Welcome

to

the Course

Entrepreneurship

&

Small Business Management

(MGMT 412)

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Chapter One

Entrepreneurship and Free Enterprise

Entrepreneurship: A Historical Perspective

Who is an entrepreneur?

What is entrepreneurship?

- a concise, universally accepted definition has not yet emerged.
- Entrepreneur is derived from the French entreprendre, meaning "to undertake" "between taker" or "go-between".

Middle Ages

- ***Entrepreneur*** was a person who managed large production projects.

  - the person merely manage the project using the resources provided but would not take any risks, but.

The 17th century

- The concept of risk in the notion of entrepreneurship was developed.

- an entrepreneur was viewed as a person who entered into a contractual arrangement with a government to perform a service or supply stipulated products.

- Cantillon viewed **the entrepreneur** *as a risk-taker, observing that the merchants, farmers, craftsmen and other sole proprietors "buy at a certain price and sell at an uncertain price- therefore operating at a risk."*

18th century

- a person with capital was differentiated from the one who needed capital.

- In other words, the entrepreneur was distinguished from the capital provider (the present-day venture capitalist).

- ***A venture capitalist*** *is a professional money manager who makes risky investments from a pool of equity capital to obtain a high rate of return on the investments.*

19th and 20th centuries

- In the late 19th and early 20th centuries, **entrepreneurs were frequently not distinguished from managers** and were mainly viewed from an economic perspective:

- ***"Briefly stated, the entrepreneur organizes and operates an enterprise for personal gain."***

In the middle of the 20th century

- the notion of an entrepreneur as an innovator was established:
- According to Joseph Schumpter, *"The function of entrepreneur(**innovator**) is to:*
  - *reform or revolutionize the pattern of production*
  - *exploiting an invention*
  - *trying an untried technological method of producing a new commodity*
  - *producing an old one in a new way,*
  - *opening a new source of supply of materials or a new outlet for products, by recognizing a new industry…"*
- **Innovation refers to** the act of introducing something new by modifying existing ones.

Entrepreneur: Definition

- **An entrepreneur** is one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying opportunities and assembling the necessary resources to capitalize on those opportunities.

- Entrepreneurs usually start with nothing more than an idea—often a simple one—and then organize the resources necessary to transform that idea into a sustainable business.

Entrepreneur definition…

- **Entrepreneur is** one who detects and evaluates a new situation in his environment and directs the making of such adjustments in economic systems as he deems necessary (Vasant Desai)

- Oxford English Dictionary (1933) defined **entrepreneurs** as *"one who undertakes an enterprise, especially a contractor-acting as intermediary between capital and labor."*

Entrepreneur definition…

An entrepreneur is someone who:

- Observes the environment,
- Identifies opportunities in the business or non-business environment
- Gathers the necessary resources
- Implements the activity and
- Receives financial or social rewards.

Entrepreneurship: Definition

- ***According to Albert Shapero.***

"In almost all of the definitions of entrepreneurship, there is agreement that we are talking about a kind of behavior that include:

- ***initiative taking,***
- ***the organizing and reorganizing of social/ economic mechanisms to turn resources and situations to practical account,***
- ***the acceptance of risk or failure."***

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

- ***‘Entrepreneurship*** is the professional application of knowledge, skills and competencies and/or of monetizing a new idea, by an individual or a set of people by launching a new enterprise or diversifying from an existing one (distinct from seeking self-employment as in a profession or trade), thus to pursue growth while generating wealth, employment and social good’.

In general, *entrepreneurship* is:

- A process of action that leads to ***company formation***
- Essentially a creative activity that consists of ***doing things that are not generally done in the ordinary course of business.***
- a trait, a skill, and a profession, which must be developed;
- the *personal quality that enables people to start new* business vigorously and innovatively and expand an existing one;

- **Entrepreneurship is Composed of four crucial elements:**
  - The ability to perceive an opportunity;
  - The ability to commercialize the perceived opportunity (both leading to innovation);
  - The ability to pursue it on a sustainable basis; and
  - The ability to pursue it through systematic means

The Role of Entrepreneurship

- Increase per capita output and income
- Creation of job opportunities
- Introduction of better production methods
- Identifying business opportunities and markets
- Bringing abolition of monopoly and enhancement of competition

Roles cont'd…

- Improving business policies and procedures
- Developing positive externalities
- Promotion of Technology
- Capital Formation
- Promotion of an Entrepreneurial Culture
- Developing complementary products
- Generating significant amount of foreign currency

Characteristics (Qualities) of Entrepreneurs

- Desire and willingness to take initiative.
- Preference for moderate risk
- Confidence in their ability to succeed
- Self-reliance
- Perseverance
- Desire for immediate feedback
- High level of energy
- Competitiveness
- Future orientation
- Skill at organizing
- Value of achievement over money
- Tolerance for ambiguity
- Flexibility
- High degree of commitment

Characteristics cont'd…

- Mental Ability
- Clear Objectives
- Business Secrecy
- Human Relation Ability
- Technical Knowledge
- High Need for achievement
- Hard Working
- Builds for the Future
- Profit-Oriented
- Builds on Strengths
- Innovativeness
- Opportunity seeking
- Initiative taking
- Internal locus of control
- Information seeking a net working
- Emotional stability
- Sets Own Standards
- Copes with Uncertainty
- Reliable and Has Integrity

THE JOHARI WINDOW

	Known by self	Unknown by self
Known by others	**OPEN/PUBLIC AREA**	**BLIND AREA/BAD BREATH AREA**
Unknown by others	**SECRET/HIDDEN AREA**	**UNKNOWN AREA/THE FUTURE**

The Entrepreneurial process and Decision

The Entrepreneurial Process

- Hirsch and Peters identified the following four distinct phases of the entrepreneurial process.
  - ✓ Identification and evaluation of the opportunity.
  - ✓ Development of the business plan.
  - ✓ Determination of the required resources.
  - ✓ Management of the resulting enterprise

The Entrepreneurial Decision

- Like all processes, it entails a movement from something to something – a movement from a present life-style to forming a new enterprise
- The decision to start an entrepreneurial venture consists of several sequential sub decisions:
  - The decision to leave a present career or life style.
  - The decision that an entrepreneurial venture is desirable.
  - The decision that both external and internal factors make the venture possible.

Factors Affecting Entrepreneurial Decisions

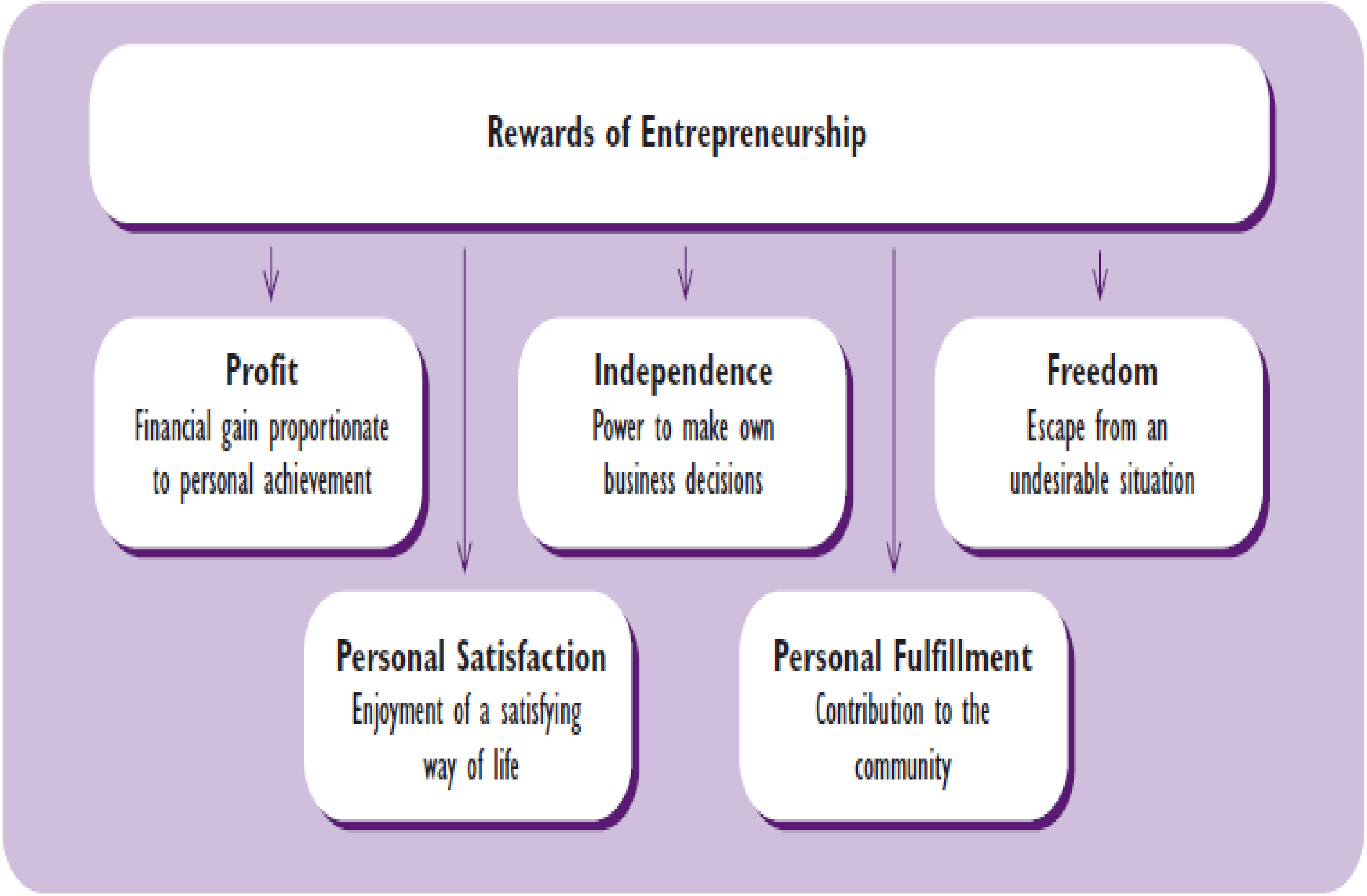
Change from present life-style

- Work Environment
- Disruption

Form new enterprise

- Desirable
  - Culture
  - Subculture
  - Family
  - Teachers
  - Peers
- Possible
  - Government
  - Background
  - Marketing
  - Finance
  - Role models

The payoffs (rewards) of being an entrepreneur



The Potential Drawbacks Of Entrepreneurship

- Uncertainty of Income
- Risk of Losing Your Entire Invested Capital
- Long Hours and Hard Work
- Lower Quality of Life Until the Business Gets Established
- Discouragement
- Complete Responsibility
- High Levels of Stress

Comparison between entrepreneurs and non-entrepreneurs

Entrepreneurs

- Desire for achievement
- Autonomous and independent
- Motivated by task not by its reward
- Learn from his own experience
- Moderate risk takes
- Receptive to new ideas
- Hardworking
- Attributes success or failure for himself alone
- Optimists
- flexible (resilient)
- High internal locus of control

Non entrepreneurs

- Unambitious
- Easily discovered
- Pessimists
- Conservative
- Lazy
- Ignorant needs no change
- Gamblers
- Resist assistance
- Greedy
- Dependent
- High external locus of control

General non-entrepreneurial profiles

- **Shotgun Sam (*lack of follow through*):** an entrepreneurial type who quickly identifies new promising business opportunities but rarely if ever follows through on the opportunity to create a successful new venture.

- **Simplicity sue*(making everything much simpler than it really is)*** It is the tendency to over simplify.

- **Prima Dona Paul *(falling in love with the idea itself*)** An entrepreneurial type so in love with his own idea. He feels everyone is out to take his idea and take advantage of him.

- **Ralph the Rookie** (***lacking real-world experience)*** An Entrepreneurial type who is well grounded in theory but lacked real world business experience.

- **Meticulous Mary** (***being a perfectionist)*** A perfectionist entrepreneurial type who is so used to having things under control that he or she cannot manage during a catastrophe and cannot handle periods of ambiguity and chaos.

- **Under dog ED** ***(Lacking the ability to put things in to concrete action)*** an entrepreneurial type who is not comfortable with actually transforming the invention in to a tangible business success.

- **Hidden agenda Harry** ***(lacking the right motives)*** an entrepreneur who does not have the right motives and objective for developing and expediting a new enterprise.

- **Inventor Irving** (***Loving creating more than doing)*** an inventor more than an entrepreneur who is more concerned about the invention itself rather than expediting a business.

CHAPTER TWO

SMALL BUSINESS-VITAL COMPONENTS OF THE ECONOMY

- **Introduction**

***Three essential characteristics of a small firm*.**

- *A small firm is managed by its owner in a personalized way.*
- *It has a relatively small share of the market in economic terms.*
- *It is independent in the sense that it does not form part of a larger enterprise and its ownership is relatively free from outside control in its principal decisions.*

Defining small enterprise

The size criteria

Size criteria used to define businesses are:

- Number of employees,
- Sales volume,
- Asset size,
- Insurance in force, and
- Volume of deposits.

In Ethiopia,

- **Micro Enterprises** are business enterprises found in all sectors of the Ethiopian economy with a paid-up capital (fixed assets) of not more than Birr 20,000, but excluding high-tech consultancy firms and other high-tech establishments.

- **Small Enterprises** are business enterprises with a paid-up capital of more than Birr 20,000 ($2,500) but not more than Birr 500,000 ($62,500) but excluding high-tech consultancy firms and other high-tech establishments

Based on the number of employees

The generally accepted division of the size of business based on number of employees is:

- **up to 19 workers**-Micro (very small) business
- **20-100 workers**-Small business
- **101-500 workers**- Medium business

Economic/Control criteria:

The economic criteria commonly uses

- **Market share**
- **Personalized management**
- **independence**

The benefits of owning a small business

- *Opportunity to gain control over your own destiny*
- *Opportunity to make a difference*
- *Opportunity to reach your full potential*
- *Opportunity to reap impressive profits*
- *Opportunity to contribute to society and be recognized for your efforts*
- *Family employment*
- *Independence*
- *Job security*
- *Opportunity to do what you enjoy doing*

Disadvantages(challenges) of going in to small business

- *Sales Fluctuation*
- *Competition*
- *Increased Responsibilities*
- *Financial losses*
- *Risk of Failure*
- *Poor Employee Relations*

Small Business Failure and Success Factors

Failure Factors

- **Management incompetence**
- **Lack of experience**
- **Poor financial control**
- **Failure to develop a strategic plan**
- **Uncontrolled growth**
- **Poor location**
- **Improper Inventory Control**
- **Expansion beyond resources**
- **Neglect**
- **Fraud**
- **Lack of information about their customer**
- **Failure to diversity market**
- **Lack of marketing research:**
- **Legal Problem:** Nepotism
- **Arrogance**
- **Mismanagement**
- **Overinvestment in fixed assets**
- **Poor Business Philosophy**.

Success Factors

- ***Know Your Business in Depth***
- ***Prepare a good Business Plan***
- ***Manage Financial Resources***
- ***Understand Financial Statements***
- ***Learn to Manage People Effectively***
- ***Set Your Business Apart from the Competition***
  - ***Avoid copying strategies of others***
- ***Maintain a Positive Attitude***
- ***Leadership***

Problems of Small Enterprises in Ethiopia

- ***Financial problems***
- ***Lack of Qualified Employees***
- ***Lack of proper financial and other records***
- ***Marketing problems***
- ***Lack of work premises, raw materials***

The Roles of Small Businesses

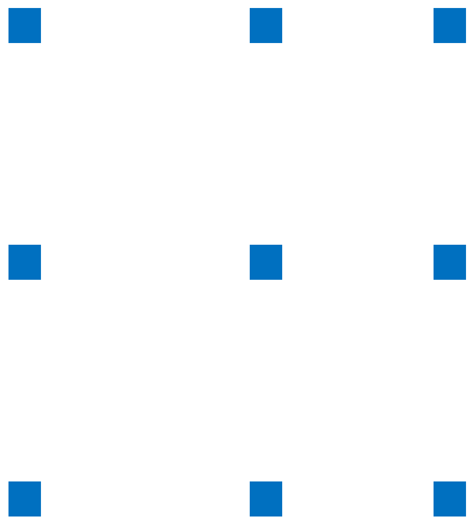
- Job creation
- Creativity and innovation
- Stimulating economic competition
- Bringing a cultural change
- Supporting big businesses:
- Product and geographic specialization:
- Lower costs:
- Better knowledge of customer and markets
- Providing new products

Creativity, Innovation, and Business Idea

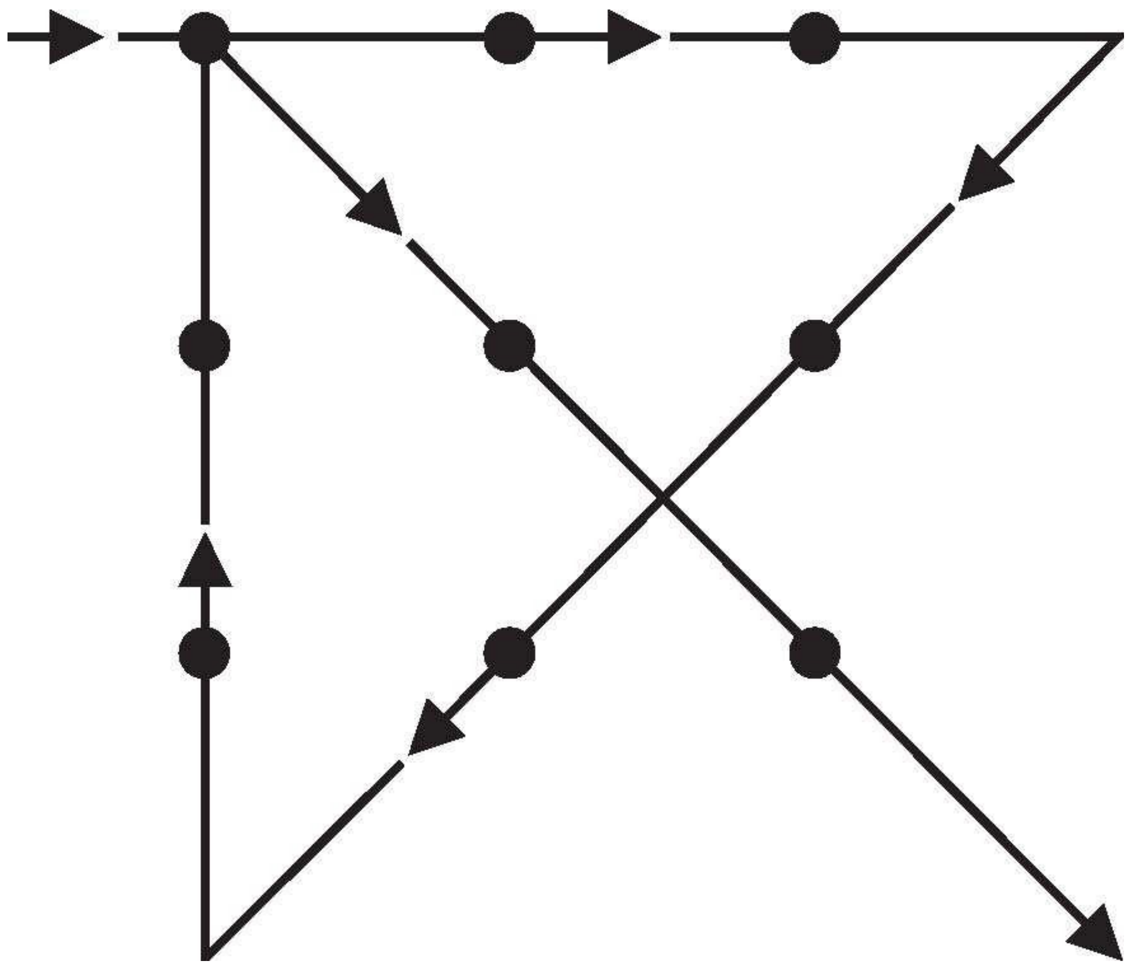
What is creativity?

- ***the ability to design, form, make or do something in a new or different way.***
- ***the ability to come up with innovative solutions to needs/problems and to market them.***
- ***"the ability to bring something new into existence."***
- ***the process of developing original and imaginative perspective on situations.***
  - ***This definitions emphasizes the "ability," not the "activity," of bringing something new in to existence***
- ***To be creative, entrepreneurs need to keep their mind and eyes open to their environment.***

Creativity exercise: The nine dots

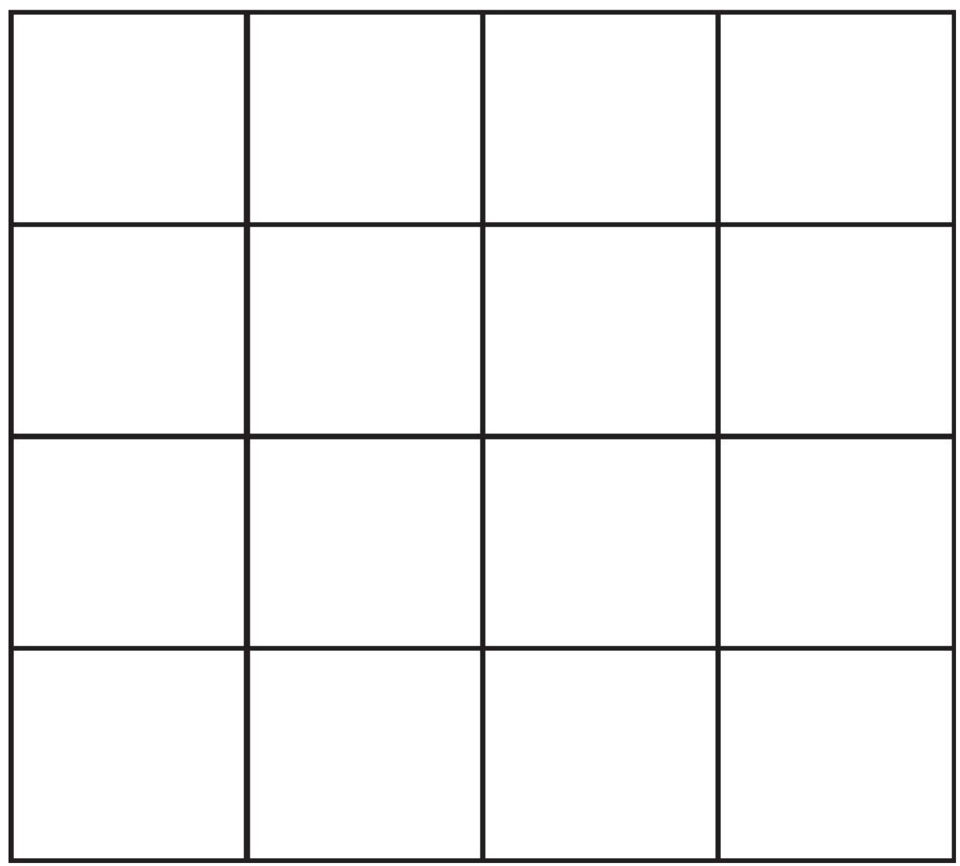


Connect these dots using four straight lines, without uplifting your hands, and without repeating a path



Creativity Exercise: the Creative Squares

How many squares do you see?



What is a Business Idea?

- ***the response of a person or persons, or an organization to solving an identified problem or to meeting perceived needs in the environment (markets, community, etc.).***

- Finding a good idea is the first step in transforming the entrepreneur’s desire and creativity into a business opportunity.

Why Generate Business Ideas?

- *You need an idea – and a good one at that – for business*
- *To respond to market needs*
- *To stay ahead of the competition*
- *To exploit technology – do things better*
- *To spread risk and allow for failure*
- *Because of product life cycle*

Sources of New Ideas

- Observing the market
- Consumers
- Existing Companies:
- Distribution Channels
- Federal and Regional Governments
- Research and Development
- Development in other nations
- Trade fairs and exhibitions
- Hobbies and interests
- Mass media

Methods of Generating Idea

Brainstorming

- *is a technique for creative problem solving and for generating ideas.* ***The objective is to come up with as many ideas as possible****.*
- *Brainstorming usually starts with a key question or problem statement. Each idea leads to one or more additional ideas. As a result, you will have in a good number of business ideas.*

Principles of Brainstorming

- **No criticism** is allowed by anyone in the group - no negative comments.
- **Freewheeling is encouraged** - the wider the idea the better.
- **Quantity of ideas is desired** - the greater the number of ideas, the greater the likelihood of useful ideas emerging.
- **Combinations and improvements** of ideas are encouraged-ideas of others can be used to produce~ still another new idea.

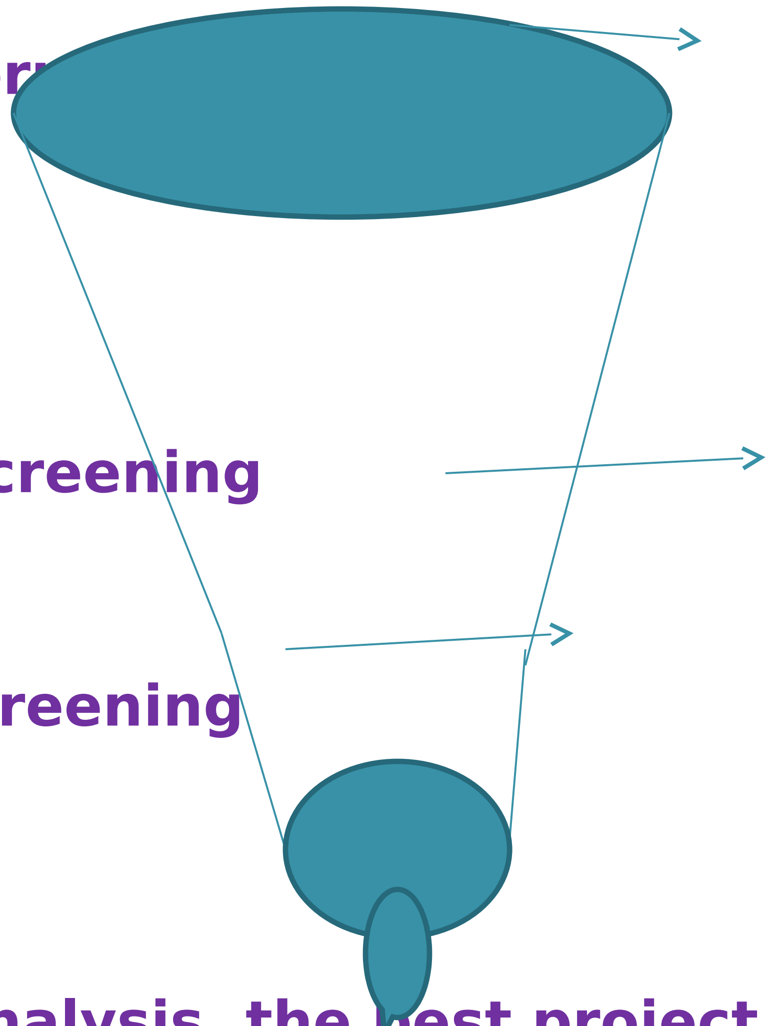
Focus Groups

- A moderator, often called a focal person leads a group of people through an open in depth discussion rather than simply asking questions to solicit participants' response.
- For a new product area, the moderator focuses the discussion of the group in either a directive or a nondirective manner.
- The group of participants is stimulated by comments from other group members in creatively conceptualizing and developing a new product idea.

Idea screening

- ***Marketability/demand***
- ***Profitability of the idea if implemented***
- ***Availability of raw materials and resources***
- ***Personal goals and competence of the entrepreneur***
- ***Ease of implementation***
- ***Financial Requirements***
- ***Government priority and support***
- ***Risk exposure criteria***

THE FUNNEL MODEL FOR IDEA GENERATION and SCREENING



- **Brainstor 500-1000 ideas**
- **Macro screening 10 project ideas**
- **Micro screening 3 project ideas**
- **SWOT analysis the best project idea**

- ***Macro screening***

Criteria:

- **Is there a sufficient demand?**
- **Own capabilities / know-how?**
- **Own financial resources sufficient (at least 20% of estimated project cost)?**
- **Similar project in the area (competitors)?**

Micro screening

- Solvent demand
- Availability of raw material
- Availability of technology / equipment
- Availability of qualified personnel
- Competitors

CHAPTER THREE

DEVELOPING AND USING A BUSINESS PLAN

WHAT IS A BUSINESS PLAN?

- A business plan is a document that convincingly demonstrates that your business can sell enough of its product or service to make a satisfactory profit and be attractive to potential stakeholders.

- A business plan is a written summary of an entrepreneur proposed business venture, its operations, its financial details, its marketing opportunities and strategies, and its managers’ skills and abilities.

- A business plan is a selling document. It sells your business and its executives to potential backers of your business, such as bankers, investors, partners, employees, etc.

- A **business plan** is a document that summarizes the operational and financial objectives of a business and contains the detailed plans and budgets showing how the objectives are to be realized

Why Write A Business Plan?

- to help you determine the feasibility of your business idea,
- to attract capital for starting up the business, (Seeking Investment Funds)
- Obtaining Bank Financing
- to provide direction for your business after it is in operation.
- It provides guidance to the entrepreneur in organizing his or her planning activities

When to prepare a business plan

- Ongoing
- At the start up of a new business
- Major decision
- Business purchase

Who are interested in your business plan?
(Users of the business plan)

- **Managers**
- **Owners**
- **Lenders**
- **Investors**

The three basic questions

- Where are we now?
  - The current situational analysis
- Where we intend going?
  - The vision, the goals/objectives or the destination of our business
- How do we get there?
  - The strategy, methods, and systems

Basic Information needs

1. Market Information

- **Size of the market**
- **Level of price sensitivity of the customers**
- **Distribution preference of the potential customers**
- **Trends in demand, i.e. increasing, decreasing, or constant**
- **competition, margins for distribution, market trends, and growth potential.**

Operation Information Needs

- Manufacturing operations: Basic machine and assembly operations need to be identified, as well as whether any of these operations would be subcontracted and by whom.

- Raw materials: the raw materials needed and the suppliers' names, addresses, and costs should be determined.

- Equipment: the equipment needed should be listed and whether it will be purchased or leased.

Operation Information Needs

- Labor skills: Each unique skill needed, the number of personnel in each skill, pay rate, and an assessment of where and how these skills will be obtained.
- Space: the total amount of space needed should be determined, including whether the space will be owned, leased, and so on.
- Overhead: Each item needed to support manufacturing such as tools, supplies, utilities, salaries and so on should b determined.

Financial Information Needs

- The assessment will primarily tell the potential investors if the business will be profitable, how much money will be needed to launch the business and meet short-term financial needs, and how this money will be obtained (i.e. stock, debt, etc.)
- Areas of financial information need:
  - Expected sales and expense figures for at least the first three years
  - Cash flow figures for the first three years, and
  - Current balance sheet figures and proforma balance sheets for the next three years.

Writing the business plan
(contents of a business plan)

Introductory Page

This is the title or cover page that provides a brief summary of what is contained in the business plan in print form.

The introductory page should contain the following:

- The name and address of the company
- The name of the entrepreneur(s) and a telephone number.
- A paragraph describing the company and the nature of the business.
- The amount of financing needed. The entrepreneur may offer a package that is, stock, debt, and so on.
- A statement of the confidentiality of the report. This is for security purposes and is important for the entrepreneur.

Example

ABC CLEAING SERVICE

Kazanchis, Woreda xx, Kebele xx

P.O.Box xxx, Addis Ababa

Tel. Xxxx, xxxxx

Co-owners: Kidist Ketema, Cheru Chang

- ***Description of Business***

This business will provide cleaning service on a contract basis to small and medium-sized business. Services include cleaning of floors, carpets, draperies, and windows, and regular sweeping, dusting, and washing.

Contracts will be for one year and will specify the specific services and scheduling for completion of services.

- ***Financing:***

Initial financing requested is a 100,000 Birr loan to be paid off over 6 years. This debt will cover office space, office equipment and supplies, two leased vans, advertising, and selling costs.

This report is confidential and is the property of the co-owners listed above. The persons to whom it is transmitted and any reproduction or divulgence of any of its contents without the prior written consent of the company is prohibited intend it only for use.

Executive Summary

- prepared after the total pan is written.
- about three to four pages long and should stimulate the interest of the potential investor.
- ***should include the following components:***
  - ***Company information***—what product or service you provide, your competitive advantage, when the company was formed, your company objectives, and the background of you and your management team.
  - ***Market opportunity***—the expected size and growth rate of your market, your expected market share, and any relevant industry trends.
  - ***Financial data***—financial forecasts for the first three years of operations, equity investment desired, and long-term loans that will be needed.

- It would highlight in a concise and convincing manner key points:
  - the nature of the venture,
  - financing needed,
  - market potential,
  - why it will succeed (differentiation strategy)
  - Profit per share
  - Key points that would sell the business should be addressed

Industry Analysis

- It is important to put the new venture in a proper context.
  - **industry outlook**, including future trends and historical achievements, should be included.
  - **Competition analysis**
    - **Number of competitors**
    - **Strength and weakness of the competitors**
    - **Reaction patterns of the competitors**
      - **Laidback**
      - **Selective**
      - **Tiger**
      - **stochastic**

- **Customer analysis**
  - **Who are the customers**
  - **Target market**
  - **Customer preferences**
  - **Level of price sensitivity**
  - **etc**

Description of Venture

- Key elements are :
  - VISION, MISSION, GOALS, VALUES
  - the product(s) or service(s),
  - the location and size of the business,
  - the personnel and office equipment that will be needed,
  - background of the entrepreneur(s), and the history of the venture.

Marketing Plan

- The marketing plan is an important part of the business plan since it describes how the product(s) or service(s) will be distributed, priced, and promoted.
- Specific forecasts for product(s) or service(s) are indicated in order to project profitability of the venture.
- The budget and appropriate controls needed for marketing strategy decisions are also discussed in detail

Marketing Plan

- Products or Services
- *Target Markets and Market Segmentation*
- Market Trends
- Competition
- Market Share
- Pricing as Part of Marketing Plan
- Promotion as Part of Marketing Plan
- Place as Part of Marketing Plan
- Service Policies as Part of Marketing Plan

Key issues in marketing plan

- **Product Strategies**
  - How will products be packaged?
  - How broad will your product line be?
  - What new products will you introduce?
  - What Position or Image will you try to develop or reinforce?

Pricing Strategies

- What will be your pricing strategies? (For example: Premium, Every Day Low Price, Frequent Sale Prices, Meet Competitor Price, etc.)
- How will you compare with competition and how will they respond?
- Why will customers pay your price?
- What will be your credit policies?
- Is there anything about your business which lag you from price competition?
- Can you add value and compete on issues other than price?

Promotional Strategies

- Who are your Target Markets?
- How will you reach your Target Markets? (What Media will you use?)
- How will you motivate them to buy? (What Message will you stress?)
- What is the cost and timetable for implementation of the marketing plan?

Manufacturing and Operations Plan

- It will outline your needs in terms of facilities, location, space requirements, capital equipment, labor force, inventory control, and purchasing.
- ***Some of the things to be included are:***
  - *Geographic Location:*
  - *Facilities:*
  - *Make-or-Buy Policy*
  - *Labor Force:*

Financial Plan

- **It determines the potential investment commitment needed for the new venture and indicates whether the business plan is economically feasible.**
- Generally, three financial areas are :
  - ✓ First, summarize the forecasted sales and the appropriate expenses for at least the first three years, with the first year's projection
    - ✓ **It includes the forecasted sales, cost of goods sold, and the general and administrative expenses.**

- The second major area of financial information needed is cash flow figures for three years, with the first year's projections provided monthly.
- The last financial item needed in this section of the business plan is the projected balance sheet.
  - This shows the financial position of the business at a specific time.
  - It summarizes the assets of a business, (what is owned), its Liabilities(WHAT IS OWED) the investment of the entrepreneur and any partners, and retained earnings
- Any assumptions considered for the balance sheet or any other item in the financial plan should be listed for the benefit of the potential investo**r**

- Breakeven analysis
- Ratio calculations
- ROI
- investment analysis like:
  - Payback period
  - NPV
  - IRR
  - etc

Organizational Plan

- This section of the business plan should describe
  - the venture’s form of ownership, that is, proprietorship, partnership, or corporation.
  - If the venture is a partnership, the terms of the partnership should be included.
  - If the venture is a corporation, it is important to detail the shares of stock authorized, share options, names, and addresses and resumes (CVs) of the directors and officers of the corporation.
  - It is also helpful to provide an organization chart that indicates the line of authority and the responsibilities of the members of the organization.

Key issues in Organization and management

- *What is the form of ownership of the manufacturing operation?*
- *If some manufacturing is subcontracted, who will be the subcontractor(s)? (Give names and addresses.)*
- *If incorporated, who are the principal shareholders and how much stock do they own?*
- *What type and how many shares of voting or nonvoting stock have been issued?*
- *Who are members of the board of directors? (Give manes, addresses, and resumes.)*
- *Who has check-signing authority or control?*
- *Who and what is the background of each member of the management team?*
- *What are the roles and responsibilities of each member of the management team?*
- *What are the salaries, bonuses, or other forms of payment for each member of the management team?*

Assessment of Risk

- Every new venture will be faced with some potential hazards, given the particular industry and competitive environment.
- It is important for the entrepreneur to recognize the potential risks and prepare an effective strategy to deal with them.
- Major risks for a new venture could result from a competitor's reaction; weaknesses in the marketing, production, or management team; and new advances in technology which might render the new product obsolete.
- Even if there is no risk from any of these factors, they should be discussed in the business plan and reasons provided as to why they are not a risk.

- It is also useful for the entrepreneur to provide alternative strategies should any of the above risk factors occur.
- These contingency plans and strategies illustrate to the potential investor that the entrepreneur is sensitive to important risks and is prepared should any occur

Appendix

- The appendix of the business plan generally contains any backup material that is not necessary in the text of the document.
- Reference to any of the documents in the appendix should be made in the plan itself.
- Various types of documents that may be included are discussed below.
- Letters from customers, distributors, or subcontractors are examples of information that should be included in the appendix.
- Any documentation of information, that is, secondary data or primary research data used to support plan decisions, should also be included.
- Leases, contracts, or any other type of agreements that have been initiated may also be included in the appendix. Last, price lists from suppliers and competitors may be added.

Chapter Four:

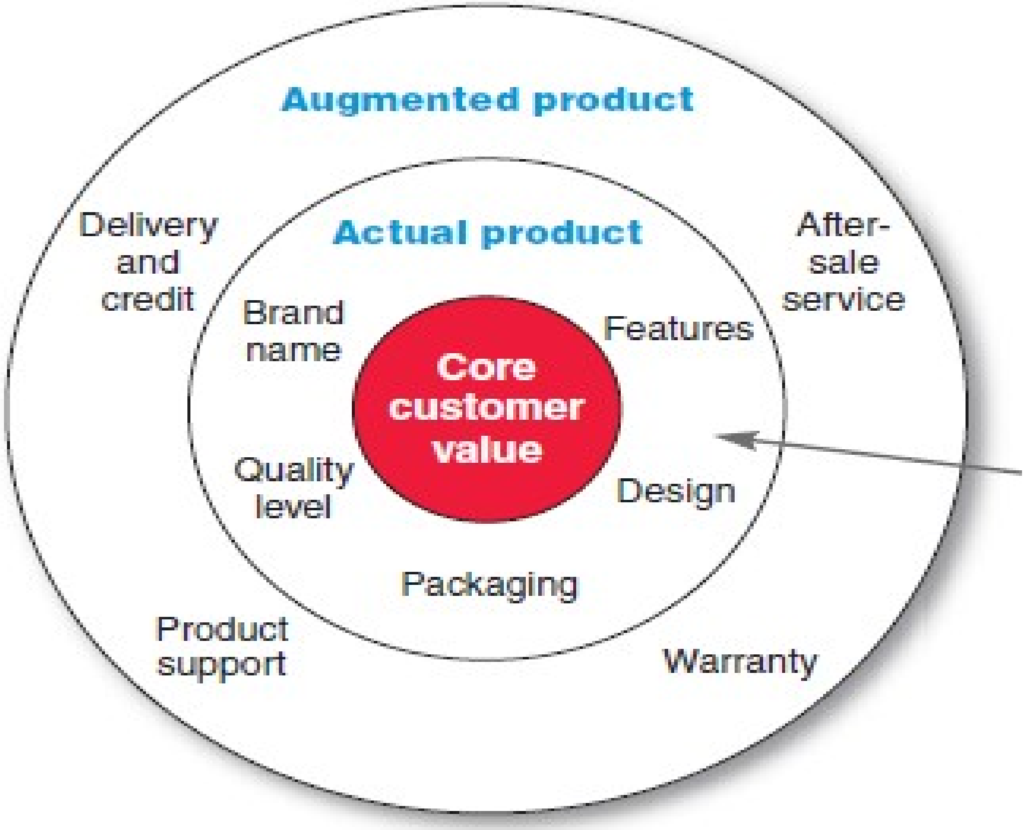
Product and Service Concept

What is a Product?

- *A product is a solution to customers' problems. It is anything that can be offered to the market for attention, acquisition, use, or consumption and that might satisfy a want or need. It includes physical objects, services, persons, places, organizations, ideas or mixes of these entities.*

- A product is a combination of the physical characteristic as well as the way people think and feel about it.

Levels of a Product



- **The Core Product** : the fundamental service or benefit that the customer is really buying.

Example: *A hotel guest is buying "rest & sleep", the purchaser of a drill is buying "holes." Marketers must see themselves as benefit providers.*

- **The Actual Product** - hotel room includes a bed, bathroom, towels, desk, dresser, and closet. The actual product may have as many as five characteristics that combine to deliver core product benefits. They are:
    - Quality level
    - Features
    - Design
    - A brand name
    - Packaging

- **Expected Product -**a set of attributes and conditions that buyers normally expect and agree to when they purchase this product.
  - For example, hotel guests expect a clean bed, fresh towels, working lamps, and a relative degree of quiet.

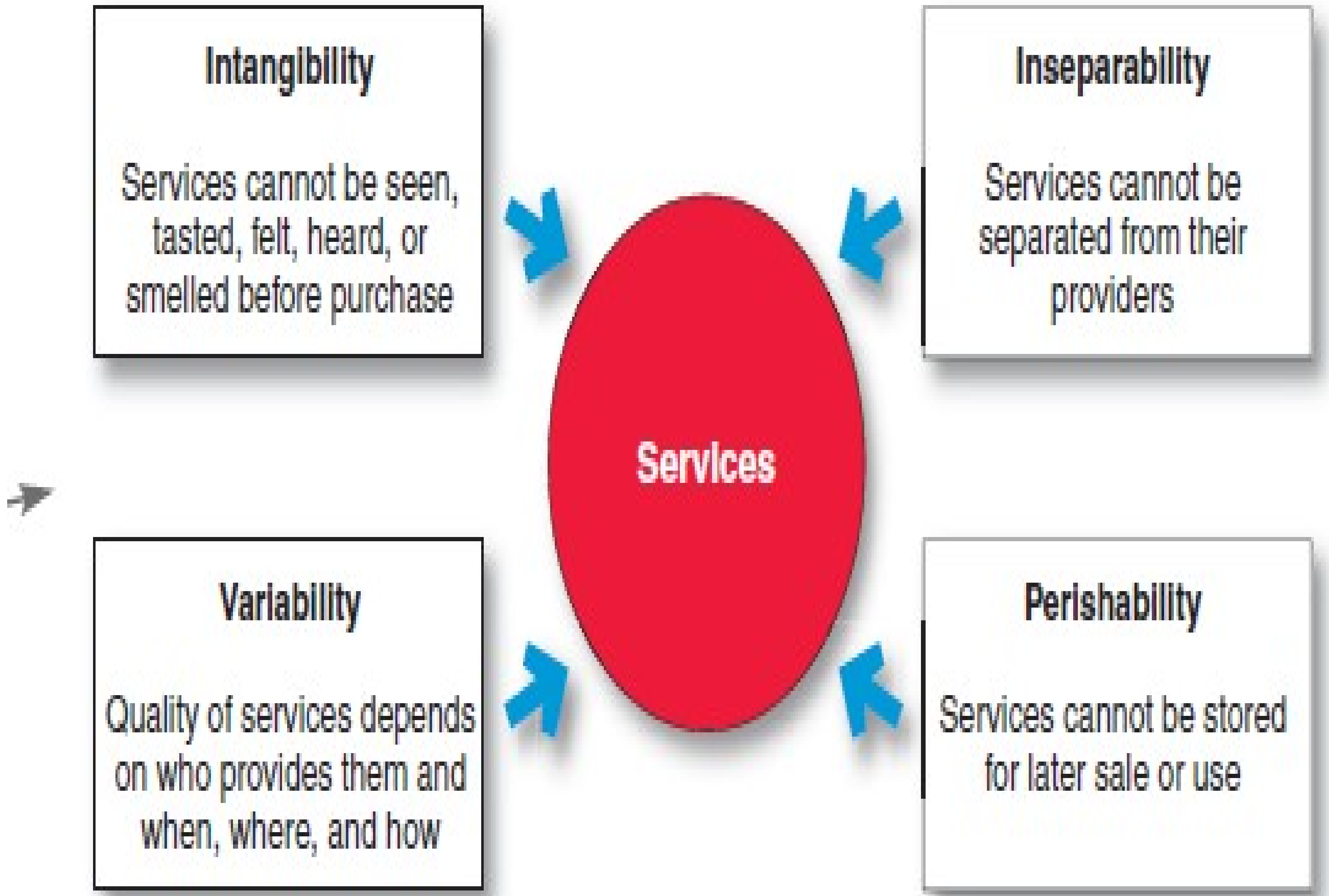
- **The Augmented Product -** product that meets the customers' desires beyond their expectations.
  - The augmented product includes any additional consumer services and benefits built around the core and actual product.
  - A hotel can augment its product by including fresh flowers, fine dining and room service, and so on.

- **Potential Product** **-** encompasses all the augmentations and transformations that the product might ultimately undergo in the future. While the augmented product describes what is included in the product today, the potential product points to its possible evolution.
- Here is where companies search aggressively for new ways to satisfy customers and distinguish their offer.

Product Classifications

- **Durability & tangibility**
  - ***Non-durable goods***: are tangible goods that normally are consumed in one or a few uses.
  - ***Durable goods***: are tangible goods that normally survive many uses.
- ***Services***: are intangible, inseparable, variable and perishable. As a result they normally require more quality control, supplier credibility, and adaptability.

The Nature and Characteristics of a Service



- **Products may be further divided into:**
  - **Consumer Products**

  consumer goods as ‘Goods destined for use by ultimate consumers or households and in such form that they could be used without commercial processing’. Consumer goods are products intended for use by ultimate consumers for non-business purpose.

  - **Industrial products**

‘Goods which are destined to be sold primarily for use in producing other goods or rendering services as contrasted with goods destined to be sold primarily to the ultimate consumer.’

Classification of Consumer Product's

- Convenience goods
- Shopping goods and
- Specialty goods.
- Unsought goods.

Convenience goods:

- Convenience products are consumer products and services that the consumer usually buys frequently, immediately, and with a minimum of comparison and buying effort.

- Convenience goods can further be classified into:
  - **Staples** – are convenience goods that consumers buy on regular basis. Examples include soaps, tooth paste, etc.
  - **Impulse goods** – are convenience goods that are purchased without any planning or search effort. Examples include candy bars, magazines, etc.
  - **Emergency goods** – are purchased when a need is urgent – umbrella during a rainstorm.

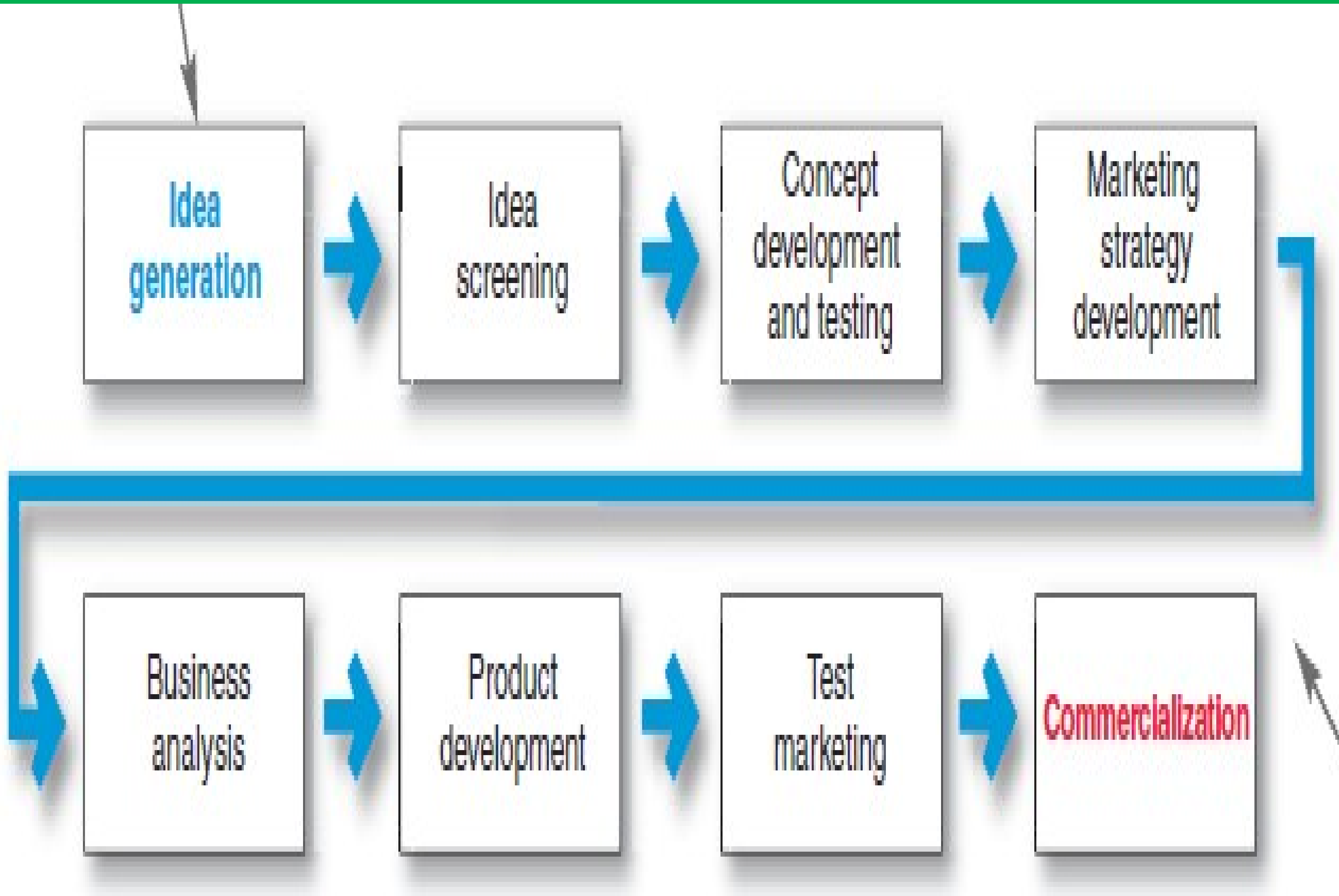
Shopping Goods

- Shopping goods are products for which customers usually wish to compare quality, price and style in several stores before purchasing.

Specialty goods

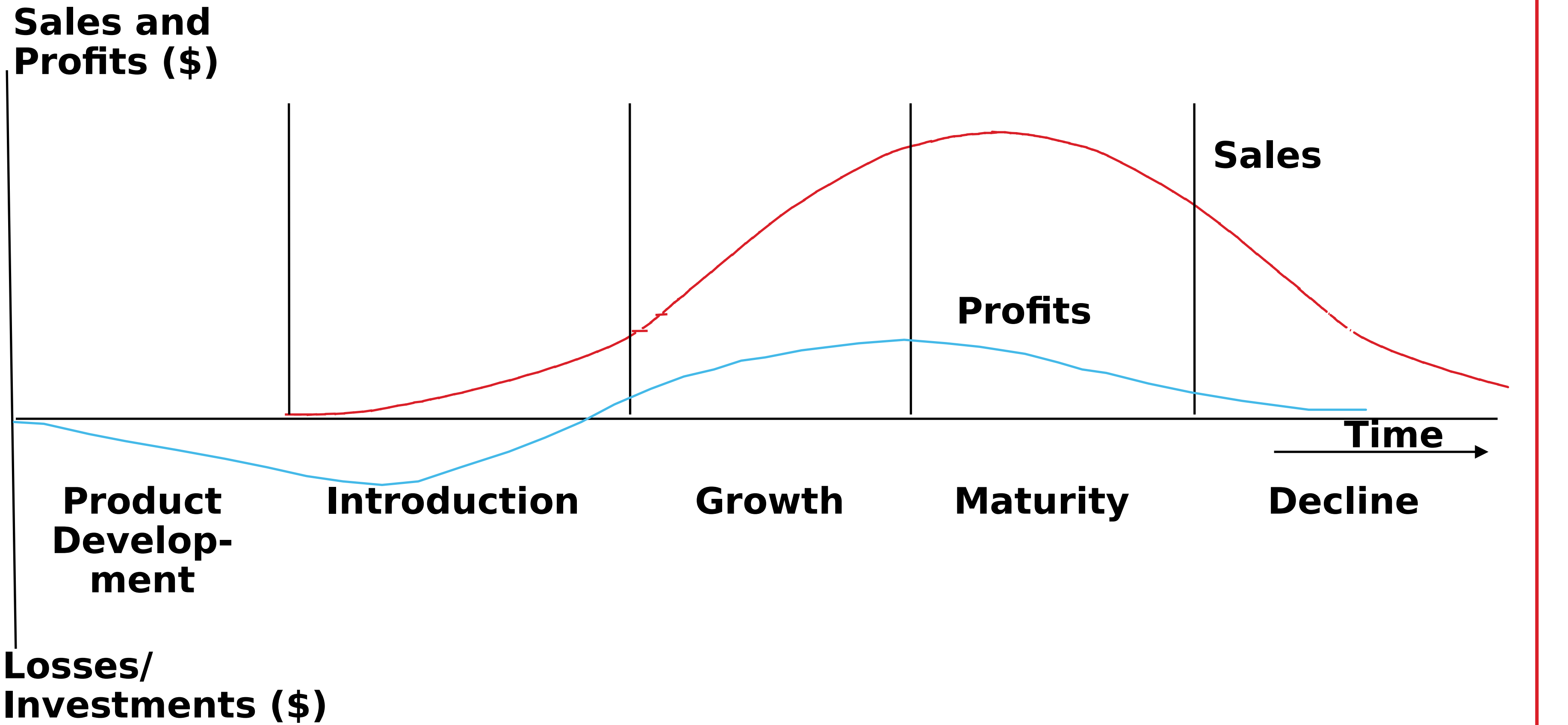
- Specialty goods are those products for which consumers have a strong brand preference and are willing to expend special time and effort in purchasing them
- **Unsought Goods** – are goods that consumers are unaware of or do not normally think of buying.

New product Development



The Concept of the Product Life Cycle

- Assumptions
  - Products have a limited life;
  - Product sales pass through distinct stages with different challenges, opportunities, and problems for the seller;
  - Profits rise and fall at different stages of the PLC;
  - Products require different marketing, financial manufacturing, purchasing, and human resource strategies in each stage;


Sales and
Profits ($)
Sales
Profits
Time
Product
Develop-
ment
Introduction
Growth
Maturity
Decline
Losses/
Investments ($)

Introduction Stage

Sales	Low sales
Costs	High cost per customer
Profits	Negative
Marketing Objectives	Create product awareness and trial
Product	Offer a basic product
Price	Use cost-plus
Distribution	Build selective distribution
Advertising	Build product awareness among early adopters and dealers

Growth Stage of the PLC

Sales	**Rapidly rising sales**
Costs	**Average cost per customer**
Profits	**Rising profits**
Marketing Objectives	**Maximize market share**
Product	**Offer product extensions, service, warranty**
Price	**Price to penetrate market**
Distribution	**Build intensive distribution**
Advertising	**Build awareness and interest, preference in the mass market**

Maturity Stage of the PLC

Sales	**Peak sales**
Costs	**Low cost per customer**
Profits	**High profits**
Marketing Objectives	**Maximize profit while defending market share**
Product	**Diversify brand and models**
Price	**Price to match or best competitors**
Distribution	**Build more intensive distribution**
Advertising	**Stress brand differences and benefits**

Decline Stage of the PLC

Sales	Declining sales
Costs	Low cost per customer
Profits	Declining profits
Marketing Objectives	Reduce expenditure and milk the brand
Product	Phase out weak items
Price	Cut price
Distribution	Go selective: phase out unprofitable outlets
Advertising	Reduce to level needed to retain hard-core loyal customers

Product Protection (Intellectual Property)

What is Intellectual Property?

- Intellectual property is a valuable asset for an entrepreneur.
- It consists of certain intellectual creations by entrepreneurs or their staffs that have commercial value and are given legal property rights.
  - Examples of such creations are a new product and its name, a new method, a new process, a new promotional scheme, and a new design.

The main forms of intellectual property rights are:

- **Copyright** covers literary works (such as novels, poems and plays), films, music, artistic works (e.g., drawings, paintings, photographs and sculptures) and architectural design.

The right holder(s) of a work can authorize or prohibit:

- its reproduction in all forms, including print form and sound recording;
- its public performance and communication to the public; its broadcasting;
- its translation into other languages; and
- Its adaptation, such as from a novel to a screenplay for a film.

A patent

- A patent is an exclusive right granted for an invention –a product or process that provides a new way of doing something, or that offers a new technical solution to a problem.
- A patent provides patent owners with protection for their inventions. Protection is granted for a limited period, generally 20 years.

- Patent protection means an invention cannot be commercially made, used, distributed or sold without the patent owner’s consent.

An idea is patentable if it meets three criteria: novelty, usefulness, and non-obviousness.

- ***Novelty:*** Nothing essentially the same as the claimed innovation exists; i.e., the invention must be new.

- ***Usefulness:*** The invention must provide significant benefits to society, although this requirement is generally more relaxed than it sounds.

- ***Nonobviousness:*** The invention must possess a new characteristic that is not known in the field and must not be obvious to a person with an average or ordinary knowledge of the field at the time the application is filed.

A Trademark

- ***A Trademark*** protects a symbol, word, or design, used individually or in combination, to indicate the source of goods and to distinguish them from goods produced by others.
- For example, Apple Computer uses a picture of an apple with a bite out of it and the symbol (®) which means registered trademark.
- **Trade secrets:** consist of knowledge that is kept secret in order to gain an advantage in business. “Customer lists, sources of supply of scarce materials, or sources of supply with faster delivery or lower prices may be trade secrets,”

CHAPTER FIVE: MARKETING IN BUSINESSES

The Marketing Perspective

- **Marketing** *is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.*

- **Market** is a group of potential customers having needs to satisfy, ability to buy and willingness to pay in order to satisfy these needs.

The Challenges and Opportunities of Marketing in today’s Economy

- **Power Shift to Customers**
- **Massive Increase in Product Selection**
- **Audience and Media Fragmentation**
- **Shifting Demand Patterns**

Marketing Mix

Product Mix

- ***Product planning and development***:
- ***Branding***:
- ***Packaging***
- ***Labeling***:

Price Mix

- Price is the amount of money consumers have to pay to obtain the product
- **Methods of Pricing**
  - ***Cost plus pricing***
  - **Mark-up pricing**
  - **Skimming Pricing**
  - **Penetration pricing**
  - **Premium Pricing**

Place Mix

- ***Direct versus Indirect Channels***

Direct Channel

  - ***Door to door selling***
  - ***Manufacturer's sales branches***
  - ***Direct mail:***

Indirect Channel

- ***Merchant middlemen***:
  - ***Wholesalers***
  - ***Retailers***
- ***Agent middlemen***:

Channel Levels/length

- ***Zero level Channels** (**M to C**):*
- ***One level channel (M to R to C)**:*
- ***Two level channels (M to W to R to C)**:*
- ***Three level channels (M to A to W to R to C):***

Channel Intensity

- Exclusive
- Selective
- intensive

Promotion Mix

- ***Advertising*** (e.g. using posters , newspapers , magazines billboards, radio): *it can be* such as informative advertising, persuasive advertising, and reminder advertising
- ***Personal selling**:* oral presentation in conversation with one / more consumers for the purpose of making sales
- ***Sales promotion**:* includes gifts, games, sampling, coupons, and window displays.
- ***Publicity**:* any information about the organization, its personnel or its products that appear in any medium on a non-paid basis.

Market segmentation

- **Market segment** is a group of individuals or organizations within a market that share one or more common characteristics.
- **Market Segmentation can be done based on:**
  - **Geographic Segmentation**,
  - **Demographic Segmentation,**
  - **Psycho graphic Segmentation, and**
  - **Behavioral Segmentation**

Marketing research

- Marketing research is the systematic and objective identification, collection, analysis, and dissemination of information for the purpose of assisting management in decision making related to the identification and solution of problems and opportunities in marketing.
- **The Steps of Marketing Research includes**
  - Define the research purpose or objectives
  - Research Design Formulation
  - Gather secondary data
  - Gather Primary Data
  - Data Preparation and Analysis
  - Report Preparations and Presentation
  - Report Preparations and Presentation

CHAPTER SIX

FINANCING A NEW VENTURE

- This chapter describes some common as well as some not so common sources of capital and the condition under which the money is obtained.
- *Source of capital*; Different sources of capital are generally used at different times in the life of the venture.
- **Over all there are two types of financing available: Internal and External**

Internal Financing

- this refers to financing sources from entrepreneur own sources.
- Internally generated fund can come from several sources.
- *Profit deployment*: - this is usually when the profits you generated from your firm is used back for new venture financing.
- *Selling assets that are currently idle*. Given that the firm expects more return than these assets

- *Renting instead of owing assets*. That is, by spending low money on especially plant assets the firm may finance its business.
- *Reducing short term assets*
- Keeping inventory at lower level. During the initial period of its operation the firm need not be luxurious in inventory
- By collecting bills more quickly.

External financing

- it refers to financing sources out side the entrepreneur source.
- External financing may be further be classified into two: **debt financing** and **equity financing.**

- **Debt financing**
- Is a financing method involving an interest bearing loan instrument i.e. expected fined payment what ever happened to your business
- It requires that some assets be available as collateral.
- No decision making right but may provide a form of advise
- No ownership position

- **Equity financing**
- Does not require collateral and offers the investor some form of owner ship position in the venture
- the investors share in the profit of the venture as well as any disposition of the assets on appropriate basis.

How do Banks make lending decision?

- *Character*: this is the sum of mental and moral qualities.
- *Capacity*: it refers to earning power. The capacity to generate profit over a period of time.
- *Capital*: refers to the borrower's financial soundness or strength.
- Collateral: It is any thing of value pledge as additional security to secure the performance or the discharge of an obligation.
- *Conditions*: banks do not look only at you but also look at your environment example country, mkt, etc.

CHAPTER SEVEN

GROWTH STRATEGIES FOR SMALL FIRMS

Need for Growth

- Survival
- Economies of Scale
- Expansion of Market
- Owners Mandate
- Technology
- Government Policy

New Venture (Growth) Expansion Strategies

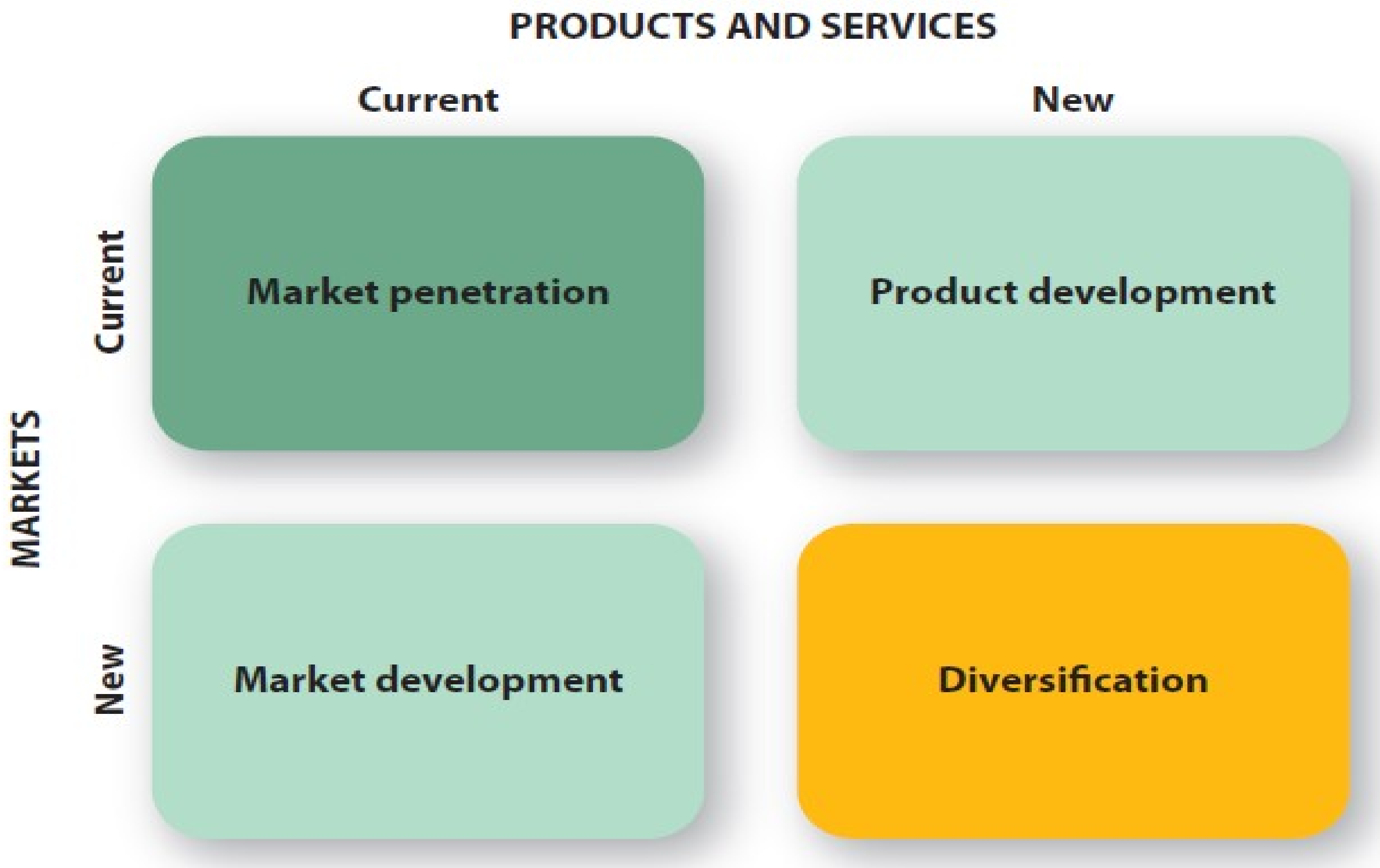
Internal growth strategies.

The main internal strategies for growth are: intensive, integrative and diversification,

Intensive Strategies

- **Intense growth** can take place when current products and current markets have the potential for increasing sales.
- Market penetration, market development, and product development are sometimes referred to as *intensive strategies*

Ansoff's growth matrix



- *market penetration* strategy seeks to increase market share for present products or services in present markets through greater marketing efforts.

- *Market development* involves introducing present products or services into new geographic areas.

- *Product development* is a strategy that seeks increased sales by improving or modifying present products or services

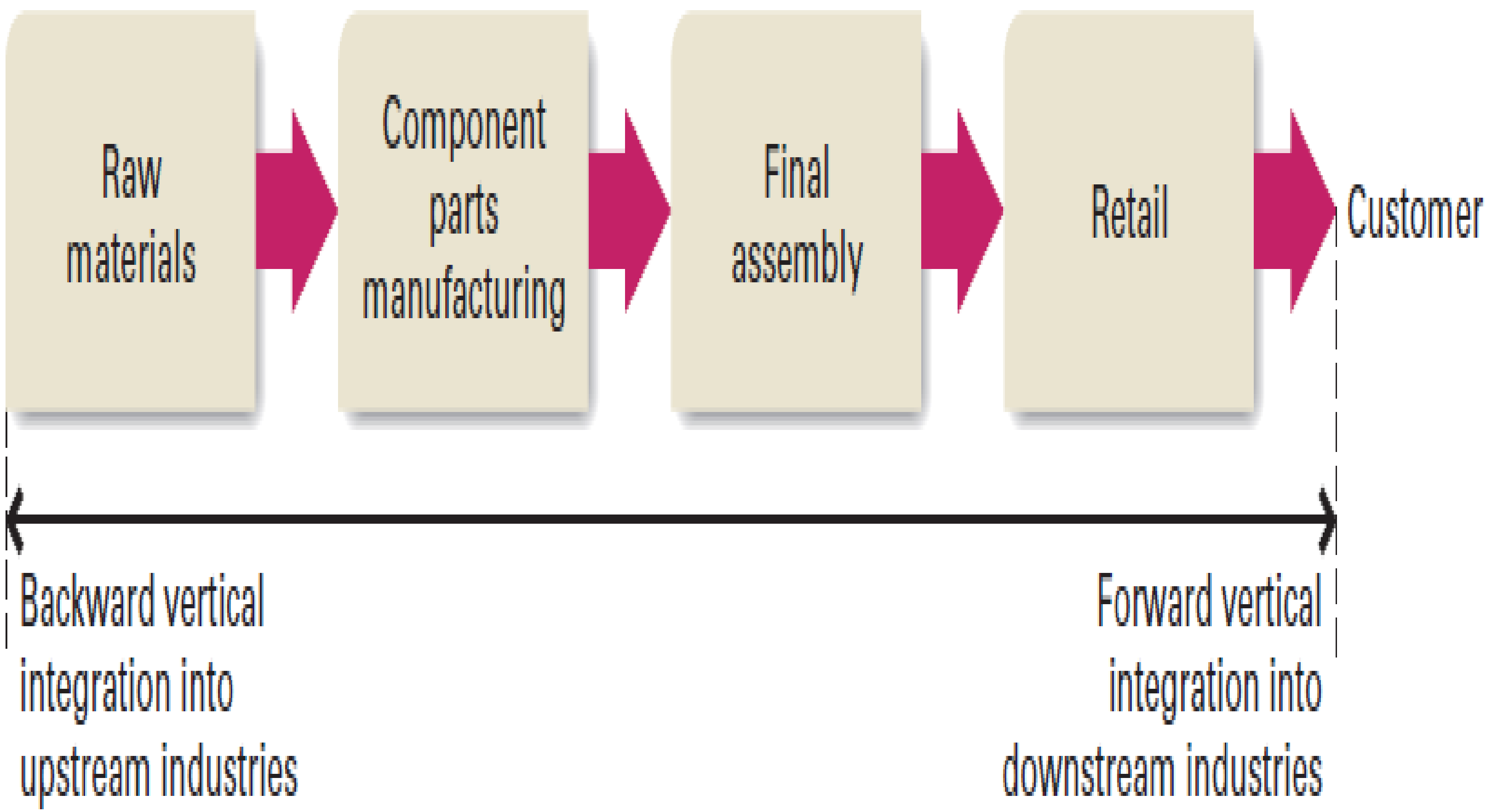
Integration Strategies

- **Forward integration** involves gaining ownership or increased control over distributors or retailers.

- **Backward integration** is a strategy of seeking ownership or increased control of a firm’s suppliers.

- **Horizontal integration** refers to a strategy of seeking ownership of or increased control over a firm’s competitors.

Figure 9.1 Stages in the Raw-Materials-to-Customer Value-Added Chain



Diversification Strategies

- **Diversified growth** occurs when new products are developed to be sold in new markets.
- A **diversification strategy,** introduces a new product or service to a market segment that currently is not served.

  - **Concentric/ Related Diversification**

When a firm enters into some businesses, which is related with its present business in terms of technology, marketing or both.

  - **Conglomerate (Unrelated) Diversification**

conglomerate diversification—diversifying into an industry unrelated to its current one.

External Growth Strategy (Joint Ventures, Mergers, or Takeovers)

Joint Venture/Partnering

Joint venture is a popular strategy that occurs when two or more companies form a temporary partnership or consortium for the purpose of capitalizing on some opportunity

Merger

- A *merger* occurs when two organizations of about equal size unite to form one enterprise.

Franchising

- Under a **franchising** agreement, the franchiser grants rights to another company to open a retail store using the franchiser's name and operating system. In exchange, the franchisee pays the franchiser a percentage of its sales as a royalty.

- **Acquisitions (Buying an Existing Business)**
- Relatively quick way to move into business is through acquisitions purchasing another company already operating in that area.