From Idea to Startup

The Business Development Manual for Your Journey as an Entrepreneur in Iraq
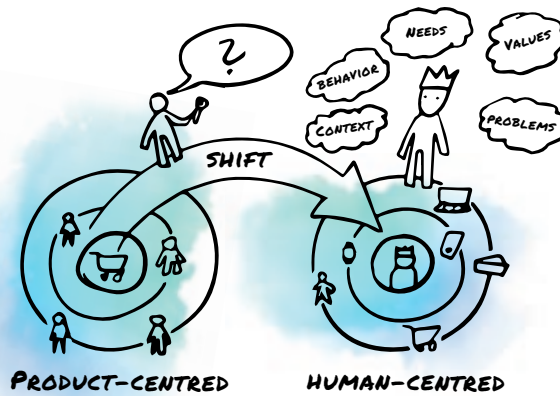
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INTRODUCTION

Today, the Iraqi economy faces several challenges due to poor governance and rapid change in the global ecosystem. The implications of these challenges are likely to last for the next few years.

According to the World Bank 2020 report "Iraq Economic Monitor", 77% of Iraq's 2019 budget was spent on public hiring, which is considered the highest in the world. Lower oil prices and the need to invest in infrastructure will force Iraq not only to put public hiring on hold, but will also limit any future hiring. Ultimately, this will lead new graduates toward the private sector to seek employment or kick off their own businesses.

To enter the private sector, you will need a specific set of skills that academia might not cover, thereby reducing your employment opportunities or your ability to establish your own business. This gap between what you learned in college and the skills required by the private sector is called the "market skills gap". This manual will help you to get the tools you need to fill the gap between you and getting a promising job or starting a business.

This manual "From Idea to Startup" consists of business-oriented material, structured in the form of a journey. Whether you are a university student or a graduate in Iraq, the focus is on teaching you about different tools, techniques and aspects that can help you navigate the possibility of excelling in your current or future job, as well as setting up your own business. This manual doesn't substitute your academic curricula; instead, it will complement your education and improve your chances of being recruited, or help you in building your business as soon as you graduate.

The manual consists of 10 interconnected chapters to walk you through all the phases of starting a business, from critical thinking techniques and prototyping ideas to transforming them into a Minimum Viable Product (MVP), registering these ideas to become real businesses, and how to fundraise for them.

This manual is the result of a collaborative effort between GIZ-Iraq, The Iraqi Ministry of Higher Education and Scientific Research (MoHESR), and a group of Iraqi experts.
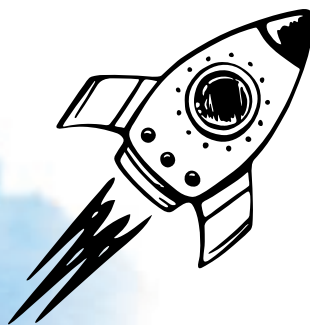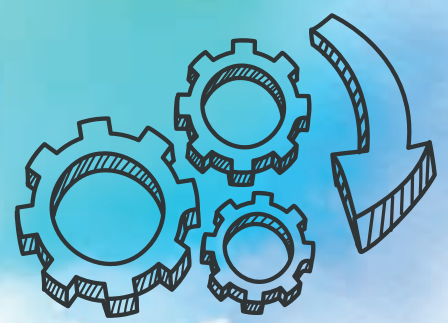
Manual Roadmap

This manual consists of two tracks that complement each other: the "Foundation" and the "Expansion" tracks. The "Foundation" track covers the theoretical and practical basics that are essential to entrepreneurship. The "Expansion" track provides additional information and exercises to deepen your knowledge.

Foundation Track

The Introduction
1) **Getting Oriented:** This chapter explains what young Iraqis need to think about when starting their micro and small businesses today, whether their journeys up to now have been entrepreneurial or not.

The Basic Entrepreneurial Journey
2) **Business Principles & Human Centered Design:** This chapter helps the reader to look at different challenges around them and identify ways to transform these challenges into business ideas.
3) **The Business Model Canvas:** This chapter helps the reader prototype the business idea from the previous chapter, and structure it into a business model canvas.
4) **The Lean Startup Methodology:** This chapter introduces the lean startup methodology and empowers the reader to test and validate their business idea to better inform the calculation of its overall financials.
5) **Costs & Revenues:** This chapter covers different cost structures and revenue streams important to get your business idea ready for execution.
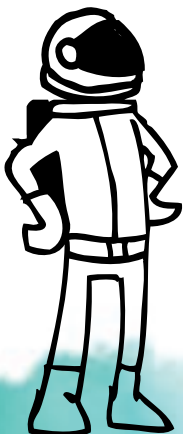
The Upskilling Journey
6) **Financial Planning & Controlling:** This chapter walks the reader through the different financial concepts required in daily operations and real business life activities.
7) **Project Management & Team Building:** This chapter navigates the reader through project management and building the right team to execute a business idea.
8) **Marketing & Sales:** This chapter adds a marketing and sales overview for the reader to learn how to build up their business in their markets.
9) **Legal Considerations:** This chapter explains the company registration process for the business to operate in the Iraqi market legitimately.
10) **Financing:** This chapter highlights how to finance a business and showcase possible financing opportunities in Iraq.

Expansion Track
a) **Bonus Content:** In some chapters, you will find additional resources to expand your knowledge beyond the basics.
b) **Exercises:** In certain chapters, you will have the opportunity to practice some of the knowledge you acquired through exercises.

CONTENT OVERVIEW

1

Getting Oriented

WHAT THIS CHAPTER IS ABOUT

1.1 Introduction: Who Can Benefit From This Manual?

This manual is designed to benefit three different Iraqi youth categories: those who want to acquire the needed skills to get a job, those who want to start their own business, and those who want to kick-off an entrepreneurial journey.

As a graduate from an educational institute in Iraq, adding the set of skills and techniques in this manual will open up new horizons for you to build your career as well as help others to succeed. The institutes behind this manual believe that you are the cornerstone for a brighter future of yourself and your society.

1.2 Why Start a Business?

By the time you graduate, you will have to choose between finding a job in the public sector, the private sector or starting your business. Today, more than 200,000 Iraqi students graduate each year and enter the labor market. The job market in Iraq is saturated and unable to add new jobs, especially due to a retirement age of 60 years old in both the public and private sectors. While the private sector is in a better position to take on new jobs, the required skills and expertise are of a higher standard and might be out of your reach as a recent graduate. That leaves the labor market limited in its capacity to accommodate the thousands of new graduates.

On the other hand, technological advancements, the government-led financial inclusion program and an increase in population are three factors providing a perfect opportunity for MSMEs (Micro, Small & Medium Enterprises) to be created. If you can learn how to start your own business in the right way, you will be able to capitalize on these three factors to create a job for yourself and others.

Being part of this vibrant and expanding private sector culture will not only help you tackle the challenge of unemployment, but will provide you and others with decent financial streams to help you become self-sufficient, self-funded and prosperous young Iraqis.

1.3 The Difference Between SMEs & Startups

For an outsider, startups and SMEs (small and medium-sized enterprises) might look similar since they are both small companies established by entrepreneurs in response to a market need, and focusing on growth, profitability, and survival.

It is common practice to describe enterprises according to size. This has recently given rise to the additional term micro, small and medium-sized enterprises or MSMEs. It is important to note that MSMEs do not have a standard definition at the international level. If an enterprise is engaged in economic activity, it is considered an enterprise irrespective of its legal form. MSMEs are defined differently according to the legislation of different countries. This is mainly because the size of a firm is relative to the size of the respective national economy.

The Organization for Economic Cooperation and Development (OECD) defines MSMEs as companies that employ up to 249 people, broken down as follows: micro (1 to 9), small (10 to 49) and medium (50-249).

On the other hand, when you think about a startup, it most likely invokes a picture of a young, motivated business-oriented person wanting to make a difference in the world. Mark Zuckerberg might be the most familiar icon associated with that concept; however, not all startup founders are necessarily like him. Leading a startup means you need to be innovative, flexible and willing to improvise as you go. As with MSMEs, there is no international definition of the term startup. A comparison of different approaches to define startups shows that the specifications generally define them as micro or small enterprises, as they are fairly new to the market, but they are also characterized by an "innovative approach," which can either involve having an innovative business model or using technology that enables them to scale fast and therefore have a huge impact on the economy by creating high revenues and jobs. One definition that might be used was developed by the EU and used for the European Startup Monitor. It defines startups by three criteria: startups a) are established for less than ten years, b) introduce innovative technologies and /or new business models, c) engage a significant number of people and/or have rising sales.

In contrast to the startup model, an SME is founded based on market research and studies to ensure economic sustainability from the get-go. Unlike startups, SME's founders favor assurances such as market demand, well-informed costing, and clear customers to engage. The nature of this kind of business results in slower performance and growth that will likely keep the SME limited geographically. Its focus is more on economic sustainability than rapid growth.

A common misconception about the differences between the two models is how they operate with regards to their team, benefits and offices. Only those who develop into the core of the business can figure out where the real defining factors lie.

Vertices	Startups	Established Businesses
Business Goal	High growth	Stable business
Risk	High risk	Low risk
Organization Structure	Varies from an agile team to a more structured organization	A structured and stable group of employees
Funding	Often seek large-scale funding from venture capitalists or angel investors, IPO	Self-funded or financed from family, friends or a bank loan
Product	Often related to advanced technology, keeps changing and improving	Often known, various
Customer	New and defined customers	Mostly defined customers
Business Model	New, rapid, disruptive	Existing, proven business model

A restaurant is an example of an established proven business model with potential customers that already exist. While a new service using new technology is an example of a startup that needs to convince new customers to use that service, which makes market entry more of a challenge.

1.4 Types of Entrepreneurship

Entrepreneurship is the creation or extraction of value in order to make a change, including other values than economic ones. More specific definitions have described entrepreneurship as the process of designing, launching and running a new business, which is often initially a small business, or as the "capacity and willingness to develop, organize and manage a business venture along with any of its risks to make a profit."

Entrepreneurship could be categorized into three types: 1. Entrepreneurship, 2. Intrapreneurship, 3. Social Entrepreneurship.

1.4.1 Entrepreneurship

Are you starting your own business? Does this business create a change in the industry or environment you're targeting?

If you answered "yes" to both questions, then you are an entrepreneur.

According to Investopedia, "An entrepreneur is an individual who creates a new business, bearing most of the risks and enjoying most of the rewards." Being an entrepreneur means you are an innovator, a source of new ideas, goods, services, and business/or procedures.

Entrepreneurs play a vital role in any economy, using the skills and initiative necessary to anticipate needs and bring valuable new ideas to the market. Successful entrepreneurs who manage a startup's risks get rewarded with profits, fame and continued growth. Unlike successful entrepreneurs, those who fail, suffer losses and become less prevalent in the markets.

1.4.2 Intrapreneurship

People may confuse entrepreneurship with intrapreneurship. According to Hisrich and Peters, "Intrapreneurship is the entrepreneurship within an existing organization." The definition implies that new initiatives, creativity, and dynamism that augment organizational competence are intrapreneurship. An intrapreneur is an entrepreneurial person employed by a corporation and encouraged to be innovative and creative.

Think of intrapreneurship as the thoughtful and creative initiative taken by a person working in an organization that helps ensure organizational success, progress, competitive edge, and market sustainability. Intrapreneurs are usually found in enterprises that encourage experimentation, tolerate failure, recognize success, and share the wealth.

1.4.3 Social Entrepreneurship

Social entrepreneurship is another type of entrepreneurship that is driven by making a positive impact on society. A social entrepreneur is a person who pursues innovative applications that have the potential to solve community-based problems. These individuals are willing to take on the risk and effort to create positive changes in society through their initiatives. This manual will not focus on this type of entrepreneurship.

The takeaway from this section could be summarized in the following table that captures the differences between entrepreneurs and intrapreneurs:

Vertix (Point of Difference)	Entrepreneurs	Intrapreneurs
Definition	Entrepreneurship is the dynamic process of creating incremental wealth.	Intrapreneurship is entrepreneurship within an existing organization.
Core objective	To innovate something new of socio-economic value.	To increase the competitive strength and market sustainability of an organization.
Primary motives	Innovation, financial gain and independence.	Improve chances of reward within the organization and expand one's autonomy.
Activity	Direct and total participation in the process of innovation.	Direct participation, which is more than a delegation of authority.
Risk	Bears all types of risk.	Has moderate risk.
Status	The free and sovereign person doesn't bother with status.	Organizational employees expecting freedom at work.
Failure and mistakes	Recognizes mistakes and failures to improve on new innovative efforts.	Keep risky projects secret (unless communication is agreed upon) due to high concern for failure and mistakes.
Decisions	Independent decisions to execute dreams.	Collaborative decisions to execute dreams.
Whom serves	Customers and entrepreneurs themselves.	Organization and intrapreneur themselves.
Family heritage	Professional or small business family heritage.	May not have a heritage or partly through their professional post.
Relationship with others	A direct relationship based on interaction and negotiation.	Authority structure defines relations.
Time orientation	Nothing is time-bound.	Self-imposed or organizationally stipulated time limits.
The focus of attention	Increasing sales and sustaining competition.	Technology and the market.
Attitude towards destiny 1	Follows their own sense of self, innovates outside of existing structures.	Adapts their sense of self to working within the given structure.
Attitude towards destiny 2	Strong commitment to self-initiated efforts and goals.	Strong self-confidence and hope for achieving goals.
Operation	Operates from outside an existing organization.	Operates from inside the organization.

1.5 Am I an Entrepreneur?

In order to answer this question, let's explore the five different entrepreneurial personalities:

1.5.1 The Innovator

This type of entrepreneur usually is the one who comes up with entirely new ideas and turns them into viable businesses. In most cases, entrepreneurs change the way people think about and do things, and tend to be extremely passionate and even obsessive, deriving motivation from the business idea's unique nature.

Innovative entrepreneurs also find new ways to market their products by choosing product differentiation strategies that make their company stand out from the crowd. Sometimes it is not just standing out from the crowd, but also creating a new crowd. To say that innovators like Steve Jobs, Larry Page of Google and Microsoft founder Bill Gates were obsessed with their business would be an understatement.

Advantages	Disadvantages
• Get all the glory for the success of the business (and take all the arrows) • Make the rules • Face minimal competition during the initial days	• Need a lot of capital to bring a new idea to life • Often face resistance from shareholders • The timeframe for success is longer

1.5.2 The Hustler

A hustler is a person that is willing to take things into their own hands rather than waiting for financial support. Unlike innovators, who seek capital support from early stages, hustlers begin small, and focus on scaling up in the future. They are driven by their hope to achieve their dream, making them focused and determined to overcome any distraction. One good example of a hustler is Mark Cuban, who started his business very young selling trash bags, newspapers, and even postage stamps, and this hustle later created a goldmine which was later acquired by internet giant Yahoo!

Advantages	Disadvantages
• They will outwork most • Tend to have thick skin – they don't give up easily • See disappointment and rejection only as a step in the process	• Usually prone to burn out • Wear out their team members who don't have the same work ethic • Often don't see the value of raising capital as opposed to just working harder
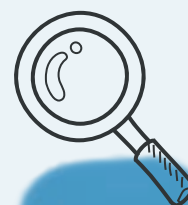
1.5.3 The Imitator

An imitator is the type of entrepreneur who copies a business idea and improves upon it. They are continually seeking new ways to make a particular product better to gain the upper hand.

An imitator is part innovator and part hustler who doesn't stick to the terms set by other people and has a lot of self-confidence. A good example is Ali Baba, compared to Amazon. Ali Baba was introduced later than Amazon, and it included more building blocks than Amazon's business model.

Advantages	Disadvantages
• Refining a business idea is easier and less stressful • You can easily benchmark your performance with the original idea • Can learn and avoid mistakes that were made by the originator	• Their ideas are always compared to the original idea • Always have to play catch-up

1.5.4 The Researcher

Researcher entrepreneurs will take the time to gather all the relevant information about an idea in an attempt to rule out failure as an option. Their detail-oriented approach to researching a business idea and relying on data allows them to believe in only starting a business with high chances of succeeding.

Albert Einstein might be a great example of a researcher entrepreneur. His theory of general relativity, among other ideas and publications, is based on a ton of research and affects different businesses such as GPS technology. A modern-day example of a researcher entrepreneur is Elon Musk and his wide range of companies such as Tesla and SpaceX.

Advantages	Disadvantages
• Plan for as many contingencies as possible • Write detailed, well-thought-out business and financial plans • Focus on data and information rather than gut feeling • Won't start unless they feel like they know the market • Will minimize the chances of failing in the business	• Typically moves slow • Avoids risk which can hamper progress in a new venture

1.5.5 The Buyer

One thing that distinguishes buyers is their wealth, which enables them to buy promising businesses. Buyer entrepreneurs will identify a business, assess its viability, acquire it, and find the most suitable person to run and grow it.

An example of a buyer entrepreneur is Warren Buffett. This financial investment oracle is known for his suitable investments and stock acquisitions.

Advantages	Disadvantages
• Buying an already established venture is less risky • Doesn't have to worry so much about innovation • Can focus on building up something that has already laid a foundation • Already has a market for your products	• Usually pays a high price for good businesses • Will face the risk of buying businesses that have problems that you think you can turn around

As we see, each personality comes with a different set of opportunities and challenges. There is no perfect personality to be called the ultimate entrepreneur; therefore, you only need to focus on discovering your inner skills, sharpening them, learning new skills and participating positively in building your business.

2

Business Principles &
Human Centered Design

WHAT THIS CHAPTER IS ABOUT

2.1 Introduction

The world is in continuous change, and so is the business market. Today, we see hundreds of businesses opening and closing every day, and the ones that truly endure are those built on human needs and problems worth solving.

In Iraq, more and more young people are entering the business market as fresh entrepreneurs who are open to new methodologies and approaches to starting and running a business. Iraqi people are more open than ever before to utilizing and supporting innovative solutions for their everyday challenges.

Ideas are not limited by time or space. Wherever you are, you can always ideate solutions for the challenges you see at your home, college, neighborhood or city. In order for you to put those ideas into the shape of feasible solutions, we have dedicated this chapter to be your starting point. In this chapter, you will understand how to identify a problem worth solving, because it is based on real human needs. Then you'll learn how to root and frame the challenge to better ideate a suitable solution for the identified problem. This process is known as "Human-Centered Design" and it will guide you through your journey in this chapter.

Ideas can be for challenges you observe in your communities or high level technical issues, or they can emerge from a domain that matches your interests, whether within the framework of a graduation project, the further development of a pre-existing product or idea, or even just planning a marketing strategy.
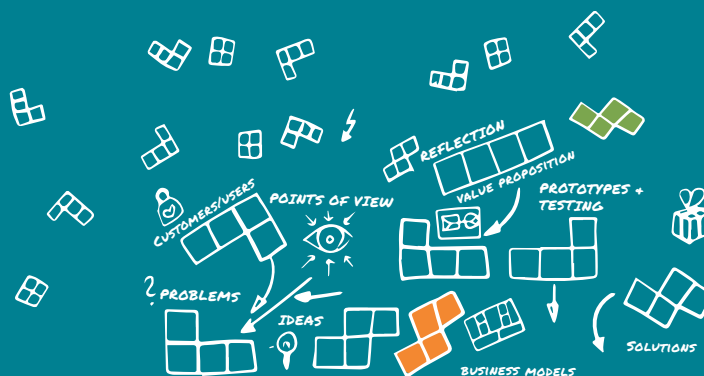
In this chapter you will learn about:
• Basics of human-centered design (2.2)
• Design thinking and its applications (2.3)
• Understand & observe stage of design thinking (2.5)
• Define stage of design thinking (2.6)
• Ideate stage of design thinking (2.7)

As you progress through the chapter, you will come up with a human-centered business idea that solves a 21st century challenge and may serve as the basis for a sustainable business.
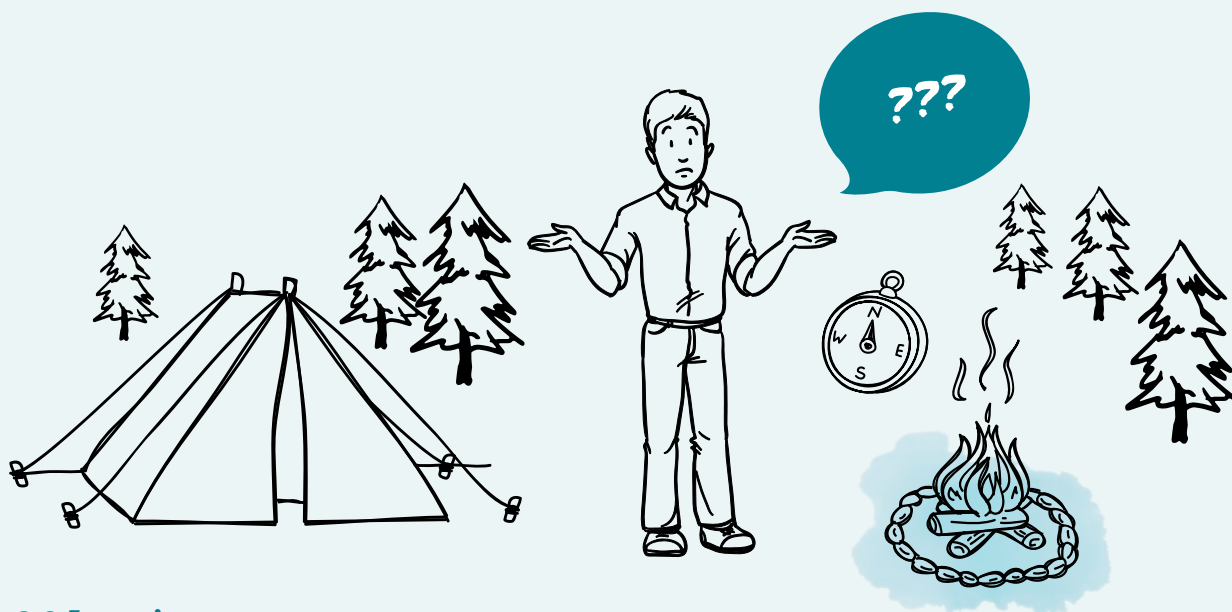
2.2 Imagine

There is a person in the middle of the forest. What do they need? List everything: e.g. food, fire, bed, water, tent, internet, mobile phone, car, bathroom, clothes, barber, family, fishing tools, etc.

Now, how did you know that they need all these things?
Was it your assumption?
Does this person need your help in the first place?

We very often assume that we know better, that we have the right answer, but we usually don't. They are just our assumptions.

Before you design your solution, you need to understand two things:

- The problem, and why it is still there
- The person affected by the problem, and how they see it from their point of view?

Identify your audience needs and motivations, and see the problem from their point of view.
This is how we start our journey with the **human-centered design** approach.

Human-centered design is a problem-solving approach that is commonly used to design and develop solutions for the problems humans face. This approach assures high involvement of the people affected by the problem (e.g. the person in the middle of the forest) in all steps of the process. The process includes observing the problem within a specific context, understanding its origins, then brainstorming, conceptualizing, developing and implementing the solution. All centered around the affected humans themselves.

We see it all the time, services and products on the market without buyers, patented innovative ideas that struggle to become a successful business, services that take longer than they should and products with something missing. But why?! There are many reasons. The most common reason is that the solution was designed without fully understanding and taking into consideration the customer's needs and wants.

Adopting a human-centered design approach and mindset requires you to make every effort possible to understand your customer's needs and wants, and to tailor your solution to them. This will reduce the risk of failure when starting a new business, especially for entrepreneurs.
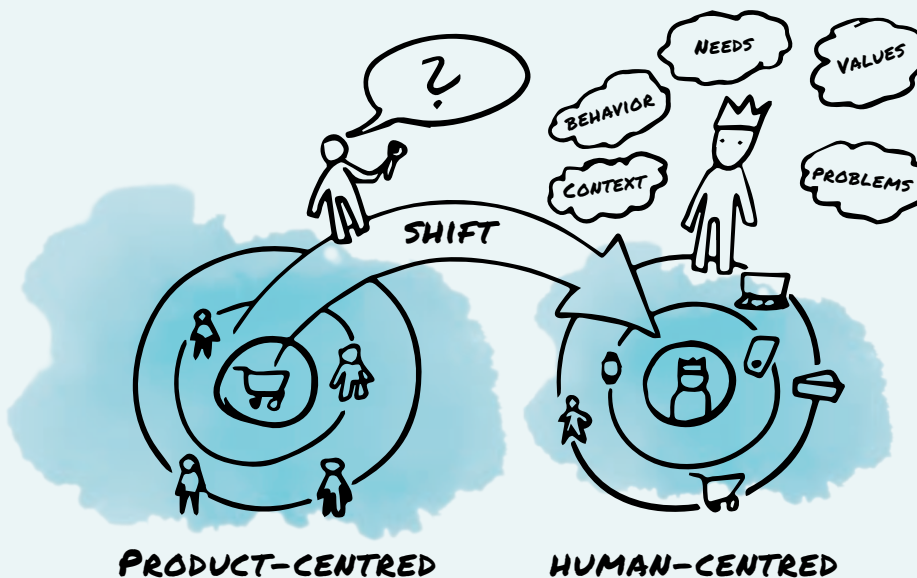
Product-Centered:

A product-centered approach is focused on the products/services it brings to the market rather than the human (customer) who pays for them. The goal is to offer the best product/service, focusing on its features and characteristics without taking into account the human's needs, wants and experiences.

Human-Centered:

A human-centered approach focuses on the human (customer): their needs, wants, and experiences. The goal is to offer products/services in a way that resonates with the needs of the customer. In other words, the human-centered approach starts with the customer and works backward to create a product/service.

2.3 Design Thinking

There are a lot of methods, tools and methodologies that can be used to pursue a human-centered design approach. In this manual, we will focus on the design thinking methodology.

2.3.1 What is Design Thinking Methodology?
Design thinking is an innovative problem-solving methodology and a human-centered approach that allows people, teams and institutions to focus on user needs. It's a five-step process: Understand & Observe, Define, Ideate, Prototype and Test.

It puts people we design for at the center of the process and invites them to co-create solutions. While design thinking is a process, human-centered design is the mindset behind it.

Why design thinking?
1. It's suitable for solving big and small problems.
2. It can be applied to different fields and industries.
3. It reinforces and encourages innovation.
4. The purpose of the design thinking process is to start from scratch and come up with products and services that fit into people's daily lives.

Misconceptions about design thinking:
1. It's not only for designers.
2. It's not for '1+1' kind of problems. It works best with problems that involve different points of view that lead to different kinds of solutions.
3. It's not magic and doesn't guarantee solutions. It's a process that depends on you and how you manage it.

The right solution for the right problem

Some problems are more complex than others. If you inquire about building a bridge for example, the solution is simple and there are experts in that field who can give you an answer fairly quickly. Design thinking is made for those complex, systemic problems that cannot be solved by experts alone. It must always include the user since they are the best one to judge if the solution suits their needs. In design thinking, we spend a lot of time understanding the real problem and the causes behind it. We believe that what we see on the surface are only symptoms. We combine many observations and techniques to make sure we understand the user's experience, behaviors and needs, and we reframe the problem repeatedly before we start ideating.

Potential customer + **your product** —what you sell— = **your customer who can now do awesome new things** —what customers buy—
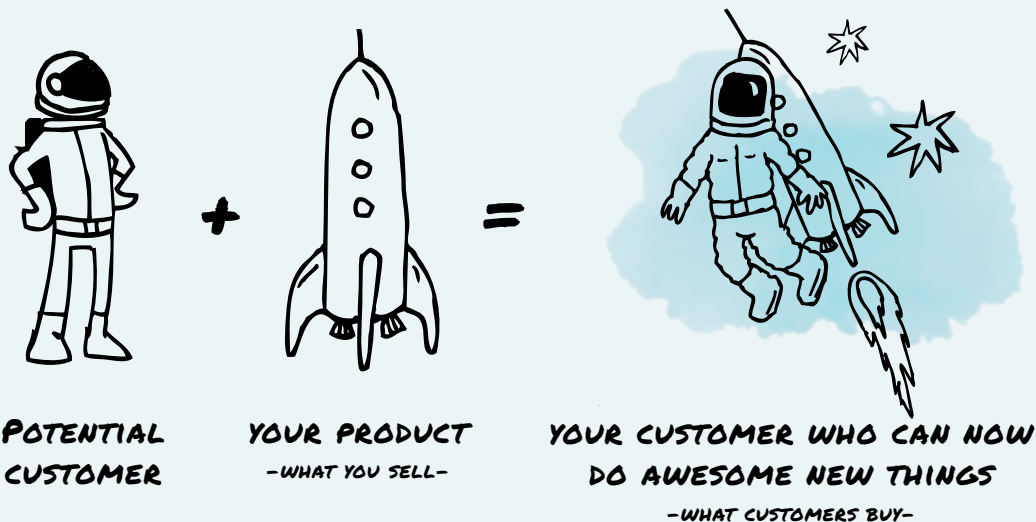
2.3.2 How do we Apply Design Thinking?

Design thinking is a non-linear and iterative five stage process. Each stage allows us to get closer to understanding the real needs and wants of our users (targeted people/beneficiaries). To apply design thinking successfully, you need to pass through the following stages:

- **Understand & Observe:** We try to understand the problem from the user perspective and the users themselves also help us as we observe them in their real environment or in the context of the respective problem.

- **Define:** In this phase, we focus on evaluating, interpreting and weighing the findings we have gathered from the first stage. It requires us to identify the problem and the needs and wants of the user through our insights.

- **Ideate:** Once we have defined the problem, the ideate phase or "ideation" begins. Ideation is a step toward finding an innovative solution for our problem that can be prototyped in the next stage.

- **Prototype:** Involves bringing our idea to life, by coming up with a simple representable model that helps us to test our ideas or solutions, quickly and without risk, with our potential users.

- **Test:** Invites customers\users to try the prototype and provide feedback, so we can learn and adapt quickly.

Understand **Observe** > **Define** > **Ideate** > **Prototype** > **Test**

PROBLEM SPACE

SOLUTION SPACE
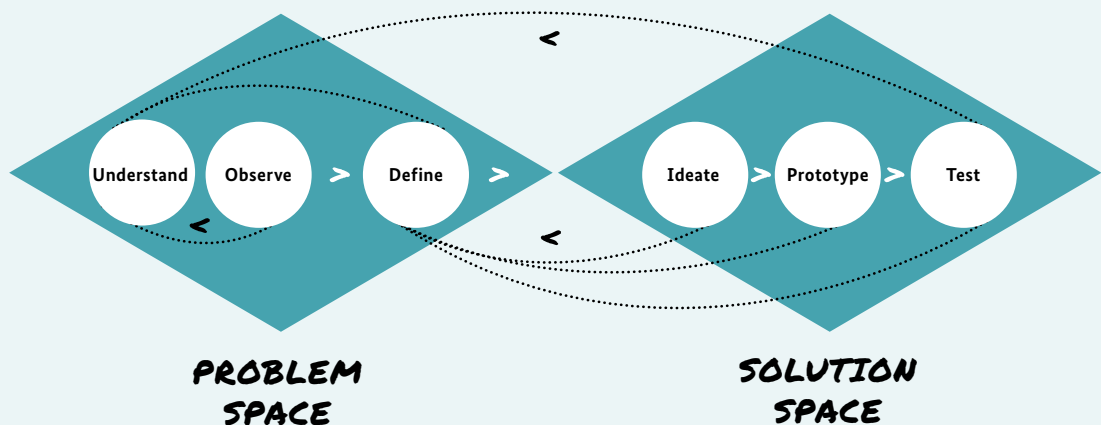
THE DESIGN THINKING PROCESS IS NOT A COLLECTION OF STEPS. YOU GO BACK AND FORTH BETWEEN THE PHASES AGAIN AND AGAIN, SLOWLY RAISING THE QUALITY OF YOUR OUTPUT; THEREFORE, IT IS BETTER TO THINK OF IT AS A COMPASS THAN AS A MAP.

2.3.3 Local & International Examples of Design Thinking

Graduation Project – one of the Iraqi Universities: This is the story of a senior student at Al Rafidain College of Engineering. His graduation project was about using water sensors to measure the amount of water inside tanks. The student decided to go further with the design thinking process to find a problem worth solving within this domain and to build a suitable solution for it. The process resulted in identifying that local power generator owners in Baghdad needed a tool to measure the amount of oil and gas in their generator tanks. As a result, he redesigned his tool to help them measure the gas and oil through specific sensors. By then, he had identified the human need, so he moved on to ideate a solution that helped users face this challenge. Now, after his graduation, he owns a small workshop to produce these sensors for the local power generator owners.

Lessons learned; we may have an idea, but are we tackling the right beneficiaries for it? Within his capabilities and resources, this student identified a problem, understood the real need of the targeted people and then turned the wheel of his graduation project to fit the needs of the targeted people.
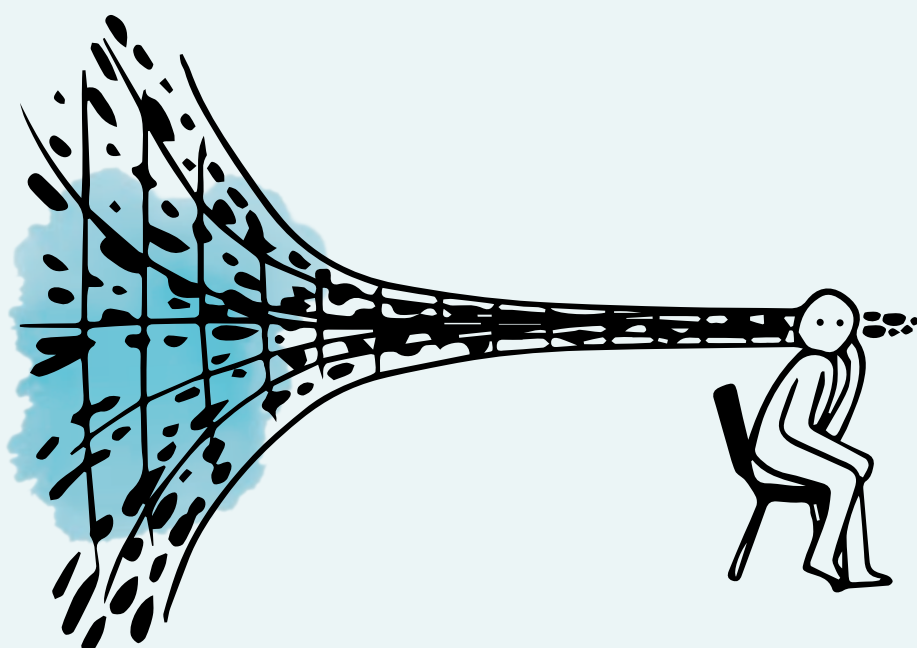
GE Healthcare: This is a company that provides medical technologies and services. One of their products is an MRI scanner by designer "Doug Dietz". However, after launching his device, what he observed gave him a new perspective on his work. As a result, he reframed his problem to focus on the user. According to Dietz, the dark MRI room consisted of a warning sticker with an exclamation point, yellow and black caution tape on the floor, and the MRI machine that made a terrible noise and "looked like a brick with a hole in it". Seeing the small children's terrified reactions to his scanner, he realized that he needed to focus on making the stressful experience more pleasant and fun for his users. Dietz decided to use the design thinking methodology to solve this problem and transformed medical procedures into exciting adventures. For example, the Pirate Adventure transforms the medical setting into the dock of a pirate ship, where the patients are scanned on its plank with a sound of harps in the background. With these new magical settings and experiences, satisfaction scores from children rose up to 90%, with some children even asking if they could do the procedure again.

Lessons learned; the idea itself is not enough. Learning from the user experience and listening to their needs is essential.

2.4 Roadmap

In this chapter, we will take you in a journey, using the design thinking methodology to find a problem worth solving based on human needs. You will source the problem within your surroundings and apply the methodology to building a business, graduation project or social initiative out of it. As a part of the process, you will need to pass through different tools and canvases to facilitate your work and to internalize the human-centered design mindset.

The focus will be on the first three stages of design thinking: Understand & Observe, Define and Ideate. You will learn more about the Prototype and Test stages in Chapter 4 of this manual: "The Lean Startup Methodology".

To start your design thinking journey, please follow this roadmap:

To Chapter Three
Build a Business Model Canvas for your idea.

Stage 3: Ideate
Ideation is a step toward finding an innovative solution for your defined problem using the following:

1. Brainstorming Canvas
2. Idea Selection Canvas
3. Solution Canvas

Stage 2: Define
Define the problem as well as the needs and wants of the user/targeted group with the following tool:

1. Define Point of View Canvas

Stage 1: Understand & Observe
Understand the problem from the user/target group perspective with the following tools:

1. The Challenge Frame Canvas
2. Effectiveness vs. Availability-based Target Market Scale
3. User/Persona Anatomy Canvas

Identify your starting point
1. Start with an issue (big problem), e.g. youth unemployment in Iraq.
2. Or start with a medium-sized problem, e.g. the gap between educational programs and market employment requirements.
3. Or start with a specific problem, e.g. the gap between the private sector and educational institutions.

2.5 Stage 1: Understand & Observe

In this stage, we observe what users are doing and how they interact with their environment. Our goal is to understand their problem, engage with users directly to understand their way of thinking and the values they hold, imagine ourselves in these users' environment, and step into their shoes, as the saying goes, to gain a deeper understanding of their situation.

YOU ARE HERE

Understand Observe > Define > Ideate > Prototype > Test

PROBLEM SPACE

SOLUTION SPACE
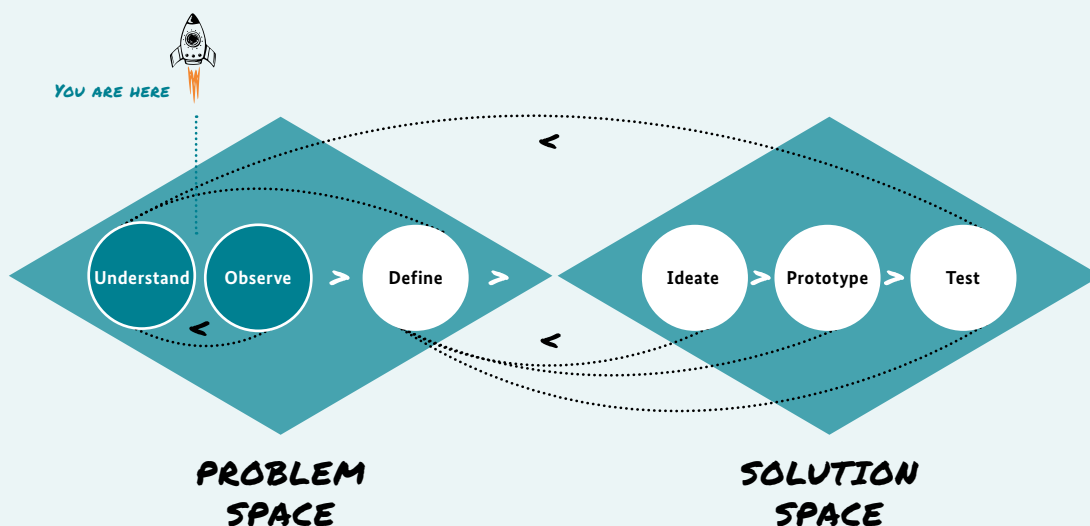
Why is this important as a first stage in design thinking?

Design thinking cannot begin without a deeper understanding of the people we are designing for. So the first step is to gain an empathic understanding of the user and problem we are trying to solve. We will use this understanding during the next stage and to get the best possible picture of the users, their needs, thoughts, emotions and motivations.

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It's not what it looks like! Understanding is seeing how the user deals with the problem and learning about their way of living.

The process of understanding and observing

In order to find a problem worth solving, whether as an entrepreneur for your start-up or for your graduation project, you need to first follow these steps:

- **Observe and analyze the general problem you are trying to solve.** *Tool: The Challenge Frame Canvas*
- **Identify the ideal target group affected by the observed problem.** *Tool: Effectiveness Vs. Availability-based Target Market Graph*
- **Start empathizing and understanding the needs of the target group.** *Tool: User/Persona Anatomy Canvas*

1. The Challenge Domain
Please select the right theme for your challenge:

Health ☐	Education ☐	Capacity Building ☐	Environment ☐
Climate Change ☐	Energy ☐	IT & Technology ☐	Social ☐
Media & Entertainment ☐	Art & Craft ☐	Business & Economy ☐	Trading ☐
Service ☐	Government ☐	Innovation ☐	Other ------------ ☐

What Problem are you trying to solve? (General Main Problem)

....
....
....
....

2. What are the Causes of this Problem?
Clarify the identified general main problem and find its causes by using the **Lotus Blossom Technique**:

Sub-Problem	Sub-Problem	Sub-Problem
Sub-Problem	Main General Problem	Sub-Problem
Sub-Problem	Sub-Problem	Sub-Problem

Identify and circle the most suitable sub-problem for you in terms of capacity and interest (select only one).

3. Re-write the selected sub-problem that you want to work on:

....
....
....

4. Sketch up the selected problem?
Make a sketch that describes the problem you want to solve. Make sure to include relevant environment, people, objects, actions, interactions.

5. Who is involved in this problem?
Who is involved in this situation? Here you need to list all the people that are involved in this situation. (stakeholder mapping)

6. What are the results of this problem?
What are the results/consequences of this problem? List all the new situations that result from the current issue, its impact.

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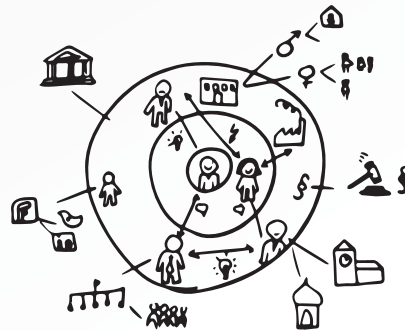
Steps to successfully fill in the Challenge Frame Canvas

1. Challenge domain
This section of the Challenge Frame Canvas helps you pinpoint the general problem that you are trying to solve:

· Check the domain that your problem is located in (you can choose more than one domain).
· Write a simple sentence explaining the problem you observed.
· The problem in this stage will be very general, simple, and not well defined. That is normal in this stage.

2. What are the causes of this problem?
The problem you observed in the domain section (1) is general. Now you need to clarify the problem and find its roots by using the first layer of the Lotus Blossom Technique, following the steps below:

· Draw a 3x3 matrix (since the Lotus Blossom Technique is flexible concerning the number of sub-problems, it could be larger or smaller than 3x3).
· Write the general main problem you observed in the domain section (1) at the core of the matrix.
· Start to break the core problem down into sub-problems in order to find its source/causes/roots.
· Identify and circle the most suitable problem for you in terms of your own capacity and interest (choose only one).

Sub-Problem	Sub-Problem	Sub-Problem
Sub-Problem	Main General Problem	Sub-Problem
Sub-Problem	Sub-Problem	Sub-Problem
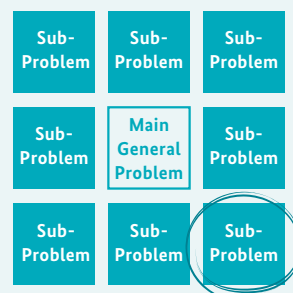
3. Re-write the selected sub-problem that you want to work on
After using the Lotus Blossom Technique to identify the sub-problem suited to your capacity and interest, now it's time to concentrate on this problem by digging deeper into it and building a better understanding of why it still exists. This does not mean that the selected sub-problem is the only one that contributes to solving the general main problem. For instance, if a government, bank, or big organization is using the tool, they may select another sub-problem that suits their capacity and interests and eventually solves the same general main problem but with a different approach.

4. Sketch the selected problem
To better understand the selected sub-problem, you need to make a visual representation of the current situation and the different factors contributing to the situation.

· Take a look at the following situation (collecting recyclable plastics).
· Focus on each step in the situation loop and try to understand the journey of the people with the sub-problem (collecting recyclable plastics).
· Thinking of similar, interrelated factors contributing to your selected sub-problem, make notes of the journey (steps) related to the problem in its current situation.
· Now, visualize your notes, drawing each step in sequence and link them with arrows.
· Don't forget to include all the involved people linked to your selected sub-problem situation loop.

FULL TRASH CANS AND GARBAGE AROUND IT

DIRTY AND MESSY AREA USER2 DECIDES TO PUT GARBAGE OUT OF THE TRASH CAN

WASTE TRUCK COMES TO CLEAN AND EMPTY THASH CAN

"BARBECH" COMES AND PROBES TRASH CAN, GARBAGE IS SCATTERED.

CLEAN AREA AND TRASH CAN USER1 COMES TO PUT HIS TRASH BAG
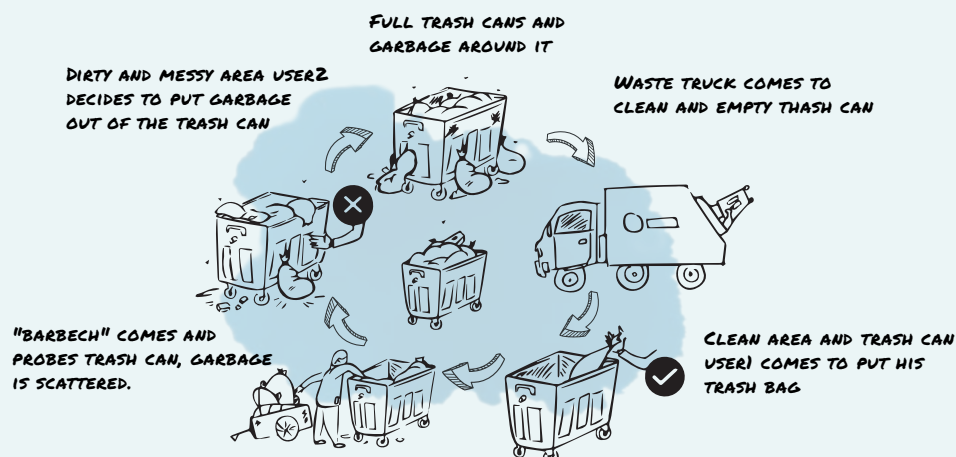
5. Who is involved in this problem?

Many people may be affected by/affecting the same problem, but the level of their impact may vary. Each of these individuals or even institutions, has a specific role to play, so it is necessary to map them all in detail and choose the key player in your identified sub-problem. To do that, use the stakeholder mapping, which is a diagram that gives a visual representation of all the stakeholders involved in the domain you are working on:

- Write your topic (identified sub-problem) in a circle at the center of your whiteboard, flipchart or notepad. You may wish to use sketches or symbols as in the illustration.
- Draw another circle around the center and write down the names or draw symbols of the most direct users/stakeholders within this circle, e.g. teachers, universities, security guards, families, students, etc.
- Draw another circle around this one and add less direct stakeholders that relate to your sub-problem, e.g. banks, salespeople, engineers, etc.
- Repeat the point above for each stakeholder until you have a map for all the relevant stakeholders.
- The most indirect stakeholders can be placed completely outside of the inner circles.
- Draw lines/arrows between the stakeholders to visualize how they are interconnected.

6. What are the results of this problem?

To have a full understanding of the importance of your problem, you need to list all the consequences on the community if you didn't solve it. Think of the following:

- Is the problem affecting humans themselves or more the general surrounding?
- Is the problem affecting a group of people, how big is the group (segment)?
- How fast is the problem evolving?
- How big is the effect of this problem on the mentioned group of people (segment)?
- What will happen if you didn't solve the problem? List three big problems that result from your selected sub-problem.
- Identify whether the effect of the selected problem is short-term, mid-term or long-term.

If you don't start from the right step according to the size of your problem, you may end up increasing the complexity of your small problem or decreasing the value and opportunities of your big problem. But always remember: your problem in this stage is still general and does not need to be very well defined.

Note: Design thinking is a very flexible problem-solving methodology that can help you come up with a feasible solution. As an entrepreneur, it is important for you to invest in the problem proportionate to its size and complexity. Therefore, you can start from step 1, step 2 or step 3 in the Challenge Frame Canvas depending on how specific your problem is. For example:

- If you have just started your thinking process and you have big problem in your head, you should start with step 1 (e.g. youth unemployment in Iraq).
- If your problem is medium-sized, you may choose to dig deeper into it starting with step 2 (e.g. the gap between educational programs and market employment requirements).
- If your problem is already specific, you should start from step 3 (e.g. the gap between the private sector and educational institutions).

2.5.2 Effectiveness vs. Availability-based Target Market Graph

In the start of a design thinking project, the subject is always "the user/people". In the previous Challenge Frame Canvas, specifically in point 5, you did the stakeholder mapping in which you identified more than one segment of people who are affected by/affecting your problem. To get started, instead of trying to understand every single stakeholder, you should select the segment at the core of the problem to better understand them, i.e. identify their needs, experiences, behaviors and goals. To do this, you will use the next tool, called the Effectiveness Vs. Availability-based Target Market Graph:
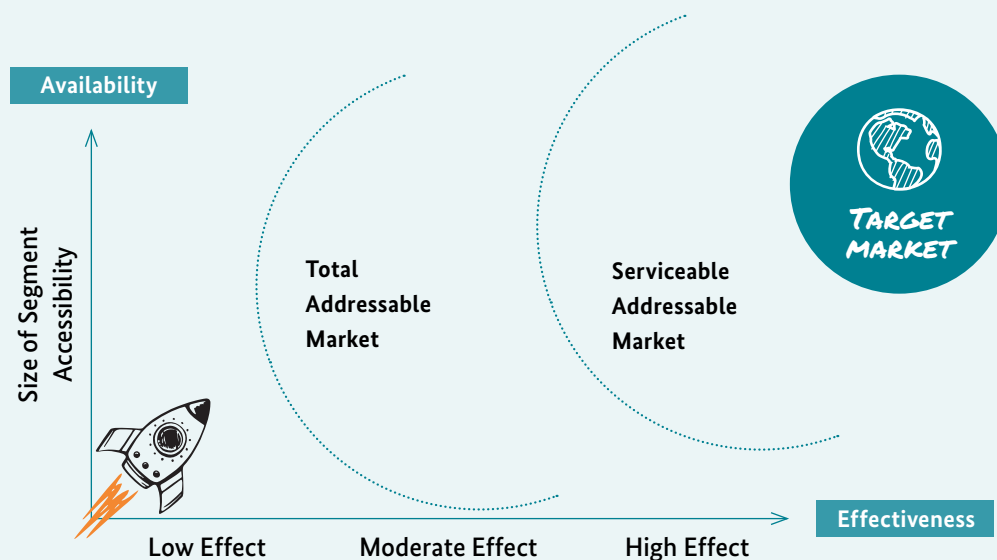
Your **Total Addressable Market** (**TAM**) is the number of people you could potentially reach if you had access to 100% of the segment of people who are affected by/affecting your problem. The fact is, however, that there are people in your TAM who you will not be able to reach, either because the infrastructure does not exist to reach them, or because of social, political or economic constraints. As an entrepreneur, you need to identify the people in the market in order to understand them and to design a solution that fit their needs. So in this stage you need to ask yourself "How many people could I feasibly reach?" This is your **Serviceable Addressable Market** (**SAM**).

You will not be able to meet the needs of your entire SAM, and any solution you develop will not achieve 100% adoption. So you need to identify the people you are most likely to persuade to become users of your solution. You then should try to understand them and identify their needs, experiences, behaviors and goals, and select the segment at the core of the problem. This is your **Target Market**.

Steps to fill in the Effectiveness Vs. Availability-based Target Market Graph
1. Write down all the identified stakeholders/people/segments in point 5 of the Challenge Frame Canvas on a sticky note (each stakeholder on different sticky note).
2. Draw two axes. The vertical axis = the availability or the size of the identified stakeholders/people/segments and your accessibility. The horizontal axis = the effectiveness of the segment on the problem.
3. Study each stakeholder/people/segment individually based on the two axes, then place their sticky note accordingly on the graph.
4. Highlight the segments which are under the circle of Serviceable Addressable Market who have the highest "Availability" and "Effectiveness".
5. The selected segments of people will be your potential users that you will work with to better understand your problem and to design a solution that fits them. So, let us call them "Users" or "Personas".

2.5.3 User/Persona Anatomy Canvas

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Surrounding Environment/ Market

User/Persona Description

Pain   **Gain**

Jobs to Be Done (Tasks)

Journey Mapping:

| Before | During | After |

Emotions

Opportunities

Targeted People (from 2.5.2)

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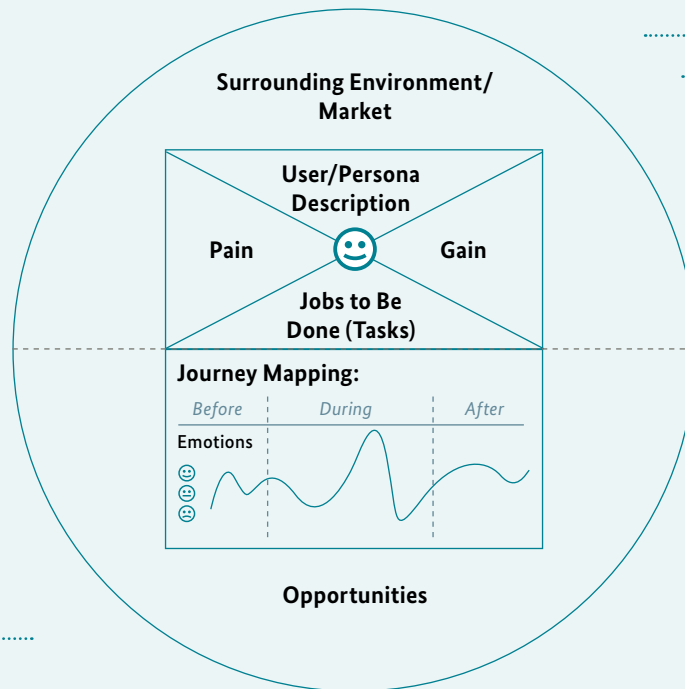
Steps to successfully fill in the User/Persona Anatomy Canvas

To successfully fill in this canvas, you need to meet and get to know your targeted people, e.g. using the Interview Techniques in the Bonus Section (2.8). Please follow these steps:

1. **Set the Base:** First, fill in the Problem Observed, i.e. the same observed problem from step 3 in the Challenge Frame Canvas (2.5.1). The idea is to keep the observed problem in front of your eyes in order to refer all the content of this canvas to it. It will also help you focus on how your user/persona deals with the problem, their feelings and needs. Second, fill in the Targeted People, i.e. the segment that you identified in 2.5.2 and on which you need to focus. You will use this to create you user/persona description.

2. **User/Persona Description:** The user/persona (also referred to as user persona, customer persona, or buyer persona) is a representation of your ideal user, based on true data and a feasible hypothesis. Your persona is designed to help you improve your understanding of a typical user's needs, wants, expectations and behaviors to help you find the best solution to their problem(s). Now, to empathize with your targeted people/users/segment and to see the problem from their perspective, please describe the persona. Give the persona a name, gender, age, place of residence, marital status, hobbies, leisure time activities, education and training, position in their company, social environment, way of thinking, if they have car or not, if they have internet or not, their income level, etc. You may also additional attributes such as social milieu, family, interests and so on. Do not forget to draw your persona in the middle.
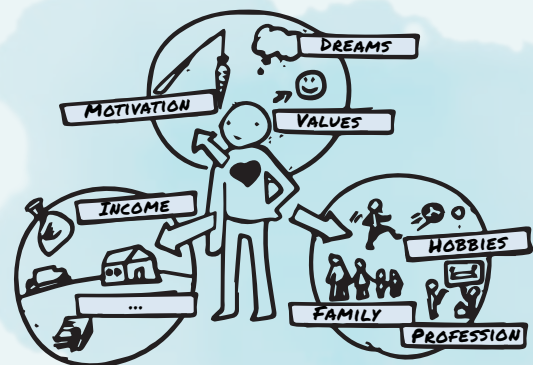
3. **Jobs to Be Done (Tasks):** These are all the things the user/persona hopes to accomplish within the domain of the problem. People want their lives to be better. They have a vision of where they want to go. But there are obstacles (observed problem) in their path. The user/persona will hire products/services to help them move forward and make progress towards their vision of a better life. The Jobs to Be Done Statement helps us to identify the goal/problem/task/objective that the persona is trying to achieve. This will help us to better empathize with and understand our user/persona.

Jobs to Be Done Statement:
When (the user) _____ they want to _____ so they can _____
                        Situation   *Motivation*   *Expected Results*

Examples:
When user/persona takes a photograph with their smartphone, **they want** to be able to edit it in an easy and simple way **so they can** share it quickly with their friends.

When Sara goes to the university, **she wants** to arrive on time in a comfortable manner **so she can** focus on her lectures with a good mood.

GET TO THE ROCKET
(JOB TO BE DONE)

USER/PERSONA   **OBSTACLE**   **MISSION ACCOMPLISHED**
                         (OBSERVED PROBLEM)   (JOB DONE)
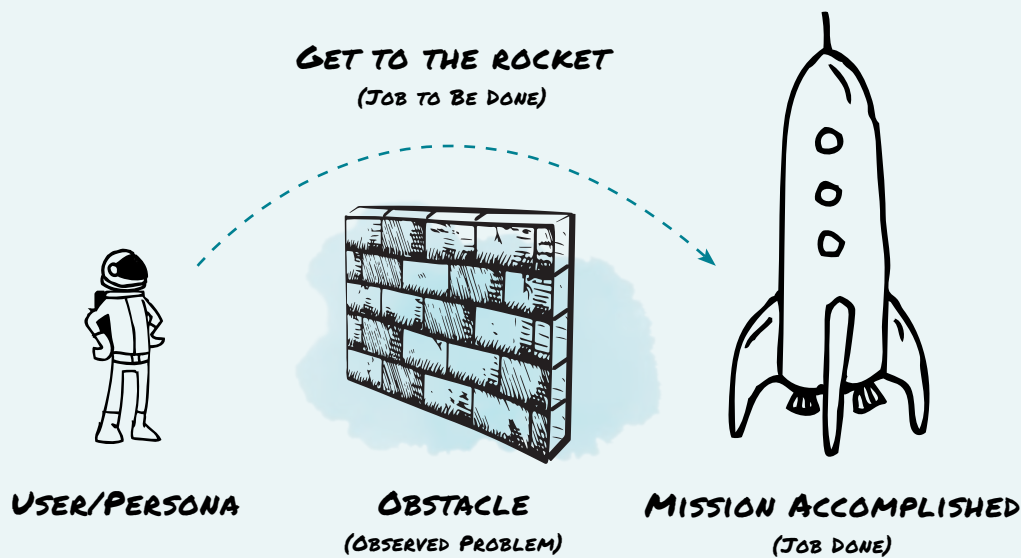
4. **Journey Mapping:** A user/persona journey map is a timeline of user/persona actions, thoughts and emotions that cover all the steps they take when using a specific product, service, space or in accomplishment of the jobs to be done. It is an important step to help you empathize with your user/persona and understand their behavior. This is how you should proceed:

- Prepare colorful sticky-notes.
- Choose a scenario or job to be done. What does the user/persona do and what is the context? In other words: How do they deal with the observed problem in their current situation?
- In no more than five steps, define what happens BEFORE, DURING, and AFTER the actual experience of achieving the job to be done. Make sure that the most important steps are included.
- Using the emotions box, draw a curve of the emotions that your user/persona feels with each step. Capture the emotional status (positive and negative) of each step with colored emoticons.

7:00   12:00   16:00   22:00

5. **Pain:** The negative emotions are the pain points. Pains describe anything that annoys your persona before, during and after getting a task done. This could be undesired costs, annoying situations, negative emotions or risks:

- What makes your persona feel bad? What is their frustration, annoyance or cause of their headache?
- What are the major difficulties and challenges your persona encounters? Do they understand how things work? Do they have difficulties getting certain things done?
- What risks does your persona fear? Are they afraid of financial, social, or technical risks? Or are they asking themselves what could go wrong?
- How are current solutions underperforming for your persona? Which features are they missing? Are there performance issues that annoy them, or malfunctions they mention?

6. **Gain:** The positive emotions are the gain points. Gains describe anything that makes the persona happy before, during and after getting a task done:

- Which savings would make the persona happy? Think in terms of time, money and efforts that they value.
- What positive social consequences does the persona desire? What makes them look good, increase their power or status?
- What would be a big relief to the persona?
- What has the persona achieved with current solutions?

7. **Surrounding Environment/Market:** You need to understand and observe the surrounding environment of our user/persona in order to understand their behavior and what your opportunities are to enter the market.

- What does the environment look like?
- What is the nature and function of this space?
- What is the current context/situation of the problem in your user's environment?
- Who are the key players in your user's environment, whether in causing, sustaining or solving the problem?
- How is your user dealing with the problem? How do they see other people dealing with it?
- Who are the monopolizing stakeholders in the problem context?
- Is your user/persona seeing any potential/existing solutions?

Opportunities: The entire point of the User/Persona Anatomy Canvas is to uncover gaps in the user experience and then take action to optimize the experience. This part is all about eventually transforming the user's emotions, pains, gains and jobs to be done into a problem worth solving and to build business around it.

- Where do you see your opportunity to overcome the problem?
- What are the pain points of your user/persona that you can decrease?
- What are the gain points of your user/persona that you can increase?
- What are the gaps in the current solutions from your user/persona's perspective?

It is not enough to get input from one person; the more people you get to know, the better understanding you will reach and you will probably also find more opportunities.

Now you have much a better understanding of your user/persona's needs, wants, problems, challenges, pains, gains, jobs to be done, environment and your opportunities. This will help you to start defining a worthy problem in the next stage; one that you can build a sustainable business around.

2.6 Stage 2: Define

Reframing the way that a problem is viewed can inspire a movement. So in this stage, we need to keep our user's needs and problem at the center. We will leverage all the information we have gathered in the first stage to organize, interpret and make sense of it. This is an opportunity to analyze and synthesize your findings and come up with an insight, i.e. define the core problems that you and your team have identified up to this point.
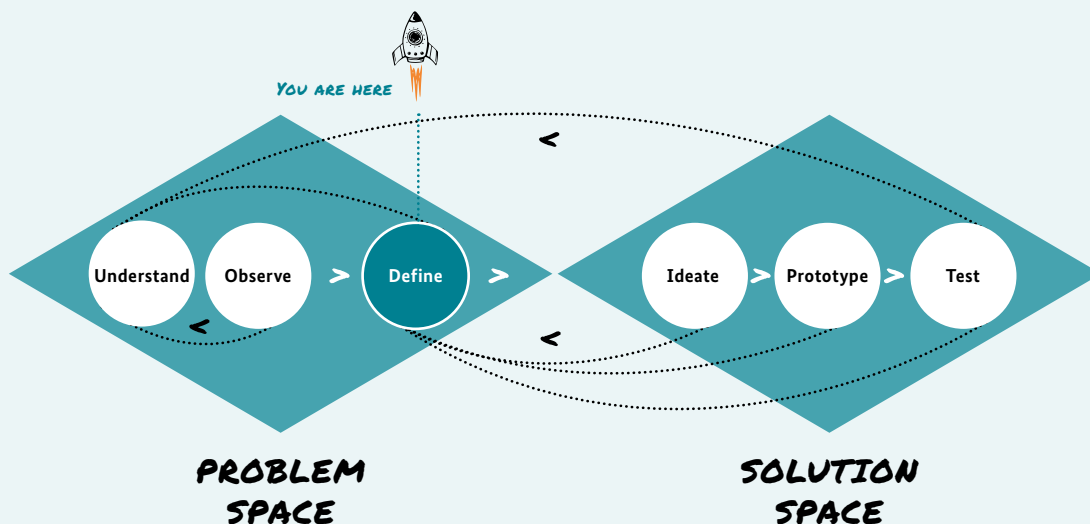
Why is this stage important in the design thinking process?

A great definition of your problem will guide you and ultimately kick-start the ideation process, setting you off in the right direction. Successfully completing the Define Stage will greatly improve your design thinking process and result

The process of defining

The Define stage is when you start to analyze information you have collected during the previous stage, Understand & Observe. In order to come up with a well-defined human-centered problem, it is essential to focus on the problem you are tackling. Your understanding of the problem is still general and in order to study it accurately you need to use the Define Point of View Canvas including the following steps:

- Dig deep into your customer's pain using the Pain Complexity vs. Impact on Jobs to Be Done (JTBD) Graph.
- Use Problem Framing to frame your problem in a sentence.
- Define your point of view in the How Might We Statement that will be your ticket to the next stage of design thinking.

This stage is about clarity and focus. If you don't pay enough attention to defining your problem, you will work like a person stumbling in the dark. So let's bring some light into our design thinking process.

2.6.1 Define Point of View Canvas

1. Pain Complexity vs. Impact on Jobs to Be Done (JTBD) Graph

- How much time does this pain consume?
- Does this pain cost the user/persona money?
- How many users/personas have this pain?
- How often does this pain occur in the users' everyday lives?
- How much effort does your user/persona exert to overcome this pain point?
- Can your user/persona access and utilize existing solutions?

Pain Complexity

Impact on JTBD

2. Problem Framing

WHAT?
WHO?
WHEN?
WHERE?

WHY?
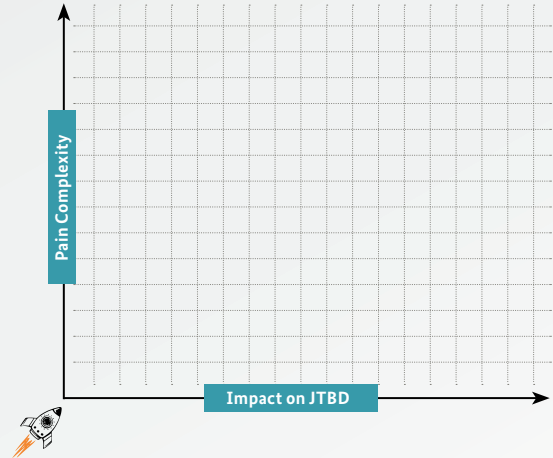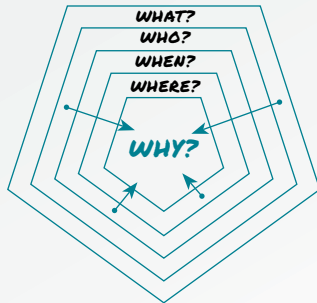
Problem Statement:

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3. How Might We Statement

Too Broad | Just Right | Too Narrow

How? | Why?
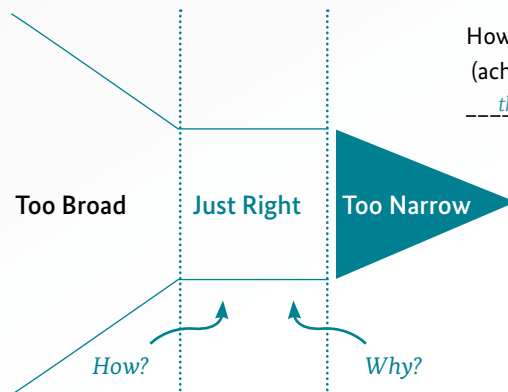
How might we help ____*User/Persona*____ (achieve/enjoy/solve/have/etc.) ____*their need/want*____?

Steps to fill in the Define Point of View Canvas
To successfully fill in this canvas, please take the following steps:

1. Pain Complexity vs. Impact on JTPD Graph
In the Define stage, your focus is concentrated on defining a big and general problem that is in the shape of user/persona pain points (as mentioned in the User/Persona Anatomy Canvas). Focus on choosing the pain points worth solving that are most relevant to the user/persona and the problem. As an entrepreneur, you will ideate solutions for these pain points in the next stage, therefore, it is also important to you to consider your capacity for solving each pain point you choose. Not all pain points are worth solving. That's why we came up with this tool to help you identify the pain points to work on.

NOT ALL PAIN IS WORTH SOLVING

SPEND YOUR ENERGY ON THE MOST PROFITABLE
(BIGGEST MOUNTAINS)

In order for you to fill in this tool, you first need to:
- Collect the pain points and the Jobs to Be Done (JTBD) from the User/Persona Anatomy Canvas.
- Take each pain point separately and study it according to the questions listed in the y-axis, then summarize your answers into a y-axis value. (y axis = Pain Complexity)
- Now, look at the impact of your pain point on your user/persona jobs to be done, and give it the x-axis value that you see most suitable. (x axis = Impact on JTBD)
- Now position these pain points on the graph. The value should not necessarily be a number, i.e. it can be an estimated placement of how this pain point matches the complexity and the impact factors mentioned in the tool.
- Once all the pain points are placed on your scale, you should select and circle the ones that have high complexity and high impact on the jobs to be done. It is important to note that this does not mean that the other pain points should be disregarded, they all are worth considering.
- Make sure that the pain points you choose are within your capacity and match your interests. You can decide whether to choose one or a group of pain points that are linked to each other.

2. Problem Framing
You have now reached the most important stage of the design thinking process that is a result of all the steps and tools you have utilized so far. It's time for you as an entrepreneur to define your problem into a feasible problem statement that answers the five questions below. Your objective is to come up with the most accurate statement, which will serve to ensure that the next design stages are fundamentally correct.

- What is your problem? (linked to the selected pain point)
- Who is the user/persona affected by your problem?
- When does it often occur? (give a time or situation)
- Where does you problem occur? (describe a geographical area)
- Why do we need to solve this problem? Why does it still exist?

"The most important question here is Why. It is what tells you whether the problem is actually in line with your own interests and capacities as well as the user/persona's values. If not, don't do it!"

Summarize your answers for these questions in a 3-5 line Problem Statement. Make your statement simple, clear and straight to the point.

3. How Might We Statement:

The How Might We Statement is the point at which you focus on identifying where you can help your user/persona within the defined problem. It is the result of your Define stage, and your bridge into the Ideate phase.

How might we help _____*User/Persona*_____ (achieve/enjoy/solve/have/etc.) _____*their need/want*_____?

You can come up with several How Might We Statements for the same problem, whether for one or more identified users/personas. But we prefer to stick to our selected user/persona, and list the needs that we can help them meet.

Make sure that your How Might We Statement is not too wide (e.g. how might we help people overcome traffic problems), nor too specific (e.g. how might we design a subway that links neighborhoods to the city center) where we can see the solution present already. It always needs to be just right (how might we help people get to work on time).

SELECT ONE STATEMENT ONLY BASED ON YOUR INTERESTS AND CAPACITIES (IN CASE YOU HAVE STATED MORE THAN ONE), AND TAKE IT TO THE IDEATE STAGE AS A FEASIBLE STATEMENT THAT HELPS YOU DESIGN YOUR SOLUTION IDEA.

DEFINING THE PROBLEM IS THE KEY TO YOUR SOLUTION. IT'S IMPORTANT TO SPEND TIME AND ENERGY TO REACH THIS POINT WITH A SOLID PROBLEM STATEMENT AND A CLEAR POINT OF VIEW. BASED ON YOUR POINT OF VIEW YOU CAN MOVE ON TO THE IDEATE STAGE.

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2.7 Stage 3: Ideate

The ideation stage represents a key transitional step from learning about the users and the problem, to coming up with solutions to the problem defined in the previous stage.

YOU ARE HERE

Understand Observe > Define > Ideate > Prototype > Test

PROBLEM SPACE **SOLUTION SPACE**
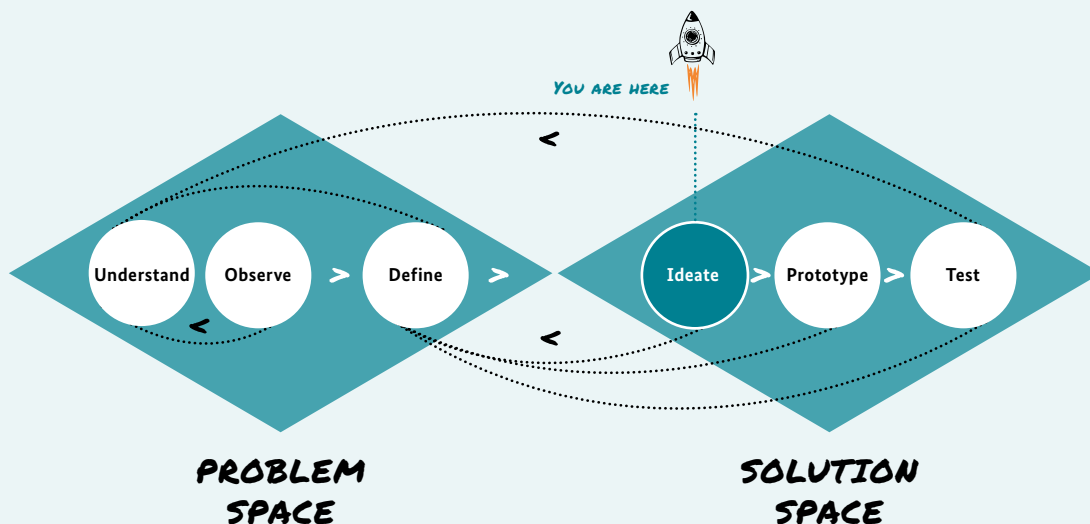
What is the significance of this stage in the design thinking process?

Ideation is an exciting part of the process because you can finally begin imagining solutions to the problem. The goal is to generate a large number of ideas that the team can then cut down into the best, most practical and innovative ones that match the customer needs and wants.

Ideation comes in many different shapes and sizes. We'll take a look at some of the most popular ideation techniques used by designers.

Remember when you were a kid and you were always curious? Your imagination was working nonstop and a simple cardboard box could easily transform into a space ship, a robot or a gift. As you grew up, however, you learned that a box is just a box. You were encouraged to memorize other people's ideas and slowly your curiosity and enthusiasm turned into caution and boredom.

So in reality there are no people who are not creative; there are only people who forgot how to be creative. Creativity therefore, as any other skill, needs to be trained.

The way to understand how creative thinking works is to treat it the same way we treat music or poetry. Taken separately, words in a poem or notes in a piece of music don't make too much sense. But arranged in a certain way, they become a piece of art. Our thoughts are not too different; their combination, association or deduction leads to a creative idea.
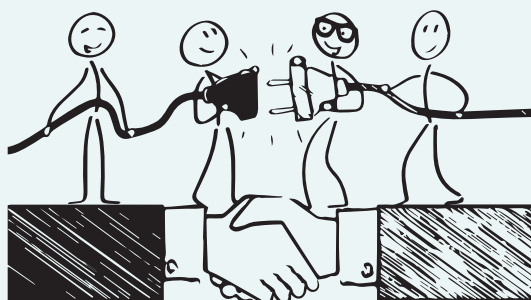
This stage is about clarity and focus. If you don't pay enough attention to defining your problem, you will work like a person stumbling in the dark. So let's bring some light into our design thinking process.

The process of ideation
During the third stage of the design thinking process, participants are ready to start coming up with ideas by:

• Generating as many as ideas as possible using the Brainstorming Canvas.
• Selecting a suitable idea that fits the problem and your capacities through the Idea Selection Canvas.
• Giving an identity to your idea with the Solution Canvas.

Brainstorming Rules:

#1 Creative confidence and wild ideas

#2 Quantity before quality

#3 Visualize ideas

#4 Use gestures

#5 Build on the ideas of others

#6 One person speaks at a time

#7 No prejudices and judgment
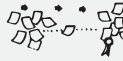
#8 Continue to brainstorm

#9 Fail often and early

1. How Might We Statement

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....
....

2. Gain Points

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....
....

3. Brainstorming Session
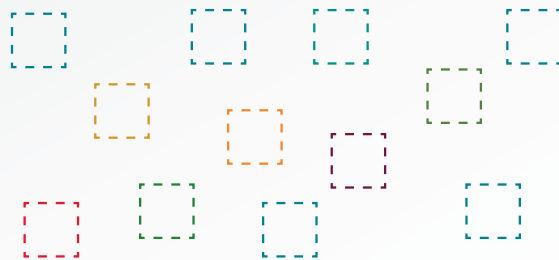
Problem Statement:

1. Negative Brainstorming Technique.
2. Elephant Storming Technique.

4. Clustering the Ideas

Thema A	Thema B	Thema C	Thema D	Thema E	Thema F

Steps to fill in the Brainstorming Canvas:

By now you have a fairly good understanding of your users/personas and their needs and wants (from the Understand & Observe stage) and you've analyzed your observations (Define stage), resulting in a human-centered Problem Statement and a Point of View. With this solid background, you and your team members can start to generate ideas to solve the problem. Take the following steps to generate creative ideas:

1. How Might We Statement
Use the **How Might We Statement** you created for the Define Point of View Canvas (2.6., step 3, page 40). Putting the statement in front of you will be a trigger to your brain to start the ideation phase.

2. Gain Points
The whole point of Design thinking is to find ideas that increase the gain points of the user/persona's current situation and to reduce or eliminate the pain points as discussed in User/Persona Anatomy Canvas. List all the identified gain points here from the User/Persona Anatomy Canvas (2.5.3, step 6) and put them in front of you. Now, everything you need is in front of your eyes. You are ready to start the brainstorming session.

3. Brainstorming Session
Brainstorming is a method used by the design thinking team to generate ideas that solve a clearly defined problem. It is also a great and simple exercise to start any ideation process, either on your own or in a group. It energizes the team to come up with lots of different ideas and encourages you to think without constraints. This helps to get people unstuck by "jolting" them out of their normal ways of thinking. With a clear set of guidelines, one brainstorming session can produce many ideas that can, at first, seem a bit crazy. Some of these ideas can be crafted into original, creative solutions to a problem, while others can spark even more ideas. To conduct a successful brainstorming session, please follow the steps below:

HOW WOULD AN ELEPHANT SOLVE THE PROBLEM?

a. Prepare a comfortable and quite place. Then read the brainstorming roles in the Brainstorming Canvas.
b. Read your How Might We Statement question and Gain Points carefully and then **individually** unleash your imagination and think of 3 to 100 ideas for 10 minutes following the brainstorming roles.
c. Write each idea on separate sticky note.
d. Share and discuss your ideas with your team and build on others ideas.
e. Stick the ideas on a wall/flipchart/whiteboard or table. Make a piece of art from messy sticky notes. grouped together

Bonus level: Think Outside the Box
f. Now start another brainstorming session and think outside the box by using the Negative Brainstorming Technique. This technique combines the traditional brainstorming approach with the so-called reversal method. Instead of finding a solution, participants focus on anything that might make the problem worse. For example, instead of finding approaches for improving a traffic situation, the group concentrates on maximizing the traffic jam on the respective road. The results from this brainstorming exercise are subsequently evaluated and reviewed as to whether new starting points arise from them or whether certain aspects, which usually exacerbate a problem, can be eliminated.
g. It is often easier to empathize with a person when you look at a situation from their point of view. This approach follows the Elephant Storming Technique, that is, the brainstorming is done from the point of view of a third party. It involves asking the question: How would "X" solve the problem? Example: How would Albert Einstein solve the problem?

4. Clustering the Ideas

Now you have a lot of ideas in your pocket, but eventually you need to choose only one idea to proceed with. This may be difficult if there are a lot of good ideas to choose from. To overcome this issue, for now we will cluster the ideas into different themes and groups by using the Clustering Method:

a. Look at your messy wall and start reading through the ideas from the previous step with your team.
b. Identify similar ideas and put them together. Ideas that address a problem from a similar angle can also be grouped together
c. Sort and combine ideas into themes, e.g. Technology Theme (put the ideas that relate to technology together), Media Theme, Business Theme, etc.
d. Sort the selected themes and their corresponding ideas as shown on the Brainstorming Canvas.
e. Use the three emojis and mark the ideas that you like most, based on your capacities and interests.
f. Keep it as it is and move on to the next step.

2.7.2 Idea Selection Canvas

Value vs. Innovation Matrix
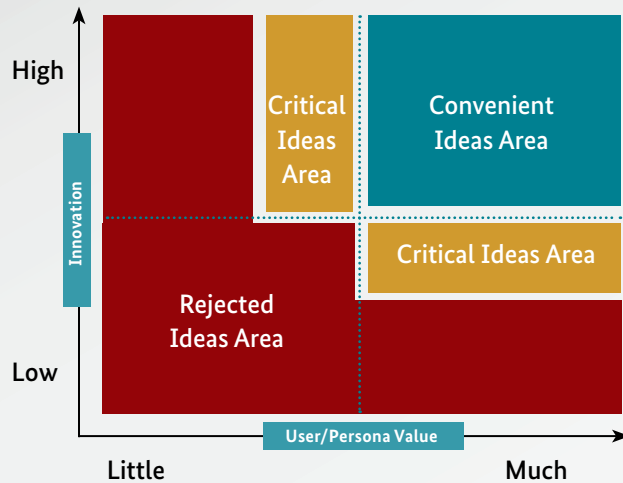
2. Idea Rating Table

Evaluate all the ideas in the Convenient Ideas Area and Critical Ideas Area in the Value vs. Innovation Matrix using the grid below:

Idea Complexity Factor (1 – 5)

Idea Name	Human Resources	Cost	Technology	Time	Approvals	Partnerships	Other	Total
Idea 1	3	2	5	3	1	4	-	18
Idea 2	2	3	4	2	1.5	2.5	-	15
Idea 3	2.5	2.8	4	3	2	3	-	17.3

YOU DON'T JUST FOCUS ON ONE MEASURE

3. Selected Idea

Innovative ideas which have a moderate complexity factor and high value to the user/persona:

....
....
....
....

Steps to fill in the Idea Selection Canvas
To successfully fill in the canvas, please follow these steps:

1. Value vs. Innovation Matrix
After clustering your ideas, it's time for you to find out the value of each idea to your user/persona, and assess how innovative this idea is, in order for you to find the most suitable solution for your defined problem. Do the following:

1. Use your selected ideas from the Brainstorming Canvas (2.7.1, step 3, Brainstorming Session). Those are the ideas with the green and yellow emojis.
2. Study each selected idea and assess how innovative it is. Then give it a suitable level on the y-axis of the matrix (Innovation), asking the following questions:
    1. Is it one-of-a-kind?
    2. Has anybody designed this idea before?
    3. Are there many alternative solutions?
    4. Can this idea become a habit or a trend?
    5. Is the idea capable of being scaled?
3. Now think about the value of each idea for your user/persona and rank it accordingly on the x-axis (User/Persona Value). Ask yourself the following:
    a. Does the idea fulfill an everyday need?
    b. Does it help your user/persona do their "jobs" better, faster, easier, or cheaper?
    c. Will your user need/love it so much that they will be unable to give it up after using it?
4. Having determined the innovation and value level of each idea, now you can place them at a suitable point on the matrix.
5. The ideas that end up in the Rejected Ideas Area (red) are ineligible solutions for your problem. You need to omit them as they either have low value for your user/persona or they have low innovation.
6. Focus your attention on the Critical Ideas Area (yellow) and the Convenient Ideas Area (green), then move on to the next step.

2. Idea Rating Table
As an entrepreneur, it is important for you to consider three points when selecting the most attractive solution idea: innovation, value to the user, and complexity. You have already assessed your ideas in the previous step in terms of innovation and user value. Now, it's time for you to assess the complexity of your idea. This will help you decide which idea you should take to the next step. In order for you to assess the complexity of an idea, you need to consider two things: your capacity to implement it, and your interest in implementing it.

1. Use your ideas from the green and yellow areas of the previous step.
2. List your ideas on the table.
3. Evaluate each idea according to the idea complexity factors listed horizontally: Human Resources, Cost, Technology, Time (i.e. to implement and launch), Approvals needed and required Partnerships.
4. Give each idea complexity factor a value ranging between 1-5 (1 indicates minimal complexity, while 5 indicates the maximum).
5. Now add up the the complexity values for each idea in the Total column.
6. Focus on the ideas with the least value of total complexity.

1 DIVERGENCE

2 CONVERGENCE

HAVE A LOT OF IDEAS DON'T THROW OUT ANY IDEAS!

TO GET THE BEST IDEA (TROW AWAY THE BAD IDEAS NOW)
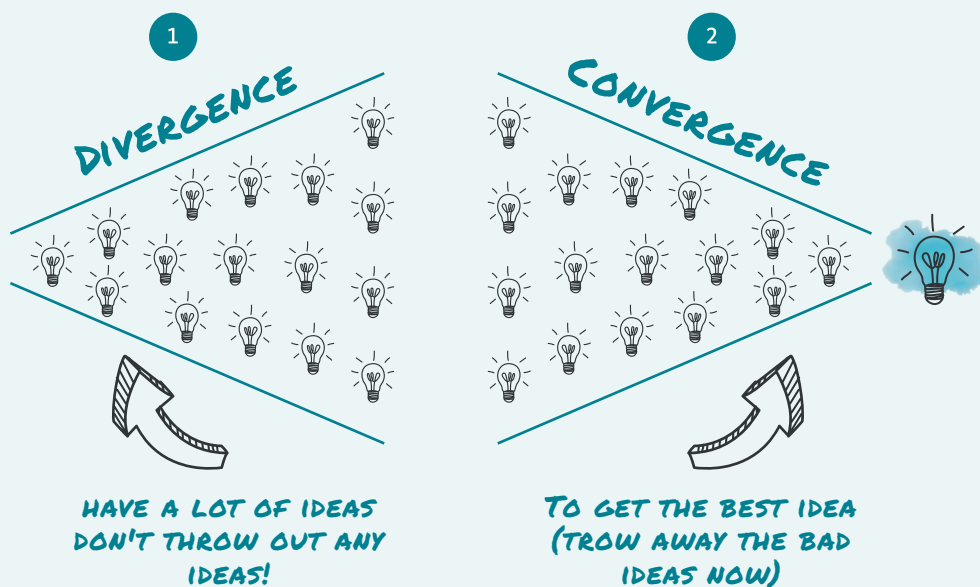
Note: It is preferable for you to select an idea that is moderate in complexity as well as having high value for the user/persona and high innovation. But that does not restrict you from selecting the other ideas. All ideas might be valid to implement, your choice depends on your capacity and resources.

3. Selected Idea
Formulate your selected idea in a clear statement that is simple and easy to understand. For example, a doctor's online booking and check-up mobile phone application.

CONGRATULATIONS! YOU'RE READY TO TAKE YOUR IDEA TO THE NEXT STEP: THE SOLUTION CANVAS.

2.7.3 Solution Canvas

1. What problem do you want to solve? (Problem Statement):

....
....
....
....

2. Alternatives/Existing Solutions:

....
....
....
....

3. Idea Name

....
....

4. Idea Description

....
....

The idea is:

Service ☐   Product ☐

Profit ◯   Non-Profit ◯

New ☐   Modified ☐

Think of:
- Does your idea have a negative impact on other factors (e.g. economic, environment or human rights related)?
- Business ethics: would you be okay if your idea ended up on the 5:00 pm news?

5. Value Proposition:

Think of:
- What is the unique value of your Idea?
- What are the unique features of your idea?
- What features are attractive features for the customers?

From whom is it? _____

Sketch your Idea

Why should customers choose you over other similar businesses?

Steps to fill in the Solution Canvas

After choosing a suitable idea for your identified problem in the previous step, now it's the time to give an identity to this idea and dig deeper into more details with the Solution Canvas. It will help you present the idea to your team members, and help you keep track of the development process of your solution.

1. What problem do you want to solve? (Problem Statement)
Each idea solves a human-centered problem. You need to be clear about the problem that your idea is solving. Write down your Problem Statement from the Define Point of View Canvas ().

Rearrange
Folding vehicle

Substitute
Autonomous vehicle
Artifical intelligence instead
of human intelligence

Eliminate
360° turn instead of
reverse gear

Example car

Combine
Vehicle + scooter Steering
of a scouter and space of
a car

Put to other uses
Vehicle exterior as a
solar panel

Adapt
Vehicle + bird wings

Modify
Wheelchair ramp from
the rear
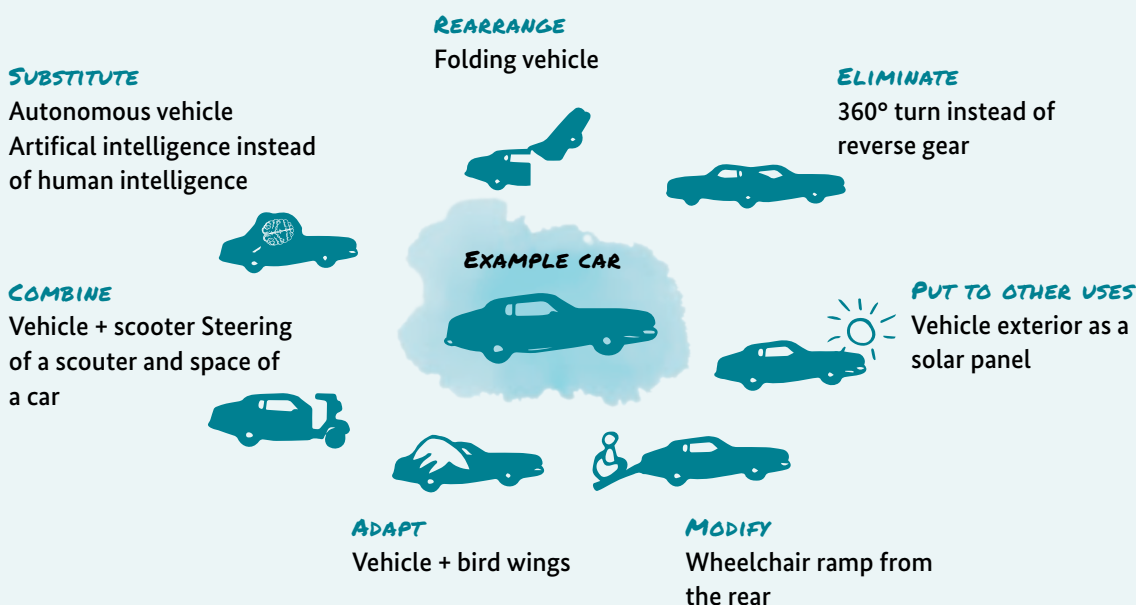
2. Alternatives/Existing Solutions
This is where you should write down what you know about the currently available solutions for the problem you are trying to solve. This will help you understand the size of our market and to see how you can fit in it. Think of:

• Who are your competitors?
• How has the problem been solved?

Note: Sometimes when your solution is brand new, it might be harder to identify your competitors. However, you must find the closest solution out there to yours. Example: When Careem first started working in Iraq, they compared their services to ordinary taxis (it was the only available solution at that time).

If you find that the solution you are suggesting has been carried out elsewhere, you need to check why it is not being used by the people you are targeting. You may end up discovering a new design opportunity.

3. Idea Name
To empathize more with your idea, give it a catchy name.

4. Idea Description

Describe your idea in one or two sentences maximum. Example: A mobile application that provides haircut/barbershop services inside houses.

5. Value Proposition

A truly great value proposition introduces you to prospective users and helps you make a strong first impression. Your value proposition should describe how your product or service solves/improves problems, what benefits customers can expect, and why customers should buy from you over your competitors. Think of:

• What is the unique selling proposition you provide the user?
• What products/services do you offer?
• How do your proposed values meet your users' needs?
• What are the advantages of your products/services over others?
• Is your offer: new, less expensive, customizable, more accessible, more efficient...?
• Why would they want to adopt your solution?
• What value do you create for other stakeholders?

Now follow and complete the steps in the left and right part of the canvas.

By the end of the Ideate stage, you have studied different possible ideas as much as you and your team can. You have thought about the user value, innovation level and the complexity of each solution. This has helped you identify the most suitable solution to prototype and test.

An idea is not a solution as long as it hasn't proven its capacity to solve a problem. Take your Solution Canvas with you to the next chapter and, using the Business Model Canvas, start to plan a business around your idea.

Bonus Content

2.8 Helpful Tools

A. Sketch Note Training

You don't have to be an artist to visualize ideas. Sketching is a great exercise that helps explore and explain concepts. Sketches can be easily created using a pen and paper or a whiteboard. The idea is to draw quickly, roughly and imperfectly. This helps you worry less about aesthetics and focus more on quickly formulating ideas.

Visual basic building blocks: By skillfully combining the individual builing blocks, conten can be visually displayed; it's a bit like combining letters into words and finally into stories:

FORMS:

Nearly everything can be represented with dots. lines and gemetrical forms

SYMBOLS:

GRAY HIGHLIGHTS:

Gray outside = 2-D, i.e. flat

Gray inside = 3-D, i.e. volume

FONT:

Today we practice

Write letters rather close to one antoher

IF YOU SAY: "I CAN'T DRAW", THEN THIS IS THE RIGHT THING FOR YOU

CONTAINER:

Thoughts   Speak   Factual statement   Emotional things   Info
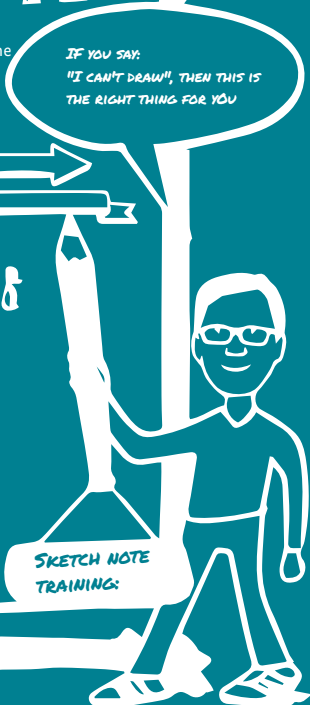
FIGURES:

The simplest form for a person...and a group

From a star...to a figure

Diversity and professions

FACES:

Emotions through the form od the eyes and mouth

Line ofvision indicated in the position of the eyes

STRUCTURE:

SKETCH NOTE TRAINING:

B. Interview Canvas

Use this when you're in the beginning stages of a project and you want to make sure you're solving the right problem. User/Persona interviews can tell you a lot about the situation you're working with and the problem you're trying to solve. Interviewees can be stakeholders, potential users, or people who live or work in the environment you're investigating. Even a small sample of interviews can generate a wealth of data.

One person should do the interviewing, another person should take notes. Remember to keep questions open-ended, so you don't unintentionally lead your interviewee to any specific answer.
Start the interview by introducing yourselves and then explaining the problem you are trying to solve.

Interviews

Interviewee: Name, title	Things to
Interviewer: Name	keep in mind:
Note-take: Name	
Date + time: Date, time	

Question	Answer

Observations

Use this space to write down your team's observations about the situation you're research.

Analysis + Takeaways

Review your interviews and your observations. Note patterns or insight here.

- Emphasize to them that the interview is not about finding a solution but, rather, to learn something about their motives.
- Successful "interviews for empathy" succeed in building a relationship with the interviewee. It's most effective when the interviewee feels comfortable and is, therefore, willing to share their story with the design team in the context of the problem.
- If you succeed in having the interviewee tell their story, interrupt them as little as possible and, in general, be cautious about not influencing them with your own previously held assumptions.
- Listen sincerely and use open questions (e.g. starting with what, who, when, where, why) if the motives are still not clear.
- Refrain from questions that can be answered with yes/no or a single word.
- Ask additional questions that are not directly associated with the problem, or introduce statements that might confuse the interviewee at first but help them to consider the problem from different points of view.
- Pay attention to the gestures and body language of the interviewee and, if required, note down and clarify if these signals are contradictory to the answer.
- Use the template in order to describe assumptions, write down key questions, and finally outline the story of the interviewee.

C. SWOT Analysis

A SWOT analysis is a strategic planning tool that helps an entrepreneur identify their strengths and weaknesses, as well as any opportunities and threats that may exist in a specific business situation. A SWOT analysis serves as a starting point for team discussions, allowing them to consider the direction their business may move towards in the future. You can use this tool after building your Solution Canvas (2.7.3).

The easiest way to start filling in the SWOT Analysis is by answering the questions listed here in the chart. Focus on the questions that are most relevant to your business idea and current situation.

Strengths	Weaknesses
Start here. Strengths are things internal to your organization, process or project that are within your control. For this quadrant, think about your business's attributes that will help you achieve your objectives.	Weaknesses are also internal factors within your control. These might be obstacles, blockers, etc. that obstruct your ability to meet your goals. Think about your business's attributes that could hurt you in achieving your objectives.
What do you do well? What are your unique skills? What expert or specialized knowledge do you have? What experience do you have? What do you do better than your competitors? Where are you the most profitable in your business?	Which areas do you need to improve? What resources do you lack? What parts of your business are not profitable? Where do you need further education and/or experience? What costs you time and/or money?
Opportunities	**Threats**
Opportunities should be treated as external factors that the organization, process or project should (or could) develop. Ideally, these already exist in some fashion. For this quadrant, think about the external conditions that will help you achieve your objective.	Threats are external factors to your organization, process or project. These are beyond your control but are good to be aware of because of the potential risk. Now think about the external conditions that could damage your business's performance.
What are your current business goals? How can you do more with your existing customers or clients? How can you use technology to enhance your business? Are there new target audiences you have the potential to reach? Is there any product or service that provides an opportunity to your business?	What challenges do you face? What are the strengths of yor biggest competitors? What are your competitors doing that you are not? What is going on in the economy? What is going on in the industry? Are there any natural phenomena/environmental effects that can affect your business?

You've completed the SWOT Analysis — now what?

Well done — you've taken the time to analyze your business idea. That's a vital first step. Now it's time to further strategize, based on what you learned to identify new strategies and goals for your business idea. Have your team answer the following questions to start planning your next plan of attack.

Strategic planning

How do you use your strengths to seize opportunities?	How do you overcome weaknesses preventing you from taking advantage of opportunities?
How can your strengths decrease the probability of threats?	What can you do about your weaknesses to reduce the likelihood of threats?

Once you understand how to compile your SWOT data and find ways to use it strategically, the SWOT Analysis will be a tool that you can use over and over in your business to explore new opportunities and improve your decision-making process.

D. SMART Goals

Many new entrepreneurs and small business owners don't have a clear goal in mind. They often feel that they are not big enough to make lofty goals and merely try to keep their heads above water. As an entrepreneur, you need to set SMART goals for your business idea. These help you clarify your ideas, focus your efforts, use your time and resources productively and increase your chances of achieving what you want in life.

Setting objectives is the process of deciding what you want to accomplish and devising a plan to achieve the result you desire. The best way to make sure that your business will achieve its objectives is by setting goals according to the SMART goals framework. The following explains how SMART goals work, along with a few recommendations and examples to help you in your goal-setting efforts.

| SPECIFIC | MEASURABLE | ATTAINABLE | RELEVANT | TIMEBASED |
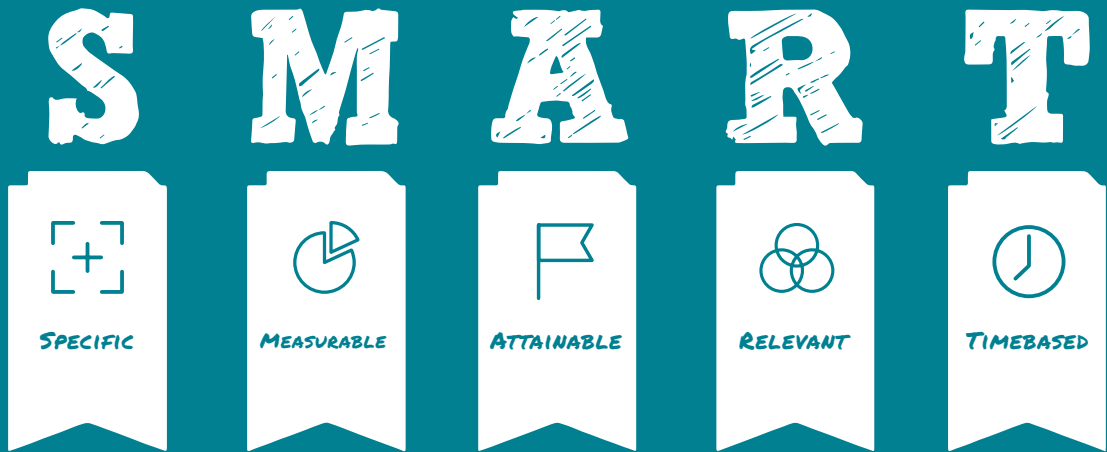
Are your Goals SMART?

Specific	Measurable	Achievable	Relevant	Timely
First, your SMART goals have to be clear and concise. None of this wishy washy "I want to be successful". The best goals are well-defined and have a very distinct focus. Rather than "get more business," you might decide that you want to "sign two new million-dollar corporate clients in the property rental market," for example. When you have a goal that's this specific, it's easy to see when you've reached it and what steps might be involved in getting there. You should be asking yourself questions like: • What exactly do I want to accomplish? • What would success look like in numbers for me? • Why is this goal important?	SMART goals always have to be quantifiable in some way so that you can track them. This usually means you need a number or a percentage involved, like "sign 10 new clients each month" or "increase my website page views by 20%." If you don't put a finish line on your goal, how will you know when you've achieved it? You need to ask ask yourself questions like: • How much do I want to increase my sales/website traffic/social media following by? • How many clients/sales/inquiries do I want to get each month? • How will I know when it is accomplished?	All goals should be challenging. If you can easily smash them, then what's the point? However, they should also be achievable, otherwise you're going to be disappointed over and over again. Plenty of small businesses are guilty of setting goals way out of their reach, which only leads to negative feelings of failure. Think about it: you can't build a billion-dollar business overnight, but you can take yearly steps to get there. It's important that you aim big, of course, but you also need to keep your head out of the clouds. Ask yourself questions like: • How can I accomplish this goal? • How realistic is this goal? • What financial factors do I need to bear in mind?	There's no point having goals that are irrelevant for your business, just because you read somewhere that someone else had the same goal. SMART goals should add value to your business and align with other goals you have to create a unique set of objectives. At this point, you should be thinking about the current business climate in your industry. For instance, if there's a recession looming or a number of big competitors have emerged in your market, you need to bear that in mind. Consider asking yourself questions like: • Does this goal seem worthwhile? • Is it the right time for this goal? • Does this goal match my other efforts?	Just like SMART goals should have a number or percentage attached to them, they should also have a specific time frame in mind. This helps you stay motivated and able to measure your success when you hit that time milestone. Even if your goal is to increase revenue by 30% or sign 10 new clients, you need to have a time frame in mind. Ask yourself questions like: • When can I complete this by realistically? • What can I do 6 months from now? • What can I do today?

After you define your business SMART objectives, you need to relate each objective with an action.

3

The Business Model Canvas

WHAT THIS CHAPTER IS ABOUT

3.1 Introduction

In the previous chapter, we learned about human-centered design. In chapter three, we will focus on developing a business model after identifying a problem. A widely used tool for this is the Business Model Canvas, which consist of nine blocks. In this chapter, we will explain all nine blocks, while exploring seven of them in more detail.

A business model is a method of doing business that helps a company sustain itself by generating revenue. The business model should spell out how a company makes money by specifying its position in the value chain. The Business Model Canvas has two definitions, an operational and a strategic.

An operational Business Model Canvas deals with a firm's infrastructure and approach to creating and delivering value to customers. In Timmers' publication "Business models for electronic markets" (p. 4) for example, a business model is defined as "an architecture for the product, service, and information flows, including 1. a description of the various business actors and their roles; 2. a description of the potential benefits for the various business actors; and 3. a description of the sources of revenues."

A strategic Business Model Canvas is the dominant type of definition among scholars. Here, a business model describes a business's overall direction and is focused on strategy. In Morris' publication "The entrepreneur's business model: toward a unified perspective" (p. 727), a business model is defined as "a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets."

A business model describes the rationale of how an organization creates, delivers and captures value. It shows the logic of how a company intends to make money. It typically consists of nine blocks. These blocks cover the four main areas of a business: customers, offer, infrastructure and financial viability. The business model is like a blueprint for a strategy to be implemented through organizational structures, processes and systems. The nine blocks are typically visualized on a Business Model Canvas as shown here: ⟶

KEY PARTNERS	KEY ACTIVITIES	VALUE PROPOSITION	CUSTOMER RELATIONS	CUSTOMER SEGMENTS
	KEY RESOURCES		CHANNELS	
COST STUCTURE		REVENUE STREAMS		

To navigate through the nine blocks, you may choose to start with the Value Proposition block, defining what you or your company can provide, manufacture or build. Others may start with the Customer Segments block, trying to understand the market dynamics and the customer behavior in order to tailor the right product/service to their needs and wants.

As we move forward into the development of your own Business Model Canvas, you will notice that the right side of the canvas focuses on the business's front story. It starts with the product/service you are offering to a customer segment. Then it is followed by the marketing channels you are going to use to reach potential customers, along with keeping your customers happy through customer relations. Building these blocks will help you see revenue streams and the ultimate goal of your business.

The left side of the canvas covers the back office and the operations required to establish, maintain and grow the business. It encompasses all the resources, activities and partners you will potentially need. Understanding these elements will help you derive the costs structure resulting from them.

Following is a definition for each of the nine blocks:

1. **Customer Segments:** This block covers the size of the market you are targeting and how to segment it in order to reach your potential customers.
2. **Value Propositions:** This block is the beating heart of the Business Model Canvas and it is what customers see and experience of your business. It explains how you aim to solve customer problems and satisfy their needs.
3. **Channels:** This block focuses on how communication, distribution and sales deliver the value proposition to customers. It helps you identify the necessary and possible channels to reach out to your potential customers. Additional information may be found in Chapter 8. Marketing & Sales.
4. **Customer Relations:** This block helps you answer the question of how you intend to establish and maintain relationships with each customer segment in order to keep your current customers happy.
5. **Revenue Streams:** This block covers how money is generated while delivering your value proposition to customers. More on this topic can be found in Chapter 5. Costs & Revenues.
6. **Key Resources:** This block looks at the assets required to offer and deliver the previously described elements. It helps you list all the different resources you need to establish, operate and maintain for your business.
7. **Key Activities:** This block helps you define, list and understand the activities needed to expand your business operations. These performed activities will utilize your resources to deliver your value proposition to your existing and prospective customers.
8. **Key Partnerships:** This block defines the key external partners essential to the business, since some activities are outsourced and some resources are acquired outside the enterprise.
9. **Cost Structure:** This block captures all the different costs associated with operations like production, providing service, marketing, running your business, licensing, registration, etc. For more information on this topic, please refer to Chapter 5. Costs & Revenues.

3.2 Block One: Customer Segments

A customer segment is a group of people you want to target when selling your products and/or services. To identify a segment, you should consider similarities between your prospective customers, such as their geographical location, gender, purchasing power, age and marital status, among other attributes.

Markets consist of buyers who are different in one way or another. They may differ in their needs, resources, locations, buying attitudes or purchasing behavior. Through market segmentation, companies divide large, heterogeneous markets into smaller segments that can be reached more efficiently with products and services that match their shared needs. To better understand customer segments, let's have a look at the levels of market segmentation.

Customer Segments

Which customers and users are you targeting?
Which jobs/tasks do they really want to get done?
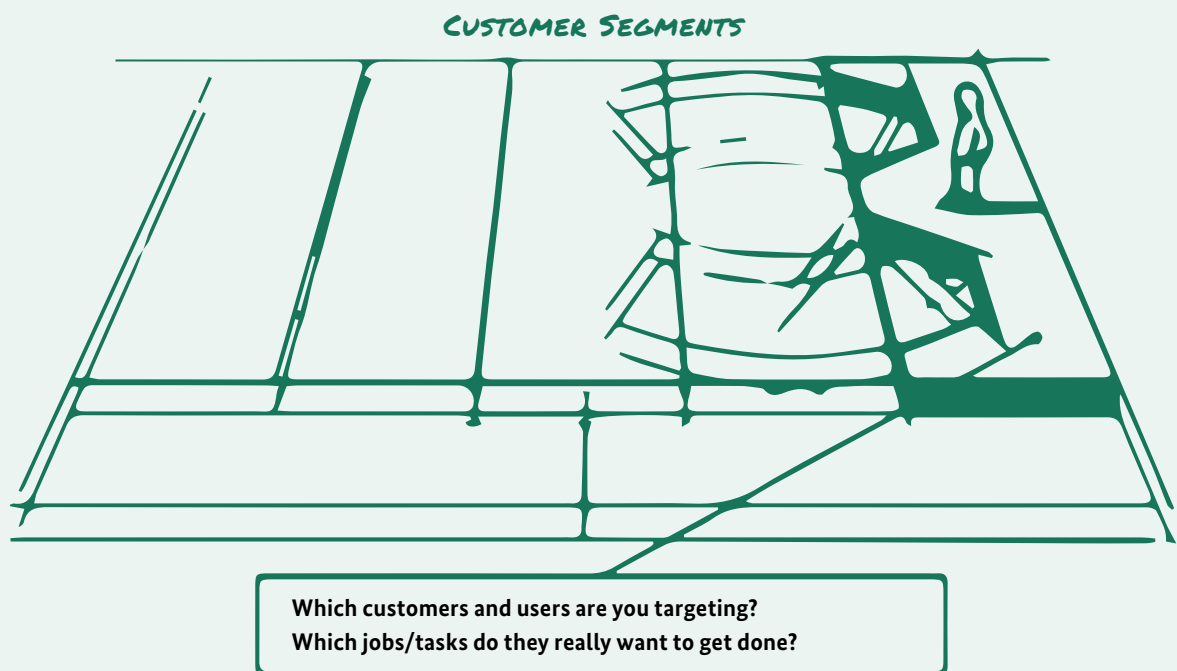
3.2.1 Levels of Market Segmentation

Mass Markets

Companies have not always practiced target marketing. For most of the twentieth century, major consumer-products companies held fast to serving mass markets – mass producing, mass distributing and mass promoting about the same product in the same way to all consumers. Henry Ford epitomized this approach when he offered the Model T Ford to all buyers; they could have the car 'in any color as long as it is black'. Over time, that cost Ford its world market leadership which it has never regained.
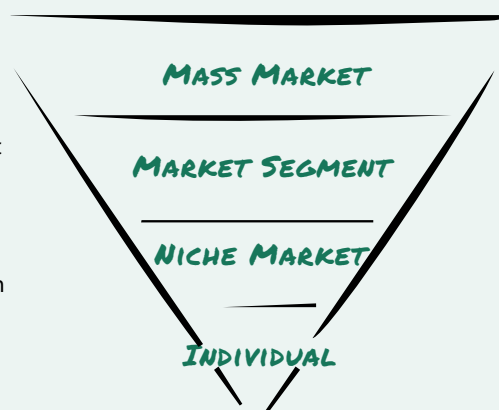
The traditional argument for the mass market approach is that it creates the largest potential market, leading to the lowest costs, which can translate into either lower prices or higher margins. However, many factors now make serving mass markets more difficult. For example, the world's mass markets have slowly splintered into a profusion of smaller segments. Not surprisingly, many companies are retreating from mass markets and turning to segmented marketing.

Market Segments

You define a market segment by dividing the market into distinct groups of buyers with different needs, characteristics or behaviors who might require separate products or a different marketing approach. Each market segment is a different group of people or type of organization which an enterprise aims to reach and serve. Any business serves one or several customer segments, which comprise the heart of any business model. Without (profitable) customers, no company can survive for long. 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, a few large or several small customer segments. You therefore 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.

Niche Markets

Market segments usually are large identifiable groups within a market. A niche market focuses on subgroups within these segments . A niche is a more narrowly defined group, usually identified by dividing a segment into subsegments or defining a group with a distinctive set of traits seeking a unique combination of benefits. For example, Ferrari gets a high price for its cars because its loyal buyers feel that no other automobile comes close to offering the product–service–membership benefits as Ferrari. Whereas segments usually are large and attract several competitors, niches are smaller and typically attract only one or few competitors. Niche marketers have to understand their niches' needs so well that their customers are willing to pay the premium price. Another Example, Mark Warner, succeeded by selling to distinct holiday niches: all-inclusive family watersports holidays in southern Europe for northern Europeans, and no-kids holidays for older people who want peace . Large companies also practice niche marketing, such as Nike, which makes athletic gear for aerobics, jogging, football as well as smaller niches, such as fell running and street hockey.

Niche markets offers smaller companies an opportunity to compete by focusing their limited resources on serving niches that may be unimportant to, or overlooked by, larger competitors.

Individuals

Some businesses' existence relies on a handful of customers. A good example is Rolls Royce Airplanes' engine production arm, which produces aero engines in addition to cars. Their customers for engines are very few plane manufacturing companies; therefore, meeting their customers regularly and producing the exact required products is key to their success. Similarly, some electronic chip companies only produce parts for companies like Apple, Samsung and Huawei, and their business existence relies on these single customers.

MASS MARKET

MARKET SEGMENT

NICHE MARKET

INDIVIDUAL

You might wonder about businesses that have different types of products for different segments of customers. That would be called "diversification." It is when a business 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 different customer segment – web companies – with a different value proposition.

Questions to ask ourselves:	Hints:
✓ For whom are we creating value? ✓ Who are our most important customers?	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 result in substantially different profitability ✓ They are willing to pay for different aspects of the offer

3.3 Block Two: Value Proposition

VALUE PROPOSITION

What are you offering them?
What are you helping them get done? Do they care?

The value proposition block describes the bundle of products and services that create value for the customer segments you defined in block one (3.2). The value proposition is why customers turn to one company over another.

Some value propositions may be innovative and represent a new or disruptive offer, while others may be similar to existing market offers, but with added features and attributes.

Companies address needs by putting forth a value proposition, a set of benefits that they promise to consumers to satisfy their needs. The value proposition is fulfilled through a market offer – some combination of products, services, information or experiences offered to a market to satisfy a need. Market offers are not limited to physical products, but also include services, activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything. Intangible products might include banking, travel, hotel, tax preparation or home repair services. Market offers also include other entities, such as persons, places, organizations, information and ideas.

Many sellers make the mistake of paying more attention to the specific products they offer than to the benefits and experiences produced by these products. They see themselves as selling a product rather than providing a solution to a need. A manufacturer of drill bits may think that the customer needs a drill bit; however, what the customer really needs is a hole or a way to fix things. These sellers may suffer from 'marketing myopia.', because they focus only on existing wants and lose sight of underlying customer needs. These sellers will have trouble if a new product comes along that serves the customer's needs better or less expensively. The customer with the same need will want the new product. Thus, smart marketers look beyond the attributes of the products and services they sell. They create brand meaning and brand experiences for consumers.

By orchestrating several services and products, companies can create, stage and market brand experiences. Disney World is an experience; so is a ride in a Porsche. You experience a visit to a West End show in London, browsing in Galeries Lafayette or surfing Sony's playstation.com website. As products and services increasingly become commodities, experiences have emerged for many firms as the next step in differentiating the company's offer.

Finally, in addition to what you have to offer and what your potential customers need, try to pay attention to what your possible market competitors offer. Having an edge over your competitors in the form of a new added value, or an enhanced value is what makes a difference in customers' decisions.

companies like Apple, Samsung and Huawei, and their business existence relies on these single customers. You might wonder about businesses that have different types of products for different segments of customers. That would be called "diversification." It is when a business 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 different customer segment – web companies – with a different value proposition.

THREE CIRCLE STRATEGIC GROWTH FRAMEWORK
WHY CUSTOMERS CHOOSE YOU

CUSTOMER'S PERCEPTION OF YOUR COMPANY'S OFFERINGS

CUSTOMER'S NEEDS AND WANTS

CUSTOMER'S PERCEPTION OF YOUR COMPETITOR'S OFFERINGS

Professor Joe Urbany
Three Circle Strategic Growth Framework
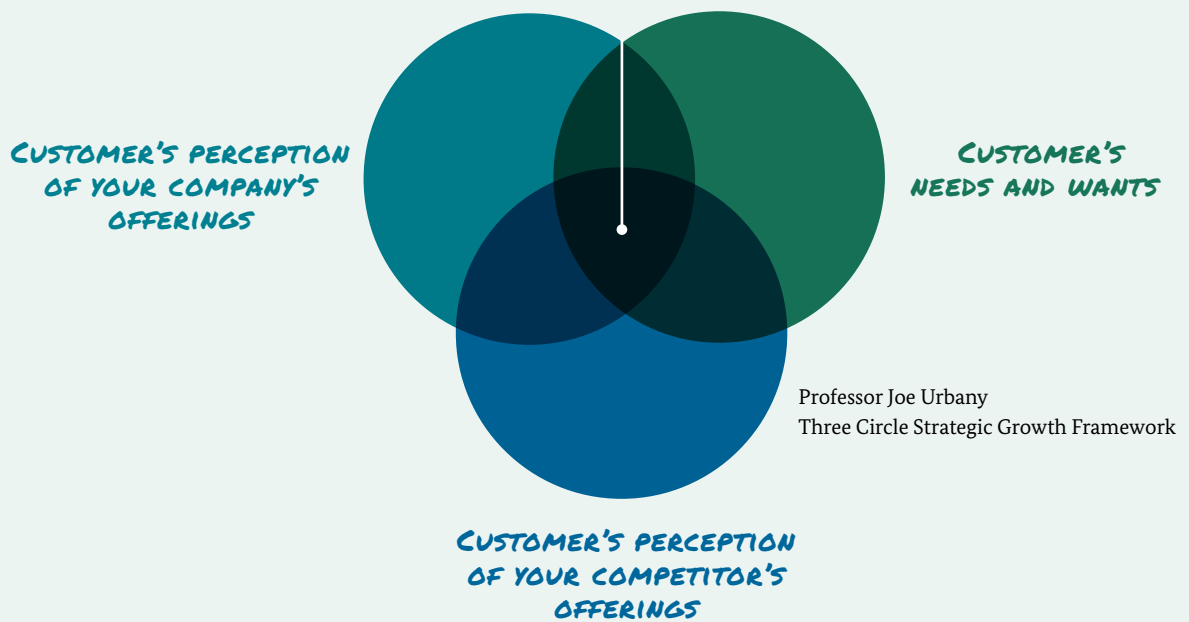
Questions to ask yourself:

✓ What value do you deliver to the customer?
✓ Which one of your customer's problems are you helping to solve?
✓ Which customer needs are you satisfying?
✓ What bundles of products and services are you offering to each customer segment

### 3.3.1 Some Types & Examples of Value Propositions

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).

✓ **Newness:** Some value propositions satisfy an entirely new set of needs that customers previously didn't perceive because there was no similar offering. It is often, but not always, technology related. Cell phones, for instance, created a whole new industry around mobile telecommunication.

✓ **Performance:** Improving product or service performance has traditionally been a common way to create value. The PC sector has historically relied on this factor by bringing more powerful machines to the market.

✓ **Customization:** Tailoring products and services to the specific needs of individual customers or customer segments creates value.

✓ **"Getting the job done":** Value can be created simply by helping a customer get specific jobs done. Rolls-Royce understands this very well; its airline customers rely entirely on Rolls-Royce to manufacture and service their jet engines.

✓ **Design:** This is an essential but difficult element to measure. A product may stand out because of superior design. Design can be a particularly important part of the value proposition in the fashion and consumer electronics industries.

✓ **Brand/Status:** Customers may find value in the simple act of using and displaying a specific brand, such as Apple products (iPhone, Apple Watch).

✓ **Price:** Offering similar value at a lower price is a common method to satisfy price-sensitive customer segments. However, low-price value propositions have important implications for the rest of the business model.

✓ **Cost reduction:** Helping customers reduce costs is a meaningful way to create value. Salesforce.com, for example, sells a hosted Customer Relationship Management (CRM) application. It relieves buyers from the expense and trouble of buying, installing and managing 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 for 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.

✓ **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.

3.4 Block Three: Channels

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

Distribution channels are more than simple collections of firms tied together by various flows. Instead, they are complex behavioral systems in which people and companies interact to accomplish individual, company and channel goals. Some channel systems consist of informal interactions among loosely organized firms, while others consist of formal interactions guided by strong organizational structures. Moreover, channel systems do not stand still – new types of intermediary surfaces and whole new channel systems are evolving all the time.

CHANNELS

> **How does each customer segment want to be reached?**
> **Through which interaction points?**
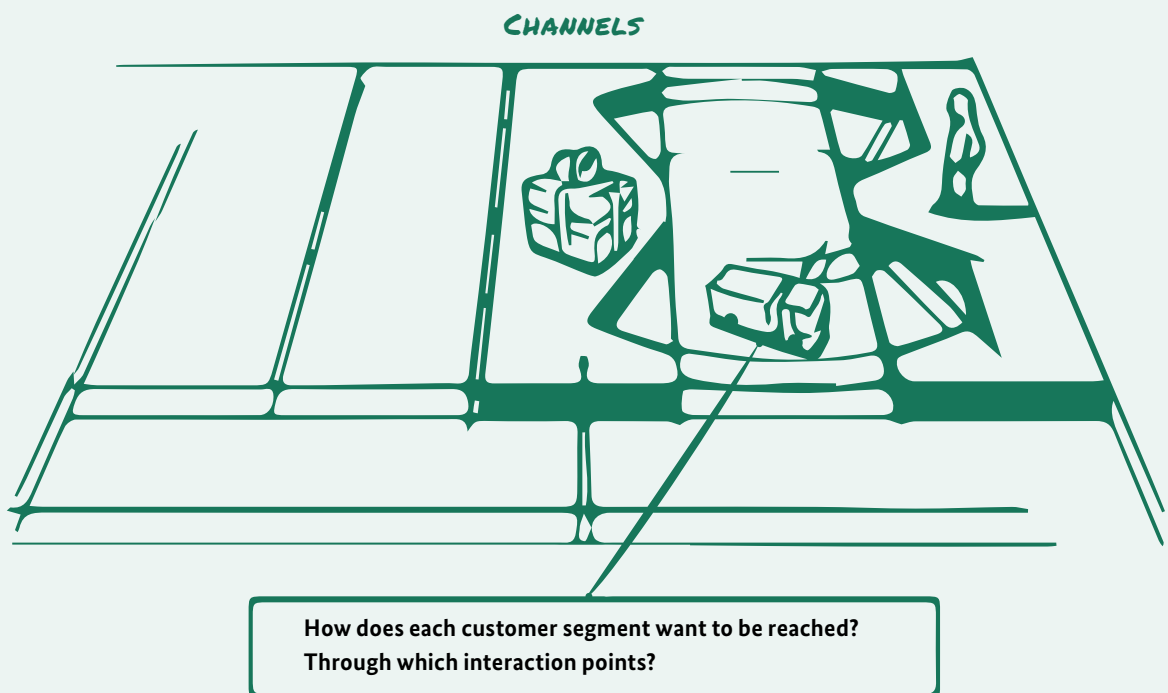
Channels are how a company communicates with and reaches its customer segments to deliver a value proposition. Channels serve several functions, including:

✓ 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

Questions to ask yourself:

✓ Through which channels do your customer segments want to be reached?
✓ How are you reaching them now?
✓ How are your channels integrated?
✓ Which ones work best?
✓ Which ones are most cost-efficient?
✓ How are you integrating them with customer routines?

3.4.1 Channel Phases

Channels can address up to five distinct phases. There are also four types of channels: direct, indirect, own and partner. Finding the right mix of channels to reach your customers is crucial in bringing your value proposition to the market. An organization can choose between reaching its customers through its own channels, through partner channels, or both. Own channels can be direct, such as an in-house sales force or a web site, or indirect, such as retail stores owned or operated by the organization. Partner channels are indirect and span many options, such as wholesale distribution, retail or third-party websites. Partner channels lead to lower margins, but allow an organization to expand its reach and benefit from partner strengths. Own channels and particularly direct ones, have higher margins but can be costly to implement and operate. The trick is to find the right balance across all types of channels, to integrate them and create a great customer experience while also maximizing revenue.

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?
	Web sales						
	Own stores						
Partner / Indirect	Partner stores						
	Wholesaler						

Chapter 8. Marketing & Sales will introduce you to different marketing channels as well as explain other marketing basics, such as Social Media Marketing (SMM). The following are basic marketing channels you should be aware of:

✓ Website
✓ Social media platforms (Facebook, Instagram, etc.)
✓ Newspaper ads, flyers, brochures, etc.
✓ Recommendation (word of mouth)
✓ Delivery
✓ Shop

3.5 Block Four: Customer Relations

CUSTOMER RELATIONS

> **What relationships will you need to establish with each segment?**
> **Will they be personal, automated, acquisitive or retentive relationships?**

Customer relations is about all the different types of relationships a company establishes with a specific customer segment. A company should clarify the kind of relationship it wants to establish with each customer segment, which could range from personal to automated. The following motivations may drive customer relationships:

✓ Customer acquisition
✓ Customer retention
✓ Boosting sales (upselling)

3.5.1 The 3 Stages of Customer Relationships
✓ **Get:** Use awareness and acquisition tactics, while reducing customer acquisition costs.
✓ **Keep:** Reduce attrition and retain customers via loyalty programs, product updates and quality service.
✓ **Grow:** Increase customer lifetime value by upselling, next-selling and cross-selling.

GET > **KEEP** > **GROW**

How to acquire new customers
• Advertising
• Direct mail
• Social media
➡ **Raise awareness & interest!**

How to retain existing customers
• Loyalty programs
• E-mail
• Social media
• Giving a guarantee on your services
• After sales follow-up
➡ **Make your customer happy!**

How to extract more money out of your customers
• Referrals
• Giving advice on supplementary services & products
➡ **Make your customer buy more!**

Questions to ask yourself:

✓ What type of relationship does each of your customer segments expect you to establish and maintain?
✓ Which ones have you established? How costly are they?
✓ How are they integrated with the rest of your business model?

3.5.2 Customer Relationship Categories

Personal assistance: This relationship is based on human interaction, in which a customer can communicate with a real customer representative to get help during the sales process or after the purchase is complete. It may happen onsite at the point of sale, through call centers, by email or other means.

Dedicated personal assistance: This relationship involves dedicating a customer representative specifically to an individual client, which represents the deepest and most intimate type of relationship and develops typically over a long time. In private banking services, for example, dedicated bankers serve high net worth individuals.

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

Automated services: This type of relationship mixes sophisticated forms of customer self-service with automated processes. For example, personal online profiles give customers access to customized services.

Communities: Companies are increasingly utilizing user communities to become more involved with customers/prospects and 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.

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.

3.6 Block Five: Revenue Streams

What are your customers willing to pay for?
How will they pay you?
Are you generating transactional or recurring revenues?
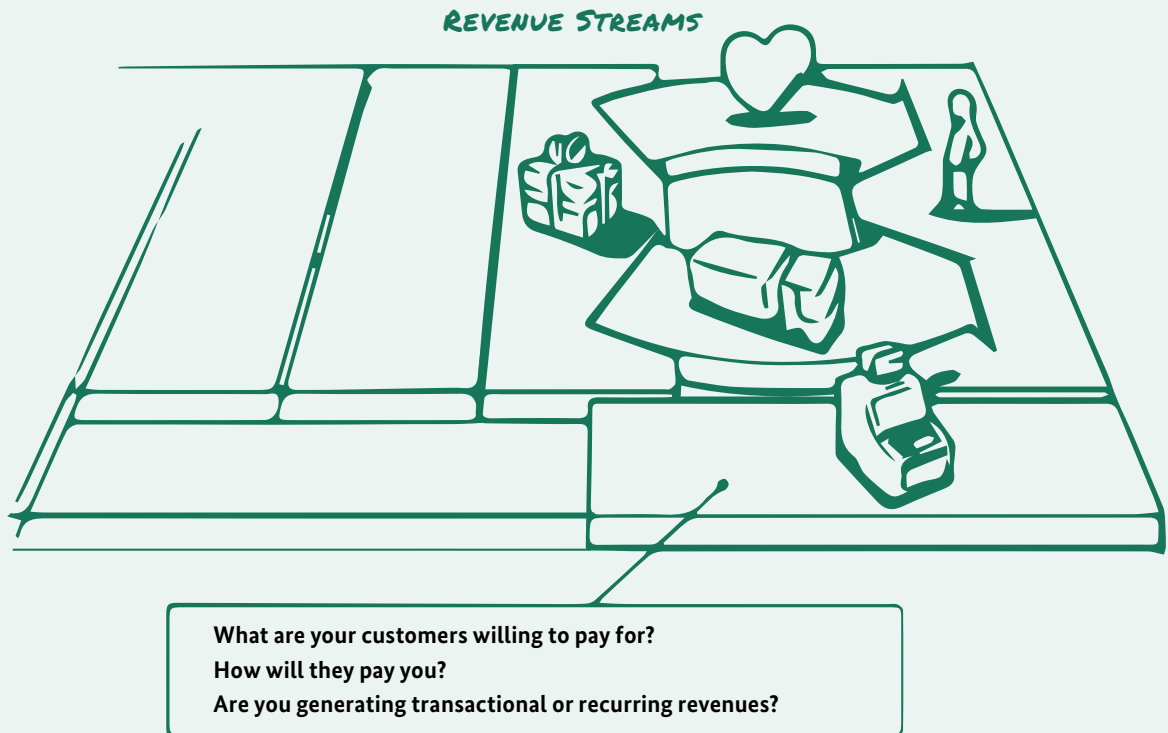
In this block, you identify the selling price for different products or services you provide. This block is explained in more detail in Chapter 5: Revenue Streams. Additional information on the selling requirements and processes are covered in Chapter 8. Marketing & Sales.

3.7 Block Six: Key Resources

KEY RESOURCES

Which resources underpin your business model?
Which assets are essential?
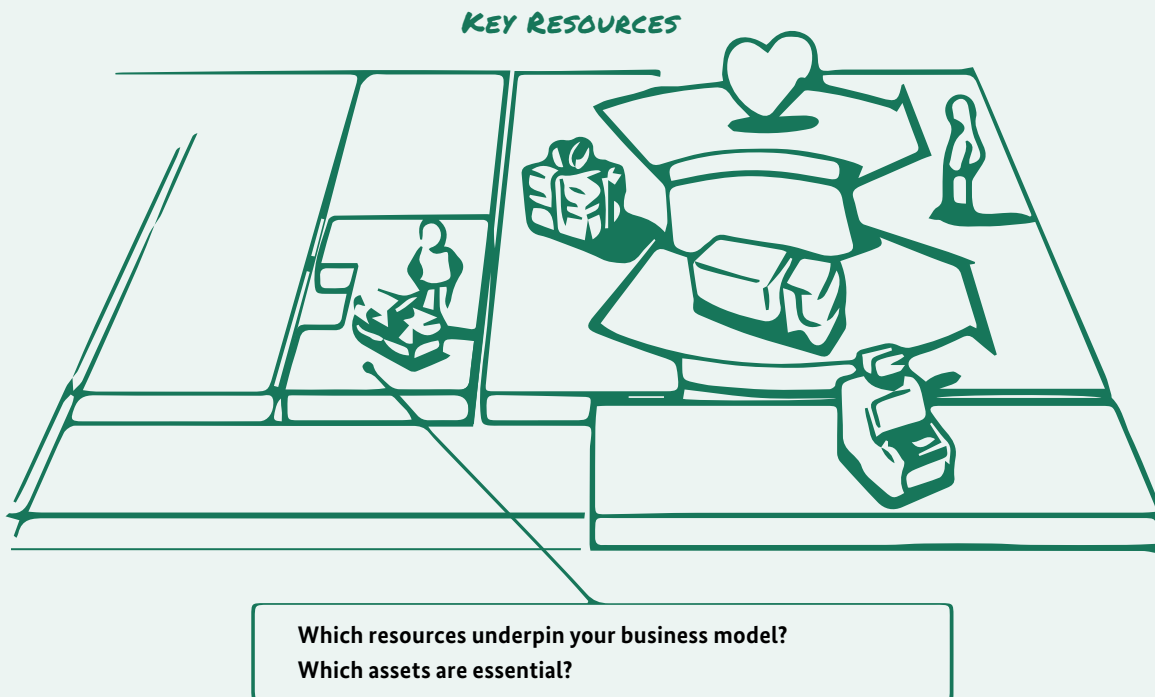
The key resources building block describes the most important assets required to make a business model work. Every business model requires key resources, owned or leased by the company, or acquired from key partners.

Questions to ask yourself. What Key Resources do your:

✓ Value Propositions require?
✓ Distribution Channels require?
✓ Customer Relations require ?
✓ Revenue Streams require?

3.7.1 Key Resources Categories

Key resources can be broken down into four main groups:

Key Resources: Keys to Your Successful Business

Physical

My Successful Business

Human

Intellectual Property

Financial

Physical	Intellectual	Human	Financial
This category includes physical assets such as: ✓ Manufacturing facilities ✓ Buildings ✓ Vehicles ✓ Machines ✓ Systems ✓ Point-of-sales systems ✓ Distribution networks	Intellectual resources include: ✓ Brands ✓ Patents & copyrights ✓ Partnerships ✓ Customer databases	Every enterprise requires human resources (employees).	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.

3.8 Block Seven: Key Activities

KEY ACTIVITIES

Which activities do you need to perform well in your business model? What is crucial?
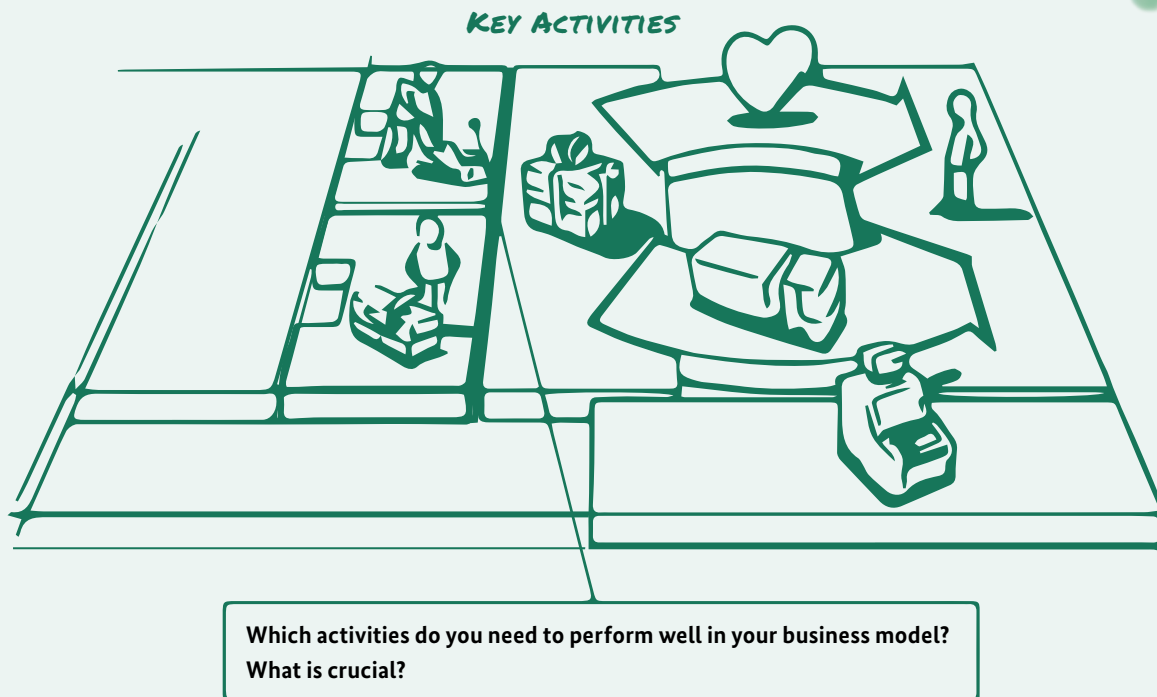
The key activities block describes the most important things/actions a company/startup must do to make its business model work. Every business model calls for several key activities.
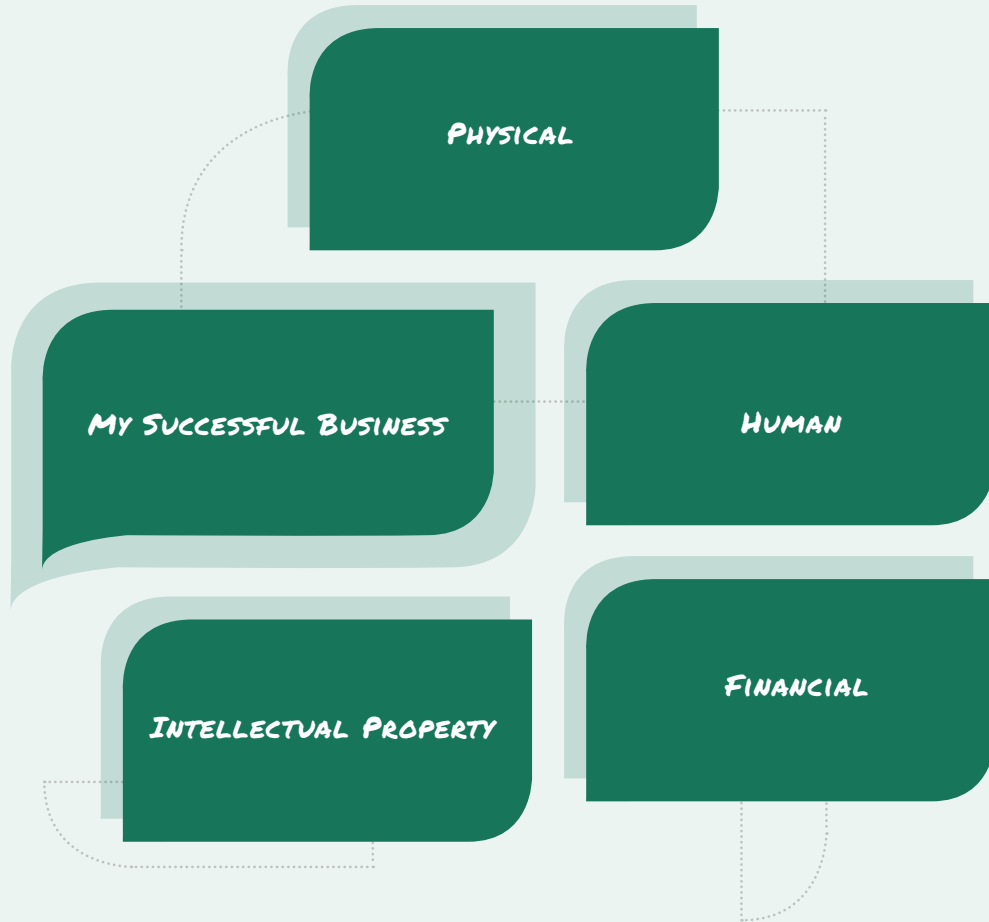
Questions to ask yourself. What Key Resources do your:

✓ Value Propositions require?
✓ Distribution Channels require?
✓ Customer Relations require ?
✓ Revenue Streams require?

Examples

Similar to key resources, key activities differ depending on business model type, e.g. for:

✓ A software maker like Microsoft, key activities include software development.
✓ A PC manufacturer, key activities include supply chain management.
✓ A consultancy firm, key activities include problem-solving.
✓ A small restaurant, key activities include cooking the food.
✓ A mechanic shop, key activities include repairing the cars.
✓ A marketing agency, key activities include creating marketing campaigns.

3.9 Block Eight: Key Partnerships

Revenue Streams

Which partners and suppliers help you leverage your model?
Who do you need to rely on?
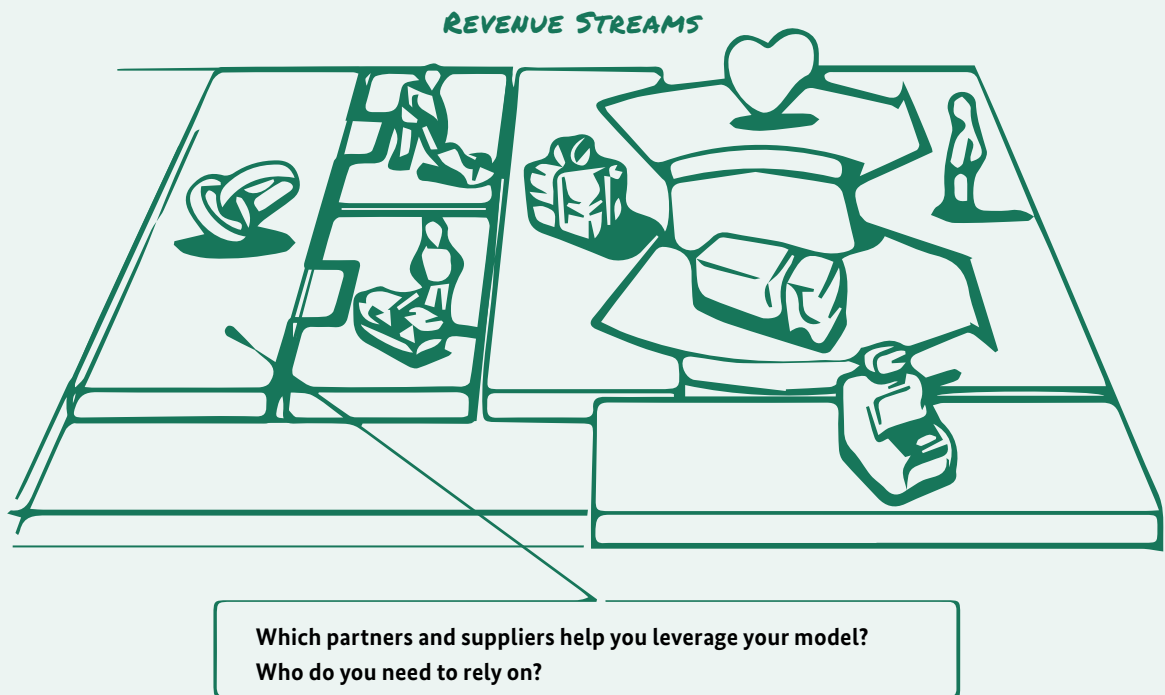
Some activities are outsourced, and some resources are acquired outside of the enterprise. The key partnerships building block describes the network of suppliers and partners that make the business model work. Companies forge partnerships for many reasons, and partnerships are becoming a cornerstone 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

Questions to ask yourself. What Key Resources do your:

✓ Value Propositions require?
✓ Distribution Channels require?
✓ Customer Relations require ?
✓ Revenue Streams require?

3.9.1 Motivations For Creating Partnerships

It's important to consider the motivation behind embarking on any kind of partnership. These are the main drivers:

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. This kind of mix between cooperation and competition is sometimes referred to "coopetition".

Acquisition of particular resources and activities: Few companies own all the resources or perform all the activities described by their business models. Instead, they extend their capabilities by relying on other firms to supply particular resources or perform certain activities. Such partnerships can be motivated by the need to acquire knowledge, licenses or access to customers.

3.10 Block Nine: Cost Structure

COST STRUCTURE

What is the resulting cost structure?
Which key elements drive your costs?
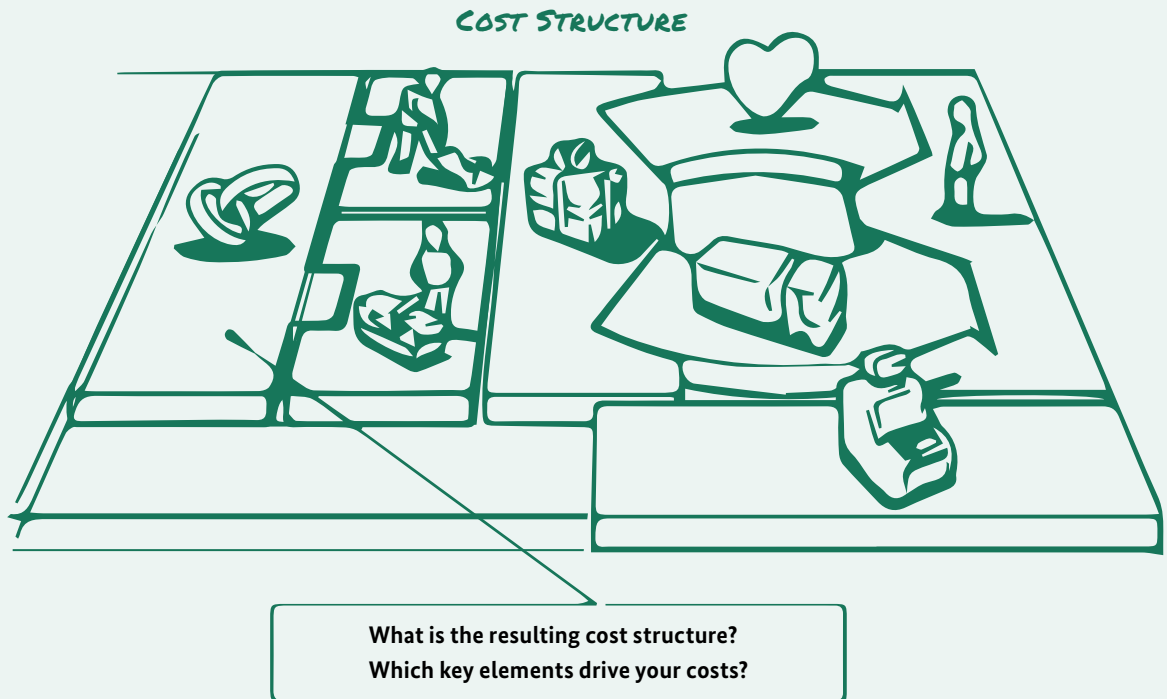
In this block you identify the different types of costs required to establish, operate and sustain your business idea. This block is covered in detail in Chapter 5. Costs & Revenues.

3.11 Conclusion

In this chapter, we have provided the basics for understanding seven blocks of the Business Model Canvas:

• Customer Segments
• Value Propositions
• Channels
• Customer Relations
• Key Resources
• Key Activities
• Key Partnerships

This is sufficient for you to already start creating your first Business Model Canvas. To do this, please go to 3.13 Exercises.

You will learn more about the other two blocks, Revenue Streams and Cost Structure, in Chapter 5: Costs & Revenues. When you complete chapter five, we encourage you to go back to your Business Model Canvas and input your new findings to get the full picture of your business idea.

Also, make sure you have a look at next section of this chapter, 3.12 Bonus Content, to get extra information on customer segments.

Bonus Content

3.12 Segmenting Consumer & Business Markets

Segmenting Consumer Markets
There is no single way to segment a market. A marketer has to try different segmentation variables, alone and in combination, to find the best way to view the market structure.

Geographic segmentation
Geographic segmentation calls for dividing the market into different geographical units, such as nations, states, regions, counties, cities or neighborhoods. A company may decide to operate in one or a few geographical areas, or to operate in all areas but pay attention to geographical differences in needs and wants. For example, cross-cultural research has defined five 'mentality fields' for cars in Europe:

1. The North (Scandinavia)
2. The Northwest (the United Kingdom, Iceland, and parts of Norway, Belgium and the Netherlands)
3. The Center (German mentality field extending to Switzerland and parts of Eastern Europe)
4. The West (the French-speaking area, including parts of Switzerland and Belgium)
5. The South (the Mediterranean, covering Spain, Portugal, Italy and Greece)

Self-expression is important to car buyers in all the geographical regions, but the similarity ends there. The West seeks quality and practicality, the South wants value for money, while the Northwest sees their car in very personal terms. The differences influence the cars they buy and how they are equipped. Although all developed nations worry about the environment, they do so in different ways. In Italy, France and the UK, motorists do not see their car as a source of pollution, while in Germany, demand for environmentally friendly cars is growing fast.

Climatic differences lead to different lifestyles and eating habits. In countries with warm climates, social life takes place outdoors and furniture is less important than in Nordic countries. Not noticing the different sizes of kitchens has caused many marketing mistakes. Philips started making profits in the Japanese market only after it made small coffee makers to fit the cramped conditions there. In Spain, Coca-Cola withdrew its two-liter bottle after finding it did not fit local refrigerators.

Many companies today have regional marketing programs within national boundaries localizing their products, advertising, promotion and sales efforts to fit the needs of individual regions, cities and even neighborhoods. Others are seeking to cultivate yet untapped territories. For example, IKEA expanded globally using its large blue-and-yellow stores and dedicated out-of-town sites that serve countries with a handful of stores. IKEA changed its strategy when it acquired the Habitat furniture chain from Storehouse. The small stores gave it access to passing trade and new customer segments who are less willing to travel. The Habitat chain also serves small towns. In making this significant shift, IKEA is also following the European trend towards town-center shopping complexes. Having seen American urban decay, European politicians are resisting out-of-town developments.

Demographic segmentation

Demographic segmentation consists of dividing the market into groups based on variables such as age, gender, sexual orientation, family size, family life cycle, income, occupation, education, religion, ethnic community and nationality. Demographic factors are the most popular means for segmenting customer groups. One reason is that consumer needs, wants and usage rates often vary in alignment with demographic variables. Another is that demographic variables are easier to measure than most other types of variables. Even when market segments are first defined using other factors – such as personality or behavior – their demographics need to be known to assess the size of the target market and to reach it efficiently.

Age

Consumer needs and wants change with age. Some companies use age and life-cycle segmentation, offering different products or using different marketing approaches for different age and life-cycle groups. For example, Life Stage vitamins come in four versions, each designed for the special needs of specific age segments: chewable Children's Formula for children from 4 to 12 years old; Teen's Formula for teenagers; and two adult versions (Men's Formula and Women's Formula). Johnson & Johnson developed Affinity Shampoo to help women over 40 overcome age-related hair changes. McDonald's targets children, teens, adults and senior citizens with different ads and media.

Ethnicity

Multi-ethnic communities define market segments for all manner of goods: clothes, music, cosmetics, and many others. At the same time, these communities also nurture businesses that serve segments beyond their own ethnic boundaries.

Life-cycle stage

Life-cycle stage is important in recreation markets. In the holiday market, for instance, Club 18–30 aims at young singles seeking the three Ss: sun, sand, sea. This boisterous segment does not mix well with the families that Club Mediterranean caters to. Children's activities and all-day childcare are an important part of the latter's provision. Meanwhile, Saga Holidays caters to older people and keeps prices low by offering off-peak holidays.

Gender

Gender segmentation is usual in clothing, hairdressing, cosmetics and magazines. Recently, marketers have noticed other opportunities for gender segmentation. For example, both men and women use most deodorant brands. Procter & Gamble, however, developed Secret as the brand specially formulated for a woman's chemistry, and then packaged and advertised the product to reinforce the female image. In contrast, Gillette's association with shaving makes its deodorant more male oriented.

The car industry has also begun to use gender segmentation extensively. Women are a growing part of the car market. 'Selling to women should be no different than selling to men', notes one analyst. 'But there are subtleties that make a difference.' Women have different body frames, less upper-body strength and greater safety concerns. To address these issues, car makers are redesigning their cars with bonnets and boots that are easier to open, power steering in small cars as well as seats and seat belts that fit women better. They have also increased their emphasis on safety, highlighting features such as airbags and remote door locks. In their advertising, some manufacturers target women directly. Indeed, much TV advertising of small cars is now aimed at women and large advertising spreads are designed especially for women consumers in such magazines as Cosmopolitan and Vogue.

With women now representing 45% of web users – up from 10 percent five years ago – there is also an increasing number of portals dedicated to women. Examples are Charlottestreet.com and FreeServe's Icircle. IPC, publishers of Marie Claire and many other magazines, have launched Beme.com. 'The channels on the site are very mood based', according to editor Claire Simmonds. The look of the site betrays its origin in many classy women's magazines. Besides being easy to navigate, the site is stylish, easy on the eyes and only contains ads carefully vetted to fit its ambience.

Income

Income segmentation is often used for products and services such as cars, boats, clothing, cosmetics and travel. Many companies target affluent consumers with luxury goods and convenience services. The brands behind the French LVMH group's initials betray its focus on affluent consumers: Louis Vuitton luggage, Moët & Chandon champagne and Hennessy cognac. Besides its haute couture activities, LVMH owns Parfums Christian Dior, has taken control of Guerlain, the French fragrance house, and is stalking Van Clef & Arpels, the Paris-based jeweler. Others aiming at the super luxury market are Vertu's high-end mobile phones and high-frill, high-price Bangkok Airways. The mother of all battles is for the super luxury cars, such as Rolls-Royce's new RR01 by BMW, the Bentley Continental GT by VW, the Maybach by DaimlerChrysler, Lamborghini's LB-140 or Aston Martin's AM305 by Ford.

However, not all companies grow by retaining their focus on the top-income segment. By developing more sophisticated stores with added range and value, established retailers have allowed new entrants to succeed by targeting less affluent market segments. KwikSave, Lidl and Aldi (supermarkets) have taken advantage of this opportunity with lean organization, limited product ranges, economically located stores and a no-frills operation that keeps prices down. Similarly, Christiane zu Salm turned Germany's unsuccessful TM3 TV channel into Neun Live, a small but profitable operation, by producing low-cost, low-brow interactive programs that have been criticized by the media establishment.

Psychographic segmentation
Psychographic segmentation divides buyers into groups based on social class, lifestyle or personality characteristics. People in the same demographic group can have very different psychographic make-ups.

Social class

The social class affects preferences in cars, clothes, home furnishings, leisure activities, reading habits and retailers. Many companies design products or services for specific social classes, building in features that appeal to them.

In the UK, Butlin's holiday camps cater to working-class families. They cater to the whole family with prominent attractions like variety shows, bingo, slot machines, discos, and organized entertainment. The camps are very busy, and the emphasis is on fun. Much of the accommodation is basic, regimented, crowded and self-catering. In contrast, Center Parcs has a carless woodland layout with an emphasis on the outdoors and relaxation.

Lifestyle

People's interest in goods is affected by their lifestyle. Reciprocally, the goods they buy express their life-style. Marketers are increasingly segmenting their markets by consumer lifestyle. For example, General Foods used lifestyle analysis in its successful repositioning of Sanka decaffeinated coffee. For years, Sanka's staid, older image limited the product's market. To turn this situation around, General Foods launched an advertising campaign that positioned Sanka as an ideal drink for today's healthy, active lifestyle. The campaign targeted achievers of all ages, using a classic achiever appeal that Sanka 'Lets you be your best'. Advertising showed people in adventurous lifestyles, such as kayaking through rapids.

Lifestyle segments are either off-the-shelf methods from agencies or customized methods for individual companies. Many companies opt for off-the-shelf methods because of their familiarity and the high cost and complexity of developing their own. The ad agency Young & Rubican's Cross-Cultural Consumer Characterization (4Cs) is a typical off-the-shelf method. It has three main segments:

- **The Constrained.** People whose expenditure is limited by income. It includes the resigned poor who have accepted their poverty, and the more ambitious struggling poor.
- **The Middle Majority.** This segment contains the mainstreamers – the largest group of all – as well as aspirers and succeeders.
- **The Innovators.** A segment consisting of explorers and reformers.

The succeeders are a successful group of people who like to feel in control. By showing travelers in complete control of a situation in which they had lost their American Express traveler's cheques and had them quickly returned, American Express advertising would appeal to this segment. They would be equally attracted to the ability to customize their Mercedes car. In contrast, mainstreamers need security. They will buy well-known, safe major brands and avoid risk. Highly educated reformers would have none of that. They would trust their own judgement and try new ideas. These people are at the forefront of many new trends, such as ecologically friendly products and new tourist destinations.

Lifestyle segments can be superimposed on other segmentation methods. For instance, Third Age Research recognizes the different lifestyles of older people. It identifies the explorers who like to take up new activities, the organizers, the apathetic, the comfortable, the fearful, the poor me, the social lion and the status quo.

Personality

Marketers have also used personality variables to segment markets, giving their products personalities that correspond to consumer personalities. Successful market segmentation strategies based on personality work for products such as cosmetics, cigarettes, insurance.

Occasions

Buyers can be grouped according to occasions when they get the idea to buy, make their purchase or use the purchased item. Occasion segmentation can help businesses build up product usage. For example, most people drink orange juice at breakfast, but orange growers have promoted drinking orange juice as a cool and refreshing drink at other times of the day.

Mother's Day and Father's Day are promoted to increase the sale of confectionery, flowers, cards and other gifts. The turkey farmer Bernard Matthews fought the seasonality in the turkey market. For most families, a holiday dinner was the only meal big enough to justify buying such a big bird. His answer was to repackage the meat as turkey steaks, sausages and burgers, and promote them for year-round use. His reformulated turkey is so successful that he is now reformulating New Zealand lamb.

Kodak uses occasion segmentation in designing and marketing its single-use cameras in multi-packs for partygoers or wedding guests. Weddings are such an important ritual in all cultures that whole industries focus on servicing these high-spending events.

Benefits sought

A powerful form of segmentation is to group buyers according to the different benefits that they seek from the product. Benefit segmentation requires finding the main benefits people look for in the product class, the kinds of people who look for each benefit and the major brands that deliver each benefit. One of the best examples of benefit segmentation was for the toothpaste markets. Research found four benefit segments: economic, medicinal, cosmetic and taste. Each benefit group had special demographic, behavioral and psychographic characteristics. For example, the people seeking to prevent decay tended to have large families, were heavy toothpaste users and were conservative. Each segment also favored certain brands. Most current brands now appeal to one of these benefit-based segments. For example, Crest tartar-control toothpaste stresses protection and appeals to the family segment, Aim looks and tastes good and appeals to children.

	Geographic	Demographic	Psycholo-graphics	Behavioural	Persona	Predictive
Simple	Where	Who	Why	What	Who, What, Why, Where	Who & When
Whats is it?	Geographic segmentation divides customers into groups based on their location	Demographic segmentation divides customers into groups based on census data	Psychographic segmentation divides customers into groups based on personal interests and motivations	Behavioral segmentation divides customers into what do online/offline	Persona segmentation divides customers into groups based on blended data as well as customers goals	Predictive segmentation uses historical behavioral patterns to predict and influence future customer behaviors
Examples	Countries Cities Urban/Suburban/Rural IP addresses	Age Income Family/Single/Couple Gender Education	Interests Personality Lifestyle Social status Activities/Interests/Opinions Attitudes	Benefits sought Occasion Usage rate Loyalty Buyer readiness Actions taken e.g. online	Jobs to be done Pain/Gains demographic data Psychographic data Behavioral data	Unsupervised learning Supervised learning Reinforcement learning
Why use it?	Dynamic pricing Ease of use Country/Language Differences Localized offers/stores	Easy to use Good for store profiling Ideal life stages Good to supplement with other data	Uncovers motivations and reasons for product and brand purchases	Ideal for identifying patterns and triggers during buying process Helps to tailor marketing to different stages	Provides a rich profile of a customer segment Proves a foundation to test hypotheses and optimize results	Uncovers hidden buying clusters of customers Helps with customer discovery

Segmenting Business Markets

Consumer and business marketers use many of the same variables to segment their markets. Business buyers segment geographically or by benefits sought, user status, usage rate, loyalty status, readiness state and attitudes. Yet business marketers also use some additional variables which, as the following table shows, include business customer demographics (industry, company size), operating characteristics, buying approaches, situational factors, and personal characteristics.

Demographics
Industry: Which industries that buy this product should we focus on?
Company size: What size companies should we focus on?
Location: What geographical areas should we focus on?

Operating variables
Technology: What customer technologies should we focus on?
User/Non-user status: Should we focus on heavy, medium or light users, or non-users?
Customer capabilities: Should we focus on customers needing many services or few services?

Purchasing approaches
Purchasing organization: Should we focus on companies with highly centralized or decentralized purchasing organizations?
Power structure: Should we focus on companies that are engineering dominated, financially dominated or marketing dominated?
Nature of existing relationships: Should we focus on companies with which we already have strong relationships or simply go after the most desirable companies?
General purchase policies: Should we focus on companies that prefer leasing? Service contracts? Systems purchasing? Sealed bidding?
Purchasing criteria: Should we focus on companies that are seeking quality? Service? Price?

Situational factors
Urgency: Should we focus on companies that need quick delivery or service?
Specific application: Should we focus on certain applications of our product rather than all applications?
Size of order: Should we focus on large or small orders?

Personal characteristics
Buyer-seller similarity: Should we focus on companies whose people and values are similar to ours?
Attitude towards risk: Should we focus on risk-taking or risk-avoiding customers?
Loyalty: Should we focus on companies that show high loyalty to their suppliers?

3.13 Exercises

Now it's time to create your own Business Model Canvas. You may also choose to make several of them, as you explore different options for where to place your focus. Work through each block according to the instructions below and then pull it all together on a canvas at the end.

Customer Segments Block

1. Create a list of relevant customer segments for your business idea based on the input from section 3.2 Customer Segments.
2. Read through 3.12 Bonus Content: Segmenting Consumer & Business Markets to get further inspiration and expand on your notes.
3. To further refine your customer segments, now develop an online survey, e.g. using Google forms or Microsoft surveys, with some questions to different potential customers. Ask them for different sets of information, like demographics and other details to identify the right segment. Use your knowledge from the notes you have developed in the first two steps.

SPACE FOR SOLUTIONS

Value Proposition Block

Ask your family, friends, colleagues and neighbors for some feedback on your business idea and what values they identify in it. Use these insights to develop your value proposition. Refer to 3.3 Value Proposition for further details.

Chapter 3

SPACE FOR SOLUTIONS

Channels Block
Make notes of the different communication channels relevant to making your business a success. Think about the different types and phases in order to identify a mix of channels. Refer back to 3.4 Channels for further details.
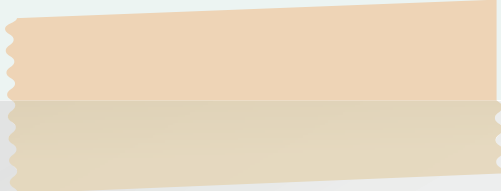
Customer Relations Block

What kind of relationships will be crucial for your business? See 3.5 Customer Relations to focus your thoughts and then write them down.

Space for solutions

Revenue Streams Block
Think about how you will receive money for your product or service. You can get some ideas from section 3.6 Revenue Streams. For further information, you may also wish to jump ahead and read through Chapter 5. Costs & Revenues. It is also acceptable to skip this block for now and come back to it later, after you have read Chapter 5.

SPACE FOR SOLUTIONS

Key Resources Block

Make a list of the resources required for your business idea and categorize them into the four categories: Physical, Intellectual, Human, Financial. Review 3.7 Key Resources for further details.

SPACE FOR SOLUTIONS
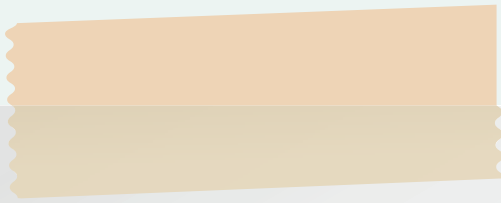
Key Activities Block
Make a list of the key activities required to implement, operate, and sustain your business idea. Refer to
3.8 Key Activities for inspiration.

SPACE FOR SOLUTIONS

Chapter 3

Key Partnerships Block

Make a list of the possible partnerships that could be essential for implementing your business idea.

Use 3.9 Key Partnerships for guidance.

SPACE FOR SOLUTIONS

Cost Structure Block

Think about how you will need to spend money in order to establish, operate and sustain your business. See 3.10 Cost Structure. For further information, you may also wish to jump ahead and read through Chapter 5. Costs & Revenues. You may also simply skip this block for now and fill it in later.

Business Model Canvas

Collect all the notes you have written for each of the above blocks and construct a Business Model Canvas for your business idea. Have a look at all your findings and validate their interrelations with your instructor.

KEY PARTNERS	KEY ACTIVITIES	VALUE PROPOSITION	CUSTOMER RELATIONS	CUSTOMER SEGMENTS
	KEY RESOURCES		**CHANNELS**	

COST STUCTURE	REVENUE STREAMS

Space for solutions

4 The Lean Startup Methodology

WHAT THIS CHAPTER IS ABOUT

4.1 Introduction

Most startups do fail. You will hear this said quite often. But the other important information that rarely gets shared is that the startups that do end up succeeding, mostly grow to be very different from where they started off.

There is a simple concept to understand here that we will elaborate upon later: startups fail because there is no market for them. You can bring the best team and the best product to a bad market that does not need your idea, and you will fail. On the other hand, you can bring a bad team and a product with many rough edges to a good market, or a market that your solution fits in, and you will gain so-called "traction", i.e. more and more people paying for your product/service.

In Chapter 3. The Business Model Canvas you dove deep into all the different aspects needed to make your business idea a success. This chapter helps you learn how to test it to make sure you succeed, by applying the lean startup methodology.

4.2 Ideas Should Solve a Pain Point

Turning the idea on your business model canvas into a product or service that solves real pain points when people use it could be the most defining moment in an entrepreneur's journey. One of the main reasons entrepreneurs fail is that their products don't necessarily solve real pain points, or the pain points that they are solving are simply not essential and people can easily live without them. Successful entrepreneurs help solve existing problems that are recurring and essential. If we use the analogy of inventing vitamin pills vs. pain killers, your idea needs to be a pain killer.

And not only that, it needs to be a pain killer for a large enough user base. Not too niche to target or too small to sustain a business. While many successful entrepreneurs create products from their own struggle, the scale of their struggle was validated through a robust feedback loop in the early days of the pre-beta versions of their products. So let's not confuse that with a problem that only us and some of the people we know have.

> **For example:** X is a stamp collector and she struggles to trade stamps with other collectors so she starts a Basrah-only website that specializes in that area. Now, regardless of how perfect her website will be and how much she and her co-founders will spend on their marketing campaigns; if the community of stamp collectors is too small, then there will be no traction and the whole journey will lead to a massive failure.

While it may be very tempting to work on something that we are passionate about, if that thing is not of significant size, then we need to reconsider the whole idea of building a business around it. To reiterate and rephrase, one of the main reasons why entrepreneurs fail is that they think of a cool idea or an idea for a certain product which they start to develop, and only afterwards do they think about fitting their solution to a relevant problem; not the other way around.

The good news is that you can avoid the massive frustration at the end of such an adventure by going through a systematic approach known as "customer discovery", which is part of the lean startup methodology.

4.3 What is The Lean Startup Methodology?

"Lean startup" is a term coined by Eric Ries, a U.S.-American entrepreneur and author. It represents a synthesis of different concepts: customer development, agile software development, and lean production (as in the Toyota Production System). The term lean is often misunderstood as "being cheap." Being lean, however, is fundamentally about eliminating waste and being efficient with one's available resources, which just makes good business sense.

To put it in a brief yet detailed way, the lean startup methodology can be characterized as "a guideline system for solving a problem". It approaches this task highly efficiently, scrutinizing every single aspect of the innovative enterprise. Any startup is a huge experiment that was created to answer a question, and the question is not "Can we create this product?", but rather "Should we create this product?" and also "Is it possible to build an effective business around this set of services and products?"

As Steve Blank, the person who coined the term customer discovery, explains: "lean startups use a 'get out of the building' approach called customer development to test their hypotheses. They go out and ask potential users, purchasers, and partners for feedback on all elements of the business model, including product features,

pricing, distribution channels, and affordable customer acquisition strategies. The emphasis is on nimbleness and speed. New ventures rapidly assemble minimum viable products and immediately elicit customer feedback. Then, using customers' input to revise their assumptions, they start the cycle over again, testing redesigned offerings and making further small adjustments (iterations) or more substantive ones (pivots) to ideas that aren't working."

4.3.1 A Vintage Example

Let us assume that it is 1920 and you came up with the idea of storing food in a cold case using electricity (the refrigerator). There are two scenarios here:

Scenario A
You start designing the product, working on the logo and brand, prepare for your marketing, and contract a factory to start the production or buy the production lines themselves.

The end result: a stock of 10,000 pieces of the product with a certain price tag. The refrigerator shape is a cylinder, circle, or rectangle-shaped (because you want to offer cool designs and a variety of choices) and ready to be displayed at stores.

Scenario B
You create a cardboard mockup of the refrigerator with all its components and descriptions on it and show it to customers. You make them interact with your early design. You get feedback from them on the shape of the invention, the door handle, the location of the thermostat and other features. They would also recommend shelves because they want to sort things in a certain manner or maybe drawers, cupholders, etc.

What is more important, nobody even cared about the shape of the refrigerator. The different innovative designs that were driving production costs up and taking lots of production time in Scenario A turned out to be irrelevant to your customers.

What we ended up with here is that by using the second production method, we designed a more affordable product that matches what people really need, without spending a fortune on production and marketing to only find out later that sales were not as we expected.

While the above may seem trivial when you read it, Scenario B is not the way most people develop business areas and how most of the organizations do their work; governmental or non-governmental, for-profit or non-profit.

The **Build Measure Learn** loop should be the only way that entrepreneurs think about their products. It represents exactly the kind of prudence and time-saving ethos you need to adopt from day one in your business or organization. After all, entrepreneurship is all about finding shortcuts to existing routes and doing more with fewer resources.

While The Lean Startup book did put an emphasis on how efficient the feedback loop described above is, similar concepts of getting feedback on prototypes were adopted by other industries, such as focus groups in food production companies. Another example is producing pilot episodes for a TV series, and releasing them to see how the audience interacts with the series before producing the whole 20 plus episodes and ending up with massive costs for a failed show.

4.3.2 The Prototype vs. The MVP

What is a prototype?

A prototype is the theory behind your product made into form. Instead of having a vague idea of what you want to eventually build, you make something tangible. Prototypes can vary in size and how much time and effort you put into them. It might be a simple sketch on paper or it might be something more functional and interactive; such as the alpha and beta versions of a certain software.

The Business Model Canvas you worked on in Chapter 3 is one step in prototyping your business idea.

What is an MVP?

In the lean startup method, we focus on introducing the minimum viable product (MVP). Eric Ries coined the term and defines it like this:

An MVP is that version of a new product which allows a team to collect the maximum amount of validated learning about customers with the least effort.

An MVP is a product that only has the core features that make the product work, i.e. it is stripped down of most of its features. That allows you to improve on the product through iterations and add features that customers want and need based on their feedback, not on existing biases and opinions. Unlike prototypes that almost always adopt the (remake) approach, which is too costly and lengthy.

With this approach, you will zoom-in on your value proposition clearly and narrowly. That gives you the opportunity to define priorities, goals and needed functionality, so you can spend your time and money more efficiently.

How to Build a Minimal Viable Product

NOT LIKE THIS

1   2   3   4

LIKE THIS

1   2   3   4   5

4.3.3 The Build Measure Learn Process

The goal of Build Measure Learn is not to build a final product to ship or even to build a prototype of a product, but to maximize learning through incremental and iterative engineering. Learning could be about product features, customer needs, the right pricing and distribution channel, etc. Each time you build an MVP you also define what you are trying to test/measure. Later, as more is learned, the MVP goes from low-fidelity to high-fidelity, but the goal continues to be to maximize learning, not to build a beta/fully featured prototype of the product.
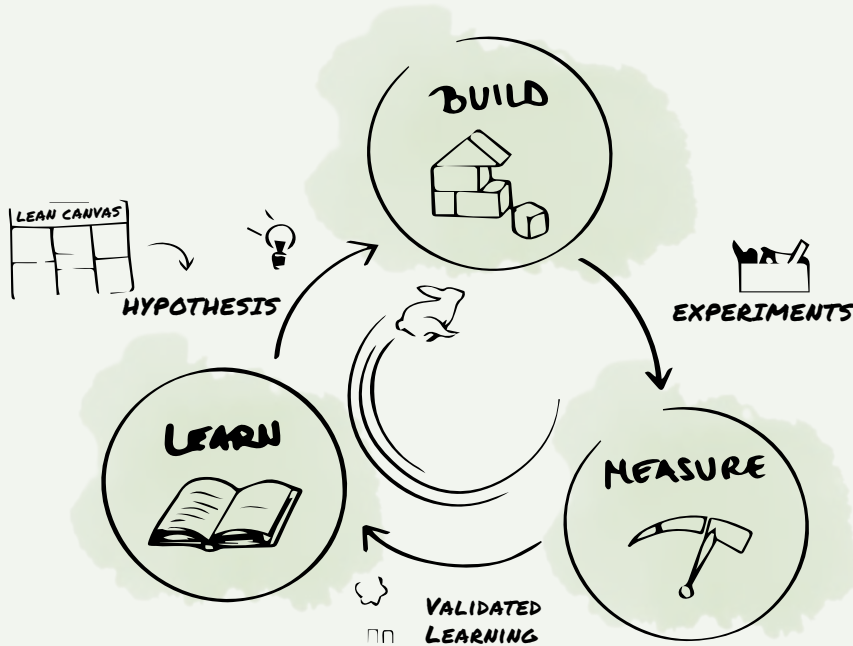
How we learn

When asked to do the smallest thing to learn from customers, many founders' first instinct is to conduct a bunch of surveys or focus groups. While running surveys and focus groups may seem more efficient than interviewing customers, starting there is usually a bad idea.

Here's why: surveys assume you know the right questions to ask.

Customer interviews on the other hand are all about exploring things what you don't know. And that is where the whole concept of "getting out of the building" comes from. You need to interact with the world outside of your comfort zone and pre-existing concepts and biases.

Additional resources on these customer observation and interviewing techniques:

• The Four Steps to Epiphany by Steve Blank (http://www.cafepress.com/kandsranch)
• Rapid Contextual Design by Karen Holtzblatt, Jessamyn Wendell, and Shelley Wood (Morgan Kaufmann)
• Human-Centered Design Toolkit by IDEO (ideo.com)

Why you should not care about launch dates

Many would object that the event launch is an important thing and want to create hype around the launch. However, all successful tech startups launched with MVPs that barely had any of their current features, because they wanted to validate the concept first, and then learn from their customers. Amazon, for example, started as an online store that exclusively sold books and used "dropshipping" as the main method of fulfilling their orders, with the exception of rare books that were being searched on the net but people could not find in their traditional brick and mortar bookstores. Dropshipping is an e-commerce fulfillment method where a store doesn't keep the products it sells in stock. Instead, when a store sells a product using the dropshipping model, it purchases the item from a third party and ships it directly to the customer.

Dropshipping was also used by Zappos, the world's largest online shoe retailer and probably one of the more renowned startup acquisitions. That gigantic unicorn started from a simple website that the founder created and maintained by uploading photos of shoes that he took himself. He would go into brick and mortar shops and convincing the owners that he would present the pictures online and, if the shoes got purchased, he would buy it from them.

You can learn more about the two examples above by reading the books "The Everything Store" and "Delivering Happiness". But the morale of the story here is that both founders, although firm believers in their vision and their ability to fulfill their dreams, started very humbly and worked hard on perfecting the operations and many other e-commerce techniques before scaling their businesses. All of this was done without a launch date and without perfect products. On the contrary, their products were far from perfect, but they were good enough to build on.

To put everything in clearer terms, the major attributes for that sort of MVP are:

1. Functional: It does a certain job and does it good enough.
2. Reliable: It does not break when users are using it.
3. Usable: It can be used by customers without unnecessary complexities.

If a product meets the above criteria, then the product is ready to be launched to the first batch of customers for testing and getting feedback.

Finally, the goal of designing these experiments and minimal viable products is not to get data. The data is not the endpoint. The entire point of getting out of the building is to get feedback on the founder's vision. The insight may come from analyzing customer responses, but it may also come from ignoring the data or realizing that what you are entering is a new, disruptive market that doesn't exist, and that you need to change your experiments from measuring specifics to inventing the future.

4.3.4 Products vs. Projects

To understand what a Product Market Fit means as a concept, let's understand what we mean by a product and how it is different from a project.

The Product	The Project
A product is designed to continually create value for customers by solving their problems. Products have more permanence, are living entities which we deliver quickly, iterate constantly, and are not something that we just walk away from. Products have no end date. It's a life-cycle of iteration and evolution over time. There is also no exhaustive definition upfront of what needs to be delivered. Instead, a product continually evolves to solve a customer need.	A project is a temporary endeavor that has a defined beginning and end in time, and therefore also defined scope and resources. Project management, then, is the application of knowledge, skills, tools, and techniques to project activities to meet the project requirements. — Project Management Institute (PMI)

4.3.5 Product Market Fit (PMF)

Product Market Fit, a term coined by Andy Rachleff, is an important concept when working on a new product. All entrepreneurs and product managers are committed to it. But if you ask what the term means, very few will be able to give a clear answer. Even fewer will have an understanding of how we can measure PMF using metrics.

Rachleff observes that "First you need to define and test your value hypothesis. And then only once proven do you move on to your growth hypothesis. The value hypothesis defines the what, the who, and the how. What are you going to build, who is desperate for it, and what is the business model you are going to use to deliver it?" Startups should therefore start with the product and try to find the market, as opposed to starting with the market to find the product. It's important to emphasize here that the iteration is more about the market and the business model than the product itself.

According to Andreessen, "Product Market Fit means being in a good market with a product that can satisfy that market." But too often the focus is on the latter part of the sentence (a product that can satisfy the market) and not the former (in a good market).

In our opinion, a product is not a black or white state: reached PMF or failed to do so. PMF is more like a gradient, and there are different levels of achieving it. Creating PMF is not an event or a magical incident. Rather, it is the result of a diligent and methodical process that can be developed as a capability by most companies regardless of their strategic orientation.

Once PMF is achieved, your focus should shift from nailing a product that customers want, to distributing your product and scaling it to serve your growing customer base.

An example from 2016 is the meteoric rise of the augmented reality (AR) game Pokemon Go. It broke almost every record back then and servers kept sending error messages to the game's players in peak hours, leaving the masses wondering: What are they waiting for in order to capitalize on this opportunity and scale their servers capacity to meet the rising demand?

The answer was clear to those who have seen similar patterns across different industries:

1. Don't scale too early. Scale slowly, but surely. You need to understand your users' behaviors and expect their patterns before making long-term investments and decisions that you cannot back away from.

2. If you reach a stage where your product is a PMF, it is definitely not the end of your journey as a new chapter will start where your job will be different and sometimes even harder than the phase of proving the concept itself. Because now you will have to leave your home base where your first fans are and scale to new territories.

Following this advice, you can avoid what Blanks calls "premature-scaling". Despite their early hiccups, the game Pokemon Go is a great example of PMF and is still thriving today.

Important Note:

Now ... Go Out, interact with People and Test your Product/Service so that you find your MVP.

5

Costs & Revenues

WHAT THIS CHAPTER IS ABOUT

5.1 Introduction

Finance is a key pillar of any business. Without a stable financial structure, most any business is prone to reach a dead end. Therefore, all entrepreneurs should carefully plan their business operations, spending and income channels in order to achieve good performance.

Chapter five aims to explain the difference between spending channels, which ones should be well planned and where money should be spent during the business's life journey. Moreover, you will be introduced to some techniques and tips to build your budget, understand your spending priorities as well as price your services/products.

This chapter will also give you an understanding of the remaining two blocks of the nine you learned about when developing your Business Model Canvas: "Cost Structure" and "Revenue Streams."

By the end of this chapter, it is expected that you will be able to answer the following questions:

1) What are the different cost categories for your business and how should you plan them?
2) What should you take into account when building your business budget?
3) What are the top techniques to manage your business's different costs?
4) What is pricing? What is the best mechanism to price your services/products?
5) What is the revenue stream? What are the key elements to consider?

5.2 Cost Types

A cost is the value of the money that has been used, or is planned to be used, to operate a business.

Why cost planning?
Costing is important for different reasons, but the most critical is for a business owner to know the costs of doing business. Understanding what the startup will cost and how to set prices will enable you to figure out the the best way to operate efficiently. For the bigger picture, cost information is important in decision-making, setting realistic cost budgets, evaluating the performance of the company and its efficiency, comparing planned cost to actual cost, and acting to identify the sources of the variance and how to adjust accordingly. (Gunarathne & Samudrage, 2018).

Why different costing methods?
This chapter will introduce you to different cost classification and types. Depending on the nature of your project, various factors determine the cost classification. The different factors include, but are not limited to, the country's accounting system, the cost drivers of the business, the range of activities performed by the business and the cost sources (Oberholzer and Ziemerink, 2004; Horngren et al., 2016). The benefits and most appropriate use of the different costing classifications are explained in each section.

The cost classifications described in this section are:

• Fixed vs. Variable Costs
• Direct vs. Indirect Costs
• Startup vs. Operating Costs

5.2.1 Fixed vs. Variable Costs

It is important to understand that this is a behavior cost classification, which is particularly crucial for decision-making, since it shows how costs change according to the business's performed activities (Drury, 2009; Horngren et al, 2016; Langfield-Smith et al., 2012). It shows which activities generate the most/least costs, so the management can make decisions to control them.
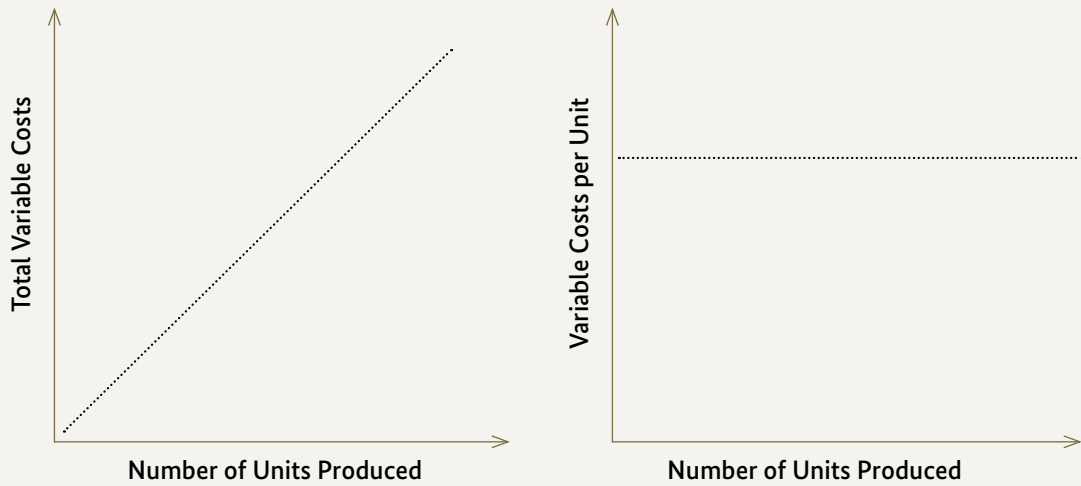
• Fixed Costs "are costs that remain the same in total but vary per unit when production volume changes" (Jackson et al., 2009; p.88). Simply, it is a cost that does not change with units of production.

Fixed Cost Behavior
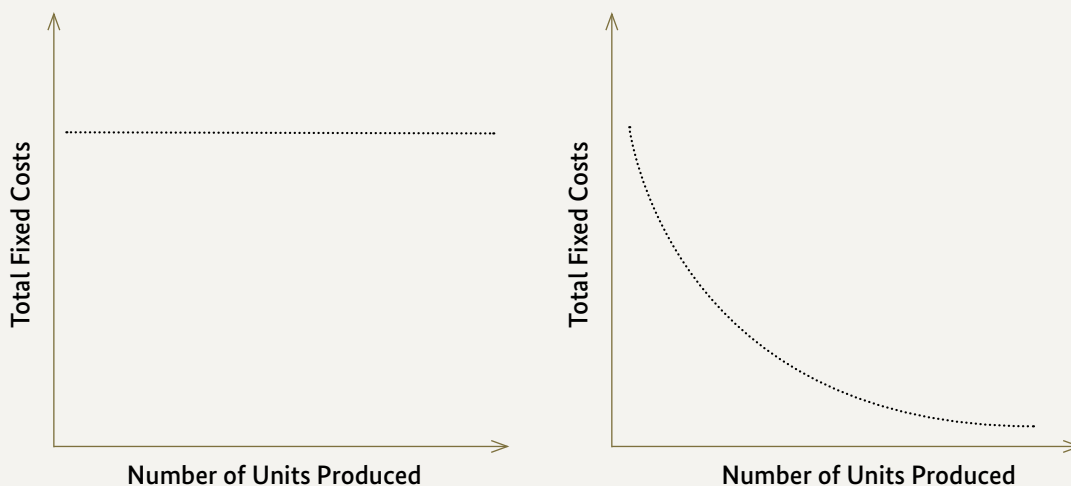
• Variable Costs "are costs that vary in direct proportion to changes in production volume but are constant when expressed as per unit amounts" (Jackson et al., 2009; p.88). Simply, they are costs that change according to the number of units of production.

VARIABLE COST BEHAVIOR

• Mixed Costs are costs that have both elements of fixed and variable costs. These costs change in total and per unit (Jackson et al., 2009; p.88). An example is a telephone bill, which has a fixed cost of the monthly subscription and a variable per-minute cost.

Category	Fixed Costs	Variable Costs	Mixed Costs
Total Cost	Constant	Change proportionately with output	Change with output but not proportionately
Cost Per Unit	Decrease proportionately with the increase in output	Constant	Decrease with the increase in output but less than the decrease in fixed assets per unit
Examples	Rent, taxes, salaries	Raw materials, labor costs, delivery costs, packaging costs	Telecommunication costs

5.2.2 Direct vs. Indirect Costs

This understanding of costs is based on the ease of traceability, which means tracing the cost down to the object of costing. The primary purpose of this cost classification is to provide input for the income statement, where direct costs are considered part of the Cost of Goods Sold (COGS), while indirect costs are placed under business expenses.

• Direct Costs are those that are directly attributed to a service or product.
• Indirect Costs are those that are not directly attributed to a cost object. These costs usually serve more than one business activity, hence it is hard to associate the costs to a specific project. They include a range of overhead expenses.

Examples:

Direct Costs	Indirect Costs
Direct labor	General staff expenses (e.g. senior management salaries)
Direct materials	General office expenses (e.g. rent, maintenance, insurance, taxes)
Manufacturing supplies (equipment)	Utilities (e.g. electricity, water)

5.2.3 Startup vs. Operating Costs

One of the major components of a business plan is financial budgeting, whose main element is startup costs. It is obviously important to determine the money needed to start the business, but this is not the only thing required: operating costs are also important in order to know the amount of money required to run the business smoothly and cover usual expenses, i.e. once there is enough income to cover operating expenses.

• Startup Costs are the expenses incurred before the business starts operations. It is a one-time cost that is considered the initial investment in the business. Examples of startup costs are furniture and tools.
• Operating Costs are the expenses that occur after starting to run the business. They are recurring costs. Examples of operating costs are rent, raw material, salaries and supplies.

It is worth paying attention to implicit and explicit costs. Explicit costs include, but are not limited to, new machines, tools and electricity. While explicit costs are the actual payments made to purchase resources (Khan Academy), implicit costs are mainly attributed to opportunities, i.e. the forgone opportunity of the entrepreneur to do something else with their time, resources and personal effort. Examples of implicit costs are use of the entrepreneurs' time, effort, money or home as an office.

5.3 Building Your Budget

How much investment do you need to launch your business? To answer this question, you need to consider the different costs that were discussed in the previous section, including startup and operating costs. However, as a startup, you should not expect a quick profit. The biggest investment takes place in the beginning in the form of startup costs, until profits start flowing and you eventually reach the break-even point. Therefore, while you are building your budget, you need to consider the following guidelines carefully:

A. List Your Costs
Make a list of your business needs, such as office supplies, furniture, software and monthly expenses. It is essential to identify all your needs to support your business in line with your business road map. It is highly recommended that you build in some extra costs to avoid surprises. Also, make sure to cover your fixed and variable costs, startup and operating costs. Make sure to list everything!

B. Identify Sources of Income
The first thing to consider when calculating your income is to identify the sources of income. Make an estimation on when you will start making revenue and estimate your monthly earnings. A simple profit and loss scheme will help you to calculate these numbers. More on profit and loss is explained in Chapter 6. Financial Planning & Record-Keeping.

C. Identify the Revenue Cycle
The revenue cycle is a term used in accounting and business that describes the time lapse between delivering a product or service and getting paid for it. Planning for this will help you build a realistic profit and loss scheme and limit your spending to build up cash reserves. It is important to also consider some worst-case scenarios. For instance, each business has a performance cycle. There will be times when the amount of sales is higher or lower.

D. Overestimate Your Project Timeline
Setting up a timeline for your business/project will help you get your budget right. It is better to allow more time for your startup performance and growth and factor this time into the planning of your business budget.

E. Adjustment Might Be Needed
Things might not go as planned for a variety of reasons, so it is always better to be prepared to adjust your plans and expenses. Check your budget monthly to keep track of your financial performance. Doing this will keep you on track and make sure you do not lose control of your cashflow situation.

5.4 Managing Costs

The risk for your business increases when it has limited cash, therefore, it is important to become familiar with tactics that can reduce the monthly expenses of your business. Whether you are in the launch phase, or you are already operating a running business, it is useful to pay attention to some cost managing techniques.

A. Minimize Expenses

The goal should be to minimize costs while preserving the quality promised; hence you need to keep searching for competitive pricing from vendors. It would help if you did some market research to secure the best services at the lowest cost. Also, prioritizing your needs is important to limit money spending. For example, you might choose not to go too fancy with your office furniture or location, and search for cheaper alternatives. When you start making profits, it will be possible to develop your business and increase spending.

1. Modernize Marketing Techniques

Marketing is important to make better sales and limiting its budget could directly affect business performance. However, when getting started, you can always choose cheaper alternatives that still have a certain impact.

If you find that your advertising expenses are taking a large part of your budget, then you should consider investing in different techniques of marketing that will help you grow faster and save costs. An example of this would be choosing digital marketing and social media advertising over offline marketing. Depending on your target customers, traditional marketing may have limited impact. Social media platforms like Facebook and Instagram can be valuable assets for your business. Learn more about this topic in Chapter 8. Marketing & Sales.

2. Shape Your Business Focus

When establishing your business, narrow down the offered services/products. Having a niche focus and limiting your services and the projects you provide will help make your business more productive. You can expand your services by subcontracting some activities with lower expenses.

Another benefit here is that the quality of your business will increase. Quality secures better sales, higher fees and satisfied customers. The bottom line is that a business with clear services and a high reputation will generate more revenue than a business with different services and poor quality or performance.

3. Invest Time Efficiently

Always remember that time has value, so wasted time is wasted money. Optimizing productivity lowers your cost of doing business. Fixed costs will not change whether you sell USD 1K or USD 10K per month. Therefore, you should adopt good business strategies to grow fast with the lowest loss of time and resources.

5.5 Pricing

Pricing is one of the most challenging and complex decisions for startups. In a volatile environment such as Iraq, pricing becomes even harder and does not necessarily follow standard methods. The market is mainly characterized by the absence or inactivity of regulatory bodies such as unions, associations or syndicates. Price discrepancies and fluctuations have a major impact on pricing in Iraq.

Customers in Iraq prefer low prices and it might be the main criteria they consider when selecting a service provider or purchasing a product. Therefore, you have to choose your pricing carefully, not asking for too much and thereby losing the customer's interest, but also not asking too little and running the risk of not covering your costs.

5.5.1 Pricing Techniques

A pricing technique refers to the way in which the cost of the individual product/service, as well as the profit margin, determines the final price.

In general, pricing is influenced by the forces of supply and demand, e.g. that determine the fluctuating prices of commodities. It is the buyers and sellers who ultimately determine the price of a product.

Yet pricing decisions should also consider other factors, such as competitors and customer buying behavior. Since you are a startup and new to the market, the following techniques will be most relevant to you:

Penetration Pricing
Penetration pricing is the technique of setting a low initial entry price. In order to attract new customers, the price is often intentionally lower than the long-term planned market price. The strategy is to motivate new customers to switch to your brand based on the lower price. Penetration pricing aims to increase market share or sales volume, rather than profit in the short term. An example would be the original business model of Netflix, who managed to enter the DVD rental business by offering customers a movie to rent for only one dollar vs. four to five dollars at video stores.

Cost-Plus Pricing
Cost-plus pricing is one of the most straightforward pricing methods. It is based on calculating the cost of creating a product and adding on a percentage (profit margin) to that cost to determine the selling price. Although simple, you have to watch for this method's two flaws: first, it does not take demand into account, and second, there is no way of determining if potential customers will purchase the product at the calculated price. Cost-plus pricing is often used by retail companies such as clothing, grocery and department stores.

Dynamic Pricing
Dynamic pricing is a flexible pricing approach that is possible due to advances in information technology. This approach partially resonates with the nature of Iraq's ecosystem because companies need to adjust their product or service price to correspond to a customer's willingness to pay. Dynamic pricing is common in hospitality, travel, entertainment and retail or internet-based companies (learn more in the following section 5.5.2 Pricing Mechanisms).

Pricing Below Competitors
This technique aims to generate a large sales volume through a lower price and profit margin. To be able to price below others, you have to control costs and limit services. This strategy can be effective if a significant market segment is price-sensitive and/or your startup operation cost structure is lower than competitors. Examples of ways to reduce costs are increasing efficiency, economies of scale, or minimizing or eliminating such things as credit, delivery and advertising.

5.5.2 Pricing Mechanisms

Each product or offer 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 pricing mechanisms: fixed and dynamic pricing.

Fixed Pricing

Here are a few examples of fixed pricing:

• **List Price:** You simply have a standard price for the product.
• **Pre-Feature Price**: This is a good mechanism if your product has a lot of options. Consider configuring a laptop. You can have the basic model, but you pay on top for other features like more memory, more disk space, a faster processor, etc. As you configure your solution, the price adds up for your individual set of features.
• **Customer Segment Pricing:** You could have different prices for different customer segments. For example, airlines offer first class, business and coach seating. Customers are basically getting flown from point A to point B and the overall cost involved isn't that much different, but they pay a very different price for a slightly different service, e.g. more space, better food and more attentive service in first class or business.
• **Volume Pricing:** You may be in a situation, especially in a B2B (Business to Business) market, where you can sell larger volumes to some customers and that can drive down your costs, making you more efficient. So you may offer lower per unit prices to customers that buy in volume.

Dynamic Pricing

These are a few of the different approaches to dynamic pricing:

• **Negotiation Based:** You make an offer and then your customer makes a counteroffer. This goes back and forth until you reach an agreement. You will need to know your limits, how far down you are able to go to still cover your costs and make at least some profit.
• **Time & Availability:** This is commonly used for hotels. If there is a trade fair in town, the hotels know there is limited availability so the price of their rooms goes up. On the other hand, if they have not been able to fill their hotel during the off season, they may decide to lower the room price at the last minute and try to get them filled, because it's better for them to have some revenue rather than none.
• **Supply & Demand:** This can be observed in electricity markets. When electricity is in high demand, the price goes up. When it's in low demand, the price is lower.
• **Auction:** This is the approach used by eBay. The product goes to the highest bidder.

5.6 The Three C Model of Pricing

The three Cs stand for Costs, Customers, and Competition. These three factors are vital to understand in order to find the right price for your product or service.

Note that the **Floor Price** means the point where the price equals the cost of providing a product or service. You do not want to sell below your Floor Price.

When using the Three C model, you should also take the following questions into consideration:

- What do your competitors charge or what would it cost your customer to do the work or create the solution themselves (substitute price)?
- How do your customers assess the value of your service, product offer or features? How does this added value compare to the price you are asking?
- What is your ceiling price (the price point at which nearly no one wants to obtain your service or product because it is too expensive)?

HIGH PRICE

(no possible deamand at this price)

CEILING PRICE

Customer assessment of unique product features

⎫
⎬ Value, Image, Quality
⎭

Orienting Point

Competition price or price of substitutes

⎫
⎬ Competitor's Prices
⎭

Costs

⎫
⎬ Cost to your company
⎭

FLOOR PRICE

LOW PRICE

(no possible profit at this price)

Knowing your costs allows you to determine whether your pricing will allow you to stay in business. Understanding your potential customers lets you assess whether anyone will buy this product at that price (and location, etc.). Considering what your competitors do indicates whether your business will attract customers.

Key questions:

- How much will it cost to make and deliver the product or service to the customer?
- What price does the competition charge?
- Why is the product or service of value to the customer? How much will they be willing to pay for it?

5.7 Revenue Streams

Revenue, also known as income, is the total earnings that your business generates through its primary operations, e.g. selling your core products or services, renting property that you own, interest on loans, less any discounts or returns.

Revenue is the amount earned from your customers, before subtracting your expenses.

Revenue falls into two main categories:

- **Gross Revenue (Net Sales)**: Gross revenue, also known as sales or simply revenue, refers to the total amount of money your business makes during a certain period by selling your products or services. Gross revenue is usually calculated either monthly, quarterly or annually. Monthly gross revenue refers to the total sales you made during a given month, while annual gross revenue refers to the total sales you generated over the course of a year.
  Gross Revenue = Quantity Sold x Price per Unit

- **Net Revenue (Profit)**: Net revenue, also called net sales, refers to the income left over after you have paid all the expenses and costs (e.g. employee salaries, sales discounts, returns, etc.)
  Net Revenue = Revenue − Expenses

Your business's revenue, which is reported on the first line of your income statement, is usually described as service or sales revenue.

There are a lot of different ways to generate revenue. It is essential to develop an effective strategy and test it with customers, e.g. based on the hypotheses documented in your Business Model Canvas (Chapter 3).
Ask yourself the following questions when you think about revenue streams:

A. Why are revenue streams important?

- Revenue calculation is important because it enables you to cover your costs and determine your profit.
- Revenue is a Key Performance Indicator (KPI) for businesses.
- Performance prediction differs between different revenue streams.
- Different forecasting models are needed for different revenue models.

B. Who will you charge?
Who are your customer segments? Look back at what you defined in your Business Model Canvas.

C. How will you charge them?
Consider these two basic approaches to charging:

- One-time (Transaction) Fee: These revenues are earned from the customer making a one-time payment for the product or a rendering of the service.
- Recurring Fee: These revenues are earned from consistent, ongoing payments rendered to the company for either the delivery of the value proposition of after sales care for the customer.

It's important to remember that besides charging for the product itself, there's always customer support to think about. For instance, you may offer a support contract, which would probably be a recurring fee over time.

D. What will you charge them for?

Of course, you are charging them for your product or service, but there are many variations to how you actually "package" your offer. Consider the following approaches for your revenue stream:

- Asset Sale: The most widely understood type of transaction is selling ownership rights to a physical product. For example, a store sells books, music, consumer electronics, etc. Fiat sells automobiles, which buyers are free to drive, resell or even destroy. You transfer ownership of the product to the customer.
- Usage Fee: You charge depending on how much the customer uses the product. Think of a mobile phone bill. The more minutes you use, the more you pay.
- Subscription Service: This is a very common model for a lot of software products, gyms and web-based computer games. The yearly subscription price is usually the lowest/most attractive price.
- Renting & Leasing: Your assets can be rented for a period of time as service provision. Your customers enjoy the benefits of paying 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. For example, Zipcar.com has led many people to decide to rent rather than purchase automobiles.
- Licensing Model: When you sell a license to a user, that may involve an upfront fee as well as a recurring fee. Or just an upfront fee. Or just a recurring fee with lots of options.
- Brokerage Fee: This revenue stream is derived from intermediation services performed on behalf of two or more parties, e.g. a real estate agent.
- Selling Advertising: This Revenue Stream results from fees for advertising a particular product, service or brand. Traditionally, the media industry and event organizers rely heavily on revenues from advertising.

E. How much will you charge them?

What is your actual price and how do you decide it? This involves considering the following:

- Customer Preference: It's good to understand how customers want to pay. When you're choosing an approach to how you're going to charge customers, you clearly want to use an approach that makes sense and is acceptable to customers.
- Competitive Differentiation: What exactly is the competition's pricing? How do you compare to the competition? If you're delivering more value, you might want to charge more than the competition. Whatever your price, you certainly need to think about the competition and your competitive strategy.
- Positioning Strategy: Overall positioning strategy is important to think about. Are you positioning your offer as a premium product or as a low-cost product? Obviously, that will affect your thinking on pricing.
- Cost Structure: Your price needs to be set at a price that will cover your costs and also deliver some profit.
- Perceived Value: How much are customers willing to pay? What price makes sense to them once they understand the value you're delivering? One way to figure out what people are willing to pay is simply asking a few representative customers.

Important Note:
This chapter should help you refine your Business Model Canvas. We recommend that you go back to the canvas you developed in Chapter 3 and check the initial hypotheses. Reflect on what you've learned here about revenue streams and types of costs. Some of the questions that we hope you can better answer are: How will you price your offer? What is the right price?

Business Model Canvas
Collect all the notes you have written for each of the above blocks and construct a Business Model Canvas for your business idea. Have a look at all your findings and validate their interrelations with your instructor.

KEY PARTNERS	KEY ACTIVITIES	VALUE PROPOSITION	CUSTOMER RELATIONS	CUSTOMER SEGMENTS
	KEY RESOURCES		**CHANNELS**	

COST STUCTURE	REVENUE STREAMS

SPACE FOR SOLUTIONS

6 Financial Planning &
Record-Keeping

WHAT THIS CHAPTER IS ABOUT

6.1 Introduction

The previous chapters build up your knowledge on the Business Model Canvas, and by now you should have finished the prototyping of your business idea. This chapter and the following ones will focus on selected topics to help you in your day-to-day operations while running your business.

In this chapter, we will address the first topic, which is business financial performance in general, and financial planning in particular. This topic is one of the critical aspects that impacts every business.

Financial planning covers several topics that you need to be familiar with as an entrepreneur or a business owner. First, you will learn about different financial documents, such as the income statement, cash flow statement, and balance sheet. We will explain to you how to read these documents and how to translate their information. The next subject will walk you through the process and tools of keeping track of your business transactions. In the era of digitalization, we try to touch on which online platforms can serve you the best. The chapter will also explain profit margin, why it is crucial to have a good one, and how you calculate it. Lastly, we conclude with the break-even point, which is your business North Star. It is vital to have a plan to reach the break-even point, and we will explain it in detail in this chapter.

6.2 Importance of Financial Planning

Financial planning is crucial for business success, especially for startups, since it enables you to set short and long-term goals and formulate plans to achieve them. Some of the advantages of financial planning are:

• It helps you establish a long-term view of your business. This helps you avoid short-termism, put daily struggles into perspective, and eventually grow your business.
• It allows you to plan both cash inflow and cash outflow, e.g. setting aside cash reserves to prepare for monthly and seasonal fluctuations in revenue.
• It enables you to make educated decisions on proper spending, allocating and improving efficiency.
• You will be able to compare your forecast to actual figures, hence provide a tangible way to measure progress.
• It provides a picture of the performance of the company to investors, banks, and official entities who are familiar with interpreting balance sheets, income statements, and cash flow statements.

6.3 Financial Planning Essentials

To properly plan your finance, you will need three main tools:

• Income Statement
• Cash Flow Statement
• Balance Sheet

6.3.1 Income Statement
The income statement provides a summary of business activities over a period of time, usually monthly, quarterly and annually (Harms, 2017; P.10). The statement's primary objective is to summarize the revenues, expenses and resulting profit (or net income) for the business for a specified period. In short, the income statement allows you to know how much money you are making.

The principal components of the income statement are:

Net Revenue or Net Sales: The amount of money acquired from customers in exchange for the goods or services provided (Harms, 2017; P.10). It is mainly the total amount of the product or service volume and the price of sale. Net revenue equation:

Net Revenue = Number of Units Sold x Price per Unit

Hence, revenue can increase either due to the increased volume of units sold or due to the increase in one unit's price, or both factors.

	Net Revenue
−	Costs of Goods Sold
=	Gross Profit
−	Operating Expenses
=	Operating Income
−	Interest Expense
=	Pre-Tax Income
−	Income Tax
=	**Net Income**

Cost of Goods Sold (COGS): Everything the business must pay in order to provide the product or service is simply the cost to make the products. In financial terms, it is the cost to the company for the inventory (in the case of a retailer or wholesale business) and the cost of raw material, direct labor, and production overhead (in the case of manufacturing companies) (Harms, 2017; P.11). It is essential to make the distinction and know the COGS, not just the overall cost, to understand how much each product or service is consuming from the business resources. This latter part is important to evaluate the expenses needed to produce a product or perform a service and inform you how to operate more efficiently.

Gross Profit: This the difference between net revenue and COGS, as shown in this equation below:

Gross Profit = Revenue − COGS

Hence, gross profit will be used to pay for general business and administrative expenses, operating expenses or merely the expenses to manage a business.

Operating Expenses: These are the expenses that take place to support the business's sales and marketing, administrative as well as research and development activities (Harms, 2017; P.11). These overhead activities are meant to service existing customers as well as acquire new customers (Harms, 2017; P.11). The income statement is mainly separated into two categories: selling expenses and general and administrative expenses.

• Selling Expenses: These are the salaries and expenses required to sell the products (or services) being offered (MasterCard, 2013), which include, but are not limited to:

> • Salaries of salespeople
> • Commissions and travel expenses
> • Advertising
> • Cargo costs
> • Shipping costs

• General and Administrative Expenses (G&A Expenses): These are the overall expenses to manage a business. In other words, all the other expenses not part of COGS and selling expenses (MasterCard, 2013). These include, but are not limited to:

> • Research & Development expenses
> • Salaries of officers and executives
> • Legal and professional fees
> • Utilities, office rent, insurance, office supplies, etc.

Operating Income: This is also referred to as earnings before interest and taxes (EBIT). Mainly it is the difference between the gross profit and the operating expenses:

Operating Income = Gross Profit - Operating Expenses

This is important because it enables you to evaluate your business performance compared with other companies. It help you see how efficiently you are converting revenue to profit, before considering other sources of financing (Harms, 2017; P.12).

Interest Expenses: These are the interest payments to lenders as a return for providing capital (Harms, 2017; p.13).

Pre-Tax Income: This is the income after paying all the business's expenses. It is the amount left after subtracting the interest expenses from the operating income.

Income Tax: This is an expense that is a proportion, a specific percentage, of the pre-tax income, hence income tax varies according to the pre-tax income. In Iraq, the income tax percentage is 15% (PWC, 2020); therefore your income tax expense would be 15% of the pre-tax income.

Net Income: This is the money left for the business after the subtraction of all the costs. It is simply the difference between net revenue and all the expenses.

Here is an example of an income statement:

6.3.2 Cash Flow Statement (CFS)

The cash flow statement is essential because it is like a bridge between the income statement and the balance sheet. The statement tells you:

• If the business has enough cash to cover its day-to-day activities, pay debts, and, most importantly, allocate money to growth.
• The sources of your cash inflow and the time of this inflow, according to specific time periods, e.g. months or seasons.
• The uses of cash, hence showing you potential weaknesses or operations that are consuming more cash.

The CFS is typically divided into three key sections: operating, investing and financing activities.

Cash from **operating** activities includes all sources of cash from the business's products/services. So, it covers all cash flows from business operations. In this section, you should list items such as receipts of sales of goods, salaries, rent, production payments, and any other type of operational costs.

Cash from **investing** activities represents any cash used as an investment. It is mostly linked to long term assets/actions when there is a direct change in cash. Examples of investing activities are the purchase of land or equipment, purchase or sales of assets, merging or acquisition actions, and other investments.

Cash from **financing** activities represents the cash flow that is related to your company capital, shareholders, investors or banks. Examples of financing activities include payment of dividends, paying loans, stock purchases and other related categories.

Cash Flow Statement	
For the Year Ended December 31, 2016	
Cash Flow from Operations	
Cash receipts from customers	86,772
Cash paid for inventory	(7,400)
Cash paid for wages	(53,000)
Net Cash Flow from Operations	26,372
Cash Flow from Investing	
Cash receipts from sale of property and equipment	13,500
Cash paid for purchase of equipment	(17,500)
Net Cash Flow from Investing	(4,000)
Cash Flow from Financing	
Cash paid for loan repayment	(5,000)
Net Cash Flow from Investing	(5,000)
Net Increase in Cash	**17,372**

6.3.3 Balance Sheet

The balance sheet is a financial statement that provides an overview of the business's total assets, liabilities and shareholder equity at a specific point in time, a snapshot. It is usually developed at the end of the fiscal year. It is considered a tool to show the company's financial position or net worth, specifically showing what the company owns (assets), what it owes (liabilities) and what is left over (value of equity in the company) (MasterCard, 2013). The balance sheet is based on the fundamental equation:

Assets = Liabilities + Equity.

Assets

Assets are what you own. Assets represent the cash categories that appear on the first line of the balance sheet. Assets are divided into current and noncurrent; the distinction between the two types is made according to the asset's liquidity, i.e. how fast you can turn the asset into cash.

It also covers Accounts Receivable of all **current** sales still on credit, and any other pending payments.

Assets also include any raw material or finished goods. **Non-current** assets are also covered, which represent the fixed assets of the company, whether they are tangible (properties, building, land, etc.) or intangible assets (brand, trademark, etc.)

Liabilities

Liabilities are the debts you owe and are divided into current and noncurrent. This section covers several payment streams such as purchased products/services from suppliers on credit, payment for bank loans, long term debts, and other similar liabilities.

Shareholder Equity

This represents the share capital, which is the money invested in the company, mainly through cash, plus any amount the company decides to pay to shareholders from the fiscal year's net income.

Example of a Balance Sheet for Amazon Inc.

AMAZON.COM, INC.
CONSOLIDATED BALANCE SHEETS
(in millions, except per share data)

		December 31,	
		2016	2017
ASSETS			
Current assets:			
Cash and cash equivalents	$	19,334 $	20,522
Marketable securities		6,647	10,464
Inventories		11,461	16,047
Accounts receivable, net and other		8,339	13,164
Total current assets		45,781	60,197
Property and equipment, net		29,114	48,866
Goodwill		3,784	13,350
Other assets		4,723	8,897
Total assets	$	83,402 $	131,310
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$	25,309 $	34,616
Accrued expenses and other		13,739	18,170
Unearned revenue		4,768	5,097
Total current liabilities		43,816	57,883
Long-term debt		7,694	24,743
Other long-term liabilities		12,607	20,975
Commitments and contingencies (Note 7)			
Stockholders' equity:			
Preferred stock, $0.01 par value:			
Authorized shares — 500			
Issued and outstanding shares — none		—	—
Common stock, $0.01 par value:			
Authorized shares — 5,000			
Issued shares — 500 and 507			
Outstanding shares — 477 and 484		5	5
Treasury stock, at cost		(1,837)	(1,837)
Additional paid-in capital		17,186	21,389
Accumulated other comprehensive loss		(985)	(484)
Retained earnings		4,916	8,636
Total stockholders' equity		19,285	27,709
Total liabilities and stockholders' equity	$	83,402 $	131,310

See accompanying notes to consolidated financial statements.

6.4 Record-Keeping & Bookkeeping

Record-keeping refers to the practice of storing your business records, such as customer data, sales documents and inventory in a clear and structured way. Keeping and maintaining records is your responsibility as a business owner, and it is critical for the success of any business. The record-keeping process could be as simple as filing hard or electronic copies of invoices, receipts and staff contracts.

This section will focus on financial record-keeping, which is known as bookkeeping, which is the process of tracking your financial business transactions through one of these methods:

1. Manually through entering records into a physical book such as a general ledger
2. Entering data on a spreadsheet software such as Excel
3. Using a professional desktop accounting bookkeeping software

It is critical to be aware of what transactions you should be tracking. In business, a transaction is any event that has a monetary impact on your business's financial statements and is recorded as an entry in your accounting records. Examples of transactions include paying a supplier and receiving payment for a good or service.

To get the best out of a bookkeeping process, you should be keeping records or copies of your expenses, cash inflow, receipts, invoices and bank statements. Tracking receipts and bank statements will enable you to answer critical questions about your business performance, such as:

• How much money does your business receive?
• How much money does your business pay out?
• How much do you owe to people?
• How much do people owe you?

6.4.1 Bookkeeping Methods
There are two main methods of bookkeeping, manual and online.

• Manual Bookkeeping: This method is considered the traditional way of preparing and documenting business financial transactions. In that method business owners use paper ledger or Microsoft Excel or Word to capture expenses and income. The data is entered manually and calculated by one's own means.
• Online Bookkeeping: This method is based on software that is designed to do all the calculations. These programs charge users a monthly fee and have functions that enable business owners to customize it in accordance with their type of business and the number of users. An example of these programs is QuickBooks.

As a new business owner in Iraq, and in light of the financial system limitations, the manual bookkeeping method is probably your best option. Therefore, you have to be familiar with the forms that you or your bookkeeper will use to keep track of your business financial transactions and that will serve your business functions.

As a startup, get into the habit of writing down what you are paying or receiving. As a startup, you might not yet have many transactions, however, capturing these small ones might start accumulating, and you can quickly lose track when things start picking up.

The other important aspect of bookkeeping is setting up the tracking system properly. This requires using the right forms and tracking the correct transactions. For example, the below schedule is a basic form of tracking your transactions:

Date	Transaction Description	Money In (+)	Money Out (-)	Balance

Depending on the stage your business is at, "Money In" might be different from one stage to another. If you just started, then "Money In" will most likely be zero, since you haven't made any sales or received money for services yet.

Date	Transaction Description	Money In (+)	Money Out (-)	Balance
When the transaction took place	What was the transaction for? Who authorized it? Is it sales, payment to vendors, an employee salary?	You should enter the transaction amount in this column if it is one of the following: sales, collecting on a debt, loan transfer to your account, etc.	You should enter the transaction amount in this column if it is one of the following: paying a vendor, paying a salary, making a loan payment, etc.	The balance is the result of subtracting "Money Out" from "Money In".

6.4.2 Bookkeeping Dos And Don'ts

Dos:
• Prepare a business plan, budgets, and break-even projections. Bookkeeping will track your expenses and cash-in so you can tell what you are spending and what income you are generating. However, the primary bookkeeping purpose is to track your business performance toward your business plan targets.
• Be as accurate and detailed as possible about your income and expenses transactions. It is vital to categorize your transactions, therefore enabling you to generate accurate reports.
• It is advisable to keep the original source documents, such as receipts, invoices and bank statements for at least three years. In the case of any audit or review, original documents could make the difference.

Don'ts:
• Don't put off recording daily transactions until they accumulate and it is harder to track them. Make sure you do your bookkeeping and list your transactions on a daily or bi-daily basis.
• Don't allow multiple users to have access to your bookkeeping system or records. It is a better practice to limit the users to the business owner and/or accountant.
• It is not recommended to use the same bookkeeping tool to track personal and business transactions. Also, use separate accounts to track different businesses.

6.5 Profit Margin

The profit margin is the ratio that measures how much income is kept in a business (or a specific sale or deal) as compared to the total revenue. It is a measure of profitability to find out how much of every IQD of revenue is kept in the form of profit.

$$\text{Profit Margin} = \frac{\text{Revenue - Cost}}{\text{Revenue}}$$

A startup calculates its net profit by subtracting all of its expenses and divides that number by total revenue. Let's take the example of Ahmed Printings and Alya Ice Cream. Ahmed revenue was 10 million IQD after taking out expenses and other operational costs. Ahmed Printings made a net profit of 2 million IQD. So the company's profit margin is 20%. That means 20% of their 10 million IQD in revenue was profit. In other words, Ahmed's keeps 2 million for every 10 million in revenue. Alya Ice Cream had revenue of 20 million IQD and a net profit of 3 million IQD. Alya therefore has a profit margin of 15%. Even though Alya earned more revenue and had a larger net profit, Ahmed has a better profit margin, meaning Ahmed keeps more money from every IQD in sales.

Profit margin is best used for comparing companies within the same industry that have similar revenue numbers and business models. Profit margin is just one of many ratios that help an investor evaluate a stock. Profit margin is a measure of efficiency, but it is not perfect. Theoretically, Ahmed would make much more profit than Alya if it could grow its sales without sacrificing its profit margin. However, in practice, it may be Alya's willingness to sacrifice profit margins by giving consumers a lower price that helped them to make double the revenue compared to Ahmed. Hence, there are other ratios to consider, such as total assets, net worth, earnings per share, total equity, etc.

6.5.1 Why Profit Margin Matters
Profit margin is one of the most analyzed numbers a company can produce, and it plays a part in many other financial measures. Changes in profit margins are the subject of much analysis. In general, low profit margins could suggest myriad problems, from inadequacies in customer relations or expense management to unfavorable accounting methods. However, some companies strive to minimize taxes and will, therefore, intentionally reduce profit margins.

The profit margin varies significantly between companies and industries. Care should also be taken when comparing profit margin over time, as many companies and industries are cyclical. Therefore, comparisons are generally most meaningful among companies within the same industry, and the definition of a "high" or "low" net income should be made within this context.

It is also worth mentioning that the profit margin is not a measure of how much cash a company earned during a given period. The income statement, from which the profit margin is derived, typically also includes non-cash expenses, such as depreciation of investments over many years, such as computers. It is also essential to understand that changes in accounting methods can greatly influence profit margins, and these changes may have little to do with a company's actual operations.

### 6.5.2 What is a Good Profit Margin?
You may be asking yourself, "What is a good profit margin?" A good margin will vary considerably by industry, but as a rule of thumb, a 10% net profit margin is considered an average one, a 20% margin is deemed to be high (or "good"), and a 5% margin is low. Again, these guidelines vary widely by industry and company size and can be impacted by various other factors.

6.6 Break-Even Point (BEP)

The BEP in economics, business and cost accounting refers to the point at which total cost and total revenue are equal. A BEP analysis is used to determine the number of units or amount of revenue needed to cover total costs (fixed and variable costs). At the BEP, there is no net profit or loss.

Any startup, project, or firm that wants to make profits desires to reach, and eventually exceed, their BEP. Graphically, it is the point where the total cost and the total revenue curves meet.

The BEP calculation can be done in two ways: one is to determine the number of units that need to be sold to cover the total cost. The second way is to determine the number of sales, in money, that need to be made to cover the full costs.
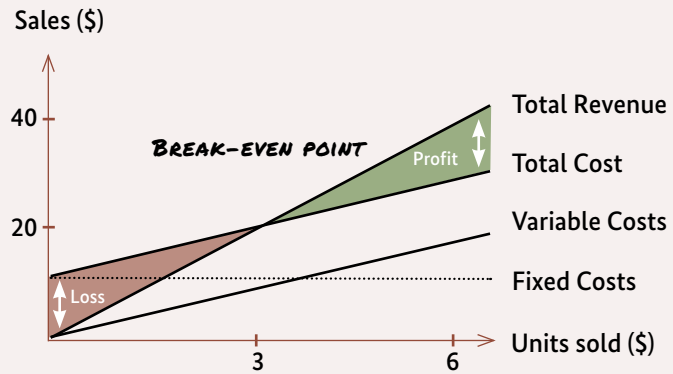
6.6.1 Why is Your BEP Important?

Any business could be turning over a lot of money but still be making a loss. Knowing the BEP helps decide prices, set sales budgets and prepare a business plan. The BEP calculation is a useful tool to analyze your business's critical profits, including sales volume, average production costs and average sales price.

By understanding where your BEP is, you will be able to work out:

a. The timeline for your present product line to be profitable.
b. How far sales can decline before you start to incur losses.
c. How many units you need to sell before you make a profit.
d. How reducing the price or volume of sales will impact your profits.
e. How much of an increase in price or volume of sales you will need to make up for an increase in fixed costs.
f. How the revenue from a product or service has the ability to cover the relevant production/delivery costs of that product or service.
g. More informed business decisions, for example preparing competitive bids, setting prices and applying for loans.

The BEP's most significant usage is to recognize the relevance of fixed and variable costs. The fixed costs are less with more flexible personnel and equipment, resulting in a lower BEP. Therefore, the importance of the BEP cannot be overstated for sound business and decision-making.

However, the applicability of a break-even analysis is affected by numerous assumptions. A violation of these assumptions might result in erroneous conclusions.

6.6.2 How to Calculate Your BEP

There are a number of ways you can calculate your BEP.

a. Calculating the BEP in Units (N = Number of units):

Total costs = Variable costs x N + Fixed costs
Revenue = Price per unit x N
Break-even point is the N produced which make zero profit. That means:
Revenue − Total costs = 0
Price per unit x N − (Variable costs x N + Fixed costs) = 0
N x (Price per unit - Variable costs) - Fixed costs = 0
So the break-even point for N is:

N (Number of units) = Fixed costs / (Price per unit - Variable costs)

b. A straightforward formula uses your fixed costs and gross profit margin to determine your BEP. Fixed costs exist regardless of how much you sell or don't sell, and include expenses such as rent, wages, power, etc. Your gross profit margin is the percentage of sales left after subtracting the production cost of goods sold from the total sales figure.

BEP = Fixed costs / Gross profit margin
Gross profit margin = (Revenue − Cost of goods) / Revenue

6.6.3 How to Use a Break-Even Analysis

A break-even analysis allows you to determine your BEP. But this is not the end of your calculations. Once you crunch the numbers, you might find that you must sell many more products than you realized to break even. At this point, you need to ask yourself whether your current plan is realistic? Do you need to raise prices? Do you need to find a way to cut costs? Or both? It would help if you also considered whether your products would be successful in the market. Just because the break-even analysis determines the number of products you need to sell, there is no guarantee that they will sell.

Ideally, you should conduct this analysis before starting a business, so you have a good idea of the risk involved. In other words, you should figure out if the business is worth it. Existing businesses should conduct this analysis before launching a new product or service to determine whether the potential profit is worth the startup costs.

A break-even analysis is not just useful for startup planning. Here are some ways that businesses can use it in their daily operations and planning.

a. **Prices**: If your analysis shows that your current price is too low to enable you to break even in your desired timeframe, then you might want to raise the item's cost. Make sure to check the cost of comparable items, though, so you do not price yourself out of the market.

b. **Materials:** Are the cost of materials and labor unsustainable? Research how you can maintain your desired level of quality while lowering your costs.

c. **New products:** Before you launch a new product, consider both the new variable costs and the fixed ones, like design and promotion fees.

d. **Planning**: When you know exactly how much you need to make, it's easier to set longer-term goals. For example, if you want to expand your business and move into a larger space with higher rent, you can determine how much more you need to sell to cover new fixed costs.

e. **Goals**: If you know exactly how many units you need to sell or how much money you need to make to break even, it can serve as a powerful motivational tool for you and your team.

7

Project Management & Team Building

WHAT THIS CHAPTER IS ABOUT

7.1 Introduction

In previous chapters, you have learned several skills and you have been tasked with exercises to practice your learning. We hope that you have learned how to manage the process of building the prototype (The Business Model Canvas), how to test and validate your prototype (The Lean Startup Methodology) and how to build your financial statements in a structured format. That means dividing each part of your project into a sub-project in order to manage and maintain the results efficiently.

This chapter will introduce you to project management and show how you can build your team in order to deliver your value proposition to your customer segments and maintain customers.

Along with this chapter, the bonus section focuses on different quality management theories, to make sure the quality of your products and/or services does not suffer during execution.

7.2 Project Management Basics

As defined in Chapter four, a project is a temporary endeavor with a defined beginning and end, and therefore a defined scope and resources. Project management, then, applies knowledge, skills, tools and techniques to project activities to meet the project requirements.
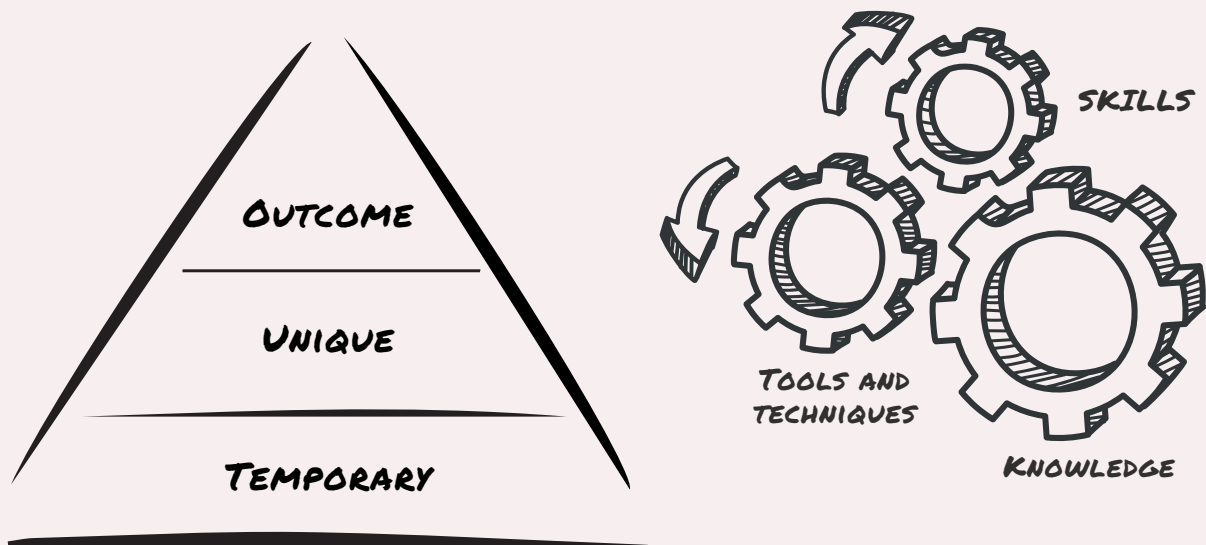
Project Management Institute (PMI)

Project management is the practice of leading a team's work to achieve goals and meet success criteria at a specified time. The primary challenge of project management is to accomplish all of the project goals within the given constraints. Then, project management applies knowledge, skills, tools, and techniques to project activities.

While project management has long been practiced informally, it first began to emerge as a distinct profession in the mid-20th century. Through this professionalization, the primary challenge of project management has been identified as dealing with so-called project constraints, i.e. reaching all of the project goals within the available time and budget.

7.2.1 Project Constraints

Project constraints restrict or dictate the actions of the project team. The so-called 'Triple Constraint' – the 'triangle' of time, cost and scope – are the big hitters, and every project has to cope with one or all of these three project constraints.

The Triple Constraint is also known by the names Project Management Triangle, Iron Triangle and Project Triangle. It consists of the following:

• Cost – the financial side of a particular project or project budget
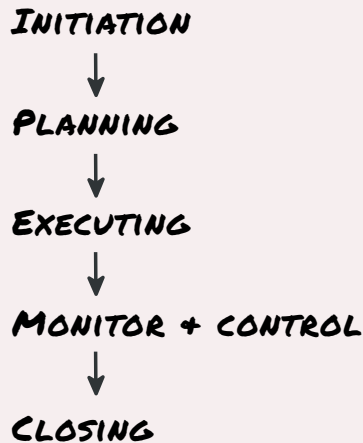• Scope – the project goal
• Time – the project schedule

To manage a project professionally, you need to understand the project lifecycle, which consists of the process groups described below.

Process Groups

There are five phases to the project lifecycle (also called the five process groups): initiating, planning, executing, monitoring/controlling and closing. Each of these project phases represents a group of interrelated processes that must take place.

Initiation
↓
Planning
↓
Executing
↓
Monitor + control
↓
Closing

Initiating
According to PMI, the process of initiating helps to set the vision of what is to be accomplished. This is where the sponsor formally authorizes the project, initial scope is defined and stakeholders are identified. Stakeholder identification is crucial because correct identification (and subsequent management) of stakeholders can make or break the project. This process group is carried out so that projects and programs are sanctioned by a sponsoring entity and to ensure that projects are aligned with the organization's strategic objectives. If this is not done, projects may be started and carried out with no real stated goal or objective.

It needs to be mentioned that management chooses and authorizes the project manager. It's crucial to authorize and establish the PM early as project managers often have accountability yet little authority. If you don't formally authorize a project, you don't have a project.

Some typical documents created in this project group are the project charter and stakeholder register.

Planning
An essential element of planning is developing the total scope of the project, which may appear as if it was accomplished in initiating scope, along with risks, milestones, summary and budget on a high level. This chapter will be addressed through an iterative and more detailed planning process, called progressive elaboration. According to the PMBOK® Guide, PMI defines 24 discrete processes that are involved in planning. It is up to the project team to decide which of them to choose for a given project. However, the bottom line is: a failure to plan, is a plan to fail. Too many organizations start a project in a fast-paced planning mode, hoping that things will come along as they move. Unfortunately, insufficient planning usually leads to chaos.

A core concept in planning is that it makes the team think in advance of the whole project. Therefore, they not only create a variety of plans, but also consider all the things that might go wrong (risks) and how they might respond to them. The team should also look for unintended things that might benefit them – called opportunities – that they can take advantage of. The plan was created to manage the project called a project management plan, which is a document that guides the execution of the project. This plan will be the overriding governance document for the entire project.

Without going into detail on every single document created, a short list would include:

• Documents that bound scope (what we are and are not doing)
• Documents that list detailed requirements
• Documents that provide estimates for costs and time
• Documents that provide a schedule
• Documents that plan for quality, communications, risk and procurement

You also need to create baselines for scope, schedule and cost which you can then (in the monitoring & controlling phase) track your progress. Also, and throughout the project lifecycle, you need to plan for how you will manage and engage the all-important stakeholders.

During the planning phase, you can see that we create a roadmap toward success. If you fail to prepare plans, an architect would fail to create a building blueprint. At the end of this process group, the team will be able not only to understand what they're tasked to do, but also what it will take to execute the project on time and on budget.

Typical documents created in this phase are the project management plan, schedule and risk register.

Executing
The next thing to do after planning is to execute: to do the work. The execution will follow the project management plan you created, which helps keep you on track. At this stage, the project team starts developing the deliverables, while the project manager coordinates those resources, which might be the only thing that occurred. However, several other things must happen during execution.

The success of execution will require a good team. Therefore, developing a strong project team is essential. A project manager will assemble and manage a team and cultivate it by performing team-building exercises. The PM also manages communications and stakeholder engagement, ensuring project and product quality and supporting the effort to contract with vendors.

The project execution could go on for days or years, but it is not enough to merely execute. It is imperative to ensure that the project is on track. That is where your next process group comes into play.

No new documents are created in this phase, only existing ones are updated.

Monitoring & Controlling

Unlike the other process groups that occur sequentially, monitoring & controlling hovers over the whole project. The process includes tracking, reviewing and regulating the project's progress and performance. Also, identifying any areas in which changes to the plan are required; and initiating necessary changes. Monitoring & controlling are essential for getting the project back on track, by comparing the plan to the actual situation, measuring modifications, and taking corrective action.

Examples of areas one might control are scope, cost and schedule. These all have variations regarding which tools and techniques you would use to manage them. Across all the areas, a baseline is a common factor that was defined during the planning phase. Since we're tracking our progress against baselines, it is highly recommended not to change them lightly. But as mentioned, only the change control board can approve these changes.

Monitoring & controlling is similar to driving across the country according to your plan or a roadmap. If you got lost without a GPS, you would stop, ask for directions and get back on track. Another option is maybe getting new information, such as a new road that would cut hours off the trip, you'd change or update your plan.

The lesson learned here is that assuming you are staying on track just because you've planned to do so is a recipe for failure. Only constant vigilance, tracking and reporting will keep the project focused towards meeting its objectives.

No new documents are created in this phase, only existing ones are updated.

Closing

In this stage, you not only formally close the project, but you also get the sign-off and acceptance from the customer. While this should be self-evident, too often projects just fizzle out. Fewer people come to the meetings and everyone just shows up at the next one. Best practice dictates that rigor is applied to the rest of the project. The project manager should formally close the project by archiving records, holding a lesson-learned session, as well as celebrating and releasing the team. The lessons learned and other historical information are critical to prevent redundancy in future projects; therefore, they should be carefully archived.

The bottom line is that these process groups are not necessarily easy to implement, but not applying them means the team may never realize the full benefits of their highly strategic projects.

7.3 Team Building Strategies

Your company is only as good as the teams doing the work. Without a unified body of gifted, passionate individuals who can also work well together, your success is most likely to be limited. You must consider the following strategies to achieve a team that can execute and preform effectively.

Selective Hiring
Hiring is the first stage of team building. Members should be hired to fulfill the company's vision and achieve the project goals. Besides a person's qualifications or work experience, he/she should share the passion and interests that you have. The best teams are those that come around a purpose and pursue the same goals. It is recommended to allow the team to be part of the interviewing process for later applicants. This reduces any obstacles when new members join the team.

Encouragement
A good team is a confident team; a group in good spirits. Therefore, management must give priority to encouraging their team and to maintaining an eye on group morale. A good manager should notice and take action when an employee is experiencing stress. That should prevent the spread of low morale to the rest of the team. Another practice is acknowledging an individual's contribution to the team, which can be a helpful tool of encouragement.

Evolution
An effective team should continuously evolve to meet the needs they encounter, and adapt to fit their work scope. They will grow in different ways to be at their most effective in ever-changing technological and business climates. Management should be up to date on trends in their field, evolving alongside these trends to serve their clientele better. Managers can help develop the team by providing opportunities for individuals to expand on what they already do well and on their natural strengths.

Listening
A good team values each individual contributor, and in doing so will recognize the importance of listening. Every team member is capable of offering unique ideas and input, but they won't contribute if they don't think anyone will listen. You won't have a dedicated, comprehensive team if some members have no involvement or if your group is made up entirely of yes-men. However, if everyone listens to each other, you'll have more ideas, increased collective respect, and better morale overall. Some new ideas, creative solutions, etc. can ultimately come from listening, while other team members will share without the fear of criticism.

Course Correction
The most successful people recognize it and take responsibility if they've made a mistake. And they aren't ashamed to correct it. You may make a decision that turns out to be a bad one, but that doesn't mean you must stubbornly stick with it. Sometimes the very best changes occur as a direct result of a plan that didn't work. The best teams recognize that course correction is not something to be avoided, but rather an essential part of success.

Conflict Management

Conflict might sound like a bad thing, but it is often when strategies are developed and ideas are perfected. Disagreements can be productive if they are managed respectfully and don't get out of hand. The best teams respect each other, working through their disagreements rather than letting differences divide them. If managed well, conflict can be a fire that refines rather than destroys.

Creativity

Teams thrive and are pushed towards creativity if their environment fosters it. Thinking outside the box is a good thing. A good workplace encourages creativity and getting out of the office from time to time. Spending some time in a new environment can unlock new ideas and produce a more relaxed context for brainstorming and planning. Another way of helping the team bond is traveling to a new location or experiencing something new or a different culture.

Self-Awareness

Building a great team requires knowledge of each member's strengths. Every individual should be in a role that plays to their strengths, placed in that role by management that knows each team member's particular gifts. But management should also know themselves and be aware of when to step up or step back. How do their employees view them? How can they better earn respect? Good management – and good teams – are aware of their strengths and weaknesses, utilizing their gifts and improving their weaker aspects.

Relationship Building

It is not unusual if your team members are not friends outside of work, but it does help the team for them to know each other. One of the advantages of spending time together outside of the office is that people can relax a little bit, being free of deadlines, productivity expectations, etc. Learning about each other outside of the office helps to develop trust, build respect and create a better environment when you return to your office.

Bonus Content

7.4 Theories of Total Quality Management

Total Quality Management (TQM) is a quality improvement body of methodologies that are customer based and service oriented. TQM was first developed in Japan, and then spread in popularity. However, while TQM may refer to a set of customer-based practices that intend to improve quality and promote process improvement, there are several different theories at work guiding TQM practices.

Deming's Theory
Deming's theory of TQM rests upon fourteen points of management he identified, the system of profound knowledge, and the Shewart Cycle (Plan-Do-Check-Act). He is known for his ratio, that quality is equal to the result of work efforts over the total costs. If a company is to focus on costs, the problem is that costs rise while quality deteriorates. Deming's system of profound knowledge consists of the following four points:

• **System Appreciation** – an understanding of the way that the company's processes and systems work
• **Variation Knowledge** – an understanding of the variation occurring and the causes of the variation
• **Knowledge Theory** – the understanding of what can be known
• **Psychology Knowledge** – the understanding of human nature

By being aware of the different types of knowledge associated with an organization, quality can be better managed. Quality involves tweaking processes using knowledge. The fourteen points of Deming's theory of TQM are as follows:

1. Create constancy of purpose
2. Adopt the new philosophy
3. Stop dependencies on mass inspections
4. Don't award business based upon the price
5. Aim for continuous production and service improvement
6. Bring in cutting-edge, on-the-job training
7. Implement cutting-edge methods for leadership
8. Abolish fear from the company
9. Deconstruct departmental barriers
10. Get rid of quantity-based work goals
11. Get rid of quotas and standards
12. Support pride of craftsmanship
13. Ensure everyone is trained and educated
14. Make sure the top management structure supports the previous thirteen points

Plan-Do-Check-Act (PDCA) is a cycle created for continuous improvement. In the **planning** phase, objectives and actions are outlined. Then, you **do** your actions and implement the process improvements. Next, you **check** to ensure quality against the original. Finally, **acting** requires that you determine where changes need to occur for continued improvement before returning to the plan phase.

Crosby's Theory

Philip Crosby is another person credited with starting the TQM movement. He made the point, much like Deming, that if you spend money on quality, it is money well spent. Crosby based his theory on four absolutes of quality management and his own list of fourteen steps to quality improvement.

Crosby's four absolutes are:

• We define quality as adherence to requirements
• Prevention is the best way to ensure quality
• Zero defects (mistakes) is the performance standard for quality
• Quality is measured by the price of nonconformity

Crosby's fourteen steps to continuous quality improvement are:

1. Attain total commitment from management
2. Form a quality improvement team
3. Create metrics for each quality improvement activity
4. Determine cost of quality and show how improvement will contribute to gains
5. Train supervisors appropriately
6. Encourage employees to fix defects and keep logs of issues
7. Create a zero defects committee
8. Ensure that employees and supervisors understand the steps to quality
9. Demonstrate your company's commitment by holding a zero defects day
10. Goals are set on a 30, 60, or 90-day schedule
11. Determine root causes of errors, remove them from processes
12. Create incentives programs for employees
13. Create a quality council and hold regular meetings
14. Repeat from step one

Joseph Juran's Theory

Joseph Juran is responsible for what has become known as the "Quality Trilogy." The quality trilogy is made up of quality planning, quality improvement and quality control. If a quality improvement project is to be successful, then all quality improvement actions must be carefully planned out and controlled. Juran believed there were ten steps to quality improvement. These steps are:

1. An awareness of the opportunities and needs for improvement must be created
2. Improvement goals must be determined
3. Organization is required for reaching the goals
4. Training needs to be provided
5. Initialize projects
6. Monitor progress
7. Recognize performance
8. Report on results
9. Track achievement of improvements
10. Repeat

The EFQM Framework

The European Foundation for Quality Management (EFQM) framework is based upon nine criteria for quality management. There are five enablers (criteria covering the basis of what a company does) and four results (criteria covering what a company achieves). The result is a model that refrains from prescribing any one methodology, but rather recognizes the diversity in quality management methodologies. The nine criteria as defined by EFQM are:

1. Focus on Results – pleasing company stakeholders with results achieved by stakeholders is a primary focus
2. Focus on Customers – it is vital that a company's quality management leads to customer satisfaction
3. Constancy of Purpose & Consistent, Visionary Leadership
4. Process & Facts Form the Management Focus – management breaks down everything into systems, processes and facts for easy monitoring
5. Training & Involving Employees – employees should receive professional development opportunities and be encouraged to remain involved in the company
6. Continuous Learning – everyone should be provided with opportunities for learning on the job
7. Developing Partnerships – It is important to encourage partnerships that add value to the company's improvement process
8. Social Responsibility of the Corporation – the company should always act in a way where it is responsible towards the environment and society at large

Ishikawa's Theory

Creator of the last theory, Dr. Kaoru Ishikawa, is often known for his namesake diagram, but he also developed a theory of how companies should handle their quality improvement projects. Ishikawa takes a look at quality from a human standpoint. He points out that there are seven basic tools for quality improvement. These tools are:

• **Pareto Analysis** – Pareto analysis helps to identify the big problems in a process
• **Cause & Effect Diagrams** – cause & effect diagrams help to get to the root cause of problems
• **Stratification** – stratification analyzes how the information that has been collected fits together
• **Check Sheets** – check sheets look at how often a problem occurs
• **Histograms** – histograms monitor variation
• **Scatter Charts** – scatter charts demonstrate relationships between a variety of factors
• **Process Control Charts** – a control chart helps to determine what variations to focus on

What About Competing Theories?

The above are just a few of the many different TQM theories, and we haven't even covered Six Sigma here. When learning about TQM, it is important to remember that these are guidelines. What matters most is that you and your company consistently take steps towards improving quality in your organization and processes. Use the tools that have been shown to work and make a commitment. Committed leadership means committed employees.

Kaizen vs. Kaikaku

While kaizen has been in the English language management vocabulary for a couple of decades, kaikaku is a relative newcomer. Kaizen in its various forms has been very common among Japanese companies for a long-time, kaikaku has been less common. Kaikaku, or specifically transforming the operational model towards the
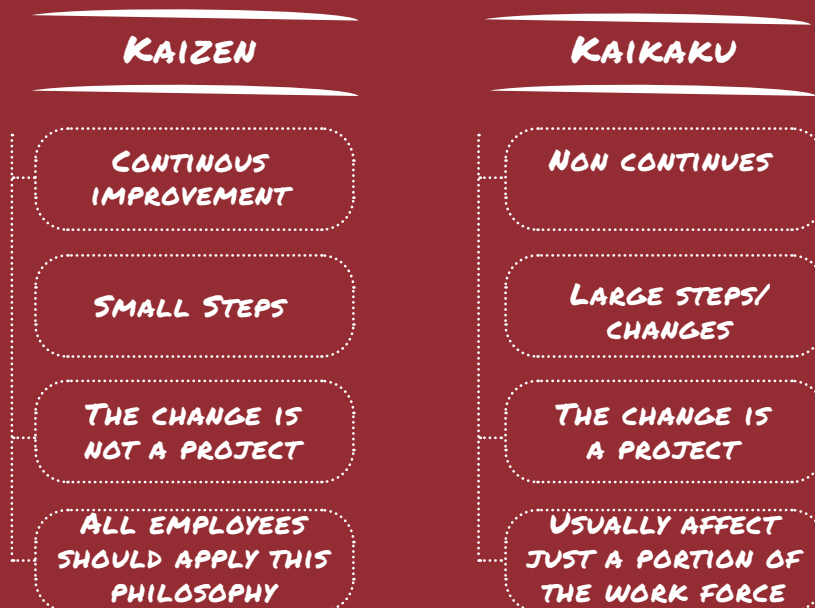
Toyota Production System, has gained popularity in recent years as news of Toyota's worldwide success has led more companies to re-examine the Toyota model and undertake kaikaku.

Kaizen means "improvement" and is used broadly to refer to continuous improvement that follows the philosophy of Toyota. There are many ways that you can do kaizen, including kaizen events, jishuken, technical improvements in both processes and equipment, as well as simple improvement ideas of the "everyone everyday" type. The kaizen process applies equally well to any process. Kaizen means "change good" and by definition, must be an improvement over the current condition.

Kaikaku means "transformation" or "reform" and implies a redesign of business processes that is radical and reaches across an entire organization. On a local scale, kaizen activity may result in kaikaku if a drastic change is made. In general, kaikaku is something that is planned more carefully over a longer period of time, while kaizen can be planned and executed in days or weeks. Applying kaikaku may not always have a positive outcome, since "reforms" or "transformations" may in fact fail.

Both kaizen and kaikaku are essential strategies. Without a culture of kaizen, a kaikaku cannot succeed. Successful long-term transformations require a series of short-term successes, the engagement of everyone in the organization and a bias towards practical local improvement. In the worst case, kaikaku can be a top-down reform that does not take into consideration the local realities, resulting in surface-level improvement or no improvement, as seen by Japan Post's struggling kaikaku effort.

Likewise, without kaikaku, kaizen can be just a series of incremental improvements that do not align with the long-term direction of the business or deliver bottom-line results. Kaizen without kaikaku may lack a re-imagining of what is possible through new technologies, new operational models or new lines of business, and may be insufficient for long-term survival. Kaizen is always an improvement, but without kaikaku it is not enough. It's not either innovation or process. It's both. But large, complex, holistic messages are not as easy to sell to the fad-driven management audience as are the one-note mantras such as "innovation" or "maverick" or "lean". So we fragment the discussion and return to the bits we've missed at a later decade. I suppose we have to leave some pickings for the next generation of consultants and management gurus, yet unborn.

Kaizen	Kaikaku
Continous improvement	Non continues
Small Steps	Large steps/changes
The change is not a project	The change is a project
All employees should apply this philosophy	Usually affect just a portion of the work force

8

Marketing & Sales

WHAT THIS CHAPTER IS ABOUT

8.1 Introduction

In this chapter, we will learn about marketing operations, sales operations as well as the difference between marketing and sales. The chapter will open with a definition of marketing and an introduction to the fundamentals of marketing operations. We will also explore the concept of the marketing mix, traditional marketing techniques and how they are different from digital or online marketing. We will also learn which marketing strategy out of ATL/BTL/TTL will give your product the best exposure to buyers. Then we will go through digital marketing, with the focus on the most used social media platforms in Iraq, which are Facebook and Instagram. Lastly, we will explore sales and sales operations, from the anatomy of a good sales pitch to tips on building your sales operations.

8.2 What is Marketing?

According to author and professor of marketing Dr. Philip Kotler, marketing is "the science and art of exploring, creating and delivering value to satisfy the needs of a target market at a profit. Marketing identifies unfulfilled needs and desires. It defines, measures and quantifies the size of the identified market and the profit potential. It pinpoints which segments the company is capable of serving best, and it designs and promotes the appropriate products and services."

The American Marketing Association (AMA) defines marketing as "the activity, set of institutions and processes for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners and society at large."

Marketing is a continuous operation through the whole lifespan of a product/service. Marketers keep analyzing the prospect markets to answer significant questions such as: Who is my potential customer? What does my prospective customer desire? Why will they want to pay for my product/service?

Before diving into this interesting subject, we need to point out the extraordinary development during the past three decades that has transformed marketing from an elementary activity to more and more complicated and diverse forms. Nowadays, we should differentiate between traditional marketing and digital marketing. To get a glimpse of this development, let us look into Dr. Philip Kotler's concept of the marketing mix.

8.2.1 The Marketing Mix

The **marketing mix** is a simple concept. It is about putting the right product – or a combination of products – in the right place, at the right time and the right price. Introduced in the late 1990s, the marketing mix consisted of the four cornerstones mentioned in the definition: Product, Place, Promotion, Price (hence also named the 4Ps).

Over time, and due to changing customer mindsets, these 4Ps became insufficient and required an expansion to become today's 7Ps.

Let's explore each "P" of the marketing mix on its own:

A. Product
Product refers to a good or service that a company offers to customers. Ideally, a product should fulfill existing consumer demand. Or a product may be so compelling that consumers believe they need to have it, and it thereby creates new demand. To be successful, marketers need to understand the lifecycle of a product, and business executives need to have a plan for dealing with products at every stage of their lifecycle. The type of product also partially dictates how much can be charged for it, where it is best placed and how it should be promoted.

B. Price
Price is the cost consumers pay for a product. Marketers must link the price to the product's real and perceived value, but they also have to consider supply costs, seasonal discounts and competitors' prices. Business executives can either raise the price, so the product is perceived as luxurious, or they may lower the price so more consumers can try the product. Marketers also need to determine when and if discounting is appropriate. A discount can sometimes draw in more customers, but it can also give the impression that the product is less exclusive or luxurious than when it was marked at a higher price.

C. Place
When a company makes decisions regarding a marketing location/place, it tries to determine where they should sell a product and how to deliver the product to the market. The goal of business executives is always to get their products in front of consumers who are the most likely to buy them. Placing a product comes in different forms, such as placing a product in certain stores or even narrowing it down to the specific location within a store. In other cases, it may refer to attracting attention for the product by having it appear on television shows, in movies or on third-party web pages.

D. Promotion
Promotion includes advertising, public relations and promotional strategy to reveal to consumers why they need a product or service and why they should pay a certain price for it. Promotion needs to take into consideration customers' location, culture and background in both offline and online marketing scenarios. Studying prospective customers enables you to understand what triggers their behavior toward the presentation of your product/service, whether it is in a retail store, webshop, on social media platforms, or any number of other presentation scenarios.

E. People/Personnel
Incorporating people as part of the marketing mix is essential. People can make the products and services a success, or taint the product's image. People have the most impact on the services industry, e.g. businesses that are not involved in manufacturing.

F. Process/Performance
An example of a process is offering a service, such as handling sales, processing orders and after-sales service. It is essential to have good knowledge about whether the service is useful or not to the customers, since it can be a very important element of the marketing mix. Today's customers tend to ask about your processes to get a better understanding for the service. An example of this is customers asking about meat if it's "halal or not" of if your packaging is environment-friendly.

G. Physical Evidence
Another crucial factor that affects the performance of a business is physical evidence. Even though e-commerce is evolving, the customer appetite to experience the physical existence of a business is still important. Sometimes, even if you're fully operating online, you still need to video shoot your employees and offices and present them in front of your customers through social media. Creating and maintaining personal profiles is important for your customer care agents so they can interact with customers in a more humane way.

In the evolution of the marketing mix, customers have become more and more interested in getting to know the people behind a product/service as well as its value chain, i.e. external suppliers. People's interest might go even further to want to understand more about your operation, such as your communication style and whether you recycle. While being physically visible to customers is important, there are exceptions, such as Amazon. All of their interactions with customers are virtual and impersonal, but they do shoot videos of warehouses and employees from time to time to give their customers a sense of physicality.

8.2.2 Traditional vs. Digital Marketing

Today, we're living in the information and digital age. We should therefore differentiate between traditional physical or mass media marketing and today's digital platforms, tools and techniques to communicate with potential and current customers.

Traditional Marketing
Traditional Marketing is any marketing that isn't online, such as printed newspapers, radio broadcasts, direct mail, phone and outdoor advertising like billboards. Traditional marketing methods are designed to reach a target audience, and they are still used today despite the overwhelming digitalization of marketing. Today's marketing schools teach a combination of these techniques along with online techniques to maximize outreach and get the product/service to a wider range of customers.

Digital/Online Marketing
According to Investopedia, digital marketing is „the use of the internet, mobile devices, social media, search engines and other channels to reach consumers. Some marketing experts consider digital marketing an entirely new endeavor that requires a new way of approaching customers and new ways of understanding how customers behave in comparison to traditional marketing."

To better understand the difference between traditional and digital marketing, let us list some techniques under the right category. In the table below, you may notice that some marketing techniques can be on both sides, such as broadcast marketing through radio and television.

Traditional Marketing Tools & Techniques	Digital Marketing Tools & Techniques
• Direct Mail • Print Media Marketing • Broadcast Marketing • Out of Home - OOH Marketing • Face-to-Face Marketing	• Content Marketing • Search Engine Optimization (SEO) • Search Engine Marketing (SEM) • Social Media Marketing (SMM) • Pay-Per-Click Advertising (PPC) • Affiliate Marketing • Email Marketing • Instant Messaging Marketing • Radio Advertising • Television Advertising

To avoid confusion on how and when to use any of the above items, let us dive into another marketing aspect called ATL/BTL/TTL.

8.2.3 ATL/BTL/TTL Marketing

Imagine a line in front of you. This line is the differentiator between marketing with or without having a clear definition of your target audience. Now let's navigate the areas above, below and through this line of segmentation.

Above the Line (ATL) Marketing

ATL focuses on directing communication towards the market without segmentation. All promotional messages are mass and do not focus on a specific group. Marketers use this strategy to encourage customers to visit stores and expose them to the product. This strategy helps companies to reach a larger audience and create brand visibility. The idea is to inform customers about the availability of a product.

Implementing ATL activities:

• Television: Advertising campaigns directed at the regional or national level
• Print media: Promotional messages in newspapers, online articles and advertisements
• Radio: National or regional radio broadcasts

Below the Line (BTL) Marketing

BTL activities are more focus oriented and directed towards specific groups of customers. BLT advertisements are created around the demographic and psychographic characteristics of particular customer segments. The communication is highly specific and aims to gain conversions.

The major advantage of BTL advertising is that the results of the campaign can be easily tracked and a the Return on Investment (ROI) calculated. Campaigns can even be tailored for different subsets of consumers within a single segment.

Implementing BTL activities:

• Outdoor advertisements: Billboards, fliers, banners, sandwich boards
• Direct marketing: SMS, emails, social media posts, pamphlets
• Sponsorship: Events, competitions
• Public Relations: Press conferences, viral marketing
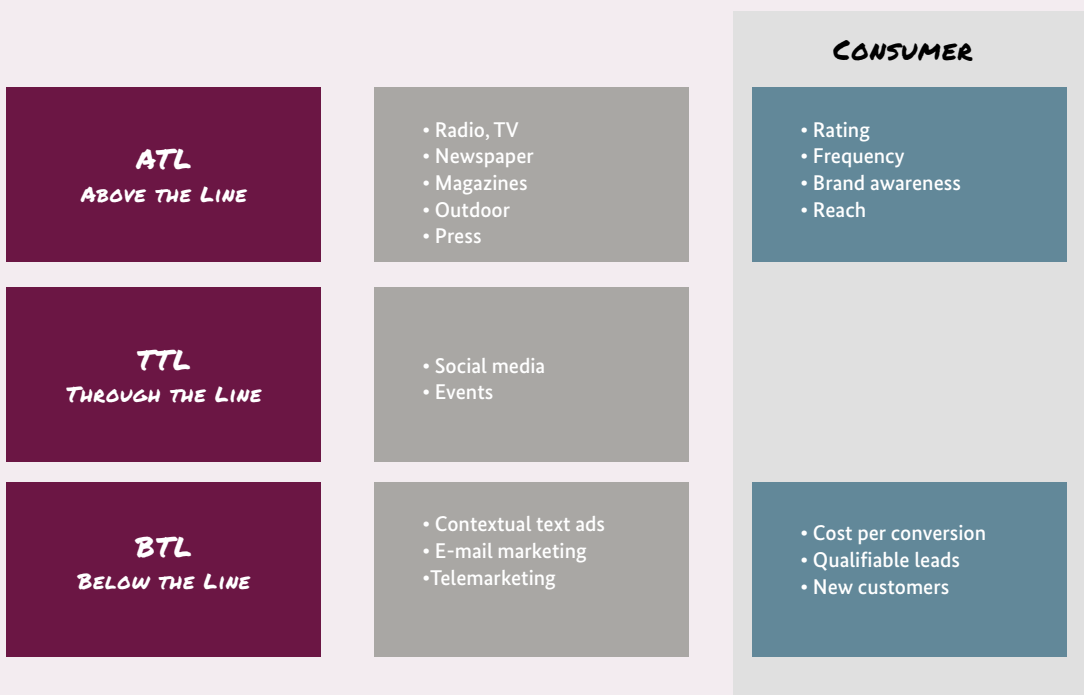• In-store promotion: Visual merchandising, retailer pop-ups, sampling, sales promotions

Through the Line (TTL) Marketing

TTL advertising combines both ATL and BTL strategies. The objective is to get a holistic view of the market and communicate with customers in every way possible. Since both ATL and BTL strategies are deployed, it is more likely that TTL strategies lead to better brand visibility and recall.

The major challenge of TTL strategy is the cost associated with implementing various promotional campaigns. Only well established or financially secure companies can afford a TTL strategy.

Implementing TTL activities:
• 360-degree marketing: Using both ATL and BTL activities – for example, a television advertisement supplemented with pamphlets of the product attached to newspapers.
• Digital marketing: Online banners and buttons, social media posts, blog articles.

		Consumer
ATL Above the Line	• Radio, TV • Newspaper • Magazines • Outdoor • Press	• Rating • Frequency • Brand awareness • Reach
TTL Through the Line	• Social media • Events	
BTL Below the Line	• Contextual text ads • E-mail marketing • Telemarketing	• Cost per conversion • Qualifiable leads • New customers

"There is no one-size-fits-all approach when it comes to marketing. While ATL activities may work for some companies, others may need to supplement it with BTL. It depends on the marketers' reading of the market and the correlation between the customer and the messaging."

As we are living in the digital/information age, let us put our focus on digital marketing and social media marketing, which are both probably easier for you to access, afford and implement.

8.2.4 Digital Media Worldwide & in Iraq

As we start a new decade, it's increasingly clear that digital, mobile and social media have become an indispensable part of everyday life for people all over the world. Traditionally, consumers use the internet to consume and proliferate content: they read, watch, edit, and use content.

Social media was created as a way to engage with friends and family, but later businesses wanted to take advantage of this popular new communication tool to reach out to new customers. The power of social media is the ability to connect and share information instantly and simultaneously with anyone on Earth – or even outside Earth!

To understand your market, first you need to know how big your online market is globally and nationwide. You then need to think about how to set up a smart plan to reach your audience organically and via paid ads.

Global Digital Insights

4.5 billion people across the globe now use the internet, equal to nearly 60% of the world's population. There are 3.5 billion social media users worldwide. That equates to about 45% of the world's current population.

The internet is also playing an ever more important role in our lives, with the world's internet users spending an average of 6 hours and 43 minutes online each day.

Local Digital Insights (Iraq)

• There were 29.82 million internet users in Iraq in January 2020.

• The number of internet users in Iraq increased by 11 million (+55%) between 2019 and 2020.

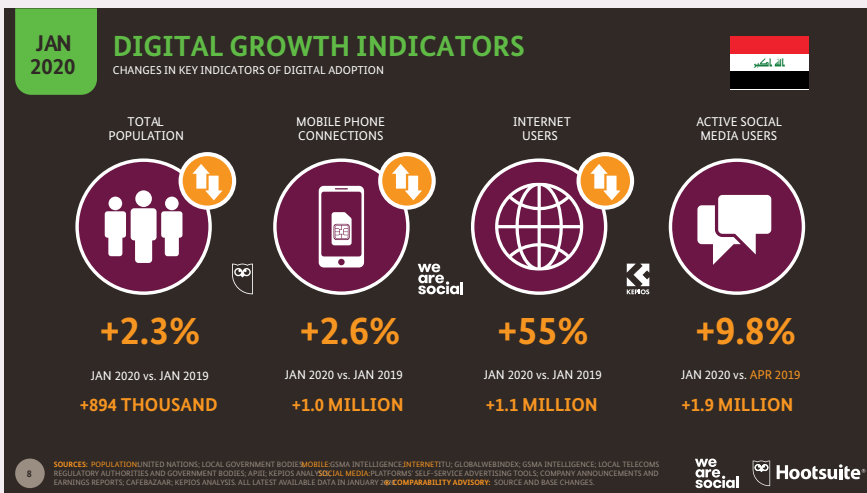• Internet penetration in Iraq stood at 75% in January 2020.

JAN 2020 — DIGITAL AROUND THE WORLD IN 2020
THE ESSENTIAL HEADLINE DATA YOU NEED TO UNDERSTAND MOBILE, INTERNET, AND SOCIAL MEDIA USE

	TOTAL POPULATION	UNIQUE MOBILE PHONE USERS	INTERNET USERS	ACTIVE SOCIAL MEDIA USERS
	775 BILLION	5.19 BILLION	4.54 BILLION	3.80 BILLION
	URBANISATION: 55%6	PENETRATION: 7%	PENETRATION: 59%	PENETRATION: 49%

JAN 2020 — IRAQ
THE ESSENTIAL HEADLINE DATA YOU NEED TO UNDERSTAND MOBILE, INTERNET, AND SOCIAL MEDIA USE

	TOTAL POPULATION	MOBILE PHONE CONNECTIONS	INTERNET USERS	ACTIVE SOCIAL MEDIA USERS
	39.77 MILLION	40.89 MILLION	29.82 MILLION	21.00 MILLION
	URBANISATION: 70%	vs. POPULATION: 103%5	PENETRATION: 9%	PENETRATION: 53%

Global Digital Report 2020. |. https://hootsuite.com/resources/digital-2020

Age and Gender

26% Woman
26% All Facebook

74% Men
74% All Facebook

	18-24	25-34	35-44	45-54	55-64	65+
Woman	32%	42%	14%	7%	3%	1%
Men	29%	42%	16%	8%	3%	2%

Facebook Insight, Iraq by Ages (+18) and Gender Aug 2020

JAN 2020

DIGITAL GROWTH INDICATORS
CHANGES IN KEY INDICATORS OF DIGITAL ADOPTION

TOTAL POPULATION	MOBILE PHONE CONNECTIONS	INTERNET USERS	ACTIVE SOCIAL MEDIA USERS
+2.3%	+2.6%	+55%	+9.8%
JAN 2020 vs. JAN 2019	JAN 2020 vs. JAN 2019	JAN 2020 vs. JAN 2019	JAN 2020 vs. APR 2019
+894 THOUSAND	+1.0 MILLION	+1.1 MILLION	+1.9 MILLION

SOURCES: POPULATION: UNITED NATIONS; LOCAL GOVERNMENT BODIES. MOBILE: GSMA INTELLIGENCE. INTERNET: ITU; GLOBALWEBINDEX; GSMA INTELLIGENCE; LOCAL TELECOMS REGULATORY AUTHORITIES AND GOVERNMENT BODIES; APJII; KEPIOS ANALYSIS. SOCIAL MEDIA: PLATFORMS' SELF-SERVICE ADVERTISING TOOLS; COMPANY ANNOUNCEMENTS AND EARNINGS REPORTS; CAFEBAZAAR; KEPIOS ANALYSIS. ALL LATEST AVAILABLE DATA IN JANUARY 2020. COMPARABILITY ADVISORY: SOURCE AND BASE CHANGES.

Global Digital Report 2020. |. https://hootsuite.com/resources/digital-2020

Device User

Desktop only	Desktop & Mobile	Mobile Only	Computer	iPhone/ iPod	iPad	Android	Blackberry	Mobile Web	Feature Phone	Unkown
0.3%	5%	95%	0.3%	12%	0.2%	—	0%	0.9%	0%	0%
+0%	+0%	+0%	+0%	+0%	+0%	+0%	+0%	+0%	+0%	+0%

https://www.facebook.com/ads/audience-insights

JAN 2020

TOP MESSENGER APPS AROUND THE WORLD
THE MOST ACTIVE MESSENGER APP* IN EACH COUNTRY OR TERRITORY IN DECEMBER 2019

- WHATSAPP (138)
- FACEBOOK MESSENGER (74)
- VIBER (7)
- IMO (3)
- LINE (3)
- SKYPE (2)
- WECHAT (2)
- KAKAOTALK (1)
- PLUS MESSENGER (1)
- UNKNOWN (14)

SOURCE: SIMILARWEB (JANUARY 2020). *NOTES: RANKINGS ARE BASED ON MESSENGER APPS WITH THE HIGHEST NUMBER OF AVERAGE DAILY ANDROID APP USERS IN EACH RESPECTIVE COUNTRY OR TERRITORY DURING DECEMBER 2019. FIGURES IN PARENTHESES IN THE LEGEND DENOTE THE NUMBER OF COUNTRIES OR TERRITORIES IN WHICH EACH APP IS THE TOP-RANKING MESSENGER; FIGURE FOR FACEBOOK MESSENGER INCLUDES MESSENGER LITE.

JAN 2020

THE WORLD'S MOST-USED SOCIAL PLATFORMS
BASED ON MONTHLY ACTIVE USERS, ACTIVE USER ACCOUNTS, ADVERTISING AUDIENCES, OR UNIQUE MONTHLY VISITORS (IN MILLIONS)

Platform	Value
FACEBOOK	2,449
YOUTUBE	2,000
WHATSAPP*	1,600
FB MESSENGER*	1,300
WEIXIN / WECHAT	1,151
INSTAGRAM*	1,000
DOUYIN / TIKTOK	800
QQ	731
QZONE	517
SINA WEIBO	497
REDDIT	430
SNAPCHAT**	382
TWITTER**	340
PINTEREST	322
KUAISHOU	316

DATA UPDATED TO: **25 JANUARY 2020**

SOURCES: KEPIOS ANALYSIS; COMPANY STATEMENTS AND EARNINGS ANNOUNCEMENTS; PLATFORMS' SELF-SERVICE ADVERTISING TOOLS (ALL LATEST AVAILABLE). NOTES: PLATFORMS IDENTIFIED BY * HAVE NOT PUBLISHED UPDATED USER NUMBERS IN THE PAST 12 MONTHS. PLATFORMS IDENTIFIED BY ** DO NOT PUBLISH MAU DATA. FIGURES FOR TWITTER AND SNAPCHAT USE EACH PLATFORM'S LATEST ADVERTISING AUDIENCE REACH, AS REPORTED IN EACH PLATFORM'S SELF-SERVICE ADVERTISING TOOLS (JANUARY 2020).

Global Digital Report 2020. |. https://hootsuite.com/resources/digital-2020

Social Media Users in Iraq

- There were 21 million social media users in Iraq in January 2020.
- The number of social media users in Iraq increased by 1.9 million (+9.8%) between April 2019 and January 2020.
- Social media penetration in Iraq stood at 53% in January 2020.
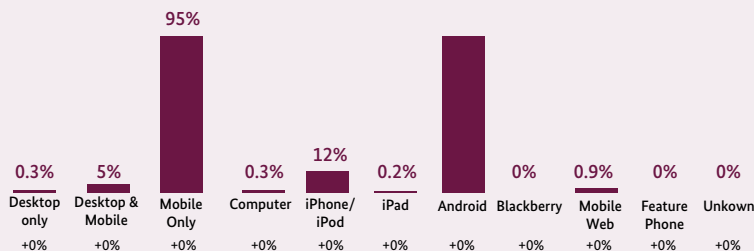
Mobile Connections in Iraq

- There were 40.89 million mobile connections in Iraq in January 2020.
- The number of mobile connections in Iraq increased by 1.0 million (+2.6%) between January 2019 and January 2020.
- The number of mobile connections in Iraq in January 2020 was equivalent to 103% of the total population.
- The average number of mobile connections in the world is 40%, which means Iraq has one of the highest mobile phone concentrations in the the world
- With such comprehensive access to the internet, online and mobile communication is essential for companies wanting to promote their products in Iraq.

Chapter 8
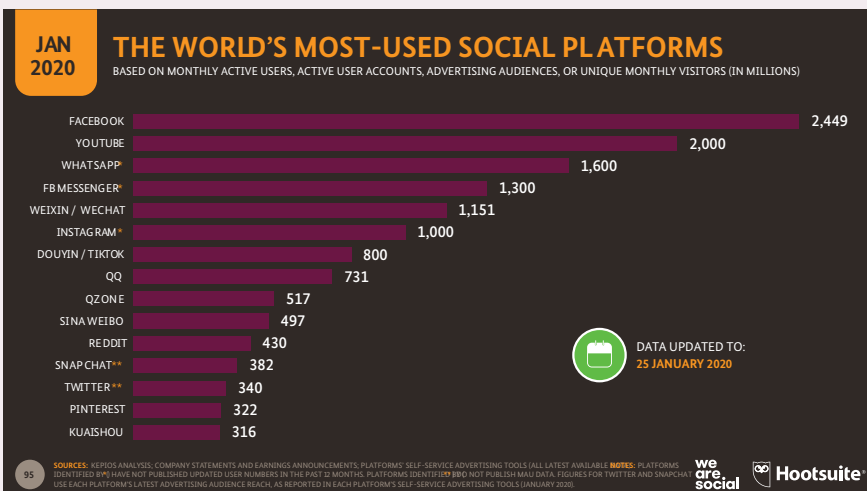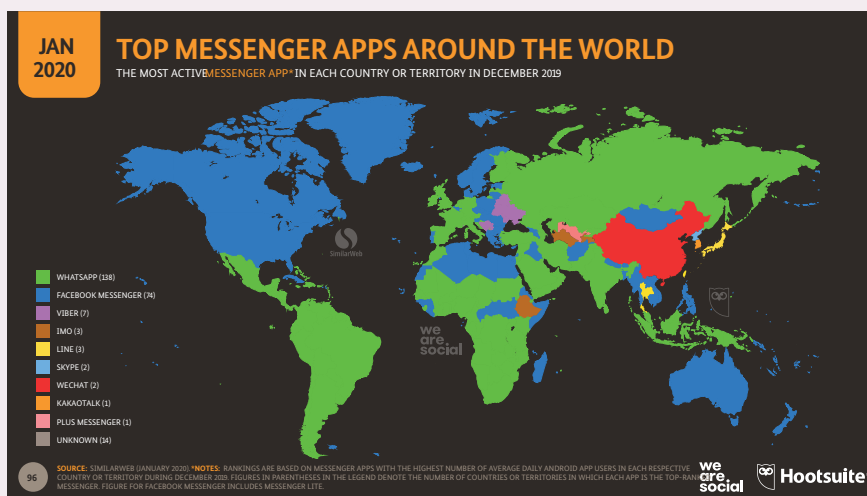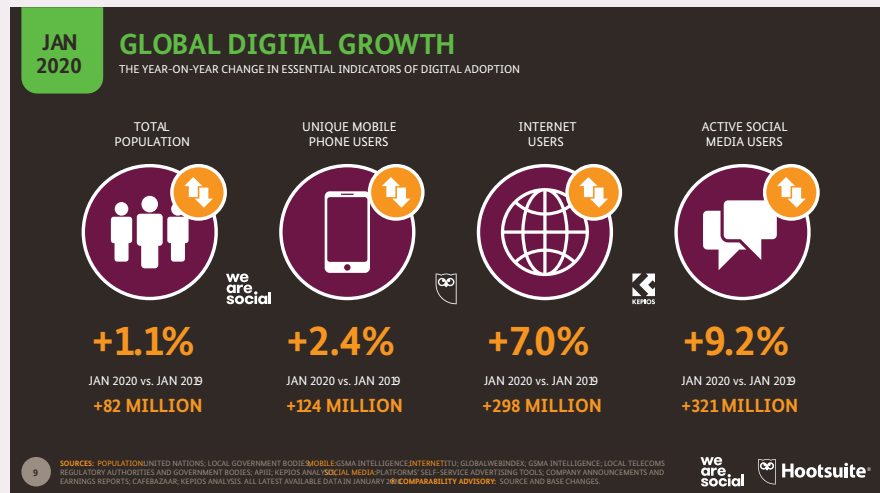
8.2.5 Social Media Marketing (SMM)

According to Investopedia, "Social media is computer-based technology that facilitates the sharing of ideas, thoughts, and information through the building of virtual networks and communities. By design, social media is internet-based and gives users quick electronic communication of content. Content includes personal information, documents, videos and photos. Users engage with social media via computer, tablet or smartphone via web-based software or web application."

Social media marketing (SMM) is the use of social media websites and social networks to market a company's products and services. SMM provides companies with a way to reach new customers, engage with existing customers and promote their desired culture, mission or tone. Also known as "digital marketing" and "e-marketing," SMM has purpose-built data analytics tools that allow marketers to track how successful their efforts are.

Putting SMM into a structured process

To start, you need to create a plan. The simplest way to utilize SMM to your benefits is to understand its five major phases:

A. Customer Identification: This phase was covered in chapter three's first building block of the Business Model Canvas: "Customer Segments". After filling in this block, you understand who your prospect customers are, what the value proposition of your product/service is and which channel you should utilize for communication (in this case social media).

B. Marketing Strategies: In this phase, you decide whether you're going to build single social media content items such as posts, stories or articles, whether they are only text, graphically designed, video content or a combination of everything. This phase might depend on the current resources that you have such as software resources, computers, designers, social media strategists, community managers, etc.

C. Content Development: In this phase, you need to develop a content calendar that includes all the posts, articles, etc. you want to publish over a certain period of time. This calendar includes the characteristics of your target audience and the budget you're spending to reach them. More details about this phase will be covered later in this chapter in section 8.2.6 Creating an SMM Content Calendar.

D. Implementation: Now you're all set to start publishing your content that you've developed. This phase is fully covered for Facebook and Instagram in the bonus section of this chapter: 8.4 Bonus Content: Facebook Marketing and 8.5 Bonus Content: Instagram Marketing.

E. Analysis & Adjustments: Social media platforms provide you with a set of metrics and analysis tools to help you understand if your implementation was effective and/or you need to work on adjustments for your next content development cycle. Learn more in the bonus section of this chapter: 8.4 Bonus Content: Facebook Marketing and 8.5 Bonus Content: Instagram Marketing.

8.2.6 Creating an SMM Content Calendar

A typical weekly SMM content calendar could be roughly structured like this:

Simple Content Calendar		
SUN	BIG IDEAS	Share expert advice or a short quote
MON	HUMOR	Share a comic, humorous image, meme or phrase
TUE	INTERACTION	Ask a question, share a photo content or quiz, or post a fill-in the blank sentence.
WED	CURRENT NEWS	Share positive news about your business, your industry, or your community.
THU	GIVING BACK	Feature customers, launch/ share a giveaway, or make a coupon or discount available.
FRI	DAY IN THE LIFE	Share candid photos from your business or feature an employee
SAT	EDUCATION	Tell people about your product, what it can do or teach people how to use it better

Tips for creating an SMM content calendar

Before creating your first SMM content calendar, let us answer the question of why you need a calendar:

1. Save time by being organized
2. Post consistently
3. Make fewer typos and reduce the risk of big mistakes
4. Get more ambitious with your social strategies
5. Don't miss out on relevant moments
6. Make higher-quality content
7. Track what works, and improve it

Creating an SMM content calendar is done in 8 steps (A-H):

A. Audit your social networks and content
• Check for impostor accounts and outdated profiles
• Determine account security and passwords
• Goals and KPIs* for each branded account, by platform
• Your audience, their demographics and personas
• Who's accountable for what work on your team
• Your most successful posts, campaigns and tactics
• Gaps, underwhelming results and opportunities for improvement
• Key metrics for measuring future success on each platform

*KPIs: Key Performance Indicators measure a company's success in comparison to a set of targets, objectives
       or industry benchmarks.

B. Choose your social channels
Remember, people visit Facebook to read casual content, while they visit Instagram to view images and videos.
Choosing the right channel means choosing the right audience for the content that you're developing.

C. Decide what your calendar needs to track
• Platform (platform-specific formats e.g. feed post, IGTV, story, poll, live stream, ads, shoppable posts, etc.)
• The vertical or campaign it's affiliated with (e.g. product launch, event, contests, annual giving, general brand
  awareness, customer service, etc.)
• Geo-targeting (e.g. nationwide, regional, etc.)
• Value (e.g. just a short-lived topical post, or a big-budget evergreen showpiece that could be recycled or
  cannibalized for parts down the line)
• Paid or organic (if paid, then additional budget details might be helpful)
• Planned publication date
• Time (and time zone)
• Copy (text appearing in the post)
• Has it been approved?
• Has it been posted?
• Are you using UTM*?
• Analytics and results
• Visuals (e.g., photo, video, illustration, infographic, gif, etc.)
• Link to assets
• Link to published post

*UTM: Pre-defined text codes added to a URL to track important data about website visitors and traffic
       sources. Learn more about UTM here:
           https://blog.hootsuite.com/how-to-use-utm-parameters/

D. Make a content library for your assets
Collect all the images, key messages, videos, product/service information and information about your business
in general in one database, like a folder on your desktop or Google drive. This enables you to access all your
core assets easily and utilize them in building your content.

E. Establish a workflow
• How often you want to post to each channel
• The best time to post to each channel
• What your content ratio will look like
• Who needs to approve posts (e.g. your copyeditor, legal team, CEO) and how communication will work
• What the process is for brainstorming new content, assigning and creating it

F. Start crafting your posts
Have a second look at the SMM process above. Start writing your text content, designing your images and creating your videos to assemble a well-structured content calendar.

G. Invite your team to review the content and use their feedback to improve it
It's good to have other team members' opinions. Each team member looks at the content from their own perspective and gives you their feedback. Such discussions help you cover all the missing points of your calendar prior to implementing it.

H. Start publishing
For planning and publishing your content, you may consider some social media content calendar apps and tools:
• Google Sheets
• Trello
• Hootsuite Planner

8.2.7 Marketing Conclusion
As you have seen in the previous parts of this chapter, marketing does not necessarily translate into a sale for your products and/or services. It mostly helps you reach your audience and communicate your message. Today, there is a thin line between marketing operations and sales operations that might be confusing. In the following section, we are going to have a closer look at what sales is and the different types of sales.

8.3 What is Sales?

When marketing is done and the prospects are identified, salespeople set out to generate sales for the product/service. A prospect is a potential client, whether its an individual, a group or an organization. These different segments of customers represent an ideal profile that a seller is trying to target.

Good salespeople are vital to your business. They must be skilled communicators, self-confident and good with people so they can efficiently transform prospects into customers. Often they are also your contact point for customers paying money for your products/services. These representatives must operate with humanity and purpose.

In this section, we will look at the different types of salespeople according to their level and type of engagement in a sale. We will also discuss the perfect sales pitch as well as tips on becoming a great salesperson.

8.3.1 Types of Salespeople

A. Inside Sales

As an inside sales representative, you are responsible for maintaining existing client relationships. In that role, you will be the main point of contact between your company and its clients. You are also responsible for retaining their business and building a strong business relationship. In the last few years, there has been a significant shift in sales activity from outside – or traditional –sales toward inside sales. The inside sales are now considered to be more effective and efficient when used in tandem with inbound marketing strategies. A good example of this type is a sales person inside your showroom.

B. Outside Sales

The outside sales approach is considered a traditional method, where interaction between the sales representative and client is in a face-to-face fashion, and usually takes place outside the office. Outside sales representatives are likely to spend more time in their customers' offices. To be a successful outside sales representative, you need to be self-motivated and goal-oriented. You also have to be comfortable with little to no supervision in meeting your targets and deadlines. A good example of this type is a sales representative visiting your customers.

C. Sales Support

This group of salespeople are the ones who support the sales team in closing deals faster, but primarily work "behind the scenes". Some clients sometimes require more data, facts, details or customized input to inform their purchase decision. This is a dynamic role, capable of cutting time and costs from the company budget. Sales support might be responsible for a number of duties such as investigating leads, creating customer profiles, analyzing data and performing research. A good example for this type is the back office team member who collects information about potential customers and feeds them to the first two types. The information generated by this type helps the first two types perform more efficiently.

D. Client Services

As a client services representative, your responsibility is to follow up with customers to ensure their needs are met and to nurture a strong business relationship. Ensuring customer satisfaction will translate into more business from the existing client base. If you are able to create and maintain genuine relationships, it is an indicator that you are the right person for the job. This type is good at quality control and building sustainable relationships.

E. Lead Generation/Development

A lead generation/development representative is responsible for conducting research and networking to establish new business channels. Performing the right research could lead to discovering untapped sales potential. In that role, you are also responsible for assessing the viability of the connection and whether it is worth pursuing, as well as forecasting potential results. With growing technology, there are several ways to generate leads through inbound marketing techniques such as eBooks or blogs.

F. Business Development Managers

Business development managers are responsible for bringing in new business to their company through many methods such as cold calling and door-to-door outreach. Similar to outside sales representatives, they often make their sales through face-to-face meetings. A business development manager needs to constantly bring new sales and clients to the company. This type builds business cases that could help as a plan for other sales types while performing their tasks.

G. Account Managers

Account managers are responsible for managing existing accounts, as well as finding creative solutions and innovative techniques to continue selling their company's services. The main goal for an account manager is client retention through ensuring client satisfaction.

8.3.2 The Sales Pitch

A sales pitch is a condensed sales presentation that explains the nature and main benefits of a business, ideally in less than one or two minutes. Sales pitches are often referred to as 'elevator pitches' because they should be able to be delivered within the time constraints of a single elevator ride.

The Anatomy of a Perfect Sales Pitch

A. Research

Only 13% of purchasers agree that sales representatives truly understand their needs. This is the worst possible starting point. If you can't understand your client's problems, your opportunity to be part of the solution isn't there. Only buyer personas and case studies can get you there. You also need to demonstrate to the purchaser that you truly understand them and offer an approach to fix their problem, otherwise you won't be able to genuinely connect with them and convince them to pay money for your product or service.

Effective sales pitches shouldn't be blocks of texts that are set in stone, but should be adapted to meet the various needs of the purchasers. Savvy sales representatives realize how to design their deliveries according to the potential company's priorities and end goals.

The best way to do this is to do research. Before you seek a conversation, you should know: Who will you talk to? What do you know about their company and their industry? Who are the clients they serve? What problems do they face that your company can solve?

This method is significant, especially if you're talking to someone who isn't familiar with you or your offer. If you don't have much confidence in your brand, then you need to work harder to prove yourself.

Showing that you know something about your potential clients and their needs will convince them that they're more than just a deal for you. Then they are more likely to take you seriously and hear you out.

Research is usually required for Outside Sales types because Inside Sales have no control over who enters their showrooms or shops.

B. Introduction

Most potential clients can smell an upcoming sales offer before you finish saying your name. They are used to stopping salepeople very early on in the conversation and will politely decline to listen further. If you can grab their attention from the first few seconds, there's a higher probability they will listen to the offer that you've worked so hard to make.

Get their attention by leaving yourself out of the conversation. For example, ask a question about something unique to their lives or their business, and possibly completely unconnected from your own priorities and desires, for example, a prize they won recently, or a new account they just landed.

Your introduction should obviously also spark their interest. Show that you're keen on getting to know them, not just about telling them the things you consider they need. If you already know everything, the potential client won't have anything to add to the conversation and won't care about you. But if you ask questions, they can interact with you and give you the consideration you need.

Remember that sales pitches are dialogues, not monologues, so get a potential client into the conversation early and start talking about their needs directly.

C. Value Proposition Focus

Your potential clients have given you their consideration and they want to ensure that they aren't wasting their time with you. So what are you bringing to the negotiating table?

This is when you have the time to make a more detailed sales pitch, including your main value proposition that will convince others to believe in it as simply as you do. It highlights the advantages, not just the features, and discusses the problems you solve, that are related to the potential clients. It emphasizes the type of client you work with, and adds the ability to seek how to help them.

D. Storytelling

Data shows that about 63% of potential clients remember stories, which is the reason most successful sales pitches are based on storytelling.

Besides helping potential clients to retain information, stories also put them into the picture directly. Instead of telling a potential client how your product or service works, the story helps you show them how to use it to improve what they're used to doing. Storytelling makes vague ideas concrete and clear.

Potential clients become dynamic members, not just passive listeners, when they see themselves in the story and can picture themselves enjoying the happy ending.

For example, a potential client might feel puzzled by what a 35% rate of improvement in hiring efficiency means, but they'll likely envision the impact of saving $ 150 for each new hire and accelerating the onboarding by two weeks.

E. Social Proof

Just talking about what you can do isn't enough. Your potential clients need proof, or at least they need to be convinced of your ability to keep promises. There are some effective ways that you can get them to trust you. First, use storytelling to talk about the ways your existing clients have used your product or service and the results they got. State how they performed before purchasing your service and how you helped them improve it. Summarize your case studies to highlight the most important insights.

Direct testimonials from satisfied clients are valuable tools. Have satisfied customers give you approved statements talking about what it is like working with you, how you have helped them and the results they have observed.

You should also provide research and data that add credibility to your claims. An industry expert or trustworthy source can assist you with linking specific statistics or advantages to your service to give it more credibility. Finally, you should provide your personal guarantee as an affirmation of your trust in what you are selling. It could be by offering them a free trial, free shipping, a money-back guarantee or anything else that gives them more confidence to say "yes" to giving it a try.

F. Unexpected Value

Part of your job as a sales representative is discovering the problems your potential clients face and figuring out how your solution can help them. Most sales representatives stop at this point. But what if there are other bigger things that have yet to be discovered, even ones that the client may not be aware of?

Your job isn't just to reformulate the problems that they already know and provide solutions that are probably already familiar with. Instead, step forward with an unexpected value that will move your potential clients forward in a way that they haven't thought of before.

Try not to tell them what they already know. Influence occurs when there's some level of uncertainty. If a potential client has missed something, didn't think about something or underestimated it, they're probably going to be more open to learning about a solution.

G. Specific Request or Action

The ultimate goal of any sales pitch is what you want the client to do next. Your offer should end with a client's call to action. Give them clear guidance on what to do next and make it easy for them to do. You've put a lot of effort into getting the potential client to this point, and the worst thing you can do now is leave the rest up to chance.

Surprisingly, around 85% of sales representatives don't really ask to sell, some are afraid of rejection and some think they've made it clear enough what they want the client to do. A few sales representatives simply don't know how to take the conversation to the next level and this is a major problem.

Since 90% of buyers will possibly purchase from you if you ask them to. That's why you have to follow the sales process all the way to the end. If you've got this far, there's no reason to be afraid of closing the deal.

8.3.3 Tips on Becoming a Great Salesperson

A. Keep It Short

You are asking your potential client for one of their most valuable assets: their time. You are competing with emails, meetings, customers and all the other things that are on their mind while you're talking to them. Keeping your sales pitch short not only helps you save time, but it likewise shows that you value their importance. You'll also speed up your pitch by not starting off with a 10-minute monologue.

B. Keep It Simple

Complex, heavy words can take the minds of your potential clients away from the moment, as they stop listening to you and try to analyze what you just said. Once they're lost, they may not bother with finishing the rest of the conversation.

Use simple language that flows smoothly and avoid overloading information. If you can communicate the same idea in fewer words, do so.

C. Practice the Delivery

You don't want to look tired or exhausted; you want to seem confident and trustworthy. Practice enough sales pitches to make sure it flows smoothly without getting stuck on words.

If you're sending a cold pitch via email, read it aloud to see if it sounds too long, too complicated or too confusing.

D. Anticipate the Questions

At the end of your sales pitch, you should leave space to proceed with the conversation. This is one of the most exhausting things about being a sales representative. You leave the book, not knowing where the conversation is heading to next, and too often, the sales representatives lose control of the dialogue.

To avoid this, be aware of the questions or objections you might expect from your potential client, and know how to respond to them. Remember that having an objection doesn't mean that they're not interested or won't buy, in fact, it may indicate the opposite.

E. Always Follow up

The conversation shouldn't stop once the sales pitch is over. If you don't convince them immediately, continue with them to stay on top of their minds and continue building the relationship. Studies show that 92% of sales representatives give up after the first "no" they hear, but 4 out of 5 potential clients will say "no" multiple times before they say "yes".

Bonus Content

8.4 Facebook Marketing

8.4.1 History of Facebook

Facebook is an American online social media and social networking service based in Menlo Park, California. It was founded by Mark Zuckerberg, along with fellow Harvard students and roommates Eduardo Saverin, Andrew McCollum, Dustin Moskovitz and Chris Hughes.

The founders initially limited Facebook membership to Harvard students. Membership was expanded to Columbia, Stanford and Yale before being expanded to the rest of the Ivy League, MIT and higher education institutions in the Boston area, then various other universities and lastly high school students. Since 2006, anyone who claims to be at least 13 years old has been allowed to become a registered user of Facebook.

Today, Facebook is a popular global social networking website. Facebook is one of the world's most valuable companies. It is considered one of the Big Five technology companies along with Microsoft, Amazon, Apple, and Google.

Facebook offers other products and services beyond its social networking platform, including Facebook Messenger, Facebook Watch and Facebook Portal. It also has acquired Instagram, WhatsApp, Oculus, Giphy and Mapillary.

Facebook ranked No. 76 in the 2018 Fortune 500 list of the largest United States corporations by revenue. Most comes from advertising. One analysis of 2017 data determined that the company earned US $20.21 per user from advertising. Facebook claimed that it had more than 2.3 billion monthly active users as of December 2018.

Facebook is by far the largest of all the social networks, based on just about every measure. But it's a constantly evolving platform based on algorithm changes, new tools and shifting demographics. Effective Facebook marketing requires an understanding of the latest Facebook statistics and how they apply to your social marketing strategy.

8.4.2 Facebook Today

Facebook has been shaping the social media landscape since its launch and is continually evolving to meet its user's needs. With over 2.32 billion active monthly users, Facebook remains the most widely used social media platform.

Quick Facts:
- Facebook is the world's third-most visited website
- Facebook is the fifth-most downloaded free mobile app
- 74% of Facebook users log in daily
- Facebook users spend 38 minutes per day using the platform
- 90 million small businesses use Facebook
- 87.1% of U.S. marketers will use Facebook marketing in 2020
- An average Facebook user clicks on 11 ads per month
- 94% of Facebook's advertising revenue comes from mobile

8.4.3 The Facebook Business Page

Unlike personal profiles, Pages on Facebook are for businesses, brands, organizations and public figures to share their stories and connect with people. Like profiles, Pages can be customized with stories, events and more. People who like or follow a Page will get updates in their personal news feed.

Note: Anyone can create a Page, but only official representatives can create a Page for an organization, business, brand or public figure.

Before we start creating a Facebook Page, it important to understand a few basic concepts.

Post reach is the number of people who saw any of your posts at least once. This metric is estimated.
Paid reach is the number of people who saw a paid post from your Page on their screen.
Organic reach is the number of people who saw an unpaid post from your Page on their screen.

Keep in mind that the sum of organic and paid reach won't always equal post reach. For example, if one person sees your post through both organic and paid distribution, they'll be counted as 1 in organic reach, 1 in paid reach, and 1 in post reach.

Understanding organic reach

A business Page gives you the opportunity to share your business product and services using multimedia content which will generate likes, shares and comments, and ultimately lead to sales.

The Page will allow your content to be shown to users who comment and like your post, So engagement is key, and this is called organic reach.

The more popular your brand/business becomes, the more organic reach you will get.

The benefit here is that when people share your post, it gives your business an opportunity to be seen by the friends of that person even if they didn't like the page.

Organic reach can be broken down into viral and non-viral:

Viral reach is the number of people who had any content from your Page or about your Page appear on their screen because a friend of their likes or follows your Page, engages with a post, shares a photo of your Page or checks into your Page.

Non-viral reach is the number of people who see any content from your Page appear on their screen, independent of any of their friends on Facebook.

Call to action
Facebook allows you to use a call to action to engage with your clients when they land on your Page.

With a business Page, you can ask visitors to take action on your page in a variety of ways:

Set up an event
Use your business Page to announce upcoming events and ask your followers to attend. You can set up a webinar, live presentation, etc.

Create an online store
Displaying and advertising your products and services on your Facebook business page is a great way to let your clients know about your offer and eventually get them to buy from you.

Build a community
Building a community is a great way to grow your brand and earn trust. You can build a community to share your business culture and values. Members of the community can contribute and share your content. If managed properly, this will lead to a viral effect for your brand.

Create a group
Another benefit of a Facebook business Page is that you can create a group about your business and invite others to participate. Make sure that the group shares educational content to give people value. Truth be told, if you aren't giving value, people will leave the group.

Ask for reviews
As a business owner, a review is a way of recommending others to buy from you. You can ask your followers to write a review of your product or service. This will give prospective clients or customers confidence to do business with you without worries.

8.4.4 Creating Your Facebook Business Page

To get started, you must have a Facebook account. If you don't have one yet, you can sign up for one for free on *www.facebook.com*
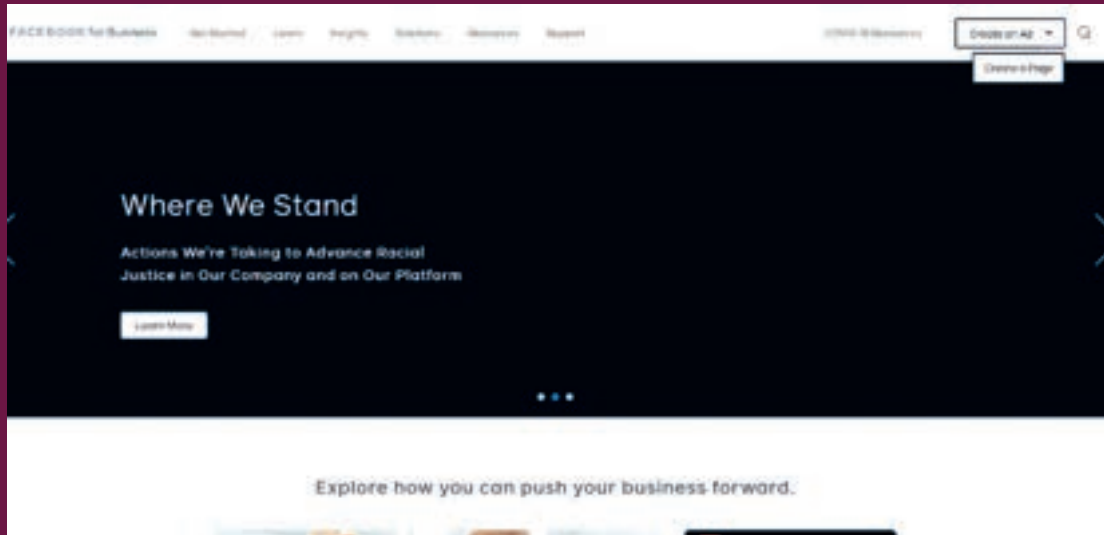
Once you have a personal profile, go to *www.facebook.com/business* and create a Page:

1. Click to choose a Page type
2. Fill out the required information

Page name

Three tips for choosing a Facebook Page name:

• Keep it simple
• Keep it short
• Be specific
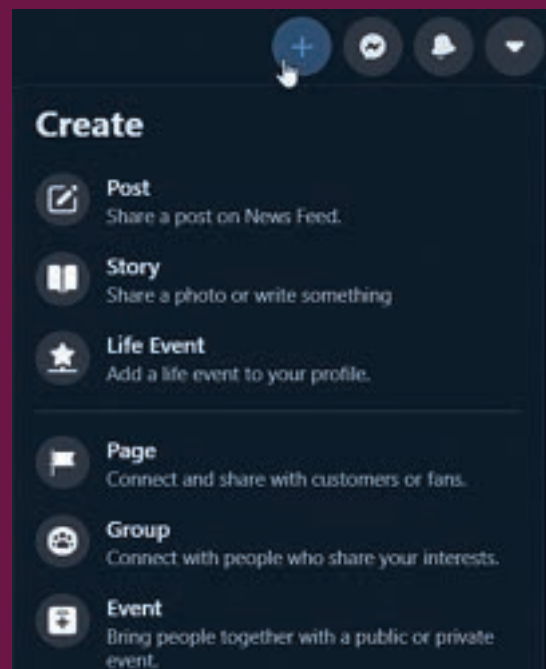
Category

Type a word or two to best describe your brand or business, then choose a suggested category.

Profile Picture

Remember that a picture speaks a thousand words. Make sure you select a picture that is visually appealing. It is advisable to use a square image that is easily recognizable when small and also communicates your offer/ brand.

Cover Photo

A cover picture is a banner that draws attention to your page. Make sure the image you use clearly expresses what your business is all about. You can also include text in your cover image to tell them to act on your page.
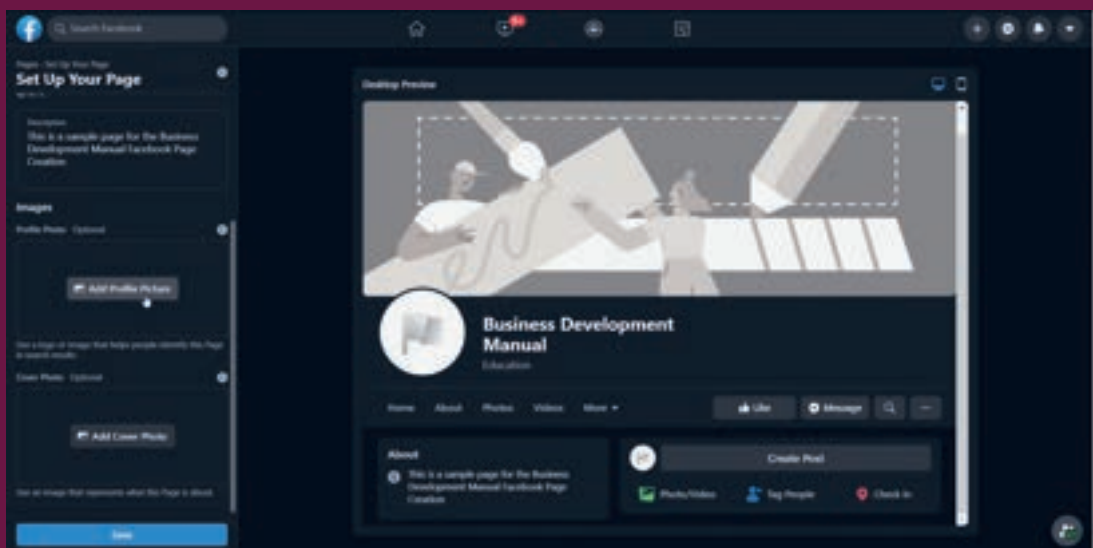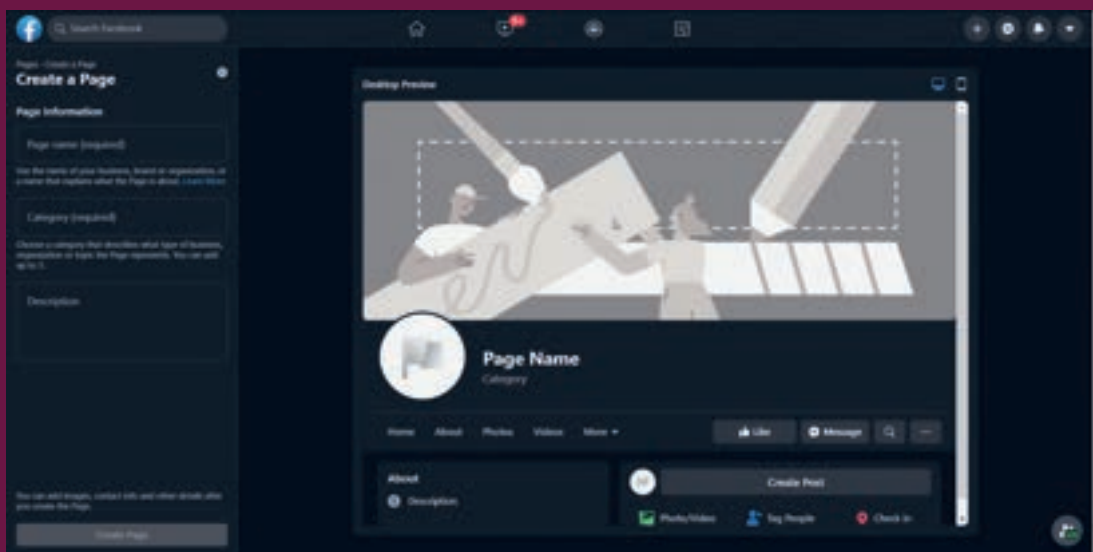
Congratulations! Now you have a Facebook Page. Let's explore its different elements. Facebook will prompt you to go on a tour to understand the Page. This is strongly recommend unless you're already familiar with it.

Create a username
Take that extra step and create a username that
represents your business.
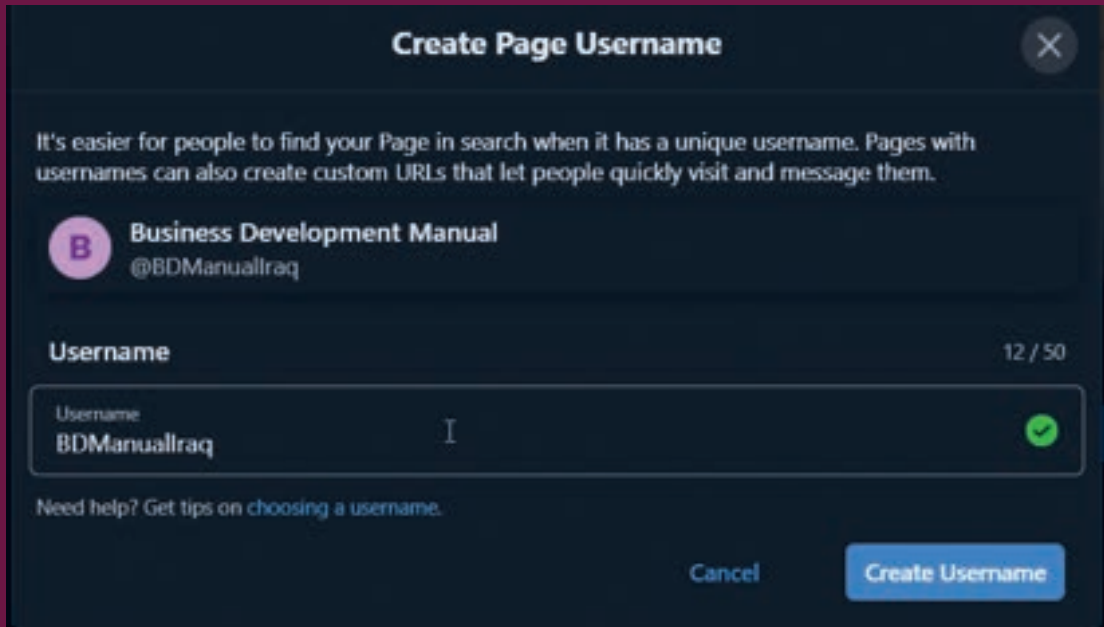
Add a description
Make it easier for people to know what your business offers. Write a short and straight-forward description explaining your offer. A good description tends to attract the right buyer to like and engage with your page.

Complete the "About" section
People will want to know more, what you do, hours you open for business, etc. This information can be entered in the About section.
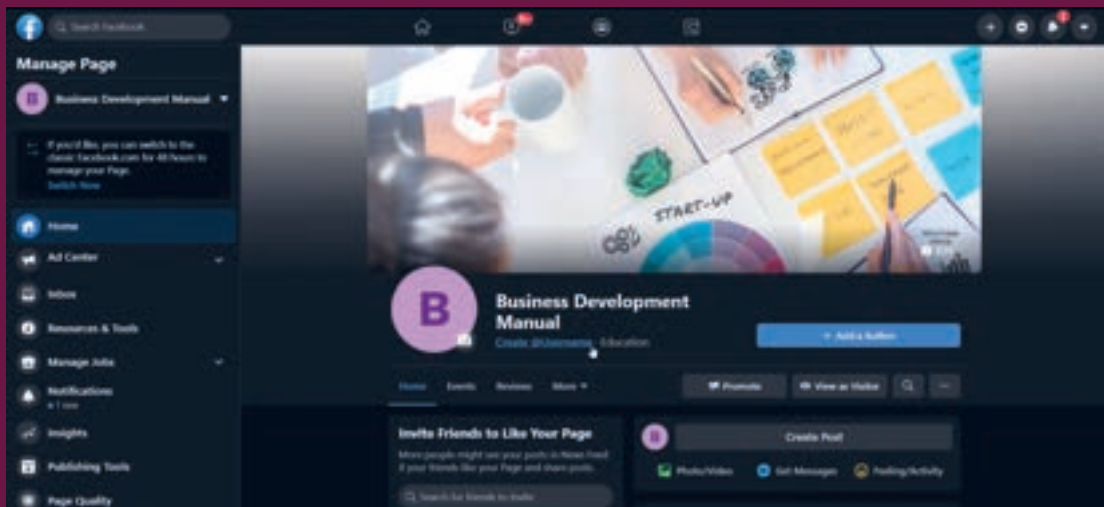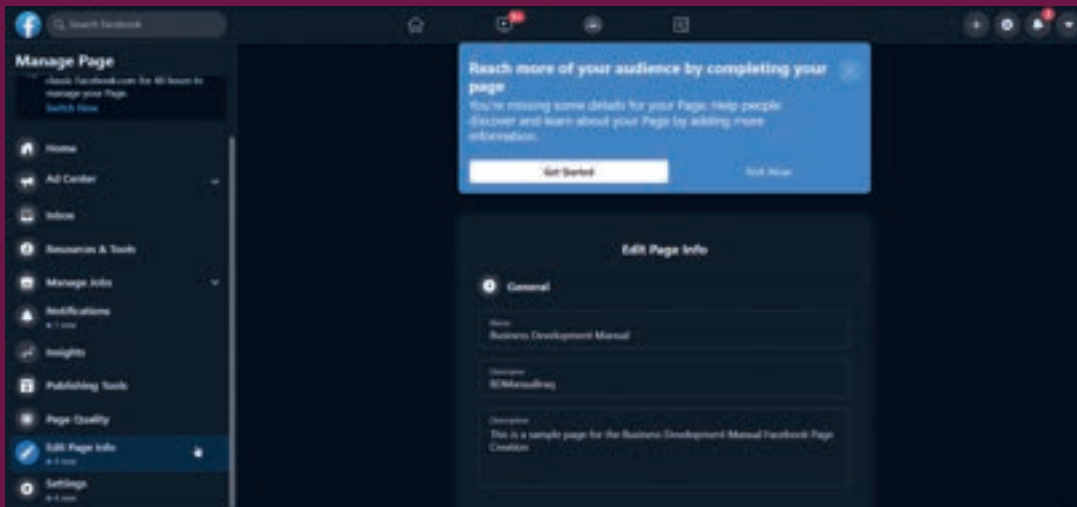
8.4.5 Optimizing Your Facebook Business Page

A call to action button
The reason you created a business Page is to capture leads and turn them into paying customers.
There are a variety of a call to actions to choose from:

• If you want visitors to book an appointment, you select the "**Book with you**" option
• If you want visitors to contact you select **"Contact you**" and pick how from the drop-down, i.e. your customers
  can message you, call you, sign up for your offer or email you.
• If you want visitors to watch a video or read a blog post, select the "**Learn more**" button and pick from the
  options.
• If you have an e-commerce store, you can ask your visitors to "**Shop with you**" and choose the appropriate
  action that suits you
• Lastly, if you are a developer or you have an app you want people to download, you can ask them to do that
  by selecting the "**Download app**" option.

A pinned post
Let's say you have top-performing content and you want anyone who visits your page to see it. You can decide to pin this post to the top.
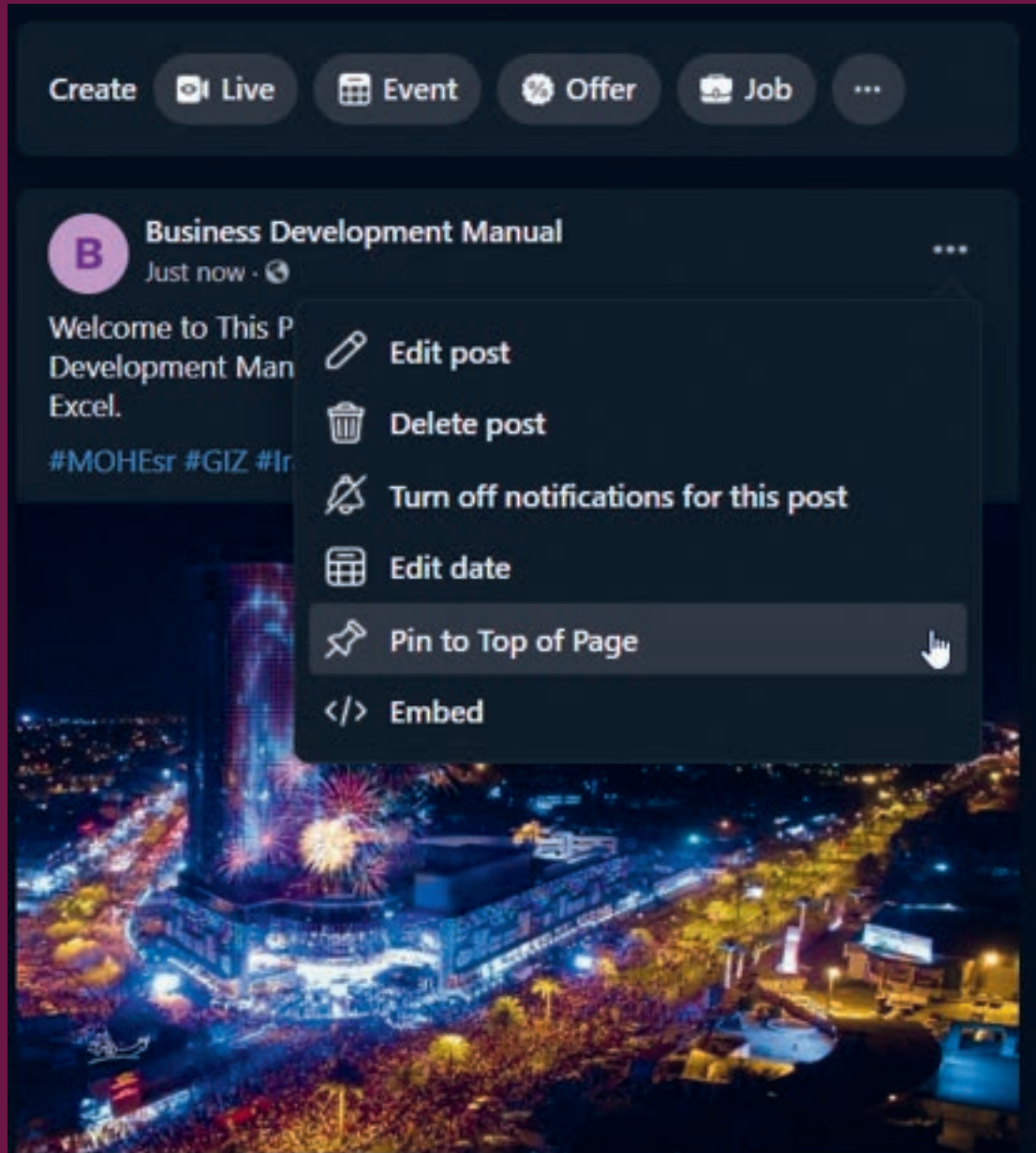
Integrate apps
Integrate a third-party app on your Facebook
business page like TabSite, MailChimp, Hootsuite or others.

Like other Pages
Facebook is all about networking. You should like other business Pages that provide supplementary services and products. For example, if you sell orange juice, you can like a business Page that sells refrigerators. When you like other business Pages you are expanding your network and that will help to promote your page when running ads on Facebook.

Take advantage of Facebook Page Insights & understand your audience
The ability to know how people interact with your posts and content can't be overemphasized. Facebook Insights give you metrics to measure your overall performance. It segments audience data using demographic and engagement, enabling you to better understand your audience. Insights also helps you to know who has clicked on your call-to-action button, visited your website, download your app, etc. It also shows you how many followers you have. Learn more about Facebook Insights in section 8.4.6.
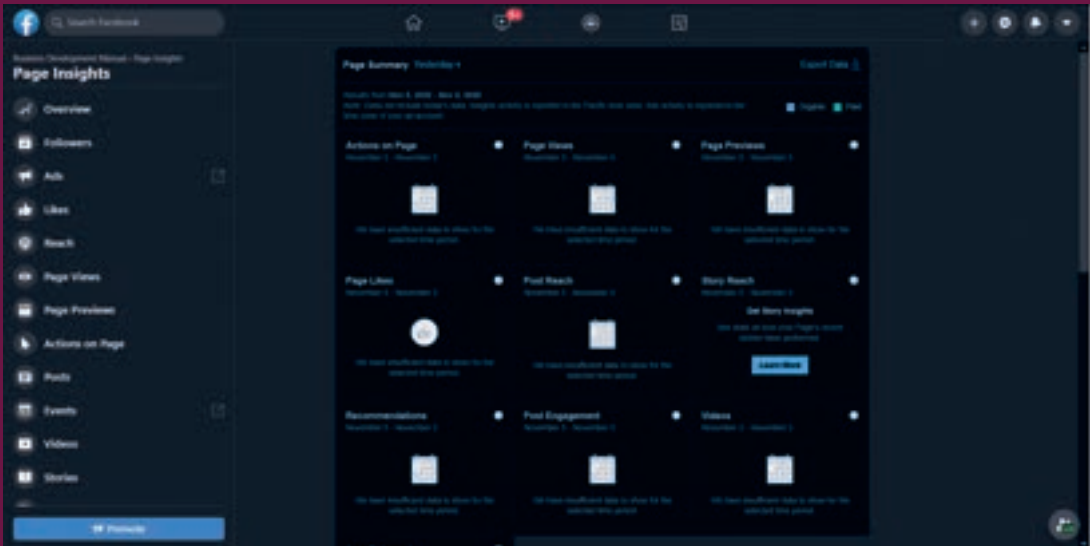
Link to your Facebook Page from your website
To give your page maximum exposure, always link to it whenever there is an opportunity to do so. A good place to start is to link to your page from your website. Ask people to follow you on Facebook.

Show your product or brand
People scroll through their Facebook feed quickly. Show what you're selling, your brand or your logo to communicate your message efficiently.

Avoid too much text on the image
Crop tightly around the important part of the image. To show multiple images, use the carousel format.

Get professional
You can use Creative Hub to experience your posts as your audiences will on their computers and phones.
https://business.facebook.com/ads/creativehub

You can find further materials and educational content on Facebook Blueprint, as well as free courses and paid exams to get certified.
https://www.facebookblueprint.com/student/catalog

Audience Insights

"
FACEBOOK ENABLED US TO LAUNCH OUR NEXT-GENERATION DEVICE SUCCESSFULLY BY HELPING US DEFINE OUR TARGET MARKET, AND TELL OUR STORY WITH USEFUL TOOLS LIKE VIDEO AND CAROUSEL ADS"

JUAN JARAMILLO.

8.4.6 Facebook Insights

Facebook Insights give you tons of valuable information that can help you track and measure your results. Use them to refine your strategy and measure your return on investment.
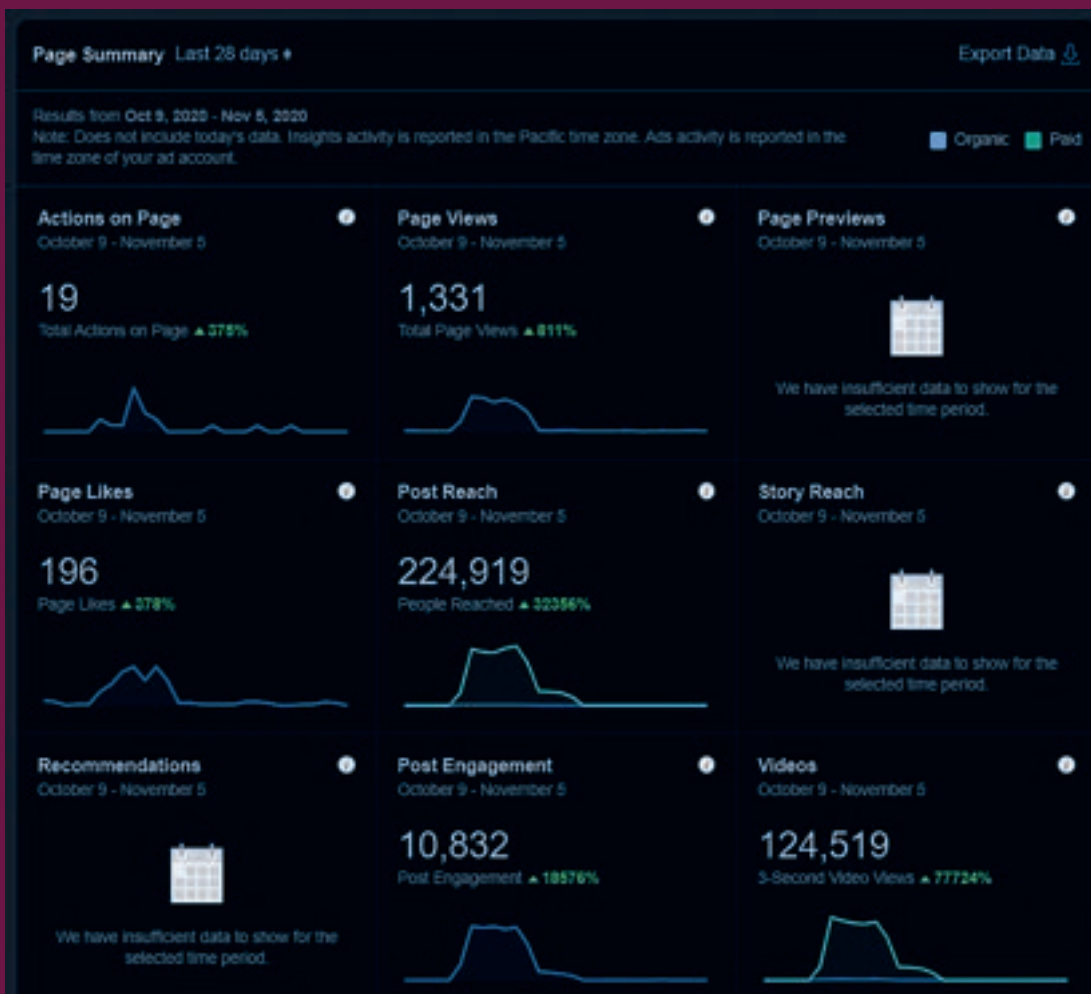
Understanding how and when people interact with the content you post on Facebook is also an important way to make sure the Facebook algorithm works for you, rather than against you.

Facebook Page Insights vs. Facebook Audience Insights

Facebook Page Insights gives you detailed analytics for your Facebook Page, so you can track what works, learn how people interact with your content and improve your results over time.

Facebook Audience Insights helps you understand your Facebook audience so you can better target ads and create more relevant content. **How to use Facebook Insights**

How to use Facebook Insights
Go to your Facebook Page and click Insights in the top menu. If you don't see Insights in the menu, click More to bring it up. You'll be taken straight to your Overview. This is what you can find there:

Actions on Page
The combined total clicks for your contact information and call-to-action button.

Page views
Total views of your Facebook Page, including by people not logged into Facebook.

Page previews
The number of times people hovered their mouse over your Page information to see a preview of your Page.

Page likes
The number of new likes.

Post reach
The number of people who saw your posts in their timeline.

Story reach
The number of people who saw your Stories.

Recommendations
The number of people who recommended your Page.

Post engagement
A combined total of post likes, comments, shares and other engagements.

Responsiveness
An evaluation of how often and how fast you respond to messages.

Videos
The number of video views of three seconds of more.

Page followers
The number of new followers

Orders
Your orders and earnings.

Your 5 most recent posts
This gives you the reach and engagement numbers for your latest posts.

Pages to watch
You can manually add other Pages you want to compare to your own. For example, you could add a competitor's page to see how you measure up.

Posts: Detailed analysis

The Posts section of your Facebook Insights dashboard gives you tons of important information about your posts and the activity on your Page, divided into three tabs:

• When Your Fans Are Online
• Post Types
• Top Posts from Pages You Watch
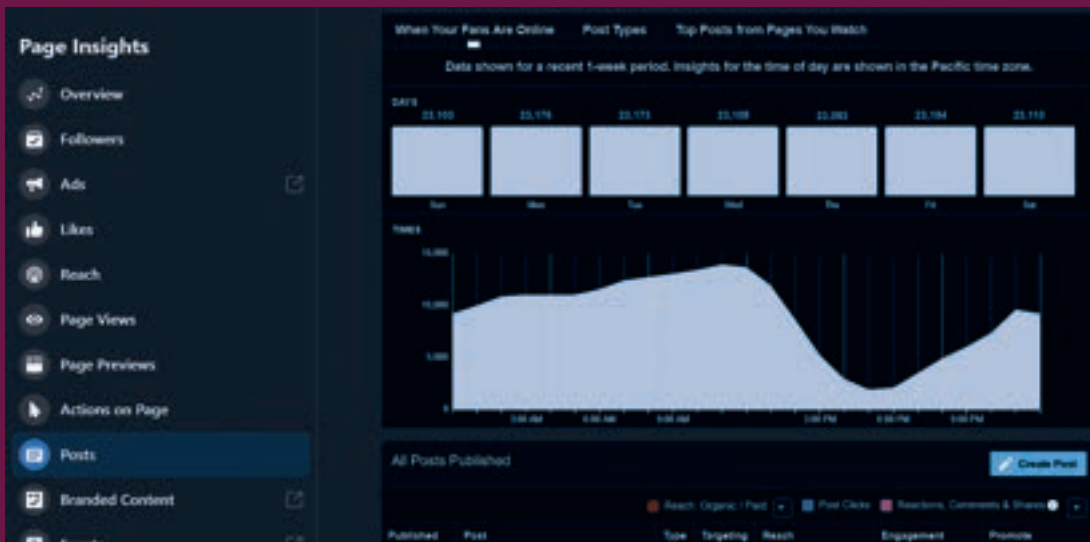
All Published Posts
• **Type:** Was it a link post? A photo? A video?
• **Targeting:** Was it a public post? Did you target a specific audience?
• **Reach:** By default, this column shows the number of people who saw your post. You can also see the break-down of paid versus organic reach. At the top of the All Posts Published section, there's a drop-down menu that you can use to change what's displayed in this column. Your other options are to view impressions (**organic** vs. **paid**) or reach among **fans** vs. **non-fans**.
• **Engagement:** Here you see the number of clicks each post got, as well as the combined number of reactions, comments and shares.

Facebook Insights tips and what to track

Reach and engagement: How many people saw your posts? Who interacted with them? Which posts did people hide? Did people report any posts as spam? You can find this information by selecting **Reach** in the left-hand menu.

Actions: What actions do people take on your Page? How many people click your call-to-action button? How many people click through to your website?

People: What are the demographics of the people who visit your Page? When do people visit your Page? How do people find your Page?

Views: How many people are viewing your Page? Which sections are they looking at?

Posts: How are your posts performing over time? Look for trends in your content that performs well so you can create more posts like these.

Rethink your target audience: Are the people who are actually visiting your Page the same people you thought would visit your page? In the Actions on Page section you can see who clicked on your contact information, call-to-action button, or website broken down by age and gender, country, city, and device. Who are the people that engage with your Page the most? Adjust your Facebook content strategy to better align with the audience that naturally connects with you here.

Keep an eye on unfollows: If you see a spike of people choosing to unfollow your page, look at the content you posted that day. Did you share something that annoyed your fans? You'll find this information under the Followers tab in the left-hand menu.

Schedule your posts at the best times: Timing matters on Facebook, once you have real data about your own Facebook Page, you can schedule your posts for the times your own specific audience is most likely to be online. You can find this information under Posts.

Optimize your Page for your preferred action: Facebook Insights shows you what actions people take on your website, from interacting with posts to clicking on your contact information to clicking through to your website.

Check back often: Checking in on Facebook Insights is not a one-time activity. Your Facebook analytics data is constantly being updated, so you'll want to pay attention to any patterns you see developing.

If you want to keep a permanent record or import your data into a different analytics tool, you can do that too. Click Export Data on the top right of the overview tab to download data about your page from any 180-day period in the last two years.

You can choose to download data for your Page, your posts or your videos. Just choose the specific date range and file format that works best for you.
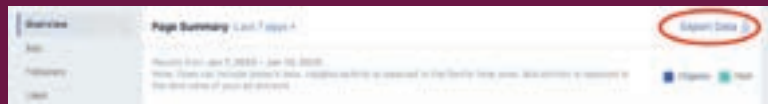
8.4.7 Facebook Ads

Facebook offers a variety of paid ad options and placements, but all ads can be broken down into three elements:

Campaigns: This houses all of your assets.
Ad sets: If you're targeting separate audiences with different characteristics, you'll need an individual ad set for each.
Ads: Your actual ads live within your ad sets. Each ad set can hold a variety of ads that vary in color, copy, images, etc.

Start creating an ad through Facebook Ad Manager

You'll see a performance dashboard where all of your campaigns, ad sets, and ads will be listed including the results they've driven for your Facebook page. Unless you've already created an ad for your Facebook Page, this dashboard will be empty.
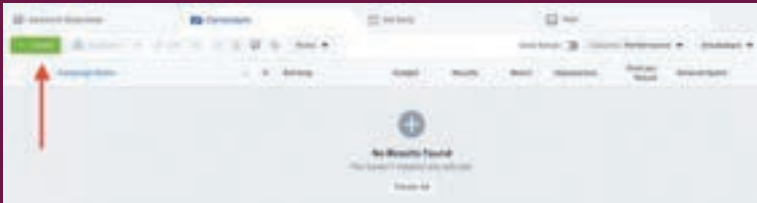
To create a new campaign, ad set, or ad through the Facebook Ad Manager, tab over to the type of ad you want to create and click the green "Create" button to the far left of these ad types, as shown in the screenshot in which we're currently set to create a new campaign.
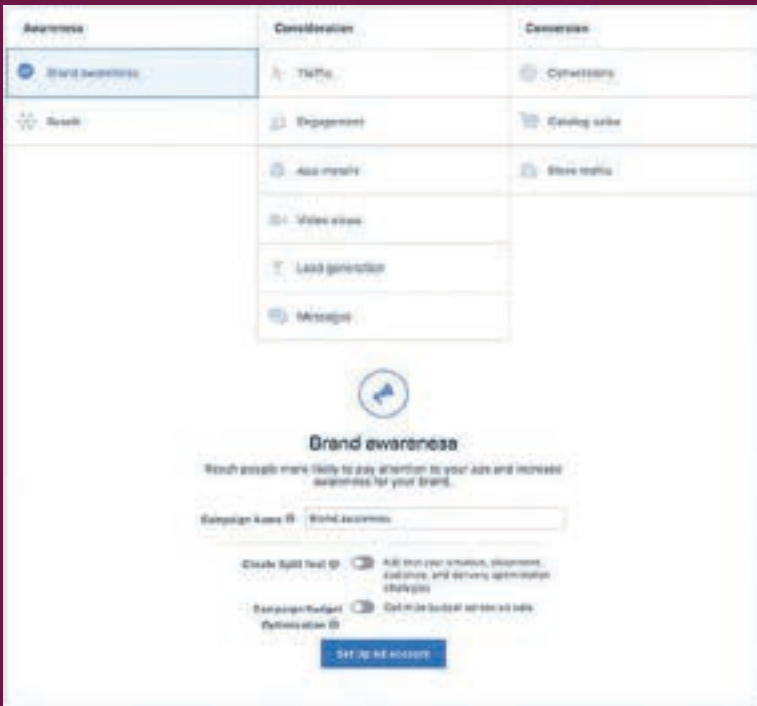
Choose an objective

Before getting started, Facebook Ad Manager will prompt you to choose an objective for your campaign:

There are 11 different objectives to choose from. As shown in the screenshot above, Facebook's ad options include:

• Brand awareness
• Reach
• Website traffic
• Engagement
• App installs
• Video views
• Lead generation
• Messages
• Conversions
• Catalog sales
• Store traffic

Choose your audience

Your next step is to configure your target audience. You can do this for each ad set that belongs to the same campaign.

Facebook's targeting criteria are accompanied by an audience definition gauge. This tool – located to the right of the audience targeting fields – takes all of your selected properties into consideration in order to come up with a potential reach number.

If you're wavering between choosing a specific audience over a broad one, consider your objective. If you're looking to drive traffic, you'll probably want to focus on the type of people you know will be interested in your offering. However, if you're looking to build brand awareness or promote a widely appealing offer, feel free to focus on a more general audience.

Facebook's built-in targeting is vast, including options such as:
• Location
• Age
• Gender
• Languages
• Relationship
• Education
• Work
• Financial
• Home
• Ethnic Affinity
• Generation
• Parents
• Politics (U.S. only)
• Life Events
• Interests
• Behaviors
• Connections

You also have the option to select a Custom Audience – this allows you to target people on Facebook who are in your company's contact database.

Once you find a group that responds well to your ads, Facebook allows you to save these audiences to be used again later – so you may not need to dive into this step once you've been running Facebook ads for a while.
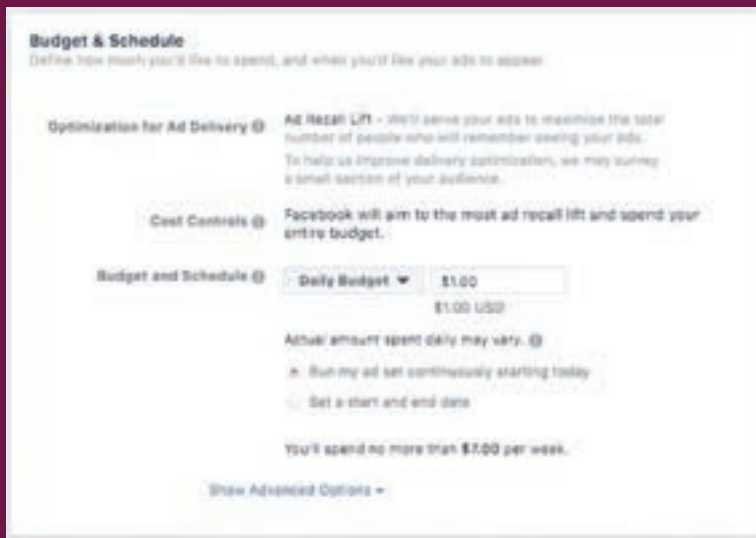
Set your budget
Facebook allows you to set either a daily budget or a lifetime budget. Here's how they differ from each other:

Daily budget: If you want your ad set to run continuously throughout the day, this is the option you'll want to go for. Using a daily budget means that Facebook will pace your spending per day. Keep in mind that the minimum daily budget for an ad set is $1.00 USD and must be at least 2X your CPC.

Lifetime budget: If you're looking to run your ad for a specified length of time, select lifetime budget. This means Facebook will pace your spend over the time period you set for the ad to run.

Other aspects to understand about Facebook Ads

CPC (Cost per Click)
CPC shows how much, on average, each link click costs you. CPC is a metric used in the online advertising industry for benchmarking ad efficiency and performance. The metric is calculated as the total amount spent divided by link clicks.

To further specify your budgeting, turn to the advanced options, this section allows you to specify a few things:

Schedule
Choose whether or not you want your campaign to run immediately and continuously or if you want to customize the start and end dates. You can also set parameters so that your ads only run during specific hours and days of the week.

Optimization & Pricing
Choose whether you want to bid for your **objective**, **clicks**, or **impressions**. (This will alter how your ad is displayed and paid for.) By doing so, you'll pay for your ad to be shown to people within your target audience that are more likely to complete your desired action, but Facebook will control what your maximum bid is.

If you don't want Facebook to set **optimal bids** for you, you'll want to opt for **manual bidding**. This option awards you full control over how much you're willing to pay per action completed.

Delivery
Delivery type falls under two categories: **standard** and **accelerated**. Standard delivery will show your ads throughout the day, while accelerated delivery helps you reach an audience quickly for time-sensitive ads (**Note**: this option requires manual bid pricing).

Types of ads

What type of ad you create and publish will all depend on your objectives. If you're looking to increase the number of clicks to your website, Facebook's Ad Manager will suggest the Clicks to Website ad option. This ad option is broken down into two formats: Links and Carousels. Essentially, this means that you can either display a single image ad (Links) or a multi-image ad (Carousel) with three to five scrolling images at no additional cost.
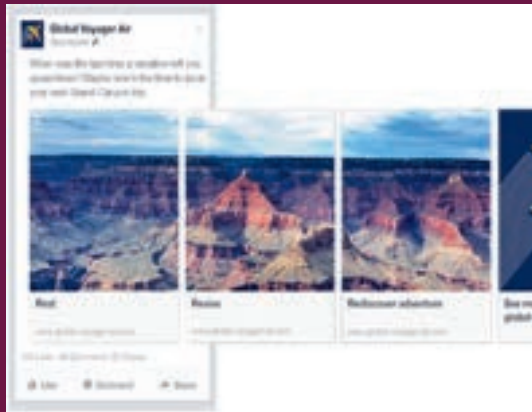
Once you select an ad type, the Ad Manager will prompt you to identify how you'd like to display your ad. The options they provide are as follows: **Desktop News Feed, Mobile News Feed and Desktop Right Column.**
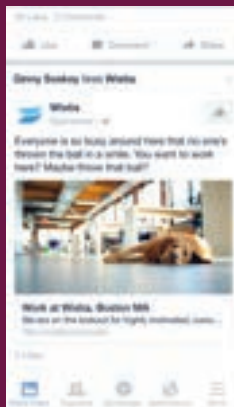
Mobile News Feed   Desktop News Feed   Desktop Right Column

Following performance

Once your ads are running, you'll want to keep an eye on how they're doing. To see their results, you'll want to look at Facebook Ad Manager's dashboard, which provides you with an overview of all your campaigns.

Upfront, the dashboard highlights an estimate of how much you're spending each day. The dashboard is organized by columns, which makes it easy to filter through your ads so you can create a custom view of your results. Key numbers like reach, frequency, and cost are readily available. This makes keeping track of performance a no brainer.

Key metrics

Performance: Can be customized further to include metrics like results, reach, frequency and impressions.

Engagement: Can be customized further to include metrics like Page likes, Page engagement and post engagement.

Videos: Can be customized further to include metrics like video views and avg. % of video viewed.

Website: Can be customized further to include metrics like website actions (all), checkouts, payment details, purchases and adds to cart.

Apps: Can be further customized to include metrics like app installs, app engagement, credit spends, mobile app actions and cost per app engagement.

Events: Can be further customized to include metrics like event responses and cost per event response.

Settings. Can be further customized to include metrics like start date, end date, ad set name, ad ID, delivery, bid and objective.

Clicks: Can be further customized to include metrics like clicks, unique clicks, CTR and CPM.

CTR (Click-Through Rate): The percentage of times people saw your ad and performed a link click. CTR indicates how many link clicks you've received on your ad compared to how many impressions your ad received. It is a common metric used by online advertisers to understand how ads drive traffic to websites and other destinations. The metric is calculated as link clicks divided by impressions.

CPM (Cost per 1,000 Impressions): CPM is a common metric used by the online advertising industry to gauge the cost-effectiveness of an ad campaign. It's often used to compare performance among different ad publishers and campaigns. CPM measures the total amount spent on an ad campaign, divided by impressions and multiplied by 1,000. (Example: If you spent $50 and got 10,000 impressions, your CPM was $5.)

8.4.8 Design Recommendations

A. Video

Upload the highest resolution source video available without letter or pillar boxing (no black bars). Most file types are supported.

Facebook recommends H.264 compression, square pixels, fixed frame rate, progressive scan, and stereo AAC audio compression at 128kbps+.
Video File Size: 4GB max.

Video Captions: Optional but recommended

View graphics below of the different video requirements across ad placements.

Video thumbnail images that consist of more than 20% text may experience reduced delivery.

Vertical videos (with an aspect ratio taller than 4:5) may be masked to 4:5

B. Images
File type: jpg or png
Image ratio: 1.91:1 to 4:5
Recommended resolution: Upload the highest resolution image available.
Images that consist of more than 20% text may experience reduced delivery.
Primary text: 125 characters

C. Best Practice for Image Ads on Facebook
Testing is still the best way to find out what works with your audiences. However, Facebook has some creative image recommendations based on tactics that seem to work well.

• **Use the recommended aspect ratio for each placement** below:

For feed:

For stories:

In-Stream						
Facebook In-Stream Video	✓	Recommended for images and videos		✓	✓	✓
Search						
Facebook Search Results		Recommended for images		Recommended for videos		
Messages						
Messenger Sponsored Messages	✓	Recommended for images and videos	✓	✓	✓	✓
In-article						
Facebook Instant Articles	✓	Recommended for images and videos	✓	✓	✓	✓
Apps and Sites						
Audience Network Native, Banner and Interstitial	✓	✓	✓	✓	✓	Recommended for images and videos
Audience Network Rewarded Video	✓	✓	✓	✓	✓	Recommended for images and videos

For in-stream, search, messages, in-article, apps and sites

	1.91:1	16:9	1:1	4:5	2:1	9:16
Feeds						
Facebook Feed	✓	✓	Recommended for images	Recommended for videos		
Instagram Feed and Explore	✓	✓	Recommended for images	Recommended for videos		
Facebook Marketplace	✓	✓	Recommended for images	Recommended for videos	✓	✓
Facebook Video Feeds	✓	✓	Recommended for images	Recommended for videos	✓	✓
Facebook Right Column	Recommended for images and videos	✓	✓	✓	✓	✓
Messenger Inbox	✓	✓	Recommended for images and videos	✓	✓	✓

• **Use high-resolution images.** See below minimum pixel size requirements

Facebook	Image pixel size
Facebook Feed	For images with a link on desktop 479 x 246 pixels, and on mobile min width 320 pixels. We recommend 1,080 x 1,350 pixels.
Facebook Right Column	254 x 133 pixels. We recommend 1,200 x 1,200 pixels.
Facebook Instant Articles	For images with a link, we recommend 1,200 x 1,200 pixels.
Facebook Marketplace	For images with a link, we recommend 1,200 x 1,200 pixels.
Facebook Stories	We recommend 1,080 x 1,920.

8.5 Instagram Marketing

8.5.1 Overview of Instagram
Instagram is an American photo and video sharing social networking service owned by Facebook, created by Kevin Systrom and Mike Krieger. As of January 2019, the Stories feature is used by 500 million users daily. After its launch in 2010, Instagram rapidly gained popularity, with one million registered users in two months, 10 million in a year, and 1 billion as of May 2019. As of October 2015, over 40 billion photos had been uploaded.

Quick Statistics:

• Instagram was the second-most downloaded free app in the Apple app store in 2018.
• The most-liked photo on Instagram is a picture of an egg, posted by the account @world_record_egg which currently has over 54 million likes.
• As of July 2020, the most followed person is footballer Cristiano Ronaldo with over 233 million followers.
• 1 billion people use Instagram every month as of May 2019.
• As of October 2015, over 40 billion photos had been uploaded.
• 89% of users are outside the U.S (top countries: Brazil, India, Indonesia, Russia).
• Rounding out the top five countries with the highest reach are: Iceland, Turkey, Sweden, Kuwait.
• 63% of Instagram users log in at least once per day.
• Instagram users will spend an average of 28 minutes per day on the platform in 2020.
• 200 million Instagram users visit at least one business profile daily.
• 62% of people say they have become more interested in a brand or product after seeing it in Stories.
• 130 million Instagram users tap on shopping posts every month

Influencer rates worldwide, by social media platform and influencer tier, March 2019

	Nano (500-5k followers)	Micro (5k-30k followers)	Power (30k-500k followers)	Celebrity (500k+ followers)
Instagram				
Post	$100	$172	$507	$2,085
Video	$114	$219	$775	$3,138
Story	$43	$73	$210	$721
YouTube Video	$315	$908	$782	$3,857
Facebook Post	$31	$318	$243	$2,400

www.emarketer.com

- U.S. Marketers spend 69% of their influencer budgets on Instagram.
- U.S. marketers spend 31% of their Instagram ad budget on Stories.
- Instagram will earn $12.32 billion in ad revenue in 2020.
- 73% of U.S. teens say Instagram is the best way for brands to reach them about new products or promotions.
- 75.3% of U.S. businesses will use Instagram in 2020.
- Brands post an average of 2.5 Stories per week.
- One-third of the most viewed Stories are from businesses.
- Instagram represents 10.7% of social referral share to e-commerce sites.
- More than 25 million companies worldwide are already using Instagram for business, and more than 200 million users visit at least one business profile every day.
- There were 9,545,000 Instagram users in Iraq in January 2020, which accounted for 22.7% of its entire population, most of them were men (68%) and people aged 25 to 34 were the largest user group (3,800,000).

8.5.2 Instagram for Business

Step 1: Open an Instagram account

1. Download the Instagram app for iOS, Android, or Windows.
2. Open the app and tap **Sign Up**.
3. Enter your email address and tap **Next**. If you want to connect your Instagram business account to your Facebook Business Page, make sure to use an admin email address to sign up, or tap **Log in with Facebook**.
4. Choose your username and password and fill in your profile information.
5. Tap **Done**.
6. You now have a personal Instagram account that's ready to convert to a business account. Continue by following the steps below.

Step 2: Convert it to a business account

1. Log into your existing personal Instagram account on the app.
2. Tap the profile icon to go to your profile.
3. Tap the three lines icon at the top right of the screen, then tap Settings.
4. Tap Switch to Business Profile, then Continue.
5. (Optional) If you want to connect your Instagram business account to your Facebook business page, follow the prompts to do so.
6. Add contact information. Your Instagram business account must include an e-mail address, a phone number or a physical address (or all of these).
7. Tap Done.

Step 3: Create an Instagram strategy

Define your target audience
Before you can decide what kind of content to post in Instagram, you need to think about who's going to see it. There were 9,545,000 Instagram users in Iraq in January 2020, which accounted for 22.7% of the entire population of Iraq.

Once you understand who your audience is, think about what kind of content they want to see from you. What kind of content do they post on their own accounts? How do they interact with your competitors or similar brands?

Set goals and objectives
Understanding your goals keeps you on track and allows you to focus your efforts on achieving real business objectives.

To set the most effective goals, follow the SMART framework:

SMART

| Specific | Measurable | Attainable | Relevant | Timebased |
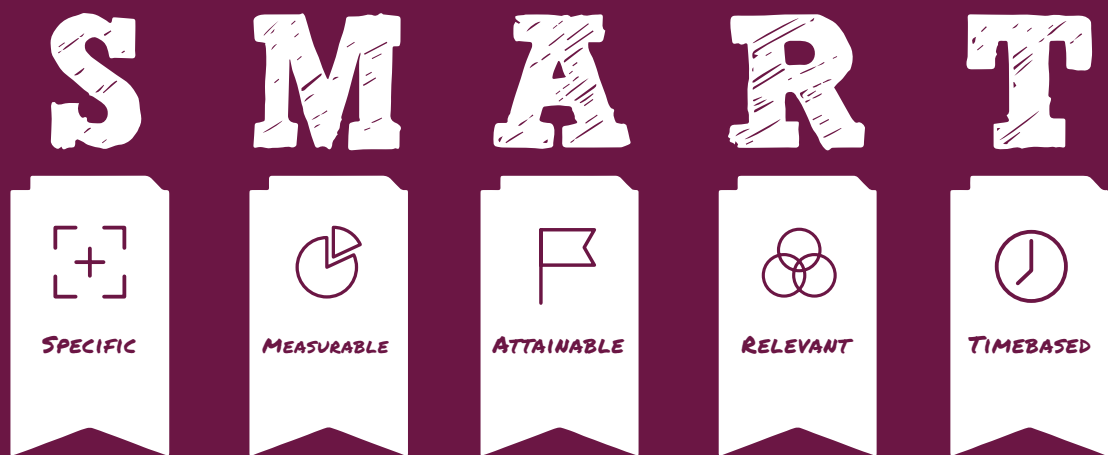
Focus on the right performance metrics
The exact metrics to measure and track will vary for each business. But, broadly, you should focus on metrics related to the social funnel. That means your goals should align to one of the four stages in the customer journey:

Awareness: Includes metrics like brand awareness, follower growth rate and post reach.
Engagement: Includes metrics like engagement rate (based on likes) and amplification rate (based on shares).
Conversion: In addition to conversion rate, this includes metrics like click-through rate and bounce rate. If you're using paid ads, conversion metrics also include cost per click rates CPC and CPM.
Customer: These metrics are based on actions customers take, like providing testimonials.

Commit to a regular posting schedule
Once you start building a following on Instagram, your fans will expect to see posts from you on a regular basis. You want to keep them aware of your brand and engaged with your content without overwhelming them to the point that they tune out – or worse, unfollow.

Hootsuite and Unmetric analyzed 200,000 Instagram posts in 11 different industries and determined that the best time to post on Instagram varies greatly depending on your industry. The Food and Beverage industry, for example, finds the most success posting at 12 noon, while the Education industry receives lots of engagement when they post at 4 p.m.

Besides benchmarking your account against other top brands in your industry, you'll need to do some testing to determine what times seem to create the most engagement for your posts.

The key factor is to understand when your audience is online. To access this information, check Instagram Insights. Go to your Instagram business profile, click the three bars icon in the top right, then click Insights. Click on the Audience tab and scroll down to see active times.

Once you determine your best time to post, create a content calendar to plan and schedule your Instagram content in advance.

Step 4: Optimize your profile

Your Instagram bio is only 150 characters long, but it needs to do a lot of heavy lifting. It tells first-time visitors who you are, what your brand is all about and why they should care.
Here are some quick tips:

• Use your brand voice: Convey your personality. Go casual, or professional, or a little bit cheeky, depending on what makes the most sense for your business.
• Include hashtags: Instagram bio hashtags are clickable and are a great way to show off user-generated content.
• Try emoji: These little symbols can help you convey a lot of information in just one character.
• Use spacing and line breaks: Line breaks make your bio easier to read online.

Optimize your profile pic
For most businesses, the best profile pic is some version of your logo. Use the same picture you use on other social profiles to help people instantly identify your brand.

Your profile photo displays as 110 x 110 pixels, but it's stored at 320 x 320 pixels. That means it's a good idea to upload an image that's at least 320 pixels square.

Your profile pic is cropped into a photo format on the app, so make sure your logo is fully visible in this shape.

Make sure your profile is complete
Use all the components of your Instagram business account to their full advantage.

• Name and username
• Website

Take advantage of Instagram business profile features

• **Contact information:** Include your e-mail address, phone number or physical address so fans can connect with you directly from your profile. When you add contact information, Instagram creates corresponding buttons (Call, E-mail, or Get Directions) for your profile.
• **Category:** This appears under your name and shows people at a glance what you do.
• **Call-to-action buttons:** These allow users to book an appointment, make reservations, buy tickets and more, right from your Instagram profile. From your business profile, tap Edit Profile, then Contact Options, then Add an action button.

Step 5: Share great content

Create a visual aesthetic for your brand
Instagram is all about the visuals, so it's important to have a recognizable visual identity.

First, think about what you will showcase in your posts. In some cases, the content will be obvious: a clothing line might showcase its clothes, and a restaurant might post photos of its food.

If you offer services, try showcasing customer stories (maybe gathered through a branded hashtag). Or go behind the scenes to highlight office life or introduce fans to the people who make your company tick.

Once you decide on a content theme, go for a consistent visual look. That means consistent colors and filters and an overall aesthetic that is easy to spot as your fans scroll through their Instagram feed.

© shutterstock

Chef and author Dennis Prescott has a visual style that's instantly recognizable, and he gets an incredible engagement rate. With less than half a million followers, he routinely racks up 10,000 to 20,000 likes and hundreds of comments on his posts.

Take amazing photos
To make Instagram work for your business, you've simply got to have great photos. But you don't need to be a professional photographer, and you don't need a lot of equipment.
Your mobile phone is your best friend when it comes to Instagram photography, since you can post straight from your device. Here are some tips to get the best photos when shooting with your phone:

• **Use natural light:** Natural light just makes shadows softer, colors richer and photos nicer to look at.
• **Avoid harsh light.** Late afternoon is an unbeatable time to take photos. Cloudy days are better than sunny ones for mid-day shooting.
• **Use the rule of thirds.** Your phone camera has a grid built in to help you follow this rule. Place your subject where the grid lines meet to create an interesting photo that's off center but still balanced.
• **Try different angles.** Crouch down, stand on a chair – do whatever it takes to get the most interesting version of your shot

Edit your photos like a pro
Use mobile photo editing apps like VSCOcam or Enhance to optimize the quality of your pictures.

Tell great stories with Instagram Stories
End your Stories with a powerful call-to-action to convert your Story views into measurable business success. Want to extend the life of your Instagram Stories content beyond 24 hours? You can do that with Instagram Stories Highlights.

Write compelling captions
Captions allow you to tell a story that makes the photo meaningful. Captions can make your followers think, laugh, and feel a connection to your brand. Take Mr. Pokee the Hedgehog, for example. The Germany-based hedgehog, who has more than 1.8m followers on Instagram, is the latest 'pet-fluencer' to make their owner piles of cash. Marketing student Talitha Girnus, 26, of Wiesbaden bought Mr. Pokee when he was eight weeks old from a dog dealer. She sells mobile phone cases, mugs and other merchandise featuring her pet.

© shutterstock

Step 6: Grow and engage your audience

• Follow and engage with relevant Instagrammers
• Use the right hashtags
  Hashtags help make your Instagram content easier to find. Captions on Instagram are not searchable, but hashtags are.
• Respond to comments and mentions
  Remember, this is social marketing. You can't neglect the social aspect. That means responding to comments and mentions of your brand on Instagram, so users feel motivated to keep engaging with your brand.
  You might be tempted to automate your engagement using bots. Don't do it. It doesn't work out so well. Dedicate some time to responding authentically when someone mentions or tags your brand.
• Work with Instagram influencers
  Influencer marketing is a powerful way of gaining access to an engaged and loyal Instagram following. Aim to work with an influencer whose fans might be interested in your brand.
• Promote your account on other channels
  Try embedding Instagram posts directly in your blog to showcase your best content and make it super-easy for blog readers to follow you. Include your Instagram handle in your e-mail signature, and don't forget about print materials like business cards, flyers and event signage.
• Use Instagram ads to get in front of a large and targeted audience
  Instagram can provide great organic business results, but it's also worth investing in Instagram ads to ensure you get your content in front of a wider (but very targeted) audience.
  In addition to extending the reach of your content, Instagram ads include call-to-action buttons that allow users to take action straight from Instagram, reducing the number of steps required to get them to your website or promotion.
• Run an Instagram-specific campaign
  An Instagram campaign can help you achieve a specific goal more quickly than you could by simply following your overall Instagram business marketing strategy.

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Campaigns can involve ads, but they're not only about paid content. They involve intense focus on a specific goal for a set period of time, in both your organic and paid posts.

- Run an awareness campaign to increase your overall visibility on Instagram.
- Promote a sale using shoppable Instagram posts.
- Drive engagement with an Instagram contest.
- Collect user-generated content with a branded hashtag.

Step 7: Measure success and adjust

- Track results with analytics tools
- Use A/B testing to learn what works (and what doesn't)

Here's the basic outline of an A/B test on Instagram:

1. Choose an element to test (image, caption, hashtags, etc.)
2. Create two variations based what your research tells you. Keep the two versions the same except for the one element you want to test.
3. Track and analyze the results of each post.
4. Choose the winning variation.
5. Test another small variation to see if you can improve your results further.
6. Share what you learn throughout your organization to build a library of best practices for your brand.
7. Start the process over again.

8.5.3 Advertising on Instagram

How much do Instagram ads cost?

Many factors impact the cost of your Instagram ads, including:
- Targeting
- Ad placement
- Ad format
- Time of year

Good to know: AdEspresso found that the average cost per click for most ad placements was $1.20.

Types of Instagram ads

Instagram offers several ad formats:
- Story ads
- Photo ads
- Video ads
- Carousel ads

When using these formats, the following can be taken into account:
Supported objectives

1. App installs
2. Brand awareness
3. Conversions
4. Lead generation
5. Messages

6. Reach
      7. Store traffic
      8. Traffic
      9. Video views

Call-to-action buttons

      1. Apply Now
      2. Book Now
      3. Contact Us
      4. Download
      5. Get Showtimes
      6. Get Quote
      7. Get Offer
      8. Install Now
      9. Learn More
      10. Listen Now
      11. Order Now
      12. Play Game
      13. Request Time
      14. See Menu
      15. Send Message
      16. Shop Now
      17. Sign Up
      18. Subscribe
      19. Use App
      20. Watch More

Collection ads have different options
Supported objectives
      1. Catalog sales
      2. Conversions
      3. Store traffic
      4. Traffic

Call-to-action buttons
      1. Learn More
      2. Purchase

These options apply for Explore ads, IGTV ads and Instagram Shopping ads
Supported objectives

      1. Brand awareness
      2. Conversions
      3. Links click
      4. Post engagement
      5. Reach
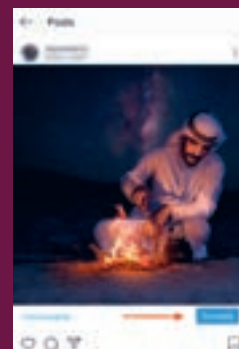
How to advertise on Instagram right from the app
The easiest way to start advertising on Instagram is to promote an existing post on your Instagram profile. This is similar to the Boost Post option for Facebook ads.

To do this, simply navigate to your chosen post and click Promote under the post. Then, complete the options to choose who will see your ad, where you want to send them, how much you want to spend, and for how long you want your ad to run. Finally, tap Create Promotion. That's it! You can monitor the results on the Promotions tab of your Instagram profile.

How to advertise on Instagram using Facebook Ads Manager

A. Choose your objective
To start, go to Ads Manager and click +Create.

There are two different types of workflows that you can choose from to help you create and manage your Instagram ad. The default is Guided Creation, which walks you through the exact steps you should take to create a typical Instagram ad campaign. Guided Creation is very helpful for newer marketers.

Quick Creation gives you more control in crafting your Instagram ad.

First, you need to choose your ad campaign objective. Facebook Ads Manager offers a list of objectives.

Below you will see which objectives you can use with each Instagram ad format above, but here's a quick breakdown of what each of these objectives means.
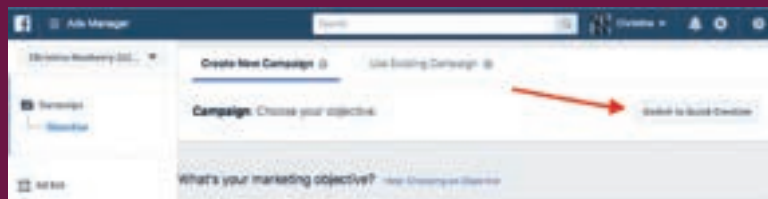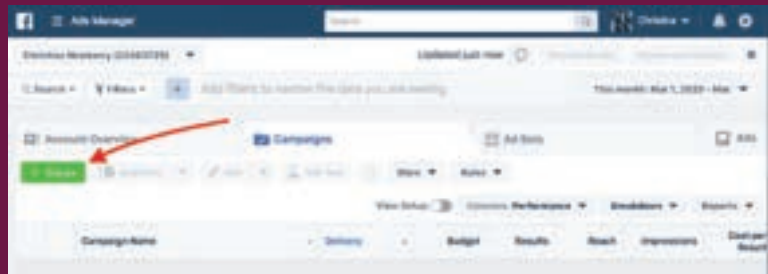
- **Brand awareness:** Helps increase awareness of your business or products among users who haven't heard of you yet.
- **Reach:** Shows your ad to as many people as possible in your target audience.
- **Traffic:** For clicks to your website, to your app or to any other URL you choose.
- **App installs:** Get users to download your app when they see the ad.
- **Engagement:** Aims to increase the amount of comments, likes, shares, event responses and offer claims you receive.
- **Video views:** Share your video with those most likely to watch it.
- **Lead generation:** Gather lead data from users who click on the ad.
- **Messages:** Get users to send a message to your brand account.
- **Conversions:** Drive sales and sign-up conversions on your website or app.
- **Catalogue sales:** Promote sales of products from your online store catalogue.
- **Store traffic:** Direct users to your brick-and-mortar location.

Once you've selected your objective, you'll be prompted to name your campaign.
The default name will just be the objective you've selected (for instance, "Brand awareness") but you may choose to give it a more specific name to help you keep track of your campaigns.

B. Identify your audience
The next step is to decide who you want to target with your ad.

C. Select your ad placements
In the Placements section, you can decide where your ads will appear on Facebook and Instagram.

You'll have two options
for this:

• **Automatic Placements**
Your ads will be shown to
your audience wherever
they're likely to perform best.

• **Manual Placements**
You'll be able to pick and
choose where your ad
appears. For example, if you
want to limit your ads to only
appearing in Instagram Sto-
ries, or only on the Instagram
Feed, you may opt for
Manual Placements.
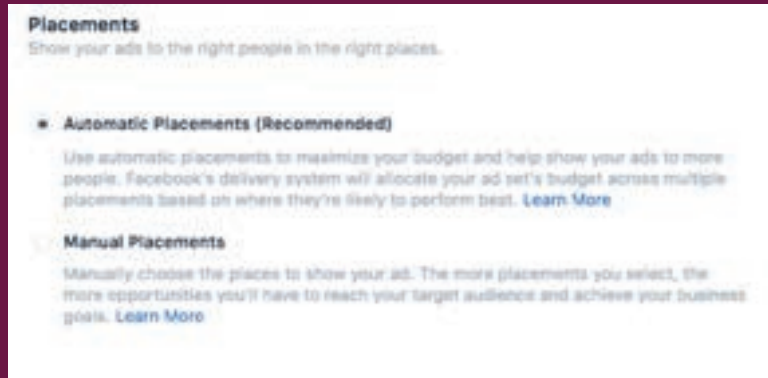
Here's the window where you
can edit your placement.

Once you've chosen where you
want your ads to go, it's time
to choose your budget.
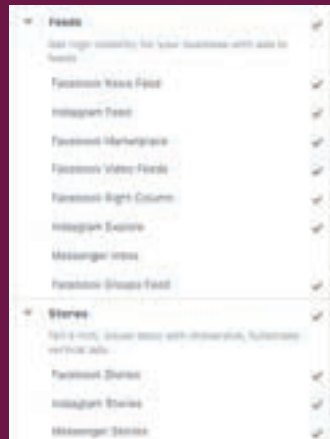
D. Choose your budget and schedule
This section determines how much you want to spend on your promotion – and for how long.

You can choose a daily budget, which offers a maximum daily spend, or a lifetime budget for an ad with a set lifespan. You can also choose to run ads continuously, or only at certain times of day.

Facebook Ads Manager also includes optimization and bid strategy options, which clarify how your budget will be spent. These may be customizable, depending on your campaign goal.
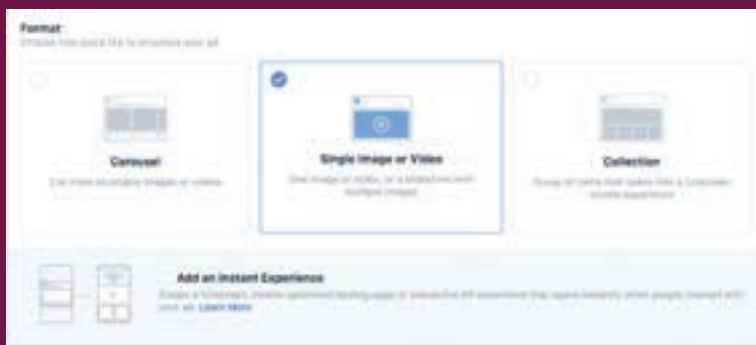
As you adjust these options, the Estimated Daily Reach scale in the right-hand column will let you know how many people you can expect to reach each day with your ads.

E. Create your ads
Start by choosing the format you want to use for your ad.
Things are straightforward from here:

• Choose your pictures or videos
• Craft your ad copy
• Pick a payment option
• Review your ad
• Click Confirm
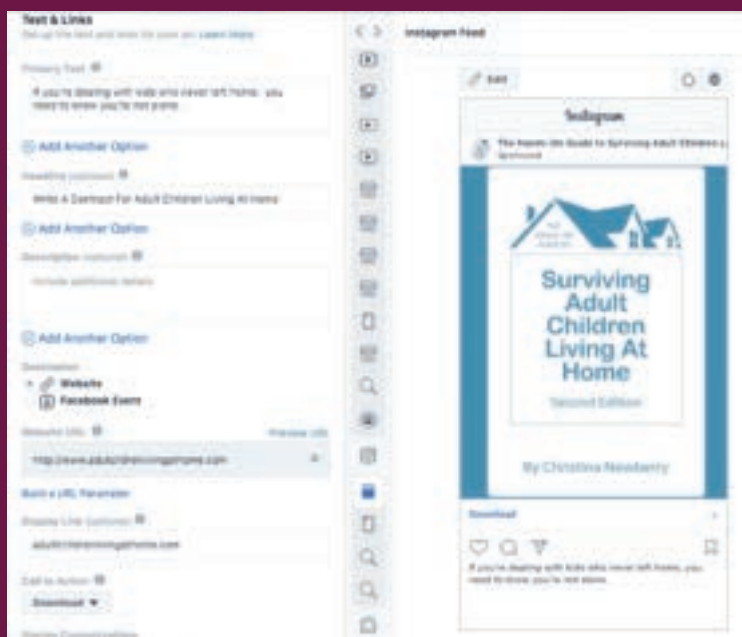
The Ads Manager displays the technical format requirements as you select your images or videos.

You can also choose a call-to-action button, and the destination URL that people will reach when they click on it. Scroll down to the Tracking section if you want to track conversions through a Facebook pixel on your website, or an app event. These options will give you information about how your audience interacts with your business after clicking on your ad.

Once you've clicked Confirm, congrats! You've just created your first Instagram ad.
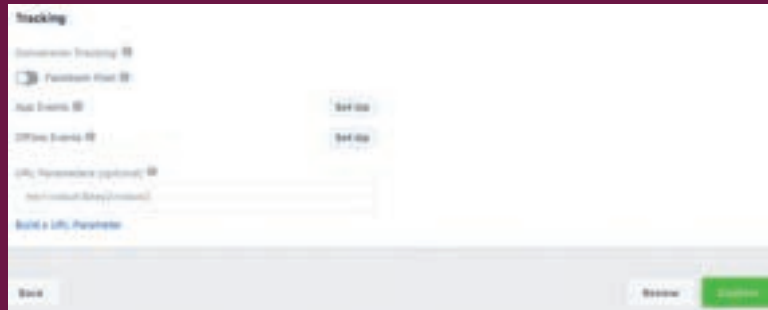
Instagram ad tips and best practice

Know your audience
Think about your ads from your potential customers' perspective:

1. What solution does your product or service offer them?
2. What do they need and want?

Use text wisely
Technically, you can use up to 2,200 characters for most Instagram ads, but only two rows of text will display without being cut off.

Engage
You need to respond to comments and likes on your ads just as you would on your organic posts.

Test, measure & optimize

8.6 Exercises

Exercise 1:
Start building your marketing mix (see section 8.2.1) for the same business idea you developed in Chapter 3.
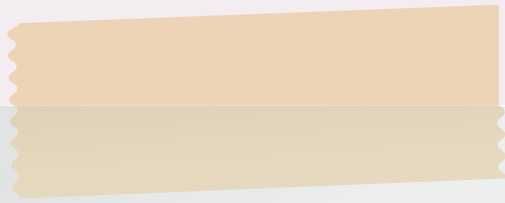
Exercise 2:
List three traditional marketing techniques and another three digital marketing techniques you see in your normal day today.

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Exercise 3:

Given that you have a budget of 1,000 USD per month, try to craft a marketing plan that is suitable for your project according to the business model canvas you developed in Chapter 3.

Hint: Take into consideration the market research in 3.12 Bonus Content: Segmenting Consumer & Business Markets to choose the right marketing channels you're going to use.

A) List all the possible marketing channels you know:

a)

b)

c)

d)

e)

f)

g)

h)

B) Now define which one is offline and which one is online

C) Select some social media platforms and design a suitable content calendar using the instructions in section 8.2.6 Creating an SMM Content Calendar as well as what you learned about Facebook and Instagram in the bonus sections 8.4 and 8.5:

a) Number of Posts

b) Key messages

c) Promotion per post

d) Dates of interaction

e) Q&A (all possible list of questions and answers your audience might ask you about your products/services)

D) Increase your budget to 5,000 USD and try answering the above questions again.
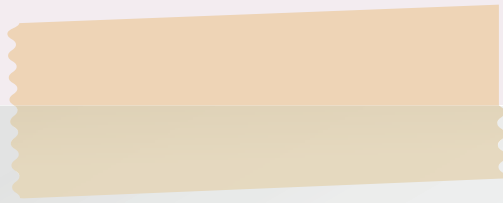
SPACE FOR SOLUTIONS

Space for solutions

9

Legal Considerations

WHAT THIS CHAPTER IS ABOUT

9.1 Introduction

Despite many of the small and medium businesses in the private sector in Iraq operating in a shadow-economy mode, i.e. outside the parameters of the licensed economy. It is highly recommended that all businesses do ensure that they follow the official processes that the law requires businesses to follow in order to be protected and avoid any consequences, e.g. when dealing with partners and clients in the future.

This chapter will answer all your questions on the legal issues that you or any business owner need to know. You will learn all of the key terminology and regulations specific to Iraq. The bonus section (9.7) is a "how-to" guide, providing you with details on how to register your company, protect your business from intellectual or industrial theft and who your contact people are in Iraq.

Having said that, two here are two important things to highlight and keeping in mind:

1) Reading this chapter does not make consulting lawyers and legal experts obsolete, because many cases are not directly clear and the legal language can be confusing for those who don't have the necessary experience.
2) It is important to clarify the legalities of your idea before taking the first steps, especially ones that involve spending lots of time and money. You don't want to spend invest resources in ideas that may get killed in the first implementation steps or even before that.

9.2 What is a Company?

General Definition
A company is a legal entity formed by a group of individuals to engage in and operate a business enterprise, whether commercial or industrial. A company may be organized in various ways for tax and financial liability purposes depending on the corporate law of its jurisdiction.

The line of business the company is in will generally determine which business structure it chooses, such as a partnership, proprietorship or corporation. These structures also denote the ownership structure of the company.

There is also a distinction between private and public companies. They have different ownership structures, regulations and financial reporting requirements.

According to Iraqi Law No. 21
A company is a contract by which two or more individuals are each obliged to contribute to an economic project by providing a share of finance, workforce or both, then sharing the final profits or losses. The contract can be signed by only one individual in case of a sole proprietorship project.

9.3 Types of Companies

We can categorize companies based on various factors such as liability, taxes, shares members and control. Some of those classifications are given below with examples:

9.3.1 Classification of Companies Based on Liabilities
Companies Limited by Shares
As the name implies, the liability of the company is limited to the share price of each shareholder. Personal assets of the shareholders won't be affected; their responsibilities are limited to their debt of the company up to their share price only.

Companies Limited by Guarantee
Companies limited by guarantee do not issue shares or have shareholders. They're usually not-for-profit organizations. In the case of profit, the company distributes it among its members if it is not a charitable organization. If the company goes bankrupt, then its liability is limited to the amount it has pre-defined in the memorandum of the company. Members of the company are called guarantors.

Unlimited Companies
As the name implies, the liability of the shareholders is not limited to the share price they own, it goes beyond. They may lose their assets if the company is unable to pay debt to its creditors. We don't see many unlimited companies because it involves a lot of risks.

9.3.2 Classification of Companies Based on Members
One Person Company
A one person company is an Indian concept where one person can create a company without having partners, a board of directors or shareholders. In an OPC, you have all the advantages of sole proprietorship, e.g. you don't have to share profit with others, take the risk on your own without requiring approval from others. Your liabilities are limited like a company.

An OPC has some differences to private limited companies, such as you should mention the name of a person in the memorandum of association who would take charge in case of your incapacitation.

Private Company

A private company is a form of company that doesn't offer its shares to the public. The numbers of shares are limited to a closed group of members only. While members can transfer their shares to anyone, they cannot offer them to the general public.

A private company also goes by the name of an unlisted or unquoted company. Some people think that private companies are small because they aren't public.

Some very large companies are private companies and do business all around the world, such as Dell (hardware and tech equipment), Virgin Atlantic (airline), PricewaterhouseCoopers (business supplier and service company), Mars (food and drink) and John Lewis Partnership (retail).

Public Company

Public companies are those who sell their stock and shares to the general public. People can freely trade the stock of the public company without any restrictions. The shares of listed companies are traded on stock exchange markets.

In England, a public company must have a minimum of two directors and two shareholders in order to fall into the category of a public company. It should have a minimum total share value of 50,000 GBP.

When investors buy the stock of the company, they become equity owners of the company. Some companies are private in the beginning and become public companies later, after fulfilling all the mandatory legal requirements.

Google, F5 Network, Chevron Corporation, Proctor and Gamble Company are some public companies; they all used to originally be private companies. The reason companies move from private to public is because they need capital to expand their business operations.

9.3.3 Classification of Companies Based on Control

Government Companies

The economy of a country plays a very important role in managing such factors as the gross domestic product (GDP) and consumer price index. Government companies are those that hold 51% of the share capital of a company. The remaining 49% of the shares are held been companies and/or private individuals.

A Mixed Ownership Company is another name used for government companies. The ideal mixture is when the management and chain of hierarchy come from government side, and the technical skills come from the private sector.

Heavy Industry Taxila, Industrial Development Bank, Faisalabad Electric Supply Company, and Karachi Urban Transport Corporation, PTCL, Oil, and Gas Development Company are some of examples of government companies.

Holding and Subsidiary Companies

Holding and subsidiary companies are two companies. The holding is a parent company that controls the business operation of the subsidiary company. This means that the holding company has complete control over the selection and election of the board of directors and it holds all the shareholders of the subsidiary company. The subsidiary company can only make its own decisions if it becomes independent. Subsidiary companies can be profit or not-for-profit organizations.

Associate Companies

An associate company is the business valuation firm in which one company owns a significant voting share of another company. The voting share usually ranges from 20 to 50%, if it is more than 50%, then it would be a subsidiary company. If it's less than 50%, then the owner doesn't have to consolidate the financial statement of the associate. If it is more than 50%, then it has to consolidate the financial statement, where the associate would consider the balance sheet as an asset.

9.3.4 Classification According to Iraqi Law No. 21

1. **Joint Stock Company (mixed or private):** A company consisting of a number of individuals not less than five in which the shareholders subscribe to shares in a public offering and are liable for the debts of the company by the nominal value of the shares in which they subscribed.

2. **Limited Liability Company (mixed or private):** A company consisting of a number of individuals not less than two and not more than twenty-five in which they subscribe in shares and are responsible for the debts of the company in the amount of the nominal value of the shares in which they subscribed.

3. **General Partnership:** A company consisting of a number of individuals not less than two persons and not more than ten, each of which shall have a share in the company and shall be jointly, personally and unlimitedly liable for all obligations of the company.

4. **Sole Proprietorship :** A company consisting of one individual who is the owner of the only share in it and is personally and unlimitedly liable for all obligations of the company.

5. **Limited (Special) Partnership:** A simple company consisting of a number of partners not less than two and not more than five in which all of them provide shares of finance or some provide shares of finance and others provide the workforce.

6. **Holding Company:** It's a joint-stock or limited liability company that controls other joint-stock or limited liability company/companies of which it owns more than half of the capital and governs the board.

9.4 Key Features of a Company

Establishing a public or a private company is a very long process and it requires a lot of paperwork. But having a company helps you to raise capital, money that you would perhaps not be able to raise without it. Before taking the step of opening a company, it's better to know the different types of companies and what type of company would be best for you.

The key features and characteristics of a company are as follows:

9.4.1 Artificial Person
The law treats a company as a legal artificial person because it has its own name and bank accounts. It can also own property under its name, file a lawsuit against other companies or people, or be partnered up with other companies. It performs all of the activities that a person can legally do, but as a company. Therefore, it acts as an artificial individual.

9.4.2 Separate Legal Entity
When we say legal entity, it means that it is something completely independent of the people who control its operations. In other words, the company won't be responsible if its members don't pay their debt. The same goes for the company as well; that the members don't have to pay for the debt of the company, if it's unable to pay its creditors.

9.4.3 Limited Liability

The liability of shareholders is limited to their share price only; it is in the limited companies by share. On the other hand, in the case of limited companies by guarantee (where the share of contributors is like an asset in the company), if the company goes bankrupt, then the shareholders have to pay a small amount to cover up the loss of the company.

9.4.4 Common Seal

As a company acts as an artificial legal individual, therefore, it has a stamp or seal with the name and address engraved on it. This stamp would be like the signature of the company. The stamp and company's seal is used for the verification and authorization of various documents.

9.4.5 Perpetual Existence

Unlike proprietorship, partnership or any other type of business, a company doesn't depend upon its owners, board of directors, shareholders or employees. Many people come and go in the company, but the company itself remains.

9.4.6 Benefits of Company Registration

Pros:

a) The company is a separate legal entity.

b) The company has its own legal name and brand.

c) Rights of all partners are guaranteed.

d) Access to government contracts and services.

e) A registered business has more credibility.

f) Access to the banking system.

Cons:

a) More obligations with government entities, such as company register and tax authority.

b) Complicated process.

9.5 What is a Business License?

Business licenses are permits issued by government agencies that allow individuals or companies to conduct business within the government's geographical jurisdiction. Some sectors require more than one license. For example, a restaurant may require an additional license from the Ministry of Health and Environment, while a travel agency may require a license from Ministry of Tourism.

If I register a company, do I still need a license?

The short answer is yes, even if you register a company, you may need to get different licenses to operate, e.g. a tomato pasta factory may need to have a license from the Ministry of Health and another license from an industrial union or development department, and a third license from the Environment Department within the Ministry of Health. It is the business activity which determines the required license. Some activities require their own license embedded within the company registration, such as a general trading company. If you want to import or export goods from outside Iraq, you will need a special, separate license.

Can I operate my business only by getting the required license and without registering a company?

Yes, this is possible and depends on the business's activities. For instance, a restaurant may operate based on the license of the Ministry of Health. Certain industrial activities also do not require a company registration within the Ministry of Health and can operate based on a factory registration within the industrial union.

9.6 General Definitions Related to Companies & Business

9.6.1 Patents

A patent is the granting of a property right by a sovereign authority to an inventor. This grant provides the inventor exclusive rights to the patented process, design or invention for a designated period in exchange for a comprehensive disclosure of the invention.

Patents provide the right motivation and reward for innovation and it also provides the necessary protection from copying the products without the inventor's consent. However, patents do expire after 20 years in most countries to give the right to new inventors, researchers, entrepreneurs, academic institutes or even individuals to explore the secrets of that patent and even benefit from it financially or build upon that patent.

A patent-holding company or individual therefore needs to have a strategy to compete in the market once their exclusivity expires. A good example is the toy manufacturer Lego, whose building bricks patent expired in the 1980s, leaving room for many competitors to build similar and cheaper alternatives, pushing the company into a critical financial situation.

9.6.2 Intellectual Property

Intellectual property is a broad categorical description for the set of intangible assets owned by a company and legally protected from outside use or implementation without consent. An intangible asset is a non-physical asset that a company owns. The concept of intellectual property relates to the fact that certain products of human intellect should be afforded the same protective rights that apply to physical property.

9.6.3 Trademarks

A trademark is a recognizable insignia, phrase, word or symbol that denotes a specific product and legally differentiates it from all other products of its kind. A trademark exclusively identifies a product as belonging to a specific company and recognizes the company's ownership of the brand. A trademark is a type of intellectual property, so whatever describes intellectual property (IP) also applies to trademarks (™).

The most obvious examples of trademarks are the names of famous restaurants and how you cannot just open a restaurant that has branches in other countries and cities with the same name because they often have a legally recorded trademark, meaning you need to apply for franchise rights or representation authority to use the same "name" of that famous restaurant. Trademarks don't expire.

Iraq is a member of the WIPO Convention 1967, Paris Convention for the Protection of Industrial Property 1979 and Singapore Treaty on the Law of Trademarks 2006. (WIPO website)

9.6.4 Patents & Intellectual Property: When to do What

• If you produce artwork of any kind, you don't need a patent, you need intellectual property protection.
• If you write a book or publish research, you don't need a patent, you need intellectual property protection.
• If you invent a new medical drug, you need to file for a patent.
• If you invent a new technology, you need to file for a patent.

9.7 Legal How-to For Iraq

9.7.1 Company Registration Process
(Based on Amended Companies Law No. (21) of 1997)

1. Reserve a trade name

From:	Local Chamber of Commerce in your province (governorate)
Requirements:	• National card (original) • A letter declaring that the founder(s) is/are not civil servants In case there is a legal representative, the following documents are needed: • Iraqi Bar Association ID card (original + copy) • A power of attorney (original)
What to Receive:	Preliminary reservation letter
Fees:	Between 50,000 and 500,000 IQD based on company's type

2. Obtain the trade name letter

From:	Federation of Iraqi Chambers of Commerce
Requirements:	• The preliminary reservation letter (original) • The national ID card (original)
What to Receive:	• Trade name letter
Fees:	Between 150,000 and 500,000 IQD based on company's type

3. Deposit the company capital and obtain a letter with the company's capital

From:	Any Iraqi accredited bank
Requirements:	• National card (original) • Deposition endorsement request (from the counter) In case there is a legal representative, the following documents are needed: • Iraqi Bar Association ID card (original + copy) • power of attorney (original)
What to Receive:	• Deposit form receipt (received after deposition) • Account statement (received 3-7 days after deposition) • Approval letter for deposited cash (received 3-7 days after deposition)
Fees:	• Joint-stock company: minimum capital is 2 million IQD • Limited liability company: minimum capital is 1 million IQD • Other types of companies: minimum capital is 500,000 IQD

4. Submitting an online application

From:	Online at *http://tasjeel.mot.gov.iq/Card25/*
Requirements:	• Trade name letter (original) • National ID card • Residence card & ration supply card (original & copies) • Confirmation letter for deposited cash, account statement & deposit receipt • Memorandum of association (signed by founder(s) or their attorneys) • Declaration that the founder(s) isn't/aren't civil servant(s) • Endorsement of residence & passports (if there are any non-Iraqi founders) In case there is a legal representative, the following documents are needed: • Iraqi Bar Association ID card (original + copy) • Power of attorney (original)
What to Receive:	• Temporary application form number • Confirmation letter

From:	Registration of Companies Directorate
Requirements:	• Initial approval for local company registration (original) by e-mail • Company trade name letter (original) • Confirmation letter for deposited cash (original) • Memorandum of association (original) • Letter of commitment to regulations (original): obtained & filled out at the registrar • Pledge to the accuracy of information (original): obtained & filled out at the registrar • Company registration form (original): obtained & filled out at the registrar • National ID card (original) • Ration card (original) or pledge to withhold ration supply
What to Receive:	• Receipt for registration fees (original)
Fees:	• Companies with capital less than 1,000,000 IQD & more than 500,000 IQD must pay 250 IQD per 100,000 IQD • Companies with capital equal to 1,000,000 IQD must pay 350 IQD per 100,000 IQD • Other companies should pay 20,000 IQD • Joint-stock companies should pay 200,000 IQD Other fees: • 25,000 IQD for publishing decision to establish a company • 5,000 IQD for verifying whether shareholders hold shares in other companies • 5,000 IQD to audit the memorandum of association of the company • 10,000 IQD for request advocacy • 5,000 IQD for preserving and ratifying the memorandum of association • 1,000 IQD for reviewers' form • 2,000 IQD for cashier form • (0-0.3%) of capital for stamping fees

6. Obtain registration license

From:	Registration of Companies Directorate
Requirements:	• National ID card (original) • Receipt for registration fees (original)
What to Receive:	• Registration licensen)

Notes:	**In case of approval:**
	• The company is a legally registered entity and, subsequently, the founder(s) are allowed to submit a request to the registrar demanding authentication of all documents regarding the incorporation of the local company, which is now able to send a request to the concerned bank for deposit withdrawal.
	• The inaugural meeting shall be convened no later than 30 days after receiving the registration license from the registration of company's directorate. The meeting should discuss next steps, delineate staff's duties, and identify who is going to be the CEO.
	• The founder(s) is/are now obliged to hire a legal consultant and an auditor.
	• The Ministry of Labor & Social Affairs should be approached and a request submitted to provide social security to all company employees.
	• The company must obtain approval for their activities from relevant entities, within no more than 60 days.
	• The Ministry of the Interior should be approached if one of the founders is a foreigner.
	
	   – The Ministry of Culture, Tourism and Antiquities should be approached if the company's activities are related to traveling, tourism or heritage.
	   – The Central Bank of Iraq should be approached before the registration if the company's activities are related to any financial activities (e.g. banking, investment, exchange, money transfer)
	   – The Ministry of Transport should be approached if the company's activities include any means of transportation.
	   – The Ministry of Interior and the Communications and Media Commission should be approached if the company's activities include communications.
	   – The Ministry of Oil should be approached if the company's activities are related to oil or gas services and one (or more) of the founders is a foreigner.
	   – The Ministry of the Interior and the National Security Agency should be approached if the company's activities involve security guards and services.
	   – The Ministry of the Interior, the Ministry of Defense, the Ministry of the Environment and the Iraqi National Security Agency should be approached if the company's activity is demining. In the event that one of the founders is a foreigner, the Iraqi National Intelligence Service should be approached in addition to the other parties mentioned above.

9.7.2 License to Establish an Industrial Project
(Based on Industrial Investment Law No. (20) of 1989)

Licenses for projects under establishment

From:	General Directorate of Industrial Development in the Ministry of Industry
Requirements:	• Project establishment application form • General application form (undertaking) • Copy of National ID or Passport, Residency permit • 2 recent personal photos of the project owner • A form showing the type of land on which the project will be constructed
Fees:	• 400,000 IQD (approximately)
Notes:	• Establishment licenses are granted based on the desire of the owner, according to the law and the procedures approved in the specialized technical departments and the requirements of each department. The required documents must be submitted with technical and economic feasibility studies and according to the industry's category. • The responsibility of the technical sector of the Ministry of Industry regarding the feasibility study is only focused on the technical part, especially on the production line equipment and the extent of its integration, not the authority to approve the establishment of the plant or not. Except for industries that require approvals from the concerned sectoral ministries such as the Ministry of Oil, Trade and Health. **For fresh graduates:** • It is for one graduate only. In case of a partner necessary, the partner could be the land owner. • A confirmation letter to prove that the applicant graduated from university, college or any academic institute, or high school. • Simple feasibility study. • Any supportive documents, such as a patent or final graduation project related to the suggested project. The benefits for fresh graduates are: • Up to 90% discount off registration fees. • The graduates can provide any supportive documents to other agencies with no fees. • Coordinating with local governments in all governorates to support the graduates and to facilitate the required procedures and approvals. • Issuing of a special "under establishment license" instead of a normal license.

Grant a letter of completing the establishment

From:	General Directorate of Industrial Development in the Ministry of Industry

Requirements:	• Recent investigating document including details of machines and equipment, production capacity, type of pilot production. Readiness of machines and project for production, total industry area, number of employees and GPS coordinates. It is recommended to include the municipal representative during the initial investigation.
	• Approval of the relevant environment department in the name of the owner of the project. The validity of its issuance shall be verified by the concerned department by official mail. It is considered an essential and mandatory document in completing the process.
	• Project site ownership, which includes:
	• The lease contract with the municipality or with the Municipality of Baghdad or with mixed sector companies (certified by the legal department of the company that includes the clauses of the contract being subject to taxation). The contract shall be approved by a legal commitment to the validity of their issuance, and they will be confirmed later.
	
	    – The lease contract with third parties requires the submission of the land deed issue of 2017 (to indicate the category of the land) and requires verification of the validity of their issuance before considering the completion of the establishment.
	    – The lease contract with state real estate or rent payment receipts. The validity of their issuance is to be verified and approved with a legal commitment.
	    – Deed of the land for sole ownership and a consent of other partners in case of multiple owners to use the land as a site of the project.
	
	• The approval of the competent administrative unit, including:
	
	    – The approval of the municipality in the event of a contract with others for the sites within the municipality's boundaries, and the approval of the Laboratories Committee in the Municipality of Baghdad (inside the basic design of the city of Baghdad). The validity of its issuance is confirmed by the representative of the Directorate in the Laboratories Committee. The validity of the issuance of the contract is required in the case of a contract with others. It is not required in the event of a contract with the municipality.
	    – The approval of the Committee for the Study and Allocation of Lands for Development and Investment Projects (for sites outside the municipality's borders) or the submission of the documents required for its approach, and it shall be approved with a legal undertaking. The approval will be submitted within six months, which can be extended, and the undertaking shall not impose any legal consequences on the directorate in the event of no approval or deportation by the competent authorities.
	    – The environmental impact report in the name of the project from a licensed engineering office and the environmental approval of the parent company for the leased projects from the mixed sector: This must be certified by the legal department of the leasing company (mixed sector) and the validity of its issuance is required. In the absence of environmental approval,

Requirements:	documentation must be on file that indicates that approval has been obtained and the project owner has submitted a legal undertaking to conduct environmental remedies, if any, and to adhere to the environmental parameters mentioned in the environmental impact report. - Trade name reservation letter from the Iraqi Federation of Industries or the Chamber of Industry in the provinces. - Certificates of machine registration certified by a notary, with the address and trade name affixed, or a legal undertaking to present them within six months. - A valid health license for food industry projects with an issue validation letter. - A product inspection certificate for all consumer, household, electrical, medical and food products from the Central Agency for Standardization and Quality Control or a legal undertaking to provide it within six months to be submitted annually. *All of the above-mentioned documents should be submitted as original or certified copies.* **For fresh graduates:** - Letter from Iraqi Federation of Industries including the trade name of the project. - 1) Lease contract or 2) Official letter if the project's site is part of a state company's location certified by the company's legal department, or 3) Confirmation letter signed by the general director with board approval in an official meeting minutes, certified by the legal department, or 4) Confirmation letter if it's part of a private company signed by the owner with 2 witnesses' signatures and certified by a notary. - The environmental impact report. In the event that the project is part of a state or mixed company, their environmental impact report may be used. - A valid health license for food industry projects is mandatory. - Certificates of machine registration certified by a notary, or a legal undertaking to present them within six months. - Application form for working under the Iraqi specification for the project's products. - Any existing agreement between the project and universities or state companies to supervise the product and to provide any required technical support and consultation. - The project is benefit of exemptions and privileges of law No. 20 of 1998. - Trade name certificate for all the project's products is required. - The directorate is to support the owner and to facilitate getting the approvals to allocate the location in a state company's sites for free, and to coordinate with a mixed company's general manager to allocate a location in their sites for a small rental fee.
Fees:	• Starting at 950,000 IQD (approximately)

9.7.3 Trademark Registration Process

(Based on the Amended Trademarks and Commercial Data Law No. (21) of 1957, the Amended Law of Trademarks and Commercial Data No. (9) of 2010 incl. its attached Table of Iraqi, Arab and Foreign Trademark Fees, Trademark System No. (26) of 1957, the Law of Arabic Language Safety No. (64) of 1977, and the Paris Convention, Nice Agreement and Classification of 1957)

General pre-registration notes

From:	All the steps to take place in the Trademarks Department of the Ministry of Industry
Requirements:	• If the applicant is an individual: Name, address, nationality and profession of the applicant, in addition to their national ID card. • If the applicant is a company: Company's name, address, country and purpose of the trademark, in addition to a copy of all company legal documents. • Trademark to be registered as it is to be used, considering the Arabization of any Latin letters. If the applicant is Iraq, the Arabic language in the trademark should be more prominent than any other language. • Detailed statement of the goods or services to which the trademark will apply, with correct categories according to the International Classification of Good and Services. • If the applicant is a company, an official authorization document is required, signed and stamped by a representative,.

Fees:	• Registration request
	  – For one good or service: 200,000 IQD
	  – For any extra good or service (up to 3): 20,000 IQD each
	  – For any extra good or service (more than 3): 10,000 IQD each
	  – The total fee shall not exceed 500,000 IQD
	• Publication fees: 200,000 IQD
	• Final registration fees
	  – For one good or service: 250,000 IQD
	  – For any extra good or service (up to 3): 20,000 IQD each
	  – For any extra good or service (more than 3): 10,000 IQD each
	  – The total fee shall not exceed 700,000 IQD
	• Renewal
	  – For one good or service: 250,000 IQD
	  – For any extra good or service (up to 3): 20,000 IQD each
	  – For any extra good or service (more than 3): 10,000 IQD each
	  – The total fee shall not exceed 700,000 IQD
	• Late penalty for renewal: 50% of the renewal fees.
	• Change of ownership
	  – For one good or service: 250,000 IQD
	  – For any extra good or service (up to 3) : 20,000 IQD each
	  – For any extra good or service (more than 3): 10,000 IQD each
	  – The total fee shall not exceed 700,000 IQD
	• Request of owner name or address: 200,000 IQD
	• Trademark modification or change: 20,000 IQD per each good or service up to a maximum of 300,000 IQD
	• Copy of the registration certificate: 25,000 IQD
	• Copy of any documents related to trademark acceptance or rejection: 20,000 IQD
	• Any session conducted by the registrar based on the trademark owner's request: 20,000 IQD
	• Cancelation request: 10,000 IQD

Notes:	• The trademark cannot be registered in the following cases:
	- The trademark lacks a distinctive characteristic or is already used in trade to indicate a type of commodity, or its quantity, or the place of its production, or is used in the common Iraqi language to signify that when the signs are not themselves capable of distinguishing goods or services, the ability to register is based on the distinctive characteristic acquired through use.
	- Marks or expressions and drawings contrary to public order or literature.
	- Marks that are identical or similar to the decorations, flags or other public slogans of Iraq or other countries that are members of the Paris Union or international governmental organizations; official marks or stamps and any imitation of family logos.
	- Marks identical or similar to the symbol of the Red Cross, Red Crescent or the Geneva Cross.
	- Any person's name, surname, photo, slogan or logo without their written consent.
	- Titles of honor degrees that the applicant cannot prove valid.
	- Marks that may deceive or confuse the public or that contain incorrect descriptions of the origin of the products, whether they are goods, services or other characteristics, as well as references that contain a fake, or duplicated trade name.
	- Marks that are identical to, or similar to, a famous mark, or marks that are identical to or similar to a trademark previously registered, if the registration of that mark will cause confusion among the consumers of the goods that are distinguished by the mark or similar goods.

1. Submit a trademark examination application

Notes:	• Fill in the trademark examination application form.
	• The registrar should investigate to ascertain the presence or absence of a trademark (similar, identical) from the registered trademarks and trademarks submitted by unresolved requests.

2. Submit a trademark registration application

Notes:	• Fill in the trademark registration application form.
	• The register conducts an inspection between the trademarks registered and the trademarks submitted with outstanding requests in related classes and materials for the purpose of verifying the absence of trademarks that match or resemble the submitted trademarks to a degree that leads to confusion.

General notes post-registration

Notes:	• After completing the inspection, the registrar informs the applicants of absolute or restricted acceptance.
	• During the initial acceptance, the registrar shall announce the registration in three consecutive issues of the Trademarks and Geographical Indications bulletin. Any concerned individuals or companies may submit a written notification of objection for registering the trademarks to the registrar within 90 days of the last announcement.

Notes:	• Upon completion of the registration, the owner of the trademark shall be granted a certificate including all of the required information.
	• If the trademark is not fully registered within six months of submitting the application due to applicant dereliction, the registrar shall inform the applicant in writing to complete the registration process within a specified period or the registration is to be considered invalid.
	• The canceled trademark cannot be re-registered with a different owner's name within one year from the date of cancelation.
	• The owner may grant a license of using the trademark to individuals or any legal entity on all or some products on which the trademarks have been registered for.
	• The term of protecting the trademark is ten years, renewable during the last year.
	• The owner may request renewal after six months after the expiry date, otherwise the registrar may cancel the trademark for the registry.

	• The registrar based on an application submitted by the owner of the trademark may:
	    - Correct any error in the trademark owner's name or address.
	    - Update the owner's name or address
	    - Strike-off any goods or services the trademark is registered to be used in.
	    - To record any assignment related to the trademark.
	    - To cancel the registration of the trademark from the registry.

9.7.4 Patent Process
(Based on Patent Law No. (30) of 1931, and Patent Law No. (61) of 1935, and the 4th Amendment of Patent Law No. (65) of 1970)

Registration

From:	All the steps to take place in the Central Organization of Standardization and Quality Control, Department of Industrial Property
Requirements:	• Fill in the patent application form (no template)

Notes regarding the application form:	• The form should include the following
	    - Cover page, including:
	        - Title of the invention (short, in Arabic and English, and no common titles such as "Electrical Device")
	        - Name of the applicant(s) as on the National ID for individuals, or the official full name for institutions. If there are more than applicant, all the communications between the department and the applicants will be through the 1st applicant.
	        - Full address, e-mail, and mobile number
	    - Brief in both Arabic and English. The brief is preferred to be half A4 page for each language, and not to exceed 1 full A4 page. The brief should include the main features and results.
	    - Details section, which includes:
	        - Introduction
	        - Previous works related the invention, with examples to previous patents regarding the same invention idea (from different countries is preferred), with differences and similarities.

Notes:	- Invention details which includes full description of the invention, description of materials and components used (if any) with supportive images and charts, working mechanism if the invention is a device, and the results. - Areas of use for the invention (where this invention could be used) – as bullet points. - Invention features (what distinguishes the invention from other similar inventions) – as bullet points. - Claims (should be on a separate page) - Diagrams, images, charts and blueprints - References
General Notes:	• A draft copy should be delivered to the department for review and comment. • The applicant should deliver eight printed copies of the application form, after responding to the department's comments and notes. • If the applicant is a public servant, an official approval letter from the entity he works for. • If the applicant is not a public servant, a legal undertaking document should be signed. • The order of the applicants in the application form is permanent. In case the order should be changed, a change request will need to be made with all applicants' approvals and signatures. • It is recommended to mention the percentage of patent ownership for each applicant. • On the official Facebook page of the department, you can find the document requirements such as font size and margins, in addition to different other specifications and requirements.
Fees	• Application fees: 76,500 IQD • Changing applicant's order: 20,000 IQD

9.7.5 Chamber of Commerce IDt

1. Reserve a trade name

From:	Local Chamber of Commerce in your province (governorate)
Requirements:	• National card (original) • Company registration license • Minutes of meeting • Memorandum of association • Personal photo of the general manager • Office rental contract
What to Receive:	Chamber of Commerce ID (including the category)
What to Receive:	Between 150,000 and 2,000,000 IQD based on company's category

9.7.6 Contact Info

Ministry of Trade - Registration of Companies Directorate

Address	• Baghdad, Al Mansur, Baghdad International Exhibition Compound
E-mail	• tasjeel@mot.gov.iq • br@mot.gov.iq • m.office.cr@gmail.com
Website	• *http://tasjeel.mot.gov.iq/newtasjeel/*
Official Facebook Page	• *https://www.facebook.com/Registration.companies*

Ministry of Industry - General Directorate of Industrial Development

Address	• Baghdad - AL-Nidhal Street - Ministry of Industry & Minerals - Head Quarter
E-mail	• info@gdid.gov.iq • industrialdevlopment@yahoo.com • gd_office@gdid.gov.iq
Mobile	• 07808770316 • 07707878897
Website	• *https://www.gdid.gov.iq/*
Official Facebook Page	• *www.facebook.com/gdid0*

Central Organization for Standardization and Quality Control (COSQC) - Department of Industrial Property

Address	• Baghdad, Jadreiyah, Beside University of Baghdad
E-mail	• patent@cosqc.gov.iq • cosqc@cosqc.gov.iq
Mobile	• 07822641931 • 07712414305
Website	• *http://www.cosqc.gov.iq/*
Official Facebook Page	• *https://www.facebook.com/IRQPA*

Ministry of Industry - Trademarks Department

Address	• Baghdad - AL-Nidal St. - Ministry of Industry & Minerals - Head Quarter
E-mail	• trademark@industry.gov.iq
Mobile	• 07715577700
Website	• *http://www.industry.gov.iq/index.php?name=Pages&op=page&pid=352*

Federation of Iraqi Chambers of Commerce

Address	• Baghdad, Al Nidhal Street
E-mail	• info@ficc.org.iq
Mobile	• 07718195852
Website	• *https://www.facebook.com/Ficc.org.iq/*
Official Facebook Page	• *https://www.facebook.com/Ficc.org.iq/*

10

Financing

WHAT THIS CHAPTER IS ABOUT

10.1 Introduction

Now that you have learned about the tools and methods you need to design your business idea, in this chapter we will introduce you to methods and resources that are fundamental to help you obtain funds for your startup idea.

Regardless of how great your startup idea is, one essential element of its success is your ability to obtain sufficient funding to start and grow the business. Another important aspect is access to resources that can help you build and maintain the success of your business. These services are usually provided by agencies specialized in business development and empowering small businesses. We will introduce to you them and highlight each one's role and the services they provide.

This chapter covers four main topics:

1. What types of financing you should consider and which one could be the best fit for your startup idea.
2. A quick look at some of the supporting and investing agencies in Iraq.
3. How to prepare and pitch your startup idea to investors.
4. Co-working spaces, incubators and accelerators: how they work, and when you should consider them.

10.2 Types of Funding For Startups

There are different types of startup funding. We will walk you through five types of funding which are the most common and relevant to Iraq.

10.2.1 Crowdfunding

Crowdfunding is a method of raising capital through the collective effort of friends, family, customers and individual investors. This approach taps into the collective efforts of a large pool of individuals — primarily online via social media and crowdfunding platforms — and leverages their networks for greater reach and exposure.

Crowdfunding is the opposite of the mainstream approach to business finance. Traditionally, if a person wants to raise capital to start a business or launch a new product, they would need to write a business plan, do market research, create a prototype and then shop their idea around to a limited pool of wealthy individuals or institutions, such as banks, angel investors or venture capital firms. This fundraising approach is like a funnel, with the entrepreneur and their pitch at the wide end and the audience of investors at the closed end. Fail to point that funnel at the right investor or firm at the right time, and that's time and money lost.
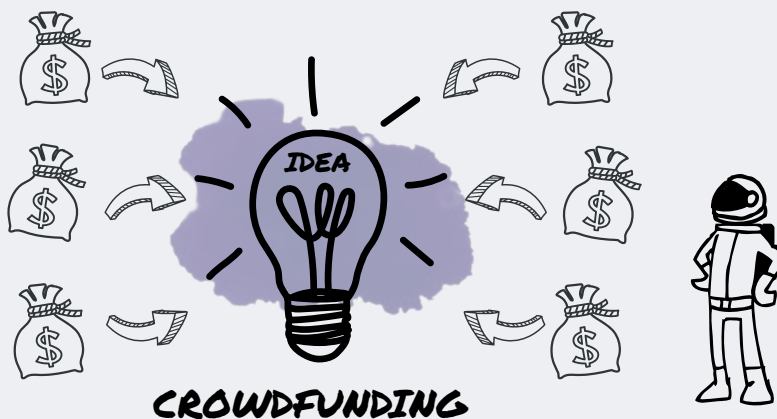
Crowdfunding, on the other hand, turns that funnel on-end. By giving the entrepreneur a single platform to build, showcase and share pitch resources, this approach dramatically streamlines the traditional model. Instead of spending months sifting through their personal networks, vetting potential investors, and spending their own time and money to get in front of them, with crowdfunding, it's much easier for entrepreneurs to present their idea to a large number of interested parties. It also gives entrepreneurs more ways to grow their business, from investing large cash amounts in exchange for equity, to contributing small cash amounts in exchange for a first-run product or other rewards.

10.2.2 Loans

A small business startup loan is any type of loan that helps businesses with little to no business history. It's one of many financing options for founders looking to either get started or improve their young companies.

A small business startup loan is an umbrella term under which a few different types of financing fall. Here's a general breakdown of the main types of small business startup loans you might run across as you're figuring out the best option for financing your startup.

A. Credit cards

While not a traditional "loan," business credit cards are an excellent option for very early-stage startups who need help to get going.

It is highly recommended that you choose one with a 0% introductory Annual Percentage Rate (APR), because it means that as long as you're able to pay off the balance each month (or at least by the end of the first year, which is when most credit cards interest rates kick in), you're getting a free loan.

However, be aware of high-interest rates — and do not overestimate how quickly you'll be able to pay back a credit card. Once that introductory period is over, any balance you are carrying will likely come with a hefty interest rate.

B. Short term loans

Short term loans are relatively small amounts of money that you have to pay back within three to 18 months. They're often used as a stopgap when a company is having cash flow problems, for emergencies or to help companies take advantage of a business opportunity.

C. Friends and family

Getting money — in the form of loans or investment — from family and friends is another type of loan that does not fall under traditional "small business startup loans." But it is a common way for startup founders to get money to either start their companies or get help along the way.

Friends and family are a great source of early investment or loans — but they can be a tricky relationship to navigate. It is common for people to feel like they can be casual and personal with these types of investments because their relationships with the investors are personal. That is a mistake.

You should treat an investment or loan from friends and family as a professional addition to your existing personal relationship. It is a good idea to get a written contract stipulating the terms of the investment or loan and make it clear that it's very likely they won't get their money back if it's an investment.

10.2.3 Venture Capital

Venture capital is funding that is invested in startups and small businesses that usually have high risk, but with the potential for exponential growth. The goal of a venture capital investment is a very high return for the venture capital firm, usually in the form of an acquisition of the startup or an Initial Public Offer (IPO).

Venture capital is a great option for startups that are looking to scale big — and quickly. Because the investments are relatively large, your startup must be prepared to take that money and grow. A venture capital firm is usually run by a handful of partners who have raised a large sum of money from a group of limited partners (LPs) to invest on their behalf. The LPs are typically large institutions, like a State Teachers Retirement System or a university using the VC services to help generate big returns on their money.

The partners have a window of seven to 10 years to make investments, and more importantly, generate a big return. Creating a big return in such a short period of time means that VCs must invest in deals with a giant outcome.

These big outcomes provide great returns to the fund, but they also help cover the losses of the high number of failures that high risk investing attracts.

10.2.4 Angel Investors

Angel investors are typically high net worth individuals who look to put relatively small amounts of money into startups, typically ranging from a few thousand to as much as a million dollars.

Angels are often one of the more accessible forms of early-stage capital for entrepreneurs and are a critical part of the equity fundraising ecosystem. The most beneficial aspect of working with an angel investor is that they can usually make an investment decision independently. Since they are not bound to a corporate hierarchy of decision-making, angel investors can make bets that they feel comfortable with personally. Often this is what an entrepreneur needs early in their startup's development.

Angels also tend to have subject matter expertise in a particular area, often where they have made money before, which helps the entrepreneur in a couple of enormous ways. First, they won't waste the entrepreneur's time asking uninformed questions because they already know the space. Second, they tend to be well-connected in particular industries, so the value of their investment also includes the resources they can bring to help the venture in the future.

Unlike what the term may imply, an angel investor is not a happy angel falling from the sky that is there to answer your dreams with a big fat check (although that sure would be nice). Angel investors do not bail people out of personal or business credit problems. They do not make charity investments because an entrepreneur feels their idea is fundamental to the world. They make investments to create a healthy return on their investment – rarely otherwise.

Angels sometimes band together to form angel investor networks. Since every angel has to sift through the same types of deals over and over, it helps to share deal flow and combine resources to find great deals.

Angel investor networks are handy to entrepreneurs because they tend to have a more formalized process for reviewing new submissions and can introduce the entrepreneur to a lot of new angels. Working with an angel investor network lets you broadcast your deal to a large number of qualified candidates all at once. In some cases, even if the network itself does not invest as a group, you may attract a particular angel in the network who decides to invest.

There is no absolute limit on what a single angel investor can invest, but a typical range would be from as little as $5,000 to as much as $5,000,000, although most angels tend to cap out around $500,000. Angels may also invest incrementally, offering you a small investment now with the opportunity to follow-up at a later date with an additional investment, typically when something important happens with the business.

10.2.5 Pros and Cons

The following table summarizes the key strengths and weaknesses of each of the funding types that was previously discussed:

	Pros	Cons
Crowdfunding	• Has the potential of expanding the business by getting a pool of investors who can help raise funds.	• Requires time and dedication before results may be realized.
Personal Savings	• You have total control of your business, and you may do as you please with your money. • There's this satisfaction that you are using your cash to fund the business.	• If the business fails, all the hard work that you had put into your savings will go to waste. • You may miss out on otherwise valuable guidance and mentorship from angel investors and venture capitalists.
Bank Loans	• There are different funding options depending on your needs. • The funding process is relatively quick if you qualify. • You don't have to give up control of your business.	• Requires a lot of documentation, which can be tiring and time-consuming. • You need to educate yourself about the best option available for you; otherwise, you might choose a deal that will eventually hurt your business. • The money must be paid back whether the business succeeds or not, which may lead to loss of your assets.
Family & Friends	• Faster funding process and flexible payment methods.	• Family and friends provide the funding without assessing the viability of a business plan itself. • Brings initial capital investment.
Venture Capital	• Venture capitalists do not only provide funding but can offer expertise and mentorship to help develop the business. • Venture capital funding gives immediate business credibility and opens other doors to a vast network of prominent individuals, such as future investors and partners.	• You may be forced to give up a large chunk of your business due to the significant funding provided.
Angel Investors	• Angel investors can offer valuable advice and guidance since they have experience in the industry, you're in. • Flexible business terms.	• You may be forced to give up control of your business to some extent.

10.3 Available Funds in Iraq

***Please note that the below available funds are as of 2020 and might be not available in subsequent years.

As we mentioned in other sections, different types of funding are available in Iraq. One opportunity could be a loan, which is a sum of money that is borrowed and expected to be paid back with interest. This could be a suitable option because you do not need to give up a share of your business, but at the same time it is a commitment that needs to be paid back. It could impose stress on your cash flow.

Another type of funding could be a donation, which is something given as charity. This is hard to find, however, and usually does not provide a significant amount of money.

In general, the majority of startups that get funding in Iraq come from international organizations and some private businesses. The initiatives described here are examples of current funds for startups. It is important to mention that these initiatives have a lifetime and may no longer be available at the time you read this business guide.

A. Tamwil initiative by the Central Bank of Iraq
This initiative provides subsidized loans through banks that operate in Iraq. The intiative has different categories, such as industrial, housing, small and medium enterprise (SMEs) and others. For SMEs, the loans are not more the 50,000,000 IQD with a 4% interest rate and five years term. For more information go to
https://tamwil.iq/

B. GroFin
GroFin is an international fund management company that provides financial and business support, GroFin's loan is between 100,000 USD – 2,000,000 USD, with terms up to 6 years. For more information go to
www.grofin.com

C. VITAS
VITAS is an international NGO financing micro-businesses in Iraq. They offer a loan range between 100 USD – 19,900 USD and can go up to 35,000 USD in certain cases, with payment flexibility up to 36 months. For more information go to *https://www.vitasiraq.com/ar/home*

D. Other Sources
Many other funding opportunities may be available from local and international companies or NGOs, such as:
1. *https://the-station.iq/*
2. *http://kapita.iq/*

To help you choose the ideal funding source for your business, make sure to review your financial needs, qualifications and the urgency of financing. Some funding sources need specific requirements to be completed before you qualify. Therefore, it is important to ensure you are well educated on the various options available to you as well as their respective advantages and disadvantages. Most of the available funding opportunities in Iraq are loans.

10.4 Investor Deck

Whether you plan to finance your business through a partner, a financing institution or a bank loan, you will need to consider developing an investor deck. This is a tool to convince third parties to consider investing in your business idea.

The investor deck should be a short presentation of 10 – 15 slides, explaining your business plan and your start-up vision.

A good investor deck should cover the following sections:

a) **Business Idea:** Describe your business in a few words. What does it offer to the market? Try to mention your vision and top goals.

b) **Problem:** Define the problem your business intends to solve, its size and who is affected by it.

c) Opportunity: Identify the market size of your business and whom you will serve. The more data you could present about your targeted customers, the better.

d) **Solution:** Describe your services/products and explain how your business will address the problem that you mentioned and serve your targeted customers.

e) **Business Model:** This section should focus on the revenue structure, and your plan to make money from your business?

f) **Roadmap:** Describe your business timeline and the major milestones of your plan. How do you plan to grow your business?

g) **Marketing & Sales:** Provide a clear rationale for reaching your potential customers and the channels you will invest in to achieve sales. Try to clarify a robust marketing and sales strategy for the investor.

h) **Competition:** How do you plan to enter the market and win customers, knowing that there will always be competitors? Try to explain how you are different from the others.

i) **Team:** Show the key strengths of your team such as previous experience, proving to investors that you have the right people.

j) **Level of Investment:** It is time to state the amount of investment you are seeking. Explain how you plan to spend the money by breaking it down into spending channels, in line with your business goals and operations shown in previous slides.

k) **Contact Details:** Provide your contact details as a reference. Anyone who reads this document should be able to contact you for more information.
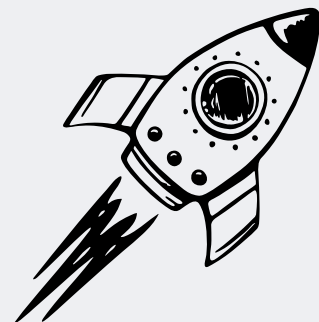
10.5 Coworking Spaces, Incubators & Accelerators

You may have already heard of these common terms in startup ecosystems: coworking space, incubator and accelerator. Once you are well acquainted with the distinctions between all three, you will be able to make a well-informed decision about what choice is right for your startup. Collectively, coworking spaces, incubators and accelerators all assist startups in becoming successful companies down the road. However, depending on your startup and what stage it has reached, there are specific differences that will render one concept more appealing to you than the other.

As a startup, you do not need to stick with either a coworking space, an accelerator or an incubator. You will probably need all three at some point in your startup journey.

Coworking Spaces
Coworking spaces offer rental office space and resources to their clients. Coworking spaces come in varying forms and sizes. Their primary purpose is to allow entrepreneurs to work alongside others instead of in segregation. They are famous for providing businesses with cost-effective solutions to some operations, such as low-cost desks, internet access, meeting rooms, conference/event spaces and more. This has proven to be helpful to entrepreneurs who are slowing getting off their feet.

Incubators
These kinds of initiatives will commonly work with startups and entrepreneurs for longer periods, usually six months to two years, depending on the program. They offer little to no capital and require little to no equity in return for their training and mentorship; they probably take membership fees. Incubation programs target entrepreneurs with business ideas that need guidance and mentorship to develop their idea into a full-fledged startup. In addition to mentorship, incubators may offer office space, resources and access to their strong network of clients and investors.

Accelerators
These initiatives usually work with startups for a short period, e.g. for approximately three to four months, depending on the program. You will find that their programs are succinctly structured and are tailored to accelerating the growth of startups by focusing on consolidating your value proposition and business model. At this point, accelerators will usually invest some form of capital into your startup, for a percentage of equity. Additionally, startups will be exposed to the know-how of increasing and growing their businesses, readying them for additional rounds of funding in the future.

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