

Entrepreneurship and start-up management

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REGINNA 4.0

Outline

- What is an entrepreneur?
- Approaches to the start-up phase
- The lean start-up approach in action



Vision and mission

The key ideas of startup

- **Vision**
- The entrepreneur imagines a future
- **Stakeholders**
- Entrepreneurs can't do everything on their own
- **Business idea**
- A business idea must satisfy customers need and generate economic value
- What a company does (and what it does not)
- The revenue streams, for all the stakeholders

Vision & Mission

- **Vision**

- A shared idea about where you want to get

- **Mission**

- A brief statement about what you want to do in the near future to make the vision happen
 - What you want to get
 - Why
 - How
 - When



Approaches to start-up

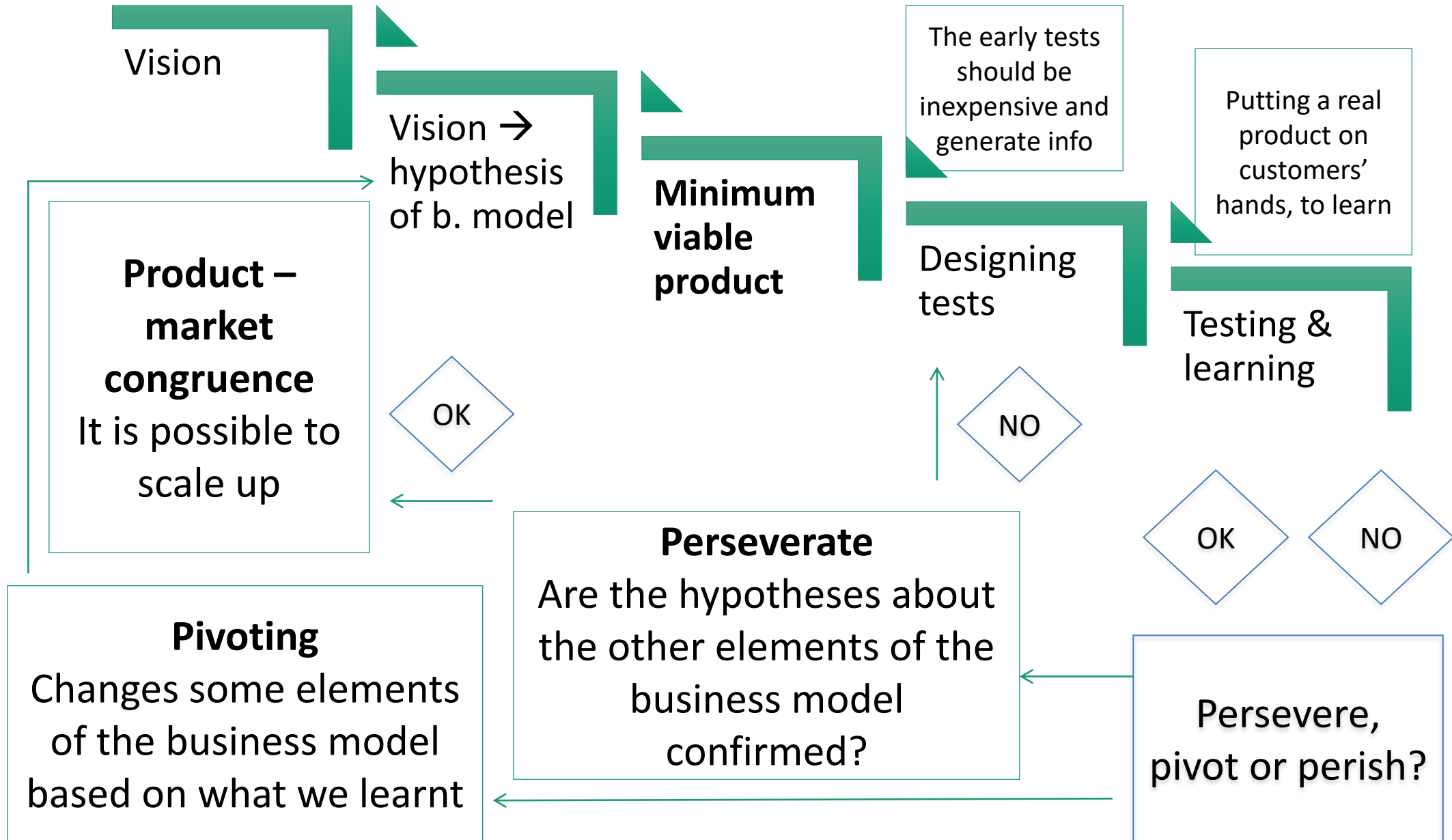
Build-it-and-they-will-come	Just do it!	Waterfall planning	Lean startup
<ul style="list-style-type: none"> • Once an opportunity is found, entrepreneurs will direct all their energy toward it • Motivated by a strong vision, the business idea is a leap of faith • No feedback from the market before launching the product 	<ul style="list-style-type: none"> • Big motivation and imagination, but no clear product idea • Frequent adaptation of the product idea by incorporating external inputs • It is satisfactory for the entrepreneur, allows adaptation of the product, but there is no clear goal 	<ul style="list-style-type: none"> • A vision is translated into a plan, which is systematically executed – as big corporations do • Rigid sequence of stages of new product development, «alpha version» 	<ul style="list-style-type: none"> • Entrepreneurs have a vision, and they immediately test that vision with the market • The product is a tool to get information from the customers • The entrepreneur collects quantitative measures to test hypotheses about the product-market congruence

When does the lean start-up approach work? Uncertainty





The lean startup approach



Minimum viable product



Minimum viable product



- A **functioning product to be sold**
- **Constrained functionality**
 - Only **essential** features – not useful features
 - Only **cheap to develop** features – not costly and time-consuming
 - Some customer segments will never use useful, costly-to-develop features that are required by pioneers
- **Craft** production processes
 - The technology can be simpler, analogic, labor-intensive: less costly and easier to adapt

How to test the hypotheses

- Formulate falsifiable hypotheses **for each element** of the business model
 - NO: our product will spread through word-of-mouth
 - YES: in the next 12 months, our viral coefficient will exceed 0.5
- Testing is done **by commercializing the MVP**: real customers give a feedback
 - Identify quantitative indicators
 - Compare two business models that differ by one feature

Testing a MVP

- **Online service that allows people to rent fashionable clothes**

Testing a MVP

- **Online service that allows people to rent fashionable clothes**
- **First test:** invitation-only evening event for female college students.
- The entrepreneurs rented the clothes as well.
- Clothes could be tried on and then rented.
 - One third of the 125 invited guests rented a dress, paying for it.
 - A significant proportion of potential customers are actually interested in renting used clothes
 - All of the people who rented then returned the garments without damage
 - Information on brands, sizes, style, colors, prices, ..., most popular; this segment is interested and returns clothes in excellent condition.
- **But would you rent a dress without trying it on?**

Testing a MVP

- **Second test:** evening event where people can see but not try on clothes.
- Invitations are sent to people who **did not attend** the first evening event. If people were the same, their behavior would be influenced by the experience during the first evening and thus they would be more likely to rent.
- The offer includes more clothes with the **characteristics most in demand** in the first test, assuming that the tastes in style, etc., identified in the first evening are representative of the population of potential customers
- **Three-quarters of the participants rented a dress**

Testing a MVP

- But the context in which the shopping experience takes place is very different from that of online shopping
- **Third test:** sending a pdf catalog via email to participants who signed up for the site
 - 5% rented a dress, more than the expected rate
 - This figure is overestimated, as people who signed up for the newsletter had a "real" experience

Testing a MVP

- **What would have happened if they had sent out the pdf catalog immediately (without conducting the first test) via email?**
- Probably, the assortment in terms of brands, models, colors, ..., would have been “wrong”
- The purchase rate would have been lower, due to an “error” in the design of the test
- Beware of **false positives** and **false negatives!**

Testing a MVP

- **What would have happened if they had emailed the pdf catalog after the first test?**
- Based on the case information, the result should be the same.
- However, testing each element of the business model individually is useful because at each stage you can gather useful information to redefine the idea
- It is reasonable that, in the second test, customers are more likely to **rent without trying on the cheaper clothes, while they want to be sure before spending more**
- The idea could be redefined as “an online service for renting clothes from well-known designers at low prices.”
- ...based **on actual customer behavior!**

Parallel Testing

- Sometimes, independent hypotheses can be tested in parallel
- Problem 1: Women interested in renting fashion clothes online
- Problem 2: Stylists are interested in designing clothes for us
 - Define a value proposition for stylist

Methods compared

- **Lean start-up.** Each test generates information and allows me to redefine the business model. The business generate small revenues from the start of the business; entrepreneurs spend relatively little to gather information about customers
- **Build-it-and-they'll-come.** Entrepreneurs would spend many months negotiating with designers to have them in their catalog. The catalog would have included many unwelcome garments. In addition, the communication would possibly have been aimed at off-target people.
- **Planning.** Based on data on growing sales from Zalando, ebay, famous designers, etc., the entrepreneurs would have concluded that the market is promising. In addition, they would have sought confirmation with sample surveys and focus groups. Based on this information, they buy clothes to propose (taking the risk that the predictions are wrong). Also: much cost over many months.
- In the "build-it" approach, entrepreneurs would not have information on how customers return the clothes, before they leave. In the "planning" approach maybe yes, but with "lab testing."