FREE START-UP CHECKLISTS

THE WORLD'S BEST-SELLING ENTREPRENEURSHIP MAGAZINE

Entrepreneur®

LET'S DO BUSINESS

WWW.ENTREPRENEURMAG.CO.ZA

10-PG INVESTMENT SPECIAL FEATURE
WHAT'S HOT FOR 2008

HOW TO BUILD A MONEY MACHINE

FINE TUNE YOUR BUSINESS MODEL
PLUS A REAL-LIFE CASE STUDY

LEARN FROM THE BEST

HOW ALLAN HIRSCH BUILT HIS MULTI-MILLION RAND BUSINESS

BUSINESS OPPORTUNITIES

THERE'S MONEY TO BE MADE IN RESTAURANT FRANCHISING

START-UP CASE STUDY

FROM START-UP WITH NO CLIENTS IN 1998 TO R100M TURNOVER IN 2008

THE ULTIMATE "HOW-TO" GUIDE FOR STARTING & IMPROVING A BUSINESS

[PLUS]

- LESSONS LEARNT: ALAN KNOTT-CRAIG JNR
- HOW TO CONDUCT A MARKET ANALYSIS
- OPENING STATEMENTS THAT CLOSE DEALS
- BEST LEARNING FEATURE: MBA'S & MORE

APRIL 2008 • ISSUE 25
08004
9 771818 770003
R29.95 (INCL. VAT)
Namibia N$29.95 • Outside RSA R26.27

ENTREPRENEUR • ISSUE 25 • APRIL 2008

THE WORLD'S BEST-SELLING ENTREPRENEURSHIP MAGAZINE

WWW.ENTREPRENEURMAG.CO.ZA

CASE STUDY

REAL LIFE BUSINESS MODEL DEVELOPMENT

After giving birth to her second child and completing an MBA within a year of each other, Colette Symanowitz was looking for an opportunity to launch a business that would allow her to work from home. She needed a flexible schedule and an annuity income stream that would allow for family time. Her objective was: "To become a lifestyle entrepreneur, where my business works passively for me, rather than me actively working for my business."

She had always had the ability to network effectively, coordinate large groups of people and facilitate interaction between different parties. During her MBA she arranged functions, coordinated the sharing of lecture notes and additional readings and ensured that the class worked together so that each individual gained more from the programme. She thought about leveraging this innate ability to create a business and so the idea of MBAconnect.net was born.

Colette describes MBAconnect.net as a social network for MBA alumni and current students from all business schools. "We facilitate networking, knowledge-sharing, job opportunities, social interactions and a host of other fantastic features for the MBA community," she says.

The business is still in start-up phase, having officially launched in February 2008, but Colette has had to face up to the challenge of defining and refining her business model.

To illustrate an application of the process of defining and refining a business model, we explore her business model on three fronts: what she currently does; what she could do to refine her model and where the opportunities for business model innovation lie.

HOW DOES THE BUSINESS GENERATE REVENUE? DESCRIBE THE SOURCES OF REVENUE?

Once the business reaches critical mass, there will be four major revenue streams:

- Monthly fees paid by business schools for white-labelled* versions of the MBAconnect.net website, an alumni services package per school
- Monthly fees paid by community representatives for white-labelled* versions of the MBAconnect.net website, such as a community services package for engineers
- Fees paid by recruiters and employers to post their MBA-calibre jobs on the site
- Advertising revenue, such as banner ads on the site and in communications with users, and special offers relevant to and negotiated specifically for the mba community"

*[*A white-labelled product is a generic product created by one company and then branded by another company. In this case a generic social networking site for MBA students and MBA alumni is created by MBAconnect.net and then sold to a business school so that they can put their branding and look and feel on the site. Creating and selling white-labelled products enables a business person to build something once and sell it many times. White-labelled versions of products are prevalent in all aspects of business. Some of the most popular are white-labelled credit cards, such as a SAA Voyager credit card which is actually a Nedbank credit card, or products that come from the large consumer products companies but are branded by a retailer.]*

WHAT ARE THE MAJOR COSTS IN YOUR BUSINESS?

- **Development, maintenance and hosting of the website.** In an effort to control expenses, the business is negotiating a trade exchange agreement with a major service provider, which will allow it to obtain free web hosting in return for the placement of the service provider's advertising on the website.
- **Marketing.** Where possible, the business undertakes marketing that is effective and either free or cheap, such as banner exchange deals with other sites with a similar target market, Facebook wall postings, and networking online and at events attended by MBAs.

***Note:** MBAconnect.net was at almost 200 registered users after just two weeks of operation – visit www.mbaconnect.net to see the website.*

COLETTE SYMANOWITZ, FOUNDER & MD OF MBAconnect

"INNOVATION COMES FROM THINKING CONTINUOUSLY ABOUT SMART WAYS TO SATISFY YOUR CUSTOMERS, ESPECIALLY ON A BOOTSTRAPPING BUDGET. IT ALSO COMES FROM FOCUSING ON AN END-GOAL."

Colette has a clear understanding of her primary cost drivers. She has prioritised them appropriately for this stage of development and will probably need to add on some additional costs and reprioritise as the business develops.

One of Colette's major challenges is that the development and maintenance of the site is outsourced to a separate company. If you study high growth web-based start-ups they almost always have a technical person in the founding team or employed in the business from very early on. Website development and maintenance will always be a major cost for a business of this nature and the more control you have of that cost and the resource that carries out the work, the better off the business will be. Outsourced website developers are excellent for more static, less innovative sites. Business sites that are constantly evolving and developing benefit more from an in-house resource. Therefore, transfer from a variable to a fixed cost to get more control.

The important principle here is that the business should have its most important competency in-house. Less important competencies can be outsourced but the core competency of the business should be owned and retained by the business.

Colette should consider recruiting one of the many young web developers who are looking for a partner to create a business that will change the world.

WHAT DO YOU SEE AS THE KEY SUCCESS FACTORS FOR YOUR BUSINESS?

- **Build critical mass quickly.** The more MBAs that join MBAconnect.net, the more powerful and far-reaching the network becomes, and the better it can work for its members as a vehicle for mobilising knowledge, opportunities and talent throughout the community. The quicker this happens, the greater the barrier to entry it poses to competitors.
- **Viral marketing, word of mouth and brand evangelism.** Research indicates that, when making network-joining or buying decisions, customers worldwide tend to value the opinions of their peers, colleagues and other customers more highly than traditional marketing methods. All of the business's marketing efforts (described under "Costs") are aimed at driving word-of-mouth and viral marketing, in order to grow the community quickly. In addition, new users are directed via other key features to the Refer a Friend section of the site, in order to encourage them to invite their friends to join. This is based on research which shows that users who have just joined, are most likely to tell their friends to join. Colette has a number of brand evangelists on board who believe very strongly in the concept and the value it can add to the MBA community, such that they are actively promoting it in their networks. It is important to develop and support brand evangelists, as they are a critical source of word-of-mouth marketing.
- **Customer service excellence.** Focus on adding value for customers and meeting their needs, asking customers for feedback and incorporating common trends into the ongoing website development process. The differentiation will come from the value that is offered. If the business is able to offer more value than other MBA communities, it will build critical mass and a successful MBA community.
- **Effective expense control**
- **Secure annuity income-generating opportunities**
- **Always be on the lookout for new opportunities**

Internet advertising depends on web traffic and targeting. Until Colette has high traffic numbers on her site, advertising will be difficult to sell and is likely to grow slowly. When the website has high traffic numbers and information about members, it will become a very attractive source of revenue

Recruiters will also place a premium on traffic and the ability to target certain people. Recruitment is a fairly localised process (restricted to a particular country), so the recruitment element of the site will need to be addressed country by country and is probably one of the smaller potential revenue streams.

The white-labelled version for specific communities is likely to be a tough sell initially. Most communities, such as engineers,

COLETTE HAS MADE EXCELLENT PROGRESS BUILDING HER BUSINESS MODEL TO THIS LEVEL OF REFINEMENT AT SUCH AN EARLY STAGE OF DEVELOPMENT IN THE BUSINESS LIFE CYCLE. HER BUSINESS HAS MORE CLARITY AND FOCUS THAN MANY MORE MATURE ENTERPRISES AND IS ESTABLISHING A PLATFORM FOR GROWTH AND SUCCESS.

doctors or accountants, are controlled by institutes that are fairly slow to adopt new practices. Therefore it may be difficult to market the concept of an online social network to them. They are country specific which may restrict the possibility of broad reach.

Business schools offer an attractive opportunity. Most students develop valuable relationships that they want to maintain after school. Each business school could benefit from such a social network as it provides a very proactive means to keep in touch with alumni and students. Also, by creating versions for specific business schools, you immediately gain access to their database, creating traffic for the site. This may be an ideal area to start generating revenue.

Colette's first three critical success factors are useful in terms of being able to guide her actions and provide the business with focus. The next three factors are vague and therefore less useful. They are not likely to inspire action or guide behaviour in any significant way and therefore Colette needs to provide a little more thought to these factors.

The one factor that is missing from this list is the establishment of a system that feeds on itself. The beauty of most highly successful web-based companies is that they have created a system that is not reliant on any one person or process to be sustainable. They draw on input from many users and multiple systems and processes to grow and evolve. Facebook relies on user generated content – we all create our own Facebook profile pages to populate the site. Google uses links between other websites and web pages to determine the relative importance of a site in its search algorithm. eBay merely creates a platform for users to buy and sell via a controlled auction on their website.

MBAconnect.net needs to become a self-sustaining regenerative system if it is to achieve business success. This needs to be one of Colette's primary critical success factors. Pierre Omidyar, the founder of eBay said: "You'll know you're successful when the platform you've built serves you in unexpected ways."

Colette has made excellent progress building her business model to this level of refinement at such an early stage of development in the business life cycle. Her business has more clarity and focus than many more mature enterprises and is establishing a platform for growth and success. Colette thought about her business model from all perspectives – that of the customers, the suppliers, advertisers and herself as the entrepreneur. This process has helped her to deal with all case scenarios. She says that the benefits that emerged from thinking about her business model were innovation, continuous improvement and evolution.

"Innovation comes from thinking continuously about smart ways to satisfy your customers, especially on a bootstrapping budget. It also comes from focusing on an end goal," Colette says. She recognises that this is an ongoing process of refinement and evolution.

"The business model for MBAconnect.net was very different when the idea was first conceived, compared to now. And a few years from now, it will be even more different. Balancing change with a sense of completion, is a constant challenge. You have to be on the lookout for signs that you're on the right or wrong track, and trust your gut."

Colette calls this process the road-mapping theory. "If you get a number of positive signs (I use three as my indicator) you know you're on the right track," she says. "If you get a number of negative signs (again I use three), change direction, even if you've invested time, money and emotional commitment in that path. This helps me identify early on when to stand back and not to continue on a path that isn't likely to succeed. With time and practice, I have become better at reading the signs intuitively. This means that I am constantly modifying the business model." □

OPPORTUNITIES FOR IMPROVEMENT

ONE OF COLETTE'S challenges is that she has multiple sources of unpredictable income. She is experimenting to establish which one will work. While this can be a good practice, one needs to be careful about experimenting too widely with revenue streams. Each revenue stream takes time, effort and persistence to build and as a start-up entrepreneur your most valuable resource is time. A general rule of thumb for a start-up business is to have as many revenue sources as you have people available to focus on each one. So, Colette should focus on just one revenue source in the start-up phase. Once that revenue source has been established and stabilised, or she employs someone else, she could develop a second source of revenue.

If you have many potential sources of revenue, you need to look at them and decide which are the most promising in terms of:

- **TIME TO CASH FLOW.** How long will it take to start generating revenue?
- **OVERALL SCALE.** How much income could that revenue source potentially generate?
- **GROWTH.** How quickly will the income stream grow?
- **OTHER BENEFITS.** In developing a particular revenue stream, other aspects of the business may benefit.

GREG FISHER *CA(SA), MBA, is an associate faculty member at the Gordon Institute of Business Science (GIBS) and he is currently researching Technology Entrepreneurship at the University of Washington in Seattle.*