CHAPTER ONE

NATURE AND DEVELOPMENT OF ENTREPRENEURSHIP

Introduction

Entrepreneurship is a popular subject among students of business as well as among management scholars and researchers. Academic courses, books and academic journals on entrepreneurship abound. Many governments around the world, believing that entrepreneurship is the key to economic development, offer Entrepreneurship Development Programs (EDPs). Amidst all this frenzy of activity stands a fundamental question: who is an entrepreneur?

Definitions of Entrepreneurship/Entrepreneur

There are various definitions given by various proponents of entrepreneurship: Few of them are:

Peter F Drucker

Entrepreneurship is the ability to create something new and different

Thomas W Zimmerer

Entrepreneurship is the application of creativity and innovation to solving problems and effort in utilize opportunities faced by everyone and every day.

Frank Knight

Entrepreneurs try to predict and respond to market changes. This definition emphasizes the role of entrepreneurs in the face of uncertainty in the market dynamics. An entrepreneur is required to carry out the basic managerial functions such as direction and control.

Ronstadt

Entrepreneurship is the dynamic process of creating incremental wealth. This wealth is created by individuals who assume the major risks in terms of equity, time and or career commitment of providing value for some products or services

Hisrich & Peters

Entrepreneurship is the process of creating something different with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks and receiving the resultant rewards of monetary and personal satisfaction and independence‖

Joseph Schumpeter (1934)

The entrepreneur is an innovator who implements the changes in the market through new combinations. The new combination can be in the form of:

(1) introduce a new product or a new quality,

(2) introduce new production methods,

(3) Open up new markets,

(4) Getting a new source of supply of materials or components, or

(5) Run a new organization in an industry. Schumpeter linking entrepreneurs with innovative concepts are applied in a business context and associating it with a resources combination.

Entrepreneur is a person who sets up a business or businesses, taking on financial risks in the hope of profit.

Ronstadt

An entrepreneur is an innovator or developer who recognizes and seizes opportunities; converts those opportunities into workable ideas; adds value through time, effort, money, or skills, assumes the risks of competitive marketplace to implement these ideas; and realizes the reward from these efforts

In almost all of the definitions of **entrepreneurship**, there is agreement that we are talking of a kind of behaviour that includes:

(1) initiative taking

(2) the organizing or reorganizing of social economic mechanisms to turn resources and situations to practical account

(3) the acceptance of risk of failure

INNOVATION AND ENTREPRENEUR

Innovation means a new idea applied to initiating or improving a product, process or services. Innovation is the specific instruments of entrepreneurship. It is the act that endows resources with a new capacity to create wealth. Innovation, indeed, creates a Resource.

In the organizational context, innovation may be linked to performances, growth and development through improvement in efficiency, productivity, quality, competitive position, market, growth of market etc.

Innovation is always based on process needs: Needs, wants, desire and expectation of the society or environment.

Changes in industry structure or market structure: that catches everyone unawareness and attention. Identify the awareness.

SKILLS OF AN ENTREPRENEUR

- Creativity
- Business savvy
- Ability to find funding and
- Identify a nice market, as well as a consistent customer base.

The Evolution of Entrepreneurship

The word entrepreneur is derived from the French words “entre”, meaning “between” and “prendre”, meaning “to take”. The word was originally used to describe people who “take on the risk” between buyers and sellers or who "undertake" a task such as starting a new venture. Cantillon is recognized as the first person to use the term ‘entrepreneurship’ in an economic context. His Essai Sur la Nature du Commerce en Général was published in 1732. Cantillon introduced an economic system based on classes of actors and entrepreneurs are one of the three classes. There are ‘landowners’ who are financially independent aristocracy. ‘Hirelings’ and ‘entrepreneurs’ were viewed to be financially dependent on others. Hirelings earned fixed incomes while entrepreneurs were “…set up with a capital to conduct their enterprise, or are undertakers of their own labour without capital, and they may be regarded as living off uncertainty”.

By the 18th century a clear cut distinction was drawn between entrepreneur and capital provider due to the outcome of industrialization, which had geared up in the globe. As we moved ahead to the late19th and 20th century the entire global scenario changed. There was not much difference in entrepreneurs and managers, both were often regarded as the same. Now in the late 20th century according to Merriam-Webster's online dictionary, "An entrepreneur is one who organizes, manages, and assumes the risk of a business or an enterprise".

Theories of Entrepreneurship

There are three theories of entrepreneurship namely; economic theory, psychological theory and sociological theory.

Economic Theory

Adam Smith developed classical capitalism as an economic system in his book The Wealth of Nations in 1776. Smith perceived capitalists as owner-managers who combined the basic resources of land, labour, and capital into successful enterprises. The classical capitalistic economic system, based on the concept of private ownership of property, assumed the creation and distribution of wealth through the exchange of goods and services through open, uncontrolled markets open to all buyers and sellers. Cantillon (1755) was known for his demand theory of entrepreneurship in which he said production depends on the demand of land owners who contract out their work. Those who undertake the work demanded are entrepreneurs and they are responsible for resource allocation within a society and bring prices into line with demand. Cantillon described the entrepreneur as one who assumes the risk of buying goods, or parts of goods, at one price and attempts to sell them for profit, either in their original states or as new products. Neoclassical theory was designed to show that capitalism characterised by perfect markets and unfettered by outside interference - distributes wealth among buyers and sellers and creates wealth in the process. One of the central concepts of neoclassical theory is economics of scale, which assumes that as the size of the firm increases, the cost of production per unit decreases. Thus, neoclassical theory suggests that large firms are more profitable than small firms.

In the early part of the 20th century, some economist began to question neoclassical theory because it eliminated entrepreneurship from the economic process. According to Schumpeter (1934), an entrepreneur was a person who destroyed existing economic order by introducing new products and services, by creating new forms of organization, or by exploiting new raw materials. Bolton (1971) gives several economic functions of entrepreneurs in society including market innovation, product and service variety and providing seedbeds from which large companies will grow. Kirzner (1973) believes that the relationship between entrepreneurship and economic growth is a function of alertness to identification and exploitation of market opportunities. Casson (1982) asserted that entrepreneur is one who can co-ordinate resources without perfect knowledge. In that same light, Drucker (1985) opined entrepreneurship is about taking risk. The behaviour of the entrepreneur reflects a kind of person willing to put his or her career and financial security on the line and take risks in the name of an idea, spending much time as well as capital on an uncertain venture. Baumol (1993) concludes by arguing that entrepreneurship is a vital component of productivity and growth. Baumol defines the entrepreneur as "any member of the economy whose activities are in some manner novel, and entail the use of imagination, boldness, ingenuity, leadership, persistence, and determination in the pursuit of wealth, power, and position, though not necessarily in that order of priority.

Psychological Theory

The psychological theory is based on the myth that some people are genetically predisposed to be entrepreneurs. The consensus of many hundreds of studies on the psychological and sociological makeup of entrepreneurs is that the entrepreneurs are not genetically different from other people. This evidence can be interpreted as meaning no one is born to be an entrepreneur and that everyone has a potential to become one. Whether someone does or does not is a function of environment, life experiences, and personal choice**.**

According to Rotter's work (1966) on locus of control, individuals who are 'internal' or believe that they control their own destiny are more likely to be entrepreneurs. McClelland (1976) suggests that the motivation of the entrepreneur is crucial. Regardless of variations in economic development, social structure and opportunity, entrepreneurs with high achievement needs will almost always find ways to maximise economic achievement. Hornaday and Bunker (1970) suggest that there are certain personality characteristics that are typical of entrepreneurs.

In addition, Burch (1986) listed the following traits as typical of entrepreneurs;

- Desire to achieve,

- Desire to work hard for themselves rather than working for an organization or any other individual. They may work for someone to gain knowledge of the product or service that they may want to produce.
- Entrepreneurs are morally, legally, and mentally accountable for their ventures. Some
- Entrepreneurs may be driven more by altruism than by self-interest.
- Entrepreneurs often desire to achieve something outstanding that they can be proud of as well as are good at bringing together the components (including people) of a venture.

Sociological Theory

Reynolds (1991) states that the inability of trait theories to predict entrepreneurship could result from the ignorance of social context and choices confronting the individual when the decision is made. Thus describing situations where seizing the opportunity to be an entrepreneur takes place will be useful. In addition to sociological entrepreneurship theories opportunity recognition could be described by anthropological theories. Anthropological entrepreneurship studies concentrate on social and cultural processes. The outcome and the degree of entrepreneurial activity depend on opportunity structure. Opportunity structure consists of both objective structure of economic opportunity and a structure of differential advantage in the capacity of the system's participants to perceive and act upon such opportunities.

The main focus of sociological enterprise is to identify its social context in relation to entrepreneurial opportunity; (1) social networks, (2) life course stage, (3) ethnic identification and (4) population ecology stage. For the entrepreneur, involvement in casual informal networks may produce a major advantage. In contrast to the transaction cost approach, social network theories emphasise trust, not opportunism, as an integral part of the relationship (Ronstadt, 1988). Social control and economic exchange factors interact closely in long term relationships.

Sociological theories that start from ethnic identification try to explain entrepreneurship as a process where the individual's sociological disadvantageous background is one of the decisive push factors to become an entrepreneur.

The Entrepreneurial Process

According to Barringer and Ireland (2006), entrepreneurship is the process by which individuals pursue opportunities without regard to the resources that they currently control. Thus entrepreneurship can be referred to as the creation of a new organization or new business and answers the question of “what business should we enter? Barringer and Ireland posited the entrepreneurial process is triggered by an individual’s decision to become an entrepreneur, motivates him/her to develop a business model and later move from the business idea to set-up an entrepreneurial firm and subsequently, managing and growing the entrepreneurial firm (Figure 1).

Deciding to become an entrepreneur	⟺	Developing successful business idea	⟹	Moving from an idea to an entrepreneurial firm	⟹	Managing and growing the entrepreneurial firm

Figure 1: The entrepreneurial process

Source: Barringer and Ireland, 2006

The implication of the model (Figure 1) particularly the double – headed arrow between the decision to become an entrepreneur and the development of successful business ideas indicates that sometimes the opportunity to develop an idea prompts a person to become an entrepreneur.

Factors Influencing Entrepreneurship

What forces are driving this entrepreneurial trend in the world? Which factors have led to this age of entrepreneurship? Some of the most significant drivers are discussed below;

Entrepreneurs as Heroes

An intangible but very important factor is the attitude that people have toward entrepreneurs. Entrepreneurs are raised to hero status and have held out their accomplishments as model to follow. Business founders such as Michael Dell (Dell Inc.) and Kwame Despite (Peace fm) are recognised as role models in their respective societies.

Entrepreneurial Education

People with more education are more likely to start businesses than those with less education, and entrepreneurship, in particular, is an extremely popular course of study among students at all levels. A rapidly growing number of college students see owing a business as an attractive career option, and in addition to signing up for entrepreneurship courses, many of them are launching companies while in school.

Shift to a Service Economy

The cost of establishing a service company is relatively low compared to manufacturing. Service businesses have been very popular with entrepreneurs. The booming service sector has provided entrepreneurs with many business opportunities, from hostel and health care to computer maintenance.

Technology Advancement

Almost all businesses are dependent on technology on all levels from research and development, production and all the way to delivery. Small to large scale enterprises depend on computers to help them with their business needs ranging from Point of Sales systems, information management systems capable of handling all kinds of information such as employee profile, client profile, accounting and tracking, automation systems for use in large scale production of commodities, package sorting, assembly lines, all the way to marketing and communications.

Factors inhibiting Entrepreneurship

Anyone planning to enter the world of entrepreneurship should be aware of its potential drawbacks as discussed below

Uncertainty of Income

Opening and running a business provides no guarantees that an entrepreneur will earn enough money to survive. Some small businesses barely earn enough to provide the owner-manager with adequate income. In the early days of a start-up, a business often cannot provide an attractive salary for its owner and meet its entire financial obligation, which means that the entrepreneur may have to live on saving for a time.

Risk of Losing Your Entire Invested Capital

The small business failure rate is relatively high. A failed business can be financially and emotionally devastating. Before launching their businesses, entrepreneurs should ask themselves whether they can cope financially and psychologically with the consequences of failure. They should consider the risk/reward trade-off before putting their personal assets and their mental well-being at risk.

Long Hours, Hard Work and Health Risk

Most business owners do everything themselves, owners experience intense, draining workdays. People who work an average of 11 or more hours per day have a 67 percent higher risk of suffering a heart attack or dying from heart disease than people who work a standard seven- to eight-hour day, according to a new study in the Annals of Internal Medicine.

Discouragement

Launching a business requires much dedication, discipline and tenacity. Along the way to building a successful business, entrepreneurs will run headlong into many obstacles, some of which may appear to be insurmountable. Discouragement and disillusionment can set in but successful entrepreneurs know that every business encourage rough spots and that perseverance is required to get through them.

Types of Entrepreneurs

Entrepreneurs can be classified on the basis of:

- Type of business
- Use of Technology
- Motivation
- Growth
- Stages in Development

Type of Business

- Business entrepreneur: Convert ideas into reality; deal with both manufacturing and trading aspect of business (Small trading and manufacturing business)

- Trading entrepreneur: Undertakes trading activities; concerned with marketing (Domestic and international level)
- Industrial entrepreneur: Undertakes manufacturing activities only; new product development etc (textile, electronics, etc)
- Corporate entrepreneur: Interested in management part of organisation; exceptional organising, coordinating skills to manage a corporate undertaking
- Agricultural entrepreneur: Production and marketing of agricultural inputs and outputs.

Use of Technology

- Technical entrepreneur: Production oriented, possesses innovative skills in manufacturing, quality control etc.
- Non technical entrepreneur: Develops marketing, distribution facilities and strategies
- Professional entrepreneur: Uses the proceeds from sale of one business to start another one. Brimming with ideas to start new ventures

Motivation

- Pure entrepreneur: Psychological and economic rewards motivate him
- Induced entrepreneur: Incentives, concessions, benefits offered by government for entrepreneurs motivates him
- Motivated entrepreneur: Sense of achievement and fulfillment motivate him
- Spontaneous entrepreneur: Born entrepreneurs with inborn traits of confidence, vision, initiative

Growth

- Growth entrepreneur: One who enters a sector with a high growth rate; is a positive thinker
- Super growth entrepreneur: One who enters a business and shows a quick, steep and upward growth curve

Stages in Development

- First generation entrepreneur: Innovator, risk taker, among the firsts in family to enter business
- Modern entrepreneur: Who considers feasibility of business, which can adapt to change and dynamic market

- Classical entrepreneur: One who gives more importance to consistent returns than to growth; concerned about customer and marketing needs

Personality Traits All Entrepreneurs Must Have

Within every entrepreneur's personality there exist the following underlisted traits.

The need for Autonomy

Entrepreneurs see a job as a form of economic slavery and prefer to have personal autonomy to economic security. The worst part about being your own boss is that the expectations for your job function are set higher than for everyone else. The best part about being your own boss is that if you don’t like your orders, you can change them anytime you please.

An intense drive to succeed.

A powerful drive to create success, wealth, legacy or fame is the primary motivator for most entrepreneurs. They are intensely passionate about what they do, almost to the point of fanaticism. Their goals are set high and when attained, are reset even higher. Money is not usually sought for its own sake, but as way of keeping score.

Decisiveness.

The ability to make decisions, sometimes quickly, is a key component of the entrepreneurial personality. This willingness to make, and hold to, a decision is a necessary leadership skill. The awareness that there may be better decisions at any choice point does not result in the indecisiveness that other people often demonstrate.

The ability to adapt to changing circumstances.

Rather than resisting or resenting change, entrepreneurs have the ability to easily adapt to changing circumstances and conditions. In fact, many entrepreneurs thrive on change. On the negative side, some are so thrilled by change that they will force it, even when things are going perfectly.

Energy.

Entrepreneurs are energetic. They put in more work hours than most people. They also often play hard and competitively. They are usually too busy working or playing to be spectators. This high personal energy level translates as constant enthusiasm and personal charisma..

A sense of personal destiny.

Most entrepreneurs have more than just a strong desire to mold their personal destiny; they have a strong belief in their ability to create their own destiny by their own choices and actions. If they are among the few who believe in a set fate or predetermined destiny, they believe that they are fated or destined to be successful.

A desire for personal growth.

Entrepreneurs are learners and self-improvers. They are always on the lookout for ways to get the competitive edge, to become better at doing what they do, to develop new skill sets or understandings. They understand that what you have depends upon what you do and what you are able to do depends upon who you are. They work constantly to become more.

A highly developed intuition.

Most entrepreneurs rely more on gut feelings to make decisions than they do on conscious analysis of a situation. Even though they may be highly analytical and like to accumulate lots of data, their actual decisions are usually based on what feels right.

Opportunity seeking.

The true entrepreneur is always on the lookout for yet another new opportunity. It is often just a matter of perspective. There is the famous story (usually attributed to Joseph Bata) about the shoe company who sends an employee to a country in Africa to ascertain if there is a market for their shoes. The representative reports back, “There is no shoe market here. These people don’t even wear shoes.” The boss, on hearing this news, exclaims, “This is wonderful. No one has any shoes yet. What a huge opportunity!”

Perseverance and determination.

The obstacles that cause many people to quit are minor setbacks for the true entrepreneur. Winners persist. Losers desist. It is often that simple personality difference that separates the happy successful person from the frustrated failure

Problem solving.

When others focus on existing problems, entrepreneurs focus on possible solutions. There is always a solution. There is always a problem. For most people, a problem is an impediment. For the entrepreneur, a problem is an opportunity to discover or create a better solution.

Characteristics of Successful Entrepreneurs

The following characteristics are common among successful entrepreneurs

Have a Unique Perspective on Risk.

Successful entrepreneurs don’t take no for an answer and they don’t fear failure. They don’t view risk the same way ordinary people do, which allows these entrepreneurs the psychological freedom to explore opportunities that would scare most conventional business thinkers. . Many entrepreneurs are found to be associated with **risk taking propensity**. A number of successful entrepreneurs attribute success in business to their ability to take a chance or calculated risk.

Communicate Vision and Instill Passion.

Great entrepreneurs must be able to move an idea to reality in order to be successful. Accomplishing this requires working through others; entrepreneurs must create and communicate their vision in a way that generates enthusiasm and inspires action.

Demonstrate Resilience and Rapid Recovery.

Entrepreneurs who thrive accept the potential for failure and embrace failure when it happens. The root of their strength is that they don’t necessarily see themselves or their partners as failures; their focus is on learning and adjusting as opposed to wallowing in self-pity or seeking out scapegoats. They always find a way to get back on track quickly, which means they have little time for playing the blame game.

Do What They Do Best.

Top entrepreneurs stick to their core competencies and outsource the rest. The ability to identify and then let go that which is outside the scope of their expertise is what enables these entrepreneurs to rapidly grow their organizations. Scalability has always been fundamental to taking a start-up and building it into a successful enterprise. Creating scalability starts with selecting and hiring the right people.

Preserve What They Build.

For many entrepreneurs founding a business is like creating a child. It's a labour of love that they have a strong personal investment in. Personal attachment is often why founders like Steve Jobs and Howard Schultz return to the businesses they started during turbulent times.

Reasons Why People Become Entrepreneur

Successful entrepreneurs have reasons for going into their entrepreneurial career. Here are some reasons for becoming an entrepreneur:

Satisfaction

Helping other people and improving other people's lives is quite satisfying. In fact, entrepreneurs experience much personal satisfaction through helping other people. Often, their new venture is beneficial to others, and it meets other people's needs through services and products offered.

Independence

Getting to work on your own is one of the best reasons to become an entrepreneur. Being the boss, you get to call the shots. An entrepreneur can set his own schedule; can work regular hours, or whenever he or she feels is most necessary at a given period of time. An entrepreneur can manage their own business independently and can have quality time with their family anytime they want. . Many entrepreneurs have left successful executive careers to start their own businesses because of their need to be independence and be their ―own boss‖.

Feeling of Pride

An entrepreneur’s job always accompanies sacrifices. An entrepreneur is rewarded with a feeling of pride when they give everything to succeed.

Building Relationships

You can have the opportunity of meeting new people and build new relationships by becoming an entrepreneur. You will have a greater chance of meeting other people who have been in similar situations and struggling with some of the same issues, if you engage in entrepreneurship. Your circle of friends and acquaintances will grow by sharing tips and asking for advice as well as partnering with other business owners.

Job Security

One of the reasons to become an entrepreneur is job security. If you own your business, you are the boss and you won’t get fired. Being the boss, you are responsible for the lives of many people and it motivates you to be at your best at all times.

Income Potential

One of the very reasons of becoming an entrepreneur is that you won’t be tied down to a certain yearly salary. You can generate your own income level when you own a business. You can reward yourself with more money if you work hard, work smart and work longer hours. A potential income can keep you motivated to do your best.

ENTREPRENEUR FUNCTIONS

- ✓ Innovation
- ✓ Risk taking
- ✓ Recruitment
- ✓ Raising Fund
- ✓ Project Planning
- ✓ Product Analysis
- ✓ Business Decision
- ✓ Feasibility Analysis
- ✓ Analysis of assessment of risk
- ✓ Organization and Management
- ✓ Employer
- ✓ Management of the work

CHAPTER TWO

THE BUSINESS ENVIRONMENT AND ENTREPRENEURSHIP

Introduction

There is close and continuous interaction between the business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively. The business environment is multifaceted, complex and dynamic in nature and has a far-reaching impact on the survival and growth of the business.

Meaning of the Business Environment

Business environment refers to different forces or surroundings that affect business operations. Such forces include customers, competitors, suppliers, distributors, industry trends, substitutes, regulations, government activities, the economy, demographics, and social and cultural factors. Others are innovations and technological developments.

Components of the Business Environment

The Business environment comprise of the internal environment and external environment.

Internal Environment

These are factors within an organization that influence its activities and choices, particularly the behaviour of the employees. Factors that are frequently considered part of the internal environment include the organization's mission statement, leadership styles, and its organizational culture.

External Environment

These factors outside an organisation that have immense impact on the business activities. Various external factors can impact the ability of a business or investment to achieve its strategic goals and objectives. These external factors might include; socio-cultural, legal, economic, political, technological changes, economic, political and competitive environments. The next section will discuss briefly each of the external factors.

Socio-cultural environment

These are beliefs, customs, practices and behaviour that exist within a population international companies often include an examination of the socio-cultural environment prior to entering their target markets.

Legal environment

These are rules and regulations governing business activities. Business owners and/or managers are abound by law to comply with the legal system in each country, failure do so will adversely affect the business enterprise which might involve criminal prosecution of defaulting officers.

Economic environment

These are economic factors, such as employment, income, inflation, interest rates, productivity, and wealth, that influence the buying behaviour of consumers and institutions.

Political Environment

These are government actions which affect the operation of a company or business. These actions may be local, regional, national or international level. Business owners and managers pay close attention to the political environment to gauge how government actions will affect their company.

Technological Environment

This means the development in the field of technology which affects business by new inventions of productions and other improvement in techniques to perform the business work.

Competitive Environments.

This refers to the level of competition in the industry in which the firm operates. Michael Porter (1980) propounded five forces namely; risk of entry by potential competitors, rivalry among current competitors, and bargaining power of buyers. Others are bargaining power of suppliers and threat of Substitute products.

Business Environment Scanning

Business environment scanning is a careful monitoring of an organization's internal and external environments for detecting early signs of opportunities and threats that may influence its current and future plans.

Business Environment Analysis

Environmental Analysis is an evaluation of the possible or probable effects of external forces and conditions on an organisation's survival and growth strategies. Both external and internal data are significant in conducting the environmental scan. Once the data is gathered from both internal and external environments, the next step is the actual Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis. The SWOT analysis entails thinking in terms of Strengths and Weaknesses as internal to the organisation, while Opportunities and Threats are usually considered external to the organisation.

When do you use SWOT?

A SWOT analysis can offer helpful perspectives at any stage of an effort. You might use it to:

- Explore possibilities for new efforts or solutions to problems.
- Make decisions about the best path for your initiative. Identifying your opportunities for success in context of threats to success can clarify directions and choices.
- Determine where change is possible. If you are at a juncture or turning point, an inventory of your strengths and weaknesses can reveal priorities as well as possibilities.
- Adjust and refine plans mid-course. A new opportunity might open wider avenues, while a new threat could close a path that once existed.

SWOT also offers a simple way of communicating about your initiative or program and an excellent way to organize information you've gathered from studies or surveys.

CHAPTER THREE
THE ECONOMY AND ENTREPRENEURSHIP

Introduction

This chapter explains how economic conditions and incentives affect entrepreneurship, and how the actions of entrepreneurs in turn affect the broader economy. How is entrepreneurship good for economic growth? This question would seem to have a simple answer: Entrepreneurs create new businesses, and new businesses in turn create jobs, intensify competition, and may even increase productivity through technological change. High measured levels of entrepreneurship will thus translate directly into high levels of economic growth.

Factor of Production

An economic term to describe the inputs that are used in the production of goods or services in the attempt to make an economic profit. The factors of production include land, labour, capital and entrepreneurship. In essence, land, labour, capital and entrepreneurship encompass all of the inputs needed to produce a good or service.

Land

This represents all natural resources, such as timber and gold, used in the production of a good.

Also, land refers to physical land and other natural resources, e.g. the land that a building is constructed on, oil that is extracted from under the sea, under the land, forests, and fish reserves. Providers of land receive rent.

Labour

This represents all of the work that laborers and workers perform at all levels of an organization, except for the entrepreneur. Labour also Refers to physical and mental effort - e.g. stacking shelves in a supermarket, or calculating the final accounts of a company. Providers of labour receive wages.

Capital

This is all of the tools and machinery used to produce a good or service. Capital exists at two levels. First of all we have financial capital. But more importantly, this is used to purchase physical capital that goes into making other things. Physical capital consists of machinery, equipment, tools, etc. Providers of capital receive interest

Entrepreneur

The individual who takes an idea and attempts to make an economic profit from it by combining all other factors of production to produce goods and services. The entrepreneur also takes on all of the risks and rewards of the business. Entrepreneurs combine the other factors of production. Entrepreneurs are the risk takers that set up and run business enterprises. Entrepreneurs receive profit.

Sectors of Production

In terms of the activities undertaken, there are three main sectors of the economy. They are traditionally described as primary, secondary, tertiary and quaternary sectors.

Primary Sector

This sector includes the production of raw material and basic foods. Activities associated with the primary sector include agriculture (both subsistence and commercial), mining, forestry, farming, hunting, and quarrying.

Secondary Sector

This manufactures finished goods. All of manufacturing, processing, and construction lies within the secondary sector. Activities associated with the secondary sector include metal working, automobile production, textile, and breweries etc.

Tertiary Sector

This is the service sector. This sector provides services to the general population and to businesses. Activities associated with this sector include retail and wholesale, transportation and distribution, entertainment, hospitality industry and financial services.

Quaternary Sector

This sector consists of intellectual activities. Activities associated with this sector include government, culture, libraries, scientific research, education and information technology.

Influence of the External Environmental Factors on Entrepreneurship.

The level of entrepreneurship activity in any economy is determined by a few environmental factors. These factors are the economic, political, legal, socio-cultural, technological, and competitive environments.

Economic Environment

Entrepreneurial activities are heavily influenced by key macro economic factors such as interest rate, inflation, exchange rate, and population size and employment rate. Monetary policies affect the purchasing power of people, for instance, if the interest rate is high it means it is expensive to borrow money, this increase cost of production. Additionally, if the economy is in recession, demand for goods and services are low because people do not have money to buy things. Entrepreneurial activities are enhanced where resources such as capital, infrastructure and skilled labour are readily available

Political Environment

Unstable political conditions where government policies change frequently discourage business, as investors fear for the safety of their investments. Government support to economic development through infrastructure development, facilitation, industrial parks, and the like all encourage entrepreneurship. Furthermore, high taxes that cut into the returns usually discourage entrepreneurs. On the other hand, tax holidays to encourage business attract start-ups.

Legal Environment.

The legal framework in a country can encourage entrepreneurship by protecting both business owners and consumers. Economic freedom in the form of favourable legislation and few hurdles to start and operate businesses encourage entrepreneurship. While most businesses accept laws related to the safeguard of labour rights and the environment, some countries have retrograde laws that make compliance very difficult and time consuming. Such legal hurdles create a barrier to entrepreneurship.

Socio-cultural Environments

Culture refers to the customary practices and beliefs that have a significant impact on the basic values, perceptions, preferences, and behaviours of people. The culture of consumerism where people desire material goods encourages entrepreneurship within the area as returns from a business become more than returns from a job. Cultures where people are risk averse and do not attach much importance to hard work and persistence are not conducive to entrepreneurship.

Technological Environment

The improvement in communication and information technology is influencing business communication, transportation, and production processes. Business enterprises depend on computers to help them with their business needs ranging from Point of Sales systems, information management systems capable of handling all kinds of information such as employee profile, client profile, accounting and tracking, automation systems for use in large scale production of commodities, package sorting, assembly lines, all the way to marketing and communications.

Competitive Environments.

This refers to the level of competition in the industry in which the firm operates. Michael Porter propounded five forces namely; risk of entry by potential competitors, rivalry among current competitors, and bargaining power of buyers. Others are bargaining power of suppliers and threat of Substitute products. The potential of these five forces varies from industry to industry. Whatever be the industry, these five forces influence the profitability as they affect the prices, the costs, and the capital investment essential for survival and competition in industry. These five forces model also help in making entrepreneurial decisions as it is used by the managers to determine industry’s competitive structure.

Importance of Entrepreneurship to the Economy

Entrepreneurship assist in the economic growth of a country in the following ways

- Entrepreneurs play a vital role in economic development as key contributors to technological innovation and new job growth.
- Entrepreneurs help build communities in ways such as providing jobs, conducting business locally, creating and participating in entrepreneurial networks, investing in community projects, and giving to local charities.
- Entrepreneurship is linked to regional development programmes, and the creation of new firms is stimulated to boost employment and output in depressed regions.
- Entrepreneurship is a key element of strategies designed to facilitate the participation of certain target groups, such as women or minorities, in the economy.
- Realizing both the economic and social impact of entrepreneurship, many states and local communities have implemented aggressive strategies aimed at cultivating and nurturing entrepreneurs.
- Policy makers look at entrepreneurship in combination with innovation to return to a period of sustained economic growth. Both entrepreneurship and innovation are associated with "doing something new" and policies, if designed appropriately, can be mutually reinforcing in creating economic dynamism.

CHAPTER FOUR
RECOGNIZING BUSINESS OPPORTUNITIES AND GENERATING IDEAS

Introduction

Opportunities don't knock your door every day. Wisdom is in making the most of every opportunity you get. Essentially, entrepreneurs recognize an opportunity and turn it into a successful business. An entrepreneur recognizes a problem or an opportunity gap and creates a business to fill it.

Meaning of Business Opportunity

Business opportunities are difficult to define because the term means different things to different people. A business opportunity is any situation that arises for you to make money with.

Elements of Business Opportunity

Business opportunity consists of four integrated elements that should be considered at the same timeframe and within the same domain or geographical location. These four elements are:

- A need
- The means to fulfil the need
- A method to be applied to the means to fulfil the need
- A method to benefit from it.

If any one of the elements is missing, a business opportunity could be developed by finding the missing element. The more unique the combination of the elements is, the more unique the business opportunity.

Essential Qualities of Business Opportunity

An opportunity is a favourable set of circumstances that creates a need for a new product, service, or business. An opportunity has four essential qualities namely;

- Attractiveness
- Durable
- Timely
- Anchored in a product, service, or business that creates value to the end user.

For an entrepreneur to capitalize on an opportunity, its window opportunity, must be open. The term "window of opportunity" is a metaphor describing the time period in which a firm can realistically enter a new market. Once the market for a new product is established, its window of opportunity opens, and new entrants flow in. At some point, the market matures, and the window of opportunity (for new entrants) closes.

Difference between a business opportunity and an idea

Business Opportunity entails the following

- Both an attraction and the possibility of being sustainable
- It corresponds to a need and it reaches the market in propitious moment
- It also covers a product or service
- Represents an additional value for the consumer
- It fits into the market reality.

Idea consists of the following

- An idea is a thought, impression, or notion which may or may not meet the criteria of an opportunity.
- It can be either a particular product or a new and innovative processing method
- Idea changes several times as you develop your business plan
- An idea offers you the possibility of discovering new business opportunities
- And also, the possibility of sharing information with others to help you start your business.

Many businesses fail not because the entrepreneurs that started them didn't work hard, but because there was no real opportunity to begin with.

How to Identify Entrepreneurial Opportunities

There are three ways to identify an opportunity, a depicted in the figure below

Observing Trends	Solving a Problem	Finding Gaps in the Marketplace

Observing Trends

The first approach to identifying opportunities is to observe trends and study how they create opportunities for entrepreneurs to pursue. This approach entails observing how economic forces affect consumers' level of disposable income. Individual sectors of the economy have a direct impact on consumer buying patterns. An understanding of the impact of social forces on trends and how they affect new product, service, and business ideas is a fundamental piece of the opportunity recognition puzzle. For example, the Sony Walkman was developed not because consumers wanted smaller radios but because people wanted to listen to music while on the go. Given the rapid pace of technological change, it is vital for entrepreneurs to remain on top of how new technologies affect current and future opportunities. Finally, political action and regulatory changes also provide the basis for opportunities. For example, new laws create opportunities for entrepreneurs to start firms to help companies comply with these laws

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, serendipity, or chance. Some business ideas are clearly gleaned from the recognition of problems in emerging trends. At still other times, someone may simply notice a problem that others are having and think that the solution might represent an opportunity.

Finding Gaps in the Marketplace

The third approach to identifying opportunities is to recognize a need that consumers have that is not being satisfied by either large, established firms or entrepreneurial ventures. These gaps can be hard to identify but can be potentially very rewarding.

Techniques for Generating Ideas

Here are some great methods of generating business ideas for the new entrepreneur.

Market Research

Market research is testing your product or service in your market area to determine which types of people or companies it will attract. It also reveals age group, gender, and income levels of people interested in your product. Through comparisons, market research also helps the business owner learn what has worked in the past and what may work in the future

Brainstorming

Brainstorming is used to generate a number of ideas quickly. It is not used for analysis or decision making. Brainstorming session is targeted to a specific topic about which a group of people are instructed to come up with ideas. The number one rule of brainstorming is that no criticism is allowed, including chuckles, raised eyebrows, or facial expressions that express skepticism or doubt. Criticism stymies creativity and inhibits the free flow of ideas.

Focus Groups

A focus group is a gathering of 5 to 10 people who are selected because of their relationship to the discussed issue being discussed. Focus groups are used to help generate new business ideas. The strength of focus groups is that they help companies uncover what's on their customers' minds through the give-and-take nature of a group discussion. The weakness is that because the participants do not represent a random sample, the results cannot be generalized to larger groups.

Surveys

A survey is a method of gathering information from a sample of people. The sample is usually just a fraction of the population being studied. The most effective surveys sample a "random" portion of the population, meaning that the sample is not selected haphazardly or only from people who volunteer to participate. The quality of survey data is determined largely by the purpose of the survey and how it is conducted. Surveys generate new product, service, and business ideas because they ask specific questions and get specific answers.

Encouraging and Protecting New Ideas

Entrepreneurial ventures can take certain concrete steps to build an organisation that encourage and protect new ideas. Here are the steps

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. Another approach is to establish an idea bank, which is a physical or digital repository for storing ideas. An example of an idea bank would be a password-protected location on a firm's intranet that is available only to qualified employees. It may have a file for ideas that are being actively contemplated and a file for inactive ideas.

Encouraging Creativity at the Firm Level

An employee may exhibit creativity in a number of ways, including solving a problem or taking an opportunity and using it to develop a new product or service idea. Although creativity is typically thought of as an individual attribute, it can be encouraged or discouraged at the firm level.

Protecting Ideas from Being Lost and Stolen

Intellectual property is any product of human intellect that is intangible but has value in the marketplace. It can be protected through tools such as patents, trademarks, copyrights, and trade secrets. As a rule, a mere idea or concept does not qualify for intellectual property protection; that protection comes later when the idea is translated into more concrete form.

CHAPTER FIVE
FEASIBILITY ANALYSIS

Introduction

As an entrepreneur, you can greatly increase your chances for success by analyzing your idea, your marketplace and your management team before beginning.

Meaning of Feasibility Analysis

An analysis and evaluation of a proposed project determine if it; technically feasible, feasible within the estimated cost and will be profitable. As an entrepreneur, you can greatly increase your chances of success by analyzing your business concept, your market place, your industry and competition, and your financial and organizational structures.

Importance of Feasibility Studies

A Feasibility study is very important for a business in that it serves the following purposes

- It makes an analysis of all the aspects of a business, the external factors influencing it and also the internal factors.
- It also analyses all the costs associated with the project and how the material would be sourced.
- It will also make an estimate of how much sales are to be expected and what profits would the project make. If the results of the feasibility study are favourable, it is logical to proceed with it. Whereas on the other hand, if the results are not favourable, no businessman will take a risk on it

Components of Feasibility Analysis

Feasibility analysis comprises of four key components:

Business idea analysis:

This involves an objective assessment of your idea to determine its feasibility. It includes an overview of:

- The market size, target market and competitors
- The competitive advantage of your idea

- Benefits and drawbacks of your idea, and any possible alternatives
- Your personal circumstances; including your current financial position, your skills, knowledge and experience in the area/industry, your commitment to the idea and venture
- Capital requirements and financial feasibility

Market analysis

If you have determined that there is market potential for your idea, you then need to conduct further research relating to:

- The demand of the product/service that you will offer
- Your ability to supply the product/service: meeting the demand of customers
- Existing competitors within the market
- The life of your idea: whether there is a threat of new competition, new technologies or substitutes that will render your product/service unfeasible.

Competitive advantage analysis

You need to determine:

- What differentiates your product/service from those of your competitors.
- Essentially, what features make your product/service stand out
- Why customers will choose to conduct transactions with your business over alternatives.

Financial feasibility analysis

The financial feasibility analysis requires you to:

- Project sales forecasts
- Determine capital requirements and financing options
- Estimate profitability and return on investment
- Conduct cash-flow forecasting

Review and Analyse All Data

This review is crucial. The planner should determine if any data or analysis performed should change any of the preceding analyses. Basically, taking this step means "Step back and reflect one more time."

- Re-examine the Projected Income Statement and compare with the list of desired assets and the Opening Day Balance Sheet. Given all expenses and liabilities, does the Income Statement reflect realistic expectations?
- Analyse risk and contingencies. Consider the likelihood of significant changes in the current market that could alter projections.

Make "Go/No Go" Decision

All the preceding steps have been aimed at providing data and analysis for the "go/no go" decision. If the analysis indicates that the business should yield at least the desired minimum income and has growth potential, a "go" decision is appropriate. Anything less mandates a "no go" decision. Additional considerations include:

- Is there a commitment to make the necessary sacrifices in time, effort and money?
- Will the activity satisfy long-term aspirations

Sources of Help

To write your Feasibility Study, you need to go to others for help and information. Don't try to do it all yourself when there are so many sources of assistance available.

- Small Business Advisory Centres information, business counseling, training workshops, research facilities, back up and support facilities, networking, and publications.
- Accountant: advise on all financial issues; assist in feasibility study, legal structure suggestions, assistance in funding estimates, sourcing and applications, check books if buying an existing business.
- Solicitor: Contracts, leases, legal representation.
- Bank: finance, information and support, leasing, advice on contracts and specialist services.

- Business Advisers/Consultants: Someone to talk to specialist advice, mentoring, negotiations, training, back-up.
- Trade Associations: Membership and support, group deals, training, advice, research, industrial relations expertise, and networking.
- Potential Suppliers: information, back-up, promotional support, training, etc.

Sources of Information

- Own Research: Small Business Advisory Centres, librarian, libraries, publications, directories, Chambers of Commerce, other business people.

- Competitors : Check out your competition, their location, layout, advertising and service. This can be a great source for ideas - what are they doing right or wrong?

- Government Departments: Information and publications available from many Departments

- Local Council : Demographic reports, publications, studies, future plans for development

CHAPTER SIX
WRITING A BUSINESS PLAN

Introduction

Developing a business plan is the first step to a successful business. This guide will provide an outline in organizing your effort to gather and evaluate information about your business. As you gather information, you can begin the process of writing your business plan. By planning your business needs, you will develop an essential part of the business and its strategy. Effectively completed, your business plan must identify the strengths, weaknesses, opportunities, and threats that may affect your business and the strategy you will use to succeed.

Meaning of Business Plan

Business plan is a formal statement of a set of business goals, the reasons they believe attainable, and plan for reaching those goals. It lays out a written plan from a marketing, financial and operational viewpoint. It contains background information about the organisation or team attempting to reach a goal.

Importance of Business Plan.

Business plan serves the following importance:

- Your business plan will serve as your guide during the lifetime of your operation.
- It is the blueprint of your business and will provide you with the tools to analyse your operation and implement changes that will increase your sales and, ultimately, your profitability.
- A business plan is a requirement if you are planning to seek financing. It will provide potential lenders or investors with detailed information on all aspects of your company's past and current operations and provide future projections.
- If you do business internationally, a business plan provides a standard means of evaluating your products' business potential in a foreign marketplace.

Types of Business Plans

There are two types namely; formal and informal business plans.

- Formal business plan are detailed documents, usually prepared for the primary purpose of securing outside funding for the business.
- Informal business plans are road maps of the business that may only consist of handwritten notes that act as a guide to the owners of a business in day to day operations and in planning expansions. Whether formal or informal, when properly written and maintained, business plans provide a means to help you stay focused.

Business Plan Outline

The following provide a suggested outline of the material to be included in your business plan.

I. Table of Contents

- Quick reference to major topics covered in your plan

II. Executive Summary

- Write this section last.
- Explain the fundamentals of the proposed business: What will your product be? Who will your customers be? Who are the owners? What do you think the future holds for your business and your industry?
- Make it enthusiastic, professional, complete, and concise.
- If applying for a loan, state clearly how much you want, precisely how you are going to use it, and how the money will make your business more profitable, thereby ensuring repayment.

III. General Company Description

- What business will you be in? What will you do?
- Mission Statement: Many companies have a brief mission statement, usually in 30 words or fewer, explaining their reason for being and their guiding principles. If you want to draft a mission statement, this is a good place to put it in the plan, followed by:

- Company Goals and Objectives: Goals are destinations—where you want your business to be. Objectives are progress markers along the way to goal achievement. For example, a goal might be to have a healthy, successful company that is a leader in customer service and that has a loyal customer following. Objectives might be annual sales targets and some specific measures of customer satisfaction.
- Business Philosophy: What is important to you in business?
- To whom will you market your products? (State it briefly here—you will do a more thorough explanation in the Marketing Plan section).
- Describe your industry. Is it a growth industry? What changes do you foresee in the industry, short term and long term? How will your company be poised to take advantage of them?
- Describe your most important company strengths and core competencies. What factors will make the company succeed? What do you think your major competitive strengths will be? What background experience, skills, and strengths do you personally bring to this new venture?
- Legal form of ownership: Sole proprietor, Partnership, Corporation, Limited liability corporation (LLC)? Why have you selected this form

IV. Products and Services

- Describe in depth your products or services (technical specifications, drawings, photos, sales brochures, and other bulky items belong in Appendices).
- What factors will give you competitive advantages or disadvantages? Examples include level of quality or unique or proprietary features.
- What are the pricing, fee, or leasing structures of your products or services?

V. Marketing Plan

Market research - Why?

- No matter how good your product and your service, the venture cannot succeed without effective marketing. And this begins with careful, systematic research. It is very dangerous to assume that you already know about your intended market. You need to do market research to make sure you're on track. Use the business planning process as your opportunity to uncover data and to question your marketing efforts. Your time will be well spent.

Market research - How?

- There are two kinds of market research: primary and secondary.
- Secondary research means using published information such as industry profiles, trade journals, newspapers, magazines, census data, and demographic profiles. This type of information is available in public libraries, industry associations, chambers of commerce, from vendors who sell to your industry, and from government agencies.
- Start with your local library. Most librarians are pleased to guide you through their business data collection. You will be amazed at what is there. There are more online sources than you could possibly use. Your chamber of commerce has good information on the local area. Trade associations and trade publications often have excellent industry-specific data.
- Primary research means gathering your own data. For example, you could do your own traffic count at a proposed location, use the yellow pages to identify competitors, and do surveys or focus-group interviews to learn about consumer preferences. Professional market research can be very costly, but there are many books that show small business owners how to do effective research themselves.
- In your marketing plan, be as specific as possible; give statistics, numbers, and sources. The marketing plan will be the basis, later on, of the all-important sales projection.

Economics

- Facts about your industry:
- What is the total size of your market?
- What percent share of the market will you have? (This is important only if you think you will be a major factor in the market.)
- Current demand in target market.
- Trends in target market—growth trends, trends in consumer preferences, and trends in product development.
- Growth potential and opportunity for a business of your size.
- What barriers to entry do you face in entering this market with your new company? Some typical barriers are: High capital costs, High production costs and High marketing costs

Product

In the Products and Services section, you described your products and services as you see them. Now describe them from your customers' point of view.

Features and Benefits

List all of your major products or services.

For each product or service:

- Describe the most important features. What is special about it?
- Describe the benefits. That is, what will the product do for the customer?
- What after-sale services will you give? Some examples are delivery, warranty, service contracts, support, follow-up, and refund policy.

Customer

Identify your targeted customers, their characteristics, and their geographic locations, otherwise known as their demographics. You may have more than one customer group. Identify the most important groups. Then, for each customer group, construct what is called a demographic profile: Age, Gender, Location, Income level, Social class and occupation and Education.

For business customers, the demographic factors might be: Industry, Location, Size of firm and Quality, technology, and price preferences

Competition

What products and companies will compete with you?

- List your major competitors: (Names and addresses)
- Will they compete with you across the board, or just for certain products, certain customers, or in certain locations?
- Will you have important indirect competitors? (For example, video rental stores compete with theaters, although they are different types of businesses.)
- How will your products or services compare with the competition?

Niche

In one short paragraph, define your niche, your unique corner of the market.

Strategy

Now outline a marketing strategy that is consistent with your niche.

Promotion

- How will you get the word out to customers?
- Advertising: What media, why, and how often? Why this mix and not some other?
- What image do you want to project? How do you want customers to see you?

Pricing

- Explain your method or methods of setting prices.
- For most small businesses, you will do better to have average prices and compete on quality and service.
- Does your pricing strategy fit with what was revealed in your competitive analysis?
- What will be your customer service and credit policies?

Proposed Location

Probably you do not have a precise location picked out yet. This is the time to think about what you want and need in a location. Many startups run successfully from home for a while.

- Is your location important to your customers? If yes, how?
- Is it convenient? Parking? Interior spaces? Not out of the way?
- Where is the competition located? Is it better for you to be near them (like car dealers or fast food restaurants) or distant (like convenience food stores)?

Distribution Channels

How do you sell your products or services?

- Retail
- Direct (mail order, Web, catalog)
- Wholesale

VI. Operational Plan

Explain the daily operation of the business, its location, equipment, people, processes, and surrounding environment.

VII. Management and Organization

Who will manage the business on a day-to-day basis? What experience does that person bring to the business? What special or distinctive competencies? Is there a plan for continuation of the business if this person is lost or incapacitated? Create an organizational chart showing the management hierarchy and who is responsible for key functions. Include position descriptions for key employees. If you are seeking loans or investors, include resumes of owners and key employees.

VIII. Personal Financial Statement

Include personal_financial_statements_for each owner and major stockholder, showing assets and liabilities held outside the business and personal net worth. Owners will often have to draw on personal assets to finance the business, and these statements will show what is available. Bankers and investors usually want this information as well.

IX. Startup Expenses and Capitalization

You will have many startup expenses before you even begin operating your business. It's important to estimate these expenses accurately and then to plan where you will get sufficient capital. This is a research project, and the more thorough your research efforts, the less chance that you will leave out important expenses or underestimate them.

X. Financial Plan

The financial plan consists of a 12-month profit and loss projection, a four-year profit and loss projection (optional), a cash-flow projection, a projected balance sheet, and a break-even calculation. Together they constitute a reasonable estimate of your company's financial future. More important, the process of thinking through the financial plan will improve your insight into the inner financial workings of your company.

XI. Appendices

Include details and studies used in your business plan; for example: Brochures and advertising materials, Industry studies, Magazine or other articles. Other are detailed lists of equipment owned or to be purchased and Maps and photos of location

XII. Refining the Plan

The generic business plan presented above should be modified to suit your specific type of business and the audience for which the plan is written.

Putting Your Plan Together

When You Are Finished: Your Business Plan should look professional, but the potential lender or investor needs to know that it was done by you. A business plan will be the best indicator that can be used to judge your potential for success. It should be no more than 30 to 40 pages in length, excluding supporting documents.

> If you are seeking a lender or investor: Include only the supporting documents that will be of immediate interest to the person examining your plan. Keep the others with your own copy where they will be available on short notice. Make copies for each

lender or investor you wish to approach. Keep track of each copy that you give out. If you are turned down for financing, be sure to retrieve your business plan.

Keep Your Business Plan Up-to-Date

Your business plan will be beneficial only if you update it frequently to reflect what is happening within your business. Measure your projections against what actually happens in your company. Use the results to analyse the effectiveness of your operation. You can then implement changes that will give you a competitive edge and make your business more profitable.

How to Present your Business Plan

You have to convince complete strangers to invest millions of money in a business that does not exist yet. Your business is a black box to them. They won't know who you are. They will doubt everything you say. They will demand answers to tough questions about you, your business and plan. Some will be rude, impatient, imperious and impossible. No matter how much you prepare, it won't be easy. So what should you do? The next section offers some guideline to assist newcomers in presenting their business plan to a group of people.

Presentation Structure of a Business Plan

Introduction

- Greet the audience
- Introduce yourself
- Give overview of need proposed solution and benefits of investing

Industry

- Describe the problem/opportunity
- Describe the benefits of your solution
- Describe your business model sales and pricing logic, estimated revenue

Management

- Introduce members of the team
- Indicate qualification, experience and strength of members

- Track record in relevant achievements

Financing

- Indicate total project cost, what you are investing, what you need and how you will spend
- Provide the projected gross margins, break even and cash flow source and use of funds
- Indicate return on investment for its investors
- Explain details of your requirement
- Indicate availability of full business plan

Conclusion

- Recap need/opportunity
- Recap solution and benefits
- Recap your requirement from investors and the promises return on investment.

CHAPTER SEVEN

DEVELOPING AN EFFECTIVE BUSINESS MODEL

Introduction

A business model represents how a company makes or intends to make money by turning its innovation into profit. The plan implemented by a company to generate revenue and make a profit from operations. The model includes the components and functions of the business, as well as the revenues it generates and the expenses it incurs.

Meaning of a Business Model

Business model is a description of means and methods a firm employs to earn the revenue projected in its plans. It views the business as a system and answers the question, "How are we going to make money to survive and grow?

Importance of Business Model

Building a business is a lot like building a house – and who can imagine a house built without preliminary sketches? The following importance of preparing a Business model

- Creating a small business model means planning on paper the fundamentals of your business.
- It helps you, as an entrepreneur, to put aside the excitement and make a realistic evaluation of the potential success of your business idea.
- A proper business model helps you to figure out elements such as:
    - Your business concept (what problem are you solving for whom)
    - How you will create customer value
    - How your product or service will get to customers.
    - How your business will stay competitive.
    - How all revenue and costs you can anticipate

Developing a Great Business Model

Great business models depend on developing three vital qualities that help the business succeed: finding high-value customers, offering significant value to customers, and delivering significant margins. Additionally, it must avoid the following three problems that can derail a business: difficulties in satisfying customers, trouble maintaining market position, and problems generating funding for growth

The list below outlines key factors in determining whether your model meets each vital quality.

Acquire high-value customers.

High-value customers don't mean rich customers, but customers who meet the following requirements:

- Are easy to locate
- Allow you to charge a profitable price
- Are willing to try your product after minimal marketing expenses
- Can generate enough business to meet your sales and profit objectives

Customers don't necessarily need to be the end users of your product or service. They could be retailers, distributors, catalogs or whomever you sell your product or service to. If your end users or distributors don't fit this profile, you can still meet this requirement by attracting high-value customers through partnerships or alliances with companies in the market.

Offer significant value to customers.

There are a number of ways you can create significant value and competitive advantage, including the following:

- Unique advantages in features and benefits
- Better distribution through retail or distribution
- More complete customer solutions through alliances with other companies
- Lower pricing due to manufacturing efficiencies or pricing options
- Faster delivery, broader product line or more customization options

The rise of the internet, outsourcing and, most of all, the increased willingness of companies to partner in creative ways to serve customers has resulted in every industry creating innovation in business strategy. This gives you opportunities, but also makes it imperative that you stay on the creative edge to fend off competition.

Deliver products or services with high margins.

Better manufacturing costs due to overseas manufacturing is typically not the clear way to higher margins, as competitors will typically match your costs in the end. Higher margins come from having a product that can be made from an improved process or by having features that provide significant value and allow you to charge more. You can achieve high margins with other tactics, including the following:

- Use a more efficient distribution channel.
- Require less sales support and sales effort.
- Have an industry-leading lean manufacturing process.
- Offer more auxiliary products or other opportunities for revenue without increasing cost

Provide for customer satisfaction.

Consider whether it will be difficult and therefore expensive to satisfy customers once they buy. Some of the aspects of a business that create high customer satisfaction costs include:

- High warranty costs
- Extensive technical support
- Extensive installation requirement
- Extensive customer service
- Interface problems with other equipment

Customer satisfaction costs, which occur after the sale, are red flags because the costs are typically high and don't produce revenue or profits. If your type of product might have high customer service costs, you need to configure your business to put these costs on someone else, either with partnerships or alliances or by restricting your sales to an aspect of the business that doesn't require customer satisfaction costs.

Maintain market position.

A good business model uses its resources to improve its market position, adding new products, features and customers or expanding into new applications. The red flags that indicate it will be difficult to maintain market position include:

- Two or three major customers buy most of your product.
- Major potential competitors control the distribution network.
- Technology changes rapidly and requires high-risk product development.
- There are alternative technologies being developed to meet the same need.

- You have well-funded potential competitors who could quickly move into your market.
- Long term, your ability to hold market position is determined by the characteristics of the overall market.

Fund the Business

Startup costs, operating capital, personnel costs and overhead costs are just a small percentage of the funding requirements for any business. The question is whether the investments will have a high return and whether the business can grow without substantial new investments.

Components of a Business Model

Knowing what a business model is and what types of different models exist is great; however, to take steps towards creating the right business model requires knowledge of the essential components. These key components and how they integrate together are discussed below:

Producer

Each model includes the entity that offers a product or service. In most models, the company itself fills this position and is the producer of the product. Sometimes, for example, the company delivers, rather than makes, the product. That company, then, is the producer of the delivery system.

Offer or Value Proposition

The value proposition is the perceived value your products provide as the solution to the consumer's problem or need. Typically this is a physical product, but services, digital products, intellectual property and ideas are all value propositions.

Target Market Segment

The targeted market is the group of consumers your plan to offer the value of your product to. Since different markets use the same or similar products, adding multiple segments can increase the potential gain for your company.

Distribution or Movement Channel

Getting your product to its target market, from advertising to retail outlet, is the distribution, or movement, channel. This establishes the means by which your business relates to your customers.

Consumer Relationship

How you establish relationships with your various customer segments is your consumer relationship. It defines how you gain their trust and deliver your product. Brand recognition falls under this area, as does customer service.

Value and Resource Configuration

How you utilize the activities, personnel, and resources necessary to produce your product are your value and resource configuration or value chain. This configuration is the basis for your cost and revenue structures.

Core Competency

The basic knowledge, skill set, abilities, and expertise required to produce your product is your core competency. Initially, it rests in the owner-innovator and the team she surrounds herself with to bring the product to market.

Network or Affiliation Partners

The partner network represents agreements between your business and other companies necessary to produce and market your product. They include materials and parts suppliers, retail outlets, shippers, advertising agencies, and media outlets. Commercializing the value of your product relies on your partnerships.

Cost Structures

The expense required to manufacture a product or provide a service is the cost structure. This includes fixed costs such as leases or mortgage payments, and variable costs, such as research and development, marketing, shipping, and payroll. The ratio of fixed costs to variable costs represents the cost structure.

Revenue Streams

The ways a company makes income are its revenue streams. Most often this is income due to sales. However, it can refer to bartered goods and value-added returns from consumers, partners or third parties such as unsolicited viral or social marketing.

Take Your Time Creating a Business Model

You may have a few ideas scribbled down on a sheet of paper – name ideas, product prices and ideal locations. This is a great start, but a proper business model takes time. Starting a small business is exciting, but you also need the strongest foundation possible to ensure small business success. Don’t guess what your business’ customer value will be – research! Survey your friends and work your business network to find the true value of the solution that your product or service offers to the marketplace. Taking your time creating your business model will ensure you don’t underestimate – or overestimate – anything.

Consider All Possible Areas of Concern

There are many moving parts when it comes to running a business and you don’t want to be caught unprepared. For example, how exactly will your product make its way to your customers? Make sure your business model is thorough and covers all the bases. Once you’ve proven the feasibility of your new business or your business expansion plan on paper with a business model, you’re ready to write a more comprehensive business plan. Proper planning takes time and effort, but you’ll see the return on that investment when your great idea has become the great, successful small business you envisioned.

CHAPTER EIGHT
ENTREPRENEURIAL RESOURCE

Introduction

Entrepreneurial resources are assets, tangible and intangible, that are mobilized by entrepreneurs in the process of building a business, organization, or other initiative. Entrepreneurial resources include sources of financing such as lines of credit and investment capital, but may also include abstract resources such as knowledge of a particular field or technology, or networks of contacts who can be called upon to contribute financial support, publicity, or other benefits to a growing enterprise.

Meaning of Resource

Resource is an economic or productive factor required to accomplish an activity, or as means to undertake an enterprise and achieve desired outcome. The most basic resources are land, labour, capital and entrepreneurship; other resources include energy, entrepreneurship, information, expertise, management and time.

Attributes of a Strategic Resources

The resource-based view holds that competitive advantage is created when firms possess and employs strategic resources that are valuable, rare and imperfectly imitable.

Valuable Resources

These resources help the organisation implement its strategy effectively and efficiently. Valuable resources exploit opportunities or minimises threats in the firm's environment.

Rare resources

Resources are not enough for all competitors and must be relatively difficult to access. Scarce resources are also called factors of production. Scarce goods are also termed economic goods. Scarce resources are used to produce scarce goods.

Imperfectly Imitable Resource

Resources are imperfectly imitable when competitors cannot merely copy them. Being imperfectly imitable means that the key resources used are impossible, extremely costly or difficult for other firms to duplicate.

Types of Resources

There are several of resources available to a firm. These are financial, physical, human, technological and organisational resources.

Financial Resources

The money available to a business for spending in the form of cash, liquid securities and credit lines. Before going into business, an entrepreneur needs to secure sufficient financial resources in order to be able to operate efficiently and sufficiently well to promote success. Different types of funding are usually available based on the company's size and needs. Companies may choose to use traditional funding sources such as banks and equity investors or apply for government grants or venture capital funds. Each funding type offers different advantages to companies.

Physical Resource

These are resources that are available to a business organisation in the form of buildings and other machineries needed for the day to day running of the organization. Additionally, physical resources are the resources that are made by man through his abilities and skill. The buildings, technology, and many more products that are made by man is an example of physical resources. This resource helps man's daily activities become easy.

Human Resource

Human resources is the set of individuals who make up the workforce of an organization, business sector or an economy. Furthermore, it is the division of a company that is focused on activities relating to employees. These activities normally include recruiting and hiring of new employees, orientation and training of current employees, employee benefits, and retention.

Technological Resource

Technological resources are what you need to get a job done. The seven standard resources for technology are People, Information, Materials, Tools, Energy, Capital and Time. All types of technology use these seven resources as they apply to their specific areas. Technological resources are such things as software, designs, music or text. These resources are owned like physical resources and are known as 'intellectual property'. Intellectual property laws allow people to own ideas and have rights over them.

Organisational Resource

This refers to the firm’s formal reporting systems, its information-generation and decision-making systems, and formal or informal planning. Organisational resources include the firm’s structure, routines, and systems.

CHAPTER NINE

STARTING A BUSINESS VENTURE

Introduction

Starting a business is an exciting proposition, but it's also an incredibly challenging undertaking. It can be hard to know where to begin when starting your own business, but meeting your legal obligations should be a priority. Starting a business involves planning, making key financial decisions and completing a series of legal activities. Once you have laid solid legal foundations for your business, you can then start developing it with confidence

Reasons for Starting Up New Business

You are your own boss

Being your own boss gives you the freedom to do things your way and implement your own plans. Of course, you live or die by your decisions, but that's what's good about it isn't it?

You get to do what you are interested in

The good thing about being an entrepreneur is that you choose what kind of firm you start up, and where. So, providing that you've done your research properly and there is a gap in the market, you can turn a hobby or interest into a profitable enterprise.

Get creative

Being an entrepreneur gives you the freedom to express yourself and develop your concept in any way you choose. Of course, there are always financial constraints, but the ability to be as creative as you like is far more appealing than a one-dimensional job.

It can be very profitable

Although the start-up process can be tough, with long hours and little money not uncommon, if you run your business well, the rewards can be huge. And, from a purely selfish point of view, you will get most of the profits yourself.

Steps to Starting a Business Enterprise

Starting your own business is not just about having a dream. There are real steps to ensure your business a successful start. So what are all of the things you should consider when launching your new brainchild?

1. Develop a business idea

   You need an idea for a business before you do anything else. This should be something you are passionate about, since your new business will consume a great deal of your time and money. Come up with business ideas by identifying things people need which no one else currently provides, that is not provided in your area, or which you can provide better than anyone else. Your business ides should be plausible and unique.

2. Write a Business Plan

   The old adage goes: failure to plan is a plan for failure. A business plan is a written document that describes how a new business is going to achieve its goals. A business plan will lay out a written plan from a marketing, financial and operational viewpoint. Your business plan does not need to be complex or convoluted, but it is necessary. If you are having a hard time pulling your plan together, seek expert's assistance.

3. Get Business Assistance and Training

   You need to seek advice from appropriate individuals and institutions before you start you business operation. A range of business support options have been developed and can be applied to develop small businesses.

4. Choose a Business Location

   Choosing a business location is perhaps the most important decision a small business owner or startup will make, so it requires precise planning and research. It involves looking at demographic, assessing your supply chain, scoping the competition, staying on budget, understanding state laws and taxes, and much more. Get advice on how to select a customer-friendly location and comply with zoning laws.

5. Finance your business.

   You've got the idea and you've got a plan. But you can't start a business without a little cold hard cash. If you have it, you can always invest your own funds, but if you're like most, you'll need a little help. It is important that you know how much money you will actually need to start and to run your business until you reach your break-even point—the point when your sales revenue equals your total expenses.

6. Determine the legal structure of your business

   One of the key decisions you'll make when starting a business is which legal structure to use. Decide which form of ownership is best for your business: sole proprietorship, partnership and Limited Liability Company (LLC). The structure you choose will depend on the size and type of business, along with your personal circumstances and how much you want to grow the business. Keep in mind that if you need to, you can change your business structure later on if you find that a new structure will meet your needs better.

7. Register your Business Enterprise

   Register your business name with your state government and also obtain a tax identification number with appropriate state agencies

Conducting Market Analysis for a Business Plan

One of the most critical sections of your business plan is your market analysis. Find out just what information you need to know about your potential customers. Every business plan should include market analysis. This is one of the first and most important reasons to do a business plan. The market you need to look at is your potential market, not the actual market served, the one that's limited to your existing customers. Your target market is much wider than just the people you already reach. It's the people you might someday reach, or people you could reach, that you need to be concerned about.

Key Activities in Market Analysis

Obtaining relevant information

The information sources that will help you conduct a market analysis are different for every business plan. You might also need to find other government statistics, or other commercial statistics, so you may be conducting some internet searches to track down the information. Not all the information you need is going to be publicly available, and you may have to settle for educated estimates. Sometimes you'll have to extrapolate information from different sources to get the information you're seeking.

Segmentation

Always try to divide your target market into smaller markets or segments. Dividing the market into these segments helped the company address the more specific market needs, media, pricing patterns and decision criteria in each of their different market segments. Segmentation helps you target specific people with specific messages and helps you focus on user needs. Knowing your market segments will help you make smart decisions when it comes to providing the products and services that will work best for them and for communicating with them.

Market Size and Growth

You need to be able to measure and quantify your market. For example, if local homeowners are part of your target market, then you should be able to count them. You need to know whether you have 500 people in your market, or 200,000, or 2 billion. Be able to show what the total market is for your business. When it comes to market growth, you need to think about percentage change as a market forecast. Market forecasts start with the total numbers of possible purchasers in each market segment, then project percentage change over the next three to five years.

Observe Market Trends

You need to understand what's going on with your market. What trends and fashions do you see having an influence on your market segments? If you're selling cars, for example, is there a trend that shows people responding to higher gasoline prices or more environmental concerns? In computers, is there a trend toward more power and lower prices? How does the increase in TV recorder equipment affect your market? The questions that affect target markets will be different for every business, and these are just examples. What's important is that as you create your business plan, you become aware of the market trends that affect your specific market.

How to Finance your Start-up Business.

Everybody needs capital or money to start a business enterprise. One reason for the failure of many small businesses is that they undercapitalize their business. Therefore, it is important that you know how much money you will actually need to start and to run your business until you reach your break-even point—the point when your sales revenue equals your total expenses.

You will need to answer the following questions

- How much money is required to start this business?
- How much of your own money do you have for this business?
- Do you already own any of the assets needed to start this business?
- Do you have family, friends, acquaintances, or others who are willing and able to invest in this business?
- Do you have a strong personal credit rating or lines of credit available?

Sources of Finance

There are two sources a business enterprise can seek for financial assistance; Debt and Equity.

Debt Capital

Creditor money (debt) comes from trade credit, loans made by financial institutions, leasing companies, and customers who have made prepayments on larger-frequently manufactured orders. Debt capital, depending upon its sources (e.g., trade, bank, leasing company, Mortgage Company) comes into the business for short or intermediate periods.

Equity Capital

Equity is money received by the company in exchange for some portion of ownership. Sources include the entrepreneur's own money; money from family, friends, or other non-professional investors; or money from venture capitalists.

General Sources of Funds

Personal Saving

An entrepreneur will often invest personal cash balances into start-up. Investing personal savings maximizes the control the entrepreneur keeps over the business. It is often also a strong signal of commitment to other potential investor and banks.

Borrowing from friends and family

Friends and family who are supportive of the business idea provide money either directly to the entrepreneur or into the business.

Banks and Savings Banks

Banks loans and mortgage loans are specific financing where the entire loan is paid out in one go. The business then repays the loan over an agreed period.

Investors

Individuals or institutions may be willing to invest time and money in businesses as form of investment. These types of investors are commonly referred to as Business angels. Another form of investors is venture capitalist companies.

Leasing

Leasing is a method of financing whereby, an entrepreneur may rent a property from another person with the agreement that the entrepreneur the shall make regular payments to the owner of the property for an agreed period.

Going public

Initial public offering (IPO) - when a company raises capital by selling shares of its stock to the public for the first time.

CHAPTER TEN
FORMS OF BUSINESS OWNERSHIP

Introduction

When forming a new business, selecting the business structure is one of the most important decisions you will have to make. Business structures, including the sole proprietorship, partnership (general or limited), corporation and limited liability company (LLC) each have distinct advantages and disadvantages.

Forms of Business Ownership

When a business is launched, a form of legal entity must be chosen. The most common legal entities are sole proprietorship, partnership and corporation.

Sole Proprietorship

A proprietorship is a form of business organization involving one sole person, and the person and the business are essentially the same. A sole proprietorship is not a separate legal entity. For tax purposes, the profits or loss of the business flow through to the owner’s personal tax return.
Creating a sole proprietorship is easy and inexpensive. The owner maintains complete control power over the business and retains all of the profits. However, Liability on the owner’s part is unlimited. The business relies on the skills and abilities of a single owner to be successful (of course, the owner can hire employees who have additional skills and abilities).

Advantages

- Ease of formation and dissolution. Establishing a sole proprietorship can be as simple as printing up business cards or hanging a sign announcing the business. Likewise, a sole proprietorship is equally easy to dissolve.
- Typically, there are low start-up costs and low operational overhead.
- Ownership of all profits.
- Sole Proprietorships are typically subject to fewer regulations.
- No corporate income taxes. Any income realized by a sole proprietorship is declared on the owner's individual income tax return.

Disadvantages

- Unlimited liability. Owners who organize their business as a sole proprietorship are personally responsible for the obligations of the business, including actions of any employee representing the business.
- Limited life. In most cases, if a business owner dies, the business dies as well.
- It may be difficult for an individual to raise capital. It's common for funding to be in the form of personal savings or personal loans.

Partnership

A type of unincorporated business organization in which multiple individuals, called general partners, manage the business and are equally liable for its debts; other individuals called limited partners may invest but not be directly involved in management and are liable only to the extent of their investments. Each partner shares equal responsibility for the company's profits and losses, and its debts and liabilities. The partnership itself does not pay income taxes, but each partner has to report their share of business profits or losses on their individual tax return

Advantages

- Synergy. There is clear potential for the enhancement of value resulting from two or more individuals combining strengths.
- Partnerships are relatively easy to form; however, considerable thought should be put into developing a partnership agreement at the point of formation.
- Partnerships may be subject to fewer regulations than corporations.
- There is stronger potential of access to greater amounts of capital.
- No corporate income taxes. Partnerships declare income by filing a partnership income tax return. Yet the partnership pays no taxes when this partnership tax return is filed. Rather, the individual partners declare their pro-rata share of the net income of the partnership on their individual income tax returns and pay taxes at the individual income tax rate.

Disadvantages

- Unlimited liability. General partners are individually responsible for the obligations of the business, creating personal risk.
- Limited life. A partnership may end upon the withdrawal or death of a partner.
- There is a real possibility of disputes or conflicts between partners which could lead to dissolving the partnership. This scenario enforces the need of a partnership agreement.

Corporation

Corporate is a business or entity which has separate legal personality, with limited liability or unlimited liability for its members or shareholders, who buy and sell their shares/stocks depending on the performance of the corporation. It is chartered by a state and given many legal rights as an entity separate from its owners. The process of becoming a corporation, called incorporation, gives the company separate legal standing from its owners and protects those owners from being personally liable in the event that the company is sued (a condition known as limited liability.

Advantages

- Unlimited commercial life. The corporation is an entity of its own and does not dissolve when ownership changes.
- Greater flexibility in raising capital through the sale of stock.
- Ease of transferring ownership by selling stock.
- Limited liability. This limited liability is probably the biggest advantage to organizing as a corporation. Individual owners in corporations have limits on their personal liability. Even if a corporation is sued for billions of dollars, individual shareholder's liability is generally limited to the value of their own stock in the corporation.

Disadvantages

- Regulatory restrictions. Corporations are typically more closely monitored by governmental agencies, including federal, state, and local. Complying with regulations can be costly.

- Higher organizational and operational costs. Corporations have to file articles of incorporation with the appropriate state authorities. These legal and clerical expenses, along with other recurring operational expenses, can contribute to budgetary challenges.
- Double taxation. The possibility of double taxation arises when companies declare and pay taxes on the net income of the corporation, which they pay through their corporate income tax returns. If the corporation also pays out dividends to individual shareholders, those shareholders must declare that dividend income as personal income and pay taxes at the individual income tax rates. Thus, the possibility of double taxation.

Factors to consider in choosing the form of business ownership

Determining which form of business ownership which will best suit the needs of your business and the owner(s) can depend on several different factors. When deciding on which business organization to use, an attorney can provide you with information about the different structures and help evaluate your goals and objectives. The ensuing factors must be considered in choosing the form of your business ownership.

Liability considerations

The first factor to consider is how important liability will be to your business. If there is the possibility that it could be sued or accrue debt, then it is probably best to avoid being a sole proprietor or a general partner. Both forms do not provide any personal liability protection from business creditors. In addition, if you have personal debt or are at risk of having personal creditors, then these two business structures will not protect your business assets from your personal creditors. If personal liability is not a major concern, you can avoid the double taxation of a corporation and formalities of many of the business structures, and opt for a sole proprietorship or general partnership. Legally, they are simplest business structures to form and operate. Keep in mind that even though an owner is only responsible for his or her own personal income tax, it is still best to keep the business finances separate from one's own personal assets.

Tax consequences

The next major factor in choosing a business type is how the business will be taxed. A drawback of the traditional Corporation is that it is taxed at both the corporate level and when distributions are made to the owners. This is known as "double taxation." Sometimes this is desirable because it keeps the owners out of a higher tax bracket, but generally, if a company wishes to minimize taxes, a "pass through" business type is usually the model of choice. This means that the business itself is not taxed. All business profits or losses are passed through to the owners to report on their own personal tax returns. Partnerships also enjoy pass through taxation so that the partnership itself is not taxed.

Changing the form of a business

If the nature of your business has fundamentally changed from the time you initially selected a business form or if the owners' needs have substantially altered, it may be necessary to consider changing the structure of the business. For example, a growing sole proprietorship may wish to switch to a partnership to allow for additional owners. General or limited partnerships may opt to become corporations to take advantage of the limited liability available to all members. Another scenario in which a conversion to a different business organizational structure is advisable is if the tax laws and other regulations to which the business is subject have substantially changed.

CHAPTER ELEVEN
CREATING NEW-VENTURE TEAM

Introduction

One of the most important part of your new venture is the team you put together to make it happen. Your team is the productive force, the heartbeat, behind your business. In many ways, the strength of your team determines the level of your success.

Liabilities of Newness

New ventures have a high propensity to fail. The high failure rate is due in part to liabilities of newness, which refer to the fact that new companies often falter because the people involved can't adjust fast enough to their new roles and because the firm lacks record of success. Assembling a talented and experienced management team is one path that firms can take to overcome these limitations.

Creating New-Venture Team

A new venture team is the group of founders, key employees, and advisers that move a new venture from an idea to a fully-functioning firm. Usually the team doesn't come together all at once. Instead, it is built as the new firm can afford to hire additional personnel. The team also involves more than paid employees. Many firms have boards of directors, boards of advisers, and professionals on whom they rely for direction and advice. New ventures have a high propensity to fail. The high failure rate is due in part to what researchers call the liability of newness, which refers to the fact that companies often falter because the people who start the firms can't adjust quickly enough to their new roles and because the firm lacks a "track record" with outside buyers and sellers. Assembling a talented and experienced new venture team is one path that firms can take to overcome these limitations.

Elements of a New Venture Team

The next sections will discuss key person(s) who constitute a new venture team

Size of Founding Team

The first decision that most founders face is whether to start a firm on their own or whether to build an initial founding team. It is generally believed that new ventures started by a team have an advantage over those started by an individual, because a team brings more talent, resources, ideas, and professional contacts to a new venture than does a sole entrepreneur. Several features are thought to be significant to a founder's success. These factors include; the level of the founder's education, prior entrepreneurial experience, relevant industry experience and networking (the depth of the founder's professional network).

Recruiting and Selecting Key Employees

Founders differ in terms of how they approach the task of recruiting and selecting key employees. Some founders draw on their network of contacts to identify candidates for key positions, while others use executive search firms. An executive search firm is a company that specializes in helping other companies recruit and select key personnel.

The Role of the Board of Directors

A new venture organizes as a corporation; it is legally required to have a board of directors – a panel of individuals who are elected by a corporation's shareholders to oversee the management of the firm. A board is typically made up of both inside and outside directors. An inside director is a person who is also an officer of the firm. An outside director is someone who is not employed by the firm. A board of directors has three formal responsibilities: Appoint the officers of the firm, declare dividends, and oversee the affairs of the corporation.

Mentors

Mentors can go a long way in helping your business venture to succeed. Experienced mentors have been in your shoes, and use that experience to guide you away from pitfalls and help you make crucial decisions. Mentors might be angel investors, successful entrepreneurs, faculty members or friends. Their motivation is usually to give something back, but some mentors walk a fine line between advising and running the show.

Service providers

At times, other professionals assume important roles in a new venture's success. Attorneys, accountants, and business consultants are often good sources of counsel and advice. A consultant is an individual who gives professional or expert advice. New ventures vary in how much they rely on business consultants for direction.

Lenders and Investors

Lenders and investors have a vested interest in the companies they finance, often causing them to become very involved in helping the firms they fund. Lenders and investors help new firms by providing guidance and lending legitimacy, and assume the natural role of providing financial oversight. In some instances, lenders and investors also work hard to help new firms fill out their management teams.

Benefits of the New Venture Teams

- Teams can generate a wide range of ideas and innovation than individuals.
- Teams are able to motivate themselves
- Teams often take more risks than individuals
- Teams have a range of personalities such as workers, thinkers, leaders who contribute the right balance of skills necessary to achieve high performance
- Team support each other and are not just task-oriented.
- Teams can be s support mechanism which provide mentoring and allow others to grow in self-confidence.

Team Development

There is distinction between team building and team development or team working. Team building involves bringing together new teams and giving them a sense of direction, a period of getting to know their colleagues, recognising skills and abilities. Team development involves team working skills such as sharing ideas, co-operating, being open and supporting one another.

Stages in Team Development

There are four stages in team development namely

1. Forming

   The group gets together for the first time and formal rules of working are yet to be established.

2. Storming

Following the forming stage members grow in confidence and an amount of in-fighting is likely.

3. Norming

   Now the group moves onto establish norms in the form of systems and procedures

4. Performing

   Finally the group becomes far more of a cohesive unit and starts to perform as a team.

Disadvantages of Teams in Business Venture

- Delays: When the team generates new ideas, the team will have to discuss them. This generally requires meetings. Team meetings can often become social gatherings if not properly managed, and this can result in delays for the organisation.
- Conflict: conflict is very common among teams. The organisation must recognize the different types of conflicts that exit within teams and deal with these conflicts immediately. A cognitive conflict frequently occurs because the experiences that each team member brings to the table produce different views about different subjects.
- Decision Process: Decision-making by teams is a prolonged process and even simple issues are made complicated. Teams must develop the culture of consensus building.

CHAPTER TWELVE
INTELLECTUAL PROPERTY FOR BUSINESS

Introduction

Intellectual property represents valuable assets to your business, helping to give you a competitive edge and distinguish your business from your competition. Intellectual property, when done right and used in a comprehensive and thoughtful manner, makes your business much more competitive, valuable and interesting to customers.

Meaning of intellectual property

Intellectual property (IP) is a legal concept which refers to creations of the mind for which exclusive rights are recognized. Under intellectual property law, owners are granted certain exclusive rights to a variety of intangible assets, such as musical, literary, and artistic works; discoveries and inventions; and words, phrases, symbols, and designs.

Importance of Intellectual Property

- Distinguish your business from the competition
- Make it more difficult for competitors to compete unfairly or trade off your goodwill
- Make it easier for your customers to find, identify and distinguish your business from others
- Add significant value to your business for potential acquirers
- Looking for funding? Investors view intellectual property as critical to the success of their investments.

Types of Intellectual Property

There are five types of intellectual property namely; trademarks, trade dress, trade secrets copyrights and patents Each type of intellectual property has its purposes, and each can help provide tremendous value, depending on your business.

Trademarks

A trademark is a distinctive sign or indicator used to uniquely identify a source of goods or services in the marketplace. Trademarks are absolutely critical in protecting your business, and making it easy for customers to identify your business against the competition and other businesses that would otherwise take advantage of your goodwill.

Trade Dress

Trade dress is a form of trademark, in that it refers to the visual appearance of a product or its packaging (or even the design of a building), and is design to protect customer confusion in the marketplace. If you have distinctive packaging, seating, bagging, or other distinctive features you use as a form of identification for your business to your customers, trade dress protection is a means to protect your goodwill against all imitators.

Trade Secret

Trade secret represents confidential or classified information, not generally known or reasonably ascertainable in the marketplace, and the knowledge of such provides a competitive or economic advantage. To obtain trade secret protection, you must take reasonable precautions to prevent disclosure. Trade secret protection enables you to prevent certain important information (i.e. customer lists, formulas, processes, etc) from being placed in the wrong hands, and if it does end up in the wrong hands, such protection gives you options against the parties violating your trade secrets.

Copyrights

Copyrights protect unique works or expressions, and prevent others from utilizing your work without your permission. Taking the right copyright precautions and actions, can help protect your business investments. For example, if you're a restaurant, you can copyright your menu. If you are a construction company, you can copyright your signs or unique work-product.

Patents

A patent gives the holder a monopoly on a specific discovery for up to 20 years. Patents are useful to protect "any new and useful process, machine, article of manufacture, or composition of matter, or any new and useful improvement thereof." They are great tools to provide a competitive edge, and they become valuable in of themselves.

CHAPTER THIRTEEN
FINANCIAL MANAGEMENT

Introduction

To take a viable venture and make it a growing concern, the entrepreneur must employ effective management strategies. Without effective financial management, a young business venture cannot become a successful early stage company no matter how exceptional the entrepreneurial concept, how much funding in its coffers, how exceptional its products/ services or how great the market demand is for them.

Meaning of Financial Management

Financial management is planning, directing, monitoring, organizing and controlling of the monetary resources of an organisation. Also, financial management is concern with raising financial resources and their effective utilization towards achieving the organisational goals and putting the available funds to the best advantage from the long term point of view of business objectives.

Importance Issues in Financial Management.

One area of particular concern for the smaller business owner lies in the effective management of working capital. Net working capital is defined as the difference between current assets and current liabilities and is often thought of as the "circulating capital" of the business. Lack of control in this crucial area is a primary cause of business failure in both small and large firms. The business manager must continually be alert to changes in working capital accounts, the cause of these changes and the implications of these changes for the financial health of the company. The next section will discuss key issues in financial management.

Accounts Receivable

Almost all businesses are required to extend credit to their customers. Key issues in this area include: Is the amount of accounts receivable reasonable in relation to sales? On the average, how rapidly is accounts receivable being collected? Which customers are "slow payers?" What action should be taken to speed collections where needed?

Inventories

Inventories often make up 50 percent or more of a firm's current assets and therefore, are deserving of close scrutiny. Key questions which must be considered in this area include: Is the level of inventory reasonable in relation to sales and the operating characteristics of the business? How rapidly is inventory turned over in relation to other companies in the same industry? Is any capital invested in dead or slow moving stock? Are sales being lost due to inadequate inventory levels? If appropriate, what action should be taken to increase or decrease inventory?

Accounts Payable and Trade Notes Payable

In a business, trade credit often provides a major source of financing for the firm. Key issues to investigate in this category include: Is the amount of money owed to suppliers reasonable in relation to purchases? Is the firm's payment policy such that it will enhance or detract from the firm's credit rating? If available, are discounts being taken? What are the timing relationships between payments on accounts payable and collection on accounts receivable?

Notes Payable

Notes payable to banks or other lenders are a second major source of financing for the business. Important questions in this class include: What is the amount of bank borrowing employed? Is this debt amount reasonable in relation to the equity financing of the firm? When will principal and interest payments fall due? Will funds be available to meet these payments on time?

Accrued Expenses and Taxes Payable

Accrued expenses and taxes payable represent obligations of the firm as of the date of balance sheet preparation. Accrued expenses represent such items as salaries payable, interest payable on bank notes, insurance premiums payable and similar items. Of primary concern in this area, particularly with regard to taxes payable is the magnitude, timing, and availability of funds for payment. Careful planning is required to insure that these obligations are met on time.

Types and Sources of Capital

There are two sources a business enterprise can seek for financial assistance; Debt and Equity.

Debt Capital

Creditor money (debt) comes from trade credit, loans made by financial institutions, leasing companies, and customers who have made prepayments on larger-frequently manufactured orders. Debt capital, depending upon its sources (e.g., trade, bank, leasing company, Mortgage Company) comes into the business for short or intermediate periods.

Equity Capital

Equity is money received by the company in exchange for some portion of ownership. Sources include the entrepreneur's own money; money from family, friends, or other non-professional investors; or money from venture capitalists.

Business capital can be further classified as working capital, and growth capital.

Working capital

This is required to meet the continuing operational needs of the business, such as accounts receivable, purchasing inventory, and meeting the payroll. In most businesses, these needs vary during the year, depending on activities (inventory build-up, seasonal hiring or layoffs, etc.) during the business cycle.

Growth capital

Growth capital is required when the business is expanding or being altered in some significant and costly way that is expected to result in higher and increased cash flow. Lenders of growth capital frequently depend on anticipated increased profit for repayment over an extended period of time, rather than expecting to be repaid from seasonal increases in liquidity as is the case of working capital lenders.

Financial Statements

A financial statement (or financial report) is a formal record of the financial activities of a business, person, or other entity. There are four main financial statements namely; Balance Sheets; Income Statements; Cash Flow Statements; and Statements of Shareholders' equity.

Balance sheets

Balance sheets show what a company owns and what it owes at a fixed point in time. A balance sheet shows a snapshot of a company's assets, liabilities and shareholders' equity at the end of the reporting period. It does not show the flows into and out of the accounts during the period. A balance sheet provides detailed information about a company's assets, liabilities and shareholders' equity.

Assets

These are things that a company owns that have value. This typically means they can either be sold or used by the company to make products or provide services that can be sold. Assets include physical property, such as plants, trucks, equipment and inventory. It also includes things that can't be touched but nevertheless exist and have value, such as trademarks and patents. And cash itself is an asset. It is grouped into fixed and current assets

Liabilities

These are amounts of money that a company owes to others. This can include all kinds of obligations, like money borrowed from a bank to launch a new product, rent for use of a building, money owed to suppliers for materials, payroll a company owes to its employees, environmental cleanup costs, or taxes owed to the government. Liabilities also include obligations to provide goods or services to customers in the future. It is grouped into short and long term liabilities.

Shareholders' equity

It is also called capital or net worth. It's the money that would be left if a company sold all of its assets and paid off all of its liabilities. This leftover money belongs to the shareholders, or the owners, of the company.

Income Statements

An income statement is a report that shows how much revenue a company earned over a specific time period (usually for a year or some portion of a year). An income statement also shows the costs and expenses associated with earning that revenue. This tells you how much the company earned or lost over the period.

Cash Flow Statements

Cash flow statements report a company's inflows and outflows of cash. This is important because a company needs to have enough cash on hand to pay its expenses and purchase assets. While an income statement can tell you whether a company made a profit, a cash flow statement can tell you whether the company generated cash. A cash flow statement shows changes over time rather than absolute cedis amounts at a point in time. It uses and reorders the information from a company's balance sheet and income statement. Generally, cash flow statements are divided into three main parts. Each part reviews the cash flow from one of three types of activities: operating activities; investing activities; and financing activities.

Financial Ratios

Ratios are used in the financial aspects of businesses. They are used for comparison purposes in finding out how their company is doing compared to prior years and compared to other businesses in the same industry. The next section briefly discusses key financial ratios.

Leverage Ratios

Those financial ratios that show the percentage of a company's capital structure that is made up on debt or liabilities owed to external parties. A ratio used to measure a company's mix of operating costs, giving an idea of how changes in output will affect operating income. Fixed and variable costs are the two types of operating costs; depending on the company and the industry, the mix will differ. The following are the major types of leverage ratios:

- Debt-equity Ratio
- Debt to total capital ratio

Liquidity Ratios

Those financial ratios that show the solvency of a company based on its assets versus its liabilities. In other words, it lets you know the resources available for a firm to use in order to pay its bills, keep the lights on, and pay the staff. Liquidity can be measured through, Current ratio, Quick ratio and Cash ratio.

- The current ratio is the most basic liquidity test. It signifies a company's ability to meet its short-term liabilities with its short-term assets. A current ratio greater than or equal to one indicates that current assets should be able to satisfy near-term obligations. A current ratio of less than one may mean the firm has liquidity issues.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

- The quick ratio is a tougher test of liquidity than the current ratio. It eliminates certain current assets such as inventory and prepaid expenses that may be more difficult to convert to cash. Like the current ratio, having a quick ratio above one means a company should have little problem with liquidity. The higher the ratio, the more liquid it is, and the better able the company will be to ride out any downturn in its business.

$$\text{Quick Ratio} = \frac{\text{Cash + Accounts Receivable + Short-Term or Marketable Securities}}{\text{Current Liabilities}}$$

- The cash ratio is the most conservative liquidity ratio of all. It only measures the ability of a firm's cash, along with investments that are easily converted into cash, to pay its short-term obligations. Along with the quick ratio, a higher cash ratio generally means the company is in better financial shape.

$$\text{Cash Ratio} = \frac{\text{Cash + Short-Term or Marketable Securities}}{\text{Current Liabilities}}$$

Efficiency Ratio

Efficiency ratios measure how effectively the company utilizes these assets, as well as how well it manages its liabilities. This ratio can measured through Inventory Turnover, Account Receivable Turnover, Accounts Payable Turnover, Total Asset Turnover

- Inventory Turnover. Inventory turnover illustrates how well a company manages its inventory levels. If inventory turnover is too low, it suggests that a company may be overstocking or overbuilding its inventory or that it may be having issues selling products to customers. All else equal, higher inventory turnover is better.

$$\text{Inventory Turnover} = \frac{\text{Cost of Sales}}{\text{Average Inventory}}$$

- Accounts Receivable Turnover. The accounts receivable turnover ratio measures how effective the company's credit policies are. If accounts receivable turnover is too low, it may indicate the company is being too generous granting credit or is having difficulty collecting from its customers. All else equal, higher receivable turnover is better.

$$\text{Accounts Receivable Turnover} = \frac{\text{Revenue}}{\text{Average Accounts Receivable}}$$

- Accounts Payable Turnover. You'll notice that the accounts payable turnover ratio uses a liability in the equation rather than an asset, as well as an expense rather than revenue. Accounts payable turnover is important because it measures how a company manages paying its own bills. High accounts payable turnover may be a signal that a firm isn't receiving very favourable payment terms from its own suppliers. All else equal, lower payable turnover is better.

$$\text{Accounts Payable Turnover} = \frac{\text{Cost of Sales}}{\text{Average Accounts Payable}}$$

- Total Asset Turnover. Total asset turnover is a catch-all efficiency ratio that highlights how effective management is at using both short-term and long-term assets. All else equal, the higher the total asset turnover, the better.

$$\text{Total Asset Turnover} = \frac{\text{Revenue}}{\text{Average Total Assets}}$$

Profitability Ratios

These financial ratios measure the return earned on a company's capital and the financial cushion relative to each cedi of sales. It includes the following

- Gross Margin. Gross margin is simply the amount of each dollar of sales that a company keeps in the form of gross profit, and it is usually stated in percentage terms. The higher the gross margin, the more of a premium a company charges for its goods or services. Keep in mind that companies in different industries may have vastly different gross margins.

$$\text{Gross Margin} = \frac{\text{Gross Profit}}{\text{Sales}}$$

- Operating Margin. Operating margin captures how much a company makes or loses from its primary business per dollar of sales. It is a much more complete and accurate indicator of a company's performance than gross margin, since it accounts for not only the cost of sales but also the other important components of operating income

$$\text{Operating Margin} = \frac{\text{Operating Income or Loss}}{\text{Sales}}$$

- Net Margin. Net margin considers how much of the company's revenue it keeps when all expenses or other forms of income have been considered, regardless of their nature. While net margin is important to take note of, net income often contains quite a bit of "noise," both good and bad, which does not really have much to do with a company's core business.

$$\text{Net Margin} = \frac{\text{Net Income or Loss}}{\text{Sales}}$$

- Return on Assets (ROA). Return on assets measures a company's ability to turn assets into profit. (This may sound similar to the total assets turnover ratio discussed earlier, but total assets turnover measures how effectively a company's assets generate revenue.)

$$\text{Return on Assets} = \frac{\text{Net Income + After tax Interest Expense}}{\text{Average Total Assets)}}$$

- Return on Equity (ROE). Return on equity is a straightforward ratio that measures a company's return on its investment by shareholders. Like all of the profitability ratios we've discussed, it is usually stated in percentage terms, and higher is better.

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Average Shareholders' Equity}}$$

CHAPTER FOURTEEN
MARKETING MANAGEMENT

Introduction

Marketing is possibly the most important activity a business can partake in. It is the one activity that most directly affects the amount of recognition and sales that a company gets and this determines the level of profitability. Basically, if you're marketing your business well, it will make profits and if you're not…you could be in trouble. Even the most brilliant products and services won't survive without marketing efforts. How could a business continue if nobody knows about them?

Meaning of Marketing Management

The word market is derived from the Latin word "Marcatus" meaning goods or trade or a place where business is conducted. Market is an aggregate of people who, as individuals or organizations, have needs for products in a product class and who have the ability, willingness and authority to purchase such products (conditions needed for an exchange). Marketing is defined as a business activity planned at satisfying to a reasonable extent, consumer or customer needs and wants, generally through an exchange process. Marketing Management is the process allocating the resources of the organization toward marketing activities. **Marketing management** means all process that included in marketing activities, which is planning and executing the conception of pricing, promotion, and distribution of a product. A good marketing is triggered by very careful planning and implementation of the most up-to-date methods and tactics.

The Importance of Marketing

The good news is that marketing isn't rocket science. Though it does take some smart ideas and thoughtful execution, marketing can be simple and incredibly cost-effective. Here are a few reasons why marketing is important to your business.

Increased sales

As soon as potential customers begin to recognize your company, your chances of making a sale are increased. Your company will start to see a hike in sales if marketing campaigns are doing their job well. They also encourage new customers to spread the word about your company, causing even more word-of-mouth promotion. Keep close track of your sales during different marketing campaigns so that you can determine which ones are directly impacting sales and which ones might not be working as well.

Building Trust

The more familiar consumers are with a company, the more likely they are to purchase something from you. Marketing not only increases awareness of your brand but also builds your customers trust in you. Your audience will be thrilled to hear about your successes, campaigns you are running, giveaways, and other activities because they all work together to form an image of your company as a sturdy, reliable business that they can depend upon. As this trust is nourished, your business will continue to expand and your sales will increase, too.

Contributing to a Marketplace

A healthy marketplace operates on competition. By marketing your brand, you are outwardly competing with other businesses like yours and this is the idea of healthy competition. Consumers have more than one option to choose from and they get to pick the option that most appeals to them. You can leverage this in your favor by making sure you have the best product or service on the market and also by being clever about the way you market yourself. Make sure that your company image is friendly, trustworthy and reliable in your marketing and you will succeed in competing against other businesses on the market.

The marketing mix

Marketing mix refers to the set of actions, or tactics, that a company uses to promote its brand or product in the market. The marketing mix is commonly termed as 4Ps: product, price, place and promotion. These four elements are adjusted until the right combination is found that serves the needs of the product's customers, while generating optimum income. When marketing their products firms need to create a successful mix of:

- The right product
- Sold at the right price
- In the right place
- Using the most suitable promotion.

To create the right marketing mix, businesses have to meet the following conditions:

- The product has to have the right features - for example, it must look good and work well.
- The price must be right. Consumer will need to buy in large numbers to produce a healthy profit.
- The goods must be in the right place at the right time. Making sure that the goods arrive when and where they are wanted is an important operation.
- The target group needs to be made aware of the existence and availability of the product through promotion. Successful promotion helps a firm to spread costs over a larger output.

For example, a company like Unilever is constantly developing new breakfast meals - the product element is the new product itself, getting the price right involves examining customer perceptions and rival products as well as costs of manufacture, promotion involves engaging in a range of promotional activities e.g. competitions, product tasting etc, and place involves using the best possible channels of distribution such as leading supermarket chains.

Service Mix

The service marketing mix is also known as an extended marketing mix and is an integral part of a service blueprint design. The service marketing mix consists of 7 P's as compared to the 4 P's of a product marketing mix. Simply said, the service marketing mix assumes the service as a product itself. However it adds 3 more P's which are required for optimum service delivery.
The extended service marketing mix places 3 further P's which include People, Process and Physical evidence. All of these factors are necessary for optimum service delivery.

People

People define a service. If you have an IT company, your software engineers define you. If you have a restaurant, your chef and service staff defines you. If you are into banking, employees in your branch and their behavior towards customers define you. In case of service marketing, people can make or break an organization. Thus many companies nowadays are involved into specially getting their staff trained in interpersonal skills and customer service with a focus towards customer satisfaction. In fact many companies have to undergo accreditation to show that their staff is better than the rest.

Process

Service process is the way in which a service is delivered to the end customer. Let's take the example of two very good companies – DHL and Fedex. Both the companies thrive on their quick service and the reason they can do that is their confidence on their processes. On top of it, the demand of these services is such that they have to deliver optimally without a loss in quality. Thus the process of a service company in delivering its product is of utmost importance. It is also a critical component in the service blueprint, wherein before establishing the service, the company defines exactly what should be the process of the service product reaching the end customer.

Physical Evidence

Services are intangible in nature. However, to create a better customer experience tangible elements are also delivered with the service. Take an example of a restaurant which has only chairs and tables and good food, or a restaurant which has ambient lighting, nice music along with good seating arrangement and this also serves good food. Which one will you prefer? The one with the nice ambience. That's physical evidence. Several times, physical evidence is used as a differentiator in service marketing. Imagine a private hospital and a government hospital. A private hospital will have plush offices and well dressed staff. Same cannot be said for a government hospital. Thus physical evidence acts as a differentiator.

Market Segmentation

Market segmentation refers to the aggregating of prospective buyers into groups (segments) that have common needs and will respond similarly to a marketing action. Market segmentation enables companies to target different categories of consumers who perceive the full value of certain products and services differently from one another.

Generally three criteria can be used to identify different market segments:

- Homogeneity (common needs within segment)
- Distinction (unique from other groups)
- Reaction (similar response to market)
- Types of Market Segmentation

There are many ways in which a market can be segmented. A marketer will need to decide which strategy is best for a given product or service. Sometimes the best option arises from using different strategies in conjunction. Approaches to segmentation result from answers to the following questions: where, who, why and how?

Geographic segmentation: Where?

A market can be divided according to where consumers are located. Understanding cultural differences between countries could be pivotal for business success, consequently marketers will need to tailor their strategies according to where consumers are. Geographic segmentation is the division of the market according to different geographical units like continents, countries, regions, counties or neighborhoods. This form of segmentation provides the marketer with a quick snapshot of consumers within a delimited area. But this strategy fails to take into consideration other important variables such as personality, age and consumer lifestyles. Failing to recognize this could hinder a company's potential for success.

Demographic segmentation: Who?

A very popular form of dividing the market is through demographic variables. Understanding who consumers are will enable you to more closely identify and understand their needs, product and services usage rates and wants. Understanding who consumers are requires companies to divide consumers into groups based on variables such as gender, age, income, social class, religion, race or family lifecycle. A clear advantage of this strategy over others is that there are vast amounts of secondary data available that will enable you to divide a market according to demographic variables.

Psycho-demographic segmentation: Why?

Psycho-demographic segmentation attempts to answer the 'why's' regarding consumer's purchasing behaviour. Through this segmentation strategy markets are divided into groups based on personality, lifestyle and values variables. Segmenting consumers into lifestyles is based on the notion that a person's lifestyle has a direct impact on their interests in products and services. Since personality traits have been correlated to (matched with) product categories consumers favour as well as persuasive appeals they respond to, marketers can use personality variables to segment their markets. Generally, this type of segmentation is successful for image-based products, such as cosmetics, clothing, jewellery, cigarettes, alcohol, mobile phones, etc. Identifying personality traits can aid in the creative execution of an advert.

Behavioural segmentation: How?

Answering the how of consumer purchasing behaviour has become a prevalent consideration in the design and positioning of products. Moreover it has become a powerful competitive tool to expand and build markets. This segmentation strategy divides markets into consumer groups based on their uses, responses, knowledge and attitudes towards products and services.

Importance of Market Segmentation

- Customer needs differ. Creating separate offers for each segment makes sense and provide customers with a better solution,
- Customers have different disposable income. By segmenting markets, businesses can raise average prices and subsequently enhance profits

- Customer circumstances change and influences the buying patterns. By marketing products that appeal to customers at different stages of their life, a business can retain customers who might otherwise switch to competing products and brands.
- Businesses need to deliver their marketing message to a relevant customer audience. By segmenting markets, the target customer can be reached more often and at lower cost.
- Through market segmentation and targeting, businesses can often achieve competitive production and marketing costs and become the preferred choice of customers and distributors.

CHAPTER FIFTEEN

PRODUCTION AND OPERATION MANAGEMENT

Introduction

Production and operations management concern with the conversion of inputs into outputs, using physical resources, so as to provide the desired utilities to the customer while meeting the other organizational objectives of effectiveness, efficiency and adoptability. It distinguishes itself from other functions such as personnel, marketing, finance, etc., by its primary concern for ‘conversion by using physical resources.

Meaning of Production Management

The set of interrelated management activities, which are involved in manufacturing certain products, is called as production management.

Meaning of Operation Management

The set of interrelated management activities, which organisations undertake to provide services to their clients.

Meaning of production and operation management

Production/operations management is the process, which combines and transforms various resources used in the production/operations subsystem of the organization into value added product/services in a controlled manner as per the policies of the organization. Therefore, it is that part of an organization, which is concerned with the transformation of a range of inputs into the required (products/services) having the requisite quality level.

Importance of production and operation management

Effective production and operation management can

- Lower s firm’s costs of production
- Boost the quality of its goods and services
- Allow it to respond dependably to customer demand
- Enable it to renew itself by providing new products.

Concept of Production/Operation

Production/Operation function is that part of an organization, which is concerned with the transformation of a range of inputs into the required outputs (products) having the requisite quality level. At each stage of processing, there will be value addition.

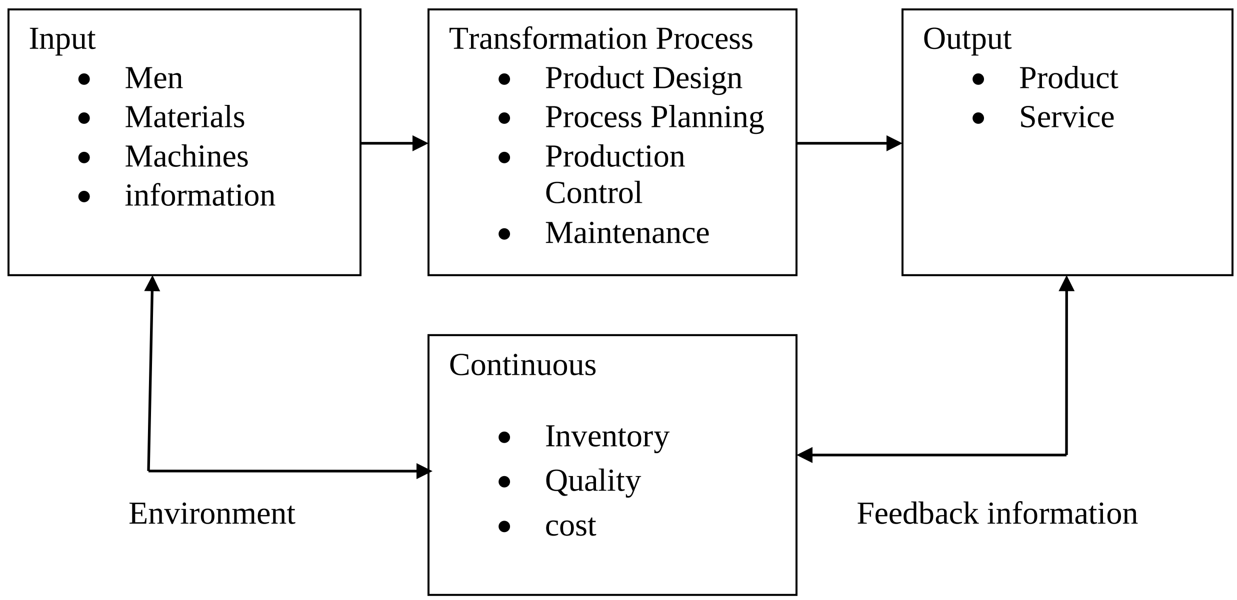

Figure 1: Schematic production/operation system

Production System

The production system of an organization is that part, which produces products of an organization. It is that activity whereby resources, flowing within a defined system, are combined and transformed in a controlled manner to add value in accordance with the policies communicated by management. Production systems can be classified as Job Shop, Batch, Mass and Continuous Production systems.

Job Shop Production

Job shop production are characterised by manufacturing of one or few quantity of products designed and produced as per the specification of customers within prefixed time and cost. The distinguishing feature of this is low volume and high variety of products. A job shop comprises of general purpose machines arranged into different departments. Each job demands unique technological requirements, demands processing on machines in a certain sequence.

Batch Production

Batch production is defined by American Production and Inventory Control Society (APICS) "as a form of manufacturing in which the job passes through the functional departments in lots or batches and each lot may have a different routing." It is characterised by the manufacture of limited number of products produced at regular intervals and stocked awaiting sales.

Mass Production

This production system is justified by very large volume of production. The machines are arranged in a line or product layout. Product and process standardisation exists and all outputs follow the same path. Manufacture of discrete parts or assemblies using a continuous process are called mass production.

Continuous Production

Production facilities are arranged as per the sequence of production operations from the first operations to the finished product. The items are made to flow through the sequence of operations through material handling devices such as conveyors, transfer devices, etc.

CHAPTER SIXTEEN

STRATEGIES FOR FIRM GROWTH

Introduction

Running a business is a life long journey. There is always something new to learn, that is why is argued that it's better to focus on getting better at what you do rather than growing aggressively when there are a lot of things that need to be improved on.

Meaning of Business Strategy

The term strategy means a well-planned, deliberate and overall course of action to achieve specific objectives of a business organisation.

Growth Strategies

Growth Strategy' refers to a strategic plan formulated and implemented for expanding firm's business. Every firm has to develop its own growth strategy according to its own characteristics and environment.

Growth Strategies

Internal Growth	External Growth
Expansion	Foreign collaboration
Diversification	Joint venture Modification
	Amalgamation
	Acquisition and mergers

Internal Growth Strategies

Internal growth strategy refers to the growth within the organisation by using internal resources. Internal growth strategy focus on developing new products, increasing efficiency, hiring the right people, better marketing etc. Internal growth strategy can take place either by expansion, diversification and modernization. The ensuing paragraphs will discuss the types of internal growth strategies.

Expansion

Business expansion refers to raising the market share, sales revenue and profit of the present product or services. The business can be expanded through market penetration, market development, product development, diversification, expanding the line of product etc. Expansion leads to better utilization of the resources and to face the competition efficiently. Business expansion provides economics of large-scale operations.

Diversification

Diversification is another form of internal growth strategy. The purpose of diversification is to allow the company to enter new lines of business that are different from current operations. There are four types of diversification namely vertical diversification, horizontal diversification, concentric diversification and conglomerate diversification.

External Growth Strategies

This rely on establishing relationships with third parties, such as mergers, acquisitions, strategic alliances, joint ventures, licensing, and franchising. Additionally, this strategy reduces competition and gain access to proprietary products and technical expertise. However, the external growth strategy is plagued with clash of corporate cultures and operational problems.

Foreign collaboration

Collaboration is the act of working jointly. It is a process where two people or organisation comes together for the achievement of common goal. With the advent of globalization, foreign trade and foreign investments are encouraged to increase the volume of trade. Foreign collaboration is an agreement or contract between companies or government of domestic country and foreign country to achieve a common objective. Foreign collaboration is a business structure formed by two or more parties for a specific purpose. Foreign collaboration helps in removing financial, technological and managerial gap in the developing countries. It is recognised as an important supplement for development of the country and for securing scientific and technical know-how.

Joint Venture

Joint venture is a business agreement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task. This task can be a new project or any other business activity. In a joint venture, each of the participants is responsible for profits, losses and costs associated with it. Through a joint venture agreement, business can collaborate with each other to expand their business activities.

Amalgamation

Amalgamation is the combination of one or more companies into a new entity. A completely new entity is formed to house the combined assets and liabilities of both companies. The companies consolidate their business activities by establishing a new company having a separate legal existence.

Acquisition and Mergers

This a general term used to refer to the consolidation of companies. A merger is a combination of two companies to form a new company, while an acquisition is the purchase of one company by another in which no new company is formed.

CHAPTER SEVENTEEN
BUYING EXITING BUSINESS VENTURE

Introduction

The decision to buy a business is an extremely important one, for such an acquisition almost inevitably brings significant changes in the buyer's financial situation and personal life. Such purchases, then, should not be made before first thoroughly investigating all aspects of the business under consideration and the impact that ownership of that enterprise would likely have on the buyer's personal and professional life. Even before beginning the search for an appropriate existing business, would-be buyers are encouraged to honestly assess the level of commitment and resources that they are willing to bring to bear to made a new business endeavor a successful one.

Why do people sell their business ventures?

Business owners commonly sell their businesses for any of the following reasons:

- Retirement
- Partnership disputes
- Illness and death
- Becoming overworked
- Boredom

Advantages of buying an existing business venture

- The main benefit of buying an existing business is the fact that all legwork has already been done for you. Getting a business off the ground is often the hardest part, so you are guaranteeing a head start by skipping the first stage. No need to file paperwork, obtaining permits and consulting with lawyers.
- Buying an existing business is less risky as a buyer you already know the process or concept works and the products, services, location and markets are proven lots of expensive mistakes have already been made in order to get it right.
- It gives you the advantage of an established customer base. People will already know the place, so the costs of advertising will be less. You will also avoid the uncertain initial period, where attracting customers to the business can turn into a full-time job in itself.

- When you buy an existing business, you may get employees who are already working there to stay and work for you. This will allow you to employ their expertise rather than having to train new people to take over the work.

Disadvantages of buying an existing business venture

- You will inherit all problems that run with the business. If the previous owner had trouble attracting new customers, paying the lease, or running new campaigns, you will have to deal with everything to set things right before you can even start to think about moving forward. If the business has a history of disappointing customers, you may also have a hard time convincing people that things will change under your direction.
- The purchase will probably mean a large initial investment, usually much higher than it will require starting a business from scratch. The investment will also have to be in a lump sum, and you won't have the chance to go through the process in phases.

Preliminary activities before buying an existing business

- How do you find a good business? Because of the confidentiality of a business sale, (unlike real estate; you never put a "For Sale" sign out front), you must contact a business broker to introduce you to several available businesses.
- The most important thing is to find a business that you like and feel that you can manage. If you hate to get up and go to work every day, you will have a major problem no matter what kind of business it is or how smart you are.
- Visit with the seller and ask a lot of questions about the business; how long he or she has owned the business; how things are going and why they are selling the business.

Critical factors to consider before buying an existing business

Following is a checklist of items you should evaluate to verify the value of a business before making a decision to buy:

Evaluating Businesses

The first step a buyer must take in evaluating a business for sale is that of reviewing its history and the way it operates. It is important to learn how the business was started, how its mission may have changed since its inception and what past events have occurred to shape its current form. A buyer should understand the business's methods of acquiring and serving its customers and how the functions of sales, marketing, finance and operations interrelate. There are several key questions prospective buyers should consider in evaluating a business for purchase. For example, it is important for the buyer to understand why the business is being sold, whether the business is financially sound, and what legal considerations may be involved in the sale. Furthermore, buyers should evaluate the market value of the business's assets as well as the market potential of its products or services. The next paragraphs will consider key company documents that must be perused before buying an existing business venture.

Balance Sheet

All important data on the company's fundamental financial health can be gleaned through an examination of the enterprises' financial statements and operations documents. Several areas of the business's balance sheet that should be thoroughly looked over when evaluating a company; accounts receivable, accounts payable, inventory and real estate. Other are accrued liabilities (notes payable and mortgages Payable) can help buyers identify causes of debt; determine terms and payment schedules of those debts. Problems in any of these areas can help prospective buyers decide whether to secure the services of an appraiser.

Income Statements

Profit and loss statements provide vital information on the business's recent financial history and potential for future success. Experts commonly advise would-be buyers to examine income statements from the previous three to five years, and to substantiate the data contained therein via the company's tax returns.

Financial Ratios

Information contained in the company's income statements and balance sheet can be used to figure important financial ratios that can provide insights into the company's fiscal well-being. Important financial ratios include current ratio, accounts receivable turnover, inventory turnover, and sales/accounts receivable.

Employees

A business's work force can be among its most attractive assets. Conversely, it can also be a problem area. Key information that should be analyzed when looking at a company's personnel includes job descriptions and current compensation (including benefits) for each employee, skill levels, and morale. Finally, buyers that are pondering acquiring a business in an industry with which they are unfamiliar need to determine whether they will be able to retain key personnel after a purchase is made.

Marketplace Status

Potential buyers should find out not only about the targeted company's market standing including market share, competitive advantages, and geographic strength but, also about the strengths and weaknesses of its competitors.

Legal Issues

Would-be owners should determine if any lawsuits against the company have been filed or are pending. Articles of incorporation, bylaws, partnership agreements, supplier contracts, and franchise agreements should also be carefully reviewed if applicable.

Negotiating the purchase price of the business venture.

The purchase price may be determined by ascertaining the monetary value the following items of the business venture.

- The value of the business’s assets, both fixed and current assets.
- Consider the business’s pattern of sales, earnings and cash-flows

- Nonfinancial considerations such as goodwill, business location and the caliber of employees must be looked into critically.
- Find out how much the business venture owes in terms of its liabilities.
- Finally, agree on the terms of payment whether upfront cash payment or installment payment.

An attorney or financial advisor is required to be involved in negotiating the purchase price. He or she can assist with setting the terms of the sale and will impart valuable advice as you go about the process of purchasing a business.

CHAPTER EIGHTEEN

THE ROLE OF SMALL AND MEDIUM ENTERPRISES IN ECONOMIC DEVELOPMENT

Introduction

Small and medium-size enterprises (SMEs) are generally perceived to be the seedbed for indigenous entrepreneurship and generate all the many small investments, which would otherwise not have taken place. SMEs are very pivotal to the economic development of Ghana in that, SMEs are considered a more reliable vehicle for balanced, equitable and harmonious socio-economic development and also responsible for providing major employment.

Definition of Small Business

The first attempt to overcome this definition problem was by the Bolton Committee (1971) when they formulated an "economic" and a "statistical" definition. Under the economic definition, a firm is regarded as small if it meets the following three criteria:

- It has a relatively small share of their market place.
- It is managed by owners or part owners in a personalized way, and not through the medium of a formalized management structure.
- It is independent, in the sense of not forming part of a large enterprise.

The Committee also devised a "statistical" definition to be used in three main areas:

- Quantifying the size of the small firm sector and its contribution to GDP, employment, exports etc.
- Comparing the extent to which the small firm sector's economic contribution has changed over time.
- Applying the statistical definition in a cross country comparison of the small firms' economic contribution.

The Ghana Statistical Service (GSS) in its industrial statistics considers firms with less than 10 employees as small scale enterprises whilst those with more than 10 employees as medium and large-sized enterprises. However, the National Board of Small Scale Industries (NBSSI) in Ghana applies both the fixed asset and number of employees' criteria. It defines a Small Scale

Enterprise as one with not more than 9 workers, has plant and machinery (excluding land, buildings and vehicles) not exceeding 1000 Ghana Cedis (US$ 667, using 2011 exchange rate).

Characteristics of Small Business

Small-scale businesses possess the following characteristics;

Revenue and Profitability

Small-scale business revenue is generally lower than companies that operate on a larger scale. The Small Business Administration classifies small businesses as companies that bring in less than a specific amount of revenue, depending on the business type. Established small-scale businesses often own their facilities and equipment outright, which, in addition to other factors, helps to keep costs lower than more leveraged businesses.

Employees

Small-scale businesses employ smaller teams of employees than companies that operate on larger scales. The smallest businesses are run entirely by single individuals or small teams. A larger small-scale business can often get away with employing fewer than one hundred employees, depending on the business type.

Market Area

Small-scale businesses serve a much smaller area than corporations or larger private businesses. The smallest-scale businesses serve single communities, such as a convenience store in a rural township. The very definition of small-scale prevents these companies from serving areas much larger than a local area, since growing beyond that would increase the scale of a small business's operations and push it into a new classification.

Ownership and Taxes

The corporate form of business organization is not well-suited to small-scale operations. Instead, small-scale businesses prefer to organize as sole proprietorships, partnerships or limited liability companies. These forms of organization provide the greatest degree of managerial control for company owners, while minimizing the hassle and expense of business registration. These businesses generally do not file their own taxes; instead, company owners report business income and expenses on their personal tax returns.

Locations

A small-scale business, by definition, can be found only in a limited area. These companies are not likely to have sales outlets in multiple states or countries, for example. A large number of small-scale businesses operate from a single office, retail store or service outlet. It is even possible to run a small business directly out of your home, without any company facilities.

Barriers to Small Businesses Growth

Growth is not a necessary or even desirable objective for all SMEs. Firstly, the SME owners may have objectives other than profit maximization. Secondly, if profit maximising, they may have already reached the minimum efficient scale of business activity (small retail shops, repair shops and so on). Therefore a lack of growth on its own does not necessarily indicate the presence of significant barriers to growth. The barriers to SMEs growth can categorised into institutional, external market position of a firm and financial. The others are internal organisational barriers and social barriers.

Institutional Barriers

The institutional framework within which firms interact with customers, government and each other can have a profound influence on firms' economic performance. An unsuitable tax system and various discriminatory legal regulations can represent a severe burden for SMEs. Complicated laws, rules and regulations concerning companies can be especially tough on small and growing companies. In addition, powerful large firms, whether recently privatized or not, whose managers have good political connections, may also employ a variety of tactics to reduce the growth of smaller firms, from strategic pricing policies to outright threats verging on criminal behaviour. These institutional factors may increase transaction costs facing SMEs, and hinder the transition to a competitive market economy.

Barriers internal to the firm

In addition to resource shortages and capacity limitations, an important set of internal barriers to growth is related to the whole issue of human resource management and the conditions concerning the hiring and firing of labour. Where there are limitations of the use of fixed-term labour, where long advance notification of layoff is required, where there are high mandatory severance payments which increase the cost of dismissal, and where taxes and contributions on labour are excessive, then entrepreneurs may be reluctant to expand their activities if this would require that they take on new permanent employees. A key internal constraint on growth of SMEs is a reluctance or inability of owner managers to diversify control over business functions to professional managers. In the early stages of a firm's growth, an owner manager can cope alone with many of the areas of management such as finance, human resources, marketing, and product development. However, once a firm has reached a certain size, or stage in its life cycle, there is a need to professionalize the management function if a firm is to continue to grow.

External Barriers

Economists have long debated the existence of barriers to entry, which vary depending on the degree of competition in the market and the sector of activity. Barriers to growth may also be linked to the market environment in which firms are placed. Factors such as low demand for the product, access to raw materials, difficulties in exporting, public procurement rules and the late payment of bills by business customers and even the government can all obstruct the growth of firms.

Financial Barriers

In most countries, an underdeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends and relatives. The lack of equity capital and lack of access to long term credits for SMEs, force small firms to rely on high cost short term finance. Financial barriers, which affect SMEs, include the high cost of credit, relatively high bank charges and fees, high collateral requirements, and a lack of outside equity and venture capital. Often, domestic banks are orientated to providing loans to insolvent large enterprises. Information asymmetries between lenders and borrowers make it hard for banks to determine the real value of a project, and lead to credit rationing. The high risk of credit to SMEs with information asymmetry may explain the relatively high interest rates charged to those borrowers, and the demands made on SMEs by banks for high collateral and loan guarantees. Nevertheless, entrepreneurs may be reluctant access formal sources of outside equity capital which dilutes their control of the firm.

Social barriers

Recent research in the field of economic sociology has emphasised the importance of social capital, trust and network ties between entrepreneurs as factors stimulating the development of the SME sector. Without a degree of trust between business partners, the parties to a transaction will feel exposed to opportunistic behaviour which will either raise the transactions costs of doing business or even prevent the transaction being carried out altogether. In some economies these problems seem to have been addressed by narrowing down the range of social ties to relatively narrow ethnic or family groups. There is an absence of open networks in which economic agents can place trust in anonymous trading partners or in casual acquaintances. The reliance on personal connections replaces the anonymous market transaction as a basis for doing business. Clientelism, paternalism and corruption can flourish in such an atmosphere.

The Contribution of SMEs to National Development of a Country

- Small businesses are mainly local resources and thus have less foreign exchange requirements while adapting easily to customer requirements.
- Due to their small and perceived flexible nature, SMEs are expected to able to withstand adverse economic conditions and survive where many large businesses would collapse.
- SMEs labour intensity lowers capital costs associated with job creation.
- SMEs are the major source of employment to all categories of labour.
- SMEs have often been described as improving the efficiency of domestic markets and making productive use of scarce resources, and thus facilitating long-term economic growth in poor countries.
- SMEs generate revenue for government through taxes

- SMEs in the course of social responsibility develop communities through the provision of social amenities and infrastructural development.

- Support for SMEs will help the restructuring of large enterprises by streamlining manufacturing complexes as units with no direct relation to the primary activity are sold off separately. And through this process the efficiency of the remaining enterprise might be increased as well;
- SMEs curb the monopoly of the large enterprises and offer them complementary services and absorb the fluctuation of a modern economy
- Through inter-enterprise cooperation, SMEs raise the level of skills with their flexible and innovative nature. Thus SMEs can generate important benefits in terms of creating a skilled industrial base and industries, and developing a well-prepared service sector capable of contributing to GDP trough higher value-added;

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