

Class 4

Business Models, Strategic Plans,
Feasibilities, Business Plans

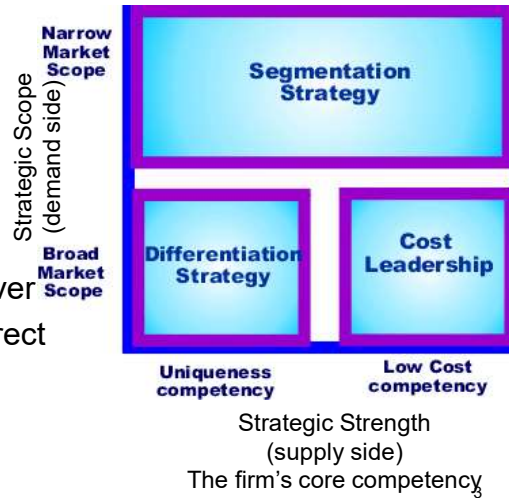
- Developing a Business Model
- “Strategic Planning Introduction” in ANGEL Lessons
- Readings:
 - Allen Ch 4 – Developing a Business Model
 - Allen Ch 5 – Conducting a Feasibility Analysis

What is a Strategy?*

- Porter: “The creation of a unique and valuable position, involving a different set of activities”
- Strategic position emerges from three distinct sources:
 1. Serving few needs of many customers
 2. Serving broad needs of few customers
 3. Serving broad needs of many customers in a narrow market

Porter's 3 generic strategies

- Segmentation
- Differentiation
- Cost Leadership
 - (Rarely works)
 - Needs 1 or more:
 1. High asset turnover
 2. Low direct & indirect operating costs
 3. Control over the supply chain



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Operational Effectiveness...

- Is **NOT** Strategy
- The path to destructive competition:
 - Positioning (the heart of Strategy) is rejected by many firms as too static for today's dynamic markets
 - Companies fail to distinguish between operational effectiveness and strategy
 - Management tools (e.g. TQM, Six Sigma) have taken the place of strategy
- A company can outperform rivals only if it can establish a difference that is can preserve
e.g., Yahoo market cap decline from \$55 bn to \$18 bn over 5 years, back to 28.5 bn by 7/7/13

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Business models

- From McGrath:
“New business models *revolutionize how revenues are made, costs are incurred, or operations are conducted*, sometimes throughout an entire industry. One reason that the emergence of the Internet as a new medium of business has been accompanied by dizzyingly high company valuations is that *investors perceive its potential to profitably transform virtually every aspect of economic life.*”

Clay Christensen: “It must make your customer more effective”.

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What is a ‘Business Model’?

- E’ must uncover the nature of the “*profit engine*” of any potential ‘business model’
- Can the business concept be translated into a profitable business venture & how much cash will it take to achieve that result
- Must assess:
 1. How likely is it to turn cash flow positive?
 2. How much time to ramp-up revenue to turn cash flow positive?
 3. How large an investment is required to pursue the model?
 4. What are critical success factors & risks?

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One definition (for E's)

- **Business Model:** A summation of the core business decisions and trade-offs employed by a company to earn a profit.

Business model discussion:

Based on HBR's Note on Business Model Analysis for the Entrepreneur. Richard Hamermesh, Paul Marshall, Taz Pirmohamed. 9-802-048. Jan 22, 2002. Examples from Chuck Thomas' Comcast TargetTV.

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Key business decisions & trade-offs

1. Revenue sources

- How many different revenue streams generated?
- Source of each (sales, services, adv., subscription)?
- Relative sizes and importance of each & its growth?

2. Cost drivers

- Which has greatest impact on cost structure?
- Are they fixed, variable, recurring? Will they change over time? Relative size and importance?

3. Investment size

- Cash required to launch? Working capital? Timings?
- Will cash expended produce a viable entity?

4. Critical success factors


- Which elements of model are most important to achieving profit goals? Most difficult to achieve?

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Analyzing a business model

- Early stage companies: pro forma or budgeted financial statements are required
- Existing companies: combination of pro forma and actual financials are required


**The question becomes:
How real are your pro formas?**

Definition of **pro forma**: from the Latin “for the sake of form”

Framework for analysis

1. Determine actual and projected revenues & their cash inflow timings
 - Disaggregate until you have uncovered the revenue drivers and key influencing factors
2. Determine actual & projected expenses & their cash outflow timings
 - Disaggregate into discrete cost drivers
3. Determine total investment required to achieve positive cash flow, including working capital...

4. Plot cash flow vs. time to generate a cash curve... illustrates the max financing needs and timing of cash breakeven
5. Perform a systematic sensitivity analysis of the model to identify the factors or levers with the greatest impact on cash flows

Revenue sources

1. Single stream: one predominant revenue stream from one product or service
2. Multiple streams: each sizable enough to have meaningful impact on profitability
3. Interdependent: eg razors and blades or printers and cartridges
4. Loss leader: one or more streams drive traffic and spur other purchases



Revenue models

1. Subscription/membership:
 - Customers pay a fixed amount at regular intervals in advance of service or product
2. Volume or unit-based:
 - Customers pay a fixed price per unit of product or service
3. Advertising-based:
 - End user is exempt or pays a fraction of true value
4. Licensing/Syndication:
 - Customer pays one-time fee to be able to use or resell product
5. Transaction fee:
 - Customers pay a transaction fee

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Revenue models incorporate one or several revenue streams

Revenue models

<u>Model</u>	<u>What</u>	<u>When</u>	<u>Examples</u>
Subscription or membership	Customers pay fixed amount at regular intervals	In advance	Magazines, fitness club, local phone service
Unit/volume transaction	Customers pay for quantities needed	Time of transaction	Retail and industrial goods and services
Advertising	Advertisers pay fixed amount or by views. Customers get product free or below cost	Usually up-front	Content and search engine websites, network TV, radio
Licensing	Customers pay for use of the product or ability to produce it to spec	Either up-front or after production	3rd world automobile manufacturers, software, pharmaceuticals
Transaction fee	Collect fees from buyers and/or sellers	Time of transaction	Brokerage firms, real estate, auction ¹⁴ websites

Companies with multiple/hybrid revenue streams

E.G....

- Comcast
 - AOL
 - E-Bay
 - Microsoft
 - Canon
 - Dolby
 - Lotus
- Advertising
 - Subscription
 - Unit (tickets)
 - License (channels/content)
 - Transaction (VOD)
- In a moment, we'll review the **Grateful Dead** revenue model

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Revenue analysis

- Ask questions about the streams and about the revenue model to gain insight into core business decisions and trade-offs:
 - Is the model based on a single, multiple or loss leader revenue stream?
 - Is it a hybrid or single revenue model?
 - How quickly will revenues increase? Any barriers to growth?
 - How long to collect cash from a sale?

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Financial innovation

- In this corner, **Napster**. In the other, the **Grateful Dead**. Both are music industry innovators. Both gave away music for free. One made money, the other didn't. ***One is relevant, the other isn't. Why?***

Napster is a wonderful technology that is being rendered irrelevant due to its apparent **inability to make money** -- what dot-commers like to call "***monetize the relationship***" -- to say nothing of lawsuits. **(See next slide on the current Napster.)**

Conversely, the Grateful Dead, who set music free long before Napster -- their own music, of course -- had **a viable economic engine** to support their habit. In fact, at live shows, the band would invite fans with recording devices to the engineer's sound board, allowing them to render CD-quality recordings directly off the board -- free!

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Who is Napster?

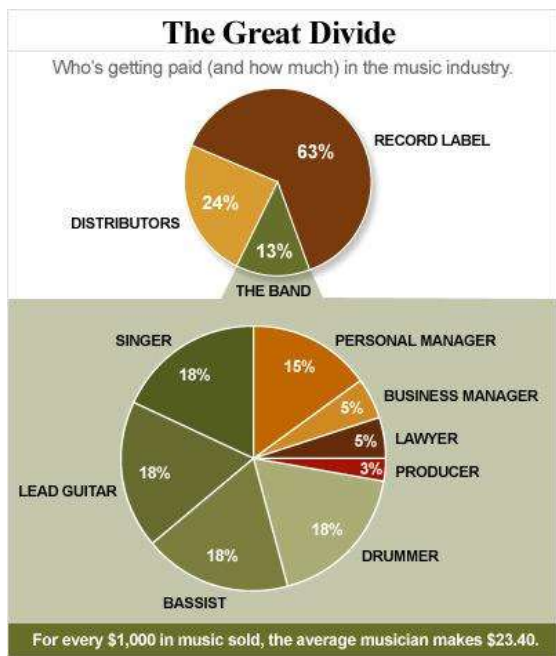
- Founded by Shawn & John Fanning in 1999 in Boston; early employee was Sean Parker
 - Founded Napster, 1st President of Facebook, co-founded Plaxo, Causes, & Airtime; net worth ≈\$2 bb
- After many lawsuits, bankrupted in 2002, assets (e.g., name) acquired by Roxio
- Acquired by Best Buy in 2008 for \$121mm, with then current sales of \$111mm
- Sold to Rhapsody (effective 11/30/11) for undisclosed cash plus a minority interest
- Rhapsody was a part of RealNetworks until spun off as a JV of Real and MTV (Viacom) in 2010

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- Note: 97% of all musicians **with a recording contract** earn less than \$600/month*
 - Music was the hook, the "opium of the people."
 - This explains why you could sell practically anything at Dead shows, from peanut butter sandwiches to hair braids -- with one exception:
 - **Grateful Dead merchandise was verboten (unless of course sold by the Dead)**
 - The Dead broke the stranglehold of greedy music distributors by changing the economic engine that fueled their success
- * Some surveys show professional musicians earn an average of \$51,000/year

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From: TheRoot.com

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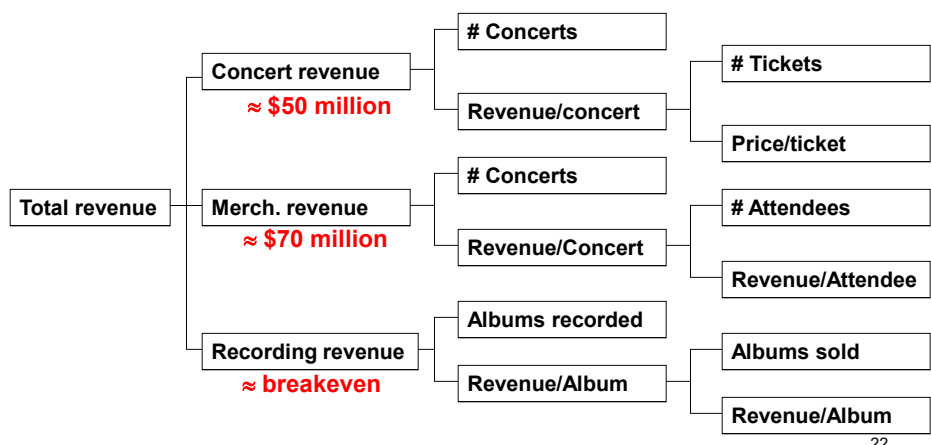
- The Grateful Dead had an innovation system -- an innovation hybrid of marketing and finance. While Napster's economic model is beholden to an ill-designed *advertising/subscription pricing strategy*, the Grateful Dead focused on the *sale of concert tickets and merchandise, not music*, for their bread-and-butter.
- Incidentally, a little innovation secret for you: **The Grateful Dead went on to become the highest grossing band in the history of rock 'n' roll by giving away music***.
- (*Rolling Stones grossed \$162 million in 2005, for #1 spot*)
- **!** *Ask yourself!* Is there a better economic engine for our products? Can we package and price our products and services differently?

* The Rolling Stones 2005 tour's \$165 in ticket sales became the highest gross ²¹
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Fishbone diagram of revenue model

- The Grateful Dead Revenue Model



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Cost drivers

- Costs vary with time or volume of output
- Four types of cost drivers:
 1. Fixed: do not vary with volume (eg., rent, management salaries)
 2. Variable: vary with volume (eg., materials cost)
 3. Semi-variable: combination of fixed & variable, varies in direction of, but less than proportionate, with volume (eg, supermarket payroll)
 4. Non-recurring: appear irregularly (eg., equipment)

Cost structures

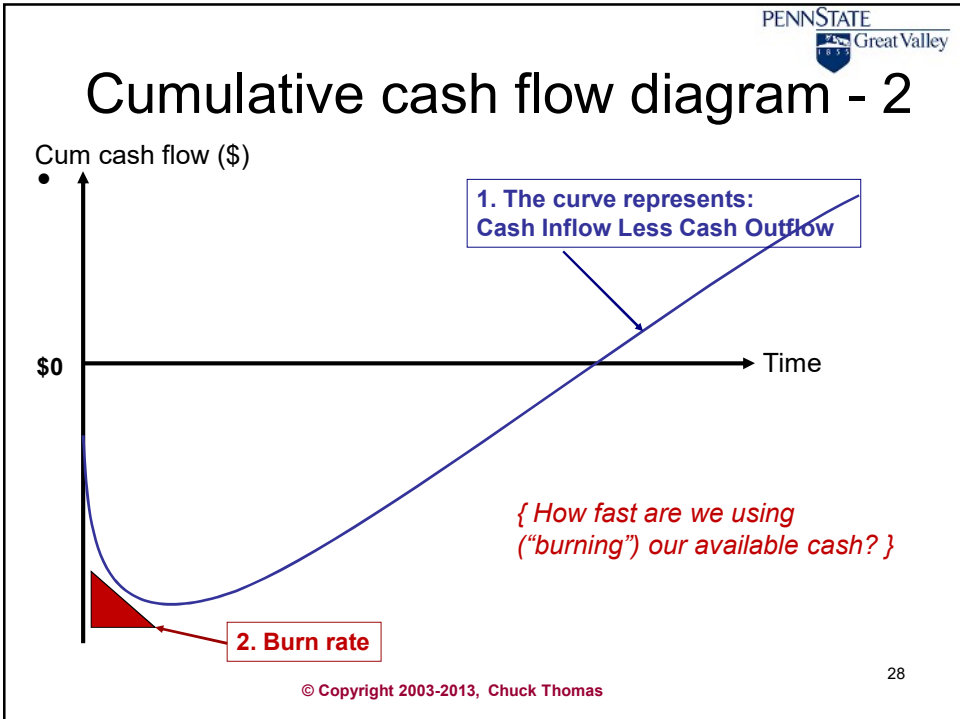
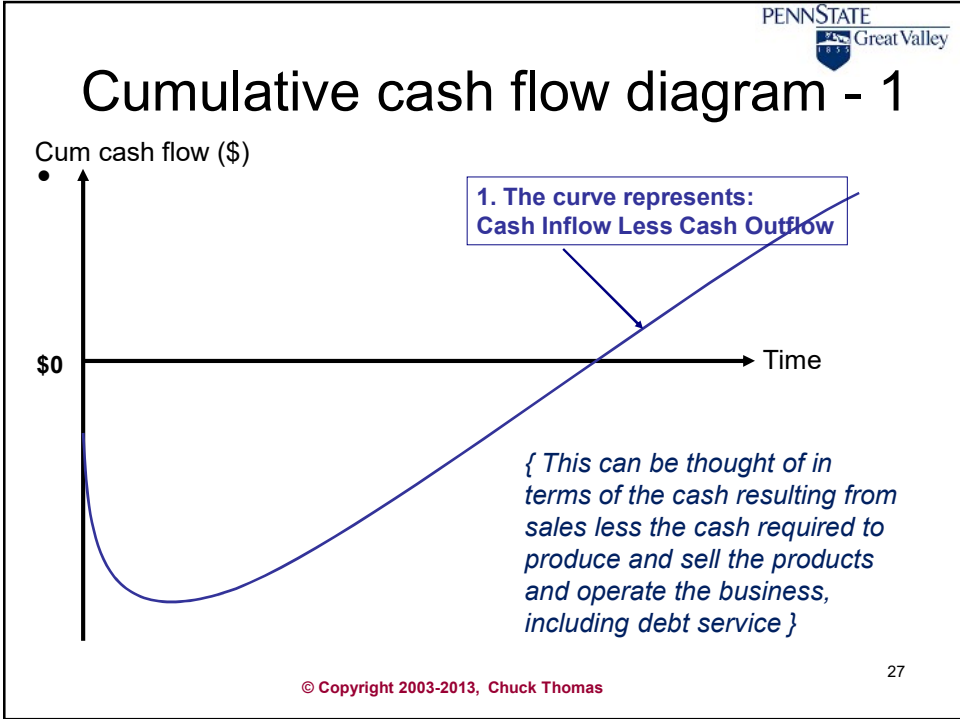
- The dominant driver usually characterizes the overall cost structure; common ones:
 - Payroll-centered (direct): semi-variable costs driven by employees directly involved in the output of the firm
 - Payroll-centered (support): fixed costs of employees indirectly involved in the output
 - Inventory: primary cost center related to raw materials and/or finished goods
 - Space/rent: driven by high cost per sq ft
 - Marketing/advertising: expenditures required to attract and retain customers

Cost driver analysis

- Questions to gain greater insight into the core business decisions underlying the cost model:
 - Is it based on primarily fixed, semi, variable, or non-recurring costs?
 - How much volume can be supported with the fixed cost base? Are the primary drivers to likely change over time?
 - Cost centers: what are the largest? What are the relative sizes? Do any deliver a strategic cost advantage?
- Focus on elements that have a significant bottom line impact

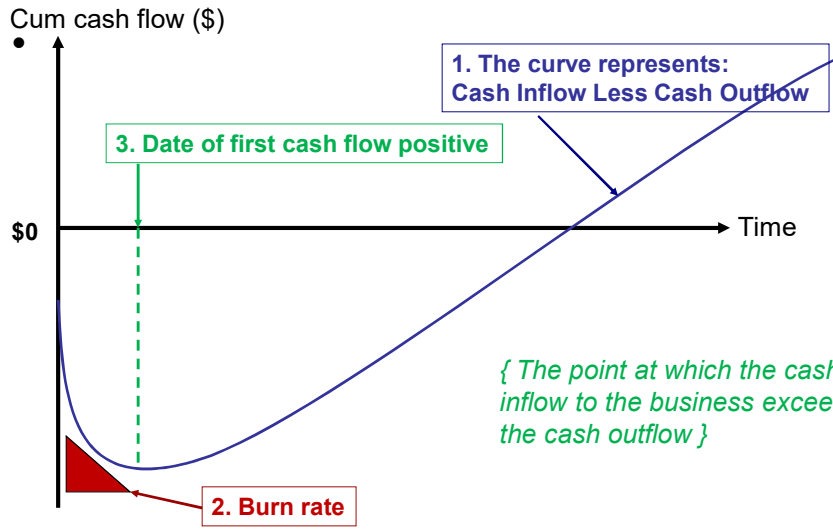
Investment size

- How much cash is needed until positive cash flow is achieved? Cash flow diagram:
 - Maximum financing needs
 - Positive cash flow
 - Cash breakeven
- Key Questions: How much and when?
- Key Milestones: Initial investment, cash flow positive, break-even, exit





Cumulative cash flow diagram - 3

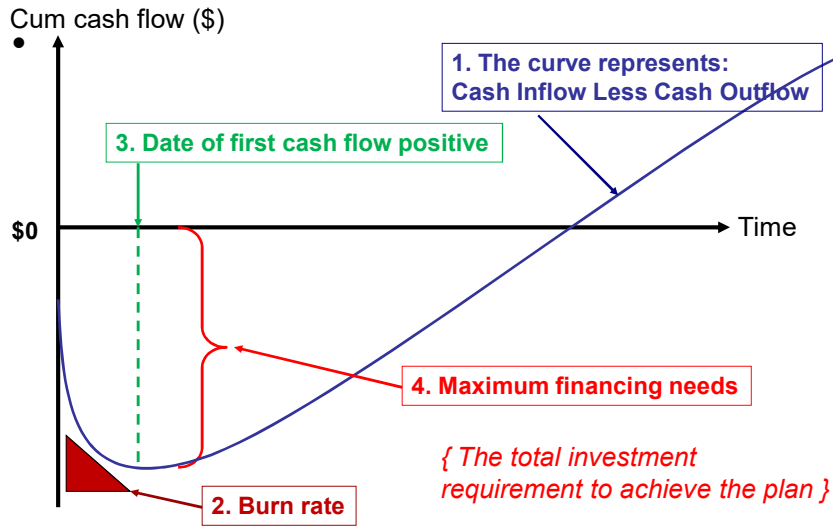


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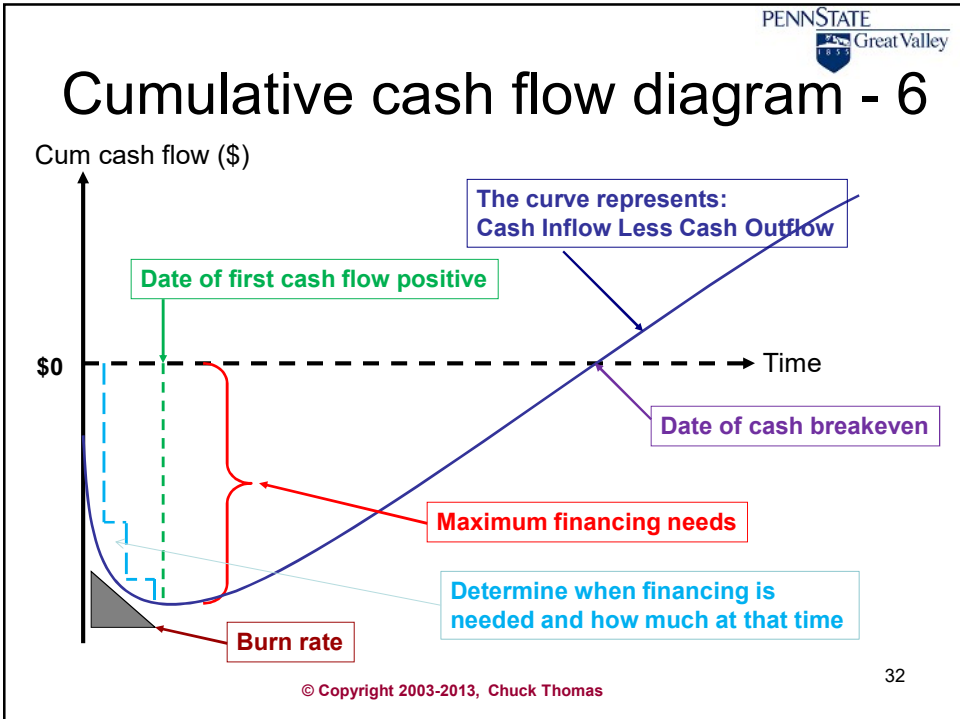
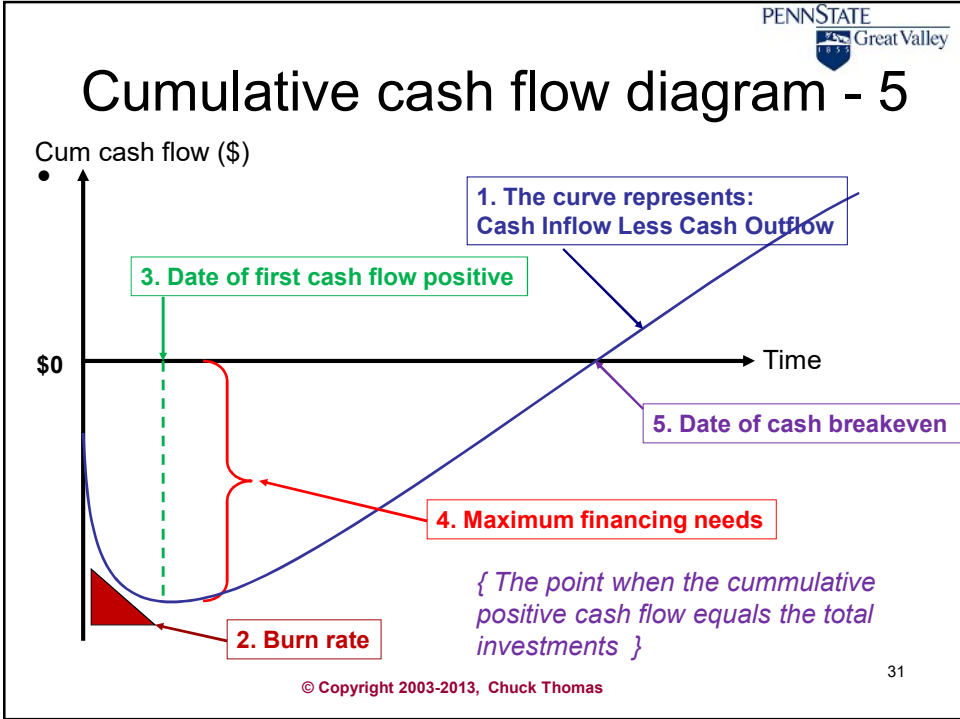


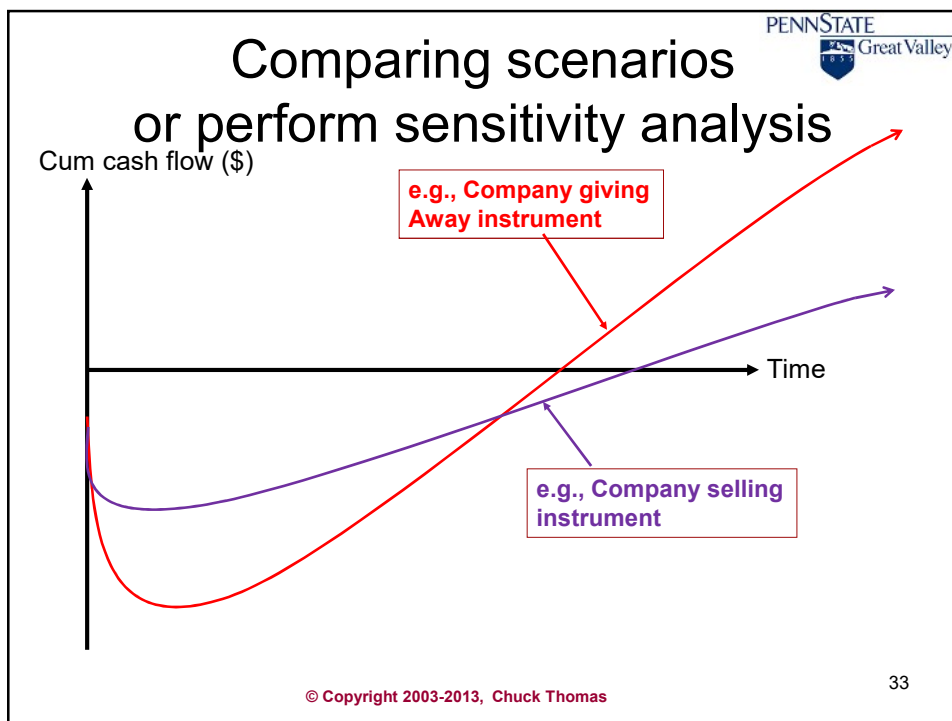
Cumulative cash flow diagram - 4



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Critical success factors

- CSF (Risks?): Operational function or competency that a company must possess in order to be sustainable and profitable
 - Some factors more important than others
 - Perform a sensitivity analysis
 - Can market/customer risks be adequately assessed with this approach?

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Video Clip

Duration: 3:14

- Guy Kawasaki: 4. The New Business Model
 - Be specific
 - Keep it simple
 - Ask women
- Patent a Business Model? It cannot be done
- Innovative a Business Model?

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Market entry strategies

	What	Primary purpose	Tech uncertainty	Mkt uncertainty	Examples
Enhancement launch	Incremental change to existing product - better, faster, cheaper	Increase profit margins	Low	Low	Gillette razors
Platform launch	New product - usually related to existing product lines	Capture new markets	Moderate	Moderate	Texas Instruments DSP chips
Positioning option	Modest investments in two or more competing technologies	Buy time until standards emerge	High	Low to moderate	Intel's parallel-path product development
Scouting option	Experiments to discover new markets using existing competencies	Learn about customer preferences	Low to moderate	High	McDonald's test marketing new menu items
Stepping-stone option	Incremental actions with frequent feedback and adjustments	Discover new market needs	High	High	Defense contractors, Boeing 787


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Competitive strategies

	What	Where used	Desired competitor reaction	Example
On-slaught	Aggressive market entry to quickly win lots of customers	New markets, fragmented industries	Deter entry or drive out of business	Wal-Mart
Guerilla campaign	Enter market one niche at a time and build	Entrenched competition, underserved segments	Don't notice, don't care, or can't react quickly enough	Southwest Airlines
Feint	Use loss-leaders to deter new entrants. React with aggressive pricing if needed	Protect turf in mature, segmented industries	Deter entry or encourage withdrawal	Microsoft
Gambit	Withdraw from one market and redirect resources into another market	Stake out a profitable niche in mature, segmented industries	Draw attention to market you vacated	Big Three auto makers

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What do you do?

- **Discovery-Driven Planning**
 - Technique for building and refining a business model when you don't have all the information you need
 - Structured, learn-as-you-go approach
 - Adaptive execution
- **Frame the project - scope**
- **Identify key metrics**
 - 8-10 critical ratios, e.g. revenue growth, inventory turns, repeat buy rate, market share, reject rate, productivity, etc.
- **Reverse income statement**
 - Start with required profit and ROI
 - Back-calculate prices, costs, units, overhead, investment, etc.

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Assumptions

- State the assumptions
 - No more than 20
 - Directly address the uncertainties and unknowns
- Dangerous implicit assumptions
 - Customers will buy our product because we think it's a good product
 - We can develop the product on time and on budget
 - Our product will sell itself
 - Distributors are desperate to stock our product
 - The technologically superior product will win
 - We will have no trouble attracting the right staff
 - Competitors will respond predictably
 - The rest of the company will gladly support our strategy and lend help as needed

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- Convert assumptions to knowledge
 - Milestone – the conclusion of an experiment
 - Every assumption must be tested through experimentation
 - Every experiment tests one or more assumptions
 - Revisit assumptions and revise business model as new knowledge is gained
- Parsimony
 - Keep investment small
 - Guaranteed small losses are preferable to big gambles that could succeed or fail
 - The Venture Investors will force “a larger picture”

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E.G., TargetTV

- A coherent business model:
 - Makes sense
 - Low risk
 - Low cost
 - Puts Comcast in “an interesting place”
 - Achievable
 - Mostly here, now
 - Broad deployment is the key obstacle
 - Desirable
 - Adds value to the industry
 - Adds value to Comcast’s core businesses
 - Creates its own value

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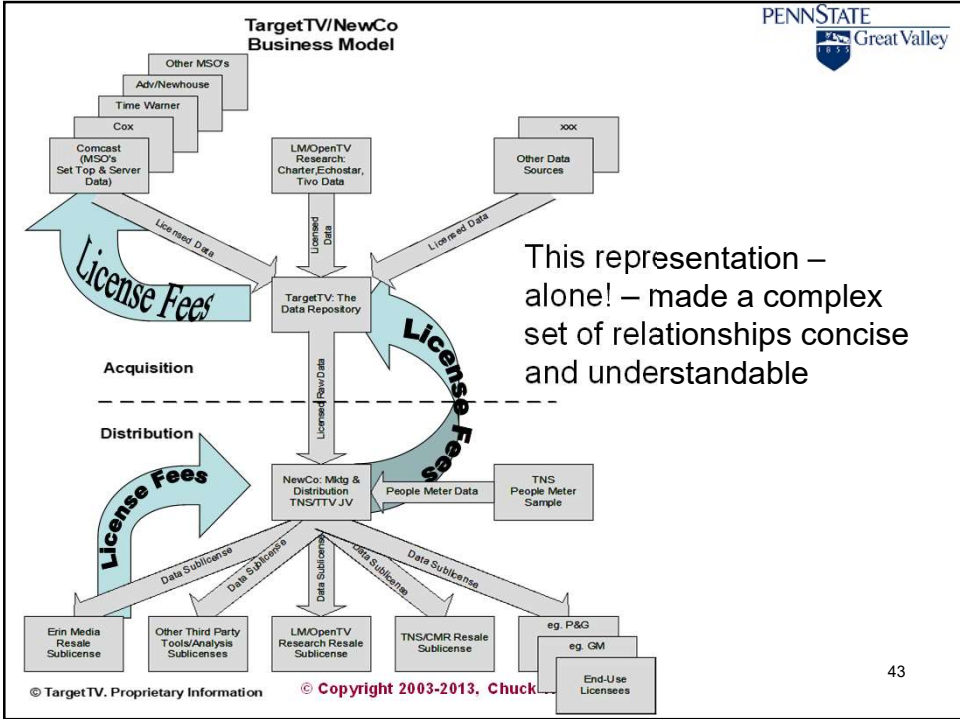
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Business model

- Data acquisition
 - Multiple MSO sources
 - Including satellite, 3rd party sources
 - Data is licensed from the source
 - Data resides in a repository
- Distribution
 - NewCo separate from repository to rate & commercialize the data
 - Rated data is sublicensed for end use and/or resale

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- Keys to the model**
1. Separate data acquisition from distribution
 2. Multiple sources of data
 3. Data is licensed for sublicense and resale
 4. Data flows down and out; revenue flows up and in
 5. Multiple resellers of data
 6. Few restrictions; encouragement of use
 7. Turns the source of data into a fee collector rather than a fee payer
 8. Value-add market layers
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The Goal

The repository brings together
- via license, or product or company acquisition –
all of the technology and data sources
into a single, managed entity
that provides both growth in asset value
and a sustaining revenue stream

Value

- Qualitative
- Quantitative
 - Revenue
 - Asset
- e.g., Two entities provides the possibility of a public distribution company, while retaining the repository as a private entity

New business models for success

- Waste, Working Capital, and Repeat Business
- e-Business:
 - What it is and the e-Business Cycle

Business Models to Attack Waste

- Time: Earliest to Latest
- Inventory Waste
 - Just-In-Time methods reduce inventory waste
 - Rework Waste
 - Total Quality Management reduces rework
 - Productivity Waste
 - Reengineering reduces productivity waste in administration and service jobs
 - Customer Relationship Waste
 - Shifting from finding new customers to keeping existing customers reduces waste in customer relationships
 - Working Capital Waste
 - Logistics integration reduces needs for and multiplies the effect of working capital

The Cost of Not Leading & The Benefit of Leading



- Late Response
 - US manufacturing responded late to Just-In-Time and TQM
 - That gave Japan a 20-year edge
 - That pushed the US auto manufacturers into a catch-up mode
- Inflexibility
 - Asian and European firms accepted productivity, overstaffing, and inflexible labor market waste
 - That cost to has moved the US back into world leadership
- US Leadership
 - More than a dozen US firms sell over \$1 billion of goods & services over the Web
 - Not a single comparative non-US firm has appeared to date

IBM sold over **\$16 billion** of over the Internet during 1999, making it what Business Week called "the largest .com of them all".

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Forget.com



- The race for dot.com is over... it is not about web sites
 - It is about ***building a business model*** that responds to the opportunity and challenge of e-Commerce as aggressively and radically as firms responded to JIT and TQM
 - Each of these turned industries upside-down
 - Internet commerce is directly comparable in this regard
- Forget dot.com; Think ***business model***

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Amazon.com and Other Examples

- Amazon.com
 - About ten years old, is now a mature business
 - It has shattered an entire industry's established business model, even though the top 3 online sellers sell 11% of all books
 - It pushed two major competitors (Barnes & Noble and Borders) into a sustained defensive posture
- Dell did the same to Compaq
- Schwab did the same to Merrill Lynch
- Cisco to its industry

The strength of these leaders is built on customer relationships and repeat business, on integration of every element of logistics and supply chain, and on minimizing the waste of capital.

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Negative Working Capital & Repeat Business

- Dell's return on invested capital is over 200 percent & operates on negative working capital
 - It collects Money today
 - Pays suppliers 30 days from now, and
 - Has less than a week of inventory
- Amazon.com has a 65% repeat business, and negative working capital
- Cisco documented savings in customer care costs of more that \$1 billion in 1997 as it was becoming the logistics leader in its industry

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What is e-Business?

e-Business is what happens when you combine the broad reach of the Internet with the vast resources of traditional technology systems

- Its scope is broad, spanning private Intranets, shared Extranets, and the public Internet
- It uses the Web to bring together customers, vendors, suppliers and employees in ways never before possible
- e-Business is about Web-enabling your core processes to improve customer, partner and supplier satisfaction, reduce cycle times, get more results from limited resources and actually sell things
- It offers opportunities, needs, rules, and challenges

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Feasibility plans, proposals, strategic plans, & business plans

- Entrepreneurs and business managers are often so preoccupied with immediate issues that they **lose sight of their ultimate objectives**
- That's why a business review or preparation of a strategic plan is a virtual **necessity**.
- This may not be a recipe for success, but without it a business is **much more likely to fail**

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Feasibility studies

- Study must address:
 - Description of the project
 - Market feasibility
 - Technical feasibility
 - Financial feasibility
 - Management/Organizational feasibility
 - Study conclusions
 - Next steps

Let's examine each of these...

From Iowa State Ag Dept: www.extension.iastate.edu/agdm

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Description of the project

Identification and exploration of business scenarios

- Identify alternative scenarios of what the project is & how it's organized **{Each scenario needs a business model}**
- Eliminate scenarios that don't make sense
- Flesh-out scenario(s) that appear to have potential for more exploration

Define the project and alternative scenarios

- Type and quality of product(s) or service(s) to be marketed
- Outline the general business model (how the business will make Money)
- Include the technical processes, size, location, kind of inputs, etc.
- Specify the time horizon from the time the project is initiated until it is up and running at capacity

Relationship to the surrounding geographical area

- Economic and social impact on local communities
- Environmental impact on the surrounding area

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Market feasibility

- Industry description
- Industry competitiveness
- Market potential
- Sales projection
- Access to market outlets

Technical feasibility

- Determine facility needs
- Suitability of production technology
- Availability and suitability of site
- Raw materials
- Other inputs

Financial feasibility

- Estimate the total capital requirements
- Estimate equity and credit needs
- Budget expected costs and returns of various alternatives

Management/organizational feasibility

- Business structure
- Business founders

Study conclusions

- Identify and describe alternative business scenarios and models.
- Compare and contrast scenarios based on goals of the producer group.
- Outline criteria for decision making among alternatives.

Next steps

- Potential courses of action include:
 1. Choosing the most viable business model, developing a business plan and proceeding with creating and operating a business
 2. Identifying additional scenarios for further study
 3. Deciding that a viable business opportunity is not available and moving to end the business assessment process
 4. Following another course of action

Proposals (like a feasibility)

- Find out if your ***bright business idea will really succeed*** in the marketplace
- Get a ***clear perspective of its potential before you invest*** more time and effort, and get suggestions for improvement
 - pricing strategy
 - distribution techniques
 - positioning within the market
 - competitive positioning
 - product/service promotion
- Examine the underlying reasoning used to reach each of its conclusions
- Review how your input influenced the conclusion and, if desired, change your answer to see how the conclusion changes

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Case Study Clip 4

15:13 duration

- “Creating a Business Plan for Quadrant Capital”
 - Why and How to Write a Business Plan”
 - Components of the plan: market need, availability of capital, risk factors, skills, credit, growth plan, changing conditions, competition
 - Q: How does video compare with Adam Moskow?
 - Q: How has plan benefited Quadrant Capital before it began?
 - Q: What is their competitive advantage?

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What is a strategic plan?

A sound Strategic Plan should:

- Serve as a framework for decisions or for securing support/approval.
- Provide a basis for more detailed planning.
- Explain the business to others in order to inform, motivate & involve.
- Assist benchmarking & performance monitoring.
- Stimulate change and become building block for next plan.

Parts of this discussion taken from www.PlanWare.org

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Strategic plan: is & is not

- A strategic plan: not a business plan
 - The former is likely to be a (very) short document whereas a business plan is usually a much more substantial and detailed document
 - A strategic plan can provide the foundation and frame work for a business plan
- A strategic plan: not the same thing as an operational plan
 - The former should be visionary, conceptual & directional in contrast to an operational plan which is likely to be shorter term, tactical, focused, implement-able & measurable
- A satisfactory strategic plan must be realistic & attainable
 - allows managers & entrepreneurs to think strategically & act

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Basic approach

- Strategic Plan should:
 - Relate to the medium term i.e. 2/4 years
 - Be undertaken by owners/directors
 - Focus on matters of strategic importance
 - Be separated from day-to-day work
 - Be realistic, detached and critical
 - Distinguish between cause and effect
 - Be reviewed periodically
 - Be written down

Strategic Plan: Classic Outline

- Mission
- Objectives
- Values
- Goals
- Strategies
- Programs

This structure is more appropriate for ongoing firms to restate and refocus moving forward

{ Forget about what the articles and books tell you to do; do what is important to move your idea along! }

Strategic Plan - More Realistically

- **Executive Summary**

- Vision & Mission
- Core Idea & Objectives
- Values & Goals
- Targets: Industry & Market
- Strategies
- Assumptions & Assessments
- High-level Financial Proforma

Let's explore
each of these

Executive Summary

- Always found in important business documents, though not always in academic discussions
- Must be short, concise, clear, and in the Strategic Plan, held to these points:
 1. What is the idea (concept/plan/opportunity)?
 2. How will it be monetized?
 3. Who are we to make this happen (brief)?
- The point is to capture the reader's attention, not to educate, explain, or put in context

Vision

- A vision is a vivid description of what it will be like to accomplish the bold goal, translating it into a picture
- The vision should be specific
- It should be a few sentences in length
- Clarity, brevity, & conciseness are important

Creating a vision

- Begin with questions:
 - We're sitting here in 20 years; what would we love to see?
 - What should this organization look like?
 - What should it feel like to employees?
 - What should it have achieved?
 - If someone writes an article for a magazine about this company in 20 years, what will it say?

Vision example

- Henry Ford's vision of the goal of democratizing the automobile:

I will build a motor car for the great multitude. It will be so low in price that no man making a good salary will be unable to own one and enjoy with his family the blessing of hours of pleasure in God's great open spaces. When I'm through, everybody will be able to afford one, and everyone will have one. The horse will have disappeared from our highways, the automobile will be taken for granted, and we will give a large number of men employed at good wages.

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Vision example

- Microsoft's vision:

At Microsoft, our long-held vision of a computer on every desk and in every home continues to be at the core of everything we do. We are committed to the belief that software is the tool that empowers people both at work and at home. Since our company was founded in 1975, our charter has been to deliver on this vision of the power of personal computing.

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Mission

- Mission statements are written for both internal and external audiences.
 - **Internally**, mission statements provide direction-
-they should mirror the direction of the organizational vision.
 - **Externally**, mission statements inform and contribute to an organization's public image.

Mission statement

- Mission statements:
 - In terms suitable for public consumption they often end up with apple pie generalities; statements that mechanically enumerate what the entity has in *common* with other entities, rather than seeking to explain and describe its 'specialness'.
- Therefore, a mission statement not only answers the question, "What business are we in?" but a valuable mission statement is one that:
 - Provides direction to those within the business
 - Differentiates the business
 - Enhances the public image of the business

Video Clip

Duration: 4:43

- Guy Kawasaki: 2. Make a Mantra
 - Don't write a mission statement; make a mantra

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The Core Idea

- In the Exec Summary, you introduced the core idea in a high-level way designed to entice further interest
- Here, you give some foundation and structure to the concept, including:
 - Any models/prototypes/storyboards
 - A description of the underlying need that is fulfilled
 - Its departure from existing products/services
 - How this idea is both sustainable and protectable

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Objectives

- Explicitly state the business's **Objectives** in terms of the results it needs/wants to achieve in the medium/long term
- Aside from presumably indicating a necessity to achieve regular profits, objectives should relate to the expectations and requirements of all the major stakeholders, and should reflect the underlying reasons for running the business
- These objectives could cover growth, profitability, technology, offerings and markets

Core values

- Core values are the timeless guiding principles by which the organization defines itself
- Core values "never" change
- They continue to be relevant whether or not they are supported externally

Examples of core values

Merck

- Corporate social responsibility
- Unequivocal excellence in all aspects of the company
- Science-based innovation
- Honesty and integrity
- Profit, but profit from work that benefits humanity

Nordstrom

- Service to the customer above all else
- Hard work and individual productivity
- Never being satisfied
- Excellence in reputation; being part of something special

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Discovering core values

- Core values will be a reflection of the individuals within the organization, and particularly the values of the leaders
 - When attempting to define core values, start at the individual level
- What core values do you bring to work yourself?
 - Values that are so fundamental that they would be practiced whether or not they were rewarded
- What core values do you hope your children will hold when they go to work?
- Can you envision these core values to be valid in 100 years?

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Continue to question...

- Once a preliminary set of core values are determined, continue to question:
 - Would your organization continue to hold these core values even if they became a competitive disadvantage?
 - If you were to start a new organization in a different industry, what core values would you build into the new organization, regardless of its industry?
 - Is it true that each value is intrinsic to "who we are" and that each value "will always be extremely important to the organization -- no matter what"?

Core purpose examples

Core purpose is the fundamental reason for being

3M

- To solve unsolved problems innovatively.

Fannie Mae

- To strengthen the social fabric by continually democratizing home ownership.

Hewlett-Packard

- To make technical contributions for the advancement and welfare of humanity.

Merck

- To preserve and improve human life.

Nike

- To experience the emotion of competition, winning and crushing competitors.

Wal-Mart

- To give ordinary folk the chance to buy the same things as rich people.

Walt Disney

- To make people happy.

Goals

- These are specific interim or ultimate time-based measurements to be achieved by implementing strategies in pursuit of the company's objectives
 - For example, to achieve sales of \$3m in three years time
- Goals should be quantifiable, consistent, realistic and achievable
- They can relate to factors like market (sizes and shares), products, finances, profitability, utilization, efficiency

Bold goals

- More than a goal--a huge, daunting challenge. A goal of this caliber may have about a 70% chance of success. [Collins and Porras](#) refer to these goals as **BHAG's** (**B**ig **H**airy **A**udacious **G**oals):
 - The goal should be require little or no explanation--people get it right away
 - The goal will engage people and provide inspiration
 - Everyone will know when the goal has been reached
- Goals such as these are powerful because they provide a strong unifying focus

Michelangelo Quote

- “The greatest danger for most of us is not that our aim is too high and we miss it, but that it is too low and we reach it.”

Michelangelo

{refer to Wikipedia WalMart info for example}

Examples of BHAGs

Target BHAG's:

- Put a man on the moon by the end of the decade and return him back safely. [Kennedy, 1961]
- Become a \$125 billion company by the year 2000. [Wal-Mart, 1990]
- Democratize the automobile. [Ford Motor Company, early 1900s]
- Become the company most known for changing the worldwide poor-quality image of Japanese products. [Sony, early 1950s]

Common-enemy BHAG's:

- Knock off RJR as the number one tobacco company in the world. [Phillip Morris, 1990]
- Crush Adidas. [Nike, 1960's]
- We will destroy Yamaha. [Honda, 1970s]

Role-model BHAG's:

- Become the Harvard of the West. [Stanford University, 1940s]
- Become as respected in 20 years as Hewlett-Packard is today. [Watkins-Johnson, 1996]

Internal transformation BHAG's:

- Transform this company from a defense contractor into the best diversified high-technology company in the world. [Rockwell, 1995]
- Transform this division from a poorly respected internal products supplier to one of the most respected, exciting, and sought-after divisions in the company. [Components Support Division of a computer products company, 1989]

Targets: Industry & Market

- Industry
 - Specifically, what industry? Segment?
 - Research about the industry (Five Forces?)
 - Competition? Scale?
- Market
 - Specifically, what market? Segment?
 - Who will buy the product and why will they choose this product?
 - Why are they willing to pay for this product & how much & why?
 - How will you penetrate, grow, and protect this market?

Strategies

- Strategic planning:
 - The process of *developing a plan for the future*.
Developing a strategy means priorities will be determined by the intelligence and foresight of the people of the organization - not by outside forces and disordered concerns
- Having a strategy means that leadership is:
 - Active rather than passive about the business's future
 - Focused on keeping the business in-step with the changing external environment
 - Aware that the business is subject to economic market conditions and to increasingly strong competition
 - Focused on decisions--not on documented plans
 - Placing the fate of the business above everything else

Assumptions and Assessments

- Assumptions:
 - Refer to the earlier discussion on assumptions
- Assessments:
 - SWOT analysis
 - Who are we and why are we prepared to undertake this
 - What do we need to do this

Programs

(If included in the Strategic Plan)

- Programs set out the implementation plans for the key strategies
- These should cover:
 - Resources
 - Objectives
 - Time-scales
 - Deadlines
 - Budgets
 - Performance targets

Business plans

- <This is a topic covered in some detail in the Capstone course>
- <reference>Adam Moskow, discusses “How and Why to Write a Business Plan”
- Topics include:
 - Summary
 - Vision
 - Market analysis
 - Competitive analysis
 - Strategy
 - Products/Services
 - Marketing and sales
 - Operations
 - The financials

Team Work Plans

- Issues and questions
- At the end of the course, you will evaluate your team members! Be aware of who you are and they are. Many failures are caused by a lack of diverse talents or the recognition of the value of those talents.

Teams working together

- Who are engineers? Marketers? Designers?
- For now, let's huddle together by professional orientation...

- Let's look at some calculators...

Review calculators

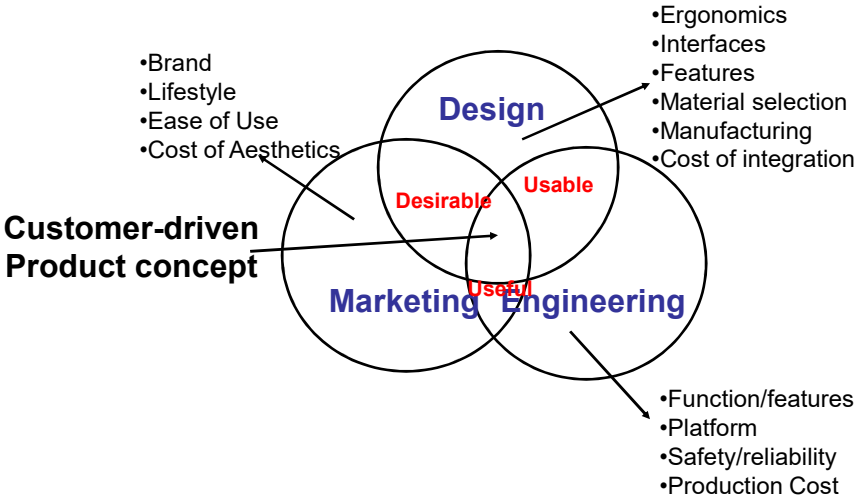
- Pass them around, study them...
- Characterize them
 - For functionality
 - For usability
 - For style
 - For technology
 - For manufacturability
 - For ... you name it

Summarization by orientation

	Marketers	Designers	Engineers
Functionality			
Usability			
Style			
Technology			
Manufacture			
Other			
Total			

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Sweet spot for customer-driven products



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Teaming to build

- Diverse disciplines face perceptual gaps when they come together
- Collaboration: key to managing conflict
 - Also beneficial to the design process
 - Non-task conflict is detrimental to the team
 - Task-focused conflict can be productive
 - Team members don't have to like each other; they need to respect each other professionally and focus on getting the job done

Collaboration

- Not “compromise”
 - Compromise means that each party “gave in” & left disappointed
- Implies mutually beneficial results
- Based on more effective communication

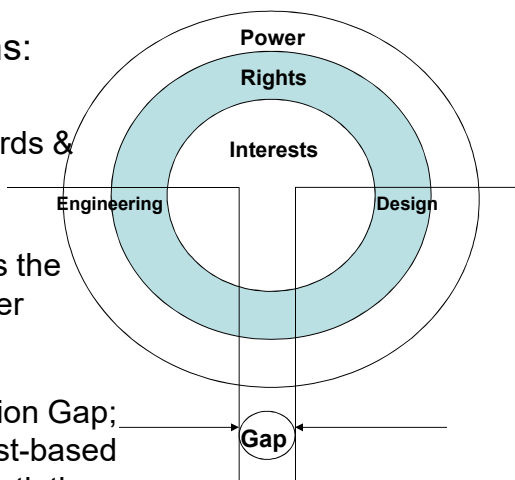
Collaboration's 3 techniques

1. Group atmosphere: trust, focus, communication, problem solution
2. Member behavior: joint gain, truthful & factual info exchange
3. Mindset: win-win, interdependence

Negative emotion spreads like a virus

Teams

- - based negotiations:
 - Power is forced
 - Rights uses standards & precedents
 - Interests reaches concurrence, meets the needs of each player



User insight closes perception Gap;
creates basis for interest-based
negotiations

Innovation & teamwork

- Innovation is not developed from preconceived notions
- Win-win decisions – stress learning the art of hearing and being heard
 - Covey's shift from independence to interdependence
 - More able to adapt to challenges

Fostering teamwork

- Positive atmosphere
- Team members enjoy the process
- Experiences extend to future experiences

Next class

Industry & Market Analysis;
Brand Strategy

- Allen Ch 6 – Analyzing the Industry & Mkt
- Allen Ch 7 – Analyzing the Prod/Svc ...
- Readings on Angel
 - Re-differentiating Products and Services
 - Disrupting the Rules of the Game