

Guidelines for Entrepreneurs



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What Every Entrepreneur Should Know

USC|Stevens
Institute for Innovation

Some Questions to Ask

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- **How do I assess a prospective business venture?**
- **What is the function of an entrepreneur?**
- **What is a business plan?**
- **What questions should I answer with it?**
- **Why are business plans important?**
- **When do I:**
 - **Get legal advice?**
 - **Form a company?**
 - **Make my first sale?**
 - **Approach:**
 - **Advisors?**
 - **Cofounders?**
 - **Customers?**
 - **Investors?**
 - **Use an NDA for any of the above?**

Assessing Business Ventures

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- **All Ventures Suffer From Four Key Risks:**
 - **Market Risk**
 - Will anyone really buy this? How many?
 - **Team Risk**
 - Will the founders execute well?
 - Will they stay together through difficult times?
 - **Technical Risk**
 - Will the product work?
 - **Financing Risk**
 - Will investors bite?

What do Entrepreneurs Do?

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- **Focus on customer needs**
 - Seize upon inspiration and opportunity
- **Identify critical business risks**
 - Eliminate the biggest risks first
- **Build great teams**
 - Well rounded division of labor in skill and effort

Customer Focus

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- **Focus on customers who are strategic to your business.**
 - You want strategic revenue, not just revenue.
 - The wrong customers will lead you astray.
- **Generate information through first-hand experience.**
 - This is the only information you can trust about your market.
 - Watch how your customers use your product. This is more important than what they say about it.
 - Your customers' needs may be different from your own personal desires regarding the evolution of the product.
 - Be persistent and flexible.

Market Research

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- **“The only kind of market research that impresses me ...**

**is to see what you’ve learned
from testing your product
in the real world.”**

– Ann Winblad

What is a business plan?

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- **A concise statement:**
 - **How will you change the economics of your industry?**
 - **What will the product be?**
 - **Who will buy it, and for how much?**
 - **How will you build, and then sell, the product?**
 - **Who else will try to take your customer?**
 - **How will you respond to competition?**

Seven Questions Every Business Plan Must Answer

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- 1. What is your product**
- 2. Who is the customer; what is their problem**
- 3. Who will sell your product**
- 4. How many customers will buy it**
- 5. How much will it cost to design and build**
- 6. What is the sales price**
- 7. When will you break even**

What is a business plan? (cont'd)

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- **Key Financials**
 - **\$Sales to date from strategic customers**
 - **Projected sales for next year**
 - **Beware: If you forecast, you must achieve!**
 - **How much money do you need to finance:**
 - **Capital equipment**
 - **Inventory**
 - **Cumulative losses prior to cash-flow positive**
 - **When do you break even?**

Why are business plans important?

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- **Organize and perfect your thinking**
- **Identify key risks and possible solutions**
- **Attract talent (cofounders, advisors)**
- **Attract investors.**

About Investors

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- **Two Types:**
 - **Strategic Investors (SI's)**
 - **Financial Investors (FI's)**
- **What SI's seek:**
 - **Ways to maximize their own sales**
 - **Modest ROI on investment**
- **What FI's seek:**
 - **High valuations for your company**
 - **Enormous ROI on invested capital**

Financial Investors

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- **What is an enormous ROI?**
- **\$1 now, \$10 in five years**
 - **58% IRR**
- **\$1 now, \$2 in five years**
 - **15% IRR**

Contact...

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