



Facebook Dating Application

*A Business Plan by Koen Heine, Alex Paninder
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Idea: A Facebook dating application that will revolutionize the way people meet and date on the Internet. By choosing a superior business model, our company will outperform our competitors and change the faith of single people forever.

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Executive Summary

The Internet is becoming an increasingly big part of our lives. We read the news, discover new music, watch video clips and communicate with social contacts. Meeting a romantic partner is a logical extension of the technology. This is where dating websites come in. However, research has shown that while people spend a lot of time on these websites, they are dissatisfied with the payoff. Despite the problems with current online dating solutions, the industry is estimated to be worth about \$3-4 billion a year.

The business model of choice for existing websites can be separated in monthly subscriptions and free dating sites that make money through advertising. According to competitive research by OkCupid, men are usually the contact initiator. On the paid dating website eHarmony, a man can expect a reply only 30% of the time, mainly because the receiving woman is not a paying member and is unable to reply. Scholarly research on a major American dating websites finds that women reply only 15.9% of the time. No matter what the business model is, a member with full access is able to contact as many people as (s)he likes. It is plausible that with a large quantity of sent messages, the quality of those messages declines.

This has led us to seriously rethink the business model. Instead of a subscription fee, we will charge users per person that they wish to initiate contact with. For the initiator this has the advantage that (s)he only pays for what (s)he gets; if there appear to be not many interesting potential romantic partners, it keeps the costs down. The receiver of the first message has the benefit of knowing that the person sending the message is serious about it; (s)he paid directly to get in contact with him or her. This will likely improve the quality of correspondence. As a user pays to send this message, there is an incentive to craft the message wisely. We will charge SEK 9 per member that a user wants to get in contact with. Once a member is 'unlocked', further contact will be free, whether through chat or personal web messages.

Besides these customer benefits, we believe our business model will also be superior in terms of generating revenue. Whereas for instance on eHarmony only 3% are paying, we will aim to monetize all members once on average for the SEK 9 fee. With 5 million members at year 5, it will yield a revenue of SEK 45 million.

Our team consists of Koen Heine, Alex Paninder and Fai Nopsuwanwong. We are enrolled in the Entrepreneurship program at Lund University, for which this is our graduation project.



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1 Problem Description and Background of Venture

Virtually everyone will know about the difficulties of finding and maintaining a healthy relationship. In the United States alone, according to the Census, there are 96 million single people. A well-known phrase states that men are from Mars and women are from Venus. This is probably a bit of an overstatement, but most people would be able to tell you that there exist vast differences between the two sexes. Perhaps some of the misfortune can be explained by evolutionary psychology: “The general idea that men prize youth and attractiveness in women, whereas women place a higher priority on men's ambition, power, and resources, has received a great deal of empirical support” (Gallup et al.,2008).

This gender difference would suggest that it is easier for women to advertise themselves on a dating website. A few pictures would suffice to get a man's evaluation of her attractiveness. For a man, it is much more challenging. A simple user profile won't get him that far to convey ambition, power and resources all at the same time. The problem of existing dating websites has been the subject of research by Frost et al. (2008). Participants who were active on dating websites indicated that they spent 5.2 hours a week searching through online profiles and another 6.7 hours per week corresponding with people. However, they were only dating in real life for an average 1.8 hours a week.

Despite these inherent problems, dating websites have not been too shy to ask for expensive subscription fees. Match.com, the biggest paid dating website, charges users SEK 299 a month, with discount options when full access for several months is purchased in one time. And of course, there are no guarantees that people will find a romantic partner. In fact, research by Fiore et al. (2010) has shown that the response rate can be as low as 15.9% for men. Anecdotal evidence suggests that men copy and paste the same message to as many women as possible, and then hope for the best.

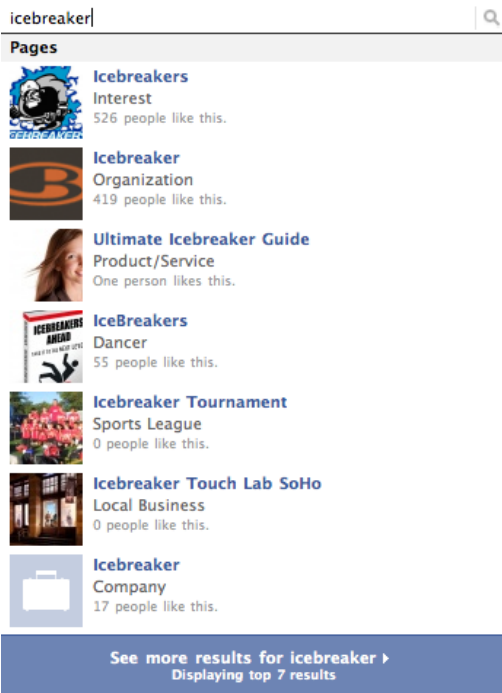
2 Business Idea and Customer Benefits

The considerations in the previous section have led us to craft an alternative way. To compete with the monthly subscription and the advertising revenue model, we are going to provide our customers with a third way: charging users for the amount of messages that they wish to send. For the senders of messages, this has the advantage that they only pay for what they will send, probably dependent on the number of potentially interesting mates. For the receiver of a



message, it has the advantage of knowing that the person on the other end is serious about getting in contact, because the sender paid directly to send that message. Moreover, the sender has an incentive to craft and personalize the message carefully. We will go even further and make people decide themselves how much they want people to pay to contact them, so that attractive people don't get overwhelmed by messages, which could demotivate and scare them away not only from our application but also from the industry. This is one of the main issues current customers, especially attractive women, find disturbing with current dating sites since conventional sites generally just ask their users to pay a monthly subscription fee. Because of this, generally men send the same message to many women as a way of getting more value per dollar. With our business model, this issue falls dramatically, especially since customers have the chance to set the price they want people to pay in order to contact them, making it possible to adjust this as they experience the demand rise and fall.

We think the best way to do this, would be through a facebook application. Facebook currently has about 600 million active users. People who are on facebook will have a very easy time accessing our application; all they have to do is type "IceBreaker" in the search bar and they will be ready to date. When we launch, we will show up in the search like illustrated on the right:



It also is a great way to get the word out about our application. Moreover, people's vital information about themselves and photos get imported automatically. Users will not have to fill out extensive forms or search their hard drives for good photos. Their work on creating a facebook profile results in a nice dating profile with the click of a mouse.

3 Industry Analysis

3.1 Internal Rivalry

The market of online dating is highly fragmented with a number of well-established companies that have gained acceptance, credibility, and a large customer base. The market

can be divided into free online dating services dominated by Plentyoffish and OkCupid, and paid services such as Match.com and eHarmony.com. Social network sites such as facebook provide a platform for new companies to develop dating applications that reach their target customers easily and gain customer base rapidly such as Zoosk, Badoo, and “Are You Interested?”. The companies in the latter category are our direct competitors who often target customers who are young and searching for a more casual relationship. Hence, based on several competitors fighting for market share and the high extent of differentiation between online dating service providers, the degree of rivalry is high. According to Lehmann and Winer (2008), intense rivalry can result in decreased welfare for both customers and competitors.

3.1.1 Industry Concentration

By measuring the industry concentration it is possible to analyze how a specific industry behaves. The most commonly used way is to calculate the Herfindahl-index, where one takes the different market shares in an industry, square it and add it together. The calculation looks like this:

$$H = \sum_{i=1}^N s_i^2$$

, where s_i is the market share of firm i , and N is the number of firms.

A potential problem with this model is that is very important with what you consider to be the industry. Let us elaborate on that. We have decided to go with only facebook applications. This means, to meet our criteria and hence become what we consider to be a competitor in our industry, you need to have a dating site connected to facebook. It is important to define in which market you operate but it also has serious implications on the result. If we would have analyzed dating sites that are not connected to facebook as well, the result would have differed substantively. Another issue is that one uses revenue to calculate market share. In our case, the number of users could also have been a good way of calculating the market share. These are the major players on facebook, using revenue as the basis for calculating market share.

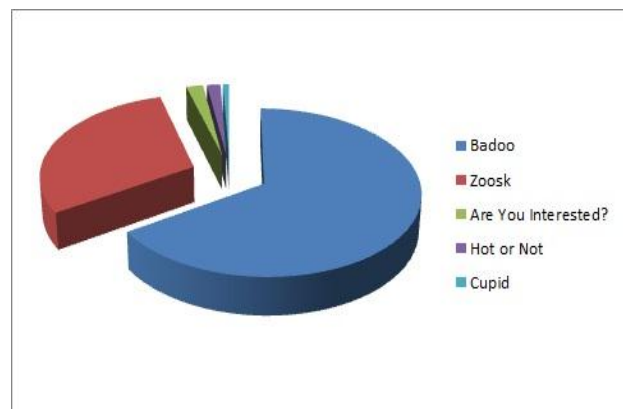
Name	Revenue (\$)	Market Share
Badoo	200 million	66%
Zoosk	90 million	30%
Are you Interested?	6.6 million	2%
Hot or Not	5 million	1.6%
Cupid	2.1 million	0,7%
	Total Market: 303,7 million	

Please look at the reference list for sources

To get the Herfindahl-index, we need to do some calculations.

$$(0,66)^2+(0,30)^2+(0,02)^2+(0,016)^2+(0,007)^2=0,526.$$

According to the Herfindahl-index everything above 0,18 is considered as high concentration (Kwoka, 1985). The practical implication of this in our market is that the industry consists of a few big players, making the industry experience some monopoly traits. It also indicates that there is a great opportunity to earn profit as it is likely that marginal revenue (MR) is higher than marginal cost (MC), compared to a perfect competition scenario where MR equals MC.



3.2.2 Product Differences

The two biggest dating applications on facebook (Badoo and "Are YOU Interested?") provide a similar customer experience. A picture of someone that meets your search criteria is shown, and a user has the choice of three different options: yes, no or maybe. Once a choice is made, the user moves on to the next match. This can be repeated many times, and the persons' profiles that you are interested are stored in a database. A user can go to this database and send personal messages to whom (s)he desires. The third biggest dating app, Zoosk, works more like a traditional dating website. Users can scroll through different profiles that match their search criteria and click on their profiles to see more information and to get in contact with this person. Ours will be similar in design to Zooks. "Are YOU Interested?" is a not a

particular well-programmed application and you often have problems with a variety of different bugs, and still they had a revenue of \$6.6 million in 2010. This gives an indication of the market potential, even though the market has a lot of players – As long as you develop something new and unique, you can definitely penetrate the market, independent of the quality of the programming. We believe that with our uniqueness, we have the potential to become one of the big players.

3.2.3 Industry Growth

The industry has experienced steady growth as the number of people on the Internet has increased. According to the New York Times, during the last couple of years of economic downturn, online dating has been booming. We are likely to see a further development as people get more used to the idea and also get less scared of the online dating process. With our business model we will also reach out to a new customer base, which was not satisfied with the old system and we will thus increase the number of people interested in the industry. Online dating is still relatively new and we therefore believe that there is still a lot of potential for growth.

3.2.4 Switching Costs

Switching to our application is easy. You can use your already existing facebook account to set up your IceBreaker account, which minimizes the time and effort. It also cost less since you only top up your account with the sum you think you need and you don't need to sign up for expensive subscriptions which makes you inevitable to become a customer for many months to come. Switching from our application to a competing service is relatively easy, but there is nothing that stops consumers from using our application alongside one or more others.

3.2 Potential Entrants

The Fish Tank Phenomenon (Schindehutte et al., 2009) indicates that the Internet makes it easier for new competitors to arise without introductory notice, since developing websites and applications are becoming more and more a generic good. For the online dating market, fixed costs for operations are relatively low. The price for ready-made software is inexpensive and the creation process of a website or application is relatively simple for a programmer to do. Thus, entry barriers are low and new entrants are common. However, in the same way that a telephone network benefits from a large number of users, so does a dating website. This is known as the famous network effect theory (Schindehutte, et al., 2009). For that reason, customers are more likely to use a dating service that has a lot of potential mates. By building

a large network of users before a possible competitor can match our offering, we make ourselves less vulnerable to potential entrants.

It is important that we continually analyze the pattern of our customers in order to develop and perfect our product. This is the best weapon we have at hand to make it harder for competitors to enter the market.

Since big capital investments are not necessary, little economies of scale can be achieved. The benefit of growing is to get more people active, which further increase our competitiveness and works as an incentive for other people to join.

We are able to achieve cost advantages through some "bootstrapping" principles. Our office space at the incubator Ideon is almost for free. In our class, a wide variety of knowledge exists that we can tap into. Furthermore, our business idea has been selected to serve as a student project for ISIT students at Lund University. Their analysis and proposed design solution, which we got for free, will be very useful later on.

3.3 Bargaining Power of Suppliers

Our suppliers consist of two categories: web hosting companies and developers. Web hosting is increasingly becoming a utility-like feature. There are many companies that provide this service and supplier power is low in this respect. We found developers that have delivered a full application to us at a cost of USD 1600 (approximately SEK 10 000). It is a US-based company called Social-Scripts. They already had developed a working Facebook dating application and only needed to customize it for our particular needs. We were inundated with offers and gave the order to Social Scripts because they were the cheapest. The bargaining power of suppliers is thus very low.

3.4 Bargaining Power of Buyers

The online dating market consists of lots of potential customers and lots of companies. If incorporating the *Flock-of-Birds Phenomenon* from the Five New Forces (Schindehutte et al., 2009), all competitors have the equal possibility to access and communicate with their potential customers. Thus, it is a fair game for all players on the market regardless of their size or means of capital. Having similar products will make the customer's bargaining power to be large. However, if we are able to deliver a dating service that provides something extra and attract a lot of users, buyer power will be low. That is because of the network effects that are associated with a large user base. Customers won't have a real alternative and bargaining power of buyers will be low. For us, it is important to attract customer by differentiating

ourselves from the competing services currently out there. Since switching costs are low, and there are many different options on the market, one could argue that the bargaining power is high. We believe however, that since we provide such a unique application the bargaining power of buyers is decreased since they don't have an option quite like ours.

3.5 Threat of Substitute Products

There are different levels of substitution regarding the online dating market. Looking at the traditional way to meet other singles, there are many substituting methods which include meeting people at clubs and bars, at work, the gym or through friends and family. While these methods are less expensive, these venues may take more time to find a potential match given the smaller candidate pool. People with busy lifestyles will appreciate the convenience that online dating services offer. With the ability to apply filters such as age, interests, and location, candidates can be narrowed down for users to find exactly what they are looking for in a short time, which cannot be done easily in their everyday life. Thus, at this level the threat of substitutes is moderate to low.

Also, there are independent matchmakers who offer a more personalized approach. However, these services are unlikely to attract young people who are our target because of the high price and the serious nature of the business. It can be concluded that the threat of substitutes at this level is moderate to low.

We will operate in social network websites and will face with many direct competitors on Facebook.

3.6 Levels of Competition

There are currently many dating sites out on the market, both as applications on facebook and as websites that you register on. There is however none quite like what we are developing. The applications on facebook have many drawbacks for users; generally they have to pay a great amount of money just to get access to the most basic ways of interacting. This results in people registering but not using the application. Websites developed on the web have another issue. People have a tendency to forget about them. People register and then they after a while forget to visit their profile, making the users inactive, affecting and lowering the overall impression of the site.

With our business model, we will make it affordable for users to try out the application and since we have it integrated with the facebook platform, we believe we will attract a large

group since the average active facebook user logs in every second day (Facebook Statistics, accessed 2011-05-01). When they do this, we want it to be natural for them to also have a look at our application and see if there is any news.

There are many competitors, with different strategies to penetrate the market and which are focusing on different segments. Plentyoffish and OkCupid focus on free membership to attract people who are interested in a flirt. The problem with these sites is that they can have problems with their revenue stream, hence, have not enough capital to develop their service. Making it free also reduces the seriousness of the site. Match.com and eHarmony.com focus on people looking for long-term commitment. These sites are more for older people who are not really interested in features, as long as they can find a potential partner. These are now big organizations that have a lot of customers This indicates that they have identified a big target group. The problem with these organizations is however that they have grown so big that they have problems identifying new opportunities. Zoosk and Badoo as well as “Are You Interested?” have a similar focus as we have since they also have developed applications on Facebook. The problem with “Are You Interested?” is that it doesn’t look very attractive from a visual point of view, coding wise it also experience problems resulting in annoying bugs such as pictures end up outside the screen. Except for this, the idea is good and we believe that we could develop some similar functions and apply it to our application.

3.6.1 Product Form Competition

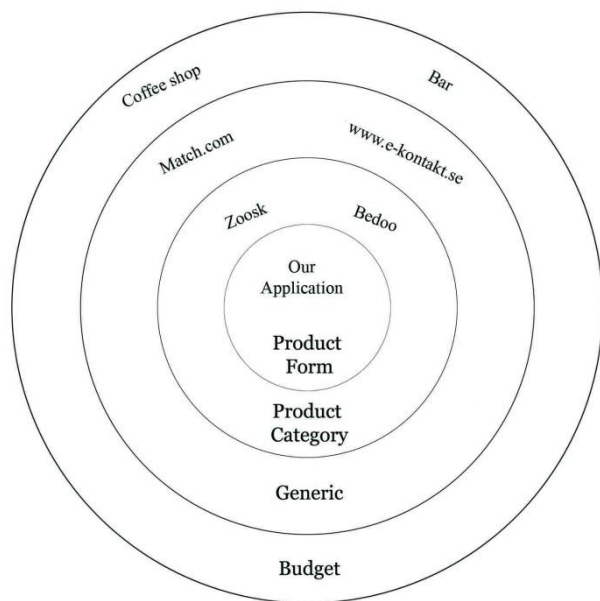
All Facebook Application Competitions operating in the same way as we do

None of the competitors are acting in the same way as we do. Therefore, if you look at the product form, we are unique. This makes the potential of our application great as long as we have identified something that customers will like.

3.6.2 Product Category Competition

All Facebook Applications concerning dating

In the product category we find Facebook Applications such as Badoo and Zoosk which operate in a similar technical way as us, even though they differ substantially in how they do



it, they act as close competitors in the market. It is important that we are able to communicate to customers what benefits our application has compared to that of what competitors are offering.

3.6.3 Generic Competition

All Online Dating

In the generic competition section all types of online dating can be located such as match.com, e-kontakt and other sites which operate in that kind of way, as IT as their base of operations. It is still dating, and they therefore also compete with us in attracting the potential customers. You could argue that they don't focus on the same target group as we do, but without these players on the market we would be able to attract some of their customers. At the same time they are our supporters, since they have managed the industry to grow tremendously making it possible for small players as us to enter the market.

3.6.4 Budget Competition

All ways of meeting new people

This section is extremely broad and we can choose to use any possible way people can meet, interact and get to know new people. The possibilities are numerous, and people's preferences are the only limitation. It could be joining a sports club, start to dance salsa or going out for a beer at the local pub. Still, it competes with us since people by using these methods interact and meet new people (Lehmann & Winer, 2008).

4 Marketing Plan

It is our belief that we need to reach out to our potential customers in an efficient way to be able to get a foothold on the market and increase the number of users as quick as we need to become an important player on the market.

The most crucial task during the start-up is to attract the targeted customer group to the application and make them aware of the product/service. There are many ways of raising the awareness using promotion strategies which we will discuss later using the 5P's strategy (Schindehutte et al, 2009). We will also look into the customer; and try to learn about him or her so that we know how to attract this person.

4.1 Customer Analysis

With over 600 million users on Facebook, we primarily target audience in the age of 18-35. Based on insidefacebook.com (2011), these is the biggest segment, as they account for 51.9% of users. This customer group also possesses the highest regularly used accounts. More than 48% of them log in every day or night.

In young customers we prioritize, they value convenience, fun, and often seek for rather casual relationships. This not only gives us an opportunity to seize the largest active customer base available, but also to be adopted and accepted more easily since the customers are able to use IceBreaker conveniently through their existing facebook accounts. Their information as well as photos can be pulled instantly from their profile which will also help verifying the authentication of single people. However, they are sensitive to changing trends and have less attachment to any specific brand.

4.2 Product

According to Schindehutte et al. (2009) you can divide and analyze your product in five different layers. The first layer is the *Core product*. When discussing the core product you should take the product's main benefit into account. In our case the people have a need to interact with someone. This is something that our product is capable of helping them with.

The next layer is the *Tangible product*. This layer is concerned with the different aspects of the product such as size, options, packaging and quality. In our case, the product is something digital, rather than tangible. When it comes to a digital product, it is important to develop a well-functioning application that incorporates all the desired features.

The *Augmented product* is the next step. It can be defined as support services able to leverage the perception of the product. In our case it will be the customer support if anything goes wrong, if there are any bugs that cause problems or if a customer's computer can't support some of the features that they have paid for. It also entangles managing a quick and reliable method of payment such as support for both credit card and PayPal so that customers can use whatever method they prefer. It also includes developing the application in such a way so that it is easy to operate for the user.

The *Communicated product* is the final level. This involves brand name, the design of the logo and trademark. We will try and engage so that the customer identifies our brand name and associates it with something positive, something that has earned trustworthiness. It should

look modern and attractive but not too serious as people should use it to flirt, maybe not to be as serious as people engaged in for instance match.com.

4.3 Pricing

Our pricing strategy is how we distinguish ourselves from our competitors. As we have stated earlier in the business plan, the advantage is that people get what they pay for, rather than paying a fixed monthly subscription fee. We will charge our customers per person that they want to get in contact with. The costs for that will be 1 credit, and when a user just wants to buy one credit, that will cost SEK 9. We have come up with package deals that give users that want to purchase more than one credit at once the opportunity to do so at a discounted price. The total pricing scheme looks as follows:

Buying Credits		
Credit	SEK	SEK/Credit
1	9	9
5	40	8
10	70	7
25	150	6
100	600	6

Our business model makes it possible for users to top up their account and only use credit on things that they wish to pay for. This could either be contacting a person or to be on our soon-to-be famous or perhaps infamous Vaska-list for maximum exposure. What is unique with our model is that people only pay for what they wish to consume. What is also beneficial for the customer is that if you don't use the application for a while, the credit is still there. It's not like with a subscription model, where inactive people see their money go to waste.

4.4 Distribution or Place

Since our product is an application for facebook, the customer will only need to accept the terms of use in order to access our product. Therefore we have no need for conventional ways of distributing the product. The reason for choosing facebook is that a large part of our customer base frequently uses facebook. By integrating our application we hope users will look through the IceBreaker application while checking out their facebook profile. If this becomes successful, the application will penetrate the customer segment massively.

4.5 Promotion

Promotion is absolutely vital to raise awareness about our application. We could either use conventional ways of promotion our service but this is usually expensive. You could instead go online, use ads on Facebook, making funny videos that you could put on YouTube and use AdWords to direct people from Google. This is much cheaper and will still help us raise awareness. We will also arrange an exhibitions together with the entrepreneurship programme at Lund University, where we hope we will attract many new users since they can sign up for

a discounted price. It also gives us a great opportunity for people to find and learn about us which will make them more willing to sign up later.

4.5.1 Advertising

We will make advertisements on Facebook to raise the overall awareness of our application and to make people interested in what we are offering. We do experience capital constraints and therefore it is important not to use conventional capital intensive ways of communicating with the market. We will also use Google ad words to further redirect interested people to our application. These are simple means that we hope will give us a steady rise in users. Our plan is to start off in Sweden before going abroad. Using the approaches mentioned above give us the possibility to focus on particular markets at different points in time.

4.5.2 Media

Media and especially social media are very important to us, so important that we have decided to put much of our focus in how people should access our dating application through facebook. Since there are 600 million users of facebook, only a fraction needs to sign up for us to be successful. We will try and get people who blog and companies that closely follows facebook applications to write about us, to make the application raise in popularity. We have provoking features such as the Vaska list and the ability for users to themselves change the cost of contacting them and we hope this will work as an incentive for people to write about us, either in a positive or negative manner. For us this is of less importance, since it will still get people to start use the application.

We will also try to get media involved during the launch since this will most certainly boost the amount of users in the beginning. This is free advertisement and it also helps us with the legitimacy problem that many companies face when trying to establish themselves.

5 Risk Assessment

There are many uncertainties with regards to the facebook dating application which might affect the outcome of the project.

Since this is new territory for all members, we have no past experience. This will lead to us getting in to the industry with a fresh mind without any assumptions of how things should work. This could be positive but also offers drawbacks as experience often speeds things up and is beneficial for the overall managerial operations.

Another risk is that the social networking site Facebook loses its users. People's preferences on the Internet have been experiencing rapid change. An example is the shift from Myspace to facebook. Myspace never reached the current heights of facebook, however. Switching from facebook to another social networking site would imply having to incur the costs of having to rebuild your digital social life again. Even in the event of such a scenario, it is possible to design our application from the ground up to make it easily portable to other social networking platforms.

Liquidity is important for us in the beginning to be able to develop the idea. This is of utter importance even though we hope to keep development costs to a minimum due to bootstrapping, given that students at Lund University are willing to help us with what skills they possess.

Problem	Likelihood	Consequence	Points	Action
A bigger player stealing our idea	6	8	48	We will have the first mover advantage and we would need to exploit this fully with marketing efforts and special deals.
Not Reaching out to our Customer	3	9	30	We would need to invest more money in marketing and also analyze why customers dont sign up to our application.
Runnin out of Liquidity	5	5	25	We will do everything we can to raise more capital, either from friends & family or try persuade a Business
Facebook Losing Users	1	10	10	If this, unlikely scenario would happen, there will be a new uprising company. We will then put up our application at there place.
People not paying for the service	2	5	10	Give them new incentives to start paying for the service.
Points ranging from 1-10 where ten is more than 1.				

5.1 SWOT

5.2 Internal

5.2.1 Strengths

We are a team of three young and ambitious students, all from a different background. The Entrepreneurship master program that we are studying at Lund University has taught us about the various challenges that new businesses face. This will help us manage our service much more effectively. A more business-specific strength lies in the fact that we are convinced of the potential in the dating market in general. Using psychological theory, we have come up with an original approach and our passionate to deliver the greatest value to our customers.

5.2.2 Weaknesses

Our greatest strength is also our greatest weakness. As mentioned before, one of our weaknesses is that we don't have any experience in the field. In fact, some of us don't have any experience of having your own business at all. While it could be positive in some ways it also offers major drawbacks. Being a group of students can cause legitimacy problems when talking to any stakeholder. This is a problem we believe will occur in the beginning before people see what we accomplish.

5.3 External

5.3.1 Opportunities

It's hard to overestimate the potential of our service. According to the Economist, the online dating market is estimated to have revenues of about \$3-4 billion a year. The number of single people in the United States alone amounted to about 100 million. Furthermore, as we have stated earlier, people are not satisfied with current online dating solutions. This leaves us with a huge opportunity to do better than the competition and gain a big market share.

5.3.2 Threats

The online industry is very dynamic and it is imperative to be flexible and able to identify the changes in consumer preferences. The dating industry is also established already with many well-functioning profitable companies who have the power to develop their ideas if they see that a newcomer takes market share. Their size results in one major drawback however.

6 Business Model

For users to take full advantage of our application, they have to buy credits. The price of one single credit will be SEK 9. With the credit, users will be able to do mainly two things.

The first one is sending another person a message. When someone wishes to initiate contact with another member, it will not be possible as long as that person is in "ice". Only after paying 1 credit will the ice be broken. When that is done, they will be free to contact each other, whether through chat or personal messages.

Revenue Stream		
	Number of Users	Revenue from Users
Year 1	5 555	50 000
Year 2	47 777	430 000
Year 3	155 555	1 400 000
Year 4	722 222	6 500 000
Year 5	5 000 000	45 000 000
Assuming that each member uses 9kr/year on the site		

The second thing credits will buy is to be on the Vaska-list. This means that they will show up in a dedicated section of our website and ranked based on the amount of credits they have spent to be on that list. It is inspired by the Swedish phenomenon of "vaska". Vaska is the rather controversial request of asking a bartender to drain one bottle of champagne, the sole purpose being to show off that you can afford to do it. To accommodate big spenders fully with this, we will introduce a vaska-special package for 1100 credits for SEK 6000. This gives someone the option of spending 1000 credits on being on the list, while still having an additional 100 credits to spend on contacting other people.

Cost of Credit		
Credit(s)	SEK	SEK/Credit
1	9	9
5	40	8
10	70	7
25	150	6
100	600	6

7 Profitability and Financing

The first few years we will see a modest increase in revenue. As people’s awareness rises, we will see a more aggressive development. The more people that sign up, other people are keener to take advantage of the service we offer.



There is a drastic increase in revenue from year 4 to year 5. If we look at the Badoo they have experienced a similar growth. Their number of users increased from 8 to 62 million in three months (appdata, accessed 2011-02-10), backed by word of mouth and the momentum it can bring. We hope to see a comparable growth as the network effect makes people more likely to become members since the potential return is higher. In recent weeks Badoo has experienced

a rapid fall in users due to an issue they have not resolved with Facebook. We hope that these users might be interested in switching to us.

We believe that our idea has a lot of potential. Initial market research indicates that the market is big and more importantly, grows rapidly. This together with a market consisting of a few large players, who have the capability and willingness to change their practices, makes our product a potential success. We believe that revenues will increase a lot as people start using our service. The value itself will also increase drastically as more people start using it due to the network effect theory which explains that as more people start using a new way of communicating, the value of this new network increase exponentially, Formula: $Value = ((n^2 - n)/2)$, (Schindehutte, 2009).

What is interesting is to look at the Income Statement, below. As the revenues increase drastically, the costs will grow in a much slower pace indicating that the profit potential is big. We have fixed costs such as coding and development that is independent of users. The biggest variable cost will be the traffic on the site, which is totally dependent on the customers signing up and using the application. We believe that this will be the biggest expense. We need no big initial investment since our industry isn't particularly asset-intensive. We need computers and a place to be, servers will be outsourced to partners.

Income Statement													
	Year 1				Year 2				Year 1	Year 2	Year 3	Year 4	Year 5
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4					
Sales	0	7 000	16 000	27 000	50 000	80 000	120 000	180 000	50 000	430 000	1 400 000	6 500 000	45 000 000
Other Operating Income	0	100	200	300	400	500	600	700	600	2 200	3 000	3 500	4 000
Operating Income	0	7 100	16 200	27 300	50 400	80 500	120 600	180 700	50 600	432 200	1 403 000	6 503 500	45 004 000
Raw materials and Consumables	300	300	300	300	300	300	300	300	1 200	1 200	3 000	3 000	3 000
Other External Costs	1 000	1 000	1 000	1 000	6 000	6 000	6 000	6 000	4 000	24 000	300 000	350 000	1 200 000
Personnel Costs	4 500	5 500	6 500	7 500	20 000	55 000	90 000	135 000	24 000	300 000	900 000	3 000 000	10 000 000
Depreciation	1 667	1 667	1 667	1 667	4 167	4 167	4 167	4 167	6 668	16 668	16 668	10 000	10 000
Other Operation Costs	0	300	600	900	900	1 200	1 500	1 700	1 800	5 300	4 800	5 400	75 000
Operation Costs	7 467	8 767	10 067	11 367	31 367	66 667	101 967	147 167	37 668	347 168	1 224 468	3 368 400	11 288 000
Operating Profit	-7 467	-1 667	6 133	15 933	19 033	13 833	18 633	33 533	12 932	85 032	178 532	3 135 100	33 716 000
Financial Income	0	20	40	60	130	200	300	400	120	1 030	2 000	2 500	25 000
Financial Costs	10	0	0	0	0	0	0	0	10	0	30	50	70
Profit after Financial Items	-7 477	-1 647	6 173	15 993	19 163	14 033	18 933	33 933	13 042	86 062	180 502	3 137 550	33 740 930
Year-end Adjustments	0	0	0	0	0	0	0	0	0	0	0	-784 387	-8 435 232
Profit Before Tax	-7 477	-1 647	6 173	15 993	19 163	14 033	18 933	33 933	13 042	86 062	180 502	2 353 163	25 305 698
Tax Paid	0	0	0	3 652	5 366	3 929	5 301	9 501	3 652	24 097	50 541	658 886	7 085 595
Profit	-7 477	-1 647	6 173	12 341	13 797	10 104	13 632	24 432	9 390	61 965	129 961	1 694 277	18 220 103

We will need some capital to finance the development of the application, this is capital we have put in ourselves and this accounts for approximately SEK 10.000. The Informatics students have helped us research what we need in terms of programming - we will try to use



bootstrapping in terms of getting other students involved in the project. If we are not satisfied with the result, we will look externally for programmers and other external competence that can deliver the result we are looking for. Therefore, it is hard to predict the need for capital. Best case is if we don't need any other external capital, except for the initial investment in programming we put in ourselves. If this isn't possible, we will either go with ALMI or a Business Angel to get the money. We prefer ALMI since we will not need to give away any stake of the company. The high interest rate is however an issue, but from our point of view better than losing power to an external investor.

The income budget is a little on the conservative side, especially during the first years, since we like to be on the safe side.

	Total Revenue	Advertisements	Gifts	Rise Up	Show-Off Billboard	Contacting New People
Year 1	50 600	600	2 024	5060	2 000	40 916
Year 2	432 200	2200	15 175	47 542	17 961	349 322
Year 3	1 403 000	3000	42 090	168 360	55 419	1 134 131
Year 4	6 503 500	3500	162 588	650 350	256 888	5 430 174
Year 5	45 004 000	4000	900 080	5 850 520	1 777 658	36 471 742

We will try and get rid of as much advertisements as possible as the level of users increase since it lowers the overall impression and trustworthiness of the site. Therefore we see that the raise in revenue from advertisement is quite small. The revenue stream coming from gifts will increase, but diminish as a percentage of total revenue. This is because we believe that it constitutes a rather small part of the total revenue, especially when the number of users starts increasing drastically. The Rise up is a feature where people pay to let their name and picture show on top of the page. A way of users to differentiate themselves compared to the users on the page. We believe that the number of people using this feature will increase as the number of people possible to reach will increase. It makes the incentive for the users bigger as they feel that the potential return on investment is greater. What will really rise is the money we get from people contacting new people, as the number of users increase. The Show-off billboard or Vaska billboard as it is named in the application, will also give a fair revenue stream. It is the feature where people pay to show up on a page which is basically for showing-off that you are willing to pay a certain amount of money just to be on the list.

8 Development

Actually developing the application was the biggest hurdle we had to take. We are in the process of finding programmers to develop for us, and have our first meeting with potential

programmers lined up. To get some estimate of how long this will take, we have divided the process into several phases. It helps us with putting up different milestones which is a powerful tool to reach the final goal – to fully develop an application that successfully services our target group.

The implementation process should be done in the following steps:

Phase 1: Development of a prototype which we can use when presenting our business idea to an investor such as ALMI or a Business Angel in order to raise the capital needed for further development costs.

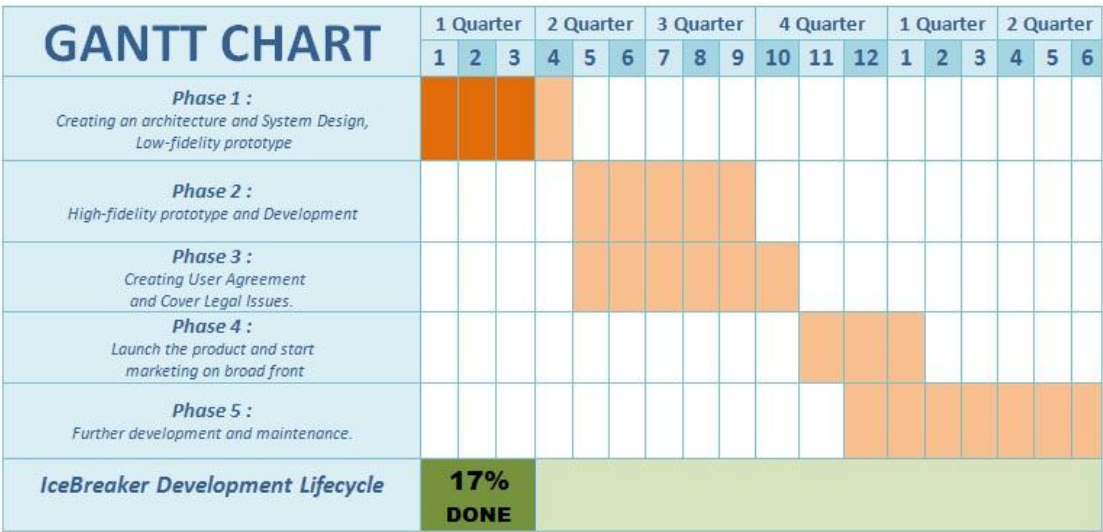
Phase 2: Basic functions like a log-in, match-making through Facebook and a website that you get redirected to while using the application. By now, you can use the application to find new people and interact with. No other functions available.

Phase 3: During phase 3 we need to develop a legally binding user agreement and also cover other legal issues. By now, a payment system should be implemented making it possible for us to get a revenue stream that can support us and cover further development costs.

Phase 4: Now it is time to launch the product. The focus is now on marketing and how to get the number of users to increase.

Phase 5: Further development, with customer benefit in focus. Questions to answer: 1) How to continue attracting users. 2) How to make users remain using our service.

It is important to take some time to stop and analyze why people are using our application. What is not so good? What is it that makes people want to use it? The answer to these questions should decide the direction that we should take.



9 Roll-out of the service

Like facebook itself, we will roll out our service like a clustering strategy. We rationalize this strategy as follows: Since people are mostly interested in dating people that are close to their location, the value of the application will lie in the amount of potential partners in your area. We will start with Lund and the Skåne, which will also be our test market. Any bugs that reveal themselves during use will be discovered, plus it also gives us feedback whether the market accepts our pricing points. Once we've conquered this region, we will start our advertising efforts in Halland, Småland and Blekinge. Gradually, we will move up north until our market position in the whole of Sweden is satisfactory.

With the revenues from the Swedish market, we will enter the rest of the Nordic market. Conveniently, the capitals Copenhagen, Oslo and Helsinki lie geographically quite close to Sweden. This will be the focus of our first marketing efforts abroad. Slowly but surely, we will expand to the rest of Europe and other parts of the world after that.

The above assumes that an extensive marketing campaign will be needed to inform every new market about our application. It is not unthinkable, however, that satisfied customers spread the word and we will benefit from positive word-of-mouth promotion. A large part of the recent success of Badoo can probably explained through this phenomenon.

10 Organization

Our team members are currently master students in the Entrepreneurship Programme at Lund University, who will provide expertise and direction in key areas as follows;

Koen Heine holds a BSc. in Economics and Business Economics. With keen interest in psychology, he has done extensive research in areas that interest him during the last year. That is what helped him identify this opportunity. He is from the Netherlands with experience in several European countries as an exchange student. This has given him the understanding of international market and our target customer needs. He will be in charge of business development and planning.



Alex Paninder has studied international business at Copenhagen Business School which makes him aware of differences in markets around Europe. Also, he has knowledge about figures and accounting. He speaks fluent Swedish, Danish and English. In addition, he has

prior successful startup experiences since he was 16. Currently, he is also involved in an AB, producing high-tech products for the food industry. His instrumental role in Facebook instant dating application will be in marketing and financial management.



Fai Nopsuwangwong has a bachelor's degree in Liberal Arts with a focus on literature and linguistics. Previously, she has an experience in starting a company in garment design industry. Also, she has worked for several years at Toyota Motor Thailand, handled policy management and performed secretarial tasks for the Senior VP. With experience in well-structured organization, she will be responsible in administration and day-to-day operation management.



On the longer term, we need a team member with IT expertise because the application itself plays critical role in our business. This person will be in charge of technical monitoring, maintenance, and managing application updates to remain agile with respect to changing business environment and customer behavior.



To capture the advantage of cost minimization in

IT-related business, we do not intend to develop a large employee base or infrastructure. Some of application development activities will be outsourced or conducted through joint cooperation with contacts in the university. This approach will dramatically decrease the need for in-house manpower and thus reduce fixed cost, which will allow us to remain 'lean' and be less dependent on external finance.

11 Exit

For exit, we consider a few different options, much depending on the success of the dating application. If the application starts growing in the number of users we are hoping for, we can see ourselves sell the company in five or more years depending on the external economic situation. We can also see ourselves selling a part of the company and just keep a minority stake in the company. If the company does not become the success we are hoping for, we might just keep it as an evening project and hope to get at least some cash flow from it.

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Facebook Dating Application

A Business Plan by Koen Heine, Alex Paninder & Fai Nopsuwanwong

How should you set up your cooperation with your business partner to enhance the collaboration and circumvent complications?

Paninder

Executive Summary

This theoretical reflection study is a narrative self-representation that uses autoethnographical methodology to illustrate the learning outcome of the project developed while enrolled at the Entrepreneurship programme in Lund University School of Economics and Management.

In the study I will use data collected extensively throughout the programme as weekly submitted learning journals. It will be the main source of information together with a theoretical foundation made out of research articles provided to us while studying the different mandatory courses in the programme. I will also use theory and data collected from other sources and my own personal experience gained throughout the year.

I will look into issues entrepreneurs face while they engage in their projects. More specifically, I will focus on how to deal with business partners, and how to solve issues in relation to this.

Focus will be on which business form to choose, but also more psychological aspects such as how to pursue the relationship. I will also discuss how different roles shift within the group and how legitimacy between the business partners is of great importance for the outcome of the project.

Keywords: Entrepreneurship; Business Partners; Overconfidence



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1 Introduction

One of the main objectives of the entrepreneurship programme at Lund School of Economics & Management is to get the students involved in real projects that give the students hands-on experience dealing with business related issues. The projects have potential to become healthy companies, and experience growth in terms of both revenue and number of employees. It gives the students a chance of gaining important hands-on experience in a relatively safe environment at the university.

The first problem I faced was to choose a project which we felt had enough potential for me to devote the time and energy needed. I had many ideas of my own but none I felt had the right window of opportunity, so I decided to go and work with someone else on their idea. My ideas are still on my laptop waiting to be utilized when I believe the time is right. It was hard to choose a project because of one pleasant problem. There were many people enrolled in the programme that flourished with good ideas. Some ideas students wanted to pursue themselves, others together with other people to increase and to diversify the competences within the team.

1.1 Choosing the Project

After much consideration, and some anxiety, I decided to begin and work with (the names have been changed) Blue from the Europe and Red from Asia. It was Blue who developed an idea involving a Facebook Dating Application which recognizes a need not being acknowledged by the competitors in the industry. The main reason for choosing this project was the growth potential, which we recognized is tremendous. During the life of the project, there have been difficult problems to overcome, involving us, our personality but also technical aspects which for us were quite hard to solve. As an entrepreneur it is however important not to focus on the problems, but instead to emphasize on finding the best solution. It is also important that you don't let failure scare you and that you instead focus on what you have learnt on the way. The team had an impressive mix of competences but lacked anyone with programming skills, which we therefore needed to get from an external source.



The competences within our group illustrated in a competence web.

1.2 The Problem Evolves

When there were one month left of the entrepreneurship programme suddenly a problem arose which I wasn't prepared for. Blue sent out an email to the whole class informing us about the negative implications of writing business plans and how the program can't help entrepreneurs in the search for their goals. He also wrote that he would focus his energy on **his** project and that he was planning to work with an Italian man called Francesco and a local successful entrepreneur. This came as a total surprise both for me and for Red as he had not consulted either one of us before sending the mail. He hadn't even indicated or mentioned that something was going on. This email was followed by multiple emails stating many different things, sometimes contradicting what he had previously written. He also sent me a few private emails a few days later telling me that he and his friends were going to buy me out of the project and that I would get 1% instead of the 50% stake of the company I was entitled to. When I mentioned that I had worked almost full time with this project the last 6 months and told him that it must be worth something, he told me not to be greedy. I was confused. He also told me that I shouldn't worry since he had it all figured out and that the 1% I was getting would become 1% of the new facebook. It sounded a bit too optimistic to be true. He told me that I might also get a job at the new company, but before that we needed to have a telephone interview first. From my point of view, he was thinking about employing me in my own company, and apparently it wasn't even certain I would get that job. I didn't have a clue how to tackle this. He then left Sweden and went back to the Netherlands.

We had managed to get through all the hard steps needed such as sorting out sufficient funding, looking through rules and regulations related to company registration and rules regarding taxes and VAT. We also managed to find and communicate with a programmer on the other side of the Atlantic Ocean. We made her do all the changes we needed, even though we sometimes had a hard time communicating with her. There are of course language barriers, technical barriers and time zone barriers. When most of those things were finished, everything suddenly changed with Blue sending out the emails. The project was doing well and it seemed to working quite well. We just needed to fix some bugs and come up with a promotion strategy to attract users in a quick and efficient manner.

1.3 The Focus of my Theoretical Reflections

In my theoretical reflections I will focus on business partners, how the company can benefit from idea sharing and how it can positively affect the company, but I will also discuss what

implications business partners can have, and how to best arrange the collaboration, with or without a legal framework to follow. My research question is: **How should you set up your cooperation with your business partner to enhance the collaboration and circumvent complications?** I want others to learn from the problems I had, but also give myself a chance for some self-reflection, analyzing what I could have done differently and how that could have potentially changed the outcome of the project. I think this question is worth focusing on in the field of entrepreneurship since it is one of the biggest issues when starting up your business today. People avoid using business partners because they don't know how to cope with the potential stress which it can result in. People also avoid doing business with their friends out of fear for losing them. If research can help solving this problem, it could potentially result in much more people trying out creating their own business, which is what Sweden and the rest of the world needs. If academia would focus the research on different areas resulting in bottlenecks for the business climate it will benefit the economy as a whole, particularly in the long run.

1.4 The Project

Our project consists of developing a facebook dating application with a revolutionizing way for people to communicate. What is unique about us is the business model, together with features that other companies have not incorporated on their applications. Other players on the market uses a subscription business model where users pay between 80 and 150 SEK a month to have access to the full features list the company offers. There are many problems associated with this business model such as copy paste messages being sent to thousands of users.

As a solution we are using a business model where people pay a small amount for every user they want to contact. This means that if you get contacted it is because this person really wants to talk to you. After going into depth with the industry and what kind of possibilities that could be exploited, we decided to start developing the application. Before that, we had, with help of the informatics students at Lund University asked for a report that could be used as a basis when contacting programmers.

2 Theory

I will use literature related to many topics necessary to comprehend and to gain an overall understanding of the problem and how to solve it. This involves literature covering

entrepreneurial overconfidence and hubris, which is a topic that has been widely discussed the last couple of years. I will also discuss what roles the business partners in a company take and how that affects the outcome of the project

I will use theory about entrepreneurial overconfidence, which is a matter widely researched and of which a variety of literature is available. Forbes (2003) concludes that entrepreneurs are more overconfident than others, even people who are engaged in newly founded ventures but are not the initial founders. He warns that there is a risk that entrepreneurs take bad decisions because of biased thinking with devastating consequences. Forbes discuss different reasons for entrepreneurs being overconfident, one being that people starting businesses and engage in entrepreneurship have that characteristic. According to Forbes, entrepreneurs analyze their business situation in a more positive manner than an objective person would have done.

Friedman (2007) also argues that entrepreneurs are overconfident. He doesn't share the same view that Forbes does however, that it could be devastating for the business and the entrepreneur him/herself. Instead he argues that it is vital for people to be overconfident if they are going to engage their time and effort in the project. Overconfident entrepreneurs are more likely to engage in their startup plans and start up a business. According to Friedman, an uncertain environment leads to worsen overconfidence. He also argues that overconfidence leads to entrepreneurs overrate the chance of success, which could potentially become a problem.

Trevelyan (2007) talks about optimal optimism, and how it could be a "*powerful force in business*" (Trevelyan, 2007, p.1) It becomes a problem first when it is "*unrealistic, unfounded or excessive*" (Trevelyan, 2007, p.1). Trevelyan argues that it is important for entrepreneurs to stop and think and come up with important questions to see in which way their ideas can pose a problem. Simply, to get a better understanding of when the ideas can become a problem, and when entrepreneurs have not considered different outcomes that are crucial for the project to become successful. One of the crucial questions she wants entrepreneurs to ask themselves is: "*Are people around you going along with your ideas without questioning or challenging them?*" (Trevelyan, 2007, p.21). She also stresses the importance of being able to move away from the initial business idea, and change the business model to a superior one. One way of being able to handle this is having control over your feeling as this is the main reason for

overconfidence. Trevelyan (2008) argues that entrepreneurs facing overconfidence are less likely to engage in risk minimization activities and this attitude towards risk is the problem.

Fitzsimmons & Douglas (2005) claims that entrepreneurs are overconfident in a variety of different areas. This includes the way entrepreneurs assess the chance of venture failure, the time frame before the venture become cash flow positive, the money the firm will earn and how competitors will act in the presence of the venture. They also argue that the choice to start up your own business depends on the attitude towards independence, ownership and risk.

Forster & Sarasvathy (2007) decide to focus on a different term instead of overconfidence. Instead they are talking about hubris. The difference between hubris and overconfidence is minimal. As other scholars argue that entrepreneurs should find perfect confidence, Forster & Sarasvathy argues that this equilibrium is impossible to reach in reality, especially because of the very uncertain environment that entrepreneurs face. They distinguish overconfidence and hubris through the confidence level of the entrepreneur.

“The over-confident entrepreneur – characterized by predictive over-confidence and personal under-confidence” while *“The hubristic entrepreneur – characterized by both predictive over-confidence and personal over-confidence”* (Forster & Sarasvathy, 2007, p.4-5).

Forster & Sarasvathy (2007) argue that hubristic entrepreneurs are more likely to start up ventures as soon as they recognize a potential but they will also experience higher rates of failure as well as higher costs of failure. They conclude that *“All the same, confidence remains an important and unavoidable necessary condition to entrepreneurship”* (Forster & Sarasvathy, 2007, p.20). In terms of hubristic entrepreneurs, they argue that this is also positive. They might fail more often, but some will succeed over time. As they continue to gain experience, together with more conservative stakeholder holding them back, they are able to calibrate their confidence levels better. In the end, they will learn how to create value in a better, more efficient way.

I will analyze entrepreneurs' traits and how they focus on control and how that might have affected the outcome of our project. Djankov et al (2008) discuss entrepreneurs and what kind of traits that is common and important for them. They argue that focus on control is one of those. I will also analyze how that could have affected the relationship between us. Djankov et al (2008) suggests that entrepreneurs by nature are more able to acquire general skills, which

then can be used for their own business. They argue that the father has a lot to do with their children becoming entrepreneurs. They also claim that overconfidence is bad for the business, but that entrepreneurs are not generally more overconfident compared to other people.

I will discuss the importance of legitimacy between business partners, a subject generally discussed in entrepreneurship as rising the legitimacy in startup businesses, when conducting business with other companies. I will ably it in relation to business partners. Zimmerman & Zeitz (2002) argue that legitimacy is important for venture growth and that it can be enhanced by strategic actions made by the venture. They claim that it is an important resource for newly founded ventures. They claim that legitimacy is a “*social judgment of acceptance*” (Zimmerman & Zeitz, 2002, p.414). In their article, they describe cognitive legitimacy as something ventures can acquire by advocating and commit widely held beliefs and norms accepted within the activity.

I have tried to access the literature most relevant and current for my topic. I have mostly used articles, together with lecture material gained throughout my studies at the Master programme in Entrepreneurship at Lund School of Economics & Management.

3 Method

For the theoretical reflections I will use a method named autoethnography. This involves writing using my own experience gained throughout our project with the Facebook Dating Application “IceBreaker Dating”. To my help I have a variety of research articles to my disposal that I have read throughout the different courses studied during the master’s programme.

More importantly I have my learning journals, which I have been writing every week to describe the development of the project. Autoethnography uses a quality research method which focuses on the subjective experience of me as a writer. The method includes observation of the daily behavior, and to look critically at your own experience. This makes the weekly learning journals a great asset when conducting this type of study. It gives me a chance to go back and analyze every step of the process. It can otherwise be an issue to recap what kind of problems we faced and how we solved it, which is the basic knowledge needed in order to make a proper assessment. The learning journal gives a great insight in what we have been did during the week and what we were planning for next week. The learning journals have been submitted weekly to the associate professor responsible for the

programme, making sure that none of the journals have been altered in any way, as a reconstruction afterwards.

Using this method will allow me to use personalized reflections and interpretations on complexities and issues I had whilst focusing my time on IceBreaker Dating. I will also use my personal experience that I have not written in any learning journal but as notes on my laptop and note book, to make sure I can present also information that I might not have written in the learning journals to avoid discussions with mentors and professors.

Qualitative research is usually based on subjective data, also in my case, that can't be given a numeric assessment. This includes attitudes and opinions of a range of individuals, in my case, also my own opinions. This is important to stress when using this type of information.

I believe that my choice of methods and research is in line with the problem I am studying. I am using my own experiencing and support my findings with academic research.

4 Data

The data has collected consists of learning journals I have submitted every week from the 1st of December 2010 until the 29th of April, 2011. The data has thus been collected over a time period of five months and during 19 occasions, giving a thorough assessment of the overall progress of the project. It has also put much emphasize on certain areas which I, subjectively, believe are more important than other.

The criticism to this data could be that it is primarily written by the same person that is going to analyze it, which could potentially skew the result, with an end result that has no academic validity. I am however aware of this problem and will act in such way that the effect of this problem if not wiped out, at least gets minimized. I will do my best to present the result in a correct, objective way.

The data has been produced by me during the year through my own personal observations and reflections. This means that the data is not entirely objective as I have decided to focus on certain areas I have thought was the most interesting for my progress during the year.

I will also use data provided by different research articles as well as data collected from organizations interested in the field of entrepreneurship. This data will be used to validate our

arguments and to make sure that what we state is in line with what the empirical evidence suggests.

5 Result

When I wrote the learning journals, I didn't plan to write about this topic since I did not see one sign indicating that the cooperation would end this way. Unfortunately, this has made me focus on different things when writing my learning journal, such as the overall progress of the project and technical issues we had to face as well as business plan related matters. If I had known about the implications that I would face a couple of months later, I could have focused more of my time on trying to find signs which could have made the learning journals even more useful. There is however a lot of things in the journals that is useful in my assessment. 2010-12-02, which was the first time I wrote the learning journal, I wrote *"My mentor Lizbeth gave us a form to fill out concerning 'Rules for Team work'. This gave us a good insight of each other's beliefs and how we differ from each other."* What was so interesting about this was that it we couldn't really see a difference between how me and Blue was thinking. There were some crucial things that differed us Europeans and Red from Asia however. The most critical being communication and how to act in arguments. She told us that even though she didn't agree with what we said, it didn't mean she would tell us that. From her culture, if you don't agree, it is more common just to sit quiet. Therefore in the beginning, it felt more like me and Blue had more in common when analyzing the form we filled out.

In my learning journal submitted 2011-01-21 I wrote: *"Blue has also started getting to know the coding in order to develop a simple Facebook application. He thinks this is important just to get to know the technical aspect, and I agree with him. In order to attract programmers we need to know how to speak 'their language'"* My mentor was asking about this. She asked me if it is necessary for us to understand the programming when we won't be able to raise enough understanding to develop and implement the code ourselves. Back then, I thought she was wrong. I believed that learning to speak "their" language. Now when I look back, it didn't really matter. It was more important to be able to communicate your message and be able to write a thoroughly assessed requirement lists. This was the first time me and Blue divided the work. I focused primarily on the business plan, concentrating on the layout, the budget and the theory, while he started learning about programming. I believed we did the right thing, even though it might have been one of the reasons for the quick completion of the project. It is important that you can divide the tasks, one looking at back end issues while others focus on

front end. I think one of our problems was that the front end person didn't realize the importance of having a back end fellow who actually made things work. I believe it is very important that you as business partners can stress what you are good at and what you are doing and have been doing lately. This way everybody understands the importance of each other's effort.

2011-01-28 I wrote in my learning journal: *"I am almost finished with the budget using the template which is available at venturecup.se. I found some errors that needed to be corrected. I also found out that you manually have to put in figures to reach the result. This takes a lot more time than I first thought. I'm glad that we started with the budget in time."* This also indicates the same thing as I tried to prove before. We did divide our tasks and I went with more backend things, some of which takes a long time to complete. The budget for example took a very long time and involved my mother who knows accounting, Nyföretagarcentrum and an auditor working for PwC.

On my learning journal submitted 2011-03-18, I wrote: *"Many interesting things have happened this week. One of the most important ones is the change in the business model that we decided about after Blue had his first meeting with his mentor who owns an investment firm with in an interest in companies like ours. He stressed the importance about differentiating us from the competitors already in business. Therefore we will use a business model which has been quite successful in other industries where you top up your account with credit and then use this credit to contact people. This change will need extensive rewriting of the business plan."* I think it was a good decision to change the business model to make sure we differentiate us to other players on the market. It did take a lot of time changed the business plan, but a business plan should never be static. This decision made Blue very confident and I supported that, without understanding that it was hubris that was starting to evolve. From my point of view, I just tried to motivate someone who came up with a great idea.

On 2011-04-01 I wrote: *"On Monday we had a meeting with the group discussing who is actually interested in continue working with the project after graduation since we have experienced a great fluctuation of interest from one member in the group. It feels great to have spoken about it and agreed on how to divide the company if we decide to continue with the project."* For me this was of big importance because Red hadn't showed very much interest in the project. We therefore wanted to have a meeting and discuss what the plans were

after the end of the programme for everyone in the group. Red said that she would be heading home after graduation and that she therefore wasn't interested in a stake in the project, if we would ever commercialize it, which we unfortunately never had a chance to do. What surprised me was how motivated Red got with the project after Blue left Sweden. She really did a great impression with her contribution to the trade show and also the presentation we did in class.

When I submitted my learning journal 2011-04-15, I wrote: *"Me and Blue is paying for this. We went on a meeting at ALMI on Wednesday, hoping to get the grant of 15 000. At first they seemed positive but after a while they wanted us to do more market research."* This was the first big drawback we faced with the project. Of course we had problems before, but not like this. We had made a good presentation, but apparently our business idea didn't catch his eye. We understood this about half way through our meeting. The week after we got an email from him telling us that our idea with the, from our point of view, unique business model, was not innovative enough to get the grant we applied for. After looking back, I think Blue started thinking about other solutions soon after this incident. He seemed very frustrated and made it clear that he still willing to work on the IceBreaker project. Later I learnt that he was keen to continue the project at any cost, with or without any of original members being a part of it, changing his attitude completely over a weekend.

6 Analysis

The biggest asset two people have when conducting business is trust. There is a saying that trust is like a porcelain plate. If it breaks, you can fix it with glue, but it will never be quite the same. I believe this is true. No legal foundation or agreement works as a good substitute for trust. There are many reasons for this, agreements only make it harder to get misled, but the risk doesn't vanish. Therefore I believe that confidence in your business partner's good intentions is much more important if you want a cooperation that is going to last for many years, this is what entrepreneurial research suggest is leveraging legitimacy in startups. I believe this successfully can be applied in the situation new business partners faces. Building legitimacy between business partners is something that continuously needs to be looked after.

Legitimacy is described by Zimmerman & Zeitz (2002) for newly found ventures as a way for them to build trust in their industry. Something they believe is necessary for the business to prosper. I would argue that the same concept could be applied for business partners as they

also face the uncertainty and the same need to gain credibility, the difference being that this is something they will gain internally from each other, and not externally within an industry.

Legitimacy and trust between business partners simplify things a great deal since you can act strongly and swift without being scared to be run over. Even though a business partner can have implications on your business, and everything might not end up a 100% the way you would prefer, it has many pros, more than the cons I would argue. First of all, it is definitely more fun to have someone to work with, compared to working alone. You also have chance to have someone question your ideas to develop them further. Most of the time, business partners are good at different things and in that way they can complement each other in an efficient way. Maybe even more importantly, a partner can give you support when things are not going your way or when you are feeling down. This way, partners can help balance the output making sure that the company is always delivering what promised.

Overconfidence is from my experience good, and that is what many researchers has also found (Forster & Sarasvathy, 2007), (Trevelyan, 2007), (Trevelyan, 2008), (Fitzsimmons & Douglas, 2005). It could be good to have someone who holds the person with overconfidence back and assess what is good and bad with the ideas that arise. A person with overconfidence should see people who question their ideas as a great resource. Overall, overconfidence is good. Without it, entrepreneurs would probably not have started their businesses in the first place. According to Forster & Sarasvathy (2007), hubris is also good since it will probably develop to overconfidence over time. Overconfidence is hence a lower level of hubris. Although this might be true, it might not be very pleasurable to work with a person experiencing hubris. Even though he or she “might change” in the future is not very accommodating when things are hard. With my experience, I would avoid this scenario if possible, since people having hubris do not always act in a rational way, which makes it hard to control how they act or foresee what will happen in the future. This could also devastate the legitimacy between business partners, which is of great importance for the success of the project. The problem is for entrepreneurs to understand if their business partner is experiencing hubris. There is no clear distinction between the two so you just need to assess if the motivation is good or becoming a problem. This could be tricky, especially since it can change drastically over time. Trevelyan (2007) talks about optimal optimism and this is what you should aim for. Forster & Sarasvathy (2007) agree that it would be the best solution but also argues that it is impossible for humans to reach this equilibrium since it just isn’t suitable for us. We are always extreme in either one way or the other. I agree with this, and therefore it

is extremely hard to distinguish what level is normal and when it becomes a real issue for the future of the business.

Overall, I would say that communication is the only good way to analyze the situation. It gives people a chance to discuss business related issues to make sure the partners have the same understandings concerning what kind of salaries that are going to be paid out in the beginning, how the company needs to be managed and how it should be regulated if one of the partners decide to quit the business and start doing a new project. This does not necessary mean that it is important to write this down on a strict legally binding document. I would argue that knowledge about the person is much more important, such as be aware of his or her latter entrepreneurial projects and how they were prosperous and not particularly successful. This also gives a valuable insight how the different business partners' experience and knowledge can supplement each other. I believe this is worthy to assess together with your potential partner to understand if you have the same objectives and have the same milestones and visions.

Of course people's views differ, and it is natural for arguments to appear. But I see this not as a problem, but a way to further develop and strengthen your idea and make sure that you have evaluated it thoroughly (Trevelyan, 2007). This is the greatest benefit having a business partner. You have someone who question your ideas, forcing you to improve them until perfection and who will support you when times are rough, at least that is how it should be in theory.

Djankov et al (2008) discuss what traits that is common when analyzing entrepreneurs. Focus on control is one of these. Blue might have had a hard time understanding how we developed the project. Blue took the role as more of a thinker coming up with new ideas. It then comes natural for him act in a very impulsive way. My role was a little different, where I questioned Blue's ideas to further develop them. It was also my role to get the concepts up and running and developing them from a theoretical level to a practical level. This meant that I had to had the meetings with auditors, Nyföretagarcentrum, checking up what company form to use, and set up the technical things such as creating PayPal accounts, create the domain, server etc. This could have demotivated him, or even scared him as he didn't feel that he had control over all the aspects of the firm. I think this is something entrepreneurs learn to deal with as they gain experience. Even though I believe that hubris was the main issue, it is not possible

to out roll the implications of Blue's need for control. It could have affected the outcome of the project.

7 Conclusion

There are many different things one needs to take into account when you start up a business together with a business partner. There is no guarantee that it will work out well, and discussions are important during the way to ensure you are pursuing the right strategies and share the same goals and visions. Otherwise it is easy that one of the business partners feel let down, maybe by mistake. Communication is of utter importance and you should never be afraid of taking an argument. It is better to have the discussion on an early phase as people tend to stick to their ideas after too much thinking, just for the sake of it. I support the finding that overconfidence is good, and a necessary part of starting your business, but it is important not to let it take abnormal levels when it threatens to destroy the very company you are working with.

It would be interesting if further research will focus on how different company forms shapes the teamwork between the partners and how it is reflected in the outcome, preferably with a quantitative analysis supported with empirical data. The result could be valuable for future entrepreneurs when taking their first decisions and start up their businesses. It would also be interesting if further research could analyze the difference between overconfidence and hubris and how that could be measured in an objective way.

On a broader level, this could lead to an increase in business startups in Sweden which is in line with the political agenda. Companies employ people. Supporting them makes sure that we are prepared to face the future with new innovative companies in industries with remarkable growth potential. This is important to make sure we can meet the ever increasing competition from Europe and also from North America and Asia.

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