

Introduction to business

start-up 6

This chapter discusses the following facts.

6.1 Important decisions that should be taken before starting a business

6.2 Alternative methods to enter the market when starting a new business

Offering an existing product or a service to the existing market Offering an existing product or a service to the a new market Offering a new product or a service to the existing market Offering a new product or a service to a new market

6.3 Successful entry strategies for a new business

Offering an unique new product or a service

Offering products through product differentiation

Innovations

6.1 Important decisions that should be taken before starting a business

A business can be generally defined as any economic activity carried out for the purpose of fulfilling human needs and wants. Accordingly businesses produce goods and services to fulfill the needs and wants of people or organizations using the limited resources available in the environment. This ensures that businesses exist based on the needs and wants of the people or organizations.

Anyone has the opportunity to start a business to offer products or services to the market. This should be done wisely and very carefully. Resources including money, own labour, time, self image have to be deployed when starting businesses. In order to make the businesses initiated as above successful, there are few decisions that should be taken in to consideration.

Decisions that should be taken when starting a business

01. To which extent the person can dedicate for the business?
02. On which product or service the business is based?
03. Who is the target consumer?
04. What is the nature of the competition?
05. Are earnings adequate?
06. How to find the required capital?
07. How to start the business, individually or with partners?
08. What is the nature of the business location?
09. What will be the benefits the business generates to the society?

Let's discuss each of these decisions further.

01. To which extent the person can dedicate for the business?

When running the initiated business, entrepreneur has to engage in activities relating to different roles.

Examples:-

- ✓ Acquiring raw materials
- ✓ Finding employees and directing them
- ✓ Acquiring and maintaining machineries and equipments
- ✓ Obtaining and the required money and managing it
- ✓ Tasks relating to procurement and selling
- ✓ Production
- ✓ Fulfilling legal requirements

If such activities are to be carried out fruitfully, entrepreneur should entirely dedicate his effort and time to the business. Similarly the entrepreneur has to engage in the daily affairs and social relationship activities. Hence, whether the entrepreneur is capable of balancing his effort and time to make the business a success should be decided.

02. On which product or service the business is based?

One of the key factors which affect the success of the business is the product or the service offered to the market. That should,

Example :-

Satisfy the needs and wants of the consumers

Have unique/distinctive features compared to other products and services

03. Who is the target consumer?

This emphasizes the target group of consumers to whom the product or the service of the entrepreneur is offered. In other words this is the total of current consumers (who are currently consuming the product) and the potential consumers (who may consume the product in the future). Products and services can be offered targeting different consumer groups and their likes/ dislikes and the purchasing power should be inquired.

Example :-

- ✓ Children ,youth and adults
- ✓ Women and men high income earners
- ✓ Low income earners and
- ✓ Internationally dispersed Sri lankan consumer groups

04. What is the nature of the competition?

Competition is an essential feature of the today's market. Sum of individuals or organizations who offer different products and services to the market to satisfy a certain need or a want are considered as competitors. It is important to get an understanding of the current competitors and the potential competitors who may enter the market in the future when assessing the competition.

Example :-

- ✓ There are many organizations which offer different products and services mentioned below to satisfy the need of cleaning clothes. ✓ Washing soaps
- ✓ Washing powder
- ✓ Washing liquids
- ✓ Laundry service

05. Are earnings adequate?

The entrepreneur starts the business expecting a return. It should be sufficient to cover all the expenses of the business.

That is,

✓ Earnings should be capable of settling the expenses like,

✓ cost of purchasing

✓ taxes

✓ rentals and

✓ salaries

Similarly

✓ Earnings should be adequate enough to,

✓ provide a sufficient profit to the owners ✓ reinvest in the business for future improvements

06. How to find the required capital?

Generally, an initial capital is required to start a business. The capital requirement differs depending on the nature of the business. Some businesses can be initiated with a less capital while some require a considerable investment even at the beginning. There can be different alternatives to fulfil that capital requirement.

Sources of capital for a new entrepreneur

✓ Own savings

✓ Deploying own assets or selling them

✓ Relatives and friends

✓ Bank loans and leasing

✓ Getting advances from customers

Even though there are alternative sources of capital, attention should be paid to their advantages and disadvantages

Example :-

When a bank loan is obtained, interest should be paid for that

07. How to start the business, individually or with partners?

The entrepreneur can start the business individually or he/she can get the involvement of a member of the family or other external party. The most appropriate method should be selected after considering the advantages and disadvantages to the entrepreneur of starting a business individually or as a

partnership. You will get the opportunity to further study this later.

08. What is the nature of the business location

The critical factor which affects the success of certain businesses is the business location. The location of the business has to be decided by considering the following factors.

- ✓ Number of customers and their dispersion
- ✓ Ease of getting resources
- ✓ Convenience of acquiring labour
- ✓ Convenience of getting the infrastructure facilities like electricity, water, and communication
- ✓ Facilities which can be provided to the consumers (e.g.: parking and sanitary facilities)
- ✓ Cost of land/ premises(price/rental)

Depending on the nature of the product or the service offered by the entrepreneur, the nature of the location which suits the business differs. Some examples relating to this are given in the following table.

6.2 Market Entry of the new entrepreneur

A business should enter the market with a good plan if it is to be successful irrespective of whether it is a small scale or large scale business. Four alternative methods are available for a new entrepreneur to enter the market.

1. Offering an existing product or a service to the existing market
2. Offering an existing product or a service to the a new market
3. Offering a new product or a service to the existing market
4. Offering a new product or a service to a new market

Since there are advantages and disadvantages of these alternative entry methods, it is necessary to evaluate them.

01. Offering an existing product or a service to the existing

market Many entrepreneurs follow this

method. But the reasons are that offer the products used to the risk of this option there are lots of to the market and products of them. is high. The competitors who consumers are As a result the

new entrepreneur	becomes	existing
has to incur a	uncertain.	product
greater cost and		
put a considerable		
effort to attract	Example :-	
the consumers for		
his/her product.		
Hence the cost of		
attracting	existing market	
consumers		
increases while	new	
earning profits	market	

People need detergents. Already they are using soap. Hence many laundry soaps are available in the market. The new entrepreneur too enters the market offering a washing soap to the market.

02. Offering an existing product or a service to the a new market

the entrepreneur or a country.
 can enter the market. In other words, under this method a new customer base is created by offering existing market the product to non consumers, non new consuming region market existing product

Example :-

Accepting orders and delivering products and services to residences and offices

Offering the product during a period or at a time when the competitors do not sell the products (fruit cultivation during off season)
 Though there are benefits under this method due to less number of competitors, certain risks prevail. Out of them, unfamiliarity of the new consumers with the product is a prominent risk.

03. Offering a new product or a service to the existing market

Many entrepreneurs enter the market

through this large number of method. It is competitors, acting new possible to enter strategically will market the market by help to win the existing product making a certain market since there change to an is a substantial existing product or customer base.

a service and

adding a new kind **Example :-**

of utility. Even though there is a

risk due to the existing market

new product

Introducing Smart phones to the mobile phone market Withdrawing money from the ATM machine without the ATM card Special footwear, foods and beverages for diabetic patients

04. Offering a new product or a service to a new market

The main advantage for the entrepreneur

who enters the business under this new
method is having no competitors.

Hence, the entrepreneur target consumers are not existing
can achieve greater precisely identified. market
success by acquiring Success can be achieved
100% of the market by accurately studying new
share within a definite the market, working market
future. Yet there is a high according to a
risk since the consumer existing product
is totally unaware of the product
product. Further the

consumer awareness.

Example :-

Starting space tourism

plan and increasing the

Different products to reduce the elderly look

Producing a motor vehicle which runs using wind-power

To introduce a new product, an entrepreneur can use different methods. Among them, let's discuss how **SCAMPER** framework help to innovate existing products.

Using an alternative input in place of the used inputs
benefits together

S Substitute **C** Combine

Example :-

Adding the facilities of camera, radio, television and internet to a mobile phone

A Amplify/Add **M** Minimize

Enlarging a small thing

Example :-

Enlarging the TV screen, Mega soft drink bottle Reducing the size of a big object

P Put to other use

Example :-

Substituting plastic door-frames for wooden frames Combining several

Example :-

Introducing small shampoo packets (sachet), mini computers, mini

cameras, soft drink buddy bottles function

Producing a product which is **Example :-**
produced for a specific function in a Making a chair in a way that it can
way that it can be used for another also be used as a bed

E Eliminate Removing certain parts

Example :-

Non-fat milk

Making changes in the arrangement or components

R Rearrange 86

Example :-

Producing old textile fashions in a new way Table 6.2 - SCAMPER framework

6.3 Successful entry strategies for a new business

Among the above mentioned alternatives, whatever the approach followed to enter the market, the entrepreneur falls back amidst severe competition if appropriate strategies are not practised. As mentioned earlier, though many new businesses are initiated, only a few of them become stable, long lasting businesses. The reason is the imperfections of the strategies followed.

A person who starts a business should pay attention to suitable strategies for attracting the consumers to his/her products. Some such suitable strategies are discussed below.

01. Being a distinctive/unique new product or a service
02. Product differentiation
03. Market gap/space
04. Innovation

01. Offering a distinctive/unique new product or a service

If the product of the entrepreneur is unique and different in quality, size, packaging and other utilities compared to the competitive products available in the market, that can be considered as a successful entry strategy.

Example :-

✓ A pen with ink on one end and correction fluid on the other end. ✓ A soap having a packaging which can be used as a soap box

02. Offering the product using differentiation

Product differentiation is an attempt to differentiate the own product from that of the competitors.

Price of certain goods does not affect for a change in the demand of that product. In such a situation, the most appropriate mode of attracting customers is to make changes to the product. Hence product differentiation is a good entry strategy for an entrepreneur.

Example :-

Milk powder is offered to the market under different packages like; jambo pack
budget pack
economy pack
sachet pack

03. Offering products to the market gap

Market gap indicates that there is a group of customers in the market whose needs and wants are not satisfied.

Though large firms offer products targeting a large consumer base, they ignore the small group of consumers having distinctive needs. Hence entrepreneurs can effectively focus on such special markets which emerge due to the changes in the environment.

Example :-

There is a group of people in the society who have retired from government and private sectors. They have their own characteristics which are unique to them. Entrepreneurs can capture this market by satisfying their needs through the specifically designed offerings including radio channels, television channels, caring homes, senior citizen accounts and tours to Dhambadiva.

04. Innovation

Innovation simply means doing something new. A product or a service can be innovated from the beginning of the production process till it reaches the hands of the consumer and even when providing after sales services. Through that the utility of a product is changed.

A skillful entrepreneur can introduce innovations for the following opportunities.

Example :-

Using plastic instead of wood

Cultivating in green houses instead of lands

Creating kids' story books in different shapes

New easy payment methods

Twenty-four hours delivery

Promotion through Short Message Service (SMS)