



Entrepreneurship Workshop 1

CCMBA – June 27, 2019

WEMBA – July 25, 2019

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Rough agenda – June 29

- Preliminary exercise: Starbucks (30 min. in teams then 45 min. discussion) 8:30 — 9:45
- Framework / business plan and opportunity analysis 10:00 — 12:30
- Lunch 12:30 — 1:30
- Exercise and discussion 1:30 — 2:30
- Proposed business ideas 2:30 — 4:00
- Concentration process & next steps 4:00 — 4:30

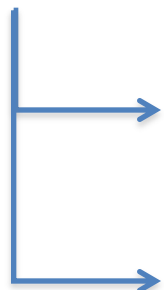
The first two laws of entrepreneurship

First Law

Always start with the need.

Second law

Make no investment before its time.

- 
- Identify the assumptions — comprehensive and discrete elements
 - Prioritize — based on severity, probability, and cost of resolution



STARBUCKS

The beginning

“Determined to pursue his dream, Schultz left Starbucks in late 1985. He raised \$400,000 from private investors,...” (p. 9 of the case)

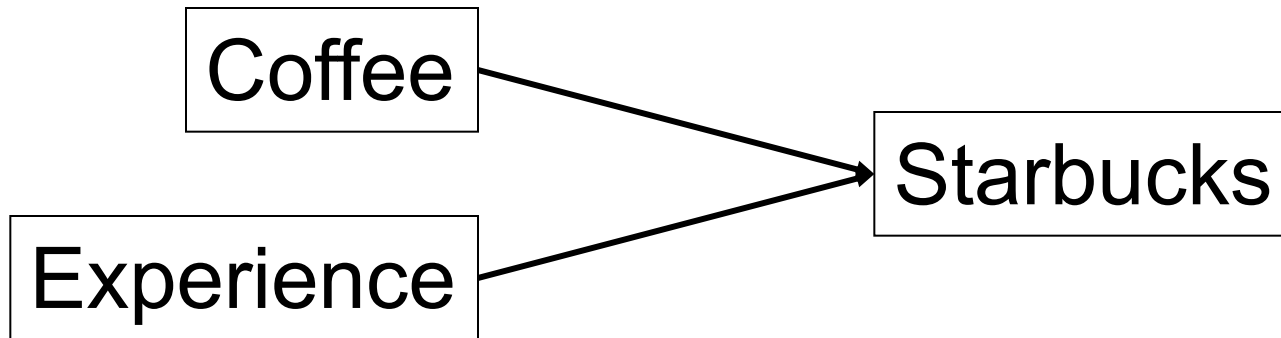
- “Many of the investors I approached told me bluntly that they thought I was selling a crazy idea.”
- “How could you leave Starbucks? What a stupid move.”
- “Why on earth do you think this is going to work? Americans are never going to spend a dollar and a half for a cup of coffee.”
- “You’re out of your mind. This is insane. You should just go get a job.”

Starbucks question

“Determined to pursue his dream, Schultz left Starbucks in late 1985. He raised \$400,000 from private investors,...” (p. 9 of the case)

- What was Schultz’ pitch to these early investors?
- Was this investment a wise investment?

The Starbucks opportunity



Evaluation of an opportunity

1. Is there a sufficiently attractive **market opportunity** (need or problem)?
2. Is the proposed **solution** feasible, both from a market perspective and a technology perspective?
3. Can we **compete** (over a sufficiently interesting time horizon)?
4. Do we have an **team** that can effectively capitalize of this opportunity?
5. What is the profile **risk and return** of this opportunity?

Evaluation of Starbucks

1. Market need?

Supported by demographics: income growth / financial security / focus on gratification

2. Solution?

Plausible but unknown

3. Sustainable competitive advantage?

What would it be based on?

4. Team?

Was Schultz capable? Other team members?

5. Risk / reward?

Depends on the economics of a coffee shop.

Starbucks: the initial unknowns

1. Market:

Will people come?

Will they come back (repeat business)?

2. Solution:

What will people value?

3. Economics of a coffee shop:

Driven by revenue and cost per customer and volume

- Raised seed funding to prove the concept
- If valid, the rest was all about growth
 - More stores
 - More products

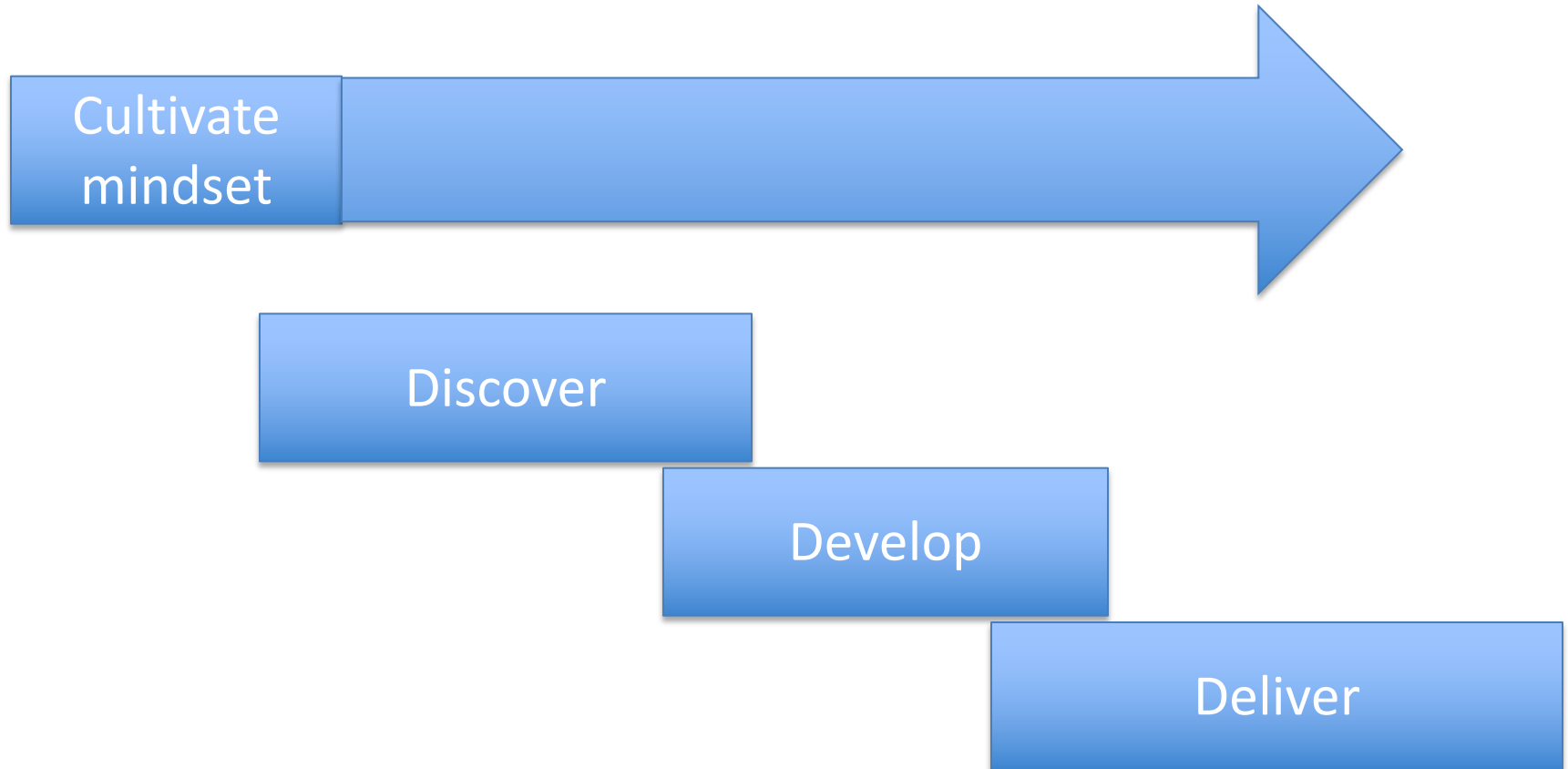
Key insights and strategic choices

- Opportunity itself
 - Validated by market growth
- People - critical in service business
- Importance of brand
- Quality
- Demand creation: “word of mouth”
- Infrastructure & processes to support growth



FRAMEWORK

The entrepreneurial journey



More detail

Cultivate mindset

- Critical observation
- Creative problem solving
- Bias for action
- Persistence
- Resourcefulness
- Collaboration

Discover

- Exploration / search
- Hypothesis & assumption testing
- Finding a need
- Imagining a solution
- Conceiving a path

Develop

- Defining strategy & plan
- Adaptive, efficient execution
- Building a team
- Acquiring resources

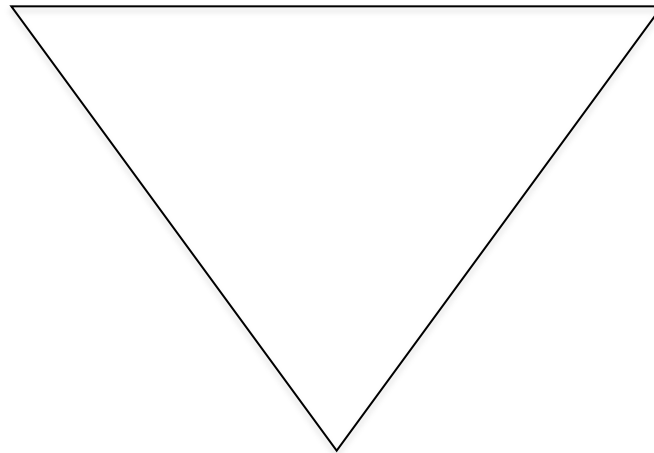
Deliver

- Launch (production, promoting, delivering, etc.)
- Grow / scale

The core concepts

Need

Solution



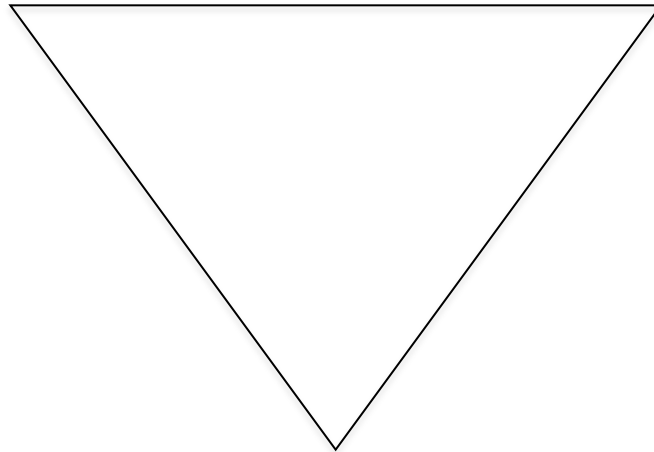
Sustainability

- Competition
- People
- Financial: risk & reward

Identifying / validating an opportunity

Is there a need?

Is there a solution?



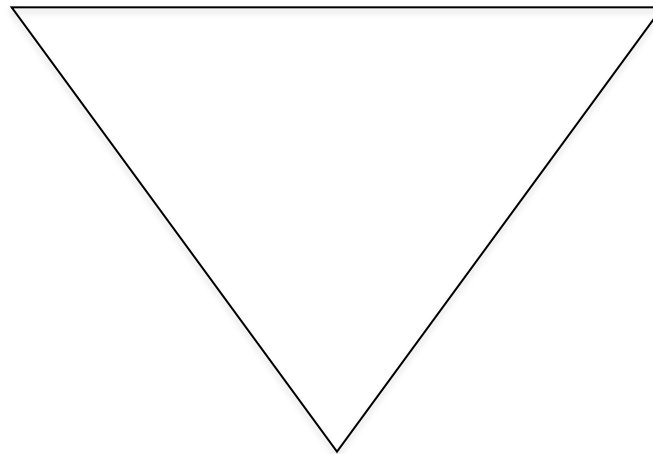
Is the venture sustainable?

- Competition
- People
- Financial: risk & reward

Strategy: the key choices

Target customer?

Business model?



Sustainability?

- Competitive advantage
- Resources (people, capital, ...)

+ Roadmap / Milestones

Business plan document

Opportunity:

- Need
- Solution
- Sustainability:
 - Possibility of competitive advantage
 - Founding team
 - Financial: risk & return

Company's plan:

- Strategy:
 - Target customers
 - Business model
 - Choices for sustainable competitive advantage
 - Roadmap / milestones
- Operating plan:
 - Plan for each functional area
 - Budget

Entrepreneurship framework

Opportunity:

- Need
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Execution:

- Market research & strategy
- Product design & development
- Marketing & sales
- Operations & infrastructure
- Financial management
- People management



EFFICIENT & EFFECTIVE LEARNING

Foundation of a new venture

- Goal of every new venture: find the match

Market + Product

- How do you start?

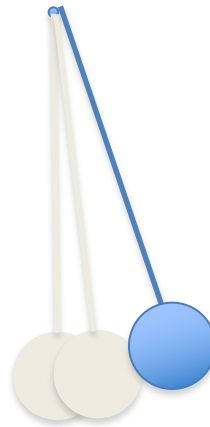
“You can observe a lot by just watching.”

(Yogi Berra)

Efficient learning

Business plan heavy entrepreneurship:

- Too much planning and analysis
- Too many unknowns



“Just do it” entrepreneurship:

- Not enough thought given to what are critical unknowns
- Inefficient learning

“Efficient learning” entrepreneurship:

- Well formulated hypothesis
- Integrated analysis and execution
- Every action has a learning objective
- Efficient use of resources

Summary

Begin execution as soon as possible by performing **experiments**.

Clear hypothesis and a
roadmap for learning

+

Well-designed, efficient test

**Analysis
& planning**

Execution

How to proceed

- Your idea is probably wrong — you have made assumptions that will not turn out to be true.
- Can you find a good idea before you run out of resources — time and money?
 - Time is money.
 - Early money is more expensive than later money
- When you find a “good idea,” how efficiently you use capital determines your share, overall return, and possibly even success or failure.

Many unknowns

Market

+

Product

- Value / willingness to pay
- Constraints / parameters of solution
- Necessary complements
- Alternatives
- Inhibitors
- Influencers
- Customer acquisition
- Etc.

- Features
- Business model / price
- Competitive position
- Distribution
- Etc.

What can go wrong? (What are you assuming?)

1. Nobody wants what you are selling.
2. Somebody wants it, but they don't represent a real market.
3. People want it, but for some reason they can't buy it or can't use it.
4. People want it, but you can't get it to them (economically).
5. The technology doesn't work.
6. The technology works but you can't protect it.
7. The technology works but you can't get it into a reasonable product.
8. You build a bad product.
9. You can't build your product for a low enough cost.
10. Somebody introduces a better product.
11. Somebody has the power to stop you and exercises it.
12. You need somebody else in the value chain to do something and they don't.
13. You can't find the right people.
14. You just don't execute on something important.
15. Etc.

Roadmap: milestone planning

Basic question: Will your venture succeed?

Imagine a series of big steps that increase your confidence (i.e., reduce the risk)

- E.g.: a customer, validation of technology, selling model

These steps can constitute a series of objectives (roadmap) for the venture:

- And become the milestones in your financing plan

Not all risk is the same

A measure of risk:

- Risk derives from bad things happening.
- Some are life threatening.
- Some just reduce the likely return.

severity of impact X probability

Risks also differ on

cost of resolution

Lowest cost resolution of uncertainty

1. Identify the assumptions and discrete steps (elements of uncertainty) required for your venture.
2. Rank order the points of uncertainty (assumptions) in decreasing order of risk to the venture — this is the sequence of execution.
3. Find a way to resolve each point of uncertainty for the lowest cost (time and money).
4. Factor in any issues of overall timeliness and interdependencies.
5. Use these milestones as a framework for your plan.
6. Commit sufficient resource to achieve the next milestone.
7. Make corrections as you learn (“pivot”).



EVALUATING AN OPPORTUNITY

In the beginning

Opportunity evaluation

Fact gathering, analysis, basis
for decision making

1. Is there a need?

Need / problem

2. Can you solve it?

Feasible solution

3. Is a venture sustainable

Possibility of comp.
advantage

Team

Risk reward



If the market need has already been proven, you may be too late.

What is a **need**?

Need = Potential for change in consumption

- Problem
- Deficiency: a process with
 - Unsatisfactory result /unwanted consequence
 - Too long / too hard / too expensive
 - Unpleasant / not enjoyable
- New form of behavior

Sources of opportunity

Society

- Changing demographics
- Changing tastes & interests
- Fears & hopes
- Regulation

Technology

- Innovation: new combinations
- New technologies
- New knowledge

Markets

- Change in regulation
- Supply chain disruption
- Inefficiencies

Order effects

First order: Substitution - faster, better cheaper

Second order: More of the underlying task or capability

Third order: Creation of new structure, institutions, organizations, etc.

Entrepreneurial opportunities exist at all levels and for those who can solve new problems created by new structures, etc.

Understanding the market

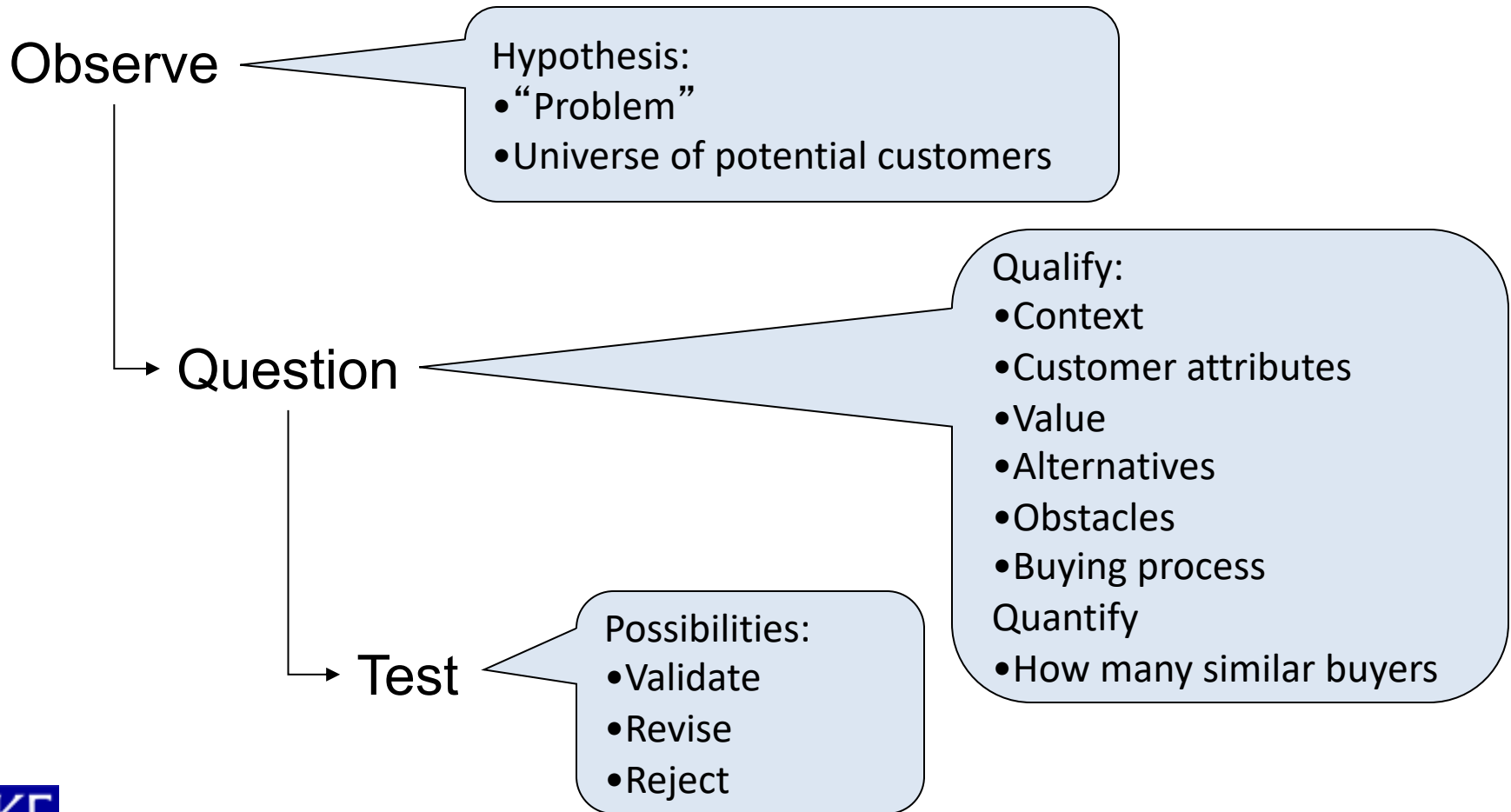
What are you trying to achieve?

- What is the pain and how severe is it?
- How many customers?
- How much will they pay you?
- For exactly what product?
- How will you convince them to buy?
- Complete and accurate financial projections

Questions:

- Is there a market?
- Who is the customer?
- What is the need?
- What alternatives does the customer have?
- What is a solution?
- What is its value?
- Are there obstacles to purchase?
- How does the customer decide to buy?

How?



Qualitative understanding

What do you need to know, in addition to understanding the need?

Context:

- What is the business process?
- What processes does this relate to and how does it relate to the organization's goals?

People:

- Buyer / user / influencer
- What are their interests & aspirations? How do they affect decisions

Environment / eco-system:

- "Value chain" - network of suppliers of products & services into which your solution must fit
- Other?

Organization:

- Competitive position
- Strategy
- Culture / values
- Financials

What and how will customers buy?

Solution

- Product:
 - Characteristics / features
 - Must have / nice to have
- Value:
 - Quantification
 - Why? E.g. cost reduction, revenue enhancement, other?
- Obstacles:
 - Unwanted consequences
 - Impact on processes
 - Impact on people
 - Implementation problems

} Design around or
sell around

Buying process

- Allocation of resources
 - Budgeting cycle
 - Approval process
- Decision makers
 - Objectives / measurements
- Influencers

Customer attributes

- What are the *relevant* differences among customers?
Are there *segments*?
- Why is a someone a willing buyer?
- Refining your understanding of the market:
 - Hypotheses — formation and testing
 - Segmentation
 - Personas
 - Sizing target addressable market
 - An answer to this question is a hypothesis about a target customer.



Post-lunch exercise

- Explain why something is the way it is
- Find a need / identify a problem



CONCENTRATION

<http://www.dukep4e.org/fuqua-program-for-entrepreneurs/emba-concentration>



Teams

- An important principle of start-ups: you cannot tolerate anyone who is not performing.
- Seek diversity in your team

Concentration process

Summer, 2019

- Identify opportunity
- Form team
- Memo to Fjeld summarizing

Fall, 2019

- Validate opportunity
- Formulate strategy
- Submit as final project in *Entrepreneurial Strategy* or *Entrepreneurship & New Venture Management*

Spring, 2020

- Create business plan document
- Submit in fulfillment of concentration

