

Entrepreneurship Essentials
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Module - 05
Lecture – 22
Circle of Competence and Effectuation

Welcome, we started in the previous session on identifying or selecting business model based on trained. We will continue that discussion and then we will try to see whether just selecting based on trained is important or there are other issues like the domain knowledge or particularly the circle of competence unless something is within at the center of the circle of your competence whether it is really right to choose a particular business model.

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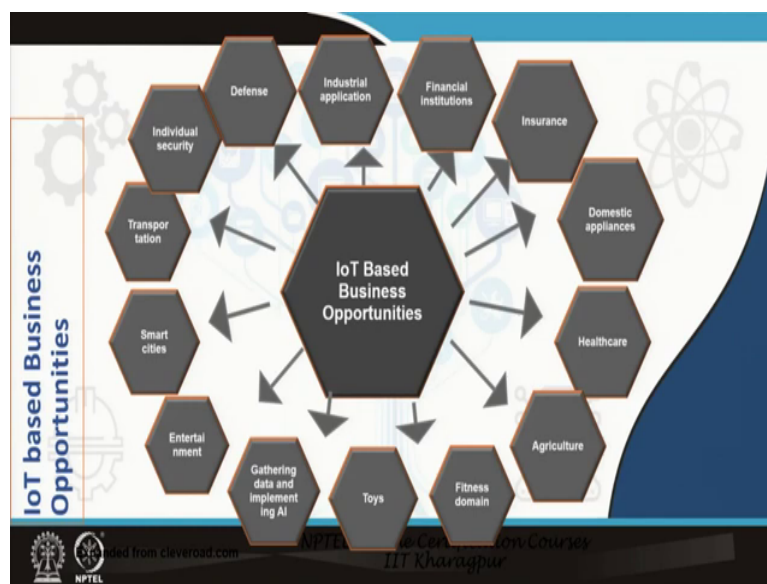


The slide features a dark blue header with the text 'CONCEPTS COVERED' in white. Below the header, there are four bullet points, each preceded by a small square icon. The slide has a decorative blue and white geometric design on the right side.

- Revisiting trend-based business model identification.
- While an opportunity may seemingly appear to be attractive, you have to ask the question if it is within your core knowledge domain before adopting it.
- Know your circle of competence and stay close to its enter.
- Effectuation – know your strengths and weaknesses and decide what business to start.

So, we will try to understand what do we mean by circle of competence and we will end the discussion by talking about effectuation which was introduced by Saras Sarasvathy. And this is something to do with the circle of competence and then how successful entrepreneurs actually think of selecting business model and then make decisions based on all of that.

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So, continuing the discussion from previous session. Look at the possibilities endless possibilities in Internet of things. It is it has become an inextricable part of our life. There are enormous ocean of possibilities.

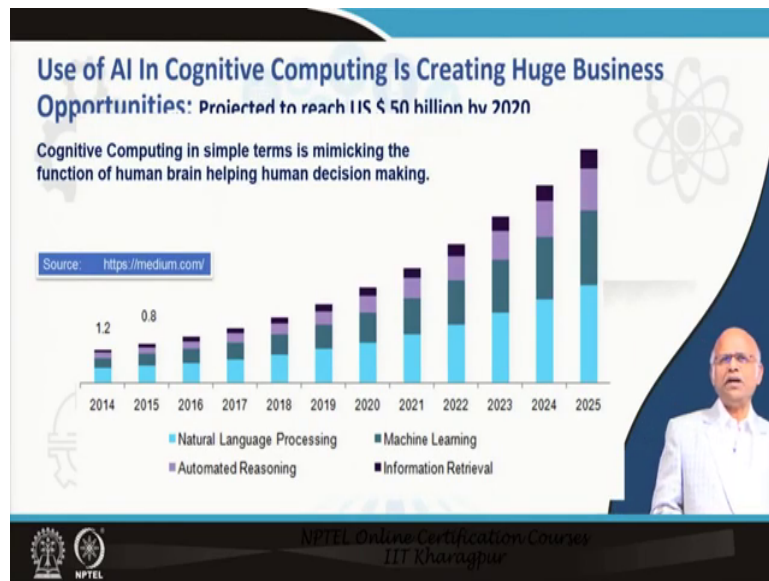
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- UBER – the services are fully dependent on the internet
- Netflix – the services are fully dependent on the internet
- YouTube – Video streaming was not viable couple of years back
- Zipdial – digital communication

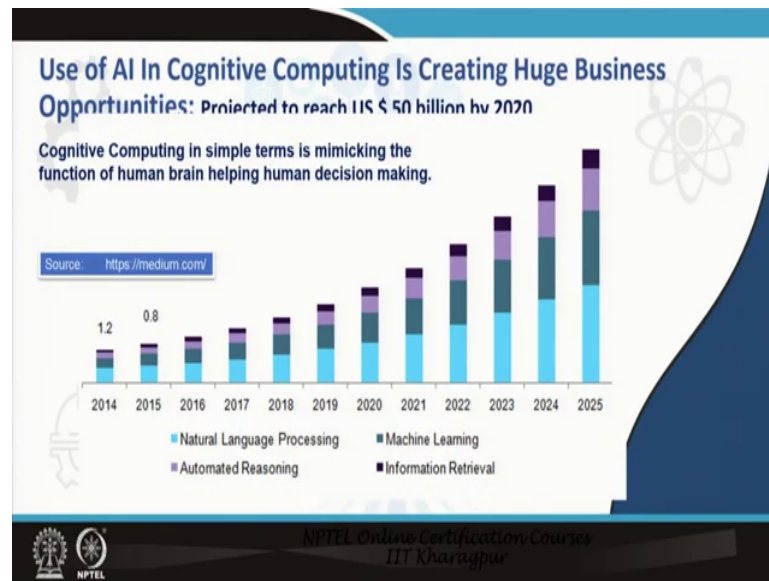
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So, just anybody and everybody might think that ok, so, this is the technology of the future technology of today and the future. So, let us do something in this domain like UBER, Netflix, YouTube, Zipdial. The all these would not be possible without the latest telecommunication and an internet in particular. Zipdial is an Indian company. It was taken over by LinkedIn. We discussed that earlier, there are so much of other possibilities.

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For example AI say natural language processing, automated reasoning, machine learning, information retrieval are growing and they are growing almost exponentially. So, that kinds of tells us about the enormous possibilities of creating new venture in this domain.

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Selecting business model based on TREND
has some downsides

- Intuitively, startups in the emerging technology domains should **enjoy natural advantages**. [Sometimes, figuratively referred to as “Blue Ocean” – a market segment where there is seemingly no competition]
- However, establishing business around new products has many challenges.
- Even established companies find it difficult to convince increasing number of customers to adopt the new products in spite of clear and pronounced advantages.

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But then there is just a point of caution that particularly if you if you look back on the statistics that why business has failed, we have seen that about 42 percent of the companies failed after raising about 2 million dollar. That means, they must have developed their product and they have gone to the market, but still they fail and that was 42 percent. People say that more than 90 percent of the companies fail after raising so much of money.

So, it is not always necessary that that if you are at the if you are ahead of the technology ahead of means you are in the in the new technology or domain, you have identified and identified a new pain about which even the customers are not familiar. So, came up with a solution and then customer thinks that customers think that they cannot live without it. They demand that product not just nice to have it, but definitely they would like to have it.

So, that perhaps is one of the best proposition for entering into a new business. As per a new book, this is referred to as blue ocean like existing market where there are competitions, this competitors or existing business houses who actually compete with each other. They are referred to as shark like it is almost like a war that is happening in the marketplace.

So, many things are done by marketers to get a bigger pie of the market. So, that they will be doing almost everything possible just short of you know firing gun firing with guns and bombs, they will be doing almost everything. There are report that Bajaj auto and TVS motors came up with a same engine with double ignition system on the same day.

So, they filed patent on the same day almost like that. So, this kind of coincidence is very rare to happen. So, people think that there were there are there are so much (Refer Time: 04:47) is happening. Everybody is trying to understand what the other people are doing. So, competition is. So, hot it is almost like people are kind of doing bloodshed of their competitors.

So, they are trying to get a bigger pie of the market that is called a red ocean marketplace. Where as you identify new pain and there are a new set of customers or customers with new kind of needs aspirations and you have the solution for them. So, you have something like a monopoly status and you are doing wonderful business what can be better than that.

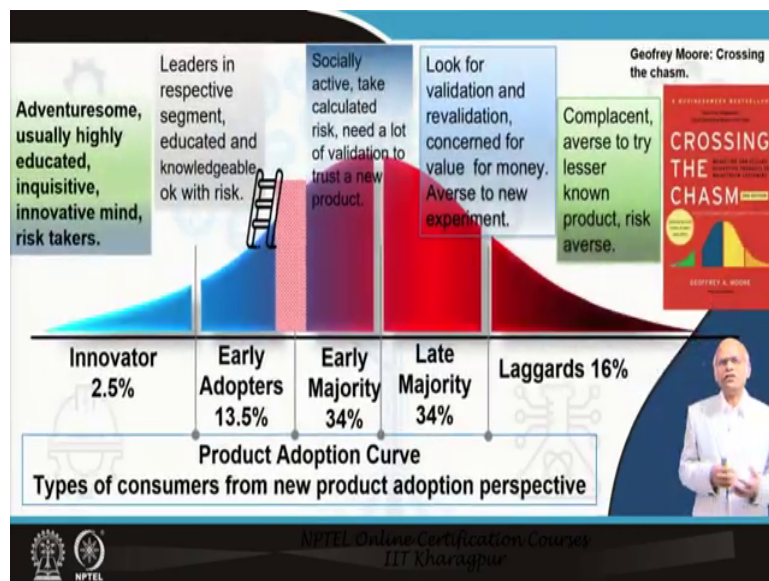
But statistics show that in this kind of a situation, almost more than ninety percent of the companies they do not sustain either they fail or they are taken over by other company companies, it is difficult means it is a difficult journey or even though you are in a blue ocean; blue ocean means there is no competition. The reason maybe many actually.

Suppose you have a wonderful product and you have developed it, you have been funded say some couple of million millions of dollars or maybe even more there are companies with more than 100 million dollars of funding and 100 million dollars of turnover, they also do not sustain there are stories like that.

So, why that happens? This happens because it is one thing to develop a product and achieve early growth, but sustaining the growth is another thing because there are different kinds of customers. And different kind of customers do have different kinds of risk aversion and if they do not feel comfortable with new product. So, different kind of business process management is necessary in the growth phase.

So, that is why for new product development, there is something called product adoption cycle. So, there are different kinds of people who look forward to different kinds of validation before they buy a product.

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So, look at this product adoption curve. The early stages in the early stages when you have almost like a minimum viable prototype meaning that you have a product with features that you think that customer will look at it and understand your value proposition. That is a

product with minimum features, but that gives customer the maximum satisfaction or the features that customers value the most. So, you find that people are actually lapping up. So, gradually you try to refine the product and slowly move forward and you achieve growth.

So, early adopters who are not kind of innovators, they are not forgiving as much as innovator. These people are kind of a leader in the respective segment. They are educated they are knowledgeable, but then they have slightly less risk appetite compared to innovator. They would like to see that your product is validated by some people only then they would buy. But then there is still somewhat innovator kind of customers.

So, you gain more traction in the marketplace and you think that your company is growing and you are seeing some it is some huge growth perhaps on your top line. Top line means sells, bottom line means profit. So, you see your top line is growing, but then from early adopters to early majority, it is a very different ball game altogether. Here you have started growing.

So, your business will demand many things like your turnover has gone up; that means, more and more products are going to the marketplace and managing growth it itself is a different ballgame. You need a professional CEO to manage growth, number 1. Number 2 you need lot of resources. So, long you had to say couple of millions of dollars and you are kind of ok.

Now, you are number of head count is likely to increase because now there are more customers. Suppose you in the early adopters, you had only say five 5000 customers. So, your setup could respond to customer complaints. Now suppose you have 10000 customers, the same set of people. If you if you have the same set of people attending the 10000, double the customers; all the customers are going to be unhappy. Meaning earlier it was absolutely happy, now they are less happy or everybody is complaining and then moving forward perhaps from 10000 customers suddenly, you may see that there is a drop.

The new customers are not enamored or they are kind of not happy with whatever your customer service, your response, your troubleshooting etcetera. So, you need resources, you need professional, you need more manpower. Most importantly, you need a lot of money to

sustain the growth phase you need more working capital. If you think of a manufacturing setup, you have raw material stock, goods in process finished goods receivable. If suppose your turnover is 5000 unit is, so, if you need say 2 million dollar of working capital.

Now, suppose your turnover is 1000 unit is, then you need more than double that money as working capital because you need more raw material more goods in process more finished goods. And as the cells grow your receivables will increase faster compared to the cells growth. Now if you are not ready, most of the people are not ready and then they say that we run out of cash. Many companies at this level will say that we ran out of cash.

But the reason may be something very different. It is not always definitely cash negative cash flow is a reality, but it is not the cash per se which is which has caused this cash flow. It is your strategy, it is your planning that we are going to need more money. So, at least 6 months ahead you must plan that there is going to be a cash flow issue.

So, we must arrange money at the beginning only then, you will be able to catch up and then move forward. So, I have just put a ladder on this saying that this ladder actually is your more money a CEO who can who can take care of the of the growth phase, then more resources in the form of more people who can who can manage your business processes at different points like say customer complaint handling and many more things.

And most importantly your customers in the early majority are more demanding. Suppose you are building a software and software always have bugs. So, innovators kind of customer will identify bugs and he is not he or she is not going to mind. He who rather they will find a solution, they will find they will do the troubleshooting and they are going to call you back saying that look you have this bugs and I have sorted it out.

So, use this knowledge and put it as a solution. So, you get kind of help. You can get lot of help from innovator kind of customer. Early adopters will be kind of ok; there are some bugs here and there and then they will complain. So, you sort them, you solve them and they are

happy only majority. If they see there is a bug they will think that it is going to jeopardize their entire business. They are not going to touch your software.

So, from so it is a wall. It is a wall that to cross that wall your product has to be absolutely perfect without anyone bug, otherwise they will think that you are a very early stage start up and they cannot risk their business with your software because it is going to be integrated with their main system and then system may crash or something.

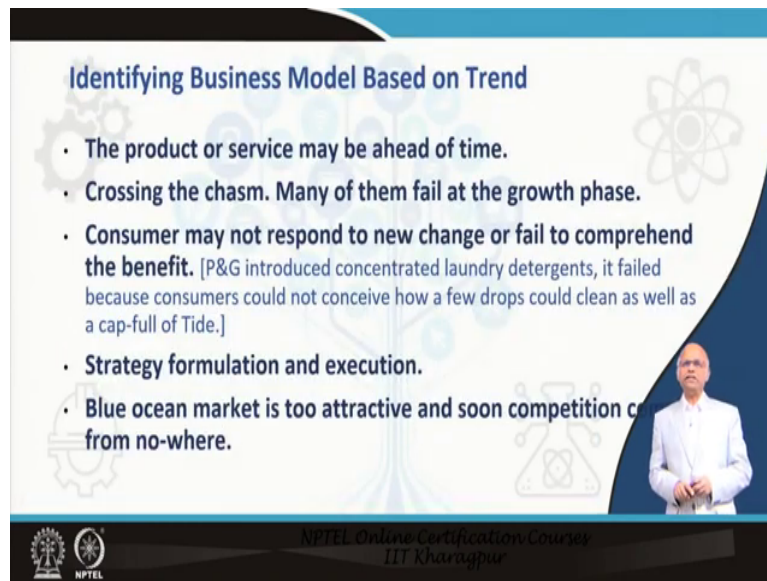
People are so much so much conscious about vulnerability. So, they will think that through your software somebody may hack their system and then etcetera. So, that is the problem. That is why even if you are at the forefront of technology change or trained, it is not always necessary that you are going to be successful. It is very important to understand that it is not just technology trend that that is going to help you.

We had a start up here called home alive home alive home. They start they were some bunch of students who started this, but the main CEO of the company did was from agriculture engineering and she did not have much idea about Internet of things. Their technology, their business was very simple. It was a switching mechanism using internet you have an app and all the systems that you would like to control through the app are connected.

So, anytime you can see whether your some of the switches are on or off; you could you could put it off on and off using your cell phone. But then who the people who had expert in that at some point of time, they said we need larger size of the pie larger share of the pie. So, there was there was problem and eventually the company was broken into two and eventually the company became went means now it is just there for the sake of being there just hardly any business.

So, it is not even though you are at the forefront of the business, it is necessary that you have expert in the expertise in that that is called circle of competence. You have some competences. So, you need to be your business need to be at this at the center of that circle of competence.

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Identifying Business Model Based on Trend

- The product or service may be ahead of time.
- Crossing the chasm. Many of them fail at the growth phase.
- Consumer may not respond to new change or fail to comprehend the benefit. [P&G introduced concentrated laundry detergents, it failed because consumers could not conceive how a few drops could clean as well as a cap-full of Tide.]
- Strategy formulation and execution.
- Blue ocean market is too attractive and soon competition comes from no-where.

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Otherwise many even many large companies, they started something beyond outside their circle of competence they fail because it is very important that you have a handle on the technology part.

So, trained alone is the point is that trend alone is not the criteria for selecting a business model. You everybody has to be careful about this chasm that comes after early adopters. This book was written by Geoffrey Moore in 1999, but ever since the book was published every marketer is reading that and just swallowing it, assimilating it to the core. So, that they do not make the same mistake like they are prepared that they know that there is a chasm after early adopters. So, they prepare themselves about that.

Even big companies fail when they start doing something new like for example, Procter and Gamble came up with a concentrate detergent concentrate oh. They had this detergent called Tide that was kind of almost like a market leader.

So, they suddenly came up with that concentrated few drops of that is equivalent to maybe 50 grams of the of the powder detergent. But then customers thought what is this, they had apprehension whether few drops can do the job that 50 grams of the detergent does? So, they were skeptic and it nobody a most of the people did not buy. So, they had to shut it down.

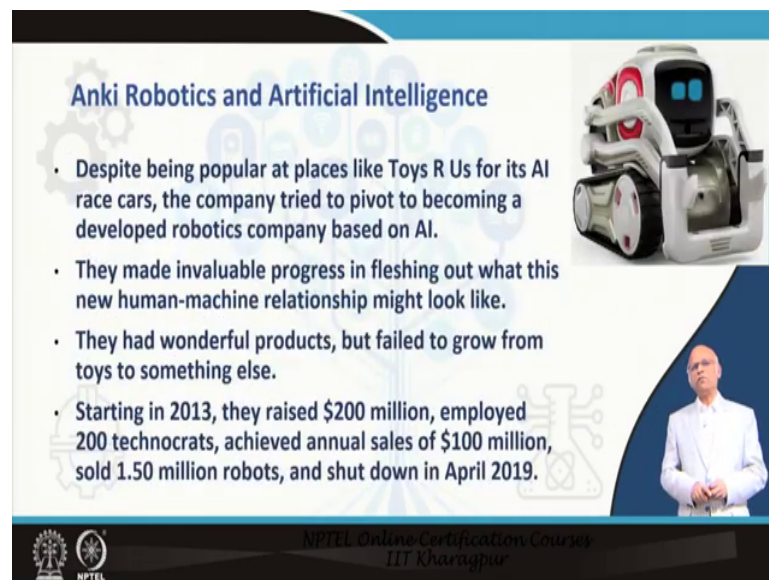
So, look at the brand presence of a company. It is a huge global company. They came up with a new product and that product was actually working it, there was no doubt about the quality efficacy of the product, but it was not successful because customers did not perceive that to be an acceptable product. So, it was something like nice to have product not really must have kind of a product.

Because there was an alternative called Tide or any other detergent chances were there that they would go to some other brand rather than remaining in this concentrate if hide. Suppose Procter and Gamble decided to eliminate Tide from the market and introduce this concentrate chances are very high that customers would switch to another brand maybe Hindusthan Unilever or some other brand from Procter and Gamble. So, that is such a danger.

Once customers leave you and go to somebody else, it becomes a huge difficult task to bring them back. So, even though you look at a blue ocean marketplace and you think that this is a very attractive proposition to enter into a blue ocean where there is no competition. You have monopoly, you have to think in a you have to think a broader in broader perspective of the thing like whether you can sustain the growth phase, whether you can when you understand the customers or whether the early majority of the customers are going to adopt your technology or not. You have to be very careful about that. So, most importantly when you are in a blue ocean marketplace, it is too attractive for anybody and everybody to enter into that same marketplace. They will find the technology from somewhere there are big companies with tons of money in the in their bank accounts.

So, they will find technology and enter inside and then there will be huge competition. So, attractiveness of the market will attract competition.

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Anki Robotics and Artificial Intelligence

- Despite being popular at places like Toys R Us for its AI race cars, the company tried to pivot to becoming a developed robotics company based on AI.
- They made invaluable progress in fleshing out what this new human-machine relationship might look like.
- They had wonderful products, but failed to grow from toys to something else.
- Starting in 2013, they raised \$200 million, employed 200 technocrats, achieved annual sales of \$100 million, sold 1.50 million robots, and shut down in April 2019.

The slide features a blue background with a white text box. On the right side, there is an image of a white and red Anki robot. Below the text box, there is a small inset image of a man in a white shirt. At the bottom left, there are logos for IIT Kharagpur and NPTEL. At the bottom right, there is text that reads 'NPTEL Online Certification Courses IIT Kharagpur'.

Competition will come from nowhere. Here is an example Anki Robotics and artificial intelligence, they were in robotics and they were in artificial intelligence. So, their robotic their robots were very intelligent. They raised 200 million dollar and their robot robots were far ahead compared to competition.

So, they were in a blue ocean marketplace. In fact, in most of the competition like Toys R Us in this kind of there of their would use to be competition and they use to come far ahead of competition. They used to come fast, but then the second one was far behind them. So, they made huge progress in creating almost like humanoid kind of robots. And then their ultimate objective was that toys is was not their object. Their objective was to was to project or built

robots which will replace many of the operations that human humans do. So, with that objective they started this.

After raising 200 million dollar and a turnover of 100 million for consecutively 3 years and they sold 1.5 million robots. But they had to shut down in April, 2019 from 13 to 19 and their technology was so advanced that after April just recently, it was it has been taken over by another company. Means it is assets have been bought out, it was not taken over. This is what the knowledge the infrastructure.

So, that shows that that also proved that this was highly valuable company and if some venture capitalists have funded 200 million dollar to a company definitely they were so convinced that this company has the right ingredients to be successful. But it does not because they could not cross that 100 million turnover and achieve growth at this point of time of course, the exact reason is not known.

But if you read the whole story, the available information not the whole story is not available. If you read only the available information, it may appear as if they restricted their marketing within only within the American market and then they did not try to try to really attain global scale, they were kind of focusing on only a small marketplace.

So, the turnover was not growing. This was a time when the turnover should have grown significantly something like say 25 to 50 percent a year whereas, their turnover was almost stagnant.

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Airware: <https://techcrunch.com/2018/09/14/airware-shuts-down/>

- The drone operating system startup Airware shuts down after raising \$118 million from top investors like Google's GV.
- The startup ran out of money after trying to manufacture its own hardware that couldn't compete with drone giants like China's DJI.
- Airware was far ahead of the game in building the software.
- The existing drone hardware wasn't sophisticated enough to absorb the granularity of data needed to train their algorithms.
- So they wanted to build the hardware themselves.
- But DJI and Ebee quickly caught up and Airware ended up burning hole in their pocket.

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Another company called Airware. Airware a wonderful company. They were making operating systems for drone like Microsoft makes operating system for PCs; they were they made operating system for drone.

So, you can compare this company with Microsoft almost like technologically if you speak, you can compare there were just the hardly any company in the world who were making operating system for drone. Most of the people were making hardware, but then tragedy is that their operating system was so very intelligent and it had so many features that to use their software, you need kind of hardware to educate your drone. That was very difficult meaning the hardware was not adequately advanced to exploit the different features of their software.

So, what they thought was that the market is not good enough which market, the market player the drone players are not good enough. So, we need more sophisticated drone to

exploit our software. So, they decided to manufacture drone meaning from software they went into hardware this is such a devastating mistake. Hardware is a different ballgame altogether. Software can be even if you even if you have talented people you can build software in a short span of time building hardware require long time and it is not always so easy.

In a computing market when there are so many hardware companies meaning drone manufacturing companies suddenly without any background without any credential, you start manufacturing hardware is a fatal mistake and that is what happened like when they started building their own drone own hardware it took so much time so much effort and bond so much of money that other companies. They came up with their own operating system by that time and the drone technology also advanced. So, eventually they just allowed other the competitors to you know run over them something like that and eventually they died a natural death.



So, this is what this is the point that that is the discussion of today that their circle of competence was in software the circle of competence was in operating system. So, rather than rather than matching their operating system to the available drone, they built something that existing market was not demanding. So, they were ahead of time, let they have let them be ahead of time that is not a problem. But if, but whatever drones were there in the marketplace, they could cater to them. If you can build something so advanced, you can definitely build something that is not so advanced.


So, they should have catered to the market demand rather than doing that they wanted to remain ahead and then they diversified into something that was not there not within their circle of competence.

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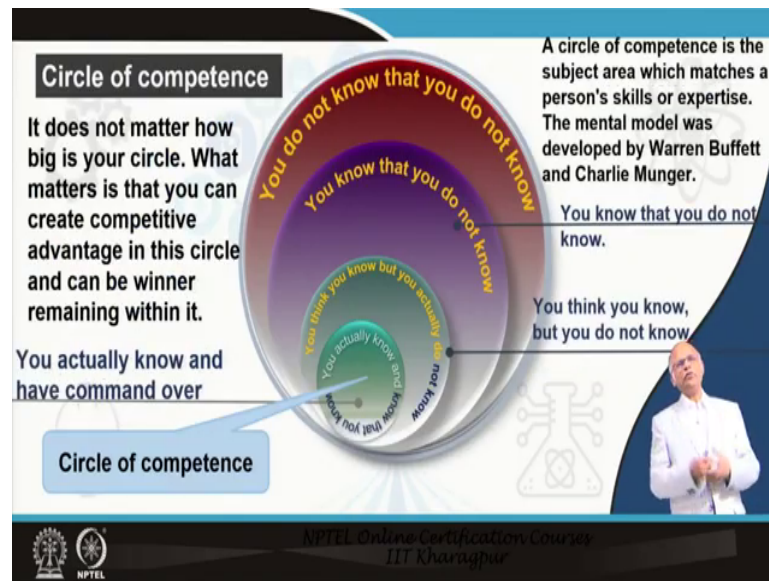
Therefore, overemphasizing on trend in selection of business model may not always be such a good idea.

- Airware lost focus from the area of their strength, which was building operating system, to making hardware.
- Instead of meeting needs of existing customers, they tried to define the need themselves and tried to build it.
- Hardware is a different market and is a different business altogether.



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So, circle of competence is very important and they actually failed to remain within that. This graphic shows that the world actually is the world means knowledge world of knowledge is so vast that we do not even know what are there to know. So, that is that is the vastness of the knowledge today and it is growing by the day by the minute by the second.

So, there is a there is something that we do not even know what is the domain. Then there is something that we know that we do not know I know that ok. There are this knowledge is like artificial intelligence I do not know. So, there are many things that I do not know. Then I think that I know many things, but which I actually do not know, but there is a very small domain that I actually think that I know and I actually know that is called circle of competence which I know very well perhaps no better than many people.

So, if we do something within this domain chances of that we will have a much better product or proposition value proposition compared to others. So, that is called circle of competence and if you are within the circle of competence, chances are very high that you will you will be able to win.

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Circle of Competence

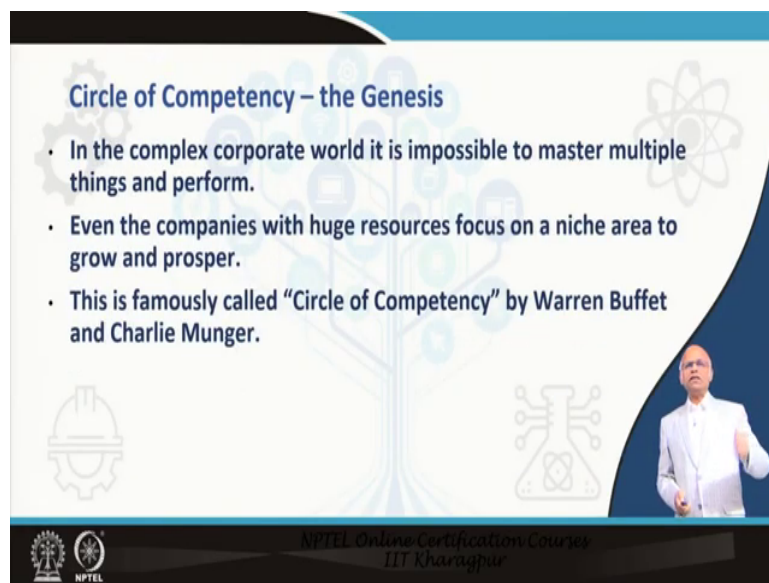
- No one can learn everything.
- Even the best brain focuses on a narrow knowledge domain.
- Legendary investors Warren Buffet and Charlie Munger term this "narrow domain" as "circle of competence," an area that one knows very well.
- One can excel well if s/he sticks within this area.
- The size of that circle may vary across individuals but understanding its boundaries is vital.
- Tom Watson, Founder of IBM, a true believer in operating within one's circle of competence, has famously said, "I'm no genius. I'm smart in spots – but I stay around those spots."

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Circle of competence actually came long back or it came from a different domain, you all know about Warren Buffet and Charlie Munger. This two investors invest their value investors the invest based on the intrinsic value of a of intrinsic value of shares of a company. And they said they espoused that you should invest in companies in the industry or in the domain in which you have sufficient knowledge to understand the difference between two companies three companies.

So, you invest in a company in a domain that you know well and you know that this is the leader in this domain and they are going to be successful only, then you will be successful. Tom Watson, the founder of IBM; created IBM and it took IBM to great heights, but then his humble acceptance is that he said I am not genius. He just have some spots where he is great perhaps, he is brilliant. So, he says that I am focusing only on those spots that is the circle of competence.

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Circle of Competency – the Genesis

- In the complex corporate world it is impossible to master multiple things and perform.
- Even the companies with huge resources focus on a niche area to grow and prosper.
- This is famously called “Circle of Competency” by Warren Buffet and Charlie Munger.

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Once you establish firmly within your circle of competence, it is possible to widen the radius.

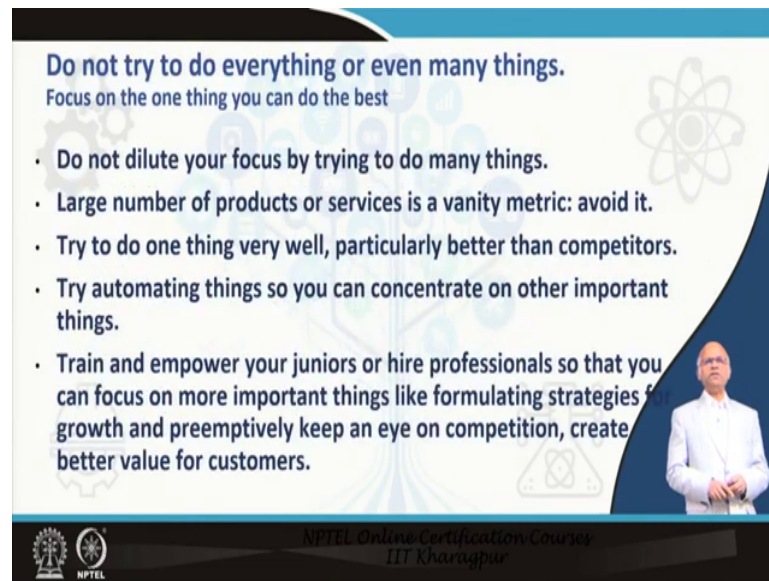
You may be familiar with many things, but that is different than the one you are competent in.

Corporate houses diversifying in areas outside their circle of competence met with disaster.

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So, once somebody focuses on the circle of competence then it becomes easy for them to move to become successful because they can create great products, great services etcetera.

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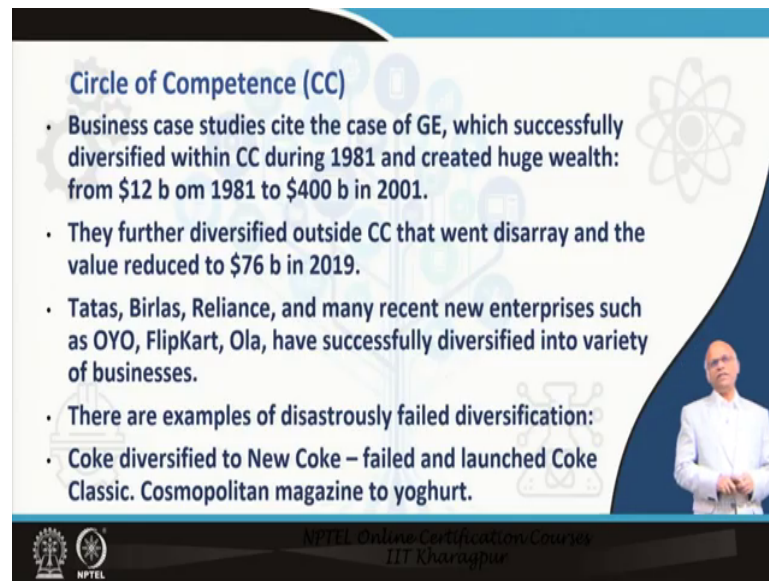
Do not try to do everything or even many things.
Focus on the one thing you can do the best

- Do not dilute your focus by trying to do many things.
- Large number of products or services is a vanity metric: avoid it.
- Try to do one thing very well, particularly better than competitors.
- Try automating things so you can concentrate on other important things.
- Train and empower your juniors or hire professionals so that you can focus on more important things like formulating strategies for growth and preemptively keep an eye on competition, create better value for customers.

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And the advice is that do not try to do too many things focus only on one thing- know what is yours your circle of competence, try to remain the at the core of it at the center of it. And then you gradually enlarge as you move forward with experience and with your team becoming a smarter you have core you build core competency. You train your people in the in your core you know circle of competence and then gradually you may perhaps dive diversify a little bit.

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Circle of Competence (CC)

- Business case studies cite the case of GE, which successfully diversified within CC during 1981 and created huge wealth: from \$12 b in 1981 to \$400 b in 2001.
- They further diversified outside CC that went disarray and the value reduced to \$76 b in 2019.
- Tatas, Birlas, Reliance, and many recent new enterprises such as OYO, FlipKart, Ola, have successfully diversified into variety of businesses.
- There are examples of disastrously failed diversification:
 - Coke diversified to New Coke – failed and launched Coke Classic. Cosmopolitan magazine to yoghurt.

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There are examples where diversification helped in circle of competence and diversification in outside the circle of competence, there are devastation. For example, GE, General Electric they diversified in 1981 in their circle of competence. So, they became a 12 billion company to a 400 billion dollar company in 2001.

Then they became over ambitious and then diversified into outside the circle of competence, they came down in 2019 to a 76 billion dollar company only.

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Achal Bakeri: Symphony Ltd.
An example of diversification leading to disaster and reverting back to outstanding performance.

- MBA from US.
- Installed an air cooler that made a lot of noise, gathered rust, often leaked and had to be covered.
- Exasperated, Bakeri saw a huge business potential in superior quality air coolers and decided to build one that was sophisticated.
- Exported his air coolers in 60 countries the company market capitalization went above Rs 4,500 crore.

<https://www.youtube.com/watch?v=n03ebikt2Z8>

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There are many examples about certain companies becoming great within the circle of competence and not so great outside. This is a wonderful example. Achal Bakeri of Symphony Limited, the product is still there the company is still there it is a live example. And you can read it from in many places there are interviews with Achal Bakeri and I have taken from YouTube you can see the link and visit there.

This Bakeri came from US after MBA being in Gujarat, it was very hot and then he bought a air cooler and he was not happy with that because the cooler was not so, was it was creating noise. It was it has so many difficulties. So, he thought that if I build a wonderful cooler, then people are going to buy this. Look at this analogy, I have been mentioning repeatedly that you try to identify an opportunity from the pain that you suffer. So, Bakeri identified the pain from the pain that he suffered.

So, he identified that a wonderful air cooler will be a wonderful idea. So, he started he started selling his cooler in 60 countries and then the company became from 0 to 4500 crore rupees company.

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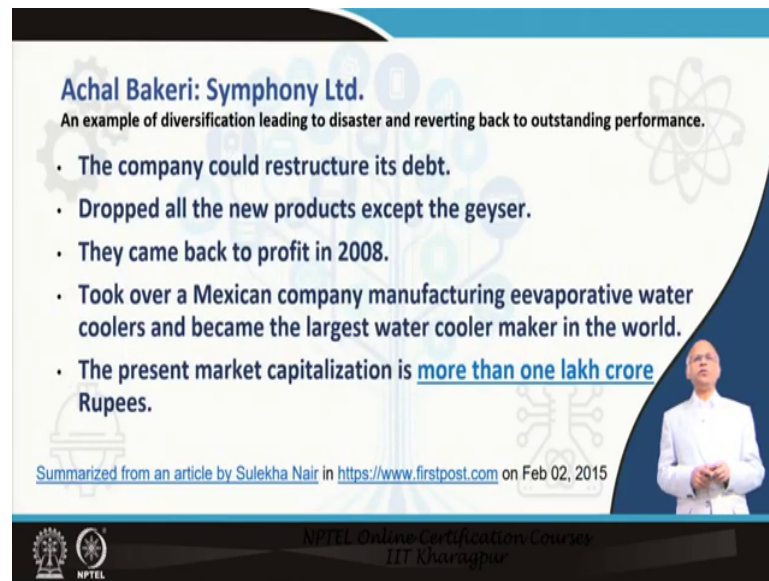
Achal Bakeri: Symphony Ltd.
An example of diversification leading to disaster and reverting back to outstanding performance.

- He noticed unique synergies of logistic and marketing efforts in diversifying into manufacturing and selling geysers, room heaters, exhaust fans, flour mills, washing machines and water purifiers.
- After 8 years of diversification, the company lost more than 50% of its peak net worth and was declared a sick company.
- In 2002, reported loss of ₹31 crore on sale of ₹28 crore.
- The market wrote off the company.
- The market capitalization went down to almost 'nil'.

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So, he was ambitious; he became ambitious. He started diversifying into what not room heater, exhaust fan, flour mill, washing machine, water purifier etcetera. What was the result? These were this is this was outside his circle of competence. And in 2002, he reported a loss of 31 crore; one a measly sale of 28 crore and eventually their market capitalization become almost 0 from 45000 crore to 0.

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Achal Bakeri: Symphony Ltd.
An example of diversification leading to disaster and reverting back to outstanding performance.

- The company could restructure its debt.
- Dropped all the new products except the geyser.
- They came back to profit in 2008.
- Took over a Mexican company manufacturing evaporative water coolers and became the largest water cooler maker in the world.
- The present market capitalization is more than one lakh crore Rupees.

Summarized from an article by Sulekha Nair in <https://www.firstpost.com> on Feb 02, 2015

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But then somehow they realized that we are actually going outside our circle of competence. Then they could restructure their debt with the banker restructuring meaning that bank has done some restructuring of their loan. Meaning some of the loans were converted into equity, some interest has been forgone something like that. And most importantly, they dropped almost all the diversified product. They had only the air cooler and the geyser and then they came back to profit in 2008 and look at the present market capitalization.

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Circle of Competence (CC): A time-tested strategy

- The concept of the Circle of Competence has been used over the years by Warren Buffett as a way to focus on investing in companies whose business is well-understood.
- The concept was articulated in his 1996 Shareholder Letter, where he wrote “What an investor needs is the ability to correctly evaluate selected businesses.”

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The slide features a blue and white color scheme with decorative icons of gears, a tree, and a molecular structure. A presenter in a white shirt is visible in the bottom right corner of the slide frame.

Now, it is more than a 1 lakh crore rupees company just by coming back into the circle of competence that is in a nutshell the a story about circle of competence.

(Refer Slide Time: 31:00)

The slide features a central question: "What are the characteristics, habits, and behaviors of the species called entrepreneur?". The background is light blue with a large, stylized tree graphic where the branches are composed of various icons representing different aspects of entrepreneurship and technology. The icons include gears, a lightbulb, a network of nodes, a hard hat, a chemical flask, and a person. The title "Entrepreneurial Expertise" is at the top left. At the bottom left are the logos for IIT Kharagpur and NPTEL. At the bottom right, a small inset shows a man in a white shirt speaking. The text "NPTEL Online Certification Courses IIT Kharagpur" is at the bottom center.

One should always remain within the circle of competence only then they can remain they can be profitable. Now other than circle of competence is a it is highly related the effectuation that there is a next topic which is highly related to circle of competence. Meaning you and try to understand your strengths weaknesses based on that you make decision. So, when you look at successful entrepreneurs, you may ask this question are they a different species of human being or different whatever, are they different.

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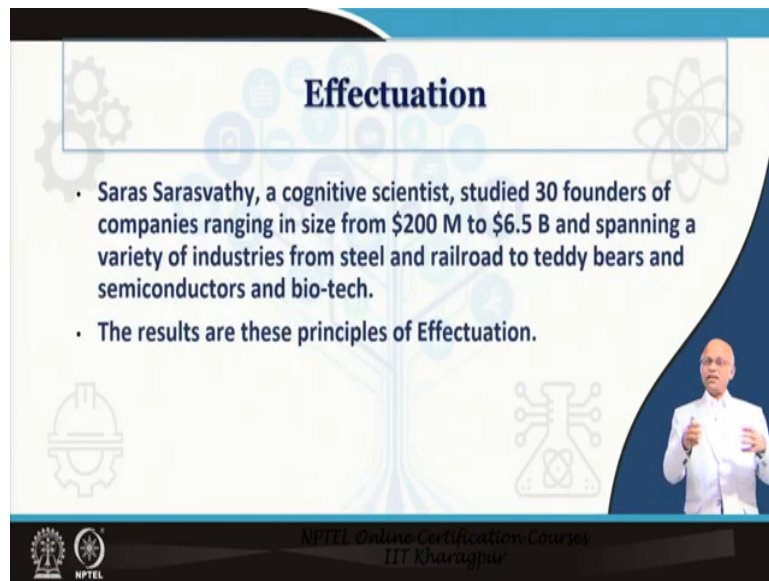
The slide features a light blue background with a dark blue curved border on the right. At the top left, the word "Effectuation" is written in blue. Below it, three blue speech bubbles contain the following text:

- Entrepreneurs constantly make decisions and take actions
- Is there a pattern of their thought and basis of their decisions?
- The basis of decisions and actions by successful entrepreneurs seem to follow a pattern or principles?

In the center, a blue circle with a yellow border contains the word "Effectuation" in yellow. The background is decorated with various icons: a gear, a lightbulb, a question mark, a bar chart, an atom, a hard hat, and a chemical flask. In the bottom right corner, a small inset shows a man in a white shirt. At the bottom, there are logos for NPTEL and IIT Kharagpur, along with the text "NPTEL Online Certification Course IIT Kharagpur".

So, Saras Sarasvathy has a solution. So, if you have this question that how would they make decision and based on what, what are the principles of their decision making an action taking; then you should read more about effectuation.

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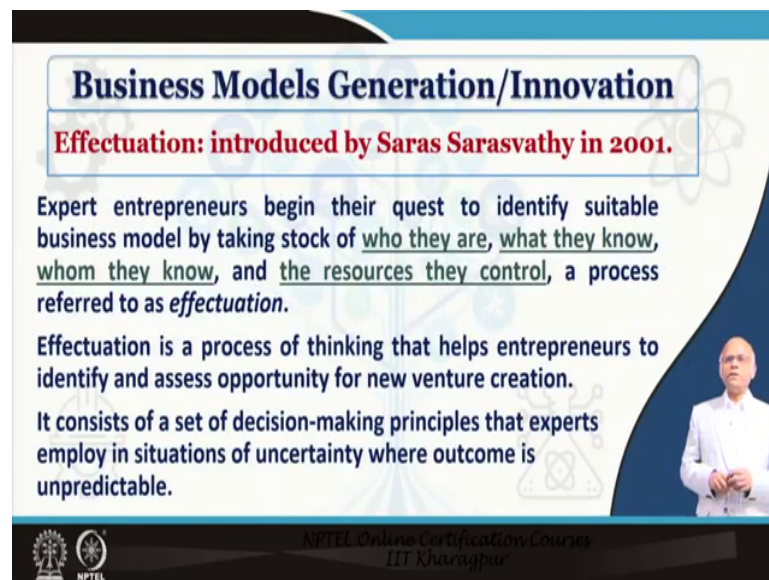
Effectuation

- Saras Sarasvathy, a cognitive scientist, studied 30 founders of companies ranging in size from \$200 M to \$6.5 B and spanning a variety of industries from steel and railroad to teddy bears and semiconductors and bio-tech.
- The results are these principles of Effectuation.

The slide features a blue and white color scheme with decorative icons of gears, a hard hat, and a circuit board. A small inset image shows a man in a white shirt speaking. The footer includes the NPTEL logo and the text 'NPTEL Online Certification Courses IIT Kharagpur'.

Saras Sarasvathy talked to 30 founders of companies with turnover from 200 million dollar to 6.5 billion dollar. And she wanted to understand how are these founders different compared to others or out of this 30 founders, what are the common trait is of successful ones and what is different from the unsuccessful ones.

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Business Models Generation/Innovation

Effectuation: introduced by Saras Sarasvathy in 2001.

Expert entrepreneurs begin their quest to identify suitable business model by taking stock of who they are, what they know, whom they know, and the resources they control, a process referred to as *effectuation*.

Effectuation is a process of thinking that helps entrepreneurs to identify and assess opportunity for new venture creation.

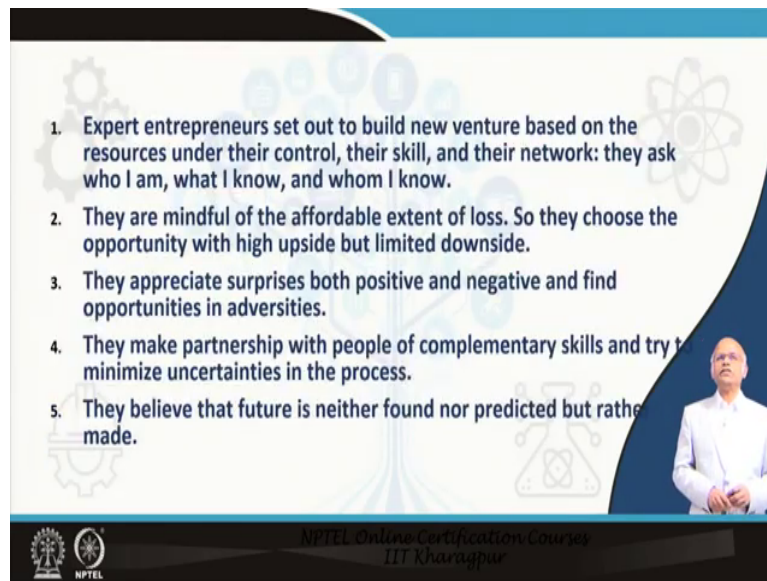
It consists of a set of decision-making principles that experts employ in situations of uncertainty where outcome is unpredictable.

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And she found that successful entrepreneurs always ask these questions; who they are, what they know, whom they know, the resources they control. A process referred to as effectuation.

So, when you try to select a business model, try to ask this question to understand your strengths, your weaknesses only then based on the answer perhaps if you start a business, you create a new venture. Based on this perhaps you are going to be successful.

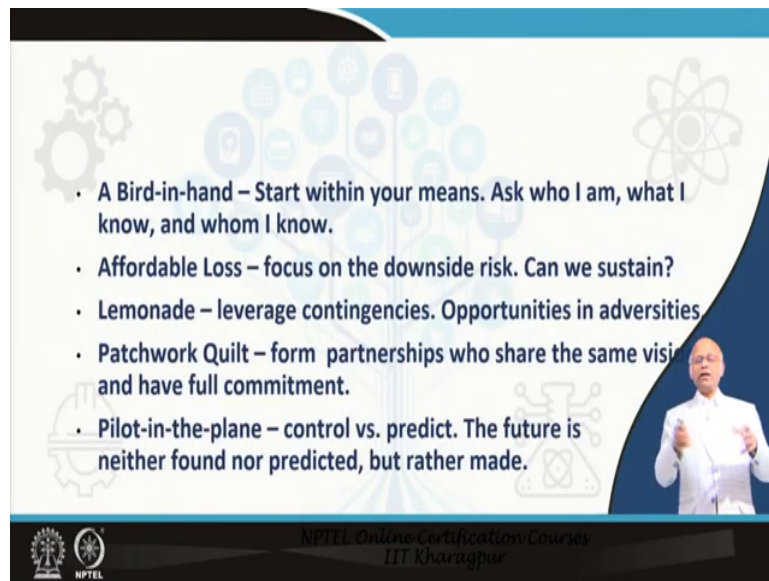
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1. Expert entrepreneurs set out to build new venture based on the resources under their control, their skill, and their network: they ask who I am, what I know, and whom I know.
2. They are mindful of the affordable extent of loss. So they choose the opportunity with high upside but limited downside.
3. They appreciate surprises both positive and negative and find opportunities in adversities.
4. They make partnership with people of complementary skills and try to minimize uncertainties in the process.
5. They believe that future is neither found nor predicted but rather made.

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- A Bird-in-hand – Start within your means. Ask who I am, what I know, and whom I know.
- Affordable Loss – focus on the downside risk. Can we sustain?
- Lemonade – leverage contingencies. Opportunities in adversities
- Patchwork Quilt – form partnerships who share the same vision and have full commitment.
- Pilot-in-the-plane – control vs. predict. The future is neither found nor predicted, but rather made.

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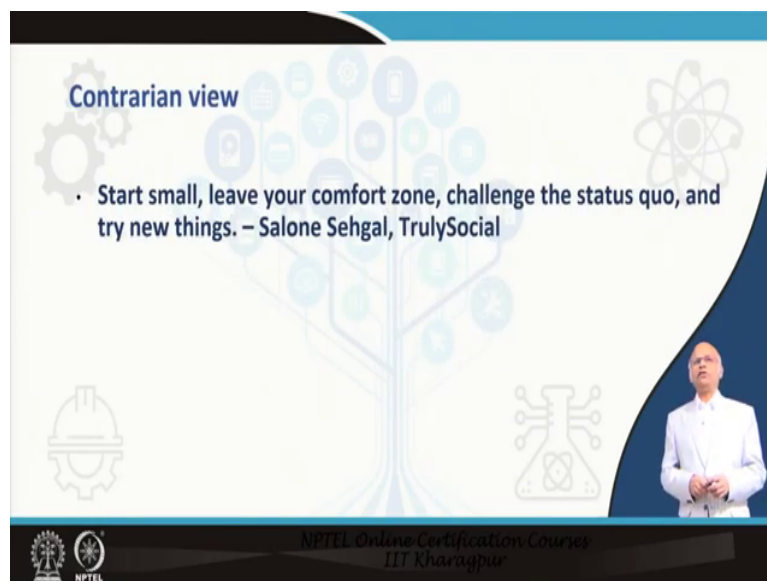
So, most importantly Saras Sarasvathy placed this way, a bird in hand meaning that what do you have, who are you and what is your strength like what is your what is your knowledge, what is your experience, what is your circle of competence. Depending on that and what with whom you are networked so, you know that if you have a technology problem somebody is going to come and help. So, depending on all of that, you make a decision, affordable loss.

Suppose you start a business and the downside is endless. So, you will not be able to pivot, you will you will be crushed. So, you know how much loss you can sustain. So, only then you would make a decision. So, you know you should know affordable loss. She turned another item called lemonade which is nothing, but you should be able to leverage on contingencies. There might be some negatives positives etcetera, you should be able to identify opportunities in adversities only then you will be successful.

If you sit back and if you ruminate as to what this what if this happens that happens, then we will not be able to go anywhere. Another item she called patchwork quilt. She says that you should make partnership with people with diversified knowledge or complementary skill particularly who are committed, who are not going to best to everything on you and then enjoy life.

So, you need committed people in your team. Pilot in the plane, she identified that successful entrepreneurs think that they are their boss, they are their creator of destiny. They do not trust in destiny, they think that they can create their own future; future cannot be predicted or say found identify or anything; future can be made.

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The slide features a central graphic of a tree with various icons (gears, lightbulbs, and a person) on its branches. The text on the slide is as follows:

Contrarian view

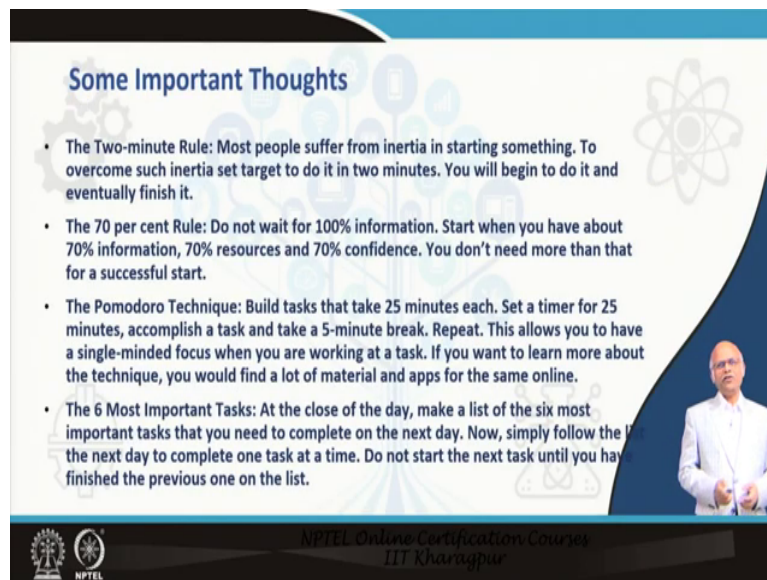
- Start small, leave your comfort zone, challenge the status quo, and try new things. – Salone Sehgal, TrulySocial

The slide also includes the NPTEL logo and the text "NPTEL Online Certification Course IIT Kharagpur" at the bottom. A presenter in a white shirt is visible in the bottom right corner of the slide.

So, that that was the that is the trait of successful entrepreneurs, but then there is always a counter a contrarian view. There is saying that start small leave your; comfort zone comfort

zone is the circle of competence. Challenge the status quo meaning whatever is the present situation, you just challenge that and try new things to find success.

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Some Important Thoughts

- **The Two-minute Rule:** Most people suffer from inertia in starting something. To overcome such inertia set target to do it in two minutes. You will begin to do it and eventually finish it.
- **The 70 per cent Rule:** Do not wait for 100% information. Start when you have about 70% information, 70% resources and 70% confidence. You don't need more than that for a successful start.
- **The Pomodoro Technique:** Build tasks that take 25 minutes each. Set a timer for 25 minutes, accomplish a task and take a 5-minute break. Repeat. This allows you to have a single-minded focus when you are working at a task. If you want to learn more about the technique, you would find a lot of material and apps for the same online.
- **The 6 Most Important Tasks:** At the close of the day, make a list of the six most important tasks that you need to complete on the next day. Now, simply follow the list the next day to complete one task at a time. Do not start the next task until you have finished the previous one on the list.

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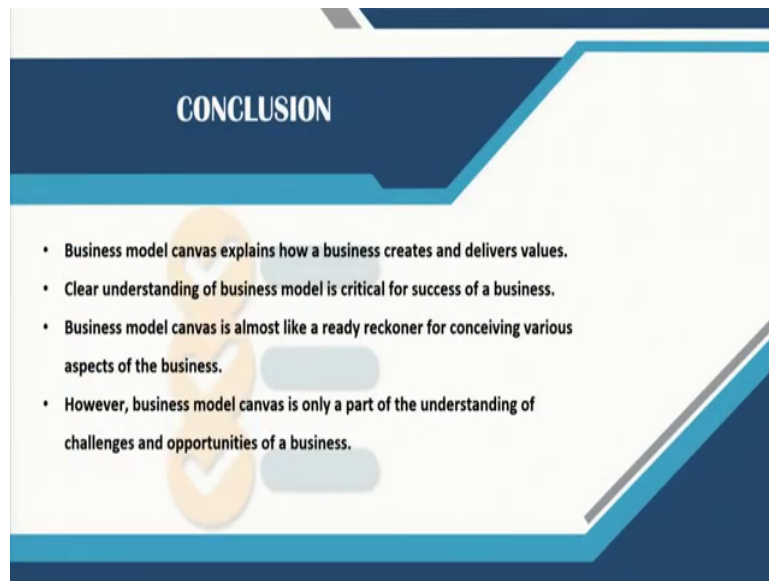
So, for everything there is always a contrarian view. Some important thoughts, this is important, but I will not waste time just pause and read some references some concluding remarks.

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 - ❑ Kim, W. C., & Mauborgne, R. (2014). Blue ocean strategy, expanded edition: How to create uncontested market space and make the competition irrelevant. Harvard business review Press.
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CONCLUSION

- Business model canvas explains how a business creates and delivers values.
- Clear understanding of business model is critical for success of a business.
- Business model canvas is almost like a ready reckoner for conceiving various aspects of the business.
- However, business model canvas is only a part of the understanding of challenges and opportunities of a business.

And thank you very much