



**SCHOOL OF ECONOMICS  
AND MANAGEMENT**  
Lund University

---

# Theoretical Reflections

---

How does  
overconfidence  
affect  
entrepreneurial  
ventures?

---

Jonathan Peterson

---

## **Abstract**

This thesis sets out to explore the question – How does overconfidence affect entrepreneurial ventures?

To answer this question a thorough body of literature has been reviewed. It turned out that this was a fairly well-researched area and many academic researchers have published on this topic. To support the body of literature, data has been collected through an auto-ethnographic perspective utilising “learning journals” in which one’s experience was documented in relation to an entrepreneurial project.

It was established that overconfidence is easy to develop among entrepreneurs, especially in start-up or entrepreneurial ventures. It is the most common when entrepreneurs are experiencing familiarities in decision-making, or the opposite, when a situation is new that it becomes complex and ambiguous.

In general, overconfidence among entrepreneurs is viewed as a negative trait as it clouds risk perception. On the contrary, it was argued that without overconfidence is necessary, otherwise would entrepreneurship never take place.

## Table of Contents

Abstract .....	1
Table of Contents .....	2
Introduction .....	3
1.1 Problem formulation .....	3
2.0 Theory.....	4
2.1 Landier and Thesmar (2009) .....	4
2.2 Forster and Sarasvathy (2007) .....	4
2.3 Fitzsimmons and Douglas (2005) .....	6
2.4 Chen and Dong (2007).....	8
2.5 Koellinger et al (2007) .....	10
2.6 Rose Trevelyan (2008).....	11
3.0 Method .....	13
4.0 Analysis .....	14
4.1 Forster and Sarasvathy (2007) Applied .....	15
4.2 Fitzsimmons and Douglas (2005) Applied .....	16
4.3 Chen and Dong (2007) Applied .....	17
4.4 Koellinger et al (2007) and Trevelyan (2008) Applied.....	18
5.0 Conclusion.....	20
6.0 Suggestions for future research .....	21
List of References .....	22
Appendices .....	23
Appendix 1 – How to test if you are overconfident:.....	23

## **Introduction**

During the academic year of 2010/11 I attended the Entrepreneurship Programme at Lund University, the purpose of the programme was to start and manage an entrepreneurial project. In order to achieve this two options were given; either one could choose to commercialise an innovation developed at Lund University or one could choose to go ahead with one's own idea for an entrepreneurial project. I choose the latter – to go ahead with my own idea that I conceived prior entering the programme and try and turn that idea into an entrepreneurial project.

Furthermore, I chose to take on this endeavour as one single person, there were several reasons for this that will be relieved in the analysis section. Taking on any endeavour or project by oneself whilst still undertaking university studies, leading a private and social life proves, quite literally, to be a challenge. Moreover, due to certain (hard to overcome) traits found in my own personality such as inability to concentrate and focus for any longer period of time and a deceptive self-discipline, are traits not conducive for entrepreneurial activities nor time management excellence – accountable deadlines appear to be what induce the greatest productivity and results on my part.

However, due to my own goals and visions encompassing my life and career - what I want accomplish is what is keeping me ambitious and trying to circumvent my own personal deficiencies in order to reach “success”.

### **1.1 Problem formulation**

Based on what was mentioned in the previous heading and on the experience of the entrepreneurial project there are certain aspects that stand out that can be applicable to my behaviour and the choices I did in regard to how I went forward with the project.

The behaviour and choices can be found in the level of confidence an entrepreneur has when he or she is taking on a new venture. One of the reasons why this project was taken on only by myself and envisioned being successful doing it can be substantiated by the amount of confidence I felt going into the project. Due to this reason and thus the experience of trying to manoeuvre the project singlehandedly I will explore the entrepreneurship research genre of overconfidence. More specifically the problem formulation I will attempt to answer is:

**How does overconfidence affect entrepreneurial ventures?**

## **2.0 Theory**

This section aims to provide a theoretical framework that can be applied to the entrepreneurial process and experience in relation to the problem formulation. The theories will be presented on an author by author basis where the theory is extracted and summarised from the articles.

### **2.1 Landier and Thesmar (2009)**

This theory section will be introduced by Landier and Thesmar (2009) who assert that starting a business is not a profitable activity (except for the highest 25%). Hamilton (2000; in Landier and Thesmar 2009) documents that the median entrepreneurial earnings after ten years in business is 35% less than the predicted alternative wage on a paid job of the same duration. In addition, the bulk of the money earned is generally reinvested into the business, hence, entrepreneurs bear a substantial amount of financial risk, the reason then why this risk is taken appears to be out-weighed by large private benefits.

Moskowitz and Vissing-Jorgensen (2002) estimate that entrepreneurs ought to enjoy non-pecuniary benefits as high as 5-20% of their investment every year. These “private benefits” may correspond to: social status, the fun of running a firm, independence, control and other types of benefits that comes with running a business that are not related to the monetary or financial aspect of entrepreneurship.

Another interpretation that Landier and Thesmar (2009) put forward is that private benefits of running a business are not the inducement: entrepreneurs do not start new businesses because it is profitable – but because they wrongly believe it is. Many studies show that entrepreneurs typically overestimate the chances of their projects will turn successful. Cooper et al (2008) found that 68% of entrepreneurs in their survey thought that their business would do better than their competitors. Thus overconfidence suggests that people’s optimism about their own ability relative to their competitors leads to excess market entries (Carmerer and Lovallo 1999; in Landier and Thesmar 2009).

### **2.2 Forster and Sarasvathy (2007)**

In their Paper; *When hubris is good: an error based theory of entrepreneurial overconfidence*, Forster and Sarasvathy (2007) attempts to map out when overconfidence can benefit an entrepreneur starting a new venture.

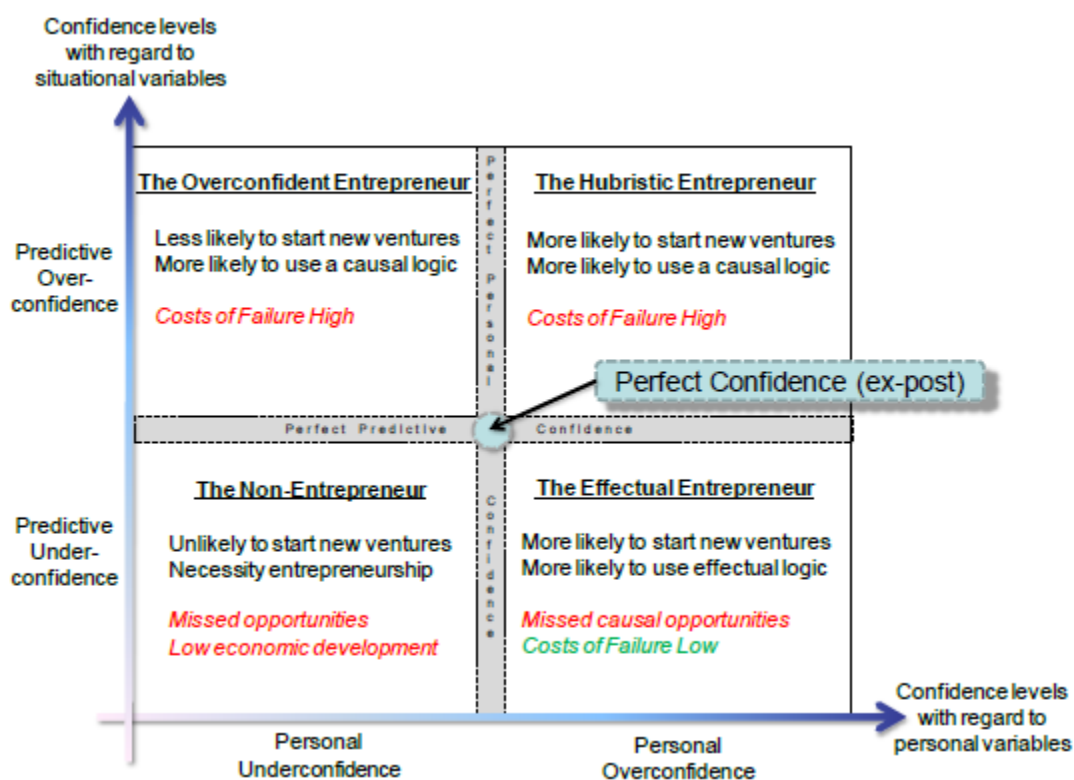
The paper goes into defining and explaining confidence and how it relates to entrepreneurs, suggesting that overconfidence takes place when the confidence level with regard to predicted performance is higher than their actual performance. Entrepreneurs, just like all people, vary

in how much credence they place in their own judgments. While some will be overconfident, others will think they are not as good as they actually are and thus be under-confident. In contrast, the perfectly confident people will be able to accurately assess the likelihood of their predictions coming true, and produce precise estimates of their own personal abilities. Perfect confidence can, for example, be calculated by a person estimating he or she is 75% sure of her personal or predictive abilities and turned out to be right 75% of time, this would be considered being perfectly confident. In summary, a person who is less confident in her abilities or predictive powers than outcomes show would be under-confident, whilst the person who is more confident than was warranted is considered overconfident (Forster and Sarasvathy 2007).

In the same paper it was stated that most scholars who research overconfidence assume that perfect confidence is possible, and indeed should be the standard of decision making.

Forster and Sarasvathy (2007) identify two main types of confidences relevant to entrepreneurship: Predictive and Personal. Predictive confidence relates to how well one estimates the behaviour of factors external to oneself – such as resources required to develop the ventures and ways to use those resources efficiently. Personal confidence has to do with the assessment of one's abilities to deliver on the predicted performance compared to others in the marketplace – such as the ability to lead, persuade and engender trust and to create competitive advantages. Moreover, Forster and Sarasvathy (2007) split these two categories of confidence into four different additional categories referred to as the four error zones, which is displayed figure 1 below:

Figure 1 – Four Error Zones



Forster and Sarasvathy (2007) comments that in figure 1, while all four error categories are detrimental to firm performance in one way or another – two hopeful possibilities emerge – overconfidence as opposed to under-confidence in either one or both dimensions (predictive and personal) is necessary for entrepreneurship to happen, additionally the effectual entrepreneur provides a way to reduce the costs of failure.

Forster and Sarasvathy (2007) argue that in risky, dynamic and uncertain situations that the personally overconfident entrepreneur can be most helpful.

### 2.3 Fitzsimmons and Douglas (2005)

Fitzsimmons and Douglas (2005) in their conference proceedings *the impact of overconfidence on entrepreneurial intentions*, they establish that overconfidence significantly drives the intention to behave entrepreneurially.

Fitzsimmons and Douglas (2005) breaks down the entrepreneurial intention into three categories; human capital, individual cognitions and motivations, and perceived self-efficacy. Human capital is an individual’s abilities, cognitions and motivations is the attitude toward decision-making autonomy, income, risk and hard work and self-efficacy is to what strength that an individual believes he or she can accomplish a specific task or a series of tasks.

Busenitz and Barney (1997) found that entrepreneurs exhibit greater overconfidence than managers in established firms. Such overconfidence can cause entrepreneurs to underestimate the chances of new venture failure, the time to become cash flow positive, profit earnings, reactions of competitors (Palich and Bagby 1995). Thus, overconfidence may cause new ventures to be launched that would not have been launched in the absence of overconfidence, as such it is argued that overconfidence is at least partially responsible for the relatively high incidence of new venture failures, since overconfident entrepreneurs are likely to overestimate their ability to make correct decisions in establishing and growing their businesses.

Research has demonstrated that entrepreneurs are more prone to experience cognitive biases in their decision-making than non-entrepreneurs (Palich and Bagby 1995; Busenitz and Barney 1997). Overconfidence can also be recognised as a form of cognitive bias which can affect entrepreneurial intentions, for example, if overconfident individuals perceive less risk in a new venture then this cognitive bias might subsequently lead to an increased tendency for individuals to start ventures, whereas a less overconfident individual may not form this intention.

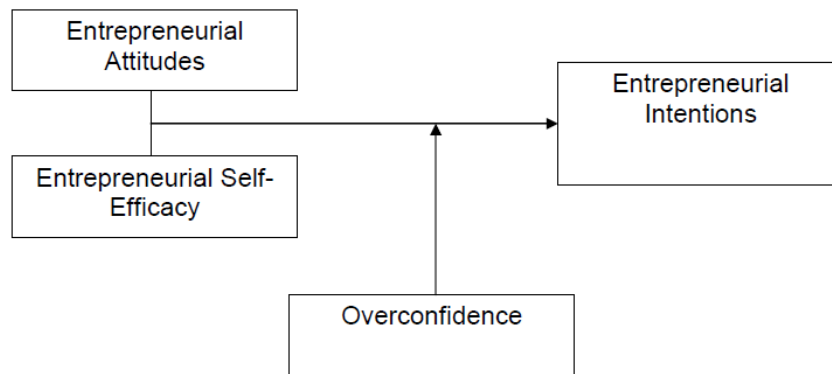
Fitzsimmons and Douglas (2005) stress that there is a relationship between overconfidence and entrepreneurial self-efficacy, the concepts are closely related but there are some distinct differences. Forbes (2005) argues that overconfidence measures the accuracy of an individual's ability whereas entrepreneurial self-efficacy measures the individual's perception of their abilities. More importantly, overconfidence tends to be a subconscious process and entrepreneurial self-efficacy tends to be a consciously held belief. Forbes (2005) further suggests that an individual's entrepreneurial self-efficacy may vary, with some individuals having over-inflated opinions about their abilities. In such situations, an individual is more likely to demonstrate overconfidence in their abilities. Similarly, experienced entrepreneurs may have a high entrepreneurial self-efficacy based on previous business success that subsequently leads to greater overconfidence. As such it is suspected that overconfidence is a separate variable that moderates the relationship between entrepreneurial self-efficacy and entrepreneurial intentions.

Based on these arguments Fitzsimmons and Douglas (2005) presented a model which illustrates that entrepreneurial intentions are driven by entrepreneurial attitudes and



entrepreneurial self-efficacy. The overconfidence bias is acknowledged as a moderator of the relationship between entrepreneurial self-efficacy, attitudes and intentions.

Figure 2 – Entrepreneurial intentions model



#### 2.4 Chen and Dong (2007)

In their study *Risk perception and entrepreneur's decision to start a venture: an empirical study from Optical Valley of China (Wuhan)*, authors Chen and Dong (2007) establish that despite the risk of starting a new venture thousands of individuals decide to do so. As such, Chen and Dong (2007) asked the question – what is the correlation between the risk, the entrepreneur and the decision to start a venture?

One proposed explanation is the traits method where scholars examine whether entrepreneurs exhibit certain traits to a greater extent than others, i.e. having a higher risk propensity. But if risk perception can explain the decision to start a venture, then it is important to determine why risk perception varies among individuals. One method to understand why risk perception varies suggests that entrepreneurs to a higher extent are prone to cognitive biases (Baron 1998; Simon et al 200 in Chen and Dong 2007). This is because entrepreneurs unintentionally tend to simplify their information processing to diminish the stress and ambiguity associated with deciding to start an entrepreneurial venture (Busenitz and Barney 1997).

Thus, one can conclude that the individual decision-process to start a new venture is especially prone to cognitive biases which are likely to affect the risk perception. Cognitive biases can cause entrepreneurs to underestimate the negative outcomes and the uncertainty a new venture involves, therefore, expensively, it can lead to an underestimation of risk.

Chen and Dong (2007) have identified four different cognitive biases that relate to entrepreneurship:

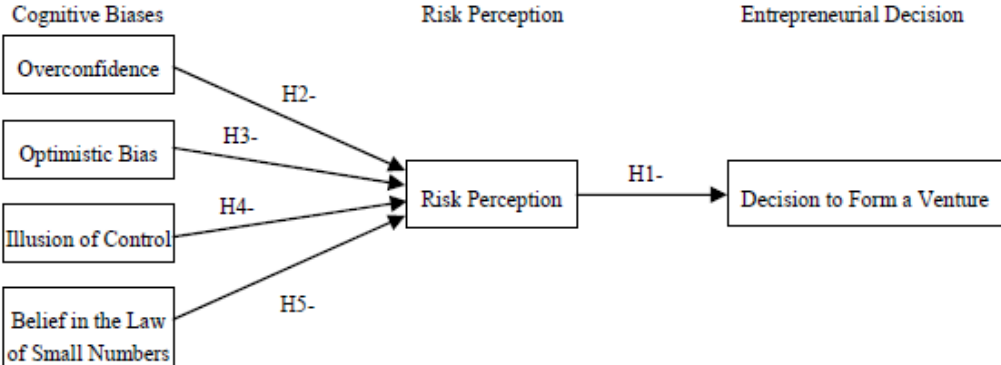
- Overconfidence Bias
- Optimistic Bias
- Illusion of Control
- Belief in the Law of Small Numbers

This thesis is focusing on how overconfidence affects entrepreneurial ventures, as such the only the bias explained in further detail will be overconfidence.

The bias of overconfidence is described by Chen and Dong (2007) as the failure to know the limits of one’s knowledge. The authors go on to suggest that overconfidence is ubiquitous and arises in many different domains, but it tends to occur because individuals do not sufficiently revise their initial estimation after receiving new data. When overconfidence acts as a negative influence the entrepreneur treat their assumptions as facts and do not see the uncertainty stemming from those assumptions. Due to this, erroneous conclusions can be made that a certain action is not risky. Thus, it is argued that an overconfidence bias lowers the risk perception.

Chen and Dong (2007) have developed a model that examines the correlations between the four cognitive biases and risk perception and how it affects the decision to start a new venture, which is displayed in figure 3 below:

Figure 3 – Assumptions, model examination and analysis



Chen and Dong (2007) conclude their argument that cognitive biases play a great part in the entrepreneurial decision and accelerates the decision-making process. In entrepreneurial ventures that are full of complexities and uncertainties, the window of opportunity would often be gone by the time that all necessary information became available for a more rational decision-making. Chen and Dong (2007) go on to propose that it is impossible for entrepreneurs to accurately figure out all the risks associated with the decision to form a venture. Therefore, entrepreneurs have make decisions according to limited information. Decision-making based on heuristics and biases may be inferior to perfect information symmetry, but when there is only little information available and the time is limited, heuristics and biases will be superior.

**Assumptions, model examination and analysis**

*H1* Perceiving a lower level of risk is associated with the decision to start a venture.

*H2* Overconfidence decreases the perception of the level of risk.

*H3* Optimistic bias decreases the perception of the level of risk.

*H4* An illusion of control decreases the perception of the level of risk.

*H5* Belief in the law of small numbers bias decreases perception of the level of risk.

Without heuristics and biases as simplifying mechanisms for dealing with multiple problems and challenges many ventures would have never been started. Hence, heuristics and biases are useful and effective in entrepreneurial ventures. However, it shall be noted that heuristics and biases are potentially dangerous tools to use, even though they prove to be beneficial in many circumstances it can lead to major errors in other situations such as in evaluating risk in strategic decisions.

**2.5 Koellinger et al (2007)**

Koellinger et al (2007) found in his study *“I think I can, I think I can”*: *Overconfidence and entrepreneurial behavior*, that subjective and possible biased perceptions have a crucial impact on new business creation. Especially confidence in one’s own entrepreneurial skills emerges as a major driver in the decision to start a new venture. And the connection between entrepreneurial decision and overconfidence may explain, at least in part, the high failure rate of new ventures.

For decisions made under uncertainty, such as starting a new venture, perceptions act as a mediator between preferences and behaviour. For an individual to start a new business, the sum of perceived potential outcomes weighted has to be larger than the perceived potential

outcomes of a wage job. Smaller perceived downside risks and greater perceived chances of success may increase in individual's entrepreneurial propensity. The connection between perception and action matters because an individual's perception with respect to starting a business may be systematically distorted by overconfidence (Koellinger et al 2007).

Koellinger et al (2007) proposes a reason why overconfidence may occur – because entrepreneurs have strong tendency to consider that their situation is unique. By definition, entrepreneurs are individuals that deviate from the norm, and once they identify a profit opportunity, they isolate their present situation, namely by starting a new venture and treat it as an original and unrepeatable event. As a result, available statistics of past and future similar situations that could help form more accurate forecasts tend to be neglected. This behaviour can also be referred to as “inside view” (Koellinger et al 2007).

Koellinger et al (2007) concludes his study by articulating – starting a business is an intentional act that involves repeated attempts to exercise control over a process in order to achieve a desired outcome. If, indeed, entrepreneurial decisions are largely based on perceptions, which are a source for cognitive biases that leads to overconfidence, it is likely that entrepreneurs overestimate their control over events. According to Koellinger et al (2007) biases are not generally bad, ironically, individual overconfidence may even lead to better economic outcomes for society at large than more unbiased decision making.

## **2.6 Rose Trevelyan (2008)**

Trevelyan (2008) sets out to identify the optimal entrepreneur in her article *Optimism, overconfidence and entrepreneurial activity*. She proposes that highly confident entrepreneurs are undesirable because they can make bad decisions. However, entrepreneurs low on confidence are also undesirable because they would not persist or have a bias for action. Thus, an optimal entrepreneur is one who is optimistic but also can check his/her confidence level on certain activities and put in place strategies to ensure they do not suffer from the overconfidence bias.

Brockner et al (2004; in Trevelyan 2008) writes “... a combination of promotion-driven and prevention-drive motives, beliefs and behaviours are needed for entrepreneurial success” (p. 208). Trevelyan (2008) adds that a combination of optimistic and realistically confident

attitudes and behaviours are needed for entrepreneurial success. Optimism is needed in the early stages to initiate action amidst uncertainty and to deal with setbacks.

Trevelyan (2008) suggests that overconfidence is the most harmful during the initial start-up phase when opportunities are being evaluated, overconfidence remains to be harmful when the business need to adapt and grow responding to or take advantage of changing circumstances.

### **3.0 Method**

The data collection for this thesis has been gathered through a qualitative study of one's own experience during the process of establishing an entrepreneurial project. The qualitative study has been documented through the writing of "Learning Journals" which were submitted each week for 19 weeks where one answered the questions "what have I done this week?" and "what are my goals for the next week?" in regards to the project.

Thus, the qualitative data collection is of a subjective nature and focuses on the writer's subjective experience rather than beliefs and practices of others. This form of qualitative study is referred to as auto-ethnography, which purpose is to craft a personal narration that explores the writer's experience for a determined period of time (Havano 1979).

Chang (2008) argues that auto-ethnography is a research method that is a generous for researches because auto-ethnographic texts tend to be engaging and gives a cultural understanding to oneself in relation to others. This research method will be used and applied to explain the entrepreneurial process that I underwent when starting up my project.

In order to substantiate the subjective nature of auto-ethnography theories from established academic authors will be utilised primarily from the entrepreneurship research field but also theories from other fields such as psychology, social sciences and economics.

## **4.0 Analysis**

I choose to pursue an idea that I came up with prior to starting the Entrepreneurship Programme and turn that into the entrepreneurial project. This was not an obvious choice, I was torn between the “mobile positioning” innovation that I was assigned to write a business plan for in the first course in the externally triggered business plan task or pursue my own idea. In the end I came to the conclusion to pursue my own idea.

Whilst committing to my own idea I also made the decision to run the project alone. This decision was also not an obvious decision, especially when two classmates approached me and asked if they could join the project. I was flattered, particularly since I had not asked for anyone to join but only mentioned my idea casually in passing to people. At the same time as I was flattered it also put me in an uncomfortable position. I weighed the pro and cons of bringing on another person, I definitely could not bring both people on board – the project was not big enough, they would have nothing to do. So I had to choose between one of the two people or no one at all. In the end I choose to do the project myself and not bring those who approached me on board.

The following is my reasoning behind this decision. Firstly, the project was so centred around me and my experiences it would be hard for them to add anything to the product creation. Neither of them were programmers, engineers or website developers which would be skills complementing my knowledge deficits. I was worried about the uncertainty of it all – if we started making sales what would happen to the revenue? What would happen to the project after the programme ended? What kind of share would they like in the company?

After asking myself these questions I came to the conclusion that I would sacrifice less work on my part for more certainty. What it all came down to was – control. As I knew that the profit potential was low for my project I was not willing to give up any shares unless there would be any major contributions to the project development.

Control was also one of the reasons why I did not pursue the “mobile positioning” innovation. I prefer being in control and not being in a nimble organisation where decisions have to be reported and cannot be made fast, which in conjunction with the product being too far from market put me off. I would, however, sacrifice control and nimbleness if a product was exceptionally fantastic with a huge market attached to it.

#### **4.1 Forster and Sarasvathy (2007) Applied**

It is difficult to make an assessment of your own personality and particularly what kind of entrepreneur I am (or would be assuming a venture takes off). However, when looking at the four different types of entrepreneurs that Forster and Sarasvathy (2007) have identified in relation to their confidence level in predictable information and personal abilities I can roughly describe myself as a mixture of a hubristic and effectual entrepreneur.

Hubristic entrepreneurs are overconfident in predictive information and are attracted to casual strategies such as market research, due diligence and believing in their own numbers and relentlessly pursue their vision, in conjunction being overconfident in their ability to deliver (Forster and Sarasvathy 2007).

Effectual entrepreneurs exhibit a low to no confidence in predictive information and are likely to be highly to overconfident in their own abilities to deliver. Furthermore, effectuation eschews prediction but is favours strategies that keep the costs of failure low (Forster and Sarasvathy 2007).

In general, I tend to approve of casual strategies in order to get a feel for the market. Hence, I have done rigorous market research for my product as evidenced by Learning Journal week 16: *“I can’t really tell how viable the business is until I’ve solved the traffic issue, but it is a small market (8100 searches each month and 25 000 swedes studying abroad each year) so I feel I should move into the American market which has 450 000 searches each month. That is a bigger crowd to play with. And I need to look into other revenue streams”*.

However, I also show proof of using effectuation logic as demonstrated in Learning Journal week 19: *“However, I realised that I need to change my strategy a bit. The niche is too small and I don’t get enough traffic to build a list to launch my product through promotions. Instead I will have to complete the eBook and release it straight to a sales page”*.

In relation to confidence, I would argue that I have a medium belief to predicable information and a high, borderlining to overconfident belief in my personal abilities to deliver. I cannot explain why I have this make-up, but I presume I am a product of my goals and visions which forces me to maintain a high confidence level. Overconfidence is preferable to underconfidence and is according to Forster and Sarasvathy (2007) necessary for entrepreneurship to happen.



## 4.2 Fitzsimmons and Douglas (2005) Applied

Why are ventures and businesses being started? Fitzsimmons and Douglas (2005) suggest that entrepreneurs in contrast to non-entrepreneurs are more prone to experience cognitive biases such as overconfidence that in turn can translate into why ventures are being started. The reason for this is that overconfidence can cloud the entrepreneur's risk assessment in new ventures, leading to higher chances of venture failures.

Entrepreneurial intentions consist of attitudes and self-efficacy, where attitudes are made up of human capital and cognition and motivations. Cognitions and motivations are comprised of the entrepreneur's attitude toward income, independence, risk, work, control and similar characteristics (Fitzsimmons and Douglas 2005).

Self-efficacy measures the ability of an entrepreneur's perception of his/her abilities and is consciously held belief (Fitzsimmons and Douglas 2005). Overconfidence and self-efficacy are related concepts, for me and in regards to this project they go hand in hand with the other. I believed that I had a strong self-efficacy in undertaking this project due to my passion in making it happen and my knowledge in online marketing, one could therefore argue that this, consciously or subconsciously created overconfidence that pushed me over the edge to want to start the project.

Attitudes and in particular motivations are of great importance in my own entrepreneurial intention. The very reason why I want to get involved in entrepreneurship is because of the attitude I have in regards to my motivations. After carefully sketching out what I could do as a career I came to the conclusion that entrepreneurship was the only vehicle I came across that could handle all of my motivations and goals aligned with my personal abilities and prerequisites.

One of my highest regarded motivations is independence, it serves as a great motivator. When that is combined with my entrepreneurial self-efficacy matched with an idea – a decision to start a venture is formed. I did not state explicitly my motivational reasons for undertaking this entrepreneurial project in the Learning Journals, but I believe that it pervades and shines through in my writing that I am highly motivated. I did make one short notice of this in Learning Journal week 15: *“So the focus now is to get the site to the top 5 search results for my niche. If I'm not in the top 10 search results I don't have a business. And I would like to have a business”*.

In terms of this project and where overconfidence came most into play was that I remain an incurable time optimist. I tend to underestimate how much time a task will take or be overconfident in how much time that needs to be spent on a task. This is likely to cloud an accurate risk assessment to take place (especially in a one person venture). The following are examples from the Learning Journal illustrating this behaviour:

Week 5: *“I made a deadline for the product to be complete in three weeks starting this past Monday”.*

Week 8: *“I would say the content is finished somewhere in the range of 90% of where I would like it to be. It’s not exactly where I want to be, but I need to move on so it’s time to get technical”.*

(In response to the deadline of the book, one of the reasons why I did not have a finished eBook for sale was that my mentor explicitly told me not to write more and instead create the remainder of the book jointly with the target market. This is a good idea, but it did not materialise since not enough traffic had been brought to website in order to generate enough feedback).

Week 10: *“I quickly realised I will not be able to reach my goals for this week when I started. There’s a lot more to wordpress and platform building than meets the eye. So I have overwhelmed myself with trying to figure out and build something really good. But I know a tremendous amount more today than what I did two weeks ago”.*

The overconfidence bias however is as Fitzsimmons and Douglas (2005) established the moderator of the relationship between the entrepreneurial self-efficacy, attitudes and intentions. Thus, one can argue that overconfidence, at large, determines if a venture is created or not.

### **4.3 Chen and Dong (2007) Applied**

Chen and Dong (2007) see cognitive biases as a way of simplifying situations and propose that entrepreneurs are prone to experience cognitive biases for this reason. Because entrepreneurial ventures are full of complexities and uncertainties, the window of opportunity would often be gone by the time that all necessary information becomes available for more rational decision-making. It is impossible for entrepreneurs to accurately figure out all risks when launching a venture – in these cases biases are a superior way of making decisions. Biases unconsciously dismantle overly complex and uncertain tasks in order to create a sense

of less stress and less ambiguity to handle the situation. Thus the overconfidence bias can cause entrepreneurs to underestimate negative outcomes a new venture may entail which can lead to an underestimation or risk.

I can very much relate to Chen and Dong's (2007) arguments that cognitive biases work as a means to simplify complex situations. Almost everything that had anything to do with project turned out to be more complicated than I initially thought it would be – and overly time consuming. Be it building the website or completing the product. Looking back on it, I rationalised that being one person would serve me the best, when this was obviously not the case. I could have gotten far more done on the project if one more person was involved. Most of my time was allocated to exams and assignments in the programme, as my first priority was to pass all of the courses. The ideal partner of choice for this project would have been a person who was only interested in getting an academic degree and not run a business. That would have freed up more time for me to concentrate on developing the project. However, this option did not bear on me until too late and I did not know the classmates well enough at that point to make such a decision.

My risk perception was affected by my cognitive biases to the extent that I thought I could do the project by myself and manage the other parts of my life seamlessly, this was a faulty conception, possibly due to overconfidence.

#### **4.4 Koellinger et al (2007) and Trevelyan (2008) Applied**

The theory section starts with Landier and Thesmar (2009) asserting us that starting a business is not a profitable activity, that on average a wage paying job will earn you more money. However, for an individual to start a new venture he or she must perceive that the sum of potential outcomes is larger than the perceived potential outcome of a wage job. A smaller perceived downside risk and greater perceived chance of success may increase the entrepreneurial propensity (Koellinger et al 2007).

There are many reasons why I want to start a business, but what it comes down to is what Koellinger et al (2007) suggests – that I perceive the sum of outcomes by starting a venture to be larger than a wage job. It shall be noted, that this does not only refer to financial aspects but also non-pecuniary aspects that factor in that a wage job could never provide, such as control, freedom and independence. However, I do realise that this entrepreneurial project I have been working on for the programme has limited growth possibilities and cannot sustain a bigger business and most possibly cannot realise neither financial and non-pecuniary desires,

as I have mentioned throughout the Learning Journal that it is a small niche. The reason why I committed myself to the idea was because I saw an opportunity, be it small, it has and will provide me knowledge and experience that I can take on board to other projects that will be larger in size.

One could argue that I experienced a cognitive bias in overconfidence that in the first place lead me to initiate the project and furthermore decides to take it on by myself. It is also likely that I suffered from other cognitive biases such as optimistic bias put forward by Chen and Dong (2007), which is an exaggeration that person expects good results.

But even though overconfidence appears to be a crucial and decisive factor in venture creation Trevelyan (2008) argues that an overconfident entrepreneur is not desirable because they make bad decisions, especially in the start-up phase or when strategic decision are to be made. A combination of optimistic and realistically confident attitudes and behaviours are needed for entrepreneurial success.

Despite being subjected to overconfidence, I believe, that I have remained realistic of the returns of the project. That may sound paradoxical, but I knew beforehand the limitations of the study abroad niche. But I reasoned that it would better to do something, even if it may be small, because I saw an opportunity, than to do nothing.

One type of situation that often produces overconfidence is familiarity. This can lead to an entrepreneur to rely too much on tried and tested responses. Each situation we are in has cues that set off a routine response. And because these responses have worked in the past we are likely to assume that they will work now (Trevelyan 2008).

I am not awfully familiar with starting entrepreneurial ventures, but I am rather familiar with online marketing, technology and business theory. Hence, one could argue that because of my familiarities in these areas I was prone to develop a sense of overconfidence and thus start the project. But the opposite situation can also create overconfidence – when the situation is ambiguous or unfamiliar and there is little data entrepreneurs often assume the best scenario and are confident that they have made the right choice (Trevelyan 2008). However, in terms of business decisions, I find it hard to be completely satisfied, there is always a voice saying – what if you did like this instead or try it like that, which at the looks of it does not appear to be a sign of overconfidence.

## 5.0 Conclusion

This thesis set out to explore the relationship between overconfidence and entrepreneurial ventures by using theory and auto-ethnographic data. By utilising the literature review and my own experience in the thesis I was able to establish that overconfidence appears to be prevalent among entrepreneurial ventures. Trevelyan (2008) argues that overconfidence occurs both when an entrepreneur is familiar with a situation and when the situation poses complexities and ambiguity. Furthermore, Fitzsimmons and Douglas (2005) make the case that entrepreneurs, as opposed to non-entrepreneurs, are more inclined to experience cognitive biases, of which one bias is overconfidence. Koellinger et al (2007) suggests that overconfidence can develop because entrepreneurs have a strong tendency to consider their situation as unique. They identify a profit opportunity, they isolate the situation and treat it as an original and unrepeatable event.

I was no exception to the overconfidence bias, this mostly manifested itself as time optimism, not to bring anyone else on the project and a strong belief in my own personal abilities to deliver.

But what does this mean and what impact does it have on entrepreneurial ventures?

According to Forster and Sarasvathy (2007) overconfidence is necessary for entrepreneurship to happen. Be that as it may, it seems to be a consensus that overconfidence contributes to a higher amount of entrepreneurial ventures than it would otherwise be, but subsequently this leads to a higher failure rate.

However, it is not clear if excess entrepreneurial ventures are desirable in terms of social returns. Unsuccessful businesses create negative externalities if the costs of failure have to be absorbed by others. Conversely overconfident and potentially unsuccessful entrepreneurs may also generate valuable information that would not be available otherwise. New ventures, albeit unsuccessful, still might spur competition and push incumbent businesses toward higher efficiency (Koellinger et al 2007).

To conclude – Trevelyan (2007) argues that an entrepreneur needs to be optimistic but not too optimistic. Research suggests that it is possible to be optimistic in order to capture the motivational benefits as well as to keep the overconfidence in check to avoid decision-making errors. This is possible because optimism is a stable trait, people tend to be optimistic or not. However, overconfidence is not a stable trait, it is high in some situations and low in others

A combination of promotion-driven and prevention-drive motives, beliefs and behaviours are what is needed to maximise success in an entrepreneurial venture.

## **6.0 Suggestions for future research**

Overconfidence in entrepreneurship is a fairly well-researched topic and the centre of the research is the entrepreneur and how that person is affected by overconfidence. In addition, how overconfidence occurs is well-researched. It would be interesting to find out more about overconfidence in entrepreneurial teams and how overconfidence affects group dynamics and the different the different roles within a group.

## List of References

- Busenitz, L.W., Barney, J.B. (1997), "Differences between entrepreneurs and managers in large Challenging Conventional Wisdom", *Journal of Business Venturing*, 10, 6, 405-417.
- Camerer, C., and D. Lovo. 1999. Optimism and Excess Entry: An Experimental Approach. *American Economic Review* 89:306-18.
- Chang, Heewon. *Autoethnography as method*. Walnut Creek, CA: Left Coast Press, 2008.
- Chen, Zhenhong, and Junwu Dong. "Risk perception and entrepreneur's decision to start a venture: An empirical study from Optical Valley of China (Wuhan)." Wuhan: The Sixth Wuhan International Conference on E-Business - Innovation Management Track, 2007.
- Cooper, A., C. Woo, and W. Dunkelberg. 1988. Entrepreneurs' Perceived Chances for Success. *Journal of Business Venturing* 3:97-108.
- Fitzsimmons, J.R, and E.J Douglas. "The Impact of Overconfidence on Entrepreneurial Intentions." *Proceedings AGSE Entrepreneurship Exchange*. Auckland: Brisbane Graduate School of Business, Queensland University of Technology, 2005.
- Forbes, D., P. (2005), "Are some entrepreneurs more overconfident than others?", *Journal of Business organisations: biases and heuristics in strategic decision-making*, *Journal of Business Venturing*, 12, 9-30.
- Forster, William R, and Saras D Sarasvathy. "When Hubris is Good: An Error Based Theory of Entrepreneurial Overconfidence." *Working Paper* (University of Virginia - Darden Graduate School of Business), 2007.
- Hamilton, B. 2000. Does Entrepreneurship Pay? An Empirical Analysis of the Returns to Self Employment. *Journal of Political Economy* 108:604-30.
- Havano, D. "Auto-ethnography: Paradigms, Problems and Prospects." *Human Organization* 1, no. 38 (1979): 99-103.
- Koellinger, Philip, Maria Minniti, and Christian Schade. "'I think I can, I think I can': Overconfidence and entrepreneurial behavior." *Journal of economic psychology*, no. 28 (2007).
- Landier, Augustin, and David Thesmar. "Financial Contracting with Optimistic Entrepreneurs." *The Review of Financial Studies* (Oxford University Press) 22, no. 1 (2009): 118-150.
- Moskovitz, T., and A. Vissing-Jorgensen. 2002. The Private Equity Puzzle. *American Economic Review* 92: 745-78.
- Palich, L.E., Bagby, D.R. (1995), "Using Cognitive Theory to Explain Entrepreneurial Risk-Taking: Venturing, 20, 623-640.
- Trevelyan, Rose. "Optimal Optimism." *Business Strategy Review* (London Business School), no. Autumn (2007): 18-27.

## Appendices

### Appendix 1 – How to test if you are overconfident:

If you are facing a big business decision, ask yourself the following questions. If you answer “yes” to many of them, the chances of your being overconfident are high.

- Is this a decision regarding something you know a great deal about?
- Have your recent activities been successful, making you feel invincible?
- Do you feel extremely excited by the next steps in building your business?
- Are you reluctant to walk away from work in which you have invested a significant amount of time, money and energy?
- Are people around you going along with your ideas without questioning or challenging them?
- Are people you work with afraid to give you feedback or suggest anything?
- Is this similar to situations you have been in many times before?
- Do you have very little information with which to make this decision?
- Do you think this decision relates to a situation over which you have significant control?

(Trevelyan 2007).



pluggautomlands.info

# Business Project Plan

BUSP01

Jonathan Peterson  
5/9/2011

plugga  
utomlands  
.info



## **Intended audience**

The proposed venture is as of this point not looking to attract any external capital, thus the intended audience for this business plan is primarily for marketing purposes such as teachers and professors.

## **Executive Summary**

Today there is no company offering a one-stop-shop solution for people who wishes to undertake their university studies abroad. The companies who do exist is setup an intermediary company that gets paid when they have recruited a student to a foreign university the intermediary company has a partnership with. As such, the level of loyalty could be questioned.

By combining the unique knowledge of the initiator of this venture, gained from his own criss-crossing academic career abroad, and the power of online marketing will open a new segment in which how to create, distribute and consume products for the study abroad niche.

There are approximately 27 000 Swedes today studying abroad and 8 100 searches on Google each month with the keywords “studera utomlands”. The goal is to convert 5,5% of the 27 000 people to buy the initial product of this venture which is an eBook, by utilising the platform [www.pluggautomlands.info](http://www.pluggautomlands.info) and savvy online marketing.

## Table of Contents

Business idea.....	5
Core idea and unicity .....	5
Customer benefits.....	6
Customer value .....	7
Revenue Streams .....	7
Growth potential.....	8
Marketing Plan.....	10
Who is the customer? .....	10
Communication with customer .....	11
Customer Acquisition Strategy .....	11
Turning prospects and leads into buyers.....	14
Market trends and development.....	14
Industry analysis .....	15
Supply chain .....	16
Porter’s 5 Forces .....	17
Company positioning .....	19
Market strategy.....	20
Target market.....	20
The offer.....	20
Pricing strategy .....	20
Sustainable competitive advantage.....	21
Can other companies benefit from this venture’s market entry? .....	24
Protection .....	24
Environmental policy .....	25
Business model .....	25
Value chain.....	25
Status of operational activities .....	27
Potential collaborations.....	27
Organisation.....	28
Recruitment plan .....	28
Values.....	28
Future vision .....	28
Implementation .....	29

Developmental status .....	29
Financials.....	29
Comments to profit and loss statement .....	31
Risk .....	31
SWOT-analysis.....	31
Risk Assessment .....	31
Three case financial scenario .....	2
Bibliography .....	3

## Business idea

### Core idea and unicity

The core idea of the business is to produce and deliver information products that will use the internet as an exclusive sales channel. The products offered will not be physical products per se but rather “digital” products which refer to products that are going to be downloadable onto a device of the customer’s choice he or she uses to access the internet; such as desktops, laptops, smart phones or surf tablets.

Information products are a concept that refers to products and services such as eBooks, Audio books/programs, seminars, videos and coaching. Essentially, it is a product or service that provides information that helps the prospect to solve a problem.

The business lies within in the realm of what is referred to as Information Marketing<sup>1</sup> – which in turn falls under the umbrella of Online Marketing<sup>2</sup>.

The aim of information products are to serve a niche or a market segment that is underdeveloped, has demand for a solution that can presented by providing information. Furthermore, if there is a gap in an existing niche then an information marketing business can add new value to that niche.

The niche for business opportunity and project is going to be “*Study Abroad*”, this means people who have decided or are thinking about undertaking their university studies abroad. The rationale why this niche was chosen is because the founder can draw on his own internal capabilities, knowledge and experiences for the product development. The reason for this is because the founder has been his own customer as result of a criss-crossing academic career (studied in three different countries at four different universities). Through this the founder was able to spot a gap in the market by combing hard-to-come-by market information and the power of online marketing.

---

<sup>1</sup> Information Marketing is the concept of selling information on the internet.

<sup>2</sup> Online Marketing is a collection of ideas, concepts and practices that describe the process of selling goods on the internet.

The unique selling proposition stems from what is not being offered at this point in the study abroad niche and the way the service will be delivered and consumed. There has not been a fusion of online marketing and the solution to study abroad in conjunction with there is no one-stop-shop website that has all the information required and necessary for people who are thinking about or have decided they want to study abroad.

Thus, at this point in time a business opportunity has presented itself that the author of this business plan intends to capitalise on through his venture pluggautomlands.info (PU.info).

### **Customer benefits**

There are two major reasons why this project is topical and indeed necessary. The world is a different place than it was three decades ago. The world has become an intertwined global economy where one can more freely than ever before move where there is opportunity. This goes for jobs as well as education.

With so much choice comes also the problem of choosing. According to Schwartz (2005) two main problems occur when there is a lot of choice for the consumer. The first issue is that “too much” choice is likely to cause paralysis for the customer, also known as analysis paralysis. The outcome of paralysis is overthinking the decision or action so that a choice is never made, in effect paralysing the outcome. Choice becomes a burden instead of a liberation making it difficult to choose at all. The second issue is that a customer is likely to become less satisfied with a decision than he or she would if there was less choice. The reason for this is that the imagined alternatives induce the customer to regret the decision made. And this regret or buyer’s remorse<sup>3</sup> subtracts from the satisfaction the customer get after the decision made – even if it was a good decision. The more options there are the easier it is to regret anything that is disappointing about the option the customer chose.

This applies to the choice of choosing a university to study abroad, because the choice is almost infinite. In the United States alone there are approximately 4 000 different universities and colleges (National center for educational statistics, 2005).

---

<sup>3</sup> Buyer’s remorse is a sense of regret after having made a purchase. It is often associated with the purchase of expensive items.

In combination with the application process for international students being highly bureaucratic and complex, coupled with a great deal of unawareness when it comes to the process of studying a degree abroad. Especially in peripheral needs to the study abroad process – example of peripheral needs that are on customers minds are social integration, financing, how to structure a good application, finding somewhere to live.

Today there exist no one-stop-shop on the web that houses everything that a prospect needs in order to go from inception of having the thought or idea of studying abroad to actually attend the first lecture at university in a different country. Hence, there is room for product and/or service that cover all of the core needs of the customer as well as the peripheral needs.

The purpose of the project and the customer benefit is to ease the process of studying abroad and make the applicants feel comfortable with their decision.

### **Customer value**

The following are some concrete values that add to the customer benefit when using one of PU.info's products:

- The exact cost of attending universities abroad
- How to finance your studies abroad
- How to deal with integration and moving to a different country
- How to feel secure with the decision you made
- Minimise buyer's remorse
- Learn from a step-by-step guide the application process to all English speaking countries.
- Learn how to maximise your chances of getting accepted to top American universities
- Help with finding scholarships
- Provide a "platform" to connect with other people who going to study abroad – in order to find accommodation and arrange social events together.

### **Revenue Streams**

The product revenue stream will be the main revenue stream. The initial products will be an eBook that covers all of the areas a person interested in studying needs to know – as illustrated by abovementioned customer benefits. An audio program based on the content of the book will be the second product.

Another popular revenue stream by competitors is to offer a translation service for high school grades from Swedish to English. The competitors charge around 500 sek for this. This could be implemented into this project.



For long-term sustainability the primary asset and ability of leverage is what is called the list. The list is a collection of prospects with attached emails. The list is collected by prospects entering their information on the website, often in exchange for free valuable content related to the niche they are engaged in – in this case, a free condensed report on how to study abroad.

There are several different ways to monetise a list. Possible revenue streams are related to marketing, where sponsored email from universities and institutions that are interested in attracting international student can send their “branded” emails to the list due to its highly targeted audience in exchange for a monetary transaction. A list is also the best way to have a relationship with its customer and build trust and customer loyalty which will increase repeat buying.

A more unconventional idea for a revenue stream that is not in operation today that originates from the concept of affiliate marketing<sup>4</sup> is – where (if executed) I (the project) get prospects to apply to universities PU.info has an agreement with through my affiliate link, PU.info will then receive a commission per person that applied through that affiliate link.

## Growth potential

The growth potential for the Swedish market is not big. According to the Google Keyword Tool there are 8100 searches per month for the keywords “Studera Utomlands”, which is the keyword that generates the most amount of searches in this niche and hence the one that PU.info is focusing on. See image below:

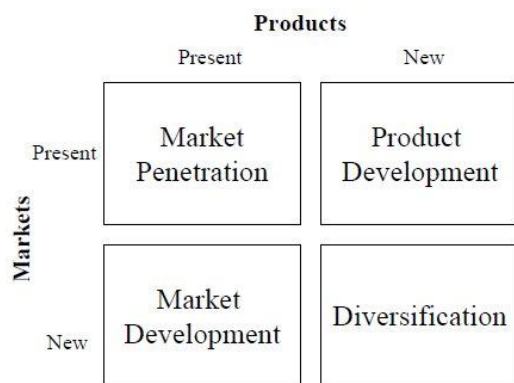
Keyword	Competition	Global Monthly Searches	Local Monthly Searches
☆ studera utomland	<input type="checkbox"/>	8,100	8,100
☆ studera utomlands	<input type="checkbox"/>	8,100	8,100
☆ studier utomlands	<input type="checkbox"/>	8,100	8,100

<sup>4</sup> (from Wikipedia) **Affiliate marketing** is a marketing practice in which a business rewards one or more affiliates for each visitor or customer brought about by the affiliate's own marketing efforts. Examples include rewards sites, where users are rewarded with cash or gifts, for the completion of an offer, and the referral of others to the site. The industry has four core players: the merchant (also known as 'retailer' or 'brand'), the network, the publisher (also known as 'the affiliate'), and the customer. The market has grown in complexity to warrant a secondary tier of players, including affiliate management agencies, super-affiliates and specialized third parties vendors.

Furthermore, according to SCB (2011) there are approximately 27 000 swedes per year taking out a student loan for studies abroad. A figure that has been fairly stable over the last decade, but increase with 2000 people from last year. However, there are indications that this can increase, according to a statement released by the government Dagens Nyheter (2011) they are willing to increase the limit in the amount a student can borrow for studies abroad due to the ever-increasing tuition fees universities charge their students. As of now, a student loan from CSN will not cover the cost of tuition and living expenses for most universities in the United States.

However, as previously mentioned the market is small. Thus the growth potential is not remarkably great. Nonetheless, this project has a unique selling point (USP) in how it is delivering and having its products consumed as well as the content provided, which means that it is providing a service that the competitors are not. This can in fact take this project to a leadership position in a new segment of the market – information products on how to study abroad. But in order to have perpetual growth diversification is a must.

The Ansoff Matrix is a growth matrix that illustrates what growth opportunities that are available to a firm which is demonstrated below:



**Market Penetration:** this refers to increasing the firm’s market share by either acquire competitors’ customers or persuading new prospects to buy. Since this project is essentially a pull marketing project which means that it only make offerings to prospects that are actively looking for this solution its first priority is not persuading new users but compete with the

existing players.

**Product Development:** Launching new products in existing markets. This is a critical part of online marketing as an industry and how many online marketers make money. By offering their customers new products they have either made themselves or offer products someone else has made for a commission, which is commonly known as affiliate marketing. The downside of this project’s particular niche that it underdeveloped in the segment of online marketing, there no other others doing what this venture is about to do. Hence, offering

products made by others than myself is limited. However, offering products that are related to the niche might be an opportunity.

**Market Development:** Herein lies the biggest opportunity because market development infers that existing products are to be released on new markets. With the eBook as an example – if it is translated from Swedish to English accompanied with changes to make it suitable for the American market the amount of prospects available grows exponentially. See image below:

The screenshot shows the Google AdWords Keyword Planner interface. The search criteria are: 'Word or phrase' set to 'study abroad', 'Locations' set to 'United States', and 'Languages' set to 'English'. The search results table is as follows:

Keyword	Competition	Global Monthly Searches	Local Monthly Searches
abroad	Low	3,350,000	1,220,000
studying overseas	Low	673,000	450,000
studying abroad	Low	673,000	450,000
studies abroad	Low	673,000	450,000
study abroad	Low	673,000	450,000
study in abroad	Low	550,000	450,000
international students	Low	301,000	90,500

**Diversification:** Diversification aims to deliver new products in new markets. This mainly accounts for unrelated products. For a long term sustainability issue – especially in the online marketing space – it makes sense to move into new markets with new products.

## Marketing Plan

### Who is the customer?

The Swedish leg of the business and indeed the initial market entry is a small market. There are approximately 27 000 (SCB 2011) swedes per year taking out a student loan for studies abroad, a figure that has remained fairly stable over the last couple of years. As previously mentioned there are 8 100 people searching for the keywords “studera utomlands” on Google each month. Obviously, this does not indicate that there are 97 200 different people (8100 x 12) that do searches in one year for “studera utomlands”. There is an unknown number on how big the retention rate is regarding how many of the prospects that do a second, third or fourth search on Google.

In any case, the study abroad niche is interesting because it is virgin territory to online marketing. The tools that are available to an online marketer has not been fully utilised for this market, this brings about positives and negatives. One online marketing tool is digital information products i.e. an eBook.

For the short amount of time the website (went online March 31<sup>st</sup> 2011) has been operational the response has been positive from the people who has integrated with the information on the website, (the eBook has not been made available for sale during the writing of this business plan). Since the target market is young one can make the assumption that the receptiveness to consuming information digitally is high.

The target market for this project is 16 – 25 year olds, both men and women, who are thinking about or have decided to undertake their university studies in an English speaking country.

### **Communication with customer**

Up until the hand-in-date of the business plan there has not been a great deal of customer feedback due to the low amount traffic, however there has been some and an email received from a prospect is posted here:

*"Hallå där!*

*Gled in på din hemsida idag då jag surfade runt lite och tycker att den är grym. Bra och vettig info. Kunde inte låta bli att länka till din sida i min blogg, hoppas du inte misstycker."*

And a comment on an article I wrote on studying in Australia:

*"Underbar läsning. Jag är påväg för att studera Fotografi ett år i Sydney.*

*Tack och bock för inspirerande och kloka ord påvägen!"*

This is a validation that the content that is put out is of value, which is all a part of the brand building strategy.

### **Customer Acquisition Strategy**

In order to make revenue and profit the project needs to attract (buying) customers – and for the customers to buy they need to find their way to the website.

One of the cornerstones of online marketing is pull marketing<sup>5</sup>. Because if there is a problem that people are already looking for a solution to, then pull marketing suggests that one can present the solution in front of these people and if the offer is right there is likely to be conversions into purchases. Thus the amount of people actively looking for a solution on search engines is indispensable. In the study abroad niche there are 8 100 people each month sitting down in front of their computers typing in “studera utomlands” on Google. These people are looking for information on how to study abroad – and by narrowing the niche by providing a solution for people are thinking about or have decided to study in an English speaking country PU.info can give them a solution. The major challenge is to get these 8 100 people to visit PU.info and turn them into buying customers.

Essentially, there are three ways to get traffic to a website:

- Paid – Traffic from PPC<sup>6</sup> ads & Banner ads.
- Organic – Traffic from search engines.
- Referred – Traffic from other websites that are linking to the website.

Paid traffic is the fastest way to get a large number of visitors to a website, the downside is that it can be expensive, in competitive niches it can cost from three up to 20 kr per click, sometimes more, and in start-ups such as this project, there is abysmal access to capital. Thus, the two types of traffic this project will focus on will therefore effectively be organic and referred traffic, because this can be realised at minimal cost.

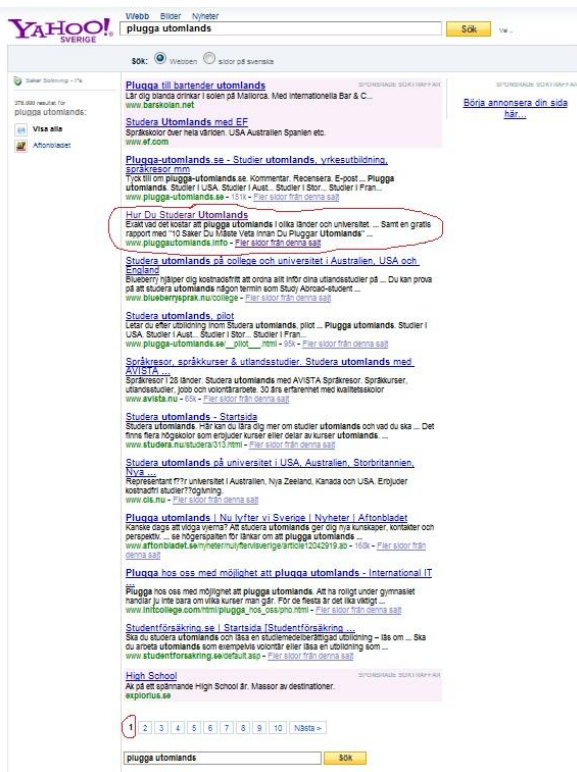
Organic traffic takes a long time to optimise in order to achieve a top ranking in search engines such as Google. However, it is likely the most long-term and inexpensive method to create a sustainable source of traffic. The way this project goes about this is primarily through article marketing. By posting highly valuable content on the PU.info blog, search engines pick these up and rank them separately from the “main” website – the challenge remains that prospects visiting the website must be converted to leads. This is done by incentivising them to sign up for the newsletter.

---

<sup>5</sup> When the demand for the product or service is pulling it through the delivery system. Applicable to uncrowded niches where the prospects are irrationally passionate.

<sup>6</sup> Pay Per Click – Ads that charge you when someone clicks on the ad. These are the ads that show up as sponsored links on search engines and Facebook.

The goal is to be in the top five ranking on page one on Google within five months. Google rewards websites with a higher ranking largely in two ways: frequently updated valuable content and the amount of backlinks<sup>7</sup> to the website.



Currently PU.info is ranked number two on page one in Yahoo! For the secondary keyword “plugga utomlands”. Unfortunately this does not reap the benefits it suggests because Yahoo! is not commonly used search engine. On Google PU.info is ranked on page ten for the primary keywords – which is the same thing as invisible. In order to have a website that can successfully rely on organic traffic the website has to be ranked on page one on Google. Hence, the question when entering a news niche is – can the top ten websites be beaten?

In the study abroad niche the answer is yes. The reason being that there are only three companies

that using the keywords “studera utomlands” who are aggressive in their marketing – Kilroy Education, allastudier.se and studentum.se. There has not been new entry in the study abroad niche for several years, as such it appears that the remaining companies likely have grown comfortable and PU.info is already getting good rankings with the secondary keyword, even on Google. However it will take time.

At the time of writing the project has ten backlinks, with one recently added by Lund University on their Entrepreneurship alumni page. Nonetheless, many more backlinks are necessary in order for Google to highly reward the website. A challenge is the smallness of the niche, consequently there are not a great amount of related websites on which to get a link to PU.info posted on. A prevalent way to get backlinks to post helpful answers on forums with a link to the website at the end, assumed there are several related forum for the niche.

<sup>7</sup> Referred traffic. Another website posting a link pointing to your website.

When the project starts to make revenue, capital will be invested into paid traffic, until this takes place the project will embrace organic and referred traffic wholeheartedly as a means to get money.

### **Turning prospects and leads into buyers**

In essence there are two ways to make sales in online marketing – by converting cold or warm traffic. Cold traffic refers to prospects visiting the website for the first time and warm traffic is customers that have a relationship with the seller. Warm traffic is generally result in higher conversion rate than cold traffic, therefore it of great interest to have a sales funnel in place the takes the prospect through a process that has the sales proposition in the end instead of at the beginning.

### **Market trends and development**

In order to prove the soundness of information products the example of eBooks and audio books will be presented. In 2009 eBook sales grew 71%, fictional book sales dropped 15% and 90% of people do not read eBooks yet. Moreover, in 2009 eBooks turned over \$170 million in the U.S alone and the self-help industry is a \$13 billion a year industry.

Furthermore, one estimate suggests that the overall world wide information industry is over \$400 billion (Pagan, 2010; idpf.org, 2010). Furthermore, the Association of American Publishers revealed in their latest report that eBook sales in February 2011 were \$90.3 Million overtaking sales of paperback books at \$81.2 Million (Telegraph, 2011).

The Audio Publishing Association indicates that total market size for audio book is close to \$1 Billion, and has been growing at approximately 5% a year, with digital downloads making up 21% in 2008 up from 17% in 2007 (APA, 2009). In conjunction with the rapid inflow of E-readers, computer tablets and smart phones one can safely assume a continuous upward trend for digital consumption of information.

These statistics proves that information products are in a healthy state and is a growing market and thus justifies a market entry.

The project will create and sell information products in the Swedish study abroad niche. This niche contains 27 000 people (SCB, 2011) – which are the people who go and study abroad each year. Approximately 12 000 of these go to English speaking countries. The

project will in its first year of operations release two products to this market: one book (distributed as a downloadable eBook) and audio program version based on the content of the book (will also be downloadable). Compared to last year the amount of people studying abroad increased from 25 000 to 27 000 in 2010 according to SCB (2011).

## Industry analysis

The current business model of the competitors is as follows: for example the competitor GoStudy acts as an intermediary between the prospect and the university where GoStudy has worked out partnerships with several different universities in several different countries. By recruiting students to these partner universities GoStudy gets paid a commission. The reason why companies like GoStudy can exist is because there is a price gap between domestic and international students. Universities are generally allowed to charge a higher tuition fee for international students than for domestic students. By extension this setup will lead to increased revenue and potentially higher competitiveness due to universities maximising their international student quota.

The intermediary companies such as GoStudy earn their revenue by collecting leads of potential customers who want to study abroad and taking them through their sales funnel with the end goal of the prospect applying and getting admitted to one of the universities that GoStudy has a partnership with. When the customer gets admitted to a partner university GoStudy earns a commission from that university. This is the competitors' major revenue stream. However, there are supporting revenue streams to the business model such as translation of Swedish high school grades and an application fee that is withdrawn upon submitting the application.

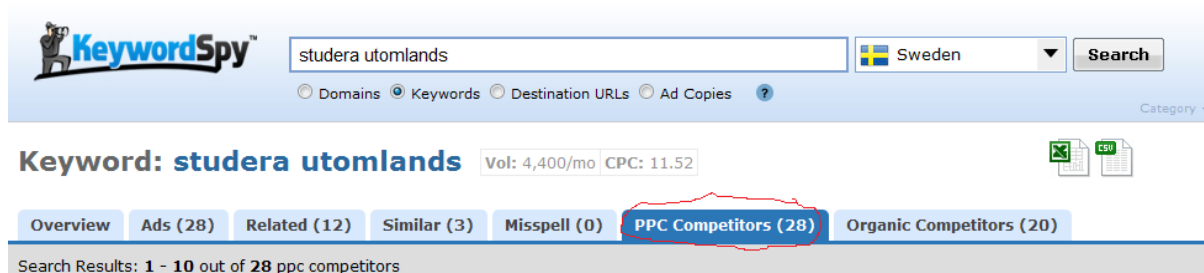
Above explained business model is used by the four leading competitors – GoStudy, StudyAbroad.se, Blueberry Språk and Kilroy Education.

At a secondary level there are companies offering language courses and stand-alone courses at various educational institutions in numerous different countries such as STS, EF and Avista.



Thirdly, there is there is a recently opened website called allastudier.se which is a website owned by MTG whose business model is the most similar to this venture. It is an article based website that that takes in free lancers, volunteers and other forms of guest writers to have articles published on studying abroad. But studying abroad is not their main focus, the website is a student portal for news and information concerning student life and education. It is completely based on selling advertise space. Furthermore, allastudier.se does not package their information in any way and resell it. Their business model is to get as many visitors as possible so they can charge the highest amount for advertising space as possible.

It is difficult to estimate the exact value of the market since there are no industry reports being released or to find out the financials of the competitors because none of them are traded publicly. However some safe assumptions can be made – for instance the market is highly active with approximately six incumbents serving the market in different segments with the latest addition being MTG’s article website allastudier.se. The intermediary market segment appears to be doing well, this can additionally be validated by the fact of the amount of Google Adwords that are being shown for the keywords related to this niche. According to KeywordsSpy there are 28 Adwords competitors for the keywords “studera utomlands”, see image below:



For a relatively small niche of 8 100 searches a month it has 28 active advertisers which indicate that it appears to be a lucrative niche – otherwise it would make sense that there would be no advertising nor companies operating within this market.

## Supply chain

There are no products (physical or digital) currently being made to serve the study abroad market - it is a completely service/knowledge based market where intermediary companies sells the service or “package” of taking the prospect from thinking about studying abroad to actually being a foreign country studying – the communication with the intermediary

companies often through email or by telephone. But the intermediary companies do handle everything if the prospect decides to apply to one of their partner universities.

The intermediary market value chain looks like this:

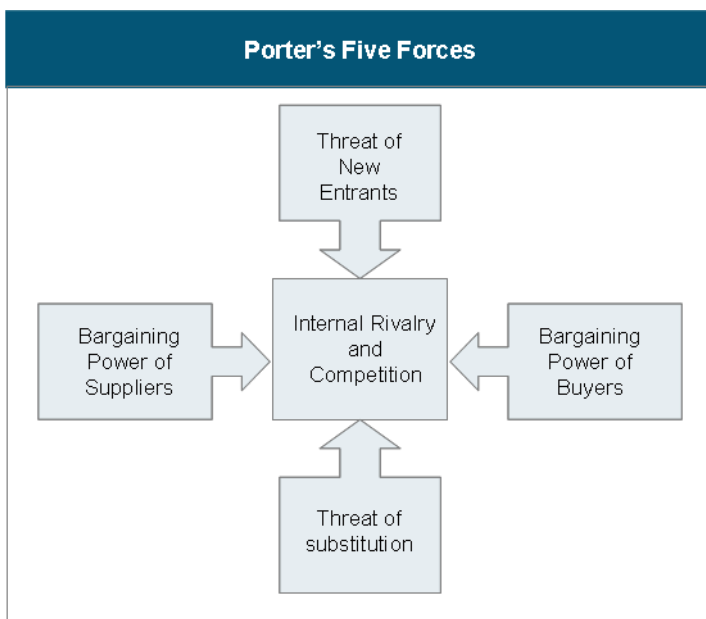
Potential students → Companies selling the “opportunity” to study abroad → Partner universities ← Commission to company per delivered student.

In general the intermediary company receives a 15% to 30% commission of the first year's tuition fee from the university per student they recruit to the partner university (agent, 2010).

### Porter's 5 Forces

Following is an analysis of the market utilising Porters 5 Forces. However, there are two different aspect of the market, firstly the intermediary market and the “products” market which this venture is aiming for.

This project will not attempt to provide any intermediary services to universities – instead its purpose is to provide information products to people who are thinking about or have decided to undertake their university studies abroad. Thus the Porter's 5 forces model will look at the market from this point of view.



**Threat of new entries:** the challenge and at the same time the opportunity of online marketing is that the entry barriers are virtually zero in capital cost. Anyone with a computer, internet connection, a willingness to learn and tenacity can be a competitor.

The trick is to find uncrowded niches and subsequently the niche needs to accommodate the following

customers:

- Passionate

- Great in number
- Easily reached (online)
- Proven buyers

(Kern, 2009)

The Swedish study abroad market ticks all of these requirements except for great in number. Currently this market consists of 27 000 people (SCB 20011). Therefore utilising the Ansoff growth option matrix as discussed at page 9 is of paramount importance for long-term sustainability.

**Bargaining Power of Buyers:** The bargaining power of buyers is high. The reason being that the project is a completely internet based, consequently the customer is in total control.

According to a Canadian research team customers form an opinion if a website is appealing or not in 50 milliseconds (20<sup>th</sup> of a second) (BBC News, 2006). With this fraction of a second to make an impression and reason for the potential customer to stay on the website and do a call to action and turn the visitor into an actual customer is not an easy task. Thus the customers are in total control and can go to a different website within the blink of an eye if they find the website unappealing in any manner.

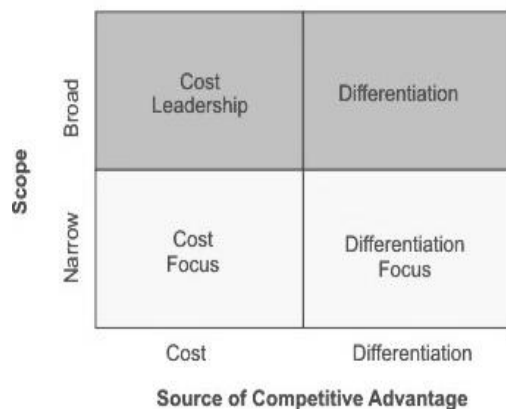
**Bargaining Power of Suppliers:** The bargaining power of suppliers in the online marketing industry is low, because often there are no suppliers. The entrepreneur is (generally) not dependent on suppliers in order to make sales. In some cases (especially in the affiliate marketing space) the entrepreneur is reliant on products and/or services from other companies that the entrepreneur is selling on a commission basis, but that is often regarded as a partnership rather than a supplier-seller relationship.

**Threat of substitution:** The threat of substitution is high and the reason is due to the infinite choice on the internet. However, in this particular study abroad niche the threat of substitution is low because the PU.info has no direct competitors offering information products on how to study abroad. The prospects could turn to the intermediary companies in order to get help to solve their problem, but the intermediary companies are only interesting to a prospect if the prospect wants to study at any of the partnering universities. There is a gap in the market where nobody has capitalised on selling “packaged information” on how to study abroad that is a one-stop-solution.

**Internal Rivalry and Competition:** Kilroy Education is by far the most aggressive player in the market and is using internet marketing such as PPC ads and Banner Ads extensively and is bidding on 569 keywords according to keywords.py.com. With the exception of allastudier.se the other companies are practically doing no marketing, a part from word of mouth.

It would be reasonable to assume that the competition among the three top intermediary companies is quite fierce since the market is small. Nevertheless, it appears to exist cohesion among the top three competitors as a sign of comfortableness and a lack of being challenged.

### Company positioning



In order to conduct a successful positioning of the project one can utilise Porter's Generic Strategies which consists of four different routes one can take to achieve competitive advantage – this is displayed in the image to the left:

This venture will position itself through a differentiation focus route. According to Kotler et al (2006) differentiation concentrates on achieving superior performance in an important customer benefit area valued by a large part of the market. The firm cultivates those strengths that will contribute to the intended differentiation. The focus of the business is narrow and the venture focuses on getting to know its segments intimately and pursues differentiation within the target segment.

Furthermore, a differentiation strategy is appropriate when one does not want to compete on price. This can be anchored in the assumption that the target market wants to minimise their buyer's remorse due to the high-involvement purchase they are about to undertake as in “buying” a Bachelor degree in a different country. Thus, the prospect wants to make sure that the decision is a right one. This scenario justifies a differentiation strategy and competing on non-price factors.

## Market strategy

### Target market

The target market for this project is *16-25 year old, men and women, who are thinking about or have decided to undertake their university studies in an English speaking country.*

In Sweden the average university graduation age is 27 compared to the UK where it is 24 (Eurostat, 2007) Thus it is important to capture the prospects before they commence university. The reason why English speaking countries were chosen is because it makes up the biggest host countries for international students. Moreover, the project is targeting prospects that already have the seed planted within them to study abroad, as such this project is going after prospects that are already actively looking for a solution as opposed to a “shotgun” approach and randomly market to prospects.

### The offer

The initial product and offer will be a book written by the founder that will cover all aspects of studying abroad – from core needs such as how to apply to a foreign university, how much it costs to more peripheral needs such as social integration. The book will be digitally distributed as an eBook and in a later stage also as an audio book or audio program.

Currently there are no competitors offering any similar products – the closest substitution offered is counselling with the agents (the intermediary companies) – who are partial in the sense that they get paid per student recruited. In addition, there are about ten books available on amazon.com, but the majority of the books were published more than five years ago. Thus, this indicates that the project has no direct competitors for this particular segment of the market.

### Pricing strategy

Kotler et al (2006) discusses a price strategy referred as *Perceived Value-Pricing* where the pricing is based on the customer’s perceived value. The variable being that customers must accept the value proposition conveyed by the project, and the perceived value is made up by several different elements, such as the image/perception of the performance, deliverability, warranty quality, customer support and softer attributes such as reputation and trustworthiness.

This project aims not to compete on price, but through differentiation, hence great emphasis is put on the perceived value, customer experience and relationship marketing. The promotion and copywriting leading up to the sale of the product, is amongst other things, addressing the value proposition and building it high. Using the book as an example:

*“...If you were to collect all the information gathered in this book by yourself you would need to spend minimum two hours each day for three months in order to find the proper information on which to base your decision. Information that you don't know is accurate or where to find not miss out on opportunities. Do you have the kind of life where you can dedicate this time?”*

*... If you were to consult with me on a 1-to-1 basis in order for you to get all the information you need to go and successfully study abroad at the best possible fit tailored for your needs that information would cost you 30 000 kr.”*

This is one way to build value, when the price of the book is later revealed at, for example 497 kr that appears to be an economical and intelligent way to solve the prospects problem instead of an expensive book on how to study abroad.

Furthermore, it is important to remove all the risk for the customer when they are purchasing to maximise conversion rates. This means, for instance, offer a 100% money back guarantee no questions asked policy.

### **Sustainable competitive advantage**

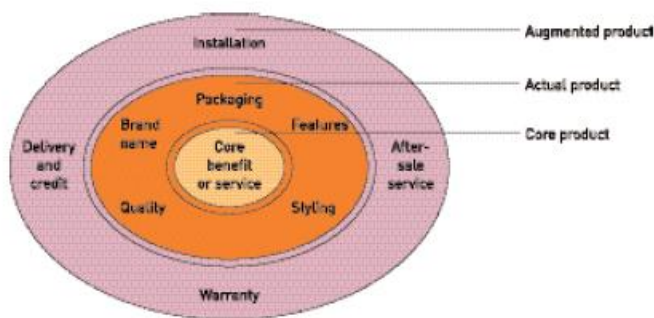
To create a sustainable competitive advantage (SCA) in the online marketing industry is notoriously difficult, especially in the long-run, the reason being that the entry barriers are almost non-existing. However, in terms of the firm's well-being and staying ahead striving for SCA is pivotal.

The theory of Resource Based View (RBV) offers an insight into how a firm can gain competitive advantage. RBV identifies four critical resources that are likely to influence if a firm will achieve SCA (Barney et al 2001) which are displayed below:

- Valuable
- Rare
- Inimitable
- Non-substitutable

If a firm achieve these resources for its products and services a competitive advantage is reachable. However, from an online marketing perspective these resources are difficult to achieve. Online marketing products and services resemble fashion in how its marketing is conveyed to its audience. Take for example denim jeans – low barriers to entry and denim jeans companies all have the same core product. Hence the room for differentiation is in the actual and augmented product.

An image of the product make up is displayed below:



(source: Kotler et al 2006)

Differentiation of products are available when customers have had their physical and safety needs fulfilled, according to Maslow's hierarchy of needs, and the customer is looking to fulfil his or her social, ego/esteem and self-actualisation needs. Differentiation plays a significant part in order to appeal to a customer's social, ego/esteem and self-actualisation needs and is also what makes product differentiation possible.



(source: <http://static.theurbn.com/wp-content/uploads/2010/08/MaslowHierarchyofNeeds.jpg>)

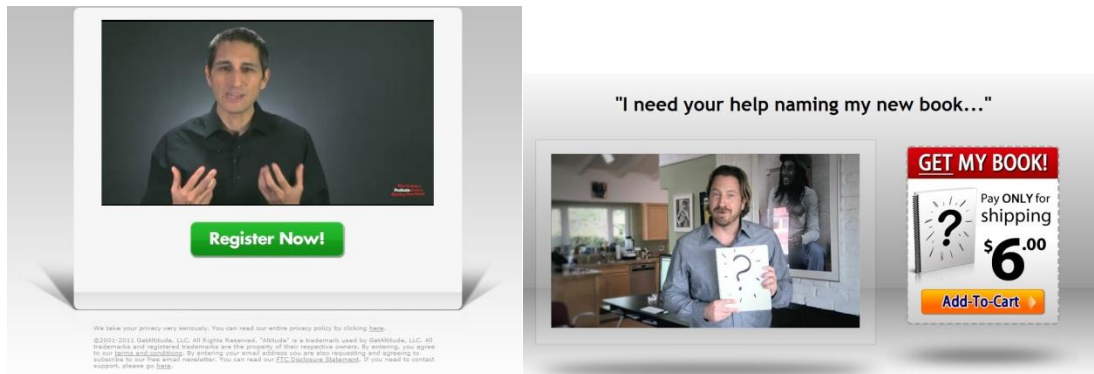
Ultimately the prospects of the project are looking to study a Bachelor degree abroad, and judging from Maslow's hierarchy of needs this purchase is likely to appeal to their ego/esteem and self-actualisation needs, hence the very top of the pyramid, making it a high-involvement purchase. It is of great importance to incorporate these needs in the packaging of the products and according to Kotler et al 2005 (European) the actual product can be differentiated in brand name, packaging, features, styling and quality.

Everything else being equal, by differentiating the attributes mentioned above it presents an opportunity to achieve the resources proposed by the RBV to gain (at least temporary) SCA.

Branding is one of the most used product differentiator. Kotler et al (2006 ) suggests that a brand is a combination of names, terms, signs, symbols, designs and by leveraging these attributes correctly one can add value to a product. Branding also increases innovation by giving firms an incentive to look for new features that can be protected against imitating competitors. In the online marketing world this is generally administered through the use of one person as a figurehead (often the founder) and after-sales services through the use of relationship marketing.

Below are two images illustrating how figureheads are used as a method of brand differentiation by the online marketing most successful marketers Eben Pagan and Frank Kern:





However, there is a risk of heavily relying on a person in the branding – if the person is not charismatic or engaging it might pose challenges and deter potential customers. Furthermore, if that person does something that damages his or her reputation the business is likely to suffer. In spite of this, this venture will utilise its founder for various brand build exercises and to solidify the relationship with the prospects.

Moreover, relationship marketing in online marketing refers to the relationship that the marketer is having with its customers. By setting the right expectations, build trust and create great value customer loyalty is likely to increase and in turn result in repeat buying.

### Can other companies benefit from this venture’s market entry?

Currently no one has fused online marketing and the study abroad niche, as such this opens up a new segment. Consequently the products the project creates can be used to expand the niche as a whole by utilising affiliate marketing, by approaching other companies within the niche to sell PU.info’s products for a commission. That will increase revenue both for the participating companies and for the project.

### Protection

As this project is not based on a technology or a technical solution protection such as a patent is not available for use. The protections available for this project are:

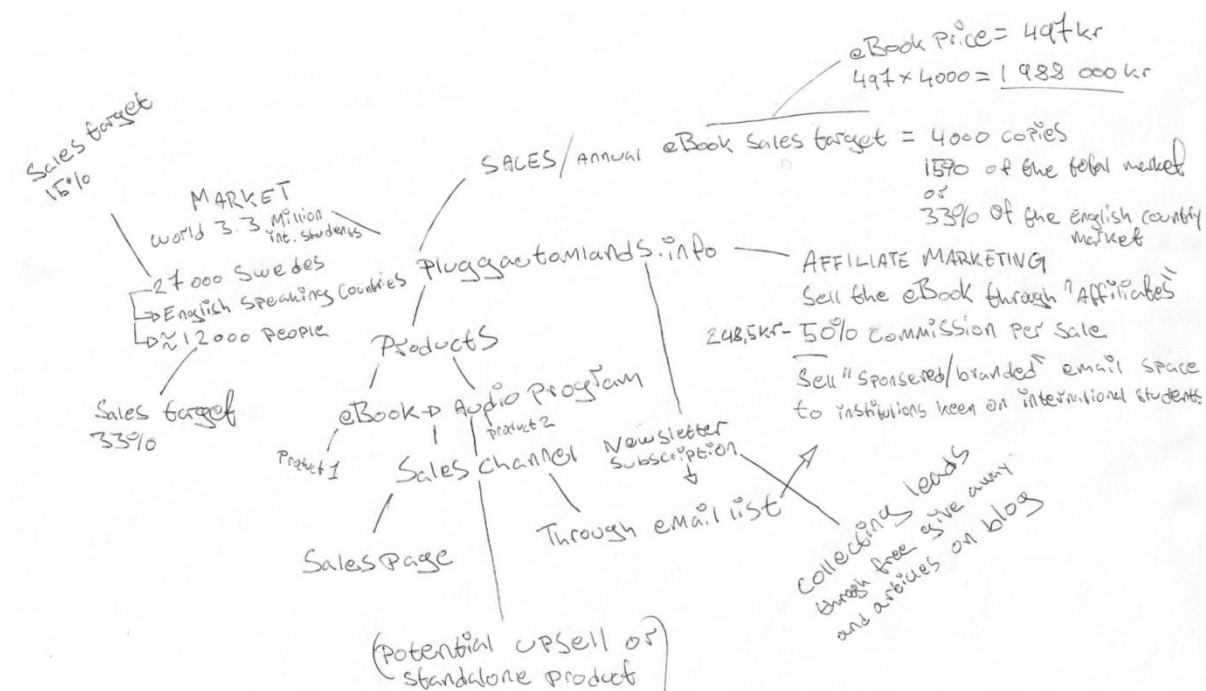
- Trademark (Protect the overall branding and the name and logos for the products)
- Design Protection (Protect the design, shapes and patterns of products)
- Copyright (Exclusive rights granted the creator of an original work – the right to copy, distribute and adapt the work)

The project intends to utilise all these avenues in order to protect the business and its operations from competitors. However, it shall be noted that since PU.info's products are going to be digital they are greatly exposed to the risk of piracy.

## Environmental policy

During the crafting of the vision for this venture there has been no conception of physical products (at least for the overseeing future), PU.info is a 100% internet based all digital project. Due to this the environmental repercussions are minimal. Even though this is the case, the project will not incorporate an "eco-profile" into the branding.

## Business model



Above business model illustrates three revenue streams:

- The selling of the eBook at the price point 497 kr (and other products).
- The selling of the eBook through the use of affiliates at commission rate 50%.
- The selling of advertising space on the project's list of leads and potential customers.

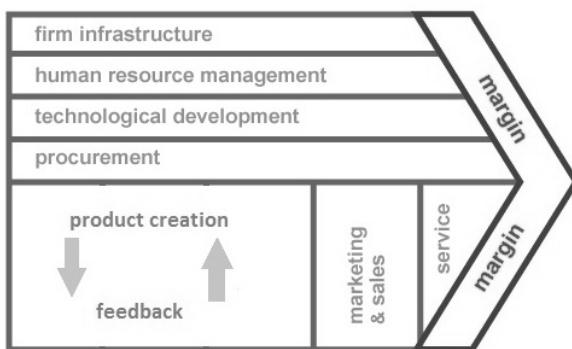
## Value chain

The purpose of the value chain is threefold.

1. To monitor the flow of material from input supply to final consumption. Products should be pulled by the consumer through the chain, not the other way around that constitutes a poorly designed value chain.
2. How well information flows from the consumer back to the producer and the different stages of the value chain.
3. Relationship and trust is the fundamental enabler.

(Kent, 2010)

The value chain of the project is displayed in the image below:



The major difference from a conventional business from an internet based business is the difference in logistic operations – since there will be no physical products as they will be in a digital format there is no need for material input, warehouse, stock and everything that is related to physical

production. This is replaced with a creative process of a perpetual loop of product creation and feedback from customers.

However, the remaining areas of the value chain are left intact in order to construct business systems that enable a lean value chain where the products are pulled through the chain by the customer and not the opposite as point one of the purpose of the value chain suggests.

Point two refers to how well information comes back to the producer. This step is essential in the creative process and is signified as the feedback in the loop. By adhering to what the market says it wants is a safer way to increase conversion rates and create customer loyalty than coming up with products at random or guessing what the niche or market needs.

Point three talks about relationships. In online marketing relationship is of paramount importance for long-term sustainability. When there is an on-going relationship with the customers where they are engaged and have a say in your business it creates a sense of community which can be leveraged for customer loyalty and furthermore into repeat buying

when new products are released. Moreover, as in any business, relationship and trust is of great importance when building partnerships.

### **Status of operational activities**

In the writing of this business plan all activities are performed within the company, this is due to the lack of revenue in order to purchase outsourcing capabilities. However, due to the nature of the business this is a feasible undertaking since its operations are small scale and no advanced algorithms are involved – all skills needed are learnable in reasonable amount of time. Though the learning curve is substantial and is prolonging activities that would otherwise have been completed in a much faster pace if outsourcing would be used. But at this point in time there are no other options than to letting the founder do as much as possible, bootstrap, use bricolage and being highly creative to getting things done.

The trade-off of learning the skills to conduct the business opposed to having them outsourced is that even though the activities takes longer to perform, having the actual knowledge cannot be measured monetarily and will allow a greater sense of control.

However, as the business grows outsourcing and delegation become essential functions as the founder needs to focus most of his energy to more strategic level decision making.

### **Potential collaborations**

A potentially large stream of revenue is what will be coming from commission based sales, i.e. affiliate marketing. Thus collaboration and partnerships is of great importance to the project. However, as online marketing is a new segment in the study abroad niche there are no other directly related companies to partner up with. As such, other related companies have to be taken into consideration, this could be student portals like studentum.se, student magazines and possibility one could involve the intermediary companies in some way.

## Organisation



Founder & CEO  
Jonathan Peterson  
Msc Entrepreneurship  
BA Business with Marketing  
Former Customer Logistics Manager at Ericsson & SCA

Jonathan's primary role in the project is business architect and product developer as well as running the day-to-day activities of the business.

## Recruitment plan

As the company grows new expertise and skills are needed to be brought into the company in order for it to expand. Felix Dennis (2010) suggests a rule of thumb that one shall never hire a new employee unless he or she will increase revenues seven to ten times the salary of the candidate. A rule of thumb that appears to be a wise strategy to follow.

## Values

The intention of the founder is to create a culture that supports productivity, innovation and risk taking. To transfer this culture into a concrete set of inspiring words is difficult but the culture should be manifested through the values of Raving Fun, Awesome Value and Sweat!

## Future vision

The company plans to go big. Skills that the company acquires in the process of establishing itself in the study abroad niche are not exclusive to that niche but rather transferable to other niches and markets as well. When the study abroad niche has matured and the business unit has been turned into a self-going asset, focus will be turned into a new niche – market development is the closest growth opportunity by launching information products in the study abroad niche for the American market. Please refer to the Ansoff matrix at page 9 for a more in-depth analysis of growth options. The company has to turn to a growth option rather fast because the study abroad niche will quickly be saturated due to its small number of occupants.

The long-term vision of the company is to create one of the top five online marketing companies in the world within ten years. By combining expertise with the packaging of online marketing allows and entering uncrowded niches where the customers are passionate, great in number, easily reached and proven buyers and with a lot of sweat chances are this this venture will turn into a success.

## **Implementation**

### **Developmental status**

At the writing of this business plan the website is up and running –

<http://pluggautomlands.info/hem>. Currently the main focus of the website is to collect leads, this is done by offering the visitors a free report named “*10 Saker du måste veta innan du pluggar utomlands*” in exchange for their name and email.

The first product – the eBook (no title yet) is 90% complete and will be approximately 50 000 words and can be completed in a week’s time given sufficient time and dedication.

### **Financials**

Please view next page for profit and loss statement.

## Profit and Loss Statement

<Plugga Utomlnds.info>

Fiscal Year Starting <2011-07-01> ending <2012-07-01>

Gross margin [L/J]	100,0%
Return on sales [T/J]	73,9%

	Year 1	Year 2	Year 3
--	--------	--------	--------

### Sales Revenue

eBook Sweden (1500 copies)	745 500	745 500	745 500
Audio Program Sweden (300 copies)	209 100	209 100	209 100
eBook USA (assumption 10 000 copies x \$77 ~ 485 SEK)		4 858 854	4 858 854
Audio Program USA (assumption 1000 copies x \$97 ~ 612 SEK)		612 000	612 000
<b>Total Sales Revenue [J]</b>	<b>954 600</b>	<b>6 425 454</b>	<b>6 425 454</b>

### Cost of Sales

eBook Sweden	0	0	
Audio Program Sweden	0	0	
eBook USA		2 000	
Audio Program USA		1 000	
<b>Total Cost of Sales [K]</b>	<b>0</b>	<b>3 000</b>	<b>0</b>

<b>Gross Profit [L=J-K]</b>	<b>954 600</b>	<b>6 422 454</b>	<b>6 425 454</b>
-----------------------------	----------------	------------------	------------------

### Operating Expenses

#### Sales and Marketing

Advertising	5 000	50 000	
Paypal (charges 3,4% per sale and 3,25kr)	7 589	53 965	
Video Production		40 000	
<b>Total Sales and Marketing Expenses [M]</b>	<b>12 589</b>	<b>143 965</b>	<b>0</b>

#### Research and Development

Technology licenses			
Patents			
Other expenses (specify)			
Other expenses (specify)			
<b>Total Research and Development Expenses [N]</b>	<b>0</b>	<b>0</b>	<b>0</b>

#### General and Administrative

Wages (Y1 0 Employees, Y2 2 employees, Y3 4 employees)	300 000	1 140 000	1 680 000
Domain name & Webhosting	360	1 000	
Digital Payment Delivery System	30	100	100
Rent		144 000	
Utilities & Equipment		50 000	
Insurance		20 000	
Repairs and maintenance		20 000	
Other expenses (specify)			
<b>Total General and Administrative Expenses [O]</b>	<b>300 390</b>	<b>1 375 100</b>	<b>1 680 100</b>

<b>Total Operating Expenses [P=M+N+O]</b>	<b>312 979</b>	<b>1 519 065</b>	<b>1 680 100</b>
---	----------------	------------------	------------------

<b>Income from Operations [Q=L-P]</b>	<b>641 621</b>	<b>4 903 389</b>	<b>4 745 354</b>
---------------------------------------	----------------	------------------	------------------

<b>Other Income [R]</b>			
-------------------------	--	--	--

#### Taxes

Income taxes	156 203	592 800	
Corporate Tax	168 746	1 289 591	
Other taxes (specify)			
<b>Total Taxes [S]</b>	<b>324 949</b>	<b>1 882 391</b>	<b>0</b>

<b>Net Profit [T=Q+R-S]</b>	<b>316 672</b>	<b>3 020 998</b>	<b>4 745 354</b>
-----------------------------	----------------	------------------	------------------

## Comments to profit and loss statement

As one can tell from the profit and loss statement in year three all the numbers are not entered. The reason for this is that there is no conception in the founder's mind how the business will look in three years' time. Writing down products and sales numbers would be a 100% guesswork not anchored in any rational information. Thus the choice was made not to enter numbers as it would be unusable.

However, the founder argues that the average case of selling 1500 eBooks and 300 audio programs are in line with a realistic expectation for year one. 1500 eBooks represents 5,5 % of the total study abroad market and to reach this goal four eBooks a day have to be sold.

The trick is to figure out how many visitors are required to reach four sold books per day – this is the conversion rate. A guesstimate for this number is about 100 visitors a day.

## Risk

### SWOT-analysis

#### Strength

- Driven & Passionate Entrepreneur
- Proficient Online Marketing Knowledge
- Low Operational Costs
- Transferable Acquired Skills
- High Profit Margin
- Unique Product/Market Knowledge

#### Weakness

- No Capital Available
- One Person Running the Company

#### Opportunity

- Become Market Leader in New Segment
- Sell Products Through Affiliates
- Make Deal With Publishing Company
- Low Start-up Costs

#### Threat

- A. Small Niche
- B. Getting insufficient Traffic
- C. Failure to Convert Traffic to Sales
- D. Competitors Take Notice and Copy the Business Model
- E. Low Start-up Costs = ∞ Potential Competitors
- F. Piracy

## Risk Assessment

The previous heading expressed the major threats likely to influence the venture, all with a varying level of risk. The threats are marked with letters in order to take part in the risk assessment below:



	Probability	Consequence	Result
A)	3	3	9
B)	2	3	6
C)	2	3	6
D)	1	2	2
E)	1	1	1
F)	3	1	3
Total			26 of 54

The result of the risk assessment is 26, which is just under 50%, based on this the founder argues that the venture is not a risky investment. From a financial standpoint there is almost no risk. The biggest risk lies in not making in any sales, primarily this depends on the amount of traffic the website can generate and of how much of that traffic can be converted into buying customers. To combat this, a sophisticated sales funnel is needed to be implemented that evolves as the business grows through market data becoming available and optimise using that market data.

There is a probability that indirect competitors take notice of the products that PU.info will be selling and will try and do the same. That would not be a great situation for this project and if such a counteract takes place it would likely eat up sales from PU.info. A possible solution for this not to take place is to work out a partnership deal with the indirect competitors where both parties can benefit, such as allowing them to sell the PU.info's products as affiliates for a commission or giving them the right to buy leads from the email list.

Even though there is an infinite amount of potential competitors, in practice the number is not infinite. There are several pieces that need to come into play before a real competitor launches. They would need to have the knowledge about the market and about online marketing, have the drive and energy to do it, and the biggest deterrent – write an entire book. Thus, this is a low probability risk.

PU.info strongly opposes piracy. Nevertheless, the project realises the immense task of controlling and trying to stop piracy from taking place so in reality the venture will have a laissez-faire implementation of actions against piracy. Instead the project argues that the best

defence against piracy is to create and release new products on a regular basis and instead see it as an honour that the project's products get pirated – as a validation of quality. The amount of revenue and energy that needs to be spent on fighting piracy can rather be spent on coming up with new products and services to create additional revenue.

### **Three case financial scenario**

The eBook will be priced at 497 kr.

The audio program will be priced at 697 kr.

To view pricing strategies refer to page 20 and the profit and loss statement at page 30.

Below follows a three different scenarios for the first year sales. The objective is to sell 4 000 copies of the eBook and 1 000 copies of the audio program. All the numbers are gross:

Worst: 100 Audio Programs, 500 eBooks = 318 200 kr

Average: 300 Audio Programs, 1500 eBooks = 954 600 kr

Best: 500 Audio Programs, 4000 eBooks = 2 336 5000 kr

The business plan is designed for the average scenario.

## Bibliography

agent, M. e. (2010). *Opportunities for International Student Recruitment Agency*. Retrieved from <http://www.myedagent.com/forum/topics/opportunities-for>

Barney, J., Wright, M., & Ketchen, Jr, D. J. (2001). The resource-based view of the firm: Ten years after 1991. *Journal of Management*, 625-641.

Centralbyrån, S. (2011). Retrieved from Allt fler svenskar studerar utomlands: [http://www.scb.se/Pages/PressRelease\\_\\_\\_\\_310567.aspx](http://www.scb.se/Pages/PressRelease____310567.aspx)

Eurostat. (2007). Retrieved from Average age of university graduates: <http://epp.eurostat.ec.europa.eu/portal/page/portal/education/data/database>

forum, I. d. (2010). Retrieved from International digital publishing forum: [www.idpf.org](http://www.idpf.org)

forum, T. a. (2009). Retrieved from Industry data: [www.audiopub.org](http://www.audiopub.org)

Kent, U. o. (2010). *Value Chain Analysis*. Retrieved from [http://www.youtube.com/watch?v=n6FIX\\_sz-t0&feature=mfu\\_in\\_order&list=UL](http://www.youtube.com/watch?v=n6FIX_sz-t0&feature=mfu_in_order&list=UL)

Kern, F. (2009). *How to find something to sell*. Retrieved from <http://masscontrolsite.com/blog/?p=60>

Kotler, P., & Keller, K. L. (2006). *Marketing Management*. Pearson Education.

Kotler, P., Wong, V., Saunders, J., & Armstrong, G. (2005). *Principles of marketing* (4th ed.). Pearson education Limited.

News, B. (2006). Retrieved from First impression count for web: <http://news.bbc.co.uk/2/hi/technology/4616700.stm>

Nyheter, D. (2011, 04 01). Retrieved from Studier utomlands bör underlättas: <http://www.dn.se/nyheter/sverige/studier-utomlands-bor-underlattas>

Pagan, E. (2010). Retrieved from <http://gurublueprintblog.com/>

Schwartz, B. (2005). *The paradox of choice*. Harper Perennial.

statistics, N. c. (2005). Retrieved from <http://nces.ed.gov/ipeds/pas/index.asp>

Telegraph, T. (2011, 04 16). *eBooks overtake US paperbacks*. Retrieved from <http://www.telegraph.co.uk/technology/news/8454702/eBooks-overtake-US-paperbacks.html>