Components of the Business Plan

The Plan Must Fulfil Its Purpose

Components of the Business Plan

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Legal Form

The plan should identify the **venture's legal form**.

There are **many things to consider when you select the legal form for your business**. Fortunately, **you may be able to change the legal form after you start your business** if you meet certain requirements.

Nevertheless, you should give this decision the time and **attention it deserves from the very beginning**. The legal form for your business will affect your initial **capital requirement**, your **ability to raise money**, your **personal liability**, **how profits/losses will be reported and treated**, the **tax obligations** you will incur, the corresponding cash flow for your business, and **how you conduct your business**.

You may find it helpful to ask your attorney and accountant "**Which legal form will be most appropriate in three to five years**?"

A venture may be formed as a <u>**sole proprietorship**</u>, <u>**partnership**</u>, or <u>**corporation**</u>.

Each type of legal form has advantages and drawbacks.

Most new businesses are formed as sole proprietorships.

This is because most businesses are **started by people who want to start lifestyle businesses**.

Attitude
LLC

Sp. z o.o. **Oy**

A.G. **AB**

Oyj

sp. j.

Legal Form, cont.

The sole proprietorship:

- it is **easy to form and costs very little to establish**,
- it is **not a legal entity**, it is **just an extension of the proprietor**. This means that the business's **incomes or losses are reported with the owner's personal income** tax returns.
- the biggest drawback to a sole proprietorship is that the **owner has unlimited personal liability** for the business's operations; **any claims against the business by creditors or other claimants are directed at the proprietor**,
- it **has some tax benefits**, depending on legal regulations (in Poland it is taxed as personal income, but there are various taxing methods that can be chose depending on the level of revenue, generated costs, etc.).

It is for this reason that it is advisable for the venture to be formed as a corporation.

Sp. z o.o. **Oy**

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Legal Form, cont.

A number of businesses are formed as **partnerships (general partnership or limited partnership)**.

General partnerships:

- usually **formed because the entrepreneur does not have sufficient money or skills**,
- partnerships are **not very difficult to form**, unfortunately,
- unfortunately, **like sole proprietorships, they are not considered legal entities but the extensions of each of the partners** (**each partner may be held personally liable for any claims made against the partnership**; to make matters worse, **any single partner may be held liable for the full claim**; one's liability will not be limited to one's ownership share),
- **no double taxations**.

If you are considering going the partnership route, then **seek legal advice** and make sure you draft a comprehensive **partnership agreement** that describes the rights and responsibilities for each partner.

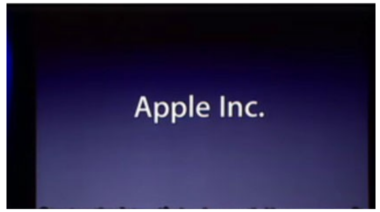
Partnerships are also cumbersome because **the addition or deletion of a partner for any reason may result in the discontinuation of the partnership**.

This may make it **very difficult for a partnership to seek additional funding**.

Partnerships tend to be very precarious. **Most partnerships cannot handle interpersonal dynamics.** Most partnerships are **formed by friends and/or family members**. Starting and operating a business will **test and strain even the best relationships**. People who have observed partnerships consider them ***a disaster waiting to happen.***

Attitude LLC

Sp. z o.o. **Oy**



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Legal Form, cont.

Limited partnerships - are different from general partnerships:

- formed to **limit the personal liability for partners** (they cannot lose any more than what they invested in the venture),
- limited partners are not allowed to be involved in business activities in any manner (no such limitation in Poland)
- not everyone has limited personal liability, at least one person must be a general partner who has unlimited personal liability (such arrangement in Poland is sp. k),
- they **cost less to form and maintain than corporations**,
- do not usually **have partners or stockholders**; their owners are called ***members***. Do not issue stock or have partnership shares.
- **members cannot freely transfer their ownership interest** (it usually requires unanimous written agreement by the other members (in Poland it is decided in the Charter/Statut),
- The duration for the venture may also be limited,

Variations in statutes from country to country mean that you will need to seek the advice of an attorney who has extensive experience with limited partnerships for your country.

You should also consult with a CPA about taxation and how Social Security and Medicare obligations should be reported.

Legal Form, cont.

<u>**Corporations**</u> – LLC/Ltd. or joint stock company - differ from proprietorships and partnerships:

- first of all, **a corporation is considered a *legal entity*,** is **treated as something separate from its owners**; if a corporation is sued, defaults on its loans, or goes bankrupt, then the shareholders' losses are limited to what they invested in the business. This means that the stockholders have limited liability,
- if someone wants **to become an owner of a corporation**, then that person **buys stock**. **Sale of stock transfers ownership from seller to buyer. Stockholders can come and go without affecting the legal status or operations of the firm** (whenever a partner or sole proprietor dies, the business in some countries also ceases. In a similar fashion, whenever a new partner is added or a partner wants to leave, a new partnership may need to be formed).
- if the corporation needs money to expand its operations or pay off debt, it may be possible to **raise funds by selling additional stock**,
- the corporate form is **appealing because it limits the stockholders' legal and financial liabilities**.

Major drawbacks:

- it takes **more money to start a business as a corporation** (the incorporation process tends to cost hundreds to thousands of dollars),
- it takes **more time and paperwork**,
- **profits are subject to *double taxation*** – corporate income tax and personal income taxes on dividends shareholders receive from the firm.

As you can see, the **benefits of limited personal liability come at the cost of double taxation**.

The Marketing Part of the Business Plan

The marketing part of the business plan profiles the

- **who**,
- **what**,
- **where**,
- **how**, and
- **why**

of your new venture's effort to **create and maintain customers for a profit**.

Target Market

There is no way that your venture can be/do all things to all people.

Instead, it needs to be exceptional for a specific group of customers.

You will need to describe your target market in specific terms.

Your venture can be described by the products/services it offers and the customers it serves.

The plan must **identify the <u>individuals</u> or <u>businesses</u> that are its target market**.

Attention should also be directed as to **who will be your venture's <u>primary</u> and <u>secondary</u> customers**.
Your primary customers represent the **majority of your revenue**. The secondary target market may also represent a significant part of your revenue.

You will need to **develop a <u>customer profile</u>** that reflects your target market's various characteristics

If your target market is composed of **individual consumers**, then you will need to describe it in terms of **demographics, psychographics, geographics, usage rate, stage of family life cycle, and benefits sought**.

If your target market is composed of **businesses and other institutions**, then the target market should indicate the i**ndustry, size of the firms, frequency of purchase, price sensitivity, and attributes sought**.

You should **target customers who are not having their needs met well or at all**.

Analysis of Competition

Your plan should profile the **nature and extent of competition**.

Your venture may be based on an opportunity that was identified by constructing a **competitive matrix**.

A competitive matrix may have been established **for each market segment** you considered for your new venture. The competitive matrix profiled in your business plan highlights various market-offering dimensions for the market you plan to serve. The competitive matrix **profiles the extent each of the existing businesses (who may be direct competitors) is meeting that market segment's expectations**. Again, the **competitive matrix indicates the gaps** in the market where consumers' needs are not being met well or at all. Your competitive matrix should **indicate significant gaps for all the existing businesses in dimensions that are valued highly by your target market**.

Your venture's competitive strategy in general and marketing strategy in particular should be directed to dimensions that have high value and where existing businesses are not within one rating point of that value.

If

- **a sufficiently large need is evident and competition does not appear to serve it**,
- **you believe you can provide the segment what it wants**, and
- **you can generate a level of profit to meet your return-on-investment objective**,

then **this is where you should focus your new venture's attention**.

Amazon.com provides an interesting example of the benefits of targeting gaps in the marketplace.

Amazon.com's success cannot be attributed merely to its <u>offering of books at competitive rates</u>. Its ability to <u>provide information</u> about books and to suggest books that might interest the customer make a real difference. The ability to order books on a <u>24/7</u> basis in an almost effortless manner and to have them <u>delivered to your door</u> gave it a formidable competitive advantage when it opened its *electronic* doors to the public.

Analysis of Competition, cont. The Competitive Matrix

A x B = C , where A – rating of business on this factor, B – importance of this factor to this segment of consumers, C – combined score for the extent the business meets the segment's needs.

* - indicates a gap exists between what this business offers and what this market segment wants, **, *** - indicates a significant gap exists.

Competitive factor	Business # 1	Business # 2	Business # 3	Business # 4	Business # 5
Price	3 x 4 = 12 (*)	1 x 4 = 4 (***)	2 x 4 = 8 (**)	4 x 4 = 16	3 x 4 = 12 (*)
Quality !	3 x 5 = 15 (**)	3 x 5 = 15 (**)	2 x 5 = 10 (***)	3 x 5 = 15 (**)	2 x 5 = 10 (***)
Selection	3 x 4 = 12 (*)	4 x 3 = 12	3 x 3 = 9	3 x 3 = 9	4 x 3 = 12
Promotion	3 x 2 = 6	4 x 2 = 8	2 x 2 = 4	4 x 2 = 8	2 x 2 = 4
Services	4 x 5 = 20 (*)	5 x 5 = 25	2 x 5 = 10 (***)	3 x 5 = 15 (**)	4 x 5 = 20 (*)
Customer Service !	3 x 5 = 15 (**)	3 x 5 = 15 (**)	1 x 5 = 5 (****)	3 x 5 = 15 (**)	3 x 5 = 15 (**)
Facilities/Atmosphere	3 x 4 = 12 (*)	5 x 4 = 20	2 x 4 = 8 (**)	2 x 4 = 8 (**)	3 x 4 = 12 (*)
Location	3 x 3 = 9	4 x 3 = 12	2 x 3 = 6 (*)	2 x 3 = 6 (*)	3 x 3 = 9
Relative Strength	101	111	60	92	94

A market gap exists when what is offered by existing businesses is less than what consumers in that segment want. **Particular attention - gaps with at least double asterisks**. Gaps with only one asterisks may be filled by existing businesses without much effort.

Double asterisks or more – that is where you may have best opportunities for your venture.

See: **Quality** and **Customer Service** competitive factors – those are the areas to consider when starting a similar business.

Market Offering/Competitive Advantage

Your venture's competitive strategy will be **influenced by the number and nature of competitors as well as its target market**.

Your business plan should identify the firms that are competing for customers in the industry in general and the firms that are competing for customers in your target market in particular.

Particular attention should be directed to

- the **advantages competitors may have**,
- the **barriers to entry** that may exist,
- attention should also be directed to **their disadvantages**.

Elaine Pofeldt, "The Success Start-Up Guide":

Studying the successes and failures of your competitors will not only give you a good idea of what works, it may provide a basis for you to develop more innovative marketing strategies.

Your marketing plan should identify the attributes your target market seeks and what your firm plans to offer to create and maintain targeted customers for a profit.

The firm needs to **have a distinctive competitive advantage**. Your firm should direct its attention to offering what targeted **customers cannot get anywhere else**. It is important to **articulate how your firm will be better than its competitors**.

Patrick Kelly, founder of Physician Sales and Service:

"Unless you can answer in fewer than 10 words, you don't really have a competitive edge—which means you'll always be joggling for position in the middle of the pack."

Market Offering/Competitive Advantage, cont.

Your plan **should show how your offering will be superior to what is already available for your targeted market**. To attract and maintain customers, your venture must be **superior on the things that matter to your target market**.

Rob Ryan "*Smartups: Lessons from Rob Ryan's Entrepreneur America Boot Camp for Start-Ups*" captured the need to stand out with his **five rules of differentiation**.

The **first** rule involves ***asking the right questions***.

The single biggest thing you can do to build differentiation is to ask the right questions. **Most start-ups begin by asking the wrong questions, seeking answers to the wrong problems.** They end up selling a product that's a few dollars cheaper or has a couple extra features. If your product/service offering includes things that customers do not value, then you will be charging them for things that do not add value. If you don't offer what customers really want, then they will have no reason to do business with you.

The more you **view your venture as a *customer problem-solver*** the greater the likelihood you will find opportunities in the marketplace and bases for differentiating your venture from existing firms.

Greg Gianforte, RightNow Technologies: **questions to prospective customers** that provide insights for new product/service development:

- **What is going to earn you the biggest bonus this year?**
- **What are you losing sleep over?**
- **What do you need to accomplish your job?**
- **What are your challenges?**

Ryan also encourages entrepreneurs to identify differentiators that will make your customer look like a hero and factors that could trigger fascination for your product.

Entrepreneurs need to show that their product is a **true value proposition** to prospective customers. The more you can show or measure your product/service's **benefit in dollars**, the greater the likelihood of securing accounts.

Market Offering/Competitive Advantage, cont.

The **second** rule is you need to try to be a ***red polka-dotted zebra***.

Your venture must have enough **distinctive characteristics** that your targeted customers will pick your firm out of a competitive crowd. **Most start-ups, like zebras, are herd animals**. They edge into crowded industries. **Their products and services are variations on black- and-white with a drab distinction — a longer tail, a few more stripes**.

The ***10 times or better rule*** emphasizes the need to be substantially better than your competitors.

Your product must be either one-tenth the cost of your competitors or 10 times the performance. Anything less will not derail the incumbent company or technology. Although the 10 times rule **may seem impossible** for most conventional products or services, **it does stress the need for your product/service offering to be markedly superior** to what is currently available. It must provide a compelling reason, whether it is in **time, cost, convenience, quality, and/or resulting profitability** to change. The more that you can demonstrate your offering's benefits over what the target market is using in **real dollars, real time, and real convenience**, the greater the likelihood of getting their business.

The ***one year or longer head start rule*** emphasizes the need for your business's product or service offering to **have a significant head start over its competitors. And your business model should be difficult to copy**.

The ***improving with age rule*** stresses the importance of **continuing your effort to maintain a competitive advantag**e.

A one-year head start and your product/service offering's superiority should not be taken for granted. Your efforts to differentiate your offering should be relentless, and they should be directed at areas that will be difficult for competitors to match.

Market Offering/Competitive Advantage, cont.

Ryan stressed the **importance that scaling and stickiness can play in your product or service offering**.

Scaling refers to the **extent your product or service is used by a customer.**

If it can be used throughout the customer's organization, then your firm will benefit. Scaling is particularly beneficial if the customer's suppliers and distributors also adopt your product/service offering.

Products or services that have the potential to spread like viruses have considerable appeal.

Software is the best example of scalability, for two reasons:

1) **once it is developed, the cost to produce/provide additional units drops due to economies of scale**; the extent your business model is able to ramp up without significant additional costs can have an extremely beneficial impact on your venture's profitability and ability to attract investors,
2) the software **may become the standard for the customer, market, industry, or world!**

Stickiness refers to the extent the product or service can become deeply **embedded into the customer's operations or activities**

Stickiness makes it difficult for customers to switch to a competitor's offering. The greater the **time, cost, and risk involved in shifting** to a competitor, once a customer has adopted your product or service, the more your firm will benefit.

Remark:

Make sure you check out the degree of scalability and stickiness when evaluating potential market opportunities.

If the firms already serving the market under review have established scalability and stickiness, then the odds that you can crack those markets may be stacked against you.

How Will Your Competitors Respond

The ideal situation for your new venture would be to **find markets that are not being served well or at all, where customers have pent-up** (stłumiony) **demand and would be delighted to do business with you with minimal price sensitivity.**

The ideal business situation would exist if your venture offered the market red polka-dotted zebras that will continuously wow targeted customers to the point that no one will even consider competing against you.
You want your product or service offering to be so compelling and addictive once they use it they cannot imagine what life would be like without it. You want your customers, when they hear about your product or service, to drop what they are doing and scream out, “Sold! This will change everything! Sign me up! I want it now!”

Unfortunately, **you are not likely to find yourself in the ideal situation**.
Even if you are highly perceptive and find a lucrative market opportunity, you should approach it with a dose of reality and a fair amount of paranoia that everybody wants to steal it from you.

Your competitive strategy must have offensive and defensive dimensions.
Although you are trying to **create and maintain customers** you should be making a deliberate effort to **keep present and potential competitors from stealing** your thunder.

It is **important for entrepreneurs to not be overly optimistic about their competitive position or potential target market exclusivity.**
“Visionary entrepreneurs must **guard against making competitors rich from their work**. Many concepts are difficult to prove, but once proven, easy to imitate. Unless the pioneer is protected by sustainable barriers to entry, the benefits of a hard-fought revolution can become a public good rather than a boon to the innovator.”

You need to be able to **identify how competitors will respond** to the new venture, and **how your new venture can respond to their response**.
Even if your products or services are really better, you need to **expect imitation and competitive retaliation through price competition, strong advertising**, etc.

The Name of Your Business

The whole issue of what should be the name for your new venture has does not receive much attention.

The name of your business is important, and it should be the product of thorough consideration.

Every aspect of your venture projects an image and sends a message to your target market.

Its name **must project the right image and send the right message**. The right name will capture the distinctiveness you want to project. It should also be easy to remember. The last thing you want is a name that doesn't make sense and cannot be remembered.

Your new venture will have enough challenges; **do not select a name that works against it**.

Computer Literacy found after it had been up and running that its target market misperceived its service offering to be **classroom training** and could not remember its name.

Computer Literacy hired Interbrand Group to help it come up with a new name. The Interbrand Group generated an initial list of 25,000 names for consideration. After legal clearances, only 20 percent of the names were viable given that the name had to have a matching URL. The Interbrand Group came up with the name **Fatbrain.com**. Although the new name did not please everyone, research indicated that 100 percent of the people tested remembered it a week later.

Your name should

- **be easy to say and easy to spell**,
- **reflect your vision for the venture**.

Also, make sure the name **does not have negative connotations or interpretations in other languages and countries**.

<u>Remember! Your e-Business will operate in international environment.</u>

It is amazing how naive some firms often are when they operate in international environment. Either their name does not translate or it projects an image that was not intended.

Product/Service Strategy

Almost every business is classified primarily by the types of products or services it offers and the types of customers it serves.

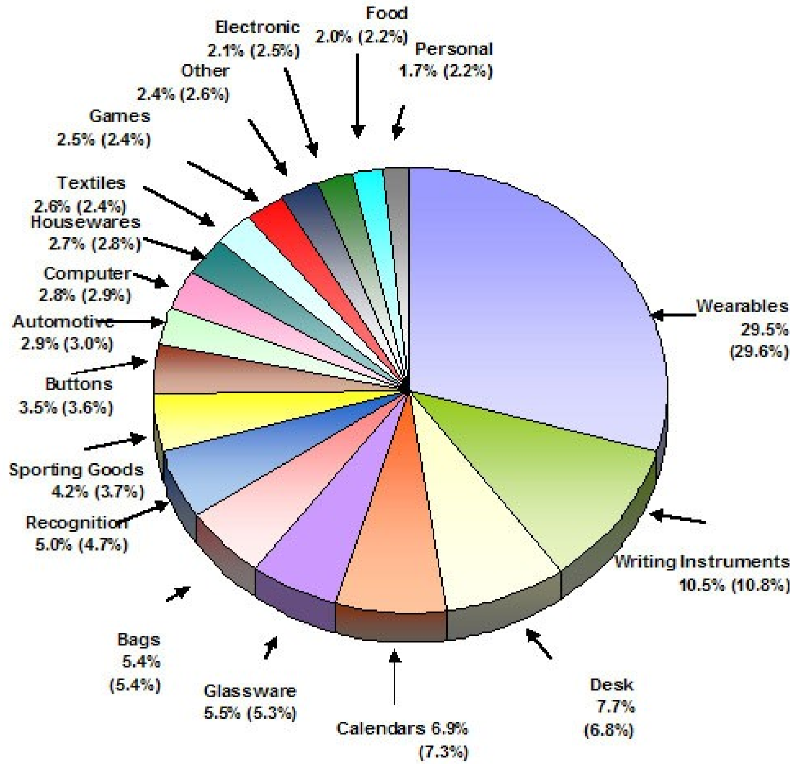
Products may be classified as speciality, shopping, convenience, or impulse purchases.

Customers are generally classified as institutions (including businesses) or as individual consumers.

Some businesses are classified as

- ***b-to-b businesses****,* or businesses selling to businesses,
- ***b-to-c businesses****,* or businesses selling to consumers,
- ***c-to-c businesses****,* or businesses selling from consumers to consumers (eBay)

Some businesses will sell to businesses as well as individual consumers. One of the things that catapulted eBay's growth was when it went from just being a *c-to-c business* into a venture that provided *c-to-b, b-to-b,* and *b-to-c business.*



If you plan to offer more than one product and target more than one type of customer, then your business plan should indicate the **relative percentage for each group**.

Product/Service Strategy, cont.

Your venture's product/service offering may be the most important component of its marketing mix.

<u>**If you do not offer what people want, then it will not matter how you price it, how you promote it, and how you distribute it**</u>

Competitive advantage could include:

- **performance,**
- **durability,**
- **versatility,**
- **speed and accuracy,**
- **ease of operation or use,**
- **ease of maintenance or repair,**
- **ease of cost or installation,**
- **size or weight, and/or**
- **styling and appearance**.

The goal of your product/service strategy is to **discover the bundle of features that your customers perceive to be worth a lot more than the price you are going to extract from them**, as well as **a lot more than the competitors are offering**.

Product/Service Strategy, cont.

R.Gunther McGrath and I.MacMillan ("The Entrepreneurial Mindset"):

You should look at your product/service strategy through **several types of product/service attributes**.

They noted the distinction between exciters, tolerables, dissatisfiers, enragers, neutrals, and negatives.

- ***Exciters*** are attributes that so **delight the customer** that they constitute the overwhelming reason for making a purchase; they are often technically simple, relatively low-cost advances that greatly add to the offering's convenience or ease of use.
- ***Tolerables*** are **negative basic features that customers are willing to put up with, even though they don't like them**.
- ***Dissatisfiers*** are factors that customers consider **negative discriminating attributes**. Ironically, a **competitor can turn your tolerable into a dissatisfier if the competitor can eliminate the tolerable in its product**.
- ***Neutrals*** are ***so what?*** **attributes that do not affect purchasing decisions**. Entrepreneurs should make every effort to **eliminate factors that add cost to the products that customers do not value**.
  You should also **distinguish between *must-have* and *nice-to-have* product/service attributes**. Nice-to-have features may have value, but they may collectively drive up the **price** to the point where price exceeds the product/service's value.
- ***Enragers*** exist when a **firm is not on the same wavelength as customers** (if you cannot eliminate them **avoid that target market**).

You need to **look through the customers' eyes**
at every product or service your company plans to offer.

Customer expectations may be different from what you anticipate,
and it is **their expectations that matter.**

You start your business with a hypothesis and you should verify it on the market.

Product/Service Strategy, cont.

First-time entrepreneurs frequently **underestimate the role that services and intangibles can play in differentiating their products**.

Remember, customers do not want products, they want to have their needs met and problems solved.

The ease with which customers can buy and use your products before, during, and after the sale may be just as important to them as the product itself.

Going the extra *service mile* may be your most significant differentiating factor.

First-time entrepreneurs also **fail to plan for subsequent product improvements.**

Make sure you **do not rest on your laurels**.

Consumers' needs and interests will continue to change and competitors will try to steal your customers by imitating your products.

Plan and budget for continued research and development from the very beginning of your venture

First-time entrepreneurs who are inventors tend to get too caught up in the technical side of their product offering.

"If the business plan is page after page of technical information and devotes little attention to the business side of the proposed venture, then that **can be a turn off**.

The plan needs to articulate what the product/service is, how it can be made/ provided, that there is a market, that there is a valued and tangible advantage, and so on. **Technical information can be provided in the appendix or available on request.**"

Price Strategy

Pricing your product/service offering is more of an art than a science. The price for your product/service offering is contingent on numerous factors.

Market skimming and *market penetration* are the two most common pricing strategies.

Skimming strategy—which involves **charging a higher price**—when/if your target market considers your product to be clearly superior and they have the desire and **ability to pay a premium**. The level of their **demand and your competitive superiority** - in your price strategy.

Two questions: "**How high a price should I charge**?" and "**How long should I maintain that price**?

Skimming strategy is closely tied to the concept of **price elasticity** (the extent that demand fluctuates with price changes, Elasticity projects the extent that the percentage increase in price is greater or less than the percentage change in units purchased. **If the percent of price increase is greater than the percent decrease in the units purchased, then total revenue will increase)**.
Unfortunately, you usually have to rely on projections rather than actual facts. You will not know how the market will respond until you actually offer your products or services to the market. The situation becomes more complicated because you will not know in advance **how your competitors will respond**. The higher the markup (dodatek do ceny), the easier it will be for competitors to steal your customers by offering lower prices. Skimming is also **risky because it might strain your relationship with your customers**. Just because customers will pay a premium price does not mean that they will be grateful.

Market penetration strategy - instead of trying to skim the cream off the top of the market, **you price the product so that as many customers as possible will be able to buy your product or service**.

This strategy also tries to **minimize the extent that competitors will** be tempted to enter the market and **steal your customers**. The strategy requires a **solid grasp for the cost-volume-profit equation**. You cannot price below your costs. The penetration strategy may also not be viable in some markets if **larger competitors have economies of scale**. Generally speaking, you should not consider entering markets where consumers are very price sensitive. Other firms in their desperation to postpone bankruptcy may be willing to cut their prices to levels you cannot and should not match.

Price Strategy, cont.

If you plan to start a **service business**, then your pricing strategy may also be based on

a skimming, **penetration**, **match-the-market** (different markets – different prices), or **cost-plus approach** (you add mark-up to costs as % of costs).

Cost-plus approach has a serious risk – when you charge your customers for all the costs (including your own mistakes and missmanagement) you intend to inflate them, what leads to decreasing efficiency, loosing competitive position and eventually loosing the customer for somebody else who is more effective.

Many **service businesses** **charge** their customers **three times the hourly rate** they pay the people on their staff who provide the services.

- The first third is for the staff's **salary**,
- the second third is for the staff's **payroll**-related expenses and the firm's overhead,
- the final third is to contribute to **profit.**

Extending credit to your customers should be considered a form of price strategy (both for products and services).

It makes your **offer more affordable** but **do it with extreme caution**.

The failure to manage credit has been the downfall for many firms. Extending credit **drains working capital**.

Collecting accounts **receivable** may also **strain your goodwill with customer**s.

Promotion Strategy

If the customers you are targeting do not know about your firm and how it is superior to other businesses, then they cannot become your customers. Your promotion strategy must indicate how you plan to **communicate with your target market**. It must indicate the ***who, what, when, how much***, and other factors that will get your message across.

"**Which type of advertising works best?**" does not have a simple answer. Your promotion strategy needs to be based on thorough **research** because it must reflect your unique situation, and you do not have unlimited funds.

Most entrepreneurs are reluctant to spend much money on promoting their products/services because money spent on promotions does **not have a specific cost-benefit ratio**. One of the rules of thumb about advertising is that **only one-half** of your advertising dollar will get results—unfortunately, **you do not know in advance which half it is**. Your promotion strategy will require some experimentation and adjustment. The term "guerrilla marketing" is used to describe innovative and inexpensive promotional efforts.

Consider two other factors when developing your promotion strategy:

- most promotions have to pass a **cumulative threshold before they have much effect**.
  You may not see much benefit until your message has been heard a number of times.
- there may be **a time lag between when prospective customers learn about your firm and when they inquire about it**.
  Prospective customers usually have to go through the four-step AIDA (awareness, interest, decision, and then action) process.

If your product or service is truly revolutionary, then you may be able to get considerable publicity from the media. This will give your firm considerable **visibility**. It could also give it **credibility** because coverage by the media may be more believable than your advertisements. Almost any company can get publicity in a trade journal or in the local media. He also noted that trade journal publicity may come in handy when the firm is looking for investors and customers.

Remark:
When you hear the voice inside say, "**Our product/service is so great, we don't need to spend any money on advertising**," recognize that in most cases **the failure to advertise can lead to business failure**. You will need to **attract customers as soon as possible**. This is not a time to rely on hope. **"Hope is not a business strategy."**

Distribution Strategy

Your venture's success will also depend on the **availability of your product or service to your target market**.

You should approach your distribution strategy by starting from the **prospective customer's point of view**.

Attracting customers is **like fishing**. You have to put your products/service **offering where the fish are** rather than expect the fish to come to where you are.

Some products may require extensive personal selling and/or a demonstration. Other product or service offerings can be handled on a **self-service basis**. Some businesses **go to the customer**. Other businesses have **customers come to them**. **Some businesses never come into direct contact with their customers**. They use either the **Internet** or other distribution channels to connect with customers.

Anyone who is selling any product should look at the **Internet** opportunities – as the extension of traditional business.

Internet offers also a broad possibilities of totally new businesses – e-businesses, new concept and models, to create and deliver new values to customers.

Your distribution strategy, like your pricing strategy and promotion strategy, is an **optimization** issue.

You need to find the right amount of money to spend and be savvy to the other ways your funds can be spent.

Your strategy may also need to reflect **supply-related issues**. Jeff Bezos chose Seattle for **Amazon.com** partly due to the **availability of a high-tech work force, low sales taxes, and the proximity to a major book distribution center.**

Getting Your First Customer

The saying that ***all journeys must start with the first step*** applies very well to a new venture.

You need to identify the best prospects for generating your venture's **first sales**. Initial sales are crucial for three reasons.

- your venture will **need cash** to cover expenses,
- you will need to **learn** what actually appeals to your target market (market research is nice, but learning from the market is very valuable),
- your **first customers may serve as the lead domino** as you try to attract more customers (provide referrals to prospective customers)

Your effort to attract your first customers must be handled in a systematic manner (rifle approach, not shotgun approach). You must **focus on high-potential prospects**. Amar Bhidé: Interact with the people who will be driving the purchase decision. "**Selling is about building a relationship**".

Mrs. Debbi Fields, founder

If you find the right first customer you'll build the right first product. You need to look for a first customer **who will share your visio**n and who will be **engaged early on in the development** of your products. **This customer needs to be demanding, but also appreciative** of the time and effort it takes to bring a new technology to market.

Contrary to the fantasy "If you build it, they will come" may not be true; they will not necessarily come—at least not initially, and not without some **prodding**." **Debbie Fields had to go out on the street and give cookies away to get her first customers! Home Depot was sending $1 notes for parking to attract customers to come**.

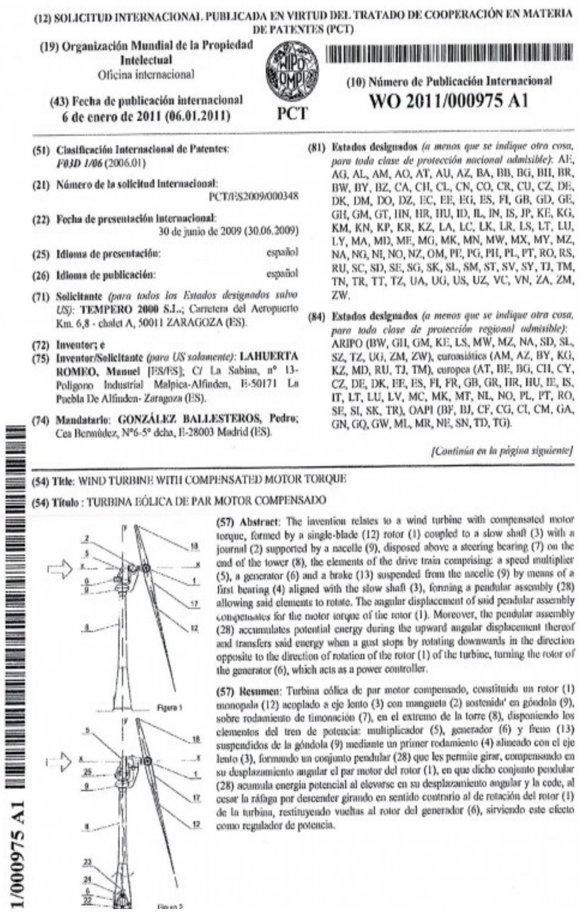
It is important for your new venture to get ***quick wins****.* You should do whatever it takes to get your first customers. **You cannot have repeat purchases without initial purchases**.

Proprietary Position

If your venture has a **proprietary position**, then it should be stated in the business plan.

A *proprietary position* exists when the venture has something that gives it a competitive advantage. The proprietary position may be the result of having a legal position or some type of **exclusive position**. The most common proprietary positions come from **intellectual propert**y, including patents, copyrights, trademarks, trade names, and trade secrets. The firm may have a proprietary position if it has a **license** to a certain process, product, and/or trade name. The firm may also have a proprietary position if it has a **unique location or the exclusive rights to a supplier or a distribution channel**.

Three things are clear about proprietary positions: 1) they may be **difficult to create**, 2) they may be **difficult to keep or enforc**e, 3) they **may not be worth the time and mone**y. “Among the sins committed by business plan writers is arrogance. In today’s economy, few ideas are truly proprietary.”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(54) Title: WIND TURBINE WITH COMPENSATED MOTOR TORQUE

(54) Título : TURBINA EÓLICA DE PAR MOTOR COMPENSADO

(57) Abstract: The invention relates to a wind turbine with compensated motor torque, formed by a single-blade (12) rotor (1) coupled to a slow shaft (3) with a journal (2) supported by a nacelle (9), disposed above a steering bearing (7) on the end of the tower (8), the elements of the drive train comprising: a speed multiplier (5), a generator (6) and a brake (13) suspended from the nacelle (9) by means of a first bearing (4) aligned with the slow shaft (3), forming a pendular assembly (28) allowing said elements to rotate. The angular displacement of said pendular assembly compensates for the motor torque of the rotor (1). Moreover, the pendular assembly (28) accumulates potential energy during the upward angular displacement thereof and transfers said energy when a gust stops by rotating downwards in the direction opposite to the direction of rotation of the rotor (1) of the turbine, turning the rotor of the generator (6), which acts as a power controller.

(57) Resumen: Turbina eólica de par motor compensado, constituida un rotor (1) monopala (12) acoplado a eje lento (3) con mangueta (2) sostenida en góndola (9), sobre rodamiento de timonación (7), en el extremo de la torre (8), disponiendo los elementos del tren de potencia: multiplicador (5), generador (6) y freno (13) suspendidos de la góndola (9) mediante un primer rodamiento (4) alineado con el eje lento (3), formando un conjunto pendular (28) que les permite girar, compensando en su desplazamiento angular el par motor del rotor (1), en que dicho conjunto pendular (28) acumula energía potencial al elevarse en su desplazamiento angular y la cede, al cesar la ráfaga por descender girando en sentido contrario al de rotación del rotor (1) de la turbina, restituyendo vueltas al rotor del generador (6), sirviendo este efecto como regulador de potencia.

Figura 1

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You may be better off not taking the time and spending the money on filing for a patent

In order to get a patent you need to submit a diagram that identifies the exact design of the product. By filing for a patent, anyone who wants to compete against you can check the design, which is a public record, and then introduce a product that is a modification of your product.

Don’t rely too heavily on a proprietary position.

Al Miller, cofounder of Accolade, a company making games for Nintendo, noted, “**Any start-up going up against large companies should expect to be sued and forced to pay their attorneys up to $2 million over a few years to defend the suits. Small and mid-size companies are often unprepared to defend their territory**.”

Make sure you did not sign a non-compete agreement and that your proposed venture will not be using any proprietary information. You should also **make sure your employees sign a non-disclosure and non-compete clause as a condition of employment**.

End of Part 2 of the Lecture