

Entrepreneurship

- *Characteristics of an Entrepreneur*
- *Identifying an Opportunity*
- *Companies and Business Plans*
- *Investors*

Goran Matijasevic

Entrepreneur

- ✓ *Webster's – someone who runs a business at his or her own financial risk*
- ✓ *An entrepreneur is a person who undertakes the creation of an enterprise or business that has the chance of profit (or success).*

Some qualities of an entrepreneur (WSJ):

- Clear strategy*
- Partnerships*
- Technology*
- Robust network*
- Ethical Behavior*
- Realistic view*
- Flexibility*
- Passion!*

Entrepreneur Test

Are you an entrepreneur?

Answer each question by checking **Yes** or **No**:

	Yes	No
• When I am faced with a challenge, I am confident that I can work through it	___	___
• I want to be financially independent and be rewarded for my accomplishments	___	___
• Trying something new is attractive, even if the risk of failure is significant	___	___
• I'd prefer to gain independence and control my destiny	___	___
• Building a new enterprise is important to me	___	___
• My experiences during my youth and early career have shown me the benefits of starting a new enterprise	___	___
• Starting a new business some day soon is always in my thoughts	___	___
• I like working with others and can provide leadership when called upon	___	___
• Our society and my family provide a strong, supportive base for my initiatives	___	___
• I possess good technical skills and strong relationship skills in the industry I wish to enter.	___	___
Add your total score for Yes and No :	___	___

Seven or more **Yes** answers indicate that you may be ready to act as an entrepreneur in the near future.

Characteristics of an Entrepreneur

- ✓ **Ability to deal with a series of tough issues**
- ✓ **Ability to create solutions and work to perfect them**
- ✓ **Can handle many tasks simultaneously**
- ✓ **Resiliency in the face of set-backs**
- ✓ **Willingness to work hard and not expect easy solutions**
- ✓ **Possess well-developed problem solving skills**
- ✓ **Ability to learn and acquire the necessary skills for the tasks at hand**

Innovation

- ✓ *“I never did anything worth doing entirely by accident...and almost none of my inventions came about totally by accident. They were achieved by having trained myself to endure and tolerate hard work.” – Thomas Edison*
- ✓ *“The reasonable man adapts himself to the world. The unreasonable man tries to adapt the world to himself. Therefore, all progress depends on the unreasonable man.”
- George Bernard Shaw*

Selecting the Opportunity

An Attractive Opportunity

- Timely
- Solvable
- Important
- Profitable
- Favorable Context

Finding the Right Opportunity

The Sweet Spot

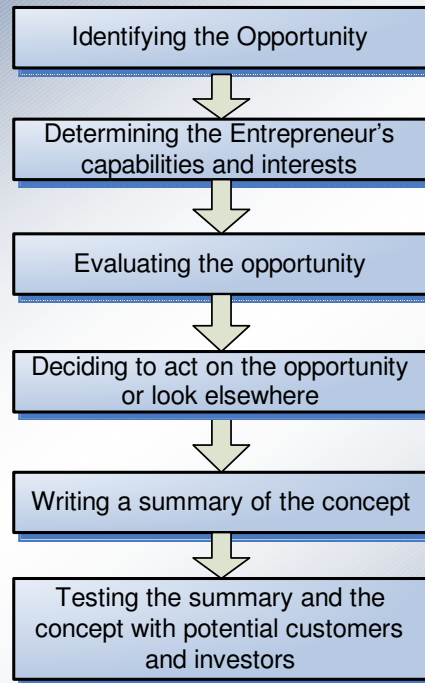
- Like to do the tasks
- Like the challenge
- Committed to do what is necessary

- Skilled at the needed tasks

Interests, Passions, Commitment

Capabilities & Skills

Selecting the Opportunity



Selecting the Opportunity

Opportunity type 1:

Opportunity Pull:

the size of the opportunity attracts opportunity seekers to attempting to exploit it.

Example:

A drug to mitigate the effect of Alzheimer's disease.

Opportunity type 2:

Capability Push:

a new technology or capability causes a search for new applications.

Example:

Digital Television

Opportunity Categories

1. Increasing the value of a product or a service (e.g., new, high-quality wine)
2. New applications of existing means or technologies (use of magnetic stripes for door access)
3. Creating mass markets (disposable cameras)
4. Customization for individuals (customized computers)
5. Increasing reach (use of Internet for financial services)
6. Managing the supply chain (large stores)
7. Convergence of change (brokerage and banking)
8. Process innovation (airborne shipping)
9. Increasing the scale of the firm (video rental firms, waste disposal)

Patents

- **A patent grants inventors the right to exclude others from making, using, or selling their invention for a limited period of time.**
- **Utility patents are issued for the protection of new, useful, non-obvious, and adequately specified processes, machines, and manufacturing processes for a period of 20 years from filing date.**
- **Licensing is a contractual method of exploiting intellectual property by transferring rights to other firms without a transfer of ownership.**

United States Patent Office

www.uspto.gov

Technology and Innovation Strategy

Innovation is commercialized invention

- only 6% of independent inventions reach a market
- only 24% of the ones in established firms do

Three dimensions of technological inventions that impact probability of commercialization:

- 1. Importance** reflects the magnitude of the economic value of an invention.
- 2. Radicalness** measures the degree to which an invention, regardless of economic value, differs from previous inventions in the field.
- 3. Patent scope** describes the breadth of intellectual property protection for the invention.

Define the Business Core

What is my product?

What are you proposing to do

Who are my target customers? Who will buy my product?

Classify customers by demographic group, geography, income, etc.

What problem is my product solving?

Examples: reduced operating cycles, shorten sales cycles, increased sales

How to determine customer pain?

Talk to customers, experts, competitors

Attend trade show conferences

Research trade organizations and publications

Google and public libraries

Focus on published research which may address pain

May need to do background research first, before speaking with customers

Elements of a Business Model

• Customer Selection	Who is the customer? Is our offering relevant to this customer?
• Value Proposition	What are the unique benefits?
• Differentiation and Control	How do we protect our cash flow and relationships? Do we have a sustainable competitive advantage?
• Scope of Product and Activities	What is the scope of our product activities? What activities do we do and which are outsourced?
• Organizational Design	What is the organizational architecture of the firm?
• Value Capture for Profit	How does the firm capture some of the total value for profit? How does the firm protect this profitability?
• Value for Talent	Why will good people choose to work here? How will we leverage their talent?

Legal form of a business

Factors	Sole Proprietorship	Partnership	Regular C Corporation	S Corporation	LLC
Owners Personal Liability	Unlimited	Unlimited	Limited	Limited	Limited
Taxation	Proprietor's Personal Tax Forms	Partner's Personal Tax Forms	Profits Taxed at Corporation and Owner's Pay Tax on Distributions	Profits or Losses Flow Through to owners	Profits or Losses Flow Through to owners
Continuity of Business	Terminated by Proprietor	Dissolved by Partners	Perpetual	Perpetual	Limited to Fixed Number of Years
Cost of Formation	Very Low	Low	Moderate	Moderate	Moderate
Ability to Raise Capital	Low	Moderate	High	Moderate	High

Market Research

Determine market size

Often misunderstood: addressable vs. available

Necessary to get financing

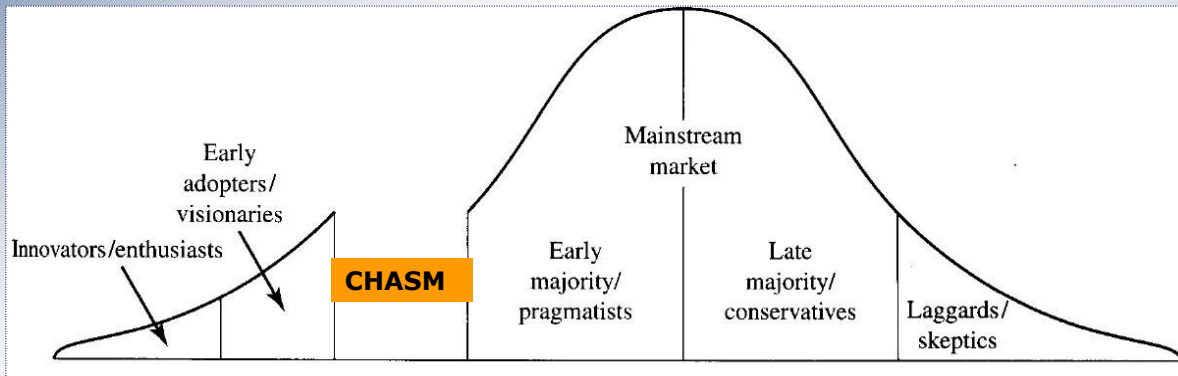
Helpful in determining potential upside

What is the price for your solution?

What is the quantity consumed annually?

Web research, analyst reports for public companies, other experts

Crossing the Chasm



Geoffrey A. Moore

Define your focus

Define a focused market segment

Size issues:

Plan to have **20%** share of a market segment in **5** years

Can grow to **\$50M** in sales in **5** years

→ Implies that your initial addressable market is **\$250M**

In your niche, identify target customers, product offering, compelling reasons to buy

Competition is Healthy

Competition is good for you

- Validates and expands the market
- Generates market awareness of the need
- Makes buyers more secure

Opportunity to convert their customers

Motivates your employees to work hard and improve

Competition

Never say “there is no competition”

“Where there is no competition, there is no market”

Visionary or Early Adopter stage
(disruptive technology)

Competition here is the alternative way
to fill the need

Mainstream Market

Defined competitors exist

Goals of a business plan

Market your company

Show the excitement of the company

*Present a clear and compelling
strategy / vision*

Components of an Executive Summary

Business Concept:

The problem and the solution

Market, Customer, and Industry

Marketing and Sales Strategy

Organization and Key Leaders

Financial Plan:

Four years of summary results

Financing and Key Allies Required

Components of a Business Plan

1. *Executive summary (1-3 pages)*
 - a. *Concise explanation of the business*
 - b. *Market size and need*
 - c. *Company's unusual qualifications*
"unfair competitive advantage"
2. *Industry Analysis*
 - a. *Market size and Relevant Market Size*
 - b. *Market Trends*
 - c. *Customers and Competition*

Components of a Business Plan

3. *Customer analysis*
 - a. *Customer identification /definition*
 - b. *Customer demographics, needs and decision-making*
 - c. *The customer's customer*
4. *Competitive analysis*
 - a. *Defining competition*
 - b. *Describing Competitors*
 - c. *Competitive advantage*

Components of a Business Plan

5. *Company Analysis*

- a. Company profile*
- b. Past accomplishments of company / team*
- c. Unique qualifications*

6. *Marketing Plan*

- a. Products and services*
- b. Price, placement, promotions, customer retention*
- c. Partnerships*

Components of a Business Plan

7. *Operations Plan - Business milestones:*

Funding, revenue, employee additions

8. *Management Team*

- a. Description of key members*
- b. Identify management team gaps*
- c. Description of Board Members / Advisors*

8. *Financial Plan*

- a. Pro-forma financial statements*
- b. Validating assumptions and projections*
- c. Sources and uses of funds*
- d. Exit strategy*

Ten Common Mistakes or Gaps in Business Plans

- Solutions or technologies looking for a problem
- Unclear or incomplete business model and value proposition
- Incomplete competitor analysis and marketing plan
- Inadequate description of the uncertainties and risks
- Gaps in capabilities required of the team
- Inadequate description of revenue and profit drivers
- Limited or no description of the metrics of the business
- Lack of focus and a sound mission
- Too many top down assumptions like "we will get 1% market share"
- Limited confirmation of customer demand or pain

Stages of Growth

- *I have an idea*
- *I think I know its Value*
- *I understand the market and its needs and my competitors*
- *I have my core team and experienced advisors*
- *I really need cash*
- *I have experienced management*
- *This venture is ready to grow rapidly*

Stages of Funding

- *Sweat equity*
- *3 Fs*
- *Customer NRE*
- *Angel Investors*
- *Venture Capital*
 - *Series A*
 - *Series B, C*
- *Exit*
 - *IPO*
 - *Acquisition*

Bootstrap Financing

Bootstrap Financing: to start a firm by one's own efforts and to rely solely on the resources available from oneself, family, and friends.

Advantages and disadvantages of bootstrap financing

Advantages	Disadvantages
<ul style="list-style-type: none">▪ Low pressure on valuation▪ Easy terms on ownership▪ Control by founders▪ Little time spent on finding investors	<ul style="list-style-type: none">▪ Unable to fund growth phase▪ Lack of funding commitment for future▪ Loss of advice from professional investors

Angel Investors

Angels are wealthy individuals, usually experienced entrepreneurs, who invest in business start-ups in exchange for equity in the new ventures.

Criteria for Angel Investments for New Ventures:

- Within the industry that the angel has experience.
- Located within a few hours driving distance
- Recommended by trusted business associates
- Entrepreneurs with attractive personal characteristics such as integrity and coach-ability.
- Good market and growth potential for the opportunity.
- Seeking an investment of \$100,000 to \$1 million and offers minority ownership, less than 40%

Venture Capital

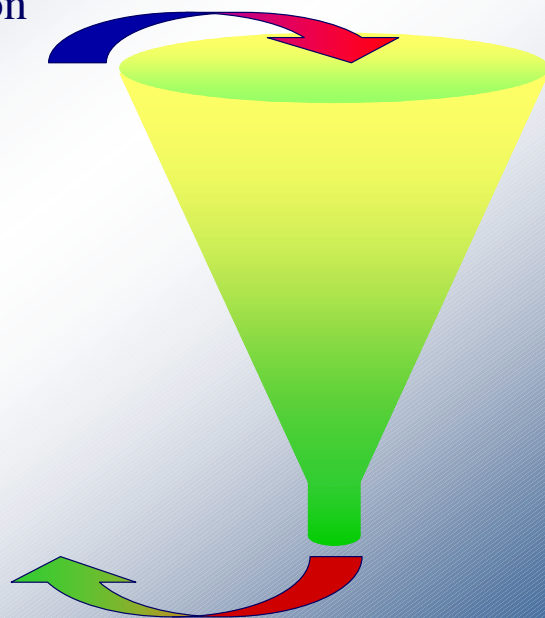
Venture capital is a source of funds for new ventures that is managed by investment professionals on behalf of the investors in the venture capital fund.

Characteristics of An Attractive Venture Capital Investment

- **Potential to Become a Leading Firm in a High Growth Industry with few competitors.**
- **Highly Competent and Committed Management Team and High Human Capital (Talent).**
- **Strong Competitive Abilities and a Sustainable Competitive Advantage.**
- **Viable Exit or Harvest Strategy.**
- **Reasonable Valuation of the New Venture.**
- **Outstanding Opportunity.**
- **Founders Capital Invested in the Venture.**
- **Recognizes Competitors and Has a Solid Competitive Strategy.**
- **A sound business plan showing how cash flow turns positive within a few years.**
- **Demonstrated progress on the product design and good sales potential.**

Deal Flow Process

- **Initial contact /Application**
 - ✓ Local TCA get 50 per month
- **Pre-screening sessions**
 - ✓ Bi-weekly sessions
 - ✓ TCA looks at ~20/month
- **Screening Sessions**
 - ✓ 6-8 presentations
- **Due Diligence**
 - ✓ 2-3 per month
- **Funding**
 - ✓ About 1 per month



Tech Coast Angels TCA

Investor Criteria

1. Angel investors - Seeking \$250K-\$1M, seed/early stage
VCs - \$2 M to 10 M, post-seed stage
2. Fundable management
3. Sound, realistic business model
4. Well-defined, attractive market niche that company can dominate
5. Disruptive, advanced technology
6. Compelling “unfair” advantage
7. Strong exit potential within 2-5 years
8. Reasonable valuation

Tech Coast Angels TCA

Stages of a company and company leader qualities needed

1. Idea Generation – start of the company

Creativity, Innovation, Focused, Visionary, Confidence, Optimism, Independence

2. Financing the company

Passion, Presentation, Selling, Patience, Listening, Flexibility, Responsible

3. Building the company / launch of product

Organizer, Networker, Doer, Hard worker, Tactical

4. Exit

Ability to let go