

# Theoretical Reflections

## *The importance of legitimacy for startup ventures*



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## Abstract

This paper is based on my own reflections over my year as a master's student in the field of entrepreneurship. The focus of this paper is on the aspect of legitimacy and how important it is for entrepreneurs that are managing new ventures in the start up phase to gain legitimacy and trust as soon as possible in order to get the possibility to grow the venture, acquire new resources, satisfy stakeholders and succeed to create a long lasting sustainable business.

I reflect from my personal experience of my own startup project and from the knowledge that I gained through all the business conduct and meetings with stakeholders and partners. I was in the situation of low legitimacy with no previous experience or references to show, which made it even more important as well as difficult to gain legitimacy. Through this paper you can read about the real life situations that I was exposed to during the project, how I handled them and what the theories in the field say about legitimacy.

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## Background and Problem description

There are a lot of new ventures started each year around the world, in different markets by different people and with different goals. There are non-profit organizations that are usually run by social entrepreneurs with the main goal to help and change rather than earn money. Secondly there are profit organizations run by entrepreneurs where the aim is to make money and generate growth. No matter what kind of venture that is started, they all need to gain costumers and stakeholders in order to be born and grow, if there are no parts with an interest in the venture, the venture will only exist in theory and die before you even can call it a new venture.

Since there are so many companies out there on the market, there is naturally a lot of competition. In order for the venture to be able to enter the market and compete, the venture needs to be trusted and accepted by all its stakeholders. To build legitimacy for a new venture is of high importance, in order to distinguish from others and to be trusted in different aspects such as quality, service, environment, labor, fair manufacture etc. The stakeholders need to know if the venture can deliver all the promised values, which can be very hard to prove as a new startup since there are no previous references to look back at. The lack of legitimacy may cause problems not only with the end consumers, but also with the business to business relations, such as with the suppliers and other partners.

It is not always an easy task for new ventures to gain this legitimacy, and due to that it is sometimes difficult for new ventures to establish themselves and gain their first references. This cause problems for new companies and makes it hard for them to really grow and develop, if they don't gain the legitimacy and cannot get trust from different parties, the ventures will eventually die.

During my Master year I have experienced this issues many times, and learned the importance of legitimacy and that it is crucial in order to succeed. This problem has led me into the subject of the importance of trust and how to gain legitimacy while creating a new venture.

## **Research subject**

The importance of legitimacy for new ventures, why it is important for new ventures to have legitimacy and how new ventures should gain it in order to grow the business.

## **Method- self-observation**

I am using an auto ethnography method, which by I am reflecting on the subject with my personal experience and subjective thoughts. The aim is to open up the discussion of the subject rather than to close it, in order to develop the thoughts of the subject and urge to discussion.

## **Data Collection**

The collected empirical data for these reflections are my own observations and experiences gained during the year. It is a wide data collection consisting of real life experience gained from business meetings and business behavior. The data is also collected through articles, lecturers and other new venture entrepreneurs that have faced similar problems related to the subject. I also involve my learning journals that I have written every week during the last six months about experiences and happenings during the project. The journals show my mindset then and compare it with the mindset I have now, if it has changed or if it still is the same.

## Theory

According to the article *Beyond Survival: Achieving New Venture Growth By Building Legitimacy* by Monica A. Zimmerman and Gerald J. Zeitz (2002), legitimacy is of crucial importance for new ventures during the startup.

The article handles the question of legitimacy for new ventures, and stresses the importance of legitimacy for new ventures in order to gain resources and achieve growth. Previous research on legitimacy mainly focuses on already established organizations, while the authors of this article argue that legitimacy is of crucial importance for new ventures during the startup process.

The authors claim that legitimacy is not only an important attribute to possess for a company to show the environment and build trust and acceptance with their investors, suppliers, customers and the rest of the companies surroundings, it is also an important resource that help generate more resources, such as managers, quality employees, financial resources and government support. Resources of that kind are important for future growth, which usually is a goal for a new venture. The more resources achieved the more growth possibilities.

The legitimacy can be gained through different strategic actions and from different sources. The article presents four different legitimacy sources, the regulatory source is a result of all the rules, expectations and principles produced by the government, and very powerful organizations. The normative legitimacy is a result of values and norms shaped by the social environment, a positive picture of the company in the media can help gaining legitimacy in this area. The cognitive area consists of expert and trustworthy individuals, which are seen as legitimate. The final source is the industry; the industry may possess legitimacy, for example the medicine industry which has a high legitimacy compared to the oil industry. Ventures that enter a completely new industry will have a lack of legitimacy since there is no history or established rules and standards yet. The strategies that may be used are; conformance strategy that means that the company just follows the rules. The selection strategy means that the company selects an approving environment to operate in. Through the manipulation strategy companies manipulate the environment to suit their company as much as possible. Finally, using the creation strategy companies create a completely new models and ideas to be followed.

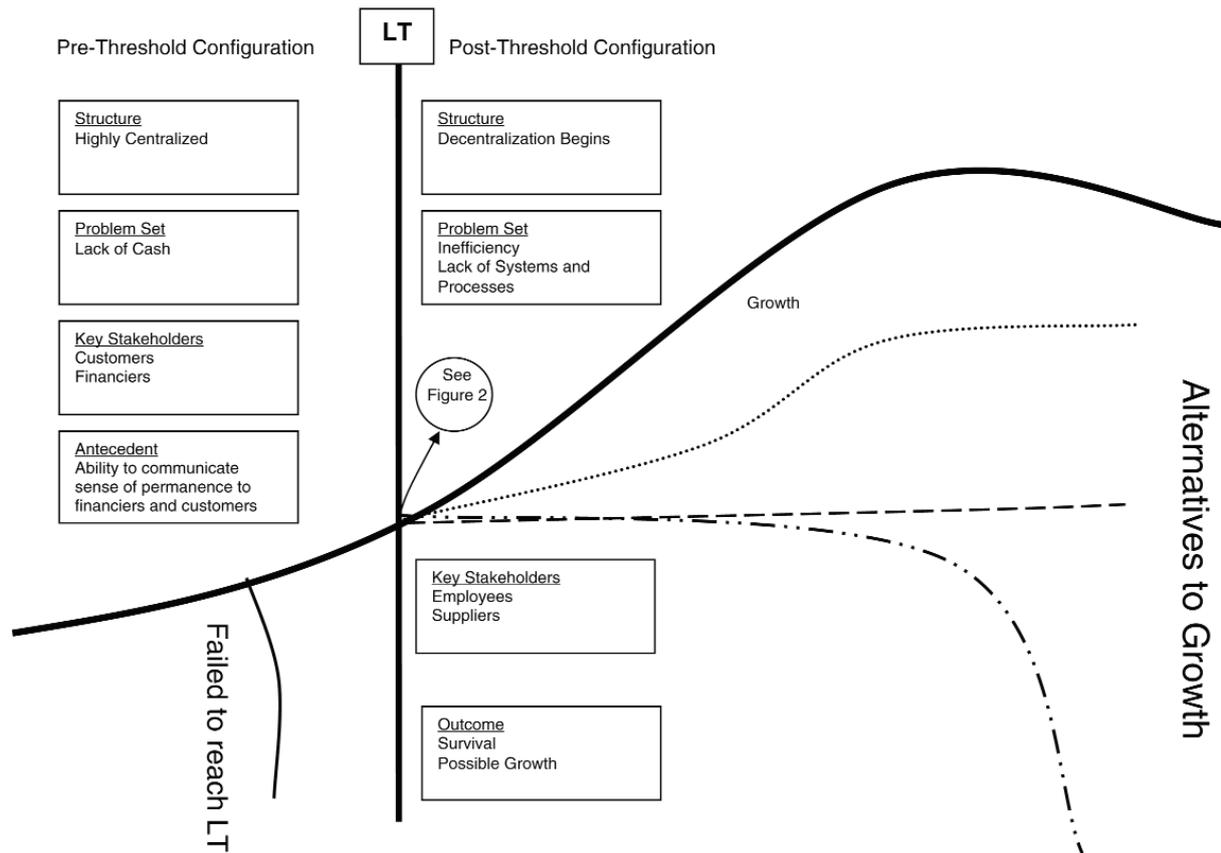
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To build legitimacy a company can combine the different sources and strategies. The authors suggest that there is a certain point of legitimacy that must be accomplished in order to succeed.

The strive for legitimacy cannot be eternal, at least it should not be the main goal for ever. As discussed in the article “Searching for the Legitimacy Threshold” by M. Rutherford and P. Buller, (2007). New ventures come to a certain threshold of legitimacy after a while, when the entrepreneurs believe that it is enough and that they have gained enough legitimacy to call themselves sustainable enterprises with future potential. The entrepreneurs want to reach a point when they can think: “I made it” and this threshold is gained after a while, even though it is subjective and different for all entrepreneurs. The authors call this point for the “Legitimacy Threshold”, below this point the venture is still struggling for its survivor. They define legitimacy as: “a social judgment of acceptance, appropriateness, and desirability [that] enables organizations to access other resources needed to survive and grow”. The organization needs to achieve a certain level of legitimacy in order to meet the threshold.

The figure below shows 2 different parts of the process, the Pre-threshold and the Post-threshold configuration. The pre-threshold part is centered on the entrepreneur, it is the entrepreneur’s job to work and strive for legitimacy, the entrepreneur need to fight for the legitimacy from stakeholders which are not so interested in accepting it until other stakeholders grant their legitimacy. This is a bad situation for the entrepreneur, and an aspect that show the importance of references and the first partners. In the post-threshold configuration the situation is more complex and the decentralization begins as the entrepreneur needs to deal with other task than just gaining legitimacy and build first references. Reaching the legitimacy threshold is a positive accomplishment, but not a guarantee that the venture will succeed, it is though less likely that it will fail.

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Furthermore the authors claim that it is generally known and accepted that no organizations will survive without receiving legitimization from different stakeholders in their environment. The venture is resource dependent of the resources in its surroundings, and will not gain these resources without the legitimacy.

The authors M. Rutherford, P.Buller and J.Stebbins of "*Ethical Considerations of the Legitimacy Lie*" article talks about that entrepreneurs so desperately seek legitimacy during the start up process that they could be questioned if their behavior is ethical or not. They may even lie and manipulate the truth to the point that it becomes bad business ethics. They do this in order to gain initial legitimacy with their stakeholders when they find that it is difficult for them to gain the so important legitimacy the "legal and ethical" way. Since overcoming the obstacles of liabilities of newness and smallness are the most difficult tasks during the start up, entrepreneurs may become desperate, in order to acquire resources to grow and survive, they need legitimacy from stakeholders.

The entrepreneur has the benefit of knowledge, the entrepreneur know more about its own company than the stakeholders, and have the advantage of information asymmetry by which it

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can manipulate the facts a bit in order to gain initial legitimacy. The entrepreneur usually does this when they are in the pre-threshold face of the legitimacy threshold, and strives to hit the threshold. This makes the entrepreneur to think: how to get legitimacy and send legitimacy signals before the organization actually is legitimate? Entrepreneurs then may tell stories to stakeholders that are not fully true, and promise things they cannot deliver in order to get the stakeholders interested so that the entrepreneur can gain resources to grow, and become legitimate for real.

The legitimacy lie of an entrepreneur is defined as: “intentional misrepresentation of the facts”, in order to satisfy stakeholders.

The entrepreneurs personal ethical philosophy is an important factor that decide to what extent the entrepreneur use the legitimacy lies and when the entrepreneur believe that it is not ethical and correct anymore. There are subjective boundaries of what is acceptable and what is not. The authors claim though that those entrepreneurs usually are optimistic and believe so much in their idea and that all problems can be solved, and therefore they sometime present something as much better than it actually is, because they believe in it so much and therefore overpromise to stakeholders.

The theory of legitimacy lies gets supported and understood by another article that talk about how important the first costumer reference is, therefore it is understandable that the legitimacy lie exist. In the article “Constructing the first costumer reference to support the growth of a start up software Technology Company” by J. Ruokolainen (2008), the author state how important the first costumer reference is to have in order to gain new costumers and grow. This is extra important when it comes to business to business companies. The first references increase the company’s creditability and reduces the risk of failure in the company as well as it enhance the company’s reputation.

The article by Ruokolainen (2008) describes a framework that can be used while setting up the first customer reference in order to start the venture. The framework is divided in three steps where the first step is to find a partner/customer, the second step is to implement the business idea, and the third step is to start expanding the business with the help of the first reference. The article also talks about the issue of trust while gaining the first partnerships and relationships with customers in the business-to-business environment. Trust is an essential part of the social capital, the author argue that the entrepreneur has a better chance to succeed

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with starting up the venture if there is trust. The social capital is important since the first costumers usually are found trough the contact network like friends, colleagues, friends of friends, family and so on.

By using your social network as an asset, a small amount of trust comes automatically, since you make contact with your partner's trough recommendations of others. The trust networks expand and help you to get new assets in form of costumers and partnerships.

### **Analysis**

During my first entrepreneurial project in Lund, I and my team started a non-profit lottery in order to help the victims of the flooding in Pakistan. Legitimacy was actually the main reasons that we after many discussions chose to do a non-profit project with a good cause. I believed that many of the other ventures did not fulfill the requirements for a legitimate company due to their business behavior. I and the team did not know where to draw the line for what is accepted for the project and what is not. Most of the projects were selling goods to consumers, mainly food and snacks. There are several issues to question in their business behavior, first of all the permission to put up a sales stand. It is not fully legal to put up a selling stand wherever you want without having the permission from the land owner or the police. One of the ventures was actually constantly driven away by the janitor of the school that forced them to close down several times because they were not allowed to have a selling spot where they had it. It is understandable not only from the land owner, but also from other businesses around that are competitors.

In the example with the stand inside "EkonomiCentrum" at Lund University, the venture set up a booth and sold snacks and drinks. Approximately 20 meters from there in the same building there is a Café that is paying for the premises and the permission to operate their business there. Naturally they don't like if a new actor comes in and starts to sell similar products at their area. In this case, I thought that it is not morally correct and it felt wrong to do something similar. As a fact, it was not allowed and they were driven away all the time.

Secondly, not only illegal selling spots had a lack of legitimacy according to me. Ventures that sell hot food need to have a permission to do that, and there are regulations on how hot

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the food needs to be, the hygiene of the place, the handling of the food etc. In this case there was a venture selling hot soup that did not possess any permission at all. I want to draw a harsh line and claim that their business was illegal and not legitimate at all. They still got customers and sold products, but in the long term their lack of legitimacy would make it hard for them to expand the business and getting new resources in order to grow and become a long lasting venture.

The experience of the start-up challenge and all those ventures that were set up enlightened me how important the aspect of legitimacy is for a new venture. Me and my team's non-profit lottery was not as successful as expected, mainly due to lack of legitimacy I believe. We did not fulfill the requirements for legitimacy regarding the industry rules as Zimmerman et al talk about, since lotteries are very controlled by external parts in order to not swindle customers. In order to get people to pay for something at all, for profit or non-profit, people need trust. They want to know who the persons are that they are paying to, why they are there, and what they will do with the money, as well as they want to know what they get for it, and how good it is. Is it worth for them to spend money on something that is unknown? The classical expression "Don't buy a pig in a poke" is a good metaphor for the legitimacy aspect, when we don't know what we get, we become insecure. Insecure customers are not good customers, especially not in the long run, their insecure mindset about your business spreads to their environment and suddenly your offer is black listed. The same concept applies to business to business relationships, and not only with your end customers.

While I and the team were starting up the lottery, we realized that legitimacy will be an important aspect in order to start it up and get people to buy lottery tickets. We realized that we would need a co-operation with an already established non-profit organization that we will donate the money to. They were not interested in cooperation with us, probably due to lack of legitimacy. Already there we faced issues with the importance of legitimacy, we decided that we have to show something to our customers and used "Doctors without borders" as a partner anyway. It was not cooperation though, but we were official with that the money we collect will be donated to them, so that we got a little legitimacy. We did not have any original "Doctors without borders" material such as posters etc, which made us less trustworthy. We pulled a legitimacy lie, even though it was true that we donated the money to them, we did not had cooperation with them.

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All these issues reflected our legitimacy and by that we had a hard time to sell lottery tickets, many people questioned us and they did not want to buy any since they did not know what will happen. I also question our venture, since a lottery needs regulation and permissions as well, so I don't say that we were more legitimate than the other ventures, but we tried our best.

I took this learning with me to my next project, I knew that legitimacy is of key importance for me in order to be able to build relationships with business partners to start my business. As a new actor on the market I knew that previous references are important, which I did not have. Therefore I had to simply rely on myself and my ability to create legitimacy and transform it to others.

To be able to grow the venture I had to acquire resources consisting of relationships with relevant business partners. I knew it will be very hard to gain these resources without any legitimacy and previous references, therefore I started to make my homework and looked for contacts that I could use. I used my social network and I researched the top organization of the airline that I wanted to have a meeting with, so that I could see what their history is and if I can relate to something in their past, or have some common contacts with them. After conducting my research I found out that their marketing manager had studied at my previous university, and that he had been the CEO of another airline in my previous university town. Realizing that, I also realized that I and my friends once borrowed an airplane from the airline where he was CEO at the time, because we were shooting a movie and needed a scene in an airplane. We convinced the airline to let us use the plane for a while when it was on the ground and the pilots had lunch. Since it was a pretty unusual thing to do for the airline, the CEO of it remembered the whole thing, since he also gave permission to it.

By knowing these facts and his background, I felt that I can turn it to my advantage and gain some legitimacy and trust from him, since I have once borrowed an airplane from him and that worked out well, so I believe that I already had some trust with him. By relating to previous situations and experiences as well as persons that the person of interest is aware of, the person automatically lower their safety barrier and become more connectable and open. They feel that the person that is approaching them already has an "ok" grade since they or someone in their environment has approved them before.

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Using my social network resources gave me a benefit when I was about to call the airline of my interest to book a meeting and ask if I could present my business idea for them. Naturally I chose to call the marketing manager that I could bond with easier than a stranger that I have nothing in common with. I started by presenting myself and that I once have borrowed an aircraft from him when he was the CEO of that airline. This provoked interest in him and he understood that I know things about him, which make him more interested in what I had to say, and he was more open to me. I explained the situation when I was involved in borrowing the aircraft from him, and he remembered the situation and he even knew the brand of the car that we used at the airport next to the plane for the movie.

I argue that I gained legitimacy through that previous experience with him and some modification of the truth with legitimacy lies, and that I by that got a better chance and more time to manage to get a meeting booked with him. Building legitimacy is a long process where the first steps are crucial, if you fail the first time it will be very difficult to repair and get another chance. When I finally went to the meeting to make my presentation I knew that I have to show even more legitimacy, since they are a big airline and I am actually nothing. Since my business relation role with them was that I want to become a supplier, the trust and legitimacy was even more important because I was about to deliver a product that they use in their everyday business conduct, in case of failure with the delivery of that product they would face big problems with their passengers. Therefore it is very important for them that they have a supplier that is reliable and deliver in time with the right quality.

I presented my idea and got a lot of questions, some that I was prepared for and expected them, and some that I did not expect at all. I can admit that I did not have the amount of knowledge that I should have, which I think affected my legitimacy negatively a bit. I still managed to answer the most questions very good, and promised to look into the questions that I could not answer for the moment. I also told them that I already have costumers ready that would like to advertise, which was a lie, only for the legitimacy reason, one again the theory about legitimacy lies is correct. Since I managed to provoke his interest and get yet another meeting when I had solved the questions, I thought that I got a good start for the relationship and legitimacy building. After the meeting I quickly solved the issues he was concerned about in order to show that I am trustworthy and reliable, I also made sure to have some people to refer to as partners and potential clients in order to be even more legitimate to the next meeting. I said that I have a partner in Taiwan that is the producer of the ECO-friendly cups,

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and controls the business at place. This made it look like I have a good relation with my supplier and showed that I have control over the situation and can deliver the product. I also said that I have a partner firm that will handle the sales of the advertising space, since they are in the branch and have established connections with large companies that are interested to advertise. All these aspects together made me more legitimate and helped me to gain more resources as well as to strengthen my relationship with the airline, which was crucial because the whole idea relied on the cooperation with them. All my modified truth helped me into create the legitimacy and build up some trust.

If we turn it around, it worked in the same way from the other end. I got my legitimacy amongst my partner companies by having cooperation with the airline, as soon as I mention that I have a partnership with the airline, other actors were more interested and showed respect.

When I contacted other airlines in the same time in order to expand and have a back up relationship pending if things would have not worked out with my first main airline, I faced problems. They were not so interested in talking to me when they did not know who I am or which company I work for, and the fact that I had no previous costumers made them even more uncertain. I figured that my only chance is to mention that I am in business with the main airline, and as soon as that was mentioned the discussion become completely different. As the article by Roukolainen (2008) say, the first costumer reference is of crucial importance in order to get more customers and grow the venture. Suddenly I got an “ok” stamp on me because I was approved by another actor on the same market. When they heard this they become more interested, one reason may be that they feel that they have to follow their bigger competitor.

Finally I got a meeting with the other airline, and this time I found it much easier to create legitimacy than the first time. I had more information and more knowledge, I had information catalogues professionally printed with me, I had a registered company, I had samples, and I knew exactly how my business works. But most importantly I had a reference in form of a big client. At least I said that I had another client, which was a legitimacy lie. This is a very clear connection to the theory about how entrepreneurs manipulate the truth in order to gain legitimacy at the initial face of the startup. I did this a several times, small lies here and there that were not 100 % lies, but a modification of the real truth regarding partnerships and

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clients. I also promised things that I was not able to deliver at that specific moment, but I knew that I probably will be able to deliver when I gain the resources needed, which I would gain by the partnerships I tried to sign. I don't think it was bad ethics though, because the manipulation of the facts was not totally false, it was just minor manipulation that actually would not affect any future partnership in anyway.

When I got to the second meeting with my first and main airline I was also a lot more prepared and wanted to show as much legitimacy as possible. As stated above I had more information and knowledge, a registered company and a professional product catalogue. When I look back into my learning journal from then I can see that I already reflected on the importance of a professional appearance. My learning journal from 3/12-10 says: "I gathered the information from my supplier, and the catalogue was printed by a printing store in Lund named "Just Nu", that could provide high quality and a professional look."

My previous experience from the startup challenge with the non-profit lottery is probably one reason to my mindset regarding legitimacy that it is possible to make things look more professional than they are, the input may not be so huge but the output in form of legitimacy gained is high compared from zero.

After that I started to create a website and a logotype for my company, in order to be prepared in case of a deal. I wanted to boost my legitimacy even more and have a company e-mail address as well as a website and a logotype, as yet more prove of my good intentions and to show trust. Once again I can see my reflection and mindset from that time by referring to a learning journal from 14/1-2011 where I write: "It is important to gain legitimacy and trust, I believe that you gain more legitimacy if you have a logo and a website, it shows that it is a serious company."

I noticed that the more legitimacy I build the friendlier and relaxed my partners became. I knew that I have to continue building up my legitimacy, especially since they are a large company and they need to work with trustworthy and legitimate partners in order to sustain their good brand equity and quality of their services. Therefore I continued my legitimacy building by researching what type of "approval" logos I could get on my products. I found a trademark that suppliers can use and put on their products to show that they pay a fee for recycling for each kilogram of the given material that they bring into the country or produce within the country, in my case the material was paper. I found a trademark that was good for

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my product and gave me more legitimacy and a possibility to be compared to other already established actors on the paper cup market. I was aware of this then already and my learning journal from 28/1-11 says:” I learned that the legitimacy is of high importance while dealing with large companies and with ECO-products.”

I do believe that you can get too much focus on legitimacy as well, it is important to have and to show it, but it should be shown in a professional way in facts that everyone can take a part of, and not shown through company secrets and long term plans. When I was on meetings with my potential media agencies that would sell my advertising space, I made the mistake of talking too much details and revealing too much of my operations and business conduct. I did this because I was striving for legitimacy and a friendly tone with them, in order to make them to like me and believe in a solid partnership with a win-win scenario for both parts.

Afterwards I realized that business is business and they are not dealing with charity, everyone wants the biggest piece of the cake. My over strive for legitimacy probably caused me some weak points since I gave out too much information that could make the potential partners to take over my business and steal my clients, especially since they got a lot of resources and an established enterprise.

This was also the case back then as I say in my learning journal from 4/2-11: “I think I made the mistake to reveal too much of my business, and I have learned not to talk as much about details for the future.”

Another important aspect to gain legitimacy except showing it in form of things such as website, logotype, company etc is the actual actions taken. To meet the customers and partners requirements and show that you are willing to adjust and fulfill the requirements is of key importance. It is important to be flexible and cooperative and to be willing to work together with your potential partner, instead of against it. If that is achieved a lot of trust is won and it shows your professional side, it shows that you are good to work with and that things are taken serious and with high quality. I gain a lot of trust when I quickly adapted and solved all problems that arise with my potential airline partner. Not only did I adapt and solved the problem, but I did it rapidly. They appreciated that all the issues were solved regarding to their conditions, and that the problems were solved quickly, by that they understood that I am a reliable partner that can handle issues and adapt to changes. This gave me more chances to show that we can perform the idea. They wanted to end the collaboration

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and the project a couple of times when big problems arise, but when I solved the issues so well they got more trust for me and chose to continue over and over again to see if we can make it. Without the rapid adjustments and the adaption to their requirements I believe that they would end the cooperation sooner, but as time elapsed I gained more trust with them.

In my learning journal I understood the importance of adaptability and the fulfillment of costumers needs in order to gain legitimacy and by those new resources in form of partnerships and a more superior product. In my learning journal from 25/2-2011 I state that it is professional to deliver a new solution and to adapt to costumers needs, upon reflection I believe that it was a good thing to gain legitimacy.

“During this week I got samples of a new supplier, and I have shown them for “the airline”. They were very satisfied with the quality, but they want another cup size, which I have ordered. This has thought me to explore and do your “homework” of suppliers more narrowly in order to deliver the best product from the beginning. That saves both time and give a more serious impression that shows market and product knowledge”

I don't think that I was supposed to blame myself for not doing a proper “homework” of the alternatives out there, since I was not aware of their requirements of the cups isolation. In opposite I think that I did a good job finding a new supplier that rapidly that could live up to the demands, I would have been unable to do that if I wouldn't have knowledge about the ECO-friendly cups market. In the end I believe that I gained a lot of legitimacy by providing them the new alternative product.

I claim that I almost reached the Post threshold point and manage to get to the point where I “made it” regarding the legitimacy. My business was very close to get a deal, the only thing left was practically to sign a contract, and after that I would have to start focusing on other more complex tasks and leave the legitimacy issues for a while and don't focus on the subject as much as before. As the article by Rutherford & Buller (2007) say, the entrepreneur gets more complex tasks when the Post threshold for legitimacy is reached.

The business did not continue due to bad communication and long lead times from the airline, at least which is my reflection and understanding. There is a possibility though that I did not reach the legitimacy threshold and was still in the beginning of the pre-threshold phase and the business ended due to lack of legitimacy. From my point of view I was legitimate, but the

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other part may not think the same, when you want to promote yourself as legitimate it is hard to see with an objective mindset how it really looks for the other parts.

The article by Rutherford et al (2009), claim that entrepreneurs are usually optimistic and believe in their idea so much that they can manipulate the truth and overpromise in different aspects. From the entrepreneurs point of view these manipulations may seem totally legitimate and feasible since the entrepreneur want to succeed with its idea, from the other point of view these manipulations may be overstatements and not really feasible in real life. The entrepreneur may have a hard time to notice this though, which I think I did not have. I did overpromise, but I only overpromised things that I really believed in. Once again, this is my subjective view of what I thought was possible at the time. When I now reflect on my own about my promises, I have to admit that I did not really believe that I would make it in the end when I got a new supplier of ECO-cups due to the fact that the delivery time was way too long. Even though I knew that fact, I did not want to admit it for myself, or for the airline. After a while I realized for myself that it is impossible to deliver with that supplier, that realization was good for me because I was not as disappointed as expected when the project ended. It was actually good that it ended since I was very unsecure in the end if I can make it, and probably I did not emit a lot of legitimacy.

As stated by Rutherford et al (2009), entrepreneurs have their personal moral mindset of what is wrong and what is not when it comes to business conduct and lies. In the end I felt that I cannot overpromise more and that I will fail if I continue to say that I can deliver things I did not really believe in. I did not have a problem with the small truth manipulations to make the reality look a bit better, but when I realized that I cannot fulfill some of these things, I started to feel bad, not only for the other parts but mostly for myself because I would be the one that is responsible and have to fulfill all the promises. I felt that I was close to cross the line for my personal ethical behavior because I believe in sound and trustworthy business conduct and sound personal life conduct as well. If they would have not ended the project, I think that I would have done it because I felt that it is not 100 % possible for me to deliver. In a case like that I prefer to end it or pause it and try to solve the issues, not only for myself but for all other parts involved. In the long term I think it ended up well for everyone, both me and the other parts gained knowledge and experience of the time that we had together.

## Conclusion

As a final conclusion of my reflections I conclude that legitimacy is very important for new startups, as well as for established enterprises. Once you manage to gain legitimacy, you also have to work in order to keep it, it is not lasting forever and if an enterprise cross the line to many times they may lose legitimacy and finally they will lose as a company.

Companies need long lasting trust from stakeholders in order to function and grow, and to develop their relationships with all parts. Not only previous references are needed, but the right references, if a company involves with other parts that conduct ethically questionable actions or bad things, it is rather bad than good for the legitimacy.

Legitimacy should be gained rapidly, and small manipulations of facts are almost a necessity if the venture has a lack of previous references or costumers. If a venture and its entrepreneurs start from nothing with no previous history it is very hard for them to gain legitimacy without a really broad social network. The social network strategy is not always enough to have, further actions have to been taken in order to gain the legitimacy. Small detailed actions that are easy to perform may be important and good to use, such as printing business cards, set up a website, have a company e-mail address, have professionally printed information catalogues and have a registered company. The Internet era makes it very easy for others to check your record, and a simple Google search is sometimes enough in order to see if the other part is telling the truth. All those small actions shows up a professional behavior that gives legitimacy, those details show that the entrepreneur is serious. To meet the stakeholder's requirements rapidly and adapt fast is also a very important thing, it show that you are motivated and trustworthy to deal with, as well as adaptable and striving for a win-win situation.

In order to succeed with a startup legitimacy lies are necessary to an extent, in order to gain legitimacy and references, build a history and a story of how the future venture will be and try to deliver it once the "real" references are there. Do not use the legitimacy lies to cross the "ethical sound business conduct" line, in the long term it is not worth it and the legitimacy capital will fall rapidly. Not only will the venture fail, but the entrepreneur conducting unethical business will have a hard time in the future in the business life, the social network will collapse and the person will probably get listed as a "fraud" person.

## Theoretical Reflections by Filip Syta

The legitimacy war is a hard fight to fight, but with the right humble attitude and a high motivation and professionalism together with some fact manipulation it is possible to succeed and be able to come out as a winner from the bottom of the “no references/history/who are you?” hole that is so difficult to overcome for new startups.

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# *Business Plan*

## **Executive summary**

This document is a business plan for Scandic Block Houses, where the idea and its products are explained, as well as where the product will be sold, to whom, and how.

The business idea is to produce houses out of used shipping containers, in order to offer more eco-friendly and less energy consuming houses to a cheaper price than traditional housing constructions. The main aim is to offer people in developing countries a possibility to have a home of high quality, and decrease the amount of homeless people around the world.

The business contain of different products, although they all posses the same core function namely a house. The four products targets big construction companies, governments, large corporations in the consumer goods area, as well as private persons.

The market is rather global than limited although focusing on developing countries, which creates high potential and a lot of possibilities for the product. In order to reach the global market, exporting strategies and joint ventures are of interest. Personal sales and relations are crucial aspects for the business since we are dealing with a complex product with a long buyer decision process.

We believe in our product and see the market as emerging with future potential, our product is needed for the best of the world's environment and its population, and we believe that we will change the housing market

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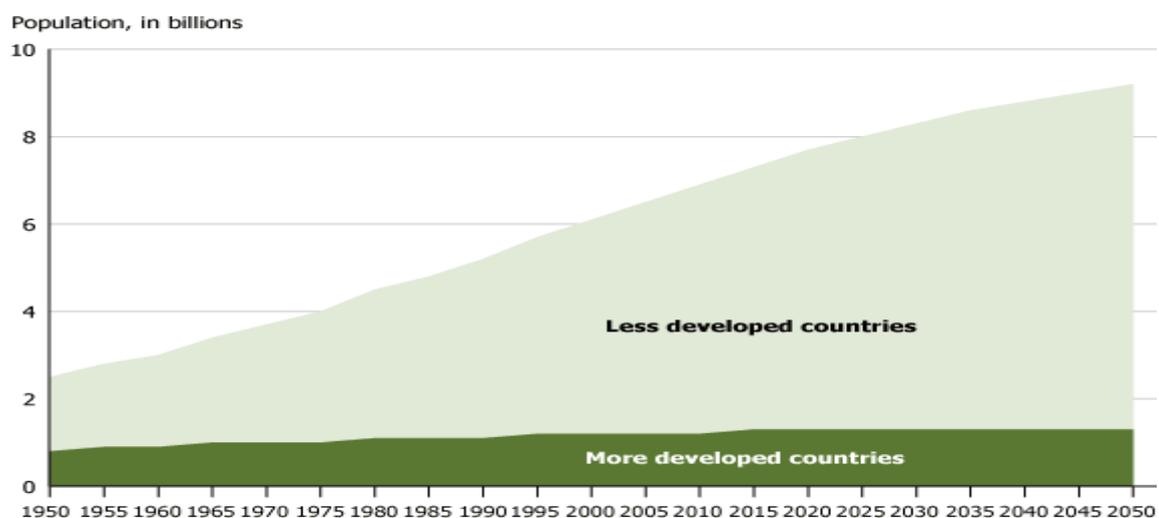
## Theoretical Reflections by Filip Syta

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## Problem Description and Background of Venture

The population of the world is constantly growing, especially in less developed countries, which leads to increased housing demand. People need a home, and even have the right to a home, having the right to a home is an official human right in our world, signed by the United Nations. In the same time, our resources are declining as well as our climate is changing due to the environmental damage and energy consumption used to fulfill our current way of life. We therefore need to find new ways of managing our resources in order to be able to satisfy the need of the rapidly growing population, as well as reducing our energy consumption in order to save the environment.

The world's population today consists of approximately 6,9 billion people, and growing. Estimations show that there will be approximately 8 billion people in the year of 2025, and over 9 billion people in 2050. <sup>1</sup>



<sup>1</sup> <http://www.census.gov/ipc/www/idb/worldpopgraph.php>

## Theoretical Reflections by Filip Syta

This rapid growth of population will cause even higher housing problems around the world than the ones we face today. There are about 100 million people that are homeless around the world today, mostly in the less developed countries.

A solution to this global issue needs to be constructed, using the minimal amount of resources. This is where our business idea comes into place, we build houses out of used shipping containers and can by that offer cheap high quality houses that are low-energy consuming and are build out of existing resources that are left to the junkyard. This creates the possibility to try to meet the demand of the rapid population growth, as well as it helps our global environment. Clean up used resources, and use them again to a new function, which creates a dream economy.

### **The Business Idea**

The core business idea is to design, manufacture and sell cost effective apartments/houses that are made out of shipping containers.

The housing strives to deliver a higher living standard around the world where it is needed permanently, temporary, or for commercial purposes, and to minimize the amount of homeless people, as well as the raw resources need. This is possible trough our container houses that delivers a very high quality to a low price, in a short time.

The container houses are flexible, environmentally friendly, safe and have various fields of applications due to their flexibility in design and assembly. We sell them as regular homes, holiday houses, catastrophe housing and as marketing devices for advertising.

### **Our Aim**

The aim is to become the leading provider of flexible, environmentally friendly housing with high quality to all sorts of customers. We want to give people the possibility to have the chance to a home and a high living standard, not depending on their economy and social status.

### **Our Vision**

Scandic Block House vision is to change the current housing situation around the world, and create a better situation for people by creating a market for this kind of housing.

## The Product Mix

We will start by offering a product mix consisting out of four product lines that will be offered to our customers. The products are as follow:

### *Product nr 1: Future Houses*

The product “**Future houses**” are container houses custom made for special requirements to be constructed as permanent housing for people. This product is about to change the global housing market and is not restricted to any country or situation. It will be our main product that we want to implement as a first choice of permanent living due to all its benefits compared to traditional housing. The Future Houses are of high quality, low-energy consuming, eco-friendly, low priced compared to traditional homes. They are resistant to earthquakes, hurricanes, fire and they are also mold proof.

### *Product nr 2: Brand Building*

Our second product line is the “**Brand Building**”, which literally is a brand building and is referring to the marketing concept “Brand Building” defined as “*enhancing a [brand's equity directly](#) through [advertising campaigns](#) and indirectly through [promotions](#) such as cause championing or [event sponsorship](#)” by businessdictionary.com.*

This products target group is global companies producing consumer goods, that have large advertising budgets. The product makes it possible for companies to rent one or several houses that will be branded with their logo or campaign and placed at different events and happenings temporarily during that certain happening. After the event, the branding is removed, and the house or houses are donated to homeless people in areas where the demand is high.

The companies that buy this product and brand it get the possibility to get a good exposure for their brand during the event, due to the fact that it is an uncommon advertising method and provokes interest from the surrounding, media and customers. The company also gets extra creditability since they donate the house afterwards and by that they can strengthen their CSR (corporate social responsibility) efforts.

### *Product nr 3: Catastrophe houses*

Our third product in the product mix is “**Catastrophe houses**”, the product strives to deliver housing to people in need that has become homeless in catastrophe areas homeless due to

## Theoretical Reflections by Filip Syta

different reasons, like natural disasters or war. The direct target groups are governments and help organizations, but the actual houses are aimed to be used by the unfortunate people that have been subject for catastrophes.

The product delivers a high value for people in need, due to its flexibility, low price, fast delivery and low-energy consumption.

### *Product nr 4: Fritidshus*

Our last product “**Fritidshus**”, targets the holiday house market. The houses are offered in different designs depending on costumers needs and wishes regarding the size and equipment such as hot tub, snowmobile garage etc. We design, build and deliver the house to the area where the costumer wishes to place it at.

## Revenue models

Since there are different fields of application for the business idea and our products, there are various types of revenue streams. The company will mainly earn money by making sales to different kinds of markets and costumers, the core revenue model will be to sell the houses as a product, and charge a price for the product with a profit margin.

Since the product mix contains four types of products, there are several revenue models. We currently operate the business with three different revenue models, whereby two of the products operates under one shared revenue model, while the remaining two products operates under two other unique models custom made for those products only.

### *Revenue Model 1*

Revenue model 1 is used for the product “**Brand Building**”. The customer, in this case a company that wants to rent and brand a building for a certain event, will pay for the production cost of the actual building(s), and a fee for the branding of the building(s).

There is no extra profit margin added to the production, transportation and assembly costs. The revenue and profit for this product comes from the branding of the building(s). We charge an amount based on three factors: exposure, value and time period. There are no fixed prices from the beginning for the actual branding. The price is discussed together with the client where we discuss the value it may bring to their brand equity, and after that negotiate a price by looking at alternative media and value the brand exposure they get with our product.

### *Revenue Model 2*

Revenue model nr 2 is used for our product “**Catastrophe houses**”. This model is not striving to create large profits for the company. The main goal is to help people in need, and not have this product as our cash cow. The product should give us creditability, legitimacy, exposure and goodwill, rather than profits.

The clients, in this case governments or help organizations only pay for the production, transport, assembly and administrative costs. We do not put a high profit margin on this product, because we feel it would be wrong to take advantage of people in need, and it would be against our corporate culture.

### *Revenue Model 3*

Revenue model nr 3 is used for our products “**Future houses**” and “**Fritidshus**”. The model is a classical profit margin model, where we set the price based on all our costs for production, transportation, assembly, administration and add an extra profit margin on the product we sell to the end customer in order to generate revenue.

## **Industry Analysis**

### ***The Market***

The market for the product and business idea in general is global and not limited at all. There is a huge market potential since our market is not limited, and our product is a basic need for humans, as well as a human right.

### *Market for Future Houses*

The market for our “**Future houses**” is global, large and with high potential. The world’s population is growing, especially in developing countries. The Chinese and African markets consist of a high amount of people, and since those markets economy is a bit weaker than the western economies, we have high possibilities by offering our products to those markets. We can deliver fast, cheaper than traditional housing, and with long term benefits.

There are approximately 1 billion people living in Africa today, which is the second largest continent after Asia, both in area and population. Asia (with china as the largest actor) also has over 1 billion people, which makes these to markets together very huge with high potential.

Africa and Asia has one of the fastest GDP growths in the world, with an estimated growth of above 5 % in year 2011, which is higher than Europe, America and Russia. The only market that has a similar growth is South America.<sup>2</sup> These facts together show that the market potential is good for our product, due to the growing economy and population.

The warm and sunny climate in some parts of these markets can also make our houses self sufficient using solar panels on the roofs. This saves a lot of energy, money, and environment.

Asia has been a victim for earthquakes and hurricanes lately and therefore need to reconsider their construction of future buildings. Since our houses are earthquake and hurricane proof, we can offer them that solution in order to reduce the damage in case of future natural disasters.

### *Market for Brand Building*

Our product “**Brand Building**”, will offering companies to buy and brand houses for events and happenings. Since CSR (corporate social responsibility) is a growing field within business for large companies, and becoming a rule rather than “charity” we believe that the market for this product looks promising. Traditional marketing methods are also changing, and this product offers new ways of advertising and promoting brands.

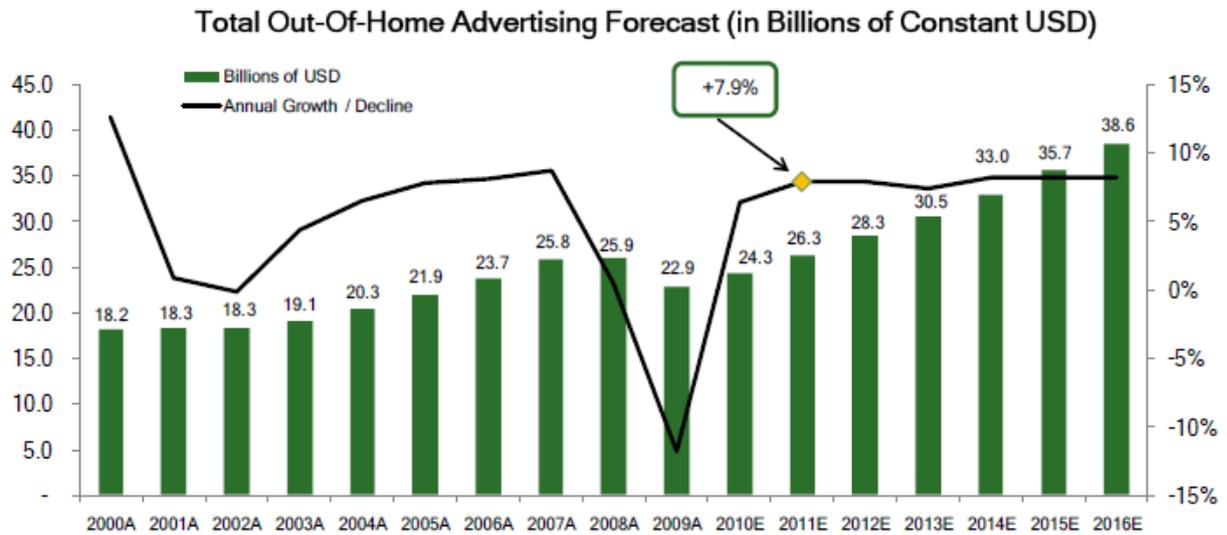
Outdoor advertising has a huge role of any countries economic development, creating economical flow both by the advertising itself, as well as for the products that are exposed.

The forecast for the global advertising market states that the market will grow by 9, 2 % during the year of 2011. The following five years the average growth is expected to 7, 3 % a year. According to the forecast the fastest growing markets will be Argentina, China, India, Kazakhstan and Ukraine.

The outdoor advertising forecast shows 7, 9 % growth during 2011, and will later be stable during the following years.

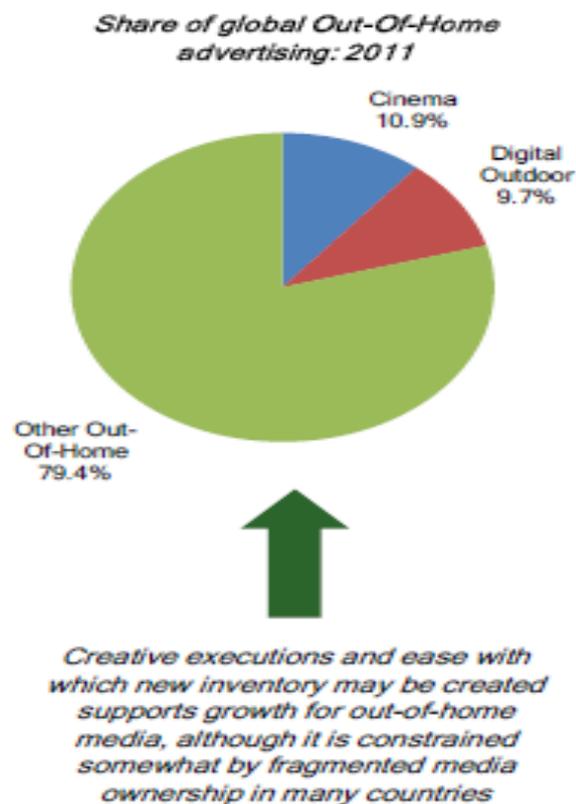
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<sup>2</sup> <http://www.imf.org/external/pubs/ft/weo/2010/02/pdf/c2.pdf>



The estimated outdoor advertising revenues are predicted to be 26, 3 billion USD during 2011, and 38, 6 billion USD during 2016.

We see that digital outdoor advertising and the cinemas have 20 % of the market, while the remaining part is other out of home/outdoor advertising. It is important to show new and innovative ways of communicate, if that is achieved, there is a big part of the cake that can be gained.



## Theoretical Reflections by Filip Syta

The houses can be placed everywhere in the world by any company that has the need and interest. By doing that, we don't limit the market, we create a new global market which we supply where our service and product is demanded.<sup>3</sup>

### *Market for Fritidshus*

Our product line “**Fritidshus/Holiday house**” will focus on Sweden only, at least in the beginning. The Swedish market for holiday houses is popular due to so much unexplored nature in various places of the country. In total there are approximately 564.000 holiday houses in Sweden, whereby 530.000 of these are owned by Swedish citizens.

There are also many foreigners from Europe that buy holiday houses in Sweden. Foreign holiday house owners own approximately 6 % of the total holiday house market in Sweden, which is approximately 34.000 houses. There are three foreign nationalities that dominate this market, among these three we find Denmark, Norway and Germany, these three together have 89 % of the market of foreign owners.

The Netherlands are the biggest actor among the other 11 % of the foreign owners, interesting to note is that people from Great Britain and Switzerland both own more holiday houses than people from Sweden's neighbor Finland.

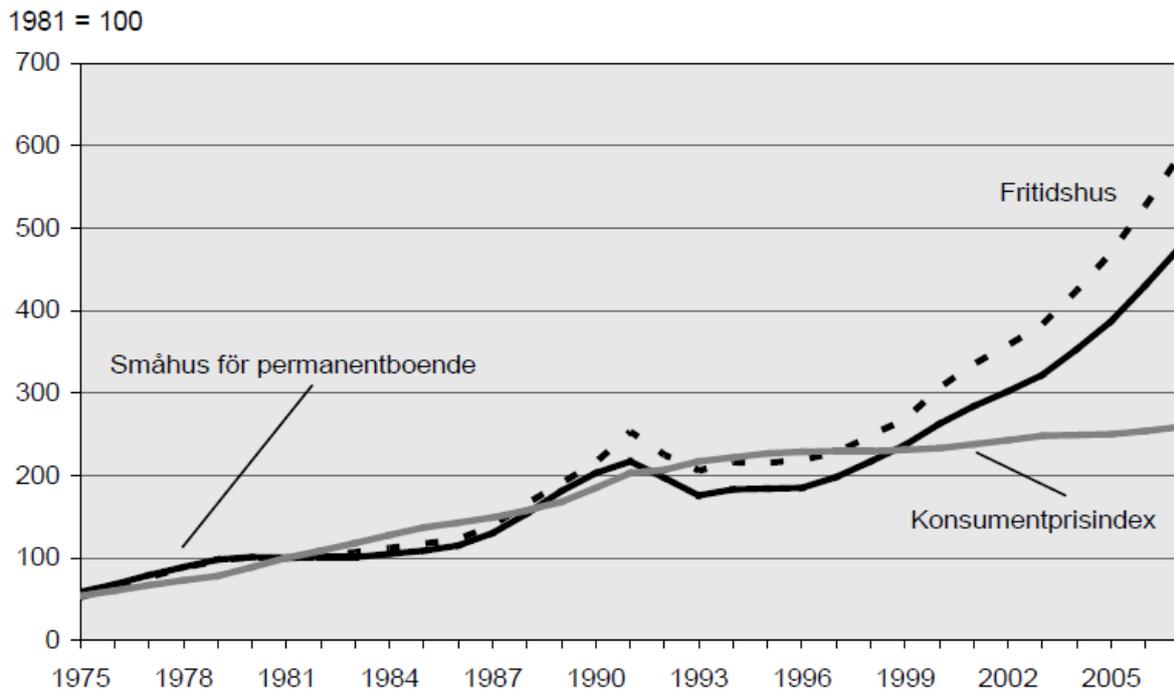
An average purchase price of a seasonal house was 1, 2 million SEK during the year 2008, and the assessed value for sold houses was 550.000 SEK.<sup>4</sup>

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<sup>3</sup> <http://www.magnaglobal.com/wp-content/uploads/downloads/2010/12/2011-MAGNAGLOBAL-Advertising-Forecast-Abbreviated.pdf>

<sup>4</sup> [www.scb.se](http://www.scb.se)

### **Real estate Price index 1975-2007**



As the above table graph shows, we can see that the prices for “Fritidshus” have raised a lot in relation to the price index. This gives us a good possibility to offer houses of equal quality to a lower purchase price, with lower maintenance costs in the long run.

#### *Market for Catastrophe houses*

The product line “**Catastrophe houses**” naturally has a global focus with no market limitations at all, and the houses will be send wherever in the world that they are needed for the moment in order to help people in need. It is impossible to estimate the market, but catastrophes happen now and then in different areas of our world, and if our product can help the people in need it is positive.

#### *The Customers*

##### *Customers Future houses*

The costumers for our product “**Future houses**” are large construction companies that are established on the market and have high financial power, as well as power to get building permissions etc. They can buy our modules when they get requests to build a lot of housing for people in different countries.

## Theoretical Reflections by Filip Syta

The second customers for this product are governmental institutions that handle the housing operations in the relevant area. They have strong decision power in the community and can decide regarding building permission and other permissions. They also have strong financial power. They have current major troubles with housing for the population and cannot meet the demand, which gives them difficulties and a crucial problem to solve. They are also future oriented and have long term thinking for what is best in the long run as well.

Finally our third customer group for this product is various help/non-profit organizations that help to set up housing for people in needed areas.

### *Costumers for Brand Building*

The ideal customers for our product “**Brand Building**” are global companies/agencies that represent these companies that preferably operate in the consumer goods industry. They spend high amounts of their budget on marketing and communication campaigns in order to strengthen their brand equity and reach out to their customers. They are innovative and are not afraid of trying new advertising and communication methods. These companies also work a lot with CSR in different ways, not necessarily related to their products. CSR work is important for them and is a part of their corporate culture, they believe that they should be of assistance to make the world better and give back to the society since they are such big actors on the market.

### *Costumers Fritidshus*

The ideal customers for our product “**Fritidshus**” are people with an average income, in the ages of 29-65 that likes nature and freedom. They live in municipalities but want to have a holiday house where they can escape the stress and relax. They don’t want to spend a fortune on a summer house, but they still want to have a summer house of high quality, with low-cost in maintenance and production. This customer also has an environmentally friendly thinking and protects the nature.

### *Costumers for Catastrophe houses*

Our ideal costumer type for our product “**Catastrophe Houses**” are governments and help organizations across the globe. These actors want to help people in need and want the best for the country and its population that they are present in. They have high financial strengths and the decision power to decide that the houses should be produced and distributed to places

where they are needed. They can take care of all the administrative work in the area and deal with all permissions etc.

## Levels of competition

Naturally there are a lot of competitors in the global market that are building accommodation for people. We compete with all the construction companies out there, and all different forms of housing. We compete mostly with traditional constructions such as houses and multiple storey houses build in traditional ways. We also compete with houseboats and all kinds of possible housing.

Our vision is tough to create a new type of housing market, where costumers will choose to change from traditionally constructed houses to innovative, cost efficient and environmentally friendly future housing. We are offering a new form of housing, and think that we can capture a new market, and market shares from competitors and substitutes.

There are various levels of competition and we are present in all of them, some levels are easier to act in, while some are harder. We do believe that we can create a new market and be the first, biggest and most experienced actor in the product form category.

### *Budget Competition*

## Theoretical Reflections by Filip Syta

Our budget competition is that we compete with customers total economy, a home is a high expense and nothing that you buy every year. It is a complex purchase that demands a lot of consideration and evaluation. We therefore strive to compete and offer houses to people to prices that can be compared to a purchase of a new car, boat or a big family vacation.

### *Generic Competition*

Furthermore, the generic competition we face are the traditionally constructed houses that are expensive, not environmentally friendly, time consuming, and not as safe as our houses. We need to move that markets current customers to our side.

### *Product Category Competition*

In the product category we have a small amount of competition, considering that we see most of the world as a market. There is no company that builds exactly like we today, and are active on the market. There are competitors that build “modules” that are similar to our houses, but not made out of containers.

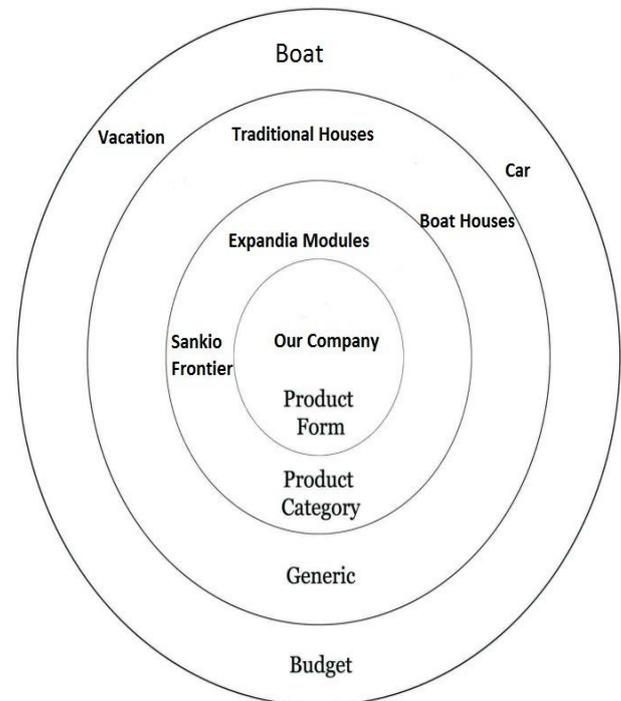
### *Product Form Competition*

We see ourselves being alone in the product form category, since we provide a unique product that is ready to be delivered already tomorrow upon order.

## **Competitors**

We do not have any direct competitors which are providing exactly the same products as we, and that are active on the market. There is one U.S based company named “Hybrid Architecture” that also construct container homes, we do not see them as a big competitor though since they are a small actor in a developing stage, and the global market is huge.

There is also one Japanese company named “Sankio Frontier”, they are a big actor in Japan and provide modular buildings for temporary use. The quality is lower and their focus is in the



## Theoretical Reflections by Filip Syta

temporary market. Therefore we do not see them as a big competitor either, due to their market niche, and that the market is so huge.

In Sweden we have a similar company named “Expandia Moduler” that lease out modules for temporary offices, schools etc. They are not made out of containers and does not deliver the same value as we, there business model is also different from ours since they focus on renting out temporary modules around Sweden.

Other than that there are concepts and ideas, but no real offers that are mass-produced. We do of course compete with all housing construction companies over the globe, so there are a lot of competitors when it comes to the function of homes, but not so much direct competition.

### **Competitive advantage**

Compared to traditional houses we have a lot of competitive advantages. The foundation to our houses is made out of shipping containers. These offer a vast structural strength for a small cost of a traditional house construction. Since the strength is contained in the structure, the foundation design is much simpler and less expensive.

The shipping containers are a very flexible construction method, since they are modular in shape, strong and readily available at a low cost. This makes it possible for us to cut our costs and production time. Not only are we and the customers saving money, but we also save resources and re-use already present material that is considered as “garbage”.

Our houses are hurricane, earthquake, and fire resistant, and they are also resistant to mold. These are huge advantages regarding the quality and lasting of our houses compared to traditional houses. Especially in areas with an aggressive weather climate with hurricanes and earthquakes. The benefit that the house is fire resistant is also a huge advantage not only in an economic aspect in case of a fire, but mainly in a safety aspect.

Since the houses are low-energy consuming and mold resistant, the economical aspect is very advantageous compared to traditional housing. Not only will the price be much lower for the actual house, but the fixed running and maintenance costs of the house will be a lot lower. Our clients therefore save money not only at the actual purchase, but also in the long term.

Furthermore, we are more flexible and can produce the houses a lot quicker than traditional house constructors since we already have a structure.

Regarding our competitive advantages to other companies that build container houses, we have a lot of design skills and knowledge, and actual products already on the market. We are “hands-on” and have taken a step from “just an idea” to the real market.

## **Distribution and Production**

For the moment we are producing our units in Malmö Harbour. When clients order from us, we produce the units in Malmö, and ship them from there to the final destination. If the units are about to be delivered within Sweden, they are sent by trucks. In other cases when the units have their final destination abroad to other countries, they are shipped on cargo boats departing from Malmö Harbour to the destination country, and later transported by train or truck in the destination country to the final destination within the country.

The fact that it is actually shipping containers that we are transporting makes it a lot easier than transporting traditional houses. The shipping containers are naturally constructed so they are easy to ship, due to that is their core function. They have standard measurements and fit all trucks, boat and trains in various countries around the world. Therefore we do not have any major problems in transporting our units.

We have our production in Malmö Harbour for the moment because it is still in a small scale, and we have control over it. For the future if the demand will rise and we need higher production capacity we will try to move our production to other parts of the world, preferably to Asia or Africa, in order to be close to our future markets. To ship our products from Europe down to Asia is neither cost efficient or environmentally friendly, it is also time consuming and we then affect our fast delivery strength negatively.

## **Marketing Strategy**

Our products are complex products that demand a longer decision process from costumers before they decide to purchase or not, it is not a consumer good that demand minimal decision making. Therefore our marketing strategy has to be much focused and mostly consist out of active marketing such as personal meetings and active personal sales in order to reach out to the big clients such as governments and big construction companies for the “Future houses” as well as large consumer goods companies for our “Brand Building” product. Regarding our

## Theoretical Reflections by Filip Syta

product “Fritidshus” we can use more consumer-friendly marketing since that product is the only one that mainly targets private persons directly.

We will have a good website that shows the problems that exists today with traditional housing, and we will enhance how our products can solve these problems and create a lot of value and benefits. Our products will be well explained with the benefits, there will be pictures, graphics, and moving graphics so that the costumers can get the best possible outcome of the website and our products.

We will try to work with different media such as TV, blogs, newspapers etc as much as possible in order to get free and reliable exposure on a large area. Medias have a lot of power and can help to start new trends and provoke interest among a large scale of people.

Furthermore we will place ads in housing magazines that will reach holiday houses prospects, in order to start a Word-of-mouth flow among that group. We will also be active online at the right forums and blogs where these people spend their time and provoke interest and start discussions.

Trade shows with housing theme or ECO-friendly theme are yet another important room for us to be seen at, at a trade show we have the possibility to show parts of our product and give prospects the possibility to see something else than just pictures online. This is also a good way to work even more on personal meetings and sales, making the right contacts and be seen in the right forums.

## Entry Modes

Since we want to entry the global market, and not limit ourselves into one specific market due to the flexibility of our product, we focus on international entry strategies.

Exporting and Joint ventures are two main strategy options in order to enter the foreign markets. Since we do not have a lot of knowledge and experience of conducting business overseas, especially in Asia and Africa, we may need to find a partner that know the market and business culture of the specific country.

A joint venture gives us access to local market and knowledge, as well as shared costs and more legitimacy (if the partner is liked at the market). The downside may be that we lose

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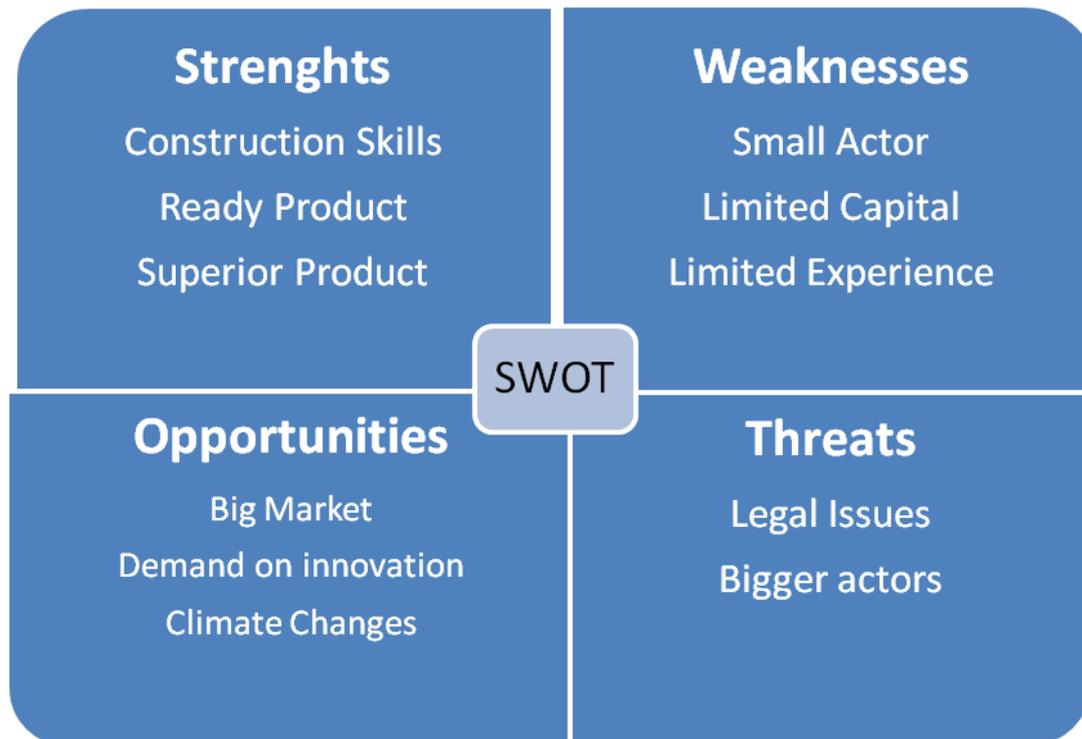
some of the control over the business, and the quality and functionality of our products may be affected, which would be very bad.

Direct and indirect exporting give us more control over the business, and we have a lot of options to operate through using these strategies. Export management firms and independent distributors can be very valuable for us in the process of get our product to the market, due to their market knowledge and network. Conducting overseas business involves new regulations, documentations, export/import fees and permissions etc. To have an export management firm taking care of these issues is a high benefit as well.

### **Pricing Strategy**

The pricing strategy is to price below “regular” traditional housing, in order to offer something that nobody else can. To offer an accommodation of high quality to the lowest market price is unique and a good competitive advantage. We will make sure to not under price our products though, in order to avoid possible negative thoughts that the quality may be bad since the price is so low. Since we are selling houses, it is important for our clients to feel that the quality is good and they can feel safe.

### **SWOT-analysis**



The SWOT-analysis shows our internal and external positive and negative aspects in a broad perspective. Our biggest strengths are that we have superior construction skills due to an experienced and professional architect that has constructed our product in various types. We also have a ready production facility and production method that can produce our products already. Furthermore our product is superior to traditional houses due to all its benefits, as well as it is superior to other modular housing.

Our biggest internal weaknesses are that we are a small and new actor on the market, which gives us less credibility and a small network within the branch. We possess limited capital and cannot invest in big productions if the demand is high, which can be an issue for a potential client that wants delivery. According to those weaknesses, we have limited experience since we are a new actor, and our contact network in the industry is limited as well.

We do have some good external opportunities such as that the market is very big, and there is room for more actors, especially if they have innovative products such as we do. The climate changes have started a global debate that we need to save resources, and earthquakes destroy houses and take lives, as well as ruin economies. Our product offers safer, long-lasting, cheap,

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and eco-friendly houses, which is a good opportunity since we believe that modular houses is an emerging market.

Our biggest threats are already established construction companies with economies of scale and high financial strengths. These companies have strong power over suppliers and buyers since they have been active for a while and can refer to older projects. Legal issues can also be a threat to us, governmental policies regarding building permissions, and other demands on housing may cause barriers for us.

### **The Know-how within the Group**

Our experienced architect Kenton Knowles has a passion for design and problem solving. He has developed the product, and made it adjustable for all kind of designs and requirements. Due to Kenton's design flexibility and technical knowledge we can adjust our products after customer needs in order to meet their demand.

Kenton has many years of experience from constructing, interior and exterior design in the U.S and in Sweden, where he is currently running an architecture firm.

The business developer and entrepreneur in the team Filip Syta, has hands on experience from marketing and business development, he also have experience from forming a company that strived to offer CSR value for companies, as well as offering advertising space for them. He has a strong drive to help people and meet customer demands.

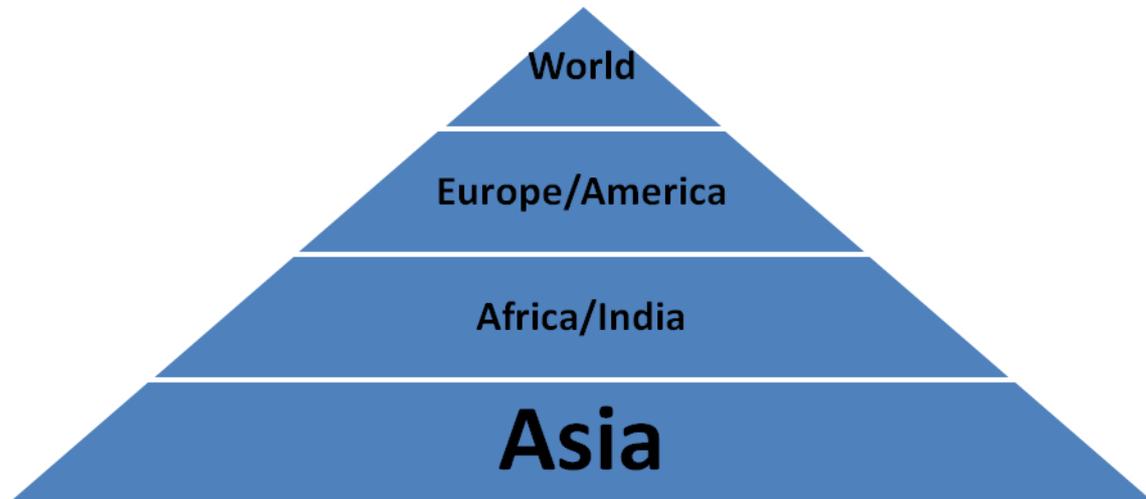
He has a Bachelors degree in Marketing from Linnaeus University, and he is currently finishing his Master of Entrepreneurship at Lund University.

He has international experience from his marketing studies in Seoul, South Korea. Except Swedish and English he is also fluent in speech and writing in Polish, since he has Polish parents and has lived in Poland for 1 year.

### **Long-term Strategy**

As we state in the beginning, we see our product on the global market. Therefore our long term strategy is to gain as much market share as possible in different markets. After entering our first target market for the "Future houses" Asia, we will try to expand to markets closely to Asia that acts a lot like Asian followers, Africa and India. We will also strive to build a

production factory in Asia. After that stage we strive to change the housing trends in Europe and America, and finally the entire global world market. This in order to build a long lasting company with future potential that offer value for the global market and the world.



### Risk Assessment

As all business and projects, there are always things that can go wrong. Below is our risk assessment chart where different core functions with possible scenarios are stated, their impact level and what we should do about the scenarios in order to lower the negative impact.

We also present early warning signs so that we can work to prevent the scenario before it breaks out and cause problems.

Risk	Likelihood	Impact	Risk Management Approach/Mitigating Actions	Early Warning Signs
<b>Skills</b>				
Lack of in-house skills at initial stages	Low	High	Figure out a new business model.	Reluctance of staff to be involved
Loss of key staff	Low	High	Rapidly try to find new key competencies in order to replace the key staff.	Lack of motivation, not accomplishing goals and tasks within deadline.
<b>Management</b>				
Failure to get all parties to share same understanding of purpose	Med	High	All involved parties need to sit down and discuss their vision, goals and dreams. In order to be clear with a corporate culture and purpose.	Communication problems, tasks are not performed in time and with bad quality.



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Risk	Likelihood	Impact	Risk Management Approach/Mitigating Actions	Early Warning Signs
Lack of commitment by staff	Low	High	Evaluate problem. Try to give a “carrot” and incitement to increase commitment	Bad attendance, bad focus, bad attitude
Arguments within the management	Low	High	Try to solve problems by talking about it	Bad communication, anger, different goals
<b>Product</b>				
Does not meet the quality requested and promised	Low	High	Identify where the issue is, and why. Implement a quality testing framework and method in order guarantee quality.	Complaints from customers, houses falling apart.
The product is hard to sell due to its price and quality relation	Depends on market	High	Look for bottlenecks, evaluate the market and lower the price. Offer more value, change of materials.	Bad sales, low interest in product
<b>Delivery</b>				
Late deliveries of product	Medium	Med	Evaluate problems, consider changing transportation company. Put pressure on the transportation partner.	Late deliveries, complaints from customers, unexpected costs.
Impossible to deliver due to strikes or bad weather	Low	Low	Maintain relation with the customer and ensure them that the products will arrive.	Bad Weather forecasts and bad relations/issues within the transportation branch
Problems with the transportation possibilities within countries	Low	Med	Evaluate the possibilities of transportation before entering that specific market. Make sure it is possible, to a relevant cost	Bad transportation systems, bad references from others.
<b>Production</b>				
Lack of raw material in order to produce.	Low	Depends on order quantity. If quantity high, impact is high.	Maintain good relations with suppliers in order to be able to get the materials before others.	Bad supply of material
Problems with production staff	Low	Med	Ask them what is wrong, try to meet their demands and requests, create a better working environment.	Bad production, lack of motivation, angry workers.
<b>Legal Issues</b>				
Problem with regulations set by governments	Med	Med	Evaluate market in order to meet the regulations, adapt to the rules	Evaluate market before entry, look for previous cases regarding these issues

## Preliminary Cash flow

Our preliminary budget is based on the production and sale of 100 units of the product “Future houses” during a timeframe of 1 year. It is very difficult to estimate the expenses for our business due to our various products and markets, as well as different costs for every client due to different demands.

### Preliminary Cash Flow Expenses for 100 units/1 year.

Expenses	Planned Expense
<b>Building Rent / Lease</b>	100 000,00 kr
<b>Equipment Rent / Lease</b>	100 000,00 kr
<b>Product / Material</b>	
Containers	1 000 000,00 kr
Other Raw Material	20 000 000,00 kr
<b>Marketing Expenses</b>	
Brochure	10 000,00 kr
Website	6 000,00 kr
Business Cards	500,00 kr
Advertising	100 000,00 kr
Trade Show	20 000,00 kr
<b>Administrative Expenses</b>	
Fax/Copies	3 000,00 kr
Postage	3 000,00 kr
Office Supplies	5 000,00 kr
<b>Sales Expenses</b>	
Travels	40 000,00 kr
Other	20 000,00 kr
<b>Operating Expenses</b>	
Insurance	100 000,00 kr
Other	20 000,00 kr
<b>Salaries</b>	1 200 000,00 kr
<b>Total Expenses</b>	<b>22 727 500,00 kr</b>

The costs for the shipping are not included since that cost is different every time depending on the destination of the product. We add the shipping cost on the final invoice, or the client can choose to handle the shipment by themselves.

If we invoice our clients 300.000 SEK per move in ready unit and we sell 100 units we will get an income of 30.000.000 SEK. Since our total expenses are 22. 727. 500 SEK we will have a pre-tax profit of **7.272 500** SEK a year.

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## Contact Information

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