



LUNDS UNIVERSITET

THEORETICAL REFLECTIONS

BUSINESS IDEA ANALYSIS:
KNOWING WHEN TO PULL THE
PLUG ON YOUR UGLY BABY

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KEYWORDS

Auto-ethnography, entrepreneurship, innovation, failure, business opportunity, evaluation, feasibility, exit strategy.

ABSTRACT

In this paper, I reflect on the way entrepreneurs evaluate business ideas to either pursue them or let them go. I reflect on the efficacy of the current theoretical proposals in the field of Entrepreneurship when applied on their own and combined, in the context of new business ventures.

The motivation behind writing this reflection comes from the several occasion when I have had to evaluate the feasibility and desirability of business ideas. I explore the efficacy of the opportunity analysis plan, the business plan and the simple effectuation approach as methods to evaluate an idea.

The analysis comes from the application of these methods on four different business evaluations I did during my one year experience as a Mexican entrepreneur in the Swedish market.

A correlation has been found between the efficacy of the evaluation approach used and the complexity and amount of resources the venture requires.

PURPOSE

The purpose of this paper, is to make a reflection on the sufficiency of the current business opportunity evaluation methods, when used to assess a SME business idea. A proposal is made on the way to effectively use the methods.

ABBREVIATIONS

SME - Small and medium size enterprises

LUIS - Lund University Innovation System

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INTRODUCTION

The inspiration to write this reflection came from an article written by Wayne Chang, a self proclaimed serial entrepreneur that wrote an interesting statement: *“One of the most crucial skills any successful entrepreneur can possess is the ability to know when their baby project is ugly.”* (Chang 2011). I believe this statement to be true, but where comes this ability from and how can any entrepreneur develop it?

During the period comprehended between September 2010 and May 2011, I studied the Master Degree in Entrepreneurship at Lund University, a very challenging program in itself. A personal decision to apply the knowledge acquired during my studies far beyond the academic environment, made me start two different businesses during my studies.

The nature of this reflection is auto-ethnographic, therefore I will base my observations on the situations I experienced as a student and entrepreneur in Lund. This reflection is written within a theoretical framework, composed of literature analyzed during the master program, and also of other references I find worth mentioning for the purpose theoretical justification.

When starting a company in Sweden, there are three common situations that the entrepreneurs might find themselves into: starting the company as an intrapreneurial project, within an established firm, starting the company inside a business incubator or mentoring program and third, starting the company on their own.

I started the first company along with 3 other partners, all on “our own”, this meaning we had no support from an incubator. The second company was born within the framework of a business incubator as the result of me and my partner joining the business coaching program called the Mobile Heights Business Center. This company has a different team.

PROBLEM DISCUSSION

Is my baby ugly? it is a question that many inexperienced entrepreneurs ask themselves, only after having invested a considerable amount of effort and time to get a business idea rolling. From my personal experience, I know that asking the question for the first time after that much effort can be an emotionally devastating

exercise; specially if faced with the reality that the business idea is not good and - after all- has no viable market.

Many entrepreneurs lack the necessary skills to lead a venture to success, this meaning their managerial and marketing capabilities among others may be very limited (Hisrich 2008). This renders the beginner entrepreneur, with their limited knowledge, unsuitable to properly evaluate the feasibility and desirability of the business idea he/she intends to pursue.

Entrepreneurial education is key on making an entrepreneur capable of such evaluation. Is it enough to have the academic knowledge on the different methodologies and available theory on business opportunity evaluation, to guarantee the pursuit of a desirable idea? How can beginner entrepreneurs use the currently available theory and tools, to avoid falling in the trap of pursuing an idea that is not worth commercializing? What is the role of experience in this critical evaluation of the business idea?

COMPANY 1 - EVENT PHOTOGRAPHY

The first company we started provides event photography services. The team is composed of four individuals with two different nationalities and different academic and work backgrounds. Two team members are German and two are Mexican, two are women and two are men, one is a freelance web developer, one is an economist with working experience as a consultant and two are electronics and computer science engineers, with a background in the Telecomm industry, project management and people management.

We started thinking about it while sitting in a famous coffee shop in Lund. Our German economist friend had just returned from his native town in Germany; Augsburg.

Having met a friend in Augsburg who told him about a business that was making millions of Euros in profit, he came back to Lund so deeply impressed with the idea that his enthusiasm around it was totally contagious while he was telling us about it at the coffee shop.

The four of us were sitting on the same table back in November 2010. Less than a month later we started directly planning the execution of the idea, no opportunity analysis was made or business plan written; we were following the recently learned effectuation approach at the Master program.

The inspiring business idea was the following; set up a web page that includes an event calendar and photo galleries. Send photographers to as many social events as possible and take high quality pictures of the assistants. Publish the pictures on the webpage, and after building a significant user base -we never had goals or estimations- sell advertising space on the webpage to Swedish companies targeting the market of students in Lund. The beauty of the idea and the simplicity around it made it irresistible to our unexperienced entrepreneurial minds. The webpage went online on February 4th, 2011. As of today, May 30th, the webpage is online and business operations are ongoing.

After four months of operation, our company has paying customers and several student event organizers as partners, that give our photographers free access to the student events in Lund. Our final user base is modestly growing, having for the moment almost 3,200 absolute unique visitors to the webpage each month.

COMPANY 2 - COMMUTING SOFTWARE

The second company we started offers a software platform for commuters on their smart phones. The team is formed by two other partners besides me, one of them is also a founder on the first company I described. Two Nationalities can be found in this team, two Mexicans and one Swedish. There are two men in this team, I am the only woman. The academic and work experience backgrounds of the team members are quite varied, one of us has an academic background in business and counts with knowledge in fields such as marketing, finance and public relations. The other two team members are engineers with a background on electronics, computer science and the Telecomm industry. They also have experience in project management and people management.

The business idea developed from an idea we adopted from the Mobile Heights Business Center (Rojas 2011 Electronic Journal Week 6). Our software is a mobile application that will help people commute together in a single car, from home to the office and back in an easy way. Our approach with this idea has been very different to the initial approach we took with the first company we founded. Instead of going ahead and effectuating the execution of the business, we decided to take a careful and inquisitive approach (Rojas 2011 Electronic Journal Week 9). We decided to leverage the knowledge we had acquired during the master degree on opportunity analysis, so we started setting up meetings with potential customers to verify the feasibility of the idea. This unfortunately happened after deciding to sit down and write the complete business plan; we had to deliver the document to

meet the deadline imposed by Venture Cup Syd, a regional business plan competition (Rojas 2011 Electronic Journal Week 8). We spent several weeks visiting customers to verify the feasibility of the project. We got feedback in great quantities, and up to date we keep on getting it. We haven't abandoned our verification / co-creation approach which has been great at helping us get people's cooperation with the project.

THEORETICAL FRAMEWORK

“Entrepreneurship is a way of life, I think it is the pursuit of opportunities. Traditional definitions have stated that is creation of a new organization, that is the pursuit of an opportunity regardless of the resources currently controlled. I think it at Babson we take a more holistic view of it. Entrepreneurship is about pursuing opportunities, it is about acquiring resources, is about building a team, is about finding a market place and a core customer who is excited about the product that you have” (Zacharakis, 2008).

During an interview at a university in Guatemala, Andrew Zacharakis from Babson College defined Entrepreneurship as the pursuit of opportunities. Therefore, being the specific business opportunity the core of the whole venture, it is of paramount importance to evaluate the feasibility and desirability of the opportunity before continuing to fully work on it.

NEW BUSINESS ROAD TEST

Even though Entrepreneurship is a young branch of science on it's own (Landström 2010), some theories have been developed to evaluate the possible future success or failure of a new venture. These theories have explored different aspects of the venture to determine the odds of success. Some have studied the type of business model as the determinant factor of performance of the business (Malone 2006); others have explored the attractiveness of the intended industry and market like the “New business road test”. This test intends to help the entrepreneur do a quick analysis on the business idea, evaluating its feasibility and desirability before embarking on the task of creating a complete business plan (Ahlström 2007).

The criteria the new business road test analyzes are divided in two fundamental groups: the market and the industry. The model measures the attractiveness of both in a macro and micro level, going as deeply as the target segment benefits and attractiveness or the sustainable advantages of the business idea within the specific industry (Ahlström 2007).

The model also analyzes the team that will execute the business idea. This analysis is made in terms of ability and capability to execute the required tasks and also the aspirations and mission of the entrepreneurs. This analysis is complete as it studies the environmental factors surrounding the possible venture, as well as the internal factors to the venture that are the entrepreneurs themselves. They will also have an influence on the feasibility of the business opportunity, as a different team may be needed to be in place for the successful implementation of the venture.

OPPORTUNITY ANALYSIS PLAN

Some other authors have published their version of what is commonly known as an opportunity analysis plan; a document that discusses almost the same content discussed in a standard marketing plan (Hisrich 2008). Suggestions on the content of an opportunity analysis plan vary, but most ask for the following content: brief study of the local and international market for the product, a brief analysis of the competitive advantages, analysis of the self strengths, weaknesses and also those of the competition; it is also recommended to include an assessment of the entrepreneur and the team and finally, a discussion where the team explores the necessary steps to make the idea a viable venture. The entrepreneur is recommended as well to include a small income statement where the expected profit over the next three or five years is shown. A good example of the many available opportunity analysis plan outlines available, can be found in the Entrepreneurship book by Robert D. Hisrich.

THE BUSINESS PLAN AS AN ANALYSIS TOOL

Research has found that even though business owners tend to have a future loss coupling between their ventures and the business plans they write when launched, the business plan is regarded as a key tool for every startup (Karlsson 2007). Writing a business plan implies rigorously gathering the information to fill up each one of its sections, it is a process that grants legitimacy to the venture in the eyes of institutions that support ventures (Karlsson 2007), such as banks, venture capital firms and business incubators; this happens because it means the entrepreneur and the team are making a diligent analysis of the idea.

Writing a business plan is a time consuming and effort intensive task. Several pieces of information must be gathered such as market information, competitor information, several analysis of the intended industry and the environmental threats to the venture. The entrepreneur must put together a detailed financial analysis, with figures forecasting sales, costs and projecting profits for the first five

years of operation at least (Hisrich 2007). From my personal experience writing the business plan for the second company I started, I know this intensive process can take months to produce a neat and complete plan (Rojas 2011 Electronic Journal Week 7). Gathering this information involves diverse activities such as calling and visiting potential customers and competitors; researching statistical information, buying statistical information in case it is not available for free to the public, preparing and applying surveys to specific market niches and interviewing experts (Hisrich 2007). Due to the length, intensive effort and type of information required to write a well thought business plan, other resources such as time and money are required as well. Having the support of a marketing advisor is critical to develop a good Marketing plan section within the business plan (Lehmann 2004). It is also necessary to follow the Segmentation, Targeting and Positioning process or STP (Sarasvathy 2001). If there is no such expertise within the team, this kind of advice may cost a significant amount of money as well. Unfortunately not all entrepreneurs count with these capabilities, or can afford to spare the time and money required to complete an analysis of this kind, specially those that start companies without the support of a business incubator or a mentoring program. In this case, it is logical to expect the quality of the business idea analysis to suffer.

TESTING VERSUS ANALYZING OPPORTUNITIES

Saras Sarasvathy describes in her 2001 paper, the two different approaches that entrepreneurs can follow when launching a new venture. According to Sarasvathy, effectuation is an approach by which the entrepreneur jumps to the driver seat of the venture and starts immediately executing a series of actions, that will get the business rolling; all these is done with the support of his or her present contact network, minimizing the amount of resources required. In an effectuation approach, the entrepreneur doesn't spend much time analyzing in detail all the market information available or writing elaborate business plans. Instead the entrepreneur spends time networking, negotiating resources, partnerships and getting customers.

According to Sarasvathy, if a venture must fail, it will fail at a very early stage under an effectuation approach, contrary to what would happen is the venture was being approached with a causation scheme. Ventures that are the result of a careful causation scheme take much longer to be proved wrong in the marketplace as it takes then a much longer time to get there, due to all the previous planning and analysis. As effectuation ventures that must fail do so early in the process, few investment money is lost compared to the important sums of money that can be

spent during the planning phase of a venture approached through causation. All these conclusions drawn by Sarasvathy are of paramount importance for the entrepreneur, as individual entrepreneurs have limited time and money resources more often than not.

METHODOLOGY

The methodology used in this reflection is entirely qualitative. The information the author collected during the period of one year, while playing different roles at the same time within the School of Economics / IDEON Science Park area institutions, is entirely empirical and cannot be quantified. Therefore attempting to develop any qualitative research approach with the information at hand is not possible, further qualitative methodologies would have to be implemented to gather more specific data on a specific problem.

The empirical information the author contributes with on this reflection was acquired while being a student at the Master Program in Entrepreneurship at Lund University, being a potential participant in a LUIS (Lund University Innovation System) research project, being part of the Mobile Heights Business Center mentoring program, being a nominated and awarded contestant of the business plan competition Venture Cup Syd, as a founding member and business developer of a Web 2.0 company and as a founding member of a commuting service company.

The goal on this reflection, is to use the previously described empirical data to explore the phenomena of the business opportunity evaluation by inexperienced entrepreneurs, using the analytic autoethnography approach proposed by Leon Anderson (Anderson 2006). To accomplish such goal, I explain the process of evaluating all the business ideas that crossed my path during that period of time, relying on information from the weekly electronic journals I wrote from December 2010 to May 2011 (Rojas 2010 - 2011 Electronic Journal Weeks 1 to 19). These journals were written in an informal narrative way, as recounts of my personal experiences, reflections, thoughts and feelings of the moment, regarding the entrepreneurial process I was going through.

These personal observations, source of empirical knowledge are complemented by my analysis by the theoretical framework I have previously described; literature that served as study material during the Master program in entrepreneurship, as well as external literature that is closely related to the topic.

RESULTS

During the period comprehended between September 2010 and June 2011 I studied the Master Program in Entrepreneurship at Lund University, where I had several opportunities to generate and evaluate the feasibility of business opportunities. Following is a recount of the results of such evaluations.

Just as I joined the Master program in entrepreneurship, I started looking for the idea I would develop for the year, I was determined to take the master to the next level, and start a real business leveraging the knowledge acquired. Many ideas were being generated by the students, even as part of some activities organized by the program coordinator. Enthusiasm around how easy it was to generate hundreds of ideas in a couple of minutes was tangible, everybody set their brains in a creative mode for that period of time.

FIRST BUSINESS IDEA EVALUATION

A week after having started the program we got our first challenging assignment; the task was to form teams, get one hundred Swedish crowns in cash and make as much money as possible, using only this small capital and in a quite restricted period of time, only four days. This activity is known as *The Startup Challenge*.

That was the first time we had to brainstorm and evaluate ideas to execute. It was a team of four so we brainstormed fast and came up with ideas we could easily execute using our capabilities as photographers and bakers. We executed the two ideas at once, the photography idea proved to be extremely good because by sheer chance we found a market for it, beauty saloons. The baking idea proved to be really bad because of the taste of our target market. We kept executing the first idea and discarded the second. As a team, we never wrote an opportunity analysis plan assessing the feasibility of the two business ideas, because of the time constraint we had at the moment. Later in time we came to learn that this kind of approach was called effectuation by Saras Sarasvathy (Sarasvathy 2001). This approach allowed us to find out in a minimal period of time - one day - which idea was good enough to continue executing and which to discard. It is true we invested money on both ideas, but given the short time it took us realize our second idea was not viable, and the small proportion of the idea, we did not waste much resources in it.

SECOND IDEA EVALUATION

The second occasion when I got to evaluate a business idea was when each student of the Master program was assigned to a research project by LUIS, Lund University Innovation System, to try to commercialize it. I was assigned to a telecommunications business idea, due to my telecommunications background. I found the project to be very appealing from a technical point of view. Following that impression, I dedicated all my efforts on continuing working to be part of the team that would commercialize the idea. A team of two was formed, me along with another entrepreneur that was also interested on executing this idea. We wrote an initial analysis of the business idea; this analysis had the structure of the opportunity analysis proposed by Hisrich on his Entrepreneurship book (Hisrich 2008). The analysis determined the idea was worth pursuing, therefore we wrote a more elaborate opportunity analysis plan to deliver to the first phase of the Venture Cup Syd business plan competition. The idea was nominated in the competition and won some prize money. We had some miscommunication issues within the team that generated lack of trust. Therefore we decided not to continue exploring an idea that up to that point, according to two different opportunity analysis plans seemed to be a good idea (Rojas 2010, Electronic Journal Week 1).

THIRD IDEA EVALUATION

The third opportunity I had to evaluate the feasibility of an idea to execute came when I decided to start my first company along with other three team members. Event photography was the business idea, and as the concept had been already implemented in a different market - Germany - and was being very successful. We took for granted it would be equally successful in the Swedish market if we focused on a similar age group.

As the success of the idea had already been proven, we started to plan and execute immediately. In a very short period of time, the necessary web portal had been set up and the recruitment of photographers was ready. We started operations by February 4th, 2011.

No opportunity analysis was made, we didn't dedicate any effort on researching the market of potential competitors. No opportunity analysis or business plan was ever written, no market analysis was ever made and no financial projections were calculated. The team was solely focusing on executing the idea, getting new customers, new photographers, further developing the web page, etc.

The effectuation approach we took in this case proved us after only four months of operation that the business will most likely never become as profitable as we would have expected, considering the same idea was very successful in Germany. The market is very small, profit margins are very low, the operation is very effort intensive and competition is extremely well established in the region; being Nöjesguiden our main competitor, a company that has been in the region for 27 years and that dominates the small market we pretended to take. There is not enough market for more competitors in this region.

The company we founded, generated some profit, enough to pay our small initial investment on assets for the business operation. The company never generated enough money to pay for the salaries of the four people involved in the venture. As a result of this failure we have ultimately decided to close operations and distribute the remaining assets between the founding members.

FOURTH IDEA EVALUATION

The fourth opportunity I had to evaluate a business idea came when I joined the Mobile Heights Business Center a business mentoring program. I joined the program along with a partner that also co-founded the first company with me. We both were presented with ideas from a bank of potential business ideas. After much thinking and analyzing we finally chose the business idea we wanted to develop (Rojas 2011, Electronic Journal Week 6). The original idea was to develop a software that would help people to commute together in a car. We thought it had potential to be developed into something bigger and more profitable by changing the current business model.

This time we did not rush into the execution of the project as we did the last time. Unfortunately time was against us, we wanted to participate with this idea in the second phase of the Venture Cup Syd, so we were given the chance by the Mobile Heights Business Center to present the idea to executives from big telecommunications companies for feedback and opportunity evaluation (Rojas 2011, Electronic Journal Week 7). The presentation raised much interest in the idea, we got plenty of honest feedback and a great discussion originated among the executives. By the end of the presentation we got interesting contacts within two of the companies that were at our presentation, which we used to set up meetings to keep doing market research on the idea directly with our potential customers. With the information at hand we submitted the business plan to the second phase of Venture Cup Syd.

After the submission we made a valuable addition to our team; a third member joined our project. It was a great decision as both previous members of the team are engineers, he has a business degree which brings to the company capabilities in the marketing and finance areas, as well as strategic planning (Rojas 2011, Electronic Journal Week 11).

After he joined the team we visited a total of four potential customers, all companies with more than 500 employees and one municipality. We keep on adding all the comments we receive in our visits to companies and as a result, our business model has evolved so much that we know we have to rewrite completely our initial business plan (Rojas 2011, Electronic Journal Week 13). Not much of what we wrote on the business plan back then makes sense now, considering the opinions of the businessmen and potential customers we have talked to.

The result is that the business plan must be critically updated, the business model is more stable now but still keeps on changing small details constantly. We have come to the conclusion that the business model may never end changing, but we will never know if the business idea we have so carefully researched upon and planned will be viable and successful until we finally implement it. It has been a long period of planning and now we are transitioning to the implementation phase because we couldn't move forward with any customer, all of them want to see a functional demo of the software we commercialize (Rojas 2011, Electronic Journal Week 17). To implement the idea we have asked for grants to the official institutions such as ALMI and Innovationsbron. At this stage in time both institutions are offering budget for market verification only.

ANALYSIS

During a one year period, I had the need to evaluate business opportunities in my various student and entrepreneurial activities at least four times. For every opportunity analysis, I took a different approach by using the tools known to me at that specific moment of time.

EFFECTUATION APPROACH

Of the four situations of idea analysis I have presented, I used the effectuation approach in particularly two of them: when analyzing the ideas for the *Startup Challenge* at the beginning of the master program, the other, when I started the first company, the one offering photography services for events.

When evaluating the first ideas to execute at the *Startup Challenge*, I was unaware of the existence of business idea evaluation methods. My team and I had only been in the master program for a week, and we did the only thing we knew how to do, provided we all have inherent entrepreneurial attitudes; we followed our gut feeling.

No evaluation tools were known to us at the moment, and we needed to act fast, as we only had four days for the exercise. By effectuating the ideas, we just went out to the streets and tried them both. One of them failed miserably because we didn't know our market and their attitudes towards a product like ours. The other idea was a success because we found a good niche market for it, we found our niche for the photography idea by effectuation. Chance had it we were standing outside a beauty saloon, we walked in to sell, and they happened to be looking for that kind of service. We had found our niche by experimentation just as effectuation proposes and it worked wonderfully. In a very short time, only two days, we already had an accurate evaluation of both ideas and knew exactly on which one to pull the plug by taking the effectuation approach only.

When starting my first company, the one that offers photography services at events, we used the effectuation approach and immediately started pulling strings within our contacts network, to make things happen. After four months of execution, we found that Lund is a market with a very hard barrier to overcome: the student nations control nightclubs and nightlife in Lund, we approached them and they were quick enough to get a consensus among them to ban our service from their clubs, they wanted us out and they kept us out of the business. This happened due to our effectuation approach, we lacked the analysis of the barriers to overcome before entering the event photography industry in Lund. Painfully, after unsuccessfully visiting several potential customers, we came to the realization that the paying customers were not enough in such a small town. The real market for such an idea is not student town of Lund, but the city of Malmö. We did not know that fact due to the lack of market analysis in our approach, we didn't even know the size of the market in the beginning. Through time, we came to learn several interesting facts regarding the line of business. We learned that Malmö is a city where at least ten companies are already providing the service we intended to provide. We found out that most of the clubs in Malmö already have partnerships with photography services, we also realized that *Nöjesguiden* - a well know and established magazine that publishes event pictures in a monthly newspaper - already has a huge amount of the market.

Again, we didn't learn these facts through research and opportunity analysis, we learned it through experience, observation, meeting people and failure in sales.

The effectuation approach accomplished its purpose again, in a very short period of time, four months, we knew we had to pull the plug on our bad business idea. We had to acknowledge our baby was simply "ugly". The project may have had great success in the German market, but there are substantial differences between the German and the Swedish markets in the event photography industry. The industry is very mature in Sweden and we came in as a late player, facing high and complex entry barriers imposed by the current players in the industry. We faced the realization that the margins from a business like this one are very low, unless you have a large user base. We came to learn about margins for online advertising too late, even months after launching the business. We also realized it is very difficult for us to have a large user base relying only on the small and fluctuating population of students in Lund. In summary, effectuation was a great approach to this project because we realized in a short time we had to quit the project. On the other hand, I know that having done the superficial analysis proposed in the opportunity analysis plan methodology (Hisrich 2008), would have prevented us from losing our time working on this project; we would have discovered the true panorama in the event photography industry of this region and most likely would have refrained from executing the idea in the first place.

THE OPPORTUNITY ANALYSIS PLAN AND THE BUSINESS PLAN

During my year at the Master program in entrepreneurship, I participated in the regional business plan competition Venture Cup Syd with two projects, the telecommunications research idea from LUIS and the core idea of the second company I started, the commuting software company.

When me and my partner participated in Venture Cup with the LUIS idea, we entered the first phase of the competition; business idea submission. For this phase the requirements were simple, we had to deliver a document that contained a brief description of the idea and a partial analysis of its feasibility and potential, in other words, they were asking for the *opportunity analysis plan* of the idea.

The result was satisfactory, according to the analysis, the idea was worth pursuing but only during a very limited window of opportunity, due to the tremendous amount of competition that we learned about during the analysis.

This brief analysis told us the idea was on the right time for market, as an idea of this kind requires the end users of the technology to have smart phones with data connection to the internet.

We could identify two markets that would be very attractive to commercialize this product and everything looked perfect except for the short period of time that we had to get the product out to the market. We knew the competition would be the problem but still we were willing to take the risk because the analysis looked favorable.

I will never know if I would have changed my mind on the feasibility of the idea if I had worked on the full business plan, rather than just having written a partial opportunity analysis plan.

So far I think it would have been a good idea to continue further exploring the opportunity. The reason we did not continue was mistrust within the team, which we have learned through experience to be a major obstacle that can easily derail any venture, regardless of the idea behind it.

In spite of not having succeeded on pursuing this venture, I still know it was worth further exploring and maybe pursuing in the short run due to the analysis I made.

Later in time we came across an idea about building a technological platform for commuters. We knew this idea would involve a bigger money investment than our previous business experiments, so we wanted to do it right.

My partner and I decided to write a complete business plan before executing this idea to prove it has potential and also to participate in the second phase of the Venture Cup syd business plan competition. We wrote the business plan in a rush and submitted to the competition because of the due dates. We were fortunate enough to have the support of two mentors provided by the Entrepreneurship Master program, and the support of the Mobile Heights Business Center during the process of developing this business plan (Rojas 2010, Electronic Journal Week 1).

We knew the business plan was well done, but the information in it was not relevant, it was information taken from statistical sources over the internet and not from real tangible potential customers. After submitting the plan to the second phase, we decided we needed to fix the business plan for it to accomplish its original purpose; to be a reliable business idea evaluation tool (Rojas 2011,

Electronic Journal Week 8). We spent five weeks booking and attending several meetings with with potential customers and municipalities (Rojas 2011, Electronic Journal Weeks 9 to 14). It was a long process that led us to rewrite the business plan in it's entirety. We delivered the new version of this business plan with an improved business model that we thought made more sense from a business point of view (Rojas 2011, Electronic Journal Week 15).

We were just about to be proved wrong. Our next meetings were with funding institutions, competitors and suppliers of software design. During this specific period of time, we stopped asking for comments and switched our speech from a co-creation approach to a sales approach. In this time we realized we needed to start executing all the necessary actions to bring this long planned product to reality.

It didn't matter how much research and how many potential customers we had visited, we had not visited our competitors, suppliers or the funding institutions yet; all of them pointed out critical errors and omissions in our modified business model. On top of that, all these institutions asked for a functional prototype of the software, they were not willing to just provide information or comments on an abstract idea, they wanted to see a tangible version of the product which we were lacking of. We came to realize that we could go on planning forever, rewriting the business plan repeatedly and still it would never be perfect, we desperately needed to stop planning and begin executing to push this project forward (Rojas 2011, Electronic Journal Weeks 16 - 17). At one point of time, every planning entrepreneur should switch to the effectuation mode, otherwise we would never be able to actually prove wether the business idea is feasible and desirable or not. In our case, we had the certainty that the business model was not polished enough but still we decided to start effectuating; experimentation and time would eventually give us the answers we were looking with our market research. Our business plan was never perfect, but it didn't matter; it still gave us much credibility among the funding institutions, and legitimacy among our potential customers, suppliers and competitors.

The effectuation approach has proved to be right again; we decided to leave the business plan alone and start making things happen; we have had many more interactions with suppliers and funding institutions than ever. This has helped us to identify in a matter of few weeks, what is still missing in our business model and business plan (Rojas 2011, Electronic Journal Week 19). We have greatly enhanced

our idea, even changing the name of the company as our designers, funders and incubator pointed out that having a Swedish name was not good to go to the international markets.

THE NEW BUSINESS ROAD TEST

The “new business road test” (Ahlström 2007), is a methodology that I didn’t have the opportunity to use while evaluating the business ideas I came across during the Master program. I was taught that method too late in the program, when I had already used other more time consuming tools for the evaluation. I have made a careful review of it’s principles and all of them are already included in the business plan; this tool is only effective if used before committing to the task of writing a whole business plan, otherwise, the criteria to evaluate are already included.

CONCLUSIONS

Clearly there is not an approach of choice while evaluating a new business idea. While effectuation has proved to be a very effective process to evaluate the feasibility of an idea, it has also proven that when strictly followed, the entrepreneur will end up wasting a few months of time and initial investment money while executing the idea without the complete panorama on its feasibility or desirability.

The initial approach known as the opportunity analysis plan, has proved to be a good start for the evaluation of an idea. The worst ideas will surely get filtered by this approach, but it is not the proper approach for more complex and resource intensive ideas, such as the LUIS research project. This kind of complex business ideas require the business plan approach. On this particular case, we would have had to actually go out on the streets and talk to our potential customers which were mobile telephone manufacturers, before deciding on investing more money, time and effort on it.

Finally, the business plan has proved to be a great tool to evaluate the feasibility of the idea, but is not sufficient in itself. At one point of time, marketing research for the business plan becomes so complex that there is no way to prove the speculations made on paper right or wrong unless the entrepreneur stops planning and starts executing.

Provided the initial writing of the business plan has demonstrated that the idea is worth pursuing, the entrepreneur will get the final confirmation he or she needs on the business model and product details by taking an effectuation approach, which

has proved to be the best way to find out for sure the feasibility and desirability of a business idea.

The most effective way to evaluate a business idea without compromising more time, effort and money resources than necessary is to use the *New Business Road Test* to screen the bad ideas. If the idea is simple and non resource demanding to execute, the most logical thing to do is to start the execution at a minimal scale, selling as early in the process as possible to early determine whether the idea can be actually sold, if it has a real paying customer/market.

If the idea to evaluate is very complex and resource demanding, the best approach is to go for the business plan writing approach from the very beginning, it is worth the effort, considering the amount of resources that would be wasted if the idea results to be a failure. At a certain point of time, the entrepreneur should stop the planning process of writing a business plan and switch to an effectuation approach for a final validation of the business idea and model.

In conclusion, from my personal experience I have found a correlation between the type of evaluation method required and the complexity and amount of resources required to execute the idea.

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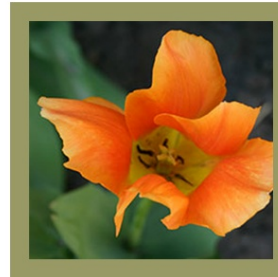
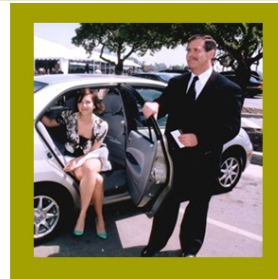
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pendla lätt

Business Plan



Pendla Lätt, is a service that connects commuters. We target the Swedish market and expect 36% net margin.

This business plan has been modified for publication purposes.

Mariana Rojas
Ludwig Mendez
Marcus Fütö

5/6/2011

This business plan is confidential and is intended only for the person or entity to which it is addressed. It shall not be divulged to a third party, without written consent from the authors of this business plan.

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Executive Summary

Type of business

Pendla Lätt (Pendla Lätt), provides a technological platform to do car-sharing. It will provide the technological means to reduce CO² emissions and increase social responsibility among individuals and organizations

Company Summary

Pendla Lätt will offer a technological platform for ride sharing to companies and individual commuters. Our main customer segments will be companies and government institutions that are interested on reducing their Carbon Footprint as part of their environmental responsibility goals; through them we will reach their employee base. A third customer segment is private users that are interested in commuting. Our platform will consist of one mobile application, and an online community.

Added Values

Pendla Lätt is able to quantify the CO² emissions that have been reduced by using the ride sharing service.

Customer Benefits

Our mobile application will help corporations and government institutions to get their greenhouse emission reduction goals.

Drivers that offer a ride will reduce the total cost of ownership on their vehicles.

Riders will save time and money when commuting on someone else's car.

Revenue Streams

We will have two main revenue streams.

Business System

Pendla Lätt will create and constantly improve over time a mobile application for active ride sharing as well as an online community for environmentally responsible corporations and individuals, all these in the different languages of the markets we penetrate over time. Partnerships with corporations and municipalities are the key factor on which the service will rely.

Management Team and Staff

Our management team, is formed by two engineering professionals with a solid background in the telecommunications industry, and one marketing strategy professional with previous expertise in startups. Together, they possess international management,

corporate strategy planning, marketing, organizational structure, project management, process consulting and technology deployment skills which make the team a solid entity. Refer to the Organization section for more information.

We need to complement the team with competences on sales, finance, accounting and software development. Please refer to the cost structure section of the Business Model section on this business plan to see the breakout of employees we plan to involve and in which phases of the company formation. Together, the team members speak fluently five languages: Swedish, English, Hungarian, German and Spanish.

Finance

Our growth forecast predicts a break even in the beginning of the second year, with net margin of 36% with a high grow potential rate.

The founders have provided start-up equity of 30,000 SEK, which is currently being invested in proof of concepts shown to the customers.

Exit Strategy

Pendla Lätt is an application that has the potential to be used all around the world in different contexts, mainly in the corporate and institutional one but also in universities. Eventually, an IPO can be considered as an exit for the VC/shareholders. Pendla Lätt can be an interesting acquisition for a worldwide environmental organization or government institution looking for a platform to reduce CO² emissions, so a trade sale is a possible exit strategy as well.

Business Idea

The problem

Finding a car-sharing partner is an unsolved problem in Sweden. None of the current systems for car sharing have succeeded on identifying people with the same commuting patterns, getting them in contact, providing them a fair expense share system and providing security measures for them to do car sharing.

Cars produce 30% of CO² emissions in Sweden (Reference 9). Millions of short trips are made by car every day in Sweden (Reference 1). Around 50% of all car journeys are work and study related, and 50% of these are shorter than 5 km (Appendix Figure I).

The climate impact per person in Sweden can be reduced when commuting if sharing a car. CO² emissions are reduced and money is saved when buying fuel.

The solution

Pendla Lätt is a service that connects individuals with similar commuting habits. Pendla Lätt will give you the possibility of getting in touch with them instantly through the

platform, a functionality that can be leveraged in many ways during the process of setting up any ride sharing agreement.

Pendla Lätt is not pursuing protection from a patent because it is software. If patented, the published algorithms could be easily copied. This software creates economic, social and ecological value for its users, the community and the planet.

Revenue streams

From the initial phase, Pendla Lätt will focus on the following two main revenue streams:

1. Licensing the software.
2. Professional services.

Pendla Lätt is a software company focused on selling product licenses and associated services.

The growth potential

The global market for mobile telephone services is the largest and fastest-growing segment of the telecommunications industry. Up to 4,628 billion worldwide mobile subscribers were reported at the end of 2009, a figure expected to double by 2014, according to iSuppli market intelligence. Regions that are in economic expansion such as Europe, India, Latin America and the US are the target markets for Pendla Lätt; refer to Appendix Figure V for car industry expansion in Sweden. We have come up with a name that represents our product in the Swedish market; easy to pronounce and meaningful: Pendla Lätt. Our Website is <http://www.pendlalatt.se>, and we already own the domain.

Business model

Pendla Lätt will follow a combination of licensing and "freemium" business model. A freemium business model offers a basic product or service free of charge (i.e. software) while charging a premium for advanced features or functionality.

Marketing Plan

General Market Description

The commuter market in the Skåne region consists of 577,000 private use cars (Reference 13). The market of people that have a Smartphone mobile phone, with an add-on Internet subscription, is approximately 85,500 individuals in the Skåne region according to the TeliaSonera's executive we met.

Potential Market

This idea has a big potential market in the future. We can extend this concept to the rest of Sweden, Denmark and in the future the rest of Europe.

Trends show automotive commuting is estimated to increase in the coming decades, reaching 50 percent in 2030. This means more CO² emissions concerning European governments. The European Council's goal of reducing CO² emissions by 30% in by 2020 stresses that developed countries must take the lead; therefore it is the right time and place to market this product (Reference 4).

We estimate our target potential market in the future is the universe of approximately 200 million private cars in the European Union (Reference 7).

The Industry

There are several competitors in the car sharing industry. The industry has been active in Sweden for several years, the oldest carpooling websites started in 2000. It is an active industry that few competitors have taken advantage of. Two competitors are worth mentioning, both are strong firms that currently operate in Sweden and other European countries: Avego and Commute Greener! by Volvo.

Avego started in 2009 in the UK, rapidly expanding to Ireland and the US. It has a major presence in the US, and since 2009 its user base has been steadily increasing.

They offer an iPhone application that offers a real-time ride sharing service. The software has features such as meeting points where drivers can pick-up riders. Their revenue stream is charging a brokerage fee in the form of a percentage of each kilometer traveled by the riders. Under Avego's scheme, riders must pay drivers for the service.

Commute Greener! by Volvo, headquartered in Gothenburg and launched in 2010, consists of a web portal and a mobile application for iPhone. Both calculate the user's CO² emissions of their commuting habits. Users specify the start and end points of the travel, the distance and the transportation mean used (walk, bike, car, train, subway, etc.).

Commute greener! has a regular user community in Sweden and continental Europe. This year Commute Greener launches a potential rival product for Pendla Lätt: a ride-sharing module for its iPhone application (Reference 6).

The main revenue stream of Commute Greener by Volvo is the 2 USD fee users must pay when downloading the application from the iPhone App store.

Pendla Lätt is a missing player in this industry as none of the current competitors offers the features we do. The ride-sharing application industry is starting as an industry and there have been first movers with satisfactory results.

Porter's five forces analysis

Threat of new entrants - Medium. Ride sharing became an identified need recently, due to the greenhouse gas emission reduction goals that the European Parliament has recently approved. In spite of this, the industry is not attractive to new entrants. We believe it is due to the perceived poor interest on social responsibility by the majority of industries, and the lack of attractive business models in the market.

The intensity of competitive rivalry- Low. Competitors have each taken a different approach. Some offer the option to create carpools and promote available car seats among riders through web pages, others focus on measuring the CO² emissions and creating competitions within a community of green people, challenging everybody to lower their CO² emissions. Other competitors focus on the general public transportation.

The threat of substitute products or services - High. Developing an application with a similar functionality is something very feasible to do. A large investment might be needed but it would be possible to copy. Copying or replicating the matching algorithm in the program would be complicated but not impossible to do.

The bargaining power of customers- High. Our customers can choose not to use this product and continue with their current commuting habits unaffected.

The bargaining power of suppliers - Low. We need to buy or rent hosted servers from any Web Hosting provider. There are several providers in the market and all of them offer similar prices. There is no room for bargaining negotiations from the suppliers.

Marketing Strategy

We will introduce this product to the market through direct sales. We will reach our final users (drivers and riders) through institutions

To reach our individual paying customers, we will use social media.

Product

Pendla Lätt will offer services for ride sharing and CO² calculations. The mobile application will be developed for both the iPhone and Android platform. The application will be developed for each platform, but can be modified for the different sets of functionality.

At the webpage of our community www.pendlalatt.se, the user will navigate through the different functionalities of the product.

Organization

Pendla Lätt's organization will initially focus on Sales and Project management.



Mariana Rojas (CEO) - has 4 years of Project Management and CDMA engineering experience in the Telecomm industry with the Canadian Nortel. She holds a Lean-Six Sigma Green Belt certification and has 3 years of process consulting experience. She has previous intrapreneurial experience within Nortel planning and executing the transitioning of business unit functions from US and Canada to Mexico.



Ludwig Mendez (CTO) has 2 years of experience as technology consultant and 3 Years of experience as service manager in Telecom Industry. He has previous entrepreneurial experience launching new products and services in the pharmaceutical industry, Telecom industry and software services industry. Currently owns an IT services company and holds the position of Innovations manager at a pharmaceutical product retailer.



Marcus Fütö (CMO) graduated in 2011 as economist from Lund University. With great knowledge in marketing and strategy he will provide essential knowledge to the company. Entrepreneurial enthusiasm has long been an important motivation in his life. He has been involved in the initiating phase in some smaller businesses and is currently a member of the board at KullensBilservice AB.

Refer to Appendix Figure XV for detail on the management team competences. For detail on the employee breakout, and in which phases of the company formation they join, refer to the table Cost and Personnel Assumptions in the Appendix Figure IX.

Our mission is: "*No more cars on the road with a single rider*". Our vision is to reduce the CO2 emissions to the atmosphere, by becoming the *de facto* commuting platform all over the world. Our product, our service and our company must show an image of environmental care, sustainability and corporate responsibility.

Profitability and financing

Summary of Financials

The most relevant financial data are presented in more detail in the Appendix Figure IX; Sales and costs Assumptions, Income statement, Cash flow statement, Balance sheet and Key figures

Profitability

Pendla Lätt will start generating net margin of 36%. The profitability in the following years grows at high rates as a result of increased licenses sales to different companies around the region. This company can be then moved to the next step to bigger markets such as Continental Europe, India, US, Latin America where the need and the market are much bigger.

Operational costs are a bit high in the beginning, however due to the nature of the growth potential.

Revenue Assumptions

Sales - We are assuming first customer sales in the end of Q3 of the first year. It is also taken into consideration that we will have a 5% organic growth in each region after the second year.

Since this application is ready for delivery to customers as soon as the deal is closed, no delays are introduced, as no installation is necessary in the customer premises. Therefore the revenue can be recognized 30 days after the contract is signed.

Other incomes we recognize come from one-shot professional services to companies.

Refer to Appendix Figure IX for best, worst and most likely sales case scenarios.

License Fees - Pendla Lätt have decided to license the mobile application to the companies. For our sales calculations we assumed the licenses revenues are without discounts.

Costs Assumptions

Cost of goods sold - We are assuming the development of the mobile and online application as the cost of goods plus the cost of hosting the server on the Internet to be able to provide full functionality. Hosting includes a dedicated server with enough technological resources to support the online community, premium support and domain registration. We chose to go for a hosted solution since it is more scalable and also the TCO is less than owning in-house infrastructure.

Personnel Development - We are assuming that the founders will perform sales, management and PR tasks during the first two years. All wages have been added 50% extra to include the following taxes plus a safety margin. We are also considering a 5% salary increase per year.

Additional costs - We assume a yearly increase of 15% in costs. Marketing, travel and communication expenses are included among others. Details on the additional costs can be found in table Costs and Personnel Assumptions in the Appendix figure IX.

Exit Strategy

Pendla Lätt plan to expand worldwide so IPO offering is considered as an exit strategy to boost investment and growth into international markets.

Realization Strategy

In conclusion, the profitability of Pendla Lätt will be substantial and will generate high value to its shareholders. It has the potential to become the defacto online social community for tracking and reducing CO² emissions by commuting around the world.

Risk analysis

This risk analysis is based on methods and guidelines as explained in SIS/TK318 (Swedish Standard Institute) for information security. All identified risks that can evolve negatively for the Pendla Lätt's operations and legitimacy are considered.

Our main risk is the unwillingness of end users to commute. This might result in fewer users and less efficiency of the software, since the ride sharing system is benefitted if more people use the application. To avoid the risk of people not using the application, we have chosen to equip it with several functionalities and a general ease of use.

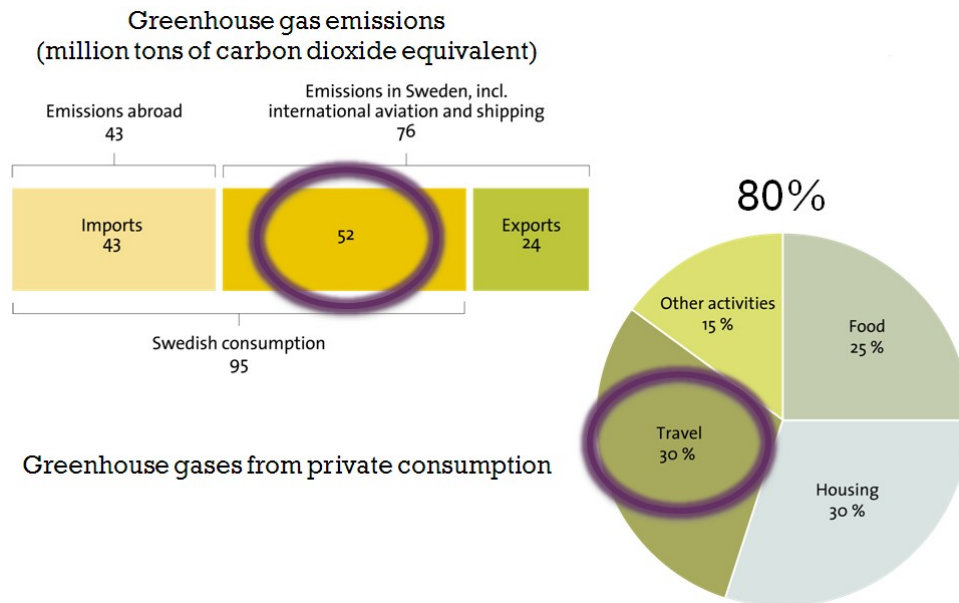
Our second highest risk is competitors developing similar products or products with equal functionality. The probability of competitors developing similar applications is high. To reduce the impact of this risk, we put in place major research and development is key to reduce this risk.

The third highest risk is that friendships might be established among users, leading commuters not to use the application. End users might either forget about the application or stop using it, since they may find it easier to just call the other person.

The fourth and final major risk is that we might not acquire the financial means of developing our venture. The estimated probability of this to occur is low.

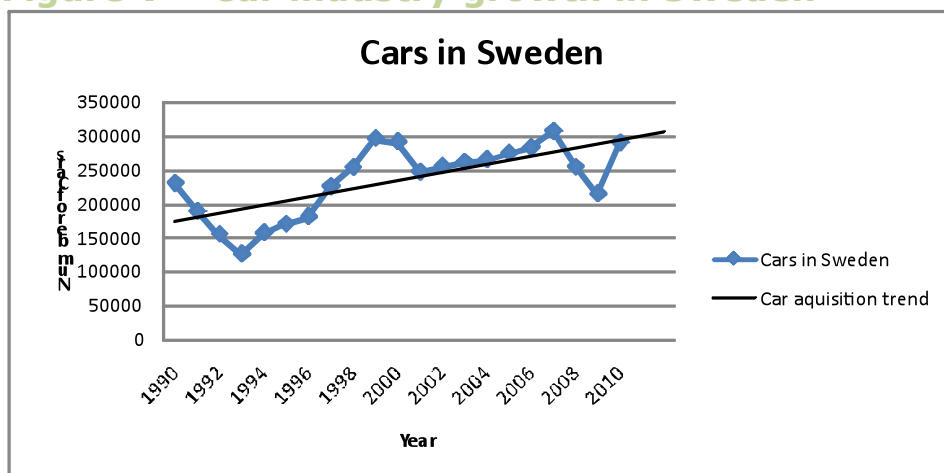
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Figure I – CO² Emissions in Sweden



(Reference 9)

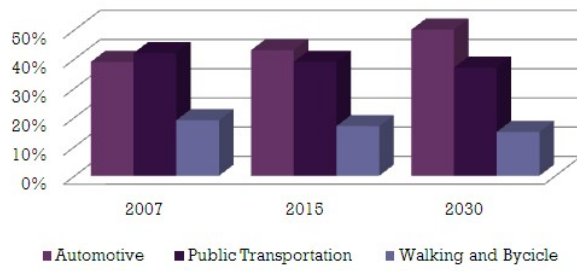
Figure V – Car industry growth in Sweden



(Reference 13)

Figure VI - Automotive Commuting trend in Sweden

Automotive Commuting



Source: Klimatet och Trängselfrågorna i trafikplaneringen för Stockholmsregionen (2009).

Figure XV Management Team Competences

Management Team Competence Comparison											
	Mobile Development	IT Administration	Sales Strategies	Negotiation Skills	Network	Communication Skills	Entrepreneurial Experience	Financial experience	Project Management	Human Resources	Business Improvement
Very Good	Green										
Good	Orange										
Low	Yellow										
N/A	Grey										
Mariana Rojas CEO	Grey	Orange	Orange	Green	Yellow	Green	Green	Yellow	Green	Yellow	Green
Ludwig Mendez CTO	Grey	Green	Green	Green	Yellow	Green	Green	Yellow	Yellow	Green	Green
Marcus Fütö CMO	Grey	Green	Green	Green	Green	Green	Orange	Green	Orange	Green	Green