

## Technical Articles Theme 01

### **Title: History and Introduction of Entrepreneurship**

#### **Videos: 1-12**

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#### **Topics Covered**

1. Course Introduction
2. History of entrepreneurship (Part a): The beginning
3. History of entrepreneurship (Part b); as an emerging discipline
4. History of entrepreneurship (Part c); Current practices
5. What is entrepreneurship? The definition
6. Who is an entrepreneur? The definition
7. Role of entrepreneurship in economic development and growth
8. Role of entrepreneurship in economic development and growth (country cases) Part 1
9. Role of entrepreneurship in economic development and growth (region wise) Part 2
10. The decision to become an entrepreneur
11. Common myths about entrepreneurs
12. The potential benefits of being entrepreneur

## The Rise of Entrepreneurship

**Entrepreneurship** is a buzzword nowadays. Entrepreneurship is about doing business, creating profits, and adding workforce to an economy. A business graduate has the choice to establish himself as a job creator or a job seeker. Governments, educational institutions, financial institutions, and NGOs support entrepreneurship through the availability of finance and the development of incubation centers. **Entrepreneurship has emerged as a discipline** over the years. Entrepreneurship is a practical and experiential subject. Entrepreneurs are expected to be intelligent, genius, and super-smart people. Starting an enterprise and then establishing it as a successful business is not a coincidence, rather it is engineered with the right business process, stable approach, and decisions. Studying entrepreneurship enlightens fresh business graduates with the theory, evolution, dimensions, and challenges of the modern business world. Entrepreneurship is also helpful for in-action businessmen to equip them with technical handling of business matters i.e. marketing, financial and administrative management. A human being who has got some talent as an artist, musician, or has got any other business skills is a potential entrepreneur. A potential entrepreneur can learn the art of doing business i.e. entrepreneurship from mentors (academicians, industry experts, and tech entrepreneurs) who guide you to make smart management, marketing, and strategic decisions.

The act of entrepreneurship is rooted in the **enterprising nature of mankind** since pre-historic times. The enterprising nature of mankind urges him to discover non-routine actions in a dynamic way i.e. creation of new ventures and finding solutions to the existing problems and challenges, faced by society at large. Initially, humans were hunter-gatherers and used to live in form of isolated entities, known as tribes. Their only adventure was to hunt for their food and shelter and then survive against Mother Nature by confronting different weather conditions. In this pursuit, humans' enterprising nature ventured fire lightening techniques, tool-making techniques, food hunting, and storing methods. The enterprising nature of mankind further urged him to try different methods to grow food that channelized different farming methods. **Farming at a large scale brought the big economic revolution, also called as big green revolution** to mankind at that time. The big green revolution turned hunter-gatherer **tribes into agricultural societies**. Humans were required to have rules, traditions, and governance to run the emerging agricultural societies. Agricultural societies started to produce surplus food which got being traded among the multiple tribes. In that way, the concept of **merchant entrepreneur** emerged when excess got traded. Mankind further developed the **great Silk Road** in ancient times to develop trade relations between different continents of the world.

The invention of **the steam engine** brought the **industrial revolution** by fulfilling the transportation needs of traders among the farthest trade destinations and markets. The industrial revolution gave birth to the **era of manufacturing**, the establishment of big industrial units. In this way, an era of craft production led the way to an **era of mass production**. Railroads, iron factories, textile mills, mining, weapon industry, and all the scientific inventions to date are the fruits of the

industrial revolution. The improvement in human living standards and increased traveling needs gave rise to big units and a decline in small business units. The United Kingdom government published the **Bolton Report** in 1971, indicating 8 important functions of small firms, depicting their importance to the economy. In the meanwhile, **Small Business Administration (SBA)** from the United States of America enlightened the importance of small firms and stressed the importance of their re-emergence. SBA pointed out that due to new inventions, technological changes, new industries and sub-contracting, demand for more services and variety, individual customer requirements, employment opportunities, privatization and tax benefits from the government are the main reasons why small firms are important to establish an enduring economy. The industrial revolution lead mankind towards a **technological revolution**, also called as computer revolution. All these revolutions are not accidental but in fact, credited to the human enterprising nature.

1946-First computer machine → 1954-First commercial computer → 1981-Personal Computer and www/.com revolution → 1993-Search Engine revolution → today-Social Media revolution/Artificial intelligence/machine learning.

## Entrepreneurship as an Academic Discipline

An **academic discipline** is a branch of knowledge, a particular area of study, or a subject of study being taught in a college or university. Some of the most known academic disciplines are philosophy, geography, archeology, psychology, economics, history, mathematics, political science, social science, computer science, management science, and linguistics. **Entrepreneurship is an interdisciplinary discipline** in business administration, sociology, psychology, culture, marketing, finance, and geography. Economics is the mother discipline of entrepreneurship. The term entrepreneur is rooted in the French language in the 12th century. “**Entrepreneur**” means “**to take between**” (the act of risk-taking between buyer and seller and creating a venture).

- **Richard Cantillon**, an Irish French economist from the 17th century described the entrepreneur as a person who has an insight into a business opportunity and takes the risk by knowing the cost of the venture but the reward is unknown to him. “Entrepreneur is a person with foresight and confidence to operate in a condition where the cost may be known but rewards are uncertain”
- **Jean Baptiste Say**, a French businessman from the 18th century broadly categorized an entrepreneur as a buyer and seller and also as an innovative person. “The entrepreneur shifts economic resources out of an area of lower and into an area of higher productivity and greater yield”

- **Joseph Schumpeter**, an Austrian political economist from the 20th century described entrepreneurship as a discipline. Schumpeter labeled entrepreneurship as a process of creative destruction and directly linked it with innovation. According to him, an entrepreneur with an innovation and enterprise mindset extracts the resources from the conventional mode, innovatively bundles these resources to create value, take/manage risk and contribute to economic development. “The entrepreneur is a person who is willing and able to convert a new idea or invention into a successful innovation”
- **William Jack Baumal**, an American economist from the 20th century categorized an entrepreneur as a business organizer and also as an innovative person.
- **David C. McClelland**, a behaviorist from the 20th century described entrepreneurs based on characteristics, attitudes, and skills.
- **Peter Drucker**, a management scientist from the 20th century wrote the book “Innovation and entrepreneurship: practice and principles”. Drucker also **linked entrepreneurship with innovation**. He further described that an entrepreneur comes with product innovation, production method innovation, new market development, supply chain development, and a new and better structure of an organization.

It is to particularly remember that word “**entrepreneurship**” is **not synonymous with small businesses or SMEs** but large firms can behave in an entrepreneurial way by foreseeing business opportunities, taking risks, and doing innovation in products or processes within an existing business setup. The **evolution of entrepreneurship as a discipline** and its current status as an innovative business practice has forced the establishment of business incubation centers.

### **Business Incubation Centers (BICs)**

A **business incubation center** is a place that helps startup companies to develop, grow and mature as an established business by providing finance, office space, and mentoring services. A business incubation center is considered a Launchpad for startups. The **Higher Education Commission (HEC)** of Pakistan supports the incubation center development programs in the degree awarding institutes in Pakistan. **Virtual University of Pakistan (VUP)** has successfully established an incubation center: **Student Startup Business Centre (SSBC)** with the collaboration of the **Punjab Education Foundation (PEF)** and HEC Pakistan. You can find the details about SSBC at <https://ssbc.vu.edu.pk/Default.aspx>. There are many other national and international platforms that are providing incubation services to young entrepreneurs. **The Indus Entrepreneur (TIE)** is an international platform for entrepreneurs to get benefited from its eminent incubation services <https://tie.org/>. **Global Entrepreneurship Monitor (GEM)** is an information source that publishes data and reports about entrepreneurship echo-system and entrepreneurs. GEM reports discuss the importance of entrepreneurship in national and international contexts <https://www.gemconsortium.org/>

## Entrepreneurship and Entrepreneur (Definitions)

The term **entrepreneurship** is defined by different experts as following.

- “Entrepreneurship is the capacity and willingness to develop, organize and manage a business venture along with any of its risks to make a profit. The entrepreneurial spirit is characterized by innovation and risk-taking and is an essential part of a nation’s ability to succeed in an ever-changing and increasingly competitive global marketplace” (**Businessdictionary.com**)
- “Entrepreneurship is defined as a process by which individuals pursue opportunities without regard to resources, they currently controlled. Entrepreneurship is an art of turning an idea into a business” (**Barringer and Ireland**)
- “Entrepreneurship is a dynamic process of creating incremental wealth. The wealth is created by individuals who assume the major risk in terms of equity, time and commitment to providing value for some product or service” (**Hisrich, peters, and shepherd**)

The term **entrepreneur** is defined by different expert sources as follows.

- “Entrepreneurs is an individual who takes initiative to bundle resources in innovative ways and is willing to take the risk to act” (**Hisrich, peters, and shepherd**)
- “Entrepreneur is the one who creates a new business in the face of uncertainty and risk to achieve profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them” (**Zimmerer and Scarborough**)
- “Entrepreneur is someone who exercises initiative by organizing a venture to take benefit of an opportunity and, as the decision-maker, decides what, how and how much of a good or service will be produced” (**Businessdictionary.com**)

The most common traits of entrepreneurs are that they have enterprising nature, motivated and committed, create new ventures, redefine value propositions, and created jobs by opportunity hunting and establishing business units. Some of the leading **Pakistani entrepreneurs** are Aftab Iqbal (Tapal Tea), Adamjee Dawood (Adamjee Group), Mian Muhammad Din (Super Asia), Dr. Amjad Saqib (Akhawat), Roshan Zafar (Kashf Foundation), Salim Ghauri (NetSol), and Monis Rehman (Rozee. pk). Most famous **international entrepreneurs** are Henry Ford (Ford Motors), Walt Disney (Disney) Steve Jobs (Apple Inc.), Richard Branson (Virgin Group), Mark Zuckerberg (Facebook), and Jack Ma (Alibaba.com).

## Entrepreneurship and Economy

The economy is defined by various literature sources as follows.

“The state of a company or region in terms of the production and consumption of goods and services and supply of money”

(<https://www.oxfordlearnersdictionaries.com/definition/english/economy>)

Three broad **categories of the economy** are factor-driven economy, efficiency-driven, and innovation-driven economies. Pakistan is an example of a factor-driven economy. A **factor-driven economy** has a subsistence agriculture background with an extraction business with heavy reliance on unskilled labor and natural resources. India is an example of an efficiency-driven economy. **The economy in an efficiency-driven phase** becomes more competitive with more efficient production processes and increase product quality. America and Japan are examples of innovation-driven economies. **The economy is in the innovation-driven phase**, businesses are more knowledge-intensive, and the services sector expands. (<https://www.weforum.org/>)

**M. Porter** in his book “The competitive advantage of nations” declared that “Entrepreneurship is at the heart of national advantage”. Entrepreneurship has a **huge economic impact** because it acts as an innovation hub, creates jobs, adds to national income, and creates social change through social innovation. Entrepreneurship also **partners the economic development** by addressing environmental challenges, social value creation, the commencement of regional economic integrations i.e. SAARC, CPEC, and social value creation i.e. donations for education and research and development. Collectively entrepreneurs are the partners in the economic development of regions and countries.

## Entrepreneurial Ecosystem

**Information is a great resource** for entrepreneurs for basic and strategic planning. Databases are important for entrepreneurship as these databases carry statistics, trend analysis, cases, and reports from national and international instances of entrepreneurship. **The Global Entrepreneurship and Development Institute (GEDI)** is a research organization that advances knowledge on the relationship between entrepreneurship, economic development, and prosperity. **Global Entrepreneurship Index (GEI)** is a flagship project by GEDI. GEI measures ecosystems at a national and regional level. Annual reports (International, regional and national cases) by GEI can be reached at <https://thegedi.org/global-entrepreneurship-and-development-index/>

GEI defines **14 Pillars of an entrepreneurial ecosystem**, explained in the following table.

| Sub-indexes             | Pillars                   | Variables (individual / institutional)                                                                 |
|-------------------------|---------------------------|--------------------------------------------------------------------------------------------------------|
| ATTITUDES<br>SUB-INDEX  | OPPORTUNITY<br>PERCEPTION | <i>OPPORTUNITY RECOGNITION</i>                                                                         |
|                         |                           | FREEDOM (ECONOMIC FREEDOM *PROPERTY RIGHTS)                                                            |
|                         |                           | <i>SKILL PERCEPTION</i>                                                                                |
|                         | STARTUP SKILLS            | EDUCATION (TERTIARY EDUCATION*QUALITY OF EDUCATION)                                                    |
|                         |                           | <i>RISK PERCEPTION</i>                                                                                 |
|                         | RISK ACCEPTANCE           | COUNTRY RISK                                                                                           |
|                         |                           | <i>KNOW ENTREPRENEURS</i>                                                                              |
|                         | NETWORKING                | AGGLOMERATION (URBANIZATION*INFRASTRUCTURE )                                                           |
|                         |                           | <i>CAREER STATUS</i>                                                                                   |
|                         |                           | CORRUPTION                                                                                             |
| ASPIRATION<br>SUB-INDEX | PRODUCT INNOVATION        | <i>NEW PRODUCT</i>                                                                                     |
|                         |                           | TECH TRANSFER                                                                                          |
|                         | PROCESS INNOVATION        | <i>NEW TECHNOLOGY</i>                                                                                  |
|                         |                           | SCIENCE (GERD*(AVERAGEQUALITY OF SCIENTIFICAL INSTITUTIONS +AVAILABILITY OF SCIENTISTS AND ENGINEERS)) |
|                         | HIGH GROWTH               | <i>GAZELLE</i>                                                                                         |
|                         |                           | FINANCE AND STRATEGY (VENTURE CAPITAL*BUSINESS SOPHISTICATION)                                         |
|                         | INTERNATIONALIZATION      | <i>EXPORT</i>                                                                                          |
|                         |                           | ECONOMIC COMPLEXITY                                                                                    |
| ABILITIES<br>SUB-INDEX  | RISK CAPITAL              | <i>INFORMAL INVESTMENT</i>                                                                             |
|                         |                           | DEPTH OF CAPITAL MARKET                                                                                |
|                         | OPPORTUNITY STARTUP       | <i>OPPORTUNITY MOTIVATION</i>                                                                          |
|                         |                           | GOVERNANCE (TAXATION*GOOD GOVERNANCE)                                                                  |
|                         | TECHNOLOGY ABSORPTION     | <i>TECHNOLOGY LEVEL</i>                                                                                |
|                         |                           | TECHNOLOGY ABSORPTION                                                                                  |
|                         | HUMAN CAPITAL             | <i>EDUCATIONAL LEVEL</i>                                                                               |
|                         |                           | LABOR MARKET (STAFF TRAINING*LABOUR FREEDOM)                                                           |
|                         | COMPETITION               | <i>COMPETITORS</i>                                                                                     |
|                         |                           | COMPETITIVENESS (MARKET DOMINANCE*REGULATION)                                                          |

## Entrepreneurs: Antecedents and Myths

While studying entrepreneurship and entrepreneurs, it is very crucial to know that **why individuals become entrepreneur?** The common reasons to become an entrepreneur are explained here.

1. **Creativity doesn't fit the corporate environment.** Most creative-minded people choose the route to establish their entrepreneurial venture due to knowledge spillover. The employer does not recognize, accept and value one's abilities and creative skills.
2. **They want a lifestyle that isn't bound to nine to five.** Entrepreneurs are reluctant to adopt fixed office timing and follow the same working routine.
3. **Be their own boss.** Entrepreneurs do not like to be directed or controlled by further individuals when it comes to decision making, planning, and execution within a business setting.
4. **Entrepreneurs are active learners.** Entrepreneurs are eager to learn more and more and to learn quickly within a tight frame of time. They do so by surfing the rising tides of a startup venture.
5. **Entrepreneurs want to pursue their own ideas.** The enterprise mindset of entrepreneurs surges exceptional and enormous ideas frequently. Entrepreneurs tend to get hold of these dynamic ideas on their own.
6. **Entrepreneurial ideas are unconventional and very innovative.** Innovation, novelty, and uniqueness are the basic qualities of entrepreneurial ideas. A startup venture can absorb these attributes.
7. **Entrepreneurs assume that there are unlimited earning possibilities.** The entrepreneurial venture has got inbuilt ability to offer unknown rewards against the risk being taken at the right time.
8. **We can change the world.** Entrepreneurs are the change agents due to their social innovation instinct.
9. **Entrepreneurs are never retired from their work.** Entrepreneurs have posted their interests and insights into business ideas that never get old. Development, prosperity, and continuous improvement keep entrepreneurs afresh throughout their lives.

10. **Entrepreneurs, necessarily do not require degrees.** Starting your venture does not need any formidable requirements such as a college degree or a diploma. Although an entrepreneur may need to acquire formal training to improve business and relevant skills as and where it is needed.
11. **Entrepreneurship brings autonomy, freedom, and responsibility.** Entrepreneurs are driven through the internal motivation of autonomy and freedom which meets the entrepreneurial venture in its way to accomplish such psychology of a human.
12. **Entrepreneurship brings a sense of achievement.** Entrepreneurs accomplish and achieve through progressive advancements attached to a business venture.

**Common myths** about entrepreneurship are.

1. **Entrepreneurs are born and they cannot be made.** This discussion is most common among the folks. This is a debate of nature vs nurture. Entrepreneurship is a combination of both nature and nurture. Individuals are from different genetic backgrounds and possess distinct individual characteristics. Furthermore, the external environment influences the individuals' behavior, career choice, and entrepreneurial activity.
2. **Entrepreneurs are very high-risk takers.** Entrepreneurs are risk managers as they take manageable moderate risk after cost and benefit analysis of a particular decision or investment in a due phase of time.
3. **Entrepreneurs are primarily motivated by money.** Financial reward has never been a primary source of motivation for entrepreneurs rather the entrepreneurs are motivated by the factors of self-actualization and personal achievements.
4. **Entrepreneurs are overwhelmed by their own ideas and do not listen to the advices.** Entrepreneurs are active learners and they show deep interest in the expert noise from the industry and market.
5. **Entrepreneurs are high tech wizards.** This is not true to have high-end technical skills and an IT background. Entrepreneurs with mere basic business knowledge can effectively manage an enterprise. Tech resources are the need of the hour and can be included in your team when needed.
6. **Entrepreneurs love the spotlight.** Entrepreneurs' storytelling and status sharing attribute is a source of knowledge and inspiration for the listener itself. Entrepreneurs have some

other measures i.e. business success and challenges met up, to quench their self-actualization needs.

7. **Entrepreneurs must be inventors because they are innovators.** This is not true in all cases as this is not necessary and most of the time not possible for you to be an innovator and inventor at the same time. An entrepreneur may introduce an innovative idea i.e. Wright brothers gave the idea to fly which was later commercialized for the production of the passenger airplane (invention of the Airplane).
8. **You don't need to earn degree if you want to be an entrepreneur.** This myth is challenged in a way that a degree or a diploma is not the pre-requisite to establish a new venture, although formal training or degree may fulfill the upgraded needs of doing business.
9. **If you don't have money, you can't be an entrepreneur.** Entrepreneurship is a pursuit of opportunity beyond the resources you currently control or the finance you have in hand. You can better attract investment by bagging a unique business proposition.
10. **Entrepreneurs are usually young, super genius and super energetic: kind of a hero.** Age does not matter here. Colonel Harland Sanders, founder of KFC started his venture at the age of 65 and now it is the 2nd largest food chain in the world.

### **Potential Benefits of Being an Entrepreneur**

- 1- **You are in charge of your own destiny.** An entrepreneur chooses his own path to create a venture. He employs his own team and makes his very own decisions. At the end of the day whatever he gets: profit or loss, he is responsible for his own acts and rewards what he has input in form of efforts and investment.
- 2- **You can be an innovator.** It is the case of knowledge spillover (as discussed earlier) when you find lesser room to let your innovation breath and finally your innovative and creative capability urges to take your own root to develop a unique value proposition.
- 3- **Entrepreneurship has no age limit.** An entrepreneur during all its business life span never gets retired. As a beginner he performs the basics of business and learn incrementally. At some point of business maturity of time he is likely to be a motivator and mentor for the young entrepreneurs. His utility in the business world always gets alive.

- 4- **Full responsibility as a source of motivation.** An entrepreneur being a business owner, is responsible for many entities involved within a business i.e. investments, human resources and business opportunities. This equation of up scaled responsibilities keeps an entrepreneur motivated and affirm his role as a job creator in the society.
- 5- **You become contributor to the society.** An entrepreneur impacts the society in general and economy at large. He creates jobs and streamlines the financials of many individuals attached to a business unit. An entrepreneur causes positive change in the society through social innovation and business solution i.e. Akhuwat by Dr. Amjad Saqib.
- 6- **Power to pivot.** At any point of time you can take autonomous decisions regarding your business. The enterprise you are running is pivoted to you for all the decisions to be made i.e. change in business model, change in investment portfolio, and diversification etc.
- 7- **Experience the personal growth joy.** Most of the entrepreneurs come from humble background and then turn up an exemplary business success. Your story, sometimes, is so enriched with instances of grit, struggle and resilience that it becomes a source of inspiration for young entrepreneurs.
- 8- **You become an expert, a solution provider.** Living an entrepreneurial life lets you develop rigorous insights of the industry processes and business tactics. Later you become a consulting source for many startups.
- 9- **Resilience, recovery and learning process.** Being an entrepreneur you live a life full of remarkable experiences of resilience. In the meanwhile, you learn to recover from pitfalls in business and finally it becomes a learning journey.
- 10- **Financial and personal reward, become a role model.** Entrepreneurship gives you huge personal reward in form of money and accomplishments.
- 11- **Schedule flexibility and freedom.** Being a business entrepreneur, it lets you escape from routine job timings: nine to five. Entrepreneurship lets you freely schedule your daily routine tasks but it also takes effort to burn midnight oils.
- 12- **Work with the people you like.** It is your choice to employ resources and collaborate with the people, you declare feasible and beneficial for your business and your own personality.
- 13- **The chance to share your learning.** Being the part of an enterprise you learn from your team members and let others learn in the same proportion.

14- **The legacy to next generation.** Business ideas, business models and social innovations are transferred to the next generations of entrepreneur i.e. family businesses etc.

-----The End-----

Entrepreneurship MGT602

## Technical Articles Theme 02

### **Title: Routes to Entrepreneurship: Buying an Existing Business**

**Videos: 13-23**

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#### **Topics Covered**

13. The potential drawbacks of being entrepreneur
14. What is feeding your entrepreneurial fire (source of motivation)
15. How to become an entrepreneur?
16. Establishing new venture
17. Buying an existing business
18. Buying an existing business-Why on sale
19. Buying existing business-Financial Statements
20. Buying existing business-Evaluation
21. Buying existing business-Evaluation Methods
22. Factors to Consider in Valuing a Business
23. Buying Existing Business Negotiating and Closing the Deal

## Potential Drawbacks of Being an Entrepreneur

Though, there are countless benefits of being an entrepreneur but the drawbacks should not be ignored. There is no fixed income. Sometimes it is high due to higher sales/services and sometimes low. There is always risk of failure and in case of loss entire investment can go in vain. Unlike normal job hours entrepreneurs might have longer working hours depending on the nature of business. For the businesses with less startup finances quality of life suffers somehow until the business gets established. Stress level is ultimately high. Because everything is own responsibility so can't blame anyone. Family pressure, market trends and other factors may lead to discouragement. Entrepreneurs are not just limited to enjoying benefits but they might have to do several tasks at a time including financial analysis, physical efforts and many other. Due to uncertain income, sometimes there is risk for family expenses and social life. Debt becomes difficult and a burden until the business gets established. Meeting the deadlines is difficult. Even after properly set plans and procedures it is not sure to be successful in business as consumers and market has its own trends.

## Source of Motivation to Become an Entrepreneur

**Economy and economic indicators** can lead to several new entrepreneurial ideas. These indicators can be: purchasing power, inflation or deflation, loan rates, price competition, industry growth rate, tax rebates and global ties. This can be understood with a simple example i.e. Due to ongoing projects of CPEC in Gwadar, people all over the country and in fact globally are pre planning to invest in Gwadar. **Demographic factors** also play an important role. Minorities have their own needs and festivals. A number of population falls under 25 years of age. They have their own needs and wants. They need to earn as well so it's better to be job creator instead of job seekers. In urban areas, there are a lot of working couples and have specific requirements in their daily life routines. Women entrepreneurs are increasing day by day due to increase in social media and several other factors. Unplanned urbanization might create a lot of problems as well as opportunities for potential entrepreneurs. There are many part time entrepreneurs who have started some business along with their jobs.

Universities are offering **degrees** in entrepreneurship which is ultimately a motivator for youngsters to start their own ventures. Universities have developed **incubation centers**. Even if you are not graduates, but have business ideas, universities support and facilitate that. Most online business these days offer services. There is overall **shift to service economy** which leads to several new ideas. **Technological advancements** lead to several new ideas. For example, in Japan there is a large number of old age people and youngsters are not available to take care of them so they have developed robotic nurses. Feeling of **achievement** that you have done something for betterment of people is itself a drive towards new ideas. **E-commerce and World Wide Web**

becomes a source somehow. This is age of internet and social media. Many businesses these days run only on social media.

## How to become an entrepreneur?

Most of the people think that there is only one way to become entrepreneur i.e. creating your own business from scratch. Some also think that if you are having unique business idea only then you can be an entrepreneur. Another misconception is that if you have joined a family business only then you are called an entrepreneur. Only sole proprietorship is called entrepreneurship is also a myth. It is not appropriate to say that if you are an engineer, doctor, or chemist then you cannot be an entrepreneur, or you have to start business in your relevant field only. If you are from any profession you can start your business.

Sometimes when graduates during their studies think of starting their own ventures, they dropout and try their luck in business. This is called **academic spinout**. When students get to have some business idea through some teacher or some videos they watch and they then go for starting their own business it is called **inside out approach**. When somebody who is working somewhere or doing a job thought of some business idea, they then went to an incubation center of any university which supports and facilitates them for their venture is called **outside-in approach**.

There are multiple ways to become an entrepreneur which are:

- Establishing new venture
- Buying an existing business
- Family entrepreneurship
- Franchising

## Establishing New Venture

Creating a new venture means: start-up. It means starting the business from scratch. It requires more time, risk and finance. The fate of start-up is uncertain. Usually the size is small and frustration increases when there is risk of failure.

**Incubation centers** are made to facilitate new ventures especially if they face challenges and problems. Through incubation centers and other facilitation centers people gather from different areas of industry thus it helps in **network development**. Legal and administrative issues might arise and through network you know where to approach. Initially it is assumed to have **market knowledge** but because they have not gone into market, they don't have much knowledge about actual market dynamics. Sometimes it is difficult to have **skilled labor** which is suitable for your venture. Initially startups have **limited finance**. It is mostly because of risk involved, people tend to invest less. Product/ service **design issues** may also arise.

## Stages of New Venture Creation

**Information seeking** is one of the most critical parts. One must seek information if currently unaware. Cultural and market awareness is a must. There must be strong intention to start a business and must have strong determination. Idea for a product or a service must be clear. Must have knowledge about competition and price. Supplier info and every other possible information required for startup must be gained. Must have knowledge about the expected challenges. After start up, steps must be taken for growth and expansion. After business is established **networks** are developed which help in growth. You might have to go for certain **trainings** to grow. Several certified trainings are available for this purpose.

## Key Points to Consider

Entrepreneurs must consider all the **economic factors** before starting new venture. What was the basic drive or intention to be entrepreneur must be kept in mind. There can be some worrisome issues for new venture. Potential entrepreneurs must foresee these issues. One must have a proper business plan for smooth running of business.

**Some questions** like: Which resources are most difficult to obtain? And what are the ways to obtain. What hurdles or issues can be faced in this regard? Must be considered before starting the business. As discussed earlier seeking market information is very much important to start and run the business smoothly. In addition to market information investor related information is also important. Factors regarding product development or product development plan must be clear. Competitors' information along with level of competition must be gathered beforehand.

**Entrepreneurship myopia** is a concept which states that, sometimes new entrepreneurs read stories of successful entrepreneurs and overlook the struggle of them which frustrates these new or potential entrepreneurs if they don't reach the similar point of success.

## Buying an existing business

We have discussed in detail about starting a new venture. Now, for buying an existing business some important things must be kept in mind. Must have knowledge about the business one intends to buy. Relevant industry experience would also be a plus. One must research about all the possibilities regarding potential of expansion or at least maintenance at current level. Knowledge about current customers of the business and related market trends must also be kept in mind before buying an existing business. There might be certain practices regarding payment methods. Whether cash payment required or credit terms must be initially analyzed and worked out. Liabilities and receivables must also be kept in mind. If you are to enter new business, is it related to your existing business? Would it be profitable to diversify? Business model sustainability issues must also be considered. Is the brand image good so that you can buy? Must consider goodwill.

## **Advantages of buying an existing business**

Successful existing business may continue to be successful. It might already have best location which can benefit the buyer. Employees and suppliers are already established and working smoothly. Fixed expenses e.g. equipment's are already installed especially when buying a manufacturing unit. Productive quality is already known because already production is going on. Inventory is already in place and might have knowledge about inventory in hand and required things. Experience of previous owner might be useful because this is an opportunity for network development as well. Save the time, energy and cost of establishing new venture. Customers and market are already developed which can save from a lot of hassle.

## **Disadvantages of buying an existing business**

In documents the business might be showing profits and receivables but in actual it's not that profitable. The business model might be faulty. It might not have proper supply chain or delivery system. The location could be unsatisfactory. Location at some faraway place might be a source of increase in expenses. Competitors might have purchased updated equipment. Outdated inventory might also be increase in cost. After a certain time, it might be observed that there are many liabilities which can be a source of bankruptcy. Financial assessment might conclude that you have bought an overpriced business. These include assessments can be done using several techniques including balance sheet, adjusted balance sheet, receivables and payables, capitalized earnings approach. There have been many examples in which due to negative brand image reputation of buyer collapsed. Sometimes crucial information or documentation might be missing. In some cases, business secrets are already known to previous owner. Existing employees may leave which usually happens. In case of partnership, the partners may create problems.

## **Finding Out Why the Business Is For Sale**

Business might be running well but due to *old age or illness* he wants to sell. Owner might be shifting to different section of the country or probably *moving to some other country* and due to nature of the business he can't move the business. Sometimes it might happen that you are running your own business but you get another different but good option from other company. The business might be *no more profitable*. Contract with major *franchisors* might have ended and business is not profitable with local brand name so he wants to sell. Owner might have foreseen that the business is not going to grow in future and might *face loss* so he can sell.

## **Examining the Financial Data**

When somebody buys an existing business, it is somehow evaluated on the basis of financial statements they show you. So, the following guidelines must be kept in mind.

1. Review financial statements and tax returns for the past five years. These statements show the performance of the business over the years.

2. Recognize that financial data can be misleading. These can be misleading in the following heads.
  - I. Assets overvalued
  - II. Expenses overstated/understated
  - III. Income underreported
  - IV. Unrecorded debts
3. Adjust asset valuations to reflect the true state of the business

### **Investigating and Evaluating Available Businesses**

When one has decided to buy existing business he/she must evaluate the same and keep following things in mind:

While evaluating about an existing business, hasty decisions should not be made. Professional services might be required. These can be **Accountants** especially chartered accountants because they are experts in business valuation so it is better to attain their services. They can accurately validate the information. There might be several legal agreements with entities so it would be better to attain services of **attorneys**. These may be domain experts relevant to the specific type/ field of business.

### **Evaluation Methods**

**Asset-Based Valuation Approach.** Assets' value/price is determined. This approach is mostly buyer friendly but sellers usually do not agree with this approach because sometimes it is not suitable for assets of a running business.

**Market-Based Valuation Approach.** Looks at similar businesses sold recently and price is determined accordingly. Main issue is that in our country, there is hardly any platform where we can find such data. So implementation of this method is a bit difficult.

**Earnings-Based Valuation Approach.** Future earnings capacity is analyzed and price is determined accordingly. More the future earning capacity, higher the prices.

**Cash Flow-Based Valuation Approach.** On the basis of past cash flows, future cash flows are projected and price is determined. As it is a complex procedure, professional help of accountants might be required in this.

### **Determinants of a Firm's Capitalization Rate**

Capitalization rate here is considered as rate at which business reinvest its earnings. Value of a business is usually determined at its capitalization rate. A Business that has to reinvest most of its earnings is considered a risky business and is less valuable as compared to a business that has to reinvest just a percentage of earning. Capitalization rate is determined on the basis of risk and projected growth. If there is high risk means capitalization rate is high so the value of the firm will

be low. If the risk is low with low capitalization rate, firm's value will be higher. If projected growth will be high, it means firm has low capitalization rate and its value will be high. With low projected growth, there would be high capitalization rate and firm value will be low.

### **Factors to Consider in Valuing a Business**

There are some **Non quantitative** Factors to Consider in Valuing a Business. If the business has more *competition* means more pressure and you can have to compromise on price and other factors in future. If there is *more customer* base and potential of the business, it can be profitable to buy that. If community can have *positive changes* with the business, it would be a better decision to buy that. *Odd legal commitments* e.g. improper rental agreements and supply chain agreements might create trouble. If there is employee or *trade unions*, agreements with those must also be checked. Situation of the *building* must also be checked. Poor condition of which might require major investments. Product *prices* can you set must also be kept in mind.

### **Negotiating and Closing the Deal**

After evaluation and valuation of the business, we are towards the last step i.e. negotiating and closing the deal.

### **Terms of Purchase**

While deciding about buying an already established business following things must be kept in mind.

- **Assets purchase or total entity.** It must be considered whether you are buying whole business or its assets. If you are buying assets only, you might not be owner of the name of the business
- **Indemnification clause.** This clause suggests that after a particular time if it is found out that due to some error at seller's end buyer faces any loss, seller has to bear that loss. This clause in the agreement is a guarantee for the buyer. Any misleading or hidden fact revealed after a time would be a penalty on the seller.
- **Payment in full or partial payments over time.** Experts recommend when you buy any business must not pay in full. 30 to 40% must be paid in advance and rest must be in 3 to 4 installments. Payment span must also be more than a year.

### **Closing the sale**

Any lawyer or agency or firm can act as that third party to close the sale process and they must check all the documents including, Bill of sale, tax certifications and Payment-to-seller agreements and guarantees.

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## Technical Articles Theme 03

### **Title: Routes to Entrepreneurship: Joining a Family Business**

#### **Videos: 24-34**

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#### **Topics Covered**

- 24. Family business challenges and characteristics (Part 1)
- 25. Family business challenges and characteristics (Part 2)
- 26. Family business Advantages
- 27. The Family Business: Value and commitment
- 28. The Family Business: Professional Management
- 29. The Family Business: Roles and Relationships
- 30. The Family Business: Family Conflict Resolution
- 31. The Family Business family & non-family members
- 32. The Family Business: Successful Succession (Part 1)
- 33. The Family Business: Successful Succession (Part 2)
- 34. Family Business Teams

## Family Business

There is no hard and fast definition of what family business is. The ownership control is by members of a family. Not only one member of family or family with blood relations might be owners of the business but other relatives might also be involved. Family practices and value influence family business. If the business is successful it would transfer into generations. A company that two or more members of the same family own or operate together or in succession can be considered as Family business. *In others words we can say that a business owned controlled and joined by more than two family members is called Family Business.* There is interaction between an individual, family and business so this business becomes a unique entity. For example, if a graduate wants to join his family business where his father and brother are already working he is an individual plus part of the family and business as well. All these roles overlap in a family business.

### Family Business Challenges and Characteristics

If family members have conflict with each other, it impacts the whole business. In addition to that if there is no male member in the family, it becomes really difficult for female family members to take over the business. Family businesses sometimes have to face **role conflicts**. If parents and children are there it becomes difficult to differ in their parent and professional roles. Parents and children might have different management styles. It is difficult to have **financial accountability** of family business as members don't want to justify their financial spending. Family issues and conflicts are reflected in business. Several major issues arise when there are **succession delays**. Sometimes senior family members have fear of death. They are reluctant to transfer business to next generation. Sometimes senior family members are hesitant to share responsibilities and power. Sometimes members feel **threat to personal identity** so they are reluctant to transfer authority. Parents do not want to be bias. So they are reluctant to transfer authority to single person which creates delays in succession. If one of the children is more engaged in business activities, others feel neglected which can be a basis for succession delays. Fear of retirement along with jealousy and rivalry also creates **unwanted delays in transfer of ownership**. Boundaries among family, ownership, management systems may become blurred. Because successful or running business is transferred to next generation, they are many times unable to keep it going successfully.

Family business has its **shared vision, values** and **goals**. They are not performing business haphazardly but have a proper plan. There are **well written procedures** and **expectations** regarding family participation in the business. It is clearly mentioned that how much participation of each family member would be there. It is clearly mentioned that after retirement/death who will take care of business. It is documented beforehand to avoid conflicts. They not only rely on **family wisdom** but have outside advisors and board members as well for advice. Family unions also

impact the business positively. Family business is supposed to have professional management and proper governance structures. Responsibilities of family members are usually pre-planned.

### **Some Research Facts about Family Businesses**

After doing research we get to know that out of all businesses all over the globe 80% have family business structure. This ratio is common for both developed and developing countries. This family business can be with parents or any blood relations. If we research about any of the successful brand, we get to know that they have family business stories. It is generally said that not more than 30% family businesses transfer to next generations. 10 to 15% usually transfer to 3<sup>rd</sup> generation. Only 2 to 4% are those who transfer to 4<sup>th</sup> generation. If we locally look around in our country and cities we get to know that many sweets, jeweler, and other popular businesses are family owned.

| <b><u>Family Concerns</u></b>                 | <b><u>Business Concerns</u></b>                      |
|-----------------------------------------------|------------------------------------------------------|
| <b>Care and nurturing of family members</b>   | Production and distribution of goods and/or services |
| <b>Employment and advancement in the firm</b> | Need for professional management                     |
| <b>Loyalty to the family</b>                  | Effective and efficient operation of the firm        |

### **Family business Advantages**

While choosing between starting a family business and starting a business from scratch there are certain advantages that shift the attention towards selecting and joining a family business rather than starting a venture from scratch. Let's have a look these one by one.

- Just like life, the journey of business is also not smooth. Business organizations also have ups and downs in it just like any person's life. It has happy and successful times and it has challenging times as well. During challenging times, the benefit that family business offers is strength of the relationship that holds family member together during tough times. It keeps them integrated with each other and the business. While in other non-family businesses the partner who are not family members leave or dissolve the business and getaway with their share.
- During tough times family members may sacrifice their financial benefits for sometimes to bring the firm into normal working conditions.
- Usually family businesses are distinguished from other businesses by the very status of being a family business. It gives strength that this business is owned by a family.

- Researches show that family businesses generally show a high level of concern for the community and contribute towards social work and welfare activities.
- Due to unbreakable family ties, family business plan for the long run showing long term commitment. Literature also supports that family businesses have better quality and values as compared to other businesses. The intensity and presence of these attributes may not be same in all family businesses but they do have some level of these attributes in one way or the other.
- In family businesses, motivation for success is high as all members try to achieve common goals leading towards mutual success. All members in family business have networks thus, the network of the business becomes wide which makes promotion of the business comparatively easy

### **The Family Business Unique Attributes**

Now let's see how family business is different from other businesses in terms of its culture and commitment. The start/ initiation of family business usually take place by an individual -the founder of the business- whose core values are transmitted in to the business and shape up the culture of the organization. The founding member of the business has deep impact on the culture that is formed within the business. Every creation has the characteristics of its creator same is true for the businesses which have an imprint or reflection of the personal values of the founder. This reflection of the founder's personality and value still has deep roots within the family business even if the third generation or fourth generation is dealing the business now. Hence in family businesses usually certain common values are embedded in their cultures which can be witnessed in majority of family businesses in one way or the other. For example these values generally include mutual respect, integrity, and wise use of resources, fun and personal responsibility. Even the non-family members in the family business also exhibit these values. Similarly there are four kinds of commitments that affect the family business.

- Desire-based commitment
- Obligation-based commitment
- Need-based commitment
- Cost-based commitment

All these commitments affect the turnover and performance of the family businesses. All family members have to exhibit all these commitments because if any member lacks or ignore any of these commitments then it may cause turnover which means other family members leaving the family business or business performance is affected.

Let see what are the best practices for managing the businesses and how conflicts are resolved in family businesses. Literature has reported certain best practices over the years, all or some of which can be used in any family business. These are:

New thinking must be encouraged in family businesses and fresh insight must be gathered to avoid inertia which is a key issue in most of the family businesses. Due the inertia, family businesses cannot become compatible with the changing environment. Due to which they may ultimately phase out.

- You must take input from those non family members in the business to update your perspective.
- Hire the excellent managers rather than relying on the family members. Give chance to capable person for being the managers irrespective of the fact that he is the family member or non- family member.
- Make the organizational environment creative and flexible. It will benefit the business.
- Try to not only create the capital (it means all forms of capital) but also to conserve it.
- Succession planning must be timely done.

Every family business has its uniqueness, try to keep this unique advantage of family business and keep on exploiting it.

There are different kinds of roles in family business and what kind of possible conflict might arise in it. The family is very broad and it encompasses many different kinds of relationships that join the business during different times and stages of the family business. Like husband and wife, father and son or daughter, grandfather and grandchildren, cousins and in-laws. Succession planning is also a major issue in family business.

### **The Family Business: Successful Succession**

There are different concerns for succession. Parental concerns for passing on the business to the children. Does my child possess the temperament and ability necessary for business leadership? How to motivate the child to take part and interest in the business? What type of education and capabilities will help them to become a part in business? At what time, they should engage their children in business. Should they include them at once or first train them? Then after making them part of business, how to prevent favoritism and also keep your relations healthy with their child?

One of the issues that arise in the family business is conflict among family members. As far as conflict is concerned, be it a family firm or a non-family business, there are chances that conflict may arise among people. Whenever people are working together, their interests may clash with each other and difference of opinion may exist and problems may arise. These conflict are realities of this world, so experts suggest that whenever conflict arise among family members within family businesses they may arrange family gatherings periodically but away from business environments usually at a remote area to discuss business matters.

Another suggestion is make a family business council to discuss family business matters and resolve the conflicts. The objective of the council must be to create harmony among them.

A constitution may be passed by the mutual consent of the family members. They may form a constitution decide certain principles and seek guidance from that constitution for the smooth and conflict-free flow of the business.

All these suggestions may not guarantee the success of the business but these may help to ensure the smooth flow of family business.

From management point of view, another challenge in the family business is that after certain years two different cadres are formed; Family members who are working and non-family members who are working. Then sometimes certain floors or areas are reserved for family members. Family member executives and non-family executives have different areas / floor dedicated for them in certain business.

Now we see the conditions that favor the leadership succession in the family business. First we will see what is succession? Succession is transferring ownership of the family business to the next generation. Succession means when the next generation of the family is joining the family business and they are assuming important business positions to carry out its activities in future.

The conditions that make succession in the family business easy, includes:

- A sound and profitable running business
- Stable and healthy relationships among family members joining the business
- If prior decisions regarding the succession process have been taken and planning about leadership succession is done in advance.
- If positive attitude and team oriented management structure of the overall family leadership makes succession easy.
- Never force the newly joining family member to join the business or a certain position in the business and always present the true and realistic preview about the opportunities that they have in the family business.
- Always be open to discuss the family issue because open communication and discussion will help resolve issue and will benefit the business.

Besides all this, keep it in mind that the new generation needs to be properly guided and mentored to become effective part of your family business. For business succession, a five stage process for succession is recommended. The different stages are:

First stage is pre-business involvement- some businessmen start taking their children to their firms during their summer vacations and start involving them by giving them small tasks and assignments of the business. Then they are given proper education which is suitable for their business. After that their competence is determined and then according to their competence, they formally join the business. As a final step their business succession is declared.

During succession when ownership is being transferred to the next generation there are certain things that must be kept in mind. Like; following things needs to be considered

Who will inherit the firm and when? There are two separate points here; giving jobs to family members in the family business is something different and transferring ownership formally to family members is totally separate thing. So it's important to question that who will inherit the business? Will here be collective inheritance or a single individual will be made owner of the business. Should each heir receive the equal share? Should ownership be transferred gradually? Or should it be transferred at once? While transferring the business there will be certain tax considerations as well. How these tax implications will be handled? What to do with other wealth and assets of the founding entrepreneur besides this business?

All these questions must be dealt with care and consideration as these are very crucial for the smooth transfer of ownership to the next generation and also for keeping the business sustained. The sustenance of the business is important not only for the family but for the employees working in it and for the society at large.

### **Family Business Teams**

Moving on in our discussion on relations in family business, we will discuss the teams that may exist in family businesses.

**Husband wife team** in family business such team exist in west but now in Pakistan such teams also exist specially in service sector like in private schools. Such teams provide to opportunity to share in each other's life. But in case of any conflict in family it may affect the business and other way around. At times, work increases so much and both becomes so busy that you do not get time for family life. An advantage of working together provides an opportunity to share the responsibilities.

Another team is **sons and daughters team**. When siblings join the business, there are chances that their personal preference might vary from one another and may be different from business. Their qualification may be different from business requirements. It is also possible that they are not capable to deal the affairs of the business or they do not have any interest to continue the family business. When they decide to join the business there are two possibilities: either they show a lot of cooperation or they may start competing with each other and become rivals.

At times **in-laws** of one family member also join and become part of the business. Then the in-laws of other individuals may also try to join. It may be that the in-laws joining the business may not capable. At such times disagreement about treating them and rewarding them may become an issue. Thus, in family businesses roles and relationship among business may have conflict and may show co-operations.

-----The End-----

## Technical Articles Theme 04

### **Title: Routes to Entrepreneurship: Franchising**

**Videos: 35-41**

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#### **Topics Covered**

- 35. Franchising Opportunities-Introduction
- 36. Pluses and Minuses of Franchising
- 37. Franchising options
- 38. Franchising Cost
- 39. Franchisor Controls
- 40. Evaluating Franchise Opportunities
- 41. Franchisor and Franchisee Relationship

## **Introduction to franchising opportunities**

It is important to know the routes for entering the business world. There are four main routes for the entering business world and each has one its advantages and disadvantages. First method is to start a new business from the scratch. This is called “pure entrepreneurship route” and it is the riskiest route for a business as well. Second option is that if you do not want to start a business from the scratch, then you can avail the option of “franchising”. This means you take a limited right of doing a business for an existing enterprise to start your work. Third method is to “buy an existing business” that was already operating in the market. Fourth option is “to join the already existing family business”. The riskiest of the options among these four is of pure entrepreneurship route. The least risky business option for a new venture is franchising business with less risk and more reward. In existing and family business, there is less risk and reward.

A franchise is a popular mode of business. In education sector of Pakistan, this model of business franchising is being used. In fast food business, fertilizers’ business, petrol pumps business, telecom business and automobile industry etc., business model of franchising is being used. This is a kind of marketing system in which strong and existing business (franchiser) gives rights of business to the franchisee for operating its business based on a franchise agreement. This is basically a two party system.

## **Pluses and minuses of franchising**

Franchising is a potential route to entry in an entrepreneurial world. It is important to assess the positive and negative aspects of franchising mode of business. The plus points include that you do not enter alone in the franchising as the support of franchiser remains with you due to his business interests. You enter business world under the umbrella of an established business brand. Potential risk is less and it is a relatively secure mode of business. All franchisers give a business training to the new franchisee because it is a partnership relationship and they all get benefit. They may also provide financial help along with proven marketing methods. This helps in business success as well. Franchiser also provides managerial support to the franchisee. Startup time is less in franchising business. Overall, the failure rate is less in the franchising business.

Negative aspects of franchising cannot be ignored as well. It is not a cheap business. You have to invest a lot and have to give part of business earning such as royalty to the franchiser on regular basis. Growth of franchisee remains restricted. You cannot sell your own business or expand the business. Operations are monitored by the franchiser. Every franchise agreement has a termination clause that remains an advantage only for franchiser.

## **Franchising options**

It is important to know about the concept of franchising and its types. In Franchising, there are two parties. One grants the right of business to the other party based on the terms and conditions of franchise agreement. There are different methods of franchising. Most popular arrangement of franchising is “product and trade name franchising”. In this arrangement, franchiser gives the right of only using his brand name to the franchisee and hence franchisee will sell his products or services. Generally, the franchising of schools and colleges in education sector happens on this pattern. Telecom sector also follows this pattern of franchising. Dealership in automobile industry is also based on the arrangement of “product and trade name franchising”. Petrol pumps business also runs on the same franchising arrangement. Franchisee does not have to produce anything in this arrangement and franchisee only sells the products or services produced by the franchiser.

Second most popular form of franchising is “Business Format Franchising”. Franchisee gets the similar system to operate as that of franchiser. So, in the apparent shape and appearance, a franchisee is a copy of franchiser under this arrangement. Example of business format franchising is of fast-food restaurants. All franchised branches of fast-food restaurants are often similar and they make the same product. Franchisee’s branch is often a ditto copy of franchiser’s branch.

Third method that is common in franchising but not much known is called “Piggyback Franchising”. In this type, neither franchisee uses the name of franchiser nor does he deal in franchiser’s products or business format. In fact, franchisee uses the location / premises allowed by the franchiser with exclusive right of use. For example, canteens in colleges and universities have exclusive rights to sell food items in those areas. Similarly, tyre shops, tuck shops and car service areas inside the petrol pumps are also the examples of piggyback franchising.

“Area developer” is another type of franchising. For example, a franchisee operating with an exclusive right of having franchiser’s outlets in a city. “Multiple unit ownership” is another type. For example, if someone owns more than one outlet of a telecom company. “Master Licensing” is another type in which a company gives exclusive right of operations to the franchisee in its country. All of the above are the commonly used options of franchising.

## **Franchising Cost**

Once an entrepreneur makes a decision about entering in franchising business, then it is important to know about the types of cost associated with franchising business. There are four types of costs that an entrepreneur will have to bear in franchising business. First type of cost is “initial franchise fee”. This type of fee is usually non-refundable and taken at the start by the franchiser for commercial use of his name by the franchisee. For example, a school may sell the name as a franchise and can collect the initial franchise fee. Second type of cost is “cash investment” that is incurred for the development of infrastructure such as building etc. Third type of cost is “royalty payment”. It is the type of cost that franchisee has to give to the franchiser based upon the earning

of business. This payment usually ranges from 5 % or 25 % depending on the mutually decided agreement. Fourth cost is “advertising expense”. Franchiser takes this cost of advertising from franchisee as he / she is also a beneficiary of the business.

### **Franchiser Controls**

There are four types of controls often observed by the franchiser on franchisee. First type of control is “restriction of sales territory”. This is the first type of restriction faced in franchising. For example, the franchisee cannot operate out of a specific area of a city. Second control of franchiser on franchisee is that franchisee has to follow the “approval of site and facility’s appearance”. For example, a franchisee of McDonalds will have to follow the same style of building, SOPs, design, layout and logo etc. Same applies to telecom sector. Third control is “restriction of goods / services to be sold”. Franchisee can sell only those goods and services whose right has been granted by the franchiser. Fourth control is “required operating hours and advertising”. These are the four controls of franchiser on franchisee.

### **Evaluating Franchise Opportunities**

It is important to know about the opportunities available for franchising before starting such a business. Some of the techniques about evaluating franchise opportunities include personal observation. This may depend upon your own information. For example, your knowledge about a company that is selling franchise rights. Second option is of “advertisements”. Franchise opportunities are often advertised in newspapers. Alternate words such as dealership, distributors etc. are also advertised.

After knowing about the franchise opportunity, it is important for the entrepreneur to investigate such opportunities. Getting information from multiple authentic sources is the key. Other sources of such investigation about a company include government agencies such as Securities and Exchange Commission (SECP), internet, and franchise consultants and also franchisers themselves provide information manuals. It is also important for a potential franchisee to meet the already existing business demands in franchise operations of their targeted company.

### **Franchisor and Franchisee Relationship**

After purchasing the franchise, the relationship of franchiser and franchisee should be productive one. Both should be “responsive” to each other. They provide answers to each other’s queries. Secondly, “empathy” is also important. One should understand the others. Communication is also important. Dependability is also important. It is important for both the stakeholders of franchiser and franchisee. Then the accessibility is also important as it is a give and take relationship. Anticipation is important for forecast about future. Structure of relationship needs to align as per

the needs of both franchisee and franchiser. Open mindedness is also important. Franchiser has the upper hand in a franchiser – franchisee relationship but they would not like to spoil franchisee's business and instead the business growth of franchiser also depends upon the business growth of franchisee.

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Entrepreneurship MGT602

## Technical Articles Theme 05

### **Title: Routes to Entrepreneurship: Characteristics of Successful Entrepreneurs**

**Videos: 42-55**

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#### **Topics Covered**

- 42. Co-entrepreneurship
- 43. Young entrepreneurs
- 44. Minority and Senior entrepreneurs
- 45. Part-time and home based entrepreneurs
- 46. Social entrepreneurs
- 47. Women entrepreneurs
- 48. Who are Wantrepreneurs?
- 49. The pitfalls in the journey of entrepreneurship and how to avoid pitfalls?
- 50. Characteristics of successful entrepreneurs (part a)
- 51. Characteristics of successful entrepreneurs (part b)
- 52. Characteristics of successful entrepreneurs (part c)
- 53. Some Key skills of successful entrepreneurs (Part a)
- 54. Some Key skills of successful entrepreneurs (Part b)
- 55. Some Key skills of successful entrepreneurs (Part c)

## **Co-Entrepreneurship**

Co means “two” people working together. Similarly, in co-entrepreneurship, two people work together on an entrepreneurial project. There is no restriction of age, gender, cost etc. in co-entrepreneurship. Sometimes, idea of business is developed together and everything is also shared in the business. They work in a team to establish a venture. Co-founder is also a term used for such entrepreneurs who create a business together. Serial entrepreneurs are those people who have a lot of experience of creating new ventures. They are very skilled people. They often establish a venture for selling it and then create another venture to sell that as well. Co-entrepreneurs are often those who have good skills of establishing a business or they can be good advisers of establishing a business. Third method to become a co-entrepreneur is to be an investor in an entrepreneurial venture. For an entrepreneurial venture, one has to manage a team and it is not easy to work in a team. Same applies to co-entrepreneurship. First challenge of co-entrepreneurship is “personality conflict”. Second is “risk taking behavior”. Third is “personal life and commitments”. “Team conflicts” may also be there. “Financial matters” may also be a cause of concern. “Profit sharing” and “partnership dissolution” may be the other issues. If partnership deed was not there then more issues can arise while business dissolution if it was not registered business. Scale up issues may also arise if business gets flourished. These may differ in different types of the co-entrepreneurship. One partner may be highly committed versus other. Hence, in a good entrepreneurial venture, these issues should be managed properly.

## **Minority and Senior Entrepreneurs**

Minority means a group of people who are less in number compared to a social group in any social environment. They usually face some disadvantage in the society. In the flag of Pakistan, while color is for minorities. Minority can be gender based, ethnicity, race, religion, linguistic and disability based. There may be certain basis upon which we declare a group as minority. For example, based on religion, Hindus, Christians, Sikhs, Parsis and Buddhist among many other are the minorities in Pakistan. These minorities can also become entrepreneurs but they also have to face competition in the entrepreneurial as well as in the job market. So, they often start business. Even in US, minorities are closely watched as they often do their own business. Main issue of minorities is that they often have to face discrimination in their country from dominant groups. For informal sources of finance through loan, they also face discrimination as they are often unable to provide collateral to banks for gaining loan. Senior entrepreneurs are those people who start their business after the age of 50 years. This is usually the age of retirement or early retirement. They often feel they can start small ventures. Corporate layoffs are also a reason. Personal fulfillment and self-actualization are other reasons for senior entrepreneurship. It may be for the need of additional income as well. Sometimes, people do it for spending quality time as well.

## Part-time and Home-Based Entrepreneurs

There are two approaches of entrepreneurship. Full-time or part-time entrepreneurship. Full-time entrepreneur has to bear time, cost and all the associated risk of the business only for a single business commitment. Part-time entrepreneurship is the one which is not the main source of income for an entrepreneur. An example of part time entrepreneurship might be of a person who is doing a job and is also doing a business in the additional time after office hours. Important considerations for part-time entrepreneurs are;

1. **The role of financial or non-financial motives:** Financial motive may be a lesser income in the job. Non-financial motive might be that the entrepreneur is developing the idea and once the business would develop, he would leave the job and will join the entrepreneurship as a full-time activity.
2. **Social pressure:** This is the second issue for which you want additional income to enhance living status. The problem is that due to extra efforts, an entrepreneur may get burnout in which stress increases and he may leave the business venture altogether.
3. **Over commitment:** Employment and business both demand time and social life and those may get effected simultaneously. You will have to manage both the risks with a good balance.

Home based entrepreneurship is more common in rural areas and it is also called micro or nano business. It is often a skill-based business at home. Mostly females are engaged in home-based business. Access to finance remains an issue as financial institutions don't see it as a mature business. Increased production / scale up becomes an issue for home businesses. Work life balance also becomes an issue.

## Social Entrepreneurs

Social entrepreneurs solve community issues through novel business ideas. They are willing to take risk for positive change in society through their initiatives. So, they don't do their business only for profit. There are so many issues around us such as unemployment, poverty, minority association and disability etc. Then, why not that one should create a business that solves these problems and the one who solves these issues is a social entrepreneur. A social entrepreneur does business for social a cause. Often NGOs take such initiatives. But, business model of NGO stays only on donations or funds from local and international donors. To break that model which is not sustainable, a model of business and NGO was merged for social entrepreneurship.

Social entrepreneurship is actually a socio-economic business model. Whole profit gets re-invested in the same business. They often work with government and NGOs. Grameen bank is the best example of social entrepreneurship that was made for ultra-poor people who had no collateral. Grameen bank provided loans to such communities. Its recovery rate was highest and was 99 %.

In Pakistan, Akhuwat Foundation is also an example of social entrepreneurship like Grameen bank. It does not charge interest as it offers “Qarz-e-Hasna”. In 2010, a restaurant was started where waiters were blind just to make the people realize about their disability and to give jobs to disadvantaged. Three major issues of social entrepreneurship are there. First is financial sustainability. Therefore, Akhuwat also takes donations. Operation self-sufficiency and business sustainability are the other two issues.

### **Who are Wantrepreneurs?**

Wantrepreneurs are those potential entrepreneurs who make unrealistic desires for starting a new business. They are also often confused about business idea and rely on so many other people and hence get confused. They also find it difficult to make timely decisions. They are often complaining and not willing to fail. They are day dreamer and risk-averse persons. The main difference between entrepreneur and wantrepreneur is that entrepreneur converts idea into a startup while wantrepreneur keeps on planning for the business idea. You have to decide whether to become an entrepreneur or a wantrepreneur. It is always better to use your energies for becoming entrepreneur rather than wantrepreneur.

### **Pitfalls in the Journey of Entrepreneurship**

#### **How to avoid pitfalls?**

Pitfall means an area of uncertainty. Pitfalls in the entrepreneurial journey happen due to the mistakes of entrepreneurs. One of those mistakes is “lack of managerial skills”. For example, if you can design a good product but cannot manage the people then it is an issue. Second is the lack of experience. So, never over rely on lack of experience in new business. Poor financial control is another issue that can cause a pitfall. It is mainly because entrepreneur starts spending on personal financing as well. There are often poor controls as well that might be a source of entrepreneurial pitfall. “Weak marketing effort” is another issue. “Failure to develop a strategic plan” is another issue. You need to have plan B as well being an entrepreneur. One should know which competition to avoid initially. “Uncontrollable growth issues” are also a problem. Unplanned diversification in business creates problems as well. Selection of poor location is also an issue. For example, transportation may become an issue for poor location. Similarly, “incorrect pricing” is also a big issue that can lead towards an entrepreneurial pitfall. One should avoid over pricing as well as underpricing. One should avoid inability to make transition in the entrepreneurial journey. Self-awareness and awareness of business is the key. Networking also helps in the industry. An entrepreneur must tune himself for new and better qualities as an entrepreneur.

## Characteristics of Successful Entrepreneurs (part a)

Learning about the characteristics of a successful entrepreneur can help a lot to the entrepreneurs for a better entrepreneurial experience. It also helps us in understanding the reasons that contribute to the success of entrepreneurs. Some of the major characteristics of a successful entrepreneur include;

- Passion for the business
- Tenacity despite failure
- Execution intelligence
- Discipline

If we study the autobiography of successful entrepreneurs of the world, then we would realize that all the successful entrepreneurs had a **passion for doing their own business** even from the start of their career. Without passion, a person can neither excel in the job nor in the business. So many aspects are associated with an entrepreneur when he starts a business. For example, financial risk gets attached to him. He has to manage a team for business. Time, energy and other resources are also utilized by an entrepreneur. Even while spending all these financial and non-financial resources, one cannot make an organization if the passion is not there. Many people realize that these are the non-commercial businesses such as NGOs that require passion. However, it is not true. All the big businesses in the world were established by passionate and visionary people.

Second aspect of a successful entrepreneur is **tenacity despite failure**. As an entrepreneur, one should not stop efforts even after failure. We often see the successful entrepreneurs while they enjoy their success stories in the final phase when their business is well established. Behind that, there happens to be a lot of struggles in their past and every entrepreneur has to face a lot of setbacks at the start of a business. Therefore, as an entrepreneur, one should remain prepared to face setbacks at the start of entrepreneurial journey.

**Execution intelligence** is also very important. People may have many other characteristics but an entrepreneur needs to have many characteristics. All the successful entrepreneurs have execution intelligence. They know when to use which resource and how to operate the business. They also know how to get the work done from their team. They should also know how to timely bring the idea in the market and to deal with the competitors. Hence, execution intelligence is an extremely important characteristic for an entrepreneur.

**Discipline of entrepreneur** is also very important for entrepreneur. There is this myth that entrepreneur does not have to follow the time like a job. But discipline is even more important in the business as well. You have to set priorities, be punctual and be better manager for being a role model of employees working in that venture.

## Characteristics of Successful Entrepreneurs (part b)

Some of the other characteristics of a successful entrepreneur include;

- Being self-starter
- Strong work ethics
- Open mindedness
- Self-assurance

Many people can guide an entrepreneur by providing self-motivation and talks but for success as an entrepreneur, **being self-starter** is a pre-requisite. There is a new term that is getting popularity and that is “motivational garbage”. It means that even after listening so much motivational speakers, sometimes we cannot start a business. That means we are not motivated from the inside because we were not self-starters. A person has to adopt his own path.

**Strong work ethics** are also very important. Some people are of the view that everything in business is fair. But that is not true. All the successful businesses in the world have strong work ethics values. There is a viewpoint that corporate social responsibility is the responsibility of only the big businesses. But, irrespective of the size of the business, people prefer those values even in the small businesses that they see in the business owner.

**Open mindedness** is also very important. We listen to the people and can often get judgmental. People often lack tolerance as well in business affairs. However, tolerance for ambiguity is very important for successful entrepreneurs. It's important to keep personal biases aside.

**Self-assurance** means confidence on one's own personality. If entrepreneur does not have the confidence on his own product, then his product would not sell to others in the market. One also has to be ready to face the opinion of other for which being self-assured is important.

## Characteristics of Successful Entrepreneurs (part c)

Empathy and tolerance are important factors. Being empathetic means listening people from their point of view. Entrepreneur has to listen the consumers. One has to be empathetic with the end users. Then, vision is also very important. Successful entrepreneur definitely has a vision. He should have foresightedness. Can you assess the future market demand? Such factors are key for a visionary leader. Self-investment is also important as entrepreneurs need to learn. They need to have trainings for business excellence. Export business owners often go abroad for such trainings and for meeting with the potential and actual clients. One has to be optimistic being an entrepreneur. Entrepreneur also has to be creative. Your approach must not be traditional and you should not use the same formula used by the whole market. Successful entrepreneurs are always creative.

### **Some Key Skills of Successful Entrepreneurs (Part a)**

An entrepreneur should have some good personal characteristics for the business success. There are many such characteristics that can be discussed; however, few are more important. First, “goal setting” is an important characteristic and a key skill. Entrepreneur must know the business goal as he / she is to invest the resources in a business for a specific time and purpose. Entrepreneur should know where the business would be after a year. In which market he wants to access and how much he wants to expand the business in coming time. Goals should be specific, measureable, accurate, and realistic and time bound (SMART).

Then, “information seeking” is a power and an ability for an entrepreneur. Everyone has digital existence. You should have customers’ data for your business. This information helps in making the decisions. Industry information is also very important. It is a skill to access right information for your business. “Opportunity seeking” is also another skill for entrepreneur which is very important. Everyone has the opportunity but it is important to properly assess an opportunity and avail it in a right manner. It is also a skill that can be learnt. “Learning” is also another ability for which unlearning the existing mindset, business patterns and behaviors is sometime important, so that one can absorb the knowledge with open mind and open heart for improvement. “Persistence” is also another skill based upon which one quits or keeps on going for a business.

### **Some Key Skills of Successful Entrepreneurs (Part b)**

“Planning and monitoring” is a characteristic of a successful entrepreneur. It is very important to plan and monitor your business. Software can also help an entrepreneur in planning and monitoring measures. For example, for accounting purpose in business, many software can help an entrepreneur. Availability of finances is also very critical. Financial strength is the lifeline of every business. Hence, “financial intelligence” is very important. Financial management is a key for a business. Entrepreneur should know about financial statements, balance sheets, ledgers and financial ratios etc. “Market intelligence” means market research for your business. You need to keep an eye on your competitors. “Persuasion and influence” is a very important skill as well. Some people are introvert and many people in the extrovert category think that they are good in marketing and sales as well. In fact, it’s all about persuasion and convincing the consumers. As an entrepreneur, even you have to convince employees of your organization to keep doing the good work and this also requires persuasion. There are many trainings that are conducted that can help an entrepreneur in this regard for learning about the art of persuasion, convincing others and communication skills.

### **Some Key Skills of Successful Entrepreneurs (Part c)**

Quality assurance is an important business characteristic in the sense that an entrepreneur would want to convince customers on the basis of quality of his products and services. You should make sure that there should not be any defect in the products or services. “Efficiency” of resource is another skill for proper business. You have to use the resources smartly. “Reading financial statement” is also very essential for the entrepreneurs. Understanding balance sheets, cash flows etc., is necessary for an entrepreneur. Understanding different ratios such as liquidity ratio is also important to know the net worth of the business. Marketing skill is also important for an entrepreneur. One should know about the proper execution of marketing mix. “Place” for selling the product is also a critical decision. You should be able to design the supply chain of your product. In services industry “physical evidence” is also very important. Team of good individuals, communication skills, networking etc., all are important. There is a saying that your networking is your net worth. For example, you should have people who can help you in supplies, legal advice, financial advice and digital marketing etc. These characterizes are key for a sustainable business relationship but they would not like to spoil franchisee’s business and instead the business growth of franchiser also depends upon the business growth of franchisee.

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**Technical Articles Theme 06**  
**Title: Entrepreneurial Process**  
**Videos: 56-69**

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**Topics Covered**

- 56. The entrepreneurial process (Orientation)
- 57. Group Discussion 1: Academicians and Practitioners View (part 1): Are entrepreneurs born or made?
- 58. Group Discussion 1: Academicians and Practitioners View (part 2): Are entrepreneurs born or made?
- 59. Group Discussion 2: Family Entrepreneur (Part 1): How they started and what challenges they face?
- 60. Group Discussion 2: Women (Part 2): How they started and what challenges they face?
- 61. Identifying and recognizing opportunities Part I
- 62. Identifying and recognizing opportunities Part II
- 63. The opportunity sources: Observing Trends
- 64. The opportunity sources: Demographics and Social Trends
- 65. The opportunity sources: Economic and technological forces
- 66. The opportunity sources: Social Innovation and market gaps
- 67. Techniques of idea generation: Brain storming and mind mapping
- 68. Techniques of idea generation: library, internet, and incubation centers
- 69. Techniques of idea generation: Friends, Experts, and intuitions

## The Entrepreneurial Process

The entrepreneurial process includes all the functions, actions and activities that are part of perceiving opportunities and creating organizations to pursue them. Entrepreneurship is a complete process which is not easy. An individual can get fascinated by the idea of being his/her own boss but if he/she opts for entrepreneurship, he has to go through the complete process. The entrepreneurial process has following steps:

1. Decision to become an entrepreneur (personal preference, desire behaviors, dream)
2. Developing business idea (business plan making for opportunity)
3. Idea to venture establishment
4. Managing and growing firm

As we have already discussed the importance of entrepreneurial traits, we will now see how these traits help entrepreneurs in entrepreneurial process.

- An entrepreneur's traits of knowledge and inspiration help him in idea generation.
- An entrepreneur's traits of dream, desire, and creativity help him in venture development
- An entrepreneur's traits of determination, learning from trial and error, productivity and efficiency help him in production and operations
- An entrepreneur's traits of leadership and networking help him in sustainability and growth

The entrepreneurial process is alternatively defined as a set of stages and events that follow one another. According to this definition, the entrepreneurial process stages are: the idea or conception of the business, the event that triggers the operations, implementation and growth. An important factor that drives the development and growth of the business at each stage is human behavior or entrepreneurial characteristics. Entrepreneurial traits are shaped by personal attributes and environment.

## Identifying and Recognizing Opportunities

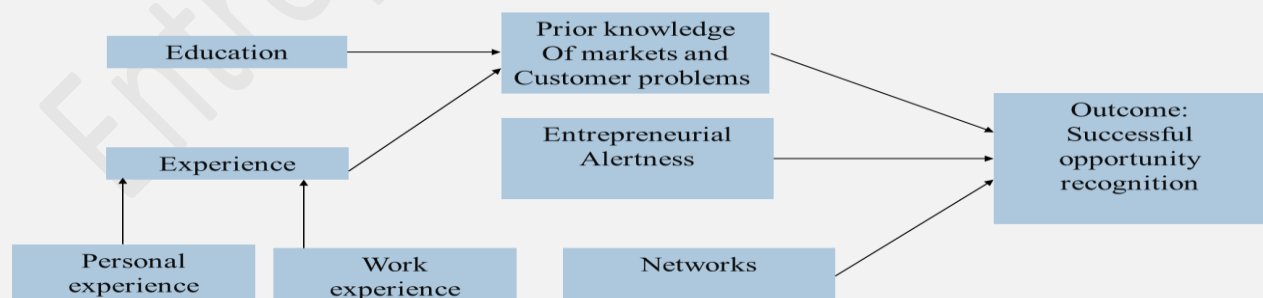
A business opportunity is defined as “a favorable set of circumstances that creates a need for a new product, service, or business.” In order to become successful, an entrepreneur must be consciously innovating and searching for new opportunities. Usually, ventures are started in two ways; ventures in which opportunity is externally stimulated and ventures where the opportunity is internally stimulated. In **externally stimulated ventures**, the entrepreneur decides to start a business, look for and recognizes the opportunity and starts the business. In **internally stimulated ventures**, an entrepreneur sees the problem or gap and an opportunity to create a business and fill the gap. Whether a venture is externally stimulated or internally stimulated, opportunities are tough to locate. A business opportunity represents a possibility for the entrepreneurs to successfully fill a large enough unsatisfied need that results in enough sales and profits.

The difficult task in opportunity recognition is to identify that the business or product idea is not merely a different version of something that already exists. A major mistake entrepreneurs usually make is to pick an existing product about which they are excited and passionate and build a business around that model or a slightly different version of it. The important thing to remember is to identify and recognize an opportunity and build a product which is the demand of customers. In other words, make a product that the customer is willing to buy rather than the one which entrepreneur wants to make and sell. A good opportunity should have four qualities which are: attractiveness (personal choice, preference, attractive with respect to market, financially viable), durability (not be short term, pop up opportunity, sustainable), timeliness (right time, develop product within time before others), and value proposition (product or service adds value for the buyer or end user, value for entrepreneur, overall environment, value anchored in product/service/business)

For an entrepreneur, to take advantage of an opportunity, the window of opportunity must be opened. Window of opportunity means the time duration during which a company can enter into a new market. The window of opportunity for a new product opens when the market for that new product is established. When the market established and grows, a firm may enter and establish a profitable position. When the saturation point comes and market matures, the window of opportunity closes. For example in 1995, the first search engine Yahoo appeared in the market. After that the market grew and Excite, Lycos, AltaVista and others came in the market. In 1998, Google entered the market with advanced search technology after which the search engine market matured and window for opportunity closed or is less prominent unless some company comes with very advanced technology.

### **Difference between an Idea and an Opportunity**

We define idea as “Something imagined or pictured in the mind”. Idea is in your mind (it’s a thought, an impression, or a notion). It may or may not meet the criteria of opportunity. On the other hand, an opportunity must possess all four qualities i.e. attractiveness, durability, timely and value addition.



*Model of opportunity recognition process*

*Source: adopted from Entrepreneurship by Dean A. Shepherd, Michael P. Peters, and Robert D. Hisrich*

## The Opportunity Sources

An entrepreneur **observes the recent trends** and tries to find the opportunity in order to get maximum benefit. Though there are unlimited trends, following are the few of those recent trends where an opportunity can be spotted these days.

- Green trend (sustainable fashion, recycling, zero-waste practices, eating a plant-based diet, and reducing the use of plastics)
- Clean energy trend and global warming (clean energy technologies like solar, geothermal, wind, biofuels, and fuel cells)
- Organic orientation trend (organic vegetables with no fertilizers and pesticides used, chemical free food products, home grown vegetables and fruits,, organic cosmetics with ingredients that are human friendly, organic farming)
- Fitness and health trend (connection of mind and body, at-home workouts, outdoor fitness, yoga, meditation)
- Social networking trend (you can be an opinion maker, you can launch business idea on social media, marketing on social media)
- Traveling and adventure (small traveling and tourist firms)
- Bloggers, vloggers and virtual communicates

Entrepreneur can see the opportunity in any problem of the society. Sometimes, a problem exists in the market which entrepreneur visualizes as an opportunity. He thinks of **solving that problem** with creative and innovative product or service.

**Demography** means the statistical structure of populations. It includes the age, gender, income, ethnicity, religion, profession and level of education of a population. Age is a very important factor for an entrepreneur with marketing perspective as people with different age brackets have different demands, needs and wants. The age of humans is usually divided in the following groups: baby boomers (born 1946-1964), generation x (1965-1980), millennial (1980-2000 or 1978-1999), post millennial (people born after 2000). Millennial are also known as generation y (or gen y). some of the traits of millennial or generation y are: buying power and influence on older generation, support cause, global shared values, social media lovers, part of virtual communities, early adopter of technology, travel and adventure, adopt new trends. Other important demographics to be considered by entrepreneurs are: working couples, single parents, region and ethnic groups, and the diversity of workforce.

Your presence on social media is your **digital identity**. In this technological era, the business must have its digital presence and identity where consumers can always reach it. The social media platforms where an entrepreneur can create its digital presence are: Facebook, Twitter, Instagram, Whatsapp, Pinterest, Snapchat, and LinkedIn. Digital identity at social media helps entrepreneur in networking and sharing.

**Economic forces** play an important role in identification of a good opportunity. It is important for an entrepreneur to understand the types of economies in which he/she might have to start and operate his/her business. One of the types of an economic system is Command Economic System or planned economic system. Command economic system is a system controlled and directed by a central authority which is usually the government of the relative country. The central authority or government decides on the organization and distribution of resources and sets prices. This system is rarely followed by countries in the current era. Another type of economic systems is Market Economic System or Free market. In free market system, demand and supply regulates the market instead of the government. Market forces (supply and demand) decide what to produce, at what price and quantity. Resources are owned by private individuals who are free to do business with each other which makes the market more competitive. This competition to acquire resources and give the quality product in market, leads towards the most effective and efficient use of scarce resources. There is a little intervention of government in free market economy. Market economic system is the extreme opposite of command economic system. While countries rarely employ any of these economic systems, another type of economic system was introduced that has been widely employed by countries. Mixed economic system (mix of command and market economy) is a combination of other economic systems. In mixed economy, although market is free but the government is still involved in certain regulations. The intervention of government is minimal except for a few key areas where government may intervene. It is also called modern economic system. Most of the economies are based on the mechanism of mixed economic system. Characteristics of mixed economy are: co-existence of public and private sector, existence of economic planning, role of price system and government directives, government regulation and control over private sector, reduction of economic inequalities, government protection of labor and protection of consumer sovereignty.

The economic indicators which an entrepreneur must have information about are: GDP annual growth rate, GDP per capita, GDP per capita PPP, unemployment rate, inflation rate, consumer price index CPI, food inflation, foreign exchange reserves, balance of trade, corporate tax rate, personal income tax rate, and sales tax rate. These indicators tell entrepreneur about the economic situation and help him to make timely decisions. For example, an entrepreneur will not offer a luxury product in a region where the purchasing power of consumers is very low.

**Technological forces** also play an important role in identification of a good opportunity. Key technology areas of which an entrepreneur must have knowledge these days are: big data (ways to analyze big volumes of data sets which cannot be analyzed with traditional analysis software. This data can be used by companies to know customers' preferences), cloud computing, artificial intelligence, machine learning, robotic process automation (using robots and automation technologies to reduce the labor work), 5g & 6g, blockchain, digital privacy, e-governance, virtual space and networking.

World Economic Forum defines **social innovation** as “the application of innovative, practical, sustainable, market-based approaches to benefit society in general, and low-income or underserved

populations in particular”. In general, NGOs are responsible for the welfare of society and businesses are established to make profit. As NGOs run on donations of big organizations, the idea of social innovation emerged. It illustrates that businesses instead of giving donations to NGOs, should come up with a business idea which can solve a societal problem and also generate profit for the firm. For example, medicine to cure a disease can be a profit making business for a pharmaceutical company but also solves a societal issue i-e to cure that disease. Features of social innovation are: tangible business with profit is established in result of a societal issue, part of firm’s business strategy and innovation agenda, managed from company’s core operations, sustainable development of society and business, enhancing long-term competitiveness and business growth, and new product development with environmental concerns.

With the emergence of social innovation, social entrepreneurship has been becoming popular. Social entrepreneurs are defined as “individuals who recognize a social problem and use their entrepreneurial skills to create a program, business or process to find a solution.” Another definition states that “a social entrepreneur is a person who pursues novel applications that have the potential to solve community-based problems. These individuals are willing to take on the risk and effort to create positive changes in society through their initiatives.” For example, the development of a mobile application which serves the needs of deaf and dumb through which they would be able to communicate with people is social entrepreneurship.

Gap is important to bring new product in market. A ‘gap in the market’ idea can have one or more of three attributes which are: it is something new and original, it improves on something that already exists, and it takes something that exists and finds it a new market. To find a gap in market, it is important for an entrepreneur to conduct market research. To conduct a market research and measure the characteristics of the market and its size, a specific market is identified. Market research also involved market intelligence and industry analysis. The integral part of doing any business is to keep track of the competitors and the industry which is termed as market intelligence. Companies get valuable insight into how to expand and grow their firms by collecting and analyzing the data of their target market. Industry analysis is related to reviewing the political, economic and market factors that influence the industry and the way it develops. It is a market assessment tool which gives firms an idea of how a particular industry works and how complex it is. According to Porter, five forces that impact the industry are: the condition of competition, the power of suppliers, the likelihood of new entrants, threat of substitute products and power of customers.

## Techniques of Idea Generation

As we have already discussed that an idea is a thought, an impression, or a notion. Idea generation is a fundamental or basic part of a business venture. There are certain techniques of idea generation which are: brain storming, problem inventory analysis, and mind mapping. **Brainstorming** is a group technique to generate ideas or solve a problem. Usually one facilitator or moderator controls the discussion. Participants are typically asked to discuss about a product or a problem (or

anything) in detail and from every angle. The more the ideas are generated in brainstorming, the more the discussion is considered healthy. The members of the discussion can be the heads of the organization, consumers or industry experts. Sometimes there are some rules to be followed while doing brainstorming that are: no criticism or no negative comments in the beginning, all types of wild ideas are welcome, quantity of ideas is desired, think out of the box, and combination of ideas brings improvement and may produce new ideas. Sometimes reverse brainstorming is done in which every participant is provided with a paper where they can write all the generated ideas and then give their opinion on each idea, called brain writing. In brain writing, the members can also criticize the ideas so that a refined version of best ideas can come on the table. Another technique of idea generation is **problem inventory analysis** is “a method for obtaining new ideas and solutions by focusing on existing problems”. In this method, a list of problems related to market, product or service is provided to the participant in the beginning of the discussion. **Mind mapping** is another approach that can be used to generate ideas. In this technique, a central idea is written and then participants are asked to come up with associated ideas that branch out from the central idea. It's a graphical/visual representation for organization of ideas and concepts.

**Libraries** are the most underutilized resource. Ideas can also be generated in libraries using industry specific magazines, trade journals, industry reports, databases, and market research reports. Such reports and magazines are also available online but it is quite a task to ensure their authenticity. As unauthentic information can lead the entrepreneur to make wrong decisions, he/she must go for authentic sources of information even if he/she uses internet. Government reports (which are usually paid) can also be found in libraries and you can get information by using them free of cost. **Internet** is also a rich and most used source of information. There are pages and official accounts of thousands of businesses on social networking sites (Facebook, Instagram, Twitter, YouTube, and LinkedIn) where an entrepreneur can see them. It can also help him find the gap, generate new idea and mature it. One thing must be kept in mind while using internet to get information is checking the source of that information. Most of the information on internet is unauthentic. Entrepreneur must ensure the authenticity of the source. Entrepreneurs also use **search engines** to get new ideas. He/she can find the authentic magazines and journals and get their subscription. Subscription allows these websites to send email alerts to the subscriber about every new publication and events. **Incubation centers** can also be a good source of new idea generation. Potential entrepreneurs must visit all local incubation centers and also visit the websites of all international incubation centers. This can give them an idea of: the industry trends, which ideas are popular these days, and which product or service is in demand. Potential entrepreneurs must also keep an eye on the business plan competitions and see which business plan ideas are winning these competitions internationally and locally.

**Friends and family** can also be a source of generating and maturing an idea. If you have identified an opportunity, have an idea in mind and you are sure that you can design a product on that idea; the first thing that comes in mind is to discuss it with your friends and family. Friends and family members are good listeners and honest advisers. Moreover, if they are senior, they can give you

an honest advice based on their experience. Another benefit of sharing your business idea with friends and family is that they may invest in your business if they really like your idea. They may be interested in becoming your partner too. Friends and family are the people who are close enough to know your capacity. They can tell you that though the idea is good but you might not have capacity to mature it. Potential entrepreneurs must listen to this kind of advises as a number of business startups fail because of inconsistency and incapacity/incapability of the entrepreneur. Potential entrepreneurs can get most benefit from family or friends if they have business/entrepreneurial background. They can give him/her advice based on their experience of business and market dynamics. On the other hand, family can discourage potential entrepreneurs too. They might influence him/her to do job instead of business as in case of loss, they will be the major financial sufferers.

Another source of good idea is experts of the industry potential entrepreneurs are interested in. **Expert opinion** can help an entrepreneur take the right decision at right time. Potential entrepreneurs must attend the live sessions and leaders' talk shows where industry leaders share their life stories and experiences. Entrepreneurs should try to make networks with these experts to get benefit from their lifetime experience. Potential entrepreneurs can share their business idea with these experts to get a feedback on how realistic and workable the business idea is.

**Intuition** is defined as "the ability to understand something instinctively, without the need for conscious reasoning." It's an ability to know something without any information or proof. Some people rely more on their intuition or gut feeling while others rely more on strategic reasoning and thinking over things before making any decision. As far as entrepreneurs are concerned, they are more of the intuitive type of people. Although they make decisions based on strategic thinking and reasoning, they also make decisions solely based on their gut feeling. Interviews with different entrepreneurs showed that the decision they took based on the gut feeling or intuition were right most of the times. It doesn't mean that intuition is never wrong as some of the decisions were found to be wrong too, which were taken intuitively according to the expert entrepreneurs. Taking decision based on intuition alone is a risk for business venture. Although entrepreneurs are risk takers but taking blind risk can affect the business venture. Entrepreneurs should consider the gut feeling or intuition but also collect information and do market research before taking any decision.

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## Technical Articles Theme 07

### Title: Entrepreneurship and Creativity

Videos: 70-86

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#### Topics Covered

70. What is innovation?
71. What is creativity?
72. Barriers to innovation and creativity
73. Creativity, innovation, opportunity and entrepreneurship: the link
74. Protecting your business idea: what is Intellectual property (IP) and what is intellectual property rights (IPRs)?
75. Protecting your business idea (Patent, Trademarks, and Copyrights etc.)
76. The interview with an entrepreneur: How to open third eye for opportunity hunting?
77. What makes entrepreneurs entrepreneurial?
78. The effectual reasoning: (The problem, The process)
79. Effectual reasoning: the principles
80. Bird-in-hand
81. The affordable loss principle
82. The crazy quilt principle
83. The lemonade principle
84. Pilot-in-the-plane
85. Effectuation: The workshop activity
86. The interview with an entrepreneur: How entrepreneurs can use their available resources for quick start?

Author: Marriyam Bukhari, Instructor Business Administration, Virtual University of Pakistan

## What is innovation?

Innovation, creativity and entrepreneurship are closely related. Innovation is defined as “the process of translating an idea or invention into a good or service that creates value for which customer will pay.” In large organizations, it is a complex process to bring innovation because of certain limitations. On the other hand, small firms are more prone to innovation and every small startup is thought to be innovative. The reason is; less complex structure of small firms, quick decision making, easy resource pulling, and easier product testing.

Innovation is also defined as: “Making a product or service better, faster, cheaper, greater satisfaction and/or greater value.” Another comprehensive definition of innovation is “the company’s capability to implement a range of coordinated actions and strategies for the purpose of developing and delivering new products and/or new services to the new or existing market in a manner that outperforms competitors.” Two critical components of innovation are: invention and commercialization. Commercialization adds social and economic value to the invention through the creation of a business, or/and licensing/intellectual property protection. You need to commercialize the new idea to solve the society’s problem. Without commercialization, no matter how unique the idea is, it won’t be converted into a product and offered in the market. The most common types of innovation are: incremental innovation, disruptive innovation, architectural innovation and radical innovation.

Most of the firms go for **incremental innovation** with existing market and existing technology. Incremental innovation is referred to the series of improvements a company make in its existing products and services with time. For example, Apple or Samsung mobile companies launch a new model of their smartphones every year with a slight improvement in certain features. Incremental innovation is not risky. **Disruptive Innovation** is related with implementing new processes, technologies (disruptive business models) in existing markets. In the beginning, new models look inferior as compared to the current solutions, but with the passage of time, they surpass the old technology due to their efficiency and efficacy. Amazon was the first online book store which disrupted the old business model of conventional book stores. There was an existing market of books and they changed the way books are sold. **Architectural innovation** is what the giant companies like Google and Amazon do. They take their domain related technology, expertise and skills and then implement it to a different market. This is the way they increase their customer base by expanding the market. **Radical innovation** is the type of innovation which people actually think as innovation stereotypically. It is the rarest type of innovation. It involves innovating new technologies, business models or services which create new markets. The examples of radical innovations are invention of microwave, airplane etc.

In Harvard business review, the types of innovation are defined in terms of how well the problem is defined and how well the domain is identified and defined. Innovation types are (according to HBR): sustaining innovation, breakthrough innovation, disruptive innovation, and basic research. **Sustaining innovation** involves improving the existing capabilities. Organization tries to get better

at what it has. Entrepreneur has a clear idea of what problems will come and which skill domains are needed to solve them. On the other hand, **breakthrough innovation** involves getting into a well-defined problem for which it is hard to get the solution. In this case, entrepreneur has to explore the skill domains which will be able to solve the problem. Researchers have discovered that with the changes in competition and shifts in technology and marketplace, companies improve and become better and better at the things (product/services) which customers want less. At this point, innovation in products or services won't help rather the companies have to innovate their business models. This type of innovation is called **disruptive innovation**. **Basic research** involves doing research on something you don't know. Every invention must have had a background research when the inventor did not even know what he is exploring.

Other most common types of innovation are: product innovation, business model innovation, process/technology innovation, social innovation, market-pull innovation and technology-push innovation. **Product innovation** involves innovation in products and intangible services such as services that meet customer needs. The business model is the way a company functions and earns money. **The business model innovation** encompasses innovations in strategy, marketing, supply chains, value creation, pricing or cost structures. The major examples of business model innovation are Food panda Uber, Careem, and Foodpanda. **Process and technology innovation** involves creating the process efficient or cost effective in order to improve quality or production. **Social innovations** are innovations where the benefit lies with society and the purpose is not primarily profit. Examples include innovation in education, poverty reduction, equal opportunities, health, pollution reduction, plastic use reduction, and green trends. **Market pull innovation** originates from the market and initiates by a specific customer request. Lastly, **technology-push innovation** is the result of new technologies for which suitable application possibilities are sought and implemented.

### What is creativity?

As we know, creativity is what distinguishes humans from other creatures. Business managers and entrepreneurs are more interested in creativity as they think it as a linkage to innovation which ultimately leads to new product, process, firm growth, or stronger competitive advantage (Ko & Butler, 2007). Different academics define creativity as a process which results in novel or new products or ideas which are appropriate and valuable to the society as a whole. The traditional approach to creativity was person-centered which assumed that creativity is innate in individuals. Contrary to the traditional approach, the contemporary approach to creativity believes that all humans having normal capabilities can produce at least moderate creative work, for some time, and in some domain. Research showed that creativity is not only innate quality of an individual, but it is also the function of environmental factors and individual characteristics which can be developed (Amabile, 1996; Sternburg, 2006). Creativity is about seeing the things same as everyone else is seeing but making the connections between them which no one else has made. It's an ability to produce or use original, unusual and unique ideas. Business dictionary defines creativity as "mental

characteristics that allows a person to think outside of the box, which results in innovative or different approaches to particular task. There are the five stages of an Individual's creative process. Each stage of creative process flows logically into the next stage. The stages of creative process are: preparation, incubation, insight, evaluation, and elaboration.

As an individual starts the creative journey, the first phase involves **preparation** work and generation of idea. It's the stage when individual conducts the research work and gathers information and materials that could ignite a unique idea. In this first stage of the creative process, the brain is using its memory to get knowledge and information on past experiences to generate the novel idea. When an individual is done with actively thinking about the creative idea giving it upfront time, it is the stage when he/she must let it go for a while. This stage is called **incubation**. It is the part of creative thinking to get yourself away from your idea before sitting down again to add more details to it. At this stage an entrepreneur might start working on other project or take a break from creative thinking altogether in a sense that he/she is not actively or consciously working on his/her creative idea. Throughout this stage, the idea is incubating in the back of the mind. After incubation, entrepreneur enters into the **insight** stage which is sometimes called illumination stage, a stage when "aha" moment happens, and individual gets eureka experience (feeling of joy and satisfaction). It is when he is able to form new connections and gather all the material he has collected to present the solution to the problem. It is the stage when the real unique idea is emerged. At this stage, entrepreneur is sure about the target market, customers, the product, the sources of finance and resources. Once the idea is emerged, it enters in **evaluation** stage. It is the stage to validate the idea and weighing it against the alternatives. An individual can go back and see if the current version of his idea is what he initially imagined. Another important thing at this stage is testing the viability of the idea. The entrepreneur will have to scrutinize the idea (whether it is viable or not) and conduct market assessment. An important thing at this stage is to check the financial viability of the idea. **Elaboration** is the final stage of creative process, and is sometimes called verification stage. It is the stage when hard work is needed to transform your idea into a physical product or service. At this stage an entrepreneur finalizes the design, transform the idea into a physical product or service and share it with the world. Entrepreneur at this stage will launch the marketing campaigns, keep the financial records, take the customers' feedback and will try to improve based on the suggestions of the customers.

## Barriers to Creativity and Innovation

Why an entrepreneur cannot innovate or bring creative product ideas into the market. There are certain barriers to innovation and creativity.

**Personal barriers** involves personality and behavior barriers, social pressure, lack of passion, lack of direction, fear of failure and making prior assumptions. Personality and behavior can be a major barrier to creativity and innovation. Some people are not the risk takers and want to enter in a market

with a casual or simple (already existed) product. They might not have the capability to think out of the box. Thinking creatively or wanting to innovate is a personality trait too so the people who do not have that trait of doing something different, do not go for creativity. Social pressure is another barrier to a creative idea. An entrepreneur comes under the social pressure when he/she tells his/her idea to someone (family or friends) and gets a negative response (when they call your idea weird and strange). This is normal for friends, family and even customers to have innovation barriers in their minds which form a wall against creative things. Our brain spontaneously prefers the known things as compared to the unknown things. This is the reason why society first rejects your idea. Under this social pressure, even if the entrepreneur is creative, he/she will curtail his/her creativity and try to build a simple product which will have market acceptance. Lack of passion is a personal barrier which comes from demotivation. May be in the beginning, entrepreneur is excited about the new idea but after getting discouraged by the family and friends, he becomes less passionate about his creative idea. Lack of direction can also hinder an entrepreneur's creativity and innovation. If an entrepreneur's personality is inconsistent and he doesn't have a proper direction, it will lead him to astray. Only a focused person can think creatively. Fear of failure is the foremost barrier to innovation and creativity in entrepreneurship. It happens when an entrepreneur is already under the social pressure and people around him have already rejected his idea. It makes entrepreneur feel demotivated thinking that his product/service model will not work or be rejected by the customers too. This fear also disturbs the entrepreneur at market testing stage which can lead him/her to take wrong decisions. This fear of failure leads the entrepreneur to make prior assumptions about the product acceptability in the market. He assumes that he will not get the investment, resources, customers, or the team to work on the idea.

**Cultural barriers** involve lack of training, misguiding instructions, lack of motivation, lack of basic ability, and access to resources. Culture is defined as “the shared values, beliefs, and practices of the people”. Some organizations do not have a creative culture. May be the business of the firm doesn't need creativity and innovation. Leg pulling and politics in organizations can also hinder creativity. In other firms (for example, advertising agencies or IT firms) creativity and innovation is the essential part of firm's culture. Such organizations (like Google) give upfront time to their employees to think creatively encouraging creative ideas and promoting innovation. An organization which needs creative ideas should train its employees to think creatively. Lack of training can be a barrier to creativity as the individual would not know what to think and what actually the organization needs him/her to think. Instructions on which type of idea is needed would be communicated clearly as misguided instructions can result in a totally different idea and wastage of time. Another barrier to creativity is lack of motivation. Even if the entrepreneur himself is creative but if he is unable to motivate others in the team, it will curb the creativity. If an entrepreneur doesn't have the basic ability to think creatively he/she won't be able to produce any unique ideas. Moreover, in order to execute a creative idea, entrepreneur needs resources. If he/she doesn't have access to resources, the creative idea will remain in the mind of the entrepreneur but will never be executed and offered in the market.

**Feasibility barriers** involve blur ideas, financial feasibility, and business model feasibility. Idea should be clear as the blur idea will not result in creative product or service. It should be practical and can be converted into a physical product or service. Financial viability is an important factor. The road from idea generation to a physical product/successful innovation is really expensive. An entrepreneur faces the situations like “we don’t have the right staff”, “too expensive”, “this is practically impossible” etc. Most of the creative ideas die because the entrepreneur fails to meet the finances of the journey from idea generation to innovative product development.

**The knowledge and experience barrier** involves lack of prior knowledge, lack of prior experience, and lack of access to information. Prior knowledge of the domain and experience in the domain can enhance the creativity. According to Amabile (1996), one of the components of creativity is domain related experience. Lack of prior knowledge and experience of the domain can hinder the creativity. The more you have knowledge of the field, the more you think creatively. An entrepreneur should have updated information on new trends and business models. Inability to access the right information can curb the innovativeness and creativity.

**The regulatory and procedural barrier** involves laws and policies, registration process, access to raw materials and government policies. An entrepreneur has to execute his/her idea according to the rules, regulations, laws and policies of the country. He/she has to register the business as per the registration process of the relative country. Another major barrier can be the access to raw material. May be the idea is so unique that it needs raw materials which are hard to access or need governmental approval to access them. An entrepreneur also needs to get the patents for the creative idea and see the government policies regarding that. The idea must be acceptable in terms of government laws and policies. The product should not be something which is not allowed in a country where you want to offer it.

## **What makes entrepreneurs entrepreneurial? Another perspective on entrepreneurship**

### **Effectuation: The problem**

In entrepreneurship, the general question which comes in mind while thinking of starting a business startup is “How should we start a business?” Entrepreneurship experts state that the more important question is “How does a business start?” instead of “How should a business be started?” Another most discussed question in entrepreneurship is “**What makes entrepreneurs entrepreneurial?**” This debate led the researchers to give the concepts of causation and effectuation approach to entrepreneurship. Sara Sarasvathy is a researcher and expert in the field of entrepreneurship who gave the theory of effectuation in 2001. Before discussing theory of effectuation, it is important to understand the difference between causation approach to entrepreneurship and effectuation approach to entrepreneurship. A **causation approach** infers that “entrepreneurs focus on a predefined goal and then aim to find the means to reach this goal”. Causal rationality arises when a pre-defined goals is set by the entrepreneur with a given set of means or resources. Entrepreneur

seeks to find the fastest, ideal, efficient and cheap means/alternatives to achieve that goal. The examples of causal reasoning are: choosing a high return market or choosing to serve the niche market. On the other hand, **an effectuation approach** infers that “entrepreneurs focus on the means at hand, which they aim to materialize into one or more goals that were not necessarily predefined.” It does not start with a specific goal. Instead, effectuation starts with the given means that entrepreneur has at the moment. It allows goals to develop over time with the aspirations and imagination of the entrepreneur.

#### Difference between causation and effectuation process

| Categories of differentiation | Causation process                     | Effectuation process                                       |
|-------------------------------|---------------------------------------|------------------------------------------------------------|
| Practice                      | Start with goals                      | Start with their means: Who I am, what I know, whom I know |
| Logic                         | Predictive                            | Control                                                    |
| Money                         | Expected return                       | Affordable loss                                            |
| Strategy                      | Competition                           | Partnerships                                               |
| Perception                    | Exploitation of preexisting knowledge | Leveraging of contingencies                                |

Source: Based on Sarasvathy (2001a, 2001b, 2003).

### Effectuation: The Process

As we know, effectuation does not start with a specific goal. Instead, effectuation starts with the given means that entrepreneur has at the moment. All entrepreneurs begin with three categories of means:

- (1) **Who they are** – their traits, tastes and abilities; (some people have certain special skills or qualities, natural skills and abilities which are actually the resources. Resources are not only the financial resources rather a special skill or ability can also be a resource).
- (2) **What they know** – their education, training, expertise, and experience; (for example, if you have education in data sciences, you can start your own IT firm based on your education and expertise as this education and expertise are your resources/means)
- (3) **Whom they know** – their social and professional networks (networking with resourceful and useful people can also be a resource/mean for an entrepreneur)

These three things are the core of an entrepreneur as entrepreneurs use these things (traits, education, skills, expertise and experience) to generate business ideas and start their businesses.

## **Effectuation: The Principles**

There are five principles of effectuation given by Dr. Sarasvathy which are:

1. Bird in hand principle (create solutions to the problem with the means/resources available at the moment)
2. Lemonade principle (surprises and mistakes are unavoidable. An entrepreneur should use the mistakes and surprises to find new opportunities.)
3. Crazy quilt principle (focus on co-creation and partnership instead of competition. It can bring new directions and funds for your project.)
4. Affordable loss principle (you should see how to cover the negative side. The best approach is to invest only the amount which you can afford to lose.)
5. Pilot-in-the-plane principle (you are yourself responsible for everything. Your future can be influenced by your own actions.)

### **Bird in Hand Principle**

When successful entrepreneurs start a new business, they first start with the available resources or means. The bird in hand principle infers that the business should be started with the means/resources currently available. These resources are categorized as follows:

- Who I am- what skills, abilities and tastes an entrepreneurs has
- What I know- his/her education, experience and expertise
- Who I know- his/her professional and social network

Using the mixture of these means, an entrepreneur can start imagining the new possibilities. Usually, he/she starts a business at a small scale with closest available resources or means and directly implements it without any detailed planning. With each decision, possible results are re-aligned. Ultimately, certain emerging things result in clearly achievable goals. The end goals are the result of aspirations, abilities, skills, and imagination of the entrepreneur and the people he/she has interacted with.

### **Affordable Loss Principle**

In business world, the general practice is to choose the market with highest return. It is a natural impulse which comes from the years long training which we get in business schools and business world. Business world tells us to maximize the returns by choosing optimal strategy and high return market segment. As far as effectual entrepreneurs are concerned, they go for affordable loss instead of maximizing profits. They make decisions on what they can afford to lose not what they can expect to make. This is what affordable principle infers. Instead of calculating what money is needed upfront and investing his/her time, energy and effort in raising that money, an expert entrepreneur tries to assess the negative side or downside and examines what he/she is willing to lose. The entrepreneur then starts the process of building the venture and brings other partners or stakeholders on board in order to estimate what they can afford to lose. An estimation of affordable

loss does not depend on what type of venture an entrepreneur is going to start rather it depends on the entrepreneur himself. It varies from one person to the other and even across the life stage of the entrepreneur and circumstances he/she is in. By estimating affordable loss and making decision which business to start (based on estimation of affordable loss), entrepreneurs stop relying on prediction. As an alternative, they cultivate the opportunities that have a low cost of failure.

### **Crazy Quilt Principle**

While causation relies on detailed competitive analysis, effectuation focuses on co-creation and partnership. The crazy quilt principle focuses on building partnerships instead of beating competition. Since effectual entrepreneurs start their business without a predetermined target market, the detailed competitors' analysis becomes less useful for them as they do not have an idea of who will be their competitors. Instead, they take their product to nearest possible potential customers. Some of the individuals or firms they interact with make commitments with the entrepreneurs by investing their means/resources in terms of time, efforts and money. This partnership principle or crazy quilt principle merges best with affordable loss principle to bring entrepreneur's product into the market with little expenditure. In the initial stages of venture development, these partnerships with suppliers, customers and other stakeholders help reduce the uncertainty and fear of failure. Lastly, since in the beginning entrepreneur doesn't not know which market to serve, these strategic partnerships and network, to a great extent, determine which market/markets the entrepreneur will eventually target.

### **Lemonade Principle**

There is a famous proverb "If life deals you lemons, make lemonade!" The lemonade principle (leverage contingences) of effectuation infers that an entrepreneur should embrace surprises that arise from uncertain circumstances by being flexible instead of being tied to the set goals. This principle is at the heart of entrepreneurial expertise that is the ability to turn the surprises or unexpected things into profitable opportunities. Effectual entrepreneurs learn to work with uncertainties and take advantage from them. In most businesses, the contingency plans are prepared where surprises are considered worst case scenarios. On the contrary, because effectual entrepreneurs do not bind their idea to any preconceived or specific market, so everything and anything is a surprise for them which can be turned into a valuable opportunity.

## **Pilot-in-the-Plane Principle**

The desire of self-control is as old as human itself is. Research shows that humans have been struggling to control everything in their lives ever since the history began. In today's world, the mechanism, processes and instruments for control-striving are different than they were in the past but the issue remains the same. Psychological research studies show that human behavior of control-striving is directly related to his/her functioning/performance. For example, if a person has self-control or control over things around him, he or she will be less stressed. On the other hand, loss of control is linked with helplessness and depression. Effectual entrepreneurs consider the desire of control as healthy and normal. Entrepreneurs usually chose entrepreneurship to become their own boss and control his/her business. Control makes them able to work independently, and on their own schedule. Effectual entrepreneurs take right actions, at the right time to control the things. They focus on the things in their own control and know that their decisions will result in the outcome they want. Though every entrepreneur has the desire to control but the intensity of it varies among people and also depends on the life stage of the entrepreneur. This principle suggests that entrepreneur is similar to a pilot who is responsible for the plane and passengers just like the entrepreneur is responsible for his venture.

-----The End-----

## Technical Articles Theme 08

### Title: Strategic Management in Entrepreneurship and E-Commerce

Videos: 87-104

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#### Topics Covered

87. Strategic management in entrepreneurship
88. Strategic Management Process
89. Clear Vision and mission of business venture
90. Assessment of strength and weakness of yourself and venture
91. Scan environment for potential opportunities and threats
92. Create short term and long term long
93. Select appropriate strategies
94. Building competitive advantage for new venture
95. analysis competition
96. Strategy review, evaluation and control
97. Innovation logic: the blue ocean strategy (Part 1)
98. Innovation logic: the blue ocean strategy (Part 2)
99. Innovation logic: the blue ocean strategy (Part 3)
100. The interview with an entrepreneur 1: How to lead the competition or making competition irrelevant?
101. E-commerce and the entrepreneur
102. Myths of E-commerce and challenges
103. Tech entrepreneurship and academia linkage
104. The interview with an entrepreneur 2: What are the challenges of online businesses?

## Strategic Management and its Role in Entrepreneurship

Strategic management and entrepreneurship are somehow related to each other. **Strategy** is an action plan that synchronizes the tangible and intangible resources and for achieving a set target for superior performance. A person might have a unique business idea but he cannot grow properly if he is unable to execute it with proper strategy. **Strategic management** is a branch of management. It is essential for managing organizational tangible and intangible resources to achieve its long term and short term goals and objective for sustainable competitive advantage in industry. There are three main phases of strategic management namely *Strategy formulation, strategy implementation, Strategy evaluation and control*. The main areas covered under strategic management are business vision and mission, internal and external environmental scanning, strategies formulation, analyzing the multiple strategies, sustainable competitive advantage for sustainable growth, implementation and operational execution of strategies, Strategies review, measures and control.

Strategic management can be divided in three broad categories i.e. strategy formulation, implementation and evaluation. Vision, mission, long term and short term goals and objectives, environmental scanning, strategies analysis and choices, business models and competitive advantage are all part of strategy formulation. Structures, designs and polices development, managing and allocating resources, functional areas e.g. marketing, finance, R&D and HR along with putting strategies into real time operations are part of strategy implementation. Strategy review, quality and control, corrective measures and revisiting strategies are all part of strategy evaluation. Creation and growth, diversification, performance of firms, industry dynamics, competitive advantage Mergers, acquisitions, alliances innovation and product ecosystems are some overlapping areas of strategic management and entrepreneurship.

**Strategic management process** is a method by which entrepreneurs assess their idea's viability and implement an appropriate strategy that can ensure to a sustainable competitive advantage of venture. This process starts with initial assessment which includes vision and mission. Next comes situation analysis which includes SWOT analysis i.e. analysis of strengths, weaknesses, opportunities and threats. When it comes to strategy formulation there is need to have a look at objectives, business level, corporate level, and global strategy selection. At the phase of strategy implementation policies, resource allocation, change management, organizational chart and structure are designed and redesigned. After design and implementation strategic monitoring comes in action through which performance is measured.

**Vision** statement defines the anticipated future orientation of the business venture whereas **mission statement** outlines the company's business, objectives and its approach to reach those objectives.

A good mission and vision statement must have a philosophy. Vision and mission statement must be aligned with each other. These must be customer and market oriented. Technology must be reflected. Competitive advantage, concern for society, concern for employees and future

orientation must also be reflected in vision or mission statement. Main questions to be asked while planning for a business are:

- *What is your general business description?*
- *What is your business model?*
- *Is it sustainable viable business idea?*

There are a lot of benefits of defining vision and mission statement. Clear vision and mission statement brings unanimity of purpose and direction among strategic partners. It provides standards and procedures for execution plan. Brings focus in allocation of resources. Establish a culture and tone of your venture. Serve as a direction and quality standard. Set rule to deter those strategic partners who cannot from participate for further growth. Facilitate in translating the long-term and short-term goals and objectives into a work structure. It also motivates for future growth.

For starting a new venture **SWOT analysis** of the business and individual himself must be done. SWOT stands for strengths, weaknesses, opportunities and threats.

**Strengths** are the positive internal factors that a business venture can use to achieve its vision, mission, goals and objectives. **Weaknesses** are the negative internal factors that inhibit the business venture's capability to achieve its vision, mission, goals and objectives. It adversely affect the sustainable competitive advantage of a venture. Following is the checklist of own/individual assessment:

- ✓ *Am I clear about my destination?*
- ✓ *Are my skills sufficient for kick start or growth?*
- ✓ *What are my limitations?*
- ✓ *In which area I am lacking that could adversely/positively affect my venture establishment or growth?*
- ✓ *Is my network worthy for establishment/growth?*
- ✓ *What level of commitment I can bring in my venture?*

Following is the checklist of venture assessment:

- ✓ *Is venture's objectives and goals measurable?*
- ✓ *Is venture's objectives and goals well communicated to strategic partners?*
- ✓ *Is product/service design competitive?*
- ✓ *Is selected target market is well thought and planned?*
- ✓ *Is my pricing strategy competitive?*
- ✓ *Are my unique selling proposition well communicated to target market?*
- ✓ *Is customer orientation well crafted?*
- ✓ *Is the venture's structure appropriate?*
- ✓ *Are jobs and requirements clear to all strategic partners?*
- ✓ *Is strategic partners' morale high?*
- ✓ *Are employee's absenteeism and/or turnover low?*

✓ *Are reward and control mechanisms effective?*

There are several tools that can be used to assess strengths and weaknesses. These are usually cost benefit analysis, financial ratios, and production and operation assessment. Business operates under an ecosystem that affects its activities. Internal factors like its customers, organizational environment and suppliers might be affecting the business. Similarly competitors, technological change, political environment, economy, social factors and several other factors also positively and negatively affect the business. So, **Opportunities** are potential options available in the external environment that a venture/entrepreneur can exploit to achieve its vision, mission, goals and objectives. **Threats** are negative forces available in the external environment that inhibit the business venture's capability to achieve its vision, mission, goals and objectives. Economic forces, social cultural and demographic forces, natural environment forces, political and governmental forces, legal forces, technological forces and competitive forces all can be considered as broad categories of external forces. Marketing intelligence, scenario planning, PEST Analysis (political, economic, social and technological analysis), Porter's five forces model (Competition in the industry, new entrants, Power of suppliers, Power of customers, substitute products) are several tools for external environment audit.

Keeping in view the SWOT analysis businesses define their goals and objectives. **Goals** are the broad long-range attributes that a business seeks to accomplish; Goals tend to be general and sometimes even abstract. **Objectives** are more specific, precise and quantifiable plan of performance addressing areas such as profitability, productivity, growth and other key aspects of a business. Objectives are defined on the basis of areas like product design, innovation, market development/diversification/penetration, productivity, cost efficiency, profitability, financial resources, growth, physical infrastructure development, team/venture restructuring and venture/employees performance. Objectives should be specific, measurable, assignable, realistic, attainable, time bound, written. These same characteristics are also defined by **SMART** model. Short term objectives suggest yearly plan of action whereas long term objectives are defined to be achieved within time frame of 5 to 10 years.

**Strategy** is an action plan that synchronizes the tangible and intangible resources and for achieving a set target for superior performance. It is road of action an entrepreneur draws up to attain the venture vision, mission, goals and objectives. It must be based on entrepreneur and company's core competencies while considering strengths and weaknesses. A successful strategy must be comprehensive, well thought and well integrated ensuring the key success factors to win the market share. Cost leadership strategy, differentiation strategy and focus strategy are three possible strategy options.

According to Porter Generic strategic positioning model, **Cost leadership strategy** is a strategy in which an entrepreneur strives to be low-cost producer relative to its competitors in the industry. It involves mass production, quality compromise, or technological breakthrough. It may trigger price war in the industry. Cost leadership strategy is applied if owner is selling similar product/services

and customers are not brand conscious. If customers are price conscious and ready to compromise on quality and the industry is price focused.

**Differentiation strategy** is strategy in which the entrepreneur seeks to build customer base by positioning its product or service in a unique or different fashion and where the customers also value its differentiation. Differentiation strategy is applied if customers value and demand for differentiation. They are brand conscious not price conscious and are not ready to compromise on quality.

**Focus strategy** is where an entrepreneur selects one or more narrow (niche) market segment to serve. He/she identifies the market segment's special need, wants, interest and approaches them with customized product or service. In focus strategy itself an entrepreneur can be low cost or he/she can differentiate.

**Competitive advantage** is defined as unique advantage over the competitors an entrepreneur gained by offering consumers greater value either in terms of cost or differentiation of product or services. By competitive advantage an entrepreneur is offering superior cost/production efficiency, superior good and/or service quality, superior innovation and up-gradation and/or superior customers' engagement. According to competitive advantage model, resources and core competencies lead to competitive advantage that gives cost or differentiation advantage which ultimately leads to value creation. Companies can achieve global competitive advantage through Local market adaptation, economies of scale, common global culture, tapping the optimal location for activities and resources, knowledge management and sharing, technology transfer, cost efficiency and technological efficiency. Competitive positions can be achieved being market leader, market follower, market challenger and market nicher. Market leader is the one having larger portion of market share. Market challengers are those who are innovating through technology cost efficiency or any other way. Market followers are those are always following market trends. Market nicher are those who are dealing in highly competitive market which is smaller in size. Competitive advantage should be valuable, rare, inimitable, non-substitutable and sustainable.

Competition is analyzed through many tools one of which is Porter's five forces model. Industry rivalry has to be analyzed. Threats of entry, bargaining power of suppliers, bargaining power of customers and threats of substitutes are remaining forces. Number of competitors, rate of industry growth, and intermittent industry overcapacity, and exit barriers, diversity of competitors, informational complexity, brand equity and level of advertising expense are some of the indicators of industry rivalry. Barriers to entry, economies of scales, brand equity, switching costs, access to distribution, absolute cost advantages, learning curve advantages and government policies are indicators to be analyzed while looking for threats of new entrants. Supplier switching costs relative to firm switching costs, degree of differentiation of inputs, price of inputs, uninterrupted supplies of input are to be analyzed to check supplier power. To check buyer power, bargaining leverage and volume, buyer switching costs, trends and preferences and buyer information

availability are to be analyzed. Buyer propensity to substitute and relative performance of substitutes are the indicators for analyzing substitutes.

Strategies once made must be continuously evaluated. A strategy should be **consistent** with goals and policies. **Consonance** refers to the need for strategists to examine sets of trends adaptive response to the external environment. Strategies must be **feasible** i.e. one must have all resources i.e. physical, human and financial resources. Must have **competitive advantage**. Checklist for evaluation of strategies includes the following:

- ✓ *Competitors reaction to strategies*
- ✓ *Competitors' strategies change*
- ✓ *Competitors' strengths and weaknesses change*
- ✓ *Competitors strategic changes and success*
- ✓ *Competitors satisfaction with their present market positions and profitability*

When entrepreneurs want to do financial review, they must have know how about financial review tools like return on investment (ROI), return on equity (ROE), profit margin, market share, debt to equity, earnings per share, sales and asset growth. Balanced scorecard is a document through which areas of objectives can be measured according to set targets and timelines and responsibilities. Similarly for review and evaluation *policy audit, human audit* are done. Along with that *corporate social responsibility and ethical responsibility* are also analyzed.

**Blue Ocean Strategy** suggests how to create uncontested market space and make the competition irrelevant. The book regarding the strategy was written by W. Chan Kim and Renée Mauborgne. According to this strategy, market is an ocean and the ocean is divided into two parts one with more sharks means high competition with limited capacity and other with less competition and survival is not that difficult. Earlier is considered as Red Ocean and later being considered as Blue Ocean. In Red Ocean strategy competitors have to compete in existing market, they have to beat the competition and exploit existing demand. After that value cost tradeoff is done and whole system of a strategic firm's activities are aligned with its choice of differentiation or low cost. According to blue ocean strategy uncontested market space is created. Competition is to be made irrelevant, new demand is captured. After which there would be no need to tradeoff between value and cost rather value innovation can be created. According to Blue ocean theory, supply exceeds demand, more options are available as customers globally, and price war has increased. Profit margins are shrinking. Brands are becoming more similar and selection is based on price. 3 core **principles** of BOS are:

1. Reconstruct Market Boundaries
2. Reach beyond existing Demand
3. Get the strategic sequence right

## 1. Reconstruct market boundaries

Following table suggests boundaries of competition relevant to market where head to head

|                                                 |                                                                                                       |
|-------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| Industry                                        | Looks across alternative industries                                                                   |
| Strategic Group                                 | Looks across strategic groups within its industry                                                     |
| Buyer Group                                     | Redefines the buyer group of the industry                                                             |
| Scope of Product and Service Offerings          | Looks across to complementary product and service offerings that go beyond the bounds of its industry |
| Functional-emotional Orientation of an Industry | Rethinks the functional-emotional orientation of its industry                                         |
| Time/Trends                                     | Participation in shaping external trends over time                                                    |

competition is there.

|                                                 |                                                                                                      |
|-------------------------------------------------|------------------------------------------------------------------------------------------------------|
| Industry                                        | Focuses on rivals within its industry                                                                |
| Strategic Group                                 | Focuses on competitive position within strategic group                                               |
| Buyer Group                                     | Focuses on better serving the buyer group                                                            |
| Scope of Product and Service Offerings          | Focuses on maximizing the value of product and service offerings within the bounds of its industry   |
| Functional-emotional Orientation of an Industry | Focuses on improving price-performance with the functional or emotional orientation of this industry |
| Time/Trends                                     | Focuses on adapting to external trends as they occur                                                 |

As compared to the above table following table suggests boundaries of competition relevant to Blue ocean strategies.

## **2. Reach Beyond Existing Demand**

Through this logic two basic conventional strategies are challenged i.e. focus is not limited to existing customers only. In addition to that, these strategies drive for finer segmentation to accommodate buyer differences. Mobile phone applications are perfect example of this new demand creation. Non customers are to be targeted.

## **3. Get the Strategic Sequence right**

If the supplier/ buyer utility for the business is going right there is a need to check whether price is easily accessible to mass of buyers. After that, there is need to assess whether you need to attain cost target to profit at strategic price. If yes, there is need to have knowledge about adoption hurdles for the business idea.

**Strategy canvas** can be used in Blue Ocean Strategy where multiple factors that the industry competes in are to be kept in mind and performance is measured. Through this strategy one has to operate beyond the usual industry performers/operators. Four actions are there to create Blue Ocean strategies which are *Reduce, Create, Raise, and Eliminate*.

-----The End-----

**Technical Articles Theme 09**  
**Title: Business Idea and Business Plan**  
**Videos: 105-114**

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**Topics Covered**

- 105. Preparing a powerful business plan: The significance
- 106. Users of Business Plan
- 107. Extent of a Business Plan
- 108. Features of a Business Plan
- 109. Arrangements of Business Plan
- 110. Table of Contents and General Business Description
- 111. Management Plan
- 112. Product, Services, and Marketing Plan
- 113. Operations and Production Plan
- 114. Financial Plan and Appendix

## Business Idea and Business Plan

Business plan is considered as the backbone of an entrepreneurial venture. Business plan helps entrepreneurs the most, to start a business. Irrelevant to a business success, it is obvious that every entrepreneur has some kind of business plan whether formal or informal business plan. Although a business plan does not guarantee the success of a business venture but it is good to have one. Different attributes of a business plan provide exclusive support to help manage and sustain a business unit. Therefore, it is critical to understand the basics of a business plan. For this one needs to know that any business activity is based on an idea (a business idea/a thought to start a business). A business idea is considered as a thought in someone's mind. Moreover, it could be in the written form, but still it has no physical existence until it is transformed into a physical business activity. A business plan is that tool which assists the connectivity between a business idea and a physical business. Or a business plan is that ladder through which a business idea travels from space (thoughts in mind) to the earth (physical presence of a business unit). Hence, it is clarified that a business idea itself has no relevance to an entrepreneurial venture in the absence of a business plan.

### Why business plan is prepared?

It is a dream for an entrepreneur to convert his/her dream (a business idea) into a practice. The business plan is prepared to transform a business idea into a practical business. For example: your business idea is to open an automobile workshop or to setup an advertising agency for digital marketing services. In any of these cases you will definitely need a written business plan to convert your thoughts into a physical business.

### For whom business plan is prepared?

The essence of this question is to identify the potential users/beneficiaries of a business plan. Broadly a business plan has two types of users: internal and external users.

**Internal users** are *entrepreneurs themselves* who get immediate guidelines to start a business through a step by step approach. *Potential employees* are also the beneficiaries of a business plan document i.e. skill full employees of a business setup can become the part of a newly hired team by an entrepreneur (a new business being established on the basis of a business idea). In this case the entrepreneur must have a business plan to attract, guide and retain the newly employed human resources.

**External users** are *customers* who can pre order or initiate a transaction in advance with the entrepreneur. Customers deem to analyze an entrepreneur's plan to conduct a business, its inputs and outputs in detail and then decide whether to collaborate with the startup or not. In the same way, *suppliers* and *investors* identify the potential benefits of being the part of a business startup.

## What is the extent of a business plan?

It is very important to know the depth of a business plan. The length and the depth of a business plan depends upon the following factors.

1. **The entrepreneur itself:** Orientation of the entrepreneur decides the depth of a business plan. An entrepreneur with a deep orientation to a business will enlist more attributes, requirements and details of a business setting within the business plan document. *Ability/Education* of an entrepreneur will also affect the length and details of a business plan. A more educated entrepreneur will be able to know even minor details of a business startup and hence such an input will deepen the content of a business plan. An entrepreneur's choice, *preference* and ability to understand the importance of a business plan also affects its depth directly. It is quite possible that an entrepreneur may consider the business plan a mere formality while the other one may take it very seriously.
2. **The complexity of the business:** The nature of a business decides the extent of a business plan. The level of complexity is different for different businesses. The business plan requirements for a cement factory would be different (much complex) from fast food restaurant or a barber shop (less complex). It is critical to understand that, the more complex a business is, lengthier its business plan will be. The complexity and depth of a business plan will help to reduce business risk and avoid unwanted mistakes. Thus it is recommended to write an in-depth business plan in case of a complex business. It is not a healthy notion to avoid writing an in-depth business plan due to its complexity and robust technical requirements.
3. **The level of competition:** The magnitude of competition will decide the details of a business plan. The science of competition acts just like complexity factor. More competition will require more information and knowledge based input to help devise a business plan.
4. **The level of uncertainty:** Being uncertain is a characteristic of a human's life. Similarly it applies to the business planning process. The increasing level of uncertainty demands an increase in the rigor of a business plan.
5. **Availability of time and monetary resources:** It is the luxury of time and available resources which decide the length of planning a business idea and writing it in the form of a business plan document. Time, the length of the window opportunity and the financial resources will guide you in deciding the ingredients of a business plan.

## What are the features of a business plan?

**Comprehensiveness:** A business plan must be comprehensive enough to cover all the aspects of a new business startup. A comprehensive business plan must tell you about the entry, survival, growth and exit of a business startup. In this context a business plan document must answer the questions: How to start a business? How to run a business? How to close a business? What is the plan B?

**Communication:** The foremost feature of a business plan is the quality of communication. A business plan is that prime document which serves as an ambassador of your business idea to all the stakeholders i.e. formal and informal investors. Therefore, a business plan must be taken care with the basics of communication i.e. The message should be complete, coherent, correct, concrete, concise, clear and courteous. The communication factor has so much impact on the health of a message that it can blur the importance of a quality content if not communicated properly.

**Guidance:** A business plan must be comprehensive enough and well communicated that it can guide its internal and external users.

**Formal planning process:** A business plan must include the formal procedural steps in order to make it comprehensive, duly communicated and a subtle source of guidance for its stakeholders.

## What is strategic arrangement/contents of a business plan?

It is very necessary to understand the strategic arrangement, sequence and the content of a business plan and its sequence. Usually a business plan has the following parts.

### A. Title/cover page

Title page is usually prepared after the completion of a business plan document. Title page is not just a formality rather it is a first impression of your business idea. A title page must have *Name of the business*, *Logo of the firm*, *Nature of the business* (retail, manufacturing, services etc.), *Legal status* (sole proprietor, partnership or corporate), *Name of the key entrepreneurs*, *Investment* (finances), *Statement of confidentiality* (confidentiality of the document and its rightful ownership), *Email and Location address of the business* (mobile number, office address, social media ID etc.)

### B. Table of contents

Table of contents is a gateway for the readers about the information inside a business plan. It guides the reader about how to explore a business plan. The reader will lose interest in case any misguidance found in the table of contents. Thus it is very crucial to align the inside content with the table of contents.

### **C. Executive summary**

The executive summary gives a summarized view of the whole business plan. Executive summary is crucial in the sense that it can make or break the interest of the reader or the potential stakeholder of your business plan. An executive summary of a business plan usually contains 2-3 pages and have small paragraphs. It must be originally written (must not be a replica of any other document) after the completion of whole business plan document and later it needs a careful review before making it part of the business plan document.

### **D. Management plan**

Management plan has the following particulars.

1. The introduction of the management team: name and address of the proprietors/entrepreneurs, qualification of the entrepreneurs (degree, skills, diploma etc.), experience of the entrepreneurs (internships, projects, volunteer work, formal business experience) and current responsibilities (role played by each resource).
2. Hierarchy of the management team describes about the team structure and reporting structure.
3. Total number of jobs: number of employees, the job description (job responsibilities and roles) for each employee and skill requirements for each job.
4. Human resource Policy: Hiring process, training and development evaluation and reward system are the part of human resource policy statement. An entrepreneur must adhere to the government regulations for small businesses and minimum wage rates etc.

### **E. Total product and service plan**

It is very useful to clarify and write the product or service being offered by the business startup at this stage. It exclusively helps the reader to know that what a particular business will offer i.e. manufacturing, distribution, trading, servicing, consultancy, sales or retail. It gives the reader a detailed note about the product mix (a mineral water product will have its packaging and sizing details) or a service mix (a college/education services will have details of its degree programs).

### **F. Operations and production plan**

Usually a business plan's scope is wide enough to cater the products and services both. A business plan is equally valuable and indispensable for both manufacturing concerns and services businesses. More often a business startup may offer a blend of both: services and products. A services business has an operations plan only, whereas a manufacturing business has both: an operation plan and a production plan. Operations and business plan is a very technical section of the business plan because your investors, suppliers, contractors and potential stakeholders observe, read and analyze the details of this technical information given in this section, precisely to check

the soundness of the business plan. Collectively, operations and production plan has the following particulars.

1. Input/supply/purchase plan: It lists down the raw material requirements for the manufacturing process. It includes the list of suppliers and also mentions the potential reasons to select those suppliers. Supply schedule and payment plan is also a part of this section. Storage facility and transportation system information is also a part of it.
2. Production plan: It includes the detail about production plant (layout, covered area and design etc.). It includes the description of tools, machinery, equipment, technology, facilities (different types of technologies and variety in production options) and total capacity (ability to produce certain number of unites in a day or in a month) of the production unit.
3. Total quality management system: The description of quality management system is very critical part of a business plan. It is very tactical to write the total quality management system in detail. Usually an entrepreneur has not much understanding of these details so it is advised to consult a professional quality manager in order to complete this section of a business plan.
4. Outbound logistics plan: This section contains the detail about how the manufactured goods will travel/reach to the market and become accessible to market players i.e. wholesalers, distributors, retailers etc.

### **G. Financial plan**

Formally, financial plan is the last section of a business plan document. The financial plan is considered as the heart and soul of a business plan along with the marketing plan. A financial plan must answer these three questions.

1. How much finance is required?

It is foremost important to exactly calculate, know and write the total amount of capital (financial resources) required to start a business. This information is valuable to be made part of the title page as well.

2. Where to get finance from?

Financial plan should also tell you the sources of finance. It mentions different avenues of financial resources e.g. banks, microfinance institutions, NGOs or other informal sources e.g. personal savings, borrowing from friends and family members.

3. Utilization and recording of financial results?

The details regarding the utilization of resources is very much necessary to mention here. This section comprises details of how, when and for which function of a business, money is required. This section is prerequisite with the information extracted from sales forecasting documents and requirement sheets. Pro-forma financial statements (estimated statements) are prepared to depict

the projections of output of future business processes. Pro-forma income statement, balance sheet and cash flow statement are prepared on monthly, quarterly, bi annually or annually basis.

## **H. Appendix**

An appendix or annexure is another important and informal part of a business plan document. It includes supporting documents i.e. resumes/CVs of entrepreneurs, legal documents (registration, agreements, contracts etc.), pictorial information (location map, animated visuals, cite graphics etc.). You may also attach information about the advance order from the customers if any or any other related information which you consider valuable to attract potential stakeholders of the business plan.

*Note: It is recommended to draw a raw business plan according to your dream business idea and keep practicing alongside the learning about different sections of a business plan. Hopefully this exercise will be helpful you to finalize your business plan.*

-----The End-----

## Technical Articles Theme 10

### **Title: NABC and Business Model Canvas: Presenting a business idea**

**Videos: 115-124**

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#### **Topics Covered**

- 115. NABC: Presenting business idea
- 116. NABC: The Need
- 117. NABC-The Approach
- 118. NABC-The Benefit
- 119. NABC-The Competition
- 120. Business Model Canvas
- 121. NABC-Example
- 122. Business Model Canvas-Example
- 123. Discussion Group : angle investor and venture capitalist (Part 1)
- 124. Discussion Group : the investors' perspective on loan applications (Part 2)

## NABC and Business Model Canvas: Presenting a Business Idea

It is important to know that a business idea whether it is sourced from your daily routine, the problems you see in the society or from the unmet needs of the people around you (i.e. water resources, health issues, energy issues, travelling, food and so many other problems) is initially in a raw form. Once you have identified a business opportunity and have prepared a rough business idea sketch in your mind, the very next critical phase is to refine that business idea. You need some resources to start that business and it is not necessary that you have all the resources with you to start that business at once. You need others' help in order to materialize your thoughts. You may find help from your immediate family members, other investors or from the open market sources. In each condition you need to present your business idea in a meaningful, structured and organized way. There are numerous ways to present a business idea but we need to find one which is convenient, easy to understand and smoothly presentable.

Here we present the ***Need Approach Benefits Competition (NABC) approach***, a framework to better structure and present your business idea. NABC is originally presented by Stanford University. As we all know that the effective pitching of your business idea to the potential investors and other stakeholders is very critical. So a very smart presentation of the business idea is an ideal approach to reach potential stakeholders of a business idea.

Stanford Research Institute defined NABC approach as *“An important client or market need addressed by a unique approach with compelling benefits when compared against the competition or alternatives”*

### ***Let's understand NABC importance with the help of an example.***

Suppose feel hungry and sitting in your Virtual University Campus at the lunch time. After a little ponder you have decided to go to a nearest tuck shop, a place that is trusted by you for good quality food with economical price. You avoid to go farther and other market places to avoid unnecessary fatigue and wastage of time.

You need to do a little activity here; that is to attribute this moment of thinking, analysis and decision making (finding a suitable, quick and affordable food option) to NABC components. This activity will enable you to find insights to NABC components from an entrepreneur's perspective. An entrepreneur actually needs to exactly refine and structure his business idea by considering the Need, Approach, Benefits and Competition factors of the services or goods being offered to the market. NABC components are collectively considered as the backbone of a business idea pitching sequence and content. It elaborates the **Need** you are addressing (the actual problem in consideration), the **Approach** you are using to address the issue/need (tools, strategies, plans etc.), the **Benefits** this business idea will provide (financials, profits, needs fulfillment etc.) and finally the details about the market **Competition** (competitors, industry dynamics etc.).

## Need

It is indeed important to know the individual components of NABC one by one. First component is Need. Need must identify the customer and the market you are offering product to. It is important to remember here that any service or good can sustain, grow and survive whose market exists with its customers and their demands. You need to be very clear with what need of the market or the customers your aim to fulfill. And also need to identify needs with large enough market which can offer sustainable market opportunity. An entrepreneur answers the following question at this stage of NABC preparation.

- ***What is the need?***
- ***What is its market size?***
- ***Is it sufficient enough to be a potential investment opportunity?***

Another thing to be remembered during need identification is that you need to build a solid case on an authentic facts based evidence (either through a survey, a statistical report, a market research or a concrete observation) which argues that a particular need/opportunity exists in the market. Clearly pinpointing the need, its market size, sustainability potential and its scientific evidence are the basic parameters to build a convincing argument in front of potential stakeholders of your business idea.

## Approach

After clearly pinpointing the need, the next phase is to finalize the approach through which that need will be fulfilled. ***Approach discusses the tool, resources, mechanism, plan and strategy to fulfill the needs of the target customers.*** It is most important to keep your approach simple, smooth, updated and state of the art to meet the dynamic market demands.

## Benefits

After identifying the need and devising a sound approach to serve that need now it is the time to list the benefits of the idea being presented to the stakeholders. The benefits package must be unique or sometimes it could be closer to other people's offering in the same target market. This will be your point of difference to other players in the market. At this stage you have to precisely list down the details about the benefits you are offering to the unserved market and customers. ***Usually market or customers demand three types of products or services. Customers need low cost, economical, high quality, better quality products and services simultaneously and so you need to give them a reason to switch to your offer and leave the previous one if any.*** Your benefit must be substantial enough to conquer the market battle. It is to remember here that this portion of a business idea presentation can become a reason to win or lose for you.

## Competition

After refining the need, approach, benefits of a business idea now this is the time work on the competition factor. It is the dilemma of the startups or the novel entrepreneurs that the focus too much on their approach to do the business. They are very much product centered and thus ignore the marketing forces i.e. competition. Thus they are more tilted towards thinking about approach factor and least bother about the market competition. We develop an exaggerated view of our product and contrarily we underestimate others products and services. ***We must be rightly critical to our own approach and must lookup that how competition can affect our business idea. It is equally important to precisely present the details about your current and potential competitors.*** You also need to elaborate how competition can affect your business proposition and how you are better than your competitors. All you need to do is answer what you will do? How will you do it? What are its benefits? Who are your competitors? You identified the need with some research based evidence, devised a fascinating approach, and described well versed benefits but you have half-heartedly analyzed your competition. This notions say that you have incomplete information about your business idea and it will be difficult for you to pitch your business idea effectively. Important need, with unique approach, compelling benefits and smooth competition description is the output of NABC framework.

### Example of Uber (Car riding service)

Let's take the example of how Uber (Ride sharing services) has successfully identified and addressed the customers' **need** of travelling. Uber has successfully identified a market (a set of customers) who do not have their own vehicles and those customers also find public transport a low quality option. Uber aims to serve the market by offering an affordable, reliable and quality transportation service. Uber has used a unique, state of the art **approach** to fix the travelling needs of the customers. Uber has used android based application platform to connect the different market forces. Uber application is being used as a technology driven modern tool to connect customers (people with travelling needs), captains/drivers (people who have their own vehicles and they choose to earn livelihood through ride sharing services) and a third party (Uber as an entrepreneur itself). It is easy to understand that Uber application simply inputs the customer call in form of travel destination and fetch that call to the interested drives on board. Once the ride service offer is accepted and the ride has been completed the driver collects the payment directly from the passenger. In this way need of the customers is fulfilled using a dedicated technological tool. Uber has offered low cost/economical, affordable and simultaneously high/better quality ride sharing services. The mentioned service package when compared to ordinary riding service (conventional cab services high cost and low quality) or public transport (low cost low quality) prompts numerous **benefits** to the customers. Uber services are affordable and it's fair calculating and fair collecting mechanism is transparent and standardized thus offers a much contended and mutually agreed transaction of services between the two parties. Uber has outperformed its **competitors** by offering reliable, better, cheaper and faster services.

## Business Model Canvas

Once business idea is refined through NABC and you have a presentable, articulated and nourished NABC framework of your business idea. The next step is to develop a business model canvas to further elaborate your business idea. Just like an artist uses a canvas or a blank paper to draw his thoughts and craft a master piece of art with symbols, gestures, lines and colors, the entrepreneur draws his business model canvas in the same way. The basic difference between NABC and business model canvas is that the purpose of NABC framework is to structure your business idea whereas the business model canvas draws a detailed picture of your business idea.

*Wikipedia defines the business model canvas as “The Business Model Canvas is a strategic management template used for developing new business models and documenting existing ones. It offers a visual chart with elements describing a firm's or product's value proposition, infrastructure, customers, and finances assisting businesses to align their activities by illustrating potential trade-offs”*

Source: [https://en.wikipedia.org/wiki/Business\\_Model\\_Canvas](https://en.wikipedia.org/wiki/Business_Model_Canvas)

By looking at the definition you will be able to understand the individual segments of business model canvas and their utility. Business model canvas answers the following questions to the readers or the viewers.

1. How do you acquire customers?
2. How do you plan and manage the relationship with the new customers?
3. How do you charge your customers?
4. What is your revenue model?
5. How much do you charge your customers?
6. Can you calculate your revenues for the next month, quarter and year?
7. What assets are available to you or under your control?
8. Who are your key partners?
9. What key activities do you need to engage in to deliver your value proposition?
10. What are your fixed, variable costs and how you calculate your future costs?
11. Does your revenue forecast demonstrates increase profitability towards the end of the forecast period?

The detailed general framework of a business model canvas is shown in table1.

**Table 1: Business Model Canvas with general questions**

|                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                          |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><u>Key Partners</u></p> <ul style="list-style-type: none"> <li>Who are our key partners?</li> <li>Who are our key suppliers?</li> <li>Which key resources are we acquiring from our partners?</li> <li>Which key activities do partners perform?</li> </ul> | <p><u>Key Activities</u></p> <ul style="list-style-type: none"> <li>What key activities do our value propositions require?</li> <li>Our distribution channels?</li> <li>Customer relationships?</li> <li>Revenue streams?</li> </ul> | <p><u>Value Proposition</u></p> <ul style="list-style-type: none"> <li>What value do we deliver to the customer?</li> <li>Which one of our customers' problems are we helping to solve?</li> <li>What bundles of products and services are we offering to each segment?</li> <li>Which customer needs are we satisfying?</li> <li>What is the minimum viable product?</li> </ul> | <p><u>Customer Relationships</u></p> <ul style="list-style-type: none"> <li>How do we get, keep and grow customers?</li> <li>Which customer relationships will we established?</li> <li>How they will be integrated with the rest of our business model?</li> <li>How costly they will be?</li> </ul> | <p><u>Customers</u></p> <ul style="list-style-type: none"> <li>How do we get, keep and grow customers?</li> <li>Which customer relationships will we established?</li> <li>How they will be integrated with the rest of our business model?</li> <li>How costly they will be?</li> </ul> |
|                                                                                                                                                                                                                                                                | <p><u>Key Resources</u></p> <ul style="list-style-type: none"> <li>What key resources do our value propositions require?</li> <li>Our distribution channels?</li> <li>Customer relationships?</li> <li>Revenue streams</li> </ul>    |                                                                                                                                                                                                                                                                                                                                                                                  | <p><u>Channels</u></p> <ul style="list-style-type: none"> <li>Through which channels do our customer segments will to be reached?</li> </ul>                                                                                                                                                          |                                                                                                                                                                                                                                                                                          |
| <p><u>Cost Structure</u></p> <ul style="list-style-type: none"> <li>What are the most important costs inherent to our business model?</li> <li>Which key resources are most expensive?</li> <li>Which key activities are most expensive?</li> </ul>            |                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                  | <p><u>Revenue Streams</u></p> <ul style="list-style-type: none"> <li>For what value are our customers really willing to pay?</li> <li>For what do they currently pay?</li> <li>What is the revenue model?</li> <li>What are the pricing tactics?</li> </ul>                                           |                                                                                                                                                                                                                                                                                          |

### **Vagi-Fresh (Example of a business Idea)**

A novel entrepreneur dreams to convert his business idea into a business empire. In fact he wants to materialize his business idea into a workable physical business. Let's take an example of a business idea. **"The idea is to offer everyday fresh vegetables on a bicycle based mobile outlet to the households"**

#### **Q-What is the important customer and market need? (The Need)**

Answer: Unavailability of fresh and cut vegetable at competitive rates at the door step is a problem for the households. Issue of managing buying of fresh vegetable and cutting it for meal preparation as faced by the working women (As reported by working women) is an addressable problem. This need analysis is based on the facts: Total population of Pakistan has exceeded 200 million with women about 49%. There are 32 million households in Pakistan. About 24% of women are the part of the workforce.

#### **Q-What is the unique approach to addressing this need? (The Approach)**

Answer: Bicycle based mobile outlet of vegetables having cool box installed in it for keeping the vegetable fresh throughout the day, offering fresh whole vegetables, fresh cut vegetables and fresh

boiled vegetables ready to be cooked. Outlet will work under the brand name Vagi-fresh and be supported by a website where customers, working women, may order fresh vegetables of choice 24 hours before the delivery to be made at the door steps. Vagi-Fresh will start as one outlet aiming at the chain of outlets.

**Q-What are the specific benefits resulting from the approach? (The Benefit)**

Answer: Availability of fresh and hygienic vegetables to working women throughout the day (**Quality/Standard Product**). Availability at the door step in desired form, whole/cut/boiled (**Convenience**). At competitive prices (**Affordability/Low Cost for Customer**)

**Q-Why must we win?**

Answer: Because we are offering what the target market exactly wants.

**Q-How/Why are the offered benefits superior to the competition/alternatives?(The Competition)**

Answer: Standardized quality, availability at the door step, in the desired form and at affordable prices make our offering superior to the competition. Everyone has alternatives. We must be able to tell our client or partner why our solution represents the best value. Conventional vegetable shops offer heterogeneous quality and usually do not suit to the working women owing to their work-life schedule. Our solution offers utmost convenience with quality and affordability.

**Our Pitch** (Standardized Quality at your door step within an affordable price. What else one can desire.)

Just like NABC framework for Vagi-fresh we also need to build its business model canvas.

**Table 2: Business Model Canvas with Vegi-Fresh example**

|                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                   |
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|  <b>KEY PARTNERS</b><br><br>1. Wholesellers of vegetable<br>2. Suppliers of packaging material<br>3. Management of shelter homes for the provision of vegetable washing, cutting and packing services<br>4. Designer and manufacturer of bicycle based retail outlet<br>5. Operators of mobile outlets<br>6. IT services provider |  <b>KEY ACTIVITIES</b><br><br>1. Online order taking<br>2. Buying of vegetables from wholesale market<br>3. Washing, cutting, boiling and packing of vegetables<br>4. Sale/supply of vegetables to customers<br><br> <b>KEY RESOURCES</b><br><br>1. Cash<br>2. Bicycle based outlets<br>3. Vagitable cutting and packing tools<br>4. Supplies of packing material<br>5. Two Laptops<br>6. Five Mobile sets and connections for communication<br>7. Supplies of vagitables |  <b>VALUE PROPOSITIONS</b><br><br><i>Bicycle based mobile outlet of vegetables having cool box installed in it ,for keeping the vegetable fresh through out the day, offering fresh whole vegetables, fresh cut vegetables and fresh boiled vegetables ready to be cooked. Outlet will work under the brand name Vagi-fresh and be supported by a website where customers, working women, may order fresh vegetables of choice 24 hours before the delivery to be made at the door steps.</i> |  <b>CUSTOMER RELATIONSHIPS</b><br><br>Communicating with customers using personalized mediums such as personal visits, telephone, WhatsApp, social media , website, mobile outlets etc.<br><br>Keep relationship building by delivering customized value.<br><br> <b>CHANNELS</b><br><br>Communicating with customers using personalized mediums such as personal visits, telephone, WhatsApp, social media , website, mobile outlets etc. Product delivery through mobile outlets. |  <b>CUSTOMER SEGMENTS</b><br><br>1. Working women having monthly income above Rs 40000/=.<br>2. Restaurants<br>3. Households having monthly income above Rs 75000/=<br>4. Girls and boys hostels of colleges and universities.<br>5. Office mess/cafeterias. |
|  <b>COST STRUCTURE</b><br><br>Main investment is required for having mobile outlets and managing supplies. Cost plus pricing model will be followed to set prices.                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |  <b>REVENUE STREAMS</b><br><br>Sale of vegetables. Advertisement on the website and mobile outlets. Customers can pay 15% as premium over competitors prices owing to unique service.                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                   |

Table 2 answers all the questions of basic concern in a business model canvas.

Please watch the video lectures uploaded on VULMS for the topics related to interview based discussion on angel investment, venture capitalist and loan applications

- Video lecture 123: Angel investors and venture capitalist
- Video lecture 124: the investors' perspective on loan applications

**Note:** *It is advised to form NABC framework and business model canvas according to your dream business idea and keep practicing alongside the learning about different particulars of both approaches. Hopefully this exercise will be helpful you to form an effective NABC framework and a presentable business model canvas of your business idea. Never forget that perfection is hidden behind the iteration (practicing and rethinking and again practicing the content you are producing).*

-----The End-----

## Technical Articles Theme 11

### Title: The marketing and legal aspects for an entrepreneurial venture

Videos: 125-145

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#### Topics Covered

125. The marketing aspects for entrepreneurial venture
126. Relationship marketing
127. Buzz marketing
128. Guerrilla marketing
129. Choosing the right segment and target market
130. Choosing the right customer to serve : Identify the needs and wants of your customers
131. How to conduct a market research? Turning data into knowledge
132. Design your market offering(s)
133. Product Design and quality
134. Product or service specifications
135. Explicit and implicit promises (interview)
136. Packaging and labelling
137. Where to sell and what? The Display matters
138. Smart choice for selling product/services and The virtual markets
139. What is price?
140. Pricing strategies (new product pricing )
141. Price Adjustment strategies
142. Price Change and Price war
143. What is Advertising Mix? And Integrated marketing communication strategies
144. Brand : Business identity
145. Interview: Brand building and selling tactics : Issues and challenges

## The Marketing and Legal Aspects of an Entrepreneurial Venture

Now we will be discussing marketing and different aspects of marketing. First we will start with the definition of marketing given by Philip Kotler. According to Kotler and Armstrong, Marketing is *“the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return”*. This definition has some components that are process, value for customer, customer relationship, goodwill and profit.

Moving on we will be talking about need. We have earlier talked about NABC (Need approach benefit and competition). Whenever you discuss or talk about a business idea, the first thing that is considered with the business idea is the need. So, need is identified at the first place whenever you are designing any product or service. So what is need?

### Need, Want, and Demand

**Need** is *a state of felt deprivation*. (Kotler and Armstrong) Anything that you feel is lacking in you is called need. Let's see when this need is converted into want. According to Philip Kotler and Armstrong, **want** is *“The form human needs take as they are shaped by culture and individual personality”*. Your need becomes you want based on the culture, weather and belief system of the area you are living in. This want finally takes the shape of demand. What is demand?

**Demand** is *“Human wants that are backed by buying power”*. (Kotler and Armstrong)

### Market offerings

How this need, want or demand is fulfilled? It is fulfilled through market offering.

For fulfilling need, want and demand of customers, businesses make market offerings. Kotler and Armstrong define **Market offerings** as *“some combination of products, services, information, or experiences offered to a market to satisfy a need or want”*.

In marketing, you would have heard about 4 P's or 7 P's. This is an important and main framework of marketing which explains which aspect to keep in mind during the marketing process. What are 4 P's of Marketing?

- Product: what are the design, quality and attribute of the product?
- Price: what will be the price of the product?
- Place: what will be your market place?
- Promotion: how will you inform your customer about your product service or experience?

In case you are offering a service, there mostly 7 P's of service marketing are considered. Along with the 4 Ps three more Ps are added making it product, price, place, promotion, process, people and physical evidence.

Now coming towards market, it says that **Market** is “the set of all actual and potential buyers of a product or service” (*Kotler and Armstrong*).

## **Markets and Marketing Strategies**

There can be many types of markets like business markets, customer markets and online markets.

**Business markets:** when selling to the business

**Customer markets:** when selling to customer

**Online markets:** when selling through digital media and not through physical markets

Marketing Strategy will be briefly discussed here and detail will be given in later modules. While designing a marketing strategy, following steps are involved.

1. Identify the customer need
2. Choose your value proposition
3. Design a consistent brand and message
4. Select your target audience
5. Select the marketing/social channel for your startup
6. Build your referral network
7. Assemble smart marketing team
8. Become your product's loyal user
9. Be vigilant to customer's feedback
10. Relationship marketing

Coming to the next topic, we will be discussing customer relationship management. You will have to develop a relationship between your customer and your business.

### **Customer Relationship Management (CRM)**

“The overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction” (*Kotler and Armstrong*)

The building blocks of CRM include **deliver customer value** and **delight your customer**.

Customer value is very important. While purchasing a product, whatever benefit or value I attach to your product, I will be comparing it to alternate products by the competitors. If the value or promise you are offering is better as compared to the competitors, then I will be buying your product.

There to understand Customer-perceived value, let's have a look at its definition,

*"The customer's evaluation of the difference between all the benefits and all the costs of a marketing offer relative to those of competing offers." (Kotler and Armstrong)*

Delighting customer relates to satisfying the customer. So, how to delight the customer? Customer will be delighted if you exceed his or her expectations and how will you do it? You can do it by exceeding his or her expectations through customer experience, customization and personalize communication, feedback mechanism, and relationship marketing and build/join communities.

## Customers

A very important framework is available to select the kind of customer that you are interested to maintain your relationship with. Philip Kotler has given a framework for customer classification on two bases; one is potential profitability and second is projected loyalty. Based on which there are following classifications of customers.

- Strangers
- Butterflies
- True friends
- Barnacles

**Strangers:** These have low potential profitability and little projected loyalty. They have just once purchased your product and might not purchase in future again.

There is little fit between the company's offerings and their needs. So the strategy for such customers should be not to invest anything in them.

**Butterflies:** They are potentially profitable but not loyal. They need the product and might buy your product and then again when the need arises they might buy the product of some other brands. They will not wait for your brand to offer discount, they will avail the discounts of any brand to fulfill the needs. There is good fit between the company's offerings and their needs. Therefore, the **strategy** should be to capture as much of their business as possible in the short time during.

**True friends:** They are profitable as well as loyal. They are your true friends. They need your product and they have strong fit between their needs and the company's offerings. **Strategy** for them should be to build continuous relationship and investments should be made to delight these customers and nurture, retain, and grow.

**Barnacles:** They are highly loyal but not very profitable. They will show interest in your product but will eventually not buy your product. They have limited fit between their needs and the company's offerings. They are very problematic also. They might be demanding a lot from your

product. You may be providing them customized service to fulfill their demands but they will later on tell that they are not interested in your product. So for them strategy is to fire them

Moving on we will discuss different marketing tactics used by businesses to gain customer attention like buzz marketing and guerrilla marketing. Firstly let's see what buzz marketing is.

“Creating a word of mouth or talk around product service or experience that consumers view as authentic”

## **Marketing Techniques/Methods**

**Buzz marketing** is done by using any entertaining way or news to draw people's attention towards the brand instantaneously. Which means you read a news or saw a Facebook teaser that got your attention instantly and started talking about it. That is buzz marketing. What companies do in buzz marketing is that they hire celebrities, opinion leaders and influencers (like you tubers) who start talking about the product and show that they are using this newly launched product or they talk about a product about to be launched. This is how buzz marketing is done.

Viral marketing, undercover marketing, diffusion marketing and product seeding are certain other names for Buzz marketing. Buzz marketing is used under various situations:

Buzz marketing can be used under following circumstances:

When you have to enter the market, you need to sensitize your market and your customer at that time you can use it.

- When you are launching a new product, service or any experience, you may be using buzz marketing.
- When you are opening a new outlet. You might have seen in big malls that on certain shops it is written Coming Soon.
- While expanding business.
- When you are entering a new market segment.

Buzz marketing can be used as a promotional campaign. In today's era of digital marketing, the widely used technique is buzz marketing. After buzz marketing, check out another tactic that is

### **Guerrilla marketing.**

Guerrilla marketing is the strategy that involves unconventional and low cost marketing tactics that produce maximum results. It has two main features; its low cost and it brings maximum customer engagement. It may involve any unconventional design or unconventional event in a market place that grabs your attention and you are involved in it and enjoys it, its guerilla marketing.

Jay Conrad levinson coined the term guerilla marketing in his book named guerrilla marketing in 1984. This word was inspired from guerrilla warfare. In this warfare different small tactics are used to surprise the enemy like ambush, sabotage, raid and surprise. So the basic purpose of guerrilla marketing is to surprise the customer to such an extent that the customer enjoys the experience. Now we will see when guerrilla marketing can be used. In Pakistan the use of guerilla marketing is very limited as compared to other parts of the world. What you do in this marketing, you engage the customers and customer starts enjoying your aesthetics sense. This kind of marketing was basically for small firm but large companies use this marketing to a wider extent. There are different types of guerrilla marketing.

- Outdoor guerrilla marketing
- Indoor guerrilla marketing
- Event ambush guerrilla marketing
- Experiential guerrilla marketing

Targeting your customers is a critical part of marketing function. There are certain Market targeting strategies. First thing to do is to see how to choose the right customers to serve? After dividing the market into various segments of distinct customers which may be based on psychology, age, income. Then the next step is targeting the market. Targeting means once you have divided the market into various segments now you will be choosing one or multiple segments to offer your product or service. So, in short targeting it that segment/segments that you are going to serve. Before targeting the segment we have to evaluate the segments. There are two options for this evaluation. Philip Kotler has given two yard sticks for evaluation first being segment's attractiveness and second is firm's objective and resources.

#### **Segment's attractiveness:**

For evaluating the segments attractiveness, once you have divided the market into segments based on any element like income age, psychographics etc, you must have the important information about size and growth, profitability, economies of scale are available and competition. By measuring these you can know how attractive the segment is that you plan to target.

After this you will check what the objectives of your firm are and what are the resources of your business and determine that will these be enough and fit to fulfill the needs of the segment you are selecting.

#### **How to target the market. There are multiple strategies:**

For young and upcoming entrepreneurs the one leading area of weakness is **Marketing Research and marketing intelligence**. Information and knowledge is an important resource in this era. For information market research is critical. So let's see what market research is.

Marketing research is systematic design, collection, analysis, and reporting of data and findings relevant to specific marketing situation faced by a company (*Philip Kotler*).

Now let's have a look at the situations where information is required. It could be a Business opportunity for which information is required. It may be market growth for which information is gathered. It may be competition about which data is collected. Moving on let's see why Marketing Research is required. Marketing research is needed for the following reasons. It is conducted for any of the following situations arise to identify problem, to evaluate segment attractiveness, to evaluate a business opportunity, market survey for customers' preference, product preference test, sales forecasting, integrated marketing communication strategies evaluation, evaluation competition, product and/or market expansion and price change.

### **Marketing Research Process**

Now let's study the **Marketing Research Process**. This process is very simple:

Step1: Define the problem/opportunity

Step2: Define the objectives of marketing research

Step3: Develop a complete research plan

Step4: Identify data sources

Step5: Selecting of sampling method and data collection

Step6: Analyze the collected data

Step7: Present the findings

Step8: Make an informed decision

Marketing Intelligence is a great success factor for entrepreneur. According to business dictionary marketing intelligence is:

“Primarily external data collected and analyzed by a business about markets that it anticipates participating in with the intention of using it in making decisions”.  
(<http://www.businessdictionary.com/definition/marketing-intelligence.html>)

Considering the importance of Marketing Intelligence big firms develop Marketing Intelligence System. *Philip Kotler* defines it as:

“A set of procedures and sources used by the management to obtain everyday information about development in the marketing environment”. (*Philip Kotler*)

Moving on we will be discussing design your market offering(s) or how your product or service is designed. Let's see how Philips Kotler defined product and service.

“Product is anything that can be offered to market for attention, acquisition, use or consumption that might satisfy a need or want”. (*Kotler and Armstrong*) and secondly what service is;

“Service is anything or benefit that one party can offer to another that is essentially intangible and does not result in any ownership of anything”.

## Classification of Product and Services

There are certain levels of product and services which include core benefit, actual product and augmented product. Mostly firm stay at the core level while designing the product or service but many of them add certain additional flavors to their product like brand name, level of quality and packaging etc. If you want to reach augmented level then according to Kotler you may offer delivery at the door step, credit facility cash on delivery, installation, after sales service etc. Deciding about all these levels is important because it will have impact on the pricing of the final product. When we talk about product and Service Classification, we see that whatever business is going on it can broadly be divided into two categories i.e. **consumer products** and **industrial product**.

**Consumer products** are offered to end consumer including convenience, shopping and specialty product while **industrial products** are offered to firms for further processing or for use in conducting the business. There are certain attributes of **product and services**. Product and service comprises of product Quality, Product Features, product style and design. Along with all these another important aspect is Unique Selling Proposition (USP). Entrepreneurship.com defines it as: “The factors or consideration presented by a seller as the reason that one product or service is different from better than that of the competitors”.

(<https://www.entrepreneur.com/encyclopedia/unique-selling-proposition-usp>)

## Product Design and Quality

**Product design** and **product quality** are other significant areas to be discussed. Product quality seems to be a simple concept yet it is very deep and complex. Let's have a very simple definition of Product quality. Product quality is defined as zero defect product or service. The American Society for Quality defines “quality as characteristics of product or service that bear on its ability to satisfy stated or implied customer needs”. Product quality is:

- The leading positioning tool
- Directly related to performance of product or service
- Directly linked with value for customer
- Directly related to customer satisfaction
- Ensure long term relationship with customer

Dimensions of product quality include level of quality and consistency and commitment with quality.

What does it mean by quality? Quality revolves around these eight dimensions.

Design of product and service is also important and is a little more complex and detailed than style. It is directly linked with customer value and satisfaction, ensure long term relationship with customers.

While designing the product or service, its specifications are considered crucial at this stage. So an entrepreneur must write these specifications. Consider yourself as a customer now. Whenever you go to buy an expensive product, you check all its specifications before making the purchase decision. The business dictionary.com defines product specifications as:

“Written statement of an item's required characteristics documented in a manner that facilitate its procurement or production and acceptance”.

<http://www.businessdictionary.com/definition/product-specification.html>

Another definition given by Kotler says that product specification is: “The stage of the business buying process in which the buying organization decides on and specifies the best technical product characteristics for a needed item”.

### **Buying Preferences**

In business buying, if your written specifications for the product, you may be involved in three different business buying situations; straight rebuy, modified rebuy and new task rebuy. Now looking at each concept one by one. Kotler has defined these three concepts in his book *Principles of Marketing*.

“A business buying situation in which the buyer routinely reorders something without any modifications called **straight rebuy**”. (Kotler and Armstrong)

“Business buying situation in which the buyer wants to modify product specifications, prices, terms, or suppliers called **modified rebuy**”. (Kotler and Armstrong)

“A business buying situation in which the buyer purchases a product or service for the first time called **new task**”. (Kotler and Armstrong)

### **Product: Packaging and Labelling**

Packaging and labeling defines your product. It is very important because it involves cost and grabs the customer's attention. Packaging helps to keep the product safe. Your packaging should be convenient and safe for the customer and customer should be happy to carry the product without

hassle. Labeling is also very important in certain products because legal issues may be involved like medicine.

What is packaging? Lets' have a look at two different definitions of packaging.

*"The wrapping material around a consumer item that serves to contain, identify, describe, protect, display, promote and otherwise make the product marketable and keep it clean."*

<https://www.entrepreneur.com/encyclopedia/packaging>

**"Packaging** involves designing and producing the container or wrapper for a product."

*(Kotler and Armstrong)*

While designing a product, it might have multiple layers of packaging. It may involve primary package, secondary package and shipping or third package. Packaging is known as the product's face. So, there are certain **packaging concerns** as given below:

- ✓ Product container
- ✓ Packaging design and functionality
- ✓ Packaging color and quality
- ✓ Packaging size
- ✓ Packaging durability
- ✓ Packaging cost

Packaging also attracts the attention. For example the Candy packaging ideas grabs the attention of the kids. Therefore, packaging is important because it results in influencing consumer, assurance of the product quality, brand recognition and brand reinforcement.

**Labeling** is very critical for certain industries especially where regulatory authority is monitoring it. Lets' see a simple definition of labeling: "Display of information about a product on its container, packaging or the product itself" Businessdictionary.com also gives a very good definition of labeling as:

"For several types of consumer and industrial products, the type and extent of information that must be imparted by a label is governed by the relevant safety and labeling is a part of the packaging. Labeling ranges from shipping laws." You may further explore it on <http://www.businessdictionary.co>

Labeling is has broad meaning it includes simple tags to complex graphics.

## Placement

After packaging and labeling let's move on towards placement of product and/or service. So, for an entrepreneur an important question is where to sell the product? What will be your market, customers and how to access them? Placement is related to accessing the customer. You may be selling the business product or consumer products but how will your customer access your product is important. Therefore, placement is the distribution options available to you to access your customer to deliver the customer value. It may be online, physical outlet or door to door selling. Given below is the simple definition of **Place/Access**. "What new distribution options are there for customers to experience our product e.g. online, in-store, mobile etc." **Placement** includes all the matters related to supply chain management, geographical locations, distribution channels and display of the product.

For placement, it matters a lot in which market are you dealing. Is it consumer markets, industrial markets, government markets, global markets or virtual market?

There are some important questions related to display like:

How to get dominating shelf space? Where to display the product e.g. own display center or shopping mart, departmental store or convenience shop? What are shelf plan to maintain the inventory? What is the shelf life of the product?

## Price and Pricing Strategies

After place, next P that is going to be discussed is price. Price is a really sensitive area whether you are planning to start the business; you are designing the product or already doing business which you want to expand. Price is the only p that is source of revenue while remaining P's involve / incur cost. A general definition of Price is: "The amount of money which is required and given in payment for buying something including product, service or experience". Another definition by businessdictionary.com is:

"A value that will purchase a finite quantity, weight, or other measure of a good or service".  
(<http://www.businessdictionary.com/definition/price.html>)

Consumer psychology and pricing are linked to each other as pricing may be the first factor a price conscious consumer is considering while making a purchase decision. While checking the pricing, the consumer may be considering and comparing all the following areas like consumers process the price information, previous purchases (last paid price), market survey, formal communication, informal communication, online sources, competitors' price, expected future price and price sensitive customers.

Before studying the pricing strategies, first we will see what pricing objective is because pricing strategies are designed based on your pricing objectives. So, there could be different objectives on which pricing is based like survival, maximum current profit, maximum market share (market penetration), new product pricing, product quality leadership and partial cost recovery.

Price strategies usually depends on what product, service or experience you are offering to the customer, what is your competitors' price of similar and alternate products and who you're your customers/ what is your target market? While selecting any of the price strategies, it depends upon business life cycle stage your business is in. You may choose any pricing strategies from new product pricing strategies, psychological pricing and product-line pricing strategies. Let's see one by one what these pricing strategies are.

### 1. New Product Pricing Strategies

When a company is bringing in new product into the market, it usually charges market-skimming pricing which means they charge high price in the start and then with the passage of time lowers the price. Another option is market-penetration pricing. In this pricing strategy, you want that when your new product is being launched, it sells in bulk as compare to your competitors so you offer a price which is competitively low and at the same time offering some additional features in comparison to your competitors.

### 2. Psychological Pricing

It is based on the psyche of the customer and it may include reference pricing, bundle pricing, multiple unit pricing and everyday low pricing.

### 3. Product-Line Pricing Strategies

This strategy is important for those entrepreneurs who are on the growth stage and wants to increase their product line. It is based on product line for which two different pricing are used named as captive and premium.

**Captive** pricing is for products that must be used along with the main product. Main product in a product line priced at low while related product and/or line of product price higher. For example, shaver with replaceable blades which is the main product is priced low but the replaceable blades are priced a little higher. You may charge **Premium pricing** which is pricing different model at different prices depending on their quality and features.

Price is the factor that brings revenue. While discussing price, one thing that is very important is price change and price wars. Being an entrepreneur, if you have decided to change the price of your product then you have to consider how your competitor will respond to it. There could be multiple reasons for price change like cost inflation, over/less demand, price competition, nature of product and product life and promotional campaign.

When prices are changed, there are certain reactions to price change. Both customer and competitors will respond to change in price.

- **Reaction by customers:** He will be happy if price decreases while he will be annoyed if prices increase.
- **Reaction by competitors:** They will also react towards your change in price for that they may respond in any of the following ways:
  1. Maintain the price
  2. Maintain the price with some value addition
  3. Reduce the price
  4. Increase the price and improve the quality
  5. Launch a low price line

**Price war** is a very critical moment and entrepreneur should be able to survive the war. Investopedia defines price war as:

“A price war is a competitive exchange among rival companies who lower the price points on their products, in a strategic attempt to undercut one another and capture greater market share. A price war may be used to increase revenue in the short term, or it may be employed as a longer-term strategy.” (<https://www.investopedia.com/terms/p/price-war.as>)

While businessdictionary.com defines it as:

“Market situation in which (usually two) powerful competitors try to suppress each other's market share by progressively reducing prices until one of them retreats, at least temporarily”. (<http://www.businessdictionary.com/definition/price-war.html>)

## **Marketing Communications Mix**

After seeing price, price changes and price war, marketing communication mix is going to be discussed. Communication mix is significant because if you are launching a product in the market then you have to communicate with your customers to inform them about your product. The way you inform them is called communication strategies or marketing communication strategies or mix.

Kotler defines **Marketing Communications Mix** as: “The specific blend of promotion tools that the company uses to persuasively communicate customer value and build customer relationships” (*Kotler and Armstrong*)

Marketing Communications Mix includes advertising, sales promotion, personal selling, public relations, direct marketing and digital marketing. Looking at their definition one by one, as given by Philips Kotler, are:

**Advertising:** Any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor *Source: (Kotler and Armstrong)*

**Sales promotion:** “Short-term incentives to encourage the purchase or sale of a product or service” *(Kotler and Armstrong)*

**Personal selling:** “Personal presentation by the firm’s sales force for the purpose of making sales and building customer relationships.” *(Kotler and Armstrong)*

**Public relations (PR):** “Building good relations with the company’s various publics by obtaining favorable publicity, building up a good corporate image, and handling or heading off unfavorable rumors, stories, and events.” *(Kotler and Armstrong)*

**Direct Marketing:** “Direct connections with carefully targeted individual consumers to both obtain an immediate response and cultivate lasting customer relationships” *(Kotler and Armstrong)*

Therefore, all these tools are available to communicate with the customers, you may use any of these tools individually or in combination. When you are using multiple tools, it is called **integrated marketing communication**. Integrated marketing communications (IMC) as defined by Kotler is: “Sensibly integrating and coordinating the company’s multiple communications channels to communicate a clear, reliable, and convincing and persuasive message about the product, service and/or organization”. *(Kotler and Armstrong)*

In integrated marketing communications, there are different strategies like social media, SMS marketing, blogs and influencers, news channels, vlogs, website and website banners, search engine optimization and local cable advertising. It is the decision of the entrepreneur to pick and choose any of these communication tools either individually or in combination. But the essence of using these tools is to inform the customer about their offerings.

## Brand and Branding

Another important concept of marketing is brand. Brand is your business identity. Pakistani entrepreneurs are lacking the brand development skills. Therefore, this area needs special attention of the entrepreneurs. There are various definitions of brand. One discussed below if taken from Investopedia.com: “A brand is an identifying symbol, mark, logo, name, word and/or sentence that companies use to distinguish their product from others”. <https://www.investopedia.com/terms/b/brand.asp>

While brand building, it is important to get legal protection for your brand so that no one else can use or copy your brand name. Such kind of protection is called trademark. Investopedia.com defines trademark as: “Legal protection given to a brand name is called a trademark”. (<https://www.investopedia.com/terms/b/brand.asp>)

While discussing brand, another important concept is **brand identity**. Let’s see how Investopedia.com defines it. “Brand identity is the visible elements of a brand, such as color, design, and logo that identify and distinguish the brand in consumers’ minds.”(<https://www.investopedia.com/terms/b/brand-identity.asp>)

Branding is important for the business and there are numerous reasons for its importance as it provides business Identity, helps in building recognition and customer relationship, being an implicit quality promise, leads to customer loyalty, generates new customers, wins customer and market place trust and provides edge on competitors.

**Brand development** is a complex process. There are some brand development strategies but these are critical for those businesses that are planning to expand. For these strategies, there are two things: either you are dealing with existing or new **product category** or you are using existing or new **brand name**. Therefore, ultimately it generates four strategies to select from.

Kotler defines these strategies in the following way.

**Line extension:** “Extending an existing brand name to new forms, colors, sizes, ingredients, or flavors of an existing product category” (*Kotler and Armstrong*)

**Multi brand:** “Multi Brand Companies often market many different brands in a given product category” (*Kotler and Armstrong*)

**Brand extension:** “Companies extend a current brand name to new or modified products in a new category.” (*Kotler and Armstrong*)

**New Brands:** “If the power of existing brand name is fading, a new brand name is needed.” (*Kotler and Armstrong*)

It is up to the entrepreneur that which brand development strategies he will use but brand building is very crucial in today’s era. At the end, it is again emphasized that Pakistani entrepreneurs should make utmost efforts towards brand development to reap maximum benefits of their business struggle.

**Note:** Please watch the video lectures uploaded on VULMS for the topics related to explicit and implicit promises of brands and businesses and brand building.

Video lecture 135: Explicit and implicit promises of brands and businesses

Video lecture 145: Brand building

-----The End-----

## Technical Articles Theme 12

### Title: The Management Aspects of an Entrepreneurial Venture

Videos: 146-151

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#### Topics Covered

- 146. The management aspects for entrepreneurial venture
- 147. Organizational Structure: How it is different from a large setup?
- 148. Legal form of business (Part 1)
- 149. Legal form of business (Part 2)
- 150. Discussion Group with a lawyer: how to register a firm in Pakistan?
- 151. Discussion Group: with a lawyer (How to approach ombudsman )

## Management Aspects of Business Ventures

To become a successful entrepreneur, one must be good at managing the venture. The management related considerations for an entrepreneur include decision making, leadership behavior, organizational structures and processes, clusters & networks, creating resilience, technological systems, departmentalization, and HR policies.

**Decision-Making** is an important aspect of any business venture as entrepreneur makes decision every single hour of every single day. These decisions can be minor decisions to major strategic decisions. How these decisions are made vary from one entrepreneur to another entrepreneur? Some entrepreneurs make decisions on their own while others take the opinion of employees or other friends and family. Some entrepreneurs also rely on expert opinion to make decisions especially in case of strategic decisions. Being an entrepreneur, which decision making style you opt is an important thing which he/she should consider while operating a business venture. **Leadership behavior** is another important aspect of management of a business venture. Which leadership style you opt for, decides the loyalty of your employees or team. It has been observed that employees are most loyal to the organization that they stick to the same organization for 30 years if the leader is good. **Organizational structure and processes** are the important things to operate the firm in an organized way. In the beginning of a new venture development, the organization structures are usually blur and every employee reports to the owner. But as the firm grows, the structures must have to be clear in terms of reporting and teams. On the other hand, processes should be clear even in the beginning.

Another important aspect of a firm's management is the **Clusters & networks** of an entrepreneur. Before starting a business venture, an entrepreneur must decide the industry he/she will enter. He must see if he has any networks and associations in that industry. Networking and associations with other businessmen and entrepreneurs are of utmost importance for an entrepreneur especially in the initial stages of new venture development. Being resilient and **creating resilience** in teams is the key to the success of any firm. Whether it is the development stage of a business venture or the growth stage, an entrepreneur can face setbacks or any uncertainties which should be faced by being resilient. In those times, it is the entrepreneur who must manage resources and make decisions which are in the favor of the firm. These setbacks can be the result of entrepreneur's bad decisions or competitors but there are certain uncontrollable factors (like COVID 19) which can be the reason of these setbacks.

Entrepreneur must also see which **Technological systems** are needed by the firm. As this is the era of technology and a lot of tasks have been digitized. For these tasks, you do not need any human resource. Some business models are based on technology, so they need more technological systems than others where human capital is more important. In the initial stages of new business development, there are no separate departments for each business function. Usually, one team

performs several functions. But in the growth stage of business venture, **departmentalization** can be a major concern for an entrepreneur. On the other hand, whether it is the initial stage or growth stage, an entrepreneur must devise the **HR policies**. It should be clearly decided which financial or non-financial rewards would be given to employees and when. Which type of contracts would be built with the employees and which actions would be taken against the employees who are involved in any fraudulent activities.

## What is Organizational Structure?

An organizational structure is defined as “a visual presentation of a company’s structure showing what employees do, decision making style, span of control, and chain of command”. In the initial stages of venture development, organizational structures are blurred and usually all employees report to the entrepreneur or CEO. But as the organization grows, it becomes important to define the organization structures and chain of command. Organizational structures are classified in terms of functions, products, markets, and geographical location.

**Functional Organizational Structure** departmentalizes an organization based on the common job functions e.g., marketing, finance, human resource, management, operations and IT. It is the most common structure organizations adopt. In small scale firms, if you want to make teams, you can give responsibility to some people of marketing function and some of finance function. Usually, one team is handling two or multiple tasks. Following is the pictorial representation of functional organization structure.



**Product-Based Structure** divides an organizational structure based on products. It is ideal for organizations with multiple specialized products. If an organization is dealing with multiple specialized products, it can make separate teams for each product each performing all the functions of marketing, finance, research, and operations independently. For example, an entrepreneur dealing with clothing as well as beauty products can make two separate teams. Each team will do the marketing separately. Similarly, all other functions (finance, HR, research, and operations) would be performed separately by each team.

**Market-Based Structure** divides an organizational structure based on industries, markets, or customers. Some entrepreneurs deal with different markets like government market, consumer market, and B2B market. For those entrepreneurs, the organization structure would be market based. There will be separate teams for each market served by the firm. If a firm deals with local

market and international market, there will be two separate teams for both markets who will perform each organizational function independently.

**Geographical Structure** deals with division of an organizational structure on the basis of geography. This is mostly adopted by the entrepreneurs who deal with import and export business. For example, if the firm deals with Canadian market and UAE market, there will be two separate teams for both the markets.

**Flat Structure** deals with an organizational structure where employees are only a few steps away from senior leadership and decision making is centralized. In the beginning of the start-up, organizational structures are usually flat where employees report directly to the owner or CEO.

**Tall Structure** deals with multiple layers of reporting and decentralized decision making. In the growth stage of business venture, when an entrepreneur has a big team, there are multiple layers of employees. Each layer of employees' report to the upper layer. For example, labors report to the line managers and the line manager reports to the senior manager. Further, senior manager reports to the middle manager who reports to the manager operations.

**How the structure of small setup is different from large firms.**

1. Blur organizational structures
2. Centralized decision making
3. Multiple roles of managers
4. Need for growing firms
5. Lack of R&D and human resource development (we don't see it in small business)
6. Flexibility of organizational structure (you can change the structure easily in small firm not in the large firms.)

### **Legal Forms of the Business**

There are four basic legal forms of business which are: sole proprietorship, partnership, joint stock Company, and nonprofit organization.

**Sole proprietorship** is a business owned and operated by a single person who enjoys the whole profit and bears all the loss. This form of business has unlimited liability which means in case of non-payment of debt, the proprietor's business property as well as personal property will be taken to pay off the debt.

Some of the characteristics of sole proprietorship business are:

- Single ownership
- No need of registration of business
- No documentation required (except for some businesses like pharmacy where documentation is needed)
- No separate legal entity from the proprietor
- Small scale business
- Tax on owner's income (No double taxation)
- Unlimited liability
- Sue and can be sued in the name of the owner
- Sole manager
- Business commencement and closure is on the will of the single owner

Another legal form of business is **partnership** which is a legal entity formed by two or more people. The partners are personally responsible for all the losses and debts and partnership has unlimited liability. A partnership can be a partnership at will when it is open-ended. A partnership at will is formed to carry out a general business without specifying the time of termination of partnership business or without specifying the duration of partnership. On the other hand, a partnership can also be a particular partnership which is formed for a particular project and terminated as soon as the project is completed.

Usually, it is not mandatory for firms to register a partnership, but it is recommended to register a partnership to get the legal protection. A Partnership deed is usually prepared in order to get a partnership registered.

Some of the characteristics of partnership are:

- At least two individuals are required to form a partnership
- Unlimited liability of all partners collectively and individually
- Profit is shared equally or in agreed ratio
- Voluntary registration
- No perpetual succession/continuity
- For transfer of share, mutual consent of all partners is needed

SECP has introduced a relatively new concept in partnership business in May 2018, that is limited liability partnership (LLP) where the liability of all partners will be limited to the extent of their investment except for one partner whose liability would be unlimited. LLP is form of business which is near to the corporate form of business in terms of some of its characteristics. The two main characteristics which distinguishes the LLP from general partnership is:

- Separate legal entity (it is the main characteristic of corporate form of business where the firm is separate from the owners. It can sue and be sued in its own name.)
- Perpetual succession (in general partnership, in case of death of a partner, partnership gets dissolved but in the case LLP it will continue. The death or insanity of any partner will not affect the existence of partnership).

Partnership Act 1932 explains the detailed procedure of registering and dissolution of partnership, right and duties of partners.

Another legal form of business is non-profit organization. A nonprofit organization is a business that has been granted tax-exempt status because it serves a special cause and provides public benefit. This type of organizations supports the government. Some of the characteristics of nonprofit organizations are:

- They are formed for the public service or benefiting the society.
- Donations which are given to NGOs are tax deductible. If you show it in your tax return, you will get the tax rebate or exemption.
- NGOs itself pay no tax on the received donations or on any other income earned through fundraising activity.

Entrepreneur can also start a nonprofit organization. Abdul Sattar Edhi is the example of NGO entrepreneur who started a nonprofit organization which has all the systems and processes, but it works for public service instead of profit making. A nonprofit organization can be started at local level, district level, divisional level, or provincial level in Pakistan whereas it can be registered under Punjab government welfare department if any individual wants to start it in the vicinity of province Punjab.

Another basic and most common form of business is corporation. There are four types of corporations which are:

1. **SMC or single member company** is a limited liability private company owned by a single director/member. This type of company was introduced by SECP in Companies Act 2017. The purpose of introducing SMC was to facilitate the sole proprietor. It gives the sole proprietor the benefit of limited liability.
2. **Limited liability partnership:** SECP has introduced a relatively new concept in partnership business in May 2018 that is limited liability partnership (LLP) where the liability of all partners will be limited to the extent of their investment except for one partner whose liability would be unlimited. LLP is form of business which is near to corporate form of business in terms of some of its two characteristics perpetual succession and limited liability.
3. **Private limited company:** it is the form of corporation started by two or more people. It is registered with SECP. The liability of members of a private company is limited to the

extent of their investment. The shares of private limited company are not offered to the public for purchase. All the profit is divided among the shareholders. Private limited company is not listed on the stock exchange for trading.

4. **Public limited company:** a public limited company is owned by the shareholders and managed by the directors who are selected by the shareholders. Shareholders get the profit in form of dividend. The shares of a public limited company are offered to the public for purchase hence public limited company is listed on stock exchange. It is registered with SECP under the Companies Ordinance 1984. The liability of the shareholders is limited in public limited company. For a public limited company, it is mandatory to show all the financial statements publicly hence it is more open to public as compared to the private company.

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## Technical Articles Theme 13

### **Title: The Financial Aspects of an Entrepreneurial Venture**

**Videos: 152-165**

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#### **Topics Covered**

- 152. Introduction to Financial Management
- 153. Financial objectives of the firm
- 154. Financial Management Process
- 155. Need for financing
- 156. Sources of Personal Financing
- 157. Raising Debt or Equity Financing
- 158. Creative Sources of financing
- 159. Financial Statements
- 160. Historical Financial Statement
- 161. Historical Balance Sheet
- 162. Historical Statement of Cash flow
- 163. Proforma of financial statement
- 164. Ratio Analysis
- 165. Break even analysis

## Introduction to Financial Management

Financial management means managing finances effectively. Every business needs to manage the finances. For entrepreneurs, arranging the funds and managing those funds and earning maximum profit is a must. Profitability, liquidity, efficiency and stability are the major financial objectives of a firm. Finances that are needed for a business are considered as cash inflows and expenses are cash outflows. Capital expenditures are usually fixed expenses. Finances required for entrepreneurs are usually from their own or from family or friends. Loans and other finances are the other sources of funds for entrepreneurs. Forecasting helps in having idea about financial requirements. If entrepreneurs decide to have debt, they need to forecast whether they will be able to pay interest rate or not. Banks are an important source of finance. Other financial institutions and debt financing organizations can also finance startups. There is no specific guaranteed source of financing for a particular type of business. Business with weak cash flows and low growth rate must go for personal funds or from family/friends. Businesses with low risk, healthy balance sheet and good management can go for debt financing. Businesses having unique idea and high growth rate can go for equity financing.

When we discuss about financial management in context of entrepreneurship, preparation of financial statements is an important element. Financial statements of a business can be either **historical financial statements** or **proforma financial statements**. Historical financial statements are required by SECP and are based on past performance. These are usually made on quarterly, half yearly or yearly basis. Pro forma statements are made on the basis of projections and are of equal importance. Income statement is one of the historical statements and is prepared over a period of time whereas balance sheet is prepared for point in time. Statement of cash flows deals with cash inflows and cash outflows. **Income statement** is created by stating net sales and adding any sales returns and subtracting direct expenses which gives income before interest and taxes. After adjusting interest and taxes we get net income/profit/loss. The basic accounting equation is **Assets=Liabilities + Owner's Equity**. Assets can be either current assets or fixed assets. Current assets fall within period of 1 year. Fixed assets are for more than a year. Current assets are liquid which means that can be easily converted into cash. Fixed assets are usually land and machinery. For balance sheet their depreciation amount is deducted to get proper value. As far as liabilities are concerned, they are also long and short term. The sequence of making financial statements is a must. Firstly, income statement is prepared then balance sheet and after that cash flow statements are prepared. Most of the information in **cash flow statement** is taken from income statement and cash flow statement. There are three sections of cash flows, Cash flows from operating activities, cash flows from investing activities and cash flows from financing activities. For cash flows from operating expenses, sources of cash are added and uses of cash are subtracted. Figures in this statement that might be increased or decreased can be taken from balance sheet or income statement. Net cash flows from operating, investing and financing activities are adjusted and then we can get the figure of cash flows at the end of the year which can be easily compared with the amount at the start of the year.

**Proforma financial statements** are similar to historical statements but they show projected figures rather than actual amounts. These can be used as a planning tool as well and can be a source to control the expenses. These statements can be used if the firm requires funding. There are three proforma financial statements, Proforma income statement, proforma balance sheet, proforma statement of cash flows. For proforma income statement, sales are projected for upcoming years as compared to actual figure of current year. Cost of sales is considered as percentage of sales so the same is projected for upcoming years. Some facts and figures are known for example depreciation expenses. Taxes and interest are also certain percentages so these can also be calculated. When starting new venture and actual figures from current and previous years is not present, statements of competitors or industry's average figures and can used. For proforma balance sheet, assets and liabilities are projected and this way the statement is prepared. Similarly, proforma statement of cash flows is prepared.

**Ratio analysis** is a tool to determine financial health or operational efficiency of a company. Actual sales figures cannot be compared so ratios are used. Ratio analysis is done to compare company performance with others and to compare performance of company departments with each other. It is also done to analyze future trends. Some ratios measure profitability, liquidity and some overall financial stability of a company. Return on assets, return on equity, and net profit margin are part of profitability ratios. Liquidity ratios include current ratios and quick ratios. Financial stability ratios include Total debt ratios and debt as equity. By performing ratio analysis, it becomes quite evident where the company actually stands.

**Break-even** is the point when total revenue is equal to total cost. At this point cost is covered but still profits are not earned. There are two types of costs, fixed costs and variable costs. *Variable costs* are costs that change with changes in production levels. These can be costs of materials used in production. *Fixed costs* remain the same regardless of sales. These can be rent, insurance and wages. Breakeven analysis helps businesses make decisions about prices, costs and level of sales. This analysis is used to predict future results. *Total cost* is fixed cost plus variable cost. So, total cost changes with change in variable cost. After covering variable cost the amount that is left to cover fixed cost is called unit contribution. Breakeven analysis is an important planning tool.

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## Technical Articles Theme 14

### Title: Growth of Entrepreneurial Firms and Globalization

Videos: 166-177

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#### Topics Covered

- 166. Business growth Model (Part 1)
- 167. Greiner Growth model of business (Part 2)
- 168. Preparing for growth (part 1)
- 169. Preparing for growth through Acquisition and mergers (part 2)
- 170. Preparing for growth (part 3)
- 171. Issues and challenges of growing firms
- 172. How to close a venture?
- 173. Discussion: The link between entrepreneur's personality and firm growth pace & style
- 174. Globalization and entrepreneurship
- 175. Opportunities and challenges in the globalized world
- 176. Strategies for going global
- 177. The digital age and its issues

## **Handling Business Growth**

It's important that an entrepreneur should not only be able to start the business but he should be able to handle the challenges of business growth. Some of the models and strategies commonly taught in entrepreneurship are following:

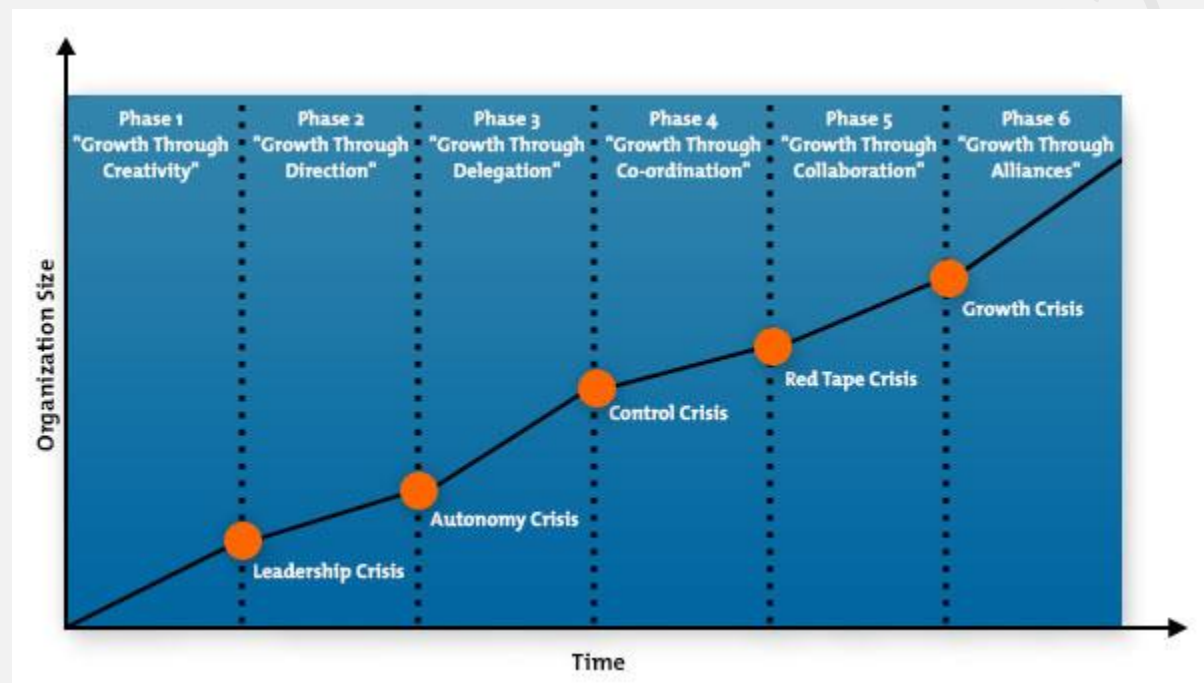
### **1.1. Business Growth Model (Part 1)**

Once a business is started, it is important to understand the dynamics associated with the growth of a business. Therefore, understanding different business-growth models is also important for an entrepreneur. Such models and frameworks give a better thinking pattern to an entrepreneur. There are two famous models for the business growth. The first is "business growth model" that emphasizes existence, survival, success, growth/takeoff and resource maturity. The very first phase of the business growth model is existence in which the entrepreneur starts the process of acquiring and retaining the customers. Products and services are delivered and showcased to the new and existing customers. The next phase of the business growth model is survival. Young entrepreneurs often confuse this stage of survival with success. However, it is a stage between the existence and success of a business.

In the survival phase, the entrepreneur realizes that the business idea is workable for further progress of the business or not. At this stage, often, a slight increase in the product sales and revenue is observed for which the entrepreneur starts getting encouragement. Hence, often the business achieves a breakeven point at this stage or at least gets closer to it. The third stage is success at which the company becomes able to maintain good customers. Business starts having profit as its income exceeds the breakeven point. At this stage, the entrepreneur carefully needs to differentiate between the sales and the profit. Often, the entrepreneurs get excited that increased sale is a source of income and that might be confusing because it is necessary to exclude all expenditures from income to determine the actual profit of a venture. At this stage, the entrepreneur starts developing brand rapport. The business also becomes capable of facing the competition in the market at the success stage. The fourth phase after success is the take-off. At this stage, the entrepreneur starts thinking about the further growth of the business. The fifth stage of the business growth model is resource maturity. At this stage, the entrepreneur tries for better financial management, product and service diversification and hence all specialized activities are performed separately at this stage at the departmental level within the organizational unit. Research has shown that at this stage, the entrepreneur often starts compromising further growth and tends to maintain a steady stream of income.

## 1.2. Greiner Growth model of business (Part 2)

This model was presented in the Harvard Business Review and presents the detail of potential challenges for entrepreneurs while having business growth. In this model, each growth phase is made up of a period of relatively stable growth, followed by a crisis. This model can be elaborated clearly through a graph which is given below.



This graph of the Greiner Growth model of business shows that over time, as the organizational size and business keeps growing, then a business has to face six phases and five challenges. As per this model, the business initially grows through creativity, then through proper direction, delegation, coordination, collaboration and alliances. However, each stage of such business growth is met with a crisis that a business has to deal with.

In this model, creativity is the very **first phase** of business growth. Cost reduction, existence and survival remain the focus of this phase. Usually, when an entrepreneur comes out of an incubation centre then he/she enters this phase of creativity. Usually, informal communication takes place at this stage between entrepreneurs and other stakeholders such as customers.

**Phase 2** in this model is direction. You have to give proper direction to the people working with and under you. However, this stage also brings this crisis of leadership. A leader has to be able to work for the venture himself and has to provide an enabling environment to the people working under him.

**Phase 3** is the delegation stage. In different functions, the entrepreneur has to delegate the work as he cannot perform every task himself. Leaders are often used to of keeping the work under their own supervision for every activity. Therefore, this stage of delegation comes with the crisis of autonomy. For example, the person dealing with sales should have the autonomy to provide a discount on product or service up to a certain limit etc. At this stage, employees also start demanding autonomy for their work.

**Phase 4** of business growth is coordination. At this stage, businesses are often having significant growth. All the departments coordinate with each other under a defined hierarchy. However, in the coordination phase, an entrepreneur has to deal with the crisis of control.

**Phase 5** in this business growth model is collaboration. At this stage business often has a significant growth with separate departments. Often rules and policies get so mature at this stage that they slow down the decision making. Such issues create red tape barriers in the organizations.

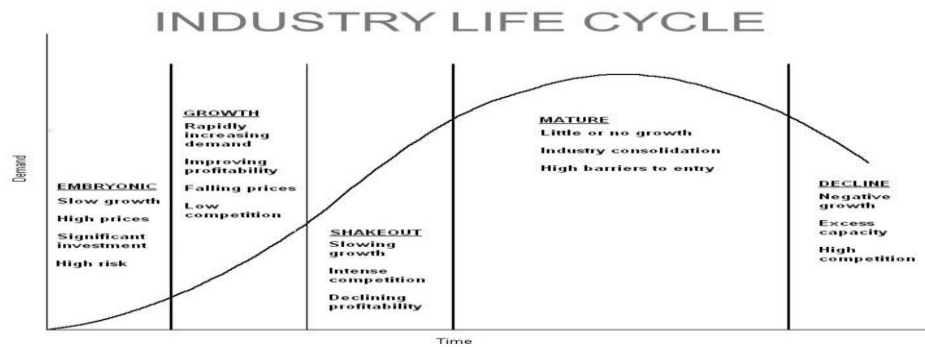
**Phase 6** of this business growth model is growth through alliances. Sometimes, when a business reaches the stage of maturity and it is difficult for the business to grow on its own then alliances with other strategic partners are formed. But such alliances should be carefully made. Entrepreneurs often face such difficult crises in the business. It can be concluded that business growth is not easy. Entrepreneurs have to face a crisis in the business such as those related to marketing, finance or leadership. It is also important to maintain the structure of the business.

### **1.3. Preparing for growth (part 1)**

For expanding the business, preparation is the key. Once the brand name establishes, then the business needs expansion. It is important to understand a few concepts concerning preparation for growth. The first concept is the industrial life cycle. The industrial life cycle refers to the gradual development of an industry through five common stages. Those five stages are:

1. Introduction (Embryonic stage)
2. Growth
3. Shakeout
4. Maturity
5. Decline

Many industries evolve and then decline very soon. Like reel camera and Symbian phone technology market has declined now. Therefore, an entrepreneur should not enter an industry that is at the decline stage. Consumer demands also change from time to time.

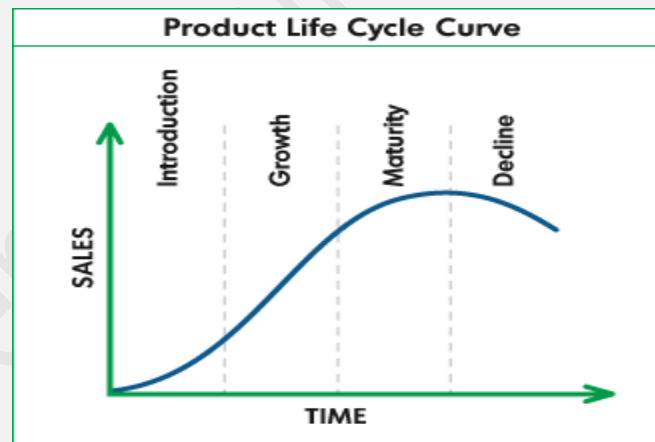


Source: Based on Figure 2.4 in Hill and Jones (2008).

CFA Institute

IT revolution, environmental factors and machine revolution have also caused a decline in many industries. If an industry is at an evolution phase, then it is better to enter in that industry for a new business. After the initial phase, the growth phase starts. For example, if the online business was a success in the recent past then many new entrants came into it. Home-based banking is another example. At the maturity phase, the environment for a new entrant is very tough. An entrepreneur should not opt for an industry that is at the decline phase.

Then there is another concept which is the product life cycle as the products can also be categorized with respect to their life cycle stages. The stages of the product life cycle are 1. Introduction 2. Growth 3. Maturity 4. Decline.



For example, initially, the mobile phone was used only for making a call or SMS. Then, the simple mobile phone market nearly declined and smartphones entered the market initially with Symbian technology and then with the Android technology. Now, even more experiments are being conducted for even greater evolution in the smartphone industry, so that, they could hold their maturity stage. Companies try to sustain this stage through research and development. Initially, products consume greater expenses such as for advertisement. In America, companies often launch their products at the decline phase in another region or country where that product was not earlier available.

For business growth, different factors are the source of entrepreneurial resources. For example, entrepreneurial intuition, knowledge and information, brand/business identity, team, finance, technology, customers and network are the resources for an entrepreneur to have business growth. These resources, if utilized effectively then they help the business at different stages.

### **Preparing for growth through Acquisition and mergers (part 2)**

As discussed earlier, for business growth, three decisions are very important which are given below:

1. Life cycle stage of the industry
2. Product life cycle stage
3. Available entrepreneurial resources

Other than those three factors, there are strategic measures for the growth of a business such as acquisition and merger. In small businesses, mergers and acquisitions are not that difficult but they are not easy in large businesses as many factors have to be kept in mind. In a merger, two companies combine their business and form one company that represents both entities. However, in the acquisition, one company takes over another company by purchasing it and the company that is acquired remains in the total control of the acquirer. The basis of merger and acquisition are often following:

1. Financial
2. Tender-based
3. Management team based
4. Product-based

There have been acquisitions in the recent past in the telecom and banking sector of Pakistan. In merger, there are a few types of it which are following:

1. **Horizontal Merger:** In this kind of merger, two businesses that are direct competitors having the same product line and market combine to form a new business.
2. **Vertical Merger:** In this kind of merger, a company merges with the supplier for a new business and for value addition in their product offering. For example, a supplier of a cone can merge with an ice cream producing company to provide cone ice cream units. Similarly, supplier of cotton yarn can combine the business with a textile company to establish their textile unit with a value addition and cost reduction for both the businesses.

3. **Congeneric Merger:** In such mergers, two businesses that serve the same customer differently combine for a joint venture. For example, a TV manufacturer and a cable company can combine their business. Similarly, sometimes sellers of TV provide free subscriptions of Netflix for a month or two.
4. **Market Extension Merger:** In this merger, two businesses that are selling the same product in different markets share their markets. It is also called the market extension merger.
5. **Product Extension Merger:** In such a merger, two businesses selling different but related products are combined for a joint venture.
6. **Conglomeration:** In such a merger, two businesses that have different products, different market and different nature of business combine to form a new business. For example, in a furniture shop, the name of the product brand may of a bakery. That brand might be dealing in both of those two entirely different businesses.

### 1.1. Preparing for growth: Strategy tools (part 3)

For better understanding and decision making in business growth, two strategic tools are often used which are the following:

1. BCG Matrix
2. Ansoff Matrix

BCG matrix was developed by the Boston Consulting Group. It is also called as Growth-Share Matrix. This strategic tool can help an entrepreneur in deciding that in which product or market he/she has the best scope for the business growth. In the BCG matrix, one assesses how much is the market growth rate and the relative market share, i.e., the market share of the company.



At the Star phase, a company is often in a monopolistic type of situation in the market and generates a lot of revenue. Product is advertised more and the investor often needs more investment to maintain this position; however, the product often remains the market leader at this stage. Question Mark stage means that the product has a low market share but a high market growth rate. Hence, more investment in advertisement and marketing is needed to further penetrate and increase the market share. A Cash Cow stage means that the product has a high relative market share but low market growth. These products generate enough revenue and not much investment is needed for them. That's why, it is called Cash Cow stage. Dog category means neither growth nor market share for the product in the market. At this stage, the business of that product hardly meets even the breakeven point. If it is the one product business, then often business closure decision is taken while the product is in this Dog category. However, options such as product redesigning or change of market etc., might rejuvenate the product even at this stage. Hence, this tool helps a lot in the strategic decision making.

Ansoff matrix is also a very good tool for analysing product or market expansion. It was developed by Igor Ansoff and was published in 1957 in Harvard Business Review with the article title, "Strategies for Diversification". Even in the present era, this model is still very popular.



It explains different options of business expansion like market development, diversification, market penetration and product development etc. In market development, the same product is introduced in another market. It involves risk as well because a brand might not be successful in a new market. So, the risk factor remains moderate to high. In market penetration, product or market remains the same but increased marketing effort for growth is made to have a large market share in the same market. It involves low to moderate risk. The next choice may be product development which involves a little higher risk. You introduce a new product in the same market. In

diversification, a company introduces a new business often in another market. Hence, this tool gives all these options for better decision making.

### 1. Globalization and entrepreneurship

Globalization has connected people of the world in a way that never happened in the past. Communication channels have made the world a global village and it has reshaped the dynamics of businesses as well. A new entrepreneur also has to consider the factor of globalization and that how it can impact the new business in his/her domain. Globalization is the shared integration of resources in the world. Knowledge is now more accessible and cultural boundaries are shrinking. Free trade is taking place in many countries and people are more connected through shared culture and values. People of different countries also need the products and services of each other which globalization has made possible. There are different drivers of fast globalization and some of them are following:

1. **Natural resource endowment:** Sometimes, the natural resources of a country are also the source of competitive advantage for the people of that country. Michael Porter in his theory of “Competitive Advantage for Nations” suggested that every nation has a unique competitive advantage of its resources. Therefore, a nation would like to sell its natural resources to other nations for which globalization is a factor that has fostered this process. A single country cannot fulfil all its requirements and has to rely on other countries for its needs.
2. **Improved transportation:** Better means of transportation have also added an advantage compared to the past and it has facilitated the exchange of commodities across the world.
3. **Technological breakthrough:** Communication and connection have become easy. Emails, the internet, phones etc., have made this process very easy and increased the pace of globalization.
4. **Free trade policies and international politics:** Nations are developing their trade blocks for mutual international trade such as America, Canada and Mexico in the American continent have their trade agreement. In Asia, ASEAN and in Europe, EU etc., have increased the globalization process through mutual trade.
5. **Skill and knowledge:** Now nations are also categorized based on their skill and knowledge-based economy. Due to this, skilled people of a nation work in other countries for their jobs and hence culture of a nation is also transmitted from one country to another country. Values are also exchanged and hence, the globalization process gets the strength.
6. **Growth strategies of the large corporation:** Many large multinational companies (MNCs) working in different countries also play a role in the globalization process.

Therefore, globalization also impacts the business of a new entrepreneur just like it impacts an established business. It also creates challenges for small and medium enterprises (SMEs). For example, the entry of Chinese products in Pakistan also decreases the business value of the local businesses. Similarly, the textile industry of Pakistan had a relatively bad impact due to globalization as the other regional competitors grabbed the bulk of market share in the international market. Therefore, an entrepreneur needs to observe the industry, capital requirement and other success factors before entering into a new business.

### 1.1. Opportunities and challenges in the globalized world

There are many challenges and opportunities for new businesses due to globalization. Global entrepreneurship is the process of business competition at the global level. Hence, understanding the culture and values of the other country is important for the entrepreneur if he/she is to sell the products there. The cultural, economic, legal and political forces of that country need to be understood for better compliance. The global entrepreneurs are more risk-takers and they have to adapt to the culture of the other country where their business is to operate. Some people think that globalization has increased opportunities as well problems for small businesses. New concepts of business are emerging along with globalization phenomenon. Some of the opportunities presented by globalization process for business are following:

1. **Born-Global Firm:** The concept of “born global firm” is emerging where “small firms launch their business in an international market right from the beginning of their business”.
2. **Service Outsourcing:** Large firms want to reduce costs and they outsource services such as call centre services to the workforce of less developed countries. Therefore, a businessman in a developing or under-developed country can be a service provider for a large firm present in a developed country.
3. **Offshoring:** In this process, companies initiate their operations in other countries where the cost of business is less for hiring knowledge workers. For example, there is a trend for offshore businesses in the IT industry of many countries.
4. **Information technology:** Social media, and vlogging has become very popular and they are also the sources of globalization. Websites, blogs, online bookings etc., are strongly emerging now compared to the past.
5. **Skill industry:** Offshoring and outsourcing happen due to the skills of people of other countries.

However, along with the opportunities, there are also the challenges of globalization. Therefore, an entrepreneur has to understand both the opportunities and challenges of globalization. Some of them are given below:

1. Culture, demographics and values
2. Legal system
3. Economic risk
4. International politics
5. Financial issues
6. Managerial and skill limitation
7. Quality standards
8. Product design
9. Operation alteration

### **1.2. Strategies for going global**

Primarily, there are six strategies for going global with respect to a business which are following:

1. Exporting
2. Importing
3. Foreign licensing
4. International franchising
5. International strategic alliance
6. Cross-border acquisition

The easiest way of going global is to export a product or service to the international market. In exports, products and services of the home country are sold in another country where they are needed. For example, sports goods, surgical instruments, textile products etc., are exported from Pakistan. Another strategy for a global business is importing in which products of another country are sold to the customers of the home country. For example, many companies nowadays have online stores where they import products from China, Malaysia, Japan etc., and customers in Pakistan buy those goods online from them in Pakistan. This model of business by those online stores is import oriented. This model can be B2B and B2C as well. Foreign licensing is another option that needs a lot of legal consideration. In this process, an entrepreneur gets the license of selling a foreign company's product/services in their country. The one who buys the license of a foreign company is called the licensee and the one who sells that license is called the licensor.

International franchising is another option in which franchise of a foreign company sells its products/services in the home country. For example, in the fast-food industry, franchises of many foreign companies are operating. An international strategic alliance is another option in which risk gets minimized as a local partner in the foreign country is found for joint collaboration. Both partners share the resources and foreigner plays the role of insider. Another option is cross-border acquisition in which a local company purchases the business of a foreign company. It involves the use of a large capital. All these options provide range of business choices for the entrepreneur in this globalized world.

## **2. The digital age and its issues**

Globalization has brought the revolution of digitalization that has its opportunities and challenges as well. Many companies are born global companies with export orientation and they need the use of digital means of communication for worldwide customers. It has reduced cost of business but businesses have to be vigilant for it. E-commerce has become more popular due to the digitalization. It brings new opportunities for the firms. Now transportation and payment methods along with other facilities are available for international customers and hence, it has increased the customer base for businesses. For example, Daraz.pk, AliExpress, Bareeze.com are the Pakistan companies that have started an international business through their online presence. However, for born global businesses of digital nature, serious considerations are also required. Some of them are given below:

1. Privacy policy
2. Exchange policy
3. International policy
4. Payment policy and methods
5. Logistics
6. Order tracking
7. FAQs
8. Consumer-generated content

All these considerations need to be kept in mind before starting a digital business. However, there are also some issues and challenges of e-business, e-commerce and some of them are following:

1. Competition is brutal
2. It takes time to build a positive profile online
3. Government can ban/restrict the product
4. Generating online targeted traffic
5. Converting shoppers into paying customers

6. Choosing the right technology and partners
7. Product display and content development

### **3. How to close a venture?**

It is important to understand the closure strategy for a business as well. Sometimes, people even don't know about the closure of a business and find themselves in the risk of legal consequences. There are multiple options for business closure and a few commonly used options are following:

1. Complete closure
2. Selling of business
3. Declaration of bankruptcy for liquidation

One must have a file having the business dissolution documents. Brand registration and licenses must be cancelled in case the business is closed to avoid the legal consequences. Finances and debt must be cleared along with having record for all the payments that were made. All business accounts in the banks must be closed to avoid the issues such as money laundering allegations etc., at the later stages. Business conflicts must be resolved and entrepreneurs should announce in the market about business closure so that, no one else should use the brand name later on. Tax returns/sales returns must be paid. Creditors must be notified. Keep the files/documents of the business with you even after the business is closed for at least five years. Serial entrepreneurs should evaluate the value of financial and non-financial assets very well. An entrepreneur should know what to sell and what not. Sometimes, companies declare bankruptcy and announce the assets that are ready for liquidation. Evaluators of banks assess the value of the asset. Overall, the financial and legal aspects must be considered carefully before the business closure.

-----The End-----

## Technical Articles Theme 15

### Title: Entrepreneurship Ecosystem and Ethical Considerations

Videos: 178-194

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#### Topics Covered

178. Entrepreneurship ecosystem (Part 1)
179. Entrepreneurship ecosystem (Part 2)
180. Business Markets and business buying behavior
181. Institutional and Government markets
182. Business Ethics for entrepreneurs (part 1)
183. Business Ethics for entrepreneurs (part 2)
184. How ethical behavior and practices in business bring economic benefits?
185. Visit to Lahore chamber of commerce
186. Interview with Dr. Amjad Saqib: Social entrepreneurship and its impact on society
187. Discussion with Lawyer: Intellectual property
188. Discussion with Lawyer: Trademarks and property rights
189. Discussion with Lawyer: Patents
190. Discussion with Lawyer: Copy Rights
191. Discussion with Lawyer: Design protection
192. All you need to know about CPEC-Part I
193. All you need to know about CPEC-Part II
194. Expert Opinion about Incubation centers

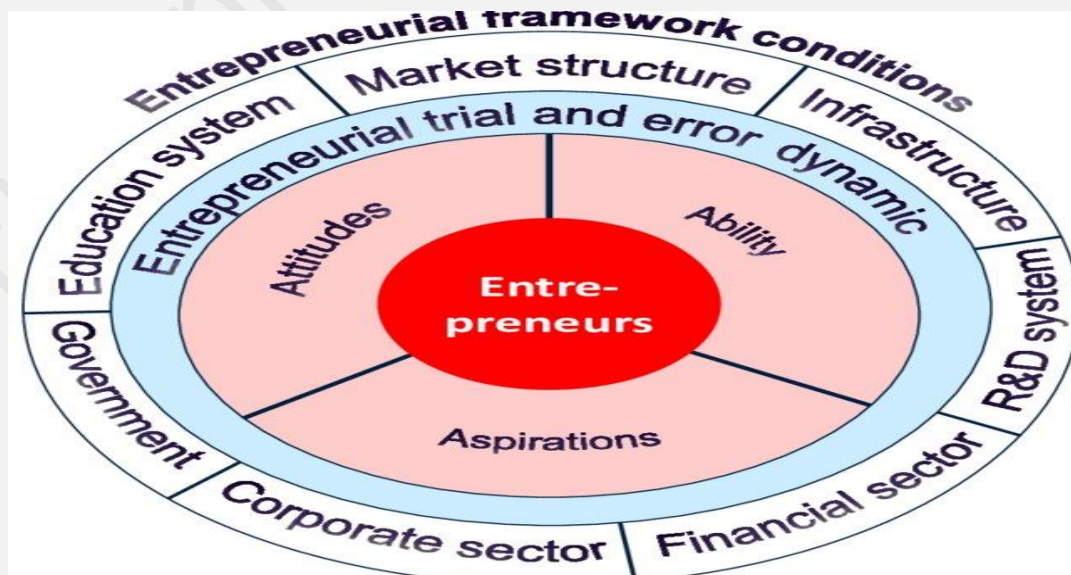
## Entrepreneurship Ecosystem and Ethical Considerations

Entrepreneurship ecosystem is an important concept and it is critical to see it in detail understand it. In the beginning of this course we shared some development stats (i.e. 14 pillars of entrepreneurial ecosystem by GEI) with you and discussed our position as a country in an entrepreneurial ecosystem region wise and worldwide.

All the details we have been through during the whole of this course will be discussed under the umbrella of the concept of ecosystem. An entrepreneurial ecosystem discusses the tasks an entrepreneur performs, the resources and planning he needs to do so and the environmental factors which he comes across. An ecosystem is defined in multiple ways like “it is a community of living organism in conjunction with the non-living components of their environment (things like air, water and mineral soil), interacting as a system.” The Global Entrepreneurship and Development Institute (GEDI) defines the ecosystem as “**A system** which is organized in a set of interacting and interdependent subsystems that function together as a whole to achieve a purpose” *source: GEDI*

The integration of resources, economic activities among the contributors of a system, subsystems is called as ecosystem. Our university, faculty members, students, campuses, cities, courses, content, degrees are all the part of an ecosystem. Actually we are all working in an ecosystem, means you are not working in isolation and secondly you are an integral part of the system just like other parts you too have the equal importance. “**An ecosystem** is a purposeful collaborating network of dynamic interacting systems and subsystems that has an ever changing set of dependencies within a given context” *source: GEDI*

“**An entrepreneurial ecosystem** at socioeconomic level having properties of self-organization scalability and sustainability as dynamic institutionally embedded interaction between entrepreneurial attitudes abilities and aspirations by individuals which drive the allocation of resources through the creation and operation of new ventures” *source: GEDI*



In order to understand this complex definition in simple way let us divide it into further layers.

Consider yourself as an entrepreneur who have basic entrepreneurial motivation with attitude, ability and aspirations. (Inner layer)

You interact with the dynamic environment (changing needs and behaviors of customers, markets, resources and organizations) around you. (Mid layer)

Furthermore you interact with the subsystems i.e. corporate sector (competitors), financial sector (investors, capital sources), research and development (innovations in the market), government (regulators, policy makers), market structure, and the education sector within your geographic vicinity. These all subsystems are interlinked and connected as a system which creates and enabling environment for you to conduct an entrepreneurial activity. (Outer layer)

GEI defines **14 Pillars of an entrepreneurial ecosystem**, explained in the following table.

| Sub-indexes          | Pillars                | Variables (individual / institutional)                                                                 |
|----------------------|------------------------|--------------------------------------------------------------------------------------------------------|
| ATTITUDES SUB-INDEX  | OPPORTUNITY PERCEPTION | OPPORTUNITY RECOGNITION                                                                                |
|                      |                        | FREEDOM (ECONOMIC FREEDOM *PROPERTY RIGHTS)                                                            |
|                      |                        | SKILL PERCEPTION                                                                                       |
|                      | STARTUP SKILLS         | EDUCATION (TERTIARY EDUCATION*QUALITY OF EDUCATION)                                                    |
|                      |                        | RISK PERCEPTION                                                                                        |
|                      | RISK ACCEPTANCE        | COUNTRY RISK                                                                                           |
|                      |                        | KNOW ENTREPRENEURS                                                                                     |
|                      | NETWORKING             | AGGLOMERATION (URBANIZATION*INFRASTRUCTURE )                                                           |
|                      |                        | CAREER STATUS                                                                                          |
|                      |                        | CORRUPTION                                                                                             |
| ASPIRATION SUB-INDEX | PRODUCT INNOVATION     | NEW PRODUCT                                                                                            |
|                      |                        | TECH TRANSFER                                                                                          |
|                      | PROCESS INNOVATION     | NEW TECHNOLOGY                                                                                         |
|                      |                        | SCIENCE (GERD*(AVERAGEQUALITY OF SCIENTIFICAL INSTITUTIONS +AVAILABILITY OF SCIENTISTS AND ENGINEERS)) |
|                      | HIGH GROWTH            | GAZELLE                                                                                                |
|                      |                        | FINANCE AND STRATEGY (VENTURE CAPITAL*BUSINESS SOPHISTICATION)                                         |
|                      | INTERNATIONALIZATION   | EXPORT                                                                                                 |
|                      |                        | ECONOMIC COMPLEXITY                                                                                    |
| ABILITIES SUB-INDEX  | RISK CAPITAL           | INFORMAL INVESTMENT                                                                                    |
|                      |                        | DEPTH OF CAPITAL MARKET                                                                                |
|                      | OPPORTUNITY STARTUP    | OPPORTUNITY MOTIVATION                                                                                 |
|                      |                        | GOVERNANCE (TAXATION*GOOD GOVERNANCE)                                                                  |
|                      | TECHNOLOGY ABSORPTION  | TECHNOLOGY LEVEL                                                                                       |
|                      |                        | TECHNOLOGY ABSORPTION                                                                                  |
|                      | HUMAN CAPITAL          | EDUCATIONAL LEVEL                                                                                      |
|                      |                        | LABOR MARKET (STAFF TRAINING*LABOUR FREEDOM)                                                           |
|                      | COMPETITION            | COMPETITORS                                                                                            |
|                      |                        | COMPETITIVENESS (MARKET DOMINANCE*REGULATION)                                                          |

Entrepreneurship doesn't take place in a vacuum — a whole host of factors determine how easy (or difficult) it is to start up. Our National Expert Survey (NES) looks at the national context in which individuals start businesses

Source: Global Entrepreneurship Monitor

1. Financing for Entrepreneurs
2. Governmental Support and Policies
3. Taxes and Bureaucracy
4. Governmental Programs
5. Basic School Entrepreneurial Education and Training
6. Post School Entrepreneurial Education and Training
7. R&D Transfer
8. Commercial and Professional Infrastructure
9. Internal Market Dynamics
10. Internal Market Openness
11. Physical and Services Infrastructure
12. Cultural and Social Norms

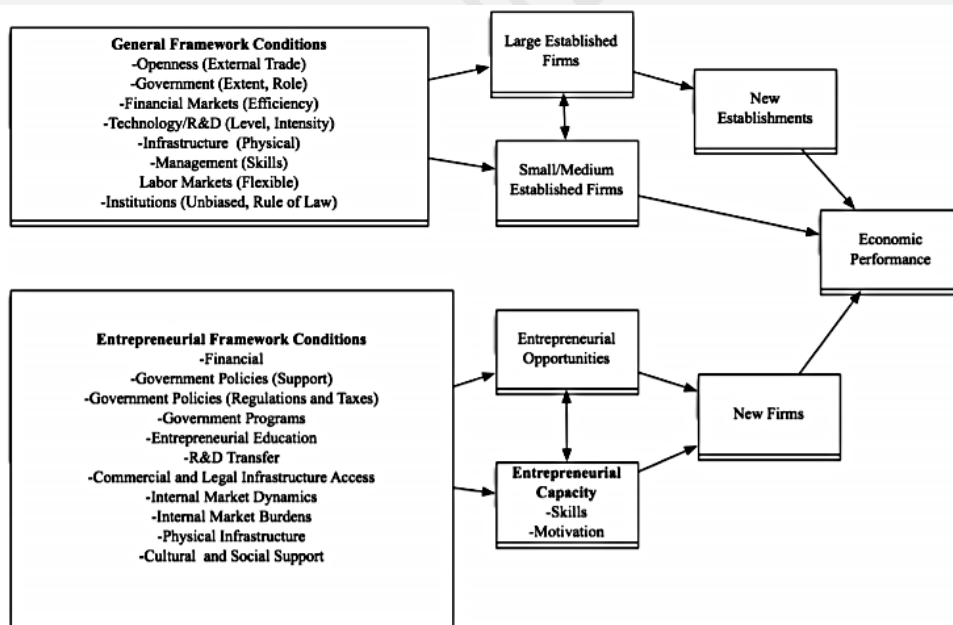


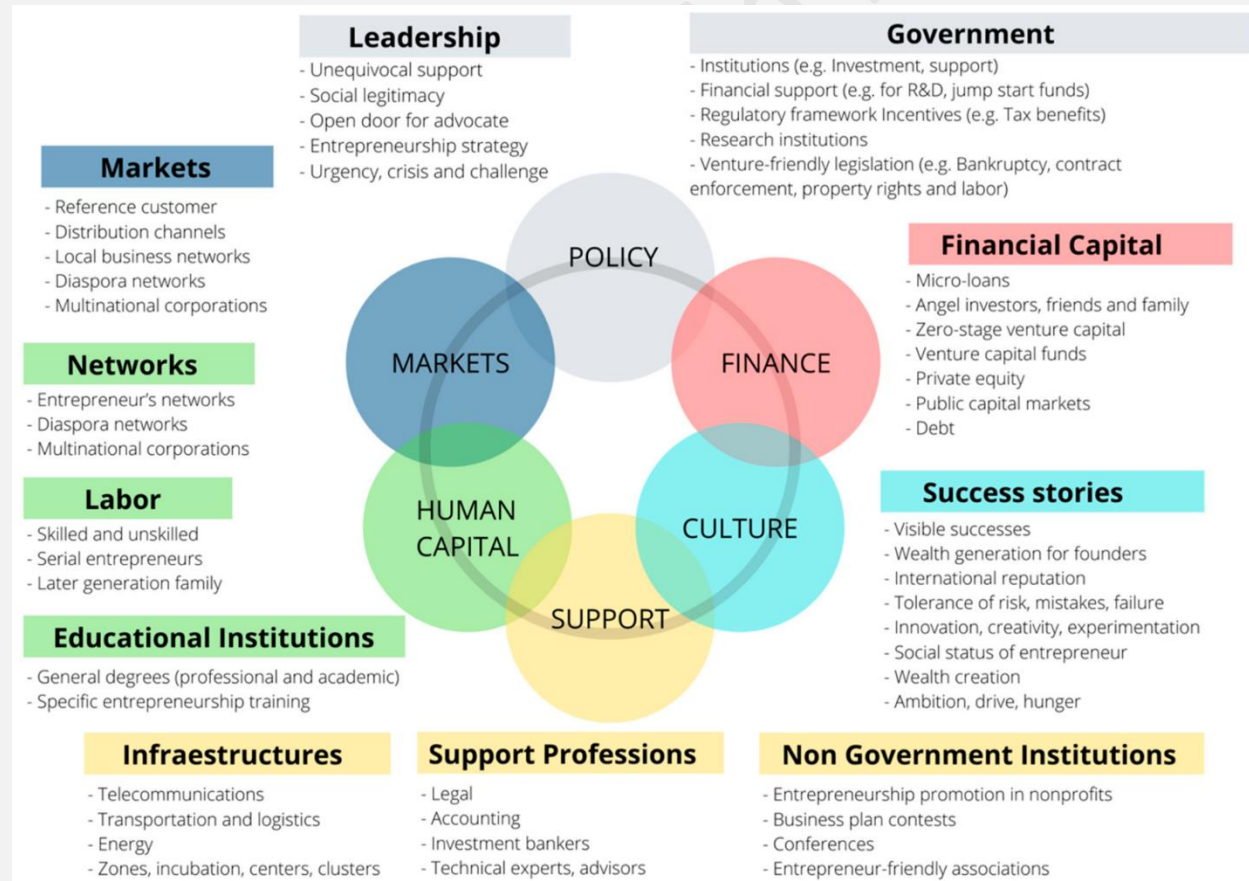
Fig. 1 GEM conceptual model of business ecosystem and economic performance

Taking discussion on entrepreneurial ecosystem to further step let us have a look on entrepreneurial ecosystem from another angle. “Entrepreneurial ecosystem is a set of interdependent actors and factors coordinated in such a way that they enable productive entrepreneurship in a particular territory. ”

Source: F.C. Stam & Ben Spigel, 2016. "[Entrepreneurial Ecosystems](#)," [Working Papers](#) 16-13, Utrecht School of Economics.

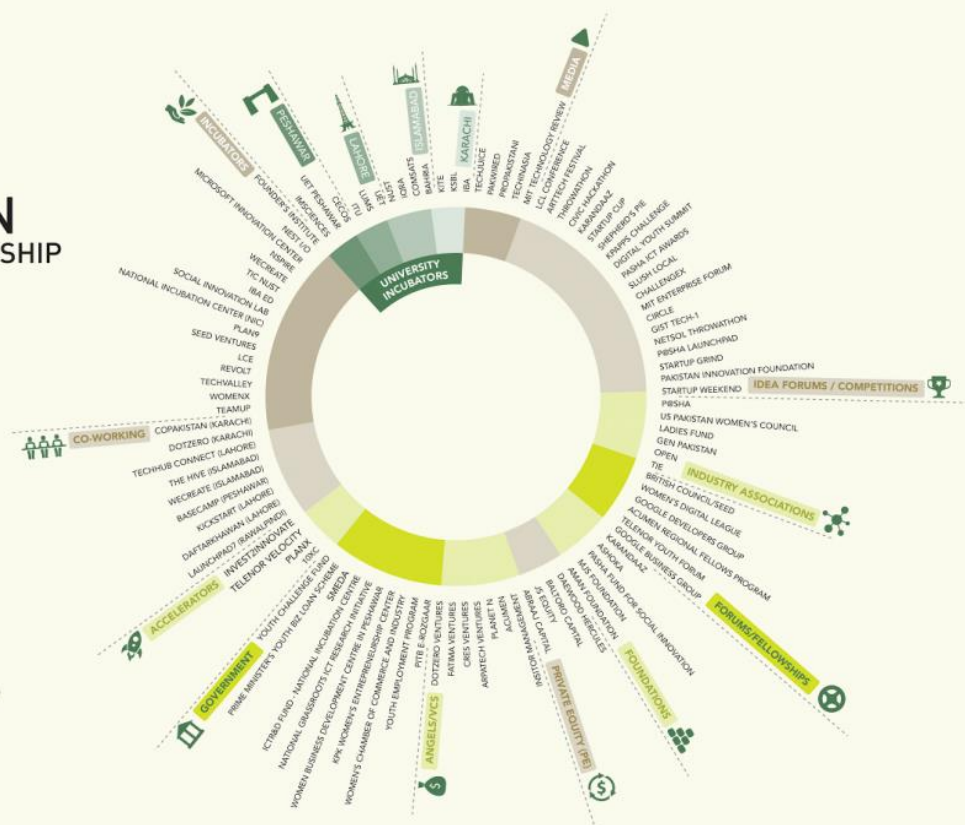
Similarly, *Isenberg’s model of an entrepreneurship ecosystem* has 6 indicators.

- 1- Conducive culture
- 2- Enabling policies
- 3- Availability of appropriate finance
- 4- Quality of human capital
- 5- Venture friendly markets for products
- 6- Institutional and infrastructure support



- Starting a business:
- Dealing with construction permits
- Getting electricity
- Registering property
- Getting credit
- Protecting investors
- Paying taxes
- Trading across borders
- Enforcing contracts
- Resolving insolvency

## Pakistan entrepreneurial ecosystem.



## Consumer and non-consumer/business markets:

Business opportunities spread across consumer markets, business markets, and institutional markets. As an entrepreneur we need to realize that business opportunities have heavier magnitude of opportunities in business, institutional and governmental markets thus these markets serve a larger chunk of business opportunities. *The dynamics of non-consumer markets are different to the dynamics of consumer markets i.e. buying decision*

**Buying decision** in consumer markets is done by an individual or maximum by a family unit. In business markets the buying decision is being performed by a system. It does not mean that there is no involvement of humans in these sort of decisions. But it is important to understand that these decisions take humanly input through an integrated system (all the decision makers are the part of a system in this case). This system has some certain requirements and entry dynamics which are needed to be well understood in order to enter and penetrate into these markets.

**Business markets buy two types of products: 1)** for their own consumption, **2)** for the further production of products and services they deemed to produce and deliver to consumer, institutional or government markets. Their demand is derived demand which is based on their personal potential markets. Unlike business markets, the government markets' dynamics are pretty different. **Within any type of economy i.e. market economy, government is the biggest buyer and the largest consumer of products and services.** Government's span of servicing includes health, education, defense, policing, transportation and infrastructure.

Institutional markets either governed by the government or non-government entities, profit or non-profit organizations. Let's take the example of a prison. A service providing institute for captives. All the service (health, hygiene, food, education, and skill development) requirements of a prison need to be sourced. Similarly hospitals from the private and public sector both are the examples of institutional markets. **Institutional (government) buying decisions are systematic, careful and legally bound by the PEPPRA rules, they need to open tenders for sourcing and buying.** Institutional markets (private sector public limited companies) are legally bound to show transparency to their stakeholders and they also need to open tenders. So tender is a big science. It needs market intelligence, information seeking. A tender has its own specific requirements pre requirements and post tender requirements. So here comes the element of mall practices which are performed to crack the tender related market and real time facts. It is more critical to understand that in between these mall practices as an entrepreneur you must not betray yourself form the principals of better, cheaper and faster. Ideally you need to focus on the quality and pricing of your offerings and further you need to be quick to get accurate marketing information resources.

It is important to know for a startup that it can target consumer, business, institutional, government markets with equal effectiveness and efficient if the entrepreneur has the right approach, information seeking ability, and exposure to legal mechanisms of these different types of markets. **It is critical to know the entry preparation requirements for non-consumer or the**

**business/institutional markets.** The preparatory requirements depend upon the objective of the startup itself. Generally a startup focuses on increasing the sales volume, market share and the return on investment on top priority. Firms dealing in B2C markets attach B2B market in its business portfolio to muscle up its market share, sales volume and return on investment. B2C and B2B are totally different organisms to deal with. The strategies and planning of sales, marketing, servicing, pricing, recovery etc. for B2C are totally different to B2B. ***Conditioned to the type of product you are offering it is the liberty of dealing both B2C and B2B at the same time that you can switch to B2C in case of problems in B2B and vice versa.***

When you are growing as an entrepreneur then you need to approach institutional and government markets in order to increase market share and introduce your innovative products to a larger market.

### **Business and ethics**

Whether you are a service provider or you deal only in products or both, whether you deal with B2B markets or B2C markets in each of these situations you come across multiple types of business practices, people, transactions and situations. Therefore, you need to learn and practice the business ethics. If you do not practice business ethics and involve in business malpractices then you may get the short term benefits but it will not help you sustain in the market. **Ethics is the branch of knowledge** that defines the moral principles to deal with people and society. **Generally,** it involves the moral principles that govern and guide an individual's behavior while living in a society for conducting activities in general interest of society.

Business ethics is the study of appropriate business policies and practices regarding potentially controversial subjects. (The waste of a chemical factory will pollute the environment)

Some issues that come up in a discussion of ethics include corporate governance, insider trading, bribery, discrimination, social responsibility, and fiduciary responsibilities. (Unfair means to win a tender from an institutional client, gender biasness in employee promotions etc.)

The law usually sets the tone for business ethics, providing a basic guideline that businesses can choose to follow to gain public approval. (to dispose off chemical factory waste in a proper way, you own rules and decisions to morally power your business)

Source: <https://www.investopedia.com/terms/b/business-ethics.asp>

#### **Ethical Boundaries**

Religion, personal values, government rules, consumers 'values, cultural values, and societal values decide your ethical boundaries.

An entrepreneur must have some certain acts or behaviors to display business ethics. These set of business ethics signal the (business ethic) reputation of an entrepreneur to the business community and the clients and help grow and sustain business as well.

- 1) **Trustworthiness:** Being transparent and honest in all actions and communications (i.e. warranty claim conditions must be clear, transparent and justified). Trustworthiness creates your image as a good employer among the internal customers (employees) and a good brand among the external customers (consumers, suppliers and the competitors).
- 2) **Respect:** Respect for employees and customers is equally important along with being a trusted business entity. The way an entrepreneur treat you during a business transaction i.e. mutual respect or the way he treats his employees while performing a business activity. Respect to you customers and employees is a non-monetary reward ensures the return in form of loyal employees and customers.
- 3) **Fairness:** Fairness in dealings with customers and employees is very critical. (Warranty properly claimed or not, and similarly the worker get the salary and other financial benefits as per contract or verbal agreement).
- 4) **Respect for governing laws, rules and regulations:** Avoid illegal practices i.e. an entrepreneur must be a tax payer is a great symbol of being ethical. Similarly an entrepreneur who does not employ child labor is considered as a fair businessman. The more you adhere to the government laws the more you are reputed among the business community.
- 5) **Workplace environment:** Diversity, harassment, equal opportunity right, wages, basic rights etc. add to the business ethics reputation of an entrepreneur.

### Why Business ethics?

Practicing business ethics are important for the following reasons.

- Business image and credibility and reputation
- Employees' trust and loyalty and retention
- Consumers' trust and brand loyalty
- Stake holders and shareholders trust and loyalty
- Cost effective strategy

It is concluded that for a long-term, sustainable business strategy the development and practice of business ethics and their display in business transactions is critically important for entrepreneurs.

-----The End-----