Starting a New Business:
The Founder’s Perspective

KLU Alumni Homecoming
November 10, 2018

Prof. Dr. Christian Barrot
Kühne Logistics University
HOW DID MY INTEREST IN ENTREPRENEURSHIP START?
AGENDA

1 Before you start – Some basics

2 People: Getting the right team

3 Plan: Getting the numbers right

4 Money: Financing a venture

5 Ideation: Finding the right idea for your venture
Starting a new venture incorporates the risk of failure...

Out of the about 3 million new ventures born each year in the U.S. alone...

- 1 YEAR: 81% survive
- 2 YEARS: 65% survive
- 5 YEARS: 40% survive
- 10 YEARS: 25% survive

... but even a failed venture can be a valuable experience

CHOOSE YOUR BASIC STRATEGY AND THE RIGHT TIMING

Required Attributes

Faster

Better

Basic Strategies

Differentiation
Offer an attractive alternative to existing products or services

Low cost
Emulate an existing product or service and beat the incumbents on price.

Niche
Determine profitable niche markets that are not / cannot be catered by incumbents often targeting the mass market

Cheaper

MOST NEW VENTURES HAVE TO ADAPT THEIR INITIAL STRATEGY AT SOME POINT

“Pivoting”

- Zoom-in-Pivot: Focus on a single feature of an initially broader product/service
- Zoom-out-Pivot: The initial product/service becomes a feature in a broader offering
- Customer-Segment-Pivot: Same product/service – different target group
- Customer-Need-Pivot: Same target group – different product/service
- Business-Architecture-Pivot: Switching from B2C to B2B or vice versa
- Technology-Pivot: Fundamental change of the underlying technology
- Business-Model-Pivot: Changing the revenue or pricing model

Keep in Mind:

► Seek early customer feedback to have a reality check for your strategy
► Be careful with pivots triggered by trends in venture funding
POSITIVE CASH-FLOW IS THE SINGLE MOST RELEVANT TARGET NUMBER FOR ANY START-UP

Cash Flow Basics

Understand the difference between profits and cash flow:
• Profitable companies can have negative cash flows and risk running out of money
• Unprofitable companies can have positive cash flows and be on healthy trajectories

Profit is measured as a gain or loss on the income statement, but…
• Doesn’t accurately reflect the cash inflows and outflows of the company
• Some cash dealings impact cash flow but not profits. Example: loan repayments

Cash flow measures the \(\uparrow/\downarrow\) of cash during a given timeframe
• It’s comprised of three elements: operations, investing and financing
• Plan and monitor closely
• What matters is the context – is the company growing, struggling, etc.?
APPROACHES ON WHEN TO BREAK EVEN CAN DIFFER

Self-sustaining from the start

Concept
Run profitable operations from day one, generating positive cash flow from the core business

Advantages
- Independent from external financing
- Early proof of concept
- Lower risk of failure

Example
XING

Controlled losses to grow

Concept
Forgo early profitability for faster growth to gain market share and deter competition

Advantages
- Faster growth
- Higher upside
- More likely to become market leader

Example
UBER
ANALYZE YOUR BUSINESS MODEL AND STICK TO THE BASIC ECONOMIC PRINCIPLE: REVENUES > COST

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EXCELLENT START-UPS NEED THE BEST PEOPLE TO GET AN COMPETITIVE ADVANTAGE – A STRONG CORPORATE CULTURE HELPS

Founders need to create a culture and align the employees they select with the values and structure of the company (e.g., Google: “Don’t be evil!”)

ENTREPRENEURS MUST BE PREPARED FOR LITTLE OR NO INCOME DURING THE START-UP PHASE

### Team Compensation

<table>
<thead>
<tr>
<th>Founders</th>
<th>Employees</th>
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<tr>
<td>- Often little or no pay in the beginning</td>
<td>- Raise capital to pay salaries</td>
</tr>
<tr>
<td>- Salary from another job or support from a spouse</td>
<td>- Use state-funding and subsidies</td>
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<tr>
<td>- Prepare for diminished personal cash flow</td>
<td>- Offer stock incentives (e.g., share options)</td>
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<tr>
<td>- Save sufficient funds upfront</td>
<td>- Start positions as external consultants or part-time until there is enough cash to pay full time</td>
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### Rules for Double Employment

- Do not use your employer’s resources
- Do not expropriate intellectual property from your current employer
- Do not solicit your employer’s customers until you quit the job
- Do not conceal the fact that you are founding your own venture

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EVERY ENTREPRENEUR NEEDS ADVICE FROM EXTERNAL EXPERTS – JUST MAKE SURE THAT THEY DO NOT FOLLOW AN OWN AGENDA

Virtual Team

- Accountant
- Outside investors
- Board of advisors
- Lawyers
- Board of directors
## DIFFERENT STAGES OF GROWTH REQUIRE DIFFERENT SKILLS

<table>
<thead>
<tr>
<th>Entrepreneur</th>
<th>Manager</th>
<th>Entrepreneurial Leader</th>
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</thead>
<tbody>
<tr>
<td>Locates new ideas</td>
<td>Maintains current operations</td>
<td>Leverages core business; explores new opportunities</td>
</tr>
<tr>
<td>Starts a business</td>
<td>Implements business</td>
<td>Starts businesses within an ongoing organization</td>
</tr>
<tr>
<td>Opportunity driven</td>
<td>Resource driven</td>
<td>Capability and opportunity driven</td>
</tr>
<tr>
<td>Creates/implements vision</td>
<td>Plans, organizes, staffs, controls</td>
<td>Creates vision, empowers others to carry it out</td>
</tr>
<tr>
<td>Builds organization around opportunity</td>
<td>Enhances efficiency of organization</td>
<td>Maintains entrepreneurial ability as company grows</td>
</tr>
<tr>
<td>Leads and inspires others</td>
<td>Supervises and monitors others</td>
<td>Develops/guides entrepreneurial individuals</td>
</tr>
<tr>
<td>Orchestrates change in the competitive environment</td>
<td>Maintains consistency</td>
<td>Orchestrates change in both the organizational and competitive environment</td>
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THE TRANSITION OF THE MANAGEMENT TEAM IS EXTREMELY SENSITIVE – MANY INITIALLY SUCCESSFUL STARTUPS FAIL IN THIS PROCESS

Promote current employees

- May not be the most competent for the position
- Difficult transition from team member to executive
- Often similar character traits as the entrepreneur
- Potential lack of motivation (e.g., burn-out, financially independent after IPO)

Hire outside management

- Current employees may not accept newcomers
- Difficult to fit into strong corporate culture
- Informal processes dominate, little documentation problematic for transition
- May trigger “brain drain” as key personnel leaves lacking perspectives

KEEPING UP THE INNOVATIVE SPIRIT

• Only a small number of start-ups is successful in identifying, developing and marketing an initial innovation

• Every successful start-up grows into a much larger organization with different management challenges

• As processes, structures and hierarchies are established, innovative freedom is under threat

• The company and its core team is getting older, sometimes tired

• Growing resistance to changes and new ideas

• Successful corporates have a significantly lower sense of urgency for innovations

▶ Companies that are able to achieve a sustainable new product development over a long time are extremely rare
BUILDING UP A NEW VENTURE IS VERY ENERGY CONSUMING AND NEVER FREE OF CONFLICTS…

… YOU NEED A SUPPORT NETWORK AND GOOD SELF-MANAGEMENT
AGENDA

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WHAT IS YOUR BUSINESS IDEA – IN A NUTSHELL

Be prepared…

• Your business in two sentences: Try to find the essence of your new business idea

• “Grandma talk”: Try to explain your business idea to your (grand-)parents – keep it simple so that non-experts can understand it

• “Elevator speech”: Train to explain your business idea and a potential investment in 60 seconds – and be prepared to give this speech any time (e.g., if you meet Bill Gates in an hotel elevator)
AN EXECUTIVE SUMMARY IS CRUCIAL AS IT WILL THE FIRST – AND OFTEN THE ONLY PART – TO BE READ BY POTENTIAL INVESTORS

Executive Summary

• Write Executive Summary last
• Hook the reader
• Keep it short – 1 to 2 pages for a short version
• Provide compelling information on the following:
  – Description of opportunity
  – Business concept
  – Industry overview
  – Target market
  – Competitive advantage
  – Business model and economics
  – Team and offering

BUSINESS PLANS MUST BE COMPREHENSIVE AND TAILORED FOR THEIR SPECIFIC AUDIENCES

Business Plan Elements

- Executive Summary
- Critical Risks
- Company/Product Description
- Operations
- Marketing Plan
- Team
- Industry/Competitor Analysis
- Development Plan
- Financial Plan
- Appendix

Types of Plans

- Know your audience: Adapt the length for different target groups
- Operational Plan: for internal use (80+ pages long)
- Formal Plan: for external use (25 to 40 pages long)

Even the best business plan does not sell a single product – do not try to “save the world in Excel” but try to gather customer feedback as early as possible.


Christian Barrot

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FINANCIAL STATEMENTS CONSIST OF THREE CORE COMPONENTS

- Financial Statements
  - Balance Sheet
    - Assets
    - Liabilities & Equity
  - Cash Flow
    - Operating
    - Investing
    - Financing
  - Income Statement
    - Gross Margin
    - Operating Margin
    - Growth Rate
ENTREPRENEURS TEND TO BE OPTIMISTS – AND TOO OFTEN THAT LEADS TO THEIR FAILURE

Common Mistakes

• Underestimation of these factors:
  – Time to secure financing
  – Costs
  – Time to generate revenues
  – Revenue drivers

• Lack of comparables

• Top-down versus bottom-up forecasting

Keep in Mind:

► In real life, revenues are much harder to generate than in Excel files.
► Start with the bigger picture, refine your numbers as your plans evolve.
UNDERSTAND THE REVENUE DRIVERS OF THE BUSINESS


Illustrative example:

Revenue drivers

- Up-selling
- Customer visits
  - Sales associates
  - Advertising
  - Store location
YOU NEED AN EXCELLENT PITCH DECK FOR POTENTIAL INVESTORS

Pitch Deck

• Try to keep it to 10-12 slides and 15-20 minutes
• Structure:
  − Cover page w/ product picture
  − Opportunity description
  − Illustration of how your product solves a problem
  − Details as needed
  − Competition overview
  − Entry and growth strategy
  − Overview of business model
  − Team description
  − Current status with time line
  − Summary including your monetary ask

• Focus on the audience – what do they know, what are they interested in
YOU NEED AN EXCELLENT PITCH DECK FOR POTENTIAL INVESTORS

LinkedIn is the Market Leader

Numbers as of 8/04. Non-LinkedIn numbers are estimates based on best available intelligence.

- Friendster: beta
  - 10,500,000 users
  - 23 months old

- Myspace: a place for friends
  - 2,500,000 users
  - 7 months old

- Orkut
  - 1,300,000 users
  - 12 months old

- Tribe.net
  - 180,000 users
  - 13 months old

- Ryze
  - 200,000 users
  - 34 months old

- OpenBC
  - 60,000 users
  - 12 months old

- ZeroDegrees
  - 10,000 users
  - 600,000 unique email addresses
  - 12 months old

- Spoke
  - 25,000 users
  - 15,000,000 unique email addresses
  - 22 months old

- Contact Network
- VisiblePath
- Interface Software
- BranchIt

Plus other traditional CRM/SFA vendors

http://reidhoffman.org/linkedin-pitch-to-greylock/
YOU NEED AN EXCELLENT PITCH DECK FOR POTENTIAL INVESTORS

Market leadership

Members

95% of XING’s premium members active in past 30 days

69% of XING’s members active in past 30 days

Average unique visitors (m)

XING 1.42
LinkedIn 1.27

Average minutes spent

XING 46
LinkedIn 19

Average page views (m)

XING 95
LinkedIn 43

Note: Averages calculated from Apr-06 – Sep-06
Source: Comscore

You win on active members, not on users

Source: XING AG, 2006
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50 WAYS TO FUND YOUR VENTURE…

Levels of Funding and Firm Maturity

YOU ARE ALWAYS THE FIRST INVESTOR OF YOUR NEW VENTURE

Internal Sources

- Personal Savings
- Home Equity Line
- Life Insurances
- Credit Cards
- Overdraft Facility

Risk-hedging

- Save up capital before you start your venture
- Reduce fixed liabilities, try to structure your personal financial needs flexible
- Be open to your partner & family, do not expose them to irresponsible risks (e.g., as guarantors for credits)
- Avoid to go “all in”
- Define a red line upfront and stop there
ENTREPRENEURS ARE OVERLY OPTIMISTIC – BUT MOST INFORMAL INVESTORS HAVE NO HIGH EXPECTATIONS

CROWD-FUNDING IS BECOMING POPULAR PARTICULARLY FOR TANGIBLE PRODUCTS – BUT INVOLVES SUBSTANTIAL RISKS

Key aspects

- Alternative investment source – rather enthusiasts than rational investors
- Valuable reality check: is someone willing to pay for your product?
- Huge PR potential if successful
- But likely the end if funding fails
- In most cases not compatible with future investments by VCs
STATE PROGRAMS OFFER VALUABLE OPPORTUNITIES ESPECIALLY FOR THE EARLY STAGE

Key aspects

- Focus on policy goals rather than pure financial targets

- Different programs for different stages – e.g., exist for early stage or High-Tech Gründerfonds for more mature firms (up 500k)

- Various regional and local funds and business plan competitions (e.g. IFB innovationsstarter in Hamburg)
THE LENGTH OF THE CASH CONVERSION CYCLE IS A KEY DRIVER OF CAPITAL REQUIREMENTS

Cash Conversion Cycle

- Accounts Receivable Cycle
- Accounts Payable Cycle
- Inventory Cycle

Company-specific Cash Conversion Cycle

Properties

- The faster your customers pay their bills, the better – but some segments have extremely long payment cycles (e.g., government)
- If the AP cycle is longer than the AR cycle, your free cash-flow grows
- Slow-sellers vs. fast-moving goods trigger different capital requirements (e.g., newsstand vs. shipyard)

➤ Know the industry benchmark
THE VALUATION OF A VENTURE IS A KEY PROCESS – BUT OFTEN OVERRATED

Keep in Mind:

► Valuation is not an exact science. Each of the above methods may get to vastly different monetary values of a company.

► Valuations can be inflated – and frequently are (e.g., for PR purposes)

► Valuations of start-ups should not be confounded with the market price in case of an imminent sale

► The company valuation is only one component of structuring an investment and is often combined with additional safeguards or restrictions (e.g., preferred shares)

► Sometimes it is a short way from zero to billions – and back

► Rule of thumb: A typical base valuation for an angel investment is 1 million and you give away a share of 15-30%
TAKING OUTSIDE INVESTORS ONBOARD IS A CRUCIAL DECISION – FOR BETTER OR FOR WORSE

**PRO**

• Real test of the business model
• Access to resources that allow much faster growth
• Access to external expertise and networks
• Signaling value for customers, employees and future investors
• Increased need for professionalism (e.g., internal/external accounting)
• Realistic milestones

**CONTRA**

• Raising funds and managing outside investors is time consuming
• Complication/potential conflicts for decision-making processes
• Strategic and/or financial interests might not be aligned
• Compliance issues (managing director role vs. shareholder role)
• Too much money too early is counter-productive
BUSINESS ANGELS FALL INTO DIFFERENT CATEGORIES – EACH OF WHICH HAS SPECIFIC (DIS-)ADVANTAGES

<table>
<thead>
<tr>
<th>Angel Type</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial Angels</td>
<td>May be valuable advisors</td>
</tr>
<tr>
<td>Corporate Angels</td>
<td>May take over or ruin company</td>
</tr>
<tr>
<td>Professional Angels</td>
<td>Silent partners</td>
</tr>
<tr>
<td>Enthusiast Angels</td>
<td>Passive investors</td>
</tr>
<tr>
<td>Micromanagement Angels</td>
<td>Intervene in the business</td>
</tr>
</tbody>
</table>
VENTURE CAPITAL INCURS SIGNIFICANT COST – AND VC’S HAVE GREAT EXPECTATIONS

OUTSIDE INVESTMENTS IS REALIZED THROUGH INCREASING THE SHARE CAPITAL – AND NOT BY SELLING YOUR EXISTING SHARES

Prior to investment („pre money“)

<table>
<thead>
<tr>
<th>Share capital</th>
<th>Founder A</th>
<th>Founder B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share (€)</td>
<td>50.000</td>
<td>25.000</td>
</tr>
<tr>
<td>Share (%)</td>
<td>100</td>
<td>50</td>
</tr>
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Following the investment („post money“)

<table>
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<tr>
<th>Share capital</th>
<th>Founder A</th>
<th>Founder B</th>
<th>Investor</th>
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<tr>
<td>Share (€)</td>
<td>55.556</td>
<td>25.000</td>
<td>25.000</td>
</tr>
<tr>
<td>Share (%)</td>
<td>100</td>
<td>45</td>
<td>45</td>
</tr>
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- Example: Investment of 500.000 EUR for 10%, valuing the company at 5.000.000 EUR (post money)
- The investor buys recently issued shares up to the amount needed to reflect his share
- Capital paid in excess of par value becomes part of the capital reserve (here 494.444 EUR)
- Every outside investment reduces the relative share of the founders („dilution“)
NEVER FORGET THAT VC’S HAVE A DIFFERENT RISK PROFILE THAN ENTREPRENEURS

Remember…

• Sophisticated investment money requires a future exit time (return on investment)
• Exit can be acquisitions or public offerings
• Divestment can also be a viable exit option
• VCs and funds run portfolio strategies – entrepreneurs have only one bullet
• Investors often want to ensure that the entrepreneur will remain with the company after the exit

▶ Secondary share offering (i.e., sale of existing shares) in later financing rounds can reduce the “all-or-nothing” risk
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DIFFERENT ROUTES TO AN IDEA FOR A NEW VENTURE

**Clone**
- Exact copy of an existing business idea and customer front end
- Observed in fields with weak IP protection, especially services
- Established but controversial strategy in digital environments

**Discover**
- Opportunities arising from shifts in markets or industries
- Observable to everyone – by chance or systematic evaluation
- Alertness and speed are key success factors

**Adapt**
- Use an existing business idea as template
- Adapt the existing idea in one or more dimensions to a new setting – often a new geographic market
- Frequently used strategy globally

**Create**
- Opportunities that are not found but created by entrepreneurs
- No systematic search required, rather a stroke of genius
- Very difficult to structure and manage in a sustainable way
DATA BASES LIKE SPRINGWISE.COM TRACK INNOVATIONS GLOBALLY
WEBSITES LIKE TECHCRUNCH.COM OR GRUENDERSZENE.DE OFFER VALUABLE INSIGHTS TO CURRENT TRENDS AND ACTIVITIES
FULL CLONES ARE RARELY A SUCCESSFUL STRATEGY – EVEN WITH SUPERIOR RESOURCES

pinterest.com (US) vs. pinspire.com (D)
CLONING A PIONEER IN A DIFFERENT GEOGRAPHIC MARKET CAN BE A VIABLE STRATEGY IF YOU EXCEL IN EXECUTION AND TIME TO MARKET

groupon.com (US) vs. dailydeal.de (D)
CLONING A PIONEER CAN LEAD TO DIFFERENT SCENARIOS

Start
(Pioneer enters market x; clone enters market y)

Clone in market y successful?
Yes
No

1. “Immediate” clone collapse

Pioneer enters market y?
Yes
No

2. Co-Existence of pioneer and clone

Pioneer enters market y on its own?
Yes
No

3. M&A

Market conditions allow multiple participants?
Yes
No

4. Clone Collapse

5. Pioneer Collapse

6. Co-Existence of pioneer and clone

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EXAMPLE: ADAPTION STRATEGIES FOR THE INITIAL STARBUCKS BUSINESS MODEL

ADAPT

Starbucks

- US-based chain of coffee shops
- “To go” as one key feature

Different geographic market
e.g., Germany instead of US

Different market segment
e.g., students

Different product
e.g., tea instead of coffee

Broader product range
e.g., warm lunch, alcoholic beverages

Broader service range
e.g., delivery
EXAMPLE:
RECOMBINATION OF PRODUCT FEATURES
AT DYSON

ADAPT
EXERCISE I: “BMI BUSINESS MODEL NAVIGATOR”

**Background**

- The BMI Lab at University St. Gallen has analyzed the most relevant business models of the recent decades
- They identified 55 distinct business models
- Each business model is defined and described on a card

**Task**

- In teams of two, participants will receive two randomly drawn cards
- Read and understand the business models on the cards – and try to find a feasible combination of both business models
- You have 5 minutes.

- We will discuss a number of drawn business models and examples in class.
## DIFFERENT ROUTES TO AN IDEA FOR A NEW VENTURE

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(DE-)REGULATION CAN TRIGGER NEW BUSINESS OPPORTUNITIES

**De-regulation**
- In the past:
  - Media
  - Telecommunications
  - Postal services
  - Financial services
- In the future:
  - Health care / pharmacies
  - Gambling
  - Crafts
  - Law enforcement
  - ???

**Regulation**
- In the past:
  - Car emissions
  - Insulations
  - Compliance
  - Tax codes / subsidies
- In the future:
  - Internet
  - Product labeling
  - Global production standards
  - Autonomous systems
  - ???

(Dis)-Regulation can trigger new business opportunities.
ENTREPRENEURS SHOULD CONSIDER MACRO-TRENDS

**Society**
- Aging populations
- Smaller families / households
- Urbanization
- Globalization
- Increasing wealth

**Technology**
- Artificial Intelligence
- Autonomous vehicles
- Nano sensors
- Energy storage / consumption

**Environment**
- Global warming
- Shortage of land and water
- Decreasing availability of fossil energies (oil, gas), ores, rare earths
DISRUPTIONS CAN CAUSE A NEED FOR INNOVATIONS

Conflicts & War
(e.g., sonar, radar, nuclear technology, Liberty ships, unmanned aircraft)

Price Shocks
(e.g., fuel-saving technology following the Oil Crisis 1973/1980)

Supply Disruption
(e.g., replacements for rare earths and metals in mobile phones)

Legislation
(e.g., emission control systems such as Diesel Particle Filter/catalytic converter)

Disasters
(e.g., aircraft collision avoidance system, ground radar)

Economic Crisis
(e.g., Dacia no-frill cars, slow steaming)
OIL CRISIS IN 1974 – FUEL-EFFICIENT CARS AND PLANES
FUKUSHIMA – NUCLEAR DISASTER TRIGGERS “ENERGIEWENDE” (ENERGY POLICY CHANGE) IN GERMANY

Background

• In 2011, the nuclear power plan in Fukushima (Japan) experienced a multiple meltdown following the destructions of a disastrous Tsunami

• The event triggered a government decision in Germany to phase-out all nuclear energy production until 2020 and an immediately shut-down of all but 6 nuclear power plants

• The policy change led huge investments into alternative energies such as solar and wind

• Innovative solutions are required for
  – the management of electricity flows
  – storage of electrical energy
  – underground heavy-duty power lines
  – energy-saving solutions (insulation, appliances, lighting).
INNOVATIONS CAN CAUSE DISRUPTIONS FOR WHOLE INDUSTRIES

America’s ‘Retail Apocalypse’ Is Really Just Beginning

By Matt Townsend, Jenny Surane, Emma Orr and Christopher Cannon
November 8, 2017

The so-called retail apocalypse has become so ingrained in the U.S. that it now has the distinction of its own Wikipedia entry.

The industry’s response to that kind of doomsday description has included blaming the media for hyping the troubles of a few well-known chains as proof of a systemic meltdown. There is
**EXERCISE II: “A DAY IN YOUR LIFE”**

<table>
<thead>
<tr>
<th>Process</th>
<th>Task</th>
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</thead>
<tbody>
<tr>
<td>&gt; Go through a typical day, week or month in your life</td>
<td>■ Go quickly through the last month of your life and try to identify a relevant “imperfect” experience</td>
</tr>
<tr>
<td>&gt; Try to remember situations where something was not according to your needs or whishes</td>
<td>■ Specify the corresponding “perfect” experience</td>
</tr>
<tr>
<td>&gt; Specify what your preferred “perfect” process, outcome, approach etc. would have been</td>
<td>■ Think about your willingness-to-pay for the “perfect” experience</td>
</tr>
<tr>
<td>&gt; Would you pay for the “perfect” alternative? If so, how much?</td>
<td>■ You have 5 minutes.</td>
</tr>
<tr>
<td>&gt; Are you alone or part of a larger potential market?</td>
<td>■ We will discuss potential approaches for the “perfect” experience in the class.</td>
</tr>
<tr>
<td>&gt; Any initial ideas how to provide your “perfect” alternative?</td>
<td></td>
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DIFFERENT ROUTES TO AN IDEA FOR A NEW VENTURE

Clone
- Exact copy of an existing business idea and customer front end
- Observed in fields with weak IP protection, especially services
- Established but controversial strategy in digital environments

Discover
- Opportunities arising from shifts in markets or industries
- Observable to everyone – by chance or systematic evaluation
- Alertness and speed are key success factors

Adapt
- Use an existing business idea as template
- Adapt the existing idea in one or more dimensions to a new setting – often a new geographic market
- Frequently used strategy globally

Create
- Opportunities that are not found but created by entrepreneurs
- No systematic search required, rather a stroke of genius
- Very difficult to structure and manage in a sustainable way
ALTERNATIVE APPROACHES TO STIMULATE “CREATIVITY”

**Brainstorming**
- Phase 1: Conceptual brainstorming, no judgment / evaluation
- Phase 2: Screening of ideas
- Positive group experience, pooling diverse abilities / backgrounds
- Possible free riding, distraction or “production blocking”

**Lateral thinking**
- “You cannot dig a hole in a different place by digging the same hole deeper”
- Use idea generating tools such as provocation, challenge, random entry
- Applied to broaden the search range

**Mindmapping**
- Visual development of associations and thoughts, starting with a central “cloud” and then branching out
- Flexible depths, as layers can be added continuously
- Evaluation once a “full picture” is reached

**Random stimulation**
- A word (or phrase / picture etc.) is randomly selected and brought into the context of the focal problem
- Process is repeated several times
- Helpful to overcome “mental roadblocks” and to restart an ideation process
## THE CREATIVITY TEMPLATE APPROACH

### Relationship Template
- Finding two independent variables and establish dependency between them
- Example: Replacing radioactive luminous markers on watches by SuperLuminova that is activated by light and glows in the dark

### Replacement Template
- Utilization of resources available in the immediate environment to replace a component that fulfills a needed function of the product
- Example: Using a car’s stereo system as loudspeakers for your mobile phone

### Removal Template
- Refers to removal of intrinsic components from the configuration including its functions, in a way that causes a qualitative change in the configuration
- Example: Porsche 911 Carrera RS (no AC etc. to achieve race car performance and handling)

### Redefinition Template
- Characterized by making a new link between a component in the internal environment of the product and a component in its external environment
- Example: iPhone gesture control

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THE CREATIVITY TEMPLATE APPROACH – A CHEATSHEET

CREATE

THE DESIGN THINKING PROCESS QUICKLY DEVELOPS PROTOTYPES THAT USERS CAN EVALUATE AND IMPROVE
Basic Idea

- Increasing focus on service innovation recognizes that innovation occurs at the interface between customers and suppliers
- New tools allow customers to participate in the innovation process (simulated worlds, Google app’s, Apple app store, etc.)
- Customer participation in development lowers market research costs
- Co-development of innovations shortens the innovation timeline
USE A FUNNEL DESIGN TO EVALUATE A LARGE NUMBER OF INITIAL BUSINESS IDEAS

Basic designs

- Tunnel
- Funnel
- Hybrid

Procedure

- Generate a large number of initial business ideas
- Set-up a multi-step evaluation procedure where inferior concepts are discarded at every stage – from “back of an envelope” to full-blown market research
- Only very few concepts should be evaluated at the final stage
EXAMPLE FOR NPD FUNNEL: PHARMACEUTICAL DRUG DEVELOPMENT

10,000 newly discovered compounds

8-12 years $500 million - $1 billion

1 new drug
**NECESSARY CONDITION FOR ANY INNOVATION SUCCESS:**
**CONSUMERS ADOPTING THE PRODUCT**

<table>
<thead>
<tr>
<th>Product-related adoption factors according to Rogers</th>
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<tbody>
<tr>
<td><strong>Relative Advantage</strong></td>
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</table>
| Perceived degree of relative advantage of an innovation | Perceived degree of compatibility with norms, experiences, needs and technical standards | Perceived degree of complexity
Determined by required training to use the innovation | Perceived degree of risk reduction by testing the innovation for a limited time | Perceived degree of communicability of the attributes of an innovation |
Thank You for Your Attention