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Analysis of Entrepreneurial Qualities and Preparations Influencing Success and a Business Plan for the Startup Company MODD Products

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Analysis of Entrepreneurial Qualities and Preparations Influencing Success, and a Business Plan for the Startup Company MODD Products

by

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Submitted in partial fulfillment of the requirements for Honors in the Department of Economics

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ABSTRACT


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Entrepreneurship is crucial to the economy at large and within local communities; entrepreneurs are responsible for developing innovative products and services to meet consumer needs, as well as creating jobs.

The primary purpose of this thesis is to develop a business plan for a startup company, MODD Products. The plan's specific sections are included based on reasonable evidence that they are necessary to creating and running a successful startup. A core ideology, description of the company's first product line "MODD Cocktails", review of the industry and competition, target customer profile, and marketing strategy will all be included in the MODD Products business plan, among other sections. Additionally, this thesis explains the economic importance of entrepreneurship and explores which specific strategies or qualities of an entrepreneur are associated with successfully creating a new company.

Literature discussing business plans and models, determinants of entrepreneurial success, and characteristics of both failed and enduring companies will be analyzed to determine what to include in the business plan. Additionally, this analysis will provide insight as to what strengths and weaknesses I, the entrepreneur, possess that will influence the success of my startup company.
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CHAPTER ONE

INTRODUCTION

Real-World Examples:

Roxanne Quimby went from living without electricity in rural Maine to earning over $300 million as owner and founder of Burt’s Bees. She grew the company from a $200 a weekend crafts fair/flea market business into a multi-million dollar corporation. It all started when she bought honey from a local producer, Burt, and saw a business opportunity – the rest is history. She started small, using her personal skills and values to create products, and slowly grew her business keeping in line with her values of preserving and living in harmony with nature. At first she began using beeswax to make homemade candles and sold them to tourists. Next came the beeswax lip balm, and then came the natural skin care products. The success of her company came as a result of never losing sight of what she considered important in her life, a willingness to take risks and chances, and staying true to her core values and beliefs (Michaels 2010).

Of course, not all entrepreneurial ventures turn into successes. One case in point is the tech company “Devver”, who was forced to shut down after just two active years. This is a story of a startup failure. The co-founders of the company attribute the failure to their inability to focus enough on one of the most important parts of building a startup: customer development. The company paid more attention to product development than listening to customer’s needs. One founder admits, “We should have been asking, ‘is there an even simpler version of this product that we can deliver sooner to learn more about pricing, market size, and
technical challenges?” Other hurdles arose from both co-founders lacking an excitement about the business aspect of running a startup, and that the team was split and located in different states (Cameron 2010).

Economic Context:

Entrepreneurship is an important subject as it plays a crucial role in the economy both on a microeconomic and macroeconomic level. The Kauffman Foundation, which aims to spread an understanding of the powerful economic impact of entrepreneurship, offers insight; “Economic growth in the United States requires continued entrepreneurial innovation...new firms play a central role in developing and commercializing the radical technologies that provide the underpinnings to new ways of doing things and enjoying life” (Kauffman Foundation July 2007). Furthermore, “in the last century, innovations which have changed the social and economic landscape in the United States and in much of the rest of the world, such as the automobile, airplane, air conditioner, the personal computer and its operating system, and, most recently, many of the leading Internet-based business models, all were commercialized by entrepreneurs”. To get over the recession, we must experience considerable economic growth, which “will require continued entrepreneurial innovation...ideally, much of that innovation and entrepreneurship will take place here in the United States, where it historically has occurred” (Kauffman Foundation July 2007).

Thus, not only do entrepreneurs create new jobs and stimulate innovation, but they also play a big role in fostering economic growth. As Professors Harold Fried and Loren Tauer write, “the entrepreneur is critical to the vitality of a market
economy...as consumer wants, resources and technology change, opportunities emerge for firms to produce new products and services”. While entrepreneurs are motivated by economic profits, “over time, competition erodes profits [and] consumers benefit as the economy's scarce resources are ‘automatically’ reallocated to areas in which they generate the most benefit”. In other words, “the private self-interest [of startup firms] serves the social interest” (Fried and Tauer, 1). On a broad scale, entrepreneurs create benefit for the overall economy as they reallocate resources efficiently to meet current consumer demands, which then increases people’s happiness.

On a deeper microeconomic level, in a competitive market “decisions about entry and exit depend on the incentives facing the owners of existing firms and the entrepreneurs who could start new firms...if firms already in the market are profitable, then new firms will have an incentive to enter the market” (Mankiw 2012, 266). One reason why firms enter is if demand for a good increases, as they would see existing firms making positive profit in the short-run. Or, entrepreneurs may see a potential demand for something, create a business to meet this future demand, and achieve short-run profits.

As generated short-term profit encourages new firms to enter, the increase in supply will drive down prices and consequently drive down profits, so that in the long run after much entry and exit, “firms that remain in the market must be making zero economic profit” (Mankiw 2012, 267). This zero-profit equilibrium, however, includes the opportunity costs of production that have no involvement with the outflow of money; “in the zero-profit equilibrium, economic profit is zero, but
accounting profit is positive” (Mankiw 2012, 269). See Appendix, Exhibit 1 for graphs detailing market and firm responses to an increase in demand in the short run and long run.

It is notable to understand that “the adjustment of resource allocation in response to the appearance of profitable opportunities does not just happen...it requires an entrepreneur to act, and not all entrepreneurs are equally successful” (Fried and Tauer). There are a number of challenges facing entrepreneurs, as well as certain key determinates of successful ventures, which will be discussed in this thesis.

“Success” Defined:

A “successful” entrepreneurial venture may be defined in a number of ways: making it to a certain number in years of existence, generating “X” amount of revenue, company expansion, and so on. For the purpose of this thesis, from here on “success” will be defined as “that stage [that] occurs once the firm is established in its market” (Green and Katz 2007, 579). Startup firms go through a life cycle: emergence, existence, success, resource maturity, and takeoff. The “success” stage comes after the “survival” or existing stage, defined as “having the business in operation” for the first couple of years. In the success stage, “firms show consistently growing financial performance, usually with slowly rising sales...firms at this stage develop the information, skills, and most importantly the routines to grow the business’s profits...for most, this is a stage that lasts a long time” (Green and Katz 2007, 579). Thus, “success” will refer to the company existing for at least one to two years, and starting to see profits.
Challenges for Entrepreneurs:

I am passionate about successfully starting my own business and am excited by the challenges I will face in building a company from the ground up. I want to create a product that will somehow better other people’s lives, and I want to make an impact on the world.

Unfortunately, odds are against me. On average, 75% of new businesses, products, or services fail and are discontinued within two to five years. This means there is only about a 25% probability of success with a new product, service, or business concept. Author Doug Hall writes, “most business owners would have a greater probability of success if they went to a casino and gambled their investments” (Hall 2001, 4). Data from the U.S. census reveals that 97% of all businesses have less than $1 million in sales per year, 69% of owners report annual personal income of under $50,000 per year, and 60% of business owners with employees work over forty hours a week (Hall 2001, 7). General issues with startups include: a misunderstanding of target customers and their needs, not appealing to a big enough market, being overly and unrealistically optimistic in expected costs and potential revenues, trying to “reinvent the wheel”, having insufficient funds, lacking a good business model, or trying to do too much too soon. Additionally, there are certain determinants (both in and out the individual’s control) that influence an entrepreneur’s success, including access to external resources, geographical location, education, or experience. These determinants will be analyzed further in the next chapter and used to evaluate the probability of my personal success as an entrepreneur.
On Business Plans:

In order to enhance my chances of creating a successful company, I want to create a successful business plan and business model. Many people have written on this subject of what to include in a business plan, what not to include, how to organize it, how long it should be, etc. For example, Entrepreneur Magazine online suggests separating the plan into three specifically structured parts: the business concept, marketplace section, and financial section. These three parts should then be broken down even further to include such sections as the business description, market strategies, a competitive analysis, development plan, and financial components. Alternatively, McKeever (2010) lists over twenty elements a complete business must have, starting with a problem statement and business description and including parts such as a marketing plan, sales revenue forecast, capital spending plan, future trends, potential risks, and specific business goals.

Furthermore, Harvard business professor William Sahlman offers a different, more creative approach to creating a business plan and says, “Sometimes, the more elaborately crafted the document, the more likely the venture is to flop”. The problem with most business plans is that “most waste too much ink on numbers and devote too little to the information that really matters to intelligent investors...Moreover, few if any entrepreneurs correctly anticipate how much capital and time will be required to accomplish their objectives” (Sahlman 1997). Sahlman recommends following a framework that instead of providing “the kind of ‘winning’ formula touted by some current how-to books and software programs...[this framework] systematically assesses the four interdependent
factors critical to every new venture”: the people, opportunity, context, and risk and reward.

*Preview of Thesis:*

In my thesis, I will write a business plan for a startup company *MODD Products* and will explain the relevance and importance of each section. I will draw on the different approaches to writing a business plan to make it as unique and interesting as the product I am trying to create. I hope that from my business plan and research I will be able to attract investors and bring my idea to fruition.

The next chapter will be a review of existing literature on how to develop a successful business plan, how to run a successful company, and determinants of successful entrepreneurial ventures. Chapter 3 will be an introduction to the business plan for *MODD Products*, including the company’s core values, product description, value proposition, target customers, and the resume section explaining my relevant personal abilities and experiences that will help the company’s success. Chapter 4 will be a review of the market, industry and competition, including a description of the category I intend to compete in, strategy to enter the market and grow, current industry state and trends, and a review of the competition. Chapter 5 will discuss the company’s operations: resources, activities, partnerships, and distribution channels that are involved with getting the product into customer hands. Next, Chapter 6 will discuss the costs and revenue structure for the business as well as a “Path to Profits” plan of attack the company will follow to make money. The final Chapter 7 will then be a conclusion describing what my next steps in the startup process will be.
CHAPTER TWO

REVIEW OF EXISTING LITERATURE

This chapter will discuss existing literature that addresses what factors may determine entrepreneurial success, both on the individual entrepreneur's level and the startup company as a whole, and what is most important to include in a business plan.

*Advantageous Strategies for a Startup Company to be Successful:*

*Outsourcing:*

Besser and Miller (2010) used data from interviews with small business operators to explore the relationship – mutually beneficial or disadvantaged – between small business suppliers of goods and services and their customers. They begin by setting the study in an economic context, explaining that “outsourcing of operations from large business to small business suppliers has become a prominent feature of the new global economy…depending on the perspective, small businesses are either primarily generators of jobs, flexibility, and innovation in the new economy, or, due to the power advantage of large corporations and the current popularity of outsourcing, the unwilling recipients of risks and costs externalized from large corporations” (Besser and Miller 2010, 1-2). Because MODD Cocktails plans to outsource its packaging production and cocktails production, it is relevant to understand how outsourcing can be either mutually advantageous or detrimental to small startups.

Besser and Miller (2010) go on; “there are several advantages to outsourcing for the purchasing business…it lowers costs because the hub firm captures
economies of scale from its suppliers who can specialize in limited, focused activities”. In addition to the advantage of specialization, “the flexibility inherent in a contractual arrangement between firms versus the vertically integrated in-house provision of the good or service introduces cost discipline that forces contracting firms to remain efficient and innovative” (Besser and Miller 2010, 2-3).

While outsourcing may be advantageous to the purchaser, it can be disadvantageous to the supplier, especially if the latter is a smaller business; “the purchaser [the larger corporation] can disclaim any responsibility for the work conditions or environmental standards of its suppliers allowing the purchasing business to externalize the risks of noncompliance or costs of compliance with some regulations...the purchaser can better protect its core employees from the uncertainties of the market [as] during a downturn it can initiate or bring back in house functions formerly provided by other businesses...the supplier is thus forced to lower its prices to the purchaser, lay off its own workers, and/or face bankruptcy” (Besser and Miller 2010, 4). So, while the purchaser gains flexibility, lower costs, and lower uncertainties, the small suppliers will face cost restraints and possibly lose business. MODD Cocktails will be sure to establish and maintain a mutually beneficial relationship with its suppliers, to ensure maximum economic benefit and efficiency.

Planning and Knowledge:

Green and Katz (2007) provide a case of a startup firm who “had a good idea, a good sense of their market, and a good location...they were great salespeople, and yet were not making a profit...the reason was that they did not plan their business
all the way through” (198). Planning is a crucial step in starting a new business and “creating a business plan is perhaps the most critical activity [to] undertake” as through the planning process the entrepreneur gains “internal understanding” and “external legitimacy” (198). In other words, the plan should convince investors to support the firm, external legitimacy, and it should act as a guideline to run the business ambitiously and professional (199). Furthermore, “business plans can also be used as a way of establishing a baseline against which a firm can measure its performance” and “[many] famous entrepreneurial firms started from the business plan – Amazon, eBay, Mrs. Fields, Xerox...typically, the higher-performing firms in any industry (measured in profits) tend to be those who engage in planning” (200).

**Determinants of Entrepreneurial Success Based on the Individual Person:**

There are a number of articles written about what may influence an entrepreneur’s chances of success, such as gender, experience, external assistance, or education, for example. These determinants are focused on the entrepreneur’s personal characteristics, background, and resources, not necessarily on his or her business strategy for the company.

**Experience and External Assistance:**

Foo (2010) conducted a study that found “experience [team size, work experience, and founding experience] and assistance from individuals with business founding experience related positively to the teams’ business idea evaluations”, moreover “the benefits of external founders are more pronounced for smaller than for larger teams...smaller sized teams had worse evaluations if they did not have a founder in the team” (32). In other words, in the startup-planning phase –when the
product idea and business model are being planned – it is beneficial to have help
from an experienced entrepreneur. External assistance is helpful as “ideas are by
themselves cheap and how favorably the ideas are evaluated determine whether
they are commercially exploited...in ventures at the early stages prior to firm
formation, entrepreneurs often lack resources and rely on external sources to
provide these resources” (Foo 2010, 32).

In other words, an entrepreneur who has a great idea is not worth anything
unless he can communicate the opportunity with other people who will then help
turn the idea into a commercially successful reality. For example, entrepreneurs
may need to secure licenses or patents before introducing the product to market, or
they may need support from external resources in the form of equipment, space,
and money. To tap into such external resources, entrepreneurs need to be able to
convince experienced professionals that their idea is commercially viable. This
suggests that a well thought out business plan or model is necessary to
communicating and convincing others to provide external assistance and needed
resources.

_Influential Personality Traits and Characteristics:_

Fried and Tauer look at data from the Kauffman Firm Survey for 2,863 firms
in 2006 and propose an “index of entrepreneur success” that relates to
“characteristics of the entrepreneur and the venture: age, experience, gender, race,
competitive advantage, education, and birthplace”. Using the data they ran
regressions and used a Stochastic Frontier Analysis, the dependent variable being “a
binary measure of entrepreneur success or no success” (Fried and Tauer, 1) and
independent variables being potential determinants or explanations for success. The study examines both quantifiable variables affecting entrepreneurial success as well as the correlation between success and exogenous variables including gender, U.S. citizenship, native born, primary owner ethnicity (white, black, Asian, Hispanic), whether a product was produced, primary owner age, and primary owner work experience.

Results showed that there is an inverted “U” shaped relationship between age and entrepreneur success; “older entrepreneurs benefit from experience at first, but over time, the benefits from experience become dominated by the physical and mental deterioration associated with age” (Fried and Tauer, 7). As it turns out, the “optimal” age is 48 and the optimal work experience is 5 years, however “many entrepreneurs manage their age and work experience better and worse than the fitted relationship” (Fried and Tauer, 8), suggesting that even if the entrepreneur is not 48 years old and does not have 5 years of work experience, if he or she is an effective manager of the startup it can still be successful.

The study also found a slight negative relationship between success and the percentage of the business funded by the sole or first owner; “although an owner with a larger percentage of her funds in the business might be more motivated to be successful, suggesting a positive coefficient, it is also possible that successful ventures might be more likely to secure outside funding, confirming the negative coefficient” (Fried and Tauer, 8-9).

The most important determinant of success found is the age of the sole or first owner; “this impact is quadratic such that success increase with age, reaches a
peak, and then decreases...[and] although age of the owner is important, it appears that years experience is not important” (Fried and Tauer, 9).

Additionally, companies who start with more than one owner have a greater chance of success, but total hours dedicated to the business by all of the owners is not influential. Race and gender have significant influences on the success index; “white owned firms tend to have higher index values than minority owned firms...[and] businesses solely or primarily owned by men have an estimated success greater than businesses owned by women” (Fried and Tauer, 9). Lastly, “other statistically significant coefficients are college degree and comparative advantage, both with positive signs...[but] the coefficient on whether firms produce a product or not is statistically insignificant” (Fried and Tauer, 9).

Typical Types of Entrepreneurial Personalities:

Green and Katz (2007) describe how patterns throughout history have led to common traits among successful entrepreneurs. The original “classic” entrepreneur, such as Marco Polo or Columbus, “was a loner, often socially isolated, a hard worker, fast learner, and a risk taker seeking wealth” (56). Today, the five current most typical types of entrepreneurial personalities include: the idea person, the small business owner, the contemporary classic entrepreneur, the salesperson entrepreneur, and the managerial entrepreneur.

The idea person is “hard working and socially isolated, but often find other outsiders to work with...they can be great risk takers and learners while trying to make that idea come alive” (56). The contemporary classic entrepreneur is a hard worker, self-sufficient, socially connected, fast learner, wealth seeker, and risk
manager. Similarly, the managerial entrepreneur is a hard worker, team player, socially connected, fast learners, wealth seeker, and risk averse (57). Clear overlapping characteristics include being quick to learn and having a good work ethic, suggesting that possessing these personality traits may lead to venture success.

_The Importance of Establishing a “Core Ideology”:_

Collins and Porras (2002) studied a set of companies that have existed and been exceptionally successful and durable over a long period of time, including Boeing, General Electric, Hewlett-Packard, IBM, Johnson & Johnson, Procter & Gamble, Sony, Wal-Mart, Walt Disney, and others. These companies were studied from their beginnings, through all their phases of development up to the present day, and were compared to other similar companies who never became quite as successful. The goal was to determine what differentiates the truly exceptional companies from all the others.

Most relevant to the _MODD Products_ business plan is the emphasis that a visionary company has a clear ideology that it believes in and lives by; this includes its core values, purpose, mission, and goals. The emphasis for a startup company is not on the product being offered but rather the company itself that is being created; neither Hewlett-Packard nor Sony had a specific product idea when the companies were started, instead they saw “the company itself as the ultimate creation” (Collins and Porras 2002, 30). Research showed that having a clear core ideology, which should remain relatively fixed in the long run, is a fundamental element of visionary
companies. These values and sense of purpose beyond just making profits act as a guide and inspiration throughout the organization.

A company’s core values are “the organization’s essential and enduring tenets – a small set of general guiding principles; not to be confused with specific cultural or operating practices; not to be compromised for financial gain or short-term expediency” (Collins and Porras 2002, 73). For example, innovation, heroic customer service, and integrity are all possible core values. The purpose is “the organization’s fundamental reason(s) for existence beyond just making money – a perpetual star on the horizon; not to be confused with specific goals or business strategies” (Collins and Porras 2002, 73). For example, Marriot’s purpose is “making people away from home feel that they’re among friends and really wanted” and Walt Disney’s core purpose is “to make people happy”.

To stimulate progress, visionary companies use Big Hairy Audacious Goals and commit to a huge, daunting challenge. BHAG’s are clear, compelling, and unifying. For example, in 1989 General Electric stated its goal to “Become #1 or #2 in every market we serve and revolutionize the company to have the speed and agility of a small enterprise” (Collins and Porras 2002, 95). When choosing goals, visionary companies embrace the “Genius of the AND”, or “the ability to embrace both extremes of a number of dimensions at the same time” (Collins and Porras 2002, 44) such as having low cost and high quality, or having a clear vision and sense of direction and be opportunistic and experiment.

King (2000) also addresses the importance of a core ideology, referring to the “vision statement” and “mission statement”. Here, “the vision statement
expresses what the company wants to be in the business world, whereas the mission statement expresses what the company does to achieve its vision” (King 2000, 17). By creating a vision statement as a starting point for a new company, the organization will be better focused, more effective, and able to deal with changes. Establishing core values unifies the company and provides focus that will influence managerial decisions and goals; a vision “formulates what an organization wants to be and stimulates specific goals that can be passed down to every department in the organization” (King 2000, 37). The vision statement is the core purpose of the company.

Alternatively, the mission statement explains how the vision will be implemented. It “clearly and fully describes what factors and resources are most critical to supporting the business strategy” (King 2000, 40). For example, Dominoes Pizza changed its “30 minute guarantee” with a new mission statement: “Made fresh, arrives fresh” (King 2000, 41), changing the company’s emphasis from speed to quality. The mission statement is a way to define who the company is.

Fundamentally, developing a core ideology may be the most important initial step for a startup company, however in addition to the purpose, values and goals there is more that must be included in the business plan.

*Writing a Business Plan – What to Include:*

McKeever (2010) offers a by-the-book basic outline for writing a business plan that includes a problem statement, business description, marketing plan, sales revenue forecast, profit and loss forecast, capital spending plan, cash flow forecast, future trends, risks facing the business, personnel plan, specific business goals, and
personal background. These are pretty basic straightforward elements of a business plan, typical of “how-to” books that include a good description of the product and market, how to reach certain consumers, and financial forecasts. Other literature offers more creative structures for business plans and emphasis on particular sections.

Green and Katz (2007) suggest that a business plan include the “major characteristics of a firm – its product or service, its industry, its market, its manner of operations (production, marketing, management), and its financial outcomes with an emphasis on the firm’s present and future” (198). A business plan should be like a type of story, and an entrepreneur should have multiple different versions of their “story” depending on the situation they find themselves in, ranging from a few sentences long to a 40-page plan (Green and Katz 2007, 200).

Green and Katz (2007) introduce five types of business planning preparations: the vision statement, the mission statement, the elevator pitch, executive summary, and classic business plan. For the business plan in this thesis, I will use a vision statement – “a simple 5-10 word sentence or tagline that expresses the fundamental idea or goal of the firm” –, a mission statement – “a paragraph that describes the firm’s goals” –, and of course an overall business plan, including the company description, product, market and target customer, marketing strategy, and the organization (Katz and Green 2007, 203-205).

Sahlman (1997) suggests creating a less formal business plan where the most important points addressed are information about the people behind the startup (their skills and experiences that will be beneficial to the business), the opportunity
(business profile and description), the context (the big picture, uncontrollable factors facing the business), and risk and reward (plus the response to risks). The resume section should be first, because “without the right team, none of the other parts really matters” (Sahlman 1997). This section should answer the questions: What do they know? Whom do they know? How well are they known? This section may be somewhat irrelevant to my business plan for MODD Products as I am a college student and have not had extensive business experience outside of the classroom, so I should focus on my internships, courses studied, and personal traits that will help make the startup a success.

For the next section, The Opportunity, the business plan should focus on the questions: “Is the total market for the product large, rapidly growing, or both? Is the industry now, or can it become, structurally attractive?” (Sahlman 1997). Investors will want to invest in what they can identify as high-growth-potential investors. Next, the business plan must describe how the company plans to build and launch its product in the market – who the customer is and how they act, why they would buy this product, how the product will reach the customer, how much will it cost the customer, and how much it will cost the company to produce. Not only must direct revenues and costs of producing and marketing a product be considered in the opportunity, but the investment required must also be accounted for in the business model.

Limitations on the opportunity, what changes may occur, how those changes would affect the business and how the business would react should all be included in the Context section. The last section should be Risk and Reward, where two
specific graphs are particularly beneficial: one that shows the amount of money needed to launch the new venture, time to positive cash flow, and the expected magnitude of the payoff, and another that shows investors the range of possible returns and the likelihood of achieving them.

*Methodology to Turn a Good Idea into a Great Opportunity:*

Similarly, instead of offering a formal outline for what to include in a business plan, Kennedy (2006) offers a methodology for startup companies to clarify a sales pitch to investors: how to make people interested to invest in an idea, product, or startup. The entrepreneur must be able to answer three questions: “so what, who cares, why you”? “So what?” refers to knowing what business problem the product is solving and what market space it fits in. Kennedy suggests using analogies and metaphors to make the product idea more concrete and tangible to investors. Additionally, a startup should have a “value statement” explaining what the product does that gets the customer excited, for example whether it reduces costs for the customer or generates personal revenue. (Kennedy 2006, 14). The product should present a solution to a compelling problem in the market that is either not being solved or not being solved efficiently, *and* it must be a problem consumers are willing to pay money to solve. It is essential to identify what market space the product/company fits into as markets are made up of many categories, each having its own competition, rules, growth rates, and business practices. This is crucial because by identifying market space and the category the product fits into, “investors can more easily see the opportunity you are planning to address” (Kennedy 2006, 37).
Next, the target customer must be defined based on what customers are already in the market segment and what “hook and bait” will work best to convince them to buy a certain product. “Who cares” addresses the potential consumers and what the plan is to reach them. The business model is the path to market or “how products make their way to customers based upon the different routes and relationships within a sector” (Kennedy 2006, 73). To develop a business model, Kennedy suggests first mapping out the market “ecosystem”: a detailed view of the market that identifies relationships between specific players such as suppliers, resellers, and competitors. Then, the channel of distribution must be defined – how the product goes from an idea to the hands of consumers. This business model requires a strong understanding of the current industry, market behavior, and a specific plan for how to reach consumers.

Lastly, “Why you” asks what makes the idea different or what the entrepreneur’s competitive edge is and how that will be sustained. The key benefit and key differentiator is what gives a competitive edge. This requires a strong understanding of the leading or target customer base as well as an understanding of the competition.

_The Importance of Knowing a Product’s Marketplace:_

The market section is commonly considered a critical part of any business plan. Hall (2001) offers three laws of “marketing physics” to help develop an effective marketing strategy. Research found that “it’s the message that motivates customers, not the medium… it’s what you say, not where you say it that matters most” (Hall 2001, 25). When customers make decisions to purchase a product,
possible archetypes running through their heads include the product’s benefits, features, credibility elements, focus, clarity of communications, believability, and emotional versus rational orientation (Hall 2001, 28). It is most important to be direct with customers; there should be no doubt in the customer’s mind of “what’s in it for me when I purchase this product” (what is referred to as the “overt benefit” law). Additionally, the benefit the product offers cannot be easily achieved in any other manner (the “dramatic difference” law) and because consumer confidence has been exceptionally low since the recession, credibility goes a long way (the “real reason to believe” law). These laws should be considered when choosing what product is being chosen to offer, who it will be offered to, and how people will be convinces to buy it.

Also on the subject of marketing, Kim and Mauborgne (2005) recommend that companies adopt the “Blue Ocean Strategy” of delivering products and services that open and capture new market space. Instead of focusing on beating out the competition, the focus should be on “making the competition irrelevant by creating a leap in value for buyers and your company, thereby opening up new and uncontested market space” (Kim 2005, 12). To do this, companies should turn to a “strategy canvas”: “an analytic framework that is central to value innovation and the creation of blue oceans...it captures the current state of play in the known market space, [allowing] you to understand where the competition is currently investing, the factors the industry currently competes on in products, service, and delivery, and what customers receive from the existing offerings on the market” (Kim 2005, 25).
The strategy canvas captures all the market information in graphic form, where factors the industry competes on and invests in is on the horizontal axis. For example, in the wine industry competitive factors include price, aging quality, and wine complexity, to name a few. The vertical axis captures the offering level that buyers receive across all the key competing factors – the higher the score, the more the company offers to buyers in that factor. From the strategy canvas comes the “value curve” component, which is a graphic depiction of how well the company is performing relative to its industry competitors. From this, the company can decide where it should (if needed) reorient its strategic focus: which factors should the company raise above the industry standard? Which factors should the company have below the industry standard? Which factors should a company create that the industry has never offered before? (Kim 2005, 29). This framework is very useful in understanding the industry a startup wants to enter, knowing how it can compete, and seeing what niche it can fill.

*Making the Product Memorable:*

On the subject of general startup product ideas, Heath (2007) identifies traits that make ideas “sticky”, or “understandable, memorable, and effective in changing thought or behavior”. The idea must be simple, unexpected, concrete, credible, emotional, and have attached stories. This is similar to Kennedy (2006) ‘s approach to developing and bringing an idea into fruition and Hall (2001) ‘s marketing laws. For ideas to be sticky, they must be simple and profound but also generate interest and curiosity in the consumer. Additionally, it is effective to explain ideas in terms of human actions and concrete images or analogies, to connect with the target
audience (in this case the target consumer). As Kennedy (2006) also suggested, ideas that are credible are more likely to be “sticky”. Lastly, an effective idea is one where the audience (consumer) feels something emotionally, so it is helpful to tap into emotions through telling stories to make the product memorable and desirable. To grab people’s attention with an idea, the product must break a pattern “surprise gets our attention, interest keeps out attention” (Heath 2007, 65). In summary, sticky ideas concern knowing the audience, goal, and delivery: how to speak effectively (Heath 2007, 9-10).
CHAPTER THREE

INTRODUCTION TO THE BUSINESS PLAN; BUSINESS DESCRIPTION FOR MODD PRODUCTS: COMPANY IDEOLOGY, PRODUCT DESCRIPTION, TARGET CONSUMERS AND RESUME SECTION

This chapter is the first section of the MODD Products business plan. It will discuss the company’s values, goals, and mission statement, provide a detailed account of the first products to be created, a thorough profile of target customers, and the management team.

Relevance:

The business description lays the foundation for the company. It explains “exactly what [the business] will provide for the customer as well as what [it will] exclude...each of the choices made in the business description will affect the amount of money you’ll need to start or expand and how much sales revenue you can expect” (McKeever 2010, 28). In addition to describing the product, what value it will provide to consumers, and the target consumer segments, this section will lay out the purpose, core values, and goals for MODD Products Company.

This last part is particularly significant as research shows that defining and following a core ideology is a crucial underlying commonality among great visionary companies such as IBM, Johnson & Johnson, and Walt Disney (Collins 1994, 8). The term “visionary” is used to define “companies that are premier institutions in their industries, widely admired by their peers and having a long track record of significant impact on the world around them” (Collins 1994, 1). Rather than starting with a specific product idea as a foundation, these companies were more concerned...
with framing a core ideology; “they concentrate primarily on building an organization rather than on hitting a market just right with a visionary product idea...their greatest creation is the company itself and what it stands for” (Collins 1994, 24). A company’s purpose describes the fundamental reasons for existence beyond making money and the core values are the essential and enduring tenets that are uncompromised for financial gain or expediency. The goals outline what the company strives to accomplish and is a source of drive and inspiration.

For example, Proctor & Gamble’s purpose statement “articulates a common goal that inspires [employees] daily...[it] unifies [them] in a common cause”:

We will provide branded products and services of superior quality and value that improve the lives of the world’s consumers, now and for generations to come. As a result, consumers will reward us with leadership sales, profit and value creation, allowing our people, our shareholders and communities in which we live and work to prosper (“Purpose and People” 2011)

At P&G, the company's values “reflect the behaviors that shape the tone of how [they] work with each other and [their] partners”, they include: Integrity, Leadership, Ownership, Passion for Winning, and Trust. The company's principles “articulate P&G’s unique approach to conducting work every day” and include:

We Show Respect for All Individuals
The Interests of the Company and the Individual Are Inseparable
We Are Strategically Focused in Our Work
Innovation is the Cornerstone of Our Success
We Value Personal Mastery
We Seek to Be the Best
We Are Externally Focused
Mutual Interdependency is a Way of Life (“Purpose and People” 2011)

Establishing a vision (purpose statement) and mission statements (goals) will result in “a better focused, more effective organization armed to cope with change...by identifying where you see yourself tomorrow, you create a well-focused
picture of where you stand today” (King 2000, 18). Additionally, "many owners and
managers feel that a mission statement is the best tool for getting everyone in the
company going in the same direction” (King 2000, 19). Sam Walton’s vision for Wal‐
Mart was “To offer all the fine customers in our territories all of their household
needs in a manner in which they continue to think of us fondly” and the McDonald’s
vision was “To offer the fast food customer food prepared in the same high-quality
manner worldwide, tasty and reasonably prices, delivers in a consistent low-key
décor and friendly atmosphere” (King 2000, 37).

I plan for MODD Products to be an enduring company, manufacturing many
different goods in its lifetime. This is to say, I want the company to last beyond my
physical existence, continuing to make a positive impact on customers’ lives and
providing them with products that meet their needs and tastes. I have therefor
outlined a core ideology that will serve as the solid foundation to guide every new
product plan, business strategy, and decision in the present and future.

The final subsection of the business description will draw on my personal
experience, skills, and interests that explain how and why I will be able to make this
startup company a success.

Purpose, Core Values, and Goals:

Purpose:

The purpose of MODD Products is to offer consumers a range of high quality
products that will help them lead a balanced and happy life.

Core values:

- Consumer Satisfaction: To focus on the well being of consumers.
• Balanced Living: To promote balanced and realistic living habits.

• High Quality: To offer products of high quality.

• Respect: To be respectful towards all living things, including the self.

Current Goals:

• To turn a small startup into a multi-million dollar company offering a wide variety of products. A bigger company will have the ability and resources to manufacture a greater variety of products to meet consumer needs.

• To proactively demonstrate the importance of healthy living and how our products add benefit to consumer lives. With MODD Cocktails, this means actively sponsoring events within communities that explain the positive contribution alcohol can make in one’s life as well as the dangers if abused.

• To revolutionize the alcoholic beverage market by popularizing the sales of prepared cocktails in the U.S. and making RTD cocktails a go-to for at home consumption and eventually bar consumption.

Product Description:

MODD Products will start by offering a variety of ready-to-drink (RTD) canned cocktails. The packaging is particularly important in this case because serving liquor-based mixed drinks in a can is one of the product differentiators against competition. The Just as Skinnygirl Cocktails introduced low calorie RTD bottled beverages such as the margarita and sangria, MODD introduces a variety of mixed cocktail flavors in a can. It is a high quality, great tasting cocktail that is ready to drink anytime, anywhere; a mixed drink in a portable can.
There will be a number of different product lines for MODD Cocktails, offering a great variety in flavors including low-calorie options. To begin, four flavors will be offered: Low-Calorie Vodka Cranberry, Low-Calorie Gin and Tonic, Whisky Sour, and Rum and Cola. Ingredients (premium liquor and mixes such as juices and carbonated water) will be legally purchased from beverage wholesale distributors and then delivered to the outsourced manufacturing facility where manufacturing/production will take place.

Because the products are cocktails that contain distilled spirits, they will be available in stores wherever liquor can be sold, as determined by state law. Most states in the U.S. require that beer be sold separately to wine and spirits; beer is allowed to sell in grocery stores and convenience stores, and wine and spirits are allowed to sell in liquor stores (NY State Liquor Authority). Ideally, the cocktails will also be available at bars – at restaurants, nightclubs, private clubs, hotels, etc.

**Packaging:**

The cocktails will be packaged in 10-ounce aluminum cans, sold individually or in 6-pack boxes, each measuring about 8-10% alcohol content by volume, depending on the flavor. Aluminum cans have been chosen instead of glass bottles because they provide advantages such as being lightweight, durable, anti-rust, made from recycled materials, and there is no need for a bottle opener (according to the U.S. Beverage Manufacturing Company). Vice President of Procurement at the major UK beverage company Diageo describes the benefits to using cans for RTD cocktails; “they provide a format consumers are very used to...they are also highly convenient for a multitude of occasions, whether consumers want to relax and unwind at home,
or when requiring outdoor consumption in BBQ’s, parties, etc...they are easy to store in a fridge...they get very cold and preserve that temperature very well...they offer a big surface on which we can deploy branding and consumer messages, the improvements in printing quality that have been made over the years help to convey premiumness”. She goes on to explain why consumers may prefer RTD cocktails in cans; “we believe the main reason that consumers like pre-mixed drinks in cans is quality, convenience, and choice...we offer consumers the possibility to consume their favourite drinks perfectly mixed...cans are a highly convenient format since they are easy to carry, easy to store, and cool quickly...additionally, in the case of informal get-togethers and parties, pre-mix cans offer the possibility to treat every person with their own choice of drinks without having to buy a multitude of spirits and mixers” (Canned Comment Blog 2011).

While canned cocktails are more common in other parts of the world, especially the UK, they are scarce in the American market. Current competitors in the USA to MODD Cocktails include: canned and bottled beer, bottled malt beverages such as Smirnoff Ice or Mike’s Hard Lemonade, and bottled or bagged ready-to-drink alcoholic beverages such as Skinnygirl Cocktails or Malibu bagged Cocktails. Offering a RTD cocktail made with real liquor and sold in cans will be a novel choice for American customers.

I plan to hire a packaging design consultant and manufacturer to produce the cans. The finished cans will then be delivered to the outsourced manufacturing plant that will develop the MODD Cocktails using the ingredients and packaging I provide.
Value Proposition to Customers:

Critical values that MODD Cocktails offer to customers include convenience, reduced costs, safety, variety, newness, and design. For the typical at-home consumer, it is more convenient to crack open a chilled canned cocktail than having to buy liquor, mixers, ice, and cups, mix the drink by hand, and make sure it tastes decent.

If served on an airline, it will be more convenient for stewardesses (who probably are not also trained mixologists) to hand someone a canned mixed drink than having to take the extra time to mix it – this will make the drink cart go around faster, improving the satisfaction of all passengers, plus they wont have to worry about spilling.

If served at bars, bar owners will cut costs and generate more revenue; they may not need to purchase as many bottles of alcohol, and can serve more customers in less time. Bartenders will find it easier to hand a customer a canned drink than to mix it up, allowing them to move on to other customers quicker and make more sales. Additionally, there is a safety value for the product in that customers know exactly what is contained in each can (exact amounts of alcohol content), eliminating the risk of someone slipping something into their drink at a particular venue.

In each of these cases, costs are being cut because there is no need to pay for all the ingredients separately – the drink is all-inclusive.

Variety is a crucial value of this product. There will be many different available flavors using different types of liquor, low-calorie or regular, sweet or
sour, carbonated or not, etc. For the low-calorie flavors, customers will be able to monitor their calorie intake and weight because those cocktails contain fewer calories than the typical mixed drink, beer, or malt.

*MODD Cocktails* will stand out because it will have a new, different design. There are currently no canned cocktails on the market in the USA; the closest alike products are bottled malt beverages. Because the product will use real liquor, it offers customers something new that they did not previously have available to them. And, because the can will be slender and different shaped than beer cans, its design may be even more appealing.

*Picture This:*

*MODD Cocktails* are designed to provide young working adults with an alternative drink to relax at home alone, have fun socializing with friends at a dinner party, or having a good time during a group outing or event. This subsection will illustrate short, concrete stories to conjure a mental picture of the product being offered, to make the product “stick” in people's minds. If spoken aloud, these stories could be called elevator pitches, one form of a business presentation that Green and Katz (2007) list.

Picture a hot summer day at home, laughing and reminiscing with friends about good times, waiting until the hotdogs and hamburgers are done grilling. What is missing from this picture? An ice cold drink. When opening the cooler, instead of the usual beer, everyone grabs a *MODD Cocktail* Rum and Cola, or a Low-Calorie Vodka-Cranberry. After simply opening the can, the taste of the refreshing, perfectly blended mixed drink blissfully overwhelsms the body, and it is *that* easy.
Here is another story, a group of young working adults living in New York City are fresh out of college, working hard to get their careers on foot. Their salaries are rather tight and their work schedule during the week is busy and stressful. One can imagine that come Friday night, these friends want a relaxing night at home to have some casual fun. This is where MODD Cocktails come in. These adults will save precious time and money in picking up a pack of cocktails as opposed to buying bottles of liquor, mixers, and ice. They can be easily stored in a refrigerator, ready to grab and drink whenever. All work and no fun does not lead to a happy life; MODD Cocktails add a little happiness to one’s otherwise busy schedule.

MODD Cocktails will provide high quality and convenient pre-made canned mixed drinks. Though there is no way to avoid how consumers use the product, or ensuring that vendors only sell to those of legal age, there will be a “21+” label clearly marked on every can and any advertisements for the cocktails will be focused on bringing friends and family together in a fun, safe, convenient manner – as opposed to encouraging a wild partying lifestyle of the rich and famous.

MODD Cocktails provide a way to balance life; it is an addition to one’s day of hard work, family time, sports and activities, exercising, and eating. I believe a well-rounded person is a happy and healthy person. No one should miss out on anything in life but similarly no one should focus all energy, or “binge”, on one particular part. As much as working and family may be important, I believe that care and respect for the self is crucial to happiness. MODD Cocktails offers an incentive to take time to relax, socialize, and enjoy, for those who like alcoholic beverages.
Target Customers:

Vital to a business plan/business model is defining and understanding who the target customers are: who the entrepreneur want to purchase his or her product. Osterwalder and Pigneur (2010) introduce the Customer Segments Building Block as the first component to the business model and write, “customers comprise the heart of any business model...without (profitable) customers, no company can survive for long...once [customer segments are defined] a business model can be carefully designed around a strong understanding of specific customer needs” (20). Customer segments are defined as groups having common needs, behaviors, or other attributes. Kennedy (2006) describes customers as “the people (or groups) with money to spend to solve the problem” (54) and that “your choice of customer dictates your future direction” (52).

MODD Cocktails target customers include both distributors and end users. Distributors must be convinced to carry the product and end users must be convinced to buy the product off-shelf. Target distributor segments, which are subgroups comprised of members with similar needs, include commuter transportation (airplanes, trains, and limousines), smaller scale social venues (private clubs, bars, nightclubs, restaurants), larger scale social venues (stadiums, theatres, concert halls), and private distributors (liquor stores, convenience stores). The initial target end user group is working adults living in or around major cities, ages 21-35. Once the company expands and can reach other distribution channels and customers, target groups include bar customers, transportation passengers, and customers attending an event (such as a concert or athletic game).
Customer Relationships:

The Customer Relationships Building Block is another important component of the business model that Osterwalder and Pigneur (2010) explain; “a company should clarify the type of relationship it wants to establish with each customer segment...relationships can range from personal to automated...[they will] deeply influence the overall customer experience” (28). With that said, MODD Cocktails will have an indirect relationship with end users of the product as they will have purchased the product from a third party vendor. This may also be called a “self-service” relationship where the company “maintains no direct relationship with customers...it provides all the necessary means for customers to help themselves” (Osterwalder and Pigneur 2010, 29). There must be a strong relationship between product distributors and the company to ensure that they shelve the beverages.

Additionally, there may be certain cases when the company has a more direct interaction with customers. For example, to promote the product I plan to have sales representatives out in communities promoting the product and offering test samplings, free giveaways, or deals on purchases. Here, it would be important for the sales representatives to personally interact with customers, describing the great features of the product and how it will enhance their lives.

Resume Section:

Through my experiences I am qualified to start a company selling canned cocktails. I have experience working at a start up business and have learned effective and ineffective marketing and advertising strategies. I have had experience with customer service and understand the importance of catering to customer
needs above all else. I am also a certified mixologist and love cooking, so I have a strong passion for the products I am currently proposing. My strong academic record demonstrates my hard work ethic and determination to success no matter what it takes, I am always trying to be the best, a characteristic research has seen extremely valuable in entrepreneurs.

That being said, I will need to hire a few people to help me launch and run the company. First and foremost, I need someone who will help keep track of accounting matters. Secondly, I need at least one person who is professional and has strong interpersonal skills to help convince vendors to carry the products and to set up product samplings to convince consumers to buy the cocktails. Thirdly, I need someone to help with legal matters, for example in getting a design patent for the packaging of the product, trademarking the brand name and icon, and in case there are any potential legal issues with other companies.
CHAPTER FOUR

REVIEW OF THE MARKET, INDUSTRY, AND COMPETITION

This chapter describes the market that MODD Products will first enter and how, a review of the alcoholic beverage industry and trends, and a detailed description of existing competition – both on a national and international level.

Relevance:

Kennedy (2006) dedicates an entire chapter to addressing the question “Where does your idea fit?” In other words, it is essential to identify what market space and category the idea or product belongs to; she writes, “the concept of a category is at the core of turning good ideas into great opportunities...you will gain credibility by explaining the context for your idea by introducing other competing alternatives or options” (35).

In the first subsection, I will construct and explain a “category map” for the alcoholic beverage market, including different categories within the market and key drivers shaping the landscape. The category map illustrates the opportunity to be taken advantage of, and alternative solutions (competing substitutions) that already exist in the market that the new business is trying to enter. In explaining the category map, I will also describe the category strategy, how I plan to “win in the category”, which will “depend upon analysis of the trends and dynamics impacting the market space and the essence of the idea” (Kennedy 2006, 43). Consequently, the next subsection will go into depth about the current state of the alcoholic beverage industry, followed by an analysis of market trends and finally review of the competition – both national and international competitors.
A crucial element of a successful business plan according to Sahlman (1997) is describing “The Opportunity”, which is “a profile of the business itself – what it will sell and to whom, whether the business can grow and how fast, what its economics are, who and what stand in the way of success”.

*Category Map and Strategy:*

Exhibit 2 (see Appendix) is an illustration of the *MODD Cocktails* category map. *MODD Cocktails* plans to compete in the Ready-to-Drink (RTD) Alcoholic Beverage category within the broad Alcoholic Beverages Market. The other sub-categories (product substitutions) within the broad market space include Beer, Wine, and Liquor (pure). The key market drivers I am considering are reputation/importance of brand loyalty (on the x-axis) and price (on the y-axis). There is a bubble for each category and “the size and position of the bubbles represents the general market size relative to other categories in the market space” (Kennedy 2006, 37).

The category shows that beer is the cheapest alcoholic beverage to buy, but brand loyalty can either be very important or not so much, depending on the type of consumer. Wine is the most expensive, generally speaking, but brand loyalty is not nearly as important to consumers when they decide which product to buy. Liquor is in between in both aspects; it is more expensive than beer but generally less so than wine, and there is a range for consumers of whether brand loyalty is important. RTD alcoholic beverages is a category that incorporates characteristics of both the liquor and beer categories: they are meant to be ready-to-serve, convenient drinks (much like beer) but they are meant to taste more like a mixed drink (made with liquor).
Market Drivers:

Reputation/importance of brand loyalty to certain products is a key influence as to why people purchase different alcoholic beverage products. Beer and liquor consumers may have a strong sense of brand loyalty for products. For example, there are people who only drink Heineken, or who prefer SKYY vodka above all else. Because these are big influences driving the market, it probably explains the great amount of advertising there is for beer and liquor companies seen on television and in magazines.

Price is another big factor that influences which alcoholic beverages consumers choose. Different types of consumers choose specific products based on how expensive they are – or how they can purchase the best quality for least amount of money. For example, frugal college students buy very cheap products such as Keystone beer or Crystal Palace vodka.

Category and Market Dynamics Driving Category Growth:

The ready-to-drink alcoholic beverage category is being driven by the trend towards at-home consumption of alcohol. Because of the recession, less people were going out to restaurants and bars and wanted to save money by having drinks in the comfort of their home. This will be discussed further in detail in the Industry Review and Market Trends subsections.

Category strategy:

Kennedy (2006) suggests defining a category strategy after developing a category map. Different strategies include: competing in an existing category, molding or extending an existing category in a new direction, converging two
categories, or creating an entirely new category of solution (Kennedy 2006, 43). The strategy I have chosen for MODD Cocktails is to extend an existing category (the RTD Alcoholic Beverage category) in a new direction: offering new flavors that are not already available, in different packaging – cans.

Industry Review:

Looking at the 2010 State of the Industry for Alcoholic Beverages, the most reliable industry report source available, spirits held a 30.2% market share by market volume and 32.9% by revenue, compared to beer’s 55.4% share by volume and 50.5% share by revenue. Beer volume was down due to weak import and domestic premium performance while the spirits category actually saw positive volume growth, largely contributed to the gains of the premium and value segments (“State of the Industry” 2010, 23). In 2009, the spirits category generated a total of $18,734 million in revenue, up $14 million from the previous year.

Most of the beverage world had a challenging year as the slowly recovering economy impacted consumer’s decisions to buy, forcing them to either give up purchasing alcohol or purchasing less expensive brands. A trend realized was the shift toward at-home consumption “as an affordable luxury”. While the recession has hurt beer sales by volume, consumers were trading down from higher-priced wine and spirits to beer. Fortunately, “consumers have not abandoned the category in any significant numbers, perhaps finding their favorite alcoholic beverage to be just the thing to unwind with after another challenging ay at the office” (“State of the Industry” 2010, 30).
The fact that consumers traded down rather than moved out of the market completely is a good sign. Additionally, Distilled Spirits Council senior vice president of economic and strategic analysis says that as the economy continues to improve there should be an opportunity in the spirits market for sales volume to expand in the middle tier, or “premium” brands (“State of the Industry 2010, 30). In fact, comparing 2006-2009 revenues between value, premium, high-end premium, and super premium brands, premium value sales have consistently risen while high-end and super premium fell in 2009.

The top US spirit brands – potential competitors to MOD Cocktails – included Smirnoff Vodka (#1), Bacardi Rum (#2), Jack Daniels Whisky (#3), Captain Morgan Rum (#4), Crown Royal Whiskey (#5), and Jose Cuervo Tequila (#6). Spirits that grew the most during the year were Irish whiskey, which grew 10% in volume, followed by tequila (+5.2%), vodka (+4.9%), blended whiskey (+3.4%), brandy and cognac, single malt scotch, rum, and finally gin (“State of the Industry” 2010, 32). Between analyzing top brands and the spirits that grew the most during 2009, it suggests that whisky is high in demand, as well as tequila, vodka, and rum.

*Market Trends:*

In addition to the trend toward at-home consumption and more affordable alcoholic beverages, research shows that there are trends towards healthier and fresh drinks. In summer 2011 Milwaukee bartenders saw a movement toward cocktails blended with fresh herbs and ingredients such as limes, honey, mint, basil, homemade simple syrup, and cucumbers.
Another important “trend” in the industry is an active commitment to social responsibility. In fact, the latest government data shows that underage drinking in 8th, 10th, and 12th graders plus the total number of deaths from drunk driving incidents in the US are both at “historic low levels”. Distilled Spirits Council CEO continued to mention that “the spirits industry remains fully committed to social responsibility...working together as a society, we continue to make important progress on underage drinking and drunk driving...there is more work to do to further reduce these numbers, and our companies are fully committed to this important effort” (“Press Releases” 2011).

Review of the Competition:

Kennedy (2006) writes that there is always competition, moreover, “If you were to ask investors what the weakest link is in the presentation they hear, most will say that it’s related to identifying competition and the competitive advantage” (97). It is critical for entrepreneurs to determine where their competition is coming from, identify their biggest threats, and create a competitive edge that will convince investors to finance the idea and convince customers to buy it. Competition is defined as “any other alternative that solves the same problem as you do” (Kennedy 2006, 97) and it can be direct, indirect, or out of category (depending on how the competitive product solves the problem in relation to how it is solved). The next subsections will discuss current national competitors and potential international competitors.
National Competitors:

According to the IBISWorld market research report for RTD mixed spirit production in the US, the three companies who are dominating the market are Brown-Forman, Diageo PLC, and Mike’s Hard Lemonade Co. Brown-Forman products include Jack Daniel's Country Cocktails, Jack Daniel's Ready to Drink Cocktails, Southern Comfort Ready to Pour Cocktails, and el Jimador Tequila Cocktails. Diageo has introduced products such as Captain Morgan and Cola, Smirnoff Vodka and Lemon-Lime Soda, George Dickel Whisky and Cola, and Seagram’s 7 American Whiskey and Lemon-Lime Soda. Finally, Mike’s Hard Lemonade Co. offers products such as the original Mike’s Hard Lemonade, Mike’s Harder Lemonade, The Classic Margarita by Mike’s, Mike’s Hard Punch, Mike’s Harder Punch, and Mike’s Lite Hard Lemonade. Daily’s Cocktails and Mixers – a division of the American Beverage Corporation – offer Cocktails Bag-in-a-Box, Single Serve Bottles, and Frozen Pouches in various Margarita, Mojito, Daiquiri, and Cosmopolitan flavors. The company also offers non-alcoholic cocktail mixers.

With the exception of Daily’s, whose drinks are artificially flavored wine products, most if not all of the previously mentioned RTD mixed drinks are made using malt liquor and will be considered to be indirect competition, whereas RTD cocktails made with real liquor are the most direct competitors to MODD Cocktails. Beer will also be considered an indirect competitor. This is one of the major differentiators for MODD Cocktails; the products will only be made using real premium distilled liquor – no malt liquor. Due to this fact, where the products can be sold will depend on state laws, which could give us a competitive edge. In most
states MODD Cocktails will be required to sell exclusively at liquor stores, not at convenience stores or wherever beer is sold. Malt beverages will be sold wherever beer is, which may cause customers to become completely overwhelmed when faced to choose from tons of coolers full of beers and malts. At the liquor store, since there are fewer RTD products made with real liquor, there will be far less competition on the shelves. With MODD Cocktails eye-catching, unique, and memorable packaging (another differentiator), customers will hopefully be drawn to purchase them.

That being said, Skinnygirl Cocktails – offered in the Margarita, Sangria, and White Cranberry Cosmo flavors – are a major direct competitor as they are made with real liquor. Bacardi Cocktails – offered in the Classic Mojito or Raspberry Mojito flavors made with real Bacardi rum – are also direct competitors.

I have visited a few liquor local liquor stores in New York and Vermont to take note of the RTD cocktails section. At the liquor stores in Schenectady, generally there is hardly any variety in RTD cocktails – the section of the store is basically nonexistent with the exception of a few Skinnygirl Cocktails and bagged Malibu Rum Cocktails. At a store in Manchester, Vermont, however, there was a more extensive selection including TGI Friday’s prepared drinks, Bacardi Cocktails, Jose Cuervo Margaritas, Captain Morgan Long Island Iced Tea, and VnC Cocktails. Interestingly, all the products mentioned were offered in large bottles – most commonly 1.75 litres – and alcohol content ranged from 10-17%, 12.5% being the most common. Prices ranged from $12.99 – $25.99. The only brand that offered packs of single
serve RTD cocktails was Kahlua, with flavors such as White Russian, Chocolate Latte, and Mudslide.

Out of category competitors would include pure liquor, wine, and pre-made non-alcoholic mixers. Pre-made mixers include the Jose Cuervo Margarita mix, Mr. and Mrs. T Mixers (Bloody Mary, Mai Tai, Margarita, Pina Colada, Whiskey Sour, Manhattan), and Master of Mixes products (Cosmopolitan, Manhattan, Margarita, Daquiri, Sweet n’ Sour, Whiskey Sour, Tom Collins), to name a few. These are indirect competitors because they are not ready to drink directly out of the package, the customer is required to additionally purchase liquor and then hand-mix the drinks. While the end result is the same, the process is more expensive, time-consuming, and requires more effort – all in all it is a less convenient way of having a great mixed drink.

*International Competitors:*

While RTD cocktails are an emerging market in the US and pretty scarce in supply, the pre-mixed drinks markets are well established overseas and have become very popular and familiar to customers.

In Australia, Beam Global Wine & Spirits averages selling 7 million cases of its Jim Beam Bourbon Whisky and Cola annually (“Diageo Tests RTD Canned Cocktails” 2006). Diageo also offers ready to serve cocktails in Australia including their Smirnoff Cosmopolitan and Smirnoff Mojito.

Additionally, Diageo offers an extensive line of canned RTD cocktails in the UK, with flavors including Gordon’s Gin and Tonic, Captain Morgan and Cola, Smirnoff Vodka and Cranberry, Smirnoff Vodka and Diet Cola, and Pimm's and
Lemonade, to name a select few. The Vice President of Procurement at Diageo spoke about the familiar and popular Ready to Drink canned beverages in the UK; “We began putting RTDs in cans in 1993 with the first variants being Gordon’s & Tonic and Pimm’s for the GB market…Starting in 2008 we began expanding the range…various parts of the range are now available in 13 countries in Europe…Sales of cans of spirits premixed with a soft drink are now being bought by nearly 2 million people a year compares with 800,000 in 2008” (Canned Comment Blog 2011). The company has followed the European trend toward at home consumption; “With a large number of people in Europe increasingly drinking at home, we successfully launched a new premix range - your favourite spirit and mixer in a can - across multiple European markets last year”. They go on; “In South Africa, where we are also seeing a similar trend, we have successfully launched high quality, pre-mix bottled offerings such as Captain Morgan rum & Cola and J&B Blended Scotch Whisky & Soda” (“Innovation” 2012).

There are many smaller brand companies who offer RTD mixed drinks in the UK available at numerous venues including pubs, bars, clubs, on-line retailers, and convenience stores. Packaging varies greatly from cans, different shaped glass bottles, aluminum bottles, bags, and cardboard containers. Some brands are: Cocktails by Jenn, Nuba Cocktails, Funkin, MyCocktail, The Handmade Cocktail Company, Mixed Ape Cocktails, Royalty, and Marks & Spencer.

Competitive Edge:

Kennedy (2006) emphasizes the importance of having a competitive edge to convince customers to buy the product, or investors to invest in the startup. A
“competitive edge” includes articulating the product’s key benefit and key differentiator, in other words, “the one primary benefit that the customer considers when evaluating all competitive offerings [and] what your customer really sees as distinct in what you’ve created” (103-104). The key benefit of MODD Cocktails is convenience. There are two main differentiators MODD Cocktails has over national competitors: 1) having unique, eye-catching packaging, and 2) using real premium liquor as an ingredient. Additionally, because MODD Cocktails will be one of the first canned cocktails made with real liquor and incredibly distinct packaging to be introduced into the US market, it will have the first-comers advantage. MODD Cocktails will be seen as the original, so even when other companies (nationally or internationally) will undoubtedly come out with similar products after we launch, we will have already established our name as the first, everyone else will be seen as copycats. In this case, as first-comers we will be able to establish brand status associated with the products and thus strong customer loyalty.
CHAPTER FIVE
OPERATIONS: KEY RESOURCES, ACTIVITIES, PARTNERSHIPS, AND CHANNELS OF DISTRIBUTION

This chapter explains the operations involved in taking *MODD Cocktails* from an idea into consumer hands. It describes key resources needed (physical, human, intellectual), activities (promotions, market testing), partnerships (with outsourcing companies), and channels of distribution to sell the finished product.

Relevance:

This chapter will discuss in detail my plan for how to take the idea of *MODD Cocktails* and turn it into a reality: how and where the cocktails will be produced, and how to get the finished products into customer hands, and how to stay ahead of the competition. Sahlman (1997) defines this section as “The People”, which describes “the men and women starting and running the venture, as well as the outside parties providing key services or important resources for it, such as its lawyers, accountants, and suppliers”. A number of key elements are involved: resources, activities, partnerships, and channels of distribution. As Osterwalder and Pigneur (2010) describe, “key resources are the assets required to offer and deliver the [products] by performing a number of key activities…some [of which] are outsources and some [that] are acquired outside the enterprise” (17). Channels describe how “value propositions [products] are delivered to customers through communication, distribution, and sales channels” (16).
Key Resources:

The Key Resources Building Block “describes the most important assets required to make a business model work...these resources allow an enterprise to create and offer [a product], reach markets, maintain relationships with customer segments, and earn revenue” (Osterwalder and Pigneur 2010, 34). Key Resources can be physical, financial, intellectual, or human and can either be owned or leased by the company or key partners.

Physical:

Key physical resources for MODD Cocktails include a manufacturing facility for production of the cocktails, cans and packaging boxes, and drink ingredients. The company will outsource the production process and so will not own its own manufacturing facility, rather we will hire a different company to product the cocktails after providing them with the necessary ingredients, recipe, and packaging. The company will also outsource the production of its cans and packaging boxes (for 6 packs). After the packages and cans are produced they will be delivered to the manufacturing facility. MODD Cocktails will not distill its own liquor; the company will legally purchase its premium liquor (rum, vodka, whiskey, gin) from a liquor distributor and deliver the products to the manufacturing facility. Any juices, soft drinks, or other mixers will also be legally purchased from a distributor and delivered to the production plant.

It is important to note that while MODD Cocktails will contain premium brand liquor and mixes, this will not be advertised in any way. For example, even if we were to use Bacardi Rum and Coca-Cola, nobody but the company and the
manufacturer would know – customers will only know the drink as the MODD Cocktail Rum and Cola. This way we will not be infringing on other companies trademarks, patents, etc.

**Human:**

Key human resources for MODD Cocktails include chemists and mixologists (who will constantly be working on developing new recipes that are not yet available on market), corporate employees (to help with marketing strategies, managing accounting, legal matters, distribution), and spokespeople. The latter group will be very important for the company in building the brand and customer loyalty; sales reps/brand ambassadors employed by the company will go out to venues and offer either free or discounted giveaways of the products, talk to customers about their wants and needs, and articulate to them the benefits and differentiators that MODD Cocktails offer.

**Intellectual:**

Other Key resources include a name and logo trademark and design patent for the cans, which would help protect the brand from anyone trying to copy us or steal our idea. We would need to hire an Intellectual Property Rights lawyer to help with the process of acquiring a design patent and name/logo trademark.

**Key Activities:**

The Key Activities Building Block “describes the most important things a company must do to make its business model work” and provides the same functions as Key Resources do for the company (Osterwalder and Pigneur 2010, 36).
Production and Distribution:

First and foremost, production is a crucial activity for the company and involves “designing, making and delivering a product in substantial quantities and/or of superior quality” (Osterwalder and Pigneur 2010, 37). As mentioned before, design and production of the cans and boxes will be outsourced as well as manufacturing the finished products.

Distribution is another key activity, answering the question of how the finished product will make it from the production facility to vendors. Liquor stores get their products from an alcoholic beverage distributor, so MODD Cocktails needs to transport its products there from the production facility. This can either be done by hiring a transportation company, or by owning our own trucks. Once the company expands in scale, I plan for MODD Cocktails to own our own trucks that will transport finished products to distributors – until significant growth occurs, however, the company will use a separate transportation company to deliver finished products from the production plant to distributors. By owning our own delivery trucks (in the future), we could advertise the products on the outside of the truck and we have more control in ensuring that the products arrive safely and successfully. Additionally, our company truck drivers will also be well-spoken, friendly, and helpful brand ambassadors whose function will not only be transportation of the products but also maintaining a good and professional relationship with distribution partners.
Research and Advertising:

Research and experimentation is another key activity for the company. To stay ahead of the competition we must be proactive about predicting market trends and offering customers product flavors that are not offered by any other brand. Again, brand ambassadors play a big role here in doing target market research and experimentation at smaller venues, offering customers samples of new flavors to see how they respond before we go ahead with mass-production.

It goes without saying that advertising and promotion of the brand is a crucial activity that the company must be constantly doing. Following Red Bull’s marketing strategy, MODD Cocktails will advertise mainly outside of TV and radio. Instead, we will have sales reps traveling in decorated company cars to offer products, we will offer complementary merchandise with the purchase of a pack of MODD Cocktails, such as a free t-shirt, poster, coozie, or key chain, and our company distribution trucks will be moving advertisements in themselves. Additionally, we will take advantage of social media tools (Facebook and Twitter) to build the brand and raise awareness.

Key Partnerships:

The Key Partnerships Building Block “describes the network of suppliers and partners that make the business model work...[there are] four different types of partnerships: strategic alliances between non-competitors, coopetition or strategic partnerships between competitors, joint ventures to develop new businesses, or buyer-supplier relationships to assure reliable supplies” (Osterwalder and Pigneur 2010, 38).
As mentioned before, *MODD Cocktails* will outsource the production of packages and production of the finished cocktails. Thus, key partnerships include those with a design and packaging company, and an alcoholic beverage manufacturer. U.S. Beverage Manufacturing could be a very useful partner as they assist companies with beverage formulation and flavoring, custom packaging design, exporting, filling and packing, product samples, research and development, sales and marketing, and shipping and logistics (“Our Services” 2011).

The company will also need to partner with local alcoholic beverage distributors, who then provide products to stores.

Also, a key initial financial partner will be required to help get the company on its feet, produce a prototype, test on customers, and so on. This could be from an angel investor, family or friends, or a venture capitalist.

*Channels of Distribution:*

The Channels Building Block “describes how a company communicates with and reaches its customer segments to deliver a [product]...[they] play an important role in the customer experience and serve several functions, including raising awareness among customers about a company’s products and services [or] providing post-purchase customer support” (Osterwalder and Pigneur 2010, 26). *

*MODD Cocktails* will use both direct and indirect channels to reach the end-user customer.

*Indirect:*

Customers will be able to purchase *MODD Cocktails* in store wherever liquor can be sold – this varies state by state. This means that, depending on the location,
the products will be available in liquor stores and/or convenience stores. That being said, liquor-store owners will have access to our products through the wholesale alcohol distributor channel.

Once we have gained brand recognition and popularity, we plan to partner with bars and convince them to carry MODD Cocktails. This would include bars at pubs, restaurants, hotels, nightclubs, or private clubs, for example.

Further into the future, we plan to have MODD Cocktails available to purchase during on-board transportation for train, plane, cruise, or limousine passengers, as well as being available in vendor booths at major professional sporting events or concerts.

Direct:

Company brand ambassadors will have the responsibility of directly selling or giving away cocktails and merchandise to customers. Additionally, on the cans there will be contact information for customers to communicate with the company, including an email account to send comments, questions, concerns, or compliments, and how to reach us on social media accounts (“Like us on Facebook!” ...“Follow us on Twitter!”). Our social media accounts will include information about the company, our mission and values, available products, what we’re working on, and where to buy our products.
CHAPTER SIX

COST AND REVENUE STRUCTURE, PATH TO PROFITS

This chapter describes the *structure* of costs and revenues, i.e. where the money is coming from and where it needs to be spent. While very important to a business plan, there is no discussion of specific financial projections for the purpose of this thesis. This chapter does, however, describe the "vision" or strategy for the company to become profitable.

*Relevance:*

Two building blocks that underlie the entire business model are the Cost Structure and Revenue Streams. These include all costs associated with bringing the product from the entrepreneur’s mind into customer’s hands, and keeping it there. Revenues come from product sales, and profits are then determined by how much revenue is leftover after subtracting costs. Based on the basic microeconomic model of competitive firms, new firms (entrepreneurial start-ups such as *MODD Cocktails*) enter the market because they see an opportunity to make profits. Thus, it is important to generate an estimate of potential costs and revenues.

This chapter will not, however, provide exact financial forecasts. Sahlman (1997) explains that “few if any entrepreneurs correctly anticipate how much capital and time will be required to accomplish their objectives...typically they are wildly optimistic...[creating] inaccuracy that benefits no one”. He goes on to say that a business plan should address financial costs and benefits, but “those numbers should appear mainly in the form of a business model that shows the entrepreneurial team has thought through the key drivers of the venture's success
or failure...the model should also address the break-even issue [answering the questions] at what level of sales does the business begin to make a profit?..when does cash flow turn positive?”. Kennedy (2006) addresses the same sort of question and suggests entrepreneurs to create a “Go-To-Market Attack Plan”, introduced in the last subsection, which names the customer segments planned to attack, major thrusts required at each stage of growth, how success at each particular stage is measured, and the timing involved. The Market Attack Plan will be the model for the company’s Path to Profits.

Revenue Stream Structure and Estimated Price:

The Revenue Streams Building Block “represents the cash a company generates from each customer segment...if customers comprise the heart of a business model, revenue streams are its arteries...a company must ask itself, for what value is each customer segment truly willing to pay?” (Osterwalder and Pigneur 2010, 30). MODD Cocktails will generate revenue from asset sales, which Osterwalder and Pigneur (2010) define as “selling ownership rights to a physical product” (31). Customers will be able to purchase single cans or a six-pack of cocktails, at a fixed list price.

Currently, for a 1.75-liter pre-mixed cocktail, prices vary from $12.99 – $25.99. A six-pack of bottled 12-ounce malt mixed drinks costs on average about $8.00. MODD Cocktails will be more expensive than buying a pack of beer, but about the same price as the average malt drinks. So, a six pack of 10 ounce MODD Cocktails will be priced somewhere from $7-$10, and individual 10 ounce cans will cost $2-$3.00.
Cost Structure:

The Cost Structure includes all costs involved in operating a business model; “creating and delivering [a product], maintaining customer relationships, and generating revenue all incur costs” (Osterwalder and Pigneur 2010, 40). Costs include those encompassed in outsourcing production of the packaging and finished cocktails. These will be charged by the outsourcer company but will be most likely be pretty expensive as it includes electricity, paying factory workers and equipment upkeep costs. Purchasing raw materials necessary for production is another expense: liquor and mixes must be purchased at wholesale distribution stores.

Other costs, which will occur after company growth and expansion, include purchasing company distribution trucks and brand ambassador cars, which need to be decorated with the company logo. Gas, vehicle maintenance, and paying the drivers are additional costs associated with this.

Because we are a startup company, people may be reluctant to buy our products without knowing anything about them. Having a big marketing budget, a strategy Red Bull brilliantly and successfully employs, will be critical to building the brand and gaining customer support. This is why one of the key activities is offering product samples and giveaways, and offering free merchandise with the customer’s purchase. This could become a big expense, but a necessary one to build loyalty and brand recognition.

Getting a design patent and trademark for the name and brand is another cost, as is hiring a lawyer to help with the process. Lastly, employee payroll will be a cost, though I plan to initially be working on my own or with a small team of three
or four. We will be the sales reps, truck drivers, accountants, and managers of the company until it grows in scale (and scope). Payroll will not be a major cost until the company becomes larger. Osterwalder and Pigneur (2010) mention the benefits of a growing company who experiences economies of scale or scope; economies of scale are “cost advantages that a business enjoys as its output expands, [for example] lower bulk purchase rates” and economies of scope are “cost advantages that a business enjoys due to a larger scope of operations, [for example] the same activities or channels may support multiple products” (41). While there may be heavy costs initially to grow the brand and company, there is incentive to do so in the long run if the company can achieve economies of scale/scope.

*Path to Profits – The Market Attack Plan:*

Sahlman (1997) suggests, “when it comes to the matter of risk and reward in a new venture, a business plan benefits enormously from the inclusion of schematic pictures that illustrate the most likely relationship between the opportunity and its economics”. Because I will not be computing financial forecasts, I will use the Market Attack Plan model that Kennedy: 2006 offers instead of Sahlman’s suggested graph depicting amount of money needed to launch, time to positive cash flow, and expected magnitude of payoff. The Market Attack Plan includes the three major target segments, major initiatives required at each stage of the company’s growth to attack the new segments, how exactly “success” will be measured, and how long it will take.

The first segment *MODD Cocktails* will attack is the private distributor group: liquor stores or convenience stores where distilled alcohol can be sold. The key
“thrusts” required at this initial stage of growth, needed to successfully attack the segment, include development of the trademark and distinct packaging, actual product development and distribution, promotions, and strategic partnerships, made for outsourcing the manufacturing process. Success will be measured by monitoring sales at liquor stores (seeing if demand increases or decreases) and it will probably take about two years to establish the brand locally and gain lead customer support. Because the company will spend much of its money in promotions and initially giving away products for free, this minimum two-year period will not see many profits. Bethenny Frankel, who used her reality-show and fame to promote her business, sold her ready-to-drink Skinnygirl Cocktails to Fortune Brands, Inc. for $8.1 million (“Bethenny Frankel's Skinnygirl Business” 2011) after launching just two years before. With the right marketing plan, MODD Cocktails could also become worth this much is a matter of a few years.

The next segment to attack will be small-scale social venues: bars, private clubs, nightclubs, restaurants, etc. The brand will have to already be popular and in-demand enough so that distributors will want to carry the product. So, heavy promoting must be continued and the creation of new flavors to compete with the many mixed drink options available at bars. I estimate that it will take about 2-4 years to convince these venues to carry the product and produce enough to keep up with supply and demand.

Next, after MODD Cocktails has grown in scale, popularity and customer brand support, the commuter transportation and larger scale venues segments will be attacked: planes, trains, limousines, cruise ships, sports stadiums, etc. At this
stage, hopefully the company will have grown in scale from its initial launching and so it will have the resources to develop new flavors and more variety within the brand. Key thrusts required to break into this segment successfully include channel expansion (distributing to more locations), and development of more variety in flavors, serving size, or can design. This segment will be the hardest to attack because it is a more complicated process to get the product to the end-user passenger.
CHAPTER SEVEN

CONCLUSION

In Summary:

Although research shows that three out of every four startups fail, there are certain steps entrepreneurs can take to increase their chances at success. Most important is conducting proper and thorough research of the market the entrepreneur plans to infiltrate and the target customers who will need to be convinced to buy a new product. Business plans are enormously helpful in the planning process and should serve as the company's guideline throughout its startup journey and thereafter. A business plan should include the company's vision (its reason for existing), its goals, the product description, market review and opportunity, target customers, operations and activities involved in production and distribution, and estimated costs, revenues, and profits. It is crucial to note that the business plan should be flexible; not everything goes as planned and a successful entrepreneur should be able to adapt and grow from any unexpected circumstances.

Another helpful strategy for new companies is to have external assistance, for example in the form of an experienced professional to act as either a mentor or part of the founding team. This way, even if the rest of the founding members are inexperienced in starting new businesses, there is one person to turn to who has useful knowledge and experience in the field. External assistance can also refer to getting legal protection for an idea, such as patents and trademarks, or outsourcing operations to an outside party who specialize in an activity and can perform the task at hand better than the entrepreneur. For example, MODD Products will outsource
production of its finished, canned and packed cocktails. This saves the company money; it will not need to open and run its own manufacturing facility. Personally having no idea how to build and operate a manufacturing plant for spirit cocktails, outsourcing allows MODD to take advantage of using an experienced private-label alcohol manufacturer – to reduce any margins of error in production.

Additionally, an entrepreneur may already have advantageous inherent qualities that can help ensure success. Men have a better chance than women at achieving success in their entrepreneurial venture, as do white people versus minorities. Having a college degree (a high level of education) is also beneficial, as is having more years of work experience. Some common personality traits of successful entrepreneurs include being a hard worker, wealth seeker, team player, fast learner, and being socially connected.

When introducing a new product or service it is crucial to make sure the entrepreneur is not simply “reinventing the wheel”. The new product should be different than anything else available, memorable, and possess values strong enough to convince people to pay money for it. MODD Cocktails is different than other ready-to-drink mixed alcoholic beverages because it will be made with real liquor and will be available to drink in single serve cans. They will be of great quality and taste and available in a variety of flavors. Most importantly, the cocktails offer a convenient alternative to other alcoholic beverages currently on the market.

My Advantages for Entrepreneurial Success:

I already have an entrepreneurial advantage in having gone through the process of planning and developing a business plan. Additionally, as a Union College
student I have many resources available to use for further help (external assistance) with this startup project, such as the alumni database and faculty members.

While I lack years of professional experience and age, which to reiterate were found to be a positive influence on entrepreneurial success, I do have a strong resume and live outside of New York City. My home situation has great advantages for an initial business launch: an enormous potential customer base (suburban folks and those living in the city) and many channel outlets to potentially carry the product – liquor stores, private clubs, restaurants. In addition to living in a profitable area, I am confident that my academically supported hard work ethic, ability to learn new things quickly, being socially connected, and being a team player will help enhance my entrepreneurial success.
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Exhibit 1: Graphs of Perfectly Competitive Firms after An Increase in Demand in the Short Run and Long Run

The market starts in a long-run equilibrium, shown as point A in panel (a). In this equilibrium, each firm makes zero profit, and the price equals the minimum average total cost. Panel (b) shows what happens in the short run when demand rises from $D_1$ to $D_2$. The equilibrium goes from point A to point B, price rises from $P_1$ to $P_2$, and the quantity sold in the market rises from $Q_1$ to $Q_2$. Because price now exceeds average total cost, firms make profits, which over time encourage new firms to enter the market. This entry shifts the short-run supply curve to the right from $S_1$ to $S_2$, as shown in panel (c). In the new long-run equilibrium, point C, price has returned to $P_1$, but the quantity sold has increased to $Q_2$. Profits are again zero price is back to the minimum of average total cost, but the market has more firms to satisfy the greater demand.

Source: Mankiw 2012, 270
Exhibit 2: Category Map for *MODD Cocktails*

![Category Map]

- **Price**
  - Low → High

- **Reputation/Importance of Brand Loyalty**
  - (Low influence on product purchased → High influence on product purchased)

Source: Kennedy 2006, 37-43