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"IGOR SIKORSKY KYIV POLYTECHNIC INSTITUTE"

STARTUP PROJECT DEVELOPMENT

LECTURE NOTES

Recommended by the Methodological Council of the Igor Sikorsky Kyiv Polytechnic Institute as a study aid for master's applicants on the educational programmes: «Economic Analytics», «Economics and Business», «International Economics» of the specialty 051 Economics

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The educational guide consists of nine chapters, which systematically and consistently examine the tasks, tools, problems and features of the development of startup projects. Issues of idea formation and product development of a startup, business modeling and business planning, marketing, team and enterprise creation, investment support, scaling and strategizing of startups, as well as the legal and legal basis of their implementation are revealed. Designed for master's degree students studying in the specialty 051 Economics.

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CONTENTS

INTRODUCTION

The discipline «Startup Project Development» is focused on studying the features, acquiring skills and abilities to develop such projects, mastering the methods and tools for their planning, organising the implementation and development of innovative startups on their basis.

The purpose of studying the discipline is to form a system of knowledge and master a set of practical skills in developing startup projects based on innovation, scientific and technical developments, digital technologies; implementing the processes of creating, executing and developing startups based on marketing, organisational design and financial justification through the use of modern tools for project development and implementation and business modelling.

The subject of the discipline is the theoretical foundations, methodological provisions and applied tools for the development and implementation of startup projects, the formation of students' ability to make appropriate analytical decisions in the field of startup economics.

The educational guide contains lecture notes on nine key topics of the discipline and corresponding examples. Issues of idea formation and product development of a startup, business modeling and business planning, marketing, team and enterprise creation, investment support, scaling and strategizing of startups, as well as the legal and legal basis of their implementation are revealed

Studying the discipline allows you to master several program competencies (taking into account the educational and professional programmes «Economic Analytics», «Economics and Business», «International Economics» and the Standard of Higher Education of Ukraine of the second (master's) level, field of knowledge 05 Social and Behavioural Sciences, specialty 051 Economics):

- GC 1 – an ability to generate new ideas (creativity);
- GC 3 – an ability to inspire and motivate others toward a common goal;
- GC 5 – an ability to work in a team;
- GC 6 – an ability to create and manage projects;
- PC 9 – an ability to apply a scientific approach to the formation and implementation of effective projects in the socio-economic sphere;

- PC 11 – an ability to design and develop projects in the field of economics, ensuring the information, methodological, material, financial, and staffing support.

Mastering the theoretical material will allow higher education students to acquire the following programme learning outcomes:

- PLO 4 – develop socio-economic projects and an integrated action plan for their implementation, taking into account the objectives, potential socio-economic impacts, risks, and various restrictions, including those related to law and resources;
- PLO 6 – evaluate their performance and demonstrate good leadership, team management, and teamwork skills;
- PLO 7 – choose the best practices in economic activity management and justify recommended solutions based on the relevant data and applied scientific research;
- PLO 15 – organize the development and realization of socioeconomic projects with consideration to information, methodological, material, financial, and staffing support.

The educational guide will be useful for master's degree applicants studying in the specialty 051 «Economics».

TOPIC 1

STARTUP AS A FORM OF INNOVATIVE BUSINESS

CONTENTS OF LECTURE

① The place of startups in business.
② Peculiarities of implementing a startup as an innovative project.
③ Implementation of a startup as a business project.
④ The life cycle of a startup.

1 THE PLACE OF STARTUPS IN BUSINESS

A startup or start-up is a company or project undertaken by an entrepreneur to seek, develop, and validate a scalable economic model [1].

While entrepreneurship refers to all new businesses, including self-employment and businesses that never intend to become registered, startups refer to new businesses that intend to grow large beyond the solo founder [1].

A startup or start-up	one of the forms of conducting innovative business, which involves the creation of innovation based on an innovative business idea that did not exist before its introduction [1].

The requirements to become a startup [2]:

- being established and carrying out business activities by no more than 60 months;
- from the second year of activity of the startup, the total annual production value must be less than 5 million euros;
- do not distribute profits;
- the company mustn't be the result of the merger or spin-off of another company.

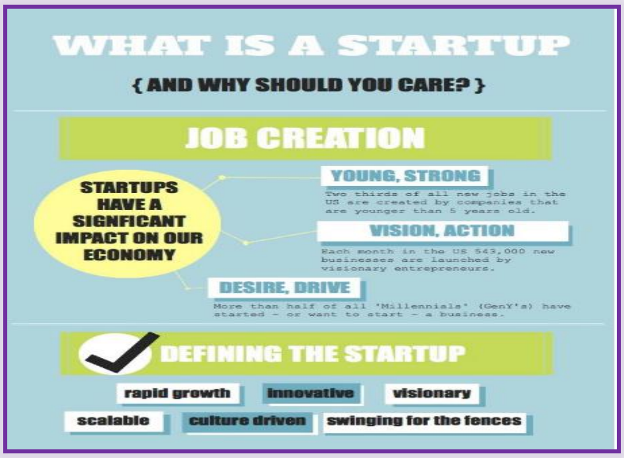

Figure 1.1 – What is a startup [3]

There is a difference between entrepreneurs and startup founders, which is shown in Table 1.1, Figure 1.2-1.3.

Table 1.1 – The differences between entrepreneurs and startup founders [4]

Characteristics	Entrepreneur	Startup Founder
Who	An entrepreneur is an individual who looks for business opportunities and creates ways to make those businesses profitable. Entrepreneurs often invest without the major responsibilities of running the companies as they focus more on earning money from them. Entrepreneurs try hard to create a viable business, not one that has a vague hope of succeeding. There are entrepreneurs all over the world. Even in poor areas of the world, people are entrepreneurs as they sell or trade goods to survive.	A startup founder is different from an entrepreneur as they found a startup company. They create a business that will someday become successful. While they sound similar to the entrepreneur, their goal is different. Unlike an entrepreneur, a start-up founder doesn't have a major financial motive. They create a product or a service to change the world. They want to become famous or show others that anything is possible. While there can be a major payday in the future, they do not start with the goal of making millions.
Goals	With entrepreneurship, it is vital to create a product and be paid for it	Startup founders often do not worry about the selling process at first as they want to generate larger profits in the future. They go out and approach larger investors and focus on getting their business known. Depending upon the nature of your business, you can become successful online without every making a sale. Utilizing social media and other sites to become popular can help your business to become valuable to a major company or investor, and they will approach you about purchasing the business.
The best	An entrepreneur may find himself out of money quickly if the sales are not coming in. They need to have financial backing for the first year or longer as they need to invest money into equipment, employees, and others to start generating products to sell. Some entrepreneurs will work upwards of 80 hours a week just to keep their company afloat	A startup founder usually doesn't need to deal with all the financial day-to-day ongoing of the business. However, a startup founder takes a major risk by tying themselves to the company. Their reputation is at stake as they approach others and start marketing the business. If the business fails, the startup founder can lose everything. Their reputation can be destroyed, and it can take years to repair. Some startups will run for several years before they start to create an identity and make money.

Figure 1.2 –The differences between businesses startup and entrepreneur [5]

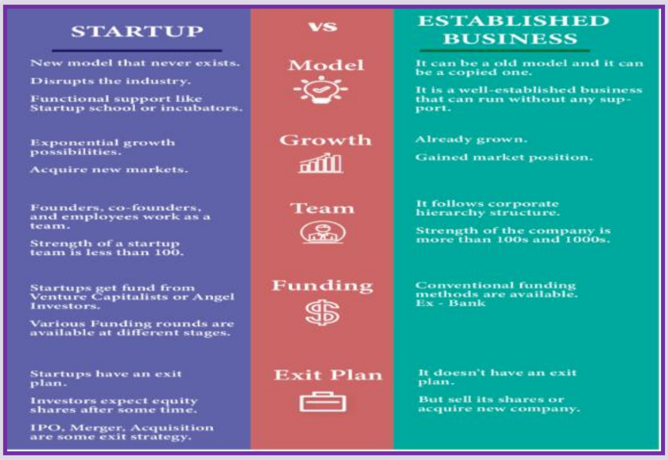

Figure 1.3 – The differences between established and startup founders [6]

The most successful startups in the world is shown in the Figure 1.4 [7]

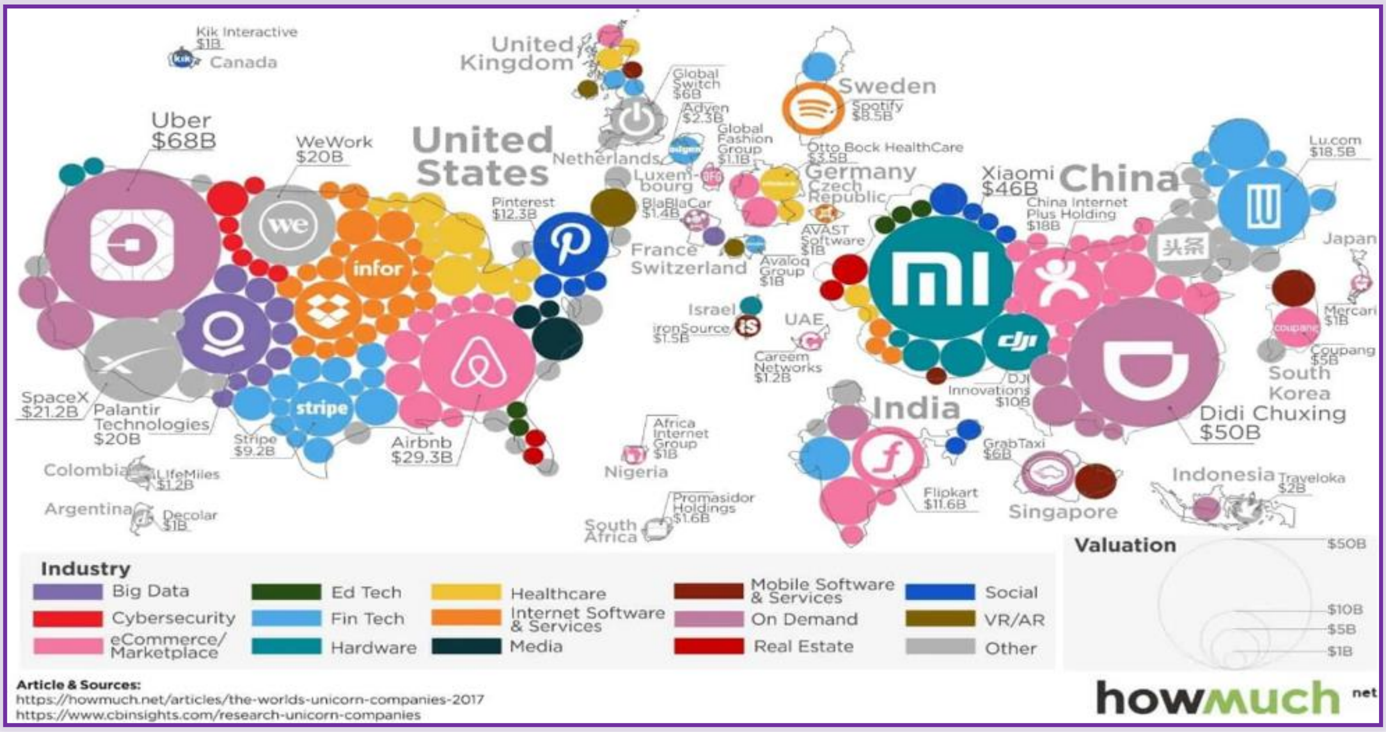

Figure 1.4 – The most successful startups in the world [7]

The most attractive areas of startups illustrated in Fig.1.5 include artificial intelligence, energetics, healthcare, education, etc.

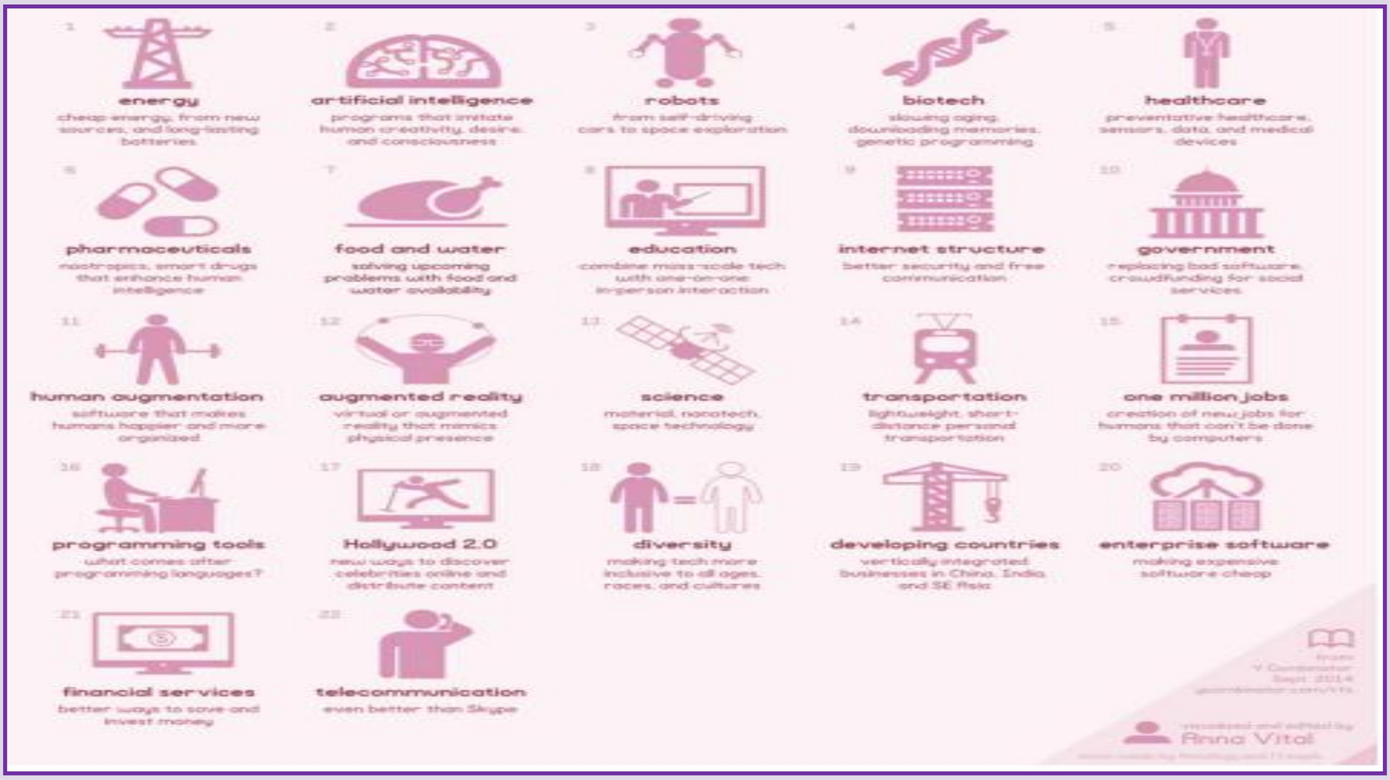

Figure 1.5 – The most attractive areas of startups [8]

To understand the topic of the lecture, it is essential to revise a few definitions.

Unicorn startups	companies that grow fast and reach a capitalization of $ 1 billion or more, while other companies can raise $ 100-200 million for 10-20 years [9]

The main features of unicorn startups [9; 10]**:**

- **Innovativeness** (offers customers a completely new user experience, creates innovative models of behaviour and consumption. So the company transforms the world market and sets new trends) [9];
- **Orientation to the consumer** (60% of unicorn business models aim to make their product easier and more accessible to consumers) [9];
- **Technological paradigm shift (**87% of unicorn startup products are software, 7% are hardware, and the remaining 6% are other products and services) [9];
- **Targeting the international market** (they focus on the international market and create

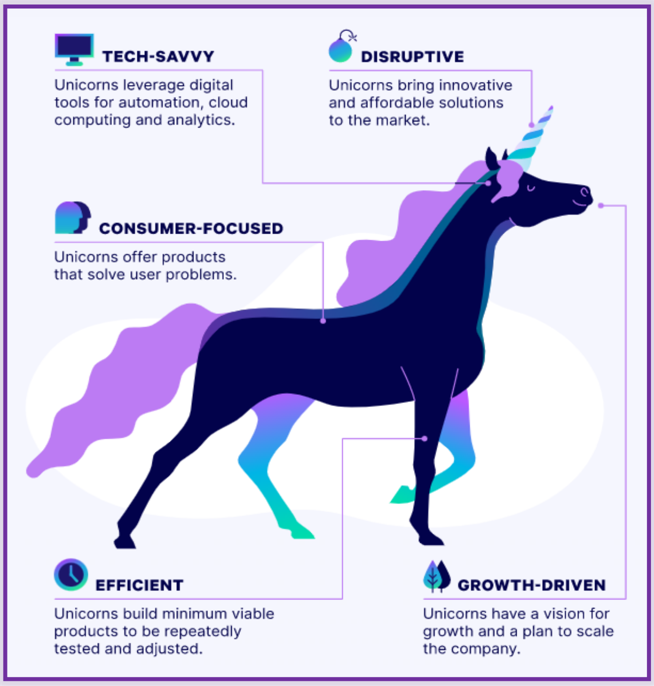

Figure 1.6 – How to become a and promote a global product) [9]. Unicorn startup in 2022 [10]

The next step is to differentiate the main types of startups (see Table 1.2)

Table 1.2 – The main types of startups [11]

Types	Characteristics
1	**2**
	Small businesses are the most widespread type of startup and make up a major part of any country's economy. On the one hand, they do not require too much capital and investment and therefore are easier to start up; yet on the other hand, they do not usually bring a lot of profit and serve their owners to cater for their families. They are not designed for scale, go largely unnoticed by investors and their employees are either family relatives or friends, but they create local jobs and by sheer numbers, they form the core of "entrepreneurship".
	When we imagine startups that bring billions of profits and hit the headlines overnight, we think of scalable startups: Google, Twitter and Facebook are examples. Such startups rely on their owners' belief that someday they will thrive and develop into another giant. The owners are usually visionaries who hope to change the world — and attract rich investors. The concepts with which such startups are formed are powerful and the startups themselves tend to group in innovation clusters.

Continuation Table 1.2

1	2
 Large company startups	Large companies despite their seeming stability and large revenues are constantly threatened by inventive and innovative competition from other large organizations. Together with changes in customer tastes, new technologies and legislation such competition can create pressure for more disruptive innovation. This means that companies have to invest in improving efficiency and also fresh skills and structures, requiring the development of entirely new products that might be sold to new customers in new
 Buyable startups	Buyable startups are companies that were started to be sold to a larger company in the niche. Such companies are usually started with little capital, developed and quickly sold off to other companies when their value peaks. As a result, their owners earn several thousand to millions of dollars and are ready to use the revenue to redo the business and earn more. Such startups usually involve web and application development intending to be bought by internet conglomerates.
 Lifestyle startups	More than any other type of startup, lifestyle ones are about passion as a profession. Their owners usually try to generate profit by living the life they love. The most common examples of such businesses are giving surfing lessons or yoga classes by enthusiasts, starting a photo studio or a gym to serve other people with the same interest and make money.
 Social startups	This type of startups involves usually some form of the charitable foundation. Their goal is to make the world a better place, but, unlike scalable startups, their owners are not driven by the wish for wealth or power. In principle, these startups can be organized as a for-profit, non-profit or hybrid and they usually depend on donations from like-minded people.

If you still doubt you have a desire to create a startup, see Figure 1.7.

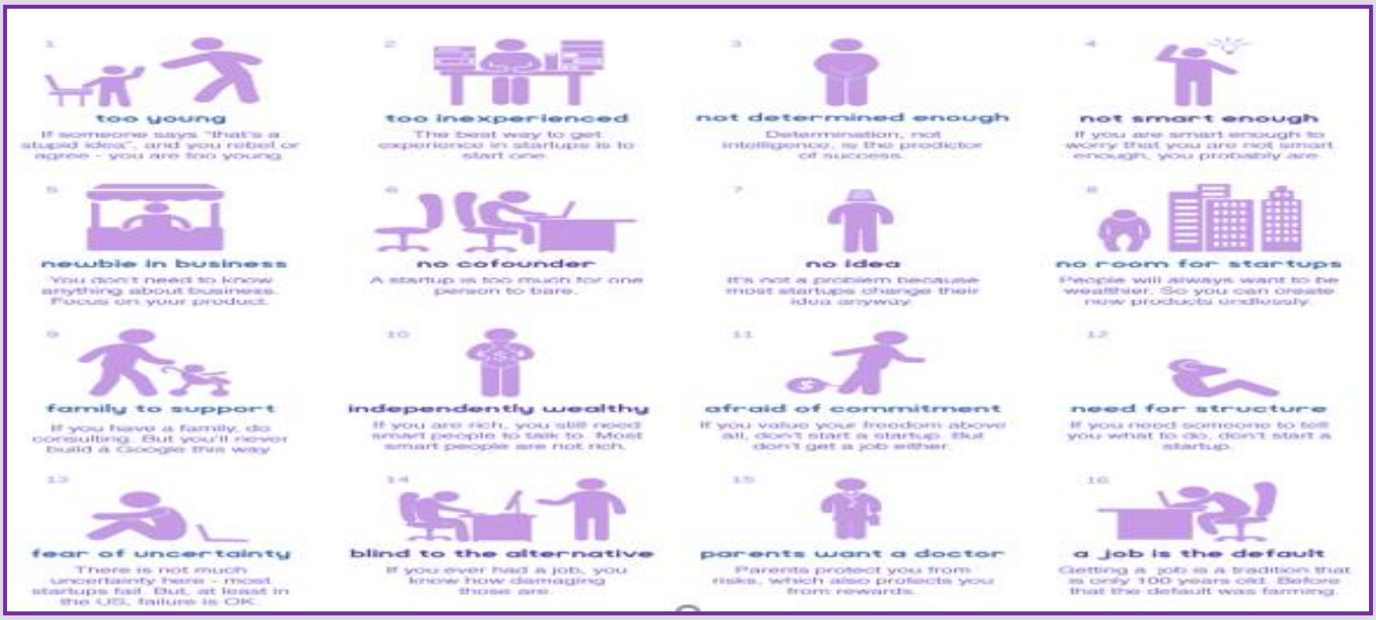

Figure 1.7 – Why to Not Not Start a Startup [12]

2 PECULIARITIES OF IMPLEMENTING A STARTUP AS AN INNOVATIVE PROJECT

There are a few features of the startup project which are described below [11]:

- **New product development.** The innovative idea of the startup involves the development of a new innovative product that interests entrepreneurs and investors as a prospect of market monopoly.
- **Project uncertainty, high risks.** Due to the lack of public perception of the project, the increased influence of the external business environment and the significant level of competition among existing market players.
- **Uniqueness and demand for business ideas.** Most venture capitalists and entrepreneurs argue that the lack of market interest is the key reason for the failure of startup projects.
- **Project team.** Key team members must have experience in the chosen field, the ability to establish relationships with business partners.
- **Startup speed and rapid development.** The average development period of a startup project is 3-4 months, in the field of high and nanotechnology - up to a year.
- **Scalability.** Scaling involves expanding the business, making extra profits if you repeat a successful experience
- **Resource constraints.** Startup projects are limited in both resources and access to them. One of the most difficult problems is attracting investment.

Training of practical skills will include the task that will require using the Changelab accelerator methodology (see Table 1.3).

Table 1.3 – Stages and characteristics of a startup project [13]

№	Stages	Characteristics
1	Project initiation	A decision is made on the project implementation, an information map of the project is developed and approved
2	Fundraising	The result of the stage is the attracted resources for the project implementation
3	Project implementation planning	As a result of this stage, a project implementation schedule should be developed and approved
4	Project implementation planning	Execution of all planned actions
5	Monitoring and control	The stage is carried out in parallel with the implementation stage and involves monitoring the achievement of project control points, as well as the implementation of corrective actions
6	Completion of the project	Documentation is compiled on the results and effectiveness of its implementation to verify consumer interest in the product, its benefits and attitudes to the minimum viable product, as well as a thorough examination of the selected and formed business model

Fundraising	a professional activity, the mobilization of financial and other resources from various sources for the implementation of socially significant and scientific research non-profit projects, which requires special knowledge and skills of a fundraiser that can influence the adoption of a positive decision from a donor [14]

Several types of investment support involve fundraising activity [15]:

- **Patronage** – provided in the form of free assistance. A startup is usually done by friends, acquaintances, or other individuals);
- **Sponsorship** – implemented in the form of barter as advertising or other services. The search is carried out through events (social events, exhibitions, etc.). Provided by both individuals and legal entities;
- **Donation** – financial or technical support is provided to non-profit projects on a competitive basis. Implemented by legal entities/individuals, which provide for this type of activity;
- **Grants** – stretched over time targeted funding for a particular project. They are provided both by state organizations and foundations and by private organizations on a competitive basis. Provides reporting on the intended use of funds;
- **Crowdfunding** – funding for which fundraising is carried out on specialized Internet platforms.

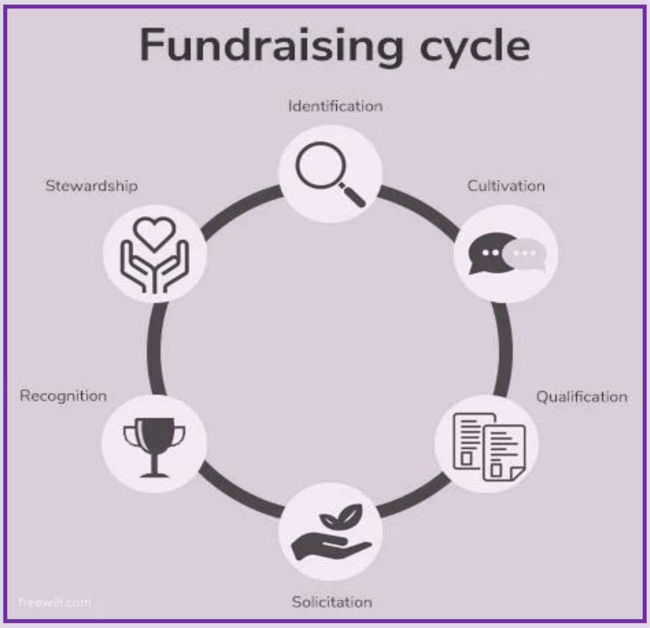

Figure 1.8 – Fundraising cycle [16]

3 IMPLEMENTATION OF A STARTUP AS A BUSINESS PROJECT

To implement a startup as a business project it is essential to know the stages of a startup [17-19]:

- **Pre-Seed** - the stage of investing is generally considered the land of family, friends, and either the very brave or foolish. This is the stage of a startup's life where the company is generally still conceptualizing the true nature of the business venture.

- **Seed –** stage of startups when everything begins to get exciting. The company goes through a series of pivots and begins working towards getting a working product to the marketplace. The goal of this stage in a startup's lifecycle is to get a product finished, no matter how barebones, and get it out to the marketplace. A majority of the financing that is done at this stage is centred around testing, validation, and creation. If startups aren't doing that then they aren't a seed stage company or are likely to have some serious problems moving forward;
- **Startup stage.** Once the start-up has thoroughly canvassed and tested the business idea and it's satisfied that it is ready to go, it's time to make it official and launch it. Many believe this is the riskiest stage of the entire lifecycle. It is believed that mistakes made at this stage impact the company years down the line, and are the primary reason why 25% of start-ups do not reach their fifth birthday;
- **Growth.** When startups hit the growth stage of their lifecycle, they are more or less entering into a time where multiple financial raises may occur. At this stage of the lifecycle, investors should be looking for scaling patterns in how the startup operates;
- **Expansion stage.** Businesses in this stage often see rapid growth in both revenue and cash flow as the blueprint has now been established, but be warned about getting too comfortable. In business, if you are not moving forward you are moving backwards, and without a constant, almost nervous itch or desire to expand, complacency can set in, and you might get caught off guard;
- **Exit.** The exit phase of a startup is when investors can reference the same decision-making process they might have for investing in already public companies. Although these startups aren't there yet, they are close enough that the similarities and reporting structure should start to blend.

The procedure for the implementation of the startup is shown in the figure 1.9-1.10.

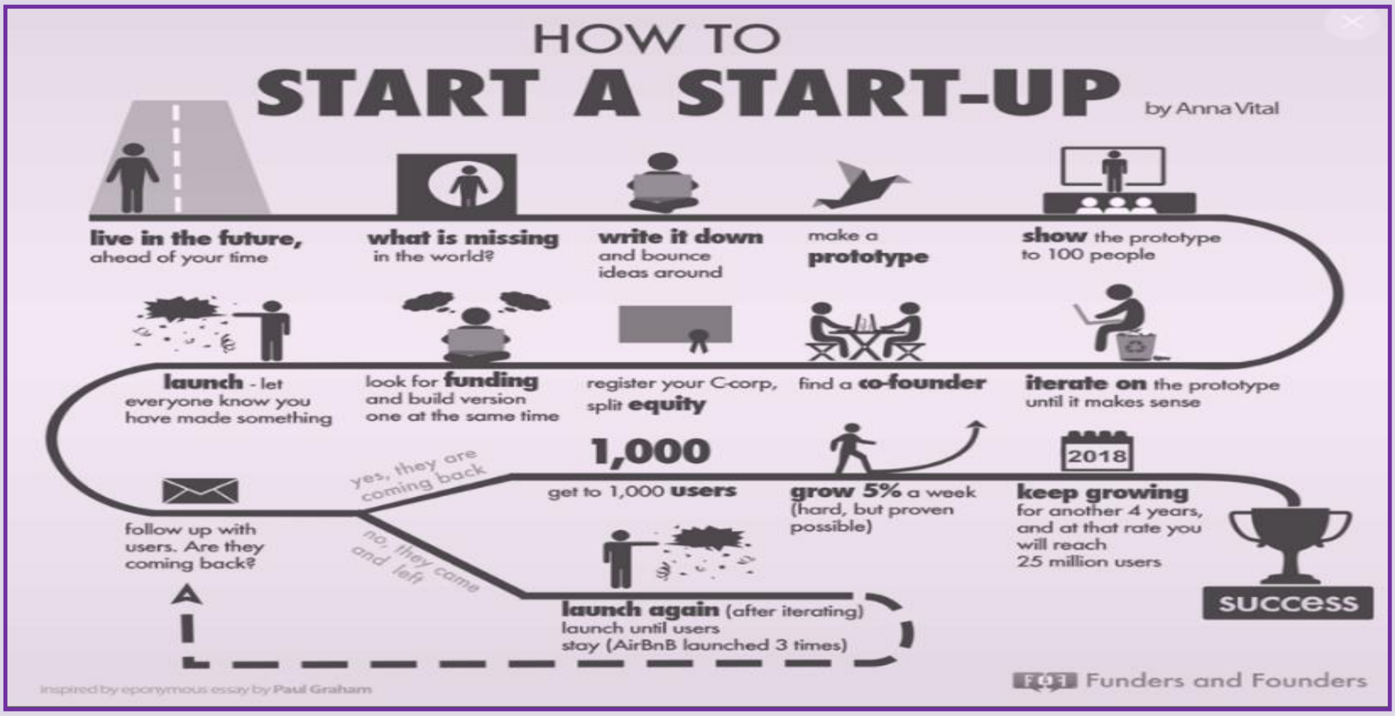

Figure 1.9 – How to start a startup [20]

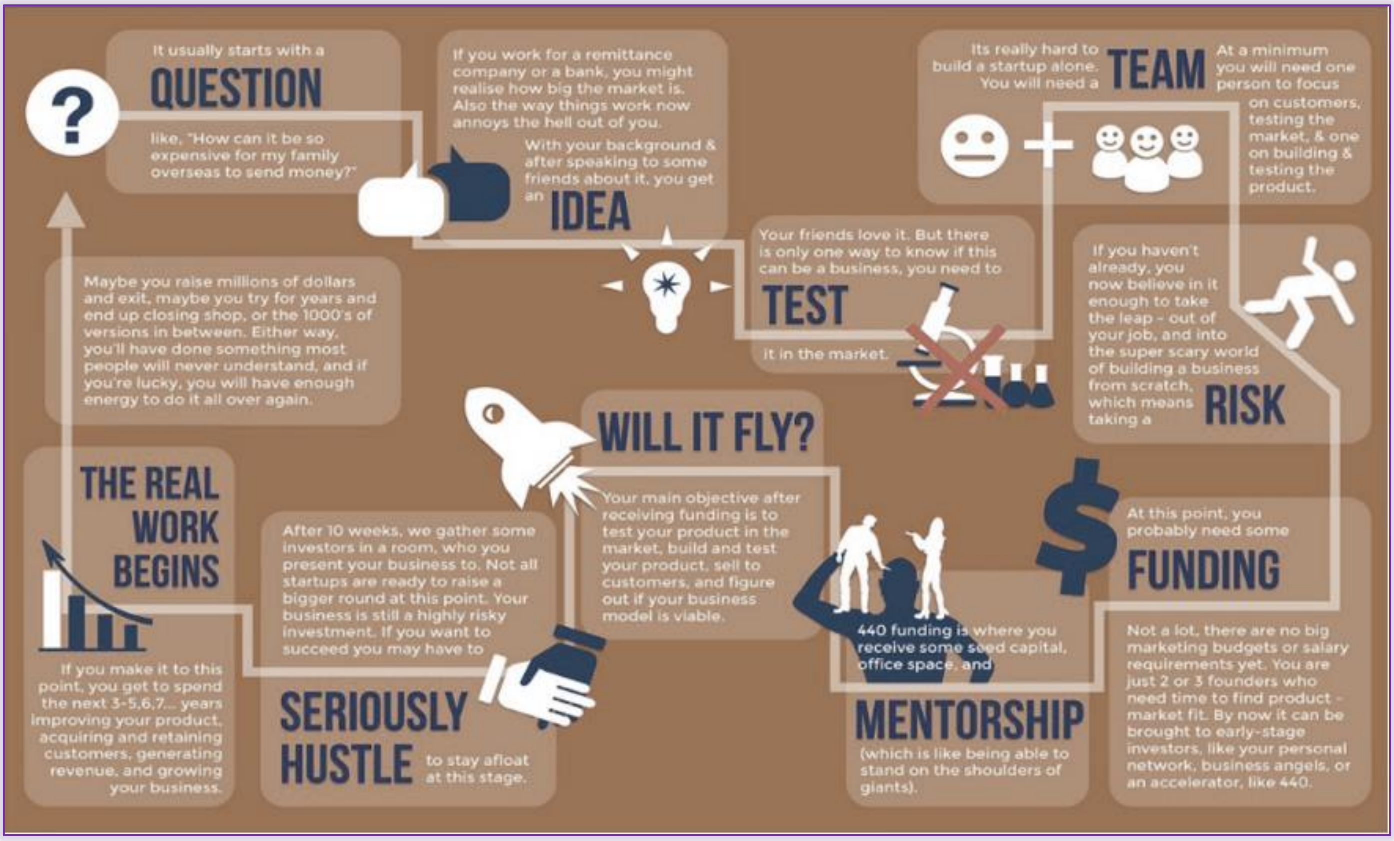

Figure 1.10 – The different stages of building a startup [21]

Top startup mistakes that almost lead to business failure [22]:

1. Lacking Startup Idea Development. Most new companies don't fall flat because the business thought is terrible. The issue is that some first-time business visionaries neglect to design the business before sinking money into the startup. Regardless of how extraordinary a business thought is, it can't prevail without nitty gritty arranging. Set aside the effort to work through each edge of your business thought. Not only will you have a superior handle on how far your business can go but you will likewise lessen your hazard and set yourself up to settle on the best choices as you go [22].

2. Inability to Understand and Comply with Legal Obligations. An amazing number of business visionaries leave the legitimate parts of business startup to another person or, more awful, disregard them out and out. In the long run, this inability to consent to lawful commitments will return to haunt you…and the result can be annihilating. Each business visionary must comprehend and make sure about every single fundamental permit and allow, and set up consistence frameworks for assessments and charges due to the nearby, state, and government [22].

3. Poor (or no) Marketing Planning. Marketing is the backbone of each business startup, and it is more than business cards and a business directory advertisement. A huge segment of your time and cost spending plan ought to be committed to advertising. Poor or no showcasing leads to no sales…equals business disappointment. Get your work done before you dispatch to distinguish your objective markets, make sense of how to best contact them, and set up clear targets and assessments to guarantee your showcasing endeavours are paying off [22].

4. Poor (or no) Financial Management. Business success is about the primary concern – no benefit, no business. Keeping the books accurately is a large portion of the fight. An excessive number of first-time business visionaries are happy to turn over complete duty regarding the books to another person – a perilous choice that all the time prompts business disappointment. Looking into and dissecting the budgetary reports is the other half. It is basic for each entrepreneur to comprehend what the budgetary reports mean and how an adjustment in one territory influences all the others. Income issues are additionally major money-related administration issues for some new companies in the most punctual stages. Great arranging before propelling a startup will explain how much money is available for your business thought should succeed. Regardless of whether you see yourself as a numbers individual or not, as an entrepreneur it is important that you assume liability for learning and applying essential money-related administration abilities on the off chance that you need to succeed [22].

5. Deals Forecast Errors. Establishing your underlying deals gauge can be troublesome, yet there are techniques you can follow to make it as reasonable and precise as could be expected under the circumstances. Very frequently would-be business people construct a business figure around what they might want to sell, as opposed to what they are probably going to sell. While positive thinking is a brilliant innovative quality, an excessively hopeful deals conjecture will leave you with genuine income issues and considerably more prominent trouble in making sure about financing.

6. Under-Capitalization. Not beginning with enough cash flow to help the business through the underlying stages is a typical mistake. By completely arranging your thoughts, you will realize how much capital you have to cover while you assemble your client base, remembering working money to save yourself for ramen noodles until your business takes off. Great arranging will likewise expand the opportunity of making sure about financial specialists, regardless of whether open (banks) or private [22].

7. Poor Web Presence. A compelling web nearness is a flat-out must for any advanced business. Posting a site isn't sufficient. Truth be told, transferring a site without showcasing it resembles posting a promotion duplicate just in your family room – if your objective market doesn't see it, it should not exist. Numerous ongoing new companies have bitten the dust because of the business visionary idea that just presenting a site on the web would drive deals. It won't. Every business, irrespective of whether it is an offline sales store or a business for e-commerce shipping [22].

8. Leaving Critical Tasks «To the Professionals2. Many business people accept that smart thought and strong activities are sufficient to assemble an effective business, so they pick to turn over basic startup assignments, such as promoting and bookkeeping, to redistributed experts. For a few, the business side of business simply doesn't premium them, so they decide to do without learning the subtleties of monetary and advertising the executives. In the end, these decisions reverse discharge. On the off chance that you don't have a clue how the cash functions, you can't settle on the best choices for your business. If you don't know about the results of your showcasing endeavours, you can't precisely conjecture deals and in this manner can't get ready for what's to come. It's your business, you have to know and see each aspect from the earliest starting point, or you should be working for another person [22].

9. No Ongoing Planning and Review. As the real activities of a startup take up increasingly more of a business person's time, it is extremely not entirely obvious the basic assignments of investigating and arranging. Each part of an organization ought to be investigated intermittently, especially the budget summaries and advertising plan. On the off chance that you don't have the foggiest idea where you are or where you have been, it's difficult to know where you are going [22].

10. Absence of Patience. Pit of Despair: Every startup encounters a time frame between being prepared to sell and fabricating the deals. We consider this hole the Pit of Despair because the business visionary is left thinking about whether they have settled on the correct choices and whether the business is ever going to work. Numerous new businesses hit this point and the business person stops in disappointment. New companies don't by and large succeed for the time being. The Pit of Despair ought to be utilized to refine inside frameworks, work through free web advertising procedures (take an interest in pertinent discussions, compose and distribute articles, assemble site substance), and plan for the fate of the business. Try not to let the unavoidable deferral obliterate your odds of progress – plan for it, anticipate it and utilize the time carefully [22].

4 THE LIFE CYCLE OF A STARTUP

Startup development has a life cycle

The life cycle of a startup project	a set of successive phases of development of a startup project that change each other - from the origin of the idea to the functioning of the company as a regular business [14]

According to the Oxford Review of Financial Services [23]:

- 3% of all startups in the US receive investment,
- 0.6% return the investment,
- 0.3% - become successful, returning the investment in 10 times the amount,

0.03% become really successful, returning the investment more than 20 times.

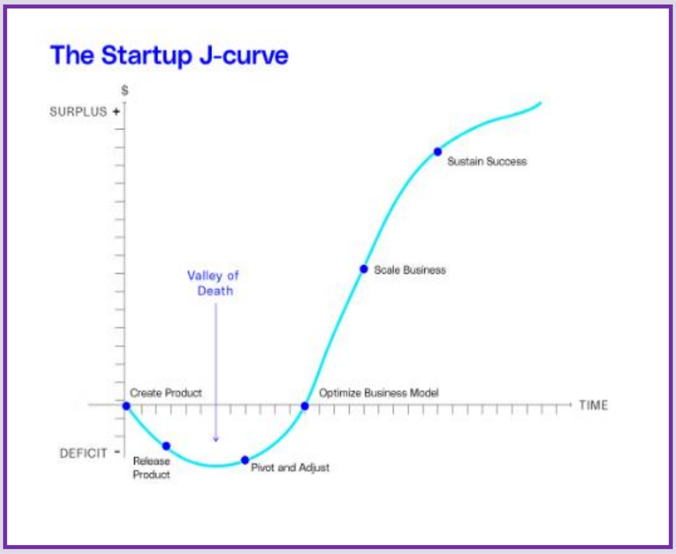

Figure 1.11 – The Startup J-curve [24]

The life cycle is also considered by the stages of the startup Figure 1.12-1.13.

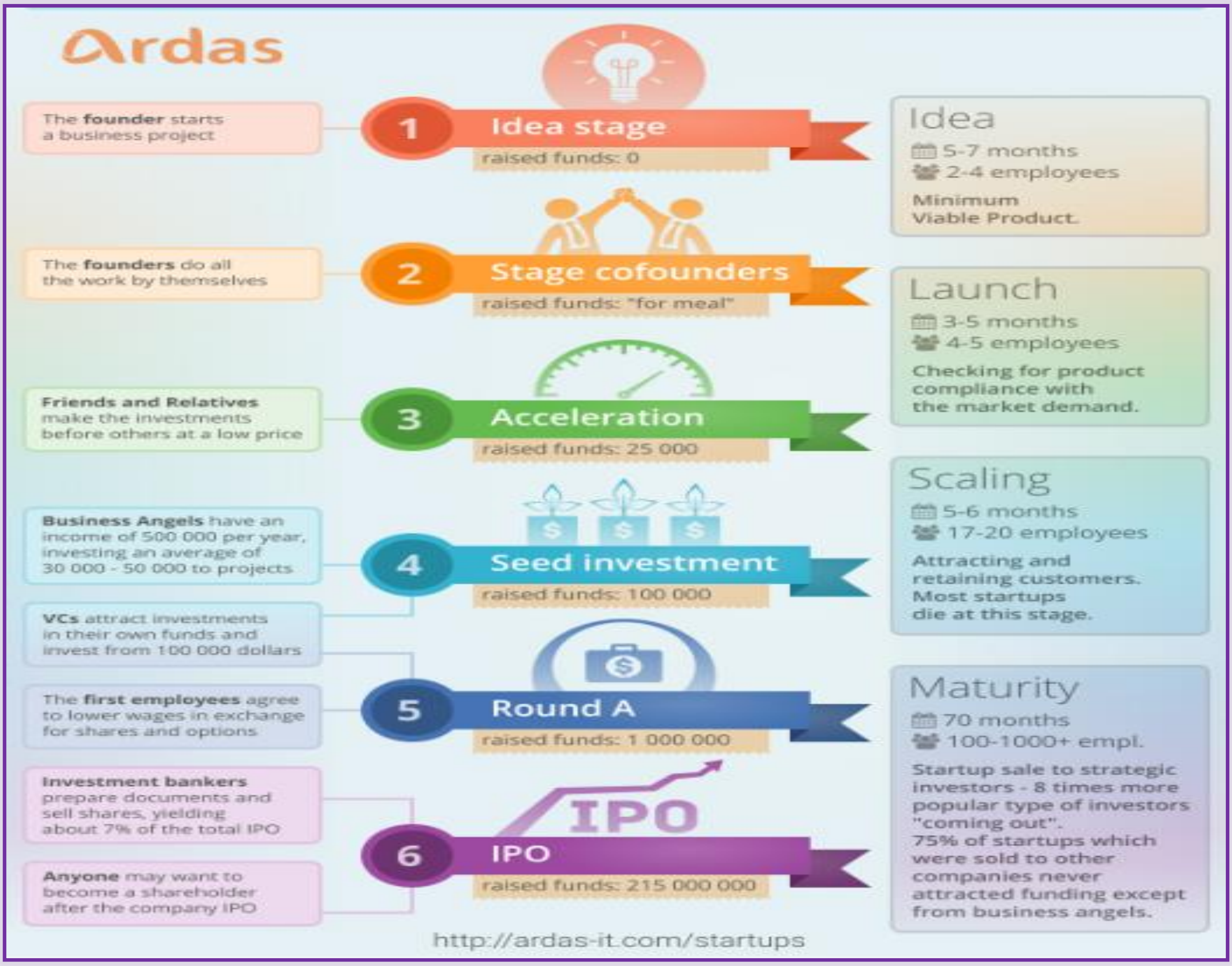

Figure 1.12 – Life cycle of a startup [25]

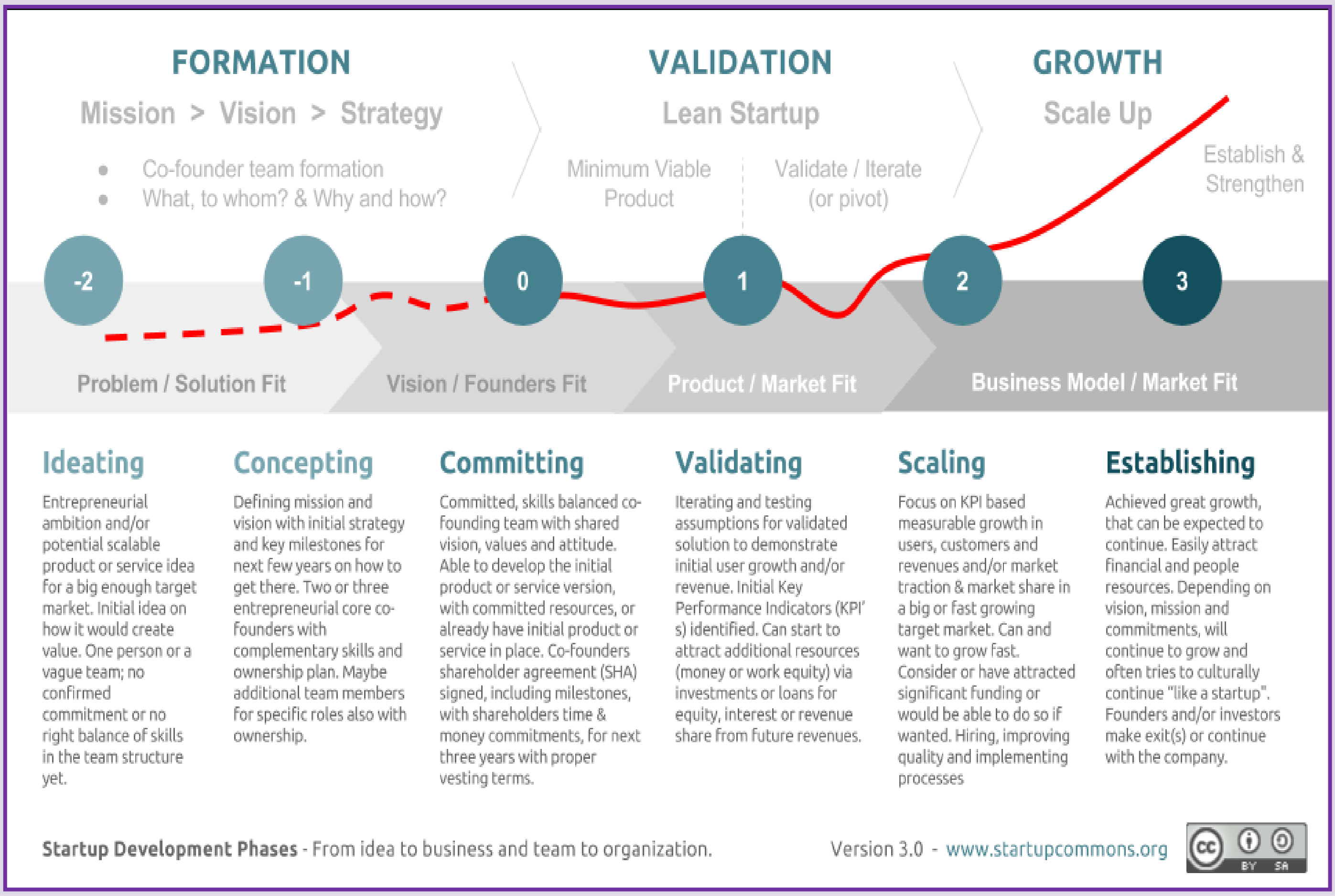

Figure 1.13 – Startup Development Phases [26]

According to different classifications, there are several stages of the life cycle of a startup [27]:

1. **Problem/ Solution Stage.** Once you understand the problem and the customers, you then move into the second stage. Here you figure out the problem that you've identified and come up with a viable solution to solve it. Because you deeply understand the problem, the next stage focuses more on the solution and how that solution will look. A common way to test solutions is to create a Minimal Viable Product or prototype that will allow you to test whether your solution is the right fit for your customer base. What you need to make sure is that you focus on the core problem and the core features that will allow you to solve this problem.
2. **Product/ Market Fit Stage.** This is understanding what solution you need to create and how the market wants it, and how the market will respond to it. This is where you know that you have a viable product, or a viable company, and can take it further into the market. It is playing around with your problem and solution and optimising it, iterating it to an extent where customers are happy and willing to pay for it. Once you have that Product-Market fit and a repeatable sales process, you then look at how to scale it up.

3. **Scale Stage.** This is where we double down on sales and marketing tactics and look to grow our companies, both domestically and internationally. Now as you can see, in the first two stages: the problem/customer and the problem/solution, you focus on iteration. As you're still exploring the market and your product, you want to iterate with what you learn. You need to iterate with the feedback that you gain from customers. For Product-Market fit as well as Scale, you're not looking much at iteration, but rather optimisation. This is where you optimise your product for the wider community, internationally and domestically.

II. PHASE I: (PRODUCT / MARKET FIT) [23]:

Stage 0 (preparatory): idea. At this stage, preparatory work is underway to understand whether the chosen idea is worth implementing [23]:

- ❑ **Actions –** consumer research, market analysis, product development, team building, investor search
- ❑ **Financing –** missing
- ❑ **Result –** road map, product plan, risk assessment, understanding of customers and their needs, general understanding of promotion and sales channels

Stage 1: Minimum Viable Product (MVP). The startup product is brought to the minimum working version at this stage [23]:

- ❑ **Actions –** bringing the product to the MVP version, team development, preparation of a presentation to investors, clients
- ❑ **Financing –** volumes: 10-50 thousand dollars, sources: 3F: Family, Friends & Fools
- ❑ **Result –** the market, a well-coordinated team (2-3 people), the first version of a working product, the first customers and feedback, a strategy for entering the market, an understanding of which of the investors to communicate with. Registration in case of creating a company in which you can invest

Stage 2: Product and its compliance with the target audience's expectations (English Product / Market fit). The stage confirms the product configuration to the requirements of consumers and the probability of using the selected business model [23]:

- ❑ **Actions –** analysis of product compliance with consumer demands and needs, search for business angels, attracting their investments, further refinement of product launch, acceleration;
- ❑ **Financing –** Volumes: 200-300 thousand dollars, sources: business angels and other round A investors (Angel / Pre-Seed Round);
- ❑ **Result –** convincing key indicators for attracting and retaining audiences, clear market interest, a full-fledged competitive product.

Market Fit	the product's compliance with the target audience's expectations, a harmonious combination that allows you to bring conversions to a new level and ensures stable revenue growth [28]

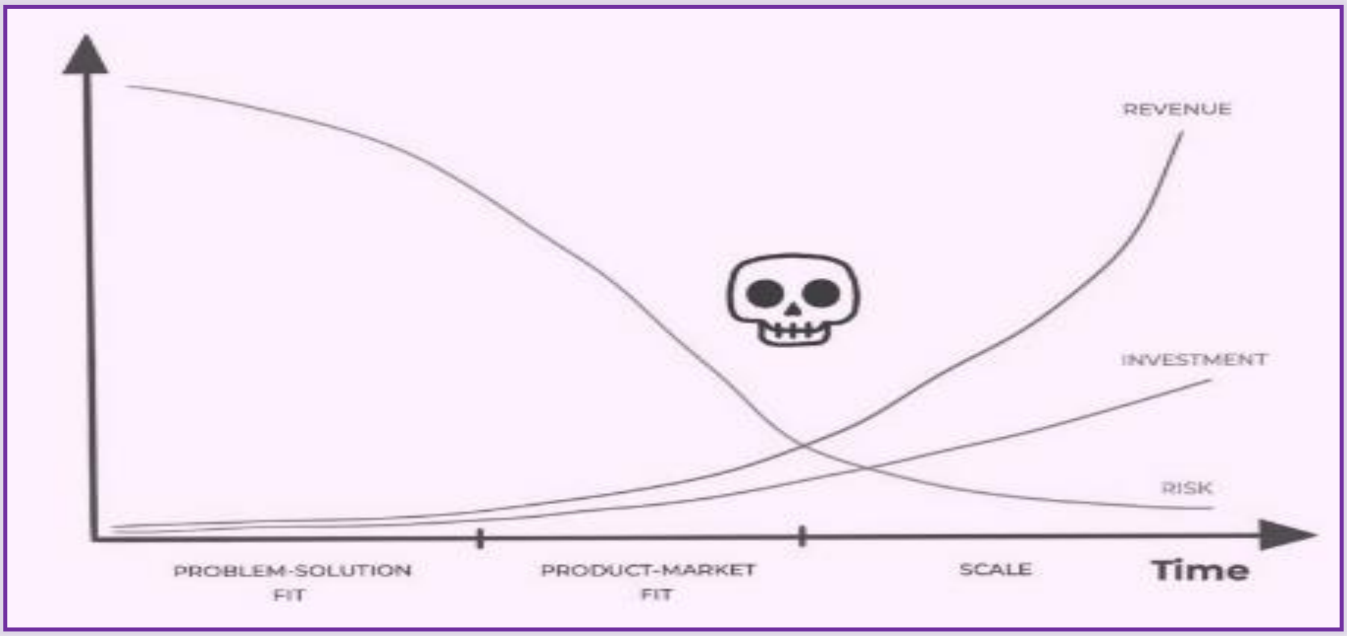

Figure 1.14 – Product Market Fit [29]

Stage 3: Traction. The stage confirms the interest of the audience through its growth and the viability of the product based on increased sales [23]:

- **Actions –** *achieving sustainable growth, possible access to foreign markets, testing sales channels, team scaling*
- **Financing –** *volumes: 500-1500 thousand dollars, sources: several tranches from Angels and Venture investors (convertible note)*
- **Result –** *the company's headquarters is in a key market, 6 months of stable growth, a strong team, well-established channels of promotion, income.*

Based on the results of the first phase of the startup as a business project, a startup company with the characteristics of an enterprise is created [23].

Traction	growth in the number of consumers or revenue over a period of time, reflecting the demand for the product and demonstrating the success of the startup [30].

PHASE II: GROWTH AND SCALING [23].

It is characterized by business development, attracting a significant amount of resources and focusing the startup company on capturing the market up to a monopoly position.

Stage 4: Growth and strengthening of positions. Since the beginning of the stage, the company has ceased to be a startup, finding all the necessary resources, target audience, investment and is considered a full-fledged business [23].

- **Actions –** building business proposes, expanding staff, developing development strategies
- **Financing –** volumes: 2-5 million dollars, sources: investors and self-financing
- **Result –** fully developed strategy and business processes, created a basis for further scaling, sales are measured in the tens of millions per year

Usually at this stage, there is a certain redistribution of the company. New investors want to get a share of at least 20% of the value of the startup company. Investors who were donors in the previous stages - to join the founders [23]. There is a division of the company among employees [23].

Stage 5: Scaling and capturing markets. The stage is characterized by strengthening its position in both domestic and foreign markets [23].

- **Actions –** occupying a monopoly position in the market, settlement of property rights to the company, settlement with investors;
- **Financing –** volumes: 10 million dollars, sources: investing based on the sale of shares
- **Result –** the company strengthens in the market/markets as a leader, grows steadily, shares are placed publicly, investments are returned by investors.

A startup company becomes a monopolist or enters an oligopoly, can scale to a multinational company [23]

Stage: Initial Public Offering, IPO [23]:

- Creation of a public company, sale of an investor's share to another strategic investor (M&A);
- Initial Stock Market (IPO) or Management Buy-Out (MBO).

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TOPIC 2

BUSINESS IDEA AND VIABLE PRODUCT OF A STARTUP PROJECT

CONTENTS OF LECTURE

①Business idea of a startup project, sources of its formation.

②Diagnostics of the viability of a startup idea.

③A minimally viable product.

④Verification of minimum viable product

1 THE IDEA OF A STARTUP, THE SOURCES OF ITS FORMATION

There are key rules for forming startup ideas:

- No rules;
- Manifestation of the idea in the field in which the startup is most aware;
- Manifestation of ideas in the domestic sphere and problems faced by the startup (including in leisure and hobbies).

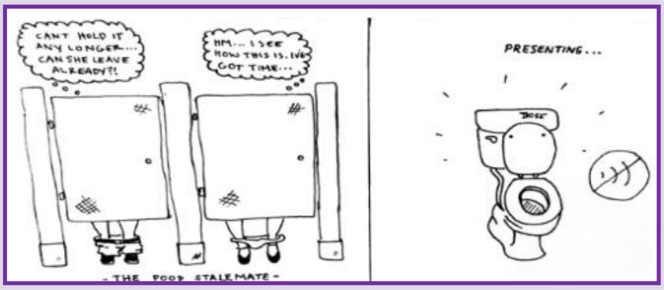
The idea of a startup	a non-trivial idea that can interest consumers and investors, and later turn into a business idea, become a stimulus for the development of innovation and the company [1].

Surely, not every startup idea is a good idea. See examples below what can be bad startup ideas [1]:

Bad Idea #1: Perspective Bot

PerspectiveBot uses the latest artificial intelligence technology to ruthlessly belittle your mundane first-world problems. With over 1 million humbling facts, Perspective Bot can bring even the most out of touch people back to cold hard reality. Starting at $79.99 [1].

Bad Idea #2: Noise-cancelling toilets



For years the corporate restroom has been a place of great controversy. A place where a typically relaxing activity can quickly devolve into a nerve-racking standoff upon the arrival of undesired company. But not for long oh weary bathroom goer. Introducing the noise cancelling toilet—by Bose [1].

Bad Idea #5: Paternity Clothing

The one-stop shop for expecting dads (yes, we think dads can be expecting too!). Each shirt is made of 100% cotton and comes with a third-child guarantee. Paternity t-shirts make the perfect gift for that expecting dad in your life [1].

EXAMPLE [2; 3]:

Rapidly growing urbanization provides ample opportunities for manufacturers of electric bicycles, scooters and skateboards. According to the UN, by 2030, more than 60% of the world's population will live in cities. Micromobiles will become a popular alternative to land and public transport.

- **Why it «takes off»**

Travelling by electric transport (bicycles, scooters and skateboards) is convenient and fun. The recent purchase by the Ford automaker of the startup Spin (short-term rental of electric scooters) has attracted increased attention to this industry.

- **Required knowledge and skills:** startups need to monitor technological breakthroughs in the production of small batteries. If you intend to rent a mini-vehicle, take care of creating software for tracking and managing the subscription to your service.
- **Barriers and difficulties:** production of micro mobile devices on a sufficient scale will require significant financial investment
- **Competition:** consulting company Frost and Sullivan predicts the emergence by 2020 of more than 150 new models of micromobile vehicles (including microcars).
- **Cons:** in some countries, electric scooters and electric bicycles are banned, in others the rules for their use have yet to be established. However, the legal status of transport in the countries will be determined soon.
- **Main players:** giants in the field of electric scooters - Bird and Lime. Everyone has their fleets of vehicles in more than 100 cities.

There are three primary paths to a new business idea (beginning) [4]:

1. The spontaneous idea [4]. It hits you when you're in the shower, driving in your car, talking with friends, or doodling during a meeting. The dots suddenly connect in a new way and you have an epiphany ... your sudden insight is surprising and exciting, and the value of this new idea seems obvious. You can't believe nobody else has thought of it before! So you go online and poke around ... and ... most of the time, it turns out that someone has thought of it before. But, you still might be able to do it better ... so you keep thinking about it and a day passes, and you start to realize some problems. You share it with a few trusted friends and get feedback about a lot of things you hadn't thought of yet (e.g., nobody pays for it, it's a tiny market, etc.). It could turn out to be a great idea, but you don't know, you have a good job, and it is uncharted territory ... so you let the dream slowly die away. Cheer up, that was probably the right decision [4].

2. The insider idea [4]. Maybe you've spent the last seven years building enterprise software for airlines, and you've noticed some voids in the product stack or issues with how your company brings it to market. You point these deficiencies out to your bosses, but there are other company priorities and nothing changes. Or, say your company pays vendors a lot of money to do some work, but nobody ever seems happy with the results ... and you see a way to do it better for less. Or, maybe you witnessed your company kill an amazing new product or feature not because testing didn't show user interest, but for political or organizational reasons. You see an opportunity to do it on your own, so you start moonlighting on a solution. You gather more specific information, talk to trusted co-workers and industry contacts, and determine the viability of solving the problem. The good thing is, you're already knowledgeable and well positioned/networked in the business space ... so good luck to you! [4].

3. The deliberate idea [4]. In this case, you aren't starting with a business idea. Instead, you're starting with a desire to create a new business and become an entrepreneur. You may be ready to quit your job and go for it whole-hog, or just start it on the side of your desk ... but you're looking for the right business idea to pursue (which could be a business related to your work environment or industry, as in #2). While the first two paths may happen unintentionally, the third is for people who know they want to start a company, but don't yet have their idea. If you fall into the third group, then this answer is for you [4]. Ideation is fun and free, but it is the easy part of the process. Execution of your idea separates the wheat from the chaff and is where most people fail. That said, coming up with the right idea will improve your odds of successful execution Hidden needs are available, but consumers do not even guess about them until the startup offers a solution [4].

The resources of the idea include the following [4]:

1. Address a significant customer pain point. The benefit of being a painkiller company is that your target customers are probably looking for a solution to whatever problem is causing them the pain. Maybe they've tried other products or even invested time and money trying to create their solution. If you're looking at several customer pain points that you could address, try plotting them on a good old two by two chart with intensity and frequency on the axes. The problems in the top right quadrant are likely to be the best ones to go after.

2. Non-obvious. Startup ideas can be placed into two sets in a Venn diagram. The first set represents all ideas that sound crazy. Most people's initial reaction to these ideas is "That wouldn't work" or "You couldn't make a business out of that". The second set is a good idea. They could be the basis for a successful product and a successful business.

3. Address a large market. Startup founders should aim to serve as large a market as possible (and most definitely a global, not just domestic market), and ensure that their product creates meaningful value for customers.

> *Google uses the "toothbrush test" to evaluate potential new products. It asks: Is this a product that just about everyone on the planet will use twice a day?*

Startups should focus on a narrow enough group of customers that every customer will be an advocate and recommend them to others. Referral is the cheapest form of customer acquisition, and for this reason, a startup should have a small number of early customers who love their product than many customers who just like it a bit. Over time, the product offering can be expanded to broaden the customer base.

4. Disrupt slow-moving incumbents. Disruptive innovation – «A process by which a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves up market, eventually displacing established competitors». Startups need to build a product or service that delivers just that, avoiding the temptation to add other bells and whistles.

Methods of forming an idea. There are various methods of forming ideas [5-10]:

1. Creativity. The Stages of Creativity [5]:

- **Preparation.** Preparatory work on a problem that focuses the individual's mind on the problem and explores the problem's dimensions;
- **Incubation.** Where the problem is internalized into the unconscious mind and nothing appears externally to be happening;
- **Intimation.** The creative person gets a «feeling» that a solution is on its way.
- **Illumination or insight.** Where the creative idea bursts forth from its preconscious processing into conscious awareness;

- **Verification.** Where the idea is consciously verified, elaborated, and then applied.

2. Brain storm [5]:

- **BVSR** is a way to test and filter ideas to find the strongest one. Every brainstorming process involves two steps: ideation and evaluation. Ideation is just another word for "blind variation" and evaluation is just "selective retention."
- **BVSR** has two parts: blind variation and selective retention. Blind variation is just another word for novelty and selective retention is just another word for usefulness. Evolution and BVSR processes lead to useful novelty.

3. Idea generation system. Idea generation system requires different stages that can be seen in the text below [4]:

Step 1 - Decide what is your primary motivation or personal goal **for starting this (1 hour) [4].** Create a new spreadsheet and write down your goal in the first tab. It may seem like overkill now, but if you take a break from this project, you'll want to be able to have it as a frame of reference when picking it back up [4].

EXAMPLE [4]:

- Fun or hobby-based business (e.g., making bracelets to sell on Etsy);
- Part-time lifestyle business that could become full-time (e.g., running a wine-investment club);
- Full-time startup hoping for acquisition exit in 3-5 years (e.g., It's like Airbnb for fish, get it?);
- Large, cash-flow positive business (e.g., B2B furniture import and delivery business);
- Path to industry credibility and networking over financial gain (e.g., scriptwriting peer-training exchange for aspiring comedy writers).

Step 2 – Frame the problem (2 hours). If you try to just write down a list of ideas from scratch, you'll probably be underwhelmed with the results. You'll likely hit a block after a handful of ideas, and what you come up with will be based on your predispositions ... i.e., if you are a gamer, you'll have ideas for games. If you work in cloud computing, you'll have ideas for new approaches, etc [4]. This isn't a bad thing, but it is limiting. Instead, make a deliberate effort to facilitate your brainstorming. In the spreadsheet you created in Step 1, create a new sheet and type out a list of 15-20 different categories of customer/audience types in the first column. Don't start with the usual demographic descriptions like, «18-35 year olds in urban environments making over $100k per year." Instead, use descriptive phrases that represent specific groups of consumers and/or businesses with unique challenges and needs. These tend to be easier to conceptualize so they are more useful and helpful for generating ideas [4].

Category	Audience/Customer	Subscriptions	Collaborative consumption	Daily deals	Auctions	P2P exchange	Lead generation	After-sale care
B2C	Retail insurance agents							
	Stay-at-home mothers							
	Startup founders raising money							
	Aspiring Hollywood directors							
	Cyclical dieters							
	Independent medical contractors							
	Ex-pats in Asia							
	News junkies							
	Gamers							
B2B	Youth sports teams							
	Roof repair companies							
	Wedding planners							
	City planners / permitters							
	Trade-show organizers							
General Industries	Dating							
	Public transportation							
	Residential real estate							

Figure 2.1 – Frame of the problem [4]

Next, along the first row of your spreadsheet, type the business or pricing models (i.e., the type of business) that you could apply to these customers/audiences. There's no exact right or wrong approach, and I'm using the term "business model" very liberally here. Not all models will apply to each group and some overlap is okay. Remember, you're doing this to help you brainstorm and compare new business ideas, not to become an expert on business models [4].

Step 3 – Generate ideas (4-6 hours). Your spreadsheet is now a grid with customer/audience types down the side and business/pricing models across the top. Each box where the two lists overlap is a place to brainstorm ideas. Go through each square in this grid. You can dismiss many of the boxes in a few seconds (e.g., Business Intelligence for stay-at-home moms?), but it is worth giving each consideration as you'll inevitably come up with ideas you didn't expect [4].

The easiest way to do this is go column by column. Pick a business or pricing model, think of a few existing businesses that use it, and spend 5 minutes reading about them to get your head into that space. Then, apply it to each potential customer or audience group: how could it fit? What are their priorities, what gets in their way, where are they wasting time or money, what do they depend upon? Browse discussion forums where they participate or are discussed. See what they care about, what people complain about. Search online for other companies that already compete to offer them products and services. Try to come up with at least 6 solid ideas. Then, create another tab in your spreadsheet and list all of your ideas there. In addition to writing down the ideas themselves, you should state the goal, audience(s), and model(s) for each one. These will change over time, but it is good to start grounded with something you can work-back towards [4].

Audience	Business Model	Idea	My Goal
Aspiring hollywood directors	Collaborative Consumption and Marketplace	The AirBnB for aspiring hollywood directors and producers, allowing them to monetize underutilized assets/equipment, props, costumes, etc.	Build credibility in Hollywood and make connections. $ is secondary.
Gamers	Auctions	Create auctions that sell specialty / custom experiences for hard-core gamers, benefiting the gamer and the game producer (e.g., beta testing for popular games, 1st in USA to play a game, game character naming, etc.)	Get bought out after working on this full-time for 3-5 years
Cyclical dieters	Subscription and after-sale care	Partner with diet brands to offer their customers an 'accountability partner' service that provides encouragement and follow-up via phone calls or in-person visits for people that aren't meeting their goals (i.e., fail to log their progress in app).	Get bought out after working on this full-time for 3-5 years
Roof repair companies	Lead generation	Predict roof repair demand using weather models, and canvas likely areas to generate leads for roof repair companies	Lifestyle business...will have a second job until this gets off the ground

Figure 2.2 – Generate ideas [4]

Step 4 – Evaluate ideas and narrow them down (3 hours) [4]. The next step is to evaluate your list of 6+ ideas against a set of criteria that will help you narrow down to the most promising three [4]. For example [4]:

EXAMPLE [4]:

Heat in this space: E.g., Some answers on Quora

Your experience and connections: Do you have experience in this industry or with similar businesses? Are you well-connected with friends or family that operate in this space? Any advantages, or disadvantages?

Alignment with goals: How well does this align with your original goal? Are the upfront capital costs compatible with the level of investment you want to make in this business?

Market opportunity: How big is this market and how unique or differentiated is your approach? Consider competition here, but don't be discouraged by the presence of competition. It is validation that the space is interesting. Also, there are plenty of companies that have come along and disrupted markets that others had written off as already solved, like Google ... after Altavista, Metacrawler, Lycos.

You probably don't have time to deep-dive on 10 ideas, so getting this narrowed down is both science and art [4]. To do this, add a column to the Ideas tab, one for each criterion. Then, for each new column score your ideas from 1-5, with 5 being the best. So, for "Alignment with my goal," a 5 means it aligns perfectly, and a 1 means it doesn't align at all (e.g., your goal is to create a fun hobby business, but the idea is to sell offshore development services to technology companies in the US) [4]. When you're finished, add up the scores and sort your list by the sum of these scores. In theory, the higher the score, the more interesting the idea should be to you. When you're done evaluating your ideas, run them by a couple of trusted friends, and narrow it down to the three that seem most promising. If you do the optional scoring step, don't feel like you must pick the three that scored the highest [4].

Audience	Business Model	Idea	My Goal	Heat in space	My Ex-perience	Aligns w/Goals?	Market Oppty	Total	Notes
Aspiring hollywood directors	Collaborative Consumption and Marketplace	The AirBnB for aspiring hollywood directors and producers, allowing them to monetize underutilized assets/equipment, props, costumes, etc.	Build credibility in Hollywood and make connections. $ is secondary.	3	5	4	3	15	...
Gamers	Auctions	Create auctions that sell specialty / custom experiences for hard-core gamers, benefiting the gamer and the game producer (e.g., beta testing for popular games, 1st in USA to play a game, game character naming, etc.)	Get bought out after working on this full-time for 3-5 years	5	2	2	4	13	...
Cyclical dieters	Subscription and after-sale care	Partner with diet brands to offer their customers an 'accountability partner' service that provides encouragement and follow-up via phone calls or in-person visits for people that aren't meeting their goals (i.e., fail to log their progress in app).	Get bought out after working on this full-time for 3-5 years	2	1	2	4	9	...
Roof repair companies	Lead generation	Predict roof repair demand using weather models, and canvas likely areas to generate leads for roof repair companies	Lifestyle business...will have a second job until this gets off the ground	2	1	1	3	7	...

Figure 2.3 – Evaluation of ideas [4]

Step 5 - Deep dive into those 3 ideas (20-30 hours over a week or two). Now it's time to step out of your ivory tower and start getting street-level information and feedback [4]:

- Call up or email savvy friends and family to get their thoughts (LinkedIn is a great tool for this) [4].
- Give them the 10,000-foot view of your idea and ask for their opinion. (Take good notes on or right after the call; do not trust your memory for this.)
- Ask them what they think is the biggest problem with it, otherwise, they might just say nice things.
- If they're in your industry, then ask if they know of other companies in your space, what they think is broken, etc.
- Ask them who they would speak with if they had your idea. Ask if you can get informational interviews with those people.

Talk to potential investors if possible [4]:

- They don't have to be the people who will invest in your business, but at this step ideally, you have a personal relationship with them. Position your conversation as looking for advice to make a decision, not their money.
- Anyone you know who does angel investing, VC, M&A, etc., will have a trained perspective.

Step 5 A Get smart(er) (6-8 hours) [4]. You will be able to evaluate and refine your ideas 10x faster by engaging in discussions with real potential customers, users, and partners [4]. Do lots of online research. For example:

EXAMPLE [4]:

- ❑ Find out who competes in this space and add them to your spreadsheet.
- ❑ Read their websites, watch their videos, and search for them together, e.g., "Windows AND Android AND iPhone.» These search queries surface articles and blog posts that analyze the broader industry, offering helpful perspective and discovery of competitors you missed. E.g., "Windows, Android and iPhone versus Blackberry."
- ❑ Browse Wikipedia to learn industry vocabulary and organization.
- ❑ Search Quora for questions about the industry or these competitors.

Step 5 B. Talk to potential customers, competitors, and industry partners you don't know personally (5-10 hours). Before you pour your heart and soul into a new venture, you should validate it outside of your friends and family circle [4].

Run an online survey [4]:

- ❑ A quick way to get a relatively large sample of answers from your target customers or audience;
- ❑ There are probably others, but Google Surveys is drop-dead simple to use and it allows you to easily limit responses to your target (e.g., people who buy life insurance).

Talk with your potential customers/audience [4]:

- ❑ If you're targeting consumers, figure out where they spend time and go there to ask them questions (e.g., certain neighbourhoods or coffee shops, concerts, sporting events, conventions, etc.). If you end up in a coffee shop, print a sign on the back of your laptop that says «Your feedback on my idea for a free latte»!;
- ❑ If you're targeting B2C businesses, approach them as a customer, and ask them some questions;
- ❑ If you're targeting B2B businesses, email them or go to conferences that they attend, etc. Try to get an informational interview based on the premise that you're working to improve the industry and do something valuable for them, so you need their expertise and advice.

Start selling before you have anything to sell [4]:

- ❑ B2C: If you're targeting consumers you can do this via the Google or Facebook ad platforms;
- ❑ B2B: If businesses, then send a bunch of emails to potential customers (you can find them online) with a proposed offer and price ... vary the price and offer details and keep track of how people respond (hopefully some do). See if you can get on the phone with one or two of them.

Step 5 C. Write abbreviated business plans (7-10 hours). Bring your thinking and research together into a brief business plan for each idea that still appears to be worth pursuing [4]. If it is obvious from the previous steps that an idea isn't going to work, drop it [4].

Page 1. A one-line description of your idea: [Company] will <do, make, or provide> for <target audience or customer> so that <the value/outcome you bring>.

EXAMPLE [4]:

Lewis Industries will develop customer management software for automotive dealerships so that they can increase loyalty post-sale and sell more services and upgrades to consumers who *buy vehicles.*

Description of your products and services: 150-word description of the problems you are addressing and the scenarios you will focus on first.

Page 2. How and when you monetize [4]**:**

- Will you start as a free service for everyone, and hope to monetize later through premium offerings (freemium) or advertising (ad-supported)? Or, will you start charging immediately, or never?
- Distribution model: How will potential customers or users discover you? What marketing and/or partner channels do you plan to use?
- External dependencies: For what core things will you rely on others to provide, e.g., a database of all vehicle makes and models, and option packages since 1970? You should have this list from previous steps, and don't worry about generic things

Page 3. Estimated cost to reach your Minimum Viable Product (MVP). The main reason to figure this out during the ideation stage is that it will impact how you approach starting the business, which may or may not align with your goals [4]**:**

- **What** are the major external dependencies and how much will they cost ($20,000 for the automotive database)?
- **How much** development and design do you need to do for this idea, any large capital costs (a fleet of trucks)?
- **Summary of the idea's** strengths and weaknesses (1-2 sentences for each)
- **Research:** What did you learn from your survey, calls, emails, and online research that supports or challenges this idea? Positive if 67% of people surveyed say they will pay $10 for this, less so if 4 of the 5 companies you spoke with have no interest in what you're proposing.
- **Industry/macro trends**: Will you have a tailwind or a headwind doing this? List out the specifics (e.g., My largest customer, retirees, is estimated to grow at 10% per year for the next 20 years.).

- **Your knowledge and connections**: You'll have a good sense for this, but write it down anyway. I have spent 4 years working on software for this industry, and x, y, and z from college are potential buyers.
- **Risks:** Are you taking dependencies where the solution isn't yet clear? How competitive is the market, and what advantages do competitors have ..., is competition not a deterrent for x reason?

Step 6 - Pick the best idea and get started [4]

4. The novelty-utility matrix [5]. It's probably an oversimplification, but we can divide startup ideas into four basic categories [5] (Fig. 2.4).

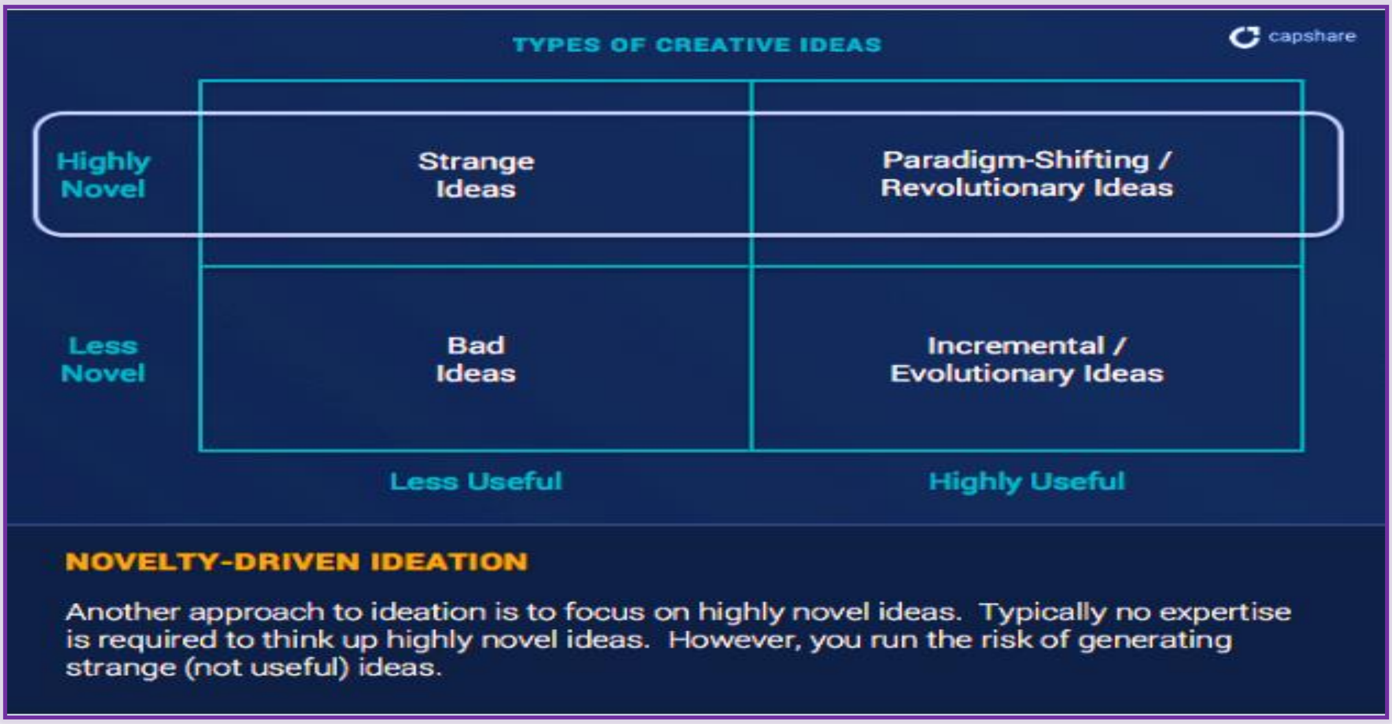


Figure 2.4 – The most successful startups in the world [5]

We can also use the idea matrix to distinguish between two different types of startup ideation: those that focus more on utility and those that focus on novelty [5].

Paradigm-shifting / revolutionary ideas Incremental/evolutionary ideas.

If we limited our brainstorming only to «highly useful» ideas, we would only come up with two kinds of ideas [5].

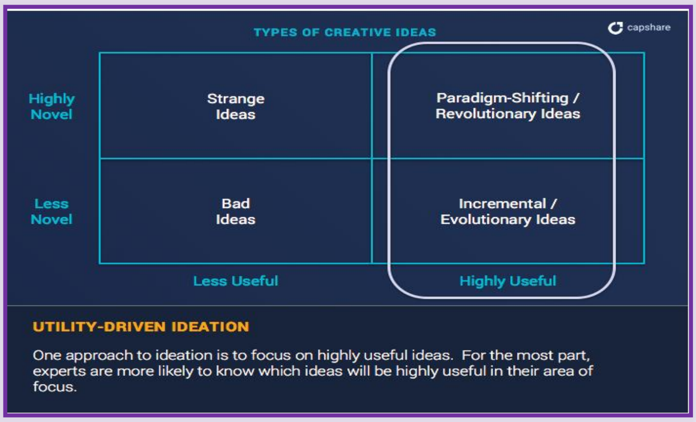


Figure 2.5 – Types of creative ideas [5]

Paradigm-shifting / revolutionary ideas Strange ideas.

If we limited our brainstorming to only ideas that are “highly novel,” we would come up with these two kinds of ideas [5].

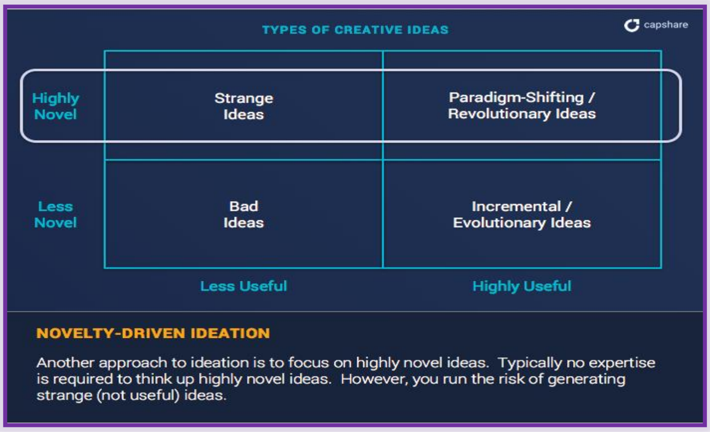
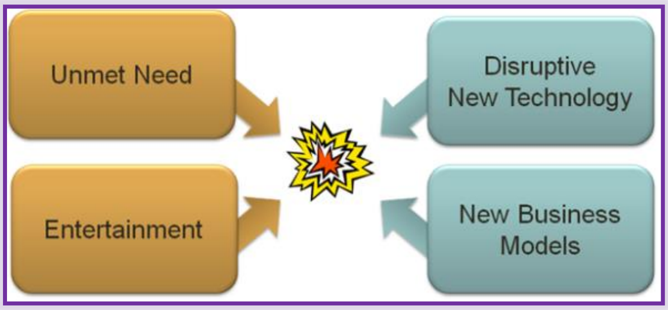


Figure 2.6 – Types of creative ideas [5]

5. **A framework to spur creative thinking (beginning) [6].** For creative thinking, it is necessary to understand that some needs can not be met and there are some new technologies that may help with the issues. See the information below (Fig. 2.7-2.8, Table 2.1) [6].

	Unmet Need / Pain	Disruptive New Technology
Google	Better way to find things on the Internet	Invention: Page ranking based on inbound link analysis
Cisco	Way to connect computers together to allow them to communicate and share information	TCP/IP
Visicalc and Lotus 1-2-3	A way to build models which could recalculate when variables were changed	Low cost personal computers (+ invention: spreadsheet)
Tivo	A way to pause live TV, and watch shows when convenient (without the hassle of programming a VCR)	Low cost hard drives with big enough capacity to store lots of video + good video codecs and cheap hardware to run them.
Friendster, Facebook	A better way to find and meet interesting people of the opposite sex	The internet, (+ invention: the social graph)
Amazon	An easier way to shop	The internet, eCommerce, shopping cart
Navigation Systems	An easier way to navigate to a destination without getting lost	Low cost GPS chips, and GPS satellites

Figure 2.7 – A framework to spur creative thinking (a) [6]



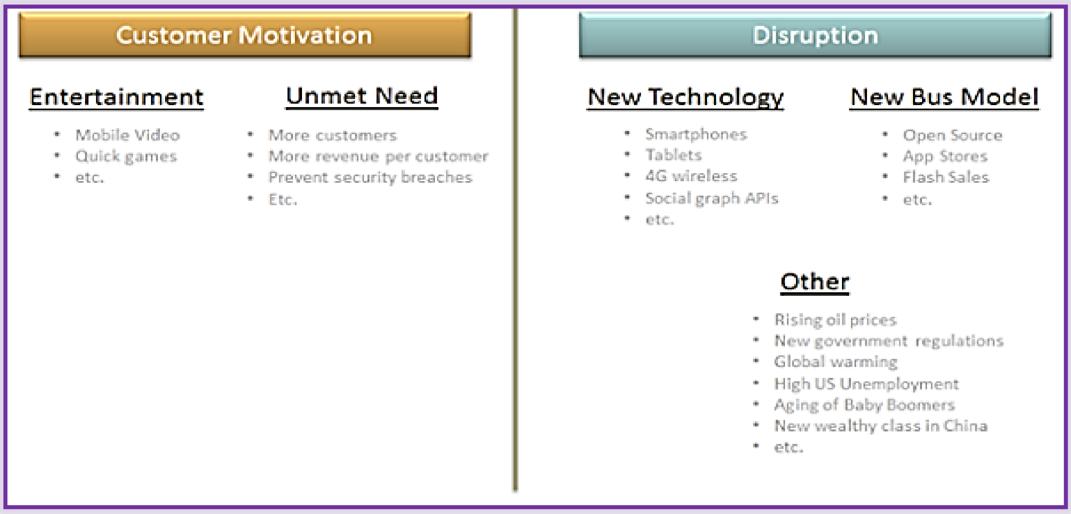


Figure 2.8 – A framework to spur creative thinking (b) [6]

Table 2.1 – Framework to spur creative thinking [6]

Name	Characteristics
New Disruptive Technologies	Mobile computing: Smartphones and tablets become the dominant computing platform (over-taking PCs), Touch screens, GPS, Accelerometer and Gyroscopes, Nanotechnology etc.
New Business Models	Leveraging platforms like Facebook, etc. for low-cost, viral customer acquisition, App Stores from Apple, Android, etc. for low-cost customer acquisition, Marketplaces to match buyers and sellers, etc.
Other Disruptions	Rising oil prices, New government regulations, Global warming, High US Unemployment, Aging of Baby Boomers, New wealthy class in China, etc.
Unmet Customer Needs (Pain) – Businesses	Need more customers, More leads (web traffic, etc.), Better ways to convert leads to customers, Restaurants, event venues, etc.: fill up empty time slots which would otherwise be lost inventory
Unmet Customer Needs (Pain) – Consumers	Need better ways to find and meet the right people to date, Need better ways to find a job when they are out of work, or looking to change jobs, Identity theft, Aging parents that have health and other issues, Aging baby boomers: Health, Fitness, More effective and entertaining education
Entertainment	Music: Easier ways to find new artists and songs that you will like, Easy access to your library of music anywhere, any device, any time Videos: Better video playback on mobile devices, Ability to access the latest movies and TV shows in HD from any device, anywhere, at any time

6. Six thinking hats technique [7, 8]. Each one of the six hats has a different colour and symbolizes the different ways of observing reality. The method is simple: each one of the participants can put on or take off one of the imaginary hats to indicate which type of thinking he/she will be using (that is, the colour under which he/she will express his/her opinion) [7; 8]. The order of hats in the method of 6 hats to develop different solutions (Fig. 2.9).

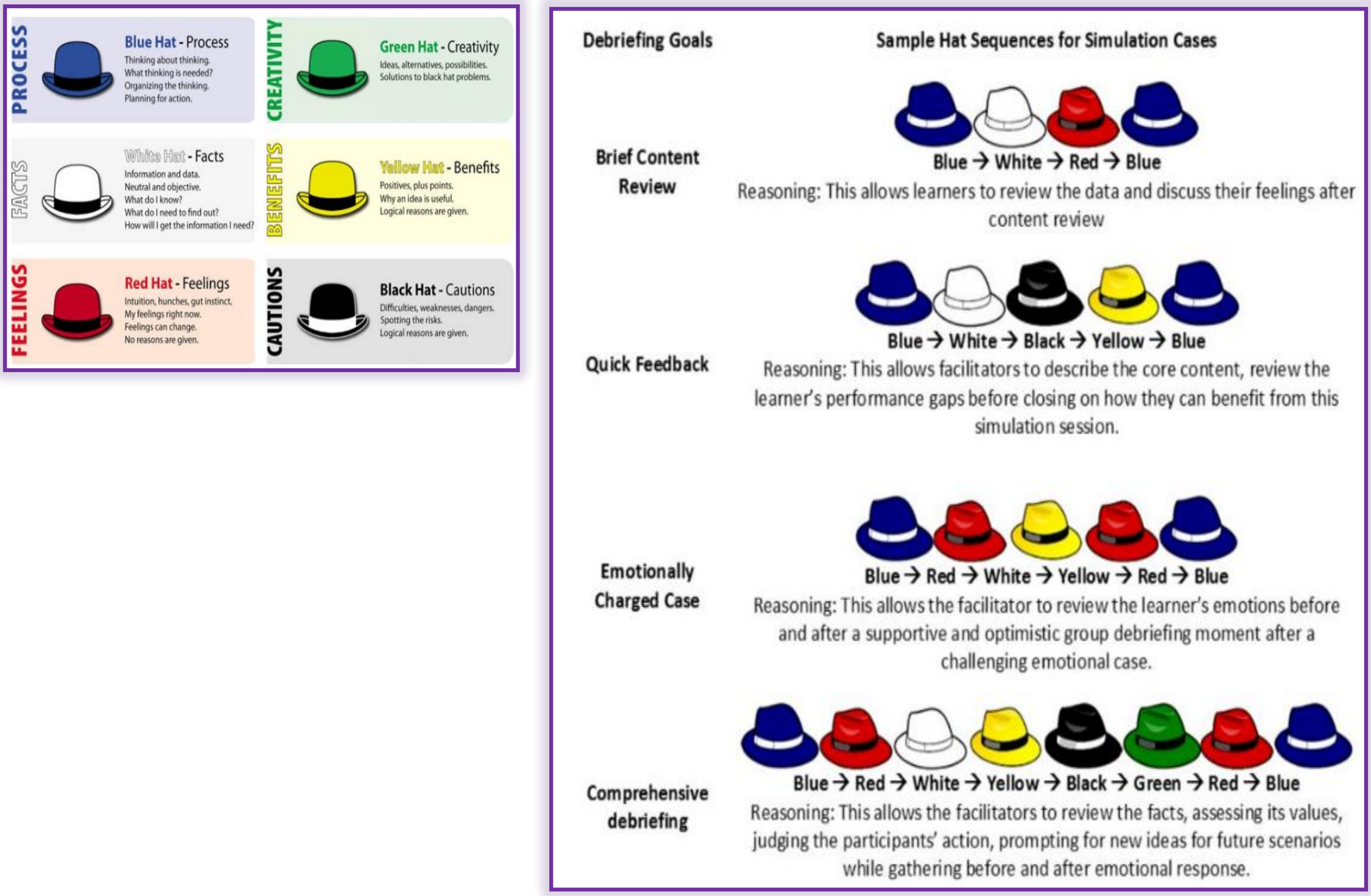


Figure 2.9 – Six hats technique [7; 8]

7. Stromberg's matrix ideas [9]. At the intersection of the axes, you can get an idea of a product or service https://docs.google.com/spreadsheets/d/1k5sTdMpWKvPIqUi1UNIKQ8xBpw5DEyRfwnAQxZoHmDw/edit#gid=874147518

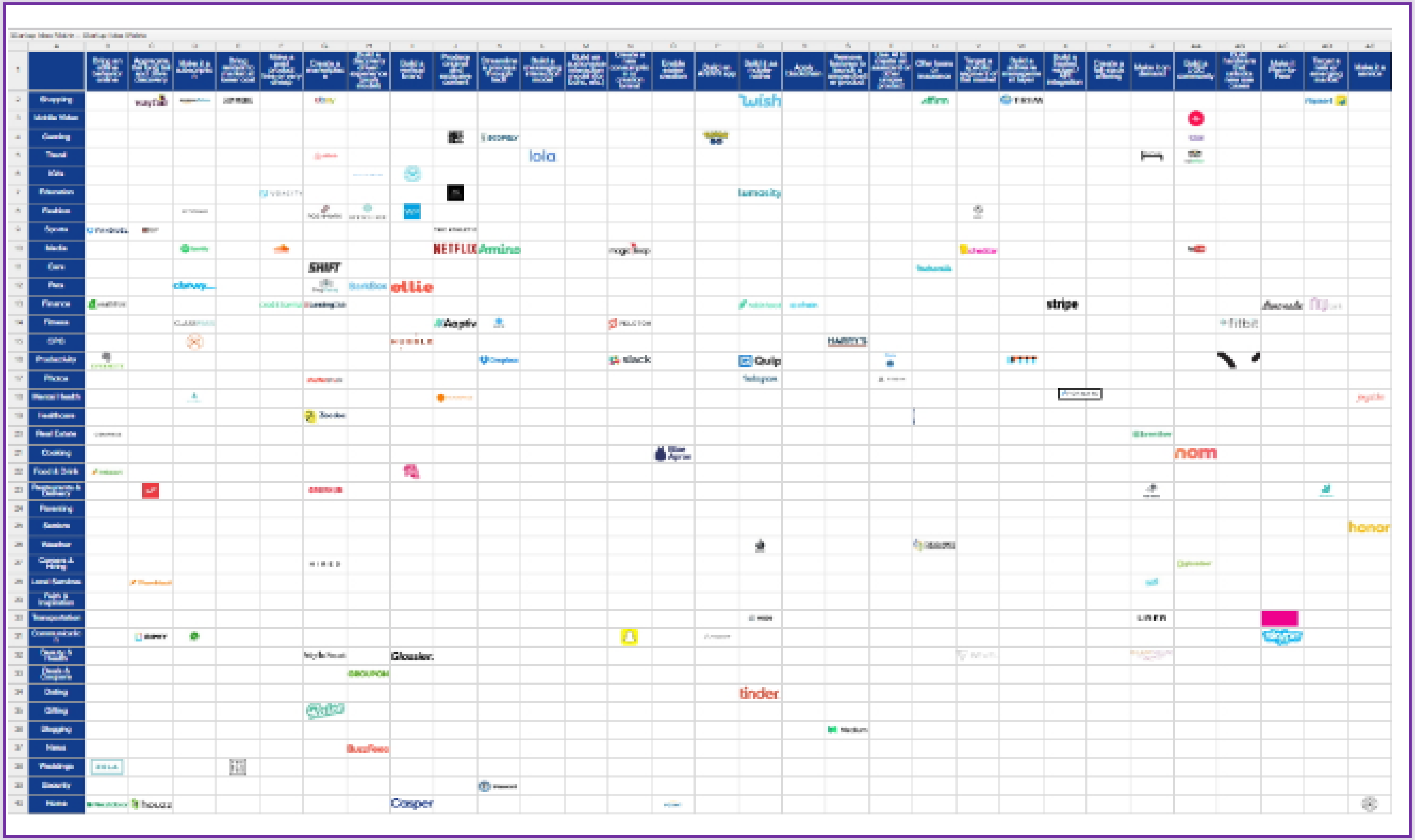


Figure 2.10 – Startup Matrix ideas [9]

EXAMPLE [10]:

Non-standard idea

Talking about non-standard ideas, you need to be sure that it is not nonsense and will make a profit in future.

A million-pixel site. A site that is an empty field of 1000 by 1000 pixels. And then he announced that he was starting to sell pixels for one dollar apiece. After purchasing a block of pixels, the customer could add a banner to the field with any content - advertising your company, website address or just a declaration of love.

Figure 2.11 – Startup Matrix ideas [10]

Mistakes in generating a startup idea. Surely, there are some mistakes in generating a startup idea [11]:

1. **Focusing On An Idea Not On A Problem.** Two guys are sitting in the basement and talking about their new venture [11].

Mr. I know: My mom always complains that she has no time to meet her friends. What can we do about this fact?
Mr. I know better: Silly question. Let’s make an app.
Mr. I know: Sounds great. She’s gonna have an opportunity to find the nearest friend and talk with him or her via our innovative messenger.
Mr. I know better: And it will be free for everyone!
Mr. I know: Thanks to our mothers we will be billionaires!

Mothers often do not have enough time to socialize. If they would have an app, will they have more time? No. Of course they can talk online. However every social network only exists because of contacts made in real life [11]. So the right question is not, how can we connect mothers with their friends, but how can we give them more time [11].

2. **Reality Perception Filters.** We all see the world, we want to see. This is psychological. When you get an idea, you treat it like your own child. You observe reality, connect facts and create a solution. It is something brand new. It is yours. You are a creator. You change reality and it’s awesome. But you also filter. You think your idea is the best and has no defects. Besides, people who like you rarely want to criticize your ideas, which is even worse, because you follow your flawless path. And in the end, there is only disappointment [11].

Successful companies accept criticism. Did you experience a situation, when you called a company because you had some problem which should have been solved rapidly? For example, you can’t find information about delivery time. You advise that this information should be more visible. And then you hear: «Well, you know Sir, there is everything written. You have to click the «waste of time button" then go to the «waste of time subpage» and there you have it, black on white [11].

This may occur when you're so in love with your idea that you cannot accept criticism. Isai Scheinberg, the creator of Pokerstars.com was spending a lot of time in forums where players were critisizing wrong solutions, reporting bugs and sharing ideas. They achieved great success, as they listened to their clients [11].

3. **Fear About Idea Stealers.** This idea is worth billions of dollars, so you can't tell about anybody it, even under torture. We're going to develop it quietly far away from civilization, preferably in the jungle, where no one can steal my idea [11].

That's again a bad reality filter. Most ideas are not brand new. There are probably five teams in the world working on the same project. Of course, if the solution does not yet exist. Being afraid of stealing ideas gives you less chance for success. If you don't share the idea, the idea can't grow [11]. You don't meet potential co-founders. Finally, you don't know what the market opinion is and it's a total disaster. With an idea alone you can't buy anything. The execution of the idea is what matters. There were a few social network sites before Facebook and a few video content sites before YouTube, but nobody heard about them. There is one more thing that matters besides execution. Timing [11].

4. **Too Early Ideas.** Those who have this kind of idea are visionaries. They can predict trends that will come up in the future and implement them today. If you are one of these people, you belong to 1% of lucky people. Unfortunately, their visions often fail. Why? Because people are not ready for their solutions just yet. Today their ideas look too weird to be a global success [11]. This is timing in startups. Mysterious knowledge about when something is going to work. If you're interested in that topic, watch Bill Gross with his short presentation on TED.

5. **You Don't Want It, Don't Know How To Do It, People Don't Want It.** Inversely. You have to want it. You must know how to do it. People must want it likewise. These are the words of Paul Graham (co-founder of Y-combinator). And it's all true. If even one of three sentences is evaluated as false, you will fail [11].

2 DIAGNOSTICS OF THE VIABILITY OF A STARTUP IDEA

Business idea validation is the procedure for testing your concept before launching the actual product. Validating your business idea takes into consideration everything from your current market, to the needs of your customers, and the position that your competition has in the market you wish to serve [12-13].

Figure 2.12 – Startup Matrix ideas [12]

To find the answers, you need to validate your business ideas requires a broad range of activities from Googling your competitors and performing keyword research to asking your potential target audience for honest feedback [13]

The ultimate goal of the intense efforts needed to validate your startup idea is to ensure you are using your time and resources appropriately and positioning yourself to your strengths in the market [13].

Customer discovery is a process where you research your ideal client, understand why they are not using alternatives on the market (or why they stopped using alternatives to your solutions), and leverage your strengths to attract more customers [13].

Build A Minimum Viable Product. Based on the results of your interviews your startup should begin investing in a Minimal Viable Product (MVP). This is an early iteration of your product, but you produce this early version in a way that does not spend a lot of unnecessary time or money [13].

Methods of testing the viability of a startup idea. There are various methods of testing the viability of a startup idea:

1. Verification of the business idea of startup [14]. To make sure that your idea is a new profitable startup you need to verify some information. See the points below.

1. Defining goals [14]:

- ❑ Problem (reality and importance);
- ❑ Solutions (possibility to be solved by a startup);
- ❑ Functions (capacity of product functions);
- ❑ Business model (viability and scalability);
- ❑ Price (pricing, adequacy of demand).

2. Selection of hypotheses

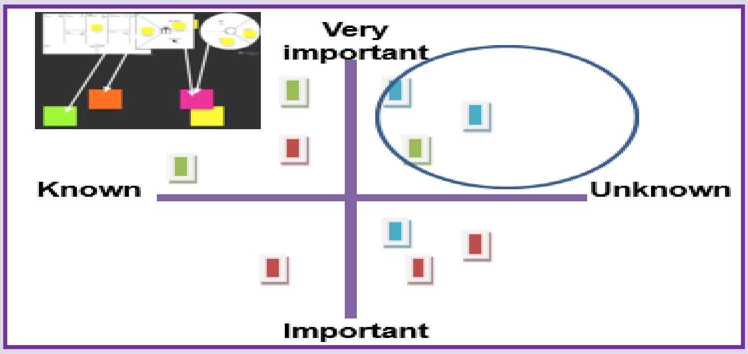


Figure 2.13 – Selection of hypotheses [14]

3. Conducting experiments

- ❑ Check the problem ⟹ interview
- ❑ Checking the solution ⟹ MVP test
- ❑ Price check ⟹ landing

Figure 2.14 – Test card [14]

4. Conclusions on the results

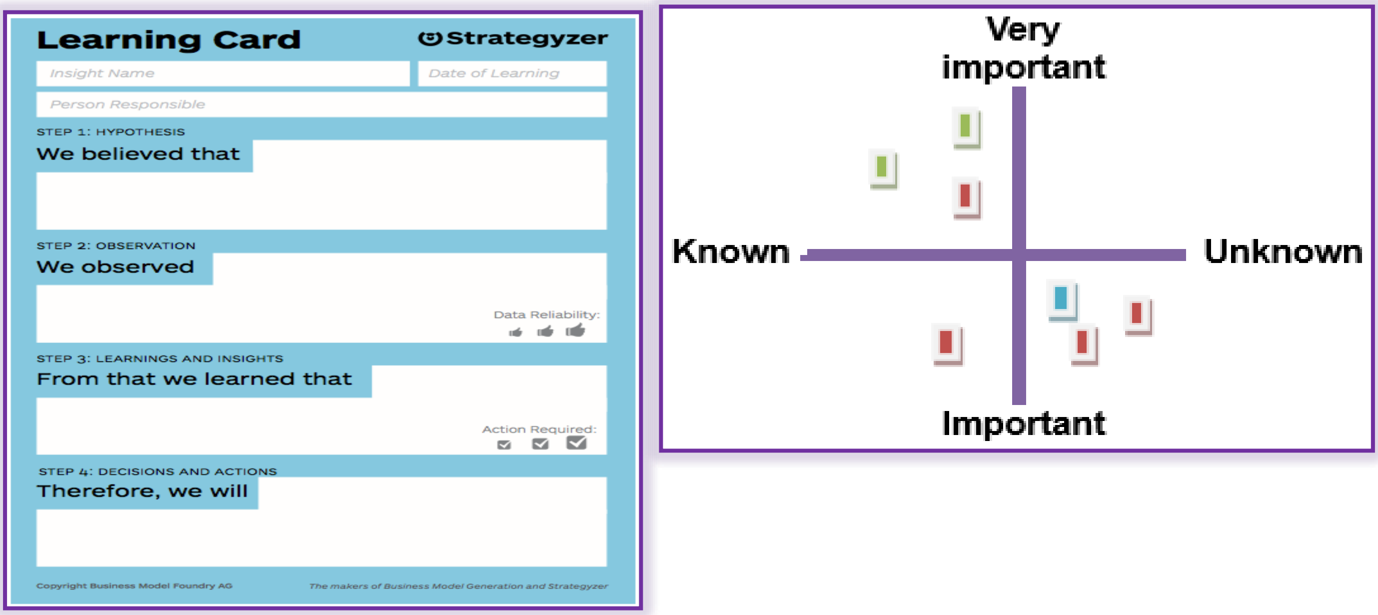


Figure 2.15 – Test card and conclusions on the results [14]

2. «MOM TEST» [15]

Survey of relatives, friends and acquaintances. The test is rarely 100% true. The method of three questions [15]:

- What problem does the idea solve?
- What is the uniqueness of the idea?
- Is the startup ready to give up everything and work only on the development of the idea?

3. Disney test [15]. Transforms the dreamer's ideas into a practical and plausible plane.

4. Ten-second test [15]:

- Oxygen – something without which people cannot function: food, clothing, housing
- Jewellery – products that can be considered a luxury: cupcakes, video games
- Aspirin is what saves from conditional pain: coffee - life without it is possible, but not so pleasant

5. «The First Mile» [15]:

- Analysis of existing ideas, study of the experience of competing companies, verification of patent applications;
- Conducting an imaginary experiment: «What will the world look like if the idea is successful?;
- Construction of a model of monetization «assumption», based on determining the size of the potential audience of the future product, its value;
- Calls. Call-based idea testing;
- Obtaining evidence of the need for the product to consumers. Based on the usual «coffee test».

The procedure for checking the viability of a startup idea [16]:

1. **Unknowns are exciting adventures for entrepreneurs.** The concept you choose is the single most important decision you will make in your company, so be sure of your startup idea before you buy that one-way ticket (Fig. 2.16) [16].

Figure 2.16 – Affection of business concepts [16]

2. **The concept you choose is the single most important decision you will make in your company** (Fig. 2.17, Table. 2.4).

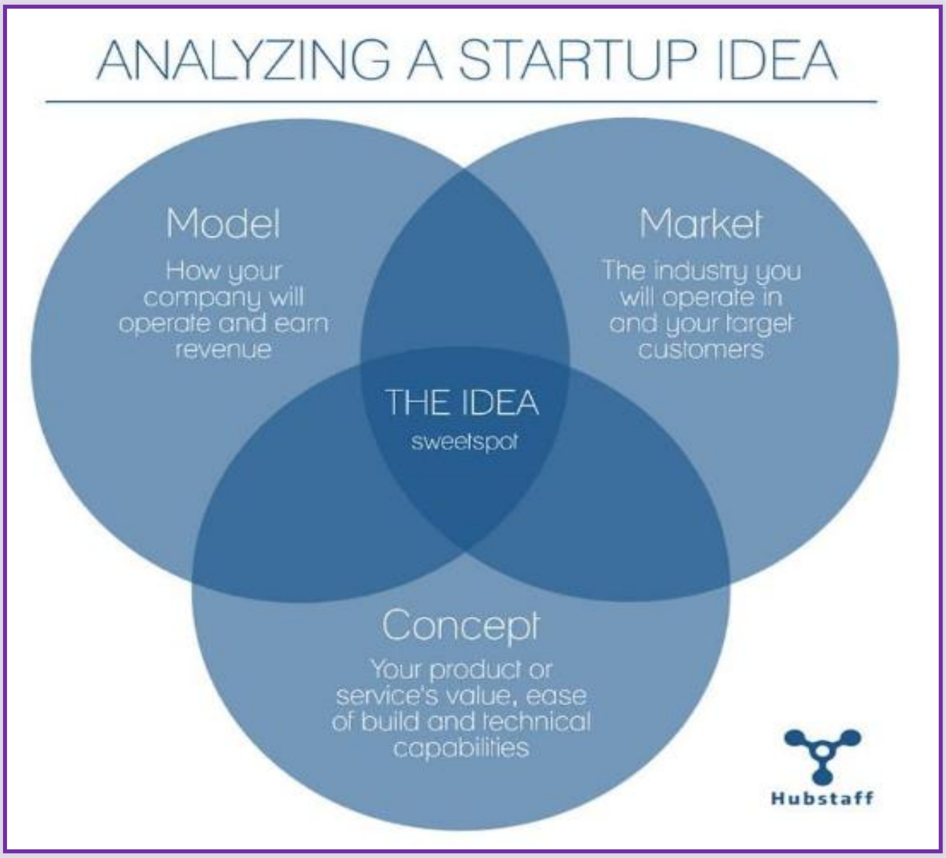


Figure 2.17 – Analyzing a startup idea [16]

Table 2.2 – Test a startup idea [16]

Name	Characteristics
Model Tests	Your business model refers to how your company operates and earns revenue. Take note of how your competition operates and what are acceptable industry practices. Customer acquisition is expensive. One-time sales are unreliable and offer low rewards for effort. On the other hand, recurring sales add stability to your business. If your company cannot rely on recurring revenue from your main product, think about add-ons that could bring in steady income. These add-on's can come in the form of information, memberships or regular tuneups.
Market Tests	Large Market. Investors want to see you operating in a billion-dollar market. You should have a healthy supply of clients in your industry. It's better to have 1% of a massive market than 20% of a minuscule market. Global. Any business I start must have the ability to be globally accessed and utilized. I learned this lesson in my first e-commerce business, where I had customers from all over the world (I learned that there are some incredibly friendly Australians). After working with a global market, it's almost impossible to go back to locally limited businesses. Working with international clients is not only fun, it also opens multiple opportunities for your business.
Concept Tests	Your business concept is the foundation of what you'll be doing every single day for the foreseeable future. It determines the audience you will target, the industry you will be in and the type of customers you'll serve. Testing your startup idea and putting enough time, effort and thought into this concept will help shape your company's direction immensely down the road.

6. Landing. Landing is important part of making not only a startup project because it shows the «face» of the product you want to promote [17].

Landing	a landing page or landing page that gets people who have passed through an advertisement [17].

Checking the idea based on Landing provides an opportunity not just to identify consumer preferences, but to make sure that they are really willing to pay for the selected product [17].

EXAMPLE:

Figure 2.18 – Lead generation [19]

Figure 2.19 – Landing page Squareup [18]

Ideas information technologies. Use of information technologies for business idea analysis is always a good idea. See the points below:

- **Check board and business idea analysis table [15; 20].**

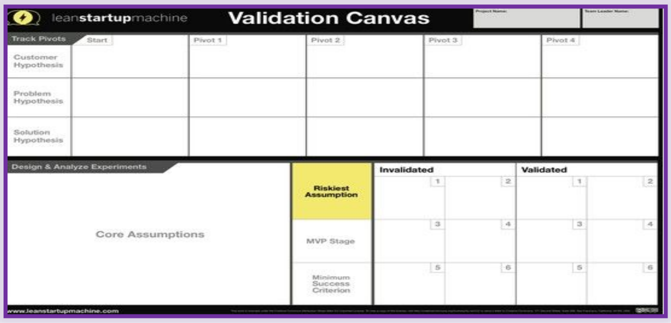


Figure 2.19 – Check board [20]

- **Experiment Board [15; 20]**

Each participant on separate sheets describes the weaknesses and strengths of the idea, potential consumers, anticipates problems. The sheets are placed in empty squares and proceed to the discussion [15; 20].

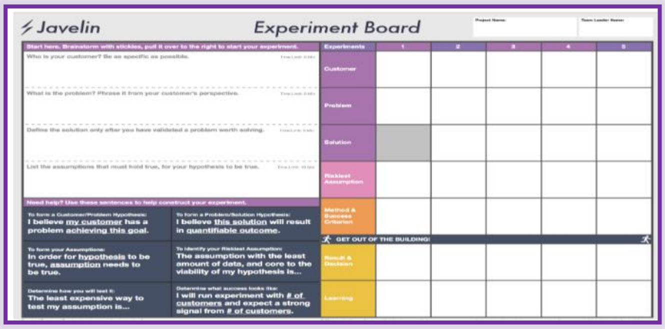


Figure 2.20 – Experiment Board [15; 20]

- **Javelin Experiment Board [15;20]**

To test a business idea. The left part reveals the space for brainstorming and the right - its results. Allows you to identify the consumer and identify the problem [15; 20].

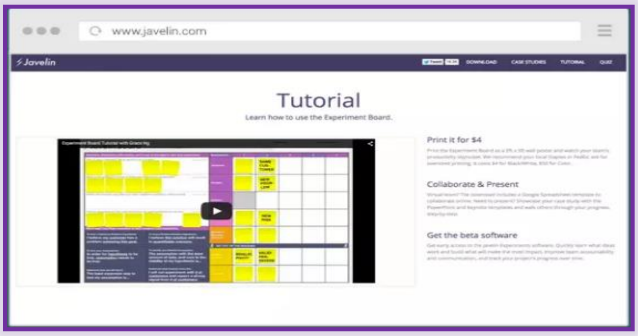


Figure 2.21 – Experiment Board [15; 20]

- **Proved [15; 20]**

To test both the idea and the finished prototype or product at the pre-launch stage [15; 20].

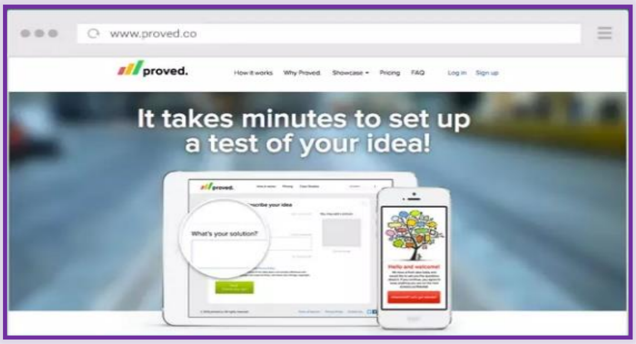


Figure 2.22 – Experiment Board [15; 20]

3 A MINIMALLY VIABLE PRODUCT

A minimum viable product has just enough core features to deploy the product, and no more effectively. Developers typically deploy the product to a subset of possible customers—such as early adopters thought to be more forgiving, more likely to give feedback, and able to grasp a product vision from an early prototype or marketing information. This strategy targets avoiding building products that customers do not want and seeks to maximize information about the customer per amount of money spent [21].

A minimally viable product	a product with just enough features to satisfy early customers, and to provide feedback for future product development [21].

MVPs benefit your startup's growth trajectory and later success because they allow your team to explore the concept for your business early on. A minimum viable product reveals any incorrect assumptions about its desirability and market potential. By building a simple, workable application version, you can verify true market needs and plan your future product roadmap accordingly [22; 23].

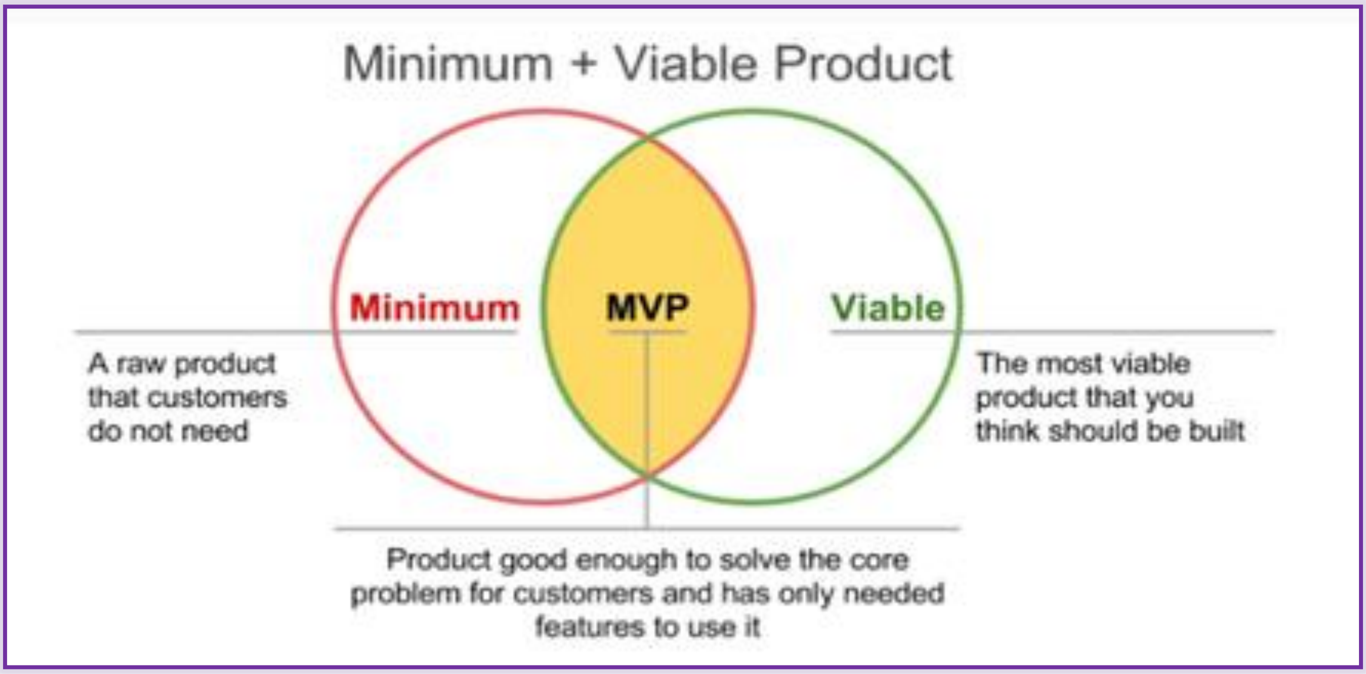


Figure 2.23 – Minimum viable product [23]

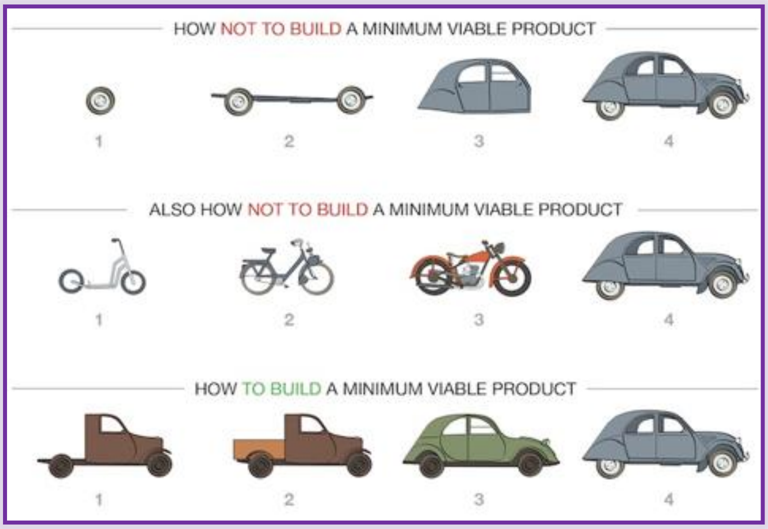
Main benefits of building an MVP [24]. In our opinion, building an MVP is essential whether you want to save time and money on something useful. See the points below:

1. **Prevent waste building something nobody wants.** Let's imagine you set out to build a new mobile app, which took months to design and thousands of dollars to develop. It was almost ready to launch but was further delayed to get all the bells and whistles built. You finally get the product into the hands of users and quickly determine nobody uses the bells or whistles.
2. **Get the product into the hands of users quickly.** Once the product is in the "wild" there's no telling how people will choose to employ it in their lives. In some cases, the product will be used for a different end goal than you initially intended and these edge cases can be a great educational tool.
3. **Quickly prove or disprove your thesis. It's science.** The minimum viable product will allow you to quickly answer Patrick Collison's question: "Are we wrong or is the world wrong?" If the customer persona you envisioned using the product is willing to pay for your solution and use it in its intended way, then your hypothesis of the world is correct.

The characteristics of a Minimum Viable Product are the following [25]:

- It must address all the key benefits that we identify in the value proposition
- It must provide value to the customer.
- It must bring monetizable value back; in terms of money, time or information
- It must be functional, reliable, usable and delightful.

MVP development [21]. There are useful pictures that show how to build MVP. See Fig. 2.10-2.11



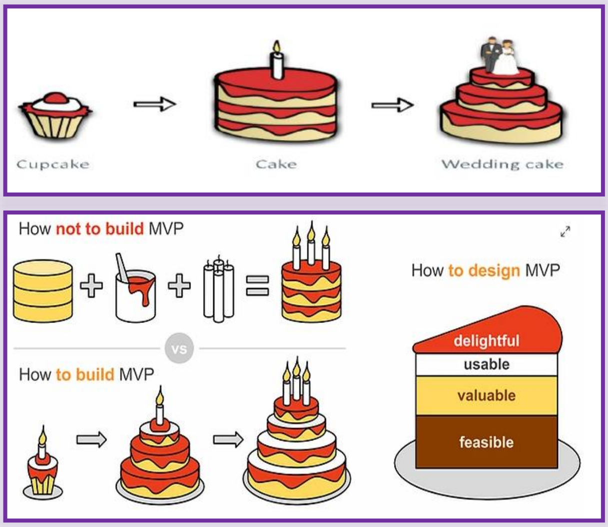


Figure 2.24 -The vision of the startup product [21] **Figure 2.25 – Cupcake model [26]**

To better understand this algorithm, we propose to consider the more successful metaphor «The cake model» by Brandon Schauer. Want to make a wedding cake?

Invite the customers to try a cupcake so that they appreciate the taste. Then you can try adding new ingredients and increase the scale of the product [26].

The MVP development process is usually split into several stages and can be performed using diverse software development methodologies and techniques [27]. The final aim of MVP development for startups is [27]:

- verifying the product's viability;
- noting its strong and weak features;
- examining the reaction of the intended audience to the product

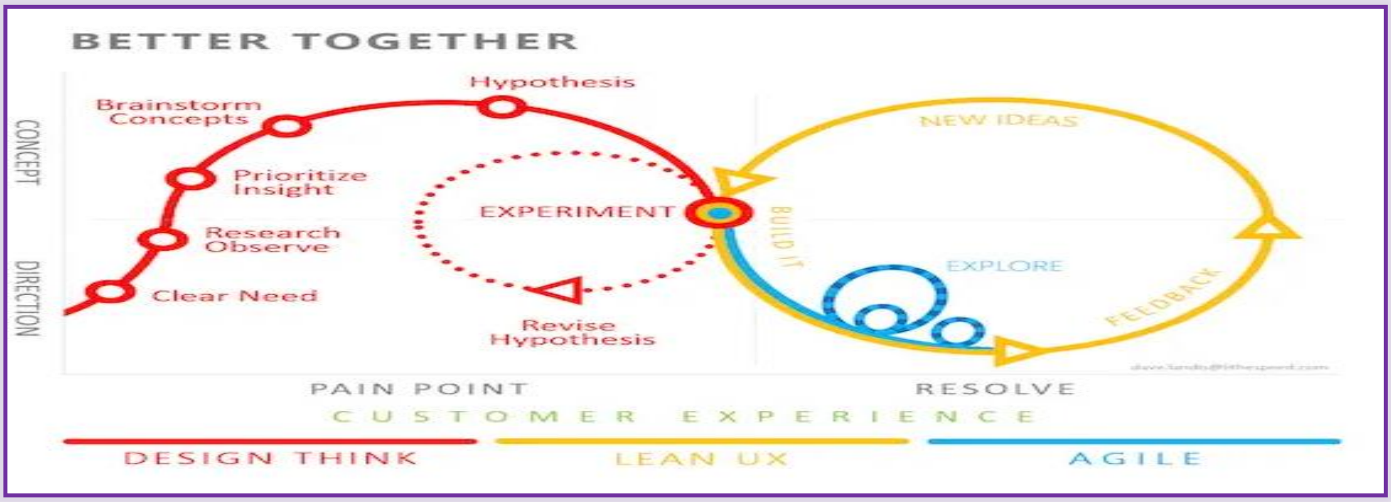


Figure 2.26 – Development process MVP [29]

One of the most important things you need to know while building a MVP is the Lean Startup Build-Measure-Learn cycle. The Lean model says that it is best to build fast and measure/analyze each iteration of a product [28].

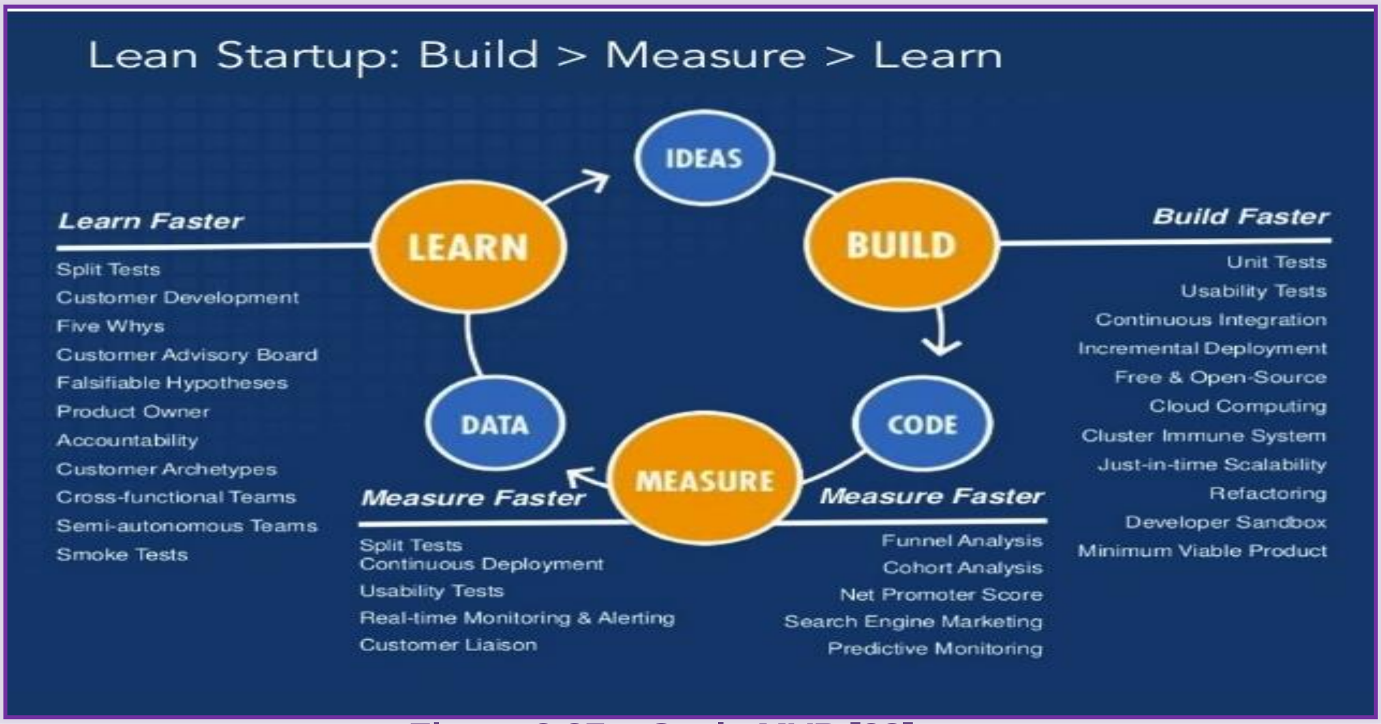


Figure 2.27 – Cycle MVP [28]

Development process MVP shown in fig 2.28-2.19.

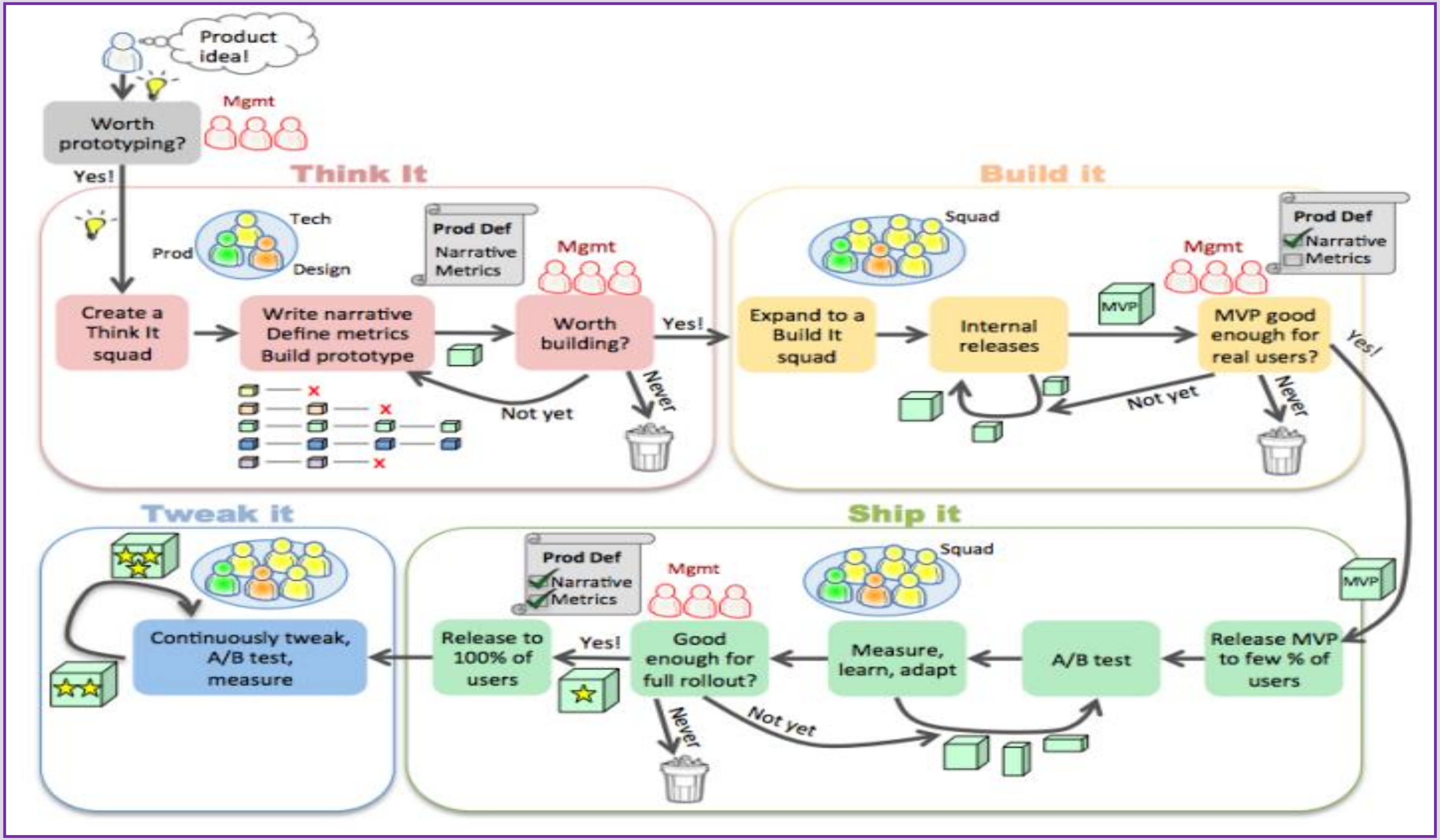


Figure 2.28 – Development process MVP [28]

The 5 common pitfalls to avoid when developing an MVP [30]. Not every shortened product is actually an MVP. Below are seven common mistakes you should dodge when building an MVP for a startup [30]:

- **Skipping market and competitor research**. These two are very crucial and skipping them will mostly result in frustration as you discover that there are already a lot of other similar products and you don't have any competitive advantage to help you survive the competition.
- **Wanting a complete product**. One of the biggest mistakes is the conviction that an MVP has to be bug-free and complete. This is the opposite of what an MVP is. You should carefully choose what features to include at the MVP stage and what to exclude, and should not expect it to be a flawless jam.
- **Over-focusing on minimization and ignoring viability**. Another common mistake is to concentrate too much on minimalism and end up releasing an MVP with extremely basic and useless features for potential customers. So, the balance matters
- **Dodging the prototype phase**. A prototype brings your ideas to life. Without a prototype, it becomes difficult to demonstrate the feasibility of your ideas to investors and also your fellow team members working with you.
- **Employing an inexperienced team for the minimum viable product development**. To succeed, you need a good team experienced in building MVP products. This will help you to avoid common pitfalls like overestimation, overbudgeting, or just the creation of a low-quality product.
- **Ignoring user feedback**. Whatever the case you should not ignore your customer's needs, keep in mind that you should constantly gather their opinions on your MVP and draw proven conclusions.

4 VERIFICATION OF MINIMUM VIABLE PRODUCT

There are some stages in MVP testing which include defining, monitoring, testing, analyzing and improving. See the points below [31]:

1. **Defining the MVP.** Your first challenge is to define what your MVP looks like. It should incorporate the base level of functionality necessary for users to achieve their desired outcome. What does this imply? Put yourself in your users' shoes and consider the primary function your app needs to deliver. Remember, your MVP isn't about delivering a bare-bones product; rather, it's about delivering a simple, effective solution to a genuine problem [31].

2. **Identifying key metrics.** Next, it's important to identify the key metrics that will provide insights into the performance and possible acceptance of your MVP. These may include user engagement rates, usage time, feature usage, customer feedback, and conversion rates, among other things. Your identified metrics should directly correlate with your MVP's success or efficiency. As you embark on the journey of building and validating your MVP, it's crucial that you choose the right analytics tool to measure your essential metrics. One such reliable tool is UXCam, loved by mobile app product managers for its ability to accurately track key mobile app metrics, unveiling the strengths and weaknesses of your MVP [31].

Metrics and KPIs to monitor**.** There a plenty of metrics that you could track; however, focusing on the right ones will ensure valuable insights and effective decision-making. This essentially depends on the nature of your MVP and your business goals, but here are some key metrics to consider [31]:

1) User Engagement Rate - UXCam tracks user engagement by measuring session lengths, usage patterns, and engagement rates over different days or versions.
2) Usage Time - Accurate start and end timestamps of each session by UXCam provide keen insights into usage time and duration.
3) Feature Usage - Touch heatmaps and user paths analysis by UXCam reveal how often and how users use different features.
4) Customer Feedback - UXCam's session recording feature allows you to monitor customer feedback by capturing their actual behaviour while using your app.
5) Conversion Rates - UXCam’s funnels provide a comprehensive view of your app’s conversion rates, showcasing where users drop off in the conversion process.

It's important to recognize that your identified metrics should directly correlate with your MVP's success or efficiency [31].

3. User testing. After your MVP is defined and your metrics are set, it's time to test with real users. This can be achieved through methods such as beta testing or usability testing. Encourage your testers to provide candid feedback and monitor their interactions with your app thoroughly. Don't just focus on what users have to say about your app, pay attention to their behavior and use, too.

4. Data analysis. Following user testing, it's time to analyze the data you've collected. This step is vital, as it offers insights into the effectiveness of your MVP. Key aspects to evaluate include whether the MVP addresses the user's needs, which features are most used, where users encounter difficulties, among other factors.

5. Iterate and Improve. The MVP validation process doesn't end with data analysis. Instead, it fuels the next round of iteration and refinement. Every insight gathered should be applied to enhance your MVP. It is through this continual process of testing, learning, and improving that your MVP evolves, and ultimately, a stronger, more reliable and user-oriented product emerges.

Creative methods of product idea formation [32-34]:

TRIZ: The Theory of Inventive Problem Solving. Allows, depending on the level of the considered task, to find the necessary solutions at the level of improvements, inventions and the greatest inventions that create a fundamentally new direction in science and technology [32-33].

For the successful completion of practical tasks in the workshop, we advise you to look through the material in Table 2.5.

Table 2.5 – Method of morphological box [35]

Parameters	Intermediate solutions				
	1-st	2-nd	3-rd	4-th	5-th
Air temperature	Warm air from a central source	Convector in the room	Convector-radiator in the room	A source of heat radiation that is adjustable	Others
Air movement	Natural circulation	Forced circulation	Natural convection	Forced convection	Others
Air humidity	Unregulated	Humidifier-evaporator	Others		
Heating element	High-temperature electric heater	High-temperature heater with an open flame	Panels with high-temperature fluid circulation	Low-temperature heater	Surfaces heated by convection
Temperature gradient	Due to the positioning of the heating element	Due to the arrangement of the heating element	Others		
Heating mode	Constant throughout the day	Periodic shutdown during the day	Others	At night, with periodic switching on during the day, to maintain the temperature regime	Others
Heat carrier	Water	Air	Oil		Others
Energy source	Coal	Oil fuel	Gas	Electricity	Others

Analytical method of MVP testing. Methods of MVP testing consist of traditional and untraditional ones that can be seen in the text below [36]:

1. **Landing pages.** Assembling an appealing landing page is a common MVP validation tactic that can be applied both before and after MVP launch. In essence, it's a single page (sometimes even a one-page website) used to generate leads and raise potential buyers' interest [36].

The page generally indicates some must-know information about the product and urges users to take a specific action via catchy calls to action. Usually, it goes down to asking people to [36]:

- leave contact details and/or sign up;
- subscribe to the newsletter or «Be the first to know» notifications;
- or something along these lines.

A landing page will allow for getting organic traffic to your MVP. Plus, the obtained data (including contact information, page views, average session duration, and other vital product performance metrics) can also hint at user interest and pave the way to further communication with potential clients [36].

2. **Blogs [36].** Spreading the word about your product or service via blogging is also considered a best practice. You may start a blog for minimum viable product testing purposes by linking up WordPress (or analogous solutions), or develop a custom blog of your own [36]. What can you write about? [36]:

- share industry news;
- discuss the hot topics related to your niche that your target audience cares about or finds interesting;
- give expert advice;
- reveal some behind-the-scenes, how and why you decided to build the product, or other curious facts and MVP peculiarities;
- introduce the audience to the team who is creating your product;
- and much more.

3. **Pre-sales [36].** Pre-orders are an alternative to waitlists. In this scenario, you can offer your users to purchase your product or service before it's actually available, but for a better price. This type of MVP is all about offering value since getting a user to pay you for something that isn't available yet will be tricky. For example, you can sell the Pro package at the cost of the Starter package or with a significant discount. Such early sales can provide you with first money and could be a strong indicator of user interest and demand. Nonetheless, make sure to deliver what you've promised to avoid negative feedback and user dissatisfaction. After all, you wouldn't want your brand to be considered a scam or to jeopardize your MVP success [36].

4. **Hallway testing [36].** Has a random person ever stopped you somewhere outside to ask your opinion on something? Hallway testing is kind of similar to such mass polls with strangers. You aim to ask people who have nothing to do with the product to give it a «test drive» [36].

EXAMPLE:

You can ask them to complete several tasks (like making it to the checkout from the home page) and monitor whether they succeed or not. The results of this experiment can help you evaluate your solution's ease of usability and how intuitive it is for first-time users. You may make crucial discoveries regarding the improvements your product needs or ensure that everything is well done [36].

5. **Surveys [36].** Collecting feedback is a perfect way to evaluate whether your agile minimum viable product has served the targeted needs and managed to live up to expectations. Yes, the MVP is beginning to gain traction, but what do your early users think? Does your product deliver the promised value? Is it missing something crucial?

The opinions of your first users can shed light on areas that can be improved, such as the MVP design, the add-ons that would be handy, or the required changes to enhance the product. Some of the simplest ways to get first-hand feedback quickly are to:

- ask your users to complete a survey;
- vote in a poll;
- rate your solution (or features by importance);
- fill out a form or questionnaire.

Your main task here is to keep things as easy as possible since you wouldn't want to burden your users. For instance, multiple-choice questions during a PMF survey can save your audience time.

Plus, you need to think through a couple of more points:

- who you're going to survey (are you asking for everyone's opinion, or does it make sense to create lists that'll narrow down and group the respondents?);
- where to place the survey (will it be the home page of your product, an email survey, a simple social media poll, or several combined options?);
- how you're going to motivate users to take the survey (are you going to give incentives to your users for taking the time to answer your questions?);
- where you're planning to store the results (especially if your survey is conducted on multiple sources);
- which time frames apply to your survey (is it an ongoing or short-term survey?);
- how you'll analyze the results.

6. **Customer interviews [36].** For a more detailed dive into customer opinions, you can hold interviews. This is a more time-consuming MVP testing process than the survey method mentioned above, yet the two have many similarities. In this

scenario, you'll most likely collect fewer responses than from surveys, but such comments and reviews may be more detailed and complete.

To hold proper interviews, you'll need to turn to the users who've interacted with your MVP and inquire about their thoughts regarding the solution's strengths and weaknesses. You can meet them in person, communicate by email, or any other means that you both find appropriate. Dial down the number of questions and give each a lot of thought to make sure they don't duplicate similar ideas and contradict one another, bringing you the most value.

Do you, as an MVP owner, and your interviewees see the product the same way? Of course not. So you'll need to rationally weigh the required effort and resources on your side while keeping in mind the users' opinions and requests on the product's improvement, extra features, etc. Remember that it's important not to ignore customer feedback, but it can't become your main focus, particularly if what your clients are asking for contradicts your business aims.

7. **Crowdsourcing [36].** One more way to test the viability of your MVP is crowdsourcing. This collective approach implies:

- reaching out to people to get their viewpoints about your product, often using votes (this doesn't necessarily have to be your product's direct target audience);
- asking people for advice, recommendations, or help in solving a problem;
- looking for appropriate candidates or talent to contribute to your project;
- and much more (as the use cases don't have limits here).

If attracting funds *is* your primary goal, you may launch a campaign on crowdfunding platforms like Kickstarter, Fundable, Indiegogo, Patreon, and many similar ones. Using them, you can also obtain feedback on the product and possibly even raise funding.

8. **Digital prototypes [36].** Mockups, wireframes, and prototypes can be used to demonstrate a product's functionality in a way that is similar to real life. MVPs can range from simple sketches to screenshot previews to more complex "dummy" applications that demonstrate the user experience. You can use collaborative wireframing and prototyping tools like UXPin to express your ideas & transparently share them.
9. **PAPER PROTOTYPES [36]. Physical** prototypes and digital digital prototypes are identical. It helps to illustrate your product and its user experience. Paper prototypes for MVP testing have the benefit of being usable by anybody on the team, including product managers, graphic designers, & end-users. It doesn't need much explanation because it gives you a real-life portrayal of the product.

To build effective minimum viable products, use the MVP experiment canvas (see Fig. 2.29.

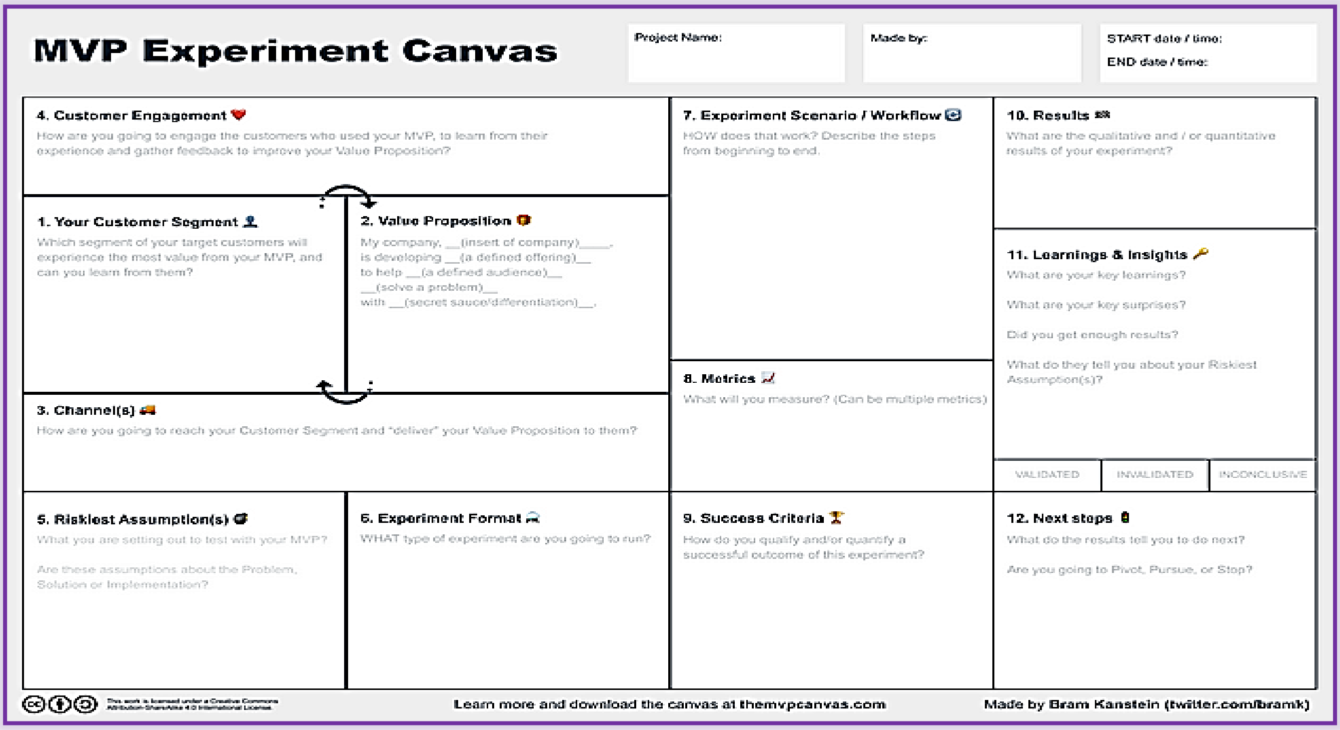


Figure 2.29 – MVP Experiment Canvas [37]

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TOPIC 3

BUSINESS MODELING OF A STARTUP

CONTENTS OF LECTURE

①The essence, types and features of the business model of startups
②Business model - Canvas template
③Building a business model based on the Lean template Canvas
④Configurations of business model templates

1 THE ESSENCE, TYPES AND FEATURES OF THE BUSINESS MODEL OF STARTUPS

A business model is a way how an organization creates, delivers, and receives value in economic, social, cultural, or other contexts [1].

In simpler terms, the business model can be described as a logical reflection of how the company works at all levels and, most importantly, how it ensures sales and profits [1].

The business model	is designed to describe how individual enterprise structures interact with each other and how the final product is created, delivered to consumers and monetized [1].

A business model is a more effective way to compete because it is hard for competitors to copy a business model but relatively easy to copy a product or service [2]. If you’re starting a new business and want to immediately get traction with customers then you need to have an unbeatable business model [2]. Likewise, if you already manage a business but need to grow, then a powerful way to kickstart your ideas is to focus on reinventing your business model [2].

Any business model has these elements [3]:

- **The business co**ncept is given by the opportunity you attack. It usually has the ideal customer described, the added benefits that your product or service brings, the product or service and how you are going to get them to the end consumer.
- **The value chain position** refers to the activities that need to be done to get from you to the end user.
- **The customer value** is an estimate of the benefits that your customers receive when they purchase your service or product.
- **The revenue sources** together with the cost drivers show all the activities' costs.
- **The competitive advantage** shows the state when a customer perceives your products or services as better than the competition.

There is a difference between a business model and a business plan (Fig. 3.1) [3; 4]:

- **Business model –** provides a rationale for how a business creates, delivers and captures value, and examines how the business operates, its underlying foundations, and the exchange activities and financial flows upon which it can be successful [4].

The business model is a structure that a company uses to build its value. It simplifies the organization down to the essence and helps in achieving success or managing any kind of challenges that can appear. In simple terms, business models and business plans are connected [3].

- **Business plan** – a formal document that typically describes the business and industry, market strategies, sales potential, and competitive analysis as well as the company's long-term goals and objectives [4]

Business plan**.** One of the first goals of a company could be to define your business model. The business plan is going to be the detailed part that includes all the information and steps like a marketing plan, organization, products or services, sales plan, and so on. Some useful questions that you can use when developing your business plan are [3]:

- What do we have now?
- What do we want to have in the future?
- What do we need in order to be there?

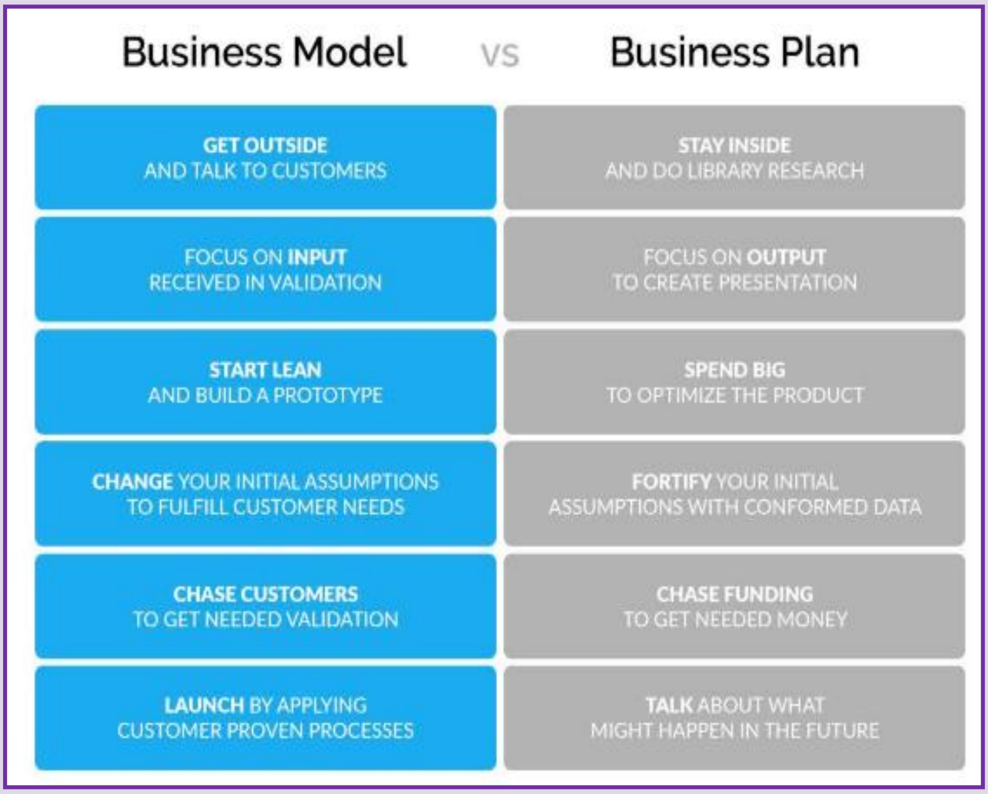

Figure 3.1 – Differences between business plan and business model [4]

Types of business models. There are types of business models and examples of its using. Some of them are considered extraordinary but working. See the points below [5]:

1. **B2C: BUSINESS TO CONSUMER [5].** Businesses that adopt the the B2C (business to consumer) business model focus on selling products or services directly to consumers. B2C startups enjoy flexibility in the way they are able to bring their product to market, as consumer demographics are accessed via a broad spectrum of marketing collateral and platforms [5].

However, there are a number of factors that should be considered by prospective B2C startup entrepreneurs. B2C startups that sell products to consumers incur a variety of startup costs that include warehousing, design, supply chain operations, and marketing costs [5].

While launching a B2C startup provides entrepreneurs with full control over every element of their business structure from manufacturing to consumer, the sheer amount of choice in marketing avenues available means that a startup must perform extensive research in order to identify the right channel for reaching its target audience [5].

Successful startups aim to identify and dominate a niche in which there is as little competition as possible. The B2C market is, in most cases, wholly globalized — when entering the B2C marketplace, a startup must contend with global competition [5].

2. **B2B: BUSINESS TO BUSINESS [5].** B2B businesses adopt a business-to-business model in which they sell products and services to other businesses [5].

Most startups operating within the B2B space are service-based companies, as opposed to product-based companies. Product-based B2B companies need to purchase and warehouse stock, which multiplies startup capital requirements and risk. The key to startup success is adaptability and flexibility — the slow-moving nature of product-based business means that most startups opt for the agility offered by service-based business [5].

Service-based B2B startups may take the form of marketing consulting or cloud software solutions, for example. Both of these businesses benefit from the ability to rapidly adapt to market shifts and integrate new services that increase profitability at minimal expense [5].

3. **B2B2C: BUSINESS TO BUSINESS TO CONSUMER [5].** The B2B2C (business to business to consumer) business model can use a fusion of the B2B and B2C models that overcomes one of the biggest difficulties experienced by B2C companies — accessing consumers [5].

Using a B2B2C model, a business will sell a product or service to another business and leverage the access to consumers that the second company already possesses [5].

The B2B2C business model relies on a close partnership between the first business and the second business and is designed to slowly build a dedicated consumer base for the first business over time [5].

The B2B2C business model is worth considering. B2C startups are faced with the challenge of entering a highly competitive market, while B2B companies must overcome a slow enterprise sales pipeline and can struggle with lead generation over the long term. B2B2C startups, however, benefit from the network effects delivered by partnering with an existing business, building a loyal customer base over time [5].

The B2B2C business model relies on a close partnership between the first business and the second business and is designed to slowly build a dedicated consumer base for the first business over time [5].

4. **B2B2C startup has four key features [5]:**

- ❑ **A B2B2C startup is not a white label.** Businesses that white label products and services are never recognized by the target consumer demographic, and are thus B2B businesses.
- ❑ **B2B2C startups have direct access to consumer data**. The ability to access consumer data is critical for any B2B2C startup seeking to capitalize on network

effects and scale — more data means better, more accurate services and products [5].

- **B2B2C startups gain brand recognition over time**. The services provided by a B2B2C company may be delivered or marketed by a second business, but the target consumer demographic associates them with the original company that supplies them [5].
- **B2B2C startups are based on mutually beneficial relationships**. B2B2C companies benefit from access to consumers, while the second business in a B2B2C relationship benefits from price convenience, expanded service or product offerings, and a minimal investment economic opportunity [5].

Diversity of business models [6]:

- **DIRECT MODEL [6]**

This type of business model includes, a seller directly selling to the consumer through different online portals or dealers or middlemen. These middlemen are connected directly to the seller company and these dealers represent the company to the customers [6]

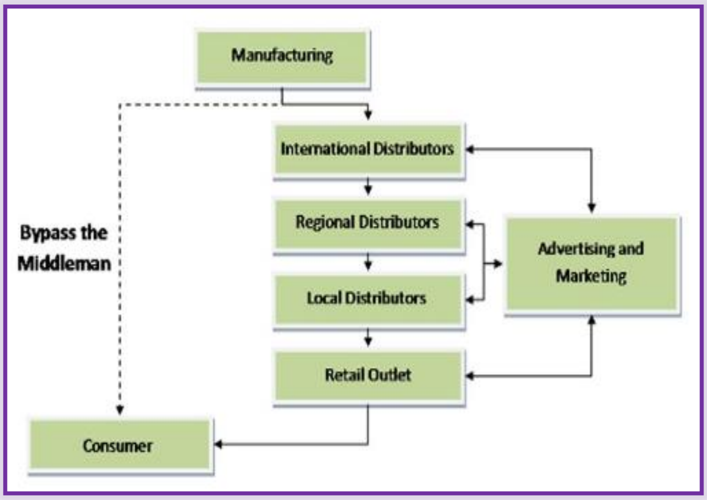

Figure 3.2 – Direct model [6]

EXAMPLES [6]:

The car dealers, every car company have a dealer and the customer buys a car and its accessories from that dealer if a customer encounters any problem he directly contacts the dealer and the dealer passes on the information to the company.

Selling smartphones through the online portal, where an interested customer can directly buy or pre-book the device. E-commerce giants are becoming exclusive dealers for various electronic & fashion commodities and a major chunk of their revenue is generated from this. The dealer settles for the commission on sales and the rest of the revenue goes to the supplier. The biggest impact this type of business model creates is, it leads people into entrepreneurship and results in increasing employment.

❑ FRANCHISE MODEL [6]

EXAMPLES [6]:

McDonalds has been able to scale itself and maintain its brand name through various franchises in various parts of the world. The menu might change from place to place but the hygiene, service, employee behavior are consistent. However, this type of business model is a win-win model for both the end

When a successful business forays into different parts of the world, it franchises itself i.e. a person buys the organizational business strategy of that company. By doing this the franchisor (a company providing its franchise) can expand itself into new geographical locations with ease without worrying about the capital.

In return, the franchise (a person who takes up the franchise) can replicate all its prevalent strategies, business models, commodities, and brands [6].

Keeps the rest of the revenue for itself. This helps to attract the public in different areas. Sometimes the items being provided might change depending on the franchises' geographical locations. The biggest advantage is that it helps in maintaining uniformity and leads to evolving the brand's name [6].

Figure 3.3 – Franchise model [6]

❑ AGGREGATION MODEL

This is one of the newest and most popular type of business models of recent times. Many successful unicorns are based on this business model. This model connects users with providers through a platform, using technology and analytics. It brings uniformity in payments, service, front-end technology and back-end technology [6].

Figure 3.4 – Aggregation model [6]

A user can book the service through an app or website and the fulfiller (one who provides and fulfills your demand of service) accepts his request, fulfills his demand and accepts payment through listed portals [6].

EXAMPLES [6]

Ola and Oyo are the best examples of such type of model. The reason behind the success is uniformity of service, safety, good customer care and simultaneously boosting up micro-entrepreneurship

❑ BRICK AND MORTAR

This business model consists of one company itself setting up different branches. This includes huge investments in real estate and products being sold through it [6].
The advantage is, that the company if successful can keep all the profits and revenue to itself. Also, it will be able to try a new service or product with ease along with preventing the dilution of the brand's image and name [6].

Figure 3.5 – Brick and mortar [6]

EXAMPLES [6]:

D-mart held by Avenue supermarts is a successful example of such type of business model

❑ FREEMIUM AND SUBSCRIPTION

The revenue model mostly consists of advertisements [6].

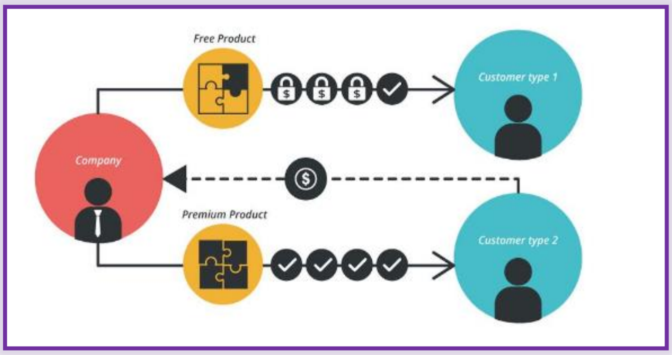

Figure 3.6 – Freemium and subscription [6]

EXAMPLES [6]:

Hotstar provides a few shows, channels and sports for free but to unlock other shows and movies which are exclusive they have to upgrade to their premium program. The same is the case with Byju's learning app, where students can avail few tests and video lectures for free but have to upgrade their membership to access other study materials

This type of business model is visible in OTT (Over the top) providers, where a customer can watch a few entertainment programs for free and have to pay for some exclusive programs. Freemium is derived from the word Free+Premium i.e. some services are for free whereas some are not. This type of business model helps attract customers to one platform to make them habituated to its environment.

❑ RAZOR AND BLADE REVENUE BUSINESS MODEL

In Razor and Blade business model, the company makes the customer product loyal and sells the related accessories at a premium price. This can be compared to the razor and blade, where the razor is a one-time purchase but the blade is a constant purchase and thus company ensures a constant stream of revenue by pricing the blade at a premium [7].

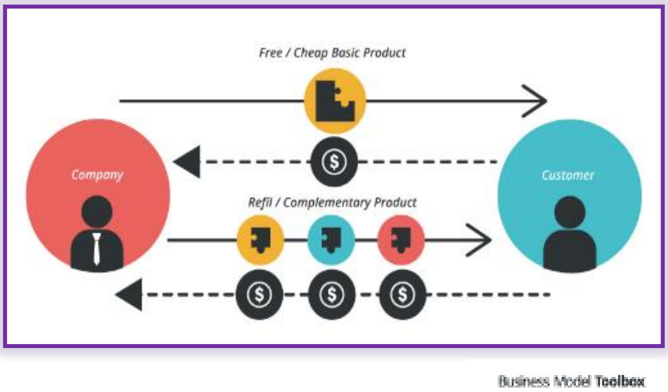

Figure 3.7 – Razor and blade [6; 7]

EXAMPLES [7]:

A printer. An example of the same would be the pricing of a printer. While the printer comes at a very low cost, the ink cartridges associated with the printer which are necessary for printing price very costly.

The pricing of the apps. An example of the same would be the pricing of the apps. While the apps come free of cost in the app store, the in-app purchases can be very costly.

An everyday bike would also be an example of razor and blade revenue business model whereby bike is a one-time purchase but petrol is an everyday purchase which is becoming costlier every day. The primary focus of the company is not generating a constant stream of revenue. Mobile data operator, TV operators have been using this strategy to get regular revenue from customers

❑ REVERSED RAZOR AND BLADE REVENUE BUSINESS MODEL.

As the name suggests this is the type of business model that is exactly opposite to the other one mentioned [7]

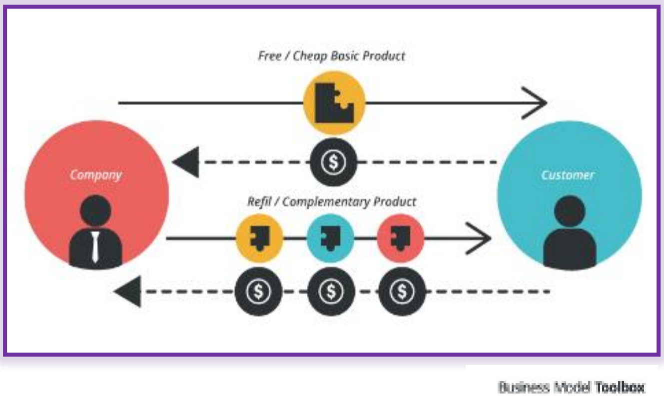

Figure 3.8 – Reversed razor and blade [6]

EXAMPLES [7]:

Apple charges very high for its physical products so it gives out the music on iTunes for apps on the Appstore for a very low cost which is a constant purchase.

So in the case of Apple, the one-time purchase is more expensive than the regular purchases which are Reversed Razor and Blade business models. This is one of the strategies that helped Apple grow and become a trillion-dollar company

- **CASH BUSINESS MACHINE MODEL.** This is also called as Cash Conversion Cycle Business Model. An example would be a company which makes a very low-profit margin but disrupts the market [7].

EXAMPLES [7]:

Amazon. The company has a long business cycle in which an item sets in Amazon inventory for approximately 36 days and after 19 days it takes Amazon to collect the money from customers and 82 days before Amazon has to pay the supplier. Amazon gets its partners to finance the business. This type of business model can also be seen with other e-commerce companies as well

- **PEER-TO-PEER BUSINESS MODEL.** As the name explains in Peer-to-Peer Business model, a third party or the parent company allows the customers to use the services of another party at an added cost which is a profit of its own [7].

EXAMPLES [7]:

Airbnb. The company allows using the premises of other people to customers at an added cost. The reservation fee is anywhere between 5 to 15% of the total and the commission fee is about 2-3%

- **HIDDEN REVENUE BUSINESS MODEL.** As the name suggests this company have their business model hidden [7].

EXAMPLES [7]

Google and Facebook. They are entirely based on advertising revenue generated when people click on the ads. Every time the customer clicks on the link of the Google which says add next to it the company gets paid by the advertising firm. The same goes for Facebook wherein the news feed is the place where Facebook monetize its ads.

The ads keep on showing in the news feeds of the people and revenue keeps coming to Facebook. It has worked very well for both of the companies making them two of the richest companies on the planet. Also, the user data is one of the biggest monetary resources for the companies that sell their user data to a third party without the customer realizing the data is being sold. Mark Zuckerberg has run into a lot of trouble about the same when he was questioned for more than 3-4 hours by the US congressmen. The same was done with Sundar Pichai, CEO of Google

- **ONE FOR ONE BUSINESS MODEL.** In this Business model, the company does a non-profit gesture for every product sold. For every product sold another product is given free of cost as a part of Charity [7].

EXAMPLES [7]:

TOMS shoes which give out one pair to kids around the world cannot afford them for every pair of shoes sold.

This move has made the company very profitable and sustainable over a long time as it improves the brand image in the minds of people. The nonprofit side of the business is excellent for revenue generation

- **AGENCY BASED BUSINESS MODEL.** These type of business models work on upcoming projects where enough qualified leads are generated and a team is setup to manage those projects which grow the agency. Agency based business model is one of the most recent in the types of business model [7].

EXAMPLES [7]

The businesses monetize on the services offered by the agency

- **MULTI-SIDED PLATFORM BUSINESS MODEL.** These types of Business Model act as invisible middlemen who ensure smoother transactions in interactions among buyers and sellers [7].

EXAMPLES [7]:

LinkedIn. The business social network is an undoubted market leader in its platform which allows job seekers and companies to interact "socially" in a "business sense."

The multi-sided platform service to both the parties, for example, helps the HR managers to find candidates as it helps the candidates to find the HR managers. To add value to the platform LinkedIn has also started an online teaching platform for the development of skills. These girls are not only limited to the candidates but also to the HR manager and organizations as a whole

- **AFFILIATE MARKETING BUSINESS MODEL.** Affiliate Marketing is when profits are earned by selling the third-party product [7]. The customer or the user can have a website where he can feature the products of the third party and when the buyers click on the link, they are redirected to the original website but the middleman who hosted the website gets paid a certain amount of commission [7]. This is known as an Affiliate marketing business model [7].

EXAMPLES [7]:

The commission is a pre-decided percentage based on the price of the product

Amazon runs the world's most successful affiliate marketing business model whereby it gives commissions to individuals over the product sold.

- **SUBSCRIPTION-BASED BUSINESS MODEL.** A subscription business model is the one in which a company sells the same product on a subscription basis divided over time [7].

EXAMPLES [7]:

Suppose there is a course for $10 and you sell that course to 10 people, you will earn $100 for one month. Next month you will have to come up with new buyers for the course without which there would be no revenue. Instead of this course is converted into a subscription-based business model, the course sections can be given to students for $3 per month. This way with 10 subscribers you have $30 fixed revenue for subsequent months and as users keep on adding the revenue keeps on growing. Amazon Prime and Netflix run a similar business model.

- **CONSULTING BUSINESS MODEL.** Consulting is a major business revenue for companies like Accenture which is the world's most successful consultancy business model company [7]. The services provided by Accenture are to a variety of industries from financial sector to communication and even the government sector. Consulting business model depends on hiring talented people and making them work on multiple projects for different clients [7]. The fees paid by clients can be Per hour or day or according to the requirements and the specifications of the service [7].

EXAMPLES [7]:

Accenture. Using this business model Accenture was able to build a multi-million-dollar company on a global scale

- **E-COMMERCE BUSINESS MODEL.** Building a website has become practically inexpensive and avoids a lot of traditional costs in brick-and-mortar type of businesses and hence more and more upcoming businesses are following a similar type of business model to have their businesses online [7].

EXAMPLES [7]:

The name Amazon and eBay have become synonymous with E-commerce. With more than $24 billion in revenue and about $8 million in profit, Amazon has captured the marketplace. Running very close to it is Alibaba which is the Chinese market leader in e-commerce which recorded over 423 million active buyers in the year 2016. Both of them have Business models diversified with many moving parts however the core is based on e-commerce

- **ATTENTION MERCHANT BUSINESS MODEL.** The company that generates revenue by investing in human attention is called the attention merchant business model [7]. These types of Business models run on attention merchant who works on grabbing the attention or focus [7]. The primary function of attention merchant Business models is to keep the attention of the customer engaged and hooked and then use that to promote a certain Ad [7].

EXAMPLES [7]:

Recently, Facebook *has* started to show ads in between the videos

- **INSTANT NEWS BUSINESS MODEL.** People want to know the happenings around the world instantly [7].

EXAMPLES [7]:

InShorts provide news in 60 seconds instantly comes into the limelight.

Twitter also serves the purpose of instant news with trending hashtags. Users can simply check the trending hashtags to know the current topics.

- **PRIVACY AS BUSINESS MODEL.** Privacy has become the biggest need in recent times and with the evolution of technology [7]. With Google and Facebook gathering data, the concern is legitimate for all people about their privacy. In this respect, many of the businesses have started evolving which allows users to control privacy better than popular businesses [7].

EXAMPLES [7]

Free sample over **Google** privacy concerns, a search engine like Duckduckgo has started evolving which allows users to control the data and private navigation.

Duckduckgo makes money via associations and by sales of local keywords. Does privacy become a business model for Duckduckgo?

- **EDUCATIONAL NICHE BUSINESS MODEL.** These types of Business models operate in the educational sector by charging a premium from the users who want to enrol with certain courses [7].

EXAMPLES [7]:

The online learning app Udemy, Language learning app Duolingo etc.

These applications provide courses for free of cost but getting a certification is chargeable

- **ON-DEMAND SUBSCRIPTION-BASED BUSINESS MODEL.** For more than a decade in past, we have relied on fixed schedules of the media business [7]. People used to watch late-night shows which were live or repeat telecasts of the same show on the next day morning [7]. But with the increase in the usage of YouTube videos, online video streaming companies like Netflix have gained popularity [7].

EXAMPLES [7]:

Netflix is an on-demand subscription-based business model wherein the subscribers can take a subscription whenever they want to watch a particular TV show or a movie and their subscription at their convenience***.***

Following the success of Netflix Amazon has started Amazon prime Hulu and many more. In 2020 Disney will come up with its streaming channel called Disney plus which will have the most popular movies

- **USER-GENERATED CONTENT BUSINESS MODEL.** These types of Business model work entirely on user content [7]. People come to these websites to know about information and that information is provided by other people themselves [7].

EXAMPLES [7]:

Quora is termed as Social QnA site. The concept comes from Wikipedia where users use their knowledge to edit certain articles and share their talent for others to read.

Blogs are another example of the user-generated content business model. Many people have their blogs, with millions of followers, wherein the share their views and thoughts about particular topics and websites earn money from advertising on those blogs or by taking yearly fees from the blogger for the site space

.

- **DIRECT TO CUSTOMER BUSINESS MODELS.** These types of Business model are followed by many established forms from a long time [7]. The company service directly to the customers without the requirement of an intermediary party [7]. These companies organize extensive marketing campaigns and involve customers in them to increase their market visibility and brand recall [7].

EXAMPLES [7]:

Unilever is considered as world's second largest advertiser according to 2017. It has the world's second-largest media spend along with more conventional advertising.

Unilever also delivers content through customizing channels and has made itself available digitally as well. These companies emphasize more on marketing rather than sales process because they believe that marketing is the backbone of sales. A better marketing campaign automatically results in increased sales

- **MULTI-BRAND BUSINESS MODELS.** Companies these days want to serve all categories of people [7]. To achieve this purpose companies need to have all sorts of brands which resonate with all categories of customers [7].

EXAMPLES [7]:

Not everybody can afford Puma Shoes, for example, hence many retail outlets have started to keep multiple brands in the same store so that the users can have a choice and the retailers can have a business

Several definitions and examples of business models are shown in Fig. 3.9

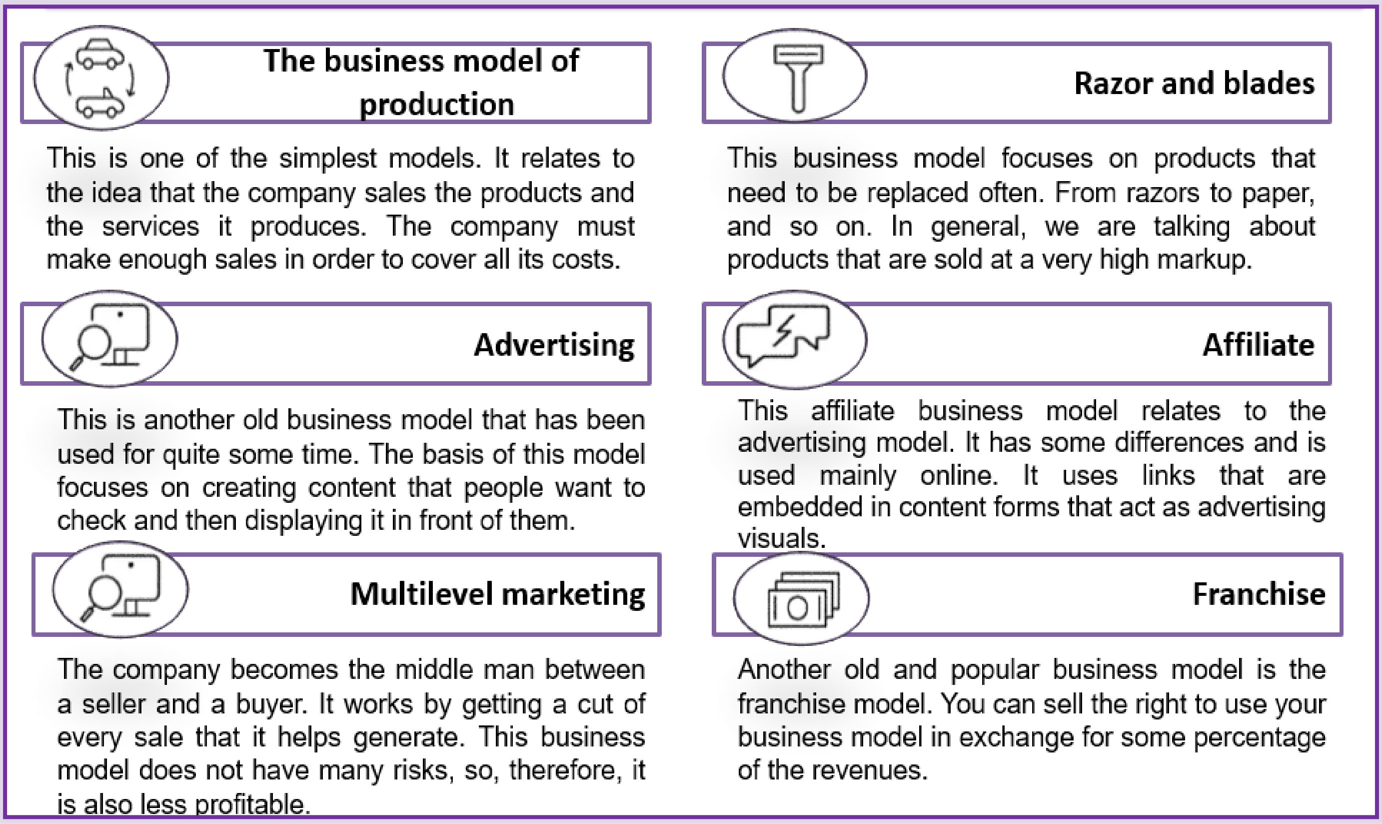

Figure 3.9 – Business models examples [3]

To better understand innovation in business models is illustrated in Fig. 3.10.

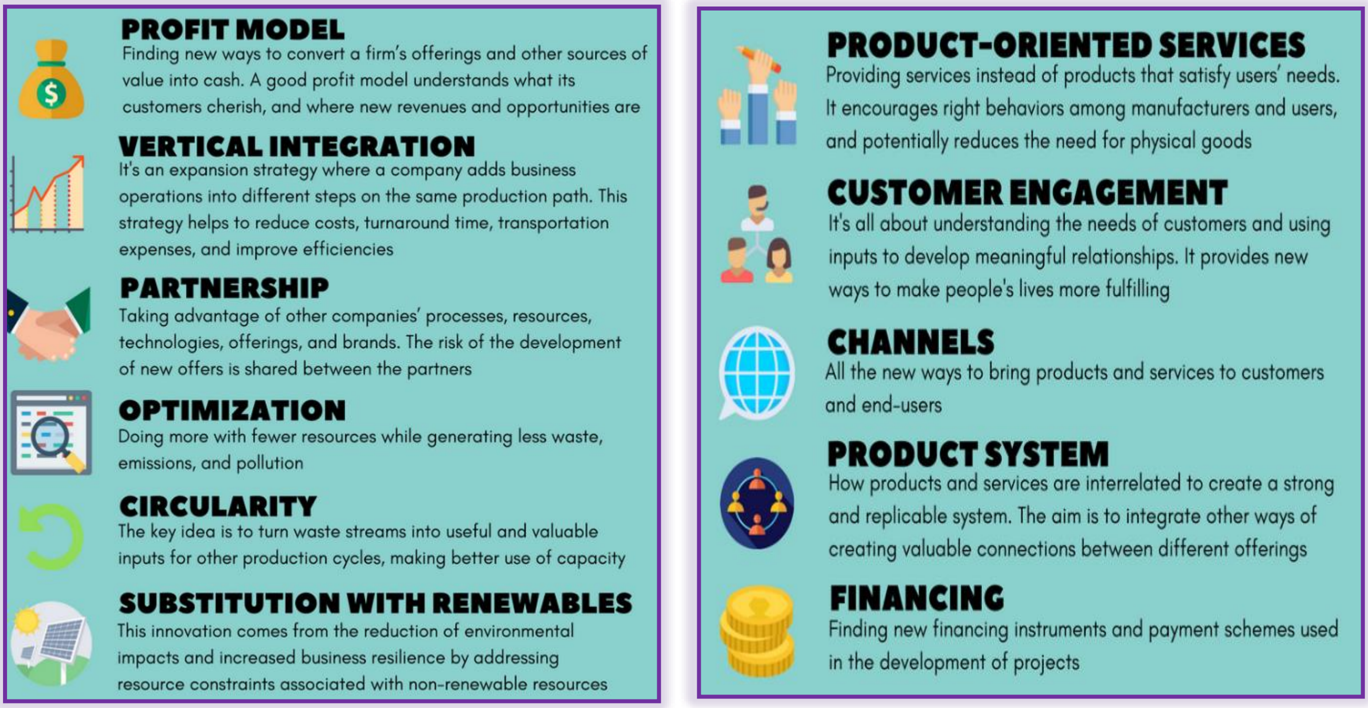

Figure 3.10 – Types of innovation of business models [8]

BUSINESS MODEL - CANVAS TEMPLATE

The Business Model Canvas (BMC) tool helps to map existing business models, improve them and invent new ones. It has 9 building blocks (Fig. 3.11-3.12) [9]

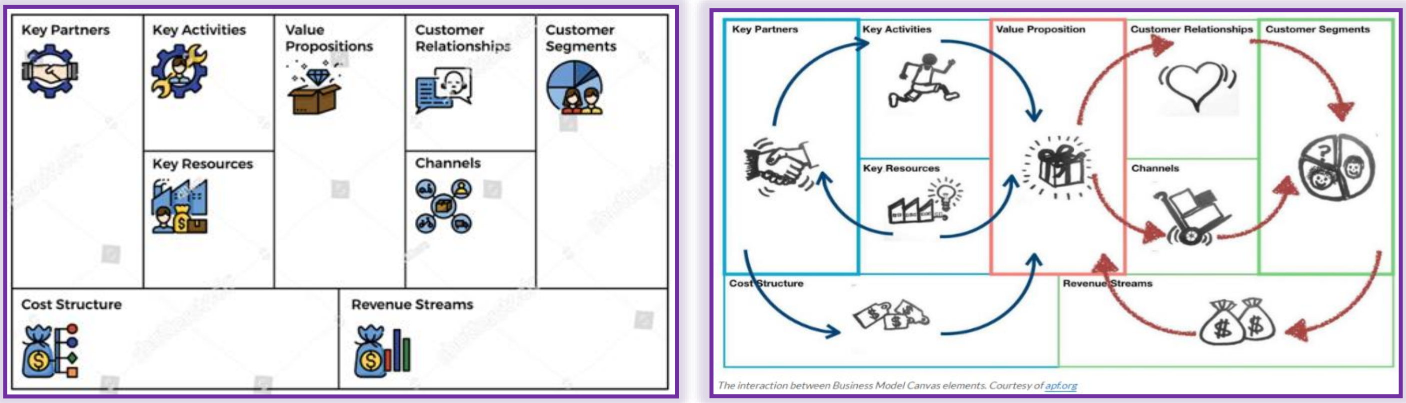

Figure 3.11 – Canvas templates of business models [10;11]

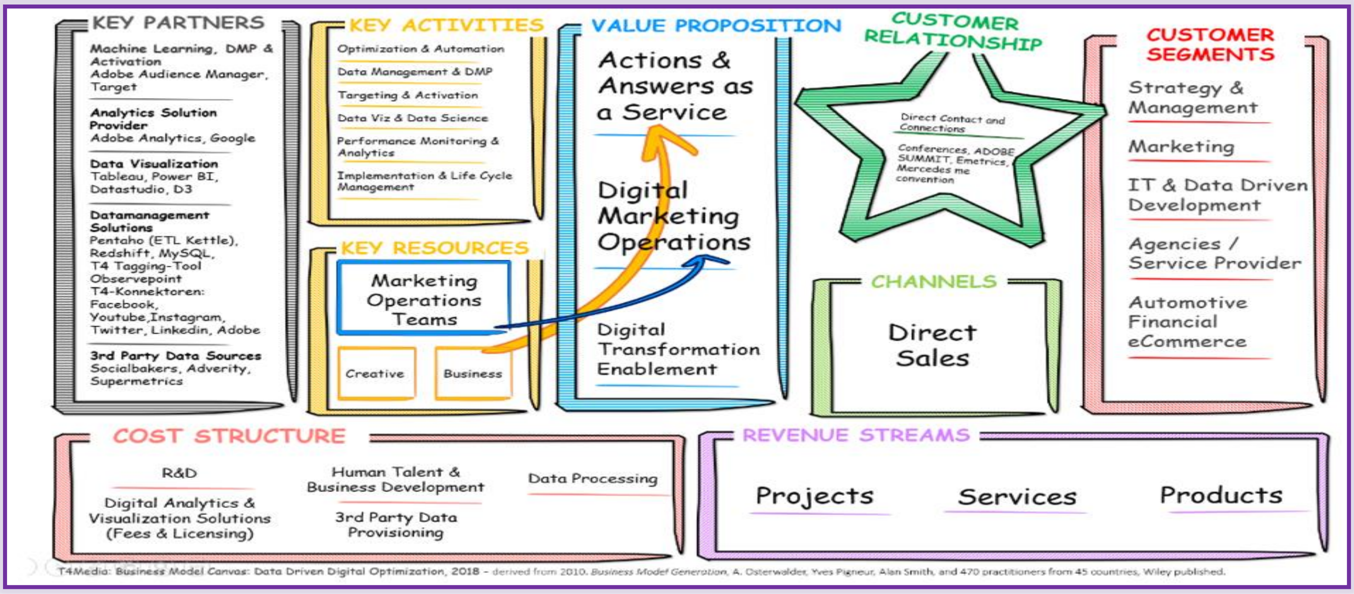

Figure 3.12 – Business model template [12]

These three factors are an excellent way of simplifying what you need to think about for creating any innovation. For developing a business model, we only need to tweak the definitions slightly to see how they fit into telling a story of a validated business model [13]. The right side, which focuses on your customers, will fall into desirability. On the left, how you create your solution, are in feasibility. Finally, the economics of your business on the bottom make up the viability [13].

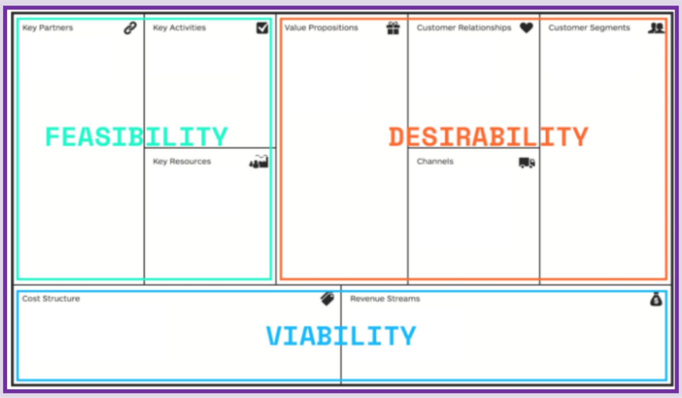

Figure 3.13 – Canva for business model [13]

How to go from startup idea to business model canvas [14-15]. The way from a startup idea to a business model is long but if you want to succeed, read the stages written below (Fig. 3.14).

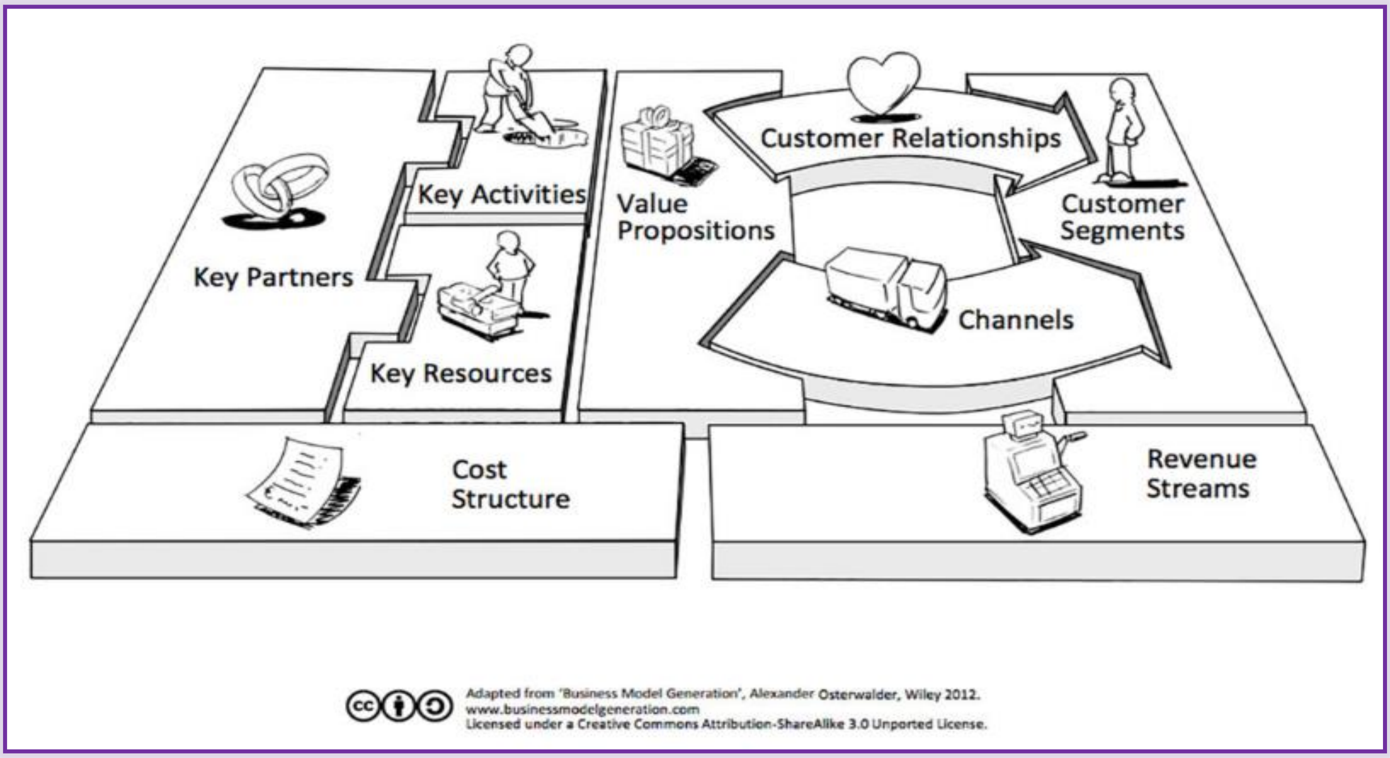

Figure 3.14 – Canvas Business model [13]

1. **Customer Segments + Value Proposition for Startup Ideas.** When beginning the canvas for your business startup ideas, you'll need to start with either the Customer Segment or Value Proposition component [15]. Understanding the different types of customers your company might have is critical to creating a successful business. Once you know this, you can start to brainstorm different ways to attack each group (see Table. 3.1) [15].

Table 3.1 – Customer Segments [16]

Name	Characteristic
Payers	People who pay a bill for your product or service
End Users	People who will use your product
Subsidized Users	People who will benefit from your product
Influencers	People who have the power to affect the purchase of your product
Decision Makers	People who may be responsible for business expansion, investments or company acquisition

Define the different groups of people or organisations you aim to reach and serve [16]:

- ❑ Who will buy your products or services?

- ❑ Are the target customers companies or consumers?
- ❑ What are the most important characteristics of your customers?

Now that you have a solid understanding of the different types of consumers you might have, you need to think about the kinds of value you can provide [15]. A value proposition is exactly what it sounds like a promise of value to be delivered, communicated, and acknowledged (see Table 3.2).

Table 3.2– Value Proposition [16]

Name	Characteristic
Gain Creator	Businesses that benefit their customers in different ways, such as creating positive emotions, providing high functionality, or creating social gains
Problem Solver	Businesses that develop a course of action for fixing an identifiable problem such as lowering personal costs and keeping existing customers
Pain Reliever	Describes how your product or service solves specific problems for customers

Describe the products or services that create value for your customers [16]:

- ❑ What products or services do you sell?
- ❑ What customer problem or need do you solve?
- ❑ Why would a customer buy your product or service?

2. Customer Relationships + Channels. Now that you have an idea of the types of customers valuable to your business and value propositions, you need to decide what channels to use (see Table 3.3) [15].

Determine how you reach your customers to deliver the value [16]:

- ❑ Which communication, distribution and sales channels are used?
- ❑ Which sales channels does your company use to reach customers?
- ❑ What channels do you use to deliver your products or services to your customers?

Table 3.3 – Channels [16]

Name	Characteristic
Wholesaler	A person or company that buys a large number of products from vendors and resells them to retailers.
Retailer	A company that buys products from wholesalers or manufacturers and resells them to customers
Distributor	A person or business that sells goods or services to customers or end-users
The Internet	A platform that companies can use to advertise their products and make a sale.

3. Revenue Streams for Startup Ideas. The goal of every business is not only to retain customers but to make a profit. And you can do that by asking yourself these three vital questions when filling out the revenue stream section of the Business Model Canvas [15].

Questions [16]:

- How will the business make revenue?
- What is the business's target audience?
- Through what method will the company generate revenue? i.e., (subscription service, brick, and mortar, or online store.)

Understanding how the business will make revenue will allow you to avoid wasting time in unproductive areas [15]. The general rule of thumb for your business startup ideas is to have between two to five avenues of revenue generation [15].

Describe how the company generates revenues. Revenue is generated by selling your products or services or from other activities [16]:

- For what are the customers currently paying?
- In which ways can customers pay?
- How are customers billed, one time or in instalments?

4. Key Resources, Activities, and Partners for Startup Ideas. They are crucial ingredients for sustaining business, what activities companies participate in, and what type of partners and relationships they develop with other companies and non-consumers (see Table 3.4) [15].

Table 3.4 – Key Resources [16]

Name	Characteristic
Physical resources	These include physical goods like raw goods, buildings, vehicles, machines, etc.
Intellectual Resources	These include goods that come from the mind, like proprietary knowledge, patents, partnerships, etc.
Human resources	These include human qualities like creativity, experience, organizational abilities, etc.
Financial resources	These include commercial entities like cash, credit, stock, etc.

Key resources are considered the «assets» of your company, which are vital for sustaining and supporting your business. They also allow you to create a compelling value proposition more easily [15].

Determine the most important resources for your company [16]:

- What resources are needed to sustain and develop your product or service?
- What resources does your company need to organize the distribution channels?
- What resources are needed to maintain customer relationships?

Key Activities can vary depending on the type of business model companies use [15]. These activities are categorized by production, which incorporates four design-related activities [15]:

- ❑ Manufacturing and delivering a product
- ❑ Problem-solving activities
- ❑ Platform, or networking activities.

Key Partners are the network of suppliers, businesses, or non-consumers that enable businesses to work (see Table 3.5) [15].

Table 3.5 – Key Partners [16]

Name	Types of Key Partnerships
«Competition»	This refers to a strategic partnership between you and a competitor. "Keep your friends close and your enemies closer."
Buyer-Supplier	This is precisely what it sounds like building a relationship with a buyer or supplier. Creating an element of trust between these two will create social proof for your business
Joint Ventures	Sometimes, joining forces altogether with a business that offers a similar service can be beneficial
Non-Competitors	This happens when you and a company you have no direct competition with partner up in a way that will benefit both parties

5. Cost Structure for Startup Ideas. The Cost Structure is "the backstage" of the Business model canvas. It describes all of the costs incurred as a result of running your business [15].

Understanding the cost structure of your business startup ideas will allow you to pivot or persevere while running your business. Now, there are two components of cost structures [15].

Table 3.6 – The Components of Cost Structure

Name	Types of Key Partnerships
Cost-driven	This is the act of minimizing your costs as a business to give you an advantage over your competitors
Value-driven	This type of cost structure focuses more on the design and overall maintenance of a product or service.

Creating and delivering products or services results in costs. Determine the most important costs for your company [16]:

- ❑ Which Key Resources are most expensive?
- ❑ Which Key Activities are most expensive?

Several examples of business models are shown in Fig. 3.7-3.11.

1. **Business model canvas Airbnb (type – marketplace) (Fig. 3.15).** In a world where technology dominates, we are used to having all the information at hand, just a click away [1]. Creative companies turn this behavior model into their trump card, offering many different on-demand services [1]. The main advantage of this startup business model is the ease of use and convenience, which makes it very attractive to customers around the world [1].

Also, using new technologies and relying mainly on freelance work, this startup business model significantly reduces the cost of doing business [1]. Moreover, the marketplace startup business model also eliminates the risk factor: the one who provides goods/services remains responsible for them, and not the platform itself [1].

Figure 3.15 – Business model canvas Airbnb (type – marketplace) [1]

2. **Business model canvas Spotify (type – subscription model) (Fig. 3.16).** The value of this model lies in the ability to predict revenues through repeated sales, which is incredibly beneficial for the valuation of the company [1]. This increases the company's sales ability, its attractiveness to potential venture capitalists, as well as consumer loyalty [1]. Another advantage is the ability to quickly and easily collect information about consumer preferences [1].

Figure 3.16 – Business model canvas Spotify (type – subscription model) [1]

3. **Business model canvas Uber (type – on-demand business model) (Fig. 3.17).** *New technologies + existing infrastructure + focus on the immediate satisfaction of user needs* — this is a simple recipe for success for startups who have chosen this model [1]. Another important advantage is the use of freelancer labor, which significantly reduces costs [1].

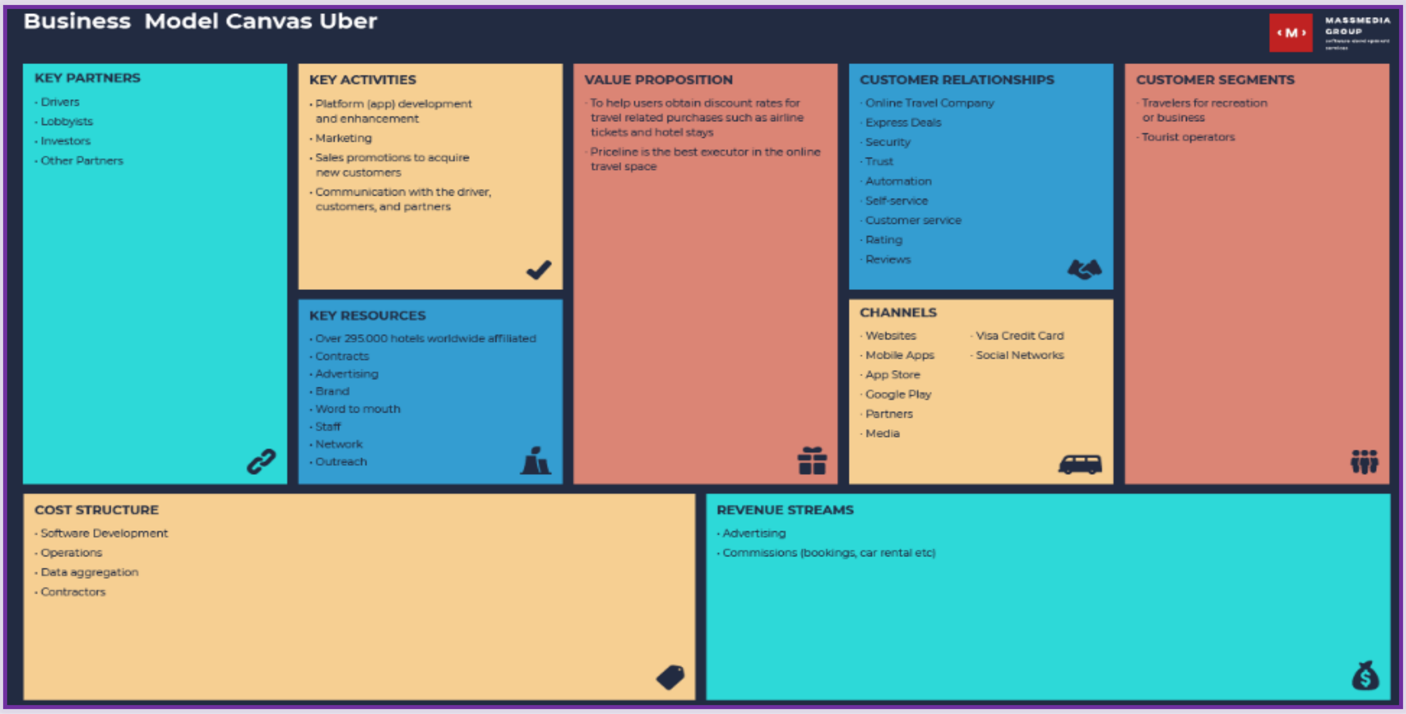

Figure 3.17 – Business model canvas Uber (type – on-demand business model) [1]

4. **Business model canvas LinkedIn (type – freemium model) (Fig. 3.18).** This business model makes it possible to scale up early-stage startups, attracting users without expensive advertising campaigns [1]. It’s easy for consumers to get started with a product. Even the «30-day trial period» or the «Money Back Guarantee» are much greater barriers for new users to decide to use a product than a “Free” statement [1].

Theoretically, it’s easy to make upsell — to sell something else. Customers are already using your system, so using a special offer, changing the payment model, or simply as a result the user has outgrown the “free” version are the ways to stimulate the payment [1].

Figure 3.18 – Business model canvas LinkedIn (type – freemium model) [1]

5. **Business model canvas Priceline (type – reverse auction) (Fig. 3.19).** An unusual way of pricing is a “magnet” for users of a product. In the same way, such a startup business model increases customer loyalty — he feels himself an important, decisive link in the transaction [1].

On the other hand, by choosing such a model, your product will always be in demand by those companies that wish to sell their products and services, that could not be marketed [1].

Figure 3.19 – Business model canvas Priceline (type – reverse auction) [1]

3 BUILDING A BUSINESS MODEL BASED ON THE LEAN TEMPLATE CANVAS

Ash Maurya, the inventor of this tool, looked at Osterwalder's canvas from a different perspective. He changed the vector a bit to obtain a problem-solution approach to business analysis [17]. And here is what he's got (Fig. 3.20).

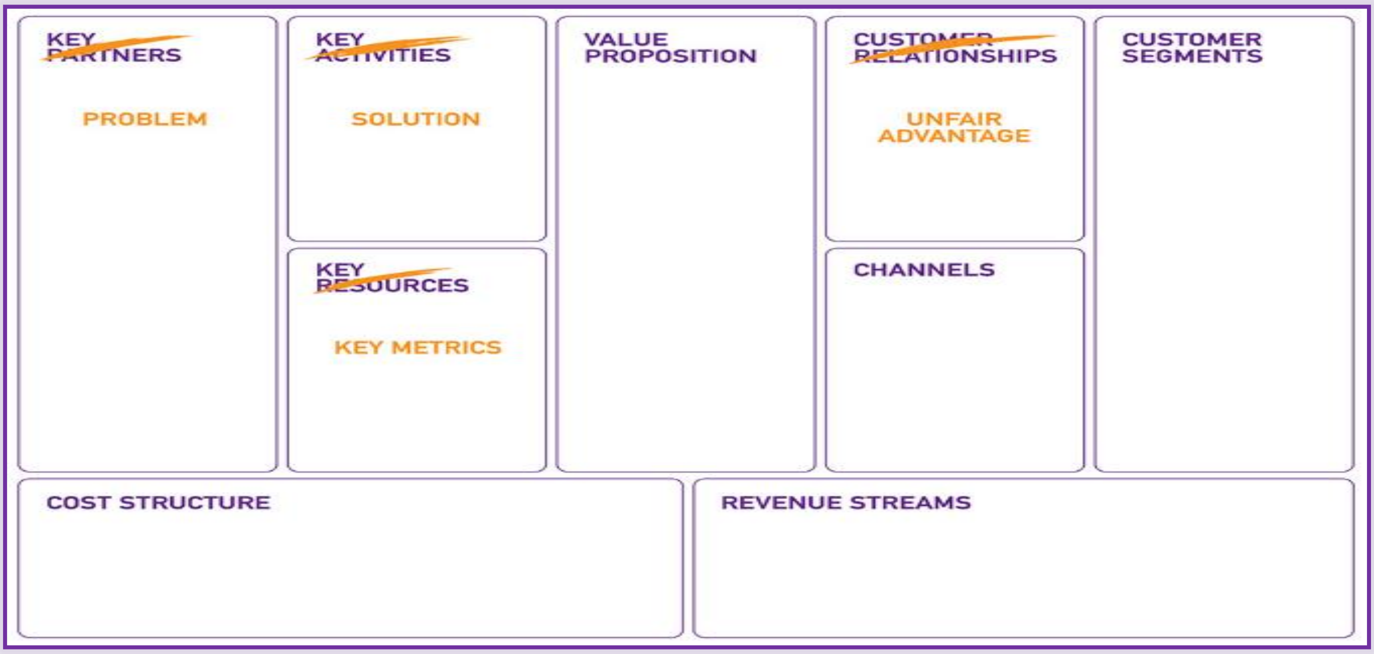

Figure 3.20 – Lean Canvas [17]

Generally, this document looks like the adapted tool we described above. The difference lies in the focus shifted towards the practicability and viability of the offered idea. The Ash Maurya lean canvas is intended to evade a failure of marketing a service or merchandise that nobody will be interested in [17].

Structurally, it is identical and consists of nine boxes. However, the changes it went through were essential for general perspective and applicability(see Table 3.7) [17].

Table 3.7 – The difference between lean canvas vs business model canvas [17]

Canvas	Business Model Canvas	Lean Canvas
Basis	The value proposition to win the market	Unfair advantage to deliver a much-in-demand product/service
Suitable for	Existing business	Startups
Customer orientation	Emphasis on customer interrelation and channels	Emphasis on customer segment
For use by	Business operational parties including entrepreneurs, advisors, investors, customers, etc.	Entrepreneurs, startup founders, product owners
Applicability	A strategic tool for a thorough analysis of the business strengths and weaknesses	A clear problem-solution approach for new entrants in the market

Lean canvas has several blocks (Fig. 3.21).

Figure 3.21 – Lean Canvas [17]

Lean canvas is good for structuring the segments of the project See information below [17]:

1. **Customer Segments.** Many startup founders suffer from a common misconception called "everybody needs my product". Narrow down the customer segment as accurately as possible. You'll be able to expand it later on if you take off [17]:

- It is also essential to separate users and customers. A good example is an application for kids, where the users (kids) and customers (parents) are different segments.
- In this case, mark each category in different colours.

Early adopters [17]***:***

- In the lower part of the customer segment canvas box, there is a supplementary section.
- Here you need to specify the actual people who will deal with the raw product and are the first feedback providers.
- If you, as a developer or startup founder, are going to test the product as well, feel free to put your name here.

2. **Problem.** In this box, we refer to customer problems that your product is meant to solve. In case you have several customer segments with different problems, you may make separate canvases for each of them [17].

Existing Alternatives. The Problem box has the Existing Alternatives section in the bottom. It is designed to contain your competitors that deal with the same problems. These are your rivals to compete with and win their clients over [17].

3. **Revenue Streams.** The idea you're going to implement must bring revenue. So, in this box, you need to specify the expected sources of income. Usually, entrepreneurs use the cost-based approach where you calculate costs and add a margin. However, we recommend you rely on the average value required for the client [17]. To achieve your product viability on the market, make sure that your pricing is more appealing than those of your competitors [17].

4. **Solution.** All problems you specified in the neighboring box should be matched by the relevant solutions. It is recommended to describe your product in a non-technical way to explain what experience the customers are meant to obtain [17]. Cooperation with your target customers will let you learn their needs and deliver the most attractive offer [17].

5. **Unique Value Proposition.** It's no accident that this structural unit takes the central place in the canvas [17]. The Unique Value Proposition is a brief message,

which is intended to attract customers' attention. The idea is to describe the uniqueness of your product and show its key difference from other alternatives. The customer should understand why he or she needs and wants it [17].

High-level concept. At the bottom of the unit, there is a place for creating a high-level concept – a short and easy-to-grasp statement about your product [17]. It's a kind of elevator pitch you, as well as your team members and customers, will use [17].

6. **Channels.** In this unit, you should specify communication media to reach out to your target clients defined in the customer segments block. Lean canvas channels may include offline/online and free/paid options to deliver information about your product to the end user [17].

7. **Key Metrics.** Whatever your startup deals with, it is recommended to define key tracking metrics to measure the progress of your business. Initially, you can do with one of them – minimum success criteria, i.e., the outcome that can be deemed a success. Later, your canvas may be expanded with other vital metrics [17].

8. **Cost Structure.** All sorts of costs find their place in this box. These may include costs for office rent, hardware, recruitment, market research, and so on. The lean canvas model does not force you to look ahead in the long term [17]. It's enough to narrow your time window to a particular milestone like a product release or the first dozen customers [17]. Once the box is filled in, you can balance it with the income sources [17]. By doing so, you get answers to such questions as "how many sales are required to pay off the investments?", "where is the breakeven point?", and others related to a winning outcome [17].

9. **Unfair Advantage.** This term denotes a special thing about your idea that your competitors are not able to copy or obtain in any possible way. Unfair advantages may include a good reputation, exclusive access to some data, personal authority, community, and other extra power [17]. It's not necessary to seek out your competitive advantage right now – you can fill this box later when some other things start going your way [17].

Keep in mind that this tool can and needs to be updated once you get new feedback from your customers [17].

4 CONFIGURATIONS OF BUSINESS MODEL TEMPLATES

There are different templates for building a business model. Let's consider them.

1. Business model of M. Johnson [18; 19]. Its feature is ***«Profit formula»*** [18]*:*

- «revenue model» – the product of price and sales volume;
- «cost structure» – direct, indirect costs and economies of scale (cost of key inputs),
- «gross profit model» – gross profit calculations;
- «resource turnover» – the rate of turnover of capital, fixed assets and other assets

To better understand several other business models, see Fig. 3.22

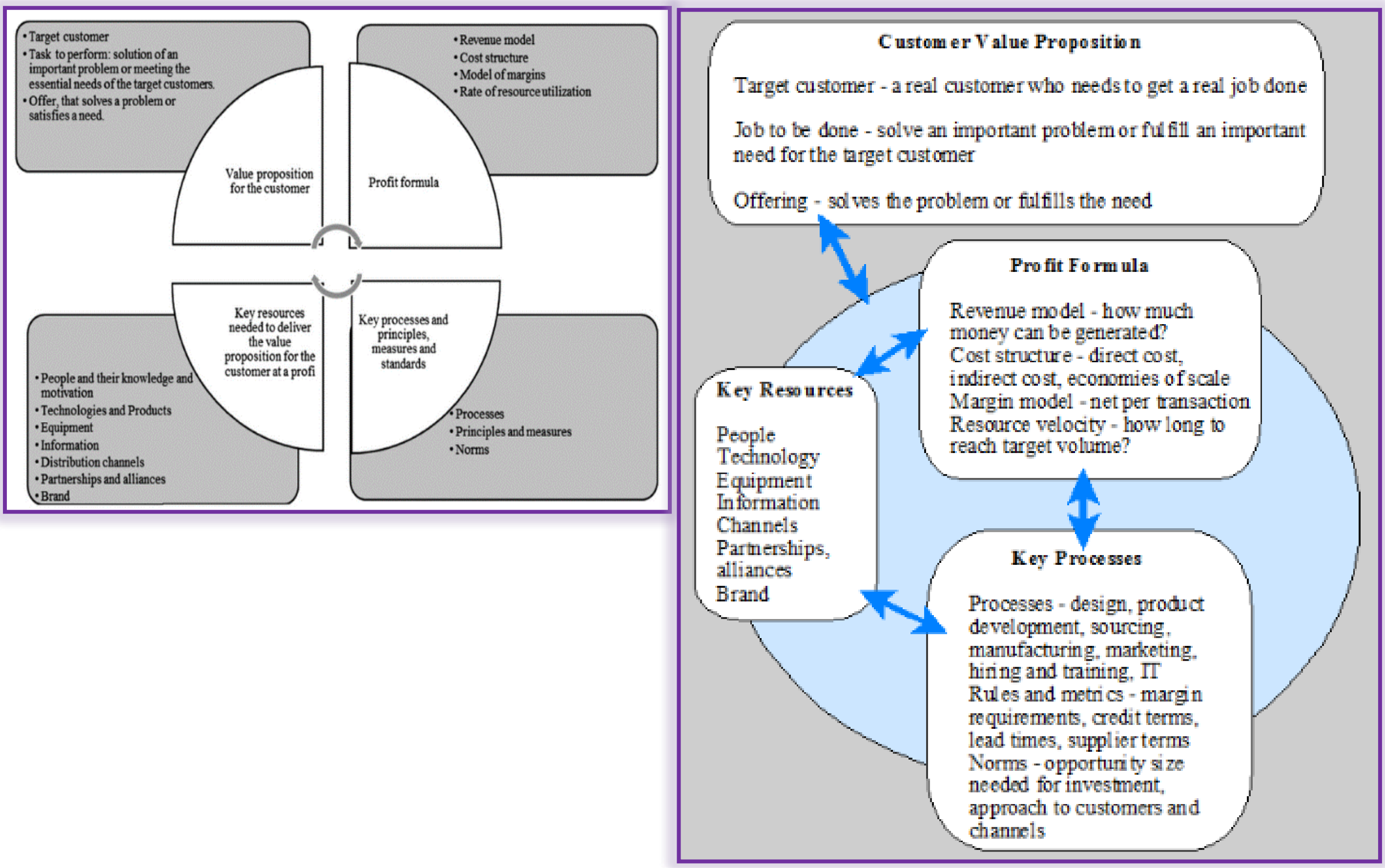

Figure 3.22 – Business model of M. Johnson [18]

A sustainable business model canvas has such a configuration as shown in Fig 3.23.

Figure 3.23 – Sustainable business model canvas [20]

2. **Navigational business model O. Gassman, K. Frankenberger, M. Csick** includes three components, as shown in the example.

EXAMPLES [21]:

Rolls-Royce [21]

What? Why? This British aircraft engine manufacturer introduced an innovative business model called 'power by the hour, whereby airlines purchase flying hours instead of buying aeroplane engines outright.

How? The hitherto existing way of doing business was one-time payments with a cost-based pricing scheme. Rolls-Royce, in contrast, retains ownership of the engines and is responsible for maintaining and repairing them.

The company generates a constant revenue stream in this way and has reduced costs by improving the efficiency of servicing.

Given the company's primary aim of building low-maintenance engines, this Performance-based Contracting business model has also changed employees' mindsets, for in the old days engine repairs served as a direct source of income, and this led to ambiguous goals in development.

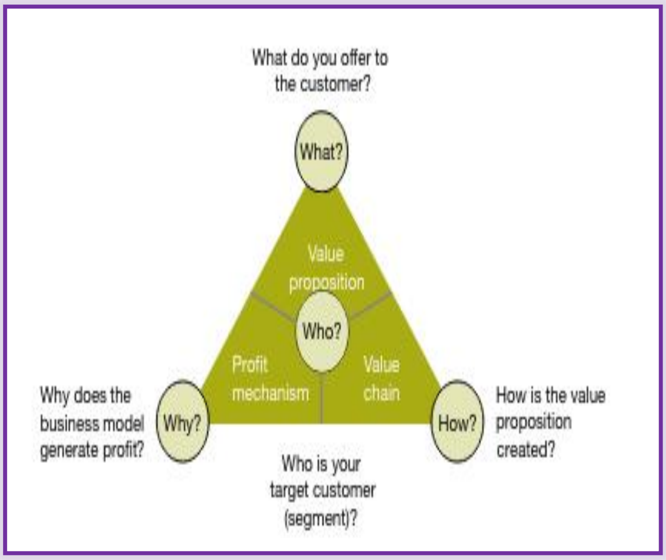

Figure 3.24 – Navigational Business Model. Gassman, K. Frankenberger, M. Csick [21]

3. Integrated business model. Includes three components, as shown in Fig 3.

Wirtz defines BMI as the design process for creating an as new as possible BM which is accompanied by an adaptation of the value proposition and/or the value constellation and aims at the creation or protection of sustainable competitive advantage [23]. According to the author the composition of a BM is significantly depending on the structure of its single "partial models" and thus he distinguishes between strategic partial models, partial models relating to customers and the market as well as partial models relating to value creation [23].

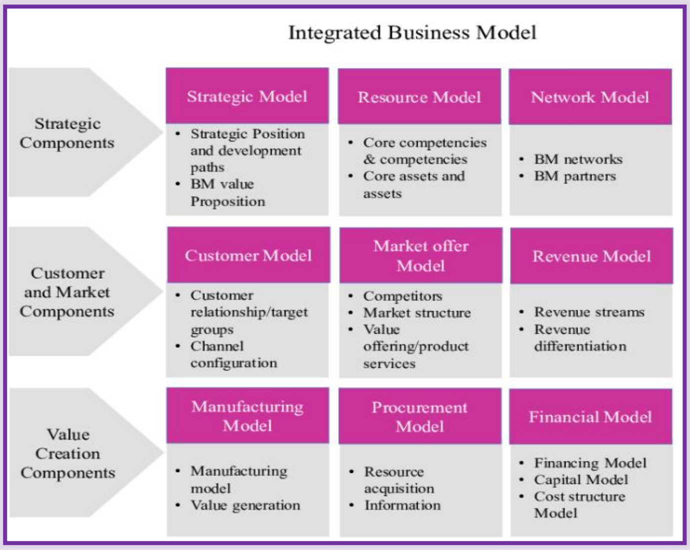

Figure 3.25 – Integrated business model [22]

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TOPIC 4

MARKETING OF A STARTUP PROJECT

CONTENTS OF LECTURE

1 PECULIARITIES OF STARTUP MARKETING

An important thing in each successful business is developing marketing strategy. See the details below

Startup marketing	a set of tools and measures to acquaint the target audience with the idea of the product/service, their promotion on the market and ensuring the commitment of potential consumers, attracting partners, investors, etc. [1].

What startup marketing is NOT [2]:

- **The Cure for a Lousy Product** – There are a lot of things that marketers can do but if you have built something that nobody wants to buy or something so difficult to use that buyers give up on the product in disgust, well, marketing can't help you all that much.
- **Magic –** Related to the previous point, we might be good at many things but I don't believe the tooth fairy leaves money under your pillow and neither should you. Convincing people to part with their hard-earned money is difficult to do and there is no simple magic wand that works when we need it to. Like everything else in your startup, it's hard work.

- **Common Sense –** Just because you are on the receiving end of thousands of marketing messages a day and have an opinion about those, does not mean you understand what goes on behind the curtain.

Sure, there are some differences between ordinary product marketing and marketing of startups. See Table 4.1 for differentiating the main peculiarities

Table 4.1 – Differences between startup marketing and product marketing [3]

Characteristic	Startup marketing	Marketing
Market promotion	Promotion of an innovative product idea Promotion of an innovative product	Promotion of the finished product
Opportunities for financing marketing activities	Constant savings on marketing costs	Significant marketing costs
Who is marketing aimed at?	The consumers The investors	The consumers
The type of marketing used	Mostly digital marketing	Traditional and digital marketing
People involved in marketing	In the initial stages, the developer or one of the team members. At later stages, a separate marketing position may appear in the team	Marketer or marketing department (division)
Development of marketing strategy	It often changes, the development process is somewhat chaotic	Thoroughly worked out, developed step-by-step

There are several marketing principles including focusing on startup building values and others. See Fig. 4.1 for getting familiar with them

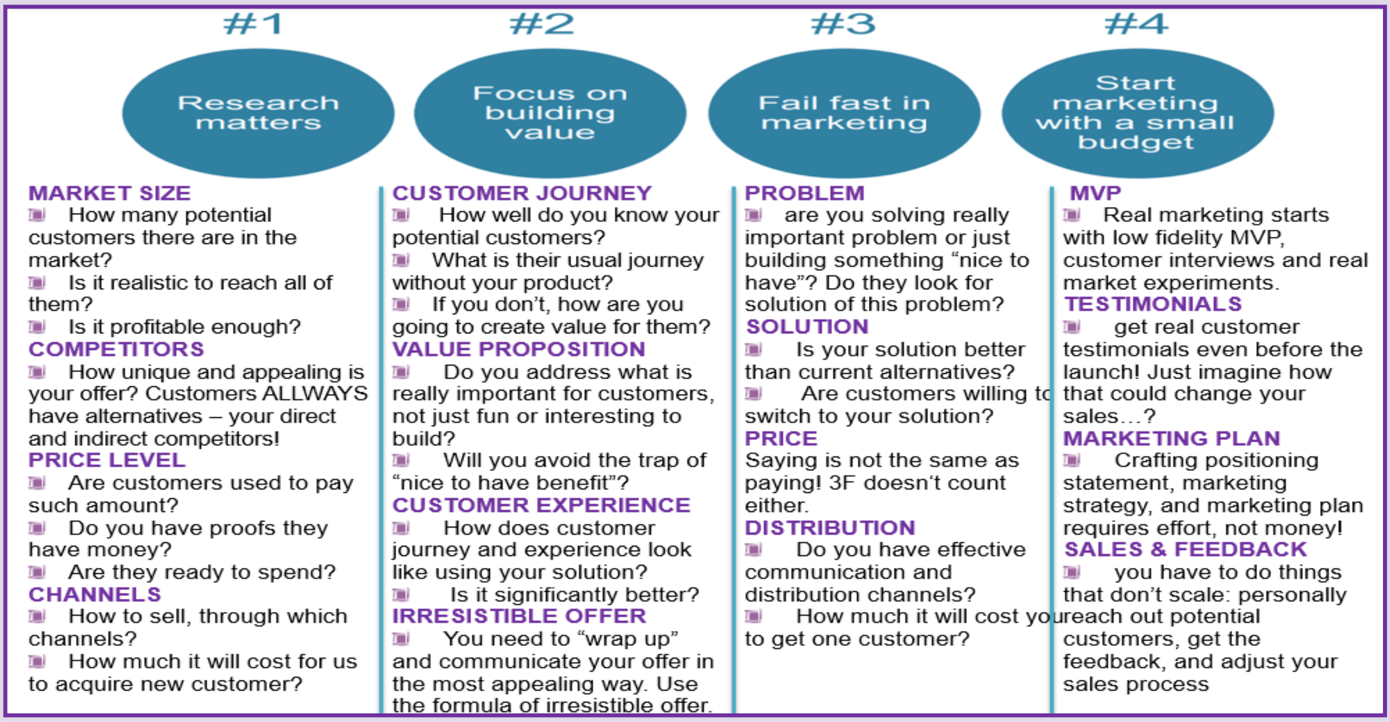


Figure 4.1 – Startup Marketing Principles [4]

4 stages of startup marketing consist of generating, testing, implementing ideas and attracting investors (see Fig.4.2)

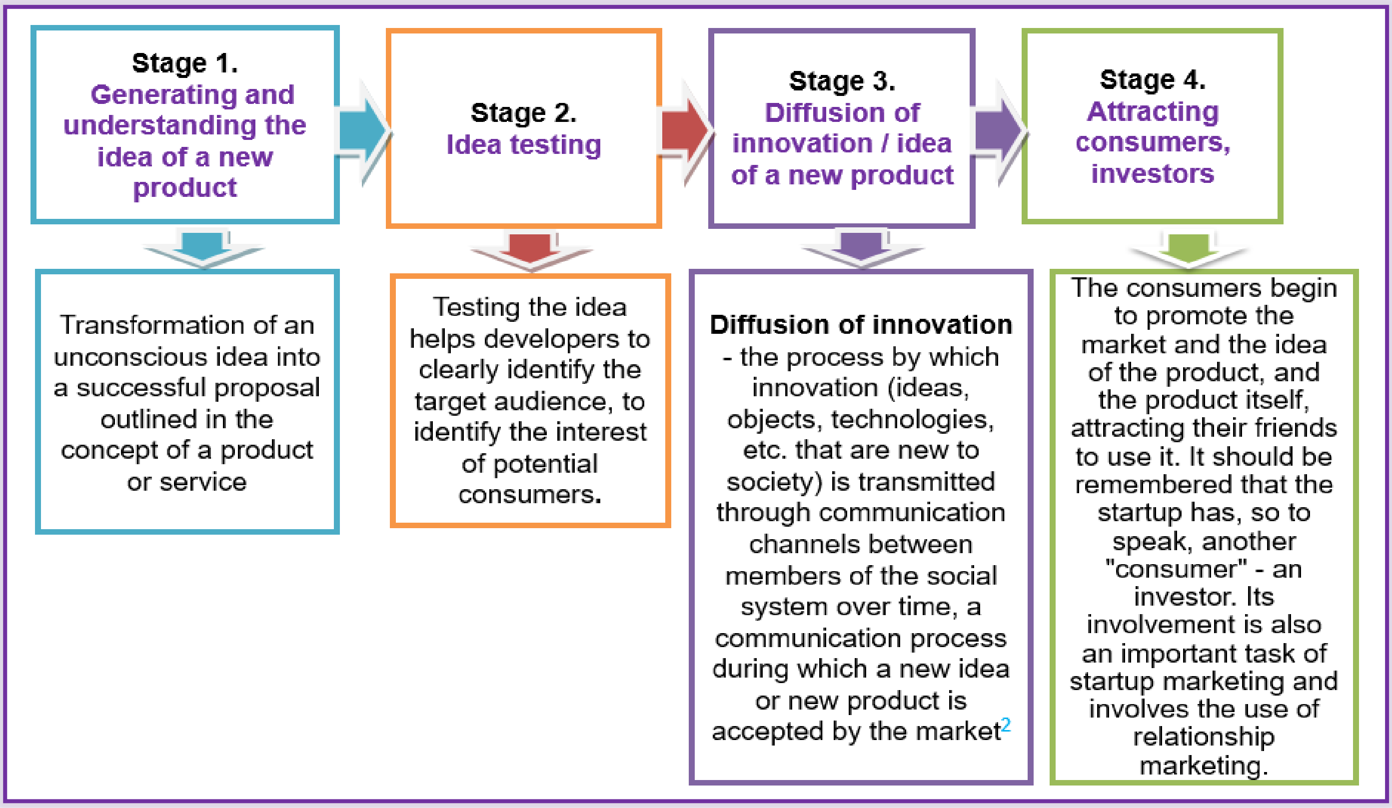


Figure 4.2 – Stages of Startup Marketing [5]

In startup marketing is used E. Rogers **'Diffuse model for consumers' perception»** of the idea of an innovative startup product. Illustration below gives better understanding of the model and target audience (see Fig. 4.3 [1]).

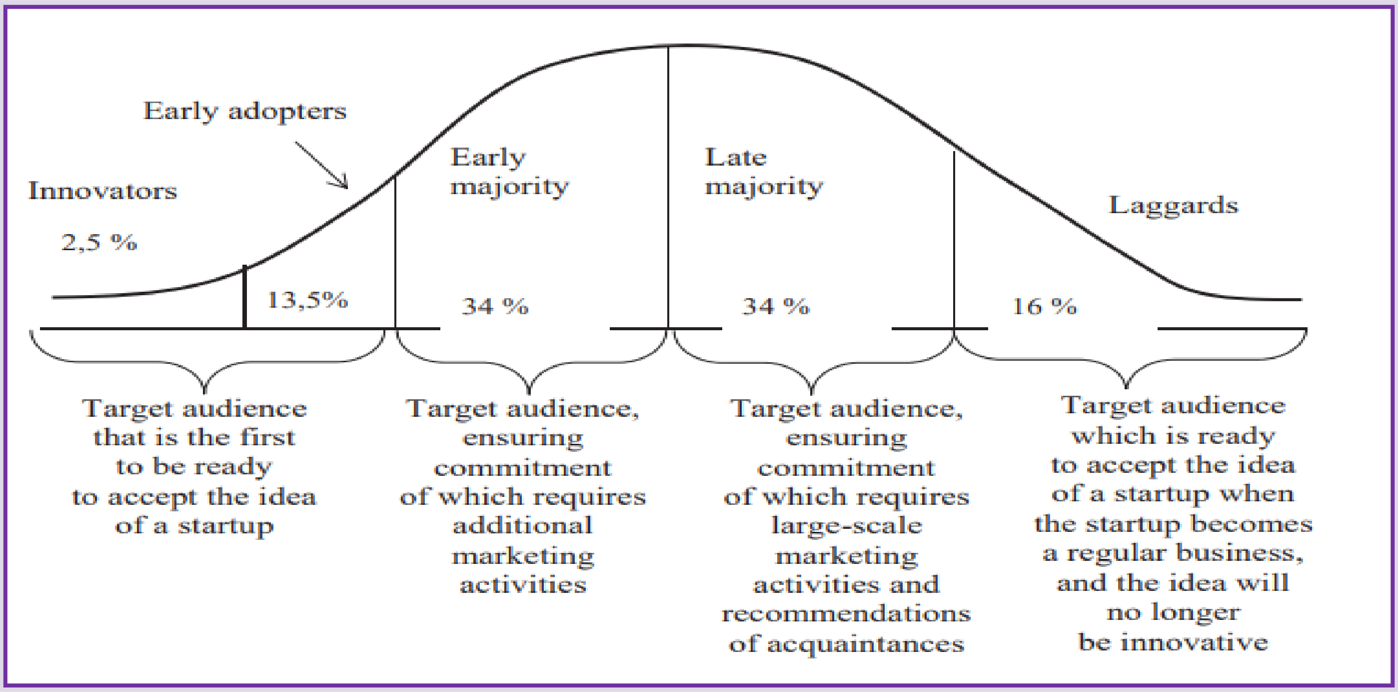


Figure 4.3 – Diffuse model for consumers' perception [1]

The 4 Ps marketing mix. The main means of marketing startups is 4ps marketing mix [7]:

- **Product.** This is the most important part of the marketing mix. Having a great product or service that people want to buy is the cornerstone for starting a successful business. Market research – such as focus groups and surveys - can help you develop and refine your product.
- **Price.** How much are you going to charge for your product? At its simplest, you can work out how much it costs to produce an item and add on a percentage for profit. But savvy startups think more strategically about price. How will the perception of your price affect sales? Will your price seem too high for your target customer? Or will it look suspiciously low? Would people prefer to pay more for a brand that is perceived as 'high-end'? Or is there a gap in the market for an affordable option?
- **Place.** Place just means how and where customers buy what you sell.
- **Promotion.** Promotion is how you attract the attention of your ideal customer. You've already worked out the perfect product to offer, priced it attractively, and sorted out how you'll sell it. You need to plan a range of promotional activities to let them know who you are, what you do and how you are going to make their lives better

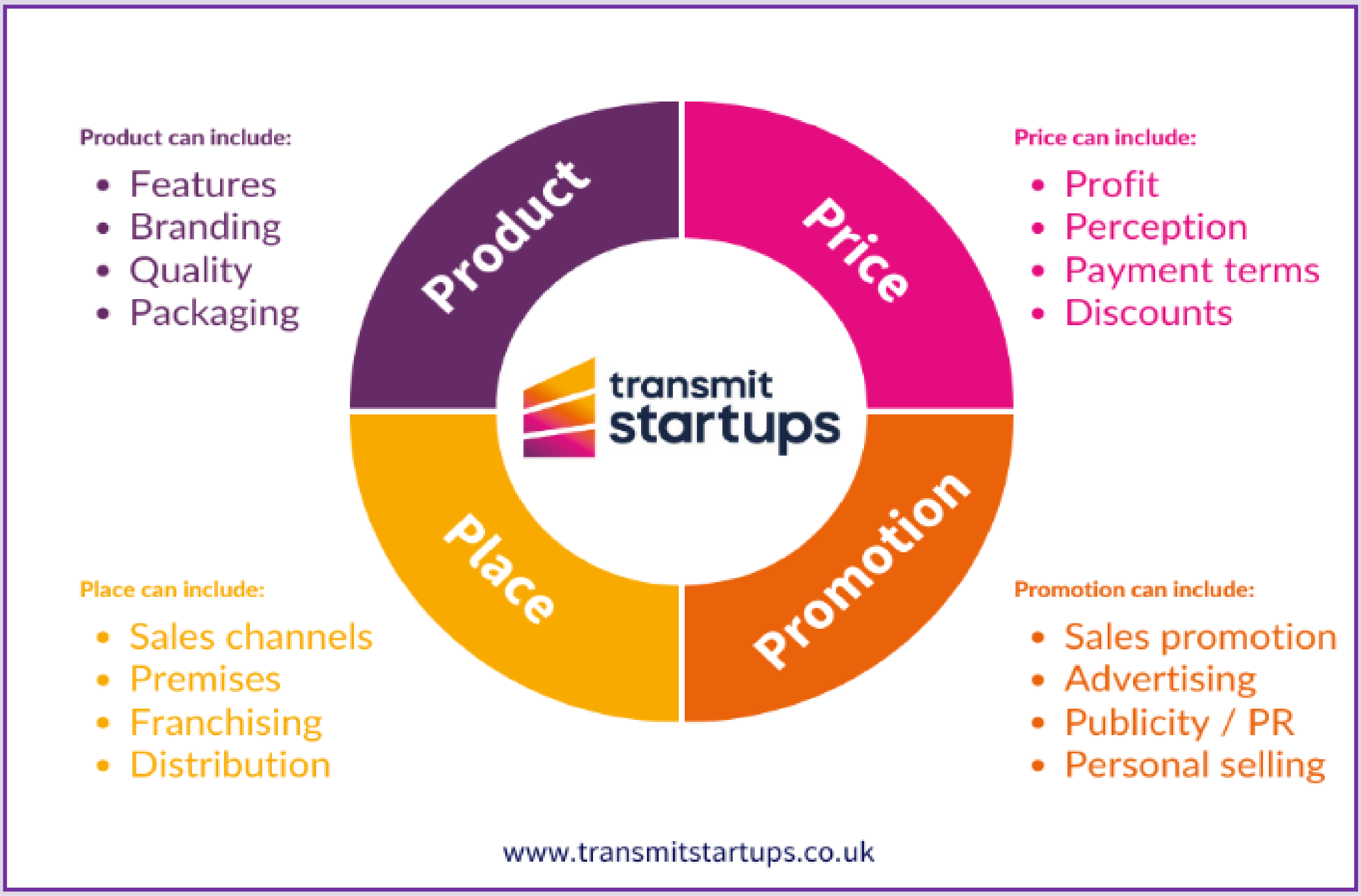


Figure 4.4 – The 4ps marketing mix [7]

Types of marketing. Names play an important role in the life of startups. Name is one of the main aspects that can attract either customers or investors

Name	a great brand name is the heartbeat of a solid marketing campaign. A great logo has an element of romance, stands out, and is still recognizable when it's shrunk. A great example of this is Apple's original logo [8].

Table 4.2 – Different types of names [8]

Types	Characteristic	Example
Functional	These kinds of names describe the function of a product or company	Swype, Glympse, Quickbooks, iRobot, InfoSeek, GoTo.
Inventive	Inventive names can be memorable and emotionally engaging	Google, Zillow, Skype, TiVo, Firefox, Mozilla, Alexa, Oreo.
Experiential	These kinds of names relate to some sort of human experience	NetScape, Picnik
Evocative	These kinds of names evoke position of a company instead of a function or an experience	Apple, Virgin and Yahoo

1. Building Inherent Virality Within Your Product [8] Understanding your product and its goals will aid in determining if and how to build inherent virality in the product itself. A useful and delightful product can turn your users into evangelists who can spread the product simply via word of mouth.

A viral loop precisely describes steps and characteristics that make a service popular.

EXAMPLE [8]:

When Hotmail first launched, it contained "Get your free email at Hotmail" line in its footer. That led to an explosion in user growth. Some companies offer referral incentives to users for inviting other users. For example, Dropbox offers every user 500MB of free space as a referral incentive. Early on, Facebook grew its users and engagement numbers through the photo tagging feature.

2. Building Inherent Virality Within Your Product [8]. Press is all about relationships. Good relationships and understanding how the media works can help and sometimes be the difference in landing a story or not. When reaching out, be authentic and write a short, simple, and humble pitch that shows you know what they cover and what interests them. Analogy in pitches can sometimes help.

Be patient with reporters and do not bombard them with emails. Also, it is easy for reporters to cover your startup if you have a significant piece of news, if your product offers extraordinary/rare features, you have recently received a funding round, or can be a resource for supportive data and a voice for trend expertise in their articles.

EXAMPLE [8]:

Yammer is often described as the «Twitter for Enterprises».

Early on, Clipboard was described as the «Dropbox/OneNote for the Web».

3. **Social media marketing [9].** One of the simplest and most effective strategies revolves around social media marketing. Facebook marketing, Instagram marketing and LinkedIn marketing can raise awareness of your startup and attract new audiences to your brand.

Studies have shown that 89 percent of companies admitted an increase in the buzz surrounding their brands due to social media exposure.

4. **Website search engine optimization (SEO) [9].** People use search engines on a daily basis. This means that you should pay extra attention to your site's SEO optimization. Make sure to use relevant keywords for your content and name your articles and subheadings properly. This is undoubtedly the cheapest way to market your startup through organic search and traffic generation. It can be done entirely independently of any third party doing it for you.

A healthy 83 percent of small-business owners believe that a well-kept website can bring more revenue and traffic to their businesses.

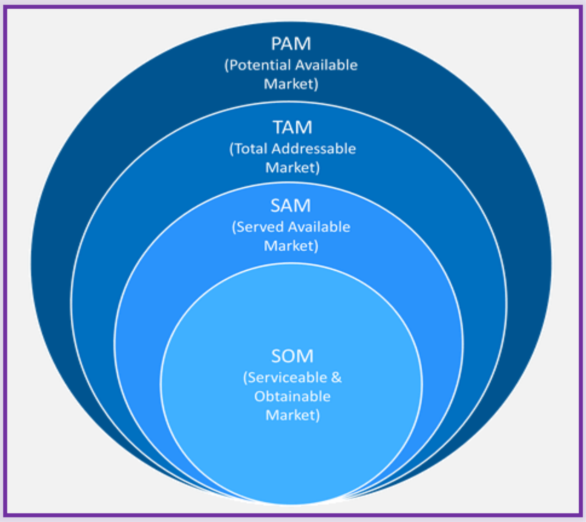
5. **Email marketing [9].** Reaching out to potential customers and subscribers through email takes very little time and effort. All you have to do is create original content and ship it to your mailing lists.
6. **Influencer marketing [9].** Influencers are mini celebrities with large followings that can influence their audiences into checking you out.

METHODS OF EVALUATING THE STARTUP MARKET

There are a number of methods of evaluating the startup market

1. Method PAM, TAM, SAM, and SOM [10]:

TAM, SAM, and SOM are hallmarks of market sizing, and they certainly help us to understand what we are estimating and communicating. Let's define these terms, then we'll get back to our example and show you how they work [10].



https://www.sketchbubble.com/en/presentation-total-addressable-market.html

Figure 4.5 – Method PAM, TAM, SAM, and SOM [10]

Potential Addressable Market (PAM). The key word is potential because it includes the universe of buyers not currently included in your target market, but it's conceivable that they could be in the future. PAM is the most optimistic and forward-thinking view possible. VCs will often see PAM being presented to them under the cloak of TAM [10].

Total Addressable Market (Total Available Market) (TAM) Total Addressable Market is the total market size in the target market. At this point, we are not limiting ourselves to who we can reach or how many we can obtain [10].

Serviceable Addressable Market (SAM). While it would be awesome to reach the entire TAM, most of the time we cannot, so SAM represents the market we can actually reach with our sales team, resellers, distribution channel partners [10].

Share of Market (Serviceable and Obtainable Market) SOM. This is the portion of the market we actually expect to capture as customers [10].

The essence of the method is shown in Fig. 4.6.

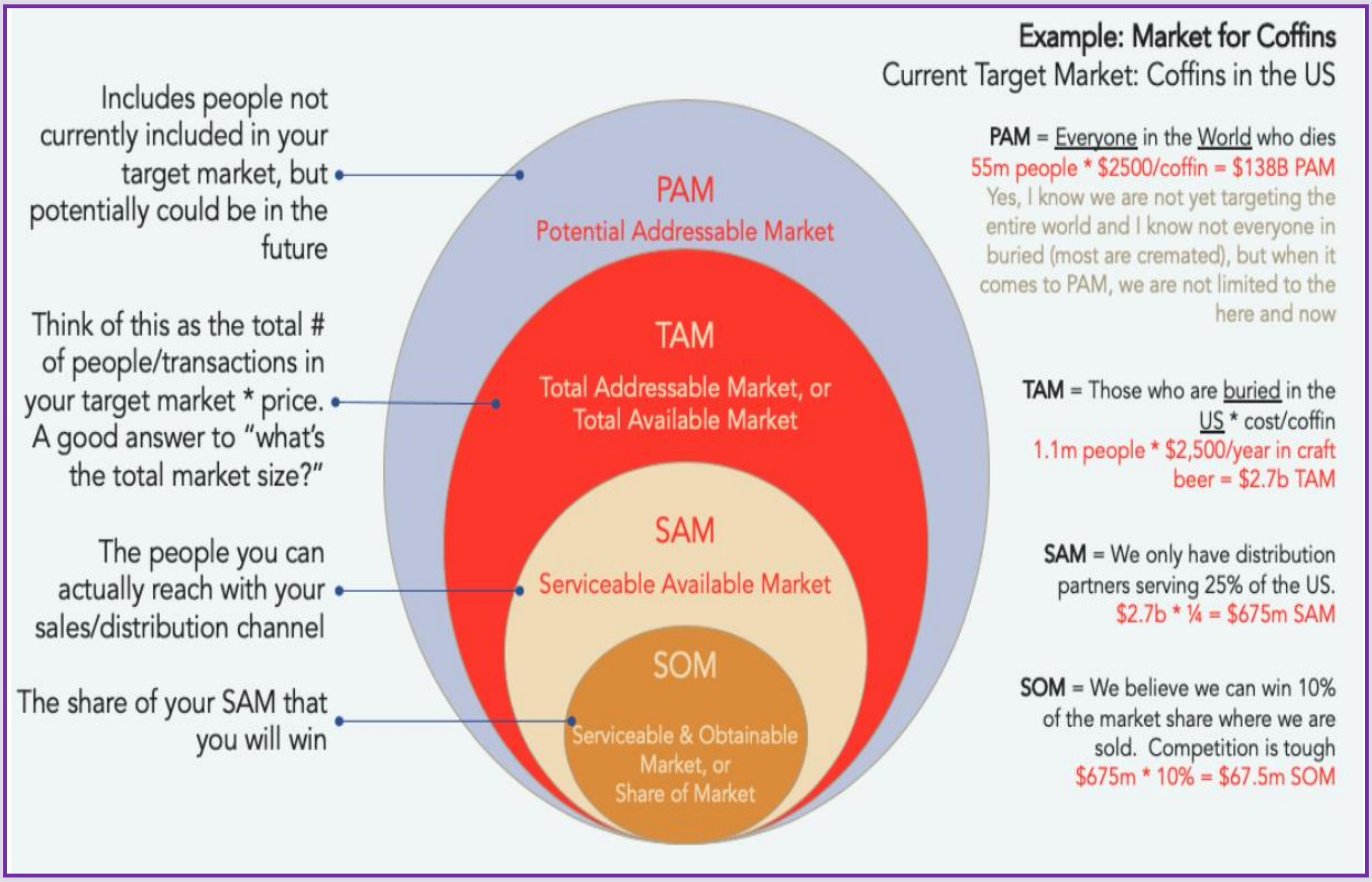


Figure 4.6 – Method PAM, TAM, SAM, and SOM [10]

EXAMPLE [11]:

Potential addressable market [11]

The global beauty industry in 2019 was valued at $532 billion, this refers to the total available opportunity for businesses operating in this industry.

AшпIf your revenue per customer is say $500 per year and you are looking at a market with a potential 50 million customers.

That makes your total addressable market:

$500 x 50M = $25 Billion per year

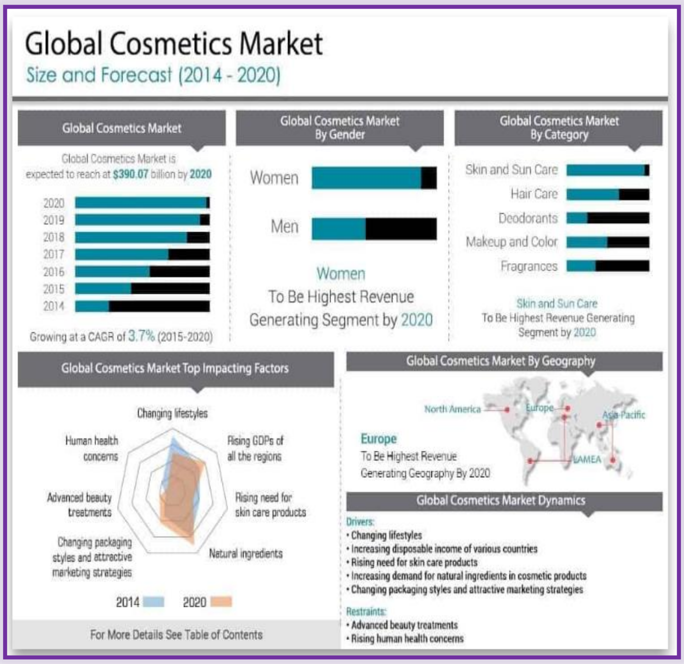


Figure 4.7 – Global Cosmetics Market [11]

Addressable market (TAM). It represents the financial size of the available market per year for your initial target market plus your follow-on markets if you were to capture 100% of the customers [12].

Total Addressable Market (TAM)	a quick metric to measure the size of the market and how big the business opportunity is i.e. the total market demand for a product or service [12].

It represents the financial size of the available market per year for your initial target market plus your follow-on markets if you were to capture 100% of the customers [12]

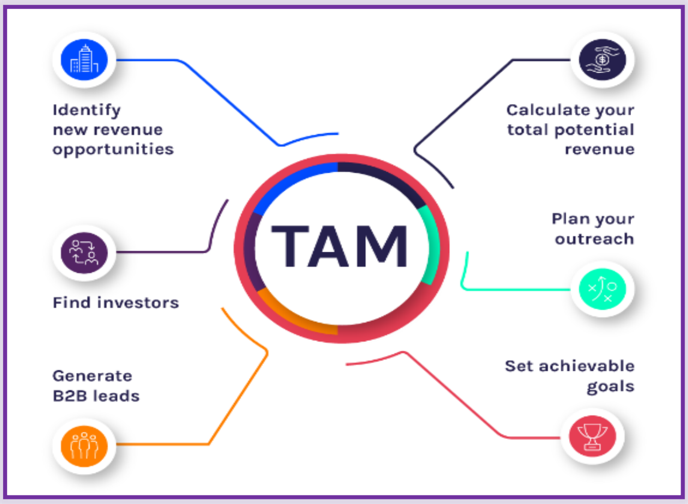


Figure 4.8 – Total Addressable Market [12]

EXAMPLE [12]:

We said the beauty industry is estimated at $532 billion.
If you were a UAE-based Organic Personal Care Beauty company with global ambitions, this figure would be your TAM.
Your SAM, when you're just starting, is the size of the organic personal care market in UAE. $82.5 million
To calculate your SOM you'd then dive into more research on how many customers:
Would realistically be interested in your product
You could capture with your marketing efforts and Go-To-Market strategy
You'd then multiply this number of customers by the financial value you anticipate to obtain per customer per year to reach your SOM.
This SOM determines your short-term goals.
And is what investors look at to evaluate de-risking their investment.
Let's assume you have found an investor willing to back your startup.
She's looking for a 10X return on her investment.
And you've agreed on $250K for a 20% stake in your company.
Here's how an over-the-napkin assessment might go:
TAM: $2 Billion
SAM: $100 Million
Beachhead TAM: $65 Million
SOM: $10 Million in 3 years
Net Margin: 20%
Valuation at Exit: 8X Net Margin
Let's make it juicy and say you deliver on your goal of $10 Million in revenue SOM.
This puts your Net Margin at $10 M x 20% = $2 Million
Your startup valuation if you were to exit would be around: 8 x $2 = $16 Million
20% of which is for your investor = $3.2 Million i.e. is a 12.8X return on her 250K investment.
The investor meets her minimum 10X ROI and your company has a 10% market share of a SAM segment that represents 5% of the total TAM.

3. Bottom-up analysis [13; 14]. Bottom-up analysis requires a granular look at the market to identify, group, and count customers [13]. This entails [13]:

- Researching specific companies or customers that have demonstrated a demand for a similar product if it exists and identifying the nature of each customer and estimating the amount being sold to each component group.
- Examining a sample of entities at this granular level enables you to make a more educated guess when estimating the density of end users. You can then translate this into TAM by taking the total number of entities in the market segment and multiplying it by revenue per user.

EXAMPLE [13-14]:

The target Martian firm on your planet would purchase an average of 2 rounds of space supplies per year at $500/each, which equals $1,000 per firm.
Your planet has 500 similar small firms, so your planet's opportunity is $500,000.
As you go across space, there are 150 similar planets (each with 500 target firms).
Thus, the overall TAM would be ~$75 million [14]

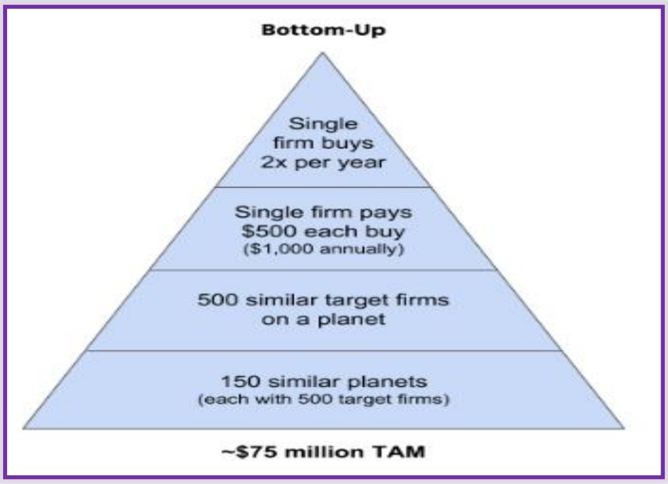


Figure 4.9 – Bottom-up analysis [14]

EXAMPLE [14]:

The company believes it will disrupt the current US dog-walking market, and they have decided to use the bottom-up methodology in an attempt to utilize its primary market research to arrive at an accurate estimate. The end users are both seniors (over 50) and households that comprise two working parents.
Each of the startup's 3 founders grew up in a different place: one in Flemington, NJ, another in Manhattan, NY, and the last in Carson City, Nevada. Using each of their connections at each location, the founders were able to gather information about the number of households with dogs, the number of households with two working parents, and the number of households with seniors

The founders believe that these 3 locations adequately represent the US market, and calculate a target dog owner density by taking an

unweighted average of the densities of their target customers in each location.
They decided that an unweighted average would be most accurate in this case since the greater number of suburban areas balances out the greater population in urban areas.
Additionally, when calculating the number of households with either two working parents or individuals over 50, there was a 40% overlap, which they addressed in their calculation [14]

The breakdown is as follows:

Household Location	# households with Dogs	# households with 2 working parents	# households with Seniors	Total Population
Flemington	720	800	681	**4,540**
Manhattan	260,038	306,200	255,112	**1,626,000**
Carson City	9,018	10,812	8,112	**54,080**

Figure 4.10 – Calculations [14]

Once they had calculated the relevant densities, they could use the total population of the US to calculate the number of end users. Based on market research, they determined that the number of dogs per household is independent of the number of working parents or the age of the homeowner, so they multiplied the densities to find the overall percentage [14]:

16.13*20.58 = 0.33%

Given that the US has a population of 318 million, this yields a total number of end users of:

318m*.033 = 10 million

With an estimated cost per customer per dog of $100 per month, **the TAM is approximated at**

10m*100 = $1 billion

$1b * 10% growth YoY will lead to a market size of ~$1.6B in five years.

Household Location	% of population with Dogs	% of population with 2 working parents or seniors
Flemington	15.8%	19.8%
Manhattan	16%	21%
Carson City	16.6%	21%
Average:	**16.13%**	**20.58%**

Figure 4.11 – Calculations [14]

4. **Top-down analysis [13; 14].** Top-down analysis can best be explained as a «process of elimination». You start by taking a large population of a known size that encompasses the target market, and then use that as a base point to narrow down to the specific market segment; with this number, you can isolate end users and multiply by revenue per user to estimate TAM. This process is often represented by an upside-down pyramid where the decreasing population at each level represents a step in the elimination process [13; 14].

EXAMPLE [14]:

There are 200,000 Martian firms in the universe of which 75% of firms are small (<10 Martians), of which 50% would use space supplies.
At a $1,000 annual purchase, the TAM would be ~$75 million.

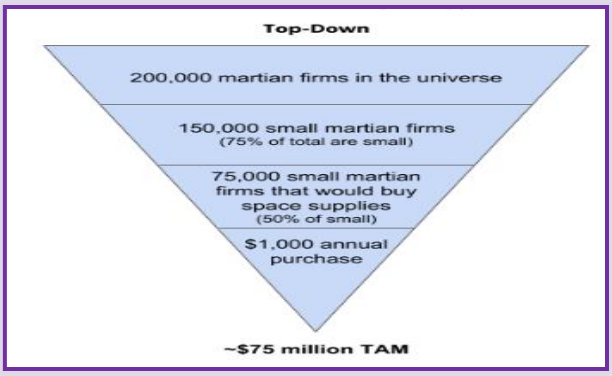


Figure 4.12 – Top-down analysis [14]

EXAMPLE [14]:

There are 45 million households with dogs averaging 1.6 dogs per household:

45m*1.6=72m dogs

- Of those 72 million dogs, 15 million are owned by individuals over the age of 50 and 20 million by households with 2 working parents (under 50).

This totals to 35 million.

- Research showed that 35% of dog owners don't walk their dogs, yielding 10.5 million potential end users
- So with an estimated cost per customer per dog of $100 a month,

the TAM is approximated at 10.5m*100 = $10.5B

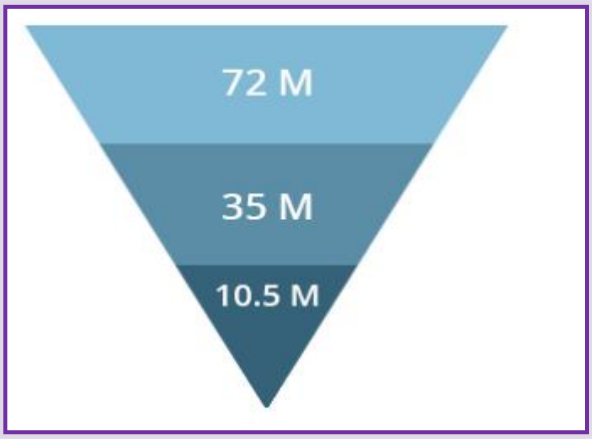


Figure 4.13 – Top-down analysis [14]

5. Bottom-up vs top-down [15]. In most cases, it is a worthwhile exercise to use both top-down and bottom-up methods to estimate your market.

Once you have determined a market estimate with each, I like to present them together individually, and as an overall average [15].

The other benefit of using both methods is that each acts as a bit of a check and balance for the other. If you find your results are vastly different from one another, it's a clue to think through the assumptions of each one more carefully. It is often helpful to use multiple methodologies to determine your overall market size estimate [15].

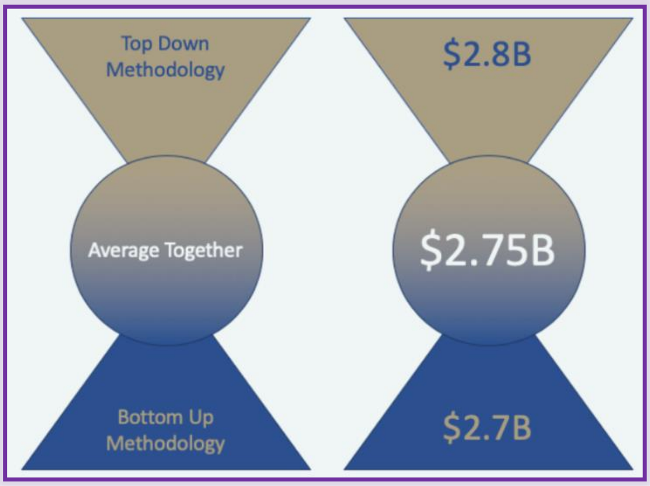


Figure 4.14 – Bottom-up vs top-down analysis [15]

6. Value theory [16]. Value theory relies on an estimate of the value provided to customers by the product and how much of that value can be reflected in the product pricing. A company estimates how much value it can add and why it should capture this value through product pricing. Value theory is used to calculate TAM when a company is introducing new products into the market or cross-selling certain products to existing customers.

EXAMPLE [15]:

Users opting to use Uber taxis enjoy the option of driving themselves, using public means, or taking the competitor's taxis. Since users are willing to forego all these alternatives and take an Uber taxi, the company can estimate the value that these users derive from using the Uber taxis and determine how to capture the value in its pricing.

Market segmentation [17]. Segmentation can be done according to a variety of criteria. The idea is that marketing to customer groups who have similar characteristics allows you to create campaigns that are more likely to resonate (Table. 4.3).

Market segmentation	the process of dividing your target audience into groups so that you can better approach them with different offerings and sales pitches [17].

Table 4.3 – The types of market segmentation [18]

The types	Characteristic	Example
Geographic	People who live in the same geographic area often have other similarities beyond their location.	If you owned a clothing store, you might market clothing featuring designs by local artists for people living within a certain area.
Demographic	Using this often involves segmenting people by a combination of criteria and molding them into target buyer personas (age, gender, marital status, level of education, income, religion, marital status, occupation)	Someone who owns a microbrewery might create a segment of customers between the ages of 25 and 40, making more than 50K per year, who are college-educated.
Psychographic	The aim here is to segment customers according to their hobbies and interests.	A company selling fine wines might use psychographics to connect with audience members who are most interested in buying expensive wines.
Behavioral	Behavioral segmentation is becoming more popular as businesses are increasingly able to use big data to better understand their customers	By tracking, purchasing patterns and on-site behavior, for example, brands can curate product recommendations even customize special offers for target audience members.

Steps of segmentation [18]:

1. **Finding areas of application of the startup product.** First of all, the potential areas of application of the idea are determined, then - buyers for whom the product has an advantage, then - the similarity between different categories of consumers.
2. **Narrowing the audience.** It is necessary to reveal 6-12 especially interesting opportunities in the market. During the initial market research, it may become clear that the current proposal to use the startup product is not of interest to the consumer, so it is advisable to identify such a problem in advance.

3. **Market research of the selected consumer segment.** In general, the study of the market segment should focus on a number of criteria, and cover the various industries in which a startup product can be used.

Conducting audience research for startups [19]. To better understand audience needs, it is reasonable to maintain research that includes the stages below

1. **Understand your product.** Before you embark on a time-consuming research process, take a step back and make sure you fully understand the product or service you are selling. Of course, if you're the founder or co-founder of your business, you'll have a full grasp understanding. But if you've been brought in to manage digital marketing for a startup or SMB, this step is essential [19].
2. **Know your industry** [19]:

- What are the main challenges and obstacles in the industry?
- Who are your main competitors? Why are they so successful?
- Who are possible indirect competitors that offer substitutes for your product that consumers could choose instead?

3. **Analyse competitors.** This step is essential for audience research within startups. It's also a shortcut. This is because compared to established firms who have experience in their industry, young companies may not have a considerable customer base or pipeline yet, from which to derive important conclusions and profiles [19].
4. **Create a buyer persona.** The very definition of a buyer persona is a fictional and generalized representation of what your perfect customer might look like. The reason marketers create customer profiles is not to find ideal customers based on demographics. Rather, it's to create an overall image of the people who might be interested in your product. So you can then find out what type of person they are, what they are worried about, what their goals are, what they read, how they get information etc. [19].
5. **Put it to the test.** In the long run, you'll need to continue to measure your content's success [19]:

- Is it performing well?
- Are you getting more leads from your digital traffic?
- What posts perform better, or worse?

You'll start to notice trends and patterns that might inspire you to adjust or update your existing profiles. Don't be afraid to make these changes: this is a continuous learning process which requires you to be agile [19].

Create detailed marketing personas for your target audience [20]. Marketing personas features can be illustrated through the answers that are given in Fig. 4.15

Figure 4.15 – Target audience questions [20]

Startup competitive analysis [21]. Competitive analysis of startup requires several steps that are given below [21]:

STEP 1: Identify & segment your competitors

Table 4.4 – Types of competitors and their characteristics [21]

Types	Characteristic
Direct competitors	These are the brands selling similar products or services as yours to the same market
Indirect competitors:	You are unlikely to sell the same products or services, but you are competing for the same audience with similar resources. *For example, a coffee shop vs. a juice bar.*
Potential competition	A brand that doesn't yet serve your market with a competing product, but has the resources, infrastructure or growth potential to do so in the future
Competitors solving the same problem	These competitors might not sell the same thing as you, but they do solve the same problem differently. For example, a SaaS product that allows e-commerce brands to get set up vs. and agency that does it for them.
Competitors of attention	Marketing is getting harder, and we're all vying for the attention of our audience. Even if a completely irrelevant brand is advertising on the same platform as you, you're still competing against them to get your customer's attention

For startups and small businesses, is recommend focusing on direct competitors and those competing for your customer's attention. You'll be competing against these brands most often, especially as you execute on your marketing strategy [21].

It's likely you already know who your biggest direct competitors are. If you're still sassing out the landscape though, here are a few ways to identify them [21]:

- ❑ Ask your current customers who they've purchased from in the past (and why)
- ❑ Search on Google for keywords like "best [your product]"
- ❑ Look to social media and search for relevant hashtags

EXAMPLE [21]:

Startup marketing - a set of tools and measures to acquaint the target audience with the idea of the product/service, their promotion on the market and ensuring the commitment of potential consumers, attracting partners, investors, etc.

Let's start by identifying your top 10 direct competitors. Go through the approaches listed above. If you can't find 10 competitors, record as many as you can.

Find as many competitors as you can and record the top 10-20 in your competitor analysis matrix. Try to include a mix of your competitor segments so that you are keeping an eye on all types of businesses in your field of business.

EXAMPLE [21]:

The top three competitors we've uncovered for a fictional design firm that focuses on brand identity we'll be using throughout this guide:

tide

This competitive analysis matrix is brought to you by Tide

To get started, go to File > Download > Microsoft Excel (.xlsx), delete rows 1 and 2 and remove the examples below
Alternatively, make a copy of this file and use it as a google sheet

Competitor Name	Competitor Website	Market Positioning
Thrive Space	www.thrivespace.com	
Build Your Designs	www.buildyourdesigns.com	
Mockups for Startups	www.mockupsforstartups.com	

Figure 4.16 – Competitive Matrix by Tide [21]

STEP 2: Analyze their market positioning. The messaging on a brand's website can tell you a lot about where they stand in the market. By analyzing web copy, value propositions and USPs, you can quickly figure out who their core market is and what gap they've aimed to fulfil in the space [21].

Start by heading to their website and browsing their homepage. Most homepages are built to focus on the main value proposition and is therefore a great place to start [21].

To evaluate the positioning of your competitors, look for the following [21]:

- **Their headline**: This is usually where companies condense their value proposition into a single sentence. It's the distillation of their positioning in the market, and how they solve their customer's problems.
- **Benefit statements**: Look for features, benefits or processes they offer. Here's an example from Xero
- **Product descriptions**: If they sell a range of products, check out the descriptions to see how they position each individually.
- **Let loose, have a browse**: Have a look around their website and see what else you can find.

EXAMPLE [21]:

From the headline alone, we can take away the following insights:
They clearly position themselves as a high-quality grooming product available at an affordable price
They differentiate themselves by making access to, as well as purchasing their products as convenient as possible
Their product design, web design and logo typography point toward a sophisticated and modern brand

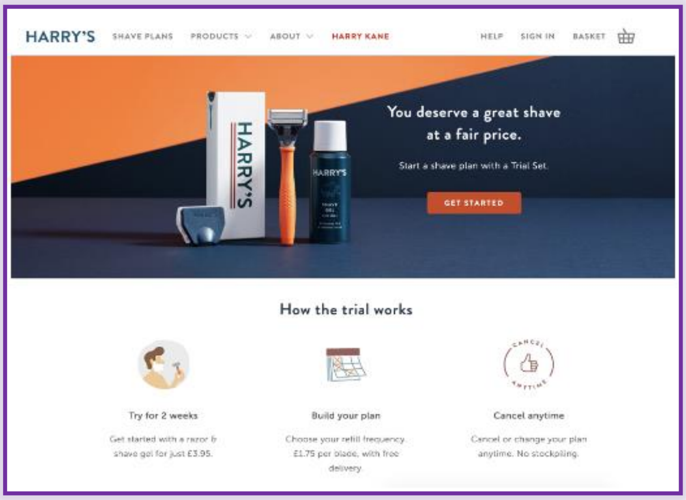


Figure 4.17 – Example [21]

As you collect these insights, add them to your matrix. Here's an example from our fictional brand design agencies [21]:

tide

This competitive analysis matrix is brought to you by Tide

To get started, go to File > Download > Microsoft Excel (.xlsx), delete rows 1 and 2 and remove the examples below
Alternatively, make a copy of this file and use it as a google sheet

Competitor Name	Competitor Website	Market Positioning
Thrive Space	www.thrivespace.com	- Focus on SME's with 50-200 employees and have high ticket services - Product is geared around rebranding - Corporate-focused, top-notch designs for SME's with an older market
Build Your Designs	www.buildyourdesigns.com	- Focus on smaller businesses that are established but looking to improve their brand assets - Product is focused towards improving existing brand assets - Designs are a bit looser and geared towards a younger market
Mockups for Startups	www.mockupsforstartups.com	- Focus on startup's who need to build brand assets from scratch - Lower price points with mockup designs as a product service - Startup focused, casual, simpler

Figure 4.18 – Example [21]

STEP 3: Review their content & social media. With a better understanding of how your competitors position themselves in the market, it's time to look at how they serve and engage their audience in other ways. Start with their owned content and work your way from there [21]:. Owned content includes blog posts, eBooks, whitepapers, email newsletters and anything else that you can find on their website. Take a look at what they publish and look for the following [21]:

- **Formats:** Identify the content formats they publish. This might include blog posts, how-to guides, eBooks, webinars, email courses, newsletters and stories.
- **Themes:** Which topics do they tend to focus on? For example, a B2B marketing brand like Drift might focus on content marketing and lead generation. A brand like our fictional underwear company could create content around men's fashion and even grooming.
- **Conversions:** How do they acquire leads and customers from their content? For example, offering to download an eBook after they've read a blog post.

EXAMPLE [21]:

SaaS brand Drift creates blog content around the topic of B2B growth and «conversational marketing», a term they coined themselves

Figure 4.19 – Example [21]

After you've checked out their owned content, take a peek at their social presence. You'll usually find direct links to their social profiles in the header or footer of their website [21]. There are two key things to look out for when analysing your competitor's social media presence [21]:

- The content they create
- How they engage with their customers

Looking at the comments, we can then see how they engage with their audience of followers.

EXAMPLE [21]:

The Instagram page from London-based coffee shop Department of Coffee and Social Affairs. They post high-quality photography around coffee, their coffee shops, products and London as a destination. Looking deeper into one of these posts, we can check out the copy they use.

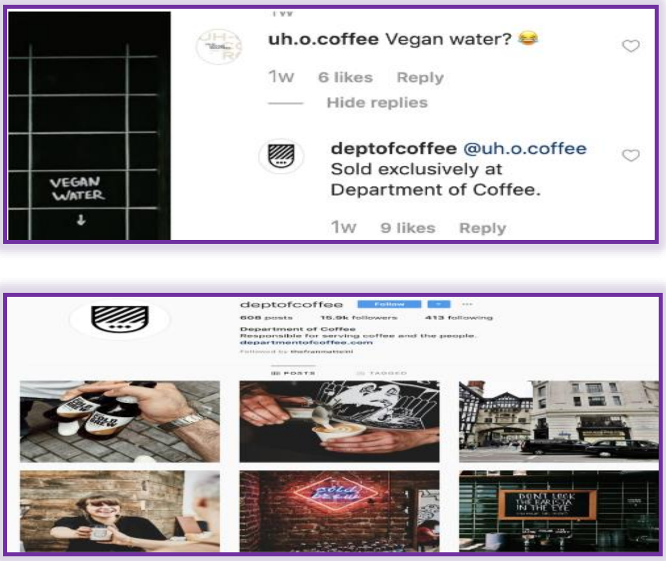


Figure 4.20 – Example [21]

As you collect these insights, add them to your matrix. Here's an example from our fictional brand design agencies [21]:

Content Formats	Social Media Presence
- Journal format focuses on story-driven content, showcasing thought leaders in the world of design - Generate conversions by offering discounts on first purchase	- Repurpose their stories into native content across Facebook and Instagram primarily - Engage with customers by answering questions and linking to further resources where necessary
- No owned content, all pages focus on product and company	- Sporadic posting schedule on Instagram, Facebook and Twitter - mainly posts of their employees - Do not seem to be engaging with customers
- Blog posts and short guides on best-practices for rebranding on website - Simple email newsletter containing product news	- Big focus on video content across Instagram and Facebook - Engage with customers through comments and handle complaints directly

Figure 4.21 – Example [21]

STEP 4: Check out what their customers are saying. Impartial customer feedback will give you true insights into how your competitors are being perceived in the market. This means you should look for both positive and negative feedback [21].

To find the voices, praise and feedback of their customers, look to the following sources [21]:

Testimonials: Check out your competitor's website for any testimonials they've included [21]

Figure 4.22 – Example [21]

Facebook rating: Check out their company's Facebook page to see if people are actively leaving reviews: Click on the section highlighted above and explore their reviews [21].

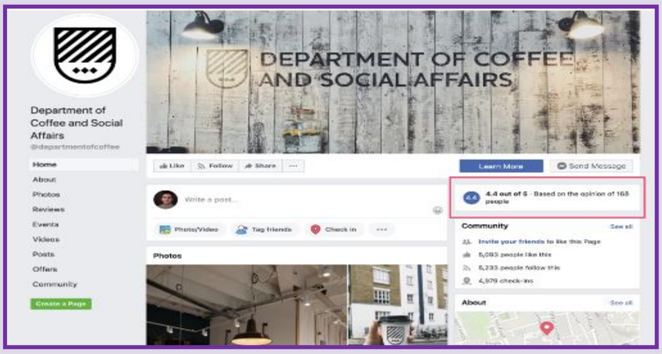


Figure 4.23 – Example [21]

You might record customer sentiment in your competitor analysis matrix [21]:

Positive Customer Reviews	Negative Customer Reviews
- "Probably the nicest designs I've ever received from a design firm. Could not have asked for more." - "Absolutely love their process. Their team was friendly, motivating, and created magic for our much-needed redesign."	- "Their initial proposals were way off, but after describing my vision again, they were able to quickly produce something I ended up loving." - "Took ages to hear back from my initial inquiry. Once I did finally talk to someone, the process was smooth from there on out."
- "Designs are just what we needed to improve our brand assets. Really think this will help us better reach our target audience."	- "They took a bit long to address my feedback which made me almost miss a deadline." - "Some of their designs were spot on and others missed the mark. A bit all over the place."
- "Affordable designs and delivery was super fast" - "Love their mockups, spot on!" - "SO easy to visualise my brand in real-world scenarios now thanks to their genius mockups!"	- "They're a startup working for startups, so things can be a bit unorganised. Hopefully they'll fix this as they get their footing."

Figure 4.24 – Example of competitor analysis matrix [21]

STEP 5: Walk through their customer journey. There's no better way to check out your competition than to become a customer yourself. Depending on your business model, each touchpoint will vary. Here are a few examples [21]:

- **E-commerce**: Going through the checkout process, collecting post-purchase content and evaluating the product and packaging.
- **SaaS**: Requesting a demo, responding to questions via email and being taken through the software by a sales rep.
- **Mobile app**: Download the app, go through the onboarding process and start getting into the features.
- **Service or agency**: Sign up for a consultation, go through the discovery process and check out the proposal.

When going through the customer journey, look out for and take notes on the following [21]:

- **Ease of purchase**: How easy is it to buy from them? What is the checkout process like?

- **Remarketing and cart abandonment**: What happens when you begin the customer journey and fail to complete it? How do they entice you to come back?
- **Welcome and confirmation emails**: What messaging do you receive when you become a customer? How do they begin the customer relationship?
- **In-product onboarding**: How do they guide you through their product? If it's a SaaS product or an app, which features do they guide you to when you first begin using the product?
- **Packaging**: What qualities do the boxes, paper or wrapping have? Are they well-designed, simple, elegant? Do they use personalised messaging?
- **Discovery:** If the relationship begins with a sales process, what questions do they ask to learn more about your business? How easy is it to schedule an appointment?
- **Sales calls**: What questions do they ask on the call itself? What's the format and framework of the conversation?
- **Proposals**: How do they position the solution to your problem? How is the information laid out, and what social proof points do they use?
- **Negotiation and objection handling**: Use common objections you often encounter and see how they handle them. This is the perfect opportunity to name-drop your brand and see how they position themselves against you!

Record your findings in the competitor analysis matrix [21]:

Describe The Customer Journey	Describe The Sales Process
- Great onboarding process for new clients - They have a huge team, so they've got their process down - Their size meant the customer experience isn't as personal and can feel clinical at times - They deliver designs in a timely manner and they're often great	N/A
- They take the time to hop on a call with each new client and make the journey feel really personal - Designs vary depending on the customer so you really need to take the time to share your vision for them to be able to bring it to life - Reaching customer service teams is a struggle	N/A
- Great, simple mockups that can be purchased right from their website - Simple emails, can feel impersonal - Initial customer service emails answered quickly, but slow to resolve the issue	N/A

Figure 4.25 – Competitor analysis matrix [21]

STEP 6: Analyzing your competitors from pricing perspective. Last but not least, one of the most important aspects when it comes to Startup competitor analysis and any competitor analysis in general, is Pricing [21].

Of course, not all companies have their prices transparent and published on their website. In this case and when I consider a competitor highly relevant, I contact them presenting myself as a potential customer interested in their product or service [23].

EXAMPLE [23]:

Let's imagine that you are a company that sells communication services, such as phone support software and apps for call centers. Your Pricing sheet might look something like this

	Company 1	Company 2	Company 3	Company 4
Basic Plan				
Price (Paid Annually)	$30	$32	$28	$22
Price (Paid Monthly)	$40	$45	$38	$30
Free trial	Yes	Yes	Yes	No
Features	Inbound calls, call monitoring, phone support, CRM	Inbound calls, CRM integration, Smart queuing	Inbound calls, Outbound calls, IVR, Callback	Inbound calls, Helpdesk integrations
Max. number of users	3	4	3	2
Premium Plan				
Price (Paid Annually)	$50	$54	$45	$38
Price (Paid Monthly)	$60	$62	$53	$40
Free trial	Yes	Yes	No	Yes
Features	Basic + Salesforce integration, Analytics	Basic + Analytics & Reporting, Call monitoring	Basic + Account Manager, Extensions, Tags	Basic + Conference call, Call monitoring
Number of users	5	7	5	4
Enterprise Plan				
Price (Paid Annually)	$80	$78	$60	$50
Price (Paid Monthly)	$90	$85	$70	$60
Free trial	Yes	Yes	Yes	Yes
Features	Premium + Call recording, shared contacts, etc.	Premium + Email reporting, tagging, etc.	Premium + Unlimited analytics history, etc.	Premium + Advanced analytics, live feed
Number of users	10	10	7	7

Figure 4.26 – Pricing sheet [22]

STEP 7: Building a matrix of competitors. To accumulate previous research and establish the influence of competitors on the startup, a matrix of competitors is formed, based on which the behavior of the startup is determined [23]. The most important competitors are not only those who fall into the quadrant of «direct-strong competitors», but also indirect ones who can easily start working with the target audience of the startup [23].

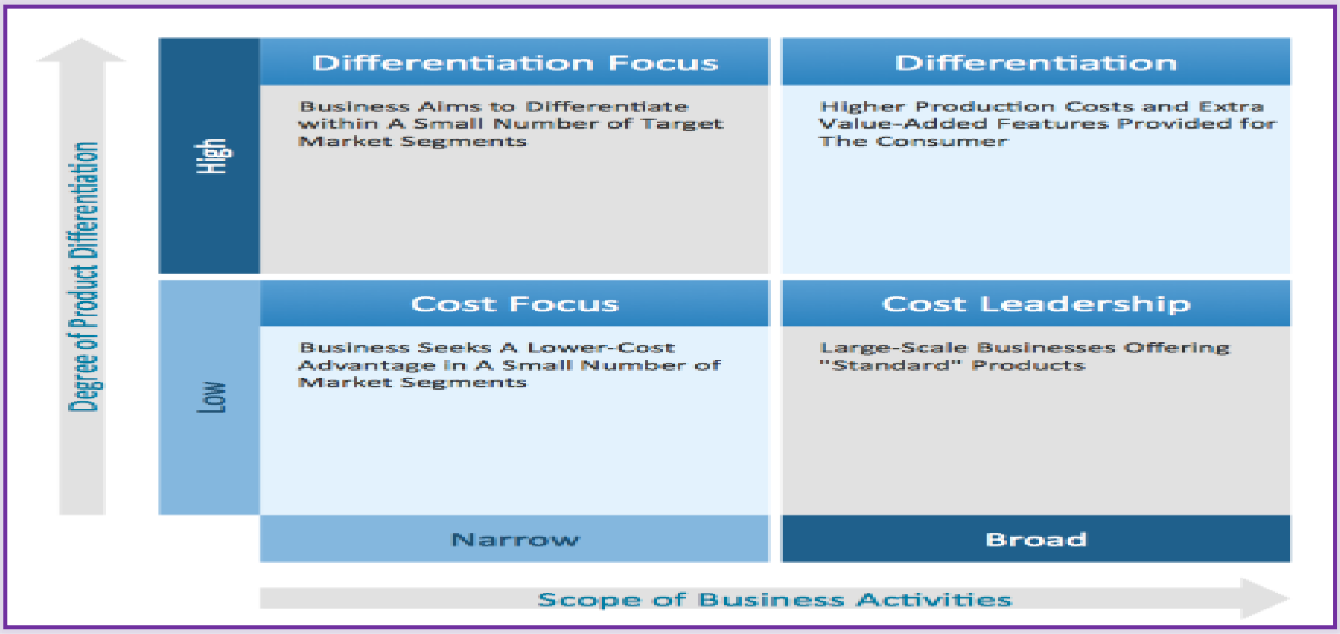


Figure 4.27 – Matrix of competitors [23]

EXAMPLE [24]:

Ambi a hardware startup uses this slide to show their competition.
You can't say you have absolutely none otherwise you look like you haven't done your research (even if you have) and you don't give the audience any context. Ambi, which has created a cool air conditioner tracking device, accomplishes this with just a single slide as shown above.
This works in 2 ways:
- ❑ an exact snapshot of what they are doing in their market and who the players are.
- ❑ an idea of who someone can hook you up with if they can't help/invest – logos work well in context.

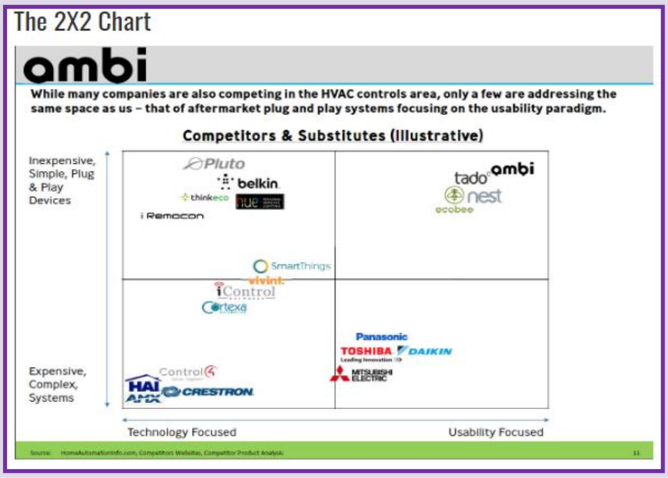
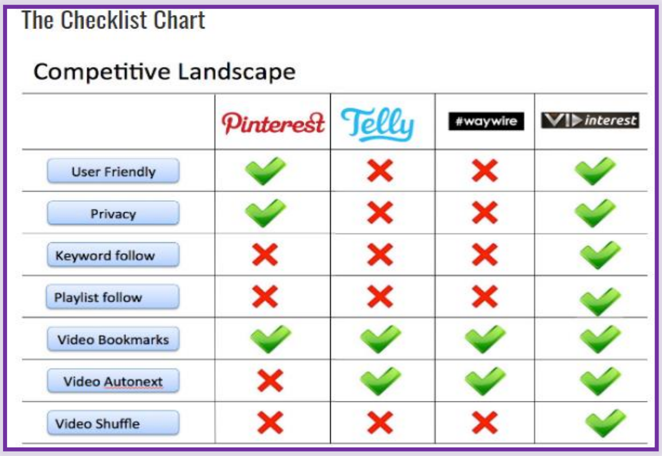


Figure 4.28 – Example [21]

EXAMPLE [24]:

This Checklist Chart is by a startup called Vidinterest billing itself as Pinterest for Video – to do this, they showcase why they are better than Pinterest itself as well as some other players in the market – it doesn't matter if the competitors are famous or not, as long as you can provide context for your startup [25].



	Pinterest	Telly	#waywire	Vidinterest
User Friendly	✓	✗	✗	✓
Privacy	✓	✗	✗	✓
Keyword follow	✗	✗	✗	✓
Playlist follow	✗	✗	✗	✓
Video Bookmarks	✓	✓	✓	✓
Video Autonext	✗	✓	✓	✓
Video Shuffle	✗	✗	✗	✓

Figure 4.29 – Example [21]

SWOT-ANALYSIS [25-27]. Each person who even once thought about creating products or startups, need to know about SWOT-analysis. Main features are presented below.

SWOT-ANALYSIS	to strategically position your startup to maximize potential and minimize risks, not to predict the future accurately [25].

	Strengths 1. 2…	Weakness 1. 2…
Opportunities **1.** **2..**	What are the strengths of a startup to help them realize their potential?	How can you improve the weak sides of your startup through the opportunity?
Threats **1.** **2..**	What are the strengths of a startup, can you be victorious to neutralize these threats?	How to minimize weaknesses to avoid threats?

Figure 4.30 – SWOT-Analysis canvas

Strengths. These are the positive attributes of your company that you have control over. Advantages usually refer to your employees' skills, resources, brand, and capabilities. Discover your strengths and use them to your advantage [26]:

- What processes are successful?
- What assets do you have in your team, and which is the strongest?
- How secure is your customer base?
- What gives you the edge from your competitors?
- How skilled is your workforce?
- What does your customer say about you? [26]

A startup should thoroughly prepare its Strength analysis to examine and implement business procedures. An overview discussion of the product or service should be done under this analysis. Startups should focus on quality procedures and specialize in marketing expertise [27].

Weaknesses. These are internal characteristics that give a negative attribute that hinder your strengths [26]. By identifying your gaps, you can find ways to improve and instead back your strengths up [26]:

- What hinders your production process?
- In what areas does your competitor have an advantage on you?
- What knowledge does your workforce lack?
- Is the level of workforce skill lower than standard?
- Do you have enough funding budget?
- Is your customer base too low?
- Is your business making a profit?
- Are you falling behind your competitors? [26]

Most startups should focus on improving the product and bringing in innovations from time to time. This can be a Weakness for most of the Startups, as many find it difficult to about any changes in the product/service. The marketing team is so engrossed in promoting the product, that they avoid the weaknesses and changes to be brought in their product [26].

Opportunities. This can be new technological improvements, a business venture, or possible company expansion [26]:

- In what way can you turn your strengths and weaknesses into opportunities?
- What actions should you take now that have not been done before?
- What are the current trends that you can leverage?
- How is the field changing, and how can you take advantage of this change?
- Which businesses could support us? What can we do to help them in return?
- Are there upcoming events that the company can participate in growing your customer base or presence?

There is always room for improvement in a startup. Few changes and analyzing of current issues will help a startup to achieve stability. Startups will have to focus on Opportunities coming their way to strengthen their product quality [26].

Threats. These are impeding factors that you have no control over. The only way to counter this is to devise a solid contingency plan to deal with them when they occur [26]:

- Who are your running and emerging competitors?
- If you have suppliers, are they capable of supplying the materials you need at a given period and price?
- What future technological change can affect your business?
- Is your business prepared for unforeseen situations such as a global pandemic, financial instability, or natural calamity?
- What trends can become a significant threat to your business?

Threats for startups could be a new competitor in your home market, a price war, an innovative product similar to yours by a competitor, competitors having superior access to channels of distribution etc. You should be able to tackle this by making some back up strategies in your planning phase itself [26].

3 INTERACTION WITH STARTUP CONSUMERS

Customer development came about when Steve Blank was writing about his experiences as an entrepreneur in the Silicon Valley of the 1990s. He noticed a pattern emerging from the startups he was involved with, recognizing that a startup is not merely a small version of a bigger company; they have unique challenges [28].

Customer development	a process that can be used to discover, test and validate many business assumptions. These assumptions include whether a product solves a problem for a specific group of users, if the market is large enough to support such a product, and whether or not the business can scale to meet demands [28].

Startups have business models that are lacking in critical data, and these questions (and more) must be asked [28]:

- Who are our ideal customers?
- What are their needs?
- What features do they want?
- What channels can be used to reach them?
- What methods can we use to maintain customer growth?

Customer development is the formal process of identifying potential customers and figuring out how to meet their needs. Many startups spend too much time on their product or service, which is important too, but not more so than the needs of their target audience [28]. A successful startup needs to create a business plan that satisfies its target market and establishes itself as useful and unique in the marketplace [28]. Customer development is the formal process of identifying potential customers and figuring out how to meet their needs [28]. Many startups spend too much time on their product or service, which is important too, but not more so than the needs of their target audience. A successful startup needs to create a business plan that satisfies its target market and establishes itself as useful and unique in the marketplace [28].

The customer development model [30]. The Customer Development Model is characterized by an iterative and flexible process that reflects the ambiguous nature of starting a new business and launching new markets [30]. The CDM tests the key assumptions that underpin your initial ideas about your product and its market. Blank's recommendation is to treat those assumptions as hypotheses that need to be tested and validated [30].

Through this systematic process, a learning and discovery loop will be created that will help you prioritize your work and improve the timing of when to launch and scale your startup. Given the fragile nature of most startups, a better understanding of who the customers will be, what problem you will solve for them and how they will buy your product are outcomes that appeal to entrepreneurs [30].

The CDM process consists of four distinct but connected steps [30]:

Customer discovery. Focus on understanding your customers, their problems, their preferences and their buying behavior [30].

Customer validation. Develop a replicable sales process—an essential step in scaling a business [30].

Customer creation. Generate demand, and identify and tease out potential customers [30].

Company building. Focus on building your organization to scale and executing the business plan [30].

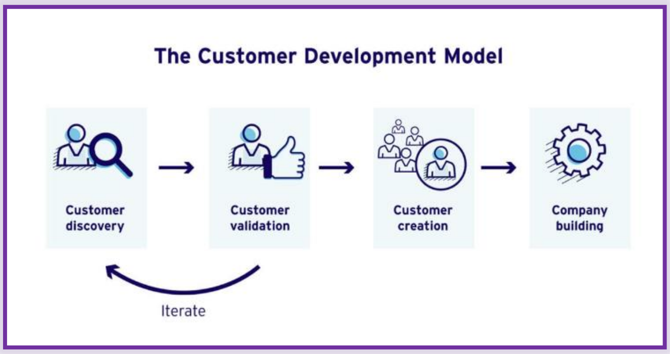


Figure 4.31 – CDM process [30]

1. Customer Discovery [31]. Every business starts with a hypothesis, but customer development methodology focuses on figuring out how to make your proposed product or service cater best to customer needs. During this phase, you'll put together a business strategy and then test both your "problem" hypothesis, or your understanding of customer pain points, and your "product" hypothesis, the solution you have developed to solve those pain points [31].

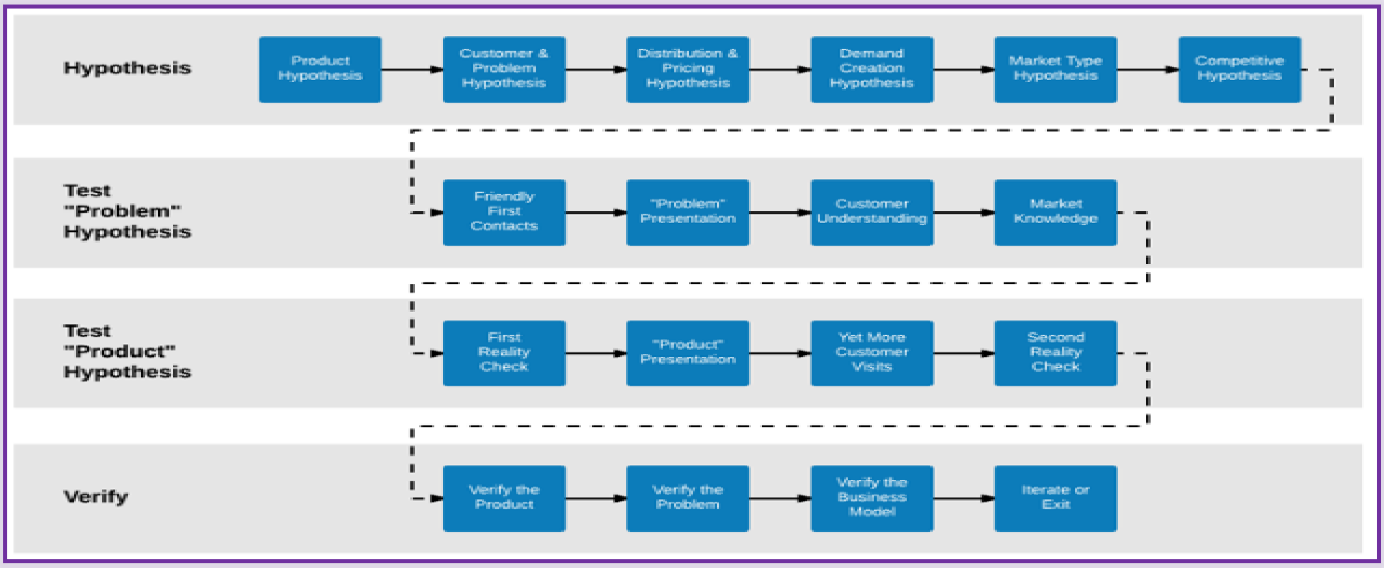


Figure 4.32 – Customer Discovery proces [31]

Answer the following questions to test both of these hypotheses [31]:

- ❑ What are your customer’s most significant pain points?
- ❑ How much will they pay to solve them?
- ❑ Does your product or service solve those pain points?
- ❑ Do potential customers believe that your concept will solve their pain points?
- ❑ Talk to potential customers to back up your assumptions with real feedback.

2. Customer Validation [31]. Now that potential customers have verified your concept, you can prepare to sell. During this second phase, you’ll develop a repeatable, scalable sales process as you sell to “***early evangelists***,” or visionary customers who immediately understand the need for your product or service. Use the insight you gathered from customer discovery to develop the materials you need, including a business model canvas, value propositions, sales collateral, and product positioning [31].

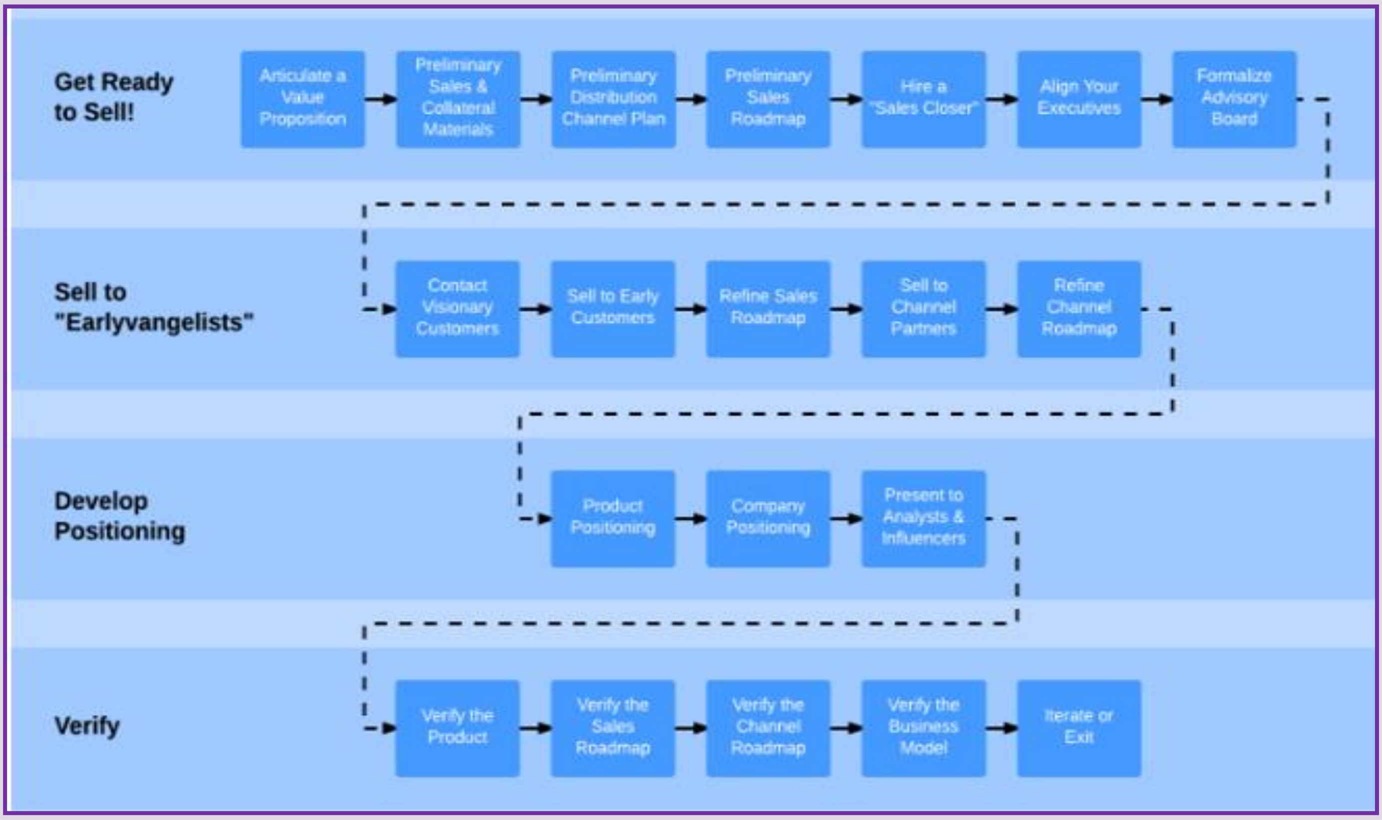


Figure 4.33 – Customer Discovery process [31]

If you look to other startups for guidance, keep in mind that sales, marketing, and business development will radically change depending on which of the three market types you go after [31]:

- ❑ Existing market
- ❑ Resegmented market
- ❑ New market

3. Customer creation. At this point, you should see quantifiable demand for your product in the marketplace, so shift your focus to increasing that demand [31]. Make your product and business sustainable by figuring out how to scale, or continue to profit and function efficiently with growth [31]. Continue listening to feedback, watching industry trends, and adapting so you can both offer the best product you can and retain the customers you've earned [31]. This phase is less about exploration and more about maintaining the momentum you already have [31]. Though the details may diverge, the main point of this phase is to guarantee sustainability for your business through a careful growth strategy [31].

4. Company building. As the final phase of the customer development process, customer building "transitions the organization from one designed for learning and discovery to a well-oiled machine engineered for execution [31]. This phase could include defining roles, creating formal departments, and hiring more people to help your bootstrapped, loyal team accomplish bigger goals [31].

The lean customer development model [32]. Lean customer development can be done by anyone who speaks with customers or prospects. It works whether you're a startup founder with no product and no customers, or at an established company with numerous products and customers [32].

Lean customer	development takes the heart of Steve Blank's ideas and renders them into a simple process that works for both startups and established companies. It's what I write about on my blog, speak about at tech events, and teach when I mentor companies [32].

Now that I've explained my perspective on lean customer development, from here on out, I'm going to talk simply about customer development [32]

Lean customer development is done in five steps [32]:

- Forming a hypothesis
- Finding potential customers to talk to
- Asking the right questions
- Making sense of the answers
- Figuring out what to build to keep learning

Your startup promotion has to be powerful, but it doesn't have to be expensive

1. **Target Your Audience [33].** While increasing the visibility and user base of your startup, remember one simple thing — you can't engage or please everybody. Not everyone will like your product, and that's fine, as you're not aiming for that, anyway. You have to know who's going to be interested in your product or service and focus on them [33].

First things first, *define your target audience*. Then study them, learn their age group, gender, location, concerns, wants, and needs. Only after that, can you develop your product in a way that will satisfy them. Next, organize the promotion, keeping this particular group of people in mind. This group should be your priority. Remember, time and energy are valuable resources, don't waste them! [33]

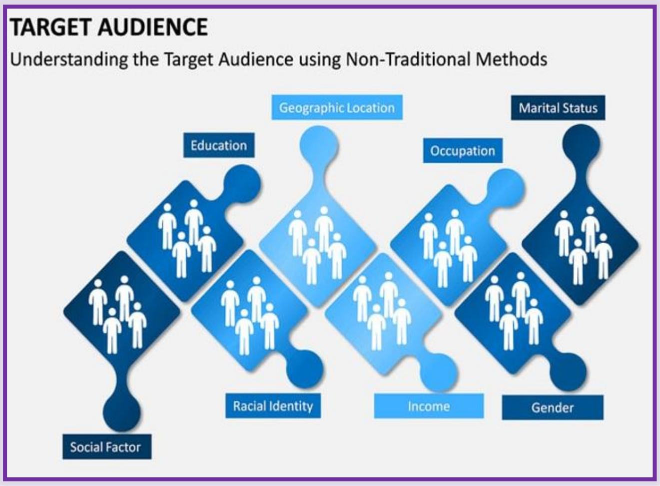


Figure 4.34 – Example [33]

2. **Develop Your Marketing Strategy [33].** Many beginners promote their company without having a clear plan of action. This can kill the product and startup quickly. Make sure you conduct in-depth research to organize your promotion in a better thought-out and informed way.

Start with identifying your big vision and business goals. Then, research the market inside out. Learn about your market's specific demands, possible risks, your competitors and client base. Set defined long-term and short-term goals [33].

Figure 4.35 – Example [33]

3. Create a Website [33]. Many would argue, that having a website is not an option but a necessity for a successful business. In our information age, it's essential to have a strong online presence. Your website will serve as a reliable information source for your customers, where they can learn about your business [33].

Contrary to popular belief, creating a website doesn't have to be expensive. There are plenty of free *ready-made templates* for any type of website. You don't even need any coding, technical, or design skills [33].

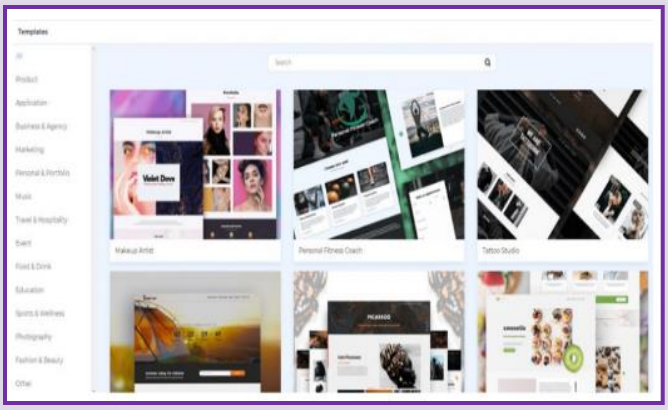


Figure 4.36 – Example [33]

4. SEO Can't Be Ignored [33]. The next important step of a promo campaign is Search engine optimization (SEO). It can't be ignored in the Google world. The idea behind SEO is to increase your website's visibility and traffic. It's a free and efficient way to attract more potential clients [33].

SEO has 2 main branches: on-page and off-page. The former takes action directly within your website, like optimizing your content, meta descriptions, titles, URL, and so on. It helps you rank higher on Google search results. Off-page SEO, on the other hand, refers to outside factors, such as backlinks, social media shares, etc. It's less popular but still equally important.

We highly recommend you *read how-to guides* and *statistics on SEO* to improve your marketing campaign [33].

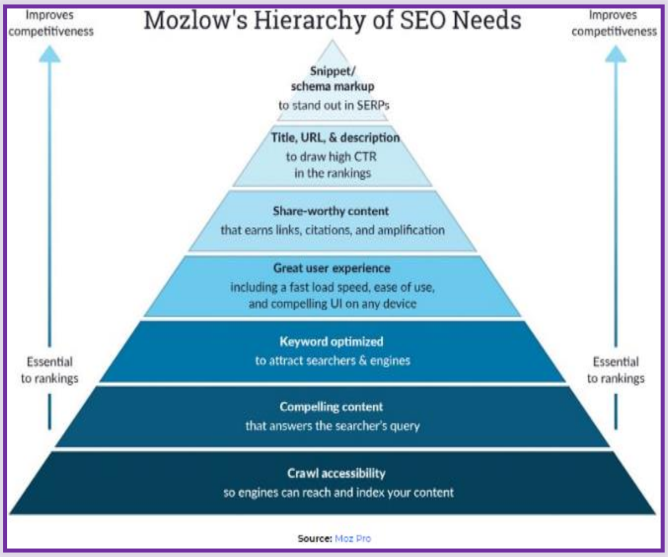


Figure 4.37 – Example [33]

5. Start a Blog [3\3]. You've probably heard that content is king. Consider starting a blog for your business. You can use free blogging platforms like WordPress, Medium, Blogger, or even Tumblr. Update your blog often to keep it relevant. Don't forget to post video and audio content to rank higher on Google search results.

Utilize social media to advocate your blog. Sharing your blog on different networking platforms will help your content not get lost or, hey, even go viral. A good blog is crucial for *building your digital brand* [33].

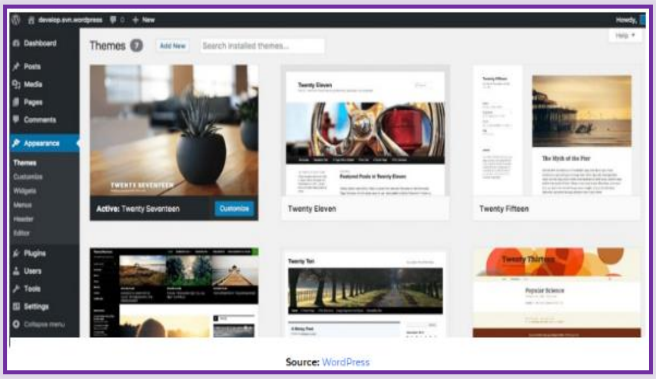


Figure 4.38 – Example [33]

6. **Email Marketing [33].** An email marketing campaign is another great way of promotion. It helps reach out to more people and create a long-term client base. To build an email list, use pop-ups on your website, suggesting visitors subscribe to your newsletter. Another good way is opt-ins, where you offer your subscribers something free in exchange for their email. It can be a free eBook, pdf file, excel formula, etc. [33].

News about product updates, special pricing offers and discounts, or corporate news should be sent to your customers. Choose a relevant and simple *subject line* that sparks curiosity. Keep your emails short and informative. Always respect your readers' time. Spamming is a quick way to lose their trust [33].

Figure 4.39 – Example [33]

7. **Free Startup Platforms [33].** Join startup platforms to promote your company effectively. They are a great place to find investors and mentors for your startup. You can also meet fellow startuppers, exchange some experience, or even decide to collaborate [33]. Nowadays, there are many resources for startup promotion with affordable payment or for free. *Y Combinator, AngelList, WeFunder* are a few examples [33].

8. **Three Big Listing Services [33].** Another great way to promote your startup is by registering it on *Google My Business*. This will let your company easily be found on Google search results and appear on Google Maps [33]. You only need to fill in the form, register and get verified through confirmation, which is done by mobile or email.

Yahoo! and Microsoft's Bing own a big database of businesses too, so you can also register your startup there [33].

Figure 4.40 – Example [33]

9. Social Media Promotion [33]. Nowadays, our lives are built around social media. With 2 and a half hours per day, the average social media usage time is insane. So, if you want to have a successful startup, better take advantage of this. Be active on various social media platforms, update your posts, engage your audience in a conversation. If you're in your users' sight often, you'll be in their minds as well [33].

If you find it difficult to create blog posts very often, you may share relevant information or updates in your field from trusted sources. Also, share special offers or put ads on your social accounts. This increases your reach and builds a huge potential customer base [33].

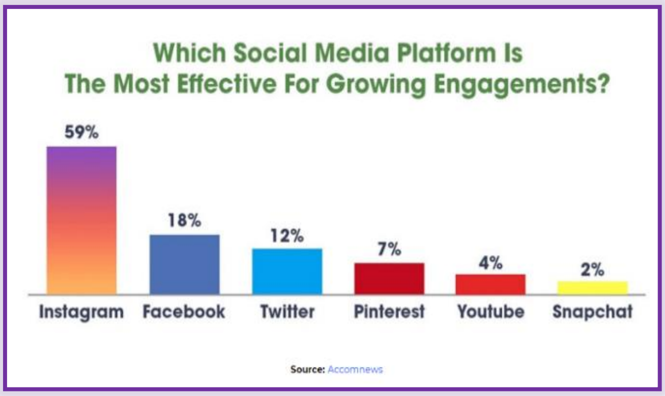


Figure 4.41 – Example [33]

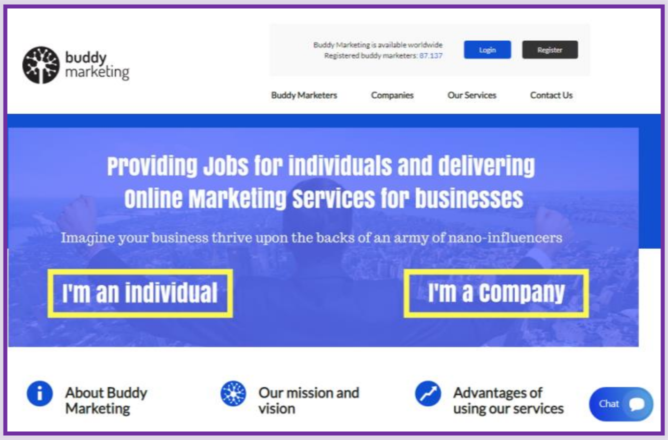
10. Guest Blogging [33]. To put it simply, guest blogging is link-building that brings traffic from other sites to yours. When the websites are carefully chosen, guest blogging can be a good way to grow your audience. Keep an eye on other blogs related to your field [33].

You can increase your domain authority by using external links to other relevant sources. Start by joining guest blogging platforms like *MyBlogGuest* to interact with other bloggers. *HARO* is another useful sourcing service that connects journalists and bloggers with reliable expert sources [33].

Figure 4.42 – Example [33]

11. Buddy Marketing (Cross-Promotion) [33]. Buddy marketing means collaborating with other businesses and uniting your resources for promotion's sake. This enables you to reach a whole new audience of potential customers. Buddy companies often use affiliate links or referrals to earn commissions from each other's sales. They also offer discounts or promo codes to their partners [33].

To get started, you can join digital marketing platforms, such as *Buddy Marketing*, *LoyalBe, Powerlinx* [33].



http://buddymarketing.net/

Figure 4.43 – Example [33]

12. Video Promotion [33]. In our fast-paced world, people prefer auditory and visual experiences over reading texts. So, *promoting your startup via an explainer* or company introduction video is a smart choice [33].

Explainer videos tell your company's story more engagingly and concisely [33].

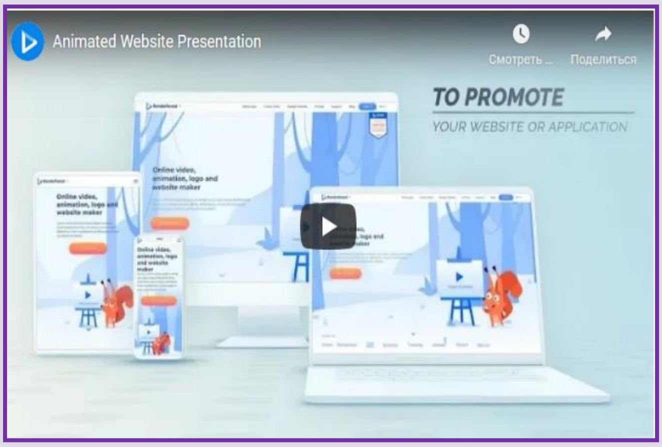


Figure 4.44 – Example [33]

13. Host Webinars [33]. Webinars have recently become quite popular. They are a free and easy way to connect with your audience and introduce them to your startup, talk about your products and services [33].

Host your webinars on *GoToWebinar*, *Zoho Meeting*, *Zoom*, or start a live stream on your preferred social media. Make sure to share your webinar on as many platforms as possible, so more people show up. The more, the merrier! [33]

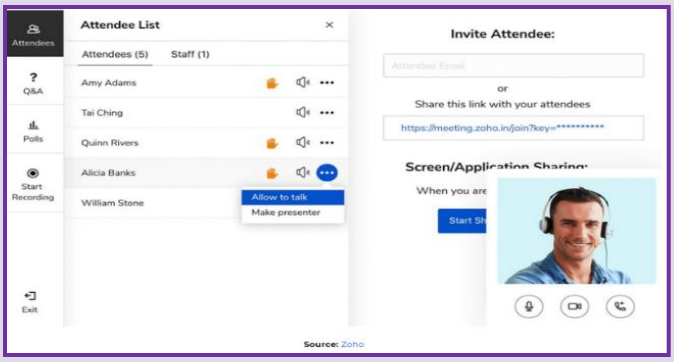


Figure 4.45 – Example [33]

14. Give a Seminar or a Presentation [33]. If you have ideas, experience or knowledge that you'd like to share with others, then giving a presentation or a seminar is the way to go. Share your valuable experience and promote your business while you're at it. This will help you meet new people, grow your client base and extend your reach [33].

Don't forget to make your presentations more engaging for the audience by including *informative videos* and photos. People tend to digest new information more easily when it's presented in visual forms [33].

Figure 4.46 – Example [33]

15. Reviews and Feedback are Vital [33]. All kinds of feedback and reviews you receive for your product — whether positive or negative — are of great importance [33]. *Positive feedback* is a sign that you are moving in the right direction. Negative feedback signals that your product needs some tweaking and improvement. Plus, online reviews are another way to get people to talk about your startup [33].

You can contact bloggers with a massive follower base and ask them to write a review of your business or a particular product. Most people tend to trust bloggers' product reviews [33].

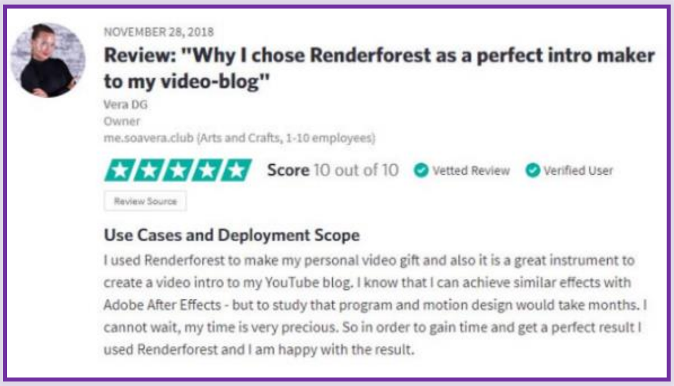


Figure 4.47 – Example [33]

16. Outsmart, Not Outspend Your Competitors [33]. Outspending your competitors is not always the smartest thing to do to get good results. To be successful, you need to have a better product. A good product sells itself. When your product is well-developed, you cut down on marketing expenses. So focus on *outsmarting your competitors* [33].

Find your niche and make it your point of focus. Our world is more competitive than ever before, so you need to find a way to set yourself apart from competitors. What can you offer that others haven't? Why did you create your product/service? How will it help to improve people's lives? Answering these questions will set a strong foundation for your startup [33].

http://www.visualstring.com/2017-holiday-ecommerce-ad-strategies/

Figure 4.48 – Example [33]

17. Use Q&A Sites [33]. There are a bunch of Q&A forums, such as *Yahoo! Answers*, *Answers.com*, *Quora*, *Reddit* that can be used for marketing. Use keywords to look for questions related to your field or business, then answer them [33].

It's a win-win: you provide your followers with valuable information and gain their trust in return. This will help to grow your authority in your field and become a reliable source of information [33].

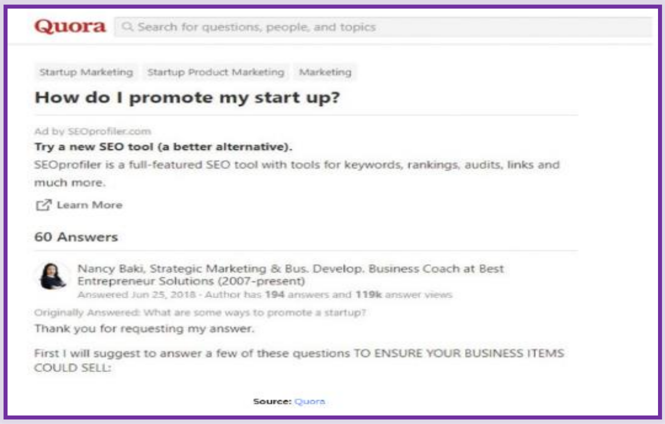


Figure 4.49 – Example [33]

18. Free Ad Sites [33]. Post your ads on free ad sites, like *Craigslist, Amazon, eBay, MerchantCircle.com* or *Gumtree.* These websites have very high rankings and attract millions of prospective buyers

Take advantage of them to give a boost to your startup promotion [33].

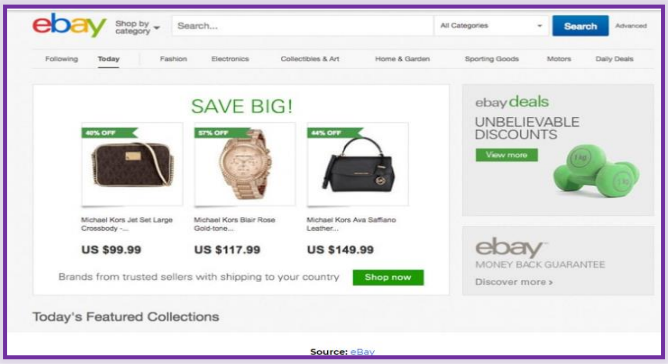
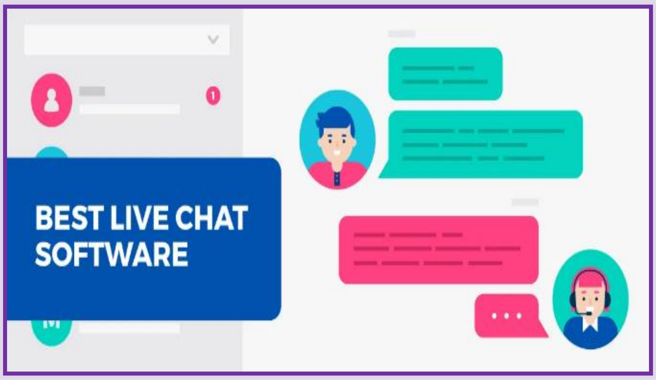


Figure 4.50 – Example [33]

19. Interviews, Live Chats [33]. Manage a meeting or an interview with a professional in your field, host them in your blog. Traffic from such content can be pretty big, depending on who you interview. This is a good way not only to bring new visitors to your blog but also to diversify and freshen up your content [33].

Choose an interesting relevant topic, do some research and start a discussion or have a live chat [33].



https://mailshake.com/blog/free-live-chat-software/

Figure 4.51 – Example [33]

20. Socialize, Socialize, Socialize! [33]. It's a no-brainer that the more people you introduce yourself and your startup to, the more you'll grow your client base. Don't be shy, go to meetings, attend events, join groups, approach people and start a conversation [33].

Get to know like-minded people, exchange ideas, experience, and inspiration [33].

https://cx-journey.com/2019/07/10-ways-to-socialize-customer-insights.html

Figure 4.52 – Example [33]

There is a formula for creating the ideal strategy to meet your startup goals. It may seem overwhelming at first, but crafting a startup marketing strategy boils down to a six-step cycle (see Figure 4.53) [34].

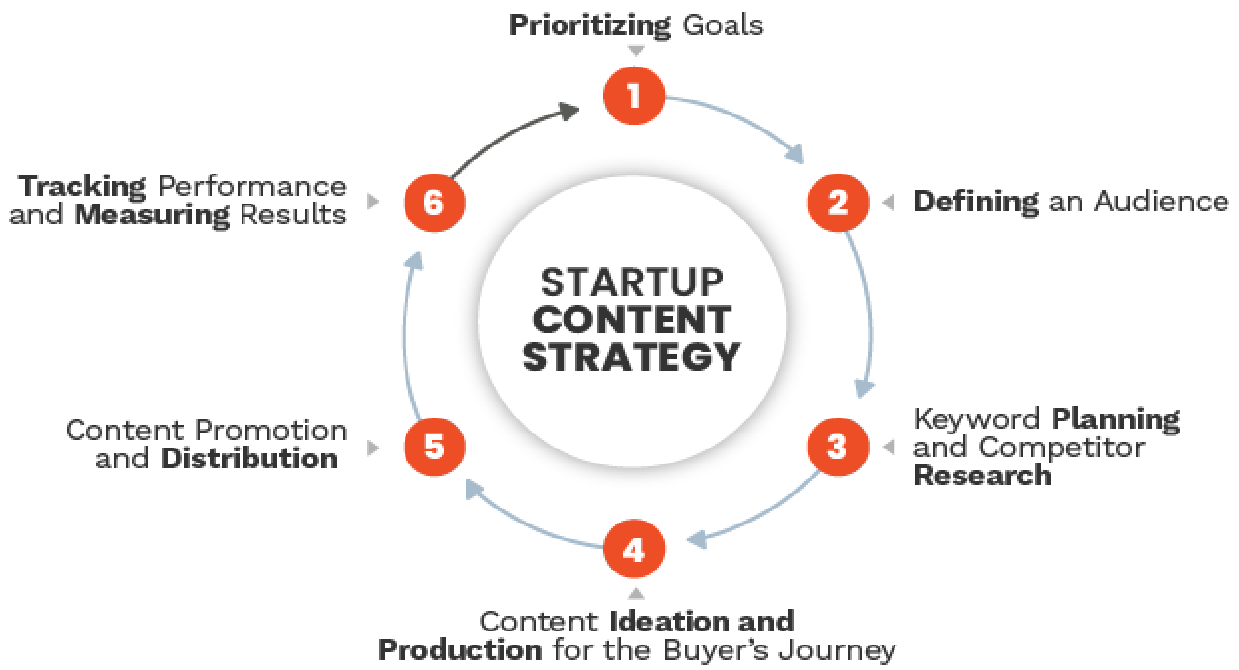


Figure 4.53 – Six-step cycle [34]

1. Prioritizing Goals and Objectives for a Startup Marketing Strategy [34]. Content marketing can achieve various goals, which is why it's such a great, cost-effective option for startup marketers with limited budgets [34].

While there are several lesser-known benefits of content marketing these are four common goals marketers strive to achieve based on our own experience after speaking with clients and industry peers [34]:

Figure 4.54 – Startup Marketing goals [34]

Different goals require different keywords and content (more on that below), so it's important to have your goals prioritized to guide your strategy from the very start [34].

Ultimately, whether the goal of your content is to build high-authority links or convert prospects, in one way or another the focus of your content should be to build a relationship with your audience. But who is your audience? [34]

2. Defining Audiences [34]. For startups especially, marketing too broad of an audience will waste time and money – you're almost guaranteed to get lost in the noise. Defining a niche market and creating content of value and interest to that specific audience is the key to getting your startup off of the ground [34]. What factors should you consider when defining an audience? [34]:

1) **Audience Size**

- How many variables of your ideal customer or client can you identify to narrow the size of your audience?
- Can you specify by their location, demographics, motivations, and needs to better target your efforts?

2) **Market Competition**

- How saturated is the market for your product or service? Will you be filling a void or are you facing stiff competition from established brands?

3) **Unique Value Proposition**

- What makes your startup's product or services stand out from your competitors?
- Are you the cheapest, most proficient, or the highest quality?
- What makes your startup's content stand out from your competitors?
- Is it your brand's unique voice, your exclusive research and internal data, or audience engagement?

3. Keyword Planning and Competitor Research [34]. Keyword planning allows you to better understand your audience and communicate with them more effectively by providing strategic content serving their search queries. For startups, a great way to start is by performing a keyword analysis on competitor websites to gain strategic SEO direction for your content strategy [34].

While keyword research may seem like an intimidating task best left for SEO experts, various resources like Alexa's SEO tools and Google's keyword planner exist to help your startup [34]:

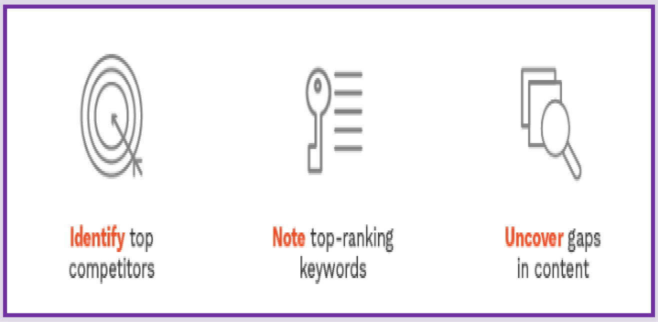


Figure 4.55 – Example [33]

Identifying content gaps allow your startup to take advantage of missed opportunities and create content your audience is searching for but can't seem to find [34]. Creating content matched to user intent will significantly help increase and retain your organic search traffic. Since users in each stage of the buyer's journey will be using different keywords in their queries, your keyword planning can go one step further [34].

Mapping keywords relative to the buyer's journey will help better tailor content for different stages of the marketing and sales funnel – which in turn makes it easier to relate keyword and content opportunities to milestones your sales team may already be familiar with [34].

4. Content Ideation and Production for the Buyer's Journey [34]. Keep the details of your ideal audiences and the keywords identified at the forefront of your mind while recognizing which stage of the buyer's journey each idea can target [34]. Organize your brainstorming sessions by creating an editorial calendar that outlines a publishing schedule with the following for each piece of content [34]:

1) **Format:**
- Will this be on-site or off-site?
- Specify if it will be a blog post, white paper, buyer guide, research campaign, industry report, video, infographic, etc.

2) **Keyword:**
- Which keyword from your analysis should be the focus of this post?
- What would be related keywords or long-tail keywords? Is it informational or transactional?

3) **Title and Topic:**
- Give a title and description of the main topic. Both should focus heavily on the keyword(s) chosen.
- Give an overview or thesis with any potential data sources or examples to help guide the content writer.

4) **Goal:**
- Specify which stage of the buyer's journey and the related goal this piece of content strives to achieve.

5. Content Promotion and Distribution [34]

Your content marketing strategy doesn't stop after the blog post is live, the e-book is published, or the campaign is completed [34].

Regardless of your industry or who your brand is trying to reach, content promotion strategies at a high level are similar for both B2B and B2C brands – meaning all marketers should take similar approaches in distributing their content, namely through [34]:

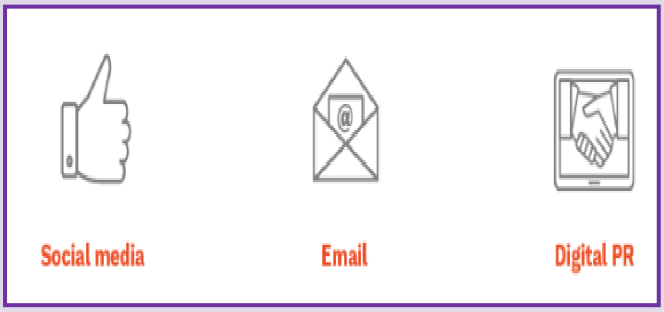


Figure 4.56 – Example [33]

On the flip side, DIGITAL PR utilizes different outreach methods to earn media coverage, influencer advocacy, and even bylines that can grow that audience following your brand on social media or subscribing to your weekly e-newsletter [34].

6. Measuring Results [34]. One of the biggest challenges facing both B2B and B2C marketers is MEASURING THE ROI of their content marketing strategy [34].

The volume and complexity of metrics to measure the results of your strategy can be overwhelming, especially when trying to tie back how specific metrics impact your bottom line. Again, this is where your goals come into play – they will help you better identify which metrics are the most valuable to track [34].

For brand awareness and link-building objectives, visibility and engagement KPIs should be monitored closely [34].

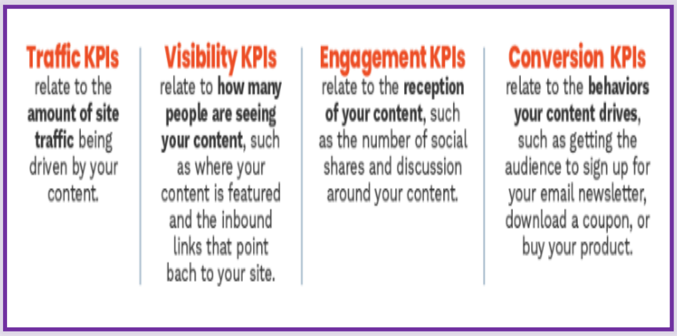


Figure 4.57 – Example [33]

The 6 most effective startup marketing strategies [35]. There are several startup marketing strategies but we choose the most effective, to our mind, ones. See the points below.

1. Product/Market Fit [35]. All the successful companies of today started with a product that their early users loved so much that they told other people about it. If you fail to do this, you will fail. If you deceive yourself and think your users love your product when they don't, you will still fail. The startup graveyard is littered with people who thought they could skip this step [35].

A few resources that can help you with this are [35]:

- Sean Ellis' Startup Pyramid
- Marc Andreessen on Product/Market Fit (first published 2007)
- Andrew Chen's Presentation on Zero to Traction
- Eric Jorgenson's Topic Curation on Product/Market Fit

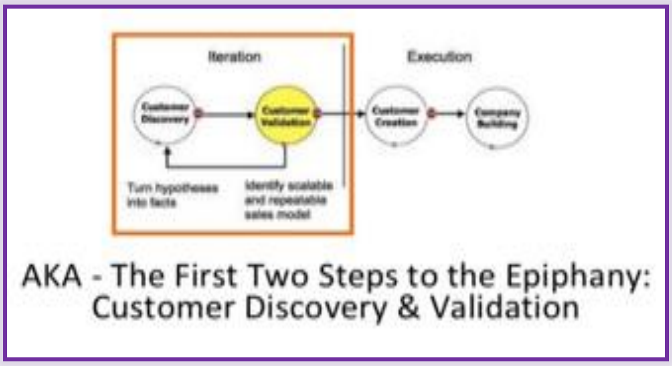


Figure 4.58 – Getting to Product-Market Fit [35]

2. Growth Hacking — Building Marketing Into Your Product [35]. This strategy is typically referred to as viral marketing, and is most often left to chance. My first recommendation is to simply build a product worth recommending. If every single user recommends two new users, you have exponential growth [35].

We will measure a user's likelihood to recommend your product by using the Net Promote Score, a simple test where you ask users "on a scale of 1–10 [35]:
How likely are you to recommend our product to a friend?"
If the aggregate score is above 9.0, you will likely achieve exponential growth, assuming you have built-in tools to make it easy to recommend your product [35].

Figure 4.59 – Example [35]

3. Conversion Rate Optimization [35]. A key part of this process will be implementing extensive A/B split testing to not only test marketing material but also to test the use of your product [35].

We will use customer feedback (including surveys and in-app communication tools) and user testing services to see how users engage with your product and to collect feedback on how it can be improved [35].

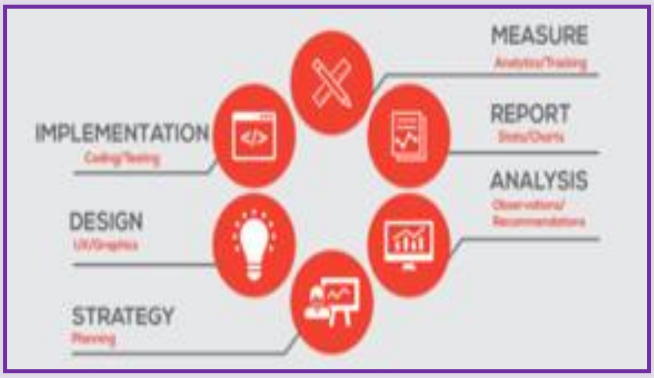


Figure 4.60 – Conversion Rate Optimization [35]

4. Find Your Ideal Customer [36]:

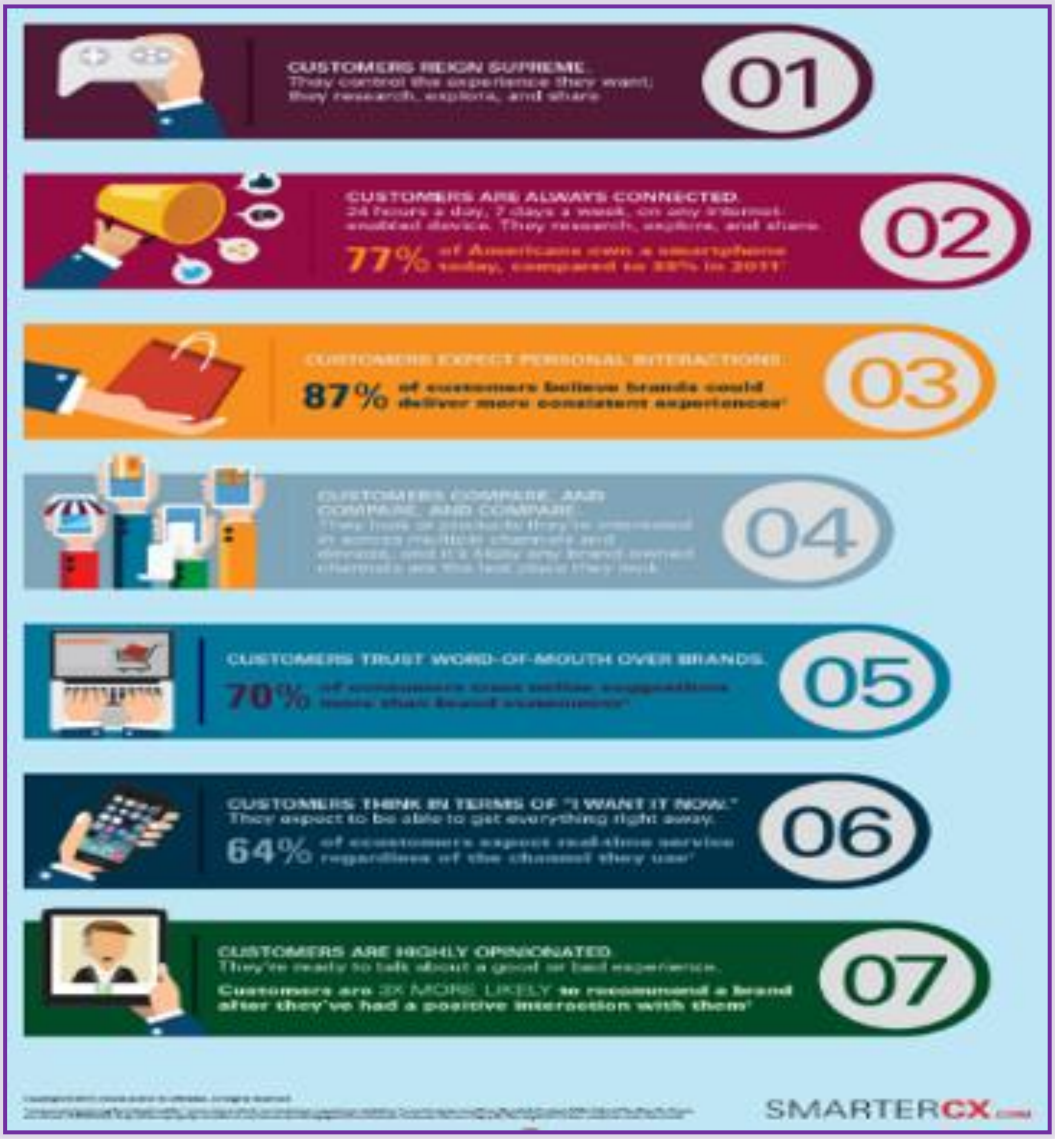


Figure 4.61 – 7 Characteristics of the modern customer [35]

5. Getting Traction with Advertising & Publicity [35]:

- Paid Media: PPC or CPA advertising sorts the men from the boys, and so as soon as we are convinced that our conversion rates are optimized for our ideal customer, we will implement paid advertising campaigns across Facebook, Google, Reddit, Twitter, LinkedIn, Remarketing, Influencer and Content Discovery platforms. We will have accurate ROI monitoring systems in place to ensure that only profitable ads are repeated [35].
- Owned Media: We will implement a thought leadership strategy whereby anything we produce will position us ahead of our industry. In the beginning this may require “faking it until we make it” by interviewing other thought leaders in our space [35].

- Earned Media: We will focus on being remarkable in order to earn media coverage [35].

6. Raising Funds [35]. The secret to successfully raising money is to have a great product backed by a great company. All of the other stuff founders do to try to over-optimise the process probably only matters about 5% of the time [35]. Investors are looking for companies that are going to be successful whether or not they invest, but that can grow faster with outside capital [35].

The marketing plan [37]. Efficient marketing plan needs to have key components that are illustrated in Fig.4.62,

Figure 4.62 – Start up lean marketing plan [37]

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TOPIC 5

BUSINESS PLANNING OF A STARTUP

CONTENTS OF LECTURE

①Preparation of the resume, description of the project and product of the startup
②Presentation of market analysis in a business plan
③Drawing up production and organizational plans for a startup project
④Development of a financial model for a startup project

1 PREPARATION OF THE RESUME, DESCRIPTION OF THE PROJECT AND PRODUCT OF THE STARTUP

Successful business plan needs to have necessary points which correspond to stages of startup development (see Fig.5.1 and Table 5.1)

Startup business plan	a document that contains a description of its key characteristics - marketing, financial, organizational, etc. - which fully highlight the essence of the proposed idea and justify the feasibility of investing in its implementation [1].

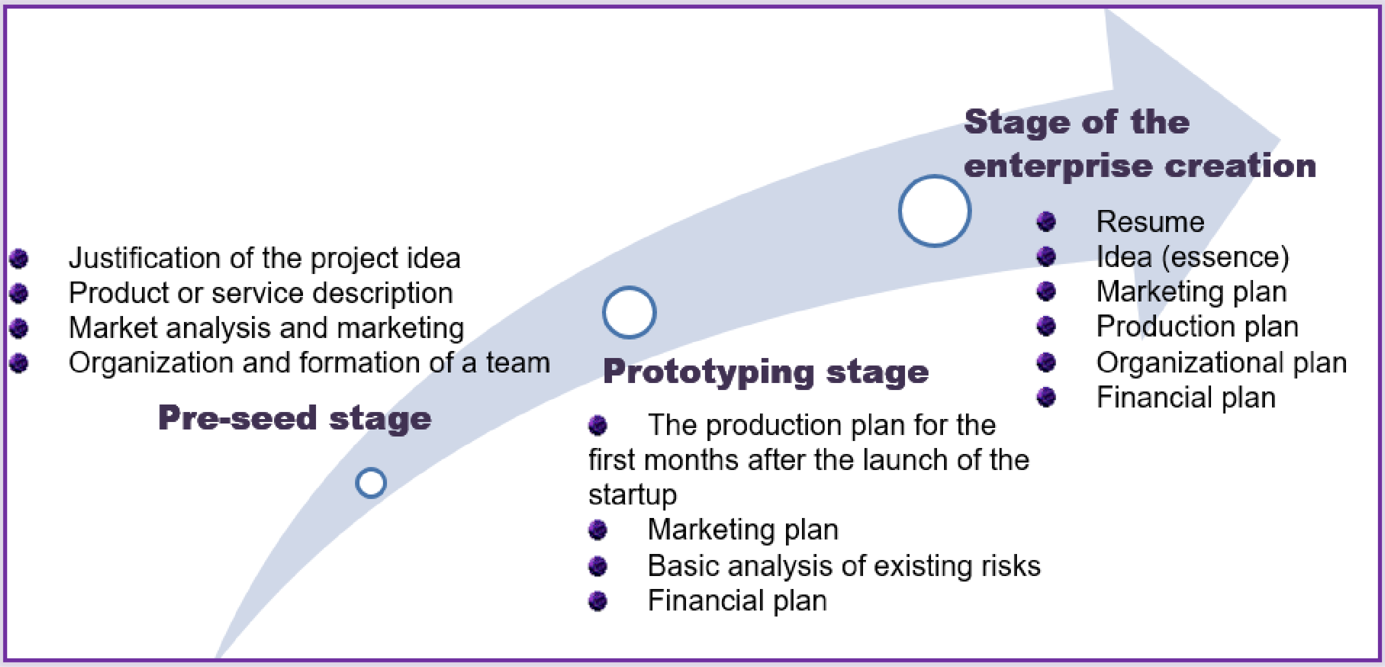

Figure 5.1 – Stages of startup development [2]

Table 5.1 – Executive summary of the business plan (Forbes) [3]

Section	Contents of the section
Mission	State the company's mission statement and provide a few sentences on what the company's purpose is.
Company History and Management	Describes the basics of where the company is located, how long it has been in operation, who is running it and what their level of experience is.
Products or Services	This section tells the reader what the product or service of the company is
The Market	The section summarizes how large the market is for the product or service, the key takeaways show that you have the potential to grow the business because there are consumers in the market for it
Competitive Advantages	Summarize what makes you better than the competitors. Identify key strengths that will be reasons why consumers will choose you over another company
Financial Projections	Estimate the sales projections for the first years of business. At a minimum, you should have at least one year's projections, but it may be better to have three to five years if you can project that far ahead.
Startup Financing Requirements	This states what it will cost to get the company launched and running. You may tackle this as a first-year requirement or if you have made further projections, look at two to three years of cost needs.

An example of the executive summary can be written in Fig. 5.2.

EXAMPLE [3]:

Example of an Executive Summary

01 MISSION

Tim's Trees strives to provide quality tree-trimming services from an expert arborist. Our goal is to help the tree to thrive while reducing the risks to personal property by cutting back branches and overgrowth.

02 COMPANY AND MANAGEMENT

Tim's Trees is a limited liability company registered in Maine and located in Bangor. The company is a startup. It is owned by Tim Hathaway, who has 25 years of experience as a professional arborist. Tim is the company's sole owner and is responsible for its day-to-day operations. He is also the chief arborist on any project.

03 SERVICES

Our clients are looking to get a variety of mature trees trimmed around their homes. While the trees provide beauty and shade, overgrowth can put them at risk of falling down and damaging homes, sheds or fences. Tim's Trees cuts back overgrowth and balances the tree's sides so that it isn't heavier on one side, which can lead them to fall.

04 THE MARKET

Bangor is a city with 32,000 residents, 60% of them being homeowners. As an older city, the neighborhoods have an ample amount of mature trees alongside homes and streets. All of these trees need to be trimmed and adequately cared for every season to prevent winter accidents. Our market research shows that eight out of ten homes have a tree that requires regular trimming.

05 COMPETITIVE ADVANTAGES

There are currently nine other tree-trimming companies located in Bangor. Tim's Trees is different because its founder and owner is an experienced arborist. He brings his 25 years of experience to each project. This gives customers the confidence that the tree will be properly trimmed while maintaining its beauty and overall health. We don't butcher trees as some companies do.

06 FINANCIAL PROJECTIONS

Based on the size of the market and our defined service area, we estimate that Tim's Trees will generate $250,000 in revenues in the first year. We'd expect a growth rate of 10% per year after the first year's launch.

The owner and operator will take a salary of $60,000 per year. He will have a staff of four that does the work of trimming trees.

07 STARTUP FINANCING REQUIREMENTS

To launch, Tim's Trees needs $150,000 in startup capital to purchase vehicles and equipment. Tim has already invested $50,000 into the project.

Forbes ADVISOR

Figure 5.2 – Example of the executive summary [3]

1. **Business plan summary [4].** The overview of your notes should be brief, accurate and clear. See the template in Fig. 5.3

BUSINESS OVERVIEW	
THE PROBLEM	
OUR SOLUTION	
OUR PRODUCT/SERVICE	
MARKET ANALYSIS	
WHO WILL BUY OUR PRODUCT/SERVICE	
HOW WILL THEY BENEFIT	
ALTERNATIVES THEY USE	
WHY WE ARE BETTER	
MARKETING AND SALES PLAN	
HOW OUR CUSTOMERS WILL LEARN ABOUT US	
HOW WE'LL ENCOURAGE THEM TO TELL OTHERS ABOUT US	
WHAT WE'LL CHARGE FOR OUR PRODUCT/SERVICE	
HOW WE'LL GET OUR PRODUCT/SERVICE TO OUR CUSTOMERS	
HOW WE'LL GET PAID	
HOW WE'LL BE PROFITABLE	

KEY OBJECTIVES AND SUCCESS METRICS		
OBJECTIVE	SUCCESS METRIC	GOAL DATE

FINANCIAL PLAN	
SOURCE OF FUNDING	USE OF FUNDING

Figure 5.3 – Business plan summary [4]

2. **Project description [5].** For the initial stages of a startup, the section is opened as a description of the startup project, at the stage of creating the enterprise, it is advisable to provide its characteristics [5].

EXAMPLE [3]:

This ___ (business type)_____business will operate in the ___(industry type)_____ industry. Our mission is to ___(mission statement)___________, and our vision is to ___(vision statement)______.

We are selling ___(product/service)___, and our competitive advantage is ___(unique selling proposition)___________. Currently, the alternatives that buyers use are ___(alternative 1)___ and ____(alternative 2)_____. However, those alternatives lack ____(what sets your product/service apart)____.

This specific industry is __(industry description)________, and it is expected to __(growth predictions)_______. Given those predictions, our company will perform successfully because __(reasoning backed by market research)____________. We plan to reach ___(sales goal)______ in yearly sales and to increase our annual sales by ___(sales goal)_______ over the next ___(time period)___.

Figure 5.4 – Fill-in blank business plan template [5]

Description of the product [6]:

- **Explain Your Products or Services.** Explain your product or service in detail. Try to include a brief about all the aspects of your product or service that will improve the consumers' lives or increase business efficiency [6].

- **Show why your Product is Unique.** Talk about the distinctive features of your product. Show what competitors are offering and explain how your offer is unique and better [6].
- **Emphasize the Benefits.** Your hopes of capturing a share of the market depend on the benefits your product or service provides. Describe the benefits in terms customers can relate to [6].
- **Manufacturing, Sourcing, and Fulfillment.** Explain if you will manufacture your products or you'll source. If you are going to source the product from a manufacturer, how will you select the manufacturer? [6].
- **Be Short and Concise.** Keep to the point. The Product service section in a business plan is about introducing your offering with a fair amount of detail. However, don't make it lengthy. You will discuss your product or service in every section of the business plan one way or another [6].
- **Show your Expertise.** Show your education or experience with the offering. If your business has any patents, trademarks, or special permits, make sure you showcase them. That way, you can establish yourself as an authority. For a sole proprietor, you can include your experience or education. For example, when an athlete starts a fitness brand, it becomes a quick success. However, other similar businesses face struggles at the start [6].
- **Explain in Simple Language.** Make a detailed plan of product service but explain everything in simple language. Every industry has its jargon and buzzwords. People familiar with your product can understand the technical details, but the lenders or investors may not know much about your industry. Here is a pro tip for this. When you have written the product or service description, ask a trusted friend or family member to read it and explain your product to you. That way, you can know if your product service part of the business plan is generally understandable [6].
- **What is your Exclusive Advantage?** Your exclusive advantage is what makes you stand out. You spotted your exclusive advantage when you developed your product or service offering. Explain that exclusive advantage here. If you think there is no exclusive advantage, see if you can lower your price or provide better after-sale support. Even if your exclusive advantage is indirectly related to your product, it can help you get ahead fast [6].
- **Assume you are talking to the customer.** When you walk into the customer's shoes, you can understand their needs better. Assume you are talking to an actual customer and convincing them to buy from you. They know your competition and they know what they need. You will have to talk in layman's terms without missing any important details. You will need to focus on your competitive advantage. You will write an excellent product or service section when you think you are explaining it to a potential customer [6].

PRESENTATION OF MARKET ANALYSIS IN A BUSINESS PLAN

Several methods are used to present marketing analysis in a business plan. Let's consider them in more detail.

1. Analysis of market or industry maturity [7]. It is simple to make a market analysis when you know the basic elements and indicators. See Fig. 5.5.

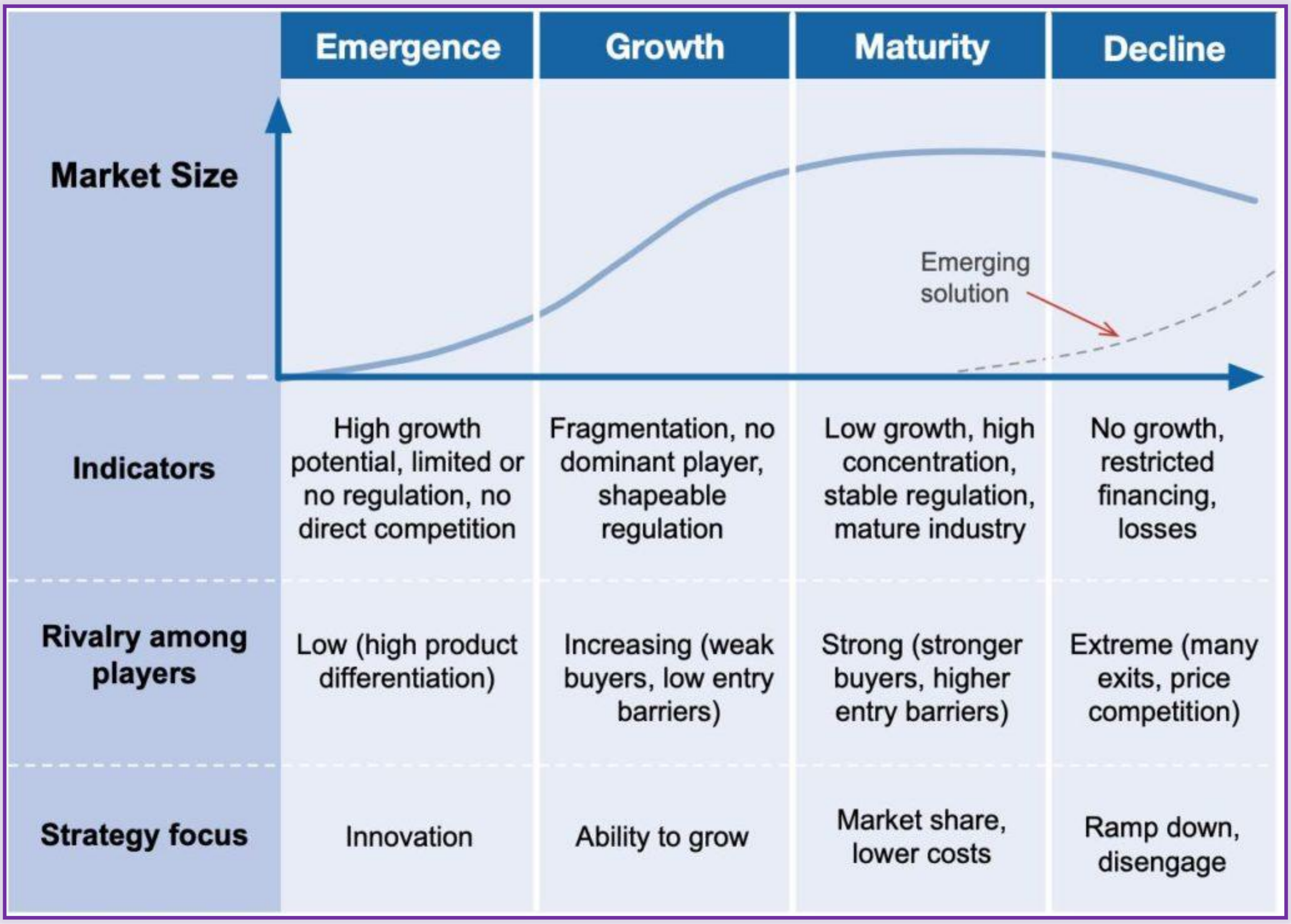

Figure 5.5 – Industry life cycle [7]

2. Analysis of the competitive position. It is simple to analyse the competitive position when you have a list of questions from different spheres (Fig. 5.6).

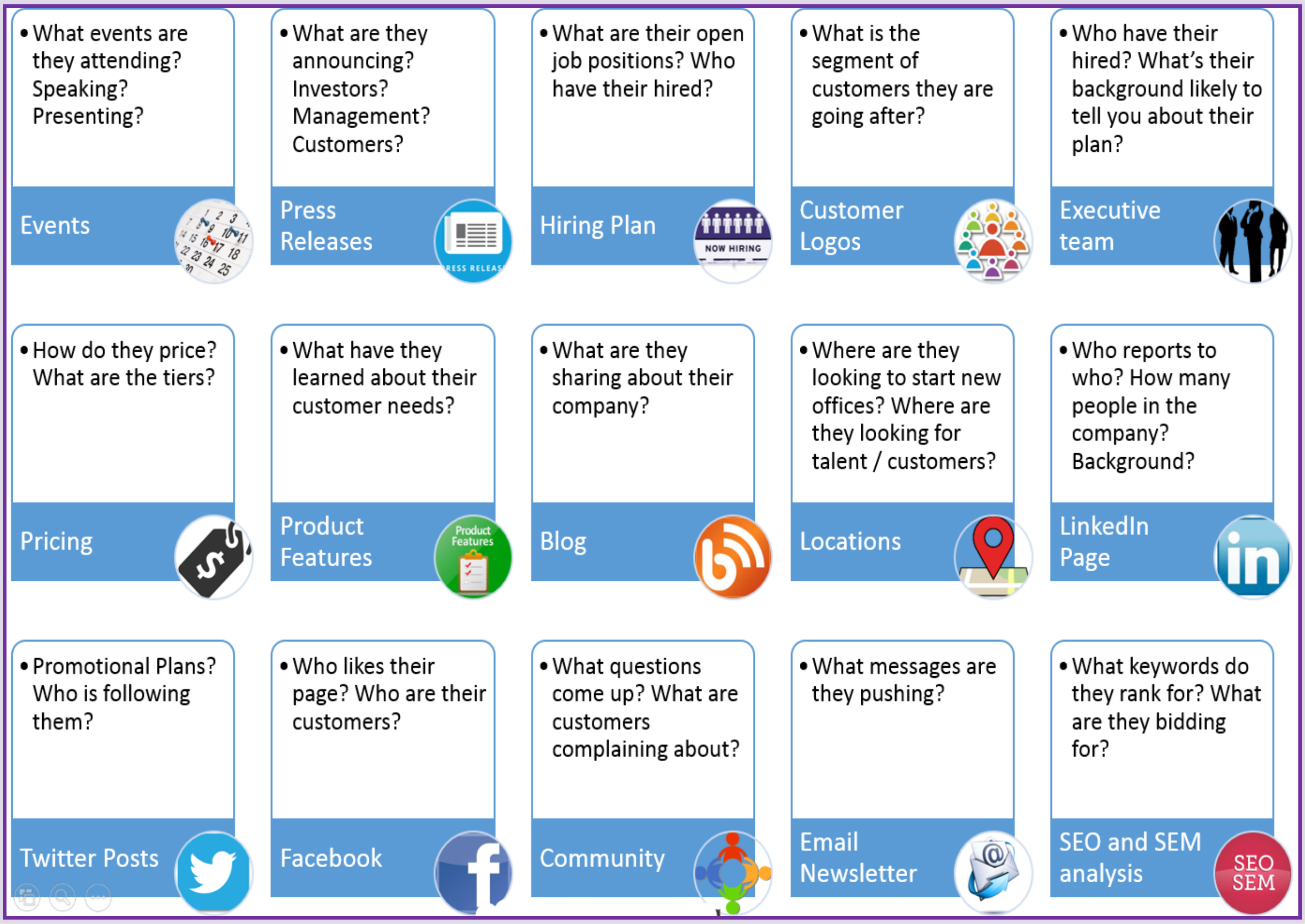

Figure 5.6 – Analysis of the competitive position [8]

3. Analysis of target consumers [9].

1) Segment existing customers [9]. Segmentation depends on the goals you have as a company. For example, you don't necessarily need to include demographics in a B2B scenario. Be sure to only include information that affects how you would market your product or service [9].

Brands often segment their customers into the following groups (but don't feel like you need to stick to just these) [9]:

- Geographic (countries, cities, urban or rural areas)
- Demographic (age, gender identity, religion, education, socio-economic type, etc.)
- Behavioral (how they interact with products and services, also known as customer behavior analysis)
- Media (where and how they consume media)
- Psychographic (opinions, interests, political leanings and beliefs)
- Benefit (what they value about a brand or service)
- Buying decisions (their role in the buying process, perceived barriers, decision criteria, perceived benefits)

2) Run customer surveys, in-depth interviews, and focus groups [9]. To conduct effective customer analysis, you need to invest the time in carrying out focus groups, surveys and in-depth interviews with clients and potential customers [9].

- Quantitative research involves finding data. It can come from surveys, but also analytics harvested from your website, app, ecommerce store, third-party sites, CRM, etc. Statistics derived from your clients and target market can help segment audiences, predict trends, and help analysts uncover insights to make smart business decisions [9].
- Qualitative research involves finding your target market's opinions. Insights from qualitative research can help you uncover people's motivations, challenges, opinions, etc. This is especially crucial for high-consideration products (e.g., in B2B markets), where the decision-making process can become complicated and take unexpected shapes [9].

3) Use existing customer feedback [9]. Paying attention to all this existing customer feedback and customer support requests can be incredibly valuable when it comes to understanding client pain points and goals. This is also called Voice of Customer (VoC) analysis [9]. Voice of Customer programs can help you analyze customer reviews on Google, Facebook, Twitter, the App Store, Google Play or any other public source will enable you to see where your brand goes right and wrong [9]. In many cases, VoC data will give you insights into how your customers speak, write and even think [9]. For example [9]:

- Why exactly did they ask for a refund?
- What features were they unhappy with, but didn't think were worth requesting a refund over?
- In what surprising ways has your product been useful for them or someone they know?

4) Communicate with Your Team [9]. Everyone on your team may work for the same organization, but not everyone sees the same side of clients — and therefore what makes them tick. For example [9]:

- The marketing team might understand what style of copy leads clients to book an initial call.
- While the sales team might understand what makes customers ultimately convert.
- Account managers might understand what makes customers happy day in, day out.
- But customer success managers (CSMs) might know how to go the extra mile to retain them.

Compiling insights about customers as a team can be incredibly powerful, and enables a holistic approach to client analysis. One way to do this, for instance, is for marketers to take part in sales or CSM calls to get a better understanding of the users — and vice versa.

5) Leverage Analytics [9]. Analytics can provide incredible insight into customers and their behavior. If you use a customer relationship management tool, you may already have internal information about customer demographics and behavior, client profitability and value, as well as conversations with customers at your fingertips [9].

EXAMPLE [3]:

Google Analytics and *Facebook Audience Insights* (for example) can also be extremely useful. They let you learn more about how customers interact with your website and social accounts [9].

For example, you can see [9]:

- ❑ How your site visitors found you
- ❑ The typical customer journey (where people enter and leave your website)
- ❑ How long do they stay on a particular page and what percentage leave immediately
- ❑ The links your visitors click, etc.
- ❑ In turn, you can understand more about their habits, interests, and behaviors.

6) Create Buyer Personas [9]. Amalgamating all of the data will help to identify patterns and similarities from interview answers, sales team feedback, and competitor insights.

And from these commonalities, a buyer persona's portrait should become clear — all that's left to do is to document all the findings and share these personas with the rest of the company [9].

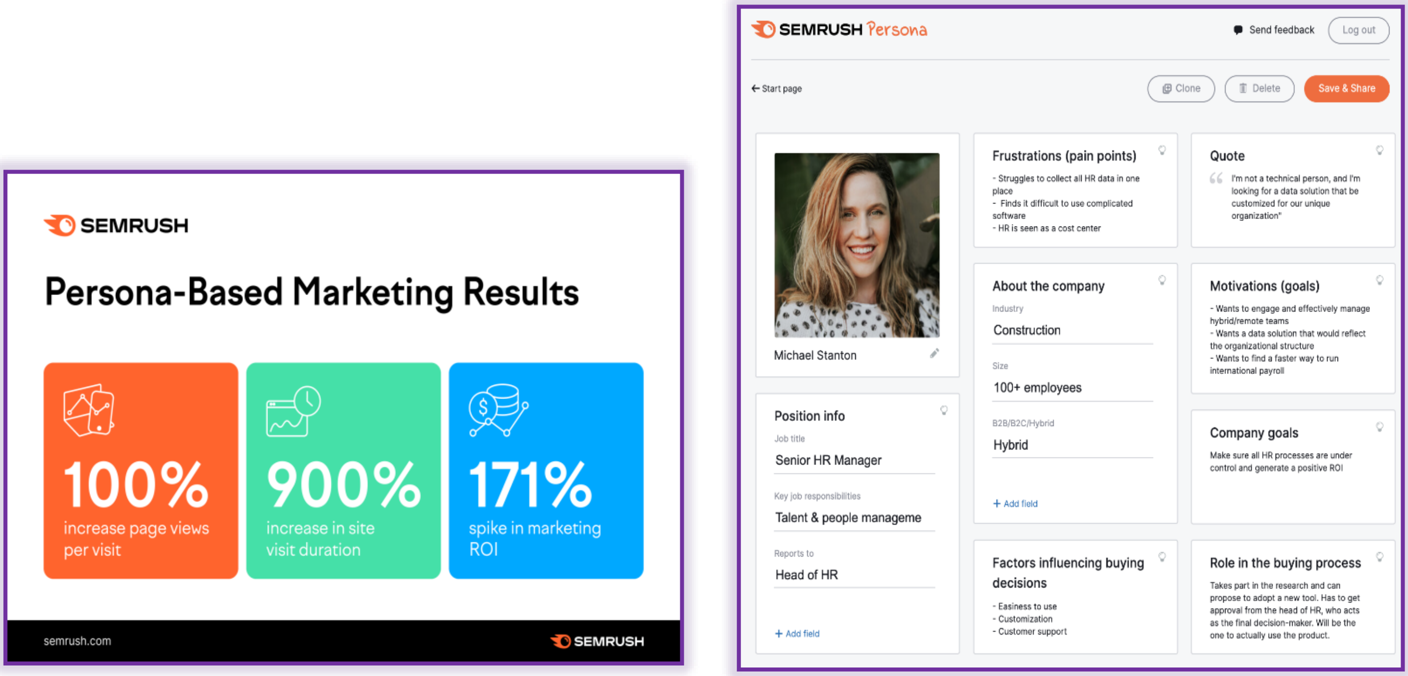

Figure 5.7 – Buyer Person Sample [10]

7) **Share them across the entire organization [9].** Your customer analysis and buyer personas won't be very valuable if only used by a few select people at your organization. They need to be leveraged across the entire company, and this will enable you to keep your messaging consistent and effective [9].

8) **Decide how to approach different segments and personas [9].** Perhaps the most important metric to focus on is *Customer Lifetime Value (LTV)* — which is the average value a customer brings to your organization throughout the entire relationship. The buyer personas that increase your LTV, over time, are ones that would be smart to focus on [9].

It can also help to have a unique customer journey map for each persona. This map will determine how to attract, engage, convert and upsell specific personas and segments based on their challenges, questions, preferred platforms, and types of content at every step of the way [9].

9) **Keep researching [9].** Customers are constantly changing. Since the start of the pandemic, many people's preferred communication platforms have changed. Their demographics have changed, too; lots of people have moved out of cities and into the suburbs [9].

Even more, people's values have changed. For many, spending time with family and friends has become more important than working long hours or going after a big promotion [9].

In this evolving environment, collecting customer feedback is key. And you should undertake customer segmentation analysis and voice of customer analysis periodically to ensure your research and buyer personas are up to date. Otherwise, your messaging, marketing, pitches, and (even worse) products risk becoming stale [9].

4. Determination of perspectives and trends. To think about prospects and forecast trends, owners need to choose marketing strategy and set the price correctly. See information below.

Components of marketing strategy [11]:

- ❑ Formation of price policy;
- ❑ Justification of product sales channels;
- ❑ Choice of methods of organizing an advertising campaign;
- ❑ Formation of a policy of product or service support in the market.

EXAMPLE:

After analyzing the market and researching the demand for ___(product/service)___, we have determined that this is the best time to permeate the market because ___(reason backed by research)_______.
Our market size is __(market size)___, and our target market segment(s) can be described as follows:

Segment 1…

We determined that there is enough demand for our ___(product or service)___ within this particular segment due to ____(reasoning backed by market research)___.
Currently, our biggest competitors are _____(competitor 1)____ and _____(competitor 2)____. What separates us from the competition are ___(example 1)____ and ___(example 2)____.
In comparison to what's offered on the market, our prices are ___(price difference)_______, which is ___(percent difference)______ than our competition

Figure 5.8 – Fill-in blank business plan template [5]

5. Price setting [13]. Pricing Worksheet for Startup shown in the Fig. 5.7 which includes:

«Consumer opinion» – displays information about what people think when they first see a startup's product [13].
«Substitute products» – the opinion of consumers about the products that they can buy instead of the startup's product is determined [13].
«Complementary products» – an opinion about the products that consumers would buy together with the startup's product [13].
«Conclusions about the product» – consumers' intuitive preliminary conclusions about the startup's product and their conclusions after using it are displayed [13].
«Product price» – helps to visualize the stages of pricing [13].

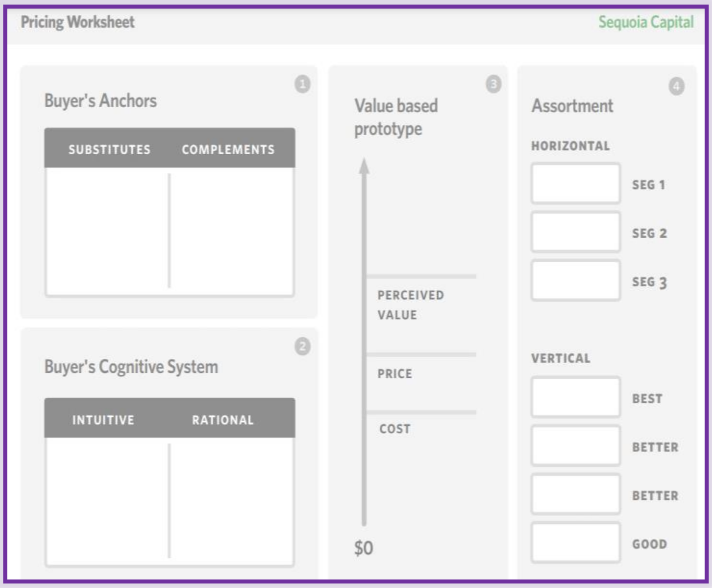

Figure 5.9 – Pricing Worksheet for Startup [13]

Pricing Methods [14]:

Methods can be different but choose them wisely:

Cost-based Price: This lays down the floor for pricing.

Competitor-based Price: This gives the orientation framework for pricing.

Customer Demand-based Price: This lays down the ceiling for pricing.

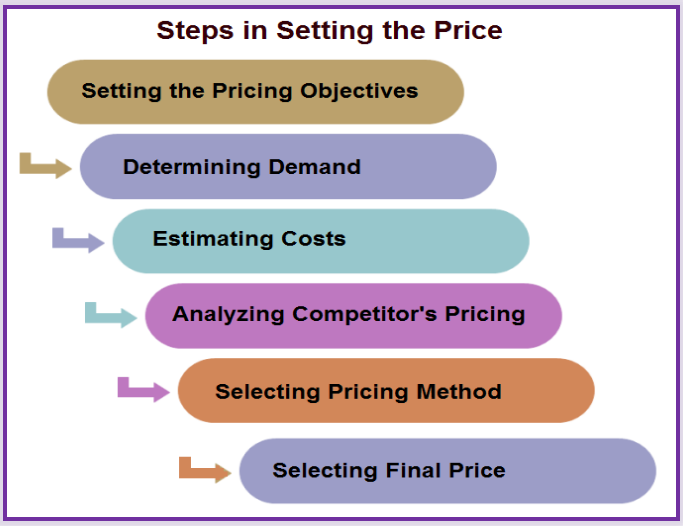

Figure 5.10 – Steps in setting the price [13]

6. Determination of sale volumes. You can use the table 5.2 to determine sales volumes.

Table 5.2 – Determination of sale volumes

Indicator	Unit	Periods (by months)												Total for a year
		1	2	3	4	5	6	7	8	9	10	11	12	
Volume of sales	units	…	…	…	…	…	…	…	…	…	…	…	…	…
Price for unit	Thousand EURO	…	…	…	…	…	…	…	…	…	…	…	…	…
Sales revenue *(sales volume × unit price)*	Thousand EURO	…	…	…	…	…	…	…	…	…	…	…	…	…

EXAMPLE:

Advertising and promotion are essential to getting the word out about our business, and we expect to implement a ___(description)_____ marketing strategy, which will include ___(key component of marketing strategy) ___ and ___(key component of marketing strategy)___. This strategy will enable us to effectively target ___(market segment)___ due to ____(reasoning backed by market research)__________.

Our key offerings include ___(product/service offerings)___. Our offerings benefit our target customers more than what is currently on the market because __(reasoning backed by market research)___. Our unique selling proposition is __.

The market is predicted to ___(prediction)_______ over the next _____(time frame)_______. Accordingly, our pricing strategy is to ___(pricing strategy)___.

The various methods we plan to use to communicate our offerings to our target customers are ___(communication methods)___. Additionally, we aim to promote our __(product/service)__ by __(promotion methods)___.

We intend to distribute our __(product/service)__ to customers by __(distribution method)___. We will be selling __(wholesale, retail, etc.)__ and will use __(payment method)__

Figure 5.11 – Fill-in blank business plan template [5]

7. Sales channels [15]. Sales Channel Management consists of deep planning and choosing strategies (see Fig.5.12)

Figure 5.12 – Sales Channel Management [15]

3 DRAWING UP PRODUCTION AND ORGANIZATIONAL PLANS FOR A STARTUP PROJECT

Production plan. A production plan is not a mandatory section for a startup business plan if it does not involve the production of a physical product or involves the provision of services.

Description of the technological process includes [16]

- Basic production methods and technologies;
- Technological process from the moment of purchase of raw materials and materials to the sale of finished products;
- Improvement of the technological process in the future;
- Needs to improve the technological process;
- Composition and structure of production facilities;
- Quality control of raw materials and products at the production stages;
- Standards to be used.

Description of the production process [16]:

- ❑ General structure of the production process;
- ❑ Necessary raw materials, materials and components;
- ❑ Data on their potential suppliers;
- ❑ Powers necessary for the organization of production;
- ❑ Characteristics and equipment purchase plan;
- ❑ Production location, location requirements.

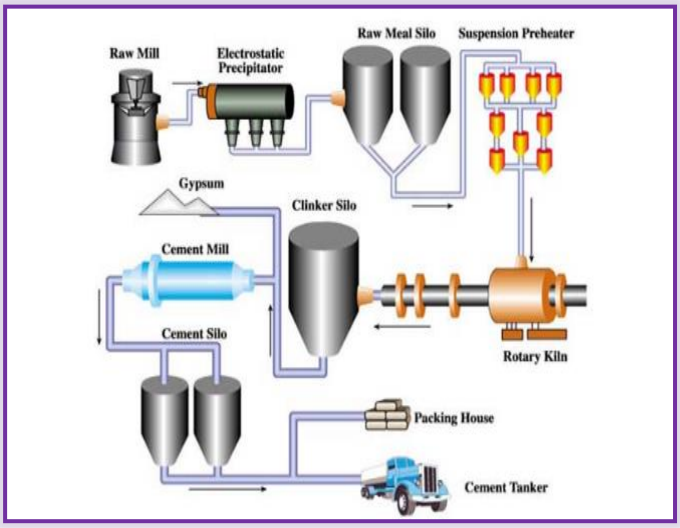

Figure 5.13 – Example [16]

Organizational plan [16]. Organizational plan is more specific and includes information about education and previous experience of team members. See template in Table 5.3

Table 5.3 – The startup team and its development [16]

Startup stage	Tasks	Team members	Education	Experience	Specialized knowledge	Costs, Thousand EURO
Pre-seed	…	…	…	…	…	…
Seed	…	…	…	…	…	…
Prototyping	…	…	…	…	…	…
….	…	…	…	…	…	…
Ordinary business	…	…	…	…	…	…

Table 5.4 – Calendar plan-schedule of startup preparation [16]

Startup stage	Start-up period (in months from the start of project preparation)					Costs, Thousand EURO
	1	2	3	…	n	
Pre-seed	…					…
Seed		…				…
Prototyping			…			…
….				…		…
Total					…	…

DEVELOPMENT OF A FINANCIAL MODEL FOR A STARTUP PROJECT

Financial model is essential for attracting investors for your startup idea. More functions can be seen in Table 5.5.

Financial model	presentation of current and future results of the company's activities in monetary terms, as well as a set of main interrelated financial indicators, which are formed based on data on projected sales volumes and estimated costs [17].

Table 5.5 – Functions of financial model [17]

Signs	Indicators for analysis
Explanation of the startup concept	Financial modeling clearly shows sources of income, necessary expenses and other key economic points
Determining the current and future value of the business	Growth dynamics taking into account the time factor
Determination of the main economic factors	Reflects the main points that affect the growth of business value
Drawing up an investment plan	Investment plan - determination of the exact amount of resources needed to achieve the set goals
Development of strategic development scripts	It allows predicting business risks, generalizing the rules of behavior on the market
Dynamic change tracking	The following factors influencing revenue and expenses are laid as a basis: cost price and price of products, salary of personnel, taxes, repayment of loans, production stocks, etc.

The financial model is made in the following sequence:

1. **Calculation of initial investments and initial data.** There are two sub-items in this section: initial investments (table) and project operating data. It is necessary to model the development of the project for at least 3 years and forecast the values of the following parameters [18].

Table 5.6 – Initial investment in a start-up project [18]

Types of expenses	Cost
1	2
R&D	
Protection of rights to intellectual property objects	
Purchase of raw materials and materials	
Creation of a prototype, experiments	
Room rental	

Continuation Table 5.6

1	2
Promotion	
Costs per team	
Ordering services, mentoring	
Purchase of equipment	
Creation of a startup website	

2. Project operational data. A number of indicators are determined:

Revenue. Revenue per product may include the price of the distribution channel, in which case it is calculated as [18]:

$$S = P_k + \cdot Q,$$

where S – revenue;
P_K – sales channel price;
Q – sales volume in physical units.

Starting from the second month, use the result (number of units sold) of the previous month increased by the percentage of growth in the current period [18]:

$$N = N_{n-1} + N_{n-1} \cdot q,$$

where N – the number of units sold (month N);
N_{m-1} – number of units sold (month N-1);
$q_{\%}$ – *the* percentage of monthly growth.

It is worth noting that to determine the percentage of monthly growth for a startup, it is worth applying E. Rogers' diffuse mode.

Direct cost. The final value of the direct cost is then determined. In the case of a start-up project, it is assumed that production and sales volumes (per month) are equal.

Operating profitability. Operating profitability indicates the share of gross profit in the total value of project revenue [18]:

$$OR = \frac{PV}{S} \cdot 100\%,$$

where OR – operating profitability;
PV – gross profit;
S – revenue

.

Table 5.7 – Project operational data [18]

№	Indicator	The value of the indicator by periods												
		1 year												2 year
		1	2	3	4	5	6	7	8	9	10	11	12	13
1.	Revenue (1.1.1+1.2.1)	…	…	…	…	…	…	…	…	…	…	…	…	…
1.1.	The main product, units sold.	…	…	…	…	…	…	…	…	…	…	…	…	…
1.1.1	Total revenue, EURO	…	…	…	…	…	…	…	…	…	…	…	…	…
1.1.2	Sold through the site, units	…	…	…	…	…	…	…	…	…	…	…	…	…
1.1.3	Sold through the site, EURO	…	…	…	…	…	…	…	…	…	…	…	…	…
1.1.4	Sold through representatives, units	…	…	…	…	…	…	…	…	…	…	…	…	…
1.1.5	Sold through representatives, EURO	…	…	…	…	…	…	…	…	…	…	…	…	…
1.2.	Related product, sold units	…	…	…	…	…	…	…	…	…	…	…	…	…
1.2.1	Total revenue, EURO	…	…	…	…	…	…	…	…	…	…	…	…	…
1.2.2	Sold through the site, units	…	…	…	…	…	…	…	…	…	…	…	…	…
1.2.3	Sold through the site, EURO	…	…	…	…	…	…	…	…	…	…	…	…	…
1.2.4	Sold through representatives, units	…	…	…	…	…	…	…	…	…	…	…	…	…
1.2.5	Sold through representatives, EURO	…	…	…	…	…	…	…	…	…	…	…	…	…
2.	Direct cost	…	…	…	…	…	…	…	…	…	…	…	…	…
2.1	Main product	…	…	…	…	…	…	…	…	…	…	…	…	…
2.2	Related product	…	…	…	…	…	…	…	…	…	…	…	…	…
2.3	Payment of logistics when ordering through the site	…	…	…	…	…	…	…	…	…	…	…	…	…
3.	Gross profit (1-2)	…	…	…	…	…	…	…	…	…	…	…	…	…
3.1	Operating profitability, %	…	…	…	…	…	…	…	…	…	…	…	…	…

3. Financial model. Further calculation of cash flows to the cash flow indicator or the net profit indicator is carried out.

The Operating Expenses block, which lists all the expenses of a startup project, determines the amount of money to be raised from the investor. In the financial model of a startup project, this amount is working capital, unlike other projects where the amount of investment is largely formed by the «initial investment» item [18].

To assess the effectiveness of a start-up project, the financial model defines a number of the following indicators.

EBITDA *(Earnings before interest, taxes, depreciation and amortization) For early-stage start-up projects, this indicator* determines how much money will be left before taxes and interest on loans [187]:

$$EBITDA = PV - C_1 - C_O,$$

where EBITDA – profit before interest, taxes, depreciation and amortization of fixed and intangible assets;
PV – gross profit;
C_1 – initial (priority) investments;
C_o – operating expenses.

Cash flow of the project. Net profit, or in other words, the project's cash flow, shows the project's cash deficit and determines the amount of investment required, which is determined based on the formula [18]:

$$NP = \text{EBITDA} - T,$$

where NP – net profit;
EBITDA – profit before interest, taxes, depreciation and amortization of fixed and intangible assets;
T – taxes.

Net profit determines the amount that the project team distributes among themselves, and, based on its correlation with the amount of investment made in the project, the attractiveness of the business for a potential investor or partner [19].

Net profit on an accrual basis. Net profit on an accrual basis is the state of the company's account. At the beginning of the table, it will always be negative, as the purpose of calculating the financial model is to determine the deficit of funds generated by the startup project [18]. In more complex models, various discounting and net present value techniques are applied to the net profit figures, but in projects with a relatively small need for funds and in the early stages of a start-up project, no discount is calculated [18].

Subsequently, the financial model for subsequent periods of startup development is enlarged.

Table 5.8 – The financial model of the startup project [18]

№	Indicator	The value of the indicator by periods												
		1 year												2 year
		1	2	3	4	5	6	7	8	9	10	11	12	13
1.	Initial investments	…	…	…	…	…	…	…	…	…	…	…	…	…
1.1.	R&D	…	…	…	…	…	…	…	…	…	…	…	…	…
1.2.	Protection of rights to intellectual property objects	…	…	…	…	…	…	…	…	…	…	…	…	…
1.3.	Purchase of raw materials and materials	…	…	…	…	…	…	…	…	…	…	…	…	…
1.4.	Creation of a prototype, experiments	…	…	…	…	…	…	…	…	…	…	…	…	…
1.5.	Room rental	…	…	…	…	…	…	…	…	…	…	…	…	…
1.6.	Promotion and test advertising	…	…	…	…	…	…	…	…	…	…	…	…	…
1.7.	Team and training costs	…	…	…	…	…	…	…	…	…	…	…	…	…
1.8.	Consultations and ordering services	…	…	…	…	…	…	…	…	…	…	…	…	…
1.9.	Purchase of equipment	…	…	…	…	…	…	…	…	…	…	…	…	…
1.10.	Development of a startup website	…	…	…	…	…	…	…	…	…	…	…	…	…
2.	Gross profit	…	…	…	…	…	…	…	…	…	…	…	…	…
2.1.	Revenue	…	…	…	…	…	…	…	…	…	…	…	…	…
2.2.	Direct cost	…	…	…	…	…	…	…	…	…	…	…	…	…
2.3.	Operating profitability, %	…	…	…	…	…	…	…	…	…	…	…	…	…
3.	Operating expenses													
3.1.	Office rent													
3.2.	Salary to managers													
3.3.	SEO promotion costs													
3.4.	Internet advertising costs													
3.5.	Media costs													
3.6.	Overhead costs													
3.7.	Remuneration fund													
3.8.	Payment of remuneration to representatives													
3.9.	Logistics costs													
4.	EBITDA													
5.	Taxes													
5.1	VAT, %													
5.2	Income tax													
5.3	Deductions from wages													
6.	Net income (cash flow)													
7.	Total net profit													

4. Investment attractiveness of a start-up project. After calculations based on the financial model, the investment attractiveness of a start-up project is determined by the following indicators [18]:

1) the amount of investment required is the cash deficit obtained from the modelling results. This is net profit with a «-» sign, i.e. a loss;

2) accumulated net profit is the amount of funds generated by the project during the calculation period. This amount is to be distributed among the project founders;

3) accumulated net profit over the invested funds. This profit is the amount of funds that remains after the modelling results, minus the funds that were invested in the project to overcome the resulting deficit. It shows how much money would be left for distribution if the investment were to be repaid in full. This amount is determined either by the total net profit for three years or the last figure of the net profit on a cumulative basis.

4) ROI - return on investment or project profitability. ROI answers the question «How much will be received for the amount of money invested in the project?» [19]:

$$ROI = \frac{ANP}{I} \cdot 100\%,$$

ROI – return on investment;
ANP – accumulated net profit (for a period of, for example, 3 years);
I – the amount of required investment.

5) Break Even Point [22]:

$$BP = \frac{FC}{SP - VC} \cdot 100\%,$$

BP – Break-even point
SP – Selling price per unit;
FC – Fixed costs;
VP – Variable costs per unit

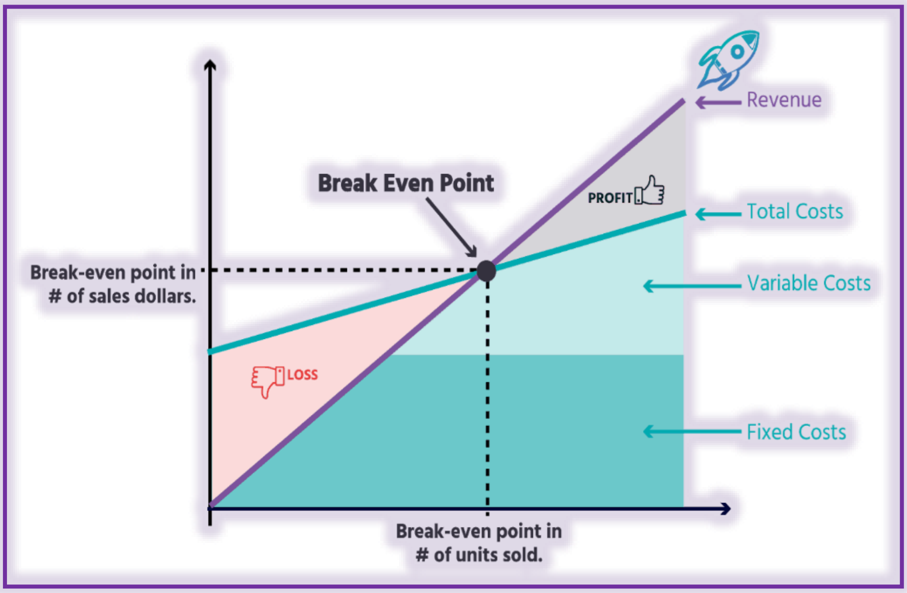

Figure 5.14 – Break Even Point [22]

5) Internal rate of return or IRR. According to the rules, this indicator is calculated based on the discounted cash flow data used to calculate NPV. But as noted earlier, in early-stage start-up projects with a small amount of required investment, several assumptions are made to simplify the calculation, one of which is the refusal to discount the cash flow [18]. This approach uses the already calculated net profit as the value of the present value or net discounted income. This line is used as the basis for calculating IRR [18].

6) the cost of a startup company before receiving funding. To evaluate it, you should use discounting and determine the multiplier (the ratio of the company's value to its revenue) [20]:

$$Pre\text{-money} = \frac{\text{Cash Flow}^{1\,рік}}{(1+d)^1} + \frac{\text{Cash Flow}^{2\,рік}}{(1+d)^2} + \frac{\text{Cash Flow}^{3\,рік}}{(1+d)^3} + \frac{S^{3\,рік} \cdot M}{(1+d)^3},$$

where Pre-money is – the value of the startup company;
Cash Flow – cash flow;
d – discount rate;
S – revenue;
M – multiplier
.

The multiplier helps determine the future value of a startup company. The multiplier increases the annual revenue of the second forecasted year and its value can be from 2 and is calculated as [18]:

$$M = \frac{\text{Pre-money}}{S},$$

where *M* – multiplier;
Pre-money – the value of the startup company;
S – sales revenue.

7) share of the investor. To receive investments, a significant indicator of the investor's decision-making is the investor's share, which is determined according to the given formula [20]:

$$I_{pm} = \frac{I}{Pre-money+I},$$

where I_{pm} – investor's share of the startup's value;
Pre-money – the value of the startup company;
I – the amount of required investment.

The discount rate for startups is 40–60% and is calculated as:

R=rf+rp+i,

where *rf* – risk-free rate;
rp – risk premium;
i – inflation rate.

The cumulative risk premium, depending on the type of project, can be determined according to the data in the table below.

For startup project investors, it is advisable to determine the payback period of the investment (DPP) [21]:

$$DPP = \min n \Rightarrow \sum_{i=1}^{n} \frac{CF_i}{(1+r)^i} > IC$$

where DPP – *(Discounted Pay-Back Period)* – discounted investment payback period;
IC – *(Invest Capital)* – the size of the initial investment;
CF – *(Cash Flow)* – cash flow generated by an investment project;
r – discount rate;
n – project implementation period.

EXAMPLE:

Year	Discount factors (dn)	Project 1			Project 2		
		cash flows (Cn)	Discounted cash flows (Cn*dn)	Cumulative discounted cash flows	Cash flows (Cn)	Discounted cash flows (Cn*dn)	Cumulative discounted cash flows
0	1	−100	−100	−100	−1000	−1000	−1000
1	0.91	20	18.2	−81.8	300	272.73	−727.3
2	0.83	25	20.7	−61.2	350	289.26	−438.0
3	0.75	30	22.5	−38.6	200	150.26	−287.8
4	0.68	35	23.9	−14.7	350	239.05	−48.7
5	0.62	40	24.8	10.1	400	248.37	199.7
Discounted payback at 10 % discount rate				4.59			4.20

Figure 5.15 – Example of discounted payback period [23]

RISKS. It is not a secret that a startup is a type of risky business. Forecast all the risks that are written below to succeed [24]:

- **Lack of customer demand.** Startups often have a great product or service, but they fail because there is no market demand for what they're offering. This can happen for several reasons, such as the startup targeting a small niche market that doesn't exist or refusing to pivot when it's clear that the original product isn't resonating with customers.
- **Lack of a differentiated product.** In a crowded marketplace, startups need to have a product or service that is differentiated from the competition. Otherwise, it will be very difficult to acquire customers and grow the business. This can be a challenge for startups because they often don't have the resources to invest in extensive market research or to hire experienced product designers.
- **Poor execution.** Even the best products and services won't be successful if they're poorly executed. This can happen when startups don't have a clear vision for the business, when they try to do too many things at once, or when they don't have the right team in place to execute the plan.

- **Scalability issues.** Startups often have difficulty scaling their businesses, which can lead to financial problems and ultimately failure. This can be due to a number of factors, such as an unproven business model, reliance on a small number of key customers, or lack of access to capital.
- **Team risk.** The success of a startup depends heavily on the quality of the founding team. If the team is not up to the task, the startup is likely to fail. This can be due to a number of factors, such as inexperience, lack of complementary skills, or poor team dynamics.

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TOPIC 6

ORGANIZATION OF A STARTUP: FROM A TEAM TO AN ENTERPRISE

CONTENTS OF LECTURE

①Formation and scaling of a startup project team
②Mentoring in a startup
③Startup ecosystem: acceleration and business incubation
④Creation of an enterprise based on a startup

1 FORMATION AND SCALING OF A STARTUP PROJECT TEAM

There are three vectors of startup success [3]: idea, investments, team.

Team	a group of people who are interdependent with respect to information, resources, knowledge and skills and who seek to combine their efforts to achieve a common goal [1].

Table 6.1 – Tips for Building an Effective Startup Team [2]

Tip	Characteristic
1	**2**
#1 Establish positions and responsibilities	Before hiring people, you and the other founders must understand your roles in the startup. Who should be the technical lead? Who will handle the marketing side of the business?
#2 Hire the Right People	Ideally, you want each member to exhibit the right balance between hard and soft skills. They must be experts at what they do (e.g. programming, project management, content writing, etc.) and have the right attitude to back it up.

Continuation Table 6.1

1	2
#3 Share your startup vision	If your ultimate goal is to be a leading company one day, then share that vision with your current and future employees. Make them see the big picture. This allows them to stay motivated and committed to contributing to company growth.
#4 Offer training or mentorship	Your employees can benefit when they undergo training to sharpen their skills.
#5 Provide feedback on performance	Having a feedback system plays a significant role in assessing an employee's performance.

Team formation according to **Dave McClure's method** [4-6]. An extraordinary method of team formation was given by Dave McClure and presented in Fig. 6.1

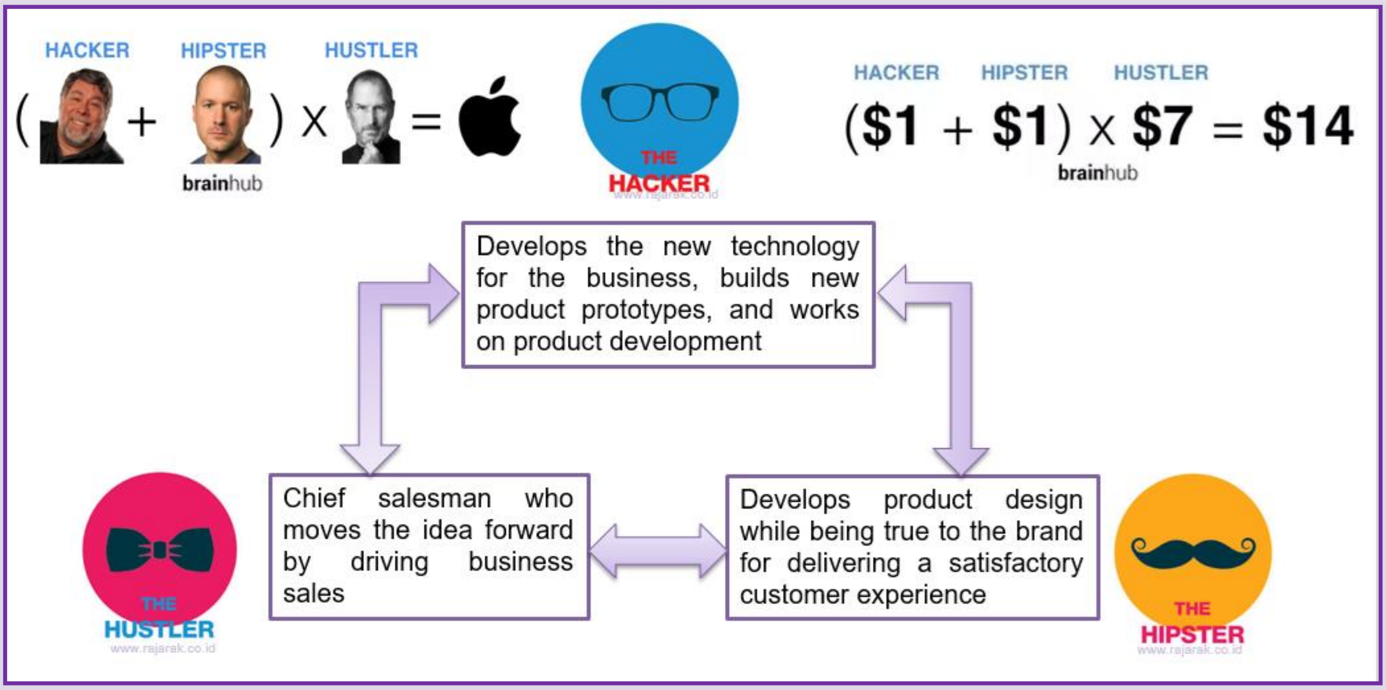

Figure 6.1 – Example of McClure's method [4-6]

Minimum team:

Minimum team (1+1=2) is formed by the product author's search for a producer who can provide resources, logistics, help in market research, activate sales, etc. [4].

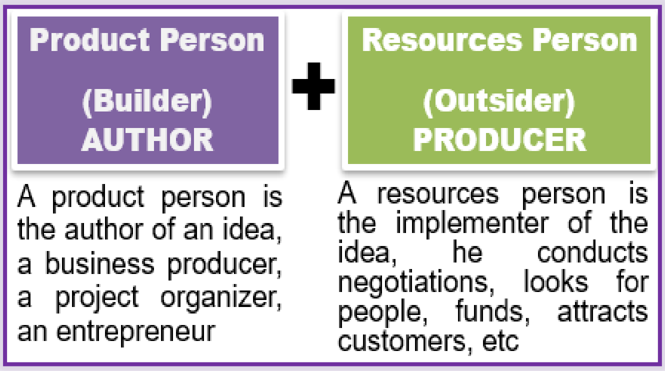

Figure 6.2 – Minimum team [4]

Minimum viable team

Minimum viable team (2+1=3) is a minimum team of two people is only capable of launch and first sales, but not enough to ensure stable operation. This requires a person who will provide operational activities [4]

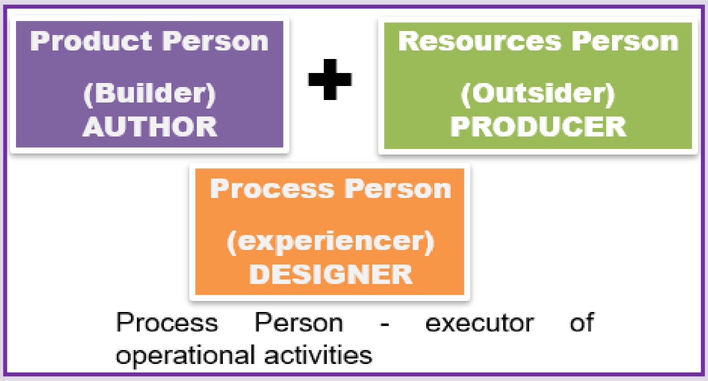

Figure 6.3 – Minimum viable team [4]

Minimum ideal team [4]

Minimal ideal team (3+2=5) with the growth of the business during the scaling of the startup, there is a need for professional accounting, bookkeeping, cost control, analytics. Therefore, it is advisable to involve an economist (financier) and an analyst in the team [4]

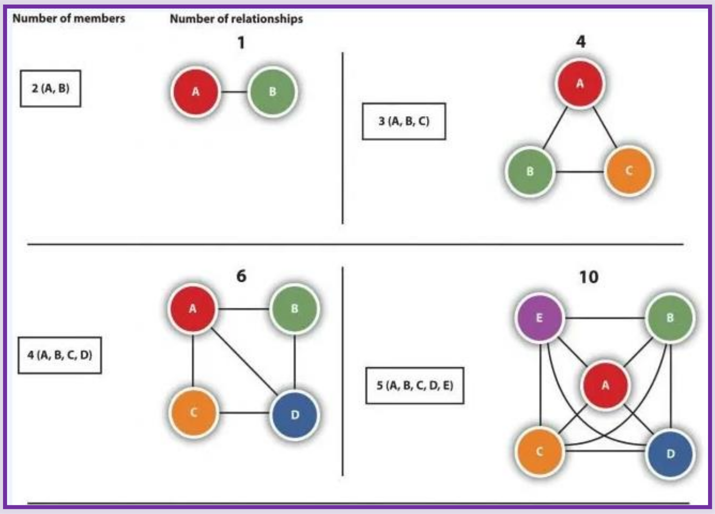

Figure 6.4 – Scrum Team size [7]

Bruce Tuckman's team development model. There are several phases and models of team development. One of the Bruce Tuckman's team development model (Fig. 6.5) [8]:

- **Forming.** The team is formed and everyone shows their best behavior. There is a positive and polite atmosphere. Strong guidance is needed by the facilitator as group tasks are not clearly defined yet.
- **Storming.** Emerging boundaries become contested and conflicts occur. Also, frustration with the lack of progress is common. Guidance is needed by the facilitator
- **Norming.** Team members start to resolve their differences, appreciate colleagues' strengths, and respect the leader's authority. Behavior from the storming and norming phases can overlap for some time when new tasks come up
- **Performing.** Hard work goes hand in hand with satisfaction about the team's progress. Team confidence makes team roles more fluid and more tasks can be delegated by the facilitator. Problems are prevented or solved as they pop up.

- **Adjourning.** When all tasks are completed, it's important to celebrate the team's positive achievements

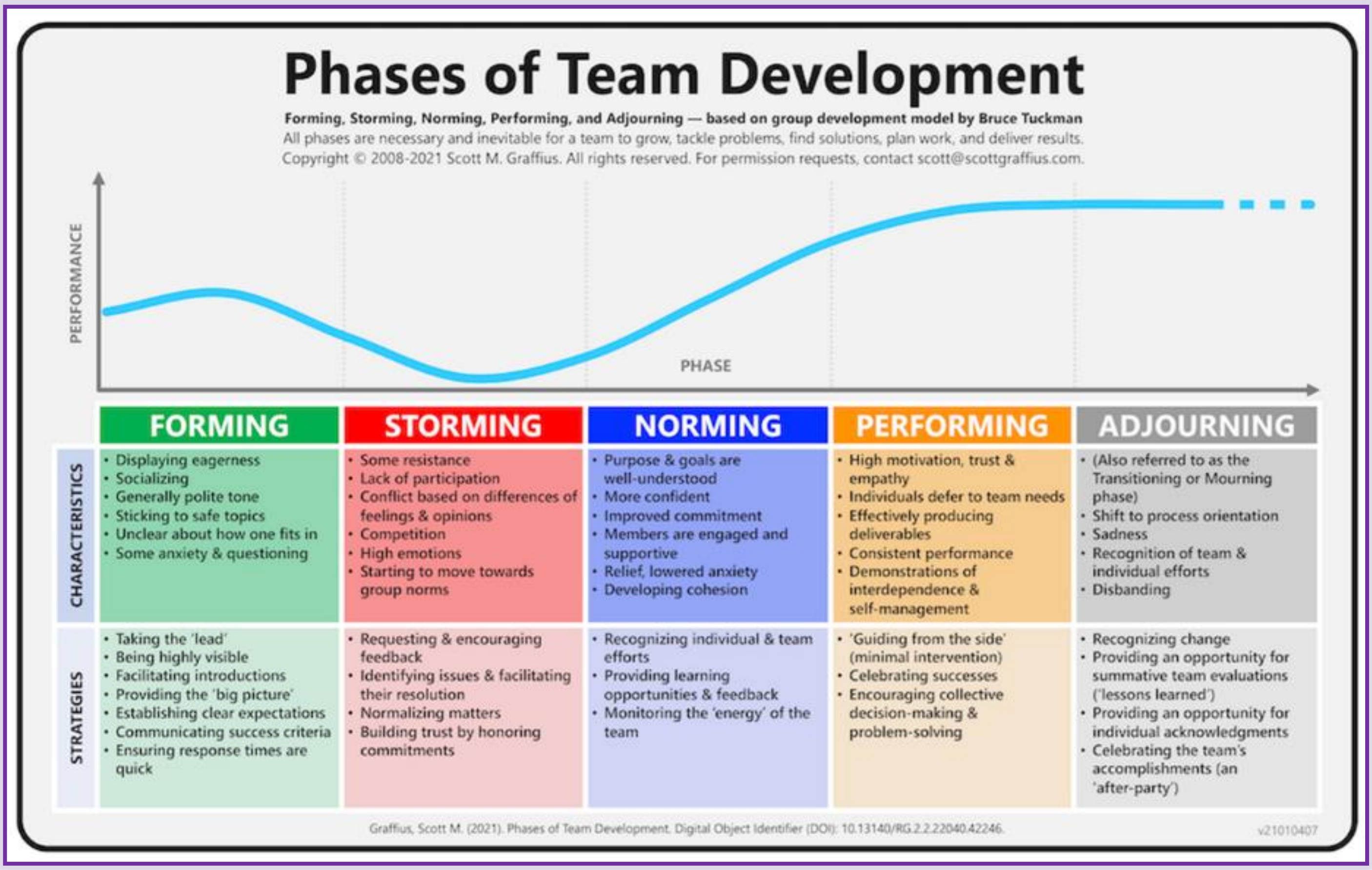

Figure 6.5 – Bruce Tuckman's team development model [8]

Two founders was statistically the optimum number of founders for a startup [9]. The empirical evidence shows that successful entrepreneurs tend to be middle-aged, not young [10].

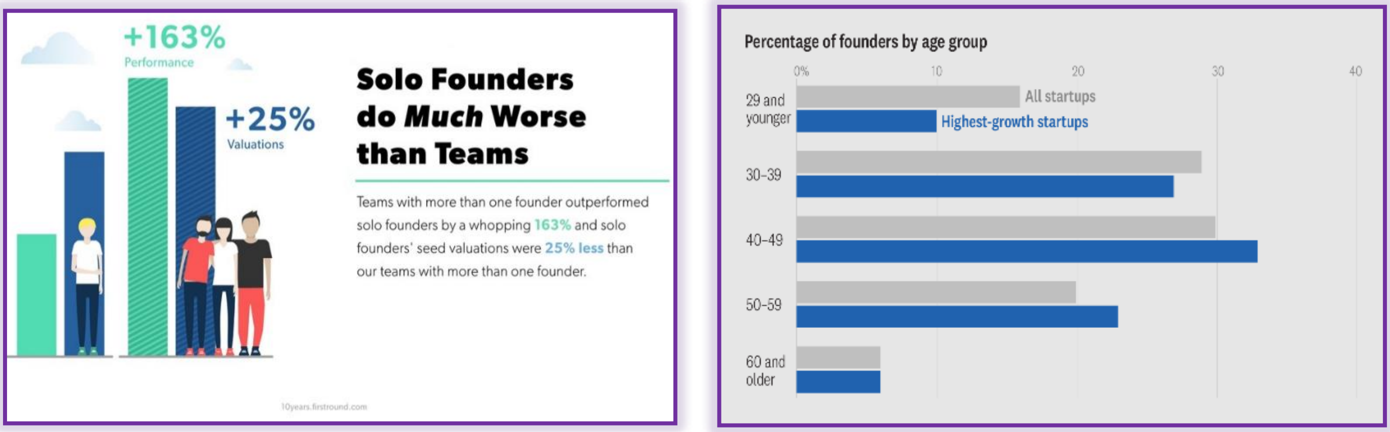

Figure 6.6 – The optimum number and age of founders for a startup [9]

The founders' pie calculator by F. Demmler [11-12]. There are several elements of pie calculator that are described below

1. **Elements of the Decision Making Process**

- ❑ Idea
- ❑ Business Plan Preparation
- ❑ Domain Expertise
- ❑ Commitment and Risk
- ❑ Responsibilities

2. Relative Importance of the Elements (Fig 6.7)

	Weight	Founder 1	Founder 2	Founder 3	Founder 4
Idea	7	10	3	3	0
Business Plan	2	3	8	1	0
Domain Expertise	5	6	4	6	4
Commitment & Risk	7	0	7	0	0
Responsibilities	6	0	6	0	0

Figure 6.7 – Sample of the importance of the elements [11]

3. Relative Contributions of the Founders [11] (Fig 6.8)

	Founder 1	Founder 2	Founder 3	Founder 4	
Idea	70	21	21	0	
Business Plan	6	16	2	0	
Domain Expertise	30	20	30	20	
Commitment & Risk	0	49	0	0	
Responsibilities	0	36	0	0	
Total Points	106	142	53	20	321
% of Total	33.0%	44.2%	16.5%	6.2%	100.0%

Figure 6.8 – Sample of contributions of the founders [11]

2 MENTORING IN A STARTUP

Mentoring can be formal or informal. In an informal environment, mentees set goals, but they are usually not measurable and the relationships are unstructured. For a formal mentoring relationship, there are actionable and measurable goals defined and set with determined requirements [12]

Mentoring	a reciprocal and collaborative at-will relationship that most often occurs between a senior and junior employee for the purpose of the mentee's growth, learning, and career development. [12].

Mentors report many benefits as well, including satisfaction from seeing others develop; expanded generational and cultural perspectives; strengthening of technical, leadership, and interpersonal skills; and continuing to experience new ideas and insights [12]

Functions of a startup mentor [13]: Mentors provide valuable advice and support to entrepreneurs through the early stages of growing their business. Whereas VCs and angel investors put in money, startup mentors invest their time and knowledge [13].

Startup mentors are typically successful entrepreneurs themselves. They've seen their fair share of mistakes and missteps, and their years of experience allow them to guide founders and warn them against common pitfalls [13].

Mentors take on the role of adviser, coach, sounding board, and cheerleader, which can help founders make better decisions and weather the ups and downs of entrepreneurship [13].

Figure 6.9 – Functions of a startup mentor [14]

Mentoring types. There are different types of mentors [14]:

- **One-to-one mentoring.** One-to-one mentoring model is the most common model of mentoring types. It matches one mentor with one mentee and allows both mentor and mentee to build a personal relationship. Also, it provides individual support for mentee.

- **Group mentoring.** Mentoring circles typically consists of a group of several individuals being mentored by one mentor, usually with the ratio of one mentor for every two to three mentees, but no individual mentor being allocated to a mentee.
- **Formal mentoring (Structured mentoring).** Mentors and mentees are matched according to certain criteria. They are informed about the boundaries, trained about the targets and program expectations.
- **Informal mentoring (Unstructured mentoring).** Informal mentoring does not have strict guidelines about mentor mentee pairs.
- **Remote mentoring (Virtual mentoring).** Preferred when the mentor and the mentee do not work in the same location, or they are working as a remote worker. Mentors and mentees communicate through phone, video conferencing, email, or social networking.
- **Skill-based mentoring.** A mentor is assigned to a mentee to improve his particular skills via training program courses. However, it is limited because it focuses only on a subject rather than the overall development of the mentee.
- **Executive Mentoring.** Because executives already have an understanding of how to be successful, have an experience of sharing and teaching their expertise and knowledge, it will be a great learning process for mentees.

Where to find a mentor [13]:

- **Enroll in a Mentoring Program.** If you are in a formal mentoring program, you will be matched with a mentor. These could be within your organization, a social group, an alumni network from your alma maters, or a professional development organization of which you are a member
- **Ask Your HR Department.** Make an appointment with your HR manager or director and ask them to match you with an internal senior leader or director. Have a list of what your goals are and your must-haves from the mentor planned out beforehand and give that to your HR manager
- **Ask a Trusted Friend or Colleague.** Get matched with someone in your friend or colleague’s network. Preferably the person matching you knows you very well and can relay your ambitions and goals to your potential mentor. It’s also preferable to have someone in mind or someone who you have previously met or know in some capacity.
- **Find a Professional(s) You Respect.** Create a list of five to 10 people you admire and with whom you are connected. Consider what in their experience you respect and admire the most. You may have more than one mentor for different skill sets you are looking to develop further

Many chapters have formal mentoring programs that are offered as a benefit of membership. Use the chapter locator to identify the chapter nearest you, and reach out to chapter leadership to learn more about the mentoring options available through the chapter

- **Do not ask random strangers.** Do not ask random strangers on LinkedIn or at conferences you are attending to be your mentor. Be sure you are connected in some way to this person other than blind admiration.

Main steps to find a mentor [15]:

1. **Reflect on whether mentorship is the right fit.** Think about where you are in your career and the reasons why you want a mentor. Reflect on your attributes, what you think you may be like as a mentee and how well you accept feedback.
2. **Identify your mentorship needs**. Determine what you hope to learn from your mentor. Consider outlining the goals you have set for your professional growth, and think about what it would take to achieve those goals.
3. **Consider people you admire.** Create a list of people in your career whom you admire or people in your field whom you want to be like. Consider who you might know, and focus on people who can help you develop hard and soft skills.
4. **Start with your network**. Begin your search for a mentor by reviewing your professional network. Think about people you currently work with or previously did, and reflect on your relationships with them.
5. **Explore other options for finding a mentor**. Joining a professional organization in your field may be helpful or attending networking events.
6. **Prepare your elevator pitch**. Be prepared to share your goals, why you think this person is the right mentor for you, and your expectations of them confidently.
7. **Request a meeting with them.** Ask the person you want to be your mentor to meet with you. An email or a phone call is an appropriate way to ask for a meeting, but the best option may depend on your relationship with them.
8. **Explain your interest.** Share your elevator pitch to explain to your potential mentor why you want to find a mentor, why you think they could be the right mentor for you and what you hope to learn from them.

Several tips for a successful mentorship and their characteristics are given in Tabl. 6.2.

Table 6.2 – Tips for a successful mentorship and its characteristics [15]

Set a goal	Having a goal for your mentorship helps focus your relationship. Decide what you want to achieve, and develop a plan with your mentor about how to do it.
Form a personal relationship	A good personal relationship with your mentor is important for fostering a good mentoring relationship with them. Familiarize yourself with them, and make it a priority to work well with them.
Accept constructive criticism	Constructive feedback is crucial for fostering your professional growth. Learn how to accept constructive criticism from your mentor, and apply it to improve your career.
Meet regularly	Consistent meetings are useful for developing your relationship and fostering your growth. Establish a meeting cadence to follow, such as once a week for an hour at a time.
Handle the logistics	Being a mentor can require a lot of time. Ask your mentor about their meeting style and time preferences, and coordinate the details of meetings.
Create agendas	A meeting outline can be useful for ensuring you have focused, productive meetings with your mentor. Make the agenda in advance, and share it with them so they can prepare.
Update them often	Mentors generally want to know about your professional development. Share regular updates with them about your growth, especially between your meetings and after important career events.
Be honest	Transparency is helpful throughout your entire mentorship. Be honest with your mentor about what you want to learn, and answer their questions about your career truthfully.
Share helpful feedback	Giving constructive feedback to your mentor may help them learn how to support you better. Provide specific feedback, and focus on the facts if they ask for it.
Set an end date	Most mentorships last for four to six months, but you can decide together what works for you. Choose an end date to help provide a deadline for your goals.
Establish boundaries	Personal relationships are important, but it's important to focus your meetings on professional matters. Be mindful of avoiding venting about work, and strive to have productive conversations.
Take notes	Note-taking is useful for tracking helpful advice that your mentor shares. Keep track of important information they share, and use this as a reference for items you want to discuss further.
Offer your help	Mentees can often help their mentors, too. Ask if there's anything you can do to help them, such as providing your opinion on a presentation they're working on or proofreading a document for them.
Practice gratitude	Being a mentor is often a significant commitment. Thank them for their guidance in ways like giving them handwritten thank-you notes after each section or providing a professional recommendation for them.

STARTUP ECOSYSTEM: ACCELERATION AND BUSINESS INCUBATION

Startup ecosystem are characterized as widely developed and is illustrated in Fig. 6.10, Table. 6.3.

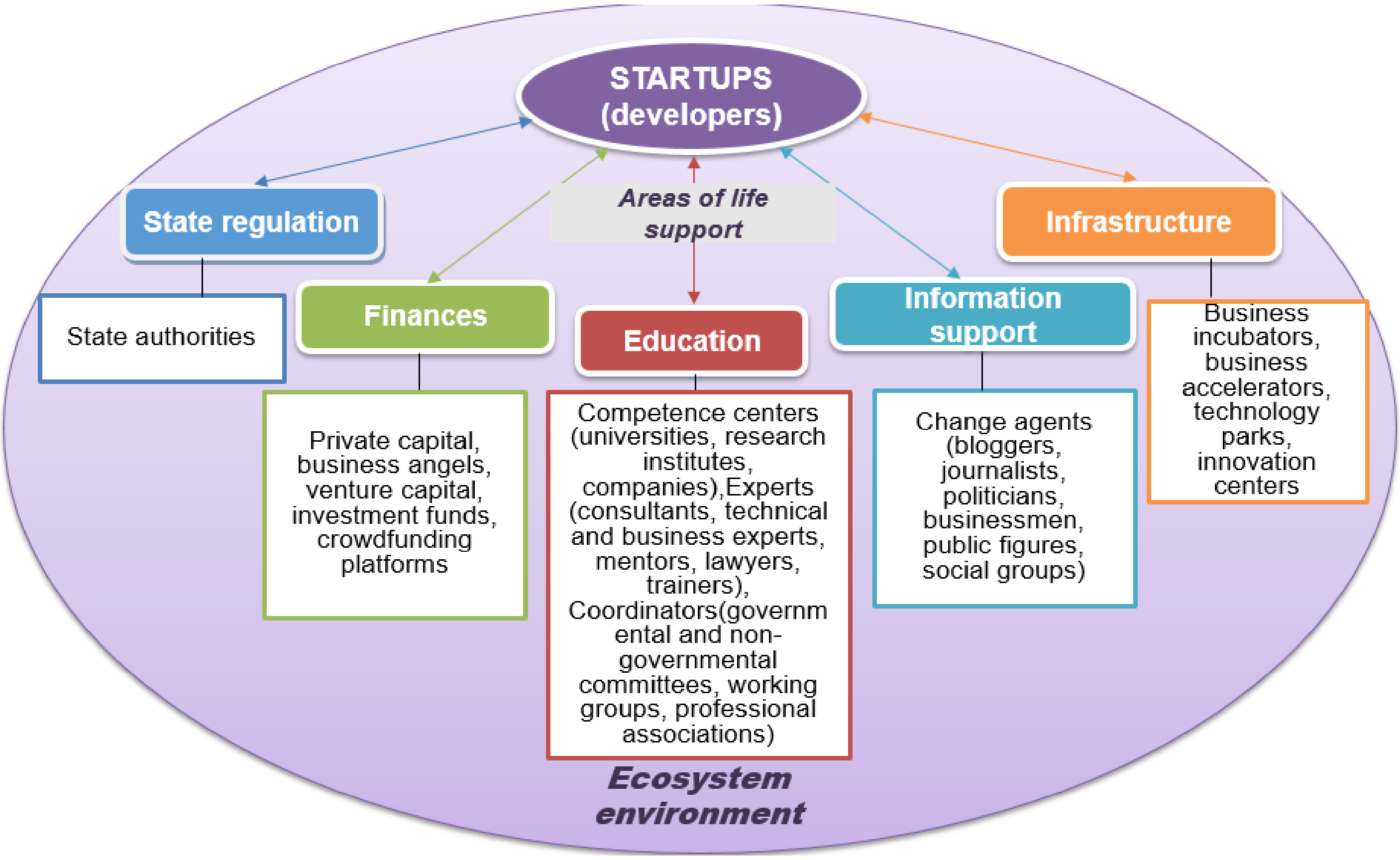

Figure 6.10 – Startup ecosystem environment [16]

Table 6.3 – Startup ecosystem entities [16]

Startup ecosystem entities	Key functions of entities
1	**2**
Startup companies at different stages of the life cycle and potential startup participants	Generate new ideas, develop and market commercially viable innovative products
State central and local authorities	Form the legal and legal foundations of entrepreneurship, policy in the field of innovative entrepreneurship and protection of intellectual property rights
Investors: private and public capital, business angels, venture capital, investment companies and funds, crowdfunding platforms	They finance startup projects at various stages of the life cycle
Centers of competence: universities, research institutes, high-tech companies	They form the professional and business competence of startup participants, act as potential partners of startups

Continuation Table 6.3

1	2
Coordinating bodies: governmental and non-governmental committees, working groups, professional associations and unions	Perform a coordinating role, create platforms for ecosystem participants to interact, contribute to the establishment of communication channels and the development of knowledge exchange networks between startup entities and increase the competence of startup participants
Experts: professional consultants, technical and business experts, mentors, lawyers, trainers	Provide professional consulting services to startup participants and help increase their professional competence in the process of developing innovative products
Agents of change: bloggers, journalists, famous politicians, businessmen, public figures, social groups	Provide informational support to the ecosystem, shape society's attitude to startups, promote their popularization, promote innovative ideas and products
Infrastructure companies: business incubators, business accelerators, technology parks, innovation centers, co-working spaces, etc.	They provide infrastructural support for startups - workspace, office equipment, means of communication, etc.

All-Ukrainian innovation ecosystem Sikorsky challenge Ukraine (SCU) [17]

Innovation ecosystem Sikorsky Challenge KPI is one of the most successful incubators in Ukraine. See the structure below (Fig. 6.11-6.12).

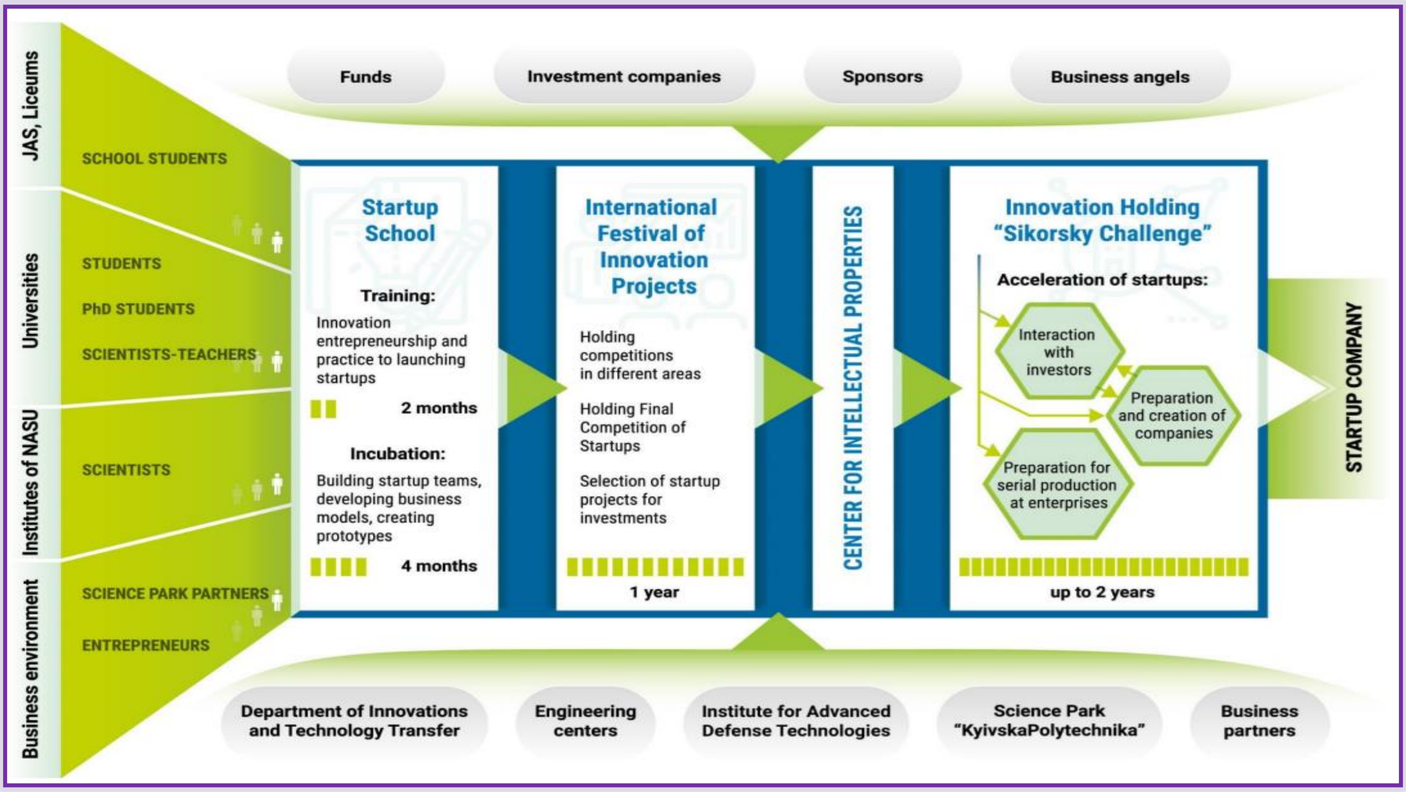

Figure 6.11 – Innovation ecosystem Sikorsky challenge Ukraine [18]

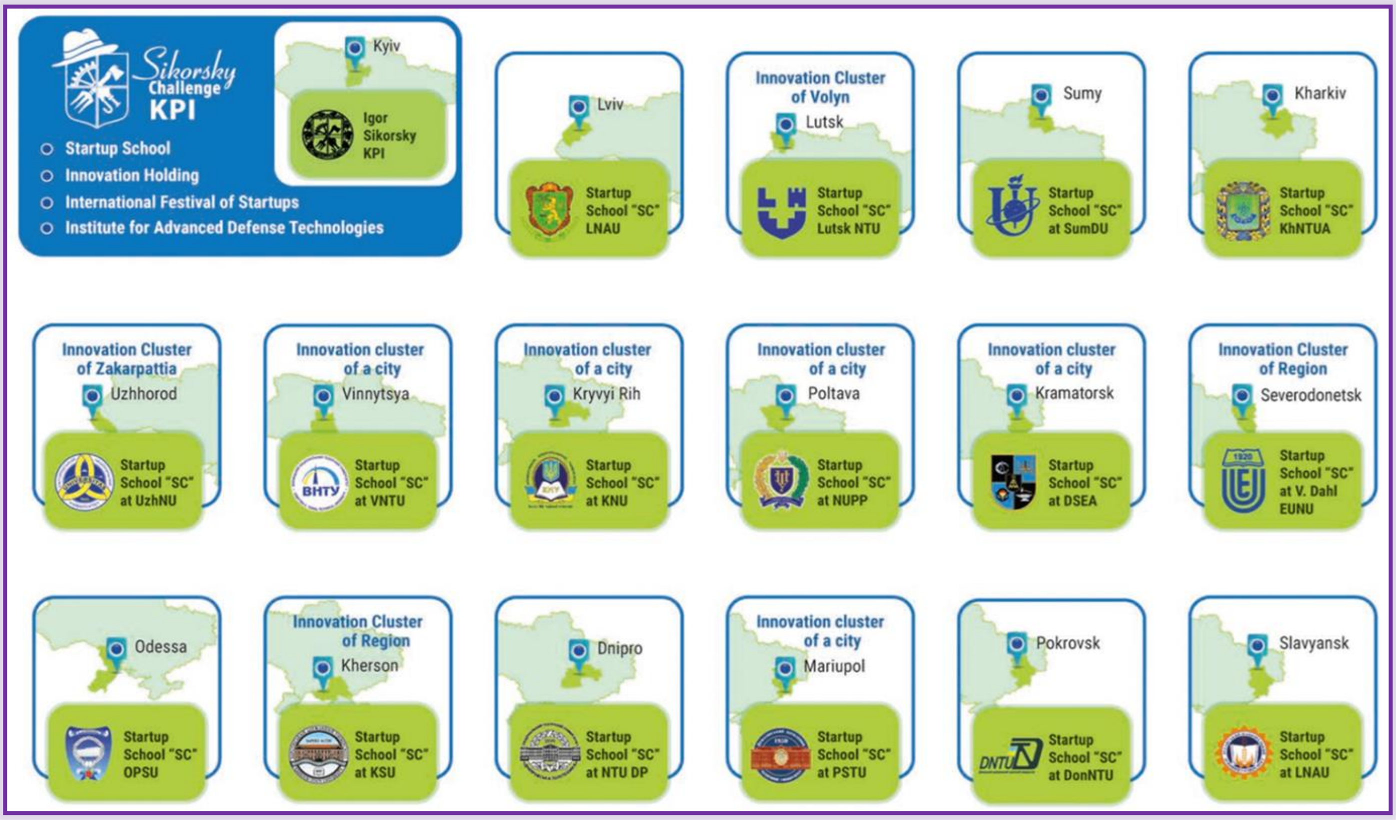

Figure 6.12 – Sikorsky Challenge startup incubator system [18]

Startup infrastructure. The development of startups in the conditions of insufficient experience of founders, limited resources and the need to attract significant financial investments requires the involvement of specialized institutions and organizations [18]:

- Business incubators;
- Business accelerators;
- Innovative catalysts;
- Angel syndicates;
- Innovation centers, etc.

Startup infrastructure	a set of institutions and organizations that provide conditions necessary and sufficient for the implementation of innovative business projects at all stages of their development [20].

1. **Angel syndicate.** When a syndicate presents a deal to its network, more than one investor will look to invest in the company, and this often means that startups can close their funding rounds quickly [20]. Angel investors can form their own so-called «Angel Funds» to pool their capital together and invest in multiple startups in a fund format [20]. This allows them to diversify their investments and share any risks with other fellow angel investors [20].

An angel syndicate	simply a group of investors who agree to invest together in a particular project. A syndicate can be put together by angels or investees and be drawn from any source; often syndicates include angels from more than one investment network. [20].

Angel syndicate business model [21]: The angel syndicate model is similar in the US, Europe and Asia. These are investments for checks from USD 10,000. up to 1 million dollars. The model involves one angel (private investment) or a group of investors/syndicates interested in investing in a startup at the initial stage of growth.
Effective in the early stages of growth of companies, and is appropriate in case of the insufficient number of venture capital funds or companies on the market.

Table 6.4 – Pros and Cons of angel syndicates [20]

Pros of angel syndicates	Cons of angel syndicates
Access to a group of HNWI members (high net worth individual, someone who has $1 million or more in investable assets)	Fees could be high (5-10% of the fundraising size)
The syndicate will handle the transaction and due diligence process	Connections to members may only happen on a schedule at monthly or quarterly pitching events
Help with your pitch	There are a lot of hoops to jump through and formal diligence is required, so being presented to their member investors may take some time

2. **Startup incubator.** Startup incubators are useful for developing startup ideas and finding investors. See the points below (Table. 6.5-6.6).

Startup incubator	the unique organization that functions as a springboard for early-stage businesses and startups to provide specialized tools needed for startups to grow and innovate [22].

Startup incubator business model [22-23]:
To apply for help, it is enough to have an idea. Favourable conditions are created: it is possible to rent office and production premises cheaper, products are promoted, technical, financial, managerial and marketing support is provided
Engages in consulting in choosing the optimal organizational and legal form of the enterprise and creating registration documents. Funding options through incubators vary and may be available in the form of loans or investments in exchange for equity.
Incubators can potentially save founders time and money by connecting them to their networks of venture capitalists and business angels.
Experienced entrepreneurs conduct trainings on the basics of business and help in creating an attractive business plan. Teams are given a mentor.

Table 6.5 – Types of Startup Incubators [22]

Type	Characteristic
University startup incubators	University- or student-run and can receive funding from donations or venture capital support. They may also invest in students' projects and use the proceeds to fund new endeavors. These programs can provide pupils with all types of assistance and mentorship, from access to costly technology to logistical solutions.
Nonprofit startup incubators	Programs and workspaces that cater exclusively to — you guessed it — nonprofit businesses. These incubators leverage their networks, know-how, and resources to provide nonprofit startups with the tools they need to grow and accomplish their goals.
Corporate startup incubators	In-house programs or independent business units built to curate and develop ideas within their own company. Focus on early-stage ideas, sometimes to create an entirely new business or product.

Table 6.6 – Pros and cons of startup incubators [23]

Pros of startup incubators	Cons of startup incubators
Potential to save on rent	Extremely selective
Provide mentorship and support	Large time commitments
Discounts on equipment	Lose some control of your business

Simple steps you can take when preparing to apply for a business incubator are given in Fig. 6.13.

Figure 6.13 – Simple steps you can take when preparing to apply for a business incubator [23]

3. Startup accelerators The goal of a startup accelerator is to expedite the growth of existing companies [24].

Business accelerator, Startup accelerator, Seed accelerator	a program that provides early-stage companies with mentorship, education, and funding to help them grow and succeed 24].

Startup i accelerators business model [24-25]:
Inherent practice of attracting investors for a startup, using mentoring.
The advantage is the application of the acceleration program, which is based on mentoring and support of cooperation between startups and investors.
The task of accelerators is to transform a startup into a full-fledged business, which allows them to subsequently receive profits on their investments invested together with investors

Startup accelerators typically operate on a fixed-term, cohort-based model, with a specific time frame for each program. During the program, startups receive intensive mentorship and educational components. The program culminates in a public pitch event or demo day, where startups can showcase their progress and pitch to potential investors.

Accelerators have several positive assets that are given in Table 6.7.

Table 6.7 – Benefits of accelerators [24]

Benefits	Characteristics
Networking	They allow expanding the network of contacts, startups get to know each other, experts and investors
Mentoring support	Participation in the accelerator provides an opportunity to meet with professional experts from various fields
Training	The training program allows you to «pump» the project as much as possible in 2-3 months. It allows you to learn how to make a report (Pitch), evaluate markets, position your product, create an MVP in a very short time with maximum efficiency
Demo Day	Investors and representatives of corporations are invited to it.

Features of functioning [26]:

- **Acceptance of projects.** Projects that already have a prototype or a so-called minimum viable product are accepted for bringing it to the market and turning it into a full-fledged product demanded by consumers;
- **Startup team.** A mandatory condition is the presence of a team of at least two people;
- **Acceleration program.** The selection of projects for accelerators is carried out on a competitive basis, the duration of the acceleration is fixed, the training program is

prescribed in advance, its progress is monitored by mentors, and the final goal is to receive investments and turn the startup into a scalable business;

- **Mentoring.** Programs are conducted by mentors - top managers from technology companies, or venture investors who are known for their successful investments in startups, or people who have already launched and manage their own projects. Most accelerators have from 50 to 200 mentors. Mentors help startups develop a full-fledged product from the point of view of marketing, sales, and legal issues;
- **Financing and investments.** Accelerators can provide both seed investment and help attract the attention of outside investors. On average, projects are given initial investment with a threshold of approximately $25,000. in exchange for a share of 2% - 40%.

A comparison of the start-up incubator and the start-up accelerator is shown in Fig. 6.14.

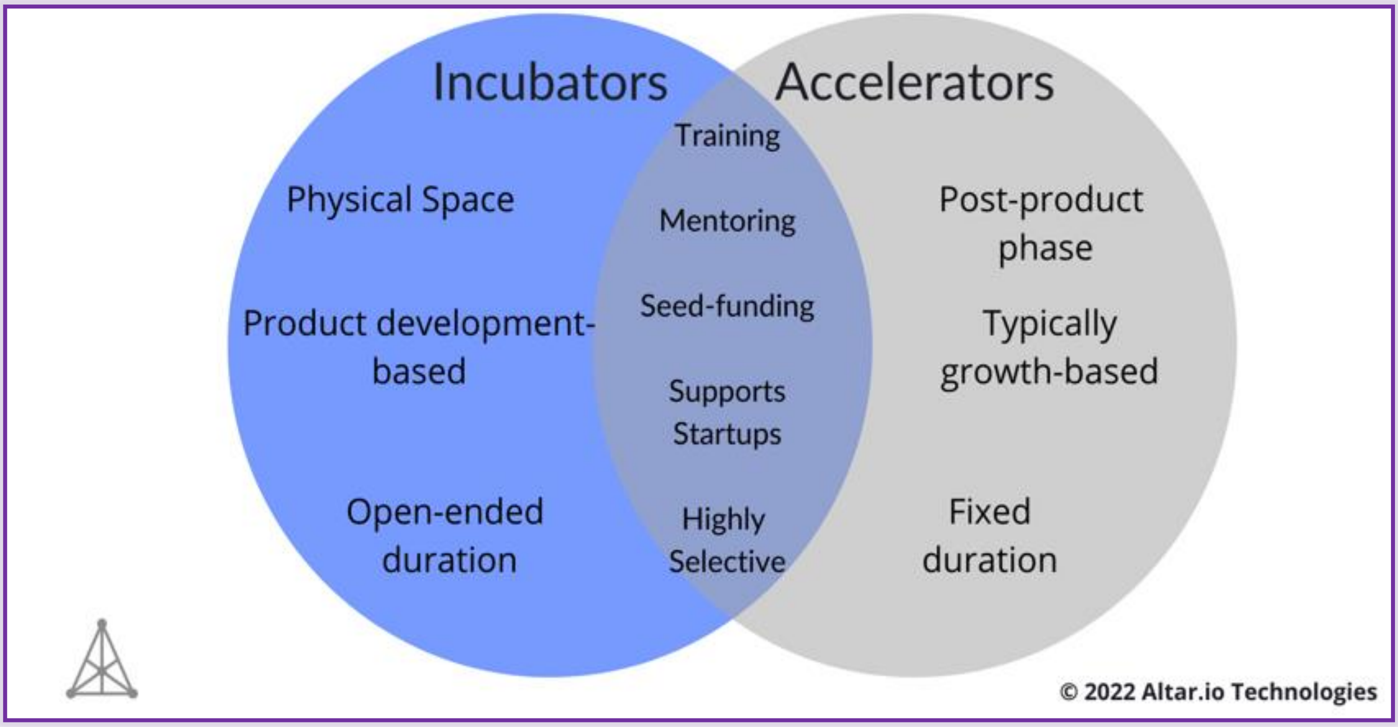

Figure 6.14 – A comparison of the start-up incubator and the start-up accelerator [28]

Choice of accelerator. To choose an accelerator, you can follow these tips [27]:

- **Area of interest of the accelerator.** Accelerators are not always universal. Each of them may have a certain field of activity of startups with which they work
- **Stage of startup development.** Some accelerators assume the development of startups at an early stage. Others are looking for companies that already have a ready-made product. You should objectively evaluate the startup and determine which program will suit you

- **Number of projects in the set**. The selection of projects for accelerators is carried out on a competitive basis, the duration of the acceleration is fixed, the training program is prescribed in advance, its progress is monitored by mentors, and the final goal is to receive investments and turn the startup into a scalable business. On average, 10-15 startups get into one accelerator program. Getting into a small set, up to 10 projects, will ensure closer cooperation with mentors and more attention to the project. At the same time, getting into a large set, more than 15 startups, will allow to expand the base of contacts and increase the probability of further cooperation between participants
- **Brand.** The famous name of an accelerator like Tech Stars, Y Combinator or Amplify will be a huge plus in the future - when recruiting employees, in B2B sales and looking for new investments

EXAMPLE [27; 29]:

Ycombinator (USA) [27; 29]:

The most famous startup accelerator on the list, it has launched over 4000 startups. Portfolio companies include Stripe, Airbnb, Coinbase and Twitch.
The team gets access not only to investments, but also to the world's leading mentors and entrepreneurs.
From time to time holding actions that cannot get investment and help not only projects with ready MVP or first results on the market but companies that are at the stage of developing an idea
Types of startups: *different types of startups.*

Figure 6.15 – Photo for example [27; 29]

Founder Institute (USA) [27; 29]:

The training program (4 months) includes classes once a week.
The best graduates participate in the bonus pool (premium fund), the prize is distributed between administrators, mentors and residents of the program according to the proportion of 40/30/30.
The best graduates are given initial funding.
Mentors are representatives of venture funds or business angels.
The incubator receives 3.5% of shares at market value
Types of startups: *different types of startups.*

Figure 6.16 – Photo for example [27; 29]

Techstars (USA) [27; 29]:

According to statistics, only 10% of the companies in which Techstars invests do not succeed. The average amount of investment in one company is about 3 million dollars.
Types of startups: *IT-projects*

Figure 6.17 – Photo for example [27; 29]

Seedcamp (Great Britain) [27; 29]:
Invests in projects at the seed stage. The amount of investments is from 50 to 75 thousand euros in exchange for 3-7% of the company. You can apply using a special questionnaire on the incubator's website
Types of startups: *different types of startups*

Figure 6.18 – Photo for example [27; 29]

Startupcootcamp (Great Britain) [27; 29]:
Investments both in the company and in individual entrepreneurs. They provide 15,000 euros. The goal is to provide startups with connections that will help them succeed and enter the global market
Types of startups: *different types of startups.*

Figure 6.19 – Photo for example [27; 29]

Startup Yard (Czech Republic [27; 29]:
Offers teams 4 months of training in Prague, help from mentors and 30,000 euros. The application for participation is submitted through the incubator's website
Types of startups: *Big data, mobile technologies*

Figure 6.20 – Photo for example [27; 29]

Chinaccelerator (China) [27; 29]:
Twice a year, the company recruits promising projects at various stages of development and invests $30,000, receiving 6% of the company. Must move to Shanghai for 3 months
Types of startups: *different types of startups*

Figure 6.21 – Photo for example [27; 29]

Hub:raum (Poland) [27; 29]:
Provides co-working space in Krakow and mentorship. They offer up to 80 thousand dollars, a share in the startup - from 10% to 30%
Types of startups: *different types of startups*

Figure 6.22 – Photo for example [27; 29]

Innovyz (Australia) [27; 29]:
The duration of the program is 9 months. During the training, the project team must move to Australia. Both individual entrepreneurs and entire companies can apply on the website. **Types of startups :** *innovative technologies*

Figure 6.23 – Photo for example [27; 29]

iHUB (Ukraine-Norway) [27; 29]:
The accelerator is part of the Seed Forum international network, which operates in more than 40 countries around the world. The network has a pool of 16,000 investors and 5,000 mentors
Types of startups: *different types of startups.*

Figure 6.24 – Photo for example [27; 29]

4 CREATION OF AN ENTERPRISE BASED ON A STARTUP

Some stages in startup registration process are given below (Fig. 6.25). You need to be prepared that it is a long process and requires a lot of patience [30].

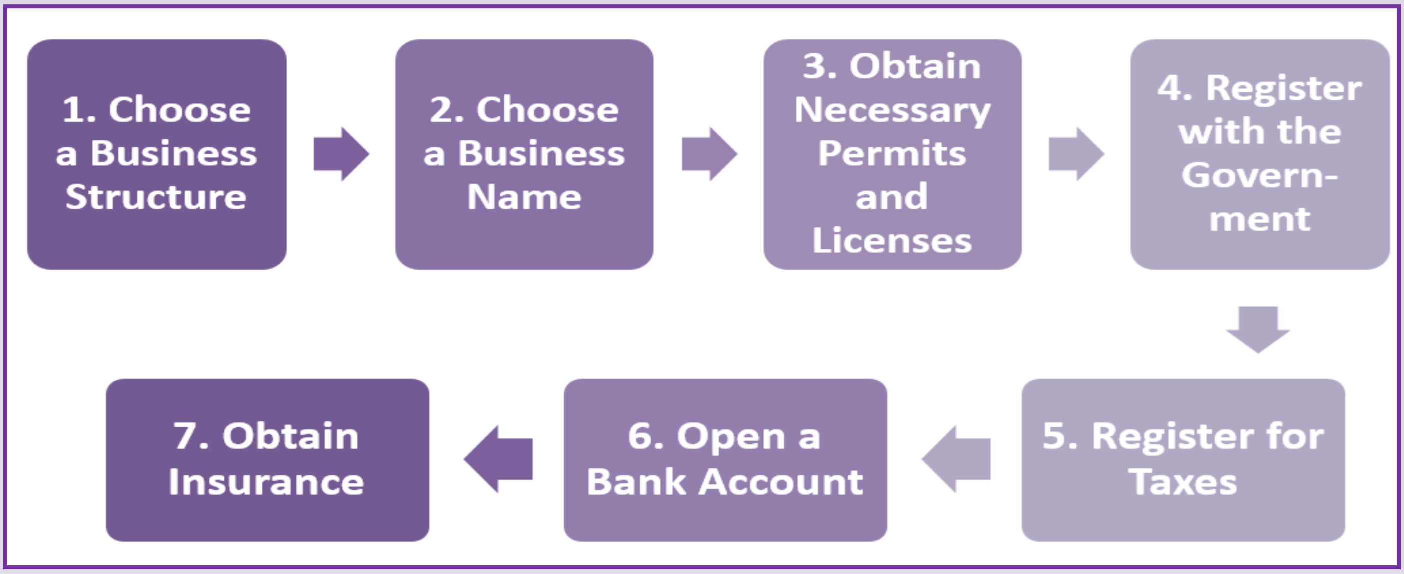

Figure 6.25 – Stages of the startup registration [30]

Startup registration process includes the following stages [30]:

1. **Choose a Business Structure.** This includes sole proprietorship, partnership, limited liability company (LLC), or corporation. Each business structure has different legal and tax implications, so it's essential to choose the one that best fits your business needs;
2. **Choose a Business Name.** You need to choose a unique business name that is not already in use. Check with your local business registrar to ensure that the name you have chosen is available. You may also need to register your business name with the relevant authorities;
3. **Obtain Necessary Permits and Licenses.** Depending on your business type, you may need to obtain permits and licenses to operate legally. This includes business permits, tax identification numbers, and industry-specific licenses;
4. **Register with the Government.** Register your business with the relevant government agency or department. This process varies depending on the country but generally involves filling out an application form and paying registration fees;
5. **Register for Taxes.** You may need to register for federal, state, and local taxes. This includes income tax, sales tax, and employment tax. Check with your local tax agency to determine the specific taxes you need to register for;

6. **Open a Bank Account.** Open a separate bank account for your business to manage your finances effectively. This helps to keep your personal and business finances separate;

7. **Obtain Insurance.** Protect your business by obtaining the necessary insurance coverage. This includes liability insurance, property insurance, and worker's compensation insurance.

Business structures may be different such as sole proprietorship, partnership, LLC or corporation and the amount of the documents vary according to these differences [31] (Fig. 6.26).

Sole proprietorship	A sole proprietor serves as the only owner of an unincorporated business. This is considered the default business structure. In a sole proprietorship, the proprietor's business and personal assets and liabilities are not separated. Note that sole proprietorship is different from being the sole member of a limited liability corporation.
Partnership	If two or more individuals own a business together, they are entering into a partnership. There are multiple types of partnerships but the most common are limited partnerships (LPs) and limited liability partnerships (LLPs). In an LP, one partner is exposed to personal liability while the other partners have limited liability. In an LLP, all partners are personally protected from any business debt.
Limited liability corporation (LLC)	Starting an LLC allows an individual to protect personal assets from business liabilities. An LLC's profits and losses are then taxed as personal income or loss. Note that even if someone is the only member of an LLC and their business is functioning as a corporation, they are not considered a sole proprietor.
Corporation	In this structure, a business operates as a separate legal entity from its owners, offering the most protection for any personal assets. The default corporation status is a C corporation, which is a separate taxable entity that files a corporate tax return. An S corporation, on the other hand, has taxes "passed through" to the business and reported on an owner's personal tax return.

Figure 6.26 – Differences of the types of business structures [31]

A list of documents is required to register a startup company [32;33]:

General Documents [32]:

- Complete verification details of the Directors of the company;
- Valid PAN Card Number;
- Incorporation/Registration Certificate of startups;
- Valid Phone number and Email ID;
- Details of the Company like Industry, Category, Registered office address, and more;
- Details of the directors/partners like Name, Address, Gender, Photo, Email ID, and Mobile number;
- Details of the Authorized Representative like Name, Mobile number, Email ID, and Designation;
- Briefing about business, its innovative products, and services class;
- Business revenue model and product uniqueness;
- Office website proof, and link or pitch desk proof.

Documents Required for Company Registration in Germany [33]

- Document 1: Duly-filled application for Company Registration;
- Document 2: Certified or notarized Articles of Association of the proposed Company;
- Document 3: Details of the management board structure of the Company;
- Document 4: Certificate proofing the share capital deposition records;
- Document 5: Visas of Director(s) in case he or she is a foreign resident;
- Document 6: Registered Official Address of the proposed Company;
- Document 7: Complete details of the Shareholders as well as Directors of the Company;
- Document 8: Any other information as requested by the Authority.

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TOPIC 7

INVESTMENT SUPPORT FOR A STARTUP PROJECT

CONTENTS OF LECTURE

①Sources of startup investment
②Assessment of investment attractiveness and value of startups
③Cooperation of startups with investors
④Presentation of a startup project to investors

1 SOURCES OF STARTUP INVESTMENT

There are different sources of funding and for startup they can be more variable (including angel investors and venture capitalists). See Fig. 7.1-7.2.

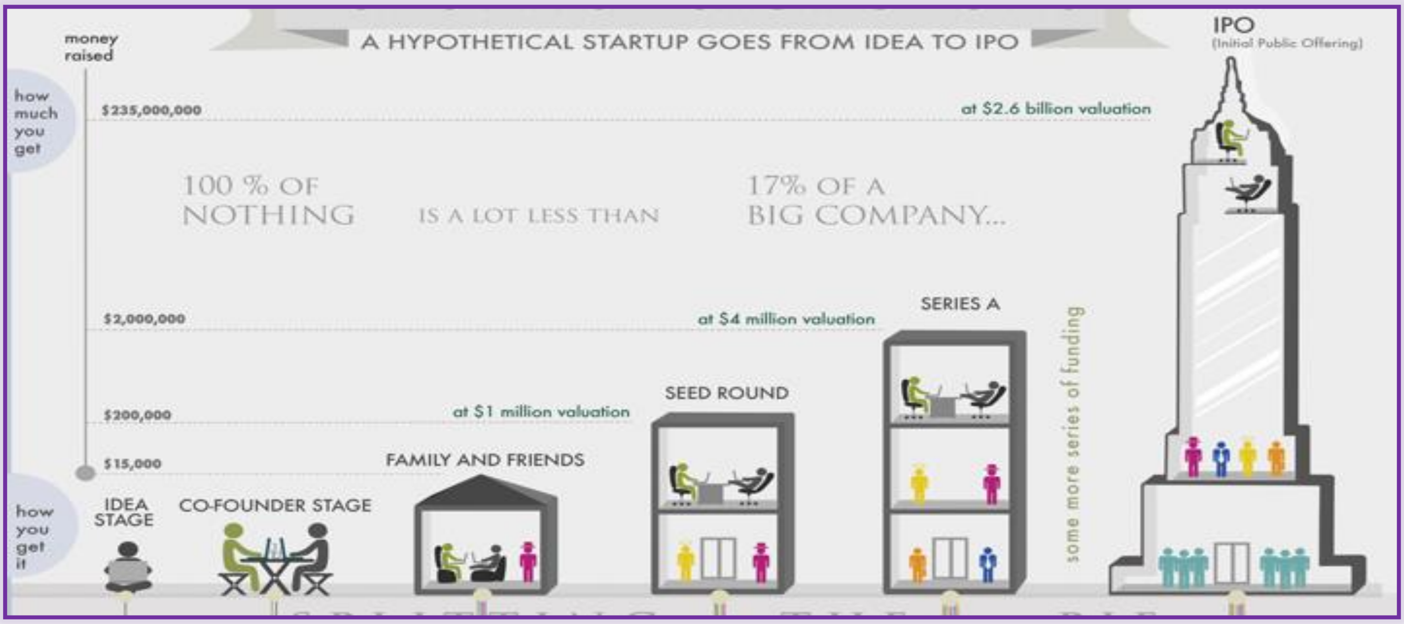


Figure 7.1 – Startup investment rounds [1]

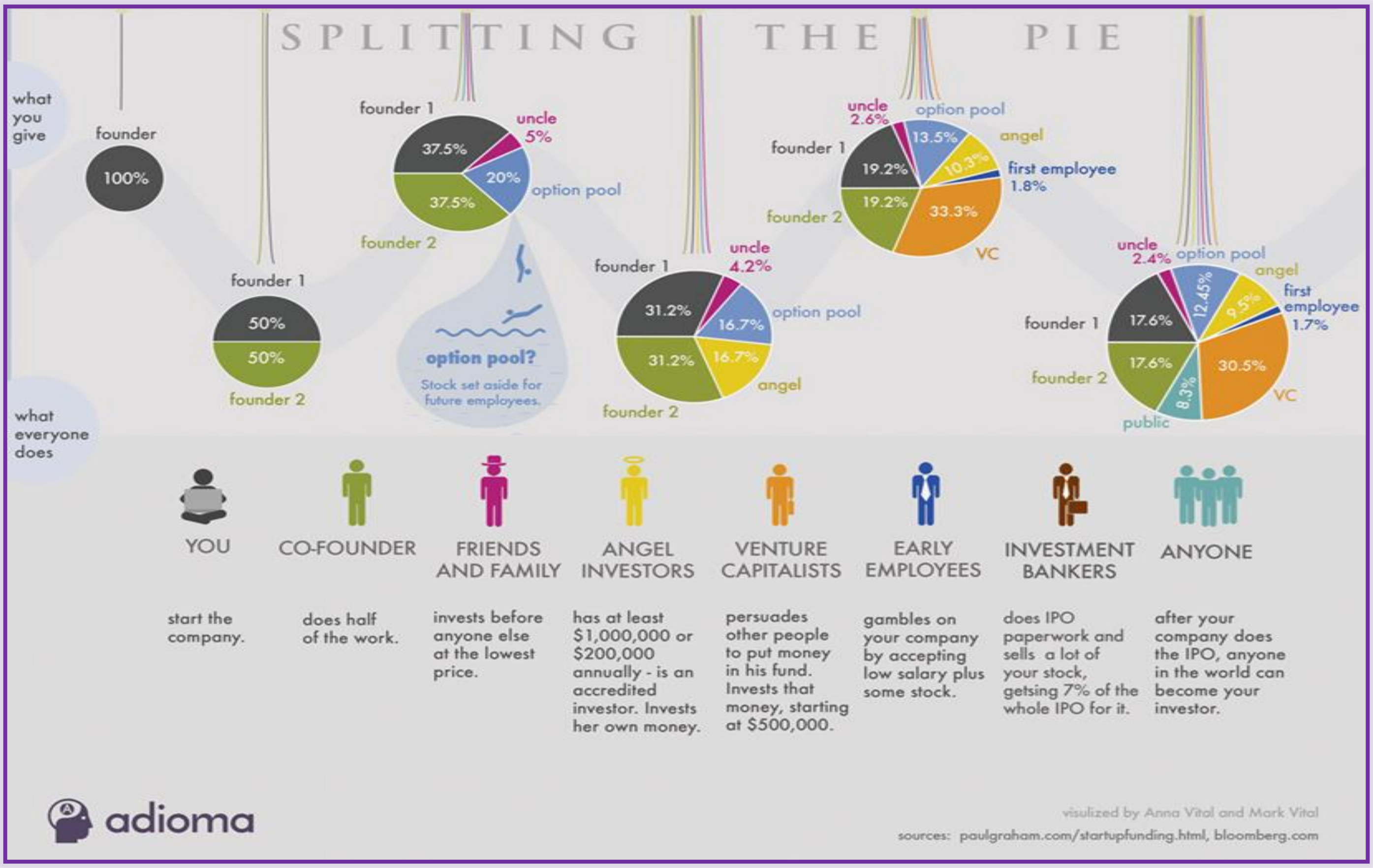


Figure 7.1 – Startup funding [1]

To attract investors you need to create good business plan and your idea should look ‘perfect’ for giving you money. However, a startup is always risky, so your investor probably will be called venture investor.

Venture investment	a risky investment of funds in exchange for a certain share in a company, which is carried out by a venture investor with the aim of obtaining income from the sale of this share in the future [2].

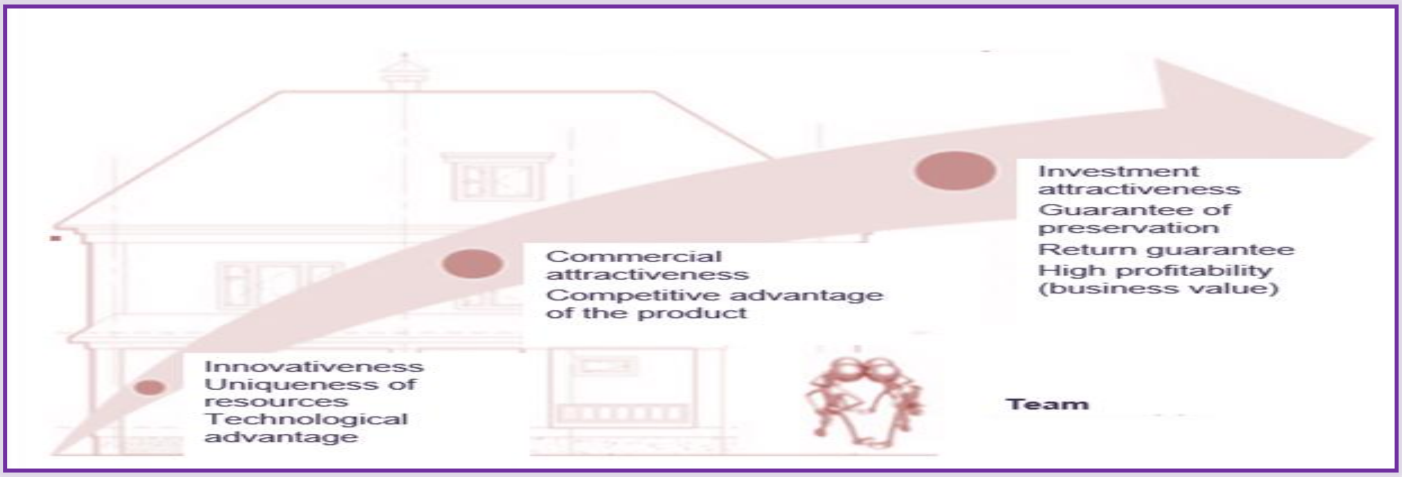


Figure 7.3 – Features of startup attractiveness [3]

Investment with deferred return	a classic investment by an investor with the need for a mandatory return in order to receive a certain share of the profit from the implementation of the project in the future, when it becomes profitable [2].

Feature of venture investment are given below.

Venture capital (VC) is generally used to support startups and other businesses with the potential for substantial and rapid growth. VC firms raise money from limited partners (LPs) to invest in promising startups or even larger venture funds [4].

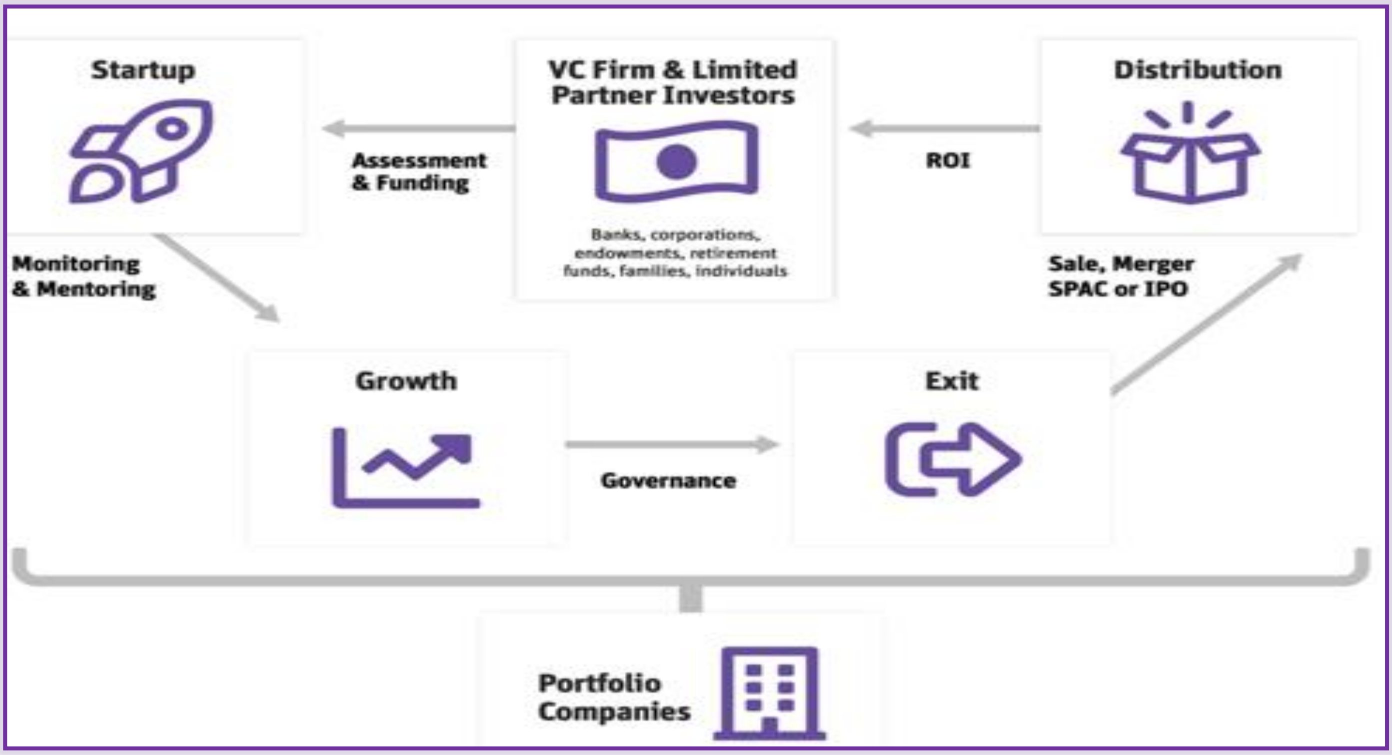


Figure 7.4 – The Venture capital process [4]

There are also nontraditional investors entering or vastly expanding participation in the VC arena, including [4]:

- Private equity;
- Corporate venture;
- Hedge funds;
- Sovereign funds.

Types of Angel Investors [5]:

- **Angel Investors.** Angel investors are wealthy individuals who invest their own money in early-stage companies. They typically invest smaller amounts of money than VC firms and are often more risk-tolerant.

- **Venture Capital Firms.** Venture capital firms are professional investors who pool money from limited partners (usually large institutions like pension funds or endowments) to invest in startups. VC firms tend to invest larger sums of money than angel investors and usually take a more active role in the companies they invest in, often taking a seat on the board of directors.
- **Corporate Venture Capital Firms.** Corporate venture capital firms are VC firms that are funded by and affiliated with a corporation. These firms typically invest in companies that are developing products or services that could be complementary to the parent corporation's business
- **Family Offices.** Family offices are private wealth management firms that manage the financial affairs of a single family. Some family offices have their own in-house VC firms that invest the family's money in startups.

A venture fund	a joint investment institution (equity or corporate investment fund) of a non-diversified, closed type, the placement of securities of which is exclusively private among a predetermined circle of legal entities and individuals [6].

Venture funds have the following structure as shown in Fig. 7.5 and types as shown in Table. 7.1.

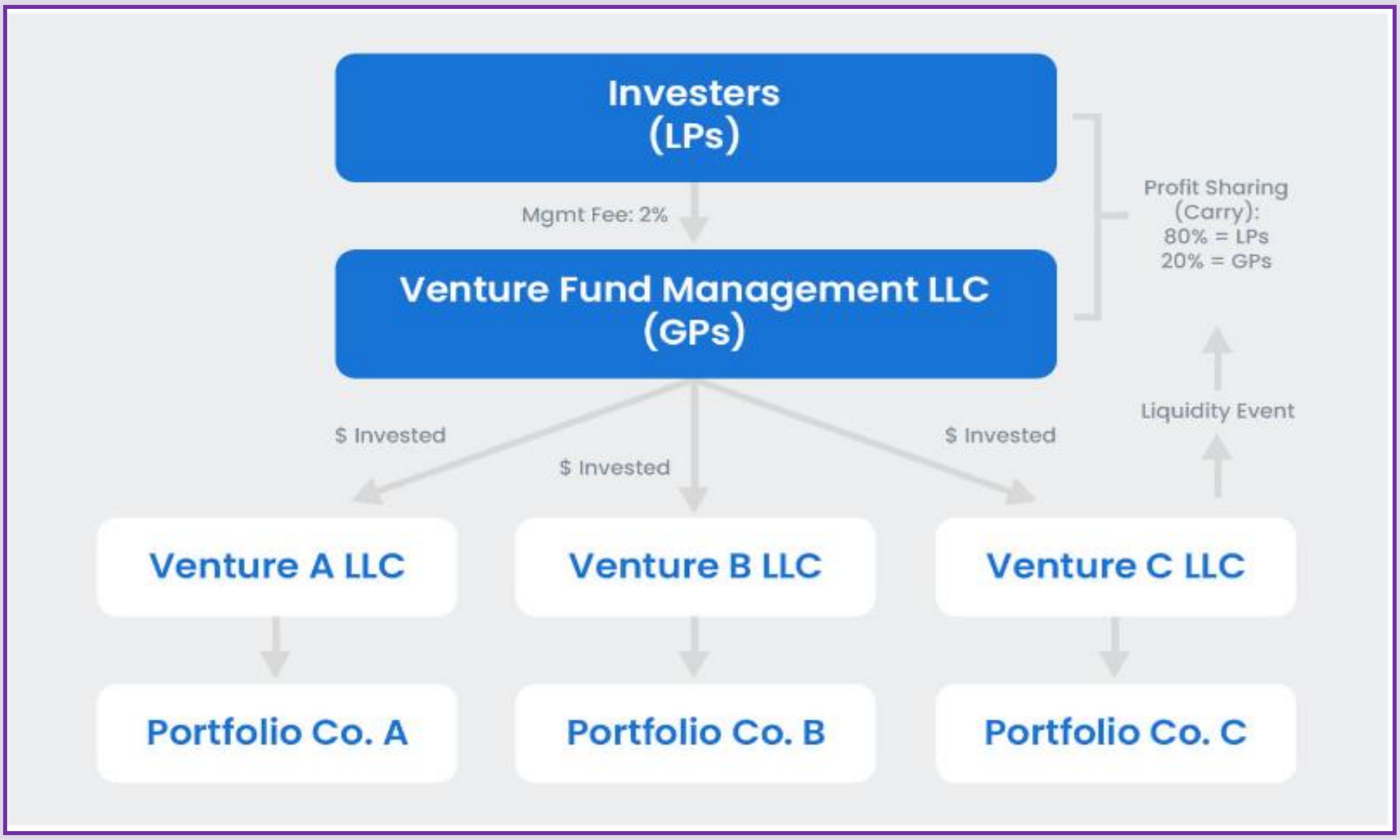


Figure 7.5 – Venture funds structure [7]

Table 7.1 – Types of venture funds [8]

Type	Characteristic
Seed funds	Invest in startups at the stage of conducting research and development, designing a product or service, and approving a business concept ***(seed round)***
Early stage funds	Invest in startups at the stage of development, product testing or organization of production and sales invest ***(round A or B)***
Later stage funds	Invest in startup companies that already produce goods or services, generate revenue or net profit, but need additional capital for active growth and expansion ***(round C or D)***

Crowdfunding. Participants of crowdfunding projects can be the author, founder of a business or idea; backers, registered users who transfer funds to support the project on a one-time basis or on a regular basis [10]

Crowdfunding	a way of raising money to finance projects and businesses through the collective effort of friends, family, customers, individual investors, and others [9].

Table 7.2 – Advantages and limitations of crowdfunding [11]

Advantages	Limitations
Support for promising social and other projects of a local scale that are not of interest to venture investors	Crowdfunding technology is more suitable for attracting small one-time investments
Democratization of the process of financial support of projects thanks to the expansion of the spectrum of possible crowd investors	Disclosure of information about the essence of the project does not always correspond to the interests of the founders, since the innovative idea can be copied by competitors
Creation of a transparent and effective mechanism for public financing of projects	The decision of crowd investors to finance the project is based only on the information provided by the project developer
Less dependence of financing on the cyclical development of the economy, which significantly affects the behavior of other investors	
For crowd investors, there is an opportunity to receive income and (or) to join socially significant projects	

Crowdfunding platforms. There are different crowdfunding platforms that are described below.

Kickstarter kickstarter.com [11]:

Kickstarter is one of the best-known crowdfunding sites. It was launched in 2009 and to date, it has successfully funded more than $3.7 billion to more than 1,40,000 projects. They help artists, musicians, filmmakers, designers, and other creators in arranging suitable resources, to support them to make their ideas a reality. It is a competitive crowdfunding site that carefully selects projects that can be highly creative to life. It is free to create a project on Kickstarter, but if a startup project is successfully funded, then they charge 5 percent of the funded amount [14].

22 million bakers are registered

Order of placement on Kickstarter [12]:

1. Is the product interesting or not prohibited?

- The project must correspond to the categories.
- Don't raise money for charity, websites, weapons, medical drugs, or advertising.

3. Find a partner - an intermediary:

- Only citizens of 22 countries can submit their projects to the platform: USA, EU countries, Canada, Australia, New Zealand, Japan.

4. Presentation preparation:

- If the video does not interest the user in 6-10 seconds, no one will watch the video. It is better to invest money in higher-quality photos because this is the first thing that catches the eye and can interest the audience.

5. A gift to bakers:

- Gifts: 1) distributed to everyone for free after reaching the goal; 2) material gifts (a cup or T-shirt with a logo); 3) gifts given to those who paid more than $100.

6. Promotion of the company:

- Advertising should be launched together with the launch of the project on the platform.

7. Obligations to bakers

IndieGogo indiegogo.com [13-14]:

Indiegogo offers startups with live funding campaigns as well as a marketplace for innovative products. This is because they are more focused on tech and innovation startups. After Kickstarter, IndieGoGo is the best-known crowdfunding platform that was launched in 2008. This platform allows people to get funds for their ideas, charity, or start-up business. They get the startups funded through reward-based crowdfunding like investors, individuals who are interested in investing in small businesses as donations and charity, and not for having equity [14].

Order of placement [14]:

1. Create your Campaign

- ❑ to create your campaign page on Indiegogo;
- ❑ to provide some basic information about startup as well as your funding goal.

2. Promote Your Campaign

- ❑ Indiegogo offers a number of tools and resources to help you get the word out, including social media tools and email templates.

3. Start Collecting Funds

- ❑ Indiegogo allows people to donate, and you can even offer perks or rewards for certain levels of donations.

4. Meet Your Purpose

- ❑ If you manage to reach your funding goal, the money will be transferred to you so you can start working on your startup. If you don't reach your goal, you can still keep the funds you raised.

RocketHub rockethub.com [13]:

The platform was created by analogy with Kickstarter, specializes in financing projects related to art, business, science, socially important and social events

Even if the required amount is not collected, the author of the idea can still receive money. The service fee is 4% [13].

Figure 7.6 – Photo for example [13]

PeerBackers peerbackers.com [13]:

A universal crowdfunding platform that has practically no restrictions on the direction of financing projects.

A project can be either just an idea or an already working business [13].

Figure 7.7 – Photo for example [13]

Booomerang booomerang.dk [13]:

One of the most successful European crowdfunding platforms.

Initially, the emphasis was on investing in creative projects, but currently, the main direction of investment is social and socially significant projects [13].

Figure 7.8 – Photo for example [13]

Joby ioby.org [14]:
A relatively young crowdfunding platform specializing in financing projects in the field of ecology [14].

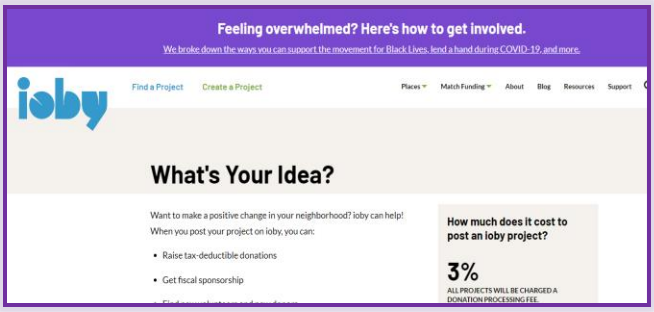


Figure 7.9 – Photo for example [13]

2 ASSESSMENT OF INVESTMENT ATTRACTIVENESS AND VALUE OF STARTUPS

Assessment of the value of startup is essential because you need to know if it is valuable enough to spend time and money on the idea. Several models are given below

1. **«4M» Model** consists of four units: Market, Model, Management, Momentum (Table. 7.3).

Table 7.3 – Components of «4M» model [15]

Components	Subject of assessment
Market	Analysis of the industry and the level of competition in it. From a perspective, the bigger the industry and the faster it grows, the better. From the point of view of competition, the lower its level, the better. Industries where a startup is a «pioneer» are more attractive for investment
Model	Analysis of the general business model and individual economic model
Management	Indicators of trust in the founders, their experience in startups, common experience of working in a team, comfort of cooperation of the investor with startups
Momentum	The speed of scaling a startup, which is the most important indicator when making decisions about its financing

2. **Model by L. Villalobos [16]**

Divergence	the difference between the growth rate of the company’s valuation and the valuation of the shares investors receive due to dilution by subsequent investors and other factors [16].

Income for an investor in a startup company does not increase in proportion to the market value of the company. Profit for the owner of shares in a company at an early stage of its development is based on an increase in the estimated value of the shares received by the investor. As the company's valuation increases, the stock price increases more slowly, and may even decrease [16-19].

EXAMPLE [16-19]:

An investor funds at a $4-million post-money valuation and receives shares valued at $2 each. The company is sold in five years for $60 million, which is a 15x increase in company valuation.
Due to dilution, however, the value of the investor's shares will almost certainly not have increased 15x to $30 per share. They might instead have increased only 3x to $6 per share. In this example, the increased valuation of 15x divided by the increase in the investor's share value of 3x demonstrates a 5x divergence.(in case the investor who invested 4 million dollars currently owns 20% of the company).

$$D(Divergence) = \frac{15\_(increased\ valuation\ of\ the\ company)}{3\_(increasing\ the\ value\ of\ the\ investor's\ shares)} = 5$$

Thus, the divergence is 5, which corresponds to the dilution (decrease) of the investor's share by 5 times, for example, from 100% to 20%.

3. Assessment of the riskiness of investments

EXAMPLE [16-19]:

Usually, the rate of return on conservative projects is 3%.
If we accept the established statistics of the success of startups - 10% of those that have started, take into account the risk fee, the investor's share in the project, and accept the average term of the startup's exit to the next stage of financing in 3 years,
we will get the desired profitability of investments in a startup - 200-500% per annum,
which means an expected increase in the cost of the project by 6-5 times [17-20]

$$V(\textit{expected profitability of the startup}) = \frac{\textit{Conservative rate}(10\%) \times \textit{Risk fee}(30\%) \times \textit{Success Rate}(10\%)}{\textit{Investor's share}(50\%)}$$
$$= ((1 + 0{,}1) \text{ x } (1 + 0{,}3) \text{ x } (1 + 0{,}1)) \text{ x } 100 / 0{,}5 = 315\%$$

4. **Cost method (restorative) [16-17].** The method makes it possible to evaluate the effectiveness of spending money by the startup team. Real financial costs for creating a similar project are estimated based on the following provisions [16-17]:

- cost of labor of specialists working on the project;
- expenses for legal registration, licensing and patenting;
- expenses, assets, fixed assets, etc.;
- costs for buying back shares from investors of the previous round;
- costs for outsourcing services of third parties (marketing research, preparation of specifications, etc.);
- current costs for advertising and promotion of the project.

5. **Risk factors scores, RFS [16-20].** The method involves determining the initial base cost of a startup and its subsequent adjustment for risk factors inherent in startups [21].

EXAMPLE [16-19]:

Let the initial basic cost of the startup be 1.5 million USD. Then, taking into account the influence of risk factors, its total value will be 2.75 million USD [16-19].

Table 7.4 – Determining the value of a startup taking into account the influence of factors [16-19]

Risk factors	The influence of the factor	Monetary impact assessment	Startup value
Management risks	Very low	+500 thousand. USD	2,0 million USD
Business stage	Medium		2,0 million USD
Legislative and political risks	Medium		2,0 million USD
Production risks	Medium		2,0 million USD
Distribution and manufacturing risks	Medium		2,0 million USD
Financing and capital raising risks	Medium		2,0 million USD
Competition risks	Very high	**-500** thousand. USD	1,5 million USD
Technological risks	Medium	+250 thousand. USD	1,75 million USD
Risks of litigation	Very low	+500 thousand. USD	2,25 million USD
International risks	Medium		
Reputational risks	Very low	+500 thousand. USD	2,75 million USD
Potentially profitable output	Medium		
Total value of the startup			2,75 million USD

6. **Berkus Method [21].** It is used to carry out pre-investment evaluation of a startup and involves adjusting the value determined, for example, using the recovery method, by introducing certain empirical coefficients (in relative terms) or allowances (in absolute terms) [21].

Table 7.5 – Coefficient in Berkus Method [21]

Coefficients	Value
Attractiveness of the idea	20-40 %
Professionalism of project management	20-80 %
Availability of a highly qualified mentor	10-40 %
The uniqueness of the market position	10-20 %
Availability of a realized prototype	20-40 %

The recommended value of allowances - the author recommends adding about 500,000 USD for a positive assessment of each of the indicators: attractiveness of the idea; availability of a realized prototype; professionalism of project management; formed strategic relations; organized production or start of product sales [21].

EXAMPLE [20]:

Preliminary assessment using the recovery method – 1,400,000 USD.
The feasibility of the idea is $300,000.Availability of developed technology and prototype - 500 thousand USD.
The professionalism of the team - 300 thousand USD.
Adjusted product release - 100 thousand USD.
Market entry made - 200,000 USD.
Total - 2,800 thousand USD. This gives a rough idea of how much a startup is worth according to preliminary data.
According to D. Berkus, the value of the preliminary monetary assessment of the startup should not exceed 2,000 thousand USD

7. **Method of determining the rate of return through the future value of investments.** It is based on the estimation of the *Future Value* of startup investment [18-19]:

$$FV = PV\ (1 + r)\ N$$

FV – the future value of the investment after N years;
PV – the present value of the investment at the moment;
r – internal rate of return of the project,
N – the length of the period during which the investor's funds work in the project, that is, the number of years before the investor exits the startup.

8. **Method of determining the rate of profit through the final cost of the company.** The method involves calculating the terminal value of the company in the event of the investor's exit. According to it, they focus on the condition of a competitor's company or a similar company [18-19].
9. **The method of determining the rate of profit through the calculation of the pre-investment and post-investment value of the startup:**

EXAMPLE [18-19]:

1. With an internal rate of return of 50% per annum and an investment period of 3 years, the future value is $100,000. investment is equal to

FV = 100 thousand USD. × (1 + 0,50) × 3 =450 thousand USD

2. If the projected net income of the startup is $100,000, and the average price-to-net income ratio for peer companies is 15, then the projected value of the company will be:

TV = 100 thousand USD × 15 = 1,5 million USD, and share in capital (ownership share)= 450 thousand USD/ 1,5 million USD = 30 %

3. If 30% of the company is purchased by an investor for $1 million, then the full post-investment value of the company will be:

1,00 / 0,30 = 3,33 million USD

The pre-investment cost will be:

3,33 million USD – 1 million USD = 2,33 million USD

10. **Scorecard method.** It involves comparing the startup with other companies and adjusting the assessment [18-19]. Comparisons can only be made to evaluate companies that are at approximately the same stages of development, corresponding to seed and first investment rounds [18-19]:

- Determination of the average rating of companies in region and industry;
- Determination of startup value.

Table 7.6 – Coefficients of Scorecard method [18]

Coefficients	Value
Having a strong team	0-30 %
Market size	0-25 %
Product and technology novelty	0-15 %
Competitive environment	0-10 %
Marketing, sales channels, partnership	0-10 %
The need for additional investments	0-5 %;
Other factors	0-5 %.

EXAMPLE [18]:

Let the average valuation of the company be 1.5 million dollars, and the total value of the factors - 1.075.

Then the value of the company will be:

1,075 ×1,5 million USD. = 1,61 million USD.

Table 7.7 – Definition of factors for comparison [18]

Factors for comparison	Weight factor	Factor assessment	Value
Having a strong team	max 30 %	125%	0,3750
Market size	max 25 %	150%	0,3750
Product and technology novelty	max 15 %	100%	0,1500
Competitive environment	max 10 %	75%	0,0750
Marketing, sales channels, partnership	max 10 %	80%	0,0800
The need for additional investments	max 5 %	100%	0,0500
Other factors	max 5 %	100%	0,0500
Total			1,0750

11. **Method of comparative transactions.** It involves a step-by-step comparison of the startup with other similar projects according to one or more of the most important indicators for this business [20].

EXAMPLE [20]:

If we evaluate the startup in comparison with other similar projects, using two indicators for comparison - income and the number of active consumers, then, depending on the indicator used, the startup is valued at an amount of 685 dollars. up to $6,736

Table 7.8 – Determining the value of a startup [20]

Project for comparison	Sales volume	Income ratio	The ratio of the number of active consumers
Project 1	957	3,0	2,3
Project 2	647	3,3	6,4
Project 3	327	1,9	1,5
Project 4	737	5,4	0,2
Project 5	6248	8,6	5,7
Project 6	39087	7,3	4,0
Project 7	6576	12,1	31
Project 8	4258	8,3	3,5
Project 9	3798	3,4	1,1
Weighted average coefficient		7,6	6,7
Indicative values of indicators		90 $	1000
Business value		685 $	6 736 $

3 COOPERATION OF STARTUPS WITH INVESTORS

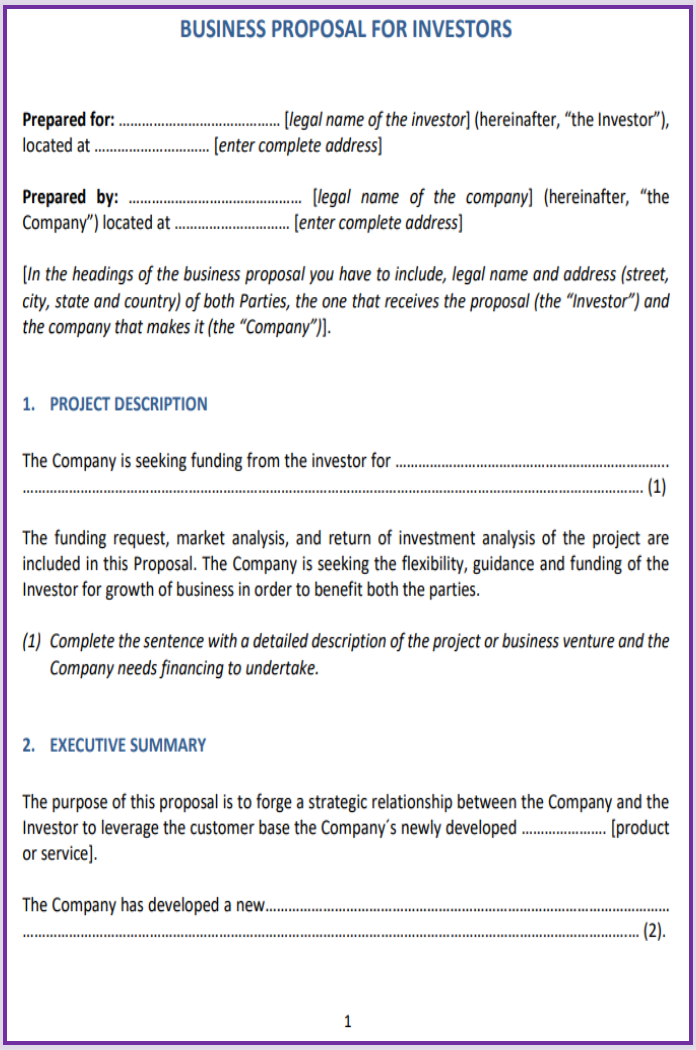
To approve your relationships with investors, you need to create an agreement or memorandum. Its structure is given in Table 7.9.

Investment memorandum	a clear way to layout and “pitch” your company to potential investors. Memos are a clear and concise document to lay out strategic vision, rationale, and expectations for an investment, project, product, or strategy [22].

Table 7.9 – Structure of investment memorandum [22]

Chapter	Characteristic
Purpose	Why should I care? What is the purpose of the memo? Are you searching for investment? Be clear and concise in your purpose so investors can quickly understand what the purpose of your company and memo is.
Problem	What point of friction are you attacking? Money is made at points of friction. Define the problem you are solving and what the current process and pain point looks like.
Solution	How are you removing (extracting value from) that friction point? How are you improving the current solutions? What makes your solution or product offering unique and have an edge in the market?
Market Size	How much value can you conceivably capture from this new offering? Be able to clearly define your market size and use the sections below to demonstrate how you will penetrate the market.
Competition	If the market is so big there must be others after it, right? While some argue that competition is not a good thing, a Blue Ocean approach to entering the market shows you have thoughtfully evaluated where others have failed and understand how to attack those areas.
Product Development	What is the actual product that will serve as the conduit for this better customer experience? What is the current state of the product and where will it be going? Does the capital you are raising fit into the future product roadmap.
Sales & Distribution	How will you make the market care about this cool product? Share your go-to-market strategy and any valuable data points you have to date. Use this as an opportunity to take a deep dive into revenue drivers.
Metrics	Have any of your previous predictions been tested and evaluated by your target market? How has it gone? Being able to clearly show traction over the previous periods will be a huge plus. Don't be afraid to include a promising chart or 2.
Team	Highlight the team and talent around you. Tell what makes your team unique and why they are the ones that can properly execute on the problem and solution.

Investment Proposal. It is usually developed to present a startup and attract additional investments at later stages of its development different templates can be found via the Internet [23]. Thus, one of such example of business proposal for investors can be seen in Fig. 7.10.



BUSINESS PROPOSAL FOR INVESTORS

Prepared for: .... [*legal name of the investor*] (hereinafter, "the Investor"), located at .... [*enter complete address*]

Prepared by: .... [*legal name of the company*] (hereinafter, "the Company") located at .... [*enter complete address*]

[*In the headings of the business proposal you have to include, legal name and address (street, city, state and country) of both Parties, the one that receives the proposal (the "Investor") and the company that makes it (the "Company")*].

1. PROJECT DESCRIPTION

The Company is seeking funding from the investor for ....
.... (1)

The funding request, market analysis, and return of investment analysis of the project are included in this Proposal. The Company is seeking the flexibility, guidance and funding of the Investor for growth of business in order to benefit both the parties.

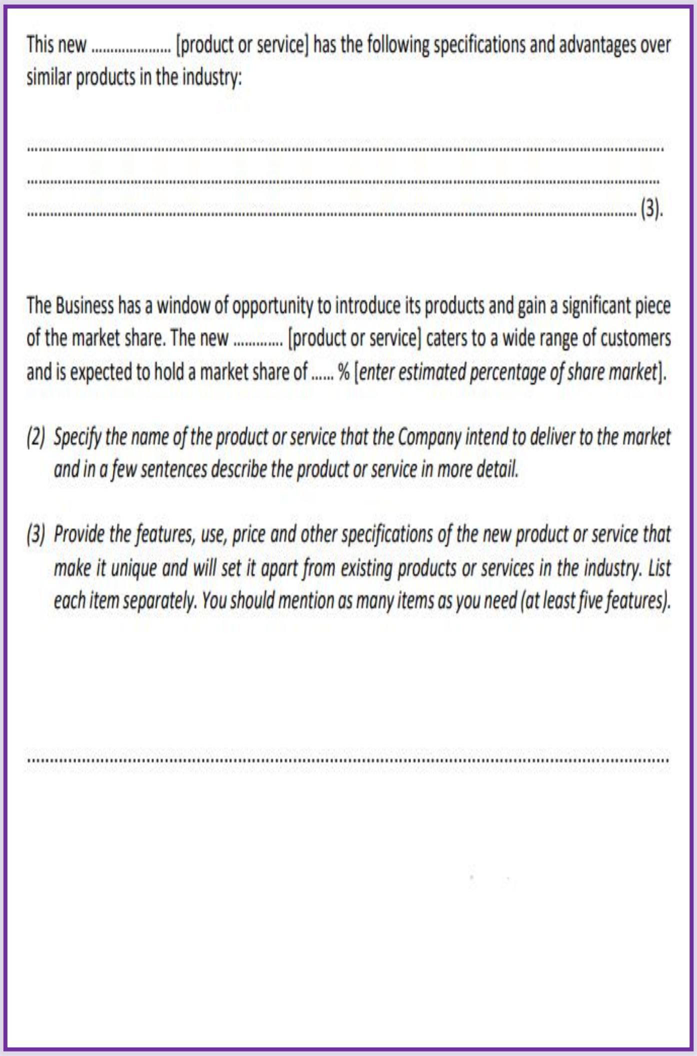
(1) Complete the sentence with a detailed description of the project or business venture and the Company needs financing to undertake.

2. EXECUTIVE SUMMARY

The purpose of this proposal is to forge a strategic relationship between the Company and the Investor to leverage the customer base the Company's newly developed .... [product or service].

The Company has developed a new...
.... (2).

1



This new .... [product or service] has the following specifications and advantages over similar products in the industry:

....
....
.... (3).

The Business has a window of opportunity to introduce its products and gain a significant piece of the market share. The new .... [product or service] caters to a wide range of customers and is expected to hold a market share of ...... % [*enter estimated percentage of share market*].

(2) Specify the name of the product or service that the Company intend to deliver to the market and in a few sentences describe the product or service in more detail.

(3) Provide the features, use, price and other specifications of the new product or service that make it unique and will set it apart from existing products or services in the industry. List each item separately. You should mention as many items as you need (at least five features).

....

Figure 7.10 – Investment proposal example [23]

Commitment letter. Fixation of reached agreements at the final stage of negotiations. Has no legal force. Usually relate to the confidentiality of the agreement and the exclusivity of the arrangements. In the future, based on these agreements, a full-fledged contract will be drawn up and signed [23].

Agreements. Several types of agreement are given below [24]:

- **Sale of shares in the statutory fund.** For this, it is necessary to register a startup as a legal entity, preferably in the form of a limited liability company. The investor becomes a member of the company;
- **Investment agreement.** The goals for which capital investments are made, the main parameters and guidelines of the startup, the reporting scheme to the investor, the final result and the terms of its achievement, the obligations of the parties;
- **A loan agreement.** The investor needs to return the amount that was borrowed and the fixed interest. The contract specifies only the interest rate, repayment period and force majeure;

- **Partnership agreement.** It is used for collective investment on equal rights of several investors. The contract specifies the procedure for using the property, methods of communication among investors and members of the company, the procedure for terminating the contract, payment of compensation;
- **Shareholder agreement.** In the case of legal registration of the company in the form of a joint-stock company, a shareholder agreement is drawn up to regulate relations between the founders. The parties agree on how to manage, how to distribute profits, undertake to nominate their candidates to the board of directors

Startup due diligence [10; 25]:

1. **Verification of documents.** It is carried out if the startup is registered as a legal entity. It provides for the verification of corporate documents for compliance with the law, as well as for the completeness of fixing the responsibility of the parties;
2. **Checking the intellectual component of the project.** It involves checking how the legal relationship with the team is established and the existence or prospects of legal registration of intellectual property;
3. **Inspection of the general organization of business.** It provides for the verification of documentation regulating economic activity and the organization of accounting

Control of the efficiency of investment use [25]:

1. **Employee involvement.** A company that develops a startup hires an employee who represents the interests of the investor and monitors all processes of the startup's development. The scope of authority is subject to agreement;
2. **Supervisory functions.** The investor engages a trusted person who, without formalizing employment relations, performs supervisory functions for the startup to the extent agreed by the parties;
3. **Independent consultant.** Under the contract, the investor engages an independent external consultant, who is given access to all documents related to the startup's activities. The consultant identifies certain problems and informs the investor about them, providing professional services to startups

EXIT OF INVESTORS. Presupposes full or partial exit of investors from business. An exit is needed to provide investors with a return on their investment [26].

Exit Strategy	a preconceived sequential business development plan aimed at withdrawing investments from the project at the time of its maximum capitalization, the purpose of which is to fully fulfill obligations to venture investors and close positions on financial assets [25].

EXAMPLE [25]:

Figure 7.11 – Example exit of investors [25]

Exit strategies. There are several exit strategies. See the points below [26,11]:

- **Initial public offering, IPO.** The strategy involves the initial sale of a large number of company shares on the stock exchange [27]. The option is appropriate for a startup in the event of its development into a full-scale enterprise operating in international markets . An exit strategy is attractive to venture capitalists because it provides a large return on invested capital [27].
- **Mergers & Acquisitions and Acquihires.** Mergers and acquisitions (M&As) occur when your start-up is bought by a larger company that's similar or is operating in the same sector [11]. The allure of an M&A with a start-up for the bigger company is the opportunity to buy in ready-made innovation or new products, without having to start from scratch. For business owners pursuing an M&A, there are options to court multiple bidders and drive up the price tag [29]. However, whether you have multiple suitors for your business or not, M&As are time-consuming. And putting in the hard yards is no guarantee of success. Indeed, many M&A negotiations ultimately fail, returning the founder to square one or forcing them to pursue other exit options instead [11].
- **Third-party sale.** A third-party sale is when you sell on the open market to a third party, and your venture is wholly acquired in the process [11]. The potential advantage of third-party sales is that you have an instant successor for your business who is committed to making it succeed. You will also likely be able to negotiate favorable terms and make a tidy profit to boot [11]. The disadvantage of the third-party sale is that it can take years to find the right buyer and sales negotiations can become protracted [11].
- **Equity sale.** Selling your stake in your business either to an investor or a business partner can be a neat exit option. But it's not for everyone. Sole traders are excluded from the outset [11]. However, if you do have a business partner or investor to sell your equity to, your business can run with minimal disruption [11]. And you're safe

in the knowledge that you'll be selling your business to someone with a vested interest in your business and its long-term success. If there's no co-owner to sell to; finding a new partner or investor to take on your share can be challenging and time-consuming [11]. The other downside is that selling your stake is unlikely to be as lucrative as an IPO, an M&A or a third-party sale [11].

- **Succession.** The family succession or legacy exit can be an appealing way for founders to bow out of a business they've built. But beware – it shouldn't be seen as a last-minute solution [11]. Succession – like other exit strategies – requires methodical planning to ensure success. Care should be taken to select a family member capable of taking the hot seat. The advantage of succession is that your heir apparent will already have an in-depth understanding of the business [11]. And since you're keeping the business in the family, you can stay connected with the start-up you've built and even stay on as an advisor or consultant [11]. The dark side of having a business dynasty as your exit strategy is that you may not have a relative capable of taking on the top job. This could create financial and emotional stress that you could have avoided by pursuing an alternative exit strategy instead [11].
- **Management and employee buyout.** In a management or employee buyout, your company's existing management team and/or employees purchase your start-up [11]. With this type of exit, your experienced senior managers transition to replace you and lead the company [11]. The great thing about a management buyout (MBO) is that the new leadership team is already well-versed in how to run your business [11]. So, the handover process will probably be a whole lot smoother than it would be if you simply sold your business to a third party. The challenge with the MBO strategy is that you might not have a manager or employee who can step up. And the considerable disruption an MBO entails could have a negative impact on your business [11].
- **Liquidation.** It's a more favorable outcome than bankruptcy. However, liquidation is where you sell off all of your start-up's assets. It tends to happen when founders and business owners decide the business has run its course, or when external factors compel you to shutter your operations. In many ways, liquidation is probably the most final of the exit strategies because your business will cease to operate or exist in any shape or form going forward. The advantages of liquidation are its finality, its speed and its simplicity compared with other exit modes such as an acquisition or merger. The disadvantage is that liquidation is unlikely to be lucrative for the founder, as assets are often sold off at fire sale rates. And depending on the circumstances of the liquidation, you could risk burning bridges with your employees, business partners, customers and suppliers [11].

4 PRESENTATION OF A STARTUP PROJECT TO INVESTORS

Presentation of a startup project is one of the most important parts of the project development. Your product can be perfect but without good presentation it will not get enough investments

Pitching	a common method for proposing new ideas and gaining support for them. Pitching in business refers to presenting business ideas to another party. For example, you may pitch your startup business to potential investors or your products to potential customers [11].

There are different types of pitching that you can use presenting your startup idea [29]:

Elevator pitch [29]:

- *Goal:* get the investor interested in the next meeting.
- *Duration:* 1 minute.
- *Content:* problem, solution, prospects of monetization of the project

EXAMPLE [29]:

Uber - We help people get from point A to point B with a simple taxi app.
Amazon - We help people buy and sell things online.

Facebook - We help people stay in touch with each other and share experiences in networks.
We help X to get Y.

Idea pitch [29]:

- *Goal:* to reveal the main idea of the startup
- *Duration:* up to 3 minutes
- *Content:* practiced in competitions

Funding pitch [29]:

- *Goal:* justify the volume of necessary investments
- *Duration:* 7-10 minutes
- *Content:* competitors, market entry strategy, target segments

A pitch and a pitch deck are being prepared to present the startup (Fig. 7.12-7.15).

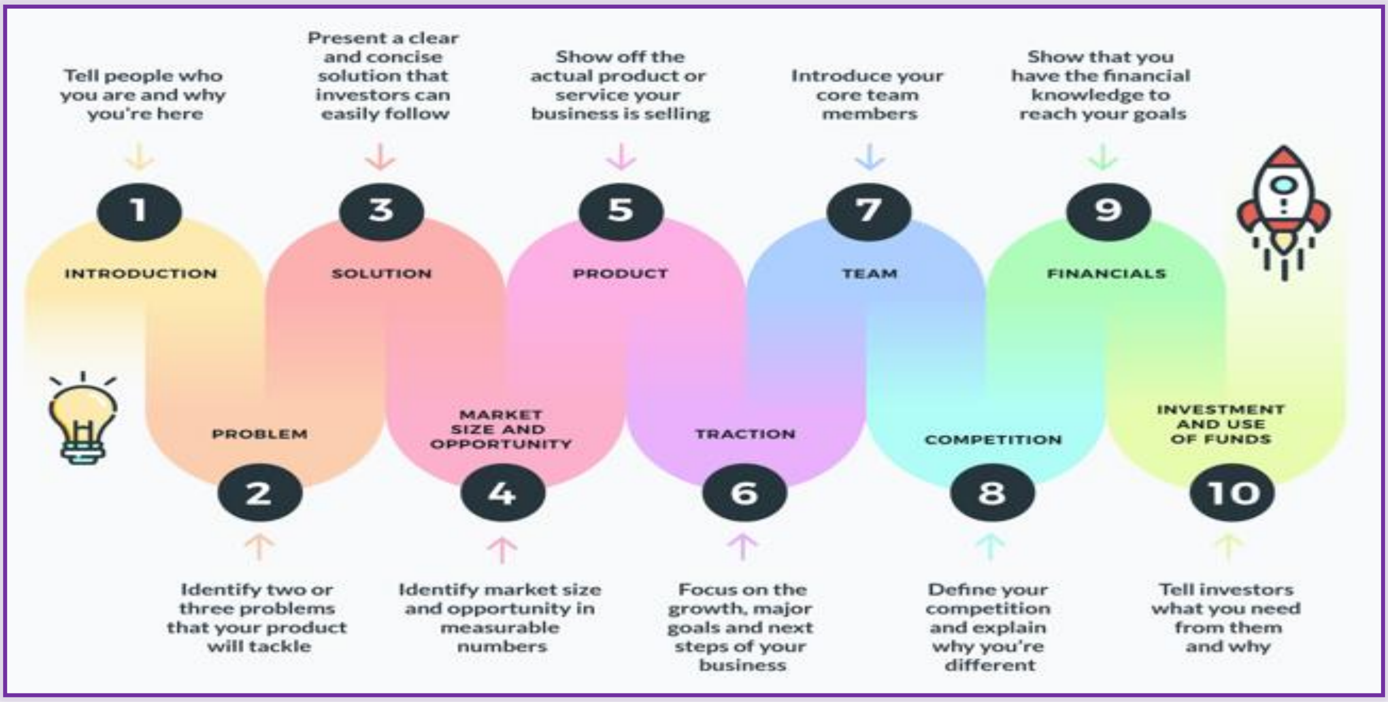


Figure 7.12 – Structure of pitch deck presentation [30]

Figure 7.13 – Which pages matter the most [3]

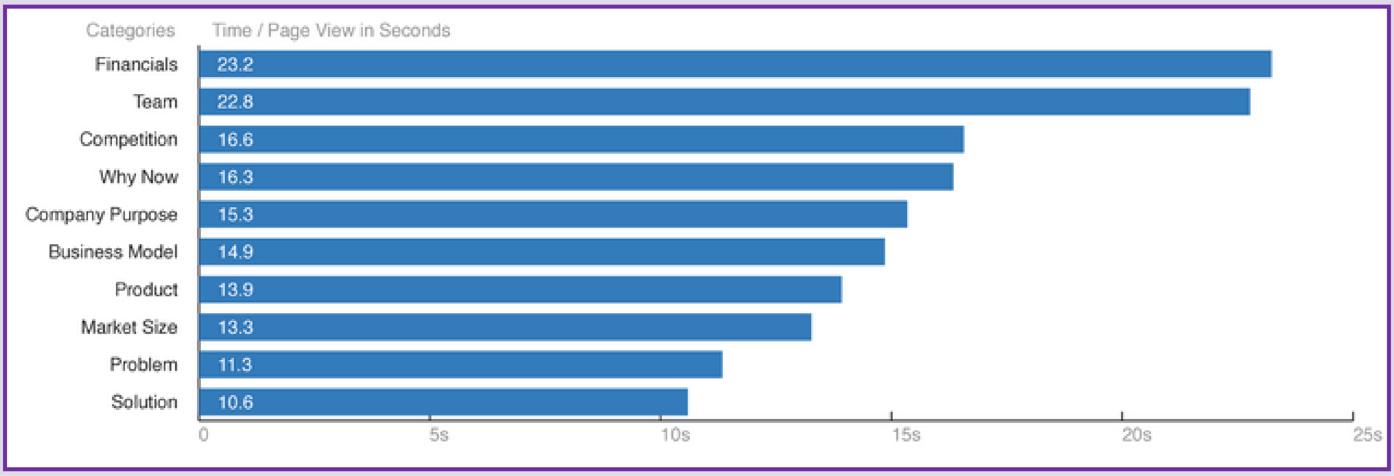


Figure 7.14 – Which pages matter the most [3]

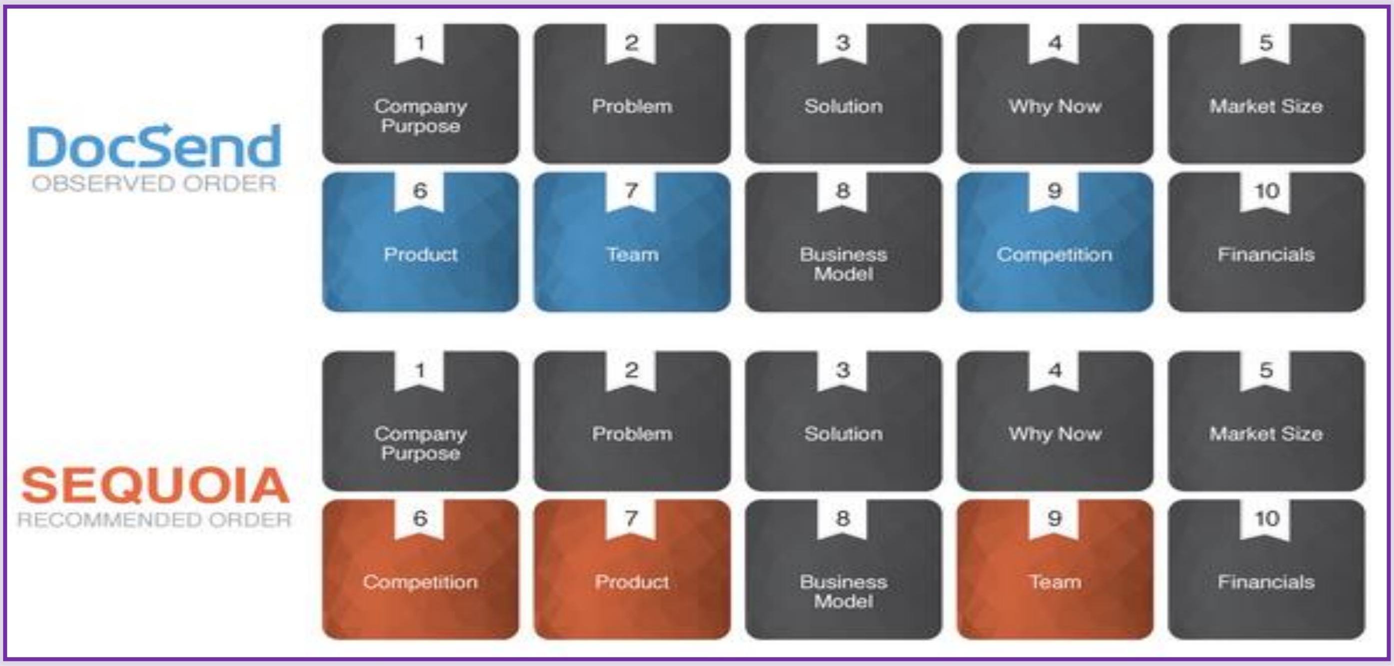


Figure 7.15 – Order and the most needed pages in presentation [3]

Rules for the startup pitching [31]:

- ❑ You should not include a slide about a possible exit strategy for an investor in your presentation
- ❑ Don't take wishful thinking for granted
- ❑ Information on the slides should be presented according to the rule - the less, the better
- ❑ No need to distribute copies of the presentation
- ❑ Do not read from slides

The templates for structured pitch presentation can be seen in Fig.7.16-7.17

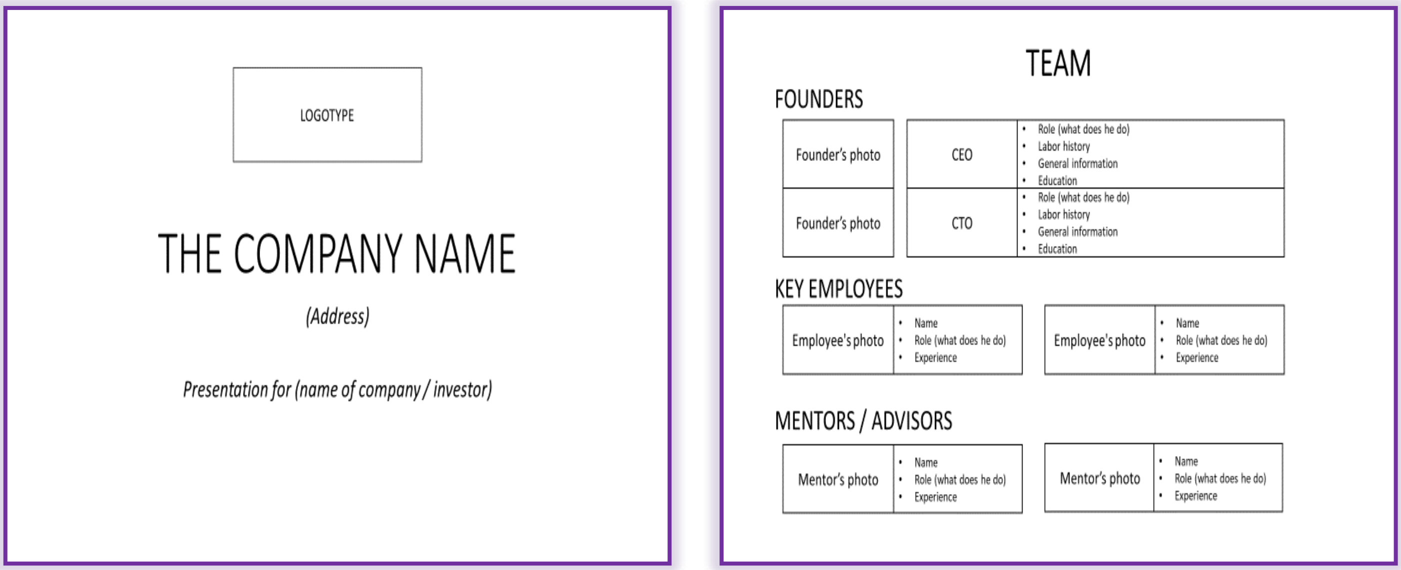
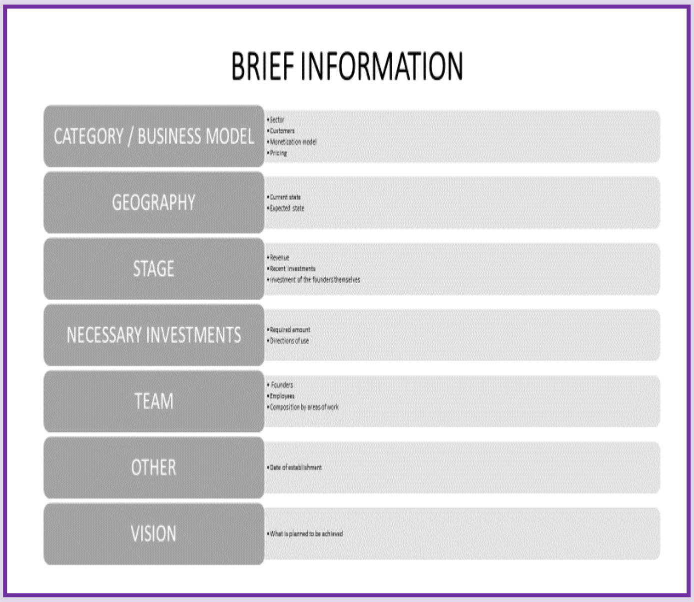
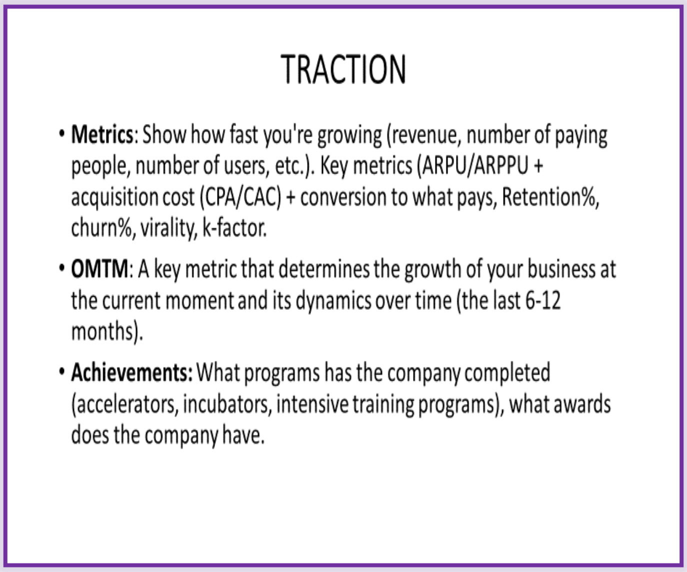
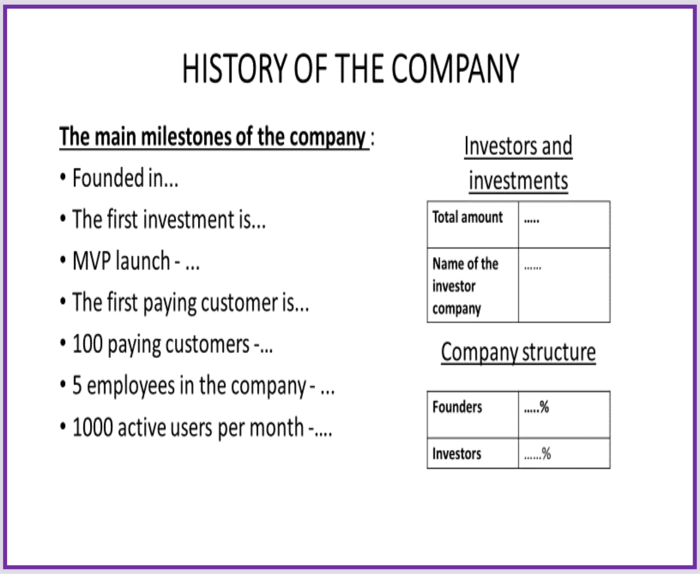


Figure 7.16 – Templates for startup pitching [32]







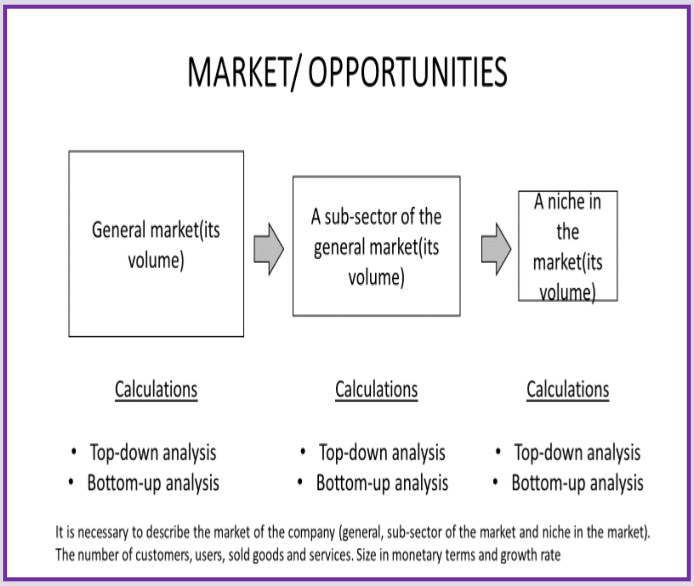


Figure 7.16 – Templates for startup pitching [32]

YOUR SOLUTION / PRODUCT

VP: Tell us about the key value proposition for the client (how much your solution is more effective than alternative solutions: faster, better, cheaper or how much it allows you to earn).

Solution: Tell us about your solution, or better show your service or product.

Screenshots: Key parts of your product/service.

Storytelling: Tell a story about your customer's future or a current customer/user case.

"Secret sauce": Your non-market competitive advantage that makes you unique and gives you more than 6 months of competitive advantage.

PROBLEM / ALTERNATIVE SOLUTIONS

Problem: What is the **pressing** problem in the market? What is the unmet need? How big is this problem (in terms of money, time, effort)?

«Sell the problem, not the solution." – Dave McClure. "Solve the customer's #1 problem" - Cyrus Massomi (CEO ZocDoc). Not the 4th, not the 10th...Why are clients so concerned?

Alternative (existing) solutions: What is the biggest limitation in the market and which solution do you compete with the most? The status quo that you are going to change.

Conclusion: The market is so big that the current solutions do not satisfy / do not solve the existing needs / problems of customers, so we have a big opportunity.

TECHNOLOGY

What is the basis of your decision?

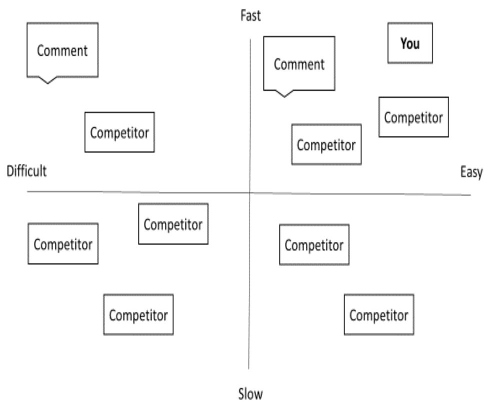
Proprietary or outsourced technology?

Why is this technology unique (if any)?

Who on the team has the unique technology expertise that makes your technology disruptive (if it does)?

Thanks to which partnership agreements did you have a competitive advantage?

COMPETITIVE ENVIRONMENT / ECOSYSTEM



COMPETITIVE ADVANTAGES

- Current competitive advantages
- Sustainable competitive advantages
- Unfair advantages
- Patents
- Key partners
- Market entry restrictions for other players (time, money, expertise, partnerships, patents)
- Advantages and weaknesses of competitors

COMPETITIVE ANALYSIS

COMPETITOR	FINANCING	FOCUS	DIFFERENCES
(THE COMPANY NAME)	(AMOUNT, MILLION DOLLARS) (INVESTOR COMPANY)	(MARKET) (TA)	What are the key differences between markets, companies, teams, etc.
(THE COMPANY NAME)	(AMOUNT, MILLION DOLLARS) (INVESTOR COMPANY)	(MARKET) (TA)	What are the key differences between markets, companies, teams, etc.
(THE COMPANY NAME)	(AMOUNT, MILLION DOLLARS) (INVESTOR COMPANY)	(MARKET) (TA)	What are the key differences between markets, companies, teams, etc.
(THE COMPANY NAME)	(AMOUNT, MILLION DOLLARS) (INVESTOR COMPANY)	(MARKET) (TA)	What are the key differences between markets, companies, teams, etc.

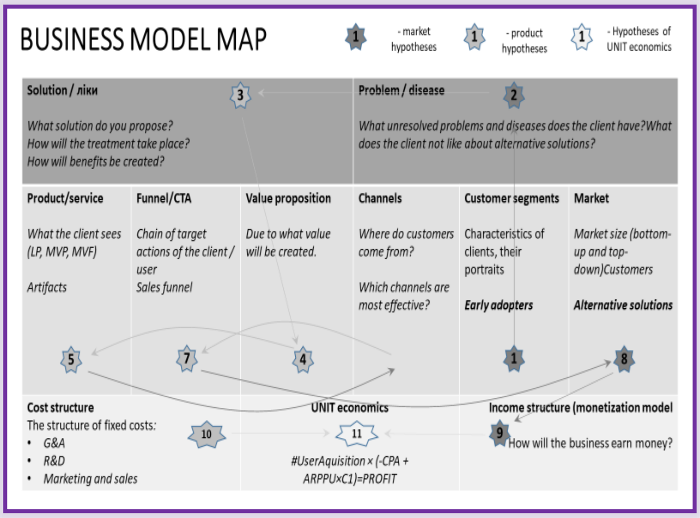
Figure 7.16 – Templates for startup pitching [32]

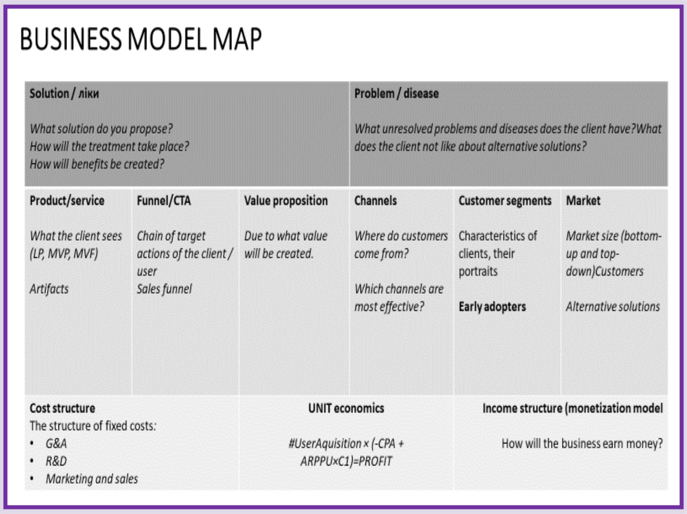
BUSINESS MODEL

- How will you make money? Key cash flows
- Pricing? Commission, fixed price?
- Is there a difference between Gross and Net Revenue?
- UNIT economics
- When is the payment made (immediately, postpaid after 60-90 days)?
- Current and expected conversion from a paying customer
- Current and expected value of ARPU (Average Revenue Per Paying User)
- Customer LTV and lifetime

WHY NOW

TREND 1	What key trends support your business • Why the market is ready • Why customers will follow the new offer
TREND 2	Why now is the right time to launch a product on the market • What has changed that made similar products attractive (for example, the cost of storing and processing data, the emergence of a particular technology, the penetration of mobile devices, significant audience coverage on social networks)
TREND 3	
TREND 4	





ENGAGEMENT CHANNELS

Current user/customer engagement channels:

Describe, or provide a graphical interpretation of, where you are currently taking customers from. Capacity of channels and average tested costs of transitions through channels (cost of click (CPC), contact with user (CPM). If data is available - conversion by channels.

Which channels did not work and why?

Future channels: Which channels have not been tested and why, when is testing planned?

KEY RESOURCES AND PROCESSES

Key Resources: Describe what is a key resource for you that allows you to create and deliver value (eg developers, brand, mobile apps, unique technology). Why it is a key resource.

Key Processes: Describe the key processes that enable you to create value (eg, technology development, ongoing customer feedback, marketing and sales, partnering)

Figure 7.16 – Templates for startup pitching [32]

GTM – Go to Market Strategy

Channels: Where you will attract customers and the capacity of these channels (Direct sales: 10 sellers x 500 calls per week = 200,000 leads per year, SEO: 10,000 approaches per month, FB: 100,000 representatives of the target audience, etc., industry events: 10 per year for 200 potential buyers = 2000 leads per year)

Sales Cycle: How long does it take from first contact to first sale? And to the second?

Scalability: At the expense of what scaling will occur, what leverage will be used (for example, network effect). Describe the scaling process and the specific steps you will take or have taken.

Key partnerships: Which partners and how they help attract customers, which indicators are affected.

Marketing expenses: monthly marketing expenses now and after the investment

FINANCES

	Year 1	Year 2	Year 3	Year 4	Year 5
Target market					
Users/customers					
Active users after churn					
Market share, %					
Revenue (GROSS), thousand USD					
Costs, thousand USD					
Variable, thousand USD					
Fixed, тис. грн.					
Revenue (NET), thousand USD.					
EDITDA, thousand USD					
EDITDA Margin, %					

PRODUCT ROADMAP

PRODUCT/FEATURE	Q1'2024	Q2'2024	Q3'2024	Q4'2024	2025	2026	2027	2028
(PRODUCT NAME)								
(FEATURE NAME)								
(PRODUCT NAME)								
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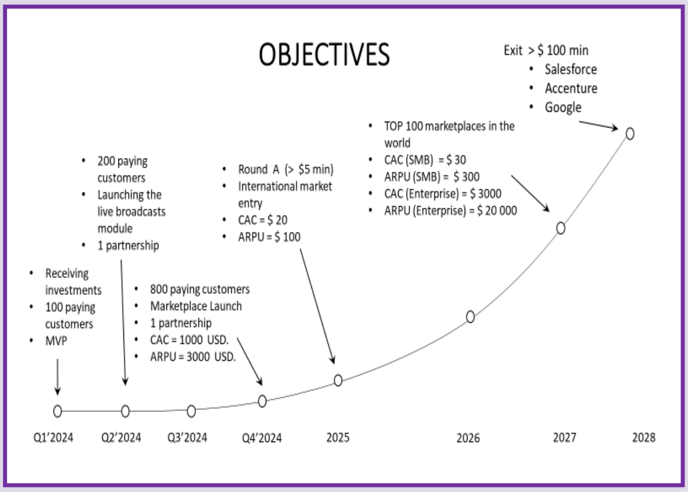
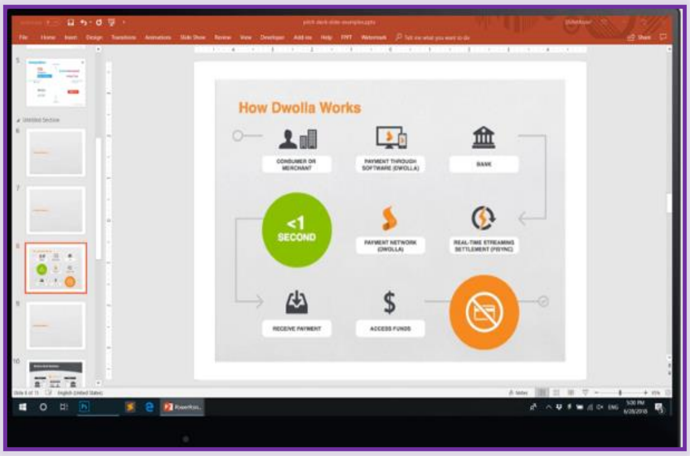


Figure 7.16 – Templates for startup pitching [32]

EXAMPLE [30]:



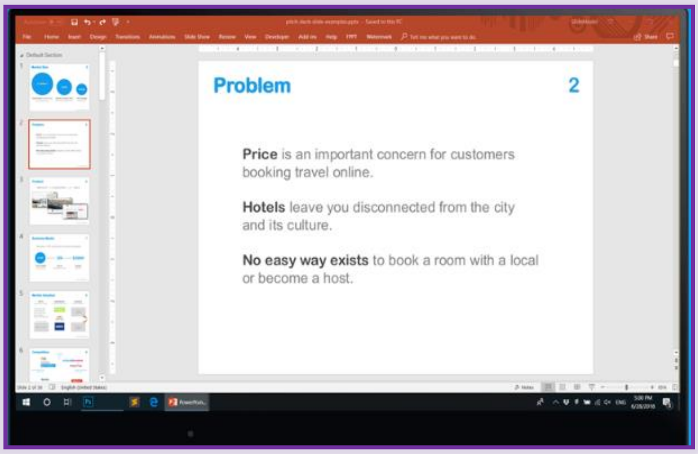


Figure 7.17 – Example of startup pitch presentation [33]

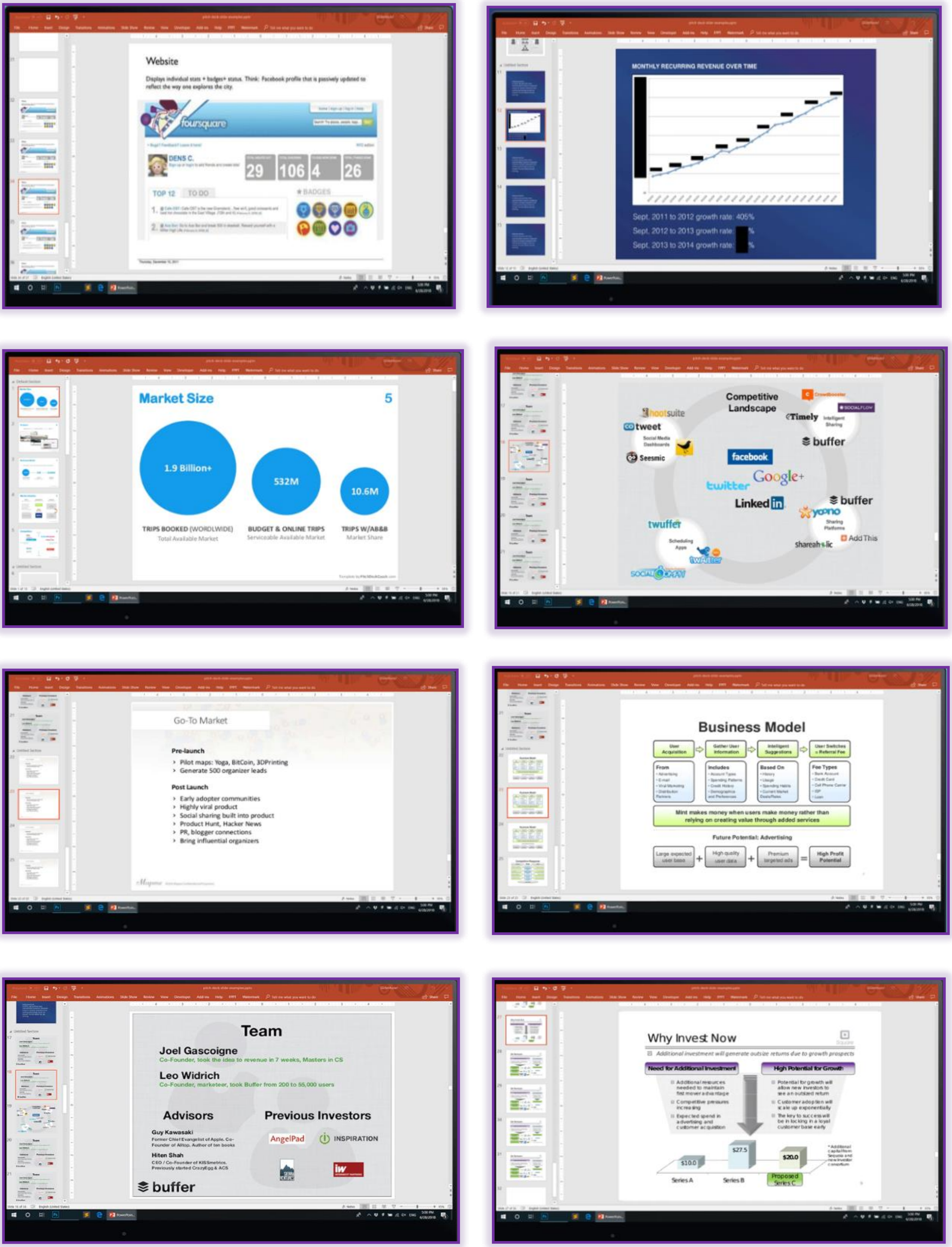


Figure 7.17 – Example of startup pitch presentation [33]

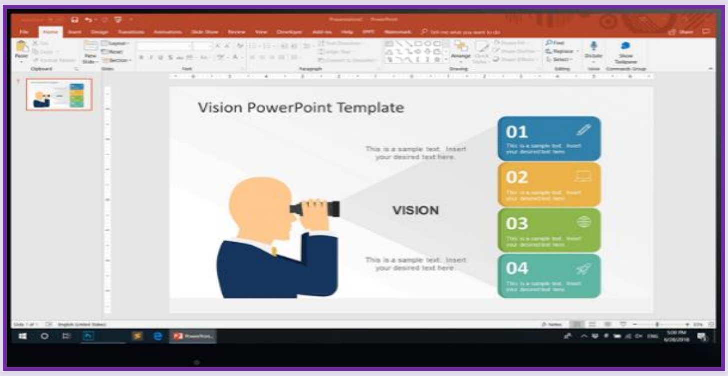


Figure 7.17 – Example of startup pitch presentation [33]

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TOPIC 8

LEGAL PRINCIPLES OF IMPLEMENTATION OF A STARTUP PROJECT

CONTENTS OF LECTURE

①Legal support of startups in Ukraine
②Regulation of relations between startup project participants
③Protection of intellectual property rights of a startup

1 LEGAL SUPPORT OF STARTUPS

Startup legal checklist consist of several stages such as opening bank account, bookkeeping etc. and described in Fig. 8.1

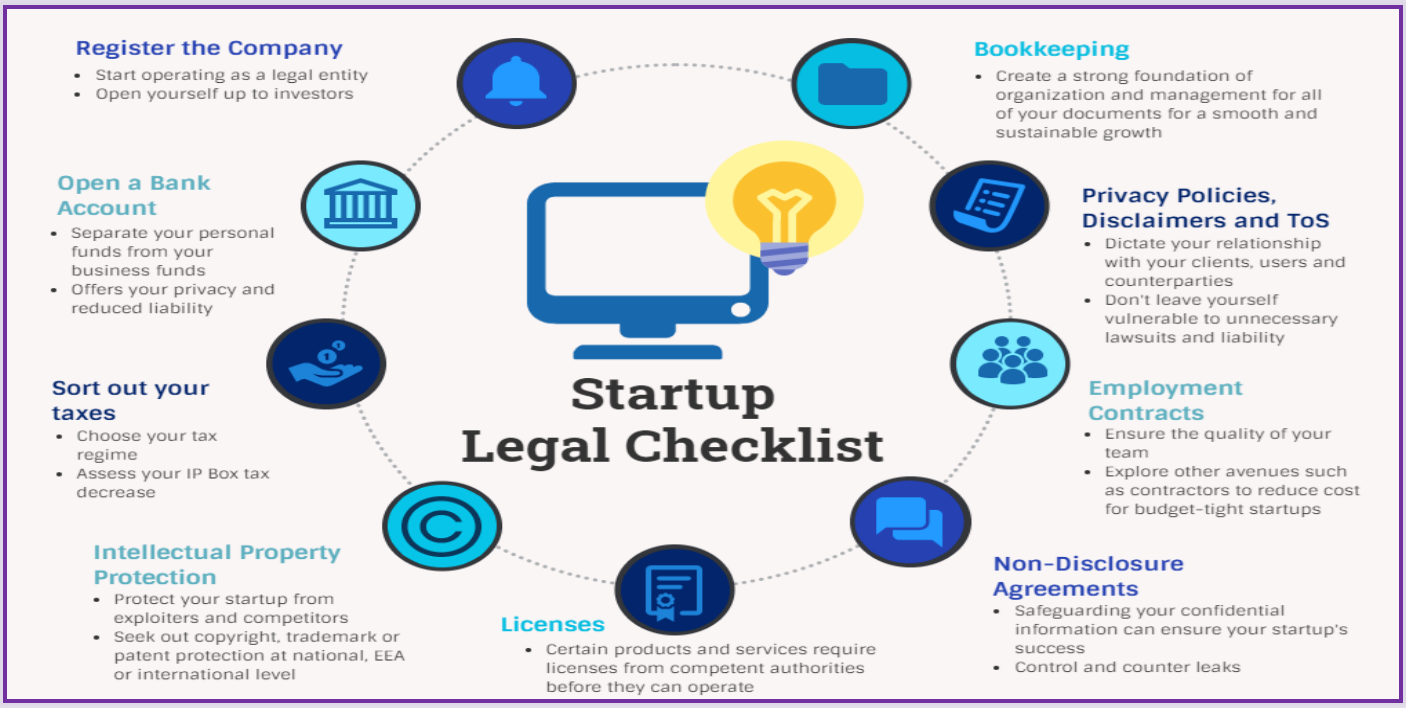

Figure 8.1 – Legal Checklist For Startups [1]

Key milestones for the legal support of startup [1]:

- **Choose your Business Structure and Register your Startup.** Are you the sole proprietorship? Is it a limited company or a corporation? Depending on how you structure your startup, there's different tax and hiring implications that will significantly affect your growth to investing potential. After that's all decided, register the startup as an entity [1].
- **Create a separate bank account.** One of the initial benefits to that is the ability to open a separate bank account for your startup so as to not commingle your business funds with your personal funds. This separates and protects your personal assets and financial information from ever being part of a future lawsuit. Or from having to be shared to future business counterparties such as landlords, lenders, or investors [1].
- **Sorting out your Taxes**. The type of business structure you've chosen to operate under can influence which tax regime best suits you and how to keep up with all your tax obligations [1].
- **Get your Intellectual Property Protection ASAP.** Too many startups have found their innovative ideas copied and resold by competitors who ended up making millions profiting off IP that was not protected. Whether what you need is trademarks, patents, or copyright protection a simple due diligence early on could save the business in the long-run [1].
- **Prepare an NDA (Non-Disclosure Agreement).** Non-Disclosure Agreement, may soon become standard practice with every contract you enter as a startup. In the tech industry, startups rely on the novelty of their innovation and NDAs will be the all-too-necessary shield to protect it from predators and exploiters. An NDA gives you the assurance that the startup's confidential information is protected from being shared to the public (or to a competitor) because of the serious legal implications the disseminator will face [1].
- **Employment Contracts.** You'd need to consider whether outsourcing, or hiring contractors, or employing is the best suited option for your business. All three options require separate agreements, each with separate benefits and obligations that need to be taken into account [1].
- **Get the license if needed.** It is vital to check whether your startup product and services do not require any kind of operating license, and if they do, which one. Operating your business without a license will result in massive fines that could ultimately impede your startup from ever taking rise [1].
- **Privacy Policies, Disclaimers, and Terms of Services.** A good and meticulous set of privacy policies, disclaimers and TOS help dictate the relationship between you and anyone you deal with as well as limit your liability in case something goes wrong with your products or services. As much as you can, a diligent startup should have these plastered everywhere [1].

- **Manage your accounts and stay organized.** Reliable organization of documentation will help provide the sturdy foundation that will assist in the uniform and stable development of the startup [1].

Detailed description of key stages for legal services in startup is given in Fig.8.2

1. Ideation [2]:

- Reviewing IP – will there be potential for trademarks, patents, design rights, database rights, copyrights?
- Reviewing potential structure – sole trader? Limited company? Traditional Partnership? Limited Liability Partnership?
- Will funding be required? If so what kind of funding would be most suitable? Loans? Equity Funding?
- Will software need to be developed – if so by whom?

2. Concepting [2]:

- Checking applicable registries for naming rights in relation to the entity's proposed trade names (e.g. trademark registries, Companies House, domain name registries);
- Setting up structure – implementing decision as to sole trader/limited company/partnership structure. Complying with formalities (eg registering any new entity with Companies House, filing resolutions, appointing Directors);
- Negotiating terms of shareholder agreement and any option scheme.

3. Commitment [2]:

- Shareholder Agreement to be agreed and signed;
- Option scheme initiated;
- Agreeing terms for seed funding and signing agreement(s);
- Any corporate formalities associated with the above (resolutions, filings at Companies House, etc.);
- Agreements with employees and/or consultants;
- Implementing decisions made in relation to IP (e.g. registration of trademarks, filing of patent applications);
- Negotiating and agreeing any software development agreements (e.g. for website or products);
- Appropriate insurance policies in place e.g. Errors and omissions, employer liability;
- Addressing any online trading issues e.g. Website Ts and Cs, cookies, privacy policy.

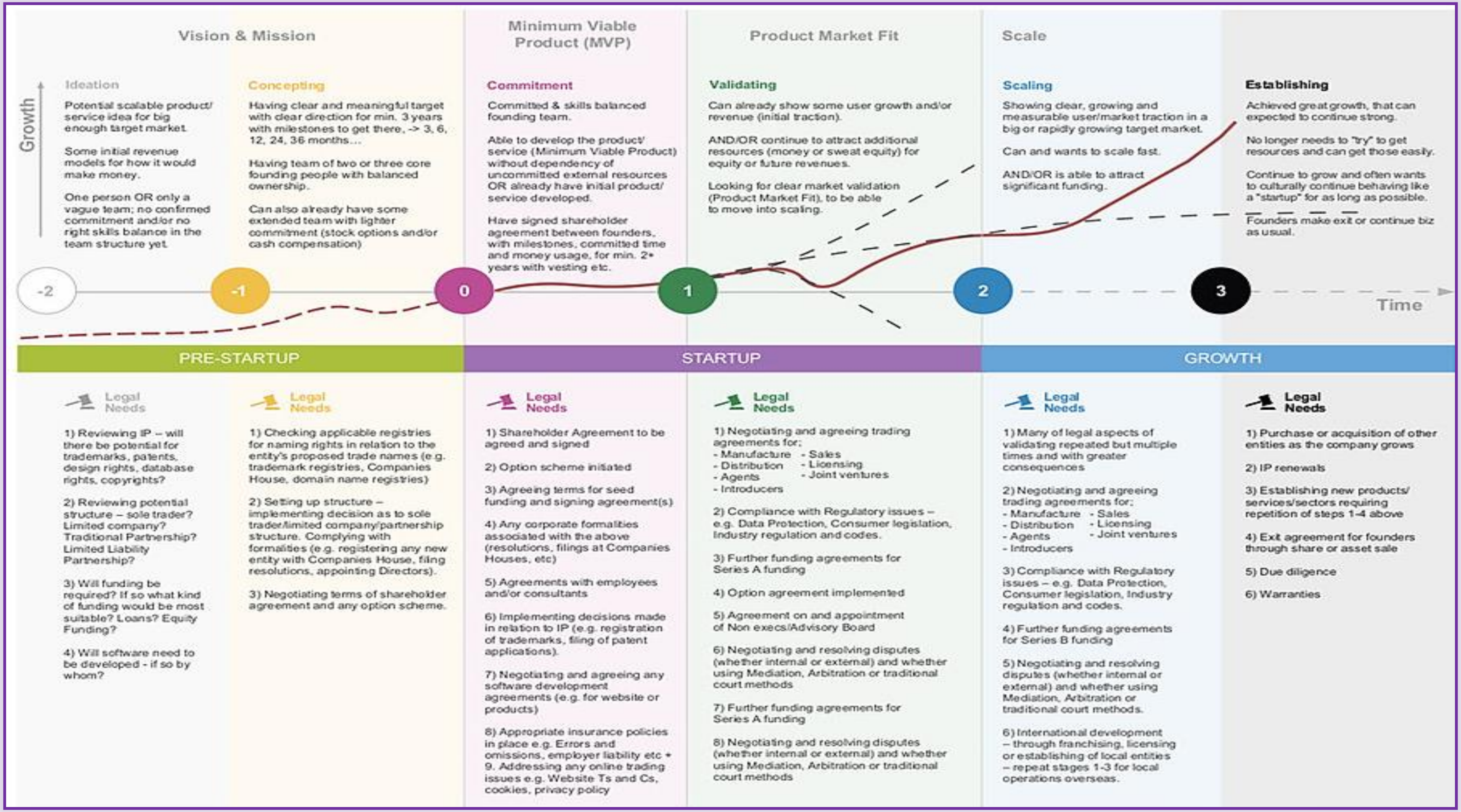

Figure 8.2 – Stages for legal services [2]

4. Validation [2]:

- Negotiating and agreeing trading agreements (for Manufacture, Distribution, Agents, Introducers, Sales, Licensing, Joint ventures);
- Compliance with Regulatory issues – e.g. Data Protection, Consumer legislation, Industry regulation and codes;
- Further funding agreements for Series A funding;
- Option agreement implemented;
- Agreement on and appointment of Non execs/Advisory Board;
- Negotiating and resolving disputes (whether internal or external) and whether using Mediation, Arbitration or traditional court methods;
- Further funding agreements for Series A funding;
- Negotiating and resolving disputes (whether internal or external) and whether using Mediation, Arbitration or traditional court methods.

5. Scaling [2]:

- Many of legal aspects of validating repeated but multiple times and with greater consequences;
- Negotiating and agreeing trading agreements;
- Compliance with Regulatory issues – eg Data Protection, Consumer legislation, Industry regulation and codes;
- Further funding agreements for Series B funding;
- Negotiating and resolving disputes (whether internal or external) and whether using Mediation, Arbitration or traditional court methods;
- International development – through franchising, licensing or establishing of local entities – repeat stages 1-3 for local operations overseas.

6. Establishing [2]:

- Purchase or acquisition of other entities as the company grows;
- IP renewals;
- Establishing new products/services/sectors requiring repetition of steps 1-4 above;
- Exit agreement for founders through share or asset sale;
- Due diligence;
- Warranties.

The USA, the UK, Estonia and Cyprus are the most popular countries for registering a startup. See Fig. 8.3 if you want to know why

Countries for Startup Legal Structuring

legal nodes

	Delaware, US	United Kingdom	Estonia	Cyprus
Smooth share transactions	✓	✓	✗	✓
Remote neobank account opening	✓	✓	✓	✓
Tax efficiency for cash-outs & exit	✓	✗	✗	✓
Special tax reliefs for tech business	✗	✓	✓	✓
Sutaible for most VCs & accelerators	✓	✓	✓	✗
Share Option scheme for employees	✓	✓	✓	✗
Low setup and operating cost	✓	✓	✓	✗
Quick setup (usually 1-2 weeks)	✓	✓	✓	✗

Figure 8.3 – Countries for Startup legal structuring [3]

2 REGULATION OF RELATIONS BETWEEN STARTUP PARTICIPANTS

Relations between startup participants required to be written in the agreement. The types of agreements are given below:

Pre-formation Founders agreement. It is concluded at the time of creation of the product and attraction of financing and in the most correct way of regulating relations between participants without further creation of a legal entity or with the creation [4]. It is fixed in the contract [5]:

- Free will of all parties to create a project, which will help to settle relations in case of conflict
- Settlement of intellectual property rights, which will belong to the creators of the intellectual property object
- Contributions of the founders to the project, in particular the distribution and agreements regarding monetary investments and hours of work on the startup
- The law of which country will apply to the future legal entity. The procedure for making changes to the contract

Distribution of shares in a startup [6]:

- *Plan the future.* Possible parts of new investors and participants of the startup that will be added as it scales should be determined in advance
- *The mechanism of changing the share in the company with its development and growth.* For settlement, vesting is used, which involves obtaining options to purchase a certain share in the startup at a fixed price
- *The principle of particle distribution.*

Copyright agreements. Startups need regulation of intellectual property rights. There are such copyright agreements [4; 5]:

On the transfer of the exclusive right to use the work. The author (or other person who has exclusive copyright) transfers the right to use the work in a certain way and within the prescribed limits to only one person to whom these rights are transferred, and gives this person the right to allow or prohibit similar use of the work by others. At the same time, the person who transfers the exclusive right retains the right to use this work only in the part of the rights that are not transferred [4; 5].

On the transfer of the non-exclusive right to use the work. The author (or other person who owns the copyright) transfers to another person the right to use the work in a certain way and within the established limits. At the same time, the person who transfers the non-exclusive right retains the right to use the work and to transfer the non-exclusive right to use the work to other person [4; 5]**.**

Non-disclosure Agreement. Provides for founders and persons developing objects for a startup, mutual exchange of information, experience, knowledge with access restriction for third parties [4; 5].

Agreements. Relations with the team and employed staff are governed by agreements [4;5]:

Non-disclosure Agreement. It is entered into between the employee and the owner of the startup enterprise and clearly defines the duties and responsibilities in case of disclosure of what should not be disclosed [4; 5].

Employment contract. It is concluded between the employee and the owner of the enterprise and obligates the employee to perform certain specified work, and the owner - to pay the employee a salary and provide the working conditions necessary for the performance of the work [4; 5].

Job instruction. Regulates the organizational and legal status of the employee and determines his specific tasks, duties, rights, powers, responsibilities, knowledge and qualifications required to perform work [4; 5].

Relations with investors are governed by agreements [4; 5]:

Partnership agreement or investment agreement. It is concluded to create a legal entity between a startup and an investor, according to which the investor provides funds for the development of the project and claims interest from its subsequent capitalization [4; 5].

Registration of a legal entity. In order to sell a share in the statutory fund, it is necessary to create a legal entity. Then the investor becomes a participant and has the same rights as other participants – to make decisions about activities at meetings, make contributions, receive profits, etc. In no case can the investor be the sole founder. Even if the founder of the startup is the CEO, he can simply be fired [4; 5].

Relations with partners are governed by agreements [4; 7]:

- on cooperation;
- on partnership;
- on joint activities.

Participants are two or more parties united by joint activity for the purpose of obtaining economic profit [4; 7].

Contract with freelancers. One party (freelancer) undertakes to perform certain work on behalf of the contractor (startup founders) [4; 7].

Agency contract. It is concluded with a company that provides services for the search of investors, etc [4; 7].

Written forms used in conclusion of contracts [7]:

Written forms applied when conducting contracts. Accompanying documents are attached to the contract: all appendices, protocol of disagreements, protocol of reconciliation of disagreements (if a compromise was reached between the parties regarding disputed terms of the contract), court decision (if the dispute was referred to the court), etc. [7].

Abbreviated written form in the form of a set of letters, telegrams, faxes. Documentation exchanged by the parties, if the content of these documents indicates the intention of the parties to establish a contractual relationship and essential terms of the contract [7].

Written notarized form. It is used in cases provided for by law or by agreement of the parties [7].

The form of non-disclosure agreement is imagined in Fig. 8.4 [8], founders' agreement – Fig. 8.5 [9].

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This sample document was drafted for Pillar's startup community by Company Counsel, LLC. This document is intended to serve as a starting point only, and should be tailored to meet your specific requirements. This document should not be construed as legal advice for any particular facts or circumstances.

Use this form when only one party to a potential collaboration or project is going to be transmitting confidential or proprietary information to the other party.

[COMPANY NAME], INC.
CONFIDENTIAL NON-DISCLOSURE AGREEMENT

Effective Date: ___________________

In order to induce [COMPANY NAME: This should be the same name as above], Inc. and its partners and affiliates (collectively, "**Discloser**") to disclose certain Confidential Information (as described below) and to protect such Confidential Information, the party set forth below ("**Recipient**") hereby agrees as follows:

1. **Description of Confidential Information**: For purposes of this Agreement, "**Confidential Information**" means any information which is disclosed during the Disclosure Period (as defined below) which is or should be reasonably understood to be confidential or proprietary to Discloser (which such information may include without limitation information concerning Discloser's business, products, services, content, finances, users, tools, source code, protocols, product designs and plans, customer lists, intellectual property and other marketing and technical information, the terms and existence of this Agreement and the Transaction (as defined below) and any other unpublished information).

2. **Use of Confidential Information**: Recipient shall make use of the Confidential Information only for the purpose of its evaluation and/or implementation of a business relationship (the "**Transaction**"). Except where the following prohibition is not allowed under applicable law, the Recipient will not decompile, disassemble, reverse engineer or otherwise modify any software or other product, system or process disclosed to it under this Agreement.

3. **Confidentiality Period**: This Agreement and Recipient's duty to hold Confidential Information in confidence shall expire five (5) years after the end of the Disclosure Period (as defined below); except that any technical designs, customer data, source code and protocols (including documents and other embodiments of such information) shall be deemed and treated as Confidential Information under this Agreement for as long as such information continues to be protectible as trade secret information under United States law.

4. **Disclosure Period**: Unless otherwise terminated by either party, this Agreement pertains to Confidential Information that is disclosed during the period commencing with the Effective Date and ending one (1) year[1] after the Effective Date, unless otherwise extended by mutual written agreement (the "**Disclosure Period**").

5. **Standard of Care**: (a) Recipient shall not use Confidential Information for any purpose other than the intended use set forth in paragraph 2 above, and shall not disclose, use, disseminate or otherwise publish or communicate Confidential Information received hereunder to any person, firm, corporation or other third party without the prior written consent of Discloser, except to Recipient's agents or advisors who have a need to know for the purpose of assisting in the Transaction, who have been informed of Recipient's obligations hereunder, and who have agreed in writing or are otherwise required by law not to disclose Confidential Information for a period not shorter than the confidentiality period provided in paragraph 3 above.

[1] The one-year disclosure period is adjustable or can be deleted entirely where appropriate.

Confidential

(b) Recipient agrees to use the same degree of care that it uses to protect its own highly confidential information from unauthorized disclosure, but in no event less than a reasonable degree of care. Recipient shall notify Discloser in writing immediately upon discovery of any unauthorized use or disclosure of Confidential Information or any other breach of this Agreement, and will cooperate with Discloser in every reasonable way to regain possession of Confidential Information and prevent any further unauthorized use.

6. **Exclusions**: This Agreement imposes no obligation upon Recipient with respect to information that Recipient can demonstrate with written records: (i) was in Recipient's possession before receipt from Discloser; (ii) is or becomes a matter of public knowledge through no fault of Recipient; (iii) is rightfully received by Recipient from a third party without a duty of confidentiality; (iv) is independently developed by employees of Recipient who have not had access to Confidential Information; (v) is disclosed under operation of law, except that Recipient will disclose only such information as is legally required and will use reasonable efforts to obtain confidential treatment for any Confidential Information that is so disclosed and will provide Discloser notice of such possible disclosure prior to disclosure in order to give Discloser an opportunity to contest such disclosure; or (vi) is disclosed by Recipient with Discloser's prior written approval.

7. **Warranty**: **NO WARRANTIES ARE MADE BY DISCLOSER UNDER THIS AGREEMENT. ANY INFORMATION EXCHANGED UNDER THIS AGREEMENT IS PROVIDED "AS IS," AND WITHOUT ANY WARRANTY, WHETHER EXPRESS OR IMPLIED, REGARDING ITS ACCURACY, COMPLETENESS, MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT OR PERFORMANCE.**

8. **Other Business Activities**: (a) This Agreement does not create any agency or partnership relationship. Recipient acknowledges that Discloser may be currently discussing transactions similar to the Transaction with other parties, including competitors of Recipient. This Agreement does not require Discloser to make any payment of any kind to Recipient, nor does it bind Discloser to enter into any further agreement or arrangement with Recipient.

(b) Recipient shall adhere to all applicable laws, regulations, and rules relating to the export of technical data, and shall not export or re-export any technical data, any products received from Discloser, or the direct product of such technical data to any proscribed country listed in such applicable laws, regulations and rules unless properly authorized.

9. **Ownership and Other Rights**: Recipient acquires no intellectual property rights or licenses under this Agreement and all such rights regarding the Confidential Information shall remain with the Discloser.

10. **Return or Destruction of Confidential Information**: Recipient will, at Discloser's option, return or destroy (and so certify in writing to Discloser) all material embodying Confidential Information (in any form or medium and including, without limitation, all summaries, copies (including electronic copies) and excerpts of Confidential Information) at any such time as Discloser may so request.

11. **Injunctive Relief**: Recipient acknowledges that disclosure or use of Confidential Information in violation of the Agreement could cause irreparable harm to Discloser for which monetary damages may be difficult to ascertain or an inadequate remedy. Recipient therefore agrees that Discloser will have the right, in addition to its other rights and remedies, to seek and obtain injunctive relief for any violation of this Agreement. In the event that Discloser is the prevailing party in enforcing any rights relating to or arising of this Agreement, Discloser is entitled to recover the reasonable costs incurred in enforcing its rights, including without limitation, court costs and in-house and outside attorneys' fees.

12. **Nonwaiver**: Any failure by Discloser to enforce Recipient's strict performance of any provision of this Agreement will not constitute a waiver of its right to subsequently enforce such provision or any other provision of this Agreement.

13. **Miscellaneous**: (a) All additions or modifications to this Agreement must be made in writing and signed by an authorized representative of each party.

(b) This Agreement is made under, and shall be construed according to, the laws of the Commonwealth of Massachusetts[2] except for its conflicts of laws principles. Recipient hereby irrevocably consents to the jurisdiction of the federal and/or local courts located in Boston, Massachusetts [3] in connection with any action violating this Agreement.

(c) This Agreement may be delivered by facsimile transmission, which shall be deemed and constitute an original.

(d) Recipient shall not assign or transfer any rights or obligations under this Agreement without the prior written consent of Discloser. Subject to the limitations set forth in this Agreement, this Agreement will inure to the benefit of and be binding upon the Parties, their successors and assigns.

(e) If any provision of this Agreement shall be held by a court of competent jurisdiction to be unenforceable, the remaining provisions shall remain in full force and effect and the unenforceable provision shall be deemed modified to the limited extent required to permit its enforcement in a manner most closely representing the intention of the Parties as expressed herein.

[2] Choice of law is adjustable based on company location.

2

ACKNOWLEDGED AND AGREED:

[ADD RECIPIENT COMPANY NAME][4]

By: ______________________________
(Sign here)

Print Name: ______________________

Title: ___________________________

[3] Venue for disputes is adjustable based on company location.
[4] Insert the name of the company (or individual) receiving the confidential information.

3

Figure 8.4 – Template of non-disclosure agreement [8]

Founders' Collaboration Agreement[1]

The undersigned (each a "Founder" and together the "Founders") are collaborating with the purpose of developing together a Business Concept.

A Business Concept is an idea for a business that includes the service, product, or invention, the target demographic, and a unique selling proposition that gives a company an advantage over competitors. The Business Concept also includes the related technology and intellectual property that is used to create, implement, develop, or perfect the idea. A Business Concept may involve a new product or service or different approach to marketing or delivering an existing product or service.

The following Business Concept is the subject of this agreement:

[Project Name] is a [Project Description].

In connection with creating the Business Concept, and in consideration for a mutually agreeable framework which will serve as the foundation for the Founders to successfully develop the Business Concept, the undersigned hereby agree as follows:

1 Transfer of Ownership to Company Upon Formation

1.1 Ownership. The Founders[2] own the Business Concept pursuant to this Founders' Collaboration Agreement. Founders will transfer[3] the Business Concept to a [limited liability company] ("Company")[4] that will be formed by the Founders upon the earliest of the following circumstances: [when the project will become a company].

1.2 Transfer. Each Founder will grant and assign to the Company immediately upon its formation all of his or her right, title, and interest in and to the Business Concept, including all ideas (however formed or unformed) and labor and work product that results from any task or work performed by the Founder that relates to the Business Concept for the full term of such rights.[5] Each Founder will also perform any and all acts and execute all documents and instruments as may be required by the Company at its sole discretion to perfect title in the Business Concept.

1.3 Consent to Future Transfers. Any future agreement that requires an ownership interest in the Business Concept to be transferred to a third party before the formation of the Company must be agreed upon by each Founder.[6] In the event of such an agreement, the

[1]

obligations of this Founders' Collaboration Agreement must be disclosed to that third party.

2 Business Structure And Ownership[7]

2.1 Ownership Structure. Upon formation of the Company, the ownership interests in the Company will reflect the following:[8]

Person	Percentage Interest
[Founder 1 Name]	[Founder 1 Percentage Interest]
[Founder 2 Name]	[Founder 2 Percentage Interest]

2.2 Future Employee Interest. Should the Founders wish to reserve any Percentage Interest for future employees, any such Percentage Interest reserved will dilute all Founders equally.[9]

Percentage Interest Reserved For Future Employees
[Future Employee Percentage Interest]

***Note:** Setting aside a Percentage Interest for future employees may have tax consequences. Consult a lawyer before saving a Percentage Interest for future employees. (Delete this note before executing this agreement).

2.3 Founders as Managers. Upon formation of the Company, each Founder will be appointed to serve as a [Manager][10] of the Company.

2.4 Vesting. The Percentage Interest issued to each Founder will vest[11] accordingly:

(A) [Founder 1 Name] Percentage Interest in the Company will vest pursuant to a four (4) year vesting schedule beginning [Founder 1 vesting starting date], which will vest 1/48th per month in exchange for continuous and consecutive service to the Business Concept.

[2]

Figure 8.5 – Template of founders agreement [9]

(B) Additionally, [Founder 1 Name] vesting schedule will be subject to a one (1) year cliff.[12]

(C) If a Founder who is subject to a vesting schedule departs the Company prior to full vesting of his or her Percentage Interest, the remaining portion of any unvested Percentage Interest will be returned to the Company in accordance with that vesting schedule.

***Note:** More examples of vesting provisions are listed in endnote 12. (Delete this note before executing this agreement).

2.5 Founders' Rights.[13] Each Founder will have the same rights (including but not limited to voting and distribution rights) accorded to the Percentage Interest issued to each Founder.

2.6 Sale of the Company.[14] Sale of the Company to an interested third party will take place if the sale is authorized by the [Managers][15] and otherwise conforms to all applicable state and federal laws.

3 Confidentiality[16]

The Founders will keep the Business Concept confidential; Founders may disclose the Business Concept only on an as-needed basis and only upon agreement of all Founders. Upon the formation of the Company, the Founders may further detail and define any additional confidentiality obligations.

4 Contractual Communication and Dispute Resolution[17]

4.1 Schedule. If the Founders have not yet formed a Company within twelve (12) months of executing this Agreement, the Founders will have 30 additional days to take substantial steps toward forming the Company. If the Company has still not been formed after 30 days, the Founders will execute a separation agreement which divides rights to the Business Concept and any other assets accumulated by the Founders in pursuit of developing the Business Concept.[18] The Founders will further define any and all confidentiality obligations related to the Business Concept within the separation agreement.

4.2 Mediation. In the event that the Founders are not able to agree on a separation agreement, the Founders will submit to a binding confidential mediation to be held in _________ and conducted by a mutually agreed to mediator. All provisions of this Agreement, including confidentiality provisions, will be binding up through the

[3]

end of this mediation process. Costs of the mediation will be borne equally by all Founders.[19]

4.3 *Note: It is recommended that the Founders insert a deadlock provision under newly created Section 4.3 that defines how the Company will proceed in the event of a major disagreement between the Founders (other than not forming the Company). This agreement does not contain this type of deadlock provision (a provision that prescribes how the Founders will proceed if there is a disagreement about a major decision). However, different deadlock provisions are detailed in endnote 19. Delete this note and consult a lawyer before executing this agreement.

5 Representations and Warranties[20]

Each Founder represents and warrants that he or she is not a party to any other agreement that would restrict such Founder's ability to perform its obligations as set forth in this Founders' Collaboration Agreement. Each Founder represents and warrants that no third party can claim any rights to any intellectual property or other proprietary right possessed by that Founder as it relates to the Business Concept.

6 Choice of Law[21]

This Agreement will be governed by and construed in all respects in accordance with [State and Country].

By signing below, the Founders submit that they agree to all of the above terms and conditions.

___________________________ ________

[Founder 1 Name] Date

[4]

Figure 8.5 – Template of founders agreement [9]

3 PROTECTION OF INTELLECTUAL PROPERTY RIGHTS OF THE STARTUP

Intellectual property rights (IPR) promote innovation and creativity, which in turn generates jobs and improves competitiveness. Intellectual property rights enable authors, artists, designers, inventors and other IPR users to benefit when others use their creations and inventions [10]. The EU needs an attractive, affordable and efficient intellectual property rights (IPR) system to compete on the global scale [10].

This is particularly important for SMEs who do not have the same level of resources to manage their IP portfolio as bigger companies [10]. The inventor's trail is shown in Fig. 8.6.

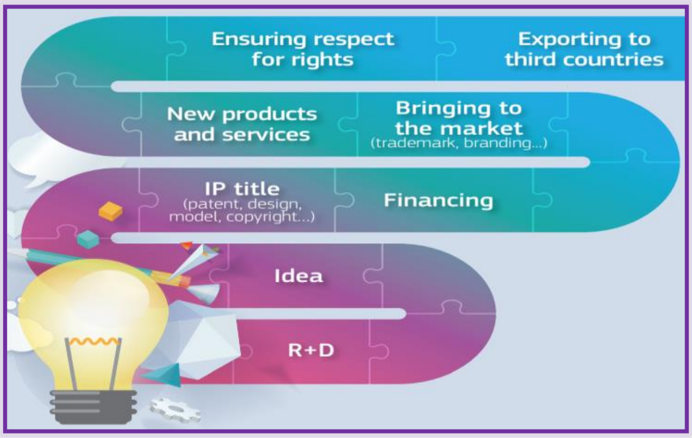

Figure 8.6 – The inventor's trail [10]

Methods of protection of intellectual property are shown in Fig. 8.7.

Figure 8.7 – Methods of protection of intellectual property [10]

Patents. Patents are a monopoly privilege granted by the government to an inventor, usually for 20 years. It is one of the first categories of IP to be recognized in modern-day legal systems. An investor who receives a patent is entitled to prevent others from creating, using, selling, importing, or presenting their invention for sale until the term is over [11].

EXAMPLE [11]:

A U.S. utility patent is typically issued for 20 years from the day the patent application is submitted; however, monthly fees are necessary to keep the patent's enforceability.

The term of a U.S. design patent that results from an application submitted on or after May 13, 2015, is 15 years, but those submitted before May 13, 2015, are 14 years [11].

Copyrights. The **fundamental aim of copyright law** is to establish a fair balance between the interests of content creators, investors, and developers and the public's desire to access and use creative work [11].

EXAMPLE [11]:

The duration of copyright intellectual property protection is limited. Copyrights for works produced after January 1, 1978, remain in effect for 70 years following the author's demise [11]. The copyright for "made for hire" works—the typical work owned by a small business—expires 95 years after the year of first publication or 120 years after the year of production, whichever comes first [11].

Trademarks. A trademark is a distinctive sign, symbol, or indicator used by individuals, business organizations, or other legal entities to identify their consumer products or services [11]. Trademarks can be any symbol, letter, number, color, image, or sign with three dimensions. It also includes colors, holograms, sounds, and even the forms and packaging of flavors and smells [11]. The fundamental rule for eligibility for registration is that a trademark cannot simply be a general summary and must be distinctive and unique. It should also not be identical to any previously registered trademarks [11].

EXAMPLE [11]:

U.S. trademark is valid for as long as it is utilized in commerce and protected from infringement.

Industrial Designs. Industrial design protection focuses on a product's look, feel aesthetics, or mechanical aspects [11]. With the plethora of consumer goods available on the market with similar functionality, this becomes all the more essential [11]. A design generally consists of three-dimensional features, including the product or article's shape and surface. It may otherwise be two-dimensional with features such as patterns, lines, or color [11]. Similar to other properties, they must be original and possess individuality. However, since they are produced industrially, unique artworks are not covered [11].

Geographical Indications of Goods. A geographical indication is a tag used on products with a specific geographic origin and a reputation and certain characteristics due to that origin [11]. These tags are mostly used as a mark of authenticity. It protects the product's reputation and signifies its quality through the standards it sets. The ownership of a geographical indication cannot be transferred [11].

Trade Secrets. Any valuable business information qualifies as a trade secret. The competitor is not to be aware of the business secrets [11]. There is no restriction on the information that can be protected as trade secrets; for instance, recipes, marketing strategies, financial projections, and business operations qualify [11]. Even something as straightforward and non-technical as a customer list can be eligible as a trade secret as long as it gives its owner a competitive advantage and is not public knowledge. There is no requirement that a trade secret is unique or complex [11]. As long as a trade secret has commercial worth, derives that value from being secret, and its owner takes reasonable steps to keep it that way, it can be protected permanently [11].

EXAMPLE [11]:

Nike is an American sportswear designer and retailer. The multibillion-dollar brand's famous logo, often called «swoosh» is one of the most recognizable logos. Although it appears simple, it conveys mobility and speed and is fluid. It is also said that the emblem represents the wing of the Greek goddess of triumph, Nike. The company protects its logo through a trademark. A business can stop unlawful usage of its intellectual property by registering a trademark.

EXAMPLE [11]:

Apple and Samsung are giant companies in the mobile technology world. They were engaged in a war over patents. The fight was between two of the largest companies in the world's industries over one of history's most popular products. Apple initiated the suit against Samsung for copying the design of its product, the «iPhone». According to Apple Inc., the dispute is about playing by the rules, about a rival unfairly benefitting itself after spending a few months "copying" designs and features that took years to conceptualize. The company, in the end, won the suit.

Table 8.1 – Advantages and disadvantages of intellectual property protection [11]

Advantages	Disadvantages
❑ Protecting assets with IPR gives the business a competitive edge over similar companies. ❑ Intellectual property symbolizes authenticity and enhances the company's value. ❑ It helps build a trustworthy, loyal community of users and a brand value based on that, and quality standards must be continually met. ❑ Obtaining funding for expansion can be relatively easy with something like IPR to rely on confidently. ❑ Greater and easier growth and expansion opportunities. ❑ It gives better profits; some can be sold for profit. ❑ For creators, it protects their work and allows them to profit from it.	❑ A competitive business may always look to tear the company down. ❑ A continual quality standard must be met, which may consume a lot of time and energy for the business. ❑ There may be a processing fee associated with registration, and the owners may have to incur it. ❑ Rules may differ according to international laws and regulations, and owners must keep track of changes. ❑ Registration and obtaining IPRs may not guarantee that they will not get pirated. However, registration helps in getting legal remedies for infringement.

The Unitary Patent. The Unitary Patent will enable simple and affordable patent protection in Europe with a single procedure for the registration of patents. A company protecting its innovation could pay less than €5000 in renewal fees over 10 years covering a territory of potentially up to 26 Member States, instead of the current level of around €30 000 [10].

The Unitary Patent will also reduce the gap between the cost of patent protection in Europe compared with the US, Japan and other third countries. It will foster both investment in R&D and facilitate the transfer of knowledge across the Single Market. The Unitary Patent will become a reality in practice once Member States have completed the final steps of ratification [10].

IP infringements. IP infringements are breaches of intellectual property rights. They can include [10]:

- **counterfeiting** – products made in exact imitation of something valuable (a problem popularly associated with fashion but in fact affecting products ranging from auto-parts to medicines) with the intention to deceive or defraud whether by imitating a legitimate product or by falsely claiming to meet legal requirements;
- **piracy** – the act of reproducing movies, music, books or other copyrighted works without permission from the copyright owner where necessary.

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TOPIC 9

SCALING AND STRATEGIZING STARTUP

CONTENTS OF LECTURE

1 BUSINESS STRATEGIES OF STARTUP DEVELOPMENT

There are two stages of business strategies and some elements for startup effectiveness that are described below

- **Strategic planning** – focused on efficiency and focused on the long-term success of the business [2];
- **Tactical planning** – focused on efficiency, mainly on how day-to-day business transactions are carried out [2]

Business strategy	the choice of the direction of growth of the company's value in the market [1].

Tactical planning should match the startup's strategic planning. Small things should help realize the long-term vision of the business [2]

There are several elements of effective business strategies for startups [2]:

1. **Mission and goals of the startup**. An effective business strategy must take into account what the business wants to achieve. This is contained in the mission and goals of the business [2].
2. **Actions to follow**. Business strategies for startups should be action-oriented. They should not be theories and stories that the business is not going to implement [2].

3. **Resource allocation**. Most business strategies require resources. These can be human or material resources intended for the implementation of strategic and tactical actions for the implementation and development of a startup [2].

A startup's strategy should take into account its business model (but is broader) and actually reveal its key blocks in a temporal context [3].

Figure 9.1 – Components of a successful strategy of a startup [3]

Rules for a successful startup strategy shown in the Fig. 9.2.

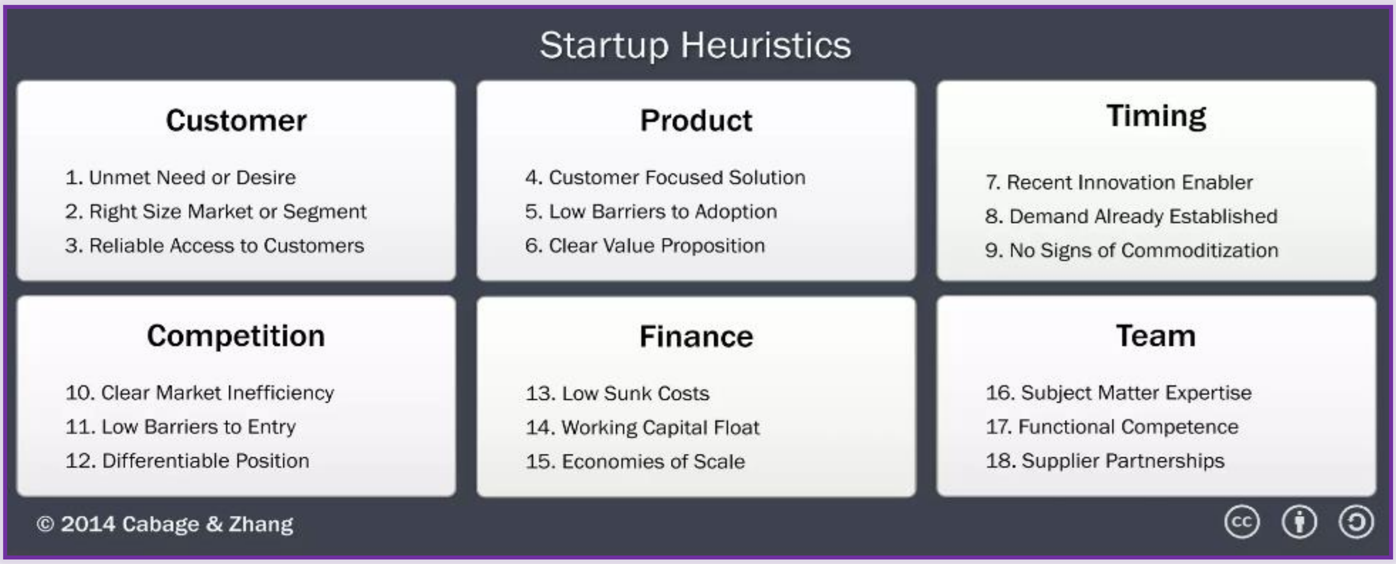


Figure 9.2 – Rules for a successful startup strategy [3]

Things to consider when drafting business strategies for startups [4]:

- **The capability of the company.** This could be human or material capabilities
- **Future market opportunities.** It should seek to make use of market opportunities as they arise. It should forecast industrial trends to better utilize these opportunities
- **Founders' values and beliefs.** Different founders have different values and beliefs. This should be factored into the business strategy. A business strategy should not be in contravention of your beliefs and values as founders

- **Desired socio-economic objectives**. What do you intend to achieve on the social and economic fronts? This should be factored into the business strategy [4].

M. Porter's competitive strategies. M. Porter's competitive strategies consist of segmentation, differentiation and cost leadership strategies that are described below [5]:

Segmentation. Market segmentation is narrow in scope (both cost leadership and differentiation are relatively broad in scope) and is a cross between the two strategies. Segmentation targets finding specific segments of the market which are not otherwise tapped by larger firms [5].

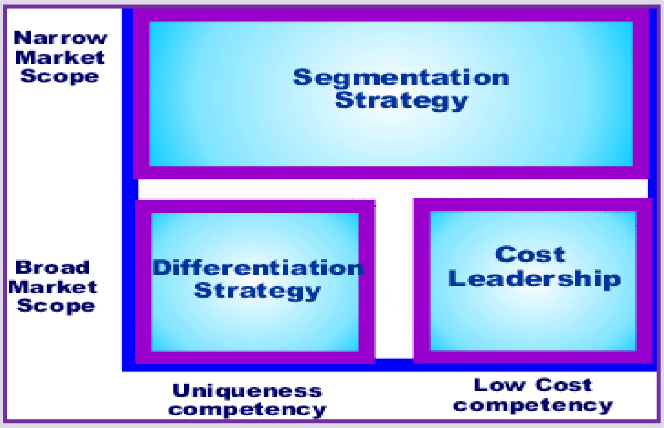


Figure 9.9 – M. Porter's competitive strategies [5]

Cost Leadership. Pertains to a firm's ability to create economies of scale though extremely efficient operations that produce a large volume. Cost leaders include organizations like Procter & Gamble, Walmart, McDonald's and other large firms generating a high volume of goods that are distributed at a relatively low cost (compared to the competition) [5].

Differentiation. Differentiation refers to a firm's ability to create a good that is difficult to replicate, thereby fulfilling niche needs. This strategy can include creating a powerful brand image, which allows the organization to sell its products or services at a premium. Coach handbags are a good example of differentiation; the company's margins are high due to the markup on each bag (which mostly covers marketing costs, not production) [5].

Copycat strategy. A copycat strategy refers to a business strategy where a company closely imitates the products, services, or business model of a successful competitor in order to gain market share and increase profits [6].

This type of strategy is often used by companies that lack the resources to innovate or differentiate themselves from their competitors [6]. However, it can also be seen as unethical or unoriginal, and may not lead to long-term success [6].

Figure 9.4 – Copycat strategy in the world [6]

EXAMPLE [11]:

Rocket Internet headquarters building in Berlin.

There are about 50 Instagram clones and more than 40 Uber clones in the world [6]. The first and currently the largest company for creating copies of successful projects is the business incubator Rocket Internet [6].
It was founded in Germany in 2007 and over 10 years has invested in 75 clone startups in more than 50 countries [6].
The founders chose a strategy of copying successful American business models and adapting them to the German market 1. The first big deal was an agreement to sell Alando to its prototype, eBay, for $50 million. 100 days after the start of the project. It was followed by the CityDeal company, the acquisition of which cost Groupon 170 million dollars [6].

Entrepreneurial Strategy Compass. Researchers from «Harvard Business Review» have developed their own approach to choosing a startup strategy – the so-called «Entrepreneurial Strategy Compass» (Fig. 9.5) [7]. In this approach, the go-to-market strategy for any innovation involves choosing which customers to target, which technologies to use, which organizational identities to assume, and how to position the company against which it is competing [7]:

1. The Intellectual Property Strategy. In this quadrant of the compass, the company collaborates with incumbents and retains control of its product or technology [7]. The start-up focuses on idea generation and development and avoids the costs of downstream, customer-facing activities. The core idea must be of value to the customers of incumbents; therefore, development choices concerning it will dictate which incumbents are the most suitable partners for the venture [7].

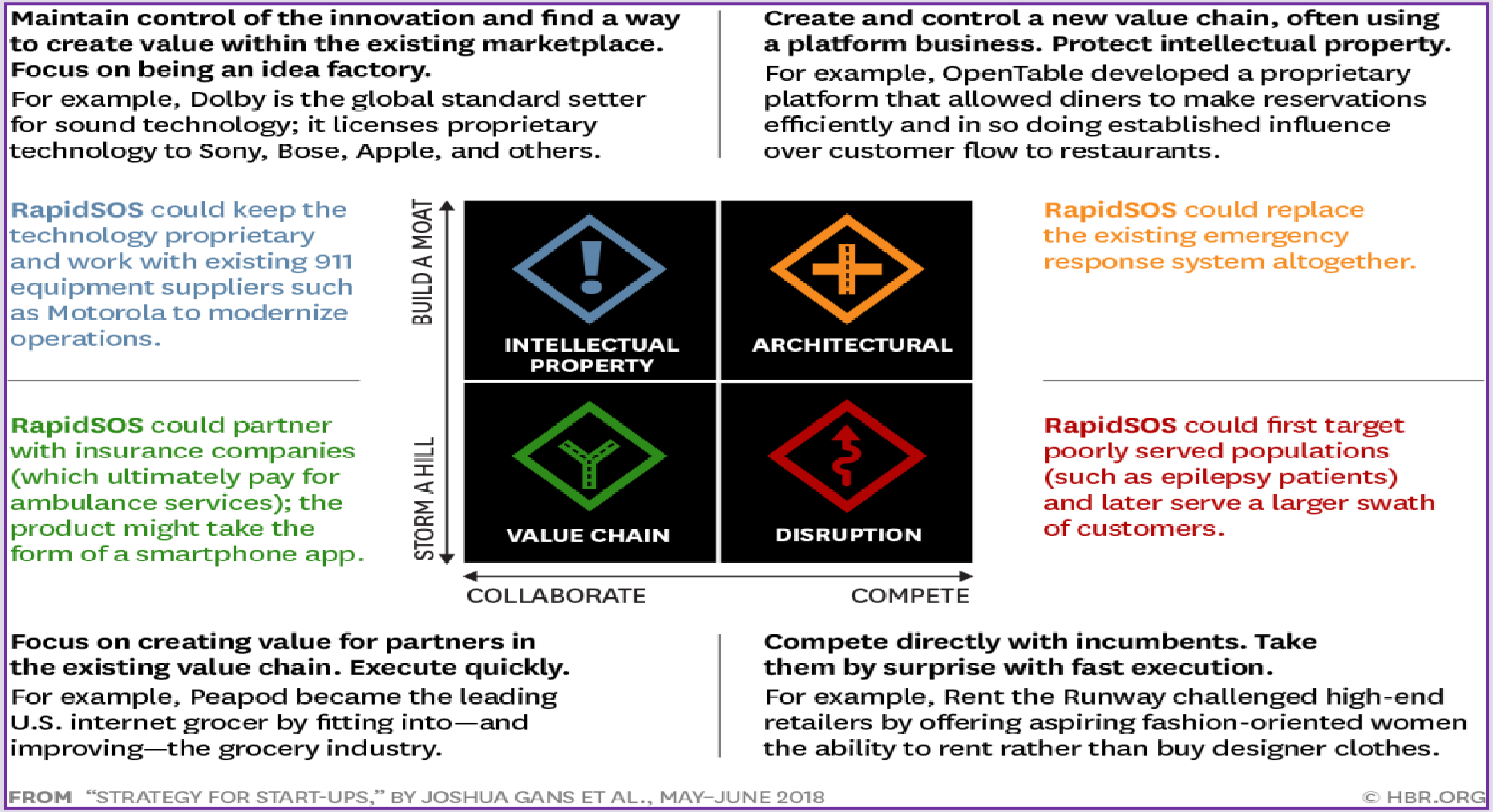


Figure 9.5 – The entrepreneurial strategy compass [7]

2. The Disruption Strategy. It involves a decision to compete directly with incumbents, emphasizing commercialization of the idea and the rapid growth of market share rather than control of the idea's development [7]. The strategy is aimed at getting ahead of competitors and similar startups. Its goal is to quickly build up opportunities, obtain resources and customer loyalty, to significantly outpace imitators. For this reason, the primary choice of customers is a niche segment [7]

3. The Value Chain Strategy. The start-up invests in commercialization and day-to-day competitive strength, rather than in controlling the new product and erecting entry barriers, but its focus is on fitting into the existing value chain rather than upending it [7]. In no other startup development strategy does the founding team play such a significant role as in the value chain strategy. Startup opportunities must translate into expanding differentiation or cost advantage for companies [7].

4. The Architectural Strategy. This strategy allows start-ups to both compete and achieve control, but it is out of reach for many if not most ideas and incredibly risky when it is feasible [7]. Entrepreneurs design an entirely new value chain and then control key bottlenecks within it. They are not the founders of innovation, but they bring the startup to the mass market [7].

To better understand how to create strategies for startups read the information below.

❑ The Startup Pyramid [8]

Product/Market Fit. Appropriately at the base of the pyramid, the first and most fundamental part of the model is achieving product/market fit. The idea behind this is that you should never waste resources on growing something that people don't want. If you go down that path, you'll just die trying [8].

Transition to Growth involves understanding what makes your product valuable to people and how you can get more people to experience this value. More specifically, you're setting yourself up for success in the next phase by maximizing your conversion rate [8].

Growth. This stage begins with testing channels and analyzing their performance. After that, you'll want to optimize and double-down on the high performers [8].

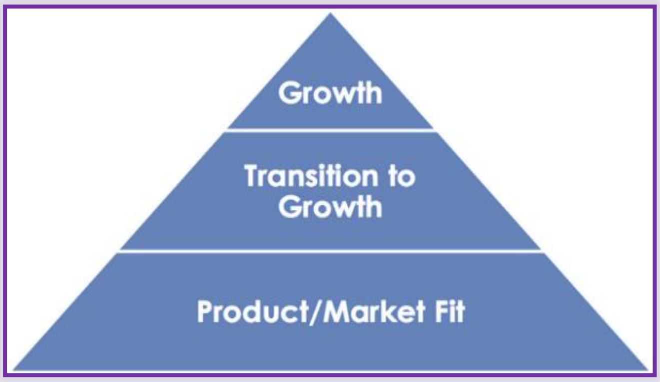


Figure 9.6 – Visualization of Startup Pyramid [8]

❑ Pirate Metrics: «AARRR!» [8]

Acquisition. How do users find you in the first place? Think of your growth channels.
Activation. Activating users with various actions
Retention. You need to track the return of users
Revenue. How do you make money? Of course, all of this is pretty pointless if you don't have a way to make money. Here you can look at metrics like customer lifetime value (LTV), conversion rate and shopping cart size.
Referral. Do users tell others about your product? If they do, you're benefitting from some degree of virality.

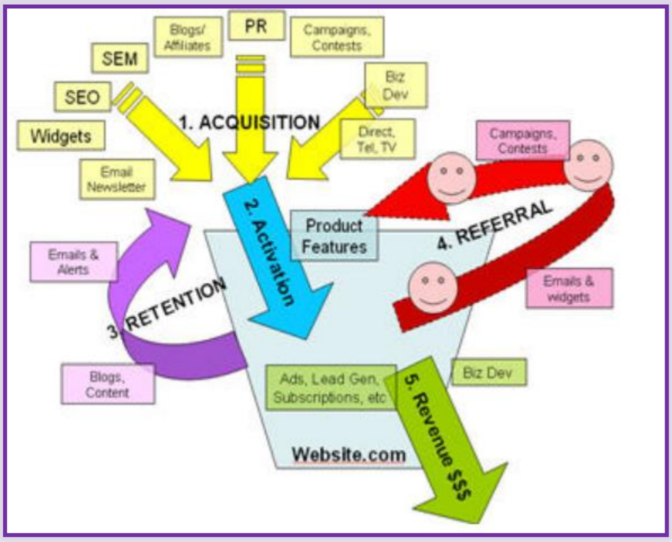


Figure 9.7 – Visualization of Pirate Metrics: «AARRR!» [8]

❑ Lean Analytics Stages [8]:

- ❑ **Empathy.** The purpose of this stage is to inform the development of your minimum viable product (MVP). The metrics at this stage are mostly qualitative, since you're empathizing with your customers and listening to their feedback [8].
- ❑ **Stickiness**. Now you need to build something that keeps people coming back. Engagement and retention are the focus here as you iterate your MVP to optimize these metrics. You're ready for the next stage once you've got an engaged user base and a low churn rate [8].
- ❑ **Virality**. Before throwing money into advertising, you'll want to maximize the growth you get from existing customers. As I mentioned before, virality helps you get more out of your marketing dollar. Once you're seeing a good amount of organic growth, you're ready for the next stage [8].
- ❑ **Revenue**. CAC and LTV are important metrics here as you ensure customers bring in more money than they cost to acquire [8].
- ❑ **Scale.** As a company that now knows its product and market very well, efforts will now be focused on making more money from your current market and/or entering new markets [8]

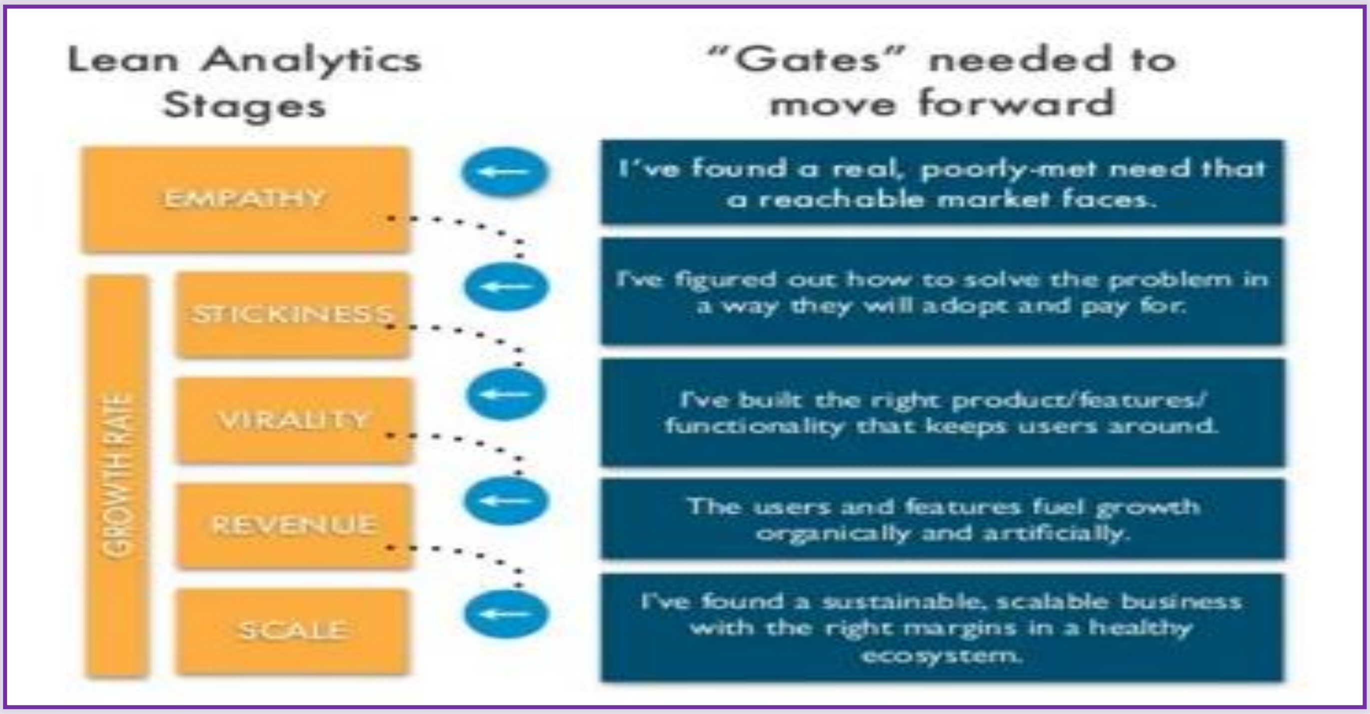


Figure 9.8 – Visualization of Lean Analytics Stages [8]

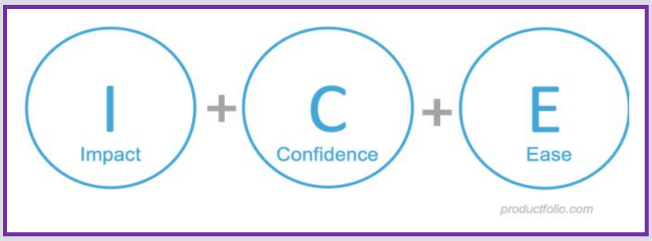
❑ The ICE Score [8-9]:

The model allows you to quickly assess potential growth channels [8]:

(I) mpact – If it works, what will be the effect?

(C) onfidence – How confident is it that it will work?

(E) ase – How much time, money, and effort will be required?



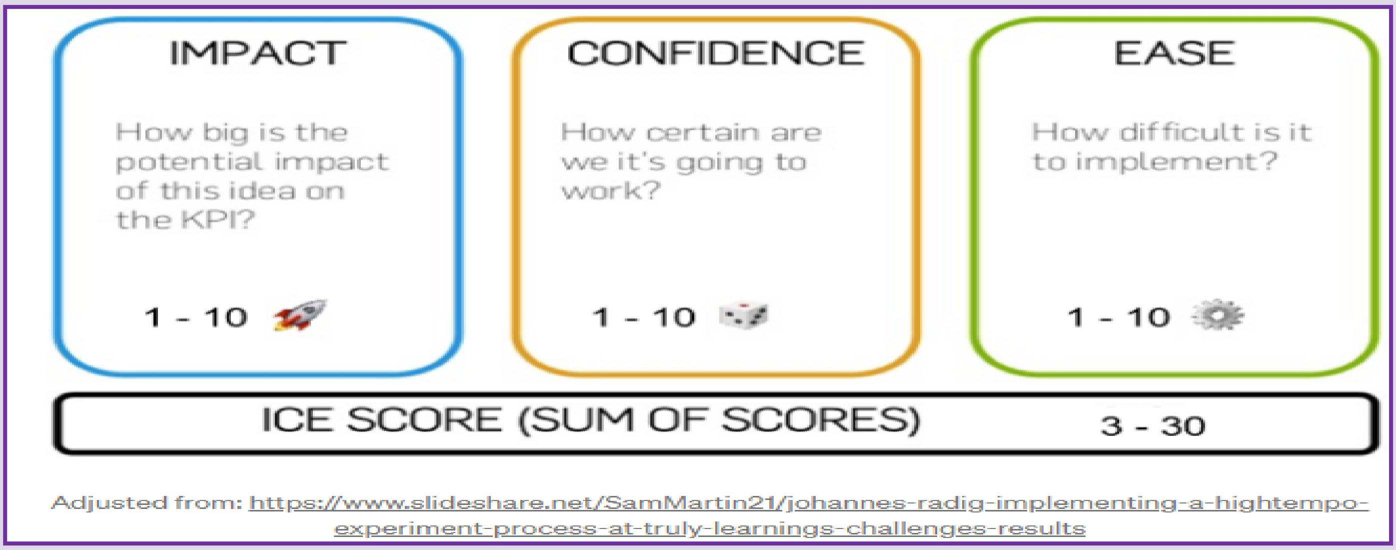
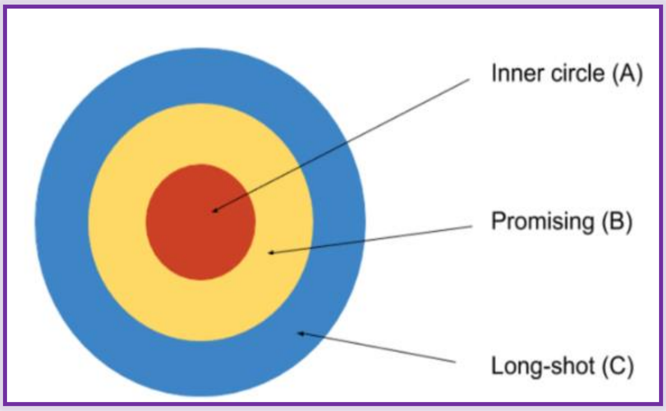


Figure 9.9 – Visualization of the ICE Score [98]

❑ The Bullseye Framework [8]:

Brainstorm. Allows you to discover ideas on each of the sales channels [8].
Rank. This step has you thinking critically about your mountain of ideas. The goal is to categorize ideas as either high potential, possibilities, or long-shots [8].
Prioritize. Now you want to re-think your categories once again, carefully selecting your top three high potential channels [8].
Test. The goal here is to find which one of these channels is worth your undivided attention [8].
Focus. Armed with your test results, start directing resources towards your most promising channel [8].



https://tech.co/news/hit-customer-bullseye-three-step-framework-2017-01

Figure 9.10 – Visualization of the Bullseye Framework [8]

❑ The Hook Model [8]

Trigger. Bringing a user into the cycle starts with a trigger [8].
Action. Habit forming products make action easy [8].
Variable reward. To create a habit, it's necessary to reward the action that was triggered [8].
Investment. Finally, to solidify the habit, users need to invest themselves in your product [8].

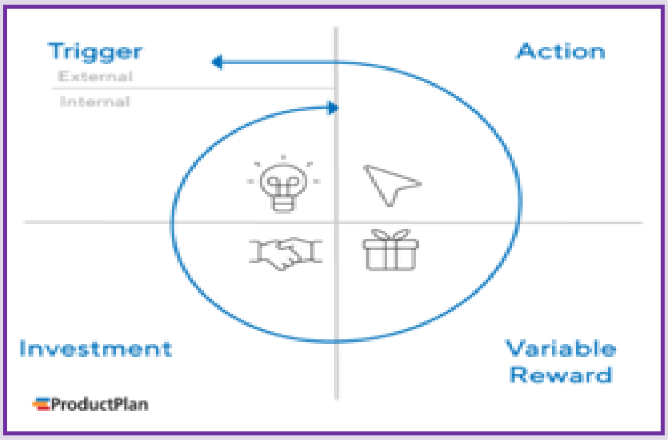


Figure 9.11 – Visualization of the Hook Model [8]

❑ STEPPS [8]

Social currency. People care about how they are perceived by others. Use this to your advantage, and people won't be able to resist talking about you. Invite-only web apps harness this by making users feel like insiders [8].
Emotion. Something that evokes anger (a high arousal emotion) is more likely to be shared than something that evokes sadness (a low arousal emotion) [8].
Public. The more public the project is, the more people will talk about it [8].
Practical value. People like to share things that are useful [8].
Stories. It is advisable to attract the attention of customers by creating an interesting story, and users will already spread the idea on their own [8].

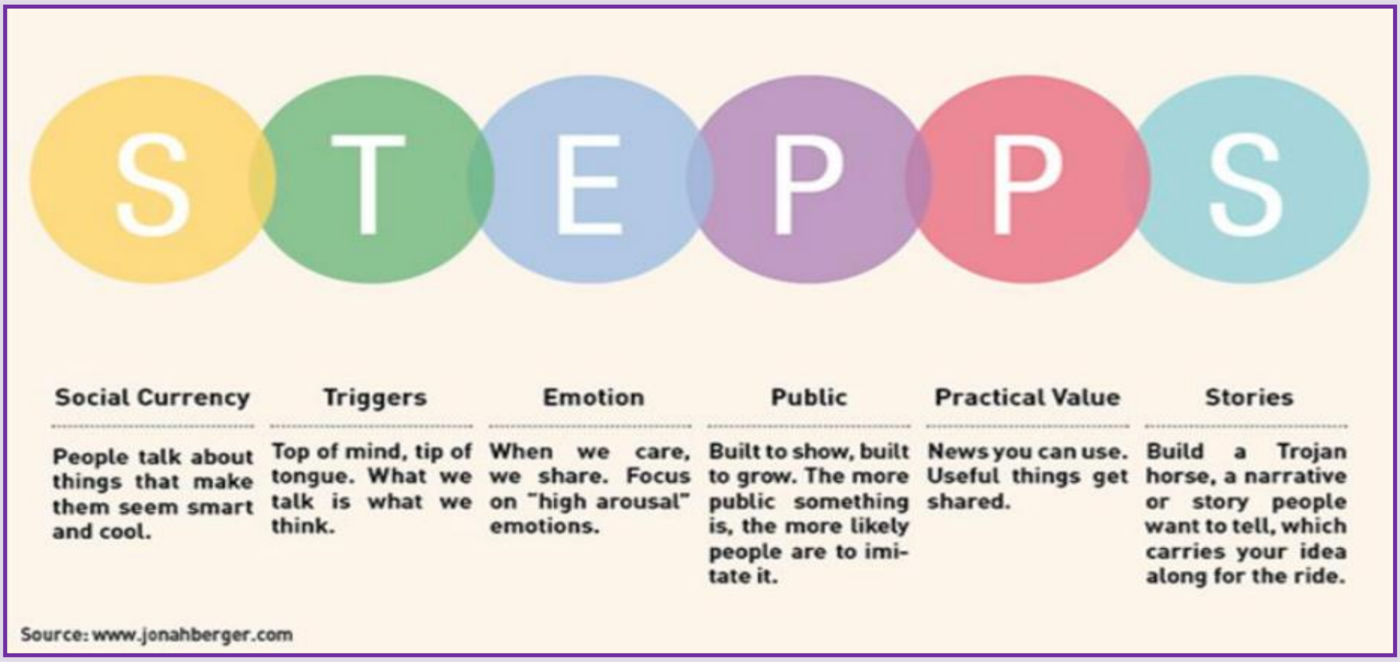


Figure 9.12 – Visualization of the STEPPS [8]

2 PIVOT STARTUP

A pivot is not a reboot or complete change of the business model, it's a special kind of change designed to test a new hypothesis of the underlying business model.

Pivot	a structured course correction designed to test a new fundamental hypothesis about the product, strategy, and engine of growth. [10].

EXAMPLE [11; 12]:

YouTube. The YouTube project was launched in 2005 as a video dating service called «Tune In Hook Up», in a form very similar to HotOrNot.com. After the project did not begin to actively develop in this format, the authors decided to make a Pivot and make a simple service for teaching videos. Currently, users upload 35 hours of video to the service every minute

A pivot can test a new product value hypothesis, business model, or growth mechanism.

The need arises if the initial idea of a startup for certain reasons turns out to be unviable, at the same time it has prospects for success, but it needs to be changed.

Figure 9.13 – Example [11; 12]

The prerequisite for pivoting is uncertainty [13-14]:

- **Technical uncertainty.** Understanding technology drivers, value and economic feasibility.

Startup: technological and technical backwardness of production, low interest in innovations.

- **Market uncertainty.** Study of market factors, value creation and business viability.

Startup: low level of income of potential consumers, lack of transparent and clear rules of operation in the market, low level of the country in the rating of ease of doing business.

- **Resource uncertainty.** Access to finance, personnel and project capabilities, both internal and external

Startup: little attention from domestic investors, institutional problems for foreign investors, low awareness of potential startups

- **Organizational uncertainty.** Access to finance, personnel and project capabilities, both internal and external

Startup: little attention from domestic investors, institutional problems for foreign investors, low awareness of potential startups

- **Temporal uncertainty.** Duration of development of a startup into an enterprise.

Startup: the time of transformation into an enterprise is not determined

- **Financial and investment uncertainty.** Increasing needs for financial and investment resources.

Startup: excess of costs over the possible amount of financial resources

- **Development of innovations.** Unawareness of existing developments conducted by other startups.

Startup: appearance of a similar product [13-14].

Table 9.1 – Focus zones to reduce the level of uncertainty [13]

Types of uncertainty	**Invention** *Result of conceptualization = concept of possibilities*	**Incubation** *Experimentation result = a conceptual proposal*	**Acceleration** *Commercialization result = business plan*
1	**2**	**3**	**4**
Technical uncertainty	Technical feasibility and possibilities, determination of scope IP	Technology prototypes, modeling, IP strategy and plan execution, product or solution specification	Product development plan
Market uncertainty	Application possibilities, value proposition, business potential, business model	Early product adoption experience, market learning, business model and go-to-market strategy	Market and sales development plan

Continuation of Table 9.1

1	2	3	4
Resource uncertainty	Availability of funding and appropriate personnel, identification of competence gaps when working with partners	Innovation and partnership development	Team building in business environments and partnerships designed for business commercialization
Organizational uncertainty	Potential for innovation, alignment with strategic intent, and top-level commitment	The process of supporting D-I-A thinking (Discovery, Incubation, and Acceleration) and effective transition to concepts or projects	Organizational obligations, transition to the final version of the business

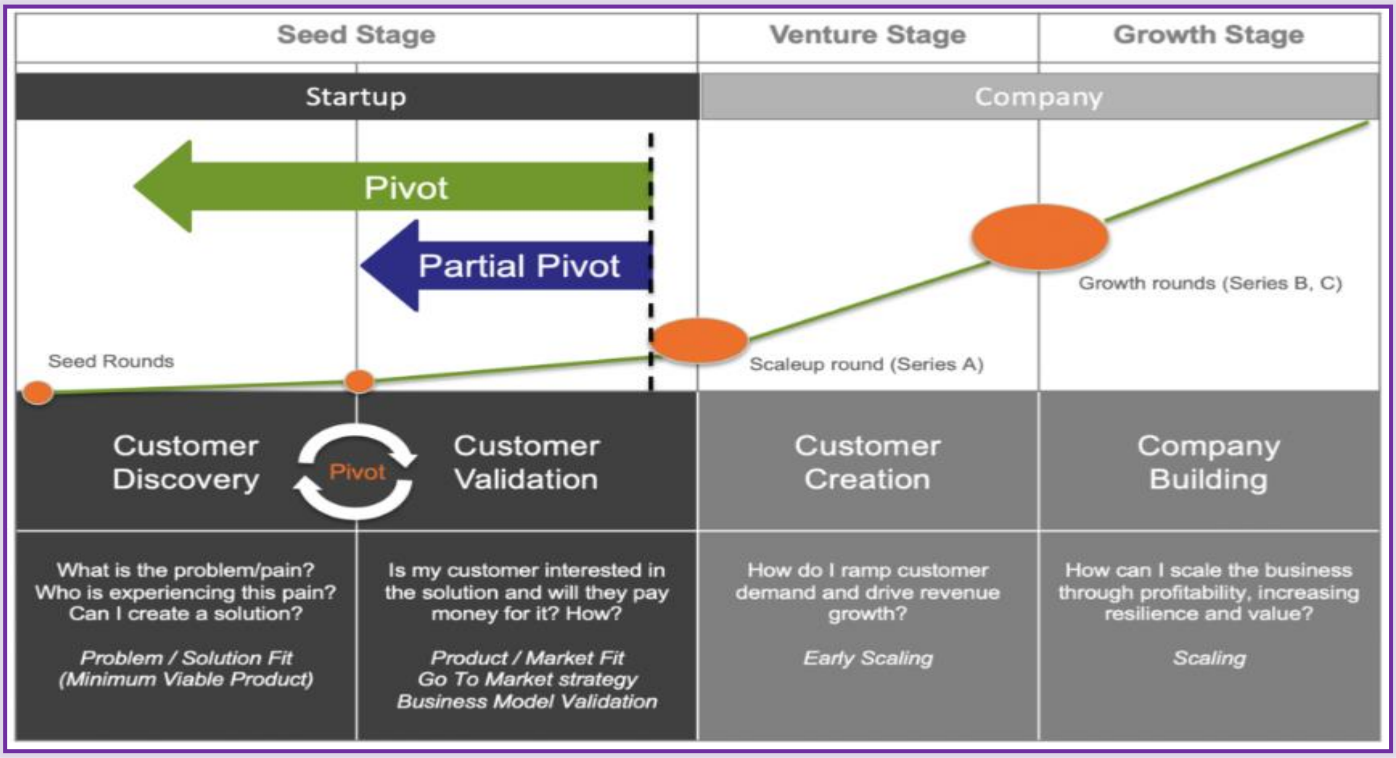


Figure 9.14 – Time to pivot [14]

Types of pivot. There are several types of pivots [11]:

- **Customer Need Pivot.** Develop products by changing user needs or user problems. But still able to make plans from the same user group;
- **Customer Segment Pivot.** Develop a product that can still solve the original problem. But change the target customers;
- **Business Architecture Pivot.** Change the business structure E.g. switching from B2B to B2C;
- **Zoom out Feature Pivot.** Add more functional features Because the original is too little;

- **Technology Pivot.** Original product presentation But using better technology That makes costs cheaper or better in production;
- **Channel Pivot.** Change sales channels, for example, switching from agent to direct sales.

There are several basic pivot models, which are shown in Table 9.2.

Table 9.2 – Basic pivot models [16]

Pivot model	Description
Zoom-in pivot	This means you "zoom in" to focus on one particular function or offering of your product, rather than multiple things at once.
Zoom-out pivot	You guessed it — this pivot is the opposite of the one above. Are you thinking too small? Zooming out to provide a bigger picture for your product could be the key to a booming business!
Customer segment pivot	Your product is attracting customers, but maybe not the customers you first intended. This pivot involves repositioning your product to meet the specific segment that's interested in what you're selling.
Customer need pivot	Pivoting to meet customer needs that have arisen rather than the original problem your product was intended to solve.
Platform pivot	Your product is successful, but perhaps the platform/application you're selling it on isn't having the effect you wanted.
Business architecture pivot	No business model is perfect or set in stone. Startups are all about learning to adapt, and this pivot allows you to do just that.
Value capture pivot	This refers to the way your startup makes money. If the product offering is strong but the revenue isn't there, you may want to look into this particular pivot.
Engine of growth pivot	There are three main growth engines: viral, sticky, or paid growth. Try them all and see what "sticks."
Channel pivot	This pivot is another great option for a startup whose product is there, but other aspects of the business seem to be stalling. It requires you to reevaluate the way you're disseminating your product to your customers.
Technology pivot	This pivot is used when a startup to solve the same problem with their product using a different kind of technology. (And that technology usually makes the startup more competitive.)

Stages of startup pivot [17-16]:

1. **Identify an ineffective initial plan.** This is when the pivot idea first appears in your mind when you realize that growth, potential, viability and development of startups are in danger.

2. **Give a list of causes.** If there is something wrong, there is always a satisfactory explanation. Why can't your plan work? Setting up the «why» question is often useful to point out the real cause of the fact not the plan you set [17-16].
3. **Review goals and long-term vision:** What is your goal? Who are the customers you are targeting? What is the growth plan?
4. **Can renew the goal and vision if needed.** The above plans are not «inviolable». Pivot is a radical move and you will probably need to eliminate all the old goals to create new success for your business [17-16].
5. **Give a list of ideas to achieve the goal.** This is a shaping place for the pivot period. You have realized that something is wrong, you know what it is and why
6. **Develop a specific and clear plan.** Now is the time to prepare a detailed plan.
7. **Identify numbers or signs that measure the success of the new plan.** You can use KPIs to measure success because what you need to know is whether the new plan is effective or not [17-16].
8. **Completely forget the old plan.** The sooner you stop complaining and start working, the faster you will bring startup to the post-pivot stage successfully.
9. **Present the new plan to the startup team.** Now assume the pivot decision needs to be made with the approval of many people like mentors, co-founders [17-16].
10. **Shake hands and focus on new plans.** You start to move to another page and from now on, the business has moved to another stage, so focus all the energy on this new plan.
11. **See the statistics.** Stay up to date on the relevant numbers, trends, benchmark points (*) to get the goals set out in steps 6 and 7 [17-16].
12. **Continue to remove and repeat.** Pivot is rarely a single event. You will realize that you have to make the pivot many times to succeed [17-16].

EXAMPLE [18]:

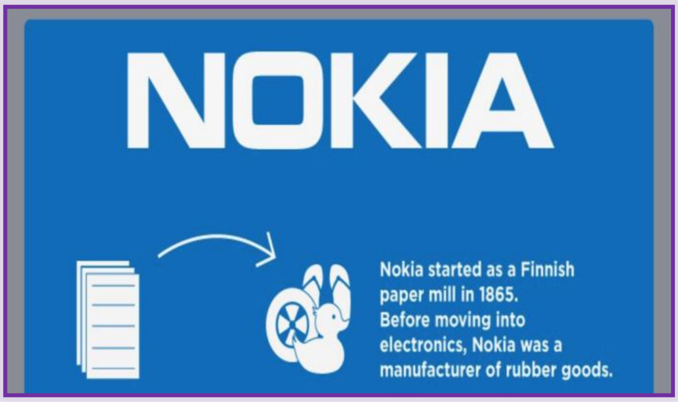


Figure 9.15 – Example of startup pivot [18]

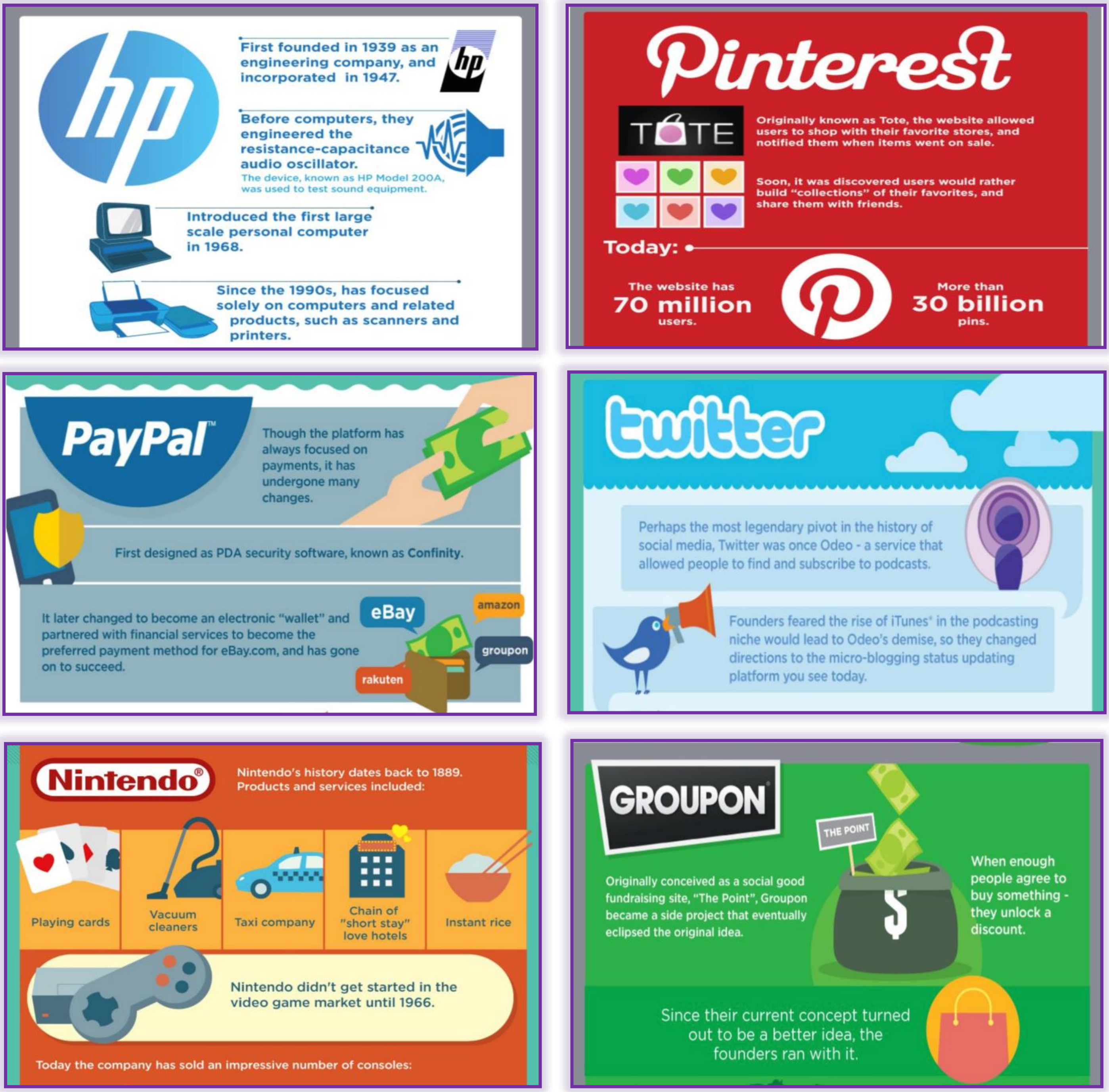


Figure 9.15 – Example of startup pivot [18]

Sometimes startups are pivoted incorrectly. Several examples of anti-pivot are shown below.

Blind Pivot [19]:

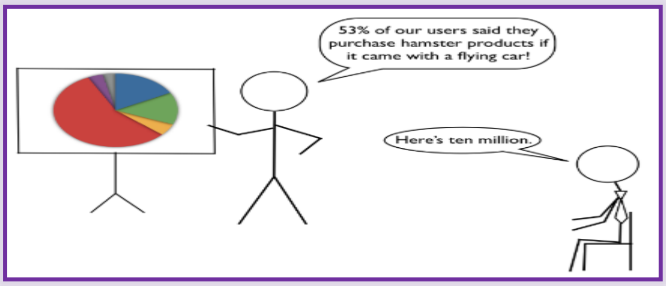
Changing business models without getting out of the building and talking to the humans [19].

Stealth Pivot [19]:

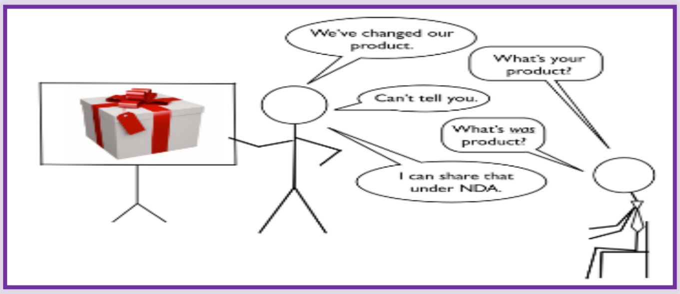
No one can know it and you're not willing to discuss it, but you pivoted really hard [19]:

Trust Fund Pivot [19]:

Shifting from a heavy investment strategy to a more bootstrapped model based on an utter lack of investor interest [19].



Assisted Blind Pivot [19]:



Changing business models based on the advice of investors, mentors, «lean startup experts», or other individuals who also haven't gotten out of the building and talked to the humans [19].

Buzzword Pivot [19]:

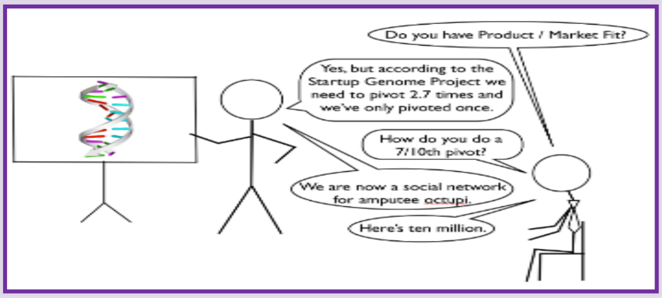
Changing business models in order to incorporate a buzzword more likely to generate investment interest [19].

Statistically Significant Pivot [19]:

Changing business models based on a statistically significant sample size of responses to a poorly written survey [19].

Launch Date Pivot [19]:

Postponing the product or service launch until after raising funding because of the possibility that poor traction could be mistakenly perceived by investors as a lack of customer interest [19].



Hipster Pivot [19]:

Changing the business model because the old idea was just so uncool and unmotivating to work on [19].

Superstitious Pivot [19]:

Changing the business model because according to the Startup Genome project successful companies pivot 2.7 times [19].

Friends and Family Pivot [19]:

Changing the business model to getting a real job because you've lost all your friend's and family's money and your Dad starts yelling at you to get a job [19].

3 STARTUP SCALING AND GROWTH: METHODS AND TOOLS

Growth means that each unit input produces the same predictable result [22].

Growth	the process of increasing the company's profits as a result of investments in human resources and technology [20].

Growth is productive growth, reduction of uncertainty, solving a specific problem or meeting needs [22].

Scale Up	a rapid growth of the company, during which costs are reduced by at least 25% [21].

Scaling allows the output to grow exponentially while keeping the input data the same [23].

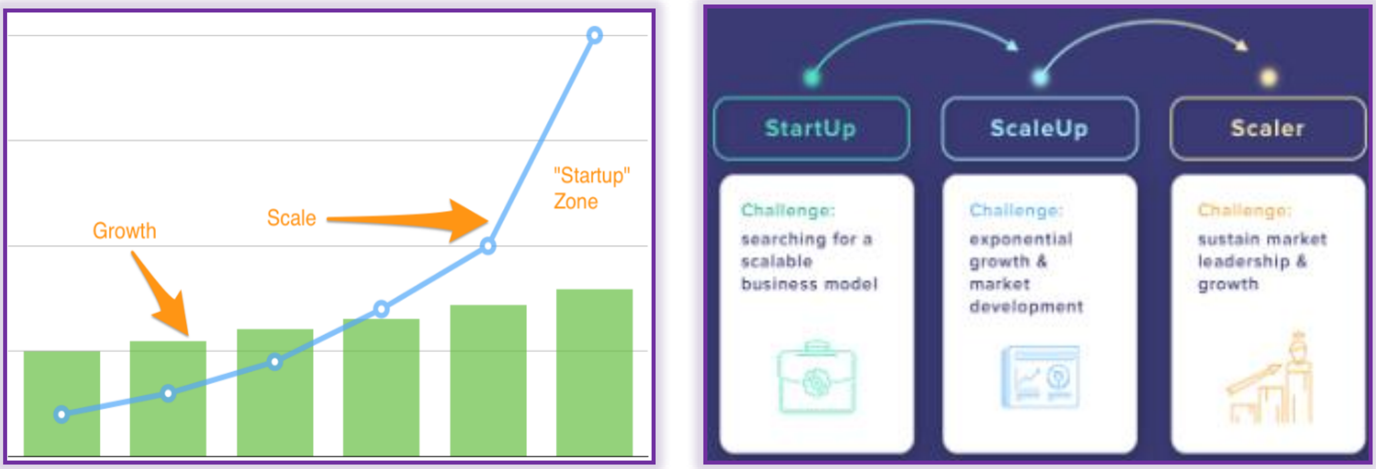


Figure 9.16 – Scaling of a startup [22; 23]

The difference between a startup and a scaleup is that a startup defines a business model, while a scaleup expands an existing business, replicating the model and reducing costs [24]:

- **Product-market fit.** Startups take time experimenting with things like product features and targeting their audience correctly. Scaleups have already perfected this and are already economically sustainable [24];
- **Employee roles.** In the beginning, startups usually hire employees. It's not uncommon for employees to take on multiple roles in order to get up and running quickly. But for scaleup, the narrowing of roles is crucial. Dividing the team into departments or hiring specialists is the beginning of growth [24];
- **Risk-averting.** Startups usually have smaller customer bases with an unproven product, so there's not much to lose when pursuing a new and unusual idea. Scaleups bear a larger responsibility while needing to manage the expectations of a wider pool of people (i.e. investors, customers, team members) [24];
- **Structured system.** At the beginning, startups have a «free» structure. When reaching a critical size, it is necessary to structure the system and formalize the processes [24].

Startup preparation for scaling [22]:

- Develop right strategy. The company needs a strategy. But there is no need for a complicated one. The first thing a strategy should include is a list of the startup's strengths, weaknesses, and prospects. Then, based on this information, a goal is set for the quarter, for the year
- Invest in technology. A startup is not scalable if any aspect of it is labor intensive. It is worth streamlining and digitizing as many processes as possible
- Outsource non-essential. There is no need to hire own employees for all processes. The best solution is to use outsourcing
- Improve marketing. The following types of marketing are effective for scaling: direct marketing, content marketing, social media marketing (SMM)
- Improve reputation. Good branding combined with the right marketing strategy can be a powerful tool for attracting customers
- Select the right staff. Selection of suitable employees who will expand the capabilities of the team
- Make startup workable without you. Placing leaders in key management positions, building a hierarchy

Main challenges when scaling a startup [23]

Getting large investments.

Investments at the scaling stage can reach up to $100 million or even more, so it's not easy to find an investor who's ready to provide you with the money [23].

Reaching long-term goals.

Without process automation inside a growing business, you're likely to get stuck in piles of paperwork that will harm your efficiency [23].

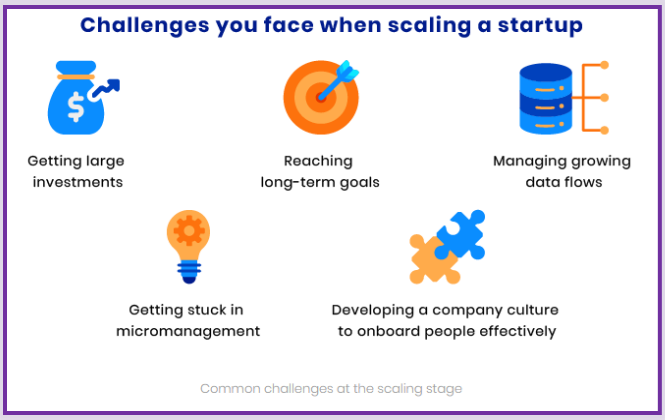


Figure 9.17 – Main challenges when scaling a startup [23]

Getting stuck in micromanagement.

Watching every step your employees take is time-consuming and inefficient. What's more, this tactic often has damaging consequences [23]:

- it distracts you as the CEO from doing more important tasks;
- employees may feel uncomfortable and not trusted if you micromanage.

Development of company culture for efficient work of people.

As the number of employees increases, corporate culture becomes more important. Cultivating a corporate culture among 10 employees is easy, but it is much more difficult to do the same with 100 people [23]

Startup growth also has its levels and for successful achieving your goals you need to go through the stages that are illustrated in Fig. 9.18.

Synchronized startup development means maintaining development simultaneously between users and product [23]:

Users

- Costs too high to acquire users before the market has matured and a sustainable scalable business model has been developed;
- Overcompensation for the unpreparedness of the market with marketing and press efforts [23].

Product

- Creating a product without a corresponding problem
- Investment in product scaling before market maturity [23].

Team

- Premature hiring of too many workers
- Hiring specialists before they are critically needed
- Hiring managers instead of employees
- The presence of more than one level of hierarchy [23].

Investment

- Attracting too little investment to overcome the «valley of death»
- Attracting too much investment, which almost always deprives entrepreneurs of discipline and gives them the opportunity to prematurely scale in other directions (excessive development of the product or hiring of extra personnel) [23].

Business model

- Too much effort for profit too early stage
- Excessive planning, actions according to the plan without the necessary feedback
- Lack of adaptation of the business model to market changes
- Failure to adhere to the business model, resulting in failure to keep costs below revenues [23].

Figure 9.18 – Stages of startup growth [25]

A startup strategy roadmap is a document that details the stages and milestones required to achieve a company's long-term objectives [27]. A typical startup strategy roadmap includes components like a vision and mission, a detailed analysis of the target market, a plan for developing the startup's product or service, marketing and sales plans, a plan for managing day-to-day operations, financial projections, and key performance indicators (KPIs) to track progress and success [27].

A startup strategy roadmap	is an effective plan that guides a startup through its early phases of development, assisting it in navigating the hurdles and uncertainties associated with beginning a new firm [27].

Internet is a huge source of information where you can find every template you need [27].

EXAMPLE [28]:

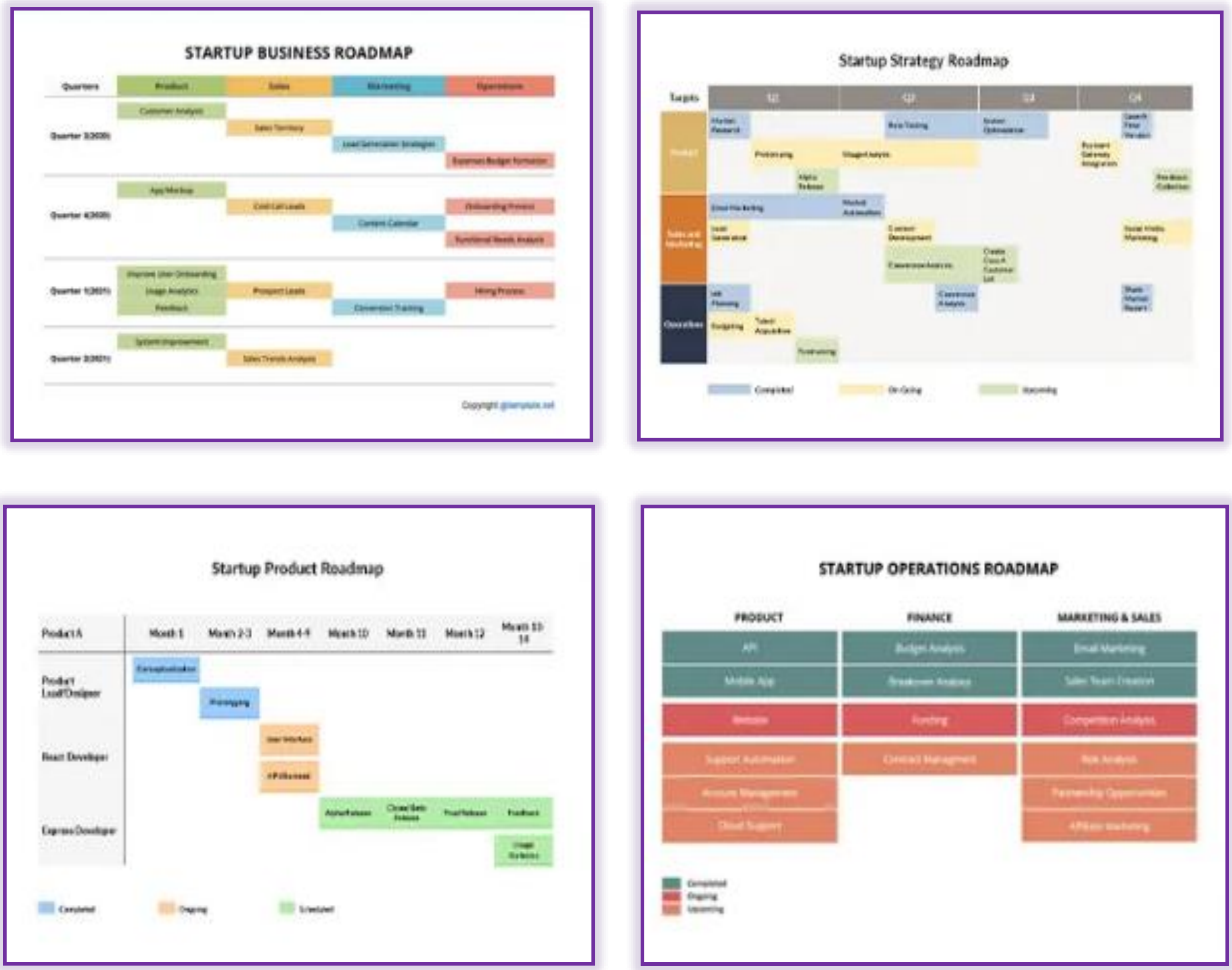


Figure 9.20 – Startup roadmaps [28]

4 INVOLVEMENT OF STARTUPS BY ENTERPRISES

Not only their developers are interested in the development of startup projects. Large-scale business is also showing interest in the latest business propositions that are based on an innovative foundation. Therefore, the possibility of cooperation between startups and corporations and enterprises should not be rejected. Factors of enterprises' interest in startups are [29]:

- **Technology.** Even if a startup has not been able to create a product that is in demand, but has technology that contains know-how or is protected by patents, it can get an offer from a corporation. The technology can also be sold if the startup goes bankrupt
- **Product.** Every company always has a dilemma: to develop a product independently or to buy a ready-made one created by others. If the company has strong sales channels, and this is its main advantage, then it often buys a ready-made product in order to shorten the product's time to market
- **Clients and channels.** If the startup has well-supplied sales channels, the corporation can use them to sell its products in the event of its acquisition
- **Markets.** Under the conditions of expansion, the easiest way to enter new markets is to acquire an enterprise (firm), including a startup company. Entering new markets or increasing share in existing markets affects the company's market capitalization
- **Team.** Acqui-hiring is beneficial for corporations because they have the opportunity to acquire highly professional engineers complete with technology; buy a team along with market share or customer base
- **Revenue.** The increase in revenue due to cost reduction due to the startup has a positive effect on the corporation's EBITDA.

Acquisition of a startup by an enterprise [30]:

1. **Type of startup.** Companies that acquire startups for their intellectual property, teams or product lines are acquiring startups that are still searching for a business model. If they acquire later stage companies who already have users/customers and/or a predictable revenue stream, they are acquiring companies which are executing [30].
2. **Management link of absorption.** Ironically, the business development and strategic partner executives who find the startup and negotiate the deal are not the executives who manage the integration or the acquisition. Usually it’s up to the CTO or the operating executive who wanted the innovative technology (and

at times with a formal HR integration process) to decide the fate of the startup inside the acquiring company [30].

3. Saving a startup. It turns out the success of the acquisition depends on whether the acquiring company intends to keep the new venture as a standalone division or integrate and assimilate it into the corporation. Actually there is a simple heuristic to guide this decision. If the startup is being acquired for its intellectual property and/or team, the right strategy is to integrate and assimilate it quickly. The rest is just overhead surrounding what is the core value to the acquiring company [30].

4. Assimilation. If the acquisition is in execution mode, the right model is to integrate and assimilate it. Combine its emerging corporate KPI’s, process and procedures with those of the acquiring company [30].

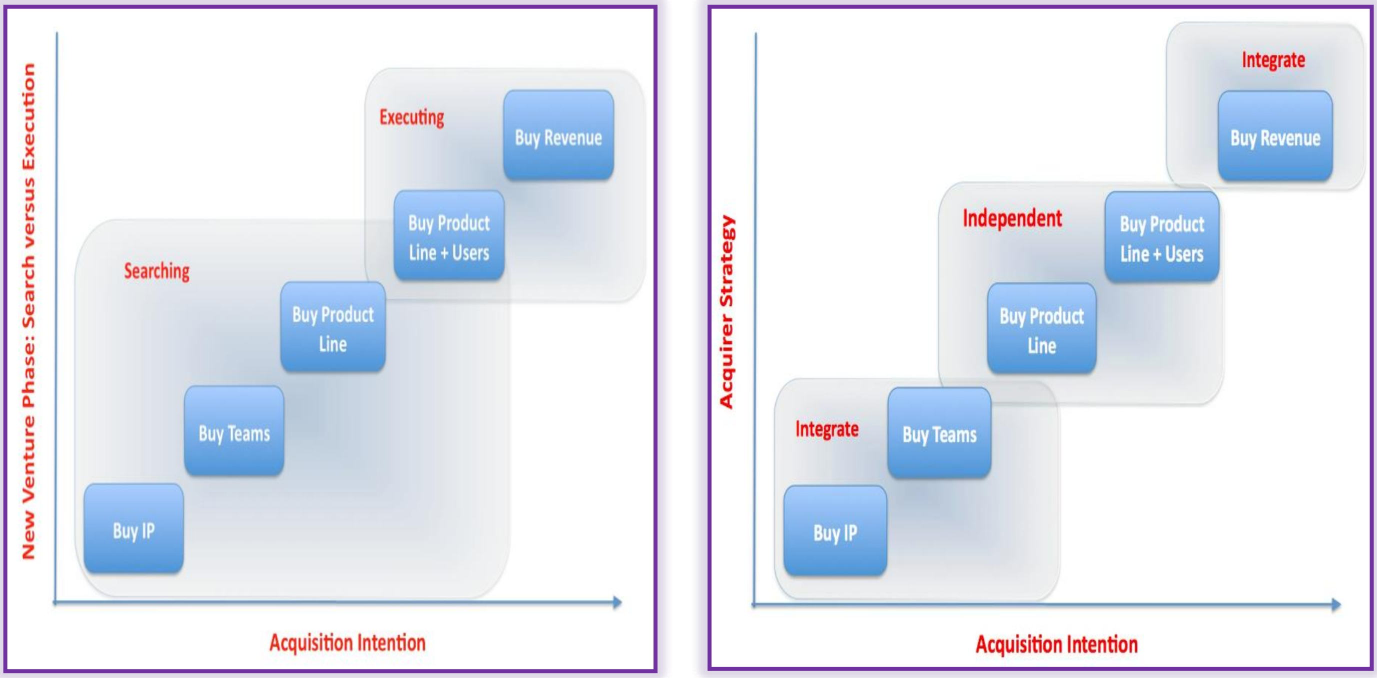


Figure 9.21 – Acquisition of a startup by an enterprise [30]

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