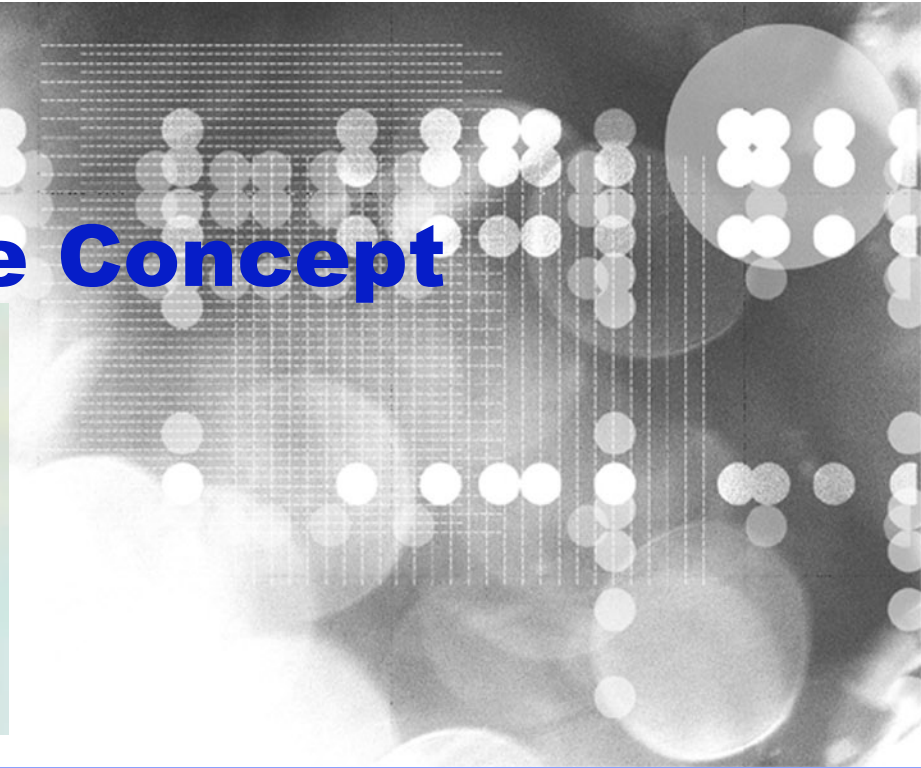


Lecture 2

The Idea, The Concept



The Idea, The Concept

- There are **many ideas out there**, but **many are not commercially viable**:
 - Too forward looking to gain market acceptance
 - Difficult to develop and deliver
 - Have little profit potential
- An business idea has to be of **some commercial value** for it to be a success.
- **Technology is dynamic**. Flavors and trends change quickly. Solutions need changes.
 - Eg. A few years ago, a search engine or a free web-based email concept could command good value → but not today.
- If product is **too new or too innovative** → buyers might have to be educated to use it.

What Is Business?

- **Business**—buying and selling of products and services; i.e. Demand vs Supply
- **Product**—exists in nature or is made by human beings. In the field of software engineering....we are aiming for software and any hardware, infrastructure, hardware medium/platform which required software engineers to breach and/or close the gap for innovation
- **Service**—work that provides time, skills, or expertise in exchange for money.

The Economic Questions

- What should be produced?
- When will it be produced?
- How will it be produced?
- Who will produce it?
- Who gets to have what is produced?
- An **economy** is a country's financial structure. It is the system that produces and distributes wealth.

Profit Is the Signal

- Profit—amount of money earned by a business left over after bills are paid.
- Profit signals that an entrepreneur is adding value to scarce resources.
- Entrepreneurs try to make **choices and/or trade-offs** that will increase profit.

Sources of Opportunity (Important – Step 1 BP)

1. Use new technology to produce a new product.
2. Use an existing technology to produce a new product.
3. Use an existing technology to produce an old product in a new way.
4. Find a new source of (cheaper) resources.
5. Develop a new market for an existing product.

Business Opportunity = Idea + 4 Characteristics

1. Attractive to customers
2. Will work in your business environment
3. Can be executed in existing window of opportunity
4. Entrepreneur has resources and skills to create the business

Five Roots of Opportunity

1. Problems
2. Changes
3. Inventions
4. Competition
5. Technological advances

Where others see problems, entrepreneurs recognize opportunities.

Seven Rules for Building a Successful Business

Recipe of Business Success

- Recognize an opportunity
- Evaluate it with critical thinking (SWOT)
- Build a team
- Write a business plan
- Gather resources
- Decide ownership
- Create wealth
- Understand the needs of your customers.
- Offer them a **sustainable** competitive advantage.
- Deliver a product or service that meets customer needs at a fair price.

sustainable = can be kept going over time

Source of Business Ideas

- Prior job
- Improving upon an existing idea
- Seeing a need in the marketplace
- Hobby or a vocational interest

Business Idea

- **Purposes of writing a Business Idea Plan.**

- Communicate initial idea
- Serves as an initial version of a more comprehensive Business Plan

- **What is a business plan?**

- A document that you can use to start and operate your business.
- A document you can show investors and bankers to raise money (capital) for your business.

Business Idea : Executive Summary

- The most important part of the document/business plan.
- Contains brief overview of most important aspects of the business plan.
- It should highlight :
 - The product or service
 - The value to the customer
 - The relevant markets
 - Management expertise
 - Financing requirements
 - Possible return on investment

Business Idea : Executive Summary

- The reader must be able to read and understand the executive summary in 5 minutes.
- When writing this section, pay special attention to 4 key aspects for each point :
 - **Uniqueness** of the product/service and why this situation is special
 - Competent & experienced **management team**
 - Indicate there is substantial **profits** available for the venture
 - Indicate an **exit** strategy for the investor/reader (& reap benefit from the investment)

Business Idea : Executive Summary

- Facts about executive summary :
 - 90 % don't read beyond your executive summary
 - It makes or breaks your opportunity to further present your ideas
 - It must be written to entice / seduce the reader to read more...it must be short & sexy.

- **Advice** : Write the executive summary **last** when all the details of the business plan are available.

Business Idea : Product & Service Description

- Focus on the technical aspects of the product / service
- Do not go too deep into technical terms (must write to suit the audience).
- The reader expects you to have the technical expertise to deliver the product/service and it should be highlighted accordingly in the session where he/she meets the management team.

Business Idea : Technology Description

- Main areas to be covered :
 - Key components related to the product/service or technology
 - The intellectual property involved
 - Specialized knowledge
 - Experience and skills involved and required
 - Relevant regulations that may govern the use of the technology to deliver the product/service.
 - Research & Development (R & D) – outlines your plans for the future
 - Future technology that you and the market can foresee

Business Idea : Market & Competition

- Areas to cover :
 - Identify possible & potential market → determine the potential size of the business in terms of sales volume and revenue
 - Size. Life-cycle, geographical location, age, gender, income level,
 - What they buy, where they buy, why they buy, how can they buy etc
 - Identify and elaborate about the competition
 - Who are they ?
 - How do you rank against them ?
 - How are your product/service to customers, different ?
 - What are your competitive advantages and disadvantages ?

Business Idea : Market & Competition

- Areas to cover :
 - What steps will you take to open up new markets ?
 - Your sales strategy
 - How do you expect your customers to buy your product/service ?
 - How do you plan to gain market share ?
 - Advertising plan → includes the choice of media, cost & impact
 - Any unique promotional activities tailored to your target market ?
 - Your marketing strategy
 - How do you ultimately plan to satisfy the needs of your target market by combining your market research, competitive analysis and marketing strategies.
 - Focus on the need of the customer,, not on the product.

Business Idea : Market & Competition

- Note :

- Old marketing approach :

- Management tells designers and engineers to create the product → after developed, ask sales people to sell the product (find customers to buy the product).

- **New marketing approach :**

- Management first determines what customers want → info is passed to designers & engineers to develop the product

Business Idea : Business Model

- It section provides an overview of key areas related to your business. The Business Model should include :
 - **What ?** Brief introduction to the idea / venture, the industry and the market you will be bringing in.
 - **Why ?** Opportunity present in the current market. What is the market need or problem you will attempt to solve with your idea/ venture.
 - **How ?** What is your value proposition to the customer ? Is the product a completely new invention or an innovation to existing product ? What technology or solution do you propose ? How will you make money from the venture ?
 - **Key Business Objectives** which include your targets for revenue, product, rollout and future initiatives.

Business Idea : Business Model

■ Note :

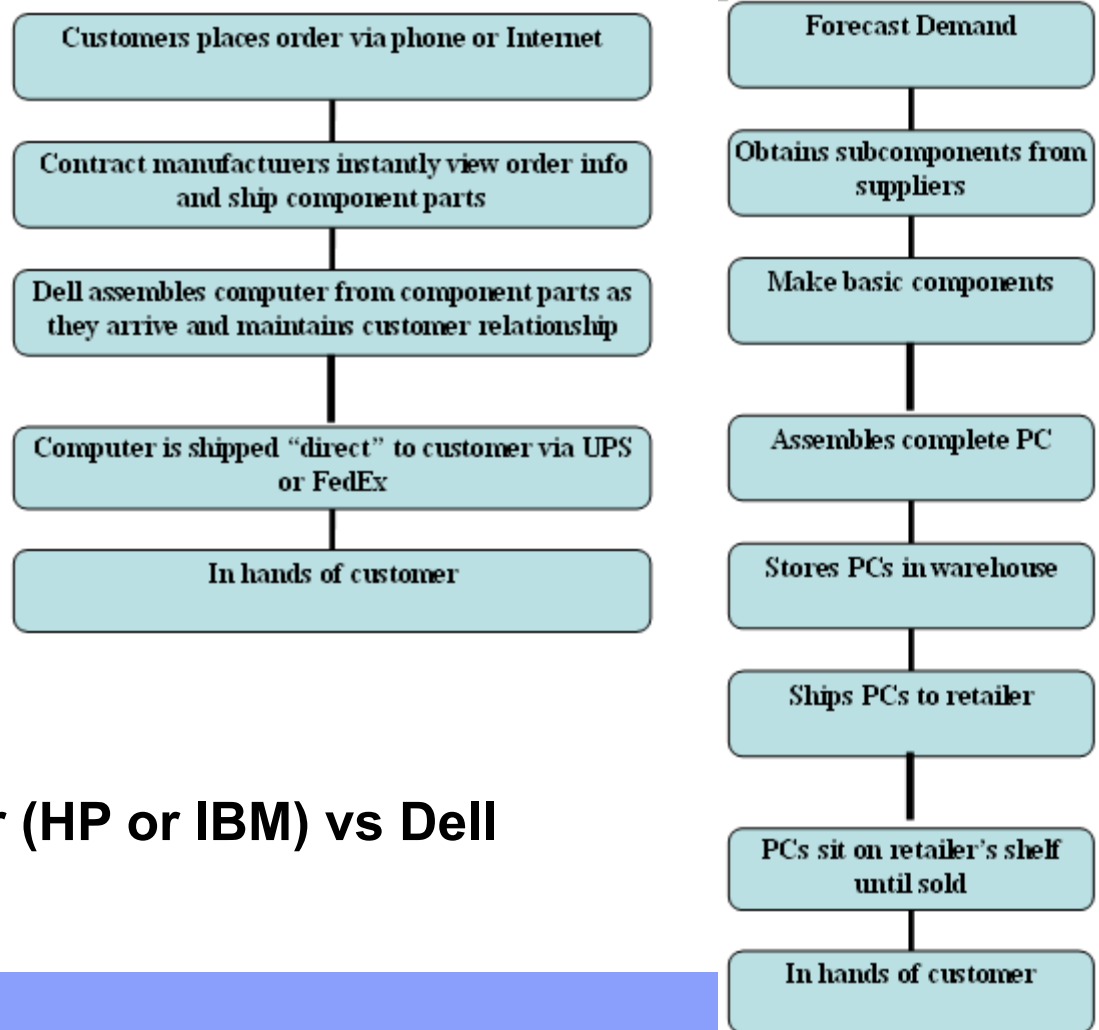
- A good tool to assist you to write the business model is the **SWOT Analysis**. It highlights the strengths & weaknesses within the business and identifies opportunities & threats in the external business environment.
- SWOT Analysis helps you to plan your business model better –
 - make most of the competitive advantage,
 - take steps to overcome shortcomings,
 - exploit potential in the market place,
 - Minimize the exposure to real threats

Business Idea : Business Model

- There is no one standard business model that fits all types of business
- It is dangerous for S/W Entrepreneur to copy any business model of any other industry leader because:
 - Difficult to precisely understand all of the business components
 - A firm's business model is inherently dependent on the collection of controlled resources and the capabilities if it possesses.
 - E.g. Dell Inc
 - best group of supply chain managers
 - long term trusting relationship with key suppliers

Business Model Innovation

- For long term success, all business model need to be modified across time
- Avoid competitors whom eventually learn how to duplicate the benefits and able to create another similar business model



Traditional manufacturer (HP or IBM) vs Dell

SWOT Analysis and Self Assessment

- Identify your Strengths and Weaknesses
- Examining the Opportunities and Threats
- Focus your activities into areas where you are strong and where the greatest opportunities lie.
- Successful technopreneurs are not big risk takers; instead they are expert risk hedgers
- Work to reduce the overall uncertainty of the external environment
- Strengths to offset as many weaknesses and make sure the opportunities always outnumber threats
- Will ready to make use of any opportunity as soon as it strikes

How To Use SWOT In Evaluating Your Business Idea

■ Strengths

- What advantages do you have?
 - What do you do well?
 - What relevant resources do you have access to?
 - What do other people see as your strengths?
 - Think if strengths in relation to your competitors
-
- Put yourself into consumers' shoes
 - Don't be modest. Be realistic
 - If all competitors provide high quality products → high quality production process is NOT a strength in the market, it is a **necessity**

How To Use SWOT In Evaluating Your Business Idea

■ Weaknesses

- What could you improve?
 - What do you do badly?
 - What should you avoid?
 - Consider this from an internal and external basis
-
- Do other people seem to perceive weaknesses that you do not see?
 - Are your competitors doing any better than you?
 - It is best to be realistic now, and face any unpleasant truths as soon as possible

How To Use SWOT In Evaluating Your Business Idea

■ Opportunities

- Where are good opportunities facing you?
 - What are the interesting trends you are aware of?
-
- Useful approach to looking at opportunities is to look at your strengths and ask yourself whether these changes* open up any opportunities
 - *Type of changes :
 - Changes in technology and markets on both a broad and narrow scale
 - Changes in government policy related to your field
 - Changes in social patterns, population profiles, lifestyle etc

How To Use SWOT In Evaluating Your Business Idea

■ Threats

- What obstacles do you face?
 - What is your competition doing?
 - Are the required specifications for your job, products or services changing?
 - Is changing technology threatening your position?
 - Do you have bad debt or cash-flow problems?
 - Could any of your weaknesses seriously threaten your business?
-
- Carrying out this analysis will often be illuminating – in terms of pointing out what needs to be done, and in putting problems into perspective

The Market : How Big ? How **Scalable** ?

■ Definitions :

- A market is a particular group of people or organization that have wants and needs that may be partially satisfied
 - A market is a potential that exists for a mutually satisfying exchange between producers of “want-satisfying” products and the buyers/users of such products
-
- The key is to understand how large the market, demand and product reach.

The Market : How Big ? How Scalable ?

- Once the idea, a product/service to be delivered is determined → then, understand how large the opportunity really is.
- Can it be tested successfully in **local markets**, then **duplicated elsewhere** with little or no difficulty?
- (Service) Can it be delivered or fulfilled online to reach global audience on the desktop ?
- If “Yes” → the projects are scalable.

The Market : How Scalable ?

- A s/w entrepreneur wants a global market that is scalable.
- Example : a restaurant with a superb cook, décor and lots of customers.
- Restaurant chains (Mc Donald's):
 - Instead of focusing revenue on the food business, they structure their **revenue model in other areas to achieve scalability**.
 - Rental incomes and capital appreciation from real estate deals.

The Market : How Scalable ?

- Question :
- A web design or e-business company that constantly develops customised solutions for clients → scalable ?
- Suggestion → quickly design and build a number of products and market them exclusively under a brand name. This way focus is on sales and support, not writing codes.

The Resources

- **Question** → Do we have the resources to develop and market the new product ?
- S/W ENtrepreneur must understand the issues of raising capital, selling to investors and preparing a business plan.
- Must address the need for other resources :
 - management,
 - technical development
 - marketing expertise

The Resources

- It would be perfect for the s/w entrepreneur to start putting his plans into action from his home.
- Most successful companies in the US began in the garage and slowly scaled up when the opportunity presented itself.
- The development of technology-related products and services involves lots of risks.
- S/W Entrepreneurs have to gauge and predict the development time which should not be greater than its shelf-life.

The Resources

- The key is to **use resources niggardly** (very ungenerously) and efficiently.
- **Build the product in stages, releasing versions in stages** till the final product is out.
- **Get the product out as soon as possible**, so that revenues can start coming in, reducing the need for more outside capital.

Can You Survive For 6, 12, 18 Months Without Pay ?

- The above question is an unpopular question but is very relevant.
- The question tries to gauge the **level of risk a person is willing to take**. The person with an s/w entrepreneurial spirit must be a **risk taker**... an **informed risk taker**.

Testing Your Business Idea

- Doing **Market Research** is one way to test your business idea
- Design and technical testing is important as it ensures the concept will perform as desired
- Testing your business idea using:
 - Questionnaires/survey
 - Face-to-face interview
 - **Product testing**
 - **Focus Group**
 - **Observation research**
 - **Experimental research**

Market Research

- Market Research is “the systematic problem analysis, model-building, and fact finding for the purpose of improved decision making and control in the marketing of goods and services.”
 - Do you know what your customer want?
 - Do you know if your products/services is the best?
 - Do you expect your products/services will sell well?
- Business is always full of risks and the future is always unclear
- S/W Entrepreneur need realistic info to increase their chances of making best decisions
- To “Plan ahead” or to “Guess ahead”?

Benefits Of Market Research

- Reduce Uncertainty
- Monitor Performance
- Long Term Strategic Planning
- As a Tool