

Unit 6

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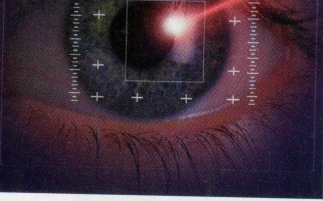
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Going into business



Keynotes

New business **ventures** originate when **entrepreneurs** set up companies either to sell innovative products or services or to compete against established businesses. Before starting a new business, entrepreneurs often conduct **market research** to determine the **validity** of their idea and the **feasibility** of their business model. All start-ups face a high degree of risk and it is estimated that only twenty per cent of new businesses are actually successful in the long term. Future entrepreneurs always have to provide a **business plan** in which they describe their concept and their business approach. They may receive assistance from outside organisations such as **incubators** and **venture capital firms** or from individual **business angels**, usually in exchange for a **stake** in the company. Start-ups can be funded either directly by the founders or by using **capital** provided by **investors** or **banks**. In some countries governments may provide low-interest loans or interest-free **grants** to entrepreneurs.



Preview **New ideas**

1 How creative are you? Look at the following questions from a creativity quiz. Decide whether you agree (✓) or disagree (x) with each of the statements, then turn to page 139 for an analysis of their significance.

- 1 I don't mind if I break the rules when I am doing something.
- 2 I like to spend time daydreaming, even when I am working on a project.
- 3 I usually do things in a logical manner.
- 4 People sometimes object to my opinions.
- 5 What other people think of me is very important.
- 6 I prefer working in a team to working on my own.

2 Work in pairs. Compare your answers. How can your answers to these questions reveal how creative you are?

3 Look at the illustrations of some famous products that were introduced by entrepreneurs. What do you know about the people who created them? How do you think they got the ideas for their products or services?



Listening 1

Listen to Howard Wiseman, a consultant in business start-ups, talking about how three innovators developed their ideas. What qualities did each of them possess and what can future entrepreneurs learn from them? Complete the table below.

	Product/Idea	Creator(s)/Inventor(s)	Qualities
1			
2			
3			

Reading 1 **Setting up**

Read the text on the opposite page and answer the questions that follow.

@ An Internet search using the name 'Endeavor' will list websites that mention Linda Rottenberg. Find an example of a video interview with her.

Entrepreneurship

Spreading the word

An effort to promote entrepreneurship in the developing world is bearing fruit

¹ EARLIER this year Mario Chady faced a crucial decision. Having built up Spoleto, his chain of casual Italian restaurants, to 150 outlets in Brazil, and opened in Mexico and Spain, the time had come for Mr Chady to choose between expanding into America or putting the idea on hold. To help make up his mind, he asked for help from an organisation called Endeavor, which had chosen him as a potential "high-impact entrepreneur".

² Endeavor is a non-profit group dedicated to promoting entrepreneurship in emerging economies. But as he spoke to members of the Endeavor network, ranging from leading business tycoons to fellow up-and-coming entrepreneurs, he became convinced that it was the right strategy but the wrong time. Mr Chady decided to concentrate on expanding even faster in Brazil, and leave America for later. It is routine for entrepreneurs to consult their networks of mentors in Silicon Valley. But in much of the world, such networks are notable by their absence – and so, too, are examples of Silicon Valley-style successful entrepreneurship.

³ "Why can't the next Silicon Valley pop up in Cairo or São Paulo or Johannesburg?" asks Linda Rottenberg, who co-founded Endeavor with Peter Kellner, a venture capitalist. Fresh from Yale, she was working in Buenos Aires for Ashoka, an organisation that supports social entrepreneurs – people with innovative, usually non-profit ideas for solving social problems – and concluded that ordinary entrepreneurs needed a similar support system. Much of the difference between countries where entrepreneurship thrives, and those where it does not, is cultural rather than regulatory, she believes. In many emerging economies, business tends to be dominated by a closed elite hostile to new entrepreneurs – and failure is stigmatised, rather than being a badge of honour as it is in Silicon Valley.

The making of a start-up

⁴ Getting Endeavor started required some classic start-up doggedness of

its own. At first, the philanthropic foundations Ms Rottenberg courted regarded the project as too elitist. Eventually Stephan Schmidheiny, a Swiss industrialist who has given away a large chunk of his fortune in Latin America, was persuaded to provide some seed capital, and Endeavor was up and running. Endeavor's magic works most powerfully in its selection process. Entrepreneurs are screened first by a national panel of successful businessmen, and then, if they are short-listed, by an international panel. So far over 18,000 entrepreneurs have been screened but fewer than 400 have been chosen.

⁵ Once the selection process is over, these business figures then become mentors to the entrepreneurs. "Endeavor's genius has been to get the establishment in these countries together, not to kill these entrepreneurial companies but to support them," says Bill Sahlman, a professor at Harvard Business School who was recruited as an adviser early on.

⁶ Endeavor's entrepreneurs – who collectively now control companies with combined revenues of \$2.4 billion and 91,000 employees – rarely say they would not have succeeded without Endeavor. But they all believe they got bigger much sooner thanks to its endorsement and support.

⁷ One of Endeavor's earliest successes was Wenceslao Casares, who sold Patagon, his Argentine Internet brokerage, to Banco Santander for \$705m at the peak of the dotcom bubble. He believes Endeavor has started to change cultural attitudes in the countries where it has been active for a while. "When I said I was going to start a business, it was against everyone's advice, from my family to my university," he says. "Now, go to the same university and the same professors will tell you that one of their goals is to produce good entrepreneurs."

Glossary

stigmatised regarded as disgraceful

seed capital money allocated to start up a project

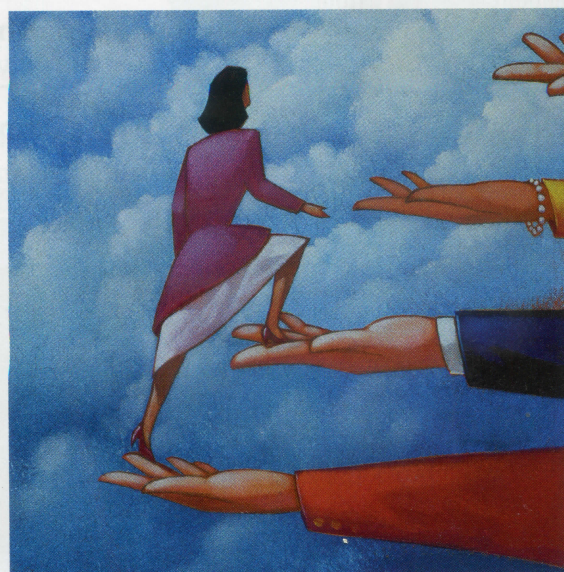
doggedness persistence or tenacity

⁸ Brazil is perhaps most vibrant of all. Endeavor's successes include Leila Velez, who grew up in a favela and whose beauty salon firm, Beleza Natural, now has revenues of \$30m, and Bento Koike, whose wind-turbine-blade manufacturing firm, Tecsis, recently struck a \$1 billion deal to supply mighty General Electric.

Going global

⁹ Endeavor has "created islands of hope," says Mr Casares. Now it must find ways to "change continents, not just little islands." Endeavor is confident that it now knows how to adapt its model to new countries, having learnt from early stumbles in Chile, South Africa and Turkey.

¹⁰ Funding has long been a problem for Endeavor. As a non-profit, it has to rely on donors. Would it make more sense to be a for-profit operation? Endeavor has struggled constantly with whether to pursue profits, but each time has concluded no, says Ms Rottenberg. "If Endeavor had been an investor, rather than an independent, objective, non-profit enabler, it would not have been trusted by the business elite, or the entrepreneurs," she insists. "Trust is everything." ■



Read the summaries below, which relate to individual paragraphs in the text. Tick those that are accurate and amend the others.

- 1 After successfully launching his restaurant business, Mario Chady took the decision to enter the US market. (para 1) _____
- 2 Linda Rottenberg founded Endeavor with a partner. (para 3) _____
- 3 Endeavor was launched with money collected from a group of would-be entrepreneurs. (para 4) _____
- 4 New businesses that have been chosen by Endeavor can get assistance from members of the selection panels. (para 5) _____
- 5 Endeavor has revenues of several billion dollars and a staff of almost 100,000. (para 6) _____
- 6 Attitudes towards entrepreneurship in some countries are changing as a result of Endeavor's activities. (para 7) _____
- 7 One of the companies that Endeavor assisted has recently been taken over by General Electric. (para 8) _____
- 8 Endeavor has decided not to expand its activities to new countries. (para 9) _____

Speaking

What do people in your country think about entrepreneurs? Are they seen as role models? Is failure 'stigmatised' or seen as 'a badge of honour'?

Vocabulary 1

Find the words in the text that are used to describe people who ...

- | | |
|--|--|
| 1 create new businesses | 4 invest in new businesses |
| 2 support and advise people | 5 have interests in manufacturing |
| 3 are wealthy and powerful business people | 6 create organisations for social change |

Vocabulary 2

Verbs with prepositions

Some verbs are often used with specific prepositions. Look at these examples from the text:

to concentrate **on** to learn **from** to choose **between**

1 Match the verbs in column A with the prepositions in column B. Some verbs may take more than one preposition.

2 Complete the text with the verbs and prepositions from the table.

A	B
account	for
amount	from
benefit	in
differ	on
focus	to
rely	with
result	
succeed	
suffer	



Social entrepreneurs ¹ _____ business entrepreneurs in the objectives that they set. Whereas traditional business ventures have only one priority – profit-making – social entrepreneurs create organisations whose activities will ² _____ more than just profits. One such example is the Prakti company in India. Prakti ³ _____ investments from both private individuals and venture capitalists to design, manufacture and distribute efficient, non-polluting cooking stoves. If the company ⁴ _____ penetrating the Indian market, millions of Indians will stand to ⁵ _____ their invention.

Usage

Expressions with *and*

There are many expressions where two words are combined with *and*. However, such expressions are used in different ways depending on whether they are adjectives, adverbs, nouns or verbs. Look at this example from the text:

... fellow *up-and-coming* (adj) entrepreneurs

1 Look at a selection of other similar expressions. Choose words from the list to complete them.

above don'ts downs error far ins give loss pick pieces

- | | | | |
|---|----------------|----|------------------|
| 1 | _____ and take | 6 | over and _____ |
| 2 | dos and _____ | 7 | profit and _____ |
| 3 | bits and _____ | 8 | _____ and choose |
| 4 | _____ and away | 9 | _____ and outs |
| 5 | ups and _____ | 10 | trial and _____ |

2 Complete the sentences with an appropriate expression.

- 1 When you start a new business you don't always have a precise business model, which means that very often you have to learn by _____.
- 2 The Rockliffe Foundation reviewed more than 100 applications for its entrepreneurial award, but _____ the best project was Bill Sutton's Micromechanical Robot.
- 3 Small businesses can learn from experienced entrepreneurs who know the _____ of obtaining finance.
- 4 In the start-up phase of an enterprise, unexpectedly high costs can arise. For example, inventory must be calculated _____ the payments to suppliers.
- 5 Any new venture is bound to go through difficult moments, so being able to handle the _____ of starting your own business is critical.
- 6 The Start-Up Emporium is a network of entrepreneurs which allows its members to _____ suitable partners, advisors or investors.

3 What other expressions with *and* do you know?

Listening 2

The birth of a business

Listen to an interview in which Bruno Guattari talks about how he started his company *Comptoir Atlantique*. Then answer the questions.

- 1 How did Bruno's professional background help the development of his start-up?
- 2 What was *Comptoir Atlantique*'s original main activity?
- 3 What support did Bruno receive from his family?
- 4 Where was the company first run from?
- 5 How did he go about financing his venture?
- 6 What problems did Bruno have during the first years of business?
- 7 How has the company evolved in recent times?
- 8 What are his plans for the future?



Third conditional

We use this to speculate about past events, actions and situations. It consists of two clauses: a conditional clause with *if* + past perfect, and a main clause with a past modal (*would/might/could/should* + *have*) + past participle.

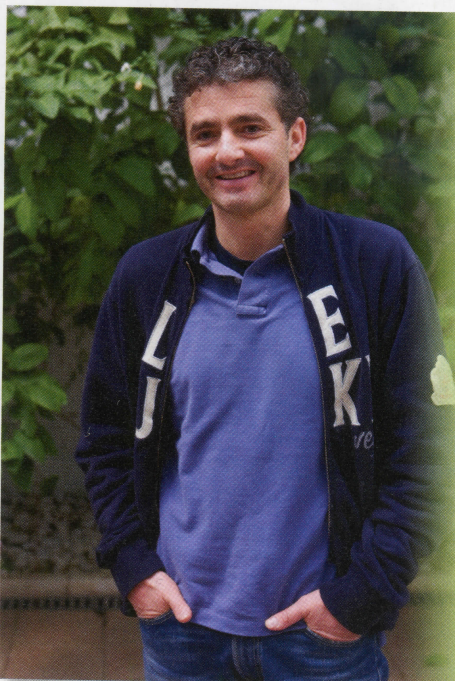
In the conditional clause, we use a negative verb when we refer to something that actually happened and an affirmative verb to refer to something that did not happen (but could have). Third conditionals are often used to express functions such as regret, apology, accusation, excuse and relief.

Look at the following comments made by entrepreneurs. Do the conditional clauses refer to events that occurred (✓) or to things that did not (x)? Which comment expresses (a) relief, (b) regret, (c) excuse, (d) accusation?

- 1 If I hadn't already had experience of working for a start-up, it would have been much harder for me to build the company. In fact I'm not even sure that I would have succeeded. _____ , _____
- 2 It took much longer than I thought it would to get the business off the ground. But if we'd had access to more capital, we would have broken even much sooner. _____ , _____
- 3 The main problem we had was that my partner and I didn't agree on how to position our product. I believe that if we'd followed my plan we would have generated enough sales to keep us in business. _____ , _____
- 4 My bank manager told me to improve my financial skills. But even if I had, I don't think it would have made any difference – nothing would because the market just wasn't ready for something so different. _____ , _____

Practice

Complete the following passage with appropriate conditional forms.



After working for ten years as an engineer, Andrea Sabatini was made redundant. As he says, 'At that time the job market was pretty tight in my field so even if I (1 find) _____ a new job, I don't think it (2 pay) _____ anything like the same salary that I was getting before.'

After six months the only offer that he had received was for a position abroad: 'If I (3 take) _____ the job, it (4 mean) _____ moving to Canada with my wife and children and even if we (5 do) _____ that, the salary wasn't tempting.'

Eventually Andrea accepted a position with an engineering company and that was the first step on his path to becoming an entrepreneur. 'If I (6 accept) _____ that position, I don't think I (7 end up) _____ becoming an entrepreneur.'

In his new position Andrea worked in research and development, but in his spare time he had access to the company's facilities. He used that time to develop a new concept for a mini surveillance robot but when he proposed the idea to his boss, it was rejected. 'If they (8 want to) _____ , they (9 develop) _____ it because there was a real market for a product like that. But they weren't interested in robotics. So I went ahead on my own and today I'm managing a business which has a turnover of several million euros and provides work for thirty-five people. There's always an element of luck in everything. I mean it (10 turn out) _____ so differently.'

Speaking

Think of a situation in the past when you were affected by an important event. What were the consequences of this event? What would have/could have/might have changed if this event had not happened in the way that it did? Share your thoughts with a partner.

Reading 2 The business plan

A business plan helps a new venture to clarify its business model, solidify its goals and present itself to potential investors. The structure usually follows a conventional format with headings for all the key information that a potential investor will need to know.

- | | | | |
|---|-----------------------|---|--|
| a | The business | f | Industry analysis |
| b | Executive summary | g | Financial plan |
| c | Critical risk factors | h | Operations plan |
| d | Management team | i | Company structure, ownership and intellectual property |
| e | Marketing plan | | |

1 Insert the appropriate heading from a-i above each section.

1 _____
This section provides an overview of the business plan. Potential investors will focus on this section before asking for the complete plan. If it does not present a clear summary of what the new venture is setting out to achieve, it is unlikely that potential investors will read further. It is best written once the rest of the plan has been finalised.

2 _____
This is where the entrepreneur has to demonstrate the financial validity of the business by discussing the funding requirements and detailing the financial projections over a three-year period. This section should also show investors what sort of return they can expect on their investment and what provisions have been made in the event of the business being sold.

3 _____
The strength, experience and skills of the people who will manage the venture are of primary importance. Venture capitalists will want to know if they have the necessary qualifications and the right background. This section should also include the composition of the board of directors and the names of the legal, accounting and consulting firms that the venture will be working with.

4 _____
Tensions between the partners of a new venture often arise from a failure to clearly define who will be responsible for what. A business plan should always include an organisation chart showing exactly what the reporting relationships will be. This section of the plan should also present the legal framework under which the company will operate and indicate what trademarks, patents and copyrights the venture owns.

5 _____
This section discusses industry size and the major trends in the industry in which the new venture will be competing. It should also describe the business's target market and show how its products will be situated in relation to those of its competitors.

6 _____
This is where a new venture must be able to show not only that it has a product which people will be interested in buying but also that it has a realistic plan for getting its product into the hands of those buyers. There should be a complete presentation of the product and a full description of how it will be priced, distributed and promoted.

7 _____
This section deals with the day-to-day running of the company. If the business is planning to manufacture a product, there should be a full description to show where this activity will take place and how much work will be done in-house or by subcontractors. Questions of quality control and customer support should also be addressed.

8 _____
This should give a short description of the opportunity that the entrepreneur has identified – that is, the problem to be solved or the need to be filled – and then describe how the business will address these issues and what competitive advantage it will benefit from.

9 _____
No business plan is complete without a frank discussion of the potential dangers that a new venture faces. What those are depends on various factors such as pending patent applications or the recruitment of qualified specialist personnel.



2 Read the following extracts from a business plan. In which sections of the plan would they appear?

- FlashGarb has now been registered as a limited company in the UK.
- David Gestner will take full responsibility for the research and development of electronic systems and interfaces.
- Prospective customers include a number of well-established brands which have already informally expressed interest in FlashGarb's original concept.
- The components for the modulator system will be imported from selected domestic and overseas suppliers and assembled in situ.
- The remaining capital will be sourced partly from a regional business development fund and partly from a national UK bank.

Career skills



Pitching

Pitching is the art of presenting a business idea or proposal to a decision maker, potential investor, supplier, customer, colleague or employee. The 'elevator pitch' is a brief summary of the business opportunity being presented. It comes from the image of the short period of time you spend with someone in an elevator. A 'sales pitch' focuses on the product or service only and is generally aimed at customers. Every pitch has to be adapted to the listener. However, whether it is for a formal presentation to a group, or an informal exchange with an individual, the guidelines below will make the pitch more effective.

- a Remember pitching is selling.
- b Make a call to action.
- c Know your audience.
- d Capture the interest of the listener at the start.
- e Show the differences with competitors.

1 Match the guidelines a-e to each of the points below.

1 _____

Say what the idea is at the outset. Use a slogan or catchy phrase to sum up the idea. Don't spend the first part of your pitch talking about yourself and your background. People want to hear what it is you're selling first. If you capture their interest in the first minute, the chances are that they will listen carefully all the way through the pitch.

2 _____

Preparation is key. Do some research before meeting the target audience and try to discover their expectations. Address those expectations by telling them how the product or service will impact them. If you are talking to a future investor or a bank manager, for example, you will need to outline the business plan and talk about the financial projections.

3 _____

Be passionate and engaging about your suggestion, proposal or product. Tell a story about how the idea came to you or how your product has already solved a customer's problem. People engage with real-life stories.

4 _____

Outline the special features which give your product or service an edge over the competitors.

5 _____

Set a time for a follow-up meeting. In most situations, people don't decide on the spot whether they are interested or not. Make sure you get a commitment from them to consider your project or product.

2 Using the information above, make a list of dos and don'ts for pitching.

DOs	DON'Ts

Listening 3

1 Listen to three pitches and answer the questions below.

- 1 What is being pitched in each one, a product, a service or a proposition?
- 2 Is the listener a potential customer, a potential investor or a colleague?
- 3 Which of the techniques opposite did the speaker use?

2 How successful do you think the start-up ideas mentioned in the listening will be?

Speaking

Work in pairs. Read the descriptions of recent start-ups below. Choose **one and then prepare a short sales pitch that you would use to promote the product or service to potential customers. Take turns to deliver the pitch to your partner. Discuss your reactions. For example, would this pitch make you go out and buy the product or service?**



1 Geneva-based LunaJets takes advantage of the fact that many private jets fly empty when they return home after dropping passengers off or when they head out to pick passengers up. The company works with a select set of jet operators to maintain a database of all such 'empty leg' flights, as they are known, and allows users to browse that database to find flights that match their own needs. Travellers can book anything from a single seat to a whole cabin on flights shorter than two and a half hours; on longer flights, they must reserve the whole cabin. Booking and payment can both be handled online, and prices are fixed and open, beginning at €890 for a single seat on a flight up to one hour long.

2 Chicago-based ElementBars.com aims to give users a simple, step-by-step process for designing their own energy bars. Using the site's drag-and-drop interface, customers begin by selecting a 'core' that defines the bar's texture and base. They can then add nuts, fruits and sweets as well as protein, fibre, Omega-3 and vitamin boosts. Once the customer's order is complete, ElementBars will hand-make and deliver them in about a week; pricing is \$3 per bar, with a minimum order of one box of 12 bars.

3 Aqua by Grandstand is a mobile lifestyle and night-spot venue created from fold-out 'transformer' units. The two-storey-high mobile party platform is modelled out of shipping containers using a transforming mechanism that allows a single container to open up to three times its original size. Accordingly, Aqua's bar-lounge can cater to as many as 500 guests and can be constructed at any location in the world complete with electricity, audio-visual and hospitality equipment.

Writing

Write your sales pitch out in full. Use your feedback notes from above and improve on your original pitch.

Culture at work

Pitching styles

When pitching in a multicultural context, it is even more important than usual to learn about the listener first. Some cultures expect the focus to be on facts and figures. They may appreciate passion and enthusiasm, but value serious and factual pitches more. Others expect pitches to be first and foremost entertaining and pithy – but still expect pitches to have some substance. Where would the focus lie in your culture?

Dilemma: Finding the funds

Brief

The dilemma that most young entrepreneurs face is not finding a good business idea but finding the money to get it off the ground. There are different ways of finding the money to start a business.

Task 1

In groups, read the following descriptions of ideas for start-up ventures. Choose one of the ideas and then use the questions below to further develop the business opportunity.

- 1 You are a young fashion designer with a wonderful new collection which you want to launch under your own brand.
 - 2 You want to set up an e-commerce site which will offer personalised gifts and educational toys for babies and young children.
 - 3 You want to set up a retail business in exclusive lines of stationery and pens. You are considering trying to get premises at your local central railway station which is currently being developed and managed by a large private contractor.
- What will be your company/brand name?
 - Who is your target market?
 - What type of location/premises will you need?
 - What price can you charge and what kind of profit margins do you hope to make?
 - How much advertising will you need to do?
 - Will you need to recruit employees? If so, how many?

Task 2


Decide which of the methods of funding outlined here would be best suited to the venture that you have chosen to develop.

Task 3

Prepare a full business pitch that you would use to obtain funding. Meet with another group who have chosen to develop a different business. Present your pitches and give feedback on how you think a potential investor would react.

Write it up

Write a formal letter to a venture capitalist, requesting an appointment to discuss the funding of the business venture that you presented in your pitch.

 For more information, see *Style guide*, page 14.

Decision:

- ① Listen to Oliver Peters, a venture capitalist, talking about the best way to fund these business ideas.
- 1 Which type of funding does he recommend for each of the business ideas?
 - 2 What does he say about VC funding?
 - 3 Which examples does he give of the other two types of funding?

Personal savings

Fund the business yourself from savings or by getting a second mortgage on your home.

Bank loan

Borrow money from a bank – you will have to provide a guarantee or ‘collateral’, as it is often called.

Government grants

Governments are often willing to encourage and support new enterprise. This varies enormously from country-to-country, but grants and free consultancy services can sometimes be obtained.

Venture capital

VC firms will sometimes invest large sums of money, essential for businesses with big start-up expenses or that plan to grow quickly, in return for a fast, high rate of return. A VC firm often offers more than just money. For example, it might have good industry contacts or a lot of experience it can provide to the company.

Crowdfunding

This is a financing technique where businesses invite people, via the Internet, to contribute small sums of money in return for a share in the profits and/or other advantages such as free samples of the new product. Success depends on the popularity of the product. Because contributions are small, thousands of investors are needed. Some music bands have raised enough money to make a record like this.

Commercial partnership

Existing businesses with a strategic interest in the success of the new venture may be willing to invest some capital.