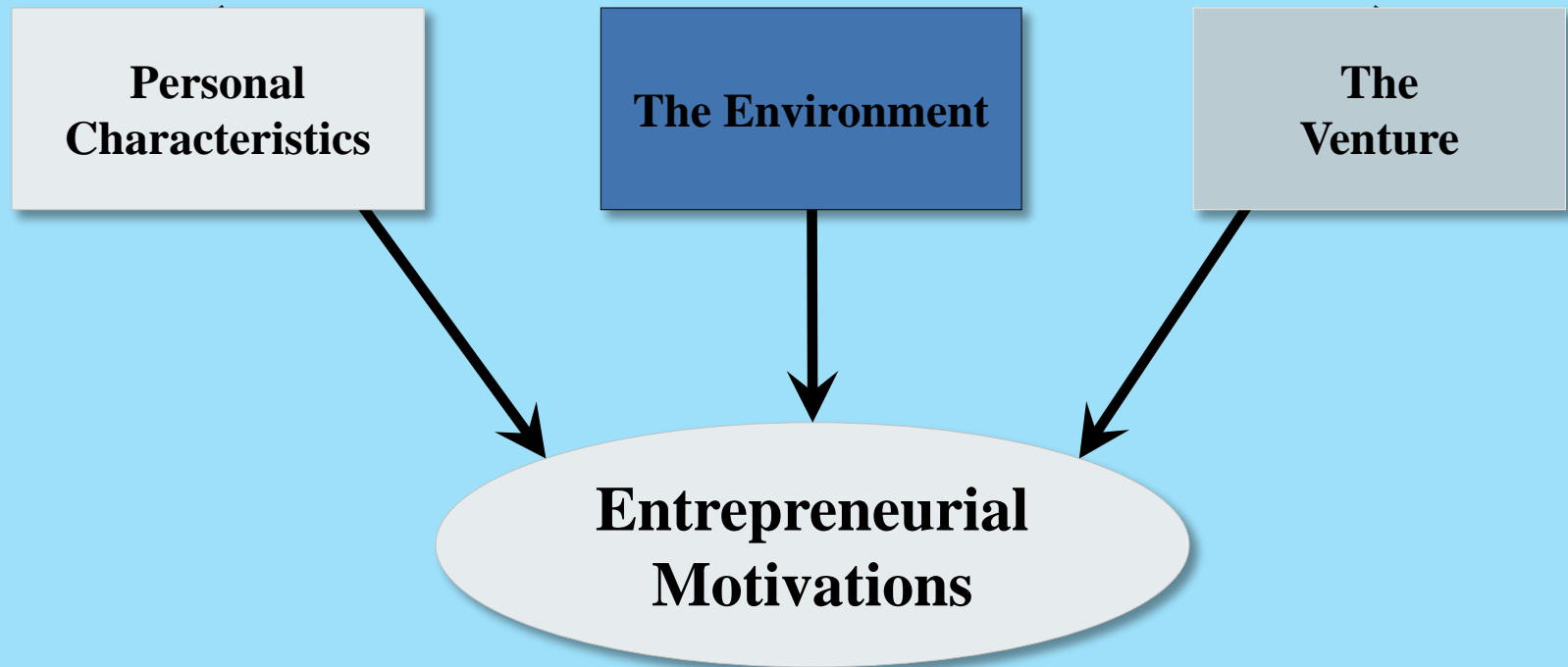


# Initiating Entrepreneurial Ventures

Assessment of Entrepreneurial Opportunities

# Reasons for Starting a Venture



# Pitfalls in Selecting New Ventures

- Lack of objective evaluation
- No real insight into the market
- Inadequate understanding of technical requirements
- Poor financial understanding
- Lack of venture uniqueness
- Ignorance of legal issues



# Phases in New-Venture Start-ups

- Prestart-up Phase
  - Begins with an idea for the venture and ends when the doors are opened for business.
- Start-up Phase
  - Commences with the initiation of sales activity and the delivery of products and services and ends when the business is firmly established and beyond short-term threats to survival.
- Poststart-up Phase
  - Lasts until the venture is terminated or the surviving organizational entity is no longer controlled by an entrepreneur.

# Critical Factors for New-Venture Development

1. Uniqueness of venture
2. Investment size
3. Sales growth expectations
  - Lifestyle ventures
  - Small profitable ventures
  - High-growth ventures
4. Product availability
5. Customer availability



## **Basic Feasibility of the Venture**

1. Can the product or service work?
2. Is it legal?

## **Competitive Advantages of the Venture**

1. What specific competitive advantages will the product or service offer?
2. What are the competitive advantages of the companies already in business?
3. How are the competitors likely to respond?
4. How will the initial competitive advantage be maintained?

## **Buyer Decisions in the Venture**

1. Who are the customers likely to be?
2. How much will each customer buy, and how many customers are there?
3. Where are these customers located, and how will they be serviced?

## **Marketing of the Goods and Services**

1. How much will be spent on advertising and selling?
2. What share of market will the company capture? By when?
3. Who will perform the selling functions?
4. How will prices be set? How will they compare with the competition's prices?
5. How important is location, and how will it be determined?
6. What distribution channels will be used—wholesale, retail, agents, direct mail?
7. What are the sales targets? By when should they be met?
8. Can any orders be obtained before starting the business? How many? For what total amount?

## A New-Venture Idea Checklist (cont'd)

### **Production of the Goods and Services**

1. Will the company make or buy what it sells? Or will it use a combination of these two strategies?
2. Are sources of supplies available at reasonable prices?
3. How long will delivery take?
4. Have adequate lease arrangements for premises been made?
5. Will the needed equipment be available on time?
6. Do any special problems with plant setup, clearances, or insurance exist? How will they be resolved?
7. How will quality be controlled?
8. How will returns and servicing be handled?
9. How will pilferage (theft), waste, spoilage, and scrap be controlled?

### **Staffing Decisions in the Venture**

1. How will competence in each area of the business be ensured?
2. Who will have to be hired? By when? How will they be found and recruited?
3. Will a banker, lawyer, accountant, or other advisers be needed?
4. How will replacements be obtained if key people leave?
5. Will special benefit plans have to be arranged?

### **Control of the Venture**

1. What records will be needed? When?
2. Will any special controls be required? What are they? Who will be responsible for them?

### **Financing the Venture**

1. How much will be needed for development of the product or service?
2. How much will be needed for setting up operations?
3. How much will be needed for working capital?
4. Where will the money come from? What if more is needed?
5. Which assumptions in the financial forecasts are most uncertain?
6. What will be the return on equity, or sales, and how does it compare with the rest of the industry?
7. When and how will investors get their money back?
8. What will be needed from the bank, and what is the bank's response?



# Why New Ventures Fail

- Product/Market Problems
- Financial Difficulties
- Managerial Problems



# Causes for Failure

- Product/Market Problems
  - Poor timing
  - Product design problems
  - Inappropriate distribution strategy
  - Unclear business definition
  - Overreliance on one customer
- Financial Difficulties
  - Initial undercapitalization
  - Assuming debt too early
  - Venture capital relationship problems (vc & entrepreneur conflicts)
- Managerial Problems
  - Concept of a team approach
  - Human resource problems



## Types and Classes of First-Year Problems

### **1. Obtaining external financing**

- Obtaining financing for growth
- Other or general financing problems

### **2. Internal financial management**

- Inadequate working capital
- Cash-flow problems
- Other or general financial management problems

### **3. Sales/marketing**

- Low sales
- Dependence on one or few clients/customers
- Marketing or distribution channels
- Promotion/public relations/advertising
- Other or general marketing problems

### **4. Product development**

- Developing products/services
- Other or general product development problems

### **5. Production/operations management**

- Establishing or maintaining quality control
- Raw materials/resources/supplies
- Other or general production/operations management problems

### **6. General management**

- Lack of management experience
- Only one person/no time
- Managing/controlling growth
- Administrative problems
- Other or general management problems

### **7. Human resource management**

- Recruitment/selection
- Turnover/retention
- Satisfaction/morale
- Employee development
- Other or general human resource management problems

### **8. Economic environment**

- Poor economy/recession
- Other or general economic environment problems

### **9. Regulatory environment**

- Insurance

## The Failure Process of a Newly Founded Firm

1. Extremely high indebtedness and small size
2. Too slow velocity of capital, too fast growth, too poor profitability (as compared to the budget), or some combination of these
3. Unexpected lack of revenue financing (poor dynamic liquidity)
4. Poor static liquidity and debt service ability (dynamic solidity)

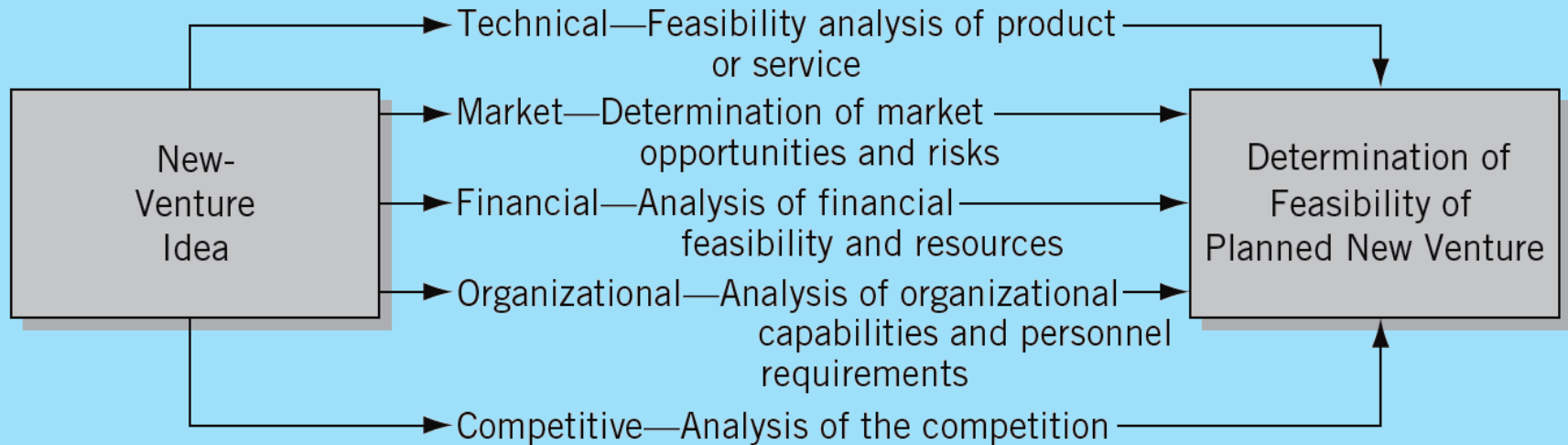
# Feasibility Criteria Approach

- Assessing the viability of a venture:
  - Is it proprietary?
  - Are the initial production costs realistic?
  - Are the initial marketing costs realistic?
  - Does the product have potential for very high margins?
  - Is the time required to get to market and to reach the break-even point realistic?
  - Is the potential market large?
  - Is the product the first of a growing family?
  - Does an initial customer exist?
  - Are the development costs and calendar times realistic?
  - Is this a growing industry?
  - Can the product and the need for it be understood by the financial community?

# The New-Venture Evaluation Process

- Profile Analysis
  - Involves identifying and investigating the financial, marketing, organizational, and human resource variables that influence the business's potential before the new idea is put into practice.
- The Feasibility Criteria Approach
  - Involves the use of a criteria selection list from which entrepreneurs can gain insights into the viability of their venture.
- Comprehensive Feasibility Approach
  - Incorporates external factors in addition to those included in the criteria questions.

## Key Areas for Assessing the Feasibility of a New Venture

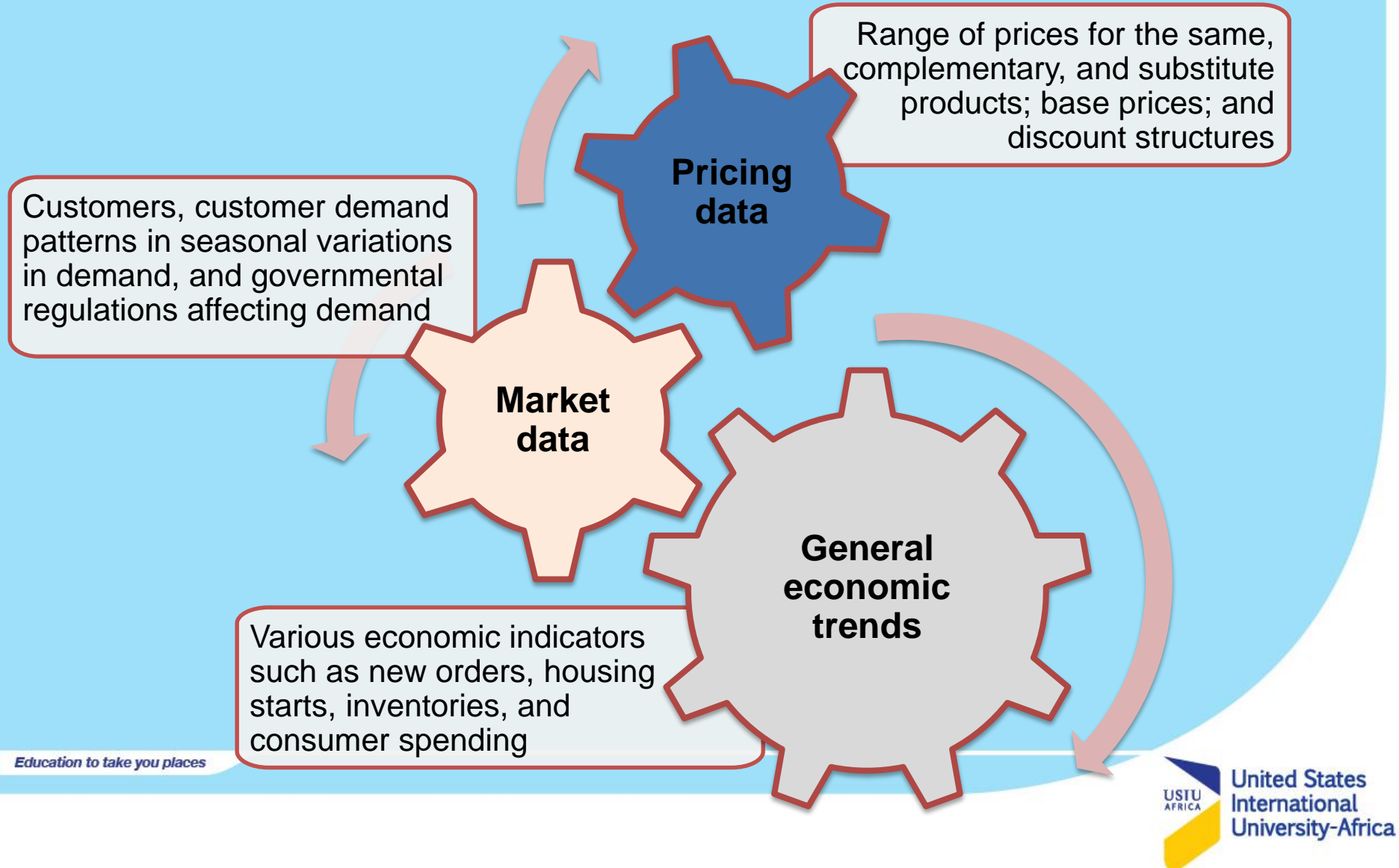


# Technical Feasibility

- Technical Requirements for Products and Services:
  - Functional design and attractiveness in appearance
  - Flexibility, permitting ready modification of the external features of the product to meet customer demands or technological and competitive changes
  - Durability of the materials from which the product is made
  - Reliability, ensuring performance as expected under normal operating conditions
  - Product safety, posing no potential dangers under normal operating conditions
  - Reasonable utility, an acceptable rate of obsolescence
  - Ease and low cost of maintenance

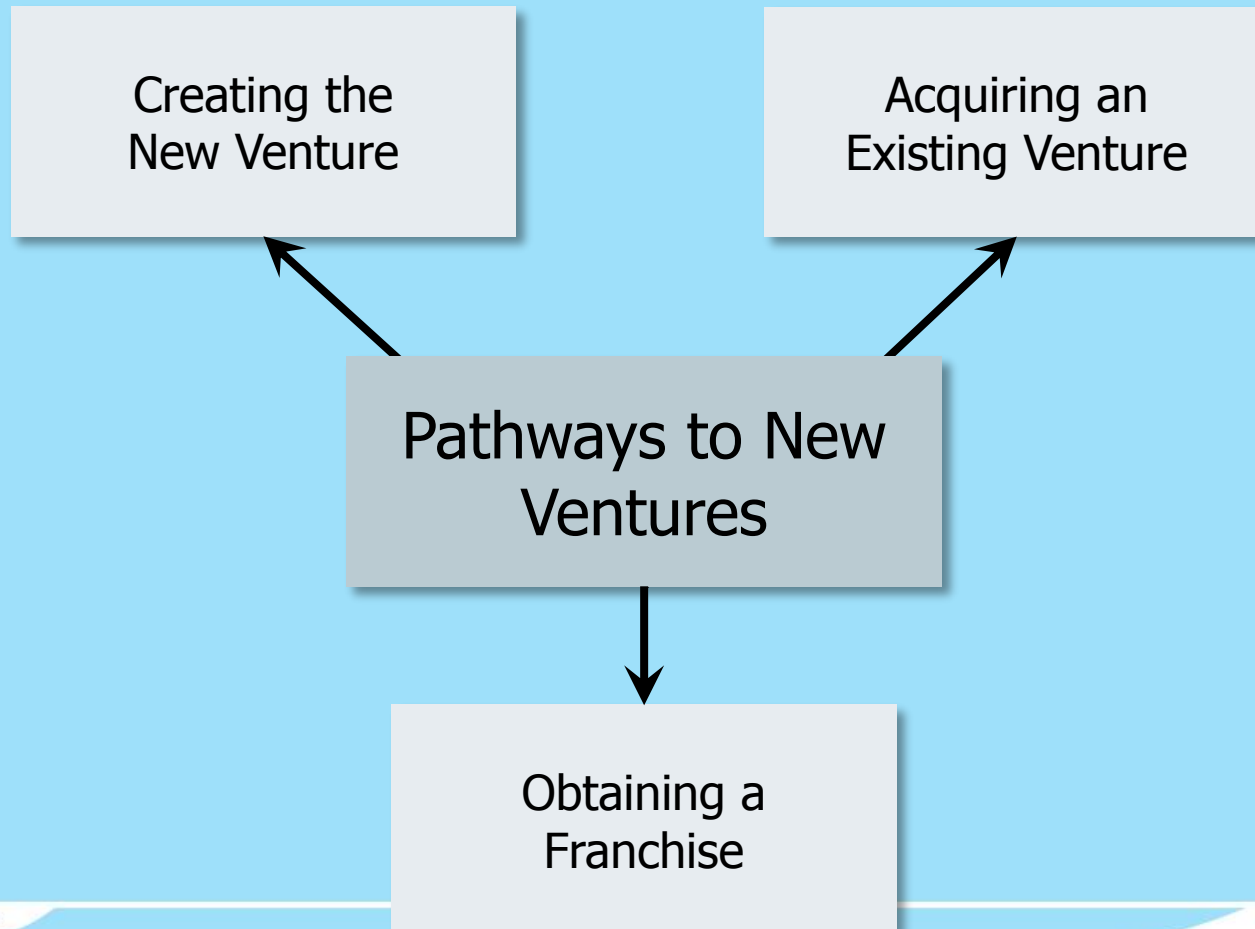


# Market Feasibility (Marketability)



# Pathways to Entrepreneurial Ventures

# The Pathways to New Ventures for Entrepreneurs



# Creating New Ventures



## Trends Creating Business Opportunities

### Emerging Internet Opportunities

#### **Mobile Advertising**

Cell phones  
PDAs

#### **Custodian Services**

#### **Niche Social Networks**

Seniors  
Music fans  
Groups of local users  
Pet owners  
Dating groups

#### **Virtual Economies**

Online auctions

#### **Educational Tutoring**

#### **Human Resources Services**

Matchmaking  
Virtual HR  
Online Staffing

### Emerging Technology Opportunities

#### **Nanotechnology**

#### **Wireless Technology**

### Emerging Opportunities

#### **Green Products**

Organic foods  
Organic fibers/textiles

#### **Alternative Energy**

Solar  
Biofuel  
Fuel cells  
Energy conservation

#### **Health Care**

Healthy food  
School and govt.-  
sponsored programs  
Exercise  
Yoga  
Niche gyms  
Children  
Nonmedical  
Pre-assisted living  
Assisted living transition  
services

#### **Niche Consumables**

Wine  
Chocolate  
Burgers  
Coffee houses  
Exotic salads

#### **Home Automation and Media Storage**

Lighting control  
Security systems  
Energy management  
Comfort management  
Entertainment systems  
Networked kitchen  
appliances

# Examining the Financial Picture When Creating New Ventures

- Upside gain and downside loss expectations
  - The profits the business can make and the losses it can suffer.
    - How much money will the enterprise take in if all goes well?
    - How much will it gross if operations run as expected?
    - How much will it lose if operations do not work out well?
- Risk vs. reward analysis
  - Points out the importance of getting an adequate return on the amount of money risked.

## Checklist for Estimating Start-Up Expenses

MONTHLY	EXPENSES	CASH NEEDED TO START THE BUSINESS	WHAT TO PUT IN COLUMN 2
		(see Column 3)	(These figures are estimates. The owner/manager decided how many months to allow, depending on the type of business)
Item	Estimate based on sales of \$___ per year		
Salary of owner/manager	Column 1	Column 2	Column 3
	\$	\$	3 times Column 1
Other salaries and wages			3 times Column 1
Rent			3 times Column 1
Advertising			3 times Column 1
Delivery expense			3 times Column 1
Supplies			3 times Column 1
Telephone and telegraph			3 times Column 1
Other utilities			3 times Column 1
Insurance			6 times Column 1
Taxes, Social Security			4 times Column 1
Interest			3 times Column 1
Maintenance			3 times Column 1
Legal and other professional assistance			3 times Column 1
Miscellaneous			3 times Column 1

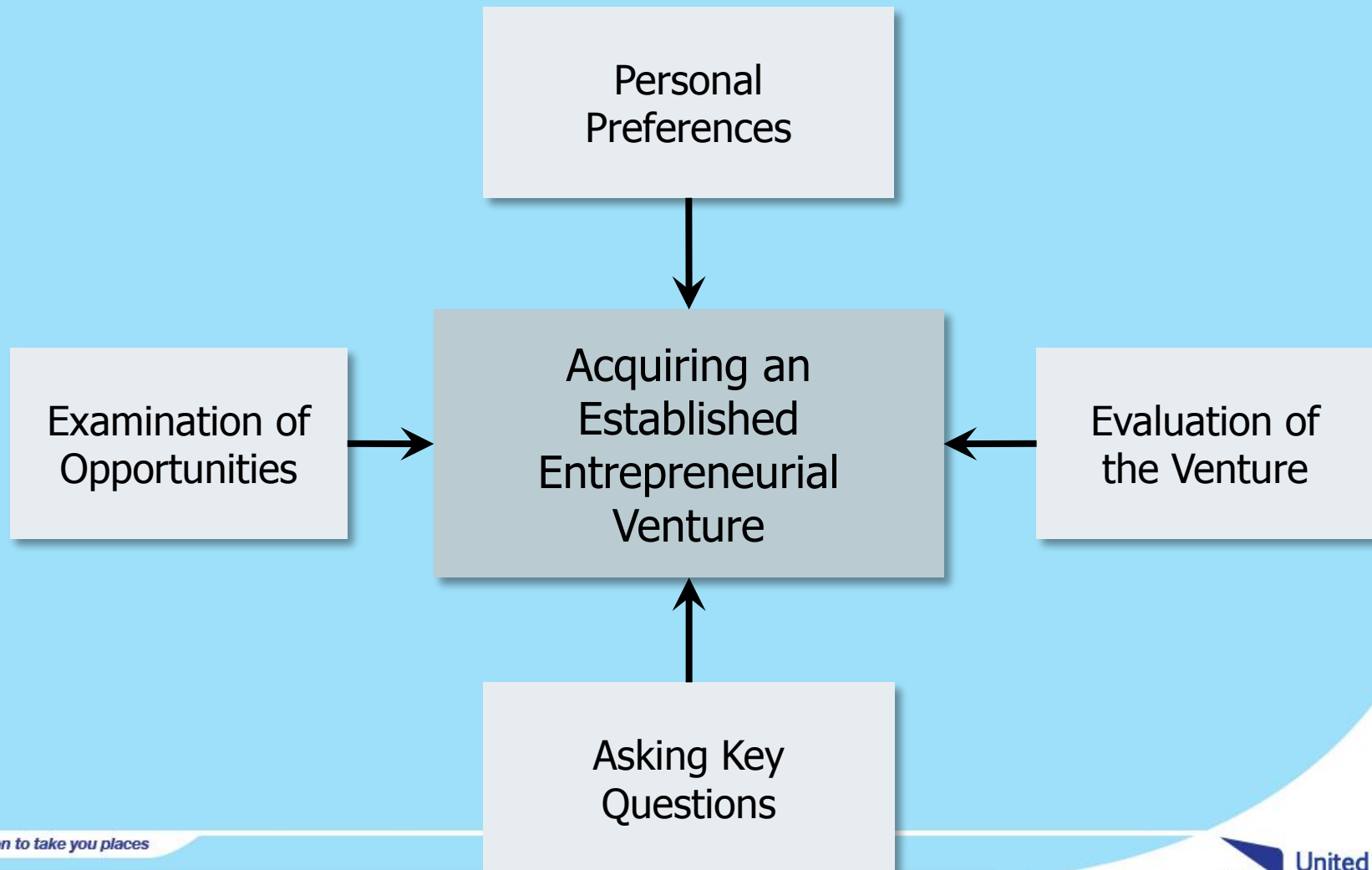
## Checklist for Estimating Start-Up Expenses (cont'd)

### START-UP COSTS

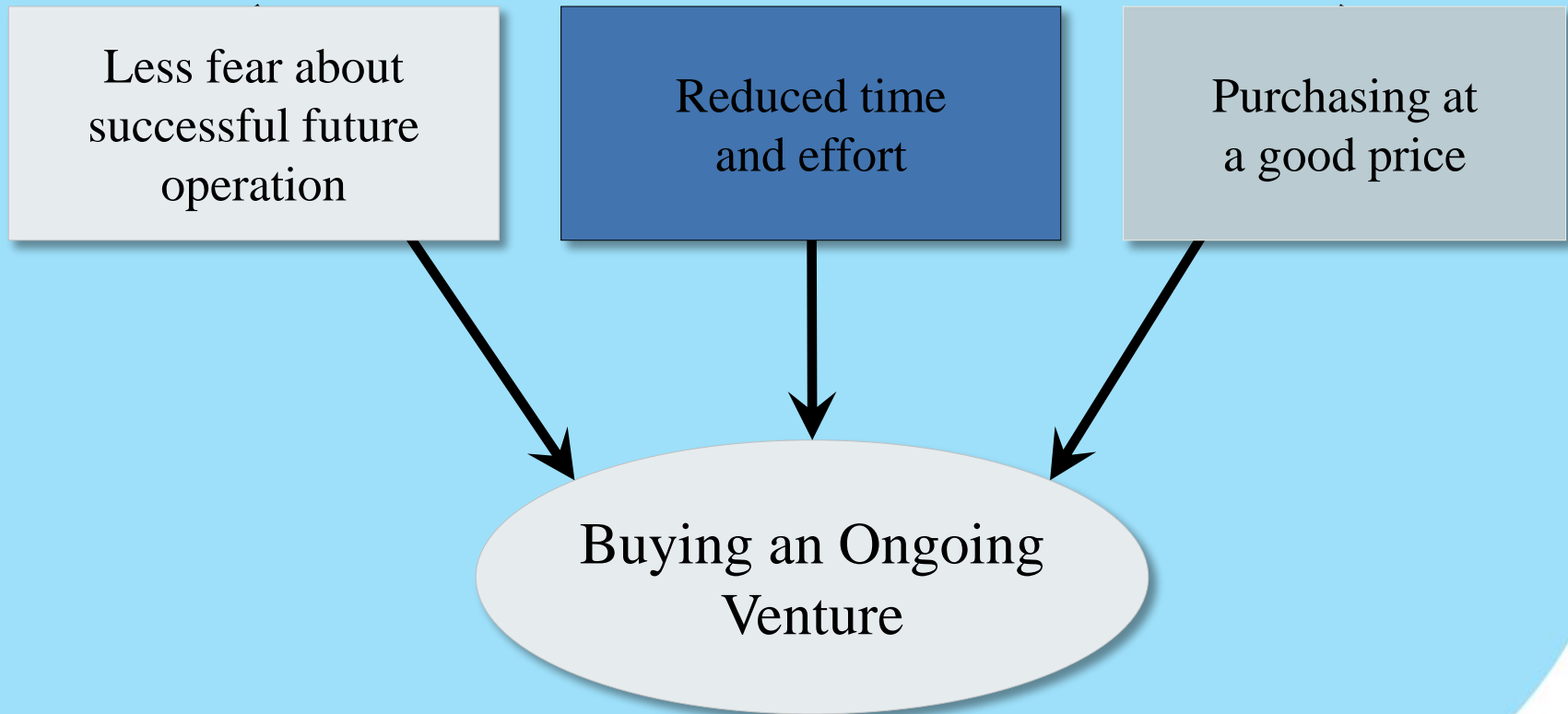
Item	Estimate	TO ARRIVE AT ESTIMATE
Fixtures and equipment	\$	Determine what is typical for this kind of business; talk to suppliers.
Decorating and remodeling		Talk to a contractor.
Installation of fixtures, equipment		Talk to suppliers.
Starting inventory		Talk to suppliers.
Deposits with public utilities		Talk to utility companies.
Legal and other professional fees		Talk to a lawyer, accountant, or other professional.
Licenses and permits		Contact appropriate city offices.
Advertising and promotion		Decide what will be used; talk to media.
Accounts receivable		Estimate how much will be tied up in receivables by credit customers and for how long.
Cash		Allow for unexpected expenses and losses, special purchases, and other expenditures.
Other Expenses		List them and estimate costs.
<b>TOTAL CASH NEEDED TO START</b>	<b>\$</b> _____	Add all estimated amounts.



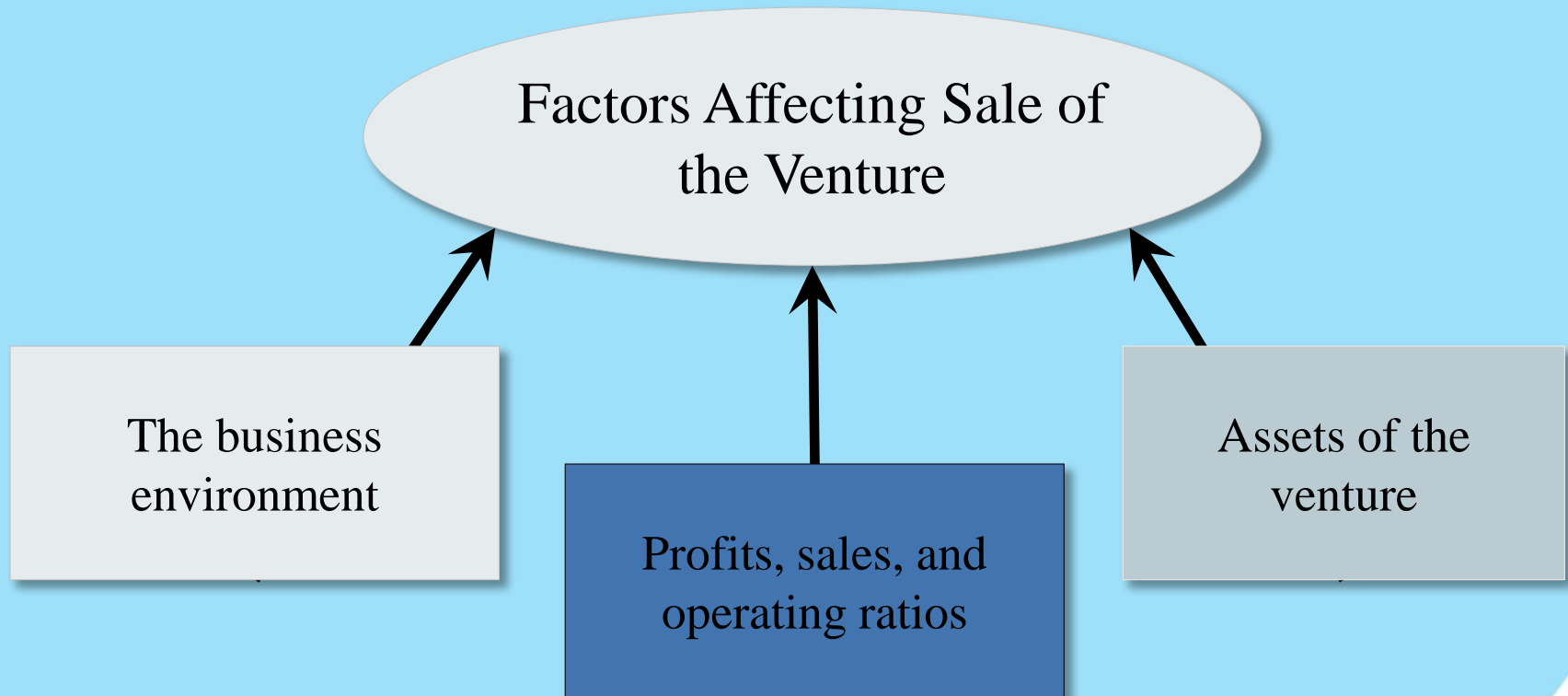
# Acquisition of an Established Business Venture



# Advantages of Acquiring an Ongoing Venture



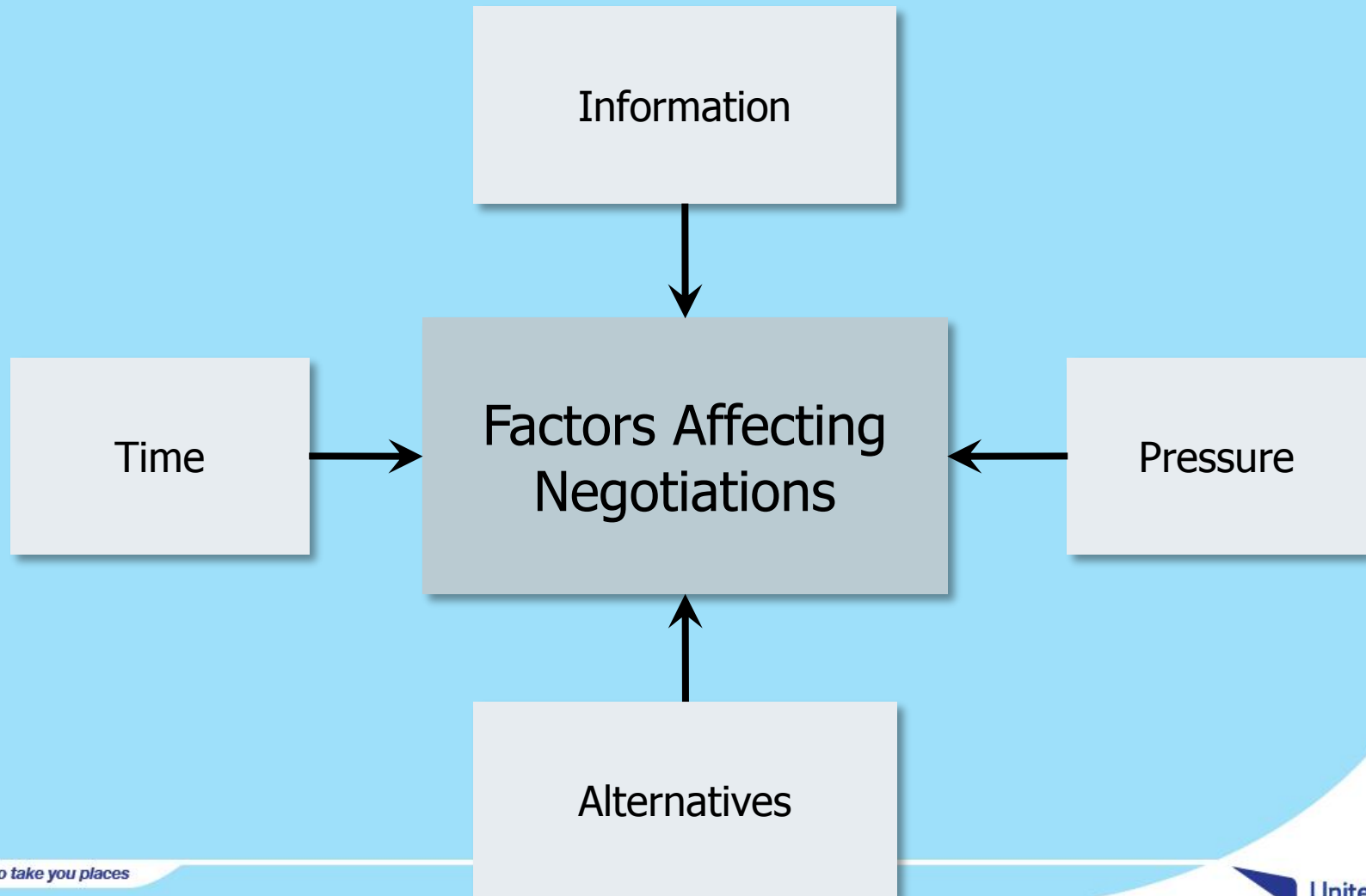
# Evaluation of the Selected Venture



# Key Questions to Ask

- Why is this business being sold?
- What is the current physical condition of the business?
- What is the condition of the inventory?
- What is the state of the other assets of the business?
- How many employees will remain with the business?
- What type of competition does the business face?
- What does financial picture of the business look like?

# Negotiating the Deal



# Considerations When Buying a Business

- Request that the seller retain a minority interest in the business or make the final purchase price dependent on the performance of the business over a three-to-five-year span.
- Be wary of any promises made without written corroboration.
- Spend time reconstructing financial statements to determine how much cash is actually available.
- Interview the owner, vendors, competitors, customers, and employees.

# Franchising

- Franchising
  - Any arrangement in which the owner of a trademark, trade name, or copyright has licensed others to use it in selling goods or services.
- Franchisee
  - A purchaser of a franchise
- Franchisor
  - The seller of the franchise



# How Franchising Works

- Franchisee Obligations:
  1. Make a financial investment in the operation.
  2. Obtain and maintain a standardized inventory and/or equipment package usually purchased from the franchisor.
  3. Maintain a specified quality of performance.
  4. Follow a **franchise fee** as well as a percentage of the gross revenues.
  5. Engage in a continuing business relationship.



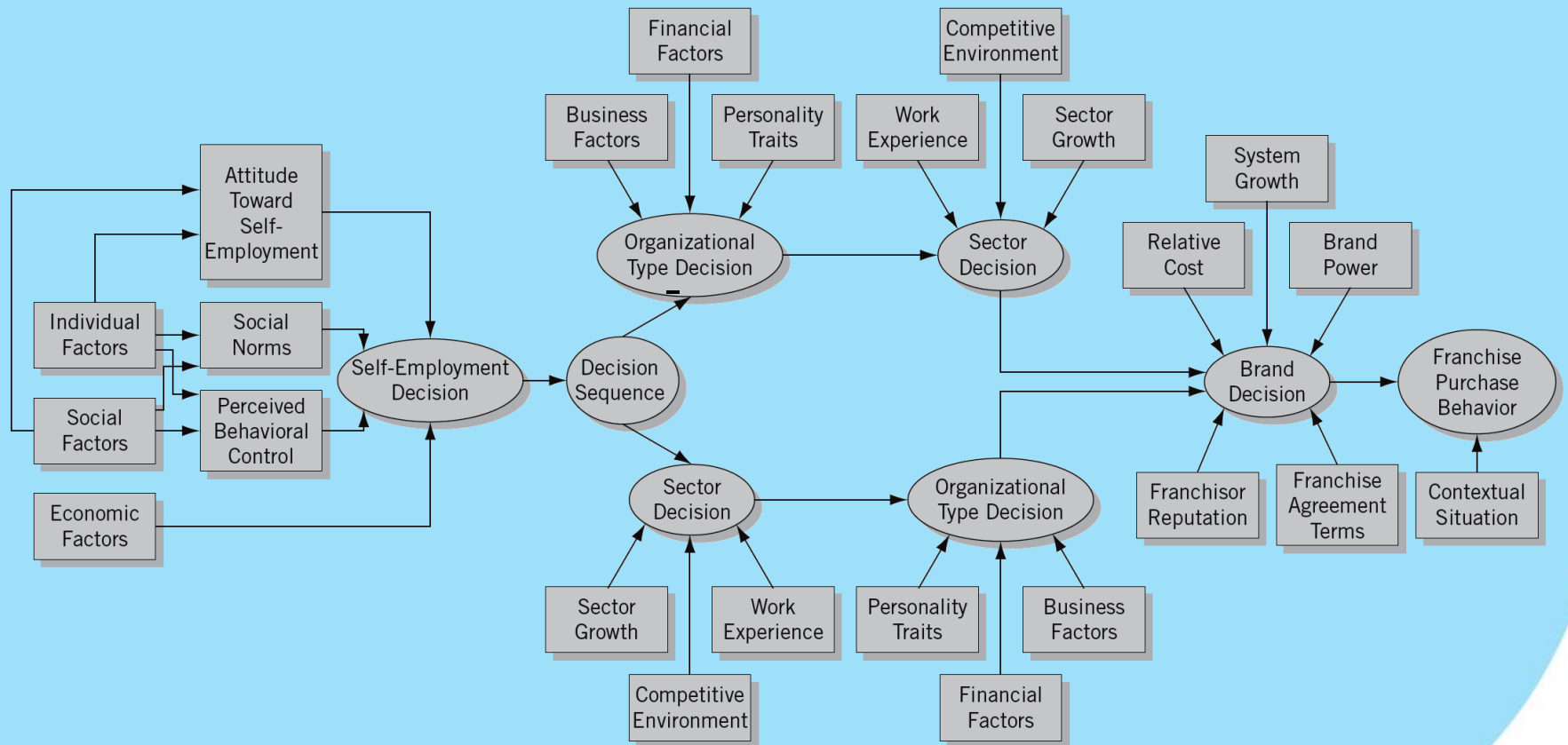
# How Franchising Works (cont'd)

- Franchisor Provides:
  1. The company name.
  2. Identifying symbols, logos, designs, and facilities.
  3. Professional management training for each independent unit's staff.
  4. Sale of merchandise necessary for the unit's operation, equipment to run the operation, and the food or materials needed for the final product.
  5. Financial assistance, if needed.
  6. Continuing aid and guidance to ensure that everything is done in accordance with the contract.

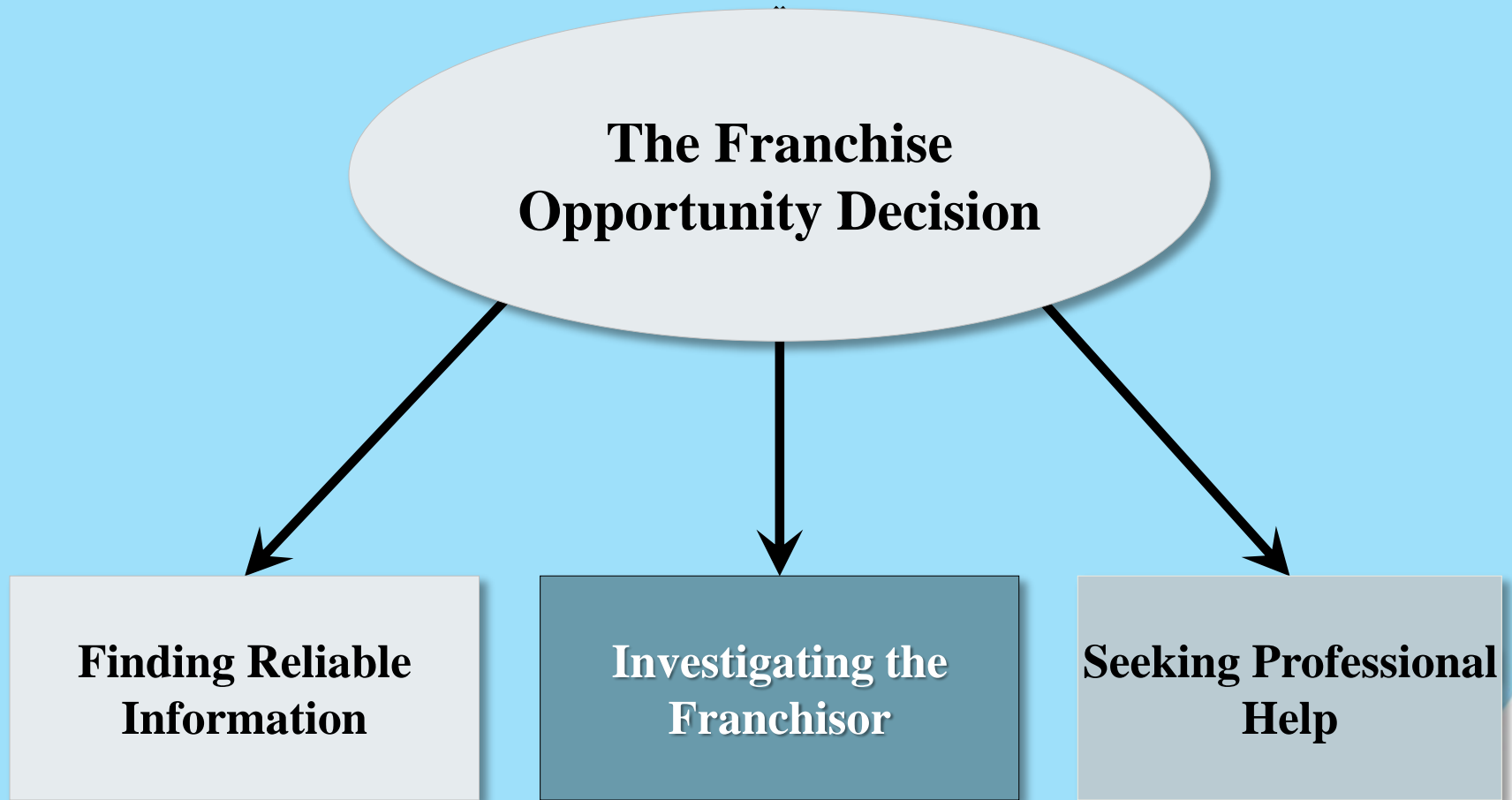
# Franchising

- Advantages
  - Training and guidance
  - Brand-name appeal
  - A proven track record
  - Financial assistance
- Disadvantages
  - Franchise fees
  - Franchisor control
  - Unfulfilled promises of franchisor

# The Decision to Purchase a Franchise: Process Model



# Evaluating Franchising Opportunities



# Recognizing and Screening Technology Opportunities

# Overview

- Opportunity recognition and creation
- Sources of opportunity
- Screening technology opportunities

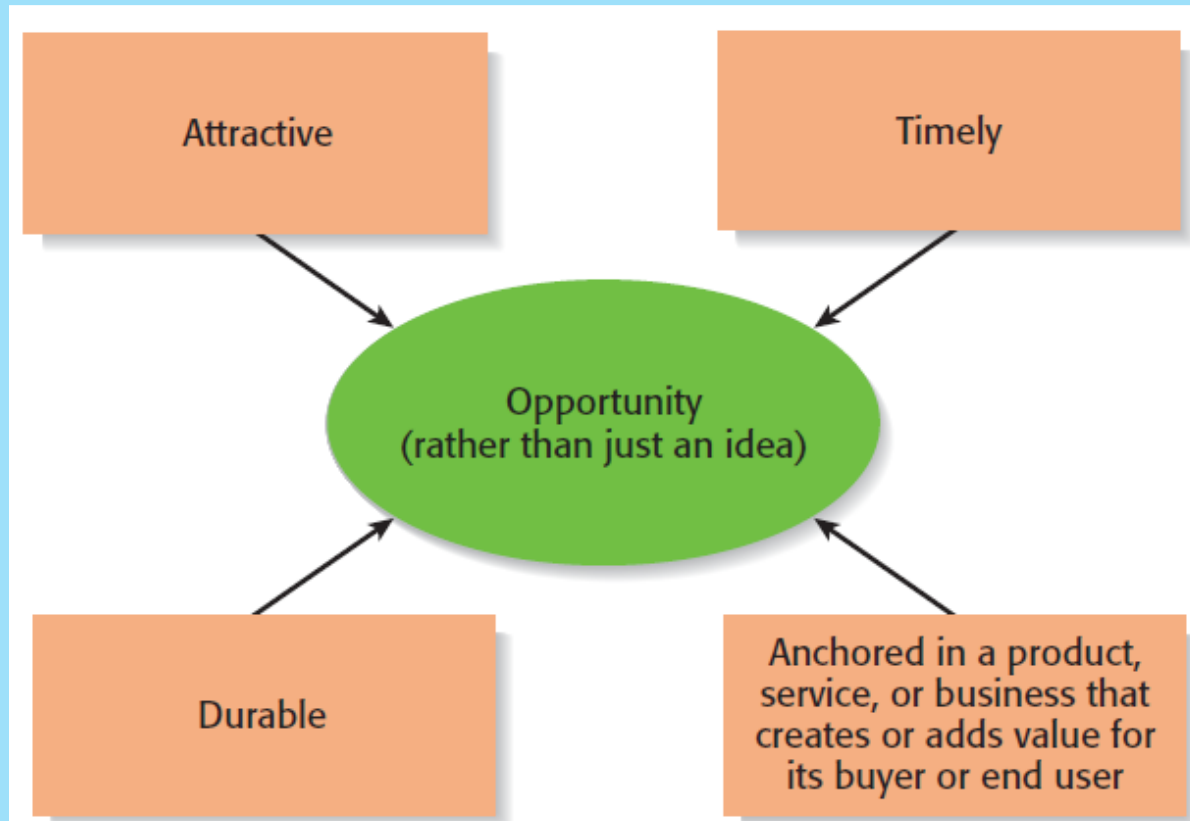
# What is an Opportunity? 1 of 2

## Opportunity Defined

An opportunity is a favorable set of circumstances that creates a need for a new product, service, or business.

# What is an Opportunity? 2 of 2

## Four Essential Qualities of an Opportunity





# How Opportunity Happens

- When entrepreneurs are involved in an active search for opportunities
- When entrepreneurs have the skills to spot an opportunity in the market
- When they have experience in an industry or field of endeavor

# Three Ways to Identify an Opportunity

Observing Trends

Solving a Problem

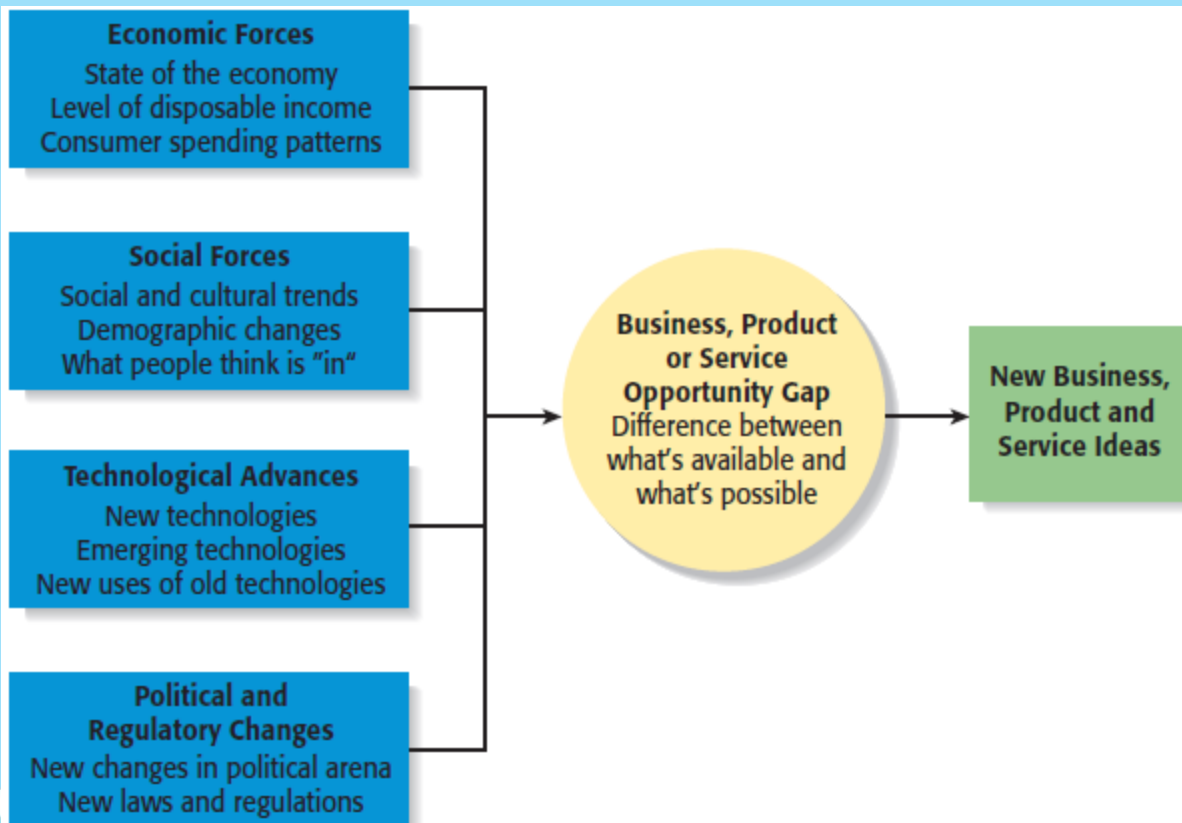
Finding Gaps in the  
Marketplace

# First Approach: Observing Trends 1 of 2

- Observing Trends
  - Trends create opportunities for entrepreneurs to pursue.
  - The most important trends are:
    - Economic forces
    - Social forces
    - Technological advances
    - Political and regulatory change
  - It's important to be aware of changes in these areas.

# First Approach: Observing Trends 2 of 2

## Environmental Trends Suggesting Business or Product Opportunity Gaps



# Trend 1: Economic Forces

Economic trends help determine areas that are ripe for new start-ups and areas that start-ups should avoid.

## Example of Economic Trend Creating a Favorable Opportunity

- A weak economy favors start-ups that help consumers save money.

# Trend 2: Social Forces

Social trends alter how people and businesses behave and set their priorities. These trends provide opportunities for new businesses to accommodate the changes.

## Examples of Social Trends

- Aging of the population.
- The increasing diversity of the workplace.
- Increased participation in social networks.
- Growth in the uses of mobile devices.
- An increasing focus on health and wellness.

# Trend 3: Technological Advances 1 of 2

Advances in technology frequently create business opportunities.

Examples of entire industries that have been created as the result of technological advances

- Computer industry
- Internet
- Biotechnology
- Digital photography

# Trend 3: Technological Advances 2 of 2

Once a technology is created, products often emerge to advance it.

## Example: H20Audio

An example is H20Audio, a company started by four former San Diego State University students, that makes waterproof housings and earbuds for the Apple iPhone.



# Trend 4: Political Action and Regulatory Changes 1 of 2

Political action and regulatory changes also provide the basis for opportunities.

## General Example

Laws to protect the environment have created opportunities for entrepreneurs to start firms that help other firms comply with environmental laws and regulations.

# Trend 4: Political Action and Regulatory Changes 2 of 2

Company created to help other companies comply with the law.

## General Example

A government agency that formulates and enforces safety, health, and environmental regulations for the workplace. Safety Compliance Company started to help other companies comply with govt. regulations.

# Second Approach: Solving a Problem 1 of 2

- Solving a Problem
  - Sometimes identifying opportunities simply involves noticing a problem and finding a way to solve it.
  - These problems can be pinpointed through observing trends and through more simple means, such as intuition, coincidence/luck, or change.
  - Many companies have been started by people who have experienced a problem in their own lives, and then realized that the solution to the problem represented a business opportunity.

# Second Approach: Solving a Problem 2 of 2

- A problem facing the many countries is finding alternatives to fossil fuels.
- A large number of entrepreneurial firms, like this wind farm, are being launched to solve this problem.



# Restating the Problem

- Initial problem statement: We don't have enough lab space.

*Restatement: There are too many people for the space we have.*

- *Restatement: How can we reduce the number of people we have?*
- *Restatement: How can we use the space we have more effectively?*

# Third Approach: Finding Gaps in the Marketplace 1 of 2

- Gaps in the Marketplace
  - A third approach to identifying opportunities is to find a gap in the marketplace.
  - A gap in the marketplace is often created when a product or service is needed by a specific group of people but doesn't represent a large enough market to be of interest to mainstream retailers or manufacturers.

# Third Approach: Finding Gaps in the Marketplace 2 of 2

Product gaps in the marketplace represent potentially viable business opportunities.

## Specific Example

Tish Cirovolv realized there were no guitars on the market made specifically for females. To fill this gap, she started Daisy Rock Guitars, a company that makes guitars just for women and girls.

Mobile Money transfer..  
(Mpesa)

# Techniques for Generating Ideas

Brainstorming

Focus Groups

Library and  
Internet Research



# Brainstorming

- Brainstorming
  - Is a technique used to generate a large number of ideas and solutions to problems quickly.
  - A brainstorming “session” typically involves a group of people, and should be targeted to a specific topic.
  - Rules for a brainstorming session:
    - No criticism.
    - Freewheeling is encouraged.
    - The session should move quickly.
    - Leap-frogging is encouraged.

# Focus Groups

- Focus Group
  - A focus group is a gathering of five to ten people, who have been selected based on their common characteristics relative to the issues being discussed.
  - These groups are led by a trained moderator, who uses the internal dynamics of the group environment to gain insight into why people feel the way they do about a particular issue.
  - Although focus groups are used for a variety of purposes, they can be used to help generate new business ideas.

# Library and Internet Research 1 of 2

- Library Research
  - Libraries are an often underutilized source of information for generating new business ideas.
  - The best approach is to talk to a reference librarian, who can point out useful resources, such as industry-specific magazines, trade journals, and industry reports.
  - Simply browsing through several issues of a trade journal or an industry report on a topic can spark new ideas.

# Library and Internet Research 2 of

- Internet Research
  - If you are starting from scratch, simply typing “new business ideas” into a search engine will produce links to newspapers and magazine articles about the “hottest” new business ideas.
  - If you have a specific topic in mind, setting up Google mail alerts will provide you with links to a constant stream of newspaper articles, blog posts, and news releases about the topic.
  - Targeted searches are also useful.

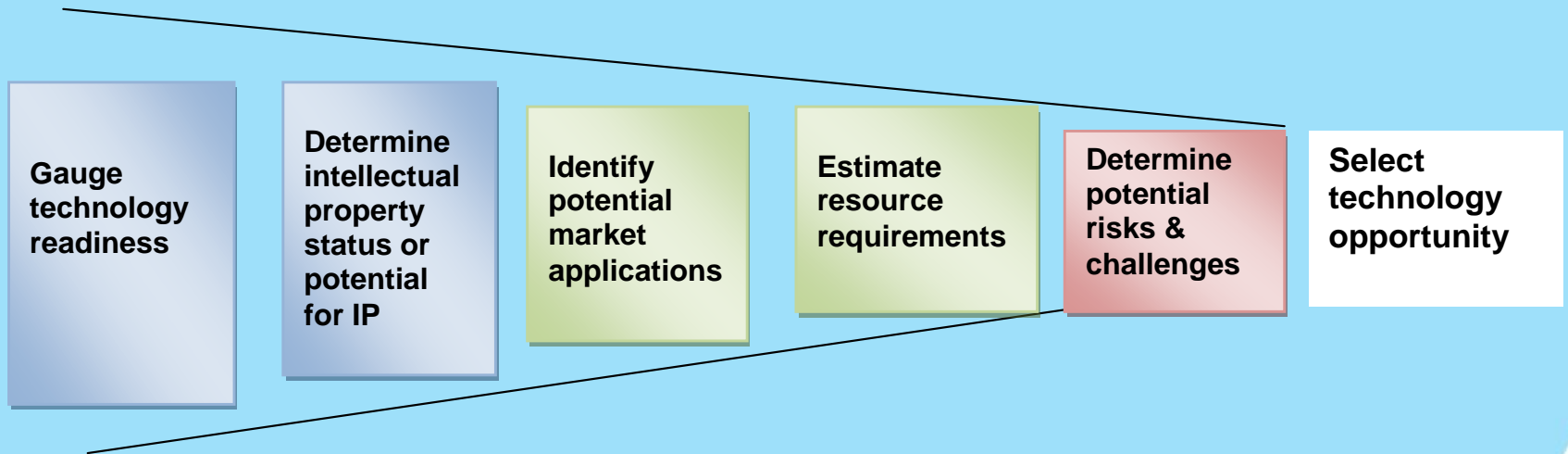
# Other Techniques

- Customer Advisory Boards
  - Some companies set up customer advisory boards that meet regularly to discuss needs, wants, and problems that may lead to new ideas.
- Day-In-The-Life Research
  - A type of anthropological research, where the employees of a company spend a day with a customer.

# Encouraging New Ideas

- Establishing a Focal Point for Ideas
  - Some firms meet the challenge of encouraging, collecting, and evaluating ideas by designating a specific person to screen and track them—for if it's everybody's job, it may be no one's responsibility.
  - Another approach is to establish an idea bank (or vault), which is a physical or digital repository for storing ideas.
- Encouraging Creativity at the Firm Level
  - Creativity is the raw material that goes into innovation and should be encouraged at the organizational and individual supervisory level.

# Screening Technology Opportunities



# Discussion Questions

- Make a list of those factors which you believe are most important in determining the rate at which technology improves.
- In what ways are radical and incremental technological change really different?