1 Introduction to the Entrepreneurial Arch

I was sitting on the side of a hill one day when a breeze wafted over me. That's when it hit me – the glorious idea that became my billion-dollar business! My message to you, aspiring entrepreneur, is to go find your hill and feel your breeze.

Does anybody really believe that this is how new businesses are created? Wafts of breezes? We have all heard variations of this entrepreneurship tale before. They may be awe-inspiring, but they are useless to help transform aspiring entrepreneurs into actual ones.

Innovation and entrepreneurship are far too important to be left to a chance breeze. Growth is the number one goal of business leaders and economic developers across the globe. Growth creates value. Growth creates jobs. The world desperately needs more people that can understand how to do both. In short, it needs people that can:

- identify clear opportunities and threats from a confusing, chaotic, constantly changing environment
- formulate potential businesses that take advantage of these opportunities
- assess the feasibility of these proposed business ventures
- create practicable, operational plans for these new business opportunities from disparate and incomplete information
- acquire and align the resources necessary to launch the business (these resources will be both within and outside the organization's immediate control), and
- execute the plans in a manner that drives accelerated growth for their organizations.

We call these people entrepreneurs. Organizations of all sizes and types need entrepreneurs to solve tomorrow's problems. Entrepreneurship is a profession, or at least it should be thought of in that way. A profession is defined by what the professional does, not where they do it. An accountant is an accountant whether they work for PWC or for a small non-profit. The core of what entrepreneurs do is contained in the list above. The myth of entrepreneurship as this magical gift bestowed only upon certain individuals is debilitating. Entrepreneurship needs to be approached like any profession; a serious topic of study which takes training and experience to perfect. There will always be gifted individuals, of course. That is true in any profession. The fact that there are exceptionally gifted surgeons does not preclude the teaching of surgery, or music, or engineering, or any other profession. Entrepreneurship should be no different.

This book describes the Entrepreneurial Arch, a graphic representation of a methodology to develop a new, financially sustainable organization. That organization could be a new line of business within an existing corporation, a startup with high growth potential, a small business, or a non-profit. The methodologies of the Arch can be used to renew or grow existing businesses. The Entrepreneurial Arch takes a capabilities-centric view of business formation. Your team or organization's capabilities form the foundation of the Arch. Moving left-to-right, each segment of the Arch progressively layers on additional complexity. The venture is also systematically de-risked as it moves across the Arch. Make no mistake; this is no linear march to a successful business. The methodology is both stochastic and highly non-linear. It is also specific enough to guide any business through its development, while being general enough to account for the idiosyncratic and contextual nature of new business creation. The critical aspect of the methodology is that it breaks down the entire business creation and launch process into digestible portions.

The Arch contains six segments. These segments represent the fundamental activities I have just described, that define what entrepreneurs do. Every segment is important in the creation of a new sustainable organization. Take out any one segment of the Arch and the entire structure collapses. The Entrepreneurial Arch has two distinct halves,

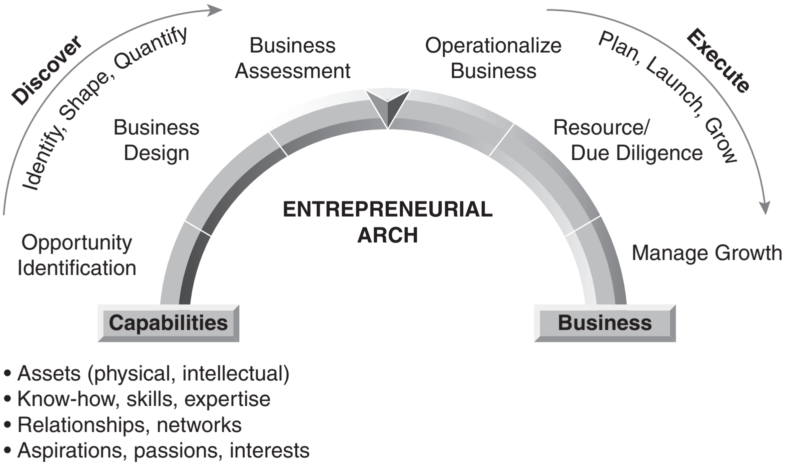

FIGURE 1.1 The Entrepreneurial Arch

as illustrated in Figure 1.1. The left-hand side of the Arch is the business discovery portion. This is an oft-neglected set of entrepreneurial activities. It is not an ideate and screen process (one where you brainstorm business ideas and then select the most promising), but rather one of directed discovery. Just as archaeologists dig to uncover past civilizations, entrepreneurs must be 'futurologists' and dig to discover future ones. Your initial idea is only a starting place on the journey. These are hypothesis-based, data-driven evaluation and reshaping techniques. The right-hand side of the Arch is the business execution side. These are the activities that are most frequently covered in standard entrepreneurship texts. Across the whole Arch de-risking, consistent with each stage of development, is performed on the venture. The discovery segments of the Arch follow a "fail fast" philosophy – determining with as little consumption of resources as possible whether there is an opportunity for you or your organization to create a business in which you can both create and capture value. Once discovered, and appropriately de-risked, you move on to the execution half of the Arch.

Many new businesses try to begin by creating a business plan, the first segment of the execution section of the Entrepreneurial Arch. However, before you spend all that time determining how you are going to execute the business would you not want to know whether that business makes any economic sense? Sadly, I knew of a couple that started a catering/hosting business. Every year they lost money, but they thought if they could just "do more" next year things would be all right. After several years, they performed a quick-and-dirty break-even calculation. They would need to do twenty events a week to break even. The only problem was that, given the elaborateness of their events, they could only do a maximum of six per week. The firm went bankrupt and the couple ended up divorced. Both the economic and the human toll of failed businesses are significant. Had they performed the assessment before launching the business they could have possibly repositioned the company as something that was more viable.

Starting with your business at the assessment phase does not work, either. Before you can evaluate the viability of a business, you have to know what it is you are evaluating. "It" has to be clearly and precisely defined. In short, the business needs to be designed. Before designing your business would you not want to know whether there is a problem worth solving, or an unmet/underserved need in the marketplace, that is aligned with your capabilities? That is opportunity identification. You need every part of the Arch. Skipping segments can lead to disaster.

Most people that are interested in starting their own business do not have a specific business they want to launch. They may talk about their passions and aspirations in the context of a business, but what they really have is a love for something. They love art history, they love helping new mothers through the birthing process. What they really want is to spend their careers getting paid to do what they love. They understand that in order to be paid to do something they have to be good at it. But that is not enough. What they do not know is how to monetize their skills and passions. Showing them how to create a business plan is not going to help them. Showing them how to do a feasibility study is also useless. They are starting with capabilities. They need the entire business discovery methodology (the left-hand side of the Entrepreneurial Arch). Without that, the entrepreneurial potential of individuals and societies will never be fully realized.

The next six chapters of this book will each cover one of the segments of the Arch, progressing from left to right. Elements that are common to multiple segments will be contained in the appendices. The final chapter summarizes the entire Entrepreneurial Arch methodology. The remainder of this chapter provides a succinct view of every segment of the Arch. The book is intended to be used both as an overview of the complete methodology and a reference for each segment.

Each of the segments of the Arch will leverage the individual or organization's capabilities. Capabilities are defined very specifically in this book and include four distinct areas: Assets (physical and intellectual), know-how/skills/expertise, relationships/networks, and aspirations/passions/interests. It is the nexus of these four areas that produces organizational opportunity.

One skill that you will use in every part of the Arch is the ability to view both the big picture and the small detail. While strategy focuses exclusively on the big picture and operations focus exclusively on the details, successful serial entrepreneurs are masters at seamlessly flowing from the big picture to the micro-detail and back. This will be referred to as the "Zoom-in, Zoom-out" skill.[1] Zooming in narrows the field of vision and magnifies details. The closer you zoom in, the finer the observable detail. Zooming out is the opposite. Zooming out widens the field of vision which elucidates the big picture. Together, these skills allow you to flow between a macro- and a micro-perspective. While discussing the business discovery section of the Arch we will use this skill to view all four aspects of a business: Motive, owner, activity, and monetization. The four levels of each of these four components are shown in Figure 1.2.

	Motive	Owner	Activity	Monetization
Zoom Out	Macro-driver	Society	Opening	Potential to create value
↕	General problem	Industry	Capabilities	Create value
	Specific issue	Industry segment	Approach	High value / Capture value
Zoom In	Need/desire	Customer	Offering/actions	Revenue model Margin assessment Investability analysis

FIGURE 1.2 The four necessary aspects of a business

CHAPTER 2 OPPORTUNITY IDENTIFICATION

The first segment of the Entrepreneurial Arch requires you to identify an opportunity to build an organization that can make an impact. This segment of the methodology is described in four steps. These steps will require zooming out and zooming in, divergent and convergent thinking. As will be common throughout this process, you will find yourself iterating within this segment in addition to iterating between sections of the Arch. The four steps that will be detailed in this chapter are summarized below.

Step 1. Zoom out

Zoom out to the macro-driver (or at least the general problem) level by using the 'what–who–what–who' technique in the opportunity space (the fields covered by the Motive and Owner dimensions).

Step 2. Zoom in and identify industry or industries

From the macro-driver level, use brainstorm techniques to identify general problems that are stimulating this macro-driver, and to identify the industries that are struggling with each general problem.

Use convergent techniques to narrow the industry list:

- is there an opening?
- does this industry align with your capabilities?

If no to either, eliminate this industry.

Choose an industry:

- initially choose the one that best aligns with your capabilities
- if all industries have been eliminated, return to Step 1.

Step 3. Zoom in to identify a high-value opportunity within this industry

Create a value system for the industry or, if repositioning from Step 4, expand a subsection of the value system created in that step.

Assess to determine high-value issue(s) and industry-segment level owner(s). Choose a high-value issue that has an opening and aligns with your capabilities.

If the high-value issues are exhausted, return to Step 2 to choose another industry.

Step 4. Business concept convergence

Can you devise an approach that would resolve the high-value issue identified in Step 3? If no, return to Step 3 and choose another high-value issue.

Assess value-capture potential by performing a positioning for value capture (PVC) assessment. Can you capture value with this approach? If yes, define complete business concept and move to business design.

If not, alter approach. Reposition firm and return to Step 3 to assess whether a new approach targets a high-value issue by zooming in on a segment of the previously crafted value system.

Once all alternative approaches have been exhausted, return to Step 3, zoom out and choose another high-value issue within this industry.

The approach taken in this segment is to make large, gross changes early and continue to refine them as the team progresses across the Entrepreneurial Arch. The approach is designed to guide you through these changes as quickly as possible and to make decisions based on real data, and not your "gut feel." The speed will help to avoid the kind of attachment to an idea that comes from simply spending a lot of time focused on it. Once you have worked a year on an idea, for example, no one is going to be able to convince you it is a bad idea. Data-based decision making will help you avoid your own biases and blind spots.

CHAPTER 3 BUSINESS DESIGN

At the end of the opportunity identification segment of the Entrepreneurial Arch is the identification of a specific, high-value opportunity upon which your organization has the capabilities to act. This segment involves a five-step methodology that frames the business. At the end of this segment, you will have a very specific, albeit qualitative, description of the business. The five steps that guide you from the opportunity to a qualitative business description are outlined below.

Step 1. Owner/motive: Customer/needs discovery

Zoom in and identify underlying needs that follow from the specific issue. Use elicitation techniques to identify industry segments. Determine the owners of those underlying needs.

Use elicitation techniques to uncover the customers' root-cause needs. It is very likely that you will discover many customer/need pairings. Choose a pair that best aligns with your capabilities and with the specific issue (i.e. is a high-value opportunity).

If none (or none left to evaluate) return to opportunity identification.

Step 2. Activity (part 1): Identify an offering that would satisfy that need

Follow logic flow backwards: From need to benefit to effect to offering attribute. Create a story board to articulate the concept. Perform more elicitations to validate hypotheses as needed. Identify offering that would have highest potential adoption rate. Create an offering position statement.

Step 3. Monetization: Identify revenue model for the offering

Is the selected revenue model consistent with customer/needs? Validate with more elicitations as necessary.

If none discovered, return to Step 2 (determine new offering) or Step 1 (new customer/need) pair.

Step 4. Owner/activity: Develop customer adoption profiles (personas) across the adoption curve for the target segment

What is the minimal viable product that meets the early adopter's needs?

How do you move from early adopters to later customers? Does the offering change? If so, how?

Step 5. Activity (part 2): Identify specific actions required to create offering and deliver it to the customer

Identify the activities that your organization will perform. Perform PVC (positioning for value capture) to ensure ability to capture value.

If unsatisfactory, repeat previous steps or return to opportunity identification.

Identify collaborators:

- identify their needs via elicitations
- determine value proposition for collaborators
- create collaborator position statement.

Has the "customer" definition changed? If so, return to Step 1.

How will these activities change as you move across the customer adoption curve? Will new capabilities be necessary as you progress? If so, how will you obtain them?

At the end of business design you do not yet have a complete business model; that model will be complete after the business assessment segment. This segment defines the core of the business model, which we call the "business construct."

CHAPTER 4 BUSINESS ASSESSMENT

This segment both completes the business model and assesses the conditions, if any, under which this business can be viable. In performing this assessment, the factors that drive the financial success of the new venture – the critical success factors (CSF) – are identified. In short, this business segment determines whether or not this venture is worth your time and any investor's money. The previous segments viewed your potential new firm from your perspective (alignment with capabilities), the customer's perspective (create value), and the industry's perspective (high-value problem with potential for you to capture value). This segment takes the financier's perspective of your firm.

This segment of the Arch has two purposes. First, it completes the business model for the proposed new venture. This completes the four perspectives of any new venture (customer, entrepreneur, industry, financier), by focusing on the financier's view of your new firm. Second, it performs a feasibility assessment allowing you, if desired, to write a feasibility study on the proposed new firm. The four steps of this segment are outlined below.

Step 1. Margin assessment

Step 2. Determining investment potential (source of capital); investment potential framework

Market sizing. Estimate market adoption rate.

Earnings projections:

- market value of earnings
- estimate firm exit value.

Investment amount required and timing.

Business exit timing.

Step 3. Financial evaluations (increasingly rigorous financial assessments) and externality assessment

Step 4. Sensitivity analysis to determine CSFs (are the conditions that allow the firm to be financially feasible realistic?)

For some people, the longer they examine an idea the more holes they can pick in it. For entrepreneurs it is the opposite: The more time passes, the more entrepreneurs increase their affinity for their initial concept. To avoid becoming intransient, one must move through the first three segments of the Arch quickly. The best way to achieve that is to go through each segment at a fairly superficial level, then repeat each segment as the concept morphs. Think of this as spiraling toward a new business concept rather than going directly at it.

CHAPTER 5 OPERATIONALIZE THE BUSINESS

At the end of the assessment segment is a specifically designed, financially feasible business. You have the "what," now you need the "how." This segment of the Arch describes how you plan to execute this business and how you plan to mitigate the risks identified in the previous segment. The business plan has four basic sections: An introduction/summary, a recapitulation of core elements of the feasibility assessment (industry, market, and offering), a strategy/operations section and finally a financial/risk section. These sections are outlined below.