

# **TRANSITION Project**

## **How to assess a start-up idea**

### **Table of contents**

➤ Creating an idea definition. Understanding and defining what the product/service will be.....	3
25-Word Test.....	3
M.O.S.T Analysis.....	3
S.M.A.R.T. Method.....	4
Questions you should ask yourself. Start your business for the right reasons.....	5
➤ Evaluation stage.....	6
Peer review.....	6
How unique is your idea?.....	7
S.W.O.T. Analysis.....	7
Sustainable competitive advantage.....	9
➤ Product replication and threat management.....	9
Patents.....	9
Other kinds of intellectual property rights available.....	10
Other ways of protection.....	10
Company strategies.....	11
➤ Marketing.....	12
Get to know your customers.....	12
Marketing mix.....	13
Product.....	13
Price.....	14

Place.....	15
Promotion.....	16
Places to advertise.....	17
Internet and the social media.....	17
Building loyalty.....	18
➤ How do the numbers add up?.....	19
Breakeven analysis.....	19
Marginal theory.....	21
Scenario analysis.....	22
Multiple scenario analysis.....	23
➤ What you need to start your business.....	25
Steps in the process of starting up a business.....	25
Factors to consider when setting up a business.....	25
Success factors.....	26
➤ Seeking third-party support.....	27
➤ Market research.....	27
Market types.....	28
Market segments.....	29
Benefits of market research.....	30
➤ The next step.....	30

# Creating an Idea Definition

The first step to being able to successfully evaluate a business idea is understanding what the idea is. To do this you can use a few different tests, some simple, others slightly more advanced. This is the brainstorming stage. You may have not yet figured out what exactly your idea is or you may know exactly what it is, either way, this is an essential stage to starting a business. Writing out your idea is very useful so it can be evaluated later on.

Two tests in defining the business idea:

- 25-Word Test;
- M.O.S.T Analysis.

## 25-Word Test

25-Word Test comes to simplify your idea down so it fits in 25 words or less. This is a description of the idea, and it is only the “what”, the why, how, etc. come later. Almost all great business ideas can be written within 25 words.

Here are some examples:

- A combination electronic organizer and wireless Internet device (8 words);
- GPS-based audio tours of major travel destinations around the world (11 words);
- A catering service that delivers meals based on The Zone, Atkins, or Weight Watchers diets (15 words);
- A gift certificate that you can redeem online to contribute to the charity of your choice (16 words).

## M.O.S.T. Analysis

M.O.S.T. stands for Mission, Objective, Strategy, Tactics. This is a powerful business analysis tool that can help organize your thinking and structure a viable plan of action.

### Mission

M is the mission of your business. This is a crucial part of defining your idea, and it is the “why” of the business. Here you need to define the main problem that you are attempting to solve.

## **Objectives.**

O stands for objectives. These are a group of goals that are more on a practical level and have a clear vision in terms of how they will be performed. You should be specific so it is easier to evaluate later on.

## **Strategy**

The strategy is the steps you will take to achieve the objectives and accomplish the mission. It is a long-term element that is a group of tactics. It is good to write the strategy before the tactics since it can then be broken down into smaller steps while keeping the purpose.

## **Tactics**

The tactics are the discrete and straightforward methods that you follow to carry out the strategies. Once you have created a strategy, you should break it down into the bite-sized pieces that are the tactics so the course of action is clearly defined and you can act upon it without hesitation. This entire section is planning, the goal of which is to be ready so it is easier to solve unaccounted-for problems along the way. A way to test for the success of this plan is to let someone else read it. If they can understand your business idea and would be able to take the steps without further explanation, that is a good indicator that you have made a good plan.

## **S.M.A.R.T. method**

S.M.A.R.T. method can help you identify and clarify your objectives

S stands for **Specific**. Each goal only addresses one thing so it needs to be exclusive and not overlap other goals. This helps keep everything organized and easy to understand.

M is for **Measurable**. You need to have some criteria that will determine the completion or success of the goal. This can be many things but it needs to be easy to see the outcome.

A is for **Achievable**. Based on the resources and skills you have access to, is the goal something that can be accomplished?

R – **Realistic**. Is the goal something you can see being done? If it is something that heavily depends on other factors, maybe aim for less in the beginning.

T – **Timely**. The goal should be time-bound. It is ok if the deadline is met; you can always rewrite the goals but if you give yourself too much headroom at the start, you may never end up taking it seriously.

# **Questions You Should Ask yourself**

## **Start Your Business For The Right Reasons**

### **Why do I want to start a business?**

Starting a business is no easy task and should not be treated as such. It is not a side job or just a means of making money leading up to what you truly want to do. You only live once and it is too much work to be a stepping stone. The reason you should want to start a business is to improve the world in some way, even if it is something small. Think about what your motivation is for starting a business.

### **Why should my company exist? What problem do I solve?**

All great businesses solve a problem and if you want a better chance of being successful, so should yours. Identify the need for the business.

### **Who is my target customer?**

Since you now know what the problem is you are solving, it is also important to think about who has that problem. This will help in the making of many important decisions such as marketing, branding, and others.

### **What is the story behind my business? What inspires me to do this?**

Once again, motivation is an essential part of success. Even if you don't share your inspiration story with anyone, it is important to have one, so you can answer your own questions in late-night contemplations where you ask yourself why you wanted to do this.

### **What are my goals?**

As a part of motivation, you must have something you want to accomplish as a determining factor for success. If you have done the MOST analysis, you will already have set goals but make sure to go over them and be certain it is indeed what you want to achieve.

### **What resources do I have? What resources do I need to ensure?**

For small businesses and startups, the resources you already have access to are important to take into consideration. Resources can be money, people with certain skills, people with certain connections, personal skills, content, etc. In the next section we will focus on how to provide the needed resources we don't have beforehand.

### **Do I have a burning desire to make a difference?**

Another question related to motivation. If your answer is yes, it is a good sign for your commitment to the idea.

### **Do I see an existing product or service I can make way better?**

This can be a question you ask yourself when in search of ideas. If you already have an idea, this is not as relevant.

## **Evaluation Stage**

### **Peer Review**

Once you have written down and planned out your idea, it is time to reflect. This is maybe even more crucial than the brainstorming as it can make or break the business. You Need to be critical. You can make necessary changes along the way and decide whether to start the business afterward.

**Peer review** is an incredibly useful tool. When developing something, it is difficult to continuously be objective about progress and quality. By asking someone that is not affected by the outcome, you can get honest feedback and use it for improvements. Different people have different ideas and points of view which can all help you.

It is good to ask people a few specific initial questions about your idea. The first is whether the problem you are solving exists. This varies on who you ask so make sure to ask a wide audience. If a significant amount of people confirm that this is a problem they have or have seen someone else have this is good. The next question is whether they have already seen solutions that exist for the problem. Maybe the solution exists but you have not seen it and someone from the peer review has, which is good because if a problem has already been solved then you will need to make your solution better in some way. Finally, you can ask whether they know about any disadvantages or limitations to existing solutions. In combination, these 3 questions will give you a good overview of what you need to think about. Make sure to do your own research based on their answers.

A few main ways to get feedback are through interviews, surveys, focus groups, and asking your friends.

### **Interviews**

Interviews are a direct way of finding out the opinion of individuals who are your potential customers. Since it is direct, you can also spontaneously ask further questions based on their answers and may also request for them to elaborate in the case of someone with creative ideas.

### **Surveys**

Surveys are an excellent way to find the popular opinions of an audience about an idea. To receive a representative outcome, however, the questionnaires must be sent to people who are surely among your potential customers.

## **Focus Groups**

A focus group is a group of people supposed to represent the client base, how they think, and what feelings they might have about your product, service, idea, plan, etc. To have an effective focus group, it is important to first define the purpose of the group. The group needs to be held in an environment where they can interact with and influence each other's views unlike an interview where the person is singled out. The unique benefit to focus groups is that focus groups can produce qualitative data rather than quantitative data.

## **Asking Friends**

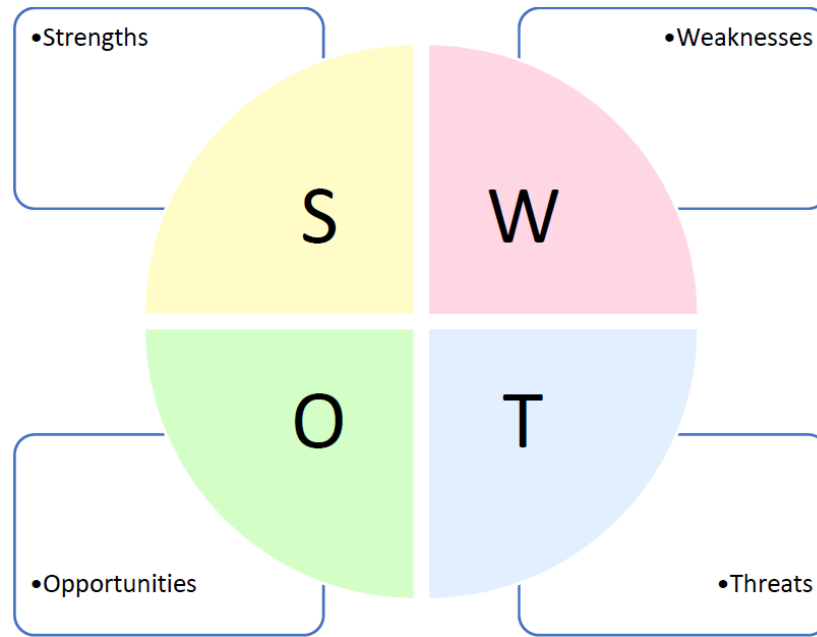
Asking your friends can be a good idea although it should be handled with caution. It is possible your friends are trying to be kind and not criticize or fully evaluate the limitations of your business idea. They may, on the other hand, also be a very powerful tool since you have known them for a long time and they understand your thinking. If this is the case, they may add onto your idea since they are on the same page as you.

## **How Unique Is Your Idea?**

There are now almost 8 billion people on Earth. What are the chances that someone has had a similar idea to yours? Rather high! That's why it is important to get to know your competitors. To succeed, you need to "play your strengths", and figure out what your strengths are. This can be done by using SWOT analysis. Yet another very useful tool for critical and structured thinking. To be able to determine the key and unique benefits to your idea ultimately identifying any competitive advantages, other businesses in the same industry can be analyzed with SWOT. This way you can find a contrast between your idea and what already exists and have insight into where the value lays in your business idea.

## **S.W.O.T. Analysis**

Once again, the name of the tool is an acronym. S.W.O.T. analysis tool is extremely widespread and commonly used in business management with good reason.



### **Strengths**

S is for strengths. In this section, you should write all of the strong points of your idea and things you can do better than your competition. Maybe it is in the technology or the delivery. Maybe you have a very good understanding of your customers. Strengths are internal factors to the business that you generally have power over.

### **Weaknesses**

W stands for weaknesses. Just like strengths, this is an internal factor. Here you should be honest about any disadvantages or flaws in your idea. Some weaknesses can be resolved, others not and that is ok. Here are some examples of factors to consider for strengths and weaknesses: cost, efficiency, time to market, uniqueness, skill, resources, process, or innovation.

### **Opportunities**

Opportunities are an external factor for your business. These are things that are happening outside of your business that you can take advantage of. For example, in a global pandemic, it can be a powerful opportunity for hand sanitizer companies to sell their product.

### **Threats**

Threats are also an external factor. A threat to a restaurant can be COVID19 regulations. A threat to a company inside the UK that manufactures products importing raw materials from the EU can be Brexit since it will be more expensive to import the materials.



## Sustainable Competitive Advantage

After doing the SWOT analysis for your idea and competitors and identifying the value in your idea, whether it is based on cost, efficiency, time to market, uniqueness, skill, resources, process, or innovation, it is important to think about competitive advantage sustainability.

At the start, you can have an idea that is original and no one has developed into a business but once you gain popularity and see some success, you become vulnerable to theft of intellectual property or competition within your own idea. For this reason, it is crucial to plan ahead and think of solutions. It is key to play your strengths to achieve a sustainable advantage over the competition, including it in your tactics and strategies.

One way to go about this is thinking about becoming a low-cost provider through economies of scale. Or in other words, mass-producing a high-quality product to reduce the price which is an unbeatable combination. This is further covered in the next section.

## Product Replication and Threat Management

Good ideas spread fast so when you start seeing some success in your business, naturally, people will want to use your idea. This is called competitive attraction and can be seen frequently amongst even the biggest companies whether it is product or service features or marketing strategies. An example of this is the features implemented by the two most used mobile operating systems - IOS and Android. They are always taking ideas from one another and implementing them to their operating systems. This most certainly is not a bad thing however, as it pushes companies to continue innovating and motivates them to keep coming up with progressively better solutions if they want to continue growing.

If you are those companies however, there are ways to combat and protect your idea, innovative product or service being used by someone else to reach success. Some of these are more legal-based, and others more self-sufficient and controllable from a manufacturing standpoint.

### Patents

**Patents are granted for inventions.** An invention can be a **product, a process or an apparatus.** To be patentable, **it must be new, industrially applicable and involve an inventive feature.**

**Patents are valid in individual countries for specified periods.** They are granted by a national patent office, or a regional one like the EPO (European Patent Office). Patents give the creator exclusive rights to make, use, and sell the invention for said period of time.

The most attractive part about patents is that once you have the patent, you have a **monopoly on the solution and complete control over the business based on that solution.** It is also a powerful thing about patents that once you've started the patent application, you can share the innovation with investors without the fear of it being stolen.

Among disadvantages is the price. The cost for application and the patent fees are high. It also takes a long time to get a patent. Another disadvantage is that it is only valid for the country or group of countries you were granted it and doesn't provide protection out of that region. Furthermore, if there are gaps or it is not done properly, patents can be surpassed by competitors. Last but not least is that if it is infringed, it is your job to stop that through seeking legal action which can be time consuming and certainly expensive.

It is incredibly important to objectively evaluate the need for a patent as it is often not viable in certain circumstances yet essential in others. A recommended procedure in the case of deciding to apply for a patent is preliminary research. In some countries, this is done for free by the local patent office. This will show you whether your idea has already been patented, which will save you a massive waste of money. It will also show you similar ideas so you can determine whether your idea truly will be unique enough and have purpose that will make it profitable.

## **Other kinds of Intellectual Property Rights available:**

- **Utility Models** can be registered in some countries, to protect technical innovations which might not qualify for a patent;
- **Copyright** protects creative and artistic works such as literary texts, musical compositions and broadcasts against unauthorised copying and certain other uses;
- **Trade Marks** are distinctive signs identifying brands of products or services; they may be made up of two- or three-dimensional components such as letters, numbers, words, shapes, logos or pictures, or even sounds;
- **Designs and Models** protect a product's visual appearance, i.e. its shape, contours or colour.

## **Other Ways of Protection**

- NDA, short for **Non Disclosure Agreement**. If you do not have a patent or other form of protection but want to share your idea with potential investors, get them to sign this paper.

- **Non Compete Agreement**, another document you can sign with someone who works for you. This means that they cannot start a business of their own that competes with your business.

As seen, there are many types of legal documents each with benefits, disadvantages, and specific use-cases so make sure to do your own research which will be more relevant to your goals and plans for running the business.

## Company Strategies

Moving away from the intricate country-based laws and confusing legal documents, there are ways you can assure control over your niche more practically.

**The first strategy is to provide the best quality possible while constantly making your product or service more accessible.** Use a concept called economies of scale. This is when you make the manufacturing process more efficient through increasing production capacity while not decreasing the quality.

If you are a small bakery, you hire 1 person to make cakes. You need to pay them and they can only make a small number of cakes per day. If you are a massive bakery, you buy a machine that makes the cakes and the only extra costs are electricity which is a very small cost that is divided by the number of cakes, ultimately allowing you to produce more and cheaper cakes. The crucial thing here is that there should not be a decrease in quality when there is an increase in production capacity.

Manufacture locally. If you are starting out, first populate the local area with your product or service to reduce the shipping costs. As you expand, increase supply in the most popular areas for the product.

**The second strategy is to collaborate with other businesses in your industry.** Establishing mutually beneficial relationships with your greatest competitors is one of the best ways to protect your idea. This can be done through **making deals for supply or production and offering a cut in return.** One case where this was done is when Samsung supplied OLED screens for Apple's iPhones. Another more extreme way to essentially do the same thing is to **buy your competition or form partnerships.** This is seen frequently in the car industry where companies frequently form alliances or buy competing brands.

# Marketing

Marketing plays a crucial part of a business. This is how people find out about you. Marketing is often confused with advertising and while it is true that advertising is a part of marketing, it is much more than that. The role of marketing is to educate customers about your business and introduce potential clients to your products and services. For this reason it can make or ruin reputations. Marketing is often what people will remember about your business so it is important to do this right and make a positive impression. This is because the marketing is the only part of the business customers interact with. They do not see the process of designing, manufacturing, distributing, and managing the business. All they see is your online presence, advertisements, customer support, and products. Through effective marketing you can build trust and relationships with customers. Business growth relies on marketing since it is the only way to reach more people and expand the customer base.

## Get To Know Your Customers

Getting to know your customers is one of the very first steps you need to do as to reach your target market, you first need to identify it. There are **2 stages** to this process.

**The first stage is building an initial average profile of a client.** Think about their:

- Age;
- Gender;
- Income;
- Geographic location;
- Needs, Interests, Hobbies;
- The fad effect. Fad, or trend, is a collective behavior your clients may have in common;
- Others.

All of this can be used to determine the optimal pricing strategy, advertising strategy, and branding philosophy. For example, if you know that most customers will be below the age of 20, you can assume that their income will be rather limited and therefore low prices will be exponentially more important to them. Alternatively, if you know that a trend in the target customer is the desire to look cool in front of their friends, the design of the product will be of great concern to them.

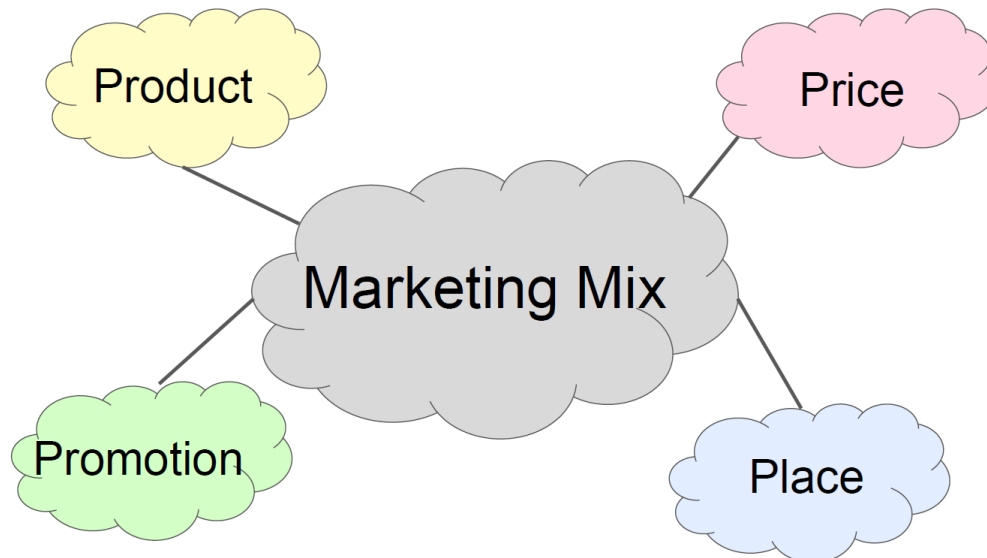
**The second stage is after interacting with them.** This will be once you have sold some products or services. This part, although relatively more easy, is also very important and is often neglected by businesses. The goal here is to directly get to know your customers through customer feedback on social media, websites, emails, forums, etc. The reason this is so powerful is owed to the fact that rather than brainstorming who the theoretical customers are, you directly get to interact with real people that buy your products. Once you establish trust with your customer base, they will begin to open up and share insights into what they think. This way, you

can understand their identity and needs and use those for developing marketing campaigns and establishing an even more trusted online presence. If people willingly give you feedback, they care about the business and are likely returning customers.

Return customers are extremely valuable since they spend more. They are easier to sell to as they trust you. Repeat customers also promote your business. They are fans of your business.

## Marketing Mix

The marketing mix is a term that can be split into 4 sections. These are product, price, place, and promotion. By understanding this and using it effectively, you can make sure that no part of marketing is neglected or forgotten.



### Product

Product (or service) is perhaps the most important part of the marketing mix. There are a few things to consider when thinking about the product.

**The product itself.** There are 2 types of businesses - market based and product based. Most modern businesses are market based. This means that they first look at what exists and what gaps there are in the market. Then design their product based on that. The alternative is first making a product and then trying to find a market for it. Being a market based business is less risky as you know who your potential clients are and that they exist. It is also much easier to market since you know the needs you are satisfying.

**Packaging.** It has both practical and psychological implications. Most packages are of a cuboid design to ensure space efficiency when shipped. Not only does it play a role in shipping and

protecting your product from getting damaged, but, it is also often what gets a product noticed in a shop. The packaging can be associated subconsciously with the quality of the product. Imagine buying a diamond ring and it came in a bland plastic bag that you might use for fruit at the supermarket. Besides implying the level of product quality, packaging can be used to differentiate between similar products. If there is a wall of the same product in a shop you would most likely buy the one that looks the best, or, since they all look the same, the one that has the best packaging. Packaging has one more purpose - to promote the brand. Shops use plastic bags with their logo on them. Fast food places have cups with their logo on them. This is free advertising.

**Branding** is important as it helps to identify a product or service and distinguish it from other products and services. A brand can have brand value, which is the premium customers are willing to pay on top of the product price based solely on their devotion to the brand. It also makes it more difficult for other companies to take your market share and customers. There is a reason Toyota branded their luxury line as Lexus and it is probably the same reason it sells more than any other luxury car brand including Mercedes-Benz. It is also the same reason certain bottled water companies sell more than others despite the fact that the difference in the water itself is barely distinguishable. All of this is a result of good branding on behalf of the successful companies. Branding is what makes your product unique. It is the building of an image for your product or service through a logo, slogan, color scheme, etc. By pushing the same brand you can make more people familiar to it and have an advantage over other brands. The goal of branding is to create brand awareness. For example, 98% of respondents to a survey might recognize the Coca-Cola brand. This is thanks to consistency, advertising and longevity.

## Price

There are a range of pricing strategies that should be considered - each with their own purpose.

For a new company, a good pricing strategy is **penetration pricing**. The goal is to set the lowest price possible to interest more people in the brand. Once well established, the prices can increase. When using this strategy it should be noted that setting the prices too low can make customers see the product as lesser quality.

If your product is unique and you have an edge on the industry thanks to the complexity of the product you could consider **price skimming**. Since it costs a lot to develop new technologies, a very high price is set for such advanced technological or innovative products. In case there are no other products that can offer the same solution you can charge a premium price. A high initial price can also create a unique and prestigious image for the product. Games consoles, smartphones and flat-screen televisions have all been priced using this strategy. Nevertheless, this strategy must be applied with caution.

A further common strategy, is **psychological pricing**, used to form a psychological or subconscious impact on consumers. It involves rounding down numbers such as \$9.99 or \$14 995 to make prices seem lower than \$10.00 or \$15 000. Hence, customers psychologically feel

that they are paying a better price for the product. This method is widely used and can work for almost any product or service, from groceries sold in a supermarket to expensive motor vehicles or residential properties. It also works well when selling the same product in larger quantities.

One final strategy is **loss leader pricing**. The idea here is to sell a product at a loss to increase sales. This may seem counterintuitive at first but there are some good use cases for this. Supermarkets often use this strategy by heavily marketing the loss leader in the hope of attracting customers. It is unlikely for customers to purchase only the loss leader when visiting a supermarket, yet the existence of loss leaders can attract many customers. Loss leaders can also be used to encourage brand switching, which in the long term can make up for losses incurred whilst the product was priced at a loss. Game console manufacturers such as Sony, Nintendo and Microsoft often sell their hardware at a loss to attract buyers. The aim is to then sell complementary goods such as gaming software and accessories, and collect royalty payments from games manufacturers.

There are other pricing strategies that can be used but these are the most widely used and are time-proven.

## Place

This part of the marketing mix concerns how and where the product will be sold and distributed. There are 4 main distribution channels.

- The first is directly from the producer to the consumer.
- The second goes through a retailer before getting to the consumer.
- The third goes through a wholesaler before reaching the retailer.
- The fourth starts at the producer, runs through an agent, then goes to the wholesaler, then the retailer, and finally reaches the consumer.

Each channel has its own advantages and disadvantages.

### Channel 1. Benefits:

- Suitable for fresh food, sometimes sold directly from the place of produce.
- Wholesalers and retailers are cut out, resulting in a lower price.

Disadvantages:

- Requires consumers to live near the factory otherwise it is not practical.

### Channel 2. Benefits:

- Producers can sell in bulk to retailers.
- Lower distribution costs compared to channel 1

Disadvantages:

- No direct contact and interactions with the customers.

**Channel 3.** Wholesalers buy products from manufacturers in large quantities and then divide up the stock into smaller quantities for retailers. Benefits:

- Small retailers get reduced storage costs thanks to wholesalers.
- Retailers can buy in smaller amounts since products have a short shelf life before they deteriorate
- Wholesalers may provide delivery to smaller retailers consequently saving money on transport.
- Wholesalers have information on what is selling so they can give advice to small retailers and the manufacturer.

Disadvantages:

- It is more expensive for retailers to buy from a wholesaler than if they bought directly from the manufacturer.
- Wholesalers may not have the full range of products to sell.
- It takes longer for products to reach the shops and may reduce quality depending on the type of product.

**Channel 4 .**

All the advantages and disadvantages relevant for channel 3 are applicable for channel 4 as well.

In addition it has to be considered that:

- Agents will be aware of local conditions and will be in the best position to select the most effective places in which to sell.
- It is even more expensive for retailers as there is one more link in the chain.

### **Promotion**

Promotion is often mistaken for being the only part of marketing and is what marketing is often known for since customers only directly interact with this. It is the part of marketing that includes but is not limited to advertising. It is everything that allows your product or service to be known to the public. In the modern world, there are an overwhelming amount of different promotion methods, strategies, and tricks. Advertising is among them.

There are 2 main strategies regarding advertising a product or service.



- **Informing** is recommended when you have a unique product that solves a problem well, it is more effective to use informing. This is where you show off the features, uses, and quality of the product by demonstrating what it does.
- **Persuading** is used if the product is more for style than practicality. For the latter, an example is clothing. Usually a company will advertise clothing by showing how attractive people look wearing it, hopefully making you want to look like that and so selling the product.

### Places to advertise

It is not only important how you advertise, but also where. There are so many different places to advertise. These can be split into **above the line** and **below the line**.

**Above the line** (ATL) targets a larger audience and has global and uncontrolled viewership. Examples of ATL are:

- Advertising campaigns through television at the regional or national level;
- Promotional messages in newspapers, online articles, and advertisements;
- Radio broadcasts;
- Billboards.

**Below the line** (BTL) is more focused and can be shown to people with something in common which can be anything from an interest to where they are located physically. Examples of BTL include:

- Outdoor advertisements: fliers, banners, sandwich boards;
- Direct marketing: SMS, emails, social media posts, pamphlets, influencers;
- Sponsorship: Events, competitions;
- Public Relations: Press conferences, viral marketing, exhibitions;
- In-store promotion: Visual merchandising, retailer pop-ups, sampling, sales promotions, discount coupons, display units.

## Internet and The Social Media

Internet and social media provide incredibly powerful opportunities to promote products or services. It is easy to reach a very wide audience since almost everyone uses the Internet on a daily basis. You also have full control over the viewership when advertising.

There are different ways to promote your business and strengthen your online presence. Some of these are:

- **Advertising on Google and Facebook** (or other social media depending on your target audience). This can be effective and efficient as they collect a lot of information about their users which ensures targeted campaigns and results in high conversion rate;

- Developing a relationship with your customers through **email marketing**;
- **Creating a blog** and posting high-quality content regularly or **collaborating with popular bloggers in your niche**;
- **Creating** useful and attractive **video tutorials on YouTube** to promote your products or services;
- **Leveraging the power** of Instagram and other dedicated platforms' **influencers**;
- **Posting photos and videos with relevant hashtags** on Pinterest, Flickr, Tumblr, Instagram or other relevant social media;
- **Optimizing your website for SEO**;
- Regularly **contributing on industry-specific forums**;
- **Using business listing sites** like Yahoo Local and Google Local, etc.

As mentioned above, **using the power of influencers** is among notable forms of promoting your products or services, regardless of the social media that facilitates their follower base (Instagram, Facebook, Youtube, etc.). If people like you, they are more likely to have a positive perception of what you do or like. For example, if you make a painting, your family would rate it higher than a stranger. The use of this in marketing is that you can reach out to public figures with a following to promote your product or service. By far the most important thing when using this way of promotion is to make sure the person has some relevance to your industry.

A final method worth mentioning are **joint ventures with complementary products or services owners**. It is incredibly powerful to see competitors join goals and forces, ultimately resulting in greater exposure thanks to the shared markets and customer base.

## **Building Loyalty**

When talking about the product in the marketing mix we discussed the importance of building good relationships and loyalty with customers. It is not only important to know why brand loyalty is relevant, but also how to achieve it. There are several different steps and responsibilities you should take to assure good customer experiences with regards to your business.

**Interacting with customers** should be among the top priorities. By communicating with clients through social media and forums, your company becomes more than just a manufacturer or service provider. Not only is it a great way to receive feedback, but you **actively engage the customer and build impressions**. Another crucial asset to have in modern business is a website. There are so many reasons for this. It allows for direct contact with customers. It allows potential clients to learn about your vision, your goals, your products, your practices, your values, etc.

Further step to consider when talking about loyalty includes **constantly researching the customers' needs**. Feedback should be taken seriously and implemented as much as possible to satisfy the needs of your clients. These needs, even if satisfied at a given moment, should not be considered a one-time action. The world moves fast. Technology constantly improves.

Customers have changing needs. You need to keep up with them. These can be a desire for new and better technology or, alternatively, a change in taste and perception of design.

**Keep an eye on market gaps.** If there is a gap in the market calling for a new product, it is the perfect opportunity to give your clients more reasons to purchase products from your business not to mention attracting new customers. This can be seen in tech companies such as Google or Yamaha that constantly develop products in different industries or with a different target audience. Once you like a brand, you are more likely to buy from them even if the new product barely has anything to do with previous products. The product usually is not the only thing you remember. You remember its quality, design, customer service, brand, and the goals the company is trying to achieve. All of these things can apply for many different products. For example, a company like Tony's Chocolonely pushes the message and goal of slave-free production. This message does not only apply to manufacturing chocolate and if they came out with different products people would buy them based on the ethical beliefs the company is run under.

These **changing needs can also be a result of aging populations.** As time passes, the people that liked your company when they were little may still want to purchase products but, if you do not offer anything for them, they won't. Some things to keep in mind when talking about aging populations besides the changing age of people are their changing incomes, changing interests, and, as previously mentioned, change in taste.

**Constantly improve existing products or services.** This is another way of showing clients your care.

## How Do The Numbers Add Up?

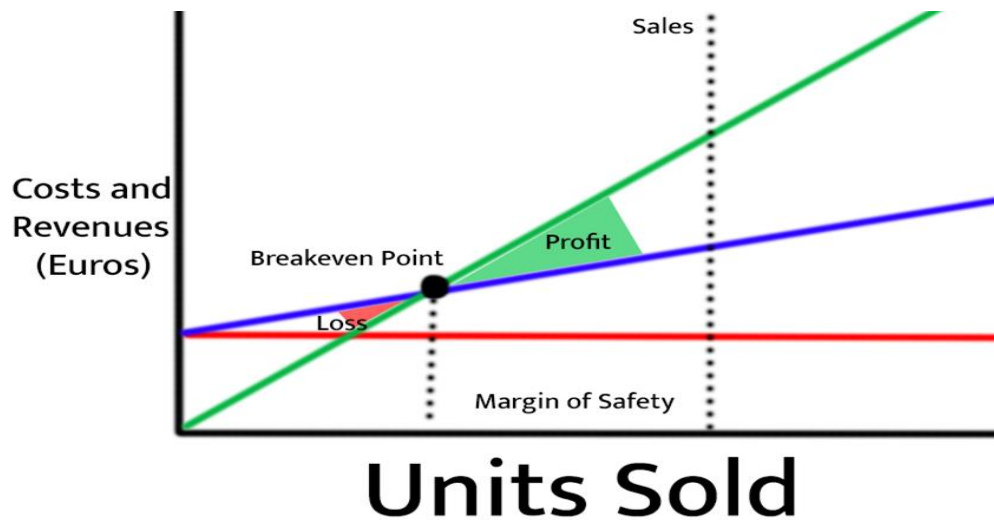
### Breakeven Analysis

Breakeven analysis is a tool used in business to calculate the number of units that need to be sold to turn a profit. It is most useful in businesses that offer a single product or service due to the way it is set up.

**Among its advantages is that it is easy to understand, set up, and use.** It can be used to determine what effects changing sales prices will have on the profit, variable costs, and fixed costs. It is also good for setting a goal for the number of units sold.

**The downfall of this tool is its simplicity.** It assumes that prices stay the same. It is only useful for a single product or single mix of products. These assumptions and limitations are not practical for most businesses, even very small businesses that still sell more than a single product.

Now let's discuss how it can be set up. Breakeven analysis comes in the form of a chart that looks like this and has a few important features that should be understood.



**Fixed costs** are a collection of single payments over a period of time. This can be anything from rent to website maintenance costs. They are represented by the red line in the breakeven analysis chart. As you can see, the gradient of the line is 0, meaning that it goes straight across. This is because the fixed costs are not affected by the number of units sold.

**Variable costs** are costs associated with the production of a product. They are the cost that it takes to manufacture a single product. Variable costs can be raw materials or electricity if you have a factory. If you have hired another company to produce your product, it will be the price you need to pay to that company per product.

**Total costs** are what you get when adding variable costs and fixed costs. They are represented by the blue line and, as indicated by the name, they consider all of the money you spend on different things as a business. This is useful since it allows you to see how much revenue you need to make to turn a profit.

**Revenue** is the total amount of money you make as a business. In this case, it is calculated by multiplying the number of units sold by the retail price of the product at which customers buy it. It is represented by the green line and should not be confused with profit.

**The breakeven point** is the point where the blue and green line cross. If you have sold less units than the number required to reach the breakeven point, your business is at a loss of money. If you do not want to graph these lines and would rather manually calculate the point, you should subtract the costs per product from the retail price and divide the fixed costs by the result.  $(\text{Fixed costs}) / ((\text{costs per product}) - (\text{product retail price}))$ .

**Profit** can be calculated by subtracting the total costs from the revenue. You have made a profit once you sell more units than the breakeven point, passing it.

**The margin of safety** is the number of units between the actual number you sell and the breakeven point. If you need to sell 5000 units to break even and you have sold 7000, your margin of safety is 2000 units.

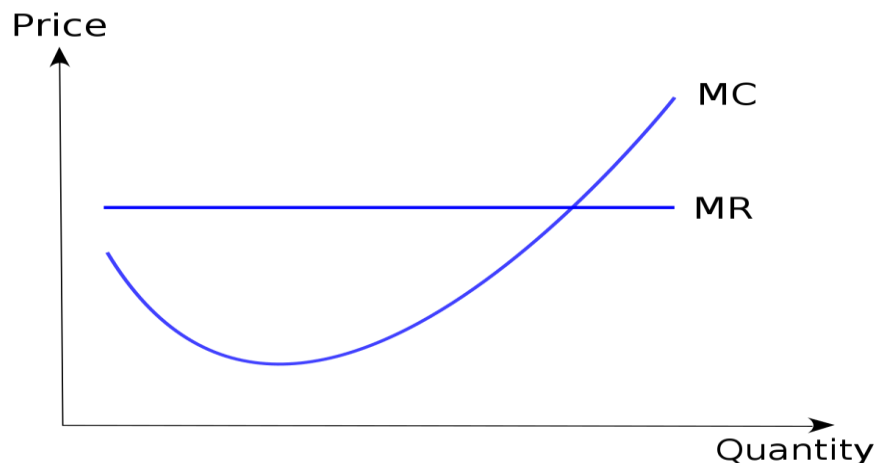
## Marginal Theory

In some area of business and economics this is considered a bit fuzzy since it cannot be measured, but is still useful to consider and not overly difficult to understand. Marginalism focuses on maximizing profits through analyzing the benefits of incremental changes in the number of products created, sold, etc. and their relationship to customer demands and consumer choice. Modern marginalism also considers psychological effects and comes close to behavioural economics.

**Marginal costs** can be calculated using the formula  $(\text{change in total cost})/(\text{change in quantity of product})$ . For example, if you can make a product for 20 Euros, but you can make 2 for 30 Euros, then the marginal cost is 10 Euros. This is important because if you can then make 3 products for 35 Euros, the marginal cost will be 5 Euros. Initially, the marginal cost will go down. Eventually, the cost will go up. The key is to balance the production output through relating it with the marginal revenue.

**Marginal revenue** is the  $(\text{change in total revenue})/(\text{change in quantity})$ . It is important since it is the second thing except marginal costs needed to be able to do profit maximization. It is the incremental change in revenue. This means it helps identify the extra revenue that can be generated by adding a unit of production. This can be used to determine whether producing extra units will be beneficial.

**Profit maximization** is the reason marginal revenue and marginal costs are important. Through profit maximizing, you can determine the point at which your business reaches optimum production capacity. By drawing out the lines of the marginal revenue and costs, you can find at what number of units produced they cross. This is the number of products you want to sell since it is the most profit efficient. It is the optimum quantity to produce since you are getting the most value. This is also at which point you reach economies of scale. If you go over the optimum, you reach diseconomies of scale which is not optimal for your business since the costs increase per unit added and it is not sustainable. This can all be seen in the graph below.



# Scenario Analysis

Scenario analysis is a tool used by businesses to prepare action plans for any possible timelines of the company. This is useful not only to save work capacity when the critical moment comes but is also good for practicing adaptability to different outcomes. Scenario analysis is used to identify challenges and resources needed to overcome these challenges. It also considers the likelihood of each scenario happening and lets you prepare in advance to be better able to deal with difficulties. The main idea is to plan for possible scenarios that the company may be on whether this is based on internal or external factors.

## Benefits

There are many benefits to be reaped from taking the time to do scenario analyses. Externally speaking, it can be used to demonstrate to investors what expected returns and risks are involved. It can be used to plan for future investments since the required amounts will be considered as well as a time frame.

Besides future planning, you can also use scenario analysis to help you be more proactive. It can help decrease potential losses that depend on external factors beyond the control of the company. This can be done by being aggressively preventative in a worst-case scenario while also analyzing and evaluating the situation as well as comparing it to a worst-case scenario plan that will help you utilize strategies planned beforehand.

In addition, scenario analysis can reduce risks and prevent failure through giving insight on valuable and ineffective investment strategies, helping with the making and execution of important decisions.

Finally, the analysis makes use of tools that help with calculating the values of potential gains or losses from an investment. This gives concise information that can be used by investors to base their approaches with the hopes of reaching a profitable outcome.

## Disadvantages

Even with such great use-cases and benefits, scenario analysis comes with certain disadvantages that should not be neglected.

The first and most obvious being that this analysis tool is, in essence, is trying to predict the future. Although it is useful to a certain extent, the future is unpredictable and therefore this tool should be used with that in mind.

Furthermore, this tool is incredibly susceptible to cognitive bias. Since there are no numbers involved in fictional predictions of what could happen in the future, everything is subjective.

This also neatly relates to the next point which is that it takes a certain expertise to be able to effectively perform this analysis. In addition, it takes a lot of time and in most cases it would take a dedicated team to perform it in a way that can be at all beneficial.

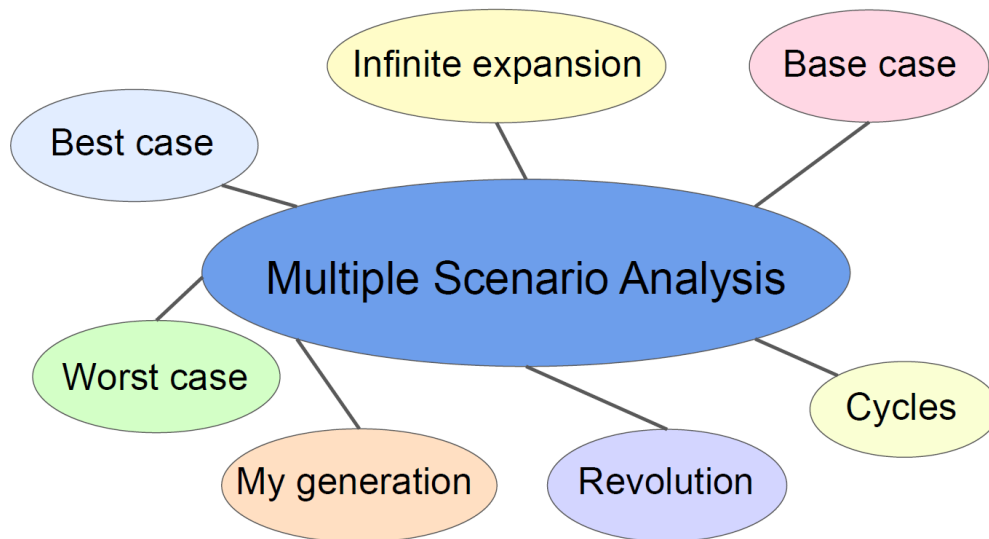
It is also not possible to predict all possible scenarios and theoretically calculate the probability of each one becoming a reality. This is due to the colossal amount of factors that play a role in the way things play out.

This tool is also limited in accuracy based on the amount of inputs you consider.

Finally, as time progresses, to have any benefit from this tool, the scenario analysis needs to be constantly updated by experts.

## Multiple Scenario Analysis

Some common scenarios that are are base case, best case, and worst case scenarios. There are also others which focus more on the way the market can change than the success of the business such as a revolution, cycles, infinite expansion, my generation, etc.



### Base Case

The base case scenario is your best guess at the most likely scenario. This assumes average events occurring. The rates used to calculate the net present value are usually the discount rate, cash flow growth rate, or tax rate.

### **Best Case**

This is the best outcome you realistically expect to see. Here, to calculate the net present value, you should use the lowest possible discount rate, highest possible growth rate, and the lowest possible tax rate. This is the ideal outcome.

### **Worst Case**

This is the least wanted outcome as it assumes the worst conditions for your business. To calculate the net present value, one would take the highest possible discount rate and subtract the possible cash flow growth rate or the highest expected tax rate.

### **Cycles**

What goes around, comes around. A cycles scenario is when the product sales and economy boom and bust. A boom is when there is a rapid increase in sales and a bust is when the opposite occurs - a decrease. It is called a cycle since it repeats, meaning that there will be multiple booms and busts. In this scenario it is important to be prepared since the revenue will not be consistent over time and if you spend too much when there is a boom, it is possible to go bankrupt when the bust comes.

### **Revolution**

When thinking about an action plan, one scenario to consider is a revolution. This is when an innovative product or new technology is released that induces heavy competition. In this event you should have management changes that can be put into place to benefit rather than tank the business. These changes can concern marketing or can be adaptations of the product.

### **Infinite Expansion**

This is when there is an upwards trend with no indication of slowing down. One example of this is the computer industry in the 1950s. If this happens and the trend continues, you should put measures into place to get the most benefits and sales since demand is clearly high and there is no immediate market saturation.

### **My Generation**

This scenario deals with changes in culture and demographics. As discussed previously under building loyalty, the customers have changing needs and taste and personal factors such as income, etc. How will you adapt to this?



# What You Need To Start Your Business

## Steps in the process of starting up a business

**1. Prepare a business plan.** Once you have a good idea, the first step which you need to take to turn an idea into a reality is to make a business plan. This plan will include the goals you want to achieve and the objectives you want to complete. This is further explained in the next parts of the course.

**2. Obtain startup capital.** To be able to use this plan and turn it into a profitable business, you need to secure initial funding. Frequently, for small businesses, entrepreneurs use their own savings or take out loans to finance their startup. Loaning may take a few extra months and often requires a complete business plan for the lender to assess the viability of the business in order to trust you with their money.

**3. Obtain business registration.** The next step is to register the business. Without the necessary registration and licensing requirements, the business cannot hire people or trade. It is also important to consider the type of business since this is required information. For example; partnership, limited liability, etc.

**4. Open a business bank account.** Furthermore, you must open a business bank account to buy and sell in the name of the business. Almost all business bank accounts will have online banking facilities too.

**5. Marketing.** Finally, you need to market your business. People, especially customers, need to somehow find out about your business in order to buy from you. This has already been covered in the course.

## Factors to consider when setting up a business

**The business idea.** As mentioned, the business idea needs to have potential. Its potential can be identified through the analysis tools given previously. This might be done through the identification of a niche and satisfying a gap in the market or by providing a product with a unique selling point.

**Financing** is one of the most important factors. It is needed to facilitate business activities, which includes marketing, manufacturing, etc. It is also frequently the barrier to entry that small businesses need to overcome. Records need to be kept of the firm's activity. This information can also be used to analyse strengths and points for improvement. Often, an accountant will be hired to do this.

**Human resources** are relevant to every branch of a business from design, to production, to marketing, and even distribution. You need to consider the needed employees, and also the process of hiring, training, retaining, and motivating them.

**Enterprise.** You need sufficient entrepreneurial skills to effectively and successfully plan, organize, and manage the business. Good leadership and negotiation skills are fundamental to deal with stakeholder groups which include customers, employees, suppliers, and the government. You also need the confidence, motivation, and passion for what you do. This is all a part of the enterprise factor.

**Fixed assets.** Furthermore, you need fixed assets which include premises and capital equipment. Location is also a crucial decision. A central location may be more convenient for customers and increases the probability of casual visits as it is on the way but is significantly more expensive than, for example, being located in the suburbs.

**Suppliers.** Another factor that must be considered is the suppliers since you need raw materials, finished products, and support services. This factor also involves negotiating prices and taking delivery times into account.

**Customers** are a further factor that needs to be considered since most businesses revolve around their needs. They need to be attracted otherwise there is no income and the business can go bankrupt. To achieve this, market research may be used, consequently making products that appeal to the customers and are priced well in addition to being distributed in order to be sold at the right places.

**Marketing.** No matter how desirable or innovative your idea is, marketing is essential. It is needed to convince buyers and investors that you and your idea are the right choice for them.

**Legal issues.** The law is another thing that needs to be considered. Consumer protection laws, copyright, patent legislation, and employment rights all need to be taken into account to prevent infringement and stay away from legal issues which may cause big problems for businesses. For example, if a supermarket fails to comply with quality standards, they may have to cease all operations.

### **Success Factors**

The success factors of each business are different depending on their goals. To identify critical success factors, you must consider the factors that may impact the desired outcome. It is important to differentiate between factors that correlate with and factors that affect the outcome. You can explore what skills you need to acquire to achieve success. You must also determine the conditions that allow for desired outcomes.

Furthermore, you may assess what changes in behaviour are necessary must occur to reach desired outcomes. Success can only be achieved through continuous work and spending time to work on weak points. Eventually after reflecting on everything that can be improved and actively working to change it for the better, you can achieve success. This means you need to measure

your success every step of the way and evaluate areas of improvement as well as things you are already doing well that you need to continue doing well. This is done by setting up success indicators that measure the success factors.

## Seeking Third-Party Support

Seeking third-party support is an excellent way to enhance your business. This can be done by outsourcing and delegating tasks to people beyond those already working at the organization. It can be incredibly helpful to receive external professional help for tasks that require expertise and can be valuable to the business. Such tasks can be found in various areas of the business for example management, marketing, finances, legal field, human resources, operations, customer service, etc.

In **finance**, there are many jobs that should be done with extra caution and it can be helpful to seek external expertise. These can be bookkeeping, paying taxes, managing revenue, budgeting projects, advice for real estate purchases, making deals and signing papers, etc. Often accountants and financial managers are sought to help with these.

**Operations** are the manufacturing of the product. Many businesses contract factories owned by other companies to produce the product.

**Human Resources** includes hiring employees as well as taking care of their needs. Often HR businesses can provide candidates for recruiting and shortlist the most fitting people for the job. You can also get an analyst to look around the office and interview employees in order to find out whether they feel good at the business and if not how this can be changed. This also includes finding the best way to motivate your employees.

**Marketing** is another area of a business that can be outsourced. There are many jobs here that can be better performed externally based on the expertise you already have access to. Some jobs to consider are design, market research, marketing campaigns, etc.

## Market Research

Market research is a part of marketing that comes to help entrepreneurs get to know their market, what is already out there, what customers need and want, etc. This is ever changing and needs to be done frequently to stay up to date. There are 2 main types of research that are used - primary and secondary research. There are also 4 main types of markets. Furthermore, these markets can be split up into segments - the Demographic sector, behavioral sector, psychographic sector, and the geographic sector.

## Research

**Primary market research** involves direct interaction with current and potential customers in your target market. In the section about peer review various primary sources were explained such as surveys, interviews, etc.

**Secondary market research** uses industry data that's already been compiled and organised ready for you to utilise to your advantage meaning that you do not directly interact with the origin of the information. Secondary sources can be reports, books, websites, articles, videos, etc. There are differences in the way information should be interpreted depending on the type of source.

## Market Types

There are different types of markets. It is important to know which one your organization operates under since it will determine what business strategy you will use.

### Consumer Markets

The consumer market is when you sell directly to the final customer that will not resell the product. Marketing and promotion are very important in this type of market since there is a lot of competition. Through informing people about your product and allowing them to familiarize themselves with it. A lot of effort is put into creating brand loyalty and for good reason. People prefer brands they know and trust because they associate them with high quality and good service. The consumer market has big differences to the business market which will be reflected in the strategy. Consumers are many in numbers, buy in small quantities, and are widely geographically distributed. The consumer market can be split into different segments based on the characteristics, demographics, and behavior and psychographic of the consumer.

### Business Market

The business market, recently becoming more competitive, is where businesses sell to each other. It consists of all of the organizations that provide services, raw materials, and other goods that are used in the production process. These may be rented, sold, or supplied. The business market does not purchase for personal consumption. Sometimes it is also referred to as the business to business market or B2B.

### Government Markets

Governments are frequently large buyers of goods and services, especially in countries where the government undertakes a lot of infrastructural projects. Government organizations require suppliers to make offers and usually the lowest bidder is chosen. There is an allowance for superior quality and reputation, meaning that if the work is done on time and with high quality, a larger price is forgiven. In this market type, there are a massive amount of regulations to be followed as well as excessive paperwork.

## **Institutional Markets**

Institutional markets, as suggested by the name, consists of organizations such as schools, hospitals, prisons, elderly caring homes, etc. These are institutions that need to provide goods and services to people in their care. Often, these institutions work on low budgets. For example a hospital needs to provide food to its patients. The goal is not to minimize costs because then the quality will be too low and clients may complain, hurting the reputation of the hospital. The hospital needs to find food that meets certain standards and then look for the best price.

## **Market Segments**

As previously mentioned, the consumer market can be split into different segments based on the characteristics of the client. There are 4 main sectors.

### **Demographic sector**

By splitting your market using demographics, you can choose to sell to people based on age, gender, family size, income, occupation, religion, race, nationality, etc. This may be particularly useful for high priced products such as automobiles since you can pick out your clients you market to to have a certain income.

### **Behavioural sector**

The behavioural sector does not discriminate against people of different ages, races, etc. Instead, by splitting the market this way, you can market to people that have particular behaviours in common. For example, you can market to a group of people that enjoy sports. If you are a deodorant company, the people sharing this common behaviour will look for different qualities than people that attend conferences.

### **Psychographic sector**

The psychographic sector group people based on not one activity or behaviour they share, but rather a lifestyle. For example, you can market to people that frequently party. Alternatively, you can market to people that enjoy spending time with their family.

### **Geographic sector**

Finally, the geographic sector divides people based on where they are physically located. This has been used unintentionally before globalization and international markets since business only had access to the local markets. Geographic segmentation has use cases for services that are non-mobile for example museums, but also for area specific services like internet providers or even local restaurants and fast food places.

## **Benefits of Market Research**

Market research has many benefits as it prepares you for what to expect when marketing your business. It can:

- Reduce risks;
- Increase effectiveness of decisions made in management;
- Identify gaps in the market that can be opportunities for your business and might result in your next big breakthrough;
- Allow you to plan ahead;
- Identify potential problems;
- Stimulate sales and increase profitability.

If done properly and fully, market research can be powerful and bring great value to your business strategy and consequently results in an increase of customers and sales.

## **The Next Step**

The next part of the course will be about identifying your financial and non-financial requirements and how to address them. It will discuss the business plan and its components in more detail as well as deal with financial planning and expected projections over the long term. It will also cover fundraising options and project scheduling.