¶ 2.1

Lecture 2: Entrepreneurship, Strategy, & Funding

Origins & Entrepreneurs

How do businesses begin?

Competitive Strategy

How do firms win against rivals?



Venture Funding

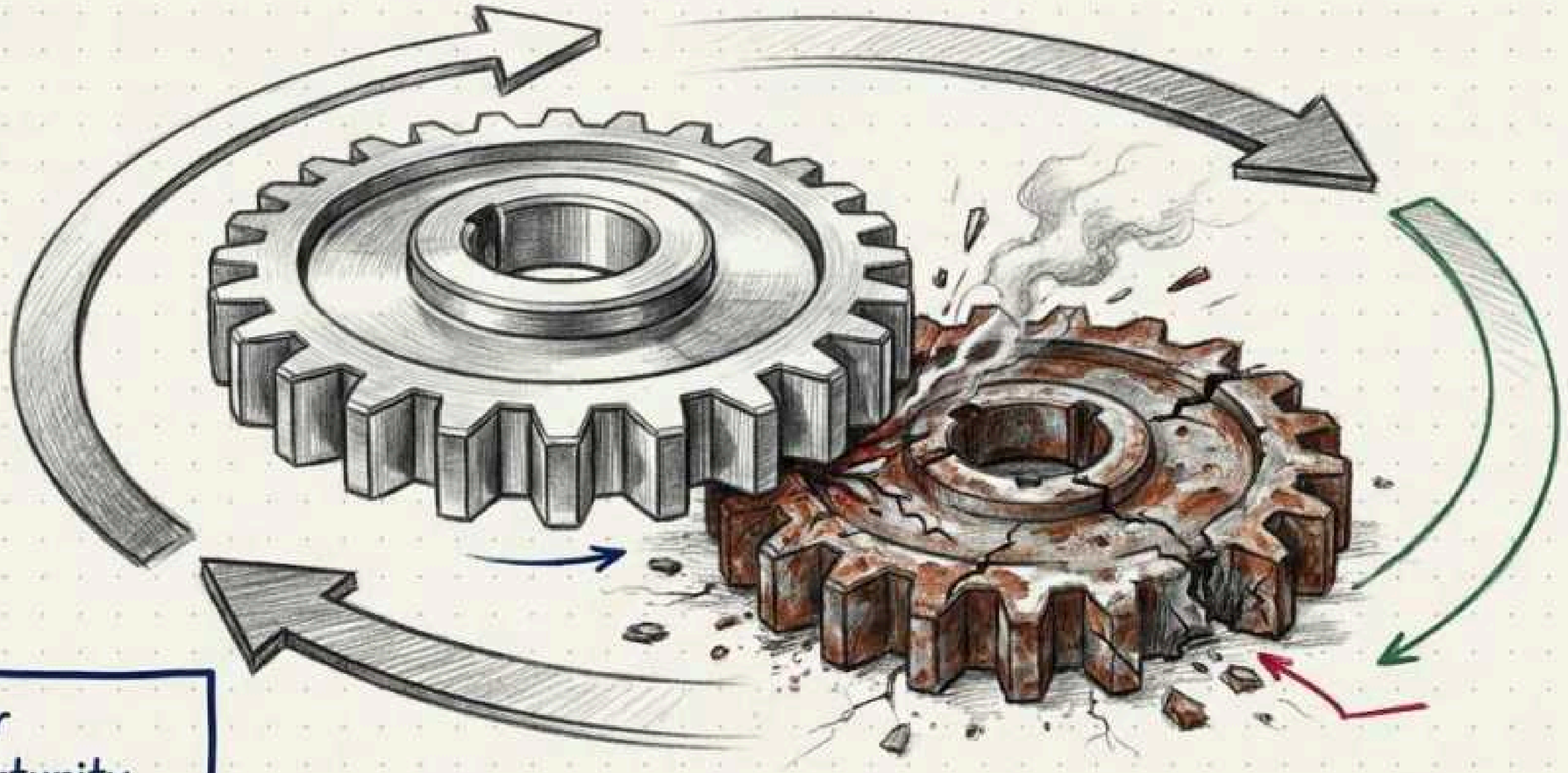
Where do they find money?

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Creative Destruction

(Joseph Schumpeter, 1942)

¶ 2.2



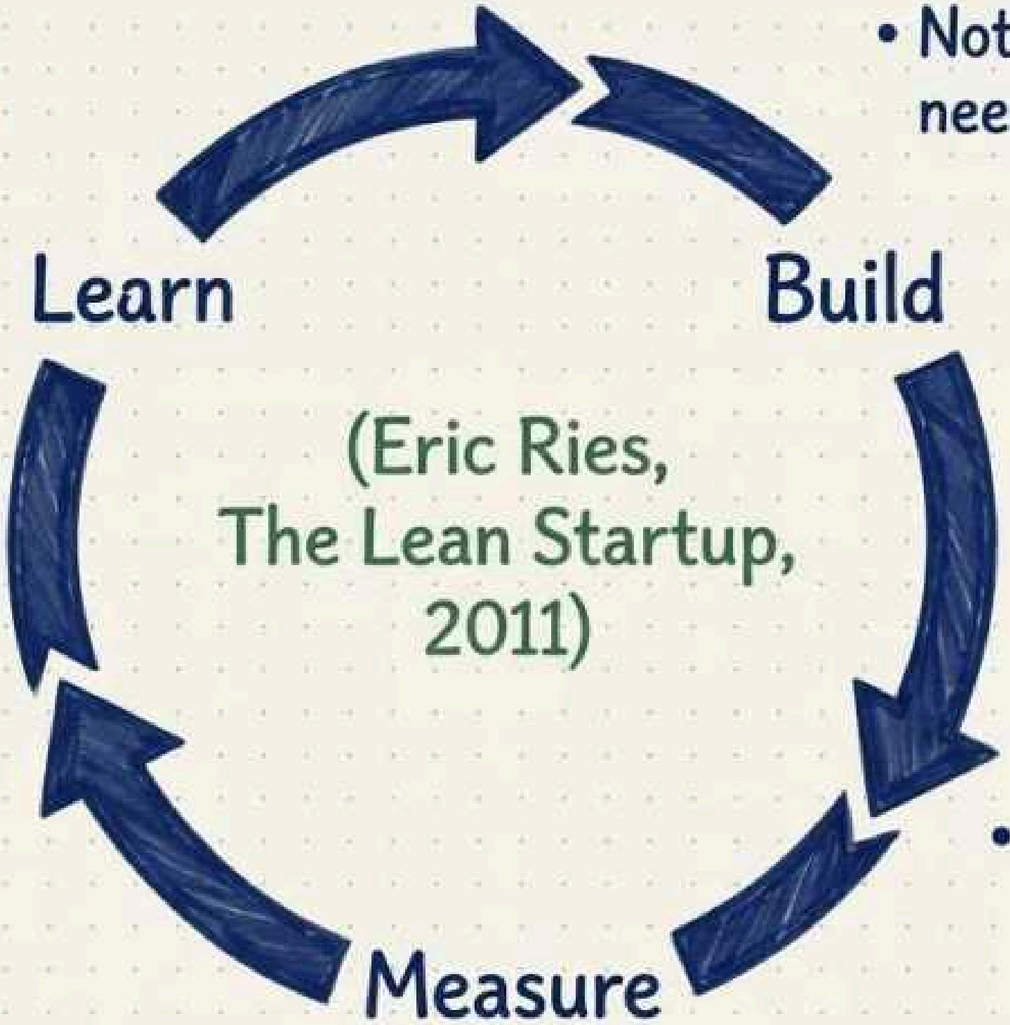
Entrepreneur
= Sees Opportunity
+ Organizes Resources
+ Accepts Risk.

Δ Value = Resource Organization × Risk

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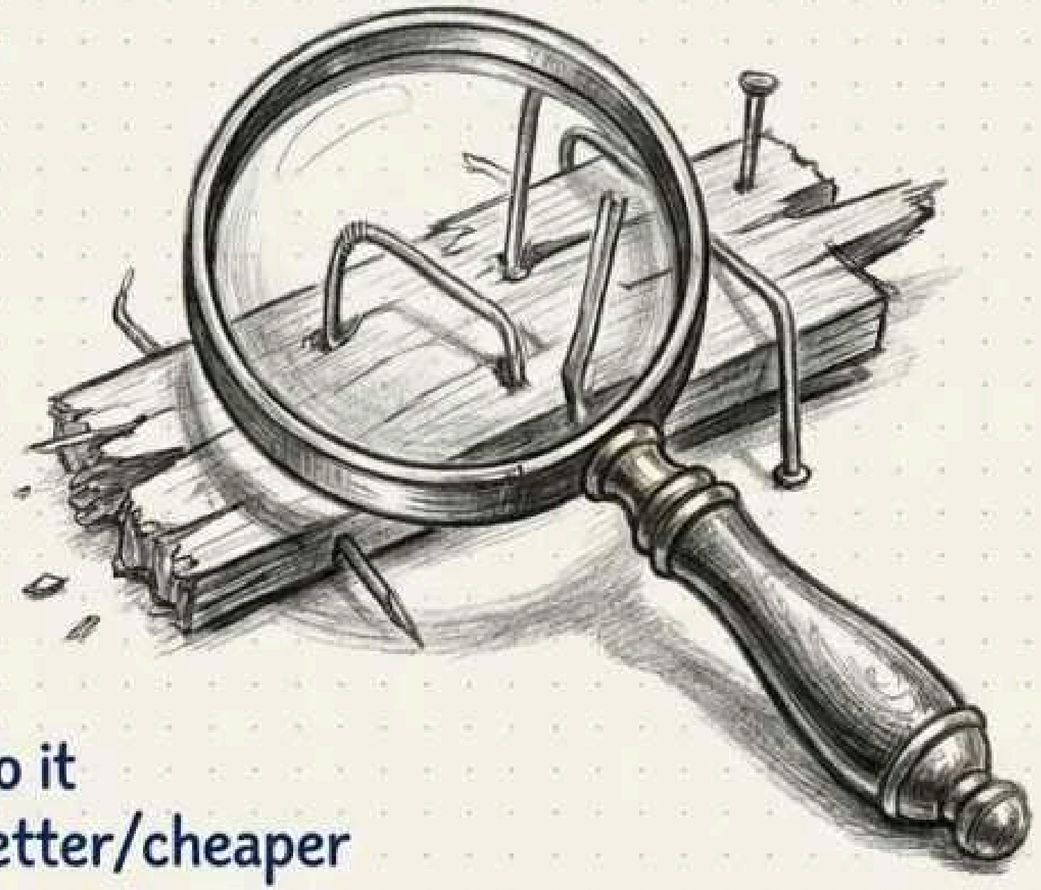
¶ 2.3

- Solve a personal problem



(Eric Ries, The Lean Startup, 2011)

- Notice unmet needs



- Do it better/cheaper

MVP = min(Investment) → max(Validated Learning)

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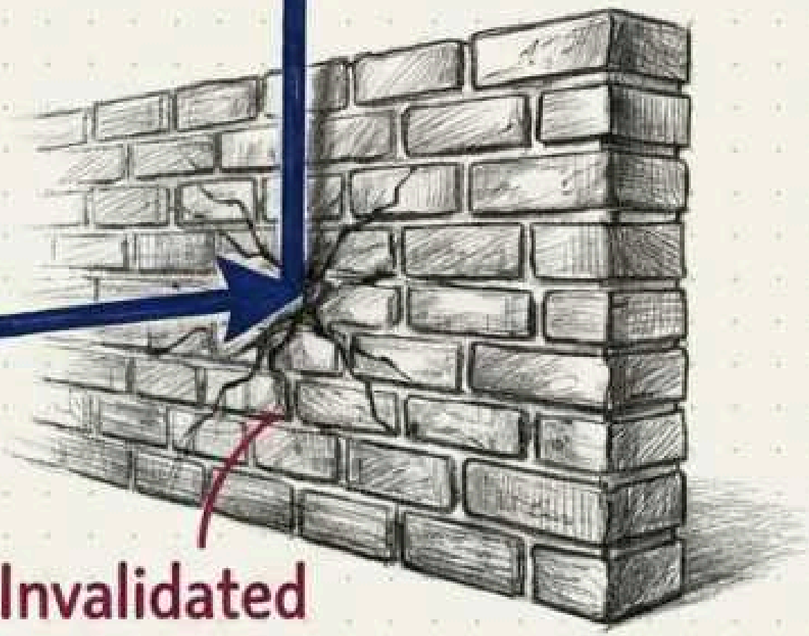
¶ 2.4

> Get out of the building and talk to customers.
> — Steve Blank.

The Pivot

Burbn (Check-in App)
→ Instagram (Photos)

Internal Game Tool
→ Slack

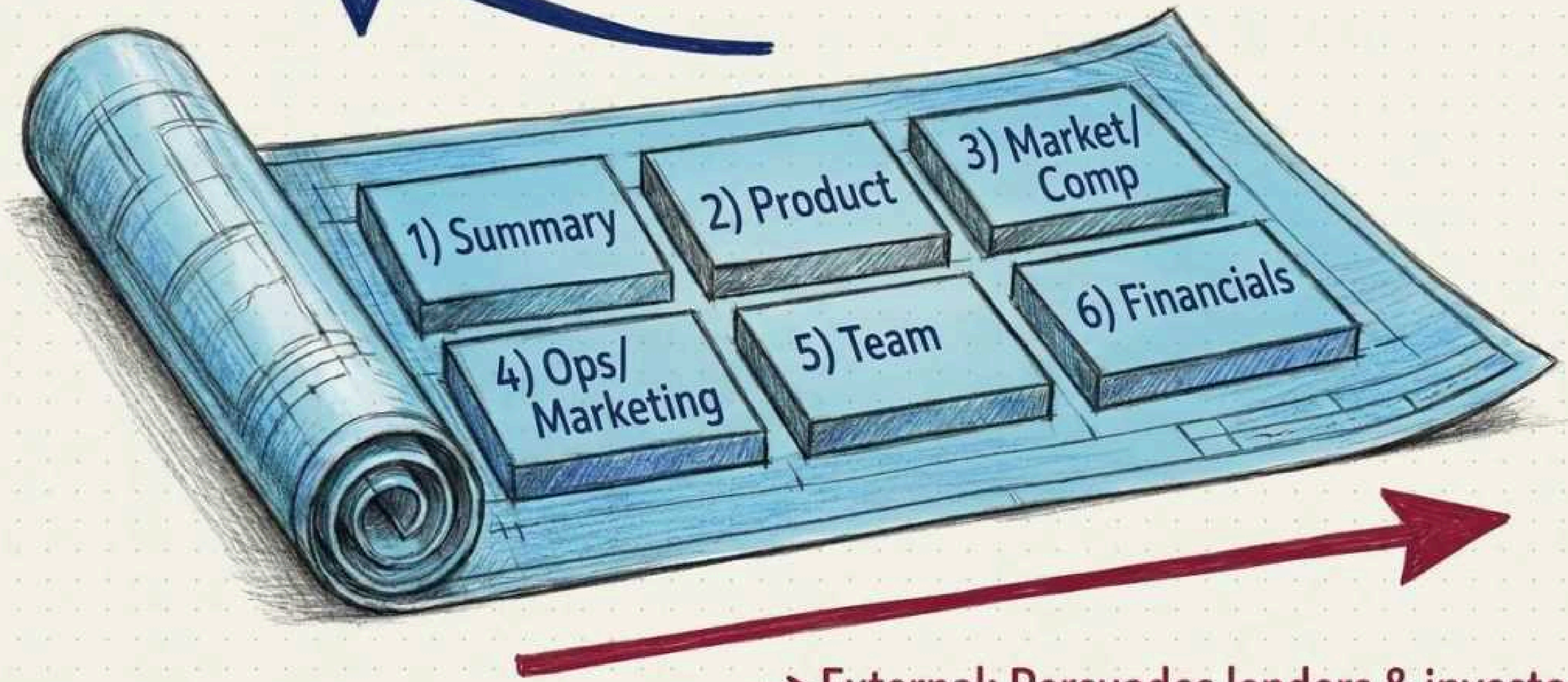


Invalidated Assumptions

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¶ 2.5

→ Internal: Forces founder to think clearly.

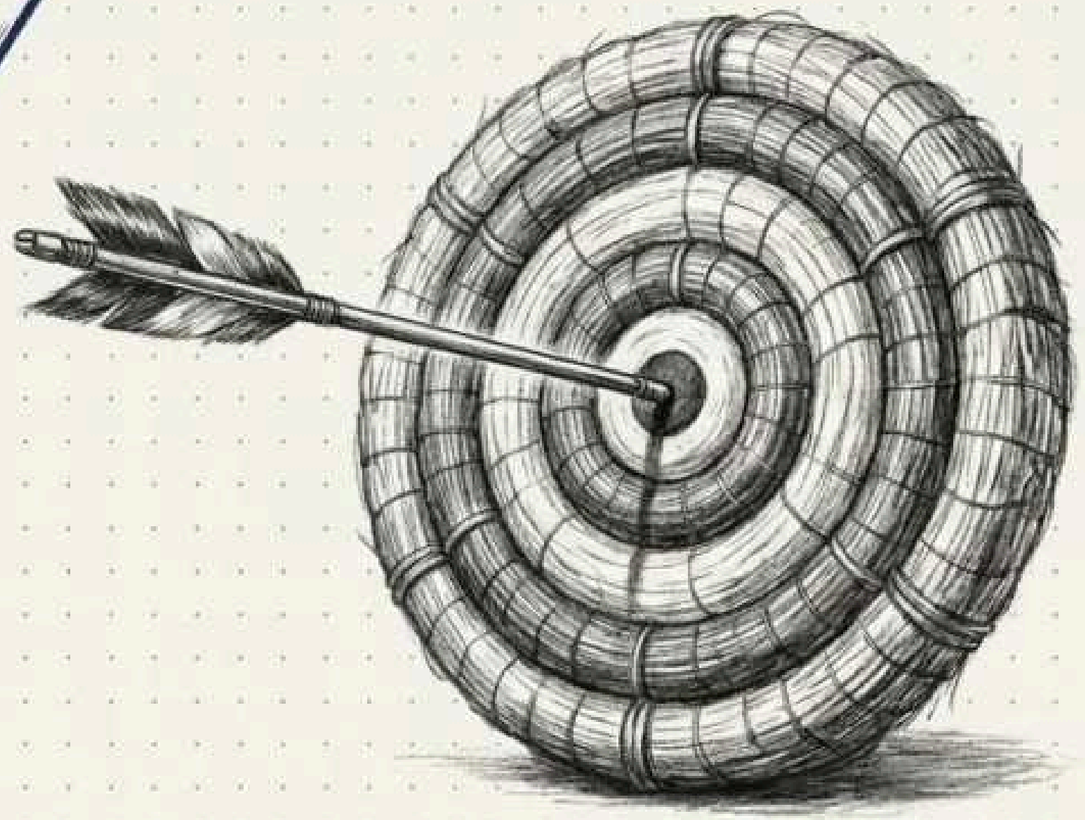


→ External: Persuades lenders & investors.

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¶2.6

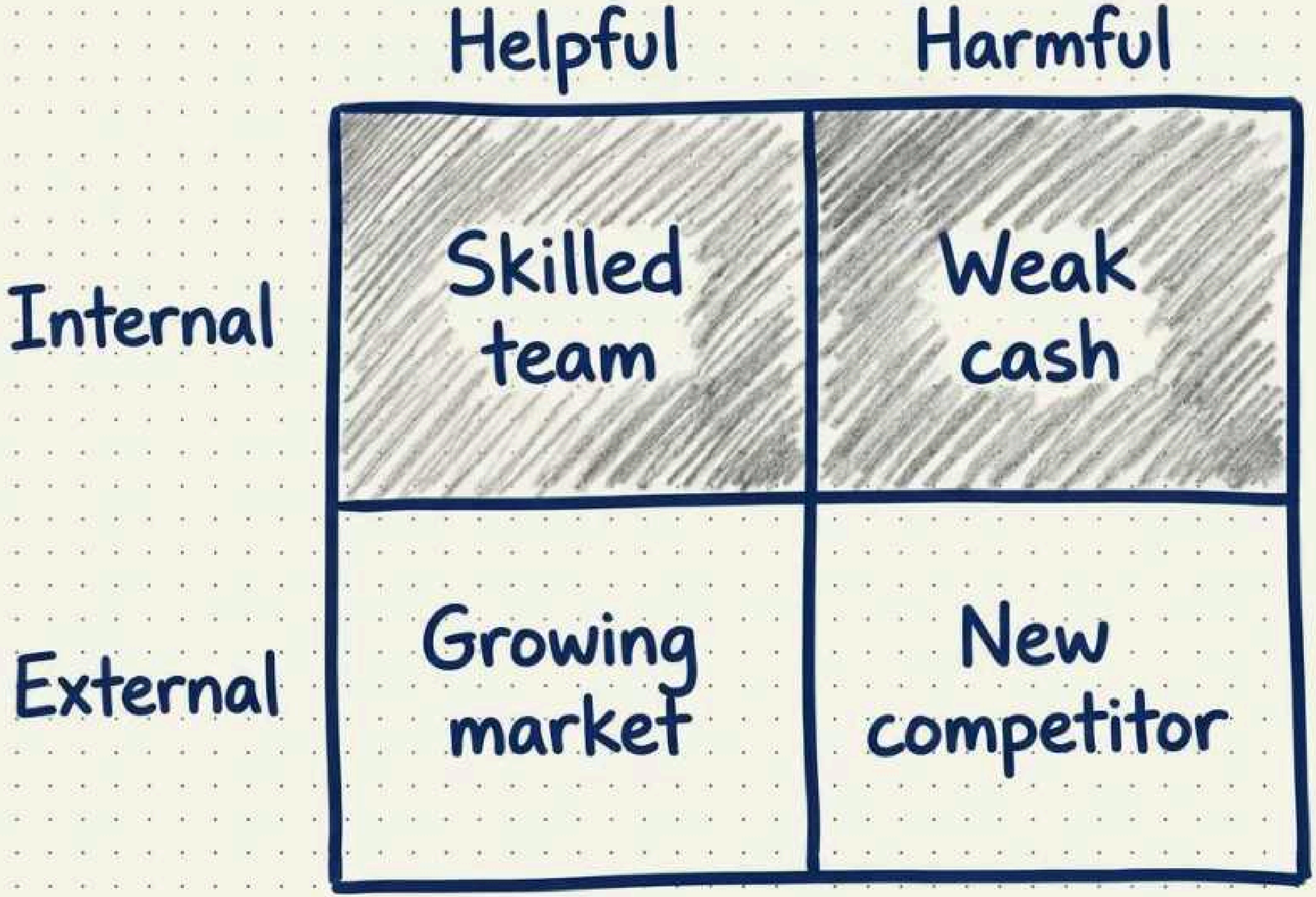




$$\text{Useful Goal} = \int (\text{Specific} + \text{Measurable} + \text{Dated})$$

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¶2.7



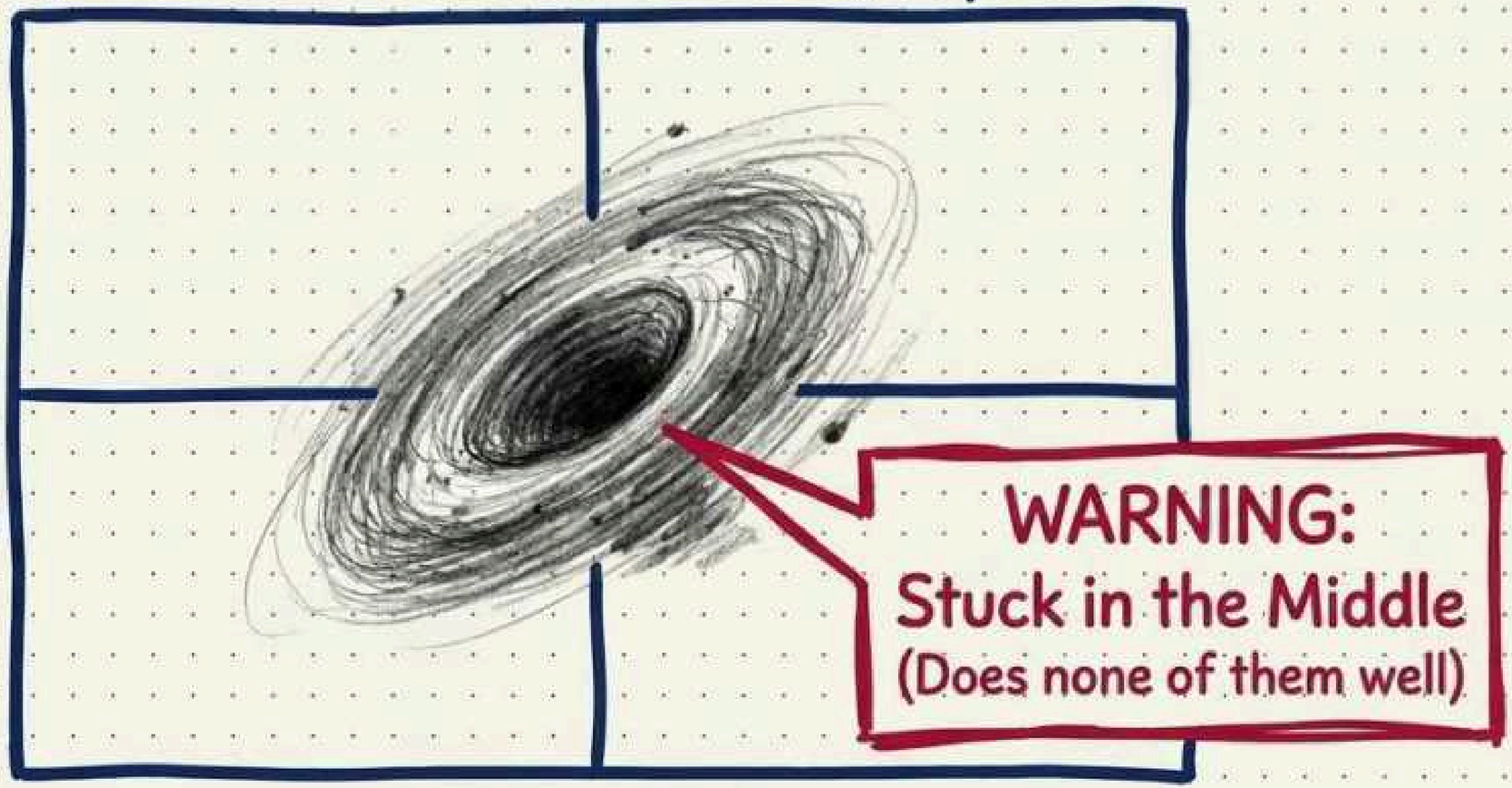
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Porter's Generic Strategies (1985)

¶ 2.8

Competitive Advantage
(Lower Cost vs. Differentiation / Pay More)

Competitive Scope
(Broad Target vs. Narrow Segment/Focus)



WARNING:
Stuck in the Middle
(Does none of them well)

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¶2.9

New Entrants



Supplier Power

Industry Rivalry

Buyer Power

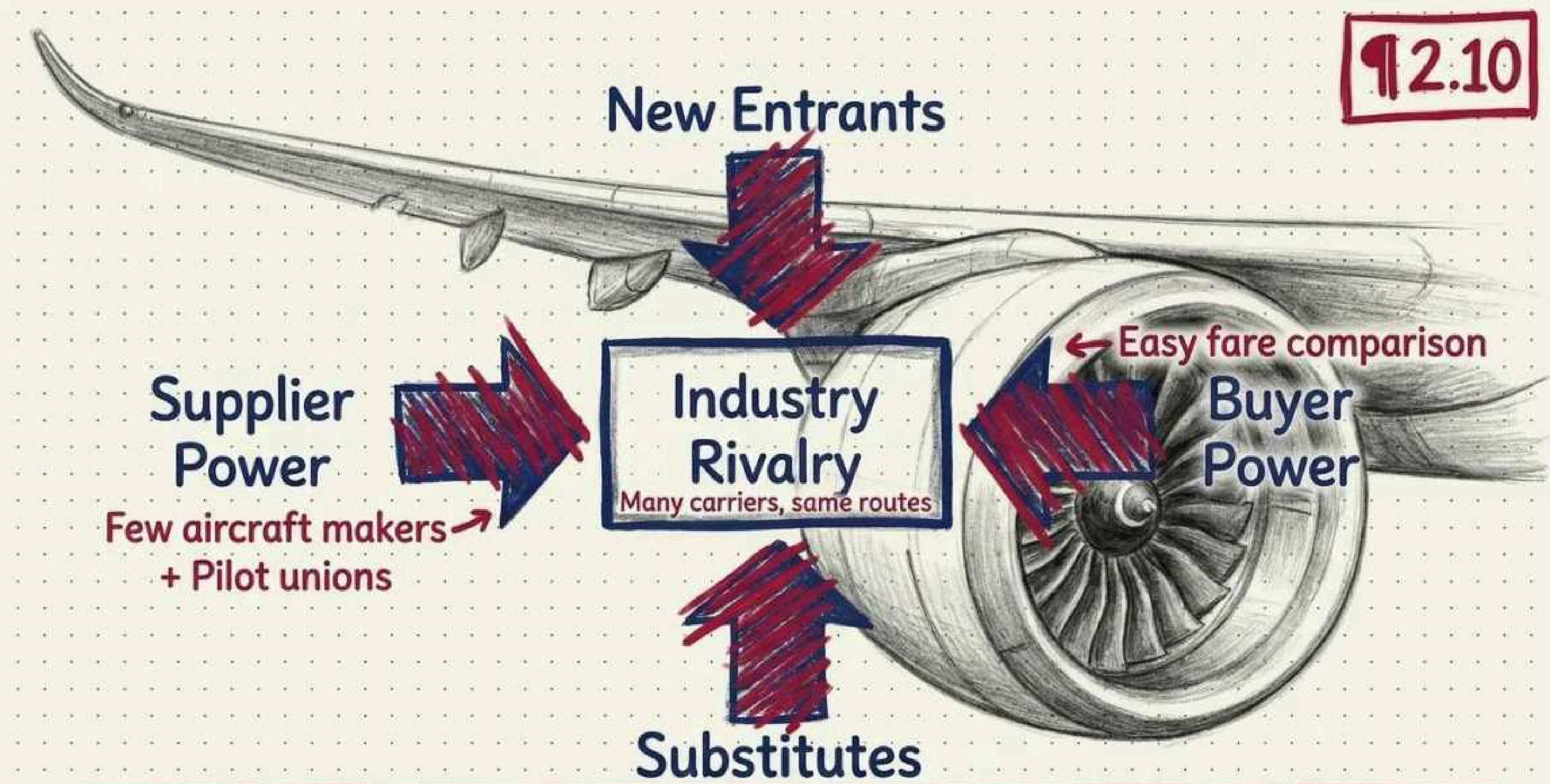
Substitutes

$$\text{Profitability} \propto \frac{1}{\sum(\text{Forces})}$$

↳ Profitability is inversely proportional to the strength of the forces. Weak forces = High Profit

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¶2.10



Good product ≠ Good industry. (Thin profits despite huge passenger volume)

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¶ 2.11



Public Shares &
Crowdfunding
(Online masses)



Venture Capital
(Pooled money,
fast growth)

Angel Investors
(Wealthy Individuals)

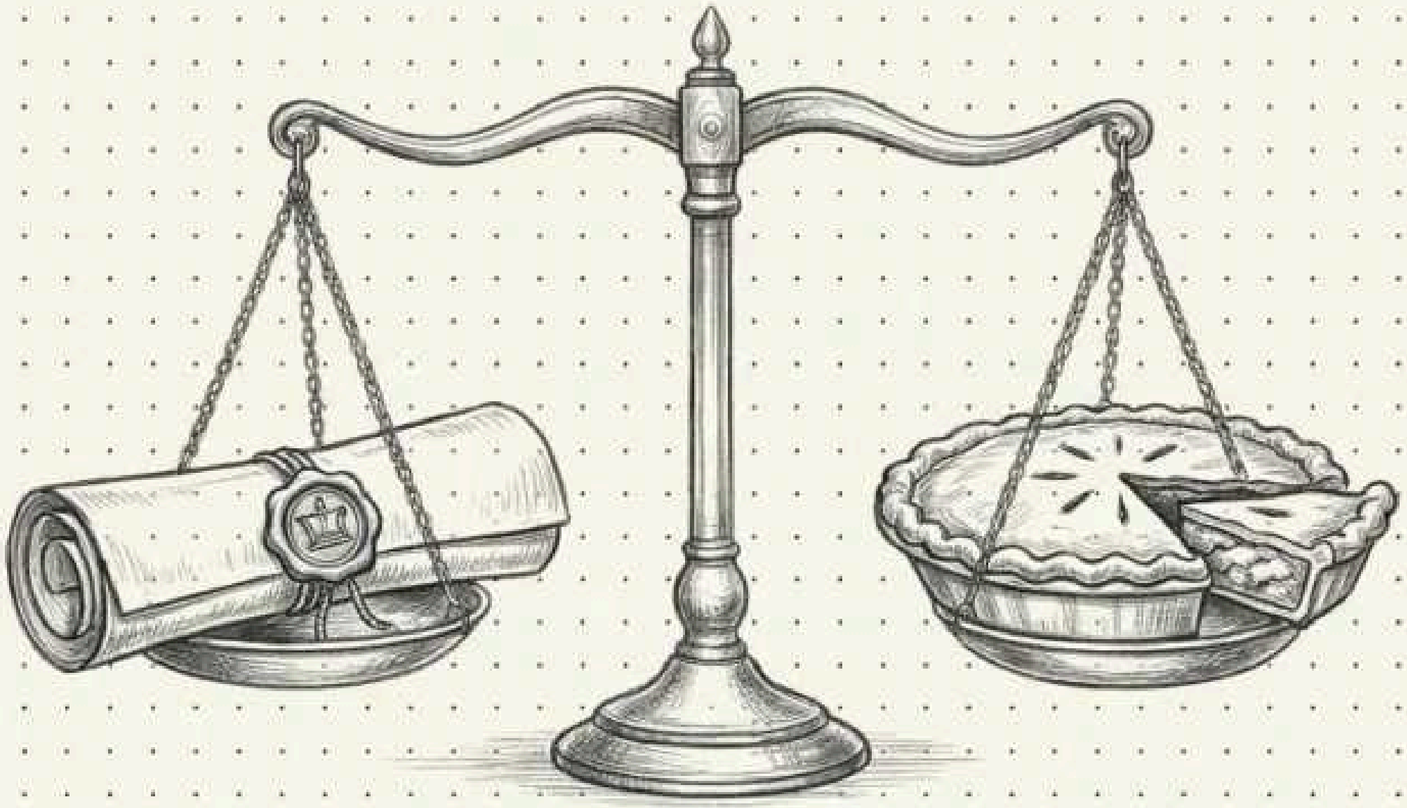


Friends, Family,
Bank Loan

Bootstrap
(Savings/Early Rev)

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¶ 2.12



Debt

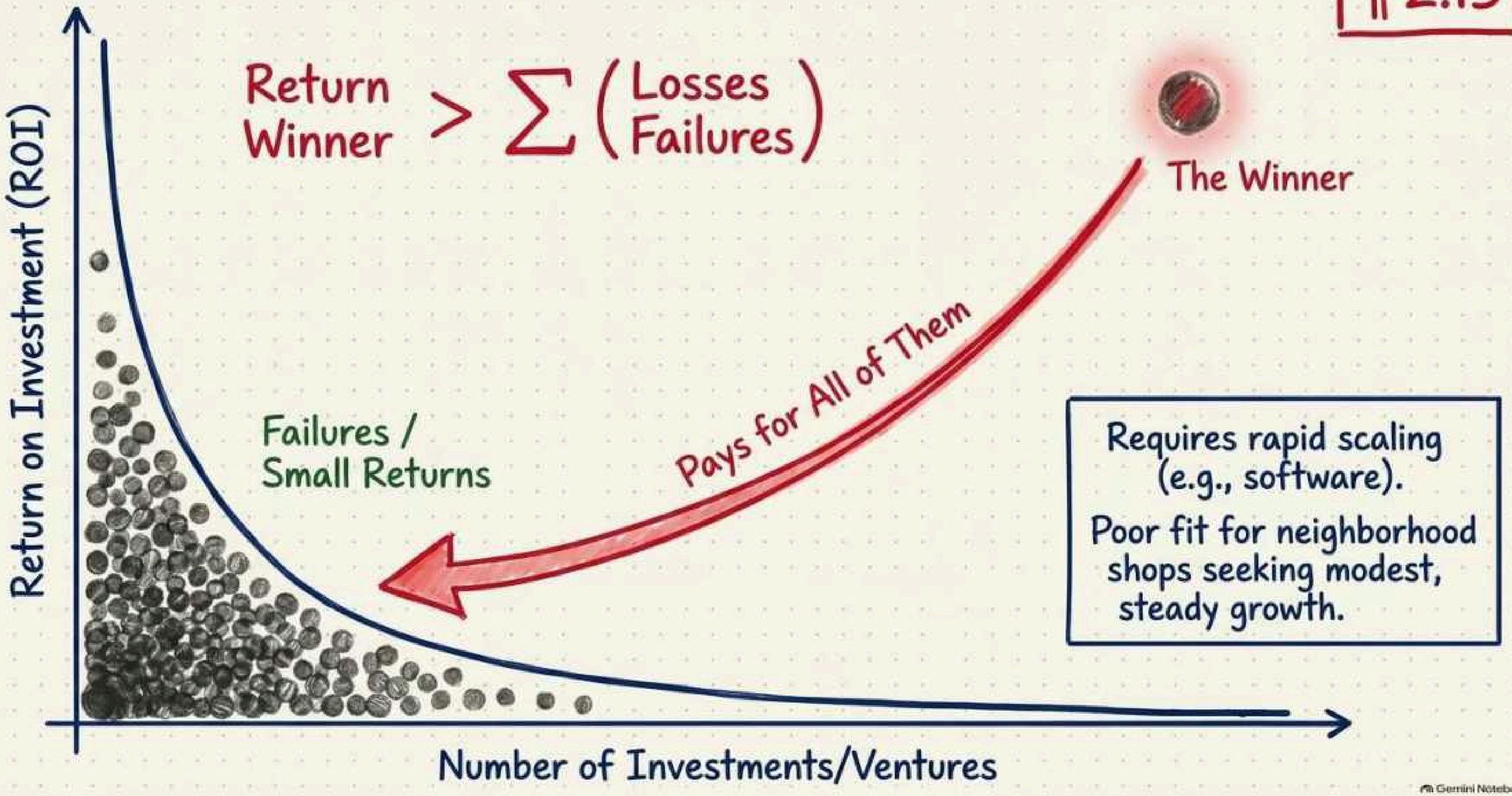
- Borrowed money.
- Fixed Obligation.
- Must repay with interest.
- Lender takes NO ownership.

Equity

- Money from owners.
- Gives up a slice of control.
- Shared profit.
- Only pays if business succeeds.

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¶ 2.13



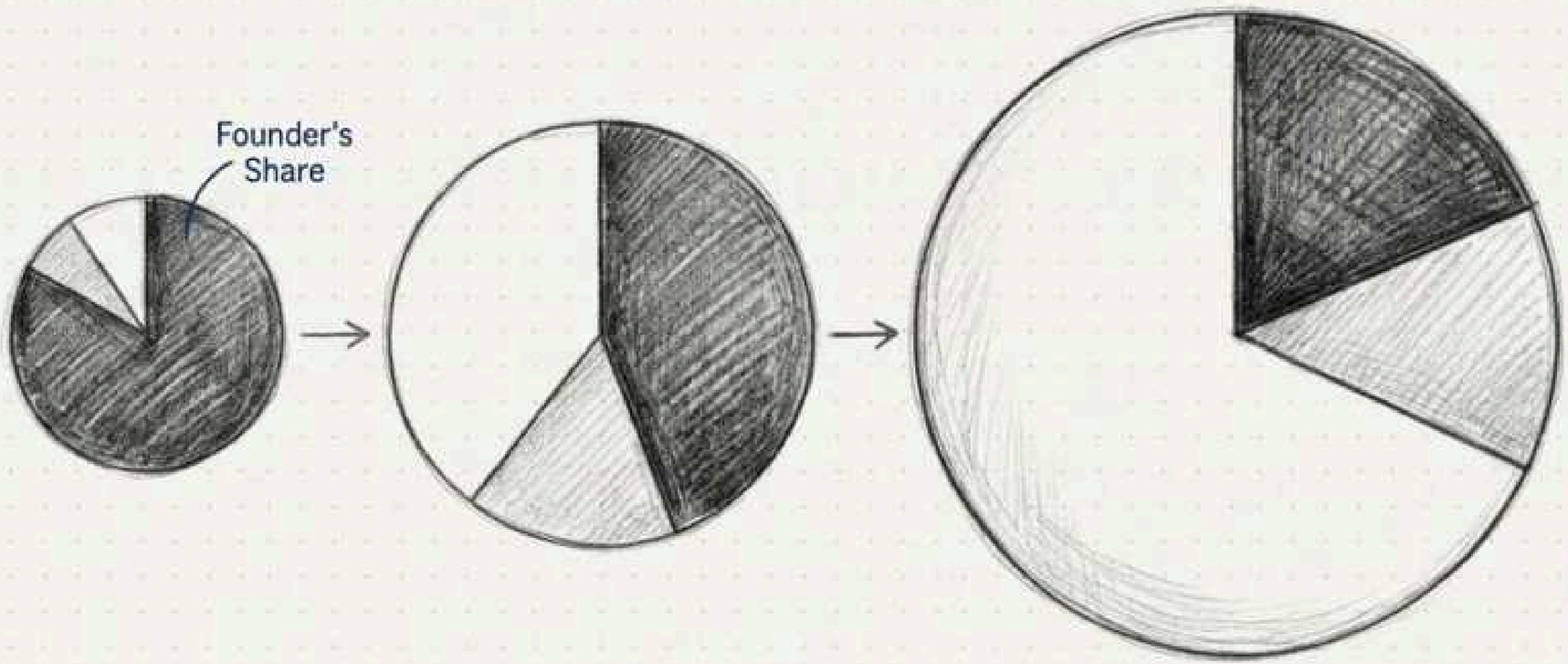
Requires rapid scaling (e.g., software).

Poor fit for neighborhood shops seeking modest, steady growth.

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¶ 2.14

Ownership New = Ownership Old × (1 – % Sold)

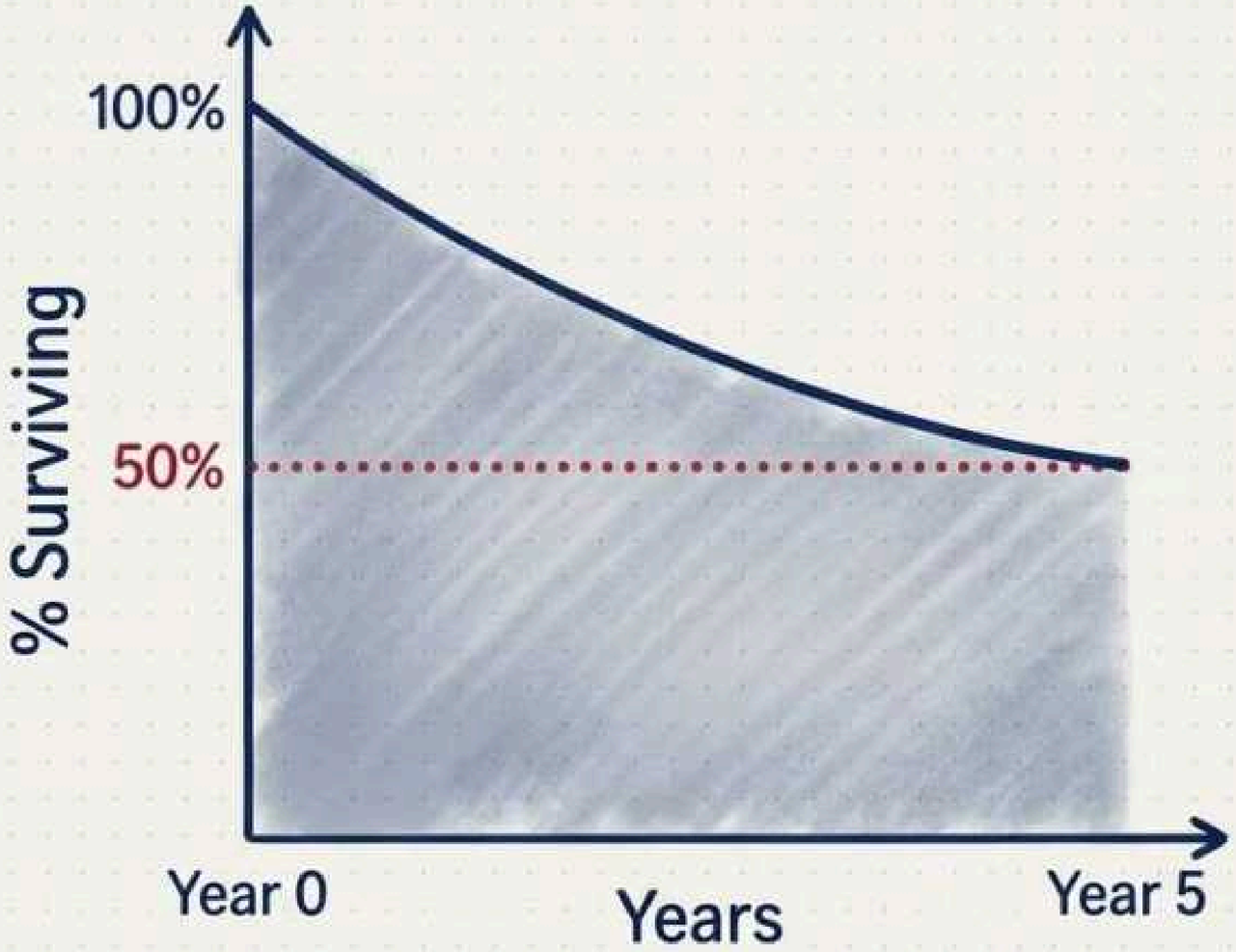


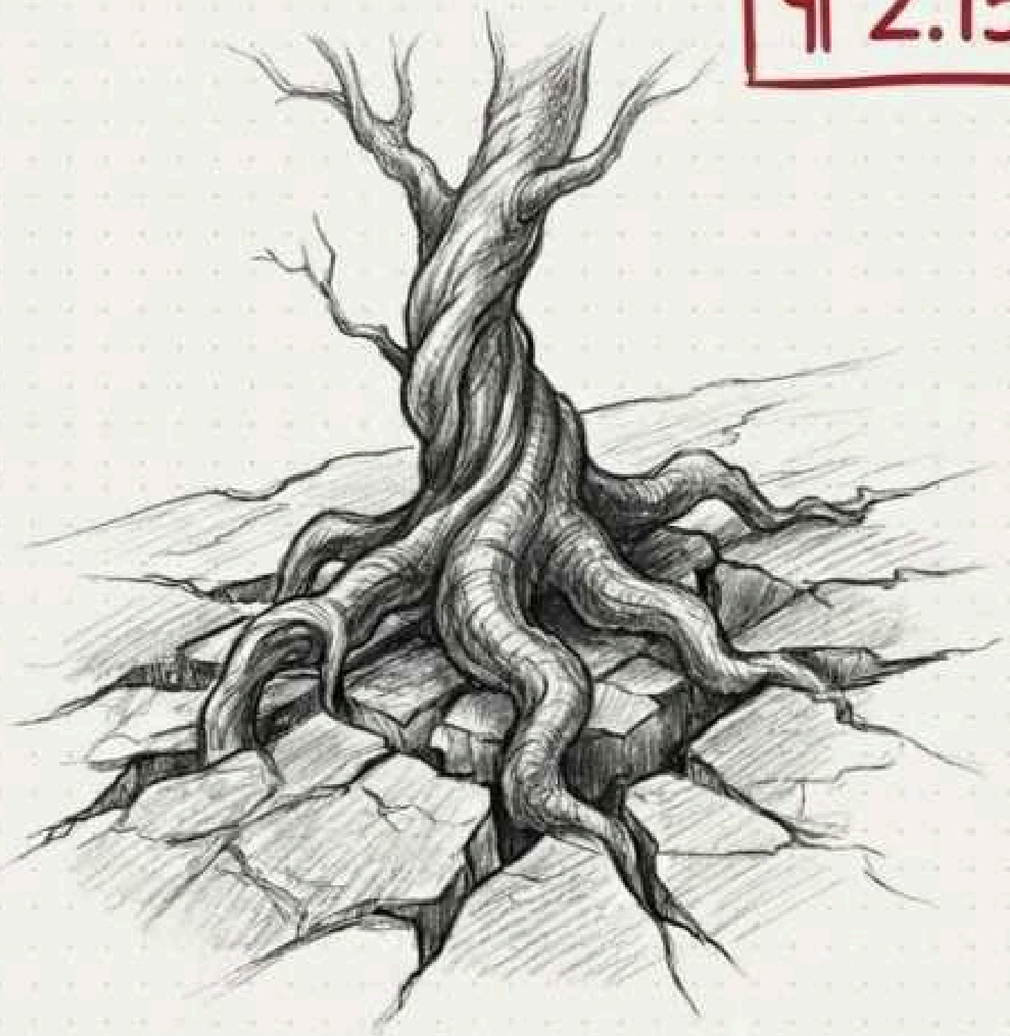


Cost of Dilution: Founders may become a minority. Investors gain control.

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¶ 2.15





- Small business = Backbone of US economy (Most <20 employees).
- Failure is a normal part of how markets test new ideas.

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¶ 2.16

Profitable Business (Income Statement)

Causes of failure:
Weak demand, undercapitalization, underestimating costs, poor management.



Running Out of Cash (Bank Account)

The Leak: Late paying customers + Due bills.
Managing cash keeps firms alive.

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Ansoff Matrix (1957)

¶ 2.17

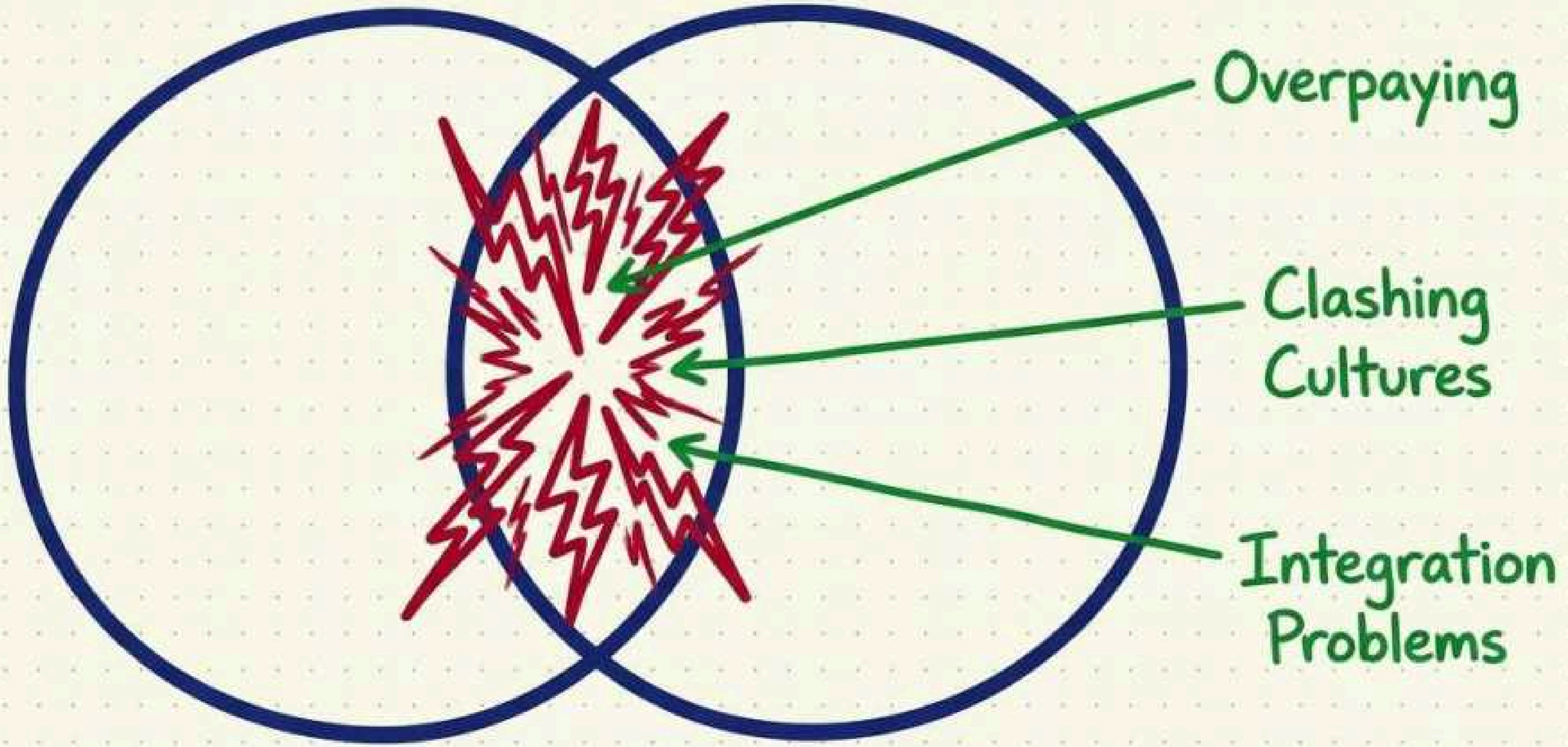
	Current Products	New Products
Current Markets	Market Penetration	Product Development
New Markets	Market Development	

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¶ 2.18

Merger = Two combine.

Acquisition = One buys another.



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¶ 2.19

1) Ideation/Plans (Test & Write)



2) Strategy (Cost, Diff, Focus)



3) Industry Profitability (Five Forces)



4) Funding (Debt vs. Equity)



Action: Choose a business idea.
Write 1 sentence for its Mission.
Write 1 Competitive Advantage it claims.
Next Lecture → Marketing.



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