**BUSINESS ENVIRONMENT AND ENTREPRENEURSHIP DEVELOPMENT**

**Start-up** (last concept of Chapter 05 – Entrepreneurship) [6/12 marks]

Meaning

A start-up is a young company that is just beginning to develop. Start-ups are usually small and initially financed and operated by a handful of founders or one individual.

Making the decision to form a business, starting a company is one way to further develop and commercialize technologies. Several factors should be considered while deciding to form a business. These considerations comprise a feasibility checklist and can be divided between **external** and **internal** factors.

**Feasibility considerations** –

1. **External considerations** concern the marketplace for the start-up’s product as well as the potential performance of the product in that market.

Factors include:

• What product or service the start-up will offer?

• Whether the product or service satisfies a need that people value?

• What price a customer would pay for the product or service?

• The market’s size and effect on start-up profitability

Identifying the market need can be a challenge if one’s expertise is in technological development and innovation rather than marketing and technology commercialization. One should note that, no matter how innovative a technology is, if it does not address an actual need at a price which customers are willing to pay, the technology has no market. If one’s start-up’s technology does not solve an actual problem at a competitive price, then the start-up is more likely to fail.

It is important to understand the market in which the technologies will compete. **Knowledge of a market can be acquired through professional market research, government data, trade publications, and networking with prospective customers.** The decision to form a start-up should be made only after acquiring a strong understanding of the market and how one’s product or service would fit into that market.

1. **Internal considerations** concern one’s commitment and willingness to start a business. Factors include:

• Available time

• Personal resources

• Risk tolerance

• Resilient and flexible attitude

• Managerial support

Starting a business requires a large time commitment, and it is not uncommon for new entrepreneurs to underestimate the time needed. Additionally, one should consider his personal resources and whether one is comfortable committing those resources to the effort, although it is not always necessary to do so.

Furthermore, while starting a business can lead to tremendous wealth, it comes at significant risk. The reality is that many start-ups fail. One should be willing to accept this risk. Finally, unforeseen challenges will always arise when starting a business. Consequently, it helps if one can adapt quickly to changing conditions and remain committed to the work or recognize when to stop.

**Confirming Your Idea**

When one is planning to start a company, the first step should be to assure that there is a creation of a product or service that customers will buy.

The **Customer Development Model** (created by Steve Blank) can gives a clear idea.

The model consists of four steps. One may remain in each for any duration of time, refining and repeating the processes involved.

1. Customer Discovery - target potential customers and determine if the problem one’s product solves is important to potential buyers.

2. Customer Validation - develop a sales process that successfully sells one’s product.

3. Customer Creation - build on the sales accrued during customer validation and begin to put money into marketing one’s product.

4. Company Building - shift the company from an informal development team into a formal entity.

**INTELLECTUAL PROPERTY AND YOUR BUSINESS**

For many faculty start-ups, intellectual property is the business’ key asset and gives the start-up a competitive advantage.

The following will briefly discuss intellectual property in the form of **inventions and patents, as well as copyright**.

**Inventions and patents**

* An invention can be anything man-made that is **new, useful, and non-obvious**.
* Inventions may include processes, methods, machines, articles of manufacture, devices, chemicals, and compositions of matter.
* Inventions can be protected by patents.
* Law recognizes a **patent as a value of innovation** and provides the owner with a time-limited monopoly to prevent others from exploiting the invention without permission.
* In exchange for this exclusive right, the published patent document must fully describe the invention so that others can reproduce and learn from it.
* In that way, the patent monopoly provides the incentive to share advances with the public and thereby contribute to growth in the field.

Inventorship

* An inventor is the one who is alone, or together with others, conceived of the ultimate working invention.
* A patent application must be filed in the names of the true inventors.
* Inventorship is not a reward for hard work to someone who only worked under direction.
* Inventorship is tied to the claims in a patent application and is determined at the time the patent application is filed. As the claims in a patent application change, so may inventorship.
* Ownership Inventorship does not equal ownership. Organizations usually own the inventions developed by their employees.

**Copyright**

* Copyright is the form of intellectual property that protects the expression of a creative idea that is fixed in a tangible form.
* It is an acknowledgement of who created the work.
* Copyright constitutes a bundle of legal rights, which include the right to copy, display, perform, distribute, and make changes to the original copyrighted work. These altered versions of original works are known as derivative works.
* Copyright provides the owner with the right to determine how the work is copied and distributed to others, such as through traditional or online publication, open access, sale, lease, or lending. It also gives the copyright holder the right to charge royalties for a work’s use.
* For example, copyright protects the order of the words in the story, as well as the layout of the pictures, color, and words on the page. But,the ideas, plot, and characters are not protected.
* For scientific writing, copyright does not protect the procedures, systems, processes, concepts, formulas, discoveries, or devices described in the work.
* Similarly, for software, copyright does not protect the underlying concepts, processes, systems, algorithms, program logic, or layouts.

**LICENSING**

* A license is a written agreement granting some rights as owner of an intellectual property (licensor) to a company (licensee).
* The licensee undertakes certain obligations and responsibilities to commercialize the intellectual property.
* If one likes to license technologies for use in your start-up, you will be asked to demonstrate such commitment by providing a written technology and business development plan. This plan should include a description of the technologies to be licensed, the resulting product, market analysis, a product development timeline, and the company resources committed to development.
* The terms of the license are negotiated based on factors such as the type of technology, the industry area, the level of development, the time to market, and the licensee’s commercialization plan.

{License negotiations – (info just for reference)

The licensing process begins by discussing a term sheet summarizing the essential business terms of the agreement. Below are the types of business terms generally addressed -

* Scope of License Rights

License rights — such as exclusive, nonexclusive, field-of-use limitations, and territory limitations — are established to be matching with the licensee’s product development plans and the market. The licensing objective is to obtain widespread use of its technologies through a well thought out commercialization plan.

* License Fee

An initial fee based on the scope of license rights and investment in the intellectual property.

* Royalties

Your company will be expected to pay royalties when products or services that require the use of the technology are sold or transferred.

* **Royalties can be expressed as a percentage of sale or a fee per selling unit.**
* Royalty rates vary according to the industry, the significance of the invention to the product or service, and the base upon which the royalty is applied (e.g., unit, component, subsystem).
* Royalty payments may be structured in different ways, such as one-time or recurring fees.
* Sublicense Sharing

Exclusive licenses usually allow the right to sublicense, or authorize others to make, use, and/ or sell the technology to facilitate widespread use. You also earn revenues from sublicenses.

* Minimum Royalties

Minimum royalty payments are established to encourage diligence in developing and selling products or services based on the technology.

* Patent Reimbursement

Recovery of the costs incurred by the start-up for protecting the technology in the home country and other countries is part of the license. Typically, patent costs that accrue prior to licensing are repaid via a payment plan, while patent costs during the term of the license are paid as they are incurred.

* Performance (Diligence) Milestones

Technologies often require significant additional development before they are ready for the market. You will be asked to provide periodic reports and meet specific milestones in order to retain the license, especially an exclusive license. Milestones are usually industry specific.

* License Compliance

After you license technology, your office of technology management will manage the license to ensure all terms and conditions are followed and the technology reaches its fullest potential. If the terms and conditions are not met, the license may be terminated or revised, in which case the invention may become available for licensing to another company.}

**Developing a Business Plan**

A business plan is a strategic description of how your start-up will advance its technology and achieve profitability and success. It is a living document and will need to be revised to reflect the changing conditions of the business and the market in which it operates.

The true value of developing an initial business plan is not the finished product itself, but the research and thought behind the plan.

Creating a business plan helps you systematically consider all aspects of the business. Additionally, a business plan is critical for a start-up that is trying to secure external funding. The business plan demonstrates to outside investors that you have thoroughly explored both the market and how your product or service fits in that market. The level of detail in the plan will depend on the types of investors or funding you are seeking.

{**Points to remember when preparing the business plan** (extra info - just for reference purpose)

To reiterate some of the most important concepts you should be mindful of when preparing the business plan:

• Focus on the customer and the market need, NOT on the technology

• Acknowledge your competition honestly

• Include elements of the strategic plan

• Ask for ongoing feedback from an experienced entrepreneur

• Discuss current capital structure

• Make sure the plan flows narratively from section to section

• Keep the business plan as brief as possible}

**Executive Summary**

The executive summary is a **snapshot of the business**. It acts as an elevator pitch and is usually the first opportunity to catch the interest of an investor.

Consequently, it is the most important part of the plan. It should answer these questions:

• What is the company’s mission?

• Why is it important?

• How will the company make money pursuing its mission?

• How will the company develop its technology into products?

• What experience do the founder and management team have?

• How much money is necessary?

• What level of return can an investor expect?

• Why that level of return?

**Business Description**

The business description provides more extensive information concerning your company’s mission than was provided in the executive summary. The business description should include:

• The nature of the business and the marketplace needs that the business will satisfy

• An explanation of how the start-up’s products, technologies, or services address those needs

• The specific companies or customers the start-up will serve

• The competitive advantages the start-up has, such as personnel, technology, or value creation

**Market Analysis**

The market analysis presents market research showing the current state of one’s start-up’s industry segment, as well as **the target market for the product or service**. At a minimum, the market analysis should contain:

• A specific description of the target market

• The revenues and growth rates of the market, including a five-year projection

• A demonstration of strong market needs for the product or service

• A competitive analysis

• The results of marketplace interviews or other primary market research

**Marketing Plan**

The essence of marketing is the process by which firms identify, create, provide, capture, and sustain value for their customers. **Value is the benefit provided to the customer**. There are many good resources to assist one in the marketing process.

Marketing analysis (the five c’s) -

A preliminary market analysis focuses on five main areas of consideration:

* Customers’ needs - What needs does the business seek to satisfy?

An in-depth analysis of customer usage patterns and buying decisions is necessary for effective marketing. Definitive roles are involved in the purchasing process. These roles include the initiator, the decider, the influencer, the purchaser, and the user. An individual may occupy several or all roles. For example, the eventual decision to purchase desktops for an office may be made by the company’s CFO, but the users will be the company employees. Further, the company’s IT department will likely influence the decision. You should understand all aspects of your customers’ processes for evaluating and purchasing, as well as how your product or service fits into that process.

* Company skills - What special competence does one’s company have to meet customer needs?

The marketing analysis should include an honest assessment of your business’ strengths and weaknesses. Considerations should include the company’s financial footing, production capability, and other assets (such as Intellectual Properties)

* Competitors - Who competes with the start-up company in meeting those needs?

Competitors include not only those currently in the market, but future competitors either in the form of new entrants to the market or substitute offerings. One should assess the strengths and weaknesses of these competitors to better determine how to differentiate his start-up in the minds of consumers. Additionally, the marketing analysis should address the motivations and strategies of his competitors so that he can anticipate the likely reaction of rivals to new competition.

* Collaborators - Who should the company enlist to assist and how do one motivate them?

Collaborators include upstream suppliers and downstream distributors. Developing a strategy to gain the support of industry collaborators entails a thorough knowledge of the collaborators cost structures, margin expectations, and relationships with competing firms.

* Context - Are there cultural, technical, and/or legal factors that limit firm’s options?

One should understand the environment in which his business will operate. This context (or climate) includes macroeconomic factors such as the political and regulatory environment, the economic environment, the social and cultural environment, and the technological environment.

**Financials**

The financials should provide the current status of the business and a realistic expectation of its position after five years. The goal is to determine the cash needed for the start-up to succeed, as well as the reasonable revenues and profits that can be expected from the investment.

**Funding**

Many start-ups fail due to a lack of resources. Obviously, one of the keys to a start-up’s success is securing funding. Small business funding comes from several places, each one having advantages and disadvantages.

Funding can be divided into three categories, each of which has different implications for the investor, investee, and business:

* Grants - no obligation to repay provided that the terms of the grant are met.
* Debt - borrowed funds, repayable on a fixed schedule with interest.
* Equity - ownership through either stock or membership; Equity funding can have profound effects on by-laws, voting rights, operational control, and future rights.

Other types of funding sources are -

* Self-financing
* Here, a business is funded by the personal savings of the founders. This allows the entrepreneurs to maintain complete control of the business. Additionally, when external funding is sought, investors look for entrepreneurs who have “skin in the game.” An entrepreneur who has self-financed a business has already indicated to investors that he or she is serious about moving the business forward.
* Bootstrapping
* Bootstrapping is the reinvestment of early product sales into a company or self-financing. It requires a customer centric process of development that permits the company to bill for early sales. Bootstrapping allows entrepreneurs to maintain control of a business without having to agree to the outside influence, while also preventing the entrepreneurs from risking their own personal savings.
* Joint ventures
* One’s start-up may benefit from strategic alliances with larger companies. The advantages of entering into joint development agreements include financial support from a corporate partner and/ or investor with a long-term perspective, access to industry knowledge and key markets, and potential acceleration of a product’s time-to market.
* However, these potential advantages often come with some risks that should be carefully considered. These risks include: a potential claim to the IP rights of the start-up; the larger partner demanding exclusive rights to some markets for a period of time; the start-ups dependency on the larger partner’s continued support, leading to additional pressure to achieve predetermined milestones; the loss of the start-up’s ability to control its destiny; and risk of diluting the financial benefit to the start-up.
* Angels
* Angel investors are typically wealthy individuals who are working in association with other angel investors, often in an organized angel group.
* Angels look for companies that have great people and great teams. Additionally, companies that have a potential competitive advantage in rapidly growing markets are an attractive investment to angels.
* Angels typically are involved in the seed stage of funding and often have expertise in the start-up’s industry, putting them in a position to offer mentoring assistance.
* Venture capital
* Venture capital firms are professional, institutional managers of risk capital used to fund ideas that could not be financed with traditional bank financing.
* Venture capital firms make an equity investment in the start-up’s illiquid stock.
* Venture capital firms provide more than money to start-ups. Once an investment is made, the venture partner will play an active role in the development and growth of the company, typically taking a board seat.
* When considering whether to invest in a company, a venture capital firm will consider the management team, the concept, the marketplace and market growth potential, the fit with the venture capital fund’s objectives, the value-added potential for the firm, the necessary capital to grow the business, and, perhaps most importantly, a clear exit strategy.

**Business Team / Human Resource**

There are many regulations that must be followed when deciding to hire an employee, and at first, it can seem overwhelming. Fortunately, there are many resources available to assist small business owners with compliance.

Investors will carefully evaluate not only one’s business plan and offering, but the business team as well. For this reason, when one is pitching to investors, he should remember that he is selling himself and the management team, not only the innovation. If an investor doesn’t believe that the team can execute, then the strength of the start-up’s technology or offering simply will not matter. When seeking funding, one must demonstrate that his management team has the knowledge, ability, and drive to succeed.

**Start-up India**

It is an initiative of the Government of India. The campaign was first announced on15 August 2015. The action plan of this initiative is focussing on three areas:

* Simplification and Handholding.
* Funding Support and Incentives.
* Industry-Academia Partnership and Incubation.

A start-up defined as an entity that is headquartered in India, which was opened less than 10 years ago, and has an annual turnover less than ₹100 crore. Under this initiative, the government has already launched the I-MADE program, to help Indian entrepreneurs build mobile app start-ups, and the Mudra Bank scheme (Pradhan Mantri Mudra Yojana), an initiative which aims to provide micro-finance, low-interest rate loans to entrepreneurs from low socioeconomic backgrounds. Initial capital of ₹20,000 crore (in 2019) has been allocated for this scheme.

Key points of the initiative –

* 10,000 crore start-up funding pool.
* Reduction in patent registration fees.
* Improved Bankruptcy Code, to ensure a 90-day exit window.
* Freedom from inspections for first 3 years of operation.
* Freedom from Capital Gain Tax for first 3 years of operation.
* Freedom from tax for first 3 years of operation.
* Self-certification compliance.
* Created an Innovation hub, under the Atal Innovation Mission.
* To target 5 lakh schools and involve 10 lakh children in innovation-related programmes.
* New schemes to provide IPR (Intellectual Property Rights) protection to start-up firms.

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