

# Theory As a Guide to Entrepreneurship

*Koen Heine, April-May 2011*

*"If economists wanted to study the horse, they wouldn't go and look at horses. They'd sit in their studies and say to themselves, 'What would I do if I were a horse?'"*  
"; Ely Devons, economist.

## **Introduction**

During the past year my academic career has been rather different than the years before. In my undergraduate studies of economics & business economics, a mixture of different disciplines like microeconomics, marketing, organizational theory and finance, all I needed to worry about was to make sure I would pass the courses. I found that a rather unsatisfying way of studying; grades didn't motivate me very much and often the practical use of the theory was questionable.

At times I thought the value of getting a degree consisted merely of that: getting a degree. Conversations with graduates taught me that they used the knowledge they acquired during their studies only to a limited extent. Perhaps then, a university education is not actually an education but more like a series of tests that could signal to employers that the person holding a degree is intellectually capable. So I did my part and completed all the necessary courses, but for my graduate studies, I was keen on studying something else. Moreover, finding a job the traditional way like my classmates was not my first choice. Considering myself quite independently spirited, working on my own company was more alluring.

The Entrepreneurship program at Lund University seemed to be a good choice. In the program, I could lay the foundations of my own company and proof to myself if I was really that capable as I thought I was. At this time of writing, that remains to be seen, but things don't look all that unpromising.

In this auto ethnographical document, I will take the reader through the different steps of the entrepreneurial process, and I will structure it with inspiration from the courses in this program as follows:

- Section I: The Entrepreneurial Process and Opportunity Recognition
- Section II: Resource Acquisition
- Section III: Entrepreneurial Marketing and Market Exploitation
- Section IV: Discussion
- Section V: Conclusion and Future Research

I will try to give an answer to the question of the usefulness of theories that we have learned in class. Is it merely academic or does it help one to become a better entrepreneur?

### **Section I: The Entrepreneurial Process and Opportunity Recognition**

Every entrepreneurial activity has to be preceded by an opportunity. And every opportunity has to be recognized by the entrepreneur. It stands to reason then that everything that makes the entrepreneur the person who he/she is, influences what kind of opportunities are recognized. In the entrepreneurship program, this is somewhat different for many of my fellow students who are working on a research project. In that case, the researcher has laid out an innovation that the team of entrepreneurs will have to commercialize the best way that they can. From a competitive advantage point of view, this should work out very favorably. The innovation can often benefit from a patent, so monopoly profits that can be reaped later on are dangling like a carrot in front of the head of the students, researchers and investors. This is all well and good, but the process of opportunity recognition is not very interesting from the entrepreneur's point of view.

I am working on a business for which I came up with the idea myself. In this case, theory can offer a much better guide as to which factors influence the opportunity recognition process. Indeed, this is the subject of Ardichvili et al. (2003), although they argue it is better to refer to it as the opportunity development process because only parts of an opportunity can be recognized.

The rest needs to be developed. Five major factors are offered, of which I shall focus here on two out of five: entrepreneurial alertness and personality traits.

It makes most sense to me to start off with personality traits, as those are existent before the opportunity is recognized or developed. Research cited in Ardichvili et al. (2003) has shown that entrepreneurs differ from the general population in two aspects: optimism (related to self-efficacy) and creativity. I am definitely optimistic when it comes to my capabilities, but it would be interesting to see how much this really differs with the general population. A famous survey conducted in Sweden asked the question whether or not subjects thought their driving skills were better than the average driver. 90% of the subjects answered yes. It's a very basic human characteristic to be positively biased towards oneself. It is also quite hard to assess your own creativity unbiased. For our dating service, I came up with a new-to-the-world feature, so surely that's a sign of creativity. But only later are we going to find out if this creativeness is going to get us anywhere.

The relationship between entrepreneurial alertness and opportunity recognition is almost tautological in nature. Relating to my project, it was quite important for me to realize two things: the fact that finding a suitable romantic partner is problematic to many people and that, most likely, people's willingness to pay for a service that helps with this is high. Of course, dating websites do exist, but are associated with many problems. Intuitively, I knew that the online dating market must be huge. If we can somehow address the current problems, a large potential would loom for us.

The preceding paragraph also helps to fill in where in the opportunity matrix by Ardichvili et al. (2003) we were. Value sought was identified, but the value creation capability was undefined, which put us in the problem solving quadrant. To develop the dating application, two out of three team members decided to hire an external company with their own money. With that, we arrived in quadrant IV: business creation.

Consideration of the fact that the value creation capability was undefined leads to an interesting observation: to some degree, our project is one of causation. It is interesting because Sarasvathy (2001), one of the leading scholars within the entrepreneurship field, champions the importance of effectual reasoning. Causation processes are defined to “take a particular effect as given and focus on selecting between means to create that effect.” Effectuation processes are defined to “take a set of means as given and focus on selecting between possible effects that can be created with that set of means.” This is clarified with the example of cooking. One can either work towards creating a certain menu (causation) or look at the ingredients one already has to try to come up with a suitable menu (effectuation).

If I had been completely convinced of the use of effectual reasoning, I would have never started to work on a dating application. First and foremost, I have never in my life been involved in any web development whatsoever. Looking into my own “kitchen” of skills, I would have been shocked to find out I had almost none. Like I stated in the introduction, the practical use of my undergraduate degree is quite questionable. I found it to be of some use during writing our business plan, but it did not prepare me very well for actually conducting the business. So there I was, with an empty kitchen but hungry for success.

The effectuation theory certainly isn't without its use or merits, but I think in this stage of my life I shouldn't take it too far. I would argue it is more useful for an entrepreneur with a higher degree of past experience. To me, with very little entrepreneurial experience worth mentioning, it makes much more sense to think about what area of business I could be passionate. With my professional career still in front of me, there will be enough time to figure out how to best acquire the necessary skills. Perhaps if I will take on another project after this one, it will be one in which I can benefit from my experience gained in my current one. I could say to myself: “I have knowledge about this, experience in that, contacts here and there and this amount of personal monetary resources to invest. What kind of project makes sense to take on now?”

An amusing quote by Albert Einstein tells me that you shouldn't let your education get in the way of your learning, of course throughout the years I did learn *something*, and to be fair probably also during my undergraduate studies. As far back as I can remember I have always been interested in social phenomena. Why we interact with each other the way we do, why people pose themselves as someone they are not or how people choose their partner. For one reason or another, I didn't go on to study psychology, perhaps considering the discipline to be not serious enough. But I never lost interest in the subject, and found myself often theorizing about the questions above. It was interesting to find out that according to a test conducted during a lecture by Jonas Gabriellson, my preferred mode of thinking was indeed one of theorizing. I often did not go so far, however, as to validate my theories somehow. The most systematic way of doing that only came about a year ago when I started to watch Paul Bloom's great lectures via the Open Yale project. Some of my theories were indeed validated and I learned a lot of things I had never even thought about.

I also knew that for most people, their happiness is determined to a large extent to how happy they are with their romantic life. It seemed quite evident that for many people this is a part of their lives where there is something left to be desired. If I could somehow make a difference for those people, not only would I likely get monetary benefits, I would also feel like I'm doing something genuinely good. So my reasoning was one of causation. A certain goal needed to be achieved and I had to figure out the best way to get there.

Having this goal was also good for my motivation, I found. It was a subject in which I was interested in and I knew that if I worked hard, I could make a difference. Before choosing what my final project was going to be, I wanted to work on a research project. Looking back on my involvement in the Bespoke project (now Shapeyard), I am happy I did not end up there. I couldn't care less about selling people some furniture. When I was presenting about it I was doing it with limited enthusiasm. I don't mean to question the motivation of my fellow students, but I do wonder where it is coming from. In my case, my project is just a very good fit with what interests me as a person. Moreover, anecdotal evidence

from some of the research project groups seems to suggest that the collaboration with the researchers is far from optimal. Part of being an entrepreneur, to me is to have a greater sense of independence than a person with a more conforming professional career. When working on a research project, one gives a lot of dependence away right off the bat. To quote an anonymous alumnus of the program when I asked him about a certain research project from a previous year: "I think [the entrepreneurs] kind of got screwed on that one." This was far from an in-depth interview, but it further corroborates the countless stories of difficulties that entrepreneurs seem to run into when collaborating with researchers.

An advantage for many people in our class is that if they are working on a research project, they stand a much better chance at winning money in Venture Cup, a business plan competition. It is not hard to see why they favor such projects. They often hold the promise of a technical innovation that is eligible for a patent. Furthermore, those projects often already have a lot of prior time spent on them in the form of research, contrary to mine. The potential money won from such a contest certainly is appealing. No risk or responsibility is taken by anyone, yet there are quite sizeable possible payoffs. By now, it is clear that our project indeed is not even one of the candidates. This is too bad, but we feel it is likely that we are going to see profits in the near future. To me, this is much more valuable. I'd rather make SEK 1 of real business profit than SEK 100 000 on writing a business plan. At least we as entrepreneurs can drive profit far beyond that once we get started.

Yet another one of my considerations for choosing what type of project I was going to work on was the difference Schumpeterian and Kirznerian opportunities. A Kirznerian opportunity represents the possibility to take available resources and use them in a more effective way in order to restore the equilibrium. A Schumpeterian opportunity is when an innovation causes creative destruction where unmet demand is met (Landström and Benner, 2010). No doubt that for me, this was the most appealing option. If I could somehow deliver

an innovation that the world has never seen before, eternal praise and worship would be upon me.

When working on our project initially, I worked very hard to indeed deliver a Schumpeterian innovation to the market. I had the idea of creating this elaborate website with features unseen on our competitors'. The idea is still there, but we had to scale back our ambitions somewhat due to our limited resources. Instead, we are going to bring a business model innovation to the market. It is hard to classify this as either a Kirznerian or a Schumpeterian opportunity. But in any case, our product will be less revolutionary in terms of features. In a sense, our business model allows us to exert price discrimination. If micro-economic theory holds, this should give us a bigger producer surplus. Even with our limited resources, we are still able to bring an innovation to the market.

## **Section II: Resource Acquisition**

In our team no one possessed the necessary skills to develop our product, so development had to happen externally. When we started out, we did not really know how much the development of our application that we had in mind was going to cost us. We had a general sense that if we were going to hire an external company, it was going to be more than we could afford personally. Us being good entrepreneurship students that look into our textbook, writing a business plan seemed like a good idea. Hisrich et al. (2008) make the case that writing a business plan is analogous to drawing out a route on a map. In our case, this comparison doesn't hold by a long shot. When deciding which way to go with a car, one indeed is able to plan out many things necessary to complete the journey. When we want to conduct our business, we don't really know where we are going to go in advance yet. And even if we did know, there would still be many uncertainties with regards to how we are going to get there, since what we are doing is something that nobody has ever done before. Let alone that there is a map out there that tells us about the different ways to get there. Rather, we are walking on an unpaved path to an unclear destination. In the textbook, three main reasons are given for why the business plan is important. Interestingly

enough, there are no reasons given why *not* to write a business plan. Most certainly I could come up with a few:

- It is something that most likely is not fun to do.
- It is time consuming.
- It could give the entrepreneur and investors a false sense of certainty.

Nevertheless, we wrote a business plan anyway. During this stage, we were also in contact with ISIT students. When they were writing their report for us, it became evident that the features that we had in mind for our application were going to be costly and complicated to realize. At that time it came to dawn to us that perhaps we should scale back our ambition and focus on something simpler instead. We were uneasy with making big decisions on this matter. We still felt it was important to distinguish ourselves in this market if we were going to have any chance of survival.

Our project didn't have much direction until I met up with my mentor Håkan Paulsson for the first time. He pressed me to think about the revenue model of our business. During our meeting he laid out several ideas and I picked out the best of them. When I came back from that meeting I convinced my group mates of this new revenue model. It turned out that this model was not entirely new, but thanks to this we did come up with two new features. These two features would be fairly easy to implement for a programmer and made a lot of sense from a business point of view.

So the project finally picked up steam again and with great confidence we updated the business plan to reflect the new changes. With a good idea of what we wanted to do, we made contact with several programming companies to ask how much development would cost us. We were lucky to be contacted by a company that already had developed an application similarly to our wishes. All they had to do was customize it to work in the new features. They were the cheapest and would charge us a very modest price.



In fact this price was so modest that a certain fund at ALMI, a governmental business assistance agency, would more than cover for that. The money that you can get is meant for prototype development and market research. We made contact with ALMI employee Johan Bloem and made it clear that our intention was to apply for that fund. In the follow-up meeting that we had with him I felt we did really well. We prepared a nice presentation and were able to answer his many questions quite satisfyingly. But there was the question if whether we had done our market research; asking people whether they would be interested in our kind of service. If we would do that, then maybe we would be eligible. I cringed when I heard him utter the words “market research” at the meeting. It is not something I enjoy doing very much and besides, even if we would do it, there was still a good chance we were not getting the money. We came out of that meeting frustrated that we didn’t reach our goal. Conducting market research would take more of our precious time.

During the time in which we were writing our business plan, we probably gained some more insight in the market we were going to enter. We had hoped, however, it would give us the necessary legitimacy for ALMI to give us the money. According to Zimmerman and Zeitz (2002) legitimacy is an important resource when acquiring other resources. Clearly the business plan did not give us enough. Indeed, Johan Bloem explained us that if we were two business managers that have been running a company for several years with 10-20 employees we would be more likely to be eligible. We didn’t think business managers of that caliber would come to ALMI to beg for a fund that pays out maximum SEK 15 000, but we nodded to him anyway.

Our experiences with writing a business plan are similar to the findings of Karlsson and Honig (2009). A business plan was mainly used in some companies to gain external capital, only to be never used later on. This taken for granted view on the use of a business plan is criticized, as it is not empirically supported.

So now we decided instead to pay the money for development ourselves. It was about time that we pressed ahead after months of working on this project. We

ourselves were convinced of the potential of the to-be-formed company. We did not really consider a form of venture capital such as a professional venture capitalist, a business angel or a corporate venture capitalist (DeClerq et al., 2006). Our capital requirements weren't as big as is customary with any form of external capital.

The decision to put our own money on the line still was quite hard. When making monetary decisions, framing the problem in a different way can make a big difference (Kahneman and Tversky, 1979). I asked myself what the value of my education this year was going to be if I wouldn't pay and compared that to the value if I did. The conclusion was that the value was going to be much higher while the total costs of being here were only going to increase by relatively little. But even more important than that was the gut feeling that our business might actually work.

### **Section III: Entrepreneurial Marketing and Market Exploitation**

Classic marketing theory holds that we need to think about customer wants and needs first and come up with an offering that meets these wants and needs. Our strategy is somewhat different than that. We looked at the online dating market and saw that there was dissatisfaction. As I've said before, we did not really want to do the market research and literally ask people whether they would be interested in using our website. Instead we just wanted to go out and do it and redefine the market.

Schindehutte et al. (2008) call this the difference between market-driven and market-driving behavior. They even assert that being market-driven isn't very entrepreneurial. Being market-driving instead is what creates new markets. That is what we want to do ultimately. When looking at the characteristics associated with either being market-driven or market-driving (in the table below) it is clear on which side of the fence we want to be. Especially existential to our core of business is point 3: we want to redefine customer needs and not just reinforce brand loyalty and increase market share. We hope to find ourselves in good

company of successful businesses like Starbucks and Southwest Airlines.

**TABLE 2-2 A Summary of Differences between a Market-Driven and a Market-Driving Approach**

<i>Characteristics Associated with Market-Driven</i>	<i>Characteristics Associated with Market-Driving</i>
1. Respond to market demand	1. Create market and new standards
2. Incremental innovation	2. Breakthrough, revolutionary innovation
3. Reinforce brand loyalty; increase market share	3. Redefine customer needs
4. Brand = Identifier (name, logo, slogan and awareness)	4. Brand = Experience provider (engagement of customer – events not products)
5. Functional features and benefits of product/service	5. Affective, cognitive, and sensory aspects of experience; lifestyle
6. Transaction and relationships; full channel cooperation	6. Holistic and community; embedded network of customers and collaborator relationships
7. Leverage existing resources	7. Expand alliances
8. Market leadership	8. Market ownership
9. Customer is external source of intelligence and feedback	9. Customer is co-active partner in marketing decision process
10. Methods are analytical and quantitative	10. Research methods are eclectic

I have said before that our business model is unique. According to Schindehutte et al. (2008) having a unique business model is a necessary qualification for a cool business. A logical set of decisions on this is what creates sustainable business. What we hope to achieve with our business model is that people get what they pay for. If customers decide to pay money to use our service that means that they are getting value in return.

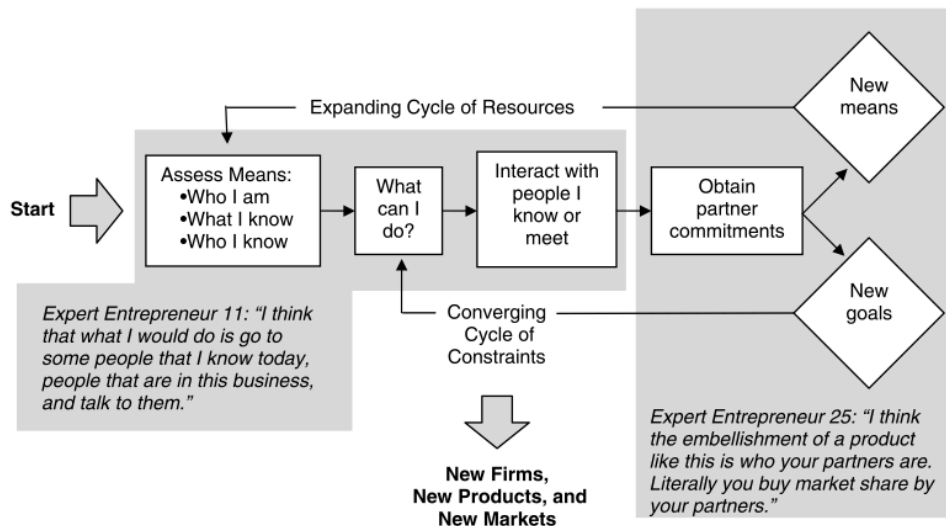
When people think about marketing a lot of them probably think of promotion. Now that we thought of the kind of product that we want to have we need to think very hard about the way we are going to get the word out about our application. With a non-existent marketing budget this is and will prove to be quite a challenge. Our product is one that lives within the social media network Facebook. The company visit of our class to the Duffy agency was a good start to understand the significance of Internet marketing. A good summary in as little words as possible of the entire several hours lasting talk and the 144 slides would probably be: “Social media can make or break your business.”

The good news is that we can leverage social media for free. Word about our product will spread like a virus if we manage to do that the right way. The bad news is that we have no experience in this and we will likely make a lot of errors along the way. We found an Internet article (non peer reviewed) by Gardner that will help us to think about the most important channels of communication.

Like so many other business students of my generation, I have studied from Kotler's textbooks to learn marketing theory. Yet as Hills et al. (2008) point out they only have a very small discussion on marketing *to* small businesses. No word is spoken about the unique opportunities and challenges that small firms face when they are conducting their marketing activities. The article makes a survey of the different milestones there have been in the entrepreneurial marketing research field.

Stokes (2000) provides a conceptualization of the marketing activities that successful entrepreneurs undertake. We can take comfort in the notion that they tend to not do traditional market research. Like us they prefer to focus on innovations first and then on customer needs. And instead of relying on a conventional marketing-mix, they rely on word-of-mouth spread. This describes our preferred tactics very well. Now it is tempting to assume that we are going to be successful just because our strategy mimics those of successful entrepreneurs. This is almost surely not the case. But it does reinforce my sense that our heart is in the right place and we better dismiss the suggestions made by Johan Bloem. We shouldn't fool ourselves by thinking the key to success is to not do market research. But successful entrepreneurs all prefer to think of an innovation and then find a market for it. That piece of wisdom is well taken.

There exists a great deal of uncertainty in our project. Read et al. (2009) attempt to describe a marketing strategy that has an effectual approach in an uncertain environment. As they point out when they reiterate Sarasvathy's theory, effectuators begin with the means that they have. I pointed out earlier that this kind of thinking would limit myself in my activities. So instead I chose to pursue something about what I was passionate for and try to make that happen.



But I can nonetheless learn from the kind of thinking done by expert entrepreneurs. Once again it is confirmed that expert entrepreneurs don't rely on predictive market research. Another finding that appeals to me is that expert entrepreneurs think about the long-term prospects of a business. This is the only way of thinking that makes sense to me. For our project, we know that a demand will likely always exist for this service in some kind of form. It will be our job to first build a good product and then enhance brand value as much as possible so that we can capitalize on that demand. When it comes to pricing, expert entrepreneurs tend to price their products higher than managers. Our product will truly stand out in this particular aspect by giving users control of the price. Without saying too much about it here, it will be an innovation that no one has thought of before.

## Section V: Discussion

The theory that I have described or referred to above provided me with much-needed inspiration to write these reflections. Yet I have written it all in retrospect. It is hard to think of a moment when I thought of a certain theory and adapted my behavior in accordance with that theory. I also doubt that this is the case for most of my fellow students.

The one situation where I did use some of the theory of this program was about market research. It was greatly encouraging to hear that expert entrepreneurs do not like formal market research. When Johan Bloem of ALMI told us to do it, I

thought to myself that I'd rather put in the money myself. Even in this situation, however, just the fact that I knew this theory had little effect on my actual deeds. Most likely, I would have cringed just as much without having read scholarly articles about it. In a way, I have taken the economist's approach on the market. Reading into psychology theory, I think I have come up with a better solution on online dating.

If I still give the impression that I don't think academic theory useless, this is unintentional. As a matter of fact, I am planning to take a course titled "Capitalism: Success, Crisis and Reform" via the Open Yale project. The premise of that course is that some countries have been able to better use capital than other countries and as a result huge income disparities have come to appear. What I am going to learn is most likely again the Schumpeterian view that entrepreneurship drives economic growth. And according to the Legatum Prosperity Index, entrepreneurship correlates with overall prosperity more than any other factor.

The societal benefit of entrepreneurship has always been quite evident for me from by intuition. I think that is also the reason why I was so motivated to be in this program and make the most of it. Not only are the monetary benefits virtually unlimited, it also does something good to society. In some of the conversations with the other students it became evident that they were only in it for the money. My prediction is that these students will not succeed. I believe that in order to make huge amounts of money you have to not care about it at all on some level. It is not hard for me to admit that I am quite materialistic. But time will perhaps tell up to what point. If the day ever comes that I am financially independent it will be a cause for celebration. But I wouldn't lie on a beach indefinitely. Instead I'd rather start working on a new project or do charitable work. My guess is that this isn't true for many business students.

### **Section V: Conclusion and Future Research**

The entrepreneurship program is a bit of an outsider compared to other masters. It has great potential to do great things for students, the university and society if everyone cooperates. Unfortunately in my opinion it is still stuck in some

traditional academic thinking. Its teachings are under the assumption that if you let students learn about a certain theory, the student will grasp that theory and put it to good use. Being a student it is quite obvious to me that most students are only interested in passing the course. Most will not stop and think about the theory "for real". First they will wonder whether this part will come back on the exam. If yes, they will see to it that they learn it to the extent that they can answer an exam question about it in a satisfying way.

That is one half of the program. The other half is actually doing your own project, albeit with some stuff that you have to turn in. But those requirements are not high at all. Mostly, it is what you make of it yourself. This does create slackers. Some people have only put in the minimum amount of work. My prediction is again that these people will not succeed. They expect to get a free lunch.

For the ambitious students the freedom is great. One has a lot of time on his hands and can decide how to use that time most effectively. Most probably do fine that when they engage in an effectual project they can actually get things done. When doing a causal project it is key to find the people that can compensate you for your lack of skills in that area. This has been the case for my project. Due to some unfortunate circumstances the project is shelved right now but I can hardly wait to pick it up again. I have found three people, Francesco Palmisano from Scanset, Hampus Jakobsson from TAT/RIM and Håkan Paulsson from Create Group that might be able to help me on some level.

I am going to give two suggestions for final research. First I will give my model for any entrepreneurial project. In my mind, any project can be broken down in three parts:

1. The underlying customer need (social needs, comfort, entertainment etc.)
2. Project potential (market size, market growth, profit margins etc.)
3. Execution (product solution, external finance, company name etc.)

Secondly the five values that I believe will lead to sound business practice:

1. Work against someone and not with someone and you might win in the short term. In the long term everybody will lose.
2. If you as a company think about people's needs and not try to trick or deceive them somehow or in general not focus on creating customer value, you will not reach your full long term potential.
3. If there is a need for something there is most likely a way to make money from that need. If there is not, consider giving away the product or service for free to create goodwill and brand value.
4. If you feel dirty about making too much money from something, give the money to a charity that works on something you are concerned about. This is what Hampus said in our lecture. But make sure the charity is doing what it promises and does not take your money to buy themselves a sports car.
5. If you as a company can offer a product or service but the customer does not want a company to make profit, offer the customer to donate the profit to a charity that the customer is concerned about. But make sure your customer checks the condition laid out in point 4.

A lot of questions can be asked about this. For example: Are people that agree with this more successful than the ones that don't? Is my model for entrepreneurial projects complete? These are questions that scholars might be able to answer.

## **References**

- Ardichvili, A., Cardozo, R. and Ray, S. (2003). A theory of entrepreneurial opportunity identification and development. *Journal of Business Venturing*, 18, pp. 105-123.
- De Clerq, D., Fried, H. Lehtonen, O. and Sapienza, H.J. (2006). An Entrepreneur's Guide to the Venture Capital Galaxy, *Academy of Management Perspectives*, August, pp. 90-104.



Hills, G.E., Hultman, C.M. and Miles, M.P. (2008). The Evolution and Development of Entrepreneurial Marketing, *Journal of Small Business Management*, 46(1), pp. 99-112.

Kahneman, D. and Tversky, A. (1979). Prospect Theory: An Analysis of Decision under Risk, *Econometrica*, 47(2), pp. 263-292.

Karlsson, T. and Honig, B. (2009). Judging a business by its cover: An institutional perspective on new ventures and the business plan, *Journal of Business Venturing*, 24, pp. 27-45.

Landström, H. and Benner, M. (2010). Entrepreneurship research: a history of scholarly migration, in *Historical Development of Entrepreneurship as a Research field*, pp. 15-45.

Read, S., Dew, N., Sarasvathy, S.D., Song, M. and Wiltbank, R. (2009). Marketing Under Uncertainty: The Logic of an Effectual Approach, *Journal of Marketing*, 73(May), pp. 1-18.

Sarasvathy, S. (2001). Causation and Effectuation: Toward a Theoretical Shift from Economic Inevitability to Entrepreneurial Contingency. *The Academy of Management Review*, 26(2), pp. 243-263.

Schindehutte, M., Morris, M.H., Pitt, L.F. (2008). Rethinking Marketing, *Pearson Education International*.

Stokes, D. (2000). Entrepreneurial marketing: a conceptualization from qualitative research, *Selected papers from the Academy of Marketing Conference*, pp. 47-54.

Zimmerman, M.A. and Zeitz, G.J. (2002). Beyond Survival: Achieving New Venture Growth by Building Legitimacy, *Academy of Management Review*, 27(3), pp. 414-431.



# Facebook Dating Application

---

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

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.

---

3/28/2011

*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 (Match.com, eHarmony) and free dating sites (OkCupid, Plentyoffish) 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 charging a monthly subscription fee, we will charge users per person that they wish to initiate contact with. For the initiator of contact 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 carefully. 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. This also allows for non-paying members since paying users will likely send multiple messages on average. 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.



**Table of Content**

- 1 Problem Description and Background of Venture ..... 3
- 2 Business Idea and Customer Benefits ..... 3
- 3 Industry Analysis..... 4
  - 3.1 Internal Rivalry ..... 4
  - 3.2 Potential Entrants..... 6
  - 3.3 Bargaining Power of Suppliers ..... 7
  - 3.4 Bargaining Power of Buyers ..... 7
  - 3.5 Threat of Substitute Products ..... 7
  - 3.6 Levels of Competition..... 8
- 4 Marketing Plan ..... 10
  - 4.1 Customer Analysis ..... 10
  - 4.2 Product ..... 10
  - 4.3 Pricing ..... 11
  - 4.4 Distribution..... 11
  - 4.5 Promotion..... 11
- 5 Risk Assessment ..... 12
  - 5.1 SWOT ..... 13
  - 5.2 Internal ..... 13
  - 5.3 External..... 13
- 6 Business Model..... 14
- 7 Profitability and Financing..... 15
- 8 Development ..... 17
- 9 Roll-out of the service ..... 18
- 10 Organization ..... 19
  - References..... 21

## 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.

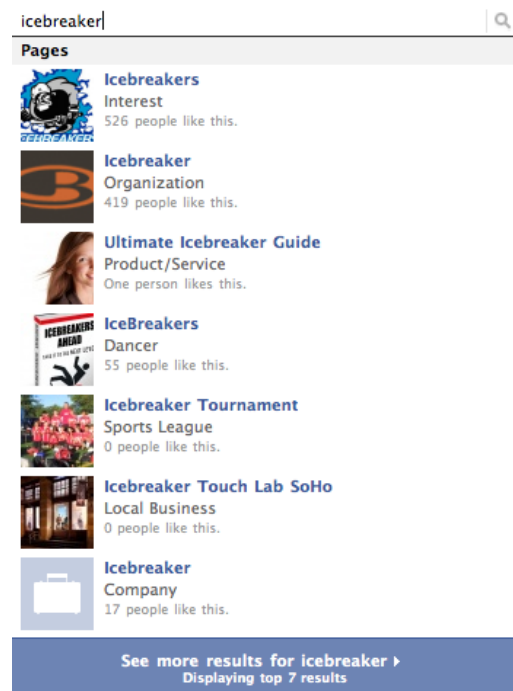
## 2 Business Idea and Customer Benefits

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 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.

#### 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.

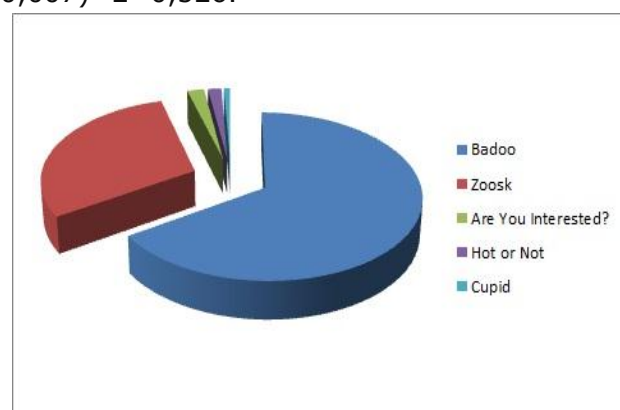
These are the major players on facebook, using revenue as the basis for calculating market share.

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	

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. 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?".

### ***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.

### ***3.2.4 Switching Costs***

Switching costs to our dating service are low. Since you can use your already existing facebook account to set up your IceBreaker account, no time or effort is needed. However, switching from our application to a competing service is more time consuming for the consumer. It is however still low compared to other industries where it takes months before you can fully exploit the new service.

## **3.2 Potential Entrants**

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. 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.

### **3.4 Bargaining Power of Buyers**

The online dating market consists of lots of potential customers and lots of companies. 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.

### **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 want to develop. 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 it affordable and still use the facebook application we believe will capture a large group of people since people usually checks their profile a few times a day.

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 kind find a potential partner. The 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 are going to have since they also have developed applications on Facebook. The problem with "Are You Interested?" is that it doesn't look very nice and the programing is not good resulting in a lot of bugs such as pictures end up outside the screen, except for

that, the idea is good and we believe that we could develop some functions they have 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**

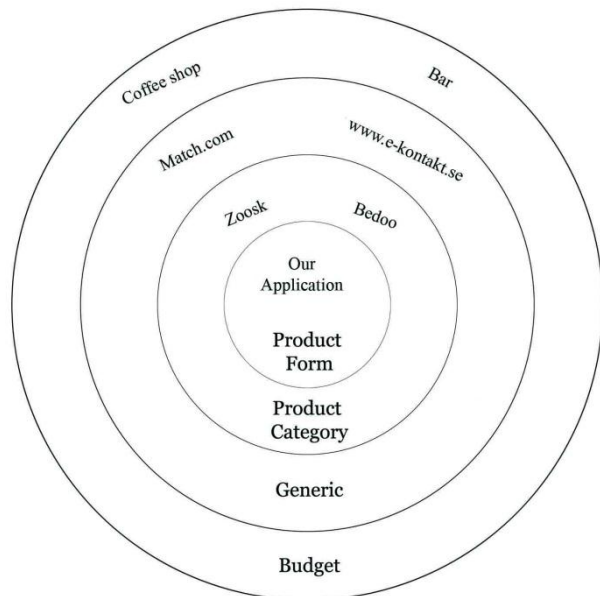
*All Facebook Application Competitions operating in the same way as we do*

None of the competitors are acting in the same way as we do, therefore, if you look at the product form, we are unique.

### **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.



### **3.6.3 Generic Competition**

*All Online Dating*

In the generic section we focus on match.com, [e-kontakt.se](http://www.e-kontakt.se) and other sites which operate the same way. 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 us, but without them we would still be able to attract some of their customers.

### **3.6.4 Budget Competition**

*All ways of meeting new people*

In this section we can put any other way people use to interact and get to know new people. This differs a lot depending on people's preferences. It could be joining a sports club, start to dance salsa or going out for a beer at the local pub. Anyway, it competes with our way of interacting with 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 firm 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.

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.

### 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](http://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.

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.

**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.

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

The total pricing scheme looks as follows:

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**

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.

**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.

#### **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 some capital constraints and therefore it is important not to use conventional capital intensive ways of communicating with the market.

#### **4.5.2 Media**

Media, and especially social media is very important to us. It is so important so that we have decided to put much of our focus on facebook and how people should be able to access our dating application through facebook. Since there is 500 million users of facebook, only a fraction is needed for us to be successful. We want it to be natural for our users to check out IceBreaker while logging in to their facebook account a few times a day. It is also good to be shown elsewhere on the Internet and we will therefore try to get bloggers to write about us.

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 also free advertisement and it also helps us with the legitimacy problem that many companies face when trying to establish themselves.

## **5 Risk Assessment**

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

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

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

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

Other risks involve;

→Not attracting the know-how we need.

→Failing in recognizing our customer and hence, failing to position ourselves on the market.

→Not reaching out to our customers.

→Getting our customers to use the product but fail to make them pay for the premium features, leading to huge cost of having the traffic without any increase in turnover.

→The risk that the well-established companies with financial muscles capitalize on our idea and exploit the gap in supply and demand that we have recognized.

## 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.

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.

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

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) wealth. To accommodate big spenders fully with this, we will introduce a vaska-special package for 1100 credits for SEK 6000.

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



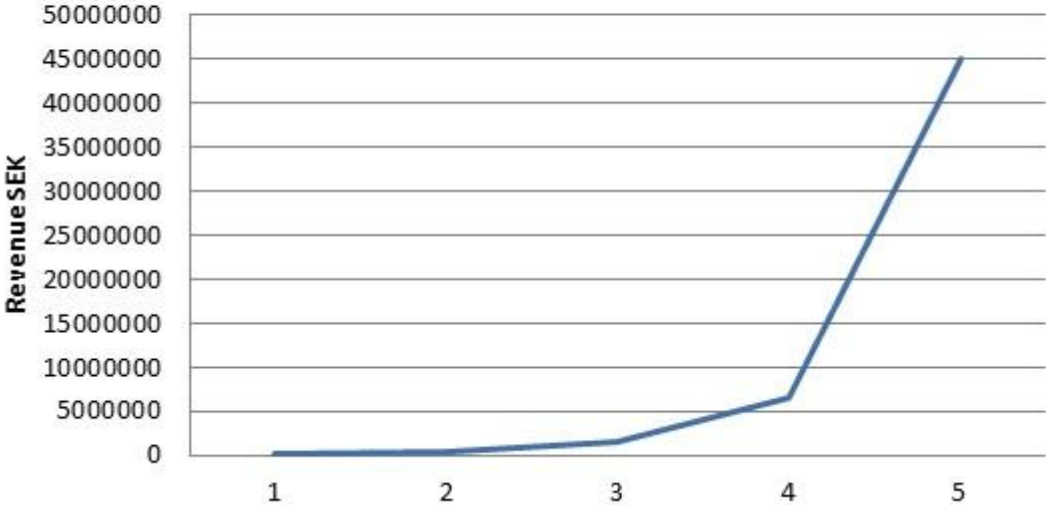


This gives someone the option of spending 1000 credits on being on the list, while still having an additional 100 credits to spend on contacting other people.

### 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.

#### Revenue Stream



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, backed by word of mouth and the momentum it can bring.

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:  $Value=(n^2-n)/2$ ).

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	1 000 000	3 000 000	12 000 000	
Other Operating Income	0	100	200	300	400	500	600	700	600	2 200	3 000	3 500	4 000	
<b>Operating Income</b>	<b>0</b>	<b>7 100</b>	<b>16 200</b>	<b>27 300</b>	<b>50 400</b>	<b>80 500</b>	<b>120 600</b>	<b>180 700</b>	<b>50 600</b>	<b>432 200</b>	<b>1 003 000</b>	<b>3 003 500</b>	<b>12 004 000</b>	
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	72 000	72 000	72 000	
Personnel Costs	4 500	5 500	6 500	7 500	20 000	55 000	90 000	135 000	24 000	300 000	700 000	2 000 000	4 000 000	
Depreciation	1 667	1 667	1 667	1 667	4 167	4 167	4 167	4 167	6 668	16 668	16 668	6 668	0	
Other Operation Costs	0	300	600	900	900	1 200	1 500	1 700	1 800	5 300	4 800	5 400	6 000	
<b>Operation Costs</b>	<b>7 467</b>	<b>8 767</b>	<b>10 067</b>	<b>11 367</b>	<b>31 367</b>	<b>66 667</b>	<b>101 967</b>	<b>147 167</b>	<b>37 668</b>	<b>347 168</b>	<b>796 468</b>	<b>2 087 068</b>	<b>4 081 000</b>	
<b>Operating Profit</b>	<b>-7 467</b>	<b>-1 667</b>	<b>6 133</b>	<b>15 933</b>	<b>19 033</b>	<b>13 833</b>	<b>18 633</b>	<b>33 533</b>	<b>12 932</b>	<b>85 032</b>	<b>206 532</b>	<b>916 432</b>	<b>7 923 000</b>	
Financial Income	0	20	40	60	130	200	300	400	120	1 030	2 000	2 500	3 000	
Financial Costs	10	0	0	0	0	0	0	0	10	0	30	50	70	
<b>Profit after Financial Items</b>	<b>-7 477</b>	<b>-1 647</b>	<b>6 173</b>	<b>15 993</b>	<b>19 163</b>	<b>14 033</b>	<b>18 933</b>	<b>33 933</b>	<b>13 042</b>	<b>86 062</b>	<b>208 502</b>	<b>918 882</b>	<b>7 925 930</b>	
Year-end Adjustments	0	0	0	0	0	0	0	0	0	0	0	-229 720	-1 980 750	
<b>Profit Before Tax</b>	<b>-7 477</b>	<b>-1 647</b>	<b>6 173</b>	<b>15 993</b>	<b>19 163</b>	<b>14 033</b>	<b>18 933</b>	<b>33 933</b>	<b>13 042</b>	<b>86 062</b>	<b>208 502</b>	<b>689 162</b>	<b>5 945 180</b>	
Tax Paid	0	0	0	3 652	5 366	3 929	5 301	9 501	3 652	24 097	58 381	192 965	1 664 650	
<b>Profit</b>	<b>-7 477</b>	<b>-1 647</b>	<b>6 173</b>	<b>12 341</b>	<b>13 797</b>	<b>10 104</b>	<b>13 632</b>	<b>24 432</b>	<b>9 390</b>	<b>61 965</b>	<b>150 121</b>	<b>496 197</b>	<b>4 280 530</b>	

We will need some finance in order to be able to develop the application. The Informatics students will help us research what we need in terms of programming; hence, we will need to raise capital to finance the development of our product. We will try to use bootstrapping in terms of getting students involved in the project. If we are not satisfied with the result, we will look externally for programmers who can deliver. Therefore, it is hard to predict the need for capital. Best case is if we don't need any external capital at all. This is however not very likely. 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 want to use this money to develop a prototype and this programming will help us when constructing the final product. We believe that the initial grant will give us enough capital to develop most of what is needed to attract the users.

The income budget is a little on the conservative side, especially during the first years, assuming that we are able to penetrate the market.

	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.

## 8 Development

Actually developing the application will be the first 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.

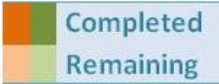
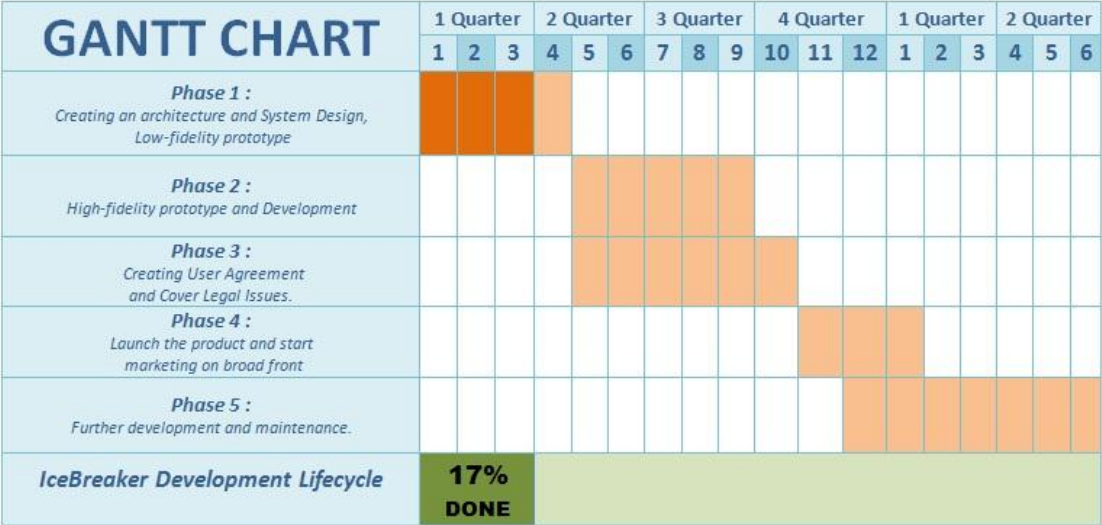
**Phase 2:** Basic functions like a log-in, match-making through Facebook and a website that you get redirected to while using the application. By now, you can use the application to find new people and interact with. No other functions available.

**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

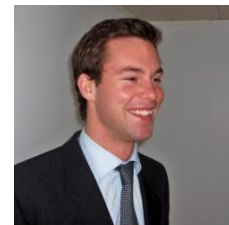
Our team members are currently master students in the Entrepreneurship Programme at Lund University, who will provide expertise and direction in key areas as follows;

**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.

## References

Ariely, D. (2010), *The Upside of Irrationality*, London: HarperCollinsPublisher.

Ellin, A. (2009), *The Recession. Isn't it Romantic?*, *New York Times*,  
<http://www.nytimes.com/2009/02/12/fashion/12dating.html>.

Fiore, A.T., Taylor, L.S., Zhong, X., Mendelsohn, G.A., Cheshire, C. (2010), *Who's right and who writes: People, Profiles, Contacts and Replies in Online Dating*, *Proceedings of the 43rd Hawaii International Conference on System Sciences*

Frost, J., Chance, Z., Norton, M. and Ariely, D. (2008), *People Are Experience Goods: Improving Online Dating with Virtual Dates*, *Journal of Interactive Marketing* 22 (1): 51-61.

Gallup, G.G., Atkinson, J. and Moriarty, D.D. (2008), *Evolutionary Psychology: The Impact of Evolution on Human Behavior*. In Davis, S.F. and Buskist, W. *21st Century Psychology: A Reference Handbook*. Vol. 1. Thousand Oaks, CA: Sage Publications Inc. p258.

Insidefacebook, *Global User Demographics*, retrieved from:  
<http://www.kenburbary.com/2011/03/facebook-demographics-revisited-2011-statistics-2/>, 2011.

Lehmann, Donald R., and Russel S. Winer. *Analysis for Marketing Planning*. International Edition. New York: McGraw-Hill, 2008.

Love at first byte, *The Economist*. <http://www.economist.com/node/17797424>

[Reference Handbook](#).

Rudder, C. (2010), *Why you should never pay for online dating*, *Oktrends*

Schindehutte, M., Morris, H., and Pitt, L., *Rethinking Marketing, The Entrepreneurial Imperative*. Pearson Prentice Hall, 2009.

**Allfacebook, Are You Interested Sits Atop The Facebook Dating World, Retrieved from:**

<http://www.allfacebook.com/are-you-interested-sits-atop-the-facebook-dating-world-2010-10>, 2011

**Cupid, Acquisition of Cupid.com for USD 6.6 million (£4.4 million) Retrieved from:**

[http://www.cupidplc.com/download/100922\\_Cupid\\_com\\_acquisition\\_FINAL.pdf](http://www.cupidplc.com/download/100922_Cupid_com_acquisition_FINAL.pdf), 2011

**Socialnetworkingwatch, Badoo Prepares For IPO, Retrieved from:**



<http://www.socialnetworkingwatch.com/badoo/>, 2011

Techcrunch, *HotOrNot Apparently Very Hot: Acquired For \$20 Million*, Retrieved from:

<http://techcrunch.com/2008/02/11/hotornot-apparently-very-hot-acquired-for-20-million/>, 2011

The Facebook page for Zoosk dating, Retrieved from:

<http://www.facebook.com/zooskdating>, 2011

Weopia virtual dating, Retrieved from:

<http://www.weopia.com>, 2011

Zoosk, *Zoosk More Than Doubles Sales In One Year and Surpasses \$90 Million Annual Sales Run Rate*, Retrieved from:

<http://www.zoosk.com/release.php?key=14&from=press>, 2011