

UNIT – 1

Setting up a Business

Meaning of Entrepreneurship:

Entrepreneurship is the ability and readiness to develop, organize and run a business enterprise, along with any of its uncertainties in order to make a profit. The most prominent example of entrepreneurship is the starting of new businesses.

Characteristics of Entrepreneurship



In economics, entrepreneurship connected with land, labor, natural resources and capital can generate a profit. The entrepreneurial vision is defined by discovery and risk-taking and is an indispensable part of a nation's capacity to succeed in an ever-changing and more competitive global marketplace.

Meaning of entrepreneur:

The entrepreneur is defined as someone who has the ability and desire to establish, administer and succeed in a startup venture along with risk entitled to it, to make profits. The best example of entrepreneurship is the starting of a new business venture. The entrepreneurs are often known as a source of new ideas or innovators, and bring new ideas to the market by replacing old with a new invention.

It can be classified into small or home businesses by multinational companies. In economics, the profits that an entrepreneur makes is with a combination of land, natural resources, labor and capital.

In a nutshell, anyone who has the will and determination to start a new company and deals with all the risks that go with it can become an Entrepreneur.

Importance of Entrepreneurship:

Creation of Employment- Entrepreneurship generates employment. It provides an entry-level job, required for gaining experience and training for unskilled workers.

Innovation- It is the hub of innovation that provides new product ventures, market, technology and quality of goods, etc., and increases the standard of living of people.

Impact on Society and Community Development- A society becomes greater if the employment base is large and diversified. It brings about changes in society and promotes facilities like higher expenditure on education, better sanitation, fewer slums, a higher level of homeownership. Therefore, entrepreneurship assists the organisation towards a more stable and high quality of community life.

Increase Standard of Living- Entrepreneurship helps to improve the standard of living of a person by increasing their income. The standard of living means, increase in the consumption of various goods and services by a household for a particular period.

Supports research and development- New products and services need to be researched and tested before launching in the market. Therefore, an entrepreneur also dispenses finance for research and development with research institutions and universities. This promotes research, general construction, and development in the economy.

Difference between entrepreneur and manager:

BASIS FOR COMPARISON	ENTREPRENEUR	MANAGER
Meaning	Entrepreneur refers to a person who creates an enterprise, by taking financial risk in order to get profit.	Manager is an individual who takes the responsibility of controlling and administering the organization.
Focus	Business startup	Ongoing operations
Primary motivation	Achievement	Power
Approach to task	Informal	Formal
Status	Owner	Employee
Reward	Profit	Salary
Decision making	Intuitive	Calculative
Driving force	Creativity and Innovation	Preserving status quo
Risk orientation	Risk taker	Risk averse

Entrepreneurial skills:

While becoming a successful entrepreneur is natural for some, others require certain essential skills to start and lead a business to success. These skills determine your entrepreneurial success. Successful entrepreneurs have mastery over both hard and soft skills. Hard skills like accounting, marketing and financial planning are critical for running and managing a business and soft skills like communication, problem-solving and decision making help you scale up your business. Mastery of entrepreneur skills requires practice and a dedicated learning plan.

Main entrepreneurial skills are as follows:

- 1. Business management skills**

Business management skills are traits an entrepreneur must have to run a business and ensure all business goals are met. Entrepreneurs with this skill set can oversee and manage operations of different departments because they possess a good understanding of each function. Business management skills include multitasking, delegating responsibilities and making critical business decisions.

- 2. Communication and active listening skills**

Every entrepreneur must be able to communicate effectively with clients, team members and all other stakeholders. Whether through verbal communication during meetings or sending reports and messages through emails about the project, entrepreneurs require superior written and verbal communication. Apart from communication skills, entrepreneurs must be excellent listeners to understand the project's requirements and discussion during project meetings.

- 3. Risk-taking skills**

Being able to take calculated and intelligent risks is one of the essential entrepreneur skills to learn. Employees with an entrepreneur mindset never shy away from taking risks because they understand that calculated risks result in tremendous success. They know that risk is an opportunity to learn and grow a business to the next level. Employers want candidates who can take risks in pursuit of potential gains and profit.

- 4. Networking skills**

Networking involves building and managing relationships with other professionals to grow and promote a business. Effective networking skills open up future opportunities and help build a solid brand. Networking allows entrepreneurs to meet like-minded professionals, build future teams and stay up-to-date with industry trends. It is one of the most desirable skills for entrepreneurs because, through a solid network, they can meet professionals to fund their ideas, access professional business expertise and get feedback on their new venture or idea.

- 5. Critical thinking skills**

Critical thinking is an entrepreneur skill that objectively analyzes the information and draws a rational conclusion. It helps entrepreneurs assess a situation and come up with a logical solution. Employers look for candidates with critical thinking because it helps solve problems and build strategies for business growth. Usually, a critical thinker is independent, competent and reflective. This skill helps entrepreneurs logically connect ideas, scrutinize information, evaluate arguments, find inconsistencies in work and solve complex issues. Instead of memorizing information, such candidates use the information to deduce meaningful insights.

- 6. Problem-solving skills**

Often, entrepreneurs face challenging and unexpected situations. It could be a venture capitalist refusing further funding or a team member refusing to work as per the project guidelines; an entrepreneur must possess excellent problem-solving skills to handle stressful situations and calmly identify alternate solutions. Exceptional problem-solving skills ensure they reach their business goal.

7. Creative thinking skills

Creativity is a valuable yet underappreciated skill in the digital world. Creative thinking is the backbone for innovation and it forces employees to think differently. Entrepreneurs with creative thinking skills are never hesitant to try solutions that others may overlook because of fear of failure. Such people think out-of-the-box and always seek input from professionals in a different field for understanding a new perspective. It is one of the most sought-after entrepreneur skills because it allows them to see patterns (even when there are no patterns) and develop innovative ways to solve business issues.

8. Financial skills

The ability to handle resources, assess investments, and calculate ROI is a must for entrepreneurs. Apart from this, they must know how to use accounting and budgeting software to keep track of all the financial processes. By learning financial skills, entrepreneurs avoid overspending and optimally allocate resources.

9. Leadership skills

Being able to inspire colleagues, empower the workforce and lead from the front requires excellent leadership skills. Exemplary leaders lead by examples and can take a leadership role and work as a part of a team. Entrepreneurs with leadership skills motivate their employees, manage operations and delegate tasks to reach the business goal.

10. Time management and organizational skills

Effective time management increases productivity and organizes your workspace. Entrepreneurs with time management and organizational skills understand different ways to prioritize tasks and avoid procrastination. To ensure timely completion of projects, entrepreneurs analyze their and their team's time, set time limits for each task, complete priority tasks first, delegate work to others, create a to-do list and use technology to keep the workspace organized.

Entrepreneurial Process:

Although enterprises are as different and unique as the entrepreneurs who create them, most of them appear to work through a process.

Self – Discovery

|

Identifying Opportunities

|

Generating and evaluating ideas

|

Planning

|

Raising Start-up capital

|

Start -Up

|

Growth

|

Harvest

1. **Self – Discovery :** Learning what they enjoy doing, examining their strengths and weaknesses. Examining work experience and relating it to potential opportunities.
2. **Identifying Opportunities:** Looking for needs, wants, problems and challenges that are not yet being met, or dealt effectively.
3. **Generating and evaluating ideas:** Using creativity and past experiences to devise new and innovative ways to solve a problem or meet a need, and then narrowing the field to one best idea.
4. **Planning:** Researching and identifying resources needed to turn the idea into a viable venture. Doing the research in the form of a written business plan preparing marketing strategies.
5. **Raising Start-up capital:** Using the business plan to attract investors, venture capitalists and partners. This stage can involve test marketing services.
6. **Start Up:** Launching the venture, developing a customer base and adjusting marketing and operational plans as required.
7. **Growth:** Growing the business, developing and following strategic plans, adapting to new circumstances.
8. **Harvest :** Selling the business and harvesting the rewards. For many entrepreneurs, this also means moving on to new ventures and new challenges.

10 D's of Entrepreneurship:

The 10 D's of Entrepreneurship were first characterized by William Graves – author of the Portable MBA in Entrepreneurship.

The 10 D's are the ten key characteristics that most entrepreneurs tend to possess.

1. **Dream :** Entrepreneurs have a vision of what the future could be like for them and their businesses. And, more importantly, they have the ability to implement their dreams.
2. **Decisiveness:** They don't procrastinate. They make decisions swiftly. Their swiftness provides a key factor in their success.
3. **Doers:** Once they decide on a course of action, they implement it as quickly as possible.
4. **Determination:** They implement their ventures with total commitment. They seldom give up, even when confronted by obstacles that seem insurmountable.
5. **Dedication:** They are totally dedicated to their business, sometimes at considerable cost to their relationships with their friends and families. They work tirelessly. Twelve-hour days and seven-day work weeks are not uncommon when an entrepreneur is striving to get a business off the ground.
6. **Devotion:** Entrepreneurs love what they do. It is that love that sustains them when the going gets tough. And it is love of their product or service that makes them so effective at selling it.
7. **Details:** It is said that the devil resides in the details. That is never more true than in starting and growing a business. The entrepreneur must stay on top of the critical details.
8. **Destiny:** They want to be in charge of their own destiny rather than depend on others.

9. **Dollars:** Getting rich is not the prime motivator of entrepreneurs. Money is more a measure of their success. They assume that if they succeed they will be rewarded.
10. **Distribute:** Entrepreneurs distribute the ownership of their businesses with key employees who are critical to the success of the business.

Entrepreneurial Competencies:

The term 'Competence' refers to a composite of knowledge, skills and a host of Psychosocial attributes in a person that mark his/her effectiveness for a task.

15 competencies identified by EDI:

EDI (Entrepreneurship Development Institute of India) has identified a set of 15 competencies that contributed towards entrepreneurship performance and success.

1. **Initiative:** Acting out of choice rather than compulsion. Taking the lead rather than waiting for others to start.
2. **Sees and Acts on Opportunities:** A mindset where one is trained to look for business opportunities from everyday experience.
3. **Persistence:** A 'Never says Die' attitude, not giving up easily. Striving continuously until success is achieved.
4. **Information Seeking:** Knowing and knowing who knows. Consulting experts, reading relevant materials and an overall openness to Ideas and information.
5. **Concern for high quality of work:** Attention to details and observance of established standards and norms .
6. **Commitment to work contract:** Taking personal pains to complete a task scheduled.
7. **Efficiency Orientation:** Concern for Conservation of time, money and efforts.
8. **Systematic planning:** Breaking up the complex whole into parts, close examination of the parts and inferring about the whole.
For ex – Simultaneously attending to production, marketing and financial aspects (parts) of the overall business strategy (the whole)
9. **Problem – solving :** Observing the symptoms, diagnosing and curing.
10. **Self – Confidence :** Not being afraid of the risks associated with business and relying on one's capabilities to successfully manage these.
11. **Assertiveness:** Conveying emphatically one's vision and convincing others of its value.
12. **Persuasion:** Eliciting support of others in the ventures.
13. **Use of Influence Strategies:** Providing leadership.
14. **Monitoring:** Ensuring the progress of the venture as planned.
15. **Concern for Employee Welfare:** Believing in employee wellbeing as the key to competitiveness and success and initiating programmes for employee welfare.

Business Plan:

Business plan is a written summary of various elements involved in starting a new enterprise of how the business will organise its resources to meet its goals and how it will measure progress.

Business plan is a blueprint of the step by step procedure that would be followed in order to convert a business idea into a successful business venture. It involves the following tasks-

- Identifying business opportunities and an innovative idea.
- Researching the external environment for opportunities and threats.
- Identifying internal strengths and weaknesses.
- Assessing the feasibility of that idea.
- Allocating resources in the best possible manner

Objectives of a Business Plan:

- To give direction to the vision of an entrepreneur.
- To objectively evaluate the future prospects of the business.
- To monitor the progress after implementation of the plan.
- To seek loans from financial institutions.
- To facilitate the decision making process.
- To persuade others to join the business.
- To identify strengths and weaknesses present in the internal environment.
- To identify opportunities and threats in the external environment.
- To assess the feasibility of the business.
- To guide the entrepreneurs in raising the factor of production.



Qualities of a good Business plan

One of the reasons why you may be compelled to prepare a business plan is when you want to get a loan either from a bank, a non-bank financial institution or any other lending institution. To you, your business is of supreme interest and importance to a bank or fund manager, your plan is just like any other document that he finds on his desk. You must win his approval and keep his interest while reading it. For it to do this, your business plan should have the following qualities:

- **Simplicity and clarity**
- **Brevity**
- **Logical**
- **Truthful**
- **Be backed up with figures whenever possible**

Preparation of business plan

A good business plan must identify strengths and weaknesses internal to the business and the challenges in the terms of opportunities and threats to assess the viability of the business. It must lay down all the necessary steps that are involved in initiating and operating a proposed business.

Preparation of business plan involves the following steps :



1. Preliminary Investigation: In order to create an effective plan, an entrepreneur must:

- Review available business plans.
- Draw key basic assumptions on which plan is based.
- Scan the environment for Strengths, Weaknesses, opportunities and threats.
- Seek professional advice.

2. Idea Generation: It involves generation of a new concept/ product/ service or value addition to an existing product or service. The idea must be such that it satisfies the existing demands and future demands of the market.

Sources of Idea-

- Consumers
- Existing companies
- Research and development
- Employees
- Dealers/ Retailers

Methods of generating ideas-

- Brainstorming
- Group Discussion
- Data collection through Questionnaire
- Invitation of ideas from professionals.
- Market Research
- Import of ideas from products launched abroad.

Screening of ideas is done to identify practical ones and eliminate impractical ones. The most feasible and most promising idea is selected for further investigation.

3. **Environment Scanning:**

The internal and external environment must be analyzed to study the prospective strengths, weaknesses, opportunities and threats of the business. An entrepreneur must collect information from all formal and informal sources in order to understand the supportive and obstructive factors related to the business enterprise.

External environment –

- **Socio – Cultural appraisal:** it involves assessment of the values, beliefs and norms of a particular society in order to understand their perception towards a particular idea or product.
- **Technological appraisal:** It involves assessment of existing technical know-how and availability of technology necessary to convert an idea into a product.
- **Economic appraisal:** It assesses the economic environment in terms of consumer price index, inflation, balance of payments, consumption pattern, per capita income, etc.
- **Demographic appraisal:** it involves an assessment of the overall population pattern of a particular region. Variables like age, education, income pattern, gender, occupation, etc help in identifying the size of the target market.
- **Government appraisal:** It assesses various grants, legislations, policies, incentives, subsidies, etc formed by the government.

Internal environment –

- Availability of raw material.
- Availability of various machines, tools, and equipment required for production.
- Means of finance and assessment of opening, maintaining and operating expenses.
- Assessment of present, potential and future market.
- Assessment of cost, quantity and quality of human resources required.

4. **Feasibility Analysis:** It is done to find out whether the proposed project will be feasible or not. The various variables that are studied are-

- **Market Analysis** – It is conducted to estimate the demand of the proposed product in the future and to estimate the market share of the proposed product in the future.
- **Technical or operational analysis** – It is conducted to assess the operational ability of the proposed business. It is very important to find out the cost and availability of technology. Under technical analysis data is collected on following parameters –
 - Material availability
 - Material requirement planning
 - Plant location.
 - Plant capacity
 - Plant layout
- **Financial analysis** – A financial feasibility test is carried out to assess the financial issues related with the proposed business. The following estimates have to be carried out –
 - Cost of land and building
 - Cost of plant and machinery
 - Preliminary cost estimation
 - Provision for contingency.
 - Working capital estimates
 - Cost of production
 - Sales and production estimates.

5. **Drawing functional plans:** If the feasibility plan gives a positive indication, a draft business plan is formulated. It involves preparation of the following functional plans –

- **Marketing plan:** It lays down strategies for marketing a product/ service which can lead to success of business. These strategies are made in terms of marketing mix i.e, Product, Price, Place and Promotion.
- **Production/ Operation Plan** – A production plan is made for a business involved in the manufacturing industry while an operation plan is made for a business involved in the service industry. It includes Strategies for following.-
 - Physical Layout
 - Location and reason for selecting a location
 - Cost and availability of equipment, machine and raw material.
 - Cost of manufacturing and running operation.
 - Quality management
 - Production scheduling capacity and inventory management.
- **Organizational plan** – It defines the type of ownership i.e., it could be sole proprietorship, partnership firm, company, private limited or public limited. It also consists of details about the organization Structure and norms guiding the organization culture.
- **Financial plan** – It indicates the financial requirements of the proposed business and furnishes the following details –
 - Projected cash flows
 - Cost incurred in smooth running of all the financial plans

- Projected income statement.
- Projected breakeven point
- Projected ratios
- Projected balance sheet.

- **Human resource plan** – It consists of the details on the following:

- Manpower requirements
- Recruitment and selection
- Compensation
- Wages and salaries
- Budget
- Remuneration, etc

- 6. Project Report Preparation:** It is a written document that describes step by step , the strategies involved in starting and operating a business. It is prepared when environmental scanning has been done and feasibility studies have been carried out.
- 7. Evaluation, review and control:** in order to keep up with the dynamic environment and successfully face global competition a business must be continuously evaluated and reviewed. It is necessary to periodically evaluate, control and review a business to keep up with the technological changes and introduce changes in the business strategy.