Him Palam RABI/ 2019/ 01

STARTUP GUIDE
FOR
STUDENTS, FACULTY AND INCUBATEES

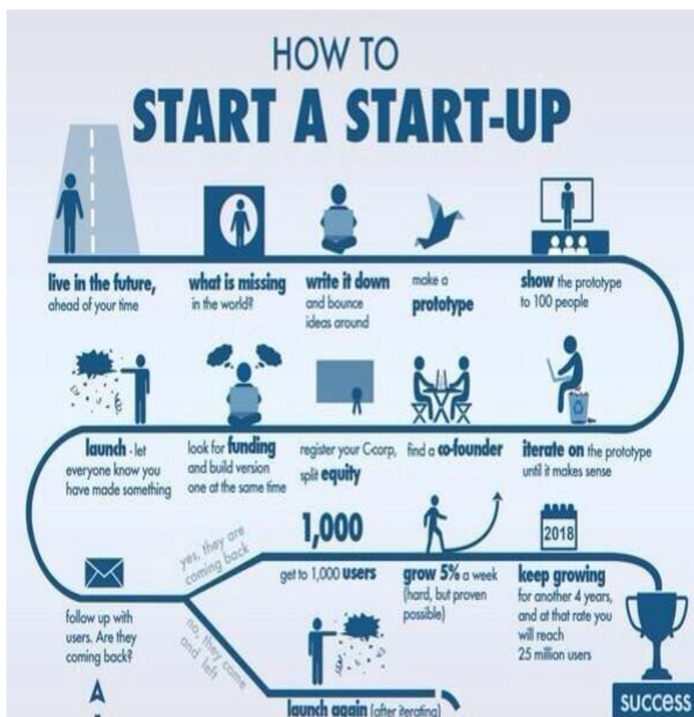

***Image services:** Web Services*

Prepared by

Dr. VK Sharma & Er. Shakiv Pandit

Him Palam R-ABI Project, Agri-Business Incubator

CSK HP Krishi Vishvavidyalaya, Palampur

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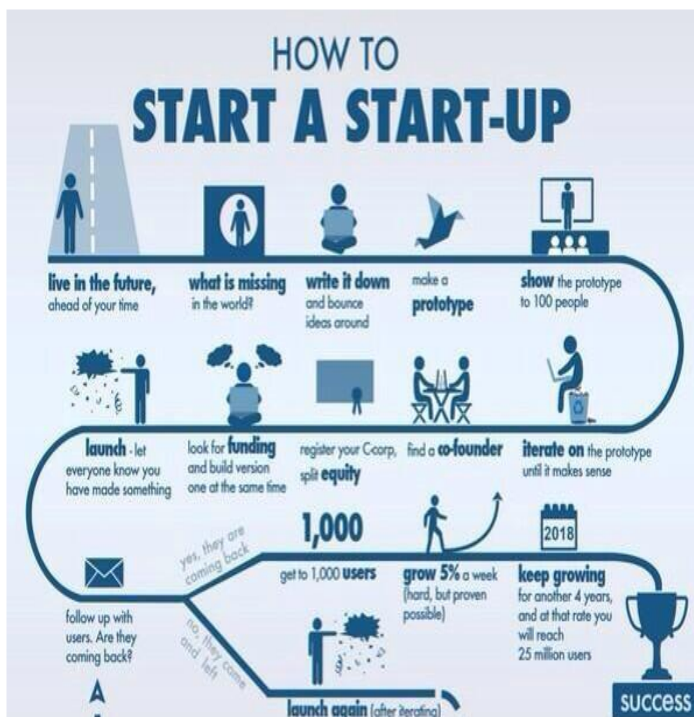

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Chapter 1. Startup concept and considerations

Concept of a startup

A startup is a young company just beginning to develop and connected with business of an innovative product or service, which is not currently being offered elsewhere in the market, or being offered in an inferior manner. In other words, A human institution designed to create a new product or service. The fundamental activities of a startup is to turn ideas into products, measure how customers respond, and then learn how to scale up.

A startup company is an entrepreneurial venture which is typically a newly emerged, fast-growing business that aims to meet a marketplace need by developing a viable business model around innovative product, service, process or platform. Startup companies are normally operating with very limited resources to find repeatable and scalable business model to go global. Launching a startup company is a challenging and bumpy road with its successes and failures, with many uncertainties and a lot of testing. The most common characteristics of a startup company are the following:

- **High growth potential** – Your business idea is based on shaky hypothesis, but you have clearly indicated the need on the market and if the execution works out as intended, the product or service has impact on many potential customers. High growth is also potential is also related to quick implementation, meaning that the product or service can be launched quickly and brings massive traction at once.

- **Scalability** – Your business model is build up so that the product or service can beoffered in many different markets at once. There might be some customizations in the customer accusation model (e.g., customer support, language, logistics, marketing activities), but in general the global market can be tackled at the same time with the same core product or service.

- **High risk of failing** – Your startup idea is unique or different/better than the competitive solutions on the market. This makes the implementation (making the customer to prefer your product or service instead of the competitive ones) uncertain and naturally quite risky.

- **Lack of resources** – Startup companies are always lacking the resources (mostly time and money) because their target market is large and the product developmentrequires a lot of testing and re-deployment. The key is to find a correct balance between the development and implementation. Your ultimate goal is to reach the revenue phase as quickly and cost-efficient as possible.

- **Lot of uncertainties in the business model** – Many startups are providing unique services or product to the customers. That is the main reason why the business model (way of providing the solution and earning money) is not clearly defined in thebeginning. You need to test your clients with various sets of business models to findout the one that fits the best. After finding the suitable model, scaling up is relatively easy.

- **Learning by doing mentality** – There is no complete guide that helps to build up a successful startup company (there are lot of good advice available though). Buildingthe startup company is in constant change dictated by market conditions, investments, habits, development of technology etc. The most certain way of gettingaccurate feedback on your activities is to run real-life test with real-life customers and real products or services (or the prototype, MVP of the product or service).

- **Client oriented approach** – Client is the king because they help to validate your hypothesis, give you the valuable feedback, and eventually, pay you money for theproduct or service. Reaching your target customers can be a harsh process but it needs to be done as soon as possible. If you want to spare some time and money,face your clients even before your core team is happy with the MVP or prototype that has been built. Customers are willing to be part of the product development process and are really eager to give you valuable feedback.

- **Different growth funding schemes** – Reaching profitability with your startup businesscan be a road with very many sidetracks. To support the quick growth and fierce product development in a startup company, there is an option to use external money. This could be in the form of a loan, an investment, a grant, a crowdfunding solution etc. Main thing is to keep an eye on the financial resources and performance ratio and to find out as quickly as possible if additional resources will be needed. Raising capital can be a long process and starting at the right time can make all the differences.

- **Importance of team/founders** – The core team of a startup company is the biggest asset the company has. There are two things that are crucial to well-performing startup teams: mix of different professional skills that are needed to build the product or launch the service and the similarities in the expectations and working models of the team-members. As long as a startup company has not launched the product or service and has not reached the revenue phase, the value of the company can be only estimated by the performance of the team. This is the number one thing for external investors as well.

Differences between a startup and SME

Setting up and developing a startup venture can be often very different than running a traditionalsmall or medium sized enterprise (SME). The main differences can be indicated as follows:

- **Growth and scalability**: Startups are different from traditional businesses primarily because they are designed to grow fast. By design, this means that they have something they can sell to a very large market. Online businesses can more easily reach a large market because people can buy from you or use your product. To operate a SME; you don’t need a big market. You just need a market and you need to be able to reach and serve all of those within yourmarket.

- **The relationship with funding**: Apart from having different ways of thinking about growth, startups seek financial investment differently than most small businesses. Startups tend to rely on capital that comes via angel investors or venture capital firms, while small business operations may rely on loans and grants, solely on their own revenue stream. The interesting

thing about venture capital is that those providing it, tend to have a moreactive role in whatever company they are backing. While a small business awardeda grant or loan may occasionally need to report back to their bank, a startup with angel backing will probably be getting a bit more help. They'll be receiving advice from the investor (after all, the investor is the one taking the biggest risk) and, if you're young and inexperienced, there's probably nothing better than a helping hand. This is especially true for those teams or individuals that become a part of anaccelerator or incubator program.

- **Planning for the "end," or the exit strategy**: Another thing you'll want to keep in mind is your vision for your business. If you're pitching for investment without an exit strategy, you're unlikely to get it. Investors usually need an exit strategy as they need to maximize their return of the investment. If you'd still like to be running the company in 10 years' time, you're probably going to want to ensure that exit plan comes in the form of a steady revenue stream that allows you to pay off investors. "Exit strategy" development is aproblem you won't have with your own business, at least not until you've made it bigor until you change your mind about owning the business. The point is, in a traditional business (not a startup), you don't need an exit strategy at the start. You'llbe entirely responsible for the future of your company and it will be down to you whether or not you run it for the rest of your life or decide to sell, merge or launch it on the stock market.

In nutshell, Micro, Small or Medium enterprises (MSMEs) usually work with a known, reliable business formula. Their creators analyze a market, find consumers and supply to them. SMEs are more likely to stay local. On the other hand, a startup aims at creating a new profitable and scalable business and providing innovative solution to pending market problems. As compared to SMEs, startups have more risk and faster-to-move in the business world

Am I likely to become a startup entrepreneur?

- To fulfill vision and ambition, a startup founder decides his business on the basis of his/ her business interest, background and experience, financial resources, unmet market needs and their network and connections. You like working hard, but also to move on. A lot of startup founders are called serial entrepreneurs – entrepreneurs who have founded many startup ventures. If you know you'll see many ofyour ideas to become live, a startup may be a better approach. twice about starting any type of business.

- Your product or service (or idea) has a huge market potential. In order to grow rapidly you're going to need to "think big". A really big market is ideally in the realm of millions. This is part of the reason tech startups are the most popular type of startup—it's easy to reach millions on the internet, regardless of where they live or when they do business. A local cafe does not have this luxury.

- You like input and guidance from business experts: There are plenty of people around who have done something slightly similar to you and who are willing to provide you their insights and experiences. If you are willing to use support like that, and you react according to the advice, it is likely you reach the success and avoid the mistakes that a lot of entrepreneurs

have made before you. Working with advisors and mentors can be hard, but it pays off as long as you keep an open mind.

- You are an innovator. In the world of startup companies, the idea is everything, as is rapid innovation. Many companies today have stopped innovating internally and instead spend millions, sometimes billions acquiring startups that do it for them instead. This is whymany startup founders launch with exit strategies that focus on a buy-out. If you like innovation and you are eager to test-drive many of your innovative ideas every now or then, you are likely to be a startup entrepreneur.

- You have a special skill. Successful startups are launched by teams, but it is important that each team- member (especially in the beginning) has a strong skill that helps to accomplish the goals of the company. Special skill also means that you have deep understanding on one or two subjects and you are ready to turn your knowledge into success of thestartup. As long as you convert this passion to the benefit of the company, it is likely tobe a success.

- You love a certain amount of uncertainty. Building a startup company is often related to flexible working hours, unpredictable obstacles, emerging challenges and appearance of incredible obstacles. What founding a startup company definitely is not, is 8-hour workdays, fixed salary, solid bonus system, perks and good night sleep. So, you need to be prepared for that. If you like fixed route of the carrier and you have daily responsibilities that keep you from committing full time to the startup, it is definitely an obstacle. According to startup entrepreneur and investor, Ben Horowitz: “As a startup founder I slept like ababy. I woke up every two hours and cried.”

Pre-requisites for launching a startup company

- **Recommendations for startup founders**: A lot of startup companies are failing. The ratio of successful startups can be estimated something around 15-20% of all the ventures established. So, it is very likely that the first startups launched, might end up nowhere. What is still important is the experience the startup founders gain. Learningby doing and working together with business advisors and mentors give the founders a set of skillsand know-how that makes it easier to succeed with the next startup company to be launched. To increase the likeliness of your startup to become a successful one, it is important to follow thesteps of other entrepreneurs. It helps you to prevent the mistakes that the others have made andgives you the opportunity to follow the same route that proved to be successful for others. The majority of successful startup founders highlight the following aspects as important ones, if you consider launching your own startup company.

- **Building a strong and committed team**: There is no startup company who has succeeded without a strong team. It is the number one thingyou need to consider before moving on. The founding team of a startup should have the skill-set and motivation to work together and to achieve the common goals. It is always recommended to combine team out of the people who are different. The people who have different experiences, different knowledge and different cultural background. The ideal teams of startup companies definitely combine the roles of

business developer, engineering or technology professional, marketing and sales specialist and product or service development specialist. The roles, of cause,can be a bit different, depending on the core of your product or service. The formation of startup teams should be done not according to friendships, but according to the skills needed to build up a successful company. In some cases, it is more convenient to do business with people you know well, but if you want to find best from the best, one should look further than that. As a startup founder, it is important to describe the skill-set that is required to execute the idea and then seek for the right persons matching the profile. In most of the cases it means that team members should be looked from other countries and even from other continents,but it all pays off, as it grants you the cultural and experience mix required to be successful. Team commitment is always an issue if some members of the team have other daily obligations and roles to be filled. Launching a startup company often requires 100% commitment form the key-founders. If the commitment level is under that, the progress takes longer and the startup is likely to run out of resources. It is recommended that the startup company should operate in sprints, where all the team-members commit their time fully to develop the company, but the time periodsare shorter (e.g., one week, one month, three months). Working in sprints also helps to keep the progress, product or service development on track.

- **Knowing and understanding the trends**: If you are launching a technology related startup, it is important to foresee and understand the going trends in the sector. There are plenty of research papers, reports, intellectual property material and other documents available to see if the idea or concept fits in the habits or trends of customer behavior. Competition is also something that gives you the indication about market trends. It is easy to trackthe progress of your closest competition and see if they are performing good in specific markets and what are the challenges that they are encountering. It is possible to find out the regions and markets most suitable for your product or service (because potential customers are used to similar services), estimate the potential market impact of your solution, or find out the markets where similar solutions are not yet there and can be easily conquered by you.

- **Making constant changes**: Startup companies don't have fixed products or services, fixed business models or fixed target groups. Everything is likely to change over time, over the experiences gained from the market. Startup companies still draw their business plans and action plans, but the founders are always ready to review and change the plans, even with weekly intervals. That is the main reason why startup companies work in sprints and use lean development models. Usually this means that startups have hypothesis on product development or business process defined, and the team works for a fixed period of time to build an MVP and test that out in real market conditions. If the development proved to be successful (customers and market reacted on that and positive tractioncould be measured) then the final model will be developed and launched. Fixing the product, service or business model too soon (before it is confirmed in real market conditions) can lead to enormous risks of running out the resources. If the startup team fully refinesthe end product or service and launches it around 6-month later than they would have launched the MVP or prototype, and the market reject the solution, it means a 6-month worth of workinghours and money is wasted. Small achievements and quick tests prevent that from happening.

- **Working with mentors and advisors**: Startup community is closely tied together regionally and globally. There are plenty of field-specific experts, serial entrepreneurs, universities, business incubators, accelerators available that are willing to help you. These professionals have seen many projects like yours, they have worked withthe market you like to enter, they have failed doing what you want to do and they are keen to sharetheir expertise. Startup founders should find the team of mentors and advisors based on the development plans and challenges that they are facing. For example, if you are developing a software solution for Finnish construction sector, it would be wise to connect with a person or mentorship program experienced in construction sector (how to sell and define the value proposition, open the doors offirst clients) and Finnish market (understanding the market conditions, competition). Depending onthe development goals of a startup company the criteria of the advisor could be different and connected to the knowledge needed the most. If the startup company is raising additional capital from the investors, it is also important to bring the knowledge in together with the money. Investors, like mentors and advisors, have field specificcharacteristics and startup entrepreneur should take in the money that helps them the most. For example, there are investors used to work in specific sector (ICT, health-tech, electronics, financialservices etc.), investors working with specific markets (USA, India, Chine etc.), even the acceleration programs and incubators have their focus set. So, if you are looking for funding or applying to the growth program, select the one that falls in line with your business development plans.

- **Measuring the progress**: When you are working with different challenges simultaneously it is hard to keep an eye on the progress you are making (or if you are even making any progress). This is why startup companies are using metrics – tools and systems to measure their performance. Tracking the performance helps founders to keep a pulse on the viability of the startup and signal when a course correction isneeded. Normally startup companies don't conduct the developments or activities that cannot be measured, that means, if you cannot measure it, it is probably useless and doesn't have any impact on your performance. First and foremost, metrics help startups to set goals. In early growth stages goals are just dreams with deadlines and without metrics, it would be next to impossible to set goals and measure the progress towards them. Metrics also help entrepreneurs make smart, informed decisions about their startups. They can identify trends and patterns, problem areas and successes, and potential next steps. Before making major decisions (e.g., product iterations and raising capital), startups canconsult their metrics. Without metrics, it is hard to tell how far the company has progressed. It is also hard to tell when the company is in trouble until it's too late. There are different metrics established and companies measure different performance indicators(KPIs). Most common ones are: customer accusation cost, retention, activation, referral, life-timevalue of the customer, revenue stream, etc.

- **Business matchmaking**: Entrepreneurs do the business matchmaking daily to connect with wide range of business professionals that can be beneficial for the success of their startup company. The main reason tobe well connected in the early stages of a startup company is connected to the opportunity to findteam-members or co-founders for the startup. To build a strong team for the startup company it isneeded to find the people with different professional background that can be useful to proceed. The perfect place to start is definitely universities

with many students, well-qualified, and ready to take on the business challenges you have. In this stage, it is crucial to crystalize the idea that you are working on and present the complex overview of the plans to potential cofounders. In perfect case of scenario, the startup entrepreneur ends up with a mix of professionals (even cross-countryprofessionals) willing to work with the startup project. Finding employees for the startup requires strong matchmaking abilities as well. Startup companies run on limited resources and that makes hiring the professionals difficult. The core ofstrong collaboration of the first employees is the common belief in the business idea and willingness to work for an option or equity of the established startup company.

- **Building sustainable partnerships**: Strong partnership links with industry, R&D units and corporations are vital to a startup company.These links require establishment, maintenance and execution. Very often the startup team assigns a full-time person to handle the partnerships that help the company to meet its business goals. Establishing the partnerships links with different organizations require the strategic view of the goals. The partnerships should be beneficial to both parties and if they aren't, the partnerships justdon't work. If you start establishing the links, it is smart to categorize the needed benefits. For example, if the company needs R&D support that can be found in the universities, it is smart to pick the universities close to you or the ones that have the track record of executing something similar to your product, service. If you need connections to the distant markets, it would be useful to establish links with the set of regional resellers or organizations that provide similar services in needed market. Maintaining a set of good-quality partnerships is hard work as well. The win-win collaboration should be sustainable and a system of value exchange should be established. One of the key aspects in establishing this situation is openness. Startup entrepreneurs are not usually keen to disclose their intentions and details of their product and services. By establishing and maintaininga B2B cooperation this setup should be reviewed. If you want to get something from the partnership (access to market, client relationship, R&D support etc.) the details play significant role. It is good to present the partners the details of your business plan and make your intentions understandable for them. Even if they are not able to help you in some of the cases, they can stillrepresent you and recommend you other links of partnerships. To protect your idea and your business strategy it is good to develop a partnership agreement to ensure that both sides are protected and share the same vision of how the partnership will work.

Considerations for launching a startup company

- **Ownership pattern**: The ownership interest of the company that is held by various parties. Initially, the founders typically own 100 percent of the company. A license agreement with any university and equity financing (in which someone provides funding in exchange for a percentage of the company) often occur early in the formation of a startup. At that time, the owners of the equity are the founders, the investors, and university. The investor group will typically want 40 to 60 percent of the company, though the percentages can vary based on a number of factors, and may be less for individual investors.

- **Pre- and post-money valuation**: The company's pre-money valuation is its value before an investment is made. Pre-money valuation must be reasonable. Post-money valuation is the pre-money valuation plus the amount invested. For example, if investors provide 30 crores and the pre-money valuation is 20 crores, the post-money valuation is 50 crores. In this example, the investors have 60 percent of the equity.

- **Preferred shares compared to common shares**: Investors typically take preferred shares, and the founders and employees hold common shares. Preferred shareholders may have additional rights. For example, preferred shareholders have the right to get a multiple of their investments back (often one times the amount, but it can be higher) before any distribution to other shareholders. This can be illustrated with a simple example in which the preferred shareholders (investors) invested 5 crores, they hold 50 percent of the equity, have a 1X preference, and the startup is sold for 25 crores. In this case, the investors will first get 10 crores and then the remaining 20 10 crores is split according to the equity percentage of the shareholders: 10 crores to the investors, and 10 crores to the common shareholders. When starting a company, the co-founders should agree about how to split the equity. A conversation of this nature should take place early in the process, and agreement should be formalized. Is the contribution of each founder equal? Is the risk the same for each founder?

- **Type of company**: The company should be registered as per the DPIIT guidelines.

- **Board of directors and the advisory board**: Establish an advisory board early in the launch process. An advisory board should be three to four people who can provide guidance in areas with which the founders are not familiar; for example, raising money, hiring, sales, product development, and manufacturing. A board of directors should include one individual from the company, one or more investors, and independent industry representatives.

- **Management team**: Consider each founder's role in the management team. Generally, a faculty member will have an advisory board role, and a postdoctoral or PhD student may be the chief technology officer or the vice president of research and development. Other team members may be needed with strong domain expertise, sales experience, and marketing know-how. Investors are usually interested in a company with a strong management team; they are unlikely to fund even the best ideas if the right team is not in place.

- **Space**: Space, insurance, and payroll: make decisions about workspace, insurance, and payroll right away so that the team can concentrate on building the product and the business. Consider hiring an operations person or an assistant to manage these items, renting shared office space, and outsourcing payroll.

- **Tax implications**: There are personal tax implications for founders, depending on how equity is granted. It is vital that you get legal advice on these tax implications before

incorporating the company and issuing shares. Choose legal counsel that has experience working with startup companies.

Factors determining success of a startup

The reality is that only some inventions may be suitable for the creation of a startup company. Innovations may progress more quickly in a focused startup than in an academic lab or a large company.

- **Demand**: Potential of the core technology to provide a solid platform for multiple markets or product opportunities.
- **Competition**: Identification of other companies that offer similar solutions
- **Licensing**: Likelihood of market and revenue in licensing the technology
- **Funding**: Availability of capital to build and grow the business, together with the interest, capabilities, and track record of likely investors.
- **Commitment**: Level of commitment and involvement of the inventors.
- **Support**: Presence of a true business champion for both the technology and the new venture.
- **Management**: Experience, passion, and drive of the startup's executive team.

Key Considerations to decide whether or not to start a startup:

- Is the invention a disruptive technology? If not, how would it be categorized?

- How soon can a commercial product come to market?

- What is the level of risk associated with this startup?

- Does the technology have clear applications and a definable market?

- Who owns the intellectual property (IP)?

- What will be my role in the new company: full–time employee, advisory board member, executive, or consultant?

- What are the goals for the company? Is it to grow the company and position it for an acquisition or a possible initial public offering (IPO)? Or, is it to build a small, yet sustainable business?

- Will capital from private investment companies be needed? If so, will the company eventually be sold or go public? Private investors rely on these exit strategies to get a return on their investments.

- What is the current value of the company i.e Pre-money valuations (valuation of a company prior to an investment)? The valuations are based on several factors, including: In what stage of development is the technology? Is there proof-of-concept lab data? Is there a working prototype? Are there paying customers?

- Speaking with external advisors or mentors who can provide additional perspectives and guidance. Once IP protection is in place, talk about your ideas (with a confidentiality agreement in place, when appropriate); the more feedback you receive, the higher the likeli hood of success. Talk to potential customers. The information obtained by asking questions will provide critical feedback that not only will increase confidence in the startup's potential, but also will enhance the likelihood of receiving funding and, ultimately, the success of the venture.

- Founder must be aware of the important questions, viz. Who are your customers? What do they care about? Can the company's product(s) solve their problems? How are they currently addressing the problems? How does the technology solve their problems in a unique way? How large is the market? How much are they willing to pay for a solution?

Chapter 2. DPIIT startup essentials

Following is the Notification dated 19th February, 2019 from, Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry, Government of India, New Delhi regarding essentials for defining a startup and its certification. **G.S.R. 127(E)** notification is being issued in supersession of the Gazette Notification No. G.S.R. 364(E) dated April 11, 2018 as modified vide Gazette Notification No. G.S.R. 34 (E) dated January 16, 2019.

Definitions

1. In this notification, —

(a) An entity shall be considered as a Startup:

i. Upto a period of ten years from the date of incorporation/ registration, if it is incorporated as a private limited company (as defined in the Companies Act, 2013) or registered as a partnership firm (registered under section 59 of the Partnership Act, 1932) or a limited liability partnership (under the Limited Liability Partnership Act, 2008) in India.

ii. Turnover of the entity for any of the financial years since incorporation/ registration has not exceeded one hundred crore rupees.

iii. Entity is working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation.

Provided that an entity formed by splitting up or reconstruction of an existing business shallnot be considered a 'Startup'.

Explanation

(a) An entity shall cease to be a Startup on completion of ten years from the date of its incorporation/registration or if its turnover for any previous year exceeds one hundred crore rupees.

(b) "Act" means the Income-tax Act, 1961;

(c) "Board" means the Inter-Ministerial Board of Certification comprising of the following members:

(i) Joint Secretary, Department of Promotion of Industry and Internal Trade, Convener

(ii) Representative of Department of Biotechnology, Member

(iii) Representative of Department of Science & Technology, Member

(d) "CBDT" means Central Board of Direct Taxes constituted under the Central Boards of Revenue Act, 1963 (54 of 1963);

(e) "Limited liability partnership" shall have the meaning as assigned to it in clause (n) of sub-section (1) of Section 2 of the Limited Liability Partnership Act, 2008;

(f) "Partnership firm" means a firm registered under section 59 of the Partnership Act, 1932;

(g) "Private limited company" shall have the meaning as assigned to it in clause (68) Section 2of the Companies Act, 2013;

(h) "turnover" shall have the meaning as assigned to it in clause (91) Section 2 of the

CompaniesAct, 2013;

(i) All references to “Forms” in this notification shall be construed as references to the forms setout in Appendix-I hereto;

(j) “DPIIT” means Department for Promotion of Industry and Internal Trade.

Recognition

2. The process of recognition of an eligible entity as startup shall be as under: —

(i) A Startup shall make an online application over the mobile app or portal set up by the DPIIT.

(ii) The application shall be accompanied by—

(a) a copy of Certificate of Incorporation or Registration, as the case may be, and

(b) a write-up about the nature of business highlighting how it is working towards innovation, development or improvement of products or processes or services, or its scalability in terms of employment generation or wealth creation.

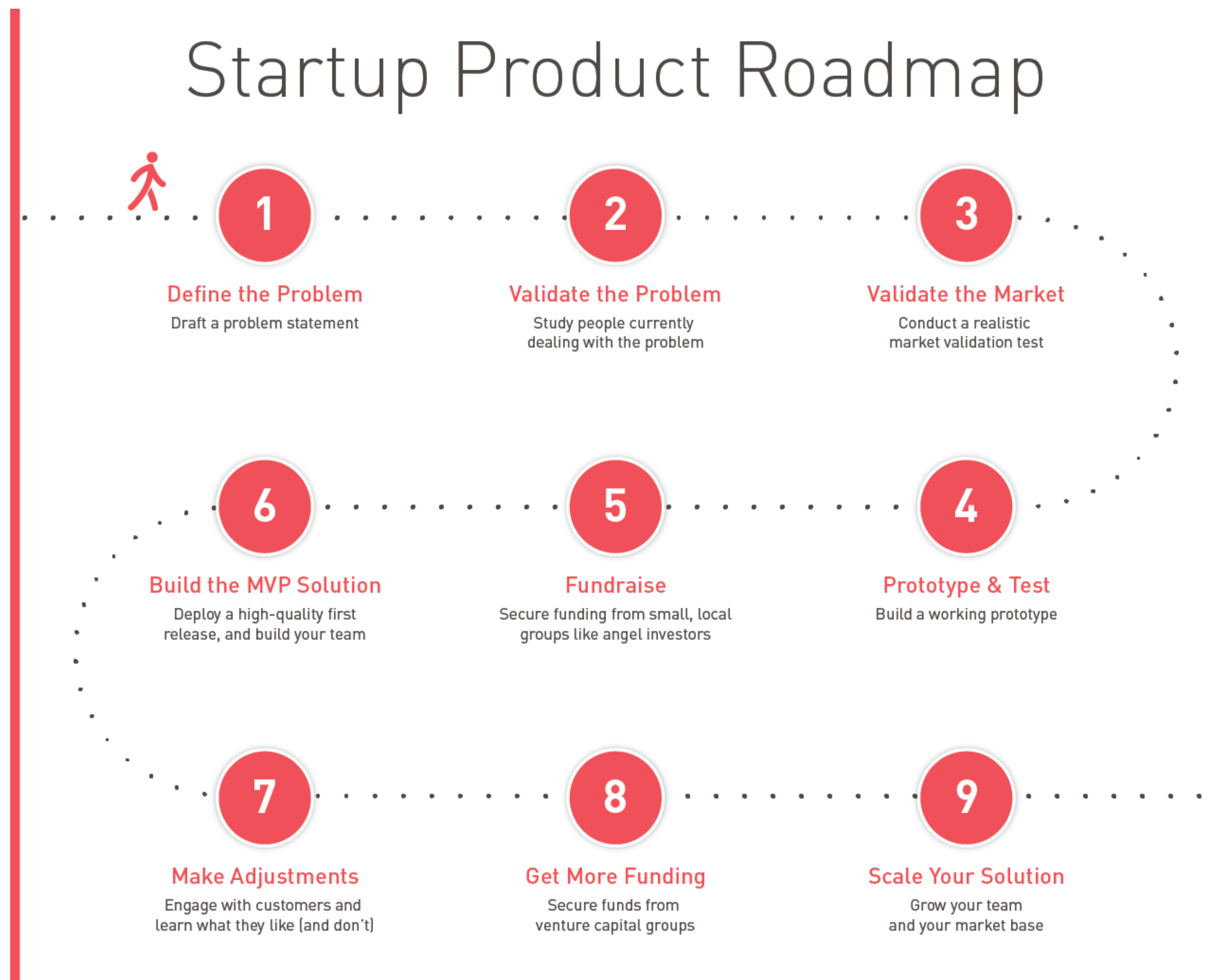
(iii) The DPIIT may, after calling for such documents or information and making such enquires, asit may deem fit, —

(a) recognize the eligible entity as Startup; or

(b) reject the application by providing reasons.

Chapter 3. Growth phases of a startup

Following Startup Product Roadmap will help to grow the startup scientifically and invest time and effort appropriately.



There are nine main steps for the successful launching of a startup. Those nine steps shown diagrammatically above can be grouped into three phases of startup development

- Product Discovery
- Minimum Viable Product (MVP)/ Pilot release
- Commercialization

Phase 1: Product Discovery

Step 1 – Problem Statement

Follow 5W2H method for identifying your business problem/ products/ services:

- **What:** What is the problem that needs to be solved? Include the root cause of the problem. Mention other micro problems that are connected with the macro-ones.
- **Why:** Why is it a problem? Describe the reasons why it is a problem. Include supporting facts and statistics to highlight the trouble.
- **Where:** Where is the problem observed? Mention the location and the specifics of it. Include the products or services in which the problem is seen.
- **Who:** Who is impacted by this problem? Define and mention the customers, the staff, departments, and businesses affected by the problem.
- **When:** When was the problem first observed? Talk about the timeline. Explain how the intensity of the problem has changed from the time it was first observed.
- **How:** How is the problem observed? Mention the indications of the problem. Talk about the observations you made while conducting problem analysis.
- **How much:** How often is the problem observed? If you have identified a trend during your research, mention it. Comment on the error rate and the frequency and magnitude of the problem.

The single necessary and sufficient condition for a startup to succeed is a paying customer. A startup is a business, not a product.

- Is the problem real?
- How painful is the problem?
- Identify the people that struggle with problem.
- Draft a problem statement. Identify the issue that needs to be fixed and the people who benefit.

How to decide most suitable business idea

i) Inside the business

- Strengths-specific positive aspects to have advantage over competitors: better quality product, located near your customer.
- Weaknesses- Perhaps your costs will be high because to pay more for transport.

ii) **Outside the business (external environment**)

- Opportunities-demand may increase because of the influx of tourists.
- Threats-the business idea could be so simple that other people may start similar businesses in your area

Characteristics of a right business idea

- WHICH need does your product or service satisfy for your customer? -to find out your future customers.
- WHAT type of product or service will your business sell? - people are willing to pay for.

- WHO will buy your products or services? Will you sell to a specific type of customer or to everyone in an area?
- HOW are you going to sell your products and services? to sell directly to customers or to retailers.
- To decide what kind of business, assess your interests, your background and experiences, your financial resources, unmet market needs, problems you can solve and your network and connections.
- The main reasons of being entrepreneurs rather than staying employed are Control (to be their own boss), Ambition (to start something from scratch themselves) and Financial (opportunity to earn more money).

Types of innovation

- Invention - Creation of a new product, service or process
- Extension - Expansion of a product, service or process to end-users in bulk (commercialization of agricultural technologies)
- Duplication - Replication of an already existing product, service or process (making it simple, cheaper and consumers' focused)
- Synthesis - Combination of existing concepts and a new formulation/methodology

Writing of a problem statement

A business problem statement consists of following four main components

i) **The problem:** The problem statement begins with mentioning and explaining the current state.
ii) **Who it affects:** Mention the people who are affected by the problem?
iii) **How it impacts:** Explain the impacts of the problem.
iv) **The solution:** Your problem statement ends with a proposed solution.

Example 1: A problem statement by a software company

The problem of a manual auditing process affects the finance department and the staff as the process creates a lot of hassle because of the searching and verifying physical documents. The impact of this is a lengthy auditing process where many mishaps and misplacements of documents happen. A successful solution would be to create an online database with search filters that would make it easy to find and verify documents.

Example 2: A problem statement by a manufacturing company

The problem of an inefficient manual assembly process affects the productivity of the company, and the workers have to manually install some parts, which consumes more time.

This impacts the production goals and incremental loss for this year. An efficient solution would be to install conveyor belts to optimize the manufacturing process.

Step 2 – Problem Validation

- Talk and observe people…a lot of people.
- If a problem is real, it's likely that people are currently solving it in an inefficient manner.
- Find out how they're solving it. Without disclosing your solution, try to get an idea of what someone would be willing to exchange with you (e.g. money, time, something else) for making the problem go away.

- If they haven’t tried to address the problem, *it really isn’t that painful*.

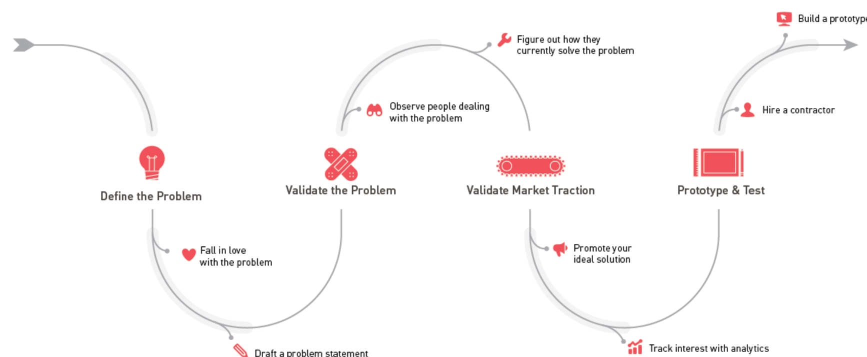
Step 3 – Market Validation

- At this stage, it’s time to start sharing your solution and testing people’s appetite to engage. This usually means validating the market with supporting materials that make the product seem real, then meticulously tracking how much it costs to generate real interest.
- Create a simple website that describes the product and entices the viewer to learn more by clicking a button. If the user clicks the button, the site communicates that the product is in development and asks the user to share an email address so they can learn more as the product matures. This type of simple site creates a conversion funnel that you can track with Google Analytics.
- Driving traffic to a site like this will also likely require purchasing ads on Facebook or Google. Track how much it costs to get people to the site, and then monitor the funnel fall-off.
- Continue to tweak the marketing message if things aren’t resonating at first. If you hit a wall and still can’t get traction, consider whether your target audience is the right audience for your solution. It’s possible that your solution is the right one for the problem, but your initial target customer isn’t correct. If this is the case, re-run this step and target the new customer. Does your solution resonate? How much will it cost to acquire a customer? Build a realistic market validation test.

Step 4 – Prototype and Testing

- Now you’re ready to create a workable solution that helps a select group of customers.
- Be scrappy, cut corners, and use off-the-shelf components and systems where possible. *Your goal is to test the solution, not provide the final, polished product.*
- If the problem is real, customers will tolerate a less-than-ideal solution.
- Pay close attention to the customer feedback that you get, and quickly rev the solution to address concerns.
- You should ultimately plan on throwing away the prototype if your tests are successful.

DISCOVERY



Phase 2- Pilot release/ MVP

You have a working prototype that's solving a problem. Things are about to get real, really fast. It's time to take the leap and build your Pilot Release. The Pilot Release phase is where you fund and build your MVP, bring it to market, learn what works and what doesn't, and start gaining real market traction.

Step 5 – Outside Fund raising

Investors envision your product as a black box. They want to see proof that if money goes into the box, more money eventually comes out. This money will be used to develop your high-quality MVP solution and fund your marketing effort. Hopefully, your prior work will help prove that the investment risk is worth it. Now it's time to identify angel investors and make your case. Is someone else willing to invest in solving the problem with your solution? Find local angel groups or smaller funds. Most mid-size and larger cities have these groups. Reach out to a bunch of them. It's good to get a lot of irons in the fire. Angel groups are amazing because most are happy to provide both capital and mentorship. Since you've done so much pre-work, there will be lots of experienced business and technical folks who are happy to review and critique your pitch. Search them out and leverage their feedback. They likely won't charge you for limited amounts of their time.

Step 6 – Quality MVP Solution

You've done an excellent job defining, refining, and testing your solution. It's now time to build a high-quality release. This production code base will be the technical foundation for your product. During this hase, it'll also be a good idea to start building your own internal technical capability. Does your generic solution work for many people? Find a high-quality design and technical partner. Look for a team with a solid process and proven track record.

Step 7 – Tweaking and Honing

Your MVP is live, and now things are starting to get interesting. During this time, it'll be valuable to collect lots of information, personally connect with users, and gather as much information as possible.

Your user base will likely still be small at this step—so-called "overnight" success stories generally happen over the course of many years. Look at your limited user base as a great opportunity to learn, and really nail the experience for them before you scale it. Future investors won't care about how much money and energy you've invested. They care about 1) lifetime customer value, 2) cost of acquisition, and 3) the ratio between these two. How long can I get existing clients to stay with the platform? How low can I make my per-customer acquisition costs? Ramp down your team, ramp up your marketing, and engage with your customers. Now that people are using your product, you can watch their real behaviors and gather their feedback. Leverage this information to:

- **Lower acquisition costs** – Figure out why prospects leave your pipeline before buying/subscribing, and tweak your process/marketing to get more customers.

- **Improve lifetime value** – Figure out why clients leave after a period of time, and improve your product to better meet their needs (or identify and prioritize improvements for future funding).

- **Outside involvement**: Depending on your go-to-market strategy, consider engaging with a marketing services firm.

- **Low Customer Acquisition cost (CAC):** A highly scalable business achieves a good product Market fit before scaling. Good Product market fit drives a strong word of mouth growth. This organic growth helps a startup reduce the customer acquisition cost. In other words, unless you are creating a new market, scalable businesses do not need massive spending on marketing and sales.

- **Modest upfront investment with fewer incremental costs:** Software & Technology is something that can be replicated and simultaneously used by multiple people. Thousand and Millions of people can use the same software at very low incremental cost to the company. The founder typically invests initial money hiring engineers and setting up the scalable infrastructure. The company has unprecedented profit margins but typically reinvests a lot back into R&D and continuous product development.

- **Huge TAM**: It is impossible to scale a business if the market is too small. If the Total Addressable Market (TAM) is huge, business needs a small slice of that market to be a huge success. Scalable businesses typically go after large TAM and are backed by VC's.

Phase 3: Commercialization

Commercialization is focused on scaling your product and growing value. Since this is the first major product offering for your company, it's also about creating a viable long-term entity. You've been absolutely killing it! You've identified and validated a problem, built a prototype, and gone live with an MVP product that the market loves. Now, you have three options: Sell, Scale, or Sustain? Make a choice with your vision and ambition.

i) **Sell** – You could look to sell your product today. You've likely created something that can fit into someone else's product portfolio. This option would probably provide a decent return for you and your investors.

ii) **Scale** – You could double down on the value that you've created and plan to scale your company by servicing more clients, providing more products, and continuing to grow your value. Note that this plan means raising more money—a lot more money.

iii) **Sustain** – You could aim for slow, sustainable growth with little-to-no more outside investment (sometimes called a lifestyle business). If you're happy with modest gains and you'd rather focus on running the business than on constantly raising more money, this is the route for you. Of course, this is only possible if your existing investors are happy with this scenario, or if you can buy them out.

Step 8: More Fundraising

If you've chosen Option 2 above, it's time to find investors. You have a clear, repeatable model; now you need a lot more money for marketing, scaling your team, and growing the product suite.

The capital required at this phase generally comes from venture capital (VC) firms. VCs primarily exist in big cities. They're run by bankers, and they want you to grow fast. It's likely that you'll be raising millions of dollars at this point. It's also likely that you'll be taking money from people who live in a different geography. These folks are professional fund managers. They understand complex deal structures, and they care about making money. Be aware: If you decide to raise money from VCs, you've chosen the path of aggressive growth. From now on, *"success" means selling the business or taking it public*.

Step 9 – Scaling (Grow, grow, grow.)

You'll need to scale your development team, your marketing efforts, and your sales ability. Hiring the right people and setting up the right infrastructure will be invaluable. Chances are, it makes sense to continue using your design and development consultancy for additional quality capacity as you scale. Talent will be your bottleneck. You may continuously cycle between Steps 8 and 9 until you sell the company. Can you grow more value? Build out your company, grow your team, and grow your client base. Work toward bringing your core competencies inside your company and leveraging service providers for all other services.

General characteristic of a successful startup

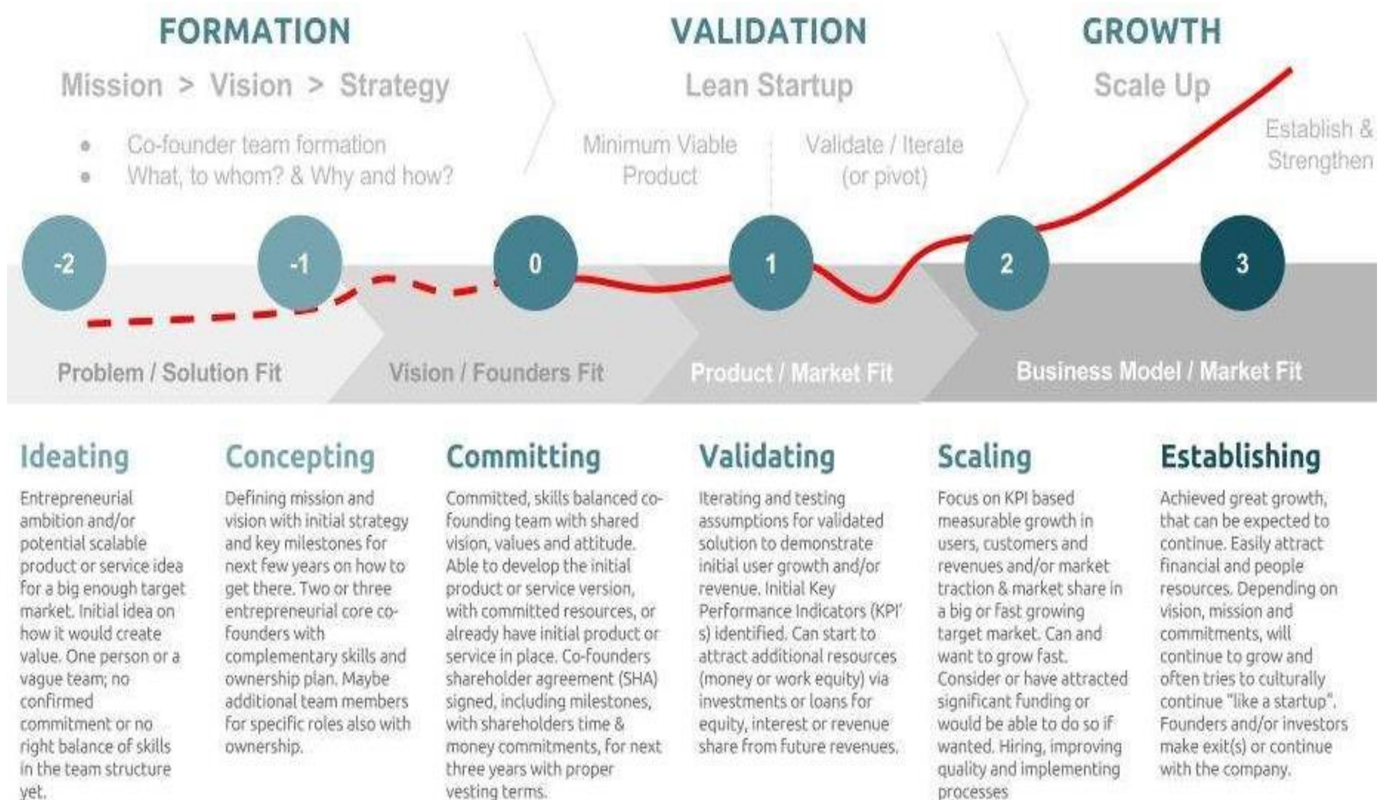
- Company - new, recently created.
- Innovation - To differentiate from the competition, startups need to be very innovative.
- Product - the company's activities occur around a single product / service.
- Team - the environment requires small team, which usually includes some recent graduates with little experience but a lot of skill and speed, it is required rapid delivery, usually under pressure.
- Structure - at the beginning, still experimenting and learning, they are unstructured and virtually with no hierarchy and managers.
- Resources - in startups economic resources, human and physical are usually extremely limited. Generally, need financial resources from investors (the owners, Venture Capital, Angels, ...)
- Partnerships - to make things happen quickly and with few resources, startups need to focus on the product / core-business, using wherever possible third-party components to build the product, such as platforms, APIs, Open-Source software, etc. And also, outsourcing some activities.
- Uncertainties - Startups deal with many uncertainties from different perspectives: market, product resources, competition, people and finances.
- High risk adaptability to market changes, new technologies and competitive products.
- Repeatable and scalable business model
- Low Customer Acquisition cost (CAC)

- Modest upfront investment with fewer incremental costs
- Huge Total Addressable Market (TAM) TAM
- Needs few people to operate
- High gross margins and Profits
- Less Regulatory and Legal barriers
- Product Distribution is simple and inexpensive
- Low cost of maintenance and support
- High Customer retention (low churn)
- Strong Network effects (both on Supply-side and demand side)

Chapter 4. Supporting organizations for incubation services

Incubation means a process of providing support to potential entrepreneurs from idea creation to startup Maturity in terms of lab facilities, access to finance, coaching and mentoring services, specific training and also being an integral part of the startup ecosystem at various levels. A startup ecosystem
Is formed by people, startups in their various stages and various types of organizations in a location (physical and/or virtual), interacting as a system to create new startup companies. These organizations can be further divided into categories: universities, funding organizations, support organizations (like incubators, accelerators, co-working spaces etc.), research organizations, service provider organizations (like legal, financial services etc.) and large corporations. Even after maturity phase (ready to walk on its own feet), an entrepreneur may require incubation services to increase the sales, improve production processes, internationalize its services, etc. The place or institute engaged in post- incubation is known as the "Accelerator".

The following picture highlights the important processes of a startup, which require support for their effective implementation:



The most relevant supporting organizations are universities (entrepreneurship and innovation centers in the universities), business incubators and business accelerators. These organizations may come in different forms, starting from providing a set of business support services (mentorship, consulting services) ending with offices, R&D centers and laboratories for the startup entrepreneurs. It is important to understand the growth phase of your startup company to avail the best services. Startup companies in the ideating and concept phase match best with the services provided by the university entrepreneurship and innovation units. Startup companies in the committing and validating phase match best with theservices provided by the business incubators. Startup companies in the scaling phase match best with the services provided by business accelerators.

Universities

Universities can combine their business development programs with the R&D or testing facilities available. This means, that the startup companies can build the prototype or test the functionalityof the product in the university lab, and develop the business plan in the university growth program. The services provided by the universities are often free, or with minimum commitment fee for connected to the lab facility usage.

Incubators

An Incubator is a place where the incubation activities are carried out, and where the potential entrepreneurs find a suitable place, in terms of facilities and expertise, to convert their business ideas into a profitable business. Incubators without walls" or e-platforms of online services are called virtual incubators. An incubator may still be an incubator even if it doesn't provide physical incubation services, and concentrates on virtual incubation. Business incubation is a unique and highly flexible combination of business development services (mentorship, trainings, matchmaking etc.), infrastructure (office facilities, open office, meeting rooms, makers labs etc.) and people designed to boost the growth of a startup company by helpingthem to survive and grow through the difficult and vulnerable early stages of development.

Business incubators are usually designed for the startup companies or full-scale teams who havevalidated their business model, built the MVP or prototype, and are ready to launch the product orservice on the market. Incubation programs run normally for half a year till two or three years. During that time period the startup validates and fixes the business model, reaches the initial revenue by effective sales and marketing, finishes the initial product development and raises thefirst, seed-stage capital for growth. Business incubators are suitable for the startups that are not yet ready to launch their product on the market and need to figure out the exact strategy to get the sales and revenue going. Incubatorsalso fit the startups that have already launched, but need to pivot (change) their business model orproduct to reach the market fit. Business incubators are normally not investing money to the startup companies, but some programs tend to have a system of grants or other financial support available. The services of thebusiness incubator are usually not for free and the entrepreneurs need to pay some fee (that is relatively low compared with the service fees in real market conditions).

Accelerators

Startup accelerators are fixed-term, cohort-based programs, that include mentorship and educational components and culminate in a public pitch event or demo day. While traditional business incubators are often government-funded, generally take no equity, accelerators can be either privately or publicly funded and focus on a wide range of industries. The application processfor startup accelerators is open to anyone, but highly competitive. There are specific types of startup accelerators, such as corporate accelerator, which are often subsidiaries or programs of larger corporations that act like startup accelerators.

The main differences between business incubators and accelerators are:

- The application process is open to anyone, but highly competitive.
- A seed investment in the startups is usually made, in exchange for equity.
- The focus is on small teams, not on individual founders. Accelerators consider thatone person is insufficient to handle all the work associated with a startup.
- The acceleration program typically runs for a very specific time, usually 3 months. During this time, the participants receive intensive mentoring and training, and theyare expected to iterate rapidly.
- All accelerators end their programs with a "Demo Day", where the startups presentto investors.

Chapter 5. Development of a business model

A business model describes the rationale of how a company creates, delivers, and captures value. A business model describes the rationale of how a company creates, delivers, and captures value. There are nine building blocks for an innovative and scalable business model/ startup. A good business model will include plans to make the business sustainable and improve its market position. So, it will have to take into account all the growth opportunities and external threats, and incorporate a long-term product roadmap. Alexander Osterwalder, the founder of Strategyzer, has developed perhaps the most comprehensive template for business models, called the Business Model Canvas. There are nine building blocks for an innovative and scalable business model/ startup. The Business Model Canvas to discuss their existing and new businesses in a structured and tangible manner. While new companies use it to search for the right business model, established businesses use it to manage their strategy and create new growth avenues.

The 9 Building Blocks

CS

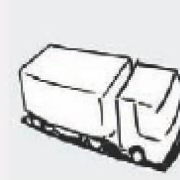
1 Customer Segments

An organization serves one or several Customer Segments.

VP

2 Value Propositions

It seeks to solve customer problems and satisfy customer needs with value propositions.



CH

3 Channels

Value propositions are delivered to customers through communication, distribution, and sales Channels.

CR

4 Customer Relationships

Customer relationships are established and maintained with each Customer Segment.

R$

Revenue Streams

Revenue streams result from value propositions successfully offered to customers.

KR

6 Key Resources

Key resources are the assets required to offer and deliver the previously described elements …

KA

7 Key Activities

… by performing a number of Key Activities.

KP

8 Key Partnerships

Some activities are outsourced and some resources are acquired outside the enterprise.

C$

9 Cost Structure

The business model elements result in the cost structure.

Customer Segments

The Customer Segments Building Block defines the different groups of people or organizations an enterprise aims to reach and serve

Customers comprise the heart of any business model. Without (profitable) customers, no company can survive for long. In order to better satisfy customers, a company may group them into distinct segments with common needs, common behaviors, or other attributes. A business model may define one or several large or small Customer Segments. An organization must make a conscious decision about which segments to serve and which segments to ignore. Once this decision is made, a business model can be carefully designed around a strong understanding of specific customer needs.

Customer groups represent separate segments if:

- *Their needs require and justify a distinct offer*
- *They are reached through different Distribution Channels*
- *They require different types of relationships*
- *They have substantially different profitabilities*
- *They are willing to pay for different aspects of the offer*

For whom are we creating value? Who are our most important customers?

2

There are different types of Customer Segments. Here are some examples:

Mass market

Business models focused on mass markets don't distinguish between different Customer Segments. The Value Propositions, Distribution Channels, and Customer Relationships all focus on one large group of customers with broadly similar needs and problems. This type of business model is often found in the consumer electronics sector.

Niche market

Business models targeting niche markets cater to specific, specialized Customer Segments. The Value Propositions, Distribution Channels, and Customer Relationships are all tailored to the specific requirements of a niche market. Such business models are often found in supplier-buyer relationships. For example, many car part manufacturers depend heavily on purchases from major automobile manufacturers.

Segmented

Some business models distinguish between market segments with slightly different needs and problems. The retail arm of a bank like Credit Suisse, for example, may distinguish between a large group of customers, each possessing assets of up to U.S. $100,000, and a smaller group of affluent clients, each of whose net worth exceeds U.S. $500,000. Both segments have similar but varying needs and problems. This has implications for the other building blocks of Credit Suisse's business model, such as the Value Proposition, Distribution Channels, Customer Relationships, and Revenue streams. Consider Micro Precision Systems, which specializes in providing outsourced micromechanical design and manufacturing solutions. It serves three different Customer Segments—the watch industry, the medical industry, and the industrial automation sector—and offers each slightly different Value Propositions.

Diversified

An organization with a diversified customer business model serves two unrelated Customer Segments with very different needs and problems. For example, in 2006 Amazon.com decided to diversify its retail business by selling "cloud computing" services: online storage space and on-demand server usage. Thus it started catering to a totally different Customer Segment—Web companies—with a totally different Value Proposition. The strategic rationale behind this diversification can be found in Amazon.com's powerful IT infrastructure, which can be shared by its retail sales operations and the new cloud computing service unit.

Multi-sided platforms (or multi-sided markets)

Some organizations serve two or more interdependent Customer Segments. A credit card company, for example, needs a large base of credit card holders and a large base of merchants who accept those credit cards. Similarly, an enterprise offering a free newspaper needs a large reader base to attract advertisers. On the other hand, it also needs advertisers to finance production and distribution. Both segments are required to make the business model work (read more about multi-sided platforms on p. 76).

Value Propositions

The Value Propositions Building Block describes the bundle of products and services that create value for a specific Customer Segment

The Value Proposition is the reason why customers turn to one company over another. It solves a customer problem or satisfies a customer need. Each Value Proposition consists of a selected bundle of products and/or services that caters to the requirements of a specific Customer Segment. In this sense, the Value Proposition is an aggregation, or bundle, of benefits that a company offers customers.

Some Value Propositions may be innovative and represent a new or disruptive offer. Others may be similar to existing market offers, but with added features and attributes.

What value do we deliver to the customer? Which one of our customer's problems are we helping to solve? Which customer needs are we satisfying? What bundles of products and services are we offering to each Customer Segment?

A Value Proposition creates value for a Customer Segment through a distinct mix of elements catering to that segment's needs. Values may be quantitative (e.g. price, speed of service) or qualitative (e.g. design, customer experience).

Elements from the following non-exhaustive list can contribute to customer value creation.

Newness

Some Value Propositions satisfy an entirely new set of needs that customers previously didn't perceive because there was no similar offering. This is often, but not always, technology related. Cell phones, for instance, created a whole new industry around mobile telecommunication. On the other hand, products such as ethical investment funds have little to do with new technology.

Performance

Improving product or service performance has traditionally been a common way to create value. The PC sector has traditionally relied on this factor by bringing more powerful machines to market. But improved performance has its limits. In recent years, for example, faster PCs, more disk storage space, and better graphics have failed to produce corresponding growth in customer demand.

Customization

Tailoring products and services to the specific needs of individual customers or Customer Segments creates value. In recent years, the concepts of mass customization and customer co-creation have gained importance. This approach allows for customized products and services, while still taking advantage of economies of scale.

"Getting the job done"

Value can be created simply by helping a customer get certain jobs done. Rolls-Royce understands this very well: its airline customers rely entirely on Rolls-Royce to manufacture and service their jet engines. This arrangement allows customers to focus on running their airlines. In return, the airlines pay Rolls-Royce a fee for every hour an engine runs.

Design

Design is an important but difficult element to measure. A product may stand out because of superior design. In the fashion and consumer electronics industries, design can be a particularly important part of the Value Proposition.

Brand/status

Customers may find value in the simple act of using and displaying a specific brand. Wearing a Rolex watch signifies wealth, for example. On the other end of the spectrum, skateboarders may wear the latest "underground" brands to show that they are "in."

Price

Offering similar value at a lower price is a common way to satisfy the needs of price-sensitive Customer Segments. But low-price Value Propositions have important implications for the rest of a business model. No frills airlines, such as Southwest, easyJet, and Ryanair have designed entire business models specifically to enable low cost air travel. Another example of a price-based Value Proposition can be seen in the Nano, a new car designed and manufactured by the Indian conglomerate Tata. Its surprisingly low price makes the automobile affordable to a whole new segment of the Indian population. Increasingly, free offers are starting to permeate various industries. Free offers range from free newspapers to free e-mail, free mobile phone services, and more (see p. 88 for more on FREE).

Cost reduction

Helping customers reduce costs is an important way to create value. Salesforce.com, for example, sells a hosted Customer Relationship management (CRM) application. This relieves buyers from the expense and trouble of having to buy, install, and manage CRM software themselves.

Risk reduction

Customers value reducing the risks they incur when purchasing products or services. For a used car buyer, a one-year service guarantee reduces the risk of post-purchase breakdowns and repairs. A service-level guarantee partially reduces the risk undertaken by a purchaser of outsourced IT services.

Accessibility

Making products and services available to customers who previously lacked access to them is another way to create value. This can result from business model innovation, new technologies, or a combination of both. NetJets, for instance, popularized the concept of fractional private jet ownership. Using an innovative business model, NetJets offers individuals and corporations access to private jets, a service previously unaffordable to most customers. Mutual funds provide another example of value creation through increased accessibility. This innovative financial product made it possible even for those with modest wealth to build diversified investment portfolios.

Convenience/usability

Making things more convenient or easier to use can create substantial value. With iPod and iTunes, Apple offered customers unprecedented convenience searching, buying, downloading, and listening to digital music. It now dominates the market.

Channels

The Channels Building Block describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition

Communication, distribution, and sales Channels comprise a company's interface with customers. Channels are customer touch points that play an important role in the customer experience. Channels serve several functions, including:

- *Raising awareness among customers about a company's products and services*
- *Helping customers evaluate a company's Value Proposition*
- *Allowing customers to purchase specific products and services*
- *Delivering a Value Proposition to customers*
- *Providing post-purchase customer support*

Through which Channels do our Customer Segments want to be reached? How are we reaching them now? How are our Channels integrated? Which ones work best? Which ones are most cost-efficient? How are we integrating them with customer routines?

Channels have five distinct phases. Each channel can cover some or all of these phases. We can distinguish between direct Channels and indirect ones, as well as between owned Channels and partner Channels.

Finding the right mix of Channels to satisfy how customers want to be reached is crucial in bringing a Value Proposition to market. An organization can choose between reaching its customers through its own Channels, through partner Channels, or through a mix of both. Owned Channels can be direct, such as an in-house sales force or a Web site, or they can be indirect, such as retail stores owned or operated by the organization. Partner Channels are indirect and span a whole range of options, such as wholesale distribution, retail, or partner-owned Web sites.

Partner Channels lead to lower margins, but they allow an organization to expand its reach and benefit from partner strengths. Owned Channels and particularly direct ones have higher margins, but can be costly to put in place and to operate. The trick is to find the right balance between the different types of Channels, to integrate them in a way to create a great customer experience, and to maximize revenues.

Channel Types			Channel Phases				
Own	Direct	*Sales force*	**1. Awareness** How do we raise awareness about our company's products and services?	**2. Evaluation** How do we help customers evaluate our organization's Value Proposition?	**3. Purchase** How do we allow customers to purchase specific products and services?	**4. Delivery** How do we deliver a Value Proposition to customers?	**5. After sales** How do we provide post-purchase customer support?
Own	Direct	*Web sales*					
Own	Indirect	*Own stores*					
Partner	Indirect	*Partner stores*					
Partner	Indirect	*Wholesaler*					

Customer Relationships

The Customer Relationships Building Block describes the types of relationships a company establishes with specific Customer Segments

A company should clarify the type of relationship it wants to establish with each Customer Segment. Relationships can range from personal to automated. Customer relationships may be driven by the following motivations:

- *Customer acquisition*
- *Customer retention*
- *Boosting sales (upselling)*

In the early days, for example, mobile network operator Customer Relationships were driven by aggressive acquisition strategies involving free mobile phones. When the market became saturated, operators switched to focusing on customer retention and increasing average revenue per customer.

The Customer Relationships called for by a company's business model deeply influence the overall customer experience.

What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How costly are they? How are they integrated with the rest of our business model?

We can distinguish between several categories of Customer Relationships, which may co-exist in a company's relationship with a particular Customer Segment:

Personal assistance
This relationship is based on human interaction. The customer can communicate with a real customer representative to get help during the sales process or after the purchase is complete. This may happen on-site at the point of sale, through call centers, by e-mail, or through other means.

Dedicated personal assistance
This relationship involves dedicating a customer representative specifically to an individual client. It represents the deepest and most intimate type of relationship and normally develops over a long period of time. In private banking services, for example, dedicated bankers serve high net worth individuals. Similar relationships can be found in other businesses in the form of key account managers who maintain personal relationships with important customers.

Self-service
In this type of relationship, a company maintains no direct relationship with customers. It provides all the necessary means for customers to help themselves.

Automated services
This type of relationship mixes a more sophisticated form of customer self-service with automated processes. For example, personal online profiles give customers access to customized services. Automated services can recognize individual customers and their characteristics, and offer information related to orders or transactions. At their best, automated services can simulate a personal relationship (e.g. offering book or movie recommendations).

Communities
Increasingly, companies are utilizing user communities to become more involved with customers/prospects and to facilitate connections between community members. Many companies maintain online communities that allow users to exchange knowledge and solve each other's problems. Communities can also help companies better understand their customers. Pharmaceutical giant GlaxoSmithKline launched a private online community when it introduced *alli*, a new prescription-free weight-loss product.

GlaxoSmithKline wanted to increase its understanding of the challenges faced by overweight adults, and thereby learn to better manage customer expectations.

Co-creation
More companies are going beyond the traditional customer-vendor relationship to co-create value with customers. Amazon.com invites customers to write reviews and thus create value for other book lovers. Some companies engage customers to assist with the design of new and innovative products. Others, such as YouTube.com, solicit customers to create content for public consumption.

Revenue Streams

The Revenue Streams Building Block represents the cash a company generates from each Customer Segment (costs must be subtracted from revenues to create earnings)

If customers comprise the heart of a business model, Revenue Streams are its arteries. A company must ask itself, For what value is each Customer Segment truly willing to pay? Successfully answering that question allows the firm to generate one or more Revenue Streams from each Customer Segment. Each Revenue Stream may have different pricing mechanisms, such as fixed list prices, bargaining, auctioning, market dependent, volume dependent, or yield management.

A business model can involve two different types of Revenue Streams:

1. *Transaction revenues resulting from one-time customer payments*
2. *Recurring revenues resulting from ongoing payments to either deliver a Value Proposition to customers or provide post-purchase customer support*

For what value are our customers really willing to pay? For what do they currently pay? How are they currently paying? How would they prefer to pay? How much does each Revenue Stream contribute to overall revenues?

There are several ways to generate Revenue Streams:

Asset sale
The most widely understood Revenue Stream derives from selling ownership rights to a physical product. Amazon.com sells books, music, consumer electronics, and more online. Fiat sells automobiles, which buyers are free to drive, resell, or even destroy.

Usage fee
This Revenue Stream is generated by the use of a particular service. The more a service is used, the more the customer pays. A telecom operator may charge customers for the number of minutes spent on the phone. A hotel charges customers for the number of nights rooms are used. A package delivery service charges customers for the delivery of a parcel from one location to another.

Subscription fees
This Revenue Stream is generated by selling continuous access to a service. A gym sells its members monthly or yearly subscriptions in exchange for access to its exercise facilities. World of Warcraft Online, a Web-based computer game, allows users to play its online game in exchange for a monthly subscription fee. Nokia's Comes with Music service gives users access to a music library for a subscription fee.

Lending/Renting/Leasing
This Revenue Stream is created by temporarily granting someone the exclusive right to use a particular asset for a fixed period in return for a fee. For the lender this provides the advantage of recurring revenues. Renters or lessees, on the other hand, enjoy the benefits of incurring expenses for only a limited time rather than bearing the full costs of ownership. Zipcar.com provides a good illustration. The company allows customers to rent cars by the hour in North American cities. Zipcar.com's service has led many people to decide to rent rather than purchase automobiles.

Licensing
This Revenue Stream is generated by giving customers permission to use protected intellectual property in exchange for licensing fees. Licensing allows rights-holders to generate revenues from their property without having to manufacture a product or commercialize a service. Licensing is common in the media industry, where content owners retain copyright while selling usage licenses to third parties. Similarly, in technology sectors, patentholders grant other companies the right to use a patented technology in return for a license fee

Brokerage fees
This Revenue Stream derives from intermediation services performed on behalf of two or more parties. Credit card providers, for example, earn revenues by taking a percentage of the value of each sales transaction executed between credit card merchants and customers. Brokers and real estate agents earn a commission each time they successfully match a buyer and seller.

Advertising
This Revenue Stream results from fees for advertising a particular product, service, or brand. Traditionally, the media industry and event organizers relied heavily on revenues from advertising. In recent years other sectors, including software and services, have started relying more heavily on advertising revenues.

Each Revenue Stream might have different pricing mechanisms. The type of pricing mechanism chosen can make a big difference in terms of revenues generated. There are two main types of pricing mechanism: fixed and dynamic pricing.

Pricing Mechanisms

Fixed Menu Pricing Predefined prices are based on static variables		**Dynamic Pricing** Prices change based on market conditions	
List price	Fixed prices for individual products, services, or other Value Propositions	*Negotiation (bargaining)*	Price negotiated between two or more partners depending on negotiation power and/or negotiation skills
Product feature dependent	Price depends on the number or quality of Value Proposition features	*Yield management*	Price depends on inventory and time of purchase (normally used for perishable resources such as hotel rooms or airline seats)
Customer segment dependent	Price depends on the type and characteristic of a Customer Segment	*Real-time-market*	Price is established dynamically based on supply and demand
Volume dependent	Price as a function of the quantity purchased	*Auctions*	Price determined by outcome of competitive bidding

Key Resources

The Key Resources Building Block describes the most important assets required to make a business model work

Every business model requires Key Resources. These resources allow an enterprise to create and offer a Value Proposition, reach markets, maintain relationships with Customer Segments, and earn revenues. Different Key Resources are needed depending on the type of business model. A microchip manufacturer requires capital-intensive production facilities, whereas a microchip designer focuses more on human resources.

Key resources can be physical, financial, intellectual, or human. Key resources can be owned or leased by the company or acquired from key partners.

Key Activities

The Key Activities Building Block describes the most important things a company must do to make its business model work

Every business model calls for a number of Key Activities. These are the most important actions a company must take to operate successfully. Like Key Resources, they are required to create and offer a Value Proposition, reach markets, maintain Customer Relationships, and earn revenues. And like Key Resources, Key Activities differ depending on business model type. For software maker Microsoft, Key Activities include software development.

For PC manufacturer Dell, Key Activities include supply chain management. For consultancy McKinsey, Key Activities include problem solving.

What Key Resources do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?

Key Resources can be categorized as follows:

Physical

This category includes physical assets such as manufacturing facilities, buildings, vehicles, machines, systems, point-of-sales systems, and distribution networks. Retailers like Wal-Mart and Amazon.com rely heavily on physical resources, which are often capital-intensive. The former has an enormous global network of stores and related logistics infrastructure. The latter has an extensive IT, warehouse, and logistics infrastructure.

Intellectual

Intellectual resources such as brands, proprietary knowledge, patents and copyrights, partnerships, and customer databases are increasingly important components of a strong business model. Intellectual resources are difficult to develop but when successfully created may offer substantial value. Consumer goods companies such as Nike and Sony rely heavily on brand as a Key Resource. Microsoft and SAP depend on software and related intellectual property developed over many years. Qualcomm, a designer and supplier of chipsets for broadband mobile devices, built its business model around patented microchip designs that earn the company substantial licensing fees.

Human

Every enterprise requires human resources, but people are particularly prominent in certain business models. For example, human resources are crucial in knowledge-intensive and creative industries. A pharmaceutical company such as Novartis, for example, relies heavily on human resources: Its business model is predicated on an army of experienced scientists and a large and skilled sales force.

Financial

Some business models call for financial resources and/or financial guarantees, such as cash, lines of credit, or a stock option pool for hiring key employees. Ericsson, the telecom manufacturer, provides an example of financial resource leverage within a business model. Ericsson may opt to borrow funds from banks and capital markets, then use a portion of the proceeds to provide vendor financing to equipment customers, thus ensuring that orders are placed with Ericsson rather than competitors.

What Key Activities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue streams?

Key Activities can be categorized as follows:

Production

These activities relate to designing, making, and delivering a product in substantial quantities and/or of superior quality. Production activity dominates the business models of manufacturing firms.

Problem solving

Key Activities of this type relate to coming up with new solutions to individual customer problems. The operations of consultancies, hospitals, and other service organizations are typically dominated by problem solving activities. Their business models call for activities such as knowledge management and continuous training.

Platform/network

Business models designed with a platform as a Key Resource are dominated by platform or network-related Key Activities. Networks, matchmaking platforms, software, and even brands can function as a platform. eBay's business model requires that the company continually develop and maintain its platform: the Web site at eBay.com. Visa's business model requires activities related to its Visa® credit card transaction platform for merchants, customers, and banks. Microsoft's business model requires managing the interface between other vendors' software and its Windows® operating system platform. Key Activities in this category relate to platform management, service provisioning, and platform promotion.

Key Partnerships

The Key Partnerships Building Block describes the network of suppliers and partners that make the business model work

Companies forge partnerships for many reasons, and partnerships are becoming a cornerstone of many business models. Companies create alliances to optimize their business models, reduce risk, or acquire resources.

We can distinguish between four different types of partnerships:

1. *Strategic alliances between non-competitors*
2. *Coopetition: strategic partnerships between competitors*
3. *Joint ventures to develop new businesses*
4. *Buyer-supplier relationships to assure reliable supplies*

Who are our Key Partners? Who are our key suppliers? Which Key Resources are we acquiring from partners? Which Key Activities do partners perform?

It can be useful to distinguish between three motivations for creating partnerships:

Optimization and economy of scale
The most basic form of partnership or buyer-supplier relationship is designed to optimize the allocation of resources and activities. It is illogical for a company to own all resources or perform every activity by itself. Optimization and economy of scale partnerships are usually formed to reduce costs, and often involve outsourcing or sharing infrastructure.

Reduction of risk and uncertainty
Partnerships can help reduce risk in a competitive environment characterized by uncertainty. It is not unusual for competitors to form a strategic alliance in one area while competing in another. Blu-ray, for example, is an optical disc format jointly developed by a group of the world's leading consumer electronics, personal computer, and media manufacturers. The group cooperated to bring Blu-ray technology to market, yet individual members compete in selling their own Blu-ray products.

Acquisition of particular resources and activities
Few companies own all the resources or perform all the activities described by their business models. Rather, they extend their own capabilities by relying on other firms to furnish particular resources or perform certain activities. Such partnerships can be motivated by needs to acquire knowledge, licenses, or access to customers. A mobile phone manufacturer, for example, may license an operating system for its handsets rather than developing one in-house. An insurer may choose to rely on independent brokers to sell its policies rather than develop its own sales force.

Cost Structure

The Cost Structure describes all costs incurred to operate a business model

This building block describes the most important costs incurred while operating under a particular business model. Creating and delivering value, maintaining Customer Relationships, and generating revenue all incur costs. Such costs can be calculated relatively easily after defining Key Resources, Key Activities, and Key Partnerships. Some business models, though, are more cost-driven than others. So-called "no frills" airlines, for instance, have built business models entirely around low Cost Structures.

What are the most important costs inherent in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive?

Naturally enough, costs should be minimized in every business model. But low Cost Structures are more important to some business models than to others. Therefore it can be useful to distinguish between two broad classes of business model Cost Structures: cost-driven and value-driven (many business models fall in between these two extremes):

Cost-driven
Cost-driven business models focus on minimizing costs wherever possible. This approach aims at creating and maintaining the leanest possible Cost Structure, using low price Value Propositions, maximum automation, and extensive outsourcing. No frills airlines, such as Southwest, easyJet, and Ryanair typify cost-driven business models.

Value-driven
Some companies are less concerned with the cost implications of a particular business model design, and instead focus on value creation. Premium Value Propositions and a high degree of personalized service usually characterize value-driven business models. Luxury hotels, with their lavish facilities and exclusive services, fall into this category.

Cost Structures can have the following characteristics:

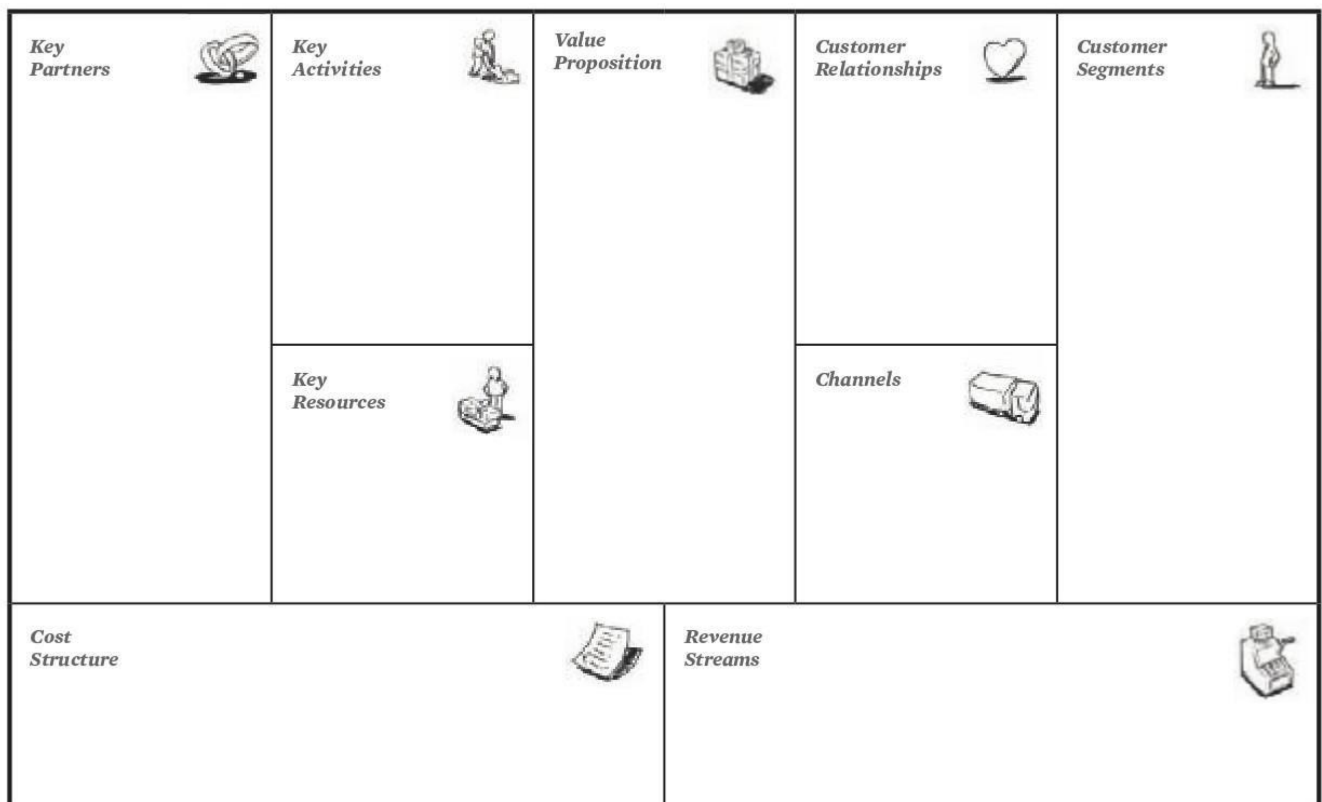
Fixed costs
Costs that remain the same despite the volume of goods or services produced. Examples include salaries, rents, and physical manufacturing facilities. Some businesses, such as manufacturing companies, are characterized by a high proportion of fixed costs.

Variable costs
Costs that vary proportionally with the volume of goods or services produced. Some businesses, such as music festivals, are characterized by a high proportion of variable costs.

Economies of scale
Cost advantages that a business enjoys as its output expands. Larger companies, for instance, benefit from lower bulk purchase rates. This and other factors cause average cost per unit to fall as output rises.

Economies of scope
Cost advantages that a business enjoys due to a larger scope of operations. In a large enterprise, for example, the same marketing activities or Distribution Channels may support multiple products.

The Business Model Canvas



Chapter 6. Development of Quality Minimum Viable Product

A Minimum Viable Product (MVP) is the "version of a new product which allows a team to collect the maximum amount of validated learning about customers with the least effort" (similar to a pilot experiment). The goal of an MVP is to test fundamental business hypotheses and to help entrepreneurs begin the learning process as quickly as possible. Quality MVP means creating a product that has just those core features sufficient to deploy the product and get market validation. A good MVP is that which qualifies the market need without having to build out an exhaustive product. Don't seek to make money right off the bat with your MVP. Don't seek profitability. Seek to get validation or valuable feedback to help you build a version that can scale to become a big business.

Lean startup methodology

Every startup is a grand experiment that attempts to answer a question. The question is not "Can this product be built?" Instead, the questions are "*Should this product be built*?" and "*Can we build a sustainable business around this set of products and services*?". Early validation of your product help companies navigate and minimize the failure risk. The Lean Startup method teaches you to work smarter not harder i.e., how to drive a startup-how to steer, when to turn, and when to grow a business with maximum acceleration.

Lean startup methodology aims at developing businesses and products with shorten development cycles and rapidly discover if a proposed business model is viable. This is achieved by adopting a combination of business-hypothesis-driven experimentation, iterative product releases, and validated learning. Lean startup emphasizes customer feedback over intuition and flexibility over planning. This methodology enables recovery from failures more often than traditional ways of product development.

The lean startup methodology has five key principles that are both simple and straightforward (Ries, 2011). The first principle, “entrepreneurs are everywhere”, denotes that those who see and utilize an opportunity can be found at any place, including large enterprises. The second principle, “entrepreneurship is management”, means that the process of utilizing opportunities need to be well planned and executed, which will lead to lessons learned. In turn, these lessons account for the third principle, which is “validated learning”. The fourth and fifth principles, “innovation accounting” and “build–measure–learn” are more practical, and they constitute the application aspect of the lean startup methodology.

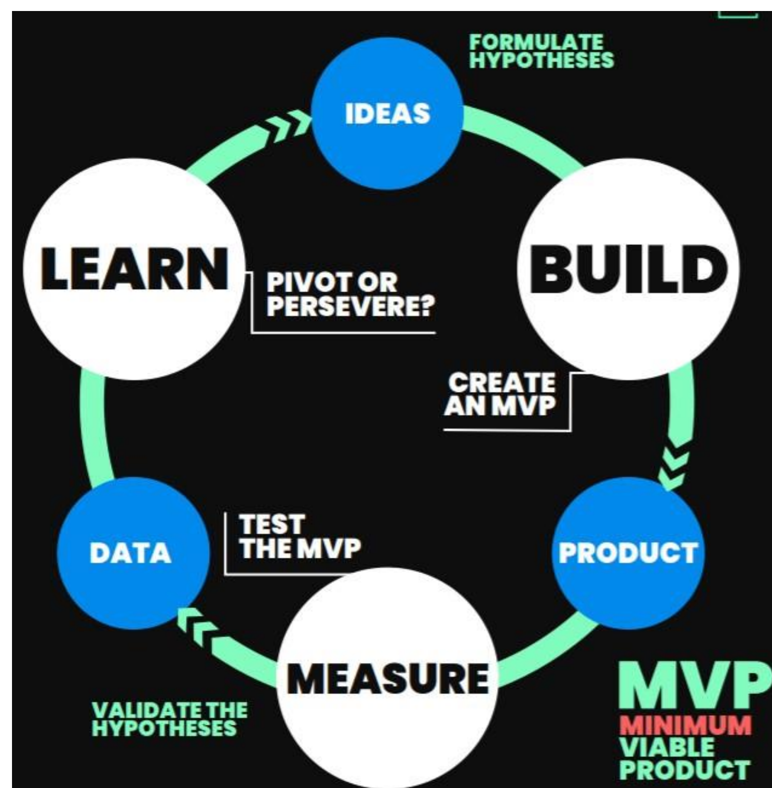
The concept of lean startup originated with Lean manufacturing, an approach to increasing efficiency by eliminating waste, that Toyota pioneered in the 20th century. the terms lean startup, Lean thinking asks these questions:

- What is your Minimal Viable Product fulfilling interest of maximum customers?
- What are the cheapest ways to make the product without heavy investment?
- How can you establish communication between the company and the customer, so an ear is constantly listening for changes in taste?
- Once you’ve tested and decided the product is ready for the larger market, you can move into scaling your production.

The salient features of the lean startup methodology are the development of a minimum viable product, market testing of the minimum viable product, collecting and analyzing market test data, and learning from the test results. MVP or Minimum Viable Product is the most misinterpreted term in the startup development ecosystem. A term that was coined and defined by Frank Robinson and popularized by Steve Blank and Eric Ries essentially means creating a product that has just those core features sufficient to deploy the product and get market validation.

Central to the lean startup methodology is the assumption that when startup companies invest their time into iteratively building products or services to meet the needs of early customers, the company can reduce market risks and sidestep the need for large amounts of initial project funding and expensive product launches and financial failures. While the events leading up to the launch can make or break a new business, it is important to start with the end in mind. This means thinking about the direction in which you want your business to grow and how to put all the right pieces in place to make this possible

The Build–Measure–Learn loop emphasizes speed as a critical ingredient to customer development. A team or company's effectiveness is determined by its ability to ideate, quickly build a minimum viable product of that idea, measure its effectiveness in the market, and learn from that experiment. In other words, it is a learning cycle of turning ideas into products, measuring customers' reactions and behaviours against built products, and then deciding whether to persevere or pivot the idea; this process repeats as many times as necessary. The process can also be viewed as a test of hypotheses. The phases of the loop are: Ideas → **Build** → Product → **Measure** → Data → **Learn.** There are four steps of the Lean Startup Cycle viz., Step 1 – Business Model Canvas, Step 2 – Formulating a Hypothesis, Step 3 – Minimum Viable Product (MVP) and Step 4 -Learning.



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Chapter 7. Intellectual Property Rights of a startup

Definition

Intellectual Property Rights, in short known as IPR, are rights that safeguard and give exclusivity towards metaphysical innovations of human

Types of Intellectual Property (IP)

IP Rights protect several aspects of a business and each type of IP Right carries its own advantages. The prime areas of intellectual property which are of utmost importance for any startup venture are as follows:

a) Trademarks

Trademarks means any words, symbols, logos, slogans, product packaging or design that identify the goods or services from a particular source. As per the definition provided under Section 2 (zb) of the TM Act, "trade mark" means a mark capable of being represented graphically and which is capable of distinguishing the goods or services of one person from those of others and may include shape of goods, their packaging and combination of colors. As per the definition provided under Section 2 (m) of the TM Act, "mark" includes a device, brand, heading, label, ticket, name, signature, word, letter, numeral, shape of goods, packaging or combination of colors or any combination thereof.

The Trade Marks Act 1999 ("**TM Act**") provides, inter alia, for registration of marks, filing of multiclass applications, the renewable term of registration of a trademark as ten years as well as recognition of the concept of well-known marks, etc. It is pertinent to note that the letter "R" in a circle i.e. ® with a trademark can only be used after the registration of the trademark under the TM Act.

Any startup needs to be cautious in selecting its trade name, brands, logos, packaging for products, domain names and any other mark which it proposes to use. You must do a proper due diligence before adopting a trademark. The trademarks, can be broadly classified into following five categories:

i) Generic marks mean using the name of the product for the product, like "Salt" for salt.

ii) Descriptive marks mean the mark describing the characteristic of the products, like using the mark "Fair" for the fairness creams.

iii) Suggestive marks mean the mark suggesting the characteristic of the products, like "Habitat" for home furnishings products.

iv) Arbitrary marks mean mark which exist in popular vocabulary, but have no logical relationship to the goods or services for which they are used, like "Blackberry" for phones.

v) The invented/ coined marks mean coining a new word which has no dictionary meaning, like "Adidas".

The strongest marks, and thus the easiest to protect, are invented or arbitrary marks. The weaker marks are descriptive or suggestive marks which are very hard to protect. The weakest marks are generic marks which can never function as trademarks. While adopting any mark, the startup should also keep in mind and ensure that the mark is not being used by any other person in India or abroad, especially if the mark is well-known. It is important to note that India recognizes the concept of the "Well-known Trademark" and the principle of "Trans-border Reputation". Example of well-known trademarks are Google, Tata, Yahoo, Pepsi, Reliance, etc. Further, under the principle of "Trans-border Reputation",

India has afforded protection to trademarks like Apple, Gillette, Whirlpool, Volvo, which despite having no physical presence in India, are protected on the basis of their trans-border reputation in India.

b) Patents

Patent, in general parlance means, a monopoly given to the inventor on his invention to commercial use and exploit that invention in the market, to the exclusion of other, for a certain period. As per Section 2(1) (j) of the Patents Act, 1970, "invention" includes any new and useful;

i) art, process, method or manner of manufacture;
ii) machine, apparatus or other article;
iii) substance produced by manufacture, and includes any new and useful improvement of any of them, and an alleged invention;

The definition of the word "Invention" in the Patents Act, 1970 includes the new product as well as new process. Therefore, a patent can be applied for the "Product" as well as "Process" which is **new**, involving inventive step and capable of industrial application can be patented in India. While using any technology or invention, the startup should check and confirm that it does not violate any patent right of the patentee. If the startup desires to use any patented invention or technology, the startup is required to obtain a license from the patentee.

The invention will not be considered new if it has been disclosed to the public in India or anywhere else in the world by a written or oral description or by use or in any other way before the filing date of the patent application. The information appearing in magazines, technical journals, books etc, will also constitute the prior knowledge. If the invention is already a part of the state of the art, a patent cannot be granted. Examples of such disclosure are displaying of products in exhibitions, trade fairs, etc. explaining its working, and similar disclosures in an article or a publication.

It is important to note that any invention which falls into the following categories, is not patentable: (a) frivolous, (b) obvious, (c) contrary to well established natural laws, (d) contrary to law, (e) morality, (f) injurious to public health, (g) a mere discovery of a scientific principle, (h) the formulation of an abstract theory, (i) a mere discovery of any new property or new use for a known substance or process, machine or apparatus, (j) a substance obtained by a mere admixture resulting only in the aggregation of the properties of the components thereof or a process for producing such substance, (k) a mere arrangement or rearrangement or duplication of known devices, (l) a method of agriculture or horticulture, and (m) inventions relating to atomic energy or the inventions which are known or used by any other person, or used or sold to any person in India or outside India. The application for the grant of patent can be made by either the inventor or by the assignee or legal representative of the inventor. In India, the term of the patent is for 20 years. The patent is renewed every year from the date of patent.

Infringement of a patent consists of the unauthorized making, importing, using, offering for sale or selling any patented invention within the India. Under the (Indian) Patents Act, 1970 only a civil action can be initiated in a Court of Law.

Copyright

Copyright means a legal right of an author/artist/originator to commercially exploit his original work which has been expressed in a tangible form and prevents such work from being copied or reproduced without his/their consent. Under the *Copyright Act, 1957,* the term "work", in which copyright subsists, includes an artistic work comprising a painting, a sculpture, a drawing (including a diagram, a map, a chart or plan), an engraving, a photograph, a work of architecture or artistic craftsmanship, dramatic work (recitation, choreographic work), literary work (including computer

programmes, tables, compilations and computer databases), musical work (including music as well as graphical notations), sound recording and cinematographic film.

In the case of original literary, dramatic, musical and artistic works, the duration of copyright is the lifetime of the author or artist, and 60 years counted from the year following the death of the author and in the case of cinematograph films, sound recordings, posthumous publications, anonymous and pseudonymous publications, works of government and works of international organizations are protected for a period of 60 years which is counted from the year following the date of first publication.

In order to keep pace with the global requirement of harmonization, the Copyright Act, 1957 has brought the copyright law in India in line with the developments in the information technology industry, whether it is in the field of satellite broadcasting or computer software or digital technology.

In India, the registration of copyright is not mandatory as the registration is treated as mere recordal of a fact. Despite the fact that the registration of copyright is not mandatory in India and is protectable through the *International Copyright Order, 1999*, it is advisable to register the copyright as the copyright registration certificate is accepted as a "proof of ownership" in courts and by police authorities, and acted upon smoothly by them.

Enforcement of Copyright in India. Any person who uses the original work of the other person without obtaining license from the owner, infringes the copyright of the owner.

c) Industrial Designs

As per the definition given under Section 2(d) of the Designs Act, 2000, "design" means only the features of shape configuration patterns or ornament applied to any article by any industrial process or means whether manual mechanical or chemical separate or combined which in the finished article appeal to and are judged solely by the eye. Features of shape, configuration, pattern, ornament or composition of lines or colours applied to any article, whether in two dimensional or three dimensional or in both forms, can be registered under the *(Indian) Designs Act, 2000*. However, functionality aspects of a design are not protected under the (Indian) Designs Act, 2000, as the same are subject matter of patents. Design of an article is not registrable in India, if it: is not new or original.

d) Trade secrets

Trade secrets includes any confidential business information which provides an enterprise a competitive edge over others. Trade secrets encompass manufacturing or industrial secrets and commercial secrets, formula, practice, process, design, instrument, pattern, commercial method, or compilation of information which is not generally known or reasonably ascertainable by other. The unauthorized use of such information by persons other than the holder is regarded as an unfair practice and a violation of the trade secret. There are no specific statutes under the Indian law for the protection of trade secrets and the same are protectable under the common law rights.

Strategies for protection and exploitation of IPR for startups

Every Start-up, during the procedure of its commencement, emerges with an idea, a pitch, design of its product and/ or assistance, how it functions, and how to reach the market. This being said, every Start-up will confront a crucial obstacle i.e., competition. Every other entity/ business in the market will take that extraordinary idea and create it competently with their immense resources and that the said entities would steal/ depict the particular brand name/ trademark which is developed by intellectual originality. Start-ups, to safeguard their interests, have to safeguard and protect their ideas and products and that can be accomplished only through Intellectual Property Rights. Every Start-up should develop

and execute an Intellectual Property Rights Policy to regulate the IP Rights which they currently maintain and which they intend to apply/ obtain in the future. There are three well-known types of IPR.

One must not brush aside any IP related issues in the nascent stages of a business. Developing a **diligent and intelligent IP strategy** early on is crucial. Because of the long-term economic benefits that it offers, startups and established companies cannot (and should not) neglect the importance of IP. intellect Every startup has IPRs which it needs a protection for excelling in its business. IP can be a **unique selling proposition (USP)** of the product or service in today's competitive and dynamic world. It helps create a sustainable and defensible differentiator for the startup. Startups need to secure their technologies and lay the foundation for their future success. IPR strengthens the integrity of startups and generates more opportunities in the long run. Startups must ensure following points:

- While starting any venture, the startup also needs to confirm that it is not in violation of the IP Rights of any other person to save itself from unwarranted litigation or legal action which can thwart its business activities. This makes it even more important for startups to make careful IP decisions in the initial phase and conduct proper due diligence of IP Rights, which it is using or intends to use.

- Depending upon the type of industry involved, IP Rights play an important role. Failure to identify or prioritize IP Rights, is likely to create problems for startup's business, especially during negotiations with future investors or exiting its business. Sometimes IP Rights are the only asset available with a startup.

Chapter 8. Funding of the startup company

Funding of a startup company, especially in the early growth stages, is a painful topic for most of the founders. Almost 90% of startup companies need external funding in order to survive. This is due to the reason that the revenue phase is hard to achieve and if it is achieved, the high-growth across multiple markets need capital base large enough the company could survive and handle thegrowing demand for its products and services. The main sources for capital for a early-stage startup company are the following:

- **Funding the startup by yourself and co-founders**: These days, the costs to start a business are at an all-time low, and over 90 percentof startups are self-funded (also called bootstrapping). It may take a bit longer to save some money before you start and grow organically, but the advantage is that you don't have to give up any equity or control. Your business is yours alone.

- **Friends, fools and family (FFF):** As a general rule, professional investors will expect that you have already some commitments from this source to show your credibility. If your friends and family don't believe in you, don't expect outsiders to jump in. This is the primary source ofnon-personal funds for very early-stage startups.

- **Grants, public small-business support:** These are public funds allocated to support new technologies and entrepreneurshipin certain regions. It is always a good place to start and find out what kind of financial and non-financial support is available in your country for startup entrepreneurs. Applying for the grant (and bureaucracy) can be a long and tough process, but it doesn't cost you any equity.

- **Crowdfunding**: Crowdfunding is a method to raise capital by raising money from a large number of people who each contribute a relatively small amount, typically online. You can crowdfund the money by running a pre-sales campaign (selling the concept of your service or product based on the MVP or prototype) for your products or services, or selling the equity of the startup (people can buy the fixed amount of equity with fixedprice) in crowdfunding platform.

- **Angel investment:** Business angels are high-net-worth individuals interested in supporting startups, and willing to syndicate amounts up to a million euros for qualified startups. Business angels invest their own personal money and seek for the return of the investment in 3-5 years' time. There is often a regional business angels network or associations that the startups can approach, but you can always use platforms like Gust to find them. Keep in mind that the angel investors should fit into your business model with their know-how and contacts.

- **Venture capital investors (VC-s)**: These are professional investors, who invest institutional money in qualified startups, usually with a proven business model, ready to scale in many markets. VC-s typically look for big opportunities, needing a couple of million euros or more, with a proven team. VC-s are ready to stick with the company for longer time periods and expect the returns in 10-15 years' time.

- **Startup incubators and accelerators:** Some business incubators and almost all the business accelerators have some funding on top of the services they are providing. Business accelerators take a

fixedamount of the equity form your company for a fixed amount of money (these terms are often very hard to change and often non-negotiable). Still, the funding granted by the accelerators helps the startup teams to survive for some time and focus 100% of the time of the team to develop the company.

- **Bank loan or credit**: In general, having a bank loan is not an option for early-stage startup companies as they tend to have no credit history or existing assents that can be used for collateral.Even tough, in some counties there are governmental guarantees that help to get the loan with lower risk and collateral then in normal conditions.

All of these options require work and commitment on your part, so there is no magic or free money.Every funding decision is a complex tradeoff between near-term and longer-term costs and paybacks, as well as overall ownership and control. With the many options available, there is no excuse for not living your dream, rather than dreaming about living.

Factors determining funding requirement of a startup

Funding for the company may come from one or more sources, including sales, grants, and investors. There may be an organic growth i.e., to grow the business slowly based on sales, without the need to raise external funds. Organic growth can be a reasonable strategy for certain startups. However, university innovations are at such an early stage of development that additional funds are necessary to move them from the lab to market. It may be possible to secure a small amount of funding from friends and family to launch the business while additional funding is sought. Support from Angel Investors (Individuals or groups) and Venture Capitalists is always required for the grand success of a startup.

Important affecting the funding requirement of a startup are as follows:

- Time to market (that is, how long before initial sales)
- Employee salaries and benefits
- Space
- Equipment
- Travel
- Legal fees

Presenting to Investors

Presenting the idea along with the supporting research to investors is an important step in the startup process, and one that requires thorough preparation. When scheduling a meeting with an investor, be very clear about its purpose of the meeting i.e. to request funding. The presentation should be interesting and engaging.

In the company pitch, do mention clearly:

- What problem does the technology address?
- How does the technology provide a solution?
- What market is being pursued?
- What is the *addressable* market? Do not inflate data; if the idea is for a particular market segment, provide data for that segment only (market size, Target customer& market segment)
- What is the state of the intellectual property? Is the technology well protected? Will IP be needed from other sources?
- Who is the competition? Investors expect that there is competition in every market area; claims of no competition are generally met with disbelief. What is the competitive advantage? Why

would customers prefer the product or solution being offered over another?

- Who is on the executive team, and what are their roles? Why should someone invest in this team?
- How does the business model relate to the sales strategy and pricing?
- What are the expense and revenue projections for a five-year period?
- What are the key company milestones?
- How much money is being requested? How long will it last? How will the funds be spent?