PIONEER ONLINE BUSINESS ACADEMY

PREPARE A BUSINESS MODEL AND PRESENT A BUSINESS SALES PLAN

Lesson 3

BUSINESS DEVELOPMENT

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Learning Outcomes

- 3.1 Develop a business model to support a development strategy
- 3.2. Produce sales measures and key success factors
- 3.3 Prepare and deliver a pitch to raise support and finance for a development strategy
- 3.4 Take feedback on their development strategy and make improvements

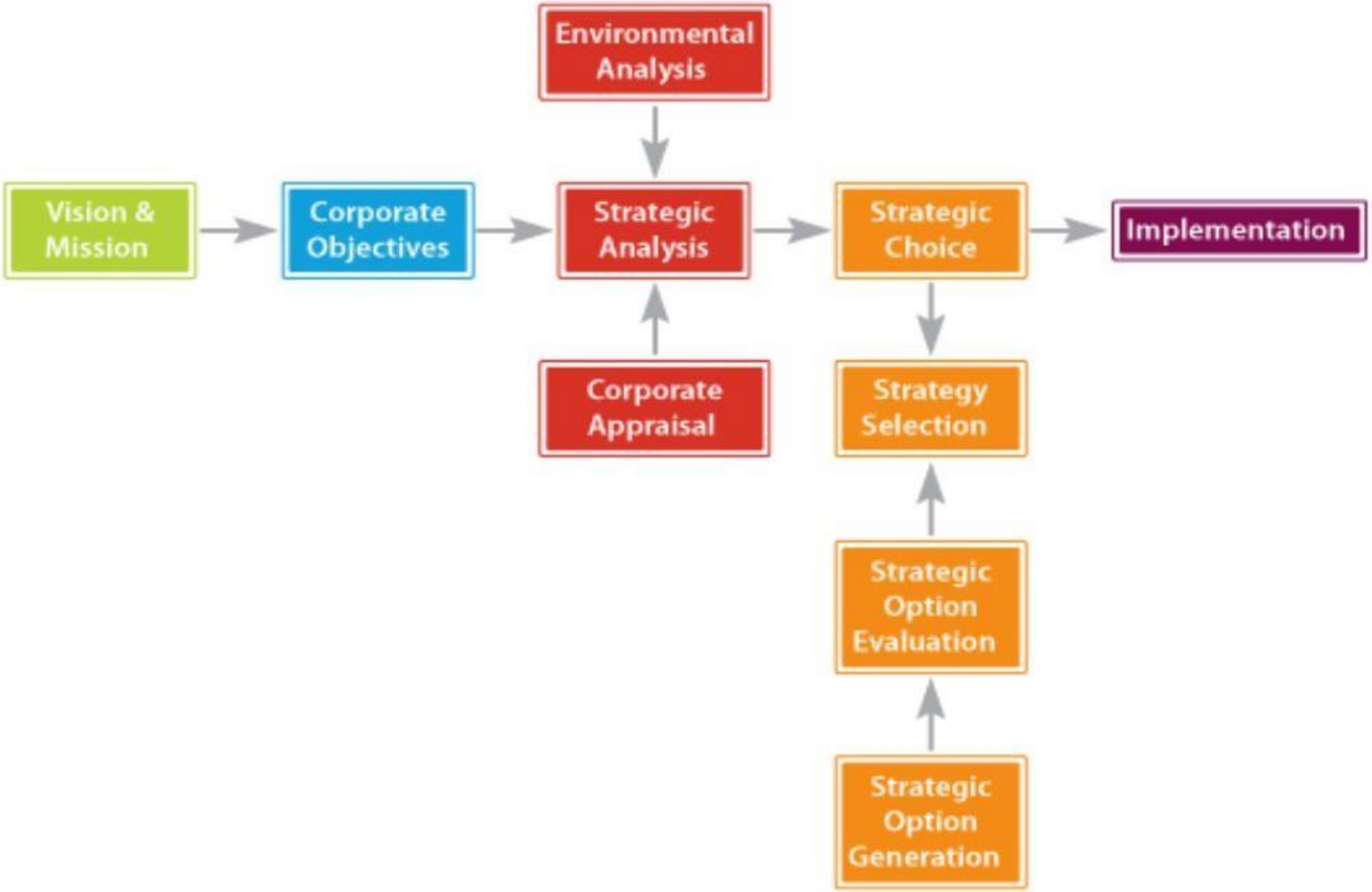
3.1 DEVELOP A BUSINESS MODEL TO SUPPORT A DEVELOPMENT STRATEGY

Strategy Development Models

There are many approaches to developing strategies. Some of the key models include:

- Rational Planning Model
- Logical Incrementalism
- Emergent Strategy Model

Rational Planning Model



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Rational Planning Model

Rational Planning Model(RPM), can be looked at in broadly two ways. They are namely

1. Resource based view

2. Market based view

1. Resource Based View

Resource-based theory or resource-based view (RBV) of firms – is based on the concept of viewing the company as a collection of capabilities.

Traditional strategy models such as Porters model focus on the company's external competitive environment. Most of them do not attempt to look inside the company. In contrast, the resource-based perspective highlights the need for a fit between the external market context in which a company operates and its internal capabilities.

The resource-based view suggests that a firm's unique resources and capabilities provide the basis for a strategy. The Business strategy chosen should allow the firm to best exploit its core competencies relative to opportunities in the external environment."[1]

One key requirement for corporate success in this competitive environment is recognizing how to sustain competitive advantage. According to Porter (1999), we can create competitive advantage as we make tough choices about what we will do and not do.

Competitive advantage is normally defined as the ability to earn returns on investment consistently above the average for the industry (Porter, 1985). A firm is said to have a competitive advantage when it implements a value creating strategy not simultaneously being implemented by any current or potential competitors.

It was developed to explain how organizations achieve sustainable competitive advantages. Advocates of the resource-based view have tried to explain why firms differ and how it matters

1. Resource Based View

Resources & capabilities

- Each organization is a collection of unique resources and capabilities that provides differences in firm's performances across time.

- Organisations drive primarily by their unique resources and capabilities rather than by an industry's structural characteristics. This drives the basis for its strategy and the primary source of its returns.

- Resources are inputs into a firm's production process, such as capital, equipment, the skills of individual employees, patents, finance, and talented managers.

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- A capability is the capacity for a set of resources to integrative perform a stretch task or an activity
- Resources are either tangible or intangible in nature. With increasing effectiveness, the set of resources available to the firm tends to become larger.[5] Individual resources may not yield to a competitive advantage. It is through the synergistic combination and integration of sets of resources that competitive advantages are formed.

- Capability - Through continued use, capabilities become stronger and more difficult for competitors to understand and imitate. As a source of competitive advantage, a capability "should be neither so simple that it is highly imitable, nor so complex that it defies internal steering and control.

1. Resource Based View

Knowledge as a resource

- We are not only in a new millennium, but also in a new era: the knowledge era.

Sustainable competitive advantage is dependent on building and exploiting core competencies . The development and practice of knowledge management (KM) is continuously and dramatically increasing in organisations. Due to improvements in KM, the race for seeking a competitive edge through knowledge increases at an even faster rate (Hofer-Alfeis, 2003).

- Businesses have long recognized the importance of managing their intangible assets. The development of brands, stakeholder relationships, reputation and the culture of the organization is readily viewed as providing sustainable sources of business advantage (Chong, Holden, Wilhelmij and Schmidt 2000).

2. Market Based Theory

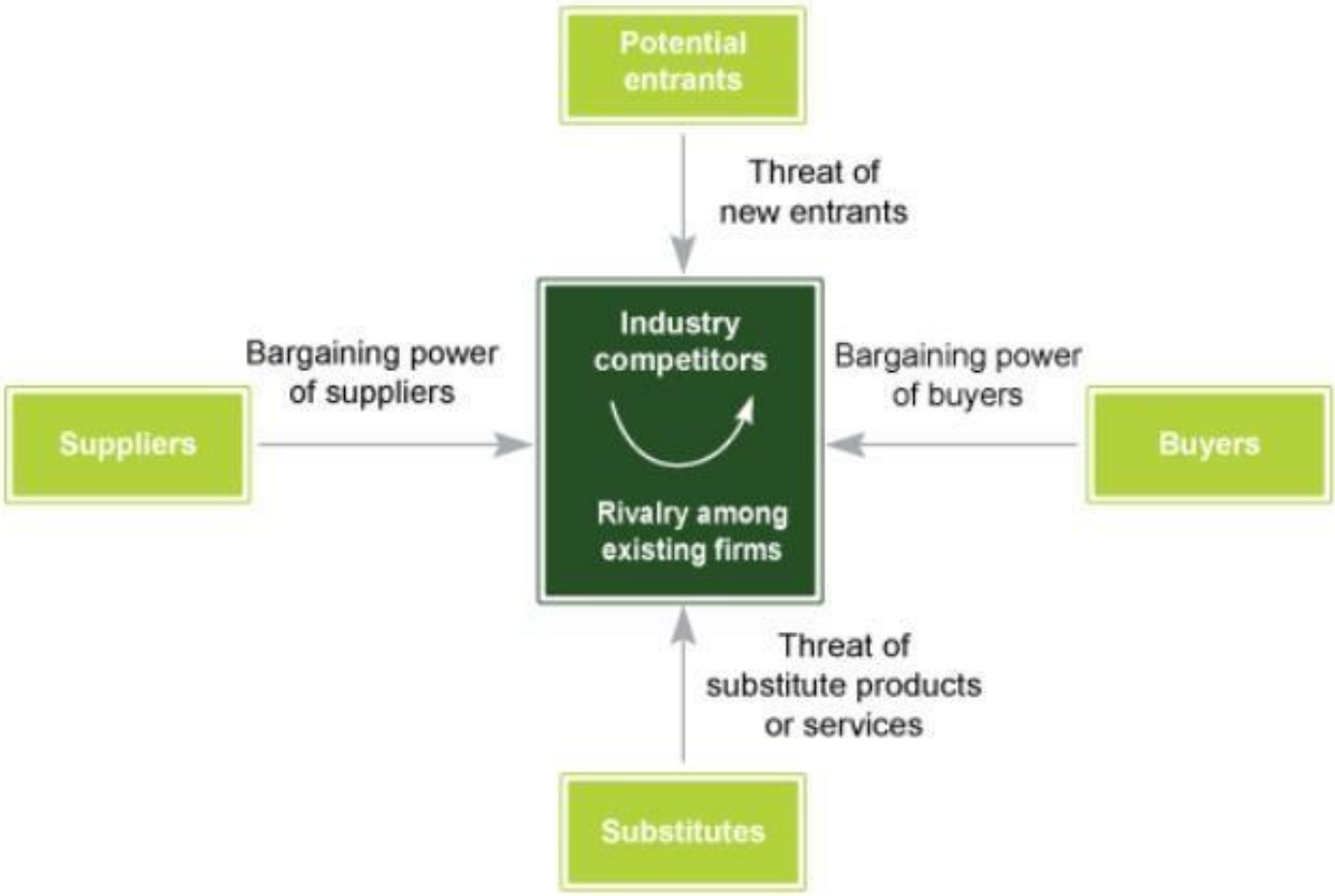
The ability to develop and leverage the value of these intangible assets comprises a core competency for organizations, particularly those providing financial and professional services. In these knowledge-intensive organizations, processing knowledge is central to business success (Prahalad and Hamel, 1990; Drucker, 1998).

There is a general acceptance that sustainable competitive advantage in the 21st century will be accomplished thru KM. Large organizations are becoming progressively more alert to the significance of knowledge for efficiency and competitiveness. The principal cause for this concern with KM is the idea that knowledge and its application are the means by which creativity can be promoted.

2. Market Based Theory

This is where the firm emphasizes on market based forces more than the internal capabilities of the organisation. In doing that as a model Portor's five forces are used. Porter identified following five forces;

2. Market Based Theory



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2. Market Based Theory

Portor’s five forces model

Five Forces Analysis assumes that there are five important forces that determine competitive power in a situation. These are:

2. Market Based Theory

1. Supplier Power: Here you assess how easy it is for suppliers to drive up prices. This is driven by the number of suppliers of each key input, the uniqueness of their product or service, their strength and control over you, the cost of switching from one to another, and so on. The fewer the supplier choices you have, and the more you need suppliers' help, the more powerful your suppliers are.
2. Buyer Power: Here you ask yourself how easy it is for buyers to drive prices down. Again, this is driven by the number of buyers, the importance of each individual buyer to your business, the cost to them of switching from your products and services to those of someone else, and so on. If you deal with few, powerful buyers, they are often able to dictate terms to you.

2. Market Based Theory

3. Competitive Rivalry: What is important here is the number and capability of your competitors – if you have many competitors, and they offer equally attractive products and services, then you'll most likely have little power in the situation. If suppliers and buyers don't get a good deal from you, they'll go elsewhere. On the other hand, if no-one else can do what you do, then you can often have tremendous strength.

4. Threat of Substitution: This is affected by the ability of your customers to find a different way of doing what you do – for example, if you supply a unique software product that automates an important process, people may substitute by doing the process manually or by outsourcing it. If substitution is easy and substitution is viable, then this weakens your power.

2. Market Based Theory

5. Threat of New Entry: Power is also affected by the ability of people to enter your market.

If it costs little in time or money to enter your market and compete effectively, if there are few economies of scale in place, or if you have little protection for your key technologies, then new competitors can quickly enter your market and weaken your position. If you have strong and durable barriers to entry, then you can preserve a favorable position and take fair advantage of it.

Advantages of Rational Planning model

1. This provides clear basis for decision making

2. It is a top down approach, which facilitates control

3. This evaluates internal capabilities & resources

4. This critically evaluated external environmental opportunities and threats

5. This ensures high degree of responsibility based on management decisions.

6. This is a formal approach, which integrates all the aspects of the organisation.

Logical Incrementalism- Quinn

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Disadvantages of Rational Planning model

1. Organisations don’t have clear objectives, instead the are developed by people.

2. It is developed based on the past

3. It is too rigid for changing environments

4. It ignores lower level participation

5. It ignores customer preference

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Logical Incrementalism- Quinn

- It is a management philosophy of achieving broad organizational goals by making strategic decisions in small steps. The small steps attempt to resolve conflicting views of participants and reduce risk by capitalizing on knowledge that is gained during the process. Logical incrementalism benefits from flexibility, but is likely to be time-consuming and inefficient.
- Incrementalism is a method of working by adding to a project using many small (often unplanned), incremental changes instead of a few (extensively planned) large jumps.
- Logical incrementalism implies that the steps in the process are sensible. In public policy, incrementalism refers to the method of change by which many small policy changes are enacted over time in order to create a larger broad based policy change.

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Logical Incrementalism- Quinn

- This was the theoretical policy of rationality developed by Lindblom to be seen as a middle way between the Rational Actor Model and bounded rationality as both long term goal driven policy rationality and satisficing were not seen as adequate.

- The advantages of incrementalism over other formal systems is that no time is wasted planning for outcomes which may not occur. Disadvantages are that time may be wasted dealing with the immediate problems and no overall strategy is developed.

- Incrementalism in the study of rationality can be seen as a stealthy way to bring about radical changes that were not initially wanted: a slippery slope.

Logical Incrementalism- Quinn

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Incrementalism is commonly employed in engineering, software design, Planning and industry.

• Whereas it is often criticized as "fire fighting", the progressive improvement of product designs characteristic, e.g., of Japanese engineering can create steadily improving product performance, which in certain circumstances outperforms more orthodox planning systems

Logical Incrementalism- Quinn

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Advantages of logical incrementalism

1. Very less risk is involved.

2. It is very easy to implement small steps rather than going for large steps.

3. It involves high focus

4. Relatively lesser investment is required.

5. Planning wouldn’t be a huge issue.

Disadvantages of logical incrementalism

1. Can’t initiate drastic changes to the organisation.

2. Will not integrate the entire organisation.

3. No overall strategy is developed.

4. Not suitable in dynamic business environments.

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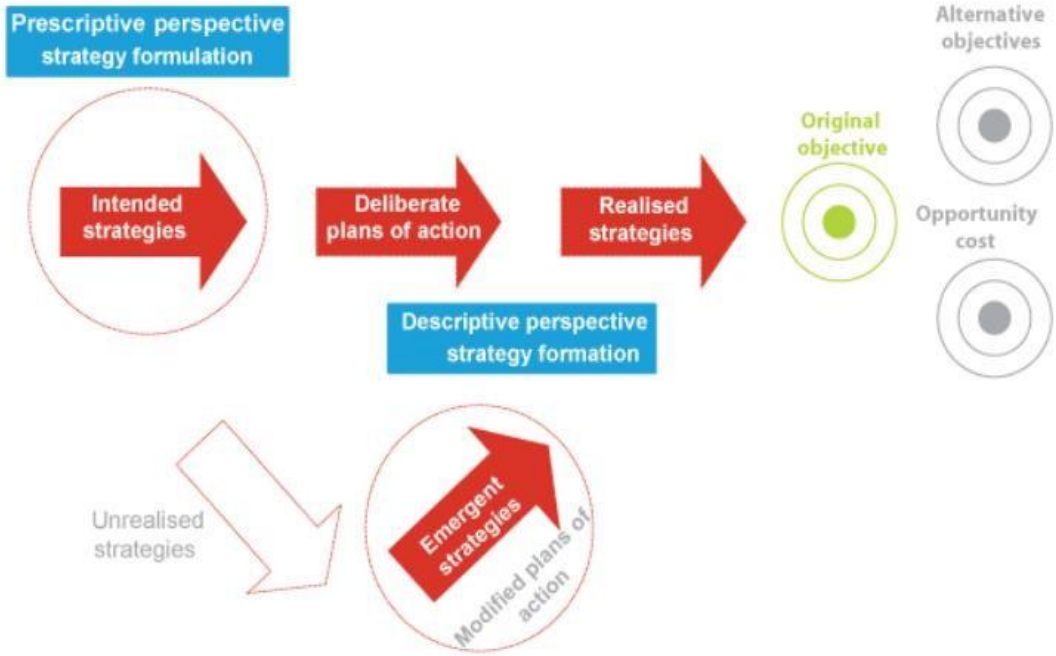
Mintzberg's Emergent Strategy Model

According to Mintzberg's theory, not all the strategies are realised in the end. That means not



all the intended strategies work to achieve preset objectives. Managers will have to think of new strategies while the main operation is going on. These new strategies added are called as emergent strategies by Mintzberg.

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3.2. PRODUCE SALES MEASURES AND KEY SUCCESS FACTORS

Performance metrics

Profitability and return measures

- Gross margin = Gross profit/Sales revenue*100
- Net margin = Net profit/Sales revenue*100
- Return on capital employed (ROCE) = = Net profit/Capital employed*100

Long-term solvency and stability measures

- Debt ratio = Total debt/Total assets
- Capital gearing = Long-term debt/Total capital employed
- Debt/equity ratio = Debt/ Ordinary share capital and reserves
- Interest cover = Profit before interest and tax/Interest charges
- Cash flow ratio = Net cash inflow/Total debts

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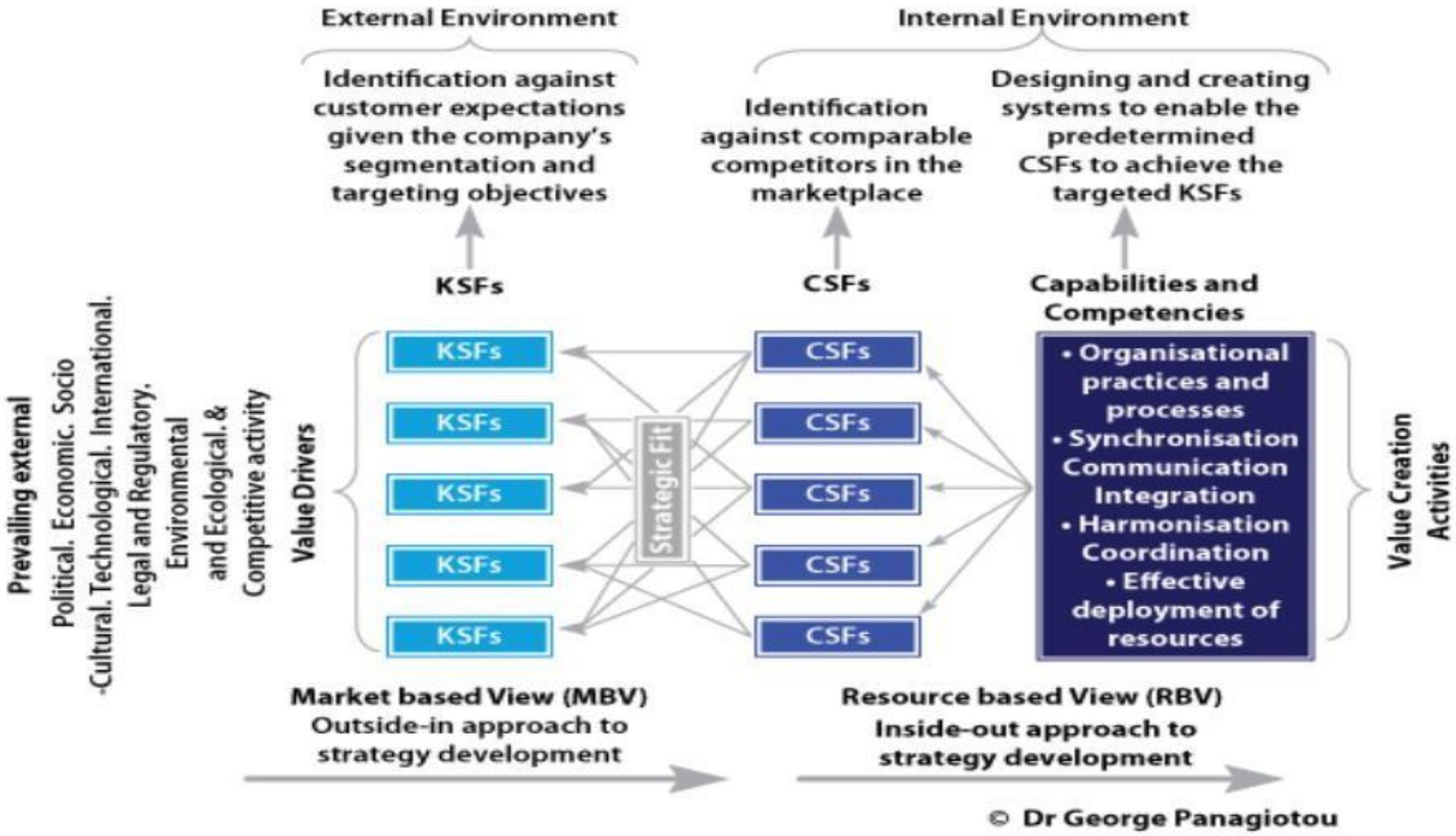
- Key Factors for Success are the external competitive factors that an organisation must satisfy if it is to be successful. They can be identified through the prevailing conditions of supply and demand, the wider environmental factors. They are equally applicable to all companies in the industry since all competitors in that market must satisfy the same competitive factors.

- Critical Factors for Success - factors internal to the organisation that are imperative to operational success. For example, having the right set of resources is of critical importance to enabling capabilities and so on



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Identifying KFS can be tricky

In a dotcom example, having a transactional website does not necessarily satisfy any of the industry KFS because it is part of the nature of the business. However, having a website that is quick to download, effectively designed to support easy navigation and is secure to make transactions does satisfy KFS because it ensures effectiveness and competitive performance.

- Clearly, some firms are better at identifying KFS in the industry than others and so develop more suitable strategies, given the prevailing conditions of the environment.
- Consequently, developing competencies and capabilities that enable a competitive edge to be attained becomes of paramount importance in the competitive landscape. Equally, the real benefits for the organization come from advantages that cannot easily be imitated by competition.

3.3 PREPARE AND DELIVER A PITCH TO RAISE SUPPORT AND FINANCE FOR A DEVELOPMENT STRATEGY

The Pitch

A development strategy typically includes a new product development or a market development. Both instances require fundamental investments for implementation.

Therefore, organisations need to ‘pitch’ their proposal to shareholders and investors to raise support and finance for the implementation. A pitch often includes an oral presentation and a pitch deck.

A pitch deck is a brief, written presentation that supports your strategy presentation. The objective of the pitch deck it to concisely layout the rationale for investing in your business.

The Pitch Deck

A pitch deck for a development strategy should include:

- Company Purpose (The Title slide)
- The Problem
- The Solution (The selected strategy)
- The Market
- The Competition
- The Value Proposition
- The Business & Revenue Model
- The Team
- The Financials
- Current Status & Use of Funds

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Company Purpose

In the first slide, you need to define the company in terms of what it does and what it aspires to do. This should typically include:

- The vision
- The mission
- Strategic Objectives

This slide should be intuitive and should motivate the audience to pay attention to the rest of the presentation.

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The Problem

Next you should describe the problem your business intends to solve through the development strategy.

The problem could be ‘the opportunity’, ‘the pain’ or simply ‘what makes customers happy’. You could present the data sources that you used for the research and provide a summary of the research results. You should:

- Explain the problem
- why is it a problem
- Who has that problem
- How it is being solved now
- how can you solve it better?

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The Solution

- After defining well the problem that must be solved, this section of the pitch deck describes how your business solves that problem through the development strategy.

- This is where you show your product and highlight its uniqueness. Where possible, show a live demo, use screenshots, animation or video to show your solution in action.

The Market

In this section of the pitch deck you want to first identify and profile the customer you cater to.

Then you need to size the total addressable market (TAM) for your solution and explain how it is either already large or will be large in the future.

You also need to explain who else is operating in it and how is your company different.

Finally, calculate the serviceable addressable market (SAM), which is the part of the total addressable market that can actually be reached given the companies capabilities.

The Competition

Investors want to know about:

- The competitors
- How you are distinct from them,
- How future technologies might disrupt the market
- How you will respond to existing competitors and new entrants

You should include the whole competitive landscape instead of focusing on few key competitors.

The Value Proposition

- This slide is a natural build on the earlier solution slide. This is the opportunity to elaborate on the product and frame it in the way it would be marketed to customers.
- A value proposition positions the product or service and illustrates what benefit it provides.
- This is also the section of the pitch where you can go into more detail on the product line-up, including expanding on form factor, functionality, features, product architecture, and intellectual property ownership. If additional development work is required to complete the product you should include a development roadmap as well.

- This slide could also include information on how you can monetize the product. It should illustrate why a customer should buy the product.

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The Business & Revenue Model

The Business & Revenue Model slide focuses on how the business will make money. This slide should include:

- Revenue model and pricing
- Sales and distribution model (how will customers find you)
- Customer acquisition costs, average account lifetime value
- Customer/pipeline list
- Barriers to entry

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The Team

Generally, the goal here is to show that the team has the requisite experience to suggest they know what they are doing.

If there are any parts (skill sets) of the management team that are missing, be sure to articulate a plan for filling those gaps.

In this slide, you should:

- Introduce the key members of the development strategy team
- Briefly outline their role and how they add value to the business

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The Financials

In this slide, you need to discuss:

- Sales achieved and targets
- Customer numbers
- Profit or loss details and a balance sheet if possible.
- Revenues for your existing products/ markets
- Customer testimonials

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Current Status & Use of Funds

This should show how far the organsation has come on its journey, what the company has achieved, and how investment funds have been used so far.

You should explain what funds the organisation now require, what you plan to spend the money on and the key milestones you intend to hit with the funding.

3.4 TAKE FEEDBACK ON THEIR DEVELOPMENT STRATEGY AND MAKE IMPROVEMENTS

Making Improvements

Shareholders and investors will make recommendations on:

- Timelines
- Budgets
- Scale of development • The team

The strategic plan for development can be improved based on such suggestions, within reason.

When making changes, the decision makers should consider the suitability, feasibility and acceptability of the recommendations.