INTRODUCTION TO ENTREPRENEURSHIP

VUSSC

Course Name: Introduction to Entrepreneurship

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Edition 1

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COURSE OVERVIEW

INTRODUCTION

Introduction to Entrepreneurship will introduce future business owners to the concepts and principles of entrepreneurship. The course will introduce the role entrepreneurs play in the local business environment and the impact of entrepreneurship on the national economy. This course will explore many of the concepts that future entrepreneurs must master before they start their business. It is a course that mixes theory with practice. Learners will be challenged to apply the principles, concepts and framework to real world situations.

COURSE GOALS

Upon completion of this course, future entrepreneurs should be able to:

1. Recognize the entrepreneurial potential within yourself.
2. Describe the role of entrepreneurship within society.
3. Explain the impact of entrepreneurship on the individual, the family and the local community.
4. Explain the process and nature of entrepreneurship.
5. Identify ways in which entrepreneurship manifests itself in society, including start-ups and within the corporate environment, public sector and non-profit sector.
6. Identify and assess potential business opportunities.
7. Explore how business opportunities can be turned into sustainable business opportunities.
8. Explore a typical business model for an entrepreneurship enterprise.
9. Explain the business planning process and its outputs.
10. Explain how the start-up process works.

COURSE STRUCTURE

The course is divided into five units:

Unit 1 Entrepreneurship
Unit 2 From Ideas to a Sustainable Business
Unit 3 New Business Ventures
Unit 4 The Business Planning Process
Unit 5 Marketing, Technology, Legal and Ethical Considerations of Entrepreneurs

Each unit is further broken down into related topics. Each unit and many topics include self-reflection questions to ponder, activities to complete and formal assignments to complete and send to your instructor.

The units contain a number of references that learners are encouraged to review. This may require that you have access to a computer with Internet connection to download the reference. Each unit should take between two and three weeks to complete.

Assignments and Projects

A series of activities and assignments guide you through concepts in this course and ask you to demonstrate that you can apply the concepts to support the creation of your business idea and business model. A summary of this work is included at the beginning of each unit. The major assignment in this course is found in Unit Four, where you will develop your own business model. Your institution / tutor will help you through this material and will also assign additional projects.

Journaling Requirements

To capture the output from the reflective questions and activities you are asked to keep a personal journal. At the end of the course the personal journal will be submitted to your instructor for feedback and grading.

Assessment Methods

Assessment takes the form of responding to activities, as well as written assignments and examinations as determined from time-time by the institution. In cases where coursework assignments, fieldwork projects, and examinations are used in combination, a percentage rating for each component will be communicated to you at the appropriate time.

Time Required

This course is worth 16 credits, or a credit value assigned by your institution. Each credit is equivalent to 10 notional hours. You are, therefore advised to spend not less than 160 hours of study on the course. This notional time includes:

- going over activities embedded in the study material;
- peer group interaction (where necessary);
- face-to-face tutorials (where necessary);
- working on tutor-marked assignments; and
- preparation time for and sitting examinations (where that is a requirement.)

Course Schedule

A course schedule with due dates and additional readings will be supplied to you by your institution.

STUDENT SUPPORT

ACADEMIC SUPPORT

<Insert the following information if relevant>

- How to contract a tutor/facilitator (Phone number, email, office hours, etc.).
- Background information about the tutor/facilitator if he/she does not change regularly. Alternatively provide a separate letter with the package describing your tutor/facilitator's background.
- Description of any resources that they may need to procure to complete the course (e.g. lab kits, etc.).
- How to access the library (either in person, by email or online).

HOW TO SUBMIT ASSIGNMENTS

<If the course requires that assignments be regularly graded, then insert a description of how and where to submit assignments. Also explain how the learners will receive feedback.>

TECHNICAL SUPPORT

<If the students must access content online or use email to submit assignments, then a technical support section is required. You need to include how to complete basic tasks and a phone number that they can call if they are having difficulty getting online>.

UNIT ONE - ENTREPRENEURSHIP

UNIT INTRODUCTION

Welcome to the first unit in this course. The idea of entrepreneurship may sound exciting, but it may not necessarily be for everyone. There are number of questions you need to ask yourself as an entrepreneur to determine whether or not you should go ahead with your great business idea. In this unit, we will discuss the nature of entrepreneurship, differentiate between entrepreneurship and entrepreneurs, look at the role that entrepreneurship plays in society and also discuss the characteristics of an entrepreneur. Upon completion of this unit you will have discovered how successful you could be as an entrepreneur and begin the process of identifying a potential business opportunity.

UNIT OBJECTIVES

Upon completion of this unit you should be able to:

1. Define entrepreneurship.
2. Distinguish between entrepreneurship and an entrepreneur.
3. Describe the role of entrepreneurship in society.
4. Discuss the characteristics of entrepreneurs.
5. Explain the challenges and benefits of being an entrepreneur.
6. Explore different business opportunities.

ASSIGNMENTS AND ACTIVITIES

There are a number of learning activities and assignments throughout this unit. The major assignment for this unit will require you to interview at least two entrepreneurs in your area/district and to reflect upon their personal and professional characteristics and how these characteristics have contributed to their success as an entrepreneur. You will also be asked to complete a self-assessment to help you identify your own strengths and weaknesses. This will help you identify what you must improve upon.

TOPIC 1.1 – THE NATURE OF ENTREPRENEURSHIP

Topic Introduction

The word entrepreneur originates from the French word, entreprendre, which means "to undertake" and was first defined by the Irish-French economist Richard Cantillon. Jean-Baptiste Say, a French economist, is believed to have coined the word "entrepreneur" in the 19th century. He defined an entrepreneur as "one who undertakes an enterprise, especially a contractor, acting as intermediary between capital and labour" (Wikipedia).

There has been a great deal of attention paid to the subject of entrepreneurship over the past few years, as many people realised that small firms contribute considerably to the economic growth of a country. Developing countries have established policies and tax incentives that encourage the planning and implementation of small businesses with the belief that a small business can potentially grow into a large business.

Topic Objectives

Upon completion of this topic you should be able to:

1. Define the term "business".
2. Define entrepreneurship.
3. Distinguish between entrepreneurship and an entrepreneur.
4. Explain the entrepreneurial process.

It is important that you familiarise yourself with some key concepts in the field of entrepreneurship. Let's start this topic with defining some of these concepts.

Definitions

Business Defined

Before a potential entrepreneur can start a business, he or she must understand what the essence of a business is. The term business has a variety of definitions. Let's examine a few. A business is:

- "An organization operated with the objective of making a profit from the sale of goods or servic*es*." (http://www.finet.com.hk/accounting/b.htm)
- "An enterprise, commercial entity, or firm in either the private or public sector, concerned with providing products (goods or services) to satisfy customer requirements." (www.georgetown.edu/uis/ia/dw/GLOSSARY0816.html)
- 'The buying and selling of products or services in order to make a profit." (Mariotti, 2006)
- "An economic system in which goods and services are exchanged for one another or money, on the basis of their perceived worth. Every business requires some form of investment and a sufficient number of customers to whom its output can be sold at profit on a consistent basis." (http://www.businessdictionary.com/definition/business.html)

The common elements in most of the definitions described above are:

- A business sells or buys services and products.
- The objective of a business is to make a profit.
- All business entities have customers with specific needs and wants.
- Business requires a solid financial footing.

In most cases a potential entrepreneur will be creating a "small business" that he or she hopes to grow into a large and successful enterprise. Wikipedia defines a small business as "a business that is privately owned and operated, with a small number of employees and relatively low volume of sales. Small businesses are normally privately owned corporations, partnerships, or sole proprietorships". (http://en.wikipedia.org/wiki/Small_business)

Now that you have an idea how about the elements of a business, let's explore the concepts underlying entrepreneurship.

Entrepreneurship

What is Entrepreneurship? A normal response to this question is that entrepreneurship is about creating or establishing a business. Entrepreneurship however is more than simply starting or operating a small business. This is evident in the responses from the people in the cartoon below.

It is true that entrepreneurship is both a science and an art. The science lies in the proven process of planning and managing business. The art lies in the innovative thought, implementation and growth of a business.

Self-Reflection Question - Entrepreneurship Defined

Take a couple of minutes and reflect on what you understand by the term Entrepreneurship. How would you define it? Make some notes in your personal journal.

Let's examine some different interpretations and definitions of entrepreneurship. From an economic perspective we might use the following descriptions.

> *Entrepreneurship is a dynamic, social process where individuals, alone or in collaboration identify financial opportunities and act upon them by establishing new enterprises.*
>
> *Entrepreneurship however involves much more than just for a business to be successful and sustainable.*
>
> *Entrepreneurship is a dynamic, social process where individuals, alone or in collaboration identify opportunities for innovation and act upon them by transforming ideas into practical targeted activities whether in a social, cultural or financial context.*
>
> *(Norway Entrepreneurship Education and Training Action Plan, http://planipolis.iiep.unesco.org/upload/Norway/Norway_Action_Plan_Entrepreneurship_2009_2014.pdf)*

The above descriptions indicate that entrepreneurship:

- Has impact on individuals.
- Provides financial opportunities.
- Has an impact on the economic well-being of a society.
- Requires Innovation.
- Is dynamic.

Activity - Definitions

What would you say are the main differences between the first definition and the second definition of entrepreneurship? Write your answers down in your personal journal.

The definitions explored so far imply that entrepreneurship is more than just about business success and sustainability. The first explanation is based on making business by establishing new enterprise, while in the second definition new dimensions are added, such as innovation and other areas of the environment e.g. the social, cultural and financial context.

During this course we will define entrepreneurship as:

The process of identifying business opportunities, allocating resources, and taking risks to produce goods and services of value, through creative and innovative processes, to satisfy unmet consumer demands.

IMPORTANT ASPECTS OF ENTREPRENEURSHIP

Building upon the definition, Nieman *et al*, (2004:9) identified the following concepts as integral to the understanding of entrepreneurship. Entrepreneurship means that an individual must be able to:

- Identify an opportunity - This means that there must be a real business opportunity.
- Be innovation and creativity - Something new and different is required that is needed by a target audience.
- Gather resources - Capital, labour and operating equipment must be found.
- Create and grow a business - This means the start of a new business venture or the conversion of an existing business.
- Take risk - There will be both personal and financial risks.
- Create rewards - Reward can be in the form of profit or increased value of the business.
- Manage a business - This means that there must be planning, organisation, leadership and control of all the functions.

So if entrepreneurship is a process of starting a new business, generally there also needs to be someone who undertakes such a process? That is the entrepreneur.

The Entrepreneur

The person who plans, implements and manages a small business is usually called an entrepreneur. This person must be able to embrace the concepts described by Nieman above. Some additional definitions of an entrepreneur are:

An entrepreneur, can be defined as "one who undertakes innovations, finance and business acumen in an effort to transform innovations into economic goods.

(Wikipedia)

An entrepreneur is someone (person) who in pursuit of profits and at a risk makes the most of the opportunities in the environment by combining the expertise and resources of the community in different ways to produce products and services for the market.

(Cronje et al 2001:5)

So based on the above definitions an entrepreneur must:

- Be a risk taker.
- Be innovative.
- Possess business acumen.
- See potential opportunities in the community.

M. Gerber (1986) in his book “The E-Myth” describes the entrepreneur in these terms:

> *The entrepreneur is the visionary in us. The dreamer. The energy behind every human activity. The imagination that sparks the fire of the future. The catalyst for change.*
>
> *The entrepreneur lives in the future, never in the past, rarely in the present. He (or she) is happiest when left free to construct images of ‘what if’ and ‘if-when’.*

For this course we will define an entrepreneur as:

> *A person who sees an opportunity in the market gathers his/her resources and creates and grows a business venture to meet those needs. This person will bear the risk and will be rewarded with profit if the venture is successful.*

Generally, new organisations started by entrepreneurs are small businesses. However, individuals that plan and implement large business ventures are also considered entrepreneurs. We can conclude that entrepreneurship is the business process and the entrepreneur is the person involved in implementing the entrepreneurial process.

Take a few minutes and complete the following activity. Make notes in your personal journal.

Activity – Matching Terms *As you look at the following words, classify them either under the term entrepreneurship or the term entrepreneur. Give a reason for your choice.*	
1. hardworking *2. customers* *3. do repairs to vehicles* *4. lazy* *5. inventing a new machine*	*1. good relationship with workers* *2. a person who takes chances in life* *3. banks* *4. designing a new range of dresses* *5. working long hours*

The statements in the activity list are very close to each other. Entrepreneur represents the person, while entrepreneurship represents the process to set up and run a business. You are therefore correct if you have grouped numbers (ii) - (iv) and (vii) with the concept of entrepreneurship and the rest of the numbers with the concept of entrepreneur.

Entrepreneurship is a difficult task, as a majority of new businesses fail. It is therefore important that the entrepreneur follow the steps in the entrepreneurial process which we will discuss next.

The Entrepreneurial Process

The Entrepreneurial Process includes the systematic steps required to create and implement a new business venture. This includes all the functions, activities, and actions associated with perceiving opportunities and creating organizations to pursue them. Entrepreneurs often discover this process through trial and error, but you can shorten your learning curve by benefitting from the experiences of others.

(Source: http://www.mvp.cfee.org/en/abattentwhatiseentprocess.html)

(Source: http://www.mvp.cfee.org/en/abattentwhatiseentprocess.html)

1. **SELF DISCOVERY**
   Learning what you are doing; examining your strengths and weaknesses. Examining work experience and relating it to potential opportunities.

⇩

2. **IDENTIFYING OPPORTUNITIES**
   Looking for needs, wants, problems and challenges that are not yet being met or dealt with effectively

⇩

3. **GENERATING AND EVALUATING IDEAS**
   Using creativity and past experience to devise new and innovative ways to solve a problem, or meet a need and then narrowing the field to one best idea.

⇩

4. **PLANNING**
   Researching and identifying resources needed to turn the idea into a viable venture. Preparing the research in the form of a written business plan. Preparing marketing strategies.

⇩

5. **RAISING START-UP CAPITAL**
   Using the business plan to attract investors, venture capitalists partner. This stage can involve producing prototypes or test-marketing services

⇩

6. **START-UP**
   Launching the venture, developing a customer base and adjusting marketing and operational plans as required

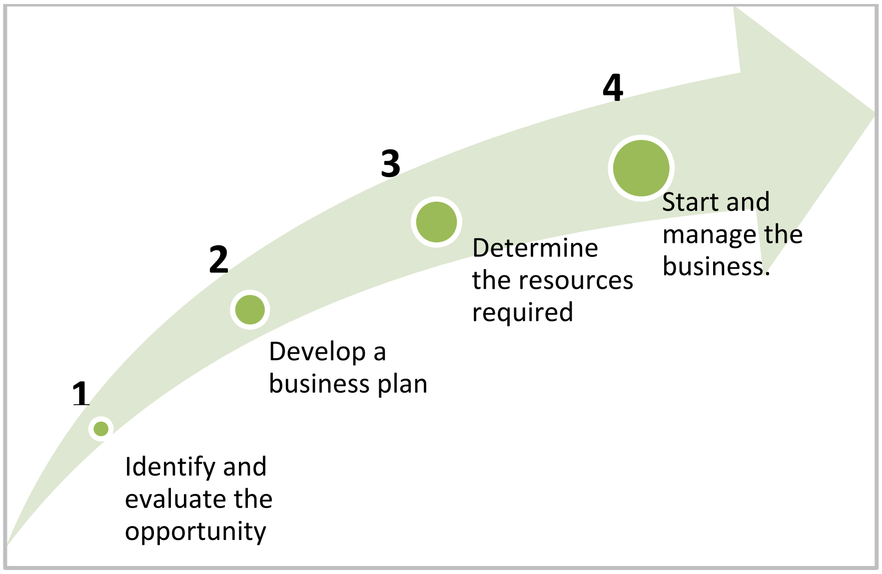
⇩

7. **GROWTH**
   Growing the business: developing and following strategic plans, adapting to new circumstances

⇩

8. **HARVEST:**
   Selling the business and harvesting the rewards. For many entrepreneurs, this also means moving on to new ventures and new challenges.

Nieman, Hough, and Nieuwenhuizen (2003) break the entrepreneurial process into four phases:



The Entrepreneurial Process

This brings us to the end of Topic 1. Let's summarise what we have discussed.

Topic Summary

In this topic we have learned that:

1. Entrepreneurship is a business process and the entrepreneur is a person involved in the entrepreneurial process.
2. Important aspects of entrepreneurship include: identifying an opportunity, innovation and creativity, gathering resources, creating and growing a business, taking risks, being rewarded and managing the business.
3. The four steps in the entrepreneurial process are: identifying and evaluating an opportunity; developing a business plan; determining the resources required and then lastly starting and managing a business.

Now that we have defined key concepts in entrepreneurship, let's move on to the next topic where we will discuss the role of entrepreneurship in society.

TOPIC 1.2 – THE ROLE OF ENTREPRENEURSHIP IN SOCIETY

TOPIC INTRODUCTION

Entrepreneurship has become a buzzword in the developing world. It is believed that it has the ability to bring major changes in the economy and within a society. A great deal of attention has been paid to entrepreneurship over the past few years, stemming primarily from the discovery by economic analysts that small firms contribute considerably to economic growth and vitality.

> Global Entrepreneurship Monitor Project, a comparative international study assessing entrepreneurship's importance to economies worldwide, concluded that the correlation between the level of entrepreneurial activity and economic growth is greater than 70% and all nations with high levels of entrepreneurial activity have above-average rates of economic growth.
> (www.gemconsortium.org)

Entrepreneurship is not only about management, but also about the persons involved in the business, the community and the environment. In this topic we will discuss the role that entrepreneurship plays in society.

TOPIC OBJECTIVES

Upon completion of this topic you should be able to:

1. Discuss the role of entrepreneurship within society.
2. Explain the impact of entrepreneurship on the individual, the family and the local community.

OVERVIEW

> A society is prosperous only to the degree to which it rewards and encourages entrepreneurial activity because it is the entrepreneurs and their activities that are the critical determinant of the level of success, prosperity, growth and opportunity in any economy"
>
> (Tracey, 2005).

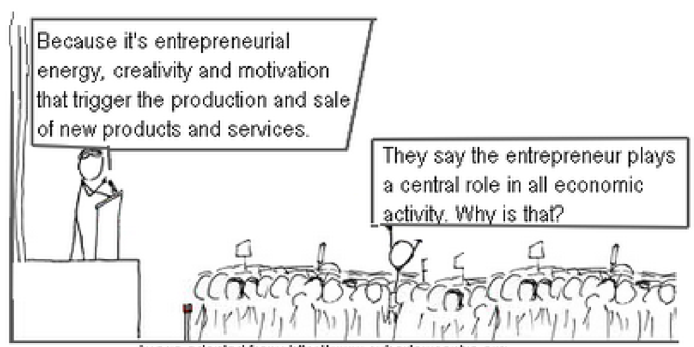


Image adapted from: http://www.cyberlawcentre.org
Text: Brain Tracey (2005)

THE ROLE OF ENTREPRENEURSHIP IN SOCIETY

Entrepreneurship as a whole contributes to a society's social wealth by creating new markets, new industries, new technology, new institutional forms, new jobs and net increases in real productivity.

The jobs created by entrepreneurship in turn lead to equitable distribution of income, which results in higher standards of living for the population. In this way, the resources available to government also increases, the tax base grows. Additional taxes enable governments to improve social services, like hospitals and schools, to enhance infrastructure and to keep law and order.

Benade et al., (2011) describes the benefits that entrepreneurship can have for society, including individuals, families and the community as follows.

- **Employment opportunities**
  Entrepreneurship not only offers self-employment opportunities, but also creates employment for others, often better jobs. Self-employment offers more job satisfaction and flexibility of the work force. Such job creation initiatives utilise the human resources of the particular country and helps the natural talent materialise. Many people with disabilities, particularly those in rural areas where jobs are often scarce, have already created opportunities for themselves through entrepreneurship. We can thus say that entrepreneurship provides self-sufficiency.

- **Income generation and fewer social problems**
  Successful entrepreneurship activities increase the income level of the average person, and also the standard of living in the community. Individuals who search for business opportunities usually create wealth through entrepreneurship. This wealth plays a considerable role in the development of a nation.
  If more people are employed more people pay taxes, which means more income for the government. It also means that the crime rate will go down and the country can become a safer location with more tourists willing to visit the country. If tourism increases, more job opportunities will become available and more people will be employed. Entrepreneurship can also attract more foreign investment, which in return can also create more job opportunities.

- **Personal Challenge**
  Entrepreneurship is a challenging task, but if successful the rewards are worth the effort. Rewards for an entrepreneur can be both financial and personal. The entrepreneur gains self-satisfaction and confidence as he or she succeeds.

- **Improvements in Industry**
  Entrepreneurship leads to the development of more industries, especially in rural areas or regions where there are very few economic activities. This does not only mean more goods and services, but also higher quality products, because of healthy competition between the different businesses.

- **Higher productivity and economic growth**
  More industries can create higher production at lower prices. Entrepreneurship encourages the use of local materials to produce finished goods for domestic consumption, as well as for export. Entrepreneurship enables the country to produce more and more goods locally and thereby build its capacity and resources. If we change our raw materials into consumable goods we add value to our products, which means that we can now receive a much higher price and at the same time create more jobs. With the new inventions and development in technology, a nation can use its resources more effectively.

- **Increases in exports and less dependence on imports**
  Entrepreneurship leads to the development of new markets. If we produce more, we can export products that are not sold locally. This means that a country's products can also enter foreign markets. From time to time a country's government officials sign agreements with other countries to promote trade. These are opportunities that should be taken into account when we are planning and growing our new business. Currently many developing countries (including small states) rely heavily on imports, especially from the developed nations. This means that money flows out of the country. Exports must exceed imports in order to create an economic advantage. Earnings from exports inevitably stimulate the economy.

From the above discussion, it is clear that entrepreneurship improves the economy and creates a better place to live. Entrepreneurship definitely offers many advantages to individuals, families and the general community. These advantages influence one another and are interwoven to create a multiplier effect. When we become more creative, we can develop new and unique products. As we succeed, we become proud of our achievements, and we are motivated to increase our production. When we produce more goods, we can lower our need for imports and have excess goods for export, while simultaneously creating jobs.

Entrepreneurship is advantageous, but it also involves hard work and sacrifices. It can boost the economy, improve living conditions and reduce dependence on government.

Take a few minutes and do the following activity before we continue.

Self-Reflection Question - Rewards

Think of three rewards and three drawbacks of entrepreneurship and how these may impact on the individual, the family and the community. Use examples and discuss with fellow students. If you do not have access to your peers consider the questions and note your answers in your personal journal.

I hope you enjoyed the discussion. Let's summarise what we have discussed in this topic.

TOPIC SUMMARY

In this topic, we have learnt that entrepreneurship strengthens the economic growth of a nation. It provides challenge to those involved in starting and managing a business and coming up with new ideas and innovations. The impact that entrepreneurship has on a society can be summarised as follows:

- Creates employment opportunities
- Generates income, which results in fewer social problems
- Offers challenge
- Builds industries
- Increases productivity and economic growth
- Increases exports and reduces dependence on imports

This brings us to the end of Topic 2. As you will learn in Topic 3, entrepreneurs have very specific characteristics that allow them to be successful at what they do.

TOPIC 1.3 – CHARACTERISTICS OF AN ENTREPRENEUR

TOPIC INTRODUCTION

People become entrepreneurs for different reasons. Many want to own and operate their own business. They find the challenge appealing and they don't mind the risk. Others become entrepreneurs because they see little other choice. They don't have a job and one isn't forthcoming, so they start their own business and try to make it work.

In this section we will discuss the entrepreneur as a person and discuss what abilities are needed to be successful in entrepreneurship. You will have the opportunity to evaluate your own entrepreneurial competencies after you have explored the characteristics of a successful entrepreneur.

TOPIC OBJECTIVES

Upon completion of this topic you will be able to:

1. Describe the characteristics of a successful entrepreneur
2. Do a self-assessment to determine your entrepreneurial competencies.

CHARACTERISTICS OF AN ENTREPRENEUR

Entrepreneurs and business people come from all walks of life and have different backgrounds and life experiences. Do you remember the definition of entrepreneur which we discussed in Topic 1? We can determine four basic abilities from the definition that enable entrepreneurs to develop successful business ventures. These include:

- An **innovator** - a person who attempts to introduce new products, new productive techniques or new forms of business organisations.
- A **risk taker**, risking not only time, effort and business reputation, but his or her invested funds and those of other stakeholders/role players/investors.
- A person who takes the **initiative** to combine land, capital and labour to produce goods and services.
- A person who has the ability to **organise** multiple people and tasks and makes business policy decisions to set the course of the business enterprise.
- (Source: http://www.smallbusinessnotes.com/choosing/issues.html)

A successful entrepreneur needs to possess certain abilities and qualities. These qualities include:

- A clear vision of goals.
- Motivated to achieve goals, coupled with having a high degree of self-confidence.
- Prepared to take moderate risks.
- Resilience: being able to take “no” for an answer without giving up.
- Having initiative and independence.
- Possessing leadership and organisational skills.
- Seeking creative solutions to problems.
- A positive outlook.
- Taking responsibility for decisions.
- A positive attitude to all tasks.
- Being enterprising (recognising business opportunities).

Being an entrepreneur is not easy. In order to succeed, entrepreneurs must demonstrate specific characteristics. Let’s look into these characteristics a bit further. The table below reflects on some of the qualities that help people to better understand themselves as entrepreneurs (VUSSC, 2011.)

Passionate about their work	Entrepreneurs will view the business as a labour of love instead of just "work". In addition to that, successful entrepreneurs have self-determination. Thus, passion and self-determination will drive entrepreneurs to be persistent in building their organization/company.
Clear vision	Having a clear vision of the goals to be achieved is fundamental to drive entrepreneurs and extremely important for the whole company. This vision must be flexible and adjusted continuously as the company matures and new opportunities arise. All of this requires entrepreneurs to have a creative imagination in order to recognize business opportunities and envision alternative scenarios as they face the many challenges of starting up an enterprise.

S.M.A.R.T.	S.M.A.R.T. goal setting guides successful entrepreneurs. S.M.A.R.T. goal setting means that your goals are: ▪ **S**pecific: *Are your goals precise, detailed and unambiguous?* ▪ **M**easurable: *How will you measure it? Goals can be measurable by quality, quantity and cost.* ▪ **A**chievable: *Is it achievable? Although goals should be a stretch to the team's capabilities, they must be within reach and realistic.* ▪ **R**elevant: *Does it contribute to the goals and strategies of the team? Goals should focus on practical results to be achieved.* ▪ **T**ime-bound: *When will this goal be achieved? Is the completion date realistic?* Using the SMART acronym in goal setting helps entrepreneurs think carefully about the process of goal setting for their business.
Resilient	Becoming an entrepreneur is not easy. There will be great, exhilarating moments, but there will also be moments of disappointment. Resilience is the capacity within self to bounce back or recover after a disappointment. Entrepreneurs must be resilient to stay their course if they believe they are on track, and flexible to adapt to environmental change.
Organised	Entrepreneurs, especially the ones that go "solo", are the business. They must carry out a diversity of tasks while meeting deadlines. It is therefore extremely important for entrepreneurs to have excellent organisation skills, so that they are able to manage their time and tasks effectively.
Competent in human relations	Entrepreneurs must be able to inspire their employees to work towards their vision and achieve common goals, while nurturing creative spirit among them.

Self-aware	Self-awareness will help entrepreneurs to understand their personality traits and how these traits will affect decision making or other people. For example, self-awareness is useful when the company's growth forces entrepreneurs to change their management style from hands-on management to professional management, where the entrepreneur is not involved in the day to day decision making anymore. It is so valuable for entrepreneurs to recognise when it is no longer feasible for them to continue to do everything by themselves - this is self-awareness in action. Many entrepreneurs have admitted that shifting to a different way of leading is the most challenging change they have had to undergo in order to sustain their companies' growth.
Technical knowledge	Excellent technical knowledge, whether it concerns producing goods or services, is very important for entrepreneurs in order to influence and engage other stakeholders in leading the business in its start-up stages. The entrepreneur is the business in the start-up stage and their technical know-how will influence and excite others to get involved.
Market knowledge	Entrepreneurs must have a deep knowledge about the market and the industry in which they wish to start a company.
Superior customer service	Successful entrepreneurs make customer satisfaction the company's central focus without limiting their imagination on how or how much to satisfy their customers.

Fledgling entrepreneurs may have these qualities in different degrees. The question that arises is: "What if a person lacks one or more of these qualities?" Don't worry, because many of these qualities can be learned. Alternatively, the entrepreneur can employ someone who has the skill that he or she lacks.

Now let's test your understanding of the content discussed so far in this topic.

Self-Reflection Question – Strengths & Weaknesses

In your personal journal consider the following questions.

1. *Identify and write down all of your perceived strengths.*
2. *Identify where there are gaps in your entrepreneurial profile i.e. weaknesses.*
3. *Decide how you can meet the gaps e.g. if being organized is a challenge for you, who do you know that is an excellent organiser that you could learn from?*
4. *Decide how you can make use of your strong points in order to succeed in the business venture you have in mind in your community.*

The Entrepreneur's Family

The decision to pursue an entrepreneurial opportunity not only impacts the new business owner, it also impacts his or her family. A business start-up requires time and energy. The time spent planning and implementing the business means less time spent with your family. In addition the family may have to agree to accept some of the financial risks. Often the money required to begin the business comes from family and friends who believe in what you are doing. Family assets may have to be mortgaged or savings invested to start the business. Family members may have to give of their time and energy to support the business start-up activities for little or no remuneration.

Lack of family support or fear about squandering the family assets adds considerable stress to the new entrepreneur. It is essential that you consider the impact on you, your family and others impacted by the new business. You must be willing to accept the personal risk if you believe in your business idea.

Unit One Assignment - Self-Assessment Questionnaire

We need to be aware about what entrepreneurial skills and abilities we possess. We need to identify the areas we are strong in and which areas we to improve upon. We need to establish strategies to enhance our weak areas. Remember, not one of us is perfect, but we can improve on those areas of personal and professional skills that most impacts our potential to succeed in business and life.

To help you identify areas of strength and weakness we have included a self-assessment questionnaire that is attached as an Appendix to this study guide. Print the guide and go through the questions. After completion of the Go-Forth Institute Self-Assessment you should have a better idea of how successful you will be as an entrepreneur. You ideally should have formulated a plan to overcome your weaknesses.

Once you have completed the questionnaire note the areas that you need to improve upon in your personal journal. I would also talk with your family about your business idea. Explore their support and explain to them how it might impact them.

Take note: *Some entrepreneurial characteristics reflect your personality and your way of thinking and behaving. In other words, you are born with them. Individuals however change and grow as they mature and experience different things. Most skills can be improved with education, experience and personal sacrifice. You may already have many characteristics that are necessary to become a successful entrepreneur. Keep exploring your entrepreneurial profile throughout this programme. Start by believing that becoming an entrepreneur is absolutely possible!*

Additional Assessments

If you have access to a computer there are a number of additional entrepreneurial self-assessment questionnaires that will provide some insight into your ability to succeed in your own business. Some of the ones to try are:

Business Development Canada Entrepreneurial Self-Assessment – http://www.potentielentrepreneur.ca/

Mentors, Ventures & Plans – Assess Your Entrepreneurial Characteristics – http://www.mvp.cfee.org/en/selfassesscharacter.html

Entrepreneurial Self-Assessment Survey – http://www.wrdf.org/assets/docs/Entrepreneur%20Self-Assessment%20Survey.pdf

Entrepreneurial Alliance Self-Assessment Survey – http://www.entrepreneuralliance.org/index.php?id=108

The important thing is for you to **be self-aware** and to **develop a keen sense of self**: know your strengths and know your weaknesses. Now that you have completed one or more of the assessment instruments think ahead, make a plan and anticipate ways to address your weaknesses. The remainder of this course will help you develop some of the essential skills needed to be a successful entrepreneur.

Topic Summary

In this topic, we have learned that entrepreneurs need to be able to initiate, organise, innovate and take risks. We have also learnt that being an entrepreneur is not easy. In order to succeed, entrepreneurs must have, or they must develop, very specific characteristics.

UNIT ONE – SUMMARY

UNIT ASSIGNMENT

Now you need to complete a unit assignment. Your instructor may want you to write a report based on the assignment below.

Identify two entrepreneurs in your area/district. From the table identify at least five characteristics that you believe made them successful as entrepreneurs. Interview these entrepreneurs in an informal conversation, perhaps over the phone, to discuss their entrepreneurial profile. Record your discussions, findings and conclusions in your personal journal.

Once you have completed your own self-assessment and interviewed at least two successful entrepreneurs you have a good idea of the personal characteristics that are common to all successful entrepreneurs.

Now the question is… Is entrepreneurship for you? Let's take a look at what it takes to be an entrepreneur and the skills that are necessary for entrepreneurial success.

Do you have the qualities to be an entrepreneur? Now that you have a good idea of what makes a successful entrepreneur, it is time to reflect more deeply on your own personal characteristics as an entrepreneur. Let's work through the content on self-assessment to find out.

SUMMARY

In this unit, we have defined and discussed the concepts of entrepreneurship and entrepreneur. We have looked at the role of entrepreneurship in society. Lastly, we have looked at the characteristics of an entrepreneur, and you have successfully completed your self-evaluation.

NEXT STEPS

Now that you have a solid understanding of entrepreneurship, continue to Unit Two where we will look at opportunity recognition and how to develop a business idea.

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UNIT TWO– FROM IDEAS TO A SUSTAINABLE BUSINESS

UNIT INTRODUCTION

Now that you have an understanding of what entrepreneurship is, it is time to learn the fundamentals of the entrepreneurship process. In this unit you will explore what it takes to recognise a business opportunity and develop an idea into a business concept. There are many factors to consider in starting a business. Good planning can help create sustainable business.

UNIT OBJECTIVES

Upon completion of this unit you should be able to:

1. Explain the major steps in the entrepreneurial process.
2. Identify and assess potential business opportunities.
3. Generate a business idea.
4. Identify how potential business opportunities can be turned into a sustainable business concept.

ASSIGNMENTS AND ACTIVITIES

There are short activities throughout this unit that guide you in developing your business idea. In Unit Four, you will develop this business idea into a business model.

TOPIC 2.1 – THE ENTREPRENEURIAL PROCESS

TOPIC INTRODUCTION

In Unit 1 we were introduced to two models of entrepreneurship. In the first we examined the Canadian Foundation for Economic Education Model. The model describes eight major processes: self-discovery; identifying opportunities; generating and evaluating ideas; planning; raising start-up capital; start-up; growth; and harvest. In the second model Nieman, Hough, and Nieuwenhuizen described four phases in the entrepreneurial process: identify and evaluate the opportunity; develop a business plan; determine the resources required; and start and manage the business. This topic will build upon those ideas and provide a detailed description of the entrepreneurial process.

TOPIC OBJECTIVES

Upon completion of this topic you should be able to describe the major steps in the entrepreneurial process.

ATTRIBUTION

The information described in this topic was downloaded from the University of Central Arkansas and was originally published in: Hisrich, R.D., M. P. Peters & D. A. Shepherd. (2005). Entrepreneurship. 6 ed. New York: McGraw-Hill Irwin. Goto: http://www.sbaer.uca.edu/publications/entrepreneurship/pdf/01.pdf.

THE ENTREPRENEURIAL PROCESS

The process of starting a new venture is embodied in the entrepreneurial process, which involves more than just problem solving in a typical management position. An entrepreneur must find, evaluate, and develop an opportunity by overcoming the forces that resist the creation of something new. The process has four distinct phases: (1) identification and evaluation of the opportunity, (2) development of the business plan, (3) determination of the required resources, and (4) management of the resulting enterprise. *(**NOTE:** This is very similar to the Nieman, Hough, and Nieuwenhuizen model discussed earlier).*

Although the phases proceed progressively, no one stage is dealt with in isolation or is totally completed before work on the other phases occurs. For example, to successfully identify and evaluate an opportunity (phase 1), an entrepreneur must have in mind the type of business desired (phase 4).

IDENTIFY AND EVALUATE THE OPPORTUNITY

Opportunity identification and evaluation is a very difficult task. Most good business opportunities do not suddenly appear, but rather result from an entrepreneur's alertness to possibilities, or in some case, the establishment of mechanisms that identify potential opportunities. For example, one entrepreneur asks at every cocktail party whether anyone is using a product that does not adequately fulfill its intended purpose. This person is constantly looking for a need and an opportunity to create a better product. Another entrepreneur always monitors the play habits and toys of her nieces and nephews. This is her way of looking for any unique toy product niche for a new venture.

Although most entrepreneurs do not have formal mechanisms or identifying business opportunities, some sources are often fruitful: consumers and business associates, members of the distribution system, and technical people. Often, consumers are the best source of ideas for a new venture. How many times have you heard someone comment, "If only there was a product that would…" This comment can result in the creation of new business. One entrepreneur's evaluation of why so many business executives were complaining about the lack of good technical writing and word-processing services resulted in the creation of her own business venture to fill this need. Her technical writing service grew to 10 employees in two years.

Due to their close contact with the end user, channel members in the distribution system also see product needs. One entrepreneur started a college bookstore after hearing all the students complain about the high cost of books and the lack of service provided by the only bookstore on campus. Many other entrepreneurs have identified business opportunities through a discussion with a retailer, wholesaler, or manufacturer's representative. Finally, technically oriented individuals often conceptualize business opportunities when working on other projects. One entrepreneur's business resulted from seeing the application of a plastic resin compound in developing and manufacturing a new type of pallet while developing the resin application in another totally unrelated area—casket mouldings.

Whether the opportunity is identified by using input from consumers, business associates, channel members, or technical people, each opportunity must be carefully screened and evaluated. This evaluation of the opportunity is perhaps the most critical element of the entrepreneurial process, as it allows the entrepreneur to assess whether the specific product or service has the returns needed compared to the resources required. This evaluation process involves looking at the length of the opportunity, its real and perceived value, its risks and returns, its fit with the personal skills and goals of the entrepreneur, and its uniqueness or differential advantage in its competitive environment.

The market size and the length of the window of opportunity are the primary basis for determining the risks and rewards. The risks reflect the market, competition, technology, and amount of capital involved. The amount of capital needed provides the basis for the return and rewards. The methodology for evaluating risks and rewards frequently indicates that an opportunity offers neither a financial nor a personal reward commensurate with the risks involved. One company that delivered bark mulch to residential and commercial users for decoration around the base of trees and shrubs added loam and shells to its product line. These products were sold to the same customer base using the same distribution (delivery) system. Follow-on products are important for a company expanding or diversifying in a particular channel. A distribution channel member such as Wal-Mart, Service Merchandise, or Courts prefers to do business with multi-product, rather than single-product, firms.

Finally, the opportunity must fit the personal skills and goals of the entrepreneur. It is particularly important that the entrepreneur be able to put forth the necessary time and effort required to make the venture succeed. Although many entrepreneurs feel that the desire can be developed along the venture, typically it does not materialize. An entrepreneur must believe in the opportunity so much that he or she will make the necessary sacrifices to develop the opportunity and manage the resulting organization. Opportunity analysis, or what is frequently called an opportunity assessment plan, is one method for evaluating an opportunity. It is not a business plan. Compared to a business plan, it should be shorter; focus on the opportunity, not the entire venture; and provide the basis for making the decision of whether or not to act on the opportunity.

An opportunity assessment plan includes the following: a description of the product or service, an assessment of the opportunity, an assessment of the entrepreneur and the team, specifications of all the activities and resources needed to translate the opportunity into a viable business venture, and the source of capital to finance the initial venture as well as its growth. The assessment of the opportunity requires answering the following questions:

- What market need does it fill?
- What personal observations have you experienced or recorded with regard to that market need?
- What social condition underlies this market need?
- What market research data can be marshalled to describe this market need?
- What patents might be available to fulfill this need?
- What competition exists in this market? How would you describe the behaviour of this competition? What does the international market look like?
- What does the international competition look like?
- Where is the money to be made in this activity?

DEVELOPING A BUSINESS PLAN

A good business plan must be developed in order to exploit the defined opportunity. This is a very time-consuming phase of the entrepreneurial process. An entrepreneur usually has not prepared a business plan before and does not have the resources available to do a good job. A good business plan is essential to developing the opportunity and determining the resources required, obtaining those resources, and successfully managing the resulting venture.

A typical business plan includes the following:

- Assessment of the business environment.
- A competitor's analysis.
- Description of the business strategic direction.
- A detailed description of the potential business (i.e. the products and services, legal structure, governance of the business, etc.).

- The management and decision making structure.
- The business organization and major appointments.
- Marketing and sales plan with multi-year sales projections.
- A human resource management plan.
- A resource and infrastructure plan.
- A performance management plan.
- A detailed multi-year financial plan.
- Timelines for implementation of the plan.
- Other issues important to business implementation and growth.

More about the business planning process will be discussed later in the course. The requirement to create a detailed business plan will be part of the Business Plan Development course which is the final course that you will complete in the certificate programme.

DETERMINE THE RESOURCES REQUIRED

The resources needed for addressing the opportunity must also be determined. This process starts with an appraisal of the entrepreneur's present resources. Any resources that are critical need to be differentiated from those that are just helpful. Care must be taken not to underestimate the amount of variety of resources needed (including human resources). The downside risks associated with insufficient or inappropriate resources should also be assessed. Acquiring the needed resources in a timely manner while giving up as little control as possible is the next step in the entrepreneurial process. An entrepreneur should strive to maintain as large an ownership position as possible, particularly in the start-up stage. As the business develops, more funds will probably be needed to finance the growth of the venture, which may require some portions of ownership to be relinquished to the business investors. Alternative suppliers of these resources, along with their needs and desires, need to be identified. By understanding resource supplier needs, the entrepreneur can structure a deal that enables the recourses to be acquired at the lowest possible cost and the least loss of control.

MANAGE THE ENTERPRISE

After resources are acquired, the entrepreneur must use them to implement the business plan. The operational problems of the growing enterprise must also be examined and effectively managed. This involves implementing a management style and structure, as well as determining the key variables for success. A control system must be established, so that any problem areas can be quickly identified and resolved. Some entrepreneurs have difficulty managing and growing the venture they created.

TOPIC SUMMARY

This section provided more detail about the process and procedures that need to be completed to successfully plan and launch a new business enterprise. Each of the four entrepreneurial phases builds upon the decisions made in the previous phase. As you can see the process is systematic and logical. One cannot easily jump right into the business planning process until they have identified and validated an appropriate and needed opportunity.

TOPIC 2.2 – OPPORTUNITY RECOGNITION

This topic discusses the concept of opportunity recognition as an integral aspect of the entrepreneurial process. We will build upon the information presented in the last topic and move from idea to opportunity, recognising the need to take action in a timely manner to address an identified opportunity.

TOPIC OBJECTIVES

Upon completion of this topic you should be able to:

1. Describe opportunity and its role in the entrepreneurship process.
2. Describe the opportunity process.
3. Explain the difference between opportunity and idea.
4. Describe the three generic approaches for identifying opportunities.
5. Identify the key process of opportunity recognition.
6. Describe the purpose of brainstorming and its use as an idea generator.
7. Explain the purpose of maintaining an idea bank.
8. Apply the opportunity recognition process to real life situations.

WHAT IS OPPORTUNITY RECOGNITION?

According to Barringer and Ireland (2010) "An opportunity is a favourable set of circumstances that creates a need for a new product, service or business." A business opportunity they claim must have four essential qualities:

- Attractive.
- Timely.
- Durable or sustainable.
- Adds value to customers and anchored in products services or a business.

A business opportunity needs to address a specific need in the market place. There must be expectation that the potential market will find value in the proposed service or product and be willing to pay money for it. The potential market has to be large enough to support continuous growth and ongoing sustainability. Ideally the business idea will have few competitors. Ideally the business idea is new and innovative and if properly implemented will have a ready-made market.

Once you have identified an opportunity you should test out your idea with the others around you. Explain your opportunity to others, gauge their reaction to your business idea and seek their input. Play the "what if" game with them. Ask them:

1. Do you think this business opportunity has merit?
2. Am I addressing a real problem, issue or need?
3. Would someone pay money for this product or service?
4. How would you change it to make the potential opportunity even better?
5. Are there other organizations that have already developed this business idea?

6. What issues do I need to consider when developing my business opportunity?
7. What could cause this business opportunity to fail?

EXAMPLES OF POTENTIAL BUSINESS OPPORTUNITIES

The examples below assume that there is a demand for this type of business and little or no competition exists.

Tourism Opportunities

- Eco-Tours into the jungle and rural areas.
- Day cruises up the rivers and waterways in the local area.
- City bus tours.
- Cultural tours.
- Car rental service.

Manufacturing Opportunities

- Distribution of locally produced clothes or shoes to city retail outlets.
- Export and distribute local commodities and resources to off-shore buyers.
- Transportation services for agricultural sector.
- Building contract services.

Retail Opportunities

- Fast-food restaurant.
- Boutique selling in-demand products from off-shore.
- Electronics store.

High Tech Opportunities

- Computer sales and repair services.
- Computer school.
- E-learning consulting and implementation services.
- Programming and gaming services.
- Internet café.

Activity – The Business Idea

Now that you have read about business opportunities and their essential qualities, consider two potential business ideas and determine what "essential qualities" these opportunities have in succeeding.

Don't worry if you are unsure about your ideas. We will work on your further on developing your business idea in the next topic. Note your answers in your journal.

Business idea 1:

____

____

Essential Qualities:

1. ____
2. ____
3. ____
4. ____

Business idea 2:

____

____

Essential Qualities:

1. ____
2. ____
3. ____
4. ____

THREE APPROACHES TO OPPORTUNITY RECOGNITION

With a good idea of what an opportunity is and its essential qualities are, we can now examine the various approaches that you use to identify a business opportunity. For this topic we will concentrate on three approaches namely:

- Observing trends.
- Solving a problem.
- Finding market gaps.

Observing Trends:

According to www.thefreedictionary.com a trend is defined as:

- The general direction in which something tends to move.
- The general tendency or inclination.
- Current style or vogue.
- The popular taste at a given time.

From the above definition, it is clear to see that trends are what we observe in our everyday life. Whether it is new clothing or how we wear it; new language or slang in the community; a new song or dance craze in town; or maybe a complaint from a particular segment of our society. These trends create opportunities for entrepreneurs to pursue.

Barringer & Ireland (2010) note that the most important trends are:

- Economic forces.
- Social forces.
- Technological advances.
- Political action and regulatory change.

The diagram on the next page illustrates the impact of these trends. It is important as an entrepreneur to be aware of changes in these areas as they will provide challenges and opportunities for your business venture.

TRENDS SUGGESTING BUSINESS OR PRODUCT OPPORTUNITY GAPS

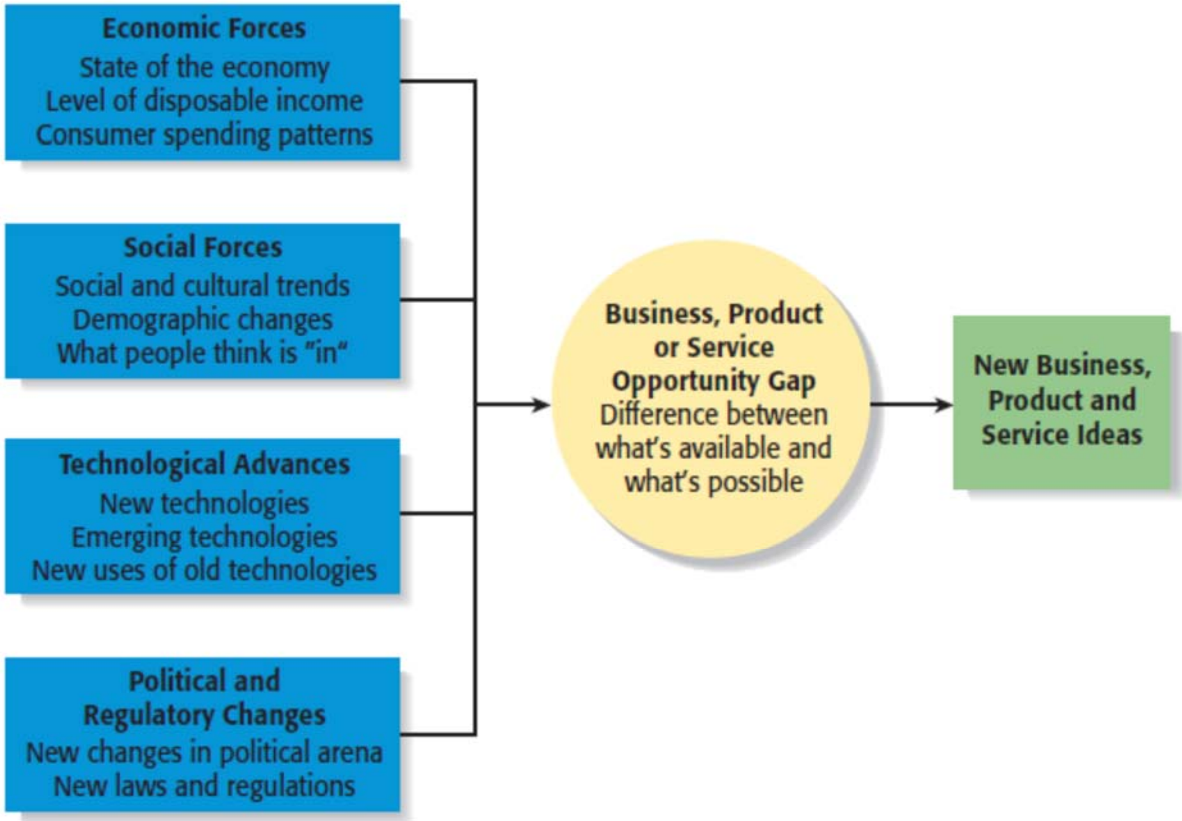


Figure (Barringer & Ireland, 2010)

Dr. James Canton (2011) predicts that the top ten business trends in the future will include:

1. Business and technology have fused into one system, one conversation, and one strategy, for one world. This is central to understanding the New Future.
2. Innovations are about new business models, enterprise and marketplace collaboration, new leadership and knowledge engineering.
3. Knowledge engineering, the formation and networking of knowledge-that which creates results, is the true asset of the 21st century.
4. The capture and analysis of customer information about product/service use, needs, wants, desires and behaviour is mission-critical to the enterprise.
5. The integration of customer touch points across all channels is essential to future success. Watch out for the breakdowns.
6. The capacity of an organization to understand the key trends that will shape the future of technology, customers, society and the marketplace will determine the survival of the enterprise.
7. More disruptions are coming in the form of emerging markets, electronic exchanges, security breaches, and changing customer demographics.

8. Human capital, the value of talent will be the most valuable resource in the 21st century.
9. Entirely new industries will be formed by innovations yet to be brought to market. Look for the health enhancement, interactive TV nanotech, and on-demand supply chains to emerge.
10. The New Future will need New Leaders that are aware of how to attract talent, manage innovation, set high visions and execute profitably. There is a new paradigm about leadership that is emerging.

Camton's ideas should be considered when considering a specific business opportunity. Now let's examine the process of defining an opportunity.

Problem-Solving

According to www.100ventures.com 'a problem is simply the difference between what you want and what you have'. It further suggests an old saying "there are no problems – only opportunities." For many entrepreneurs opportunities come in the form of a problem looking for a solution. Once you are able to come up with a solution to a recurring problem in your society, you are well on your way to creating a product, service or business.

Activity – Business Problems and Solutions

Identify one recurring business related problem within your local community and suggest a solution to the problem. Note your answers in your journal.

Problem:

____

____

____

Solution:____

____

____

____

____

Problem Solving Process

Many problem solving techniques and models exist, but almost all contain the following five major activities:

- **Define the Problem:** Ask the right question: who, what, when why and how.
- **Options:** What options are available to solve the problem?

- **Analyze the Options:** Seek answers to the questions. Examine each potential option. Analyse the answers and options and evaluate the results.
- **Implement the Favoured Option:** Put the results into practice by testing and fine-tuning until it achieves an acceptable working standard.
- **Evaluate the Results:** Determine if the implemented solution addresses the problem at hand.

Finding Gaps in the Marketplace

Every now and then, demands in the marketplace go unfulfilled for a considerable length of time. Gaps occur when products or services needed by a specific group go largely ignored by the mainstream providers because of their small numbers. This is sometimes called a niche market. In such circumstances, an entrepreneur sees such a problem or gap in the marketplace as a potential opportunity waiting to become a business.

In some other cases, gaps in the marketplace are found in existing products and services. Consumers normally voice their opinion about the products and services they currently consume through complaints and other forms of feedback. This information provides adequate data to examine the issues or problems involved with a view turning them into an opportunity for a solution.

Some examples of early entrepreneurs recognizing gaps in the marketplace include:

- **Thomas Edison** identified a market need for the phonograph, movie camera and the light bulb. He opened the first power station on Manhattan Island to power street and home lights in New York.
- **Henry Ford** saw the need for making automobiles that were affordable for the general public. He created the production line to reduce manufacturing costs and thus made the automobile affordable.
- The bothers **Richard and Maurice McDonald** saw a need for a fast-food restaurant to support the growing and active population in San Bernardino, California.
- **Steven Jobs** saw the need for affordable entertainment options that support the mobile on the go individuals. The result was iTunes, the iPod, the iPhone and now the iPad.

What these early entrepreneurs brought to the market were innovative products that no one else had considered. Each new product was effectively marketed, met an immediate need and helped grow some very small companies into international corporations.

All it takes is a need and innovative solutions.

Innovation and Entrepreneurship

Innovation is key to the success of any entrepreneur. Peter Drucker (1985) in his book Innovation and Entrepreneurship indicates that innovation isn't just an inspired idea. Innovation requires organization, systematic thought and practice and rational work.

David Zilberman (n.d.) states that “excessive regulation, rigid hierarchy, lack of freedom and excessive control discourage entrepreneurship”. He implies that innovation comes from openness to new ideas and the freedom to investigate without interference. Zilberman defines innovation as a new way to achieve a specific task. He categorizes innovation as either process innovation or product innovation.

RECOGNIZING AN OPPORTUNITY

The characteristics that make some people better at recognising opportunities than others include:

Prior Experience: Prospective entrepreneurs with prior experience in a particular industry or sector stand a good chance of identifying an opportunity from the myriad of problems facing their industry. They are more inclined to think of possible solutions on a frequent basis than someone who is not in the industry.

Intellectual Curiosity: Those who want to know why or are willing to explore new ideas as potential opportunities. The key idea here is “What If?”.

Innovative and Creative: Those that can think outside of the box and can create solutions that no one has considered will see opportunities everywhere?

Networking: The successful entrepreneur will be able to network with others and explore opportunities that his or her peers and colleagues identify as potential business ventures.

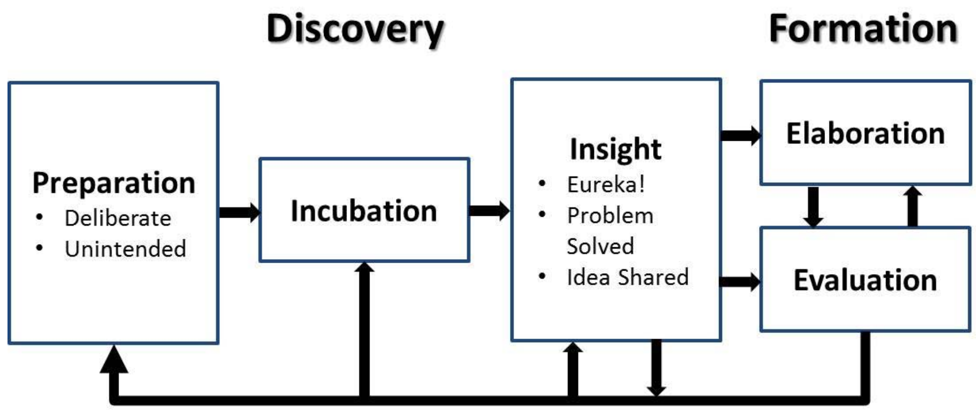
Assess Risk: The potential entrepreneur can quickly identify a problem, identify potential solutions and has the ability to identify the potential risks facing any potential solution.

Motivation: The potential entrepreneur needs to be self-motivated and a self-starter to be able to see and pursue potential opportunities.

THE OPPORTUNITY RECOGNITION PROCESS

There are a number of models that explore the process of opportunity recognition. One is described below:

According to Lumpkin, Hills & Shrader, Opportunity Recognition (OR) is a "vitally important area of entrepreneurship" and an "essential aspect of understanding entrepreneurship." Their model for Opportunity Recognition is illustrated below.



Attribution: Lumpkin, Hills & Shrader, 2004; Lumpkin, Hills & Shrader, 1999.

In an online book review posted on the University Barbara Cunningham (2003) on the University of Missouri Extension site she describes the Lumpkin, Hills & Shrader model as follows:

Lumpkin, Hills and Shrader present a model which combines the multiple phase process concept with the idea of a discrete "event" suggested in the economic approach. Their model views OR as an inherently creative multiple stage process which includes an "event" or insight. Their creativity-based model of Opportunity Recognition includes the following stages:

***Preparation:** Preparation refers to the knowledge base an entrepreneur brings to the OR process. This knowledge may come from one's personal background, training or work experience. It is often neither systematic nor deliberate but rather a part of life experience. Research indicates more than 50% of start-up ideas develop from an individual's prior work experience.*

***Incubation:** This stage is described as the "simmering of the pre-recognition stew over time." It is the period during which ideas intermingle and "new combinations" emerge.*

***Insight:** Insight is referred to as the "Aha" moment or the "Eureka" experience. This is the moment the entrepreneur realizes that the idea he/she has been mulling over may truly be an entrepreneurial opportunity. This does not necessarily mean that the potential entrepreneur is ready to move on to the next stage. Rather, it may mean stepping back to the preparation or incubation stage.*

***Evaluation:** This stage is described as the most challenging since it requires brutal honesty to determine if "what seems to be a good entrepreneurial idea is, in fact, a bona fide business opportunity." This evaluation should take the process beyond the individual for review and feedback from experts and the marketplace.*

Neglecting to evaluate or conduct a feasibility study is one of the frequently identified reasons for the failure of new ventures.

Elaboration: *When a business idea has survived the evaluation stage and is still considered viable, elaboration is the next stage. This is the stage when many of the details are worked out, the opportunity is refined and much is learned through trial and error.*

The authors point out that while not every incident of OR goes through all five stages, all stages are needed to explain the potential paths to Opportunity Recognition.

Lumpkins, Hills and Shrader described the practical implications of their opportunity model as follows:

Implication 1: Opportunity recognition is inherently a creative process.
Implication 2: Opportunity recognition involves experimentation.
Implication 3: High levels of domain knowledge enhance opportunity recognition.
Implication 4: “Good ideas” must be formed into viable business opportunities.

TOPIC SUMMARY

After reading this topic, you should have a better understanding of how to recognize business opportunities. A business opportunity can arise from solving a problem or addressing an unmet need. It is important to observe trends and identify gaps in the marketplace. Prior experience is helpful in identifying business opportunities.

TOPIC 2.3 – COMING UP WITH A BUSINESS IDEA FOR START-UP

TOPIC INTRODUCTION

Every business starts with an idea. That idea is further developed using a typical five step process illustrated in the diagram below. In this topic we will explore how to come up with a solid business idea using this five step process.

Idea → Concept → Model → Plan → Start-Up

TOPIC OBJECTIVES

Upon completion of this topic you should be able to:

1. Identify business ideas.
2. Explore reasons for starting a business.
3. Identify business ideas that could be implemented in your community to meet existing needs.
4. Describe factors that influence the starting of a business and relate them to your situation.

YOUR BUSINESS IDEA

Most likely, you have decided to take this course for two reasons:

1. You have a great idea for a small business and you want to learn how to go about its implementation in order to create a successful small business,
2. You are already running your own small business and you want to learn about how you could make your business more successful.

Before reviewing this topic consider the activity below:

Activity – Community Business Idea

In the space provided and in your personal journal briefly describe your idea for a small business in your community. If you already have a name for it, write it down as well! If you already own your own small business, write down its name and describe it below. Don't forget to include ways in which you would like to grow your existing business.

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As you begin to develop your business idea or opportunity consider the following:

1. Is this a new idea or has it been tried before?
2. Is my idea feasible? If it was tried before why did it fail? What can I learn from past failures?
3. Who am I targeting?
4. Who are my competitors?
5. Would I be able to compete in the market?
6. Is the market saturated?
7. How will I offer a better product/service than my competitors?

If you don't have any ideas for a business yet, but you are certain that you want to be a small entrepreneur in your community, and then engage in the following discussion:

Get together with some of your peers, some family members, some community leaders, etc., and discuss ideas for new businesses in your community. If you come up with a business idea, give your business a name! You can adjust/change this name later.

If you don't have any ideas for now, don't worry! Continue to work through this unit. You will come up with something soon!

Reasons for Starting a Business

Starting a business isn't easy, but it can be rewarding. Being an entrepreneur means taking a lot of risks but it also has lots of potential benefits when things work out. So if you are on the fence still thinking about quitting your day job and starting out on your own here are six reasons to persuade you to make that move.

Earning Potential

When you own your own business you have the ability to potentially earn much more money than you are likely to ever earn in your day-to-day job. You'll be able to earn money (or lose money!) based on your drive, luck, commitment and ideas.

Be Your Own Boss

Rather than doing what you're told, wouldn't it be better to be your own boss? When you own your own business it is likely that you will have to work even harder. But you will do so under your own rules. You will choose when to go on holiday, when to go home, and when something is likely to be effective for your business. You should remember, however, that entrepreneurialism is as much about self-discipline as it is about personal freedom.

Hire Like-Minded People

You'll be able to choose who you work with. You'll be able to choose your team. However, this can be much harder than it seems. You will need to find individuals who can complement you own skills if you are to be successful. Gerber (1986) notes that a start-up business needs a visionary (the entrepreneur), managers and technicians. He states that no one person can perform all of these roles in a start-up business. Early on in your business formulation you will need to think of the type of people you need to recruit.

Achievement

There's very little you can do that's worthy of more kudos than building a company. Business helps the world go round, and many businesses do even more than. Imagine what the world would be like today without certain websites or Internet based products. Some ideas are much more than just a way to make money. Once you have achieved what you aim to do, there's no better feeling. The rush you get when one of your ideas works is unbelievable!

Change

People who have entrepreneurialism within their blood will always think of ways to improve upon their ideas. For example, have you ever been in a situation where you have considered how your current employer could be more efficient? Ways that they could drive more sales, decrease costs, and improve customer service? When you own your own business, you will be able to make those changes. And, not only that, you will also be able to profit from these changes if you make the right decisions.

Experience

When you start your own business, it's possible that you will fail. But that is part and parcel of being an entrepreneur. However, if you fail, get up again. If persistent you may succeed the second or third time around. In some cases failure is good. From failure you will have gain knowledge and experience the next time around.

This experience will work well for you if you ever decide to start another venture, or even go back into the workplace. Investors like working with entrepreneurs who have started other companies in the past. They do that for one reason: they know that experience counts and that have learned from their mistakes!

Developing Your Idea

More often than not, new business opportunities occur from changes in industry, social, or economic environments. New business ventures can arise due to a variety of factors, including:

- External causes.
- Voluntary self-employment.
- Hobbies.

External Causes

1. **Changes in industry stimulated by advancing technology and new knowledge spur new products and services**: A good example of this is the rapid change we have witnessed in Information and Communications Technologies (ICT.) Over the last decade, these rapid changes have spun off many business opportunities, for example:
   - Increased internet speed and bandwidth have created opportunities for the provision of online courses for conventional education, life-long learning and training.
   - Increased access to more affordable computer equipment and software has created opportunities for provision of technical, support services at varying levels, not only to corporations but also to individuals that use computers in their homes, etc.

2. **Accidental discovery**: Sometimes a person stumbles upon an idea instead of deliberately trying to invent a new product. This was the case of the Post-It product of the 3M Company.

> ***The Post-It-Notes Story***
>
> *In 1968, Dr. Spencer Silver, a chemist at 3M in the United States, developed a "low-tack", reusable, pressure sensitive adhesive. For five years, Silver promoted his invention within 3M, both informally and through seminars, but without much success. In 1974, a colleague of his, Art Fry, who had attended one of Silver's seminars, came up with the idea of using the adhesive to anchor his bookmark in his hymnbook. Fry then developed the idea by taking advantage of 3M's officially sanctioned "permitted bootlegging" policy.[3] 3M launched the product in stores in 1977 in four cities under the name "Press 'n Peel", but its results were disappointing. A year later, in 1978, 3M issued free samples to residents of Boise, Idaho, and 95 percent of the people who tried them said that they would buy the product. On April 6, 1980, the product debuted in US stores as "Post-It Notes." In 1981, Post-its were launched in Canada and Europe.*
>
> *From Wikipedia – Post-it note. http://en.wikipedia.org/wiki/Post-It*

3. **Changing Perceptions**: There are times when the social environment is an element of new venture creation. For example, the emphasis on healthy living in the 1990's created the opportunity for the creation of full-service health clubs.

4. **Economic Change**: Often this type of change creates opportunities that arise out of necessity. For example, the current energy crisis is opening up the market to new ideas for alternative sources of energy. In turn, car manufacturers will design different types of engines to sustain different energy sources which may even lead to a new car parts and accessories industry!

5. **Political Change**: Often governments create new policies or pass new laws that create opportunities for entrepreneurs to start a new business. For example the requirements professional development requirements for certain professions may be mandated by government. That means training and education companies may be able to create professional development programmes that are recognized by government to support their professional development policies. Other examples include:

    a. Changes in security requirements or legislation may open up new businesses for security services.
    b. Implementation of new food regulations may provide opportunity for new businesses such as transportation, storage, quality assurance.
    c. Changes in tax rules may open businesses to support the additional bookkeeping or audit requirements.
    d. Infrastructure improvements may provide opportunities for the creation of construction services businesses such as excavation services, carpentry services, electrical services, etc.

As you see, change is a good catalyst for business opportunities. And entrepreneurs are often times the first ones to "see" the opportunity and seize it by creating new businesses to respond to a perceived market need.

Activity – Business Ventures

Can you think of three new business ventures in your community that have been created based on External Factors? Note your ideas in your personal journal.

Voluntary Self-Employment

It is becoming more and more common for individuals with prior work experience to create new ventures. Frequently workers perceive ways to modify a product or improve a service, which leads them into starting a new venture. This new venture can be within the existing business or can be spun off into a new business venture.

Individuals are apt to start their own business as they gain more knowledge and experience from their years of employment in a former workplace. A person can decide to become a self-employed manufacturer by obtaining the right to manufacture a product based on a patent. An individual observing scant competition afforded to a particular business can go out and duplicate that same business, as long as there is a underserviced market for the product or service.

Individuals may also help grow an existing family business, especially if they have been serving the needs of an established market or community for a long period of time and they wish to provide new or additional services or products.

Hobbies

Hobbies can also turn into business ventures. For example, a love of horses or animals can lead someone to an opportunity of running a riding school or providing a boarding facility for horses.

Factors that Influence the Business

Now that we have explored many of the concepts impacting a start-up business, and discussed the reasons for getting into business, you should examine factors that can influence the type of business you may wish to create. There are many factors, some of them positive and others negative. We shall select a few to discuss, than as you read further, we expect you to come out with some of your own. Kotler and Armstrong (2004) have come up with the following factors that impact business start-up and success.

- Cultural factors.
- Economic factors.
- Political factors.
- Environmental factors.

How do these factors impact a business? Let’s examine each one in turn.

Cultural Factors

The culture of a country refers to customary practices and beliefs that people uphold. Culture is made up of institutions and other forces that affect society's basic values, perceptions, preferences, and behaviours (Jarvis, 2002). The entrepreneur should remember that people grow up in a particular society that shapes their basic beliefs.

Culture affects the way consumers think and use certain products. As an example, in some cultures it is not proper for women to deal with the public e.g. selling goods or wares. This is a crucial factor for business purposes. Firstly, should the mother of a family identify a business idea that is likely to bring income to the family, she will not be able to operate the business because of cultural constraints. Secondly, should she, nevertheless, go ahead and start a business that might lead to conflicts in the family and in turn that might cause the family to break up. Not to mention that if customers don't buy her wares, her business will fail.

There are also cultural celebrations, religious celebrations, local historical sites and demonstration of local music, cooking, dance and other traditions that may offer opportunities to support different cultural activities that occur with a local community or region. One example could be the creation of a tour guiding business that specializes in cultural events and cultural or religious sites.

Economic Factors

The economy of a country refers to the activities in which people are employed to generate revenue. Various economic factors impact a country's ability to attract or encourage the creation of new businesses.

A country's industrial, economic and banking structure influences the products and services needed by businesses and individuals. The stability and ideally the growth of a country's industrial base impacts income levels and employment levels. If a country displays a solid industrial base then the climate is attractive for business creation and development. For example, the economy of Botswana is based on diamonds and the beef industry, which makes it attractive for business investment in the processing of these raw materials.

In subsistence economies found in the developing world the vast majority of people engage in agriculture or agricultural related businesses. Individuals grow and consume most of their output and barter the rest for simple goods and services. In a subsistence economy there are fewer market opportunities for the creation of a new business. In addition the potential to attract investment is more difficult. For example the economy of the small islands in the Caribbean depends heavily on tourism and agricultural production, specifically sugar production, making it less attractive for industrial or high technology business investment.

But as the developing countries grow and the income levels of the citizens increases there becomes greater demand for new goods and services. This increasing demand will result in the creation of a number of small businesses to service the growing economy. Think about China. Thirty years ago it was subsistence economy. Today it still relies on agriculture, but its economy has diversified and large numbers of small businesses spring up every day to support the growing middle class and their thirst for new products and services.

Political Factors

Nations differ in their political and legal approaches to business and the economy. Political and legislative factors need to be considered when deciding whether to set up a business or expand an existing business. Government bureaucracy is an example. This refers to the way a particular government facilitates or constrains business registration and operation. If, as an example, only citizens are allowed to operate certain types of business that means non-citizens will find it difficult to start-up businesses even though they have the capital to do so.

Political instability is another factor that that an entrepreneur needs to consider before deciding to set up a small business. A country is said to be politically unstable if there is violence or when there is no rule of law. Unstable political situations discourage business. Investors and business owners may not feel safe to set up a business where there is no assurance of security or safety.

Some of the legislative guidelines entrepreneurs should become familiar with before they establish a small business are:

- What are the laws and guidelines that govern the establishment and growth of a small business?
- What is the impact of the tax structure on the operation of a small business?
- What type of fees and reporting mechanism is required to operate a small business?
- Community or regional guidelines or by-laws that govern the operation of a small business and or home-based business.
- The legal framework that is required to establish a small business.

Environmental Factors

Environmental factors need to be considered by the fledging entrepreneur. Environmental factors include: business location; the natural environment; environmental regulations; and international laws governing the distribution of raw materials and finished products.

The physical environment refers to the place where your business will be situated. Depending on the type of business you select the location can impact the success or failure of the business. If you were to locate the enterprise, say a hotel, in a place where there are bad roads, it is most likely that customers would not be able to reach you. Or if you are restaurant located off of the main tourist area you may not get as much business. On the other hand if you are a consulting or repair business that goes to the customers' location, then where you establish your office is not as important.

Access to natural resources is an important environmental factor to consider. These are needed as inputs by entrepreneurs. Business persons should, therefore, be aware of trends in the natural environment. For example, in many countries, shortages of raw materials can affect setting up businesses. Procuring and using raw materials that are either on the endangered species lists or are forbidden by legislation for the harvesting and distribution of such materials. For example the mining and distribution of diamonds in certain parts of Africa is forbidden by international laws and treaties because they are considered blood diamonds. The export of different types of rare animals is also forbidden by international law.

An understanding and application of environmental regulations is also important to a new business. Air pollution chokes many of the world's cities, while water shortages are already a big problem in many parts of the world. As a new business you need to consider how do I get power, where do I get water, how do I dispose of waste and what materials are considered hazardous to humans and the environment.

Activity – Factors Affecting Business

"Note in your personal journal". Based on your business idea:

1. *Identify the factors that would affect your business development*

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2. *Explain how these factors affect your business*

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3. *Explain how your business idea can fit in your market place*

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Protecting Your Idea

Some business ideas, like new inventions, new processes, product logos and unique product names may need the protection of law so that others cannot poach your idea and use it for their financial gain. Your ideas are considered your intellectual property; but it can only be considered intellectual property if you have recorded in either a written, audio or video format.

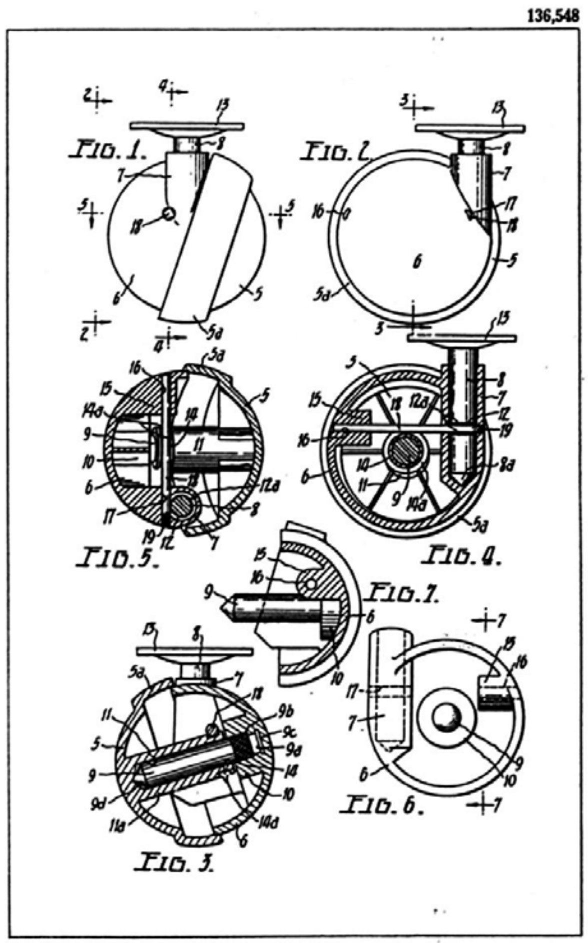
If you have a great business idea and tell a number of other potential entrepreneurs in informal discussions about the idea they may take it and turn it into a product or service. The process of communicating verbally to others does not necessarily protect your intellectual property. You must describe it in some legal form. These legal forms include patents and trademarks. These usually provide protection for the owners of a product or process. Other ideas usually in a written, visual or multimedia format are protected by national and international copyright laws.

Be careful about who you tell about your business idea. Make sure you trust them. To protect your legal writes ensure you place your idea in writing. Where appropriate register the idea as a patent or trademark. Ensure you apply copyright to all of your written or visual materials. If necessary have the written description of your idea notarized. Now let's explore each of these legal concepts.

Patent: A patent is a set of exclusive rights granted by a state to a person (the patentee, usually the inventor) for a fixed period of time in exchange for the regulated, public disclosure of certain details of a device, method, process or composition of matter (substance) known as an invention, which is new, inventive, and useful or industrially applicable. The rights granted to an inventor of a product or process exclude others from being able to make, use, and sell or import/export the product or process. You will want to apply for a patent when you create a product or a process that you want to market exclusively, without competition from other companies.

Some examples of patents that helped grow a successful business are:

In 1947 George Shepherd patented the idea for "Shepard Castors" a smooth steerable ball that allowed furniture and other items to be easily moved. There are now millions of them throughout the world.



Original Patent Diagram – Australian Government IP Office

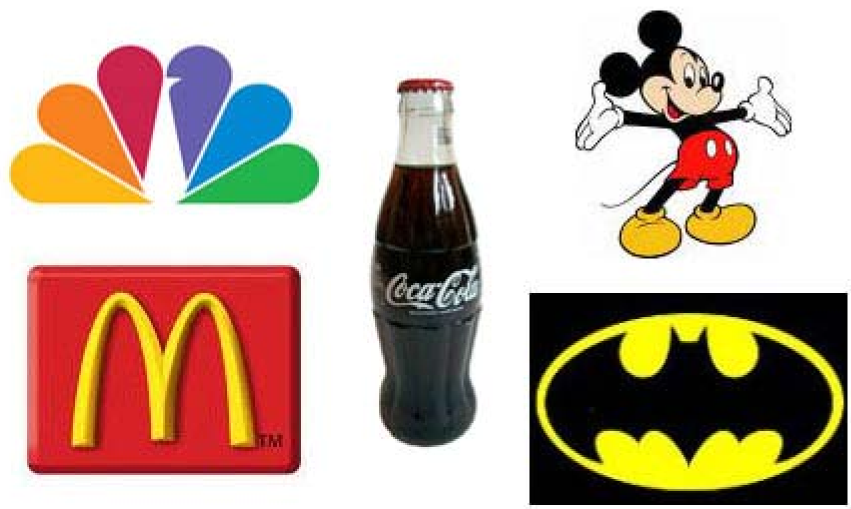
Source: http://www.ipaustralia.gov.au/patents/ex_shep.shtml

If you have access to the Internet, you can read more about patents at:

http://en.wikipedia.org/wiki/Patent

Trademarks: Trademarks are names or symbols used in trade that are subject to regulation by government. Trademarks and service marks may be registered for a specified term. You apply to register a trademark when you create a uniquely identifiable name or symbol that will represent your products or services. It will be your image in the market. The trademark registration procedures are different from country to country, so make sure you investigate the procedures in your own country. Again, local business centres may be able to provide some assistance in this matter.

Below are some examples of things that have been trademarked. Note that they are not just logos; even pictures like Mickey Mouse can be trademarked. Names can also be trademarked. For example the term "Situational Leadership" is a trademarked term used to describe their leadership model and licenced to "The Ken Blanchard Companies". To use these terms in advertising or for other commercial purposes you need to ask permission and often pay a fee.



Retrieved from: http://www.ppchero.com/use-trademark-and-registered-symbols-in-your-ads-to-increase-click-through-rates/

If you have access to the Internet, you may look at an example of how to register a trademark in the United Kingdom at: http://www.ipo.gov.uk/t-essentialreading.pdf

You may also read about trademarks at: http://en.wikipedia.org/wiki/Trademark

Copyright: Copyright is a set of exclusive rights regulating the use of a particular expression of an idea or information. At its most general, it is literally "the right to copy" an original creation. In most cases, these rights are of limited duration. The symbol for copyright is ©, and in some jurisdictions may alternately be written (c). Copyright is automatic even if you do not add the copyright symbol to all your original work. International and national copyright law automatically protects any original work that you or company produced in any format, be it text, video, audio or other multimedia formats. You need to grant permission to others to use your copyrighted materials. Copyright prevents other individuals and businesses from using your material without giving you recognition for the work, and in some cases, even pay you royalties.

When working for someone else and you are paid a wage or you are contracted to produce a product, the product is automatically copyrighted to the person paying for the product. So if you write an article or produce a poster the owner of the copyright is the organization that has paid for it. By taking money for your services you automatically loose the right to claim copyright.

Another example is the use of clip art and other visuals found on the Internet. You cannot assume that anything posted on the Internet is copyright free. In fact all materials on the Internet are considered copyrighted to the original author or site owner. The only time you can copy and paste from the Internet (without the permission of the owner) is it is published in the “Public Domain”, has specific guidelines for use and reproduction or is published using the Creative Commons copyright license (A licensing arrangement for the free distribution, reuse and re-purposing of learning materials).

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> *In the absence of language to the contrary in the License Agreement, Sample Art (which includes images customarily found in the "sample" folders within Microsoft operating systems) may be used for personal use only. You may not sell, lease, or distribute Sample Art, or any materials you create that use Sample images, for any commercial purposes.*
>
> *Retrieved from: http://www.microsoft.com/About/Legal/EN/US/IntellectualProperty/Permissions/Default.aspx#ELC*

If you have access to the Internet, you can read more about copyright at:

http://en.wikipedia.org/wiki/Copyright

http://creativecommons.org/

IDENTIFYING POTENTIAL BUSINESS IDEAS

In order to identify opportunities for business start-ups in your community you must consider what the market needs. You can start your market analysis by completing an environmental scan of your community. Before you can consider the creation of a new business you must be aware of the business environment that your proposed business will be operating in. You need to consider a number of factors. These include:

- What businesses already exist in my region?
- What type of goods and services do they provide?
- Who are the clients (market) buying these goods and services?
- Are all of the market needs being met by the existing businesses?
- Are there goods and services that the market members may purchase if they were available?
- Do I have any of the skills or abilities to offer goods and services that could potentially be wanted by members of the market?

- What competition already exists in the marketplace for the goods and services that I could potentially offer?

These questions and others should be considered as you explore the business opportunity you wish to pursue. Now let's complete a brief exercise.

Activity – Proposed Products and/or Services

Reflect upon the following questions and write your answers in your personal journal.

1. *What products and services are currently available in your area?*
2. *Have new products and services entered the marketplace recently?*
3. *Are there products and services that are lacking in your area?*
4. *Do you think people could/would pay for these missing products and services if they were available in your area?*
5. *Do you have knowledge or skills in any of the missing products and services?*
6. *Do you think you have the ability to provide any of the missing products or service?*
7. *Would others join with you to provide one or more of the missing products or services?*

As you reflect upon the answers to these questions, you will be able to identify potential business opportunities in your own community. Perhaps there is a product that could be introduced in the market or a service that is needed. Perhaps there is something that you are good at, like baking, or embroidering, or painting, or speaking other languages that can also guide you in the type of business you can set up. The trick is to make sure there is a need for the product or service in your local economy, which you can turn into a business opportunity.

In a less formal way you may also want to discuss your ideas with your friends and/or relatives. You should share your ideas and hear their ideas. This is called **brainstorming**. Some simple brainstorming techniques include:

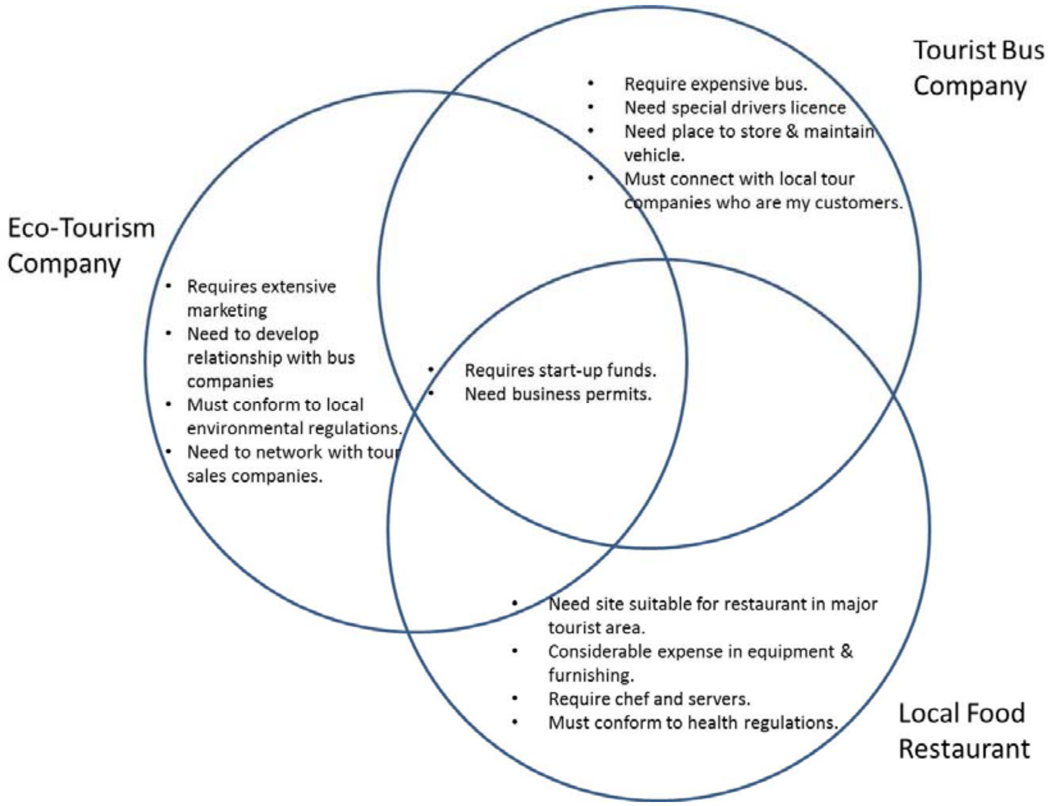
1. Produce a list of pros and cons for your new business idea.
2. Complete a simple SWOT analysis, where you list and weigh the strengths and opportunities of the business versus the weaknesses and threats to your potential business. More about SWOT analysis will be provided later in the programme.
3. Identify the future trends in the market by reviewing what the potential customers want now and will want in the future. Can you identify a gap in what currently is available versus what may be popular in the future? Is there a business that can be created to fill the gap?

Brainstorming Process

Below is a step by step individual brainstorming process. The original process was extracted from About.com retrieved from http://homeworktips.about.com/od/homeworkhelp/a/brainstorming.htm. The brainstorming process has been modified to suit the exploration of business idea.

1. Write your main business idea or topic in the middle of the paper.
2. Start writing down thoughts in no particular pattern. Write words or passages that pertain to your main business idea in some way.
3. Once you've exhausted the random thoughts that come into your head, start using prompters like who, what, where, when, and why. Do any of these prompters generate more words and ideas?
4. Consider whether prompters like "opposites”, "comparisons", “pros” or “cons” would be relevant for your topic.
5. Don't worry about repeating yourself. Just keep writing!
6. If your paper gets full, use a second sheet. Tape it to the edge of your original paper.
7. Keep attaching pages as necessary.
8. Once you have emptied your brain of all of the ideas, issues, positives and risks about your new business idea take a short break from your work.
9. When you return with a fresh and rested mind, glance over your work to see what kinds of patterns emerge.
10. You'll notice that some thoughts are related to others and some thoughts are repeated. Draw yellow circles around the thoughts that are related. The "yellow" ideas will become a subtopic.
11. Draw blue circles around other related ideas for another subtopic. Continue this pattern.
12. Don't worry if one subtopic has ten circles and another has two. When it comes to writing your paper, this simply means you may write several paragraphs about one idea and one paragraph about another. That's OK.
13. Once you finish drawing circles, you may want to place your individual coloured circles in some sequence by numbering them.
14. You now have a basis for organizing and evaluating your business idea! You can turn your wonderful, messy, chaotic creation into a well-organized outline for a business proposal.

Another way to organize the brainstorming information you collect is through the creation of a Venn Diagram. It allows you to compare two or more business ideas at one time. The overlapping area of a Venn diagram represents the information that is common for all of the overlapping ideas. Below is an example of a completed Venn diagram comparing three different business opportunities to support a growing tourism economy in the local region.



Example Venn Diagram for Business Start-Up Ideas

Analyzing the Competition

As you develop ideas for your potential business, you also need to start thinking about who your potential competitors may be. Let's examine how to assess your competition.

A simple competitor's analysis should begin with a search of similar businesses in the local area. You can do this through a phone book search and/or a Google search to determine who is supporting the same market. You should note the following about your potential competition.

1. Who or what is the principle market serviced by your potential competitors?
2. Do they sell services or products that overlap into your potential business ideas?
3. How do they advertise and reach out to their potential clients?
4. How successful does the competition appear to be?
5. What do they charge for their products and services?
6. What type of customer support do they provide to their current and future clients?
7. Is there still room in the market place for another company that offers similar products and services?

In some cases your idea may so unique that there may be very little competition. This is the ideal. But in reality every new business has potential competitors. They may already be providing the products and services you are proposing or they may quickly move into the same type of offerings if they see profit potential. Most business ideas are not unique and it is really about timing, commitment and when you enter the market. Getting a jump on the competition often means the difference between success and failure.

Topic Summary

You have learned how to develop your business ideas, considering factors that influence your business, identifying new business ideas and how to legally protect your business ideas. You have also covered material on developing your business ideas and you have studied factors that influence business development and ownership. In the next topic, you will expand you will learn about what is involved in expanding your business idea into a business concept.

TOPIC 2.4 – DEVELOPING YOUR BUSINESS CONCEPT

TOPIC INTRODUCTION

Systematically exploring a business opportunity will help you ensure the idea grows into a business concept then flowers into business plan and eventually results in the implementation of a successful business. But how do we go from a business idea to business concept? This topic is geared towards discussing the processes involved in moving from your somewhat fluid business idea to a solid business concept.

TOPIC OBJECTIVES

Upon completion of this lesson you will be able to:

1. Distinguish between business idea and business concept
2. Discuss how business idea is transformed into a business concept
3. Explain the processes involved in developing a business concept

BUSINESS IDEA VERSUS BUSINESS CONCEPT

Many individuals believe they have a good business idea. The think that no one else has thought about and that it would make a great business opportunity. This initial idea is the first spark of entrepreneurship. But most do not go beyond their original business idea. They muse about it for years, but they never put any energy into exploring and developing the idea further. As a future entrepreneur you need to grow your idea. You need to put the time and in some cases money into creating a solid business concept that you can share with others.

A business concept describes the business you wish to create, the products and services you wish to provide, the market it serves and the potential competition facing the proposed business. The creation of a business concept is the first step in creating an effective business plan. Converting the idea into a concept requires research and exploration of the idea. A business concept is the initial analysis of the idea. It explores the potential to create a market with effective and ongoing demand for your products and services. It helps answer the question, “Are there potential customers out there who are willing to pay for my services or product?” A viable business concept needs to determine if there is sufficient revenue potential to ensure profitability over a specific period of time.

A business concept provides the following types of detail about the proposed products and services and potential clients.

- A description of the products or services, in other words, what it actually is or does. If necessary, provide a technical description and/or diagrams.
- A description of the potential customer and the benefits that the products or service will bring to the customer. Benefits sell your product or service by conveying more emotional than practical details—by showing customers “what’s in it for them.”

- The uniqueness of the product or service, or how it is differentiated from other, similar products or services. Uniqueness convinces customers that the only source of these desirable features and benefits is your product or service. You may also distribute your product or service to the market in a unique way.
- Sales channels, that is, to whom, where, for how much, and how the product or service will be sold. The same product or service may be brought to market through several different distribution channels. These different distribution channels have a profound effect upon all aspects of the business.

COMPONENTS OF A BUSINESS CONCEPT

Producing a business concept document is a critical task, whether starting a company or seeking to improve an existing venture. You should be able to summarize your business concept in a document of two or three pages. The first step in developing your business concept is to consider and answer the following questions:

- **WHAT** does the product or service do?
- **HOW** is it different from other products or services?
- **WHO** will buy it?
- **WHY** will they buy it?
    - Price?
    - Convenience?
    - Provides sense of safety/security/well-being?
    - Better than what is currently available?
    - Pleasurable experience?
    - Uses new technology?
- **WHERE** will it be sold?
    - Geographic location of business and customers.
- **WHEN** will it be ready to be sold?
    - Concept, start-up, initial operations phase.
- **HOW** will it be promoted and sold?
    - Will it be sold or marketed online?

After developing the business concept, you then test the business concept for feasibility prior to preparing a business plan. It is common for the initial business concept statement to change during feasibility testing and the writing of the business plan.

TRANSFORMING BUSINESS IDEA INTO BUSINESS CONCEPT

A business idea is transformed when the future entrepreneur puts pen to paper (or keyboard to screen) and does a systematic analysis of the business potential of the proposed idea.

A business idea is often found very quickly. However, individuals who have tried to turn a simple business idea into a workable business concept or solution and then a viable venture will know that a business idea and a successful business venture are worlds apart.

In developing a business concept, it is necessary to first clarify the business idea. What is its purpose? Developing a concept, and ultimately a business plan for activating the business concept, is like imagining the venture five years into the future. But this process of imagination is based on research, data and facts rather than dreams. While the business concept statement, which is short and concise, is the first step in creating a business plan it is also the corner stone for the entire venture. If the business concept statement is unclear it is highly likely that the entire business idea will be equally as fuzzy.

Coming up with a practical business concept often requires more than just a brainwave. Budding entrepreneurs can get so excited about getting a bright business idea – and imagining the possibilities – that they forget to take a practical approach. So before deciding to launch yourself into the world of business, here are some guidelines to consider on how to develop a business concept. The Africa Report (2010) recommends you consider the following steps in transforming your business idea.

1. **Identify the marketplace** - It's about perceiving a situation and identifying where you can make a contribution. Take notice of the small businesses in your local area. Consider which businesses are growing and which are slowing down. Examine the business trends and determine what services your market still needs that are not being met.
2. **Begin small** - Your entrepreneurial idea does not need to be extravagant or even excellent. Some of the best business ideas are remarkably simple. Entrepreneurship is sometimes more about harnessing skills that you already have and tapping into a market that already exists, rather than re-inventing the wheel. If your business idea fulfills a need, there's more chance it will be effective.
3. **Know who you are** - Consider yourself as a central part of the business idea. To really grow a business idea into a business concept it is necessary to bear your personality traits and desires in mind. If you think of a business concept that could succeed but can't imagine yourself in that line of business, think again. Do something that you enjoy and that suits your value system.
4. **Research the market** - Research is an invaluable means of determining the opportunities present for your business idea. Through accessing information you will get a better sense of your idea and a gain a better understanding of its potential. You can gather information from so many sources:
   - Do online research
   - Find out from a government agency or an NGO
   - Ask people currently in the industry
   - Brainstorm it. Discussing your idea with others may fuel other ideas that may eventually lead to developing a business concept.
5. **Test the business idea** - Before developing the concept, try and test your idea in the marketplace. This may be a good way to check if you're on the right track. Remember great ideas come with a great plan. With a well thought out business idea you have a

better chance of developing a business concept and becoming a successful entrepreneur.

The Concept Checklist

1. Define the important and distinct functions of the product/service.
2. What are the unique or proprietary aspects of the product/service?
3. Are there any patents, formula, brand name, copyright, trademark, and the like pending or already in place?
4. Describe any innovative technology involved with the product/service.
5. What is new or different (e.g. eclectic toothbrush, unique organizational structure, new production techniques.)
6. Describe the position the business concept plays in the industry. Manufacturing, distributor/wholesaler, retailer, and so on.
7. Who is the intended customer or customer group? Who will pay for the products or services?
8. Who makes the decision? Who will use the products or services?
9. What benefits will be delivered to the costumer? What problems are you solving for your customer?
10. How will the product/service be sold to the costumer? Retail stores, direct sales, manufacturers' representatives, telemarketing, distributors, franchising, Internet, or strategic alliance.
11. Who will make the product or design the service? Subcontractor, in-house, home-base contractors; outsourced; and others.
12. How will the customer know you exist? How will they become aware of you?

Activity – Concept Checklist

Go over the list of check marks again. You may not have answers for some of the questions, but you may have already been thinking of answers for others. In your journal, provide a brief point form answers to as many questions as possible. Address all of the questions above that you are able to answer. Makes notes in your journal.

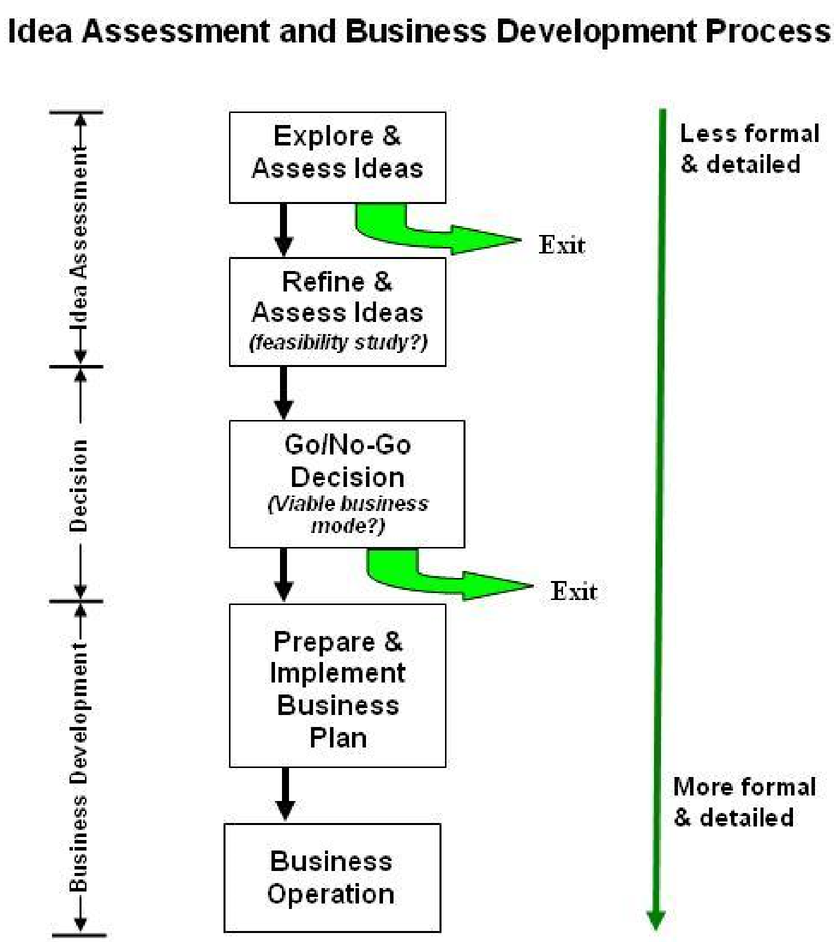
DEVELOPING A BUSINESS CONCEPT

By considering the questions above you have made a start on developing your business concept. You may still feel unsure about some of your answers but for now you have started to ask the right questions of yourself. You will gain more confidence in your business concept as you read further into the course and complete some additional activities.

An important aspect of successful business concept development is to appropriately analyze your business concept. The analysis process should help you decide whether to move forward with the business planning process, collect more data about the potential business or drop the idea and explore other opportunities. The five steps below help outline a simple process you can follow. The steps are not a rigid structure to follow. Rather they identify issues you need to address and when to address them. Following the steps below does not guarantee business success. However, it can greatly increase your chances of success.

Step 1 – Initial Idea Exploration, Identification and Assessment

As we noted in the earlier topics in this unit the origination of a new business idea can come from a variety of sources. It may come from the board room of an existing business or a group of producers sitting around the kitchen table. The five step process is an adaptation of a process originally produced by Hofstrand (2009) and presented by the Agricultural Marketing Resource Centre. The diagram below represents the Hofstrand business development process. The process consists of five steps.



Step 1 – Explore and Assess Business Idea

- **Form an advisory body** – As you develop a business idea you should form an informal group of advisors that can help you turn your idea into a viable business concept. When forming an advisory body you should bring together professionals who have the business concept development skills needed to investigate the potential business idea and carry through with formulation of a viable business concept. You may want to include an accountant, a lawyer, your banker, an experienced entrepreneur, potential customers and others with experience in the industry or economic sector you wish to start a business.
- **Solidify business idea(s)** - Define your business idea and describe why it has merit. Your idea may involve filling an unmet need in the marketplace with a new product, providing an existing product in a new form, producing a product better or cheaper than competitors, or other ways in which value can be added. Remember, an idea is only viable if people are willing to pay you for what it provides. You must allow your group advisors time to provide input into your business idea.
- **Identify and investigate potential business models to implement and manage the business idea(s)** - A business model describes how the business will operate. A business model is a logical assemblage of the essential business elements starting with raw materials procurement and ending with the sale of the final product, and all the stages in between. Some examples of business models include:
    - Static business.
    - Virtual business.
    - Direct sales model.
    - Franchise operation.
    - Wholesale vs. Retail operation.
    - Partnership with others.
- **Formal investigation** – You may want to conduct a formal assessment such as a pre-feasibility study or a marketing study of the idea and various scenarios for implementing the idea and supporting business models. This may involve using consultants to investigate various aspects of the idea. It may involve eliminating additional scenarios/models or identifying new ones. An example of different scenarios for the following business idea is described below:

Business Idea: Provide repair and troubleshooting services for PC and MAC hardware and software.

Potential Scenarios:

1. Provide services from a static retail location where clients bring their hardware in for servicing/repair.
2. Provide mobile services and go to the client's location.
3. Provide services to individuals and home based businesses.
4. Provide services to medium to large corporations.

5. Provide support and guidance via telephone and virtual control of local PC/MAC.

Refine scenarios – Select those scenarios that are viable for further study and eliminate the rest. As you go through Step 1 you should accomplish two things:

1. Through the process of elimination you will reduce the number of scenarios/models under consideration for further study.
2. Refine and combine the remaining viable business scenarios/models.

Step 2 - Idea/Concept Deliberation and Assessment

- **Further refine the business scenarios and model** – Clearly outline and describe your proposed business model. Provide a list of scenarios for providing the services or products you wish to provide.
- **Conduct feasibility study and analyze the results** – Conduct a feasibility study of the proposed business model and scenarios. A feasibility study should include an assessment of the market, operational, technical, managerial and financial aspects of your business idea. These factors will feed into the economic assessment of your idea. When you have produced a feasibility report analyze the results. Only after you have accepted the study conclusions as being complete and comprehensive can you move to Step 3.
- **Further refine the idea and scenario/model** – Before you proceed, you may see the need to refine the business idea based on the feasibility study recommendations/ findings. It is not uncommon for the feasibility study to uncover new issues that need to be investigated. Modify your business scenario and model to align with the findings in the study.

Step 3 - Go/No-Go Decision

At this stage of the process you will have collected sufficient information to determine if the business idea has merit and can, given the right resources and management, succeed as a new business. Once you start down the path of creating a business, it is difficult to turn back. If you have unresolved doubts or reservations about the idea, you should not proceed. That is why it is important to have an open, honest and thorough discussion when making this decision.

Step 4 – Business Plan Preparation

If you decide to proceed with your business idea/concept, you will need to create a business plan. A business plan is an outline or blueprint of how you will implement, manage and grow your business. If you conducted a feasibility study, it will provide some of the information need to support the creation of your business plan.

Creation of a business plan is a time consuming and detailed task which may require a number of different professionals to help you and guide you. You will certainly want to consult with and seek the input of your original advisory group. You will need to do further analysis of your market and your competition. You will need to produce strategic business goals and provide a detailed financial plan to support the growth of the business for the first three years or more of operation. Only after you have done your detailed planning can you implement your business plan.

Step 5 – Business Implementation and Operations

Now that you must implement your business plan and manage your business in accordance with the guidelines provided in the plan. Entrepreneurs often forget that once the business is created, it takes constant attention and effective management for it to remain healthy and viable. Operating and growing a business is very different than starting a business. It requires a different set of skills. So the people who create the business may not be the best people to manage the business.

Churchill &Lewis (1983) suggest that all start-up businesses go through five stages of **growth.**

Stage 1 – Existence: At the Existence Stage you will struggle to kick start your plan. Your organization will be simple and very flat. You will need to find the money, people and resources you need to move forward. Churchill &Lewis (1983) note that you should be asking the flowing questions:

- *Can we get enough customers, deliver our products and provide services well enough to become a viable business?*
- *Can we expand from that one key customer or pilot production process to a much broader sales base?*
- *Do we have enough cash to cover the considerable cash demands of this start-up phase?*

Stage 2 – Survival: In the survival stage your business has managed to overcome all of the initial start-up issues and proven that your idea can blossom into a viable business. Your business is still very small, although you may have some full or part-time employees. The key at this stage is to survive and grow. Churchill &Lewis (1983) indicate that the key questions at this stage are:

- *In the short run, can we generate enough cash to break even and to cover the repair or replacement of our capital assets as they wear out?*
- *Can we, at a minimum, generate enough cash flow to stay in business and to finance growth to size that is sufficiently large, given our industry and market niche, to earn an economic return on our assets and labour?*

Stage 3 – Success: At this stage the company has proven it is a successful entity. It has grown into a moderate size business that probably has a number of supervisors/managers and employees. The company has a solid and consistent customer base. It is stable and profitable. At this stage the entrepreneur must decide whether to keep the company at the size it is or to expand it and grow it even bigger. Alternatively the owners can decide to sell the company and let others grow it.

Stage 4 – Take-Off: As the company takes off the issues faced by an entrepreneur and his senior managers is how to manage rapid growth and how to finance the growth. The key is to hire experienced managers to assist in the growth and to secure a reliable source of finances/revenues to finance growth. You are now seeking investors and may be considering going public to finance the growth.

Stage 5 – Maturity: Once you have achieved your strategic business goals and achieved financial success you must decide how to stabilize the company and ensure its long term viability. The company is now somewhat hierarchical in nature and is owned by investors. At this stage the company and its owners must not stop their innovation or risk taking. Even a mature company must continue to evolve and to embrace the changing needs of their customers.

TOPIC SUMMARY

In this topic, you learned how a business idea can be developed into a business concept. You learned that in order for a business to be successful it needs to have a sound and viable business concept one that requires a sound revenue model, with one objective - to be profitable. The business concept takes into consideration the seven W's of which when answered correctly will give you a clear indication of whether your business idea will stand or sink. If you remember, the business concept is a statement that proves it is possible to create a market with effective demand, and that there are customers willing to pay for the good/ service.

You also explored the five steps you will want to follow for taking an idea and making a viable business from it. These steps will not guarantee success. However, they will increase your odds of success. In the business concept development stage the refined business idea is tested to determine consumer acceptance without manufacturing it. One method of testing is the conversational interview in which respondents are exposed to statements that reflect attributes of the product. Features, price, and promotion should be evaluated in comparison to major competitors to indicate deficiencies or benefits.

Self-Reflection/Discussion Question

Assume your Government is sponsoring individuals who can develop their business idea into a concept statement. With your class peers discuss the different processes involved in transforming your business idea into a business concept. If you do not have access to your class peers than make notes in your journal how you would use the process described in this topic to transform your business idea into a concept.

UNIT TWO – SUMMARY

Summary

We have covered a lot of ground in this unit. We have moved from recognizing opportunity to generating a business idea to understanding what is involved in creating a business concept. Asking questions and completing research allows you to gain insight and develop your business at each stage.

Assignment

At this stage you should be ready to complete a feasibility study your proposed business idea. You are required to complete a business feasibility study and provide it to your instructor for review and feedback. The feasibility study should include the following:

- Potential Business Name.
- Description of business idea.
- Description of proposed products and services.
- The type of business/model you are proposing.
- A description of the potential market.
- A description of the potential competition.
- A brief financial plan illustrating the costs and potential revenues of operating the business.
- A list of risks to business success.

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UNIT THREE – NEW BUSINESS VENTURES

UNIT INTRODUCTION

In Unit Two, you developed a business idea and began to explore how to turn it into a solid business concept. Unit Three provides the information needed to begin the business planning process. You are going to learn more about how you might structure your business venture in terms of its ownership/organization and financing. You are also going to reconsider your entrepreneurial profile from Unit One, in order to plan how you will help to create a great start-up culture.

UNIT OBJECTIVES

Upon completion of this unit you should be able to:

1. Describe strategies that can make ventures profitable.
2. Compare advantages and disadvantages of different types of business organizations.
3. Describe key characteristics of a great start-up culture and explain their importance.
4. Identify internal and external sources of finance and explain how they are related to time and risk.
5. Assess which type of finance is required for a business.

ASSIGNMENTS AND ACTIVITIES

This unit involves a series of short activities that ask you to organize your learning and apply it to analyzing businesses in your area with which you are familiar.

TOPIC 3.1 – LEGAL CONSIDERATIONS

TOPIC INTRODUCTION

In this topic, we are going to focus on how businesses should be legally organized. New ventures often begin as small businesses owned by one person, but as they grow their structure can become more complex. There are advantages and disadvantages to each type of business structure.

TOPIC OBJECTIVES

Upon completion of this topic you will be able to:

1. Explain the legal framework for a new business.
2. Compare the advantages and disadvantages of different types of business structures.

LEGAL STRUCTURE OF A BUSINESS

All business entities must work and grow within a legal framework. The guidelines for establishing and operating a business are defined by local and national laws and regulations. Most nations recognize two major categories of business: unincorporated business; or an incorporated business. We will explore both.

The simplest legal structure for a small business is called a sole trader or sole proprietor. As businesses grow they may evolve into one of the following: general or limited partnerships, limited liability companies or public limited liability companies often known as corporations. Let's explore each one.

Gorman (1989) identifies four legal entities that are found in most countries. They are:

Sole trader/proprietorship: is a business owned by an individual, although there may also be employees. This is the most common type of ownership in the world. Major advantages of this type of organization are total control by the owner, e .g. of decisions and profits, and a simple business structure that is easy to start-up. Disadvantages include unlimited liability, difficulty in obtaining financing and small size.

Partnership: is a business with two or more owners. *General partners* share rights and responsibilities of the business, including personal liability for debts as defined in the partnership agreement. *Limited partners* contribute finances, but they have limited personal liability for claims against the business and play a passive role, i.e. they do not make decisions regarding management. A Deed of Partnership is drawn up which includes details on levels of investment by each partner, profit-sharing, decision-making processes etc. Limited partnerships require more formal agreements and must be filed with the local or national government agencies.

A limited company: is a business with limited liability that is owned by its shareholders and run by a board of directors. The investors / shareholders can lose all their money if the business does badly, but they cannot incur a debt. The company itself can enter into contracts and own property. It can also become involved in legal proceedings. These companies must register for a Certificate of Incorporation. One key advantage of this organization is that the limited liability makes it easier to find investors and financing. Limited companies may also have tax advantages. Limited companies are not as common because of the legal formalities and the cost of incorporating them.

A public limited liability company: a company that can be publicly traded and issue shares and other securities to the public. The company must use the term 'public limited company' or abbreviation 'PLC' in its title. The major advantage of this type of organization is its large size. Large scale investment allows for large scale production and the hiring of specialist workers. By contrast, certain financial information is public and so privacy is compromised. This type of company must focus on making profits in the short term for its shareholders. It is subject to takeover if another company buys a majority of shares and/or persuades other shareholders to join with them and create a new management team.

As a start-up business you will need to register your business. You will need to decide the type of legal entity you want to register as. Most small-business owners will begin as a sole trader or sole proprietorship. As the business grows and your personal and business taxes become more complicated you will properly opt to register as a limited company. Some of the advantages and disadvantages of each type are described below. (Note: These advantages and disadvantages may vary by local or national circumstances).

Sole Trader/Proprietorship

- Simplest structure.
- Usually involves one person and can be operated under that person's name.
- Owner owns the business entirely.
- There is no legal separation between owner's personal assets and those of the business.
- Business is taxed through owner's personal income tax, and losses can be used to reduce taxes on other sources of personal income.

Partnership

- Created when two or more people agree to carry on a business for profit.
- A legally binding relationship in which each partner is liable for the actions of the others.
- No difference legally between a proprietorship and a partnership, except that in a partnership, all share the profits and the liabilities.
- Partners taxed on business earnings in proportion to their share.

Limited Company (Corporation)

- Identified by the use of such words as Limited, Incorporated or Corporation--or abbreviations of these words--after the company name.
- A separate entity in law, distinct from its shareholders, officers and directors.
- Assets belong to the company, not the owner(s).

- Owner(s) of a limited company cannot be held personally responsible for any debts of the company unless such debts have been guaranteed personally.
- Owner may share private shares in the company to raise additional cash, but gives up his or her own personal control depending on how many shares others own. One should never sell more than 49% of the company.
- Requires a formalized decision making process or entity. Usually a board of directors.

Publicly Traded Limited Company (Corporation).

All of the same points as a limited company plus:

- Company is traded on a stock market or some other form of public recognized trading body.
- The company must have a board of directors that is elected by the stockholders.
- Must hold an annual stockholders meeting.
- Board decides on long term direction and strategies of the company.
- Board must report annually to the national entity overseeing publicly traded companies.

As you can see the legal structure of a company is really dictated by its growth and by its need for additional funds to support growth. In addition it is dictated by the need to protect the investors and owners of the company based on the national tax environment.

Activity – Legal Structure

In your journal, select a legal structure for your proposed business concept and consider the advantages and disadvantages of your proposed legal structure on your company and on you personally. Consider profit-making, privacy, control, liability, simplicity and financing.

TOPIC SUMMARY

We now have an understanding of some of the legal structures that an entrepreneur needs to consider when starting a business. In the next topic, we will focus on the start-up of small businesses, specifically the importance of your business culture.

TOPIC 3.2 – THE COMPETITION

INTRODUCTION

In previous sections we have discussed the market and how to identify the needs of your potential customers. But if you as a potential business person see opportunity, it is almost guaranteed that others have seen the same or similar opportunities. You should always assume that others are providing similar services or products. If the competition is not active in a specific market they may quickly enter that market if the profit opportunities present themselves. This topic will explore how to assess the competition and how to create your own competitive advantage.

TOPIC OBJECTIVES

Upon completion of this topic you will be able to:

1. Describe how to identify the potential competition.
2. Examine strategies on how to gain the competitive advantage.

WHO ARE YOUR COMPETITORS?

Sometimes it is not easy to define who your competitors are. You must consider the products and services that you propose to develop as part of your new business direction. You need to search for companies, institutions or government agencies that provide similar services or products.

Stutely (2002) states you must look at your industry as a whole to determine who else is serving your target market. Many companies provide similar services or products but service industry sectors that you have no plan in supporting. Companies often concentrate on a single sector (e.g. Agriculture) because each sector requires different knowledge of that particular industry. Often it is the knowledge and skills that they are selling. A company that specializes in providing education products or services to the military would not normally be able to provide similar products or services to the K to 12 market.

WHY ANALYZE THE COMPETITION?

Some would ask "Why do I need to analyze the competition?" I have a product or service that I can offer to the market and I know that the market would be interested in purchasing my proposed product or service based on my feasibility/market analysis. But what you don't know is:

1. Who is selling into the same market?
2. Who offers similar products and services?
3. What the average price is for my proposed products and services?
4. What types of customer service and support the company needs to provide to satisfy my potential customers?

Assessing the Competition

Stutely (2002) provides a number of questions that you must consider when sizing up your competition.

1. What business model does the competitor focus on? Do they sell to individuals, small companies or large industries? Are they retailer or a wholesaler?
2. What industry sector(s) do they sell into? K – 12, university, health, security, tourist, government, etc.? Or are they diversified and service a number of different sectors?
3. What type of services or products do they provide? How similar are their products and services to the ones that I propose to provide?
4. Does the competition develop their own products or do they resell the products of others?
5. Do they focus on price or product?
6. Are they a full service company that provides on-going support to their customers?
7. How do they market to their customers?
8. What do they charge for their products or services?
9. How many employees do they have?
10. Where are they located?
11. Do they have an effective web site?

Collecting Data on the Competition

Many of the data sources you used to identify the potential market can also be used to identify similar information about your competitors. The more information you gather the better you will be. You may also ask your potential customers who they currently use to support their DE requirements and do they provide all of the support they need or is there something that your potential company can do better.

Results of a Competitor Analysis

Once you have completed you detailed competitor analysis you have some decisions to make. You must decide if your business idea still has a chance of succeeding. You need to decide if you need to modify your initial business idea based on your understanding of the competition or whether you should continue to develop the plan in more detail. You would want to make changes to your original plan if you discover:

If the competition:	**Then you should consider:**
Services the same target market.	Changing your intended target market to one that is underserviced.
Provides the same products and services.	Thinking about different products or services that the competition is not providing. Or Modifying your proposed products and

	services to make them substationally different.
Has a price point you find difficult matching.	Determining if you can change the products and services in a way that would reduce cost and thus price point.

THE COMPETITIVE ADVANTAGE

Once you have completed your analysis of the competition you need to determine what competitive advantage your proposed business enterprise can create over your competitors. Stutely (2002) states:

> *Competitive advantage is relative. It arises from the strongest links in your value ladder relative to your competencies, because your competitors might be more competent in the same areas". (pp. 91)*

A competitive advantage can be one or more of the following:

- **Price Point**. Your services or products are cheaper than your competitors.
- **Quality of Products.** Your products will be better made than your competitors.
- **Customer Service**. Your proposed company will provide supportive sales and timely customer service and support.
- **Innovation.** Strong research and development skills and effective and innovative solutions to the products and services you provide.
- **Exclusivity.** Your company has exclusive rights to products or services that others do not offer. This is usually through the process of trademarking, patents or copyright enforcement.

Once you have defined your competitive advantage this will eventually become part of your marketing approach to potential customers. This will be reflected in your marketing plan later in the process.

TOPIC SUMMARY

In this topic you learned more about how to identify and assess your current and future competitors. Every business has competitors and a new business must determine how they can gain the competitive advantage over their competitors.

TOPIC 3.3 – FINANCING YOUR NEW BUSINESS

TOPIC INTRODUCTION

Most start-up businesses fail because they are underfunded. The need for identifying and procuring sufficient funds to support the implementation and growth of a start-up company is essential to the success of any new business. Identifying sources of financing and convincing others to invest in your proposed enterprise is an essential part of the business planning process. Managing limited funds and seeking new sources of revenue are essential skills for the new entrepreneur.

TOPIC OBJECTIVES

Upon completion of this topic you should be able to:

1. Identify internal and external sources of financing.
2. Identify what type of costs must be covered to start and run a business.
3. Venture capital, angel investors, investment concepts.

FINANCIAL BASICS

To operate a small business owner must identify the anticipated costs, estimate the potential revenues and produce a budget. To do this a detailed financial plan that reflects the first two to three years of operation must be produced. To do this the entrepreneur must have a good grasp of finances and budgeting.

In order to determine the firm's financial requirements one will have to produce a **forecast**. Nieman, Hough & Nieuwenhuizen (2003) describe three steps in the financial planning process:

- Project the firm's sales revenues and expense over the planning period.
- Estimate the levels of investment in current and fixed assets that are necessary to support the projected sales.
- Determine the firm's financing needs throughout the planning period.

A business needs to assess the cash flow requirements based on the following criteria:

- Amount of money required – As an unproven start-up company it may be difficult raising large amounts of start-up funds. You must project the minimum amount of financial support, at least until you have established your own source of revenues.
- How quickly the money is needed – The longer a business can spend trying to raise the money, normally the cheaper it is. The business will have to accept a higher cost if it needs the money quickly. Often start-up funds come from the personal funds available to the entrepreneur and his or her family and friends. Things like second mortgages, small loans from parents, money from credit cards is often used to finance the start-up of a business. Most investors (be it family, friends or others) will want the entrepreneur to accept some of the financial risks by investing in his or her own business.

- The amount of risk involved in the reason for the cash – A project which has less chance of leading to a profit is deemed more risky than one that will result in a profit. Potential sources of finance (especially external sources) may not lend money to higher risk business projects; unless there is some sort of guarantee that their money will be returned.
- The length of time for repaying funds - A good entrepreneur will judge whether the funds needed is for a long-term project or short-term and therefore decide what type of finance they wish to use. The longer it takes to repay the initial investors the more difficult it will be to get them to give up the money you need.

The Cost of Operating a business

When developing a financial plan consider the following types of expenses that your new company may need to undertake.

- Start-up costs money. It may be some time before the business generates enough cash from sales to pay for these costs. The point where you are at a break-even point (when revenues equal expenses) may take several months or even years. You need to have sufficient funds to operate the business until you hit the break-even point. Start-up costs include:
  - Procuring infrastructure, office space, furniture, computer equipment, etc.
  - Initial marketing materials.
  - Legal and accounting costs.
  - Business planning costs.
- Day-to-day business operations continually draw on finances. These could include:
  - Rent.
  - Monthly costs for phone, Internet, transportation.
  - Marketing and sales.
  - Employee or contractor costs.
  - Production costs.
- Growing a business involves creating higher capacity and innovating with new technology to cut unit costs and keep up with competitors. Examples of thee costs are:
  - Research and development costs.
  - Consulting costs.
  - Investment in new technologies or new equipment.
- Developing and marketing your products and service. Is your business competing in a fast-moving market where the product is continually updated? Is it necessary to conduct marketing research or to test new products? Marketing costs could include:
  - Creation and maintenance of a web site.
  - Radio and paper based advertising.
  - Printing and distribution of marketing materials.

  - Attendance at industry conferences where you will market your products.
  - Commissions paid to others who provide new customers.
- Expanding and entering new markets can draw on funds for setting up new retail outlets and/or advertising in new areas.
- Acquiring or taking over a new business can involve "buying out" your competitor.
- Moving your business can include the cost of renting of removal vans, through to relocation packages for employees and the installation of machinery.

TYPES OF EXPENSES AND REVENUES

Every company has expenses to pay and requires revenues to cover the expenses. You must identify what your expenses and revenues are before you can determine how to finance the start-up and growth of your new company. As you begin the detailed planning phase of your business you will need to produce a start-up budget and operating budget that reflects all of the activities that you must support as your produce and sell your products and services.

In general there are three types of expenses that you must budget for: Start-Up Expenses; Operating Expenses; and Capital Expenses. At the other end there are three types of revenues that you will eventually generate or require to cover the expenses: Revenues Generated from Sales; Revenues Generated from Borrowing; and Revenues Generated from Sale of Shares in the Company. We will briefly explore each type of expense and revenue.

Start-Up Expenses

It not only takes an idea to launch a new company, it takes funds to plan and eventually start the company. During the planning and start-up phases expenses will widely vary depending on the business model, scenarios and type of products and services the proposed company will provide.

Money must be invested even before the company opens the doors for business. Start-up costs will vary depending on the type of business you start. Some typical start-up costs include:

- Legal fees and government fees for incorporation, naming, etc.
- Research and development costs to create new products or refine existing ones.
- Costs related to the completion of feasibility studies, market analysis and competitor analysis.
- Marketing expenses, including web site design, packaging design, etc.
- Production of initial products that can be used to show clients.
- Leasing costs to procure appropriate office space.
- Cost of furniture and office equipment.
- Cost of telecommunications and Internet installation and equipment.
- Purchase or lease of computer equipment and software.
- Business insurance.

Other start-up expenses will depend on the type of business. If you are starting a delivery business, you will need to procure a vehicle and insure it for business operations. If you are starting a vegetable wholesale and distribution business you would need to rent or purchase large storage space and potential refrigeration units.

You need to clearly define what you need before you can begin selling your products and services and then you need to procure funds to make the necessary investment in the start-up costs.

Operating Expenses

Once you launch your business you will have on-going expenses to keep the business operating from day to day. You need to identify what these costs will be and then estimate how much it will cost each year. Some typical operating expenses include:

- Heating/cooling expenses.
- Electric and water bills.
- Telephone/cell phone bills (including estimates for long distance expenses).
- Internet and ICT connections.
- Monthly rent/leasing expenses.
- Employee salaries and benefits.
- Contractor/sub-contractor payments.
- Payment of any loans.
- Vehicle operating costs.
- Payment to suppliers and wholesalers used by the company.
- Ongoing marketing expenses, including travel to and from customer locations.

Capital Expenses

Capital expenses are long term multi-year expenses that must be planned for and monies allocated over several years. A capital budget is usually necessary to support these types of expenditures. Annual payments to the capital account may be reflected in your operating budgets. Capital expenses are accounted for differently and in many cases have a depreciated value over time. Some examples of expenses incurred over several years are:

1. Purchase of a fleet of equipment.
2. Purchase and/or upgrading of computer equipment/hardware.
3. Building of an office or storage facility.
4. Investment in multi-year production requirements to support the creation of a new product.

Sales Revenues

Revenues or company income is normally generated through the sale of products and services. Without steady and growing sales revenues a company will fail. The greater the sales volume the larger the revenues. Thus time and money must be spent in the marketing and sales of your products and services.

You must also select a price point for your products and services that will generate more revenue. If you price your products and services to high you will generate less sales. Volume sales can generate more revenue through lower prices and higher throughput.

Revenues Generated Through Borrowing

In the start-up stage of a business or during a growth period, many businesses may not have the cash on hand or sufficient revenues to support this effort. In these cases the entrepreneur may need to borrow the cash to support the start-up or growth. Sources of borrowing include:

Banks: Some banks or lending agencies will lend to new or growing businesses that have a sound business plan and ideally some form of collateral to guarantee the loan. If you are in the start-up phase you may have little or no collateral and thus many entrepreneurs may have to use their homes or other assets to get the cash they need to start the business.

Family or Friends: In the early stages of business start-up you may need to borrow money from family or friends who have confidence in your ability to succeed in your business. If you do borrow money from relatives ensure you still have a legal contract that specifies the interest you will pay and a repayment schedule for the loan.

Personal Assets: If you have confidence in your business plan then you should be willing to invest your own assets in your company. Any savings you have, use of lines of credit or even re-mortgaging your house are potential revenue sources for your business. Although it may not cover all of the start-up expenses the banks, family and friends will feel that you have taken a considerable part of the financial risk by investing in yourself.

Revenues from Investors

There are a number of different sources of revenues from investors. The difference between lenders and investors is that investors are buying a portion of your company and as such the investors may have a say on how you grow and operate a business. Without investors you own 100% of the company. When investors become sources of revenues you are selling them a portion of the company. Before you can offer investors an opportunity to buy into your company, the company must be incorporated and you must establish a board of directors. The different type of investors includes:

Family or Friends: The difference between being a lender as a family member and an investor is that you are giving your family member or friend a legal portion of the company and thus opportunity to share in any future profits.

Partners: Individuals who collectively join together to launch a new company should be willing to invest in the company. A partnership agreement must be entered into that specifies that amount of control that each partner has in the operation of the company. Often this is based on the amount of cash that they provided to support the initial start-up. If one partner provides 25% of the cash then he or she probably should have 25% of the voting rights when decisions are to be made.

Angel Investors: Angel investors are individuals who are willing to provide the capital required to start the business in exchange for equity in the company.

Venture Capitalists: Venture capitalists are somewhat different from angel investors in that they are high risk investment companies whose aim is to buy into a new business venture with the expectation that they will make a quick profit. Often venture capital companies want a significant part of the company or even a controlling interest of the company. Usually they become engaged in the company in the early stages of its growth.

Public/Private Offerings: Once your business has reached its first level of success and begins to turn a profit you wish to grow it to the next level. At this time you may want to make a public or private offering of stocks in the company to raise the cash reserves needed to grow the company. This is done by listing your company on a public or private stock exchange. The level of effort required to become listed is considerable.

Cash Reserves

A business should have a cash reserve of at least three months to cover operations and expenses without any infusion of revenues. By contrast, you may be owed money. If you are a supplier to other businesses, you may be providing a trade credit. A special factoring company may offer to handle the debt collection process for a charge. The factoring company pays the business most of the value of the debt first and then collects the money from the debtor. This is a short term source of finance.

Government Assistance

Governments have various programmes which help start-ups and small businesses grow. Government assistance may be in the form of:

- Small business loans.
- Business plan preparation.
- Assistance with potential lenders.
- Education and training on how to operate a small business.
- Creation of partnerships.

Franchising

Franchising is a method of expanding business on less capital than would otherwise be needed. Under a franchising arrangement, a franchisee pays a franchisor for the right to operate a local business, under the franchisor's trade name. Although the franchisor will probably pay a large part of the initial investment cost of a franchisee's outlet, the franchisee will be expected to contribute a share of the investment himself. The franchisor may well help the franchisee to obtain loan capital to provide his-share of the investment cost.

Activity – Financial Considerations

In order to review what you have learned about financing build a table in your journal as follows. Identify the amount of funds you need (short term and long term), the potential sources of these funds and what risk you take on with the proposed type of financing.

Type of finance	Source of financing	Short or long term	Amount to be borrowed	Low or high risk

In the column labelled "types of finance" write down all the terms highlighted in bold in the above section. Then classify the type of financing according its source, the time involved, the amount of money and its level of risk. Finally, review this table and explain how these factors are related.

TOPIC SUMMARY

In this topic you have learned about financing a business. You have learned about the different types of expenses you must consider and the sources of revenue you must generate.

TOPIC 3.4 – MARKETING AND SALES

INTRODUCTION

An effective marketing and sales plan is essential to the success of any new (or mature) business. We explore some of the principles you must consider when trying to market and sell your products and services.

TOPIC OBJECTIVES

Upon completion of this topic you should be able to:

1. Describe the difference between marketing and sales.
2. Explain the process of marketing and sales.
3. Examine the guidelines for pricing your products and services.
4. Identify the marketing and sales principles that all businesses should embrace.

MARKETING VS. SALES

People often use the terms marketing and sales interchangeably but in fact they are very different, but complimentary concepts that employ different strategies. Let's examine some definitions.

> The American Marketing Association defines marketing as "the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large".
>
> The Chartered Institute of Marketing defines marketing as" the management process responsible for identifying, anticipating and satisfying customer requirements profitably".

The two definitions have the following.

- Marketing is a management process.
- Marketing is aimed at satisfying customer needs.
- Marketing is a communications process.
- Marketing provides value to the customer.

InvestorWords.com defines sales as the "total dollar amount collected for goods and services provided". BusinessDictionary.com defines sales as "the activity or business of selling products or services". As you can see there are similarities to marketing in that:

- Sales is a process.
- Sales speak to the exchange of revenues for goods and services.

Lake (n.d.) examines the difference between sales and marketing. She explains:

> *"Marketing is everything that you do to reach and persuade prospects. The sales process is everything that you do to close the sale and get a signed agreement or contract. Both are necessities to the success of a business. You cannot do without either process. By strategically combining both efforts you will*

experience a successful amount of business growth. However, by the same token if the efforts are unbalanced it can detour your growth".

THE MARKETING AND SALES PROCESS

The Marketing Process begins the moment you decide you wish to offer products and services to potential customers. You must first complete market research about the customer needs and requirements. Customer needs should drive the types of products and services your offer. Market research should drive the design and development of the products and services.

The next step in a simple marketing process is to decide on the price for your products and services. This requires an understanding of your target market, the competition and what others charge for similar products and services. The idea is to price your products and services in a way that gives your new business entity the competitive edge.

The third step in the marketing process is raising customer awareness and educating them about the products and services you are providing. You will need to implement a marketing plan and employ a variety of marketing strategies to introduce your products and services to your potential customers.

Once the potential customers see a need for your products and services, the sales process should kick-in. Now you must employ a process of investigation and negotiation. You need to investigate and clearly define exactly what the customer needs. Second you need to negotiate the cost, delivery times, support and other activities needed to support the sale. Finally you need to close the deal with a formal contract or at best the exchange of monies for the products received.

MARKETING STRATEGIES

Marketing strategies will vary based on the potential target audience and the industry or sector you are trying to communicate with or sell into. Marketing strategies are used to raise awareness, communicate and educate potential clients. The strategies may be as simple of printed pamphlets, to as complex as a thirty minute info commercial. Some typical strategies used by companies include:

- Advertising in local, national or professional newspapers, journals or magazines.
- Creating radio or television advertising.
- Direct mail brochures.
- Presentations at trade shows or conferences.
- Information web sites, webinars or social media sites.
- Cold-calls on potential customers.

CLOSING THE SALE

Often the process of closing the sale is overlooked. You must not only sell the product to the customer, but you must ensure the customer is happy with the product or service. You need to provide guarantees or return policies. You need to ensure your company has established a customer service approach to support customers after the sale has been closed. This may include:

- Technical support.
- A return desk.
- Feedback sheets/surveys.

Activity – The Market

In order to review what you have learned about marketing consider the following and record your marketing ideas in your journal.

1. *Who is your potential market?*
2. *What is the best way to communicate with members of the potential market?*
3. *How would you educate members of the potential market about your products and services?*
4. *What types of post-sales support do you need to establish?*

TOPIC SUMMARY

You have now gained some insight into the marketing and sales process. It is important to spend time and money in defining your market and implementing appropriate marketing strategies. Finally you need to consider the types of post-sales support you will need and how you will provide it.

UNIT THREE – SUMMARY

SUMMARY

In this unit, we have explored the key elements of a business structure. You should be able to identify and distinguish between different types of businesses based on how they are organized and financed. You have learned about the importance of understanding your competition and how to market your products and services.

NEXT STEPS

In the next unit, you will have the opportunity to consider your own business venture in greater depth. In Unit Two, you developed your business idea. In Unit Four, you will learn what is necessary to take this idea to the next level of business planning. You will also look at outlines of a business proposals and a business plan.

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UNIT FOUR - THE BUSINESS PLAN

UNIT INTRODUCTION

In Unit Three you learned about the framework required for new business ventures. In this unit, you will begin to build upon the framework by developing a business model for your potential business idea. Once you have a business model in place, you can eventually create a more detailed business plan. This unit will provide you the insight and creativity needed to build a solid foundation for your business.

UNIT OBJECTIVES

Upon completion of this unit you should be able to:

1. Describe the nine building blocks of a typical business model.
2. Identify the weaknesses, strengths, threats and opportunities of a business concept.
3. Outline the process involved in planning for a successful business.
4. Identify the components of a business plan.
5. State the difference between a business proposal and a business plan.
6. Identify the outputs of the business planning process.

ASSIGNMENTS AND ACTIVITIES

There will be self-assessment activities throughout this unit. These are geared to assist you in understanding the content and relating it to your present business environment. There is also a major assignment for this unit in which you will be asked to develop a business model.

TOPIC 4.1 – THE BUSINESS MODEL

TOPIC INTRODUCTION

After developing a business concept from the ideas generated through the opportunity recognition process, we are now ready to test its viability through the process of business modelling. This topic will take you through the process of describing, assessing and improving your potential business model.

TOPIC OBJECTIVES

Upon completion of this lesson you will be able to:

1. Describe a business model using the nine building blocks
2. Assess your own business model to determine weaknesses, strengths, threats and opportunities of the business concept.

WHAT IS A BUSINESS MODEL?

Activity – Business Model Definition

The term business model may be new or alien to you at this point; or perhaps understand a different meaning. Use the space below to provide your own definition and understanding of the term: Business Model. Record your definition in your journal.

____
____
____

Share and compare your definition with others and see how similar or different each compares.

Business Model Definitions

The business logic of making money can be simply described as a business model. This is important as the developed business concept is still an idea that may or may not work (www.arvertica.com.)

As an entrepreneur, you can use the process of developing a business model to better understand the customer and what the customers wants, needs and is willing to pay for. Therefore understanding what it will take to turn a business idea into a sustainable business opportunity is a fundamental knowledge that will benefit you in the process of starting or expanding your business venture.

To design a business model may sometimes be very complex as it involves various elements or ingredients that will makes the original business concept viable in the long run. However, for our purpose here, we utilise a very basic approach that will encompass all the elements needed to design a business model.

Activity – Business Concepts

Record your response to the following in your journal.

Name one of the business concepts you developed in Unit Two.

____

____

Answer the following questions with regards to your business concept:

What will the business offer its customers?

____

____

How will the business reach out and relate to its customers?

____

____

What resources will be required by the business to produce the goods and services the customer wants and needs?

____

____

What other resources outside will be needed by the business to fulfill the business goals?

____

____

How will the business generate revenue through these activities and processes?

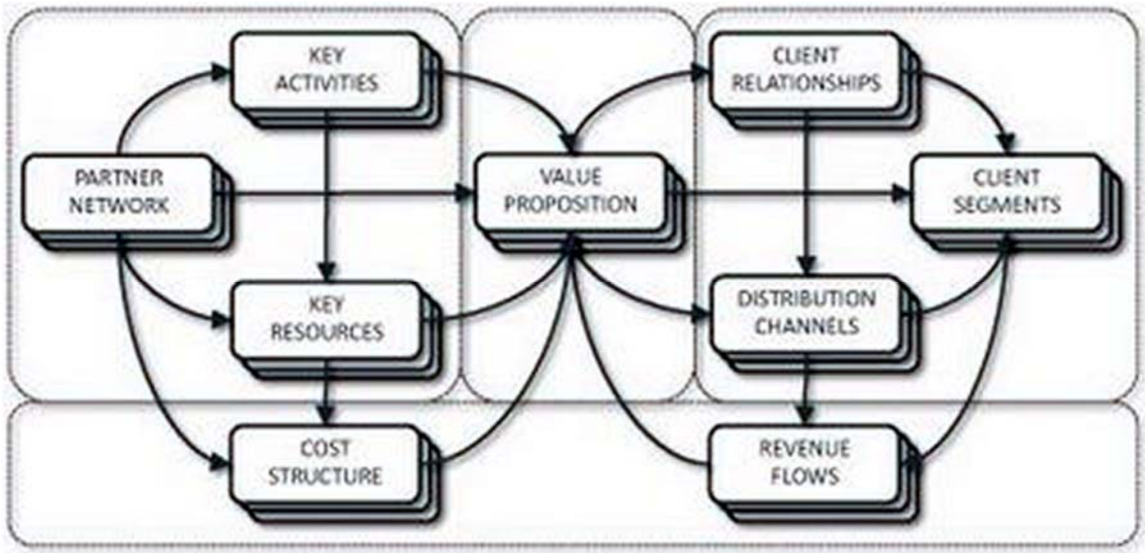
____

____

Now that you have answered the above questions, you have gathered the basic ingredients that you will need to build your basic business model.

THE NINE BUILDING BLOCKS OF A BUSINESS MODEL

Business models will vary based on the type of products and services you provide and the type of industry/sector you are servicing. Now that being said all business models have some common elements.



Model by Alexander Osterwalder – Retrieved from: http://nonlinearthinking.typepad.com/nonlinear_thinking/2008/07/the-business-model-canvas.html

The nine components of the Osterwalder business model represent the following:

1. The **value proposition** of what is offered to the market.
2. The **segment(s) of clients** that are addressed by the value proposition.
3. The communication and **distribution channels** to reach clients and offer them the value proposition.
4. The **relationships** established with clients.
5. The **key resources** needed to make the business model possible.
6. The **key activities** necessary to implement the business model.
7. The **key partners** and their motivations to participate in the business model.
8. The **revenue streams** generated by the business model (constituting the revenue model).
9. The **cost structure** resulting from the business model.

Now let's explore each component.

Value Proposition

A customer value proposition is a business or marketing statement that describes why a customer should buy a product or use a service. It is a set of products and/or services that provide value for the customer. Your business can have more than one value proposition, each catering to different segments of your customers.

Below are some of the questions that you will need to ask to identify the value proposition for each customer segment:

- What do you offer to the market?
- What specific products/services do you offer each customer segment?

- What customer needs does the value proposition cover?
- Are our service levels different for different customers?

The customer segment and the value proposition are the heart and soul of any business model. So take some time out now to match each customer segment with each value proposition as you lay a solid foundation for your basic business model.

Client Segments

Something to remember when growing a business: NO CUSTOMERS, NO BUSINESS. According to Peter Drucker the purpose of a business is to create a customer (en.wikipedia.org/wiki/Peter_Drucker) The customer is the source of revenues for the business. An explicit understanding of the potential customers for your business is a fundamental ingredient for this building block of a business model.

Some basic questions you need to ask that when identifying who your customers or potential customers are:

- Who do we create value for?
- Can we group them according to
    - What you offer?
    - The channels you communicate and distribute your offer?
    - By the relationships you keep with them?
    - By the profitability of each segment?

As you ask and answer these questions, you are well on your way to being able to explicitly describe your customer segment of the business model building block.

Distribution Channels

Now that you know your customers and what you can offer them, explore how you distribute your products and services to the customer.

Various communication and distribution channels are available to reach your customer, but choosing the right fit is critical for you to have and maintain competitive advantage. This is all part of your marketing effort and plan. You must also take cognisance of the cost of distribution as that will affect the bottom-line (profit and profitability).

Key Questions:

- What do we offer to the market?
- What is the specific bundle of products and services you offer each of our customer segments?
- Which customer needs does each value proposition cover?
- Do we offer different service levels to different customer segments?
- What is the best way to distribute our products and services?
- How should we communicate and engage our potential customers?

Client Relationships

Good relationships with your clients is vital in meeting their expectations and ensuring they are return customers. Customers who pay premium prices will expect quality customer service and support. You can easily see these at play in the airline industry between first class air passengers and economy class passengers. You must have a clear strategy for customer relationship management for each customer segment in your business model.

Key Questions:

- How do we develop and maintain different types of client relationships in our business model (e.g. more or less intense, more or less personal)?
- How resource intensive is each of these client relationship in terms of time consumption and other costs?
- For each client segment, which client relationship types and mechanisms do we develop and maintain?
- What type of customer service and support must I establish?

Key Resources

Every business requires physical and human resources to accomplish its value proposition. Some of these resources include employees, contractors, suppliers, office space, infrastructure and other tangible assets. For the business model to work successfully, these key resources must be deployed efficiently and effectively to support your value proposition and your customer segment.

Key Questions:

- What are the key resources we rely on to run our business model?
- How do these resources relate to our value propositions and their corresponding customer segments, channels and relationships?
- What resources do not add value to the company?

Key Activities

Your business must perform certain key activities in order to implement your business model and service your customers. These activities forms the core processes that your business engages in to produce the value proposition for the customer segments. The processes and activities will change based on the type of products or services you provide, the industry or sector you are serving and the type of business scenarios you are trying to work in. For example, if you are in the retail business, one key activity would be to break bulk purchases to miniature packages for your customer. Other businesses may require a delivery service or use of courier services to deliver products. Such an activity is crucial to fulfil your value proposition to the retail customer segment.

It must be noted however that your business may not be able to perform all the key activities within the organisation. It is also possible to get them done through a network of partners.

Key Questions:

- What are the main activities we operate to run our business model?
- On which *key resources* do they rely?
- To which *value propositions*, *channels* or *relationships* do they contribute?

Key Partners (Partner Network)

In some business ventures there may be a need for individual or corporate partners to perform different tasks. Some key activities may call for specialist knowledge or equipment and these can be provided through outsourcing. Access to certain national or international markets may require companies in situ of the target audience.

So the question you must ask yourself is: How do we leverage our own business model by partnering with other businesses? What does your business want to do by itself and what does it want to do with partners?

Key Questions:

- Which partners and suppliers do we work with?
- Which key resources do they relate to?
- What is the cost/impact of partnering?
- To which value propositions, channels or relationships do they contribute?

Revenue Flows

Revenue from customers provides the backbone for any business. This is generated as result of value created for the customer through our value proposition. Revenues can come in various forms: selling, lending, commissions, licensing etc. from one or more of the customer segments.

Key Questions:

- What are our revenue streams?
- What are the revenue streams from each customer segment and value proposition?
- How much is each revenue stream's contribution to overall revenues in terms of percentages?

Cost Structure

The business model incurs costs that can easily be traced back directly or indirectly to each component within each of the nine business building blocks. By simply listing the most important costs incurred, you will be able to easily link them to a building block.

Key Questions:

- What are the most important costs in our business model?
- Can the cost requirements be easily connected to a business model building block?
- Can costs be calculated for each customer segment?

BUSINESS MODEL ASSESSMENT AND IMPROVEMENT

Assessment

Now that we have reviewed the nine components of a typical business model by going through the nine building blocks, let's take time to apply these concepts to everyday business around us.

Activity – Business Model

The list of questions below build upon the lists described earlier. You should think about your own business opportunity and potential model and answer each of the questions. You should note your answers to each in your personal journal.

Business Component	**Questions to Ask**
Customer Segments:	Do we know our customers and their needs good enough? Are some customer groups likely to defect soon? Do we regroup different customer segments well enough?
Value Proposition:	Does our value proposition still cater well enough to our clients' needs? Do we know how our customers perceive our value proposition? Are our competitors offering similar value propositions at similar or better prices? How well are our customers served by other competitors?
Revenue Streams:	How sustainable are our current revenue streams? How diversified are our revenue streams? Are we dependant on too few revenue sources (e.g. from some big clients or one single business)? How well do we price our value proposition?

Activity – Business Model

The list of questions below build upon the lists described earlier. You should think about your own business opportunity and potential model and answer each of the questions. You should note your answers to each in your personal journal.

Business Component	Questions to Ask
Communication and Distribution Channels:	Do we have a well thought-through communication and distribution channel design? How well do we reach our clients? Do we know how successful our channels are in terms of customer acquisition? How well are our different channels integrated? Do we know how cost efficient are our channels are? Do we use the right channels for the right clients (e.g. in terms of profitability)?
Customer Relationships:	Do we have a customer relationship strategy? How good are our relationships with our best customers? Do we spend too much time and money in relationships with unprofitable clients? How well are we doing in managing our customer relationships (e.g. follow- up, etc.)
Key Resources:	Do we dispose of the right key resources in terms of quality and quantity? Do we dispose of to many resources internally, leading to a lack of focus?
Key Activities:	How efficient are we in performing our activities? Do we perform too many activities ourselves, leading to a lack of focus?
Partner Network:	Do we use partners enough? How well do we work with our existing partners and suppliers? How dependent are we on our existing partners and suppliers?
Cost Structure:	Is our cost structure appropriate (e.g. low cost business model = low cost structure)? Do we clearly understand which parts of our business model have the highest costs? How lean is our cost structure?

Improvement

If your company already exists and you have just moved from the Survival Phase (Stage 2) to the Success Phase (Stage 3) and you want to grow your business further, then you should consider the following questions based on your existing business model. These questions may require additional business analysis and will in most likelihood require changes to your initial business plan.

Questions to consider as you GROW your existing business.	
Business Component	**Questions to Ask**
Customer Segments:	Are there new customer segments we could serve? Could we regroup/segment customers better according to their needs?
Value Proposition:	Could we offer our different customer segments more tailored needs? Do our customers have other needs we could satisfy relatively easily by ourselves or with partners? Could we complement our value proposition through agreements with partners (e.g. joint value propositions)?
Revenue Streams:	Could we introduce new revenue streams (e.g. lending/renting instead of selling)? Could we do more cross-selling (e.g. offer our customers other products of our company or of partner companies)
Communication and Distribution Channels:	Could we increase our customer base by better using our channels? How can we better use expensive channels for highly profitable clients and cost efficient channels for unprofitable clients? Can we better integrate our channels (e.g. better link websites with physical outlets)? Could we introduce new communication and distribution channels to reach our customers (e.g. partner distribution agreements)?
Customer Relationships:	What level of personalization does each of our customer relationships require? E.g. Dedicated relationship manager or automated self-service. How can we spend less time and resources on unprofitable clients? Should we introduce frequent buyer programs?
Key Resources:	Are there some key resources we could get rid of or substitute? Are there some key resources that could be better supplied by partners and cheaper?

Questions to consider as you GROW your existing business.	
Business Component	**Questions to Ask**
Key Activities:	Are there activities we would better outsource to partners? Are our activities adapted perfectly to our value proposition? How could we streamline activities?
Partner Network:	Which partners could help us complement our value proposition? Which suppliers could help us streamline our business model?
Cost Structure:	Are there ways we could reduce our cost structure? (e.g. partnering, outsourcing, new suppliers, etc.).

TOPIC SUMMARY

As you can see, developing your business idea in depth requires that you analyze many aspects of your business environment and proposed business model in order to evaluate its potential success. You have a big task ahead of you. The unit assignment asks that you to develop a business model for your proposed business venture. Good luck!

UNIT FOUR - ASSIGNMENT INSTRUCTIONS

NOTE: Before you begin this assignment, you should look at some real-world examples of business models. If you have access to the internet you may go online. Ask your instructor to help you find materials as needed.

YOUR BUSINESS MODEL

Use the following format to design a business model for your new business venture

1. **Business Concept (1 page max)**
   - 25 word mission
   - Key values you brings to the business
   - Key goals and objectives, including personal financial and non-financial goals
2. **The Value Proposition (2 pages max)**
   - Based on industry research, why is this an opportunity?
   - What are the macro trends that support this opportunity?
   - What are the more focused localized trends that tie into industry trends above?
   - What "pain" in the market does the business address?
   - Cite evidence to support
3. **Target Market (1 page max)**
   - Who are they?
   - Why are they your target?
   - What are the key attributes that drive their decision to purchase?
   - Who are your main competitors and how well do they address customer preferences above?
4. **The Communication and Distribution Channels (1 page max)**
   - Where do your customers get their information to make a purchase decision?
   - What form do they prefer this information in?
   - How do they want you to get the product or service to them?
5. **The Relationships Established with Clients (1/2 page max)**
   - How important is customer service in the business?
   - Do we need to deal with each customer on a personal basis?
   - Do they just want us to get them the product and leave them alone?
6. **The revenue streams (1 page max)**
   - What generates revenues for the business?
   - What will pricing strategies be?
   - What is our pricing structure?

7. The Key Resources and Activities Needed to Make the Business Model Possible (2 page max)

- Resources
  - People - estimated cost for each
  - Equipment - estimated cost for each
  - Inventory - how much to start and how much on hand (if applicable)
  - Physical space
  - Operating cash on hand
  - Suppliers
- Activities
  - What are the "must do's" to get this ready to launch?
  - What are the "must do's" to get the first customer?
  - What are the "must do's" to keep customers coming in the door and to keep them from leaving us?
  - What are the "must do's" to support growth?

8. Key Stakeholders (1 page max)

- Who are your most critical stakeholders and what will get them to work with you? (This included sources of outside funding, if needed!)

9. The cost structure (1 page max)

- What is the cost per unit?
- What is the overhead cost to operate?

TOPIC 4.2 – BUSINESS PLANNING

TOPIC INTRODUCTION

Now that you have an understanding of what constitutes a business model, you need to prepare a business plan. In this section, we will review the contents of the business plan and the recommended process for creating one.

TOPIC OBJECTIVES

Upon completion of this topic you should be able to:

1. Define business plan.
2. Outline the contents of a business plan.
3. Describe the steps in producing a business plan.
4. Distinguish between a business proposal and a business plan.

WHAT IS A BUSINESS PLAN?

A Business Plan is a document that describes in detail how you propose to implement and manage your business from Stage 1 – Start-up, to at least Stage 3 - Success. A business plan builds upon the results of the initial analysis of your business idea and the findings and observations described in your formal business proposal. It describes how you move from what you propose to how you start and grow your business.

Why spend the time and effort creating a business plan? Isn't your business idea and proposal good enough? Good questions, but it is no different than building a house. You can have a concept of what your house will look like, the number of rooms it will have and a general idea of how it will be built. But what you need before you can begin construction is a detailed set of blueprints to guide the construction. Without blueprints the house may not look like your initial idea envisioned.

Some of the benefits of creating a formal plan for your business are:

- Provides a multi-year strategic direction for the business.
- Sets out a clear path to your short term and long term business goals.
- Allows you to anticipate future strengths, weaknesses, opportunities, and threats to your business and create strategies to counter them.
- It provides a framework for resource and financial controls.
- Becomes a useful tool for communicating with bankers, other lenders, suppliers and customers to demonstrate that you have a solid plan and therefore should be support.

Business plans vary in style and content based on the type of business you plan to start. But most business plans include the following: business structure, description of products and services, market research and marketing strategies, resource requirements and start-up and operating budgets and financial projections for the first three to five years of operation. In fact the plan should describe all nine elements of a typical business model discussed in the topic 4.1. (i.e. Customer Segments; Value Proposition; Revenue Streams; Communication and Distribution Channels; Customer Relationships; Key Resources; Key Activities; Partner Networks; and Cost Structure.

Business Plan Outline

A typical business plan should include the following sections. Some of the information will have already been captured during the creation of your business idea, business outline/proposal preparation and business model considerations.

1. **Executive Summary:** In this section, you should provide an overview of the most important selling points of your business idea. Keep it succinct and to the point: a good way to think about it is that this may be the only part of the whole plan that gets read, so it should sell your business.
2. **Company Description:** Describe your business idea in this section. Elaborate on what industry and what products/services your business will provide Include the legal form of your business entity: sole proprietorship, partnership, corporation, etc.; the business hours and the seasonability of the business, if appropriate. You may also include the location of your planned business. Sometimes location of the business may be the key to its success.
3. **Strategic Plan:** In this section, detail the vision, mission and values and strategies you will follow to attain your business goals. Go over what you want to do, where you want to go and how you will get there. Produce measurable and observable strategic goals.
4. **Market Analysis:** Describe the results of your market analysis. Explain the industry that you are selling into. Include target markets and descriptions of any specific customers. Explain your marketing strategies and plans, including how you will deliver your goods or services to your target market. Explain your pricing strategies.
5. **Competitive Analysis:** You will need to explain who your competitors are and how you can gain a competitive advantage. Explain your competition and compare your business idea to them.
6. **Impact of Technology:** Provide an overview of the technology you will use, if any, and how new developments in technology may or may not affect your business.
7. **Business Operations:** In this section, explain how you will conduct your business. Focus on what makes you better than the competition as far as operations.
8. **Management and Ownership:** This is where you should outline the key personnel that will be part of your business. Explain their skills, education and what they bring to the company.
9. **Organization and Personnel:** Provide an explanation of your personnel needs in this section. State how many employees you will need, how much you will pay them and how they will be paid. Also explain the personnel organizational

structure. Make sure you go over the process for personnel recruiting, selection, evaluation and training.

10. **Capital and Usage:** In this section, you must detail what capital you will need, if only for start-up or for operations, for how long and re-payment strategies. Start with how much you will need to start followed by a realistic projection of needs. Include all sources as well as the applications of cash within the enterprise, highlighting how that cash will be utilised.
11. **Financial Information:** In this section you make projections for future gains and losses. You should list them quarterly until the business breaks even then annual reports are fine, if you are submitting a plan for a few years. Make sure you include the following items in this section:
    - **Recording:** State how you plan to carry out the systematic recording of the enterprise's income and expenditures, assets, liabilities and owner's equity, in order to determine its financial performance and financial position.
    - **Breakeven analysis:** the volume of sales sufficient to cover all fixed and variable costs. It is the point where revenues equal costs.
    - **Capital Equipment list:** A statement that includes the details of the required operating equipment and its corresponding dollar value.
    - **Cash Flow Statements:** Show the inflow of dollar from receipts into the business, and the outflow in the form of expenditures made by the business. Use your estimated figures for revenue and expenditures.

    If your funding options include a request for funding that will span over the course of a couple of year of operation, then you may want to include more in depth financial information, based on realistic projections, such as:
    - **Balance Sheet:** It shows at a point in time the firm's position with regards to assets, liabilities and net worth, or owners' equities.
    - **Income Statement (Statement of Financial Performance):** It shows all the revenues and expenses over a specific time period, which result in the profit or loss from those transactions and **cash flow statements.**
12. **Appendices:** Make sure you include all documents you used to substantiate your business idea here. Include resumes, references, SWOT analysis, competitive analysis, copies of studies done or anything else to back up information in the business plan.

Steps in Producing a Business Plan

Many of the steps in producing a business plan may have already been completed. Much of the data will have been gathered as you grow your business idea. Abrams (2000) in her book, The Successful Business Plan identifies five key steps in the production of a business plan.

1. Layout or define you basic business concept. You have a business idea that you can turn into some form of business outline. Describe your proposed products and services.
2. Gather data on the feasibility and specific of your concept. This means conducting a market analysis and competitor analysis.
3. Focus and refine your concept base on the data compiled. Produce a more detailed business proposal, that includes a description of the market, how to gain the competitive edge, refinement to your proposed products and services and other information you identified during your data analysis. Produce pricing model/strategies.
4. Outline the specifics of your business. Make sure you address the nine building blocks of a business model. Identify unique customer services or support that you need to provide to ensure business success and customer satisfaction. Identify your marketing strategies. Complete a strategic plan with strategic business goals.
5. Put your plan into a compelling format. Fill out the details of your business into a business plan tailored for your unique business entity. Provide the financial data needed to convince lenders and investors about the soundness of your plan.
6. Share the draft plan with others. Have them consider the risks and potential of success of the business. Address any risks that they identify.

After you have completed this process you should have a solid business plan that will help you ensure a successful implementation.

Some things to think about as you produce and implement your plan.

1. No business plan is cast in concrete because the planners cannot consider all variables that will potentially impact on the plan. Be willing to change it and revisit earlier decisions. Make changes to the plan that reflect the realities of the business environment.
2. A business plan should be revisited every two or three years or when all of the strategic business goals have been achieved.
3. Don’t shelve the business plan. Use it to guide all business decisions, investments and management issues.
4. Ensure you create ways of measuring business plan success.

TOPIC SUMMARY

A business plan is more detailed than a business idea, outline or proposal. A business plan covers your business structure, your products and services, your market research and marketing strategy, and your complete budget and financial projections for up to five years. It is the tool that will guide your future business operations for the first three to five years of business growth.

UNIT FOUR - SUMMARY

In this unit, you have studied and worked with the elements of a business model. You were introduced to the content of a business plan and the process of producing one.

ACTIVITY - CASE STUDY

Catina lives in a small community with a population of 20,000 working women between the ages of 18 – 40. She works part-time at one of the fifteen beauty salons in her community. She is now thinking of using her US$10,000 inheritance to open her own salon.

1. *How would you advise your friend?*
2. *What are some of the things she should consider before taking this step?*
3. *What kind of factors will affect her decisions?*
4. *What are the benefits of owning her own business?*

NEXT STEPS

You will now continue to Unit Five, where you will look at technology and the entrepreneur, marketing and entrepreneur and legal and ethical considerations of entrepreneurship.

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UNIT FIVE - MARKETING, TECHNOLOGY, LEGAL AND ETHICAL CONSIDERATIONS

UNIT INTRODUCTION

Unit Four explains what is entailed in a business plan. In this unit, you will learn about the importance of marketing in a small business entity. In addition, you will look briefly at the benefits created through the application of modern technology and gain an understanding of legal and ethical issues in business

UNIT OBJECTIVES

Upon completion of this unit you should be able to:

1. Understand the application of the marketing mix concept
2. Describe and appreciate the use and benefits of modern business technology
3. Explain the essence of compliance with the legal business regulations
4. Discuss how government regulations may apply to your business model
5. Explain the code of ethics

ASSIGNMENTS AND ACTIVITIES

There are a few short activities in this unit, as well as three assignments: 1) in Topic 5.1, you will develop your approach to marketing based on your business model, 2) in Topic 5.2, you will engage in visioning related to how technology has contributed to your business growth and sustainability, and 3) in Topic 5.3, you research how government regulations will apply to your business.

TOPIC 5.1 - MARKETING AND THE ENTREPRENEUR

TOPIC INTRODUCTION

In Unit Three we explored the concepts of marketing and sales and how it impacts your potential business. Entrepreneurs must become expert in marketing. Not only must they understand the concepts of marketing, they must be able to create and implement marketing strategies. This topic will provide additional guidance about how to produce and implement an effective marketing plan.

TOPIC OBJECTIVES

Upon completion of this topic you should be able to:

1. Understand and apply the marketing concept.
2. Identify the 7Ps of marketing.
3. Discuss product classifications.
4. Explain promotion mix and communication methods.

OVERVIEW

Marketing will include a variety of disciplines like sales, pricing, packaging, distribution and public relations.

Activity – Marketing Definitions

In your own words define the following: (Ensure you note your definitions in your personal journal.

*Sales*____

____

*Pricing*____

____

*Packaging*____

____

*Distribution*____

____

Good! Now compare your explanations to those below.

Sales: Total amount collected for goods and services provided

Pricing: The process of determining what a company will receive in exchange for its products

Packaging: The wrapping material around a consumer item that serves to contain, identify, describe, protect, display, promote and otherwise make the product marketable and keep it clean

Distribution: The process of moving a product from its manufacturing source to its customers

You must understand that marketing does not just begin with a great idea or a unique product instead it begins with customers who want or need your product and will actually be prepared to buy it. Even good marketing strategies won't help an entrepreneur earn a profit or achieve his/her dreams if he/she does not build them around potential customers.

Customers will not buy a product for the sake of buying it, but they buy the concept of what that product will do for them, or help them do for themselves. An example would be buying healthy food because you want to live long and remain healthy.

A marketing strategy that ignores the customer does not serve a purpose.

THE 7 PS OF THE MARKETING MIX

The 7 Ps of marketing are **product, price, place, promotion, people, process and physical evidence** (http://www.learningmarketing.net/marketing.htm)**.**

Marketers of goods and services use various approaches to attract new customers and also retain their customer base. A marketing strategy is concerned with developing a good marketing mix.

First, we will look at how products are classified.

There are three major types of products:

1. **Durable products**
    - Products that last for some time. They are usually actual products rather than services, e.g. a motor vehicle, a washing machine and machine tools.
    - They are usually priced high and are relatively complex products.
2. **Non-durable products**
    - These products are used up in the short term, e.g. food, drinks, vegetables, fruits and meat.
    - They are bought fairly frequently and should be easily available to the customer.
    - The pricing of these products is usually fairly competitive.
3. **Services**
    - Services are products that offer immediate benefits as opposed to products that involve using, buying or owning.
    - The problem here is that customers often cannot see a service, so the challenge for the small business is to show the value of the service.

- Examples of services include hairdressing, delivery, auditing and consultancy.

EXAMPLES OF SERVICES	SERVICE PROVIDERS
Medical services	dentist, physiotherapist
Professional services	attorneys, accountants, consultants

Products can also be classified and identified according to the classes of target consumers.

- **Consumer products**: These products are offered to individual customers. There are three major types of consumer products.
  - **Convenience products** are products that are purchased regularly. The customer does not make much effort or take long to think about buying convenience products. Examples of convenience products are soap, toothpaste and coffee.
  - **Shopping products** are products that customers would shop around for before buying. They compare prices, quality, design etc. Examples of shopping products are clothing, furniture and household items.
  - **Speciality products** are products that customers make a special effort to buy. Examples of speciality products are exclusive designer clothing, and TV sets.
- **Industrial or business products** are bought by a business for use in making other products or services.

Activity – Product Definitions

Look around you in your house and make a list of ten products that surround you. Classify these as durable or non-durable products and also as convenience, shopping, or specialty products.

Well done! Now that we understand how products are classified, we can explore the other marketing P s and how they relate to your marketing strategies.

Price

The price of your product(s) or service(s) should be based on the market research conducted during the data gathering stage (i.e. market analysis, competitor analysis). The aim or ultimate objective of pricing is to ensure that the business generates sufficient sales to achieve profitability and sustainability. Ensure that you keep your costs down as much as possible so that you will have room to vary your selling price(s) within an acceptable range. Understand that the selling price of your product must be competitive in the market and should be kept within an acceptable range to allow room for price variations in line with your competitors and your business profitability.

Place (Business Location)

If you are a retail operation you must select a business location that is easily accessible by your customers and supports walk by/drive by drop-in customers. A retail business is an essential linkage within the marketing channel and the location has to be chosen strategically. A small shop with an attractive set-up and front can be a good selling location.

When identifying a location for your business you need to build upon your initial market research, a description of potential buyers and the nature of the product. When selecting a location you should focus on the following:

- Who are you potential buyers (i.e. where do they live, where do they go regularly, do they have access to transportation, etc.)?
- The product requirements (i.e. do you need storage space, do you need refrigerated space, how much room do you need for product display, etc.)?
- The service requirements (i.e. do you need conference rooms, do you need classroom space, do you need private offices, etc.)?
- Access (i.e. is there customer parking, is it on a busy street, can my suppliers access my work environment, do you need to be in the tourist area, etc.)?
- Future requirements (does my location allow for growth, is the space flexible and can be used in a variety of different ways, etc.)?

Based on the above research, the location can be selected using some criteria as follows:

- If the products are consumable, such as food and beverages, the shop can be located in residential neighbourhoods close to the clients.
- If the products are meant for student consumption, then the shop can be located near schools and universities.
- If the product or service is aimed at tourists, it can be any busy location that tourists frequent. For example close to cruise ship terminals.
- If your products are for high income customers then you should co-located your business in trendy shopping areas.
- If many competitors are situated in the same area, then this may be an advantage or disadvantage, all depending on your products and buyers – so please analyse this! For example restaurants like to locate in the same area because this encourages potential customers to at least explore the area for an eatery.

Promotion

Promotion concerns the range of methods used by a small business to communicate with its potential and current customers, employees and any other interested in your products and services. Informing potential customers about your product(s), its benefits and how to attract customers to buy from you is key.

Through promotion you can:

- *Inform:* Provide information about a product.
- *Persuade:* Try to build up a positive customer attitude to your business. Explain why customers should use you rather than the competitor. Convince them.
- *Remind:* Support the customers who have already bought your product. Increase the loyalty of those who have bought before, making sure you have established the groundwork for possible future sales.

The main methods used to communicate with customers are explained here.

- *Advertising* is a form of impersonal broadcasting through commercial mass media (e.g. newspaper, TV, radio, Internet). It should be a pervasive form of promotion. It must capture our attention.
- *Sales promotion* is an activity that is specifically designed to induce sales by enhancing the value for the consumer. This value may be created through volume discounts, providing more for less, etc.
- *Publicity* is the result of public service announcements or news generated through the media. Examples are newspaper or journal articles, recognition in public affairs, magazine stories and talk-show interviews.
- *Personal selling* means personal contact between a salesperson and potential customers resulting from sales effort.

People

These are the customers, employees, suppliers, management, partners and all other stakeholders impacted by your business. It is how you treat them and how others see them being treated. It is reflected in the values that your company embraces and demonstrates in your day to day business operation and interaction with people.

Process

This will include the processes required to provide different services or products to the customers and understanding of the effectiveness of these processes is very crucial. E.g. is it car delivery service, drive through window service, courier delivery, etc.

Physical (Evidence)

This refers to the experience of using a product or service. This can be demonstrated through the provision of information to customers, so that they can understand more about the product or service at hand. Expert testimonial, demonstrations and examples of successful implementation are ways to demonstrate the usefulness of the product or service. Such information can be provided in the form of brochures, pamphlets, webinars, YouTube demonstrations, etc.

TOPIC SUMMARY

We have now examined different marketing concepts and explained the marketing mix focusing on the 7Ps of marketing. By now you should realize that marketing is a complex and time consuming process. It is more than just advertising and making sales calls. It is about the image your company projects. It is about how you approach potential customers and how you support existing customers. It is about how you treat others and how you communicate with people. As you grow your business plan the 7Ps of marketing should be considered when developing marketing strategies for your company.

UNIT FIVE ASSIGNMENT ONE

Review your business model and outline business plan. Explain how the 7Ps will influence your approach to marketing (1 page.) and the creation of your marketing strategies.

Note in your journal the marketing strategies that you would consider when implementing your business.

TOPIC 5.2 – TECHNOLOGY AND THE ENTREPRENEUR

TOPIC INTRODUCTION

The growth in the speed of computing, the power of computers and the drop in costs is beneficial to business start-ups. The need to communicate, share and collaborate online is essential to most businesses these days. It is important for entrepreneurs to take advantage of the latest technologies to help them manage their business, sell their products and services and communicate with their customers and suppliers. In this topic we are also going to explain some common types of modern business machines generally used by small entrepreneurs.

TOPIC OBJECTIVES

Upon completion of this lesson you will be able to:

1. Understand the use of business technologies.
2. Describe modern business machines used by entrepreneurs.
3. Explain Internet and e - Commerce concepts.

Let's begin by looking at the definition for technology.

Technology is scientific knowledge applied to business by all kinds of people including entrepreneurs.

MODERN BUSINESS MACHINES USED BY ENTREPRENEURS

Today almost every business employs some form of technology to support their business operations and activities. During business start-ups the Internet and different online research tools are used to research the current and future market and the company's potential competition. Some of the technologies required by a start-up business include:

- Cell phones and smart phones.
- Desktop computer hardware (MAC or PC) and supporting printers, scanners, etc.
- Laptop or Tablet hardware for mobile businesses.
- Access to local area networks to connect business computers.
- Access to the Internet and wide area networks to support external communications.
- Access to a cloud network for file storage, sharing, collaboration and back-up.
- Business software including:
  - Word processing.
  - Spreadsheet.
  - Presentation software.
  - Bookkeeping software.
  - Database software.
  - Web design software.
- Specialized software for specific industries.
- Retail hardware such as cash registers, scanners, inventory tracking contacts, etc.

- Presentation hardware (e.g. projectors, video walls, etc.)
- Security and monitoring hardware and software.
- Energy saving systems.
- Audio conferencing and video conferencing systems.

The Internet and e-Commerce

The Internet is an essential part of any business. Some of the common business activities completed via the Internet include:

- Company information site.
- Customer education and awareness.
- Marketing of products and services.
- Receiving customer orders and shipping of products.
- Online customer support and technical support.
- Communications with potential and current customers.
- Ordering supplies and other materials from other companies needed to support the business operation.
- Communicate and work with virtual employees or contractors used to support the creation of your products or the delivery of your services.
- Provides alternative revenue streams through the advertising of other products and services provided by similar businesses.

E-commerce operations are becoming common among start-up businesses. Before we explain the benefits of **e-commerce**, let's understand its definition;

> "E-commerce is the paperless exchange of business information via the internet" (Longernecker *et al.* 2003)

Benefits provided by e-commerce:

- It is another way of conducting business transactions that was traditionally carried out using telephone, mail or face to face.
- It gives smaller companies opportunities to compete with bigger companies.
- Small companies serve small geographic area and internet blurs geographic boundaries.
- E-commerce allows any business to access customers no matter where they live.
- Helps small firms with cash flow problems by reducing their sales cycle.
- It helps small companies to build stronger customer relationship.

Identifying Technologies

As part of your business planning and start-up process you must identify how technology can benefit and support your business operation. You must select technologies that will deliver the services you need and helps grow your business. Remember to keep the customers and potential customers in mind. Ask yourself what type of technologies do my customers have access to? Do they use technologies to identify products and services?

You must also consider what type of technologies do my suppliers use? Will I need access to a specific type of technology or specialized software to facilitate communications with suppliers? What technologies do I need to help control my inventory or manage my cash flow?

All of these considerations should be included in your planning process. Selecting the correct technologies at the beginning of the business will ensure you do not need to change later on or that you waste time and energy converting from one technology to another.

You also need to consider different options for procuring technologies. This would include purchasing the technologies, leasing technology or paying others to support your technology needs.

Topic Summary

This topic emphasized the importance of technology to entrepreneurs. Connections to mobile and virtual worlds will not only expand entrepreneurs' business horizons but also afford them opportunities to understand the operations of global markets and the impact of international business standards to their businesses. Make sure that the selection of appropriate technologies is part of your initial planning process.

Activity – Technology Requirements

Think about your business idea. Consider the type of technologies that you may need and how you would use these technologies to grow your business. Make note in your personal journal about your technology choices.

TOPIC 5.3 - LEGAL AND ETHICAL CONSIDERATIONS

TOPIC INTRODUCTION

In an earlier unit we discussed the regulatory framework that your business needs to work in. This meant choosing to be registered as a sole proprietor, partnership, limited company or public limited liability company. But this is just the first decision that you must make. You must learn to operate your company within the legal and ethical framework within your country or region. This topic will build upon the earlier discussion about the type of company you must register yourself as.

TOPIC OBJECTIVES

At the end of this unit you should be able to:

1. Explain legal issues impacting a small business.
2. Describe what is ethical and not ethical in business operations.
3. Explain how you will develop a code of ethics for your business.

LEGAL REQUIREMENTS FOR YOUR BUSINESS

As part of your business planning process you must become familiar with the laws and regulations in your country or community that guides the start-up and operation of a small business. These may include:

- Requirements for registering a business, including procedures for naming your business.
- Local laws that govern business operations.
- Guidelines that govern the health and care of employees and customers.
- The tax code for small business operations.
- Codes of conduct relevant to specific industries, sectors or professions.

Governments may offer certain facilities or incentives to entrepreneurs starting a new business. These may take the form of:

- Grants to set up a small business.
- Micro-finance opportunities.
- Tax relief.
- Recognition in the community, etc.
- Legal aid.

NAMING A BUSINESS

The easiest way to name your business without any legal or regulatory hassles is to use your own name (e.g. Smith and Associates, or Smith Manufacturing). If you intend to use a name other than your own (e.g. Golden Globe Productions) then you must complete a legal name search to ensure that no other business entity is legally registered under the proposed name. Your country or regional business naming registrar must approve the name before you can use that name on your business cards, stationary, building signs, etc.

Your name can only include the terms “Incorporated’ or “Limited” if you are registered as a Limited Company or Corporation.

Remember when selecting a name for your company must live with the selected name for a long time. The name reflects who you are and what you do. Make sure your company name:

- Reflects the products and services you will provide to clients.
- Can be easily understood by potential clients.
- Has marketing value.
- Can potentially be employed as a registered trademark in the future.

As part of the process of starting a company you need to complete a name search before you register your company or produce any marketing materials. In most countries a name search is built into the registration process, but it may take time for you to get the approval you need. You may want to think of two or three names just in case the name you have chosen is already in use. Once you have approval to use the name of your choice, you can move on to registering your business.

Government Regulations and your Business

As the owner of a small business/enterprise you will have to deal with local and national government regulations and laws. Take the time to research the applicable regulations before you start your business is as important as knowing your market. It is important for you to be familiar with the laws that will govern your business so that you can plan ahead to ensure that your operations will be law abiding.

Licenses and Registration

Depending on the type of business you start, you may need to apply for different types of business operating licenses. However, they may not all be applicable to your type of business. *Here are some examples of the different licenses you may need to get once you register your business:*

Trader’s license gives individuals permission to operate businesses in specific areas and permit trading in specific types of business.

Certificate of Occupancy/Permission from the Planning Division in your country/area of operation must be sought if you intend to put up a building/stall or if you intend to change the use of an existing building or stall.

Liquor licence must be obtained if your business will be involved in the sale of alcoholic beverages.

Tour Guiding Licence that allows individuals to organize and conduct tours in the region.

Vehicle Operating Licence to operate special equipment, buses, tractor trailers, etc.

You may also be required by law to register your business for tax purposes. Some common forms of tax are:

Value Added Tax (VAT) registration (where applicable) is a requirement by law. There can be some exemptions; therefore it is important for you to determine if this will apply to your business.

Business/Corporate tax requirements - In many countries, small businesses/enterprises sole proprietor and partnerships are exempt from direct taxes. However, the business owners become liable. Most companies/corporations are required to pay corporate taxes. In some countries, the company/corporation may be tax-exempt for a specified period of time or if their sales value doesn't reach a certain amount per year.

It is extremely important for you to research all the tax laws that can apply to your business so that you are able to plan to run your business without fiscal liability.

Activity – Tax Considerations

Go to your tax department, or to a representative of your Ministry of Finance, or Ministry of Small Business, if there is one in your country, and collect information about the laws that rule the starting up of new businesses. If there is a small business association in your neighbourhood, you can also visit them and ask for information.

Once you collect and read all the information you are able to gather about the requirements for small business start-up, make a list of all the things you have to do before you can start your business operations. Explain why it is important to apply for a business license and give examples of some of the licences that an entrepreneur may need to run his/her business legally.

Record your list and observations in your personal journal.

Ethical Considerations for Entrepreneurs

Not only must business be conducted in a legal way, it must be conducted in an ethical way. Before we start we need to understand what ethics really means. Ethics refer to moral principles or a set of values held by and individual or group.

Ethical business practices include assuring that the highest legal and moral standards are observed in a company's relationships with the people in your business community. This includes the most important people in your business; your customer and your employees**.**

A business should make a list of values that will guide the ethical operation of the company. In some organizations the business leaders may even decide to provide a list of ethical practices that the company will embrace and demonstrate. This list can be in the form of a code of conduct. Codes of conduct may describe how to ethically deal with issues like:

- Compliance with laws, rules and regulations.
- Conflicts of interest.

- Dealings with the public.
- Health and safety within the workplace.
- Competition and fair dealings.
- Discrimination and harassment.
- Environmental management.
- Proper use of company assets.
- Payments to external providers or politicians.
- Confidentiality.
- Financial management and reporting.
- Trustworthiness.

A reputation for ethical business practices builds trust in your organization among business associates and suppliers. Strong supplier relationships are critical to a successful business. Consider the problems you might have if you could not supply what the customer needs at the time that they need it.

The entrepreneur is the role model for employees. If your behaviour includes lying to customers, taking money out of the cash register, or taking home some of the inventory or supplies, you cannot be surprised if your employees follow your lead. Your family members may see the business as their own and take things that really belong to the business. Employees may see this as being dishonest, or as a conflict with their needs for a raise in pay.

The community expects your business to operate in an ethical manner that enhances the image of the community as a whole. If you are located in a mall, for example, your code of ethics will help or hinder customer traffic for the other businesses too. A reputation for telling customers anything they want to hear, regardless of the truth, eventually hurts your business and other businesses around you. It usually isn't illegal to lie to customers, but it isn't good business.

Ethical behaviour is merely making good business decisions based on an established "code of ethics". Entrepreneurs should establish a written code of ethics that can serve as a framework for decisions to be made by the entrepreneur as well as the employees.

Developing a Code of Ethics/Code of Conduct

In developing a code of ethics the entrepreneur should consider the following items:

- Identify general principles that will lead to fair business practices.
- Identify the values that will guide your interaction with customers and employees.
- Check with your industry association for basic standards to follow.
- Allow for the fact that ethical questions do not always have a unique, faultless answer.
- Write out specific statements that will assist you and others in making day-to-day ethical decisions.

- Apply your code of ethics to a written policy and procedure manual identifying the major rules for operating your business.
- Train your employees (and family members) to make ethical decisions about the business.

Your code of ethics will apply to all types of business operations including the following.

- ✓ Handling cash and checks from customers.
- ✓ "Negotiating" special prices for a friend without permission.
- ✓ Accepting gifts from suppliers and business associates.
- ✓ Selling damaged merchandise.
- ✓ Warranties on products.
- ✓ Merchandise return policies for customers.
- ✓ Returning merchandise to suppliers.
- ✓ Handling shoplifters.
- ✓ Accounting procedures for cash sales.
- ✓ Employee theft.
- ✓ Insurance coverage adequate to protect the business and employees.
- ✓ Supporting your advertising promises.
- ✓ Checking in merchandise when received from suppliers.
- ✓ Keeping the premises clean and free from harmful substances or germs.
- ✓ Handling employee performance problems.
- ✓ Telling customers the truth.

What others can you add to this list?

TOPIC SUMMARY

This topic has focused on the legal and ethical considerations when starting your own business. Factors considered cover the collection of information, deciding on the name of your business, compliance with government regulations and understanding business ethics.

Activity – Code of Ethics

Using specifics, explain why ethics are important for your business operations. Explain the procedure you will follow in developing your business code of ethics. Produce a list that will guide the creation of your code ethics.

SUMMARY

Congratulations, you have completed the last topic in this course. You have developed a detailed understanding of factors involved in starting your business. Following legal procedures and emphasizing ethical practices will give you personal satisfaction and help grow your business.

UNIT FIVE – SUMMARY

The topics covered in this unit will give you a clearer understanding on how to craft a marketing mix strategy and also consider the advantages of embracing the latest technologies in your business. You have also learned about the legal requirements that you need to comply with as a business owner and you have considered how to develop a code of ethics to guide your business operations.

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COURSE SUMMARY

LESSONS LEARNED

Throughout this course, you have been exposed to the concepts of Entrepreneurship and the process to develop your own business. Completing the activities and assignments has allowed you to gain insight and build a balanced approach to business start-up. You should be ready to learn more about what it takes to be a successful entrepreneur.

Let's review what you accomplished in each unit of this course. In Unit One, we defined and discussed the concepts of entrepreneurship and entrepreneur. You evaluated your own entrepreneurial profile and considered how entrepreneurship impacts the local community, as well as society in general. In Unit Two, you took your first steps in prospecting for a new business: from recognizing opportunity, to generating a business idea, to understanding what is involved in creating a business concept. In Unit Three, you explored basic components of business structure, i.e. its organization, culture and financing. In Unit Four, you developed your own business model. You also became familiar with the outlines of a business plan and a business proposal. Finally, in Unit Five, you started to plan your marketing mix strategy related to your business model. You also considered how you might use technology in your business and how you would develop a code of ethics.

APPLICATION OF KNOWLEDGE AND SKILL

As you have progressed through this course, you have developed as an entrepreneur. You have applied your learning to help yourself develop your own business idea into a business model. You have considered important elements in start-up, such as the entrepreneurial profile, financing, start-up culture, marketing and technology. You now have a deeper understanding of the knowledge base for business development and you have applied this understanding to the real world, to develop your skills in entrepreneurship.

COURSE EVALUATION

<Insert instructions on how to complete and submit a course evaluation. You should include a course evaluation form in the Appendices>

APPENDIX – SELF ASSESSMENT PACKAGE

Complete the attached "Am I an Entrepreneur? Self-Assessment Package" produced by the GoForth Institute. To learn more about this organization go to their web site at: www.goforthinstitute.com