Oldenbourg Verlag

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Entrepreneurship for Engineers

2nd Edition

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Oldenbourg Verlag München

Lektorat: Dr. Gerhard Pappert
Herstellung: Tina Bonertz
Titelbild: shutterstock
Einbandgestaltung: hauser lacour

Bibliografische Information der Deutschen Nationalbibliothek
Die Deutsche Nationalbibliothek verzeichnet diese Publikation in der Deutschen Nationalbibliografie; detaillierte bibliografische Daten sind im Internet über http://dnb.dnb.de abrufbar.

Library of Congress Cataloging-in-Publication Data
A CIP catalog record for this book has been applied for at the Library of Congress.

Rosenheimer Straße 143, 81671 München, Deutschland
www.degruyter.com/oldenbourg
Ein Unternehmen von De Gruyter

Gedruckt in Deutschland

Dieses Papier ist alterungsbeständig nach DIN/ISO 9706.

ISBN 978-3-486-73298-6
eISBN 978-3-486-76972-2

Preface

Economic studies from all over the world have in common that Entrepreneurship is linked to rapid job creation, GDP growth, and long-term productivity. Entrepreneurship can be considered a key ingredient of what is referred to as the German “Wirtschaftswunder”, which describes the economic boom in Germany in the 1950s and early 1960s, and is the “germ cell” of a prospering and stable society. Entrepreneurship is a vital factor in growing economies.

The purpose of this book is to provide a guideline for people who want to enter into ventures or to begin something innovative in business. This book addresses people, who are interested to start their own company, managers in family-owned companies who want to pursue entrepreneurial thinking into their company, as well, large corporations who bolster new business units inside or outside of their traditional market or country, which is driven by a small team of employees who must perform as Entrepreneurs despite years of operating in a bureaucratic corporate headquarters.

To begin something new, the involved people have a certain spirit which we refer to as the entrepreneurial spirit. They do not follow the rules of industry and constantly challenge the conventional. It is also important to listen to general views from experts on what type of company does well and which one doesn’t.

This book will also cover the task on how to write a business plan in order to enter into new markets, new countries or to revise a current business model. Companies should build their business plan every year, so that they can fix their objectives and set their priorities for the upcoming business year. Of course it is also designed for start-ups who face this challenge the first time in their business “life” and often require such document to convince potential investors. In the preparation of a business plan, Entrepreneurs learn how to determine the perspective customers for a start-up, how to choose between promising and not promising business opportunities, and finally, how to map strategic course of action.

The recommendations which are given in this book are based on literature and experiences of Entrepreneurs. For this purpose, the results of an empirical study in Germany from 2013 about “Germany’s Entrepreneurial Engineers” are partly included. This may give many insights into German entrepreneurial thinking in technical companies!

All genders in this book are masculine. They also refer to feminine, although not explicitly mentioned.

Our thanks go to the publishing house, the “Oldenbourg Verlag” who made this book possible and to Ms. Emery Moses, our editor. It’s always good to have a native speaker “on board”.

Helmut Kohlert Dawud Fadai Hans-Ulrich Sachs

Table of Contents

1 The Spirit of Entrepreneurship

1.1 Entrepreneurship Today

1.1.1 Entrepreneurship – Term out of Fashion or Imperative?

Are companies too big to be sustainably developed by some managers? The question can be negated when you think about how Piëch built Audi into a technology leader and later Volkswagen AG into a global big player in the automotive industry or about von Kuenheim, former CEO of BMW AG, who developed the company into a first class manufacturer. What they both seem to have in common is that they imprint their vision into the company's future and longevity. In doing so, the workforce is forced to follow in their footsteps and implement their visions. There are no doubts – people make companies, in both small companies as well as in large corporations.

These companies have an **entrepreneurial spirit**, no matter how big they are. The successful companies introduce new market offerings, build new business units into old or new industries and launch their market offerings into new country markets. They expand because of the

- customer, who expects support of additional usage of the market offering. To better meet the needs of slightly different and newly identified markets, to reach new market segments through differentiation, to address needs of potential emerging segments, to encourage variety seeking, and to enhance sales of current products.
- competitors, who counter encroachment by alternative products, or try to control "shelf space".
- company itself, to alter brand image, to replace and improve mature market offerings. This ability might be a key success factor for a company.

The qualities of an Entrepreneur are especially needed in periods of high uncertainty in established companies or when new business units are created to enter new industries or new geographic markets, as well as start-up operations. In all of these cases, the Entrepreneur is looking and identifying new business opportunities which need a special qualification. Companies need this **entrepreneurial mindset when directions are unclear** or not recognizable in the current state. New visions must be developed and employees must be motivated to move in the same direction. There are several **factors influencing the entrepreneurial mindset,** which are also the fundamentals for strategic reorientation when necessary:

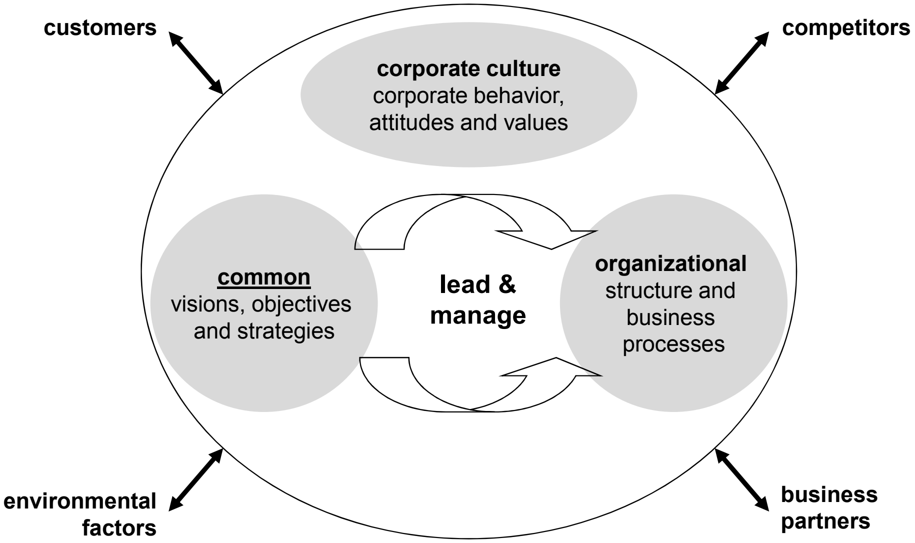


Figure 1.1: When is an entrepreneurial mindset needed?

- The **internal factors** such as corporate culture, commonalities in the organization and their need for a special focus when established companies want to develop their entrepreneurial spirit. As well the same goes for start-up companies and their need to evolve from scratch.
- The **external factors** must be recognized and the possible impact on their own business identified.

These are already the main tasks of the Entrepreneur. The **term** "**Entrepreneur**" is derived from the Middle Ages: "Entrepreneur" in Latin "prehendere" evolved into the French term "entreprendre" and can be translated as "to begin", "to try" or to "get a contract". Although the term was well known, it was the merit of Schumpeter at the beginning of the 20th century to bring Entrepreneurs as the driving force of the society to the public (Schumpeter 1934). From his point of view the most important task of an Entrepreneur was the commercialization of innovations. Schumpeter continues that Entrepreneurs may appear in every class of population and they have the gift of intuitive of doing the right thing to overcome the existing norms and societal obstacles (Schumpeter 1942).

An **Entrepreneur** is a person who perceives a business opportunity and creates an organization around it to pursue this opportunity without regard to resources currently controlled (Bygrave: 2, Stevenson: 10). The Entrepreneur takes risks, makes decisions and embeds them in an organization with a special corporate culture. The term "**Entrepreneur**" can be distinguished from other terms which are very close to each other:

	Entrepreneur	**manager**	**inventor** ("Swabian tinkerer")
personal characteristics	• personal drive, highly dedicated to a business idea • persistent to succeed • **takes calculated risks** • builds something new • close to reality with his innovations	• proven management skills and expertise • can set objectives and follow them in strategies, realize them in actions • ability to direct and motivate others • self-confident • decision-oriented • thinking about the next step in his personal career • **takes risks cautiously**	• personal drive, highly dedicated to a business idea • self-confident • imaginative • persistent to succeed • analytical • lonesome wolf • high personal standards • **gambler**
job/role demands	• spends much time in the early years to develop the business idea into a business concept • creativity and innovativeness • can attract other people to join the team • deep business understanding • **tends to think in "market offerings"** • sacrifices own private life, business has priority	• oriented to values of the company • more routine work pattern • security attitude is built up • management skills crucial • **thinks in "market offerings"** as complete solutions to the customers' problems • maintenance and efficiency oriented	• always creative • limited or insufficient business understanding • limited, because no management skills • no team skills • works alone • **thinks in "products"** • sacrifices own private life, product development has priority
status	**owner** of the company	**employee** of the company	**"lonesome wolf"** without own company

Figure 1.2: The Entrepreneur and related terms

Entrepreneurship encompasses many different aspects, it is the expression of different extraordinary talents and capabilities. The following different kind of companies can comprehend elements of Entrepreneurship:

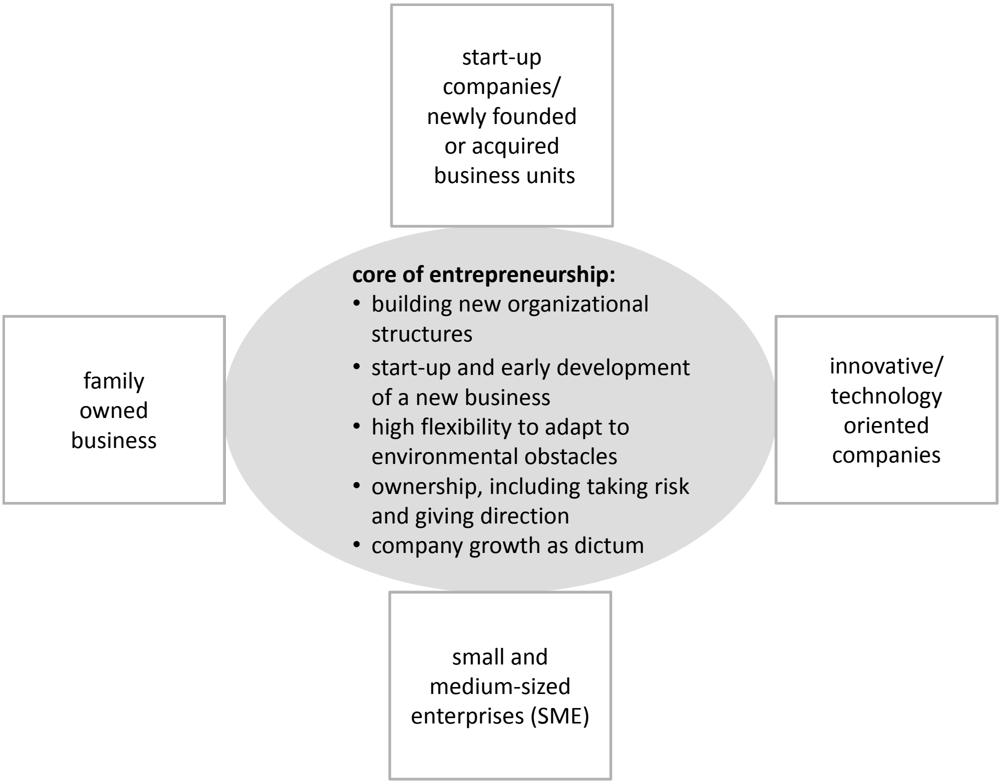


Figure 1.3: Entrepreneurship with various contents

- In a **start-up company** the Entrepreneur builds new structures as well as in newly founded business units, e.g. in foreign countries, of an established company. In an acquisition of an existing enterprise the Entrepreneur uses existing structures and changes them according to his existing pattern.
- In an **innovative/technology oriented company** structures must be changed constantly according to the situation in the developing environment of the innovative market offering. Improvisation is needed; this is the opposite of bureaucratic behavior in large corporations where people are forced to act within the business processes. However, in a new project in a big corporation, Entrepreneurship may be needed, especially when the company enters into new fields of business or into new geographies.
- **Family owned businesses** are often strongly connected with Entrepreneurship, especially in the first generation where a strong founder started the business. The challenging questions might be: who will succeed him?
- In small and **medium sized enterprises (SMEs),** Entrepreneurship is needed as these companies are not as specialized as compared to large corporations. This also provides some flexibility which is also an indicator of entrepreneurial businesses.

For Schumpeter, Entrepreneurship was always connected with innovative start-up companies in his earlier writings (Schumpeter 1934) but later he also discovered Entrepreneurship in established companies (Schumpeter 1942). Entrepreneurship as managerial asset in a company is often called **Intrapreneurship** or **Corporate Entrepreneurship**. More and more companies appreciate Entrepreneurs in their companies, who are able to adapt to the context in fast changing environments. Pre-requisites for intrapreneurship are flat hierarchies; intrapreneurs carry the responsibility and are free in a certain frame, an open communicative culture, also in case of mistakes, and a creative innovative culture. Intrapreneurship may have some **positive effects for the established company**:

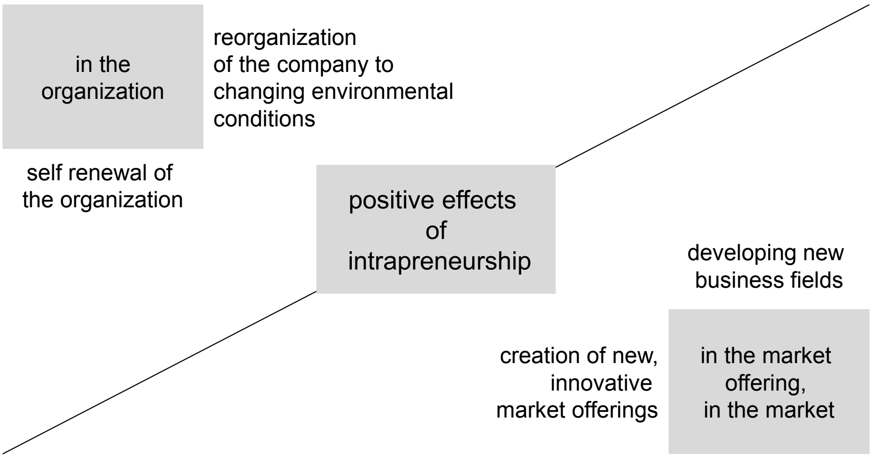
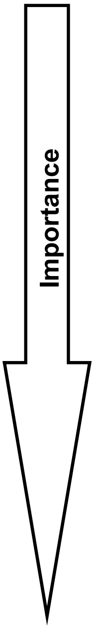


Figure 1.4: Positive effects of intrapreneurship on the established company

With these many dimensions, Entrepreneurship is a cross-sectional domain. It covers areas in the business plan, such as idea generation, financing, implementation of strategies. "Soft skills" such as negotiation, presentation, and teamwork are key with respect to presentation of their business plan and later in the stage of implementation. Therefore, Entrepreneurs need the balance of know-how in methods and social competences as the basic strategic factor of success. While knowledge is important competency required, applied methods and social capabilities still need further attention according to an empirical study in Germany where 42 Entrepreneurs were interviewed (Kohlert/Schinkel). According to Quinn et al. **Entrepreneurs need the following knowledge** (Quinn et al.: 72):



1. The **cognitive knowledge (“know-what“)** is the basis of every discipline, which is achieved through training and certifications. Mostly this knowledge is not sufficient to solve real challenges in practical life.

2. The **capabilities** (”**know-how**“**)** transfer concepts into practical execution. The ability to transfer the acquired knowledge into a new environment and apply it there successfully.

3. The **system understanding (“know-why“)** contains the deep understanding about the web of cause-and-effect relations. This allows to solve larger and more complex problems, and is far more than just a transfer of know-how into practical life but creates extraordinary customer value. This is necessary to identify opportunities in the existing business models and help them into more effectiveness.

4. The **creative self-motivation (“care-why“)** consists of will, motivation, and adaptability for success. Motivated teams often outperform teams with greater resources. The opposite is egomania, which may occur when managers have long periods of success and are getting used to it. It enables the Entrepreneur to adapt to rapid changes and to renew their knowledge, skills and system understanding in order to compete.

Figure 1.5: Types of knowledge Entrepreneurs need

From the **societal point of view**, the **objective of Entrepreneurship** is to establish a sustained entrepreneurial culture in a society, for example graduates from universities will possess entrepreneurial skills. From the **company point of view**, the **objective of Entrepreneurship** is to establish a sustained entrepreneurial culture in the company and to promote the availability of employees with an entrepreneurial mindset to accomplish their specific tasks. Entrepreneurs are most successful when they have access to the human, the financial and the professional resources they need, and operate in an environment in which government policies encourage and safeguard Entrepreneurs.

1.1.2 The Process of Entrepreneurship

According to **Schumpeter Entrepreneurship** can be understood as a process (Schumpeter 1942):

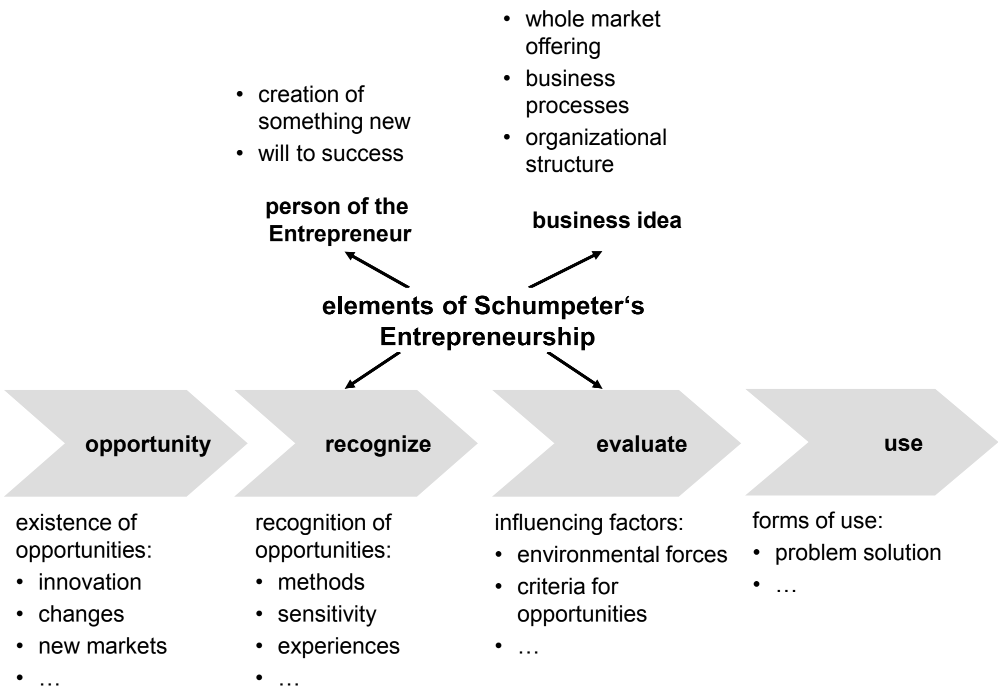


Figure 1.6: Entrepreneurship as a process

In this process, Entrepreneurs have to drive the business idea into a feasible market offering (Fueglistaller et al.: 33–38):

- An **opportunity** is considered as a possibility to introduce a new market offering or a new method with the possibility to generate profit. Opportunities however are not readily existing and visible for everybody, but may develop over time or must be developed actively by the Entrepreneur. The right timing may be a critical factor!
- The Entrepreneur has **to recognize** existing economic imbalances as a prerequisite for an opportunity. This depends very much on the experiences and know-how of people to understand industry, markets and their customers, as well as competitive forces and how they work together.
- The Entrepreneur has **to evaluate** the gathered information and to sort out opportunities where the costs are too high. When this decision is made, the Entrepreneur will become more formal and will continue with a feasibility study, especially in case of innovative market offerings.
- Finally, the Entrepreneur has **to use** the opportunity and to start a new company, to open a new branch office in the foreign market, to start a new business unit etc.

Acting in this particular environment and circumstances needs exceptional people. Entrepreneurs are looking for opportunities, and they never know whom they meet on their journey. **Entrepreneurs find and recognize the opportunity** (Kohlert 2005b: 5):

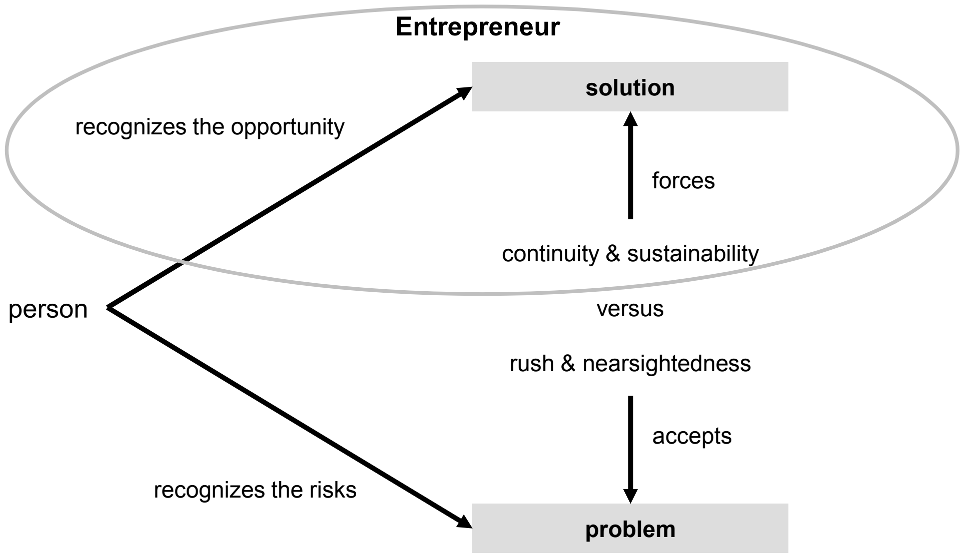


Figure 1.7: Entrepreneurs and opportunities

What makes the difference between the constant opportunity seeker without realization and the Entrepreneur? Entrepreneurs are able to set priorities, are able to limit their scope. Too many projects destroy productivity. This is the difference between an Entrepreneur and a **dreamer**. Entrepreneurs are also able to make decisions and to recognize the light at the end of a tunnel. They can survive in case of defeats before they know that they are following the right opportunity.

To avoid a possible misunderstanding: Entrepreneurs are not gamblers – they evaluate the **risk of their venture**. There are fundamental differences in risks, depending on a nature of the intended venture:

- In **imitating ventures**, Entrepreneurs face the general risk of a new venture and the general company risk
- In **technology oriented ventures**, they face in addition to the above mentioned, the risk of product development, the risk of the right timing, the risk of production, the risk of market acceptance, the management risks and finally the financial risks.

The assessment of the technology oriented risks relies very much on the answer to the following question: Does the customer need a market offering? To answer this vital question, Entrepreneurs are able to process the customer's needs; they know the customer's business. They are able to relate to business drivers, know their objectives this year, and know how they measure their progress. When they look back on year end, how will they know if they have been successful? What are challenges which keep them awake all night?

Bygrave includes in the Entrepreneurship process of Schumpeter the environment and focusses on more detail to the **Entrepreneur as a single person** (Bygrave: 2):

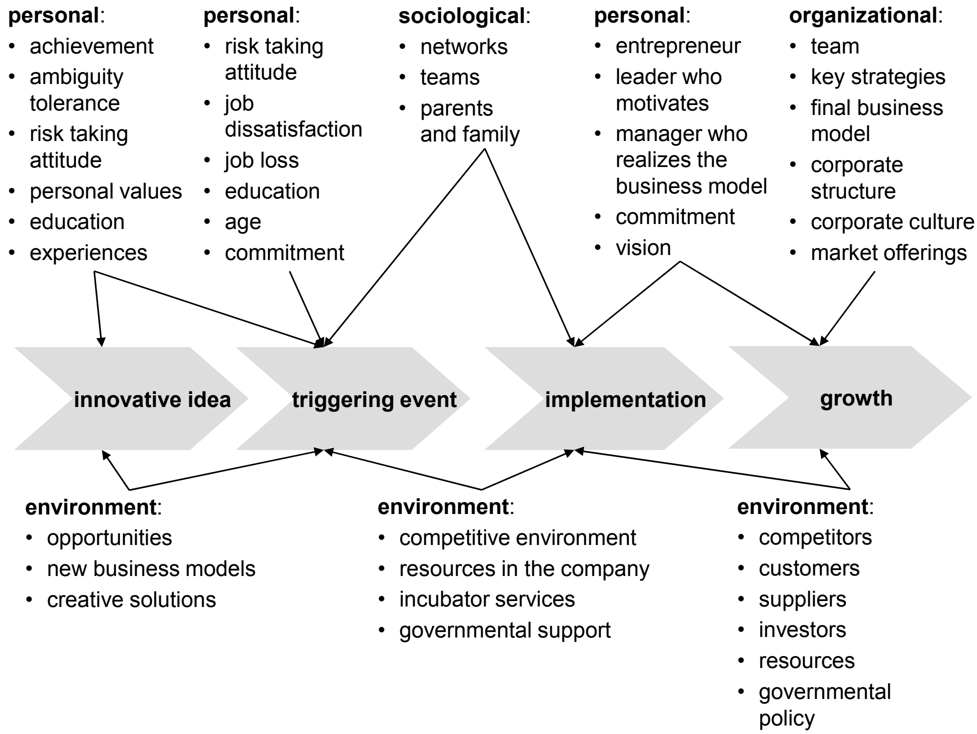


Figure 1.8: Entrepreneur as a single person within a particular environment

- The **innovative idea** is something new; the Entrepreneur identifies a new-to-the-market business idea.
- The further steps depend very much on the existence of a **triggering event**. Without an event which has a significant impact to the life of the person, no further steps will be undertaken. Those events may be dissatisfaction with the content of the job or the boss, even a job loss or a crisis situation in an existing company or they simply have the desire to be in control of their own fate. It can be assumed that people do not change without need, the same applies to companies. If there are no changes, the anguish is not big enough. This may also depend on networks where the Entrepreneur has access to, which either motivates or demotivates Entrepreneurial activities.
- The **implementation** turns the idea into a “Business Model” and to a market offering that customers need. No customer equals no business. If the Entrepreneur is unable to name the first ten customers, the business should not get started. A business idea goes with the market if there is a chance for success. It also reveals now whether the Entrepreneur is really able to develop a business idea, to implement it and finally build up a successful business based on it.
- The **growth** is the measure of impact of the entrepreneurial idea. The different players must be known very well to make this happen.

In any case the Entrepreneur has to combine several factors in an existing environment (Fueglistaller: 27–32):

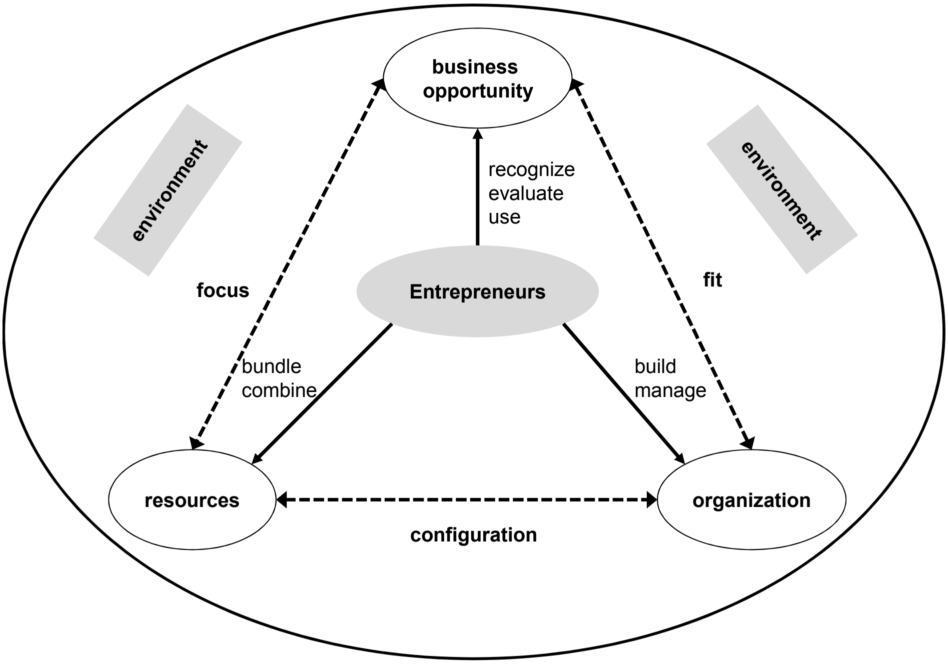


Figure 1.9: Key elements of Entrepreneurship

- Entrepreneurship needs at least one active person who is searching for business opportunities and who has an "**entrepreneurial alertness**" (Kirzner), which helps to recognize customer's challenges, problems, previous knowledge if connectable with new information and a usable social network to different kind of people.
- Entrepreneurs need the **resources**, to develop entrepreneurial ideas into a business opportunity. He has to provide everything that is beneficial in following up the business opportunity, e.g. people, money, technology. Social networks may be in particular helpful to put together the resources which are needed.
- Entrepreneurs are able to set the **organization** they need to get the business started and it fits perfectly to accomplish the business opportunity. Never again, the organization will be as efficient as in this stage.
- Entrepreneurship can take place in several **environments**, e.g. a start-up company, a new branch office. The environment should fit to the requirements of the business opportunity and to the resources which are available. It may be supportive or constraint. The society might be able to push or to limit entrepreneurial spirit. This is nowadays called the "Entrepreneurial Ecosystem".

It can be stated that people are involved throughout the whole development in an entrepreneurial process. Therefore, it is not a surprise that Entrepreneurship is focused primarily upon the person of the Entrepreneur: **People make business**.

1.2 The Entrepreneurial Ecosystem

1.2.1 The Economic Relevance of Entrepreneurship

Often there is a supposed relationship between Entrepreneurship and the size of the company; the small and medium-sized enterprises (SME), in Germany called the “Mittelstand”. In Germany the **Mittelstand** is the backbone of the society. It provides more than 60 % of all jobs, 38 % of all sales; these are 99 % of all enterprises in Germany (IfM). The Mittelstand is responsible for the competitiveness of the German economy and gives the necessary stability to the society. In contrast to Europe, where small SMEs dominate, the German success story is based on medium-sized SMEs. Especially during time of economic crisis, the level of employment in SMEs is far more stable than in large corporations. Whereby, they have to keep their experts within the company in order to overcome obstacles (Reinemann: 12).

There are some formal criteria according to the amount of employees and sales which account for a Mittelstand company, but for our purposes a Mittelstand company is termed if it is a personal company, means ownership and management are united, a typical **family owned business**. There are also other **characteristics of Mittelstand companies** (Reinemann: 5, Ahsen: 4):

- unity of ownership, risk and control
- flat hierarchies, more consensus oriented decision making processes
- personal relationship between company and its environment in personal networks
- economic independence, means in general that another company has not more than 25 % of the stocks

Are Mittelstand companies the same as Entrepreneurial companies? No doubts there is a connection between the two, but Mittelstand firms are not necessarily entering into new fields of business, in the same way Entrepreneurs do. The owners of Mittelstand companies fulfill many of the **typical criteria of Entrepreneurs**, according to an empirical study in Germany in 1998 (Arbeitskreis Entrepreneurship):

- integrity with a strongly ethical behavior
- leadership skills and the ability, to build a team of strong playerrs who are better than the Entrepreneur
- impatient; bias toward analysis and action
- quick, do not wait
- modest ego, but seeks and accepts coaching, ability to recognize own weaknesses and hire others to overcome it
- willingness to do something new, to innovate, and to search for opportunities
- pragmatic, willing to compromise in order to move forward
- driven to solve a valuable problem for customers, not driven by money or technology
- able to attract other people to join the team
- mistakes may be admitted

Mittelstand company owners and Entrepreneurs are strongly connected with each other. Of course all new companies or new entities, e.g. opening a new sales office off-shore, start small. Is there a difference between Entrepreneurs and Mittelstand managers at all? SMEs can or cannot grow, whereas Entrepreneurs are very much focused on growth. SMEs can or cannot be innovative; Entrepreneurs are mostly launching new market offerings into a newly defined market. So there are some differences (Fueglistaller et al.: 47–49):

	Entrepreneur	**Mittelstand manager**
term	= process initiated and executed by people where opportunities are recognized, evaluated and used	= management of a small or medium sized company
company size	all sizes possible	small or medium
degree of risk	very different	in general low risk
amount of people involved	one up to many	small or medium
sector	private, public, NPO	private
growth focus	high	variable
key person	Entrepreneur	manager

Figure 1.10: Differences between an Entrepreneur and a Mittelstand manager

> There is no doubt that Entrepreneurs establish new jobs, in some sources 15 % of the total new jobs are mentioned. In times of economic crisis they do not make redundant personal immediately. Firstly, they are happy to have the capabilities they need, and secondly, after the crisis they will need their employees again. Not all Mittelstand companies have an entrepreneurial spirit, but there is a big overlap as soon as they are driving growth strategies.

1.2.2 Societal Entrepreneurial Ecosystem

Most of the ideas come from the business environment the Entrepreneur is currently facing. Many ideas are the answer of an Entrepreneur to environmental conditions. Whether a new idea will be pursued or not, depends on the person of the Entrepreneur and also on his ability to set priorities.

As new entities need good conditions which can be provided in this context often the term "**Entrepreneurial Ecosystem**" is used. It consists of a set of individual elements, e.g. such as leadership, culture, provision of money, and open-minded customers. These are the real elements involved under a unique set of circumstances which differentiate in every country and every region. Government leaders are supporting Entrepreneurs and provide environments that nurture and sustain Entrepreneurship but the sets are different. In isolation, each other identified elements in conducive to Entrepreneurship but insufficient to sustain (Isenberg: 2), they all work together for good, for an "Entrepreneurial Ecosystem":

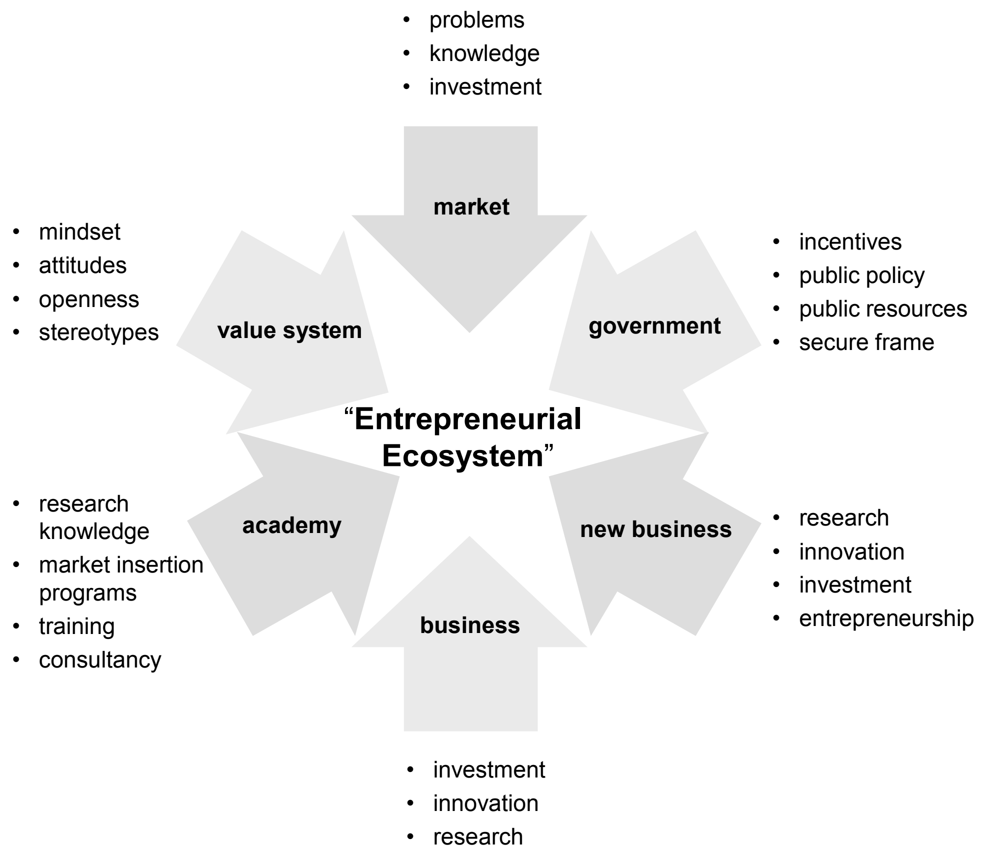


Figure 1.11: The "Entrepreneurial Ecosystem"

These elements that surround the individual Entrepreneur affect the success or failure, the motivation, a conducive or an inhibitive environment, the personal decision of a person to become an Entrepreneur etc. This can be summarized under **Entrepreneurship stakeholders** who are interested in more Entrepreneurship in the industry, region, or country. This may include government, high schools, universities, investors, banks etc.

For the government, there are several key conditions that typically define a **healthy** "**Entrepreneurial Ecosystem**":

- A business ecosystem is tailored around its own **unique environment**, e.g. a cluster of a certain industry as a geographic concentration of interconnected businesses, suppliers, and associated institutions in a particular field (Porter 1998). This field is already given and cannot be copied from other examples. It is advisable to identify three local industries that have proven potential for further development and to support these industries by the government. In other words: The entrepreneurial ecosystem must be shaped around the local conditions and build on existing and emerging clusters so that they can grow organically (Isenberg: 4, 9).

- **Austerity generates innovations**, often entrepreneurship is stimulated when resources are scare. But especially when resources are limited, entrepreneurial programs should try to focus first on particular industries, and second on ambitious, dynamic people who address large potential markets.
- There is a special role for **universities and academies**: A university-based ecosystem in academic settings commonly refers to study programs that focus on the development of an entrepreneurial mindset and/or the commercialization of new technologies (Dunn). The willingness to challenge the conventional with an innovation, to generate alternatives, challenge assumptions and eliminate the sacred cows can be taught.
- Entrepreneurs operate in an environment with reduced **bureaucratic obstacles** in which government policies support the unique needs of entrepreneurial businesses. However it cannot be built by the government, but the government has to formulate Entrepreneur-friendly policies and programs to support them into the preferred direction as well as to link to the universities and the academies.
- Entrepreneurs need a **personal** environment, which senses Entrepreneurship as something normal and not as a strange exception. This is the responsibility of the Entrepreneur, who has to look for the "right friends". Good friends support the Entrepreneur's start-up company, bad friends don't. Good friends give motivation and advise, bad friends tell you why it cannot work out at all.

Entrepreneurs are able **to set priorities** within the ecosystem they are in. Entrepreneurs identify the important factors and the extent to which they can be influenced. "**Survival of the fittest**" according to Darwin means the person who is most adaptable will survive:

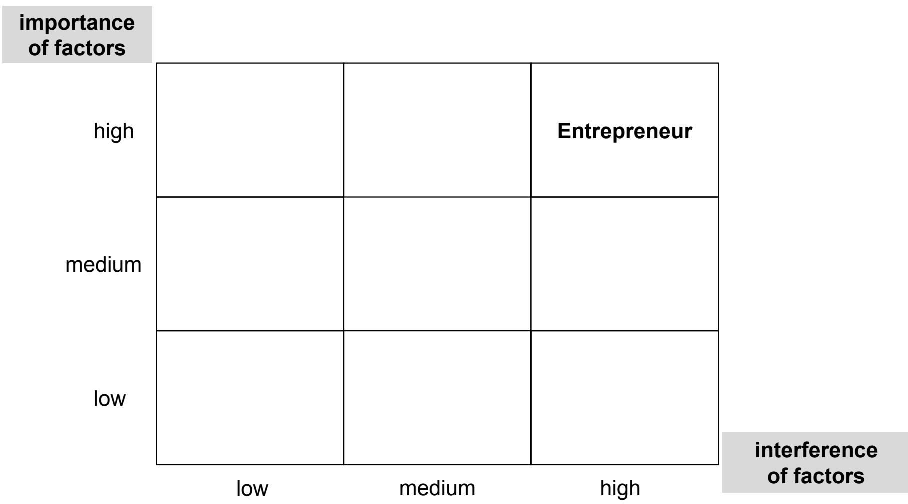


Figure 1.12: Importance/interference-matrix to identify the Entrepreneur's position

The further steps will require a deeper understanding of the business of the Entrepreneur. The Entrepreneur has to understand:

- possible **objectives and strategies**, the components of his business, e.g. markets, market offerings needed, customers, tentative alliances, his core, resource management, business processes
- relevant **external business drivers**, e.g. general business environment, specific industry characteristics and significant stakeholders described in the entrepreneurial ecosystem

This **business understanding** will assist in understanding strategic business risks that may threaten the Entrepreneur's objectives. It is important to understand the current forces facing the new entity. That may have an impact on achieving his objectives and on the relevance of those aspects of the environment which might affect the new entrepreneurial business. The following tools are used for the analysis of the general business environment and the specific industry characteristics:

- **PEST analysis** to find out more about political, economic, social, and technology forces in unknown markets
- **Porter's 5-forces** analysis to understand the competitive environment the own new entity will be in as threat of new entrants, bargaining power of suppliers, bargaining power of buyers, substitute products or services, rivalry amongst existing competitors.

The result of the business understanding is to reveal the **strategic business risks** that may have been identified by understanding external business drivers in the context of the objectives and strategies of the new entity. A further outcome may be performance improvement observations that have been identified by understanding the entity's business. In addition, it is supported by the Entrepreneur's personal knowledge based on

- discussions within its own management
- general or specialist publications as newspapers or magazines or publications of research institutes
- memberships of professional groups which provides relevant information

Transferring the knowledge out of existing information outlined above can provide significant efficiencies in understanding the business. Under consideration of this information the Entrepreneur understands the frame of his operations where he can act. Entrepreneurs are often successful because they break rules which are common in an industry, but nevertheless, Entrepreneurs are not rebels who are challenging the complete structure of a society. They except the frame but challenge the conventional!

1.2.3 Personal Entrepreneurial Ecosystem

As business is people, the person of the Entrepreneur is in the main focus of the consideration. What makes the Entrepreneur successful? No doubts there are **driving forces and restraining forces which affect the Entrepreneur** (Kohlert 2005b: 6):

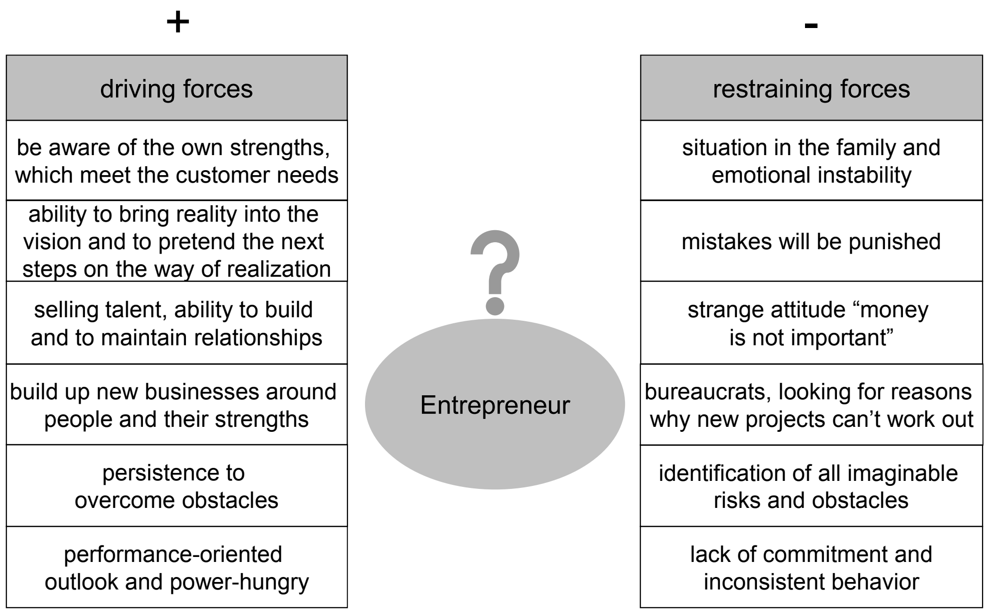


Figure 1.13: Driving and restraining forces which effect the Entrepreneur

According to an empirical study of Kohlert & Rempel “Germany’s Entrepreneurial Engineers” in 2013 the following **characteristics of an Entrepreneur** were brought to light (Kohlert/Rempel):

act ethical	• oriented to the Ten Commandments ("honorable business man") • honesty, reliability and trustworthiness
be quick	• high flexibility, hard-working, assertiveness, and will power • fast perception and decision-making ability
business is people	• it must be fun to work with people, e.g. customers, suppliers, employees • fairness with people ("human factor") • social component "care about employees" keeps the fluctuation low
curiosity	• have fun when doing new things • creativity, means developing new alternative solutions
readiness to assume risk	• limited amount of rear mirror, don't look back, that's the way you go • decision-making capability, courage • self-motivation • personal private background in a solid family • endurance, especially in case of backlashs

Figure 1.14: Characteristics of an Entrepreneur – part 1

ability to handle conflicts	• do not be afraid of conflicts • face problems • also act in awkward situations • ability to evaluate situations precisely and make decisions • keep on with optimism and the entrepreneurial energy
live your dreams	• ability to set visions and work obviously on realization • "If you look back too often, you will never arrive on target"
empathy	• staff participation to solve problems and take time for the process • managers must understand what must be done • capability to select the right people • do not gag suppliers, later you might need them in critical situations
will for change	• unhappiness with current situation • to distribute the message "change is needed" • ability to question the current status quo
take responsibility and decide	• ability and qualification to take over responsibility • ability to make decisions

Figure 1.15: Characteristics of an Entrepreneur – part 2

But what motivates people to start a career as an Entrepreneur, to start something new with higher risks than a career as governmental officer? The empirical study of Kohlert & Rempel leads to the following results, why people enter the "**career path**" **Entrepreneur** (Kohlert/ Rempel):

Entrepreneur by birth	• Successor of the father, all contacts and the network were already built up, the economic base was settled. • I learned Entrepreneurship from my early life: Entrepreneurship was "put into my cradle". • In the family business I had to work in all functions very early.
no need to be directed by others	• To be direct by others is not "my thing", realization of own plans my passion, to do it in "my way". • The impulse "to do it myself" was always present.
to make something on your own	• I always wanted to run my own business. This is the first decision in business life, next is the business idea. • After years in a big corporation I knew that I have to do something on my own. • After some years of professional experience and contacts into foreign markets, I started on my own, after I found out that I am ready to take responsibility.
unhappiness with current job	• I was aware that "my company did not appreciate my work". • I was aware that I do not want to work for "those people like our CEO". • There were obviously wrong decisions made by the CEO to fulfill his personal needs, even in times of a crisis.

Figure 1.16: Reasons to enter the career path "Entrepreneur"

Motivations to become an Entrepreneur can be voluntary or involuntary. The relation in Germany is 4:1 (De: 44). Realizing one's own business ideas plays an important role for the career path of an Entrepreneur as well as independence, self-fulfillment, recognition of a business opportunity, discontent with current situation as an employee (De: 45). So the results of the empirical study are in accordance with these results. To consider Entrepreneurship as an alternative to unemployment is mostly considered by people with a lower degree of education and therefore less opportunities in high industrialized countries, or by immigrants with less opportunities even despite to a high degree of education and in lower developed countries (De: 46).

> Entrepreneurs are looking actively for new business opportunities. They are able to take a risk and to include it into a special corporate culture of their start-up entity.

1.3 The Entrepreneurial Mind

1.3.1 Critical Success Factors to be an Entrepreneur

What are the characteristics managers must have in order to be called an Entrepreneur? Already in 1955, Robert L. Katz identified three **fundamental abilities**, companies should seek to develop in their managers (Katz):

- technical skills which include a proficiency in methods, processes, procedures, or techniques
- human skills as the ability to lead a team effectively
- conceptual skills to recognize the organization as a whole, understand the functions which interrelate and how the organization is related to the industry; Entrepreneurs can imagine "big things"

This three-skill approach emphasizes that good managers can be developed; Entrepreneurs as well? Both have the following characteristics in common (Arbeitskreis Entrepreneurship):

hard factors	character	• integrity • honorable • moral
	communication	• empathy • excellent communication
	performance	• self confidence • the wish to lead • to push projects to success
soft factors	know-how	• competence • thinking in solutions
	speed	• capability to make quick decisions • strategic thinking: recognition of trends from tomorrow
	bye bye, lonely rider	• real interest in the needs of the members of the team • to lead other people (staff) to success

Figure 1.17: Success factors for Entrepreneurs

Self-assessment is important for an Entrepreneur. Technical Entrepreneurs may be too focused on the perceived technical advantage of their idea due to perfectionist attitudes to the neglect of the business advantage. Therefore, it is necessary to have an open mind to one's own personal and to assess the relevant issues:

- What are the strengths and what is the potential of the Entrepreneur:
  - What can I do particularly well, better than others?
  - What can I do easily, without many efforts?
  - What can I do particularly fast?
  - What can I explain to others?
  - What are the topics people asking me?
- What are the weaknesses of the Entrepreneur:
  - What can I do not as well or not without any mistakes?
  - Where do I really need significant amounts of energy?
  - Where do I need more time than others?

  – What can’t I explain to others?
  – What are topics other people are asked and not me?

These questions lead to the **personal decision to be an Entrepreneur**:

- The described **self-assessment** and reality testing of the business idea is the most important in the decision making process.
- The question “Why“: What is the **self-motivation** of the Entrepreneur? The question is “Do you want to achieve something, or do you want to crumble away from something old?” The second would be bad motivation but also possible! Entrepreneurs are competing against their self-imposed standards; they are willing to take a moderate risk and are able to formulate plans for overcoming obstacles. Therefore, the self-motivation is very important as they have very often nobody who is supporting their motivation.
- People with an **entrepreneurial mindset** passionately seek new business opportunities, they pursue them with enormous discipline, they pursue the best opportunities only and avoid exhausting themselves by chasing after every option, they focus on execution and they engage the energies of everyone in their domain (McGrath/Mac Millan: 2-3).
- The ability to **set objectives** and to follow them. As Entrepreneurs are always good “goal-setters”, it is essential to planning. Setting objectives contain a clear statement what they want to achieve!
- The **management skills and competences** can be realistically evaluated including those of the team and especially the first members of the staff. Entrepreneurs are able to influence and to arouse strong emotions in others.

Entrepreneurs should unify the leadership skills and the managerial abilities – the doing and the motivation of others:

The leader ...	The manager ...
• innovates	• administers
• develops	• maintains
• focuses on people	• focuses on systems and structures
• inspires trust	• relies on control and structures
• has a long range perspective	• has a short range view
• asks what and why	• asks how and when
• originates	• imitates
• challenges the status quo	• evolves the status quo
• is his own person	• is a classic “good soldier”
• does the right thing	• does things right

Figure 1.18: Leaders and managers in comparison – Entrepreneurs unify both

Managers are "**followers**", they plan and control, and they align objectives and people, and solve problems. **Leaders are** "**combatants**"; they show directions, organize and change, motivate, create and implement new strategies. Leadership alone will not bring you forward! Both approaches must work hand-in-hand for optimum results! In the early stage of an entrepreneurial business, Entrepreneurs have to unify both. There is no budget for two people!

Leaders are decisive. In emergencies extraordinary measures must be quickly taken. Leaders have a strong personality and take control without hesitation. Leaders always have a martial message which is very simple to understand. They limit themselves and feel obligated to their visions. They are also able to communicate very well inside their company or even to the public. This is important to win followers. **Leadership characteristics help the Entrepreneur** to become successful:

- positive attitude towards change gives an open mind to innovations
- predictable & obliging supports the teamwork in the new organization
- driven by not avoiding failures but by creating something new
- failure may be admitted: "Winners and learners" instead of "winners and losers"
- look for success, not for money; money is just the measure of impact but it should not be the key motivation
- innovative and economical sides of coin are not a conflict, but customer will not pay every price
- clear vision where the company is heading which is communicable to all members of the team
- charismatic (in different ways) helps that others will follow
- good organizer but focus on effectiveness, not correct bureaucratic behavior and strong communicator
- aggressive and greed for power in a healthy way because many obstacles will pass the way to the success of the new enterprise

"Money making" is not everything: You can buy a house – but not a home, you can buy a bed – but not a good night's sleep, you can buy pleasure – but not happiness, you can buy a good time – but peace of mind, you can buy an employee – but not a friend. But in business, you need a lot of "helping hands". Most of these are a question of attitude. Of course, changes in attitudes can be taught, when the person is ready for it. We are in charge of our attitudes.

1.3.2 Components of an Entrepreneurial Mindset

“**Habitual Entrepreneurs**” **have six characteristics** in common (McGrath/MacMillan: 2):

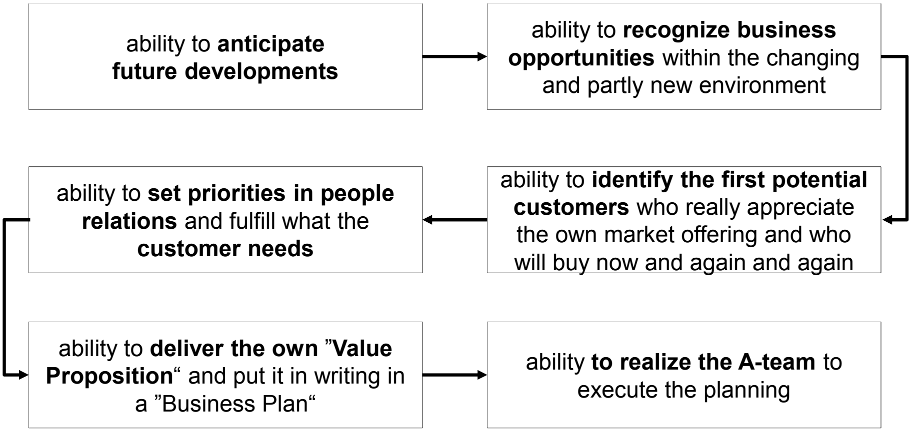


Figure 1.19: Six abilities of Entrepreneurs

At first, Entrepreneurs have the **ability to anticipate trends**. In most cases, planning the future means “change the rules“. So the key requirement is to recognize the trends. **Trends** are

- developments over the next years that are already visible today
- from today’s point of view they are possible but not certain
- not easy to identify, so the eyes must be wide open, the own imagination must flow

The actual rules in the market are well known and influenced by competitors in their favor. New rules open up new opportunities or bear new risks. In any case they establish new strategic options and may destabilize the actual market situation. These trends are often neglected by the “fat cats” in the market. “**Fat cat**” may refer in this context to a wealthy competitor, very successful in the past, very “laid-back” today, who does not react quickly or strongly because they may feel that their customers are loyal or it may not have noticed its rival's moves or they may lack the funds to react. Therefore, it is so important for a company to assess reasons for slow reactions. Feeling the rules of the new trends is the key to success in many start-up companies.

As an example, the **megatrends in high-tech B2B-markets** are identified by an automotive supplier and are following for his industry (Kohlert 2013: 147):

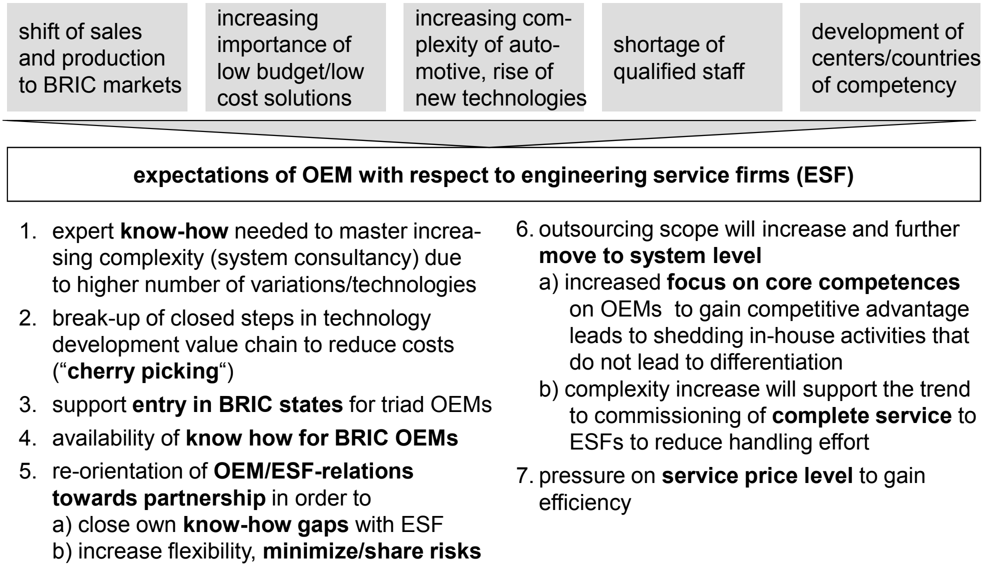


Figure: 1.20: Example – megatrends in high-tech B2B-markets

Secondly, they **seek for new opportunities with passion** within this changing environment and create entirely new business models for this new context. **Creative thinking**, to generate alternative, challenges the assumptions and destroy the sacred cows can be taught. This requires that failures must be accepted.

Thirdly, this may need a serious technology with sustainable competitive advantages. A technology is serious if it solves an important, valuable problem and meets customer who have budgets and want to pay well, with a short sales cycle, and will buy more, soon. They are able to connect the serious technology with the satisfaction of a real need of the customer. Many Entrepreneurs are that thrilled about their new technology they developed, that they cannot be objective enough to determine if it meets a real need of the customer (Lambing/Kuehl: 81). But **technology must meet customer needs**:

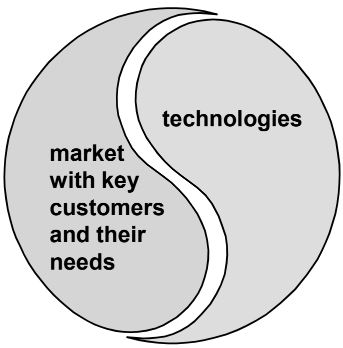


Figure 1.21: Technology meets customers needs

They **pursue these opportunities** with enormous discipline and persistency. Entrepreneurs may not discover opportunities but they recognize and jump on them. Entrepreneurs are able to identify an **existing market** with customer needs, which can be satisfied. A good sign that the market really needs it is when the Entrepreneur is able to solve a problem that is keeping the CEO awake at night: Selling effort must be focused on people with pain, and/or people with money. The amount of customers must be large enough to enter into this market. A key question is: Will the market place support the growth? The **first ten customers** who appreciate these new ideas should be used as a reference later in the process.

Fourthly, they are **able to set priorities** and recognize the very best opportunities and are not chasing after every option. If the market, as a group of customers, is found, everything should be **focused on the customer**: Customers rarely buy from you unless and until they have a relationship with you and your company. Customers will feel they have a relationship with you only when they believe, that you understand: their needs, their special situation, their vision, their constraints, their corporate objectives, their personal career objectives. Therefore, it needs a while to create a serious company.

Fifthly, they **focus on execution** with the ability to adapt if necessary. It is not a strict eradication of an action plan. Entrepreneurs have the awareness that selling products and **building a business** are different. It is easier to sell a product for € 10.000,– than to sell every month something for € 1.000,–. However, business brings along a steady flow of income. Selling does not mean "to send out a message, sit back and wait for a reaction to come". You have to be introduced by someone into the target group. And the "**Value Proposition**" is clearly described to the customer. It is not just a vague promise but a fact-proven statement of the company who wants to achieve market success. Value propositions must be compelling, quantifiable, provable, reference able, and easily explainable new business idea and is normally ROI-drive, e.g. increased capacity by 3 %–5 %, increase in maximum throughput, reduced energy consumption by 5 %–10 %, reduction in ..., yield benefits by 2 %–3 %.

Putting together the business plan, the Entrepreneur is forced to understand the **entrepreneurial business basics** very fast: dominance of cash flow, profit versus cash flow and risk is higher when companies are growing! Writing a **business plan** is a must and can be learned. However, be aware that many investors only read the summary and rely on presentation of the people only! It is advisable to start with the compilation of the business plan as soon as possible. It gives to the Entrepreneur an early belief that it will work out: Early contacts with successful Entrepreneurs, check success stories and practical examples how they got their business started, benefit from practical experiences in a real world.

Sixthly, they are able to build an "**A**"**-Team** with complementary capabilities such as the ability to attract people who have outstanding skills, teamwork creates value and success. This requires the ability to **teamwork**, which creates value and success. Teamwork requires appreciation and mutual respect for different types of people. This can be trained. A lone wolf perpetually builds a small business. To build up big businesses team playing is necessary to solve the complex tasks.

To move on has something to do with change, at least in existing companies. Changes are only possible when three things work together (Oetinger: 195):

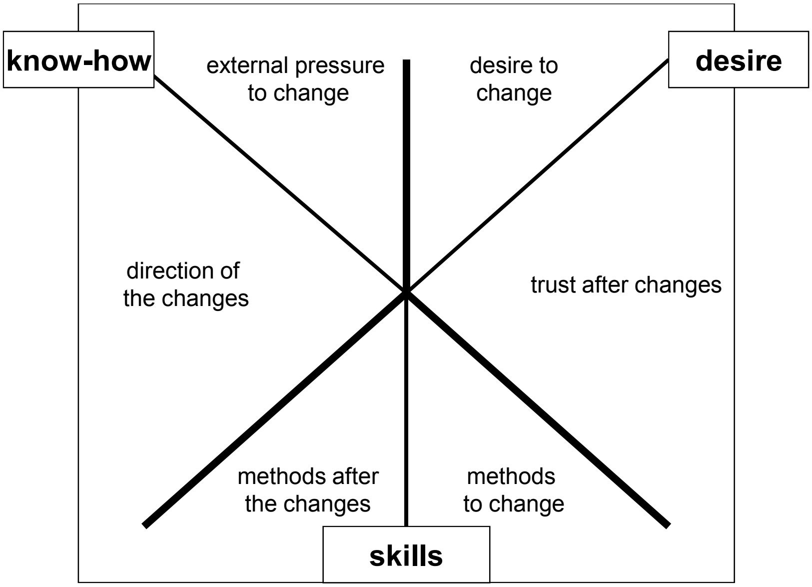


Figure 1.22: Change requires know-how, skills, and desire

1.3.3 Possibility of Teaching an Entrepreneurial Mind

Is it possible to learn passion for a new business opportunity? To search and to find better solutions for customers? In general, **entrepreneurship trainings** can focus on the following three areas, however to be successful, all three must fit together:

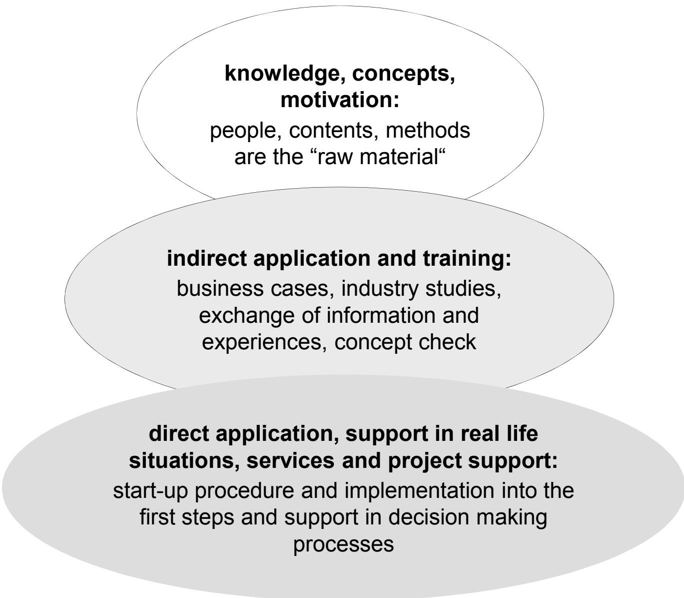


Figure 1.23: Three stages of Entrepreneurship training

Entrepreneurship training programs have to combine marketing, business development and technical skills to succeed. Entrepreneurs need both, training and real world experience so they know markets, know people and are known and respected:

- science/IT/engineering combined with practical experience in successful businesses
- management training, including entrepreneurship, followed by repeated sales and market success in substantial business units

According to an empirical study of Kohlert & Rempel "Germany's Entrepreneurial Engineers" in 2013, the following **sources, where Entrepreneurs can learn** were mentioned (Kohlert/Rempel):

family and private environment	• many characteristics are based on family and socialization in the early years • well structured close circle of friends
learning from experiences	• knowing what problem the market offering is solving and how • learning from experiences what is possible and what is not • learning from own experiences and to draw conclusions • learning from others, e.g. colleagues and archetypes • knowing all the details of the own market offering
need for broad know-how	• interested in all functions in the company, not limited to some areas • widespread understanding, also partly in details • you can learn everything
setting objectives is important	• people have to have personal objectives they are following
failure of universities	• social competence is not trained there, they do not build Entrepreneurs
seminars and trainings	• basics must be given, you can extend it • dealing with people is teachable • learning-by-doing and coaching
to work on your own	• basic trust in the own person • ability to learn • difficulty that people have to recognize where improvements are necessary • personal growth takes place in going through difficult situations

Figure 1.24: Teachability of social skills

Growth always occurs outside of one's comfort zone; you break different and new ground. Growth is created through experience. If people always make a habit of something it results in little or no development. The Entrepreneur is choosing the **playing ground** – it is a purposive decision:

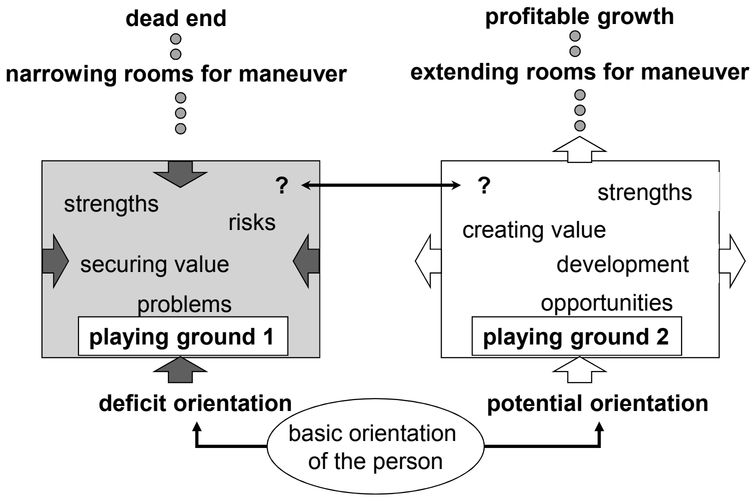


Figure 1.25: Definition of the "playing ground"

Sometimes people refer to their non-entrepreneurial family and use it as excuse that they are not able to start something. Of course, mother or father as Entrepreneur helps but everybody can overcome it. It is necessary to have an early contact with successful Entrepreneurs to learn from their experiences and how it works. But important not to copy it: be aware that "copy and paste" won't work, **Entrepreneurs are originals** and they are pushy: waiting does not mean standing there as waiting for the bus. They use the time to prepare themselves.

The **ability to teach professional skills** is not that questionable. It is common sense that this is teachable. The question is "how". According to the study of Kohlert & Rempel the following possibilities were mentioned during the interviews (Kohlert/Rempel):

seminars	• professional content as a part of the studies at the university • case studies without questions train Entrepreneurs to identify the problems, mostly they are not obvious • broad contents where you experience a lot of different topics
learning-by-doing	• practical experiences are very valuable • ability to accomplish basic work also • ability to reduce the complexity of business and draw conclusions • start early
methods	• methods to analyze situations
deep understanding	• ability to understand the “big picture“ • keep eyes open and try to get to the bottom • open to the unexpected • show and have interest and use the “window of opportunity” • target-oriented actions, do not follow everything • accept that the human resources is the most important in business
luck	• make the right decisions
lifelong learning	• confrontation with current and new techniques • willingness for constant personal development must be there
exchange with others	• ability to learn from others, question of attitude • recognize that personal changes are necessary • teachability of the person

Figure 1.26: Teachability of professional characteristics (hard factors)

Entrepreneurship can be taught. Entrepreneurs want to achieve something new. Growth always takes place outside the comfort zone when Entrepreneurs enter an unknown territory. In this case they have to be convinced in what they are doing. So the question “Is Entrepreneurship teachable?“ can be affirmed, according to a study where nearly 50 Entrepreneurs in “Corporate Germany” were interviewed (Arbeitskreis Entrepreneurship). Only a few of them had parents who were Entrepreneurs. It depends very much on the category the person is in:

1. There are people who make things happen.
2. There are people who observe what is happening.
3. There are people who are wondering what is happening.

1.4 Entrepreneurship meets Innovation

1.4.1 Invention, Innovation, and Imitation

„Innovation" means something new (Vahs/Burmester: 45). To divide the different terms the following considerations are helpful (Ahsen: 6):

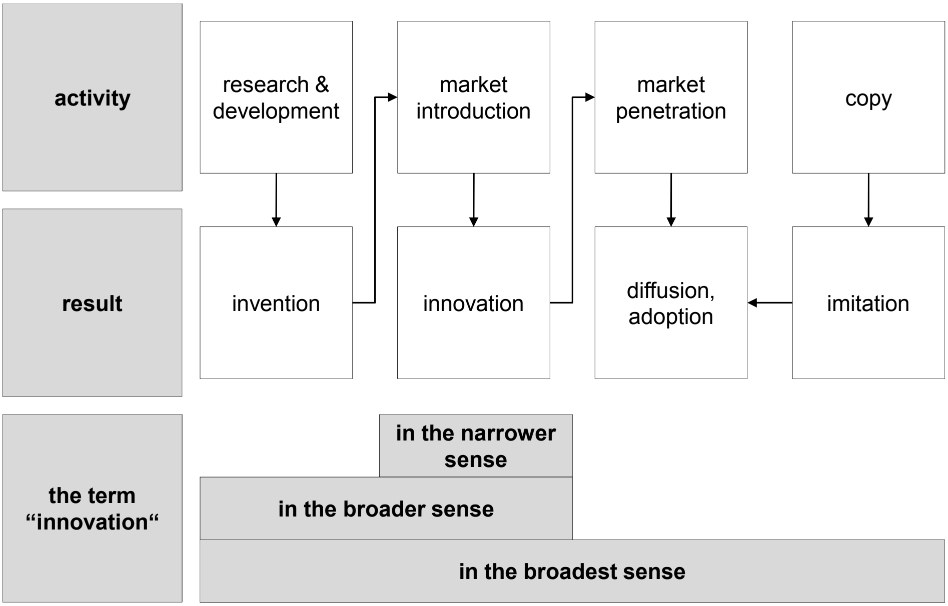


Figure 1.27: Classification of the term "innovation"

- An **invention** is based on an idea and the process of generating new know-how to solve a problem. This can be planned or unplanned and is a necessary pre-set to an innovation.
- An **innovation** is a commercial application of an invention for the first time (Specht et al.: 13).
- The **imitation** is a copy of an already assisting market offering. The term is mostly used in a negative way (Vahs/Burmester: 80), however it should be kept in mind that imitations can drive for new innovations and also help to diffuse a new market offering into the market and to lead to more acceptance.

Innovations are discontinuous creative deconstruction, with the focus on restructuring of business processes or concepts of market offerings. In opposite to **improvements**, which are more incremental continuous improvements with the focus on rationalization of business processes.

Innovations are focused on technologies and possible innovations, on markets which are growing, they create partnerships with other companies, with customers, and with stakeholders and advantages for all. **Innovations should fulfill three criteria**:

- successful implementation of new business ideas into the market
- considered as new by customers and by competitors

- two of the elements technology, market offering or marketing/sales are new to the market

Innovations can be different types, such as product/service innovations, process innovations and management/social innovations. In all cases, innovations target to gain competitive advantages through significant increase of the price/value-ratio. What is new in entrepreneurial businesses? The entrepreneurial company has two starting points to enter into a new market also in case of counter measures by the existing competitors (Sommerlatte):

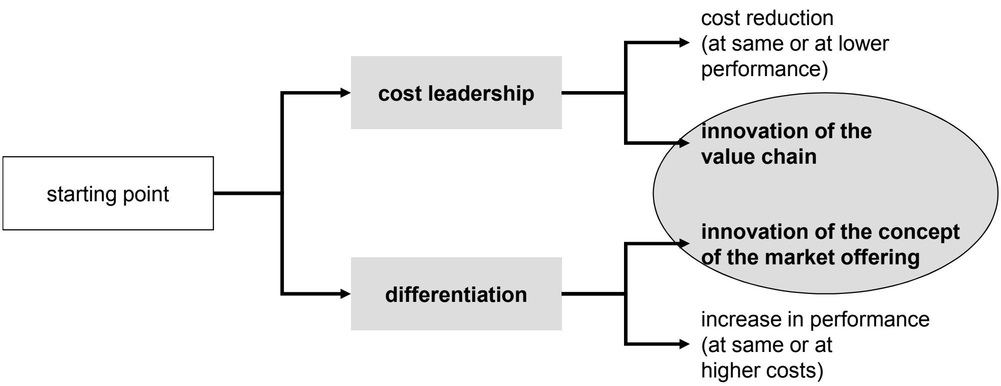


Figure 1.28: Starting point of innovations

- The company is able to innovate the value chain.
- The company is able to innovate the concept of the market offering

In both cases, the innovation will make it cheaper, faster, and better.

1.4.2 Entrepreneurs in the Innovation Process

Entrepreneurship is strongly connected with innovation. Schendel placed an emphasis on innovation because he argued that when a competitive advantage is established and sustainable, only innovation can and will upset the established competitive advantage (Schendel: 181). It can be explained with the new market entrants in Porter’s 5-Forces model where new companies enter the market with innovative market offerings.

According to the empirical study of Kohlert & Rempel innovations are very much focused on technical modernization (Kohlert/Rempel):

pure technical innovations	• product developments and product optimizations • new material • patents • new software • new market offerings based on new technique
around the customer	• innovations based on customer inputs, e.g. customer are approaching the company with a precise request. The company develops it for the single customer; later they can sell to others as well.
innovative culture in the own company	• recognizing new technologies, e.g. in new markets • atmosphere in the company which leads to innovative ideas by all the stockholders, e.g. employees • trainings for employees about this topic
internal innovative processes lead to new market offerings	• process innovativons to become faster and less expensive • construction of own special machinery equipment to optimize the processes
new market offerings for tomorrow	• develop market offerings which are needed tomorrow based on customer inputs (“market driven innovations”) and the own R&D, both by 50 % • key idea is to constantly support the own customer to decrease his costs with using our innovations • new market offerings in the service sector • decreasing length of the product life cycle

Figure 1.29: Innovations often based on technical newness

According to an empirical study, there is a relationship between costs of production and the competitive capabilities (Blackburn: 197):

	in % of the production costs	in % of the effect on the competitive capabilities
research & development	5 %	70 %
material	50 %	20 %
staff	15 %	5%
general & administration	30 %	5 %

Figure 1.30: Impact of production costs on the competitive capabilities

These might lead to the conclusion that Entrepreneurs are successful because they have a good feeling about how "**great products**" look like at a very early stage, already in the development process. They also know where customers base their purchase decision on the intrinsic value of the market offerings. According to Vogl et al. companies which are specialized in early market entry with innovations will rely much more on learning effects and their R&D capacities than companies focused on continuous improvements results (Vogl et al.: 43).

A **deep understanding of the competitive environment** is necessary because market dynamics and complexity of market offerings and technologies determine the innovation strategy (Vogl et al.: 41–43):

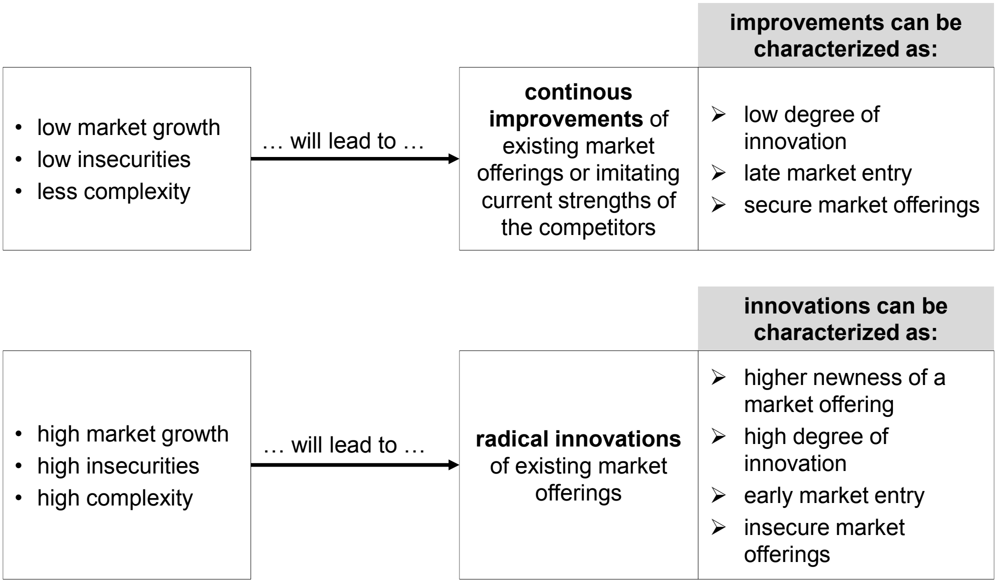


Figure 1.31: Improvements and innovations in a competitive environment

The success of companies in an insecure and complex innovation context is higher, the higher the novelty of the market offering and the earlier the market entry expected in the product life cycle compared to the competitors. Especially in mature markets the readiness of the customer for innovative market offerings is lower than in growth markets.

Entrepreneurs know that it is necessary that **innovation needs a market**. This makes the difference to a tinkerer:

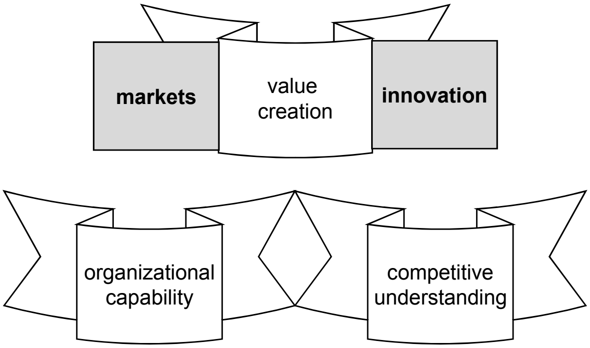


Figure 1.32: Market and technology create customer value

- To understand the product and pricing strategy for the **market**, it must be clear, how the customer value will be delivered across the value chain to the customer.
- The Entrepreneur has to decide in what **innovations** he will invest and how he might balance across e.g. basic versus applied, this generation versus next generation of the market offering.
- To realize an entrepreneurial venture it also needs **organizational capabilities**, how to organize R&D, make-or-buy decision etc. Does the Entrepreneur really have the organizational capabilities necessary to deliver the customer value? How should the Entrepreneur execute the strategy with limited resources?
- The **competitive understanding**, especially the awareness in regards to the central source of the existing competitive advantage, must be existent. The aftermath is a question of how the new company shall compete to gain or to maintain sustainable competitive advantages.

These innovations might shake the established "**Business Model**" in the industry. Entrepreneurs begin the process by engaging in actions that capitalize on the opportunities that result from innovations. These actions may destabilize markets and destroy the advantages of established companies (Stevenson: 51). This is the opportunity for a new company to enter the market.

Survival may be the first step in an entrepreneurial business, but reinvention, growth, and even dominance in the chosen market segment are the real objectives. Innovation, however, is an ongoing process and "the only insurance against irrelevance" of a company as Gary Hamel, an American management expert, said (Hamel).

Entrepreneurs need a situation where uncertainty is occurring and entrepreneurial insight lead to a result. It is much more difficult (but not impossible), if markets are very stable. **Entrepreneurship is the asset that gives an existing company the competitive advantage back**. However, competitors are observing entrepreneurial activities to quickly try to imitate them after a foreseeable success without own risk. A competitive advantage is sustainable when it is possible to overcome competitive duplication.

1.4.3 The Entrepreneur and the Commercialization of Innovations

According to Jolly there are **five activities to bring innovations into the market** (Jolly: 4–12):

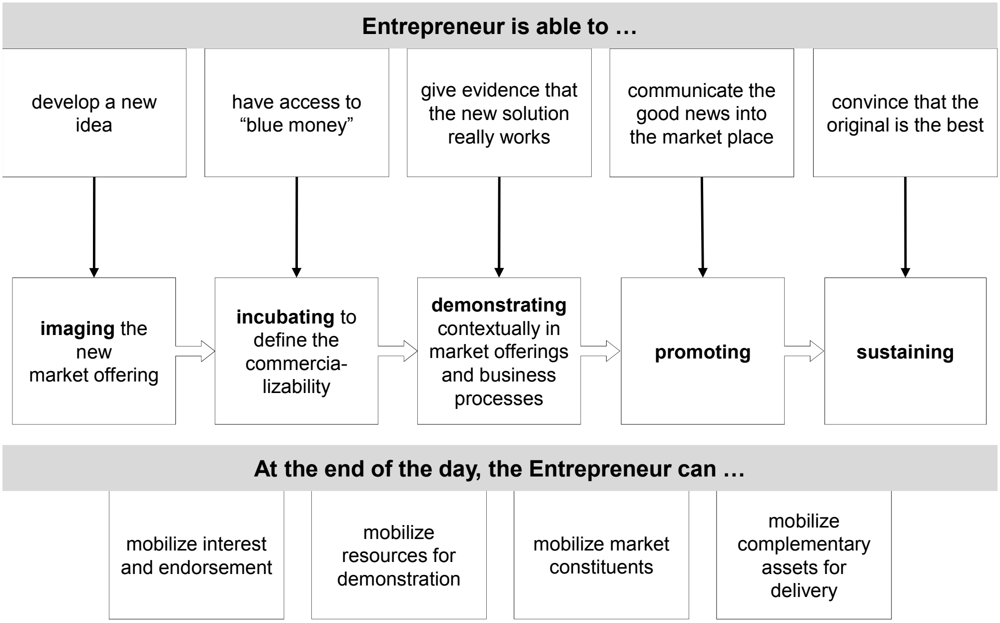


Figure 1.33: Process of Commercialization of Innovations

- There is a competition for ideas. The Entrepreneur has to conceptualize the idea with the commercial value. This makes the difference between an Entrepreneur and a tinkerer. It results finally in a **new market offering**.
- Once the idea is recognized and endorsed and is worth pursuing, it requires further steps: the business idea needs to be proven in terms of the customer needs which it is supposed to fulfill. The incubation to **define its commercializability** expresses what is required to continue, “blue money” always helps!
- It must be demonstrated that the innovation is marketable and that it really works to **solve the customer’s problems** and respectively fulfill the customer’s needs.
- Not many new market offerings receive an automatic reception from the market. Customers must be convinced to use it, the Entrepreneur must **promote the innovative market offering**. It is easier when customers do not change their infrastructure when they use the new market offerings because it fits into the business processes etc.
- New market offerings need a certain presence on the market to enjoy returns on investment. It is very often the challenge #1 for innovative market offerings, “**How much time do we have to make money**” (Geschka: 18)?

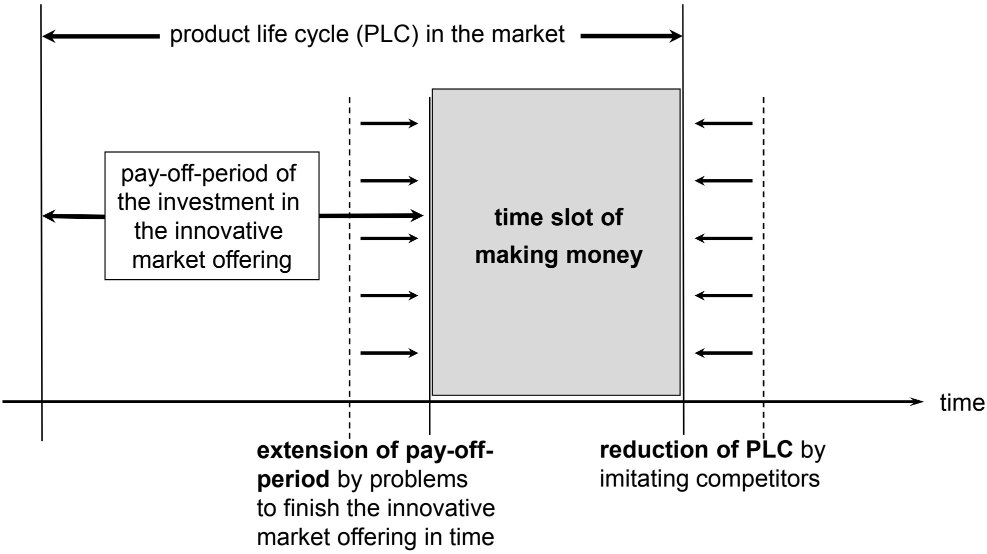


Figure 1.34: Time slot where innovations pay-off

The length of the product life cycle differs per industry and the entrepreneurial ecosystem. In any case it is limited and needs a further consideration how to launch innovations into the market to get the investments back and more. There are three critical stages in launching innovative products and who might affect the "**time slot making money**" to a big extent:

1. **Pre-field marketing** to receive feedback from possible customers and experts in a very early stage of the product development process. This will decrease the risk of doing business for the Entrepreneur and might have an impact to reducing his expenses.
2. Testimonials of **early customers** which can be used as a **reference customer**. Many innovations need an evangelist before they reach the mainstream market.
3. Pace of crossing the chasm to reach the **mainstream market** requires good planning and preparations.

The pre-field marketing, the ability to win reference customers and the energy to push it to the mainstream market will heavily influence the time span of profitability of the innovative market offering.

2 Entrepreneurship Reconsidered

2.1 The Team as Hero

2.1.1 Importance of Teams and the Special Role of the CEO

Some tasks cannot be accomplished on your own; you might be able to start, but not to continue. Many ventures can only be accomplished in a **team**, high potential ventures are founded by teams not by individuals. There are additional **advantages** when several people are working together in a team (Fueglistaller et al.: 107):

- The team has more capacities, more capabilities and more information to solve a problem.
- The single members of the team are able to develop personally and professionally by interacting and sharing experiences, e.g. evaluation of the competitive environment, developing the market entry strategy.
- If a member of the team may leave, it is easier to compensate in a bigger team.
- The feeling of a "lone wolf", which is something a single founder has to cope with, occurs less in teams.

However, the configuration of the team might be a challenge, especially if necessary roles cannot be filled by people which are known by the other team members. Team members should have complementary attributes which match with specific tasks and actions steps in launching the venture. Psychologically, we perceive people with more sympathy if they have a similar way of thinking. Social support for the own way of thinking is comfortable and is creating positive emotions, there are less conflicts. Attitudes are the filter, only similar people get through. But this is not really helping the entrepreneurial business: If two people have the same opinion the whole time, one person is too much. Of course, a team is not a marriage, it is not forever, but only as long as necessary, and the focus is on the venture!

Putting the team together must be done carefully. The management team will act as an ideal for the next level of staff. So the management team is the spearhead as **business is always people**. The following **characteristics of the management** will influence the other incoming members of the company:

- postulated objectives, value system, attitudes, expectations, risk profiles
- commitment, because building up takes time and requires seriousness and persistency
- experience in the industry, networks, resources, knowledge of market and customers is the basis of the expert power of the management team
- own network with external interfaces, e.g. technology alliances, financial institutions, outside services will underline the industry understanding

Everything starts with the BOSS. The "**Lead Entrepreneur**" is the leader, the opportunity seeker, and the builder. The Entrepreneur has to fulfill several roles and to spread between daily operations and future issues (Volery et al.: 20):

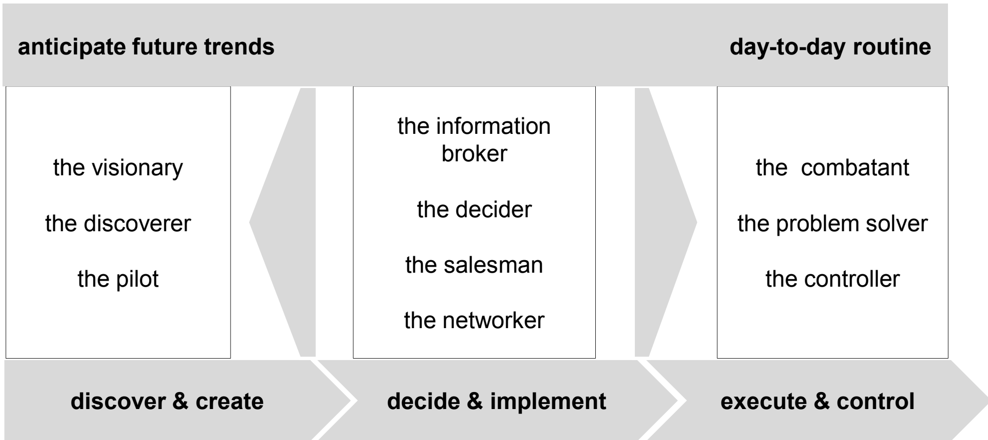


Figure 2.1: Different roles of the "Lead Entrepreneur"

The **different roles of a CEO** in detail (Fueglistaller et al.: 112–114):

- The **visionary** sets the directions, the company should develop within the next years, e.g. technology leader, market leader in a particular market segment. To have a vision is fundamentally the ability to recognize whether the target is close by or in the distance, is it something to strive for or to avoid? The visions must be shared with the team and accepted by the employees.
- The **discoverer** is searching and able to recognize new business opportunities, which others do not identify.
- As **pilot** the Entrepreneur must keep the company on track to achieve the set objectives and the next actions. Are business partners necessary to reach them, is organic growth possible? If there are obstacles the pilot has to decide how to overcome them.
- The Entrepreneur is an **information broker**. He receives information the whole time and has to decide who should get what information at what time. It is an entrepreneurial skill not to be overwhelmed and to get stricken over the head with quantities of information, but to select what is important and where to react.
- The Entrepreneur as **decider** is focused on strategic decisions; he delegated the operative decisions to his employees. He has to support the employees in case of questions, but: never accept a presentation of problems without any possible solutions by the employee. The employee is closer to the problem than the Entrepreneur, means he is closer to the solution as well.
- The Entrepreneur is a **salesmen**, he has to sell market offerings to his customer. He is the most credible and effective salesperson of his company, because he is the owner! Therefore, the Entrepreneur is with the customers, where decisions are being made. He has to sell his concepts to his team, his employees, to investors. He is able to explain difficult circumstances with some words, so that everybody understands it.

- The Entrepreneur is a **networker** not only in his industry but also in other circles. The network is manifold where new impulse result from.
- The Entrepreneur however is also a **combatant**. In this function he is involved in the operations and knows them in details. So sometimes the Entrepreneur has to be where the action is, where the key players are.
- The Entrepreneur as **problem solver** is needed, if something happens: customer complaints, competitive moves, all the challenges which are new to the company. It does not mean that the Entrepreneur has to solve them, but he must recognize the situation and may delegate it to the members of his staff.
- The Entrepreneur is the **controller**, to make sure that everybody is focusing on the right objectives and to achieve them. Meetings are necessary to evaluate the degree of achievement.

This leads to the question: What are the **tasks of the Entrepreneur as CEO** (Lafley: 50)?

define and interpret the relevant environment	• Which one of the external stakeholders is the most important? • Which changes in the environments have the strongest impact to the company?
define the areas of business	• Which areas of business are critical for success? • Which areas of business should be excluded because they are not? • Example: Porsche is focused on a certain market segment. His core competences fit to this particular market segment. Therefore, they would not start manufacturing vehicles like a SMART, they are not a mass manufacturer which might destroy their exclusivity.
balance out between present and future	• To balance out short-termed and long-termed objectives is based on experiences and the correct assessment and not on facts only! • To define real growth objectives for the company. • To set good short-termed objectives which are good for the long-termed success when they are in harmony which each other. • HR development is an important long-termed objective for the company to develop exactly the people they need for the next step of company development.
fix the values and the standards	• Values form the identity of a company determine the behavior of the employees. • Standards fix the expectations, e.g. how much profit the company should make. • Answers to two following questions: - Are we succeed on those, which are most important to us? - Are we better than the best?

Figure 2.2: Tasks of the CEO

Often the total company is synonymous with the CEO. Other people, e.g. future employees, investors, suppliers follow because of the CEO. Therefore, the CEO is a vital decision with a strong strategic impact. Build the value system you prefer in your company and establish standards and responsibilities, starting with the management team. The leadership style should be based upon personal contacts and individual self-actualization in this stage. The initiatives of the individuals and teams in the company should be encouraged with positive feedback and recognition. Reinforce commitment by everyone in the organization. Foster the free-flowing communication within the organization.

2.1.2 Assembling the Management Team

Entrepreneurs are able to establish the right path and to convince others. Only these people, who are convincingly leading the way, will attract followers. These followers should be talents which are able to contribute to the success of the venture. How to **recognize talents**? A talent should be able to leave, but happy to stay. There is much passion involved to keep talents staying in the company and in that stage, it is definitively not money. The big salaries may come later.

Many recruit new staff top down! As recommendation for the management team: **Always recruit staff which is better than you**. To occupy the basic roles of the management team, the Entrepreneur will staff the basic functions, which are:

- Operations/R&D
- Finance
- Marketing & Sales

To become an excellent **salesperson** can be trained as well. This requires the ability to build up relations to the customer, which they need before doing business with you. The re-order quota is usually very high in companies when customers are content with what they have experienced. Therefore it needs time to create a serious company.

A special case in the configuration of the team may be people with “blue money”. This is more important than just money: “**Blue money**” are people with operating experience, networks and contacts, which they are willing to contribute, and deep pockets (of money) who feel committed to the entrepreneurial venture. These people may but must not have an official function within the company. They can also act as active advisors within the operations!

All members of the staff must have a **track record of success**, not explanations, the ability of creative problem solving (Kohlert 2005b: 181):

name	share of stocks	education	business experience	visible success
person A	40%	M.Sc. (Machinery)	• 6 years R&D at Robert Bosch	• expert in ...
person B	30%	MBA (Marketing)	• 4 years Marketing in a Mittelstand firm	• built up a Marketing department • built up a foreign subsidiary
person C	20%	M.Eng. (Sales)	• 3 years sales engineer at IBM	• acquisition of two new key accounts • always reached sales targets
person D	10%	MBA (Finance)	• 6 years auditing at PwC	• managed an IPO • knows the VC people

Figure 2.3: Describing the management team

Entrepreneurs must be aware that they are looking for a special kind of person who is attracted by an entrepreneurial business. Before the CEO starts with **interviews, a couple of basic questions** should be answered:

- Why would people work in an entrepreneurial company? What makes them get out of bed in the morning? What is their real motivation?
- What are the most important characteristics that you look for when hiring new people? What is the new employee standing for? Where is he particular good in?
- How do you know that people are doing the right thing when you are not around? How are people controlled in the company?

More systematic than these questions is the approach by Baron & Hannan, who divide the core dimensions of the **employment model** into three steps (Baron/Hannan: 10):

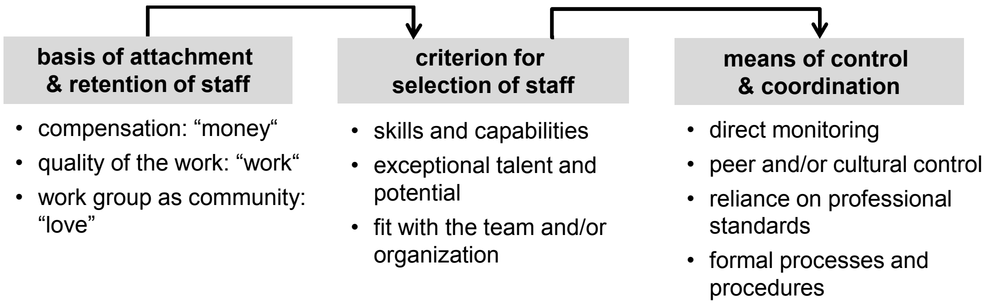


Figure 2.4: Core dimensions in employment model of Baron & Hannan

The new staff should fit into the defined **entrepreneurial culture** which is the basic orientation in the company. Every company has its own basic concept under which it conducts his business activities. This is called the **basic orientation** (Kotler et al.: 17). In order to find out the motivation of every single person no matter what level, it is necessary to assess the attitude in the core dimensions in the employment model. Entrepreneurial questions for **recruiting interviews** might be:

- What was the biggest challenge in your career?

- What are your strengths? State examples! Why do you think this is something special?
- What is your personal contribution to make this venture successful?

Six recommendations to the CEO in an entrepreneurial company:

1. The CEO has to recognize the Entrepreneurs which should be in his team. If the CEO would not leave the interview NEEDING to hire this person, pass. Never allow yourself to hire because you feel you must get going to fill the role. Listen to your inner voices, basic instincts are still alive.
2. Hiring new employees takes place on the basis of strengths. Never recruit new people when you are in trouble. Strengthen your own abilities or complement them when hiring.
3. Entrepreneurs should always, always, always be recruiting. If an Entrepreneur meets somebody who fits, there is always space in the new company!
4. But: If you start to find out that the employee is a burden for this company, do not wait. You might give a last chance to perform better within thirty days.
5. The top ten people in your company must be totally committed to deliver significant value and success to your customers.
6. Develop an understanding about the hiring policies in start-up companies, to have a more systematic approach based on what worked out in the previous cases.

2.2 Collaboration with Others

2.2.1 Cooperation to Achieve Common Objectives

Entrepreneurs are facing many challenges; many of them are new to them. Are cooperative strategies the answer? If the people who are needed are not in the management team? Cooperation might be an alternative to hiring which is increasing the HR costs. Cooperation in this context is long-termed agreements established by two or more companies to cooperate out of mutual needs and to share risk in achieving a common objective. There are several possible objectives (Hägele/Schön: 66, Kohlert 2002a: 146–148):

- strengthening the own competitive position through focusing on core competences
- transfer, integration of own market offerings in complex systems and obtaining system competence
- processing system contracts without capital intensive ground work
- joint learning and exchange of knowledge gained through experience
- cost advantages by shared utilization of resources, improvement of capacity utilization, common advantages in procurement, production, and marketing
- better chances of expansion in markets by appearing jointly, access to bigger customers and markets, intensifying customer contracts, without higher investment.
- “helping hand“ in case of other problems (if cooperation is healthy)

In any case, the cooperation must be a **mutually beneficial association**, otherwise it might break apart and all the efforts were without success. It is a way to shore up weaknesses and increase competitive strengths for all partners in the cooperation. You can describe successful cooperations as follows (Perlmutter/Heenan: 137):

- Two or more companies develop a long-term joint strategy aimed at achieving leadership in their market segment by pursing cost leadership, differentiation etc.
- The relationship is reciprocal. Each partner possesses specific strengths that share it with the other; learning must take place on both sides.
- The partners' vision and efforts are at least similar.
- The relationship is organized along horizontal, not vertical lines only. Continual, lateral transfer of resources between partners is required, with technology sharing and resource pooling.

However, **cooperation can have its malice**:

- There is a high degree of openness by data exchange which requires a basis of trust between cooperation partners which can be destroyed.
- If one partner is stronger, he often stakes a claim to leadership and tries to push it through.
- Strategic decisions are made together; the Entrepreneur may give up independence.
- There must be an agreement about strategic thrust direction between the partners, especially if the cooperation is very close.
- Specialization of the individual partners in the cooperation tends to result in dependency

Porter's value chain approach might help to **recognize the need for cooperation** (Porter 1985: 37):

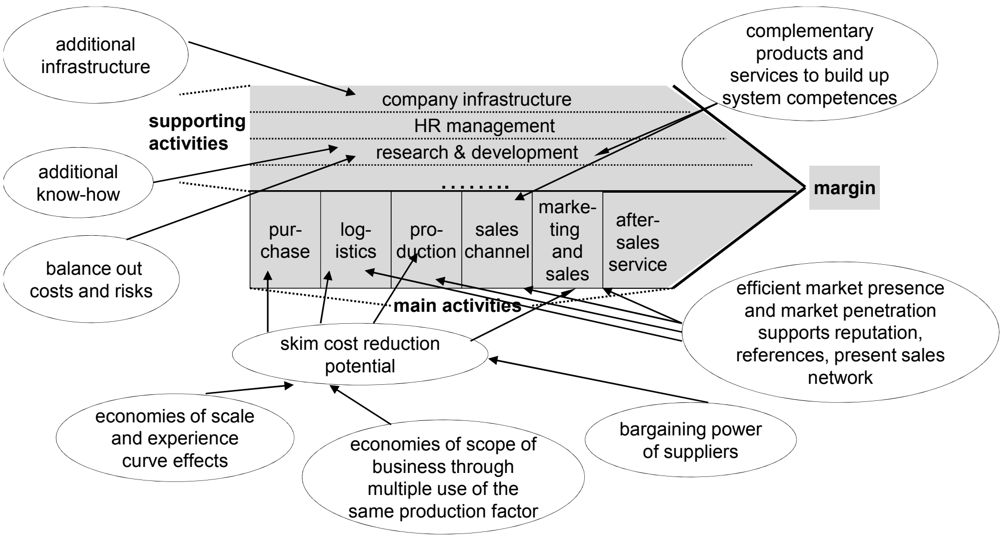


Figure 2.5: Value chain approach to select the right areas of business for cooperation

The next step would be **to identify the suitable partner for entering into cooperation**. It can be assumed that the following two criteria's are relevant for partner selection a) additional profit potential from cooperation partner and b) potential of the cooperation partner to support the own development of core competences, you can recognize four different kind of partners:

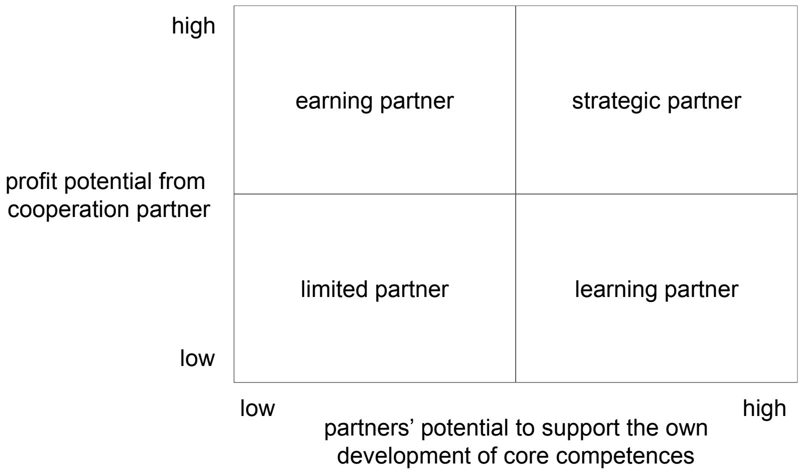


Figure 2.6: Selecting the cooperation partner

- When the own company is in cooperation with a **strategic partner**, the own company can learn a lot and the own profit potential will increase. These cooperation's have the potential for long lasting relationships if they are mutually beneficial.
- When the own company is in cooperation with a **learning partner**, the own company will receive additional know-how which might be used to develop market offerings with a higher customer value.
- When the own company is in cooperation with an **earning partner**, the own company is able to make money now but may be not in the future. It is more an opportunistic situation where the two companies can work together for achieving higher returns. Both may be able to reach this objective.
- When the own company is in cooperation with a **limited partner**, the own company will not recognize any benefits it is a waste of time and should be cancelled.

It is a challenge is to recognize the kind of cooperation which is needed. As cooperation's might need some time to develop before they can generate benefits, it is important to evaluate them thoroughly based on measurable criteria and a time limit. Entrepreneurs cannot effort "never-ending stories" without results.

2.2.2 Importance of Networks

Basically, networks refer to "Whom do you know"? A **network** is a set of relationships critical to your ability to get things done. The original idea of networking is based on trust, people have to persons they know. There are **different kind of networks**, e.g. religious networks, like Christianity, fraternities, like the crusader, trade networks, like the "Hanse". The networks may have different motivations, e.g. people are looking for security, people want to achieve something in a group, they cannot achieve on their own. Within the networks there is a mutual understanding and a high level of trust. Recommendations take place in networks, between people who know and trust each other. In opposite to cooperation it is not based on a contractual basis or on a purposive agreement.

Networking is sometimes very much connected with selling, but this is only one aspect. Other facets are to get advice, to share contacts or experiences in case of challenges etc. The network determines your access to information, resources, opportunities, and support.

Network properties are structure (site, density, and redundancy), composition, and focus. There are expansive networks with "structural holes" or cohesive networks with "social closure". The own network should be evaluated to **understand one' own social capital**:

- How broad and deep is it? Is it appropriate for what you are wanting to accomplish?
- What network structure would work best for you, both in terms of your career and your personality?
- If your desired network differs from your actual network, what steps could you take?
- What can you do to increase the benefits from your relationships without compromising them?

As an example, the typical **CEO's network** might look like this:

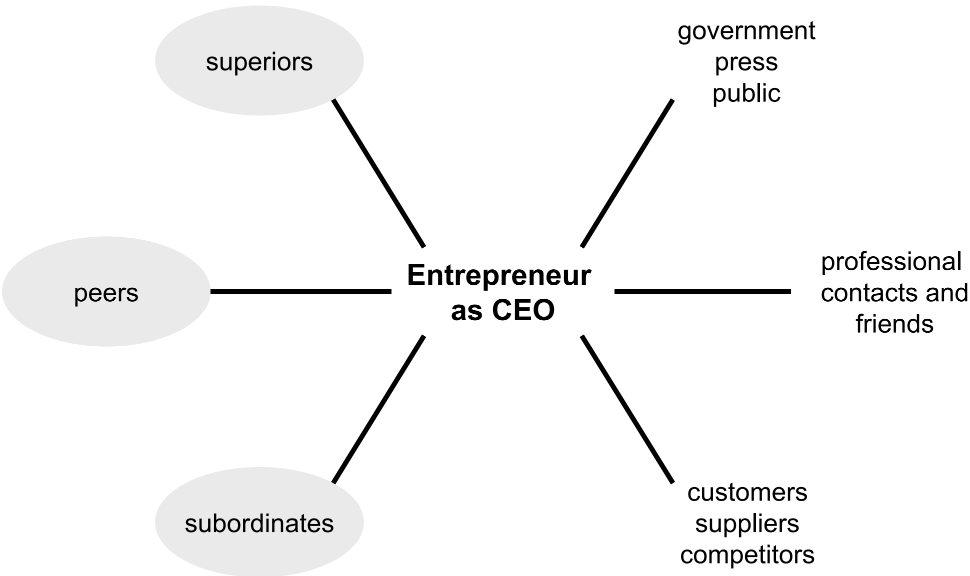


Figure 2.7: Network of a CEO

- The boss has his professional contacts to people in his industry in different functions as he needs cross-divisional know-how.
- He has close contacts to his A-customers and his A-suppliers, he also knows his A-competitors. The A-customers rely on him not on a salesperson who is an employee and could leave the company tomorrow. The same is with A-suppliers, the company relies on and where it is not possible to find an alternative. Therefore new companies develop their specific core competencies and go into complementary partnerships.
- Relationships to governmental services, if necessary, the press and the public are close to the CEO as well. Brands are made over time and in the public.
- Contacts to superiors may be the stockholders, investor relations which are the task of the CEO as well and it is not possible to delegate it.

- The boss has his professional contacts on the same level to other CEOs to share experiences, to have a "helping hand" in very good relationships and to accomplish projects together. This is a critical situation especially in the case of friends and the source of many disappointments. Also in the Bible you can read about it: "Faithful are the wounds of a friend, deathful are the kisses of an enemy (Proverbs 27, 6). Unfortunately, it is sometimes hard to recognize: who is who?
- And last but not least he needs contacts to the subordinates to never loose contact to the base.

If you do not know which people may be important at the moment, follow the typical **networking questions**:

- Which persons are at the moment the most important ones in your private life?
- Which persons are at the moment the most important ones in your business life?
- Which of the contact did you do a favor lastly?
- In which associations are you member and why? Did the membership fulfill your expectations?
- How do you evaluate the performance as networker on a scale 1 to 10?
- In which areas can you be helpful for acquaintances?
- Which two people will you support within this week?

As an Entrepreneur, you have to turn corporate relations into corporate business. Turn personal relationships into business relationships: It's all about people. Relationships always provide joint benefits. Please be aware: When something is recommended to you and the recommender receives money for it, it is NOT a recommendation. A recommendation is based on trust not on money transfer. In the case of money it is just a form of selling. In this case the "recommendation" must be re-evaluated cautiously. Often you may not generate new business with your friends, but with the friends of your friends. When friends recommend the Entrepreneur to their friends, you know that your network is working.

2.3 Diagnosing the Internal Capabilities

2.3.1 Knowing the own Strengths

Relationships and networks are not enough. Entrepreneurs must have a clear idea where they are and it must be much better than their competitors. They are facing the challenge to motivate customer to change their suppliers! So, where is the "**Winning Edge**", also called the strengths. Internal core competences lead to strengths in the market place:

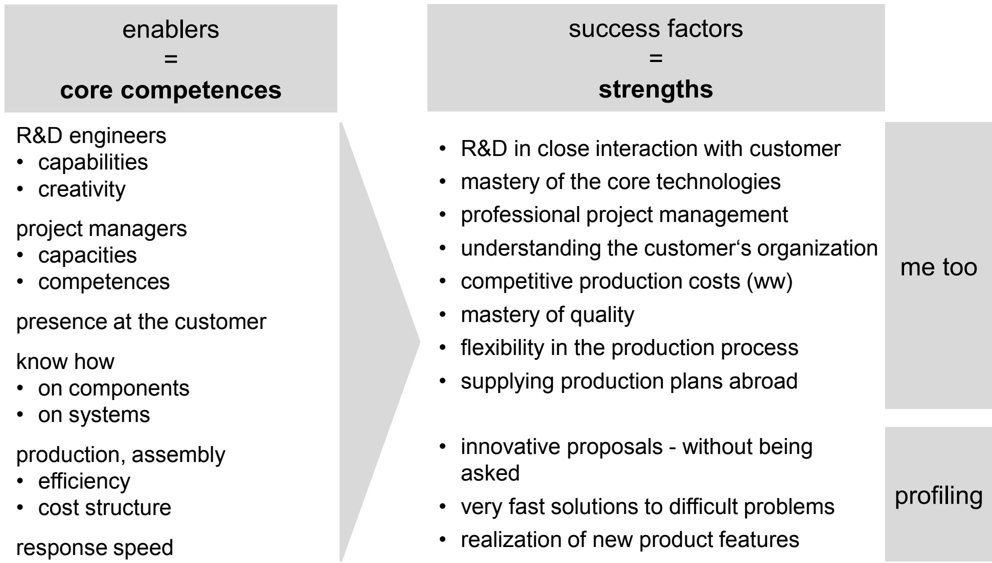


Figure 2.8: From core competence to strength

Now it helps to firstly evaluate the company internally (Kohlert 2013: 30):

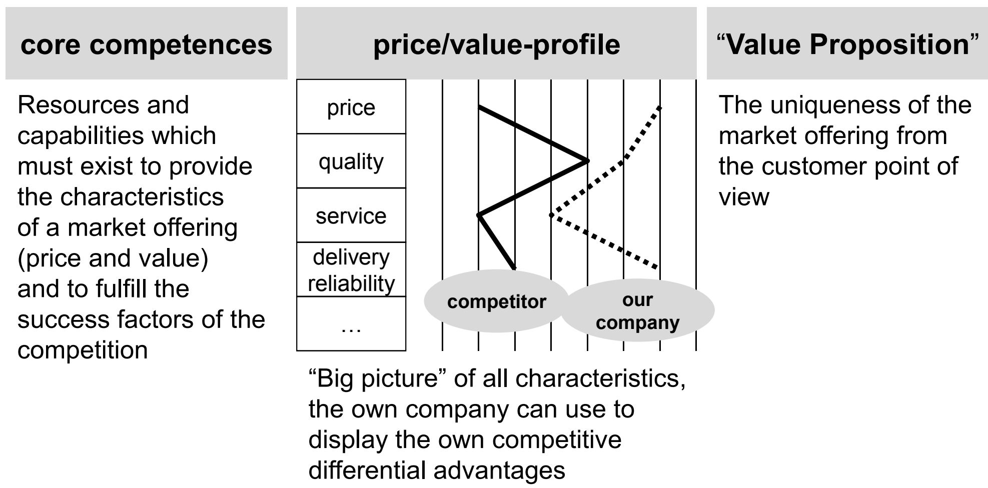


Figure 2.9: Internal evaluation of the company

The question about the "Value Proposition" is of course faced by the Entrepreneur in a start-up company as well as in existing companies. It requires a deep understanding of what the company can do very well in the future and on what the customer really appreciates. For existing companies it may be grounded in the past activities. But both must have something which is special to the customer in the future which offers added value to the customer. The "**Winning Edge**" is based upon core competences. **Core competences can result** out of three sources (Baghai et al.: 102, Coyne et al.: 45):

- "**Privileged Assets**" which are material or immaterial assets, e.g. infrastructure, brands and patents, sales channels the company owns, better market information which makes the own company better than the competition.
- **Financial resources** which makes it possible to purchase assets, e.g. new technologies, specialized staff, which are usable in the own company as well
- **Deep personal relationships** to the customer make business opportunities which would be closed otherwise

When core competences should lead the company to strengths, it needs to fulfill several conditions (Kohlert 2013: 94):

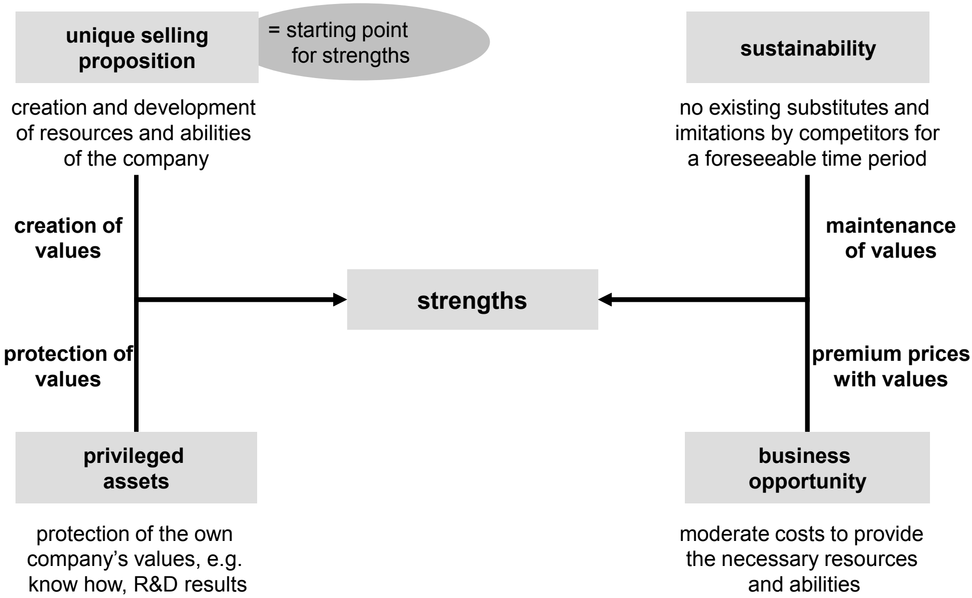


Figure 2.10: Factors which make strengths based on existing core competences

Strengths of a company give an answer to the vital question of the company: **Where will we grow?** This requires that the company is very aware of his own strengths. The question "What can we do especially well?" must be answered clearly. And the strengths are the starting point for developing the strategies and finally set the organization. **Ascertain the strengths, derive the strategies based on strengths and build the structures upon the strategies**:

strengths

Setting objectives by **concentrating on own strengths**:
- Market domination in a niche is possible by focusing on strengths.
- The strengths are better than at the competitors, otherwise there is no reason for new customers doing businesses with the new company!
- A strength is always only such if a customer gets an added value out of it.

strategie(s)

These strengths produce opportunities on the market:
- The customer can be offered new problem solutions that offer him greater benefits.
- The company can create products which can be marketed worldwide ("born to be global").
- The company outsources its non-core competence sectors to other companies. This often gives young companies a business opportunity.

structures

The companies strategies need to **build upon its strengths**. It is therefore unequivocally clear:
- The strategies arise from the strengths.
- The structures arise form the strategies:

→ "**structure follows strategy**"

Figure 2.11: From strengths, to strategies to structures

The **SWOT analysis** is a method to derive strategies, here called opportunities, based on the existing strengths of the company. The SWOT analysis is an appropriate tool **to determine one's own strengths and the strategic impact**.

> Strengths should not be understood too narrow: Strengths can be based on market offerings, but also on business models which simply fit better to the market situation. In many industries there is a competition between the business models instead of market offerings which become too similar over the time.

The **evaluation of strengths** is always done from the customer's viewpoint, unequivocal strength will prevent the customer buying from the competition (Kohlert 2013: 160):

- What do strengths mean to a customer? A difference is made between a plain description and a strength, from which real customer advantages can result.
- Strengths always focus on the customer benefits. Only if strengths result in customer benefits, it is truly a strength.
- An example of what it means for a company to have a strength is when the company is in the position to provide efficient solutions because it controls a key technology.

Examples for strengths are the following:

	strengths →	effect of the strength
source “**customer**“	• achieving higher customer satisfaction • to track loyalty • customer perception that the new company is the best (not the only one)	• repeat orders • recommendations ➢ lower sales costs • premium prices ➢ higher margins
source “**new market offering**“	• continuous innovation • trained sales force • innovative sales channels • using new technologies	• branding as a leader in, e.g. technology • premium prices ➢ higher margins
source “**own staff**“	• staff is able to implement the strategy into the market better than others • people make the differences in services • proactive consultant to the customer staff in times of change	• new source in the revenue stream • premium prices • branding ➢ higher sales ➢ higher margins

Figure 2.12: Examples of strengths and effects

Opportunities on the market result from one‘s own strengths: Opportunities can also result from targetable weaknesses of the competition, through newly emerging markets or through the utilization of a new technology. **Weaknesses** occur in market segments where the own company is vulnerable. **Threats** from the market and the competition especially occur at points where the strengths of the competition meet the weaknesses of one‘s own company. Threats can result from:

- inability to get access to new technology
- industry entry or exit barriers
- legislation
- inadequacy of present strategic thrusts to provide the previous competitive advantages in a changing environment

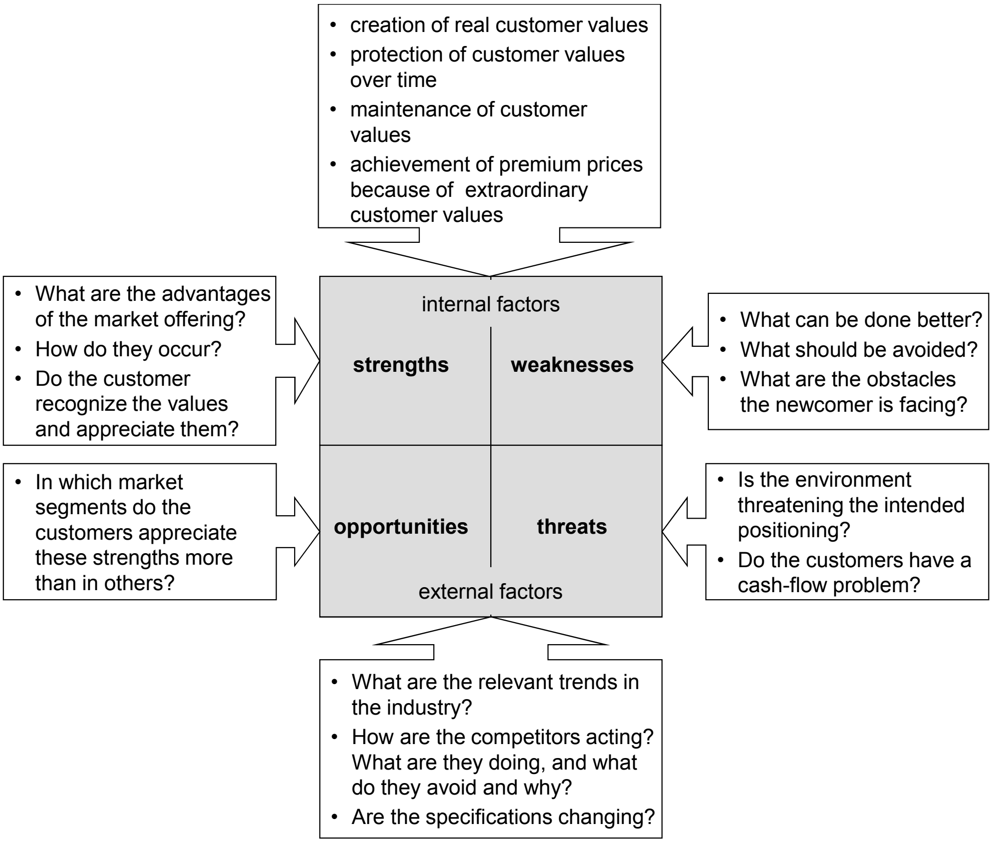


Figure 2.13: SWOT analysis

When the company is using SWOT for the first time, they may start from scratch:

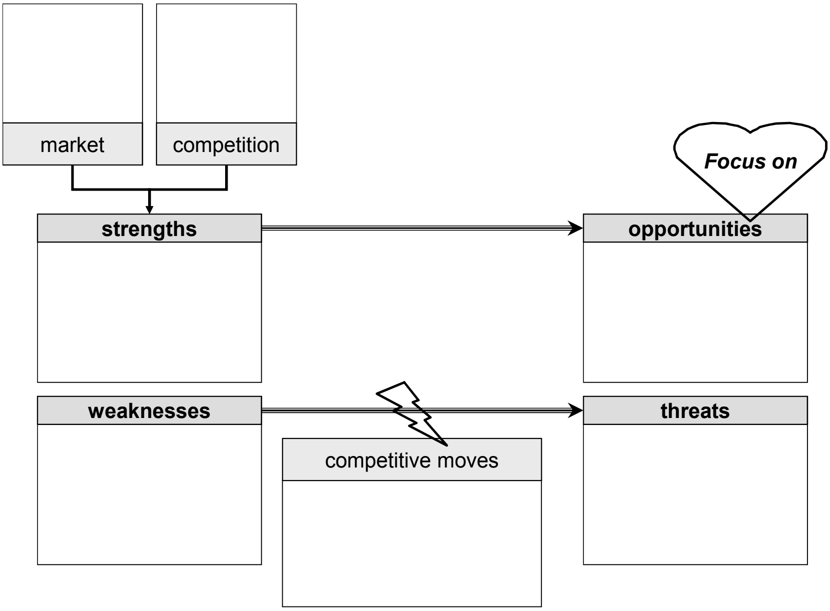


Figure 2.14: Form to start with the SWOT analysis

SWOT could also be used in an **extended version**. There you list down the different factors which are determined by additional methods. Then they are combined to each other and four different sets of strategies are identified. It must be decided than which strategies to follow:

	strengths (S)	**weaknesses (W)**
	• high customer credibility • professional team • R&D capacity • company reputation	• headcount too high • production capacity too high
opportunities (O)	**SO strategies**	**WO strategies**
• increase of ww markets	S1: setting up R&D cooperation with local research facilities S2: stronger customer cooperation	S5: capacity expansion S6: higher pressure on the sales force
threats (T)	**ST strategies**	**WT strategies**
• country infrastructure partly too low • bargaining power by customer concentration • competitive aggressiveness	S3: close cooperation with authorities S4: select cooperations in R&D with customers to generate mutual benefits and to gain more loyal customers	S7: build customer partnerships and try to set up long term contracts

Figure 2.15: SWOT in the extended version

It is necessary to spend some time in this case to make sure that all people in the team have a shared view. The results of an analysis are recommendations which should be changed to anticipate future development. This is only possible if everybody has the same base of present view and future trends. The strengths of the company are the reason-why they are able to grow. Companies grow on the basis of strengths. Strategies are based on existing strengths. Therefore, every Entrepreneur spends a good portion of his time to fix the awareness of the company's strengths.

2.3.2 Knowing the Key for Market and Customer Access

At the end of the day, the bases for successful market launches are their access to **key customers**. Depending on the particular situation the role of key customers can be different. The first key customer may be used as a "**reference customer**". All the activities will be aligned with meeting the "reference customer" in order to launch a new market offering successfully. We go through several pre-stages before this objective can be fulfilled, especially with innovative market offerings where there are no possibilities of comparison in the market:

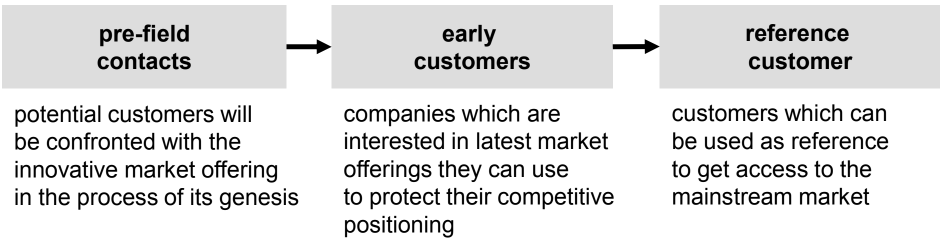


Figure 2.16: Stages from pre-field contacts to the reference customer

Pre-field contacts are useful to get a first idea about the probability of success of the business idea. The Entrepreneur confronts these contacts with his business idea, maybe with a prototype but at the very least a precise description what he is going to offer. These contacts may be people with access to the targeted industry, "older statesmen" who have finished their career in the targeted industry already, basic contacts which might be used as "Joint Venture"-partner later etc. According to Moore these group of people can be called "**techies**" or "innovators" (Moore). They have the following characteristics:

expectations of "techies":
"Techies" look at the pure technology which fascinates them.
Additional benefits don't interest them.

"pre-field"-strategy:
- search for "pre-field contacts" with customer potential
- difficult price calculation because of a lack of benchmarks

getting the acceptance:
- technicians are the correct "pre-field contacts"
- taking advantage of technical infatuation

promotion:
- focus on technical details
- selling enthusiasm about a new solution

significance for the Entrepreneur:
- ➢ Techies play the role of "opinion leader", but only to the "visionaries".
- ➢ This means that their acceptance is necessary to open up further customer circles.

Figure 2.17: "Techies" start a new market offering

Early customers are interested in the new market offerings before they will be broadly introduced into the market. The market offerings will be introduced to the early customer to test them and to improve their characteristics from the entrepreneurial company. The early customer is interested because he might develop new services, other market offerings around. According to Moore these group of people can be called "visionaries" or "early adopters" (Moore). They have the following characteristics:

expectations of "visionaries":
"Visionaries" buy a new market offering to achieve a strategic advantage with it.

"early customer"-strategy:
- entry into industries that especially value these new advantages
- price sensitivity is low, as long as an advantage can be recognized

getting the first orders:
- It will be demonstrated to the customer, how he will gain advantages through product utilization
- take care about the competitor, who can imitate the product quickly.

promotion:
- not the development of new technical details, but the demonstration how competitive advantage can be achieved

significance for the Entrepreneur:
- ➢ Visionaries help the market offering to a wider market acceptance.
- ➢ Developed market offering variations can be used by the next customer group.
- ➢ Visionaries might be used as a "reference customer".

Figure 2.18: "Visionaries" use it at first

Reference customers, can normally be used by companies which are looking for latest market offerings. They are accepting compromises in the early stage but the innovative market offering must work. These companies are expecting competitive advantages when they are using the latest market offering. They can be the same as the early customers but reference customers are at least known in one market segment and may be recognized as a trendsetter in other market segments as well. For the market entry of the entrepreneurial company it is essential to identify these reference customers, with this customer they are able to perfect their innovative market offering. Now it is important to receive their "testimonial "and to use it in all measures affecting the public. A "**testimonial**" is the public commitment of a customer to a new market offering. This can be communicated with a press release or a speech on a conference where the market offering is introduced.

There are fundamental differences between pre-field contacts, early customers, and reference customers:

requirements	pre-field contacts	early customers	reference customer
strategic fit	can	must	must
urgent technical needs	must	should	must
acceptance of compromises	not relevant	must	must
more applications	not relevant	should	must
selling high volume is possible	not relevant	must	must
recognized company	not relevant	must	must
supports the manufacturer	must	must	must
cooperation with "application engineers"	can	must	must

Figure 2.19: Differences between pre-field contacts, early customers, and reference customers

> Understanding the market and the customer requires a deeper understanding of what is happening in the market place to them. The kind of selling will change in every single stage: The salesman for the early customer is another one than the salesman for the reference customer. These changes will continue as the innovative market offerings will develop over the time and reach other classes of customers.

The base for a successful market entry is always a deep customer understanding. In the following are the “**eleven steps for a deep customer understanding**”:

1	current situation of the customer	• describe the point of departure • rough definition of the customer’s problem • expectations/objectives of the customer in the near future
2	business problem understanding of the customer	• What is the precise problem? • How is the customer defining the problem? • What has happened? • Who was involved with the problem? • How do the involved parties experience the problem? What is their “degree of pain”?
3	WHO is responsible for the solution?	name of the person with responsibility and authority (budget) to solve the problem
4	WHAT should be reached?	Start with the words “How can I reach that …?”
5	Is it really urgent and important?	What happens if the problem would not be solved?
6	WHY now?	Was there a “compelling event“ to start with “business initiatives” at this moment?
7	WHAT should not happen in any case?	• What are the attributes which MUST be in the solution? • What are the attributes which should NOT be in the solution?
8	customer experiences made to solve the problem	• What have they done to improve the current situation so far, e.g. what “business initiatives“ • Why is the problem not solved yet? What is missing? • What are the customer‘s ideas to solve the problem?
9	identifying and proving the alternatives	• What could the customer have done? Why didn’t he do it? • What would have been the consequences? • Does the company want to carry these consequences? • What are the most important three criteria in a possible solution?
10	importance	What happens if the problem will not be solved?
11	urgency	• How much time is needed? • When does the company need a clear answer?

Figure 2.20: Eleven steps to a deep customer understanding

If the market offering is not an innovative offering the strategies must change as the market offering, market and competition change over the product life cycle. If the market offering has a **product life cycle** (**PLC**) four things can be asserted (Kotler et al.: 490):

- Products have a limited life.
- Product sales pass through distinct stages, each posing different challenges, opportunities, and problems to the seller.
- Profits rise and fall at different stages of the PLC.
- Products require different marketing, financial etc. strategies in each stage of their life cycle.

Most of the **product life cycle curves** are typically divided into the four stages introduction, growth, maturity and decline. In every stage, the company has another focus – so the strategies change stage-by-stage (Kohlert 2013: 126):

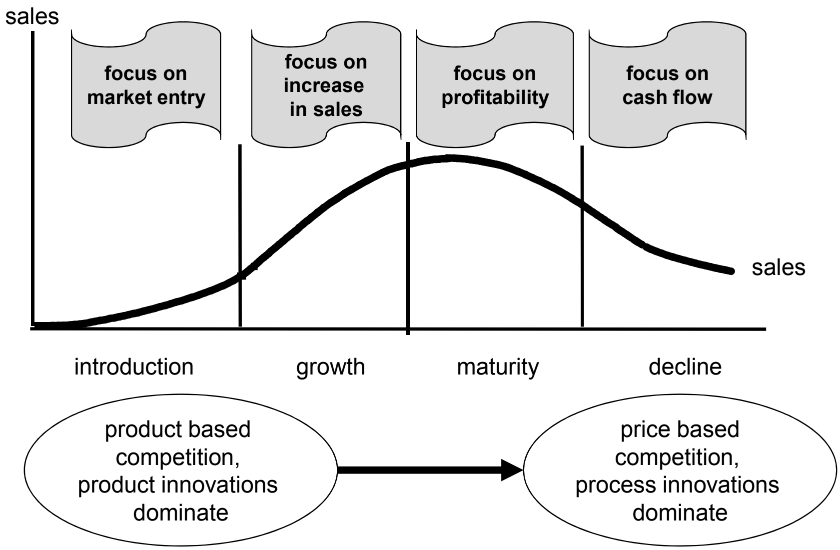


Figure 2.21: Basic differences in each stage of the product life cycle

2.3.3 Appropriability and Complementary Assets

The **source of power** is often the differentiation, this is something the new company owns or controls. In order to be of real value to their investors, companies must not only create and sustain their competitive advantages, they also have to keep the new knowledge generated by an innovation under control. Earning positive returns on the value that the resources originate depend on its sustainability and appropriability. **Appropriability**, means controlling the knowledge generated by innovation. The challenges are that the secrecy is hard to maintain, legal mechanisms costly and even tacit knowledge often gets diffused. The **sources of appropriability** are the following:

- intellectual property protection:
  - patents: finite length, right to prohibit producing
  - copyrights, means right to prohibit copying

- secrecy:
  - trade secrets
  - non-compete clauses
  - complexity of market offerings
  - “tacit” knowledge of skilled staff
- speed

If a particular innovation, or the knowledge on which it rests, can be completely “appropriated” it means that no one else can use it or copy it. This is a tremendous source of bargaining power. The **different sources of appropriability** have different strengths and weaknesses:

	strengths	weaknesses
intellectual property protection	• legal right • can be traded, e.g. licensing • gets time to build complementary assets • provides temporary monopoly • slows down competition	• disclosure requirements • may be expensive to enforce • competitors can invest around • could be “too short” to be effective • not everything can be patented • false sense of security
secrecy	• no disclosure	• difficult to maintain • non-compete clauses are expensive to enforce • good R&D experts do not want to wrap their work in secrecy
speed	• competitors are not able to catch up • expensive for competitors to imitate • quick profits are possible	• limited time span • decreasing returns over time • difficult to sustain

Figure 2.22: Strengths and weaknesses of the different sources of appropriability

Unfortunately, knowledge is often very difficult to appropriate. Legal mechanisms can be costly to create, and then even more costly to enforce, secrecy is hard to maintain, even tacit knowledge often gets diffused. Knowledge is often difficult to “chunk”, because value is created by a collection of advances, so many benefits are delayed or are already diffused.

Differentiation is also based on complementary assets. **Complementary assets** are controlling the assets necessary to exploit the knowledge generated by innovation, e.g. sales channels, provision of services, brand name. These assets allow making money, even if the innovation is not unique! The challenge is to make it as difficult as possible for competitors to get it. Complementary assets translate an innovation into commercial returns. But complementary assets can only be a source of strength if they are tightly held. The following complementary assets are important in competition:

- **things you own**, e.g. resources like brand name, sales channels, close customer relationships
- **things you can do**, e.g. capabilities of staff, manufacturing capabilities, sales and service expertise

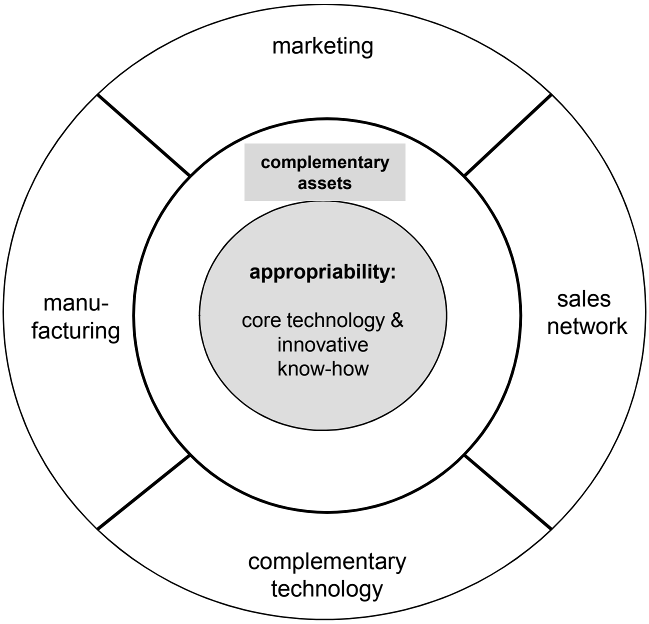


Figure 2.23: Complementary assets complete the appropriability

> Creating value is not enough, it is necessary to capture value as well. Value can be captured through a variety of mechanisms, including appropriability and complementary assets. Other players in the value chain may also try to capture value through cooperations, but under competition relative power may matter. Technology strategy and business strategy should be intimately linked in entrepreneurial businesses.

2.4 Understanding the Industry Dynamics

2.4.1 Indicators for Upcoming Dynamics in the Industry

Industry analysis is following certain criteria and gives a first impression about an industry (Kohlert 2013: 105–106):

- **Number and strengths of the competitors** influence the industry to a high degree. The amount of competitors is an indicator for the age of the industry. If the amount is very high, the industry is very young, no concentration processes took place. The different competitors are still very heterogeneous, the differences in their market offerings are vital.
- Many **newcomers** are a sign for industry growth. In this stage the standardization of market offerings is not advanced, but the competition for setting standards may have just started.
- A high **amount of fixed costs** in the industry is decreasing the motivation for other companies to get in. They act like an industry entry barrier and alienate other competitors to get in.

- A high **amount of necessary investment** may also act as an entry barrier. If the new industry entrant has to invest in special machinery equipment, it might lower the motivation to get in.
- Another aspect is the **critical company size**, especially in production where it may be necessary to achieve “economies of scale”, “experience curve effects” and will effect industry entry and is an important information.
- **Degree of performance differentiation** depends on the degree of competition in the industry and is an indicator for the age of the industry. Very differentiated industries offer no space for niche strategies; many undifferentiated industries are “calling” for specific market offerings for specific customer groups.
- **Planning and execution of capacity expansion** may reveal the estimation of the further development of an industry. But there is not warranty for that, it just might be a mistake!

Knowledge about the industry can be used as a weapon to avoid the appearance of new competitors. As an Entrepreneur one can be fall to being the victim, but another time the user of industry entry barriers, it is useful to consider the possibilities to build up industry entry barriers. **Industry entry barriers** keep new competitors out of the industry (Kohlert 2013: 106–107)

- **Blocking the access to the sales channels** for the newcomer through long-termed agreements with the sales channel partners, shared ownership or acquisition of important partners in the values chain. In all cases, the newcomer has to build up his own sales channels; they have to invest in time and money.
- “**Intellectual Property**”-(IP-) strategy with the protection of the own market position through product innovations, patents, brands etc. The core of the strategy is the protection opposite to competitors. Newcomer have not the option for the “market follower“-strategy; this is reducing their scope of action.
- **Expansion into the vertical value chain** means purchase of critical suppliers, access to raw material (backward integration) or purchase of critical sales channels (forward integration). Newcomers must find their own suppliers and sales channels or they have to develop own ones.
- **Exclusive contracts with raw material suppliers** are critical raw material or half-finished products are limited or at least very expensive for the newcomer. Newcomers have no purchase channels for raw material or half-finished products, means they have to find or develop it on their own.
- An **expected reprisal** can represent an industry entry barrier: Companies do not wait for competitors to establish themselves, they act before, e.g. price campaigns, buying out competitors. The newcomer is very limited in his market entry strategies, very often, the “underdog”-position is the only possibility especially if the competitors is a “tiger“.
- “**Educational Acquisition**” means buying out young, technology-driven companies with break-through technologies, protected by patents to guard the know-how and other competitors are not able to use it. Newcomers receive no access to innovations.
- To receive **well-trained personnel and a good team** established companies have an advantage. Applicants use “employer branding” as a first orientation, this helps established companies. The newcomer has to convince new staff that he is the better alternative, e.g. pays higher salary and still gets worse staff.

- **Customers expect short-term deliverability** and the newcomer is hardly able to fulfill these expectations; his operations are just in development. Customer expects provision of premium services and the newcomer is in the starting-up stage and cannot offer it.
- **Economies of scale as competitive parameter** are what lead competitors to acquire competitors to reach the critical company size in vertical and horizontal dimensions. The newcomer cannot develop smoothly in an industry, but must invest heavily at the beginning to reach a certain size.
- **Searching for possibilities in the marketing-mix** to optimize the sales processes, improvement of the own presentation, e.g. better communication of the strengths, changes in pricing. The newcomer has problems to follow these actions of the established competitors because lack of funds.
- **Economic policy** of the government puts customs on imported material, non-tariff trade barriers, and regulations on licensing agreements, exchange rates play an important role when entering foreign markets. The newcomer must have the knowledge and must build up the contacts to intermediaries.

The ability, to build up market entry barriers, is a competitive advantage for existing companies. Established companies try to give the newcomer a hard time. High industry entry barriers discourage the newcomer, this can be cultivated. Companies are constantly looking for possibilities to defend their position in the industry. Keep in mind that your company can be on both sides of the barrier, gather your experiences how to act.

In this context, the overall evaluation of an industry is a matter of concern. There are several indicators for an upcoming **dynamics in the industry** (Kohlert 2013: 109):

- **Decrease of sales** in up to currently served customer segments as an indicator that the traditional customers are passing away. It may be an indicator that new market segments are developing in the industry.
- **Learning processes** for the customer occurs. Therefore, consultancy is less and less necessary and the customers are becoming more price sensitive. Sales people need new selling arguments to justify the price. The alternative would be to reduce prices, as long as the margin is still positive.
- **Know-how is getting to a commodity** and motivates new competitors to enter this industry. These new competitors are competing over price. The industry must be carefully investigated whether it makes sense to enter at all or to stay.
- **Technical innovations show more applications** for the market offerings in the industry and motivate other companies to invest in this industry. The innovative capabilities of the own company must be strengthened if the company is competitive.
- **Marketing innovations** are enlarging the sales channels, investments in particular in sales and communications. This is a sign that the market offerings in this industry are not up-to-date anymore, therefore: new investments or retirement.
- **High number of market entries** and market exits reveal high turbulences in the industry with a high risk. The company has to balance out whether it makes sense to invest in this industry at all.

Unstable industries are open for innovations and newcomer. People normally do not change if they do not have to. For an Entrepreneur, market access is easier in industries with high dynamics.

2.4.2 Porter's 5-Forces to Analyze the Competitive Environment

Porter's 5-Forces-analysis is a tool for investigating the distribution of power in the value chain. However, 100 % of appropriability, or complete control of complementary assets will not necessarily allow extracting full value from an innovation if:

- market entry is easy
- substitutes are easily available
- you must negotiate with "powerful others" in the value chain

To cover the competition in an industry completely, it is necessary to see behind the curtain of the normally well-known competitors into the external environment. Different forces have an impact to the competition in an industry, in which the own company wants to penetrate. For this reason Porter developed the "**5-Forces-analysis**" (Porter 1980): He assumes that you can describe the structure of an industry and their competitive situation with five different forces. The strongest of these five forces will have an impact on the strategy formulation of the company. These five forces are the following, from an entrepreneurial business point of view:

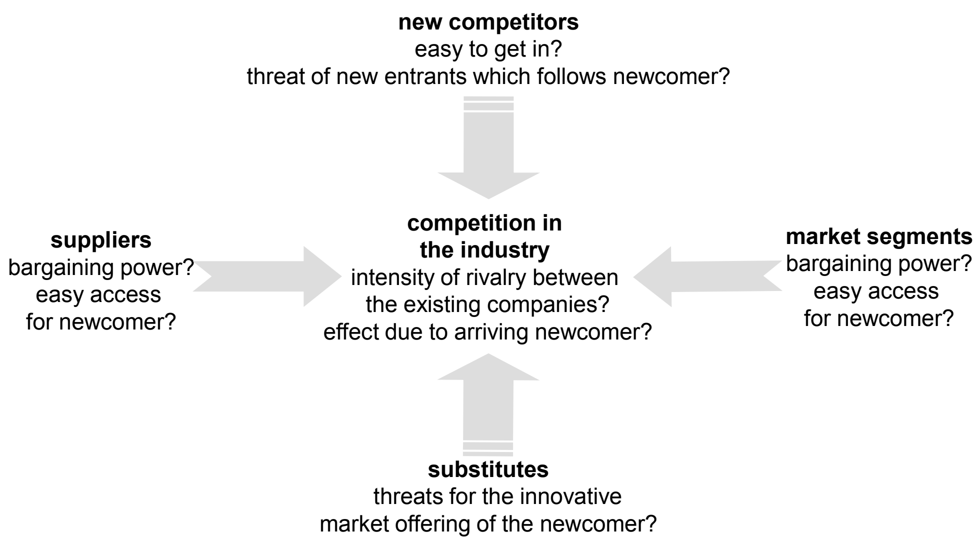


Figure 2.24: Porter's 5-forces in the competitive environment

The **competition in the industry** depends very much on the structure of the competitors, which competitors will be met and on what level the competition will take place, e.g. over price, over quality. The competition is as stronger as more rivals are competing on the same level. If there is a price competition, the margins of all companies will be reduced. However, there are still more factors which play a role:

The **competition in the market** is high,
if the following factors apply to it:

- low industry growth rate
- low degree of capacity utilization
- fixed costs are high and industry exit barriers are high
- possibilities for differentiation are low
- reduced speed of industry growth is leading the industry to a stronger battle for market shares
- commodity products are sold to a low price
- extension of capacities is only possible in big steps, which can lead to temporary overcapacities

Figure 2.25: Competitive pressure because of existing competition

When **suppliers** are involved you can ask the question for their bargaining power. This depends very much on the existing alternatives for the manufacturer, the concentration ratio of suppliers, the costs of procurement for the manufacturer etc. If the supplier is able to brand his products, e.g. Intel, they can heavily influence the pricing policy in the industry. Another important factor is the "**switching costs**", which occur, when a manufacturer is changing from one supplier to another. Suppliers will try to increase them as far as possible, to make it for the manufacturer as expensive as possible to replace a supplier ("**lock-in**"**-effect**).

Bargaining power of suppliers is high, if:

- amount of suppliers is low
- amount of customers is high
- significance of the upstream product for the customer is high
- product is very specific
- switching costs are high
- opportunities for "foreward integration", no danger of "backward integration"

Bargaining power of customers is high, if:

- amount of customers is low
- amount of manufacturers is high
- significance of the upstream product for the customer is low
- product is very unspecific
- switching costs are low

Figure 2.26: Bargaining power of suppliers and customer according to Porter's 5-forces

The **bargaining power of the customer** depends on the sales volume, the costs of switching the manufacturer, from the price elasticity on demand of the customer etc. The **price elasticity**, the measure used to show the responsiveness, or elasticity, of the quantity demanded of a good or service to a change in its price, depends on the procurements costs compared with the total procurement costs, the differences in the market offerings, branding, quality etc. Customers in the B2B-market can be companies which use this product as an upstream-product, to manufacturer their own market offering. It could be a sales company which is focusing on the final customer, as long as the manufacturer has no one sales activity. The question is also, is the customer able to develop a certain dependency of the manufacturer to its customer and to lock him in ("**lock-in**"**-effect**).

Due to the companies in an industry which are constantly developing new market offerings or improving old market offerings, you may reckon that relevant substitutes will arrive into the market place. **Substitutes** are market offerings the customer perceives as alternative to the current problem solving product. The opinion of the customer is relevant, not the technical opinion of the manufacturer. Indicators for certain **risk of substitution** is given under the following aspects:

- Customers are screening the market for further solutions for their problems. Reasons may be that the current solutions are not complete, too expensive etc.
- Normally you can always observe in industries the search for new solutions and technologies to increase the value of the market offering.
- Sometimes companies are also looking for existing solutions in other areas and they try to transfer it to their own industry.

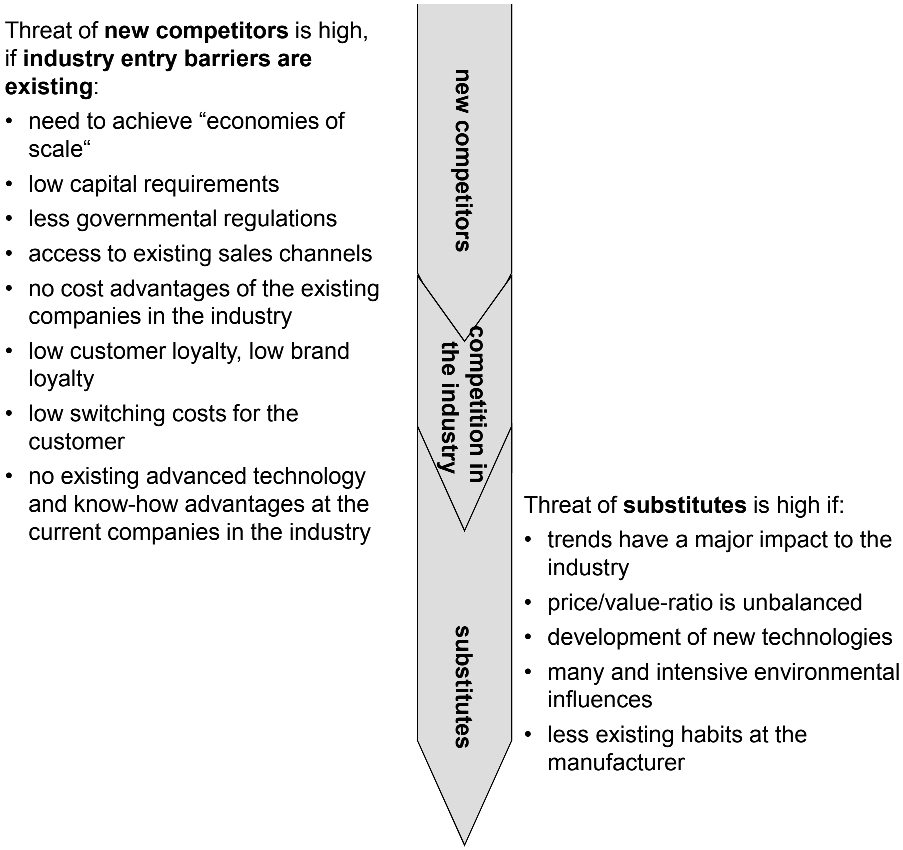


Figure 2.27: Threat of new competitors and substitutes according to Porters 5-forces

New competitors always appear when the profit expectations in an industry are very promising. The probability of new market entrants is determined by the industry entry barriers. If the company is already in the industry, it is decisive how fast the company can establish entry barriers and to maintain their profit potential. New market entrants mostly act very aggressive and challenge the conventional, offer additional benefits to get more customers. Therefore new market entrants are so dangerous for the existing companies. They also start new developments and launch innovations into the industry. For existing companies in the industry this means that they have to constantly watch the industry and develop counter-strategies against the new market entrants.

Porter's framework explains the **profitability of a business** which leads to strategies and operations:

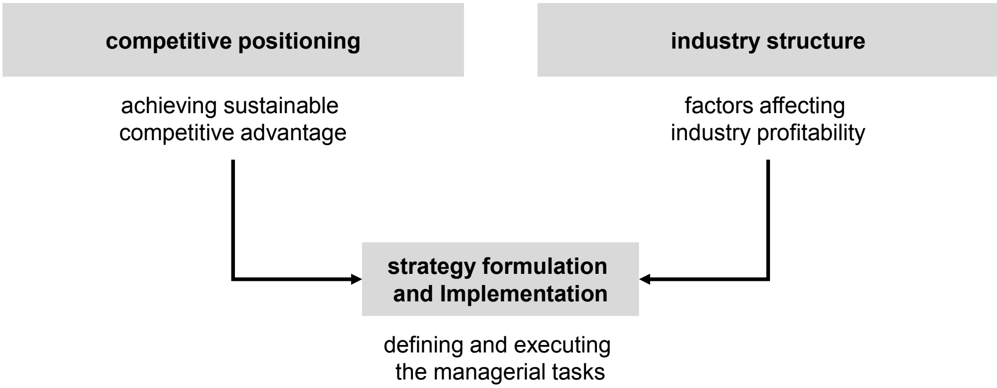


Figure 2.28: Porter's 5-forces explanation of profitability in an industry

For the company, the **"Porter's 5-forces analysis"** has a multitude of outcomes:

- The analysis makes sure that you have faced and analyzed everything in the competitive environment which is relevant to the own company.
- The analysis avoids the focus on incremental changes instead of structural changes in the industry and the focus of the own resources to what is really important for the own company for further success.
- The 5-forces analysis is improving the own market strategy because the analysis prepares the own company in due time to changes and supports the management to accept anticipated developments.
- The analysis is also easy to present, which may be important in our times, too.

> Porter's 5-forces provide the "big picture" for a company within an industry environment from a competition point of view. It assumes that competition is driving industries. Within this picture, new companies have to identify their place and to face the incoming challenges in due time.

Special strategic roles are playing the substitutes as newcomers may enter into the market with it and might challenge the conventional. It might be important to understand it from both perspectives, the established companies who try to protect themselves and the newcomer you might use it as the reason-why customers in the existing market might change their supplier. A **deep market and customer understanding** is necessary to recognize the risks of substitutions:

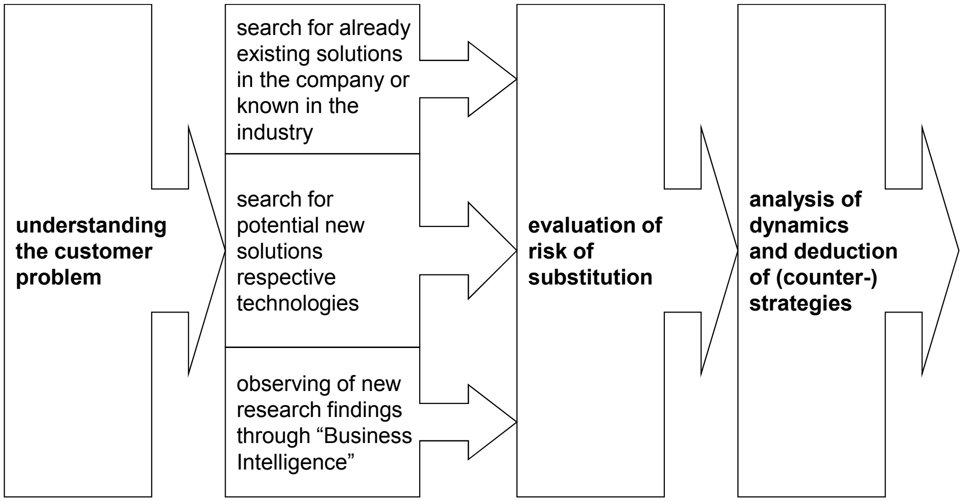


Figure 2.29: Substitution analysis is often neglected

- **What is the precise customer problem?** How can you define his needs? What is the shape of his need?
  - Has the problem a different distinction in different market segments?
  - Is it a permanent problem or just a temporary appearance?
  - What solutions are currently offered in the market? What tools are already available?
  - Are certain solutions dominating in particular regional markets or in customer specific markets?
- **What are possible and already existing solutions within the company and known in the industry?**
  - How does the solution look like in the own company? How do they look like at the competitors?
  - What is the growth potential of the attractive new markets compared with the current business?
  - How will markets with other solutions develop, where the own company is blank at the moment?
  - What kind of conclusions should be taken out of these expected developments for the own market offerings?
- **How could potential new solutions look like?**
  - Are solutions foreseeable which will solve the customer's problem better, faster and less expensive? Where are these solutions coming from, e.g. from the own company, from the competitors, from other industries, from foreign countries?
  - When will these potential new solutions be launched into the current market? What will be the consequences for the currently existing market offerings and the existing production capacities?
- **Are there any trends based on new results of research foreseeable?**
  - What are the plans of the own company? What research projects of the competitors are known? What are other research institutes in inland and abroad are doing which might get relevant for the own company?

– What is the probability of the success of these research projects?
– What could be the importance of the expected results of research for the industry?
– What could be the effects on the own research activities and the protection and growth of existing market shares?

In the following a couple of **active approaches to deal with substitutions**:

be open minded
- "why not" instead of "Yes, but"
- rather cannibalize than perish

go ahead
- attack, instead of defend
- take the lead
- guide the customers

search for options
- cooperations, alliances

alternative planning
- be prepared for disinvestment
- build-up new core competences
- looking for options, e.g. cooperations, alliances

clarify success factors
- factors to focus on?

independent task force
- direct access to top management
- work autonomously at the beginning

turning the antennas
- watch potential substitutions from the very beginning
- stay in close contact to leading customers

Figure 2.30: Recommendation to treat the substitute risk

2.4.3 Classical Competitive Analysis

Companies will always have competitors. To develop the own competitive strategy, it is necessary to conduct a **classical competitive analysis as an ongoing task** and not as a project (Kohlert 2013: 139):

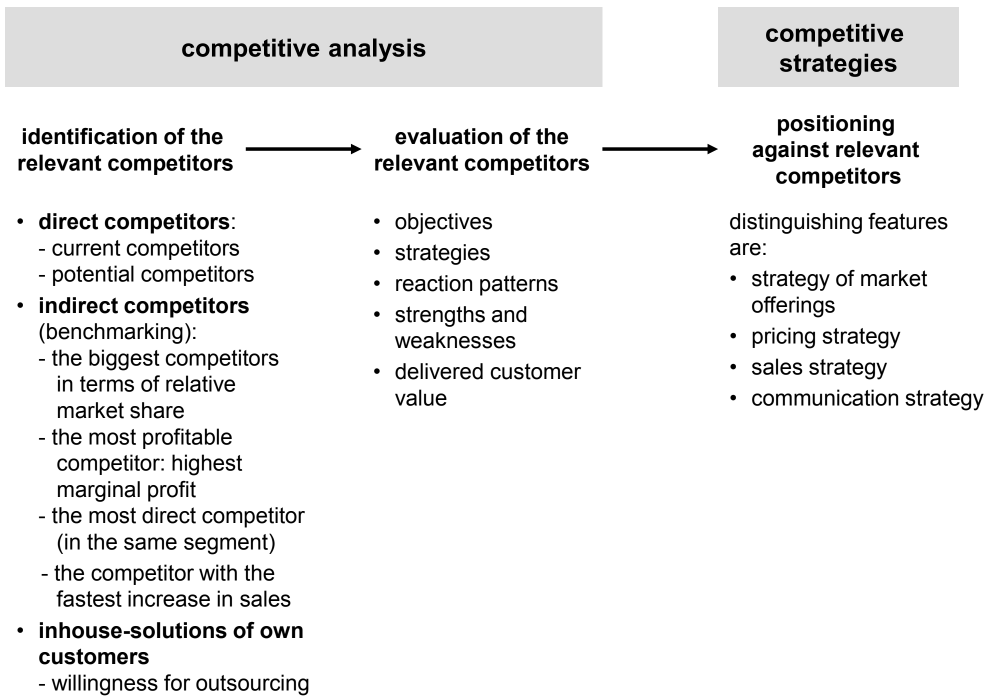


Figure 2.31: Procedure in a classical competitive analysis

The quality of competitive information is deciding the "battle". In order to **understand the competitive moves** it makes sense to analyze the following issues (Kohlert 2013: 140):

- What are the future objectives of the own competitors? What are the business drivers of the competitors? What are their objectives for all levels of management and business units? What is the competitor doing and what could he do? What strategies are they currently driving?
- What are the assumptions of the competitors and how do they forecast future developments? Will the future be stable? What are the basic assumptions of the own competitors about future developments?
- Are the competitors building up new capabilities? What are the own strengths and weaknesses? Where are the newcomers in comparison to their competitors?
- What are the current strategies of the competitors? In which areas are the newcomers precisely facing competition? Is the own competitive strategy supporting the changes in the competitive structure?

- What is the competitor's response profile when new competitors arrive on his market place? Is the competitor satisfied with its current situation? What moves or strategy shifts will the competitor make? Where is the competitor vulnerable?

Why are the own thoughts different from that of the competitors? Reveal the differences and challenge the differences!

Companies are not in competition against other companies but against other people in these companies. Therefore, **competitive analysis can be personalized**:

- Who are the most important people at the competitors? It might be the CEO, or the salesperson, or the innovative R&D engineer. These people must be identified.
- What is the commitment of these people to that business environment that the newcomer wants to enter?
- What are their plans which are foreseeable?
- What are the strategic factors of their personal success? Why are they successful?
- What are their personal vulnerabilities and weaknesses?
- Which competitor will the newcomers meet the whole time and why?

For these tasks it is advisable to build up one's own **competitive information system** which could be configured as the following (Nagel/Stark: 72):

Figure 2.32: Structure of a competitive information system

Information about competitors may be derived from different sources (Kohlert 2013: 143):

- direct contact to the competitor, e.g. “mystery shopping”-projects means a method of the qualitative market research with the basic idea of a test customer
- interviews with present and former employees of the competitors
- business partners, which also do business with the competitor, e.g. customer, suppliers
- Evaluation of documents and news which they publish, e.g. ads for employment; own observations at trade shows, kind of advertising, etc.
- philosophy of the competitors
- Other contacts such as universities, associations etc.

A closely related tool to the competitive analysis is benchmarking. **Benchmarking** examines the question “**How can we improve by learning from others?**” It is one method that the management can employ to force an open way of thinking and to specific initiation of learning processes.

Learning from others makes a decisive difference to the classical comparison approach:

- systematic process of surveying and data analysis
- exact description and explanation of own strengths and weaknesses
- comparison of business units, structures, and business processes with other companies
- formulating own objectives and actions to improve the own position

The **objectives of benchmarking** may be in triggering and objectifying internal discussions regarding the strengths and weaknesses of company external standpoint, providing a stimulus to examination of excellent performances of other companies, in order to analyze own good practices and initiate a learning process or a derivation of smart improvement objectives.

There are different **variations of benchmarking**

- functional benchmarking where the comparison is done with companies outside of the traditional industry
- total benchmarking where all functions and processes of a company are scrutinized
- internal benchmarking where the comparison and analysis of the processes are made between different segments of a company
- open benchmarking where it is open knowledge which companies are included in the analysis; all of them receive identical questionnaires as well as the reports
- concealed benchmarking where the companies do not know with whom they are being compared
- competition-oriented benchmarking which is a comparison of the companies with its direct competitors
- continuous benchmarking not as a one-shot-task but benchmark activities should be repeated at certain intervals because of the environment dynamics

The **results of the competitive analysis** are also improvements for the own company:

1. Who is “fighting” with the same problems the own company does, but because of another reason?
2. How are the competitors handling the existing problems or customer problems?
3. Which information about customers and application of the market offering occur as a side-effect and can be used to improve the own business model?

3 Building a New Business

3.1 Walking through the Innovation Funnel

3.1.1 Generation of a New Business Idea

In a start-up company, the basic decision to be an Entrepreneur was already made. Now the Entrepreneur will turn to the question about the new business idea. Here it is necessary

- to have the willingness to challenge the conventional with a new technology
- to generate alternatives, challenge assumptions
- to have the readiness to take a risk and to make mistakes
- to have an environment, which senses Entrepreneurship as something normal and not as an exception

There are many ways to **develop a new idea** for a market offering, some of the most common ways are described next (Lambing/Kuehl: 79–81):

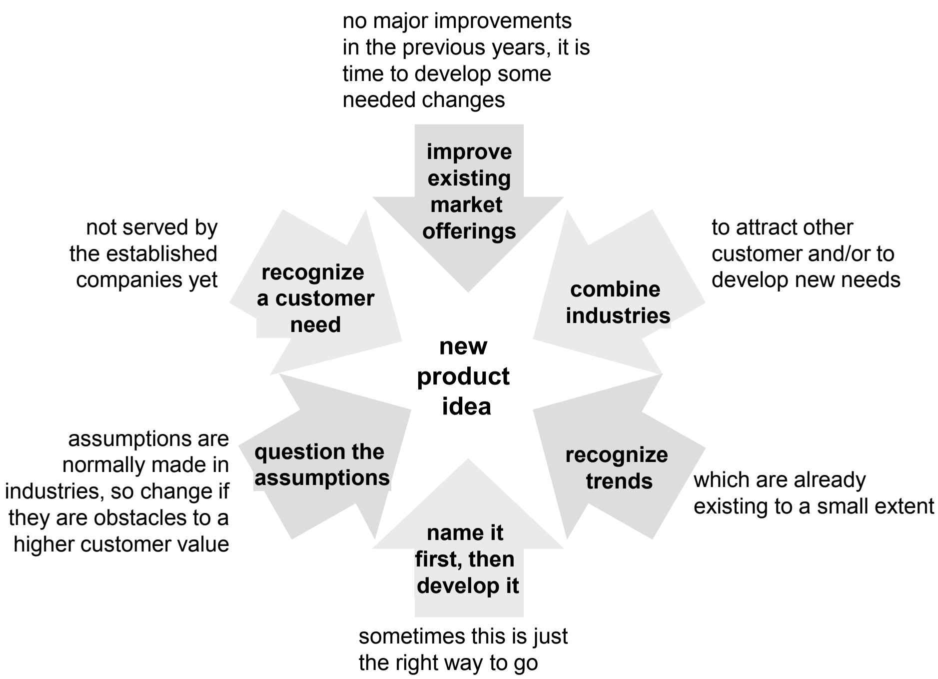


Figure 3.1: Possibilities to develop new ideas

The generation of a new business idea takes place in a very early stage in the development of the Entrepreneur. If it is an existing business, the company has to organize the "**innovation funnel**" which is different in every company. The basic idea is that a marketer or R&D starts with many business ideas that need to be examined and winnowed down, then shaped into concepts and tested until a final market offering is selected and launched. The innovation funnel provides a solution for explicitly defining the information requirements for managing the innovation process from idea to launch:

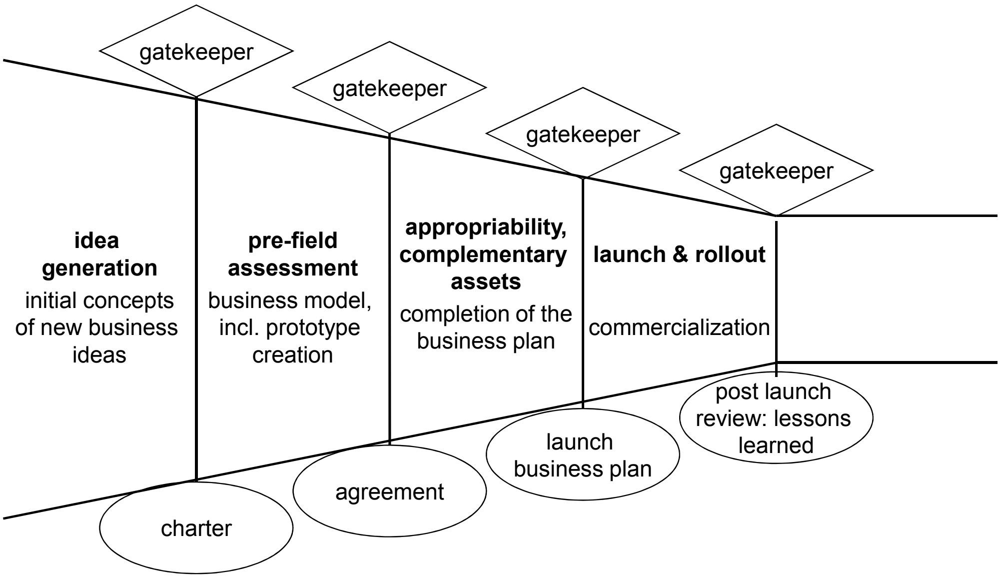


Figure 3.2: Innovation funnel

At every step, a "**gatekeeper**" has to decide whether it is reasonable to continue with the business idea. Every business idea which arrives in the next stage consumes money; in every business idea which was rejected there might be a "great product" for another company. This is, no doubt, the big challenge for the company, to scope the opportunity based on pre-defined criteria.

Please be aware that new ideas are not generally **new-to-the-market**. Only about 5–10 % of new market offerings are truly new, the rest are just differentiated:

newness		… to the market		
		low	medium	high
… to the company	high (very new)	**new product lines**		**new-to-the-world**
	medium (moderately new)		**product line extensions**	
	low (not very new)	**cost reductions**		**repositionings**

Figure 3.3: How new is new?

One of the methods which is likely to be used for generating new ideas is **brainstorming**. Brainstorming as method does not mean that a chat is generating enough business ideas for all the problems. Brainstorming-workshops could be structured as follows:

set the **frame**	Problem description and objective(s) of the workshop are fixed, meaningless questions, which only consume time, excluded.
ask the **right questions**	Ask the questions, which will highlight the problem from different angles and which will lead to the solution.
invite the **right people**	Select participants where you can expect valuable contributions to the solution or which are part of the problem.
importance of a brainstorming-workshop	Always assume that the result of the brainstorming-workshop is more important for the Entrepreneur than for the participants. The objective is, to get 100 % of the participants, 100 % of the time, and 100 % of the energy of the participants.
right design of the workshop	Social norms should not work against but for you. If issues are discussed in a group with ten people, only 2–3 people really participate. Therefore create teams of 2–3 people and all the people have to participate. Then the social norm is that everybody has to work!

Figure 3.4: Frame of a brainstorming-workshop to generate new business ideas

The effectiveness of brainstorming-workshops can be increased: Ask the **right entrepreneurial questions**: **Stupid questions** are questions that can be answered through public information. Entrepreneurial questions will get the company closer to a solution and open new horizons. Now the right questions must be asked:

- The first possibility is questions with evolutionary character, e.g. "How can I reduce my costs" by 5 %. This will lead to evolutionary answers to reduce the costs by 5 %.
- The second possibility are questions with revolutionary character, e.g "How must I change the business model to realize a 50 % cost cut?", which will lead to revolutionary answers. The required changes are much higher, they may have to change the business model, reconsider the sales channel etc.

Both questions are possible, but it shows the span of possible questions and the round dance of answers which it will provide. **The questioner is in charge of the answers!**

In existing companies the new idea has to fit into the **existing framework**. There the relevant **success factors** are as follows (Kohlert 2013: 253):

Figure 3.5: Success factors of innovative market offerings within the existing company frame

But where are the **new ideas coming from**, according to Berth out of the following sources (Berth: 74):

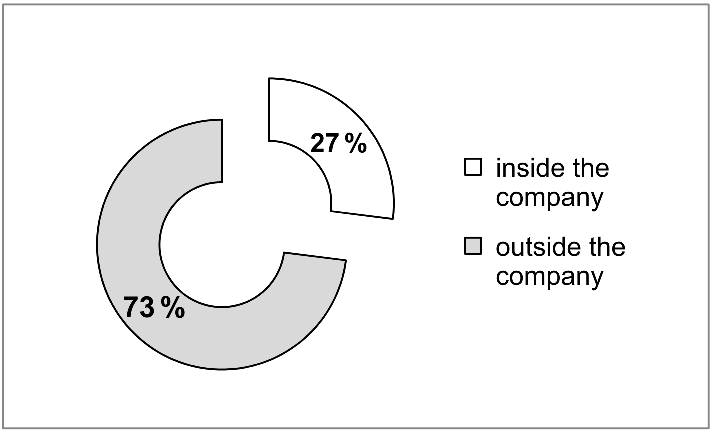


Figure 3.6: Most of the new ideas arise outside the company

If it is **inside the company**, there are the following possibilities:

- working place: 12 %
- during meetings, when it is my turn: 19 %
- during meetings when I am bored: 32 %
- during the ride to the office: 25 %
- in breaks during the working hours: 9 %
- during creativity-meetings in my office: 3 %

If it is **outside the company**, there are the following possibilities:

- on business trips: 13 %
- at home: 23 %
- in nature: 33 %
- during my vacations: 15 %
- others: 16 %

The numbers may have slightly changed during the last year, but not the dimensions based on experiences in the B2B-market. It shows that most of the new business ideas are generated outside the company, in the market place but not in the labs of the corporations and through brainstorming sessions. If this is different in an existing company, it should be analyzed to find the reasons-why. The integration of the customers is a success factor as a study revealed asking the question "**how ideas turn to innovations**" (Fueglistaller et al.:150):

- 9 % at strategic meeting within the company
- 12 % input from suppliers
- 24 % discussions with member of the own staff and business partners
- 30 % integration of customers into the development process
- 25 % during the development process

The result shows that the customer integration before finishing the new market offering is a critical success factor in the innovation process. But the employees have to pick them up.

Therefore, the **staff sensitivity towards innovations** is a strength of the existing company. It may also be the entrepreneurial company that is able to use some of these ideas (Kohlert 2002b):

- Creation of an innovative working climate by the employees. An internal suggestion scheme can considerably boost the innovative atmosphere.
- Do all employees have curiosity? Do they look for new business opportunities together? Trying out new market offerings is allowed and will not be punished in case of a mistake.
- Further training of the employees help them to see the whole picture. It can support the employees understanding with regards to changes in the company, e.g. that the own service program must be further developed and adapted.
- Open for special solutions shows the customer as well as the employees that innovative solutions belong to everyday life.
- Information flow in both directions means from the management to employee and vice versa. This builds trust and trust is a prerequisite for innovation.
- "Listen to the customer", to understand his fears and necessities is the source of ideas for new services.
- Utilization of new technologies symbolizes the open-mindness toward the new.
- Utilization of the strengths of the employees: Different than big companies which determine everything for an employee, seek clearly defined jobs, Entrepreneurs "use" an employee with all his abilities.
- Work with objectives, to determine changes.

A good overview about the **sources of opportunities** is provided by Frank & Mitterer (Frank/Mitterer: 371):

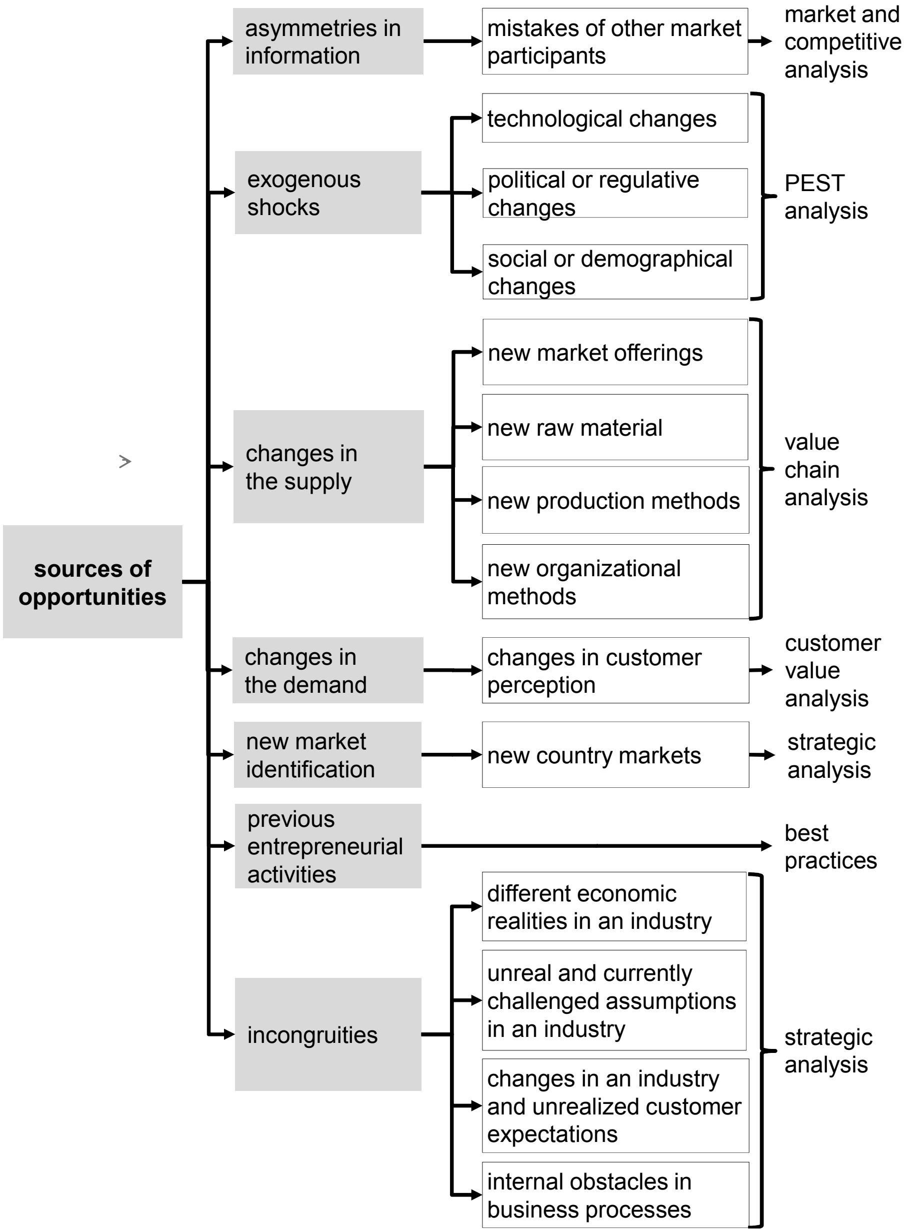


Figure 3.7: Sources of opportunities and methods which can be used for assessment

With the **right questions**, you can control the frame of answers. All questions need objectives and a frame. Within pre-determined questions possible answers are already embedded. Therefore, it is important to ask the right questions in searching for new business ideas.

3.1.2 Pre-Field Assessment of the Business Idea

In the stage of generating business ideas, a couple of important considerations should be included before continue the process. This **pre-field assessment** has to sort out the unrealistic ideas which will never turn to a business idea. It is a very sensitive task especially if competitors are acting on a rejected idea and are successful. Nevertheless, the quantity of ideas must be filtered. It is advisable to put together a process in the company, enclosed some suggestions for the **entrepreneurial pre-field assessment** of a business idea:

- At first the concrete **business idea** must be on the table, at least as a concept, maybe as a prototype.
- The **pre-field evaluation** is bringing together commercial reality and the idea. Is there a chance to realize the new business idea successfully?
- The availability of a "**window of opportunity**" is particularly relevant for the future success of the idea. This window is visible and existent for a short period of time. Getting the **right timing** is the act of attempting to predict the future direction of the market and identifying the moment when the marketing action will lead most probable to success. During this time, an opportunity must be acted on or will be missed. The window may not conform to the company's strategic planning. Often these windows of opportunity turn up when least expected and when it seemed altogether impossible. You cannot plan them, but you can set the cornerstone in an entrepreneurial mindset. Then you take advantage of the moment, seize the opportunity and change your plans to reach the new objective. The opportunity should also fit into the spectrum of the company and should have something in common with their current activities.
- **Core competences** are based on **resources and capabilities** generated on them: Is it feasible for the company? Is the required technology or know-how available in the company? Are the resources adequate, the capabilities sufficient? What must be upgraded?
- These are the base for the **advantage** identified and accommodated to relate the particular requirements of its customer. The new ideas must be seen and evaluated in the context of existing competition or substitute. There must be a **scope, to establish a sustainable differential advantage**, such as potential for high added value and associated premium pricing. A lack of market knowledge is revealed very fast in this consideration (Beaver: 21).
- One of the entry requirements is to **reinforce success as quick as possible**. Of course some new ventures require substantial resources and efforts which need time. Be prepared to identify a minimum level of demand which will be a function of the current market context where the next idea works. This requires a certain attractiveness of the new idea to a customer group: Are the benefits higher than of existing offerings? Is there a need for a market offering with a higher performance?
- The **entrepreneurial strategy** is rooted on these assessments. It is now the time to get a first guess about the numbers.
- **The economics** of the value proposition must be assessed, e.g. market volume, profitability, and risk assessment. The real quantification will take place in the business plan later, but a view needs to be formed before deciding to continue with the further steps now.

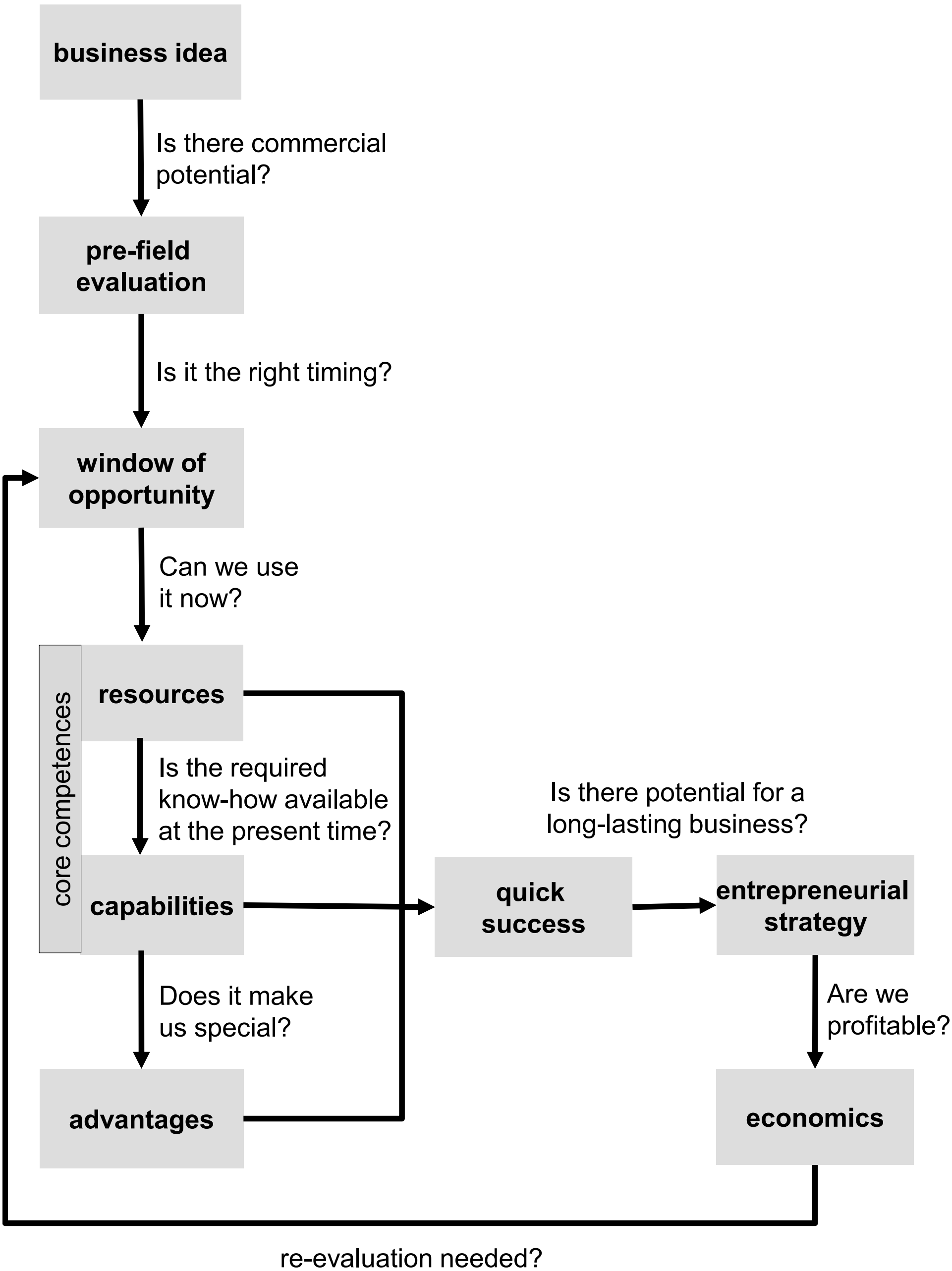


Figure 3.8: Entrepreneurial pre-field assessment of a business idea

3.2 Important Components of the Concept

3.2.1 Turn the Innovative Idea into a Concept

Once the idea is set, and considered as valuable, the Entrepreneur has to turn it to a business case. “**Business Development**” is considered to open up a new market for own new market offerings. It is concerned with the analytical preparation of potential growth opportunities for the management as well as the subsequent support and monitoring of its implementation. Stages when building a new business could be the following:

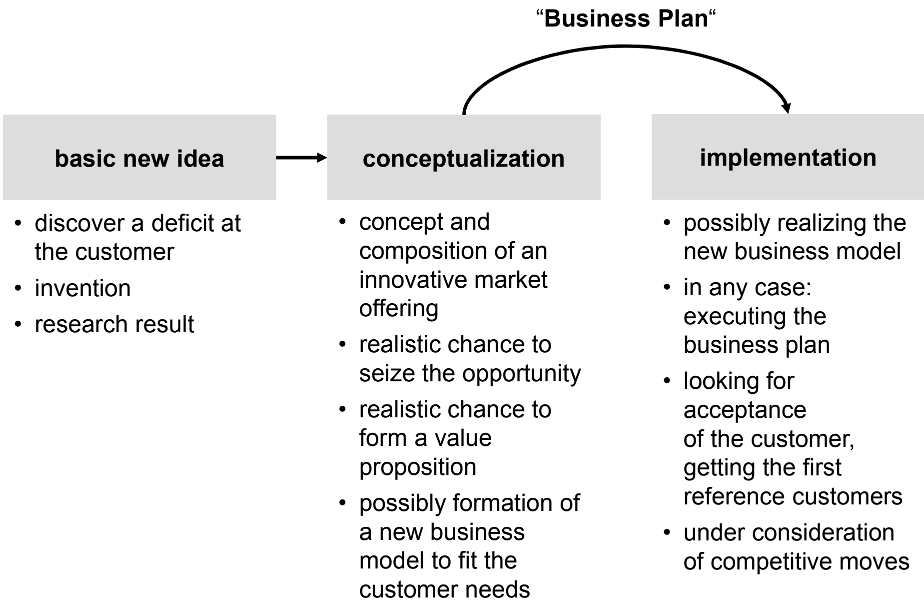


Figure 3.9: Stages when building a new business

To reach this task, business development has to collaborate and integrate the knowledge and feedback from the organization’s specialist functions, e.g. R&D, production, marketing, and sales to assure that the organization is capable of implementing the growth opportunity successfully (Sørensen). The tools to address the business development tasks are the “**Business Model**” answering “How to make money?” and its analytical backup and roadmap for implementation, the “**Business Plan**”.

3.2.2 Innovative Market Offering meets Customer

The market offering must be described in details. It could look like the following example of a small entrepreneurial company, specialized in milling:

	MILLING		
	development & making of machinery equipment	services	contract work
market offering	• milling machines of different size and performance for customized production	• milling work at the customer • programming	• customized production of milling parts • tool making • application making
target groups	• industry • model making	• medium-sized companies	• industrial companies of every size
current customer base	(no current customers, no prototype available at present time)	• customer A • customer B	• customer C • customer D
material usage	• 50 %	• 0 %	• 20 %
special	• assembly set • assembling and services based on additional agreement	• basic agreement over a long-time period	• inexpensive production costs • low management costs

Figure 3.10: Example of a market offering

The customer has to understand the market offerings and what is special about it. The characteristics of the market offerings, e.g. **technical features, can be transferred into benefit-oriented arguments**:

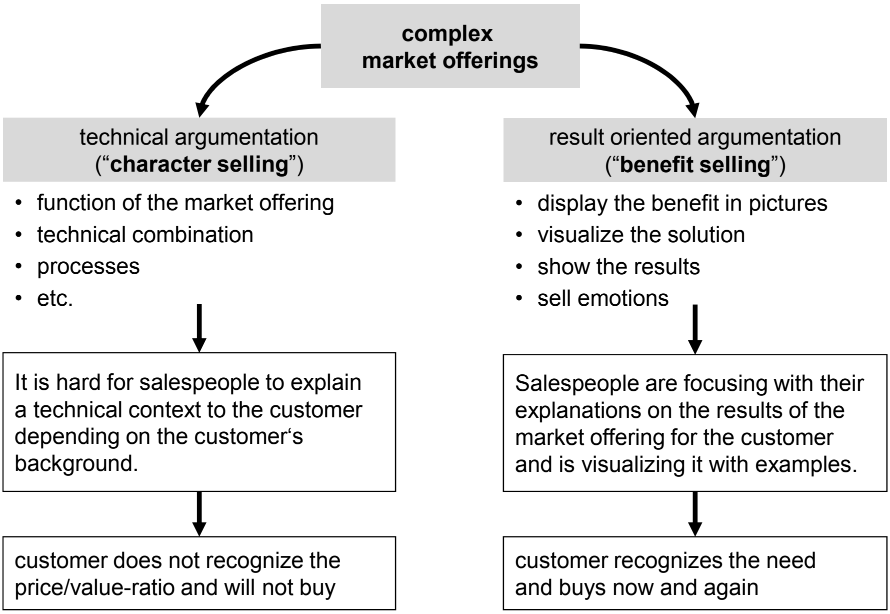


Figure 3.11: Alternative argumentations regarding the market offering

The customer understands **benefit oriented arguments**, as the following example shows (Kohlert 2005a: 171):

features "character selling"	**benefits for the customer** "benefit selling"
patented technology	• reduces material usage 20 % to 30 % • reduces set-up time 50 % • reduces cycle time 50 % as compared to conventional systems
low working height	• allows easy and safe loading/unloading • step tools are not required
modular construction	• chamber size can be selected to suit substrate size and quantity
hinged doors permit easy access to all components without tools	• service and maintenance are easy to perform • lowers operational costs
baffle free chamber	• reduces cleaning time and cleaning costs • lower material consumption • increases usable volume

Figure 3.12: Market offering from the customer point of view

The innovative market offerings have to be described clearly and be comprehensive. They also have to address the customer's needs in a proper and understandable way.

Now the company has to decide what they are going to outsource, the so called **make-or-buy decision**. Especially for start-ups, it is a basic and vital decision: Besides the business idea, will they build up resources for making the product, or will they rely on the job of their supplier and focus on the customer?

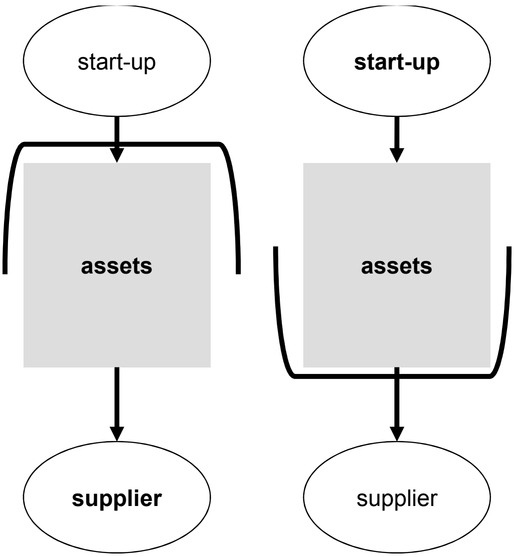


Figure 3.13: Comparing make or buy for a start-up company

The key considerations between "**make or buy**" are as follows:

- How easy is it to protect the own intellectual property (IP)? How much uncertainty is there? If the uncertainty is low, outsourcing of the assets could be an option.
- Are there any contractual problems with suppliers, e.g. unfair prices, quality issues? In these cases, assets should belong to the start-up.
- Is it a small market niche? Is there potential for a bigger market? Market niches may not be that attractive for manufacturing companies to enter it on their own. In this case outsourcing may be an option; however, if the market niche grows into a mass market, the evaluation may change.
- What are the own unique competencies: Do not underestimate the role of "entrepreneurial energy"; it might be destroyed if outsourcing is overdone.

The difficulty is that start-up companies cannot do everything on their own and mostly they are short of financial resources but also on human resources. There are not many examples of companies in general who are good in developing, making and selling the market offering at the same time. This depends very much on the **basic orientation of the company**. The company has to be aware of the following (Kohlert: 2013: 20):

1. What is the self-estimation of the start-up company at this early stage? Is the basic orientation more into the production, the product itself, the sales function, or the market respective customer focused (Kotler et al.: 25–27)? Or a more general question: Does the start-up follow the "inside-out"-perspective based on our core competences, also called "resource-based view" or the "outside-in perspective" based on our customer empathy, also called "market based view"?
2. What basic orientation are the customers expecting? What are the existing competitors basic orientations and why?
3. What is the basic orientation of the target customer? Is it possible to generalize it, i.e. do all of the potential customers have the same basic orientation?
4. What are the sales arguments, potential customers prefer?
5. What is the basic orientation of the own management team as well as of the employees who are already in the start-up company? The fixed basic orientation must fit to their values as well.

> Primarily in start-up companies, the reputation of the firm is well connected with the market offering. In case of outsourcing, the quality assurance must be secured to avoid kickbacks to the slowly growing company identity.

3.2.3 Customer Value

In order to assess the value of a market offering, the customer is balancing out the perceived costs of the market offering and the perceived benefits (Sherden: 91):

	perceived **benefits** by using the new market offering	perceived **costs** by using the new market offering
economic	• increased revenues because of bigger acceptance at their customers • decreased costs (including time and convenience) • expectation of enhanced assets • value of risk reduction	• total purchase costs are lower • relative price compared with competitive pricings • installation costs are lower • cost of use, e.g. expected maintenance costs, downtime costs
psychological	• fulfillment of self-image • prestige • entertainment • ease of doing business	• uncertainty that value will be obtained • potential personal threats and embarrassment

customer value = benefits ./. costs

Figure 3.14: Composition of the customer value

Examples for additional **customer value in B2B-markets** could be the following (Anderson/Narus: 5–6):

perception of customer value by B2B customers	• underbidding the promised delivery time • condition of the market offering when delivered • payment terms • understandability of product descriptions • quality and functionality of the market offerings • maintenance, repair and services (MRS) costs
help the customer to reduce administrative costs	• simplify billing • improve traceability
help the customer to reduce process costs	• improve yields • reduce waste, e.g. through recycling • reduce rework and thereby the direct labor costs • reduce indirect labor, e.g. inspection, handling • reduce energy costs
	• delivery on consignment • just-in-time delivery • optimization of SKU (= stock keeping units) • reduce cycle terms
reduce price to the customer	• substitute certain product components • improve company processes and supplier processes

Figure 3.15: Possibilities to offer added value to B2B customers

When companies are interested in working with the customer value they are going to offer, the following steps are important in the **customer value analysis**:

1. In which markets is our company, who are our customers, who are our competitors?
   → market segmentation
2. Who influences the purchasing decision in the company? Who evaluates our market offer?
   → definition of the "buying center"
3. What are the requirements of the customer to the market offering?
   → definition of buying criteria
4. What are important, what are not important buying criteria of the customer?
   → weight of the criteria
5. Is our company fulfilling the requirements of the customer?
   → evaluation from the customer point of view

6. Is the competitor fulfilling the requirements of the customer?
   → evaluation from the customer point of view
7. To what extent is the level of quality influencing the buying decision of the customer?
   → analysis of price/quality-sensitivity of the market
8. Where are our competitive advantages, where are our competitive disadvantages?
   → analysis of differences

The buying behavior of the companies is following certain rules and procedures. These must be identified by the salesman. The term "**buying center**" is used in describing the decision-making-process by which formal organizations establish the need for purchased market offerings and identify, evaluate, and choose among alternative brands and suppliers. It is composed of all those individuals and groups who participate in the purchasing decision-making process, who share some common goals and the risks arising from the decisions (Webster/Wind). The following **roles are typical in buying centers** (Webster/Wind: 77–80):

- **Users** are people who employ the market offerings. Users may exert from a minor to a very significant degree of influence on the purchasing decision. They may even initiate the buying process and play an important role in defining the purchase specifications.
- **Influencers** are people who influence the decision making process by providing information on criteria for evaluating the buying alternatives or by establishing product specifications.
- **Gatekeepers** are people who control the flow of information into the buying center.
- **Deciders** are organizational member(s) who have formal or informal authority and who eventually make the buying decision. To identify the decider is often the most difficult task. In routine purchases of standard items, the buyer is normally the decider. In complex purchasing decisions, the officers of the company often make the decision.
- A **promoter** is e.g. an engineer who designs specifications such that only one vendor can meet them becomes, in effect, an informal decider.
- **Buyers** are members of the buying center who have formal authority in the selection of suppliers and implementation of procedures involved with purchasing. Their major role is in selecting suppliers and negotiating purchases with buying constraints.

Customer's needs and perceptions may **differ in various markets**, especially when the entrepreneurial company turns into foreign markets, e.g. because there is an opportunity. The following example out of the machinery industry shows the differences:

	European customers	Asian customers
quality	• long-term operations are required • high quality expectation • necessary for the productiveness	• mid-term operation are required • middle range of quality can be acceptable • not a critical element compared to the labor in the manufacturing process
price (cost)	• based on TCO • long-term contract	• price sensitivity (first priority) • based on purchase cost • project bidding
time (delivery)	• scheduled order and delivery • customer's has products on stock • stable technology structure	• less organized order schedule • short-term delivery is required due to the OEM's short-term delivery to his customers • quick response is necessary • short-term development time

Figure 3.16: Customer value in two markets

Sometimes the differences are in the details and the company is hardly able to identify the facets of the market offerings where the customer in each country are focused on.

3.2.4 Seizing the Entrepreneurial Opportunity

An entrepreneurial opportunity is the base for a start-up company as well as for existing companies which are entering into new markets or launching new market offerings into the market. Nobody starts a new company without customers; nobody enters into a new market without at least some contacts to potential customers. It is always required to name the "**first ten customer**" before implementing the market entry strategy.

There are two **different approaches to the types of opportunities**, Schumpeter's approach to opportunity (Schumpeter 1934) and Kirzner's approach to opportunity (Kirzner 1997):

	Schumpeter's opportunity	**Kirzner's opportunity**
origin	• processes of change • disequilibrium	
action	proactive	reactive
means-end relation	creating of a new means-end relation ("creative destruction")	discovery ("alertness") of a new means-end relation
process	new combination of different resources	to detect the decision mistakes of other market participants
market equilibrium	destroying the market equilibrium	facilitating the market equilibrium
information	based on new information	no new information
degree of innovation	up to radical innovative	less innovative
frequency	rare	often

Figure 3.17: Schumpeter's and Kirzner's opportunity

- An opportunity based on Schumpeter's understanding has a very innovative character. The Entrepreneur is pro-actively searching for new opportunities, which will maybe result in destroying the existing market equilibrium.
- An opportunity based on Kirzner's understanding is the discovery of a less innovative opportunity which is leading to a new equilibrium.

Grichnik developed an "**opportunity map**" which supports the decision making processes around the identified business opportunity (Grichnik 2006, Grichnik et al. 2010: 33–48):

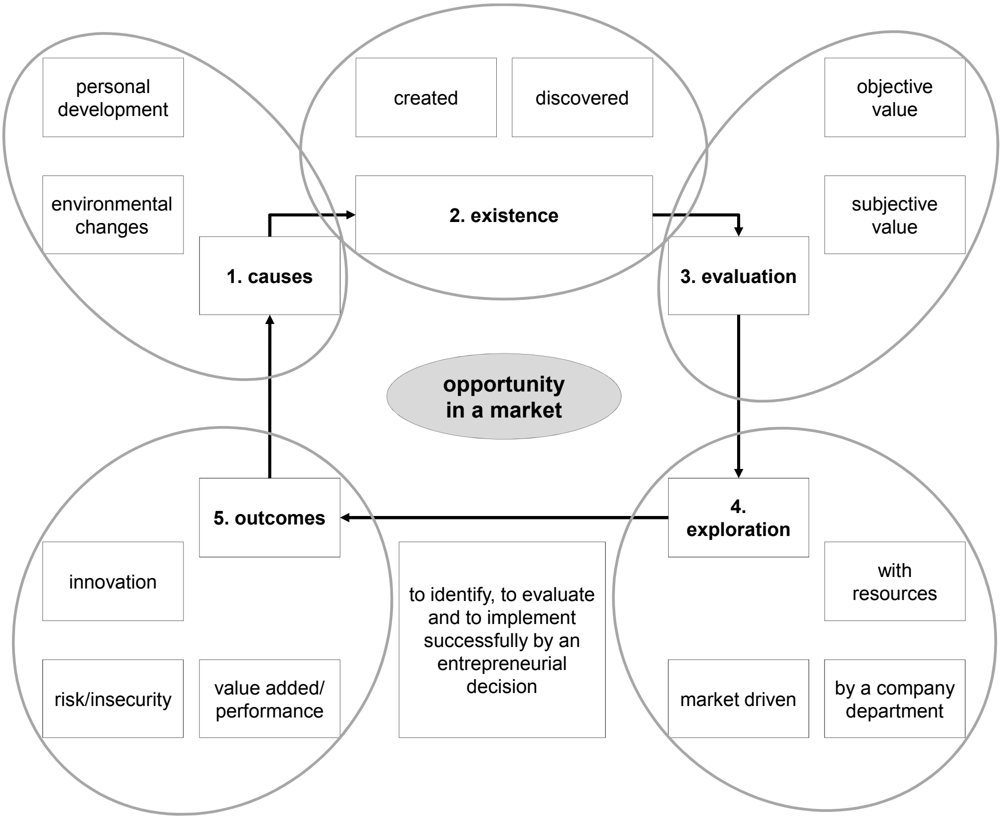


Figure 3.18: The "opportunity map"

1. **Causes for opportunities** arise from personal factors, e.g. motivation, wrong decision by other market participants, perception of customers and can be based on environmental factors, e.g. political, economic, social or technological changes (PEST analysis).
2. **Existence of opportunities** may be based on new market offerings, new used material, newly identified markets, modified production processes or new organizational methods.
3. **Evaluation of opportunities** can be based on more information in a trail-and-error process or the Entrepreneur is supposing a higher difference between market price and costs of resources than other market participants.
4. **Exploration of opportunities** is a decision made by an Entrepreneur who is willing to take a risk. Then the question is, what is the organizational form the Entrepreneur will start, e.g. with a start-up company, in an established company. Another aspect is the required financial resources, e.g. equity or the Entrepreneur has to find investors.
5. **Outcomes of opportunities** are innovations in new market offerings, into new markets, new industries, and new forms of organization.

To really seize the opportunity, the own new market offering must be 2 × faster, 2 × better, and 2 × cheaper than the known alternatives. In other words: There must be significant differences and benefits for the customer compared with the known alternatives. This requires that the Entrepreneur knows his customers very well. He understands how they are currently solving the problem, how their business processes will change by using the new market offer and he calculates the change, the "payback" for the customer.

3.3 Sales Function in the Business Building Process

3.3.1 Development of a Sales Process

A big percentage of the company's efforts and budgets are spent in attempting

- to determine just who are the prospects,
- to reach them with both, a message and a market offering and
- to persuade the prospect to buy, again and again and to receive recommendations of other potential customers.

A procedure must be established in the company which can be copied and new salesmen are able to learn the ropes fast. The prerequisite for that is an explicit defined sales process which could look like the following **5-step sales process**:

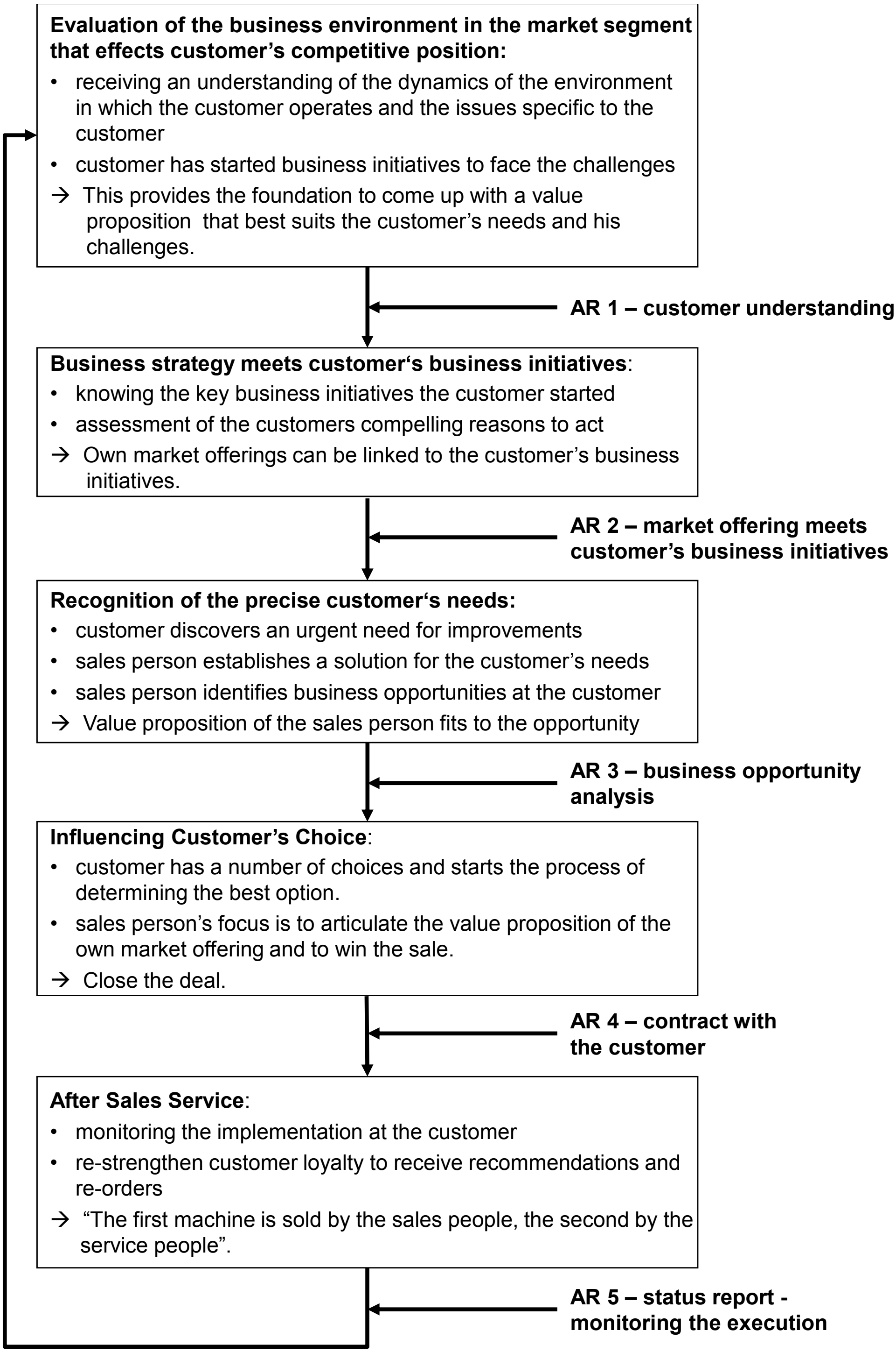


Figure 3.19: 5-step sales process

As shown above, the customers buying process has been broken up into five buying phases to which this methodology is aligned. Each step has a verifiable outcome, which provides the sales company with a reference point to know where they are in the selling process and monitor the success of the sales process. Each step needs sales aids and techniques, which help the salesperson to align with the customer and advance the sale with the objective of providing value to the customer. A sales process is designed to provide the salesperson with speed in closing the sales cycle, and increasing the volume and quality of sales opportunities.

There are several good reasons for **structuring the sales process**:

- To work on the optimization of the whole sales process is only possible, when it is mapped.
- New hired sales people can use the experiences of others.
- Tacit knowledge of sales people will become transparent and will support the next generation of sales people.
- When the company is expanding they are able to copy the sales processes which are a key success factor for substantial growth.
- In the new customer acquisition it is always visible in what stage we are and where it is necessary to act, especially when the sales process is running for a long time.
- Sales planning is more precise because the forecast better with more reliable sales figures of new customers.
- Clear definition of milestones with acquisition reviews, so that sales people know in what stage they are.
- When the company is expanding they are able to copy sales processes.
- The head of the sales department has a better overview about the overall activities.

> A sales process is designed to the specific needs of the customer and cannot be copied from other examples. The design always starts with the presence of sales structures, how it was done in the past, structures and optimizes it.

3.3.2 Customer Understanding as a Critical Part of the Sales Process

In general, new-to-the-market companies have to identify a significant enough customer problem to develop a sufficiently large market and the customers where the **customer pain** is big enough that the market is ready to buy now.

In the first step the salesperson analyzes customer's industry, competitors, and business direction, he understands the customer's technology and financing preferences and is able to prioritize among existing opportunities. "Acquisition Review" (AR) 1 is fulfilled when the salesperson agrees that a valuable relationship has been formed and the communication between the salesperson and the customer is starting. The business initiatives of the customer may be mapped to a salesperson's priorities.

In order to **understand the customer's benefits**, you model the positive effects on their business using your market offering:

- Step #1: understand how they are currently solving the problem
- Step #2: understand how their work processes will change by using your market offering
- Step #3: calculate the change, you must deliver excellent payback

The result of customer understanding is the identification of the most attractive customers, called "**customer classification**" which means to divide all prospects into important and not important. In case of an innovative supply company you could think about two important criteria to select the customer which appreciate the innovative market offering at most. Normally these customers are willing to pay the highest price. So the company could conclude e.g. the two criteria for selection might be a) degree of outsourcing, because you have to convince these companies to change what is not that easy, and b) companies who technology leader and appreciate high-tech solutions. This leads for example to the following portfolio:

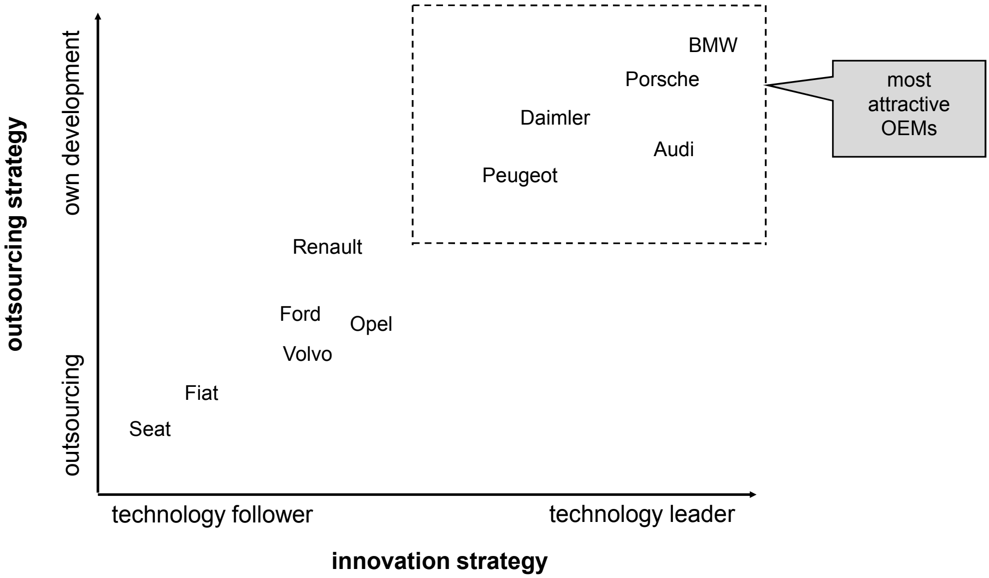


Figure 3.20: Identification of the right customers

Another **classification is by customer type** (Schultz et al.: 18):

type	description	desired results
regular customers	customers who always buy the “right” market offering	• strengthening purchase behavior • increase use • influencing time of purchase
competitor‘s regular customers	customer who always buy the competitor‘s market offering	• break brand loyalty • convince to try a new brand
changer	customers who buy different market offerings in this category	• convince them that they should buy the “right” brand more often
price watchers	customers who in principle buy the cheapest market offering	• bring attention to the “right” product by a lower price • offer the customer a greater benefit that will make the price appear less important
non-user	customers who don’t buy any market offering in this category	• make the customer aware that the product category exists • convince them that the product is worth being purchased

Figure 3.21: Customer type as classification

Later, the Entrepreneur will start to sort his customer contacts into A-, B-, and C-customers, the so-called **ABC analysis**:

classification	A-customer	B-customer	C-customer
20/80-rule	80 %	10 %	10 %
60/90-rule	60 %	30 %	10 %
plausibility	customer 1 + 2	customer 3 - 6	rest of the customers

Figure 3.22: ABC analysis of customers

Based on this classification, limited resources can be used efficiently in the sales function. The basic question is “Which prospects will provide what percentages of sales?” There are two possible **criteria for the ABC classification**:

- **Sales made in the past** where customers are classified according to their past economics, e.g. sales. This is a very simple but often used procedure, however it is not possible if the company is a newcomer in a market.
- **Sales expected in the future** where customers are classified according to their sales potential. In this case you have to consider every single customer/prospect based on his buying potential. As it is a complicated procedure it is mostly not preferred by the com-

panies but the only possibility for a newcomer. He will provide a list, e.g. with the following information to **rate the quality of his prospects**:

name, address etc. of company	contact person and his position	last meeting		next steps, position in the sales process	expected sales volume	future potential
		time	content			

Figure 3.23: Rating the prospects

> Customers rarely buy from you unless they have a relationship with you and your company. This requires that they believe that the salesperson understands their needs, their situation, their vision, their constraints, their corporate objectives, and even the personal career goals of the counterpart. So it is very necessary to know and to understand the deep benefit of the own market offering: What is the problem that your market offering is solving? What is the economic value of solving that problem? Who (at the customer) has the problem? Do they have the budget?

3.3.3 Addressing the Business Initiatives of the Customer

The recognition of opportunities requires that business initiatives of the potential customer are identified. "**Business Initiatives**" are projects, programs, plans etc., a company has implemented to address the business driver and therefore solve the problems which are already identified. You can assume that you are not the only one who is able to identify problems at your potential customer. The problems are probably well-known, the solutions are not. Maybe they have started to solve the problems already (business initiatives) but it did not work out.

For the salesperson is much easier to support existing problem solving efforts than try to sell something very new to the customer. The opposite would be "**missionary selling**", means the own market offering will change the business processes of the customer. This is much more difficult than supporting existing activities. The salesperson is **evaluating the environment of the customer** which is influencing his competitive position:

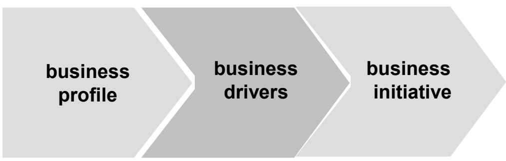


Figure 3.24: Steps to identify the business initiative

- The **business profile** includes statements about his industry, competitors, and strategic intentions as well as applied technologies/currently used solution and financial situation.

- **Business drivers** are existing challenges that the customer is facing and that is very well aware of. According to the business drivers the company is prioritizing the current business opportunities, following importance and urgency. This might have an organizational impact to the solution of the customer. Business drivers in a value chain may appear out of many different directions:

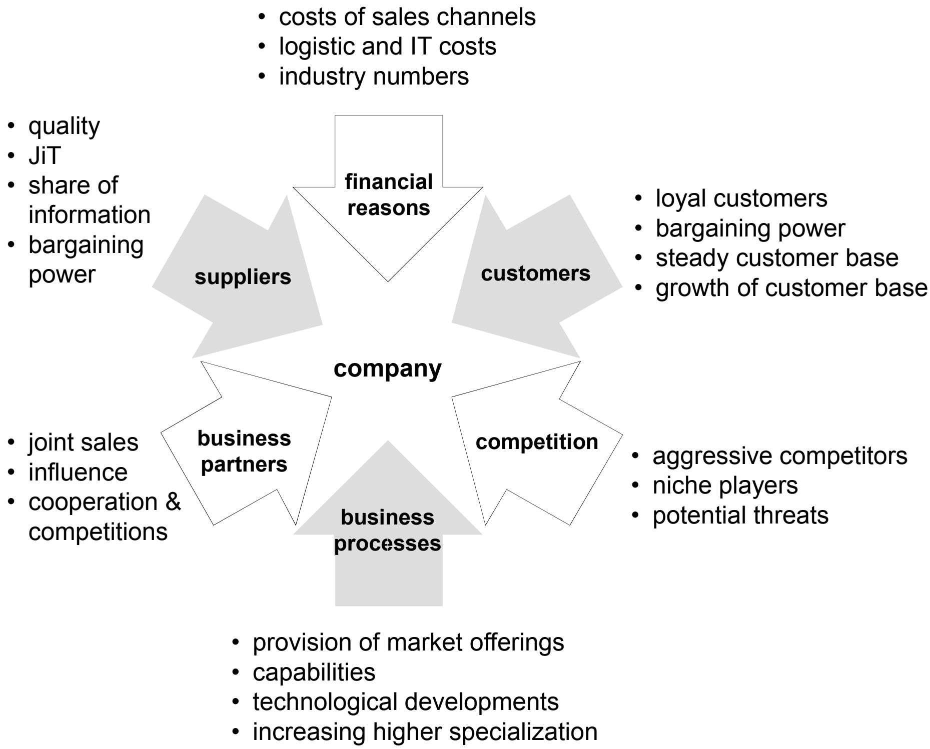


Figure 3.25: Identification of the main business driver

- If there is an existing “**Compelling Event**” the company has to act and is setting up business initiatives. The compelling event is the accelerator of the business initiatives: Now the company is in a hurry. To evaluate the compelling event and to make sure that he is leading the company to business initiatives it is helpful to follow through the following questions, to find out **customer urgency and importance**:
  - Why the customer does have to act?
  - When the customer does have to make a decision?
  - What are the consequences if the project is delayed?
  - What is the customer value, when the project will be realized in time?
  - What is the measurable impact of the project to the customer‘s business?

The evaluation of the business opportunity is the result: The business opportunity is really available and the own company has a good chance, to acquire the customer, even against a competitor’s moves. The salesperson has the solution to the problem and is able to communicate: “There is a solution for your challenges”.

3.3.4 Business Opportunity Analysis

The "**Business Opportunity Analysis**" provides a structured, repeatable method for assessing current sales opportunities. This sales aid helps to qualify opportunities faster and more effectively by analyzing them from the most critical customer, business, and competitive perspectives. Use of this aid will help to invest time, energy, and resources on the opportunities you are most likely to win.

There are several requirements in the own company to **recognize new business opportunities**:

- **Is there really a business opportunity?** The criteria under this question help you to determine whether the customer is motivated to take some action. In other words, does the customer have a compelling reason to act? Do we know enough about the customer's business to determine if the cost of the status quo exceeds the cost of change?
- **Is the own company ready to enter into this competition?** This set of criteria helps assess the question of whether the Entrepreneur is in a position to address the customer's problem or opportunity. Can the Entrepreneur provide value to the customer that can be differentiated from competitors?
- **Is there a real chance to make the deal?** This assessment area focuses on the informal organization. Is the Entrepreneur aligned with the right people in the customer organization? And do the most powerful people in the organization want the salesperson to win?
- **Is it profitable for the own company?** This question focuses on the value of the opportunity to the Entrepreneur to determine whether it is worth pursuing. If the salesperson wins the opportunity, will it provide us the return and profit newcomer's needs?

When setting up a business opportunity analysis the company of the salesperson goes through the following four core questions to analyze opportunities, just an example for an "**Business Opportunity Analysis**":

- **Identification of possible business initiatives**:
  – Some business initiatives are identified at the customer
  – For each business initiative, two to three own critical success factors (CSF) (strengths of the own company) are identified as well
  – List each business initiative followed by its critical success factors in the first column of the solution map
- **Own capabilities must match the business initiatives**:
  – List your current, relevant capabilities across the top of the solution map, relevant for the recognized business initiatives of the customer.
  – For each business initiative and critical success factor, check your capabilities that could add value.
  – Brainstorm how you can find additional capabilities or resources required to add value to the customer.
- "**Solution Map**" where strengths match the critical success factors
  – Circle the items that provide you differentiation from your competitors.
  – Brainstorm how you can further differentiate from the competition.

	capabilities of the company						
strengths of the company	**1**	**2**	**3**	**4**	**5**	**6**	**7**
business initiative I: CSF 1 CSF 2 CSF 3	X						
business initiative II: CSF 1 CSF 2 CSF 3		X					
business initiative III: CSF 1 CSF 2 CSF 3							

Figure 3.26: Solution Map in the “Business Opportunity Analysis”

Where the own strengths fit the critical success factors (CSF) at the customer these are the business initiatives of the company can go after. The **identified business opportunities** should be gone into details. Companies will put together their set of questions how to evaluate business opportunities. The following is just an example how it could be done with four separate questions:

Questions #1: Is there an opportunity?

	criteria	**assessment**			
1	**project definition of the customer**	defined	**+**		
		undefined	**-**		
2	**customer‘s business profile**	strong	**+**		
		weak	**-**		
3	**customer‘s financial conditions**	strong	**+**		
		weak	**-**		
4	**customer’s access to funds**	yes	**+**		
		no	**-**		
5	**compelling event at the customer**	defined	**+**		
		undefined	**-**		

Figure 3.27: Core question in the “Business Opportunity Analysis” #1

Question #2: Can we compete?

	criteria	assessment			
6	formal purchasing criteria of the customer	defined	+		
		undefined	-		
7	"Solution Fit" to the customer's problems	good	+		
		bad	-		
8	sales resource requirements to the own sales team	high	-		
		low	+		
9	current customer relationship	strong	+		
		weak	-		
10	unique business value	strong	+		
		weak	-		

Figure 3.28: Core question in the "Business Opportunity Analysis" #2

Question #3: Can we win?

	criteria	assessment			
11	inside support at the customer	strong	+		
		weak	-		
12	executive credibility of the own management team	strong	+		
		weak	-		
13	compatibility of the two corporate cultures	good	+		
		poor	-		
14	informal decision criteria at the customer	defined	+		
		undefined	-		
15	political alliances within the company of the customer	strong	+		
		weak	-		

Figure 3.29: Core question in the "Business Opportunity Analysis" #3

Question #4: Do we want to win?

	criteria	assessment			
16	short-term revenue with the customer	high	+		
		low	-		
17	future revenue with the customer	high	+		
		low	-		
18	profitability of the customer	high	+		
		low	-		
19	degree of risk of doing business with the customer	high	-		
		low	+		
20	strategic value of the customer	yes	+		
		no	-		

Figure 3.30: Core question in the "Business Opportunity Analysis" #4

After every single question the results will be monitored. After every single question the following evaluations are done:

- A-Leads fulfill all five criteria with +
- B-Leads leave questions open
- ?-Leads leave many questions (5) open
- Waste will be identified as not qualified

The analysis continues with the next question, if all the evaluation of the previous questions are satisfactory answered. The support from the marketing department depends on the classification:

- Support to A contacts with providing industry, competitive, and market information, sales arguments, value proposition for A-contacts or key accounts, preparation of mailings, flyer etc.
- Support to B-contacts with the preparation of eMails, direct mails, and campaigns, as well as call-center services

Objectives for B-contacts are to lead them to A-contacts; ?-contacts to lead them to B-contacts.

A systematic opportunity analysis makes the sales process and the evaluation of business opportunities art customers transparent. It helps the head of the sales department to manages "his" sales people and to understand quickly what are promising prospects, who is working systematically to success etc. This tool is important when expanding the sales function in a company is a vital topic. It is a vital part of the standardization of the sales processes which provides the basis for company growth.

3.3.5 Sales Strategy to Win the Contract

When everything is positive, the company can put together the **sales strategy**:

V ision (long-termed objective)		Where does the company's road go to?
		• long range, visionary • defined by the management team/stockholders/owners
P	rofil	What must the company know?
		• macro: industry profile, company profile, customer information • micro: sales plan
O	bjective	What must marketing & sales accomplish?
		• SMART: specific (market offerings)/measurable (order size)/ambitious/ realistic/time (close date)
S	trategy	How will the company achieve these objectives?
		• describe the general approach • the route to the objective
A	ctions	What specific actions will the company implement?
		• connected to the strategy • identify the specific people, systems, and money required

Figure 3.31: Putting together the sales strategy

An important issue when pursuing the opportunity is the **first sales presentation**. Some practical recommendations for the oral presentation (Kinnear/Taylor: 694):

- check all equipment before the presentation
- have a contingency plan for equipment failure
- analyze your audience and their reactions to the results
- practice the presentation several times
- start the presentation with an overview
- face the audience at all times
- talk to the audience rather than reading from a script
- use visual aids effectively
- avoid distracting mannerisms while speaking

Some **recommendations for the written version of the presentation** (Kohlert 2013: 307):

- It is not the market offering that stands in the fore front, but the solution to the problem which it offers the customer.
- Anything, that **does win sympathy and approval should be done,** without negative words, exaggerations, self-praise.
- **Presentations must be understandable**, the further procedure easy and the pricing clear.
- A presentation **must have a good start**. This awakes the interest of the listener and gives the salesperson the relevant certainty.

- **Emotional appeals** are preferred to rational appeals. Type and scale are dependent on market offerings. For example: Naturally a machine can‘t be sold only by emotional appeal, but it doesn’t occur entirely without.
- Should emotional appeals be used, then in a **positive sense**. People like an intact world. This positive image carries over onto the own market offering.

> If the audience is asking questions, it is a sign of interest. Make sure that you understand the question. It is appropriate to repeat the question or to rephrase it in own words, if it is a difficult question. Answer questions briefly and support your answers with examples whenever possible. Do not spend too much time in answering a question, other participants may be bored: one question, two sentences as an answer.

3.3.6 Monitoring the Execution

The legendary Henry Ford paraphrased “The sale of a car is not the closing of a business deal, but the beginning of a relationship.” Today you would call it “**Customer Relationship Management**” (CRM), but already at the beginning of the 20th century, it was being practiced. By use of customer relationship management a company can form the relationship to be closer and more long term: CRM is a customer oriented company philosophy which attempts to build up and fortify with help of modern information and communication technologies to establish:

- long-term profitable customer relations
- by integral and individual marketing, sales, and services concepts.

Customer relationship management encompasses two central areas (Hettich et al.: 1346):

- First, CRM requires the input of integrated information systems. Only by bringing all the customer related information together and synchronizing all communication channels can an integral picture of the customer be made (“**one face of the customer**”) and consequently, also a distinctive approach to the customer (“**one face to the customer**”).
- Behind the CRM-idea is far more than just a pure software solution. CRM also stands for a new company strategy. In order to conduct a successful CRM, a reorganization of various businesses processes and responsibilities regarding the customers must occur.

A **customer-centered company** has **special requirements to their staff**:

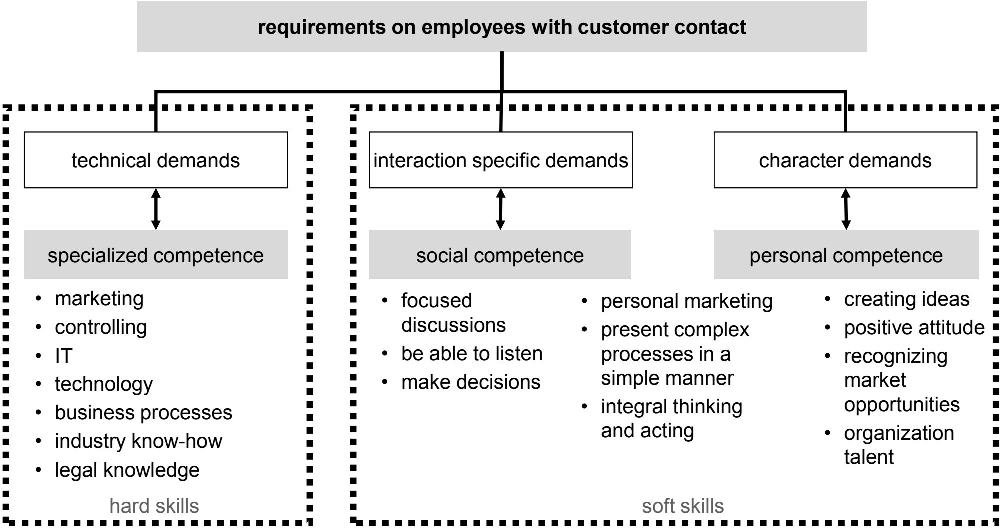


Figure 3.32: Special requirements to the service employee

They must not be a technical expert but they have to be a dialog partner to the customer, means they need technical expertise. They have to build up trust to the customer, means the service employee needs social competence and he may create a new proposal to the customer to help him to become more successful, means he has to have a personal competence.

Services can be a part of the market offering or a separate "product". It both requires it requires some considerations (Tyndall: 161):

linked to corporate strategy	• company's approach to service management should flow from its strategy • commitment to customer service is an important element of most corporate strategies
tailored to customer needs	• assessment of customer needs and expectations should be a routine element of service management • companies have to set priorities and to focus their resources on more important aspects of service
use customer-oriented measures of customer service	• using customer's criteria to measure the impact and quality of the own customer service • otherwise performance measurement is meaningless or misleading
predictable and consistent	• customer must be able to rely on company's services • consistency of the services is important independent on the person, who is providing the services
applied selectively	• awareness that some customers are more important than others at most companies and that they need a special treatment • multiple standards or a range of acceptable performance gives the company the ability to focus its resources on the most valuable customers
designed to balance cost and benefits	• customer service programs should aim for an optimal balance between increased sales or profits and increased costs • investments in service management should be directed toward areas offering the greatest returns to the company
constantly revised and renewed	• customers evaluate a company's customer service relative to its competitors, so a program that is excellent today may be inferior tomorrow • other factors can also affect customer needs and perceptions

Figure 3.33: Services are embedded in the company

A company continually evaluates needs and makes innovative market offerings to meet the needs of their customers. No doubt services are the tie to the customer and the prerequisite for a long lasting loyal relationship and the base for recommendations!

3.4 The New Business Model

3.4.1 Value Proposition as Key Concept

After getting a good understanding the customer's business environment and performing an opportunity analysis the next step is to meet with the customer to discuss the Entrepreneur's value proposition. The "**Value Proposition**" is balancing out the advantages and disadvantages of a market offering and communicates the unique business value through focus on own strengths and the conjunction between unique business value with the compelling event:

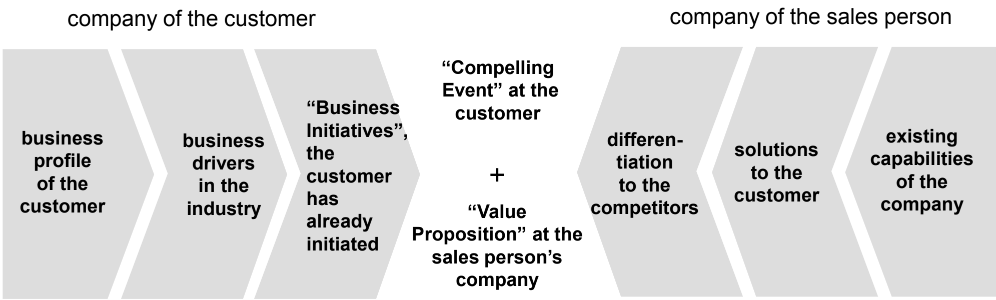


Figure 3:34: "Compelling Event" meets "Value Proposition" in a sales case

Once you have a map of all the relevant customer segments, you can assess the opportunities for your business unit to deliver superior value to each. Value proposition means offering the people in those segments the benefits they desire, at or below the desired price, so that competitors can't easily match the results. The value proposition describes, why the own company can realize this particular project at the customer and why better than the competitors.

As a part of the business model, the value proposition of a company is a very vital part of the corporate success. The **evaluation of the quality of a value proposition** can be done with the following questions (Lanning/Michaels: 54):

- Are the benefits explicit, specific, and clearly stated?
- Is the price explicitly stated?
- Is the target customer segment (or segments) clearly identified?
- Is the value proposition clear and simple?
- Is it clear that the value proposition is superior for the target segment?
- Is the value proposition supported by evidence of adequate demand?
- Is the value proposition supported by evidence of acceptable returns?
- Is the value proposition viable in light of competitors' value proposition?
- Is the value proposition achievable? Are the required changes to the current business system feasible?
- Is this the best of several value propositions considered for this company?

So the value proposition should be developed based on:

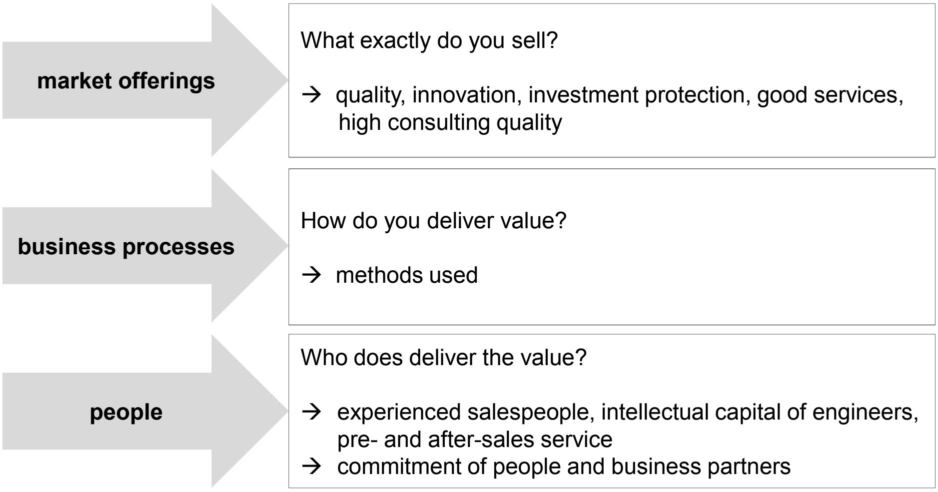


Figure 3.35: Development of a value proposition

The answer to the following questions must be prepared to **protect the own value propositions**:

- What are the specific and measurable results delivered by this project?
- How is the customer defining “benefits“ and “customer value“? How is the customer measuring it?
- How do we have defined these variables in the language of the customer?
- Does the customer accept the delivered value?
- How does this delivered value show a difference to our competitors?

The value proposition is a promise of customer value to be delivered and a belief from the customer that this value is needed and will be experienced. Creating a value proposition is a part of the corporate strategy and therefore an essential ingredient of the entrepreneurial company.

3.4.2 Concept of the Business Model

The “Business Model” is an addition to an old discuss of the **sequence of strategies and actions** which was a development over the times (Zollenkop: 100):

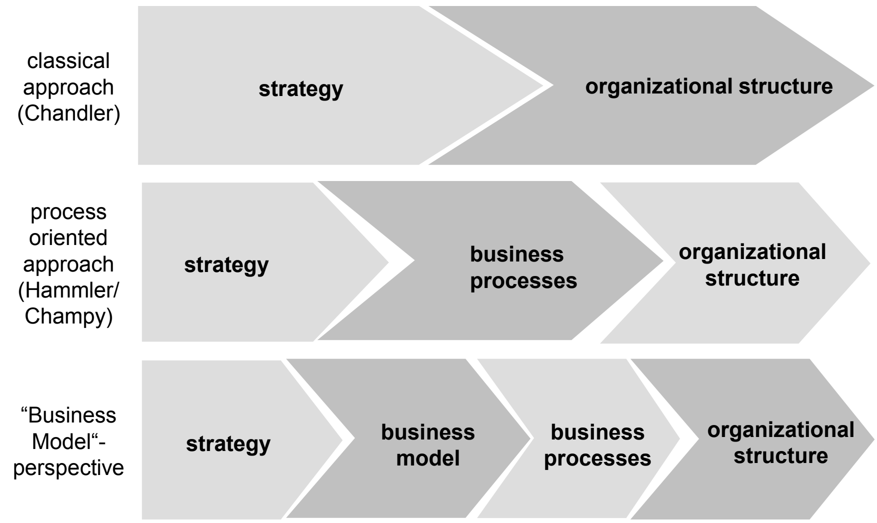


Figure 3.36: Composition of strategies and actions

What is the “**Business Model**”? Companies were classically thinking about with what product/market-combinations can they earn money? The business model has a much broader view:

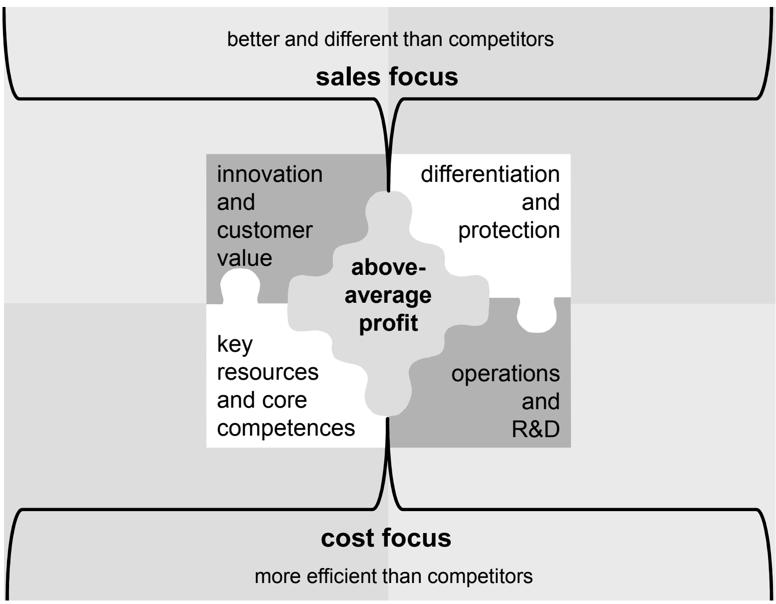


Figure 3.37: Main fields of action in a business model

A business model is a model by which a company uses its resources to offer its customers better value than its competitors and make money doing it. It tells who pays, how much and how often. A business model consists of three **core components**:

value proposition	• What is the customer value, the company is offering? • What are the benefits, customer or other partners of the company own when doing business together? • What precise customer value arises? • Can the customer in those segments being offered the benefits they desire, at or below the desired price, so that competitors can't easily match the results?
profit model	• How can you earn money? • What are the different sources of income for the company? • The future income will decide about the value of the business model and its sustainability.
operations/R&D	• How will the benefit for the customer be generated? • The operations includes the description of the different stages of the value chain and the different economical roles in the value chain. • How to put together the market offering? • Which market offerings will be offer in what market segment (product/market-combinations)?

Figure 3.38: Key components of a business model

The business model of Osterwalder & Pigneur gives an excellent overview about what the company is doing (Osterwalder/Pigneur, Kohlert 2013: 86–88):

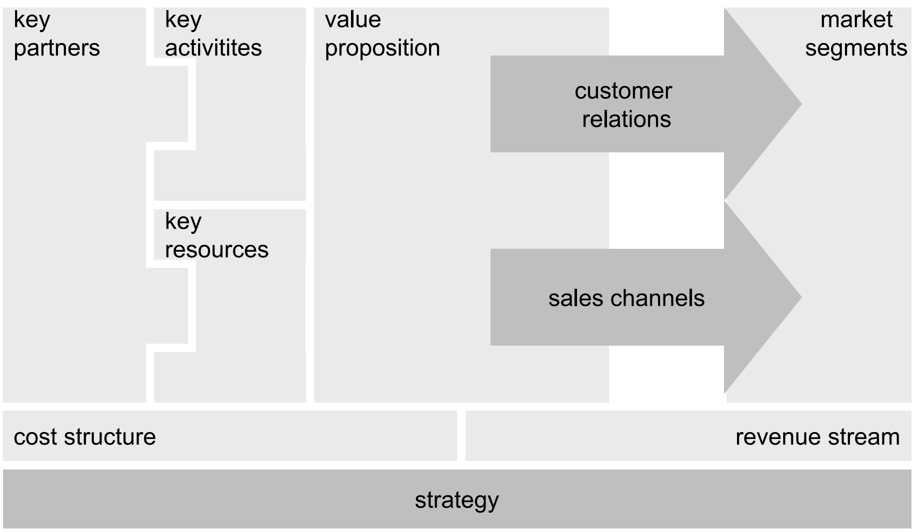


Figure 3.39: "Business Model" of Osterwalder & Pigneur

- The "**Value Proposition**" describes the part of the market offering which provides customer value for a specific market segment. This is closely related to the problem solving of the customer to satisfy his specific needs. This is also the starting point of the consideration, which market offerings should be offered in order to optimal positioning of the market offering.
- The **market segments** define the homogenous groups of customers the company is focused to sell their market offerings. This can be mass markets, niche markets etc. The key question is for which market segment could be generated the highest customer value and which market segment will appreciate this value at most.
- The customer will be reached via the **sales channels**, which are suitable and where the ratio costs of sales and achievable target price are best appropriated.
- **Customer relations** will be build up and also maintained in every single market segment. The span is from self-service to individual supervision.
- The result of these activities is a **revenue stream** based on the real and reached prices and the quantity of sales. The question "What price will the customer in the market segment accept for this particular value proposition?" is answered and which price for the core of the market offering and which for the additions or maintenance. This also depends on how much the customer is currently paying or the alternative solution with the current value proposition. Under revenue stream you normally understand several sources. The quality of the streams is later important for risk assessment of the profit model in the business model.
- Inside the company **key resources** must be available, to provide the extraordinary value proposition.
- These key resources are linked with the **key activities** which are critical for success and which could not be applied without the resources, e.g. in the production, certain quality of staff to maintain excellent services.
- Complete solution of the customer's problems normally require cooperation with **key partners**, without them, the implementation of the business model would not be realizable. The key partners provide the strongly needed complementary assets. These partners must be identified, selected and integrated into the own business model.
- The underlying **cost structure** will focus on those key activities, key resources and key partners, which are particular cost intensive.
- A **strategy** connects the company with a constant and consistent direction, where the company is moving.

3.4.3 Outcomes of the Business Model Analysis

When the existing company has put together their business model, they are able to go deeper into every single part and look for improvement opportunities, e.g. how to improve the "market segments":

1. reduction of the dependency of one market segment
   → search for market segments with similar customer needs
2. missing market segments
   → searching for neglected market segments or market segments which were eliminated in the past

?

leading question:
Is it possible to expand with cooperations into market segments or country markets which would not be possible on a stand-alone basis?

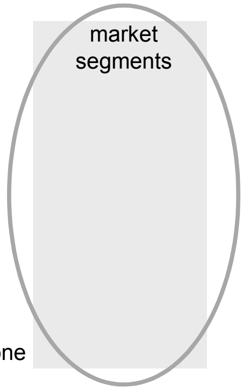


Figure 3.40: Example – starting point "market segments"

Another point of view could be how to increase the "revenue stream":

1. extension of the existing market offerings:
   → current market offerings with additional potential of enriching
2. new market offerings
   → low development costs because very close to the core business with potential for further revenues

?

leading question:
Is it possible to unlock more sources of income through using the core of the current market offering?

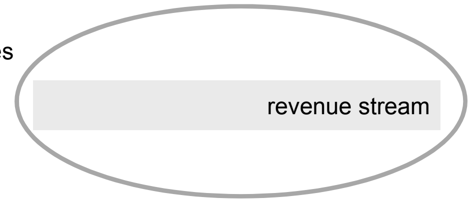


Figure 3.41: Example – starting point "revenue stream"

When the business model was put together the company can draw certain conclusions:

- Successful new companies or business units stand on two feet – at least. Therefore it is called revenue stream which usually contains several sources. This is very often a starting point for improvement opportunities after the business model is put together.
- Companies may focus on one part in one planning period, e.g. to grow and will derive recommendations for further actions.
- The "**Big Picture**"-perspective of the company allows to receive an overview about the own company, the business model is in the middle:

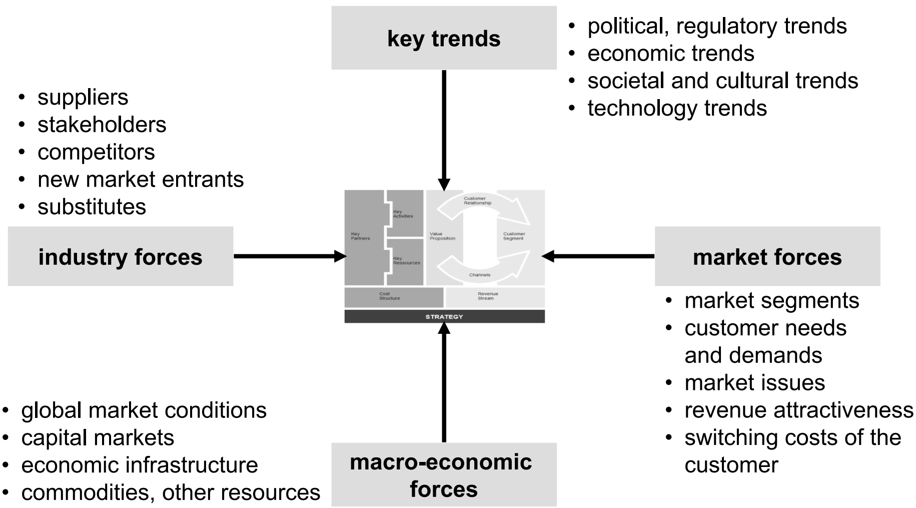


Figure 3.42: “Big Picture”-perspective of the company and its environment

As a result of this perspective **Entrepreneurs have to anticipate future developments**. As it needs time to build up a solid foundation of the own business, the results of the entrepreneurial activities can be harvested in the future!

Existing companies may take into consideration how **new businesses ventures may effect their business model** and is it still compatible to the company developments? This is what should be screened:

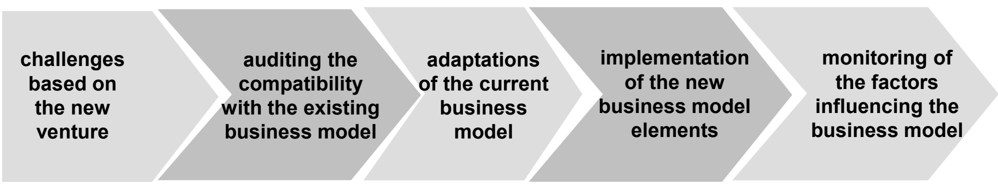


Figure 3.43: Testing the compatibility of the current business model

3.4.4 Reflection of the Business Model with Innovations

A company can innovate in several areas:

- The business processes can be renewed, mostly the focus is on efficiency in the internal processes.
- The market offerings are developed further and are leading to a higher customer value. This is recognized in the public and may lead to a higher reputation of the company.

In both cases, only parts of the company are mostly involved in this innovation. The third possibility is to innovate the company as a whole and sometimes even the industry rules. This is called the **innovation of the business model**.

The business model is a living model which is not constant for all times, but must be adapted to the developments and external environmental changes:

Figure 3.44: Business model and innovation

The strategy is decisive for the direction of the future business model:

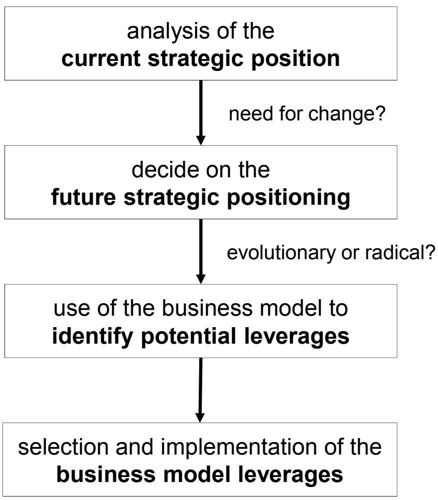


Figure 3.45: Roadmap for innovating the business model

Innovating the business model means to work on its core components value proposition, profit model and operations/R&D with the result to increase customer value. The step is to identify the leverages to innovate the business model in these three core components:

- How can the value proposition being developed?
- How can the profit model being improved?
- How can the operations being more effective to generate a higher customer value?

It may help to develop possible innovations based on the business model and later decide which ones are the relevant:

Name of the business model innovation:		
short description of the leverage	**well-known example in the industry**	
procedure (pre-requisities in the own firm)	**advantages** plus customer value	**disadvantages** plus possible risks

Figure 3.46: Further procedure in innovating the business model

The questions in the procedure may be divided into the main questions (prerequisites) and questions that are supporting the answers to these questions.

> The business model is not a constant dimension but may change over time. Therefore it is advisable to screen it and analyze the current fit of the business model to the environment.

4 Entrepreneurial Strategies

4.1 Strategic Thrust of the Entrepreneurial Company

4.1.1 Entrepreneurial "Big Picture"-Perspective

There are no big differences between existing or new companies except for the complexity. To get a first overview about the new strategy companies can start with following issues, all the different parts of the strategy framework belong together:

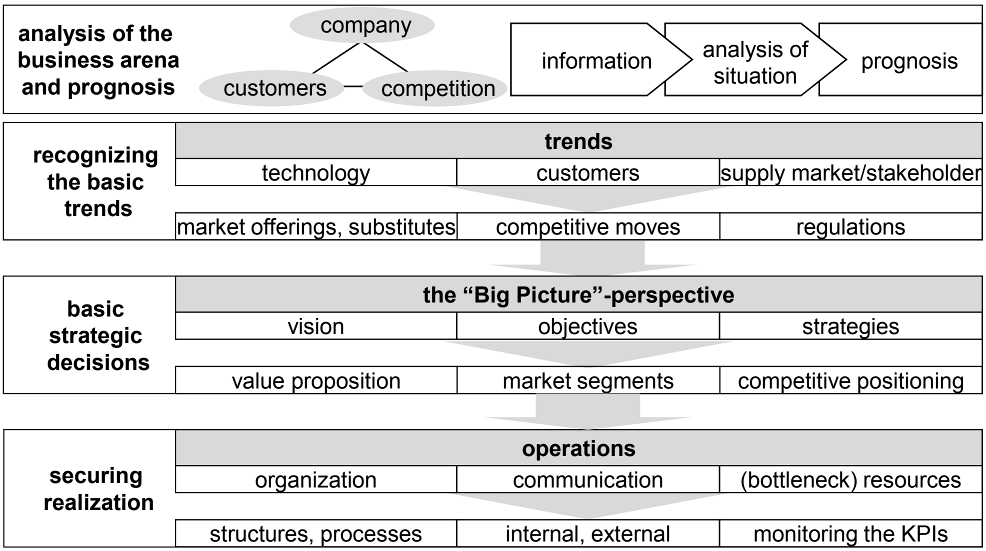


Figure 4.1: "Big Picture"-perspective of the entrepreneurial strategy

The **conditions** for putting together an **entrepreneurial strategy** are the following:

- The company has already analyzed the market, the competitive environment, and is aware of his own strengths. With the available information the Entrepreneur is able to understand the current situation and is able to anticipate the future development. Entrepreneurs are investing in new trends, they do not add an additional product into a long list of competitive market offerings!
- The company already recognizes the trends and knows, how technology etc. develops over time in the foreseeable future. They are able to build up their business based on a trend.

Strategies bridge the today and the tomorrow (Kohlert 2013: 29):

Figure 4.2: Strategies as bridge to the future

Core values in a company are the basis for the vision. They are historically developed and/or consciously created, socio-cultural and rational elements, communication and active and visible exemplification by the management and statements about topics such as customer/market, growth, quality, innovation etc.:

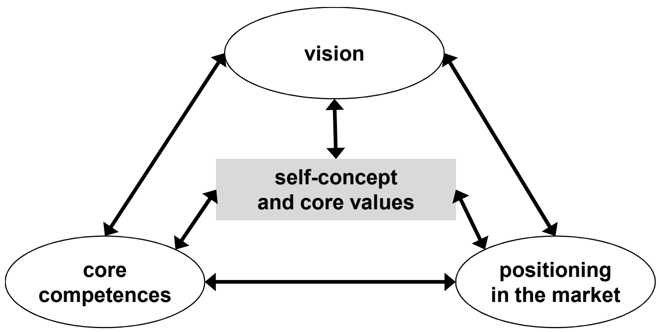


Figure 4.3: Role of core values in the entrepreneurial company

These core values are also implicit available in entrepreneurial companies, however, to work with them it is advisable to make them transparent. Starting with the vision, they effect all the other steps in the process of a strategy:

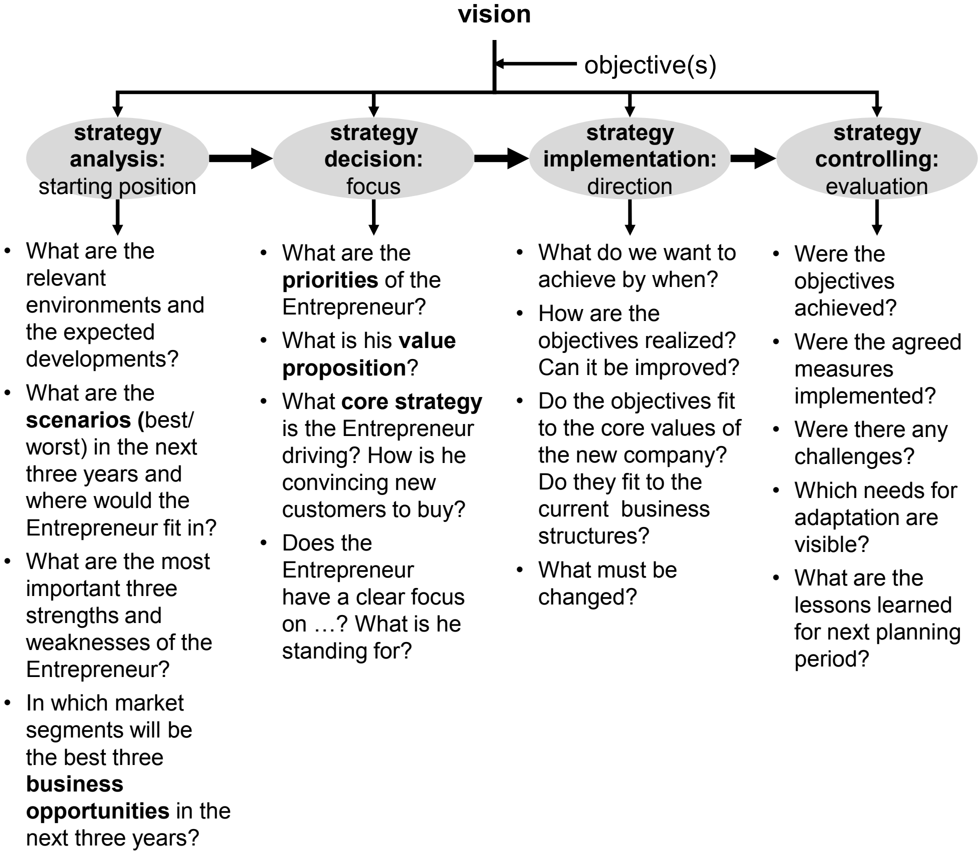


Figure 4.4: Starting point "vision" for an entrepreneurial business

An entrepreneurial company has to achieve to establish a well-organized company:

- In the objectives the key question is "**What is the future intent?**" It is the task of the stockholder to discuss it out and to lead it to a decision.
- The strategy will answer the question "**How will we be successful in the future?**" This will lead to issues like customer value orientation, strengthening the value proposition and the business opportunity management and will finally lead the entrepreneurial business to effectiveness.
- The business processes will focus on "**How is our business running optimal?**" Every organization needs a systemic frame. The business structure will reveal "**How is our company functioning?**" in a good running company, responsibilities are clear in the operations (staff, infrastructure, methods) which is the prerequisite to gain efficiency.
- The evaluation will focus on "**Are we achieving our objectives?**" and use key performance indicators (KPI) to monitor the progress. It is essential to know that the company is on the right path or not.

A good running company has answered these questions and has aligned them into one concept. Altogether it is the **strategic thrust of the Entrepreneur**.

4.1.2 OSA-Process

There is a strong connection between on **objectives, strategies and actions** (OSA):

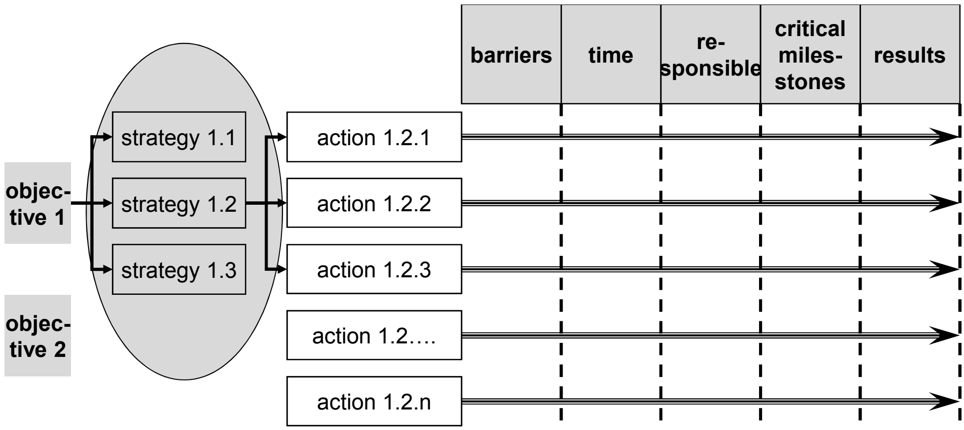


Figure 4.5: Objectives, strategies, and actions are aligned

Objectives are intended future situations, e.g. a detailed position in every business segment, and objective are always quantifiable. But how would you define an objective? The characteristics of **good objectives** are smart. **SMART** stands for specific, measureable, ambitious, real, and time. Only "**good**" **objectives**:

- bring confidence that the Entrepreneur is on the right way
- set priorities and concentrate the resources on the envisaged main emphasis
- allow for controls to see if the agreed targets have really been reached and if necessary, are still correctable
- make bank talks easier, because the banker is knows quickly what development the company is striving for
- are the base to derive appropriate strategies

Besides reaching a certain amount of profit, **typical objectives for Entrepreneurs** may be the following:

- get the access to the new market, e.g. the first ten customers
- increase liquidity, especially in the first years of the new company
- give evidence that the innovative market offering works

Key strategies are the directions to reach the objectives. They are answering the simple question "**Why should our customer buy our market offerings now and in the future?**" Now the company has to develop strategies to put objectives in action:

basic objective of the company	(precise) **objective** of the company	**strategies**
market entry	achieve sales of € 10 M within three years	• market entry (new countries, new industries) with the market offering as spearhead • development of additions to the new market offering and services (step #2)
	achieve positioning as "technology leader" in the market segment within three years	• build up efficient sales channels, at least two different channels • develop the business processes, in the first step standardize the sales process

Figure 4.6: Turn objectives into strategies

The **actions** turn the strategies into practical next steps, as the following example shows (Kohlert 2013: 278):

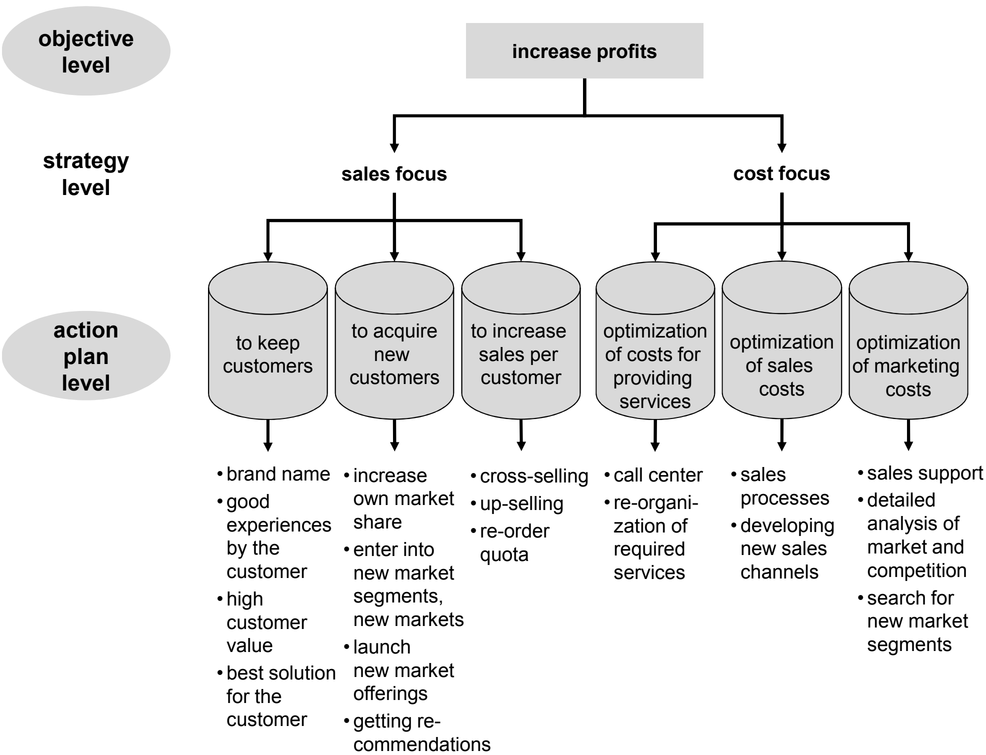


Figure 4.7: Realization of the objective "increase profits"

Four recommendations for Entrepreneurs in their OSA-process:
1. Start early with the strategy process: Include the right people, communicate, adjust, and implement, pay attention to the fact, that employees need “early wins“ to affirm that the venture really works, some managers also!
2. Set real objectives: Do not plan over-optimistic or over-pessimistic and do not calculate resources too short.
3. KISS – Keep it short and simple: Only work on the most important issues (“need to have“) with a high priority, details (“nice to have“) belong in the appendix.
4. Put it in writing to be more precise. Writing forces people to go into details and to become more credible.

4.1.3 Leading with Key Performance Indicators

Later in the process, you might include key performance indicators to measure the progress. “**Key Performance Indicators**” (KPI) are measuring the critical success factors of the company and are linked with company’s objectives:

<table>
<tr><th colspan="3">annual plan of the management</th></tr>
<tr><th>objectives</th><th>strategies</th><th>KPI</th></tr>
<tr><td>1.
increase profitability
2.
increase customer orientation
3.
assure the key processes</td><td rowspan="3">1.
company: constant hr-costs despite increasing wages
company: decrease variable material costs
R&D: decrease fixed material costs
company: increase capacity utilization

2.
company: introduce complaint management
company: conduct customer survey

3.
company: identify the core processes, describe, and audit</td><td rowspan="3">1.
+ 1%

- 2%

- 2%
+ 2%

2.
50% of the units

50% of the sales

3.
20%</td></tr>
<tr><th>indicators for achievement of objectives</th></tr>
<tr><td>1. profit
2. a) ratio of customer complaints
b) ratio customer survey
3. a) ratio description of processes
b) ratio internal audits</td></tr>
</table>

Figure 4.8: Key performance indicators (KPI) in action

Often the SWOT analysis is used as a starting point to develop and to establish KPIs in a company:

Stage 1:
SWOT as starting point

S	W
O	T

- Strengths provide a competitive advantage in terms of the prioritized opportunities.
- Weaknesses may cause difficulties in maintaining or achieving competitive advantages.
- Opportunities are existing or potential forces in the business environment that the company prioritized to act upon and will lead or strengthen their competitive advantages ("Where to play"-choices).
- Threats are existing or potential forces in the business environment that could prevent the company from maintaining or building up the competitive advantages.

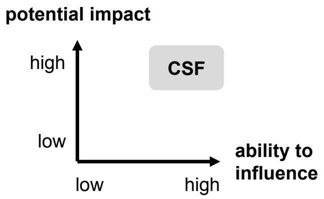
Stage 2:
identify priority issues to address

critical issues identified in stage 1	potential impact	ability to influence
1	***	*****
2	*	*****

- Rate all the identified issues from stage 1 according to the two dimensions and highlight the priorities, e.g. in a portfolio.

Figure 4.9: KPI development guide – part 1

Stage 3:
identify the critcial success factors



- Critical success factors (CSF) have a high potential impact and a high ability to be influenced by the company.
- CSFs must be:
  - derived from SWOT
  - secure competitive advantage
  - address company's objectives
  - prioritizes the most critical issues that should receive significant time and attention

Stage 4:
establish the KPI to measure CSF

KPI

- KPIs track record on progress and should be:
  - specific and measurable
  - measured regularly
  - manageable

Figure 4.10: KPI development guide – part 2

strategic objectives	**CSF** (= critical success factors)	**KPI** (= key performance indicator)
profitable growth	• increasing customer base • qualification of sales force • recruiting new sales staff • competitive moves	• increase of market share • new customer acquisition • training costs for new staff • changes in pricing of competitors
technology leadership	• recognition of technological trends • innovation ability	• investments in R&D • amount of innovations per year and amount of marketable innovative products
development of services	• service and maintenance know-how • duration of availability of spare parts	• customer satisfaction, customer loyalty rate, recommendation rate • average hours/days until repair is finished

Figure 4.11: Derivation of KPIs based on CSFs

4.2 Process of Market Segmentation

4.2.1 Strategic Questions in the Segmentation Process

The basic questions in **entrepreneurial strategies** are the following:

1. In **which market segments** and with **what market offerings** the Entrepreneur wants to act to cover what **customer's needs** in a better way than the established competitors?

2. With what sales arguments, based on his value proposition, the Entrepreneur will **compete** in these market segments?

leads to the question #1: Which **product/market combinations**?

leads to the question #2: What **strategic thrust**?

Figure 4.12: Basic strategic issues for Entrepreneurs

This reveals the basic understanding about the company environment in a targeted area:

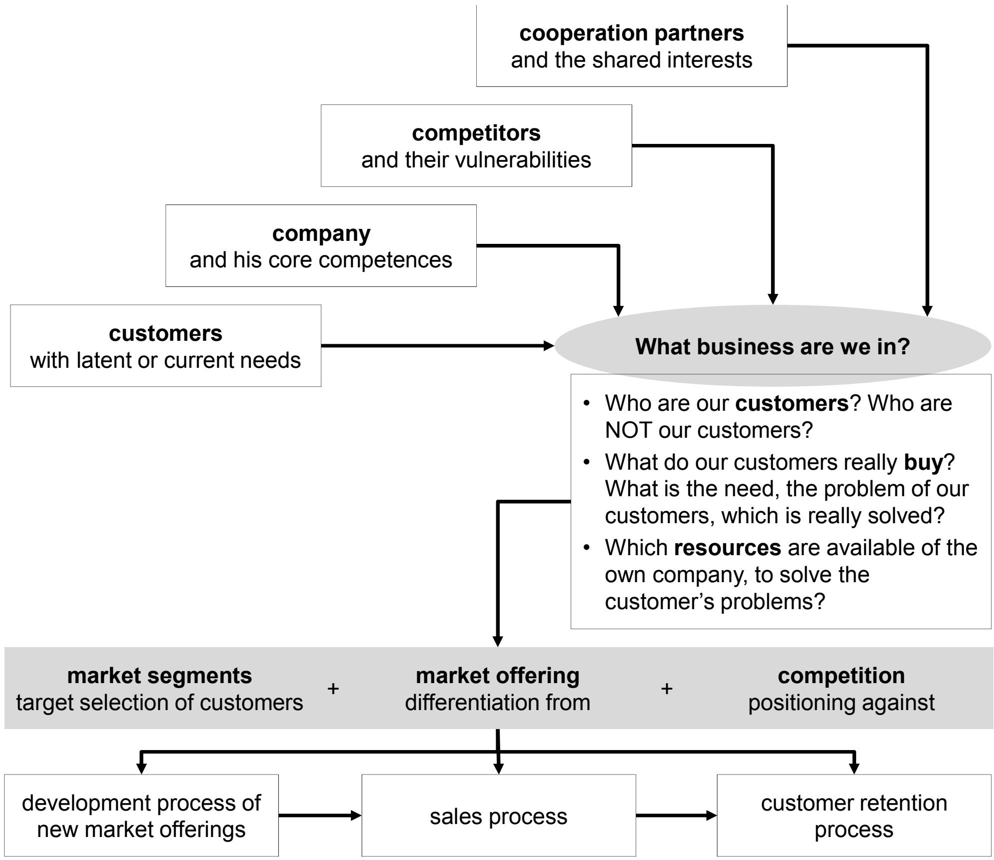


Figure 4.13: The logic of business

Market segmentation will be implemented through the marketing-mix:

- With **market segmentation** the market offerings will reach the well-selected markets.
- With **differentiation** the market will be able to see the difference between the own company and the alternatives of the competitors
- Based on the knowledge of market segmentation and differentiation the **positioning** can be carried out as a proactive action.

4.2.2 Market Segmentation

The variation in customers' responses to a marketing-mix can be traced to differences in buying habits, in ways which the market offering is used, etc. **Market segmentation** is a process of dividing the total market for a good or service into smaller groups, such that the members of each group are similar with respect to the factors that influence demand. **Benefits of market segmentation** for the company and for the customer are as follows:

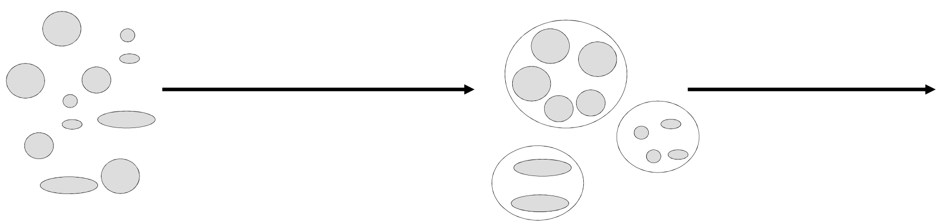
to the company	to the customer
• identification of valuable customers • more targeted promotions & marketing communications • higher customer lifetime value • management can make more efficient use of his marketing resources • medium-sized firms can grow rapidly by developing strong positions in market segments	• customized products and services • personalized addressing of customers • increased customer satisfaction
↓	↓
sustainable profit growth	**customer loyalty and retention**

Figure 4.14: Advantages of market segmentation

It can be recommended to go through the process step by step:

Stage 1:
analyze potential customers

Stage 2:
segment the potential customers



Stage 1:

- reachability with possible sales channels
- expectations and needs of the customers
- demography of the customers
- identification of business driver the customers are facing and possible business initiatives
- …

Stage 2:

- identifying measurable, relevant, and operational variables for segmenting the market.
- arrangement of different customers groups with homogenous profiles into different market segments
- search and assessment of opportunities in the possible market segments
- define macro and micro profiles of resulting segments ("Quick Check")

Figure 4.15: From market segmentation to targeting, to differentiation and finally to positioning – part 1

In the **market segmentation in B2B-markets** there are several criteria (Stanton et al.: 142–148):

demographic criteria	• type of customer • size of customer • location
operating variables	• technology • customer capabilities
purchasing approaches	• purchasing function organization • power structure • general purchase policies • purchasing criteria
situational factors	• urgency • specific application • size of order
personal characteristics	• buyer/seller similarity • attitudes toward risk • loyalty

Figure 4.16: Criteria for market segmentation in B2B-markets

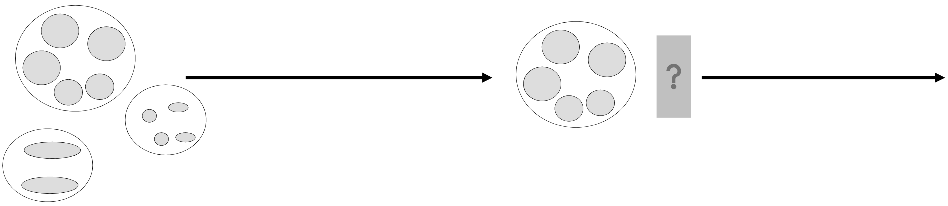
Market segmentation in B2B-markets is not as standardized as in B2C-markets. In B2B-markets segmentation often acts like a funnel with several filters. **Segmentation in B2B-markets** starts with the industry, then customer groups, and finally the target customer (Kohlert 2013: 186):

selection of the industries, regions, company size	segmentation criteria #1: **selection of the industry** • best usage (maximum benefit for the customer) • existing pressure (“pain“) and importance • existing budget
↓	
market analysis in every single identified market segment	segmentation criteria #2: **selection of the market segment(s)** • understand, why customers buy • solution to which problem of the customer • current solution of the customer’s problem • existing need for a change of the current solution respective situation
↓	
selection of key market segments (targets)	• **selection of the markets** (targets) in those sectors, which are preferred for penetrating the market
↓	
selection of the target customers in the key markets segments and implementation	• **finding the reference customer** • development of objectives, strategies and actions for every single selected market segment

Figure 4.17: Market segmentation in B2B-markets

Stage 3:
targeting the right market segments

Stage 4:
differentiate to show the differences between the competitive market offerings



Stage 3:

- evaluation of the resulting market segments, typical criteria: profitability analysis, competitive analysis
- decide on market coverage, mostly concentrated (niche strategy)
- select the target segments, where differentiation and competing is possible

Stage 4:

- recognize the value proposition in every single market segment with the core question: "What is the market offering standing for?"
- development of the best product/market-combinations
- development of specific marketing-mix for every single market segment

Figure 4.18: From market segmentation to targeting, to differentiation and finally to positioning – part 2

Market segmentation must be done thoroughly. The consequences are high as the following example displays: An automotive supplier, offering innovative high-tech solutions is segmenting his market according to his conditions. Criteria for market segmentation must be developed by the company on its own. It is partly not helpful to use criteria form other companies, on the other hand how the market usually segments the market should be taken into consideration. The steps are as the graph shows (Mercer Management Consulting/Fraunhofer Gesellschaft: 11):

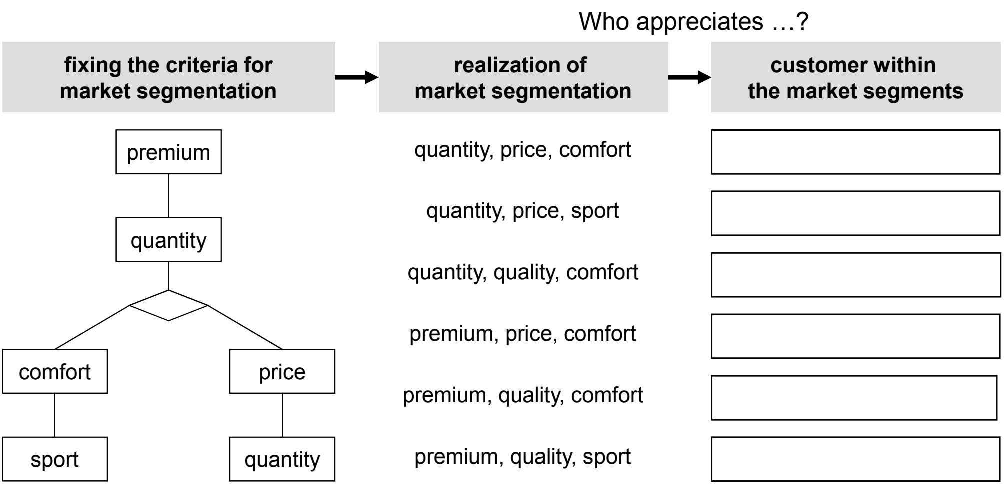


Figure 4.19: Example for market segmentation in the automotive industry

In the next step the automotive manufacturers would be attracted to the market segment. Based on the evaluation of the single market segment and the customers, strategies can be derived for every market segment (Mercer Management Consulting/Fraunhofer Gesellschaft: 12):

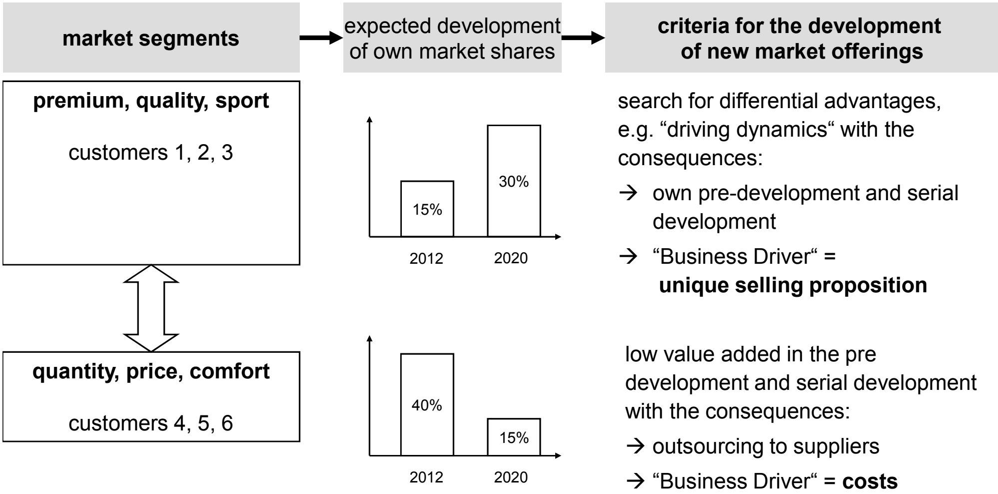


Figure 4.20: Example for anticipating future developments in the automotive industry

Here the company can deviate market segments with high investment needs to succeed and others where it might not be successful. In order to generate those recommendations many discussions, workshops etc. will be conducted in the company. Unfortunately to draw conclusions is not that easy as it appears in this example.

Because they can act more customer-oriented, the management can achieve a strong position in specialized market segments, medium-sized firms can grow rapidly. Therefore the recommendation for Entrepreneurs is the following: Pick a small number well defined market segments that you can dominate and where you can achieve the critical mass: "Focus in the name of the game", because distinct markets can support two tom three profitable players. The objective of the concepts of the Entrepreneur is to gain at least 30 % of a well-protected market segment, the Entrepreneur focuses on big, fast growing markets! There is empirical evidence that only a limited number of companies will achieve the critical mass (Bain: 2).

4.2.3 Targeting the Right Market Segments

To **choose the right target market segments**, several factors should fit together:

Figure 4.21: Criteria for choosing the target market(s)

When companies have identified several market segments priorities must normally be set. Typical criteria for the "**target market selection**" are the following, also called "**Quick Check**" (Kohlert 2013: 189):

market	• Does a market exist and is it big enough to generate enough profit? • Is the market size quantifiable? • Can the customers be clearly identified and marketed to? Is the customer base diversified in terms of industry and geography?
competition	• How strong is the competition and how similar are their products?
sales channels	• Are the sales channels already present in this industry? Do sales channel need to be developed first? Is it possible to work through the existing sales network? • How costly will it be to obtain access to the existing sales channels? And how costly would it be to develop alternative sales channels?
prices	• How high is the margin in this market? Is it possible to make money? • Are profitability and positive cash flow balanced with long-term opportunity realization. • Will the prices and the sales generate enough funds to meet profitability objectives instead of continually raising money?
promotion	• How are market offerings marketed on this market? • Can the target market segments reached with our promotional activities?

Figure 4.22: Target market selection based on identified possible market segments ("Quick Check")

4.2.4 Differentiation and Positioning of the Market Offering

With **differentiation** the market will be able to see the difference between our company and our competitors. There are two basic possibilities to show the difference. The first differentiation one is with **focus on marketing-mix** (Kotler et al.: 510–515):

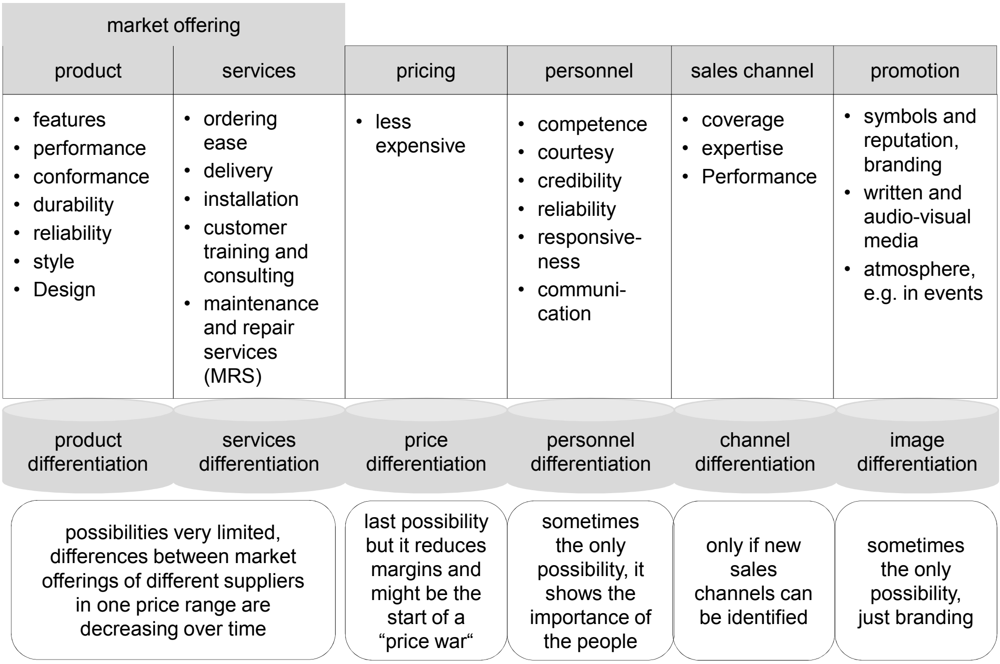


Figure 4.23: Differentiation of the market offering with focus on Marketing Mix

The second differentiation with **focus on customers** (Kohlert 2013: 193):

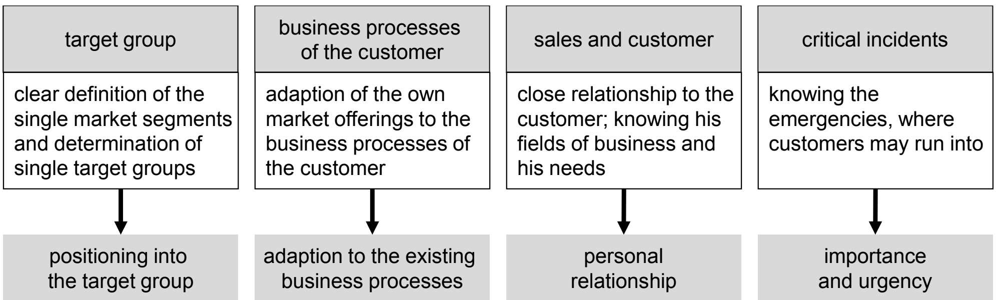


Figure 4.24: Differentiation of the market offering with focus on customers

The **positioning** can be carried out as a proactive action based on the knowledge of market segmentation and differentiation. According to Mintzberg there are four different strategic positionings to find their place on the market (Mintzberg: 75):

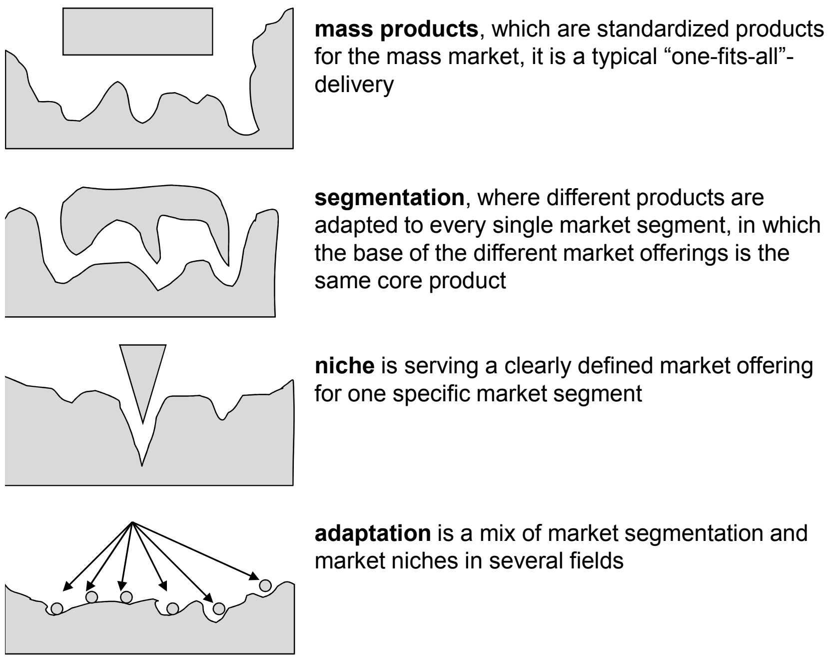
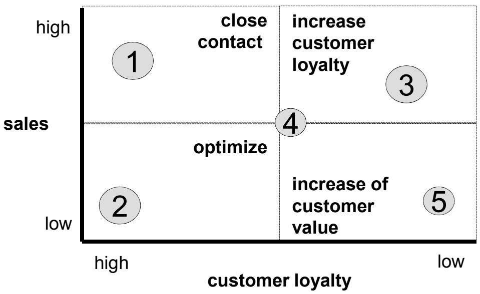


Figure 4.25: Strategic positioning according to Mintzberg

The positioning is establishing the new company's place within a system with buying choices available to customers and the supply chain available to partners. It is avoids that competitors or the market is doing the positioning for the new company. The "**positioning template**" supports this task, the Entrepreneur has to make consciously:

- for – target customers
- who – has a problem and his pain points
- our market offering – is a new category
- that provides – breakthrough results
- unlike – reference competitor
- our market offering – key differentiator

Stage 5:
alternative positioning in the market segments



- decision about positioning strategy
- objective is to communicate with pro-active actions the value proposition of the market offerings into the market during the implementation of the strategies
- aligned with the buying behavior and the customer needs in every single market segments
- putting together individual marketing measures for getting customer and for keeping loyal customers in every single market segment

Figure 4.26: From market segmentation to targeting, to differentiation and finally to positioning – part 3

The **guiding questions for positioning** might cover the following topics:

- Which precise positioning of the market offerings are of greatest value to the target customers with their specific needs?
- Which of these positions are "taken", and which positions are relatively free of competition?
- Which of the available positions fit best with the Entrepreneur's objectives and distinctive capabilities, e.g. can the Entrepreneur back up the chosen positioning by demonstrable product attributes or benefits?
- Can the Entrepreneur "change the rules" of the industry by discovering new critical points of differentiation?
- Are all the positioning messages of the Entrepreneur consistent?

> Be aware that you have to conduct your own market research to find the right positioning. There is no substitute for direct experience on the market place. Good market offerings are made in the market place, not in the laboratory.

4.3 Strategic Options for Entrepreneurs

4.3.1 Entrepreneurial Strategies

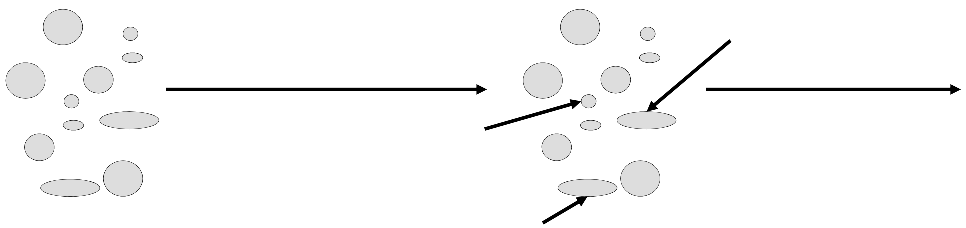
Strategy as convincing answer to the question: **Why anybody in the long run should buy market offerings from us**, although:

- most markets are rather constant than emerging
- the competitors intend to achieve similar objectives
- the pressure of competition is constantly increasing
- some trends are contradictory to our interests
- our resources will be limited in any case

As established companies follow the segmentation/targeting/positioning-approach when entering into new markets to answer the above questions, start-up companies are very much focused on the **entrepreneurial opportunity** and start from there:

Stage 1:
identify business opportunities

Stage 2:
build up the first customer base



Stage 1:
- identifying possible business opportunities in different fields and different shapes
- recognizing an opportunity after a trail-and-error phase, often based on intuition

Stage 2:
- identifying the first ten customers (techies), sometimes others than expected in the plan: reality is not following plans
- learning from their experiences with the market offering and revised design
- recognizing the customer value and the value proposition based on customer experiences in the market place

Figure 4.27: Entrepreneurial strategies in start-up companies

In the next step, the company continues with expanding the customer base, often based on recommendations by previous customers. Still the entrepreneurial company will focus on a few market segments at this stage only and try to grow with the current customer base. This will change later (Grichnik et al.: 279):

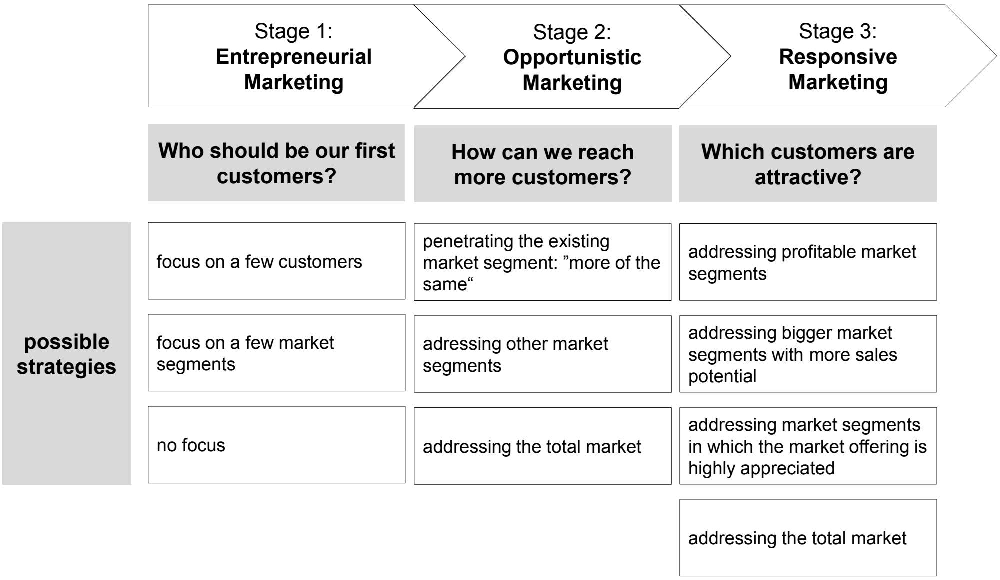


Figure 4.28: Changes of the strategic marketing approach over time

4.3.2 Complementary Strategies

Because of the complexity of the market offering, the Entrepreneur may not be able to launch the innovative market offering on his own. He has to enter into complementary partnerships. In the case of complementary strategies there are three main **strategic options for the new business development** of the company:

- conventional options, e.g. internal development, with acquisitions, licensing
- venture-oriented options, e.g. internal ventures, joint ventures, strategic alliances, venture capital and educational acquisition
- newer approaches, e.g. contract R&D, collaborative R&D, and consortia

It is the merit of Roberts & Berry that they put all this options into a structure in their “**Familiarty Matrix**” where they complete the skill of the entrepreneurial business with complementary assets (Roberts/Berry: 3–7):

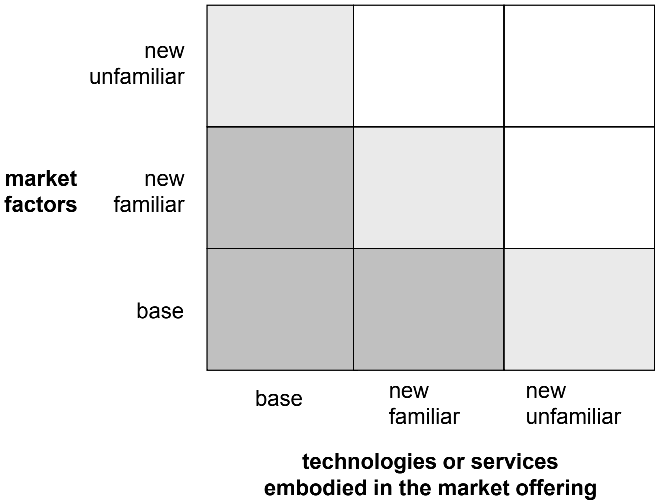


Figure 4.29: Familiarity Matrix of Roberts & Berry

- The newness of a technology or services refers on the degree to which it has not formerly been embodied within the market offerings of the company.
- The newness of the market refers on the degree to which it has not formerly been targeted by the company.
- The familiarity with the technology refers on the degree of knowledge of the technology exists within the company, but not necessarily embodied in the market offerings.
- The familiarity with a market refers on the degree of which the characteristics and business pattern of a market are understood within the company, but not necessarily as a result of participation in the market

A company is always in the base/base-zone. In the unfamiliar zone (white fields in above figure) the company does not know the customers they serve, the functionality they need and the sales channels they use. It is a very uncomfortable situation and will lead the company to different strategies (Roberts/Berry: 9):

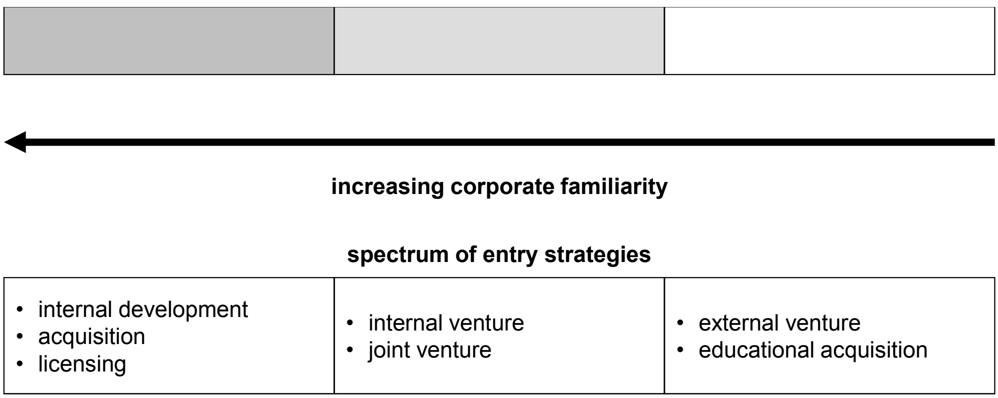


Figure 4.30: Familiarity Matrix of Roberts & Berry

The traditional internal mechanism for new business development request small changes in the company only. With the **internal development** the company is using their internal resources and is in total control. The risks are that the time-to-market may be too long and the unfamiliarity with new markets may lead to errors. With **acquisitions** a quick market entry is possible and it will lead to an increasing market share for the company, however the new business area may be still unfamiliar to the company, the failure rate is very high and the costs are also heavy. **Licensing** may support a rapid access to a proven technology with a reduced financial exposure but it is not a substitute for internal technical competence, it is not a proprietary technology for the firm and there is a dependence on the licensor.

In **internal ventures**, the company sets up a business unit which has more entrepreneurial character than the rest of the company. So entrepreneurial behavior with the company is stimulated, the pace of technology and market developments may be speeded up. The company can use existing resources and it may help to hold an internal Entrepreneur in the company. However there is a mixed record of success, corporate culture is often not suitable for it. In a **joint venture** a new legal entity is formed together with a third party.

In **external ventures**, the company provides windows on new technologies or markets to an entrepreneurial company and there is potential for financial gains. But it cannot be the only stimulus for corporate growth of the Entrepreneur. In **educational acquisitions** the company receives windows on new technologies or markets with new people, however these people must be integrated into the own company which may cause problems. To overcome these obstacles, an indirect approach may be advisable where the company is not in fully control but is only buying a share of the entrepreneurial company.

4.3.3 Competitive Strategies

How will be the **reaction of the competitors**, when they find out that someone wants to take away their customers? **Competitive strategy** is an integrated set of actions designed to create a sustainable advantage over competitors. Entrepreneurs as newcomers are the challengers who attack the establishment in the market:

- The first question is: "Will the established companies find it out that a new company arises?" But every battle leaves a mark!
- The second question is: "Will it lead to a reaction of the competitor?" which depends very much on the **reaction pattern of the competitor**, e.g. is it a "laid back competitor" who does not react quickly or strongly, also called a "fat cat", or a "tiger competitor" who will not remain quiet and any attack on its market or market offering is given a strong response?

Put together the own competitive strategy means to select the customers, which can be served better than by the competitor, and not served by "tigers". A clear value proposition from the customer point of view helps to get the access. A **challenger of the market leaders** should initially be aware of his own strategic target setting. He must first decide whom he is going to attack (Kotler et al.: 322):

- He can attack the market leader.
- He can attack the companies of equal size.
- He can attack companies that are smaller and locally engaged.

The challenger must pick one of the attack strategies and buy it up with good reasons why his market offering is better than the competitor's. For this purpose the newcomer needs his weapon and ammunition which is the value proposition. If his value proposition meets the weaknesses, maybe in poorly served market segments of the competitors, this would be the best case for the Entrepreneur. He might be able to reach this position (Kohlert 2013: 237–238):

- by product innovation which are able to provide additional customer value compared with the market offerings of the competitors
- by product line extension which enables the Entrepreneur to serve newly identified market segments
- by software performance with more services which are offered to the customer in enriched market offerings
- by having better information than the competitor, e.g. when it is possible to attract key customers which might act as opinion leader or reference customer in the market segment.
- by internal measures like business simulations, scenarios etc. it is possible to recognize new markets earlier than others

In this context, **niche strategies are typical entrepreneurial strategies**. The niche strategy consists in the concentration of a definite market segment, a distinct part of the market offering or a geographically defined market. A prerequisite for a niche strategy is a segmentable market. By concentrating on a single market segment, the company strives to optimally solve a market problem. The company can either use a differentiation or a cost leadership strategy. In any case the company is able to identify specific needs in one single market segment and is able to meet them.

Companies which use the **market niche strategy concentrate** on one of the following:

- end-user whose needs can be optimally satisfied thanks to specialization
- on a certain part of the value chain and supply services
- certain sizes of companies that are overlooked by the bigger companies because they wouldn‘t be profitable for them
- a certain market offering for which there are virtually no specialists
- the “high end” or “low end” of the market segment price range
- a certain service which the competition isn‘t prepared to provide but which the customer values and is willing to pay for

The challenge for the Entrepreneur is to **evaluate the market niche**:

market volume (= size of a market niche)	• current possible sales in relation to available purchasing power, segment share of total sales
future importance of the market segment	• unfulfilled needs up to now • development tendencies for the product • technological attractiveness
competitive situation	• competitors • possibility to successfully defend market niche • preferred competitive strategies
vicinity to customer	• customer willingness to innovate • flexibility of adaptation to specific customer needs
customer benefits	• attainable customer benefits • own product advantages as opposed to competitor‘s products • cost/benefit-relationship
available potential and know-how	• strengths/weaknesses in own company as compared to competitors • synergy effect for example by production, capacity utilization, technological attractiveness
ways to access the market	• making the most of available distribution channels and customer relationships • application of the marketing-mix

Figure 4.31: Evaluation of an identified market niche

Whenever a niche policy is carried out, it is imperative to **constantly observe the market niche**:

- If substitute market offerings cause pressure, it must be questioned what qualities these market offerings have and how their position has changed in the last years.
- How great is the customer’s negotiating strength? Does he have alternatives, to take on a new market offering?
- Are market offerings characterized by continuous innovations? The company in the market niche must intensively observe the market and the competition in order to recognize possible changes in technology etc. as early as possible.
- The niche must have a sufficient size and enough purchasing power. It should have growth potential so that it is worthwhile to make a long-term mark in this segment.
- The target segment can become unattractive. New competitors crowd into this market segment because differences to other segments disappear.
- The advantages of a wide range of market offerings increase or new niche strategies discover even narrower niches with even better solutions for existing needs.
- The cost difference between the competitors, the ones who are widely set in his market offering and the niche company, becomes so huge that it offsets the cost advantages of supplying a limited target or compensates for the achieved differentiation.

With acting in a market niche enables David to beat Goliath. However, the dangers should be known and observed carefully even in “good years” Entrepreneurs tend to underestimate the risks of dependency on a few customers only.

4.4 Back to Basics in Customer Understanding

A very early thought should be **where the first ten customers are coming from**! Only closeness to the market is supporting success. Therefore a typical question for every new company is the choice of the right market, in which the market offering should be placed. This decision is made unconsciously in many cases or is answered with “in attractive markets”. Entrepreneurs are constantly looking for **attractive markets**. What does it mean, market offerings find an attractive market? What are the prerequisites for attractive markets (Kohlert 2013: 272–274)?

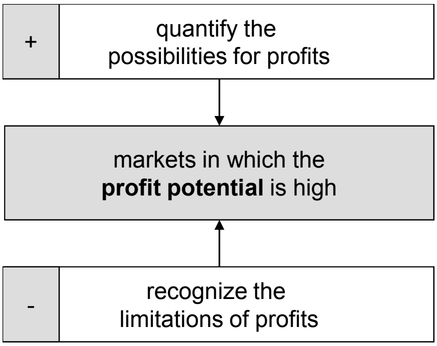


Figure 4.32: Criteria #1 for attractive markets – profit potential

The **profit potential** depends on how much do customers want the market offering and what does it finally cost to satisfy the customer needs? It is also important, how many customers are in the market segment? You have to quantify this profit potential. There are also limitations of profits, if the “**customer’s pain**” is not big enough or there is too little differentiation between the competitors. It is obvious that companies focus on customer segments with more surplus, but the most competitors also do. Therefore it can be recommended to drive niche strategies, at least as long as the company is too small to continue with conquests.

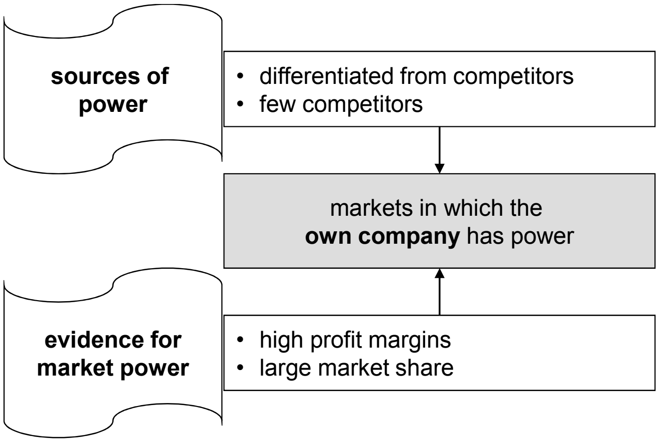


Figure 4.33: Criteria #2 for attractive markets – power of the own company

The opportunity for **power of the own company** assumes that the company is able to differentiate from his competitors. The **source of differentiation** is something the entrepreneurial company owns or controls. The differentiation must be sustainable, means hard for other companies to imitate and it contributes to satisfying customers. The company is communicating that the own market offering is unique. The control over markets is based on the focus on markets, in which the own company has identified competitive advantages. Advantages are sustainable, if they will last for a certain period of time, available, not substitutable and hard for other companies to imitate. Only in these cases, competitive advantages can be used for differentiation. As an example: A new pricing tactic is easy to copy, the development of a new sales channel is hard to copy and therefore a competitive advantage. There is special **evidence for market power**:

- Higher market share is leading to future demand. In these cases customer implicate with higher market share also highest quality, best price/value-ratio, fair price etc.
- Is the market offering more valuable if more people are using it? In these cases, the company had a good chance to establish their standards.
- Would it be hard for customers to switch to a competitor, in other words: Are the switching costs too high?

Companies try to lock in their customers (**customer lock-in**). To increase the switching costs is a common way, but only one possibility, there are others as well:

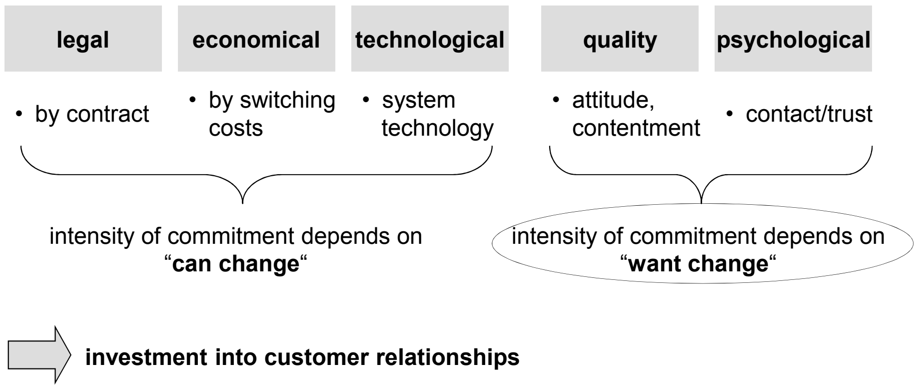


Figure 4.34: Increase customer loyalty

> Especially new companies have to invest into their customer relationships. Sometimes, that's all they have!

To have power in one side of the coin, the other is to maintain it. Therefore it is advisable to move into markets which fit to the own company and are seriously to place. There are competitors which are scanning the market with the two criteria "profitability" and "competitive intensity", published profitability is motivating powerful others to enter the market. This should be avoided.

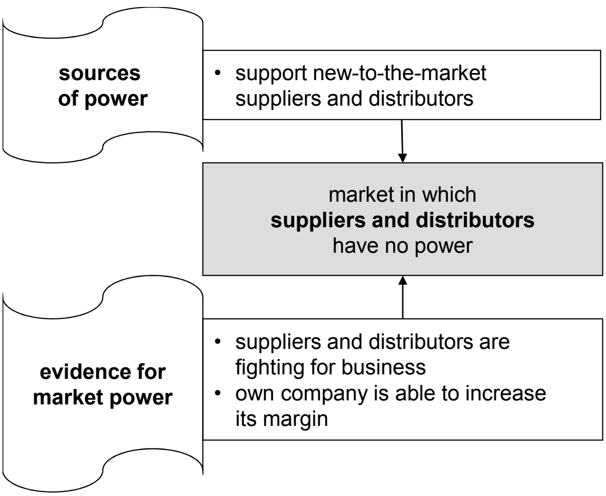


Figure 4.35: Criteria #3 for attractive markets – no power for suppliers and distributors

The company will select market segments in which **powerful others**, e.g. **suppliers and distributors, have no power**. These are markets in which there is a competition between the different suppliers and between the different distributors. This competition can be intensified when new suppliers and distributors are encouraged to enter into the market. Many new suppliers and distributors are effecting the price for the own company in a positive way, they will both reduce prices to get the contracts for the own company. This is called "**compare effect**" on prices, the own company will getting closer to the monopoly price

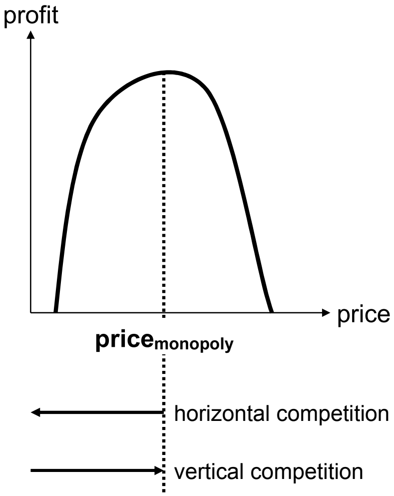


Figure 4.36: "Compare effect" on prices

In a **horizontal competition** between different manufacturers or providers of the same services prices will decrease over time for the participating companies because of the intensive competition. In a **vertical competition** the margins for the manufacturers or provider of services will increase because they have a higher bargaining power in their negotiations with the suppliers and their distributors.

A further criteria for attractive markets are markets, where the **key for power knows the customer**. The more the Entrepreneur is able to generate added value for the customer, he will change, the more stable the customer relationship:

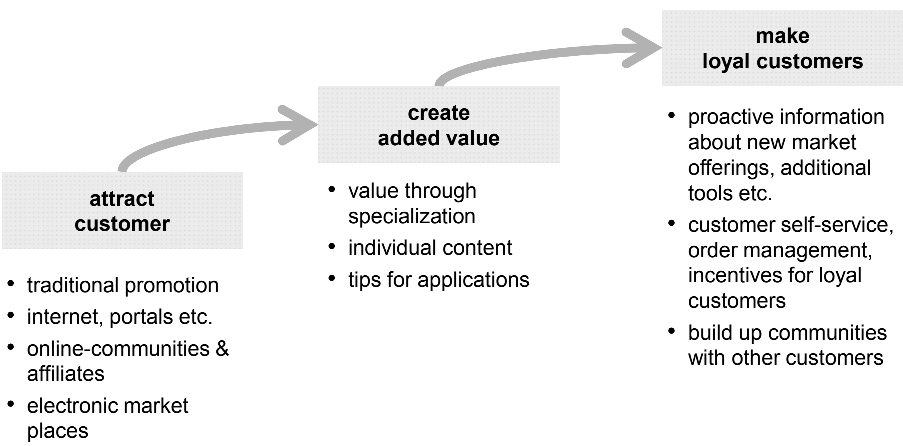


Figure 4.37: Criteria #4 for attractive markets – managing the "customer lifetime"

Chances for start-ups are higher when it is difficult for the customer to search for information or when people find it hard to search for information or information is imprecise. If they can't acquire information, customers need perceptions. If up to now the current market offerings are totally undifferentiated, it is possible to perceive differentiation through branding, good consultancy etc. and create more value. Be aware that solid **customer relationships** are a long way, but cannot be pushed:

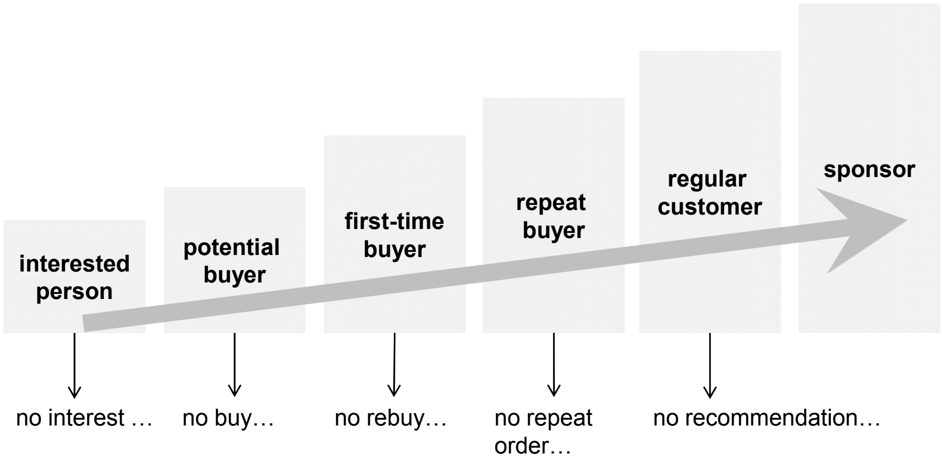


Figure 4.38: Long-time customer management

In order to **evaluate attractive markets** the following five questions can be asked:

1. What is the profit potential in the targeted market and how is this likely to change in the future?
2. How many competitors are there and is this likely to change?
3. What resources differentiate the entrepreneurial company from his competitors in the long term? Are these resources sustainable?
4. How much competition do the suppliers and the sales channels face?
5. How close is the company to his customers?

4.5 Developing the Entrepreneurial Strategy

The following graphs can be used as a "**checklist**" to put together the own **entrepreneurial strategy**. They may be adapted to the special situation of the entrepreneurial business. This checklist may give information and reveal data which will be used in the formulation of the business plan:

What is the frame the Entrepreneur can act in?

Facts and Assumptions:

Macro profile:
- anticipated trends in the industry
- environmental changes: technology, value system, policy which effects the Entrepreneur's objectives etc.

Micro profile:
- the first ten potential customers and their needs
- possible market segments and selected segments
- market and competition: market volume, competitor`s outcome and failure in relation to customer needs, as well as reasons for outcome or failure

Need to clarify:
- evaluation of the environment and analysis of trends and developments relevant for the own business
- evaluation of particular groups of customers in the market

Findings about what moves the industry in which the Entrepreneur wants to get in?

Business Drivers:
- market growth
- already existing competitors, upcoming competitors
- technological breakthroughs and the effect on Entrepreneur's business and on competitors
- upcoming of substitutes

A view into the future at first. This is the base of all the future decisions.

→ **assumptions about future development**

→ **reflection with own resources**

Need to clarify:
- recognition of the relevant business drivers
- recognition of own possibilities and own limitations within this frame

Figure 4.39: Checklist for developing the own entrepreneurial strategy – part 1

Awareness of own strengths

Analysis of internal factors:
- special skills or competence, e.g. high skilled engineers
- analysis of own market offerings and their strengths, their position in the product life cycle
- past experiences in previous jobs and success rate of launching new products
- skills to get around market entry barriers and to create market entry barriers for competitors later
- market knowledge
- marketability of new market offerings
- return on investment for each market offering and each selected market segment

Need to clarify:
- recognizing and naming own strengths

What are our markets and who are our customers?

Basic decisions:
- definition of markets
- definition of possible market segments
- finding the first ten customers

Need to clarify:
- total market
- market sectors
- market segments
- focus

Selection of target group (selected market segments)

Terms of target group:
- decision about the target markets based on "Quick Check" of all possible market segments: markets, competitors, sales channels, price, promotion

Need to clarify:
- market segments the Entrepreneur will go after

Figure 4.40: Checklist for developing the own entrepreneurial strategy – part 2

Strategic analysis of selected market segments

Situational analysis of selected market segments:
- SWOT analysis to develop strategies based on own strengths
- Porter`s 5-Forces analysis to understand the competitive environment and identify possible obstacles
- customer value analysis to get a better customer understanding and to adjust the own value proposition
- product life cycle analysis in order to have a detailed picture about the market situation

Need to clarify:
- determine the value propositions that are appreciated by the customers
- identify the key selling arguments

Business model and risk assessment

Realization:
- presenting a business model for a new market
- identifying business risks and take measures to reduce or eliminate risks

Need to clarify:
- adaption needs to the business model
- measures to reduce risk

Figure 4.41: Checklist for developing the own entrepreneurial strategy – part 3

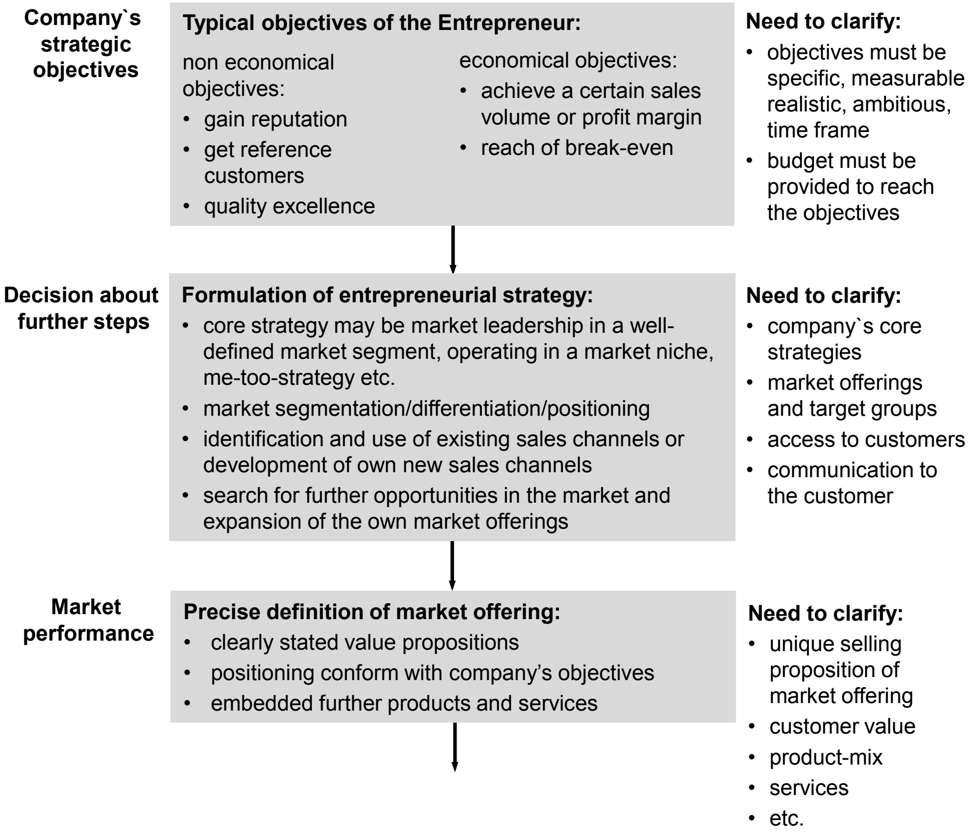


Figure 4.42: Checklist for developing the own entrepreneurial strategy – part 4

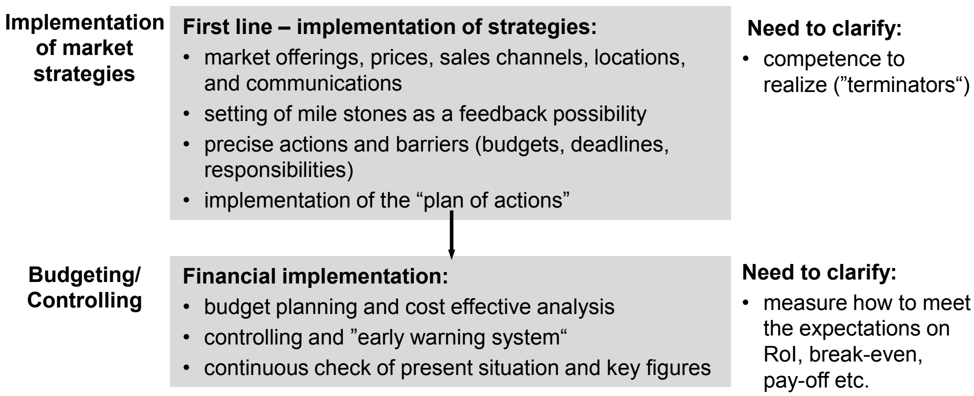


Figure 4.43: Checklist for developing the own entrepreneurial strategy – part 5

The market entry into new areas of business must be prepared carefully to reduce the risk and to minimize the “apprentice's due“. Only companies which are able to dominate the market, will be successful in their business. The key to market dominance is the intended strategy:

1. Can the value proposition being used to distinguish the own market offering?
2. Is it possible to identify the right customer groups with market segmentation?
3. How to achieve the first ten customers?
4. Can they be used as reference later?
5. Can the customer advantages be quantified?

5 Formulating the Business Plan

5.1 Pre-Field Work to the Business Plan

The "**Quick Check**" of the "Venture", "Feasibility Study", "Preliminary Analysis" are used synonymous, is used to prepare a decision superficially, to show what is known and to reveal gaps. This is the step before putting together the "Business Plan" which needed much more efforts. After the "Quick Check" it should be clear that the venture is feasible, the objective of the "Quick Check" is to eliminate unrealistic ventures:

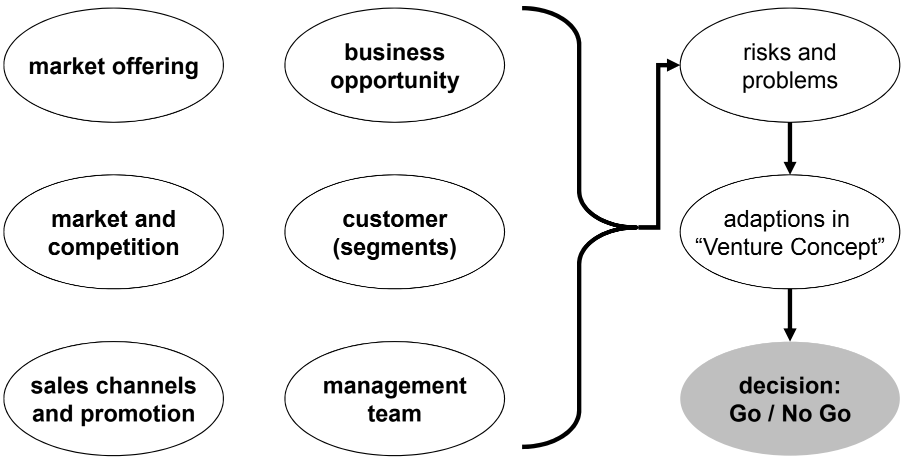


Figure 5.1: "Quick Check" of the "New Venture"

- **Market offering** are all the products and services of the company, to satisfy the customer needs completely. It includes an understandable description of it, it may describe the current development status with the time line to first sale and with tasks and resources needed, the possibilities for follow-on market offerings should be described. The technology embedded in the market offerings must be strongly linked to the market and their customers. If there is still development time needed, how long will it take to the first sales with the tasks and the resources needed up to this point?
- Now it will be revealed why there is a **business opportunity** with this market offering: Is the opportunity feasible or are basic obstacles visible, are there possibilities to overcome these, in other words: can the opportunity be harvested, in what time window? Is the ratio reward/risk acceptable?
- Does a **market** exist and is it big enough to generate enough profit? Is the market size quantifiable? Are their trends foreseeable, e.g. for the next 2–3 years? Can the customers be clearly identified and marketed to? The market is diversified in terms of industry and

geography means market segmentation is possible. How strong is the **competition** and how similar are their market offerings? A full competitor analysis is required.

- The first ten **customers** are identified and the reason-whys they will buy later again and again, perhaps also the market segments including a priority list! It is also known, why they will buy and a perspective for further customers is given. The estimated sales, time frame, growth rate are also available information. How great is the price margin in this market? Can money really be earned? Are profitability and positive cash flow balanced with long-term opportunity realization? Will the prices and the sales generate enough funds to meet profitability objectives instead of continually raising money?
- Are there **sales channels** already present in this sector and how costly will it be to obtain access to it? Do sales channel need to be developed first? Is it possible to work through the existing network? How are the offerings marketed on this market? Can the target groups be reached with the existing **promotion**?
- Who is in the **management team** and what is the commitment and the investment of the founders? Do they have the relevant experience? Is the management team already complete? If not, what positions are still needed, how will the remaining positions being filled and how much time will it need?

After this the remaining risks and problems should be filtered. The task of the **risk assessment** now is to predict the impact on the venture and to minimize the overall risk of venture. Also the definition of the exit strategy, if it will not work out, is legitimate. One result of the "Quick Check" will be to implement the relevant changes in the "Venture Concept" which are resulting from above analysis.

> The "Quick Check" should be done by people who are Entrepreneurs themselves. Do not start with a business plan until you know it is working. The real preparations start after this step!

5.2 Business Plan as Roadmap

5.2.1 Business Plan as the Key Document

The **business plan** is a formal statement of a set of business objectives, the reasons why they are believed attainable, and the plan for reaching those objectives. It also contains background information about the team attempting to reach those objectives. A business plan is comprehensive, self-contained, and complete. The reasons for writing a plan are various: "Because I have to..." means needed for financing, strategic partnering, to explain business to customers/suppliers or to attract key people, "Because I need to understand my business", or "The business plan is a result of a planning process": People don't "plan to fail", but they "fail to plan".

The plan **conceptualizes the totality of a significant business opportunity for the company**:

- gives a guideline to the organizational building to pursue and to achieve this business opportunity and to the business processes
- lists down the resources needed
- addresses the ratio expected risks to the rewards expected
- shows how to make money with this business opportunity
- also contains background information about the team attempting to reach those objectives

The business plan is special in entrepreneurial businesses, it may go by other names, depending on its intended audience. Presented to a banker it may be called a “loan proposal”, a venture capitalist might call it a “venture plan”, sometimes you hear the term “business proposal” (Dollinger: 127).

Entrepreneurs must keep the intended audience and purpose in mind and why he is taking time to put together the business plan. No doubts, the plan is special in **entrepreneurial businesses**. Entrepreneurs often need a convincing business plan for their investors. For this purpose the plan is more a selling document, some issues should be taken into consideration:

1. Investors want to see the excitement which must come through, the plan should project the expectations, but the plan must be defensible.
2. The “Executive Summary” should explain, where the first ten customers are coming from and why they should buy, again and again
3. The plan itself is optimistic, positive, but realistic, the competitor‘s numbers are known.
4. The focus of the planning is on milestones, not on calendar dates.

Independent on the name, Entrepreneurs need a convincing business plan with the following **key messages**:

general

- clear definition of the scope of business
- concept is convincing
- presentation of the business plan is precise
- graphs and charts are interesting and understandable, sources of the numbers are revealed
- presentation of the business plan with enthusiasm and panache

marketing concept

- quality of the market analysis and the existing market
- industry insights by the management team of the entrepreneurial company
- clear definition of the target market segments in growing markets
- market access is reliable and convincing

strategic intention

- value proposition is visible
- advantages against competitive offers
- existing critical weaknesses of the business plan are revealed ("nobody is perfect")
- possible positioning of the market offering
- human resources and financial resources sufficient

spreading

- business plan as a whole is convincing
- real evaluation of the industry development and the competitive situation and anticipation
- definition of the right "mile stones", recognition of bottlenecks
- sustainability of the unique selling propositions

Figure 5.2: Key messages of a business plan

From the beginning the company knows it will work, otherwise do not spend the efforts to put together a business plan when you know it is unrealistic. To summarize, the **composition of a business plan** is done for the company and is focusing on different aspects:

Figure 5.3: Reasons for putting together the business plan

Some of **the typical questions** of the audiences of a business plan are in the following:

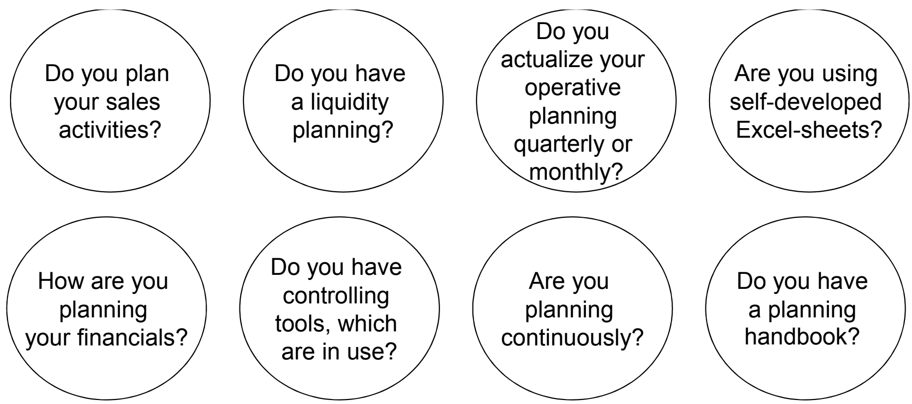


Figure 5.4: Typical questions investors may ask

The investors are not necessarily people with a commercial background. They may come out of other disciplines. Therefore the business plan **should be very clear and precise**:

- Objectives, strategies, and actions should be understandable for a non-technical, intelligent, interested reader.
- Vague generalities or unsubstantiated statements should be avoided.

- The plan is prepared by the management team, not just the leader founder or even an external consultant. The making can be supported by advisors, but the management team is responsible for it and it is “their plan”.
- It is short but complete, approximately 25 to 40+ pages excluding technical descriptions and goes into the details of the company.

There are several documents the Entrepreneur should prepare and it maybe used for different occasions, called the “**business plan documentation**”:

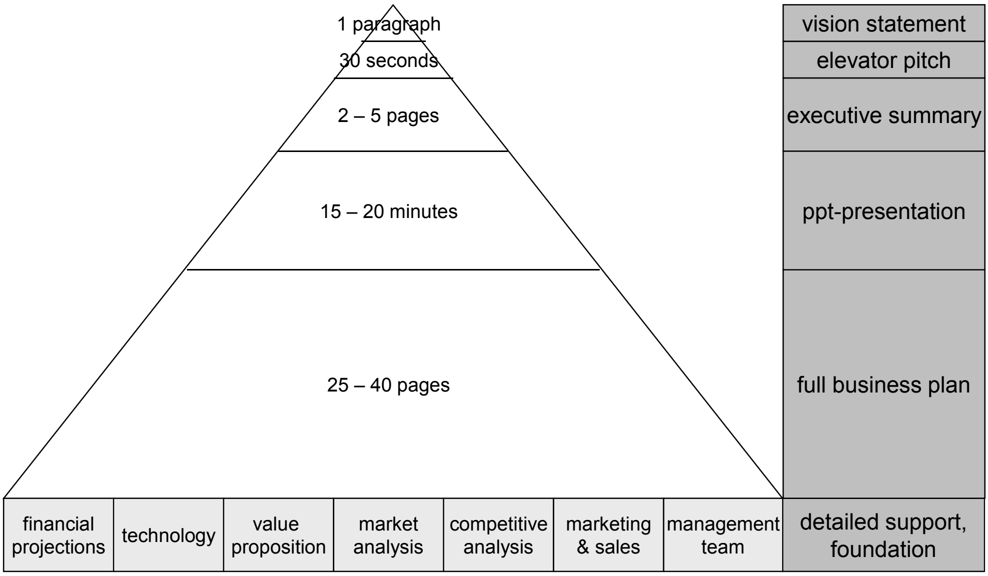


Figure 5.5: The business plan documentation

- The “**vision statement**” of the company is a description of the future, the future appearance of the company which leads to advantages for customers. It has nothing to do with hope, only people, who are desperate, hope. Visions are important in a company, especially in a new company to:
  - build up the self-satisfaction of the staff
  - create an atmosphere of innovation in the company
  - open and develop new horizons
  - align different objectives
  - show the direction
- Entrepreneurs need to prepare their “**elevator pitch**”. This is a three-minutes summary of the business plan’s executive summary. It is often used as a teaser to awaken the interest of the audience, e.g. strategic partner, investors. Bear in mind that there are always forces in companies which fight hard against new products and innovations. To have a chance, the innovation must be
  - 2-times faster
  - 2-times better
  - 2-times cheaper

than the known alternatives. Otherwise people do not change their behavior. Be aware: Incremental advantage will not be enough to induce change in the way people do things. Spread out the message with two sentences only. An effective "elevator pitch"

- convinces the target person to schedule a longer meeting with you, and be receptive to doing business with you
- enables the target person also to convince others to become interested in your company
- communicates a sense of value, empathy, and urgency
- combines sales and market research
- requires no more than one to two minutes

- A good **business plan has some requirements**.
  - objective, it is a plan with measurable figures and revealed sources when data or statements are used
  - efficient in using comfortable methods people understand or are known
  - consistent, the plan is logical without inconsistencies
  - persuasiveness to convince banks, boards and other stakeholders with break-through concepts
  - sureness, the plan creates room for active actions and gives a certain security of planning in an unstable situation, you can include an early warning system in case of drastic changes
  - addresses the obstacles the new company is facing:

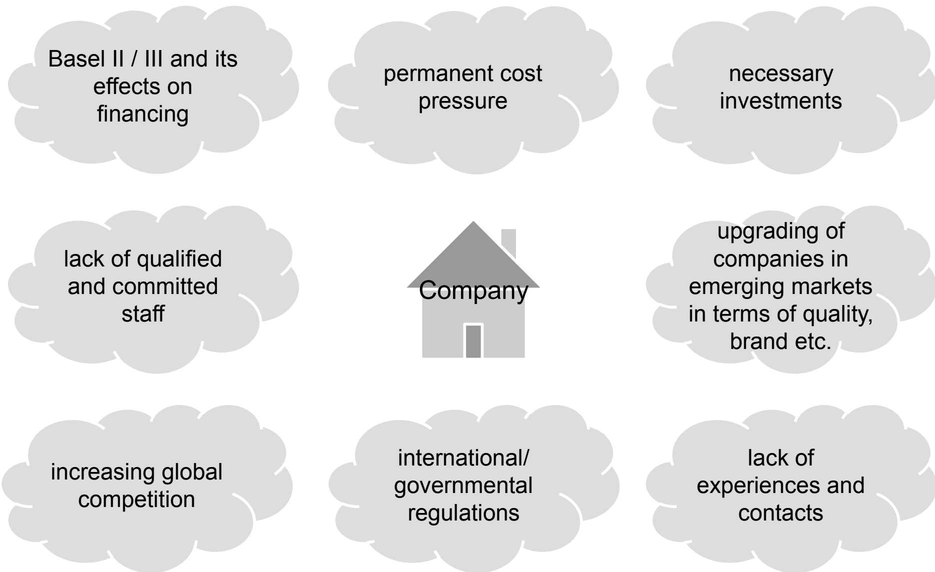


Figure 5.6: Possible obstacles for entrepreneurial businesses of today

The business plan is the answer to **seven basic questions to the Entrepreneur**:

1. Who are the customers? Who are not the customers?
2. What business is the own company in? What is the own company really selling?
3. Why are the customers buying the market offering? What are the precise customer needs which are fulfilled by the market offering?
4. How much will they pay?
5. How will the market offerings being sold to the customers?
6. What resources (people, money, technology) are needed to provide this market offering?
7. Is it profitable?

5.2.2 Contents of a Business Plan

The contents of a business plan:

business cover page
table of contents
executive summary

1. business model & opportunity
2. company in the industry
3. market offering
4. analysis of market & competition
5. customer analysis
6. marketing concept
7. sales plan
8. risk management
9. design and development plan
10. manufacturing & operations plan
11. management team
12. financial planning
13. action plan
14. critical risks, problems and assumptions
15. proposed company offering

Appendix
- CVs of the founders and of the key personnel
- most important assumptions about future development
- product folders, company presentation
- detailed planning (product planning, marketing planning, production planning etc.)

Figure 5.7: Contents of the business plan – overview

business cover page	• name of the company • address, telephone, fax, E-mail • confidentiality legend • control numbering of copies • date
executive summary	• abstract on 2 – 5 pages including the most important messages • everything what is missing here is not considered as important = "**business plan in miniature**" • Executive Summary tells: - Who you are? - What your strategy/vision is? - What you are doing and/or propose to do? - What is the market? - How many funds do you need and what will you do with them? - What your sustainable competitive advantage is? • Executive Summary should contain: - market offering - description of the business model - opportunity and strategy - target market and projections - competitive advantages - economics, profitability and harvest potential - management team

Figure 5.8: Structure of the business plan – part 1

1. business model & opportunity	description of the business model: • description of the extraordinary customer value • **a customer value customers value** and pay a premium • description that the required capabilities are available • estimation of the required resources (financial and human resources) included the opportunity: • What is the market, where is the opportunity? • How big is it now? • What are the trends? How fast is it or will it grow? • Why is this time the right time for your market offering? • Is there a convergence of opportunity and solution? • **Where are the first ten customers coming from?**
2. company in the industry	• company vision, objectives and core strategies on corporate level • industry analysis and trends in industry • analysis of the competitive environment (Porter's 5-Forces) • SWOT analysis to evaluate strategies based on their value proposition • entry and growth strategies in this industry

Figure 5.9: Contents of the business plan – part 2

3. market offering – products and services	• completeness of the problem solving offer for the customer • competitive edge: advantages (strengths of the market offering) • intellectual property (patents, trademarks etc.) • applied technologies and performance criteria
4. analysis of market and competition	• market segmentation: market volume, market trends and target customers in the **possible market segments** • competitive situation: - amount of existing and planned offers in the marketplace by competitors - most important (direct) competitors, their size, market shares, strengths and weaknesses, activities, comparison with own market offerings - threats through new market entrants (outside the current market) • analysis of own competitive advantages (strengths)/unique selling propositions (possibilities for differentiation) • evaluation of current sales channels and the possible sales channels • dynamics in the environment: politics, legislation, economical development, changes in the value system etc. • targeted own market share in the **selected market segments** • organization of the ongoing market evaluation
5. customer analysis	• existing and selected market segments and **possible key customers** • knowledge of the customer needs • estimated market share and sales

Figure 5.10: Contents of the business plan – part 3

6. marketing concept	• overall marketing strategy: - fixing the marketing objectives - fixing the marketing strategies: market segments, differentiation, target groups, and positioning - fixing the marketing-mix: market offering, price, sales channels, sales network, promotion • sales tactics: - Who will be the first customer, second customer etc.? - How will you reach the customer?
7. sales plan	• build up the sales network, sales planning and sales strategy • action plan with barriers, responsibilities and dates (mostly on annual basis) • controlling the implementation: sales, margins, profit potential etc.
8. risk management	• risk identification • use of scenario technique • expected technological break-throughs • actions to reduce risks • eliminate or reduce dependencies if possible at the beginning • identification of the entrepreneurial risk

Figure 5.11: Contents of the business plan – part 4

9. design and development plan	• potential for innovations • “**product pipeline plan**“: - status of the new product development and planning for market entry - product improvements, new products, and follow-on products • design and development costs • difficulties, risks, and contingency plans • important mile stones
10. manufacturing and operations plan	• plant, property, and equipment and geographic location • manufacturing strategies and plans • process technology • quality management • make-or-buy decisions • organization and work force • capacity planning • difficulties and risks in the operations and contingency plans
11. management team	• organization and responsibilities • key management personnel • management compensation and ownership • supporting professional advisors and services • remuneration • strengths and weaknesses of the management team • need for support and training • industry experience of the key personnel in the company

Figure 5.12: Contents of the business plan – part 5

12. financial planning (for the next 3 years)	• investment planning and financial planning • human resources planning, cost planning, sales planning • past and current financial statements • profit and loss forecasts • pro forma balance sheets • break even chart • cost improvement and control
13. action plan	• objectives – strategies – action (OSA-plan) • all actions include clear responsibilities, barriers and time frames • identification of “credibility testers” (reference customers) • sequencing to build value • eliminating or reducing dependencies “of the first hour“ • coordination of schedule, value recognition events and financing requirements

Figure 5.13: Contents of the business plan – part 6

14. critical risks, problems and assumptions	• revealing the possible risks plus counter-measures • revealing the remaining entrepreneurial risk after counter-measures • revealing the assumption about further developments in the relevant environments
15. proposed company offering	• desired financing • securities offering • capitalization • use of funds
ending conclusions	ending with strong conclusions – end with a BANG!! • be creative and try to appeal to as many senses as possible • an incredible ending can absolutely save a bad or mediocre presentation • use a motivational visual or slide to conclude, and leave it up for your Q&A session

Figure 5.14: Contents of the business plan – part 7

After putting the business plan fine tuning is necessary, independent reader review of the plan is necessary, e.g. retired industry CEO, customer, consultant, professor, accountant. Lawyers are a must. Be aware that the business plan has to withstand as a personal resume, as a justification of the investment and as an own commitment to the plan.

5.2.3 The "First Cut" of a Business Plan

The first impression, the so-called "**the first cut**", of the business plan should be:

- an idea, too good to ignore
- a market offering, connected to the trends in the market place and to unfilled customer needs
- a financial perspective too good to turn down
- a team good enough to believe in
- an action plan that is credible and focused what must be done
- details that give assurance of industry insights, commitment of the team and the power to follow through
- format and style that reveals passion and sanity

But why do business plans fail the "first cut"?

hard facts

- insufficient market
- non-credible technology:
  - too blue-sky (unproven)
  - too optimistic
- investment too large for the promise and the expected return
- lacks in market and customer understanding
- action plan is not credible:
  - too optimistic
  - naive about the assessment of obstacles
  - not ambitious enough
  - regulatory barriers insufficiently covered
- team not credible

cosmetic facts

- not really understandable
- filled with marketing or technical jargon, but: What is the business?
- naive projections without background information
- sloppy, e.g. misspellings, poor grammar, poor quality printing
- too many details which are not important to decide about the business case
- ignores the basics of the business
- "forget marketing, my technology is the best"

Figure 5.15: Fail of a business plan in the "first cut"

Writing is business plan therefore needs a special focus. The **mechanics of writing** a business plan:

- The logic of the business plan and the writing style should stress simplicity and should reveal the organization of the thought processes that are embodied in the plan.
- Large amounts of data, accompanying analyses, and in-depth considerations involving data and/or computations should be placed appendices, and the highlights of the data, analyses, and considerations should appear in the text of the business plan.
- Use of table of contents and headings for sections of the business plan for ease of understanding.
- Documentation and explanatory footnotes should appear at the bottom of the relevant pages for ease of reading and traceability of information.
- Charts, graphs, and tables of data and information should be used for clarity and to convey information efficiently.
- Use reliable and most current sources of information.
- Blend quantitative and qualitative considerations into the business plan.
- "Micro" considerations contained in the business plan must agree with the "macro" considerations also contained in the plan.

5.3 Projected Economics

Profit & loss- (P&L-) statement (income statement), that details financial performance in percentage terms. It is assumed that the critical mass is reached, however:

• sales (revenues): - after any customer discounts	100 %
• cost of goods sold (COGS): - direct product cost including manufacturing but not R&D and not Marketing & Sales	40 %
• gross margin (gross profit): - sales less cost of goods sold	60 %
• departmental expenses:	
- marketing & sales	30 %
- research & development (R&D)	10 %
- general & administration (G&A)	5 %
• operating profit / operating loss: - also called profit before taxes (PBT) or earnings before interest, taxes, depreciation, amortization (EBITDA)	15 %

Figure 5.16: Profit & loss- (P&L-) statement (income statement)

Build your business model at first: Start with what you "know":

- cost of goods sold, services provided, between 20 % to 50 %
- research & development ("R&D") should end up between 10 % to 20 %
- general & administration ("G&A") should end up between 5 % to 15 %
- targeted operating profit between 15 % to 20 %

Only remaining variable is marketing & sales. Verify by looking at comparable companies. The important question is: How will you sell your market offering? With direct sales force or via distributors? The distributor will eat up a part of the own margin, on the other side, there are no expenses for developing a new sales channel.

In the start-up stage a sophisticated controlling system is not needed. However some **numbers** are important to evaluate the progress of the **entrepreneurial business**:

- Is it possible to reach a significant sales volume within 5 years?
- Is a market share in the market segment of 5 % to 25 % achievable with the next five years?
- The revenue per employee should be 2 to 3-times more than the salary
- The revenue of salesperson or a sales channel must reach a critical number where it makes sense to invest into this person or this channel.
- "Burn rate of money" are the monthly operating losses plus capital costs should decrease
- The total cash required should be known at every stage of the company life in advance

In entrepreneurial finance, "**Sahlman's Rules**" always apply:
1. More cash preferred to less cash
2. Cash sooner preferred to later
3. Certain cash preferred to risky cash
4. Never run out of cash

5.4 Risk Management in Entrepreneurial Companies

5.4.1 Identification and Evaluation of Risks

The risks of damage are loss of assets or the decline of liquidity of a company with an impact to the company's objectives. Risks contain the possibility for

- entrance of a damage or a disadvantage
- non-occurrence of a positive development
- negative deviation of something what was expected

The coverage of insurable risks (fire etc.) is therefore only a part of the risk management. Because companies are facing many risks, companies build up their **risk management system** (RMS), it is a circle:

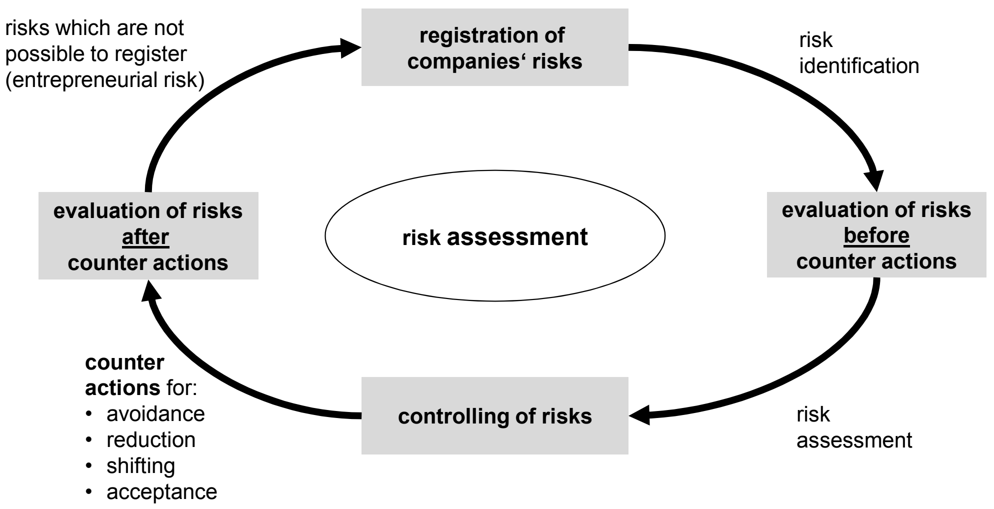


Figure 5.17: Risk management

This contains the following procedure:

Figure 5.18: Steps to build up a risk management system (RMS)

In stage 1, the company must at first identify the currently existing risks and the possible risks in the foreseeable future. The possible factors influencing the company sphere are manifold (Lamarre/Pergler: 3):

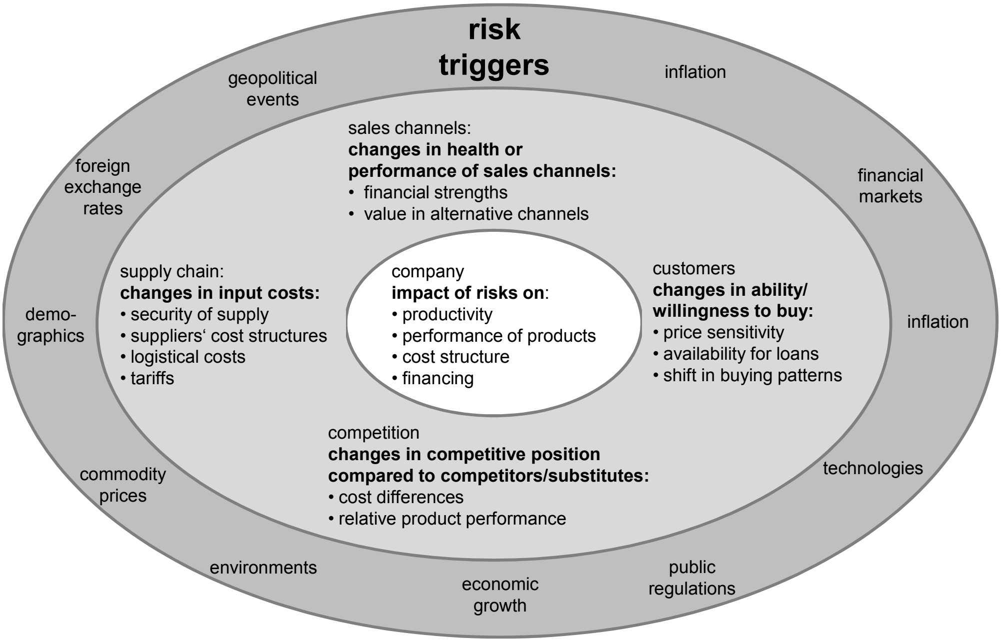


Figure 5.19: Possible risks of the company

Based on what is possible the company has to select environmental developments, which might have an impact on his business (Kohlert 2013: 246):

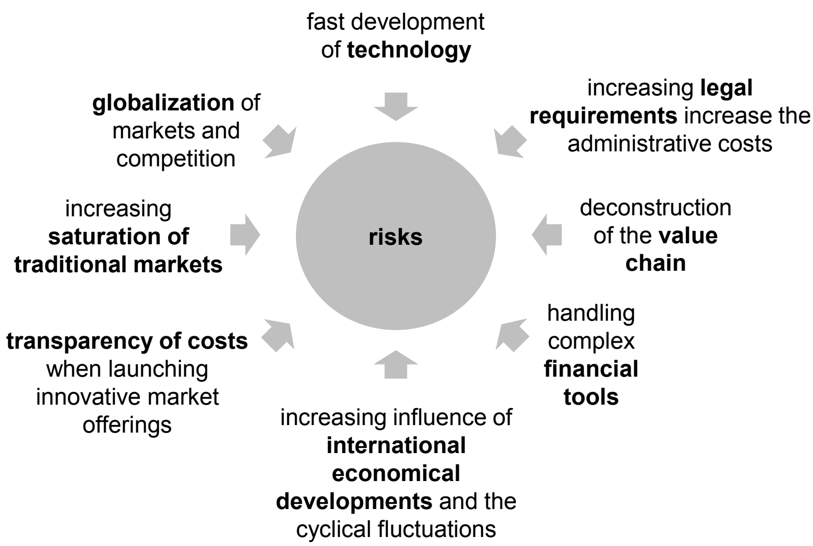


Figure 5.20: Risks the company is facing at current stage

Now the company may go into the details and describe precisely the risks (Kohlert 2013: 247):

understand the risks

technological risks

Will the innovative market offering really work?

Is it technically possible, to implement the expected innovative features into the market offering?

market risks

Are there customers in the market place?

- Will the target groups really accept the new market offering?
- Do they have alternatives to the new market offerings to solve their problem?
- Is the target group easily accessible?
- Is the target group as large as expected?

How will the competitors react?

- Will they approach the same target groups?
- Will they focus on their strengths?
- How will they market their customer value?
- Is the market a “winner takes it all”-market?

(internal) company risks

Has the own company the ability to develop, to provide and to sell?

- Has the company the capabilities to develop?
- Has the company the ability to efficiently provide the new market offering?
- Has the company good marketing skills?

Figure 5.21: recognition of the existing risks for the own company

After the risks are identified they must be evaluated and classified according their probability and impact on the company in stage 2 and stage 3. This can be done in a **risk matrix**:

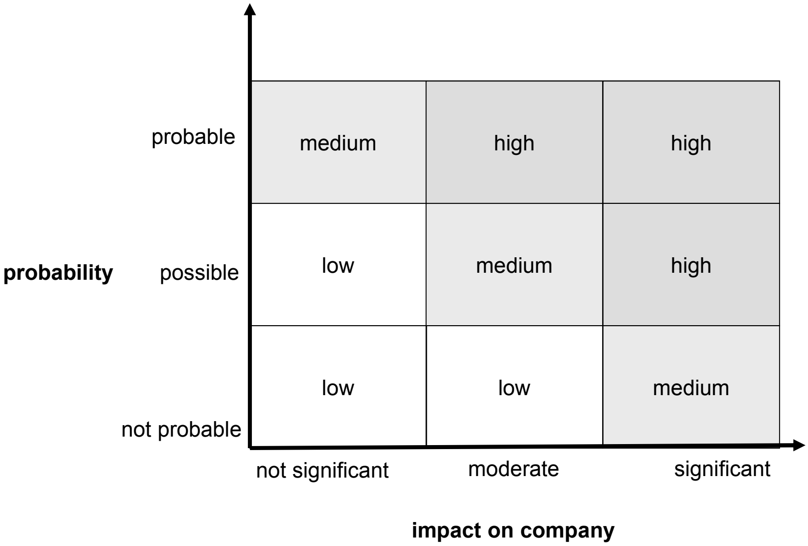


Figure 5.22: Evaluation of risks in a risk matrix

A company's objective may be threatened by a number of risks that follow naturally from the external business drivers and internal constraints, considering an entity's strategies. The purpose of risk management at this point is to analyze **strategic business risk** and related financial statement implications and link to a relevant process. It documents:

understanding strategic business risks (SBR)				fincancial effects (FE)		
No.	description of SBR	significance of SBR (low/medium/strong)	rationale (if SBR is significant)	financial effect	significance of FE (low/medium/strong)	rationale (if FE is significant)

Figure 5.23: Documentation of strategic business risks

- the understanding of strategic business risks based on the understanding of the entity documented in the business understanding
- the analysis of the strategic business risks and determination of which have significant financial effects

In order to understand the strategic business risks, supporting documentation may be referenced. This may include:

- business context of the risk
- circumstances underlying the risk
- related business objectives and strategies

For example, the new company wants to expand into a new market. The objective is to open a new branch office in a new market. For instance, the strategic business risk could be that the expansion into a new market may impact sales in the current market because of a lack of human resources. The understanding of strategic business risks should include those identified by management, and may also include those identified by the action team responsible for this task based on the understanding of the company's business obtained.

SWOT analysis may be utilized to summarize both the existing analysis of the industry and performance, which contributed to understanding strategic business risks. Consider the following items in understanding the significance and documenting the rationale:

1. Management's view of the significance of these risks in terms of magnitude of impact and likelihood of occurrence.
2. The employee's perceptions about the significance of the strategic business risks and how they compare with management's.
3. Underlying uncertainties relating to the understanding of each risk and the potential for change in the assessment.

5.4.2 Risk Controlling

After the stage of identification and evaluation of the precise risks the next step is to **control the risk** with counter actions to eliminate or at least to lower their impact (Reichmann: 628–629) in stage 4:

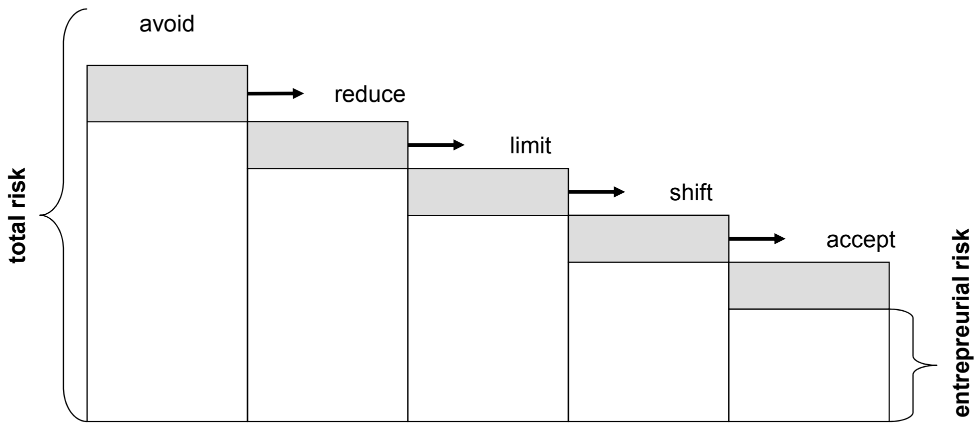


Figure 5.24: Strategies of risk controlling

- To **avoid risks** is only done if the risks are existential to the company. In these cases, business opportunities are usually not taken.
- When a company has the possibility to **reduce risks**, there are counter actions to reduce probability and/or impact to the company.
- In order to **limit risks**, the total risks are separated into smaller risks.
- To **shift risks** to third parties, who are carrying the risks, e.g. insurance companies. Risks are not influenced but carried by somebody else.
- The final remaining risk must be accepted and is considered as a risk of doing business at all or the **entrepreneurial risk**. It is only taken, if the costs to reduce it are too high or the consequences of the remaining risk are low

In the last stage, the different **remaining risks** are put again into the risk matrix:

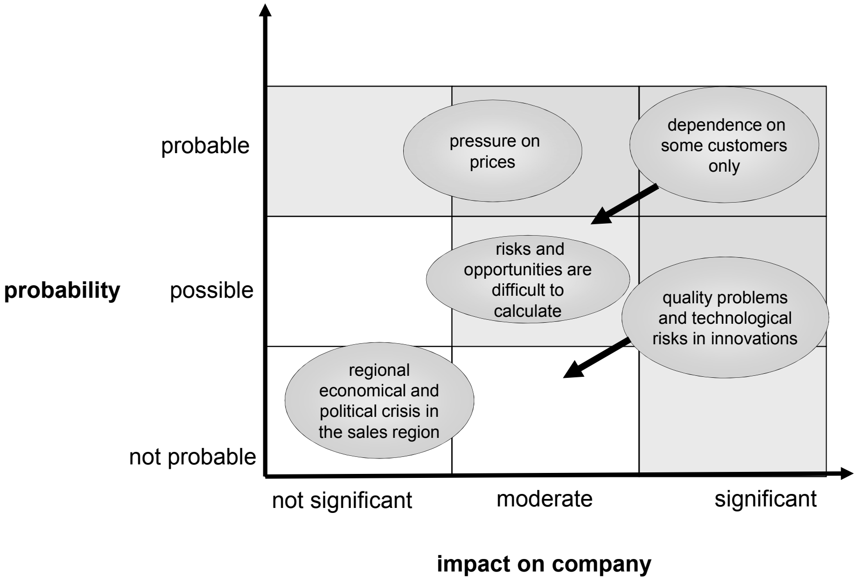


Figure 5.25: Assessing the remaining key business risk

Counter actions will be defined to reduce risks. The decision must be made which risks are essential and must be reduced and which risks the company cannot avoid. All risk-reducing measures cost money and occupy resources, sometimes it is not worth it. But: The wrong evaluation of this risk may bring the company in serious trouble.

6 Get Started

6.1 Lessons Learned for Entrepreneurs

1. **Importance of family and personal assessment** because there is a conscious decision to become an Entrepreneur and the family is carrying jointly this explicit decision. During the study of Kohlert & Rempel it was mentioned several times, in different interview questions, that the role of the family and the stability within the family is a prerequisite to perform in business n the long run (Kohlert/Rempel).
2. **Entrepreneur's responsibilities change over time and the Entrepreneur has to adjust**. This is one of the most difficult parts for Entrepreneurs is that they have to except that the new company leave the incubator at one point and is developing into a "normal" company. In this stage the Entrepreneurs from the first hour have to slacken the reins and delegate authority and responsibilities. In this stage, the Entrepreneurs are not any more informed about everything. This is a process which should be managed in time:

	generate the idea	formulate the idea	realize the idea	strengthen the idea	continue with the idea
management	check Entrepreneur	present	add	adapt	Manager
market offering	develop Concept	describe	offer	revise	Business
business processes	map Disposition	structure	introduce	establish	Organization
market access	plan Isolation	prepare	realize	make sure	Cooperation
finances	guess Owner	predict	calculate	supervise	Stockholder

Figure 6.1: Responsibilities change over time

3. **Start with the first ten customers**. Every car starts with the engine. The engine for the entrepreneurial business is the customer. Without customers no success. Therefore it is advised to start your new company, new business unit etc. when you have the first customer.
4. **Standardize sales processes**. Standardization enables the company to multiply and to grow. Successful business models are able to multiply themselves. This is only possible, when sales processes are standardized.

5. **Prepare a powerful sales presentation** where people have the impression and feeling you. A presentation is not a negotiation, but it is a pre-decision. Here you have to address the emotions of the participants.
6. The **recognition of new business opportunities** is the key challenge of the Entrepreneur. His only success is based on this ability at least at the beginning of his entrepreneurial career. Therefore it is advisable to standardize that procedure. To focus on "feeling" only might be misleading the Entrepreneur, the reliability depends a lot on past experience where people really develop the ability to follow the leadings of their hearts.
7. For the entrepreneurial environment market entry conditions are less important, however, **industry structure and political/economical structure** are:
   – the degree in a society Entrepreneurship is socially accepted and desirable
   – effect of social norms which make it easy for Entrepreneurs to start
   – cultural values in the society which will effect entrepreneurial attitudes

6.2 Recommendations for Entrepreneurs by Entrepreneurs

According to the empirical study of Kohlert & Rempel "Germany's Entrepreneurial Engineers" in 2013 the following recommendations were given by experiences Entrepreneurs (Kohlert/Rempel):

At first, **recommendations to the Entrepreneur – as a person**:

act ethical	• reliability, trustworthiness • passion for Entrepreneurship, not for money • take the responsibility if thing go wrong, do not shift it to others • abstinence and losing are parts of Entrepreneurship • be happy with 90 % • good character is important, personal image can be destroyed fast
family	• the own family must be willing to follow that path • support of the family not just tolerance
take the risk	• Entrepreneur's ability to take a risk (<> employee) • do not take too many risks at once • openness • have optimism
display creativity	• to develop new solutions • do not stop to develop, always make something new
have preliminary ideas	• courage to become an Entrepreneur, it is a conscious decision • be aware that personal and private capacities will be invested • ability to motivate himself, no one else would do it • never ever give up

Figure 6.2: Recommendations to the Entrepreneur – as a person

Second, **recommendations to the Entrepreneur – as a planner**:

focus in the name of the game	• thinking from the market point of view • be perfect in what you are currently doing • focus on areas where specialization is possible • ability to delegate • be an expert in your field but not for the company as a whole • ability to set priorities • ability to recognize of problems: What does the customer need? • do not waste time to save taxes
timing	• do not start too late and not too early • start slowly to manage • differentiate early in the company development with other people • be aware that at the beginning you face a long dry spell • good Entrepreneurs recognize luck
put together the business plan	• understand the cost structure, is the business model acceptable • business model resilient, documented in the business plan • solid financial base • understanding "What is my asset?"

Figure 6.3: Recommendations to the Entrepreneur – as a planner

Third, **recommendations to the Entrepreneur – as a strategist**:

analyze the own strengths and weaknesses	• identify your own personal strengths and enlarge them • awareness of weaknesses • "Think about, what is driving you? • compensate own weaknesses with a complementary
work with visions, objectives, strategies, and actions	• future strategic thrust • "big picture"-perspective • follow up the visions and objectives • observe competitors • reality based on vision and on understanding the reality
create independence	• develop an independent business • avoid dependency on people • be independent of banks • do not be taken in by state propaganda • assertiveness
understanding of the own job	• listen to advice but go your own way • talk to experts especially, many issues are ignored at the beginning • do not accept "holy cows" • enough information about the business to the next steps • acquire as much know how as possible • insights in as many functions of the company as possible • understand the business

Figure 6.4: Recommendations to the Entrepreneur – as a strategist

Forth, **recommendations to the Entrepreneur – as a people person**:

find the right people	• build up a team with many experiences • ability to select the right people • build up the right team • everything has to function in the company • company should also work without the Entrepreneur • "People who want to do everything on their own, become stuck!"
work with people	• recognize the potential of people and use the potential • employees are not tools • team thinking, the Entrepreneur needs a team • communication with employees • to model himself on employees • social competence • lead people to success

Figure 6.5: Recommendations to the Entrepreneur – as a people person

7 Outlook on Entrepreneurship

To finish with the words of John F. Kennedy: “Change is the law of life, and those who look only to the past or the present are certain to miss the future.” Entrepreneurs are the “change agents” par excellence. They challenge the conventional and search for new solutions. In most of the societies, Entrepreneurship is very strong connected with

- innovation
- economic growth
- employment
- renewal of companies

Entrepreneurship needs more than other intentions public support by the government and the acceptance by the society. The government is able to support Entrepreneurship through supporting Entrepreneurship institutes etc. at the universities and to train young people that Entrepreneurship is not a weird idea but a real alternative of their career path. The acceptance in the society is necessary to reward the courageous in the public opinion. When two graduates meet two years after graduation, the first one is working for a huge gaz company, the other has started his own business: Who has a better prestige in the society? But who is more successful in profit, creating jobs, in innovating etc.? There is no reason for the Entrepreneur to hide his light under a bushel!

What the government cannot do is to act as an incubator for start-up companies and to cover the risks! They can set the frame for the Entrepreneurs. To give advice is ridiculous as these governmental services are mostly run by people who did not run businesses before. They measure the wrong things: bureaucratic behavior instead of effectiveness. But the government can take care of the appropriate entrepreneurial ecosystem where the single Entrepreneur can grow with his little “plant”.

To summarize how entrepreneurship can foster national economic growth the following network might be established to support "entrepreneurial plants" with an **entrepreneurial frame**:

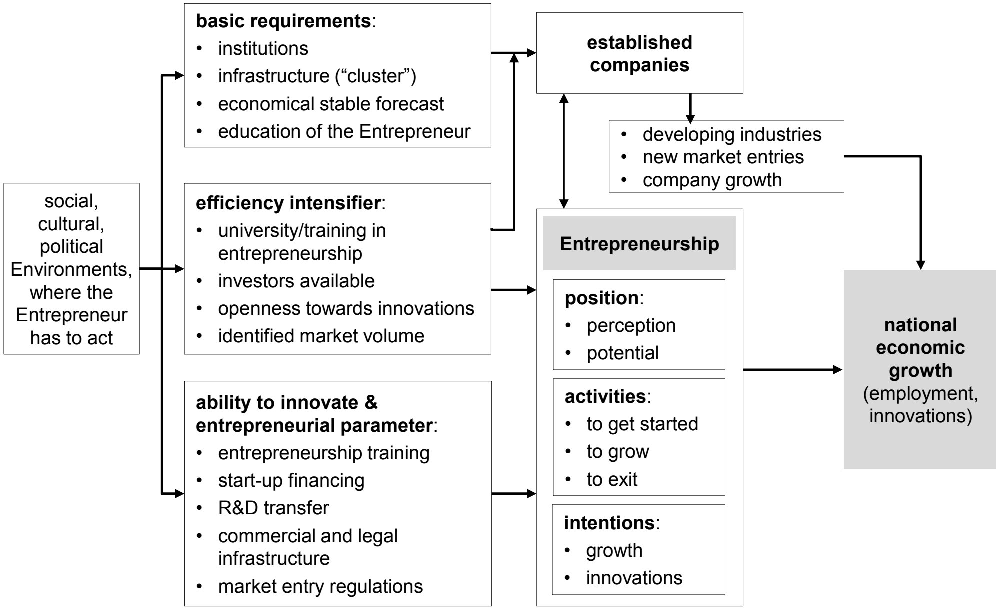


Figure 7.1: Creation of an "entrepreneurial frame"

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Index