Chapter - 2

Creation of New Ventures

New venture

New Venture is a global program that provides services for the development of SMEs whose main goal is to generate a positive environmental or social change within their own communities.

- Many *ventures* will be invested in by one or more individuals/ groups with the expectation of the *business* bringing in a financial gain for all backers.
- Most *business ventures* are created based on demand of the market or a lack of supply in the market.

Types of New Ventures

a. Lifestyle or part-time firms (e.g., lifestyle firms, micro-businesses):

- ✓ Usually pursued part-time and only until "something better comes along"
- ✓ Sometimes allows founder(s) to pursue a special interest or hobby

b. Traditional small businesses (e.g. SMEs, salary-substitutes businesses)

- ✓ Allow founders to earn a salary similar to a traditional job
- ✓ Original founder(s) maintain control over the firm
- ✓ No high growth aspirations and usually only one office location

c. High-growth ventures (e.g., entrepreneurial firms):

- ✓ Founder(s) intend to grow the firm in scale (multiple sites)
- ✓ Target markets are generally at the national or international level
- – Founders usually do not maintain control over the firm indefinitely and hand it over to more qualified individuals when it grows to a certain level

What is small business?

There are two approaches to define small Business. They are:

1. **By some measure of size**
2. **using an economic /control criteria**.

...what are measure of size?

... what are economic criteria?

1. By some measure of size

Examples of criteria used to measure **size** are:

1. Number of employees
2. Sales volume
3. Asset size
4. Insurance enforce
5. Volume of deposits

Although the first criteria located above, employee, is the most widely used yardstick (a standard used for comparison); the best criteria in any given case depends upon the user's purpose.

2. Economic /Control Criteria

The economic /control definition cover:

a) **Market shar**e:- The characteristics of a small firm's share of the market is not large enough to enable it to influence the prices of national quantities of goods sold to any significant extent.

b) **Independence:-** The owner has control of the business himself.

c) **Personalized management:-** The owner actively participates in all aspects of the managements of the business and in all major decisions-making processes.

- ❖ There is no delegation of authority.

To provide a clear image of the small firms, the following *general criteria* for defining a small business are suggested:

A). Financing of the business is supplied by one individual or a small group.

b) Except for its marketing function, the firm's operations are geographically localized.

c) Compared to the biggest firms in the

Why small businesses are important to economy?

They make exceptional contributions as they provide

a. New jobs for populations and economy grow, small business provide new job opportunity.

b. Introducing innovations-many scientific breakthrough originated with small organization.

c. Stimulating Economic competitions.

Reasons for the more rapid growth of small firms in most developed countries.

1. **New technologies:** such as numerically controlled machine tools permit efficient production on a smaller scale
2. **Greater flexibility:** is required as a result of increased global competitions
3. **Consumers prefer:** may be coming to prefer personalized products over mass produced goods.

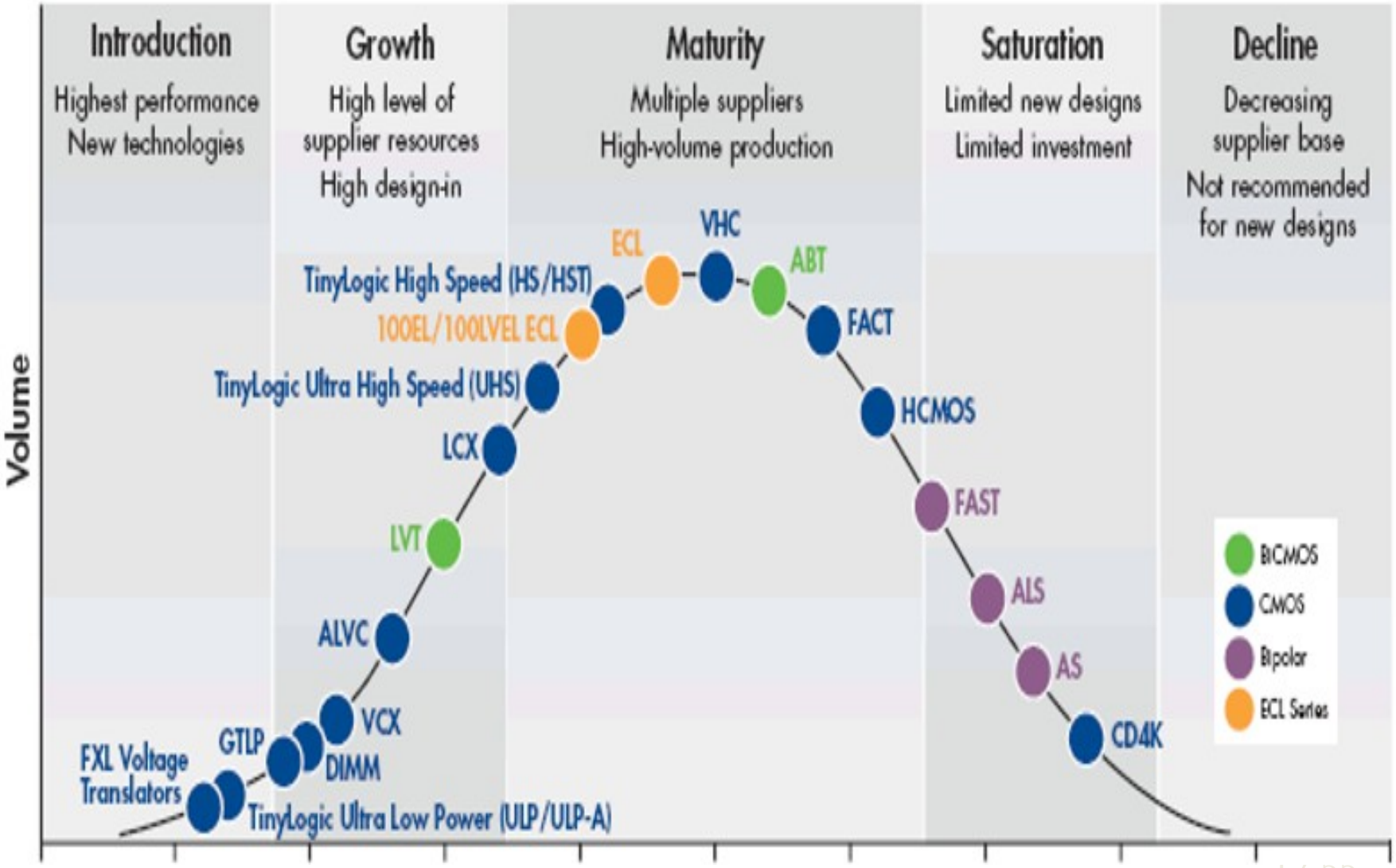
How does one start a new venture?

- Important issues in new venture creation:
  - Does the entrepreneur have good ideas and the courage to give them a chance?
  - Is the entrepreneur prepared to meet and master the test of strategy and competitive advantage?
  - Can the entrepreneur identify a market niche that is being missed by other established firms?
  - Can the entrepreneur identify a new market that has not yet been discovered by existing firms?
  - Can the entrepreneur generate first-mover advantage by exploiting a niche or entering a market before competitors?

Cont.....

- Questions that keep a new venture focused on its customers ...
  - Who is your customer?
  - How will you reach key customer market segments?
  - What determines customer choices to buy or not buy your product/service?
  - Why is your product/service a compelling choice for the customer?
  - How will you price your product/service for the customer?
  - How much does it cost to make and deliver your product/service?
  - How much does it cost to attract a customer?
  - How much does it cost to support and retain a customer?

The different stages in a product life cycle are:



1. Introduction Stage

- In this stage the sales are low, profit margin is less, cost of marketing is high, awareness about the product in the market is also low.
- Some companies may announce the product which is going to launch before its introduction in the market.
- In this stage main aim of the companies is to generate more sales, establish a market and also to generate primary demand. **Following should must be done in this stage-**

- Company should properly advertise about the product before its introduction in the market.
- Huge investment in promotional mix
- Formulation of new pricing and marketing strategies.
- Proper attention should be paid a greater attention

2 .Growth Stage

product satisfied the market and gains acceptance from the consumers as well as the business people.

- Sales increases and profit also increase because customer become more aware about the product.
- At this stage competitors enters the market with the product substitute product in large number.
- customer for the product also increase , old customer remain with the product and new customer also appears.
- As sales and profit increases the companies often increase it potential market.
- Promotional cost are even higher in this stage because of the competitors to prove that their products are better than the competitors

Cont;

Following should be done in this stage-

- Improvement of the product quality.
- Increase investment in promotional activities.
- Provide various offers to attract the buyers.
- Expand the market segments.
- Add new features in the product to improve its quality

3. Maturity Stage

- At this stage competition increases even at a higher rate. In which sales continue to increase but , competition may be the reason for decrease in market share as well as the prices.
- The competitive product are seen generally similar to the product.
- The most important aspect to be taken care at this stage is product modification to minimize the effect of the competition.

Following should be done in this stage-

- Improve the quality of the product.
- Try and give modification in the product to increase the market share.
- Try to increase the user of the product.
- Proper investment in promotional activities.

4. Saturation Stage

At this stage the sales are at its peak and further increase in sales and profit is not possible. The demand for the product become stable in this stage.

- Rise and falls in the sale of the product depend upon the supply and demand in the market.
- during this stage company need to replace the existing product with a new one because increase in the sale of the existing product is not possible.

Following should be done in this stage-

- Introduction of the new product model.
- Introduce new package and repricing.
- If prices are high it company should provide product at installment basis.

5. Decline Stage

At this stages product become outdated and taste and preference of the consumer changes.

- Customer get finer and better product in the market so sales tend to decrease because of many reasons such as technological advancements, more competition, change in customer desires etc.
- A product cannot stand in the market, many company close down its market at this stage.
- It is also possible that company may shift its attention to another product for the profit generation.

Financing the new venture

❖Sources of financing

- ✓ Debt financing *Borrowed funds that entrepreneurs must repay.*
- ✓Equity financing *Funds invested in new ventures in exchange for part ownership.*

➢ Equity financing alternatives

- ✓Venture capitalists: *Business firms or groups of individuals that invest in new and growing firms in exchange for an ownership share.*
- ✓Initial public offerings(IPO): Is the process by which a private company can go public by sale of its stocks to general public.
- ✓*Angel investors: Wealthy individuals who invest directly in a new venture in exchange for an equity stake.*

Types of Businesses

There are several ways of ***going into*** business and becoming an entrepreneur.

1. **Start your own business**
2. **Buy a new or existing business**
3. **Purchase a franchise business**
4. **Enter a family business**
5. **Web-based business**

Let's see the advantages and disadvantages of these alternatives

1. Start Your Own Business

To be an entrepreneur you will have to establish a business of your own.

Advantage

- Independence
- Satisfaction
- Challenge of creating something new
- Triumph when business is profitable
- Make all the decisions about everything

Disadvantage

- Risks
- Uncertainty of demand for the product/service
- Need to make decisions daily
- Customers will not be purchase what you offer
- Difficult to start a new business

2. Purchase an Existing Business

Advantage

- Existing businesses already have customers, suppliers, and procedures.
- Seller of the business may be willing to train the new owner.
- Prior records of revenues, expenses, and profits
- Financial arrangements can be easier
- Has the location
- Experienced employees

Disadvantage

- Business may be for sale because it is not making a profit.
- Problems may be inherited with the purchase of an existing business.
- Many entrepreneurs may not have the capital needed to purchase an existing business.

3. Franchise Ownership

- A franchise is method of doing business (called the franchisor) allows a local operator (called the franchisee) to set up a business under that name.
- Is a Legal agreement that gives an individual the right to market a company's products or services in a particular area.
- *Is an agreement where one company grants to another the right to use its trademark and business model.*
- ***Franchisee*:** A person who purchases a franchise agreement
  ***Franchisor*:** The person or company who sells a franchise.

Advantage

- An established product or service is being Provided.
- Franchisors often Offer management, technical, and other assistance.
- Equipment and supplies can be less expensive.
- A guarantee of consistency attracts customers.

Disadvantage

- High cost of franchises which can reduce profits.
- The franchise agreement may be terminated by the franchisor.
- Franchises are dependent on the performance of other franchisees in the chain.
- Owners of franchises have less freedom to make decisions than other entrepreneurs.

4. Entering a family business

Advantage

- Certain sense of pride and accomplishment that comes from being part of a family endeavor.
- Trust and togetherness
- Great potential for success
- A business can remain in the family for generations.
- Some people enjoy working with relatives.

Disadvantage

- Senior management positions are often held by family members who may not be the best qualified.
- It may be difficult to retain qualified employees who are not members of the family.
- It is often difficult to separate business life and private life in family-run businesses.
- It is often difficult to set policies and procedures and to make decisions

5. Web-based Enterprises

Businesses that generate their revenue directly from their website fall into the web-based business category

Following are web-based enterprises:

1. E-bay
2. Monster
3. Amazon

Type of Business by Geographical location

Global: A business that sells its product in more than one country

Importing: Buying goods from other countries to sell in their own country.

Exporting: Selling and shipping goods to another country.

Domestic: A business that sells its product in its own country.

Choosing The Legal Form Of an Ownership

Ownership of business is represented by the right of individual or a group of individuals to acquire legal title to property (assets) for the purpose of *controlling them* and to *enjoy the gains of profits* from such possession and use.

❖The most common forms widely used by small business are:

- ✓ ***Sole proprietorship***
- ✓ ***Partnership***
- ✓ ***Corporations and***
- ✓ ***Cooperatives***

1. Sole proprietorship

- It is an individual or single ownership, where the form of business organization in which
  - » **An individual introduces his capital,**
  - » **Use of his own skill and intelligence in the management of its affairs and**
  - » **It is solely responsible for the results of its operation.**
- This form is known also as ***individual*** or ***single proprietorship***, ***sole ownership*** or ***individual enterprise***.

Example: ***Photo studio, bookshop, bakeries, small town restaurants, retail stores, radio and watch repair shops, and other elementary forms of business where personal service is important.***

Advantage

- Ease and low cost of formation and dissolution
- Direct motivation and personal care
- Freedom and promptness of action: The sole proprietor can take his own decision and there is none to question his authority.
- Business confidentiality
- Single Tax: The sole proprietor is personally liable for the payment of all taxes associated with running the business.

Disadvantage

- ***Limited resources and size***
- ***Limited Managerial Skill***
- ***Unlimited liability:*** *The* sole proprietor will be legally liable for all debts of the business, a source of courage and real devotion, limit his activities only in specified areas
- ***Uncertain future/Death of the owner terminates the business/***
- ***Difficulty in hiring and keeping high achievement employees***

2. Partnership

- The association of ***two or more persons*** to carry as ***co-owners*** of a business where the ***relationship is based on agreement*** is called partnership.
- This form of a business requires the existence of two or more persons entering into a contractual relationship.
- This contract, which is an agreement between the parties, is known as a ***memorandum of association*** or ***article of partners'*** deed.

Kinds of Partners

1. *General partner*

Assumes unlimited liability and is usually active in managing the business. Most partners are general partners.

2.***Limited* or *special partner***

Assumes limited liability, risking only his /her investment in the business. Limited partners may not be active in management, and their names are not used in the name of the business.

3.*Secret partner*

Takes an active role in managing a partnership but whose identities are unknown to the public i.e. the general public does not know of this person's partnership status.

4. *Silent partner*

As opposed to a secret partner, a silent partner, his identities and involvement, is known to the general public, but is inactive in managing the partnership business.

5. *Senior partners*

Assume major roles in management because of the long tenure (possession), amount of investment in the partnership, or age. They normally receive large shares of the partnership's profits.

6. *Junior partners*

Younger partners in tenure, have only small investment in the firm, and are not expected to make major decision. They assume limited role in the partnership's management and receive a smaller share of the partnership's profits.

Advantage

- **Ease of starting**
- **Increased source of capital**: Partnership can offer creditors less risk than a sole proprietorship
- **Combined managerial skill**
- **Definite legal status**
- Today's partner can be assured that a competent lawyer can answer virtually any questions he/she might have about this form of ownership.
- **Motivation of important employees**
- **Reduced risk**

Disadvantage

- **Unlimited liability**
- **Risk of implied authority**

The fault and miss judgment made by a single partner binds the firm and the remaining partners.

- **Lack of harmony... agreement or synchronization**
- **Lack of continuity/instability/**

If any one of the general partners dies, withdraws because of mentally or physically incapable (injured), the partnership ends.

- **Investment withdrawals difficulty /frozen-investment/**

3. Corporation

- A corporation is an artificial person authorized and recognized by law, with distinctive name, a common seal, comprising of transferable shares of fixed values, carrying limited liability and having a perpetual/continued/uninterrupted/succession

life.

Characteristics of Corporation

1. *Separate legal entity*

- It can sue or be sued.
- has the right to manage its own affairs.
- Shareholders cannot be liable for the acts of the corporation

2. Limited liability

✓ Since the corporation has separate legal entity its debts are its own. The **assets** and **liabilities**, **rights** and **obligations** incidental to the company's activities are assets and liabilities, rights and obligations respectively of the company and not of its members.

3.Transferiablity of shares

- It is easy to transfer ownership in a corporation. A stockholder may sell stock to another person and transfer the membership and membership interest freely without consulting other stockholders.

4. Perpetual existence

- Death, insanity, retirement and withdrawal of shareholders will not affect the company.

5. Common seal

- A corporation has a common seal with the name of the company engraved on it, which is used as a substitute for its signature through it acts through its agents.

6. Separation of ownership from management

7. Supervision

8. Written Constitution

- On the creation of a company, the promoters must file certain documents with the Registrar of Companies. These include the ***Article of Association*** and the ***Memorandum of Association***.

Advantage

- **Financial strength**
- **Limited liability**
- **Scope of expansion**
- **Managerial efficiency**
- **Enjoy the advantage of efficient management by hiring specialist's skilled persons** to become members of the board of directors to mange the corporation
- **Ease in transferring ownership**
- **Legal entity status:** A corporation can purchase property, make contracts, sue and be sued in the corporate name.

Disadvantage

- **Difficulty of formation**

It is time consuming and cumbersome/not manageable to establish corporations unlike the other forms of businesses.

- **Lack of owner's/manager's personal interest**
- **Delay in decision-making**

It needs official meeting of managers or board

- **Lack of secrecy, openness lack of privacy**
- **Double taxation**

4.Cooporatives

- ✔ It is an organization owned by members/customers who pay an annual membership fee and share in any profits (if it is profit making organization).

It has to adopt the following principles:

- ✔ *Members have an equal vote in decisions*
- ✔ *Membership is open to every one who fulfills specified conditions* (e.g. Number of hour worked)
- ✔ *Assets controlled and usually owned jointly by members*
- ✔ *Profit shared equally between members with limited interest payment on loans made by members;*
- ✔ *Members benefit from participation, not investment*


End of Chapter Two