

II. Focus + Objectives — Defining and Planning the Business

- Entrepreneurial Success
- Focus and Objectives
- Competitive Edge
- Distinctive Competence
- Proprietary Technology
- Know Thyself
- Barriers to Entry
- The Business Plan

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Equation for Entrepreneurial Success

- *To succeed, according to Silver's Law of Venture Capital, you must identify a major problem, devise an elegant solution to the problem, and assemble an outstanding entrepreneurial team capable of turning the problem and the solution into a successful business. If any of the three factors is lacking, all is for naught. (#4)*

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Silver's Law of Venture Capital

- If $V = \text{Valuation}$, then $V = P \times S \times E$, where
 - $P = \text{Problem size (i.e., market)}$
 - $S = \text{Solution elegance (e.g., technology)}$
 - $E = \text{Entrepreneurial team quality}$
- “The goal of entrepreneurship is to create value (V) by formulating a big problem (P), creating an elegant solution (S) that solves the problem, and forming a capable entrepreneurial team (E) to create a unique system for delivering S to P .”
- Ask yourself ... what is the *value proposition*?

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Entrepreneurship

- “Entrepreneurship is the dynamic process of creating *incremental wealth*. The wealth is created by individuals who assume the major risks, in terms of equity, time, and/or career commitment, of providing *value* for some *product or service*. The product or service may or may not be new or unique, but value must somehow be infused by the entrepreneur by securing and allocating the necessary skills and resources.” (Ronstadt, 1984, p. 28)

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Entrepreneurship (cont.)

- “Entrepreneurship is a little like coming to a red traffic light and not necessarily stopping.....”
- “The job of an entrepreneur in our 'competitive' economy is to create an unfair advantage.....”
- “I can smell the Ferrari.”

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Class Exercise

- *Why be an entrepreneur?*
- *Answer with your full name and 1-12 words.*

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Motivations for Entrepreneurship

- Wealth
- Independence, being your own boss
- Building something
- An idea that cannot be denied, must be done

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The Entrepreneurial Spirit

- *Don't start a business unless you possess an entrepreneurial spirit — the courage to take risks, to venture into the unknown, and to make decisions despite uncertainty. You must have self-confidence, drive, energy, and boundless commitment. You must also possess expertise — a distinctive competence, and qualities of leadership. (#5)*

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Focus and Objectives

- *Choose your focus carefully, and keep it narrow and relatively constrained. Define precise objectives, both short-term and long-term, dealing with technology to be developed or obtained, the market to be served and captured, and the financial results to be achieved. Make precise who on your team is to do what by when. (#6)*

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Mission statement

- Example, Alias Research: “Our mission is to be the world leader in 3D computer graphics software for creative design.”
- Dimensions of focus: technology and market
- Dangers of too diffuse focus
- A lesson in defining objectives

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Focus: technology and market

- BGS Systems — Computer systems performance modelling for large IBM mainframe system managers
- Wainman+Kydd — Tax calculations and tax planning for Canadian accountants
- HCR — UNIX operating systems programming for hardware companies without UNIX expertise needing to bring UNIX to market quickly

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Focus (cont.)

- Geac — Transaction processing systems for vertical markets, e.g., libraries, financial, hotels
 - Initial focus, then broadened --> poor recent results
- Amazon.com — Bookselling via eCommerce
 - Initial focus, then broadened into music, electronics

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Causes of too diffuse a focus

- Opportunity strikes
- The temptation of incremental effort
- Financial pressures due to undercapitalization
- Lack of adequate planning
- Failure to define one's focus and goals
- Arrogance and inflated egos

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Dangers of too diffuse a focus

- Not achieving excellence in one endeavour
- Undercapitalization intensifies
- Management and staff overload, thrashing
- Learn to say “NO”!!!

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Lesson 1 in defining objectives

- Writing the world's best electronic mail package *versus* achieving, by 2004, 20% market share for PC-compatible medical electronic mail software to be used by physicians, hospitals, and pharmacists

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Lesson 2 in defining objectives

- Achieving a reputation for service excellence *versus* achieving a 95% renewal rate on service contracts and logging 10 new sales per month from customers who switch to you from a competitor's product because of your reputation for service excellence

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Lesson 3 in defining objectives

- Having a high-quality efficient bug-free product *versus* completing a 3-month beta test period at 20 sites having found no fatal errors and no more than 3 serious errors

Competitive Edge

- *To succeed, you must have a competitive edge, such as a distinctive competence, proprietary technology, or barriers to entry hindering the competition. (#7)*
 - Also called *sustainable competitive advantage*
- Varieties of competitive edge
- Introduction now, deeper discussion in Part IV

Varieties of competitive edge

- The distinctive competence
- Proprietary technology
- Other sources of competitive edge
- Barriers to entry

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Distinctive Competence

- *One of the most potent forms of competitive edge is to have a distinctive competence — expertise which is unique, difficult to attain, and not possessed by your competitors. (#8)*
- Examples of distinctive competence

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Examples of distinctive competence

- Adobe — Warnock and Geschke
 - Page description languages (Xerox)
- Aldus (now part of Adobe) — Brainerd et al.
 - Electronic publishing (Minneapolis paper, Atex)
- BGS Systems — Buzen Goldberg Schenk
 - Computer systems performance modelling (Harvard, Honeywell)

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Examples of distinctive competence

(cont.)

- Object Technology International — Thomas
 - Object-oriented toolkits and systems implementation methodology
- SoftArc — Welch and partners
 - Email systems (BNR)
- TaxPrep — Wainman and Kydd
 - Accounting, tax laws and tax filing

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Proprietary Technology

- *Another powerful competitive edge is the ownership of proprietary technology — algorithms, software, tools, or methodologies which allow you to solve a problem that cannot be handled as well or at all by competing technologies. Proprietary technology must be protected, as a trade secret, and with copyrights, trademarks, and patents. (#9)*

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Examples of proprietary technology

- Algorithmics
 - Formal mathematical model to derive synthetic securities in a uniform way
- Apple
 - Operating system, user interface, etc.
- BGS Syst.
 - Computer system capacity planning algorithm
- Neutron
 - Technology of adaptable reusable code components

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Examples of proprietary technology

(cont.)

- Borland
 - Techniques for high-speed compilation, but insufficient for broader markets
- Fulcrum Technologies
 - Full-text storage, indexing, retrieval algorithms, but eventually swamped by more effective competitors such as Open Text
- Visicorp
 - Spreadsheet implementation, but didn't retain competitive edge, & couldn't broaden focus effectively

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Other Sources of Competitive Edge

- Getting there first... Corel, Netscape
- Price (high or low or zero)... Borland
- Ease of use... Apple
- Market presence, market share... Microsoft
- Marketing knowledge and skill... W+K
- Brand name recognition... Rand McNally, world's leading commercial cartographer, for its electronic cartography products
- Geography... Altamont Computers
- Spanish language... e.g., in Latin America

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Know Yourself, and Leverage Your Strengths

- Distinctive competence is expertise, i.e., strengths in a particular domain
- Expertise is based on your capabilities, your background, your education, your connections, etc.
- Leverage your strengths... use them the choose where to focus
- Conversely, stay away from areas where you don't have the expertise

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Example: The Three Losing Product Strategies of HCR

- Baecker's strategy... the academic, the visionary, ... go everywhere, which is to have no focus and to go nowhere
- Kukulsky's strategy... the salesman, the opportunist... go where the money is, i.e., 4GLs for UNIX, an area in which *HCR had no expertise*
- Tilson's strategy... the technologist, the pragmatist, the realist... go where HCR had expertise, i.e., UNIX software development tools ... unfortunately, too late

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Barriers to Entry

- *Established companies can hold their positions because they gain a powerful advantage through barriers to entry, which may result from cumulative investment and lead time, market and customer knowledge, or access to distribution channels and shelf space in retail outlets. New companies need to devise a plan to counter this advantage. (#10)*

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Varieties of barriers to entry

- Cumulative investment, lead time... Lotus Notes
- Proprietary technology... Fulcrum FulText
- Market+customer knowledge... Wainman+Kydd with respect to the accounting profession
- Customer loyalty... IBM
- Customer access... Microsoft to Fortune 500
- Brand name recognition... America Online
- Reputation for quality... Hewlett Packard

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Saturated distribution channels

- Also no shelf space in retail outlets
- Closed to all but established software and multimedia vendors
- The example of multimedia
 - One vendor estimate — only 4 of roughly 10,000 titles really successful
 - Another vendor estimate
 - 20 titles generated 90% of the revenues despite 20,000 new titles in 1995
 - From 1994 to 1995, titles increased by 95% while shelf space increased by 23%

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How to combat barriers to entry

- Be better, exploit a distinctive competence, develop proprietary technology
- Look for a market niche (Part III)
- Look for a market window (Part III)
- Move quickly to exploit new paradigms, open new markets, e.g., Netscape
- Look for a new paradigm, e.g., open source
- Have a hit, e.g., Myst
- Look for distribution channels that are not saturated, e.g., Internet distribution

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The Business Plan

- *Develop and refine periodically a business plan to serve as a management tool, reality check, environment for exploring possible alternative futures, and vehicle for raising funds. (#11)*
- Other formats
 - PowerPoint pitch (10-12 slides)
 - Elevator pitch (60 seconds)

Class exercise

- *What is most important to include in a business plan?*
- *Answer with your full name and one phrase of two or three words.*

Substance of a typical plan

- Executive summary (1-3 pages)
- Concept and objectives
- The market
- The product and the technology
- Team
- Marketing and sales strategy
- Competition and competitive edge
- Financial projections
- Investment proposal (?)
- Possible appendices

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Executive summary

- The highlights of the plan
- Business definition
- Status
- The problem & validation
- The solution & validation
- The entrepreneurial team & validation
- High level timeline
- Financial projections

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Concept and objectives

- Background
- The concept and the key idea
- The business and market focus
- The business objectives — short term, long term
- The mission statement

Note: Often can delivered in the Exec Summary!

The opportunity

- Market identification and characteristics
- Market sizing
- Market segmentation
- Relevant trends and market evolution

The product and the technology

- Services or products to be offered
- Proprietary technology and its advantages
- Current status
- Required R&D, development plan, time, cost

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Team

- Management management management!!!
- Corporate organization — key players, credentials and distinctive competences
- Growth plans— access to additional key and skilled personnel
- Compensation schemes, including profit sharing and stock ownership

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Marketing and sales strategy

- Basic strategy
- Positioning and differentiation
- Distribution & sales organization (“Place”)
- Pricing
- Promotion

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Competition and competitive edge

- Value proposition and/or evidence of need: user benefit compared to status quo, payback period
- Major competitors — competitive positions, market shares, strengths and weaknesses
- Competitive edge vis a vis the competition
- Barriers to entry for new competitors

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Risks & mitigation

- Key risks
 - Market (inherent)
 - Business (controllable)
 - Technology
- Mitigation approach for each risk

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Financial forecasts and projections

- Short term (1 year monthly forecasts)
- Medium term (3 year quarterly forecasts)
- Long term (5 year annual forecasts)
- P&L, cash flow, [balance sheet]
- Key assumptions
- Sensitivity analysis, “worst case” scenario

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Possible appendices

- Legal status, background & history
- Detailed financial forecasts
- Resumes
- Market survey data
- Company profile, product literature
- Testimonials from customers
- Literature from competition
- Names of references