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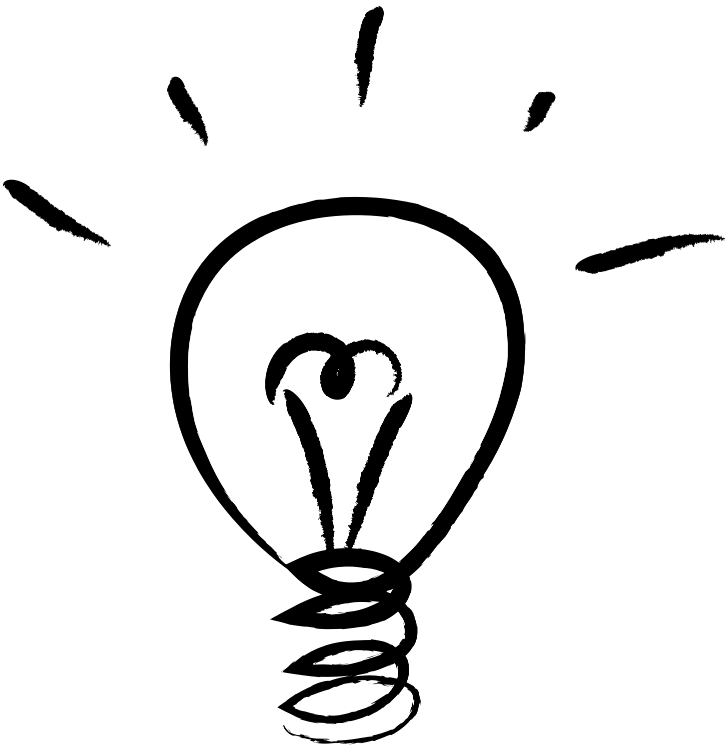
certification guide

business mentor madri+d

Quality mentoring for entrepreneurs and startups



Comunidad de Madrid

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business mentor madrid

Quality mentoring for entrepreneurs and startups

Comunidad de Madrid
Direción General de Investigación e Innovación
CONSEJERÍA DE EDUCACIÓN
E INVESTIGACIÓN

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índice

introduction

Introduction

Startups play a very important role in our societies, both in terms of creation of employment and in the construction of the new economy. In particular, technology startups are spearheading the development of innovations linked to new products and services, with significantly higher percentages of number of patents and number of skilled workers per employee than those recorded in large companies, as shown in the NTBC series of studies carried out by Fundación madri+d since 2004.

One of the main needs of startups is access to qualified contact networks that allow them to make decisions and launch initiatives with greater chances of success. Larger companies have resources and experience that allow them to develop business connections that will support their activity. However, these networks are not accessible to entrepreneurs, even in the acquisition stage of new technical and business knowledge and the development of new management skills.

Since 2006, the madri+d Mentoring Network has provided these contacts to the technology startups of the Community of Madrid through mentoring and with remarkable success. Through the “business mentor madri+d” certification, Fundación para el Conocimiento madri+d wishes to place its extensive experience at the disposal of other international programmes and networks, and this guide constitutes an essential learning element in the certification process.

For entrepreneurs, having the opportunity to find answers to their questions can mark the difference between avoiding significant mistakes or not and, ultimately, between managing their startup more effectively and with better results or not. Mentors, who are often people who have experienced similar situations or have experienced those of others very closely, can contribute to entrepreneurs’ success by helping and guiding them and sharing their passion as the company grows, endeavouring to not forget or underestimate important aspects. Mentors can provide contacts or knowledge of business management, professional or personal skills that can be vital at any given point of the startup life cycle.

This guide is composed of easy read training modules which include numerous relevant techniques and tools, both for mentors and for entrepreneur programme managers. These contacts address the lack of publications on how to adequately approach mentoring relationships in the early stages of a business, when it is essential to facilitate the necessary environment for mentors and entrepreneurs to work together effectively.

The contents of the guide have been developed by an outstanding group of mentors of the madri+d Mentoring Network, who have distilled part of their personal experience to help others, both consolidated mentors and those aiming to become mentors but do not have the necessary knowledge or skills. At Fundación madri+d we are especially grateful for their collaboration.

Lastly, we also expect this guide to help entrepreneur programme managers to identify mentoring good practices and implement a proven, quality work method such as that of the Mentoring Network of Fundación madri+d.

Los contenidos de la guía han sido desarrollados por un destacado grupo de mentores de la Red de mentores de madri+d, que han destilado parte de su experiencia personal para ayudar a otras personas, tanto si ya son mentores eficaces como si desean ser mentores y no tienen los conocimientos o habilidades necesarios. Desde la Fundación madri+d agradecemos especialmente su colaboración.

Por último, también esperamos que esta guía ayude a los gestores de programas de emprendedores a identificar buenas prácticas de *mentoring* y a poner en práctica una metodología de trabajo probada y de calidad, como es la de la Red de Mentores de la Fundación madri+d.

about the authors

About the authors

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Editorial Coordinator. Director of the Technology-Based Entrepreneurs Area of Fundación madri+d. European Commission Business Coaching KAM.

Director since 2004 of the Technology-Based Entrepreneurs Area of Fundación para el Conocimiento madri+d, which promotes the creation and consolidation of companies based on scientific-technological knowledge through programmes such as the madri+d Mentoring Network. He has a degree in Physics and a MBA from Instituto de Empresa, and is a technology, entrepreneurship and business innovation expert.

Eduardo Díaz has led more than 50 projects and networks in the sphere of technology management and transfer, sectoral innovation policies and the exploitation, dissemination and marketing of research results. He occupied the post of strategic consulting manager at SOCINTEC, Corporación IBV, head of international defence electronics project management at INDRA, software engineer and lecturer at Universidad Carlos III of Madrid.

In his current role he mobilises resources, access to innovative programmes and private funding through: mentoring for entrepreneurs through the madri+d Mentoring Network; incubation of startups based on space technology (ESA BIC Community of Madrid), in healthcare technologies (Healthstart), clean technologies (Cleantechstart) and intersectorality (InnoSmart); the search for private funding through the Business Angels BAN madri+d network; and the dissemination and support for entrepreneurial networking with university, scientific and business institutions.

As a university lecturer, to date he has published over 100 articles and studies related to innovation and technology-based entrepreneurship included the NTBC (New Technology-Based Companies) series of studies performed by Fundación madri+d.

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Ana Mª Aceituno Alcalá

Human Quality Coach. Director of Anathenea.

Mentor of the madri+d Mentoring Network, Ana Mª Aceituno is a human quality coach and currently runs her own professional training and coaching activity, under the trade name Anathenea, to empower people and organisations with a firm commitment to growth.

She is a lecturer, advisor and instructor with extensive experience in Spain and abroad (LATAM) at prestigious universities, business schools, business circles and the Tertiary Sector.

She is an executive coach certified by AECOP and a Business Mentor certified by Fundación para el Conocimiento Madri+d and has over 25 years' of professional experience. Most of this time has been spent occupying executive roles in corporate marketing and protocol at companies such as Ferrovial, Broadnet Consorcio and Sacyr.

She is a regular collaborator of the enComunicación -EsRadio Valencia FM- radio programme in the "Inspiration Pills" and "Coaching for you" sections.

She is a member of IBW (International Business Women), LIDERA network, AECOP (Spanish Executive Coaching Association), DIRCOM (Association of Communication Executives) and AEP (Spanish Protocol Association).

She has a degree in Computer Science. She has a Master's Degree in Marketing Management and a University Expert Course in Protocol and Ceremony.

She has specific Executive Coaching training delivered by Dr. Mario Alonso Puig and Leonardo Wolk, in addition to knowledge of Multiple Intelligences and Neuroscience applied to training and coaching.

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A mentor of the madri+d Mentoring Network, Rosa Allegue specialises in finance, HR, implementation of ERPs, risk management and mentoring for entrepreneurs and executives.

Rosa Allegue is CFO of Skechers Iberia, a world leader of the footwear industry. She is Co-founder and Treasurer of EJE&CON, the Spanish Association of Women Executives and Board Members.

She has over 25 years' professional experience as finance and HR director, and has formed part of the Management Committee in multinational companies for the last 15 years.

She specialises in startups, implementation of ERPs, credit and expansion management in retail and franchises. She collaborates with universities, giving lectures to transmit her entrepreneurial vision to the academic world. She is a speaker in Onda Inversión, forms part of the Experts Platform and is an experienced mentor of the madri+d Mentoring Network.

She won the "One of the 100 best financiers" prize in 2015 and 2016 in Spain, awarded by Actualidad Económica magazine.

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Company, team and people growth driver. European Commission Business Coach.

A mentor of the madri+d Mentoring Network, Javier Criado Nesofsky is a company, team and people growth driver. He has nearly 30 years' experience in different sectors, including consulting, industry, energy, stock markets, venture capital, real estate, Internet and software development companies. He has worked as a senior manager in the areas of finance, strategy and business development.

Javier has a Bachelor's Degree in Business, field of Economics and International Business, from the Richard A. Chaifetz School of Business of San Louis University (Missouri), graduated magna cum laude, and an MBA from the Kellogg Graduate School of Management (Chicago), Specialising in Finances, Marketing, Strategy and Organisation. He also has a Master's Degree in Executive Coaching from the European School of Coaching, a programme certified by the International Coach Federation.

Since 2014 he works as an "innovation business coach" for the Union Europe, advising companies traversing a high-growth stage that receive EU funding through the SME Instrument programme. Since 2016 he is a founding member of Capital 2, a company specialising in real estate transactions for the services sector. His main areas of interest are companies related to the circular economy, energy, software and innovative business models.

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Roberto Espinosa Blanco

Managing Partner Madrid for Lead to Change. European Commission Business Coach.

A mentor of the madri+d Mentoring Network, Roberto Espinosa is an economist who is passionate about technology and business management. He occupied various EMEA-level management positions at Intel Corporation for more than 15 years. Subsequently, he engaged in innovation consulting as Managing Partner of LTC Madrid, a strategic innovation consulting firm specialising in Open Innovation.

Roberto Espinosa is passionate about the entrepreneurial movement in Spain and has collaborated with different entrepreneurship support programmes in recent years. He is a partner at various accelerators and has participated in different projects as promoter. He is a SME Innovation Coach under the EASME (Executive Agency for SMEs) programme to support innovative SMEs in the European Union. He is also a TechStarts (Community of Madrid) and in EuroStars (European Commission) experts, in addition to providing advisory services to various startups.

He is a collaborator at several business schools, mainly Deusto Business School, where he is also a project tutor for Cybersecurity and Public Innovation Executives Programmes, as well as Academic Director of In-Company Training Programmes.

He is also an occasional writer and, in addition to his own blog (resbla.com), regularly collaborates with others. Several of his articles have been selected by the Spanish Marketing Association as best of the month, and the World Economic Forum has also selected some of his articles for its Spanish website. He has also written a chapter for the book “Never trust an economist who does not hesitate” (Deusto, 2015). He is a regular collaborator of Capital Radio as a technology and innovation expert.

Another of his passions is public speaking and communication, which is one of the reasons why he organises TEDxSantAntoni and TEDXUDeustoMadrid, where he is in charge of supervising content and working with speakers in order to convey ideas worth sharing in the best possible manner.

He is a regular innovation, technology and business speaker.

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Julio Fernández-Gayoso Mediero

Director of the DevOps Cloud Business Area for EMEA GBB at Microsoft.

Mentor of the madri+d Mentoring Network, Julio Fernández-Gayoso Mediero has a Degree in Economy and Business Administration, Finance speciality, from University of Santiago de Compostela, completed in 1986. He completed an Executive MBA from Instituto de Empresa in 1995. Also, he completed Specialist Master’s Degree Courses in “Business Strategy and Financial Acumen” and “Business Model Innovation” in 2015-2016.

He began his professional career at IBM, managing and leading different business areas linked to Information Management, Business Intelligence and Big Data both in Spain and in EMEA. Since 2006 he manages the application development tool and ALM and DevOps application (on premise and cloud) life cycle business area at Microsoft Europe. As part of these functions, for the last 20 years he has led international teams, developing multicultural and multifunctional team management skills (sales, marketing, technical).

During his years at both IBM and Microsoft, his priority was to develop the value-added partners channel (services and ISVs) in the different European countries where he was responsible. In this context, he has frequently held conversations with partners to help them in their international expansion. This has allowed him to compare internationalisation tactics that work with those that pose implementation risks. He has developed a ten-step methodology for developing joint business plans with partners.

From the viewpoint of skills and competences, he has acquired experience and competences in international team management, developing different leadership styles to this end, in addition to commercial team and partner coaching and mentoring tools in different European countries.

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Rafael García del Poyo

He is a lawyer and partner of the Digital Businesses Department at the Osborne Clarke law firm in Spain.

Mentor of the madri+d Mentoring Network, Rafael García del Poyo is a lawyer and partner of the Digital Businesses Department at the Osborne Clarke law firm in Spain.

He has been acknowledged as a professional leader in technology, media and telecommunications by Best Lawyers International and is a lawyer recommended by international directories such as Chambers Europe.

During his more than 25 years' experience in the legal profession -exercised both in Belgium and in Spain-, he has acquired extensive experience managing multidisciplinary work teams made up of technical and legal experts of different nationalities and in project management and organisation for clients. He has provided legal advice to clients both in Spain and abroad and has participated in the execution of strategic entrepreneurial plans in topics relating to the telecommunications law, e-commerce, software licences, videogames, acquisition of hardware, outsourcing, big data, electronic signature, cloud computing and personal data protection in very different industrial sectors.

His current practice focuses on the implementation of projects and the preparation of international commercial contracts relating to information technologies and communication, e-commerce, digital content, engineering and telecommunications. In particular, in the Fintech sector he has provided assessment for launching complex financial products in the Spanish market and has provided legal advice in the field of videogames, their distribution systems and the management of their intellectual property.

He is Secretary of the Board of Directors of various technology companies and has been involved in the legal defence of various issues at the Court of Justice of the European Union including, namely, cases (C-468/10 - C-469/10) relating to "legitimate interest" in personal data protection.

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Pedro Guerra Gutiérrez

Director of R&D at Medlumics, S.L.

Mentor of the madri+d Mentoring Network, Pedro Guerra has a Degree in Telecommunications Engineering from Universidad de Las Palmas de Gran Canaria (2001), Doctor in Electronic Engineering from Universidad Politécnica de Madrid (2007) and as a Master's Degree in Business Administration from ESADE-Universidad Ramón Llul (2015) and Financial Management from OBS-Universidad de Barcelona (2018).

He has spent most of his professional career related to R&D in the electronics industry, particularly electromedicine. He embarked on his career in 1999 at the National Microelectronics Centre (CNM) and is a member of the Higher Council for Scientific Research (CSIC), although he soon joined the industry as a systems engineer engaging in the design of digital communication systems, both satellite and terrestrial mobile telephony (2G and 3G).

He developed his doctoral thesis in the field of medical engineering and radiophysics, focusing his research on positron emission tomography, a molecular imaging technology with a wide range of applications in cardiology, neurology and oncology. Later, as a researcher at Universidad Politécnica de Madrid, he worked actively in the development of new medical technologies and their application in the industry.

Since 2015 he occupies the post of R&D Director at Medlumics, S.L., a Spanish startup in the medical devices sector which has developed a revolutionary technology for optical coherence tomography imaging.

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Julio Marco Barroso

Venture Capital Fund Director. European Commission Business Coach. Board Advisor International Coach Federation Spain.

Mentor of the madri+d Mentoring Network, Julio Marco is an economist and has a MBA and Master's Degree in Corporate Finance from IE Business School and in International Trade from ESIC.

Since 2014 he has given more than 100 business coaching sessions in different sectors and countries as a Business Coach of the European Commission. He is one of the three top business coaches of the European Commission. He is an Associate Business Coach of the CDTI (Centre for the Development of Industrial Technology) and participated in the Commercialize business programme for two years in the development of the SME instrument of the H2020 of the European Commission.

Julio Marco currently occupies the post of Board Advisor of the International Coach Federation Spain and was Secretary-General of ICF Spain (2012- 2016). He is a certified PCC ICF Coach with over 2,500 hours of executive coaching.

Since 2003 he occupies the post of Director of the Pan-European Venture Capital Healthcare Fund Spain at Gilde Healthcare. He was a partner of other venture capital funds in IT, telecommunications, Internet, nanotechnology, biotechnology and agrifood such as New Media Spark, Milenio Capital Partners, Capital Health and Katalimento Investments.

He occupied the post of General Manager at international companies in different sectors such as Automotion (Porsche, Lamborghini, Subaru, Kia and Bertone), Director of Universidad Europea de Madrid, Director of World Telecom (English telecommunications operator), partner of various Venture Capital Funds and entrepreneur.

Since 2000 he has been training executives of leading Spanish and international companies in different sectors, including Big Pharma, finance, telecommunications, healthcare, energies, etc., in the development of executive skills: Emotional Intelligence, Communication, Leadership and creation of high-performance teams. Motivation, change management, etc.

He is a lecturer at various universities and business schools. He is a regular speaker and writer (Viaja conmigo a Itaca, Editorial Kolima, 2017, a book on Personal Development and Coaching). He has participated in the radio programme Coaching Capital as founder and panellist for the past three years, which is broadcast on Fridays on Capital Radio from 6:30 pm to 7:30 pm.

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Tomás Otero Pino

He occupies the post of Human Resources Director for Norgine in Spain and Portugal.

Mentor of madri+d Mentoring Network, Tomás Otero is Human Resources Director for Norgine in Spain and Portugal, a company where he has worked since 2010 and in which he participates actively in various international projects within the organisation.

Prior to that he worked for ten years in the consulting sector, specialising in the pharmaceutical and healthcare industries, mainly carrying out executive search and career plan development mandates, both in Spain and abroad.

He collaborates actively with several specialist pharmaceutical publications such as Farmespaña, PMFarma and Pharma Market.

He is a collaborator of the CESIF (School of Higher Education of the Pharmaceutical Industry of Madrid) in international and executive master's degree courses. He is a member of the AEDRH (Spanish Associatio of Human Resources Directors).

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Hermógenes del Real Álvarez

He is an expert in the management of public companies and entities. He is an entrepreneur, manager, consultant and speaker.

Mentor of the madri+d Mentoring Network, Hermógenes del Real has over 25 years' experience managing public companies and entities. He is a member of the Scientific Committee of the Organisational Effectiveness Centre: Talent-UAM. Associate Professor of the Business Administration Department of Universidad Autónoma de Madrid (UAM) and Head of Studies of the IADE-UAM University Research Institute of Administration of Knowledge and Innovation of Companies of Universidad Autónoma de Madrid. Since 1993, his teaching experience as a professor and project tutor encompasses various disciplines related to Direction, Management and Enterprising, both in Master's Degree and Executive Development programmes in Spain and abroad.

His academic training is related to business management. He has a Degree in Business Sciences from UAM, a Doctorate in Financial Economy: Banking and Stock Markets from UAM, a Master's Degree in European Communities from CEOE, he occupies the post of Chief Knowledge Officer (CKO) at Insead Fontainebleu and Euroforum and has completed a Fellowship in the Course of Research Management of Real Colegio Complutense and Harvard University.

Hermógenes del Real is a mentor of Instituto de Empresa in the Lidera project and occupied the post of General Manager of the Consulting and Training Division of ENTEL IT - Consulting and Human Capital Manager at Deloitte, where he was responsible for the eLearning, equal opportunities and diversity management in Spain lines of business.

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module 1

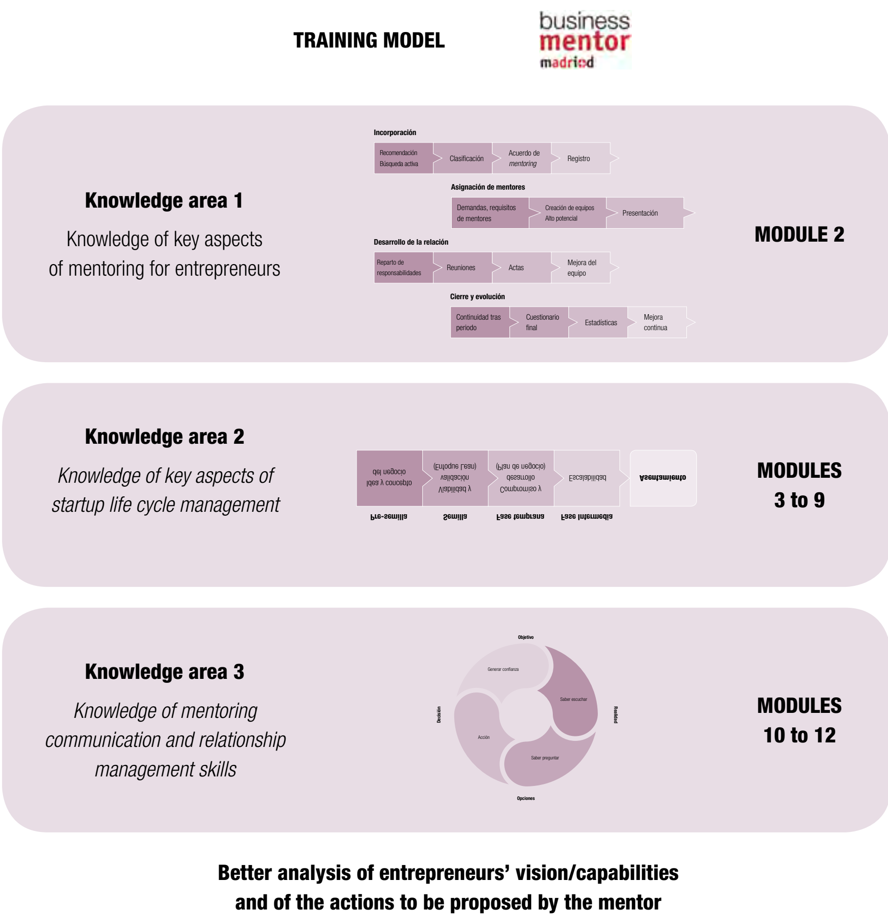
Content and structure of the guide.
Tools.

1. Content and structure of the guide. Tools

"Business mentor madri+d" certification is based on the work carried out on training modules aimed at reinforcing and validating the theoretical and practical knowledge of the certified professionals and achieving a better analysis, of both the vision and capabilities of entrepreneurs and the actions to be proposed as an entrepreneurs programme mentor or manager.

The basic business areas certified include knowledge of key mentoring aspects for entrepreneurs, of the startup life cycle and of skills related to the mentoring relationship management. The following scheme shows the correspondence between each of these three areas and the modules of this guide:

Figure 1. Knowledge areas of the "business mentor madri+d" training model and correspondence with the guide modules.



1.1. Key aspects of the mentoring for entrepreneurs process

This first knowledge area, which corresponds to module 2 of this guide, includes the definitions, goals and differentiating features of quality mentoring for startups, their fundamentals, the characteristics of the relationship between the mentor and the mentee and those of group mentoring, the revision of practical mentoring experiences for entrepreneurs and critical aspects for successful mentoring for entrepreneurs.

It also include specific aspects of the madri+d methodology such as those relating to the mentoring agreement, incorporation to the programme or network, assignment of mentors and entrepreneurs, successful development of the relationship and follow-up thereof.

This knowledge area is completed in other modules of this guide, making it possible, for example, to understand certain habits and thought processes of entrepreneurs (module 3), generate habits to facilitate the fluidity of the mentor-entrepreneur relationship (module 4),... Furthermore, “key questions” that the mentor can ask in relation to the contents of each module are suggested throughout the guide by way of reference.

1.2. Key aspects of startup management and life cycle

Another essential part of the “business mentor madri+d” certification consists of the knowledge and tools associated with the startup life cycle, from the pre-seed stage to the establishment stage, which is included in modules 3 to 9 of this guide.

This knowledge allows the mentor to expand the knowledge based on their personal experience and can be more or less necessary at different moments of the startup life cycle, also known as the “Valley of Death”, prior to obtaining profit. These stages, based on the “Goldsmith Model®”, can be defined as follows:

- **Pre-Seed Stage:** Stage in which the idea and technical viability of the new product or service are analysed and market needs and their potential economic viability are assessed.

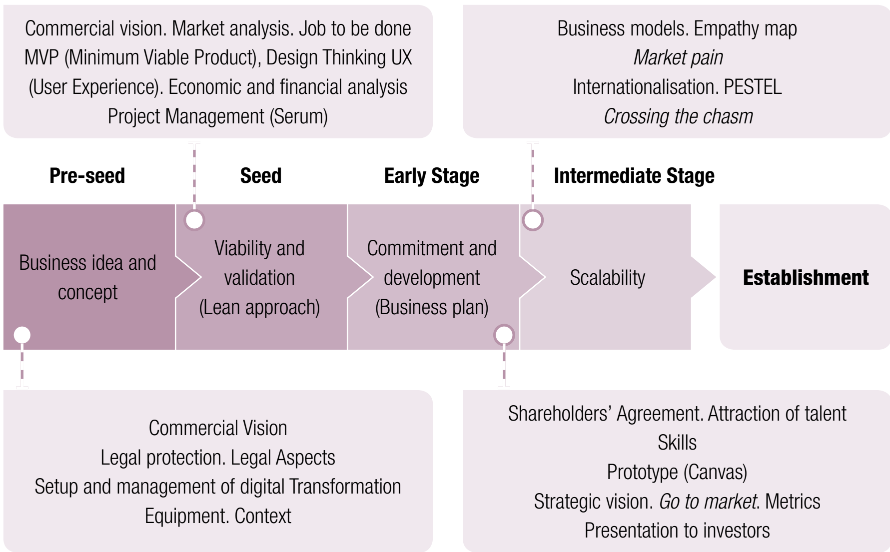
- **Seed Stage:** Pre-commercial stage in which the first prototypes are developed and validated by potential users, possibly with a Lean Startup approach.

- **Early Stage:** Initial stage of sales and commitment to the goals established in the Business Plan.

- **Mid Stage:** Stage of sales growth and distribution channel development, which can be associated with internationalisation.

Although most of the concepts and tools reviewed in this guide can be used by the startup mentor at different stages, they are assigned in the following graphic, by way of suggestion, at moments of the company's life cycle in which reviewing them can be especially relevant to the mentor and entrepreneur.

Figure 2. "Business mentor madri+d" training model: Key aspects of the startup life cycle.

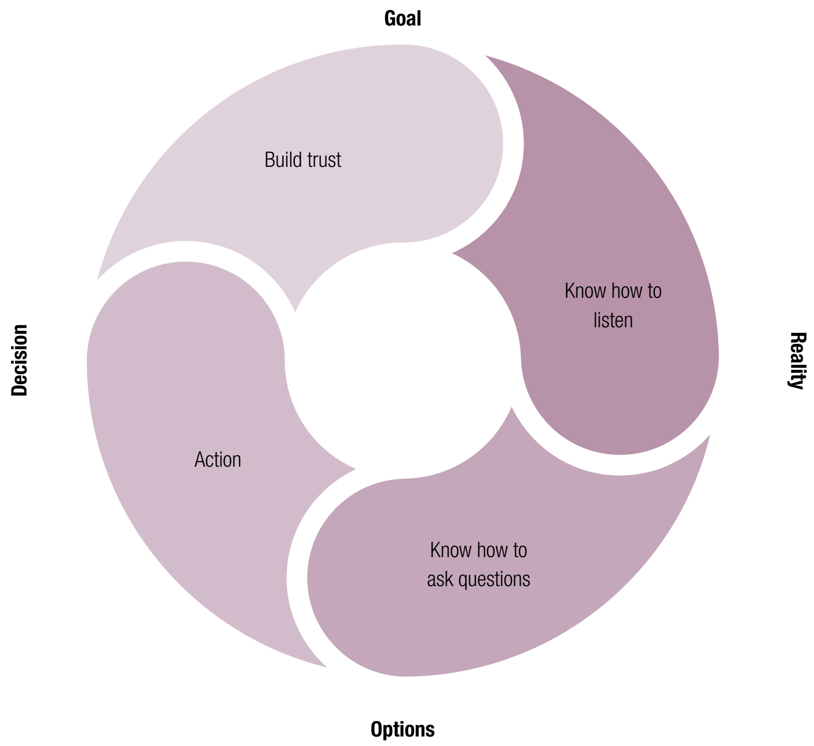


1.3. Communication and mentoring relationship management skills

Modules 10 to 12 of this guide provide tools for helping mentors to be more effective in their way of communicating what they know to both individual entrepreneurs and teams. It also provides information for entrepreneurs to communicate or present their projects more effectively.

This knowledge area includes coaching concepts, techniques and skills applied to the management of the relationship by the mentor: building trust, asking positive questions, empathetic listening and feedforward that will make it possible to implement and follow-up actions more effectively. All within a structured coaching framework that includes the establishment of goals, definition of the current status (reality), analysis of the actions to be undertaken and commitment or decision to implement them. The above is summarised in the figure below.

Figure 3. "Business mentor madri+d" training model: Communication and mentoring relationship management skills.



In relation to team management, module 11 reviews the characteristics of startup teams, leadership styles and the proper application thereof.

Lastly, module 12 provides information that mentors can transmit to entrepreneurs to communicate their activities and present their project to investors or other "entrepreneurial ecosystem" agents more effectively.

module 2

Mentoring for entrepreneurs

Eduardo Díaz Sánchez

2.1. Teaching goals

In this module we will review four basic aspects of the entrepreneurial mentoring relationship:

1. Review of the mentoring concept, types and differences between mentoring and other types of support.

2. Customisation of mentoring for entrepreneurs in accordance with the participants' basic needs and contents of a potential mentoring agreement.

3. Review of the four most relevant processes within the formal mentoring relationship developed under the framework of enterprising support programmes or mentoring networks.

4. Review of a series of critical aspects in entrepreneurial mentoring relationships.

2.2. Mentoring

Mentoring is a relationship based on the **personal commitment between the mentor and mentee through which experiences, knowledge and contacts are shared to contribute to the mentee's personal and professional growth.**

In accordance with the description included in module 4, a mentor plays the role of trusted advisor, helps, teaches and shares practical advice within the context of a relationship of respect between the parties. The mentor assumes a selfless role in the person's learning, development and success, but must be honest and clear and create clear expectations.

The mentee can benefit from the mentoring by accessing **new models and viewpoints**, accessing **new situations** arising from the mentor's position or status, discovering and enhancing personal **skills and attributes** (identifying features), assuming **new challenges** to achieve better results or resolve complex situations, and accessing **new contacts**.

To this end, the mentor can: **share experiences** by telling stories or conveying viewpoints on topics of interest to the mentee; **providing opportunities for the mentee to think** (not to be confused with coaching, as we will see below); **offering constructive feedback; giving advice; sharing knowledge; sharing influences** or empowering the mentee; or **sharing its contact network**, stories, sources of information,...

As regards communication, as we will see in module 4, a good mentor must hold efficient conversations, focusing on the challenge of self-improvement in an atmosphere of positive and constructive attitudes, and redirecting inappropriate questions to ensure that they are constructive and clear.

Compared to other types of support such as consulting, coaching or training, mentoring is the only one that, by definition, is not remunerated. Although "mentoring" is usually understood as a consulting aid, remunerated and provided in the context of accelerators or incubation programmes, this benevolence is the major difference between mentoring and other forms of support such as CONSULTING, COACHING and TRAINING. Some of the features that make it possible to differentiate between these four types of support are:

- **MENTORING:** Mentoring facilitates the transfer of knowledge and experience from one person (mentor) to another who needs them **(mentee) and who is responsible for putting them into practice.**

- **CONSULTING:** Consultants execute changes or projects that can be accompanied by new knowledge. **Consultants are responsible for the changes or improvements implemented.**

- **COACHING:** Coaches offer, through questions and communication techniques, help to reflect, think differently and improve communication with the aim of achieving the set goals. **The coachee is responsible for his or her own learning.**

- **TRAINING:** Instructors provide the necessary knowledge to transform skills or knowledge. **The person who receives the training is responsible for his or her own learning.**

Therefore, **mentoring is based on the use of techniques to reflect, or on providing information or executing projects**, although it can give rise to activities shared with these types of activities.

Not all types of mentoring are the same: mentoring can be provided on an individual basis or in a more structured setting, at a work centre or otherwise,... Some types of mentoring include:

Formally provided mentoring: Based on a **structured programme** wherein a mentoring organisation or network provides the opportunity to establish a relationship with two or more people. They are programmes aimed at specific groups to speed up their development and progress. Mentors and mentees are assigned and relationship monitoring and support tools are established. Formally provided **quality mentoring** requires a high degree of dedication to manage it, normally greater than that required in other types of support such as consulting or training.

Natural mentoring: It occurs **informally** when an experienced person aids the development of another, generally younger person, based on **trust** between both parties. Trust between the mentor and the mentee is essential for a successful mentoring relationship and, therefore, formal mentoring programmes that establish informal mentoring relationships are the most effective.

Situational mentoring: It is generally focused on the short term and occurs **at certain moments in time and with very specific purposes**. For example: identify a person established in a new market that can provide the mentee with information and contacts based on his or her experience.

Organisational or supervisory mentoring: It occurs **between a colleague or supervisor and an employee** with less experience in certain areas.

At times, a difference is established between **internal mentoring and external mentoring** in accordance with the setting in which the knowledge transfer takes place: if that transfer takes place within a corporate setting, it is called internal mentoring; if the transfer comes from another company or sector it is called external mentoring. This makes it possible to enrich companies and sectors, and a good example of this is **cross-mentoring** between executives of different companies. Mentoring is sometimes referred to as internal, while coaching is external. This difference has conceptual failures that must be clarified: there is internal mentoring and external mentoring, in addition to internal coaching and external coaching, but what differentiates them is the setting in which they take place.

Other types of mentoring are **reverse mentoring**, in which the mentor is the younger person, **peer-to-peer mentoring** and **online mentoring** based on mentor-mentee meetings over the Internet.

2.3. Mentoring for entrepreneurs

As opposed to the other forms of traditional mentoring mentioned earlier, mentoring for entrepreneurs is based on innovative, effective and differentiated management. It does not consist of proposing ideas or giving superficial opinions, or an executive or employee with more experience providing assessment to another with less experience. It consists of helping the entrepreneur to improve personally and find the right path to achieve what they want for their startup. The mentor's age or position are not important, but rather what they can both (mentor and entrepreneur) offer each other mutually. As we will see in this module, entrepreneurial mentoring relationships are not hierarchical but rather are based on the mutual reinforcement of two or more fellow travellers which pool knowledge and contact networks that will allow them to learn, make decisions and solve problems together.

Managing entrepreneurial mentoring relationships is also characterised by their complexity and need for flexibility. On the one hand, establishing an appropriate framework for the relationship with a fixed calendar of face-to-face meetings and follow-up reports is important, but it is no less important to be open to changes with respect to the initial planning, to online relationships, to understanding that your mentor may be younger than you... all without forgetting the importance of providing access to good mentors who will feel attracted by the most prestigious programmes with the best results.

2.3.1. Basic requirements of mentoring for entrepreneurs

Hereinafter, we will refer to **mentoring for entrepreneurs**, where the mentee is an entrepreneur who will basically require support to launch or consolidate his or her startup. Mentoring for entrepreneurs is based on mutual trust and on a series of basic premises.

A mentor is expected to have in-depth knowledge of the corporate world in order to "visualise what lies ahead" for the entrepreneur, skills for helping others and so they can see things from different perspectives, availability during the support period and motivation to help to define and follow an action plan with clear goals.

Furthermore, **the supported entrepreneur is expected** to understand that they are the main driver and are solely responsible for the success or failure of the relationship, who is capable of carrying out an initial evaluation of their strengths and weaknesses they want to improve, of establishing an action plan with clear goals in collaboration with their mentor or mentee and who undertakes to work on the learning areas they define.

2.3.2. The mentoring agreement

Before initiating the mentoring relationship, a **mentoring agreement** explaining and clarifying the commitments and initial expectations of both parties, in addition to the confidentiality conditions, can be signed. Three aspects that can be addressed in the mentoring agreement are the expectations of both parties with respect to the relationship, their formal commitments and confidentiality terms and conditions.

Firstly, the EXPECTATIONS of both parties can be the following:

- **What is expected of the mentor:** for example, being open to **exchanging their experience**, dedicating time to the relationship, listening and advising, **not deciding** for the entrepreneur and contributing to establishing and monitoring a business **development plan**. Additionally, the mentor must know, if established by the mentoring programme or network, that the entrepreneur is free to follow their advice and, therefore, is **exempt from any liability** arising from their support as mentor, except confidentiality.

- **What is expected of the entrepreneur:** for example, being interested in **learning to accept criticism**, being capable of identifying **goals, striving** to build the relationship, **informing** if changes are required during the relationship and accepting that they are the **solely responsible** for their own development.

Secondly, the mentoring agreement can include the COMMITMENTS acquired by both parties.

These commitments can be related to the **level of activity** (e.g.: initiate at least one relationship during the first year of participation in the programme), **frequency** (e.g.: minimum number of mentoring-related meetings), **participation in the programme** (e.g.: attendance at meetings or training), **dedication** (e.g.: prepare or facilitate the preparation of meeting minutes, inform of changes in goals, changes in the mentoring team,…) or **evaluation of the relationship** (e.g.: complete evaluation questionnaires).

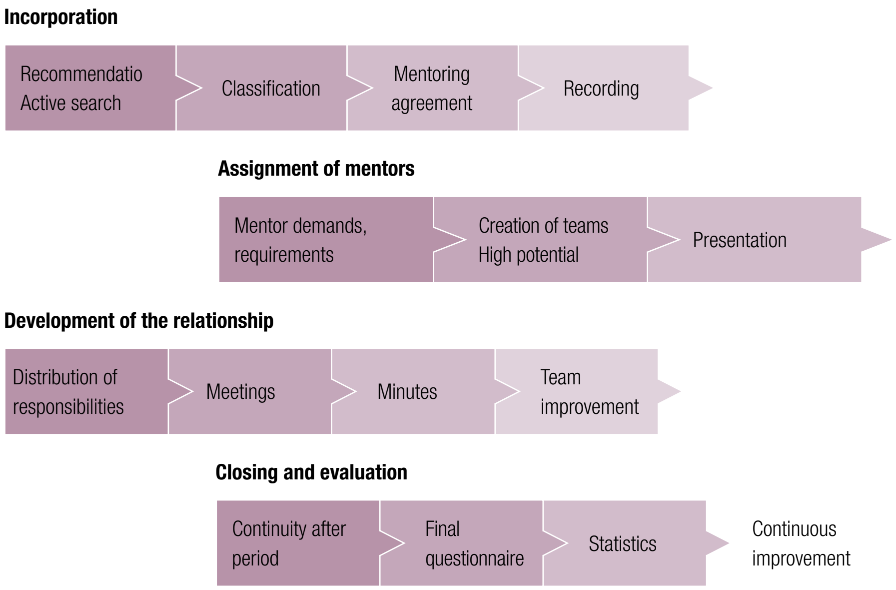
Thirdly, the mentoring agreement can include the CONFIDENTIALITY TERMS AND CONDITIONS.

The confidentiality terms and conditions will remain in force for a certain period after the relationship has ended. They may include conditions such as the need to treat all information received as strictly confidential, restrict access to the information received, adopt security measures to avoid disclosing information or returning or destroying information upon written request.

2.4. The mentoring process

Mentoring relationship management must take into account the **four processes of mentoring for entrepreneurs** described in this section and that is summarised in the following figure: incorporation of mentors and entrepreneurs, assignment of mentors, development of the relationship, development of the relationship and, lastly, closing and final evaluation.

Figure 4. The four processes of mentoring for entrepreneurs.



2.4.1. Process I: Incorporation

The incorporation process must take into account the selection of entrepreneurs, invitation of mentors and formal registration of both profiles in the mentoring programme or network:

- **Selection and registration of entrepreneurs.** It begins with an **initial contact with the entrepreneurs**, for example after reviewing the registrations on a website or at a meeting that makes it possible to verify the characteristics of their projects, demands and degree of commitment. Next, it will be necessary to **provide information** on expectations, processes, etc., that will allow the entrepreneur to know what is expected of them and of the mentor or mentors assigned to them at all times. If the entrepreneur agrees with the terms and conditions of participation, they will be invited to **formally sign up** to the programme or network, for example using an online tool.

- **Invitation and registration of mentors.** The **identification of mentors** can take place after a specific search or by recommendation of other people, for example mentors who already belong to the programme or network. The selection of the mentor must take into account skills or knowledge of particular use to the programme in a broad sense or specific demands of entrepreneurs. After an initial selection, subsequent personal **contact** may be required and the formal **invitation and registration** of the mentor in the programme or network, for example through an online tool.

2.4.2. Process II: Assignment

Assignment of mentors to entrepreneurs begins with the request for possible assignments and continues with the creation of mentoring pairs or groups.

Request for possible assignments. The request can be made by the mentor, the entrepreneur or both, but is usually more effective when the mentor is the driver. In this last case, the mentor can make their selection in different ways: by accessing information about entrepreneurs seeking mentors, after receiving suggestions from entrepreneurs by the programme manager or after personally meeting the entrepreneurs, for example at introductory sessions. Personal information is important for verifying that personalities "match" in a certain way so as to build the necessary trust to ensure a successful relationship.

Creation of mentoring pairs or groups. In general, the manager performing the assignment based on **criteria** such as the mentor's experience in a certain sector, their personal skills or the capacity to meet entrepreneurs' specific needs. In the case of group mentoring, a **mentor leader** can be designated, who will be in charge of ensuring that the mentoring team meets the entrepreneur's needs, for example incorporating new mentors, making changes in the composition of the mentoring team or organising new meetings to address specific topics.

2.4.3. Process III: Development of the relationship

The development of the mentoring relationship begins with an initial meeting, followed by successive meetings during which a development plan agreed upon at the initial meeting between the entrepreneur and their mentor or mentors will be followed up.

Due to its particular importance, **the initial mentoring meeting** must have a well-defined structure that will make it possible to lay the foundations for a satisfactory relationship. The mentoring programme or network manager can ensure that a certain **agenda** with the following points, for example: introduction of the participants, open discussion on the entrepreneur's professional development, their interests and expectations, confidentiality, areas to be strengthened, etc., and agreement (at least preliminary) upon a future meeting schedule, to be managed by the entrepreneur. After the initial meeting, as established in module 3 of this guide, all the relevant information that will make it possible to determine the status and health of the business project will be gathered for the **preparation of the mentor**. At this initial stage, the mentor must be aware of the emotional and motivational state of the entrepreneur, the financial status of the project and the technical status of the product or service.

The successive meetings will be held with a **minimum frequency and duration**. By way of example, a duration between two and four hours per meeting and a minimum frequency of at least four meetings over a six-month period could be established. Possible **discussion topics** include:

- Reflection on the company's mission as a basis for setting the goals of the mentoring relationship.
- Establishment of three- or five-year goals, for example, to help the entrepreneur to determine where they want to go, to organise their time and to identify the resources they needs to achieve their goals. Goals must be prioritised, written and reviewed in successive meetings.
- Strategy, organisation, improvement of specific knowledge,... based on the mentor's experience and supported by the contents of this guide, for example, the Business Model Canvas, empathy maps to better identify customer needs, etc.
- Improvement of the entrepreneur's skills and management of relationships with their team or with other partners or competitors.
- Knowledge of the environment or analysis of internationalisation with tools such as, for example, the PESTEL analysis.

It is advisable **for the entrepreneur to be responsible** for contacting the mentors prior to meetings and meeting minutes. In the case of group mentoring and if a **mentor leader** role has been defined, they may transmit their proposals to the mentoring programme or network manager. Halfway through the relationship, it is advisable to perform a **mid-term review** of the progress, expectations and possibilities of improving the support provided. Also, it is important to **show availability and openness** on both sides, address potential conflicts and, if necessary, propose possible additional meetings with other mentors or experts.

2.4.4. Process IV: Closing and evaluation

Both if the mentoring relationship has been satisfactory or if, for some reason, it has not fulfilled the parties' expectations, it would be convenient to end it in an orderly manner and provide information both to the mentoring programme or network manager and to the mentor.

Information to the manager. They will inform on the end of the relationship (the entrepreneur may be the one who informs), on the mentoring results (mentors and entrepreneurs may complete a satisfaction survey) and on the possibility of continuing the relationship beyond the initially established period.

Information to the mentor. Before ending the relationship, it would be convenient for the entrepreneur to express a constructive opinion and their gratitude for the time dedicated by the mentor or mentors.

2.5. Critical aspects of mentoring for entrepreneurs

To finish this module, following are five especially critical aspects for the success of the formal mentoring relationships for entrepreneurs:

1. Signing of the **mentoring agreement**, which explains and clarifies the **expectations** and the **initial commitments** of both parties and **confidentiality conditions.**

2. Understand that the **mentor's commitment** depends on their motivations and that these may vary with each type of relationship. These motivations may be related to **altruism and satisfaction** (e.g.: intention of returning to the company after a successful professional career), to **professional interests and learning** (more common between entrepreneurs, middle managers or executives) or to **public recognition** (more common between professionals related to the consulting world).

3. An appropriate **assignment** of mentors, taking into account the mentor's **experience** or the **composition of the group of mentors**.

4. The mentor or mentors' **personal skills**: their capacity for active listening, the empathy and trust generated,..

5. The **management of the relationship**, normally monitored by a manager who could report to a mentoring programme or network monitoring committee. Of particular importance are transparency in the **selection process** (the participation requirements of mentors and entrepreneurs in the programme or network must be public), clarifying the **duration and responsibilities** relative to relationships, establishing **specific and demanding goals**, establishing a **milestone achievement timeline**, organising regular **follow-up meetings** with sufficient advance notice, motivating (if necessary) **the reformulation of the support provided** or of any aspects thereof and having **adequate management tools**, if possible, differentiated and specific to monitoring mentoring relationships.

2.6. Resources for deepening knowledge

Recommended readings

- Lonnie D. Inzer, C. B. Crawford, Ph.D. “A review of formal and Informal Mentoring: Processes, Problems, and Design”, Journal of Leadership Education, Volume 4, Issue 1 (2005).

- Beatriz Valderrama. “Development of mentoring and coaching skills”. Publisher: FT Prentice Hall (2009).

George Vukotich. “Mentoring Startups: Getting the most out of mentoring in a startup environment”. CreateSpace Independent Publishing Platform (2016).

Useful Websites

- Philipp Laufenberg #edtech “We Studied 100 Mentor-Mentee Matches — Here’s What Makes Mentorship Work” http://firstround.com/review/we-studied-100-mentor-mentee-matches-heres-what-makes-mentorship-work/

- “Mentoring”, helping others for the sake of enterprising. https://cincodias.elpais.com/cincodias/2018/01/16/companias/1516115870_534295.html

module 3

12+1 sales and startup myths. Sales techniques

Roberto Espinosa Blanco

3.1. Introduction

After collaborating with dozens of startups over the years, I have continuously come across a series of myths related to their sales approach in general.

These myths, which luckily do not affect all startups equally, are usually closely related to the reason why many of these companies are created: a technology product. This product is often placed “on a pedestal”, which considerably narrows entrepreneurs’ vision of what a company actually is.

On the one hand, in a world very given to quoting grandiloquent phrases and to providing simple examples of formerly successful entrepreneurs converted into technology gurus, these examples, launched willy-nilly with the best of intentions, can ultimately become a kind of “spiritual guide” for entrepreneurs and excuses to not do certain things that we would otherwise understand to be basic. For this reason, we include a list of “12+1 Sales and Startup Myths” in this module.

In our role as mentors, it is important to help entrepreneurs understand the real importance of the sales function and to organise and plan their work. For this reason, this module also includes a brief overview of some of the techniques analysed in depth by various of the most well-known methodologies used by commercial teams.

3.2. Sales and startup myths

The following list of 12+1 Sales and Startup Myths does not seek to be a comprehensive or, naturally, deterministic final list. Rather, it is a tool that should make the mentor and, by extension, the mentee, reflect on the company’s commercial strategy. Commercial strategy in the broadest sense of the word, from product packetisation to the end of the process.

In any case, I invite the mentor to reflect on whether, in their experience, there are any more (or less) myths:

1. **Build it and they will come.** There are many examples of business models that require building capacity in anticipation of a demand that will grow faster than the speed at which that capacity will be built. Think, for example, of telephone operators and cable infrastructure. Many entrepreneurs fall so deeply in love with their product that they rush headlong into manufacturing without further proof than their own vision. Without market comparison, without analysing the business model, without analysis the competition or substitute products, without proof that their marvellous products will all but sell themselves.

2. **Love your product above all things.** Closely related to the previous myth, there are many entrepreneurs whose love for their product clouds the “paranoia” that any entrepreneur should have. Constant critical thinking and a mindset of continuously challenging sacred cows should be permanent in any entrepreneur. Many of these “perfect” products end up being products in search of a solution which additionally, due to being perfect, do not require marketing effort.

3. **Design paralysis.** The omnipresence of Design Thinking and agile entrepreneurship methodologies that advocate continuous iteration as a way of progressing quickly makes some entrepreneurs fall into an endless improvement loop from which they cannot escape because the product is never good enough or sufficiently proven. Silicon Valley, with its products in a perpetual beta state, has fostered this myth.

4. **The box is what matters.** The enterprising scene often recognises startups more on the basis of the money they are capable of making than what they sell. Burn rate and box months are among the first questions that an investor in search of funding usually asks. But veteran entrepreneurs know that the box is not what matters, but rather cash flow and, thus, sales. There is an aphorism in this regard summarised by the acronym CFIMITYM (cash flow is more important than your mother).

5. **A demo is not a sale.** Startups “entangled” in demos with big multinationals are commonplace in B2B environments. It is also something they usually show as proof of the traction they are gaining. However, sales reps with B2B experience know that demos with big companies do not usually turn into sales. In companies, R&D departments are normally very far from the business and when they use startups they do so as a cheap R&D option. Naturally, it is very difficult to say no to a big company given the ghost of a chance to land a major contract, but the fact is that in most cases multinationals use startups to learn. These demos are usually a great waste of time and money and, in many “postmortems”, entrepreneurs cite free demos as one of the reasons why they ended up failing.

6. **Internet killed the intermediaries.** Few entrepreneurs understand the dynamics of indirect channel sales and normally disregard them as a thing of the past. Direct sales seems the obvious choice for any modern-day business and, with the digital marketing tools currently available, it seems that any customer, whether consumer or professional, is within our reach via the Internet. This reasoning does not live up to reality, since the world’s leading technology companies are mostly intermediaries. Although it is almost always interesting to start off with a direct sales strategy, it is no less true that it will be impossible

to maintain in the medium term, so the sooner indirect channels are planned the better.

7. **If you want to go fast…** There is a famous African proverb that says: «If you want to go fast, go alone. If you want to go far, go together». It seems that entrepreneurs usually take this advice at face value and, since speed is what matters most, they go as alone as possible. However, this world of Open Innovation reminds us that to go fast you we must go together. I have always been surprised by the reluctance of startups to collaborate with other startups. Something like co-opetition, increasingly common in big companies, is rarely seen among startups.

8. **Less jargon and more going out and selling.** Unfortunately, it is common to find entrepreneurs who have never been before a potential customer. Entrepreneurs who are abreast of the latest growth hacking trends and are capable of including all digital marketing jargon in their discourse without blinking, but have in turn never bothered to ask a potential customer if they would purchase their product.

9. **The bad sales rep, the goalkeeper.** The commercial function is generally underestimated in the corporate world but is directly undervalued in the startup world. As technology companies, most startups consider that the problem is always not having a good enough product. Based on this idea, when it comes to going out and selling, we normally send the «worst» engineer, not the «key» engineer who is reluctant to go out on the street.

10. **The best sales rep is not the best sales manager.** Another big mistake made by companies of all sizes is to promote the best sales rep to sales manager. Startups are no different and this mistake is often observed. It is quite obvious that the same skills are not required to do one thing and another.

11. **Selling is a very old-school art.** Most entrepreneurs are unaware of basic -and it goes without saying- cutting-edge sales methodologies. The relationship between the purchasing and sales departments can be described as an arms race in which, when one side advances, the other responds and adapts. In the same manner that companies do not purchase the same way as 20 years ago, we cannot sell the same way as 20 years ago.

12. **Sales sells.** Yes, but this function must play a critical role in the definition of the company›s strategy. If innovation currently consists of finding out things about the customer that will allow us to better adapt our offering, the commercial function must play an important role in the company›s innovation processes. Neither must we forget that innovation = technology + business model and that the sales function has the greatest expertise in terms of business models.

12+1. We are all sellers. In this age of transparent companies, all employees are responsible for sales. The employees themselves can and must be the best ambassadors of their own company. It is disheartening to see members of a startup speak negatively about their own products.

3.3. Brief introduction to sales methodologies for mentors

If the sales function is something traditionally considered very tactical and is often looked upon with certain disdain from other functions in companies, in startups this situation is, in general, more acute.

Glorification of the product above all else that leads to the thought that "if something is good enough, it will sell itself" is common in startups, and this is a serious error.

We must bear in mind that even the most modern, large organisations have problems implementing sales methodologies, so it does not make sense to try it in a startup. However, knowing the basics of these techniques can help to detect major mistakes or initiate the path towards a proprietary work methodology.

One final remark before we begin: these methodologies were designed for B2B environments, although they also have certain B2C applications. In any case, it will be difficult to find B2C startups that do on-site sales in our support processes as mentors.

We can refer to four types of sales methodologies[1]:

- **Based on processes**: They are widely used because they are easy to teach, given the predictability required by executive teams, and are useful in complex sales processes with long closing cycles.

- **Based on personal relationships**: In this case, the approach is to identify the appropriate people and build good relationships with them in order to advance in the sales process. They are usually sales rep's favourites because they maximise the use of something intangible such as "relationships". They are in decline, since corporate purchasers "shielded" against them through round tables and collective decisions.

- **Neurolinguistic programming models (PNL):** They are very popular due to their simplicity and the promise of fast results, but are only applicable to short sales processes, normally B2C.

1. Tom Sant, The Giants of Sales What Dale Carnegie, John Patterson, Elmer Wheeler, and Joe Girard Can Teach You About Sales Success, Chapter II

- **Tactical models:** They are models aimed at helping in a certain step of the sales process, normally closing. They must be very specific to the industry and to the type of purchaser, and always in demand due to being easily taught in short training sessions.

"The Primer" model [2] creates a consultative sales process that focuses on the customer's needs, with very precise instructions to the seller regarding what to do and what to say at any given time, with four stages in the sales process:

- **Start**: In which the customer's needs are identified.

- **Proposal**: In which a customer-specific value proposition is defined.

- **Demo**: Which shows how the solution meets the customer's needs.

- **Closing**: In which the order is achieved.

Of particular interest to the sales process are the "Six Rules for being nice" [3]:

- Be sure to show a genuine interest in the other person.
- Smile.
- Remember that the most important sound in any language is the name of the person in front of you.
- Be a good listener. Encourage the other person to talk about themself.
- Talk from the viewpoint of the other person's interests.
- Make the person feel important and do so sincerely.

Furthermore, negotiations -and obviously a sale is just that- are not a zero-sum game[4] in which one side has to lose for the other side to win, but rather agreements can be reached whereby both sides win.

In a sales process, neither we[5], nor our communication style nor our way of seeing the world matter, only the person in front of us. Being sufficiently flexible so as to adapt to the style that best adapts to our interlocutor will ensure more effective communication and will not prevent us from succeeding in our marketing efforts.

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2. Walter A. Friedman, HBR Working Knowledge: John H. Patterson and the Sales Strategy of the National Cash Register Company, 1884 to 1922
3. https://es.wikipedia.org/wiki/C%C3%B3mo_ganar_amigos_e_influir_sobre_las_personas
4. https://es.wikipedia.org/wiki/Juego_de_suma_cero
5. David W. Merrill, Roger H Reid. "Personal Styles & Effective Performance"

To qualify an opportunity -a “lead” in sales jargon- there must be a need (normally referred to as a “pain”), a quote and the person must have decision-making capacity. If any of these factors are missing, the person can still be an interesting interlocutor in our sales process, but we cannot consider them a qualified lead[6]. Let’s consider the seven stages of a sales process:

- **Establish rapport:** Make the interlocutor feel comfortable with us by adapting to their communication style.
- **Reach an initial agreement:** In this agreement, which we can consider an agenda and will establish the negotiation principles. The goal relating to the meeting, time, role of the different parties and conclusion.
- **Discover the customer’s pain:** Through active listening, we will try to discover -beyond what is said- the underlying need (pain).
- **Talking about money:** Money is sometimes a taboo topic and we do not talk about it until it is too late in the sales process. We must do so right after discovering the pain and early in the process to rule out the opportunity if the customer doe not have enough.
- **Discover the decision-making process:** It is important to talk to the person who will ultimately decide and, if it forms part of a complex decision-making process, understand this process well in order to understand the role of each interlocutor.
- **Present the solution that solves the pain:** It is important to do so highlighting the features or benefits that alleviate that pain.
- **Reinforce the sale:** It is important to understand that the sale is not closed with the order and that the after-sales stage is important to customer satisfaction.

The following seven stages can also be established[7], which bear some resemblance to the foregoing:

1. Carry out prior research.
2. Stimulate interest.
3. Establish the major business problems.
4. Establish the “purchasing vision”, understand the value and the reasons for advancing the process.
5. Understand the organisation.

6. David H. Sandler, “You Can’t Teach a Kid to Ride a Bike At a Seminar”
7. Michael Bosworth, “Solution selling: creating buyers in difficult selling markets”

6. Gain access to the main decision maker.

7. Manage the product evaluation plan.

8. Negotiation.

9. Closing.

As regards the type of questions to ask in order to advance in the sales process, these are[8]:

- **"Situation":** Questions that help us to gather information about the opportunity.
- **"Problem":** Questions that help us to define and identify the pain.
- **"Implication":** Questions that help the customer to understand the severity of the problem.
- **"Needs-payoff":** Questions that make the customer confirm the suitability of the solution we are proposing.

In "Strategic Selling", four types of profiles are defined that always form part of a complex sales process; they are people who must be identified and to whom we must sell our solution and who, in turn, can impede or even torpedo our efforts if we do not align them[9]:

- **The "economic buyer".** The person who ultimately «signs» the order. They have the capacity to agree upon terms and normally seeks financial return on the investment.
- **The "user buyer".** The person who›s daily activity will be affected by the solution. Their main interest is that the purchase makes their life easier and more comfortable.
- **The "technical buyer".** The person who evaluates the solution from the technical viewpoint.
- **The coach.** The person who believes in the solution and who internally helps us to advance, pointing out obstacles and helping us to navigate the organisation and its policies.

Large organisations have evolved their sales processes from something in the hands of a few decision makers to collective decisions, which in many cases have ended up in "purchasing boards". These purchasing boards have changed the rules of the game in a way very detrimental to the interests of solution sellers by trying to stan-

8. Neil Rackham, "SPIN Selling: Situation Problem Implication Need-Payoff"

9. Jim Holden, "Power Base Selling: Secrets of an Ivy League Street Fighter"

dardise their purchases to the extent possible. Even so, sellers can be classified into five types[10],

- **The hard worker.**
- **The lone wolf.**
- **The relationship builder.**
- **The reactive problem solver.**
- **The challenger.**

The challenger-type seller would be more successful than the rest, especially in complex sales environments, since they are capable of changing the rules of the game and closing the sale outside of normal purchasing rules. To this end, they challenge and question the preconceived ideas of the customer's decision-makers, using in-depth knowledge of the state of the art in their industry.

That is, the seller makes the customer look in their industry leaders' mirror and convinces the customer that buying safe will place them in a leadership position. To achieve this, challenger sellers have the following three basic skills:

- **Showing:** The seller has expert knowledge of the situation of the industry and of the customer's competitors. They are capable of describing the main trends and where the industry is going and builds a trust relationship with the customer from a position of credibility and experience.
- **Tailoring:** Based on the customer's needs and knowledge of the state of the art and the market, this challenger seller is capable of designing an irresistible offer for the customer and which, being unique, will be impossible to compare with the competition.
- **Taking controlling:** This seller is capable of navigating the organisation and handling sales process times, involving whoever is needed and repeating the same steps with each person with power to influence the decision-making process.

To conclude this module, it should be noted that the problem with startups is not applying one or other sales methodology, but rather having basic principles on which to base their sales management. These methodologies and many others which can be consulted in the abundant literature on the subject, must at least be a guide for building a method, even a basic one. And for us, their mentors, a kind of checklist for identifying possible gaps.

10. Matthew Dixon and Brent Adamson, "The Challenger Sale: Taking Control of the Customer Conversation"

3.4. Resources for deepening knowledge

Useful websites

- The Challenger Sale - https://en.wikipedia.org/wiki/The_Challenger_Sale
- Ten Types of Innovation - https://www.amazon.es/Ten-Types-Innovation-Discipline-Breakthroughs/dp/1118504240)
- Spin Selling - https://www.amazon.es/Spin-Selling-Neil-Rackham/dp/1565114205
- Power Base Selling - https://www.amazon.com/Power-Base-Selling-Secrets-Fighter/dp/0471327336
- José Antonio de Miguel – http://yoemprendo.es

module 4

Introduction to the commercial vision in a startup. Mentoring of the commercial function and for attracting talent

Tomás Otero Pino

4.1. Teaching goals

The main goals of this module are:

1. Learn to differentiate between commercial mentoring and other types of entrepreneurial aid such as coaching, consulting and training in the commercial area.

2. Know how to analyse commercial problems and know what tool is best for each.

3. Know how to use mentoring ethically and properly in the commercial activities.

4. Know how to use mentoring to support the talent identification and attraction process.

4.2. Introduction to the module

Each product or service we design has a purpose. The goal is to meet a customer's need. In return, we receive a consideration a priori of equal value. That is, in essence, trade.

The simplicity of these phrases could lead us to understand the commercial process as something simple, but we all know that behind these words is an intricate system of influences, perceptions, emotions and behaviours that oblige us to plan each of the stages of this process in detail.

An entrepreneur, in their enthusiasm about owning a business, has an idea that is gradually materialised in a product or service, but if we want the project to grow sustainably, they must begin to develop a marketing and sales plan that will allow them to generate revenue.

Unfortunately, many entrepreneurs who work in technologically advanced areas do not address the commercial function until the product is nearly finished or do not carry out a sufficiently in-depth analysis of the weaknesses and strengths of the project until it is almost in the marketing stage.

Even worse, many entrepreneurs only envisage the generation of revenue until the public, private or own funds are depleted. This, in long sales cycles and moreover in the technological area, can put the entire project at risk, due to which foresight is essential.

It is true that many novel products do not seem to need preparation prior to marketing. If the product is novel, easy to use and meets a specific and current need, merely using it along with its rapid dissemination on social media will ensure a good product launch. However, if the product meets a niche market need, requires a long and tedious pre-marketing process, using influencer and opinion leaders to generate favourable opinions or simply test market reality, it will need much more time.

The goal of this module is to reflect on the key elements of the commercial function of any startup project in order to aid, via mentoring, the planning of the commercial function, anticipating key elements, alerting of risk situations and recommending skills that must be strengthened.

The Commercial Function

The commercial function includes a set of activities to take the goods or services produced by the company to the consumer.

These include, namely:

- Commercial Planning. Definition of the Strategy.
- Market Studies. Analysis. Business Intelligence. Market Knowledge.
- Marketing. Opinion Leaders. Market Preparation.
- Sales. Reaching the Customer.

Each of these groups of tasks in turn has further tasks that must be performed to properly understand the situation of the commercial function.

However, it is true that not all of these areas make sense in a company which has just begun to operate. It should be noted that, the sooner the commercial strategy is defined, in addition to the first steps for launching the product on the market, the greater the information will be obtained and, thus, the better the decisions made.

This information is very valuable for anticipating future situations and reflecting on it may help to organise ideas, re-work some or eliminate others.

Some key milestones of the commercial function and their relationship with other modules of this guide are:

- **Definition of the value proposition** of the product or service (see section on “Context analysis” in module 6, dedicated to the business model).
- **Definition of target customers** of the product or service (see section on “Context analysis” in module 6, dedicated to the business model).

- **Development of the channels** through which the value proposition will reach them (see section on “Go to market models” in module 7, dedicated to internationalisation of startups).
- **Development of a network of opinion leaders** to reinforce the message.
- **Development of a sales network** (see sections on “Go to Market Models” and “Guide to defining an effective action plan with a value-added partner” in module 7, dedicated to internationalisation of startups).
- **Definition of sales goals**.

Among all these milestones, there are tasks that repeatedly generate problems if not properly performed.

- Not having the right people.
- Not interpreting sales information properly.
- Not interpreting customer information properly.
- Not analysing the purchase intent properly (especially in long sales cycles).
- Not understanding the customer’s personal worries.
- Not putting a good price.
- Not choosing the best communication channel.
- Not writing business cases to verify the viability of each commercial action.
- Not ensuring the profitability of each commercial investment.
- Not creating expert panels to determine product perception.
- Not performing a proper SWOT analysis.
- Not measuring the impact of regulatory policies, regulatory frameworks and other commercial development issues.
- Not forecasting properly.
- Not using good CRM, etc.

4.3. What is a commercial mentor?

A mentor is a person who has the role of trusted advisor, who helps, teaches and shares wise advice. They assume a selfless role in a person’s learning, development and success.

*A mentor provides support
by offering information, advice and
assistance in a way that empowers the mentee*

Julie Starr

Within the commercial function, we could say that a mentor accompanies the entrepreneur in the sales cycle and provides information, advice and assistance in the face of adversity. A mentor must have something (knowledge or experience) that the mentee desires to solve a commercial problem.

Therefore, a commercial mentor must have a firm grasp of sales cycles, sales processes and sales techniques in order to help the mentee solve a commercial problem.

A mentor must know how to analyse the challenge faced by the mentee, be capable of identifying the best solution or tool for said challenge and wisely offer their advice.

The mentor does not sell for you

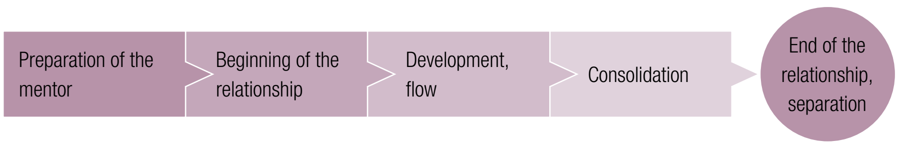
In commercial mentoring, it is very dangerous to become involved in the sales process, since it is the mentee who must do the work. It is tempting for the mentor and the mentee to consider a shift in the mentor's role towards a business development position.

A mentor does not sell: they accompany the mentee in the sales process.

4.4. What does commercial mentoring consist of?

Commercial mentoring has a similar structure to that of any other type of mentoring. The following graph summarises four moments of the relationship:

Figure 5. Flow of the mentoring relationship.



After the initial meeting, the mentor must have all the relevant information to know the status and health of the enterprising project. At this initial stage the mentor must know:

- The emotional and motivational state of the entrepreneur.

- The financial status of the project.
- The technical status of the product or service.

Taking into account the key milestones of the commercial function indicated earlier in this module, commercial mentoring is especially useful when it facilitates the development of one or more of the following aspects:

a) Basic sales planning.

Sales have a technique and planning that depends on the product or service offered. A mentor must have a broad vision of the sales process.

Concepts such as preparation of the commercial presentation, stages of the commercial presentation and how to do a good closing. The definition of customer potential, purchasing power, use of influencers, choice of territory, targeting, etc.

Additionally, the sales process requires strong convictions and resistance to frustration. The principles that guide a great seller are those shown from points b) to d).

b) Development of opinion leaders.

Among the influencers there are renowned and prestigious figures. These professionals can act as opinion leaders. An opinion leader is not a mentor, but can sometimes act like one. In any case, their main function is to say good things about the product or service.

c) The Business Model, value proposition, SWOT/PEST.

These three concepts are key to the commercial function. The business model must be perfectly defined and the marketing area will have prepared the value proposition and have an appropriate SWOT/PEST. These concepts are reviewed in modules 6 and 7 corresponding to the business model and internationalisation.

d) Commercial team members.

The foregoing must be planned, designed and implemented by the right persons. Analysing the commercial profile of the entrepreneur or entrepreneurial team is vital. This analysis must be performed as soon as possible in order to correct it in the shortest possible time.

The commercial mentor must be familiarised with all these concepts because most commercial problems can identify with these areas and, in the end, must serve to ask the right questions:

Is there a clear commercial vision behind the startup project?

Is the revenue generation process clearly planned?

Are the right people behind the commercial process?

Answering these questions must serve to address all the challenges that the entrepreneur must overcome, from which they will choose the journey that on which they will embark together.

The major challenges of the Commercial Function

The major challenges of the commercial function which, if not addressed appropriately, can cause problems include:

- The development of the commercial vision.
- The process of the first sale.
- The definition of customer.
- The sales pitch.
- The search for opinion leaders.

Is mentoring the best tool for this challenge?

Once we have analysed the possible challenges facing the mentee, we must determine whether mentoring is the best tool for this challenge. In the commercial area, there is debate about whether a seller is born or made, but it is important to determine whether the problem can be solved through TRAINING, COACHING or MENTORING or if, on the contrary, CONSULTING is required.

In order to help distinguish between all these tools, there are a series of questions that must be asked in relation to the challenge:

Is there an evident lack of experience, contacts or awareness in the commercial area?
***YES,** Mentoring*

Is there an evident step or link missing in the commercial, in the analysis, something they miss?
YES, *Mentoring*

Is there an evident and real barrier they cannot overcome?
YES, *Mentoring*

Differentiate mentoring from other tools in the commercial function. Internal or external mentoring?

It is important to remember some of the aspects of mentoring for entrepreneurs included in module 2:

- As opposed to mentoring, in coaching the coachee is also responsible for their own learning but the coach facilitates personal development and achievement of goals with their communication skills.
- In training, the instructor is responsible for transferring the knowledge expected by the trainee. It is normally used to teach a specific skill or knowledge. It is very useful to learn sales skills.
- In consulting, the consultant makes changes or improvements that can provide knowledge, but they alone are responsible for managing change.
- If the knowledge is transferred from another company or industry it is external mentoring and, in the opposite case, internal mentoring. External mentoring makes it possible to enrich companies and sectors, and a good example is cross-mentoring between executives of companies from different knowledge areas.

Therefore, what must a commercial mentor not do?

- They must not teach sales techniques.
- They must not execute, implement or close any sale.
- They must not hold coaching conversations to improve skills.

A mentor is not responsible for achieving a sale

When should commercial mentoring not be used?

- When you need to reflect on why you do not sell. *COACHING.*
- When you need to reflect on a leadership style. *COACHING.*

- When you need to improve customer satisfaction. *COACHING.*
- When you need to retain your team. *COACHING.*
- When you need to improve your commercial presentation skills. TRAINING.
- When you need to improve the impact of your presentations. TRAINING.
- When you need to prevent customer attrition. CONSULTING.
- When you need stress management support. CONSULTING.
- When you need to change the perception of the commercial work. CONSULTING.
- When you need to define the marketing and sales plan. CONSULTING.
- When you need to carry out a market study. CONSULTING.

So then, when DO we use mentoring?

Mentoring should be used when support is needed to perform the transition between the mentee's comfort zone to street selling, influencing others, making others see your product as the product they need, helping to manage the mentee's daily activity with advice that will guide them in any situation they may encounter.

In mentoring we do not reflect, train or execute projects.

We accompany and offer our experience to address any challenges that may arise.

4.5. The relationship between mentor and mentee in the commercial function

The commercial function is essential for any company. It is not necessary to dwell on the importance of generating income which, in most cases, is achieved by selling products and services. Therefore, the mentor/mentee relationship is based on one of the functions that can give rise to both success and failure.

Also, the sales process is accompanied by two very strong mental responses. The first, frustration; the second, insistence or persistence, or the "Yes, I can" attitude.

Frustration goes hand in hand with sales, since in most cases the sales process consists of turning a 'NO' into a 'YES'. Insistence is the key to success, but insisting requires a mental fortitude that is not always there. The balance between mental fortitude and resistance to frustration is key to selling.

For this reason, it is essential to do certain things properly when we do commercial mentoring.

The mentor must accompany the entrepreneur in their journey and accompany success and triumph, but they must be honest and clear in their mentoring sessions and create clear expectations.

The mentor's function is to help and be available at challenging times. For example:

- With specific experiences, knowledge or wisdom.
- With their position or status that the mentee can benefit from.
- With contacts or networks that they could introduce to the entrepreneur.
- With attributes that the mentee can learn (not be taught, not to be confused with training). Related to social learning.
- Skills the mentee needs to learn.

But how?

- By sharing experiences, telling stories or viewpoints on topics of interest to the mentee.
- By giving the mentee "space" to think (not to be confused with coaching).
- By offering constructive feedback.
- By giving advice.
- By sharing knowledge.
- By sharing influences or empowering the mentee.
- By sharing their contact network.

And this entire circle must be closed with benevolent harmony and respect between the parties. According to Julie Starr, the main difference between mentoring and other forms of aid such as coaching, consulting and training.

The mentor acts selflessly in their relationship with the mentee and this element is essential for providing commercial support.

The opposite would be the case if, for example, the mentor receives a commission for the sales they help to generate, or privileged information used for personal profit. In all of these cases, the mentor/mentee relationship would not necessarily be one of respect, but rather of self-interest.

4.6. What should a good commercial mentor do well?

A good commercial mentor invests time in the development of the relationship with the mentee. This relationship must work as a connection in which communication is honest and fluid.

A good mentor must always guide the conversation towards an environment of constructive intentions and positive attitudes. They seek efficient conversations, with a certain focus, as the basis on which to clearly develop the relationship.

In order to better understand this concept, it is better to think of other incorrect forms of communication, such as for example: complaints or dissensions. This type of conversations do not contribute anything, while conversations with a certain focus make it possible to find solutions and alternatives.

Conversations must also have a clear constructive intention, with a clear question and an evident need. A good mentor must redirect inappropriate questions towards a constructive and clear setting.

A mentor must always exercise a positive influence. The mentor's function is to help the entrepreneur. They must channel the conversations towards points where there is a clear intention to solve a problem.

A mentor must always stay focused on the challenge to be overcome. They do not get lost in frustrations and emotions.

A mentor helps to overcome barriers that impede progress. Since we form part of the journey, we should collaborate therein. The aid can be provided through advice, contacts or by sharing stories, books or accounts. Offering an invitation to conferences.

What if the mentee does not overcome the challenges? The mentor's role is to help them overcome the challenge in the current situation, empower them for the future and, above all, help people to grow.

4.7. The mentor's role in the identification and attraction of talent

In the same way that the mentor serves as a guide in the development of the commercial strategy, they actively attract talents. It should be noted that the necessary marketing/branding to attract a potential customer or partner is similar to that performed to attract talent to the organisation.

For this reason, the mentor should help to create a culture and values that are attractive for the candidates and must not serve as the best recruiter or selection process manager.

A mentor must help to develop a climate where innovation, uncertainty and development are basic pillars and must recommend that these values be transmitted to the market transparently.

In this environment, talent can be developed freely and with greater benefits for the company.

With respect to competencies, the mentor must guide the entrepreneur in the development of certain own skills -since the greatest talent is expected of them- in addition to being clear about high performance standards. The following competences are important for entrepreneurs and therefore for the people who work in a startup company:

- Proactivity.
- Resistance to frustration.
- Flexibility.
- Effective project management.

Proactivity forms part of the behaviours associated with initiative, with the ability to pursue goals and achieve them and, above all, to maintain a high level of energy, essential at the early stages of a business project.

Resistance to frustration is closely related to the above, so long as they do not allow that energy and enthusiasm to wane over time, especially in the most difficult moments.

Flexibility is explained as the ability to adapt to change, veer, pivot and re-work ideas and projects. We must find dynamic people who do not fear change.

Effective project management is linked to success. We must find people with proven success who have been capable of finishing things. To this end they assumed risks, managed resources, assessed options and achieved goals.

4.8. Resources for deepening knowledge

Recommended readings

- Starr, Julie. “The Mentoring Manual: Your step by step guide to being a better mentor”. Paperback (2014).

- VVAA. “HBR Guide to getting the mentoring you need”. Harvard Business Review (2014).
- Covey Stephen R. “The 7 habits of highly effective people”. Empresa y Talento (2011).
- Carnegie, Dale.”How to win Friends and influence People”. Simon & Schuster (2012).
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ciencia

module 5

Financial structure of a startup

Rosa Allegue Murcia

5.1. Teaching goals

The main goals of this module are:

1. Understand the basic financial structure of a company to understand the impact of the entrepreneur's decisions in each of the accounting and financial figures.
2. Learn to perform a global analysis of the risks in a company and its possible coverage (by means of insurance policies or other tools).
3. Know how to interpret a company's annual statements to draw information and conclusions that will give rise to powerful and valuable questions for the entrepreneur.

5.2. Introduction to the module

Knowledge of corporate finance is not only necessary to define a business plan or seek capital, it is also the perfect companion for a good entrepreneur because it helps them to maximise the liquidity and profitability of the project, helping them to choose between different lines of business or projects, negotiate purchase prices with suppliers or establish sales prices ensuring sufficient margins that will allow them to cover all expenses. Additionally, basic financial knowledge reduces the risk of nonfulfilment of the applicable legislation, which will vary in accordance with the territory or moment in which the company is created.

It is difficult for an entrepreneur to have a brilliant idea and also be an expert in marketing, sales, finance, HR, taxes, etc. they will normally begin to manage their project to the best of their own knowledge and will request the aid of experts as they grow.

In the case of financials, it is usually outsourced to a management company without suspecting the risks it entails. At times we outsource for fear/ignorance and others for contempt of financials, for considering them an insignificant administrative issue for the business.

Countless times I have heard, to my surprise, the phrase "*I have no idea..., my management company will deal with it,*" as if the company's financial statements were something banal. This is a serious mistake, the entrepreneur, for the sake of their company, must be capable of understanding their business plan and reading the statements provided by their management company in order to apply corrective measures where necessary.

The mentor's role is to firstly identify whether the entrepreneur knows how the financials of their company work and, if not, advise and guide them to use their common sense and, ultimately, help them to find an expert who will provide assistance.

The entrepreneur needs information that will help them in the decision-making process. This information is provided by accounting, which is why corporate finance has been traditionally associated with accounting, although this is not completely true, since finance encompasses much more than just accounting.

The usual finance-related questions are of the following type:

- Will a specific investment (e.g.: hiring employees) be successful?
- Where will the funds to finance it be obtained?
- Does the company have an adequate amount of money or access thereto (e.g.: though loans)?
- To which customers should I sell on credit and how much?
- What amounts must be maintained in inventories?
- What is the optimal dividends policy?
- How will you balance risk with return?

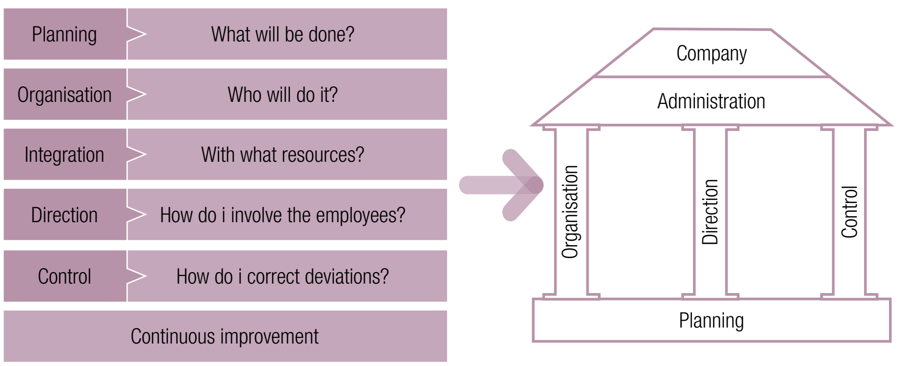
5.3. Definition of the financial function

The company's areas have traditionally been separated into two:

- On the one hand, the business area, which will focus on production, purchasing, logistics, sales and marketing.
- On the other, the finance area, which supports the aforementioned areas, since they all need financial resources to operate (selling implies collection and purchasing implies payment).

Financials are an essential part of the company, since they imply the administration of the company, which involves planning, organising, integrating, directing and controlling to avoid mistakes and guarantee continuous improvement.

Figure 6. Company management.



The finance function must **add value** to the company and **provide information** that will help the entrepreneur in the decision-making process. It consists of planning, raising and using the company's funds effectively. If there are excess funds, the financial function will seek profitability, if there is deficit there must be financing.

Also, the financial function must guarantee compliance with the company's legal and tax requirements to ensure peace of mind for the entrepreneur, the investor and other stakeholders.

In order to be useful, the information must be:

1. Understandable.
2. Relevant (forget about "peanuts" that make us lose time).
3. Timely (the time factor is vital, knowing the past barely adds value; it is much more useful to predict the future).
4. Reliable (nothing generates greater distrust than erroneous data).
5. Comparable (in time, to follow evolution).
6. Economical (if obtaining the data costs more than the benefits of knowing them, it is not worth the effort).

The available information must help us to provide a **fair image of the company**, understandable to the entrepreneur and to third parties, which makes it possible to answer the following questions:

Figure 7. Fair image of the company - Key issues .

Where do we want to go?	Business Plan
How do we get there?	Budget / P&L
With what resources?	Balance sheet
Are we compliant?	Results, KPIs
Aren't we on track?	Corrective measures
Are we legally compliant?	Taxes, financial statements

5.4. Accounting: concept and classes

Accounting is in charge of quantifying, measuring and analysing the economic reality of the company in order to facilitate its control and the decision-making process, presenting information previously recorded systematically in comparable time periods. There are two types of accounting:

General or financial accounting

Also called external accounting. It is aimed at presenting the company's equity and profit/loss.

It is a universal language which anyone with basic notions of accounting can understand and transcends the scope of the company, since it is mandatory to present it officially according to the legally established formats (in the General Chart of Accounts of each country).

Analytical accounting or cost accounting

Also called internal accounting. It is aimed at calculating the costs and margins of the company's different products, services and lines of business. It makes it possible to determine the profitability of the different units or areas of activity.

There is no legal obligation to present this information.

The two types of accounting are complementary, they are only two different ways of presenting the same information. The final result must be the same.

As startup mentors, we must ALWAYS request analytical accounting, since it is the only type that allows us to understand the business, separate the different lines of activity and analyse their profitability independently. If the entrepreneur does not have this cost accounting (management companies normally only offer the financial accounting mandatory by law), we must explain its importance as a means of making predictions.

There are other types of accounting, such as Company Accounting, which is used to record corporate actions such as mergers, acquisitions or liquidation of companies.

The information provided by accounting interests different groups of people. Both external people such as:

- Shareholders who own the company and have risked their capital.

- Suppliers and investors interested in knowing if the company will be able to pay its debts.
- The Tax Agency, for the possible tax implications.

This information interests the company's internal managers as an instrument for verifying its progress and allowing them to manage it more efficiently.

5.5. Basic axioms of accounting

The basic axioms of accounting are the basic accounting standards, which are standards or criteria established by the authorities or by professional accounting groups. They are the so-called "Generally Accepted Accounting Standards".

That is why these standards may differ from one country to another, such as the expression US-GAAP, which are the "Generally Accepted Accounting Principles" of the United States (PCGA in Spanish), also called International Financial Reporting Standards (IFRS).

It is important to understand that accounting practices may vary widely from one country to another, which can affect the company's bottom line. Over time and as a result of globalisation, accounting systems are becoming standardized and there are increasingly fewer differences from one country to another.

Some of the basic axioms of accounting are:

- **Double-entry concept**, which gives rise to the famous expression of accountants (*"there must be a mistake somewhere, this doesn›t balance…"*). This concept dates back to 1494 and was developed by the Franciscan friar Luca Pacioli. It basically establishes that:
  - One or more receivables must always equal one or more corresponding payables.
  - Losses are debited and gains are credited; asset and expense accounts are receivables; and liability, gain and equity accounts are payables.
  - The sum of the debits must be equal to the sum of the credits.
  - In all accounting entries, regardless of the number of debits and credits, the sum of the balances must be the same.
- **Concept of fair image.** The accounting information must show the fairest possible image of the company.

- **Concept of personality of the company**. The company is an autonomous entity regardless of its creator, shareholders or owners. Entrepreneurs erroneously tend to mix their personal equity with that of their startup.

As startup mentors, we must pay special attention to the concept of company personality in order to distinguish whether the situation of liquidity shown is that of the company or of the entrepreneur.

- **Concept of going concern or continuous management**. Unless there is reliable proof that the company will stop working, business assets will be measured in accordance with the going concern principle of accounting and not seeking its liquidation value.

- **Monetary concept**. All accounting information is expressed in monetary units (EUROS in Spain). The information will never be presented in physical units.

The most famous accounting principles are:

- **Principle of prudence**, whereby profit is recognised when it is certain, while losses or risks are recognised when they are probable.

  As a startup mentor, we must inculcate this maxim in the entrepreneur:

  - ***You must have COMMON SENSE.***
  - ***You must apply COMMON SENSE.***
  - ***You must develop COMMON SENSE.***

- **Acquisition price principle**, whereby all assets are recognised by their acquisition or production cost price, regardless of its subsequent market value.

- **Accrual principle**, income and expenses will be allocated/recognised in accordance with the actual flow of the transactions, goods or services, regardless of the moment in which payments and collections occur.

- **Principle of uniformity**, whereby transactions must always be recognised in accordance with the same criteria in order for the information to be comparable over time.

- **Matching principle**, whereby the company's bottom line consists of income from a period less the necessary expenses for that income to take place, regardless of the moment in which the income or expenses were accrued.

As startup mentors, we must clearly see the correlation between income and expense. Otherwise, we will have an income statement per product line or area of activity that will make it difficult to understand the business model. The more we can "variabilise" costs to allocated them to each area of activity, the greater the control we will have over the business.

- **No-netting principle**, whereby asset and liability items income and expense items cannot be offset. These must be measured separately.
- **Principle of relative importance or materiality**, whereby some of the accounting principles and rules do not have to be strictly applied in those cases where the materiality in quantitative or qualitative terms of the change that arises is scantly relevant and, therefore, does not have a bearing on the fair presentation of the financial statements.

5.6. Accounting documents

5.6.1. Basic accounting documents: Balance Sheet, Income Statement and Statement of Cash Flows

The Balance Sheet, Income Statement and Statement of Cash Flows are the result of the entire accounting process, where the company's transactions are inputs and the accounting, process and accounting documents are outputs.

The Balance Sheet

The Balance Sheet shows the company's assets and rights (ASSETS) and the company's third-party obligations (LIABILITIES) or owners/shareholders (NET=CAPITAL). They are jointly referred to as the BALANCE SHEET.

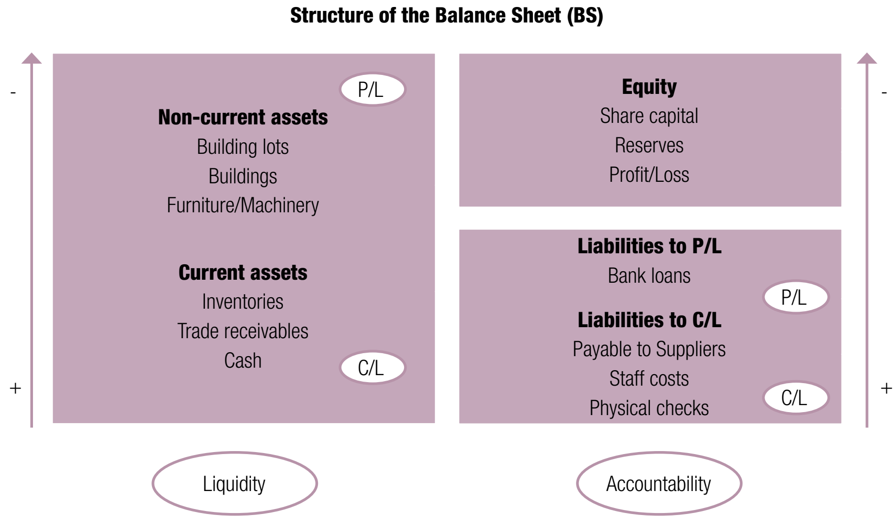
Applying the double-entry principle, ASSETS = LIABILITIES + CAPITAL

The Balance Sheet is a static document. It shows the information at any given time.

By studying the Balance Sheet of a startup we can, as mentors, obtain an overall view of its liquidity.

The information shown in the Balance Sheet is organised by liquidity on the assets side and by accountability on the liabilities side. The current and previous years are always shown to compare their evolution.

Figure 8. Basic structure of a company's Balance Sheet.



As mentors, we will ensure that working capital (current assets less current liabilities) is not less than zero, since this would imply liquidity problems.

The Income Statement

The Income Statement shows the company's result (profit or loss) for a time period such as the difference between income and expenses. It is also called *Profit and Loss Account (P&L).*

As in the case of the Balance Sheet, the Income Statement of the current year is compared to that of the previous year.

Applying the double-entry principle, RESULT = INCOME - EXPENSES previous year (N-).

By studying the Income Statement of a startup we, as mentors, can obtain an overall view of the company's profitability as a whole, but only through an analytical Income Statement can we study the profitability of each line of business.

Figure 9. Basic structure of a company's Income Statement.

Structure of the Income Statement (P&L)

	Operating Income
-	Cost of Sales
=	**Gross sales margin**
-	Staff costs
-	Other Overhead / Administrative Costs
=	**Earnings before interest, taxes, depreciation and amortisation (EBITDA)**
-	Depreciations / Amortisations / Provisions (Reserves)
=	**Earning before interest and taxes (EBIT)**
-	Other Costs (Finance)
+	Other Income (Finance)
=	**Earnings Before Tax (EBT)**
-	Provision for Taxes
=	**Final Net Profit/Loss for the year**

Cost effectiveness

- **Important:** When recognising income or expenses, never include VAT.

The Statement of Cash Flows

The Statement of Cash Flows of a company provides information about cash inflows and outflows.

By studying a startup's cash flow we, as mentors, can observe its liquidity projections.

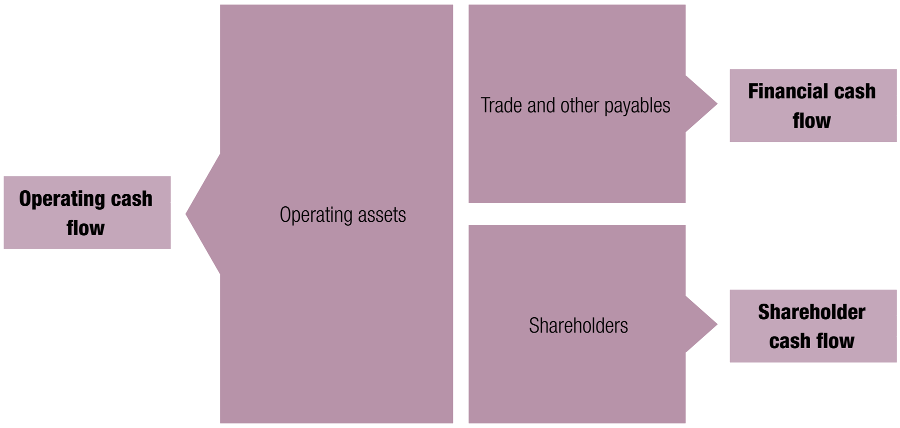
Figure 10. *Example of a basic Cash Flow table - Statement of Cash Flows.*

Categories	January	February	March	...	December	Total for the Year
I. Beginning Balance	S_1	S_2	S_3		S_{12}	$S_1+S_2+S_{12}$
II. Total Collections	C_1	C_2	C_3		C_{12}	$C_1+C_2+C_{12}$
• Sales • Financial revenue • Loans received • Grants, donations and legacies received • Disposal of non-current assets						
III. Total Payments	P_1	P_2	P_3		P_{12}	$P_1+P_2+P_{12}$
• Purchases • Staff costs • Taxes other than income tax • Works, supplies and services • Repayment of loans • Taxes						
Ending Balance (I + II + III)	Sf_1	Sf_2	Sf_3		Sf_{12}	$Sf_1+Sf_2+Sf_{12}$

In order to perform a liquidity projection, we need the initial cash flow balance as a starting point. It is also advisable to have historical data to see how the company's cash inflows and outflows (which are very different from the time frames agreed upon with customers and suppliers,...). Next, we need an income and expense budget (preferably in P&L format) to associate a collection date to each income and a payment date to each expense in order to correctly take the information to cash flow.

We can distinguish between operating, financial and shareholder cash flow.

Figure 11. Cash flows.



Considerations on cash flow:

The following must be taken into account for the projection of financial cash flow:

- The company's financing needs.
- The company's optimal Debt/Capital structure.
- The current financial and/or capital market conditions.
- Outlook of the company's access to financial and capital markets in the future.
- Expectations on the behaviour of interest rates, devaluation and inflation.
- Minimum Debt Service Coverage for each business.
- Shareholder availability to capitalise now and in the future.

5.6.2. Financial Statements

Both international and Spanish standards, within the conceptual framework of the 2007 General Chart of Accounts, establish that Disclosures, Financial Statements or Annual Accounts are the documents that include the financial information and are aimed at meeting users' needs in their financial decision-making process.

The Financial Statements comprise the Balance Sheet, Income Statement, Statement of Changes in Equity (or SCE), Statement of Cash Flows and Notes to the Financial Statements. These documents form a unit and must be clearly worded so that the information provided is comprehensible and legible, presenting the fair image of equity, of the financial situation and of the company's results.

There are two financial statement models, normal and abridged, in accordance with the number of employees, assets and revenues. Numerical items of two consecutive years (current year and previous year) in both cases (normal and abridged) in order to compare the information and study their evolution over time.

In accordance with the type and size of the company, the financial statements must be filed at the Mercantile Registry and audited by an external auditor.

It is advisable that, as mentors, we request that our startup always keep its accounting records updated and, if possible, in Spanish and English, since a potential investor may require that information in

5.6.3. The Accounting Books (General Ledger and Journal)

The **Journal** is an accounting book in which a company's economic events are recorded on a daily basis. An economic event recorded in the Journal is called an entry; i.e. all credit transactions are recorded therein.

Entries are records made in accordance with the double-entry system and contain debit entries in one or more statements and credit in another/other statement(s) in such a manner that the sum of the debits is equal to the sum of the credits. This guarantees that the accounting equation is maintained. Also, there may be Accounting Documents that group together various entries and these may in turn be assigned to different financial statements.

The **Ledger** is a record of each of the company's accounts. For example, SUPPLIERS, CUSTOMERS, SALES or PROCUREMENT.

The information contained in these books is used to draw up the basic accounting documents, the balance sheet and the income statement.

As mentors, is is advisable that we verify that our startup is up to date on its accounting, because otherwise the information it provides us with may not be complete or truthful.

5.7. Business cycles

In order to understand how the information flows in the company we must understand the life of our startup, drawing a distinction between physical cycle, financial cycle and accounting cycle.

The **physical cycle** is what is actually happening, asset exchange, the purchase and sale of our product.

Next, we have the **financial cycle**, since any purchased asset must be paid and any sale must be collected.

Lastly, we close the cycle with the **accounting cycle**, whereby each of these transactions is recorded (always in monetary terms) with an accounting entry in the company's Journal. These transactions will be reflected in the Ledger of each of the affected statements and lastly, depending on the nature of the statements, we can observe the result of each physical transaction in the income statement, in the balance sheet or in the statement of cash flows. If the transaction requires an explanation, it will appear in the Notes to the company's financial statements.

5.8. Financial ratios

Financial ratios are coefficients that provide measurement and comparison units through which the ratio arising from multiplying two direct financial figures by each other makes it possible to analyse the current or past situation of an organisation in accordance with optimal level defined for it.

Figure 12. Financial ratio families.

Ratio Families		
Financial Situation	**Rate of Return**	**Efficiency**
• Debt	• Rate of Return	• Turnover
• Balance	• Growth	• Efficiency
• Liquidity		
• Turnover		

There are a multitude of financial ratios that can confuse the entrepreneur. As a mentor, it is advisable to focus the conversation on three key points:

- Difference between profitability and liquidity.
- Calculation of ROI.
- Average payment and collection periods.

5.8.1. Profitability vs Liquidity

Liquidity is the company's ability to obtain liquid resources, through its operations, to fulfil its commitments over time. It is CASH, understanding as such not only cash on hand but also the assets or instruments that represent it, such as shares, bonds, etc.

Profitability is the ability to produce profit, i.e. when income is greater than expenses.

While they are both correlated in the long term (a company that is not profitable in the long term will cease to have liquidity), in the short term they may differ widely.

The sale of a product may be profitable (when income is greater than expenses), but if purchases (expenses) must be paid in cash and collections (income) are received 90 days from the invoice date, this profitable transaction will give rise to liquidity problems.

Or on the contrary, the company may have liquidity (with balances available in the bank) but its business is not profitable.

As startup mentors, we must make the entrepreneur understand that they must pay attention to liquidity, to the company's CASH, since it is synonymous of survival. Entrepreneurs tend to forget tax payment dates, nonfulfil payment and collection deadlines, etc.

It is advisable for the entrepreneur to define, prior to creating their company, what capital they are willing to lose (maximum risk) and the deadline for verifying the profitability of their company.

5.8.2. Economic profitability. ROI

ROI or Return on Investment measures the company's capacity to generate profit, regardless of its financial structure.

It is calculated by dividing profit from operations, also known as EBIT (Earnings Before Interest and Tax) among the company's Total Assets, such as to leave the company's entire financial structure to one side.

$$\text{ROI} = \frac{\text{Profit from operations} * 100}{\text{Total assets}}$$

However, what is interesting about this ratio is that if we break down the formula including sales in the numerator and denominator, we will obtain a much more interesting reading for the company's daily management.

$$\text{ROI} = \frac{\text{Sales}}{\text{Total assets}} \times \frac{\text{Profit/Loss}}{\text{Sales}}$$

If we take a closer look, the first multiplier indicates asset turnover and the second indicates the sales margin.

$$\text{ROI} = \text{Turnover x Margin}$$

Turnover can be understood as the number of times that sales in the period reach asset value. Therefore, a turnover of two indicates that sales in the period are equivalent to selling twice the asset value.

Margin indicates the wealth generated by each monetary unit sold. Therefore, a margin of 10% indicates a benefit of 10 cents per monetary sales unit.

The breakdown of ROI reveals that we can optimise it by continuing to optimise turnover and/or optimising the margin. Optimisation consists of determining what margin and what turnover maximise the final result. It is not about maximising each factor, but rather the product thereof.

As startup mentors, we must make the entrepreneur aware that they must maximise the product of both turnover and margin, in order to maximise their profitability.

5.8.3. The average Payment/Collection period

A way of improving the company's liquidity is through the intensive control of payment and collection periods.

The weighted average period of late payment is defined as the average number of days a company takes to pay suppliers. The higher the value of this ratio, the greater the delay in payment to suppliers, which indicates that the company is being financed by them.

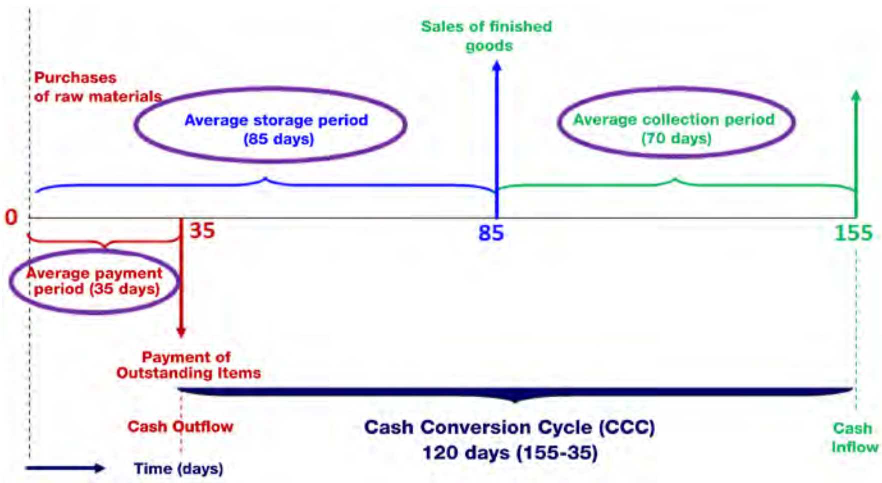
This ratio is studied together with average payment period. By analysing both ratios, we can know not only a company's financial statements, but also its **bargaining power**.

This information can be obtained from the company's financial statements.

$$\text{Weighted average period of late payment} = \frac{\text{Average supplier payment periods}}{\text{Purchases x (1 + VAT)}} \text{ x 365}$$

In order to understand the impact on the company's cash, let's look at this graph:

Figure 13. Cash Conversion Cycle (CCC).



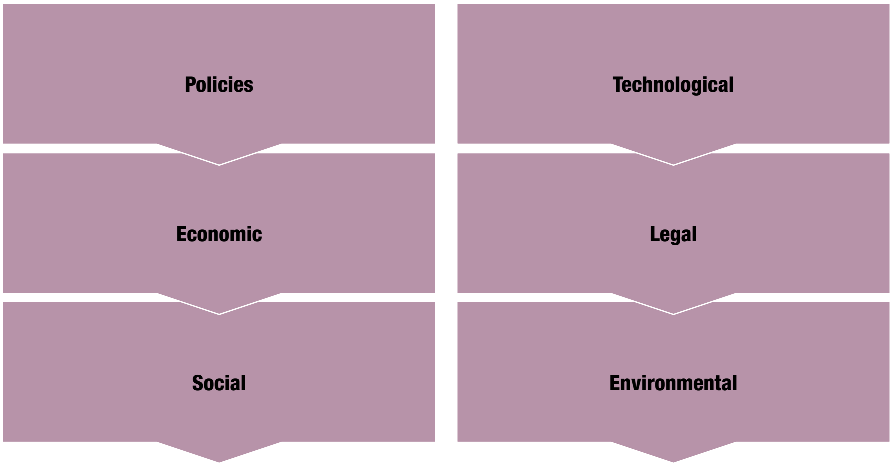
5.9. Risk management, insurance

An essential part of the financial function is risk management. The creation of a new company always entails risks and the financial function must do everything possible to minimise them, since it is impossible to eliminate them completely. Risk is intrinsic to business management.

A business risk is the uncertainty of occurrence of an event or action that may adversely affect the company.

The first step to carry out in a company is a list of risks.

Figure 14. Possible types of corporate risks.



For each risk, the **probability** of occurrence and **impact** of loss, if it occurs.

The usual risks that are clearly reflected in the financial statements are:

- Risk of return of goods (e.g.: defective).
- Risk of payment default.
- Foreign exchange risk.

These risks will be recognised in the financial statements under "**Provisions**".

There is also a risk of asset value loss (e.g.: over time, computers do not have the same value as on the acquisition date). In accounting they are recognised as "**Depreciations**".

However, there are other risks that, while not being reflected in the balance sheet, may generate a negative impact if they are not duly hedged by an insurance policy. They include risk of infringing the Data Protection Law, management risk, fire or robbery risk or civil liability risk. It is advisable to take out insurance if there is a high probability.

As startup mentors, we must verify that the entrepreneur has analysed their risk and that they are duly hedged by an insurance policy and recognised (as appropriate) in the financial statements.

5.10. Taxes

Taxes are levies, charges that must be paid to the Government to address public needs. They can be direct or indirect.

Direct tax

That which is levied directly on sources of wealth, property or income, such as personal income tax (IRPF), corporate tax or personal income tax on rental income.

Indirect tax

That which is levied on consumption, such as value-add tax or VAT.

Taxes are usually settled with the Tax Agency on a quarterly basis for small companies or monthly in the case of large companies. Death duties are settled annually in July, notwithstanding the partial payments made during the year.

An entrepreneur must be able to differentiate between taxes that represent an expense (and therefore affect the profitability and liquidity of the business), such as income tax, tax on economic activities or property tax, and those that do not represent an expense but do affect the company's cash, such as payroll tax.

We must make sure, as startup mentors, that the entrepreneur has included tax payments in their liquidity projections and that they understand the consequences of taxes on their cash.

Note: Although it is not a tax, we must mention the social security payment made the month after the salary payment. This includes the social security cost at the company's expense (which affects the profitability of the business) and employee contributions (which only affect the company's cash).

5.11. Due diligence

Many startups are involved in third-party acquisition processes. Before performing the transaction, the buyer will want to verify that the value they are paying is fair. To this end, they will carry out a **due diligence**, which is no more than an investigation or audit of the company prior to signing the purchase contract with certain diligence.

To this end, it is vital to have updated and truthful financial information.

Due diligence is a term commonly used in the sphere of business acquisitions to refer to the process for finding information about a company. It includes aspects such as: sphere of activity; future possibilities and perspectives of the business; and state of assets and liabilities. In short, it is aimed at obtaining all the necessary information to objectively assess and establish: the final price of a company acquisition transaction; the way of structuring the transaction; and the demand for guarantees or, as the case may be, the convenience of cancelling the purchase due to the detection of risks or the appearance of new information.

5.12. Resources for deepening knowledge

Recommended readings

- Manzanera, Antonio Finance for entrepreneurs. Deusto SA Ediciones 2010.
- Introduction to Corporate Finance (Economía Y Empresa) Editorial Pirámide 2016.
- Torrecilla AS et al., Cost Accounting and Management Accounting. Edit. McGraw Hill 1996.
- Brealey & Myers, Principles of Corporate Finance. McGraw Hill.

Videos and websites

- Finance for entrepreneurs https://www.youtube.com/watch?v=UPA1f6dY7OM
- Spanish National Chart of Accounts https://www.boe.es/boe/dias/2007/11/20/pdfs/C00001-00152.pdf

module 6

Development of the business model

Pedro Guerra Gutiérrez

6.1. Teaching goals

n many occasions, the entrepreneur has an idea they consider great as a starting point for creating their company, but does not know where to go from there. At other times, their project can progress reasonably but a strategy must be defined, to which end they must structure their business model to achieve a consistent business plan or to develop their discourse for potential investors. The challenge lies in presenting a concept that is both easy to understand, relevant and intuitive, but without simplifying the complexities of the business in excess.

A business model (BM) describes the logic whereby an organisation creates, captures and provides value to customers.

All business models are articulated around three pillars [Lehmann-Ortega2014]:

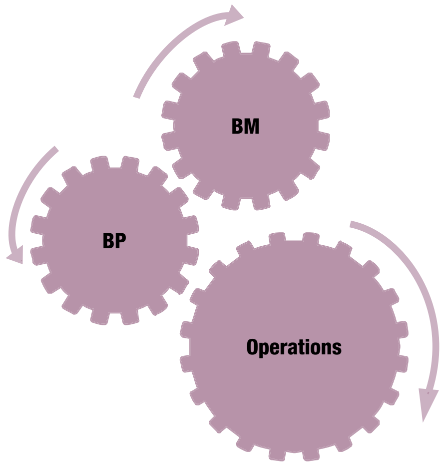
- Value proposition.
- Value architecture.
- Profit equation.

We can understand the **value proposition** as a combination of the “What”, in the sense of the attractiveness of the products and/or services, the “Who”, the customer in the broad sense, and the price.

The **value architecture** expresses the manner in which the organisation develops and delivers the value proposition for the customer and includes aspects such as the internal and external value chain, tangible and intangible resources and key competences for implementing the value proposition.

The **profit equation** relates the sources of income and cost structure to capital needs and tells us the prevailing parameters of business profitability.

Figure 15. The business model (BM) as a starting point for articulating a business plan (BP), in which the necessary resources for implementing the proposed business.



The business model (BM) is therefore an element previous to the business plan (BP) that allows us to endow it with a common thread, giving it structure and consistency, while providing us with the basic hypotheses on which to build a financial plan and that must subsequently be monitored and validated. As mentors, we must have the necessary tools to guide the mentee in their learning and development and must be capable of asking key questions on which they must reflect throughout the necessary process for transforming an idea into something tangible.

6.1.1. Conceptualisation process

The development of a **business model** must be understood as an **iterative and continuous process** in which, within a given competitive framework, the pillars supporting the business are developed, generating hypotheses that must be validated and analysed in order to learn how to improve the model. There are many tools of proven utility that can be used to carry out this process in an orderly and structured manner which are advisable to know and, given the case, use.

Figure 16. Stages in the design and development of the business model. Different tools apply to each stage, such as SWOT Analysis, Empathy Map or Business Canvases.

Understand the opportunity		Define idea	VALIDATE IDEA
Context	**Context**	**Solution**	**Market**
What are the trends? What is your position compared to the competition? What are the main industry players?	Is there a problem to be solved? What is the profile of the affected parties? How is the sales process? How is the current process?	What is our competitive advantage? Is it sustainable? How do we solve the problem? What alternatives are there?	What are the most interesting channels? How will we reach customers? What resources do you need
PEST SWOT Value Canvas Stakeholder Matrix	Customer Journey Customer Insights Empathy Map	Business Canvas Value Map Customer Profile MVP	Business Canvas Test

It is common practice to have a **business plan** as a previous step to implementing practically any business. This plan describes the action plan for implementing an economic activity that meets any market need and that follows a previously developed business model. Both are based on market and customer hypotheses that must be constantly monitored to compare their validity and adjust both the model and the plan. If necessary, the learnings must be such that it will be advisable to pivot[1] in the **value proposition**.

Experimentation, measurement and analysis are currently key factors in the startup business model development and validation process.

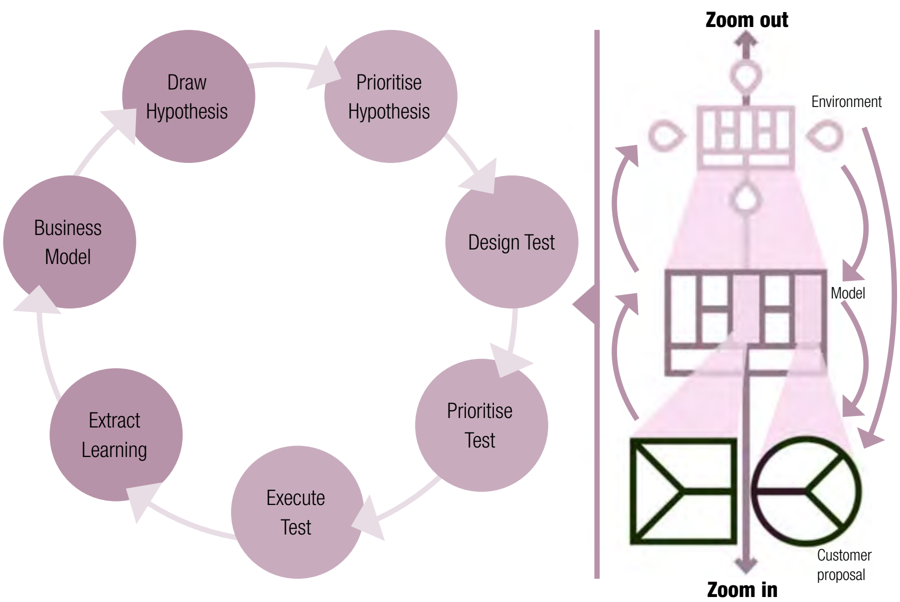
Therefore, the placing on the market of a **minimum viable product** (MVP) [Ries2011] becomes a tool in itself to refine and adjust the model, which makes it possible to compare hypotheses on the context, the customer and the solution in the shortest possible time.

As we will detail in subsequent sections, the MVP condenses a value proposition that provides gains and mitigates pain for the customer, and which is placed at their disposal in accordance with a business model conditioned by the existing environment. The definition of the model seeks to maximise value for the customer and minimise

1. http://blog.strategyzer.com/posts/2015/7/23/the-pivot-6-situations-when-its-time-to-change-your-business-model-or-value-proposition

their pain. To this end, an iterative learning process is followed that will allow us to better understand these sources of gains and pain, in which different hypotheses on the model or on the customer's needs are compared with reality.

Figure 17. Iterative development process and business model test.



The **object** of this module is to provide the mentor and mentee with basic notions of the **tools** currently used to carry out this process.

6.1.2. Analysis of the environment

When **Analysing** an idea and **Understanding** the opportunity it may represent, the first step that the entrepreneur must take is to analyse the **Environment** in depth in order to outline a first global strategy with which to approach the opportunity detected. This analysis must be performed both at macro level, placing emphasis on economic or social trends, and at micro level, studying the key and competitive aspects of the sector in which the developing business is encompassed.

It is extensively studied by business and strategy scholars and experts who develop widely known analysis tools. For example, a PEST analysis (or some of its variations, such as PESTEL) allows us to structure an analysis of the global environment while a model such as Porter's Five Forces allows us to study the closest environment and dissect competitive intensity in our industry. They are very versatile tools which apply when creating a new company, structuring a strategic plan for the organisation or analysing an international expansion project.

1. A **PEST analysis** is a strategic tool useful for understanding the cycles of a market and the position or operational direction of a company. By way of reminder, a **PESTEL** analysis (whose application to internationalisation will be discussed in further detail in module 7 of this guide) includes the following factors:

   - **Political:** Political regime, Government stability, Tax and business policy, Grants or other economic incentives and Innovation policy.

   - **Economic:** Factors of an economic nature that affect the market as a whole (some sectors more than others). These include, namely: Economic cycle, Evolution of GDP, Interest rates, Monetary supply, Price evolution, Unemployment rate, Available income, Availability and distribution of resources and Level of development.

   - **Socio-cultural:** Configuration of market components and their influence on the environment. That is, variables such as: Demographic evolution, Income distribution, Social mobility, Changes in life style, Consumer attitude, Educational level and Cultural patterns.

   - **Technological:** State of technological development and its contributions to the business activity. Its state depends on the amount of public spending on research, Government and industrial concern for technology, Degree of obsolescence, Maturity of conventional technologies, Development of new products and Speed of transmission of technology.

   - **Environmental:** Environmental protection laws, regulation on the use of energy, waste management,..

   - **Legal:** Factors relating to government legislative regulation. For example: Anti-monopoly legislation, Environmental and health protection laws, Regulation of foreign trade, Regulation of employment and Promotion of the business activity.

2. **Porter's analysis** identifies Five Forces that determine competitive intensity and, therefore, the attractiveness of a market. Porter refers to these forces as the microenvironment, to compare it with the more general term of exploration of the macroeconomic environment. They refer to forces close to the company that affect its capacity to sell to its customers and gain profit. A change in any of the forces will normally require the company to reevaluate its strategic position relative to the market.

   Strategy consultants often use Porter's Five Forces as a framework for evaluating the company's strategic position.

The Five Forces are:

- Bargaining Power of Buyers,
- Bargaining Power of Suppliers,
- Threat of New Entrants,
- Threat of Substitutes,
- Industry Rivalry.

Each of these forces has various associated determining factors.

Tabla 1. Force analysis factors.

POWER OF BUYERS	• Buyer concentration compared to seller concentration. • Degree of dependence on distribution channels. • Bargaining capacity, especially in industries with high fixed costs. • Buyer volume (number of customers). • Customer costs or facilities for switching companies. • Buyer's information availability. • Existence of substitute products. • Buyer price sensitivity. • Differential advantage (exclusivity) of the product. • Relative buyer percentage of overall sales. • Backward vertical integration capacity. • Total purchase price. • Customer RFM analysis (Buys Recently, Frequently, Income Margin they leave).
POWER OF SUPPLIERS	• Evolution of prices related to substitutes. • Uniqueness of supplier's products or services (differentiation). • Availability of substitutes for the supplier's products. • Degree of supplier concentration (market share). • Acquisition cost in relation to product sales price. • Quality differences.
NEW ENTRANTS	• Existence of entry barriers. • Economic differences between products. • Brand value. • Switching costs. • Capital requirements. • Access to distribution channels. • Absolute cost advantages. • Learning curve advantages. • Expected reaction. • Government policies.

SUBSTITUTE PRODUCTS	• Buyer's propensity to substitutes. • Relative price performance of substitutes. • Switching costs. • Perceived level of product differentiation.
INDUSTRY RIVALRY	• Number of competitors. • Industry growth rate. • Intermittent overcapacity. • Barriers to exit. • Diversity of competitors. • Informational complexity and asymmetry. • Brand equity. • Fixed cost allocation per value added. • Advertising spending.

3. The analysis of the environment is usually supplemented by a **SWOT analysis**, in which the company's internal situation (Weaknesses/Strengths) relative to the environment (Threats/Opportunities) is identified. In the case of a startup in the seed stage, it would be impossible to perform an internal analysis of something that does not exist. However, it would be relevant to apply it to the development team in order to strengthen weaknesses and take full advantage of the strengths.

These analyses make it possible to establish the global strategy of the organisation that best responds to the environment in which it moves.

Figure 18. The analysis of the environment provides information on the most convenient global strategy to be followed.

Global strategy: Costs or differentiation

There are **two basic positionings** that a company can adopt: low cost or differentiation. The importance of an organisation's strengths and weaknesses is, ultimately, a function of their relative impact on cost or differentiation. These two sources of competitive advantage, combined with the activities pursued by the company, lead us to three general strategies with which to beat the industry:

- Cost leadership.
- Differentiation.
- Specialisation: Any of the other two previous strategies on a specific market segment.

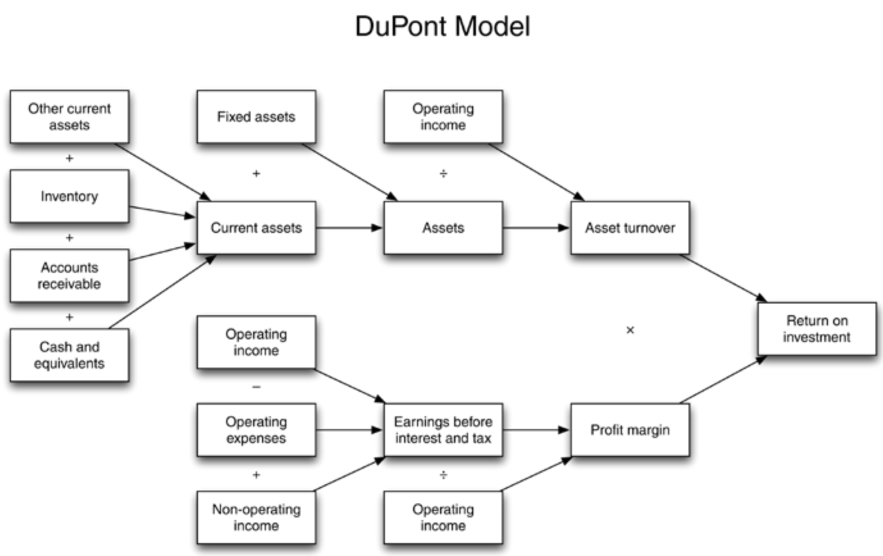
If we analyse this assertion from the viewpoint of financial profitability, the DuPont Analysis of the breakdown of return on assets (ROE, Return on Equity) provides a vision of where each strategy focuses. This breakdown integrates or combines the main financial indicators with the aim of determining the efficiency with which the company is using its assets, it working capital and the leverage factor. It equates net profit margin of utilities, total asset turnover ratio and financial leverage:

ROE =	net income	/ shareholder's equity	
ROE =	(net income / sales)	*(sales / assets)	* (assets / shareholders' equity)
ROE =	(net profit margin)	*(asset turnover)	* (equity multiplier)

These components include:

- Operating efficiency: as measured by profit margin.
- Asset efficiency: as measured by total asset turnover.
- Financial leverage: as measured by the equity multiplier (between internal and external resources).

Figure 19. Dupont model for key factors in ROE. Source: Wikipedia.



The company can obtain good returns by obtaining a wide profit margin over sales or by managing its assets very efficiently. This is preferable if it is a perfect combination of both. A **cost leading** company is that which focuses on **asset turnover** as a lever for improving profitability, while a company that pursues **differentiation** focuses on improving **margins** by providing greater value to the final customer. This is materialised in the key aspects of the business plan: a low-cost company would focus on reducing current assets and the optimisation of operating costs would be the differentiation element, while a company pursuing wide margins must focus on aspects such as brand, customer relations a clear and differentiated value proposition.

A **cost leading** company focuses on **asset turnover** as a lever for improving profitability, while a company that pursues **differentiation** focuses on improving **margins**, providing greater value to the final customer.

Once the strengths have been identified and a basic strategy has been established, an interesting tool for analysing the value proposition is the creation of the **Strategy Canvas**, which summarises industry competitive factors and positions each competitor on this axis, including substitute products.

The horizontal axis of the strategy canvas captures the range of factors that the industry competes on and invests on, while the vertical axis is a rating scale that captures the current state of play of key competing factors.

The value curve or strategic profile is the basic component of the strategy canvas. It is a graphic depiction of a company's relative performance across all its industry's competitive factors. A strong value curve has focus, divergence and a compelling tagline.

In the **Blue Ocean** concept [Kim2005], the empathy map (a tool discussed in greater detail in preceding sections) is used to define new factors in the strategy canvas which are relevant for a segment of the population and are not currently met, so that the strategy canvas becomes a central diagnostic tool for developing a convincing Blue Ocean strategy. It graphically depicts, in a single image, the current strategic landscape and future perspectives for defining a differentiated strategy. A Blue Ocean (BOS) is created when new competitive factors relevant for the customer and not identified by the competition are identified.

Figure 20. Depiction of a strategy canvas: for each of the competitive elements of a product/service, the elements of the offering level are compared to those of the competition and possible substitutes. Image of http://readingsraphics.com/

6.1.3. Customer analysis

Once we know the context, the competitive factors and have an idea of the product/service, the key question to ask, no matter how obvious it may seem, is: Who is going to buy it from us and why? It will not be the first time we hear that "my product is so superior to those of the competition that it will sell itself." The fact that a car is the fastest accelerating from 0 to 100 km/h or uses the least fuel does not mean that it is automatically on our wish list.

Identify and study the customer in depth to know what they value and why it is not a trivial task. In fact, strategic marketing managers of organisations dedicate most of their time to learning our customer's current and future needs, locating new market niches, identifying potential market segments, measuring the potential and interest of those markets, orienting the company in search of those opportunities and designing an action plan or road map for achieving the goals sought.

Empathy maps allow us to graphically describe and identify. This tool goes beyond the typical demographic identification (age, sex, city, education, income, etc.) and provides a first step towards segmentation of people according to their worries, interests and preoccupations.

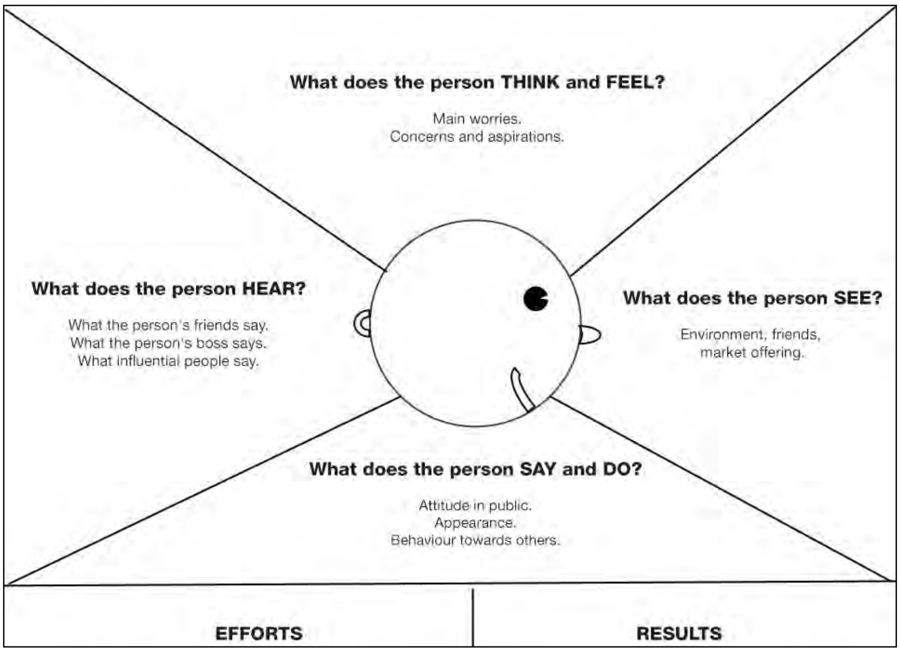
The aim of the map is to create a degree of empathy with our specific customer, knowing their environment; in other words, see the world through their eyes. In-depth knowledge of the person is key to designing our business model, since the product or service must be aligned with customers' needs. An empathy map must basically answer the following questions:

- What does the customer want?
- What forces are motivating the customer?
- What can we do for these customers?
- Who are they really?

To achieve this, the map proposes six different areas which are detailed below:

1. **HEAR** – What is the person hearing from his or her friends, partner, colleagues, etc.? Who really influences the person? How do they do it?
2. **SEE** – Who is the person surrounded by? To what type of offer are they exposed? What type of problems do they face?
3. **FEEL AND THINK** – What emotions does the person express? What is really important to the person? What are their expectations? Take into account the person›s beliefs and emotions that cannot be directly observed. Pay attention to their body language, tone of voice and the words they choose.
4. **SAY AND DO** – What could they say to others? How do they behave in public? Do they influence anyone?
5. **WHAT HURTS OR FRUSTRATES them?** – What are their main frustrations? What risks worry them? What obstacles do they encounter?
6. **WHAT MOTIVATES them?** – What is really important to the person? How do they define success? How do they try to achieve it?

Figure 21. Empathy map model.



In a first iteration, we can begin by completing the map on our own to create a theoretical profile. Next, we must go out on the street and compare it with reality, which is the only way of putting ourselves in consumers' shoes. Once we have a map of specific customers, we can define a value proposition that meets their needs and solves their problems. One of the things that these empathy maps will reveal is the existence of groups of individuals with more or less identifiable profiles, i.e. market segments or subsegments that we must analyse separately when designing a value-added proposal for them.

As an additional tool for analysing the previous map, we can reorganise its elements into quadrants with the following categories:

- Phrases and words.
- Actions and behaviours.
- Thoughts and convictions.
- Feelings and emotions.

Marketing tools such as customer journey, ethnographic research or focus groups allow us to give this map greater value, making it possible to capture insights on unmet needs or new value axes.

6.1.4. Designing a solution

With the help of empathy maps we classify and segment the market into groups with common features. As a first step in the definition of the business model we must know the customer in each of the segments, to which end we must create a customer archetype for each segment.

We must bear in mind that the customer concept includes all the agents involved in the buying process who, as accepted in recent marketing studies, may involve up to five roles: the initiator, the influencer-advisor, the decider, the buyer and the consumer. As the case may be, a single person can interpret various roles (or even all roles) or each role can be interpreted by different people.

Tabla 2. Sales process roles. They are all customers in the model.

Role	Function
The initiator	It is the first person who detects the need or considers the desire to acquire a product and considers the possibility. It can be the same person, who intends to buy clothes or a book for his or her own enjoyment. Or it may be another person: a man who asks his girlfriend out on a dinner date, or a expectant mother who suggests to the future father the need to start thinking about what baby carriage model to buy for their future son or daughter.
The influencer or influenced	It is a role that does not always necessarily intervene in a buying process, although it is becoming increasingly important. It is the person who gives us his or her opinion with respect to the product we are considering buying and suggests or recommends a specific model or brand. Their ability to influence the purchasing decision will depend on several factors: their credibility and authority, our trust in them, our previous knowledge (high, medium, low or null) of the product we are going to buy, our need or not to know the product's technical specifications, etc. The influencer may be a pharmacist who recommends a certain drug, a specialised motorcycle magazine or website if we want to buy a two-wheeled vehicle, or a couple who already has experience with children who advises us on a certain baby carriage. The influencer role has gained traction in the world of digital economy. In fact, more than 60% of buyers currently seek information on the Internet before making certain purchases. In the digital world, an influencer may be a journalist, a specialist blogger,… or any other common citizen user who expresses their views in a forum.
The decision maker	As its name indicates, the person making the decision or rather "final decision", in plural. Because he or she usually decides: 1. If the purchase will finally be purchased. 2. The specific product purchased (brand, model), taking into account different aspects that affect the purchasing decision (when to buy, at what time of year, at what price, how many units and (although not always) where.
The buyer	It is the person who finally makes the purchase. It may be the same person who made the decision or another person. Therefore, they have a bearing on the purchasing decision. They may not decide on the purchase of the product or choose the model but can decide where, when and how (in cash, with deferred payment, in a physical shop, online shop, etc.) to buy it.

Role	Function
The consumer (and evaluator)	It is the person who effectively consumes the product. They also have vital importance in the process because the consumer is, in turn, the evaluator. And it is important to know that the consumer is not always the initiator or the decision maker or the buyer.

With regard to the customer, we must look at three things [Osterwalder 2014]:

First, it begins with a **description of the "work"** that these customers are trying to perform in their daily life. It could be the work they are trying to carry out, the problems they are trying to solve or the needs they are trying to meet.

Figure 22. Understand the customer by identifying the work in which our idea may be involved.

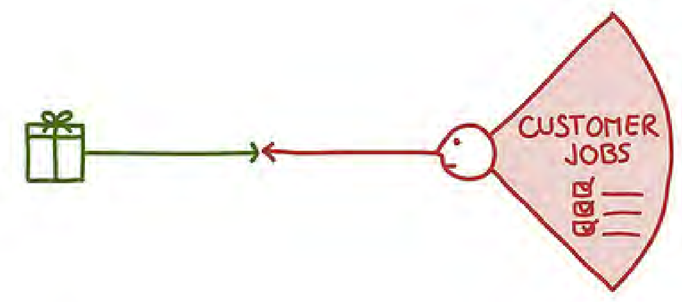


Tabla 3. Questions for analysing the different types of work.

Type of Need	Questions
Functional	What functional work is your customer trying to perform? (For example, performing or completing a specific task, solving a specific problem, etc.).
Social	What social work is your customer trying to perform? (For example, trying to seem good, gain power or status, etc.).
Emotional	What emotional work is your customer trying to perform? (For example, aesthetics, feeling good, security, etc.).
Basic	What are the basic needs your customer is tying to meet? (For example, communication, sex, etc.).

When analysing the idea/product/service, we are interested in all the **work** performed in their day-to-day life that may be related with it. This work may be conditioned by the context in which it is performed. For example, it is not the same to want to call someone from an airplane than from a train.

In order to understand the work, we must avoid stopping at a superficial vision and ask ourselves why someone wants to carry out a certain task, since it may conceal a broader task.

The next step for putting ourselves in the customer's shoes is to understand their **frustrations and pain** when performing their work. The empathy map provides interesting information on their negative emotions, unwanted costs or situations that the customer experiences before, during or after performing their work.

Figure 23. Understand the customer, sources of affliction .

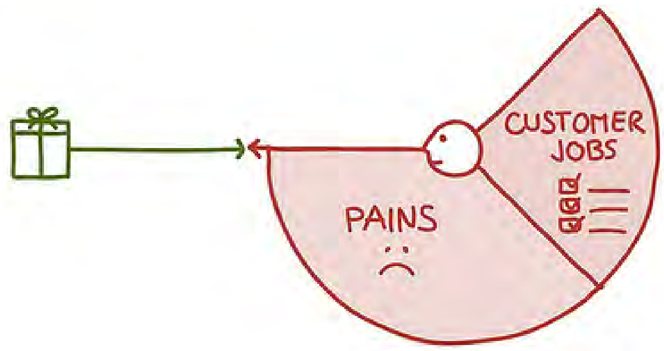


Tabla 4. Possible questions for identifying sources of affliction .

Cost or effort	What things does your customer find too troublesome? (For example, takes too long, expensive, requires considerable effort,...)
Frustrations	What makes the customer feel bad? Identify what frustrates, bothers or gives them a headache What common mistakes does your customer make? (For example, misuse,...)
Barriers	What barriers prevent them from adopting a value proposition? (For example: initial investment costs, learning curve, resistance to change,...)
Risks	What risks does your customer fear? (For example: financial, technical, social risks or what could go very wrong,...)
Worries	What keeps your customer up at night? (For example: major problems, worries, preoccupations,...)
Solutions that fall short	To what extent do current solutions fall short of your needs? (For example: lack of features, performance, malfunction,...)
Difficulties	What are the main difficulties and challenges your customer faces? (For example: understanding how things work, complexity of doing things, resistance,...)
Social aspects	What social consequences do customers fear? (For example: loss of prestige, power, trust, status,...)

We must classify each pain according to the intensity it represents for our customer. It is very intense or very mild. Indicate the frequency of each pain.

Finally, we must describe the benefits the customer expects and wants (or that would even surprise them), including utility, social benefit, positive emotions or time and/or money savings aspects.

Figure 24. Understand the customer, sources of satisfaction .

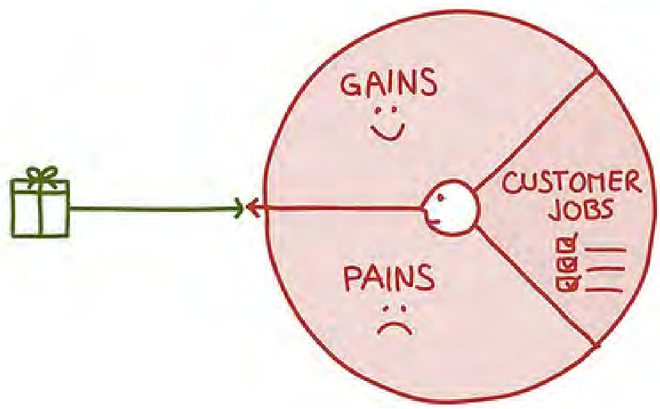


Tabla 5. Possible questions for identifying sources of satisfaction .

Savings	What savings would make your customer happy? (For example, in terms of time, money and effort,...)
Quality	What results does your customer expect and what would go beyond their expectations? (For example, quality level, more of something, less of something,...) the frequency with which it occurs.
Satisfactory solutions	In what way do current solutions satisfy the customer? (For example: specific features, performance, quality,...)
Simplification	What would make your customer's work or life easier? (For example: flatter learning curve, more services, lower ownership cost,...)
Social aspects	What social implications does the customer seek? (For example, make a good impression, increase their power or social status)
Features	What social implications does the customer seek? (For example, make a good impression, increase their power or social status)
Aspirations	What do customers dream about? (For example: major achievements, great prominence,...)
Assessment criteria	How do they measure success and failure? (For example: performance, cost,...)
Demands	What would increase the probability of adopting a solution? (For example: lower cost, less investment, less risk, higher quality, performance, better design,...)

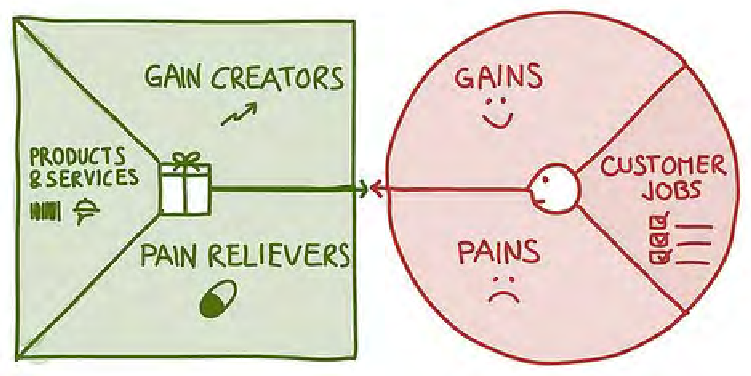
We must classify each gain in accordance with its relevance to the customer. Is it important or insignificant?

A common error is to mix work with benefits, where the former is the specific task and the second is the ultimate result pursued or avoided. Similarly, the pains and benefits must be limited insofar as possible, trying to quantify at what point discomfort turns into pain.

Once we have put ourselves in the customer's shoes, we must go back to our idea of analysing in what way our offer will help them to undertake the tasks identified and how we can add value through measures that will make it possible to mitigate pain and maximise benefit. We must not forget that a product alone does not provide added value.

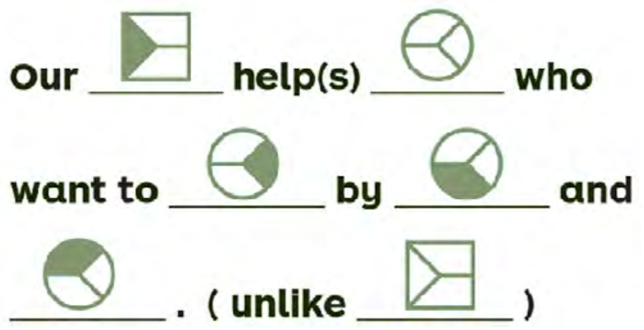
When we adequately align the customer's needs with the product, we can affirm that we have a promising value proposition worth being developed.

Figure 25. Alignment between the value proposition and the customer profile.



Once we have resolved the alignment between the customer and the value proposition, we will have most of the elevator pitch prepared:

Figure 26. The alignment between the customer profile as structurer of an elevator pitch.



The market size is ______ and after investment ______, we may achieve a ______ € in total revenues within ______ years, with the following indicators (profitability, margin, EBITDA…).

6.1.5. Designing the model

In 2008, A. Osterwalder proposed a template for describing the business model, known as the Business Model Canvas [Osterwalder 2010] which currently enjoys great popularity. Subsequently, A. Maurya, author of Running Lean, extends the canvas to adapt it to the needs of a startup.

It is a visual strategic management template for developing new business models or for documenting existing ones. The template consists of nine key parts, common to the graphic depiction of any business. Each of these parts is described below.

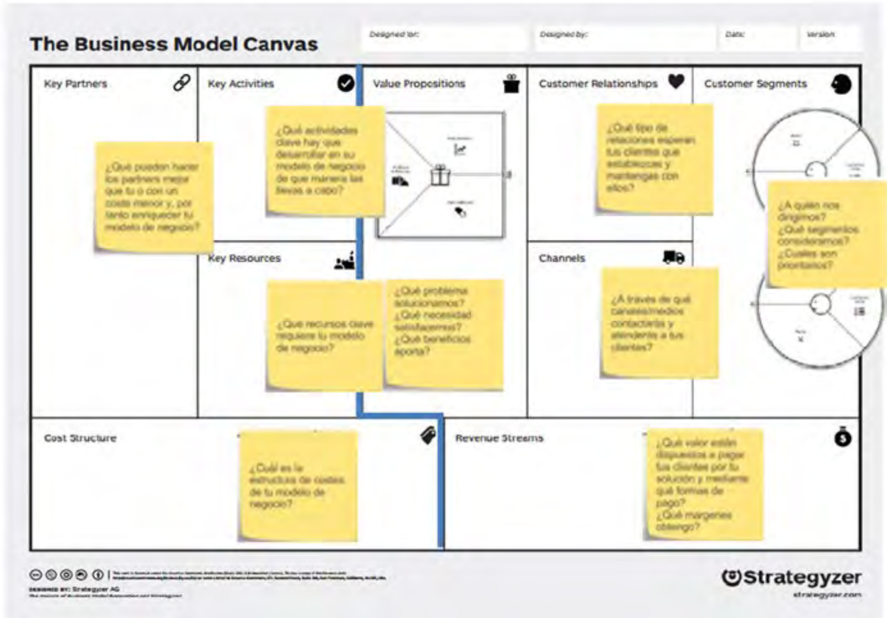
Tabla 6. Parts of a Canvas Model. Source: Business Model Generation, A. Osterwalder.

	Customer Segments The Customer Segments define the different groups of people or organizations an enterprise aims to reach and serve
	Value Propositions Value Proposition describes how products and services create value for a specific Customer Segment
	Channels Channels define how a company communicates with and reaches its Customer Segments to deliver a Value Proposition
	Customer Relationships Customer Relationships define the types of relationships a company establishes with specific Customer Segments
	Revenue Streams Revenue Stream represents the cash a company generates from each Customer Segment (costs must be subtracted from revenues to create earnings
	Key Resources Key Resources define the most important assets required to make a business model work
	Key Activities Key Activities define the most important things a company must do to make its business model work
	Key Partners Key Partnerships defines the network of suppliers and partners that make the business model work
	Cost Structures Cost Structure defines all costs incurred to operate a business model

These nine elements are organised in the template in such a manner that aspects relating to **value** are aligned on the right and those related to **business efficiency** are aligned on the left. The aspects relating to financial, costs and sources of income are located at the bottom. As a work tool, it is useful when working on a whiteboard or flip chart on which the team record their ideas and contributions using sticky notes.

The development of the canvas is based on the value proposition designed for the customers seen in the preceding section, including the different **roles in the purchasing process** and the different segments within each role.

Figure 27. The Business Model Canvas. A visual tool for developing and analysis business models. Photo of Strategyzer .



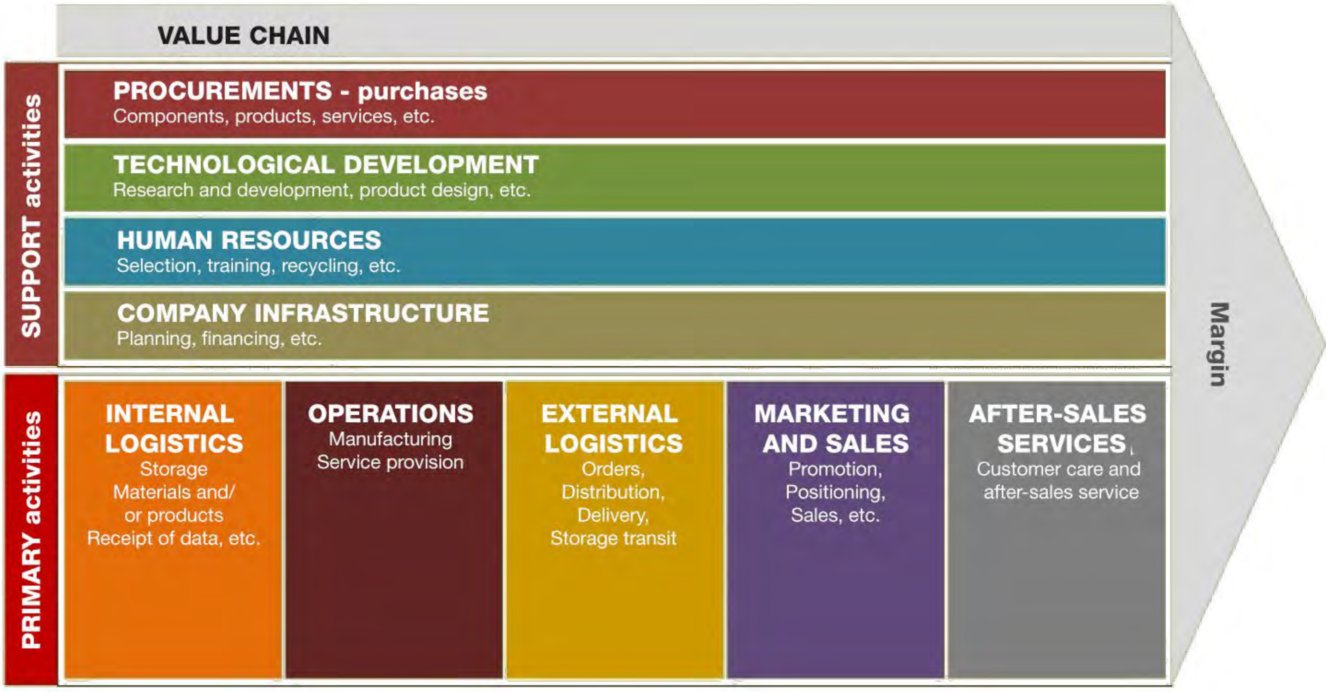
Following the logic of arriving at the value proposition from the market (PULL), the first parts we must define are those relating to the **channels** used to sell our products and the mechanisms we use to connect and **link** all the agents involved in the purchasing process.

Our business model must have the means to connect all the actors in order to effectively communicate our value proposition and its advantages, particularly for those profiles for which the proposal made provides real value. Simultaneously, we must identify the essential aspects for the business as regards the distribution channels through which we will reach the end consumers. We close the **value side** by identifying the main sources of income in our model and whether it depends on the types of customers, by associating them (for example, using arrows or colours).

In a second step we incorporate the elements of **implementation efficiency** to our model, which include the key resources to be able to develop the value proposition, the tasks/processes involved, the necessary partners and cost structure.

The implementation-related aspects can be a significant source of competitive advantage in themselves, due to which it may make sense to complete this side of the model with the alternative vision that provides us with a value chain analysis, where we will highlight the key processes for our model, the position of the essential partners in the chain and will detail the cost structure. In the subsequent development of the Business Plan we will want to make an estimation of income and expenses to determine financial parameters relative to business profitability.

Figure 28. The Value Chain (Porter, 1985) as a complementary element to the Canvas Model.



In the specific case of startups, where resources are particularly scarce, the way of going to market is completely different to the execution strategy of a consolidated company.

Particularising on startups have given rise to interesting methodologies such as those described by E. Ries in **Startup**. Likewise, there are alternative proposals to the BMC adapted to the particularities of the startup. A. Maurya's **Lean Canvas** proposes a change in focus that translates into modifying some of the elements of the model:

- **PARTNERSHIPS is replaced by PROBLEM**: A key aspect of any business, especially a startup, is to be clear about the problem or problems it resolves, which is why this block appears.
- **KEY ACTIVITIES is replaced by SOLUTION**: Similarly, and once the problem is specified, it is advisable to define the main functionalities of the product that will help to solve these problems.

- **KEY RESOURCES give way to KEY METRICS**: For any startup, it is absolutely critical to define the three to four indicators that will be used to measure the Business Model, a key element when pivoting, from the start.
- **RELATIONS is replaced by SPECIAL/DIFFERENTIAL ADVANTAGE**: This block includes something that is very difficult to materialise, but which however is key to any business.

In the Lean Canvas, the right side continues to represent the **MARKET**, but the left side represents the **PRODUCT** (a more realistic work unit for a startup).

Figure 29. Lean Canvas.

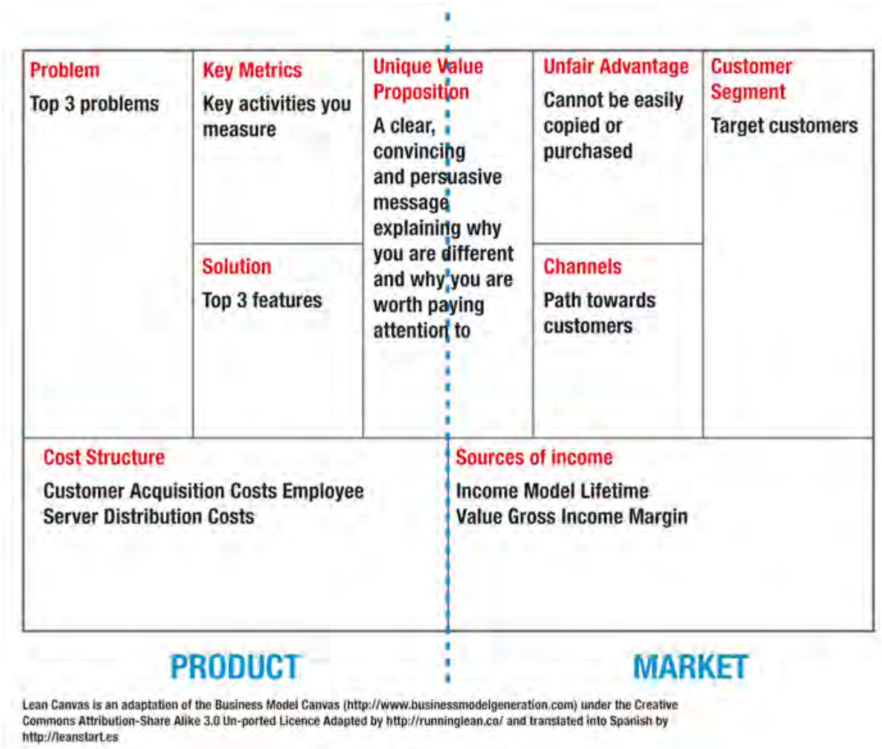


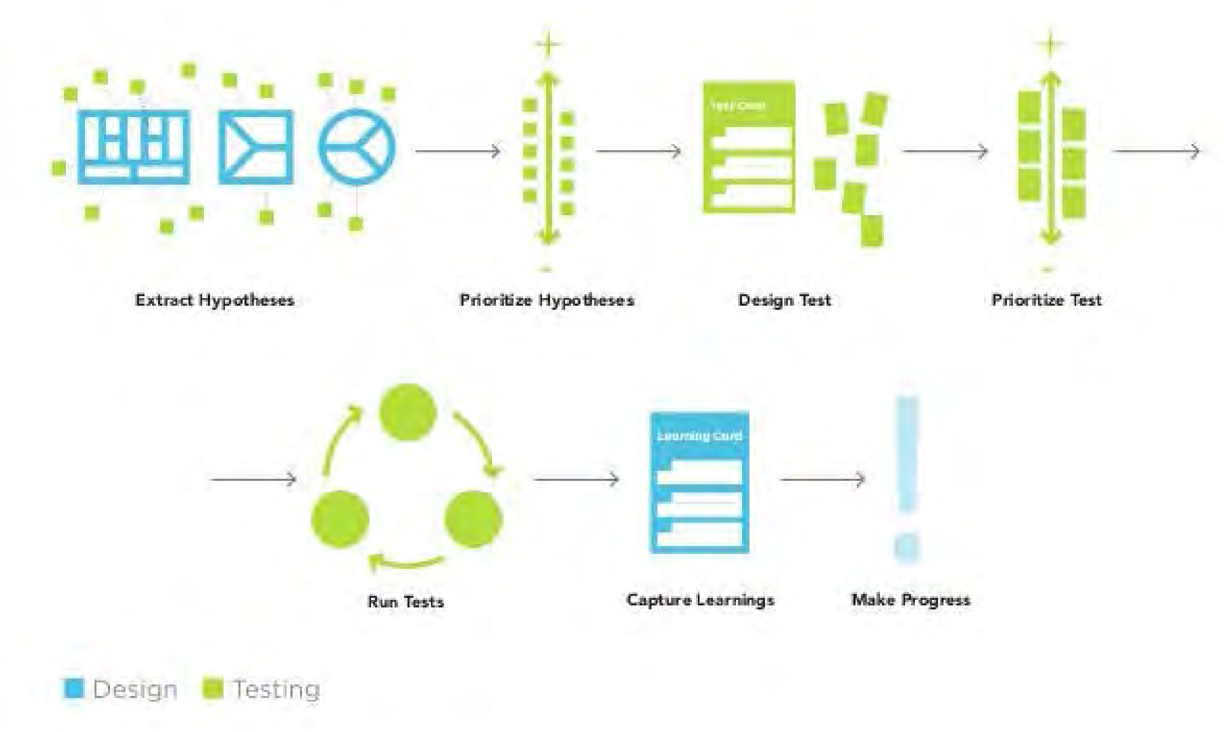
Tabla 7. Parts of a Lean Canvas Model.

CUSTOMER SEGMENTS	Identify and learn the customer segments on which to work and, above all, strive to determine who could be your early adopters or visionary users. This is of vital importance, since targeting the mass market with mature users is usually a bad idea for a startup, at least initially.
PROBLEMS	Identify the three main problems of this group and discover what alternative solutions to your product they use to solve them.
UNIQUE VALUE PROPOSITION	Summarise what makes you special and how you will help your customers to solve your problem in a clear, simple manner and in a single sentence.
SOLUTION	The three most important features of your product/service that will help them to solve the problem… so you can focus on them and not lose time in secondary functionalities.
CHANNELS	How are you going to get your solution to the customer segments with which you are going to work: through a sales force? via a website?
INCOME FLOWS:	How we are going to win money, which not only includes thinking about the different flows, but rather about margin, customer value, recurrence model.
COST STRUCTURE	Elements that create expenses. Separate fixed costs from variable costs. In a startup, rapid growth can significantly drain economic resources.
KEY METRICS	We must establish what activities we want to measure and how, taking into account that we must generate a very small and actionable group of indicators that will then help us to make decisions.
DIFFERENTIAL ADVANTAGE	Establish that something that makes you special and different, that makes customers come back for more. If you can't think of anything, don't worry, leave it blank… you'll know what it is in time.

Lean Canvas is better focused on online businesses since it adds the metrics block which, while useful for any type of business, is totally indispensable for an Internet-based business.

Designing the business model is part of the process, while testing and validating it is the supplementary element. Marketing provides us with multiple tool for gaining in-depth knowledge about the customer and draw powerful insights that will be included in our value proposition.

Figure 30. Testing as a basic element of the business model design process. Photo of Strategyzer.

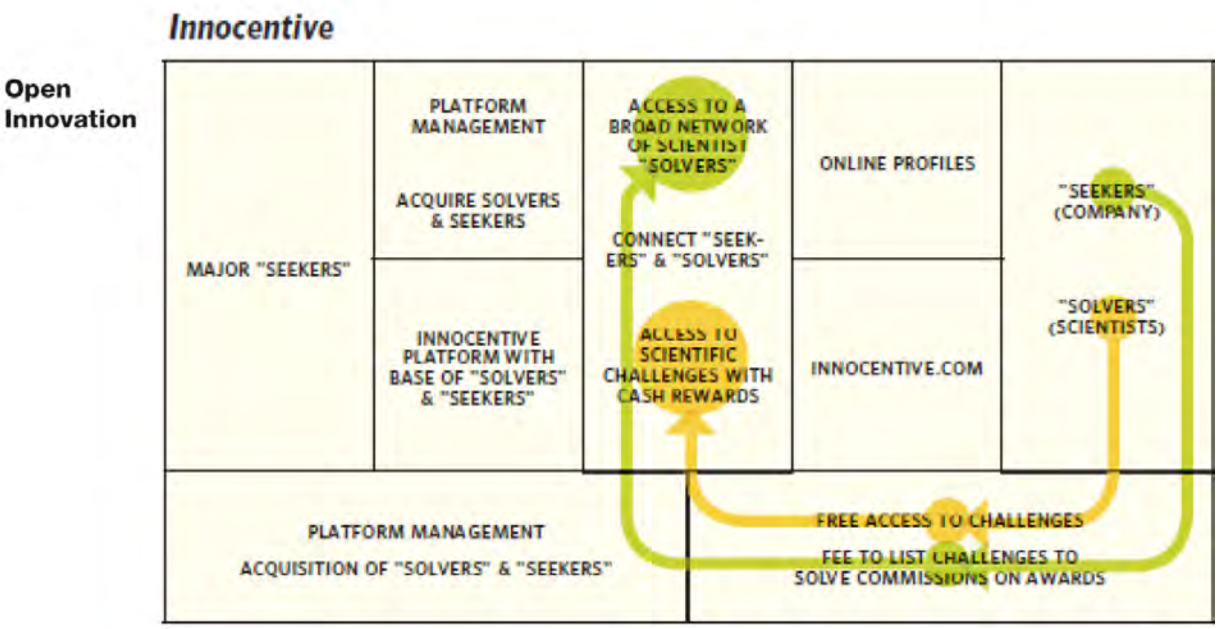


6.1.6. Business analysis based on its model

The BMC has gained popularity in recent years, becoming more than just a passing fad, due to its power to analyse new or existing business models in a structured, flexible manner with great communication power. Likewise, it is useful for organising a SWOT analysis or illustrating the organisation's **adaptation** [Stan Abraham Strategy & Leadership, 41(2) 31-38] capacity.

For example, it allows us to understand the key elements of a wide variety of businesses such as those shown below.

Figure 31. Examples of meta-business models [Osterwalder, 2010].



Although a marketing vision of the business model arising from the customer's need has been adopted up until now, the starting point of many startups (particularly those arising from IPOs) is completely different, since it uses a certain technology and seeks to find an adequate business model to market it.

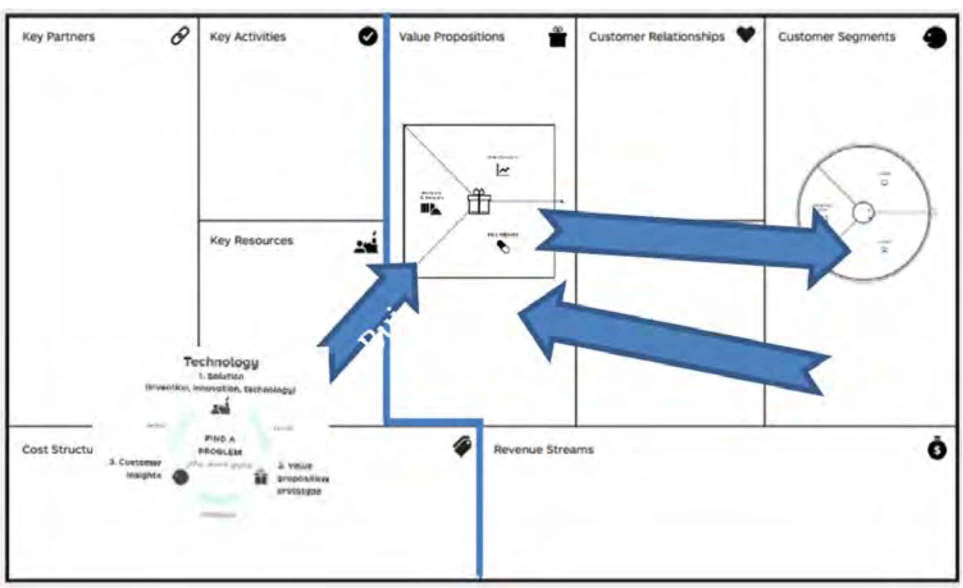
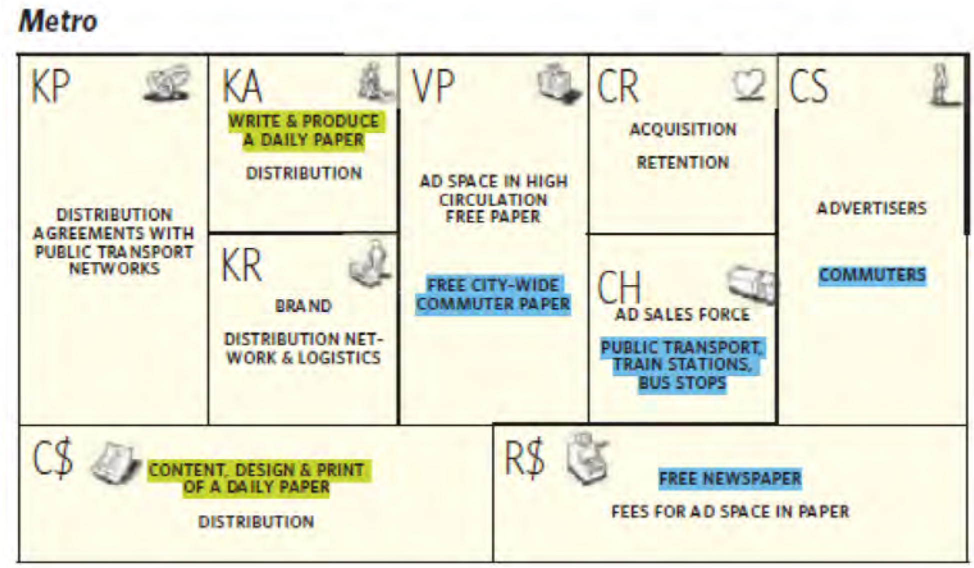
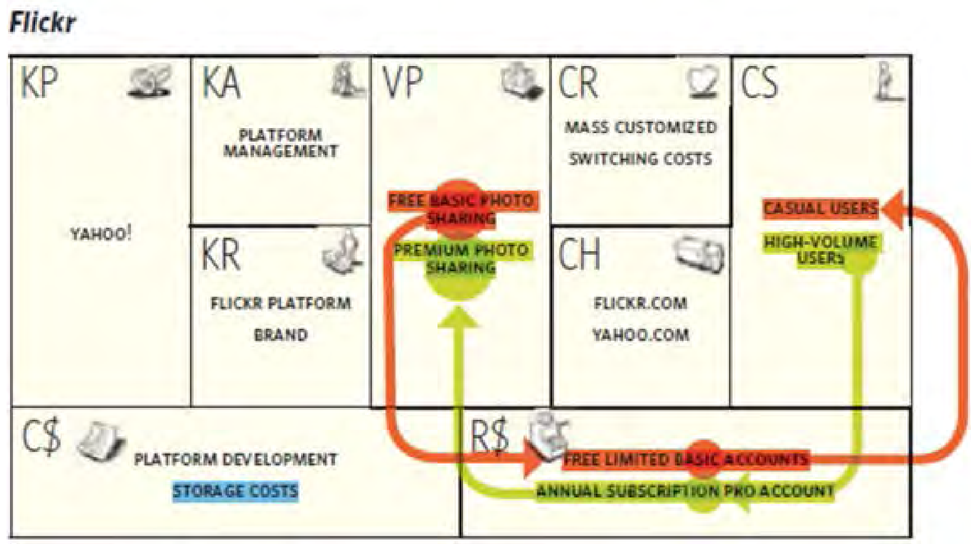
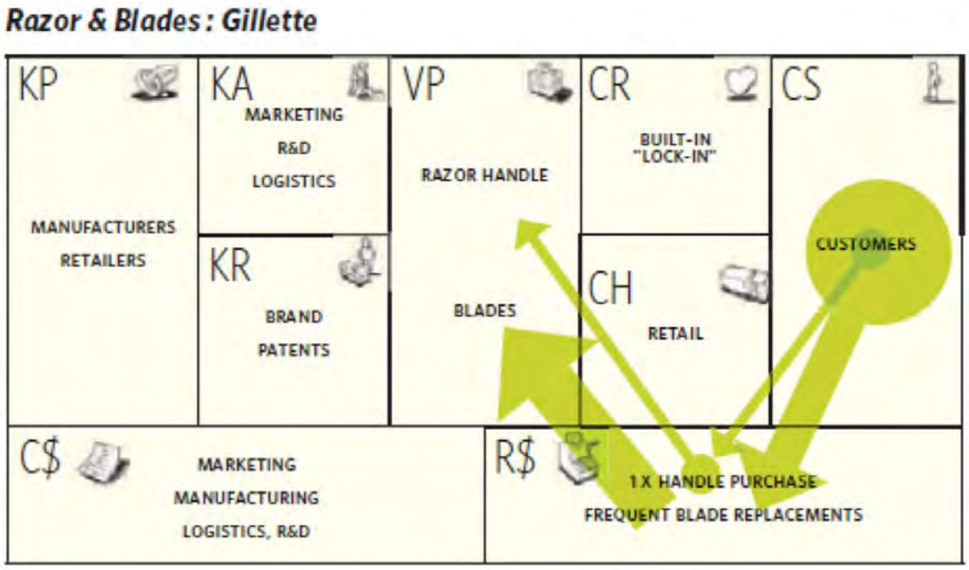


Figure 32. Analysis flow with the Business Model Canvas in the event of a "technology push". [Osterwalder, 2010].

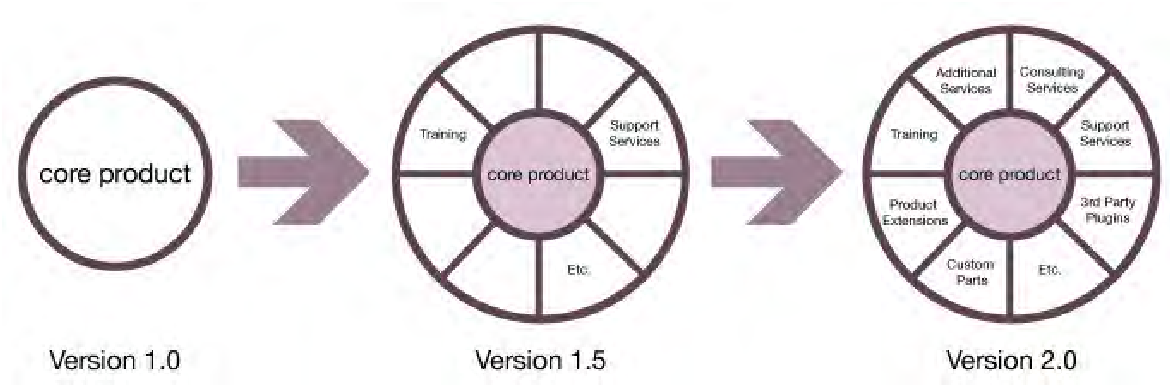
Generic Models	Case Study
Free	
Freemium	

Generic Models	**Case Study**
Bait&Hook	

In this scenario we need to carry out a **double fit**: on the one hand, identify unmet needs for which this technology can provide a solution and design a value proposition such a to make the available technology a keystone thereof. To this end, a possible strategy is that of starting off by designing a possible value proposition for which we select a customer segment that could be interested in this proposal and pay for it. Once we have seen the customer segment, we will obtain its profile by identifying tasks/pains/benefits and, from there, refine the value proposition to achieve a better fit with the customer. This process can be repeated as many times as the number of potential segments we identify.

In this type of scenarios, most of the value will stem from a **modular product architecture** in which the base technology is covered by a range of additional products and services that will extend the application of the product and which will allow us to cater for a wide range of customers, from a customer seeking the minimum solution with the lowest cost to the customer seeking an all-inclusive solution, in order to capture the greatest possible value of the technology. It is becoming increasingly common to use a collaborative approach to design these products, whereby collaborator ecosystems contribute to enrich the product and service offering. The importance of modular architecture in the internationalisation process is reviewed in the corresponding module.

Figure 33. Extended product design.



6.2. Key questions for the mentor

The goal of this section is to endow the mentor with some tools with which to structure their thoughts in order to understand and analyse the business proposed by the entrepreneur. Instruments that will allow us to ask the mentee the key questions that will induce reflection.

We start by analysing our environment both at macro (trends, political, economic and legal issues,...) and sector-specific level.

What relevant restrictions does the environment impose on us? Drawbacks
What aspects are key in this market? Peculiarities
Who is the competition? Current, potential and substitute

In the next step we must define the value proposition, that differentiation and characteristic element around which the entrepreneur's proposal will be articulated. With this idea in mind, we must now move to the potential customer side to determine the effort made by the entrepreneur to understand their customers. This effort represents the first litmus test for the entrepreneur to compare to what extent their proposal provides sufficient value and, in such case, refine it in accordance with the customer's specific needs.

Who are the customers? What do you think you know about them? Data? What do you offer them? How does our proposal meet their needs and frustrations? What is the key aspect of the value proposition for each?

At this point, we must delve deeper into how the entrepreneur plans to capture the value of their proposition. By directing the conversation towards the development of a sustainable and profitable activity.

Have you developed a business model that makes it possible to articulate a sustainable solution?

Is it the only possible solution? Does the model meet their needs?

Have you delimited the sources of income? Do they meet the business's needs?

How is income and expense scaled in the business?

What volume of activity do you need to reach the break-even point? How long will you take to reach this point? How long does it take to complete that journey?

Have you prototyped your proposal? Have you tested it? Have you generated metrics? How do you create the platform effect?

Business plan... business plan... business plan

6.3. Resources for deepening knowledge

Recommended readings

- Michael E. Porter, **The Competitive Advantage: Creating and Sustaining Superior Performance**. NY: Free Press, 1985.
- **W. Chan Kim** y **Renee Mauborgne** *, Blue Ocean Strategy: How to Create Uncontested Market Space and Make Competition Irrelevant* Harvard Business School Publications, 2005
- Alexander Osterwalder & Yves Pineur*, Business Model Generation*, Wiley 2010
- Eric Ries, *The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses* Portfolio Penguin 2011
- Laurence Lehmann-Ortega, Helne Musikas, Jean-Mark Schoeettl. *(Re)inventez votre Business Model,* Dunod 2014
- Alexander Osterwalder et al, *Value Proposition Design*, Wiley 2014

Additional readings

- Harvard Business Review (an anthology) **Rebuilding Your Business Model** (Harvard Business Review Press, 2011).
- Mark W. Johnson, **Seizing the White Space: Business Model Innovation for Growth and Renewal** (Harvard Business Press, 2010).

- Saul Kaplan, **The Business Model Innovation Factory: How to Stay Relevant When the World Is Changing** (John Wiley & Sons, 2012).
- Joan Magretta, **Understanding Michael Porter: The Essential Guide to Competition and Strategy** (Harvard Business Review Press, 2012).
- John Mullins and Randy Komisar, **Getting to Plan B: Breaking through to a Better Business Model** (Harvard Business Press, 2009).
- Richard P. Rumelt, **Good Strategy/Bad Strategy: The Difference and Why It Matters** (Crown Business, 2011).
- Ash Maurya, **How to document your business model (The lean canvas),** available online at https://leanstack.com/businessmodelcanvas/, accessed on 10 October 2016
- A. Croll & B. Yoskovitz, **Lean Analytics: use data to build a better startup faster**, O'Really
- Andrea Ovans, **What is a business model?** at Harvard Business Review 23 January 2015, last web access on 20 May 2017 https://hbr.org/2015/01/what-is-a-business-model
- A. G. Lafley, Mark W. Johnson *Seizing the White Space*: Business Model Innovation for Growth and Renewal McGraw-Hill Education *ISBN*-13: 978-1422124819

Useful Websites

- https://strategyzer.com/
- https://www.blueoceanstrategy.com/
- https://hbr.org/2013/05/why-the-lean-start-up-changes-everything
- http://www.odyssey314.com/en/

module 7

Mentoring for internationalising a startup

Julio Fernández-Gayoso Mediero

7.1. Teaching goals

Introduction

At some point all startups consider internationalisation, which offers major opportunities but also multiple risks. This module aims to provide practical guides to help think about and plan this important decision. To this end, we will use "questions" to help us to reflect, since the obvious is often not so obvious and invalid or unrealistic assumptions can be made.

1. First of all, an internationalisation plan does not have nor should have a "cut and paste" plan that we have executed in our country of origin. In fact, it is likely that some elements such as the commercial or Go To Market (GTM) model must be different.

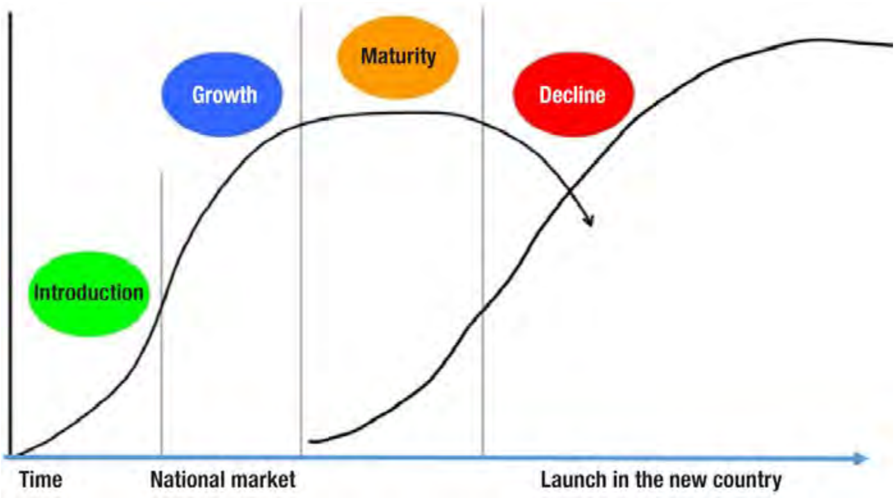
   In order to develop and analyse our options, we can use different tools to develop our internationalisation plan and even combine them, since they each provide an angle, a strength that complements the other. Just to mention some of the most well known, from the most traditional to the 7Ps Marketing Mix, the MacKinsey 7-S model and the Business Model Canvas methodology, so popular nowadays, and analysing the module against the business model.

   We will use the tool we use in our international plan. It does not necessarily have to be the same as that of our country of origin and it is certainly not advisable to rush headlong into an internationalisation strategy without previously assessing the different options, their risks and opportunities. The country risk must be assessed and, accordingly, propose "the Distances" model, as well as other tools such as PEST. It is also important to evaluate the different growth and expansion models and their alternatives, assessing in turn whether our business systems and processes are ready for internationalisation, for example: support for different Zs

   We also know that other factors, such as corporate culture and management and leadership styles with multicultural teams, can be a good lever for change or, on the contrary, for blocking, if that corporate culture or management styles are not properly integrated in the country where we want to expand our business.

   In addition to financial projections, market potential and our forecasts must be realistic. We know that, on paper, a business plan supports everything, but international expansion is usually more complex than the launch in our country of origin and it is not convenient to rush headlong into it without a well-test plan that not only assesses the risks and opportunities of the country or industry, but also the time factor for executing the plan and necessary economic and financial costs. A bad international plan not only puts the company at risk in the country, but is also a brand/company image factor that may be irrecoverable.

Figure 34. Product life cycle and launch in a new country.



2. Secondly, **the life cycle of our product and the maturity and presence of our brand** in our market cannot automatically be translated into another market. In fact, it is important to know that our brand presence in the new country starts from scratch. This, while seeming evident, is usually one of the most frequent mistakes. For this reason, in our internationalisation plan it may be critical to start on the basis of an existing customer with subsidiaries in other countries and which allows us to start not only with an economic activity but also with a commercial reference. This strategy can be considered a good practice for commencing new operations, reducing our risk and commencing with commercial references in the country from day one.

After this introduction and preliminary considerations, we will now proceed to develop the proposed methodology by answering the following four key questions:

Figure 35. Internationalisation methodology: the 4 questions.

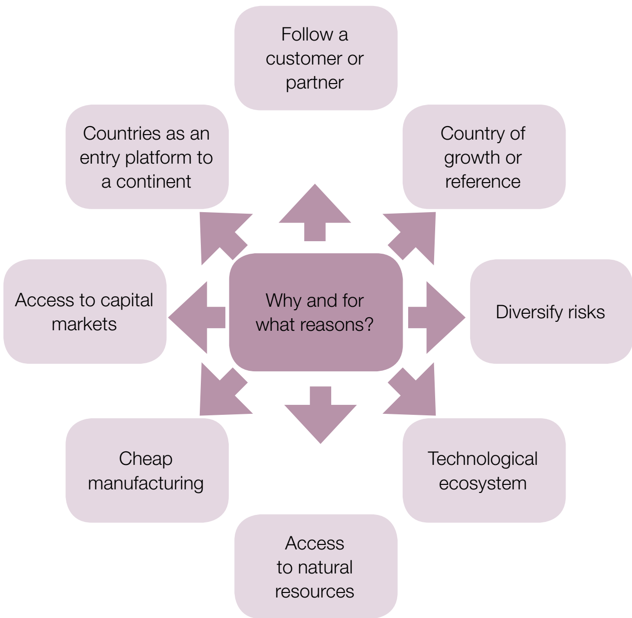
1) Why and for what reasons should I internationalise the company?	2) Where should I internationalise the company?	3) When should I internationalise the company?	4) How should I internationalise the company?

7.2. Question 1: why and for what reason(s) should I internationalise the company?

This may seem a rhetorical question with a very evident answer: a company is internationalised to increase its billings and its profit. But this may be only one of the reasons. There are many others and also very significant, due to which their definition will mark the type of expansion plan we need.

The reasons for internationalisation must not only consider the market options -i.e. the countries we will approach-, but also "how". This is why it is critical to understand our goal from the start and define the "why" and the "what for", in order to correctly align the plan.

Figure 36. Reasons for internationalisation.



For example, it is not the same to expand to a country because we need to support an existing customer -in which case we will probably start off with a minimum support structure- or because there is great business potential, which requires a more far-reaching commercial and business approach. Also, there may be situations such as the 2009-2012 economic crisis in Spain, when some companies decided to target new markets as a way of diversifying and balancing the country risk.

But there are other reasons for internationalisation, linked either to the manufacturing ecosystem or to the production of mobile phones in China or due to the potential resources, either of raw materials or cheap manufacturing. There may also be other reasons related to human resources, to the knowledge and skills of the software development and testing staff: this is usually common, for example, in software development in India or in Eastern Europe. There may also be other reasons linked to the environment -for example, to the technological ecosystem- in the technology startups world. Silicon Valley in California or Seattle for the Microsoft ecosystem are usually options to be considered in order to be well-connected to these ecosystems.

At other times, the target country, in addition to having good potential in itself, provides a good platform for entering a region or continent. A very clear example of this scenario in Europe is the United Kingdom or Ireland, with the opening of a subsidiary in these countries as a platform for US companies to enter the European market.

And there may be many other different reasons with different implications depending on the industry. For this reason, it is critical to properly understand why and for what reason, since the answer to this first question would be critical to answering the following three questions of our methodology in order to define the plan.

These are some of the important reasons or factors for internationalisation, but this list is in no way intended to be comprehensive, since it depends on the sector and industry.

7.3. Should I internationalise the company?

Some questions for reflection:

- What three countries should I choose?
- What selection criteria should I consider?
- Or maybe, should I approach expansion to all the countries and industries of the world in a single movement?

Let's see some of the criteria to be considered in the model I call "the Distances":

Tabla 8. Some criteria to be considered in “the Distances” model.

The basic concept is simple but effective::
• The shorter the distance (geographic, economic, cultural, regulator) the lower the risk in the international expansion decision.
1. **Distances - cultural differences**;when these are similar, customers will request similar products to those of our country, in addition to product requirements. 2. **Distance - geographic**, China, USA. Which would imply high transport costs and wait times, which are factors to be considered. 3. **Environmental** - administrative - regulatory distances, commercial practices, foreign currency. 4. **Economic distances:** • Market size - for example, China or USA • Market growth, for example, China • Purchasing power - price elasticity curve vs consumer purchasing power curve - market size and maturity. Product price requirements in that market.

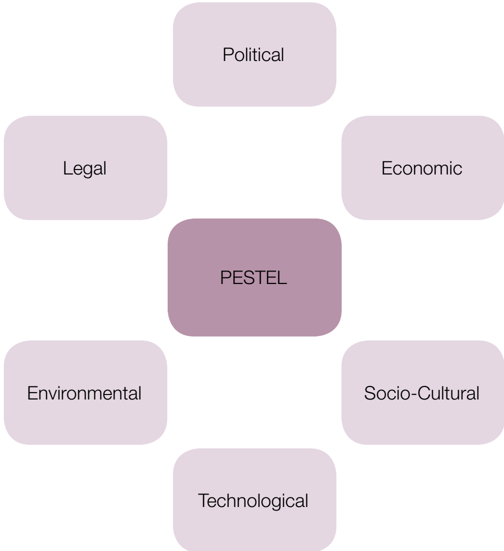
As a general rule, entering markets with less limitations in these “four distances” will reduce our internationalisation risks, allowing us to maximise the probability of success if there is business potential.

PESTEL Model

What tools do I have to assess the risk-opportunity of a country and its suitability as an investment? There are different tools, one of which is the PESTEL (Political, Economic, Socio-Cultural, Technological, Ecological and Legal) methodology which, as a peculiarity of its application to the environmental analysis, provides a simple way to perform a country analysis.

Given the number of geographic alternatives to expansion, selecting the country previously using the economic, geographic or cultural distances model makes it possible to considerably simplify the analysis in order to subsequently perform a PEST analysis once we have defined the country or sub-region to be approached.

Figure 37. PESTEL analysis factors.



What is the PESTEL Analysis applied to internationalisation?

The goal is to define whether a country is attractive, what is its potential and its possible risks. In the same manner that Michael Porter's Five Forces model allows us to analyse an industry, PESTEL allows us to analyse the following country factors:

- **Political.** The political and regulatory stability of the country or of local governments. Public government grants for investment and their taxation, laws and regulations. In addition to international trade agreements and their impact.
- **Economic.** It includes various dimensions: market size, growth and opportunity, economic cycle, stability and growth, and GDP outlook; the country's consumer profile, its population segments and purchasing power; and potential competitors, changes in the industry, **economic factors and consumer preferences.**
- **Socio-Cultural.** Languages, good or bad commercial practices such as corruption, religions, human rights, cultural practices, population pyramid or changes in birth rate. Changes and differences in purchasing preferences and habits.
- **Technology.** This is an important point: although the globalisation phenomenon exists, there are differences in purchasing parameters depending on each country and the speed of change is increasing. For example, the mobile and mobile applications phenomenon is global, but the implementation of mobile devices is differs depending on the country, on its purchasing power and on the consumer's profile.

Likewise, there are technological regulations that impact each country. Robotisation, automation and mechanisation provide improvements even in countries with cheap labour. Another important dimension for some industries is technology and the energy mix of each country. In this section, it would also be appropriate to consider three dimensions:

- New product design and production methods and technologies.
- New product and service distribution methods.
- New digital communication methods.

- **Environmental.** This factor has increasing bearing: on the one hand, consumers have increasingly greater awareness and consider that this factor differentiates a company's brand image. On the other, laws and regulations, the energy system and its implications are factors to bear in mind, especially if our sector has pollutant implications. They are all factors to be taken into account.
- **Legal.** This includes all the legal changes and regulations that limit or condition our sector and business, either positively or negatively. Additionally, factors such as the protection of intellectual property -licensing models and their legal security must be considered- and laws on protected or regulated industries and occupational safety and health laws.

Benefits of the PESTEL Analysis:

- Identify the country's opportunities/risks.
- Implement appropriate practices by country: both product and management -processes, people-, etc.
- Think and analyse without assumptions or prejudices of our country of origin.
- Three key steps for performing a PESTEL analysis:
  - Identify adequate factors that will impact my business.
  - Assess how the different factors affect our operations, for example, product regulations and financial or accounting regulations or standards.
  - Develop adequate strategies in a country-cluster scheme. For example, entry into the European market with base in Ireland or Great Britain, for example entry into Europe from the USA.

7.4. Should I internationalise the company?

When should I internationalise the company? This is another question critical to the success or failure of the design of our internationalisation plan.

The maturity of the product and services, the fact that our management systems and processes will be ready to support internationalisation, and the economic and financial soundness to undertake expansion will be key. Next, we will describe some of the factors to be considered.

Some guidelines before undertaking international expansion:

- **Consolidation of market position in the country of origin.** It does not make sense to rush headlong into international growth if we still have strong potential in our country of origin and we have not yet tested the benefits of our product or service in our own country. In general, it is easier to grow in our country of origin than in other countries where expansion adds risk factors that we must measure.
- **Sound financial situation,** either due to growth in operations or external investment, for example through Venture Capital (VC), etc. International expansion requires significant investment and the time factor for earning profit in the new market is measured optimistically, underestimating the time required to earn profit.
- **Growth strategy and growth forecast,** both of the product and of the industry and its situation in the life cycle. For example, the DVD or Blu-Ray market in an online content consumption market with new competitors such as Netflix-type online content service. In this connection, we must answer questions such as: Where is our product in the industry life cycle? Is our product a star, a cow or a dog? They are important for determining whether we are in a market that is at the beginning or end of a cycle.
- **Systems and processes:** It is necessary to know how many systems and processes are ready to support an operation in this new country:
  - Invoicing systems, new legislation of the new country, multi-currency support.
  - Legislations and regulations impacting both the physical product and the software or associated services.
  - Location, language, technical regulations, support structure.
  - Changes in timetables, type of work week, such as for example the differences between the Arab and European worlds, foreign currencies and their exchange rate-risk, languages, etc.
- Once we have **sufficient product maturity and modular product architecture**, value will be created that will leave space for the added value chain.

Packaging the product with value layers

- **What type of product do I sell?** Is it a manufactured product that implies distribution and storage? Or is it online software, gaming or services?

- **Price strategy:** What is the monetisation model? And how do we integrate a possible distribution channel, preferably convincing the partner to contribute value to the solution?
- **Do we have a packaging model** and price structure that leaves room for value-added partners?
- **Modular product architecture + services** designed to integrate partners in value creation (Software or Services). As we saw in the module relative to the business model, a product architecture that consciously leaves room to the value-added channel to create value is a clear success factor to build loyalty in that channel. It makes it possible to generate value with low margins, making it possible to build value on our platform. This will allow us to build loyalty in the channel and develop an ecosystem of dependence and mutual collaboration. Therefore, the success of the product depends on the channel and vice versa. In this scenario, value capture is linked to the incremental value added, not only to the commercial margin of the distribution channel.
- Also, the degree of internationalisation of a company can be measured by means of different **indicators** including, namely:
  - Relative international billing - external vs total billing-.
  - Number of countries in which the company operates.
  - Number of affiliates and subsidiaries of the company.
  - Employees abroad vs Total.
  - Structure of the internationalised processes: manufacturing, sales, logistics, support or customer care.
  - Assets in external balance sheet vs total.

Likewise there are other, more complex indicators such as TNI or “Transnationality Index” - World Investment Report 2002.

7.5. Question 4: How should I internationalise the company?

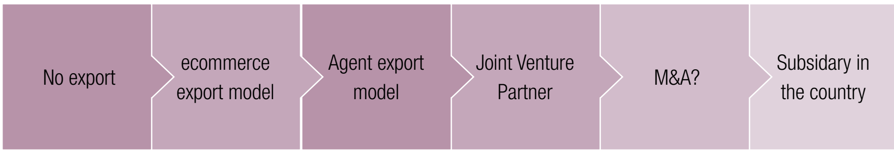
In this section we will analyse four topics we consider of utmost importance to delve deeper into HOW to implement an internationalisation strategy:

- Types of internationalisation.
- Market entry models - “Go To Market” (GTM).
  - Guide to defining an effective action plan with a value-added partner.

- Focus marketing efforts on a segment/industry or solution: The “Crossing the Chasm” model.

- Organisational culture and leadership styles in internationalisation.
- Remote team management and leadership techniques and what remote communication and collaboration tools I have.

Figure 38. Uppsala Internationalisation Model.



There are different models that support internationalisation criteria, with an incremental and gradual approach such as the Uppsala model, which considers internationalisation as an incremental process of integration and accumulation of processes and knowledge. For example, a process could commence, as shown in the figure, with “No export” and would move to “Progressive export” from our central headquarters. Many of the startups backed by the Fundación madri+d mentoring network, 69% of the total, are positioned in this scenario. (Ref. NTBCs 4. New technology-based companies: determining factors of entrepreneurship, characterisation, internationalisation and strategic process).

Thirdly, the Uppsala model proposes an incremental model, for example, based on an agent or partner in the target country or in a potential joint venture at a more developed stage. At a subsequent stage, a proprietary subsidiary could be developed if the business plan and return on investment are fulfilled. The NTBC study on new technology-based companies indicate that 23% of New Technology-Based Companies (NTBCs) access markets based on this scenario through partnerships in their different versions (partners-licensors, franchises, management contracts) and only one of the companies analysed with 8% of the total has a subsidiary. This indicates that the progressive export model potentially using an e-commerce model, where possible, represents one of the most common scenarios; and that the second most-used model is a partner or third party that represents the company in the country.

As we will see, this last model has many advantages due to the agent’s or partner’s knowledge of the market. The existence of commercial contacts in the local market and knowledge of the commercial practices of the target market turn this agent into a real competitive advantage for international expansion. In this regard, the selection of the correct agent-partner is a critical decision.

It is also evident that there would be greater advantages the further right we are in the Uppsala model, but also commitments in the form of exit barriers and costs of this market in the event that the project goes wrong. Therefore, ensuring investment progressively parallel to growth and return on investment minimises the risks of expansion.

Mention must also be made of the importance of technologies in digital transformation, that make it possible to access remote markets in a centralised manner through technologies such as the cloud, big data and social knowledge networks, which allow potential customers to make basically online decisions, based not only on information about the product-solution. New technologies that offer digital transformation also enable electronic internationalisation at very reasonable costs.

7.5.1. Types of internationalisation

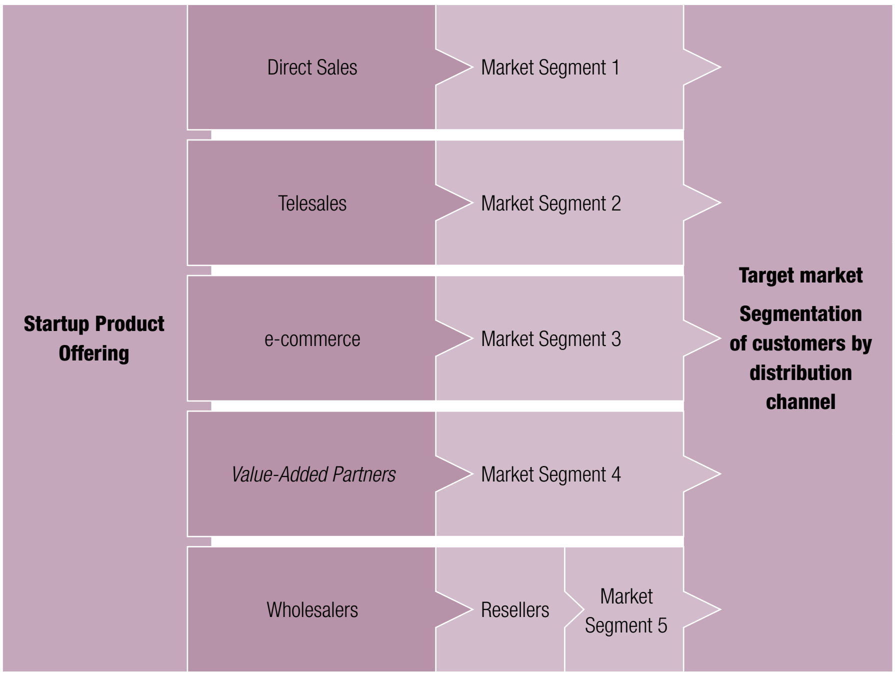
- **Multi-domestic**: treatment of each country as a different model with different product features. There is differentiation of the product and of customer demands in relation to location, support, etc.
- **Global**: one market: the world
  - An example of this are born-global Internet companies.
  - It should be noted that, in this case, born-global Internet companies require mass location investment, due to which expansion is staged even in these scenarios.
  - Another example in the industrial world are aeronautical markets, with products that in essence are the same for everyone, even if they include customisation of the final product, in addition to their global investment and operations.
  - Locating part of the product is usually a necessary factor, either due to regulations, language, etc.
- **Product-market arbitration:** For example:
  - Manufacturing costs in China.
  - Quality software engineers at very attractive costs in India.
  - Top-level human or technology resources. For example: Japanese market.
  - Markets that provide credibility. For example: Silicon Valley for technology or France for wines.

7.5.2. Market entry models - Go To Market (GTM)

This section makes reference to direct or indirect sales models, usually known as Go To Market (GTM) and also known as “Routes To Market “ (RTM).

This topic on marketing models is covered in depth in a specific module of this course; however, given its importance and its significant implications for the internationalisation model this section has been included, not so much to review all its dimensions, already expounded in detail in another model, but rather to emphasise that this is one of the points that require special reflection in the internationalisation model: on many occasions it is not advisable to apply the source country model by “copying/pasting” the source market to the international target market.

Figure 39. Market entry models.



- **Direct sales** with or without an office in the country. It may have various gradual entry options:
  - Remote sellers from our country of origin with knowledge of the culture and local languages.
  - Local freelance sellers on commission.
  - Organic growth: opening a sales office or subsidiary.

- Acquisition: purchase of a competitor or partner in the destination country that will allow us to grow in size and gain entry speed.

This option of buying out a local partner makes it possible not only to enter with an established market share, but also to include technologies that can supplement our offering. For example, a partner or ISV can provide a solution that supplements ours or that allows us to consolidate an installed base and market share, often with a consolidated distribution channel.

Also, in the case of an industrial product, we may have access to production and distribution capabilities in the new country that will allow us to gain competitive advantage, either because they are highly cost-efficient facilities or because they supplement our value-added product offering and differentiation.

This acquisitions alternative is therefore very strategic but also entails greater risk, not only because of the required volume of capital, but also because of the dependencies in this new country in the event that the business plan goes wrong. In this case we will have a higher investment level and exit limitations.

- **Partners channel for distribution.** It is a value-added channel that builds and adds value through:
  - Wholesalers, Resellers,
  - Value-added partners (VARs)
  - System integrators

The distribution channel with value-added partners and systems integrators is relevant, since it is not only a way of reaching the market and the customer, but also a way of generating additional value by adding layers of value through technology - additional modules, implementation or support services, training, etc.

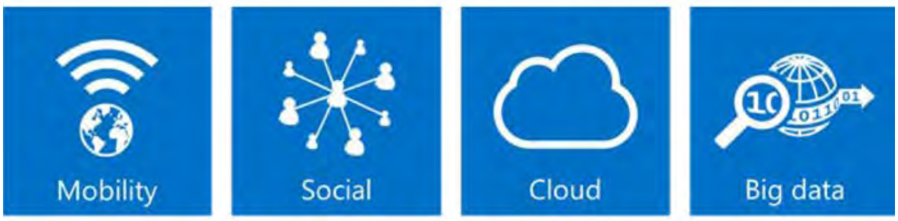
These value chains between collaborating companies can, on the one hand, build loyalty in the distribution channel and, on the other, contribute a large amount of value for the final customer, making it possible to generate a competitive advantage based on the total value of the solution of that chain.

This value layer concept is especially interesting in internationalisation models in which it may be very necessary to add value through support in the local language, adapting our product to the local commercial regulations and practices, etc.

- **Telesales-telemarketing.** It may be local or remote, there are multiple telesales companies that offer coverage in multiple countries with operators who speak different languages. This could be a good support strategy for the Partners channel, maintaining our presence as a brand.

- **Digital Agencies, the opportunity of the shadow IT-bimodal IT and LOBs.** The concept of technology solutions not linked to IT departments is growing increasingly in B2B markets. This idea is piloted above all by mobility technologies, the cloud and big data, which make it possible to develop and implement new business solutions at lower cost and a faster execution time. These technology projects, led by the business areas, are implemented as part of a business campaign that usually includes marketing and communication, in addition to web technologies, mobility or big data that allows us to know the final customer better. These projects, initiated and led by the business lines -not by IT- create new market dynamics and opportunity. For this reason, the sales/implementation channel of these solutions is usually led by marketing and digital agencies.
- **e-commerce online channel.** e-commerce linked to a good digital marketing platform is an excellent way of achieving internationalisation of a product with both low and variable costs, adapting to the growth of our business. This is probably the best expansion opportunity with the lowest investment.
- **Digital marketing strategy:** Both an online channel and a sound digital marketing strategy may be an expansion success factor and a very good way of achieving initial entry in the target country. This will enable not only an online strategy, but also support for the distribution channel, guaranteeing that our product/solution strategy and message are those that we have defined and not the approach that can be given by the local partners and distributors.
- In this regard, it is important to remember that indicated by some studies such as CEB challenger: the consumer purchasing decision process occurs in more than 60% through the assimilation and reflection of online contents. This implies that, in both a direct sales strategy and with partners or distributors, having a digital marketing strategy with a well-defined content tree is another key success factor.

Figure 40. The four drivers of digital transformation.



For many technology startups, internationalisation may be a leverage and acceleration factor using the four digital transformation motors: the cloud, big data, mobility and social media.

These four transformation levers allow us not only to upscale globally at very affordable costs, but also to understand disruptive business model projects, “uberising” an existing industry with a disruptive business model.

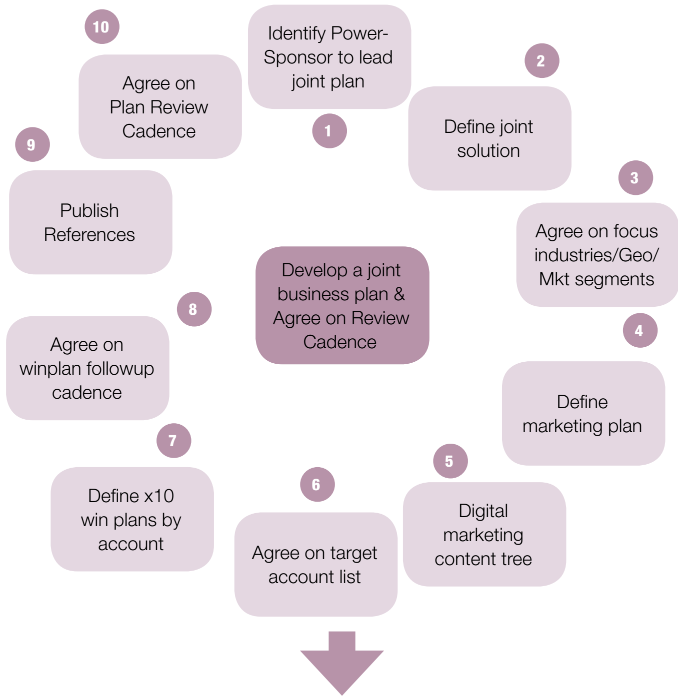
Guide to defining an effective action plan with a value-added partner

Following is a summary table showing a simple 10-step methodology that I have developed and used with partners in the last decade in 12 European countries to develop joint business plans.

This methodology is normally used during a work session in workshop format, in which the 10 steps are developed jointly and progressively.

Figure 41. 10-step model for developing an action plan with value-added partners. Author: Julio Fernández-Gayoso.

My model: Guide to developing an action plan with value-added partners



Partner ecosystem matrix. Geography-Industry-Solution			
Geo/solution	ind1	ind2	inde3
Geo1	Partner 1		
Geo2		Partner 2	
Geo3			Partner 3

7.5.3. Focus marketing efforts on a segment/industry or solution: The “Crossing the Chasm” model

To enter a new market, the FOCUS on an industry-country is key to success.

- The “Crossing the Chasm” model (Geoffrey A. Moore) offers an interesting model for launching new products, especially for technology companies and startups. This a reference model aimed at helping to understand the challenges of entering a new market and the strategies to follow.
- In the “Crossing the Chasm” model, technological or innovative products/services include a different propensity to purchase and adoption in accordance with the type of consumer: from early-adopters to the mainstream market. This model lays down the bases and explains the peculiarities of each consumer segment and proposes different tactics to follow.

Figure 42. The chasm (I). Source: Crossing the Chasm.

- The definition of the “Chasm” concept, which we could translate as “Abyss”, is especially relevant. It is this jump that makes a technology company to sell highly innovative solutions to customer profiles ready to try and experiment new technologies, products and concepts at a very early market stage: innovators or early adopters.

Figure 43. The chasm (II). Source: Crossing the Chasm.

- According to the model, it is in that "Chasm" or abyss where many business projects die. For this reason, it recommends different techniques that can be summarised in the FOCUS, since it focuses on an industry or sector, and in defining the geographic area without trying to approach too many countries at the same time and too industries. This focus in an industry-segment-country makes it possible to consolidate references and successes in customers to create a "beachhead" from which to expand.
- I consider this FOCUS advice highly relevant to a startup internationalisation process. This is one of the most common mistakes made in expansion processes, in some internationalisation projects in which we are over-ambitious in the number of markets to be approached, both from the geographic and industry viewpoint.
- This FOCUS strategy in a geographic region, in a specific industry to achieve rapid success limits the impact market and also the economic and financial risks. This FOCUS strategy also makes it possible to customise the value proposition, references and ROI for a specific industry or segment, ensuring that the quality of our FOCUSED proposition is more effective and convincing. The model proposes that, once commercial success and references are consolidated in this segment-industry-country, said reference be capitalised through a "beachhead" strategy to expand to other market segments or countries.
- This approach also makes it possible to develop a value-added distribution channel strategy that allows us to optimise the value creation and capture model.

7.5.4. Organisational culture and leadership styles in internationalisation

The concept of business and organisational culture, in addition to leadership styles, may seem very theoretical and abstract topics and concepts that have little to do with an internationalisation strategy. However, the organisational culture and management and leadership styles become one of the keystones in international expansions.

Figure 44. Different management and leadership styles.

Directive **Do this...**	**Visionary** **Inspirational**	**Affiliative** **Relationchips**
Participative **Team decision**	**Pacesetting** **Run, Run...**	**Coaching** **Development**

Performing a preliminary assessment of the reality of our business culture and defining the impact of that business culture and leadership styles on the destination country where we want to expand may be vital. The style -for example, "command and control" or "power presence", consisting of being physically in the office for many hours instead of working by objectives and results- can clash with other cultures. How are we going to manage and motivate a remote team we cannot see, when our culture and leadership style are focused on physical presence, on "I know my people because I see them every day"?

Likewise, the "stick and carrot" management style may be common in our business culture but may not fit in with others, especially with remote teams in which empowerment, autonomy and proactivity must be developed.

Additionally, people's leadership style has great relevance in multicultural environments, with multidisciplinary teams and teams from different cultures, races and religions. Managing all these sensitivities requires more sophisticated leadership styles than those which may be effective for a startup born in a specific culture and place.

Goleman's leadership styles model offers a wide range of styles that should be used in combination. It is not about choosing one, but rather applying it in accordance with the moment in time and needs. The fact is that some leadership styles make it possible to motivate and develop a culture of accountability and transparency in remote teams better than others.

Tabla 9. Goleman's six leadership styles.

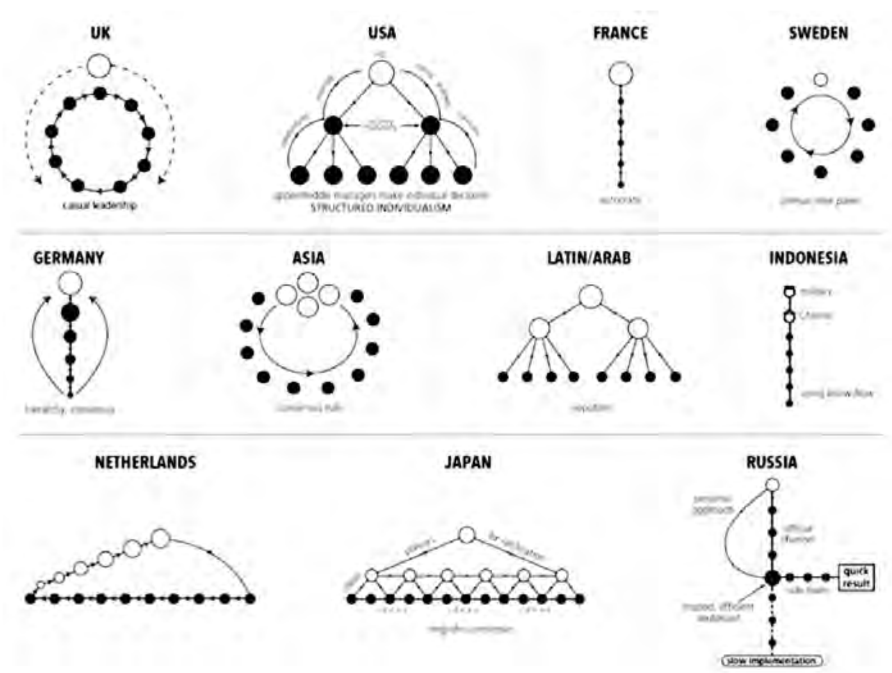
The Six Leadership Styles (Goleman)						
	Commanding	**Visionary**	**Affiliative**	**Democratic**	**Pacesetting**	**Coaching**
The leader's modus operand	Demands immediate compliance	Mobilises people toward a vision	Creates harmony and builds emotional bonds	Forges consensus through participation	Sets high standards for performance	Develops people for the future
The style in the phrase	"Do what I tell you"	"Come with me"	"People come first"	"What do you think?"	"Do as I do, now"	"Try this"
Underlying emotional intelligence competencies	Drive to achieve, initiative, self-control	Self-confidence, empathy, change catalyst	Empathy, building relationships, communication	Collaboration, team leadership, communication	Conscientious-ness, drive to achieve, initiative	Developing others, empathy, self- awareness
When the style works best	In a crisis, to kick start a turnaround, or with problem employees	When changes require a new vision, or when a clear direction is needed	To heal rifts in a team or to motivate people during stressful circumstances	To build a buy-in or consensus, or to get input from valuable employees	To get quick results from highly motivated and competent team.	To help an employee improve performance or develop long term strengths
Overall impact on workplace climate	Negative	Most strongly positive	Positive	Positive	Negative	Positive

Goleman, Daniel "Leadership That Gets Results" Harward Business Review March-April 2000 p. 82-83.

Also, the different cultures of the countries provide clues as to what management and leadership styles work best. For example, it is known that in Nordic countries, particularly Sweden, consensual decision-making -in broad terms, a democratic and participatory style- could fit in better. The following table shows how different countries/cultures respond to different leadership and hierarchical adoption styles.

These country/culture based models are evidently a model, a simplification of reality, because each person and each team may be more or less adapted to an international or local culture. But the truth is that these models help to think about and apply leadership techniques that can be approximated more to a certain culture.

Figure 45. Leadership styles in different countries.



Source-Reference: Richard D. Lewis charted 24 different leadership styles in his book "When Cultures Collide" http://www.businessinsider.com/leadership-styles-around-the-world-2013-12

Furthermore, it is important to consider how the time variable is considered differently in some cultures, for example the concept of quarterly results so in-grained in the Anglo-Saxon and Western culture, does not have the same general application in some cultures in which the time factor may have other dimensions in a negotiation.

Also, the cultural factor must take time zones into consideration. This is how I coordinate activities, processes and systems with countries -for example in Latin America or Asia- which are starting their workday when we are finishing ours; or the weekly schedule, since there are countries where, for example, the weekend begins on Friday and Sunday is a business day.

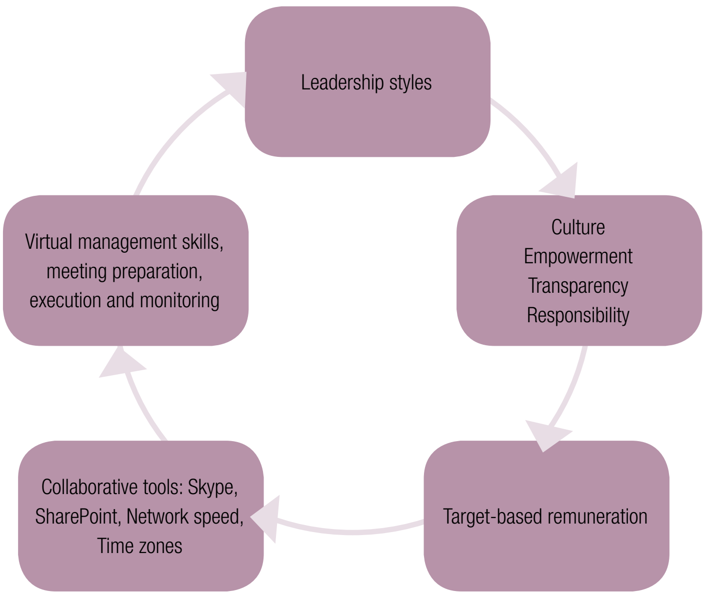
In addition to this factor, there may be significant cultural differences in the work week concept. For example, in Israel or in many Arab countries the weekend is Friday and Saturday, and the work begins on Sunday.

All these factors, considered individually, may seem minor issues, but if the systems, management and leadership styles of remote teams are not considered proactively within our organisation, there may be many disagreements, conflicts and unnecessary discussions that will negatively impact the work climate and bottom line.

7.5.5. Remote team and project management

An additional factor to be considered is what communication and collaboration tools we are going to use and how we can use the different team management and leadership styles in these virtual meetings, in those remote projects, ensuring maximum collaboration and effectiveness while creating a culture of transparency, empowerment and accountability.

Figure 46. Remote team and project management.



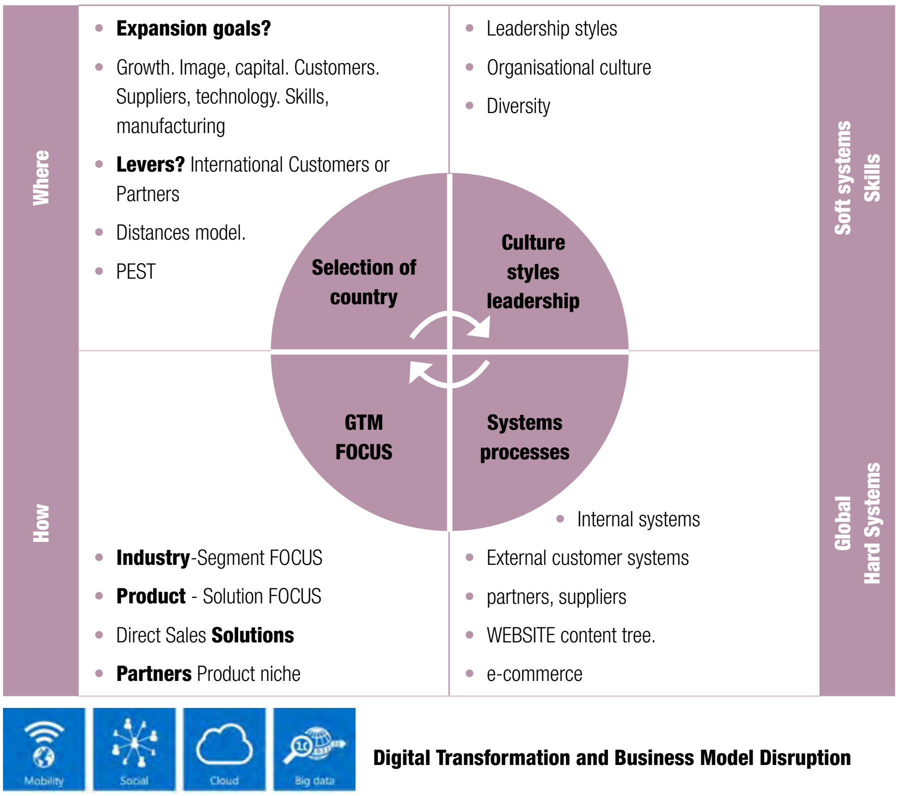
We will expound this point on the modern digital workstation, also called “the modern workplace”, in further detail in another module.

7.6. Possible internationalisation-related scenarios in a startup - reflections for mentoring processes

Summary of considerations and guides

There are different criteria to be considered in an internationalisation plan. We must always reflect on: our competitive edge in our national market and to what extent it can be taken to another market and this includes the value and awareness of our brand. By way of example only, we will enumerate some internationalisation scenarios and the factors that can help us to leverage our strategy to gain positioning and competitive edge.

Figure 47. Summary of case-scenarios and possible reflections for mentors.



- **Is my startup clear about the reason for international expansion?** Let's see some scenarios:
  - **Scenario 1: Internationalisation factor - Existing customers in my country of origin**, with offices or subsidiaries in another country or expansion plans. In this scenario, I expand with my customer. This not only implies entering the new country with references, but also reduces economic and financial risk. Also, this existing customer will be a magnificent source of know-how in the new local market, of knowledge of the new regulations I must take into account, etc.
  - **Scenario 2: Internationalisation factor - Partners of our country of origin** with which we have already worked with good results and which already operate in another country satisfactorily. This partner with which we normally work well in our country of origin will be very receptive to collaborate in this new country, exporting the good practices we have already developed jointly. This is especially true when the partner has developed a solution that provides added value to our solution. It may be, for example, software to which the partner adds a supplementary module that enhances the solution as a whole or an implementation and training solution for our software that provides added value to the customer with a high degree of complementarity.
  - **Scenario 3: Internationalisation factor - Growth of billings and profit.** The goal of growing in terms of billing, sales volume and profit is an important factor in many cases but, as we will see, not the only one. In this case, it is critical not only to make the right decision about the country wisely but also about how I am going to sell and implement the solution using a powerful e-commerce and digital marketing solution or distribution ecosystems and partners of the target country for leverage.
  - **Scenario 4: Internationalisation factor - Search for natural resources, cheap manufacturing or technology/components in a specific country as a basis for growth.** This approach is very normal in industrial companies that use components at a good price and with a production base. China could be a good example. In this point, the preliminary country study and regulations and commercial practices are critical, since once inside we will have exit barriers to cancel the investment.
  - **Scenario 5: Internationalisation factor - Due to the country's image of credibility, access to market trends.** A good example of this is Silicon Valley in technology. Having a R&D office in Silicon Valley gives credibility for accessing VC funds, etc. Likewise, it enables access to the latest technology trends and to US VC that will perceive the company as a potential local investment upon residing in the USA.

- **Scenario 6: Internationalisation factor - Value chain of an important manufacturer.** This may be very common in the components industry, for example automobiles, airplanes or mobile phones, which value and even require proximity to their R&D points or factories.
- **Scenario 7: Country selection guidelines. In addition to the economic potential, minimise "distances".** Start off with a nearby country, in terms of geographic, cultural and idiomatic proximity.
- **Scenario 8: "Don›t try to eat the whole elephant in one bite"** J: Regardless of your product and VC funds, do not attempt to eat the whole elephant in one bite or target too many markets at the same time. International expansion is complex, takes time and a great deal of effort. Measure your strengths and appeal, start small and go step by step.
- **Scenario 9: Focus on an industry-sector - solution.** Launching a new product in another country requires starting from zero both in the launch of the product and the trademark. The recommendation here is to focus on a sector or industry to achieve a beachhead from which we can expand with references and growth. In this regard, the "crossing the chasm" model serves to illustrate the challenge and options to follow.
- **Scenario 10: Commercial strategy and product packaging - value.** Is my strategy to sell directly? Am I going to sell from my country with local teams, with agents or with freelance commission sales representatives? Do I need a value-added channel that will help me to implement or localise my solution? Am I going to build a customer care and support structure in the country or am I going to use partners? How do I foster loyalty in my distribution channel? What is the margin, leaving a margin to create other associated products? Adding services - support - training? This dimension has many implications depending on the product we sell.
- **Scenario 11: Digital transformation creates new opportunities and scaling and growth methods.** Digital transformation and the four big "IT mega trends" of the industry (mobility, cloud, big data, social media and collaborative platforms) create exceptional leverage for startups in their internationalisation plans and disintermediation and disruption opportunities in more traditional business models. And depending on the product -especially software or games- make it possible to sell online with a significantly global approach. For companies born with a very online approach and global strategy such as online apps -for example, SaaS, games, etc.-, cloud technologies, big data and mobility make it possible to undertake global operations at a very low cost, but it is also true that rapid expansion requires a substantial effort in the international support structure - languages, support call centers, product location, etc. Therefore, measuring the movements of this expansion continues to apply.

- **Scenario 12: Management and leadership styles:** Management and leadership style (for example, "command and control", evaluating people "based on the number of hours of physical presence in the office"), taking into account the six styles of the Goleman model, have their strengths and moments of use, but it is critical to adjust them in accordance with the culture of the country and the styles that best fit in with this culture. Likewise, it will also be important to take into account our company's corporate culture to choose the style we will use. For example, if the corporate culture we want to develop pursues empowerment of the teams, transparency and accountability, the leadership style will be very different if the "command and control" style is imposed in our company.
- **Scenario 12+1: Remote team management tools and techniques:** If we work as part of a team based on physical presence and personal meetings, how do I integrate all this with the reality of working with remote teams? There are a multitude of technology tools for remote team collaboration in the area of communication (such as Skype), collaboration and project sharing. In addition to selecting the appropriate tool, it is important to create the soft skills that make it possible to manage, lead and motivate teams remotely. This point is closely related to point 12, but also adds the layer of tools and good practices in the management of remote teams. There are also bad practices to be avoided that, without the appropriate knowledge and training, can be critical to the success or failure of a project.

7.7. Key questions for the mentor

The goal of this section is to endow the mentor with some key questions that induce reflection, with which to structure their thoughts in order to understand and analyse the business proposed by the entrepreneur.

We must firstly consider WHY and FOR WHAT REASONS we want to internationalise the startup:

What are the advantages and opportunities (access to new markets, reduction of risks, credibility, knowledge, access to new resources,...)?

What are the disadvantages and risks (local competitors, ignorance of the market and of commercial practices, country risks, regulations,...)?

Next, we will analyse WHERE we want to internationalise the startup:

What are the distances from the countries where I could internationalise the startup?

What selection criteria should I consider? What countries should I choose?

With regard to the chosen countries, can I perform a PEST analysis to refine the selection?

Should I attack all the countries and all the sectors/industries at the same time?

To do it at the right time, the WHEN of internationalisation:

Have we taken into account factors such as consolidation in the market of origin, financial situation,...?

Do we have a sufficiently mature product?

Can we develop a modular product architecture to foster loyalty to our channel?

Lastly, we will address the model, the HOW of internationalisation.

What does the review of the five sales models of the Go To Market model provide?

It is necessary to focus marketing efforts on a segment/industry or solution?

What does the review of the 12+1 possible internationalisation-related scenarios provide?

7.8. Resources for deepening knowledge

Recommended readings and cited sources

- Robert Grant, Contemporary strategy analysis, Blackwell.
- Geoffrey A. Moore, Crossing the Chasm: Marketing and Selling Disruptive Products to Mainstream Customer.
- Geoffrey More, Inside the Tornado, Marketing strategies from Silicon Valleys Cutting edge.
- Michael E. Porter, The Competitive Advantage: Creating and Sustaining Superior Performance.
- Richard D. Lewis charted 24 different leadership styles in his book “When Cultures Collide”.
- Eric Ries, The Lean Startup.
- Alexander Osterwalder, Business Model Generation.
- Business Evolves, Leadership endures (Russell Reynolds leadership series).
- Matthew Dixon, The challenger sale.
- Keith Rosen, Coaching Salespeople into sales champions.
- Anthony Gioeli, International Business Expansion.

- The management consultant›s manual, Andrés Fernández Romero.
- Covey, Stephen R. The seven habits of highly effective people.

Websites and references

- Madrid mentoring network www.redmentoresmadrid.es
- madri+d mentoring articles blog
- http://www.madrimasd.org/blogs/emprendedores/category/mentoring-para-emprendedores
- Spanish mentoring network. Mentoring Spain. Mentoring articles blog. www.mentoringspain.com
- https://www.cebglobal.com
- http://www.theinnovativemanager.com/crossing-the-chasm-theory-how-to-market-sell-and-improve-your-new-invention/
- https://www.fastcompany.com/1810674/culture-eats-strategy-lunch
- http://labs.openviewpartners.com/the-best-routes-to-market-for-international-expansion/#.V_-cIWya1O9
- https://hbr.org/2013/06/dont-just-create-value-capture-it
- http://www.gartner.com/webinar/3176522/player?commId=184883&channelId=5500&srcId=1-6595640793
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Cited sources and images

- http://www.businessinsider.com/leadership-styles-around-the-world-2013-12

module 8

Investment in the startup development stages

Hermógenes del Real Álvarez

8.1. Teaching goals

The main goals of this module are:

1. Awareness of the main contributions that a mentor may make to a startup in the process of searching for the investment.

2. Awareness of the types of investors in the different startup development stages.

3. Awareness of the key aspects of the investment process that must be taken into account by entrepreneurs and those who influence the decision-making process by investors, at different development stages of the company.

8.2. Introduction to the module

We find ourselves in a situation in which mentoring requires having a clear empathy with the universe of the investment and its expectations. The percentage of failure in startups is very high, even for more experienced investors.

Underlying this fact is that recovery risk levels and non-return probability are very high. For this reason, in the case of decisions made by investors which once taken are irreversible, we must give them expert advice in a balanced manner. This is the essential reason for which the decision to invest is considered to have the greatest importance in the company's beginnings.

The strategic nature of the investment decision arises from the need and interest in analysing it in detail before undertaking it, since its premature liquidation, once performed, may give rise to substantial losses.

In view of this decision, we must consider those aspects that make it possible to increase the probabilities of success as a business, advance smartly, validate hypotheses to reduce risks and enhance the value proposition for investors, whether family members or friends, business angels, companies or investment funds, banks or even government agencies.

Putting ourselves in the investor's shoes is especially relevant for entrepreneurs in search of funding. As will be understood, this type of decisions cannot be taken instinctively, due to which it is essential to have a rigorous analysis methodology that will make it possible to properly perform a full assessment of its viability.

We must put ourselves in the investor's shoes.

8.3. Investor suitability and mentoring

When a mentor advises an entrepreneur or group of entrepreneurs on investors, they must take into account the goals of both parties and ensure that there is mutual interest.

The entrepreneur asks: what investor could be interested in my startup? what interests the investor about my project? At this starting point, a good investor must have the following characteristics:

- The investor must help in the decision-making process. The investor must tolerate ambiguity, i.e. support the entrepreneur even if they are in disagreement at times. A good investor has invested in the team and in the company, due to which their intention is always to help.
- Networking. It may be the most important aspect of an investor. Their contact network can facilitate access to people and companies that help to develop startups.
- Another vital facet of the investor is that of helping to attract talent.
- The investor helps to support the pressure. They understand it. The workdays are endless for the entrepreneur. They do not talk about anything else, but it is a relief to have a shoulder on which to lean on once started up.
- The investor's commitment is exactly the same as that of the entrepreneur, because the investor contributes all its resources to ensure their mutual success.
- The investor must have enough funds to accompany the startup on its journey with more than one round of investment. If the investor does not have enough funds, they can help by facilitating access to the necessary investors in other rounds for different reasons. For example, there are companies that require an unattainable dimension in terms of amount but not in terms of contacts that would help to raise and obtain the necessary funds.
- An investor who has the company's interests in mind helps to understand that reasonable debt is not necessarily bad. And they help to achieve different loans, from both public and private entities, to achieve the most adequate capitalisation and indebtedness structure.

The ideal investor has and does all of the above for the sake of the company.

Attitude is also a key aspect and, therefore, the mentor must know and help to "choose" the ideal investor.

The mentor has holistic vision to see the soul of the investor and the entrepreneur because they must be linked to the rational and emotional aspect and startup of the business.

8.4. Development stages of the company and its investment

The truth is that the importance of finding an investor adequate to the stage of the startup life cycle is usually underestimated.

Being successful in a business entails the difficulty for entrepreneurs of having to grow in a balanced manner and with the appropriate resources to progress optimally.

We can ask ourselves what type of investor we need and at what point they will invest. However, the most relevant aspect, in addition to the two previous aspects, is the amount of money required for the development of the startup.

The development stages, types of investors and amount are:

- Idea or PRE-SEED stage (Investment <€0.1K)
  Does not require a large amount of money. Promoters are usually the main investors. The pre-seed stage refers to the moment in which an idea arises, during which it is necessary to put it into practice and in which the product is often not protected. There are still no billings.
  At this stage, the founders themselves perform the first injection of capital using their own funds and also resort to the known 3F: "*Family, Friends and Fools*."
- PRE-SEED - SEED stage (Investment between €0.5K and €100K)
  In addition to the promoters and 3Fs, there are accelerators and other investors (business angels) which, aside from the local investment culture, invest because, regardless of the risk, the possibilities of success substantially lower the cost of investment at this stage. It is a matter of instinct for businesses.
- SEED stage (Seed Investment <€0.3M)
  When a startup enters the seed stage, it already has the finished product, with a profiled and implemented business model. At this point we already have a team working full-time and we go to market, billings become more stable and recurrent and we can determine the break-even point of the project. At this stage the bulk of the investment made by the business angels which have become involved in the project and also participatory loans and public financing instruments come into play. In Spain, for example, they are granted by ENISA, CDTI (Centre for the Development of Industrial Technology) and other agencies.
- EARLY STAGE (Investment €0.5M-€1M)
  Once we have placed our product or service on the market, sales are the crucial element that will influence the investor's decision. Customer metrics and indicators (business KPIs) take the startup to its turning point. At this point the business plan is mature and complete, in addition to the strategy, the product, the legal form, etc.

- The growth or MID STAGE (>€1.5M)
  It focuses on streamlining operations and upscaling sales and, to this end, an injection of capital and new investments are required. From this moment onwards, venture capital funds come into play.

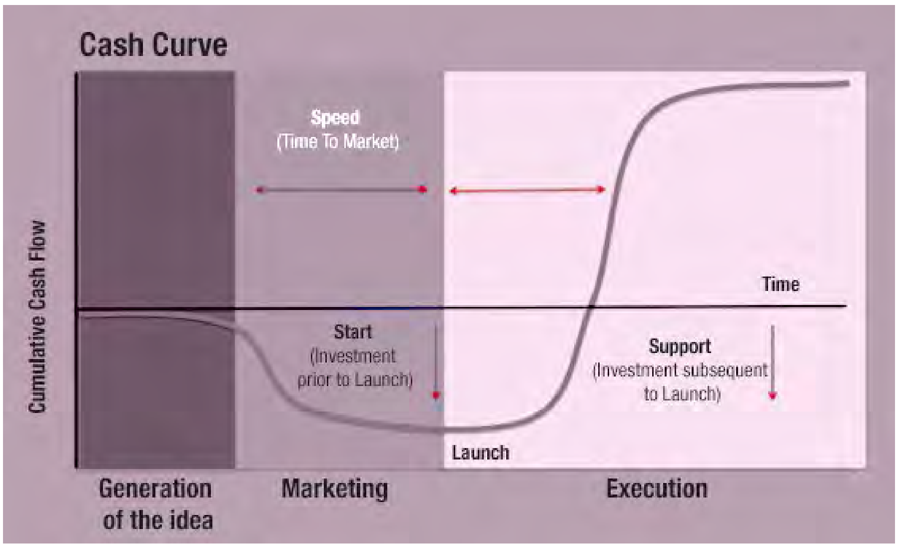
8.5. Mentoring and support for obtaining investment

Helping a company by maintaining a global vision is essential because the mentor has a strong influence and this entails a significant responsibility in terms of what we can contribute to obtain the investment in each of the stages of development of the startup.

Next, the investor and entrepreneur embark on a journey together accompanied by the mentor until defining the final business plan.

This journey takes place through the Cash Curve until defining the business plan, the three stages of which are shown in the following figure: Generation of the idea, Marketing and Implementation. The curve shows the cumulative cash, taking into account all the resources related to the project and estimating income and expenses over time.

Figure 48. Cash curve.



SOURCE: Boston Consulting Group. (2006). Andrew, JP, Sirkin, H with Butman, J. Payback Reaping the Rewards of Innovation. Harvard Business School Press, January 2007.

8.6. Generation of the idea

At the early stages, investment plays a crucial role in companies' future evolution, without which we can hardly overcome the "death valley" and grow rapidly.

8.6.1. The idea

At this first stage, having a sufficiently clear idea of the "business" we want to start up is essential to creating a company with high chances of market success. However, this idea is not only valid at this early stage. The evolution of the business idea will be constantly iterating and innovating, and this can only be achieved by reflecting on the organisation itself and on its possibilities of increasing profitability and persisting over time.

The concept of "business idea" will therefore be completed by the "company project or business plan" but not immediately.

The basic issue at the start is knowing whether there is market value, i.e. if the product or service meets a need of the real world better through an advantage in terms of cost (cheaper), generating more income or delivering faster or to a different place than the current solutions. Notwithstanding the fact that the attributes of the new product or service provision must be clearly better than existing ones.

It is important to bear in mind that the forces installed in the market will not easily cede market share, even if their solution is worse or non-existent. However, customers seek to cover this need and are not worried about other competitors, but will have to reach that market.

At this initial stage the mentor's criterion, in addition to detecting uniqueness, must convince the entrepreneur of the importance of evaluating the protection of the product or of the service provision process through patents, utility models, intellectual property, etc.

The keyword for an investor in relation to a product or service is feasibility: There are products that cannot be made and services that cannot be provided. It is important to know the implications for safety, environment and product design.

Questions for the mentor to contrast the idea

- Is it contextual or structural growth? That is, are the reasons that create an interest in this product/service merely specific or are there reasonable expectations that they will remain over time?
- Does it exist, has it been successfully tested or is it disruptive?

- Can it be patented or protected?
- Is there much competition in the geographic area where they want to start? How does it evolve? Which are the difficulties most commonly encountered? Which are the most significant competitive differences?
- What is the value proposition?

8.6.2. Market research

The importance of the idea is compared to how customers evaluate the product or service and whether or not they perceive that their needs are met. The market analysis is based on secondary databases until we start selling. If an investor wants to invest, we must show them the recipient of the use of the product/service, who buys it, who will pay for it and at what price.

The investor knows that, at this initial stage, the reliability of the data is low and the evolution of the idea, compared to the final result that can be obtained, is highly voluble due to being incipient. The mentor will help to build the trust of the marketing power.

Information that the mentor can compare:

- The potential market, its size and contribution of the product/service to this market.
- Expound the reasons and advantages offered to future customers to purchase the product/service though the value proposition.
- Study the omnichannel retailing proposal.
- Detect the fixation criteria and pricing strategy with comparisons and algorithms.
- Detection of market segments to establish differentiated or undifferentiated sales strategies.

8.6.3. Analysis of the environment

The returns affect the maturity sought by the investor. Knowing the value it provides to customers, the uniqueness of the products and services and the chances that the environment will react to the innovation and the way of managing and organising the company are characteristics of efficiency and effectiveness that the investor seeks.

The mentor's role is highlighted when the entrepreneur is aware of the strategic dynamics of its situation, i.e. they know how to determine the following sequence:

Vision - Mission - Goal - Action

Within the scope of the business strategy, this sequence reveals the business mindset. It is the characteristic sequence that must occur either when a business project is created and implemented or when the strategy is established in an emerging "blue ocean" or highly competitive industry. The mentor must not forget that the analysis of the business environment is currently subjected to the fact that the digital transformation processes that cause any sector be in a constant state of disruption can dynamite the sequence and its normal development, with the ensuing increase in uncertainty and risk.

Comparison questions for the mentor

- What is the market outlook three years from now? What social trend does the project follow?
- Will we be well supplied and with the highest quality technology and products/ services, brand or will they be "free"?
- Can we maintain our positioning with respect to the competition in the future?
- Does the company have the possibility of establishing alliances, contracts and special agreements with other companies?
- How does industry lobbying work?
- How much can I grow and what development can I expect?
- Am I sufficiently informed about seasonality, industry regulations or the existence of stagnated sales?
- Are the contracts adapted to the legislation in force or is legislation non-existent?
- Could there be important changes in legislation in the short or medium term?

8.6.4. The entrepreneur

The entrepreneur or development team, together with commercial feasibility, are usually the most highly valued aspects of investor entry.

The most relevant aspects are those relating to the experience, capacity, nature, commitment and context in which the team is developed.

It is important to know if any close family members are related to the business world, if they know the business to be undertaken, if they have a related contact network and appropriate and accredited training.

The mentor's role often consists of curbing the team's unbounded enthusiasm, because they will usually confirm the viability of the idea instinctively before even starting.

Investors are aware of the excessive risk of some entrepreneurs. Unfortunately, there are "charismatic" people capable of deceiving the people around them for a certain period of time. It is essential to know the personal and professional background of any person with whom we want to undertake a business project. This will avoid many subsequent disappointments.

The capability sought is not only technical and sales-oriented, but also managerial skills and ability to comply with standards and legislation.

They must have sufficient character to overcome adversity (resilience) and physical and mental resistance are crucial to creating a business. Details such as knowing how to fire employees, request a loan, sell, resolve conflicts, build trust, etc.

The investor also expects the entrepreneur to undertake to wait to obtain better results without rushing in headlong and with the support of its allies.

Another highly valued aspect is whether the entrepreneur is fully dedicated to the business and if they have other obligations that can undermine their performance.

The investor expects the entrepreneur to be capable of assuming rationally detected risks and avoid taking excessive risk. The money is presumably loaned by the investor with a single objective in mind: that it is returned with the highest possible profitability and, even better, within the established time frame.

Possible questions made by investors to the entrepreneurial team:

- Do you have self-confidence, perseverance and dedication to achieve the project goals?
- Do you feel comfortable assuming risks?
- How much adaptation capacity do you have?
- Are you very organised?
- What do you think about optimism?
- Do you have management capacity?
- Why must we have innovative spirit?
- Are you market focused?
- Are you capable of detecting opportunities?
- What do you think of intuition?

8.6.5. Assessment of the Business Model

In order to assess the business model we will have to design it first. There will be too many hypotheses to validate. Agile development helps, as a methodology, to put in place a completely different vision:

We must not create the conceived product, but rather conceptualise the business model, detect hypotheses on which it is based and test said ideas on the market as soon as possible, with the objective of discovering a minimum product that will help us validate our value proposition and make decisions.

A tool normally of great use to the mentor, the entrepreneur and the investor at this first stage is the Business Model Canvas, seen in module 6 of this guide, since it is based holistically on the value proposition as a strategic aspect and allows us not only to analyse innovative products or services, but rather is key to making decisions related to alliances, segments and analysis of income and expenses.

Some questions related to the business model include:

- Does it make sense to consider a licensing model?
- Is the entrepreneur aware that if it grows in size he or she will not be the appropriate person to undertake the project?
- Does the entrepreneur have a vocation for sales and selling skills?
- What is the company's risk level?
- What is the return on investment and within what time frame?

8.7. Marketing stage: investment prior to launch

Role of Business Angels as accelerators of the process and development of entrepreneurial projects has its maximum expression during the launch stage. Their mission, as shown in figure 48, is to accelerate improved cash flow in order for the company to advance if accepted by the market.

Agile methodologies are used to validate the idea without need for a formal business plan.

8.7.1. Validation of the customer/problem hypothesis

The business model is full of unconfirmed hypotheses or ideas about what we expect will happen, and the most important hypotheses are related to who the customer is and their problems. If we make a mistake in this regard, the rest of the model will collapse like a castle without foundations.

The company concept is tangible when it is applied to a product/service and its feasibility can be proven and analysed. It is not necessary to develop a product with all high-range features: what's important is to prove that the expected functionalities have been developed and can be manufactured.

During this stage, a first version of the product is developed that will help to validate whether we are meeting the customer's need in relation to our value proposition, i.e. if our solution is adequate for them.

The Minimum Viable Product (MVP) is a initial version of the product that will help to validate the hypothesis of whether the customer appreciates our value proposition. This implies creating the basic model with the minimum elements that will allow us to receive the greatest amount of information on the customer's perception with the least effort.

The investor's money will be used to prove in the real world whether the MVP works and to find customers who will validate all the hypothesis on our idea as often as necessary: if it meets a need, if customers are willing to pay for it, if they like it or if it is easy to use. That is, it is used to measure the results of the experiments and, above all, to learn and change the course in accordance with said information. It is about evolving if we are sure that we have identified the group of customers who have a problem that we can/want to solve.

During this stage, the investor wants to make sure that the entrepreneur knows that the money will not be assigned to paying salaries, but rather to developing the MVP.

8.7.2. Market validation

If we have defined the concept and the minimum viable product, the investor's money will be used to determine scalability through omnichannel retailing which, at this stage, is the main factor on which the investor focuses. The main reason is to attract customers and, to this end, it is important to have reliable comparative information on market behaviour.

For the convergence of interests between the entrepreneur and the investor, the initial concept developed in the Minimum Viable Product must be proven with customers -following Steve Blank's contributions- to see if it works in order to validate all the hypotheses on our idea. If it meets a need, if they are willing to pay for it, if the distribution channels are adequate, if they like it, if it easy to use, etc.

This customer adoption process usually begins with a very small number of customers, but it must be supervised in technology-based companies, which are often guided by mere technical interest, aside from commercial development and real benefits. In these cases, the mentor and investor must detect whether the company is being distorted by overdeveloping the MVP at the expense of developing its customer portfolio and business model.

The results of this process serve to verify and modify our MVP in accordance with said information, modify and iterate until its scalability is validated.

- The following questions summarise the information required to verify the following hypotheses:
- Have you performed a market study such as a focus group or survey?
- Have you validated the empathy map?
- Have you studied the Customer Journey and Emotional Customer Journey?
- Have you validated the Service Blue Print in accordance with the interactions with the customer and back office?
- Have you identified critical factors for the market environment?
- Have you identified the economic and market trends?
- Have you quantified the size of the market?
- Have you quantified the market segments?
- Have you identified the size, growth rate and competition of the market segment?
- Have you analysed the reaction of the competition to sharing the market, the competitive position, product capabilities and resources?

8.7.3. Viability of the business: Validation of the Business Model

As observed in figure 48, the acceleration of income and proper identification of costs and investment indicate that we have arrived at the first major crossroads in the decision-making process. Business angels help us and prepare the moment of entry of large investors and investment funds. These decisions may be irreversible and significant, and the mentor must have sufficient expertise so that the more adjusted the investment in terms of money and opportunity cost, the lower the investor's aversion to risk.

At this point we can analyse the scalability of the business. We will need the following information:

- Time horizon. There is no golden rule, but we must establish a time period.
- Infrastructure, administration and technology support costs.
- Production and marketing effort costs.
- Expected income at the prices detected and validated by the customer.

The break-even point allows us to decide. Should we continue or not? There are times when the idea should be given up from the start. The learning source may have been substantial, but the analysis is even moreso. Although it may seem surprising for an entrepreneur, there are businesses that do not work.

How do we know? Because the size of the market is not sufficiently large to cover the costs or because the price that would have to be applied is so high that customers would not pay it. In this regard, there is a halo of hope when a business model (B2B, B2C, B2B2C, etc.) that does not get off the ground can resort to not expecting gains from financial transactions but rather from the information and volume of data obtained.

We risk living under the illusion that we are emulating Google or Amazon with a business model based on data we will not have and in which investors will not readily invest.

The second decision would enlarge upon the first, i.e. if we do not give up, should we pivot or persevere? We have reached the stage where the analysis of the break-even point tells us whether we have chosen the wrong model, due to which we may have to pivot the business model. This implies either changing and redesigning said model on the basis of the lessons learned to date or persevering further.

The third and last decision would be: whether to be an influencer or be influenced.

The answer lies in creating partnerships with companies that will determine whether we develop our own trademark or leverage the traction of other(s) to develop the idea.

Well-grounded decisions attract the money of investors who know they are assessing the level of risk at the right time.

Investors can be crucial to creating partnerships to obtain sufficient support for disruptive ideas that transgress traditional models, because the goal is to determine the level of income is required to achieve the return on investment requested by founders and investors.

8.8. Execution stage. Launch

At this last stage we must establish a sound basis. All actions leading up to this point have laid the foundations of the business plan, but before drafting and presenting the final version at this stage we need to request substantial amounts of investment that for an entrepreneur are usually unattainable and that will help the investor to decide whether to invest or not.

8.8.1. Functional areas

The information obtained to date is valid. There are many things that are already done and will be included in the business plan, such as the strategic analysis, environmental analysis, definition of the product/service, business model, market validation, break-even point, etc. However, the functional areas still have to be delimited.

The business plan must simultaneously address the production area, the marketing strategy and the organisational structure in order to determine where to invest the money and to develop a balanced financial model of the company.

Production plan

Once technical viability has been achieved with the MVP and the market aspect, the goal now focuses on creating prototype with the information obtained. This prototype seeks to obtain the product specifications, the manufacturing process required and cost estimate.

It is essential to study the supply chain and flexibility of the installed capacity in order to determine scalability and company value.

Marketing plan

The goal is to validate the market opportunity that the customer expects to obtain both in attributes, service station, logistics, supplies, price, market capture and sales plan.

The analysis of the evolution of indicators and customer tracking will allow us to know whether we should invest an advertising to promote our business or not. This is the variable that requires the largest expenditure to test our product on the market and its ROI is more than uncertain. The marketing plan, in written format, becomes a critical component of the final business plan.

Structure and teams

The analysis of the investment project will consist of simulating, as realistically as possible, what could occur if the decision was made to undertake it.

Normally, the development of the prototype and marketing plan will offer alternatives in terms of, for example: people required, size, location, technology and launch calendar. Without forgetting possible subcontracting and the intensive use of teams.

Consequently, a single investment project may be divided into various “projects” for analysis purposes, with more or less marked differences depending on the required casuistry and structure.

Financial plan

The financial plan groups together information from the other areas of the company. If we are looking for an investor, the business plan will need to have a section that includes information on the current value of the investment opportunity, the rate of return, the anticipated funding requirements and return on the investment.

The reason for excluding finance until now is that a wrong decision could be made upon mistakenly rejecting a project that does not easily guarantee future projections due to their uncertainty. In these cases the measurement methods used are based on comparison with other companies.

The necessary investment volume will be determined by the valuation of the company and by its performance once started up.

8.8.2. Final considerations

The first stages of development of the company and its approximation to the mindset of investors until performing the business plan. It is true that the business plan can be defined as the set of priorities (mainly financial) established by the developer of the system called company. In fact, it is usually materialised in a reference document, which requires the approval of all the promoters in one way or another for the investors. This effectively constitutes a policy statement or development plan with the guidelines that must be followed.

Many entrepreneurs rush headlong and are already at the early stage before even protectng the product, i.e. they define a company plan when unnecessary. It does not begin with a company plan but rather with the idea, which is the first step, and by validating market needs, which is the second step.

The market will not do what entrepreneurs want

There are aspects such as those related to the legal structure with regard to shareholder agreements and establishing rights in the rounds of investment that must be prepared and planned. For example, transferring a high percentage to an investor may strangle the company if it needs additional rounds of investment or financing due to the concessions made prematurely and with clauses that may limit their future development.

The most important part of the mentor's role is to know how to distinguish between a "business idea" and a "business mirage". Not doing so could lead to mistakes in the form of companies that excite but do not work. These situations, while shaping the mentor's assessment capacity and experience, it can also undermine his or her self-esteem and that of the entrepreneur.

Key questions for the mentor

An approximation to the financial questions that will be asked by an investor upon analysing the business will be as follows:

- Has the company overcome the deadlock?
- Is the company generating positive cash flows?
- How many rounds of investment does the company need?
- What sales and benefits are expected in the next 3-5 years?
- How long will the company's money last?
- Is it a company designed to be sold?

8.9. Resources for deepening knowledge

Recommended readings

- The Boston Consulting Group Inc, USA 2006.
- Andrew, JP, Sirkin, H with Butman, J. *Payback Reaping the Rewards of Innovation.* Harvard Business School Press, January 2007.
- Blank, S The Four Steps to the Epiphany. 3rd Ed. Lulu 2006.

Additional readings

- Lasa, Carmen et al., Agile Methods. Scrum, Kanban, Lean. ANAYA (2017).

Useful Websites

About methodology

- http://www.venturecapitaltools.com/
- https://www.adventureros.es/

About Business Planning Agile methodologies

- https://javiermegias.com/blog/2013/07/por-que-emprender-ligero-problemas-business-plan/
- https://innokabi.com/

About types of business models

- http://www.empirialab.com/que-rayos-es-b2b-b2c-b2a-b2e-c2c-c2b-g2c-b2g-p2p/

ciencia

module 9

Basic legal concepts for mentoring for technology-based entrepreneurs

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9.1. Teaching goals

The goal of this module is to provide an overview of the legal and/or business concepts that may arise during the entrepreneurial process. Although it consists of offering an overview of certain points, the main legal problems that may arise in entrepreneurial initiatives that focus on the use of new information technologies will be developed in greater depth, both due to their rise and to the widespread 'ignorance' of their potential relevance in certain business models.

This brief section is also aimed at helping to understand the reality of the business from a multidisciplinary and integrating perspective to help entrepreneurs to undertake this adventure/process with a certain level of technical knowledge and solvency with respect to the different real situations in their environment.

However, the purpose of these lines is not to offer guidelines for solving the problems that may arise in this process, but rather endow entrepreneurs with practical and simple tools that will enhance their professional training with effectiveness and usefulness to identify any possible contingencies that may arise as accurately as possible and in the shortest possible time, or have the resources to identify those situations that may give rise to controversies.

Lastly, this text is undoubtedly focused on obtaining general knowledge, albeit not less rigorous, about the problems raised and their possible solutions, which will always remain open and flexible to other reasonable arguments.

9.2. Basic legal concepts for mentors of technology-based entrepreneurs

9.2.1. General considerations

As a starting point, any business decision must include or be preceded by a series of analysis that can be limited to the following:

Business project: The business project must contain at least one analysis:

- Market. Prior to embarking on a project a market analysis must be performed objectively and realistically with the aim of answering the following questions, among others:
  - The project: Falls within a growing market?
  - Belongs to an innovative sector?
  - Are you aware of the degree of competition you will face in the market?

- Administrative problems. Another element to be taken into account consists of identifying administrative aspects such as:
  - Work contracts, agreements, social security,..
  - Permits, taxes, municipal licences,..
  - Insurance.
- Financing. In general, it is the first obstacle to commencing a business project and therefore constitutes a vital point:
  - Do we have enough own resources?
  - Must we seek other sources of financing such as credit facilities or loans?
  - Are there public support measures for which the project is elegible?

Business plan: The business plan is a document which, as a general rule, will include the following points:

- Description of the business or entrepreneurial initiative and its goal.
  - Technical description.
  - Geographical location.
  - Economic and financial structure.
  - Legal structure.
- Definition of the product/service.
  - Needs to be met.
  - Differences with products of the competition.
  - Existence of any rights over the product or service to be marketed.
- Planning and market study.
  - Marketing plan.
  - Establishment of the distribution networks.

9.2.2. The business decision

No matter how difficult it may seem, meticulous planning of the entrepreneurial decision may avoid many headaches in the future. The first step is to decide whether we want to carry out the entrepreneurial process autonomously or jointly with other partners, known as FFF (Family, Fools and Friends).

Once the decision to undertake a business project has been made we must assess, among other aspects, the novelty of the business, the involvement where applicable of the other partners, the trade name with which it will enter the market, etc. For this reason, it may be advisable to sign a document -known in the market as Letter of Intent (LOI) or Memorandum of Understanding (MOU)- in the case of not undertaking the business project alone, among other people who want to become involved in this process.

However, it should be noted that, in any case, the best option would be to request professional advice on the legal form that would best adapt to each type of entrepreneur in accordance with their capabilities, knowledge, circumstances and expectations, since the business project may range from a self-employed professional to a public limited liability company or other civil or special structures.

9.2.3. The letter of intent

The Letter of Intent can be defined as a preliminary contract in which the main clauses that may guide the entrepreneurial process may be regulated. The main goal of these agreements is to establish the parties' intentions, in addition to the commitments they intend to assume in the entrepreneurial process. However, it must be borne in mind that this type of agreements are usually drafted in two differentiated ways.

On the one hand, there are those that only seek to translate a series of intentions of the parties to develop this process in which certain obligations are assumed but which are not binding, i.e. should any of the parties finally not 'act' as agreed, they cannot be legally obliged to carry out the described actions. There are also obligations that are drafted with a binding nature, whereby the other signatories of the agreement may request compensation from the party which does not fulfil the acquired commitments for the damages arising from the breach of their obligations.

As a general rule, this document is not used only by people who want to undertake a business project, but is also widely used by companies as a preliminary document prior to the negotiation of contracts or joint development of projects.

The two clauses par excellence of this type of agreements are the confidentiality and exclusivity clauses. It should be noted that, regardless of the binding or non-binding nature of the document, as a general rule the two previously identified clauses will be binding in nature, i.e. the legally oblige the signatories thereof.

- Confidentiality clause: The confidentiality clause is a clause whereby the parties undertake to maintain secrecy and not to disclose all this information, data, processes, status of the negotiations, etc., that the parties define as confidential information.

- Exclusivity clause: The exclusivity clause is that whereby the parties undertake not to carry out the actions determined therein with third parties (people/companies) for a certain period of time.

It would be advisable for the Letter of Intent to regulate the actions that each partner will carry out to undertake the business project in accordance with the structure decided upon.

9.2.4. Structure

As a general rule, entrepreneurs can choose between the following structures to develop your business:

- Natural persons:
  - Individual Entrepreneur.
  - Joint Property Entity.
  - Civil Society Organisation.
- Legal persons:
  - Business entities:
    - Business Partnership.
    - Private Limited Liability Company.
    - Private Limited Liability Company New Company (between 1 and 5 natural persons).
    - Public Limited Liability Company.
    - Partnership Limited by Shares.
  - Special Trading Companies.
    - Employee-Owned Company.
    - Co-operative Company.

Next, we will reproduce the content, definition and characteristics of the different structures mentioned earlier and which are available on the following website: **http://www.creatuempresa.org/es-es/paginas/faq.aspx**

Individual entrepreneur

The Individual or Self-Employed Entrepreneur is a natural person who regularly, personally, directly, on his or her own account and outside of the scope of management and organisation of another person, carries out an economic or professional activity for profit, employs or does not employ workers.

It is a classic figure in the business world and represents one of the most frequent business structures. It is generally associated with self-employment, since the owner of the company is in turn an employee therein, regardless of the activity and type of work he or she carries out.

When creating a company, this figure is usually selected by retailer outlets (clothes, food, stationery, gifts, jewellers, newsagents, etc.) and by professionals such as plumbers, electricians, painters, decorators, etc.

- Characteristics:
  - Full management control of the company by the owner.
  - The legal personality of the company is the same as that of its owner (entrepreneur), who is personally accountable for all the obligations acquired by the company.
  - There is no differentiation between public equity and private equity (personal).
  - It does not require a previous incorporation process. The formalities are initiated at the start of the business activity.
  - The contribution of capital to the company, both in terms of quality and quantity, is only limited by the entrepreneur.

Joint property entity

A joint property entity is incorporated when an asset or right belongs in co-ownership to various people and forms part of a business activity jointly carried out. We could say that it is the simplest form of association between self-employed professionals.

- Characteristics:
  - In order to carry out the activity, the existence of a private contract detailing the nature of the contributions and the ownership interest of each joint owner in the profit and loss of the joint property entity.
  - Minimum contribution is not required. The contribution can consist solely of assets, but not solely money or work.
  - The joint property entity will be incorporated by means of a public deed when the contribution consists of immovable property or rights in rem.

- Pursuant to the legislation in force, they are deemed to be entities subjected to the special income allocation system of income, regardless of whether they have legal personality.

Civil Society Organisation

A civil society organisation is a private collaboration contract between two or more people who want to jointly carry out a profit-seeking activity through this contract, whereby two or more people jointly invest their capital for the purpose of sharing the profits between them.

- Characteristics:
  - The capital consists of contributions from partners in the form of money, assets or work, services or activity in general.
  - It may or may not have its own legal personality depending on whether their agreements are public or secret.
  - When the agreements are secret, they will be governed by the provisions for joint property entities.
  - They may take any of the forms recognised by the Commercial Code, in accordance with the object for which they are intended.
  - The joint property entity will be incorporated by means of a public deed when the contribution consists of immovable property or rights in rem.
  - Pursuant to the legislation in force, they are deemed to be entities subjected to the special income allocation system of income, regardless of whether they have legal personality. Since 1 January 2016, civil society organisations must file income tax returns when they have a commercial goal).

Business Partnership

A co-partnership in which all the partners, under a collective name and a single company object, undertake to participate, in the established proportion, in the same rights and obligations, and will be secondarily, personally and jointly liable for the company's debts.

- Characteristics:
  - It operates under a collective name or company object.
  - All the partners have equal ownership interests in the company.
  - The company has patrimonial autonomy and covers its debts with its own equity, although the partners will also be secondarily, unlimitedly and jointly liable for the company's debts.

- A collective partner who contributes “assets” to the company is called a “funding partner” and a collective partner who only contributes “industry” (work, services or activity in general) is called an “industrial partner”.

Private Limited Liability Company

It is a type of commercial company in which liability is limited to the capital contributed.

The capital will be comprised of the contributions of all the partners, divided into indivisible and cumulative ownership interests.

Assets or economic rights susceptible to economic valuation only may be the object of social contribution, but in no case work or services.

Shares shall not be treated as securities, nor may they be represented by means of certificates or book entries, nor may they be called “shares”.

Sole-shareholder private limited liability company

It arises in response to the entrepreneur’s individual aspiration to carry out their industry or trade with limited liability to their creditors.

- There are two types of sole-shareholder private limited liability companies:
  - Company incorporated by a sole shareholder, whether an individual or a legal entity.
  - Company incorporated by two or more shareholders, where all the shares have become the property of a single shareholder.

New enterprise private limited company

- Characteristics:
  - It is a speciality of the Private Limited Liability Company (SRL).
  - The company object is generic in order to allow greater flexibility in the execution of the company’s activity without need to amend the company’s bylaws.
  - The company name is composed of the surnames and name of one of the partners plus a unique alphanumerical code (ID-CIRCE) followed by the words “New Enterprise Private Limited Company” (SLNE).
  - Indicative company bylaws may be used to reduce notary and registrar times to a maximum of 24 hours each.
  - There are two forms of incorporation: telematic and in person.

- The company will be governed by the shareholders at the Annual General Meeting and managed by a single person or body.
- It may continue its operations in the SRL form by resolution of the shareholders at the Annual General Meeting and amendment of the bylaws.

Public Limited Liability Company

A commercial company in which the share capital, divided into shares, is comprised of shareholder contributions, which will not be personally liable for the company's debts.

- Characteristics:
    - Its incorporation is formalised through the execution of a public deed and subsequent registration thereof in the Mercantile Registry.
    - The name of a public limited liability company must necessarily include the expression "Public Limited Liability Company" or its acronym, "S.A".
    - It must keep an Inventories and Financial Statements Book, a Journal (daily record of operations) and a Minutes Book, which will include all the resolutions adopted by the shareholders at the Ordinary and Extraordinary Annual General Meetings and other collective bodies of the company.
    - It will also keep a Registered Share Register in which the successive share transfers will be recorded, as well as the establishment of rights in rem and other taxes thereon. The company will only treat as shareholders those who have been entered in the aforementioned register.

Partnership Limited by Shares:

A co-partnership which is defined by the existence of collective partners who contribute capital and work and are secondarily, personally and jointly liable for the company's debts, and of limited partners who only contribute capital and whose liability is limited to their contribution.

- Characteristics:
    - It is a community of law in which the partners do not have ownership interests and have full patrimonial autonomy.
    - The prevalence of the collective partners on the company makes it possible to consider it a co-partnership.

Employee-Owned Company

Private limited liability companies in which the majority of the capital is owned by the employees who personally and directly provide remunerated services therein and whose employment relationship is indefinite.

- Requirements of a company to be classified as an "employee-owned company":
  - The majority of the share capital must be owned by employees who provide remunerated services under an employment relationship for an indefinite period of time.
  - No partner will hold ownership interests representing more than a third of the share capital, unless:
    - the employee-owned company is initially incorporated by two worker-members (each holding 50% of the capital and voting rights) with the obligation to adapt the company with all the legal requirements in a period of 36 months,
    - they are shareholders who are public entities, with a majority public shareholding, not-for-profit or social economy entities, in which case the ownership interest may be higher without reaching 50% of the share capital.
  - The number of hours/year worked by employees hired for an indefinite period of time who are not shareholders will not exceed 49% of the total hours/year worked by the worker-members as a whole. Employees with a disability equal to or greater than 33% were not taken into account in the calculation of these percentages.

Co-operative company

A company incorporated by people who become associated, under free adhesion and voluntary resignation regime, to carry out business activities aimed at satisfying their needs and economic and social aspirations, with a democratic structure and operation.

- Characteristics:
  - Company name: it will necessarily include the words "Co-operative Company" or its acronym "S. Coop.". This name will be exclusive.
  - Headquarters: it will be established in the place where it carries out its activity or centralises its administrative management and direction.
  - Incorporation: the company will be incorporated by means of a public deed that must be registered at the Co-operative Companies Register, whereby it will acquire legal personality.

- Minimum share capital: it will be established in the bylaws and must be fully paid up from the time of incorporation.
- Shareholder contributions: they will be made in legal tender. If envisaged in the bylaws or resolved by the shareholders at the Annual General Meeting, they may also consist of assets and rights susceptible of economic valuation.
- In first-degree co-operative companies, the total amount of contributions from each shareholder will not exceed a third of the share capital, except in the case of co-operative companies, not-for-profit entities or companies in which co-operative companies have majority shareholdings.

After choosing the structure, in the event that we have opted for incorporating a company, the minimum requirements for executing the incorporation and startup would be, by way of example, the following:

- Identification of the shareholders who will integrate the company.
- Identification of the people who, in representation of the shareholders, will be present at the constituent instrument (they must be granted the necessary powers and, as appropriate, adopt the resolutions required by the legislation or internal practices of the country of implementation, if the shareholders are legal persons).
- Name of the company to be incorporated, previously verifying that there is no other company with the same name in the country of implementation, duration and registered office thereof.
- Company object or activity to be developed by the new company (it must be verified that in the country of implementation there are no obstacles to said activity by companies with foreign capital.
- Liability of the shareholders in case of noncompliance.
- Registration at the relevant registries in the destination countries.
- Obtainment of government permits and licences (competent authorities, stock exchange).
- Determination of restrictions on foreign investment.
- Specific approvals for certain types of industries or sectors.
- Notarisation of documents. Language problems.

Once we have defined/chosen the type of vehicle/structure through which to develop the business, we must draft the so-called company bylaws. The company bylaws are a series of rules that will govern the life of the incorporated company. However, it should be noted that not all the structures proposed earlier will require drafting company bylaws (e.g.: Individual entrepreneur).

In this connection, it should be noted that notaries have ‘standard’ company bylaws to facilitate the incorporation process, in addition to additional costs of lawyers to draft them. As mentioned earlier, the company bylaws can be defined as a set of standards and rule that govern the life of the company. These bylaws will be limited by the regulation because, on the one hand, their content will vary between one type of company and another to adapt to the legal framework and, on the other, the wishes of the parties that sign them will be limited to the legality in force.

For this reason, drafting the so-called shareholder’s agreement is common practice. Shareholder’s agreements can be defined as contractual agreement between the shareholders of a company aimed at regulating aspects not included in the bylaws. These agreements are used to grant greater discretionality to the company’s shareholders to regulate their relationships. Lastly, it should be noted that these agreements can be defined at any time during the process, both at the start and once the company in question is operating on the market.

Circumstances may arise where the parties consider it inadvisable to include them in the deed of incorporation of the new company so as not to disclose them to third parties through the Registry. To this end it is advisable to include everything relating to strategy that will be followed at the company incorporated in the country of implementation. These agreement are used, inter alia, to regulate the following aspects:

- Private agreements in the decision-making process or in the distribution of share capital
- Commercial policy
- Financial policy
- Financial situation and solvency of the contributing shareholders/Ways of measuring assets, particularly contributions in kind
- Organisation of the new company
- Profile of the team who will hold positions of responsibility.
- Condition of signing additional contracts with third parties for the incorporation of the company (particularly Industrial and Intellectual Property: licences, transfer of technology, transfer of know-how, etc.)

Following are a series of clauses that must be included/considered in the preparation of the memorandums of understanding or preliminary agreements. They would be as follows:

Responsibility of the parties:

- Business aspects: applicable legislation vs Legal culture.
- Services, facilities, staff, products provided by each party.

- Define asset contribution calendars and service provision levels.
- It is preferable to agree upon viable solutions in practice than to request clauses impossible to fulfil.
- Contributions of the parties in cash or in kind.
- Assumption of costs, demand deposits, employee accounting system.
- Liability of the parties to each other, to the investee company and to third parties.

Term of the contract/pre-contract.

- Legal effects.
- Possible indemnities (normally limited to the contributions made).

Statements and guarantees (reps and warranties):

- Exclusivity agreements.
- Non-competition agreements (during and after the end of the contract/company).

Industrial and intellectual property:

- Protect the distinctive signs in the destination country and at the international level (WIPO).
- Contractually protect the intangible assets that cannot be the object of registration (e.g.: know-how, technology transfer, engineering contracts,...).
- Use of licences (software, trademarks, patents, dual-use goods,...) abroad and manner in which the parties pool them.
- Parties' rights to market or distribute products or services carried out by the investee company Transactions between the parties and transfer prices.
- Exist consequences: distribution of contributions, intellectual and industrial property rights, restrictions to activities carried out in competition.

Verification of the suitability of signing models with recommended clauses:

- Agency, distribution and ICC International Franchising model contracts.
- UNIDO manual-type clauses for drafting mixed company incorporation agreements in developing countries.

Confidentiality

- Data and information flows that will be placed at the disposal of the other party.
- Determine the manner of developing confidential technical information.

Protection of personal data:

- International transfers to countries who do not have a level of privacy protection equal to Spain require a specific contract that includes the standard contractual clauses included in Decision 2002/16/EC.
- Prohibition to subcontract: a contract similar to that defined in the preceding paragraph must be signed with each of the companies participating in the treatment.

Determination of the law applicable to the possible controversy:

- Regulation of Rome and Brussels (EU).
- Subject matter susceptible of submission: requires control of imperative right rules.

Determination of the competent jurisdiction vs arbitration (after mediation):

- Ad hoc.
- Institutional.
- National.
- International Commercial (Execution of arbitrary awards. 1958 New York Convention signatory countries).
- For Investment Protection (Novel and Complex).

Differences between jurisdiction and arbitration:

- Jurisdiction:
  - Drawbacks: diversity of legislations, language barrier, slowness,..
  - Advantages: enforcement of judgement / adoption of protective measures.
- Arbitration:
  - Possibility of appealing to an institutional arbitration with bodies specialising in international commercial arbitration: ICC, CIADI, CNUDMI (UNCITRAL), CIAC, etc.
  - Arbitration chambers specialising in certain industries.
  - Applicable legislation and place of the Arbitration.
  - Advantages: speed, the place of Arbitration may be a neutral or more favourable country for the investor.
  - Greater privacy.

9.2.5. Authorisations and/or administrative licences

Furthermore, it should be noted that, in accordance with the activities that comprise the object of the business, certain administrative licences or authorisations may have to be obtained in order to start it up. In this regard, the casuistry may be very broad, since the need may arise to request from an environmental administrative authorisation to a licence to act as a provider of payment services.

These licence obtainment requirement are aimed mainly at those businesses which have a greater regulatory impact such as banks or insurance, in which the Government takes part, in order to grant a series of guarantees to the potential customers and/or consumers.

9.2.6. Taxation

Another point to bear in mind when undertaking a business project and choosing the regime that best suits out business model may be determined on many occasions by the tax impact that the chosen structure may entail.

Therefore, the tax optimisation of the business will be one of the most important points that must be analysed by a tax expert in order to globally assess the best structure to start up the business.

9.2.7. New technologies

Next, as mentioned earlier, we understand that it is interesting to develop, in general, the potential implications, inter alia, of the intellectual and industrial property and data protection regulations and the law on services of the information society and electronic commerce relative to entrepreneurial initiatives related to the use of new technologies and the Internet.

9.2.8. Intellectual Property

Regulation:

- Consolidated Intellectual Property Law (TRLPI) approved by Royal Decree 1/1996, of 12 April 1996, amended by Law 23/2006, single article, amending the TRLPI of 1996.
- Law 5/1998, of 6 March, implementing Directive 96/6/EC into Spanish law.
- Directive 96/6/EC, of 11 March 1996, on the legal protection of databases.

Intellectual property encompasses from the protection of the brand, trademark, web domain up to copyright.

The legal protection of intellectual property is of vital importance to engage in electronic commercial activities in the so-called “information society”. It is therefore essential to determine, a clearly as possible, the ownership of the rights that can be inferred from the contents and information based on new technologies, whose main characteristic is to facilitate the transmission and wide dissemination thereof.

Elements protected by law:

- Graphic designs (website as a whole).
- Information contained.
- Source code (escrow).
- Software (maintenance: corrective evolution, service level agreements).
- Free software.

The law relating to intellectual property envisages moral and patrimonial rights.

In intellectual property protection, the owner is protected by both civil rights and criminal laws.

Points to bear in mind and actions to be carried out:

- Establish a policy of links to our site, as well as links established from our site to third-party website as utilities or tools for users for the purpose of limiting the potential liabilities that may arise from the linked contents (if they are illicit, they must be removed to avoid liability under Article 17 of the Information Society Services Law) or from the loss of advertising exploitation rights (inline links, if any).
- Protect, through the declaration of reservation of rights, certain company assets against possible uses thereof by third parties. The protection of trademarks, names, logos and contents (images, texts, design, etc.) of the website is a mechanism for providing proof in the event of counterfeit by external and unauthorised third parties.
- Include limitations of liability on the possible damages that may be suffered by the user while visiting our website arising from Internet viruses, as well as the collaboration of our company with the competent authorities against possible illicit or harmful actions against third parties in bad faith (Article 11 of the Law on Information Society Services and Electronic Commerce) and/or cause damages to our website.

Aspects relating to industrial property must be considered equally in the performance of electronic commerce activities. Inventions can be patented and, in the sphere of electronic commerce, patents on encryption and compression algorithms can filed.

However, Article 4.4.c) of Patent Law 4/2015, of 24 July, determines that the plans, rules and methods for exercising the economic activity, as well as software, cannot be patented.

9.2.9. Domain names

Another basic matter to be taken into account by Internet operators is the registration and use of domain names. In this connection, Order ITC/1542/2005 approving the National Plan on Internet domain names under the country code for Spain (".es"), revoking prior Order CTE/662/2003.

- Order ITC/1542/2005), of 19 May, approving the National Plan on Internet domain names under the country code for Spain (".es").
- Flexibilisation of the applicable rules for assigning them, at their three levels, novelties.
- Non-requirement of association between the domain name and the owner. Anyone can request them using names or trademarks of other companies and/or people without prior verification of their legitimacy.
- This does not exempt them from complying with legislation. If a third party claims a domain name with which to justify an association arising from its company name, trademark, etc., the applicant may lose the right to the assignment of said domain name as a consequence of an out-of-court judgement given by a body called ESNIC (Network Information Center of Spain).

Request assessment in relation to:

- Software licensing contracts (custom development, use, distribution, etc.)
- Legal issues associated with the assignment of domain names.
- Provision of services or web-based content.
- Escrow contracts / notarial snippets / click-wrap contracts.
- General protection of intellectual and industrial property: registrations, patentability studies, trademark protection (nomenclator).
- Legal protection of databases.
- Legal issues of domain names.

9.2.10. Data protection

Another aspect of great importance in recent times both in 'traditional' businesses and in those related to the world of new technologies is the processing of personal data arising from the company's operations.

At present, Organic Law 15/1999 on the Protection of Personal Data regulates the processing of personal data of natural persons, obtained by public and private entities in the exercise of their functions, preventing the indiscriminate use of this type of data and imposing sanctions in cases of nonfulfilment of the obligations established therein.

This Organic Law applies to personal data, understood to be any numerical, alphabetic, graphic, photographic, acoustic or any other type of information concerning natural persons, identified or identifiable, and therefore does not apply to data relating to legal persons.

Personal data protection legislation relates to the following principles:

- Data quality:
- Data collection information rights:
- Consent of the affected party and data security:
- Disclosure of data and access to data by third parties:
- The establishment of minor, serious or very serious infringement of the obligations imposed by said Law, penalised with fines of up to €601,012.10.

Another aspect worth mentioning is that relating the disclosure of data that implies an international transfer or personal data, which requires the prior authorisation of the Director of the Personal Data Protection Agency when the destination country(ies) does/do not have a level of protection equal to Spain and are not adhered to the Privacy Shield.

In this connection, it is understood that EU Member States guarantee an adequate level of protection, requiring, in other cases, the corresponding declaration of the Commission of European Communities or the determination of the adequacy of the protection offered by the corresponding country by the Spanish Data Protection Agency.

Notwithstanding the foregoing, it should be noted that, after the approval of the General Data Protection Regulation (GDPR), the current regulation will be amended in relation to data protection. Therefore, all companies must adopt measures to adapt to this new regulation, since it envisages a series of sanctions in cases of infringements exceeded those currently established by the Organic Data Protection Law. It will become effective on 25 May 2018.

9.2.11. Electronic Commerce

Law 34/2002 on Information Society Services and Electronic Commerce (LSSI).

Law 34/2002 on Information Society Services and Electronic Commerce (LSSI), in force since 12 October 2002, which transposes into Directive 2000/31/EC of the European Parliament and of the Council on certain legal aspects of information society services, in particular electronic commerce, in the internal market.

The LSSI considers an information society service to be provided at a distance, electronically and at the request of a recipient of services against remuneration, also comprising those not remunerated by the recipients, insofar as they constitute an economic activity for the provider. In particular, information society services are considered to be:

- Contracting of goods and services via electronic means.
- Organisation and management of auctions via electronic means or of virtual shopping centers or markets.
- Management of online purchases made by groups of people.
- Sending of commercial communications.
- Supply of information via telematic channels.
- Video On Demand (VOD), as a service that the user can select online and, in general, distribution of content at the request of an individual recipient.

The LSSI will apply to information society services providers established in Spain. In this connection, the provider will be understood to be established in Spain when its residence or registered office is in Spain, provided that it coincides with the place where the administrative management and direction of its business is effectively centralised. Otherwise, it will be understood to be the place where said management is carried out.

Also, the LSSI will apply to the services of providers resident or domiciled in another State when offered through a permanent establishment located in Spain.

Consequently, the use of technological means located in Spain to provide or access the service alone will not serve to determine the provider's establishment in Spain.

Notwithstanding the foregoing, the requirements of the LSSI will apply to the providers of services established in another EU or EES State when the recipient of the services is domiciled in Spain and the services affect:

- Intellectual and industrial property rights.
- Broadcast of advertising by collective investment institutions.

- Direct insurance activities.
- Obligations arising from contracts with consumers.
- Lawfulness of unsolicited commercial communications via email.

Principle of free provision of services and exemption from prior authorisation to provide the information society services.

Obligations of providers of information society services:

- Have means that will grant the recipients of the services and the competent bodies easy, direct and free access to identifying information about the provider (company name, registered office, registry data, employer identification number, etc.), about the price of the product (indicating if it includes applicable taxes and delivery costs) and about the codes of conduct to which it is subscribed.

In the case of intermediary service providers, collaborate with the competent bodies in the interruption of the provision of information society service or content removal.

- Obligations to retain data about connection and traffic generated during a service provision.

Determining a specific liability system for information society services providers.

- Network operators and access provider will not be responsible for the information transmitted.
- Service providers which make a temporary backup of data requested by users are not responsible for the information stored, unless they modify it or grant access thereto to recipients who do not fulfil, inter alia, the conditions imposed for such purpose.
- Providers of data housing or warehousing services will not be responsible for the information stored if they are effectively unaware that said data is illicit or, if aware, act diligently to remove or impede access to the data.
- Service providers who provide links to contents or search engines will not be responsible if they are unaware of the illicitness of the activity or the information to which they make reference or recommend.
- The establishment of a specific system for electronic commercial communications, notwithstanding the commercial, advertising and personal data protection legislation in force. Thus, electronic commercial communications must be clearly identifiable, indicating the natural or legal person on behalf of whom they are sent.
- Furthermore, sending of advertising or promotional communications by email or other equivalent means of communication not previously solicited or expressly authorised by their recipients is prohibited.

- The regulation of online contracting recognises effects to contracts concluded via said means with the consent and other necessary validity requirements, not requiring the prior consent of the parties on the use of electronic means. Also, the following online contracting guidelines are established:
- The requirement whereby a document must be writing will be deemed to be fulfilled when contained on electronic media.
- Acceptance in court of documents on electronic media as documentary proof.
- The determination of the law applicable to online contracts will be governed by the rules of private international law.
- A series of obligations are established prior to the start of the contracting procedure, which affects the information that must be provided on the contracting procedure.
- The offerer is obliged to confirm receipt of acceptance by means of an acknowledgement email within 24 hours of receiving acceptance.
- Contracts concluded online in which a consumer participates will be presumed to be concluded at the habitual place of residence. When these contracts are concluded between business owners or professional, they will be presumed to be concluded, in the absence of an agreement, at the place where the service provider is established.
- The recognition of an injunction against conducts contrary to the LSSI that are detrimental to collective or undefined consumer interests and potentiation of out-of-court solution of conflicts.
- The establishment of minor, serious or very serious infringement of the obligations imposed by the LSSI, penalised with fines of up to €600,000.

9.2.12. Online payment

Main issues:

- Security of payments (ssl, net) and conventional payment methods.
- Encryption algorithms (dual-use goods, export restrictions).
- Software licences: virtual POSs.
- Rejection of charges with a credit card made “without the physical presence of a magnetic stripe”.
- Distance sales: requirement of pre-payment as a differentiating element only for a customer and at their request.

Law 281/2002, of 23 November, on Measures of Reform of the Financial System which transposes into Directive 2000/46/EC, of 18 September 2000, on the activity of issuing electronic money, in addition to the prudential control of said entities, which regulates, inter alia, the following points.

- Clearances for regulating specialities in the online contracting of investment services and banking services.
- Electronic money entities.
- Main activity: issue payment methods in the form of electronic money.
- Reserved name (EDE).
- Authorisation by the Ministry of Economy and control and inspection by the Bank of Spain.

In this respect we understand that it would be necessary to request assessment in the following subject matter:

- Virtual POS licensing and sublicensing contracts.
- IT outsourcing contracts for the provision of POS financial services (bank, IT company).
- Service-level agreements for the provision of services.
- Legal assessment for issuing electronic money and establishment of guarantees.

9.2.13. Electronic invoicing

Ministry of Finance Order of 5 December 2002:

- Use of advanced electronic signature systems or any other electronic exchange system that makes it possible to guarantee authenticity and integrity.
- Concept of electronic invoicing: any electronic document that fulfils the issuance and content terms and conditions stipulated in Royal Decree 2402/1985.
- The taxpayers are the users.
- Guarantees of authenticity and integrity.
- Authorisation and use of electronic invoicing systems.
- Filing of electronic invoices.

Order EHA/962/2007, of 10 April, developing certain provisions on electronic invoicing and electronic filing of invoices:

- System of “remittance of electronic invoices”.

- It clarifies that the express consent of the recipient may be written or verbal.
- In those cases where the recognised electronic signature (RES) is used to send the invoice: the certificate of good standing of the issuer of the document must be used (even if issued by the recipient of the invoice or a third party in the name and on behalf of another).
- Invoices received from third countries:
- System of "filing" of invoices sent electronically.
- The issuer must ensure that there are security copies and contingency plans (accident or malfunction).
- Legibility: any format or medium must facilitate the decryption or uncoding.
- Full access and without delay: direct query, full access to the information system (online query).

9.2.14. Taxation and e-commerce

Direct taxation:

VAT - principles:

- Adaptation to current legislation (without new taxes).
- Digitised products: they will be treated like service provisions (not customs).
- Taxation where the consumption takes place.
- Electronic invoicing and registration.
- Simplicity in the fulfilment of formal obligations.

VAT - online sales:

- Principles:
  - Treatment like services.
  - Taxation instead of consumption (use and wear and tear).
- Problem:
  - Who pays the tax?
  - Where does the consumption take place?
  - How is compliance ensured?
- National / international tax plans.
- Electronic invoice recognition plans.

- VAT study / customs / indirect taxes.

Indirect taxation

Traditional approach

- Taxation on worldwide income in the country of residence with deduction of foreign taxes.
- Nature of the income.
- Taxation at the "source" as a non-resident:
- Withholding by the payer
- Easy identification of the tax
  - Domicile of the foreign company
- Application of double taxation agreements.
- Application of exemptions of Spanish legislation.

9.2.15. Concept of permanent establishment

- Amendments to Article 5 of the model agreement of the OECD.
- Distinction between a computer or server, which may constitute a permanent establishment, and the software used by that computer, which may not constitute a permanent establishment.
- Permanence requirement.
- Independence of existence or non-existence of employees.
- Internet service providers do not constitute permanent establishments because they will not generally be agents dependent on such companies.
- The websites through which the electronic business is carried out cannot be classified as permanent establishments.

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module 10

Mentoring for entrepreneurs and coaching. Process, stages, skills and tools

Julio Marco Barroso

10.1. Module goals

This module includes:

- An introduction to the concepts and phases of the coaching process applied to mentoring relationships.
- An analysis of the tools and key elements used in a coaching process, such as the generation of an adequate context and active and empathetic listening.
- The analysis of other tools and key elements of special relevance in mentoring relationships aimed at entrepreneurs, such as the art of asking and incitement to action.

10.2. Introduction to coaching for mentors

With globalisation, uncertainty, competition, new technologies and change in values, our planet is unrecognisable in most aspects; however, in the sphere of teaching, at Universities and Business Schools, evolution has been virtually zero.

They forgot to awaken our talents, to teach us how to manage our emotions, to help us to find the purpose of our life, to make us unique and unparalleled beings.

They forgot to teach us that the answer to everything that happens to us consists of asking ourselves “Why?”, but rather “What for?”. The first returns us to the past, to problems, to justifications, and the second to the future, to finding solutions, to action.

Despite all this evolution, modern-day executives continue to lack what Anglo-Saxons call “soft skills” or “non-technical skills” when they reach the corporate world, because no one has bothered to teach them. It is only once they become executives when companies, or sometimes the executives themselves, must spend a fortune to become leaders, to undergo Coaching to leverage their skills and to potentiate their emotional intelligence, communication, leadership, attitude, commitment and self-esteem.

Coaching was born to fill this void that neither consulting, nor mentoring, nor management, nor psychology can fill.

Throughout this workshop we will work on a global vision of what is Coaching, whose scope of action has grown parallel to its popularity, both in organisations and at particular and personal level.

In essence, Coaching is a transformational learning methodology that takes you from where you are to where you want to go. It is the process of helping people and teams to take their career to new heights, drawing on their strengths and helping them to cross their boundaries and exceed their personal limits until reaching their full potential.

The key to connecting to people is, firstly, asking powerful questions and then listening actively and empathetically. It seems obvious but it is not so easy, as we will see.

We will analyse what is Coaching, what is a Coach, the 11 ICF core coaching competencies that a Coach must have, the Coach's work, its benefits, why it is in vogue, how to carry out a Coaching proces and what tools to use in each of the phases of the process, how to perform a session, the Coach's toolbox, what is a breakdown and when it occurs, what are mind maps, values, beliefs and personal judgements and how to align them with your profession and your life. And, above all, how all this can help you in a **Mentoring** process.

10.3. The stages of the coaching process: the "grow" model

The "GROW" Model is a structured model based on solving problems, setting goals and focusing on results. It is one of the most widely used models in the corporate and executive coaching world. Sir John Whitmore, who died in 2017, is the reference coach used by this method, which we can define as follows:

- ***Goal***

  We will begin by defining a specific goal that must fulfil the following principles: it must be measurable and attainable and, at the same time, achievable and must give rise to a successful experience. To this end, we will ask the following questions: What do you want? What is your goal?

- ***Reality***

  After defining the goal, the next step is to define your current situation. We do this by asking the following questions: Where am I? What would happen if I don't change? What is the cause? What are the consequences if I don't change this?

- ***Options (or Obstacles)***

  Find the options for overcoming the current situation and achieving the goal or objective: What can I do now? What are my alternatives? Analysing the situation: What would be the benefits? What are the costs I am willing to assume? What if...?

- ***Will or Way Forward (Commitment/DECISION)***

  Define and follow the goal-oriented action plan, stimulating self-motivation and establishing the commitment to achieving the set goal: What am I going to do?

How will I do it? When? Where? With whom will I do it? Finding support: What obstacles do I have to overcome? What are the probabilities of success?

In the "GROW" Model we use questions, it is an executive method that is simple, easy to design, use and understand, is valid for any type of goal achievement and to successfully achieve tangible results.

The difference between a wish and a goal is action: What are you waiting for?

QUESTIONS in the different Phases in the "GROW" Model

The questions for analysing the GOAL are:

- **What do you want to achieve in the long term?**
- **What does success mean to you?**
- **How much personal control or influence do you have on your goal?**
- **What could be a significant milestone in the journey towards your goal?**
- **What do you expect to achieve through your goal?**
- **How do you intend to measure it?**

Next, the questions for analysing REALITY are:

- **What is happening now with respect to your goal? When is it happening? Where is it happening? To what extent? With what frequency?**
- **Who is involved both directly and indirectly?**
- **When things go wrong with respect to your goal, what occurs exactly?**
- **How does your goal affect other people?**
- **What have you done on this respect to date?**
- **What results have you obtained?**
- **What is preventing you from achieving it?**
- **Is that what is really stopping you?**

Next, the questions on your OPTIONS:

- **What options have you explored to achieve your goal?**
- **What else can you do?**
- **What would happen if you didn't need money or time or any other resource?**
- **What resources do you need?**

Next, the questions for analysing the DECISION are:

- **What are your success criteria and measures?**
- **When exactly would you like to start and end the path to your goal?**
- **What could prevent you from achieving your goal?**
- **What personal limitations could you encounter?**
- **Who should know your plans?**
- **What support do you need and from whom?**

When a coach works with the GROW Model, they can help the person to:

- Identify their own aspirations.
- Diagnose their current situation.
- Identify their limiting beliefs.
- Recognise their possibilities and available resources.
- Determine the actions they want to carry out to achieve their personal and professional goals.
- Develop will, desire and intention.

Albert Einstein said that there is a driving force more powerful than steam, electricity and nuclear power: the will. It is a known fact that will can change the world and move mountains, but at times that will must be oriented, guided and motivated, which is why your coach can help you.

10.4. Analysis of the key elements and tools used in a coaching process

10.4.1. How to build trust: context and rapport

Creating the appropriate Context

Tom Peters said that, although technical knowledge is essential, trust is key when working with people and organisations. Trust is the basis of everything and one of the best ways of providing it is by creating the appropriate context.

In Capital Risk we say that in order to win the trust of your investors we must firstly fulfil what we say and then fulfil their expectations.

And why is it so important?

Because all our conversations take place within a context and all contexts have an essential influence on the conversation.

We must firstly create the appropriate context, sharpen our axe and have superficial conversations before having in-depth conversations. This will open many doors at personal and professional level.

The greater our ability to create the appropriate context, the easier it will be to achieve the result. This may not be as evident as it seems, because people to not appear to be aware of this and, even if they are, it is not enough to know, we must do. Do you normally dedicate time to creating the appropriate context before and during your conversations? Think about it!

Processes often fail because people do not take it seriously enough, we go too fast and do not take enough time to create and generate this context.

This is also the case of magicians: before doing a trick they prepare all the paraphernalia to prepare the audience. They do not do the trick directly. Or athletes: before practising or competing they have to warm up their muscles to avoid injuries and perform at their best.

The Setting conditions everything. The same applies in a negotiation: you prepare the setting and talk at the end of the meal, but there are preliminary conversations.

The context exerts influence beneath the level of consciousness. It influences the subconscious. Without trust there cannot be effective communication. Communication is deformed.

"One gramme of trust generates one kilo of commitment"

To make a good first impression it is also essential to create the appropriate context. And the first impression completely conditions the rest of the relationship are the foundations that guarantee success.

All communication takes place within a context (everything that accompanies what we say) that has a basic influence, but we are not always consistent with what we want to achieve and the context we choose to achieve it.

The **two key tips** to achieving the appropriate context:

1. Always look for the best place and time for a personal or professional conversation.

   Analyse your sense of timing! Would you ask your boss for a raise when the company is laying off workers? Do you talk about having children on your first date? Where did you propose to your spouse?

2. Do not go directly to the point. A good conversation requires time and effort. You can create context by having superficial conversations that will break the ice and are the perfect starter for an in-depth conversation.

   In short, the context can predispose others in favour or against you. Give it the importance it deserves and learn to create it.

Rapport: Key to creating a climate of trust

Rapport is the first phase to take into account before starting a coaching session. This Rapport phase consists of creating a scenario in which the person feels comfortable and confident, build rapport between them and the coach. The goal is to capture the spoken language (words) and non-spoken language (body language and tone of voice) of a person to make them feel comfortable and communicate better by building rapport between them. To build this rapport, the coach equates their body language with that of the coachee (breathing, position, movements, etc.) and tone of voice, sensitively and respectfully without imitating them. The purpose of Rapport is: **connect to the person.**

To build rapport we do not have to know how the other person feels, just coordinate our body language to synchronise with them. This coordination, a balance is biologically created to bring the person to the coach's turf. If the coach does not build rapport with their coachee, the coaching session will lack order and consistency.

By adopting the coachee's behaviour we achieve two things: first, that the person feels more comfortable and confident. Second, by "putting ourselves in their shoes" we can better understand their viewpoint (visual representation) or their way of feeling things (kinaesthetics) or interpreting reality (auditory), in order to jointly achieve the goal proposed in our coaching action table.

There are channels through which people perceive the world and which are used by the coach to help to connect to them and to listen to them more attentively, thereby respecting their emotions. These channels are: visual, auditory, kinaesthetic or sensory, olfactory and gustatory. The coach needs to detect the channel or channels through which their customer transmits information in order to focus on them and build a good rapport.

***Rapport* using silence:** Silence can be as beneficial as dialogue during a coaching session or during a daily conversation.

Most people need some time to reflect on their answers before voicing their thoughts. Also, while the person is speaking other thoughts may appear due to not having thought about the answer in silence.

When having conversations on delicate matters it is advisable to establish breaks in the conversation. This will allow the other person to arrange his or her thoughts better and also to assimilate new elements that may appear.

One technique is to "Adopt the three-second rule", i.e. wait three seconds to obtain an answer before assuming that your question needs additional clarification, and allow three seconds of silence to pass after the answer before speaking again. The latter helps the person to think about what they are telling us.

The conclusion is that:

"We cannot communicate effectively without rapport"

10.4.2. We listen but We do not hear: active and empathetic listening

"From listening comes wisdom, and from speaking, repentance."
Italian proverb

We will now talk about one of the main Coaching and Communication tools, possibly the most important one because it changes everything, and for which we are hardly prepared.

First of all, take note of this principle: "The success of a good speaker and captivator lies in listening and not speaking". I guarantee that when you master active listening, your power to influence and captivate others grows exponentially.

The Royal Spanish Academy defines listening as: "paying attention to what you hear".

Listening is a linguistic act. It is the first act of Language. However, we spend 64% of our life listening and no one has shown us how to do it. For most people, listening is waiting for the other person to shut up so we can have our say.

How do you learn more, speaking or listening?

When do you make more mistakes, speaking or listening?

Ernest Hemingway said that we take two years to learn to talk and 40 to learn to listen.

"Nature is very wise, it has given man two ears and a single mouth."
Chinese proverb

Listening is not just hearing, it is a much more complex process and, however, we want to do several things at the same time and we cannot concentrate. "You go on, I'm listening..." and naturally, in this way we will not build any type of trust. To listen well, we have to be present. Without presence, there is no listening. And without listening, there are no powerful conversations.

Listening is interpreting what we are perceiving and, to this end, it is not enough to hear words; we must take into account the tone of voice, expressions, gestures, body language, etc., i.e. everything the other person is not saying. Listening to emotions and body language. When we empathise we become the mirror of the other person, involuntarily adopting their gestures, their tone of voice, their breathing, etc. At that moment a rapport is built in which both parties feel closely connected to each together.

Trust is always generated by listening, but we often think about what we are going to say instead of listening. According to famous management guru Peter Drucker:

"Many executives think they are marvellous because they are good speakers, but they don't realise that real success is achieved by listening well".

Listening levels

There are different listening levels:

- **Biological:** it is the physiological type of listening. It is Hearing, which has nothing to do with listening. Most of the time, due to lack of time or interest, or because we do not like what is being said, we hear but we do not listen.
- **Feigned listening:** You are always found out. "You're not listening to me...", "You go ahead, I'm listening", "Right Dad, what did I just say?", "Alright, I'm sorry... can you say it again?". This used to happen a lot with my young daughters before becoming a coach.
- **Selective Listening:** we only listen only to what is in accordance with our beliefs. We disregard the rest. We filter what suits us.
- **Active Listening:** We listen and also ask.
- **Empathetic Listening**: Here we are talking about playing in the premier league. It is the most difficult and the type we use in Coaching. Be careful not to listen to ourselves instead of listening to the other. Like we do in the Coaching process, turn off your internal radio (do not think about or judge what your customer is telling you, or think about what you are going to answer, or what you are going to ask them) and focus all your attention on the other person. When you listen to someone, you must feel that for you it is the most important thing in the world. Moreover, that is how it should be to achieve excellent listening.

What you should do:	What you should not do:
Establish eye contact	Think about what you are going to answer
Take an interest	Judge or argue
Listen with your five senses	Interrupt or finish their sentences
Copy their gestures	Anticipate and guess what they are going to say
Nod your head	Do other things at the same time
Take notes	Provide solutions (only if requested)
Ask related questions	Become restless
Focus all your attention on them	Filter: listen only to what we agree with

Advantages of Active Listening

- Helps to improve our relationship with others.
- Builds trust.
- Stimulates people, since listening to them boosts their confidence and gives them importance.
- Empowers them Makes them feel important.
- Allows you to obtain more information.

Tip: Listen twice as much as you speak. Listen to their silences, their gestures, their postures,... and, in order to always verify that you listened to what they wanted to tell you, verify, summarise it and say: “Let me see if I understood you correctly.”

You will avoid a great many misunderstandings!

Be passionate about what they are saying and you will win their trust and affection.

10.4.3. The art of asking: “powerful questions”

Another great Coaching tool.

In order to ensure effective communication, ask powerful questions that will make the other person reflect, stir them inside, allow them to speak at length,... that require more than a yes or no for an answer. We already saw the importance of questions in the Coaching process, but you must also learn to use them in your personal and professional life (mentoring, consulting, team leading, etc.) if you want to be successful and be a great communicator.

Turn the art of asking into a habit.

What are powerful questions: (USE THEM!)

What for? How is your current life? Which are your most immediate goals? What resources do you have to achieve them? What else do you need? What would be your ideal life? What are you doing to achieve it? What else can you do? What would you like to maintain? What else? What would you like to change? And what else? If you're so interested, why haven't you achieved it yet? How do you see yourself in five years' time? And in 30 years? If you weren't afraid, what things would you do?

What can I obtain from my interlocutor if I ask them the right questions?

- **Information:** your desires, your problems, your situation, your opinion, your needs…
- **Caution:** The person speaking should not become distracted
- **Empathy:** The right questions and good empathetic listening are the best compliment to anyone
- **Time:** For me to think
- **Control:** I accompany my interlocutor down the right path

Personal tip: The key to your success lies in asking powerful questions and listening empathetically.

Why do Coaches ask powerful questions instead of giving advice?

In mentoring for startups, the mentor gives entrepreneurs advice and recommendations, through a strategic role focused on business goals. Also, their advisor role can be enriched by coaching techniques and, in particular, by asking powerful questions.

Questions are generative, creative and provide options, while advice narrows the focus and acts like a funnel.

Questions stimulate reflection and search, help to make us more responsible and empower us. However, advice rids us of responsibility. Whenever we give advice we stand above the other; we are transmitting an implicit message: I do not believe in you, I do not believe that you are capable of finding the answer. Advice generates an energy that disempowers and weakens.

Coaches unlearn to give advice and learn to ask powerful and generative questions, while developing an appreciative and trusting look that says: I believe in you, I believe you have the answers. And then a miracle occurs, the person is empowered, they remain firm and can answer certain questions that make them reflect, look at things from another perspective, find solutions where we only saw problems.

Advice takes away a learning opportunity. The person receiving the advice misses the opportunity to find it on their own. The person giving it misses the opportunity to let go, open up, listen, co-create and possibly learn something new beyond their own perception.

10.4.4. Incite to action: the importance of doing

Action

The W, like we mentioned in the GROW model, makes reference to something very important: Will; also, without will, without action we do not progress, we need our customer's will (coachee), because as a coach I can give you many indications, orient you and guide you, but if I do not have your will, your implementation, the coaching process does not exist. That is why **we must establish a detailed action plan and timing to motivate the coachee and engage them by asking questions such as:**

What are the next steps or the first step you are going to take?
When are you going to start? What are you going to do? How?...

Humans have great resistance to change ("it has always been done that way," we think), normally unconsciously. We tend to fall back on what is familiar, known and can be controlled. Most of the time we know what we have to do but there are many constraints that impede us from doing it (fears, laziness, uncertainty, habits,...). For this reason, one of the most important goals of Coaching is to make the customer aware that they are not acting and **get them going**.

The energy required to change a Habit (unlearn) is comparable to that required to escape the Earth's gravitational pull. Apollo XI consumed more fuel during the first 200 km than during the 400,000 km on its journey to the moon. How to move a stationary car; moving it is initially very difficult but once started up, there is no stopping it.

An exciting goal is required, an EMOTION (reason leads you to conclusions, emotion to action) and ideally someone to accompany you (a coach), to get you going and mobilise all the necessary energy to counteract the strong pull of our entrenched habits.

The problem is that... we know what we have to do but we do not do it.

Don't ask yourself if you know or if you don't know... The powerful question is: "ask yourself if you are or aren't doing it". That makes the difference.

A dream without Action can become a nightmare.

It is not about doing for the sake of doing. We must know how to ACT (there is nothing worse than a motivated useless person; if you don't know, don't touch).

According to Peter Drucker:

"There is nothing so useless as doing efficiently that which should not be done at all."

Another problem is that humans are evaluation machines on the one hand and, on the other, complaining machines.

On the one hand, we look for the meaning of things rather than the solution. We do not act. This leads us to a vicious circle of INACTION. Also, we normally blame others to elude our responsibility.

And on the other, we are full of paralysing fear. The problem is that many times fear... toxic fear, paralyses us and prevents us from acting, taking action. This fear that prevent us from acting is the wall that separates... what you are... from what you could be.

Assertions such as "I'd like to", "I should", "I'll try"... are no good; that is not power, there is no commitment (a decision is not a wish).

Successful people act and make decisions quickly.

10.5. Resources for deepening knowledge

Recommended readings and cited sources

- The inner game of tennis. Timothy Gallway.
- Coaching for performance. John Whitmore.
- The art of coal-blowing. Leonardo Wolk.
- Language Ontology. Rafael Echeverría.
- Coaching: tools for change. Robert Dilts.
- Come with me to Itaca. Julio Marco.
- Co-Active Coaching. Augere.
- *Mentoring* and Coaching. Beatriz Valderrama.

Websites and references

- www.icfespana.com
- www.portaldelcoaching.com
- www.aecop.es
- Coaching Capital. Capital Radio (103.2 FM) Friday 6:30-7:30 pm.
- ICF Professional Coaching Sessions.

module 11

Team management and coaching

Ana Mª Aceituno Alcalá

11.1. Teaching goals

- Understand the different leadership styles.
- Understand the key guidelines of interpersonal communication in teams.
- Analyse the characteristics of the teams as a whole and of the individuals that comprise them.
- Know Belbin's Team Roles model for effective team management.

11.2. Team management and coaching

Teams make up organisations of all types. It is the most natural choice for their operations, just like the human body. However, team management is considered something "soft" in business spheres. It forms part of the skillset, but not of the essence of the organisation in its structure as such.

For an entrepreneur it is key to have a talented team and know how to manage it properly. To this end, they need to know relevant aspects related to:

a) Adapt leadership styles to the company's needs and teams under their control.

b) Basic communication guideline to build trust and a good climate in the team.

c) Coaching tools such as:

- Team Diagnostic Assessment (TDA) to determine the team's productivity and positivity.
- Belbin's Team Roles to leverage the strengths of the team members insofar as possible and improve their weaknesses.

11.2.1. Leadership styles

Tom Peters, author of "Leadership", breaks down the **ten essential things that a leader must do:**

1. **Say "I don't know"** as a strategic part of the leadership vocabulary. Admitting not knowing is a sign of strength.
2. **See** major potential beyond the reigning uncertainty.
3. **Do**, be an action figure, even if we do not get it right the first time.

4. **Fail**, accept that mistakes are the price of greatness.

5. **Weave**, joining people (not giving them orders) is essential in this age of uncertainty and constant change.

6. **Plan**, reach specific agreements for your subordinates. Use the mantra "be a mentor, be a mentor, be a mentor!"

7. **Act**, in a confidence game.

8. **Reduce**, clarify the confusion that prevents you from focusing.

9. **Chill out**, rest, avoid "burnout".

10. **Love**, express your passion for what you do in every possible way.

This author also cites North American psychologist William James when he affirms that the most profound human need is to be appreciated. Respect for people is essential. Most talented people take their skills where they feel most appreciated, because they have many options to choose from.

Appreciation can be understood in many ways: opportunities, economic compensation, corporate awareness of work/life balance, acknowledgement of work,... in short, respect.

All this, added to enthusiasm, will guarantee a very positive work environment for development and high performance.

However, the exercise of leadership is not the same under all circumstances or for everyone. A leader must act differently depending on the experience and level of knowledge of the teams and companies. They must adapt to their reality at any given time.

In his book "Leadership", Tom Peters mentions **three leadership styles**:

- **Leaders who develop talent**.

  Those who establish long-term organisational fundamentals. He offers the example of Jack Welch at General Electric.

- **Leaders who sell hope**.

  This style is based on the cases of Roosevelt, who wasn't a great economist, and Churchill, who did not have an innate talent for military strategy. Their common trait was that they never lost hope in difficult circumstances and times.

- The IPM **leaders** who Peters calls **inspired profit mechanics**.

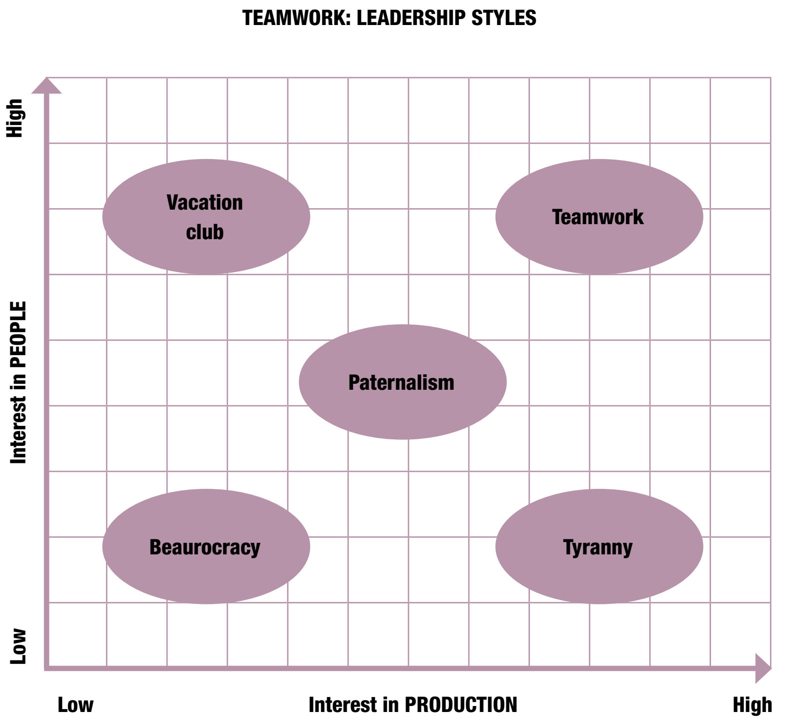
  These leaders draw the most extraordinary conclusions from the most unwieldy and shady datasets of an organisation.

Similarly, these three types of leadership are required: mentor, visionary and operations genius. Peters calls it the **"golden leadership triangle"**, which is essential for all types of organisations.

To this interpretation of the different leadership styles we must add another **vision related to work and relationship**.

In this case, he cites Halpin and Winer as the first leaders who approached the selection of leaders from a group of people with an inquiring mind. On this basis, Blake and Mouton elaborated their famous grid, which is very useful for determining leadership styles.

Figure 49. Leadership style according to the degree of interest in people and results.



1. Impoverished Style

Low interest in personal relationships and low interest in productivity, without greater involvement or commitment in the work.

2. Country Club Style

The leader shows a high interest in the relationship with the team, neglecting production. This implies that there will be a very good work climate, but it may not last long because there is no production and this is inviable for the company.

3. Produce-or-Perish Style

No interest whatsoever in personal relationships and very interest in results. In this case, people don't count, but rather are only work instruments; this situation leads to personal burnout and erodes the organisation.

4. Paternalistic Style

A style more typical of SMEs and family-run companies where the leadership style is highly personalistic and paternalistic, with unformal procedures.

5. Teamwork Style

It implies an exact balance between interest in people and results. Care must be taken with the two variables, starting with considering employees as people.

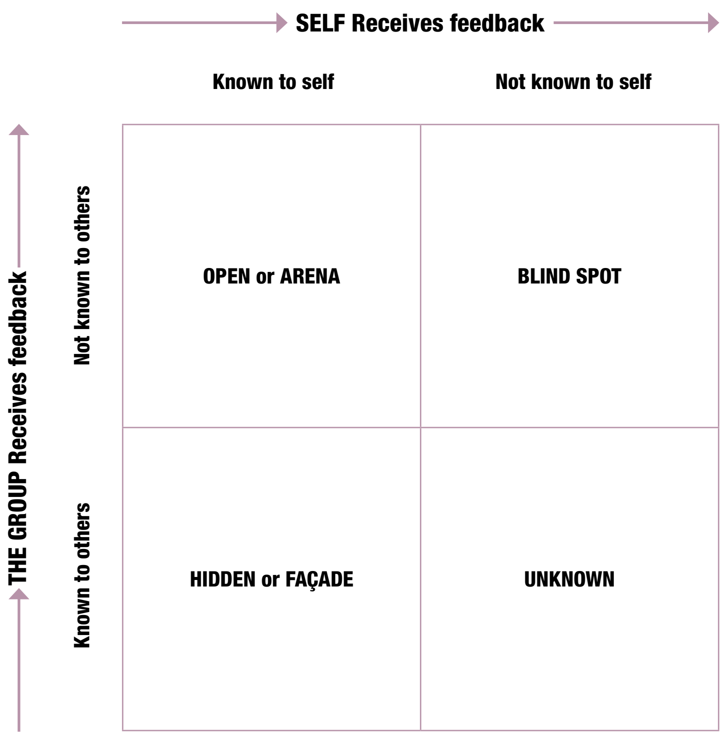
Effective leadership is based on differentiating well between people, in terms of their human and professional components, to supervise them more closely -in the case of junior or incompetent employees- or to delegate based on trust and commitment -in the case senior employees-.

11.2.2. Johari Window

The Johari Window is a cognitive psychology tool developed by psychologists Joseph Luft and Harry Ingham to analyse human interaction processes. This model studies the dynamics of interpersonal relationships to understand and manage communication within a team, seeking to achieve open communication through three processes:

- Opening.
- Feedback and.
- Discovery.

Figure 50. Johari Window.



Communication is structured on four quadrants:

- Two that reflect what others know (open or arena and blind spot) and
- another two that are only known to us (hidden or façade and unknown area).

The open or arena quadrant is the information we share with others through language.

The blind spot is what others know about us but we ignore. It is advisable to minimise this area in teams. It is important for people to request and receive *feedback* and, if necessary, accept constructive criticism.

In situations of confusion and mistrust, it is precisely in this blind spot where a bad teamworking environment can be generated.

The hidden or façade quadrant contains information that is known to us but that we do not tell others because it is not convenient or for fear of not being accepted. It may be past mistakes, etc.

As in the case of the blind spot, the hidden or façade quadrant also constitutes a mistrust area in which there may be conflicts, at least latent.

Lastly, **the unknown quadrant** contains what neither we nor others know in the present. This information could come from situations out of the ordinary.

Based on the above, time must be dedicated to communication within work teams to achieve openness, constructive feedback and discovery.

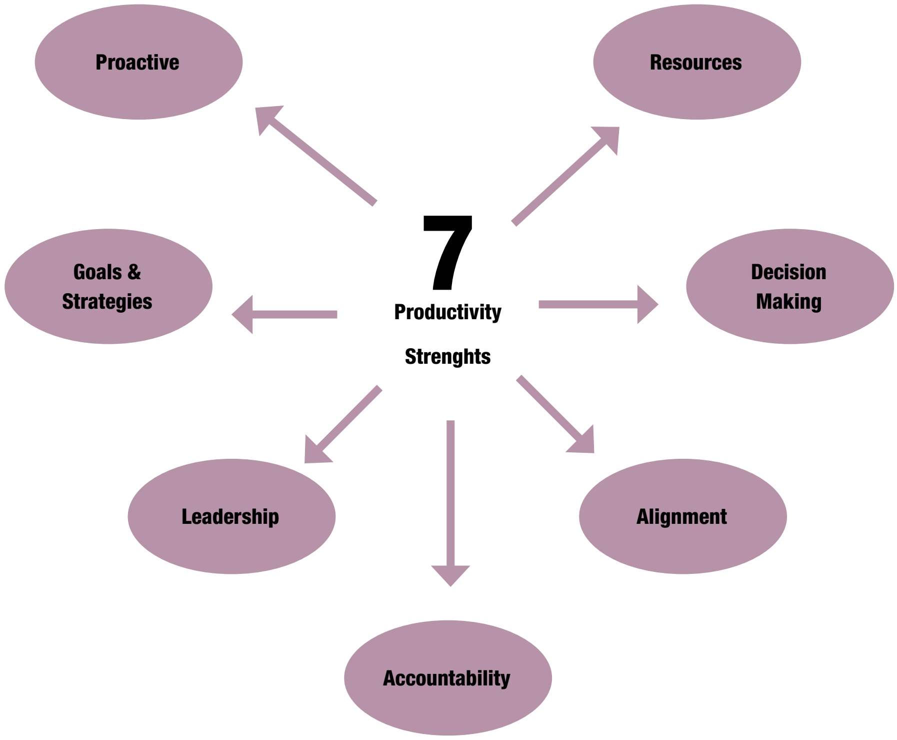
11.2.3. Team diagnosis - TDA (Team Diagnostic Assessment)

One of the many tools used in team coaching is **TDA (Team Diagnostic Assessment)**. It is aimed at diagnosing the situation of a team at any given time, assessing factors related to work, relationships and team climate from the viewpoint of each team member.

Productivity is understood as the capacity to act functionally as a team, analysing the following aspects:

- Team leadership.
- Goals and strategy.
- Alignment.
- Proactivity.
- Decision-making.
- Resources.
- Responsibility.

Figure 51. The seven strengths of productivity. Source: www.teamcoachinginternational.com



Positivity consists of all the necessary processes and relationships to work as a team from the viewpoint of:

- Trust.
- Respect.
- Optimism.
- Camaraderie.
- Diversity of Values.
- Communication.
- Constructive Interaction.

Figure 52. The seven strengths of positivity. Source: www.teamcoachinginternational.com

This tool considers the team as a system with culture and its own rules, with its own identity and expectations of the team as a whole. It takes a snapshot of the team at any given time as a starting point for the coaching process.

From that time, a map is elaborated to begin the team's transformation journey, identifying the variables on which to establish the different steps to be followed.

Figure 53. Figurative map of Team Diagnostic Assessment. Source: www.objcoaching.com

TDA focuses on creating highly productive work teams that are sustainable over time. It provides a pattern of the team's current situation, its strengths and development areas, as well as a work map for developing as highly productive and positive teams, and ensuring that these changes are sustainable over time.

11.2.4. Belbin's Roles Model

In the 1970s, Dr. Meredith Belbin and his team carried out research at Henley Management College, where they studied many teams to discover the reason why some work and others don't.

Their aim was to discover their functional dynamics to determine whether their problems could be predicted and avoided and how.

The study was carried out on international management teams over a period of nine years. Each participant completed psychometric questionnaires to link traits such as personality and behaviour in order to accurately determine their effect on the team.

As research progressed, the difference between the success and failure of the teams did not depend on factors such as intellect, but rather behaviour. The research team identified behaviour patterns or "Team Roles".

The "Team Role" is a tendency to behave,
contribute and interrelate with others in a certain way

Figure 54. Belbin's Roles Model® 2014.

BELBIN®

Description of Summary of Team Roles

Team Role	Contribution	Known Weaknesses
Brain	Creative, imaginative, free thinker. Generates ideas and solves difficult problems.	Ignores daily issues. Too self-absorbed to communicate effectively.
Researcher of Resources	Extroverted, enthusiast, communicative. Seeks opportunities and develops contacts.	Over-optimistic. Loses interest once the initial enthusiasm wears off.
Coordinator	Mature, self-confident, identifies talent. Clarifies goals. Delegates effectively.	Can be perceived as manipulative. Delegates work they have been assigned.
Driver	Challenging, dynamic, performs well under pressure. Has initiative and courage to overcome obstacles.	Provocative. Hurts people's feelings.
Supervisor Evaluator	Serious, strategic and shrewd. Analyses all options and judges accurately.	Lacks initiative and skill to inspire others. Can be excessively critical.
Unifier	Collaborator, perceptive and diplomatic. Listens and avoids friction.	Indecisive in crucial situations. Avoids confrontation.
Implementer	Practical, reliable, efficient. Transforms ideas into actions and organises the work to be done.	Somewhat inflexible. Slow responding to new possibilities.
Finisher	Painstaking, conscientious, anxious. Looks for errors. Polishes and perfects.	Tends to worry in excess. Reluctant to delegate.
Specialist	Resolute, dynamic, dedicated. Contributes very specific skills and knowledge.	Contributes only in specific areas. Overextends on technicalities

This Team Role model is currently used in multiple organisations worldwide. In this manner, we leverage our strength to a maximum and improve our weaknesses. Being aware of the difficulties allows us to avoid them or reduce their intensity.

It should be noted that most of us have a series of **“preferred Team Roles”** or behaviours we perform more frequently and naturally.

We also have **“Roles capable of being assumed”**, which may not reflect our most natural behaviour, but we can learn them in the event that it is necessary to manage the team and achieve results.

Lastly, we have **“less preferred Roles”**, which we must not assume because we would act against our own nature. Consequently, the effort to be made is significant and the result poor.

If the work requires Team Roles different to ours, it is advisable to find and work with other people whose roles are complementary to ours. Since people tend to have more than one preferred role, a team of four could perfectly represent the nine Belbin Team Role.

For further information, please click the link: www.belbin.es

module 12

Communication to stakeholders 4.0, a key component for the success of a business project

Javier Criado Nesofsky

12.1. Teaching goals

- Understand the importance of communication to the success of a business project and analyse the basic concepts of communication as a strategic tool.
- Understand the current context of communication in a world in which all **stakeholders** interact in a competitive digital transformation environment and **Industry 4.0**, with all the tool and trends represented by **Web 3.0**, and at a moment in time characterised by **Digital Transformation**.
- Know the importance of having a communication strategy based on transparency and dialogue with stakeholders and understand the flow of relevant information for each context.

12.2. Communication 4.0: Strategic tool

Introduction

The most characteristic feature of this module on Communication 4.0 is that before even being completed it already needs revision and updating. Such is the speed of change and innovation in the sphere of economics, technology and evolution of social uses that communication mechanisms constantly need to be reviewed and updated. Some conceptual frameworks are more enduring, but much of what we consider updated knowledge becomes outdated and marginal from day to day. Therefore, what follows is “work in progress” and we invite readers to endeavour to stay updated through a constant constructive regeneration effort.

The success of a project depends to a large extent on the entrepreneur’s ability to communicate effectively with relevant stakeholders, from customers and the market in general to key employees and service providers, and investors and other potential funding providers.

All within the broadest framework of the growing awareness that we are living in a globalised and paradoxically small world, and that our individual and collective action generate an impact that directly affects everyone collectively and individually, and that we are becoming increasingly aware of everything almost instantaneously.

The understanding is that Communication 4.0 can be facilitated under the current technological development, new business paradigms and current social trends.

1. Communication 4.0 and its context,

2. What should be communicated,

3. Responsible communication or communication in times of crisis.

“How to communicate” is a major factor, but more appropriate for in-person workshops or collaboration with graphic design experts in general.

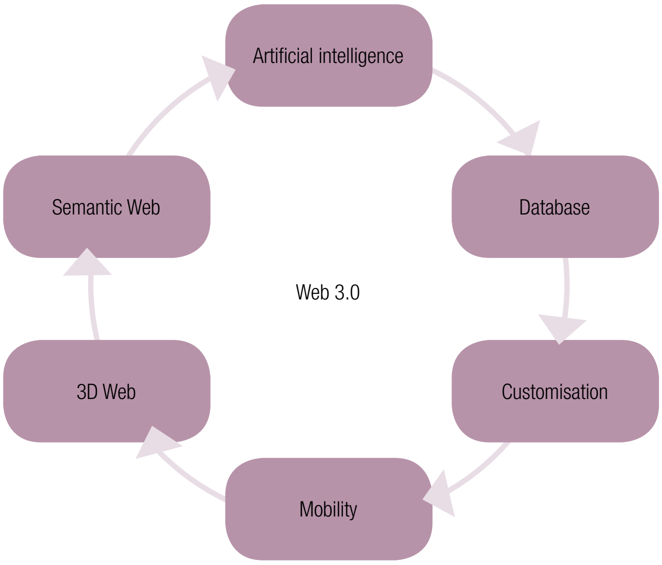
In this module we will outline the first three points that will serve as a framework to include any other relevant information and that is capable in itself of creating a useful communication strategy and, above all, adapted to the features of the project and its development stage.

1. What is Communication 4.0?

Communication 4.0 consists of the techniques and strategies arising from the appearance of what is known as Web 3.0 and that complement the development of the so-called fourth industrial revolution or Industry 4.0. They are a series of activities that serve as a basis for developing projects that will align with and grow under the new paradigm. Communication 4.0 is based more than ever on recognising the importance of a multi-channel relationship coordinated with all the stakeholders of a company or business project. Communication 4.0 is an essential part of any digital transformation project.

Web 3.0 aims to endow the Internet with human abilities and, through new technologies and applications, create social and environmental benefits. Web 3.0 technologies are characterised by the intensive use of data, application of artificial intelligence, appearance of the semantic web and natural language to interact with databases, and emergence of 3D with its applications such as VR (Virtual Reality) or A (Augmented Reality). The expression Web 3.0 appeared for the first time in 2006 in an article written by Jeffrey Zeldman, precursor of standard-based web design, which guarantees that a website can be used with any browser and on any web-enabled device.

Figure 55. Elements of the Web 3.0.



Industry 4.0 is the name given to the Fourth Industrial Revolution, emphasising and accentuating the idea of a growing and adequate digitalisation and cooperation among all economic production agents. The aim of the Fourth Industrial Revolution is the implementation of smart factories, capable of better meeting customer demands and of adapting production processes to current competitive circumstances. The final result is much more efficient use of resources. The main technological bases of Industry 4.0 are:

1. Internet of Things (IoT);

2. Cyber-physical or robotic systems;

3. "Maker" culture (DIY culture);

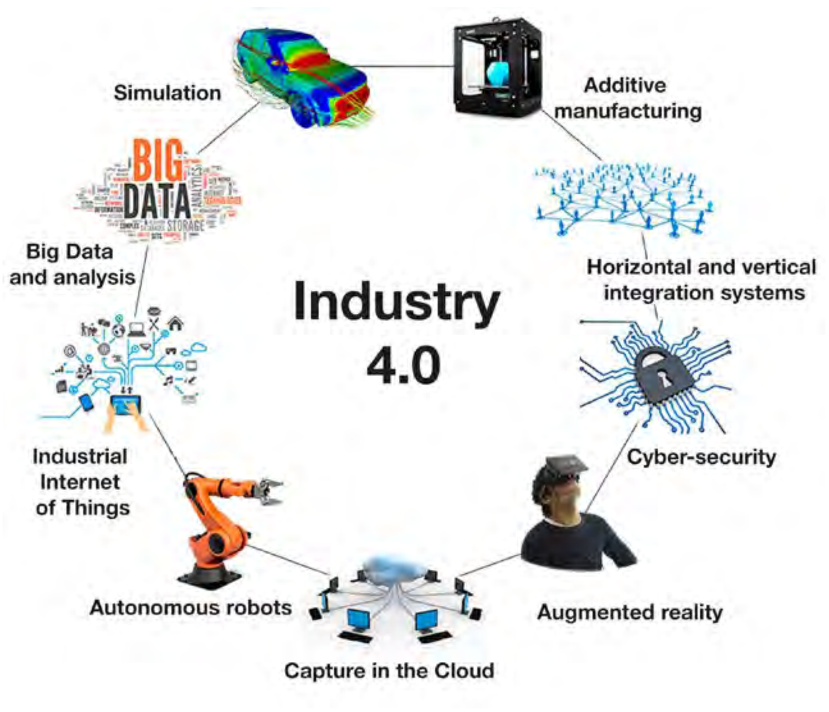
4. Use of software-based simulations of designs and processes; and

5. Use of additive manufacturing or 3D printing.

Industry 4.0 is not confined exclusively to these five points and it is not a consolidated and tested reality, but rather a new paradigm in industrial development that will give rise to significant social changes in the coming years. The intensive use of the Internet and cutting edge technologies with the primary aim of developing smarter and more environmentally-friendly industrial plants and power plants -in short, more sustainable- represents the vision to which the Fourth Industrial Revolution aspires, with production chains that are much more interconnected and aligned with market supply and demand cycles.

Industry 4.0 concept or new industrial structure was coined at the 2011 Hannover Trade Fair for the first time and, in 2013, a detailed report describing the concept and its implications was presented at the same industrial technology fair.

Figure 56. Industry 4.0.

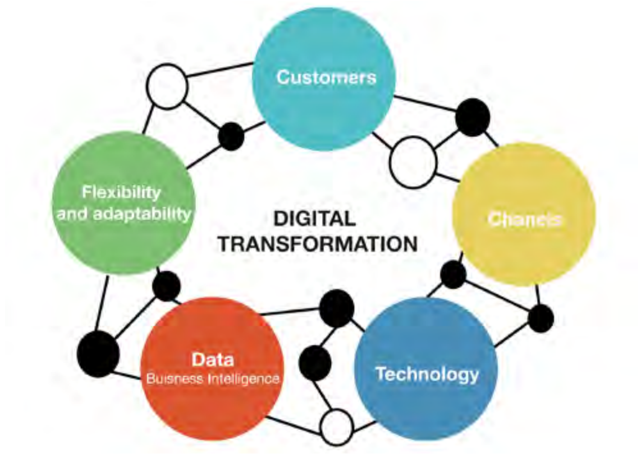


Source: FormaCad.

Digital Transformation

Digital Transformation (**DT**) consist of new business opportunities that arise on the back of new technologies. This approach is not only technological, but also implies new skills both in people and in the reinvention of organisations, and that affect traditional markets worldwide. DT does not focus on the technology used (Big Data, Cloud, Internet of Things, mobility, social business), but rather on using that technology to achieve the company's strategic goals. Digital Transformation must be linked to a company's **vision** and **mission**.

Figure 57. Factors of Digital Transformation.



Source: Delion.

Stakeholders

The term “stakeholder” quickly became popular after being used by **Edward Freeman** in his book: Strategic Management: A Stakeholder Approach (Pitman, 1984), and makes reference to «any stakeholder affected by or that may be affected by a company’s activities». According to Freeman, these stakeholders must be considered essential elements in the strategic planning of a company.

Figure 58. Stakeholders.

The "stakeholder" concept is useful for many reasons. On the one hand, it makes it possible to segment the impact of the economic activity in each of the social and economic agents that comprise a heterogeneous set of markets, corporate ecosystems and society as a whole, allowing a rich and varied understanding of the complex interrelationships between production factors and their interests or motivations.

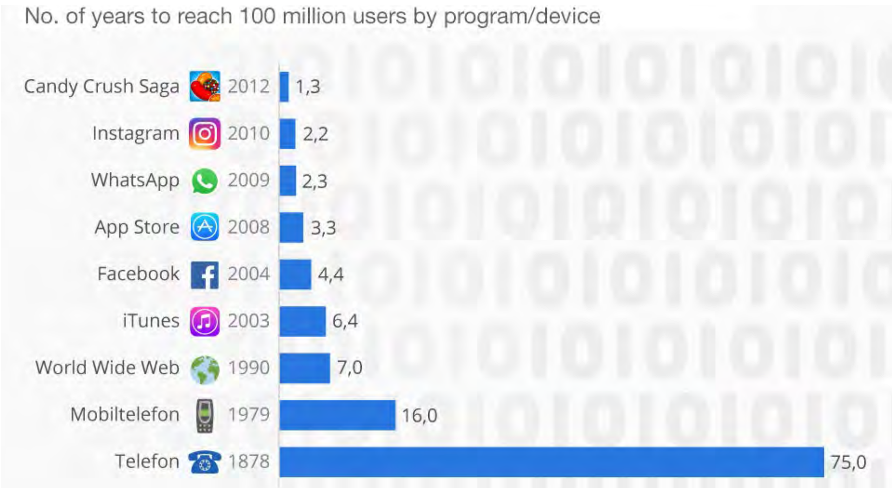
At times, the requirements or needs of each stakeholder are compatible and harmonised. In other cases they are antagonistic and require explicit or implicit negotiation to work.

The two most relevant underlying trends faced by stakeholders are globalisation and increased speed of change.

Globalisation is the result of an increasingly interconnected world. The increased speed of change is a result thereof. Greater interaction, between more connected interlocutors, implies faster change and increased general entropy of the world system.

The increased speed of change processes can be understood by analysing the speed at which innovations or new available products/services have penetrated the market, reaching, for example, 100 million users (see graph).

Figure 59. Market entry speed of some innovations.



Fuente: ©Statista_es. Key issues for digital transformation in the G20.

The increased speed of change and acceptance of new elements in the competitive landscape causes two nearly contrary effects:

1. When a product or service penetrates the market, its acceptance and growth occurs more rapidly.

2. Market leader status quo is under continuous threat and the need to innovate in order not to become obsolete is becoming increasingly urgent.

2. What is it relevant to communicate?

In the current market scenario, the marketing and communication activity is based on an increasingly intense dialogue. The company decides what to communicate in order to define its mission and product and service offering in order to position itself in the minds of the individuals who comprise the market. This process maintains the usual complexity, responding to traditional patterns and also incorporates new patterns related to the boom of social networks and of multi-channel interoperability provided by Web 3.0.

The decision of what to communicate, when and, in principle, to whom, is an internal decision. From that time, the concept of dialogue, marked by new elements such as virality, "**inbound marketing**" or "eyeball hang time" has become relevant and makes messages be amplified, lost or modified, taking on a life of their own.

In a world in which interlocution may be continuous and all control thereover is lost, messages must be clear, transparency high and the need for differentiation more important than ever.

Brands are increasingly more the result of continuous interaction and of premeditated design of messages and interventions aimed at the participation of the individual or consumer agent in a continuous generation of unique, memorable and communicable experiences.

Among all the business communication formats, the most demanding and comprehensive is probably the elevator pitch. The idea, described for the first time by quality systems expert Phillip B. Crosby in his book, "The Art of Getting Your Own Sweet Way" (1981), consists of conveying a clear and stunning idea within a very limited time. Today, the elevator pitch is the essential element of countless events throughout the world, where entrepreneurs meet with investors or other stakeholders and describe their business idea within a limited time of generally between 3 and 10 minutes, using a slide presentation.

The effectiveness of the method for transmitting the essentiality of a project, company or startup in elevator pitch format is so high that it has become the basic tool for initiating the financing process of a very high percentage of innovative companies at their initial stages. At some primordial stage, practically all the current technology giants, from Google to Facebook, from Apple to Amazon, were simply a story summarised in a few slides and told in a few minutes.

The effectiveness of the elevator pitch concept is so high that even the public sector has begun to use it to assign their R&D&i budgets. Since the beginning of 2018, the star programme of the European Union, managed by EASME (Executive Agency for SMEs), to fund innovative projects conceptualised by SMEs (small and medium-sized companies) uses it in its final selection stage. This programme, known as a SME Instrument, invites some 120 projects to Brussels every four months to defend their potential in a format consisting of a 10-minute presentation and 20-minute Q&A.

The template used for this elevator pitch consists of ten slides that summarise all the messages that a company may have or need to convey, regardless of the target audience or stakeholders.

In fact, the European Union proposes **a pitch deck template** very similar to that used by entrepreneurs in any presentation to investors and other stakeholders at any pitching event.

This template, inspired in traditional investor pitch decks used in Silicon Valley, has the following basic structure of ten slides or chapters:

1. *Purpose of the company*
    a. *What is the mission?*
    b. *Describes the company and its purpose in a single sentence.*
2. *Problem / Solution*
    a. *What is the customer's "pain"?*
    b. *Is there currently a need in the Market or an unresolved problem?*
    c. *It describes how its innovation mitigates a pain or meets a customer's need.*
3. *Value proposition*
    a. *How do customers value your product/service?*
    b. *Define and assess the specific benefits your customer obtains upon using your product/service.*
4. *Market opportunity and risks*

   a. *How big is the Market potential?*
   b. *Does it project the market size and share that your product/service will achieve?*
   c. *Explain how your product/service will transform the Market?*
   d. *Draw up a list of main risks faced by your innovation and what will be your response to address them.*

5. *Competition*
   a. *Who are your competitors and what is your position with respect to them?*
   b. *Explain how you will overcome the competition.*

6. *Business model*
   a. *How will you generate sales?*
   b. *Describe your income model, prices, cost structure and when will you begin to produce income and reach the break-even point.*

7. *Marketing strategy*
   a. *What are your plans for entering the market and reach your customers?*
   b. *Explain how long you will take to go to market and give some examples of current market interest in your product/service.*

8. *Financial projections*
   a. *Detail your projection in terms of sales, customers and market needs.*
   b. *How will the funding received be used?*
   c. *Detail the level and origin of the investment obtained to date and how the additional contribution will contribute to the success of the project.*

9. *Team*
   a. *Who are the most relevant members of the company's team and other particularly relevant professionals who collaborate (partners, advisors)?*
   b. *Demonstrate that the team has determination, strength and experience to achieve the commercial success of their innovation.*
   c. *Describe the successful experiences of the members of the team in commercial activities.*

10. *Conclusion*
    a. *Final remarks to convince and remember.*

In fact, all the messages that a company must convey to any stakeholder makes reference and fits easily into at least one of these ten essential chapters.

3. Responsible communication or communication in times of crisis

All communications relative to the corporate social responsibility of a company regardless of its size may be included and is an evolution of its (1) Purpose or (3) Value Proposition. In fact, a small market-breaking or disruptive company does not require the development of a “corporate social responsibility” in the sense in which a large corporation applies it, since its unequivocal contribution to society depends on its mere design and purpose, which can be expressed by (1) Purpose.

Lastly, in one of the most complex circumstances that exist, when a very serious mistake has been made and the concept of “crisis management” comes into play within the framework of Communication 4.0, the steps below must be followed:

1. Removal, as appropriate, of incorrect information or that gave rise to the conflict;

2. Apologise via different channels;

3. Apply the concept of transparency without delay;

4. Open constructive dialogue with all the interested parties; and

5. Take responsibility and show commitment to compensation.

12.3. Resources for deepening knowledge

Recommended readings

Books

- Botella, Fernando, “Welcome to the Revolution 4.0: Everything you need to know to triumph in the digital era”, Alienta Editorial, May 2018.
- Frederick, Peter, “Persuasive Writing: how to harness the power of words”, Prentice Hall- Pearson, March 2011.
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For an entrepreneur, having the opportunity to find answers to their questions can mark the difference between avoiding or not avoiding big mistakes, between managing or not managing their startup more effectively and with better bottom line results.

Mentors can provide business management contacts or knowledge of professional or personal skills that could prove essential at a certain point of the startup life cycle.

Networks such as the **madri+d Mentoring Network**, leader of quality mentoring, facilitate this approximation. Also, the **madri+d International Business Mentor Certification** contributes to driving and managing mentoring networks and programmes more effectively.

This certification guide consists of twelve easy-read training modules which include techniques and tools in the most relevant knowledge areas, both for entrepreneurial mentors and for entrepreneurial support programme managers.

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