

# A!

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# Intro to Entrepreneurship

*Photo: demoshelsinki/flickr*

# Starting up : Entrepreneurship as an academic topic?

It involves “*the processes of **discovery, evaluation, and exploitation of opportunities**; and the set of individuals who discover, evaluate, and exploit them*” (Shane & Venkatamaran 2000, p.218)

# Types of start-ups...smallish

## Social Startup

Driven to Make a Difference



- Improve society
- Social cause
- Profits not main driver
- E.g. development banks, microlending

## Lifestyle Startup



Work to live their passion

- Work only with what they like
- Enough money "just to pay bills"
- E.g. chocolatiers, bakers, restaurant, etc.

## Small Business Startup



Work to feed the family

- Known product
- Known customer
- Notable but low revenues
- Consulting, construction co's.

# ...and not so small



## Born to flip

- Grow to attract buyer
- Cost efficient for buyers
- Reduced time to market for buyer
- Funding \$100k - \$400k
- To be sold for tens of millions +

**Buyable  
Startup**



## Born to be big

- Want to revolutionize “the world”
- Visionary ideas
- Funding rounds tens of millions
- Grow into large corporations

**Scalable  
Startup**



- Part of life cycle
- Not good at disruptive innovations
- Fund or buy startups

**Large Startup**



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# Start-up myths

*Photo: greeblie/flickr*

# Entrepreneurs are born, not made



# Which of them became a world-famous entrepreneur?

- a) a dyslexic child that did badly at school
- b) a nerd without a social life as a child
- c) a fervent anti-capitalist activist as a young adult

# Answer: all of them of course.....



**Richard Branson**

**Elon Musk**



**Annita Roddick**



# Survival / failure rates

- Approx 1/2 of new ventures survive 5 years or more
- Approx 1/3 survive 10 years or more
- Survival rates have changed little over time
- Closure does not mean failure, as 29.1 percent of owners felt the business was successful at closure
- Successful businesses might be closed in cases of a planned exit strategy, closure without excess debt, sale of a viable business, or retirement from the work force

*Sources: Small Business Association, US; Headd, 2003*

# Where do start-up opportunities come from?

# Sources of startup ideas (Bhide, 2000):

71% ideas from previous employment

20% discovered serendipitously

5% other

4% systematic search

# Are opportunities ”out there”

# – waiting to be exploited?



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# Entrepreneurial alertness:

**the ability to recognize competitive imperfections in markets and thus opportunities to earn profits**

*Kirzner, 1999*

# Opportunities are born from.....

## ■ Technology shifts

- Moore's Law
- Disruptive technology

## ■ Market changes

- Value chain disruption/obsolescence
- Deregulation

## ■ Societal changes

- Changes in how we live, learn, work (internet).
- The world is global

# Are opportunities always out there?



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# Effectuation

= a logic of thinking that uniquely serves entrepreneurs in starting businesses. It provides a way to control a future that is inherently unpredictable

*Sarasvathy, 2001*





### **Bird-in-hand** {START WITH YOUR MEANS}

When expert entrepreneurs set out to build a new venture, they start with their means: who I am, what I know, and whom I know. Then, the entrepreneurs imagine possibilities that originate from their means.

*contrasts with...*

Pre-set goals or opportunities

Causal reasoning works inversely by assembling means after a goal is set.



### **Affordable Loss** {FOCUS ON THE DOWNSIDE RISK}

Expert entrepreneurs limit risk by understanding what they can afford to lose at each step, instead of seeking large all-or-nothing opportunities. They choose goals and actions where there is upside even if the downside ends up happening.

*contrasts with...*

Expected return

Causal reasoning first targets a return, then works to minimize associated risk.



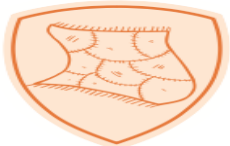
### **Lemonade** {LEVERAGE CONTINGENCIES}

Expert entrepreneurs invite the surprise factor. Instead of making "what-if" scenarios to deal with worst-case scenarios, experts interpret "bad" news and surprises as potential clues to create new markets.

*contrasts with...*

Avoiding surprises

Causal reasoning works to minimize the probability of unexpected outcomes.



### **Patchwork Quilt** {FORM PARTNERSHIPS}

Expert entrepreneurs build partnerships with self-selecting stakeholders. By obtaining pre-commitments from these key partners early on in the venture, experts reduce uncertainty and co-create the new market with its interested participants.

*contrasts with...*

Competitive analysis

Causal reasoning presumes that competitors are rivals to contend with.



### **Pilot-in-the-plane** {CONTROL V. PREDICT}

By focusing on activities within their control, expert entrepreneurs know their actions will result in the desired outcomes. An effectual worldview is rooted in the belief that the future is neither found nor predicted, but rather made.

*contrasts with...*

Inevitable trends

Causal reasoning accepts that established market forces will cause the future unfold.



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# Opportunities

Start asking:

Who am I?

Who do I know?

What can I do?

What would I like to co-create?

# What is the **need** you are trying to satisfy?

- Clearly define the need you are trying to satisfy
- Who is the customer
- What drives their need
- How much is it worth to solve
- Figure out how they are solving the problem today and how **big** a pain point it is.

# What is the potential market size?

- Size up the market
- Know the growth projections and incumbents' shares of the market
- Determine market share that you can acquire.

# What resources do you need to launch this business?

Estimate the capital resources you will need to launch this business and in what timeframe you will need these resources

# What are the major show-stoppers? (i.e, risk mitigation)

- Highlight the major hurdles with the business concept and put forward solid arguments as to why you think you can overcome these hurdles.
- **Know how you are going to win!**

# Business Model Canvas

- Various Ways to Lay This Out
- Helps Summarize Your Approach to the Opportunity and how to bring it to market
- Here Is One Way to Do It - Use the One You Like Best

# Legal forms: START-UP OPTIONS

## Limited Liability For Business Debts

- Private Limited Company
- Public Limited Company
- Limited Partnership

The minimum share capital, or money, of a private limited liability company is EUR 2,500. The sum must be paid in the company's account before the limited liability company is entered in the trade register.

The founders of a limited partnership draw up a partnership agreement where they agree on capital.

A limited partnership must have at least one responsible partner and one silent partner. The responsible partner's work input in the company is essential. The silent partner's input is not essential.



# Legal forms: START-UP OPTIONS

## Unlimited Liability For Business Debts

- Sole Trader ( Toiminimi) - one person founds
- Partnership - At least two founders are needed for a general partnership (and a limited partnership)

A private entrepreneur can start a company without capital. They do not need to invest money in the company. Their work input is enough.

A general partnership may also be established without money. It is enough that the founders work in the company.

Proceeds gained by a private entrepreneur (self-employed person) as well as a general partnership and a limited partnership are subject to taxation as the owner-entrepreneur's personal income.

# SOME OTHER BUSINESS MODELS

- Licensing
- Agency
- Distributorship
- Franchise