THE FOUNDATIONS OF ENTREPRENEURSHIP

An ***entrepreneur*** *is the one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them.* Although many people come up with great business ideas, most of them never act on their ideas. **Entrepreneurs do.**

Set of Traits required for Success

1. **Desire of Responsibility:** Entrepreneurs feel a deep sense of personal responsibility for the outcome of ventures they start. They prefer to be in control of their resources and they use those resources to achieve self-determined goals.
2. **Preference for Moderate Risk:** Entrepreneurs are not *wild risk takers* but are *calculating risk takers* .Successful entrepreneurs are not as much risk takers as they are risk eliminators, removing as many obstacles to the successful launch of their ventures as possible. One of the most successful ways of eliminating risks is to build a solid business plan.
3. **Confidence in their Ability to Succeed:** They tend to be optimistic about their chances for success. In the National Small Business poll, they found that business owners rated the success of their companies quite high – an average of 7.3 on the scale of 1 to 10. This high level of optimism may explain why some of the most successful entrepreneurs have failed in business – often more than once – before finally succeeding.
4. **Desire for Immediate Feedback:** They enjoy the challenge of running a business and they like to know how they are doing and are constantly looking for feedback.
5. **High level of Energy:** Entrepreneurs are more energetic than average person. That energy may be a critical factor, given the incredible effort required to launch a start-up company with long hours of hard work as a rule.
6. **Future Orientation:** They have well-defined sense of searching for opportunities. They look ahead and are less concerned with what they did yesterday than what they might do tomorrow. They see potential where most people see only problems or nothing.
7. **Skill at Organizing:** They know how to put the right people together to accomplish a task. Effectively combining people and jobs enables entrepreneurs to transform their visions into reality.
8. **Value of Achievement over Money:** One of the common misconceptions about entrepreneurs is that they are driven wholly by the desire to make money. But *achievement seems to be entrepreneurs' primary motivating force*; whereas *money is simply a way of "keeping score" of accomplishments – a symbol of achievement.*
9. **High Degree of Commitment:** Most entrepreneurs have to overcome seemingly insurmountable barriers to launch a company and to keep it growing. This requires commitment.
10. **Tolerance for Ambiguity:** They tend to have high tolerance for ambiguous, ever-changing situations, the environment in which they mostly operate. This ability to handle uncertainty is critical because these business builders constantly make decisions using new, sometimes conflicting information gleaned from a variety of unfamiliar sources.
11. **Flexibility:** They have the ability to adapt to the changing demands of their customers and their businesses.
12. **Tenacity:** Entrepreneurs are typically not dissuaded by obstacles, obstructions and defeated from doggedly pursuing their visions. They simply keep trying.

Anyone, regardless of age, race, gender, color, national origin, or any other characteristics can become an entrepreneur. Entrepreneurship is not a mystery; it is a practical discipline. Entrepreneurship is not a genetic trait; it is a skill that most people can learn.

Benefits of Entrepreneurship

1. **Opportunity to Create Your Own Destiny:** Owning a business provides entrepreneurs the independence and the opportunity to achieve what is important to them.

2. **Opportunity to Make a Difference:** Whether it is providing low-cost, sturdy housing for families in developing countries or establishing a recycling program to preserve earth's limited resources, entrepreneurs are finding ways to combine their concerns for social issues and their desire to earn a good living.

3. **Opportunity to Reach Your Full Potential:** Too many people find their work boring, unchallenging and unexciting. But not entrepreneurs. To them, there is little difference between work and play. They know that the only boundaries on their success are those imposed by their own creativity, enthusiasm, and vision.

4. **Opportunity to Reap Impressive Profits:** Although money is not the primary force driving most entrepreneurs, the profits earned by their businesses are an important motivating factor in their decision to launch companies. Most entrepreneurs never become super rich, but many of them do become quite wealthy.

5. **Opportunity to Contribute to Society and Be Recognized for Your Efforts:** Business deals based on trust and mutual respect are the hallmark of many established small companies. These owners enjoy the trust and recognition they receive from the customers they have served faithfully over the years.

6. **Opportunity to Do What You Enjoy and Have Fun at it:** Most successful entrepreneurs choose to enter their particular business fields because they have an interest in them and enjoy those lines of work. They have made their hobbies their work and are glad they did.

Potential Drawbacks of Entrepreneurship

1. **Uncertainty of Income:** Opening and running a business provides no guarantee that an entrepreneur will earn enough money to survive. Some small businesses barely earn enough to provide the owner-manager with an adequate income.

2. **Risk of losing your entire investment:** The small business failure rate is relatively high. Before "reaching for the golden ring" entrepreneurs should ask themselves if they can cope psychologically with the consequences of failure. They should think:

   What is the worst that could happen if I open my business and it fails?

   How likely is the worst to happen?

   What can I do to lower the risk of business failing?

   If my business were to fail, what is my contingency plan for coping?

3. **Long Hours of Hard Work:** Business start-ups often demand that owners keep nightmarish schedules. According to recent survey, 65 percent of the entrepreneurs devote more than 40 hours per week to their companies.

4. **Lower quality of life until the Business Gets Established:** Half of all entrepreneurs start their business at the ages between 25 and 39 years, just when they start their families. As a result, marriages, families, and friendships are too often casualties of small business ownership.

5. **High levels of Stress:** Entrepreneurs often make significant investments in their companies leaving behind safety and security of a steady paycheck and may sometimes mortgage everything they own to get into business. Failure may mean total financial ruin and that creates intense levels of stress and anxiety.

6. **Complete Responsibility:** Many entrepreneurs find that they must make decisions on issues about which they are not really knowledgeable. Many business owners have difficulty finding advisors. Small business owners discover quickly that *they* are the business.

7. **Discouragement:** Along the way to building a successful business, entrepreneurs will run headlong into many different obstacles, some of which appear to be insurmountable. In the face of such difficulties, discouragement and disillusionment are common emotions.

Ten Deadly Mistakes of Entrepreneurship

1. **Management Mistakes:** In most small businesses, poor management is the primary cause of business failure. Sometimes manager of a small business does not have capacity to operate it successfully. They may lack leadership skills, sound judgment, and knowledge necessary to make the business work.

2. **Lack of Experience:** Small business managers need to have experience in the field they want to enter. For example, if an entrepreneur wants to open a retail clothing business, he or she should first work in a retail clothing store. This will provide practical experience as well as knowledge about the nature of business, which can spell the difference between failure and success.

3. **Poor Financial Control:** Business success requires having a sufficient amount of capital on hand at start-up. Undercapitalization is a common cause of business failure because companies run out of capital before they are able to generate positive cash flow. Entrepreneurs tend to often misjudge the financial requirements of going into business. As a result, they start off undercapitalized and can never seem to catch up financially as their companies consume increasing amounts of cash to fuel their growth.

4. **Weak Marketing Efforts:** Sometimes entrepreneurs make a mistake by saying "if they build the business, the customers automatically come". This never happens in the business. Building a growing base of customers requires a sustained, creative marketing effort. Keeping them coming back requires providing them with value, quality, convenience, service, and fun. Creative entrepreneurs find innovative ways to market their businesses effectively to their target customers.

5. **Failure to develop a Strategic Plan:** Too many small business managers neglect the process of strategic planning because they think that is something that benefits only large companies. Without a clearly defined strategy, a business has no sustainable basis of creating and maintaining a competitive edge in the marketplace. Failure to plan, however, usually results in failure to survive.

6. **Uncontrolled Growth:** Growth is a natural, healthy and desirable part of any business enterprise, but it must be planned and controlled. Expansion should be financed by the profits they generate or by capital contributions from the owners. As the business increases in size and complexity, problems increase in magnitude, and the entrepreneur must learn to deal with them.

7. **Poor Location:** For any business, choosing the right location is partly an art and partly a science. Some beginning owners choose a particular location just because they noticed a vacant building. But, locations need to be selected with proper study, investigation and planning, keeping in mind to draw more customers into the business.

8. **Improper Inventory Control:** Insufficient inventory levels result in shortages and stockouts. The largest investment a small business makes is in inventory, yet inventory control is one of the most neglected managerial responsibilities.

9. **Incorrect Pricing:** Establishing prices will generate a necessary profits. Business owners must understand how much it costs to make, market, and deliver their product and services. Too often, entrepreneurs simply charge what competitors charge or base their prices on some vague idea of "selling the best product at the lower price", both of which is a dangerous approach. The business owners can establish prices that reflect the image they want to create for their companies, with an eye on competition.

10. **Inability to make the "Entrepreneurial Transition":** After the start-up, growth usually requires a radically different style of management, one than entrepreneurs are not necessarily good at. Growth pushes them into areas where they are not capable, yet they continue to make decisions rather than involve others.

Putting Failure into Perspective

Entrepreneurs recognize that failure is likely to be part of their lives because they are building businesses in an environment filled with uncertainty and shaped by rapid change. But they are NOT paralyzed by that fear of failure. "The **EXCITEMENT** of building a new business from scratch is **GREATER THAN** the **FEAR OF FAILURE.**"

Failures are simply stepping stones along the path to success.

Failure is a natural part of creative process. The only people who never fail are those who never do anything or never attempt anything new. True entrepreneur NEVER QUITS when they fail.

Successful entrepreneurs have **ability to fail intelligently**, learning why they failed so that they can avoid making same mistake again.

How to Avoid the Pitfalls

1. **Know your Business in Depth:** Business owners need right type of experience in business they plan to start. Reading everything that relate to the industry – trade journals, business periodicals, books, research reports and learn what it takes to succeed in it. Another excellent way to get knowledge is to contact personally with the suppliers, customers, trade associations, and others in same type of industries.

2. **Develop a Solid Business Plan:** A well-written business plan is a crucial ingredient in preparing for business success. A successful business plan not only provides a pathway to success, but it also creates a benchmark against which an entrepreneur can measure actual company performance. A business plan allows entrepreneurs to replace sometimes – faulty assumptions with facts before making the decision to go into business.

3. **Manage Financial Resources:** The best defense against financial problems is to develop a practical information system and then use this information to make business decisions. The most valuable financial resource to any small business is cash. Although earning a profit is essential to its long-term survival, a business must have an adequate supply of cash to pay its bills and obligations.

4. **Understand Financial Statements:** Every business owner must depend on records and financial statements to know the condition of their business. The owner must have at least a basic understanding of accounting and finance.

5. **Learn to Manage People Effectively:** Every business depends on a foundation of well-trained, motivated employees. No business owner can do everything alone. Managing of people is important because people an entrepreneur hires ultimately determines the heights to which the company can climb – or the depths to which it can plunge.

6. **Keep in Tune with yourself:** The success of the business will depend on one's constant presence and attention. Successful entrepreneurs recognize that their most valuable asset is their time, and they learn to manage it effectively to make themselves and their companies more productive.

INSIDE THE ENTREPRENEURIAL MIND: FROM IDEAS TO REALITY

Creativity is the ability to develop new ideas and to discover new ways of looking at problems and opportunities.

Innovation is the ability to apply creative solutions to those problems and opportunities to enhance or to enrich people's lives.

Creative Thinking

Research into the operation of human brain shows that each hemisphere of the brain processes information differently and one side of the brain tends to be dominant over the other. The human brain develops asymmetrically, and each hemisphere tends to specialize in certain functions. The left brain is guided by linear, vertical thinking (from one logical conclusion to the next), whereas the right brain relies on kaleidoscopic, lateral thinking (considering a problem from all sides and jumping into it at different points. The left brain handles language, logic and symbols; the right brain takes care of the body's emotional, intuitive, and spatial functions. The left brain processes information in a step-by-step fashion, but the right-brain processes it intuitively – all at once, relying heavily on images.

Right brain driven, lateral thinking lies at the heart of creative process. Those who have learned to develop their right-brained thinking skills tend to:

Always ask a question, "Is there a better way?"

Challenge custom, routine and tradition.

Being deep in thoughts

Being prolific thinkers; generating lots of ideas increases the likelihood of coming up with a few highly creative ideas

Play mental games, trying to see issues from different perspectives

Realizing that there may be more than one right answer

Seeing mistakes and failures as the pit stops on the way to success

Seeing problems as springboards for new ideas

Have "helicopter skills", the ability to rise above the daily routine to see an issue from a broader perspective and then swoop back down to focus on an area in need of change.

Entrepreneurship requires both left and right brained thinking

1. **Right-brained** thinking draws on *divergent reasoning,* the ability to create a multitude of original, diverse ideas.
2. **Left-brained** thinking counts on *convergent reasoning,* the ability to evaluate multiple ideas and to choose the best solution to a problem.

Barriers to Creativity

1. **Searching for one right answer:** In most educational systems, there is assumption that there is one "right" answer to a problem. But in reality, depending on the questions one asks, there may be several "right" answers.

2. **Focusing on "being logical":** Logic is a valuable part of the creative process, especially when evaluating ideas and implementing them. However, in the early imaginative phases of the process, logical thinking can restrict creativity.

3. **Blindly following the rules:** Creativity depends on our ability to break the existing rules so that we can see new ways of doing things. For example, top row of letters of a standard computer keyboard.

4. **Constantly being practical:** Imagining impractical answers to "what if" questions can be powerful stepping stones to the creative ideas. Suspending practicality for a while frees the mind to consider creative solutions that otherwise might never rise. Periodically setting aside practically allows entrepreneurs to consider taking a product or a concept from one area and placing it in a totally different application.

5. **Viewing play as frivolous (not having serious value):** A playful attitude is fundamental to creative thinking. Watching children playing, we can see them invent new games, create new ways of looking at old things, and learn what works and what doesn't in their games. In the same way, entrepreneurs can benefit from playing in the same way as children do. They can learn new approaches and discover what works and what doesn't.

6. **Becoming overly specialized:** Defining a problem as one of the "marketing" or "production" or some other area of specialty limits the ability to see how it might be related to other issues. Creative thinkers tend to be "explorers", searching for ideas outside their areas of specialty.

7. **Avoiding Ambiguity:** Ambiguity can be a powerful creative stimulus; it encourages us to "think something different". Entrepreneurs are famous for asking a question and then going beyond the first answer to explore other possible answers. They often find business opportunities by creating ambiguous situations.

8. **Fearing looking foolish:** New ideas are rarely born in a conforming (strict, rules obeying) environment. Entrepreneurs look at old ways of doing things and ask, "Is there a better way?" By destroying the old, they create the new.

9. **Fearing mistakes and failure:** Entrepreneurs who willingly risk failure and learn from it when it occurs have the best chance of succeeding at whatever they try. They equate failure with innovation rather than with defeat.

10. **Believing that "I'm not creative":** Some people limit themselves because they believe creativity belongs only to Einsteins, Beethovens, and da Vincis of the world. Successful entrepreneurs recognize that "I'm not creative" is merely an excuse for inaction. Everyone has within him or her the potential to be creative; not everyone will tap that potential. They find a way to unleash their creative powers on problems and opportunities.

The Creative Process

1. **Preparation**
   This step involves getting the mind ready for creative thinking by:
   i) **Adopt the attitude of a lifelong student.** Realize that educating yourself is a never-ending process. Looking at every situation you encounter as an opportunity to learn.
   ii) **Read a lot, not in your field of expertise.** Many innovations come from blending ideas and concepts from different fields in science, engineering, business and the arts.
   iii) **Clip articles of interest to you and create a file for them.** Over time, you will build a customized encyclopedia of information from which to draw ideas and inspiration.
   iv) **Take time to discuss your ideas with other people.** Sometimes, simple questions an "unknowledgeable" person asks lead to new discoveries and to new approaches to an old problem.
   v) **Join professional or trade associations and attend their meetings.** There you have the chance to brainstorm with others who have similar interests.
   vi) **Invest time in studying other countries and their cultures, then travel there.**
   vii) **Develop listening skills.** It will be amazing what we can learn if we take time to listen to other people, especially those who are older and have more experience. We should try to learn something from everyone we meet.
   viii) **Eliminate creative distractions.** Interruptions from telephone calls, emails and visitors can crush creativity. Allowing employees to escape to a quiet, interruption-free environment enhances their ability to be creative.

2. **Investigation**
   This step requires one to develop a solid understanding of the problem, situation, or decision at hand.
   To create new ideas and concepts in a particular field, an individual first must study the problem and understand its basic components.
   Creative thinking comes about when people make careful observations of the world around them and then investigate the way things work (or fail to work).

3. **Transformation**
   This step involves viewing the similarities and the differences among the information collected. It requires two types of thinking; convergent and divergent.
   Convergent Thinking is the ability to see the *similarities* and the connections among various and often diverse data and events.
   Divergent Thinking is the ability to see the *differences* among various data and events.
   To transform the information collected into a purposeful idea:
   i) **Grasp the "Big Picture"** by evaluating the parts of situation several times and looking at the patterns that emerge.
   ii) **Rearrange the elements of the situation** by looking at the components of an issue in a different perspective or order. Rearranging them also may help uncover a familiar pattern that had been masked by an unfamiliar structure.
   iii) **Try using synectics,** taking two seemingly nonsensical ideas and combining them.
   iv) **Remember that several approaches might be successful** before locking into one particular approach to a situation.

4. **Incubation**

Incubation occurs while the individual is away from the problem, often engaging in some totally unrelated activity. The subconscious needs time to reflect on the information collected.
To enhance incubation phase:

- **i) Walk away from the situation.** Time away from a problem is vital to enhancing creativity.
- **ii) Take a time to daydream.** Feel free to let the mind wander, and it may just stumble onto a creative solution.
- **iii) Relax and Play regularly.** Working on a problem constantly is the worst thing that can be done for creativity. Fatigue walks in, and creativity walks out.
- **iv) Dream about problem or opportunity.** Although you may not be able to dream on command, thinking about an issue just before sleep can be an effective way to encourage you mind to work on it while you sleep, a process called lucid dreaming.

5. Illumination

This step occurs at some point during the incubation stage when a spontaneous breakthrough causes "the light bulb to go on." It may take place after five minutes – or five years. In the illumination stage, all the previous stages come together to produce the "Eureka factor" – the creation of the innovative idea.

6. Verification

Validating an idea as accurate and useful may include conducting experiments, running simulations, test marketing a product or a service, building prototypes and so on.
At this phase, appropriate questions to ask are:

Is it really better solution to a particular problem or opportunity?
Will it work?
Is there a need for it?
If so, what is the best application of this idea in the marketplace?
Does this product or service idea fit into our core competencies?
How much will it cost to produce or to provide?
Can we sell it at a reasonable price that will produce adequate sales, profit, and return on investment for our business?

7. Implementation

This step focuses on transforming idea into reality. Plenty of people come up with creative idea for promising new products or services, but most never take them beyond the idea stage. What sets entrepreneurs apart is that they act on their ideas. An entrepreneur's philosophy is "Ready, aim, fire," not "Ready, aim, aim, aim, aim…"

<u>Techniques for Improving Creative Process</u>

1. Brainstorming

A creative process in which a small group of people interact with very little structure with the goal of producing a large quantity of novel and imaginative ideas is called brainstorming. *Participants should suggest any ideas that come to mind without evaluating or criticizing them.*
Successful brainstorming guidelines:

- **i) Keep the group small.** Just 5 or 8 members. Two Pizza Rule (If a brainstorming group can eat two pizzas, it's too big)
- **ii) Make the group as diverse as possible.** Include people with different backgrounds, disciplines and perspectives.
- **iii) Company rank and department affiliation are irrelevant.** Every member of the brainstorming team is on equal ground.
- **iv) Have well-defined problem for the group to address.** But don't reveal it ahead of time to avoid criticisms.
- **v) Limit the session to 60 to 40 minutes.**
- **vi) Take a field trip.** Visit a scene of the problem, if possible.
- **vii) Appoint someone as recorder.** He should write every idea on board so everyone can see it.
- **viii) Use seating pattern that encourages good communication or interaction.** Circular or U-shaped.
- **ix) Throw logic out of the window.** Best sessions playful and anything, but logical.
- **x) Encourage all ideas from the team, even wild and extreme ones.** Creative solutions can emerge.
- **xi) Establish a goal of quantity of ideas over quality of ideas.** There will be plenty of time later to evaluate the ideas generated.
- **xii) Forbid evaluation or criticism of any idea.** No idea is a bad idea.
- **xiii) Encourage participants to use "idea hitch-hiking".** Building new ideas on those already suggested.
- **xiv) Dare to imagine the unreasonable.**

2. Mind-Mapping

It is a graphical technique that encourages thinking on both sides of the brain, visually displays relationships among ideas, and improves the ability to view a problem from many sides.

3. **TRIZ**
   A systematic approach designed to solve any technical problem, whatever its source is. It relies on 40 principles and left-brained thinking to solve problems

4. **Rapid Prototyping**
   Transforms idea into an actual model that will point out flaws and lead to design improvements. "If a picture worth a thousand words, a prototype is worth ten thousand"

<u>Intellectual Property: Protecting Your Ideas</u>

Once entrepreneurs come up with innovative ideas for a product or service that has market potential, their immediate concern should be to protect it from unauthorized use.

Patents

It is a grant from Patent and Trademark Office (PTO) to the inventor of a product, giving the exclusive right to make, use or sell the invention in this country for 20 years from the date of filing the patent application. After 20 years, patent expires and cannot be renewed.

To receive a patent, inventor must follow following steps:

1. **Establish the invention's novelty:** An invention is not patentable if it has been described in a printed publications of that country.
2. **Document the device:** To protect their patent claims, inventors should be able to verify the date on which they first conceived the idea for their inventions.
3. **Search existing patents:** To verify that the invention is truly new.
4. **Study search result:** To determine their chances of getting a patent.
5. **Submit patent application:** If an investor decides to seek a patent, he or she must file an application describing the invention with the PTO. A typical patent application runs 20 to 40 pages.
6. **Prosecute the patent application:** Before the PTO will issue a patent, one of its examiners studies the application to determine whether the invention warrants a patent.

Trademarks

It is any distinctive word, phrase, symbol, design, name, logo, slogan, or trade dress that a company uses to identify the origin of a product or to distinguish it from other goods in the market. A trademark serves as a company's "signature" in the marketplace. A trademark can be more than company's logo, slogan, or brand name, it can also include symbols, shapes, color, smells or sounds. For example, Coca Cola holds a trademark on the shape of its bottle.

Copyrights

It is an exclusive right that protects the creators of original works of authorship such as literary, dramatic, musical, and artistic works (e.g., art, sculptures, literature, software, music, videos, video games, choreography, motion pictures, recordings and others). The copyright protects only the form in which the idea is expressed, not the idea itself. A valid copyright on a work lasts for 70 years beyond the death of creator.

DESIGNING A COMPETITIVE BUSINESS MODEL AND BUILDING A SOLID STRATEGIC PLAN

In today's global competitive environment, any business, large or small, that is not thinking and acting strategically is extremely vulnerable. Every business is exposed to the forces of a rapidly changing competitive environment. Companies lacking clear strategies may achieve some success in the short run, but as soon as competitive conditions stiffen or an unanticipated threat arises, they usually "hit the wall" and fold.

The biggest changes business owners face is unfolding now: the shift in the world's economy from a base of financial to intellectual capital. Today, a company's intellectual capital is likely to be the source of its competitive advantage in the marketplace.

Intellectual Capital comprises three components:

1. **Human Capital:** The talents, creativity, skills, and abilities of a company's workforce shows up in the innovative strategies.
2. **Structural Capital:** The accumulated knowledge and experience that the company possesses, can take many forms including processes, software, patents, copyrights, etc.
3. **Customer Capital:** The established customer base, positive reputation, ongoing relationships, and goodwill that a company builds up over time with its customers.

Entrepreneurs are recognizing that the capital stored in these three areas forms the foundation of their ability to compete effectively and they must manage this intangible capital base carefully.

Strategic Management involves developing a game plan to guide a company as it strives to accomplish its vision, mission, goals, and objectives and to keep it from straying off its desired course. The idea is to give an entrepreneur a blueprint for matching the company's strengths and weaknesses to the opportunities and threats in the environment.

Competitive advantage is the aggregation of factor that sets a small business apart from its competitors and gives it a unique position in the market that is superior to its competition. The company that gains a competitive advantage becomes a leader in its market and can achieve above-average profits.

Core Competencies are a unique set of capabilities that a company develops in key areas, such as superior quality, customer service, innovation, team-building, flexibility, responsiveness, that allow it to vault past competitors. They are central to the company's ability to compete successfully and are usually the result of important skills and lessons a business has learned over time.

In a long run, a company gains a *sustainable competitive advantage* through its ability to develop a set of *core competencies* that enable it to serve its selected target customers better that its rivals.

<u>The Strategic Management Process</u>

1. **Develop a vision and translate it into a mission statement**
   Vision – the result of an entrepreneur's dream of something that does not exist yet and the ability to paint a compelling picture of that dream for everyone to see.
   A clearly defined vision: Provides direction, Determines decisions and Motivates people

   Mission Statement - addresses question: "What business are we in?"
   The mission is a written expression of how the company will reflect an entrepreneur's values, beliefs, and vision – more than just "making money." It serves as a "strategic compass."

2. **Assess strengths and weaknesses**
   Strengths are positive internal factors that a company can draw on to accomplish its mission, goals and objectives. Includes special skills or knowledge, positive public image, experienced sales force, established base of loyal customers

   Weaknesses are negative internal factors that inhibit a company's ability to accomplish its mission, goals and objectives. Includes lack of capital, shortage of skilled workers, inability to master technology, inferior location

3. **Scan environment for opportunities and threats**
   Opportunities are the positive external factors the company can exploit to accomplish its mission, goals and objectives. It should focus on the most promising opportunities that fit most closely with the company's strength and core competencies. Entrepreneur must pay close attention to the potential market while identifying the opportunities.

   Threats are negative external forces that inhibit a company's ability to achieve its mission, goals and objectives. Threats to business can take many forms like competitors entering the local market, economic recession, rising interest rates, technological advances making a company's product obsolete.

4. **Identify key success factors**
   Every business is characterized by controllable variables that determine the relative success of market participants. Identifying and manipulating these variables is how a small business gains a competitive advantage. Maximizing the performance in these key success factors, entrepreneurs can achieve dramatic market advantages over the competitors.

5. **Analyze competition**
   Business owners should know their competitors' business almost as well as they know their own business. Analyzing key competitors allows an entrepreneur to avoid surprises from existing competitors' new strategies and tactics, improve reaction time to competitors' action, identify potential new competitors and the threats they pose and anticipate rivals' next strategic moves.
   A competitive profile matrix is a helpful tool for analyzing competitors' strengths and weaknesses.

   Knowledge Management
   The practice of gathering, organizing, and disseminating the collective wisdom and experience of a company's employees for the purpose of strengthening its competitive position.
   Knowledge management involves:
   - Taking inventory of the special knowledge the people in the company possess.
   - Organizing that knowledge and disseminating it to those who need it.

   Knowledge is power and managing it produce huge benefits.

6. **Create goals and objectives**
   Goals are broad, long-range attributes to be accomplished by the company. (BHAGs)
   Objectives are more detailed, specific targets of performance that are (SMART) specific, measurable, assignable, realistic, and timely.

7. **Formulate strategies**
   Strategy is a road map of the actions an entrepreneur draws up to achieve a company's mission, goals, and objectives. It is the company's game plan for gaining a competitive advantage.

   Three Strategic Options

   i) **Cost Leadership:** A company pursuing this strategy strives to be the lowest-cost producer relative to its competitors in the industry. Low-cost leaders have a competitive advantage in reaching buyers whose primary purchase criterion is price. This strategy works well when buyers are sensitive to price changes, when competing firms sell the same commodity products and compete on the basis of price.

   ii) **Differentiation:** A company following this strategy seeks to build customer loyalty by positioning its goods for services in a unique or different fashion. The key is to be special at something that is important to the customer. Companies that execute a differentiation strategy successfully can charge premium prices for their products and services, increase their market share, and reap the benefits of customer loyalty and retention. To be successful, a business must make its product or service truly different, at least in the eyes of its customers.

   iii) **Focus:** A company following this strategy selects one or more market segments, identifies customers' special needs, wants, and interests, and approaches them with a good or service designed to excel in meeting those needs, wants, and interests. A successful focus strategy depends on a small company's ability to identify the changing needs of its targeted customer group and to develop the skills required to serve them.

8. **Translate Strategic plans into Action Plans**
   To make their strategic plan workable, entrepreneurs should divide them into projects, carefully defining each one of the following:
   Purpose: What is the project designed to accomplish?
   Scope: Which areas of the company will be involved in the project?
   Contribution: How does the project relate to other projects and to the overall strategic plan?
   Resource Requirements: What human and financial resources are needed to complete the project successfully?
   Timing: Which schedules and deadlines will ensure project completion?
   Once entrepreneurs assign priorities to projects, they can begin to implement the strategic plan. Without a team of committed, dedicated employees, a company's strategy, no matter how precisely planned, usually fails.

9. **Establish accurate controls**
   Planning process has created company objectives and has developed a strategy for reaching them but the company's actual performance need to be measured. Entrepreneurs quickly realize the need to control actual results and deviate from plans.
   Balanced Scorecards: A set of measurements unique to a company that includes both financial and operational measures to give managers a quick yet comprehensive picture of a company's overall performance.
   The balanced scorecard looks at a business from four important perspectives:
   Customer: How do customers see us?
   Internal Business: At what must we excel?
   Innovation and Learning: Can we continue to improve and create value?
   Financial: How do we look to shareholders?

CONDUCTING A FEASIBILITY ANALYSIS AND CRAFTING A WINNING BUSINESS PLAN

Feasibility analysis is the process of determining whether an entrepreneur's idea is viable foundation for creating a successful business. If the idea passes the feasibility analysis, the entrepreneur's next step is to build a solid business plan for capitalizing on the idea. If the idea fails the feasibility analysis, the entrepreneur drops it and moves on to the next opportunity.

A feasibility study answers the question, "Should we proceed with this business idea?" Its role is to serve as a filter, screening out ideas that lack to potential for building a successful business, *before* an entrepreneur commits the necessary resources to building a business plan.

A **business plan** is a planning tool for transforming an idea into reality.

A feasibility analysis consists of **three interrelated components:**

1. **Industry and Market feasibility analysis**
   Two areas of focus:
   - Determining how attractive an industry is overall as a "home" for a new business.
   - Identifying possible niches a small business can occupy profitably.

Five Forces Model: A useful tool for analyzing an industry's attractiveness. Five forces interact with one another to determine a setting in which companies compete.

i. **Rivalry among companies competing in the industry (strongest)**
   When a company creates an innovation or develops a unique strategy that transforms the market, competing companies must adapt or run the risk of being forced out of business. This force makes markets a dynamic and highly competitive place. Industry is more attractive when,
   - The number of competitors is large or quite small
   - Competitors are not similar in size or capability
   - The industry is growing at fast pace
   - The opportunity to sell a differentiated product or service is present.

ii. **Bargaining power of Suppliers to the industry**
   The greater the leverage of suppliers, the less attractive is the industry. The industry is more attractive when,
   - Many suppliers sell a commodity product
   - Substitutes are available for the items suppliers provide
   - Switching costs are low (easy to switch from one supplier to another)
   - Items account for a small portion of the cost of finished products

iii. **Bargaining power of Buyers**
   Buyers' influence is high when number of customers is small and cost of switching to a competitor's product is low.
   Industry is more attractive when,
   - Customers' switching costs are high
   - Number of buyers is large
   - Customers want differentiated products
   - Customers find it difficult to collect information for comparing suppliers
   - Items account for a small portion of customers' finished products

iv. **Threat of New Entrants to the industry**
   The larger the pool of potential new entrants, the less attractive is an industry.
   Industry is more attractive to new entrants when,
   - Advantages of economies of scale are absent.
   - Capital requirements to enter are low
   - Cost advantages are not related to company size
   - Buyers are not loyal to existing brands
   - Government does not restrict the entrance of new companies

v. **Threat of Substitute Products or Services**
   Substitute products or services can turn an industry on its head.
   Industry is more attractive to new entrants when,
   - Quality substitutes are not readily available
   - Prices of substitute products are not significantly lower than those of the industry's products
   - Buyers' switching costs are high

Business prototyping is a technique for gauging the quality of a company's business model in which entrepreneurs test their business models on a small scale before committing serious resources to launch a business that might not work.

2. **Product or Service feasibility analysis**
   It determines the degree to which a product or service idea appeals to potential customers and identifies the resources necessary to produce the product or provide the service. It addresses two questions,
   - Are customers willing to purchase our goods and services?
   - Can we provide the product or service to customers at profit?

   To answer these questions, entrepreneurs need feedback from potential customers. They get those feedback from primary and secondary researches.
   Primary research involves collecting data first-hand and analyzing it like customer surveys, questionnaires, focus groups

Secondary research involves gathering data that have already been compiled and are available, often at a very reasonable cost or sometimes even free like business directories, direct mail lists, demographic data, census data, forecasts, market research, articles, world wide web, in-home trials.

3. **Financial feasibility analysis:** Major elements to be included are,

    Capital requirements: Must have an estimate of how much start-up capital is required to launch the business
    Estimated earnings: forecast the earning potential of proposed business
    Return on Investment: combining two estimates, it determines how much investors can expect their investments to return.

<u>The Business Plan</u>

A written summary of an entrepreneur's proposed business venture, its operational and financial details, its marketing opportunities and strategy, its managers' skills and abilities. Although building a plan does not guarantee success, it does increase your chances of succeeding in business. A plan is like a road map that serves as a guide on a journey through unfamiliar, harsh, and dangerous territory. Don't attempt the trip without a map!

<u>Three essential functions business plan serves</u>

1. Guiding the company by charting its future course and defining its strategy for following it.
2. Attracting lenders and investors who will provide needed capital.
3. Demonstrating that the entrepreneur understands the business venture and what will make it succeed.

<u>Three tests that entrepreneur's plan must pass to get external financing</u>

1. **Reality Test –** proving that a market really does exist for the product or service.
2. **Competitive Test –** evaluates a company's position relative to its customers.
3. **Value Test –** proving that a venture offers investors or lenders an attractive rate of return or a high probability of repayment.

<u>Key Elements of a Business Plan</u>

Title Page: Company's name, logo, address, contact information of company's founders, date of issue

Table of Contents: Page numbers to locate into particular sections of the plan

Executive Summary: Summarize all of the relevant points of the business venture. Concise, maximum of 2 pages

Vision and Mission Statement: Captures entrepreneur's passion and vision for business, and the mission statement is the ideal place to express them. Defines a direction in which company will move.

Company History: Describe when and why company was formed

Business and Industry profile: Provide the reader with an overview of the industry or market segment in which the new venture will operate

Business Strategy: How to get towards goals and objectives and where to take business to

Description of Products / Services: Give overview of how customers use its goods or services

Marketing Strategy: describe Company's target market and its characteristics

Competitor Analysis: Analyze key competitors and their SWOT analysis

Description of Management Team: Describe qualifications of business officers, key directors of company

Plan of Operation: Construct organizational chart identifying the business's key job and qualification of people occupying them

Forecasted Financial Statements: lenders and investors use past financial statements to judge the health of the company and its ability to repay the loads or generate adequate returns

Loan or Investment Proposal: State the purpose of the financing, the amount requested, and the plans for repayment or, in case of investors, an attractive exit strategy

Banks usually are not a new venture's sole source of capital because a bank's return is limited by the interest rate it negotiates. If business fails, there could be risk. Once a business is operational and has established a financial track record, banks become a regular source of financing. Lenders and investors look at the business plan and give their terms and criteria for the financing of the venture. The higher a small business scores on these five Cs, the greater its chance will be of receiving the loan

Five C's of Credit

1. **Capital:** A small business must have a stable capital base before any lender is willing to grant a loan. Most banks refuse to make loans that are capital investments if the potential loss would exceed the reward. Lenders and investors see capital as a risk-sharing strategy with entrepreneurs.

2. **Capability:** Synonym – cash flow. Lenders and investors must be convinced of the firm's ability to meet its regular financial obligations and to repay loans, and that takes cash. It is possible for a company to be showing a profit and still have no cash – that is to be technically bankrupt. Lenders expect small businesses to pass the test of liquidity, for short-term loans. They examine closely a small company's cash flow position to decide whether it has the capacity necessary to survive until it can sustain itself.

3. **Collateral:** It includes any assets an entrepreneur pledges to a lender as security for repayment of a loan. If the company defaults on the loan, the lender has right to sell the collateral and use the proceeds to satisfy the loan.

4. **Character:** The evaluation of character is based on intangible factors such as honesty, integrity, competence, determination, intelligence, and ability. Observing these factors, lenders decide whether to put money into a business or not.

5. **Conditions:** Lenders and investors consider factors relating to business's operation such as potential growth in market, competition, location, strengths, weaknesses, opportunities, and threats.

FORMS OF BUSINESS OWNERSHIP

Sole Proprietorship

It is a business *owned and managed by **one individual*** and is the most popular form of ownership.

Advantages	**Disadvantages**
Simple to create	Unlimited personal liability of the owner
Least costly form to begin	Limited managerial skills and capabilities
Owner has total decision making authority	Limited access to capital
No special legal restrictions	Lack of continuity
Easy to discontinue	

Partnership

It is an association of two or more people who co-own a business for the purpose of making a profit.

Advantages	**Disadvantages**
Ease of establishing	Unlimited liability for at least one partner
Complementary skills of partners	Difficulty in disposing of partnership interest
Division of profits	Lack of continuity
Larger pool of capital available	Potential for personality and authority conflicts
Ability to attract limited partners	Partners bound by the law of agency
Little government regulation flexibility	
Tax advantages	

Corporation

It is a separate legal entity. The most complex of the three basic forms of ownership. To form a corporation, an entrepreneur must file the articles of incorporation with the state in which the company will incorporate.

Advantages	**Disadvantages**
Limited liability of stockholders	Cost and time involved in incorporating
Ability to attract capital	Double taxation
Ability to continue indefinitely	Potential for diminished managerial incentives
Transferrable ownership	Legal requirements and regulatory red tape
	Potential loss of control by the founder(s)

S Corporation

A corporation that retains the legal characteristics of a regular (C) Corporation but has the advantage of being taxed as a partnership if it meets certain criteria. That is, its income is taxed only once at the individual tax rate. S corporations offer shareholders only a limited range of retirement benefits, while regular corporations make a wide range of retirement plans available.

Limited Liability Company (LLC)

It is a relatively new form or ownership that, like an S corporation, is a cross between a partnership and a corporation. It is not subjected to many of the restrictions imposed on S corporations. To create an LLC, an entrepreneur must file the articles of organization and the operating agreement with the secretary of state. An LLC cannot have more than two of these four corporate characteristics:

Limited liability; continuity of life; free transferability of interest; centralized management

Professional Corporation

It offers professionals like lawyers, doctors, dentists, accountants – the benefits of the corporate form of ownership.

Joint Venture

It is like a partnership, except that it is formed for a specific purpose.