

Turning Visions into Reality under Limitations of Financial Resources

A Study and Reflection on Resource Acquisition of a New Business

Theoretical Reflection

BUSP01, Entrepreneurial Project

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1. Introduction

This chapter provides the background to the entrepreneurial process of starting a new venture and a review of literature in this area. The background is followed by a problem discussion about the challenge of constructing necessary resources despite limitations which startup firms face.

1.1 Background

Economic enterprise consists in the matching of resources and opportunities to create value (Garnsey, 1998). In the process of new venture creation, entrepreneurs are commonly faced with the challenge in acquiring necessary resources to address the opportunities which will enable them to realize their visions. The liability of newness that exists in new firms can be the major obstacle for them to gain competitiveness and to create value in the economic environment. The disadvantage of the liability of newness is that it creates a barrier for entrepreneurs to access or gain the resources which are crucial for new venture growth and success (Zimmerman & Zeitz, 2002). In order to turn business ideas into ventures that create value and wealth, several types of resources are required. They can be divided into social, human, organizational, technical, and financial resources. Among all of these, finance is considered one of the most essential resources to acquire because it enables the acquisition of additional human, physical and technological resources later on (Bhide, 2000). In other words, financial capital plays a prominent role due to the fact that it can be used to develop or expand other resources.

Financial capital can be drawn from many sources: entrepreneurs' personal fund, family and friends, business angels, banks and other institutional capitalists. Personal savings, followed by family and friends, are the main sources of finance for the majority of new entrepreneurs (Mason and Harrison, 1999). Debt and equity are extremely difficult to obtain because many entrepreneurs are inexperienced, lack a track record or do not have security for loans. In addition, there exists the capital gap with huge demand for finance on the entrepreneur side and limited supply of finance on the other side of investors or lenders, resulting in only a small proportion of new ventures gaining access to finance (Lam, 2010). Obtaining external finance to start a new business is one of the most challenging tasks. Cassar (2001) has found that new firms especially in small size encountered difficulties to gain financial resources because of information

asymmetries, lack of market access, and idiosyncratic forces such as the influence of the entrepreneur on financing and capital structure choices. Their opportunity for finance will be increased when the nascent business concepts have been proved and have gained some level of market acceptance which will consequently increase certainty and feasibility in the eyes of other actors. In addition, the transaction costs of securing external finance can be high, diminishing the possibility for new and small businesses to raise financial fund.

However, there are other means for entrepreneurs to obtain resources despite financial constraints in the start-up period. They can engage in the concept known as ‘financial bootstrapping’ which mainly makes use of internally generated funds. It refers to the use of methods that minimize the need for finance by securing resources without raising equity or borrowing money (Windborg and Landstorm, 2001). The bootstrapping process enables entrepreneurs to maintain cash and manage their businesses in a resourceful and creative manner (Bhide, 2000).

1.2 Literature Review

The importance of resources in start-up ventures

As presented in the resource-based view (Penrose, 1959), the basis of every firm’s competitive advantage comes from bundles of resources. According to Garnsey (1998), the formative phase of firms has initial problems centre around resourcing prospects to address the opportunities. Hence, it is a crucial as well as challenging task for new firms to gain access and be able to obtain these resources to survive and grow. Resources necessary for growth during the formative phase are consisted of financial capital, physical assets, technology, human resources (including expertise and reputation), and organizational resources (systems, strategy, structures and management know-how) (Lichtenstein and Brush 2001, 40). Financial capital is considered the most versatile resources; thus the most sought after type among all because it allows the development and expansion of other resource types.

External finance, is it the solution for most start-up ventures?

The way new ventures perceived by other actors has a major impact on their resource availability. The liability of newness exists in new ventures; lack of reputation, inexperienced, no track record or established business relationships cause problems to obtain resources. Supported by the study of start-up firms in Belgium by Huyghebaert and Van de Gucht (2007), they found that institutional investors/lenders have strong preference for businesses with high growth potential, making small firms unlikely to gain finance. The financial gap for small businesses is resulted from information asymmetry, causing investors to be skeptical about small firms' potential. Even if firms are 'fit' candidates, the process of raising external money can be costly or too complicated for inexperienced entrepreneurs (Cassar, 2004). Furthermore, getting external money has some drawbacks on new venture creation, causing the loss of flexibility for owners to shift direction away from the plan due to the pressure by external investors (Bhide', 1992).

Financial bootstrapping and venture creation

To handle the constraints in finance and other resources, firms may engage in bootstrapping activities as presented in several studies. Bhide' (1992) presented broad approaches for bootstrappers to use in start-up ventures. These approaches are maintaining positive cashflows, being flexible and willing to adapt to changing situation, offering high-value products with tangible benefits, keeping the team motivated, and growing at the manageable rate. In Winborg and Landstrom (2001) study, they defined financial bootstrapping as the use of methods for meeting the need for resources without relying on long-term external finance from debt holders and/or new owners. The study focused on bootstrapping behaviors of small businesses in Sweden and found 25 most common techniques, which can be grouped into 6 main methods: 1) Private owner financing method 2) Minimization of accounts receivable method 3) Joint utilization or borrowing resources from other businesses 4) Delaying payments method 5) Minimization of resources invested in stock 6) Subsidy finance from governmental or public organizations. In addition, they identified firm characteristics that use each method such as business sector and stage of firm. Carter and Van Auken (2005) based on the framework of Swedish investigated the motivation of managers who use bootstrapping techniques. Based on established small firms

in the USA, they identified 3 major factors: risk, ability and effort. The motivation triggered by risk was the most prevailing compared to ability or effort. In the study conducted by Ebben (2009), the results have shown that highly levered, illiquid, and underperformed firms had higher tendency to use certain bootstrapping methods than other firms, and that the methods they used may have been detrimental to future firm performance. In another study by Jones and Jayawarna (2010), social networks are suggested to be an influential factor for resource acquisition through bootstrapping activities.

There are several literatures which cover the bootstrapping methods used in different settings. Harrison et al. (2004) examined firms in the software industry of UK and USA in order to understand the significance and role of bootstrapping. There are variations in the use of bootstrapping dependent on firms' size. Larger firms put higher value on the use of bootstrapping for product development, and smaller firms stressed more on business development-related bootstrapping. Small firms are also more likely to use and value cost-reducing bootstrapping techniques, whereas larger firms make more use of the exploitation of value-chain based relationships. In this study, they found that 95% of respondents engaged in one or more bootstrapping techniques. Despite the widespread use, the impacts of bootstrapping on new firms are two-sided. According to Timmons (1999), bootstrapping activities lead to competitive advantage by encouraging 'lean' mindset and efficient use of resources in the organization. Other advantages are overcoming information asymmetries (Bhide' 1992), responding to changes in competitive environment (George 2005), and enhance legitimacy and the way firms are perceived by potential funders. However, the use of bootstrapping may hinder the growth of firms to reach the full potential especially in the industry which the first-mover advantage is crucial, as bootstrapping can be seen as a reactive behavior in response to resource constraints (Bhide', 1992)

1.3 Problem Discussion

In previous researches and studies, the concept of bootstrapping is presented as a possible mean for firms of all sizes to develop and grow without relying on external finance. However, most literatures investigated the bootstrapping techniques used in already established firms, not during

the formative stage of ventures. Further, some studies had bias on very high-growth firms with high-value products. Therefore, the study of resource acquisition behaviors in start-up stage of new and small firms having products or services which do not possess a high level of proprietary technology or truly original can be an interesting area.

This paper investigates the behaviors and effects of bootstrapping techniques in a start-up venture by nascent entrepreneurs in a Facebook dating application project. Understanding the process of turning the idea into ongoing business under the condition of resource constraints could be beneficial for other entrepreneurs in making decisions regarding resources acquisition and to evaluate the advantages or disadvantages each bootstrapping technique may cause to their ventures.

With the lack of finance in the Facebook dating application project, it is interesting for me to understand that there are techniques which increase possibilities for start-ups to succeed. According to Bhidé (1992), the important thing is not raising money, but having ‘the wits and hustle to do without it’. This statement was illustrated through the findings from her interview conducted with fastest growing companies in the United States. These ventures launched in resource-poor conditions can turn their businesses into multibillion-dollar enterprise afterwards through the use of financial bootstrapping.

2. Frame of Reference

This chapter gives the reader a frame of reference and knowledge to reflect on the results and analysis. First, the most common definitions of bootstrapping are presented. Further, classification of bootstrapping methods is described. Finally, practices for successful bootstrapping users are presented.

2.1 Definition

The definition from Oxford English Dictionary states that bootstrapping means “pull oneself up by one’s bootstraps – improve one’s position by one’s own efforts”. In financial term, bootstrapping refers to “the use of methods for meeting the need for resources without relying

onlong-term external finance from debt holders and/or new owners” (Winborg and Landstrom, 2001). Bootstrapping strategies can be categorized into two forms. The first form is comprised of creative ways to acquiring finance without recourse to banks or raising equity from conventional investors. The second form involves minimization or elimination strategies to handle the need for finance by securing resources at little or no cost (Harrison et al, 2004).

2.2 Classification of bootstrapping techniques

Based on the exploratory study by Winborg and Landstrom (2001), 32 bootstrapping techniques used by small business managers were identified, which can be categorized into 6 distinct groups as follows;

- 1) Private owner financing methods: direct or indirect provision of resources from the owner and/or relatives. The characteristics of most users of this group are immature firms with low profit margin having the need for additional finance, but foresee problems in obtaining long-term external finance.
- 2) Minimization of accounts receivable methods: management of accounts receivable, for example, by speeding up invoicing. The characteristics of most users of this group are expanding or mature businesses with low profit margin, but have no need for additional finance and already have an overdraft facility as well as long-term external finance.
- 3) Joint utilization or borrowing resources from other businesses: obtaining resources needed through the owner/manager’s personal relations to external actors. The characteristics of majority users of this group are mature businesses with high profit margin, have no need for additional finance, and have no problems obtaining bank finance if needed
- 4) Delaying payments: delayed payment from the business such as delaying payments to suppliers. The characteristics of most users of this group are both mature and immature firms with low profit margin having the need for additional finance, but foresee problems in obtaining long-term external finance.
- 5) Minimization of resources invested in stock: minimizing through formal routines or by seeking the best deal possible from suppliers. The characteristics of most users of this group are expanding or mature businesses with low profit margin, but have no need for additional finance and already have an overdraft facility as well as long-term external finance.

- 6) Subsidy finance from governmental organizations to meet the need for resources. The characteristics of most users of this group are expanding businesses with low profit margin with the need for additional finance, but have great chance to obtain long-term external finance in the future.

Each bootstrapping method group has its own orientation towards resource acquisition. Group 1, 2, 4, 5 have the internal mode of resource acquisition. Group 3 represents the socially oriented mode of resource acquisition. Group 6 follow the quasi-market mode.

2.3 Practices for bootstrapping users

The study by Bhidé (1992) illustrated that bootstrappers in start-up firms require strategies and approaches differ from the conventional corporate management. This is because the availability and access to resources as well as the structure of organization between start-up ventures and the established firms or firms with adequate external finance vary to a large extent. The study indicated 7 practices for bootstrapping users to create a start-up into a durable business.

- 1) Get operations in place as quickly as possible to save cost and time for planning or market research. This is based on the interviews which showed that entrepreneurs will find opportunities along the way, which cannot be foreseen from the outset.
- 2) Emphasize on quick break-even or cash-generating projects which will help a start-up to be known in the market and to gain credentials from other actors.
- 3) Offer high-value products or services that can sustain direct personal selling. Bootstrappers often have limited budget for marketing or promotional campaign; thus, having products or services with unique or superior attributes that can capture customers' attention and persuade them to try out plays a key role to success.
- 4) Motivate the personnel in the team regardless of their qualifications because oftentimes new start-ups cannot attract employees to form a well-rounded team.
- 5) Grow at the rate you can afford and control. It is important not to increase the resources in advance of needs. This will also allow entrepreneurs to learn more about the industry and to develop their management skills under less pressure.
- 6) Focus on positive cashflows before strategic goals.

3. Method

The method used in this paper is based on self-observation on a master students' entrepreneurial project developing a Facebook dating application business. The paper investigates and reflects upon the behaviors of our team in building an application and running business without financial support from external actors during the start-up stage. It will rely greatly on my personal experience and opinions regarding the resources needed, how and why we secure them, and the impact of each bootstrapping techniques used.

The concept of bootstrapping techniques identified and categorized by Winborg and Landstrom (2001) will be the foundation for me to understand the implications of our decisions and actions. This will be a useful framework which aids in keeping track of the analysis.

Bhide's predefined approaches and practices for successful bootstrappers (1992) will also be the guideline used to evaluate and examine our actions within the project, leading to analysis which will provide better understanding about our team's resources acquisition behaviors and how those behaviors affect us. Also, it will be the guideline suggesting which action I should take in the next step or what I should do differently. However, the concrete effect regarding firm's performance cannot be measured at this stage because the venture has not been launched in the market yet.

Due to the nature of the self-observation method, the limitation of this paper can be the subjective view in perceiving the process and the effect of bootstrapping within the project.

4. Data

This paper studies a start-up project of students in the Master Programme of Entrepreneurship at Lund University, Sweden over the period of 6 months. The data has been gathered from the learning journals written by me during December 2010 until May 2011 which recorded what have been done or accomplished in the project, the reasons or motivation why we have done so, who we have met, and major observation or self-reflection on a weekly basis.

The project is in the formative stage, starting from a business idea of a team member to create a dating application on Facebook platform that mainly targets young people in European region. It is initially very small in size. The project is consisted of 3 master students in their 20's from different backgrounds and countries with very limited entrepreneurial experiences, or some do not have any entrepreneurial experience at all. The team is lacking technological or IT expertise necessary for the development process of the application or to evaluate the technological feasibility. However, the programme provides support through the connection with Informatics students at Lund University, free office space at Ideon Science Park, and opportunities to network with other students, mentors, professionals, and academics.

The initial investment was made by members within the project using personal savings. Earlier, the team had approached ALMI, the governmental organization which supports funding for entrepreneurs in Sweden. However, we did not continue with the application to ALMI.

At present, the application is in the process of development and has not been launched in the market. We outsourced a developer in the USA because the charge is the lowest with rather acceptable quality of work. The demo version was released and showcased at the trade show event on May 20, 2011 for Lund University's students who are our target customers to be the early adopters. No revenues have been secured up until now.

5. Analysis

In this chapter, the data will be analyzed in accordance with the related theories, which are presented in the frame of reference.

The Facebook dating application project arose from the problems of existing services in the online dating industry. In my opinion, the three main areas for success to be developed with the team can be divided as follows: product or application development, market development, and the operational aspect of the venture. The use of bootstrapping methods will be studied and analyzed accordingly.

1) Product development

Without the IT expertise in the team, it is impossible for us to develop the product without external help that would bring in the IT expertise. Our project has difficulties in gaining external finance from the beginning. First, we contacted a governmental institution supporting entrepreneurs in December, 2010. I and my team had a meeting with an operations manager at ALMI Skåne in the Malmö office. We discussed about the Facebook dating application that we planned to work on. She expressed positive opinion about the idea because the huge market size is attractive. However, she seemed unsure about the application due to the lack of IT competency and prototype. I believe that this problem of information asymmetry can be overcome by having a functioning prototype to prove the feasibility of our business idea.

We first turned to the subsidy finance method of bootstrapping to meet our need for financial capital to develop the application. The reasons we looked for external help as the first alternative instead of looking inward to make use of what we have at hand is because we are inexperienced and did not fully understand their evaluation criteria of finding the ventures that fit. Based on Winborg and Landstrom (2001), users of subsidy finance technique are expanding businesses and that the expansion costs cannot be met by owner's finance. The expansion of firms often means an increase in employment which is favored by governmental or public organizations. This explains why most firms in start-up stage do not use this technique. It has the quasi-market mode of orientation in resource acquisition, which refers to the use of fund from governmental or public organization in the market without the price being the control mechanism as in ordinary market. Here, collateral or firms' tangible assets can help to overcome uncertainty in the eyes of those organizations. As for our project, which was merely started with no tangible proof of potential, lacking legitimacy, and had no collateral, the decision to apply for subsidy was considered inappropriate. This had an effect on our chance to get money through this bootstrapping technique to be extremely limited.

Based on the study by Winborg and Landstrom (2001), it would be more suitable to use this technique in the later stage for additional development once we have a running application in place, have gained more legitimacy, and have developed real assets, which is not during the stage of starting up from scratch like in this case. On the other hand, if firms have highly innovative or 'change-the-world' ideas, the likelihood to receive subsidy or succeed through this technique

since the start-up stage can be higher. Nevertheless, this is not the case for most start-ups including our project.

The decision not to continue pursuing subsidy finance benefits our ventures because the preparation and evaluation process will consume a lot of time and energy. Also, it is likely that we may not get the finance due to the lack of experiences, credentials, and expertise in this industry. In addition, the pressure from these organizations may hinder the operation especially in the starting phase of the venture when there are many uncertainties, making it difficult for us to adapt to changes.

Later, we decided to use the bootstrapping techniques of private owner financing by investing our own money to hire a developer for the application. Our project fits the characteristics grouped by Winborg and Landstrom (2001) which stated that most users of this technique are young and small businesses, especially in the introduction period. Also, users in this group has a low use of joint utilization and subsidy finance methods, suggesting the reason for using private owner financing as the only possible solution for them. This technique relies on the internal mode of resource acquisition. Thus, it suggests that if our team improves our networking skill, it may be possible for us to employ other socially-oriented methods such as joint utilization by sharing personnel to develop the application at lower or no cost. Even though the use of private owner finance has its advantage in ownership and flexibility of our business, the limited amount of money constrained us to develop high-quality application. Some features we had planned to have could not be developed because they are too complicated and require high cost for development.

Bhide's framework about the products/services for bootstrappers suggested that products/services with high-value or unique tangible attributes will increase the success rate of businesses. Through this, it is easier for customers to see the superior product offering compared to the existing products/services and try out the new one. However, the amount of money raised by owner financing methods is often limited which may negatively affects the qualities or attributes of products. In our project, we have outsourced an application developer to work at lowest cost possible, but the quality and the appearance of the application are still needed to be improved greatly so as to capture the attention and overcome customer's inertia. We also have to sacrifice some of complicated features as mentioned earlier. In addition,

outsourcing a developer in another country has posed problems in communication and understanding alignment.

Creative thinking can also be a source to create uniqueness and superior attributes. Our Facebook dating application offers new business model which charges users per usage at 9 SEK. This model differs from other existing online dating applications which generate revenue either through monthly subscriptions. Our application allows users to take control of their payment, increase the quality of success dating rate, and the low cost per transaction. This creative model will help stimulating purchasing decisions by new customers to try.

2) Market development

A large customer base plays a key role in online dating businesses. This can be explained by the network effect which refers to the effect that one user has on other people and the value of such product/services in the eyes of others becomes higher as more people use it (Wikipedia, 2011). Thus, it is a challenging task for us to attract users to sign up as many and as soon as possible. This is rather contrary to the controllable growth approach suggested by Bhide' (1992). The framework suggested that firms should grow at the rate entrepreneurs can control, and in the meantime, they are able to learn more about the industry, to enhance their management skills without high pressure. Viewing this in relation to bootstrapping, this can be resulted from the fact that growing firms will generally lead to more employment and thus more resources needed for firms to acquire. However, growing the customer base and increasing revenue in our project do not require additional manpower or extensive finance because the nature of online businesses. So, it can be concluded that this approach will not incur high cost, allowing us to remain 'lean' and be independent from external finance while growing at high speed. Thus, this controllable growth does not apply to every firm. It is dependent on the business sector you are operated in.

The business model of pay-per-use basis is considered as suitable for us and our bootstrapping methods based on Bhide's framework. This is because the low cost per transaction will decrease the conservatism of customers and encourage them to try out our application. We expect that this model will generate revenue faster and higher in the amount of money than the conventional monthly subscription model. Bhide suggested that the primary concern for bootstrappers in start-ups should focus on positive cashflows before any strategic goals. However, we used different approach because in our case, a large customer base is an important element for success. To

achieve this, we decided to offer mobile phone payment, which we will receive only 70% of the total payment per message. Even though this will reduce the revenue from users' fee by 30%, we hope that the convenience it offers will attract new customers to try out our application. In this aspect, the framework by Bhide (1992) did not apply to our project. In some industry, losing strategic goal may cost ventures failures or illiquidity in the longer term. Thus, it can be said that entrepreneurs should carefully examine the critical success factors in their business and make decision whether to prioritize cash or to pursue the success factors according to their strategic goals.

At the beginning of the project, we target global market because we will operate on Facebook which can be accessed by customers from all geographical regions. However, we are constrained by the limited budget for marketing and promotional strategies. Thus, we dealt with this constraint by narrowing down our target market to Sweden and European countries with high level of English. We plan to use Google adwords or advertisements on social media which will dramatically cut the cost compared to conventional mass media channel. In practice, we have not conducted any promotional campaigns yet. In the future, the bootstrapping method suitable for our marketing and promotional activities could be the barter of advertisement space with other websites instead of buying or selling, which is grouped in the method of joint utilization. This mode of resource acquisition is socially-oriented. So, it is important not to overlook the importance of network relations to achieve via this mean. I believe that as our project grows, the more necessity for network relations will come into play and the more this will affect our performance.

In respect to customers, we will use the minimization of accounts receivable methods. In the Facebook dating application, idle users who have registered but have made payment in low frequency of time can be viewed as a problem in the same regard as accounts receivable because maintaining database incurs cost. To solve this, we will offer promotional campaigns giving customers incentives or 'unlock' them if they have paid the fee for a certain amount. Through this technique, the cost of resources for maintaining database will be covered or exceeded which will lead to positive cashflows.

3) Operations

Personnel with IT expertise is what we are lacking. Although we benefited from the ISIT students within the university who helped with the analysis and structural coding of the application at no cost, it did not help decreasing the cost incurred by developing the application with a professional. We used private financing to outsource a developer at lowest possible cost with the trade-offs in quality of application and difficulties in communication. Our initial goal is to have the application up and running as soon as possible. Our action is in line with the framework by Bhidé suggesting that bootstrappers in start-up ventures should get their operation running as quickly as possible, instead of wasting time on planning, product development, or market research. However, this action is highly reactive in response to our lack in finance so that we did not have the privilege to conduct extensive market research. The merit of this practice is that more opportunities will arise once entrepreneurs take action. Also, start-ups commonly face many uncertainties, making it unlikely to use causation approach. However, the size of firms can affect the decision regarding this practice because smaller firms have more flexibility to adapt to change and contingencies whereas larger firms may have less flexibility to do so.

Team is another important part of start-ups. Bhidé (1992) suggested that start-up ventures should try to motivate the personnel in their team regardless of their qualifications because oftentimes new start-ups cannot attract employees to form a well-rounded team and to utilize the capabilities in the team to the fullest. . Without benefits and high salary to attract well-rounded team, we utilized the capability we have by encouraging each other to study online to gain basic level of some skills we lack. Skills in constructing basic HTML mockup page or in designing logos were self-taught which reduce the need for extra human resources. However, in the longer term we will need a professional with IT expertise to maintain and update the application to best satisfy customer needs. One possible mean is to use joint utilization method by sharing personnel with other firms we have contact with to reduce the cost in this area.

Currently, we are operating at an office space provided free of charge by the master programme of entrepreneurship. Later on, we plan to use subsidy finance method to cover the infrastructure cost, or to be supported by public organizations. At this later stage, I believe that our chance will be higher due to the available prototype and increased legitimacy. Another alternative is to use joint utilization by sharing premise with others in order to reduce the financial need. However, considerations about the credibility should be taken since the infrastructure or office location may affect the trustworthiness and credentials for some businesses.

Techniques we have not employed are delayed payment and minimization of capital invested in stock. Delayed payment technique was not used because we lack legitimacy in the beginning, making it difficult for suppliers to trust us. Another technique of minimization of capital invested in stock was not used since online dating business does not require any inventory.

6. Conclusion

The purpose of this paper is to investigate how a new and small start-up obtained resources despite financial constraint. The possible methods, benefits, and drawbacks are presented based on the frame of reference as well as my personal viewpoints. Conceptually, bootstrapping concept seems to be reactive in nature because entrepreneurs employed these methods in response to the limitations in their environment. However, this can be proactive in some cases since the financial bootstrapping encourages 'leanness' and promotes efficient as well as creative use of available resources in the organization. This concept will prevent ventures from being under pressure of debt and loss of ownership.

It is interesting to acknowledge that bootstrapping methods can be used by start-up ventures at the early stage in order to gain other resources such as external finance needed to fund additional growth later on. Also, the skills to be successful bootstrappers can be developed over time, especially for those socially-oriented techniques. This self-reflection also suggested that the use of financial bootstrapping differ depending on the stage of firm. The private owner financing method faded out once the firm gain legitimacy. The subsidy finance method, which was not likely to be accomplished at the beginning of start-ups, shows more positive chance for entrepreneurs to utilize once the firm is in established stage or with the prototype to illustrate the business potential. This is because the liability of newness was overcome and the network relations were established, providing more possibilities to use other techniques in the later stage of firm development. The size of firms and business sector have an impact on how the bootstrapping methods will affect firms' performance and operations. In addition, the effect of each technique varies to some extent. It can be viewed that the method of private owner financing was reactive since there were no other alternatives available. This is done in order to

survive the environment. If the technique is not used in a proactive or strategic manner, it is likely not to have a significant impact to the venture in the long run. However, the common benefit all techniques share is that they allow firms to survive and grow despite resource limitations.

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Facebook Dating Application

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

This business plan is confidential. Business idea in itself or information from this description may not be used, reproduced or made available to third parties without the prior written permission of Koen Heine.

Executive Summary

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

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

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

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

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



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1 Problem Description and Background of Venture

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

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

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

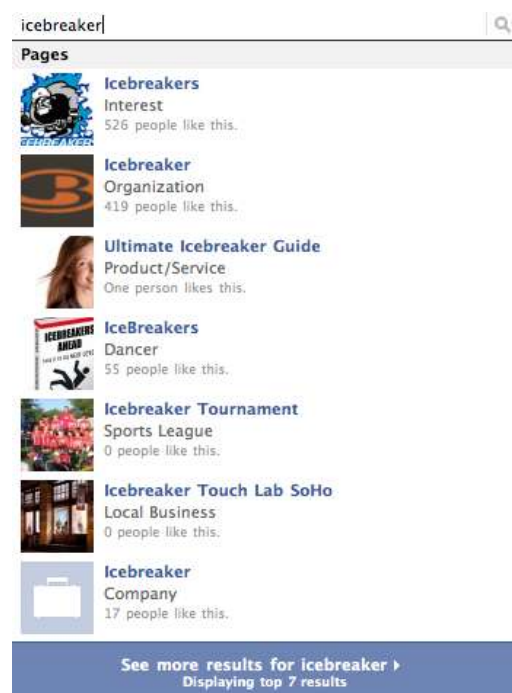
2 Business Idea and Customer Benefits

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

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

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

It also is a great way to get the word out about our application. In fact, we plan to incentivize users to do the promotion for us; they will get credits on their account by posting on their wall that they are using the application. This way, all their friends will be able to see that (s)he is using the application.



3 Industry Analysis

3.1 Internal Rivalry

The market of online dating is highly fragmented with a number of well-established companies that have gained acceptance, credibility, and a large customer base. The market can be divided into free online dating services dominated by Plentyoffish and OkCupid, and

paid services such as Match.com and eHarmony.com. Social network sites such as Facebook provide a platform for new companies to develop dating applications that reach their target customers easily and gain customer base rapidly such as Zoosk, Badoo, and “Are You Interested?”. The companies in the latter category are our direct competitors who often target customers who are young and searching for a more casual relationship. Hence, based on several competitors fighting for market share and the high extent of differentiation between online dating service providers, the degree of rivalry is high. According to Lehmann and Winer (2008), intense rivalry can result in decreased welfare for both customers and competitors. With our unique business model, we do not need to invest a large sum of money on marketing activities or compete in price wars, while at the same time offer superior benefits to customers and this is beneficial both for us and our customers.

3.1.1 Industry Concentration

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

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

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

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

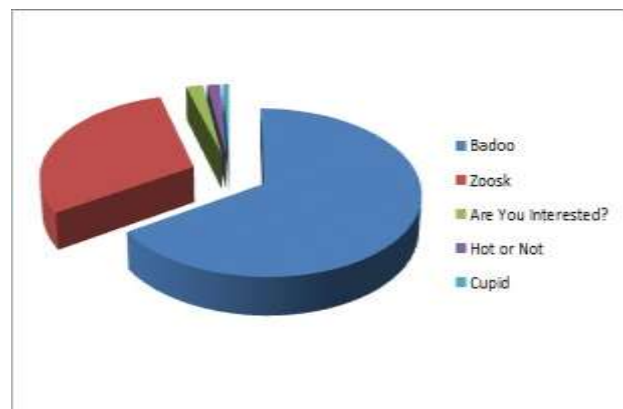
Name	Revenue (\$)	Market Share
Badoo	200 million	66%
Zoosk	90 million	30%
Are you Interested?	6.6 million	2%
Hot or Not	5 million	1.6%
Cupid	2.1 million	0,7%
	Total Market: 303,7 million	

Please look at the reference list for sources

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

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

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



3.2.2 Product Differences

The two biggest dating applications on facebook (Badoo and "Are YOU Interested?") provide a similar customer experience. A picture of someone that meets your search criteria is shown, and a user has the choice of three different options: yes, no or maybe. Once a choice is made, the user moves on to the next match. This can be repeated many times, and the persons' profiles that you are interested are stored in a database. A user can go to this database and send personal messages to whom (s)he desires. The third biggest dating app, Zoosk, works more like a traditional dating website. Users can scroll through different profiles that match their search criteria and click on their profiles to see more information and to get in contact with this person. Ours will be similar in design to Badoo and "Are YOU Interested?". "Are

YOU Interested?” is a not a particular well-programmed application and you often have problems with a variety of different bugs, and still they had a revenue of \$6.6 million in 2010. This gives an indication of the market potential, even though the market has a lot of players – As long as you develop something new and unique, you can definitely penetrate the market, independent of the quality of the programming. We believe that with our uniqueness, we have the potential to become one of the big players.

3.2.3 Industry Growth

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

3.2.4 Switching Costs

Switching to our application is low. You can use your already existing facebook account to set up your IceBreaker account, which minimizing the time and effort. It also cost less since you only top up your account with the sum you think you need and you don't need to sign up for expensive subscriptions which makes you inevitable to become a customer for many months to come. Switching from our application to a competing service is more time consuming for the consumer. We would still argue that the switching costs of choosing a competitor is very low since it usually doesn't take more five minutes to complete.

3.2 Potential Entrants

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

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

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

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

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

3.3 Bargaining Power of Suppliers

Our suppliers consist of two categories: web hosting companies and developers. Web hosting is increasingly becoming a utility-like feature. There are many companies that provide this service and supplier power is low in this respect. When it comes to developers, matters are slightly different. There is some skill required to develop an application which translates in labor costs of approximately SEK 1200 per hour. We conclude that supplier power is low to moderate. This could pose a problem for us but we have been communicating with programmers who are willing to work with us at a reduced salary since they think the project is interesting.

It is important to take the characteristics of our product into consideration. We do not sell a generic good, and therefore our programmers are extremely important since they are developing the product. This is based on requirements we have identified our customers having. The communication is crucial and it is important that all parts are satisfied since there are big switching costs if we decide to go with another solution later on. Programmers nowadays are however good at documenting how they have done the programming in the code, which makes it possible for other programmers to pick up, where the old programmer left it. We have chosen to go with an American company who already has developed a similar application to what we want to produce. This reduces the cost significantly as much of the

coding has already been done. For further development, we have different options ranging from programmers in Malmö, students in Lund or a professional company located in East-Europe.

3.4 Bargaining Power of Buyers

The online dating market consists of lots of potential customers and lots of companies. If incorporating the *Flock-of-Birds Phenomenon* from the Five New Forces (Schindehutte et al., 2009), all competitors have the equal possibility to access and communicate with their potential customers. Thus, it is a fair game for all players on the market regardless of their size or means of capital. Having similar products will make the customer's bargaining power to be large. However, if we are able to deliver a dating service that provides something extra and attract a lot of users, buyer power will be low. That is because of the network effects that are associated with a large user base. Customers won't have a real alternative and bargaining power of buyers will be low. For us, it is important to attract customer by differentiating ourselves from the competing services currently out there. Since switching costs are low, and there are many different options on the market, one could argue that the bargaining power is high. We believe however, that since we provide such a unique application the bargaining power of buyers is decreased since they don't have an option quite like ours. This could however change fast as barriers of entry is low.

3.5 Threat of Substitute Products

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

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

We will operate in social network websites and will face with many direct competitors on Facebook. But with our uniqueness in facilitating familiarizing processes between users, we will have an advantage in gaining early presence and possess distinct differentiation to secure market share.

3.6 Levels of Competition

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

With our business model, we will make it affordable for users to try out the application and since we have it integrated with the facebook platform, we believe we will attract a large group since the average active facebook user logs in every second day (Facebook Statistics, accessed 2011-05-01). When they do this, we want it to be natural for them to also have a look at our application and see if there is any news.

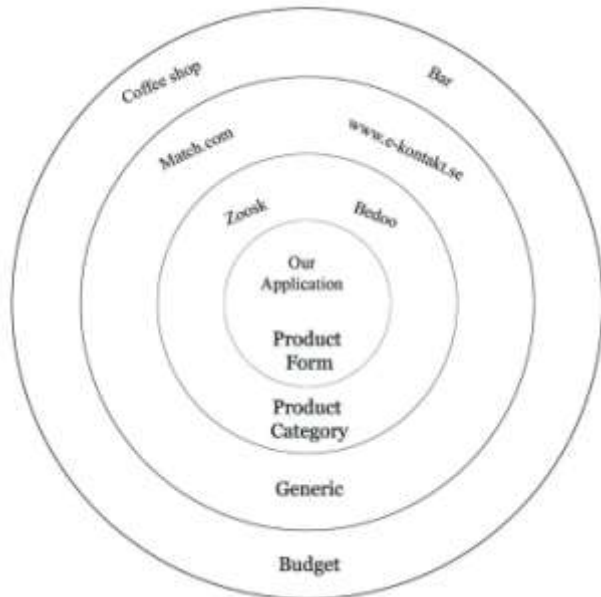
There are many competitors, with different strategies to penetrate the market and which are focusing on different segments. Plentyoffish and OkCupid focus on free membership to attract people who are interested in a flirt. The problem with these sites is that they can have problems with their revenue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

this, the idea is good and we believe that we could develop some similar functions and apply it to our application. Zoosk and Badoo have been more sophisticatedly developed, but have not identified the needs which we believe will differentiate us.

3.6.1 Product Form Competition

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

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



3.6.2 Product Category Competition

All Facebook Applications concerning dating

In the product category we find Facebook Applications such as Badoo and Zoosk which operate in a similar technical way as us, even though they differ substantially in how they do it, they act as close competitors in the market. It is important that we are able to communicate to customers what benefits our application has compared to that of what competitors are offering.

3.6.3 Generic Competition

All Online Dating

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

3.6.4 Budget Competition

All ways of meeting new people

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

4 Marketing Plan

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

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

4.1 Customer Analysis

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

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

4.2 Product

According to Schindehutte et al. (2009) you can divide and analyze your product in five different layers. The first layer is the *Core product*. When discussing the core product you



should take the product’s main benefit into account. In our case the people have a need to interact with someone. This is something that our product is capable of helping them with.

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

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

The *Communicated product* is the final level. This involves brand name, the design of the logo and trademark. We will try and engage in such way so that the customer identifies our brand name and associates it with something positive, something that has earned trustworthiness. It should look modern and attractive but not too serious as people should use it to flirt, maybe not to be as serious as people engaged in match.com.

4.3 Pricing

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

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

Our business model makes it possible for users to top up their account and only use credit on things that they wish to pay for. This could either be contacting a person, using the credit for gifts that you can give someone or even to rise up, making it easier for people to find your

profile when they search for people. What is unique with our model is that people only pay for what they wish to consume. What is also beneficial for the customer is that if you don't use the application for a while, the credit is still there. It's not like with a subscription model, where inactive people see their money go to waste.

4.4 Distribution or Place

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

4.5 Promotion

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

4.5.1 Advertising

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

4.5.2 Media

Media and especially social media are very important to us, so important that we have decided to put much of our focus in how people should access our dating application through facebook. Since there are 500 million users of facebook, only a fraction needs to sign up for us to be successful. We will try and get people who blog and companies that closely follows

facebook applications to write about us, to make the application raise in popularity. We have provoking features such as the Vaska list and the ability for users to themselves change the cost of contacting them and we hope this will work as an incentive for people to write about us, either in a positive or negative manner. For us this is of less importance, since it will still get people to start use the application.

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

4.6 People

It is important that we manage to attract the right kind of people in the beginning, especially since we don't have any experience of programming ourselves; we need a programmer with a great deal of self-drive. Since we are located in Lund, we feel that finding the right people won't be too hard since the level of technological experience and high education people have around the area is excessive, giving us a fair chance to attract the right people.

5 Risk Assessment

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

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

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

Liquidity is important for us in the beginning to be able to develop the idea. This is of utter importance even though we hope to keep development costs to a minimum due to

bootstrapping, given that students at Lund University are willing to help us with what skills they possess.

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

Points ranging from 1-10 where ten is more than 1.

5.1 SWOT

5.2 Internal

5.2.1 Strengths

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

5.2.2 Weaknesses

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

5.3 External

5.3.1 Opportunities

It's hard to overestimate the potential of our service. According to the Economist, the online dating market is estimated to have revenues of about \$3-4 billion a year. The number of single



people in the United States alone amounted to about 100 million. Furthermore, as we have stated earlier, people are not satisfied with current online dating solutions. This leaves us with a huge opportunity to do better than the competition and gain a big market share.

5.3.2 Threats

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

6 Business Model

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

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

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

The second thing credits will buy is to be on the A-list for a specified time. This will mean that they will show up first when someone is clicking through the profiles. They will continue to do so for one day at the cost of 1 credit and for a period of one week for a cost of 5 credits.

But there is one more thing, inspired by the Swedish phenomenon of "vaska". Vaska is the rather controversial request of asking a bartender to drain one bottle of champagne, the sole purpose being to show off that you can afford to do it. To meet the demand for this on the Swedish market, we will have a vaska-list. It will be a ranking based on how many credits someone has spent on showing his (we imagine it will be mostly males)

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

wealth. To accommodate big spenders fully with this, we will introduce a vaska-special package for 1100 credits for SEK 6000. This gives someone the option of spending 1000 credits on being on the list, while still having an additional 100 credits to spend on contacting other people.

7 Profitability and Financing

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



There is an drastic increase in revenue from year 4 to year 5. If we look at the Badoo they have experienced a similar growth. Their number of users increased from 8 to 62 million in three months (appdata, accessed 2011-02-10), backed by word of mouth and the momentum it can bring. We hope to see a comparable growth as the network effect makes people more likely to become members since the potential return is higher. In recent weeks Badoo has experienced a rapid fall in users due to an issue they have not resolved with Facebook. We hope that these users might be interested in switching to us.

We believe that our idea has a lot of potential. Initial market research indicates that the market is big and more importantly, grows rapidly. This together with a market greatly consisting of a few large players, who has not the capability and willingness to change their practices, makes our product a potential success. We believe that revenues will increase a lot as people start

using our service. The value itself will also increase drastically as more people start using it due to the network effect theory which explains that as more people start using a new way of communicating, the value of this new network increase exponentially, Formula: $Value = ((n^2 - n)/2)$, (Schindehutte, 2009).

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

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

We will need some capital to finance the development of the application, this is capital we have put in ourselves and this accounts for approximately SEK 10.000. The Informatics students have helped us research what we need in terms of programming - we will try to use bootstrapping in terms of getting other students involved in the project. If we are not satisfied with the result, we will look externally for programmers and other external competence that can deliver the result we are looking for. Therefore, it is hard to predict the need for capital. Best case is if we don't need any other external capital, except for the initial investment in programming we put in ourselves. If this isn't possible, we will either go with ALMI or a Business Angel to get the money. We prefer ALMI since we will not need to give away any stake of the company. The high interest rate is however an issue, but from our point of view



better than losing power to an external investor. ALMI have a grant you can apply for which give you 15 000 SEK to develop a prototype or make market research, we have applied for this but didn't get it. There is another option, applying for a micro loan. We might apply for this to get the capital for marketing that we need.

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

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

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

8 Development

Actually developing the application will be the biggest hurdle we have to take. We are in the process of finding programmers to develop for us, and have our first meeting with potential programmers lined up. To get some estimate of how long this will take, we have divided the process into several phases. It helps us with putting up different milestones which is a powerful tool to reach the final goal – to fully develop an application that successfully services our target group.



The implementation process should be done in the following steps:

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

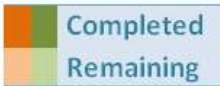
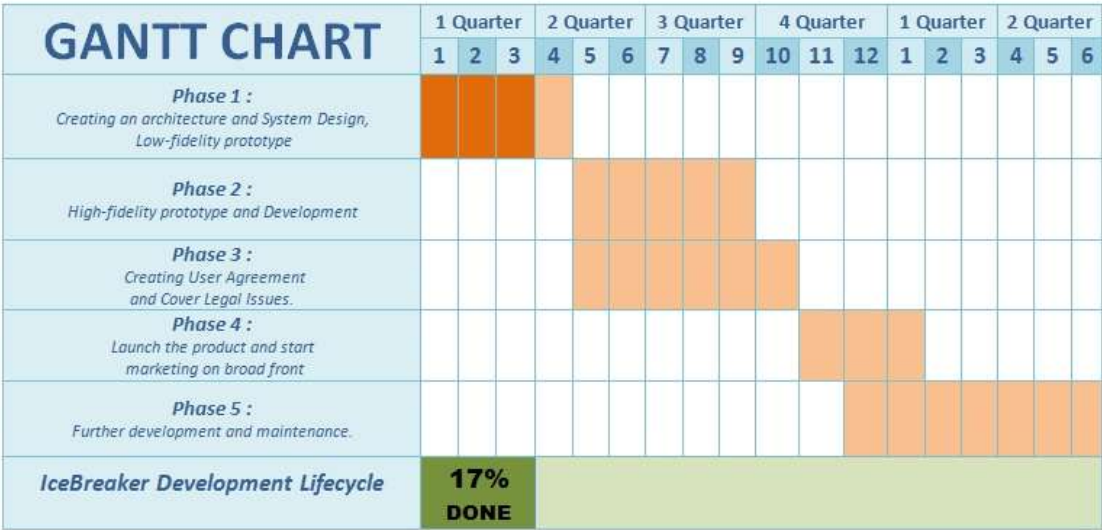
Phase 2: Basic functions like a log-in, match-making through Facebook and a website that you get redirected to while using the application. By now, you can use the application to find new people and interact with. No other functions available.

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

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

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

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



9 Roll-out of the service

Like facebook itself, we will roll out our service like a clustering strategy. We rationalize this strategy as follows: Since people are mostly interested in dating people that are close to their

location, the value of the application will lie in the amount of potential partners in your area. We will start with Lund and the Skåne, which will also be our test market. Any bugs that reveal themselves during use will be discovered, plus it also gives us feedback whether the market accepts our pricing points. Once we've conquered this region, we will start our advertising efforts in Halland, Småland and Blekinge. Gradually, we will move up north until our market position in the whole of Sweden is satisfactory.

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

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

10 Organization

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

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



Alex Paninder has studied international business at Copenhagen Business School which makes him aware of differences in markets around Europe. Also, he has knowledge about figures and accounting. He speaks fluent Swedish, Danish and English. In addition, he has prior successful startup experiences since he was 16. Currently, he is also



involved in an AB, producing high-tech products for the food industry. His instrumental role in Facebook instant dating application will be in marketing and financial management.

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



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



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

11 Exit

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

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