

A new business venture is confronted with the immediate concern of gaining at least a foothold in the market it desires to serve. An established business, however, has a different concern—it must grow or at least maintain its competitive stance. In both cases, there is a need to adapt new sound business ideas (Figure 8). This could mean improvements to products or services offered, or in the way customers are served, or some innovation in doing business.

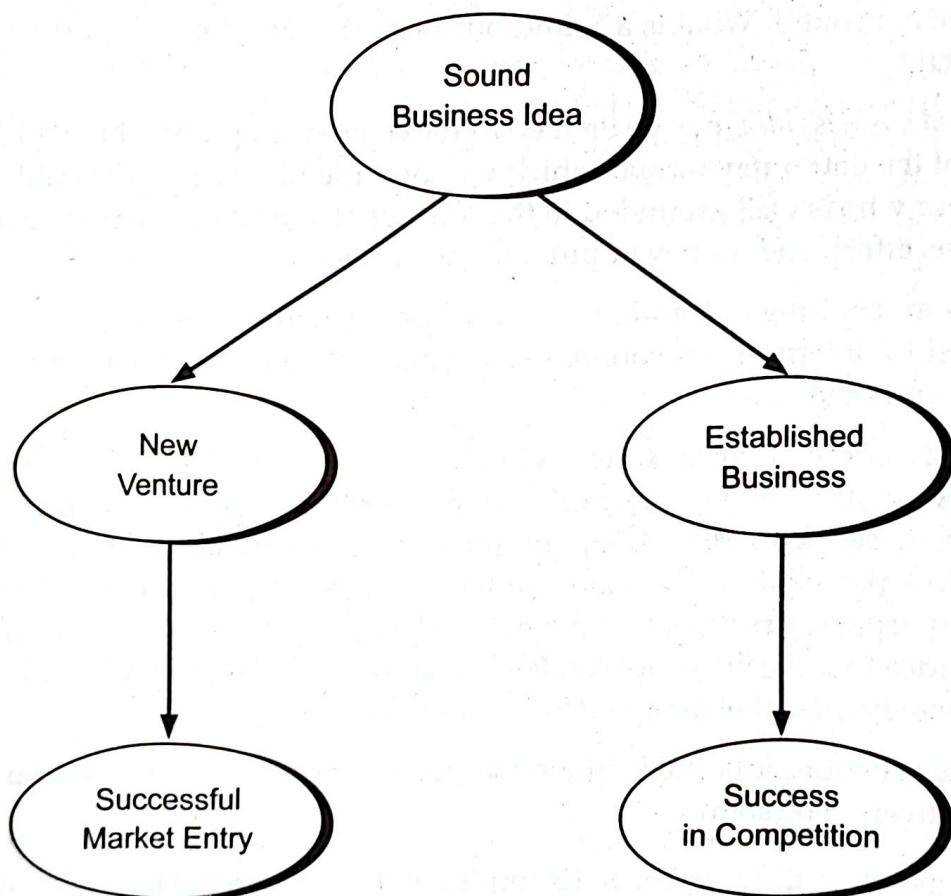


Figure 8. The Importance of Sound Business Ideas

The product or service offering may be improved in terms of:

1. *Performance* – like the chair that can carry more weight;
2. *Maintenance cost* – like the car battery that requires less servicing than competing brands;
3. *Acquisition cost* – like the latest low priced model of a certain brand of cell-phone compared to competition;
4. *Salvage value* – like the steel filing cabinet that has a higher salvage value; and
5. *Uses* – like the flypaper that can also be used as mousetrap.

Improvement of service to customers may mean faster delivery or prompt after-sales service when required.

An innovation in doing business could mean transactions are entertained 24 hours a day.

### What is a Sound Business Idea

Entrepreneurs spend time and money exploiting business ideas. The high rate of failure in new venture businesses, however, indicates a concomitant failure on the part of entrepreneurs to adapt schemes that will work. Apparently, the business ideas they adapted are not sound. What is a sound business idea and how important is it to the entrepreneur?

A *sound business idea* may be defined as the economic opportunity which is within the reach of the entrepreneur and which will provide him with a desirable value. An entrepreneur who is well grounded in the concept of sound business idea will be able to save time, effort, and money in pursuing his goals.

When an aspiring entrepreneur is confronted with a business idea, it is to his best interest to determine its soundness. He should do it before committing himself financially and otherwise.

Any successful venture started with the adaption of a sound business idea. For instance, before the advent of parcel delivery services, people had to contend with the very poor service rendered by the post office. Complaints about delayed delivery and lost parcels have become common. The situation was ripe for a business solution. Enterprising personalities recognized the economic opportunity and adapted a business idea to serve the people better. The success of DHL, FEDEX, and LBC proves that the business idea they adapted is a sound one.

The production of bottled mineral water is another example of a business idea that was proven to be sound.

Business ideas differ in form. Examples of these forms are the following:

1. An old type of business can be professionalized. Operations can be streamlined and better organized. An example of the professional approach that is applied to restaurant service is McDonald's. Food firms such as McDonald's stress presentation, service, cleanliness, and quality.
2. A standard product can be customized. This is what a recording company did when it produced minus one music in three pitch levels: low pitch, medium pitch, and high pitch. This product, in combination with what the pitch control mechanism of the VCD equipment can do offers a terrific opportunity to perfectly fit any singer's voice.
3. New technology can be adapted to manufacture an old product. When a certain bakery started using machines to produce various kinds of bread, production cost decreased and more quantities could be produced quickly.

4. Imported products can be replaced by local products. Importing products can be too cumbersome and difficult. Local production could be a good business idea. For example, the production of local textbooks was thought to be a good business idea. It turned out to be a lucrative venture.
5. Business operations can be internationalized. This is a real challenge to the entrepreneur. The rewards are great, however, when he is successful. The entry of Jollibee in the foreign market, for instance, is an indication of the possibility of opportunities in international operations.

### Procedure in Determining the Best Business Idea

Business ideas may be generated by anyone connected with the firm, but it is very important that the most applicable idea to the firm's objectives and resources is chosen. As such, a procedure must be adapted. The steps in the proposed procedure are as follows (Figure 9):

1. preparation of the list of business ideas;
2. screening of the listed ideas; and
3. final selection.

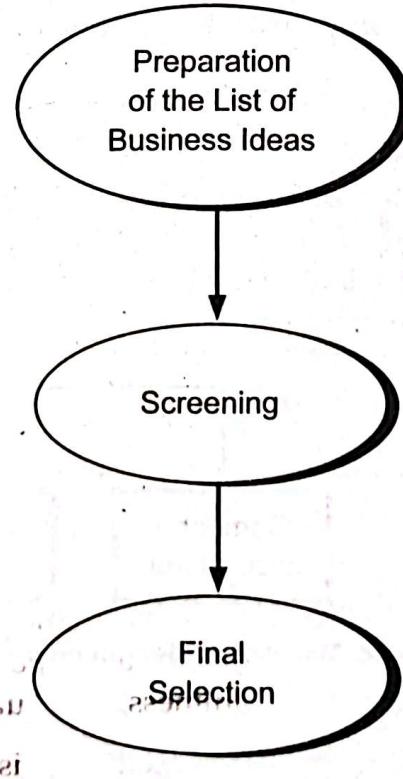
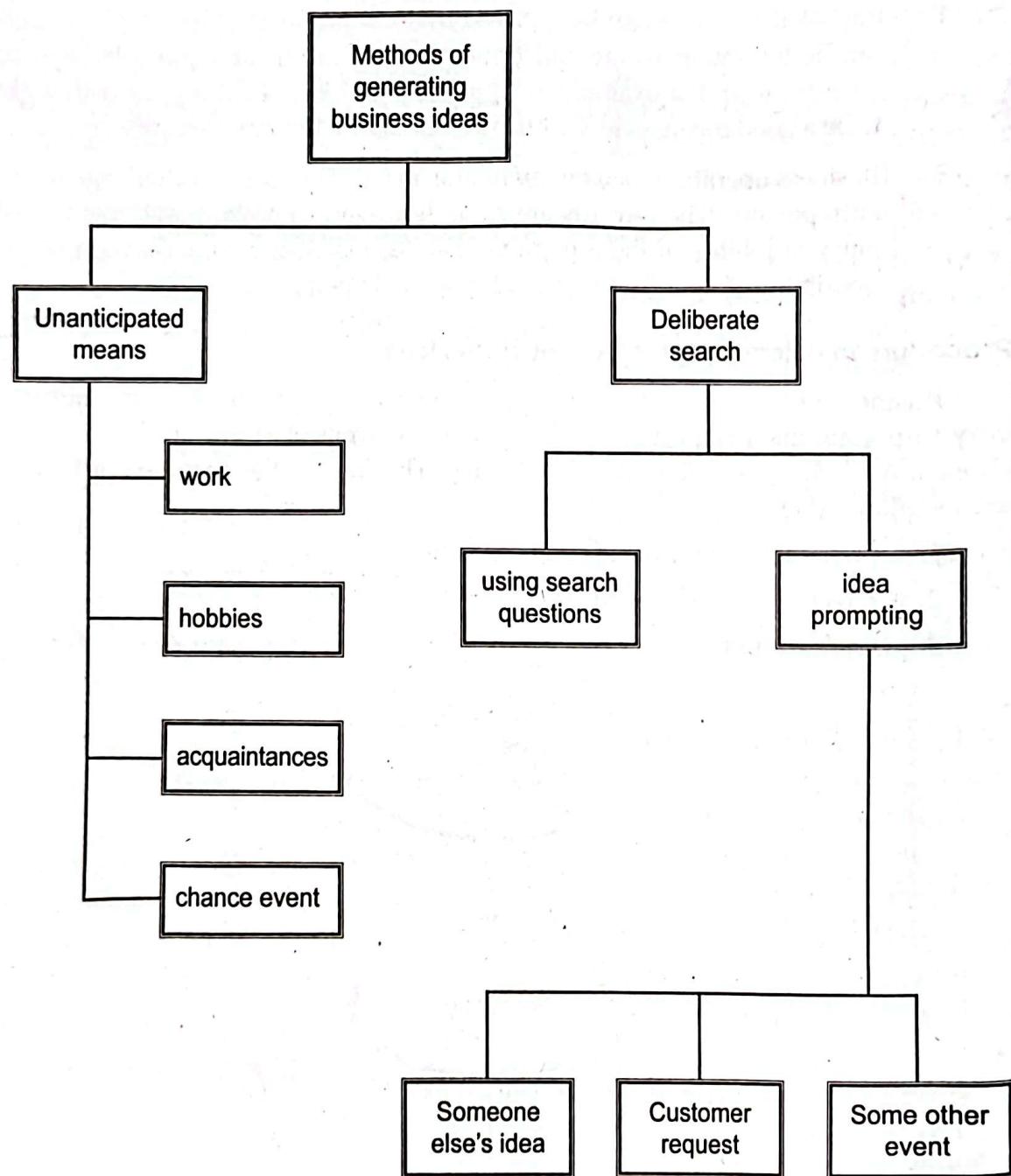


Figure 9. Procedure In Determining the Best Business Idea

### Methods of Searching for Ideas

There are two general methods of generating business ideas (Figure 10). They are as follows:

1. unanticipated means; and
2. deliberate search.



**Figure 10. Methods of Searching for Ideas**

### **Unanticipated Means**

When the entrepreneur finds business ideas without serious effort, the method is referred to as unanticipated means. Included in this means are the following:

1. the person's work;
2. the person's hobbies;
3. the person's acquaintances; and
4. a chance event encountered by the person.

### The Person's Work

Employees who are in direct contact with customers are sometimes confronted with demand for products or services that are not currently provided by the company. To the enterprising employee, this may be interpreted as an opportunity for entrepreneurship. An example may be provided as follows:

Mr. Rolando So was a teacher in a private elementary school. In the course of his duties, he noticed that there were pupils who may be considered as "slow learners." He could not do anything to help those pupils. The parents were so concerned about the performance of their children, so they requested Mr. So for private tutoring during his free time.

Mr. So accepted the offer and he was paid a premium rate. The demand for his services increased, however, as the years passed. This prompted him to resign from his regular teaching job in the school. Still, demand increased until he could no longer cope with it. He decided to invite others to help him. He organized a full-pledged tutorial center. Five years later, his staff consisted of 15 regular tutors and one full-time secretary.

It was clear that Mr. So did not seek the opportunity for entrepreneurship. Yet, he was confronted face-to-face with one during his tour of duty and he accepted the challenge.

### The Person's Hobbies

There are times when a person's hobby turns out to be a business opportunity. A hobby is a useful means of developing some skill which could be useful later when the hobbyist decides to operate a business. Entrepreneurship literature abounds with stories of people with hobbies which were later converted into successful business ventures.

The case of Mr. Aquilino Co is an illustration of how a hobby can sometimes lead to entrepreneurship. Mr. Co began learning how to play the guitar at age six. As he grew up, he became more adept at playing it. His eagerness to play pushed him to acquire different guitar models.

His collection includes a Spanish flamenco guitar, a Gibson electric guitar, an Italian mandolino, and some others. Soon, he began to worry about keeping his instruments in good working condition.

Mr. Co went from one guitar maker to another to get some tips on guitar maintenance. He bought some tools and soon he learned not only maintenance but the actual manufacture of guitars as well.

Mr. Co attempted to make a guitar that would suit his requirements. After several disappointing prototypes, he finally produced a guitar that he really appreciates. His friends were delighted and they urged him to make some more. His friends turned out to be his first customers. Soon, orders from other people, mostly strangers, came pouring in. When he hired persons to help him process the orders, he was not aware that he has started his own business venture.

### The Person's Acquaintances

There are times when a person fails to notice the existence of a business opportunity. Sometimes, it takes another person to make him aware of the wisdom of starting a new business venture. This other person could be a friend, a neighbor, or just anybody he meets once in a while. The case of Mr. Manuel Ong is an illustration.

For five years, Mr. Ong had a job as book salesman. He worked with a well-known publisher and he was the best salesman of the company. Once, a friend dropped by his home for a social visit. They conversed for a while until their discussion drifted toward entrepreneurship. His friend suggested that maybe it's about time for him to start operating his own business. His friend thought that a bookstore situated at the front portion of his residential lot might be a nice idea.

After the visitor has left, Mr. Ong began to think that maybe the idea of a bookstore was a good one because of three reasons: he is good at selling books; his place is right in the middle of the city; and the only bookstore in the city carries a limited number of titles.

### A Chance Event Encountered by the Person

There are times when a person encounters an event that will provide him with a clue to a business venture. The case of Mr. Lorenzo de Guzman is an interesting one. Once, Lorenzo paid a visit to Mr. Froilan Pascual, his former classmate in the elementary grades. Froilan is married to a Batangueña and they are residing in her hometown of Lipa City. During lunch, Lorenzo noticed that the tomatoes served by Froilan's wife were not as good as those that are found in his hometown of Aliaga, Nueva Ecija. When he inquired about the difference, Froilan replied that Batangas is not an excellent producer of tomatoes and they have to make do with what the local farms can offer.

The information provided by Froilan inspired Lorenzo to make some inquiry on the feasibility of transporting commercial quantities of tomatoes in Batangas. Within a few years, Lorenzo became a successful trader of vegetables.

### Deliberate Search

A disadvantage of unanticipated means in idea generation is the difficulty of ascertaining the exact date when the ideas will come pouring in. To offset this problem, a deliberate search for ideas is made. This type of idea generation takes the form of the following:

1. using search questions; and
2. idea prompting.

### Using Search Questions

Business ideas are expected to provide answers to some needs. Answers can be obtained if the right questions are asked. When questions are used to draw out specific answers, they are referred to as "search questions."

Examples of search questions are:

1. How can this product be made differently?
2. What will motivate the consumers to buy my product instead of the competitor's product?

### Idea Prompting

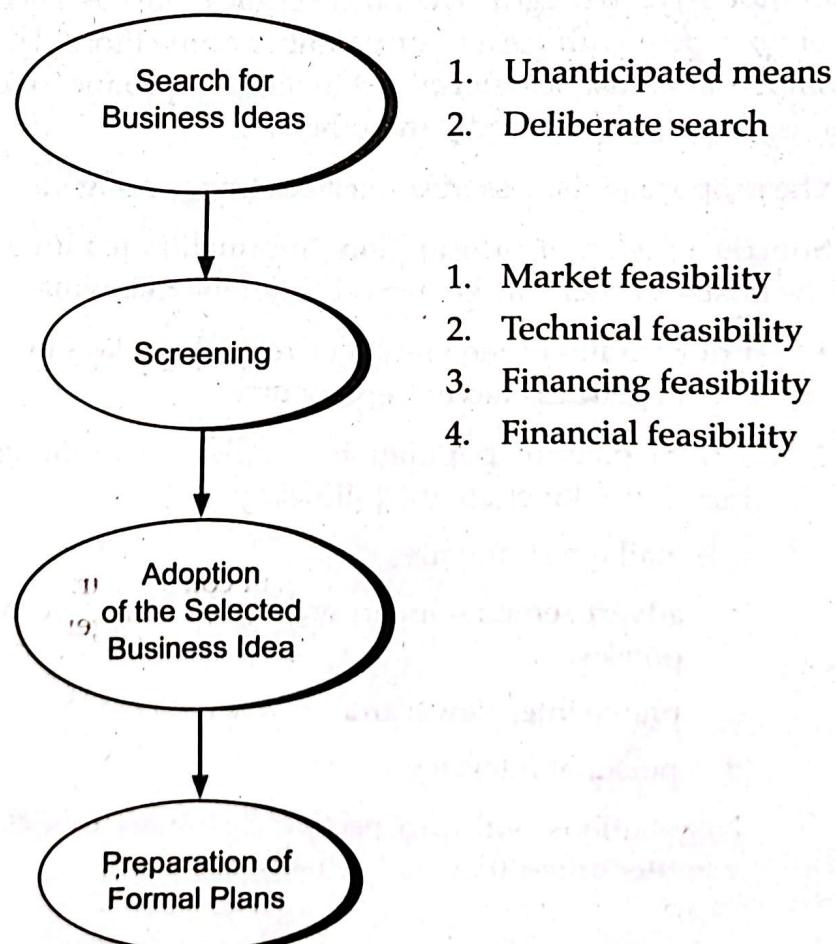
Encounters with someone else's idea, or a customer request, or some other event may provide hints or cues leading to business ideas. For instance, somebody made a casual remark on the difficulty of preparing and meeting the various requirements of a wedding. That idea, when properly viewed, may just lead to the listing of a business idea.

Customer requests could also be analyzed to give way to idea prompting.

The increasing number of burglaries may lead someone to think of a business solution that will offer protection to homeowners.

### Screening Generated Ideas

The search for a sound business idea calls for the preparation of a list so the best can be selected. Before selection is made, however, the ideas listed must be screened first (Figure 11).



**Figure 11. Methods of Searching for Ideas**

Business ideas may be screened with the use of the following criteria:

1. market feasibility;
2. technical feasibility;
3. financing feasibility; and
4. financial feasibility.

### **Market Feasibility**

A business idea must pass the test of market feasibility. This means that there must be some positive indication about the following:

1. stable and sufficient demand; and
2. potential competitive strength of the firm.

**Stable and Sufficient Demand.** A business idea will not last if there is insufficient demand for whatever product or service that is contemplated. Demand that remains constant or shows signs of growth throughout long periods indicates the probability of market feasibility. Demand must also be large enough to justify the investments that will be needed by the venture.

**Competitive Strength.** The business idea must be such that the venture can effectively compete with current or potential competitors. The competitive strength of the competitors must be determined in terms of product offerings, price, distribution methods, promotion methods, and others.

The proposed business idea must be strong enough to withstand competition.

**Sources of Market Information.** Information required to determine the market fit of the business idea may be derived from the following:

1. Prior studies of the market or related markets by other companies, government agencies, and entrepreneurs.
2. Actual polls of population samples representing typical customers. The means used include the following:
  - a. mail questionnaires;
  - b. advertisements incorporating feedback mechanisms such as mail responses;
  - c. phone interviews; and
  - d. personal interviews.
3. Negotiations with prospective customers to solicit orders and determine whether or not they will actually buy.

### **Technical Feasibility**

Business ideas oftentimes appear easy to execute, but it is not really so when converting them into real products or services with the required quality or quantity.

Anything can go wrong in the attempt to assemble the needed resources. Difficulties may be encountered in the procurement of materials and manpower. For instance, establishing a call center in Cabanatuan City may appear to be a good business idea, but the difficulty of recruiting agents to man the booths prevents the idea to actually happen.

Production difficulties could take the form of unstable supply of materials, unreliable or fluctuating power supply, and others. Nevertheless, technical concerns such as those must first be cleared before subjecting the business idea to further consideration.

### **Financing Feasibility**

One of the factors necessary in determining whether a business idea should be considered or not is financing. This means that there must be sufficient funds to finance operations.

The proposed owners of the venture must have sufficient capital or if insufficient, must be of good credit standing in the community. In general, the sources of financing include the following:

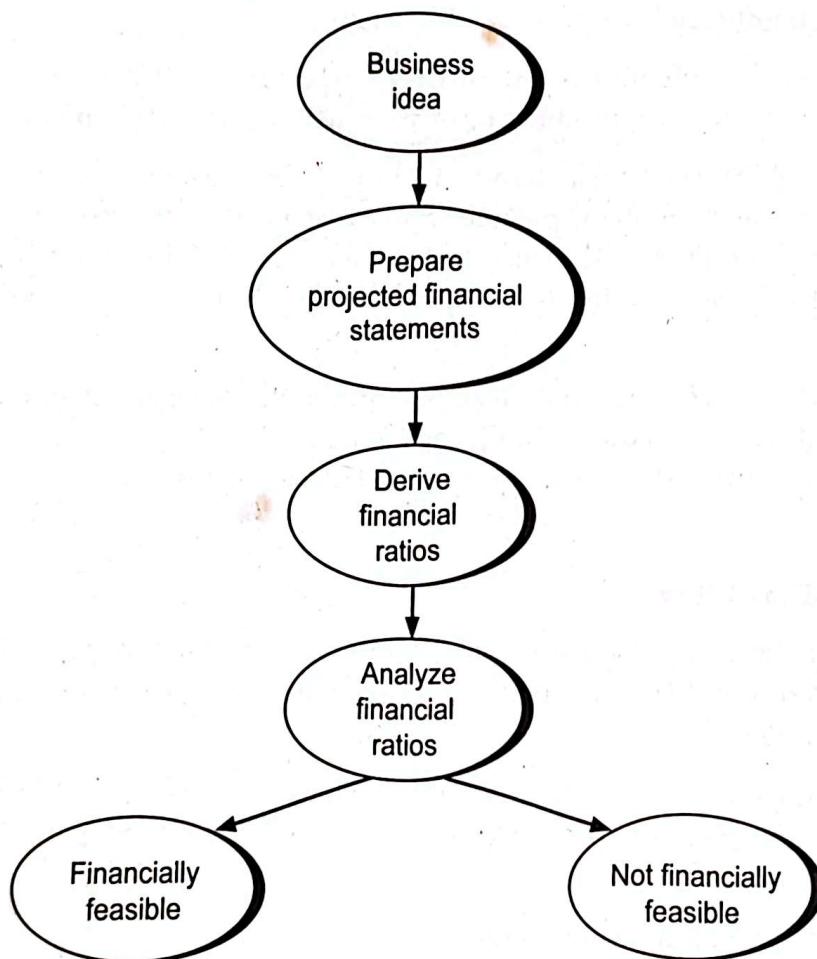
1. the proposed owner's savings;
2. relatives and friends; and
3. financing institutions like banks.

### **Financial Feasibility**

The purpose of entrepreneurship is to provide a source of income to the entrepreneur. This will not be possible if the venture will not be profitable. Any business idea that cannot provide some indication of profitability must be screened out.

Profit is a result of the financial feasibility of the business idea. Financial feasibility may be determined through an analysis of the financial prospects of the proposed business idea (Figure 12). This may be done in two steps:

1. The preparation of projected financial statements, such as
  - a. income statement;
  - b. balance sheet statement; and
  - c. cash flow statement.
2. The determination and analysis of financial ratios derived from the projected statements.



**Figure 12. Determining the Financial Feasibility of a Business Idea**

### Projected Financial Statements

The forecast of something which will happen in the future is referred to as a *projected financial statement*.

The *projected income statement* is a financial record summarizing a firm's planned or expected financial performance in terms of revenues, expenses, and profits over a given time period.

The *projected balance sheet* shows the planned or expected financial position of the enterprise on a particular date.

The *projected cash flow statement* is one which shows the planned or expected cash sale and/or purchases.

### Final Selection

The purpose of screening is to eliminate from the list the generated business ideas that did not pass the adapted criteria. After screening, the list may appear to be any of the following:

1. status quo;
2. a shorter list; and
3. zero listing.

*Status quo listing* means all business ideas listed passed the adapted criteria. A *short list* means some of the ideas generated were eliminated. *Zero listing* means all business ideas generated and listed were eliminated.

Final selection is applied to the status quo list, or the shorter list, whichever is produced by the screening stage. A new set of criteria is adapted so the best among those listed can be determined. An example is shown in Table 10 using the expected value criteria. The three shortlisted proposals are shown with assumed projected net income along probabilities of occurrence. Projected net income is multiplied by probability to get the expected values of each proposal. It showed Proposal A as the best choice because of the expected value criteria. When other criteria, however, are used, the final outcome may be altered.

**Table 10. An Evaluation of Shortlisted Business Ideas**

Business	Projected Net Income	Probability	Expected Value
Proposal A	₱5 million	60%	₱3 million
Proposal B	4 million	70%	2.8 million
Proposal C	3 million	80%	2.4 million

### Organizational Culture and Creativity

Effective innovation assures the continuous survival and growth of the enterprise, but innovation can only thrive in a creative organization with a culture characterized by the following:

1. encouragement of creativity and risk-taking;
2. rewards for creativity;
3. open communication;
4. allowance for errors;
5. a climate of participation;
6. structural mechanisms that aid creativity;
7. training in the creative process; and
8. flexibility.

### Encouragement of Creativity and Risk-taking

*Creativity* refers to activities involved in finding solutions to problems that hinder the achievement of the firm's objectives. It is the proactive way of solving problems. In a creative environment, solutions to problems are expected to come by more easily. If this is true, innovation will thrive in an organization that encourages creativity.

Business idea is the output of activity. However, it will remain an idea until it is tested. Testing an idea, however, will require a certain measure of risk taking. This

means that the idea may turn out to be a good one or a bad one. Even then, the risk involved must not prevent the proponent from testing the idea, especially if there are indications that it will be a good one.

The proponent is not entirely hopeless, however. Management science has developed some techniques aimed at minimizing the risk involved in testing.

The organizational culture that is characterized by risk taking is not discouraged by poor result in testing ideas. After a series of failures, the single idea that passes the tests and which later becomes successful justifies all efforts and expenses involved in finding the right one.

### Rewards for Creativity

When an activity is rewarded, there is an assurance that such activity will continue existing. Creativity is no exception. Such is the case of a creative activity presented below.

Mr. Ponciano Samonte is a worker assigned to a unit that produces containers of various types and sizes. One day, he creatively worked for a while and that was enough for him to come up with a novel idea that had the potential for cost saving within the company. He thought of changing the design of one of the containers they were currently producing. Upon his suggestion, the company adapted the idea and millions of pesos were saved annually.

Mr. Samonte was rewarded by management for his efforts. The reward amounted to an equivalent of 50% of what the company saves annually. The reward had a positive effect on creativity within the firm. Almost every employee wants to duplicate the achievement of Mr. Samonte. Soon enough, another suggestion from another employee was adapted and it yielded positive results.

### Open Communication

The free-flowing exchange of ideas between the members of an organization is referred to as "open communication." Communication flows through the vertical and horizontal relationships in the organization's structure.

An important advantage of open communication is that problems are easily directed to persons with the ability to offer solutions. For instance, Mr. Cesar Laugo, an employee of the firm, had in his mind the solution to a problem that affected other firms. When the same problem started affecting his firm, open communication made sure that it reached his attention instantly. As quickly as possible, he informed management of what he knew and the firm was saved from financial disaster.

### Allowance for Errors

Innovation thrives in an environment that provides allowance for errors. It is not right to expect any activity to be devoid of imperfections. When an error is detected, a move should be made to correct it. When this is done, the creative individual is not discouraged from pursuing his creative endeavors. In the end, it is the company that benefits.

### A Climate of Participation

When somebody feels that the organization espouses participation, that person will not hesitate to make a contribution to the creative efforts of the organization. The firm will benefit from the good effects of employee participation. This is so because there is a chance that more bright ideas will be generated if employees feel free to participate in the creation of solutions to problems.

Moreover, an employee who participates in the creative effort feels committed to the exercise and as a result, he is more inclined to support the idea that is chosen.

### Structural Mechanisms that Aid Creativity

The urge to create solutions to problems would be heeded by the innovative person more easily if there are structural mechanisms within the organization to support the exercise. An example of such mechanism is the unit that is responsible for providing logistical support to activities that are creative in nature. The person in charge of the unit is usually qualified to manage such activities as creativity.

### Training in the Creative Process

Creative pursuits are a bit complicated and it will help if those expected to perform such functions are properly trained. Although some persons have natural talents for generating business ideas, those who are not considered as such would benefit from acquiring the required skills through training.

### Flexibility

One of the distinct characteristics of the creative organization is flexibility. The creative employee is allowed to engage in creative activities on hours most convenient to him and to the company. Whenever possible, his working hours are adjusted to accommodate the time that he is most creative.

Apart from adjustment in the time schedule, flexibility may also be applied to the place of work, like allowing the creative employee to work in the place where he feels he can be more creative.

### Summary

The success of a new entrepreneurial venture depends on the adaption of a sound business idea. The same requirement applies to an established business.

A sound business idea is an economic opportunity which is within the reach of the enterprise and which could provide a desirable value.

Good venture ideas may be generated through unanticipated means or deliberate search. The individual's exposure to his work, hobbies, acquaintances, or chance events constitute the unanticipated means of generating business ideas. Deliberate search consists of using search questions and idea prompting which could be derived from encounters with someone else's idea, a customer request, or some other event.

Generated ideas must be screened through a determination of their market, technical, financing, and financial feasibility.

After screening, final selection is undertaken to determine the best among the feasible business ideas.

The culture of an innovative organization is characterized by an atmosphere encouraging creativity and risk-taking, rewards for creativity, open communication, allowances for errors, a climate of participation, structural mechanisms that aid creativity, training in the creative process, and flexibility.