

# Open Distance Learning

# **BETR1204**Basic Entrepreneurship

**Amie Suzienawaty Binti Anip** 



**Module Writer:** Amie Suzienawaty Binti Anip

**Moderator:** Muhammad Firdaus Bin Abu Hassan

**Developed by:** International College of Yayasan Melaka

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#### **UNDERSTANDING COURSE GUIDE**

Refer and understand this *Course Guide* carefully from the beginning to the end. It describes the course and how you use the course material. It suggests the learning time to complete the course successfully. Referring the *Course Guide* will help you to clarify important contents that you might miss or overlook.

## **ABOUT THE COURSE**

This course emphasizes the aspect of fostering an entrepreneurial culture among students so that they can appreciate entrepreneurial values in their daily lives. Students will be exposed to the basics of entrepreneurship in terms of history, concepts and theory, and the development of individual entrepreneurs in terms of skills and behaviors to become successful entrepreneurs. The students are also exposed to the development of creative and innovative skills to enable them to identify business opportunities whether they are profit or non-profit. This course will also expose students to several methods of starting a business that can be used by entrepreneurs in small or medium industries (SMEs).

#### LEARNING TIME SCHEDULE

It is a standard ICYM practice that learner accumulate 40 study hours for every credit hour. As for this three-credit hour course, you are expected to spend 120 study hours. Table 1 gives an estimation of how the 120 study hours could be accumulated.

 Table 1: Estimation of Student Learning Time

		Teaching and Learning Activities						
Distribution of Student Learning Time by Chapter			Face to Face			9	Non-Face to	
		CLO		_	Р		Face	Total
			L	Т	Р	0	(Independent Learning)	
Top	pic 1	1					6	
Top	pic 2	1					6	
	pic 3	1					6	
	pic 4	1					6	
Top	pic 5	1					6	_
Top	pic 6	1					6	_
Top	pic 7	1					6	-
Top	pic 8	1					6	
Top	pic 9	2					8	
Top	pic 10	2					8	
Top	pic 11	3					10	
Top	pic 12	3					10	
Top	pic 13	2					8	
Top	pic 14	1					6	
							Sub-Total SLT	90
				Face	≏ to F	ace	Non-Face to	
		0/	Face to Fa		400	Face		
Coi	ntinuous Assessment		90	%			(Independent	
				Physical O		Online	Learning)	
1 Test 1 and 2			20	1.5		1	2	†
2 Assignment			30				4	
3	Presentation		30	1		2	4	_
							Sub-Total SLT	22
				Face	Face to Face		Non-Face to	22
Final Assessment				Physical O			Face	
		% P	Online			(Independent		
						Learning)		
1 Final Examination		30	2.5			5.5		
							Sub-Total SLT	8
						G	RAND-Total SLT	120

#### **COURSE LEARNING OUTCOME**

By the end of this course, you should be able to:

- 1. Explain the evolution, concept and importance of entrepreneurship and differentiate between traders, managers and entrepreneurs. (C1,PLO1)
- 2. Identify processes, techniques and obstacles to creativity and innovation and explain the macro and micro environment in addition to identifying business opportunities. (C1, PLO3)
- 3. Implement the requirements of the basic elements of the business plan as well as the guidelines in its preparation. (C3, PLO2).
- 4. Discuss the pros and cons of each type of business and identify networking techniques and challenges in building a network. (C3, PLO4)

#### **COURSE SYNOPSIS**

This course is divided into 10 topics. The synopsis for each topic can be listed as follows:

**Topic 1** students will learns theories and concepts, defining entrepreneurship, its significance in the Malaysian economy, corporate entrepreneurship, and the characteristics of successful entrepreneurs.

**Topic 2** students will learns recognizing opportunities and generating ideas in entrepreneurship, covering three methods for identifying opportunities, the personal characteristics of entrepreneurs, the role of creativity, the opportunity recognition process, various techniques for idea generation, and strategies for fostering innovation.

**Topic 3** students will learns the essential aspects of feasibility analysis, delving into a comprehensive examination of industry/target market feasibility and the key components of organizational feasibility analysis.

**Topic 4** students are guided the process of crafting a robust business model by addressing its foundational elements, including an overview of general

categories, the core strategy, resource allocation, financial considerations, and operational aspects.

**Topic 5** students will learns the critical components of industry and competitor analysis, encompassing an examination of the industry landscape, the impact of industry and firm-level factors on performance, studying trends within the industry, employing the Five Competitive Forces Model, conducting competitor analysis, and exploring various sources of competitive intelligence.

**Topic 6** students will learns the essential components of a business plan are explored, including its definition, the rationale behind its preparation, the recommended format, and the key elements comprising its main body.

**Topic 7** students will explores the various forms of business entities and types available for entrepreneurs, providing insights into starting a business from scratch (START UP), acquiring a franchise, and buying an existing business.

**Topic 8** students will focuses on the critical aspects of financial management for a new business, covering the financial objectives, the process of financial management, ratio analysis, forecasts, and the creation of pro forma financial statements.

**Topic 9** students will focus is on the critical components of assembling a successful team for a new venture.

**Topic 10** students will explores the intricacies of the funding and financing process for new ventures.

**Topic 11** students will learn specific challenges in marketing strategies, covering topics such as market segmentation, the selection of a target market, and the establishment of a distinctive market position.

**Topic 12** students will learn the significance of safeguarding intellectual property is explored, encompassing key concepts such as patents, copyrights, and trademarks.

**Topic 13** students will identify the proactive steps required to prepare for business expansion, providing insights into effective growth management and addressing the inherent challenges that accompany business growth.

**Topic 14** students will study both internal and external approaches for fostering the expansion of a business.

#### **LEARNING GUIDANCE**

The learning guidance is important to understand before you go through this module. Understanding the learning guidance will help you to organize your study of this course in a more objective and effective way. Generally, learning guidance for each topic is as follows:

**Learning Outcomes:** This part is to measurable, observable, and specific statement that clearly indicates what you should know and be able to do because of learning in each chapter. By go through each topic, you can continuously gauge your understanding of the topic.

**Self-Learning Material:** To aid you in your subsequent learning and to report on what you have learned. The activities are in-text questions (ITO) and self-assessment questions (SAQ), assignment on each chapter of the material to monitor and develop your own learning.

**Activity:** Question and activity within module can be constructed to put back the dialogue between student and module in learning activity. With the given question or task, you are encouraged to read the description or explanation within a module, so you can answer the question or solve the problem proposed.

You are encouraged to read since you realize that without reading the description or explanation, you will not be able to answer the question or the assignment. Text question is applied to you to pay attention to a certain problem rather than to assess the learning progress.

Self-assessment question is such a task that requires written answer form you. If you complete the task, you are asking to check your answer with the answer key provided in the module.

Self -assessment is be developed in various form of test questions, there are easy question, fill in the blank, multiple choices, true-false and matching.

**Summary:** You will find this part at the end of each topic. This component helps you to recap the whole topic. By going through the summary, you should be able to gauge your knowledge retention level. Should you find points in the summary that you do not fully understand, it would be a good idea for you to revisit the details in the module.

**Key Terms:** This component can be found at the end of each topic. You should go through this component to remind yourself of important terms or jargon used throughout the module. Should you find terms here that you are not able to explain, you should look for the terms in the module.

**References:** The References section is where a list of relevant and useful textbooks, journals, articles, electronic contents, or sources can

be found. The list can appear in a few locations such as in the *Course Guide* (at the References section), at the end of every topic or at the back of the module. You are encouraged to read or refer to the suggested sources to obtain the additional information needed and to enhance your overall understanding of the course.



# **Introduction of Entrepreneurship**

#### **LEARNING OUTCOMES**

By the end of topic, you should be able to:

- 1. Recognize theories & concepts of entrepreneurship
- 2. Identify the myth of entrepreneurship
- 3. Discuss the changing demographics of entrepreneurship
- 4. Explain the entrepreneurial process

# 1.1

# **Theories & Concept of Entrepreneurship**

"An entrepreneur is a person who undertakes to do a job" Richard Cantillon (1755). The term entrepreneur is a French word first coined by Richard Cantillon. In Malaysia the term "usahawan" is used for entrepreneur.

An entrepreneur should be known as a person who set up a business, dare to take a financial risk in gaining profit. It also said that they can individuals who actively form or lead their own businesses and nurture them for the growth and prosperity. As entrepreneurs, they usually seek for an opportunity and try to exploit it.



The uniqueness of the entrepreneur is the ability to see and seek opportunity and the courage to take the risk in transforming the opportunity into a successful business.

Adam Smith (1776)	An entrepreneur is a person who acts as agent in transforming demand into supply.
Jean Babtiste Say (1803)	An entrepreneur is a person who shifts resources from an area of low productivity to high productivity.
John Stuart Mill (1848)	An entrepreneur is a prime mover in the private enterprise. The entrepreneur is the fourth factor of production after land, labor and capital.
Carl Menger (1871)	The entrepreneur acts as an economic agent who transforms resources into products and services. The entrepreneur transforms and gives added value.
Ibnu Khaldun (Abdul Rahman Mohamed Khaldun)	The entrepreneur is seen as a knowledgeable individual and is instrumental in the development of a city-state where enterprise will emerge.
David McClelland	The entrepreneur is a person with a high need for achievement. This need for achievement is directly related to the process of entrepreneurship.



# **Definition of Entrepreneurship**

Entrepreneurship involves not only the process that leads to the setting up of a business entity but also the expansion and development of an ongoing concern. The study of entrepreneurship is concerned with the entrepreneurial behavior, the dynamics of business set up and expansion and development. It is more than mere creation of business.

Entrepreneurship is a process of innovation and new venture creation through four major dimensions – individual, organizational, environmental and process. The entrepreneurship process is aided by collaborative networks in government, education and institutions. Functional definition of entrepreneurs offers the following definition:

Entrepreneurs are individuals who actively form or lead their own business and nurture them for growth and prosperity.





# The Importance of Entrepreneurship to Malaysian Economy

THE IMPORTANCE OF ENTREPRENEURSHIP TO MALAYSIAN ECONOMY

Entrepreneurship is the symbol of business steadfastness and achievement. Entrepreneurial revolution is critical to economic growth. Entrepreneurship may affect our future in many ways:

#### a) Innovative creation of opportunity

Entrepreneurship is synonymous to creation of new venture and small businesses. SMIs have been important contributors to local economic growth.

Example: Portable phones linked to faxes and laptop will turn cars, train, and airport terminal into offices.

# b) Creates job opportunity

Entrepreneurship not only affect our lives through innovation but represent the working future for many of us due to lays off by large organization and shrinking of job opportunities for graduates. In Malaysia the SMIs employed 90% of the total labor force in manufacturing sector and contributed to about 26% of total value added in the sector.

## c) Impact towards larger firms

The entrepreneurial SMIs provide services that the large corporation has neglected or lack of economy of scale for the large corporation to serve.

## d) Improved social life

With low unemployment rate people will have power of purchase, which helps people to choose to have better social needs for example they can refer good doctor at good hospitals, get life insurance and buy high security system house.

# 1.4

# **Corporate Entrepreneurship**

- Is the conceptualization of entrepreneurship at the firm level?
- All firms fall along a conceptual continuum that ranges from highly conservative to highly entrepreneurial.
- The position of a firm on this continuum is referred to as its entrepreneurial intensity.

Entrepreneurial Firms	Conservative Firms
<ul><li> Proactive</li><li> Innovative</li><li> Risk taking</li></ul>	<ul><li> Take a more "wait and see" posture</li><li> Less innovative</li><li> Risk averse</li></ul>

# Why Become an Entrepreneur?

The three primary reasons that people become entrepreneurs and start their own firms:



Desire to be their own boss

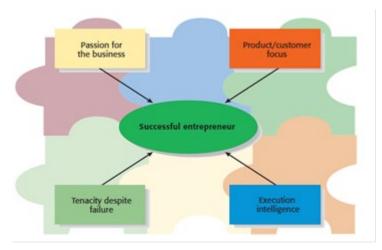
Desire to pursue their own ideas

Financial rewards



# Characteristics of Successful Entrepreneurs

## Four Primary Characteristics



#### Passion for the Business

- The number one characteristic shared by successful entrepreneurs is a passion for the business.
- This passion typically stems from the entrepreneur's belief that the business will positively influence people's lives.

## Product/Customer Focus

- A second defining characteristic of successful entrepreneurs is a product/customer focus.
- An entrepreneur's keen focus on products and customers typically stems from the fact that most entrepreneurs are, at heart, craftspeople.

# Tenacity Despite Failure

 Because entrepreneurs are typically trying something new, the failure rate is naturally high.

- A defining characteristic for successful entrepreneurs is their ability to persevere through setbacks and failures.
- Execution Intelligence
  - The ability to fashion a solid business idea into a viable business is a key characteristic of successful entrepreneurs.

# 1.6

# The Myth of Entrepreneurship

#### 1 Myth 1: Entrepreneurs are doers, not thinkers

- **Reality:** Although entrepreneurs are action oriented, but they are also a thinkers.
- They make careful plan & strategy.
- Entrepreneur will try to come out with alternative action towards a solution.
- In the era of globalization & hyper-competition, entrepreneurs need to be good thinkers.

# 2 Myth 2: Entrepreneurs are born, not made

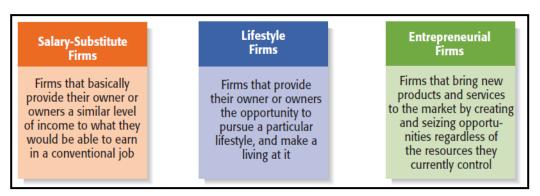
- The idea that the characteristics of entrepreneurs cannot be taught or learned. Entrepreneurs are born with special traits or characteristics.
- Traits such as include aggressiveness, initiative, drive, a willingness to take risks, analytical ability, and skill in human relations.

	<ul> <li>Reality: Like all disciplines, entrepreneurship has models, processes, and case studies that allow the traits to be acquired through learning.</li> <li>Reality: Research has proven that entrepreneurs can be produced, and it is not limited to certain race, group or individuals.</li> </ul>
3	Myth 3: Entrepreneurs are always inventors
	<ul> <li>Not all inventors are entrepreneurs.</li> <li>Reality: Many successful entrepreneurs are not inventors, but rather use creative ideas in doing something. They will modify &amp; innovate to suit the market demand.</li> </ul>
4	Myth 4: Entrepreneurs are academic and social misfits
	<ul> <li>This myth results from people who have started successful enterprises after dropping out of school or quitting a job</li> <li>Long time ago, educational and social organizations did not recognize the entrepreneur</li> <li>Reality: The entrepreneur is now viewed as a highly educated professional, who is well versed and sociable with excellent communication skills, and strives in economic development of the community &amp; the country.</li> </ul>
5	Myth 5: Entrepreneurs must fit the "profile"
	<ul> <li>Many books &amp; articles have presented checklists of characteristics of the successful entrepreneur</li> <li>Reality: It is not necessary for the individual to have ALL the characteristics, as described previously, to become a success (only some will do).</li> </ul>
6	Myth 6: All Entrepreneurs Need Is Money
	Every business venture needs capital to survive.

	Large number of business failures occur because of lack of financing
	Failure due to lack of financing indicates other problems
	Managerial incompetence; Lack of financial understanding; Poor
	investments; poor planning.
	Reality: Money is a resource, not the ultimate objective.
	Treamy. Money is a resource, not the diamate objective.
7	Myth 7: All Entrepreneurs Need Is Luck
	Being in the right place at the right time is always an advantage
	"Luck" happens when preparation meets opportunity
	What appears to be lucky could really be several other factors
	a. Preparation & hard works
	b. Determination
	c. Desire
	d. Knowledge
	e. Innovativeness
8	Myth 8: Ignorance is bliss for an entrepreneur
	<ul> <li>The myth that too much planning and evaluating will give rise to problems. In the competitive world of business, which demanded detailed planning &amp; preparation, entrepreneur should be equipped with solid knowledge and strategies, which would be keys to success.</li> </ul>
	Reality: Careful planning - Not ignorance is regarded as beneficial, since key success factors are;
	a) Ability to identify strengths and weaknesses of a venture

	b) Setting up clear timetables with contingencies for handling problems
	c) Minimizing problems through careful strategy formulation - careful planning is the mark of an accomplished entrepreneur.
9	Myth 9: Entrepreneurs seek success but experience high failure rates.
	Many entrepreneurs suffer a number of failures before they are successful
	Failure can teach many lessons to those who are willing to learn and failure often leads to future success
10	Myth 10: Entrepreneurs are extreme risk takers (gamblers)
	The concept of risk is a major element in the entrepreneurship process
	While it may appear that an entrepreneur is "gambling" on a wild chance, the fact is that the entrepreneur is usually working on a moderate or "calculated" risk
	Reality: Most successful entrepreneurs work hard through planning & preparation to minimize the risk involved.

# **Types of Start-Up Firms**



## **Changing Demographics of Entrepreneurs**

- Women Entrepreneurs
  - While men are more likely to start businesses than women, the number of women-owned businesses is increasing.
  - There were 8.6 women-owned businesses in the United States in 2013, generating over \$1.3 trillion in revenue and employing nearly 7.8 million people.
  - In some industries, women control a significant share of the business.
    - Women-owned businesses account for 52% of all businesses in health care.
  - Minority Entrepreneurs
    - There has been a substantial increase in minority entrepreneurs in the United States.
    - Between 2002 and 2007 (the most recent statistics available), minority-owned firms outpaced the growth of non-minority firms in gross receipts, employment, and number of firms.
    - In 2007, there were about 1.9 million African American-owned firms in the United States, 1.5 million Asian American-owned firms, and 2.3 million Hispanic-owned firms.
  - Senior Entrepreneurs
    - The numbers of seniors (those 50 years old and older) starting businesses is substantial and growing.
    - In 2012, 20% of new businesses were started by people between 50 and 59 years old, while another 12.5 percent were founded by individuals 60 years old and older.

 This increase is attributed to corporate downsizing, an increasing desire among older people for more personal fulfillment in their lives, growing worries about the cost of health care, and similar factors.

## Young Entrepreneurs

- A desire to pursue an entrepreneurial career is high among young people.
- According to a recent Gallop survey, about 4 in 10 kids in grades 5-12 say they plan to start their own business.
- About 59% of students in grades 5-12 say their school offers classes in how to start a business.
- About one-third of young people say their parents or guardians have started a business, which provides them a firsthand look at the entrepreneurial lifestyle.

# 1.7

#### THE ENTREPRENEURIAL PROCESS

The **entrepreneurial process** involves finding, evaluating, and developing an opportunity by overcoming the strong forces that resist the creation of something new.

Identify and Evaluate the Opportunity	Develop Business Plan	Resources Required	Manage the Enterprise
Opportunity assessment Creation and length of opportunity Real and perceived value of opportunity Risk and returns of opportunity Opportunity Opportunity versus personal skills and goals Competitive environment	<ul> <li>Title page</li> <li>Table of Contents</li> <li>Executive Summary</li> <li>Major Section</li> <li>1. Description of Business</li> <li>2. Description of Industry</li> <li>3. Technology Plan</li> <li>4. Marketing Plan</li> <li>5. Financial Plan</li> <li>6. Production Plan</li> <li>7. Organization Plan</li> <li>8. Operational Plan</li> <li>9. Summary</li> <li>Appendixes (Exhibits)</li> </ul>	Determine resources needed  Determine existing resources  Identify resource gaps and available suppliers  Develop access to needed resources	Develop management style  Understand key variables for success Identify problems and potential problems Implement control systems  Develop growth strategy

## Phase 1: Identify and Evaluate the Opportunity.

- **Opportunity identification:** Most good business opportunities result from an entrepreneur being alert to possibilities or, the establishment of mechanisms that identify potential opportunities.
  - Fruitful sources include consumers and business associates.
  - Channel members in the distribution system retailers, wholesalers, or manufacturer's reps—are also helpful.
  - Technically-oriented individuals often identify business opportunities when working on other projects.
- Each opportunity must be carefully screened and evaluated—this is the most critical element of the entrepreneurial process.
- The evaluation process involves looking at:

- The length of the opportunity.
- Its real and perceived value.
- Its risks and returns.
- It's fit with the skills and goals of the entrepreneur.
- Its uniqueness or differential advantage in its competitive environment.
- The market size and the length of the window of opportunity are the primarily bases for determining the risks and rewards.
  - The risks reflect the market, competition, technology, and amount of capital involved.
  - The amount of capital forms the basis for the return and rewards.
  - The methodology for evaluating risks and rewards frequently indicates that an opportunity offers neither a financial nor a personal reward commensurate with the risks involved.
- The opportunity must fit the personal skills and goals of the entrepreneur.
  - The entrepreneur must be able to put forth the necessary time and effort required for the venture to succeed.
  - He or she must believe in the opportunity enough to make the necessary sacrifices.

- Opportunity assessment should focus on the opportunity and provide the basis to make the decision, including:
  - A description of the product or service.
  - An assessment of the opportunity.
  - o Assessment of the entrepreneur and the team.
  - Specifications of all the activities and resources needed.
  - The source of capital to finance the initial venture.

#### Phase 2: Develop a Business Plan.

- A good business plan must be developed in order to exploit the opportunity defined.
- This plan is essential to developing the opportunity and in determining the resources required, obtaining those resources, and successfully managing the venture.

# Phase 3: Determine the Resources Required.

- Assessing the resources needed starts with an appraisal of the entrepreneur's present resources.
- Any resources that are critical need to be differentiated from those that are just helpful.
- Care must be taken not to underestimate the amount and variety of resources needed; also the downside risks associated with insufficient or inappropriate resources must be assessed.

- Acquiring needed resources, while giving up as little control as possible.
  - The entrepreneur should try to maintain as large an ownership position as possible, particularly in the start-up stage.
  - As the business develops, more funds will probably be needed, requiring more ownership be relinquished.
  - Alternative resource suppliers should be identified, along with their needs and desires, in order to structure a deal with the lowest cost and loss of control.

## Phase 4: Manage the Enterprise.

 After resources are acquired, the entrepreneur must use them to implement the business plan.

This involves implementing a management structure, as well as identifying a control system.

#### **KEY TERM**

**Entrepreneur** Corporate

Myth Process

**Changing Demographics** 

## **Short Questions**

- 1. Why become an Entrepreneur?
- 2. Why entrepreneurship is very important to Malaysian economy?
- 3. Disscuss the changing demographic of Entrepreneurs.
- 4. What is myth of entrepreneurship?
- 5. Explain the entrepreneurial proces.

#### **ACTIVITY**



Choose an entrepreneur who is your idol. next, give contributions and achievements that make you admire him/her.

#### **SUMMARY**

This topic provides an overview of entrepreneurship, its historical context, its importance to the Malaysian economy, the characteristics of entrepreneurs, myths surrounding entrepreneurship, and the entrepreneurial process.





# **REFERENCEES**

Robert D. Hisrich, Micheal P. Peters, Dean A. Shepherd *Entrepreneurship 12th edition Mc Graw-Hill International Edition @2023* 



# Recognizing Opportunities and Generating Ideas

#### **LEARNING OUTCOMES**

By the end of topic, you should be able to:

- 1. Find ways to identify an opportunity
- 2. Describe the personal characteristics of the entrepreneur
- 3. Identify environmental trends suggesting business or product opportunity gaps.
- 4. Describe the techniques for entrepreneur to generate ideas.

# 2.1

# **Three Ways to Identify an Opportunity**

Observing Trends

Solving a Problem

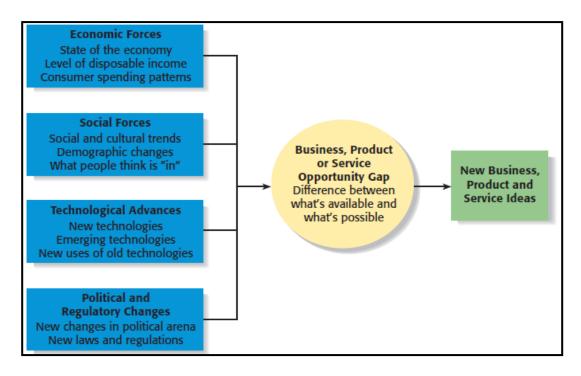
Finding Gaps in the Marketplace

## First Approach: Observing Trends

Trends create opportunities for entrepreneurs to pursue.

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

# Environmental Trends Suggesting Business or Product Opportunity Gaps



Trend 1: Economic Forces

Economic trends help determine areas that are ripe for new start-ups and areas that start-ups should avoid. Example of Economic Trend Creating a Favorable Opportunity

- A weak economy favors start-ups that help consumers save money.
- An example is GasBuddy.com, a company started to help consumers save money on gas.



Trend 2: Social Forces

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

#### Examples of Social Trends

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

Trend 3: Technological Advances

Advances in technology frequently create business opportunities.

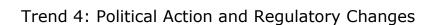
Examples of Entire Industries that Have Been Created as the Result of Technological Advances

- Computer industry
- Internet
- Biotechnology
- Digital photography

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

Example: H20Audio

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



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

General Example

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

Company created to help other companies comply with the law.

Specific Example

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

# **Second Approach: Solving a Problem**

- 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 change.
  - Many companies have been started by people who have experienced a problem in their own lives, and then realized that the solution to the problem represented a business opportunity.

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

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

# 2.2

# Personal Characteristics of the Entrepreneur

Characteristics that tend to make some people better at recognizing opportunities than others

Prior Experience

Cognitive Factors

Social Networks

Creativity

#### Prior Experience

- Prior Industry Experience
  - Several studies have shown that prior experience in an industry helps an entrepreneur recognize business opportunities.

- By working in an industry, an individual may spot a market niche that is underserved.
- It is also possible that by working in an industry, an individual builds a network of social contacts who provide insights that lead to recognizing new opportunities.

### Cognitive Factors

- Cognitive Factors
  - Studies have shown that opportunity recognition may be an innate skill or cognitive process.
  - Some people believe that entrepreneurs have a "sixth sense" that allows them to see opportunities that others miss.
  - This "sixth sense" is called entrepreneurial alertness, which is formally defined as the ability to notice things without engaging in deliberate search.

### Social Networks

- Social Networks
  - The extent and depth of an individual's social network affects opportunity recognition.
  - People who build a substantial network of social and professional contacts will be exposed to more opportunities and ideas than people with sparse networks.
  - Research results suggest that between 40% and 50% of people who start a business got their idea via a social contact.

- Strong Tie Vs. Weak Tie Relationships
  - All of us have relationships with other people that are called "ties."
- Nature of Strong-Tie Vs. Weak-Tie Relationships
  - Strong-tie relationships are characterized by frequent interaction and form between coworkers, friends, and spouses.
  - Weak-tie relationships are characterized by infrequent interaction and form between casual acquaintances.

### Result

- It is more likely that an entrepreneur will get new business ideas through weak-tie rather than strongtie relationships.
- Why weak-tie relationships lead to more new business ideas than strong-tie relationships

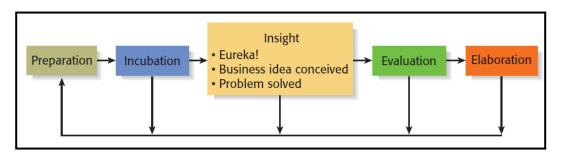
Strong-Tie Relationships	Weak-Tie Relationships
These relationships, which typically form between likeminded individuals, tend to reinforce insights and ideas that people already have.	These relationships, which form between casual acquaintances, are not as apt to be between likeminded individuals, so one person may say something to another that sparks a completely new idea.

# 2.3 Creativity

Creativity

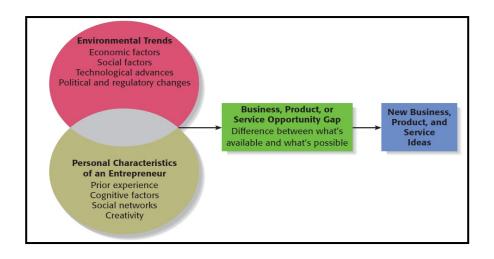
- Creativity is the process of generating a novel or useful idea.
- Opportunity recognition may be, at least in part, a creative process.
- For an individual, the creative process can be broken down into five stages:

### **Five Steps to Generating Creative Ideas**



# 2.4 The Opportunity Recognition Process

Depicts the connection between an awareness of emerging trends and the personal characteristics of the entrepreneur





# 2.5

### **Techniques for Generating Ideas**

# Brainstorming

# Focus Groups

# Library and Internet Research

### Brainstorming

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

### Focus Group

 A focus group is a gathering of five to ten people, who have been selected based on their common characteristics relative to the issues being discussed.

- These groups are led by a trained moderator, who uses the internal dynamics of the group environment to gain insight into why people feel the way they do about a particular issue.
- Although focus groups are used for a variety of purposes, they can be used to help generate new business ideas.

### Library and Internet Research

- Libraries are an often underutilized source of information for generating new business ideas.
- The best approach is to talk to a reference librarian, who can point out useful resources, such as industry-specific magazines, trade journals, and industry reports.
- Simply browsing through several issues of a trade journal or an industry report on a topic can spark new ideas.
- Large public and university libraries typically have access to search engines and industry reports that would cost thousands of dollars to access on your own.

### Internet Research

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

### Other Techniques

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

### 2.6

### **Encouraging New Ideas**

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

### **KEY TERM**

**Opportunity** Trends

**Economic** Technological

Social Political

### **SHORT QUESTIONS**

- 1. How far does an opportunity play an important role in the success of the business?
- 2. Why are economic, social, technological and political elements important for entrepreneurs to plan a business?
- 3. Which element do you think is the most important? Explain.
- 4. Describe steps to generating creavtive ideas.
- 5. Which one would you rather choose? Explain.
  - (1) Employees who only obey and do the work the boss tells them to do.
  - (2) Often questions the instructions and actions of the boss but has a high level of critical thinking.

### **SUMMARY**

 Recognizing business opportunities involves a combination of awareness of emerging trends, personal characteristics, and creative processes, with various techniques available for idea generation.



### REFERENCEES

Robert D. Hisrich, Micheal P. Peters, Dean A. Shepherd *Entrepreneurship 12th edition Mc Graw-Hill International Edition @2023* 



### **Feasibility Analysis**

### **LEARNING OUTCOMES**

By the end of topic, you should be able to:

- 1. Knowing the importance of feasibility analysis for a company
- 2. Know when to conduct feasibility analysis.
- 3. Identify components of organizational feasibility analysis.

# 3.1

# **Industry/Target Market Feasibility Analysis**

What Is Feasibility Analysis?

- Feasibility analysis is the process of determining whether a business idea is viable.
- It is the preliminary evaluation of a business idea, conducted for the purpose of determining whether the idea is worth pursuing.

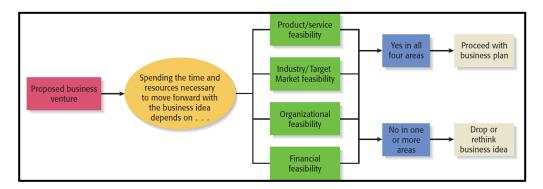
When to Conduct a Feasibility Analysis

- Timing of Feasibility Analysis
  - The proper time to conduct a feasibility analysis is early in thinking through the prospects for a new business.
  - The thought is to screen ideas before a lot of resources are spent on them.

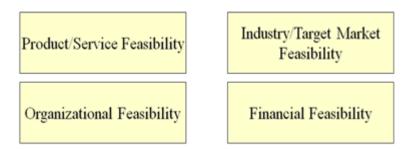
- Components of a Properly Conducted Feasibility Analysis
  - A properly conducted feasibility analysis includes four separate components:

Feasibility Analysis

Role of feasibility analysis in developing business ideas:



### Forms of Feasibility Analysis:



Outline for a Comprehensive Feasibility Analysis

#### TABLE 3.1 FEASIBILITY ANALYSIS



- A. Product/service desirability
- B. Product/service demand

Part 2: Industry/Target Market Feasibility

- A. Industry attractiveness
- B. Target market attractiveness

Part 3: Organizational Feasibility

- A. Management prowess
- B. Resource sufficiency

Part 4: Financial Feasibility

- A. Total start-up cash needed
- B. Financial performance of similar businesses
- C. Overall financial attractiveness of the proposed venture

Overall Assessment

### Product/Service Feasibility Analysis

### Purpose

- Is an assessment of the overall appeal of the product or service being proposed.
- Before a prospective firm rushes a new product or service into development, it should be sure that the product or service is what prospective customers want.

Components of product/service feasibility analysis:

Product/Service Desirability Product/Service Demand

Product/Service Desirability

First, ask the following questions to determine the basic appeal of the product or service.

- Does it make sense? Is it reasonable? Is it something consumers will get excited about?
- Does it take advantage of an environmental trend, solve a problem, or take advantage of a gap in the marketplace?
- Is this a good time to introduce the product or service to the market?
- Are there any fatal flaws in the product or service's basic design or concept?

### Second, Administer a Concept Test

- A concept statement should be developed.
- A concept statement is a one-page description of a business that is distributed to people who are asked to provide feedback on the potential of the business idea.
- The feedback will hopefully provide the entrepreneur:
  - A sense of the viability of the product or service idea.
  - Suggestions for how the idea can be strengthened or "tweaked" before proceeding further.

Example: New Venture Fitness Drink's Concept Statement

#### New Business Concept New Venture Fitness Drinks Inc.

#### Product

New Venture Fitness Drinks will sell delicious, nutrition-filled, all-natural fitness drinks to thirsty sports enthusiasts. The drinks will be sold through small storefronts (600 sq. ft.) that will be the same size as popular smoothie restaurants. The drinks were formulated by Dr. William Peters, a world-renowned nutritionist, and Dr. Michelle Smith, a sports medicine specialist, on behalf of New Venture Fitness Drinks and its customers.

### Target Market

In the first three years of operation, New Venture Fitness Drinks plans to open three or four restaurants. They will all be located near large sports complexes that contain soccer fields and softball diamonds. The target market is sports enthusiasts.

#### Why New Venture Fitness Drinks?

The industry for sports drinks continues to grow. New Venture Fitness Drinks will introduce exciting new sports drinks that will be priced between \$1.50 and \$2.50 per 16-ounce serving. Energy bars and other over-the-counter sports snacks will also be sold. Each restaurant will contain comfortable tables and chairs (both inside and outside) where sports enthusiasts can congregate after a game. The atmosphere will be fun, cheerful, and uplifting.

#### Special Feature—No Other Restaurant Does This

As a special feature, New Venture Fitness Drinks will videotape select sporting events that take place in the sports complexes nearest its restaurants and will replay highlights of the games on video monitors in their restaurants. The "highlight" film will be a 30-minute film that will play continuously from the previous day's sporting events. This special feature will allow sports enthusiasts, from kids playing soccer to adults in softball leagues, to drop in and see themselves and their teammates on television.

#### **Management Team**

New Venture Fitness Drink is led by its cofounders, Jack Petty and Peggy Wills. Jack has 16 years of experience with a national restaurant chain, and Peggy is a certified public accountant with seven years of experience at a Big 4 accounting firm.

### Product/Service Demand

- There are two steps to assessing product/service demand.
- Step 1: Talking Face-to-Face with Potential Customers.
- Step 2: Using Online Tools, such as Google AdWords and Landing Pages, To Assess Demand.
- Talking Face-to-Face with Potential Customers
  - The only way to know if your product or service is what people want is by talking to them.

- The idea is to gauge customer reaction to the general concept of what you want to sell, and tweak, revise, and improve on the idea based on the feedback.
- In some cases, talking with potential customers will cause an entrepreneur to abandon an idea.
  - Entrepreneurs are often surprised to find that a product idea they think solves a problem gets lukewarm reception when they talk to actual customers.
- Utilizing Online Tools, Such as Google AdWords and Landing Pages, to Assess Demand
  - The second way to assess demand is to utilize online tools to gauge reaction from potential customers.
  - Some entrepreneurs purchase text ads on search engines that show up when a user is searching for a product that is close to their idea. If the searcher clicks on the text ad, they are directed to a landing page that describes the idea. There may be a link on the landing page that says "For future updates please enter your e-mail address." Demand for the idea can be assessed by how many people click on the text ad and enter their e-mail address.
  - A variety of additional online tools are available to help assess the demand for a new product or service.
  - Examples include:
    - Sites that provide feedback on business ideas (Foundersuite, Quirky).
    - Market Research (CrowdPicker, Google Trends).

- Online Surveys (Survey Monkey, Google Consumer Surveys).
- Q&A Sites (Quora, Stack Overflow).

### **Industry/Target Market Feasibility Analysis**

Purpose

- Is an assessment of the overall appeal of the industry and the target market for the proposed business?
- An industry is a group of firms producing a similar product or service.
- A firm's target market is the limited portion of the industry it plans to go after.

Components of industry/target market feasibility analysis

Industry Attractiveness

Target Market Attractiveness

### **Industry Attractiveness**

- Industry Attractiveness
  - Industries vary in terms of their overall attractiveness.
  - In general, the most attractive industries have the characteristics.
  - Particularly important—the degree to which environmental and business trends are moving in favor rather than against the industry.
- Characteristics of Attractive Industries
  - Are young rather than old.
  - Are early rather than late in their life cycle.

- Are fragmented rather than concentrated.
- Are growing rather than shrinking.
- Are selling products and services that customers
   "must have" rather than
   "want to have."
- Are not crowded.
- Have high rather than low operating margins.
- Are not highly dependent on the historically low price of key raw materials.

### **Target Market Attractiveness**

- Target Market Attractiveness
  - The challenge in identifying an attractive target market is to find a market that's large enough for the proposed business but is yet small enough to avoid attracting larger competitors.
  - Assessing the attractiveness of a target market is tougher than assessing the attractiveness an entire industry.
  - Often, considerable ingenuity must be employed to find information to assess the attractiveness of a specific target market.

### Organizational Feasibility Analysis

### **Purpose**

- Is conducted to determine whether a proposed business has sufficient management expertise, organizational competence, and resources to successfully launch a business.
- Focuses on non-financial resources.



# Components of organizational feasibility analysis

Management Prowess

Resource Sufficiency

### **Management Prowess**

- Management Prowess
  - A proposed business should candidly evaluate the prowess, or ability, of its management team to satisfy itself that management has the requisite passion and expertise to launch the venture.
  - Two of the most important factors in this area are:
    - The passion that the sole entrepreneur or the founding team has for the business idea.
    - The extent to which the sole entrepreneur or the founding team understands the markets in which the firm will participate.

### **Resource Sufficiency**

- Resource Sufficiency
  - This topic pertains to an assessment of whether an entrepreneur has sufficient resources to launch the proposed venture.
  - To test resource sufficiency, a firm should list the 6 to 12 most critical nonfinancial resources that will be needed to move the business idea forward successfully.
    - If critical resources are not available in certain areas, it may be impractical to proceed with the business idea.

- Examples of nonfinancial resources that may be critical to the successful launch of a new business
  - Affordable office space.
  - Lab space, manufacturing space, or space to launch a service business.
  - Availability of contract manufacturers or service providers.
  - Key management employees (now and in the future).
  - Key support personnel (now and in the future).
  - Ability to obtain intellectual property protection.
  - Ability to form favorable business partnerships.

### **Financial Feasibility Analysis**

### Purpose

- Is the final component of a comprehensive feasibility analysis?
- A preliminary financial assessment is sufficient.

Components of financial feasibility analysis

Total Start-Up Cash Needed Financial Performance of Similar Businesses

Overall Financial Attractiveness of the Proposed Venture

- Total Start-Up Cash Needed
  - The first issue refers to the total cash needed to prepare the business to make its first sale.
  - An actual budget should be prepared that lists all the anticipated capital purchases and operating expenses needed to generate the first \$1 in revenues.
  - The point of this exercise is to determine if the proposed venture is realistic given the total start-up cash needed.
- Financial Performance of Similar Businesses
  - Estimate the proposed start-up's financial performance by comparing it to similar, already established businesses.
  - There are several ways to doing this, all of which involve a little ethical detective work.
    - First, there are many reports available, some for free and some that require a fee, offering detailed industry trend analysis and reports on thousands of individual firms.
    - Second, simple observational research may be needed. For example, the owners of New Venture Fitness Drinks could estimate their sales by tracking the number of people who patronize similar restaurants and estimating the average amount each customer spends.
- Overall Financial Attractiveness of the Proposed Investment
  - A number of other financial factors are associated with promising business start-ups.
  - In the feasibility analysis stage, the extent to which a business opportunity is positive relative to each

factor is based on an estimate rather than actual performance.

- Financial Factors Associated with Promising Business Opportunities
  - Steady and rapid growth in sales during the first 5 to 7 years in a clearly defined market niche.
  - High percentage of recurring revenue—meaning that once a firm wins a client, the client will provide recurring sources of revenue.
  - Ability to forecast income and expenses with a reasonable degree of certainty.
  - Internally generated funds to finance and sustain growth.
  - Availability of an exit opportunity for investors to convert equity to cash.

Monday July 11, 2016 Be Like Entrpreneurs







### **KEY TERM**

Target Market Financial

Resource Resources

**Management Prowess** 

### **Questions**

- 1. What problem does your product solve, and how significant is this problem for your target market?
- 2. Have you conducted a thorough analysis of the features and benefits of your product compared to existing solutions in the market?
- 3. Have you clearly defined and segmented your target market?
- 4. Have you identified any skill gaps within the team, and how do you plan to address them?
- 5. What are your financial projections for the next 1, 3, and 5 years?
- 6. How sensitive are your projections to changes in key variables, such as sales volume or production costs?

### **SUMMARY**

A thorough feasibility analysis is a critical step for entrepreneurs to assess the viability of their business ideas, considering product appeal, market conditions, organizational capabilities, and financial feasibility..



### **REFERENCESS**

Robert D. Hisrich, Micheal P. Peters, Dean A. Shepherd *Entrepreneurship 12th edition Mc Graw-Hill International Edition @2023* 



### **Developing an Effective Business Model**

### **LEARNING OUTCOMES**

By the end of topic, you should be able to:

- 1. Define business model
- 2. List categories of business model and explain each role

A business model is a firm's plan or recipe for how it creates, delivers, and captures value for its stakeholders. The proper time to develop a business model is following the feasibility analysis stage and prior to fleshing out the operational details of the company. A firm's business model is integral to its ability to succeed both in the short and long term

# 4.1

### **General Categories of Business Models**

- Standard Business Models
  - The first category is standard business models.
  - Standard business models depict existing plans or recipes firms can use to determine how they will create, deliver, and capture value.
  - There are a number of standard or common business models, which are shown below:

### Standard Business Models

Business Model	Representative Companies
Advertising Business Model	Google, Facebook
Auction Business Model	eBay, uBid.com
Bricks and Clicks Business Model	Apple, Barnes & Noble

Franchise Business Model	Panera Bread, 24-Hour Fitness
Freemium Business Model	Dropbox, Pandora
Low-Cost Business Model	Southwest Airlines, Walmart
Manufacturer/Retailer Business Model	Fitbit, Tesla Motors
Peer-to-Peer Business Model	Airbnb, Uber
Razor and Blades Business Model	Game Consoles and Games, Printers and Ink Cartridges
Subscription Business Model	Birchbox, Netflix
Traditional Retailer Business Model	Amazon, Whole Foods Markets

### Disruptive Business Models

- The second category is disruptive business models.
- Disruptive business models, which are rare, are ones that do not fit the profile of a standard business model.
- They are impactful enough that they disrupt or change the way business is conducted in an industry or an important niche within an industry.

Below are the four business models that were disruptive when they were introduced.

Business Model	Company or Companies That Introduced It
Direct-to-Consumer Computer Sales (which allowed consumers to customize their computers)	Dell
Online Text Ads on Search Engines (allowed advertisers to place ads for products that searchers were already searching for)	Yahoo, Google
Software as a Service (SaaS) (By moving software to the cloud, allowed users to access the software and their data from anywhere there was an Internet connection)	Salesforce.com
Cloud-based Service to Connect Riders and People Willing to Provide Rides (Provided riders with an app that connects them with the owners of private cars)	Uber, Lyft



- Barringer/Ireland Business Model Template
  - Although not everyone agrees precisely on the components of a business model, many agree that a successful business model has a common set of attributes.
  - These attributes can be laid out in a visual framework or template so it is easy to see the individual parts and their interrelationships.
  - The Barringer/Ireland Business Model Template is shown:

Core Strategy	
Business Mission	Basis of Differentiation
Target Market	Product/Market Scope

Resources	
Core Competency	Key Assets

Financials	
Revenue Streams	
Cost Structure	Financing/Funding

Operations	
Product (or service) Production	Channels  Key Partners

# 4.2

### **Core Strategy**

### Core Strategy

- The first component of the business model is core strategy.
- A core strategy describes how the firm plans to compete relative to its competitors.
- The primary elements of core strategy are:
  - Business Mission
  - Basis of Differentiation
  - Target Market
  - Product/Market Scope

### Business Mission

- A business's mission or mission statement describes why it exists and what its business model is supposed to accomplish.
- If carefully written and used properly, a mission statement can articulate a business's overarching priorities and act as its financial and moral compass.
- A well-written mission statement is something that a business can continually refer back to as it makes important decisions in other elements of its business model.

### Basis of Differentiation

- It's important that a business clearly articulate the points that differentiate its product or service from competitors.
- A company's <u>basis of differentiation</u> is what causes consumers to pick one company's products over another's.
- It is what solves a problem or satisfies a customer need.
- It is best to limit a company's basis of differentiation to two to three key points.
- Make sure that your points of differentiation refer to benefits rather than features.

### Target Market

- The identification of the target market in which the firm will compete is extremely important.
- A target market is a place within a larger market segment that represents a narrow group of customers with similar interests.
- A firm's target market should be made explicit in the business model template.

### Product/Market Scope

- A company's product/market scope defines the products and markets on which it will concentrate.
- Most firms start with a narrow (or limited)
   product/market scope, and pursue adjacent
   product and market opportunities as the company
   grows and becomes more financially secure.
- In completing the business model template, a company should be very clear about its initial product/market scope and project 3-5 years in the future in terms of anticipated expansion.

# 4.3 Res

### Resources

#### Resources

- The second component of a business model is resources.
- Resources are the inputs a firm uses to produce, sell, distribute, and service a product or service.
- A firm's most important resources, both tangible and intangible, must be both difficult to imitate and hard to find a substitute for.
  - This stipulation is necessary for an individual company's business model to be competitive over the long term.

### Core Competencies

- A core competency is a specific factor or capability that supports a firm's business model and sets it apart from rivals.
- A core competency can take on various forms, such as technical know-how, an efficient process, a trusting relationship with customers, expertise in product design, and so forth.
- Most start-ups will list two to three core competencies in their business model template.

### Key Assets

- Key assets are the assets that a firm owns that enable its business model to work. The assets can be physical, financial, intellectual, or human.
  - Physical assets include physical space, equipment, vehicles, and distribution networks.
  - Intellectual assets include resources such as patents, trademarks, copyrights, and trade secrets, along with a company's brand and its reputation.
  - Financial assets include cash, lines of credit, and commitments from investors.
  - Human assets include a company's founder or founders, its key employees, and its advisors.

## 4.4

### **Financials**

### Financials

- The third component of a firm's business model focuses on its financials.
- This is the only section of a firm's business model that describes how it earns money—thus, it is extremely important.
- For most businesses, the manner in which it makes money is one of the most fundamental aspects of its business model.

### Revenue Streams

- A firm's revenue streams describe the ways in which it makes money.
- Some businesses have a single revenue stream while others have several.
- For example, most restaurants have a single revenue stream. Their customers order a meal and pay for it. Other restaurants may have several revenue streams—including meals, a catering service, product sales (such as bottle barbeque sauce for a barbeque restaurant), and apparel products with the name of the restaurant on them.

### Cost Structure

- A business's cost structure describes the most important costs incurred to support its business model.
- It costs money to establish a basis of differentiation, develop core competencies, acquire and develop key assets, and so forth.
- Generally, the goal for this box in a firm's business model template is threefold:
  - Identify whether the business is a cost-driven or value-driven business.
  - Identify the nature of a business's costs.
  - Identify the business's major cost categories.

### • Financing/Funding

- Many business models rely on a certain amount of financing or funding to bring their business model to life.
- At the business model stage projections do not need to be completed to determine the exact amount of money that is needed. An approximation is sufficient.
- There are three categories of costs to consider:
  - Capital costs.
  - One-time expenses, such as building a Web site and training initial employees.

- Provisions for ramp-up expenses (most businesses incur costs before they earn revenues).
- Financing/Funding (continued)
  - Some entrepreneurs are able to draw from personal resources to fund their business. In other cases, the business may be simple enough that it is funded from its own profits from day one.
  - In many cases, however, an initial infusion of funding or financing is needed.

The business model template should indicate the appropriate amount of funding that will be needed and where the money will most likely come from.

# 4.5

### **Operations**

- Operations
  - The final quadrant in a firm's business model focuses on operations.
  - Operations are both integral to a firm's overall business model and represent the day-to-day heartbeat of a firm.
- Product (or Service) Production
  - This section focuses on how a firm's products and/or services are produced.
  - For example, if a firm sells a physical product, the product can be manufactured or produced in-house, by a contract manufacturer, or via an outsource provider.
    - This decision has a major impact on all aspects of a firm's business model.
  - If a firm is producing a service rather than a physical product, a brief description of how the service will be produced should be provided.

### Channels

- A company's channels describe how it delivers its product or service to its customers.
- Businesses either sell direct, through intermediaries (such as distributors and wholesalers), or via a combination of both.
- Some firms employ a sales force that calls on potential customers to try to close sales. This is an expensive strategy but necessary in some instances.

### Key Partners

- The final element of a firm's business model is key partners.
- Start-ups, in particular, typically do not have sufficient resources (or funding) to perform all the tasks necessary to make their business models work, so they rely on key partners to perform important roles.
- The table below shows the identifies the most common types of business partnerships.

Partnership Form	Description
Joint venture	An entity created by two or more firms pooling a portion of their resources to create a separate, jointly-owned organization
Network	A hub-and-wheel configuration with a local firm at the hub organizing the interdependencies of a complex array of firms
Consortia	A group of organizations with similar needs that band together to create a new entity to address those needs
Strategic alliance	An arrangement between two or more firms that establishes an exchange relationship but has no joint ownership involved
Trade associations	Organizations (typically nonprofit) that are formed by firms in the same industry to collect and disseminate trade information, offer legal and technical advice, furnish industry-related training, and provide a platform for collective lobbying

### **KEY TERM**

Business Model Core Stratergy

Resources Financials

### **Short Questions**

1. What are the key components of the Barringer/Ireland business model template, and how does each contribute to a comprehensive understanding of the business model?

- 2. How can businesses utilize the template to communicate their business model to stakeholders and team members?
- 3. How well-defined is your business mission, and how does it provide a clear sense of purpose for both internal teams and external stakeholders?
- 4. How does the basis of differentiation contribute to building a strong brand identity in the market?

### **SUMMARY**

A business model is a firm's plan or recipe for how it creates, delivers, and captures value for its stakeholders. The proper time to develop a business model is following the feasibility analysis stage and prior to fleshing out the operational details of the company. A firm's business model is integral to its ability to succeed both in the short and long term



### **REFERENCEES**

Robert D. Hisrich, Micheal P. Peters, Dean A. Shepherd *Entrepreneurship 12th edition Mc Graw-Hill International Edition @2023* 



## **Industry and Competitor Analysis**

### **LEARNING OUTCOMES**

By the end of topic, you should be able to:

- 1. Define Industry Analysis
- 2. Explain why is industry analysis is important
- 3. Describe techniques available to assess industry attractiveness
- 4. Explain five competitive forces model

# 5.1

### **Industry Analysis**

- Industry
- An industry is a group of firms producing a similar product or service, such as music, Pilates and yoga studios, and solar panel manufacturing.
- Industry Analysis
- Is business research that focuses on the potential of an industry.

Why is Industry Analysis Important?

### Importance

- Once it is determined that a new venture is feasible in regard to the industry and market in which it will compete, a more in-depth analysis is needed to learn the ins and outs of the industry.
- The analysis helps a firm determine if the target market it identified during feasibility analysis is favorable for a new firm.



### Three Key Questions

Is the industry accessible—in other words, is it a realistic place for a new venture to enter?

Does the industry contain markets that are ripe for innovation or are underserved? Are there positions in the industry that avoid some of the negative attributes of the industry as a whole?

When studying an industry, an entrepreneur must answer three questions before pursuing the idea of starting a firm.



# **Industry and Firm-Level Factors Affect Performances**

- Firm-Level Factors
  - Include a firm's assets, products, culture, teamwork among its employees, reputation, and other resources.
- Industry-Level Factors
  - Include threat of new entrants, rivalry among existing firms, bargaining power of buyers, and related factors.
- Conclusion
  - In various studies, researchers have found that from 8% to 30% of the variation in firm profitability is directly attributable to the industry in which a firm competes.

### **Techniques Available to Assess Industry Attractiveness**

Assessing Industry Attractiveness

Study Environmental and Business Trends

The Five Competitive Forces Model

5.3

### **Studying Industry Trends**

- Environmental Trends
  - Include economic trends, social trends, technological advances, and political and regulatory changes.
  - For example, industries that sell products to seniors are benefiting by the aging of the population.
- Business Trends
  - Other trends that impact an industry.

For example, are profit margins in the industry increasing or falling? Is innovation accelerating or waning? Are input costs going up or down?



### **The Five Competitive Forces Model**

- Explanation of the Five Forces Model
  - The five competitive forces model is a framework for understanding the structure of an industry.
  - The model is composed of the forces that determine industry profitability.
  - They help determine the average rate of return for the firms in an industry.
  - Each of the five forces impacts the average rate of return for the firms in an industry by applying pressure on industry profitability.

 Well managed firms try to position their firms in a way that avoids or diminishes these forces—in an attempt to beat the average rate of return of the industry.



### Threat of Substitutes

- The price that consumers are willing to pay for a product depends in part on the availability of substitute products.
- For example, there are few, if any, substitutes for prescription medicines, which is one of the reasons the pharmaceutical industry is so profitable.
- In contrast, when close substitutes for a product exist, industry profitability is suppressed, because consumers will opt out if the price gets too high.
- The extent to which substitutes suppress the profitability of an industry depends on the propensity for buyers to substitute between alternatives.
- This is why firms in an industry often offer their customers amenities to reduce the likelihood that they will switch to a substitute product, even in light of a price increase.



- This independently owned coffee shop doesn't just sell coffee.
- It also offers its patrons a convenient and pleasant place to meet, socialize, and study.
- It provides these amenities to decrease the likelihood that its customers will substitute" coffee at this shop for less expensive alternatives.

### Threat of New Entrants

- If the firms in an industry are highly profitable, the industry becomes a magnet to new entrants.
- Unless something is done to stop this, the competition in the industry will increase, and average industry profitability will decline.
- Firms in an industry try to keep the number of new entrant low by erecting barriers to entry.
  - A barrier to entry is a condition that creates a disincentive for a new firm to enter an industry.

### Barriers to Entry

Barrier to Entry	Explanation
Economies of Scale	Industries that are characterized by large economies of scale are difficult for new firms to enter, unless they are willing to accept a cost disadvantage.
Product differentiation	Industries such as the soft drink industry that are characterized by firms with strong brands are difficult to break into without spending heavily on advertising.
Capital requirements	The need to invest large amounts of money to gain entrance to an industry is another barrier to entry.

Cost advantages independent of size	Existing firms may have cost advantages not related to size. For example, the existing firms in an industry may have purchased land when it was less expensive than it is today.
Access to distribution channels	Distribution channels are often hard to crack. This is particularly true in crowded markets, such as the convenience store market.
Government and legal barriers	Some industries, such as banking and broadcasting, require the granting of a license by a public authority to compete.

### Nontraditional Barriers to Entry

- It is difficult for start-ups to execute barriers to entry that are expensive, such as economies of scale, because money is usually tight.
- Start-ups have to rely on nontraditional barriers to entry to discourage new entrants, such as assembling a world-class management team that would be difficult for another company to replicate.

### Nontraditional Barriers to Entry

Barrier to Entry	Explanation
Strength of management team	If a start-up puts together a world-class management team, it may give potential rivals pause in taking on the start-up in its chosen industry.
First-mover advantage	If a start-up pioneers an industry or a new concept within an industry, the name recognition the start-up establishes may create a barrier to entry.
Passion of the management team and employees	If the employees of a start-up are motivated by the unique culture of a start-up, and anticipate a large financial reward, this is a combination that cannot be replicated by larger firms.

Unique business model	If a start-up is able to construct a unique business model and establish a network of relationships that makes the business model work, this set of advantages creates a barrier to entry.	
Internet domain name	Some Internet domain names are so "spot-on" that they give a start-up a meaningful leg up in terms of e-commerce opportunities.	
Inventing a new approach to an industry	If a start-up invents a new approach to an industry and executes it in an exemplary fashion, these factors create a barrier to entry for potential imitators.	

### Rivalry Among Existing Firms

- In most industries, the major determinant of industry profitability is the level of competition among existing firms.
- Some industries are fiercely competitive, to the point where prices are pushed below the level of costs, and industry-wide losses occur.
- In other industries, competition is much less intense and price competition is subdued.
- Factors that determine the intensity of the rivalry among existing firms in an industry

Number and balance of competitors	The more competitors there are, the more likely it is that one or more will try to gain customers by cutting its price.
Degree of difference between products	The degree to which products differ from one product to another affects industry rivalry.

Growth rate of an industry	The competition among firms in a slow-growth industry is stronger than among those in fast-growth industries.
Level of fixed costs	Firms that have high fixed costs must sell a higher volume of their product to reach the break-even point than firms with low fixed costs.

### Bargaining Power of Suppliers

- Suppliers can suppress the profitability of the industries to which they sell by raising prices or reducing the quality of the components they provide.
- If a supplier reduces the quality of the components it supplies, the quality of the finished product will suffer, and the manufacturer will eventually have to lower its price.
- If the suppliers are powerful relative to the firms in the industry to which they sell, industry profitability can suffer.

Factors that have an impact on the ability of suppliers to exert pressure on buyers.

Buyer group concentration	If there are only a few large buyers, and they buy from a large number of suppliers, they can pressure the suppliers to lower costs and thus affect the profitability of the industries from which they buy.
Buyer's costs	The greater the importance of an item is to a buyer, the more sensitive the buyer will be to the price it pays.

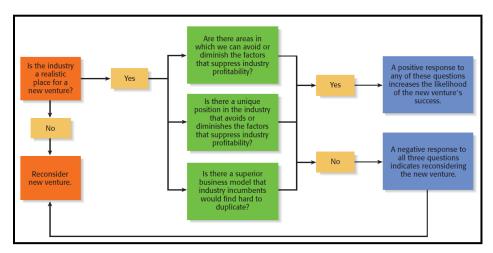
### First Application of the Five Forces Model

- First Application of the Model
  - The five forces model can be used to assess the attractiveness of an industry by determining the level of threat to industry profitability for each of the forces.
  - If a firm fills out the form and several of the threats to industry profitability are high, the firm may want to reconsider entering the industry or think carefully about the position it would occupy.

### Second Application of the Five Forces Model

- Second Application of the Model
  - The second way a new firm can apply the five forces model to help determine whether it should enter an industry is by using the model to answer several key questions.
  - The questions help a firm project the potential success of a new venture in a particular industry.
  - Using the Five Forces Model to Pose
     Questions to Determine the Potential Success
     of a New Venture in an Industry;

### The question would be like:



### Industry Types and the Opportunities They Offer

- · Emerging Industries
  - Industries in which standard operating procedures have yet to be developed.
    - Opportunity: First-mover advantage.
- Fragmented Industries
  - Industries that are characterized by a large number of firms of approximately equal size.
    - Opportunity: Consolidation.
- Mature Industries
  - Industries that are experiencing slow or no increase in demand.
    - Opportunities: Process innovation and after-sale service innovation.
- Declining Industries
  - Industries that are experiencing a reduction in demand.

- Opportunities: Leadership, establishing a niche market, and pursuing a cost reduction strategy.
- Global Industries
  - Industries that are experiencing significant international sales.
    - Opportunities: Multi-domestic and global strategies.

## 5.5

### **Competitor Analysis**

- What is a Competitor Analysis?
  - A competitor analysis is a detailed analysis of a firm's competition.
  - It helps a firm understand the positions of its major competitors and the opportunities that are available.
  - A competitive analysis grid is a tool for organizing the information a firm collect about its competitors.

### **Identifying Competitors**

Types of Competitors New Ventures Face:





### **Sources of Competive Intelligence**

Collecting Competitive Intelligence

- To complete a competitive analysis grid, a firm must first understand the strategies and behaviors of its competitors.
- The information that is gathered by a firm to learn about its competitors is referred to as competitive intelligence.
- A new venture should take care that it collects competitive intelligence in a professional and ethical manner.

Ethical ways to obtain information about competitors:

- Attend conferences and trade shows.
- · Purchase competitors' products.
- Study competitors' Web sites and social media sites.
- Set up Google e-mail alerts.
- Read industry-related books, magazines, and Web sites.
- Talk to customers about what motivated them to buy your product as opposed to your competitor's product.
- Competitive Analysis Grid
  - A tool for organizing the information a firm collects about its competitors.

A competitive analysis grid can help a firm see how it stacks up against its competitors, provide ideas for markets to pursue, and identify its primary sources of competitive advantage.

### **KEY TERM**

**Industry Analysis** 

**Competitor Analysis** 

**Competitve Intelligence** 

**The Five Competitive Forces Model** 

### **Short Question**

- 1. How does the life cycle of an industry impact the strategies that companies should adopt for sustainable growth?
- 2. How does a thorough industry analysis help companies identify opportunities for innovation and market differentiation?
- 3. Explain the correlation between industry analysis and a company's ability to adapt to changing market conditions
- 4. How can the threat of substitute products or services affect a company's market position, according to Porter's Five Forces model?
- 5. Explain how rivalry among existing competitors is assessed in the Five Forces model and its implications for strategic planning.

### **SUMMARY**

Understanding the dynamics of the industry, assessing competitiveness, and analyzing competitors are essential for making informed strategic decisions, entering markets, and sustaining a competitive advantage



### **REFERENCEES**

Robert D. Hisrich, Micheal P. Peters, Dean A. Shepherd *Entrepreneurship 12th edition Mc Graw-Hill International Edition @2023* 



## **Developing Business Plan**

### **LEARNING OUTCOMES**

By the end of topic, you should be able to:

- 1. Identify the reasons for preparing a business plan
- 2. Identify the characteristics of a hard disk
- 3. Discuss the main body format of business plan
- 4. Describe the business plan format
- 5. Identify why some business plans fail

## 6.1

### What Is a Business Plan?

A business plan is a written document which described the proposed business or project to be undertaken in a comprehensive manner. The information gathered regarding the proposed project is used in the business plan to predict viability, forecast success and propose strategies for the project.

For most new ventures, the business plan is a dual-purpose document used both inside and outside the firm. It is also known as a working paper, business proposal, project paper or prospectus.



## **Reasons for Preparing a Business Plan**

The business plan is design to guide the entrepreneur through the first five year of operations. It is important that the implementation of the strategy contain control point ascertain progress and to initiate contingency plans if necessary. There has been tendency among the entrepreneurs avoid to prepare the business plan. Some of them think that business plan is dull and boring only needed b by large company only. But this is only an excuse by the entrepreneurs maybe they afraid to do planning? Planning is very important for any business operation. Without proper planning the entrepreneurs is like to pay an enormous price.

Below are several reasons on why entrepreneurs need to write up their business plan:

- ✓ Opportunity for entrepreneur to assess the business venture objectively, critically and practically.
- ✓ To study and evaluate the feasibility of the business.
- ✓ To convince venture capitalists, investors and bankers in order to raise capital and obtain support for the venture.
- ✓ As a guideline for day-to-day management of the business.
- ✓ To be able to distribute business resources more effectively.

### **Readers of the Business Plan:**

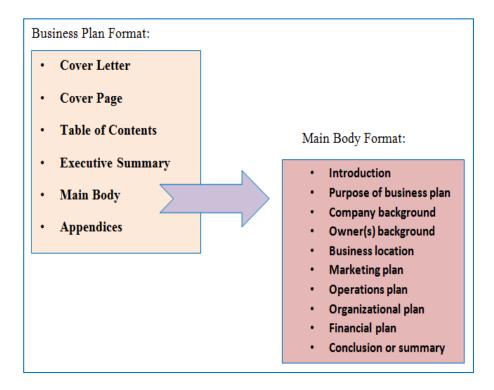
The business plan can be prepared and submitted to many different parties with specific purpose in mind. Among the parties who are the reader of the business plan are:

- ✓ Entrepreneurs
- ✓ Investors
- √ Bankers
- ✓ Financial Assistance Providers
- ✓ Suppliers
- ✓ Customers
- √ Employees

### Types of Business Plans:

#### Operational **Full Business Plan Business Plan** 25-35 pages 40-100 pages 10-15 pages Works best for Works best for Is meant primarily for new ventures in the early new ventures who are at an internal audience; stages of development the point where they works best as a tool for that want to "test the need funding or creating a blueprint for waters" to see if financing; serves as a a new venture's investors are interested "blueprint" for the operations and providing company's operations in their idea guidance to operational managers

#### Format Overview



# 6.3 Business Plan Format

### 1. Cover letter

The cover letter is often enclosed with the completed business plan as an introduction to the purpose and contents of the attached plan. This letter should specify what entrepreneur hopes to obtain from the business plan being submitted and subsequently evaluated by the relevant recipient.

### 2. Cover Page

In the cover page of business plan needs to present certain basic introductory information such as:

- Title of the business plan
- Name of the business and business address
- Name of the writer/s
- Date of submission

### 3. Table of Content

This page will list the main heading, table, schedules and appendices according to page numbers. This will facilitate the reader and identifying the appropriate pages for easy reference.

### 4. Executive Summary

The executive summary is a short overview of the entire business plan. It contained early of the business plan because it is essential in convincing and motivating the reader to spend more going through the whole business plan so that they can fully understand and support the proposed project. It provides a busy reader with everything that needs to be known about the new venture's distinctive nature. In other words is trying to attract reader to read further of the business plan.

The executive summary needs to highlight important component potential, project implementation, project cost and expected returns. It also shouldn't exceed two single-spaced pages. Even though the executive summary appears at the beginning of the business plan, it should be written last.

### 5. Main Body of the Business plan

This section is central and vital in making up the complete business plan. It contains essential information relates to the various aspects of the proposed venture particularly the administration, marketing, operation and financial plans.

### 6. Appendices

This section contains supporting documents that are may be relevant to the proposed business venture but cannot be effectively fitted in to the main body of the business plan. Examples of supporting documents are:

- a) Supplier's quotation
- b) Agreement letter
- c) Letter of references
- d) Research findings



### **Main Body of Business Plan**

### ✓ Introduction

Introduction should clearly state name of the company, nature of the business, location, operational date and prospects of the business.

### ✓ Purpose

State the key purpose of preparing plan (example: for financing, business viability assessment, operational blueprint)

### ✓ Company Background

Details regarding the company legal structure (registered name, form address and when business registered), main activity & date operations start.

### ✓ Owner Background

Details of each individual that is a registered owner of the business. State relevant qualifications, skills, experience, role in business and stake or share in business.

### ✓ Location

Specify physical location of business premise, operations premise (if different), and the advantages of location in helping business achieve objectives (example: proximity to suppliers, target market or usability of space).

### ✓ Marketing plan

Need to highlight target customers, key products and services & sales forecast.

### ✓ Operations plan

Use sales forecast to plan capacity, material, equipment and manpower needs.

### ✓ Organizational plan

Indicate company structure and key talents.

### √ Financial plan

A set of budget considerations for marketing, operations and organizational needs into project cost and sources planning as well as projections of cash, profit and asset & liability position of planned business.

# 6.5

### Why Some Business Plans Fail?

### ✓ Unreasonable goals

Setting goals or objective requires entrepreneurs to be well informed about the type of business and the competitive environment. Objective should be specific and not do mundane as to lack any basis of control. For example the entrepreneurs may target a specific market share, units sold or revenue.

### ✓ Non measurable objectives

These objectives are measurable and can be monitored over time. For example, business plan prepared to achieve 20 % of sales within 3 years.

### ✓ Lack of commitment to the business or to the family

The entrepreneur and his or her family must make a total commitment to the business to be able to meet the demands of the new venture. For example, it is difficult to operate new venture on a part time basis while still holding on to the full time position. And it is so difficult to operate a business without an understanding from family members as to time and resources that will be needed. Beside that lenders and investors will not

be favorably inclined to ward venture that does not have full time commitment.

### ✓ Lack of experience in the planned business

Lack of experience will result in failure unless the entrepreneur can either attain the necessary knowledge or team up with someone who already has it. For example, an entrepreneur trying to start new restaurant without any experience or knowledge of the restaurant business would be in a disastrous situation.

## ✓ No sense of potential threats or weaknesses to the business

No senses of potential threats or weakness become another problem for the entrepreneurs. Entrepreneurs should alert towards any changes surroundings especially the new entrants, or customer preferences. Fail to do these will lead to business failure and also left out in the industry such as bankruptcy.

### **KEY TERM**

Content Format

**Body of Business Plan** 

### **Short Questions**

Plan a business you want to run. Next, answer the questions:

- 1. What is the core concept or idea behind your business?
- 2. What industry or industries will your business operate in?
- 3. Who are your target customers, and what are their characteristics?

- 4. How do you plan to market and promote your products or services?
- 5. What is your sales strategy, and how do you plan to reach your target customers?
- 6. What are your revenue and expense projections for the next 3-5 years?
- 7. What resources and activities are critical to the success of your plan?

### **SUMMARY**

- The business plan is design to guide the entrepreneur through the first five year of operations. It is important that the implementation of the strategy contain control point ascertain progress and to initiate contingency plans if necessary.
- There has been tendency among the entrepreneurs avoid to prepare the business plan. Some of them think that business plan is dull and boring only needed b by large company only. But this is only an excuse by the entrepreneurs maybe they afraid to do planning? Planning is very important for any business operation. Without proper planning the entrepreneurs is like to pay an enormous price.



### **REFERENCEES**

Robert D. Hisrich, Micheal P. Peters, Dean A. Shepherd *Entrepreneurship 12th edition Mc Graw-Hill International Edition @2023* 



## **Legal Structure For New Business Venture**

### **LEARNING OUTCOMES**

By the end of topic, you should be able to:

- 1. Identify the legal structure for business venture in Malaysia
- 2. Describe the types of business entities
- 3. Differentiate the characteristic of the business form
- 4. Summarize the common methods of starting an entrepreneurial new venture
- 5. Describe all the those characteristic of common methods

## 7.1

### **Forms of Business Entitles**

Businesses in Malaysia can be registered under any one of the following Acts:

- a. Business Registration Act 1956 (Amendment 1978) & Procedures Of Business Registration 1957
- b. Company Act 1965
- c. Cooperative Act 1948
- d. Parliamentary Act or State (Government) Enactment

## 7.2

## **Types of Business Entities**

Under Business Registration Act 1956 (Amendment 1978) & Procedures of Business Registration 1957:

- √ Sole Proprietorship
- ✓ Partnership

### Under Company Act 1965

- √ Limited Company by Guarantee
- ✓ Limited Company by Share
  - Private Limited Company (Sendirian Berhad)
  - Public Limited Company
  - Foreign Owned Company
- ✓ Unlimited Company

The most common forms of business entities registered by small and medium enterprises (SMEs) are:

### **Sole Proprietorship**

Formed under the Business Act 1956 (Amendment 1978). This form of business structure is solely owned by one person, where management rests on that person whose liability is unlimited. A sole proprietorship is the simplest business structure. As for the name of the business, the name of the owner or any other name may be used.

Typically, a sole proprietorship business requires a small amount of capital to start with, compared with other forms of business entities. Example of sole proprietorship business is mini market, barber shop, tailor shop, bakeries, and café.

Advantages and disadvantages of Sole-Proprietorship

Advantages	Disadvantages		
a) Easy to manage since the	a) Limited sources of capital		
owner of the business can	that could limit the		
make the decision himself	business activity.		
b) Owner can enjoy certain of b) The liability of the business			
flexibility since owner can	is unlimited.		
react quickly and positively			

regarding	necessary
changes.	

- c) Easy to form and dissolve with minimum formalities
- d) Nobody will share the rewards of the business since all profit will be owned by the owner.
- e) Not subjected much to government rules and regulations
- f) Owner pays income tax based on the individual income.

- c) The future development will depend on owner capability and health
- d) The owner is the only one that carries out the task, so a lot of time and effort needed.
- e) The life span of the business depends upon the age of the owner and how efficiently he manages the business.

### **Partnership**

A partnership is a legal business entity with two or more partners. In this form of business, a person forms a partnership with one or more persons to carry out a business with a view to making profits.

A partnership business is also incorporated under the Business Registration Act 1956 (Amendment 1978). A partnership is carried out by more than one person but not exceeding 20 persons. In a partnership, partners agree to undertake a joint business and jointly own the business.

Professional businesses (legal firms, architect and accounting firms the members could number up to 50 persons). In this form of business entity, partners carry out the business, share the capital, profits and losses. There is no compulsory of partnership agreement for partnership business, but it is advisable to have one.

## Advantages and disadvantages of Partnership

Advantages	Disadvantages
a) Easy to set up with few	a) Business liabilities are
formalities.	unlimited.
b) Easier to secure financial	b) The life span of the
assistance from financial	partnership business
institutions compared with	depends on the life span of
sole-proprietorship.	the partners. If any of the
c) Equity can be increase	partners are passed away or
through enlisting additional	declared bankrupt, then the
partners.	business will automatically
d) Business risks can be	dissolve unless there is
reduced and distributed	agreement among partners.
among partners	c) If no letter of agreement is
e) The responsibilities of	being made, unethical or
managing and handling the	misconduct behavior may
business can be divided	happen.
among partners.	d) Risk of personal clashes
f) A lot of ideas, talents and	among partners.
skills can be pooled together	
for better management.	
g) As in sole-proprietorship,	
income tax is not imposed on	
the partnership itself but on	
the owners as individuals.	

### **Private Limited Company**

A private limited company is one of the business entities set up under the Companies Act 1965. As a corporate body, it has characteristics that differentiate it from a sole proprietorship and partnership. This is because a private limited company is a legal entity and its identity is separate from the identity of the company's members.

The number of members does not exceed 50 people. It has specific authority to transfer ownership of members' shares with the approval of the company's Board of Directors. A company is not allowed to offer or sell any share or debenture to the general public. A company also not allowed to offer the general public to deposit money within a stipulated time frame; and must use the word "Sdn. Bhd." or "Sendirian Berhad" at the end of its name.

Characteristics of Private Limited Company

### i. Right and Responsibility

 A company has a specific right and responsibility. It can acquire assets under its own name. A company can also take legal action and face legal action under its own name

### ii. Life Span

 The life span of a company is not dependent upon the death or resignation of its members. A company can be dissolved when its members are no longer interested in continuing the business.

#### iii. Liabilities

 The liabilities of the members in a company are limited to the total shares contributed to the company's capital. Personal assets are not affected regardless of what happens to the company.

### iv. Membership

 A company must have at least two members who are of Malaysian nationality. These two members can act as a director and founder of the company. The members of the company will appoint the Board of Directors who will manage and run the business operation subject to the Companies Act 1965.

### Requirements of A Private Limited Company

- a. Memorandum of Association
- b. Articles of Association
- c. The Share Capital of a Company
  - i. Authorized capital
  - ii. Paid-up capital
- d. Members of Shareholders
- e. Board of Directors
- f. Company Secretary
- g. Auditors Registered Office
- h. Company Seal
- i. Authorization Letter

### Characteristic of the three business form:

Factors	Sole Proprietorship	Partnership	Private Limited Company
Ownership	One individual	Up to 20 individuals	Up to 50 individuals
Share of profits & losses	Owner receives all profits & bears all losses	Profits depend on amount of investment or as specified in partnership agreement	Shareholder receives share of profits through dividend payouts
Liability of owners	Unlimited liability extending to personal assets	Unlimited liability unless otherwise specified in a partnership agreement	Shareholder liability limited to amount of share or capital contribution
Management control	Owner makes all management decisions and acts freely	All partners have equal control unless otherwise specified in a partnership agreement	In the hands of a management team guided by a Board of Directors
Continuity of business	Death of owner dissolves the business	Death of any partner dissolves the business unless otherwise specified in a partnership agreement	Death or withdrawal of shareholder has no effect on existence of company

## 7.3

### **Starting from SCRATCH-Start Up**

The most popular method among start-up entrepreneur, where under these methods will their own business from scratch. First mover normally will use this method since they are the first entrepreneurs that that kind of business with new product in new market. Meaning a "start-up" venture is what it refers to, namely a new business venture created from scratch that has not previously existed.

Entrepreneur has to make decisions on:

- Appropriate form of business
- o Business or trade name
- Business and product/service image
- Suitable location of the business
- Appropriate funding to kick-start the business
- Proper business planning for everything that needs to be taking into consideration.

The advantages and disadvantages of starting from scratch:

Advantages of Starting From	Disadvantages of Starting From
Scratch	Scratch
<ul><li>a. Entrepreneurs are free to make his/her own decisions.</li><li>b. Entrepreneurs have the</li></ul>	a. Entrepreneurs need to put in a lot of efforts. It requires more time, energy and money in ensuring the business kick-off.
opportunities to try and practice his/her owned ideas.  c. Entrepreneurs are free to choose suitable business	b. Higher chances of losses due to high project implementation cost.
location and premise, and acquiring appropriate machine	c. Entrepreneurs are not able to accurately estimate sales, cost

- and equipment for the business.
- d. Entrepreneurs are free to develop business image and personality that suits their desire and interest.
- and profit. (zero business history (example: sales record, costing and so on)
- d. A new venture usually has no track record. Therefore, it is difficult for entrepreneurs to convince the financial institutions in getting the financing

## 7.5

### **Acquiring a Franchise**

Franchising is another alternative of starting a new business. A franchise is a product and/or service distribution system which is governed by a contract made between two parties namely, as the franchisor and the franchisee. The franchisor is a company which sells the right to another party to operate the franchise. And the franchisee is a person who purchases the right from the franchisor to operate the franchise.

Operating a franchise includes selling and marketing the products and/or services using the trade name and trade mark, as well as a set of systems developed and owned by the franchisor. The right to operate the franchise granted by the franchiser to the franchisee involves a few payments made by the franchisee agreed upon the signing of a franchise.

#### These fees are:

Franchise Fee	one-off payment made by the franchisee to purchase the right to operate the franchise	
Royalty	an on-going payment made by the franchisee to the franchisor based on the percentage of sales as agreed upon the signing of franchise contract (monthly or yearly)	
Advertising and Promotional Contribution	An on-going payment or contribution made by the franchisee to franchisor's advertising and promotional fund.	

### **Types of Franchise Systems**

### a. Product/Trade name Franchise

This type of franchise system involves the franchisee acquires sales right which includes the trade name, trademark, and/or products from the franchisor upon the signing of the so-called dealership contract, and agreed to sell the product line identified by the franchisor. This type of franchise system is commonly used in the automotive, petrol kiosk and service station, soft beverages, and type industries.

#### b. Business Format Franchise

This franchise system is also named "full-fledge franchise" The franchisee is granted the right to manufacture and market the franchisor's product and/or services using a complete franchisor's business "set-up" which comprises of intellectual properties (trade name or trade mark); marketing strategies (pricing structure guideline, promotional activities), guided operational activities (franchisee is equipped with operation manual and has to undergo a training), premise settings and

layout (exterior and interior layout; ambience, color scheme and decoration must in-line with franchisor's brand and image).

### **Advantages and Disadvantages of Franchising**

	Advantages		Disadvantages
	To Franch	ise	9
a.	Lower business risks as franchisee	a.	Limited freedom and flexibility
	shares the business risks with the		to manage the business
	franchisor.		according to franchisees'
b.	Better market acceptance of		desire
	products and/or services offered as	b.	The franchise right granted by
	they are established products and/or		the franchisor has its price to
	services of the franchisor.		pay; the franchise fee, royalty
c.	Benefits of economies of scales		and advertising & promotional
d.	Guidance by the franchisor's		contribution
	management team	c.	Limited product varieties; the
e.	Continuous support from the		franchisees are allowed to
	franchisor and government agencies		market and sell only the
	that involved in the development		franchisor's products
	franchise industry.	d.	Fear of chain-reaction; bad
			reputation and tarnished
			image due to the fault of either
			the franchisor or the
			franchisee would affect the
			whole franchise system

Advantages		Disadvantages
To Franchisor		
	a.	Franchisee conformity; it is difficult to manage
		the franchisees especially in ensuring the
		conformity of the operational methods of all

- franchisees in the system due to the fact that they are not franchisor's employees.
- b. The franchisor/franchisee goal incompatibility; the franchisor and franchisees may have different business objectives as well as personal objectives that could jeopardize the business "marriage".
- c. "Wrong" franchisee; there are franchisees who want an "easy-ride" in an attempt to gain instant popularity for the business.
- d. Competition through imitation of business concept and model

## 7.6

### **Buying Existing Business**

Entrepreneurs start a new business buy taking over an existing business either buying the whole business or partial shares in the existing business. Besides that, buying the existing business will happen when the entrepreneur is interested with the current business.

There are few reasons why entrepreneur want to sell out their business, due to the loss of interest on the current business, because of age and want to retire, health reason, competitions and the unpotential of the business to grow.

Entrepreneurs must investigate before buying the business. Previous owner has their own reasons why they want to sell their business. So, it is entrepreneur's responsibilities to investigate the business that they want to buy as well the 'background' of the existing owner.

## Advantages and disadvantages buying existing business

Advantages	Disadvantages
a) Skilled workers	a) Debt
<ul><li>b) Stable business</li><li>c) Market already exist</li></ul>	b) bad reputation of the previous business
d) strategic location	c) No workers when they follow previous owner
	d) current worker is not suitable with new environment
	e) machine and equipment not in good condition
	f) Overvalue business

KEY TERM	
Sole	Partbership
PLC	START-UP
Franchise	

### **Short Question**

- 1. Explain the key characteristics of a sole proprietorship
- 2. What is the process for registering a partnership in Malaysia, and what are its advantages and disadvantages?
- 3. Compare and contrast the features of a private limited company and a public limited company in Malaysia
- 4. What are the minimum and maximum numbers of partners allowed in a partnership in Malaysia?
- 5. What criteria should potential franchisees consider when selecting a franchise opportunity?
- 6. Describe the role of a franchisor in supporting and training franchisees.
- 7. If you have enough capital, are you going to START UP or buying existing business? Explain to support your stand.

### **SUMMARY**

• The note provides information on the types of business entities in Malaysia and their characteristics, with a focus on sole proprietorship, partnership, and private limited companies. Additionally, it discusses the advantages and disadvantages of each business form. The note also touches on the considerations involved in starting a business from scratch, emphasizing the importance of decisions related to business form, name, image, location, funding, and planning. The note concludes with a brief overview of entrepreneurs acquiring existing businesses, outlining the advantages and disadvantages of such an approach.



### REFERENCEES

Robert D. Hisrich, Micheal P. Peters, Dean A. Shepherd *Entrepreneurship 12th edition Mc Graw-Hill International Edition @2023* 



# Assessing a New Venture's Financial Strength and Viability

### **LEARNING OUTCOMES**

By the end of topic, you should be able to:

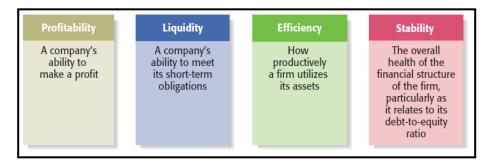
- 1. Identify how a new venture tracks its financial progress through preparing, analyzing, and maintaining past financial statements
- 2. Discuss how a venture forecasts future income and expenses by preparing pro forma (or projected) financial statements

8.1

### **Financial Objective of a Firm**

- Financial Management
  - Financial management deals with two things: raising money and managing a company's finances in a way that achieves the highest rate of return.
  - This chapter focuses primarily on:
    - How a new venture tracks its financial progress through preparing, analyzing, and maintaining past financial statements?
    - How a new venture forecasts future income and expenses by preparing pro forma (or projected) financial statements?
  - The financial management of a firm deals with questions such as the following on an ongoing basis:
    - · How are we doing? Are we making or losing money?
    - · How much cash do we have on hand?
    - · Do we have enough cash to meet our short-term obligations?
    - · How efficiently are we utilizing our assets?
    - · How do our growth and net profits compare to those of our industry peers?
    - Where will the funds we need for capital improvements come from?
    - Are there ways we can partner with other firms to share risk and reduce the amount of cash we need?
    - · Overall, are we in good shape financially?

### **Financial Objectives of a Firm**



- Profitability
  - Is the ability to earn a profit.
    - Many start-ups are not profitable during their first one to three years while they are training employees and building their brands.
    - However, a firm must become profitable to remain viable and provide a return to its owners.
- Liquidity
  - Is a company's ability to meet its short-term financial obligations.
    - Even if a firm is profitable, it is often a challenge to keep enough money in the bank to meet its routine obligations in a timely manner.
- Efficiency
  - Is how productively a firm utilizing its assets relative to its revenue and its profits.
    - Southwest Airlines, for example, uses its assets very productively. Its turnaround time, or the time its airplanes sit on the ground while they are being unloaded and reloaded, is the lowest in the airline industry.
- Stability
  - Is the strength and vigor of the firm's overall financial posture.
    - For a firm to be stable, it must not only earn a profit and remain liquid but also keep its debt in check.

### **The Process of Financial Management**

### Importance of Financial Statements

- To assess whether its financial objectives are being met, firms rely heavily on analysis of financial statements.
  - A financial statement is a written report that quantitatively describes a firm's financial health.
  - The income statement, the balance sheet, and the statement of cash flows are the financial statements entrepreneurs use most commonly.

#### Forecasts

- Are an estimate of a firm's future income and expenses, based on past performance, its current circumstances, and its future plans.
- New ventures typically base their forecasts on an estimate of sales and then on industry averages or the experiences of similar start-ups regarding the cost of goods sold and other expenses.

### Budgets

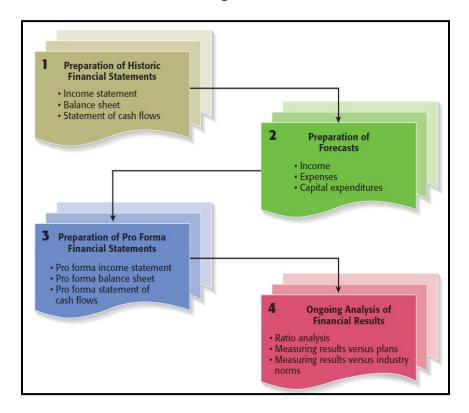
 Are itemized forecasts of a company's income, expenses, and capital needs and are also an important tool for financial planning and control.

### Financial Ratios

- Depict relationships between items on a firm's financial statements.
- An analysis of its financial ratios helps a firm determine whether it is meeting its financial objectives and how it stacks up against industry peers.

- Importance of Financial Management
  - Many experienced entrepreneurs stress the importance of keeping on top of the financial management of the firm.

### The Process of Financial Management



### Financial Statements

- Historical Financial Statements
  - Reflect past performance and are usually prepared on a quarterly and annual basis.
    - Publicly traded firms are required by the SEC to prepare financial statements and make them available to the public.
- Pro Forma Financial Statements
  - Are projections for future periods based on forecasts and are typically completed for two to three years in the future.
    - Pro forma financial statements are strictly planning tools and are not required by the SEC.



The first step toward prudent financial management is keeping good records.

Three types of historical financial statements:

Financial Statement	Purpose
Income Statement	Reflects the results of the operations of a firm over a specified period of time. It records all the revenues and expenses for the given period and shows whether the firm is making a profit or is experiencing a loss.
Balance Sheet	Is a snapshot of a company's assets, liabilities, and owner's equity at a specific point in time.
Statement of cash flows	Summarizes the changes in a firm's cash position for a specified period of time and details why the changes occurred.

## 8.3

### **Ratio Analysis**

- Ratio Analysis
  - The most practical way to interpret or make sense of a firm's historical financial statements is through ratio analysis.
- Comparing a Firm's Financial Results to Industry Norms
  - Comparing a firm's financial results to industry norms helps a firm determine how it stacks up against its competitors and if there are any financial "red flags" requiring attention.



#### Forecasts

- The analysis of a firm's historical financial statements is followed by the preparation of forecasts.
- Forecasts are predictions of a firm's future sales, expenses, income, and capital expenditures.
  - A firm's forecasts provide the basis for its proforma financial statements.
  - A well-developed set of pro forma financial statements helps a firm create accurate budgets, build financial plans, and manage its finances in a proactive rather than a reactive manner.

### Sales Forecast

- A sales forecast is a projection of a firm's sales for a specified period (such as a year).
- It is the first forecast developed and is the basis for most of the other forecasts.
  - A sales forecast for a new firm is based on a good-faith estimate of sales and on industry averages or the experiences of similar startups.
  - A sales forecast for an existing firm is based on (1) its record of past sales, (2) its current production capacity and product demand, and (3) any factors that will affect its future product capacity and product demand.

#### Forecast of Costs of Sales and Other Items

 Once a firm has completed its sales forecast, it must forecast its cost of sales (or cost of goods sold) and the other items on its income statement.

- The most common way to do this is to use the percentage-of-sales method, which is a method for expressing each expense item as a percentage of sales.
  - If a firm determines that it can use the percent-of-sales method and it follows the procedures described in the textbook, then the net result is that each expense item on its income statement will grow at the same rate as sales (with the exception of items that can be individually forecast, such as depreciation).

## 8.5

### **Pro Forma Financial Statements**

- Pro Forma Financial Statements
  - A firm's pro forma financial statements are similar to its historical financial statements except that they look forward rather than track the past.
  - The preparation of pro forma financial statements helps a firm rethink its strategies and make adjustments if necessary.
  - The preparation of pro forma financials is also necessary if a firm is seeking funding or financing.

### Types of Pro Forma Financial Statements:

Financial Statement	Purpose
Pro Forma Income Statement	Shows the projected financial results of the operations of a firm over a specific period.
Pro Forma Balance Sheet	Shows a projected snapshot of a company's assets, liabilities, and owner's equity at a specific point in time.
Pro Forma Statement of Cash flows	Shows the projected flow of cash into and out of a company for a specific period.

#### **KEY TERM**

**Profitability** Liquidity

**Efficiency** Stability

#### **Short Question**

- 1. What are the primary financial objectives of your firm in terms of profitability?
- 2. How does your company measure and track profitability?
- 3. How does the firm evaluate the return on investment for various projects and initiatives?
- 4. What is the firm's strategy for managing and reducing debt levels?
- 5. How does the current ratio differ from the quick ratio, and what insights can these ratios provide about a company's short-term liquidity

#### **SUMMARY**

- This chapter provides insights into financial management, focusing on key aspects such as raising capital, managing finances, and achieving a high rate of return. It delves into the importance of financial objectives for a firm, emphasizing profitability, liquidity, efficiency, and stability.
- This chapter underscores the importance of maintaining good records and a proactive approach to financial management. The process involves analyzing historical data, preparing forecasts, and developing pro forma financial statements to guide budgeting and strategic decision-making



#### REFERENCEES

Robert D. Hisrich, Micheal P. Peters, Dean A. Shepherd *Entrepreneurship 12th edition Mc Graw-Hill International Edition @2023* 



#### **Building a New-Venture Team**

#### **LEARNING OUTCOMES**

By the end of topic, you should be able to:

- 1. Describe the liability of newness.
- 2. Describe the funder or founders of a venture.
- 3. Manage to recruit and select key employees.
- 4. Explain the roles of the Board of Directors.

#### 9.1

#### **New-Venture Team**

The group of founders, key employees, and advisors 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 advisors, and professionals on whom they rely for direction and advice.

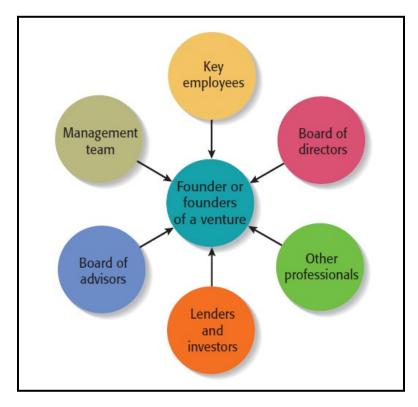


#### **Liability of Newness**

Liability of Newness

- New ventures have a high propensity to fail.
- The high failure rate is due in part to liabilities of newness, which refers 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 a track record of success.
- Assembling a talented and experienced management team is one path that firms can take to overcome these limitations.

#### Separate Elements of a New-Venture Team



#### The Founder or Founders

#### · Founder or Founders

 The characteristics of the founder or founders of a firm and their early decisions have a significant impact on the manner in which the new-venture team takes shape.

#### Size of the Founding Team

- Studies have shown that 50% to 70% of all new ventures are started by more than one individual.
- Experts disagree about whether new ventures started by a team have an advantage over those started by a sole entrepreneur.

Advantages and Disadvantages of Starting a Venture as a Team

#### Advantages

- Teams bring more talent, resources, and ideas to a new venture.
- Teams bring a broader and deeper network of social and professional contacts to a new business.
- The psychological support that the cofounders of a business can offer one another can be an important element of a new venture's success.

#### Disadvantages

- Team members may not get along.
- If two or more people start a firm as "equals," conflicts can arise when the firm needs to establish a formal structure and designate one person as the CEO.

 If the founders have similar areas of expertise, they may duplicate rather than complement one another.

Team members can easily disagree in terms of work habits, tolerances for risk, levels of passion for the business, ideas on how the business should be run, and similar key issues.

## 9.3

#### Key Elements of a Successful Founding Team



- Heterogeneous rather than homogenous teams tend to be more effective.
- This team is starting an educational software company.
- The young man on the far left is a former teacher, the man seated is a software engineer, the woman is a former middle-school vice-principal, and the man at the right is a graphic designer.

Preferred Attributes of Sole Entrepreneurs and Members of a New-Venture Team

- Higher Education
  - Evidence suggest that important entrepreneurial skills are enhanced through higher education.
- Prior Entrepreneurial Experience
  - Founders familiar with the entrepreneurial process are more likely to avoid costly mistakes than founders without similar experience.
- Relevant Industry Experience
  - Founders with relevant industry experience are more likely to have:
    - Better established professional networks.
    - More applicable marketing and management skills.
- Broad Social and Professional Network
  - Founders with broad social and professional networks have potential access to additional knowhow, capital, and customer referrals.

#### Recruiting and Selecting Key Employees

- Recruiting Key Employees
  - Start-ups vary in terms of how quickly they need to add personnel.
  - In some instances, the founders will work alone for a period of time. In other instances, employees are hired immediately.
  - A <u>skills profile</u> is a chart that depicts the most important skills that are needed and where skills gaps exist in a new firm.

	Executive Leadership	Store Operations	Supply Chain Management	Marketing and Sales	HR/Recruiting	Accounting and Finance	Community Relations	Information Systems	Franchise Operations
Jack Petty	х								
Peggy Wells		х				x			
Jill Petersen				x					
Cameron Ivey			x						
Gap 1					O				
Gap 2							0		
Gap 3									o

X = position filled O = position vacant

9.4

#### **Sources of Labor New Ventures Utilize**

- Full or Part-time Employee
  - Someone who works for a business, at the business's location, utilizing the business's tools and equipment and according to the business's policies and procedures.

#### Intern

- An intern is a person who works for a business as an apprentice or trainee for the purpose of obtaining practical experience.
- Freelancer (or contractor)
  - A person who is in business for themselves, works on their own time with their own tools and equipment, and performs services for a number of different clients.

#### Virtual Assistant

 A freelancer who provides administrative, technical, or creative assistance to clients remotely from a home office.

#### 9.5

#### The Roles of the Board of Directors

#### Board of Advisors

- A board of advisors is a panel of experts who are asked by a firm's managers to provide counsel and advice on an ongoing basis.
- Unlike a board of directors, an advisory board possesses no legal responsibility for the firm and gives nonbinding advice.
- An advisory board can be established for general purposes or can be set up to address a specific issue or need.
- Many people are more willing to serve on a company's board of advisors than its board of directors because it requires less time and there is no potential legal liability involved.

- Like the members of a board of directors, the members of a company's board of advisors provide guidance and lend credibility to the firm.
- Guidelines to Organizing a Board of Advisors
  - Advisors will become disillusioned if they don't play a meaningful role in the firm's development and growth.
  - A firm should look for board members who are compatible and complement one another in terms of experience and expertise.
  - When inviting people to serve on its board of advisors, a company should carefully spell out to the individuals involved the rules in terms of access to confidential information.

#### Lenders and Investors

- 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.
  - Like the other non-employee members of a firm's new-venture team, lenders and investors help new firms by providing guidance and lending advice.
  - In addition, a firm's lenders and investors assume the natural role of providing financial oversight.

Ways Lenders and Investors Add Value to an Entrepreneurial Firm

Help identify and recruit key management personnel.

Provide insight into the markets that the new venture plans to enter.

Help the venture fine-tune its business model.

Serve as a sounding board for new ideas.

Provide introductions to additional sources of capital.

Serve on the new venture's board of directors or board of advisors.

Recruit customers

Help to arrange business partnerships

Serve on the board of directors or board of advisors

Provide a sense of stability and calm

9.6

#### **Other Professionals**

The other professionals that make up a firm's newventure team include attorneys, accountants, and business consultants.

- Business Consultants
  - A business consultant is an individual who gives professional or expert advice.
  - Business consultants fall into two categories: paid consultants and consultants who are available for free or at a reduced rate through a nonprofit or governmental agency.

#### **KEY TERM**

Founder

Labor

**Board of Directors** 

#### **Short Question**

- 1. What skills and strengths does each team member bring to the venture?
- 2. How well do the team members know each other, and what is the level of trust among the team?
- 3. How will decision-making be handled within the team?
- 4. How does the board contribute to the development and approval of the company's strategic plan?
- 5. What role does the board play in setting long-term goals and objectives?
- 6. How does the board communicate with and address the concerns of shareholders?
- 7. What role does the board play in shareholder engagement and transparency?

#### **SUMMARY**

• The discussion covers the importance of education, entrepreneurial experience, industry expertise, and broad social networks for founders. It also addresses the recruitment and selection of key employees, distinguishing between full-time employees, interns, freelancers, and virtual assistants. The role of boards of advisors is explored, emphasizing the need for meaningful involvement, compatibility, and clear communication of rules regarding access to confidential information. The chapter concludes by examining the contributions of lenders, investors, attorneys, accountants, and business consultants to the overall success and development of an entrepreneurial firm, outlining how these professionals add value to the startup ecosystem



#### **REFERENCEES**

Robert D. Hisrich, Micheal P. Peters, Dean A. Shepherd *Entrepreneurship 12th edition Mc Graw-Hill International Edition @2023* 



#### **Getting Funding or Financing**

#### **LEARNING OUTCOMES**

By the end of topic, you should be able to:

- Describe the nature of the funding and financing process
- Identify the source of the finance

10.1

## The Nature of the Funding and Financing Process

Few people deal with the process of raising investment capital until they need to raise capital for their own firm.

- As a result, many entrepreneurs go about the task of raising capital haphazardly because they lack experience in this area.
- Why Most New Ventures Need Funding
  - There are three reasons most new ventures need to raise money during their early life.
    - The three reasons are shown:

Why Most New Ventures Need Financing or Funding?



Typically, entrepreneurs (and their investors) view capital sources in two approaches which are equity-based and debt-based.



Equity financing primarily involves funds (cash or asset) from parties who expect to take some form of ownership stake in the new venture to represent the extent of their contribution. Parties who extend equity financing expect to earn yearly dividends from business profits as well as the possibility of a handsome return on investment upon selling back the shares after a period of business growth.



Debt financing involves the business owners taking on borrowings that have to be paid back over a period of time with additional charges (interest or administrative fee). Qualifying for the borrowings often requires some form of collateral (example: land, buildings) or surety to protect the financier in case of nonpayment.



The key sources of financing discussed are:

#### ✓ Personal funds

All new ventures start with an initial capital contribution by the entrepreneurs. The entrepreneur's own contribution or personal funds is regarded as equity financing that is reflected in the ownership of the business. Most new ventures however need more capital to operate than what the entrepreneur is able to commit or make available. Example: Personal savings.

#### √ Family & friends

It is not uncommon for a new entrepreneur to rely on family and friends to raise more initial capital for a business start-up. The contribution from family and friends are often limited but is more easily obtainable at the early stages of business start-up because they know the entrepreneur and they want to support his undertaking especially when they think the business has growth potential.

Friends and family capital contribution is likely to be in the form of equity financing that gives them ownership in the business.

#### ✓ Angel financing

Business angels or angel investors are normally wealthy or high net worth individuals who provide capital for a business start-up in return for equity in the business. Most angel investors are successful entrepreneurs and retired executives that want to get involved in helping small start-ups succeed by offering private financing and sometimes, valuable expertise & experience as well.

Angels assume high risks by providing capital at very early stages of business start-up and also have to have patience in realizing their ROI since on average an angle investor looks to wait at least 5 years before cashing in.

#### √ Bank Term Loans

Commercial banks offer an important source of financing primarily in the form of term loans. Bank term loans are a form of debt financing that requires the business to repay the loan in progressive (usually monthly) payments with additional interest or administration fees over a stipulated period of time.

Banks are generally cautious about approving loans particularly to new ventures because of the high risk of non-payment of monthly payments. Once the business has progressed to a more stable stage with definite financial records to show repayment capabilities, banks will be a more viable source of finance.

Entrepreneurs wanting to access bank loans need to have some sort of tangible collateral or surety (guarantor). In case of nonpayment of any loans, the bank holds the right to forfeit the collateral to cover outstanding amounts

#### √ Venture capital financing

Venture capital can be broadly regarded as a pool of equity capital that comes from different individuals or groups of individuals who want to invest in high growth businesses for high returns.

Unlike angel investors that invest their own funds, venture capitalists are professional managers investing money from a pool of funds (equity capital pool) parked under registered venture capital companies.

Venture capital tends to focus on high potential, innovation & technology-centered businesses such as ICT development business and biotechnology companies. The amount of capital available for investment can start at RM 1 million for early growth financing and extend to RM20 million at later stages of growth financing

#### √ Government loans & grants

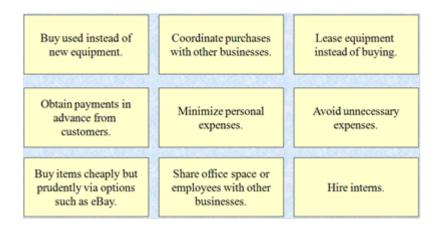
Government offers financial assistance in the form of loans & grants at all level of business development. Government financial assistance are primarily channelled through public agencies established to serve specific purposes or sectors.

Government also tap into the wide spread distribution network and easy accessibility of established financial institutions like commercial banks to manage and distribute specific financial assistance.

For example, government special loan schemes like the 'Skim Usahawan Siswazah (SUS)' for graduate entrepreneurs or 'Skim PROSPER' for entrepreneurs in the retail service sector through commercial banks like Maybank, CIMB Bank & Affin Bank.

#### ✓ Bootstrap financing

Bootstrap financing is an internal financing approach that is derived from conserving cash in the business operations by utilizing various facilities offered by suppliers & vendors. A key element in convincing & accessing the financing facilities is through a well prepared financial plan that highlights the business cash flow planning & potential to meet financing requirement.



Some of the common facilities include:

#### Trade credit

Obtain goods from suppliers and only pay in 30, 60 or 90 days hence allowing the business to trade with the goods without expanding valuable cash up front.

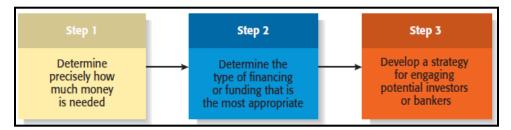
#### Supplier discounts

Saving cash by taking advantage of discounts given for buying in large amounts (bulk purchase) or buying promotion items and for being a frequent buyer.

#### Consignment financing

Facility to make an order for goods required over a period of time but only receive and pay for what is delivered as it is needed over that period. Can obtain bulk purchase price but save cost on storage and paying up front.

#### Preparing to Raise Debt or Equity Financing



#### Two Most Common Alternatives

Equity Funding	Debt Financing
Means exchanging partial ownership in a firm, usually in the form of stock, for funding.	Is getting a loan.



**Equity/Debt Financing** 

Family & friends

**Angel Financing** 

#### **Short Question**

- 1. Why financing or funding is important for entrepreneurs?
- 2. What are the advantages and disadvantages of using credit cards as a source of short-term financing?
- 3. What role do angel investors play in providing financing to startups?
- 4. Give me an example of angel financing that can help you in terms of funds.

#### **SUMMARY**

- The chapter discusses the process of raising investment capital for new ventures, highlighting the common challenges faced by entrepreneurs who often approach this task without prior experience. Three main reasons for new ventures needing funding are presented. The chapter explores the two primary approaches to capital sources.
- The chapter also emphasizes the importance of a stable business stage and tangible collateral for accessing bank loans. It concludes by introducing the concept of preparing for debt or equity financing, highlighting two common alternatives.



#### REFERENCEES

Robert D. Hisrich, Micheal P. Peters, Dean A. Shepherd *Entrepreneurship 12th edition Mc Graw-Hill International Edition @2023* 



TOPIC 11

#### **Unique Marketing Issues**

#### **LEARNING OUTCOMES**

By the end of topic, you should be able to:

- 1. Segmenting the market
- 2. Selecting a target market
- 3. Establishing a unique position

Selecting a Market and Establishing a Position in the Market

Important questions that all start-ups must ask: Who are our customers and how will we appeal to them? A well-managed start-up approaches this query by following a three-step process:

- Segmenting the market.
- Selecting a target market.
- Establishing a unique position.

The Process of Selecting a Target Market and Positioning Strategy:





#### **Segmenting the Market**

It involves studying a firm's industry and determining the different target markets in that industry.

Markets can be segmented in a number of different ways, including:

- Product type.
- Geography (city, state, region).
- Demographic variables.

# 11.2

#### **Selecting a Target Market**

Once a firm has segmented the market, a target market must be chosen. The market must be sufficiently attractive and the firm must have the capability to serve it. By focusing on a clearly defined market, a firm can become an expert in that market and then be able to provide customers a high level of service.

#### **Positioning**

- After selecting a target market, the firm's next step is to establish a "position" within the market that differentiates it from its rivals.
- A "position" is the part of a market that the firm is claiming as its own.
   A firm establishes a unique position in its customers' minds by drawing attention to two or three of the product's attributes.
- Firms often develop a "tagline" to reinforce the position they have staked out in their market, or a phrase that is used consistently in a company's literature and thus becomes associated with the company.
- An example is Nike's familiar tagline, "Just do it."
  - The beauty of this simple three-word expression is that it applies equally to a 21-year-old tri-athlete and a 65-year-old mall walker.

# Branding

#### Establishing a Brand

- A brand is the set of attributes—positive or negative—that people associate with a company.
  - These attributes can be positive, such as trustworthy, dependable, or easy to deal with.
  - Or they can be negative, such as cheap, unreliable, or difficult to deal with.
- The customer loyalty a company creates through its brand is one of its most valuable assets.

#### **Brand Management**

 Some companies monitor the integrity of their brands through a program called "brand management."

#### What's a Brand?

# TABLE 11.2 What's a Brand? Different Ways of Thinking About the Meaning of a Brand A brand is a promise to serve stakeholders' interests. A brand is a firm's guarantee of a level of performance. A brand indicates the promises a firm makes to those it serves. A brand expresses a firm's reputation. A brand presents a firm's credentials. A brand is an indicator of trust and reduced risk. A brand describes a company's nature. A brand serves as a handshake between a firm and its customers. Source: Adapted from Emotional Branding by Daryl Travis, copyright © 2000 by Daryl Travis. Used by permission of Pima Publishing, a division of Random House, Inc.



#### **Establishing a Unique Position**

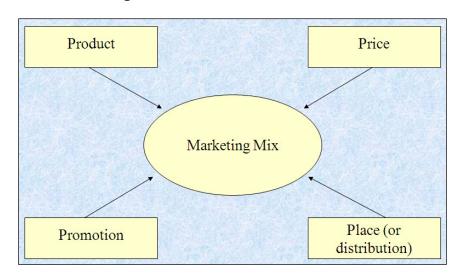
So how does a firm establish a brand?

- On a philosophical level, a firm must have meaning in its customers' lives. It must create value—something for which customers are willing to pay.
- On a more practical level, brands are built through a number of techniques, including advertising, public relations, sponsorships, support of social causes, and good performance.
- A firm's name, logo, Web site design, Facebook page, and even its letterhead is part of its brand.

#### Power of a Strong Brand

- Ultimately, a strong brand can be a very powerful asset for a firm.
- Over 50% of consumers say that a known and trusted brand is a reason to buy a product.
- A brand allows a company to charge a price for its products or services that is consistent with its image.
- A successful brand can increase the market value of a company by 50% to 75%.

#### The Four Ps of Marketing for New Ventures



#### **Product**

Product is a good or service a firm offers to its target market. The initial rollout is one of the most critical times in the marketing of a new product. All firms face the challenge that they are unknown and that it takes a leap of faith for the first customers to buy their products.

- Some start-ups meet this challenge by using reference accounts.
- A reference account is an early user of a firm's products who is willing to give a testimonial regarding his or her experience with the produce.

Core Product vs. Actual Product

Cost-Based Pricing	Value-Based Pricing
The list price is determined by adding a markup percentage to a product's cost.	The list price is determined by estimating what consumers are willing to pay for a product.

#### **Promotion**

Refers to the activities the firm takes to communicate the merits of its product to its target market. There are several common activities that entrepreneurs use to promote their products and services.

- Advertising
  - Advertising is making people aware of a product or service in hopes of persuading them to buy it.

#### Pluses and Minuses of Advertising:

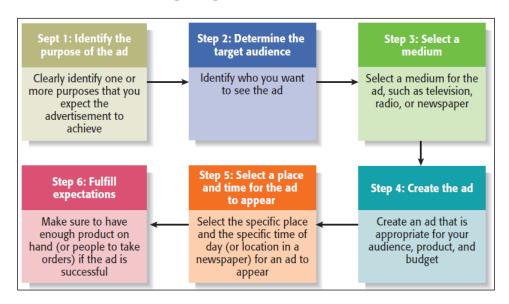
#### Pluses

- · Raise customer awareness of a product.
- Explain a product's comparative features and benefits.
- Create associations between a product and a certain lifestyle.

#### Minuses

- · Low credibility.
- The possibility that a high percentage of people who see the ad will not be interested.
- · Message clutter.
- · Relative costliness compared to other forms of promotion.
- · Intrusiveness.

#### **Steps Involved in Putting Together an Advertisement:**



#### **Google AdWords and AdSense Program**

- AdSense
  - Allows advertisers to buy ads that will be shown on other Web sites instead of Google's home page.
  - Google selects sites of interest to the advertiser's customers.
  - Advertisers are charged on a pay-per-click or a per-thousand impression basis.
  - Advertisers benefit because the content of the ad is often relevant to the Web site.
  - Web site owners benefit by using the service to monetize their web site.

#### **Public Relations**

- One of the most cost effective ways to increase the awareness of the products of a company is through public relations.
- Public relations refer to efforts to establish and maintain a company's image with the public.
- The major difference between public relations and advertising is that public relations is not paid for—directly.
- · The public relations technique:



#### **Social Media**

- Social Media
  - Consists primarily of blogging and connecting with customers and others through social networking sites like Facebook and Twitter.
- Blogging
  - The idea behind blogs is that they familiarize people with a business and help build an emotional bond between a business and its customers.



 Businesses establish a presence on Facebook and Twitter to build a community around their products and services.

Facilitates and encourages people to pass along a marketing message about a particular product or service.

Guerrilla Marketing

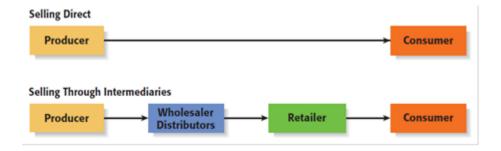
A low-budget approach to marketing that relies on ingenuity, cleverness, and surprise rather than traditional techniques.

#### Place (or Distribution)

- Place
  - Encompasses all the activities that move a firm's product from its place of origin to the consumer.
  - The first choice a firm has to make regarding distribution is whether to sell its products directly to consumers or through intermediaries (such as wholesalers and retailers).
  - Within most industries, both choices are available, so the decision typically depends on how a firm believes its target market wants to buy its product.

Selling Direct Vs. Selling Through an Intermediary

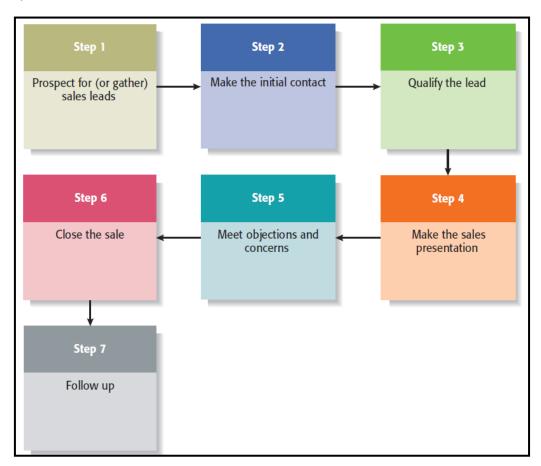
Approach to Distribution	Description
Selling Direct	Many firms sell direct to the customer, maintaining control of the distribution and sales process.
Selling Through Intermediaries	Other firms sell through intermediaries and pass off their products to wholesalers who place them in retail outlets to be sold.



#### **Sales Process**

- Sales Process
  - A firm's sales process (or sales funnel) depicts the steps it goes through to identify prospects and close sales.
  - A formal sales process involves a number of identifiable steps.
- Importance of Process
  - Some companies simply wing it when it comes to sales, which isn't recommended.
  - It's much better to have a well thought-out approach to prospecting customers and closing sales.

#### Sales process:



#### Usefulness of Sales Process

- Mapping the sales process in the manner shown previously provides a standard method for a firm's employees to use, and provides a starting point for careful analysis and continuous improvement.
- Often, when companies lose an important sale they'll find that an important step in the sales process was missed or mishandled.
- Having a well thought-out sales process, along with appropriate follow-through, can dramatically improve a company's sales performance.

#### **KEY TERM**

Positioning Branding

**Product** Promotion

#### **Short Question**

- 1. How can demographic factors be used for effective market segmentation?
- 2. What role does product usage or consumption patterns play in market segmentation?
- 3. How does market segmentation contribute to the customization of marketing messages for specific target audiences?
- 4. Discuss the importance of cultural factors in market segmentation and provide examples of how companies have utilized cultural segmentation.
- 5. What is the significance of creating a unique position in the market for a brand or product?
- 6. What role does market research play in establishing a unique position, and how can businesses gather relevant insights for this purpose?
- 7. Can you provide examples of companies that have successfully differentiated themselves through a unique position in the market?

#### **SUMMARY**

- This chapter focuses on the crucial steps that start-ups must consider in the process of selecting a market and establishing a unique position within that market.
- The chapter emphasizes the importance of the elements in creating a successful market entry strategy and sustaining a competitive advantage.



#### **REFERENCEES**

Robert D. Hisrich, Micheal P. Peters, Dean A. Shepherd *Entrepreneurship 12th edition Mc Graw-Hill International Edition @2023* 



# THE IMPORTANCE OF INTELLECTUAL PROPERTY

#### **LEARNING OUTCOMES**

By the end of topic, you should be able to:

- 1. Identify intellectual property
- 2. Explain patent, copyright, and trademark

#### 12.1

#### **Introduction**

- Intellectual Property
  - Any product of human intellect that is intangible but has value in the market place.
  - It is called "intellectual" property because it is the product of human imagination, creativity, and inventiveness.
- Importance
  - Traditionally, businesses have thought of their physical assets, such as land, buildings, and equipment as the most important.
  - Increasingly, however, a company's intellectual assets are the most important.

Common Mistakes Firms Make in Regard to Protecting Their Intellectual Property:

Not properly identifying all of their intellectual property.	Not fully recognizing the value of their intellectual property.		
Not legally protecting the intellectual property that needs protecting.	Not using their intellectual property as part of their overall plan for success.		

# Determining What Intellectual Property to Legally Protect:

Criteria 1

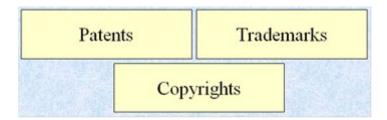
Determine whether the intellectual property in question is directly related to the firm's competitive advantage.

Criteria 2

Decide whether the intellectual property in question has value in the marketplace.

12.2 Protecting Intellectual Property

The Key Forms of Intellectual Property





#### **Intellectual Property as a Business Right**

- A business that has invested time, money and intellectual capital to produce something unique or different has the right to protect the outcome.
- The outcomes are considered as company assets that are able to keep the company ahead of its competitors and lead to greater money making capacities
- These assets are often categorized as intellectual property and can be legally protected as patents, copyrights and trademarks or brands.

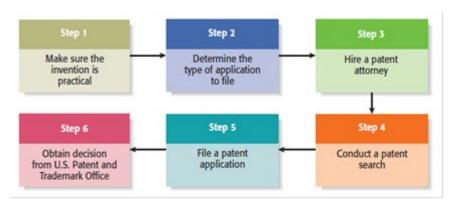
 Registering the company's intellectual property gives the company the exclusive right to use the property and to take against any unauthorized use of the registered property

12.3 Patent

- Patents are used primarily to protect inventions that represent a new way of doing things
- Inventions normally involve some level of technology and can be in the form of a product or process
- A registered patent gives exclusive right to the patent owner to make, use and sell the patented product or process for up to 20 years
- A patent owner can still retain all rights to the invention but license another party to use the patent within certain agreed upon conditions and stipulations
- The patent owner can also choose to sell the patent to another party hence severing all rights to the invention concerned.
- Patent rights are noted by the words "Patent" followed by the patent registration number.
- Because patents take time to register, companies can deter infringements by displaying the words "Patent Pending" or "Patent in Progress".
- Even so these deterrents have no legal impact until the patent is fully registered and given a patent number.



The Process of Obtaining a Patent:



# 12.4 Copyright

- Copyrights are used to protect a wide range of original creative, intellectual or artistic works or authorship
- This can include original works of art and literature, music composition, audio recordings, drawings, sculptures, broadcasts films and computer programs.
- The idea behind the creative work is itself not protected and as such some else can use the same idea but it must be in a significantly different form or composition so as to not infringe on an existing copyright.
- A copyright can exist for up to 50 years after the death of the registered author
- The symbol © is universally used to denote a copyright

#### What is Protected by a Copyright?

Literary works	Musical compositions
Computer software	Dramatic works
Pantomimes and choreographic works	Pictorial, graphic, and sculptural works

#### **Exclusions from Copyright Protection**

- The Idea-Expression Dichotomy
  - The main exclusion is that copyright laws cannot protect ideas.
    - For example, an entrepreneur may have the idea to open a soccer-themed restaurant. The idea itself is not eligible for copyright protection. However, if the entrepreneur writes down specifically what his or her soccer-themed restaurant will look like and how it will operate, that description is copyrightable.
    - The legal principle describing this concept is called the idea-expression dichotomy.
    - An idea is not copyrightable, but the specific expression of an idea is.

#### Obtaining a Copyright

- How to Obtain a Copyright?
  - Copyright law protects any work of authorship the moment it assumes a tangible form.
  - Technically, it is not necessary to provide a copyright notice or register work with the U.S. Copyright Office.

- The following steps can be taken, however, to enhance copyright protection.
  - Copyright protection can be enhanced by attaching the copyright notice, or "copyright bug" to something.
  - Further protection can be obtained by registering the work with the U.S. Copyright Office.

### 12.5

#### **Trademark or Brand**

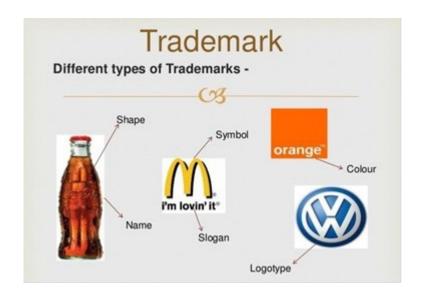
- Trademarks are any distinctive name, mark, symbols, words, shapes and colors.
- A trademark is sometimes also referred to as a brand to indicate a distinctive representation of a company.
- In Malaysia it is not compulsory to register a trademark but a company can still rely on common law to protect against infringement or imitation.
- Symbols used in to indicate trademarks include  $\mathbb R$  indicate an unregistered trademark and  $^\mathsf{TM}$  to show a registered trademark.



## The Four Types of Trademarks

Type	Types of Marks Covered	Duration
Collective mark	Trademarks or service marks used by the members of a cooperative, association, or other collective group. Examples: Rotary International and International Franchise Association	Renewable every 10 years, as long as the mark remains in use.
Certification mark	Marks, words, names, symbols, or devices used by a person other than the owner to certify a particular quality about a good or service.  Examples: 100% Napa Valley and Underwriters Laboratories	Renewable every 10 years, as long as the mark remains in use.

Collective mark	Trademarks or service marks used by the members of a cooperative, association, or other collective group. Examples: Rotary International and International Franchise Association	Renewable every 10 years, as long as the mark remains in use.
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## What is protected under Trademark Law?

Item	Example(s)
Words	Birchbox, Warby Parker, DripCatch
Numbers and letters	3M, Boeing 787, AT&T
Designs and logos	Nike swoosh logo
Sounds	MGM's lion's roar
Fragrances	Stationery treated with a special fragrance
Shapes	Unique shape of the Apple iPhone
Colors	Nexium—the "purple pill"
Trade dress	The layout and décor of a restaurant

#### **Exclusions from Trademark Protection:**

Item	Example
Immoral or scandalous matter	Profane words
Deceptive matter	Labeling oranges "Fresh Florida Oranges" that aren't grown in Florida
Descriptive marks	Phrases like "golf ball" and "fried chicken" are descriptive and can't be trademarked
Surnames	Common surnames like "Anderson" or "Smith" can't be trademarked

### The Process of Obtaining a Trademark:



#### Where to Register an Intellectual Property

- In Malaysia, a patent, copyright or trademark must be registered with Intellectual Property Cooperation of Malaysia (MyIPO).
- For international protection, an intellectual property may need to be registered in multiple countries or with the World Intellectual Property Organization (WiPO)

The WIPO is a United Nations agency based in Geneva that represents mainly patent protection agreements valid in over 100 member nations. Malaysia is one of the member countries

#### **KEY TERM**

Intellectual Property Patent

**Copyright** Trademark

#### **Short Question**

- 1. What is the purpose of intellectual property laws?
- 2. Explain the difference between copyright, trademark, and patent.
- 3. What types of inventions are eligible for patent protection?
- 4. Provide examples of famous intellectual property disputes and their outcomes.
- 5. In what ways can one enforce their intellectual property rights?

#### **SUMMARY**

- This chapter provides an overview of intellectual property, emphasizing its intangible nature and value in the marketplace as the product of human imagination, creativity, and inventiveness. The increasing importance of intellectual assets over physical assets for businesses is highlighted. The key forms of intellectual property patents, copyrights, and trademarks—are explored in detail.
- The chapter also discusses the exclusions from protection in each form of intellectual property, such as the idea-expression dichotomy in copyrights. The process of obtaining each type of protection is outlined. Additionally, the importance of registering intellectual property with the Intellectual Property Cooperation of Malaysia (MyIPO) for national protection and the World Intellectual Property Organization (WIPO) for international protection is emphasized.



#### REFERENCEES

Robert D. Hisrich, Micheal P. Peters, Dean A. Shepherd *Entrepreneurship 12th edition Mc Graw-Hill International Edition @2023* 



# PREPARING FOR AND EVALUATING THE CHALLENGES OF GROWTH

#### **LEARNING OUTCOMES**

By the end of topic, you should be able to:

- 1. Preparing, managing business growth
- 2. Identify challenge of business growth

13.1

#### Prepare for growth

Three Things a Business Can Do to Prepare for Growth

- 1. Appreciate the Nature of Business Growth
  - Not all businesses have the potential to be aggressive growth firms.
  - A business can grow too fast.
  - Business success doesn't always scale.
- 2. Stay Committed to a Core Strategy
  - A firm should establish growth-related plans.
  - Writing a business plan greatly assists in preparing growth plans.
  - It's also important for a firm to determine, as soon as possible, what its growth strategies will be.
- 3. Plan for Growth
  - A firm should establish growth-related plans.
  - Writing a business plan greatly assists in preparing growth plans.

• It's also important for a firm to determine, as soon as possible, what its growth strategies will be.

#### Warning Signs That a Business is Growing Too Fast

#### TABLE 13.1 10 Warning Signs That a Business Is Growing Too Fast

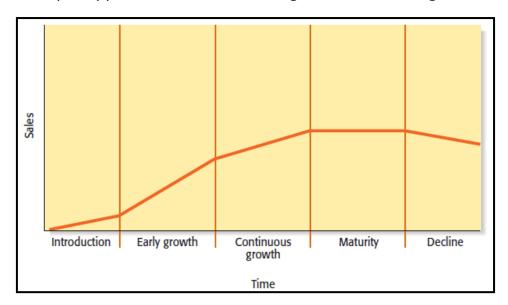
- Borrowing money to pay for routine operating expenses
- Extremely tight profit margins
- Over-stretched staff
- Declining product quality
- E-mail and text messages start going unanswered
- Customer complaints are up
- Employees dread coming to work
- Productivity is falling
- Operating in a "crisis" mode becomes the norm rather than the exception
- Those working with the business's financial structure are starting to worry

#### Reasons for Growth:

Reason for Growth	Explanation
Economies of scale	Occur when increasing production lowers the average cost of each unit produced.
Economies of scope	Occur when the scope (or range) of a firm's operations creates efficiencies.
Market Leadership	Occurs when a firm holds the number one or the number two position in an industry or niche market in terms of sales volume.
Influence, Power, and Survivability	Larger businesses usually have more influence and power than smaller firms.
Accommodate the Growth of Key Customers	Sometimes firms are compelled to grow to accommodate the growth of a key customer.
Attract and Retain Talented Employees	Growth is a firm's primary mechanism to generate promotional opportunities for employees.



It's important for a business owner to know the stages of growth, along with the unique opportunities and challenges that each stage entails.



Introduction	Early Growth	Continuous Growth	Maturity	Decline
Start-up phase where a business determines what its core strengths and capabilities are.  The main challenge is to make sure the initial product or	Generally characterized by increasing sales and heightened complexity.  Two important things must happen for a business to be successful in this stage.  - The founder must start working "on the business"	The need for structure and formalization increases.  Often the business will start developing related products and services.  The toughest decisions take place in this stage.	A business enters the maturity stage when its growth stalls.  At this point, a firm is typically more intently focused on managing efficiently than developing	It is not inevitable that a business enters the decline stage.  Many American businesses have long histories and have adapted and survived over time.

service is right.  It's important to document what works and what doesn't work during this stage.	rather than "in the business."  - Increased formalization must take place, and the business has to start developing policies and procedures.	One tough decision is whether the owner of the business and the current management team have the experience and the ability to take the business further.	new products.  Well-managed firms often look for partnering opportunities or opportunities for acquisitions or licensing deals to breathe new life into the firm.  If new growth cannot be achieved through a firm's existing product mix, the "next generation" of products	A business's ability to avoid decline hinges on the strength of its leadership and its ability to adapt over time.
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## **Challenges of Growth**

Two categories of challenges for firm growth:

- Managerial Capacity
   Problem
- Day-to-Day Challenges of Growing a Firm

#### Managerial Capacity

Firms are collections of productive resources that are organized in an administrative framework. As a firm goes about its routine activities, it recognizes opportunities to grow. The problem with this scenario is that firms are not always prepared or able to grow, because of limited "managerial capacity."

#### A Firm's Administrative Framework

A firm's administrative framework consists of two kinds of services that are important to firm growth. Entrepreneurial services generate new market, product, and service ideas, while managerial services administer the routine functions of the firm and facilitate the profitable execution of new opportunities. New product and service ideas require substantial managerial services (or managerial capacity) to be successfully implemented. This is a complex problem because if a firm has insufficient managerial services to properly implement its new product and service ideas, it can't grow.

The reason a firm can't quickly increase its managerial services (to take advantage of new product or service ideas) is that it is expensive to hire new employees, it takes time for new hires to be socialized into the culture of a firm, and it takes time for new employees to acquire firm-specific skills and establish trusting relationships with other members of the firm.

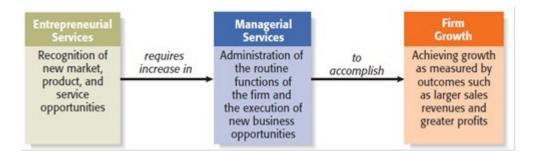
When a firm's managerial resources are insufficient to take advantage of its new product and service opportunities, the subsequent bottleneck is referred to as the managerial capacity problem.

## Additional Challenges

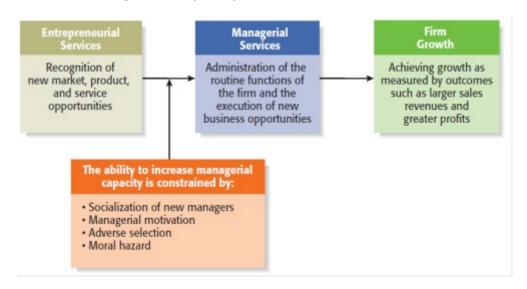
As a firm grows, it is faced with the dual challenges of adverse selection and moral hazard.

- Adverse selection means that as the number of employees a firm needs increases, it becomes increasingly difficult for the firm to find the right employees, place them in appropriate positions, and provide adequate supervision.
- Moral hazard means that as a firm grows and adds personnel, the new hires typically do not have the same ownership incentives as the original founders, so the new hires may not be as motivated as the founders to put in long hours and may even try to avoid hard work.

#### Basic Model of Firm Growth



#### Impact of the Managerial Capacity Problem



## Day-to-Day Challenges of Growing a Firm

Challenge	Explanation
Cash Flow Management	A firm requires an increasing amount of cash as it grows.
Price Stability	If growth comes at the expense of a competitor's market share, a price war could ensue.
Quality Control	An increase in firm activity can result in quality control issues if a firm is not able to increase its resources to handle the extra work.
Capital Constraints	Capital constraints are an ever-present problem for growing firms.



This entrepreneur just opened a fine dining restaurant. His ability to grow the business successfully will hinge largely on how he manages the day-to-day challenges of growing a firm.



Introduction Growth

Maturity Decline

#### **Short Question**

- 1. How do you balance the need for rapid growth with the necessity of maintaining financial stability?
- 2. Explain the reasons business need for growth.
- 3. Explain 5 stages of business growth.
- 4. How do you stay agile and adaptable in the face of changing market conditions while pursuing growth opportunities?

#### **SUMMARY**

- This chapter focuses on essential considerations for businesses preparing for growth and warns against potential pitfalls.
- The chapter also introduces warning signs indicating that a business might be growing too rapidly. It emphasizes the need for business owners to understand the stages of growth, including the challenges and opportunities in each stage.
- Overall, the chapter provides a comprehensive guide for businesses navigating the complexities of growth while emphasizing the importance of strategic planning and adaptability.



#### REFERENCEES

Robert D. Hisrich, Micheal P. Peters, Dean A. Shepherd *Entrepreneurship 12th edition Mc Graw-Hill International Edition @2023* 



TOPIC 14

## **Strategies for Firm Growth**

#### **LEARNING OUTCOMES**

By the end of topic, you should be able to:

1. Strategies for firm growth in internal and external

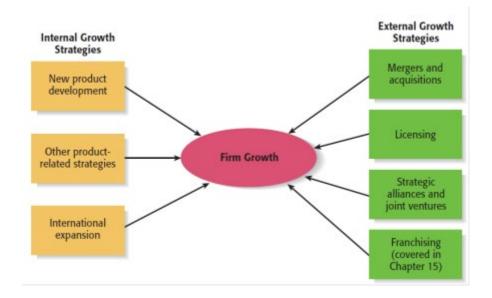
#### Internal and External Growth Strategies

#### Internal Growth Strategies

Involve efforts taken within the firm itself, such as new product development, other product-related strategies, and international expansion

#### External Growth Strategies

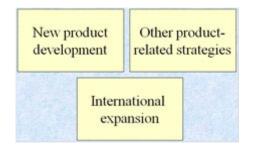
Rely on establishing relationships with third parties, such as mergers, acquisitions, strategic alliances, joint ventures, licensing, and franchising





## **Internal Growth Strategies**

Internal growth strategy that available in the market:



Advantages and Disadvantages of Internal Growth Strategies

Advantages	Disadvantages	
Incremental, even-paced growth.	• Slow form of growth.	
Provides maximum control.	Need to develop new resources.	
Preserves organizational culture.     Encourages internal entrepreneurship.	<ul> <li>Investment in a failed internal growth strategy can be difficult to recoup.</li> </ul>	
Allows firms to promote from within.	Adds to industry capacity.	

#### **New Product Development**

New product development involves the creation and sale of new products (or services) as a means of increasing firm revenues. In many fast-paced industries, new product development is a competitive necessity. For example, the average product life cycle in the computer software industry is 14 to 16 months.

- Keys to Effective New Product and Service Development
  - Find a niche and fill it.
  - Develop products that add value.
  - Get quality right and pricing right.
  - Focus on a specific target market.
  - Conduct ongoing feasibility analysis.

#### **Other Product-Related Strategies:**

Product Strategy	Description
Improving an Existing Product or Service	Often a business can increase its revenues by simply increasing the quality of an existing product or service.
Increasing Market Penetration	Increasing the sales of a product or service through greater marketing efforts or through increased production capacity.
Extending Product Lines	Making additional variations of a product so it will appeal to a broader range of clientele.
Geographic Expansion	Growth via expanding to additional geographic locations.

#### International Expansion

Another common form of growth for entrepreneurial firm is an international expansion. International new ventures are businesses that, seek to derive significant competitive advantage by using their resources to sell products or services in multiple countries. Although there is vast potential associated with selling overseas, it is a fairly complex form of growth.

- Foreign-Market Entry Strategies
  - Franchising
    - An agreement between a franchisor (a company like McDonald's Inc., that has an established business method and brand) and a franchisee (the owner of one or more McDonald's restaurants).
  - Turnkey Project
    - A contractor from one country builds a facility in another country, trains the personnel that will operate the facility, and turns over the keys to the project when it is completed and ready to operate.
  - Wholly Owned Subsidiary
    - A company that has made the decision to manufacture a product in a foreign country and establish a permanent presence.



There are four types that can be used as the external growth strategies.



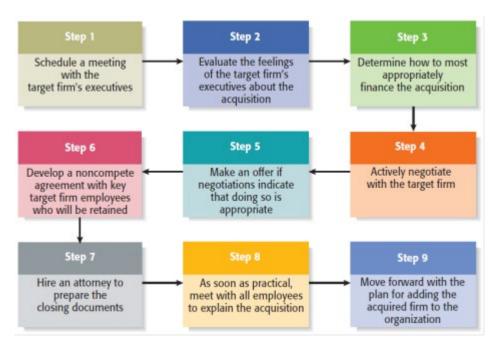
Advantages and Disadvantages of External Growth Strategies:

Reducing competition. Gaining access to proprietary products or services. Gaining access to new products and markets. Obtaining access to technical expertise. Gaining access to an established	<ul> <li>Incompatibility of top management</li> <li>Clash of corporate cultures.</li> <li>Operational problems.</li> <li>Increased business complexity.</li> <li>Loss of organizational flexibility.</li> <li>Antitrust implications.</li> </ul>

#### Mergers and Acquisitions

- Mergers and Acquisitions
  - A merger is the pooling of interests to combine two or more firms into one.
  - An acquisition is the outright purchase of one firm by another.
- Purpose of Acquisitions
  - Acquiring another business can fulfill several of a company's needs, such as:
    - · Expanding its product line.
    - · Gaining access to distribution channels.
    - Achieving competitive economies of scale.

#### The Process of Completing an Acquisition



#### Licensing

- Licensing
  - The granting of permission by one company to another company to use a specific form of its intellectual property under clearly defined conditions.
  - Virtually any intellectual property a company owns that is protected by a patent, trademark, or copyright can be licensed to a third party.
- Licensing Agreement
  - The terms of a license are spelled out by a licensing agreement.

Type of Licensing	Description
Technology Licensing	The licensing of proprietary technology that the licensor typically controls by virtue of a utility patent.
Merchandise and Character Licensing	The licensing of a recognized trademark or brand that the licensor typically controls through a trademark or copyright.

#### Strategic Alliances

- Strategic Alliances
  - A strategic alliance is a partnership between two or more firms developed to achieve a specific goal.
  - Strategic alliances tend to be informal and do not involve the creation of a new entity.
  - Participating in strategic alliances can boost a firm's rate of product innovation and foreign sales.

Type of Alliance	Description
Technological Alliances	Feature cooperation in R&D, engineering, and manufacturing.
Marketing Alliances	Typically match a company with excess distribution capacity with a company that has a product to sell.

#### Joint Ventures

- Joint Ventures
  - A joint venture is an entity created when two or more firms pool a portion of their resources to create a separate, jointly owned organization.
  - A common reason to form a joint venture is to gain access to a foreign market. In these cases, the joint venture typically consists of the firm trying to reach a foreign market and one or more local partners.

Type of Joint Venture	Description
Scale Joint Venture	Partners collaborate at a single point in the value chain to gain economies of scale in production or distribution.
Link Joint Venture	Positions of the partners are not symmetrical, and the partners help each other access adjacent links in the value chain.

Advantages and Disadvantages of Participating in Strategic Alliances and Joint Ventures:

Disadvantages	
• Loss of proprietary information.	
Management complexities.	
Financial and organizational risks.	
Risk becoming dependent on a partner	
Partial loss of decision autonomy.	
Partners' cultures may clash.	
Loss of organizational flexibility.	

#### **KEY TERM**

**External** Merges

Licensing Strategic Alliances

Joint Venture Internal

#### **Short Question**

- 1. What steps can a business take to enhance its existing product line for internal growth?
- 2. In what ways can marketing and advertising be leveraged for internal growth within current markets?
- 3. Provide examples of successful product development strategies for internal growth.
- 4. What are the benefits and challenges associated with forming strategic alliances for external growth?
- 5. How can businesses identify suitable partners for strategic alliances to achieve external growth?
- 6. What challenges might a business face when implementing a franchising strategy for external growth?

#### **SUMMARY**

- This chapter explores both internal and external growth strategies in business.
- Each strategy has its own set of advantages and disadvantages.
- Factors like cultural differences, legal considerations, and resource sharing must be carefully evaluated.
- This chapter provides a comprehensive overview of various internal and external growth strategies, highlighting their key features, applications, and potential challenges.



#### REFERENCEES

Robert D. Hisrich, Micheal P. Peters, Dean A. Shepherd *Entrepreneurship 12th edition Mc Graw-Hill International Edition @2023*