



*Third  
Edition*

# Entrepreneurship

*Strategies and Resources*

Marc J. Dollinger

THIRD EDITION

*Entrepreneurship*  
Strategies and Resources

Marc J. Dollinger  
*Indiana University*



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# Preface

Since the publication of the first edition of *Entrepreneurship: Strategies and Resources*, the field of entrepreneurship has grown even faster than I would have predicted. There are more courses and schools teaching entrepreneurship than ever. The major business periodicals, *Business Week*, *Fortune*, and *The Wall Street Journal* continue expanding their coverage of entrepreneurs and their companies. *Success* magazine has begun a ranking of top business school entrepreneurship programs. Business plan competitions at the graduate and undergraduate level continue to proliferate and the prizes get larger and larger. International interest in new venture creation has grown exponentially and some of this has been delivered through the Internet in distance learning formats. I personally participated in one such effort between Indiana University and City University of Hong Kong. The technology enabled us to form joint ventures between students in the United States and Hong Kong for the purpose of starting businesses. It was marvelous.

In this third edition of *Entrepreneurship: Strategies and Resources*, I have tried to improve upon the foundation set in the first and second editions. This book is designed to be friendlier to the user, beginning with its new design and softcover. A number of new features will help make the text easier to read and understand. Dozens of new examples and minicases, called “Street Story,” have been added. International examples and applications are integrated throughout the book.

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## ORGANIZATION OF THE BOOK

*Entrepreneurship: Strategies and Resources* is organized into three parts. Part I introduces the major themes and theory of the book. Chapter 1 describes the roles that new venture creation plays in the international economy, defines entrepreneurship, and shows how three factors—individuals, environments, and organizations—come together to create the entrepreneurial event.

Chapter 2 sets this textbook apart from others because it casts entrepreneurial phenomena in terms of the predictive theory of the resource-based framework. In this chapter, we present the basic concepts and model of the resource-based theory. There are six types of resources in our theory: financial, physical, technological, human, organizational, and reputational. The theory says that entrepreneurs can create sustainable competitive advantage for their ventures when they possess or can acquire and control resources that are rare, valuable, hard to duplicate, and nonsubstitutable. Here we emphasize the importance of human resources, especially the entrepreneur. We then explain how these resources are a source of profit and rent for the entrepreneur and how the new venture needs to protect these rents and profits through isolating mechanisms

and first-mover advantages. Last, we offer a model of resource-based feasibility analysis to guide the student throughout the rest of the book.

Part II of *Entrepreneurship: Strategies and Resources* describes the environment for entrepreneurship. It presents the tools and techniques for analyzing business and competitive conditions and evaluating entrepreneurial opportunities. It is comparable to the strategy formulation phase of corporate strategic management. The purpose of this section is to show how the environment affects, directs, and impinges on the strategy formulation problem in new venture creation. It does this in two ways that can be expressed by the resource-based model: The environment helps determine what is rare, valuable, imitable, and substitutable *and* it is the source of resources that possess these four attributes. The strategy formulation problem in new venture creation can be stated as follows: What configuration of resources will provide the new firm with the best chances of achieving a competitive advantage?

Chapter 3 covers the aspects of the macro- and microenvironment that affect entrepreneurship and new venture creation. We present a process model for environmental analysis and then describe a five-element model of the macroenvironment: political, economic, technological, sociodemographic, and ecological factors. Next we offer the elements of the competitive environment. We incorporate the Porter model (5-forces model) into the analysis. We begin by asking two questions of utmost importance to the entrepreneur in the early stages of new venture creation:

1. Is the industry the entrepreneur is about to enter an attractive one?
2. What are the best ways to compete to increase the chances of creating a high profitability venture?

To address the first question, the chapter depicts an industry's profitability as a function of buyer and supplier power, the threat of substitutes, entry barriers, and the state of interfirm rivalry. Students are shown how to do this analysis in sufficient depth and with limited data by resorting to the basics of microeconomic theory. To address the second question, we discuss the ways that the possession and acquisition of the four-attribute resource base provides the entrepreneur with tools to overcome strong industry forces and exploit weak industry forces. The resource-based model is incorporated into this discussion by demonstrating its applicability as a screening device for new venture ideas. We create and describe a resource-based implementation matrix—the four attributes of sustainable competitive advantage by the six types of resources: financial, physical, technological, reputational, human, and organizational resources.

Chapter 4 presents types of new venture strategies and examines different positions that entrepreneurs take regarding the resources required for their firms. We present the basic entry wedges available to the new venture and develop the set of resource-based strategies. We look at how the industry life cycle influences strategy choice. New ventures can be created successfully across the life cycle, but each poses its special challenges. The chapter concludes with an overview of strategic postures and orientations that entrepreneurs can take.

Chapter 5 presents the major tool for formulating and creating new ventures: the business plan. We offer an in-depth outline for a business plan, including all the key sections and tips on how to structure the plan and the financial proposal for maximum effectiveness. The chapter continues with a discussion of the criteria and techniques for

evaluating business plans. At the end of the chapter, we offer proven tips for the format and presentation, writing, and editing of successful business plans. A complete business plan follows the chapters.

Part III of *Entrepreneurship: Strategies and Resources* makes the transition from the formulation of entrepreneurial strategy to the implementation stage. The section covers strategic choice, implementation issues, and the problems of securing resources.

Chapter 6 is an entirely new chapter called “The E-Entrepreneur.” It explores the special nature of electronic entrepreneurship and the impact the Internet has had on entrepreneurs and start-ups everywhere. We examine who is likely to be an e-entrepreneur and what makes Internet start-ups likely to succeed. Within the framework of the resource-based theory, we conclude that you must be able to do something that provides you with a competitive advantage. We then take a look at the underlying strategies that e-entrepreneurs can employ for their firms. Finally, we evaluate a number of e-commerce models that have been tried during the e-commerce boom.

Chapter 6 in the first and second editions covered entrepreneurship and marketing. We still think there is important information in this chapter, but it will be included in the auxiliary material for the instructor.

Chapter 7 introduces the elements of entrepreneurial finance. We discuss how financial resources can and cannot be a source of advantage for the new venture. Then we show how the venture can determine its financial and cash flow needs. After reviewing the types and sources of potential financing, we present three methods of new venture valuation. The chapter has an appendix: a brief introduction into the process of going public.

Chapter 8 shows how entrepreneurs actually obtain investors and structure the financial deal. We look at the characteristics of various types of investors and how to appeal to their needs. The basic elements of the deal structure are presented, and then more advanced elements, such as phased financing and the use of options, are introduced. The chapter concludes with a review of the legal and tax issues raised by seeking outside investors. This chapter has two appendices: an outline of a typical investment agreement and a description of the negotiable terms to a financial agreement.

Chapter 9 examines the creation and development of the organization. We begin with a discussion of the top management team and provide guidelines for effective top management processes. We do the same for boards of directors. Then we discuss the design of the new venture. Two new sections have been included in Chapter 9. The first is a summary of the research from Collins and Porras’s *Built to Last*. We feel that the time to begin to think about building an enduring organization is right at the start of the venture, and the *Built to Last* concepts have great insight into the entrepreneurial problem. The second is an introduction to the dimensions of the *balanced scorecard*. We explore these in the context of entrepreneurial performance and show that performance is not just financial, but a set of indicators across four dimensions. The *balanced scorecard* can be a system of management for the entrepreneurial TMT. Last we offer a vision of the entrepreneurial workplace. We discuss how culture, ethics, and personnel practices can help make organizations unique and, therefore, provide a competitive advantage.

Chapter 10 discusses corporate entrepreneurship (intrapreneurship) and the factors that lead to successful intrapreneurship and those that hinder large corporations from being entrepreneurial. The second section discusses the possible networking and alliance formation that entrepreneurs can use to enhance their strategies, resources, and

market position. The third section discusses franchising. We discuss what elements make a business concept a legitimate franchise opportunity, and what factors potential franchisees should evaluate before buying a franchise. For both sections, we offer guidelines for effective decision making.

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## PEDAGOGIC FEATURES

The third edition of *Entrepreneurship: Strategies and Resources* provides several features that are designed to aid the learning process:

- **Chapter outlines** at the beginning of each chapter inform the students about what they should know about entrepreneurship when they complete the reading.
- **Chapter objectives** blueprint concepts the student should understand upon completion of the chapter.
- **E-Notes** capsulize important entrepreneurship concepts for the student in a boxed format throughout each chapter.
- **Theory-based text** enables the student to analyze, evaluate, and predict the prospects for various business concepts and plans and make recommendations that increase the venture's chances.
- **Practical applications and guidelines** are offered in all the chapters to show the student how to deal with the real world of entrepreneurs, markets, and competitors.
- **Street Story** is the name of our boxed series of minicases. Each chapter contains these real-life examples drawn from the pages of the business press. Each Street Story illustrates the application of good theory to everyday new venture creation.
- **Tables and figures** throughout the book help illustrate difficult points and summarize the material for the student.
- **Extensive references** at the end of each chapter provide documentation for all of the arguments offered and enable the student to follow up with additional reading.
- **End-of-chapter case and questions** provide the basis for stimulating discussion. Adapted from real situations described in the business press, these short cases are provocative illustrations of what can go right and what can go wrong in the process of new venture creation.
- **Key terms** are listed at the end of each chapter so that the student can be familiar with the language in use of entrepreneurship.
- **Chapter discussion questions** can provide the basis of classroom debate as well as be used for written assignments.
- **Chapter exercises** are designed for two purposes. The first is to aid the student in the development of his or her own business plan. The exercises guide the students to complete the portion of their plan covered in the chapter. Chapter exercises can also be used to complement the classroom experience by having the student go out into the business community to observe entrepreneurship first hand.

- **End-of-text cases** provide an in-depth learning exercise for the student. We have prepared 10 cases for analysis. The cases deal with the problems and opportunities of new venture creation, of securing resources, of building reputations, and of operating in a competitive market. The instructor's manual offers a comprehensive teaching note for each case.
- **Name and subject indexes** at the end of the book aid in finding topics and key people and companies.
- **State-of-the-art design** makes the book more readable and enhances learning.

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Currently, he is the chairman of the Kelley School of Business's Undergraduate Program. Marc is also a member of the editorial board of *Entrepreneurship: Theory and Practice* and a former board member of the *Academy of Management Review*. His 1990 paper, "The Evolution of Collective Strategies in Fragmented Industries," was awarded the Best Paper Award by the *Academy of Management Review*.

The focus of Marc's career has been teaching and researching and consulting entrepreneurship and small business issues. He has published articles in the *Academy of Management Journal*, *Academy of Management Review*, *Strategic Management Journal*, *Entrepreneurship: Theory and Practice*, *Journal of Small Business Management*, and *Journal of Small Business Strategy*. He is currently working on the consortium of the Panel Study of Entrepreneurial Development.

Dr. Dollinger teaches both undergraduate and MBA entrepreneurship courses at Indiana University's School of Business and has conducted workshops for many small business groups, including manufacturer's representatives of a major medical products company, minority business owners, and owners of small firms in the retail music business. He also conducts workshops for executives, most recently for the Asian-Pacific Management Development Consortium, ALCOA-CSI, and Otis Elevator, North American Operations.

# *Brief Contents*

PREFACE	xix	
CHAPTER 1	A Framework for Entrepreneurship	1
CHAPTER 2	Resources and Capabilities	24
CHAPTER 3	The Environment for Entrepreneurship	50
CHAPTER 4	Entrepreneurial Strategies	89
CHAPTER 5	The Business Plan	126
CHAPTER 6	The E-Entrepreneur	177
CHAPTER 7	Foundations of New Venture Finance	218
CHAPTER 8	Securing Investors and Structuring the Deal	253
CHAPTER 9	Creating the Organization	293
CHAPTER 10	Corporate Venturing, Networking, and Franchising	331
CASE 1	Blitz	364
CASE 2	Tellme Networks: Dial Tone 2.0?	394
CASE 3	Stamps.com: Bringing Electronic Postage Online	406
CASE 4	Rubio's: Home of the Fish Taco (A)	420
CASE 5	Rubio's: Home of the Fish Taco (B)	435
CASE 6	Suzy's Zoo	456
CASE 7	TiVo: Television the Way You Want It	465
CASE 8	LiveREADS: Valuing an E-Book Start-Up	478
CASE 9	Windsor Industries, Inc.	489
CASE 10	Sony PlayStation 2: Trojan Horse in the Living Room?	499

# Contents

PREFACE	xix
---------	-----

## CHAPTER 1 A Framework for Entrepreneurship 1

Entrepreneurship and Your Future	2
<i>How does this all add up?</i>	2
What Is Entrepreneurship?	5
<i>Creation</i>	5
<i>Economic organization</i>	6
<i>Risk and uncertainty</i>	7
Where Is Entrepreneurship?	7
<i>Economic growth and freedom</i>	7
The New Entrepreneur	9
Dimensions of Entrepreneurship	10
<i>New venture creation</i>	10
<i>Resources, capabilities, and strategies</i>	10
<i>Individuals</i>	13
<i>Environment</i>	16
<i>Organizations</i>	16
Organization of the Book	18
A Final Word	20

## CHAPTER 2 Resources and Capabilities 24

Identifying Attributes of Strategic Resources	26
<i>Valuable resources</i>	27
<i>Rare resources</i>	28
<i>Hard-to-copy resources</i>	28
<i>Nonsubstitutable Resources</i>	31
Resource Types	32
<i>Physical resources</i>	32
<i>Reputational resources</i>	33
<i>Organizational resources</i>	33
<i>Financial resources</i>	34

<i>Intellectual and human resources</i>	36
<i>Technological resources</i>	36
A Psychological Approach	38
<i>Personality characteristics</i>	38
<i>Inadequacy of the trait approach</i>	41
A Sociological Approach	41
<i>Impetus for entrepreneurship</i>	41
<i>Situational characteristics</i>	44
<b>CHAPTER 3 The Environment for Entrepreneurship</b>	<b>50</b>
Schematic of the New Venture's Environment	51
Processes of Business Environment Analysis	53
<i>Scanning</i>	53
<i>Monitoring</i>	53
<i>Forecasting</i>	54
<i>Assessing</i>	54
Political and Governmental Analysis	55
<i>Stakeholder analysis</i>	55
<i>Global and international issues</i>	57
<i>National issues</i>	58
<i>State, regional, and local issues</i>	60
Macroeconomic Analysis	61
<i>Structural change</i>	61
<i>Cyclical change</i>	61
Technological Analysis	62
<i>Pure invention</i>	62
<i>Process innovation</i>	62
Sociodemographic Analysis	63
<i>Demographics</i>	63
<i>Social trends and values</i>	65
Ecological Analysis	66
Sources of Opportunity	67
<i>The unexpected</i>	67
<i>The incongruous</i>	67
<i>The process need</i>	69
<i>Industry and market structures</i>	69
<i>Demographics</i>	69
<i>Changes in perception</i>	69
<i>New knowledge</i>	69
Competitive Analysis	70
Industry Analysis	71
Buyer Power	72

Supplier Power	75
The Threat of Substitutes	76
Entry Barriers	76
<i>Structural barriers to entry</i>	77
<i>Retaliatory barriers to entry</i>	77
<i>Price cutting</i>	78
<i>Legal challenges to new ventures</i>	79
Rivalry Between Firms	79
Competitor Analysis	80
<i>Identifying the competition</i>	80
<i>Ranking competitors</i>	82
<b>CHAPTER 4 Entrepreneurial Strategies</b>	<b>89</b>
Entrepreneurship and Strategy	90
Entry wedges	92
<i>Major wedges</i>	92
<i>Minor wedges</i>	95
Resource-Based Strategies	100
<i>Rent-seeking strategies</i>	100
Isolating Mechanisms and First-Mover Advantage	101
<i>Types of isolating mechanisms</i>	101
<i>Sources of first-mover advantage</i>	101
<i>Growth strategies</i>	102
<i>Quality as a strategy</i>	104
Strategy and Industry Environments	106
<i>Emerging industries</i>	106
<i>Transitional industries</i>	110
<i>Maturing industries</i>	112
<i>Declining industries</i>	114
<i>Fragmented industries</i>	116
Evaluating Strategy and Entrepreneurial Opportunities	118
<i>Stage 1: Identification</i>	118
<i>Stage 2: Capabilities</i>	119
<i>Stage 3: Competitive advantage</i>	120
<i>Stage 4: Strategy</i>	120
<i>Stage 5: Feedback</i>	121
<b>CHAPTER 5 The Business Plan</b>	<b>126</b>
Why Write a Business Plan?	127
<i>The costs of planning</i>	127
<i>The benefits of business planning</i>	128

Elements of the Business Plan	130
<i>Preliminary sections</i>	131
<i>Major sections</i>	135
<i>Concluding sections</i>	144
Critiquing the Plan: Questions Likely to Be Asked	146
<i>Management</i>	146
<i>Resources</i>	146
<i>Projections and returns</i>	146
<i>Exit</i>	148
Format and Presentation	149
<i>Physical appearance</i>	149
<i>Writing and editing</i>	149
<i>Prewriting</i>	149
<i>Writing and rewriting/revising</i>	150
<i>Editing</i>	150
Appendix 5A: The Del Cano, Inc., Business Plan	154
<b>CHAPTER 6 The E-Entrepreneur</b>	<b>177</b>
Where Are the E-Entrepreneurs?	179
Who Are the E-Entrepreneurs?	183
Winners and Losers	189
The Resource-Based View and E-Entrepreneurship	191
Information Rules	196
<i>Value pricing</i>	197
<i>Versioning</i>	198
<i>Intellectual property</i>	199
<i>Lock-in</i>	200
<i>Networks and positive feedback</i>	201
<i>Cooperation and compatibility</i>	203
Business Models and Strategies	204
<i>B2C</i>	204
<i>B2B</i>	205
<i>B2B2C</i>	207
<i>Niches</i>	208
<i>Clicks and bricks</i>	209
<i>Roll-ups</i>	210
<i>Advertising models</i>	210
<i>Pay-for-content models</i>	212
What Have We Learned?	213
<b>CHAPTER 7 Foundations of New Venture Finance</b>	<b>218</b>
Determining Financial Needs	219
<i>Working capital and cash flow management</i>	220
<i>Across the venture's life cycle</i>	226

Sources of Financing	227
<i>Equity-based financing</i>	228
<i>Debt-based financing</i>	233
New Venture Valuation	240
<i>Asset-based valuation</i>	240
<i>Earnings-based valuations</i>	241
<i>Discounted cash flow models</i>	244
Appendix 7A: The Initial Public Offering (IPO) Process	250
 <b>CHAPTER 8 Securing Investors and Structuring the Deal</b>	 253
Approaching Investors	255
<i>The ideal investor</i>	255
<i>The ideal entrepreneur and new venture</i>	257
<i>Investor processes</i>	260
Structuring the Deal	264
<i>Segmenting the investor market</i>	265
<i>Risk sharing</i>	267
<i>Staged financing</i>	269
<i>The option to abandon</i>	270
<i>Warrants</i>	272
<i>Pitfalls and problems to avoid</i>	273
Legal and Tax Issues	274
<i>Legal forms of organization in the United States</i>	274
<i>Private placements under U.S. securities laws</i>	278
<i>U.S. bankruptcy laws</i>	280
Appendix 8A: Investment Agreement Outline	289
Appendix 8B: Negotiable Terms to a Financial Agreement	290
 <b>CHAPTER 9 Creating the Organization</b>	 293
The Top Management Team	295
<i>Creating the top management team</i>	295
<i>Maintaining top management teams</i>	300
<i>Benefits and pitfalls of TMTs</i>	302
<i>The board of directors</i>	303
<i>Guidelines for successful boards</i>	305
Building an Enduring Organization	306
The Organization's Boundaries	312
<i>The virtual organization</i>	312
<i>Traditional organizational structure</i>	313
Entrepreneurial Performance: The Balanced Scorecard	316

The Entrepreneurial Workplace	320
<i>The entrepreneurial culture</i>	322
<i>Entrepreneurial ethics</i>	323
Most Successful Human Resource Practices	325

## **CHAPTER 10 Corporate Venturing, Networking, and Franchising** 331

Intrapreneurship	332
<i>The need for intrapreneurship</i>	333
<i>Comparison with entrepreneurship</i>	335
<i>The process of intrapreneurship</i>	337
<i>Opportunities and barriers to intrapreneurship</i>	339
<i>Guidelines for success</i>	341
Networking and Alliances	342
<i>Benefits and motivations for networking</i>	342
<i>Types of networks</i>	345
<i>Alliance behaviors</i>	346
<i>Partner selection criteria</i>	348
<i>Processes of reciprocity</i>	351
The Franchising Alternative	352
<i>Theoretical foundations</i>	353
<i>Franchisor considerations</i>	354
<i>Franchisee considerations</i>	357

## **CASE 1 Blitz** 364

Background and Purpose	365
<i>Current situation</i>	365
<i>Our resources</i>	365
<i>Human resources</i>	365
<i>Reputational resources</i>	365
<i>Organizational resources</i>	366
Objectives	366
<i>Short term</i>	366
<i>Long term</i>	366
Market Analysis	367
<i>Overall market</i>	367
<i>Specific market</i>	367
<i>Competitive factors</i>	368
<i>Industry analysis</i>	369
<i>Macroenvironmental influences</i>	369
Development and Production	370
<i>Production processes</i>	370
<i>Resource requirements</i>	371



<i>Product differentiation</i>	371
<i>Quality</i>	371
Marketing	371
<i>Overall concept and orientation</i>	371
<i>Marketing strategy</i>	372
<i>Communication of the image</i>	372
<i>Pricing strategy</i>	372
<i>Distribution</i>	372
<i>Marketing time line</i>	374
<i>Sales forecasts</i>	375
Financial Plans	375
<i>Financial statements</i>	375
<i>Financial resources</i>	376
Management and Organization	376
<i>Key personnel resources</i>	376
<i>Human resources management strategy</i>	377
Ownership	377
<i>Forms of business</i>	377
<i>Equity positions</i>	378
<i>Deal structure</i>	378
<i>Corporate governance</i>	379
Critical Risks and Contingencies	380
Summary and Conclusions	381
Scheduling and Milestones	381
 <b>CASE 2 Tellme Networks: Dial Tone 2.0?</b>	 <b>394</b>
Company Background: “Netscapees”	394
“Tellme More”	395
Development of Tellme	395
Overview of the Voice Portal Market	396
Competition	396
Tellme Alliances	397
The Future of Tellme	397
 <b>CASE 3 Stamps.com: Bringing Electronic Postage Online</b>	 <b>406</b>
Introduction	406
What Is Online Postage?	406
<i>USPS information based indicia program</i>	406
<i>Technology</i>	407