



V3 PARTNERS

# ENTREPRENEURIAL TECHNIQUES

## CHAPTER 3 - BUSINESS

“PROSPERITY IS THE BEST PROTECTOR OF PRINCIPLE”

- MARK TWAIN



# CONTENT

- motivation
- what is business?
- business basics
- business example
- business is war
- business is a game - banking example
  - value Net
  - players
  - added value
  - rules
  - tactics
  - scope



# MOTIVATION

probability of business failure

fail	probability
<1 year	50%
<5 years	90%



# BUSINESS

## what is business? - quotes from hungarian students

- activity, when the businessman performs work on his own account, the client accepts the work and pays for it
- accumulation of wealth through investment into commercial enterprise
- economic activity whose goal is profit accumulation
- organization focused on profit accumulation
- not a public undertaking, founded by private individuals with money acquisition as the goal
- decide to create something for which demand exists; and earns money if it succeeds

„The business world loves mediocrity. On the surface, we praise the market, free enterprise, initiative, and individual achievement. But, in secret, we are terrified of them.”

- George Lois, Adman



# DEFINITION OF BUSINESS

- “find a need and satisfy it”
- “creating complete products, drive them into leading position in defendable market segments” - W. Davidow
- must involve
  - customers
  - satisfying need
  - market
  - making profit
- many others involving creativity, profit, customers, market, etc.



# BUSINESS BASICS

- where there is market, there is competition
- be blessed with at least one good competitor
- efficiency (work directly related to value creation)
  - bureaucracy: 0.25% - 0.50%
  - business >10,000 employees: 0.5% - 1.5%
  - business >500 employees: 1% - 3%
  - small business: 10% - 15%

(source: R. M. White Entrepreneur's Manual)



# BUSINESS EXAMPLE

## example: construction equipment business

- gentlemen, our competitors are: GM, Ford, Chrysler, International Harvester, Allis Chalmers, Case and 20 other smaller companies. we need 18 months to be the market leader, and 5 years for our revenues to exceed the total revenues of our competitors.”thus went the announcement to investors of the startup company called Caterpillar
- franchise rights
  - age 25-45
  - 2 m USD
  - must show that you earned the 2m USD



# BUSINESS IS WAR

- what is war
  - much-quoted classics
    - war is continuation of politics by other means
      - C. von Clausewitz
    - Sun Tzu
  - a cultural activity - John Keegan
- business mainly pursued by men
- thus modeled after the military

“It’s not enough to succeed. Others must fail.”  
– Gore Vidal





# BUSINESS IS NOT WAR

- business activity is socially positive
- satisfying customer need
- multiple competitors
- goals
- life of business
- profitability
- business partners
- government and legal environment



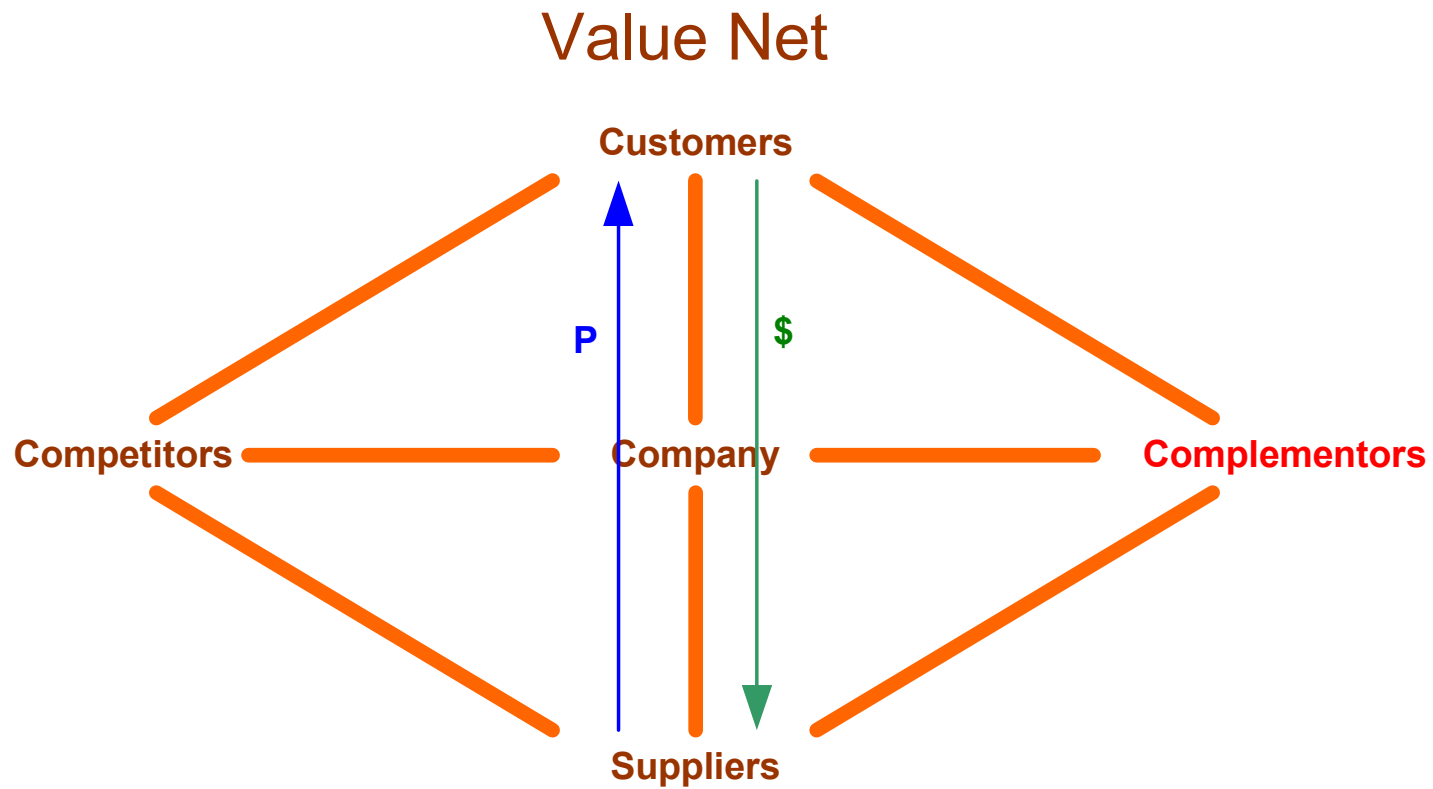
# BUSINESS IS A GAME

- cultural activity
- not a win-lose proposition
- win-win in many cases, many players
- management of
  - players
  - added value
  - rules
  - tactics
  - scope
- value net

“ You don’t have to blow out the other fellow’s light to let your own shine.”  
– Bernard Baruch



# VALUE NET





# EXAMINE THE PARTS

five aspects of the game

1. **p**layers - the fearsome foursome
2. **a**dded value - what's your worth
3. **r**ules - the (im)balance of power
4. **t**actics - handling perceptions
5. **s**cope - the boundaries of a playing field



# PLAYERS

company

complementors

Your **Complementor** is a player whose product makes your product more valuable:

Toyota – Shell

A player is your **Complementor** if it is more attractive for a **Supplier** to provide resource to both of you than when it is supplying you alone.

Toyota – VW re. tires

competitors

A Competitor is a player whose product makes your product less valuable:

Toyota – VW

A player is your Competitor if it is less attractive to provide resources to you when it is supplying to the Competitor than when it is supplying you alone.

P A R T S



# PLAYERS

## customers

The company provides goods and services to its **Customers** who pay for it with money.

## suppliers

**Suppliers** provide capital, goods and services in exchange for money.

money flows downward while

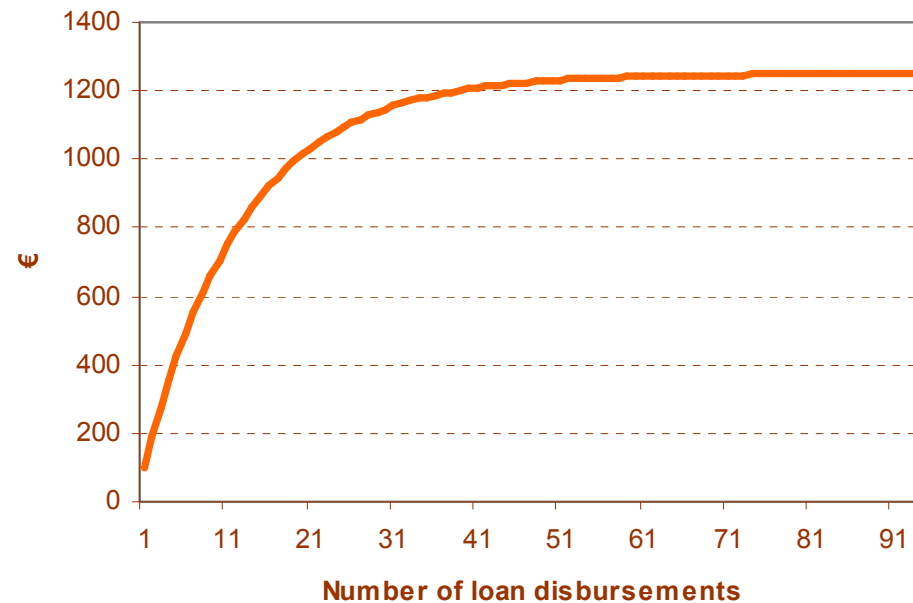
capital, goods and services flow upward



# BANKING EXAMPLE

- aggregation
- intermediation
- money multiplier
- matching of terms

**How banks multiply money:  
€100 deposit makes €1250 in loans at 8% adeq.**

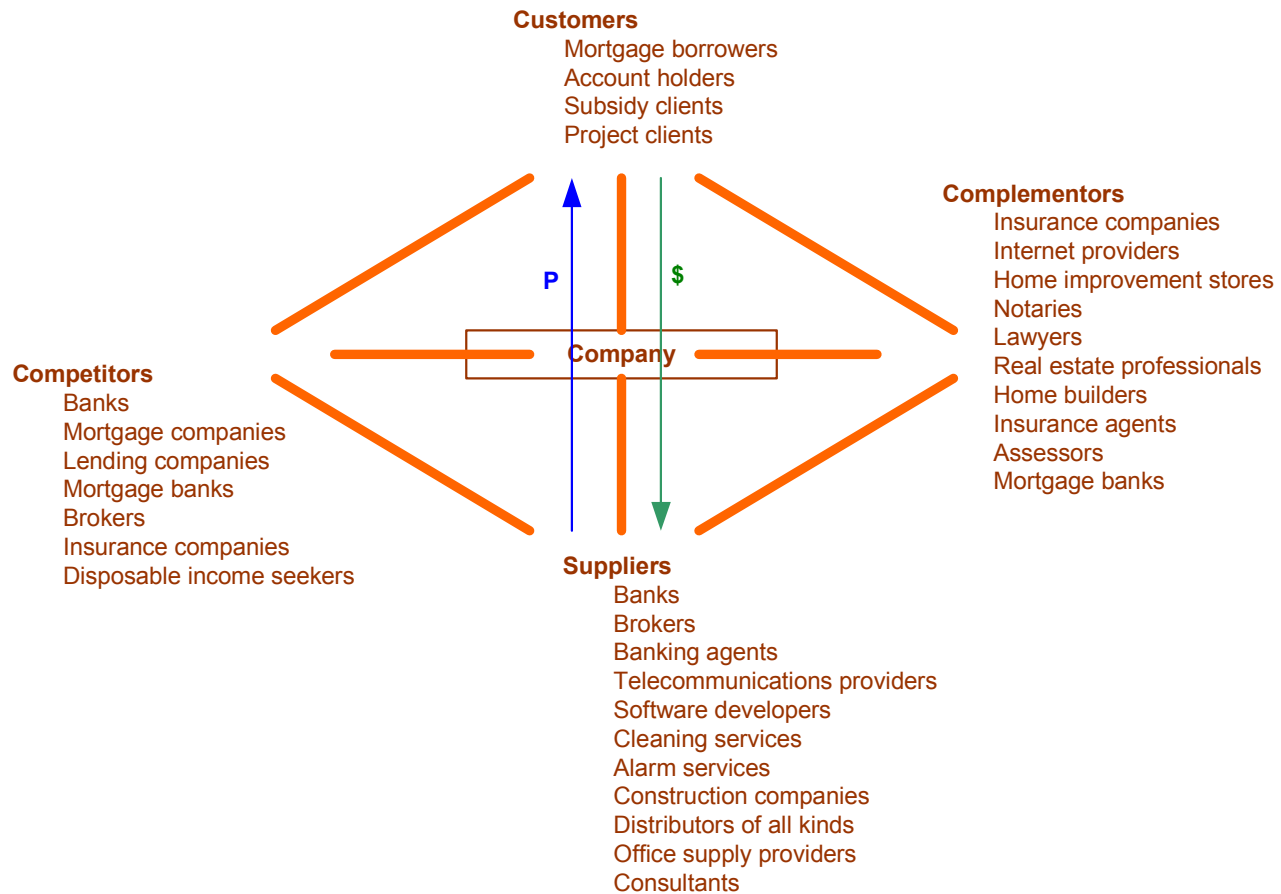


**P** **A** **R** **T** **S**



# BANKING VALUE NET

## Value Net of a Bank



**P** **A** **R** **T** **S**





# ADDED VALUE

Added value = size of market with player - size of market without player

Size of the market with Co	€101b
Size of the market without Co	€100b
Co's added value in the whole market	€1b

P A R T S



# ADDED VALUE EXAMPLE

Gábor's 50 apartments

coop members 50 apartments

Gábor's added value (50*€50k)	€2.50m
Apartment owners added value (50*€50k)	€2.50m
Expected price Gábor will pay (2.5m/2)	€1.25m

P A R T S



# ADDED VALUE CHANGING RULES

Gábor's added value (50*€50k)	€2.50m
apartment owners added value	0.00m
expected price Gábor will pay	any

P A R T S



# RULES

## changing rules

- change bargaining power of players
- time limits
- last look
- take-it-or-leave-it (TITOLI)

## reaction to rules anticipated

- self directed (inside-out)
- other directed (outside-in)



# TACTICS

tactics directed at perceptions

- outside-in thinking

banking example

- strong competitive pressure
- price war
- no game, war!



# TACTICS

focus on customer needs! Mortgage customers want:

- assurances that they get the loan they have been promised – pre-approval
- as low down payment as possible - PMI
- fair valuation of their home, which serves as collateral for the loan - scoring
- speedy and fair approval process - loan-in-a-week
- convenient way to get their mortgage – painless applications
- low upfront cost - create product features that reduce upfront cost

P A R T S



# TACTICS

1. team with Complementors and bring in new ones
2. work with Supplier partners to gain efficiencies
  - Assessors – improve communications, reduce unnecessary load
  - Financiers – streamline underwriting standards, sped processes
  - Legal professional – contract complexity, no change policy
  - Real estate professionals – integrate forward in channel
  - Sales partners – integrate, inform, commissions

P A R T S



# SCOPE

## important players

- banks and the like
- real estate players
- insurance companies
- legal profession
- government regulators

investigate linkages tying to other games





# SELECTED READINGS

B. J. Nalebuff, A. M. Brandenburger  
“Co-opetition”

B. W. Folsom Jr.  
“Entrepreneurs vs. the State”

M Buckingham, C. Coffman  
“First, Break All Rules”

C. M. Christensen  
“The Innovator’s Dilemma”

W. Davidow  
“Marketing High-tech”

N. N. Taleb  
“Fooled by Randomness”



# FAMILIAR?



*The adventure is always worth it.*



# THE END

## CHAPTER 3