

Chapter 3:

Part I: Business Development Process

- Basic business idea
- Developing feasibility study
- Business plan development

Part II: Business physical operations

Part III: Marketing in Business enterprises

Part IV: Financing and accounting in business

Part I: Business Development Process

3.1 Introduction

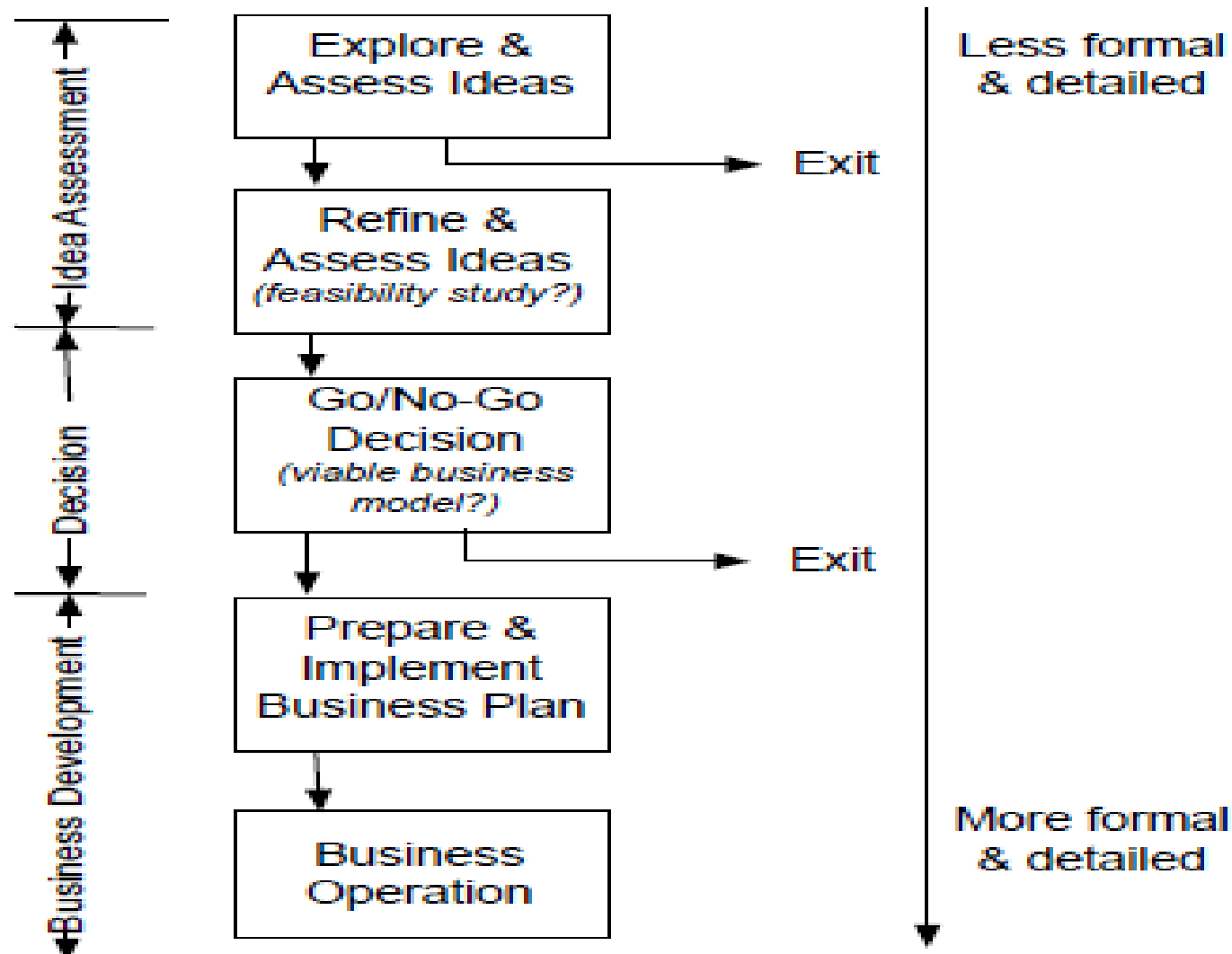
3.2 Business idea generation

3.3 Assessing the Feasibility Study of New
Venture

3.4 Business Plan Development

3.1. Introduction

Figure 1. Idea assessment and business development process.



Introduction

- This part introduces feasibility analysis, and makes the case for the importance of feasibility analysis as a way of testing the potential viability of a business idea.
- Stresses that the proper time to complete a feasibility analysis is after opportunity recognition but before the completion of a business plan.
- It also introduces the four stages of feasibility analysis, including product/service feasibility, industry/target market feasibility, organizational feasibility, and financial feasibility.

3.2. Business Idea Generation

What is a Business Idea?

- A business idea is the response of a person/s, or an organization to solve an identified problem or to meet perceived needs in the environment (markets, community, etc.).
- Finding a good idea is the first step in transforming the entrepreneur's desire and creativity into a business opportunity

What is basic business idea?

basic business idea

- It is logical to think of a goal for the unit in long run rather than to look for the immediate tomorrow.
 - ✓ The business owner should think of long-term goal and the profit when they start a business.
- The basic business idea, which is at the top of the hierarchy
 - ✓ it meets the broadest needs of the customers, and has the long life perhaps from 5-50 years.

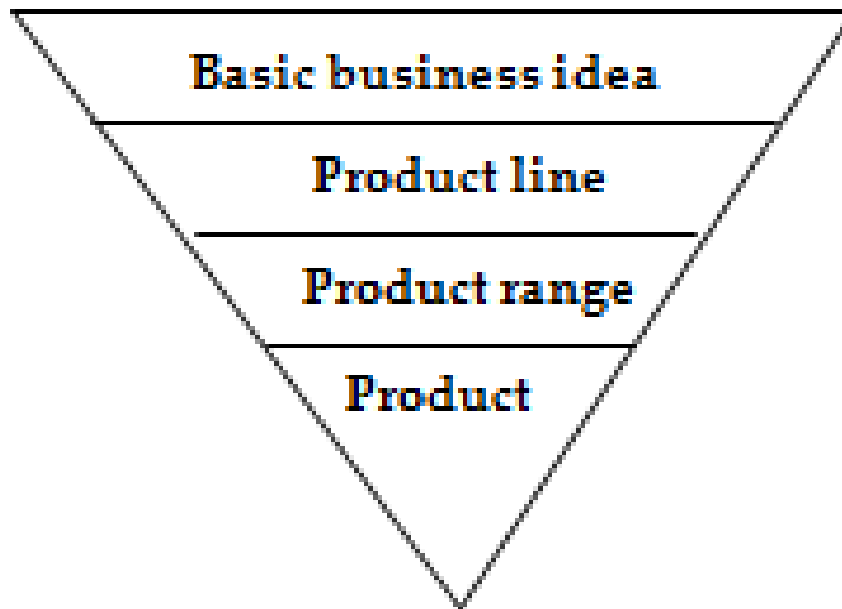


Figure: Hierarchical presentation of business idea

Class discussion

1. What do you do if you get 500,000 ETB today?
2. Ask yourself & families or friends about your strength(trait, knowledge or skill) with evidences

A bird sitting on a tree is never afraid of the branch breaking because her trust is not in the branch, but in her wings.

Believe in yourself!

- (Evan carmichael)

Why Generate Business Ideas?

- You need an idea to start a new business
- Business ideas need to respond to market needs
- Business ideas need to respond to changing consumer wants and needs
- Business ideas help entrepreneurs to stay ahead of the competition
- Business ideas use technology to do things better
- Business ideas are needed because the life cycles of products are limited
- Business ideas help to ensure that businesses operate effectively and efficiently
- Business ideas can help specific groups of people (elderly, disadvantaged, those with disabilities)
- Business ideas help to solve natural resource scarcity, pollution and depletion.

Sources of Business Ideas

- Good business ideas are a prerequisite for initiating a new business venture. Sources:
 - Hobbies/Personal Interests
 - Personal Skills and Experience
 - Media (newspapers, magazines, TV, Internet)
 - Business Exhibitions
 - Surveys
 - Customer Complaints
 - Natural scarcities and pollution
 - Changes in Society
 - Brainstorming
 - Being Creative
 - Ideas from overseas (Global) Potential Imports

Brainstorming

- Is a creative problem solving technique and also a source for generating ideas.
- The objective is to arrive with as many ideas as possible.
- It usually begins with a question or problem statement.
- It typically involves a group of people, and should be targeted to a specific topic.
- **Rules for a brainstorming session**
 - No criticism/ no judgment.
 - Freewheeling is encouraged./ideas that seem to be wild or crazy are Welcome

- quantity is desirable: the greater the number of ideas ,the better
- combine and improve the¹ ideas of others

How can the number of entrepreneurs be increased and their capacity be improved?

Discuss????

Entrepreneurial Opportunities

- There are three approaches to identify opportunities
 - **Observing trends:** Economic and social factors, political action, technology advances and regulatory conditions are the most important trends to monitor.
 - **Solving a problem:** A problem facing the U.S. and other countries is finding alternatives to fossil fuels. A large number of entrepreneurial firms, like this wind farm, are being launched to solve this problem.
 - **Finding gaps in the market place:** In 2000 Tish Cirovolv realized there were no guitars on the market made specifically for women. To fill this gap, she started Daisy Rock Guitars, a company that makes guitars just for women.

Cont....

Before engaged to the business, it needs detail SWOT analysis of the selected business.

- ❖ The **SWOT** approach compels individuals to think or reason out systematically and analytically the important factors strengths, weakness, opportunities, and threats.

Cont....

- **Strength:** is an inherent capacity, which an organization can use to gain strategic **advantage over its competitors**.
- **Weakness:** is an inherent limitation or constraint, which creates a strategic disadvantage
- **Opportunity:** refers to any factor that **offer promise** or potential for moving closer or more quickly **towards the firms goal**
- **Threat:** is any factor that may **limit or impede** the business in the pursuit of its goals
- **Discussion**
classify them as internal and external factors to the firm.

POSITIVE FACTORS

NEGATIVE FACTORS

INTERNAL FACTORS

Strengths

- Important core competencies
- Financial strengths
- Innovative capacity
- Skilled or experienced management
- Well-planned strategy
- Effective entry wedge
- Protection from competitive threats
- Positive reputation in the marketplace
- Proprietary technology

EXTERNAL FACTORS

Opportunities

- Untapped market potential
- New product or geographic market
- Favorable shift in industry dynamics
- Potential for market growth
- Emerging technologies
- Changes allowing foreign market entry
- Deregulation
- Increasing market fragmentation

Weaknesses

- Inadequate financial resources
- Poorly planned strategy
- Lack of management skills or experience
- Inadequate innovation
- Negative reputation in the marketplace
- Inadequate facilities
- Distribution problems
- Inadequate marketing skills
- Production inefficiencies

Threats

- New competitors
- Rising demands of buyers or suppliers
- Sales shifting to substitute products
- Increased government regulation
- Adverse shifts in the business cycle
- Slowed market growth
- Changing customer preferences
- Adverse demographic shifts

Cont....

- To be a successful entrepreneur, one major determinant factor is the *choice of a good business idea*.
- To select the best business idea, the following general steps needs to be pursued.
 - 1) *Identify your problem*
 - 2) *Define your objectives*
 - 3) *Identify, develop and analyze the possible alternative*
 - 4) *Select the best alternative in light of the *specific criteria set* to the better fulfillment of the objective.*

Steps in Business Setting

1. **select the right product.** These must be examined with a view to assess:
 - *The marketing aspects*
 - *Technical aspects*
 - *Financial aspects*
2. A **detailed project report** to be prepared. This will cover the following aspects.
 - *A detailed estimate of demand is to be made.*
 - *Technical specifications of the process should be carefully studied.*
 - *The equipment required and their sources are to be specified*
 - *Requirement of space.*
 - *The total cost of the project to be worked out, the means for financing it identified*
 - *The economics of the entire scheme at projected operating level is to be assessed.*

3. **Implementation** of the detailed project report. Includes:

- Deciding on form of ownership and registration
- Obtaining finance ,Obtaining license
- Establishing necessary infrastructures

4. **Authorizations and sanctions (legalized and approval)** have been obtained, simultaneous action is to be taken for the following. **Pre-commissioning requirement.**

- Ordering machinery from suppliers
- Obtaining utilities like power and water connections after constructions of shed, if necessary.
- Recruitment of staff,
- Arranging supplies of materials
- Arranging for distribution of the products

5. **Commissioning of plant**, the plant is ready for commissioning **trial run** may be made. Includes:

- Trial run of machineries
- Promotional activity for the product
- Introduce the product to the market and obtain feedback

6. **Ready for commercial production.**

3.3. Assessing the Feasibility of the New Venture

- A feasible business venture is one where the business will
 - generate adequate cash-inflow and profits,
 - withstand the risks it will encounter,
 - remain viable in the long-term and meet the goals of the founders.
- The venture can be:
 - ✓ a new start-up business,
 - ✓ the purchase of an existing business,
 - ✓ franchise,
 - ✓ an expansion of current business operations or a new enterprise for an existing business.

3.3.1. Elements in Evaluating New Ventures

- **Market Opportunity:** most early stage venture investors look for companies addressing large markets.
- **Proprietary approach:** the intellectual property matters
- **Technology impact:** what is the nature and outgrowth of the technology?
- **Financials:** is the model articulated for how products will be sold, who will buy them, how much revenue is projected and by when?...
- **Team:** does the team have the requisite skills to move all aspects of the company forward?

3.3.2. Feasibility Analysis

- is the process of determining whether a business idea is viable
- is the preliminary evaluation of a business idea, conducted for the purpose of determining whether the idea is worth pursuing.
- An investigative tool
- Serves as a filter, screening out ideas that lack the potential for building a successful business before an entrepreneur commits the necessary resources to building a business plan.

FEASIBILITY STUDY

- Feasibility literally means whether some idea will work or not.

It **knows** before hand

- whether **there exists sufficient market/demand** for the proposed product/service,
- what would be the **investment requirements** and where to **get the funding from**, and
- wherefrom the necessary **technical know-how to** convert the **idea** into **a tangible** product may be

Market analysis

- A market, is the arena for interaction among buyers and sellers.
- From seller's point of view/ entrepreneur, the objective of market analysis is primarily concerned with the aggregate demand of the proposed product/service in future and
- the market share expected to be captured.

...Market analysis

- You have to carefully segment the market according to some criteria such as geographic scope, demographic and psychological profile of the potential customers etc.
- It is a study of knowing who all encompass your customers, for this you require information on:
 - Consumer behaviour, intentions, motivations, attitudes, preferences and requirements
 - Distribution channels and marketing policies in use
 - Administrative, technical and legal constraints impinging on the marketing of the product
 - Imports and Exports
 - Competition
 - Cost structure
 - Elasticity of demand

Financial Analysis

- The objective of financial analysis is to ascertain:
 - whether the proposed project will be financially viable in the sense whether the proposed project will satisfy the return expectations of those who provide the capital.
- While conducting a financial appraisal certain aspects has to be looked into like:
 - Investment required and total cost of project
 - Means of financing
 - Cash flows of the project
 - Break- even point
 - Projected profitability
 - Investment worthiness judged in terms of various criteria of merit
 - Projected financial position

Technical Analysis

- The issues involved in the assessment of technical analysis of the proposed project may be classified into those related to **inputs**, **throughputs** and **outputs**.
- **Input Analysis**: Input analysis is mainly concerned with the **identification**, **quantification** and **evaluation** of project inputs, that is, **machinery** and **materials**.
- You have to ensure that the **right kind** and **quality of inputs** would be available at the **right time** and **cost throughout the life of the project**.
- You have to enter into long-term contracts with the potential suppliers; in many cases
- you have to cultivate your supply sources

Economic Analysis

- Economics is the study of costs- and- benefits.
- In regard to the feasibility of the study the entrepreneur is concerned whether the capital cost as well as the cost of the product is justifiable price at which it will sell at the market place.
- For example, technically, silver can be extracted from silver bromide, (a chemical used for processing the X-ray and photo films); but, the cost of extraction is so high that it would not be economically feasible to do so

Ecological Analysis

- In recent years, environmental concerns have assumed a great deal of significance especially for **projects**, which have significant **ecological implications** for environment polluting industries (like bulk drugs, chemicals and leather processing).

The concerns that are usually addressed include the following:

- What is the **likely damage** caused by the project to the environment?
- What is the **cost of restoration** measures required to ensure that the damage to the environment is contained within acceptable

Organization/Managerial Feasibility

- Legal structure of the business
- Business founders

Study Conclusions

- it contain the information you will use for deciding whether to proceed or not with creating the business

3.4. DEVELOPING A BUSINESS PLAN

WHAT IS A BUSINESS PLAN?

- A **business plan** is a comprehensive set of guidelines for a new venture.
- is also called a feasibility plan that encompasses the full range of business planning activities,
- A business plan would present your basic business idea and all related:
 - ✓ operating,
 - ✓ marketing,
 - ✓ financial and
 - ✓ managerial considerations.

The Purpose Of Business Plan

1. It can help the owner/manager crystallize and focus his/her idea.
2. It can help the owner/manager set objectives and give him/her a yardstick against which to monitor performance.
3. It can also use as a vehicle to attract any external finance needed by the business. Eg. To get fund.
4. It can convince investors that the owner/manager has identified high growth opportunities. Etc.

When The Business Plans are Produced?

- **At the start up of a new business:**
- **Business purchase:**
- **On going:**
- **Major decisions:** at a time of major change, For example, the need for major new investment in equipment or funds to open a new outlet. It may be linked to failure, such as a recovery plan for an ailing (or in bad condition) business.

The Format Of A Business Plan

1. Where are we now?
2. Where do we intend going?
3. How do we get there?

Components Of Business Plan (Out Line Of A Business Plan)

I. Analysis of the current situation (*where are we now?*)

1. Identification of the business

a. Introduction

- relevant history and background
- Proposed date for commencement of trading /beginning of a plan

b. Names

- name of the business and trading name
- name of the managers/owners

c. Legal identity

- company/partnership/sole-trade/cooperative
- details of share or capital structure

d. Location

- address-registered and operational
- brief details of premises.

e. Professional advisers, -Accountants, solicitors, bank

Out Line Of A Business Plan...

2. The key people

a. **Existing management-** Outline of background experience, skills and knowledge.

- Names of the management team

b. **Future requirement-** gaps in skills and experience and how they will be filled,

- future recruitment intentions

3.The nature of the business

a. Product(s)or service(s)-Description and applications

- Key suppliers

- Planned developments of product or service

b. Market and customers

- Definition of target market, classification of customers

- Trend in market place

c. Competition- description of competitors; strength and weakness of the major competitors.

II. Future Direction (Where Do We Intend Going?)

i. Strategic Influence -SWOT Analysis

1. Opportunities and threats in the business environment

○ *Socio-economic trends, Technological trends*

• *Legislation and politics, Competition*

2. Strengths and weaknesses

• In its industry

ii. Strategic direction:

1. Objectives- general and specific

2. Policies- guidelines and rules

3. Activities- action plans and timetable of key activities

III. Implementation Of Aim (how do we get there?)

1. Management of resources

- a) **Operation**:-premises, materials, equipment, insurance, management information system.
- b) **People/Human resource**/ - employment practices, recruitment, team management, training etc.

2. Marketing plan

- a) **Competitive edge**- unique selling point of business (Critical products or service characteristics or uniqueness in relation to competitors)
- b) **Marketing objectives** - specific aims for product or service in the market place
- c) **Marketing methods**- product, pricing, promotion, place/distributions=4ps

3. Money: financial analysis

- a. **Funding requirement**- start up capital, working capital, asset capital, timing of funds required, security offered.
- b. **Profit and loss**-- 3 years forecast, sales variable costs, profit, overheads, net profit
- c. **Cash flow**-- 3 years forecast, receipts, payments, monthly and cumulative cash flow
- d. **Balance sheet** - use of funds, source funds

Feasibility Studies Versus Business Plans

- A good rule of thumb is to never commission a business plan until a feasibility study has been completed first.
- Feasibility serves as a valuable tool for a winning business plan.
- If a project is seen to be feasible from the results of the study, the next logical step is a full business plan.
- On the other hand, a business plan is designed to plan in advance how a business or project will be started, implemented and managed.