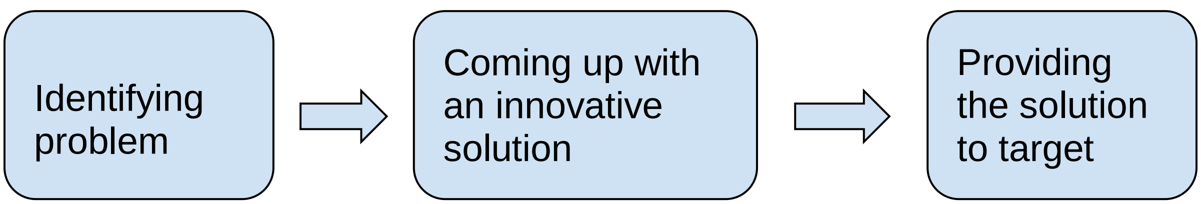
# Basics Of Entrepreneurship

## Basic definitions

**Who is an Entrepreneur?**

An entrepreneur is someone who identifies the problem, comes up with an innovative solution and not only solves that problem for himself but also provide that solution for everybody in the form of a business. The business can be for-profit or non-profit. Example: Vijay Shekhar Sharma Founder of Paytm.




Block diagram under entrepreneur

**What is startup?**

A startup is a scalable, repeatable, innovative business.

- Scalable : Solution should be able to grow in different geography or regions.
- Repeatable : The solution is repeatedly used by customer.
- Innovative : A new physical thing or a new way of doing things.

**Different types of startups/business:**

**a.** For profit

The aim of **for profit** organisation is to maximise profits by delivering higher value to the customer and forwarding those profits to owners, shareholders.

Here, ( revenues - costs incurred )> 0

**b.** Non-profit
The aim of **non-profit** organisations is to provide societal needs.

Here, ( revenues - costs incurred ) = 0; i.e. no profits

**What is a prototype?**

Prototype is an early model/release of a product which is used to test the idea. Prototype is the initial physical creation of your idea. Idea works perfectly in theory. It's not until you start physically creating it that you'll encounter flaws in your thinking. That's why a great reason to develop a prototype is to test the functionality of your idea.

**What is an incubator?**

Incubator help entrepreneurs to move from idea stage to prototype. The help can be of monetary support, technical support, office space,mentoring and any other needs of a startup. Examples of some Uttar Pradesh based incubators are MCIIE IIT BHU, SIDBI IITK, iBHubs.

**What is an accelerator ?**

Generally, role of accelerator comes after the prototype stage . They help running startups to grow their revenues by providing them shared resources to refine their product and helping them pitch to investors.

**What is B2B, B2C, and B2G?**

- **B2B (Business to Business):**
  An arrangement where a business makes transactions with another business. For example, car parts manufacturing plant.

- **B2C (Business to Consumer):**
  An arrangement where a business makes transactions with a consumer. For example, a customer pays to restaurant for the food he has been served.

- **B2G (Business to Government):**
  An arrangement where a business makes transactions with Government. For example, any weapon production company.

**What are the qualities of an Entrepreneur?**

a. Perseverance:
   Perseverance is continued effort to do or achieve goals despite difficulties, failure, or

b. Curiosity:
   Curiosity is having a strong desire to learn or know something. It is a quality related to inquisitive thinking such as exploration, investigation, and learning.

c. Problem-Solving:
   Generally when we face a problem we start to complain about it. But a person with problem solving mindset understands the problem and then patiently solves it rather than complaining about it.

**If you have an idea, how to validate it?**

- Be clear about the problem you want to solve.
- Your idea should be able to solve the problem you are addressing.
- Verify that your solution have an audience which will use it. Talk to potential customers about your solution, gauge their responses and take their feedback .
- Specifically think about why your solution is not attempted by the already existing companies in that space or why others have failed in solving that pain point.

**Who to move forward with your idea?**

Look for government registered startup incubators near your locality and approach them. Most of the prominent institutes have startup incubators to help and guide anyone with an innovative idea. You can find government registered startup incubators at government websites.

**How to turn my idea into a venture?**

You can bootstrap your idea yourself or take help from incubators. Generally entrepreneurs take help from incubators and accelerators as they don’t have the expertise in all the aspects of running a company.

**Importance of feedback in the development of an idea.**

- Talking to customers will help you to better understand their needs and refine your solution accordingly.
- Talking to incubators will help you understand how to build your idea into a venture.
- Feedback helps you to shed a lot of preconceived notions about the scope of the problem and solution. It helps you to look at facts objectively.

# Team

**What is the importance of a team?**

- A team is a small group of people with complementary skills who work towards a common goal.
- A startup is as strong as its team, hence having a good team is as important as having an innovative solution.
- Team is important for startup as they play a key role in executing the vision of the founders.
- A good team must have complementary skills to work effectively and smoothly.
- A good team meshes well, should have same motivation for working on an idea. At the same time a good team should have members with different perspectives to cover all the ways a problem can be tackled.

# Legal

**What are the types of incorporation for startups or entity?**

There are four types of incorporation.

1. Sole Proprietorship
2. Partnership
3. LLP(Limited Liability Partner)
4. Private Limited Firm

**How to register your company?**

To register your company you can take help from any registered CA and lawyer. You can also do that yourself by directly visiting the website of Ministry of Corporate Affairs. You can take help from the FAQ section on the website.

Link of ministry of corporate affairs (http://www.mca.gov.in/mcafoportal/viewCompanyMasterData.do)

**What is intellectual property?**

Intellectual property (IP) refers to creations of the mind, such as inventions, literary and artistic works, designs, and symbols, names and images used in commerce. There are four subcategories : Patents, Trade Secrets, Copyrights, Trademark.

**Importance of intellectual property for a startup?**

To protect your invention, brand name and logo, content and your company processes from getting copied or stolen by a competitor.

**What is an NDA?**

Non-Disclosure Agreement is a legal contract between at least two parties that outlines confidential material, knowledge, or information that the parties wish to share with one another for certain purpose, but wish to restrict access to or by third parties.

# Funding and other support

**Different types of funding.**

1. 3Fs: Founders, friends and Family
2. Angel Investing
3. Venture Capital
4. Private Equity

**What do we mean by bootstrapping?**

Bootstrapping is the process of starting a startup without external help, especially financial help.

**What do we mean by seed fund?**

Seed fund, also known as seed capital or seed money, is capital that is given by an investor to a early stage startup. Seed fund comes in exchange of partial ownership of the company.

**Who is an angel investor?**

An angel investor is an individual who provides capital for a business start-up, usually in exchange for partial ownership

**What are venture capital firms?**

Venture capital firms are those which have access to huge capital, they fund startups in return for equity. Generally venture capital firms fund startups in their growth stage.

**Various stages of funding.**

1. Seed funding
2. Series A, B, C

**How do Investors add value to Startups?**

Investors particularly venture capitalists (VCs) add value to startups in a lot of ways:
**1. Stakeholder Management**: Investors manage the company board and leadership to facilitate smooth operations of the startup. In addition, their functional experience and domain knowledge of working and investing with startups imparts vision and direction to the company.
**2. Raising Funds**: Investors are best guides for the startup to raise subsequent rounds of funding on the basis of stage, maturity, sector focus etc. and aid in networking and connection for the founders to pitch their business to other investors.
**3. Recruiting Talent**: Sourcing high-quality and best-fit human capital is critical for startups, especially when it comes to recruiting senior executives to manage and drive business goals. VCs, with their extensive network can help bridge the talent gap by recruiting the right set of people at the right time.
**4. Marketing**: VCs assist with marketing strategy for your product/service.
**5. M&A Activity**: VCs have their eyes and ears open to merger and acquisition opportunities in the local entrepreneurial ecosystem to enable greater value addition to the business through inorganic growth.
**6. Organizational Restructuring**: As a young startup matures to an established company, VCs help with the right organizational structuring and introduce processes to increase capital efficiency, lower costs and scale efficiently.

**Why do Investors Invest in Startups?**

Investing in startups is a risky proposition, but the low requirement for overhead capital combined with high upside potential, makes it lucrative for investors to put their bets on startups.
The Thomson Reuters Venture Capital Research Index replicated the performance of venture capital industry in 2012 and found that overall venture capital has returned at an annual rate of

20% since 1996 – far outperforming modest returns of 7.5% and 5.9% from public equities and bonds respectively.

**How do Investors earn returns from Investing in Startups?**

Investors realize their return on investment from startups through various means of exit. Ideally, the VC firm and the entrepreneur should discuss the various exit options at the beginning of investment negotiations. A well performing, high-growth startup that also has excellent management and organisational processes is more likely of being exit-ready earlier than other startups.

Venture Capital and Private Equity funds must exit all their investments before the end of the fund's life. The common exit methods are:

**1. Mergers and Acquisitions:** The investor may decide to sell the portfolio company to another company in the market. For ex: The $140mn acquisition of RedBus by South African Internet and media giant Naspers and integrating it with its India arm Ibibo group, presented an exit option for its investors, Seedfund, Inventus Capital Partners and Helion Venture Partners.

**2. IPO**: Initial Public Offering is the first time that the stock of a private company is offered to the public. Issued by private companies seeking capital to expand, it is one of the preferred options for investors looking to exit a startup organisation.

**3. Exit to Financial Investors**: Investors may sell their investment to other venture capital or private equity firms

**4. Distressed Sale**: Under financially stressed times for a startup company, the investors may decide to sell the business to another company or a financial institution

**5. Buybacks**: Founders of the startup may also buyback their investment from the fund.

**What is Angel Investing?**

An Angel Investor is a private individual, mostly high net worth, usually with business experience, who directly invests part of his or her personal assets in new and growing unquoted businesses. They could invest individually or alternatively invest in syndicates where typically one angel in the syndicate takes a lead role. Besides capital, angel investors provide business management experience, skills and contacts for the entrepreneur.

The supply of start-up and early-stage equity finance has to some extent become more dependent on angel investors, as venture capital funds are not able to accommodate a large number of small deals.

They are increasingly investing alongside seed venture capital funds.

**How much do angel investors invest in a company?**

The typical angel investment in India is not more than INR 5-6 cr. but it can go higher especially if the angel investors come together to form a consortium/syndicate.

**What are the six most important things for angel investors?**

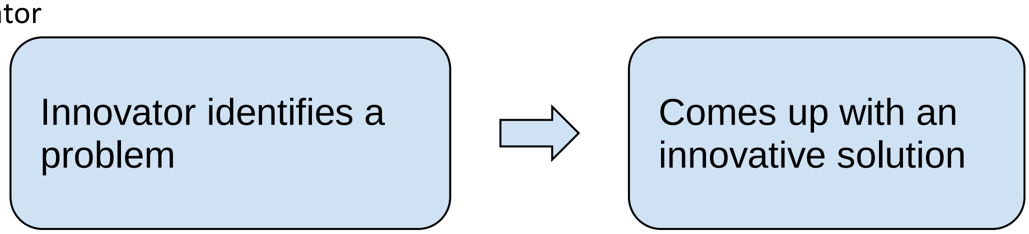
Things that angels particularly care about are:

- The quality, passion, commitment, and integrity of the founders.
- The market opportunity being addressed and the potential for the company to become very big.
- A clearly thought out business plan, and any early evidence of obtaining traction toward the plan.
- Interesting technology or intellectual property.
- An appropriate valuation with reasonable terms.
- The viability of raising additional rounds of financing if progress is made.

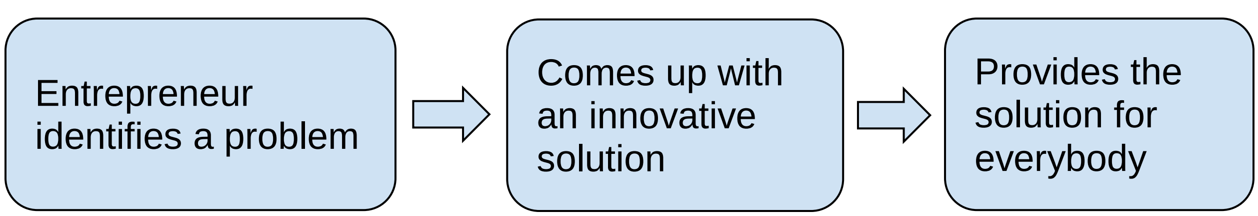
# Appendix/Glossary

**Difference between Innovator and Entrepreneur.**

Innovator




Entrepreneur



**Traditional business vs Startup.**

Traditional business are not considered as startup because they don't provide innovative solution to the problem which can be easily reproduced to serve another region.

**Social Enterprise**

Social enterprise or business which have a social impact as their vision. Social enterprise are also profit driven but they can settle for less profits to move forward their vision.

**For Profit Enterprise**

The aim of for profit organization is to maximize profits by delivering higher values to the customer and forwarding those profits to owners, shareholders.

**Non-profit Enterprise**

Non-profit organizations aim to provide societal needs. They do not have owners.

**Is creating apps and websites necessary for startups?**

It depends on idea to idea. Although in current scenario it is a norm for any startup/companies to have online presence to engage their customers.

**Are big cities the only right place to start a startup?**

Big cities provide good opportunity for startups to reach their customer easily, but it does not mean that every startup needs to operate in big cities.

**Is technology startups are the only way of doing a startup?**

Technology plays an important role in tech startups, but startups can come from various industries namely healthcare, food, pharmacy etc.