opportunities are inherent in market failures.

SOCIAL ENTREPRENEURSHIP

„Innovative, social value creating activity that can occur within or across the nonprofit business or government sectors.“

Social entrepreneurs play the role of change agents in the social sector by:

1. Adopting a mission to create and sustain social value
2. Recognizing and relentlessly pursuing new opportunities to serve that social mission
3. Engaging in a process of continuous innovation, adaptation and learning
4. Acting boldly without being limited by resources currently at hand
5. Exhibiting a heightened sense of accountability to the constituencies served and for the social outcomes created



Social by selling

- Organizations that make their **impact** through **what they sell** or to **whom they sell it**
- *Examples:* Grameen Bank (microfinancing), Aravind EyeCare

Social by sourcing

- Organizations that develop their programs by **how they make** **their products or services**
- *Examples:* Fair Trade Businesses, Refugee integration

Social by sharing

- Organizations that exist to share some or all of their profits with charitable organizations or causes
- *Examples:* Gates Foundation, Oxfam Shops, social or ethical investment funds

Typology of social entrepreneurs

→ Social bricoleur

Act on local needs with locally discovered resources (Local problem)

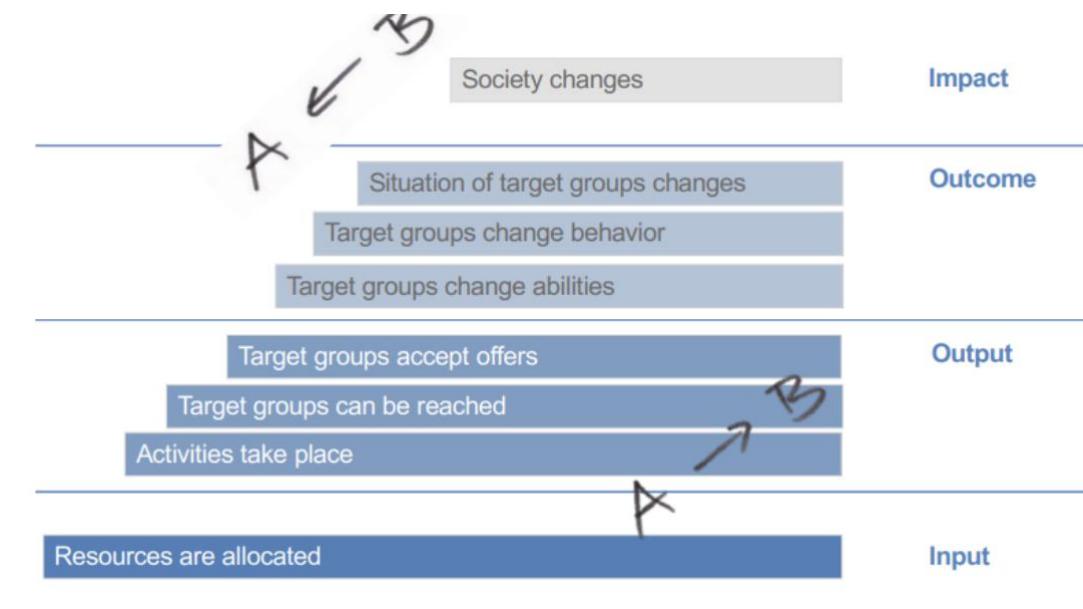
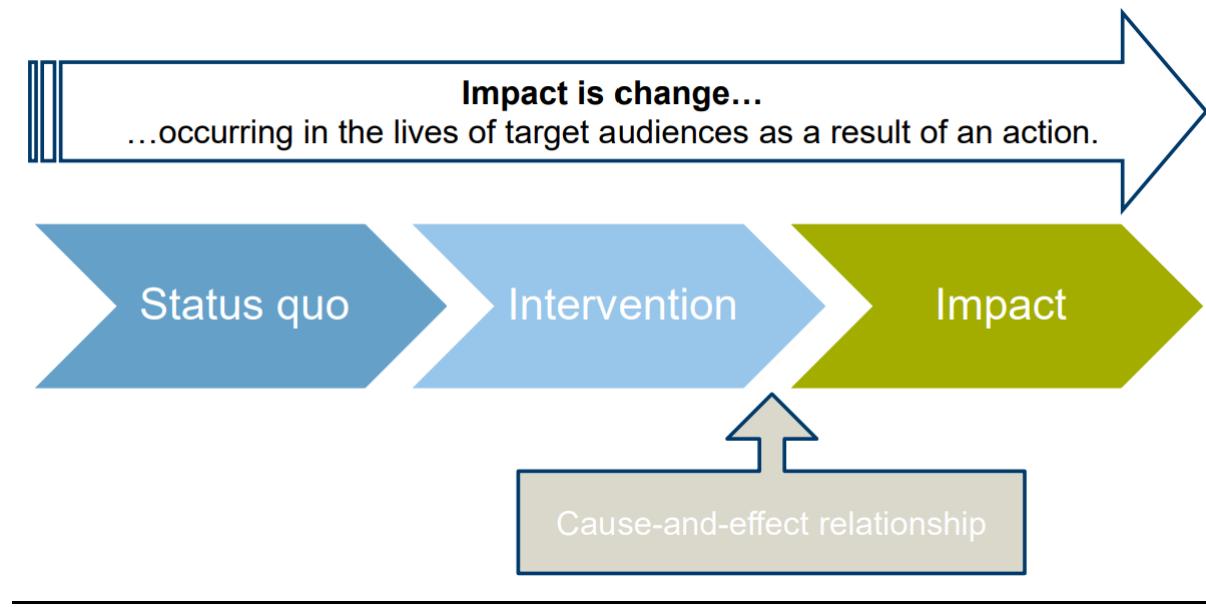
→ Social constructionist

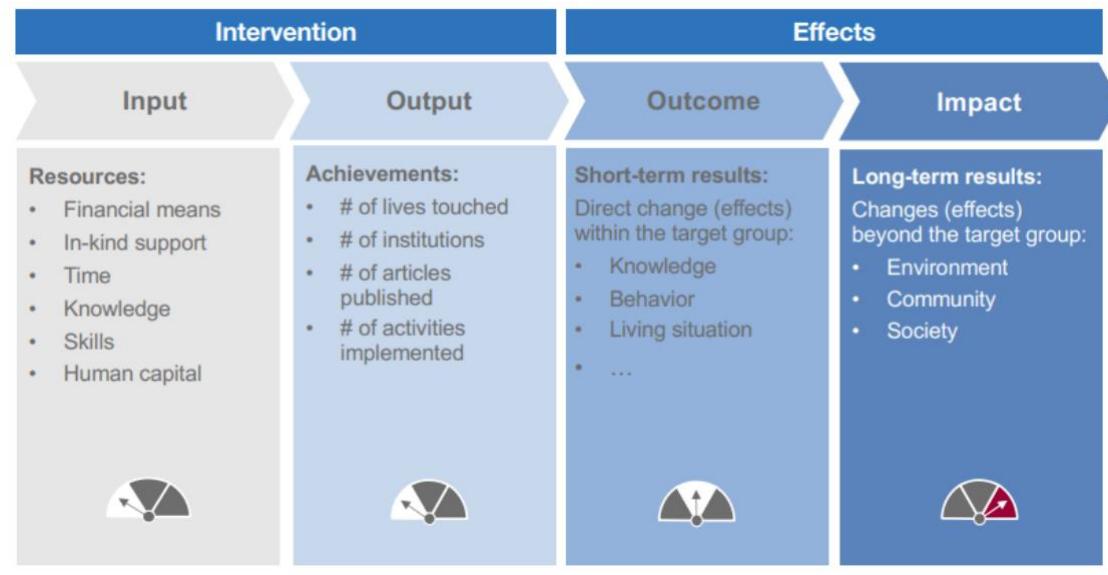
Provide goods and services that governments, businesses and agencies cannot
(Creating something new)

→ **Social engineers**

Create newer and more effective social systems (Big approach to change the system)

Measuring social impact





- Social business vs. economic business vs. philanthropy
- Developing social opportunities needs developing new ways of interaction to empower beneficiaries, flexible partners and an engaged team
- Understand the social problem is the first step, personal learning and execution second
- Social entrepreneur is a marathon

TASK 1: Zarah Bruhn – Prominent social entrepreneur (Social-Bee)

How did Zarah identify and develop the opportunity to found Social Bee?

- 4 years ago there was the refugee wave in Germany, lots of people lost their homes/securities/...
- She only knew that **there was a problem, which she is passionate about** solving and had a rough idea
- **Researched** short-term employment, and integration policies, ...

What key lessons did Zarah learn from founding Social Bee and Bring and Ring?

- Experiences in the refugee crisis made her stronger: stay creative, develop new ideas, and **become part of the solution**
- Learning from each other and working together is key
- Crisis means back to basics: change your perspective to see a crisis as an opportunity (**Crisis sparks creativity**)
- Know what the problem is: stay flexible in the process, adapt over time: keeps you from staying in the lane (Personal learning and execution are second step)
- Developing social opportunities needs developing new ways of interaction to empower beneficiaries, flexible partners and an engaged team
- Common team purpose keeps you from taking things personally

What is the downside of being a passionate social entrepreneur?

- Hard to get public fundings (either for traditional Start-up or Non-profit)
- Lower margins, since you have to compromise impact and profit: can't build up reserves, donations feel like begging
- Black/White-Thinking: People think making profit as social entrepreneur isn't honest: Your „**real motives**“ are **criticised**, even though you're exploiting yourself
- Creating impact really takes a while: it's a marathon, not a sprint
- Hard to measure impact, more like a snowball effect

TASK 2: Ole Kassow, Jacqueline Novogratz, Muhammed Yunus

Entrepreneur	OLE KASSOW	JACQUELINE NOVOGRATZ	MUHAMMAD YUNUS
	Cycling without age	Acumen	Grameen Bank
	Lives in Copenhagen, created cycling without age because of his father	Worked on Wall Street, Founded Microfinance Institution Duterimbere, Wrote „The Blue Sweater: Bridging the Gap between Rich and Poor“ and created Acumen	Professor from Bangladesh, won Nobel Peace Prize
What social needs do these entrepreneurs address?	<ul style="list-style-type: none"> · Elderly missing freedom, joy, and mobility of cycling · Physical and mental well-being 	<ul style="list-style-type: none"> · Missing affordable education, health care, clean water, energy and sanitation in Africa, Latin America, South Asia and the US 	<ul style="list-style-type: none"> · Poverty in Bangladesh · Dependency of women · No chance to lift themselves out of poverty
How do they approach addressing these needs?	<ul style="list-style-type: none"> · Younger people go with a trishaw to a nursing home · Passengers can participate in the world again and share stories and experiences (triggered by trips) · Strengthens communities across generation · Physical and mental well-being of both 	<ul style="list-style-type: none"> · Acumen invested \$135 mio into social enterprises across Africa, Latin America, South Asia and the US · Investing in intrepid entrepreneurs and early stage innovators tackling problems of poverty (8 principles) 	<ul style="list-style-type: none"> · Microcredit institution provides small amounts of working capital to the poor for self-employment · 97% to women · Repayment rate consistently above 98%