Entrepreneurship And Creativity

First Level (English Language Program)
Faculty of Education, South Valley University

Prof. Dr. Sameh Ahmed Rihan
Faculty of Education, South Valley University

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Introduction

Dear Student,

This course has been designed to teach you everything you will need to know to start and maintain your own small business. We hope that what you learn here will help you achieve financial independence and personal satisfaction. Knowing how business works will be of great value in any future career path you may take.

Learning the principles of entrepreneurship will teach you about more than just business and money, however. In this textbook, you will learn, among other things, how to negotiate, calculate return on investment, perform cost/benefit analysis, and keep track of your income and expenses. These skills will apply to your personal as well as your business life. Even if you don't become a lifelong entrepreneur, learning how to start and operate a small business will give you an understanding of the business world that will make it much easier for you to get jobs and create a fulfilling career for yourself, and thus "own your future."

The characteristics of the successful entrepreneur—a positive mental attitude, the ability to recognize opportunities where others only see problems, and openness to creative solutions—are qualities worth developing. They will help you perform better in any situation life throws at you.

Owning your future will be the key to happiness. You can do so much good for your family, friends, and community by being aware of the opportunities and resources around you. Entrepreneurship is a way to do that—to make your dreams come true and help support the goals of those you care about.

What you learn from this course can help you make good personal decisions for the future.

Good luck!

Sincerely yours,
Skills Dynamix

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QUOTES TO REMEMBER BEFORE YOU BEGIN...

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Here are some thoughts for you to consider. Thoughts are the foundation for everything you create your education, your business, and, ultimately, your life.

- ”The secret of success in life is for a man to be ready for his opportunity when it comes”, ***Benjamin Disraeli***
- ”If I had eight hours to chop down a tree, I’d spend six sharpening my ax”, ***Abraham Lincoln***
- ”When there’s nothing to lose and much to gain by trying, try”, ***W. Clement Stone***
- ”What really matters is what you do with what you have”, ***Shirley Lord***
- ”You must do the thing you think you cannot do”, ***Eleanor Roosevelt***
- ”You are equal to anyone, but if you think you’re not, you’re not”, ***Jake Simmons***
- ”Everyone lives by selling something”, ***Robert Louis Stevenson***
- ”All businesses were launched by entrepreneurs, and all were once small,” ***Nat Shulman***
- ”Many a small thing has been made large by the right kind of advertising”, ***Mark Twain***
- ”You don’t get what you deserve, you get what you negotiate”, ***Chester L. Karrass***
- ”Your most unhappy customers are your greatest source of learning”, ***Bill Gates***
- ”In the midst of difficulty lies opportunity”, ***Albert Einstein***

1st you need to know

Why Be an Entrepreneur?

You might think of many reasons to start your own business. Before doing so, however, it's a good idea to consider the pros and cons of being an entrepreneur. The key is evaluating whether the potential rewards are worth more to you than the risks you will take.

Rewards of Being an Entrepreneur

You may think most people become entrepreneurs to make money. After all, making a good living allows people to provide for their needs and wants instead of depending on others. But more often the biggest reward of becoming an entrepreneur is the feeling of self-sufficiency it brings. Often there is a personal satisfaction that comes from having the freedom to make your own business decisions and then act on them. Additionally, you can display your aptitudes and skills for your family and friends to see. Here are some additional advantages of being an entrepreneur:

- Making Your Own Rules. When you own a business, you get to be your own boss. Depending on your business, you can decide what type of schedule you work, where you work, and how and when you get paid. You also have the final word on which products or services the business provides and how they are provided. For example, when you have a creative idea, you have the power to put that idea into action. Doing Work You Enjoy. The majority of most peoples' lives is spent working. Why not spend that time doing something you enjoy? People tend to stay more focused and motivated when they are passionate about their work. This helps a business succeed.

- Creating Greater Wealth. Typically, employees can only make the salary a company is willing to pay. However, there's no limit to what an entrepreneur can make. Entrepreneurs can also do more than just make a living from their yearly business earnings. A successful business, particularly one that keeps growing, can often be sold for much more than the amount that was investe in it.

- Helping Your Community. Being an entrepreneur opens up opportunities that help make your community and world a better place in which to live. For example, entrepreneurs help others by providing products or services needed by the community.
They also create jobs. Entrepreneurs often gain personal satisfaction and community recognition from the time and money they donate to worthy causes.

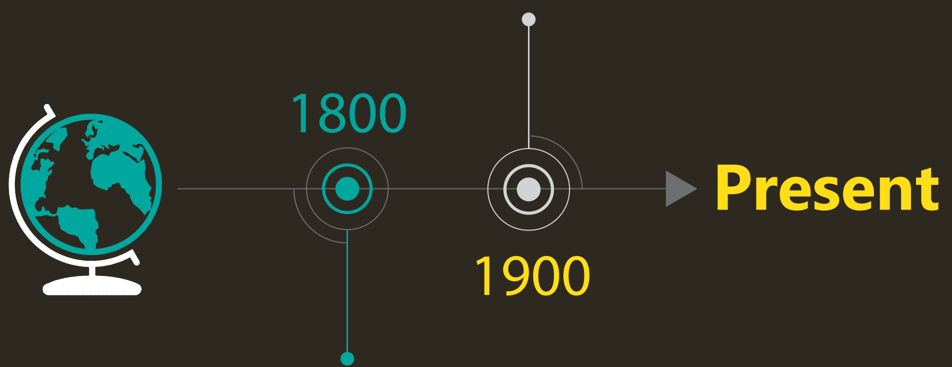
Risks of Being an Entrepreneur

Business ownership is not without risks. Here are some potentially stressful disadvantages that usually come with being an entrepreneur:

- Potential Business Failure. The flip side of getting to make all the business decisions is the possibility of making the wrong ones. Being fully responsible means the success or failure of your business

Entrepreneurship in History

Entrepreneurship (on-trah-prih-NER-ship), the process of being an entrepreneur, is more than just learning how to run a business. It can affect the economy, your community, and ultimately the world in which we live. Here is a brief list of examples of entrepreneurs who have changed the world in one way or another.



The 1800s

At 12, Thomas Edison already showed signs of being an entrepreneur. He was selling newspapers, candy, and snacks at the local railroad station. By 14 he had his own newspaper business. Gathering the daily news releases that were teletyped into the station, he pulled out the "scoops" and convinced over 300 commuters to subscribe to his paper, which he called the Weekly Herald. One of the most prolific inventors in history and holding over 1000 patents, Edison is credited with numerous inventions that contributed to mass communication. One of his inventions was the phonograph. Edison's greatest achievement, however, was creating a practical and economical system to generate and distribute electric light, heat, and power. That, and the light bulb, changed the world forever.

P.T. Barnum was 60 years old when his circus staged its first show. The circus generated $400,000 in sales in the first year. Later, it became known as the "Greatest Show on Earth" and still tours all over the United States.

The 1900s

In 1903, two friends—William Harley and Arthur Davidson— wanted to improve on the two-wheeled bicycle, and the motorcycle was born. Harley-Davidson was one of only two manufacturers to stay afloat during the Depression of the 1930s. Now it has out ridden its competition to become the world's largest manufacturer of motorcycles, with revenues of over $41 million annually.

Maggie Lena Walker was a staunch advocate of human rights, humanitarian causes, self-sufficiency, and race relations. With the philosophy of turning "nickels into dollars," she became the first woman to charter a bank in the United States. Her bank, the St. Luke Penny Savings Bank, opened in 1903 with receipts totaling $9,430.44. Today it has assets of over $116 million. Now known as the Consolidated Bank and Trust Company, Walker's bank is the oldest continuously operating minority-owned bank in the United States. Actively committed to its philosophy, Walker remained its chairperson until her death. Among her many honors, she was inducted into the U.S. Business Hall of Fame, a school was built in her honor, and her home is designated as a historic site.

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In Sweden, Ingvar Kamprad learned at an early age how to make money from available resources. By buying matches in bulk at a low price, he could sell them in smaller quantities at a higher price. He invested the money he made in this and other small business ventures. When Kamprad was 17, he founded IKEA, a furniture business. Today, IKEA has expanded to 300 stores in over 35 countries—and Ingvar Kamprad has become one of the ten wealthiest people in the world.

Who can imagine a world without computers? In 1976, Stephen Wozniak and Steve Jobs started a company with the goal of bringing personal computers to everyone. To help pay for their venture, they sold some of their personal possessions for a total of $1,300. Weeks later, the first Apple computers were sold. In 1980, Apple went public and made Wozniak and Jobs multimillionaires. Today, Apple sells such popular devices as the iPod and the iPhone.

When Russell Simmons was a young man, he turned his passion for hip-hop into a venture that is now worth millions. His Def Jam Recordings launched a cultural revolution and his vision impacted music, fashion, film, television, and social action. Named one of the Top 25 Most Influential People of the Past 20 Years by USA Today, Simmons started a movement that not only created wealth but also changed America's understanding of African-American culture.

In 1995, Dineh Mohajer wanted some light-blue nail polish to match her sandals. She decided to combine different polishes in her bathroom to get the color she wanted. When she wore her custom nail polish, lots of people noticed—and she began taking orders as a result. Within two years her company, called Hard Candy, had sales of $10 million and was producing dozens of fancy colors.

Today's Entrepreneurs

As in the past, present-day entrepreneurs pay attention to social trends to attract customers. To be successful in today's business world, most entrepreneurs use the Internet in some way. In fact, more and more companies are making the Internet their primary business resource.

Amazon.com is a good example, doing its business entirely on the Internet. Typically, these companies use an electronic address that ends in "com" and are sometimes referred to as dot-com companies.

Another contemporary trend is running a business in ways that are friendly to the environment. A green company is one that adopts business practices aimed at protecting or improving the environment.

For instance, Excellent Packaging & Supply distributes products made from "green" resources. One of these products is SpudWare, utensils made from corn and potato starch that can withstand boiling water.

Another example of a green company is SELCO-India. It provides solar-powered lighting to mostly rural areas in India and other developing countries.
Today, entrepreneurs operate all types of businesses. They are willing to take risks because they hope for great rewards. In the process, they help make life better for many people with the products, services, and jobs they provide.

What is an **Entrepreneur?**

Definition and Characteristics of an Entrepreneur

Interestingly enough, there is debate over the definition of an entrepreneur. Some experts have a wide definition to include anyone who works for himself. Others have a narrower view point, suggesting that an entrepreneur doesn't just work independently but also, his business involves innovation and leadership.

What they do agree on is that an entrepreneur takes an idea, develops a business around it, manages the business, and assumes the risk for its success.

One of the reasons there is disagreement over the definition of entrepreneur is that it includes so many different types of self-employed businesses. Some common types of entrepreneurship include:

Small business

This includes mom and pop shops and local business owners. Small business can include partnerships, sole proprietors, and LLCs. Generally it's any business that has less than 500 employees, according to the Small Business Administration.

Home-Based Business

A home based business could fit under the category of small business, but the primary factor in this case is that it's run from home, as opposed to an office or other location. But just because a business is run from home, doesn't mean it can't compete with larger businesses. In fact, many large corporations were started from a home, including Apple and Disney.

Online Business

Internet-based business can be small, home-based, or even large corporations. The key difference here is that the business is operated primarily online. This includes companies like Amazon or other e-commerce businesses, bloggers, Ebay and Etsy owners, and any other business that does the majority of its business online.

Inventors

For an inventor to be considered an entrepreneur, he needs to go beyond the idea stage to build the product and get it to market. A good example of inventors that transition to entrepreneurs are the contestants on Shark Tank.

TYPES OF ENTREPRENEURS

Serial Entrepreneur

Many entrepreneurs get the most joy out of starting and building a business, but not in its continued management, so they sell it to launch a new idea. They are still considered entrepreneurs because they operate and assume risk in the business for the time they own it. Other times, serial entrepreneurs juggle several businesses at once, earning multiple streams of income.

Lifestyle Entrepreneur

Although the idea of lifestyle entrepreneur isn't new, it's gained in popularity with the rise of technology, the Internet, and a global economy. A lifestyle entrepreneur is one that builds a business that incorporates their interests and passions, and sustains their life goals. Many in this category are referred to as digital nomads because they often have online businesses that allow them to travel. However travel isn't necessary to be lifestyle entrepreneur. The key factor in a lifestyle entrepreneur is that they do what they love, and/or the business supports their chosen lifestyle.


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Characteristics of a Successful Entrepreneur

Some business experts suggest that the entrepreneurial drive is innate, a trait acquired at birth, while others believe that anyone can become an entrepreneur. Whether a person is born to it or develops it, there are characteristics and traits required for successful entrepreneurship including:

- **Passion** - **Talk to successful entrepreneurs and you'll nearly always hear the word passion when they describe what they do. Following your passion is one of the best predictors of success.**

- **Independent thinking** - **Entrepreneurs often think outside the box and aren't swayed by others who might question their ideas.**

- **Optimism** - **It's difficult to succeed at anything if you don't believe in a good outcome. Entrepreneurs are dreamers and believe their ideas are possible, even when they seem unattainable.**

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- **Self-confidence** - This is not to say entrepreneurs never have self-doubt, but they're able to overcome it, and believe they can achieve their goal.

- **Resourceful and problem solvers** - Lack of assets, knowledge, and resources are common, but entrepreneurs are able to get what they need or figure out how to use what they've got in order to reach their business goals.They never let problems and challenges get in the way, and instead find ways to achieve success despite hardships.

- **Tenacity and ability to overcome hardship** - Entrepreneurs don't quit at the first, second or even hundredth obstacle. For them, failure is not an option, so they continue to work toward success, even when things go wrong.

- **Vision** - Some of the more stringent definitions of entrepreneurship include vision as a necessary element. It helps to know your end goal when you start. Further, vision is the fuel that propels you forward toward your goal.

- **Focus** - It's easy in this fast paced, constant info-in-your-face world to get distracted. This is especially true for business start-ups that often get side-tracked by the shiny object syndrome (i.e. products and services that promise fast results), or bogged down in unimportant busy work. Successful entrepreneurs are focused on what will bring results.

- **Action oriented** - Entrepreneurs don't expect something from nothing and they don't wait for things to happen. They are doers. They overcome challenges and avoid procrastination.

How to Become an Entrepreneur

One of the great things about becoming an entrepreneur is that anyone can do it. Steve Jobs, Bill Gates, and Mark Zuckerberg were in college when they started Apple, Microsoft and Facebook respectively. Ree Drummond, The Pioneer Woman, started a blog for fun, which has since turned into a business, a TV show and books.

But you don't have to be huge or famous to be a successful entrepreneur. The world is littered with entrepreneurs you never heard of who had an idea and turned it into a thriving, profitable business. There are moms who invented a gadget or started a lifestyle blog. Teenagers who star in their own YouTube shows. Retired folks who have turned a lifetime of experience into coaching or consulting business. Becoming an entrepreneur isn't hard, but it is work and requires many steps including:

- **Development of the characteristics mentioned above**

- **A great idea that people will pay money for**

- **A plan of success**

- **Consistent execution of the plan**

While it takes research, planning and work, you can start a home business in a month, maybe even faster depending on the business.

Myths About Entrepreneurs

10 Myths About Entrepreneurs

1. *Entrepreneurs Are High Risk Takers*

2. *Entrepreneurs Are Born*

3. *Entrepreneurs Are Mainly Motivated to Get Rich*

4. *Entrepreneurs Give Little Attention to Their Personal Life*

5. *Entrepreneurs Are Often High-Tech Wizards*

6. *Entrepreneurs Are Loners and Introverts*

7. *Entrepreneurs Are Job Hoppers*

8. *Entrepreneurs Finance Their Business with Venture Capital*

9. *Entrepreneurs Are Often Ruthless or Deceptive*

10. *Entrepreneurs Have Limited Dedication*

Do you have what it takes to be an entrepreneur? You probably have many of the key traits of successful entrepreneurs.

THERE ARE LOTS of very wrong myths out there about entrepreneurs that may be worthwhile for you to examine as you think about whether starting a business is right for you.

In his book, How to Start and Operate a Business: Winning the Entrepreneurial Game, which I published a number of years ago, author David Rye lists and debunks a number of these myths.

Myth No. 1: Entrepreneurs Are High Risk Takers

Entrepreneurs, are often thought of in terms of the risk they assume. Even the dictionary describes an entrepreneur as one who assumes business risks. However, like all prudent businesspeople, entrepreneurs know that taking high risks is a gamble. Entrepreneurs are neither high nor low risk takers. They prefer situations in which they can influence the outcome, and they like challenges if they believe the odds are in their favor.

They seldom act until they have assessed all the risks associated with an endeavor, and they have an innate ability to make sense out of complexity. These are traits that carry them on to success where others fail.

Entrepreneurs generally seek the best risk/reward situation. Like most humans, they are often are a little hesitant to risk everything and take wild chances.
One way entrepreneurs can limit the risk they are exposed to is by choosing one of the best business ideas out there. Knowing which businesses to start and which to avoid is the first step towards success.

Myth No. 2: Entrepreneurs Are Born

Many people, believe that entrepreneurs possess innate, genetic talents. However, experts generally agree that most entrepreneurs were not born; they learned to become entrepreneurs. The recent proliferation of college and university courses on the subject supports this point. Entrepreneurship is currently being successfully taught.

We can't overemphasize the fact that almost anyone can be a successful entrepreneur. However, every aspiring entrepreneur should ask themselves these questions before committing to a business. Starting your own company is not an easy decision and you must understand that it will change your life in many ways.

Myth No. 3: Entrepreneurs Are Mainly Motivated to Get Rich

Any successful entrepreneur, will tell you that starting a business is not a get-rich-quick alternative. New businesses usually take from one to three years to turn a profit. In the meantime, you're considered to be doing well if you break even. During the business start-up stage, entrepreneurs do not buy anything they do not need, such as fancy cars. Most drive junk cars and use their surplus money to pay off debt or reinvest it in the business. Their focus is on creating a company with a strong financial base for future expansion.

For entrepreneurs, money isn't everything. But there's nothing embarrassing about being partially motivated by money, as are most entrepreneurs. If entrepreneurs didn't have the ability to get rich and get financially rewarded for their work, the United States could be almost as poor as Cuba. It is OK to make money, build a business, and help build your local economy in the process.

Knowing what motivates you to start a business is just the beginning. Pay attention to these 5 crucial steps to start your own business.

Myth No. 4: Entrepreneurs Give Little Attention to Their Personal Life

All successful entrepreneurs, work long hours, which cuts into their personal life. However, long working hours are not unique to entrepreneurs. Many corporate managers and executives work well beyond the average 40-hour workweek. The primary difference between the entrepreneur and his or her corporate counterpart is schedule control.

In the corporate world, you may not have control over your schedule. If some higher-level manager calls a Saturday meeting, you've got no choice but to be there. Entrepreneurs don't mind working 60- to 70-hour weeks, but they will do everything they can to preserve their private time. They schedule important meetings during the week so that they can have weekends off for their personal life, which is very important to them.

Most entrepreneurs do not give a lot of attention to their personal lives. I have, at times, been an outlier and had almost no personal time, such as when I was a full-time student at Harvard Business School and running four start-up businesses at the same time, or was a full-time college student and starting an independent newspaper business. Sometimes, as an entrepreneur with an especially fast-growing business, you are going to have to sacrifice personal time.

Even if you are likely to sacrifice some of your personal time to get your business off the ground, starting it isn't the most time-consuming part of the process. It doesn't take much time to start your own business. Running it and getting it to the next level is another story...

Myth No. 5: Entrepreneurs Are Often High-Tech Wizards

We are all aware of a few high-tech entrepreneurial wizards who have made it. Media attention overplays the success of these few high-tech entrepreneurs. Only a small percentage of today's personal businesses are considered high tech, and what was considered high tech just a few years ago is not considered high tech by today's standards.

It takes high profit margins, not high tech, to make it as an entrepreneur. One has only to look at the recent problems that have plagued the computer industry to understand this basic principle. High-tech personal computers did very well when they made high profit margins. The industry then went into a nosedive when profits fell.

Very few businesses require high tech abilities. In fact, I have started and ran a multimedia business, an interactive software business, and two Internet businesses, with virtually no tech experience or expertise. (Although, to be sure, I did learn to do a little computer programming along the way when I started these businesses, to help me appreciate what the engineers were doing.) Furthermore, most businesses are not even tech businesses at all.

Don't believe me? Look at this list of the best business ideas and see for yourself!

Myth No. 6: Entrepreneurs Are Loners and Introverts

Entrepreneurs might work alone on a business idea by tinkering in the solitude of their garage or den. On this myth, I don't totally agree with Rye. The astute entrepreneur knows that he or she must draw on the experience and ideas of others in order to succeed. Entrepreneurs will actively seek the advice of others and will make many business contacts to validate their business ideas. The entrepreneur who is a loner and will not talk to anybody will never start a successful business.

We think a lot of other entrepreneurs have, too. Not ideal in hindsight, but that's what I often did. Generally, I think entrepreneurs are willing to work independently if it is necessary to succeed. But even independent-minded people can get lonely, especially if you are working day and night in small home-based business.

Myth No. 7: Entrepreneurs Are Job Hoppers

A recent study of successful entrepreneurs showed that most of them worked for a large corporation for a number of years before they started their own business. In every instance, they used the corporate structure to learn everything they could about the business they intended to establish before they started their own. Entrepreneurs are not job hoppers.

We think most entrepreneurs have usually had a good track record in the workplace. Most have spent years working for other people before going on their own. But you don't have to do so to succeed. The longest single job I ever held lasted about eight weeks, but in total I've only worked a few months for anyone else in my entire lifetime.

Myth No. 8: Entrepreneurs Finance Their Business with Venture Capita

Entrepreneurs, know that venture capital money is one of the most expensive forms of funding they can get. Consequently, they will avoid venture capitalists, using them only as a last resort. Most entrepreneurs fund their business from personal savings, or by borrowing from friends or lending institutions.

We often remind people that venture capital is a relatively small industry and, as such, finances an extremely minute number of small businesses. To be financed by a VC firm, your business might need to meet all kinds of criteria, and then find a VC firm that totally loves it. Furthermore, since VC firms tend not to want to put much money into any one startup, most VC-funded startups have to get money from not one but several different firms.

Myth No. 9: Entrepreneurs Are Often Ruthless or Deceptive

Some people believe that to make it as an entrepreneur, you have to be deceptive and step on anybody who gets in your way. On the contrary, this mode of operation doesn't work for the entrepreneur. The truly ruthless or deceptive entrepreneur will often alienate others and be forced to waste time and energy repairing relationships with employees, customers, and suppliers, or simply fail.

We don't know if people are predisposed to think negatively of entrepreneurs . But, in any event, I think entrepreneurs have some bad apples in their ranks. Not many, but some. We have lost sales to competitors who fabricate the facts, exaggerate the truth, slander their competitors, and engage in all kinds of other unethical behavior. But I have found that such competitors eventually implode.

Often, they lose their best employees, whom they also treat poorly, or they lose their customers. Once, when I was in a dogfight with a totally ruthless competitor in a business that was extremely dependent upon sales, his three best sales people, as well as his sales manager, approached me on their own initiative and ended up joining my team.

Myth No. 10: Entrepreneurs Have Limited Dedication

Myth that entrepreneurs are not dedicated to any one thing. But he adds that dedication is an attribute that all successful entrepreneurs exhibit. They are dedicated to becoming their own boss. To this end, they'll work like a dog to make their business succeed.

We do think that many entrepreneurs can change businesses or direction quicker than other people. Often, this ability to switch direction quickly can be essential for success, and entrepreneurs tend not to switch direction recklessly, although there are always exceptions.

Strengths, weaknesses, and risk tolerance

Strengths, Weaknesses, and Risk Tolerance

Of the hundreds of thousands of business ventures that entrepreneurs launch every year, many never get off the ground. Others fizzle after spectacular rocket starts.

A six-year-old condiment company has attracted loyal customers but has achieved less than $500,000 in sales. The company's gross margins can't cover its overhead or provide adequate incomes for the founder and the family members who participate in the business. Additional growth will require a huge capital infusion, but investors and potential buyers aren't keen on small, marginally profitable ventures, and the family has exhausted its resources.

Another young company, profitable and growing rapidly, imports novelty products from the Far East and sells them to large U.S. chain stores. The founder, who has a paper net worth of several million dollars, has been nominated for entrepreneur-of-the-year awards. But the company's spectacular growth has forced him to reinvest most of his profits to finance the business's growing inventories and receivables. Furthermore, the company's profitability has attracted competitors and tempted customers to deal directly with the Asian suppliers. If the founder doesn't do something soon, the business will evaporate.

Like most entrepreneurs, the condiment maker and the novelty importer get plenty of confusing counsel: Diversify your product line. Stick to your knitting. Raise capital by selling equity. Don't risk losing control just because things are bad. Delegate. Act decisively. Hire a professional manager. Watch your fixed costs.

Why all the conflicting advice? Because the range of options—and problems—that founders of young businesses confront is vast. The manager of a mature company might ask, What business are we in? or How can we exploit our core competencies? Entrepreneurs must continually ask themselves what business they want to be in and what capabilities they would like to develop. Similarly, the organizational weaknesses and imperfections that entrepreneurs confront every day would cause the managers of a mature company to panic. Many young enterprises simultaneously lack coherent strategies, competitive strengths, talented employees, adequate controls, and clear reporting relationships.

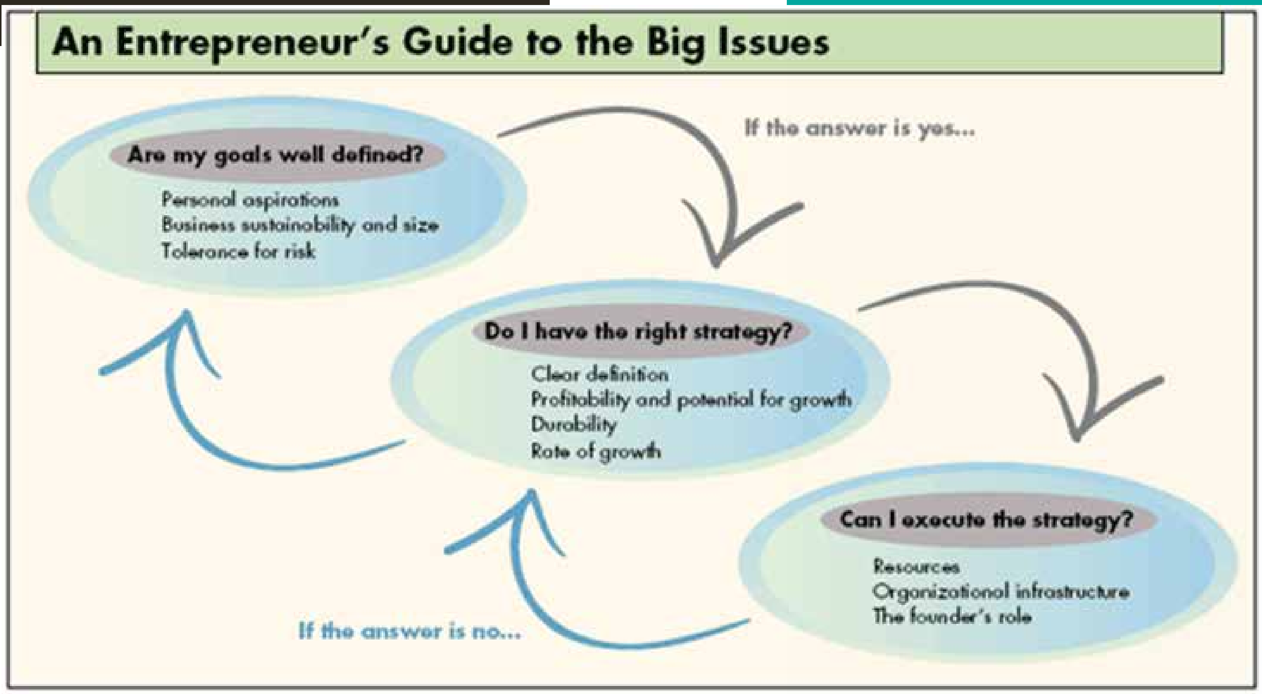
The problems entrepreneurs confront every day would overwhelm most managers.
The entrepreneur can tackle only one or two opportunities and problems at a time. Therefore, just as a parent should focus more on a toddler's motor skills than on his or her social skills, the entrepreneur must distinguish critical issues from normal growing pains.

Entrepreneurs cannot expect the sort of guidance and comfort that an authoritative child-rearing book can offer parents. Human beings pass through physiological and psychological stages in a more or less predetermined order, but companies do not share a developmental path. Microsoft, Lotus, WordPerfect, and Intuit, although competing in the same industry, did not evolve in the same way. Each of those companies has its own story to tell about the development of strategy and organizational structures and about the evolution of the founder's role in the enterprise.

Every company has its own story to tell about the development of systems and strategy.

The options that are appropriate for one entrepreneurial venture may be completely inappropriate for another. Entrepreneurs must make a bewildering number of decisions, and they must make the decisions that are right for them. The framework I present here and the accompanying rules of thumb will help entrepreneurs analyze the situations in which they find themselves, establish priorities among the opportunities and problems they face, and make rational decisions about the future. This framework, which is based on my observation of several hundred start-up ventures over eight years, doesn't prescribe answers. Instead, it helps entrepreneurs pose useful questions, identify important issues, and evaluate solutions. The framework applies whether the enterprise is a small printing shop trying to stay in business or a catalog retailer seeking hundreds of millions of dollars in sales. And it works at almost any point in a venture's evolution. Entrepreneurs should use the framework to evaluate their companies' position and trajectory often—not just when problems appear.

The framework consists of a three-step sequence of questions. The first step clarifies entrepreneurs' current goals, the second evaluates their strategies for attaining those goals, and the third helps them assess their capacity to execute their strategies. The hierarchical organization of the questions requires entrepreneurs to confront the basic, big-picture issues before they think about refinements and details. (See the exhibit "An Entrepreneur's Guide to the Big Issues.") This approach does not assume that all companies—or all entrepreneurs—develop in the same way, so it does not prescribe a one-size-fits-all methodology for success.



Clarifying Goals: Where Do I Want to Go?

An entrepreneur's personal and business goals are inextricably linked. Whereas the manager of a public company has a fiduciary responsibility to maximize value for shareholders, entrepreneurs build their businesses to fulfill personal goals and, if necessary, seek investors with similar goals.

Before they can set goals for a business, entrepreneurs must be explicit about their personal goals. And they must periodically ask themselves if those goals have changed. Many entrepreneurs say that they are launching their businesses to achieve independence and control their destiny, but those goals are too vague. If they stop and think about it, most entrepreneurs can identify goals that are more specific. For example, they may want an outlet for artistic talent, a chance to experiment with new technology, a flexible lifestyle, the rush that comes from rapid growth, or the immortality of building an institution that embodies their deeply held values. Financially, some entrepreneurs are looking for quick profits, some want to generate a satisfactory cash flow, and others seek capital gains from building and selling a company. Some entrepreneurs who want to build sustainable institutions do not consider personal financial returns a high priority. They may refuse acquisition proposals regardless of the price or sell equity cheaply to employees to secure their loyalty to the institution.

Only when entrepreneurs can say what they want personally from their businesses does it make sense for them to ask the following three questions:

Long-term sustainability does not concern entrepreneurs looking for quick profits from in-and-out deals. Similarly, so-called lifestyle entrepreneurs, who are interested only in generating enough of a cash flow to maintain a certain way of life, do not need to build businesses that could survive without them. But sustainability or the perception thereof matters greatly to entrepreneurs who hope to sell their businesses eventually. Sustainability is even more important for entrepreneurs who want to build an institution that is capable of renewing itself through changing generations of technology, employees, and customers.

Entrepreneurs' personal goals should also determine the target size of the businesses they launch. A lifestyle entrepreneur's venture needn't grow very large. In fact, a business that becomes too big might prevent the founder from enjoying life or remaining personally involved in all aspects of the work. In contrast, entrepreneurs seeking capital gains must build companies large enough to support an infrastructure that will not require their day-to-day intervention.

What kind of enterprise do I need to build?

What risks and sacrifices does such an enterprise demand?

Building a sustainable business—that is, one whose principal productive asset is not just the founder's skills, contacts, and efforts—often entails making risky long-term bets. Unlike a solo consulting practice—which generates cash from the start—durable ventures, such as companies that produce branded consumer goods, need continued investment to build sustainable advantages. For instance, entrepreneurs may have to advertise to build a brand name. To pay for ad campaigns, they may have to reinvest profits, accept equity partners, or personally guarantee debt. To build depth in their organizations, entrepreneurs may have to trust inexperienced employees to make crucial decisions. Furthermore, many years may pass before any payoff materializes—if it materializes at all. Sustained risk taking can be stressful. As one entrepreneur observes, "When you start, you just do it, like the Nike ad says. You are naïve because you haven't made your mistakes yet. Then you learn about all the things that can go wrong. And because your equity now has value, you feel you have a lot more to lose."

Entrepreneurs who operate small-scale, or lifestyle, ventures face different risks and stresses. Talented people usually avoid companies that offer no stock options and only limited opportunities for personal growth, so the entrepreneur's long hours may never end. Because personal franchises are difficult to sell and often require the owner's daily presence, founders may become locked into their businesses. They may face financial distress if they become sick or just burn out. "I'm always running, running, running," complains one entrepreneur, whose business earns him half a million dollars per year. "I work 14-hour days, and I can't remember the last time I took a vacation. I would like to sell the business, but who wants to buy a company with no infrastructure or employees?"

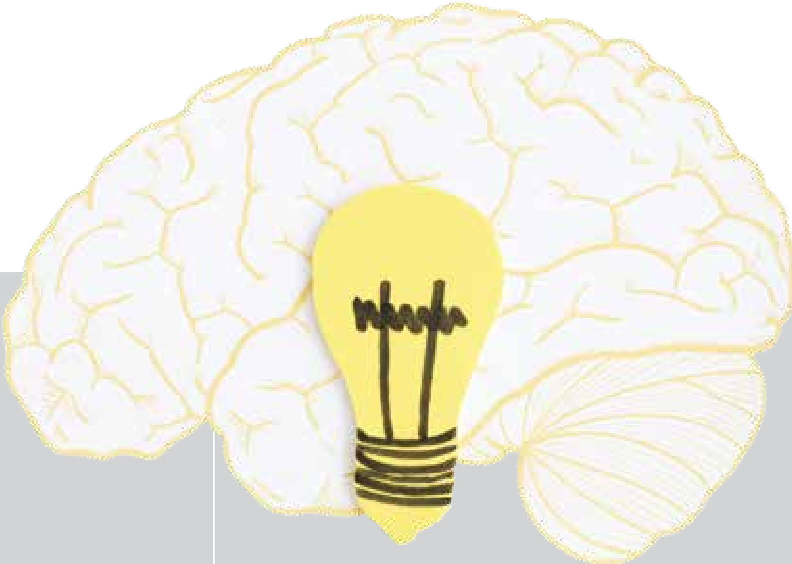
Can I accept those risks and sacrifices?

Entrepreneurs must reconcile what they want with what they are willing to risk. Consider Joseph Alsop, co-founder and president of Progress Software Corporation. When Alsop launched the company in 1981, he was in his mid-thirties, with a wife and three children. With that responsibility, he says, he didn't want to take the risks necessary to build a multi-billion-dollar corporation like Microsoft, but he and his partners were willing to assume the risks required to build something more than a personal service business. Consequently, they picked a market niche that was large enough to let them build a sustainable company but not so large that it would attract the industry's giants. They worked for two years without salaries and invested their personal savings. In ten years, they had built Progress into a $200 million publicly held company.

To set meaningful goals, entrepreneurs must reconcile what they want with what they are willing to risk.

Entrepreneurs would do well to follow Alsop's example by thinking explicitly about what they are and are not willing to risk. If entrepreneurs find that their businesses—even if very successful—won't satisfy them personally, or if they discover that achieving their personal goals requires them to take more risks and make more sacrifices than they are willing to, they need to reset their goals. When entrepreneurs have aligned their personal and their business goals, they must then make sure that they have the right strategy.

Setting Strategy: How Will I Get There?



Many entrepreneurs start businesses to seize short-term opportunities without thinking about long-term strategy. Successful entrepreneurs, however, soon make the transition from a tactical to a strategic orientation so that they can begin to build crucial capabilities and resources.

Formulating a sound strategy is more basic to a young company than resolving hiring issues, designing control systems, setting reporting relationships, or defining the founder's role. Ventures based on a good strategy can survive confusion and poor leadership, but sophisticated control systems and organizational structures cannot compensate for an unsound strategy. Entrepreneurs should periodically put their strategies to the following four tests:

Is the strategy well defined?

A company's strategy will fail all other tests if it doesn't provide a clear direction for the enterprise. Even solo entrepreneurs can benefit from a defined strategy. For example, deal makers who specialize in particular industries or types of transactions often have better access to potential deals than generalists do. Similarly, independent consultants can charge higher fees if they have a reputation for expertise in a particular area.

An entrepreneur who wants to build a sustainable company must formulate a bolder and more explicit strategy. The strategy should integrate the entrepreneur's aspirations with specific long-term policies about the needs the company will serve, its geographic reach, its technological capabilities, and other strategic considerations. To help attract people and resources, the strategy must embody the entrepreneur's vision of where the company is going instead of where it is. The strategy must also provide a framework for making the decisions and setting the policies that will take the company there.
A new company's strategy must embody the founder's vision of where the company is going, not where it is.

The strategy articulated by the founders of Sun Microsystems, for instance, helped them make smart decisions as they developed the company. From the outset, they decided that Sun would forgo the niche-market strategy commonly used by Silicon Valley start-ups. Instead, they elected to compete with industry leaders IBM and Digital by building and marketing a general-purpose workstation. That strategy, recalls cofounder and former president Vinod Khosla, made Sun's product-development choices obvious. "We wouldn't develop any applications software," he explains. This strategy also dictated that Sun assume the risk of building a direct sales force and providing its own field support—just like its much larger competitors. "The Moon or Bust was our motto," Khosla says. The founders' bold vision helped attract premier venture-capital firms and gave Sun extraordinary visibility within its industry.

To be useful, strategy statements should be concise and easily understood by key constituents such as employees, investors, and customers. They must also preclude activities and investments that, although they seem attractive, would deplete the company's resources. A strategy that is so broadly stated that it permits a company to do anything is tantamount to no strategy at all. For instance, claiming to be in the leisure and entertainment business does not preclude a tent manufacturer from operating casinos or making films. Defining the venture as a high-performance outdoor-gear company provides a much more useful focus.

Can the strategy generate sufficient profits and

Once entrepreneurs have formulated clear strategies, they must determine whether those strategies will allow the ventures to be profitable and to grow to a desirable size. The failure to earn satisfactory returns should prompt entrepreneurs to ask tough questions: What's the source, if any, of our competitive edge? Are our offerings really better than our competitors'? If they are, does the premium we can charge justify the additional costs we incur, and can we move enough volume at higher prices to cover our fixed costs? If we are in a commodity business, are our costs lower than our competitors'? Disappointing growth should also raise concerns: Is the market large enough? Do diseconomies of scale make profitable growth impossible?

No amount of hard work can turn a kitten into a lion. When a new venture is faltering, entrepreneurs must address basic economic issues. For instance, many people are attracted to personal service businesses, such as laundries and tax-preparation services, because they can start and operate those businesses just by working hard. They don't have to worry about confronting large competitors, raising a lot of capital, or developing proprietary technology. But the factors that make it easy for entrepreneurs to launch such businesses often prevent them from attaining their long-term goals.

Businesses based on an entrepreneur's willingness to work hard usually confront other equally determined competitors. Furthermore, it is difficult to make such companies large enough to support employees and infrastructure. Besides, if employees can do what the founder does, they have little incentive to stay with the venture. Founders of such companies often cannot have the lifestyle they want, no matter how talented they are. With no way to leverage their skills, they can eat only what they kill.

Entrepreneurs who are stuck in ventures that are unprofitable and cannot grow satisfactorily must take radical action. They must find a new industry or develop innovative economies of scale or scope in their existing fields. Rebecca Matthias, for example, started Mothers Work in 1982 to sell maternity clothing to professional women by mail order. Mail-order businesses are easy to start, but with tens of thousands of catalogs vying for consumers' attention, low response rates usually lead to low profitability—a reality that Matthias confronted after three years in the business. In 1985, she borrowed $150,000 to open the first retail store specializing in maternity clothes for working women. By 1994, Mothers Work was operating 175 stores generating about $59 million in revenues.

One alternative to radical action is to stick with the failing venture and hope for the big order that's just around the corner or the greater fool who will buy the business. Both hopes are usually futile. It's best to walk away.

Is the strategy sustainable?

The next issue entrepreneurs must confront is whether their strategies can serve the enterprise over the long term. The issue of sustainability is especially significant for entrepreneurs who have been riding the wave of a new technology, a regulatory change, or any other change—exogenous to the business—that creates situations in which supply cannot keep up with demand. Entrepreneurs who catch a wave can prosper at the outset just because the trend is on their side; they are competing not with one another but with outmoded players

. But what happens when the wave crests? As market imbalances disappear, so do many of the erstwhile high fliers who had never developed distinctive capabilities or established defensible competitive positions. Wave riders must anticipate market saturation, intensifying competition, and the next wave. They have to abandon the me-too approach in favor of a new, more durable business model. Or they may be able to sell their high-growth businesses for handsome prices in spite of the dubious long-term prospects.

Consider Edward Rosen, who cofounded Vydec in 1972. The company developed one of the first stand-alone word processors, and as the market for the machines exploded, Vydec rocketed to $90 million in revenues in its sixth year, with nearly 1,000 employees in the United States and Europe. But Rosen and his partner could see that the days of stand-alone word processors were numbered. They happily accepted an offer from Exxon to buy the company for more than $100 million.

Such forward thinking is an exception. Entrepreneurs in rapidly growing companies often don't consider exit strategies seriously. Encouraged by short-term success, they continue to reinvest profits in unsustainable businesses until all they have left is memories of better days.

Entrepreneurs who start ventures not by catching a wave but by creating their own wave face a different set of challenges in crafting a sustainable strategy. They must build on their initial strength by developing multiple strengths. Brand-new ventures usually cannot afford to innovate on every front. Few start-ups, for example, can expect to attract the resources needed to market a revolutionary product that requires radical advances in technology, a new manufacturing process, and new distribution channels. Cash-strapped entrepreneurs usually focus first on building and exploiting a few sources of uniqueness and use standard, readily available elements in the rest of the business. Michael Dell, the founder of Dell Computer, for example, made low price an option for personal computer buyers by assembling standard components in a college dormitory room and selling by mail order without frills or much sales support.

Strategies for taking the hill, however, won't necessarily hold it. A model based on one or two strengths becomes obsolete as success begets imitation. For instance, competitors can easily knock off an entrepreneur's innovative product. But they will find it much more difficult to replicate systems that incorporate many distinct and complementary capabilities. A business with an attractive product line, well-integrated manufacturing and logistics, close relationships with distributors, a culture of responsiveness to customers, and the capability to produce a continuing stream of product innovations is not easy to copy.

It's easy to knock off an innovative product, but an innovative business system is much harder to replicate.

Entrepreneurs who build desirable franchises must quickly find ways to broaden their competitive capabilities. For example, software start-up Intuit's first product, Quicken, had more attractive features and was easier to use than other personal-finance software programs. Intuit realized, however, that competitors could also make their products easy to use, so the company took advantage of its early lead to invest in a variety of strengths. Intuit enhanced its position with distributors by introducing a family of products for small businesses, including QuickBooks, an accounting program. It brought sophisticated marketing techniques to an industry that "viewed customer calls as interruptions to the sacred art of programming," according to the company's founder and chairman, Scott Cook. It established a superior product-design process with multifunctional teams that included marketing and technical support. And Intuit invested heavily to provide customers with outstanding technical support for free.

Are my goals for growth too conservative or too aggressive?

After defining or redefining the business and verifying its basic soundness, an entrepreneur should determine whether plans for its growth are appropriate. Different enterprises can and should grow at different rates. Setting the right pace is as important to a young business as it is to a novice bicyclist. For either one, too fast or too slow can lead to a fall. The optimal growth rate for a fledgling enterprise is a function of many interdependent factors. (See the insert "Finding the Right Growth Rate.")

Executing the Strategy: Can I Do It?

The third question entrepreneurs must ask themselves may be the hardest to answer because it requires the most candid self-examination: Can I execute the strategy? Great ideas don't guarantee great performance. Many young companies fail because the entrepreneur can't execute the strategy; for instance, the venture may run out of cash, or the entrepreneur may be unable to generate sales or fill orders. Entrepreneurs must examine three areas—resources, organizational capabilities, and their personal roles—to evaluate their ability to carry out their strategies.

Do I have the right resources and relationships?

The lack of talented employees is often the first obstacle to the successful implementation of a strategy. During the start-up phase, many ventures cannot attract top-notch employees, so the founders perform most of the crucial tasks themselves and recruit whomever they can to help out. After that initial period, entrepreneurs can and should be ambitious in seeking new talent, especially if they want their businesses to grow quickly. Entrepreneurs who hope that they can turn underqualified and inexperienced employees into star performers eventually reach the conclusion, along with Intuit founder Cook, that "you can't coach height." Moreover, after a venture establishes even a short track record, it can attract a much higher caliber of employee.

Entrepreneurs who hope to turn underqualified employees into star performers are almost always disappointed. In determining how to upgrade the workforce, entrepreneurs must address many complex and sensitive issues: Should I recruit individuals for specific slots or, as is commonly the case in talent-starved organizations, should I create positions for promising candidates? Are the recruits going to manage or replace existing employees? How extensive should the replacements be? Should the replacement process be gradual or quick? Should I, with my personal attachment to the business, make termination decisions myself or should I bring in outsiders?

A young venture needs more than internal resources. Entrepreneurs must also consider their customers and sources of capital. Ventures often start with the customers they can attract the most quickly, which may not be the customers the company eventually needs. Similarly, entrepreneurs who begin by bootstrapping, using money from friends and family or loans from local banks, must often find richer sources of capital to build sustainable businesses.

For a new venture to survive, some resources that initially are external may have to become internal. Many start-ups operate at first as virtual enterprises because the founders cannot afford to produce in-house and hire employees, and because they value flexibility. But the flexibility that comes from owning few resources is a double-edged sword. Just as a young company is free to stop placing orders, suppliers can stop filling them. Furthermore, a company with no assets signals to customers and potential investors that the entrepreneur may not be committed for the long haul. A business with no employees and hard assets may also be difficult to sell, because potential buyers will probably worry that the company will vanish when the founder departs. To build a durable company, an entrepreneur may have to consider integrating vertically or replacing subcontractors with full-time employees.

How strong is the organization?

An organization's capacity to execute its strategy depends on its "hard" infrastructure—its organizational structure and systems—and on its "soft" infrastructure—its culture and norms.

The hard infrastructure an entrepreneurial company needs depends on its goals and strategies. (See the insert "Investing in Organizational Infrastructure.") Some entrepreneurs want to build geographically dispersed businesses, realize synergies by sharing resources across business units, establish first-mover advantages through rapid growth, and eventually go public. They must invest more in organizational infrastructure than their counterparts who want to build simple, single-location businesses at a cautious pace.

A venture's growth rate provides an important clue to whether the entrepreneur has invested too much or too little in the company's structure and systems. If performance is sluggish if, for example, growth lags behind expectations and new products are late excessive rules and controls may be stifling employees. If, in contrast, the business is growing rapidly and gaining share, inadequate reporting mechanisms and controls are a more likely concern. When a new venture is growing at a fast pace, entrepreneurs must simultaneously give new employees considerable responsibility and monitor their finances very closely. Companies like Block-buster Video cope by giving frontline employees all the operating autonomy they can handle while maintaining tight, centralized financial controls.

An evolving organization's culture also has a profound influence on how well it can execute its strategy. Culture determines the personalities and temperaments of the workforce; lone wolves are unlikely to want to work in a consensual organization, whereas shy introverts may avoid rowdy outfits. Culture fills in the gaps that an organization's written rules do not anticipate. Culture determines the degree to which individual employees and organizational units compete and cooperate, and how they treat customers. More than any other factor, culture determines whether an organization can cope with the crises and discontinuities of growth.

Unlike organizational structures and systems, which entrepreneurs often copy from other companies, culture must be custom built. As many software makers have found, for instance, a laid-back organization can't compete well against Microsoft. The rambunctiousness of a start-up trading operation may scare away the conservative clients the venture wants to attract. A culture that fits a company's strategy, however, can lead to spectacular performance. Physician Sales & Service (PSS), a medical-products distribution company, has grown from $13 million in sales in 1987 to nearly $500 million in 1995, from 5 branches in Florida to 56 branches covering every state in the continental United States, and from 120 employees to 1,800. Like other rapidly growing companies, PSS has tight financial controls. But, venture capitalist Thomas Dickerson says, "PSS would be just another efficiently managed distribution company if it didn't have a corporate culture that is obsessed with meeting customers' needs and maintaining a meritocracy. PSS employees are motivated by the culture to provide unmatched customer service."

When entrepreneurs neglect to articulate organizational norms and instead hire employees mainly for their technical skills and credentials, their organizations develop a culture by chance rather than by design. The personalities and values of the first wave of employees shape a culture that may not serve the founders' goals and strategies. Once a culture is established, it is difficult to change.

When entrepreneurs don't stop to think about culture, their companies develop one by chance rather than by design.

Can I play my role?

Entrepreneurs who aspire to operate small enterprises in which they perform all crucial tasks never have to change their roles. In personal service companies, for instance, the founding partners often perform client work from the time they start the company until they retire. Transforming a fledgling enterprise into an entity capable of an independent existence, however, requires founders to undertake new roles.

Founders cannot build self-sustaining organizations simply by “letting go.” Before entrepreneurs have the option of doing less, they first must do much more. If the business model is not sustainable, they must create a new one. To secure the resources demanded by an ambitious strategy, they must manage the perceptions of the resource providers: potential customers, employees, and investors. To build an enterprise that will be able to function without them, entrepreneurs must design the organization’s structure and systems and mold its culture and character.

While they are sketching out an expansive view of the future , entrepreneurs also have to manage as if the company were on the verge of going under, keeping a firm grip on expenses and monitoring performance. They have to inspire and coach employees while dealing with the unpleasantness of firing those who will not be able to grow with the company. Bill Nussey, cofounder of the software maker Da Vinci Systems Corporation, recalls that firing employees who had “struggled and cried and sacrificed with the company” was the hardest thing he ever had to do.

Few successful entrepreneurs ever come to play a purely visionary role in their organizations. They remain deeply engaged in what Abraham Zaleznik, the Konosuke Matsushita Professor of Leadership Emeritus at the Harvard Business School, calls the “real work” of their enterprises. Marvin Bower, the founding partner of McKinsey & Company, continued to negotiate and direct studies for clients while leading the firm through a considerable expansion of its size and geographic reach. Bill Gates, co-founder and CEO of multibillion-dollar software powerhouse Microsoft, reportedly still reviews the code that programmers write

But founders' roles must change. Gates no longer writes programs. Michael Roberts, an expert on entrepreneurship, suggests that an entrepreneur's role should evolve from doing the work, to teaching others how to do it, to prescribing desired results, and eventually to managing the overall context in which the work is done. One entrepreneur speaks of changing from quarterback to coach. Whatever the metaphor, the idea is that leaders seek ever increasing impact from what they do. They achieve this by, for example, focusing more on formulating marketing strategies than on selling; negotiating and reviewing budgets rather than directly supervising work; designing incentive plans rather than setting the compensation of individual employees; negotiating the acquisitions of companies instead of the cost of office supplies; and developing a common purpose and organizational norms rather than moving a product out the door.

In evaluating their personal roles, therefore, entrepreneurs should ask themselves whether they continually experiment with new jobs and responsibilities. Founders who simply spend more hours performing the same tasks and making the same decisions as the business grows end up hindering growth. They should ask themselves whether they have acquired any new skills recently. An entrepreneur who is an engineer, for example, might master financial analysis. If founders can't point to new skills, they are probably in a rut and their roles aren't evolving.

Entrepreneurs must ask themselves whether they actually want to change and learn. People who enjoy taking on new challenges and acquiring new skills—Bill Gates, again—can lead a venture from the start-up stage to market dominance. But some people, such as H. Wayne Huizenga, the moving spirit behind Waste Management and Blockbuster Video, are much happier moving on to get other ventures off the ground. Entrepreneurs have a responsibility to themselves and to the people who depend on them to understand what fulfills and frustrates them personally.

Many great enterprises spring from modest, improvised beginnings. William Hewlett and David Packard tried to craft a bowling alley foot-fault indicator and a harmonica tuner before developing their first successful product, an audio oscillator. Wal-Mart Stores' founder, Sam Walton, started by buying what he called a "real dog" of a franchised variety store in Newport, Arkansas, because his wife wanted to live in a small town. Speedy response and trial and error were more important to those companies at the start-up stage than foresight and planning. But pure improvisation—or luck—rarely yields long-term success. Hewlett-Packard might still be an obscure outfit if its founders had not eventually made conscious decisions about product lines, technological capabilities, debt policies, and organizational norms.

Entrepreneurs, with their powerful bias for action, often avoid thinking about the big issues of goals, strategies, and capabilities. They must, sooner or later, consciously structure such inquiry into their companies and their lives. Lasting success requires entrepreneurs to keep asking tough questions about where they want to go and whether the track they are on will take them there.

Assessment:

1. How do entrepreneurs and employees differ?

2. What are four rewards and four risks of being an entrepreneur?

3. Name three successful entrepreneurs and describe what they achieved.

4. Choose an entrepreneur from the past, and describe the risks and rewards involved in starting his or her business Discuss whether the entrepreneur made life better in some way with a product or service.

5. Why do you think an entrepreneur might choose to keep a business small rather than expand it?

5. List several personal characteristics that might hinder someone from becoming an entrepreneur. In what ways could these characteristics also prevent someone from becoming a valued employee?

6. Develop a vision and mission for your life now, as a student. Then develop a vision and mission for your future life. Keep these simple.

Concepts
Choices Opportunity cost Entrepreneurship

Objectives
Students will be able to:
- Identify characteristics associated with successful entrepreneurs.
- Explain the benefits and cost associated with a set of life choices and behaviors.
- Create a plan for developing entrepreneurial skills.

Time required
- Quick Pick: Step 10 only (5 minutes) Power Up: Steps 1 through 9 (15 minutes)
- Deep Dive: Steps 1 through 10 (25 minutes)

Materials
- Visual 1: "Corner Labels" Visual 2: "Points You Earned!"
- Visual 3: "What Does My Score Mean?" Handout 1: "Entrepreneur Statements"
- Handout 2: "Student Record Sheet"
-Handout 3: "Growing Your Entrepreneurial Skills

Characteristics of the Entrepreneur Four Corners Activity

Procedures

This short activity will get your students moving and assessing their own strengths as future entrepreneurs. It can be used to start a class on factors of production or business organizations

1. Before class begins, place large letters found on Visual 1: “Corner Labels” (A, B, C, and D) in each of your room’s corners and make sure there is enough room for students to move safely from one corner to the next.

2. Make sure you have a copy of Handout 1: “Entrepreneur Statements.” Do not give this handout to the students until after the exercise is complete. Tell students you will read a statement with four possible alternatives. Each of the alternatives matches one of the four corners labeled in the room. Tell the students to go to the corner matching their best answer and mark their choices on Handout 2: “Student Record Sheet.”

3. Tell students to think about (but not call out) the person in the room they think is the opposite of themselves. They will mark the corner where this person goes during the game as well. This helps to keep students interested and focused.

4. Ask students to take their record sheet and a pen with them to mark their grid.

5. Tell students that if answering any of the questions publicly makes them uncomfortable or they can’t decide on an answer, they should stand in the middle and they will forgo the points for that item.

6. Begin reading the statements, giving students time to move through the room and mark locations for themselves and the person they are watching.

7. When they have responded to all 10 items, have them go back to their seats.

8. Display Visual 2: “Points You Earned!” and emphasize the definition of entrepreneurship in the field of economics and the role entrepreneurs play in the economy. Tell students to use the points for each selection they made using Visual 2. Ask the students to record their points and the points of the person they watched and calculate the totals.

9. Now post Visual 3: “What Does My Score Mean?” Ask the students to read the descriptions. As time allows, offer students the opportunity to discuss the results. Ask them to think about how the person they watched performed on the assessment, sharing some things they feel they learned from that person.

10. Optional Extension Activity: Distribute copies of Handout 1: “Entrepreneur Statements” and Handout 3: “Growing Your Entrepreneurial Skills.” Handout 3 is designed to be a half sheet of paper or you can display the assignment and ask students to complete it on their own paper as a journal or homework assignment. Ask the students to choose two out of the 10 statements from the handout that describe an area they would like to improve. They will analyze why these two characteristics are important for an entrepreneur and set SMART goals—specific, measurable, attainable, relevant, and timely—to improve these skills.

A	B
C	D

Visual 1: Corner Labels

Handout 1: Entrepreneur Statements

1.Leadership

a) I am almost always the leader in any group. (4)

b) Sometimes I am the leader, but I am willing to follow others, too. (3)

c) Usually, I am a follower and let others make the big decisions. (2)

d) I am usually a loner and not involved in leading or following. (1)

2.Competition

a) I thrive on competition with others. (4)

b) I am competitive when I feel confident about my chances of winning. (3)

c) I would rather cooperate with others than compete against them. (2)

d) I strongly dislike competitive situations. (1)

3.Money (when I have extra money)

a) I almost always save it for a long time. (3)

b) I spend it spontaneously on things I probably don't need. (1)

c) I will spend it but only on things that will help me reach my goals. (4)

d) I rarely have any extra money to save or spend. (2)

4.Mistakes (when I make a mistake)

a) I try to ignore it and move on quickly. (2)

b) I get really angry at myself and feel really bad for a while. (1)

c) I think about how I would do things differently in the future. (3)

d) I analyze what went wrong and takes steps to avoid similar situations in the future. (4)

5.Ideas (when I have a good idea)

a) I will usually keep it to myself until I have a chance to act on it. (2)

b) I usually act on it immediately. (1)

c) I usually talk about it with my friends or family to find out if they think it is a good idea. (3)

d) I will use all the time, money, and skills I have available to make it happen. (4)

Handout 1: Entrepreneur Statements

6.Interpersonal

a) I like doing things by myself most of the time. (2)

b) I am very social and outgoing. (4)

c) I am friendly, but I like other people to initiate contact. (3)

d) I am friendly but very shy. (1)

7.Work (when I envision my future work life, I expect)

a) To make my own hours and choose when I want to work. (2)

b) To work 12–16 hour days to jump-start my career and make sure I get ahead professionally. (4)

c) To work a normal 40-hour workweek with longer hours for special projects or events. (3)

d) Not to work, be a stay-at-home parent for my kids. (1)

8.Physical stamina (when I think of my physical stamina, I would describe myself as)

a) Rarely sick and able to maintain an intense schedule with many responsibilities and commitments. (4)

b) Usually in good health and able to handle a moderate schedule of responsibilities and commitments. (3)

c) Overscheduled, stressed, and likely to get sick during any time off from my intense schedule. (2)

d) Having an easy schedule and few responsibilities and commitments so I don't get stressed or sick. (1)

9.Problems (when I face a problem, I)

a) Ignore it, hoping it goes away. (2)

b) Blame it on someone else and don't worry about it. (1)

c) Get excited because every problem is a new challenge to overcome. (4)

d) Face it and work to solve it, but I don't enjoy dealing with problems. (3)

10.Planning (when thinking about the future, I)

a) Usually have a good idea about what I need to do to be successful, but I don't really set specific goals. (3)

b) Regularly set short- and long-term goals and identify steps I need to take to achieve those goals. (4)

c) Live in the present and think things will work out fine in the future. (1)

d) Have very specific plans for my life and expect to make all those future plans come true. (2)

Handout 2: Student Record Sheet

My Corners		Corners for the erson I Watched	
1. Corner:________	Points: ______	1. Corner:________	Points: ______
2. Corner:________	Points: ______	2. Corner:________	Points: ______
3. Corner:________	Points: ______	3. Corner:________	Points: ______
4. Corner:________	Points: ______	4. Corner:________	Points: ______
5. Corner:________	Points: ______	5. Corner:________	Points: ______
6. Corner:________	Points: ______	6. Corner:________	Points: ______
7. Corner:________	Points: ______	7. Corner:________	Points: ______
8. Corner:________	Points: ______	8. Corner:________	Points: ______
9. Corner:________	Points: ______	9. Corner:________	Points: ______
10. Corner:________	Points: ______	10. Corner:________	Points: ______
Total:	______	**Total:**	______

My Corners		Corners for the erson I Watched	
1. Corner:________	Points: ______	1. Corner:________	Points: ______
2. Corner:________	Points: ______	2. Corner:________	Points: ______
3. Corner:________	Points: ______	3. Corner:________	Points: ______
4. Corner:________	Points: ______	4. Corner:________	Points: ______
5. Corner:________	Points: ______	5. Corner:________	Points: ______
6. Corner:________	Points: ______	6. Corner:________	Points: ______
7. Corner:________	Points: ______	7. Corner:________	Points: ______
8. Corner:________	Points: ______	8. Corner:________	Points: ______
9. Corner:________	Points: ______	9. Corner:________	Points: ______
10. Corner:________	Points: ______	10. Corner:________	Points: ______
Total:	______	**Total:**	______

Visual 2: Points You Earned!

One of the four factors of production, or productive resources, it is the process of discovering new ways of combining the other factors of production.

Role of the Entrepreneur

An entrepreneur is motivated to take a risk and start a business using a new way to combine resources. Incentives for risk taking may include the profit motive, product innovation, job creation, and improving society.

	A	B	C	D
1. Leadership	4	3	2	1
2. Competition	4	3	2	1
3. Money	3	1	4	2
4. Mistakes	2	1	3	4
5. Ideas	2	1	3	4
6. Interpersonal	2	4	3	1
7. Work	2	4	3	1
8. Physical stamina	4	3	2	1
9. Problems	2	1	4	3
10. Planning	3	4	1	2

Visual 3: What Does My Score Mean?

If you scored from 32–40 points, born to be an entrepreneur: People scoring in this range tend to have strong interpersonal skills and are comfortable taking the lead. Their money and planning habits indicate they will have the financial resources and self-discipline needed to put their business ideas into action. These individuals can easily handle long work hours and high levels of responsibility when pursuing their goals. They don't mind selling themselves and their ideas to others and thrive on competition.

If you scored from 23–31 points, entrepreneurial under the right circumstances: People scoring in this range have some characteristics associated with entrepreneurs, but they may need to work on other skills before starting their own business. For example, some who are shy now may become less so as they become experts in their field of knowledge or actively seek opportunities to develop more confidence in social situations. People who tend to be spontaneous with money or life decisions now may become more strategic in these areas as responsibilities increase.

If you scored less than 23 points, don't worry, only 14 percent of the U.S. population are entrepreneurs: According to the 2014 Global Entrepreneurship Monitor, only 14 percent of our population are entrepreneurs. These business owners will need you or you may decide to develop more of these skills as you age! It is predicted that 24 percent of entrepreneurs will hire 20 or more workers over the next few years. That means good career opportunities for you even if you do not have any interest in running your own business. Who knows, you may become so good at your area of expertise that you end up going out on your own one day.

Handout 3: Growing Your Entrepreneurial Skills

Look at your performance in each area associated with successful entrepreneurs. Identify two of the areas in which you would like to improve your skills and record them here.

Using the definition of entrepreneurship and the forces motivating entrepreneurial risk taking, explain why you think these two areas are important to being a successful entrepreneur.

Set a short-term goal for each area you identified in #1 above. Be sure your goal can be accomplished within the next year and is SMART. SMART stands for specific, measurable, attainable, relevant, and timely.

Handout 3: Growing Your Entrepreneurial Skills

Look at your performance in each area associated with successful entrepreneurs. Identify two of the areas in which you would like to improve your skills and record them here.

Using the definition of entrepreneurship and the forces motivating entrepreneurial risk-


MODULE
“2”

CONTENT

RECOGNIZING OPPORTUNITIES

Usually you start a business because you see an opportunity. A business opportunity is a consumer need or want that can potentially be met by a new business. In economics, a need is defined as something that people must have to survive, such as water, food, clothing, or shelter. A want is a product or service that people desire.

Sources of Opportunity

Staying aware of things going on around you can help you recognize potential business opportunities. Here are just a few sources of ideas:

- Problems. Many well-known companies were started because an entrepreneur wanted to solve a problem. A problem could be something you are experiencing personally. Or it could be a problem you observe others experiencing. What product or service would improve your life or the lives of others? What would you like to buy that is not available for purchase in your area?

- ***Changes.*** Our world is continually changing—changes in laws and regulations, social customs, local and national trends, even the weather. Change often produces needs or wants that no one is currently supplying. Consider climate change and the trend toward taking better care of the environment. Many new business opportunities have occurred because people are interested in purchasing “green” products and services.

- ***New Discoveries.*** The creation of totally new products and services can happen by accident. For example, someone who has an enjoyable hobby can discover something recognizable as a business opportunity. Inventions also come about because someone wanted to find a way to solve a problem. Other examples include changes in technology or medical and technological discoveries that entrepreneurs find ways to convert into products and services.

- ***Existing Products and Services.*** You can get ideas for opportunities from businesses that already exist. This is not the same thing as copying a product or service and then calling it by another name (which can be illegal). Instead, it means looking for ways to significantly improve a product, perhaps at a lower price. It could also involve improving the quality and manner in which customers are served—including such features as better locations, longer hours, or quicker service.

- ***Unique Knowledge.*** Entrepreneurs sometimes turn one-of-a-kind experiences or uncommon knowledge into a product or service that benefits others. Think about your own knowledge and experiences. Is there anything unique or unusual that you could use to create.

Thinking Creatively ...

Creative thinking is a thought process that involves looking at a situation or object in new ways..

- **Challenge the Usual. Ask lots of "Why?" and "What if?" questions.**
- **Think Backward. Start by imagining the end result you want.**
- **Be Flexible. Force yourself to examine things from different angles.**
- **Judge Later. When brainstorming ideas, don't worry about being practical.**

- **Draw Idea Maps. Use whiteboards, chalkboards, and poster boards to sketch out ideas.**
- **Brainstorm in a Group. Ask your friends, family, and classmates to help you generate ideas.**
- **Daydream. Letting your mind wander is okay; just make sure you pick an appropriate time.**

Business Model

Your prototype might be ready for presenting to investors or licensees but it is worth nothing if you do not have a business model in place. How are you going to explain to anyone what your product does/intends to do and how it is going to add/create value for customers as well as the company?

You need a business model for that.

It is a term people frequently use but most of them don't truly understand what it means. Michael Lewis, the author of The New, New Thing: A Silicon Valley Story, says that a business model is a "term of art". Most people know it when they see it but cannot accurately describe it.

What is a Business Model?

A Business Model is a conceptual structure that supports the viability of a product or company and explains how the company operates, makes money, and how it intends to achieve its goals. All the business processes and policies that a company adopts and follows are part of the business model.

According to management guru Peter Drucker:

a business model is supposed to answer who your customer is, what value you can create/add for the customer and how you can do that at reasonable costs.

Thus a business model is a description of the rationale of how a company creates, delivers and captures value for itself as well as the customer.

The widespread use of business models came into existence with the advent of the personal computer which let people test and model the different components of a business. Successful business models before that were mostly created by accident and not by design. It's different for business plans and business strategies though.
Every business model intrinsically has three parts –

- **everything related to designing and manufacturing the product**

- **everything related to selling the product, from finding the right customers to distributing the product**

- **everything related to how the customer will pay and how the company will make money**

Different Types of Business Models

There are different types of business models meant for different businesses. Some of the basic types of business models are:

Manufacturer
A manufacturer makes finished products from raw materials. It may sell directly to the customers or sell it to a middleman i.e another business that sells it finally to the customer. Ex: Ford, 3M, General Electric.

Distributor
A distributor buys products from manufacturers and resells them to the retailers or the public. Ex: Auto Dealerships.

Retailer
A retailer sells directly to the public after purchasing the products from a distributor or wholesaler. Ex: Amazon, Tesco.

Franchise
A franchise can be a manufacturer, distributor or retailer. Instead of creating a new product, the franchisee uses the parent business's model and brand while paying royalties to it. Ex: McDonald's, Pizza Hut.

Brick-and-mortar
Brick-and-mortar is a traditional business model where the retailers, wholesalers, and manufacturers deal with the customers face-to-face in an office, a shop, or a store that the business owns or rents.

E-Commerce
E-Commerce business model is an upgradation of the traditional brick-and-mortar business model. It focuses on selling products by creating a web-store on the internet.

What is a Business Plan?

A business plan is a statement of your business goals, the reasons you think these goals can be met, and how you are going to achieve them.

Types of Business Plans

Business plans have no set format. A plan is developed based on the type of business that is intended. However, it is also based on the audience.
Businesses need different types of plans for different audiences. There are four main types of plans for a start-up business:

- **Quick Summary.** This is a brief synopsis lasting no more than thirty seconds to three minutes. It's used to interest potential investors, customers, or strategic partners. It may seem strange to consider this a type of business plan, but it is. In some cases, the quick summary may be a necessary step toward presenting a more fully developed plan. (Examples of this type of summary are the elevator pitch and the twit pitch described later in this section.)

- **Oral Presentation.** This is a relatively short, colorful, and entertaining slide show with a running narrative.
It is meant to interest potential investors in reading the detailed business plan.

- **Investor's Business Plan.** Anyone who plans to invest in your start-up business (banks, investors, and others) needs to know exactly what you are planning. They need a detailed business plan that is well written and formatted so all the information can be easily understood. When entrepreneurs talk about a business plan, this is typically the type of plan they mean.

- **Operational Business Plan**. Often a start-up business will develop an operational plan that is meant for use within the business only.
This plan describes in greater detail than the investor's business plan how the company will meet its goals. It is also often less formal than an investor's business plan.
Although there is no set format for a business plan, each type of plan will address The Three C's.

The Three C's

- **Concept.** **What is your product or service and how is it different from similar products or services?**

- **Customer.** **Who will be buying your product or service and why?**

- **Capital.** **How will you locate the initial money your business will need? What will be your costs and what kind of profit can you expect?**

Parts of a Business Plan

In this topic you will be focusing on developing an investor's business plan. Bankers and other professional investors need to see your business plan before they lend you money. You may have a brilliant idea, but if you do not explain it carefully in a well-written business plan, no professional investor will be interested.

Professional investors typically see many business plans each year and make very few investments. They will immediately reject an incomplete or poorly written plan. Investors are busy people and don't have time to read an overly long business plan. Your plan, including the financials, should be no longer than 20 typed pages (and many are much shorter). It should require no more than an hour of reading time.

Most plans will include these seven parts (although the order may differ, depending on the type of business):

- **Business Idea.** Not only do you describe your product or service in this part of the business plan, but you also talk about the type of business you will start and the type of business ownership you will use. Recently, in this part of the business plan, entrepreneurs have begun to describe how their business is socially responsible.

- **Opportunity & Market Analysis.** Your description of the market should include an account of the market, its size, its trends and characteristics, and its growth rate. Describe your market research. List your competitors and describe your competitive advantage. Provide your marketing plan, your product and pricing strategies, and your plans for promotion.

- **Financial Strategies.** This section shows any historical financial data, as well as projected figures including estimated sales and expenses (typically extending for five years). This section also describes any financing required by the business.

- **Organizational Structures.** In this part of the business plan you discuss the organizational structure of the company. You can provide profiles of key managers and, if appropriate, information about your board of directors. You can also describe how you plan to train and motivate your employees, if appropriate.

- **Legal Structures**. In this part of the business plan you describe any intellectual property or contract issues. You also talk about how your business will be protected by insurance, the affect of taxes on your business, and any relevant government regulations that affect the business.

- **Business Management.** Describe how the business will be managed (focusing on production, distribution, operations, purchasing, and inventory).

- **Plan for Growth.** Here you describe your plans to grow the business and the challenges it may face. You may also describe your plans to franchise or license the business, if that is part of its plan for growth.

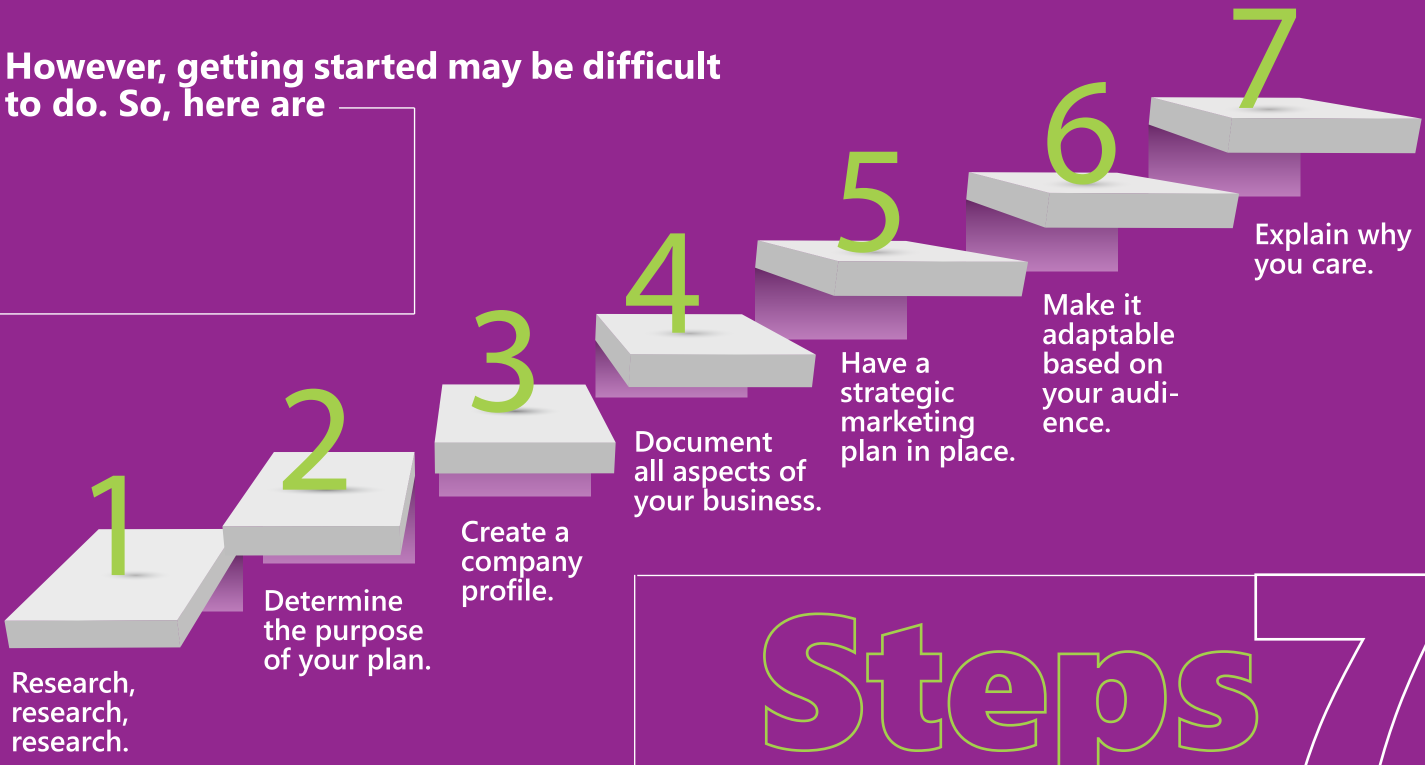
7 Steps to a Perfectly Written Business Plan

Every business needs to have a written business plan. Whether it's to provide direction or attract investors, a business plan is vital for the success for your organization. But, how do you write a business plan?

We recommends that a business plan include:

- Executive summary -- a snapshot of your business
- Company description -- describes what you do
- Market analysis - research on your industry, market and competitors
- Organization and management -- your business and management structure
- Service or product -- the products or services you're offering
- Marketing and sales -- how you'll market your business and your sales strategy
- Funding request -- how much money you'll need for next 3 to 5 years
- Financial projections -- supply information like balance sheets
- List of addenda -- an optional section that includes résumés and permits

However, getting started may be difficult to do. So, here are



Steps 7 to a Perfectly Written Business Plan

1. Research, research, research.

"Research and analyze your product, your market and your objective exper-tise," William Pirraglia, a now-retired senior financial and management exec-utive, has written. "Consider spending twice as much time researching, eval-uating and thinking as you spend actually writing the business plan.

"To write the perfect plan, you must know your company, your product, your competition and the market intimately."

In other words, it's your responsibility to know everything you can about your business and the industry that you're entering. Read everything you can about your industry and talk to your audience.

2. Determine the purpose of your

A business plan, as defined by Entrepreneur, is a "written document describ-ing the nature of the business, the sales and marketing strategy, and the financial background, and containing a projected profit and loss statement." However, your business plan can serve several different purposes.

As Entrepreneur notes, it's "also a road map that provides directions so a business can plan its future and helps it avoid bumps in the road." That's important to keep in mind if you're self-funding or bootstrapping your business. But, if you want to attract investors, your plan will have a different purpose and you'll have to write a plan that targets them so it will have to be as clear and concise as possible. When you define your plan, make sure you have defined these goals personally as well.

3. Create a company profile.

Your company profile includes the history of your organization, what products or services you offer, your target market and audience, your resources, how you're going to solve a problem and what makes your business unique. Company profiles are often found on the company's official website and are used to attract possible customers and talent. However, your profile can be used to describe your company in your business plan. It's not only an essential component of your business plan; it's also one of the first written parts of the plan.

Having your profile in place makes this step a whole lot easier to compose.

4. Document all aspects of your business.

Investors want to make sure that your business is going to make them money. Because of this expectation, investors want to know everything about your business. To help with this process, document everything from your expenses, cash flow and industry projections. Also, don't forget seemingly minor details like your location strategy and licensing agreements.

5. Have a strategic marketing plan in place.

A great business plan will always include a strategic and aggressive marketing plan. This typically includes achieving marketing objectives such as:

- **Introducing new products**
- **Extending or regaining market for existing products**
- **Entering new territories for the company**
- **Boosting sales in a particular product, market or price range. Where will this business come from? Be specific**
- **Cross-selling (or bundling) one product with another**
- **Entering into long-term contracts with desirable clients**

- **Raising prices without cutting into sales figures**
- **Refining a product**
- **Having a content marketing strategy**
- **Enhancing manufacturing/product delivery**

“Each marketing objective should have several goals (subsets of objectives) and tactics for achieving those goals,” states Entrepreneur.

“In the objectives section of your marketing plan, you focus on the ‘what’ and the ‘why’ of the marketing tasks for the year ahead. In the implementation section, you focus on the practical, sweat-and-calluses areas of who, where, when and how. This is life in the marketing trenches.”

Of course, achieving marketing objectives will have costs. “Your marketing plan needs to have a section in which you allocate budgets for each activity planned," Entrepreneur says. It would be beneficial for you to create separate budgets for for internal hours (staff time) and external costs (out-of-pocket expenses).

6. Make it adaptable based on your audience.

“The potential readers of a business plan are a varied bunch, ranging from bankers and venture capitalists to employees,” states Entrepreneur. “Although this is a diverse group, it is a finite one. And each type of reader does have certain typical interests. If you know these interests up-front, you can be sure to take them into account when preparing a plan for that particular audience.”

For example, bankers will be more interested in balance sheets and cash-flow statements, while venture capitalists will be looking at the basic business concept and your management team. The manager on your team, however, will be using the plan to “remind themselves of objectives.”

Because of this, make sure that your plan can be modified depending on the audience reading your plan. However, keep these alterations limited from one plan to another. This means that when sharing financial projections, you should keep that data the same across the board.

Explain why you care.

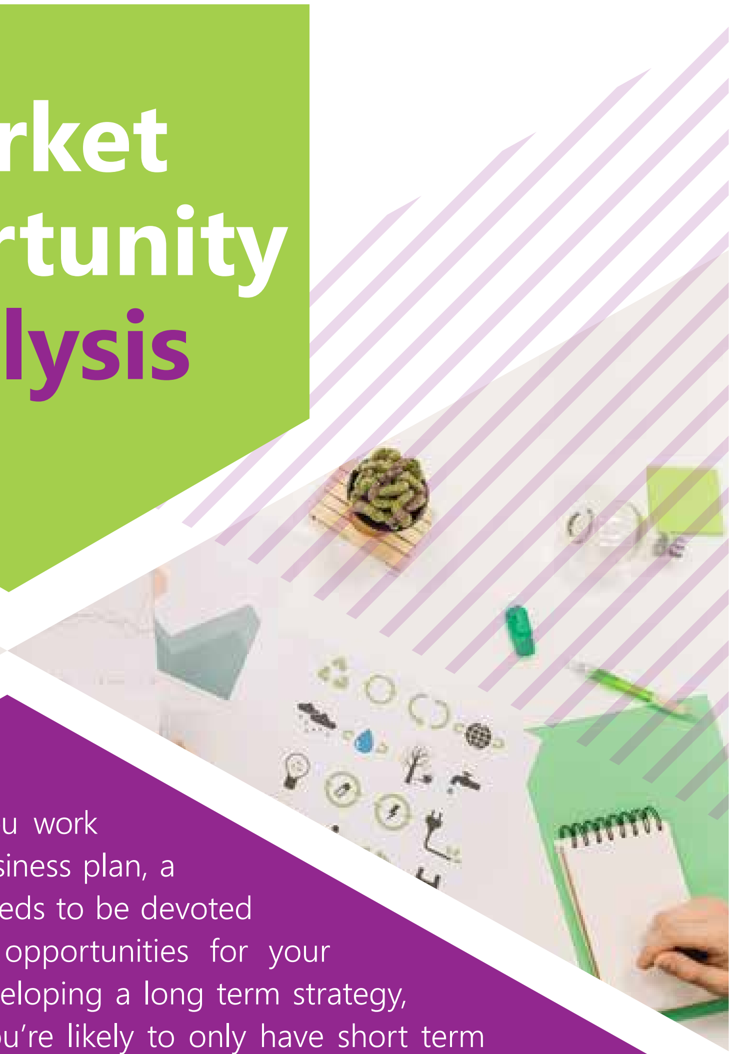
Whether you’re sharing your plan with an investor, customer or team member, your plan needs to show that you’re passionate and dedicated, and you actually care about your business and the plan

You could discuss the mistakes that you've learned, list the problems that you're hoping to solve, describe your values, and establish what makes you stand out from the competition.

When I started my payments company, I set out to conquer the world. I wanted to change the way payments were made and make it easier for anyone, anywhere in the world to pay anyone with few to no fees. I explained why I wanted to build this. My passion shows through everything I do.

By explaining why you care about your business you create an emotional connection with others so that they'll support your organization going forward.

Market Opportunity Analysis



As you work on your business plan, a major section needs to be devoted to identifying future opportunities for your company. This is key to developing a long term strategy, because without any planning you're likely to only have short term success. Not something a typical business owner wants to hear. If you're still waiting to make a start on your business plan.

In essence, a marketing opportunity analysis takes into consideration the financial capabilities, available technology and your competitive readiness to take action. Its conclusions allow you to identify new target markets, discover unmet customer needs, and realize your competitive advantages. All good businesses meet their customers' needs, which is especially in today's environment where the level of competition is through the roof.

Market Opportunity Analysis Steps

In its simplest form, to properly perform a market opportunity analysis there are five steps to follow:

1. Identify what's currently happening in the business environment.

In this section you need to look at the economic conditions (growth, stable or decline) as well as any trends or social changes that could have an impact on the business. Delve into both the legal and regulatory situations, as these can often change and you need to be prepared for any future expected changes as well. Research the latest technology and state of the art developments, and take into account the natural environment. Are there any vulnerabilities or limitations on resources that could hinder your growth?

2. Define the industry and determine the outlook.

Here you need to state exactly the industry that you are operating within, and make forecasts on the size of the market. Look back over the last 5 years, and project how you believe it will grow over the next 12 months, 3 years and 5 years. Look to your competition and discover the marketing practices that are being utilized, and see if you can see any major trends or shifts within your industry. Here there are major implications for potential opportunities, as you need to ensure you're moving in the same direction as the market.

3. Dive into the details of your competitors.

You need to know what businesses you are competing with, and know their products inside and out. Go through their product mix, and compare this with the products you are offering. Make sure you're objective in your approach, and also identify the relative strengths and weaknesses of the products from your customers' point of view. Look at how your competition is reaching the market, the channels they're using to both distribute and market their products, and the level of service that's being offered. If you have details on the market share of other businesses include it here, and sum it all up in a couple of short sentences that outline the implications of this section regarding the opportunities in the market.

4. Describe your target market.

You need to build a profile of your ideal customer, so that you can adequately focus your sales and marketing efforts and reach your customers.

If you haven't built a marketing plan before. In essence you simply need to look at the needs of your customers, but if you get stuck try asking yourself one of these questions:

- *Who are my potential customers?*
- *What are my potential customers like as a consumer?*
- *What are my potential customers looking for?*
- *When is the product needed?*
- *Is there a particular channel that the product sells best in?*
- *How do my potential customers make a decision to buy a product?*
- *How important is each of my products attributes to my potential customers?*
- *Are there any outside influences that have an effect on their buying decision?*
- *Is there any limitations that can influence the level of opportunity?*
- *What is the competition starting to do?*
- *How is the market developing and changing?*

Thinking and answering these should get the ball rolling, remember the entire goal is to focus on the end-user, and determine what it is they actually need. If the need is there, the market is there, and you've got the basic fundamentals for creating success selling your products.

5. Create your projections.

Use a variety of techniques that build on all of the information in your business plan to set a forecast of your sales. This includes best and worst case scenario analysis, any intuition or "gut-feelings" you have about new markets, and compare any results you have seen to date. The final recommendation in a market opportunity analysis is a simple answer to this question. Is the project a go? Or a no go?

Sources of Information

Published works

- Trade reports from industry associations
- Newspapers and periodicals
- Information service reports that are standardized for an industry
- Government reports
- Annual Company Reports

Firsthand observations

- Interviews and discussions with customers or suppliers
- Interviews and discussions with competitors (or with customers about competitors)
- Interviews and discussions with experts
- A personal opinion of the macro environmental influences

Reach out to the managers in companies that deal with suppliers, the people running trade associations, consultants in your industry, as well as sales people. They'll all have an idea of the information you need, as well as their firsthand experience. In doing your research, surveys are another great way to get more information on a market, especially if you have a means of reaching the target consumer. Here's the questions you need to be asking, whether it's in a survey, or in an interview

- Their estimate of the size of the market
- Their estimates of the market potential, and how fast it is growing
- Their understanding of your position in the market and your value proposition
- Their preferred product and why
- What aspect of the product adds the most value to them as an end-user
- How they see the differences between the top three competitors in your field
- Are the differentiators sustainable over time?
- What are the short and long term needs of the market?
- List out all the emerging markets that can use the product

As you're working on the project, what can be most difficult is the information you need to adequately support your projections, or to help you make decisions. Especially in emerging markets, much of the time the information you need either doesn't exist, or isn't available. Here's the types of information that will help you build your market opportunity analysis

As you're making your conclusions in the market opportunity analysis, remember that there are four key areas where you can create value for your clients.

- Trapped value. This is empowering your customers, creating greater efficiency and accessibility of your products.
- New value. This is extending your product lines, personalizing products and using collaboration to build a loyal following of customers.
- Horizontal value. This is improving the functionality of your existing products.
- Vertical value. This is improving the industry specific products and activities your business engages in.

Taking all of the information gathered so far, the final step is to craft it into a story. You want to build a compelling picture of the target segment, and the high level value proposition that you are offering. You'll need to spell out exactly what the benefits are to the customer, and what's absolutely critical to deliver. Run through the resources that are required to take advantage of this opportunity, and clearly describe how the business will be able to establish an advantage over the competition. You'll need to include how you believe value can be made from this opportunity, and spell out in plain figures what this opportunity represents in both investment, and expected returns. By the end of all this, you'll have a perfect overview of what needs to be done, so that you can help the decision making process. The next step is to implement this into your marketing strategy, and build a fantastic value proposition for business owners.

Finding opportunities in a market isn't rocket science, but there is a process to follow. Do it right and you'll be surprised at what customer needs are currently unmet, and how profitable it can be after you build a solution for them.

Identify the customers or potential customers for a business

Why Is Market Research Important?

We live in a world that changes rapidly and frequently. Because of this, each business must stay informed about its market. A market is a group of potential customers people or businesses who are willing and able to purchase a particular product or service.

Market research is an organized way to gather and analyze information needed to make business decisions. For example, market research can help you decide to start a new business. But market research isn't just something you do when starting a business. To ensure a company's continued success, market research needs to be an ongoing activity.

10 Steps to Target and Connect With Potential Customers Effectively

Are you rolling out a new marketing plan or looking to give your current one a face-lift? Here's 10 steps to help you connect with customers and foster leads.

Brainstorming an effective marketing strategy is never easy work — you have to make decisions on who you think your target customers are, then spend an enormous amount of time gathering and analyzing data about their consumer habits. It's either time-consuming or expensive, and often it's both.

However, this time and monetary investment could yield game-changing results for your company. Are you starting to roll out your marketing plan and netting yourself some customers? Follow these 10 steps to be successful.

1 Survey Customers

You won't be able to connect effectively with your potential customers if you don't have a customer in mind. Survey current customers, as well as members of your target market, to find out how you can better present your product or service, or what aspects might be missing from what you're currently offering.

Cast a wide net to capture those you think might be interested in your product or service, and use their data to shape your brand in a way that better resonates with your target market. Once you know who your audience is, where they hang out online and what they respond best to, then you can begin to market.

2 Research Your Competitors And Find Out Who Their Customers Are

An easy way to find out which kind of marketing campaign works and which don't is by researching competitors in your industry.

Not only will this inexpensive effort give you some ideas to follow for your own campaigns, this research will also reveal dark spots in your competitor's process and present new directions for you to take your own marketing strategy.

After all, just by going into business in the same industry, you'll be going after some of your competitor's target market — you might as well use their example to make your service and product better for their customers.

3 Target Ads

Far cheaper than most methods of advertising, Facebook and Google targeted ads prove that a little can go a long way.

While most advertising in the real world only reaches whoever comes across a billboard, bus stop or commercial, these targeted ads can locate the people who are most likely to need your service based on geographical location, demographics (including age, gender, education and relationship status), interests (based on what they've shared or "liked") and browsing activity.

By investing in targeted ads and paying through their Pay Per Click or Pay Per Impression method, companies can see a significant bump in their user engagement, conversion and sales.

4 Smart Social Media

There's having a presence on social media, and then there's having a social media presence. When it comes to keeping customers, a little more effort on Facebook, Twitter and Instagram really go the distance.

Far too many businesses use their accounts to simply promote their own company, while smart social media managers strategize relevant posts, link to cool articles, answer customer questions as soon as they're asked, and otherwise give online surfers the impression that there's actually a human who cares.

These are the companies who retain their customers, give users new ways to use their service or product and help solve problems as they come up.

5 Respond To Every Email, Tweet, Facebook Comment, And Phone Call; Adjust Yourself As Necessary

When Paul English was still presiding over Kayak, one of the most valuable practices he insisted on implementing was to keep an extremely annoying, loud phone in the middle of the office to receive customer complaints. This ensured the calls were answered — by anybody, including engineers, developers, content managers, or even English himself.

At Zappos, Tony Hsieh values customer service so much that they build in customer service training for every new hire, regardless of the job. And its customer service has gone to such lengths as to go to a rival shoe store to get a pair of shoes that the site had run out of.

The point? Always answer calls, always care for your customers, and always fix problems as they come in — your customers will love you for it.

6 Affiliate Marketing

Affiliate marketing has been around since the early days of the Web, and it's still an over-looked but highly effective means to raise your brand awareness significantly.

And with the number of affiliate networks out there, who operate on a PPC (Pay Per Click) or PPA (Pay Per Action) basis, it has never been easier or safer to find your product being promoted by appropriate publishers.

EBay, Amazon and certain marketing companies offer their own affiliate networks, but you can also try an exclusive PPA affiliate network.

7 Establish Trust In Your Community: Publish User Reviews, Get Likes, Syndicate Articles

With so many new, competing businesses congesting almost every industry, it's getting increasingly difficult to stand out and grow a decent-sized following. To gain support, companies first have to establish trust.

As more than 88 percent of consumers trust online reviews as much as personal recommendations, it only makes sense to start by publishing user reviews and sending samples of your product for trusted bloggers to review.

As your company keeps growing, start placing in-house content in big websites that publish syndicated content, like Huffington Post, Forbes, FT, Fast Company and Inc. Don't forget to use your real name people respond better to a human being than to a corporation.

8 Connect With The Right Influencers

Engaging with big players in your industry can be an extremely effective way to garner a wider share base. After all, if you can get the attention of a thought leader or an influencer, you have the chance to capture their fans and friends, as well as establish trust and credibility. Reach out to appropriate bloggers or entrepreneurs at conferences or over Twitter, send them relevant and interesting blog content that might pique their interest, and once again be a human being, not just your company.

9 Post Relevant Content On Blogs

Keeping a practice of continually and diligently publishing relevant and original blog content not only helps keep your company shining in the warm Google sun, but it also helps potential customers truly get to know your company and where it's coming from.

The content doesn't have to be self-promotional (and shouldn't be), but it should offer context into why your product or service is important, suggest the best ways to solve industry-related problems that arise in the everyday lives of your target demographic, impart some valuable wisdom, and generally inspire people to share your point of view.

If you don't have enough resources or writers on staff to keep rolling out a constant stream of content for your blog, enlist the help of a content marketing platform like Content.ly or a virtual communications platform like Commeta.

One of the most time-consuming aspects of online marketing is generating leads. Often, that involves analyzing customer demographics and social media activity, putting out ads and online surveys and updating user data from year to year.

However, new companies are cropping up to simplify the process of lead generation, and, in some cases like LeadGenius they even do the work for you.

A great way of nurturing prospects is with personalized email newsletters, A/B test advertising and promotional campaigns. Use the data to fine-tune the efforts that work and scale your best campaigns.

Types of Competition

Identifying Your Competition

In addition to your target market, another critical area of market research involves identifying your competitors. They are the rival businesses with whom you are competing for the dollars your target market spends. The data you collect about your competitors is called competitive intelligence

Your competitive intelligence will be of two types:

Direct competitors. A business in your market that sells a product or service similar to yours is your direct competitor. McDonald's® and Burger King® are examples of direct competitors in the fast food industry, because they sell a similar line of products. An ice cream shop that also sells hamburgers might also be considered direct competition for McDonald's and Burger King. However, the ice cream shop would not be considered a strong competitor, because its main focus is on ice cream products. Hamburgers are only a sideline.

Indirect competitors. A business that sells a different product or service from yours but fills the same customer need or want is your indirect competitor. For example, Taco Bell® is in the fast-food industry, but it is an indirect competitor with McDonald's and Burger King. This is because Taco Bell sells fast-food products but not hamburgers. On a broader level, non-fast-food restaurants could also be considered indirect competition because the food they sell fills the same basic need.

Other Forms of Competition

Keep in mind that your target customers may choose options other than buying from your business, or even your direct and indirect competitors. For instance, potential customers may decide to cook a hamburger at home rather than buying it. Purchasing the ingredients of a product at a local grocery store may be less expensive than buying a prepared version. In tough economic times, customers may choose to provide a particular service for themselves rather than pay someone else to do it. Women who give themselves manicures instead of going to a nail salon are examples of customers who become the competition. Another example is someone who changes the oil in the family car, rather than taking it to a service station. Indirect competition may include businesses outside your industry if they provide a product or service that has the same benefit as yours. Competition can also vary depending on the time of year or a temporary condition. For example, suppose you own a candy store. Around Valentine's Day, florists become indirect competition even though they are not in the same industry at all. This is because flowers and candy both fill a particular want: to present a gift to your valentine.

Determining Your Competitive Advantage

Competitive intelligence enables you to compare your competitors' strengths and weaknesses with your potential business. During this process you will be looking for unique ways to provide your product or service to your target market. You will be looking for your competitive advantage: something that puts your business ahead of the competition.

Gather Competitive Intelligence

Many of the secondary data sources mentioned in Section 7.1 will help you gather competitive intelligence. Make sure to consider the various places where competitive products or services might be available to your target market. Some of your competition may be located nearby in physical stores, but they may also be on the Internet or in direct-mail catalogs. One way to gather valuable competitive intelligence is to pose as a customer and gain a sense of what it's like to buy your competitor's product or service (provided you do not cause your competitor to exert a significant amount of effort if you don't intend to buy anything). Go at different times of the day and on different days of the week, and note which times were busiest and what kinds of customers were there. For example, you could visit a competing store posing as a potential customer. ***As you walk through, ask yourself these questions:***

- What products do they carry? How are the products displayed? How much do they cost?
- What is their customer service like? Did the staff offer to assist me? Were they friendly and helpful?
- How many other potential customers are in the store? What do some of the customer demographics seem to be (age, gender, etc.)? What about customer psychographics, geographics, and buying patterns?
- Does the competitor offer any special purchasing terms, such as credit with no interest? Do they provide any other special services, such as free delivery? What is their policy for returning purchases?

Recognize a value proposition

An easy way to find out which kind of marketing campaign works and which don’t is by researching competitors in your industry.

Not only will this inexpensive effort give you some ideas to follow for your own campaigns,

What Is a Value Proposition?

A value proposition is the promise you make to deliver products and services of value to your customers. This promise is what allows you to edge out your competitors by describing what sets you apart and how you will solve a problem the consumer has. A value proposition is much more than a slogan or positioning statement. If your business can live up to your value proposition you will gain the trust of customers and create long-lasting relationships where they’ll view your business as the “go-to” for solutions to their problems.

How to Determine Your Value Proposition

There are a number of questions you need to ask yourself as you create your value proposition.

Start by outlining what it is your business stands for and determine what you do best. From there, create a mission statement that includes your business’ core values. What is it that your business values? Do you strive to create eco-friendly products or will you be known for providing outstanding customer service with every interaction?

Use these steps to help you better develop your value proposition:

- Identify customer benefits: Make a list of all of the ways your customers can benefit from your product.
- Link benefits to the value offered: Consider the ways in which your products will bring value to the customer.
- Differentiate and position yourself: Clearly establish who your target audience is, what you are offering them, and how you stand out compared to your competition.

How to Express Your Value Proposition

Marketing allows you to showcase your value proposition to the consumer. As you create a marketing plan, you must make sure it aligns with what your business has identified as important. There are four key elements involved in creating a successful value proposition.

- Make it clear - Don’t use industry jargon or talk over the heads of your audience
- Be specific - Tell your customers exactly what they can expect from doing with you
- Showcase differences - What makes you better than the competition?
- Make it instant - Customers should have to consider your value proposition it should simply make sense.

How Your Value Proposition Attracts Customers

A strong value proposition will tell customers what to expect when engaging with your business. It explains how you products and/or services can solve their problems or improve their situations. By explaining ahead of time what customers will receive, you’re eliminating the uncertainty involved in doing business with someone unfamiliar to them.

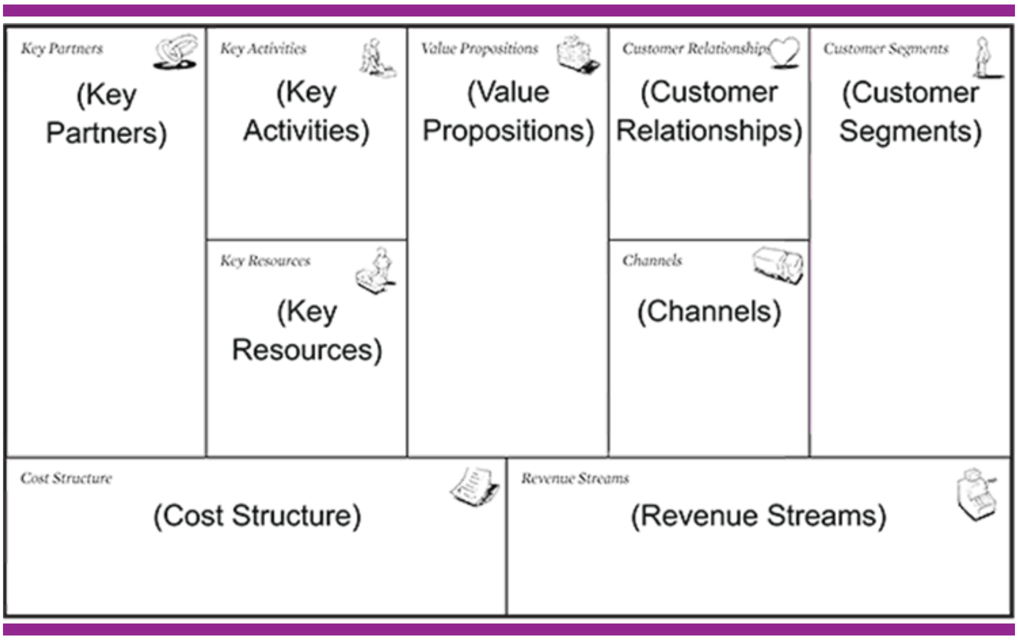
As described in Writing Value Propositions that Work, telling your customers to “just do it” won’t deliver results. You need to explain why they should do it and why they should be choosing you over the competition.

Develop a value proposition that is honest and true to your business, and be sure to follow through on those promises. Misleading your customers with your value proposition is an easy way to lose business and upset customers.

As you move forward, always remember to think about how your value proposition will attract customers. Their presence in your business is critical to your success and the power of the consumer should never be underestimated.

Business Model Canvas

A business model describes how a company creates, delivers and captures value. Everyone has their unique way of viewing the business model. During discussions about this, there has been an increasing need for an uniform template to define and discuss the business model. This template should be applicable to new and old businesses alike, across industries.



In this topic we will look at

- what is a business model canvas?
- The traditional approach to a business model
- The 9 building blocks
- why to use the business model canvas
- Applying the business model canvas.

WHAT IS A BUSINESS MODEL CANVAS?

The Business Model Canvas, developed by Alexander Osterwalder, is a visual representation of current or new business models, generally used by strategic managers. The Canvas provides a holistic view of the business as a whole and is especially useful in running a comparative analysis on the impact of an increase in investment may have on any of the contributing factors.

The Business Model Canvas gives people a common language through which they can evaluate traditional processes and bring innovation into their business models.

THE TRADITIONAL APPROACH TO A BUSINESS MODEL

Most startups fail because entrepreneurs put all their faith in the idea of the product the organization exists to create. In their loyalty to this product or service, they fail to give in depth consideration to the business model their organization will follow. Usually the business model is either a one-size-fits-all model, common in the industry or it is a random amalgamation of systems and processes, created at the spur of the moment to further the main goal; sell the product or service.

Successful new ventures do not go to market with their first idea; instead, the product/ service has usually gone through several iterations before arriving at the final version. Similarly, organizations are more sustainable if they have considered several business models before deciding on a particular one.

THE 9 BUILDING BLOCKS

The Business Model Canvas categorizes the processes and internal activities of a business into 9 separate categories, each representing a building block in the creation of the product or service. These categories represent the four major aspects of a business; customers, offer, infrastructure, as well as financial viability. All 9 categories are listed and explained below.

- **Customer Segments**
- **Value Propositions**
- **Channels**
- **Customer Relationships**
- **Revenue Streams**
- **Key Resources**
- **Key Activities**
- **Key Partnerships**
- **Cost Structure**

1. Customer Segments

The total customer pie is divided into segments based on the manner in which an organization's products or services address a specific need for the segment. The customer segment is an essential part of an organization's business model and is key to ensuring that the product features are aligned with the segments characteristics and needs.

To carry out an effective customer segmentation, a company must first know its customers, both through their current and future needs. Then the organization must list its customers in terms of priority, including a list of potential future customers. Finally, the company should do a thorough assessment of its customers by understanding their strengths and weaknesses and exploring other kinds of customers who may benefit the company more if they are to focus on them.

Various customer segments are as below;

- Mass Market: An organization opting for this type of customer segment gives itself a wide pool of potential customers because it feels that its product is a relevant need amongst the general population. A potential product for such an organization could be Flour.

- Niche Market: This customer segment is based on highly specific needs and unique traits of its clients. An example of an organization with a niche customer segment is Louis Vitton

- Segmented: Organizations adopting the segmented approach create further segmentation in their main customer segment based on slight variations in the customer's demographics and resultantly, their needs.

- Diversify: An organization with a Diversified Market Segment is flexible in the iterations of its product or service tweaking it to suit the needs of segments with dissimilar needs or traits.

- Multi-Sided Platform/ Market: This kind of segment serves customers who have a relationship to each other, i.e. blogging sites need a large group of active bloggers to attract advertisers. And they need advertisers to create cash flow. Hence, only by creating a pull with both segments will the blogging site be able to have a successful business model

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2. Value Propositions

An organization's value proposition is the combination of products and services it provides to its customers. Osterwalder stated that these offerings need to be unique and easily differentiated from competition. *Value propositions can be divided into two categories*

- **Quantitative:** this stresses the price or efficiency of the product or service

- **Qualitative:** this value proposition highlights the experience and results the product and its use, produce.

The value proposition provides value through a number of attributes such as customization, performance, "getting the job done", brand/ status, design, newness, price, cost and risk reduction, accessibility, as well as convenience/ usability.
When creating your product's value proposition, the first question an entrepreneur must ask himself is, what problem he is solving through his offered product or service. Then one needs to look into how the product, service or overall experience can be improved so that it provides greater value than the competition. Finally, it is imperative to identify the core value that your business provides. One way to identify this value is for an owner to specify what he/ she wants customers to remember about their interaction with the company.

3. Channels

The medium through which an organization provides its value proposition to its customer segment is known as a channel. There are various options for channels available to an organization, and the selection is based on the channel that is the quickest, most efficient with the least amount of investment required. There are two basic kinds of channels; Company owned channels such as store fronts or Partner Channels such as Distributors. A company can opt to choose either one or employ a combination of both.

For an entrepreneur, the first step in dealing with channels is to identify the customer channels. Touch points with customers can be limited or diverse depending on company strategy. Then he/ she needs to evaluate the strength of the channel by conducting an SWOT analysis on the channel. Finally, the company can identify and build new customer channels.

4. Customer Relationships

An organization must select the kind of relationship it will have with its customer segment in order to create financial success and sustainability. *Customer Relationships can be categorized as follows;*

- **Personal Assistance:** In this kind of relationship the company interacts with the customer directly through an employee who provides the human touch by assisting the customer presale, during the sale and even may provide after sales services.

- **Dedicated Personal Assistance:** This kind of relationship is characterized by a very close interaction between the customer and the company through a dedicated representative who is assigned a set of clients and is personally responsible for the entire experience the customer has with the company.

- **Self-Service:** Self-Service places the onus of the customer experience on the tools the company provides for the customer to serve him or herself.

- **Automated Services:** These are customized self-service relationships where the historical preference of the customer is taken into account to improve the overall experience.

- **Communities:** In today's electronic age creating communities of clients allows organizations to communicate with them directly. This allows for an enhanced client experience because the community allows clients to share their experiences and come up with common challenges and solutions.

- **Co-creation:** The customer has a direct hand in the form the company's product or service will take.

For an entrepreneur, the priority is to identify the type of relationship he/ she has with the customer. Then the value of the customer must be evaluated in terms of the frequency of his expenditure on the firms product and services. Loyal customers are relationships that the company should aim to invest in as they will yield steady revenue throughout the year.

5. Revenue Streams

- **A revenue stream is the methodology a company follows to get its customer segments to buy its product or service.** ***A revenue stream can be created through the following ways;***

- **Asset Sale:** the company sells the right of ownership over the good to the customer.

- **Usage Fee:** the company charges the customer for the use of its product or service.

- **Subscription Fee:** the company charges the customer for the regular and consistent use of its product or service.

- **Lending/ Leasing/ Renting:** the customer pays to get exclusive access to the product for a time-bound period.

- **Licensing:** the company charges for the use of its intellectual property.

- **Brokerage Fees:** companies or individuals that act as an intermediary between two parties charge a brokerage fee for their services.

- **Advertising:** a company charges for others to advertise their products using their mediums.

When setting up revenue streams, it is important to recognize that an effective price for the product and/or service will be arrived at through the process of elimination. Different iterations of prices should be listed and evaluated. It is important, in the end to take a break ad reflect on possible avenues open to you as a business.

6. Key Resources

These are the assets of the organization fundamental to how it provides value to its customers. Resources can be categorized as human, financial, physical and intellectual.

For an entrepreneur, it is important to begin with listing your resources. This gives you a clear idea of what final product or service your company needs to create for the customer and which resources are dispensable, resulting in cost savings for your company. Once the final list of resources is available, the company can decide on how much it needs to invest in these key resources to operate a sustainable business.

7. Key Activities

Activities that are key to producing the company's value proposition. An entrepreneur must start by listing the key activities relevant to his/her business. These activities are the most important processes that need to occur for the business model to be effective. Key activities will coincide with revenue streams. Now it is important to evaluate which activities are key by adding or removing some and evaluating their impact.

8. Key Partnerships

To create efficient, streamlined operations and reduce risks associated with any business model, an organization forms partnerships with its high-quality suppliers. Key partnerships are the network of suppliers and partners who complement each other in helping the company create its value proposition. ***Partnerships can be categorized as follows;***

- Strategic alliance between competitors (also known as coopetition),
- Joint ventures
- Relationships between buyers and suppliers.

An entrepreneur must begin by identifying its key partners followed by making future partnership plans. This can be done through an evaluation of the partnership relationship to judge which characteristics of the relationship need improvement and what kind of future partnerships will be required.

9. Cost Structure

This defines the cost of running a business according to a particular model. Businesses can either be cost driven i.e. focused on minimizing investment into the business or value driven i.e. focused on providing maximum value to the customer.

Following are some traits of common cost structures;

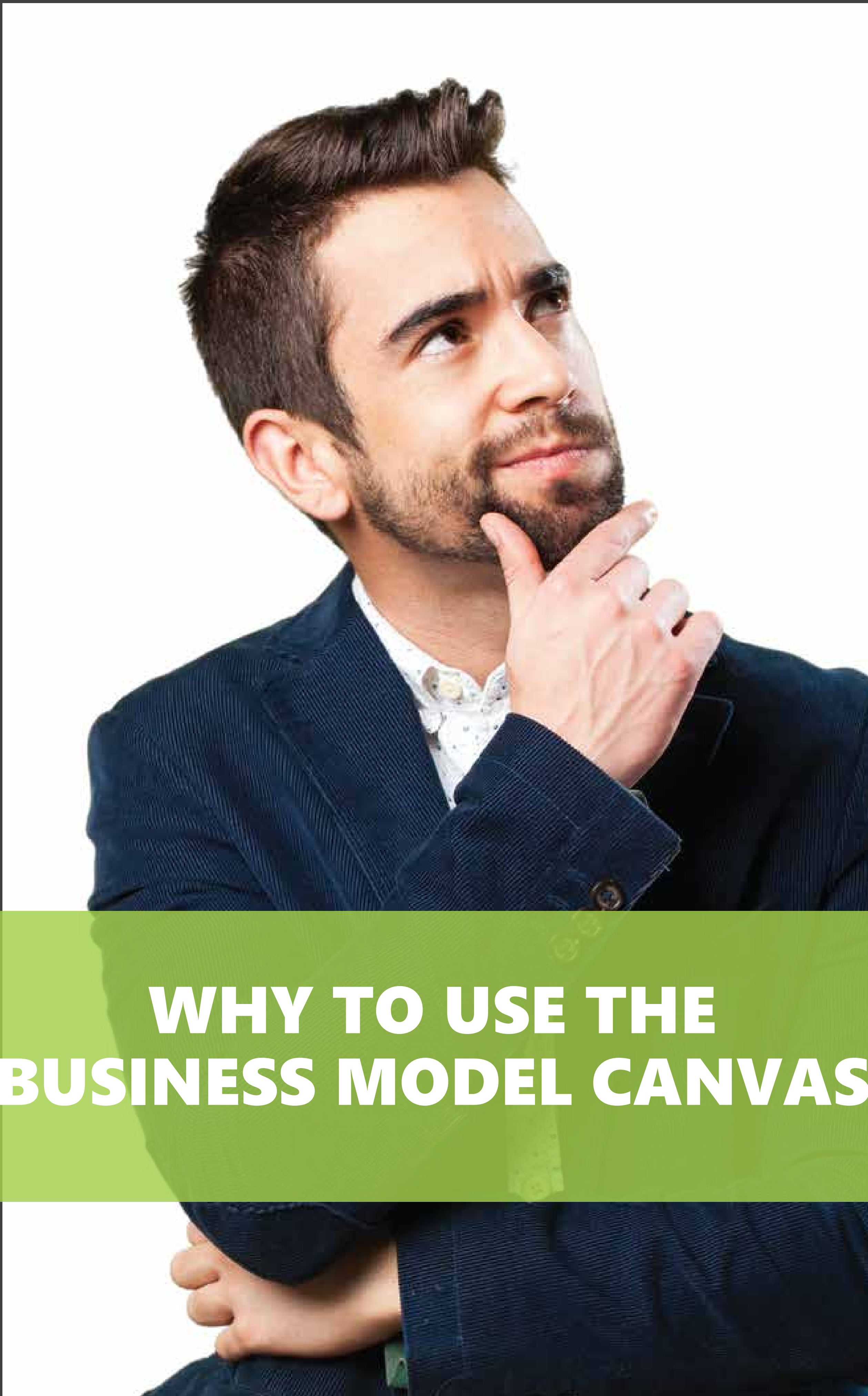
Fixed Costs: costs that remain the same over a period of time

Variable Costs: as the name suggests, these costs vary according to a variance in production

Economies of Scale: costs decrease as production increases

Economies of Scope: costs are decreased by investing in businesses related to the core product.

The first step for an entrepreneur is to obviously identify all costs associated with the business. A realistic understanding of the costs of the business is one of the hallmarks of a good business model. After identification, it is important to list all the costs on the canvas, so they are visually present and then create plans for each cost. Some costs may be decreased through certain measures while others may go up if you decide that an investment in a particular section will result in future gains.



WHY TO USE THE BUSINESS MODEL CANVAS

Visual Thinking: **The tool allows for easy, visual representation for decision makers to ponder upon. The tool provides a neat breakdown of the major considerations impacting the business and also makes clear the direction the organization is taking through its business model.**

Iterate Quickly: **If a poster sized of the canvas printout is taken, it can be used in combination with sticky notes for executives to evaluate current and potential tweaks in the business model and their impact.**

Grasp the relationship between the 9 blocks: **The Business Model Canvas allows the executive team to understand how the 9 building blocks relate to each other and the different ways these relationships can be changed to increase efficiency or effectiveness. An opportunity or innovation can be spotted through the use of this tool.**

Short and Succinct: **The tool encourages teams to keep their suggestions short and simple enough to fit on post-it notes.**

Easy to circulate: **The tool allows easy access and sharability. Pictures of the completed canvas or simply physically passing it around so people can grasp its gist as well as add to it, if need be, make the Canvas a very portable and convenient tool.**

APPLYING THE BUSINESS MODEL CANVAS

The biggest Business Model success story is Apple. Apple was a game changer when it introduced the iPod to the world. Through iTunes, Apple integrated device, software and an online store into an experience that set the music industry on its ear.

Even though Apple was in no way the first entrant into the mp3 player market, its unique and well-executed business model ensured lasting success. This business model was in essence the seamless coming together of the key components of the business model canvas to leverage its distinctive value proposition. Apple has lasting partnerships through the deals it negotiated with music producers so it could sell their music through its store.

Apple revenue stream comes from the sale of its iPods. However, the added benefit of the online store creates a package that competitors have been hard pressed to match.

How do I add Pain Relievers to my Value Proposition Canvas?

Pain relievers describe how your products and services alleviate specific customer pains. They explicitly outline how you intend to eliminate or reduce some of the pains that annoy your customers before, while, and after they are trying to get a job done. Typically, great value propositions alleviate only a limited number of severe customer pains but do that very well. Make sure you focus on pains you have identified in the customer profile.

Questions to ask

The following list of trigger questions can help you think of different ways your products and services may help your customers alleviate pains. Ask yourself if they:

- Produce savings? E.g. in terms of time, money, or efforts.
- Make your customers feel better? E.g. by killing frustrations, annoyances, things that give customers a headache.
- Fix underperforming solutions? E.g. by introducing new features, better performance, or better quality.

- Put an end to difficulties and challenges your customers encounter? E.g. by making things easier or eliminating obstacles.

- Wipe out negative social consequences your customers encounter or fear? E.g. in terms of loss of face, lost power, trust, or status.

- Eliminate risks your customers fear? E.g. financial, social, technical risks, or what could go awfully wrong.

- Help your customers better sleep at night? E.g. by helping with big issues, by diminishing concerns, or eliminating worries.

- Limit or eradicate common mistakes customers make? E.g. by helping use a solution the right way.

- Get rid of barriers that are keeping your customer from adopting solutions? E.g. lower or no upfront investment costs, flatter learning curve, or the elimination of other obstacles preventing adoption.

Relevance

A pain reliever can be more or less relevant to the customer. Make sure you differentiate between substantial pain relievers and nice-to-haves

Business Model Canvas Examples

That's the theory out of the way. However, the Business Model Canvas comes to life when you see it in action.

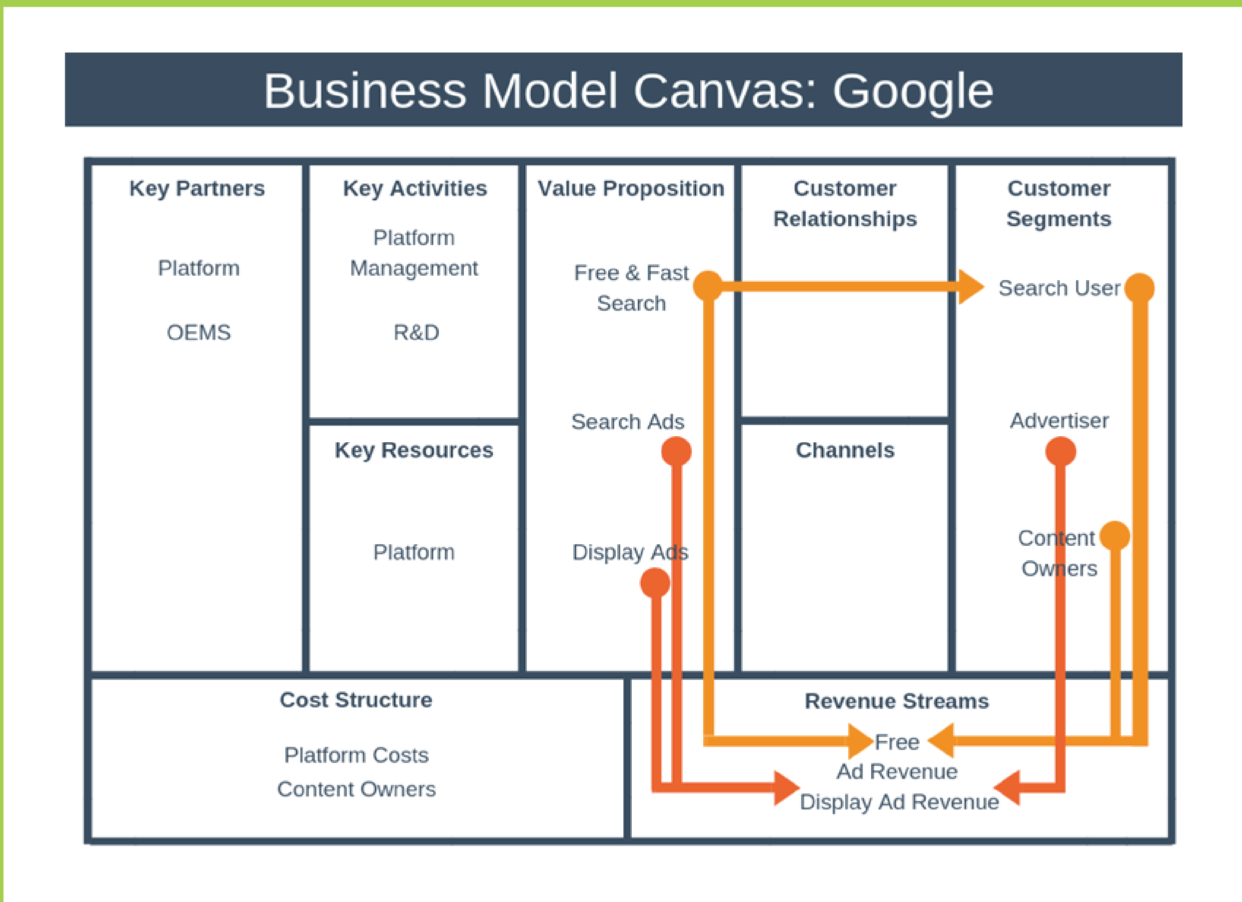
So let's look at three different examples of the Business Model Canvas so you can see just how useful it can be.

Example 1: Google

The first thing you should know about Google's business model is that it is multi-sided. This means that it brings together two distinct but related customers.

In Google's case, its customers are its search users and its advertisers. The platform is only of interest to advertisers because search users are also present. Conversely, search users would not be able to use the platform free of charge were it not for advertisers.

The Business Model Canvas for Google is shown below:



As you can see the diagram gives you an immediate understanding of the key parts of Google's business model.

We can see that:

• Google makes money from the advertiser customer segment, whose ads appear either in search results or on web pages.

• This money subsidizes a free offering to the other two customer segments: search users and content owners.

Google's business model has a network element to it. That is, the more ads it displays to web searchers the more advertisers it attracts. And the more advertisers it attracts the more content owners it attracts.
Google's Key Resource is its search platform including google.com, Adsense (for content owners) and Adwords (for advertisers).

The key strategic activities that Google must perform are managing the existing platform including its infrastructure.

Google's key partners are obviously the content owners from whom a large part of its revenues is generated. OEMs (Original Equipment Manufacturers) also form a key partner.

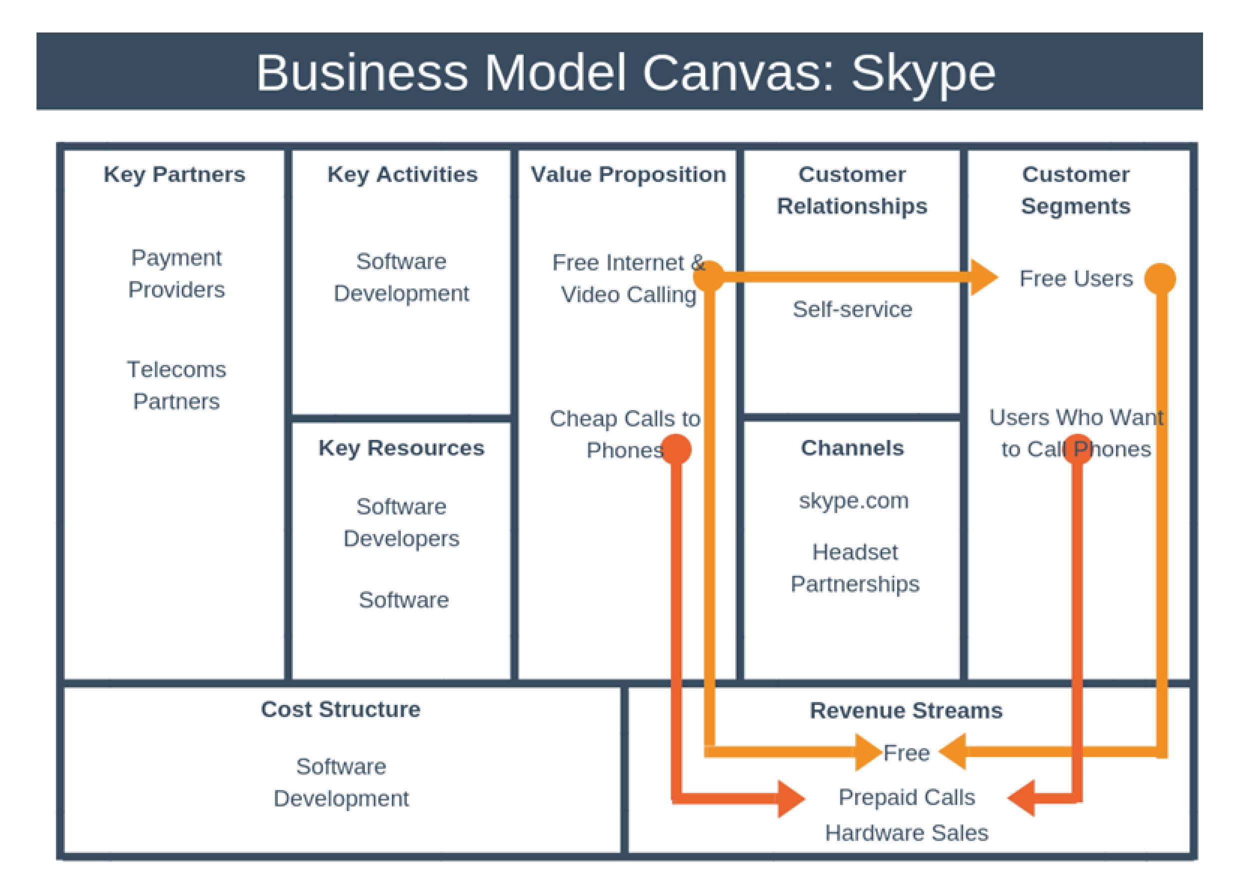
OEMs are companies who produce mobile handsets to whom Google provides its Android operating system to for free. In return, when users of these handsets search the internet they use the Google search engine by default, thus bring more users into the ecosystem and generating even more revenue.

A Word on Color Coding

There are no hard and fast rules when it comes to using color within your canvas. Some people prefer to use color to represent the links between elements.
Others like to use different colored elements or sticky notes to represent related elements.
The choice is up to you. What is important is that any relationships between elements are easy to identify and easy to understand.

Example 2: Skype

In the diagram below you can see the Business Model Canvas for Skype.



From the Business Model Canvas, we can see that Skype has two key value propositions:

• The ability to make calls over the Internet, including video calls, for free.

•T he ability to make calls to phones cheaply.

Skype operates a freemium business model, meaning the majority of Skype's users (the Free Users customer segment) use the service for free to make calls over the internet, with just 10% of users signing up to the prepaid service.

We can see from the customer relationship building block that customers typically have a help themselves relationship with

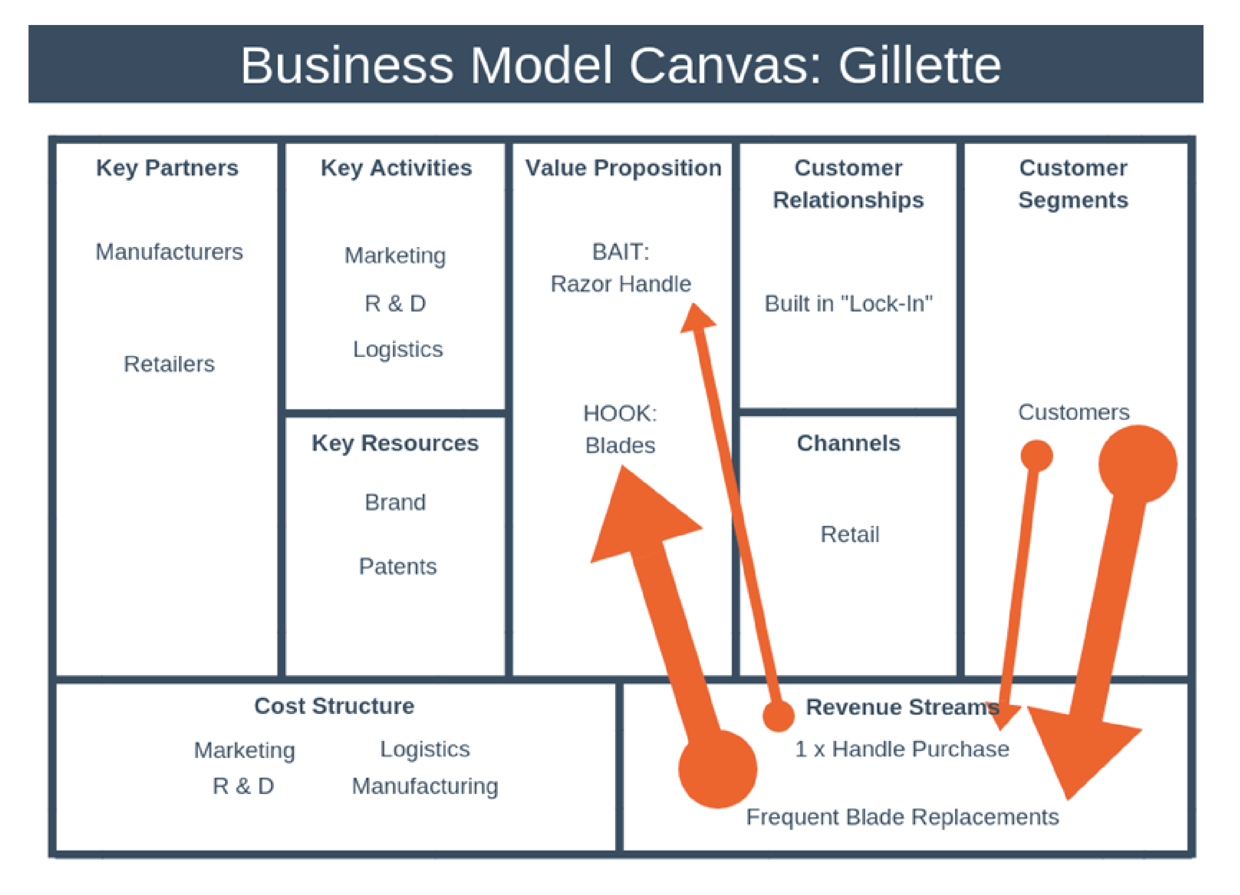
Skype. Typically, this will be by using their support website.

The channels Skype uses to reach its customers are its website, skype.com, and partnerships with headset brands.

Looking at key partnerships, key activities, and key resources together, the main thing to notice is that Skype is able to support its business model of offering cheap and free calls because it doesn't have to maintain its own telecoms network like a traditional telecoms provider. Skype doesn't need that much infrastructure at all, just backend software and the servers hosting use accounts.

Example 3: Gillette

The Business Model Canvas for Gillette is shown below:



Gillette's business model is based on the "Bait & Hook" business model pattern. This model is characterized by an attractive, inexpensive or even free initial offer that encourages ongoing future purchases of related products or services. With this business model, the bait is often provided at a loss, subsidized by the hook.

In Gillette's case, an inexpensive razor handle forms the bait, and continued purchases of the blades represent the hook.
The business model is very popular in SaaS (Software as a Service) businesses, where typically a free initial month leads to a monthly subscription.

In the diagram above we have used the thickness of the arrows to indicate the size of revenue generated. In Gillette's case, all revenues are generated by just one customer segment, but the vast majority of revenues come from Frequent Blade Replacements, with just minor revenues coming from the purchase of handles.

If you look at the left-hand side of Gellettes Business Model Canvas you will notice how all major costs are aligned with delivering the value proposition. For example, marketing costs help to build Gillette's strong brand and R&D costs help to ensure that the blade and handle technology is unique and proprietary.

Key Takeaway

Through these three Business Model Canvas examples, you should be able to see just how easy it is to represent the complete business model of any company on just one single sheet of paper.

Creating Your First Business Model

If you're going to do create your first Business Model Canvas, then here are some tips to help you get started:

• Don't go it alone: Don't try to create your model singlehandedly. Instead get a small team of 3-5 people together so you can brainstorm ideas.

• Use a whiteboard if you can.

• Have plenty of different colored whiteboard pens and sticky notes handy.

• Plan on the process taking about an hour to complete your first draft Business Model Canvas.

• Decide which building block you're going to fill in first. Usually, it makes sense to start with Customer Segments or Value Proposition and then work from there.

Summary

The Business Model Canvas provides a way to show the key elements of any business model on a single sheet of paper. The canvas is based on nine building blocks and the interrelationships between them. You can use the canvas regardless of whether you are trying to understand a startup with two employees or a Fortune 500 company with over 50,000 employees.

ASSESSMENT

1. Describe the two types of competitors.
2. What is a competitive advantage?
3. In order, list the six basic steps used in market research.

Activity

- Compare the advantages and disadvantages of buying an independent business versus buying a franchise.

How are these business opportunities alike? How are they different?

- What type of business opportunities match well with your current goals, both financial and non-financial?