

The Entrepreneurial Mind

Chapter 1: Crafting a Personal Entrepreneurial Strategy

Achieving Entrepreneurial Greatness

-an entrepreneur creates the culture in his/her own venture

Leadership and Human Behaviour

- a single psychological model of entrepreneurship has not been supported by research
- numerous ways of analyzing human behavior that have implications in the study of entrepreneurship
 - individual motivation, for example.
 - ppl are motivated by 3 needs:
 - for achievement: to excel and for measurable personal accomplishment
 - for power: to influence others
 - for affiliation: to build a warm relationship with someone else
 - the prototypical entrepreneur has a high need for achievement and power, low need for affiliation

Research

- focused on the common attitudes and behaviours of ent.
- found relationship between attitudes and behaviours of successful ent
- another found that ent. Are unique individuals
- those who like to plan are more likely to succeed
- academics continue to characterize the special qualities of ent.
 - risk bearing, source of formal authority, innovative, desire for responsibility, need for power, drive etc...

Converging on the Entrepreneurial Mind

Desirable and Acquirable Attitudes, Habits, and Behaviours

- evidence that ent. Are born and made better, and certain attitudes and behaviours can be acquired, developed, practiced
- 3 attributes as principal reasons for success:
 - ability to respond positively to challenges and learn from mistakes
 - personal initiative
 - perseverance and determination

6 Dominant Themes (CORE ATTRIBUTES)

Commitment and Determination: most important, an ent can overcome obstacles and compensate for other weaknesses. Can be measured through willingness to invest, to take cut in the pay, through sacrifices in lifestyle and family circumstances. Competitive, persistent in solving problems

Leadership: self-starters, high standards, team builder, inspire others, share the wealth, patient and urgent, superior learner, influence without formal power

Opportunity Obsession: has intimate knowledge of customers' needs and wants, market driven, obsessed with value creation and enhancement

Tolerance of Risk, Ambiguity, and Uncertainty: calculated risk taker, risk minimize and sharer, manages contradictions, tolerates uncertainty and lack of structure, stress and conflict, able to resolve problems

Creativity, Self reliance, and Adaptability: non conventional, open minded, restless with status quo, able to adapt to change, creative problem solver, quick learner, no fear of failure, able to "sweat details"

Motivation to Excel, Courage: goals and results oriented, high but realistic goals, drive to achieve and grow, low need for status and power, supporting, aware of weaknesses and strengths, has perspective and sense of humor

Desirable Attributes: Intelligence, Capacity to Inspire, Values, Energy, Health and Emotional Stability, Creativity and Innovativeness

Entrepreneurial Reasoning: The Entrepreneurial Mind In Action

- successful ent have wide range of personality types
 - research focused on influence of genes, family, education, career experience, but no psychological model is supported

- needs set of acquired skills rather than specific inherent traits
- an ent way of thinking is universal

Creativity and innovation: High Inventor Entrepreneur
 Low Promoter Manager
 Low High
 General management skills, business know how, networks

Entrepreneurs: possess management skills, business know-how, sufficient contacts
Inventors: noted for creativity but lack management skill and business know how
Promoters: usually lack serious general management and business skills and creativity
Managers: govern, police and ensure smooth operation. Management skills are high but tuned to efficiency, creativity not usually required

The Concept of Apprenticeship
Shaping and Managing an Apprenticeship

- ent are usually rich in experience, 10+ years of experience, built contacts
- acquired intimate knowledge of the customer, distribution channels
- successful ones have made money for their employer before doing it for themselves
- the first 10 years after leaving school can make or break and ents career
- ents frequently evolve from an entrepreneurial heritage or are shaped by their closeness to ents and others
 - much of what an ent needs to know comes from learning by doing – concept of an apprenticeship can be useful

Windows of Apprenticeship

- time is precious
- often go through false starts or failures
- key elements of the apprenticeship and experience curve

ant bus experience		rate to high	r	st
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of Apprenticeship	ssing what you enjoy, keal management, divisiong and investing	ng bus, sales, marketingement, founder		esting
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Role Models

- studies show strong connection between presence of role models and emergence of entrepreneurs
 - more than half who started businesses had parents who owned businesses

MYTHS AND REALITIES

Myths:

- ents are born, not made
- anyone can start a business
- ents are gamblers
- want the whole show to themselves
- are their own bosses
- work longer and harder than managers
- experience great deal of stress
- money is the most important ingredient
- ents should be young and energetic

-only money-driven

CHAPTER 4 – THE BUSINESS PLAN

Developing the Business Plan

- the bus plan for a high potential venture reveals the ability to :
 - create or add value to a customer
 - solve a problem, or meet a want or need for someone who will pay
 - have robust market, margin and moneymaking characteristics
 - fit well with the founders and management team at the time
- plan is point of departure for investors to begin their due diligence to various risks of the venture:
 - technology, market, management, competitive and strategic, financial
- plans change constantly, should be thought of as work in progress
- without a bp – difficult to raise capital from informal and formal investors
- odds can be shaped in your favour through the development of a bp, but just because you have a plan, does not mean that the business will be a success

Some Tips

Venture Capitalists: qualify your targets, be vague about what other venture caps you are talking to

The Plan: stress you bus concept in the exec summary, numbers don't matter, but the economics matter, make the plan look and feel good, prepare copies of published articles, contracts, market studies, purchase orders, detailed resumes and reference lists of key players in the venture

The Deal: make sure investors are as desperate as you, create a market for the venture, never say no to an offer price

How to Determine if Investors Can Add Value

- selling ability is one of the most common denominators among successful ents
- carefully query investors, must be savvy listeners

The Dehydrated Business Plan

- 4-10 pages, covers key points, analysis of and information about the heart of the business opportunity, competitive advantages the company will enjoy, creative insights of the ent
- usually can be prepared in a few hours, investors prefer the dehydrated plan in the initial screening phase
- not to be used exclusively in the process of raising or borrowing money

Who Develops the Business Plan

- often outside professionals so that management can use time to obtain financing and start the bus
- reasons why its not a good idea to hire outside:
 - in the process of making the plan, different opportunities and strategies can pop up, causing the plan to change. If someone outside makes the plan, these realizations cannot be made

Who is the Plan for?

- important to identify and understand audience
- different plans for different purposes
 - one for VCs to stress the upside potential, one to stress the value of the assets to get loans

A CLOSER LOOK AT THE WHAT

The Relationship between Goals and Actions

- team must determine demands of operating lead times, seasonality, facility location, marketing and pricing strategy needs etc
 - these questions need to be answered in writing
- skills needed to write a bp are not needed for the success of the plan

Segmenting and Integrating Information

- important to organize info in a way that can be managed and useful
- effective way: segment info into sections, such as target market, industry, the competition, the financial plan etc..
- process works best f sections are discrete and the info is digestible
- order of sections can vary
- exec summary is prepared last

Establishing Action Steps

-process by which a bp is written:

-*Segmenting Information*: needs to be devised and include priorities, who is responsible for each section, due date of first draft and final draft

-*Creating an overall schedule*: more specific list of tasks, identify priorities, who is responsible for them, when they will be started and complete, as specific and detailed as possible, tasks need to be broken down, examined for conflict

-*Creating an Action Calendar*: tasks on the do list need to be placed on a calendar, calendar needs to be re-examined when complete for conflicts or lack of realism

-*Doing the work and writing the Plan*: adjustments need to be made to the list and calendar, reviewed by lawyer and objective outsider

PREPARING A BUSINESS PLAN

A Complete Business Plan

-differences between screening an opportunity and developing a business plan:

-someone parting with lots of money

-guiding the policies and actions of the firm over a number of years

-more detail is needed, more time gathering data, interpreting it etc

INTERNET IMPACT: OPPORTUNITY

Small Business Commerce

-many businesses say that the Internet improved their profitability, helped their business to grow, essential to survival, sell products online

APPENDIX – SAMPLE BUSINESS PLAN – chide.it

I EXECUTIVE SUMMARY

The Premise

-criticism can be *constructive* (good) or *baseless* (bad)

-if done correctly and constructively, it can improve ideas, businesses, studies, philosophies, fashions etc

The Problem

-criticism and the process of providing constructive feedback is an inefficient and unproductive phenomenon

-no way to differentiate between constructive and baseless

-no way to tell if a criticism is good, proper, popular

-no way to freely and anonymously express own constructive feedback

-no way to solicit "constructive feedback" from the community and organize that info

The Pitch

-if there was a way to:

-tell the diff between a constructive and baseless one

-provide constructive feedback anonymously

-gather all constructive feedback in one location and sort it

-find out the most popular constructive fb amongst experts in the community

-then this would have a positive impact on all topics being analyzed and constructively criticized

-would bring the power of the community together to improve ideas, philosophies, products, services...

The Solution

-chide.it is a web crowdsourcing tool that harnesses the power of the internet community to gather, sort and rank constructive criticism from ppl around the world

-is a community based on constructive fb, where anyone can be a critic and where best critics rise in popularity, rewards those who provide constructive fb

Target Market

-initially tech savvy and analytical ppl with strong opinions (ie bloggers)

-tech savvy individuals/orgs that want to receive constr fb from community

Current Status

- a federally incorporated company with an office in Ottawa
- strong management and development team
- launched an alpha version, is testing product to prepare for beta release

What is the business model?

- internet is becoming more cluttered : must obtain prime real estate on web sites – placing a video on the front page of youtube
- if someone wants to have his posting on front page of chide, he has to bid for space
 - highest bidder will have the most prominent placement, and more ppl will view the topic
- chide intends to revenue share with the critics who provide best constr fb, as determined by the community
 - by doing so, it will entice its group of expert critics to provide high quality fb
- through ranking and voting, it will identify top experts in a wide range of topics. These critics will be a valuable differentiating asset for chide

Scalability/R&D/Open Source

- is using a new web platform “Django”
 - open source platform that allows for rapid and agile development while keeping in mind scalability
- open source has allowed chide to build faster and focus efforts on its differentiating intellectual property and not on technology

Financial Projects

- will have revenues of apr. 200,000 in year 1, 1.5 million in year2, and 6.25 million in year3
- will come primarily fom orgs using the web site as a crowdsourcing tool
- will also serve targeted ads to add to revenue streams

Competition

- crowdsourcing refers to the process of using the community to get a task done for free or by only paying for results
 - is a new phenomenon and is growing fast
- Amazon Mechanical Turk, InnoCentive
- chide will establish itself in this niche

II WHAT IS CHIDE.IT?

- begins as a tool to facilitate the process of gathering, sorting and understanding const fb
- tool anyone can use to gain contr fb
- vision is to develop a tool that ppl can use easily
- will become a portal with many diff verticals – business, health, science, philosophy, products, services
- identify experts in these verticals

What Makes Chide.it Different?

- more than just commenting and voting on best comments
 - acts like a moderator in a focus group and asks the right questions to get the right type of fb
- doesn't focus on what is good/bad but how to improve

How does it work?

- 3 basic steps:
 - 1 Post a topic
 - 2 Invite relevant parties
 - 3 Start Chiding

What is the development Approach?

- team will continue to build new features and tweak based on feedback

III MARKETING TACTICS AND PRODUCT FEATURES

How to Gain Critical Mass

- tool for soliciting, gathering, sorting contr fb
 - if done well, more ppl will use the site as a tool
- the more content there is on the site, the more search engines leads it will attain
- strategy is to build the site as a tool
- Is this a proven and tested concept? Yes

-some features:

Blog Post-Back

- bloggers are a good market, have audiences that follow them too
- will help create initial content
- when they post a review, they will have the option to automatically post it on their blog (mutually beneficial)
- chide benefits from having community create content on its site
- bloggers increase traffic to chide
- the co-founder, designer and developer are all members of chide and that have active blogging networks

Widgets

- websites can use chide to get fb on their sites (chide.it lounge)
 - chide widget on their website
- will initially use fam and friends of co-founding team to try out the widget. Fb from this group will improve the widget and process

Events

- will market itself to even hosts to create chide lounges for their events
- will test out on one event, fb from this event will be used to improve the lounge tool
- events of friends of founding team

Toolbar

- is a plugin for internet browsers, can install plugin
- will make toolbar available on own website – will inform only most active users of the toolbar

Feeds Page/Email Updates

- useful marketing tactic: sending email summaries of activity and updates to threads

Facebook, OpenSocial, Mobile Apps

- team must build apps in order to publicize its services

IV MARKETING RESEARCH AND ANALYSIS

Market Background and Information

- success of social networks
- most important market challenge for social networks is developing a bus model that creates a positive cash flow

Content

- = most important factor in attracting an audience
- controversial topics encourage involvement
- forums with current hot topics

Audience Growth

- social networks grow through referrals and invites
- chide will provide orgs with a forum to establish own blogs or online focus groups

Active Participation

- anonymity enables everyone to participate without being identified, if preferred

Recognized Value to Consumers and Business

- value by exposing readers to diff viewpoints
- positive value from suggestions on how to improve content
- opportunity to field test new products

Revenue Opportunities

- free services until the client base grows
- sponsored topics by enterprises
- pay per click
- licensing of the technology to bus for online focus groups

Competition

-other popular social networks

Competitors

-some crowdsourcing apps are more specific (Cambrian House, Threadless)

Market Development Plan

-**Brand recognition:** the initial focus is on increasing the audience base, select topics of interest, ensure topics are current, use keywords that will obtain high rating on search engines

-**Target Audience:** analysis of initial audience performance, stats gathered on activity, target groups through promos, ads, links to social networks

-**Mobile Clients:** ensure site is compatible on phones

-**Sponsored Forums:** relevant topics, links, banners related to the org, key words

-**Licensing to Enterprises:** organize data to demonstrate activity on the site, categorize according to demographics, interests, participation

V BUSINESS MODEL

Premium Placement

YouTube Model: place videos on front page

Google sponsored Search Model: bidding systems, highest bidders will have topics posted at best place

Premium Membership

-10/month to have a private topic and critics

Enterprise Membership

-250/month

Target Advertising

-Google, Yahoo, Microsoft, will display ads on its website

VI EXECUTION AND RISKS

1-3 months: refine it as tool through design and fb from community

3-6 months: build the widgets technology

6-9: build the blog post-back feature

9-12: build toolbar

12-18: start premium membership plans

18-24: focus on enterprise memberships

Risks:

-online ads are inflated, will not grow so fast

-copycats

-language support for diff countries

-inappropriate material posted which may lead to legal risks

VII FINANCES

-Ads, Sponsored topics, basic membership, enterprise membership, investors

CHAPTER 2 – THE ENTREPRENEURIAL PROCESS

DEMYSTIFYING ENTREPRENEURSHIP

-ent results in the creation, enhancement, realization, and renewal of value for owners and all participants and stakeholders

-heart of the process: creation/recognition of opportunities

-rarely a get-rich-quick proposition

CLASSIC ENTREPRENEURSHIP: THE START-UP

-innovative idea that develops into a high growth company (Virgin Goupr, Amazon, Home Depot)

- make sure the upstart venture does not run out of money when it needs it most
- most successful: held together a team and acquired financial backing

ENT IN POST-BRONTOSAURUS CAPITALISM: BEYOND STARTUPS

- big companies knocked off by entrepreneurial ventures (Eaton's, Kmart)
- the resulting downsizing during the 1980s returned in waves:
 - economic downturns, rising fuel prices, shifting consumer preferences
- large companies shrink head count while new ventures create jobs

People Don't Want to be Managed, They Want to Be Led

- 6 years for a large firm to change its strategy, 10-30 to change its culture
- corporate giants had many bureaucratic tendencies, particularly arrogance
- believed that if they followed the best-management practices, they would succeed
 - these practices didn't include entrepreneurship, ent leadership, ent reasoning (were considered "dirty words" in corporate world)
- larger "well-managed" companies can become vulnerable and fragile
 - newcomers pose the greatest threat
 - managers keep doing what has worked in the past
- new innovations, firms and industries have been created in the past 30 years, so brontosaurus capitalism has found its "ice age"

Signs of Hope in a Corporate Ice Age

- entr revolution may spare many giant firms from their own ice age
 - revolution in entr leadership: is launching experiments and strategies to recapture entr spirit and to instill the culture and practices we call entr reasoning
- e-generation has so many opportunities
- large companies are adopting principles of entrship and ent leadership in order to survive

Metaphors

- golf replicates the complex and dynamic nature of managing risk and reward, including the mental challenges, tests ones patients
- symphony conductor who blends and balances a group of diverse ppl with different skills, talents, personalities
- chess: victory goes to the most creative player who can imagine several alternate moves in advance and anticipate possible defences

ENTREPRENEURSHIP = PARADOXES

- most perplexing aspects of the ent process = its contradictions
- constant changes frequently pose paradoxes
 - An opportunity with no or very low potential can be an enormously big opportunity*
 - Ex: Apple. Business plans were rejected by some venture capitalists
 - To make money you have to first lose money*
- a start-up typically loses money (10 mill or more) before sustaining profit and going public. Usually at least 5-7 years later
 - To create and build wealth one must relinquish wealth*
 - To succeed, one first has to experience failure*
 - Entre.ship requires considerable thought, preparation, and planning, yet is basically an unplannable event*
 - For creativity and innovativeness to prosper, rigour and discipline must accompany the process*
 - Entre.ship requires a bias toward action and a sense of urgency, but also demands patience and perseverance*
 - The greater the organization, orderliness, discipline and control, the less you will control your ultimate destiny*
 - Adhering to management best practice became a seed of self-destruction and loss of leadership to upstart competitors*
 - To realize long-term equity value, you have to forgo the temptations of short-term profitability*
- to thrive, one needs to be good at coping with ambiguity, chaos, uncertainty, building management skills that create predictability

The Higher Potential Venture: Think Big Enough

- one of the biggest mistakes aspiring entrepreneurs make is strategic: think too small
- chances of success and survival are lower in small businesses
 - if they do survive, they are less financially rewarding

- criterion: look for business concepts that will change the way ppl live and work
- many mega-entrepreneurs launched their ventures in their 20s
- 25-34 are most active in entrship

SMALLER CAN MEAN HIGHER FAILURE ODDS

- failure rates for startups – 50% in the first few years
- retail and services account for majority of all failures, restaurants also
- likelihood that startups will survive in their initial year differs across provinces
 - higher success in Ontario than in the Atlantic Provinces
 - startups in BC, Quebec, Alberta are more likely to survive their first year than those in Saskatchewan and Manitoba
- majority of failures occur in the first 2-5 years
- not always “failure”
 - entrs may choose to get out, closing or selling it off
 - idea may no longer be viable
 - better opportunity may come along
- failure rates vary across industries as well
 - real-estate is lowest
 - technology sector has a high rate
 - software and services has even higher
- differences in survival rates among industry categories : retail trade, construction, small service businesses account for 70% of failures

Getting the Odds in Your Favour

- decided pattern of exceptions to the overall rate of failure:
 - most smaller enterprises that stop do not create, enhance or pursue opportunities that realize value. They tend to be job substitutes in many instances

Threshold Concept

- odds for survival and a higher level of success change dramatically if the venture reaches a critical mass of at least 10-20 people with 2-3\$ million in revenues and is currently pursuing opportunities with growth potential
- survival rates for new firms increase as the firm size increases
- liability of newness, liability of smallness* suggest that being new and small make survival difficult
- satisfaction, cooperation and trust between the customer and the organization are important for the continuation of the relationship

Promise of Growth

- odds of survival increase substantially for those enterprises that grow in the first few years
 - the earlier in the life of the business that growth occurs, the higher the chance of survival

Venture Capital Backing

- pattern of exception to the failure rule is found for businesses that attract start-up financing from successful private venture capital companies
- venture capital is not essential to a start-up, nor is it a guarantee of success companies with venture capital support fare better overall

Private Investors Join Venture Capitalists

- entrepreneurs that have cashed out have become “angels” as private investors in the next generation of entrepreneurs
- many of successful entr have created own investment pools and are competing with venture capitalists
- private investors and entre have similar selection criteria to the venture capitalists
 - search for high potential, higher growth ventures
- unlike venture capitalists, private investors are not constrained by having to invest so much money in a short period of time
 - angel investors are prime sources for less capital-intensive startups and early stage businesses

Find Financial Backers and Associates Who Add Value

- one of most distinguishing disciplines of these higher potential ventures is how the founder identify financial partners and key team members
 - insist on backers/partners who do more than bring in money, commitment, motivation

- want those who can add value through experience, know-how, networks, wisdom
- key associates are selected bc they're smarter and better at what they do than the founder

Option: The Lifestyle Venture

- for many entrepreneurs, issues of family roots and location take precedence
- accessibility to a way of life can be more important than how large a business one has
- some prefer to be with and work alongside family – move to the country for example
- equity contracts are prevalent for high-growth ventures whereas debt-type contracts are typical of lifestyle ventures

THE TIMMONS MODEL: WHERE THEORY AND PRACTICE COLLIDE IN THE REAL WORLD

Intellectual and Practical Collisions with the Real World

- core principle: in every quest of the entr process, there must be intellectual and practical collisions between academic theory and the real world practice

Value Creation: The Driving Forces

- it is *opportunity* driven
- it is driven by a *lead entrepreneur* and an *entrepreneurial team*
- it is resource *parsimonious* and *creative*
- if depends on the *fit* and *balance* among these
- it is *integrated* and *holistic*
- it is *sustainable*
- =the controllable components of the ent process that can be assessed, influenced, altered
- founders, investors focus on these to analyze the risks and determine what changes can be made

Change the Odds: Fix It, Shape It, Mould It, Make It

- the driving forces start with opportunity, not money, strategy, team, networks...
 - most opportunities are bigger than the talent/capacity of the team or the resources available to them
- role of the lead entr and the team is to juggle these elements in a changing environment
- business plan provides the language for communicating the quality of the 3 driving forces
- ent process depicted in the Timmons Model: shape, size, depth of the opportunity establishes the required shape, size and depth of the resources and team
 - show these as circles – so balance appears fragile
- ent must carry the deal by *taking charge of the success equation*
- ambiguity and risk are your friends
- analyze the fits and gaps that exist in the venture
 - what is wrong with this opportunity, what is missing, who can change it....
 - determine these answers and make the changes by figuring out how to fill the gaps and improve the fit, attract key players who can add value
- ent role is to manage and redefine the risk-reward equation with an eye towards **sustainability**
 - appears as the underlying foundation in the model since the entr legacy is to create positive impact without harming the environment, community, society

The Opportunity: at the heart of the process

- a good idea is not always a good opportunity
- 10-15% are rejected after investor read the business plan carefully
- important skill is to evaluate whether potential exists, to decide how much time and effort to invest, money

-today ent invent new business models, not only businesses

-Most important characteristics of good opportunities:

-Market Demand: key ingredient to measuring an opportunity, drives the value creation potential

-customer payback < on year? Do market share and growth potential=20% annual growth? Is the customer reachable?

-Market Structure: and size help define an opp

-emerging and/or fragmented? Proprietary barriers to entry?

-Market Analysis: helps differentiate an opp from an idea

-low cost provider, low capital requirement vs the competition? Break even in 1-2 years?

-first focus on market readiness: consumer trends and behaviours that seek new p/s

-once identified, develop a p/s concept, then the delivery system

-the greater the growth, size, durability, robustness of the gross and net margins and free cash flow, the greater the opp

-the more *imperfect* the market, the greater the rate of change/ discontinuities/chaos, the inconsistencies in existing service and quality/lead times/lag times, the greater the vacuums and gaps in info, the greater the opp

Resources: Creative and Parsimonious: misconception: need to have all the resources in place

-thinking money first = big mistake

-money follows high potential opps conceived by strong management teams

-shortage of quality ent, not money

-one of worst things: too much money too early

-“bootstrapping” : way of life in ent companies, can create a significant competitive advantage

-doing more with less is a powerful competitive weapon (Howard Head, founder of Head Skis)

-Financial resources, assets, people, business plan, think cash last

The Entrepreneurial Team: key ingredient in the higher potential venture

-investors like the “creative brilliance of a company’s head ent, and bet on superb track records of the management team

-biggest challenge: building a great team

-ventures with more than 20 employees and 2-3\$ million in sales are more likely to survive than smaller ventures

-high potential venture requires interpersonal skills to foster communication and team building

-personal characteristics:

-Leader: learns and teaches, faster is better, deals with adversity, is resilient, exhibits integrity, dependability, honesty, builds entrial culture and org

-Quality of the team: relevant experience and track record, motivation to excel, commitment, determination, persistence, tolerance of risk, creativity, team locus of control, adaptability, opportunity obsessions, leadership and courage, communication

Importance of Fit and Balance: rounding out the model of the 3 driving forces is the concept of fit and balance between and among these forces

-opportunity, resources and team rarely match

-failure to maintain balance: when large companies throw away many resources at a weak, poorly defined opp

-strategic investors, or partners, can enhance the balance of the driving forces

-are defined as those who can fill the gaps left by other members of the team

-create balance where imbalance exists

-role differs according to the needs of a venture

-ent process is based on logic and trial and error, is intuitive and consciously planned (Wright brothers’ airplane took 1000 models before succeeding)

-trial and error experiments led to new knowledge, skills and insights, like entship

-great opp, but for whom?

-mismatches occur between type of bus and investors, chemistry between founders and backers

-potential for attracting outside funding for a venture depends on this overall fit and how the investor believes he can add value to this fit, improve the fit, risk-reward ratio, odds of success

Importance of Timing: equally important

-decisiveness in recognizing/seizing the opp can make all the difference

-don’t wait for the perfect time to take advantage of an opp: there is no perfect time, opp is a moving target

Recent Research Supports the Model

-evolved from Jeffrey Timmons’ doctoral dissertation research at Harvard

- has evolved over 4 decades, enhanced by ongoing research, case development, teaching, experience
 - fundamental components have not changed, but their richness and relationships with one another
- harnesses what you need to know about the ent process in order to get the odds in your favour
- 4 key areas: Marketing, Finance, Management, Planning

CHAPTER 3: THE OPPORTUNITY: CREATING, SHAPING, RECOGNIZING, SEIZING

THINK BIG ENOUGH

- 70-100 hours weeks and rare vacations re normal
- diff between small bus owner and the growth- and equity-minded entr is that the ent thinks bigger

OPPORTUNITY THROUGH A ZOOM LENS

- opp recognition process is complex, subtle, situational
- ent journey = race through varied terrain and weather conditions
- if too much equity is doled out too quickly, later round investors won't hop on board

Transforming Caterpillars into Butterflies

- make journey friendlier by focussing zoom lens on the opp
- highly organic and situational character of the ent process underscores the criticality of determining fit and balancing risk and reward
- bus plan is obsolete as soon as it comes off the printer
 - it is in this shaping process that the best en leaders/investors add the greatest vale to the enterprise and creatively transform an idea to a venture

New Venture Realities

- fundamental realities:
 - most new ventures are works in process and not works of art, what you start out doing is not what you end up doing
 - most bus plans are obsolete at the printer
 - 91% of portfolio companies that followed their business plans failed
 - speed, adaptability are crucial
 - key to success: failing quickly and recouping quickly
 - successful ents specialize in making "new mistakes" only

The Circle of Ecstasy and the Food Chain for Ventures

- = way of life in the world of high potential ventures
- these concepts enable the ent to visualize how the company building-investment-harvesting cycle works
 - Highest Market Capitalization

Best Underwriters

Max 10% Top Decile Internal Rate of Return

Best Venture Capitalists, oard, Brain Trust Advisors

Best Tech and Market Space

Best Speed of Attack

Best Management Team

- understanding the cycle + appetites of diff suppliers in the capital markets food chain enables you to answer the questions for what reason does this venture exist and for whom?
 - answers have implications for fund-raising, team building and growing the company
- shows that the key to creating a company with the highest value begins with identifying an opp in the "best tech and market space"
 - created attraction for the "best management team"
 - speed and agility to move quicly attracts the "best venture capitalists, board members, and other mentors" who can add value
- Food Chain Concept:
 - diff players have diff capacities and preferences for the kind of venture that want to invest
 - early step to avoid wasting time chasing venture capitalists, angels, others when these is a misfit from the outset

-problem is compounded when seeking angel or informal investors, there are 100x more of them than venture capitalists
 -key frame of reference: knowing how capital suppliers and ents think about the opp creation and recognition process, their search and evaluation strategies, what they look for

Stage of Venture	R&D	Seed	Launch	High Growth
Company Enterprise Value at Stage	< 1 million	1-5 million	>1-50 million – plus	More than 100 million
Sources	Founders, High net worth individuals, FFF, SR&ED	FFF, Angel Funds, Seed Funds, SR&ED	Venture capital series, strategic partners, very high net worth individuals, private equity	IPOs, Strategic Acquirers, Private Equity
Amount of Capital invested	Up to 200,000\$	10k-500k	500k-20 million	10-50 million +
% Company owned at IPO	10-25%	5-15%	40-60% by prior investors	15-25% by public
Share Price and Number	.01-.50\$ 1-5 million	.50 – 1\$ 1-3 million	1-8\$ +/- 5-10 million	12-18\$ + 3-5 million

When is an Idea an Opportunity?

The Essence: 4 Anchors: superior bus opps have these 4 fundamental anchors:

1. They create/add significant value to a customer/end-user
2. They do so by solving a significant problem, removing a serious pain-point, or meeting a significant want or need, for which someone is willing to pay a premium
3. They have robust market, marketing and money making characteristics that will allow the ent to estimate and communicate sustainable value to potential stakeholders
4. They are a good fit with the founders and management team at the time and market-place, along with an attractive risk-reward balance

-for an opp to have these qualities, the window of opp is open and will remain open long enough

-entry into a market with the right characteristics is feasible

-the venture has/is able to gain a competitive advantage

-the economics of the venture are rewarding and forgiving enough to allow for significant profit and growth potential

-summary: a superior opp is attractive, durable, and timely and is anchored in a p/s that creates/adds value for its buyers

-most successful ones are opp-focused: start with what the customer wants

The Real World

-opps are created/built using ideas and the entrepreneurial creativity

-like hurricanes over the ocean, ideas interact with real-world conditions and entrepreneurial creativity at some point

-product of this interaction is an opp where new venture can be created

-bus environment cannot be altered significantly

-social and non-profit orgs are also subject to market forces and economic constraints

-dealing with suppliers, production costs, labour and distribution is critical to the health of these social corporations

-social and non profit orgs are just as concerned with the positive cash flow

-for-profit businesses operate in a free enterprise system characterized by private ownership and profits

Spawners and Drivers of Opportunities

-in a free enterprise system, changing circumstances, chaos, confusion, inconsistencies, lags or leads, etc... spawn opps

-constant vigilance for changes is a valuable habit

-ents can seize opps while others study opps

-opps are situational

-some of most exciting opps came from technological innovation

-95% of the radical innovations since WW2 came from new and small firms

-revolution in MIS had big impact on businesses

-tech and regulatory changes have really altered and will continue to alter the way we conceive opps

-Bulldog Fitness – integrating tech into fitness for kids

Search for Sea-Changes

- simple criterion for highest potential ventures: companies that are addressing worldwide markets which are large enough to allow the portfolio company to grow to a significant size
- best place to start in seeking to identify big ideas is to identify significant sea-changes that are occurring/will occur
 - ex: personal computing, biotech, internet
 - Technology Sea-Changes
 - Moore's Law (computing power of a chip doubles every 18 months), Metcalf's Law, Disruption
 - Market Sea-Change:
 - value chain disruption/ obsolescence/vulnerability, deregulation
 - Societal Sea-Change:
 - changes in ways we live, learn, work, etc.. Gilder's Law – 10x's in 10 years
 - Brontosaurus Factor:
 - arrogance, loss of peripheral vision, deadened reflexes
 - Irrational Exuberance:
 - Undervalued assets

Desirable Business/Revenue Model Metrics

- don't have entire strategy until you say no to lots of ideas
- ideas aren't opps, numbers don't matter but the economics do

THE ROLE OF IDEAS

Ideas as Tools

- a good idea is nothing more than a tool in the hands of an entrepreneur
 - is the first step in the process of converting creativity into an opportunity
- importance of idea is often overrated
- flash of brilliance is rare, usually requires trial and error, repetitions
- major businesses are built around different products than originally planned
 - Polaroid was based on principle of polarized lamps to prevent collisions

The Great Mousetrap Fallacy

- Ralph Emerson: "If a man can make a better mousetrap than his neighbour, though he builds his house in the woods the world will make a beaten path to his door"
 - idea to do with technology will be a certain success
- ideas are inert and worthless, but infinite though resources are not
- fallacy persists despite lessons of practical experience
- Owen Winters: "the manufacturer who shows his mousetrap to the world keeps the smoke coming out his chimney"

Contributors to the Fallacy

- the portrayal in oversimplified accounts of the ease and genius with how ventures like Xerox, Polaroid made their founder wealthy
 - inventors are sheltered in viewpoint and experience from the tough, competitive realities of the business world
 - may underestimate the importance of what it takes to succeed
 - psychological ownership attached to an invention/ product
 - narrows the focus, which should be on the building of the business, not one aspect of the idea
 - desire to do it better technically and scientifically
 - desire to do it first, does not mean success
 - just proves that there's a market, makes room for competitors

PATTERN RECOGNITION

The Experience Factor

- experience is vital in looking at new venture ideas
- experienced entrepreneurs show an ability to recognize quickly a pattern and an opportunity while it is taking its shape
 - pattern recognition: creative process that is not just logical, linear and additive, but intuitive
 - involves creating linking, cross association, "chunks" of experience, know-how, contacts
 - need to see relationships between pieces, be able to fit together some that are seemingly unrelated before the whole is visible
- capacity to see what others don't

Enhancing Creative Thinking

- is of great value in recognizing opps
- creativity peaks around 1st grade
- most of education beyond grade school stresses logic, and rational mode of reasoning
- social pressures tend to tame influence on creativity
- can enhance creative thinking

Approaches to Unleashing Creativity

- 2 sides of brain process info in diff ways
 - left: rational, logical
 - right: intuitive nonrational modes of thought
 - person uses both sides
- to keep creative visualization process alive, ents need to create time to think freely, walk in the woods is prime setting

Team Creativity

- teams can generate creativity that may not exist in one person
- better creative solutions to problems evolving from the collective interaction of a small group of ppl
 - Spin Master: founded by 3 friends from Western

Big Opportunities with Little Capital

- successful ents attribute success (Howard Head) to the discipline of limited capital resources
- bootstrapping: reveals hidden problems and forces the company to solve them
- 3/4 startups launch with 50k or less
- 1/2 start with 10k or less
 - Walt Disney started film studio with \$290 in 1923

Real Time

- opps exist in real time
- window of opp for generalized market:

- as market quickly becomes larger, more opps are possible
- as market becomes established, conditions are not as favourable
 - window opens where a market starts to become sufficiently large and structured
 - closes as the market matures
- curve shows rapid growth pattern typical of industries as microcomputers and software, cell phones...
- length of time the window will be open is important – take long time to determine whether a new venture is a success/failure
 - benefits of success need to be realized
- venture-capital-backed firms:
 - lemons (losers) ripen in 2 ½ years
 - pearls (winners) take 7-8 years to mature
- ability to recognize a potential opp when it appears and the sense of timing to seize that opp are crucial

Relation to the Framework of Analysis

- look at an opp as a 3D relief map with its valleys, mountains etc all represented
 - each opp has 3-4 factors (patented innovation, sole distribution rights, breakthrough tech)
 - these elements pop out at the observer, indicate possibilities where others might see obstacles
 - easy to see where there are thousands of exceptional opps that will fit with a variety of ents but not into the framework:

	ctiveness	
ia	st Potential	st Potential
try and Market	es way ppl live, work, learn	mental improvement only

ent:	ent driven; identified; recurring revenue	used; onetime revenue
enters	able; purchase orders, remove pain points	to others, unreachable
benefits	than 1 year payback, solves a very important problem, need	payback

Etc...

SCREENING OPPORTUNITIES

Opportunity Focus

=most fruitful point of departure for screening opps

- screening should not begin with strategy, financial analysis, estimations of how much the company is worth
- many ents run out of cash at a faster rate than they bring in customers and profitable sales – they have not focused on the right opp
- number of customers, amount of the transaction, repeat transactions are recognized standards, good metrics

Screening Criteria: The Characteristics of High Potential Ventures

- table above summarizes criteria used by venture capitalists to evaluate opps
- venture capital investors reject 60-70%of the new ventures presented to them very early in the review process, based on how the ents satisfy these criteria
- companies built without a dime of professional venture capital: Pleasant Rowland 1986, founder of Pleasant Company, a mail order catalogue company selling the American Girls Collection of historical dolls
 - began the company from the royalties received from writing children’s books
 - had sales of \$350 million US in 2001
- criteria provide quantitative ways in which an ent can make judgements about industry and market issues , competitive advantage issues, economic and harvest issues, management team issues, fatal flaw issues, whether these add up to a compelling opp
 - dominant strength in one of these criteria can translate into a winning entry, a flaw in one can be fatal

Industry and Market Issues

Market:

Higher potential businesses can identify a market niche for a p/s that meets an important customer need and provides high value-added benefits to customers

- customers are reachable and receptive to the p/s, with no brand loyalties
- payback to the user is one year or less, is identifiable, repeatable, verifiable
- if benefits to customers can be calculated in dollar terms, market potential is far less difficult and risky

Lower potential: opps are unfocused regarding customer need, customers are unreachable, or have brand loyalties to others

- payback to the user is >3 years
- low value-added
- unable to expand beyond 1 product

Market Structure:

- number of sellers, size distribution of sellers, whether products are differentiated, conditions of entry and exit, number of buyers, cost conditions, sensitivity of demand to changes in price = significant
- imperfect market: contains vacuums that create unfilled market niches
 - those where info/knowledge gaps exist, where competition is profitable, but not so strong as to be overwhelming, are attractive
- industries that are highly concentrated, perfectly competitive, are mature/declining = unattractive
 - price-cutting and other competitive strategies: significant barrier to entry

Market Size

- attractive new venture sells to a large and growing market
- minimum market size of more than 100\$ million in sales = attractive
 - possible to achieve significant sales by capturing 5% or less and not threatening competitors
- market can be too large
 - multi-billion dollar market: too mature and stable, competition from Fortune 500 firms, highly competitive, lower margins and profitability
- unknown market, less than 10 million\$ = unattractive

Growth Rate

- attractive market is large and growing
- annual growth rate of 30-50% creates niches for new entrants

Market Capacity

- market at full capacity in a growth situation – suppliers can't meet demand
- timing is vital

Market Share Attainable

- potential to be a leader in the market can create a very high value for a company that might otherwise be worth not much more than book value
- a firm able to capture < 5% of a market = unattractive in the eyes of investors

Cost Structure

- firm that can become the low-cost provider is attractive
- firm that continually faces declining cost conditions is less so
- firms with low promotion costs face attractive market opps

Economics

Profits After Tax: high gross margins = strong after tax profits

- attractive opps have potential for durable profits of 10-15% or 20%+
- after-tax profits of <5% = fragile

Time to Breakeven and Positive Cash Flow

- breakeven and positive cash flow for attractive companies = 2 years
- attractiveness diminishes after 3 years

Return on Investment Potential

- attractive opps: have potential to yield a return on investment of 25% + per year
- high gross margins and high after tax profit usually yield high earning per share and
- unattractive: <15%-20%

Capital Requirements

- attractive: ventures that can be funded and have capital requirements that are low-moderate
- most higher-potential businesses need significant amounts to cash to get started
- first round of financing: 1-2 million or more
- unattractive: venture needs too much, cannot be funded

Internal Rate of Return Potential

- risk-reward relationship attractive?
- attractive: 5-10 times the original investment in 5-10 years
- healthy: 25% + annual compound rate of return

Free Cash Flow Characteristics

- way of understanding number of crucial financial dimensions: capital requirements, capacity to service external debt and equity claims, capacity to sustain growth
- low-asset-intensive high margin businesses generate highest profits

Gross Margins

- potential for high and durable gross margins is important
- gross margins exceeding 40-50%: cushion that allows for more error and flexibility to learn from mistakes

Time to Breakeven – Cash Flow and Profit and Loss (P&L)

- businesses that can quickly achieve positive cash flow are desirable (2nd year)

Harvest Issues

Value-Added Potential

- attractive: ventures based on strategic value in an industry, valuable tech
- value-added strategic importance: distribution, customer base, geographic coverage, contractual rights

Valuation Multiples and Comparables

- identify historical boundaries for valuations placed on companies in the market/industry/tech area you intend to pursue

Exit Mechanism and Strategy

- attractive: companies that realize capital gains from the sale of their business have a harvest or exit mechanism
- harder to get out of a business than into it

Capital Market Context

- in which the sale of the company occurs is driven by the capital markets at that time
- timing = critical component

Competitive Advantages Issues

Variable and Fixed Costs

- attractive: potential for being the lowest-cost producer, for having the lowest marketing and distribution costs

Degree of Control

- attractive: potential for moderate to strong degree of control over prices, costs, channels of distribution
 - fragmented markets where there is no dominant competitor have this potential
- maintaining control = key factor in determining a venture's fate

Entry Barriers

- attractive: being able to gain proprietary protection, regulatory advantage, other legal/contractual advantages, exclusive rights to a market, distributor, being able to gain advantage in lead times in tech, product innovation, market innovation, people, location, resources, high-quality contacts,
 - creates barriers to others

Management Team Issues

Entrepreneurial Team

- attractive: existing teams that are strong, contain industry superstars, has proven experience in tech, market, service area, members have complementary skills

Industry and Technical Experience

- attractive: management track record of significant accomplishment in the industry, with the tech, the market area, lots of achievements where new venture will compete

Integrity

- attractive: trust and integrity, unquestioned rep

Intellectual Honesty

- attractive: founders know what to do about shortcomings or gaps in the team/enterprise

Fatal-Flaw Issues

- attractive: no fatal flaws
 - overpowering competition, cost of entry is high, unable to produce at competitive price

Personal Criteria

Goals and Fit

- good match between requirements of business and what the founder want out of it?

Upside/Downside Issues

- attractive: does not have downside risk
- ent needs to be able to absorb financial downside and rebound

Opportunity Cost

- there are always opp costs when pursuing a venture opp
- ent needs to heed other alternatives and account honestly for any cut in salary that may be involved in pursuing an opp

Desirability

- not only attractive but also desirable
 - location of work, other social, cultural, demographic characteristics of a city/region

Risk/Reward Tolerance

-successful ents take calculated risks, avoid unnecessary risks

Stress Tolerance

-initial startup stage = most stressful time

-thinking and planning for the future may reduce the stress

Strategic Differentiation

Degree of Fit: to what extent is there a good fit among the driving forces and the timing given the external environment?

Team: no sub for a top quality team

Service Management: 70% stopped using a p/s because of bad customer service. Service recovery is important

Timing: 1 element that can make a significant difference, can be enemy or friend

Technology: a breakthrough creates competitive advantage

Flexibility: major strategic weapon, particularly when competing with large companies

Opportunity Orientation

Pricing

Distribution Channels

Room for Error

GATHERING INFORMATION

Finding Ideas

-the right person, right place, right time

-past experience can help

-sources of info can help generate ideas:

Existing Businesses: purchasing an ongoing business

-save time and money, reduce risk

Franchises: starting a franchise operation, becoming a franchisee

Patents: acquisitions effected by brokers have resulted in significant new products

Product Licensing: available from universities, corps, independent investors, subscribe to info services

Corporations: corps engaged in R&D often develop inventions/services that they do not exploit

Not-for-Profit Research Institutes: do R&D under contract to the government

Universities: are active in research in physical sciences and seek to license inventions

Industry and Trade Contacts

Trade Shows and Association Meetings: way to examine products of competitors, meet distributors, sales reps, learn of product/market trends

Customers: contact customers

Distributors and Wholesalers: can yield info about the strengths/ weaknesses of existing products

Competitors: examine products, can be improved?

Former Employers: some companies help ents set up companies in return for equity

Consulting: lead to prototypes

Networking: social networks, source of valuable contacts, facilitate and accelerate process of making contacts

Shaping your Opportunity

-invest in thorough research

-find out about competitor's sales plans, key elements of corp strategies, capacity of plants, suppliers, customers, new products

-use published reources, interview people

-are less-ethical ways (phony interviews)

PUBLISHED SOURCES

-1st stepL complete search of materials in libraries, internet

-databases and other sources about industries, markets etc.

-other sources:

Guides and Company Information

Additional Sources of Intelligence

Trade Associations

Employees: who have left competitor's company can provide insight

Consulting Firms: conduct industry studies

Market Research Firms

Key Customers, Manufacturers, Suppliers, Distributors, Buyers

Public Filings: federal, provincial, local

Reverse Engineering: to determine costs of production, manufacturing methods

Networks

Other: classified ads, buyers guides, labour unions....

INTERNET IMPACT: RESEARCH AND LEARNING

- resource for entrial researcu and opp exploration
- rapid growth of data sources, sites, search engines
- blogs offer insight and perspectives on opps
- email questionnaires
- ability to tap wisdom from experts

CHAPTER 8 – RESOURCE REQUIREMENTS

THE ENTRAL APPROACH TO RESOURCES

= ppl, financial resources, assets, intellectual property

- ents seek to use min amount of resources, seek to control them
- reduce risk:

- less capital, staged capital commitments, more flexibility, low sunk cost, lower costs, reduced risk

Bootstrapping strategies: Marshalling and Minimizing resources

- lack of money, employees, equipment = advantage
- forces ent to concentrate on selling, bring in cash

Using Other People's Resources

- particularly in start-up, early growth stages
- money invested, lent, people, space, equipment, material

OUTSIDE PEOPLE RESOURCES

Build Your Brain Trust

- brain: group of close advisors selected for their various expertises
- way of managing risk, reward

Board of Directors

- decision of whether to have one is troublesome

The Decision: influence by the form of organization chosen for the firm (corps must have one)

- certain investors require one, venture capitalists almost always require one
- tied to financing decisions and ownership of the voting shares
- are dominated by company execs and venture capitalists

Selection Criteria: Add value with know-how and Contacts: finding right people is challenging

- personal acquaintances of the lead ent, team their lawyers, bankers, accountants
- intellectual honesty

Liability: corporate fraud scandals lead to crisis of confidence in the capital marketplace

- SOX Act requires companies to file paperwork with the Securities and Exchange Commission faster, maintain volumes of data, test their procedures for posting accurate, timely info
- directors of a company can be held liable for its actions and those of its officers

Harassment: outside shareholders can have unrealistic expectations about the risk involved in a new venture – are continual annoyance for boards

Time and Risk

Alternatives to a Formal Board

- advisors and quasi-boards

- advisors: designed to dispense advice, rather than make decisions, and are not exposed to personal liability
- bring needed expertise without legal entanglements and formalities, less expensive

Legal Counsel

Decision: availability, comfort level with the lawyer, experience level and appropriateness to the task, cost, whether the lawyer knows the industry and has connections to investors and venture capital, venture's size

-ents need assistant with these areas: incorporation, franchising and licensing, contracts and agreements, formal litigation, liability protection etc.. real estate, insurance, copyrights, trademarks, patents, intellectual property protection, employee plans, tax planning, regulations, mergers and acquisitions, bankruptcy law, personal needs

Selection Criteria: personal contact with a member of the law firm= main factor, reputation, prior relationship

-best place to start: acquaintances of the lead ent, management team or directors

-chemistry is important, you get what you pay for

Bankers and Other Lenders

Decision: involves decisions about how to finance certain needs, serve as an advisor, banker with excellent reputation, financial institution

Selection: start with recommendations

Accountants

Decision: those who are experienced as advisors provide valuable services

Selection: whether to go with small local firm, regional firm, or major accounting firm

-many ents prefer smaller regional firms, lower costs and better personal attention

-address: service, needs, cost and chemistry

Consultants

Decision: hired to solve problems and fill gaps not filled by the team

-startups require help with critical one-time tasks

-assessing business sites, evaluating lease and rental agreements, finding bus partners etc...

Selection: options are numerous, quality varies, costs are unpredictable

-ppl skills, best referral is word of mouth, not geographically bound, check references

FINANCIAL RESOURCES

Analyzing Financial Requirements

-cash is the lifeblood of a venture