

# IDEATION TO BUSINESS MODELLING AND PLANNING

*"Have your own definition of success...so you can fulfill your dreams, not someone else's expectations of your dreams." - Elliot Fletcher.*

## **Preface**

Entrepreneurship – the process of identifying and evaluating business opportunities, and exploiting viable ones to generate value for both the entrepreneur and the users – can be considered as a personal journey shaped by the intuition and experience of the entrepreneur. For nascent entrepreneurs that are embarking on this fruitful but challenging journey, there are tried tools that may help guide you evaluate your ideas, identify hidden opportunities, design and improve your operation, manage risks and plan your next adventure in a more structured way. This toolkit comprises a set of easy-to-understand yet essential tools that nascent entrepreneurs will find useful and practicable for proceeding in their entrepreneurship journey.

## **What is the toolkit for?**

This toolkit places focus on helping entrepreneurs to undertake evaluation and analyze potential business opportunities, in order to inform key decisions that they face in starting up, growing or diversifying into a new business area.

Specifically, it seeks to clarify and improve their understanding of key concepts as well as the main constituents of four main stages in the entrepreneurship process, concerning:

- Business Idea Generation and Opportunity Identification
- Business Opportunity Evaluation
- Business Modelling and Business Planning
- Entrepreneurial Funding

## **Who is the toolkit for?**

The toolkit is primarily designed for nascent entrepreneurs who are exploring and planning to develop a new business but who may lack prior experience in doing so. If you are at the stage of developing your business ideas and seeking to assess their commercial potential, this toolkit will serve as a good starting point for you. However, the toolkit is equally useful for entrepreneurs who are seeking to diversify into new businesses from their existing ones, and for enterprise development mentors and coaches who work with emerging and potential entrepreneurs.

Some of the issues discussed may also appeal to established businesses and entrepreneurs. Knowledge never gets old and even the old may have blind spots. We recognize that businesses may be at different stages of development and growth, therefore, may vary in their business goals, size and resource base, etc. However, there are some fundamental elements in every business that entrepreneurs need to consider and address to enhance their chances of success. Therefore, any entrepreneur running any kind of business can apply some of the basic principles and tools covered in this toolkit.

## **How to use the toolkit?**

This toolkit is a guide which allows you to reference the cases that you face in your specific business. You can apply the principles set out in this toolkit anytime during the course of your entrepreneurship journey. While exclusive use may be an option, you are encouraged to supplement the use of this toolkit with other relevant resources.

This toolkit works best as a guide *if*:

- ✓ You are honest with your business intentions and arrangements.
- ✓ You set realistic goals in line with the growth of the business. The models will only work in a realistic case scenario.
- ✓ You put on a creative and innovative thinking hat.
- ✓ You don't always look for the easy way out.
- ✓ You balance planning and action. Sometimes we get carried away planning and we forget doing, or vice versa.
- ✓ You practice the art of prioritizing the actions.

# BLOCK 1

## IDEATION AND OPPORTUNITY IDENTIFICATION

Viability  
Customers  
Industry Ideas  
Opportunities  
Market  
Growth Size  
Trend  
Innovation



Created by Kjpargeter -Freepik.com

***“The entrepreneur always searches for change, responds to it, and exploits it as an opportunity” - Peter Drucker***

## **1. INTRODUCTION**

One of the things that distinguishes an entrepreneur from a mere business person is the entrepreneur’s endeavour and ability to seek out and act on an opportunity where others may see a challenge. Entrepreneurs do not wait until everything is perfect. Take the case of the Internet: any entrepreneur in Africa who saw opportunities present by the emergence and growth of the Internet but is waiting until all the risks it poses are fixed is likely to be waiting since the 1990s. In the meantime, others have built business empires and the opportunities have continued to evolve – from web-browsers to cloud computing. That is why people say, *“you snooze you lose”* (meaning *if you do not pay attention and do something quickly, someone else will*).

Entrepreneurship is about proactively and assertively identifying opportunities and acting in their pursuit! An entrepreneur’s journey starts with a single idea with many potential ways of turning that idea into a business (i.e. business idea). A critical step is to identify the most promising opportunity out of these business ideas, which will create value and generate profit! It is important to acknowledge that a business idea is not necessarily a real business opportunity.

## **2. OUTCOMES**

On completion of this block, you will be able to:

- be alert to key sources of potential business opportunities
- apply some techniques to generate business ideas
- screen business ideas that have the potential to turn into business opportunities
- differentiate types of opportunities identified

## **3. MUST KNOW**

Being able to identify and recognize business opportunities is an essential characteristic of an entrepreneur. This requires an understanding of the **important facts about business opportunities** as follows:

1. **A business idea/ thought is NOT the same as a business opportunity.**  
A business opportunity must be linked to the demand of and value to buyers and end-users. A business idea is an opportunity *only if* it is realistic and commercially viable to develop into a business that generates profit.
2. **Opportunities can come from anywhere.**

However, there must be a need, a problem, a change of circumstances, and a market demand for an opportunity to exist and be commercially viable.



## Business Ideas ≠ Opportunities

### Common Sources of Opportunities

- ☆ **A problem (a pain)** that you or others encounter with an existing product/service (e.g. in terms of sourcing, buying, using, and disposing waste, etc.).
- ☆ An underdeveloped or unfilled **marketspace** (a gap, an unmet need, a niche of which no existing product/ service serves).
- ☆ **Technological changes** (e.g. the introduction of internet and mobile technologies have created a number of new business opportunities).
- ☆ **Innovations** or new ways of doing things (e.g. online retailing (Amazon/eBay clones), mobile money (M-PESA clones), voice over the internet (Skype clones), car-hailing (UBER-clones).
- ☆ New **market trends** (e.g. organic and natural products; fair trade).
- ☆ **Societal development and changes** (e.g. privatization and its effect on private education, healthcare etc; female and youth products -insurance, finance, health and IT have created opportunities).
- ☆ **YOUR own passions, needs and interests – differentiates one restaurant or auto-parts firm from another!**

3. **Most business opportunities involve relatively simple ideas;** many do not involve novel, complex and advanced technologies.
4. **Opportunities do not last forever.**  
Opportunity windows open and close quickly. There may be ten other people who have recognized the same opportunity. *You are in a race to act on it!*
5. **A business opportunity is worthless without action.**  
It needs to be proactively and assertively recognized and pursued by the entrepreneur.
6. **Different entrepreneurs may see different worth in an opportunity.**
7. **Not all opportunities are worth pursuing.** Some opportunities are good but not good enough to be profitable and sustainable.

Sources of THEIR opportunities (examples)

## 4. TECHNIQUES AND TOOLS

4a. **IDEATION:** Some common techniques to help generate business ideas include:

- **BRAINSTORMING:** a group exercise to generate as many ideas as possible in the time allowed. There should be NO judgement and criticism of the ideas generated in the process because the emphasis is on **QUANTITY over quality**.

### 25 Rules for Brainstorming

- **Highly Relevant**
  - ✓ Define a clear subject.
  - ✓ Create and deliver a clear objective for participants of the session.
  - ✓ Create momentum for the brainstorming session. Emphasise that something important must happen now!
- **Diverse Group of Participants**
  - ✓ Invite people for whom the assignment is personally relevant.
  - ✓ Invite people for both content as well as decision-making capabilities.
  - ✓ Include outsiders and outside-the-box thinkers.
  - ✓ Include an even mix of people of different backgrounds and experiences.
  - ✓ Invite the main problem-owner, including users and consumers to participants.
- **Supportive Setting**
  - ✓ Create an (emotionally) safe and comfortable environment for the participants.
  - ✓ Minimize disturbance, including mobile phones and outside noises.
  - ✓ Leave the office and daily workplace, find a new location.
- **Effectively Structured Process**
  - ✓ Allow enough time for effective brainstorming to research concrete new ideas.
  - ✓ Spend twice as much time on the convergence process as on the divergence process.
  - ✓ Plan and prepare an effective combination of idea-generating techniques (e.g. mind-mapping and SCAMPER mentioned below).
  - ✓ Be open to suggestions from participants to adapt the process.
  - ✓ Make sure it is enjoyable and fun.
  - ✓ Make sure everyone is aware of the time limits – and sticks to them.
  - ✓ Make use of a storyboard artist or someone good at drawing to visualize the results.
  - ✓ Keep up the pace to avoid being long-winding and boring.
- **A professional facilitator**
  - ✓ Appoint an internal expert facilitator to chair the process.
  - ✓ The facilitator should reflect the opposite energy of the group. If the group is too active, exert calmness.
  - ✓ The facilitation should embrace everyone, including the subgroups, and closely monitor their progress.

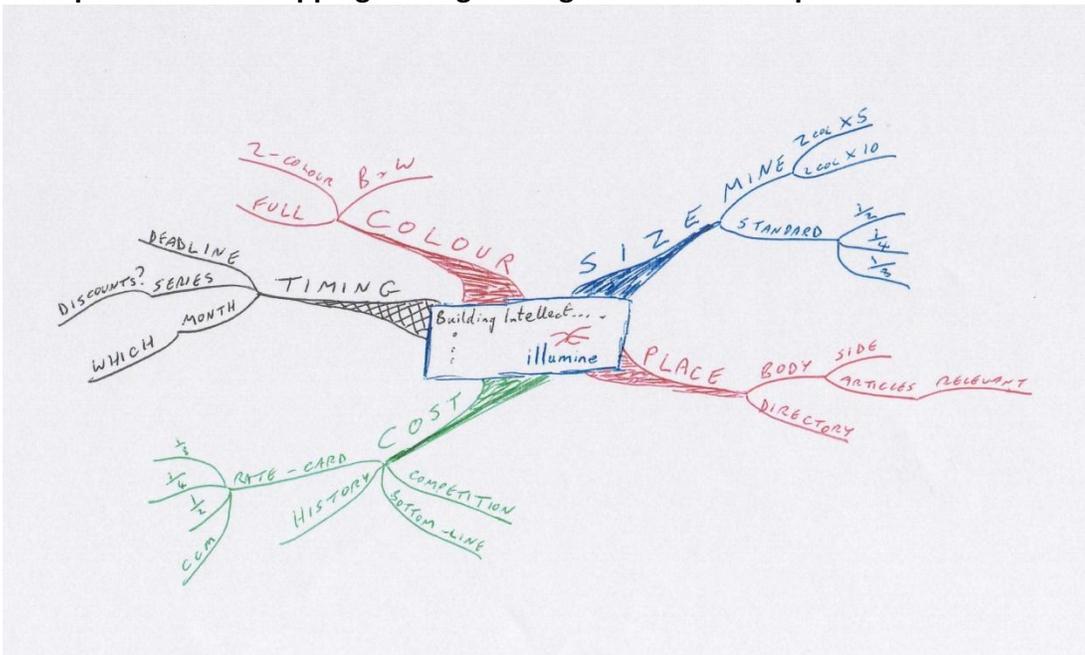
- **Concrete Outputs**

- ✓ Make the outputs very concrete, clear and understandable to everyone.
- ✓ Creating outputs together to generate support.

Source: Adapted largely from Gijs Van Wulfen (2013) *The Innovation Expedition*.  
Amsterdam: BIS Publishing

- **MIND MAPPING:** can be an individual as well as a team exercise. It starts with one core idea and then generate and link up to as many related ideas as possible. Continue to link and extend new ideas to existing ones, and branch-out from one idea to another. The map captures the relationships among core ideas and sub-ideas  
Read more: <http://www.mind-mapping.co.uk/mind-mapping-information-and-advice/how-to-make-a-mind-map/>

**Example of a mind mapping for negotiating advertisement space**

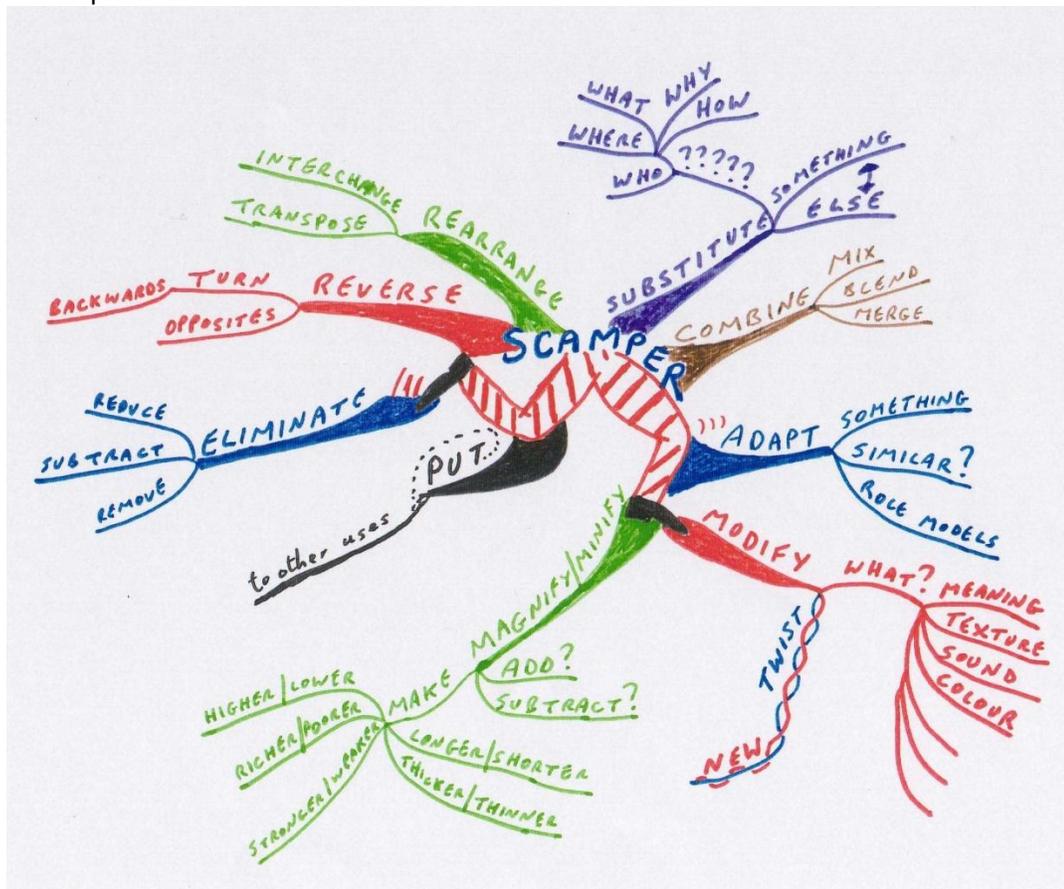


Source: Illumine

- **SCAMPER:** target an existing product of interest, profile and drill it down to ideas of all kinds of possible improvements or new developments to this product. 'SCAMPER' refer to 7 key thinking points about a product for which ideas about improvements and innovations could be generated:
  - ❑ **S: Substitute: components, materials, people**  
e.g. Could you use alternative materials to make the product? Could a substitute be developed that serves the same function of the product?
  - ❑ **C: Combine: mix, combine with other assemblies or services, integrate**  
e.g. Could a service be integrated with the product to improve its function?
  - ❑ **A: Adapt: alter, change function, use part of another element**

- e.g. Could the product be adapted?
- ❑ **M: Modify: increase or reduce in scale, change shape, modify attributes**  
e.g. Could the design – shape, size, colour, scale – of the product be changed to improve its function or user friendliness?
- ❑ **P: Put to another use**  
e.g. Could the product be used somewhere else, for another purposes, industries?
- ❑ **E: Eliminate: remove elements, simplify, reduce to core functionality**  
e.g. Could the product or its operation be simplified, made lighter or smoother?  
Could some parts be eliminated or removed?
- ❑ **R: Reverse: rearrange; turn inside-out or upside-down**  
e.g. What would happen if the process or ways of doing thing is changed and reversed? Could I interchange or rearrange components?

Example of SCAMPER



Source: Illumine

☆ **TIPS:**

1. The stage of IDEATION emphasizes **Imagination, Creativity, and Free Thinking**. Its primary objective is to generate as many ideas as possible. This stage should be free from any judgement and assessment of the quality of the ideas.

2. **Idea generation better works in a group with diverse thinking**, with which more new and creative ideas are more likely to emerge.
3. **Involves potential customers in the ideation process.** New product ideas are most often initiated by ideas from customers, rather than in-house brainstorming sessions. Participation of customers early in the entrepreneurship process also likely to reveal clearer market needs and gaps for the identification of promising business opportunities.

#### 4b. From Ideas to Opportunities

##### Isenberg's 2-minute Opportunity Test

- Does your business idea soothe someone's (including yours) pain, discomfort, frustration, or dissatisfaction?
- Are there lots of those people out there feeling this pain, discomfort, frustration, or dissatisfaction?
- Do these people (or companies, or governments) have money to pay for it?
- Will they be able to decide quickly to buy the product or service?
- Does your idea exploit something about yourself that is outstanding or unique?
- Are there important assets you have that no one else has? (e.g. money, access to customers, technology, leadership skills, execution, location, salesmanship, etc.)
- Can you think of at least two people who might join you?
- Do their skills complement yours?
- Do the majority of people whose opinion you highly respect think your idea is a good one?
- Does at least one person (and not more than three people), whose opinion you highly respect, think your idea is a bad one?
- Is there something about the idea or its implementation, that compels you to really devote yourself to it?
- Can you sneak by the big competitors without them noticing you for a while?
- Can you find a potential customer who will take your calls, give you feedback, try a pilot out?
- Can you start up without huge gobs of money?
- Can you keep your fixed costs low during launch?
- Does your idea lend itself to small incremental steps that can inexpensively generate valuable information as well as at least a little cash?

Source: Daniel Isenberg, The 2-minute Opportunity Checklist for Entrepreneurs, *Harvard Business Review*, March 2010

**If you score 16 or higher, CONGRATULATIONS! You have recognized a potential opportunity that is worth further evaluation and planning!**



### **Further Understand Your Opportunities: Which Type(s) Have You Identified?**

- Knowledge opportunities:** focus on applying specialist information, know-how or expertise to create value (e.g. consulting; training and education; market research, etc.).
- Technology opportunities:** involve the application of technology to solve a problem, meet a need or create a new product (good or service).
- Product opportunities:** adapt existing products or introduce new ones.
- Service opportunities:** develop a new service or a new business model to provide an existing service at lower cost, in more efficient way and/or of higher quality.
- Lifestyle opportunities:** a sub-set of service opportunities with a focus on creating 'different' experiences that make the customer's life easier or more pleasant (e.g. business opportunities in leisure, tourism, hospitality, cultural experiences, and entertainment-related areas).
- Physical resource opportunities:** introduce different ways to exploit and/or utilize land, water or naturally occurring resources.
- Trading and commodity opportunities:** take up an 'arbitrage' position/ role to predict or broker market trends to buy and sell.

Source: David Rae, *Entrepreneurship: From Opportunity to Action*, NY: Palgrave MacMillan

**BUILDING BLOCK 2**

**OPPORTUNITY EVALUATION**

***“Being an entrepreneur doesn’t mean jump off a ledge and make a parachute on the way down.”*** - Fred Smith, founder of FedEx

## **1. INTRODUCTION**

**Not all business ideas are good opportunities and not all opportunities are worth pursuing.** You may find some business ideas do not fit your own interest, resources and capabilities. Some business ideas may not be practical and realistic to be implemented, and some do not have the market potential to create value and generate enough profit to justify the investment. Therefore, it is important for entrepreneurs to assess the extent that the business ideas are realistic and commercially viable to be pursued as business opportunities. Detailed opportunity evaluation helps entrepreneurs to identify the most promising opportunities that are worth developing further, while avoiding the much costlier consequences later.

This section of the toolkit provides some models that entrepreneurs may apply to undertake the opportunity evaluation exercise.

## **2. OUTCOMES**

On completion of this block, you will be able to:

- identify key factors that influence the feasibility and viability of a business idea.
- learn methods to evaluate the initial and subsequent opportunities in the life cycle of the business.

## **3. MUST KNOW**

1. The feasibility and attractiveness of a business is deeply influenced by: 1) the **Internal resources and capabilities** of the entrepreneur, management team and firm; 2) **the forces and factors in the External Environment**. Accordingly, Environment Scanning and Analysis is the first essential step in the opportunity evaluation.
2. **Internal and external forces and factors changes all the times**. It is important that Environmental Scanning and Analysis be revisited regularly to stay responsive to emerging changes.
3. **A business idea must pass a series of tests and questions** before it is deemed a truly valid and valuable opportunity. Entrepreneurs should be ready to fully evaluate an opportunity to ensure chance of success.
4. **Over-analysis may delay actions in realizing an opportunity**. A good balance between comprehensiveness and responsiveness needs to be reached.
5. **Opportunity evaluation requires dispassionate and objective analyses**, while the pursuit of opportunities need personal passion and interest.
6. **Don’t be carried away by the apparent return of an opportunity**, account for the downsides and the risks.

## 4. TECHNIQUES AND TOOLS

### 4a. Environment Scanning and Analysis: S.W.O.T. Analysis

**S.W.O.T.** stands for **S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats. The analysis helps entrepreneurs to:

- realize key internal as well as external factors that are influential to the successful implementation of the business.
- better understand the advantages that they and their resources have in implementing the business, as well as internal limitations/ shortcomings they need to address to increase chance of success.
- spot environmental trends and changes that present opportunities and threats to the business.
- recognize entry barriers to develop a business in a specific industry at a specific geographic location.

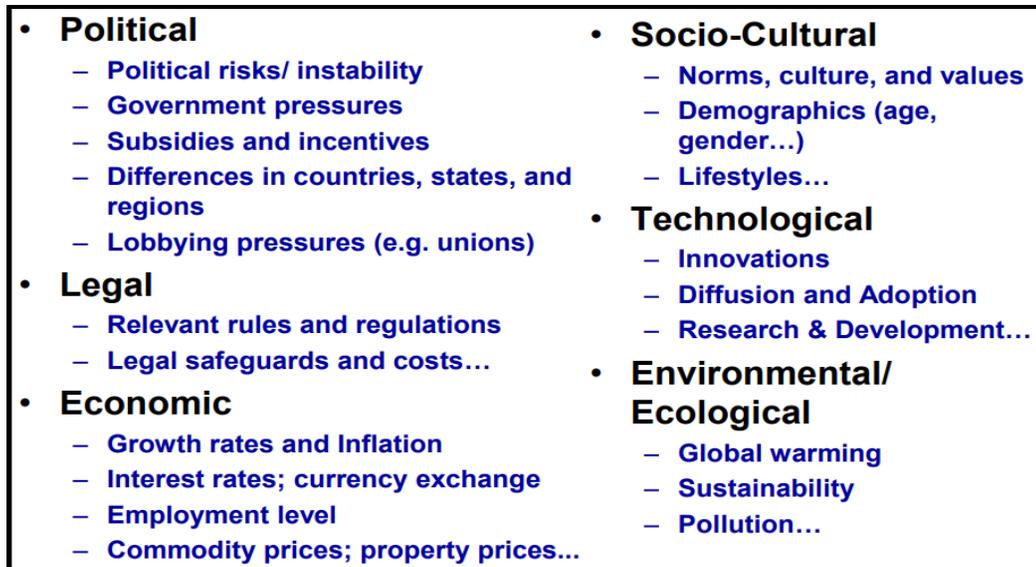
*(Internal) Strengths and Weaknesses* of the entrepreneur, his/her existing business and the management team may cover:

- Tangible and intangible resources (e.g. capital, human resources, technologies, business contacts/ networks, sales and distribution channels, etc.)
- Knowledge, skills and know-how
- Management commitment, prior experiences and competence
- Performance of existing products
- Market position and reputation
- Business track records
- Capabilities to innovate, etc.

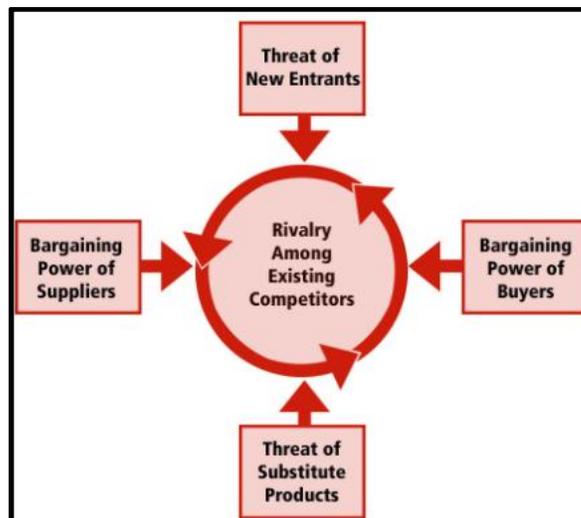
*(External) Opportunities and Threats may cover:*

- **Macro-Environment Factors**
  - Political and Legal (Regulatory) forces
  - Economic forces
  - Social and Cultural forces
  - Technological forces
  - Ecological forces

Some influential factors in the external macro-environment that may affect the feasibility and viability of a business



- **Industrial level Factors (e.g. Michael Porter's 5 competitive forces)**
  - Who are the **key COMPETITORS** in the industry? How strong are they?
  - What are the **SUBSTITUES** to the product in the industry? How strong are they?
  - How strong are the **SUPPLIERS** that provide inputs to the product in the industry? How many? What are their size? Do they control some key supplies?
  - How strong are the **BUYERS/ CUSTOMERS** of the product in the industry?
  - How strong are the potential **NEW ENTRANTS** to the industry?
  - How strong are the **entry barriers** to establish a business in the industry?



🔥 *The stronger of these forces, the less attractive and viable to implement the business in the specific industry you are targeting.*

Read More: Porter's Five Forces Analysis Framework and its application  
<https://www.isc.hbs.edu/strategy/business-strategy/Pages/the-five-forces.aspx>

#### 4b. Opportunity Evaluation Models

Building on the macro- and industry-level environmental analyses, there are many questions to be asked to determine the viability of an opportunity. The below models underline the primary dimensions that entrepreneurs should take into account when evaluating an opportunity, and the associated key questions that entrepreneurs should answer.

- **RAMP Model (by Ryan P. Allis)**

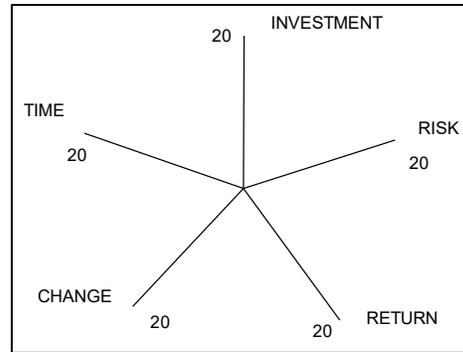
There are FOUR DIMENSIONS to be considered based on the RAMP Model, and sample questions to ask include:

- RETURN: Return on Investment** - How much money is needed to start up the business? How much revenue and profit will the opportunity generate? How long will the business breakeven?
- ADVANTAGES: Strengths and Uniqueness of the Idea and the Entrepreneurial Team** – In what ways is your business idea better and more unique than others? Do you and your management team possess any advantages to implement this business idea?
- MARKET: Presence of a ‘Robust’ Market for the Business** – Is the market real? Is there a clear need in the market? Who will be your target customers/consumers? Will you be able to meet the market need? Is the market big enough and/or growing?

**POTENTIAL: Potential to Thrive** - How risky is the business? Is the reward high enough to justify the risk? Will you and your management team be able to overcome the risk and do well? Do you and/or the management team know the area? Is the team capable and committed to work on the business? Does the business fit the goals of the team? Is the time right to implement the business? Is the market and target consumers ready to accept such a business idea?

Source: Ryan Allis @ <http://www.zeromillion.com/entrepreneurship/business-idea-evaluation/>

- **The Pentagon Model of Opportunity Assessment (by David Rae)**



**The Dimensions and Associated Questions to be Considered with reference to Rae’s Pentagon Model include:**

- Investment:** What and how much investment is required if the opportunity is to be properly exploited? Investment cover:
  - Financial resources
  - Human resources
  - Business and personal relationships
  - Intellectual resources
  - Physical resources, etc.
  
- Risk:** What are the major risks involved (e.g. no market, resources, technologies, inputs; high level of competition; unfavourable economic and social conditions; legal and regulatory restrictions; poor intermediaries and supply chain partners; incapable and demotivated management team, etc.)? How serious and destructive could the risks be? What are the costs if things go wrong?
  
- Returns:** What is the amount, timescale and form of returns? Are the returns attractive relative to the investment and risks involved? Is there an exit opportunity – to sell/ to list?
  
- Change:** How disruptive is the product/ service to existing ones? To what extent will it lead and drive change? Does it largely affect by external changes?
  
- Timescale:** What is the lead time to enter the market? What is the duration of the opportunity – short or long term? How long does it require for the investment to achieve a return? Is the timing of your entry leading the market or following others?

Source: David Rae, *Opportunity-Centred Entrepreneurship*, Palgrave

***\*Referring to the above dimensions, entrepreneurs should clearly define and develop a list of the most relevant criteria, and determine their weighting for assessing business ideas.***

## **UNATTRACTIVE and UNVIABLE Opportunities: A Checklist of Signs to Spot**

### **The Product Idea:**

- Mostly a replication of existing products that does not add clear and sufficient innovative and distinctive value to customers.
- There are many substitutes serving similar or better functions.
- Can be imitated in no time.
- Resource inputs and production technologies are not available or very difficult to access and obtain.
- The prototype or pilot version cannot be worked out.
- Product design has fundamental flaws that cannot be corrected.

### **The Market:**

- Market is difficult to define.
- Market is too small; saturated; and/or is declining.
- Initial target customers are not ready to accept or are unlikely to commit to the product.
- Realistic breakeven takes too long to achieve or cannot be established with confidence.
- Market risks are very high.

### **The Entrepreneur and the Team:**

- It does not fit in or match their interest and life goals.
- They do not have the essential knowledge, expertise and skillsets in the area.
- They are unable to commit to act.
- Required initial resources beyond their reach.
- Opportunity costs are too great.

**BUILDING BLOCK 3**  
**DEVELOPMENT OF BUSINESS MODEL**

***“The same products, services or technologies can fail or succeed depending on the business model you choose. Exploring the possibilities is critical to finding a successful business model.”*** - Alexander Osterwalder, Author of Business Model Generator

## **1. INTRODUCTION**

Defining your unique business model is critical to achieving sustainable growth.

Whether you are planning to start a for-profit or a non-profit business, the most crucial determinant of its success and sustainability is the value it creates, delivers and captures for its target customers, for yourself and your team, and for other stakeholders. A business model essentially outlines how the business will create and deliver value, thus, generate money and achieve its goals.

In this block, you will get an appreciation of the key and interrelated elements in constructing a business model.

## **2. OUTCOMES**

On completion of this block, you will be able to:

- recognize the central role of ‘value’ in a business model
- better understand key components and activities core to upholding a viable business

## **3. MUST KNOW**

- Every business has a business model, although some may not realize they have one.
- Business model is a narrative conceptual model, **NOT** a financial model.
- There is neither a standard nor the best business model. Entrepreneurs need to figure out their unique way of creating and delivering value different from their competitors.
- Business model can become a competitive advantage of a business if it is unique and difficult to imitate/ replicate.

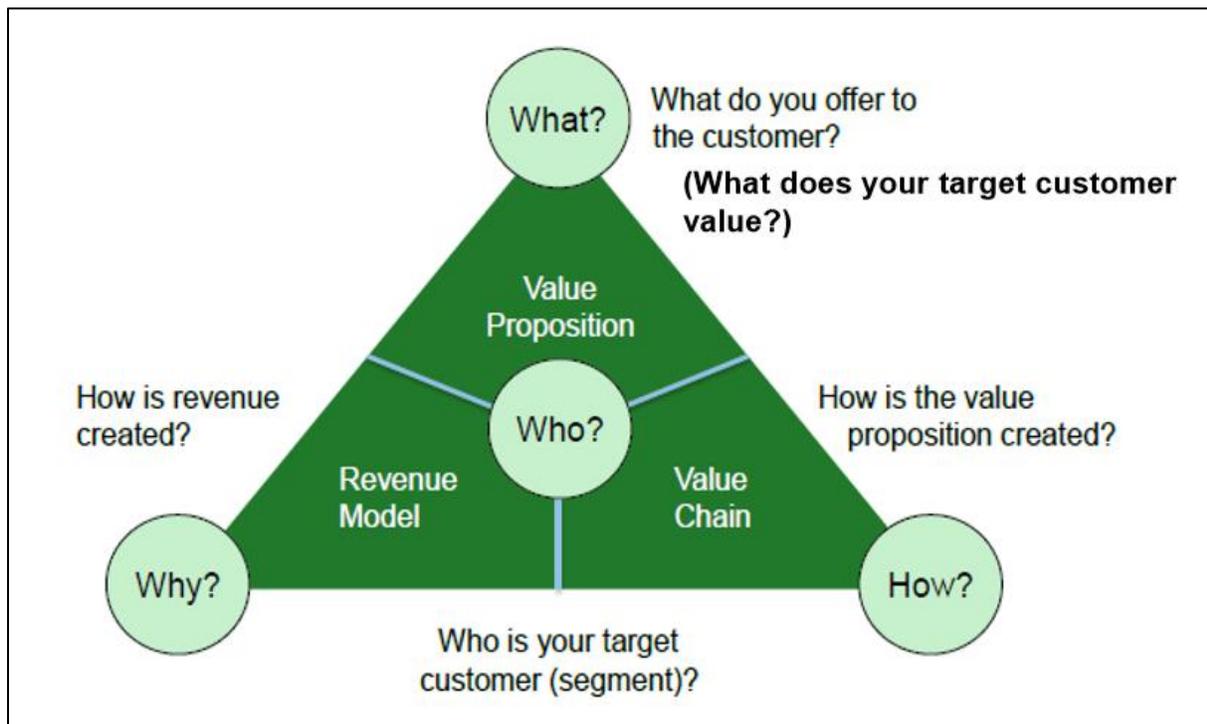
### A Vivid Illustration of a Successful Business Model – The Case of Dell Computer.

“Michael Dell was a true business-model pioneer. The model he created is, by now, well known: While other personal-computer makers sold through resellers, Dell sold directly to end customers. That not only cut out a costly link from the value chain, it also gave Dell the information it needed to manage inventory better than any other company in its industry. And because the pace of innovation in the industry was intense, Dell’s inventory advantage meant it could avoid the high cost of obsolescence that other computer makers had to bear. Armed with its innovative business model, Dell consistently outperformed rivals for decades.

In this case, Dell’s business model functioned much like a strategy: It made Dell different in ways that were hard to copy. If Dell’s rivals tried to sell direct [to end customers], they would disrupt their existing distribution channels and alienate the resellers on whom they relied. Trapped by their own strategies, they were damned if they copied Dell and damned if they didn’t. When a new model changes economics of an industry and is difficult to replicate, it can by itself create a strong competitive advantage.”

Source: Joan Magretta, Why Business Models Matter, *Harvard Business Review* 2002

### What Should a Business Model Tell Someone About Your Business



Source: Gassmann, Frankenberger, Csik (2014)

- **Who Are Your Target Customers?**
  - ✓ *You need to have a clear profile of the characteristics and attributes of your customers group – your target market segment(s)!*

- **What Does Your Business Offer to the Customers? (Value Proposition)**
  - e.g. New Experience? Complete Experience? Lower Costs? More Efficiency? More Flexibility? Higher Quality? Distinctive Identity? Customization? Connection? Peace of Mind? Easier and Simpler Ways? Faster Reach and Access? etc. etc.
  - ✓ ***You need to demonstrate how these offerings are unique and different from existing ones, and provide better solutions to existing problems and needs of your target customers.***
  
- **How Is this Value Proposition Created and Delivered?**
  - What is the configuration of your value chain activities (from sourcing of materials, production, marketing and sales, delivery, and after-sale services)?
  - What are your Supplier and Partnership networks?
  - What are the key Resources and Inputs to your making and delivering your product?
  - What are the key Operations Processes involved?
  - What are the Marketing, Sales and Distribution Channels to reach target customers?
  - How are your Customer Relationships and Interface managed?
  
- **How is Revenue Created?**
  - Revenue streams. What are the different ways you can make money out of this business?
  - What are the major Costs of the business?
  - What are the potential sources of funding?

#### 4. TECHNIQUES AND TOOLS

##### 4a. Business Model Canvas (Osterwalder and Pigneur, 2010)

- One of the most popular models that guide entrepreneurs to draft and refine their business models.
- Depicts a business model through 9 building blocks. Entrepreneurs have to work out one by one to outline how the business operate to deliver value and make money.
- The 9 building blocks are not standalone; they link with one another to uphold the core value propositions of the business. A holistic and integrative perspective is needed to understand the overall design of the business.

***\*The key aspects to be considered for each aspect of the Business Model Canvas are detailed below. The central component is the Value Propositions with which the other 8 components should be aligned.***

<b>KEY PARTNERS</b> Who are our key partners? Who are our key suppliers? Which key resources are we acquiring from our partners? Which key activities do partners perform?	<b>KEY ACTIVITIES</b> What key activities do our value propositions require? Our distribution channels? Customer relationships? Revenue streams?	<b>VALUE PROPOSITIONS</b> What value do we deliver to the customer? Which one of our customers' problems are we helping to solve? What bundles of products and services are we offering to each segment? Which customer needs are we satisfying? What is the minimum viable product?	<b>CUSTOMER RELATIONSHIPS</b> How do we get, keep, and grow customers? Which customer relationships have we established? How are they integrated with the rest of our business model? How costly are they?	<b>CUSTOMER SEGMENTS</b> For whom are we creating value? Who are our most important customers? What are the customer archetypes?
	<b>KEY RESOURCES</b> What key resources do our value propositions require? Our distribution channels? Customer relationships? Revenue streams?		<b>CHANNELS</b> Through which channels do our customer segments want to be reached? How do other companies reach them now? Which ones work best? Which ones are most cost-efficient? How are we integrating them with customer routines?	
<b>COST STRUCTURE</b> What are the most important costs inherent to our business model? Which key resources are most expensive? Which key activities are most expensive?		<b>REVENUE STREAMS</b> For what value are our customers really willing to pay? For what do they currently pay? What is the revenue model? What are the pricing tactics?		

**Example: Uber's Business Model Depicted Using the Business Model Canvas**

<b>Key Partners</b> Drivers	<b>Key Activities</b> Defending the company from "anti-capitalist taxi protectionism" Hiring <b>Key Resources</b> Software dev Operations staff Community staff	<b>Value Propositions</b> Exclusive transport at an affordable price Convenience On demand availability Certainty A way to use 'slack' resources	<b>Customer Relationships</b> Good service Trust No commitment <b>Channels</b> Social media Direct	<b>Customer Segments</b> Wealthy, young people Existing drivers of private transport vehicles Regular people with a car who are willing to drive
<b>Cost Structure</b> Wages Incentives		<b>Revenue Streams</b> % of fares Surge pricing		

Source: Pete Cohen (2014) The Business Model Canvas: A Light Saber for Your Disruptive Tool Belt. Read More: <http://www.agileaustralia.com.au/presentations/Agile-Australia-2014-Presentation-Pete-Cohen.pdf>

#### 4b. Geoff Moore's Value Positioning Template

For \_\_\_\_\_ (target customer)  
who \_\_\_\_\_ (statement of the need or opportunity)  
our (product/service name) is \_\_\_\_\_ (product category)  
that (statement of benefit) \_\_\_\_\_.

Read More:

- <https://www.youtube.com/watch?v=Repdc4Fz7-I> (This video provides detailed instruction how to develop your value proposition using Moore's template)
- <http://torgronsund.com/2011/11/29/7-proven-templates-for-creating-value-propositions-that-work/> (This site provides you with more templates to help create the value proposition of your business/ product).

#### 4c. Assessing the Design of a Business Model: Key Questions to Ask

- Is the Business Model Consistent in All Its Key Dimension?
- Are All Key Dimensions Aligned with The Value Proposition?
- Is the Business Model Consistent with Key External Change Drivers?
  - Market Changes
  - Societal Changes
  - Technological Changes
  - Competition
  - New and Emerging Market Players
  - Regulatory Changes
- Are the Assumptions Underlying the Business Model Clearly Specified?
- Are the Assumptions Underlying the Business Model Commonly Understood by the Team?
- Are the Assumptions Underlying the Business Model Testable?

Adapted from Gassmann, Oliver; Frankenberger, Karolin; and Csik, Michaela, *The Business Model Navigator: 55 Models that will Revolutionise Your Business*, FT Publishing International

**BUILDING BLOCK 4**  
**DESIGNING YOUR BUSINESS PLAN**

***“If you don’t know where you are going, you’ll end up someplace else.”***

- Yogi Berra

***“A goal without a plan is just a wish.”***

- Antoine de Saint-Exupery

## **1. INTRODUCTION**

You have assessed the viability of your business idea and you are all fired up—ready to take off. Stop and remember- *failure to plan is planning to fail*. What is a business plan and why do you need to write one when you think you have fully figured how your business will run? Imagine what you consider a small business – and try to keep all its activities and processes in your head: how much should you invest if you have to serve 200 clients? How much profit do you need to make to ensure sustainability? What mix of ingredients such as sweets, sugar, bread, soap, salt should be stocked and how often will they be replaced? How many workers do you need and what are their jobs? How much is space, protection, workers etc.?

Does the above sound overwhelming? Then you know why all businesses need to develop business plans.

## **2. OUTCOMES**

On completion of this block, you will be able to:

- Understand the key components of a business plan
- Prepare business plans for different purposes
- keep you alert to different key elements of your business and its environment
- differentiate the opportunities offered by the numerous business lines

## **3. MUST KNOW**

Planning is a key competence of any entrepreneur. It helps you to visualize your entire business in action, secure talent and financial partners, identify areas where your business ideas may be strong/ weak, and map a strategy to realize your business goals. A business plan also helps you to assess the different requirements, partnerships, clients and sources of growth as well as estimate the pricing structures and how to change the time needed to reduce the breakeven point.

**Prepare to complete the business plan by doing the following:**

- **Seek information.** It is dangerous to imagine that you know everything. You will have to leave the safety and comfort of your surroundings to find out more about what you need to run your business successfully. Imagine if you want to make fish sausage or rare chicken or

fish. How much do the different materials cost and who are the best suppliers? Do you even know what it takes to make sausage or run a chicken run? DO NOT GUESS! Go find out who will buy or how much different clients buy the same product. You need accurate information to write a business plan.

- **Who will use the business plan?** If you are looking for third parties to believe in your business plan, then you may need information that is of interest to them than just to you. For instance, a business plan for funders may have to emphasise commercial viability. A business plan for government agents may be interested on development and social contributions of the business. If the plan for venture capitalists and potential partners, the plan may have to emphasise its growth potential (e.g. from a \$5000 business to a \$500 million business). Who is the plan for?
- **Seek support:** Discuss with your family, friends, partners, strangers and other people you know to help you solidify your thoughts. It is not about you or your pride but about your business. Any informed and in-sector information, including performance of the industry should be considered even if it seems to undermine your initial understanding. It is better to address these challenges at this stage than after you have lost your investment.
- **Which template is the best?** There are thousands of business plan templates on the internet in various languages and with different emphasis, and several ideas of what should be in each section. However, it is not about the template: it is about YOUR business. Some of the suggestion may not apply to your business. For instance, marketing is very important but may be unnecessary for some businesses – e.g. a maize farmer that sells all its harvest to a government agency or a contract supplier.
- **Reality or expectation:** Please remember that your business plan – is a plan- and not the reality. However, you will try to make sure that your estimates are as close to reality as possible for it to qualify as a business plan. Try not to change numbers and figures to fit your expectation or to meet the expectation of funders. Experienced people know that a business plan that say it will keep adding 50% more profits or production will increase at a fixed rate from month 'X' is most likely guessing or lying.
- **Run your business plan by others.** Before you circulate your business plan to partners, funders and agencies, read it again, get some of your best critics to listen to you make a presentation and others to give your comments on your plan. Your main goal is to get your business plan to be as close to reality as possible. If you cannot convince your friends, how can you convince strangers to believe in you?

### **Tips for Writing a Business Plan**

- **Simple and Understandable:** Write in simple plain words, avoid jargons, get to the point and make it clear and comprehensive. Make your business plan user-friendly, easy to read and understandable.
- **Interesting to Read:** Use visually appealing charts, figures, diagrams and other formatting

techniques along with text descriptions and interpretations to make it more interesting to read.

- **Concise and Explicit:** Longer is not necessarily better! The ideal plan is “crisp,” long enough to say what it should but not so long that it is a chore to read.
- **Know who is it for!** Tailor your business plan to suit different readers. Focus on what your target reader is interested in and looking for in a business plan, e.g., payback period, return on investment, growth potential, etc.
- **It should flow!** Follow a complete structure to present your business in an organised way. Include a table of contents and clear page numbers so that readers can navigate and locate information easily.
- **Knowledge of your market!** Include a general market overview / market analysis to show your understanding of the industry and your business position.
- **Differentiation.** Emphasize the uniqueness, strengths and competitive advantages of your business.
- Provide quantifiable information and references.
- **Realistic but aggressive.** Develop realistic but forward-looking projections, explain use of funds and expected payback period. Be true and honest!
- **An appealing Executive Summary.** Complete all the sections of a business plan first, before pinpointing and aggregating key messages in the Executive Summary.
- **An attractive cover.** First impressions matter!
- **Be professional.** Review and edit before presenting it. Make sure the plan is free of spelling, grammatical errors and “typos”, have no missing page, and no missing/ misplaced tables and figures. It is a professional document and should look like one.

#### 4. TECHNIQUES AND TOOLS

##### 4a. Components of a Business Plan

**\*The below components and associated questions are intended to help you write your business proposal. They are not a scoreboard and some of the questions may not apply to your business.**

###### **Title Page (1 page)**

Company name (or proposed), address, contacts and names of principal applicant, and contacts of all partners.

###### **Executive Summary (1 page)**

A summary of the business idea/ concept; the product/ service, and its unique value/ benefits/ advantages; the target market and customers, projection – size and growth, sales and profits; competitive advantages; financing and use of investment.

*Remember: Executive Summary should be the last part to be prepared after you have completed all other components. It should highlight the key information from the main contents that are of interest to your target readers.*

###### **The Business (1-2 pages)**

What is the business that you proposed? What are your products/services? What are their features and How are they unique or similar to those on the market? What are the value and benefits for users/ customers? Why will your business appeal to customers? How do you give your business a competitive edge?

###### **The Market (1-2 pages)**

Which is your target market? Who are your customers? What are their key characteristics? How large is the market and How fast it is growing? What are the key trends? What are the opportunities and threats in the market? How does your business respond to these trends, opportunities and threats?

### **The Competition (1 page)**

Who are your direct and indirect competitors? Substitutes? What are their market position (e.g. market share, size, age, business scope, etc.)? What are their strengths and weaknesses? What is your target market share? How do you intend to gain market share?

### **Strategy/ Implementation (2-3 pages)**

How are you going to develop your business? How are you going to source/ produce your products? How are you going to reach your customers? Promote and market your business? How are you going to distribute, sell, deliver your products? Build and maintain customer relationships? How will you set the price? How does your proposed price compare to that of similar products in the market? Who are key partners/ stakeholders to make your business works (e.g. Any key contractors, suppliers, distributors, technologies and employees you will need and when)? What are the key resources needed? How are you going to source and make available these resources? What is the implementation plan? When will you undertake specific activities (month and year)?

### **Management Team (1-2 pages)**

Who is in your team? What are their contributions, skills, qualifications and accomplishments? Why did you choose them? How long has the team been working together? What is/ will be your organization structure?

### **Financial Plan (1-2 pages)**

#### ***For existing firm:***

A 12-month income statement, balance sheet and cash flow statement and make three-year projections from there on.

***For start-ups:*** How much is in the bank or are you about to raise? How much do you need from others to start the business?

***For both existing firms and start-ups:*** provide monthly estimates for the first year and quarterly estimates for the next two-three years.

### **Appendices**

Place CVs of all members, contracts and detailed sales and financial reports as well as support details in the appendices (e.g. certificates of incorporation, operating licenses, etc.)

## **B. A Detailed Template (this is just one example)**

The below template is compiled by the ACCA (Association of Chartered Certified Accountants) Hong Kong and the Trade and Industry Department of the Government of Hong Kong Special Administrative Region for use as general reference.

*This is just one example template, there are thousands of templates of business plans readily accessible.*

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### **i. TITLE PAGE**

Your company name and logo  
Address  
Contacts  
Company Registration Number  
PIN number

### **ii. EXECUTIVE SUMMARY**

#### General guidance

*This is the most important part of your business plan. It provides a summary of the highlights of your business plan and tells the readers what you want. The length of this statement depends on the complexity of the business. Although this statement is put at the front of the document, it is the last section to be written, bearing in mind the following tips:*

- *Have a concise statement to emphasize the main points of your plan.*
- *Technical jargons should be avoided.*
- *Tailor your business plan to suit different use.*

### **iii. THE BUSINESS**

#### General guidance

*You have to tell what your business really is, such as the nature and substance, the type of operation, to whom you sell, how the product is distributed, and the business' support systems. You should be specific in showing how you give your business a competitive edge.*

*When preparing this section, the following points could also be noted:*

- (1) **Mission**<sup>1</sup>
- (2) **Eco-coalition**<sup>2</sup>
- (3) **Attraction**<sup>3</sup>
- (4) **Trade situation**<sup>4</sup>
- (5) **Social relation**<sup>5</sup>

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<sup>1</sup>This is the core value of the business. Apart from generating profit, how the business can create betterment of the community could also be considered.

<sup>2</sup>Eco balance and environmental protection is a very popular topic nowadays. Things like sewage control, recycle fuels could be considered. Label your business green, it helps.

<sup>3</sup>Tell people the niche, selling point of your business.

<sup>4</sup>This refers to the macro-environment of your business.

<sup>5</sup>How do you manage to carry out your social responsibility by being the owner of your business? How do you get involved in the local community?

#### iv. INDUSTRY ANALYSIS

##### General guidance

*There are two elements to consider in preparing this section: an overview of the industry and a summary of your business' position within the industry. It helps to footnote major observations and sources of information for the data provided where appropriate, to show the reliability of the information.*

#### v. MARKET ANALYSIS

##### General guidance

*In this section, you need to demonstrate your knowledge about the marketplace you operate in, as well as the important trends and drivers. It helps if you can show that you have done the market research to justify what you say in this plan.*

##### **Target market**

##### General guidance

*You need to define the group of customers you want to target, characteristics of this group of customers such as their gender and income level, the geographic location of the group, the size of the group, the estimate of your share of this group, as well as your pricing strategy to achieve this share, and any factors which may cause your customers to switch to other products / services, etc. You can also indicate whether the particular market segment is growing or declining. Important trends and the reasons behind should also be illustrated.*

##### **Market segmentation and positioning**

##### General guidance

*You will need to identify a specific group of customers amongst your target group, and assess how your product / service is perceived and evaluated as compared to your competitors.*

##### **Competitor analysis**

##### General guidance

*First of all, identify who your competitors are. For each competitor, determine what their market share is, and estimate how long before new competitors enter the market. Identify your competitors' strengths and weaknesses. If possible, try to understand your competitors' operations such as their cost structures, major markets, size, sales, production methods, etc. It is not only important to understand why and how a competitor is doing so well, but also important to know what mistake a competitor has made.*

#### vi. MARKETING STRATEGY

##### General guidance

*This section is crucial. It gives a good indication of the business' chance to succeed. It refers to your adoption of various means or ways that make your products / services known to your targeted customers and arouse their interest to purchase your products / services. You can start formulating by using 4P's approach, i.e., product / service, pricing, promotion and place.*

##### **Products / Services**

##### General guidance

*How do your products / services meet your customers' specific needs? You can focus on the uniqueness of your product / service and how customers benefit from using your product / service.*

##### **Pricing**

### *General guidance*

*Is the price that you charge along with the market? Or are they value-for-money? Or are they charged at a premium that creates a social status that customers enjoy? The price you charge has to be competitive but still allows you to make a reasonable profit.*

### **Promotion**

#### *General guidance*

*This section describes how you are going to deliver your Unique Selling Proposition to your prospective customers. Which medium is the most effective way in reaching your target market? How much do you plan to spend on advertising?*

### **Place**

#### *General guidance*

*This refers to the distribution channel, physical or virtual, to make your product / service easily accessible by your targeted customers. You can also consider the costs associated with the distribution channel, whether the distribution method affects production timeframe or delivery, etc.*

## **vii. PRODUCTS AND SERVICES**

### *General guidance*

*This gives a description of your products / services and your reasons that they can fulfill the needs in the market. Are they innovative? Do your existing products / services have new features that make them more attractive to users? Do you invent a new application of the products? Or can you charge the existing products at a much lower price because you have a way to lower your own cost? These are the cutting edges of your products /services that are appealing to investors. The statement that you make should refer to the findings and conclusion you presented in previous section.*

*You can also classify your products / services into 4 groups, animated by 4 icons, according to the market growth and market shares: Star<sup>6</sup>, Cash cow<sup>7</sup>, Dog<sup>8</sup> or Question mark<sup>9</sup>.*

## **viii. ORGANISATIONAL STRUCTURE**

### *General guidance*

*You should set out the ownership structure, your management team and the organizational structure in this section. Backgrounds of key members of the management team, personnel strategy and details could be included. This is important as it sets out how the experiences of these key members can help the business to be successful. The organizational structure provides a basis to project the operating expenses. Depending on the nature and size of the business, you should determine the type of personnel required to perform the required tasks and whether there are any gaps that need to be filled.*

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<sup>6</sup>This refers to business units with a high market share in a fast growing industry. Sustaining the business unit's market leadership may require extra cash. When growth slows, stars can become cash cows if they have been able to maintain their category leadership.

<sup>7</sup>This is the business unit with high market share in a slow growing industry, and generates cash in excess of the amount of cash needed to maintain its business. Investment may not be worthwhile as it may be wasted in an industry with low growth.

<sup>8</sup>This refers to business units with low market share in a matured, slow growing industry. They typically "break even" and generate barely cash to maintain the business units' market share.

<sup>9</sup>Question marks are growing rapidly and thus consume large amounts of cash. However, as they have low market share and do not generate much cash, they need to be analysed carefully to determine whether investment is worthwhile.

## ix. OPERATIONAL PLAN

### General guidance

*In this section, you need to describe how the company's production and operational management, marketing and human resources management and financial management are done. This includes who your suppliers are, what alternative arrangements you have in place if these suppliers let you down, the quality control measures you have made, etc. You may show that the internal control and risk management systems are in place. Assessing the risks is also very important. You should consider a range of what-if scenarios and how you plan to mitigate these risks.*

## x. FINANCIALS

### General guidance

*In this section, you need to demonstrate whether your business is financially viable. Basically, you should prepare three-year projections of the following statements: Projected income statement<sup>10</sup>, Projected cash flow statement<sup>11</sup> and Projected balance sheet<sup>12</sup>. Financial ratios and key performance indicators such as break-even, turn-around time, profitability ratios, payback period, rate of return on investment, liquidity ratios and stock turnover can also help readers to have a better understanding of your financial and operational performance. A realistic sales forecast forms the basis for all your other figures. For every forecast, list all your key assumptions such as prices, sale volume, timing, etc.*

## ANNEXES

*Place all bulky and lengthy key documents in clearly labelled Annexes. Do NOT place key information in an annex as most readers rarely go through the annex. All information in the annex must be related to that in your business. These may include:*

*information CVs of team members*

*Contracts already obtained*

*Copies of certificates*

*Market research data*

*Financial statements*

*Etc.*

# *You are all set!*

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<sup>10</sup> It gives a clear indication of when and why the business is profitable.

<sup>11</sup> It shows how much money you expect to be flowing into and out of your bank account and when. You must show that your business will have access to enough money to survive.

<sup>12</sup> This shows the financial state of your business on day one and at year end.

#### 4b: Pitching your Business

A business pitch is a description of your business. You might need to do a pitch if you are looking for:

- Funding
- Business support and advice
- Prospective clients.

Short pitches (known as ‘elevator pitches’) are often used, requiring you to give a clear plain simple and yet appealing and memorable presentation about your business in a very limited time (the time span of an elevator ride, about 60 seconds) to your target audience.

A business pitch should tell your audience:

- What is your business?
- What key problem does your business solve/ main market need does it fill?
- What customers/ users does your business target to serve?
- What are the compelling reasons for the target customers/ users to choose you? (Stress how you are different, unique and better from the alternatives to solving their problem/ meet their).
- How good is the business prospect (market projections)?

Read More:

- Make Your Pitch Perfect: The Elevator Pitch by Alison Chadwick (<https://www.youtube.com/watch?v=bZTWx2bftaw>)
- How to give the perfect pitch by David Beckett (<https://www.youtube.com/watch?v=Njh3rKoGKBo>)

#### TIPS:

- Do your research. Know your subject and relevant facts inside out. Generate the confidence of your audience in you.
- It is more than just giving information. Aims to attract attention and involve emotion.
  - Create a ‘hook’ line that raises interest: a success you have had; the size and growth rate of your market; a reference point to what your target audience has felt, experienced and/or done, etc.
- Show your passion in your business.
- Create a need for more information.
- Speak clearly in simple language. Time is limited but do not speak so fast that people do not get what you say! Avoid technical terms and jargons.
- Follow up quickly, persistently and competently!***

***Practice, Practice and Practice!***

# **Building Block 5**

## **Funding your business**

***“An entrepreneur without funding is a musician without an instrument.”***

— Robert A. Rice Jr.

## **1. INTRODUCTION**

You have a business plan and now you want to launch and run your new business, expand your business or develop a new business line. To operate your business, you may have to legally register the name of your business, to open bank account, pay taxes, employees, rent space, acquire machinery and software, access inputs and run a marketing campaign etc. Even if your plan to work alone and from your house, many of the services and resources your business needs to run and grow are not free.

How much money do you need and where will you get the funds from? Depending on the nature of your business, and the growth potential, the developmental and environmental contribution it presents, there are several options you can pursue. It is important to remember the limits, opportunities, benefits and challenges each potential source of funding brings to your business.

## **2. OUTCOMES**

By the time you complete this block, you are will:

- Have clear understanding of the diverse sources of funding your business
- Appreciate the limitations, benefits and challenges each source of funding presents
- Choose sources of funding that fit your business model and character
- Choose sources that meet your business development

## **3. MUST KNOW**

“The closest real-world analogy to raising money, whether you are seeking it from venture capitalists, angel investors, or the three Fs (friends, fools, and family), is speed dating. That’s right: In five minutes, people decide if they are interested in you, just as in bars and nightclubs. This isn’t right, and it isn’t fair, but it’s reality.”—*Guy Kawasaki, “Reality Check”*

### **Crucial checkpoints:**

- ✓ Make sure all documents or presentations are consistent and flow
- ✓ All communications and documentation should look professional
- ✓ Ensure the documents and presentations are interesting and engaging
- ✓ Test-run your presentations, arguments and documentation with people you know – e.g. advisors, businessmen in other sectors, a funder you have no interest in such as a banker)
- ✓ You have limited time – know and prepare to use the language your target funders understand.
- ✓ You must exceed the expectations of your funder.

#### **4. SOURCES OF FUNDING**

##### **a) Fund your business from your own savings**

It is your business and if you cannot risk your own money how can you in good faith risk the others money and other resources if you do not expect it to succeed? Your own savings, time and space are a good start for any business. At least most of the early efforts will surely depend on your resources. The best part is that you can lose your money and you will not be sued by anyone else nor will you have to mortgage your house or other properties. All profits and glory are yours and you retain full control and make all the decisions. On the other hand, all the business losses are yours to bare and they are not shared - you can lose all your savings.

##### **b) Liquidated some of your junk!**

*“One man’s trash is another man’s business”*. Look around your belonging and you may find clothes and shoes that never/ no longer fit, or computers, water tanks, canoes, boats or piece of land in useful condition but you seldom use. They may be the source of extra cash! Sell some of them to raise money for your new venture. There are a number of platforms, both online such as eBay, OLX and in traditional physical modes such as house/garage sales for you to sell off some of your stuff. If you really believe in your business, then sell off some of your valuables to raise funds and helps you commit.

*Mike Daka, the former head of Zambian Institute for Mass Communications, quit his job and sold his family house to finance his own startup radio station in 2002, the Breeze FM radio station (<http://breezefmchipata.com/>) in Chipata – 573 Km away from the capital Lusaka. Today, his radio station can be heard in all the six districts of Eastern Province of Zambia and is a BBC partner.*

##### **c) Let the business fund itself**

Depending on your business, it is possible to let the business fund itself. This is particularly possible for consulting, media, financial and training firms or other business where the skills and reputation constitute a lion’s share of the start-up and operational costs. Before you rake up debt, see which aspects of your business can fund themselves or even fund other components of your business. The main advantages of this funding approach are: 1) it forces you to only carry the best workers/partners that can bring in money and 2) your business does not accumulate unwanted debt.

##### **d) Bring in family, friends and people who know you**

Family, friends and close acquaintances are often thought of as the first choice to invest in your business after yourself. They know you, understand your strengths and weaknesses and share a collective desire to see you succeed. They are also likely to be your only source of interest ‘free’ loans and donations. They are a good barometer for testing your business viability: if they do not believe you, others may not even bother.

The challenge however is that, unless you have extra rich family and friends, you are likely to raise only some of your early seed funds. In addition, family and friends may also present unwanted baggage- they may feel entitled to your success especially in communities with limited means. Be careful that they do not bring your business to the ground.

##### **e) Look out for donors that fund businesses in Africa**

There are several donors funding a host of development projects include support for business development, especially in the agriculture and the health sector. There are also several open calls for innovation awards and entrepreneurship awards, such as those by Elumelu Foundation (Nigeria) and

Innovation Prize for African (IPA) of the African Innovation Foundation (AIF – Switzerland \$25,000 to \$150,000).

**f) Give shares to some wealthy individuals and potential partners in your business**

You do not necessarily need to be listed on a stock market to give shares: firms registered as limited corporation by share in some countries like Zambia can add shareholders, buy shareholders off and declare dividends, etc. Giving a few carefully selected individuals shares can raise funds for your business, bring in expertise and reputation of successful individuals to your business and getting them to commit to your business. Like others that invest in your business, they care more for the success of your business – not you. You may need to be prepared to be replaced as manager if you do not perform to their expectations and requirements. That is both a good thing – its helps push you to create value for your business, and a bad thing -your business can lose its identity in the bid to chase greater value.

**g) Crowdfunding**

If you have a great business idea, package and market it in the way that others far from you appreciate the value your business is likely to create to enable them invest. Rather than seek one major investor, you may now reach out to thousands or even millions potential investors that could each invest rather small amounts but collectively could add up to millions. They range from donations to equity investment. Several platforms have emerged where you can seek investments such as [Appbackr](#), [GoFundMe](#), [Kickstarter](#), [RocketHub](#). Choose the platform that best suits your business. While all that sounds straightforward, remember that your success may depend on: how you position or pitch your business; transparency; knowledge of your business and your personality. Crowdfunding is more engaging that dealing with the bank or one investor. Remember however crowdfunding to kick-start an appealing business idea may be easy, it requires a lot more skills, capabilities and further funding to successfully establish and sustain a business onwards.

**h) Venture capitalists**

Assuming your business has grown to a level of several millions of dollars, you may be ready to seek venture capital investment. The traditional venture capitalist bets on the growth potential of your business and not on whether it is profitable. Ideally a \$10 million invested in a \$10 million business to enable it to grow into a \$100 million business may give a return of almost 50 times. In addition, venture capital financing may include loans and management expertise to drive growth. Most start-ups that are worth anything up to \$400,000 are unlikely to attract venture capital funding. See <http://www.avca-africa.org/> and <https://vc4a.com/>

**i) Banks and related financial service providers**

The bank is always a sound source of short-term financing especially in Zambia and most African countries. With interest rates in excess of 15%, most start-ups that are unlikely to make profit in their first 3 -5 years of operation can easily accumulate huge debts that can constrain their growth. However, bank loans and overdrafts can fill in short-term financial gaps for operations – e.g. purchase of materials, servicing contracts and providing guarantee of solvency (credit line) etc. For instance, a contract with government to install security systems over a year can easily be supported by a loan.

**Tips**

- None of the above sources of funding are mutually exclusive. Match and mix to reduce overdependence on one type of funding.

- There are many ways of reducing your funding requirements:
  - Avoid giving services on credit- get paid on service delivery
  - Collect all debt that you are owed on time
  - Request your clients to prepay (30%-50% on signing, full payment on delivery)
  - Avoid government and large corporation supply contracts that have long periods before settlements

## **Additional Expert Fundraising Tips:**

### **7 Essential Funding Strategy by David Atchley (entrepreneur.com)**

**1. Set your expectations:** Raising money takes time -- a lot of time -- and a strong, well thought out strategy. You are not the only one looking for funds from the same entities. Your goals, like your strategy, should be long term and highly focused.

**2. Refine your value proposition:** Your pitch, or "case for support" needs to be much grander than a few incremental changes. Demonstrate impact for the money

**3. Understand your IRR:** Demonstrates how the money is moving the firm towards growth and profitability in the medium to long-term.

**4. Formalize and train your team:** Pair the fundraising roles with the relative strengths of individuals in your team. Some individuals are 'Engagers', 'Connectors', 'Lobbyists', 'Stewards' and 'Bailiffs' etc.

**5. Know your audience:** Understand their interests and celebrate your funders.

**6. Manage your strategy:** Prioritize fundraising, if possible dedicate resources or an individual to fundraising

**7. Get creative:** E.g. request funders to pledge and spread out support over a period of time, match fund releases to milestones etc to signal seriousness. If you outperform, funders may pledge more resources than previously planned.

**Funders have worked hard for their money and have no interest in losing it! Put yourself in their shoes and think like them.**

Source: Peter Gasca (2015) *7 Essential Tips of an Effective Fundraising Strategy*. (Read full article at <https://www.entrepreneur.com/article/244966> )

### **Five Fundraising Rules for Small Businesses** by Ryan Caldbeck\_(Forbes online magazine)

1) **Set your valuation appropriately.** The quickest way to scare off investors is to set your valuation at a number that is disconnected from the results of a typical discounted cash flow analysis (DCF) or evaluation of comparable transactions would value your company. Good investors see hundreds of opportunities per year; entrepreneurs generally focus on the valuation of just one company, their own. ***Don't miss out on raising capital because your expectations are out of line with the market. Listen to feedback.***

2) **Raise the right amount of capital.** Raise the amount of capital your business needs to succeed. If you try to raise vastly more or less, this will not only hamper your likelihood of success, but investors will be skeptical about you as a manager and concerned that you don't have a great handle on what drives your business.

3) **Make your projections realistic.** Your new energy drink may taste great, but if you are \$1 million in revenue today, don't project you will be \$500 million in five years—it's not realistic and, more importantly, while investors would love to make 500x their money, 2.5x (adjusted for risk) will keep an investor in business all day long. Here's a good rule of thumb: would you be comfortable receiving a meaningful portion of your compensation in the form of a revenue or profit based earn-out using your projections as the targets? If your reaction is no way, then why should an investor give you credit for such projections in their valuation?

4) **It's okay to have competitors. Everyone does.** While many companies sell unique products, it is short-sighted for an entrepreneur to think he or she is not competing with anyone else for a share of a customer's wallet. As importantly, believing that you have no competitors is dangerous—whether or not you are correct—however large or small you may be. ***Every business has competitors, and telling an investor you have none is a sign you are not paying close-enough attention to your industry and the broader marketplace.***

5) **Know your audience.** It's good negotiating practice to show you have alternatives, but not a good habit to demonstrate you don't have a handle on what investors are likely to actually invest. All this anecdote did was demonstrate that the CEO didn't spend her time wisely.

Unless your name is Mark Zuckerberg, fundraising is hard. It is certainly a lot easier in some industries (i.e. technology) and harder in others (i.e. consumer products), but it is still hard. There are a lot more ways you can go wrong than right, and it takes practice. My best advice? **Work hard, keep your messaging clear and be persistent.**

Source: Ryan Caldbeck (2012) 5 Fundraising Rules for Small Business. (Read the full article in Forbes weblink :<https://www.forbes.com/sites/ryancaldbeck/2012/10/23/5-fundraising-rules-for-small-businesses/#147f0326699a> )

## **Annex 1. AEH PORTIFOLIO OF PRODUCTS**

### **1. AEH Development Institute**

*Your one stop-shop for research*

The AEH Development Institute offers market research, matchmaking, mentoring and training services to business leaders and policy makers, and emerging entrepreneurs and investors. Designed as a think-tank, it brings together some of the top researchers, academicians, industrialists and policy makers to generate solutions to complex development issues and highlight hidden opportunities as well as challenges.

#### **Specific areas of focus**

##### **A Market research**

AEH market research products are designed to save clients from the hassle of time-consuming and daunting search for partners and market data. We screen, organize and deliver to your desk relevant, reliable and meaningful information that you need to make informed business and policy decisions. Specifically, AEH undertakes research on:

- the potential growth prospects of new products and services in a market
- new trends in the market place
- the impact of changes in regulations and
- key players and competitors, distributors and regulators, among others.

##### **B Matchmaking and partner search**

This product is designed for firms and entrepreneurs seeking to find potential partners that may serve as agents, distributors, after-sale service providers, investors and suppliers in Africa and beyond. With a database of about 10,000 small, medium and large firms as well as partners around Africa, finding a partner can be just a click away. We will help you to:

- Find and assess the capacity and viability of potential business and investment partners;
- Identify and screen the enterprises and individuals likely to be interested;
- Provide information on legal and regulatory issues, competition, market size and potential in the areas of interest.

##### **C Training and mentor ship**

Training courses are designed to address the challenges and unlock the potential of managers, entrepreneurs and their firms in today's fast changing world. They are also intended to offer business leaders a glimpse of the future, understand prospects beyond their national borders and strength both corporate and public leadership. Specifically, AEH offers, *entrepreneurship, finance and investment and innovation leadership training*.

##### **D Government and public services**

These services are specifically tailored to help governments assess or understand the impact of their investments, policies, regulations and support to private and public sectors as well as on the behavior, competitiveness and growth of firms, among others.

## **2. SEMA: AEH's Service Market**

The Service Market (SEMA) is one-stop shop for everyday services whose main objectives are to:

1. Open up opportunities to a wide range of young and upcoming professionals and artisans
2. Create a track record of success or achievements and failure that can help start-ups and SMEs attract partners and obtain funding
3. Identify technology, management and investment needs of SMEs and users of the platform to enable matching, mentoring, peer-to-peer learning, and training
4. Promote partnerships among SMEs enable them bid for major works that could open up wider development and growth opportunities

## **3. AEH Finance support products**

The Africa Entrepreneurship Hub (AEH) expanded its existing funding model to offer support to banks and investment funds a tool that helps them reduce risks based on its experience in Zambia. The AEH approach combines the elements of venture capital funding, business incubation and Stage-Gate processes in:-

- Selection of growth-oriented SMEs,
- Structuring the financing using identifiable and measurable benchmarks,
- Mentoring, marketing and matching of SMEs to potential business partners
- Instilling the importance of intellectual asset management and strengthening of management teams

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