Business Anatomy 101

(Demystifying Business)

House-keeping

- Directions
- Presentation Structure
- Workbook and group activities
- Establishing ground rules

PRE-MODULE QUIZ

Workbook: activity 1

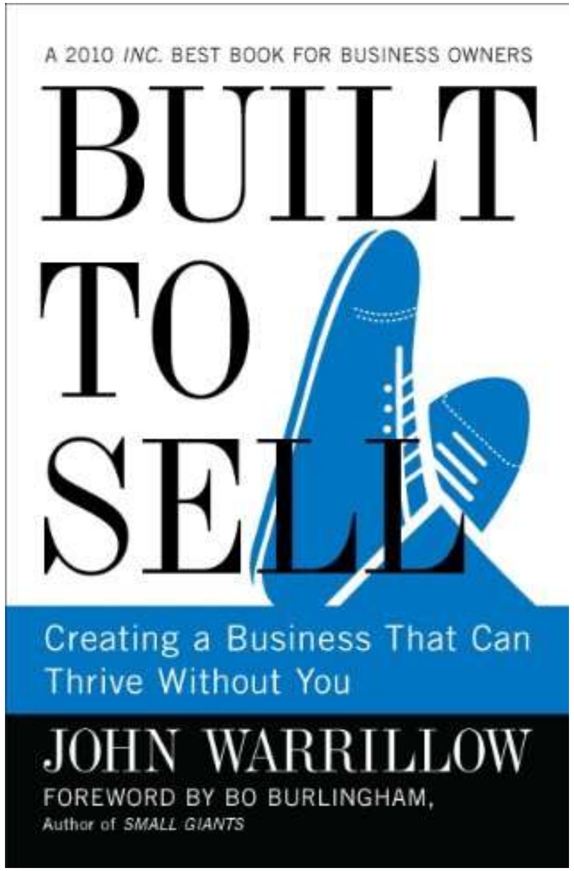
What we will cover

- Popular Misconceptions about business
- Your business as an asset
- Using Mental Models (for understanding how your business works)
- The anatomy of Business growth

At the close of the session we will be able to:

1. View our business as an asset
2. Describe different models for understanding how a business works
3. Utilize at least one mental model to explain the way businesses work
4. Understand the importance of the entrepreneurial mindset to entrepreneurial success

This week's book recommendation



Kindle - $14.99

Hardcover - $9.35 (Used)

Audiobook - $20.79

pdfdrive.com - FREE

Popular Misconceptions

….about starting/running a business

Section 1

Treat and a half/"Brawta"

Popular Misconception # 1

- **Build it and they will come**

"The biggest mistake businesses make when trying to get traction is failing to pursue traction in parallel with product development."

Popular Misconception # 2

Building a business around your passion guarantees success

- Consultant
- Baker
- Designer
- Software Developer
- Hair Stylist
- Technician

FOCUS:

- Owner’s skills sets;
- Owners Interest

Popular Misconception #3

More money = Better chance of success

OPTIONS

Loans

Angels

Venture Capital

Bootstrapping

PITFALLS

- Kills Creativity
- Removes focus from clients/places focus on the funder

What business is not

BUSINESS $\neq$ SALES

BUSINESS $\neq$ AN INCOME STREAM

Sales vs. business development

Sales

- Transactional process
- Selling products or services to clients
- Researching and identifying leads

Business development

- Strategic process
- Finding new ways for the business to grow
- Building partnerships for opportunities

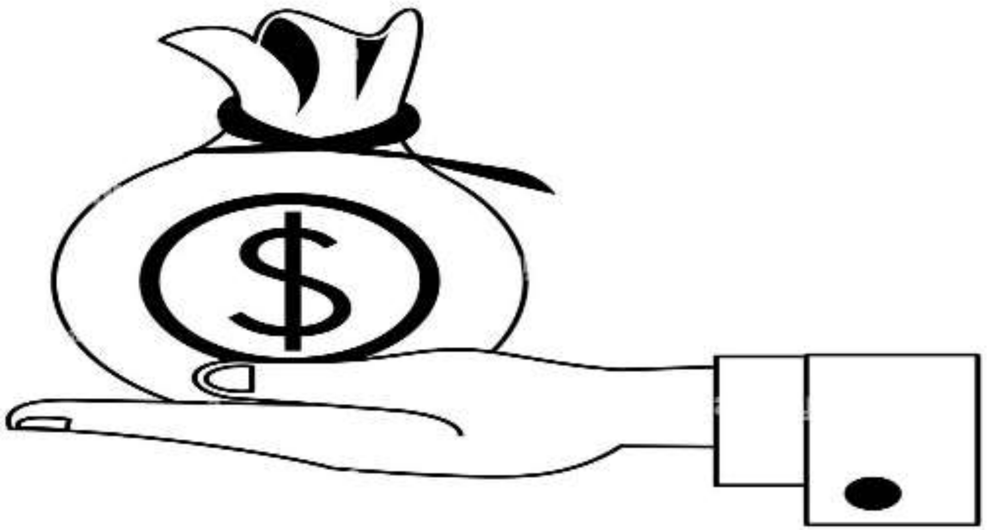
Your business as an asset

Section 2

WHAT IS AN ASSET?

Let’s discuss

What is an asset?



- An asset is **anything that has current or future economic value to a business**.

- For businesses, assets include everything controlled and owned by the company that's currently valuable or could provide monetary benefit in the future. Examples include patents, machinery, and investments

YOUR BUSINESS……

Has assets

As an asset

- Brand Reputation
- Intellectual Property – Patents, Copyrights, trademarks, trade secrets
- Customer Data/Big Data
- Systems – structure, processes, procedures
- Long term Contracts/Agreements
- Goodwill
- Knowledge/Expertise (Documented)

BUSINESS AS AN ASSET

- For a business, there must be the ability to duplicate/replicate.
- Institutional Knowledge (Example of Parkers)
- Do not build a business around your or your employees' skills. It is about what you can duplicate or replicate.
- Business owners tend not to be interested in this because they want to personally control every aspect of operations.
- Expertise should not reside with you. It must be designed into the operation.
- YOUR JOB is to develop a fully **SCALABLE** asset
- **It's not about the income**; its about an ASSET that generates a repeatable income.

How is a business an asset?

Can generate profits

Can increase in value over time

Can produce a steady stream of income for its owners

Can be a valuable source of collateral for loans and other financial investments.

Can have intangible assets such as its brand reputation, customer base and intellectual property (Difficult to measure but can be critical in determining a business' worth in the market place (market value).

Can provide financial benefits

Has the potential for future growth and value appreciation.

Why is it important to think **asset**?

- Helps with Long term planning:
    - Investing in growth opportunities
    - Innovation – developing new products and services
    - Building a strong brand reputation
- Helps you to prioritize profitability
    - Looking for ways to minimize expenses and maximize revenue
    - Ensures business is generating income and providing a return on investment
- Helps when you need to finance/sell the business
    - More likely to keep financial records and build a strong financial history
    - Makes it easier to get financial loans and sell business if you decide to exit

Why is it important to think **asset**?

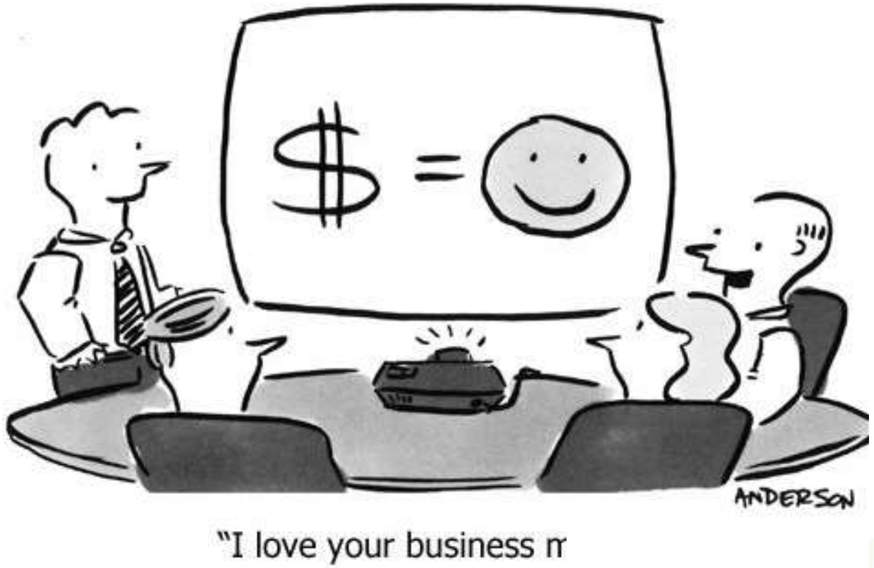
- Encourages a mindset of innovation and growth:
  - Look for ways to improve the business
  - Expand into new markets
  - Develop new products/services
  - Stay competitive
  - Adapt to changing market conditions

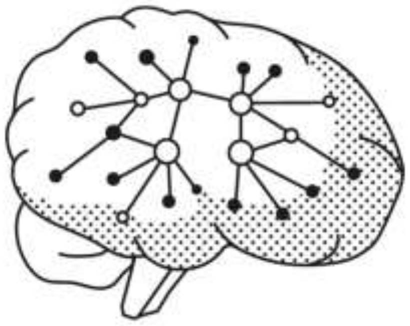
Benefits of treating the business as an asset

- Increased value – revenue, profitability, market share (more attractive to potential buyers or investors)
- Scalability: Business grows without sacrificing quality or efficiency
- Improved credibility: with customers. Suppliers, stakeholders
- Flexibility:
- Increased access to finance

Think ‘sellable’ from the get-go

- Market Demand
- Profitability
- Brand awareness
- Policies and Procedures
- Team
- Intellectual Property





MENTAL MODELS FOR BUSINESS

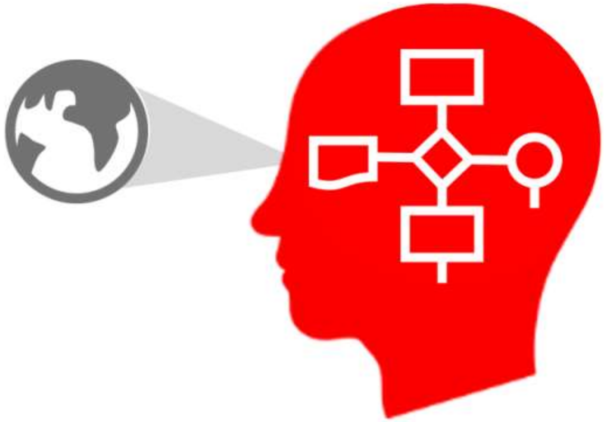
"To the man with a hammer, everything looks like a nail."

Section 3

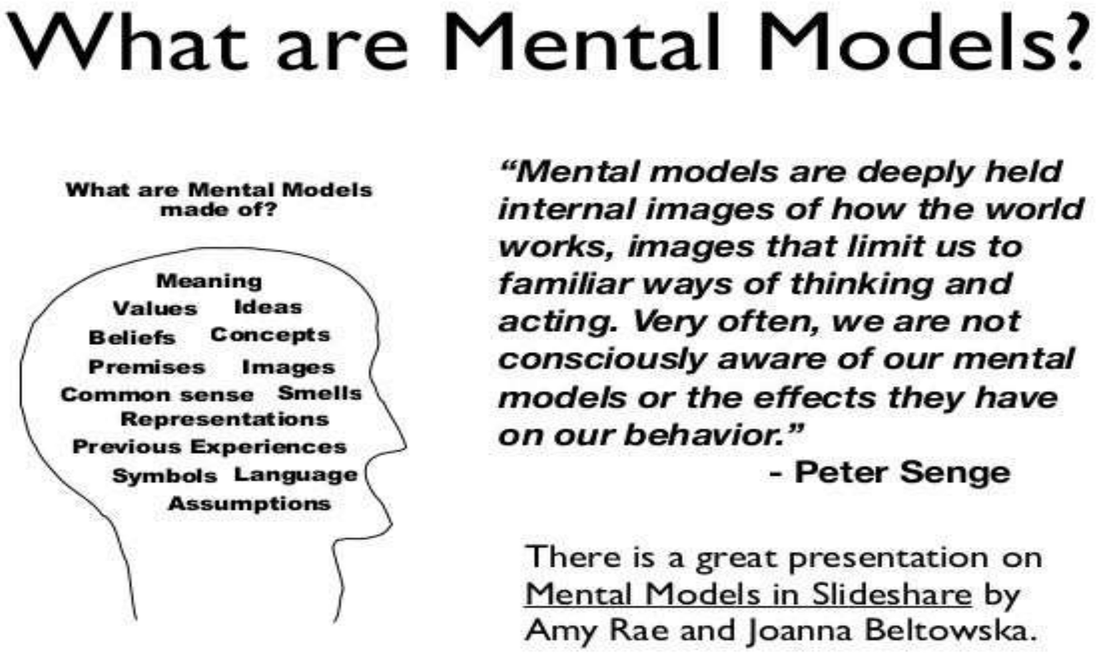
MENTAL MODELS

A **mental model** is:
'an explanation of someone's thought process about how something works in the real world'.

Wikipedia



MENTAL MODELS



MENTAL MODELS

How we understand the world; How we simplify complexity

- We cannot keep all of the details of the world in our brains, so we use models to **simplify the complex** into understandable and organizable chunks. Examples are:
    - Maslow's hierarchy of needs
    - Common Knowledge
    - Stereotyping

4 mental MODELS TO EXPLORE:

- Business as a Process
- The Quadrant Approach
- The Value Chain
- The Business Model Canvas

(BUT) WHAT IS A BUSINESS?

Roughly defined, a business is a repeatable process that:

- Creates and delivers something of value...that other people want or need...at a price they're willing to pay....in a way that satisfies the customer's needs and expectations....so that the business brings in sufficient profit to make it worthwhile for the owners to continue operation.

MENTAL MODEL #1 –

BUSINESS AS A 5-PART PROCESS

"Business is not (and has never been) rocket science — it's simply a process of identifying a problem and finding a way to solve it in a way that benefits both parties."

– Josh K (Personal MBA)

Most often a non-linear process

Value Creation

Marketing

Sales

Value Delivery

Finance

- Always begins with value creation
- Most often a non-linear process

MENTAL MODEL #1 **BUSINESS AS A 5-PART PROCESS**

At the core, every business is fundamentally a collection of five Interdependent processes, each of which flows into the next:

Value-Creation. Discovering what people need, want, or could be encouraged to want, then creating it.

Marketing. Attracting attention and building demand for what you've created.

Sales . Turning prospective customers into paying customers by completing a transaction.

Value-Delivery. Giving your customers what you've promised and ensuring they're satisfied with the transaction.

Finance. Bringing in enough money to keep going and make your effort worthwhile.

WORKBOOK : EXERCISE 2

Think of your business in terms of a five part process. On page 3 of your workbook, answer the questions relating to this process. Complete all 5 elements of the process explaining what each looks like for you/your business at this point.

For example, re Value Creation: What is my existing method for finding out what people clients value? How do I create value?

Write the answers based on what obtains now, not based on what you would like it to be.

Mental model #2 – the 360 (quadrant) approach

Understanding THE MANAGEMENT FRAMEWORK

Management

Human Resources
Organization Structure
Policy
Performance Management
Growth Strategy
Marketing Strategy
Financial Decision-Making

Operations

Product/Service Portfolio
Location
Buying and Selling
Getting and doing jobs
Quality Control
Availability of inputs

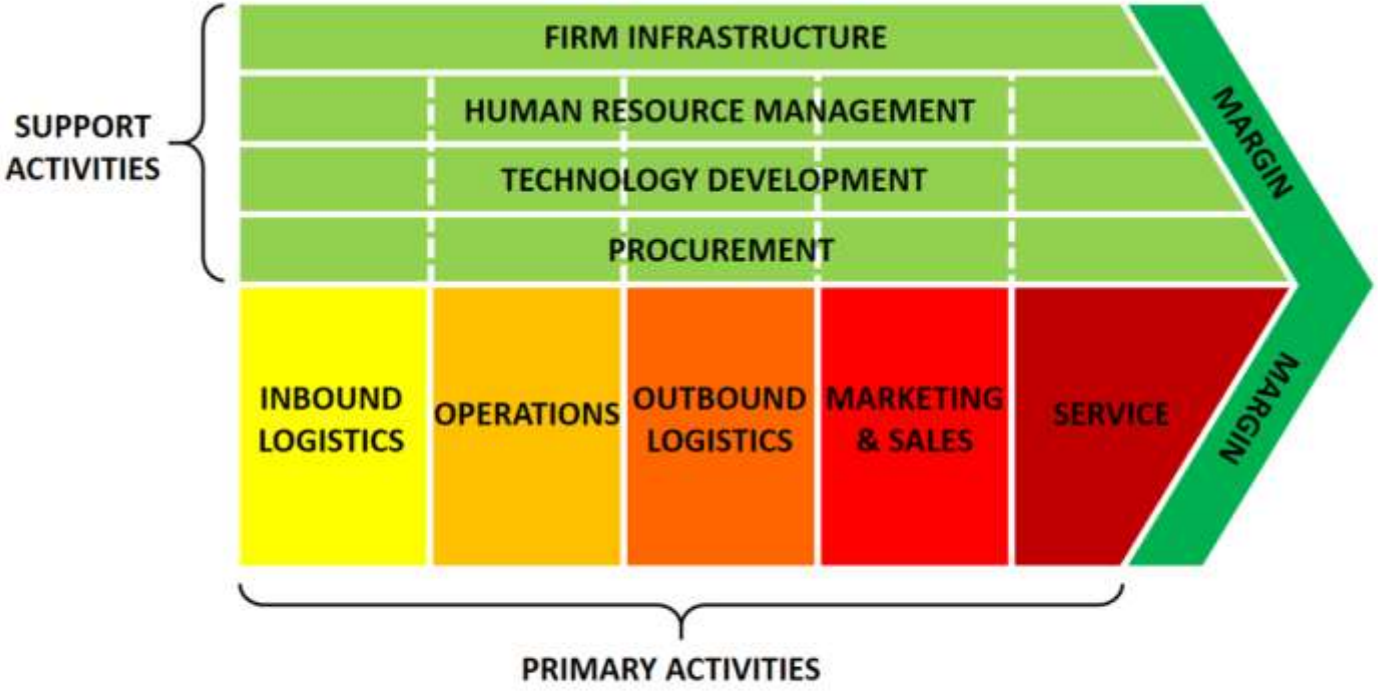
Customers/Markets and Sales

Getting customers
Branding
Market positioning
Marketing
Sales and Services

Finance

Asset composition
Capital structure
Cost structure
Revenue Model
Credit worthiness
Debt structure
Historical/Projected Performance

MENTAL MODEL # 3 – value chain

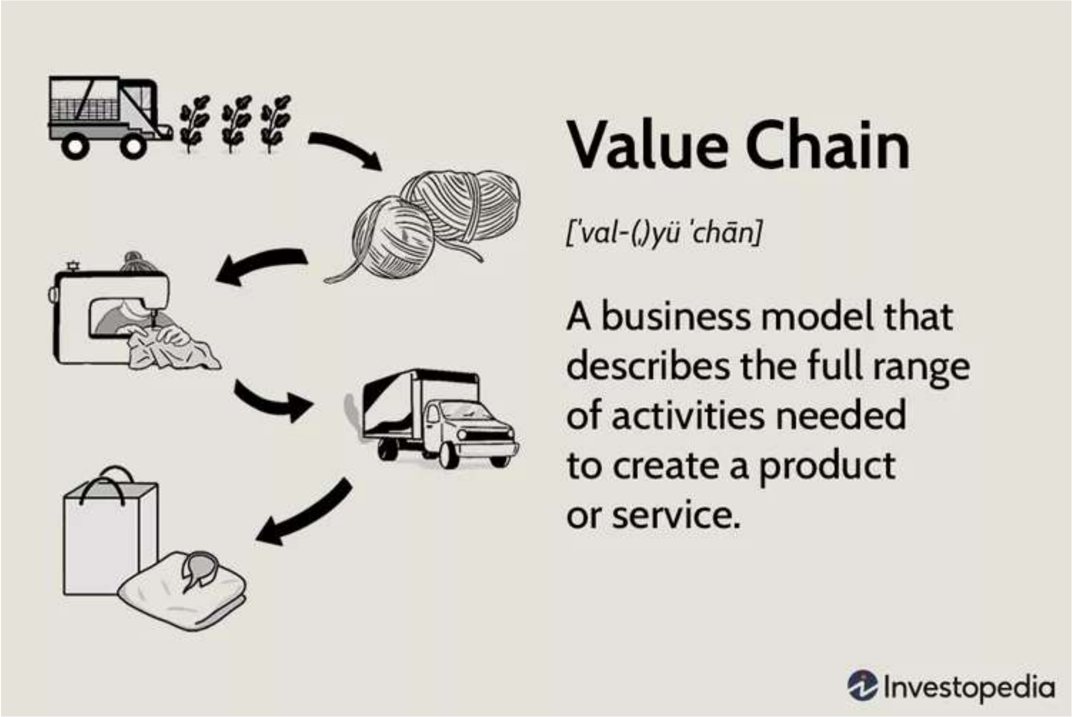


MENTAL MODEL # 3 – value chain (primary activities)

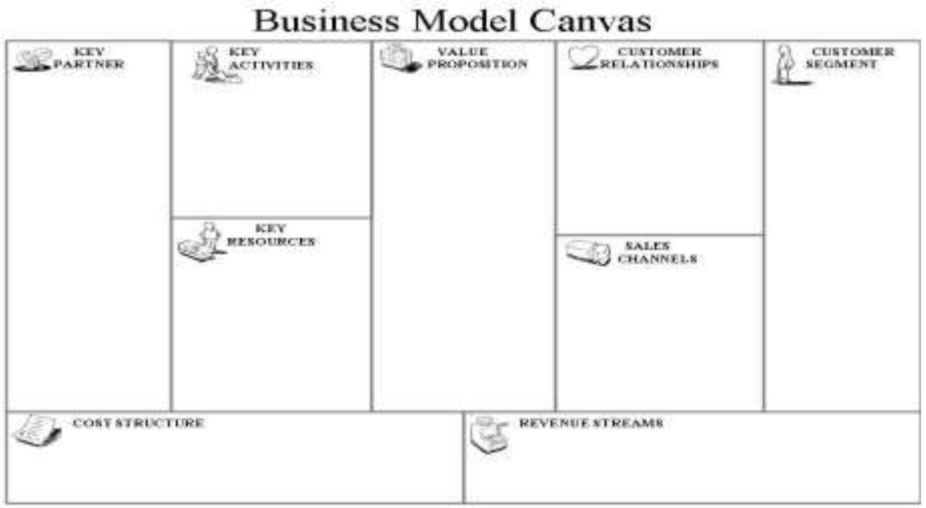
MENTAL MODEL # 3 – THE VALUE CHAIN

A value chain is **a series of consecutive steps that go into the creation of a finished product, from its initial design to its arrival at a customer's door**.

- The chain identifies each step in the process at which value is added



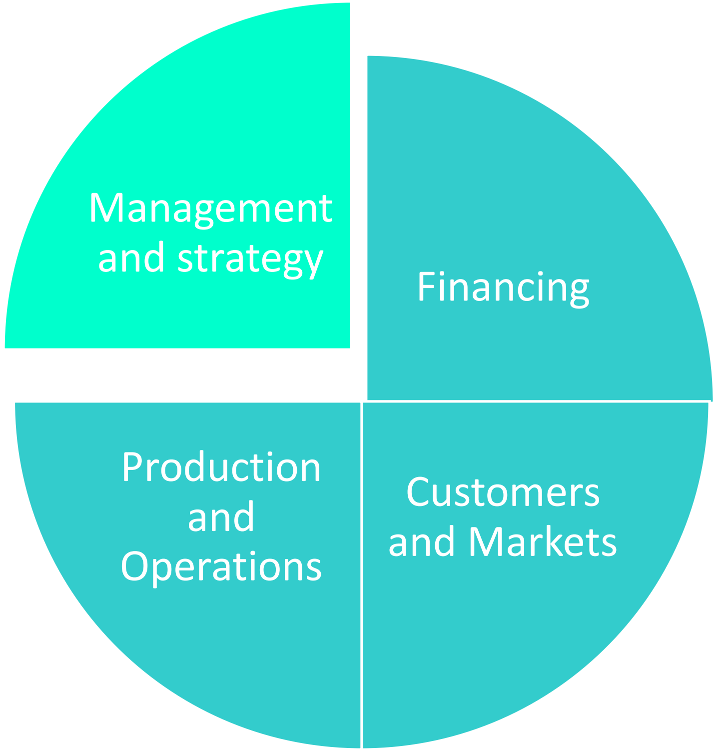
Mental model # 4 – the business model



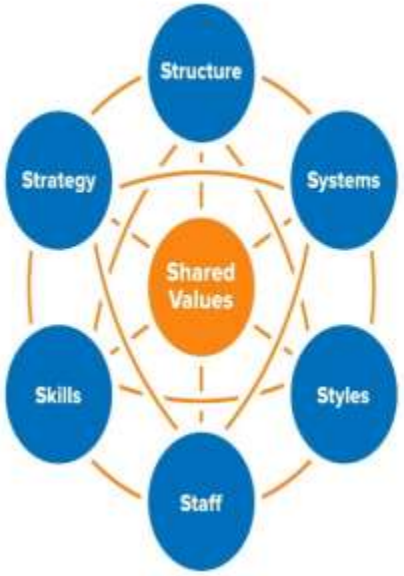
Essential Building Blocks

A Business' Key Drivers

Understanding the Management Framework



Examples of Other mental models



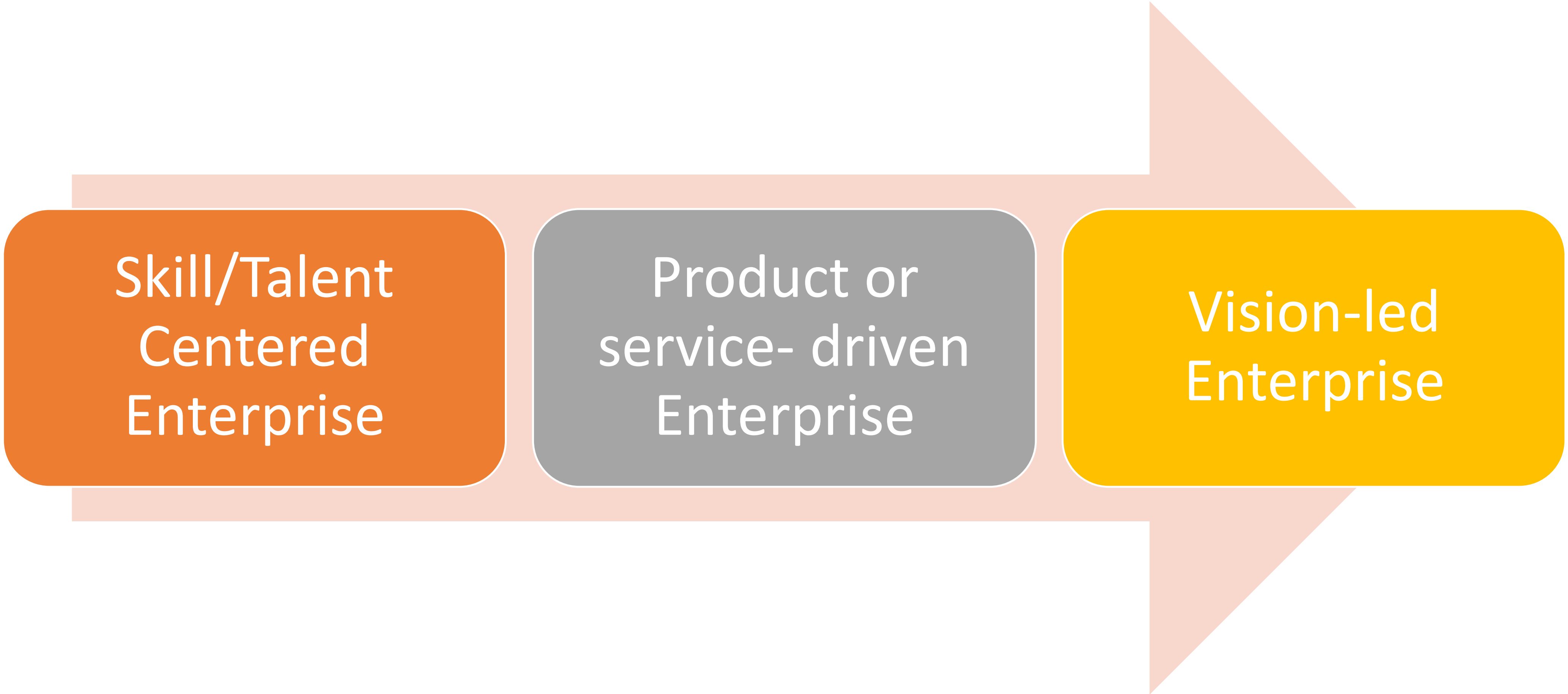
– MCKINSEY'S 7S MODEL

How to think like an entrepreneur

Section 4. Honing the entrepreneurial Mindset

The business owner's (TOO) many HATS

Your BUSINESS MUST evolve.....



THINK LIKE A BOSS!!!

When you work **IN** your business, you are working on **TODAY's** income.

When you work **ON** your business, you are working on **TOMORROW's** income.

WORKING IN YOUR BUSINESS

Understand that your role in the business changes over time. You may START here:

Setting up supplier relationships

Taking and fulfilling customer orders

Answering the phone

Chasing receivables

Dealing with customer complaints

Cleaning the floors at close of day

OPERATIONAL!!

THINK LIKE A BOSS - WORK ON THE BUSINESS

Understand that your role **must** evolve if your business is going to grow:

What is your vision for the business?

What's your plan to get it there?

Who are your key partners?

What key activities should you be undertaking?

What are your major revenue drivers?

What are your cost drivers?

Think like a boss!!!

- Know your numbers
  - How much does it cost you to get new customers?
  - What is the size of your customer base
  - How many of your customers are you retaining, how many are you losing?
- What is your next growth move?

DEFINITION - Mind-set

" Mental attitude or inclination"

Entrepreneurial Mind-set:

"Entrepreneurial mindset: The inclination to discover, evaluate and exploit opportunities"

1. self efficacy

- The belief we have in our own abilities, especially in our ability to achieve our goals and complete tasks successfully.

“Believe you can and you are half way there.”

- - Theodore Roosevelt (26th US President)

self efficacy

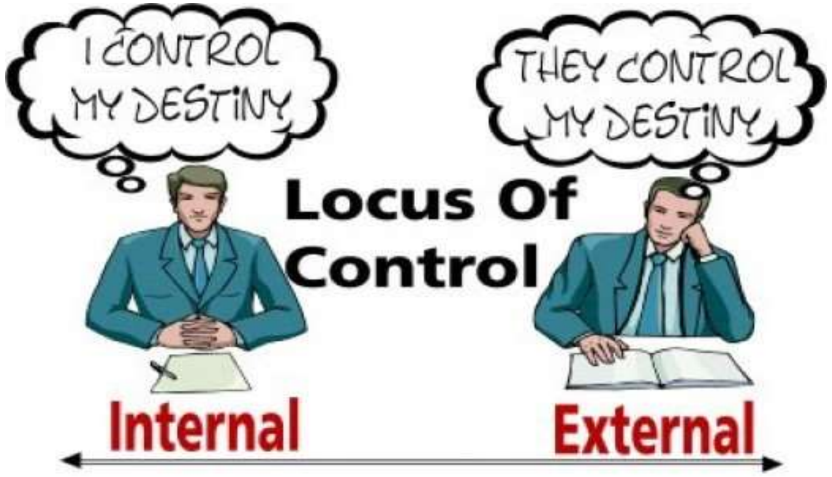
- “People's beliefs about their abilities have a profound effect on those abilities. ..People who have a sense of self-efficacy bounce back from failure; they approach things in terms of how to handle them rather than worrying about what can go wrong.”

CAN-DO

- They believe in a yet-to-be-made future that can substantially be shaped by human action.
- The Key is **The Mind.** Success in entrepreneurship is not about being the smartest. It starts with a belief by the entrepreneur that he/she is **able**.

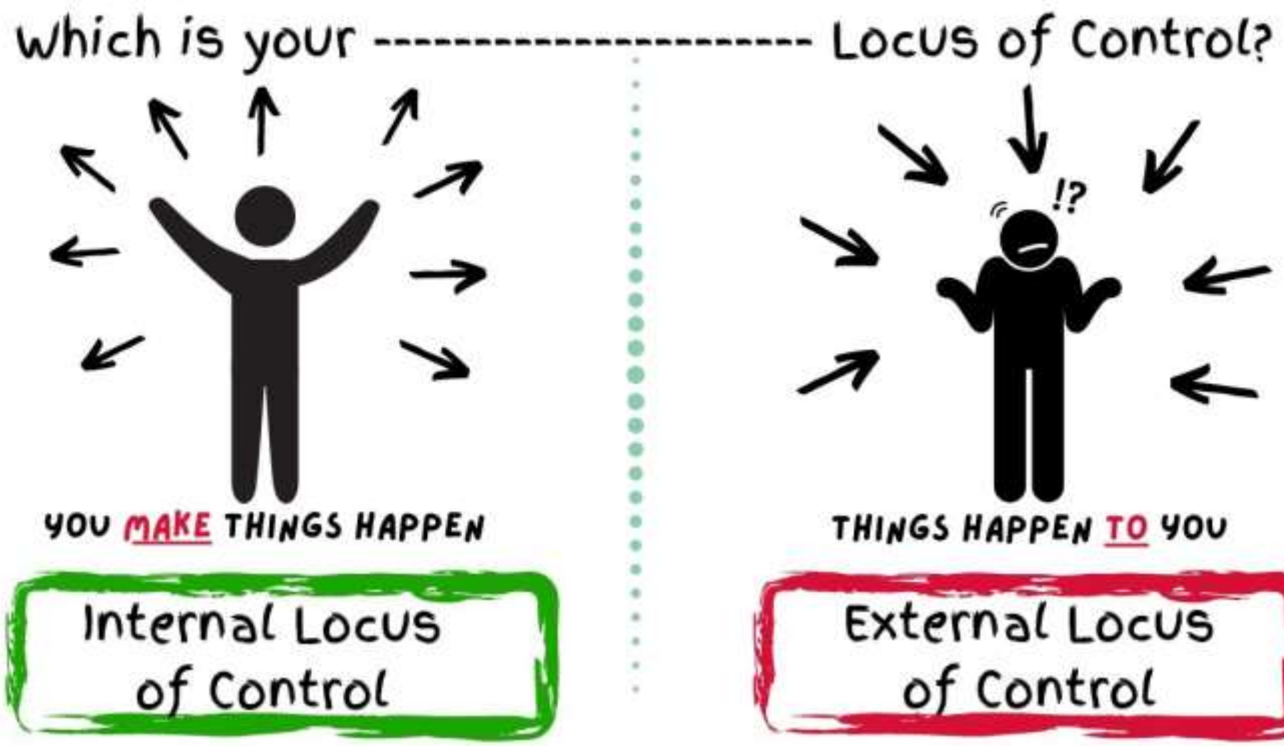
2. locus of control

The degree to which people believe that they, as opposed to external forces, have control over the outcome of events in their lives.



"If it's going to be it's up to me"

2. LOCUS OF CONTROL



4. Growth mindset

Growth Mindset

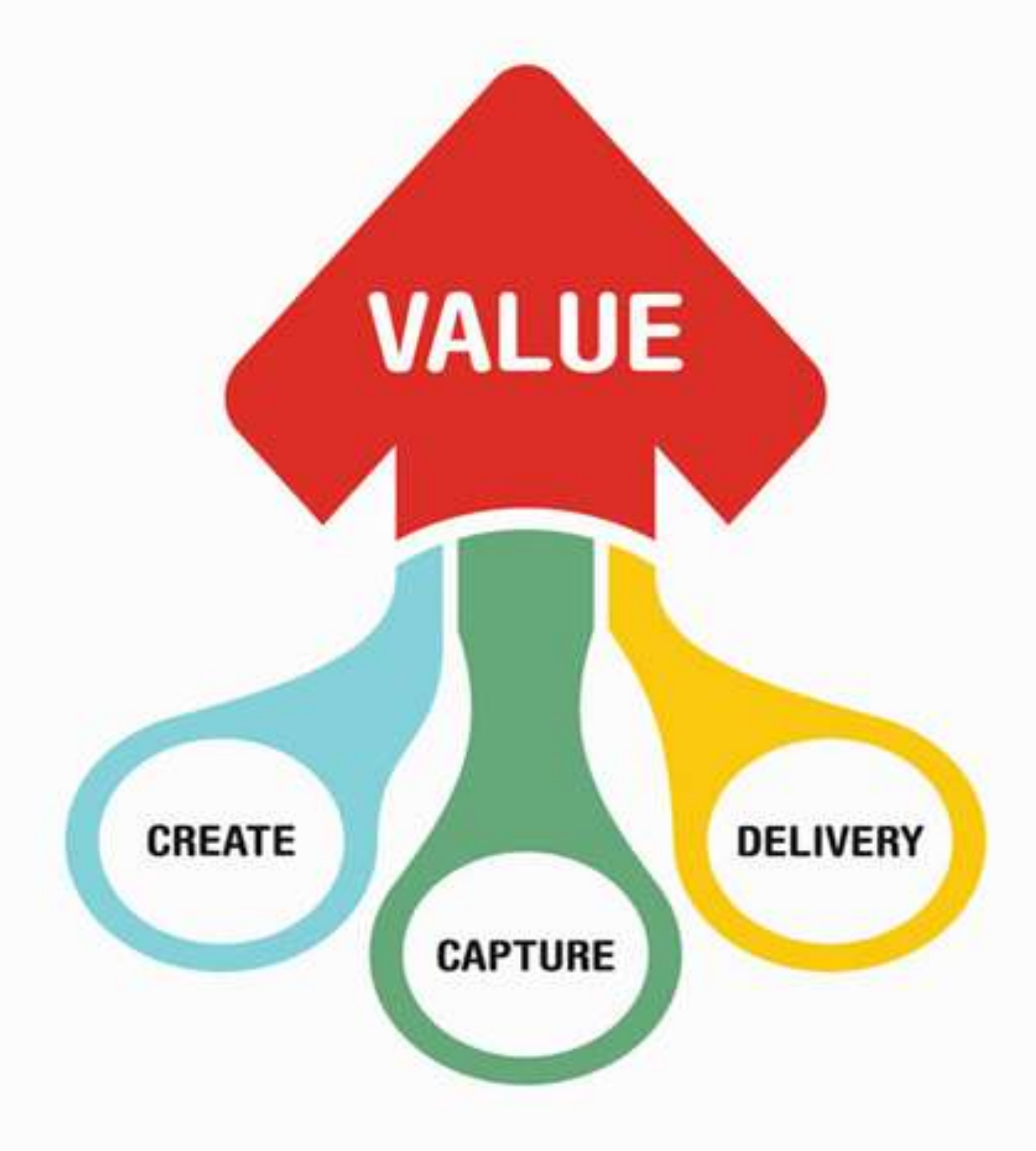
- I can learn whatever I set my mind to
- When I am frustrated, I don't give up
- I enjoy challenging myself
- When things don't go my way, I learn
- Comment on how hard I try
- I am inspired by the others' success
- My effort and attitude determine my outcomes

Fixed Mindset

- I am either good at something or not
- When I am frustrated, I quit
- I do not enjoy challenging myself
- When things don't go my way, it means I am not good at something
- Comment on my intelligence
- I feel threatened by others' success
- My skills alone determine my outcomes

THINK VALUE

- A minimum viable product, MVP is a product with enough features to attract early adopters.
- Allows you to collect validated learning
- MVP is important because:
  - Want to release a product as early as possible
  - Test an idea with real users
  - Learn what resonates with the market



HOW TO THINK LIKE AN ENTREPRENEUR:

- HEALTHY RISK-APPETITE

THINK PROBLEM SOLVER

- Inherent in every problem is an opportunity for creating value.

Think <u>management</u>:

What's on your Dashboard?

<u>Non-financial</u>

Customer Feedback

Customer Retention rate

Customer Referrals

Customer satisfaction

Inventory Turnover Ratio

Net Promoter Score

<u>Financial</u>

Cost of Funds

Gross Profit

Breakeven

Sales and revenue run rate

Cash burn

Working Capital

Entrepreneurial Thinking

Imagine the end,

Create the means

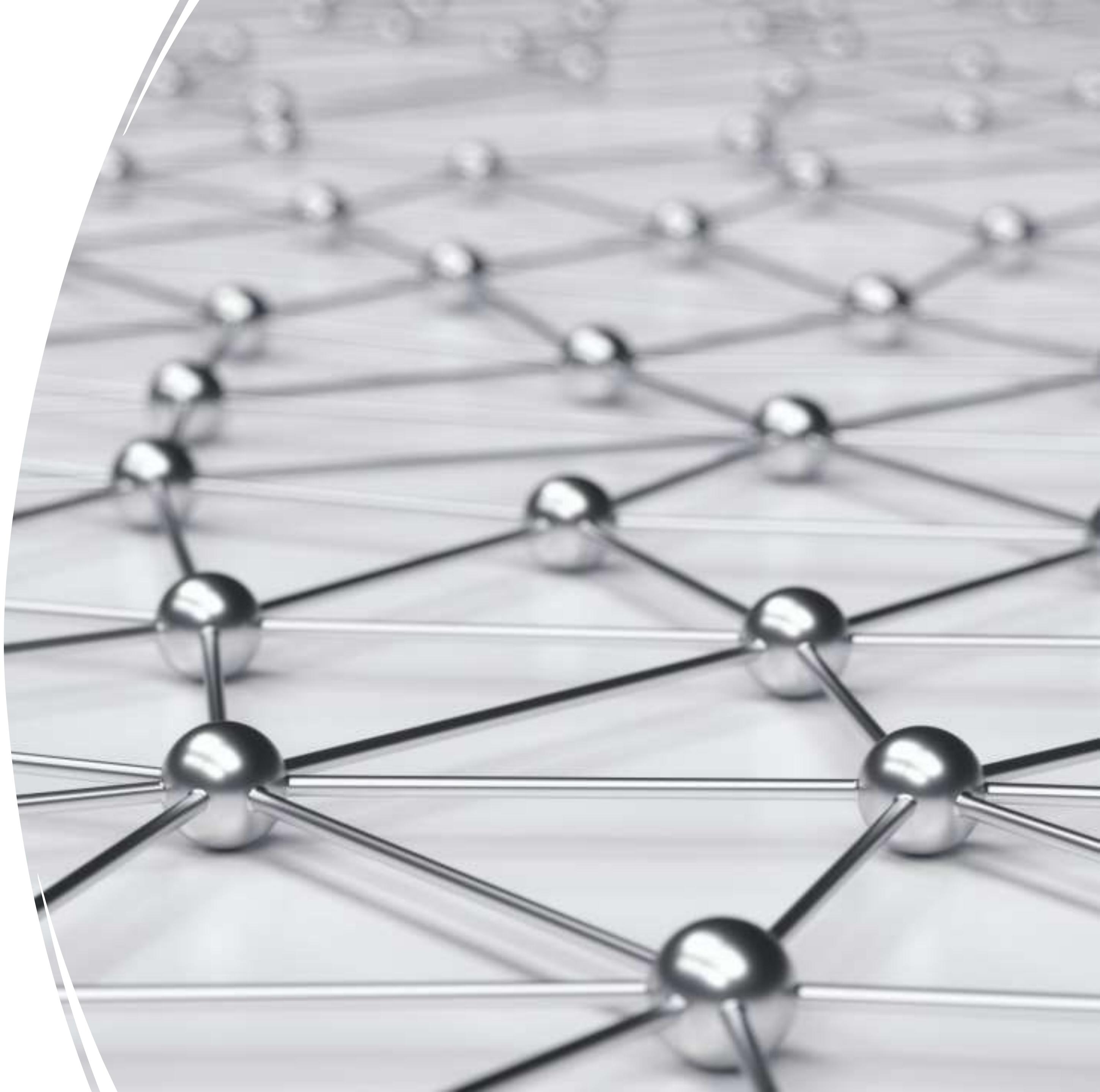
The anatomy of A business

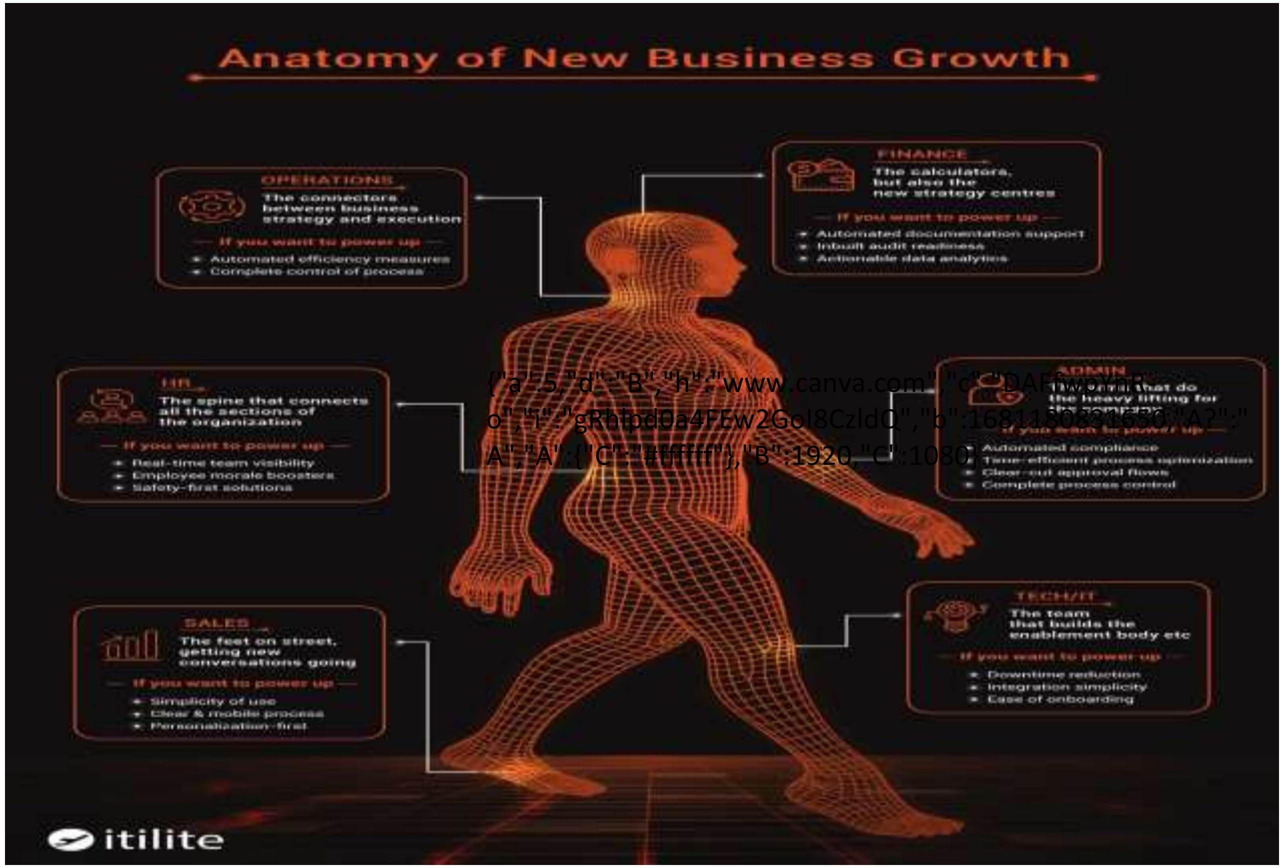
Understanding the process of business growth

Section 5

Think of your business as a body with various parts

- Skeleton: Organizational structure, systems, processes – The foundation. That which you build on
- Muscles: Resources and Employees – Responsible for carrying out the daily operations.
- Organs: Departments and teams
- Bloodstream: Cash flow and resources
- Nervous system: Communication channels





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What makes a business scalable?

- Automation/Technology
- Outsourcing
- Standardization
- Repeatability
- Leverage
- Low margin costs
- Network Effects