# ENTREPRENEURSHIP




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**Associate Professor**

**Department of Management**

**Academic Year 2019-2020**

**Addis Ababa University**

# Course Outline

Course Information:

Course Number: **MGMT 102**

ECTS: 5

Student-Teacher Workload:

- Lecture 48
- Discussion 30
- Assignments 15
- Home study 40
- Assessment 25

Total 158

# Course Objectives

At the end of this course students will be able to:

1. Define entrepreneurship within the context of society
2. Identify business opportunities
3. Prepare business plan
4. Distinguish forms of business ownership
5. Comprehend intellectual property rights in business practices
6. Define basic marketing concepts
7. Formulate context-based marketing strategies
8. Identify and evaluate sources of financing new ventures
9. Manage business growth and transition
10. Practice ethical business with all stakeholders

# Core Course

Chapter One: **The Nature Of Entrepreneurship**

Chapter Two: **Business Planning**

Chapter Three: **Business Formation**

Chapter Four: **Product or Services Development**

Chapter Five: **Marketing**

Chapter Six: **Financing the new venture**

Chapter Seven: **Managing Growth and Transition**

# Chapter One
# **The Nature Of Entrepreneurship**

1. Definition and philosophy of Entrepreneurship Vs Entrepreneurs
    1. Historical origin of entrepreneurship
2. Type of Entrepreneurs
3. Role within the economy
4. Entrepreneurial Competence and Environment
    1. Entrepreneurial Mindset
    2. Demographic Factors
    3. Entrepreneurial Environment
5. Entrepreneurship, creativity and innovation

# Learning Outcome

- ✓ After completing this chapter, students will be able to:

1. Define the term entrepreneurship and entrepreneur
2. Identify types of entrepreneur
3. Recognize the role of entrepreneurship in the economy
4. Analyze the entrepreneurial competences
5. Differentiate the term creativity and innovation

# Chapter Two: **Business Planning**

2.1. Opportunity Identification and Evaluation

2.2. Business Idea Development

  2.2.1 Business Idea Identification

  2.2.2 Sources of Business Ideas

  2.2.3 Methods for generating Business Ideas

2.3. The Concept of Business Planning

2.4. Business Feasibility

2.5. The Business plan

2.6. Developing a business plan

# Learning Outcome

- ✓ After completing this chapter, students will be able to:

1. Identify opportunity in the environment
2. Evaluate the opportunities in the environment
3. Generate business idea
4. Explain the concept of business planning
5. Identify components of business plan
6. Develop business plan

# Chapter 3
# Business Formation

3.1. The Concept of Business Development

3.2. Forms of Business (a short explanation)

3.3. Definition and Importance of SMEs

3.4. Setting up small scale business

3.5 Roles of SMEs

3.6. Business failure and success factors.

3.6.1 Problems of small scale business in Ethiopia

3.7 Organizational structure and entrepreneurial team formation

# Learning Outcome

✓ After completing this chapter, students will be able to:

1. Explain the concept of business development
2. Identify the forms of business ownership
3. Define SMEs
4. Analyze the importance of SMEs
5. Set Up small scale business
6. List role of SMEs
7. Distinguish the failure and success factors of SMEs
8. Identify the problem of small scale business in Ethiopia
9. Develop organizational culture

# Chapter 4
# Product or Services Development

4.1. The Concept of product or service technology

4.2. Product or service development Process

4.3 Legal and regulatory frameworks

4.4 Intellectual Property Protection/Product or service protection

4.4.1 Patent

4.4.2 Trademarks

4.4.3 Copyrighting

# Learning Outcome

1. After completing this chapter, students will be able to:
2. Describe the concept of product and services
3. List product or service development process
4. Discuss the intellectual property protection

# Chapter 5
# Marketing

5.1.The Concept and philosophy of marketing

5.2. Marketing Mix and Strategies

5.3 Marketing Information System

- 5.3.1 Marketing intelligence
- 5.3.2 Marketing research

5.4. Competitive analysis

5.5. Selling and Customer Service

# Learning Outcome

- ✓ After completing this chapter, students will be able to:

1. Define marketing
2. Identify Marketing mix and strategies
3. Analyze components of marketing information system
4. Explain competitive environment
5. Describe customer service and selling process

# Chapter 6
# Financing the new venture

6.1 Overview of Business Financing

6.2 Source of financing

6.2.1 Equity financing

6.2.2 Debt financing

6.2.2.1 Trade credit

6.2.2.2 Lease financing

6.3 Traditional Financing (Equib/Edir, etc.)

6.4 Crowd Funding

6.5 Micro finance in Ethiopia

# Learning Outcome

- ✓ After completing this chapter, students will be able to:

1. Know business financing
2. Identify the sources of finance
3. Understand with traditional financing techniques
4. Familiarize with crowd funding
5. Know Ethiopian micro finance system

# Chapter 7
# Managing Growth and Transition

7.1. Managing business growth

7.2. New venture expansion strategies

7.3. Business Ethics and Social Responsibility

# Learning Outcome

- ✓ After completing this chapter, students will be able to:

1. Know how to manage business growth
2. Understand business expansion strategies
3. Know & Internalize business ethics & social responsibilities

# Assessment Methods

| | |
|---|---|
| Quiz | 5% |
| Test | 15% |
| Individual Assignment | 10% |
| Business Plan Preparation | 15% |
| Presentation | 5% |
| Final Exam | 50% |

# Chapter One
# **The Nature Of Entrepreneurship**

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# Learning Outcome

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1. Define the term entrepreneurship and entrepreneur
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4. Analyze the entrepreneurial competences
5. Differentiate the term creativity and innovation

# Entrepreneur

***Somebody who sees a new opportunity and creates a business to exploit it***

STRONG BUSINESS ACUMEN

They have strong people skills

TONS OF COURAGE

They are open-minded

They are confident

They are disciplined

They are self-starters



They are determined

They are creative

They have passion

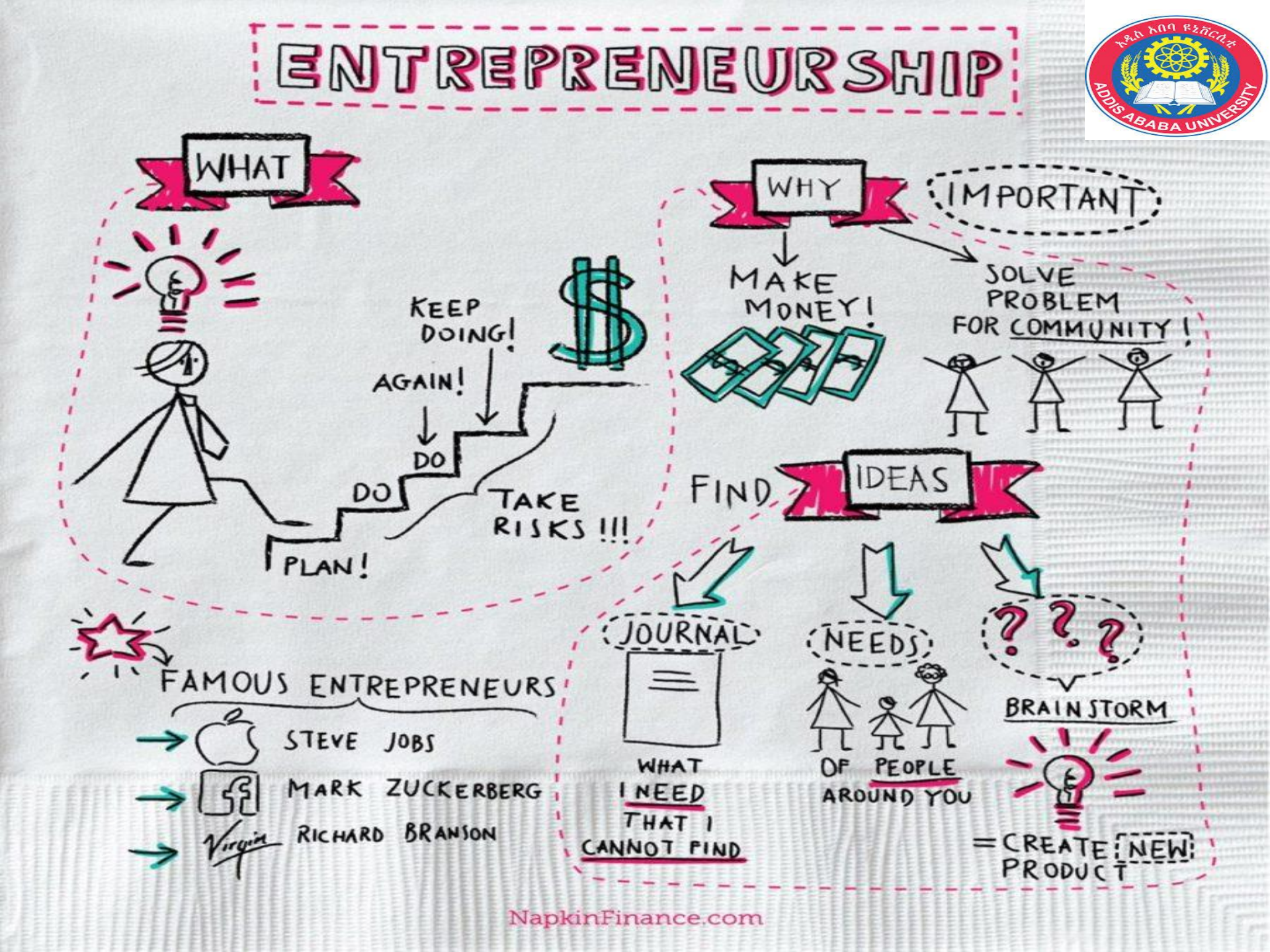
They are competitive

ADAPTABLE PEOPLE

They have a strong work ethic

FAST LEARNERS

# ENTREPRENEURSHIP




NapkinFinance.com




Conceptual Model of Entrepreneurship


Government Policy
Regulatory Framework & Infrastructure
Funding & Finance
Culture
Mentors, Advisors & Support Systems
Universities as Catalysts
Education & Training
Human Capital & Workforce
Local & Global Markets
Entrepreneurial Ecosystem

# The Nature of Entrepreneurship

- Entrepreneurship
  - The process of planning, organizing, operating, and assuming the risk of a business.
- Entrepreneur
  - Someone who engages in entrepreneurship.
- Small Business
  - A business that is privately owned by one individual or a small group of individuals; it has sales and assets that are not large enough to influence its environment.

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# JEFF BEZOS

## CEO of Amazon.com

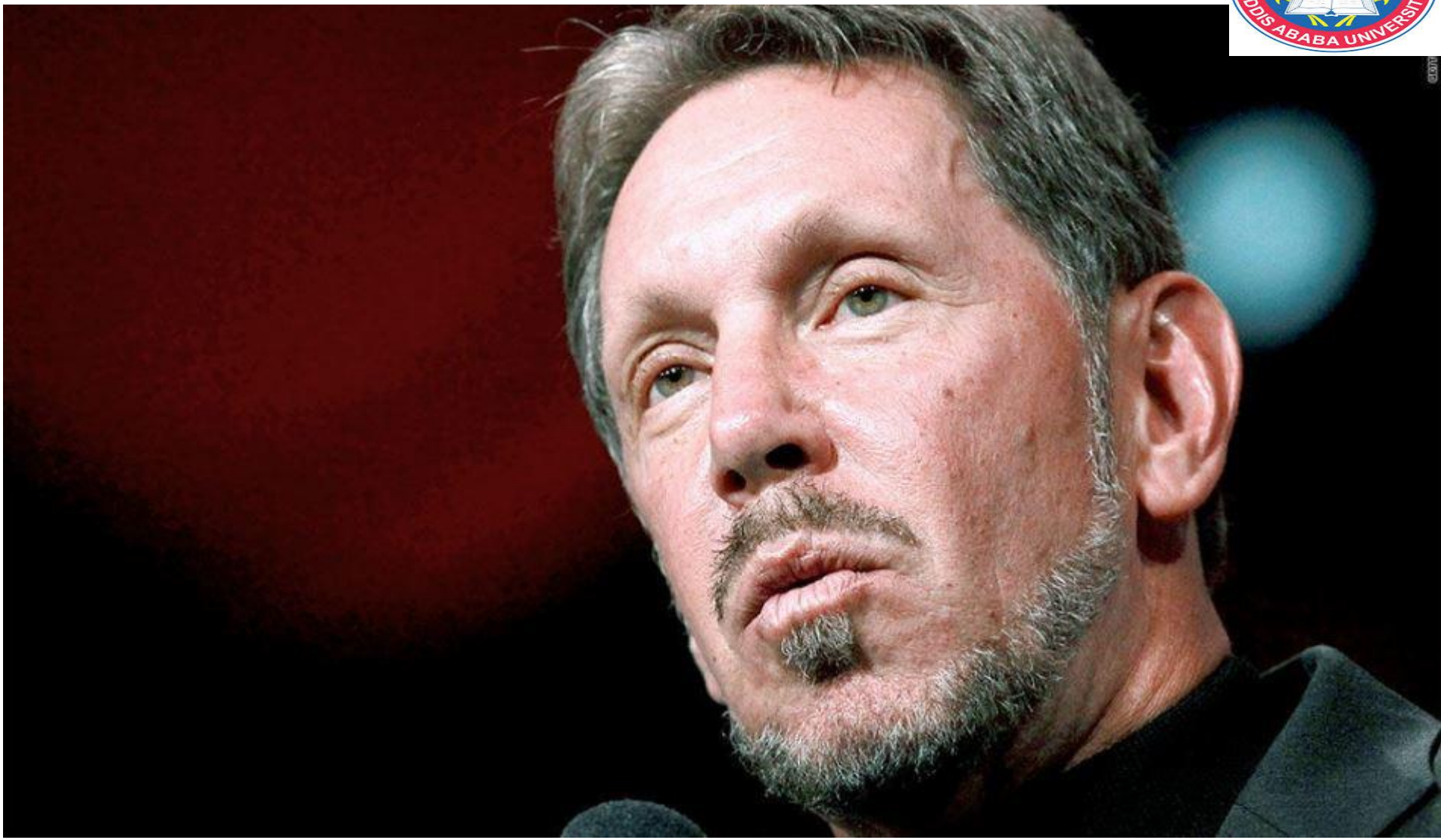


# SERGEY BRIN



Sergey Mikhaylovich Brin is aRussian-born American computer scientist, internet entrepreneur, and philanthropist. Together with Larry Page, he co-founded Google. Today, Brin serves as President of Google's parent company, Alphabet Inc.

# LARRY ELISON



**Lawrence Joseph “Larry” Ellison is an American businessman who is the co-founder of Oracle Corporation and was CEO from its founding until September 2014. He currently serves as executive chairman and chief technology officer of Oracle.**

# AMANCIO ORTEGA



**Ortega is a Spanish fashion businessman and founding chairman of the Inditex fashion group, best known for its chain of Zara clothing and accessories retail shops.**

# MICHAEL DELL



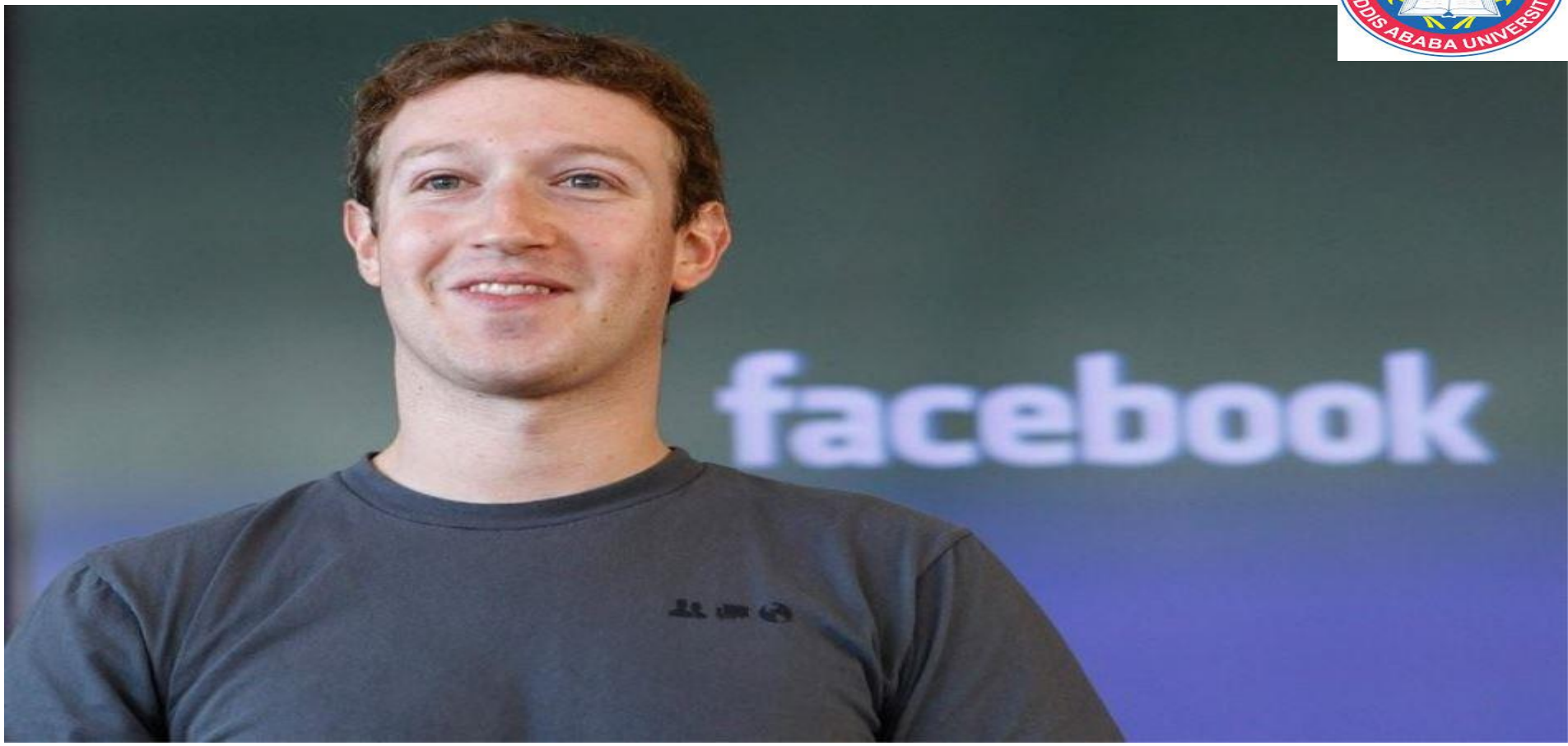

**Michael Saul Dell is an American business magnate, investor, philanthropist, and author. He is the founder and CEO of Dell Inc., one of the world's leading sellers of personal computers (PCs).**

# RICHARD BRANSON



Sir Richard Charles Nicholas Branson is an English business magnate, investor, and philanthropist. He is best known as the founder of Virgin Group, which comprises more than 400 companies. Branson expressed his desire to become an entrepreneur at a young age. At the age of sixteen, his first business venture was a magazine called Student.

# MARK ZUCKERBERG




Mark Zuckerberg is an American programmer, philanthropist, and Internet entrepreneur. He is the chairman, chief executive, and co-founder of the social networking website Facebook. Together with his college roommates and fellow Harvard University students Eduardo Saverin, Andrew McCollum, Dustin Moskovitz, and Chris Hughes, he launched Facebook from Harvard's dormitory rooms.

# CARLOS SLIM



Carlos Slim Helú is a Mexican business magnate, philanthropist, and investor. From 2010 to 2013, Slim was ranked as the richest person in the world. He is known as the “Warren Buffett of Mexico”. He derived his fortune from his extensive holdings in a considerable number of Mexican companies through his conglomerate, Grupo Carso.

# WARREN BUFFETT



Warren Edward Buffett is an American magnate, philanthropist, and investor. Buffett is the most successful investor in the world. He is the chairman, CEO and largest shareholder of Berkshire Hathaway and is consistently ranked among the World's wealthiest people in the world. Buffett is often referred to as the "Wizard of Omaha" or "Oracle of Omaha," or the "Sage of Omaha," and is noted for his adherence to value investing and for his personal frugality despite his immense wealth. Buffett is a notable philanthropist, having pledged to give away 99 percent of his fortune to philanthropic causes, primarily via the Gates Foundation.

# BILL GATES



Topping in the list of top 10 richest entrepreneurs in the world with a net worth of $76 billion is Bill Gates. No doubt, he is always included in the list of top 10 successful entrepreneurs in the world. He is an American business magnate, philanthropist, entrepreneur, programmer, and investor. Gates is one of the best-known entrepreneurs of the personal computer revolution.

# Oprah Winfrey



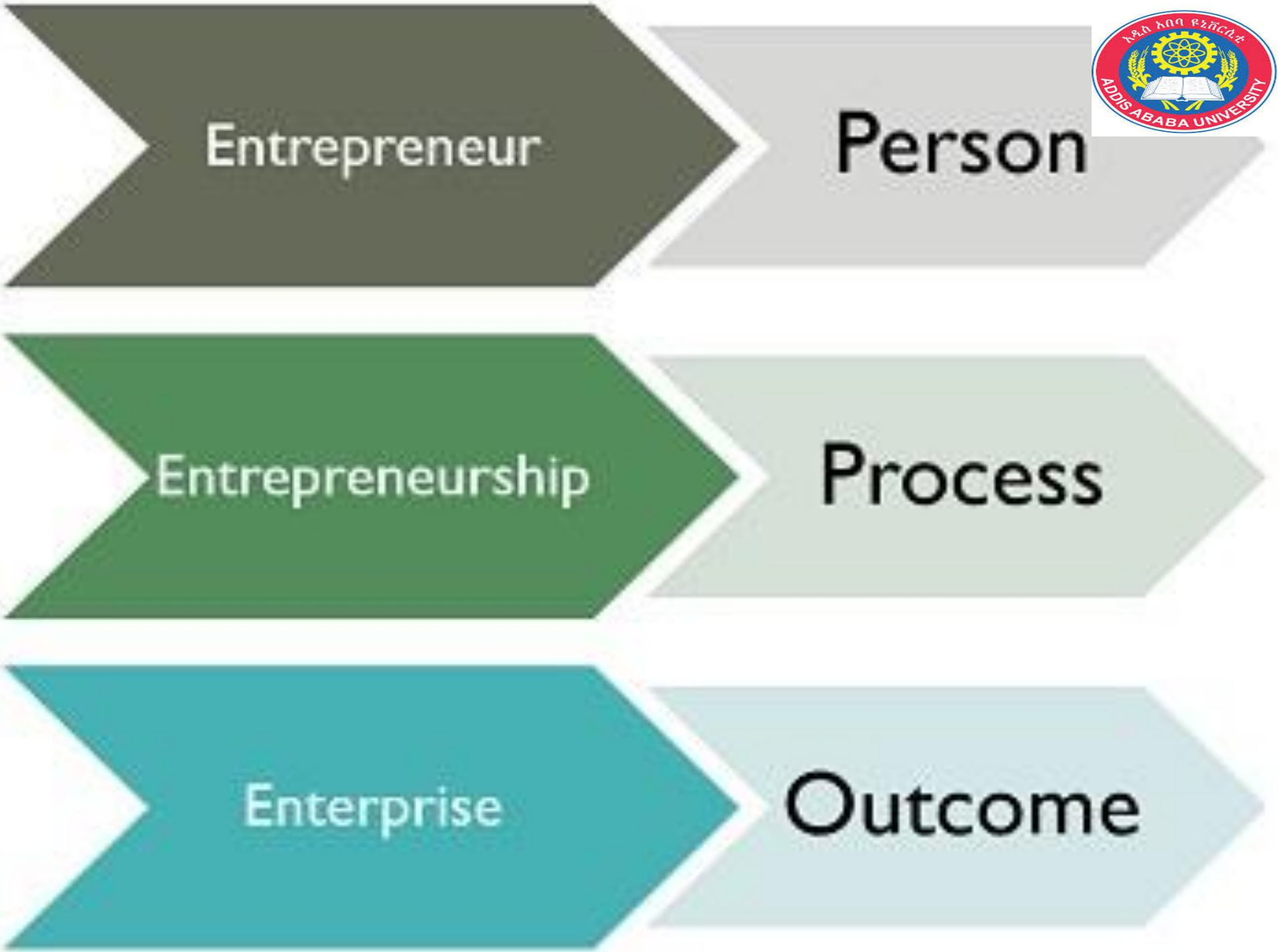
**Born ‘Orpah’ Gail Winfrey, Oprah is an American entrepreneur and philanthropist known for her multi award winning show ‘The Oprah Winfrey Show’ (1986-2011). She is the twentieth century’s richest African American with a net worth of 2.7 billion dollars.**

# The Nature of Entrepreneurship
## 1.2 Entrepreneurship: *Historical Perspective*

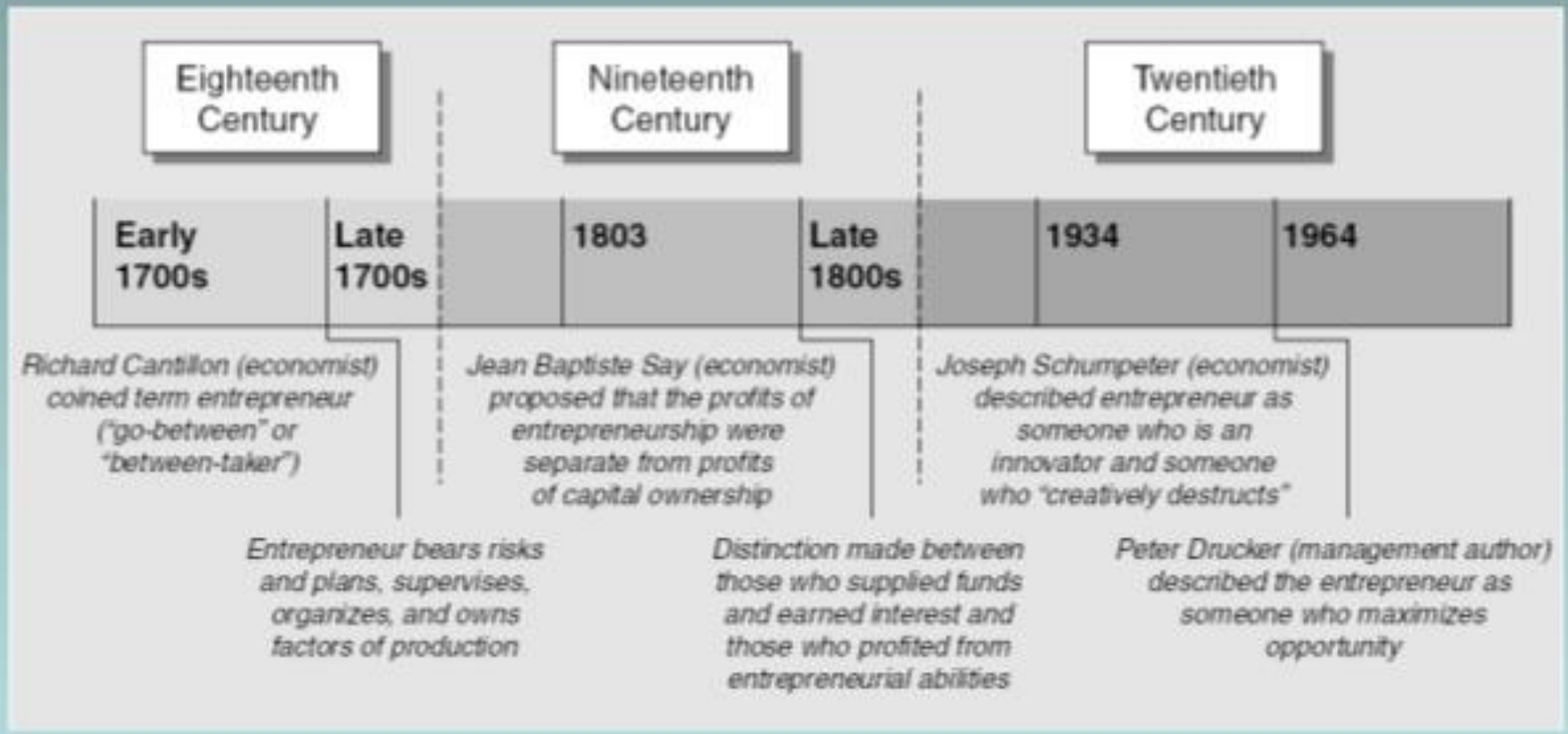
- The term *entrepreneur* comes from French term **'entreprendre'**, meaning "to undertake"
- or from words "**Entre**" = "between" + "**prendre**" = "taker".
- The verb is "entreprendre" or to undertake.

# The Nature of Entrepreneurship
## 1.2 Entrepreneurship: *Historical Perspective*

- **What is entrepreneurship? And who is an entrepreneur?**
- Related concepts:
  - **Entrepreneur:** a person who undertakes a certain project
  - **Entrepreneurship:** how the entrepreneur does what S/he wants
  - **Entrepreneurial process:** means through which new value is created as a result of a project


Entrepreneur
Person
Entrepreneurship
Process
Enterprise
Outcome

# Historical Perspectives on Entrepreneurship



# The Nature of Entrepreneurship

## 1.2 Entrepreneurship: *Historical Perspective (Continued)*

❖ Historical Development of Entrepreneurship:

| | |
|---|---|
| Ancient Period | • Manage large commercial projects through the resources provided to them. |
| 14th Century | • Tax Contractors – pay money to government to get license for collecting taxes. |
| 17th Century | • Signed a contractual agreement with the government to supply products/services at a fixed price. |
| 1776 Adam Smith | • Undertook the formation of an organization for commercial purposes.<br>• Unusual foresight to recognize demand for G & S |

# The Nature of Entrepreneurship

## 1.2 Entrepreneurship: *Historical Perspective (Continued)*

| | |
|---|---|
| 18th Century<br>Richard Cantillon | • Risk taker: buy products at a known price and sell it at an unknown price.<br>• Entrepreneurial role and capital providing/venture capitalist/ role were differentiated |
| 19th – 20th C. | • Organizes and operates an enterprise for personal goal. Capital + Materials/Land/Labor + Own Skill |
| 1934 Joseph Schumpeter | • Force of "creative destruction"<br>• Innovators who use the process to change old ways |
| Middle 20th C. | • Entrepreneur: inventor<br>• Reform pattern of production ( new products, old in new ways, and new in new ways) |

❖Entrepreneurship: Risk, Innovation and Newness

# 1. Definition Entrepreneurship

- French economist Jean Baptiste **Says** (1767- 1832):
  *"The entrepreneur shifts economic resources out of an area of lower and into an area of higher productivity and greater yield."*
- Austrian economist Joseph **Schumpeter** (1883- 1950):
  entrepreneurs as innovators who drive the 'creative-destructive' process of capitalism
- American economist Peter **Drucker** (1909-2005):
  *"The entrepreneur always searches for change, responds to it and it exploits it as an opportunity."*

"The process of organizing, managing and assuming the risks of a business."

Kuratko D F and Hodgetts R M

"The ability of a person to see a business opportunity, to get together the capital needed to take advantage of the opportunity, and to start a business, taking the risk of failure in the hope of reaping the rewards of success."

Koontz & Fulmer

"Entrepreneurship is the capacity for innovation, investment, and expansion in new markets, products, and techniques."

Nathaniel H Left mention

# Entrepreneur Vs Entrepreneursh

| Entrepreneur | Entrepreneurship |
|---|---|
| Refers to a person | Refers to a process |
| Visualizer | Vision |
| Creator | Creation |
| Organizer | Organization |
| Innovator | Innovation |
| Technician | Technology |
| Initiator | Initiative |
| Decision Maker | Decision |
| Planner | Planning |
| Leader | Leadership |
| Motivator | Motivation |
| Programmer | Action |
| Risk Taker | Risk Taking |
| Communicator | Communication |
| Administrator | Administration |

# Definitions of Entrepreneurship

*"Entrepreneurship involves recognizing an opportunity to create something new."*

*"Entrepreneurship is the pursuit of opportunity without regard to resources currently controlled."*

*"The ability to create and build a vision from practically nothing."*

# The Nature of Entrepreneurship
## 1.3 Definition of Entrepreneurship

1. Entrepreneurship is the process of identifying opportunities in the market place, arranging the resources required to pursue these opportunities and investing the resources to exploit the opportunities for long term gains. It involves creating incremental wealth by bringing together resources in new ways to start and operate an enterprise.

# The Nature of Entrepreneurship
## Definition of Entrepreneurship continued..

2. Entrepreneurship is the processes through which individuals become aware of business ownership then develop ideas for, and initiate a business.
3. Entrepreneurship can also be defined as the process of creating something different and better with value by devoting the necessary time and effort by assuming the accompanying financial, psychic and social risks and receiving the resulting monetary reward and personal satisfaction. In this case an individual should come up with something different and better in order to the named as entrepreneur.

# The Nature of Entrepreneurship
## Definition of Entrepreneurship continued..

4. Entrepreneurship is the art of identifying viable business opportunities and mobilizing resources to convert those opportunities into a successful enterprise through creativity, innovation, risk taking and progressive imagination.

In general, the process of entrepreneurship includes five critical elements. These are:.

1. The ability to perceive an opportunity.
2. The ability to commercialize the perceived opportunity i.e. innovation
3. The ability to pursue it on a sustainable basis.
4. The ability to pursue it through systematic means.
5. The acceptance of risk or failure.

# An entrepreneur can be defined as follo

1. An entrepreneur is any person who creates and develops a business idea and takes the risk of setting up an enterprise to produce a product or service which satisfies customer needs.
2. An entrepreneur can also be defined as a professional who discovers a business opportunity to produce improved or new goods and services and identifies a way in which resources required can be mobilized.

# An entrepreneur can be defined as follows:

3. An entrepreneur is an individual who: has the ability to identify and pursue a business opportunity; undertakes a business venture; raises the capital to finance it; gathers the necessary physical, financial and human resources needed to operate the business venture; sets goals for him/herself and others; initiates appropriate action to ensure success; and assumes all or a major portion of the risk!
4. An entrepreneur is a person who: create the job not a job-seeker; has a dream, has a vision; willing to take the risk and makes something out of nothing

## 1.2.1. Meaning

**Definition 1:** Entrepreneurship is the process of creating incremental wealth. The wealth is created by those individuals who assume the major risk in terms of equity and time or providing value for others.

**Definition 2:** Entrepreneurship can also be defined as the process of creating something different and better with value (by devoting the necessary time and effort) by assuming the accompanying financial, psychic and social risks and receiving the resulting monetary reward and personal satisfaction.

**Definition 3:** definitions from different perspectives

- 3.1. **Economist:** an entrepreneur is *one who brings resources* (labor, materials, and other assets) *into combination* that makes their value greater than before and also the one who introduces changes and innovations.

- 3.2. **Psychologist:** an entrepreneur is *a person typically driven by certain forces need to obtain or attain something, to experiment, to accomplish or perhaps to escape the authority of others*.

- 3.3. **Capitalist Philosopher:** an entrepreneur is *one who creates wealth for others as well, who finds better way to utilize resources and reduce waste and who produce job which others are glad to get*.



Entrepreneur is one who identifies and sensitizes the opportunities, innovate the ideas, raises money, assembles inputs and set and mange the organization, and assumes the responsibility for it.

# 1.4 Types of Entrepreneurs



**Types of Entrepreneurs:**

1. ***The individual entrepreneur***: owns his own independent organization.
2. ***Intrapreneur:*** does entrepreneurial work within large organization
   - ❖ ***Employee Entrapreneur: inside entrepreneur who follows the goal of the organization and gets support and resources from the organization***
     - ❖ ***Self-employed Entrapreneur: develops a business based on a business format/model of another company***
       - ❑ ***Low risk alternative because he operates within the set policies and procedures***

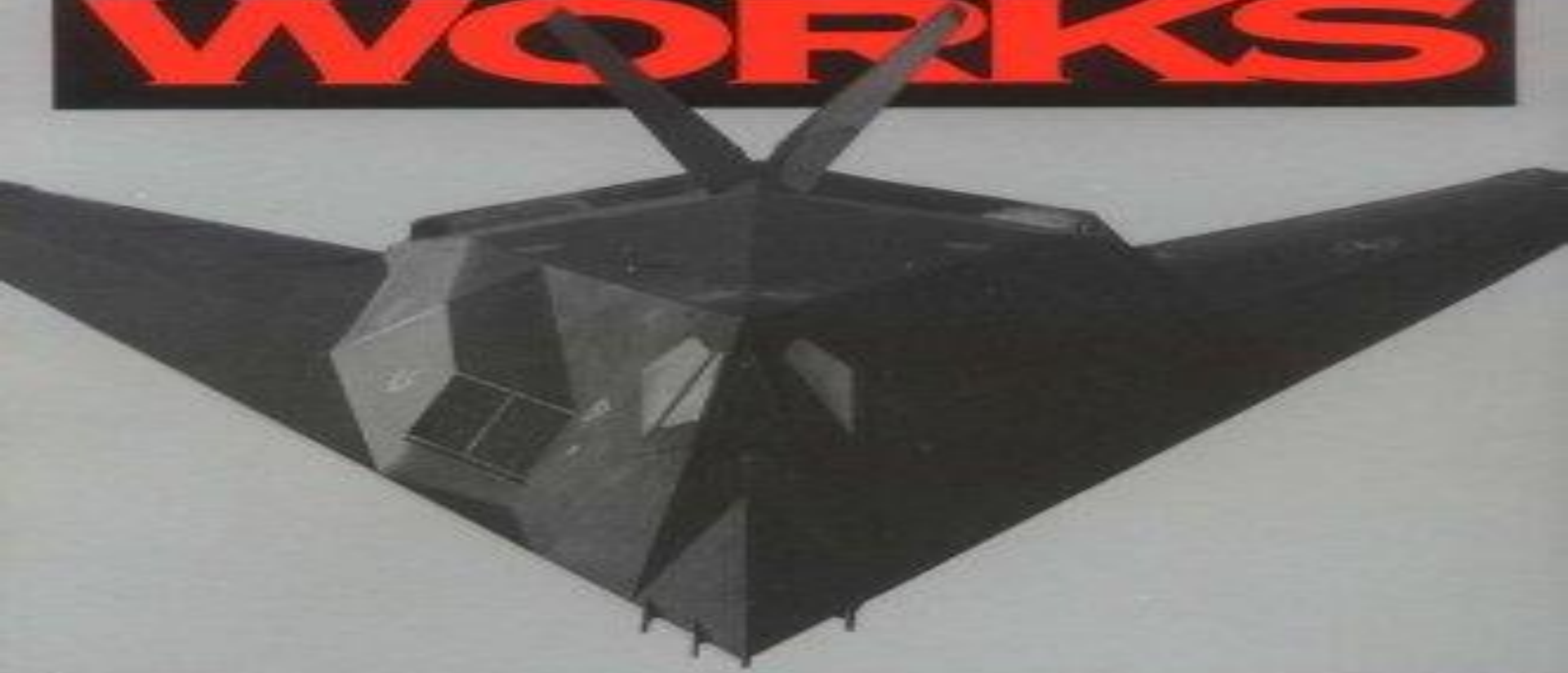
3. ***The Entrepreneurial organization/Corporate entrepreneurship/***
   - create an internal environment in which all of its members can be motivated to contribute in some way to the entrepreneurial function.
   - ***Intrapreneurship*** is the practice of using entrepreneurial skills without taking off the risks or accountability associated with entrepreneurial activities.

     Example: "Skunk Works" group at Lockheed Martin: P-80 fighter jet

"DYNAMITE—THE TRUE STORY OF ONE OF AMERICA'S CROWN J

TOM CLANCY

# SKUNK WORKS



"AFTER FOUR DECADES STEEPED IN SECRECY, THE FASCINATING ACCOMPLISHMENTS AND INNER WORKINGS OF THE LEGENDARY 'SKUNK WORKS' FINALLY HAVE BEEN REVEALED." — *SEATTLE TIMES*

## BEN R. RICH & LEO JANOS

COAUTHOR OF *YEAGER*

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# The Ultimate Intrapreneur



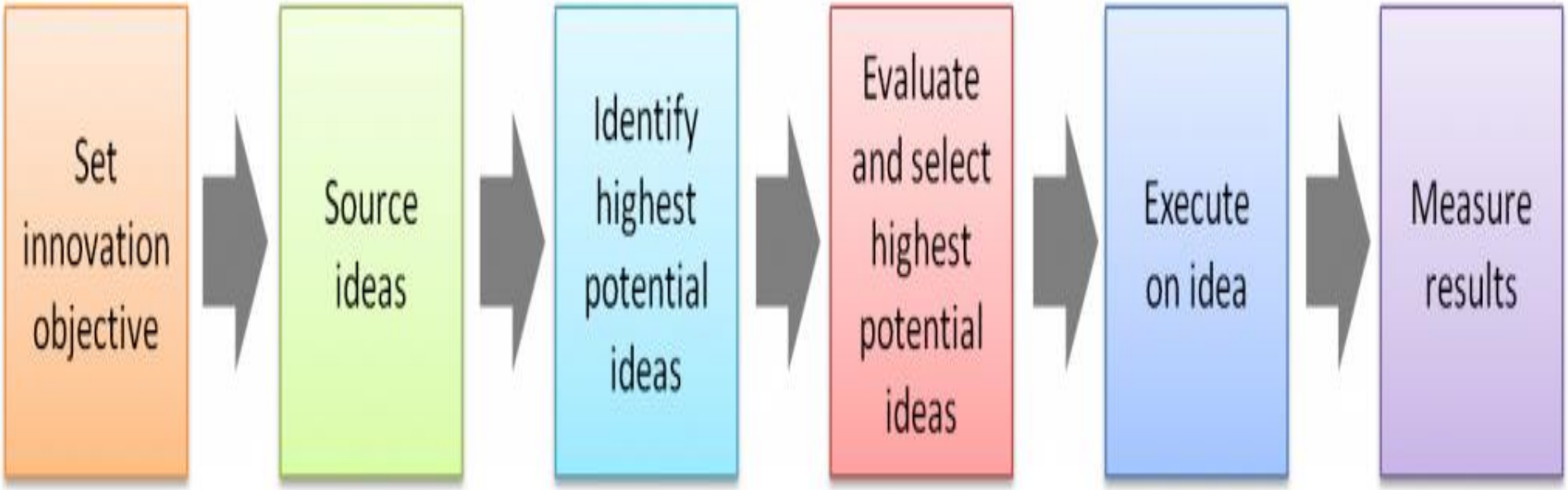
- **Steve Jobs,** Apple's Chairman was specifically helpful in popularizing the term "intrapreneurship." In a September 30, 1985 "Newsweek" article Jobs said of intrapreneurship within Apple,
  *"The Macintosh team was what is commonly known as intrapreneurship… a group of people going, in essence, back to the garage, but in a large company."*

# successful intrapreneurial ventures

- APPLE's "Macintosh;"
- Anaconda-Ericsson Inc.'s Anaconda-Ericsson Finance and Leasing Inc.;
- Corona Data Systems "OEM Private Label Division";
- GOOGLE's Gmail, Google News, Orkut, and Google AdSense;
- General Motors Saturn Division;
- PR1ME Computer's "PR1ME Leasing;"
- 3M's "Post-It Notes" as well as 3M multilayer optical film technology, 3M's Vikuiti™ and 3M Scotch® Pop-Up Tape.;
- SONY's hugely successful "PlayStation;"
- WL Gore's "Elixir Guitar Sting Line."

# The Innovation Process

## Employee-Driven Innovation



# 1.5 Role of Entrepreneurs in Econo Development

1. Improvement in per capita Income/Wealth Generation
2. Generation of Employment Opportunities
3. Inspire others Towards Entrepreneurship
4. Balanced Regional Development
5. Enhance the Number of Enterprise
6. Provide Diversity in Firms

# 1.5 Role of Entrepreneurs in Economic Development
## Cont..

7. Economic Independence
8. Combine Economic factors
9. Provide Market efficiency
10. Accepting Risk
11. Maximize Investor's Return

Wealth Creation and Sharing




Community Development



Create Jobs





Entrepreneurship

Exports



Balanced Regional Development





Standard of Living



GDP and Per Capita Income

# 1.6 Entrepreneurial Competence and Environment

## 1.6.1 Entrepreneurial Mindset

### 1.6.1.1 Who Becomes an Entrepreneur?

1. The Young Professional
2. The Inventor
3. The Excluded

# 1.6.1 Entrepreneurial Mindset

## 1.6.1.2 Qualities of an Entrepreneur

1. Opportunity-seeking
2. Persevering
3. Risk Taking
4. Demanding for efficiency and quality
5. Information-seeking
6. Goal Setting
7. Planning
8. Persuasion and networking
9. Building self-confidence
10. Listening to others
11. Demonstrating leadership

# 1.6.1 Entrepreneurial Mindset
# 1.6.1.3 Entrepreneurial Skills

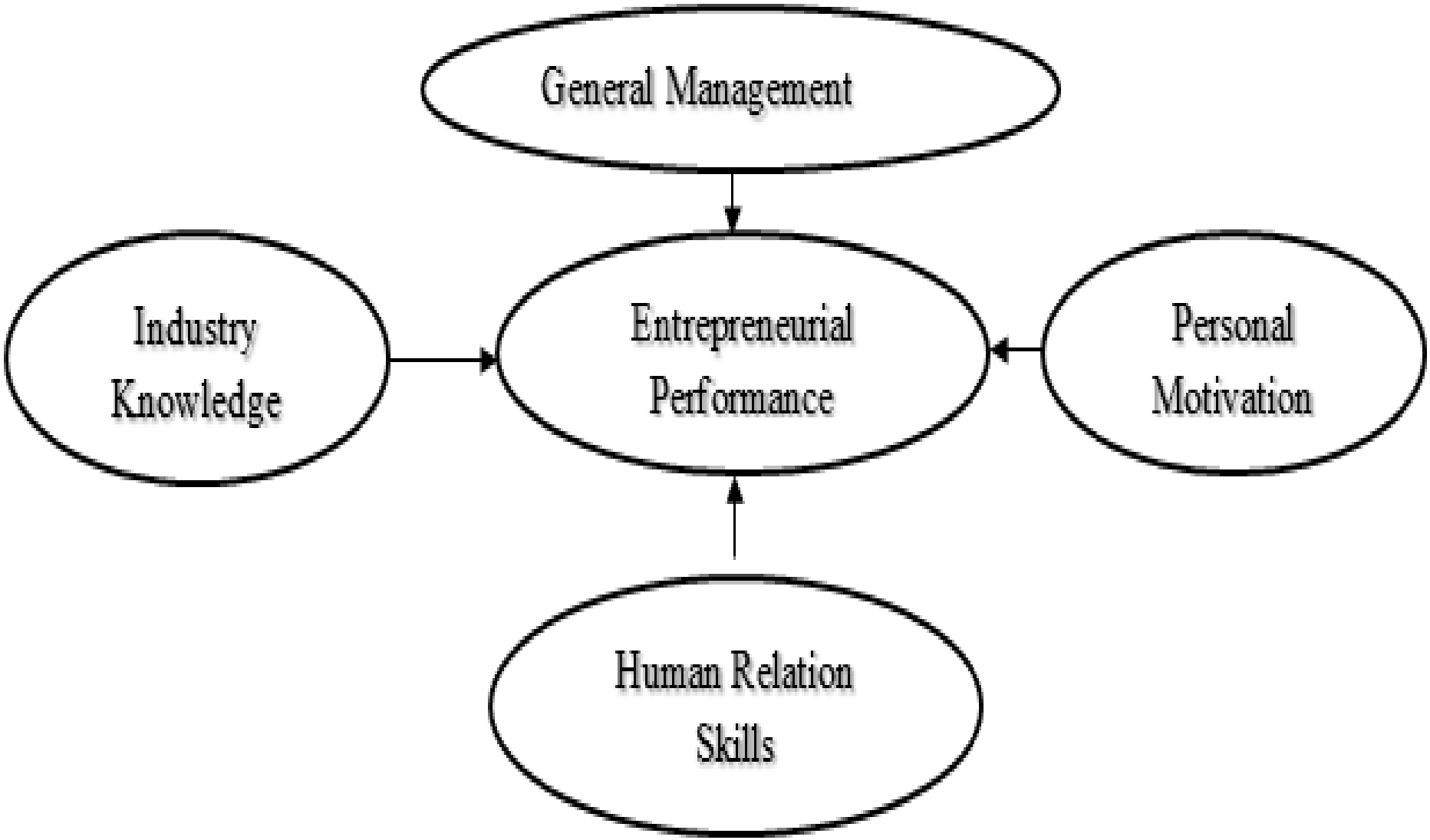
1. **General Management Skills:**

a. *Strategy Skills*
b. *Planning Skills*
c. *Marketing Skills*
d. *Financial Skills*
e. *Project Management Skills*
f. *Time Management Skills*

**2. People Management Skills:**

a. *Communication Skills*
b. *Leadership Skills*
c. *Motivation Skills*
d. *Delegation Skills*
e. *Negotiation Skills*

## 1.6.1 Entrepreneurial Mindset
## 1.6.1.3 Entrepreneurial Skills



## 1.6.1 Entrepreneurial Mindset
## 1.6.1.4 The Entrepreneurial Tasks

1. Owning Organizations
2. Founding New Organizations
3. Bringing Innovations to Market
4. Identification of Market Opportunity
5. Application of Expertise
6. Provision of leadership
7. The entrepreneur as manager

# 1.6.1 Entrepreneurial Mindset
# 1.6.1.5 Wealth of the Entrepreneur

**Who benefits from the Entrepreneur's wealth?**

- ❑ **No Entrepreneur works in a vacuum: the venture they create touches the lives of many people.**

**Support of different groups** ⟷ **Provide reward to those groups**

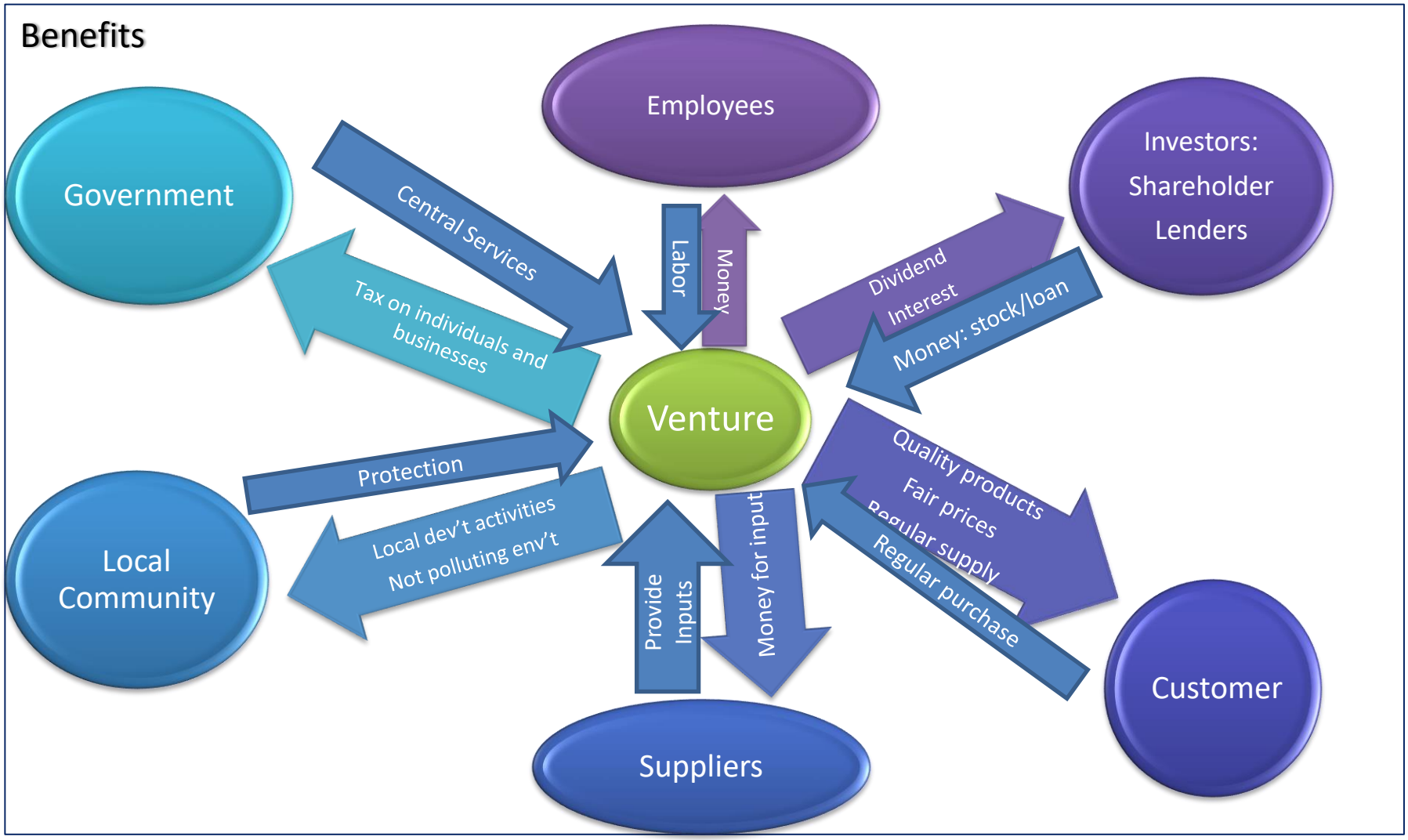
**Stakeholders:**

- **Employees**
- **Investors**
- **Suppliers**
- **Customers**
- **The local community**
- **Government**

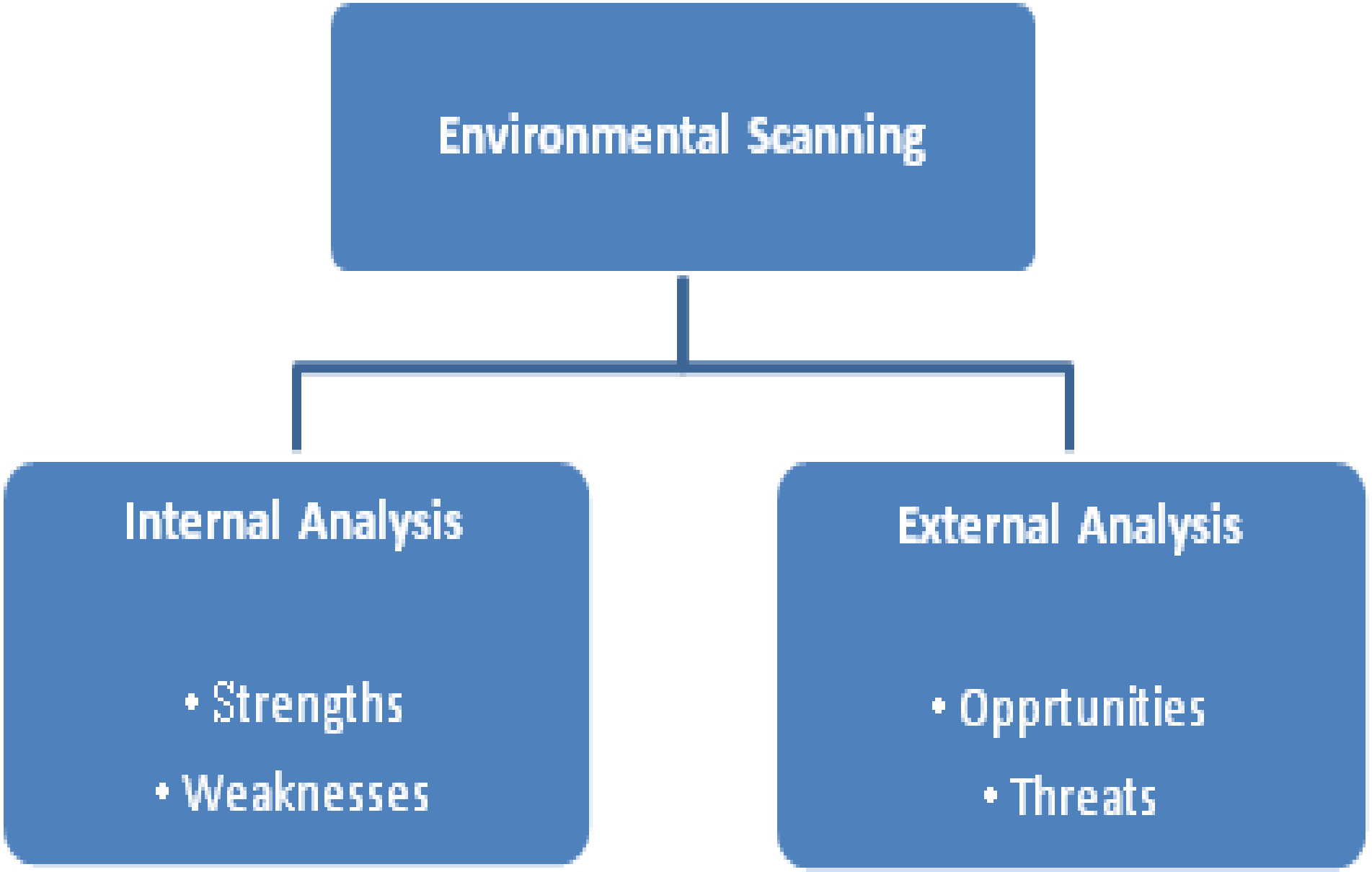


# Who benefits from the Entrepreneur's wealth?





# 1.6.2 Entrepreneurship and Environment



# 1.6.2.1 Phases of Business Environment

## A. External Environment

- Economic Environment
- Legal Environment
- Political Environment
- Socio-Cultural Environment
- Demographic Environment

## B. Internal Environment

- Raw Material
- Production/Operation
- Finance
- Human Resource



# 1.7 Creativity, Innovation and Entrepreneursh

**Creativity**

- the ability/process to develop new ideas and to discover new ways of looking at problems and opportunities.

**Innovation**

- the ability to apply creative solutions to those problems and opportunities in order to enhance people's lives or to enrich society

**Entrepreneurship = *Creativity* + *Innovation***

# 1.7 Creativity, Innovation and Entrepreneursh




*Source: Microsoft, Local Software Economy Initiative Training Material*

# Creativity, Innovation, and Entrepreneurship

**Creativity:** the ability to develop new ideas and to discover new ways of looking at problems and opportunities

- *Thinking* new things

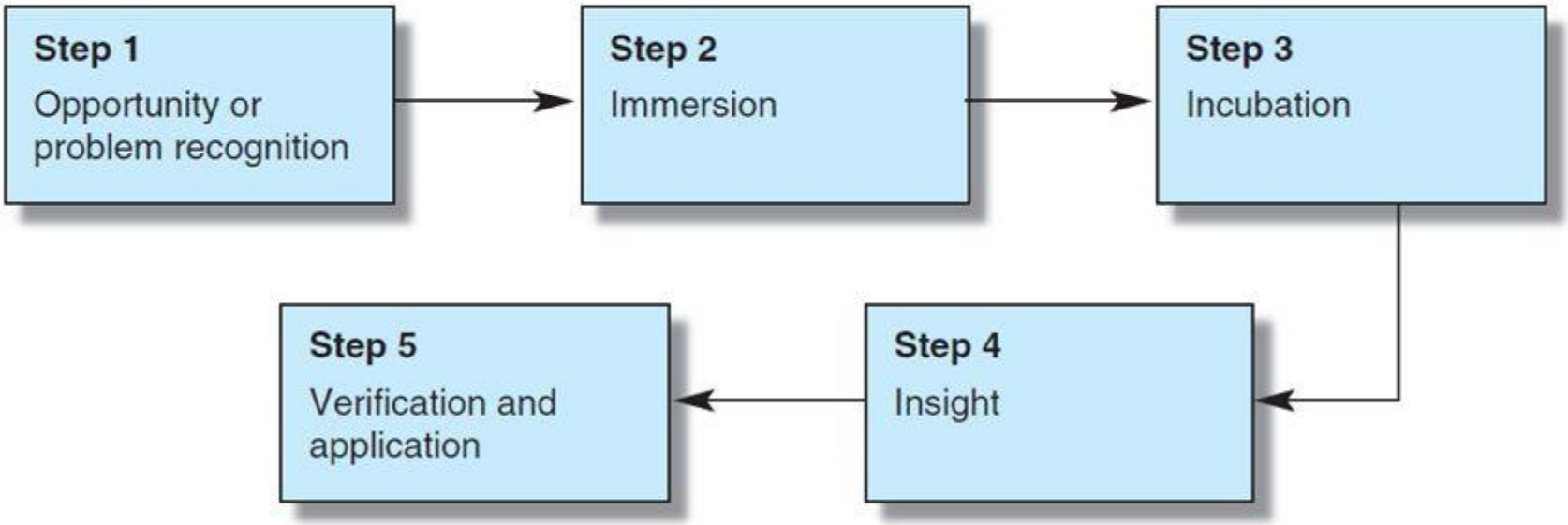
**Innovation:** the ability to *apply* creative solutions to those problems and opportunities to enhance or to enrich people's lives

- *Doing* new things

- Entrepreneurs succeed by *thinking* and *doing* new things or old things in new ways

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# Figure 11-1 **Steps in the Creative Process**




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# STEPS IN THE CREATIVE PROCESS

1. **Opportunity or Problem Recognition**: A person discovers that a new opportunity exists or a problem needs resolution.
2. **Immersion**: The individual concentrates on the problem and becomes immersed in it. He or she will recall and collect information that seems relevant, dreaming up alternatives without refining or evaluating them.
3. **Incubation**: The person keeps the assembled information in mind for: a while. He or she does not appear to be working on the problem actively; however, the subconscious mind is still engaged. While the information is simmering it is being arranged into meaningful new patterns.
4. **Insight**: The problem-conquering solution flashes into the person's mind at an unexpected time, such as on the verge of sleep, during a shower, or while running. Insight is also called the Aha! Or Eureka! Experience.
5. **Verification and Application**: The individual sets out to prove that the creative solution has merit. Verification procedures include gathering supporting evidence, using logical persuasion, and experimenting with new ideas.

## BARRIERS TO CREATIVITY

1. Searching for the one **'right' answer**
2. Focusing on **being logical**
3. Blindly following the **rules**
4. Constantly being **practical**
5. Viewing **play** as frivolous
6. Becoming overly **specialized**
7. Avoiding **ambiguity**
8. Fearing looking **foolish**
9. Fearing **mistakes and failure**
10. Believing that 'I am not creative'

### Barriers to Creativity

- Routinized thinking
- Not questioning assumptions
- Risk aversion
- Being quick to judgment
- Shutting down your imagination
- Badly designed working space

## INNOVATION

- a way of doing something differently and better
- invention (act of creating something) plus commercialization (putting the new creativity into the market place)

## Types of Innovation

- **Invention** - the creation of a new product, service or process
- **Extension** - the expansion of a product, service or process
- **Duplication** - replication of an already existing product, service or process
- **Synthesis** - the combination of existing concepts and factors into a new formulation

# 1.7.2.1 The Innovation Process

1. **Analytical planning:** carefully identifying the product or service features, design as well as the resources that will be needed.
2. **Resources organization:** obtaining the required resources, materials, technology, human or capital resources
3. **Implementation:** applying the resources in order to accomplish the plans
4. **Commercial application:** the provision of values to customers, reward employees and satisfy the stakeholders.

## Areas of Innovation

- **New product:** developed through new or existing technology
- **New services:** offered to undertake a particular task or solve a particular problem.
- **New production techniques/methods:** allow the end user to obtain the product at a lower cost, or a product of higher quality or better service.
- **New Way of Delivering the Product or Service to the Customer:** new way of delivering the product or service to the customer without middlemen/distributors.
- **New operating practices:** new service delivery system
  - Easy access to services
  - Higher quality
  - Consistent quality
  - Faster service

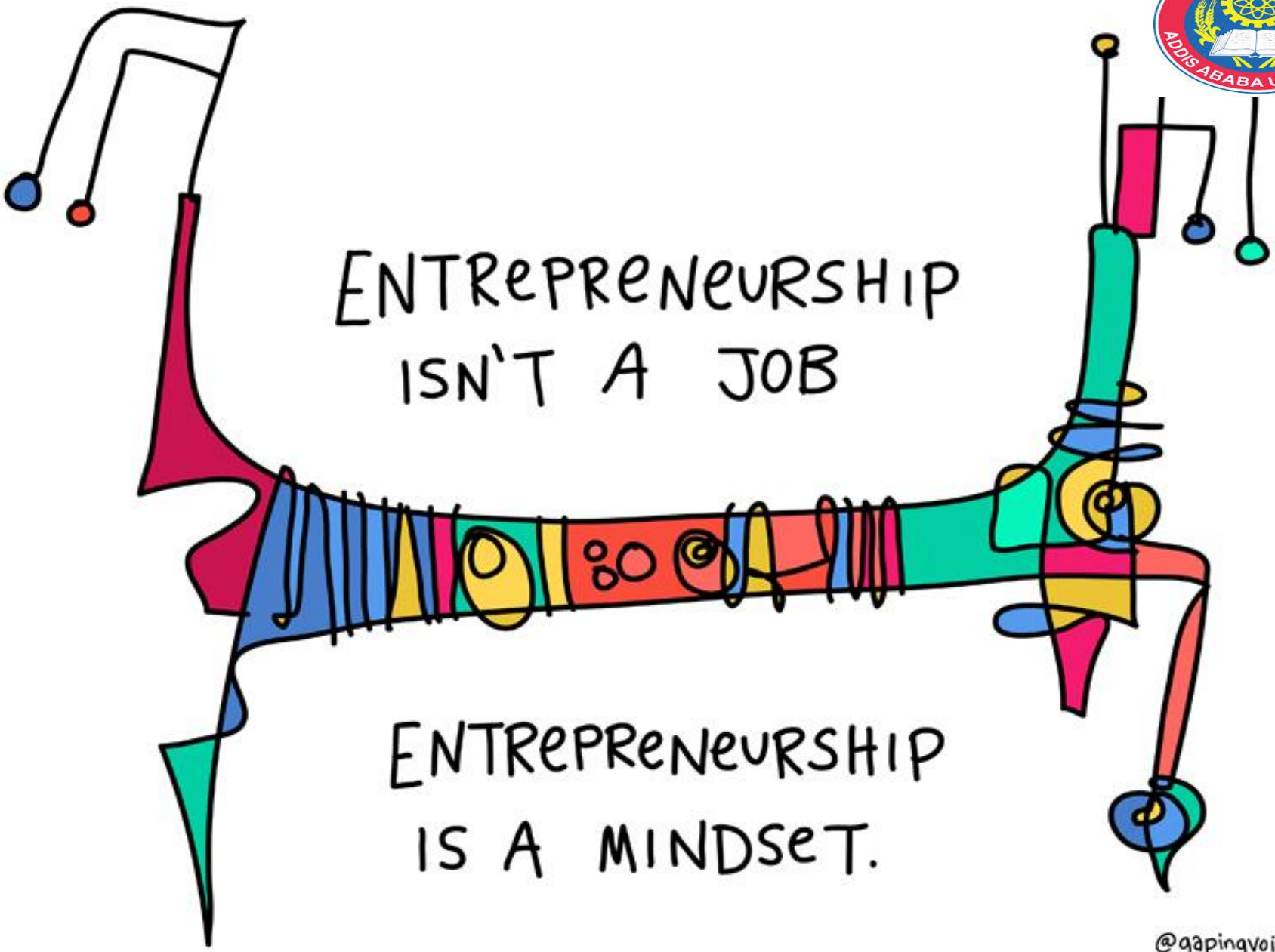
- **New means of informing the customer about the product** (new advertising system): message and means

- **New means of managing relationship within the organization** (new internal relationship management system): internal communication channels.

- **New ways of managing relationships between organizations** (new external relationship management system)

**PRINCIPLES OF INNOVATION**:

- Action-oriented: constant search for new ideas
- Simple and understandable product, process or service


ENTREPRENEURSHIP
ISN'T A JOB
ENTREPRENEURSHIP
IS A MINDSET.
@gapingvoid

# CHAPTER 2
# Business Planning

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# Chapter Two: **Business Planning**

2.1. Opportunity Identification and Evaluation

2.2. Business Idea Development

  2.2.1 Business Idea Identification

  2.2.2 Sources of Business Ideas

  2.2.3 Methods for generating Business Ideas

2.3. The Concept of Business Planning

2.4. Business Feasibility

2.5. The Business plan

2.6. Developing a business plan

# Learning Outcome

- ✓ After completing this chapter, students will be able to:

1. Identify opportunity in the environment
2. Evaluate the opportunities in the environment
3. Generate business idea
4. Explain the concept of business planning
5. Identify components of business plan
6. Develop business plan

# 2.2 Opportunity Identification and Evaluation

- ✓ The opportunity identification and evaluation stage can be divided into five main steps namely:

1. Getting the idea/scanning the environment,
2. Identifying the opportunity,
3. Developing the opportunity,
4. Evaluating the opportunity and
5. Evaluating the team

# Opportunity Identification Process



# 1. Scanning the Environment/ Getting the Idea

- ✓ Synonymous with “idea” are the terms:
- ❖ Thought
- ❖ Intention
- ❖ Scheme
- ❖ Suggestion
- ❖ Proposal
- ❖ Initiative
- ❖ Spur
- ❖ Impulse
- ❖ Brainwave
- ❖ Insight
- ❖ Concept and connotation.

# ENVIRONMENTAL SCANNING AFTER IDENTIFYING A BUSINESS IDEA OR OPPORTUNITY

## Questions to ask in an attempt to scan the environment and select a viable Business Idea

- What **products** or **services** does your business idea entail?
- Do you have the necessary competencies, **management ability**, experience and know-how to run a business that will produce those products and services?
- Who are the proposed target **customers** for those products and services?
- What makes you feel your proposed target customers need those products or services?

# Opportunity

- ✓ Opportunity is a favorable time or set of circumstances for doing something.
- ✓ Synonymous with opportunity are chance, opening and prospect.
- ✓ A business opportunity is a gap left in a market by those who currently serve it, giving a chance to others to add unrealized value by performing differently from and better than competitors in order to create new possibilities.

# Idea Vs Opportunity

- ✓ An opportunity is the possibility of occupying the market with a specific innovative product that will satisfy a real need and for which customers are willing to pay but idea is all about opinion about anything we can have.

# Ideas vs. Opportunities

- There ***is*** a difference between ideas and opportunities.

  Idea – a thought or concept for a product or service.

  Opportunity – a need, want, problem or challenge can be satisfied by an Entrepreneurial venture.



# 2. Opportunity Identification

- ✓ Opportunity identification is
- ✓ Ability to see
- ✓ To discover and exploit opportunities
- ✓ It is the process of seeking out better ways of competing
- ✓ Scanning the informational environment
- ✓ Being able to capture
- ✓ Recognize and make effective use of abstract, implicit and changing information from the changing external environments.

# Cause of the opportunity

- Technological change
- Market shift
- Government regulation
- Competition

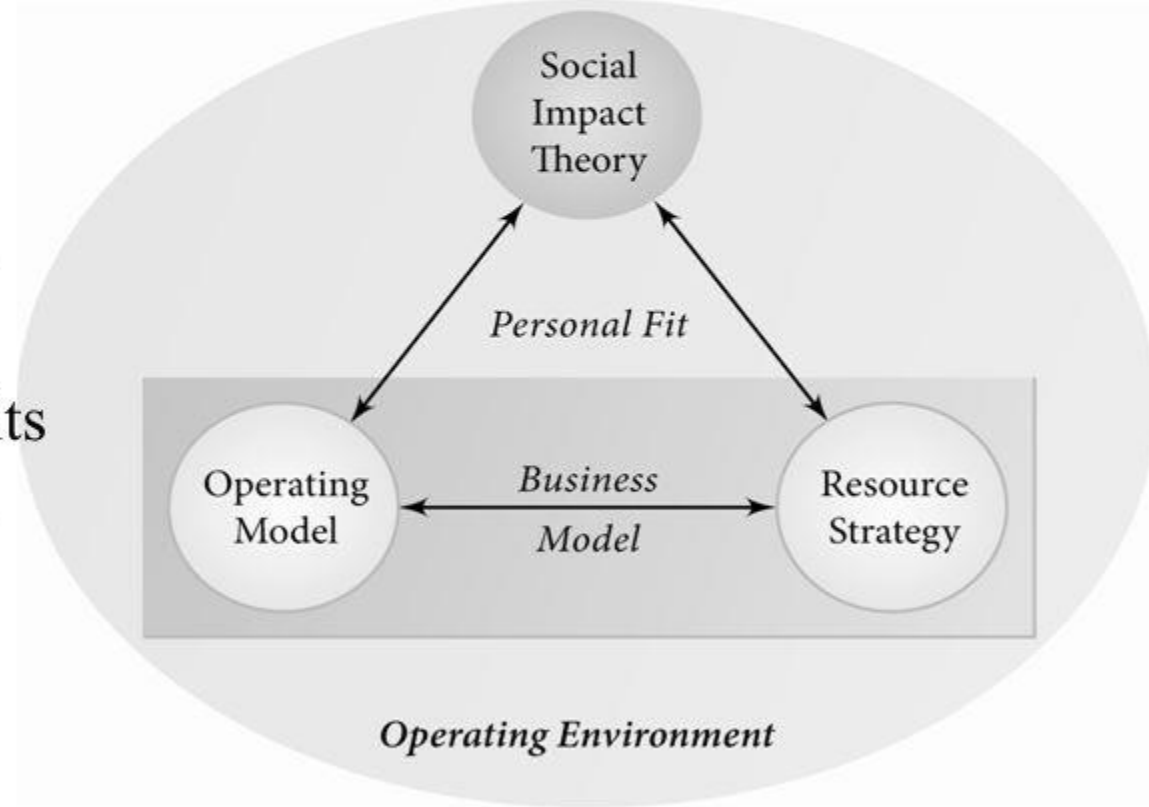
# 3. Opportunity Development

- Timely adaptation of that opportunity to suit actual market need is key to new venture success.
- Process of combining resources
- This involves systematic research to refine the idea to the most promising high potential opportunity that can be transformed into marketable items.

# The Opportunity Development Pro

- Turning an opportunity into a viable program involves the following elements:

**Social Impact Theory**
The model of how the venture will achieve its intended social impact.



# 4. Opportunity Evaluation

- ✓ Looking at the creation and length of the opportunity
- ✓ Its real and perceived value
- ✓ Its risks and returns
- ✓ Its fit with the personal skills and goals of the entrepreneur, and
- ✓ Its differential advantage in its competitive environment.

# Evaluating an Opportunity

The **feasibility** of an idea refers to how possible or worthwhile it is to pursue it, to see if it is actually an opportunity.

Three methods for determining the feasibility of business ideas are:

- **Cost/Benefit Analysis**. This is the process of adding up all the expected benefits of an opportunity and subtracting all the expected costs. If the benefits outweigh the costs, the opportunity may be worthwhile.
- **Opportunity-Cost Analysis**. An opportunity-cost analysis examines the potential benefits that you forfeit when you choose one course of action over others.
- **SWOT Analysis**. This is a business evaluation method that draws its name from the four areas it evaluates—**S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats.

Carter et al, 1996:157) evaluating the opportunity must answer the questions table 3.2 below.

**Table 3.1: Business factors and questions for opportunity evaluation**

| Business factor | Questions for evaluation |
|---|---|
| Product or service | • Description of the product or service, its differentiator, purpose and the need it fills<br>• What competitive advantage / benefits does the product have?<br>• What is the required customer care support for this product/service?<br>• Is the company able to produce product and supply required aftercare support? |
| Market opportunity | • Where is the market demand? What is the target market? Is it generic or a niche?<br>• Industry characteristics (growth rates, change, entry barriers).<br>• What market share can the product reasonably expect today? In 2, 5 or 10 years?<br>• Timing and length of the window of opportunity?<br>• What competition exists in this market? Substitutes? How big is their turnover?<br>• How accessible are the desired distribution channels? |
| Costing and pricing | • How much will it cost to develop the product and commercialize it?<br>• Where will the funds come from?<br>• How do the pricing, costs and economies of scale compare with competitors?<br>• How easy is it to acquire equipment, skills and other inputs required? |
| Profitability | • Where is the money to be made in this activity? What are the gross margins?<br>• Would the return on investment be acceptable? What is the payback period?<br>• What are the cash flow patterns and the source of working capital? |
| Capital requirements | • How much capital (people, operating expense and assets) is required to start?<br>• What are the long-term capital needs?<br>• How much of the required capital is secured and where will the rest come from?<br>• What securities are available to guarantee the required funds?<br>• Is there a list of potential funders? In case the funders withdraw their capital? |
| Issues and risks | • What risks (real and perceived) are inherent with the product/service?<br>• Industry based risks e.g. is the market on a decline?<br>• Are there plans for surviving the death of the lead entrepreneur?<br>• Unreliable forecasts? Inadequate cash flow?<br>• Inability to grow with the demand or cope with shrinking sales?<br>• Supplier and value chain management? |

# 2.2 Identification and Evaluation Opportunity

1. Scanning the Environment/ Getting the Idea
2. Opportunity Identification
3. Opportunity Development
4. Opportunity Evaluation
5. Assessment of the Entrepreneurial Team

# Table 2.1: Business factors and questions for opportunity evaluation

| Business factor | Questions for evaluation |
|---|---|
| Product or Service | Description of the product or service, its differentiator, purpose and the need it fills<br>○ What competitive advantage / benefits does the product have?<br>○ What is the required customer care support for this product/service?<br>○ Is the company able to produce product and supply required aftercare support? |
| Market Opportunity | ○ Where is the market demand? What is the target market? Is it generic or a niche?<br>○ Industry characteristics (growth rates, change, entry barriers).<br>○ What market share can the product reasonably expect today? In 2, 5 or 10 years?<br>○ Timing and length of the window of opportunity?<br>○ What competition exists in this market? Substitutes? How big is their turnover?<br>○ How accessible are the desired distribution channels? |
| Costing and Pricing | ○ How much will it cost to develop the product and commercialize it?<br>○ Where will the funds come from?<br>○ How do the pricing, costs and economies of scale compare with competitors?<br>○ How easy is it to acquire equipment, skills and other inputs required? |
| Profitability | ○ Where is the money to be made in this activity? What are the gross margins?<br>○ Would the return on investment be acceptable? What is the payback period?<br>○ What are the cash flow patterns and the source of working capital? |
| Capital Requirements | ○ How much capital (people, operating expense and assets) is required to start?<br>○ What are the long-term capital needs?<br>○ How much of the required capital is secured and where will the rest come from?<br>○ What securities are available to guarantee the required funds?<br>○ Is there a list of potential funders? In case the funders withdraw their capital? |
| Issues and risks | ○ What risks (real and perceived) are inherent with the product/service?<br>○ Industry based risks e.g. is the market on a decline?<br>○ Are there plans for surviving the death of the lead entrepreneur?<br>○ Unreliable forecasts? Inadequate cash flow?<br>○ Inability to grow with the demand or cope with shrinking sales?<br>○ Supplier and value chain management? |

# Table 2.2: Team factors and questions for opportunity evaluation

| Team factor | Questions for evaluation |
|---|---|
| Focus: | ○ Is the founder really an entrepreneur, bent on building a company?<br>○ Does the entrepreneur (or his team) have some experience (work or industry)?<br>○ Do they really like this product/sector? Do they really want this?<br>○ Can the team create products to suit that market need?<br>○ How stressful is the opportunity for the team? |
| Selling: | ○ Does the team have the necessary selling and closing skills? |
| Management: | ○ Who will work full time? Do your managers represent competitive advantage?<br>○ Does the team have the necessary management and technical skills?<br>○ If the required skills are not available, can they be acquired at competitive rates?<br>○ How is their relationship with the entrepreneur, commitment and motivation? |
| Ownership: | ○ Have the critical decisions about ownership and equity splits been resolved?<br>○ Are the members committed to these?<br>○ Does the owners have enough financial capital for required own contributions? |

# 2.3 Business Idea Development

Types of business idea

- **Old idea**: coping/imitating an existing business idea from someone
- **Old idea with modification**: accepting an old idea from someone and then modifies it in some way to fit a potential customers' demand
- **New idea**: inventing something new for the first time

Only modified and new ideas are **innovative idea**.

# Sources of new Ideas

**Idea:**

A thought or suggestion as to a possible course of action.

Some of the more frequently used sources of ideas for entrepreneurs include?

- Consumers
- Existing product & services
- Distribution channels
- The federal government &
- Research & development

# 2.4 Business Idea Identification

- ✓ Before you start a business, you need to have a clear idea of the sort of business you want to run.
- ➢ Your business idea will tell you:

1. Which need will your business fulfill for the customers and what kind of customers will you attract?
2. What good or service will your business sell?
3. Who will your business sell to?
4. How is your business going to sell its goods or services?
5. How much will your business depend upon and impact the environment? A good business idea will be compatible with the sustainable use of natural resources and will respect the social and natural environment on which it depends.

# Identifying Startup Ideas

- Opportunity Recognition
  - Identification of potential new products or services that may lead to promising businesses
- Entrepreneurial Alertness
  - Readiness to act on existing, but unnoticed, business opportunities
- Good Investment Qualities
  - Products that serve clear and important needs
  - Products that customers know about
  - Products that customers can afford
  - *A good idea is not the same as a good opportunity.*

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## 2.4.1 The Need That Your Business Fulfill for the Customers




VIVA
RESTAURANT
There is no regular waste collection here. This badly affects the image of my restaurant!
TODAY'S SPECIAL

## 2.4.2 Good or Service will your Business Sell

1. Depending on your skills and the needs of the customers, you should decide which good or service your business will sell.
2. A good is an item that people pay for and use.
3. It may be something you make yourself or it may be something you buy to resell.

## 2.4.3 Identifies Potential Customer



## 2.4.4 Strategy for Selling Goods or Services / How is Your Business Going to Sell Good or Services?

- ✓ How are you going to sell your goods or services?
- ➢ If you plan to open a shop, you know how you will sell your product, but manufacturers or service operators can sell their products in many different ways.
- ➢ A manufacturer, for example, can sell either directly to customers, to retailers or to wholesalers.

# 2.4.5 Relation between Business and Environment

1. How much does your business depend on the environment?
2. Does it rely on the weather, soil or other natural resources?
3. Does it need any specific type of labor from the local community?
4. Does it need the local community to support it?

## 2.4.5 Relation between Business and Environment

5. What should you do to make sure that your business nurtures the natural environment and helps the local community?

6. Will your business nurture the natural environment or will it have a detrimental impact?

7. How effect that your business might have? would you minimize or reverse any negative

**Activity 1:** Now if you already have a business idea, describe your idea using the following form:

**My business idea is:**

……
……
……
……

**Which need will my business fulfill?**

……
……
……
……

**What good/ service will I provide?**

……
……
……
……

**To whom will I sell?**

……
……
……
……

**How will I sell my good/ service?**

……
……
……
……

**How much will my business depend upon and impact the environment?**

……
……

# 2.5 Methods for Generating Business Ideas

- ✓ **My business idea:**

1. Which need will my business fulfill?
2. What good/service will I provide?
3. To whom will I sell?
4. How will I sell my service?
5. How much will my business depend upon and impact the environment?

# 2.5. Methods for Generating Business Ideas

## 1. Learn from successful business owners

i. What kind of idea did these businesses start with?

ii. Where did the ideas come from?

iii. How did they develop their ideas into successful businesses?

iv. How does the business profit and fit into the local environment?

v. Where did they get the money to start their business?

# BUSINESS IDEAS ANALYSIS FORM

**Name of business:** _____

**Goods or services to be sold:** _____

**Main customers:** _____

**When and why did the owner decide to start this business?**

_____

_____

**Why did the owner think it was a good idea to start that kind of business?**

_____

_____

**How did the owner learn what his potential customers wanted?**

_____

_____

**What strengths or assets did the owner use to start this business? (E.g., previous experience, training, family background, contacts, hobbies)**

_____

_____

**What problems did the owner face in setting up the business?**

_____

_____

**Has the business good or service changed over time?**

_____

_____

**What is the impact of the business on the natural environment and the community?**

_____

_____

**Notes:**

_____

_____

# 2.5. Methods for Generating Business Ideas

**2. Draw From Experience**

**2.1 Your own Experience**

**2.2 Other People's Experience**

- Here are some examples of comments that would help with your search for a business idea:
  - "I cannot find a lunch box that keeps the food warm."
  - "The choice of cooking pots in the shops is very limited."
  - "There is no reliable way of sending gift packages to my friends and relatives living in the villages."
  - "There is not enough entertainment in this town and the weekends are so boring."
  - "I really need to buy some marketing textbooks, but there are no good bookstores in this town."
  - "There is so much garbage on the streets. Somebody should do something about it."

**3. Survey Your Local Business Area**

# 3. Survey Your Local Business Area

1. Another way of discovering business ideas is to look around your local community.
2. Find out what type of businesses are already operating in your area and see if you can identify any gaps in the market.
3. Visit the closest industrial area, markets and shopping centers in your area.

# 4. Scanning Your Environment

## Scanning Your Environment

1. Natural resources
2. Characteristics and skills of people in the local community
3. Waste products
4. Import substitution
5. Publications
6. Trade fairs and exhibitions

# 1. Natural Resources



## 2. Characteristics and Skills of People in the Local Community

- Consider whether the people in your area have some special characteristics or skills that could be useful for a business:
  - ✓ Are there people in your community who are good artisans, tailors or carpenters or who have specific skills creating items unique to your area?
  - ✓ Are there recent graduates looking for jobs who you could employ?
  - ✓ Are there caregivers, nurses or people who could offer services to children, the elderly or the sick?
  - ✓ Is your community digitally connected?
  - ✓ Is the infrastructure in your community well developed?

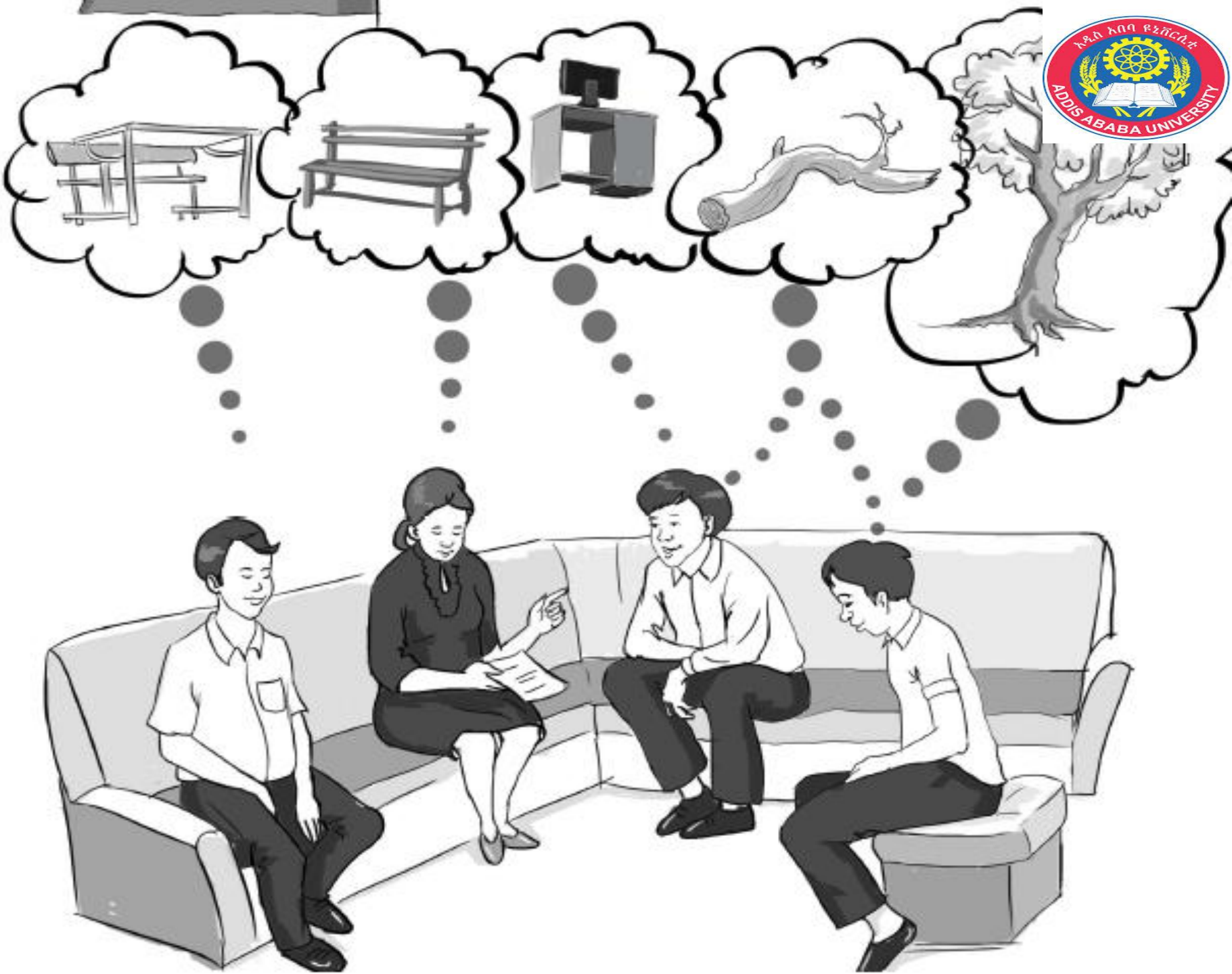

My villagers are very good at thatching roofs. I can offer this service to owners of new hotels under construction.

# 3. Waste Products



# 5. Brainstorming

1. Brainstorming means opening up your mind and thinking about many different ideas.
2. You start with a word or a topic and then write down everything that comes to mind relating to that subject.
3. You continue writing for as long as possible, putting down things that you think of, even if they seem irrelevant or odd.
4. Good ideas can come from concepts that initially seem strange.
5. Brainstorming works best in a group.
6. Get your family, friends or classmate together and ask them to help by writing down ideas they have when they hear the word or subject matter.



# 6. Structured Brainstorming

- Different processes that are involved in the operation of a particular business and the goods/services that can be offered with respect to those processes.
- Try to think of all the businesses that are related to different aspects of a product:
  - Those involved in production,
  - Those involved in the selling process,
  - Those involved in recycling or re-using materials,
  - Those indirectly related (spin-offs),
  - Those involved in servicing,

**Production line**

- Buying cotton
- Spinning cotton thread
- Cloth production
- Dying
- T-shirt production
- Silk screening

**Selling line**

- Shop selling T-shirts
- Stand at fairs
- Supplying T-shirts to schools and companies
- Selling silkscreen equipments




**Re-using or Recycling line**

- Second-hand clothing store
- Waste clothing supplies

**Service line**

- Laundry service
- Personal name printing or embroidery

**Spin-off line**

- Creating banner design using the design equipment
- Pillow stuffing from off-cuts

**6. Structured Brainstorming**

# Methods for Generating Busines Ideas

## 7. Focus Group

- Focus group is a group of individuals providing information on a structured format which is led by moderators.
- It is characterized by an open and in depth discussion: rather than simply asking questions to solicit student response.
- The moderator focuses the discussion in either Directive or non-directive manner.
- It is useful for both getting new idea on existing product or screening idea/concepts.

## 8. Problem Inventory Analysis

- It is similar to focus group to generate new product ideas. The difference is rather than generating new idea themselves, consumers are provided with a list of problems in general product category.
- It is a method of obtaining “New Idea” and solutions by focusing on problems.

## 9. Free Association

- One of the simplest methods that entrepreneurs can use to generate new ideas is free association.
- This technique is particularly helpful in developing an entirely new slant to a problem.
- First, a word or phrase related to the problem is written down, then another and another, with each new word attempting to add something new to the ongoing thought processes, thereby creating a chain of ideas ending with a new product/service idea emerging.

# Methods for Generating Busines Ideas

## 10. Forced Relationships

- Forced relationships- as the name implies- is the process of forcing relationships among some product combinations.
- It is a technique that asks questions about objects or ideas in an effort to develop a new idea.

## 11. Attribute Listing

- Attribute listing is an idea-finding technique that has the entrepreneur list the attributes of an item or problem and then look at each from a variety of viewpoints.
- Through this process, originally unrelated objects can be brought together to form a new combination and possibly a new product/service that better satisfies a need.

# 2.6 Business Idea Screening

- ✓ Idea screening is the process to spot good ideas and eliminate poor one.

## IDEA SCREENING

- It is a process which is used to evaluate innovative product ideas, strategies and marketing trends.
- Idea screening criteria are used to determine compatibility with overall business objectives and whether the idea would offer a viable ROI.
- The main objective of Idea screening is to eliminate unsound concepts prior to devoting resources to them.



# 2.6 Business Idea Screening

- To screen the business idea generated, three approaches are discussed as follow:

**1. Macro screening**: is aimed screening down ideas to 10. And the common criteria are:

i. Are my own competencies (see strength detector) sufficient?
ii. Can I finance it to a large extent with my own equity?
iii. Will people buy my product/service (i.e. is it needed and can people afford it)?

**2. Micro Screening**: is aimed screening down ideas into 3. The common criteria used for screening are:

i. Solvent demand
ii. Availability of raw materials
iii. Availability of personal skills
iv. Availability of financial resources

**3. Scoring the Suitability of Business Idea**:

i. This approach is most appropriate when deciding on starting a business.
ii. When there are more than one possible business ideas and one needs to decide which one to follow, we use score business ideas (e.g., BI1, BI2, BI3) by assigning a rating from 1 to 3 for each question, with 3 being the strongest.
iii. After we score the ideas we sum the total and select the idea with the highest score.

| S. No | Questions | BI1 | BI2 | BI3 |
|---|---|---|---|---|
| 1. | Are you familiar with the operations of this type of business? | | | |
| 2. | Does the business meet your investment goals? | | | |
| 3. | Does the business meet your income goals? | | | |
| 4. | Does the business generate sufficient profits? | | | |
| 5. | Do you feel comfortable with the business? | | | |
| 6. | Does your family feel comfortable with the business? | | | |
| 7. | Does the business satisfy your sense of status? | | | |
| 8. | Is the business compatible with your people skills? | | | |
| 9 | Is there good growth projected for the overall industry of the business? | | | |
| 10. | Is the risk factor acceptable? | | | |
| 11. | Does the business require long hours? | | | |
| 12. | Is the business location-sensitive? | | | |
| 13. | Does the business fit your personal goals and objectives? | | | |
| 14. | Does this business fit your professional skills? | | | |
| Totals | | | | |

# Survey Results

- Collecting information on your business idea gives you an opportunity to promote your business idea and to present yourself as a potential entrepreneur.

1. **Potential customers**: Their views are essential to your understanding of whether or not your proposed product is important to them and if you need to modify your idea to meet their needs.

# Survey Results

2. **Competitors, suppliers and entities with financial resources**: Their views will reveal the challenges of competition that you would face, as well as other issues related to your potential business
3. **Financial institutions**: Find out the lending requirements to determine whether borrowing for a new business is possible.
4. **Key informants and opinion leaders**: These are people who would know a lot about the type and field of business you want to go into and/or a lot about your potential customers. Their views would give you a lot to think about and could also give you a better insight into the feasibility of your business idea.

# 2.7 Concept of Business Plan

- ✓ A business plan is the blueprint of the step-by-step procedure that would be followed to convert a business idea into a successful business venture.


Executive Summary
Mission Statement
Company Background
Product Description
Marketing Plan
Competitor Analysis
SWOT Analysis
Operations
Financial planning
Timeline
Business Plan

# A business plan identifies

1. An innovative idea,
2. Researches the external environment to list the opportunities and threats,
3. Identifies internal strengths and weakness,
4. Assesses the feasibility of the idea and then allocates resources (production/operation, finance, human resources ) in the best possible manner to make the plan successful.

The objectives of a business plan are to:

1. Give directions to the vision formulated by entrepreneur.
2. Objectively evaluate the prospects of business.
3. Monitor the progress after implementing the plan.
4. Persuade others to join the business.
5. Seek loans from financial institutions.
6. Visualize the concept in terms of market availability, organizational, operational and financial feasibility.

# The objectives of a business plan are to: cont.

7. Guide the entrepreneur in the actual implementation of the plan.
8. Identify the strengths and weakness of the plan.
9. Identify challenges in terms of opportunities and threats
10. Clarify ideas and identify gaps in management information about their business, competitors and the market.
11. Identify the resources that would be required to implement the plan.
12. Document ownership arrangements, future prospects and projected growths of the business venture.

# 2.8 Developing a Business Plan

## 2.8.1 Business Planning Process

1. Preliminary Investigation
2. Opportunity Identification and Idea Generation
3. Environmental Scanning
4. Feasibility Analysis
5. Report Preparation

# 2.8.2 Essential Components of Business Plan

i. Cover Sheet
ii. Executive Summary
iii. The Business
iv. Funding Requirement
v. The Product or Services
vi. The Plan
    1) Marketing Plan
    2) Operational Plan
    3) Organizational Plan
    4) Financial Plan
        a) Projected Sales
        b) Projected Income and Expenditure Statement
        c) Projected Break Even Point
        d) Projected Profit and Loss Statement
        e) Projected Balance Sheet
        f) Projected Cash Flows
        g) Projected Funds Flow
        h) Projected Ratios
vii. Critical Risks
viii. Exit Strategy
ix. Appendix

# CHAPTER 3
# BUSINESS FORMATION

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# Chapter 3
# Business Formation

3.1. The Concept of Business Development

3.2. Forms of Business (a short explanation)

3.3. Definition and Importance of SMEs

3.4. Setting up small scale business

3.5 Roles of SMEs

3.6. Business failure and success factors.

3.6.1 Problems of small scale business in Ethiopia

3.7 Organizational structure and entrepreneurial team formation

# Learning Outcome

✓ After completing this chapter, students will be able to:

1. Explain the concept of business development
2. Identify the forms of business ownership
3. Define SMEs
4. Analyze the importance of SMEs
5. Set Up small scale business
6. List role of SMEs
7. Distinguish the failure and success factors of SMEs
8. Identify the problem of small scale business in Ethiopia
9. Develop organizational culture

# 3.1 INTRODUCTION

- ✓A business formation deals with the formalization and actual implementation of business ideas in to practice.

# 3.2 The Concept of Small Business Development

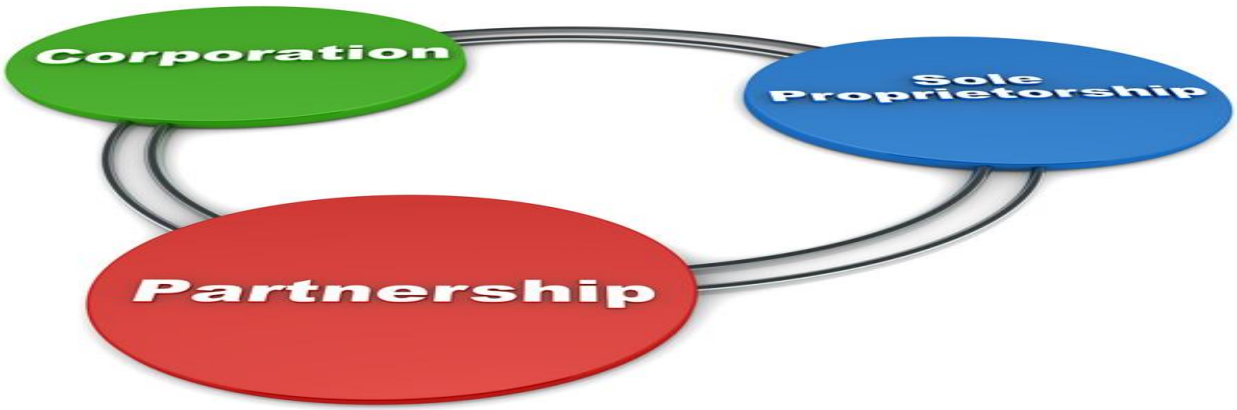
1. Based on socio- economic conditions, countries define small business differently.
2. Usually size and economic criteria as a base to define small business.
3. Size criteria include number of employees and the startup capital.

# 3.2 The Concept of Small Business Development

4. Qualitative characteristics are used to differentiate small business from other business
5. The economic/control definition covers market share, independence and personalized management.

# 3.3 Forms of Business

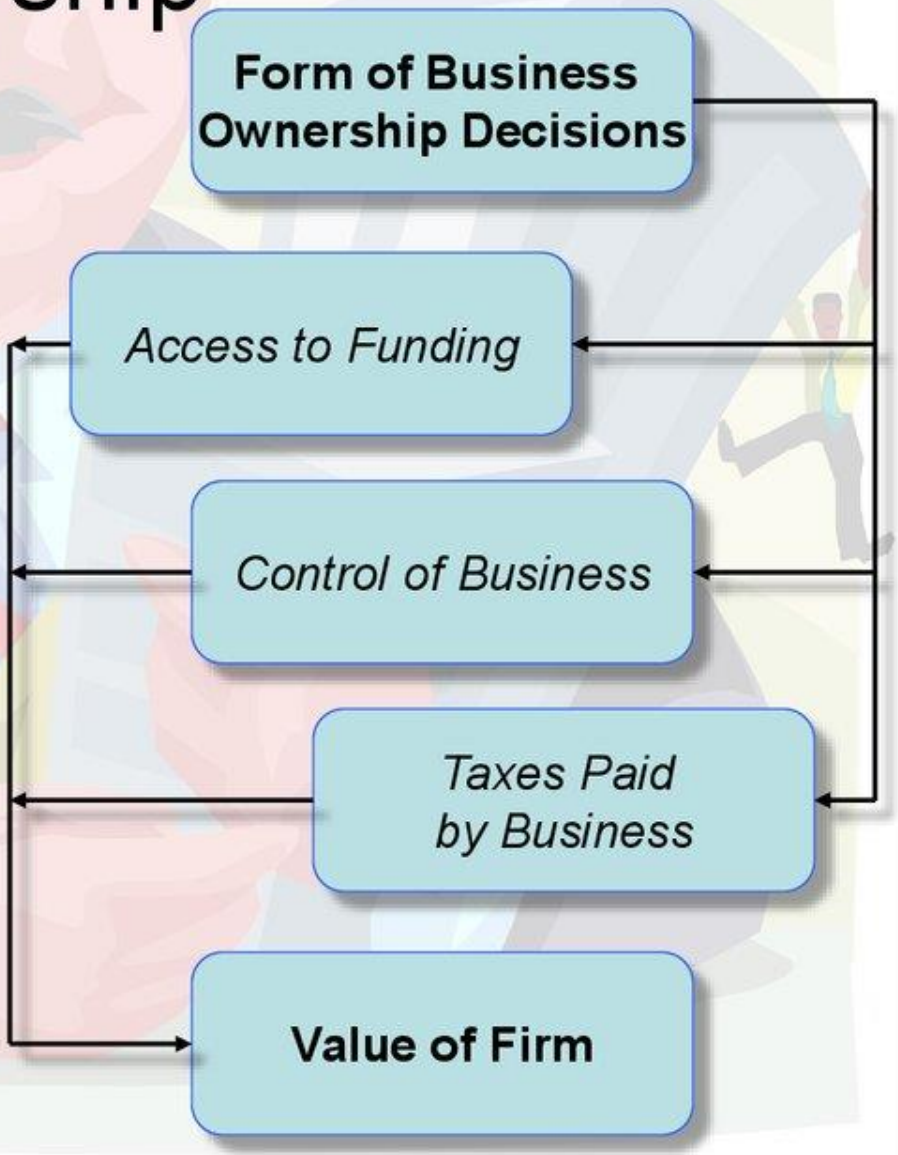
| Legal Forms of Business | Description |
|---|---|
| 1. Proprietorship | Form of business with single owner who has unlimited liability, controls all decisions, and receives all profits. |
| 2. Partnership | Two or more individuals having unlimited liability who have pooled resources to own a business. |
| 3. Corporation | Separate legal entity that is run by stockholders having limited liability. |



# Selecting a Form of Business Ownership

- Sole Proprietorship
- Partnership
  - General Partnership
  - Limited Partnership
- Limited Liability Company
- Corporation
  - Private Limited Company
  - Public Limited Company
- Joint Venture
- Franchise





# FORMS OF BUSINESS OWNERSHIP

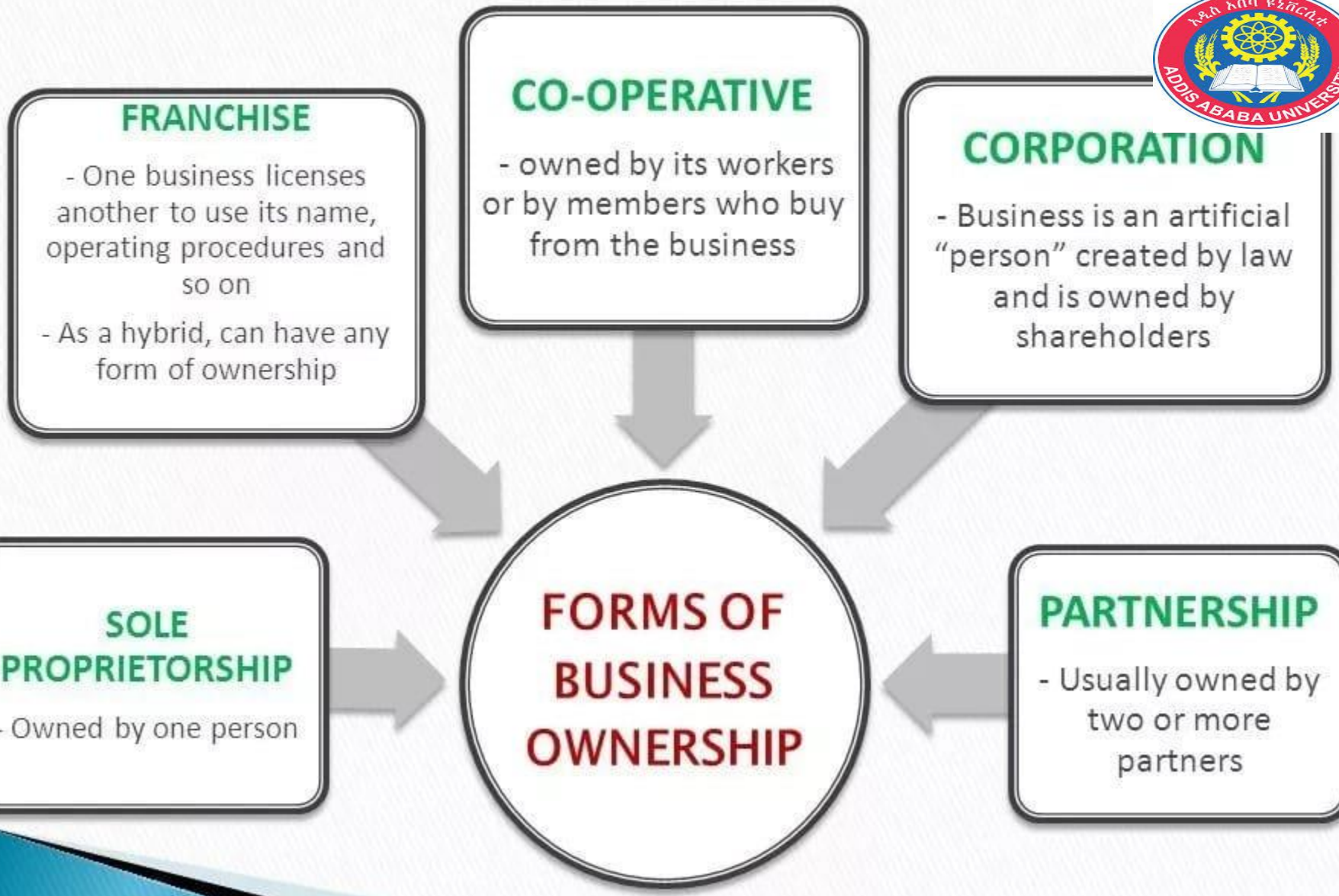


Table 3.1 Factors in Three Forms of Business Formation

| Factors | Basic Forms of Business Formation | | |
|---|---|---|---|
| | Proprietorship | Partnership | Corporation |
| Ownership | • Individual | • No limitation on number of partners. | • No limitation on number of stockholders. |
| Liability of Owners | • Individual liable for business liabilities. | • In general partnership, all individuals liable for business liabilities.<br>• Limited partners are liable for amount of capital contribution.<br>• In limited liability partnership (LLP), there is no liability except when negligence exists. | • Amount of capital contribution is limit of shareholder liability. |
| Costs of Starting Business | • None, other than filing fees for trade name. | • Partnership agreement, legal costs, and minor filing fees for trade name. | • Created only by statute.<br>• Articles of incorporation, filing fees, taxes, and fees for states in which corporation registers to do business. |
| Continuity of Business | • Death dissolves the business. | • Death or withdrawal of one partner terminates partnership unless partnership agreement stipulates otherwise.<br>• Death or withdrawal of one of limited partners has no effect on continuity. | • Greatest form of continuity.<br>• Death or withdrawal of owner(s) will not affect legal existence of business. |
| Transferability of Interest | • Complete freedom to sell or transfer any part of business. | • General partner can transfer his/her interest only with consent of all other general partners.<br>• Limited partner can sell interest without consent of general partners. No transfer of interest in an LLP. | • Most flexible. Stockholders can sell or buy stock at will. Some stock transfers may be restricted by agreement. |
| Capital Requirements | • Capital rose only by loan or increased contribution by proprietor. | • Loans or new contributions by partners require a change in partnership agreement.<br>• In LLP partnership, entity raises money. | • New capital raised by sale of stock or bonds or by borrowing (debt) in name of corporation. |

| | | | |
|---|---|---|---|
| Management Control | • Proprietor makes all decisions and can act immediately. | • All general partners have equal control, and majority rules.<br>• Limited partners have limited control.<br>• Can vary in an LLP. | • Majority stockholder(s) have most control from legal point of view.<br>• Day-to-day control in hands of management, who may or may not be major stockholders. |
| Distribution of Profits and Losses | • Proprietor responsible and receives all profits and losses. | • Depends on partnership agreement and investment by partners. | • Shareholders can share in profits by receipt of dividends. |
| Attractiveness for Raising Capital | • Depends on capability of proprietor and success of business. | • Depends on capability of partners and success of business. | • With limited liability for owners, more attractive as an investment opportunity. |

**LLP- Limited Liability Partnership*

## 3.4 Definition and Role/Importance of SMEs in Developing Countries

- Policy-makers, organizations, researchers, advisers, etc. all use a range of terms interchangeably, Some of them are:
  - Small Business, Small and Medium-Size Enterprises (SMEs), Small Firms, Small Enterprises, Small-scale Industries, Microenterprises, The informal sector, Cottage and Handicrafts, Tiny businesses, other income-generating activities, etc.

## 3.2 The Concept of Small Business Development

- There are two approaches to define small business;
  - **By some measure of size-Quantitative approach:**
    - **Sales volume**
    - **Asset size**
    - **Insurance in force**
    - **Volume of deposit**
    - **Number of employee -Most commonly used criteria**
  - **Using an economic/control definition-Qualitative approach:**
    - **Market share**
    - **Independence**
    - **Personalized management**

# 1. Size Criteria

- ✓ It is scale of operation.
- ❖ Criteria used to measure size are:
- ➢ Number of employees;
- ➢ Volume, and value of sales turnover,
- ➢ Asset size, and volume of deposits,
- ➢ Total capital investment,
- ➢ Volume/value of production, and a combination of the stated factors.

The following are general criteria for defining a small business

- Financing of the business is supplied by one individual or a small group only.
- Except for its marketing activity, the firms operations are geographically localized.
- Compared to the biggest firms in the industry, the business is small.
- The number of employees in the business is usually fewer than 100.

# Size as per Small Business Administration (SBA)

- ✓ **All over the world, number of employees or capital investment or both has been used as the basis for defining SMEs.**

# Economic/Control Criteria.

- It covers:
  - **Market share**: Small firms' market share is not large enough to influence the market price and national products sold.
  - **Independence**: The owner has control over the business by himself.
  - **Personalized management**: The owner manages and makes all the decisions.
  - **Technology**
  - **Geographical Area of Operation**: The area of operation of a small firm is often local.

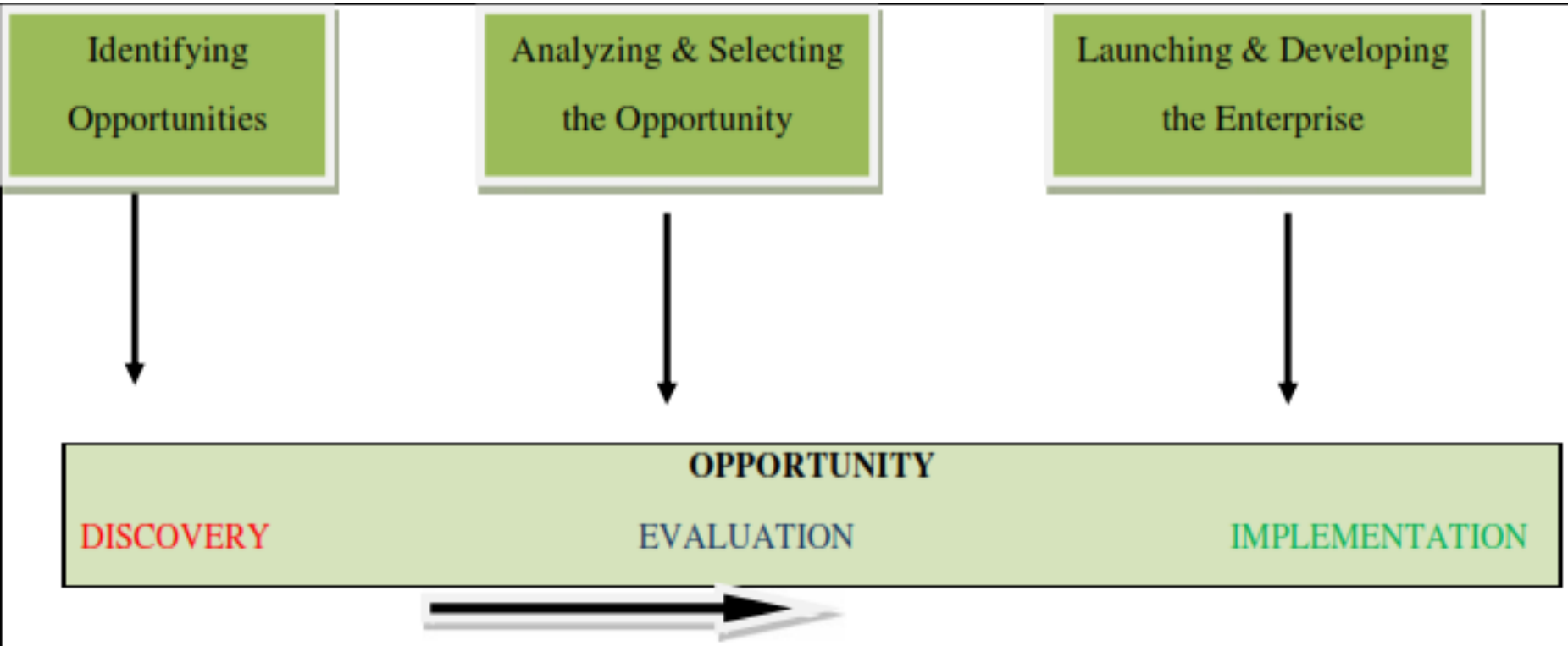
# Role/Importance of SMEs in Developing Countries

1. Large Employment Opportunities
2. Economical Use of Capital
3. Balanced Regional Development/ Removing Regional Imbalance
4. Equitable Distribution of Wealth and Decentralization of Economic Power
5. Unregulated Growth of Large-scale industries
6. Dispersal over Wide Areas
7. Higher Standard of Living
8. Mobilization of Locals Resources/Symbols of National Identity
9. Innovative and Productive /Simple Technology
10. Less Dependence on Foreign Capital/ Export Promotion

# Role/Importance of SMEs in Developing Countries

11. Promotion of Self Employment
12. Protection of Environment
13. Shorter Gestation Period
14. Facilitate Development of Large Scale Enterprises
15. Individual Tastes, Fashions, and Personalized Services
16. More Employment Creation Capacity

# 3.5 Setting up Small Scale Business
## Steps for Setting up the Entrepreneurial Venture




1. Discovering your entrepreneurial potential
2. Identifying a problem and potential sol.
3. Evaluating the idea as a business Opportunity.
4. Investigating & gathering the resources.
5. Forming the enterprise to create value
6. Implementing the entrepreneurial strategy
7. Planning the Future

# Environmental Analysis




Entrepreneurship vs Environment

a) **Macro Environment**
b) **Sectoral Analysis**

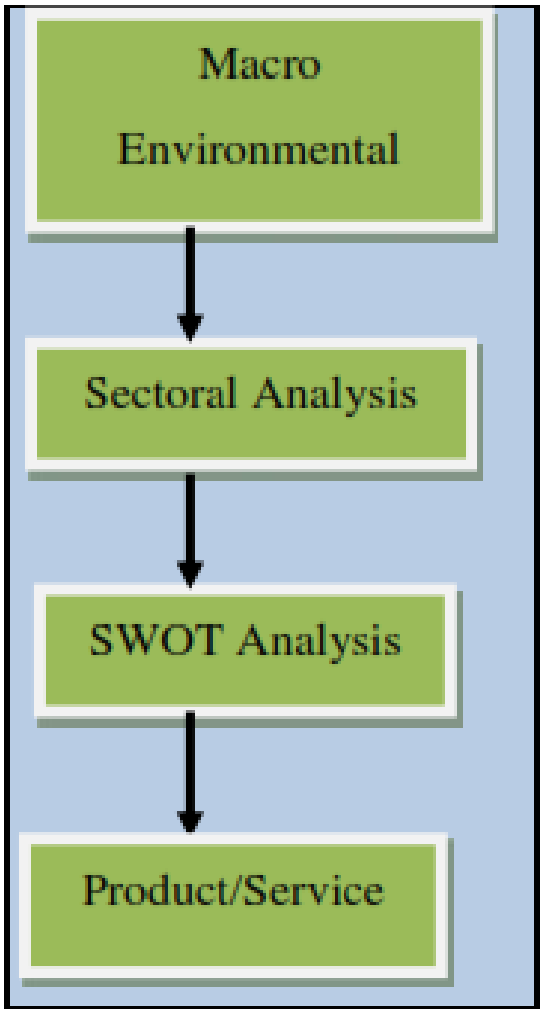
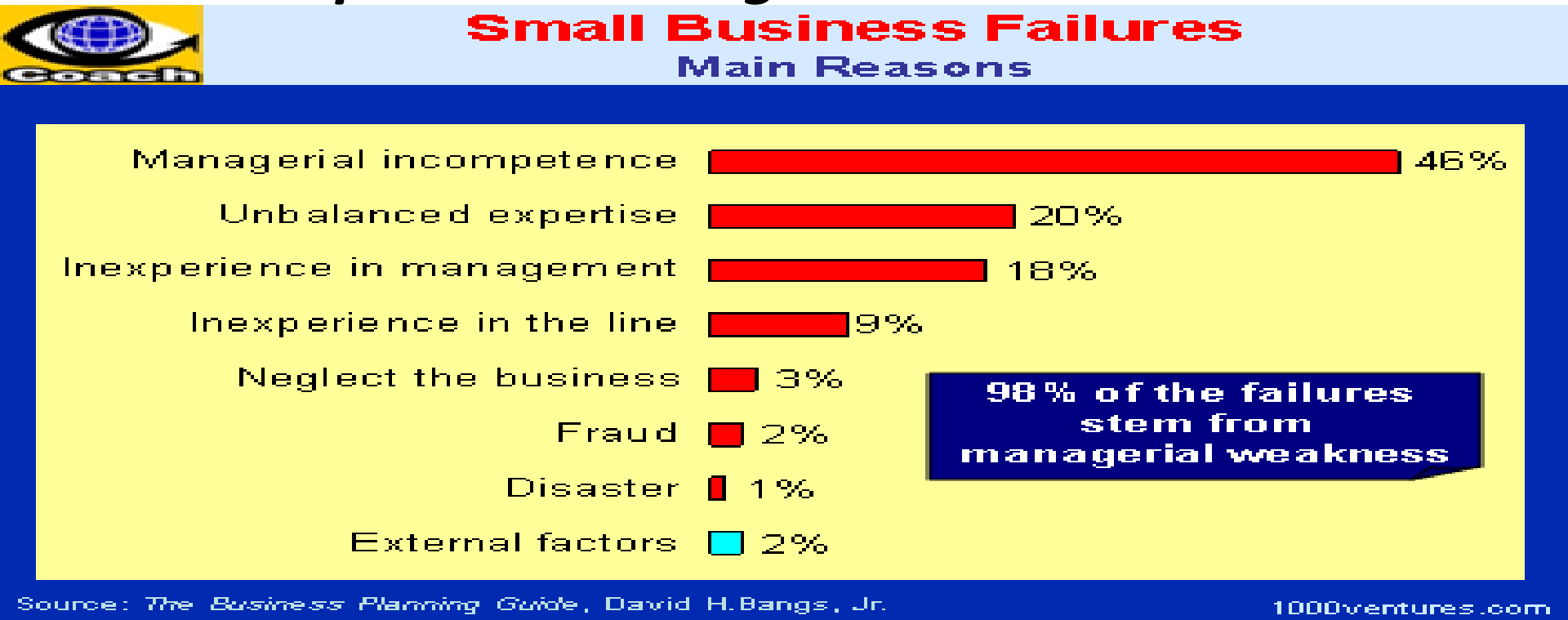



*Figure 3.2 Hierarchical of Environmental Analyses*

# 3.6.1 Small Business Failure Factors

- **Causes of Business Failure:**
  - ✓ ***Inadequate Management***
  - ✓ ***Inadequate Financing***



# Small Business Failure Factors (weakness)

It is very important to identify and analyze why certain businesses fail, so that we can learn from their mistakes and take guidance from the successful ones.

A. External Factors of Failure: Every business is affected by externalities: Like;

- Economic situation, business cycles, fluctuating interest rates, interrupted supplies, labor market trends, inflation, government regulations, and unstable financial markets...

B. Personal Factors of Failure

Inexperience

Arrogance

Mismanagement

Overinvestment in fixed assets

Poor inventory control

Poor financial control

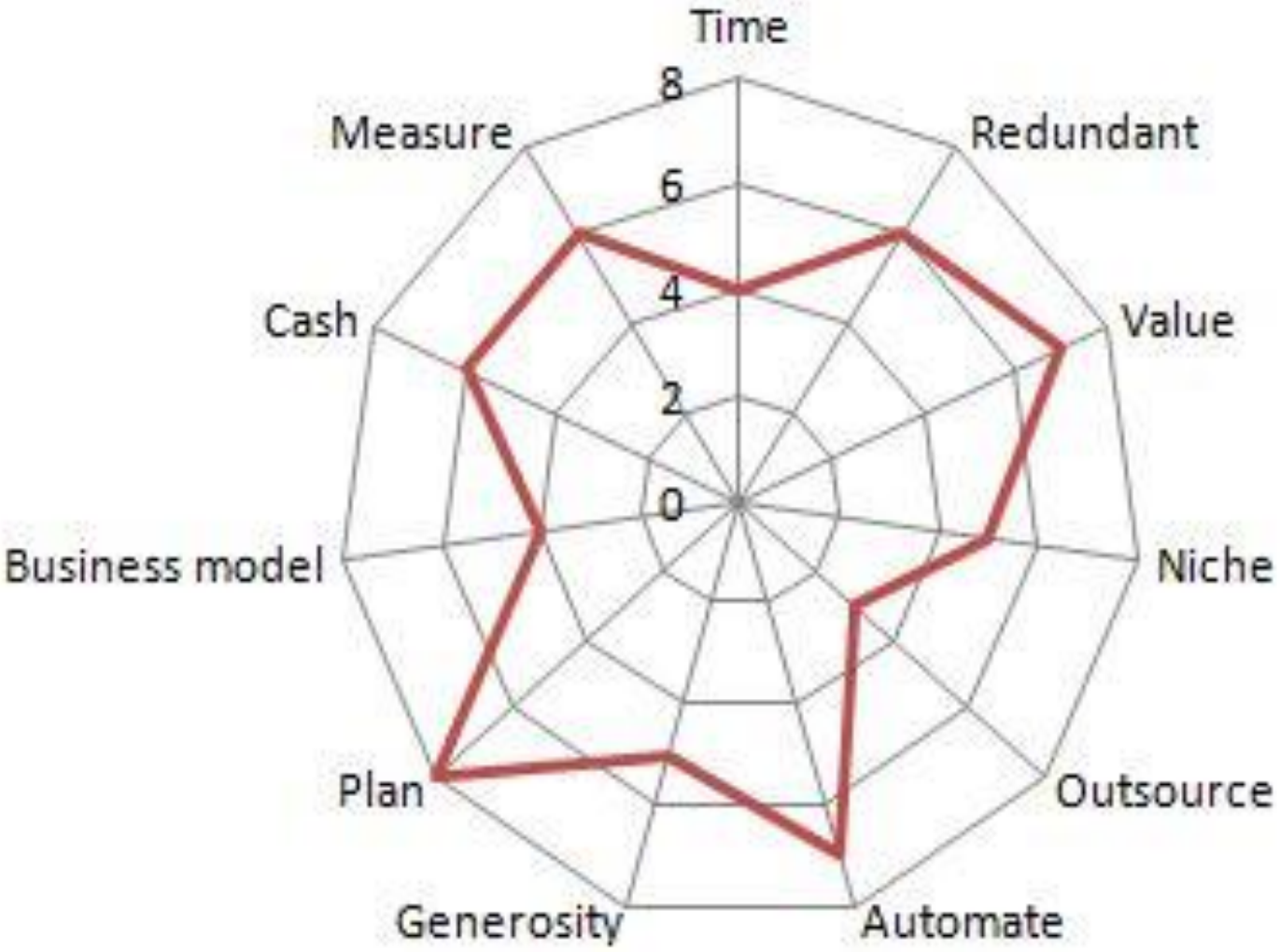
Poor Business Philosophy

Lack of Planning

# 3.6.2 Small Business Success Factors

1. Conducive Environment
    a) Political Climate
    b) The Economic Environment
    c) Technology
    d) Socio-Cultural Environment
2. Adequate Credit Assistance
3. Markets and Marketing Support.

# Key Success Factors



## 3.7 Classification of Enterprises in Ethiopian Context

**1. In Case of Manufacturing Enterprise (Manufacturing, Construction and Mining):**

- ✓ ***A Micro Enterprise*** is one in which the investment in plant and machinery (total asset) does not exceed birr100, 000 (one hundred thousand); and operates with 5 people including the owner.
- ✓ ***Small Enterprises*** is one in which the investment in plant and machinery (a paid up capital of total asset) of birr100, 000 (one hundred thousand) and not more than Birr 1.5 million; and operates with 6-30 persons.

## 3.7 Classification of Enterprises in Ethiopian Context

**2. In Case of Service Enterprise (Retailing, Transport, Hotel and Tourism, ICT and Maintenance):**

- ✓ ***A micro enterprise*** is one with the values of total asset is not exceeding Birr 50,000(fifty thousands); and operates with 5 persons including the owner of the enterprise.
- ✓ ***Small Enterprises*** is one in which the total asset value or a paid up capital of of birr100, 000 (one hundred thousand) and not more than Birr 1.5 million; and operates with 6-30 persons.

Table 3.2 Improved Definitions of MSEs

| Level of the Enterprise | Sector | Human Power | Total Asset |
|---|---|---|---|
| Micro Enterprise | Industry | ≤ 5 | ≤ 100000($6000 or E4500) |
| | Service | ≤ 5 | ≤ 50,000($3000 or E2200) |
| Small Enterprise | Industry | 6-30 | ≤ birr 1.5 million ($9000 or E70000) |
| | Service | 6-30 | ≤ birr 500,000 ($30000 or E 23000) |

# Priority Sectors and Sub-Sectors for MSEs Engagement Ethiopia

1. *Manufacturing* Sector
2. Construction Sectors
3. Trade Sectors
4. Service Sectors
5. Agriculture Sector (Urban Agriculture)

## 3.8 Main Supporting Packages for MSEs Development in Ethiopia

1. Awareness creation about the sector;
2. Provision of legal services,
3. To form legal business enterprises;
4. Providing technical and business management training;
5. Financial support based on personal saving,
6. 20/80 (the beneficiaries are save 20% and the mfis provide loan 80% of the projects);
7. Facilitate working premises;
8. Industry extinction services and BDS provision;
9. Bookkeeping and audit services.

# 3.9 Problems of Small Scale Business in Ethiopia

1) Financial
2) production, and
3) marketing problems

## ❖Designing the Organization

- ✓ *Organization structure*
- ✓ *Planning, measurement, and evaluation schemes*
- ✓ *Rewards*
- ✓ *Selection criteria*
- ✓ *Training*

# 3.10.3 Building the Management Team and a Successful Organization Culture

❖The team must be able to accomplish three functions:-

1. Execute the business plan;
2. Identify fundamental changes in the business as they occur; and
3. Make adjustments to the plan based on changes in the environment and market that will maintain profitability.

# Important ingredient in an organization's success.

- ✓ *Finding the most effective team and creating a positive organization culture is a challenge for the entrepreneur but is just as critical as having an innovative, marketable product.*

# CHAPTER 4
# Product or Services Development

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# Chapter 4
# Product or Services Development

4.1. The Concept of product or service technology

4.2. Product or service development Process

4.3 Legal and regulatory frameworks

4.4 Intellectual Property Protection/Product or service protection

4.4.1 Patent

4.4.2 Trademarks

4.4.3 Copyrighting

# Learning Outcome

1. After completing this chapter, students will be able to:
2. Describe the concept of product and services
3. List product or service development process
4. Discuss the intellectual property protection

# 4.1 Meaning of a Product

- ***A product is anything that can be offered to satisfy a need or want.***
- A product consists of as many as these components:
- ✓ **Physical good(s),**
- ✓ **service(s) and**
- ✓ **idea (s).**

# Product Classification

- Marketers have traditionally classified products on the basis of varying products characteristics:
- Durability, Tangibility, And Use (consumer or industrial).
- Each product type has an appropriate marketing mix strategy.

# 4.2. PRODUCT TECHNOLOGY

- Product technology is the **science and art of developing and producing performance products to meet the demand and requirements of the society.**

# Strategies for product technology development

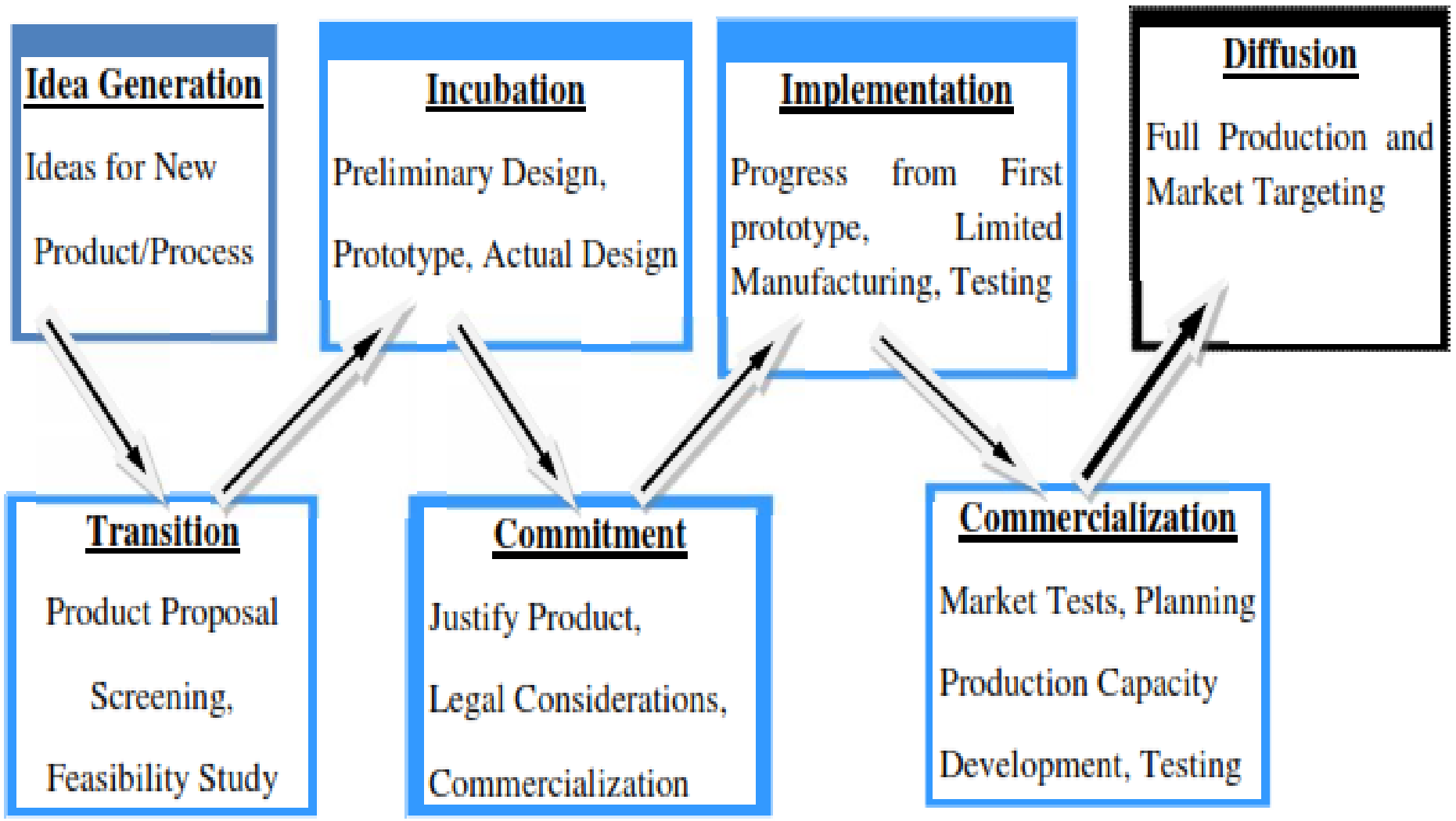
- Implementing the following strategies:
  - Profit analysis
  - Market potential
  - Client requirements
  - Competition
  - Protection by patents

# 4.3 Product/Service Development Process

- The new product development / generation process involves:

1. Idea Generation
2. Incubation
3. Implementation
4. Diffusion

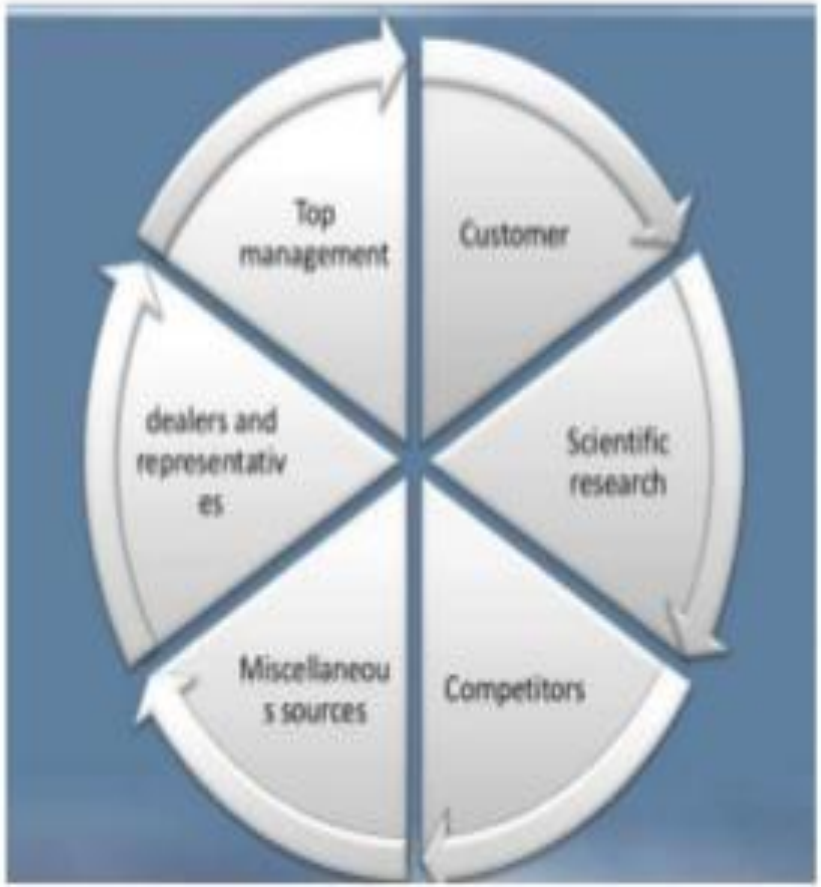
# Various stages of new product developme process



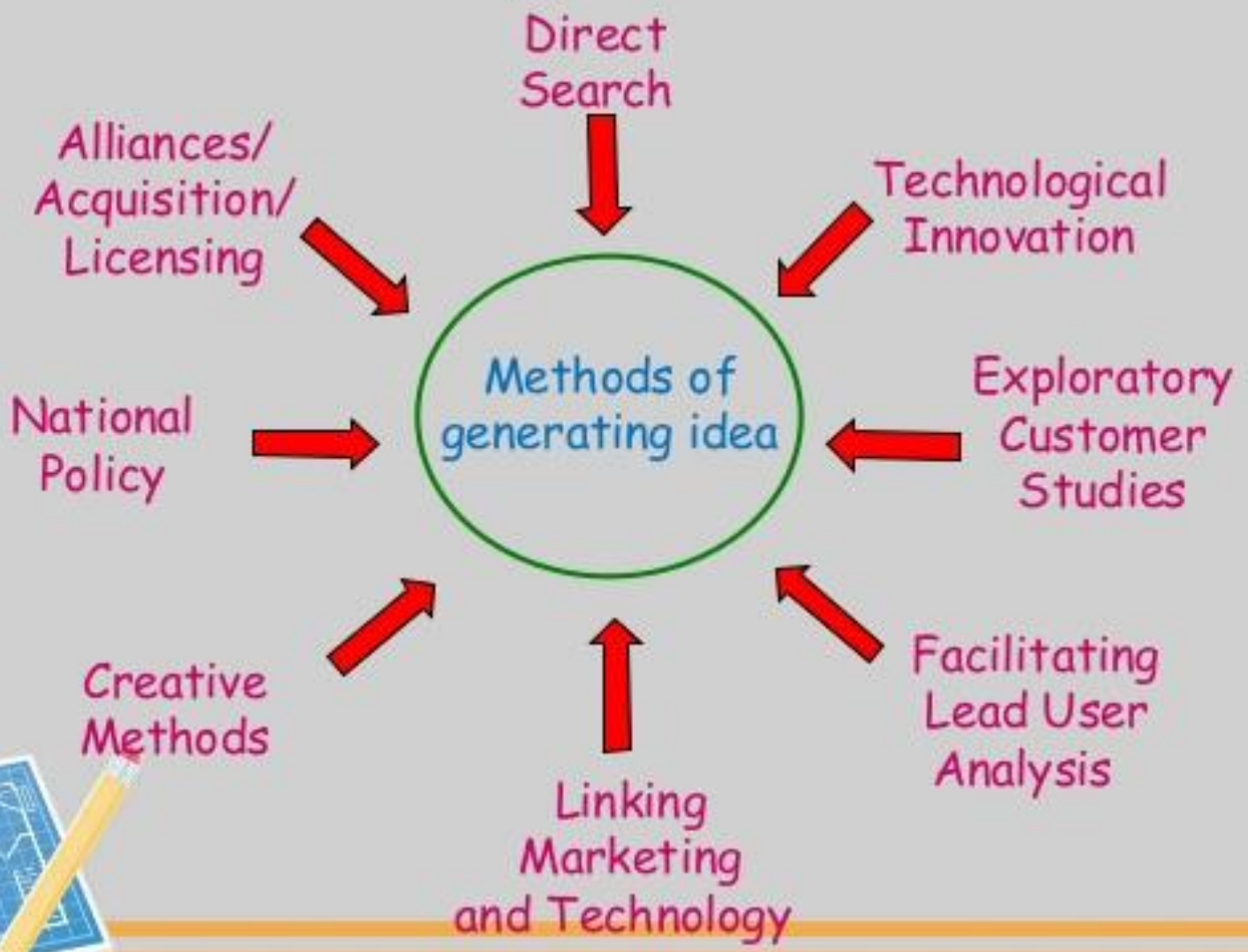
# 1. New Idea Generation

- ✓ Fruitful sources of ideas for entrepreneurs include:
- ➢ Consumers
- ➢ Existing products and services
- ➢ Distribution channels
- ➢ The federal government, and
- ➢ Research and development.

# SOURCES FOR IDEA GENERATION



# Idea generation




fppt.com

# 2. Idea Screening

- In the 2nd stage, the purpose is to lessen the number of ideas to few vital/valuable ideas.
- Sort the ideas into three groups:

1. *Promising Ideas*
2. *Marginal Ideas, and*
3. *Rejects*

- ✓ Each promising idea should be researched by committee member.

# IDEA SCREENING

- It is a process which is used to evaluate innovative product ideas, strategies and marketing trends.
- Idea screening criteria are used to determine compatibility with overall business objectives and whether the idea would offer a viable ROI.
- The main objective of Idea screening is to eliminate unsound concepts prior to devoting resources to them.



# DEFINITIONS & VOCABULARY: Idea vs. Concept

**Examples**

**Idea**
Adventure holiday for young people

**Concept**
A holiday which is:
- One week long
- Residential
- Multi-activity
- Adventure
- In a safe but exciting environment
- For 14-16 year old boys and girls
- Away from their parents

**Idea**
An inexpensive telephone

**Concept**
A telephone which is:
- In the lower price range
- Multi-colored
- Fashionable style
- Easy to use
- Dual position
- Wireless
- Light

# 3. Concept Development and Testing

1. Attractive ideas must be refined.
2. Any product idea can be turned into several product concepts.
3. The questions asked probably include:-
    a) Who will use the product?
    b) What benefits should the product provide?
    c) When will people consume the produced?

- ***Concept Testing***: - calls for testing product concepts with an appropriate group of target consumers/customers, and then getting the consumers' reactions. At this stage, the concepts can be in words or picture description.

# CONCEPT DEVELOPMENT AND TESTING

- **Product idea-** An idea for a possible product that the company can see itself offering to the marketing
- **Product concept-** A detailed version of the idea stated in meaningful consumer terms
- **Product image-** The way consumers perceive an actual or potential product
- **Concept testing-** Testing new product concepts with groups of target consumers



IDEA

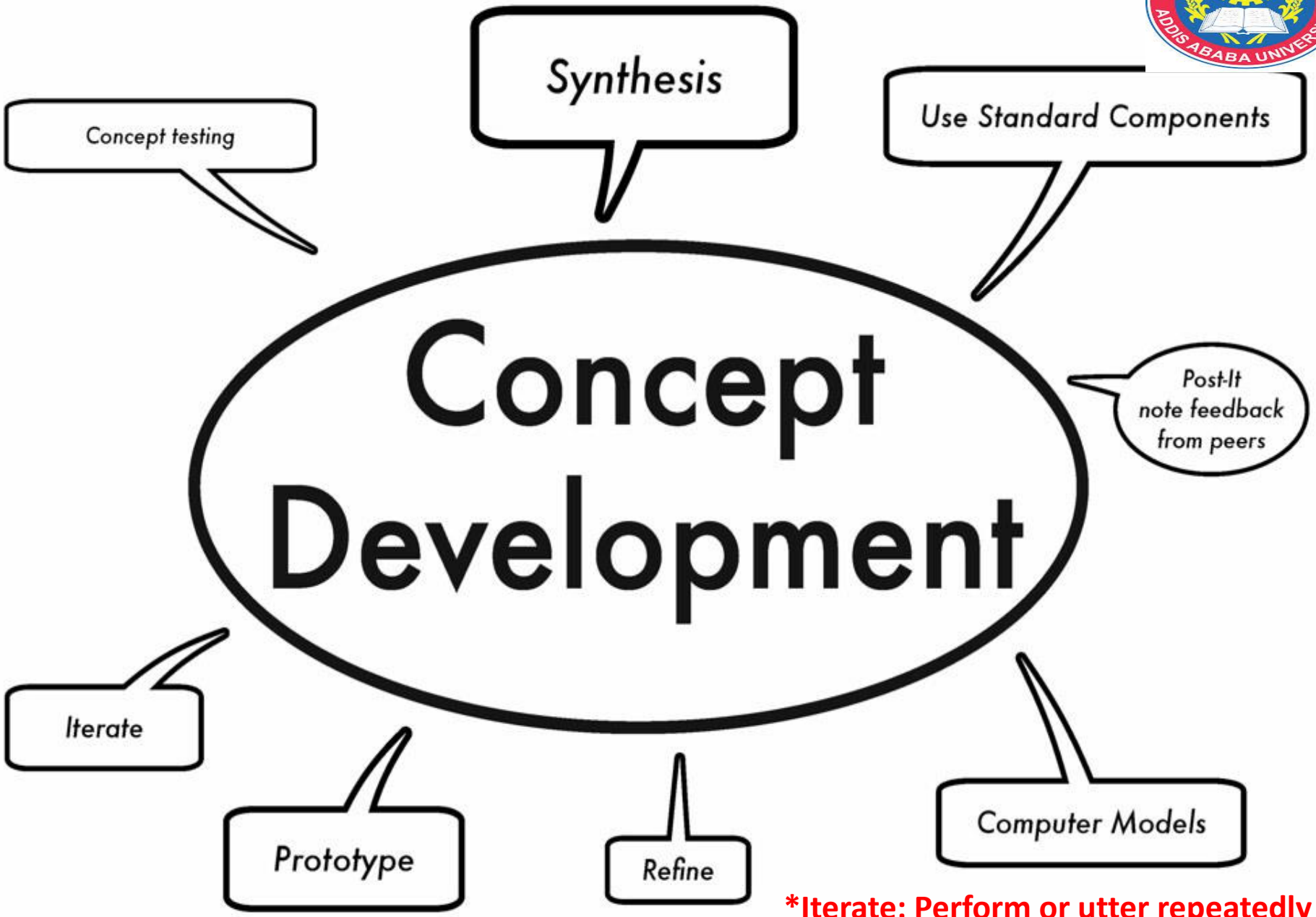


CONCEPT



EXECUTION

*Synthesis: The combination of ideas to form a theory or system.




*Iterate: Perform or utter repeatedly

# 4. Marketing Strategy Development

- The marketing strategy plan consists of three parts:

1. Market size, structure, behavior
2. Planned price, distribution strategy, and marketing budget of the 1st year; and
3. Long run sales and profit goals, marketing mix strategy.

# 5. Business Analysis

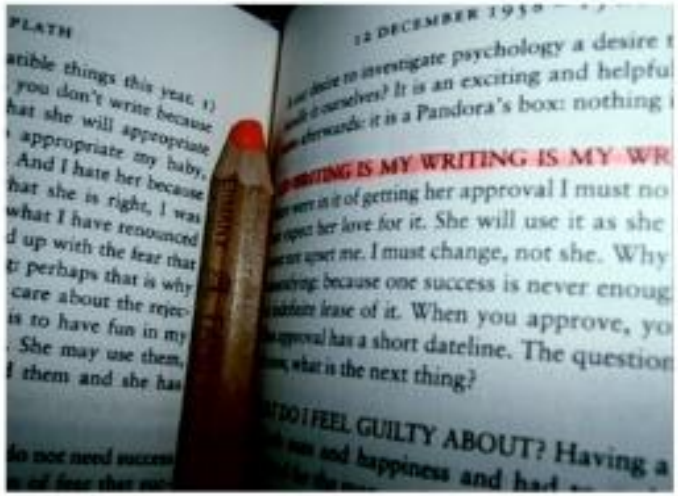
- ❖ Here proposals evaluated for business attractiveness.
- ➢ Management needs to prepare sales, cost and profit projections to determine whether they satisfy the company's objective or not.
- ✓ *Estimated Total Sales*
- ✓ *Estimating Cost and Profits*
- ✓ *Breakeven analysis*.

# 6. Product Development

- Proto type that the consumers/customers see as embodying the key attribute described in the **product concept statement**,
- Consumer/customer tests

# Preparing a Concept Stateme

- Description of product or service being offered.
- Intended target market
- Benefits of product or service.
- Description of how product will be positioned relative to similar ones in the market.
- Description of how product or service will be sold & distributed.
- Information about founder or founders of the firm






# 7. Market Testing

- ❖ Helps to find out:
- ✓ Reliable forecast of future sale
- ✓ Pretesting of alternative of future sale.

# MARKET TESTING

- This is the stage where the product has to be tried out in selected market segments.
- Market test is basically done as a risk control tool.
- It is experimental marketing at minimum cost and risk.

# 8. Commercialization

✓ *Timing is important*

1. The 1st choice is ***First Entry***. : Enjoys "first mover advantage"
2. The 2nd choice goes with ***Late Entry Strategy***- which has three advantages include:-
   - The competition will have borne the cost of educating the market;
   - The competing product may reveal fault that the late entrant can avoid; and
   - The company can learn the size of the market.
3. The 3rd strategy- ***Parallel Entry***

# Innovation



A new idea,
method, or device

# Commercialization




To manage on a
business basis for profit

# 4.4 Legal and Regulatory Frameworks for Entrepreneurs

- Issues such as:
  - Liability,
  - Taxes,
  - Continuity,
  - Transferability of interest,
  - Costs of setting up, and
  - Attractiveness for raising capital.

# 4.5. PRODUCT PROTECTION

**4.5.1 Intellectual property** is any product of human intellect that is intangible but has value in the marketplace. It is called "intellectual" property because ***it is the product of human imagination, creativity, and inventiveness***.

- *The Four Key Forms of Intellectual Property*

✓ **Patents, trademarks, copyrights, and trade secrets** .

# 4.5.2. PATENTS

- ✓ A patent is a grant from the federal government conferring the rights to **exclude others from making, selling, or using an invention for the term of the patent.**

❖ **Types of Patents**

**1. Utility Patent:**

- ➢ A utility patent protects any new invention or functional improvements on existing inventions.

***2. Design Patents:***

- ➢ Cover the invention of new, original, and ornamental designs for manufactured products

# Who Can Apply for a Patent?

- Only the inventor of a product can apply for a patent. If two or more people make an invention jointly, they must apply for the patent together.

# What Can Be Patented Then?

- ***Processes*:** Methods of production, research, testing, analysis, technologies with new applications.
- ***Machines*:** Products, instruments, physical objects.
- ***Manufactures*:** Combinations of physical matter not naturally found.
- ***Composition of matter*:** Chemical compounds, medicines, etc.

# 4.5.3. TRADEMARKS

- A trademark is any word, name, symbol, or device used to identify the source or origin of products or services and to distinguish those products or services from others.


Castrol
Chevron
chili's
Cirrus
MSNBC
Colgate
Comfort
DQ
DAYTONA
DELL
Denny's
DHL
DIRECTV
Domino's
ESPN
Esso
FedEx
FINLANDIA VODKA
Firestone
FLOWMASTER
FRUIT OF THE LOOM
Hanes
GOODYEAR
Heineken
Holiday Inn EXPRESS
HOOTERS
HOT WHEELS
IKEA
JVC
Kmart
KFC
KitKat
KoolAid
LAND ROVER
Lays
LEGO
Lipton
Mobil
MasterCard
VISA
NASA
NBC
Nestlé
NOS
Ocean Spray
OLD NAVY
Oral-B
OREO
PEPSI
PENNZOIL
Pizza Hut
PowerBar
Red Lobster
SAFEWAY FOOD & DRUG
STP
SUBWAY
swissair
TACO BELL
TEXACO
tic tac
TORO
Tropicana
UNITED STATES POSTAL SERVICE
Virgin
WAL★MART
XEROX
Zellers
zippo
Zantac
ADDIS ABABA UNIVERSITY

# What is protected under trademark law?

❖ Trademark law protects the following items:

- Words
- Numbers and letters
- Designs or logos
- Sounds
- Fragrances (as long as the product is not known for its fragrance)
- Shapes
- Colors (as long as the color is not functional)
- Trade dress

# 4.5.4. What is protected by a copyright?

❖Copyright laws protect "original works of authorship" that are fixed in a tangible form of expression. The primary categories of material that can be copyrighted follow:




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

## 4.6 The Intellectual Property System in Ethiopia

- ✓ The Ethiopian Government established the Ethiopian Intellectual Property Office in the year 2003 containing the understated Objectives:-

1. To facilitate the provision of adequate legal protection for and exploitation of intellectual property in the country;
2. To collect, organize and disseminate technological information contained in patent documents and encourage its utilization;
3. To study, analyze and recommend policies and legislation on intellectual property to the government; and
4. To promote knowledge and understanding of intellectual property among the general public;

# To be granted a patent in Ethiopia

- ✓ Must fulfill three conditions:
- ➢ It must be new
- ➢ It should be capable of industrial application
- ➢ It must be "non-obvious”- *it should not be an invention which would have occurred to any specialist working in the relevant field.*

# Ethiopian proclamation excludes the following fr patentability

1. Inventions contrary to public order or morality;
2. Plant or animal varieties or essentially biological processes for the production of plants or animals; and
3. Schemes, rules or methods for playing games or performing commercial and industrial activities and computer programs;
4. Discoveries, scientific theories and mathematical methods; and
5. Methods for treatment of the human or animal body by surgery or therapy as well as diagnostic methods practiced on the human or animal body.

# Duration of a Patent In Ethiopia

- ✓The duration of a **patent is 15 years** which may be extended for a **further period of five years** ***if proof is furnished that the invention is properly worked in Ethiopia***.

# Ethiopia's Trademark Directive (Issued in the country in 1986)

1. To centrally deposit trademarks which are used by local and foreign enterprises to distinguish their goods or services;
2. To distinguish the products or services of one enterprise from those of other enterprises and prevent consumers from being victims of unfair trade practices;
3. To provide information on trademark ownership and right of use when disputes arise between parties;
4. To provide required information on trademarks to government and individuals; and
5. Protection is granted after publication of cautionary notice;

# Ethiopia's Copyright Proclamation

- ✓ **Copyright** is protected on the basis of the copyright and related rights proclamation issued in 2004.

1. Works of authors who are nationals of or have their habitual residence in Ethiopia;
2. Works first published in Ethiopia; or works first published in another country and published within thirty days in Ethiopia;
3. Audio-visual works whose producer has his headquarter or habitual residence in Ethiopia; and
4. Works of architecture erected in Ethiopia and other artistic works incorporated in a building or other structure located in Ethiopia.

# Ethiopia's Copyright Proclamation

- The rights of performers, producers of phonograms and broadcasting organizations are also protected by law.
- Copyright is protected for the life of the author plus fifty years. Fifty years for the rights of performers and producers of sound Recordings and 20 years for the rights of broadcasting organizations.

# CHAPTER 5
# MARKETING

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# Chapter 5
# Marketing

5.1.The Concept and philosophy of marketing

5.2. Marketing Mix and Strategies

5.3 Marketing Information System

- 5.3.1 Marketing intelligence
- 5.3.2 Marketing research

5.4. Competitive analysis

5.5. Selling and Customer Service

# Learning Outcome

✓ After completing this chapter, students will be able to:

1. Define marketing
2. Identify Marketing mix and strategies
3. Analyze components of marketing information system
4. Explain competitive environment
5. Describe customer service and selling process

# 5.1 INTRODUCTION

❖Products marketed include:

1. Goods as well as services,
2. Ideas,
3. People, &
4. Places.

# 5.1 INTRODUCTION

- The foundation of marketing is exchange.
- In which one party provides to another party something of value in return for something else of value.
- Marketing consists of all activities designed to generate or facilitate an exchange intended to satisfy human needs.

# Concept of Market

- ✓ The American marketing Association defines a market as **“The aggregate demand of the potential buyers for product or a product or services “.**
- ✓ Philip Kotler defines **“A market as an area of potential exchanges”.**

# 5.2 Meaning of Marketing

- Marketing consists of activities designed to generate and facilitate exchange intended to satisfy human needs or wants.

# Definitions of Marketing

1. Marketing is a social and managerial process by which an individual or group obtain what they need and want through creating, offering and exchanging of product of values with others (Philip Kotler,2012).
2. Marketing is the total business activity designed to plan, price, promote and distribute want satisfying products to target market to achieve organizational goal (William J.Stanton, 1984).

# Definitions of Marketing

3. Marketing is the creation and delivery of standard of living to society (Paul. Mazor, 2005).
4. Marketing management is the process of planning and executing, the conception, pricing, promoting and distributing of ideas, goods and services to create an exchange that satisfy individual or group objectives (American marketing Association, 2015).

# Definitions of Marketing

5. Marketing is the effort to identify and satisfy customers' needs and wants. It involves finding out who your customers are, what they need and want, the prices, the level of competition. It involves the knowledge and all the processes you undertake to sell your product.

# Marketing answers the following questions:

1. Who are my customers?
2. What are my customer's needs and wants?
3. How can I satisfy my customers'?
4. How do I make a profit as I satisfy my customers?

# Who are your customers?

1. People who are buying from you now.
2. People you hope will buy from you in the future.
3. People who stopped buying from you but you hope to get them back.

# 5.3 Core Concepts of Marketing

1. **Need**
2. **Wants**
3. **Demands**
4. **Product**: - Products broadly classify as tangibility and intangibility features.
5. **Value**: - is the consumer's estimate of the products overall capacity to satisfy his or her needs.
6. **Cost**
7. **Exchange**
8. **Transaction**: - is the trade of values between two parties.
9. **Market**

# 5.4 Importance of Marketing

- On the average, about 50 cents of each dollar we spend as consumers goes to cover marketing costs.
- Marketing activities add want satisfying ability or what is called utility, to products.

# The kinds of utility that marketing provides

1. **Form Utility**
   - The physical or chemical changes that make a product more valuable.
2. **Place Utility**
   - When a product is readily accessible.
3. **Time Utility**
4. **Information Utility:**
   - Informing prospective buyers that a product exists.
   - **Image utility** is a special type of information utility. It is the emotional or psychological values that a person attaches to a product or brand because of its reputation or social standing.
5. **Possession Utility:**
   - When ownership is transferred to the buyer.

# Marketing Management Philosophies

- **What are the five marketing management philosophies?**

1. Production Concept
2. Product Concept
3. Selling Concept
4. Marketing Concept
5. Societal Marketing Concept

# Marketing Philosophies

**Production**
- Products are highly affordable and easily available
- Improve production and distribution. eg. Chinese goods.

**Product**
- Quality Products
- Products with high quality, features and performance.

**Selling**
- Buy only if heavy promotion is done.
- Sell what they make rather than make what market wants.

**Marketing**
- Focuses on Needs and Wants of the market
- Deliver Value better than competitors.

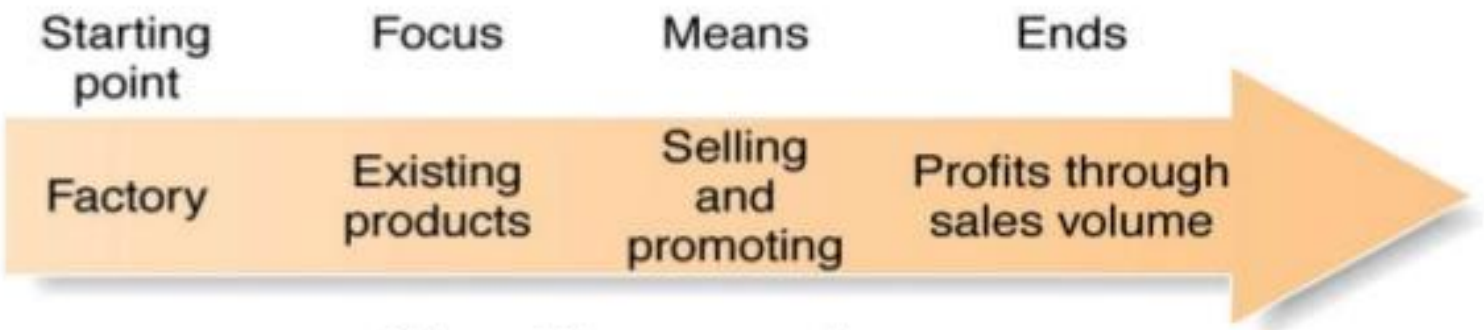
**Societal**
- Integrate societal aspect to the marketing aspect. $CO_2$ emission in Cars.

# Marketing Concept

❖Started in the mid-1950s.

1. “Meeting needs profitably”
2. “Find wants and fills them”
3. “Love the customers, not the product etc.”

# The Selling and Marketing Concepts Contrasted




**The selling concept**




**The marketing concept**

# Selling and Marketing Concept Contrasted

| Point of Difference | Selling | Marketing |
|---|---|---|
| Starting point | Factory | Market place |
| Focus | Existing product | Customer need |
| Means | Selling and promotion | Integrated marketing |
| End | Profit through Volume | Profit through satisfaction |

# Summary of the Evolution of Marketing

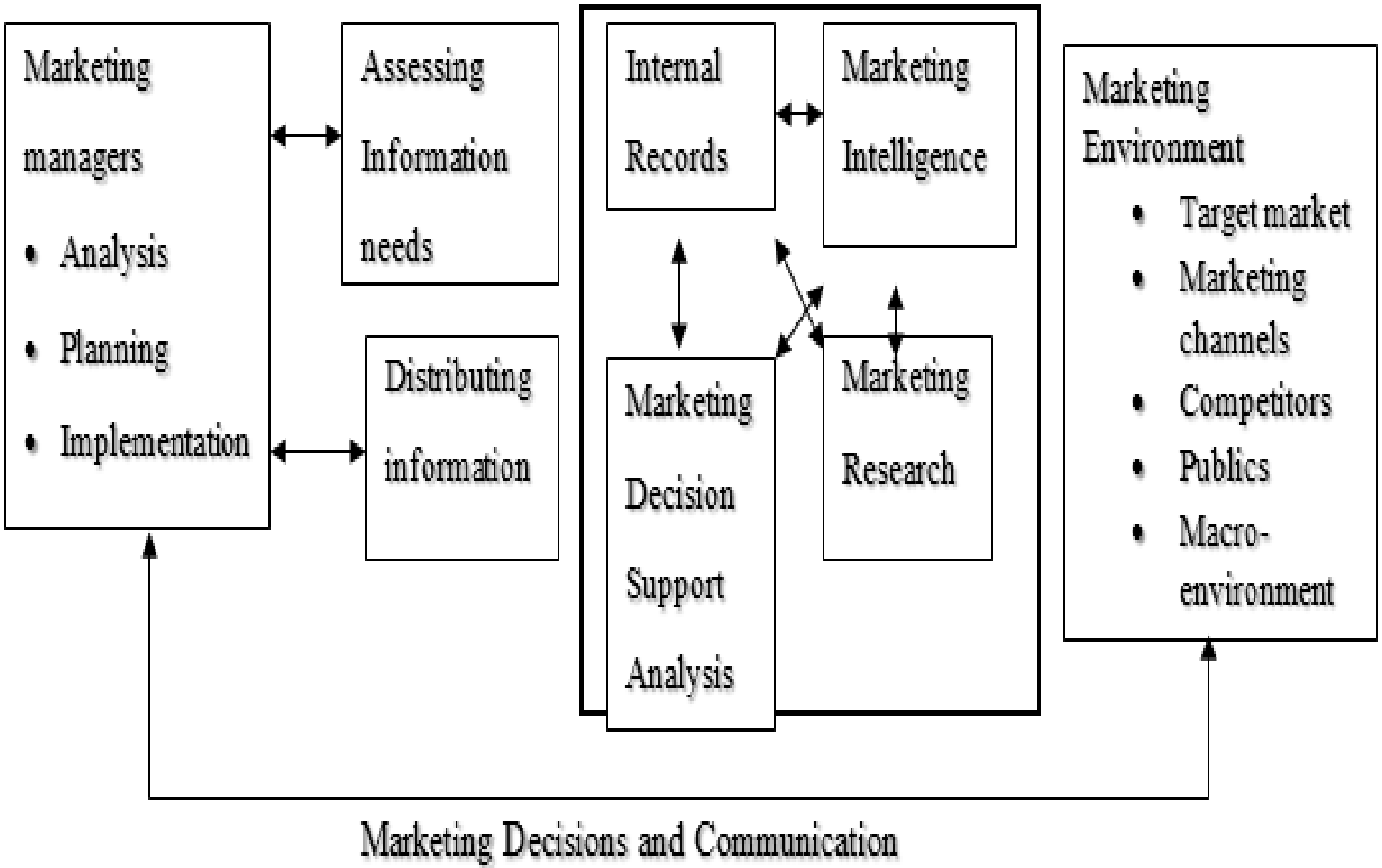
| | |
|---|---|
| **Production** | ▪ Consumers favor products that are available and highly affordable<br>▪ Improve production and distribution<br>▪ 'Availability and affordability is what the customer wants' |
| **Product** | ▪ Consumers favor products that offer the most quality, performance and innovative features<br>▪ 'A good product will sell itself' |
| **Sales** | ▪ Consumers will buy products only if the company promotes/ sells these products<br>▪ 'Creative advertising and selling will overcome consumers' resistance and convince them to buy' |
| **Marketing** | ▪ Focuses on needs/ wants of target markets and delivering satisfaction better than competitors<br>▪ 'The consumer is king! Find a need and fill it' |
| **Relationship marketing** | ▪ Focuses on needs/ wants of target markets and delivering superior value<br>▪ 'Long-term relationships with customers and other partners lead to success' |


Email Marketing
Social Media
Customer Service
Word-of-Mouth
Relationship Marketing
Feedback Loop
Events
Content Marketing
Direct Mail

# 5.6 Marketing Information Systems

- ✓A marketing information system consists of people, equipment and procedure to gather, sort, analyze, evaluate and distribute needed timely and accurate information to marketing decision makers.

# Marketing information systems



# 5.6.1 Marketing Research

- Marketing research is the systematic and objective identification, collection, analysis, and dissemination of information for the purpose of assisting management in decision making related to the identification and solution of problems and opportunities in marketing.

## 5.6.1.1 The Role (Significance) Of Marketing Research Decision Making

❖There are three Functional Roles of Marketing Research. These are:

1. **Descriptive Function** - the gathering and presentation of statements of fact.
2. **Diagnostic (analytical) Function** - The explanation of data.
3. **Predictive Function** - Specification of how to use the descriptive and diagnostic research to predict the result of a planned marketing decision.

# 5.6.1.2 Marketing Research Components

1. Market size
2. Market Share
3. Market penetration
4. Brand equity research
5. Buyer decision processes research

# 5.6.1.3 Customer Satisfaction Research

1. **Distribution channel audits**
2. **Marketing effectiveness and analytics**
3. **Mystery Consumer or Mystery shopping**
4. **Positioning research**
5. **Price elasticity testing**
6. **Sales forecasting**
7. **Segmentation research**
    - This type of research helps to determine the demographic, psychographic, and behavioral characteristics of potential buyers.
8. **Test marketing**

# 5.6.1.4 Marketing Research Process

**Step 1: Define the research purpose or objectives**

1. Where potential customers buy the product?
2. Why they purchase there?
3. What is the size of the market? How much of it can your business capture?
4. How does your business compare with competitors?
5. The impact of promotion on customers.
6. What types of products are desired by potential customers?

# 5.6.1.4 Marketing Research Process

**Step 2**: **Research Design Formulation**

1. Study period and place determination.
2. Qualitative data collection methods.
3. Methods of collecting quantitative data (survey, observation, and experimentation).
4. Definition of the information needed.
5. Questionnaire design.
6. Measurement and scaling procedures.
7. Sampling process and sample size.
8. Plan of data analysis.

# 5.6.1.4 Marketing Research Process

**Step 3**: **Gather at this stage secondary data**,

- A data which is originally collected by others for their own purpose, but such data can be used by the researcher when it is relevant to the current study.

Secondary data:

1. Is less expensive.
2. Can be acquired within or outside the venture.
3. But, may be out-dated and less valid.

# 5.6.1.4 Marketing Research Proce

**Step 4.Gather Primary Data**

a) Primary data collection techniques can be categorized as:
b) Observational techniques
c) Focus groups
d) Experimentation - investigates cause and effect relationships.
e) Survey techniques
   - Mail questionnaires
   - Telephone interviews
   - Personal interviews

# 5.6.1.4 Marketing Research Process

**Step 5: Data Processing and Analysis**

a) Data processing includes:
b) Editing
c) Coding
d) Transcription and
e) Verification of data.

❖**Data analysis:** Gives meaning to the data that have been collected.

# 5.6.1.4 Marketing Research Process

**Step 6**: **Report Preparations and Presentation**

The report includes:

a) The specific research questions identified,
b) Describes the research approach,
c) The research design,
d) The data collection methods, and sampling procedures,
e) The data processing and analysis procedures,
f) The major findings and suggestions for actions.
g) In addition, an oral presentation should be made to management using tables, figures, and graphs to enhance clarity and impact.

# 5.6.2 Marketing Intelligence

- ✓ **Market intelligence is the systematic process of gathering, analyzing, supplying and applying information (both qualitative and quantitative) about the external market environment.**
- ✓ ***Intelligence is evaluated information.***

# Marketing intelligence is used to determine:

1. Current and future market needs,
2. Changes in the business environment that may affect the size and nature of the market in the future.
3. Environment that may affect the size and nature of the market in the future.

# 5.6.2.1 The Importance of Marketing Intelligence

- Marketing intelligence provides the following benefits:

a) Market and customer orientation – promote external focus.
b) Identification of new opportunities.
c) Smart segmentation.
d) Early warning of competitor moves.
e) Minimizing investment risks.
f) Quicker, more efficient and cost-effective information.

# Ways to Undertake Marketing Intelligence

1. **Unfocused scanning:** Any information that may be useful is gathered without any specific purpose in mind.
2. **Semi-focused scanning:** no specific purpose**.** The manager is not in search of particular pieces of information that he/she is actively searching.
3. **Informal search:** Limited and unstructured attempt to obtain information for a specific purpose.
4. **Formal search:** This is a purposeful search for information in some systematic way.

# 5.6.3 Competitive Analysis

- **Competitive analysis refers to determining the strengths and weaknesses of competitors and designing ways to take opportunities or tackle threats posed by competitors.**

# 5.6.3.1 Uses of Competitive Analysis

1. Who are your competitors?
2. What customer needs and preferences are you competing to meet?
3. What are the similarities and differences between their products/services and yours?

# 5.6.3.1 Uses of Competitive Analysis

4. What are the strengths and weaknesses of each of their products and services?

5. How do their prices compared to yours? How are they doing overall?

6. How do you plan to compete? Offer better quality services? Lower prices? More support? Easier access to services? How are you uniquely suited to compete with them?

# 5.6.3.3 Steps of Competitive Analysis

a) Identify your competitors
b) Gather information about competitors
c) Gathering Information on Competitions
d) Analysing the Competition
e) Develop a pricing

# 5.7 The Marketing Mix Strategy

❖The 4 P's Of Marketing/The Marketing Mix

1. Product
2. Price
3. Place (channel) and
4. Promotion

# 1. Product

1. What products/services do I sell?
2. Why did I decide to sell these products?
3. Do I have the products customers want?
4. Do any of my products not sell well?
5. Do I stock products that do not sell well?

# Elements of Product Mix

- **Product width**…How many different product lines the company carries
  - e.g HLL carries 8 in the Home & Personal care category
- **Product length**…Total number of items in the mix or within a line number of brands
  - _e.g Personal wash…the various brands will represent the length of the personal wash line
- **Product depth**… number of variants offered of each product in the line
  - e.g Lipton Tea… Lipton Taaza, Lipton Green Label, Lipton Yellow label & in various sizes 100/250/500gm
- **Product consistency**… how closely related the product lines are in end use
  - E.g Consumer segments, distribution channels

# 2. Pricing
# (Process of setting a price)

1. Know your costs.
2. Know how much customers are willing to pay.
3. Know your competitors price.
4. Know how to make your prices more attractive.

# 3. Place
# (Referred to as distribution)

1. Selling directly to the consumers of the products.
2. Retail distribution and wholesale distribution.

# 4. Promotion

1. Ensure you maintain attractive displays.
2. Let customers try new products.
3. Have competitions.
4. Give demonstrations.
5. Sell complementary products (products that go together)

# 5.7.2 What Is Marketing Strategy?

- Marketing strategy is a **method of focusing an organization's energies and resources on a course of action which can lead to increased sales and dominance of a targeted market**.



HOW TO FIND YOUR
TARGET
MARKET

# Pricing Strategy

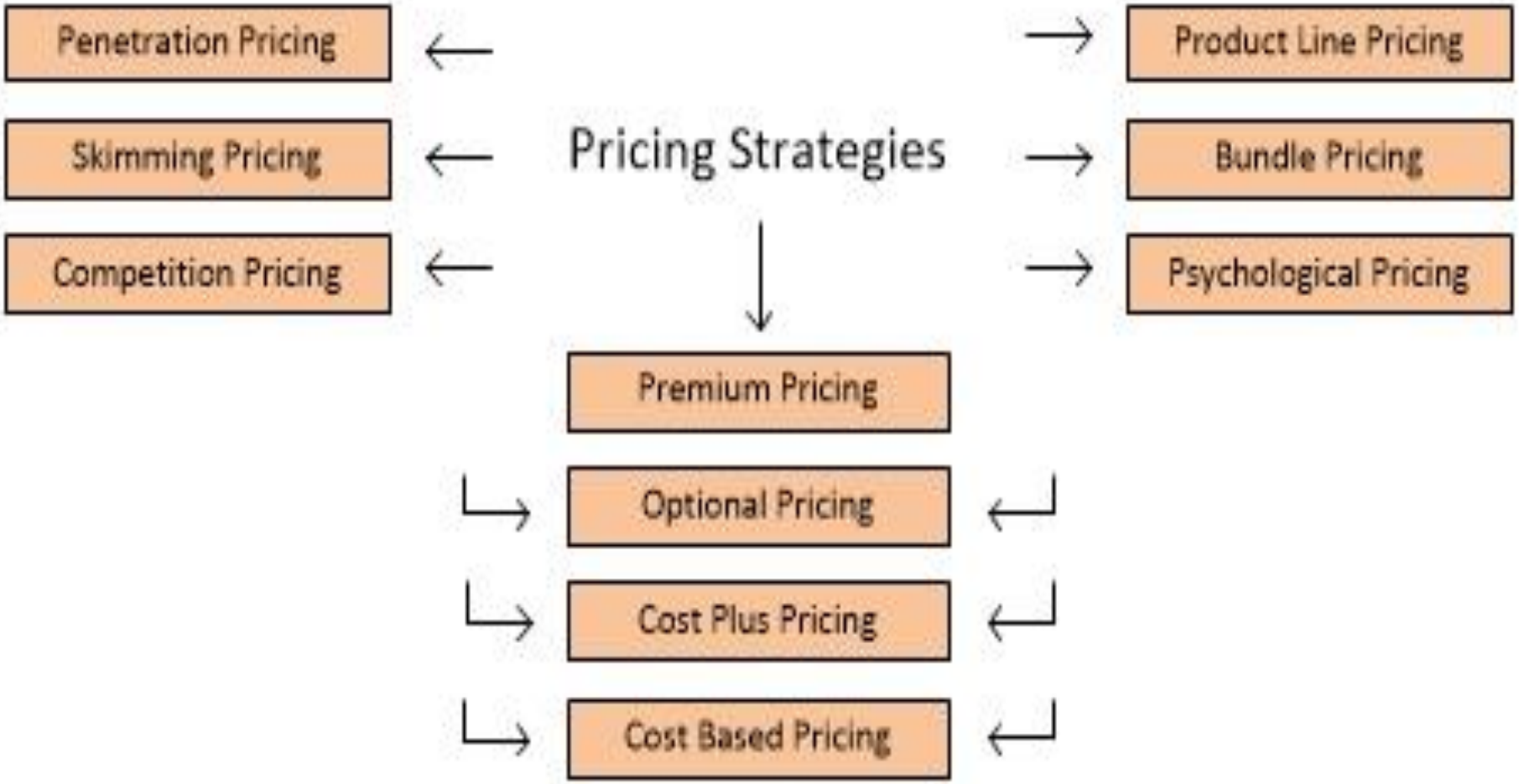
- ❖ Profit = TR – TC
- ✓ Where, TR=Total Revenue, TC=Total Cost

1. **Price Skimming**
2. **Penetration Pricing**
3. **Cost-plus pricing**: *Any amount that is above unit cost may be considered*
4. **Mark-up pricing:** *A certain percentage of the selling price is added to unit cost.*
5. **Competition Oriented Pricing**
6. **Odd-even pricing**

# MARKETING MIX

## PRICE

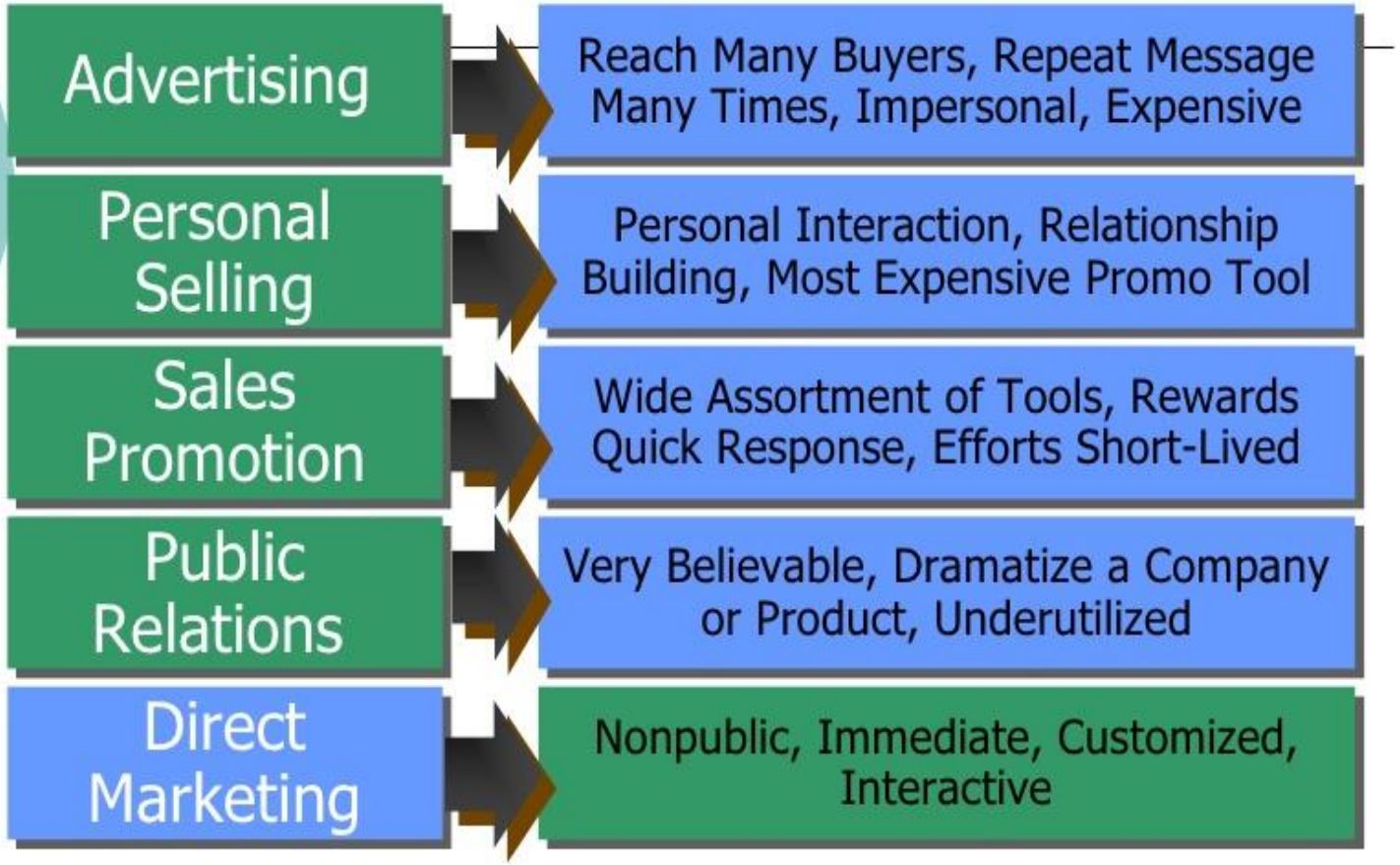
www.learnmarketing.net



# Promotion Strategies

1. Advertising
2. Personal selling
3. Public relations
4. Sales promotion
5. Direct Marketing

# Setting the Promotion Mix



# 3. Distribution Strategies

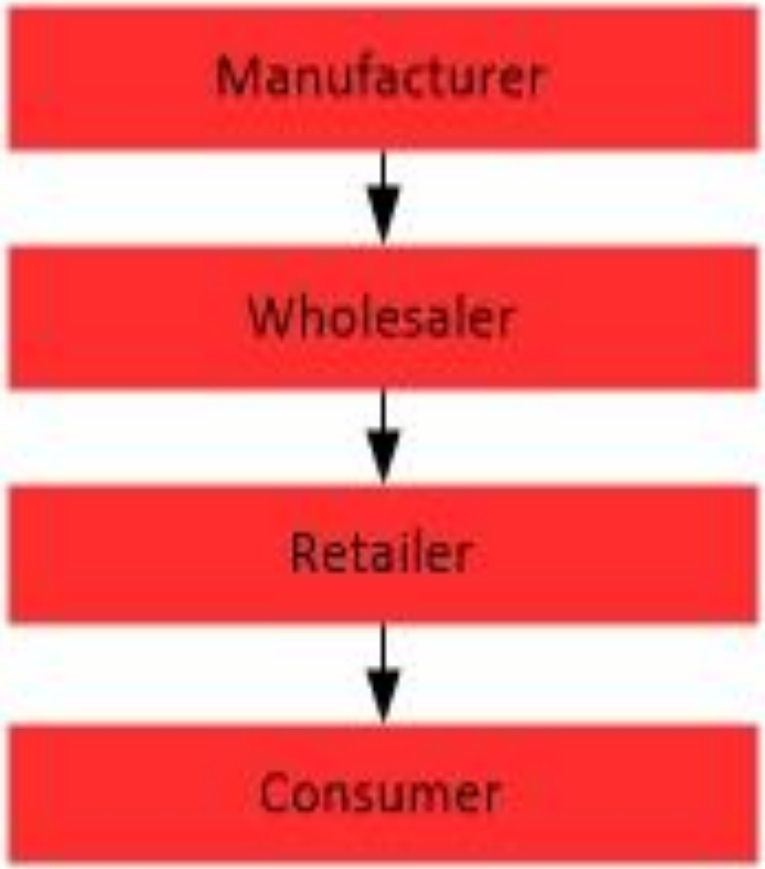
1. **Direct channels:** In this type of channel, producers and end users directly interact.
2. **Indirect channels**

❖ Factors should be considered to select the best channel:

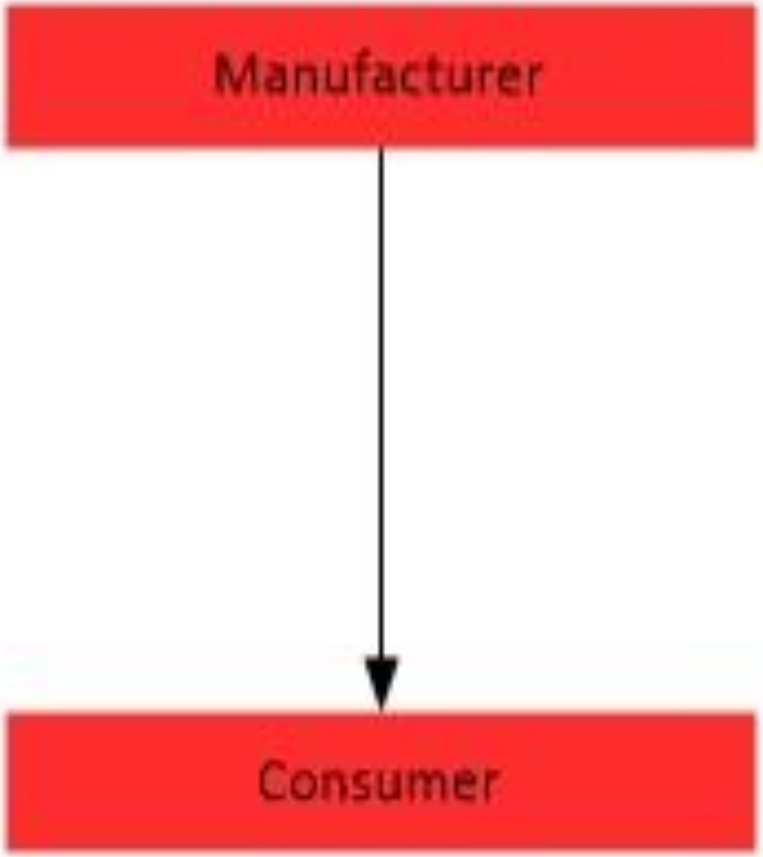
- ***Company Factors***: financial, human and technological capabilities of a company to do its business activities.
- ***Market Characteristics***: Geography, market density, market size, target market
- ***Product Attributes***: perishability, value and sophistication of the product
- ***Environmental Forces***: those forces that affect the business like competition, technology and culture.

# Marketing Mix:Place

www.learnmarketing.net




Indirect Distribution




Direct Distribution

# 5.8.2 The Concept of Customer

1. Customers can be internal (e.g. Member of the organization) or
2. External (customers coming from outside).

# 5.8.3 Strategic Activities needed for Quality Customer Service Delivery

1. Establishing a clear customer service strategy.
2. Ensuring that correct people are in place, with the correct skills to deliver outstanding personal service.
3. Establishing clear material service delivery processes.
4. Improving in terms of process improvement, quality monitoring and recovery continuously.
5. Participatory Management

# 5.8.4 Customer Handling and Satisfaction

- ✓ Considering Customers as an Invaluable Asset
- ✓ Reducing Customer Complaints
- ✓ Place Yourself in The Customer's Shoes.

# CHAPTER 6
# BUSINESS FINANCING




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# Chapter 6
# Financing the new venture

6.1 Overview of Business Financing

6.2 Source of financing

6.2.1 Equity financing

6.2.2 Debt financing

6.2.2.1 Trade credit

6.2.2.2 Lease financing

6.3 Traditional Financing (Equib/Edir, etc.)

6.4 Crowd Funding

6.5 Micro finance in Ethiopia

# Learning Outcome

- ✓ After completing this chapter, students will be able to:

1. Know business financing
2. Identify the sources of finance
3. Understand with traditional financing techniques
4. Familiarize with crowd funding
5. Know Ethiopian micro finance system

# What is Finance?

- Finance is the study of how people and businesses evaluate investments and raise capital to fund them.

# What is Finance ???

- The discipline that deals with decisions concerning ***how money is raised and used*** by businesses, governments and individuals.
- 3 success keys:
  1. More value is preferred to less.
  2. The sooner cash is received, the more valuable it is.
  3. Less risky assets are more valuable than riskier assets.

# 6.2 Financial Requirements

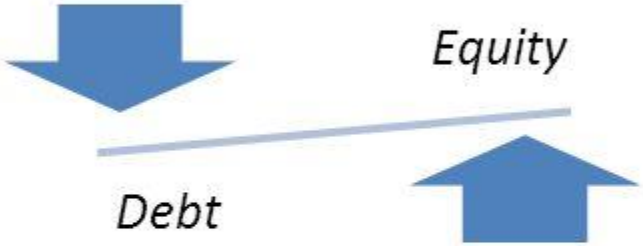
1. Permanent Capital
2. Working Capital
3. Asset Finance (from 3 to 10 years)

# CAPITAL STRUCTURE

Corpo
Capita

## Definition

The details of the capital structure of a business describe the financing of the organization. Traditionally it refers to the relative amounts of debt and equity on a firm's balance sheet.




*Every firm is funded either through equity or debt.*

The need for capital is driven by the nature, size and growth rate of the business.

- **Nature:** Some businesses are more capital-intensive than others. E.g. Major manufacturing process operations would have higher investment intensity than a service business.
- **Size:** It is the change in size that create the need for more or less capital. A basic maxim states that the nature of the business assets dictates the type of investment capital. Long term assets need to be funded by permanent capital (long term debt or equity.

# Types of Working Capital

- **Permanent** or **fixed working capital**

  A minimum level of current assets, which is continuously required by a firm to carry on its business operations, is referred to as permanent or fixed working capital.

- **Fluctuating** or **variable working capital**

  The extra working capital needed to support the changing production and sales activities of the firm is referred to as fluctuating or variable working capital.

# Asset Finance Company (AFC)

- A financial institution carrying its principal business of financing physical assets that supports productive/ economic activity
  - Automobiles
  - Tractors
  - Lathe machines
  - Generator sets
  - Earth moving
  - Material handling equipments
  - General purpose industrial machines

SHRIRAM Capital
INCLUSIVE GROWTH SINCE 1974

Mahindra Finance

# 6.3 Sources of Financing

1. **Internal Sources (Equity capital)**

- **Sources of Equity Capital**

1. *Personal saving*
2. *Friends and relatives*
3. *Partners*
4. *Public stock sale (going public)*
5. *Angels*
6. *Venture capital companies*

# Comparison of Angles and Venture Capital

| Angels | Venture Capitalists (VCs) |
| --- | --- |
| • Individuals who wish to assist others in their business venture,<br>• Usually found through networks,<br>• Reasonable expectations on equity position and ROI,<br>• Often passive, but realistic perspective about business venture,<br>Exit strategy is important, | • Finance, small scale new technology and any risky idea.<br>• Funds are more specialized versus homogeneous<br>• High expectations of equity position and ROI, |

# 6.3 Sources of Financing

## 2. External Sources (Debt capital)

- **Commercial banks:** In most cases, commercial banks give **short term loans (repayable within one year or less)** and ***medium term loan (maturing in above one year but less than five years***), ***long term loans (maturing in more than five years).***

# 2. External Sources (Debt capital)

## 2. Bank Lending Decision:

- ✓ Most bankers refer to the five C's of credit in making lending decision. The five C's are:

1. Capital,
2. Capacity,
3. Collateral,
4. Character, and
5. Conditions.

# Five c's of credit in making lending decision

1. ***Capital:*** A small business must have a stable capital base before a bank will grant a loan.
2. ***Capacity:*** The bank must be convinced of the firm's ability to meet its regular financial obligations and to repay the bank loan.
3. ***Collateral:*** The collateral includes any assets the owner pledges to the bank as security for repayment of the loan.
4. ***Character:*** Before approving a loan to a small business, the banker must be satisfied with the owner's character. The evaluation of character frequently is based on intangible factors such as honesty, competence, willingness to negotiate with the bank.
5. ***Conditions:*** The conditions surrounding a loan request also affect the owner's chance of receiving funds. Banks consider the factors relating to the business operation such as potential growth in the market, competition, location, and loan purpose. Another important condition influencing the banker's decision is the shape of the overall economy including interest rate levels, inflation rate, and demand for money.

# External Sources (Debt capital)

1. **Trade Credit**: It is credit given by suppliers who sell goods on account. This credit is reflected on the entrepreneur's balance sheet as account payable and in most cases it must be paid in ***30 to 90*** or more days.
2. **Equipment Suppliers**: Most equipment vendors encourage business owners to purchase their equipment by offering to finance the purchase.

# External Sources (Debt capital)

3. **Equipment Suppliers**
4. **Account receivable financing**: It is a short term financing that involves either the pledge of receivables as collateral for a loan.
5. **Credit unions**: Credit unions are non-profit cooperatives that promote savings and provide credit to their members. But credit unions do not make loans to just any one; to qualify for a loan an entrepreneur must be a member.

# External Sources (Debt capital)

6. **Bonds:** A bond is a long term contract in which the issuer, who is the borrower, agrees to make principal and interest payments on specific date to the holder of the bond.

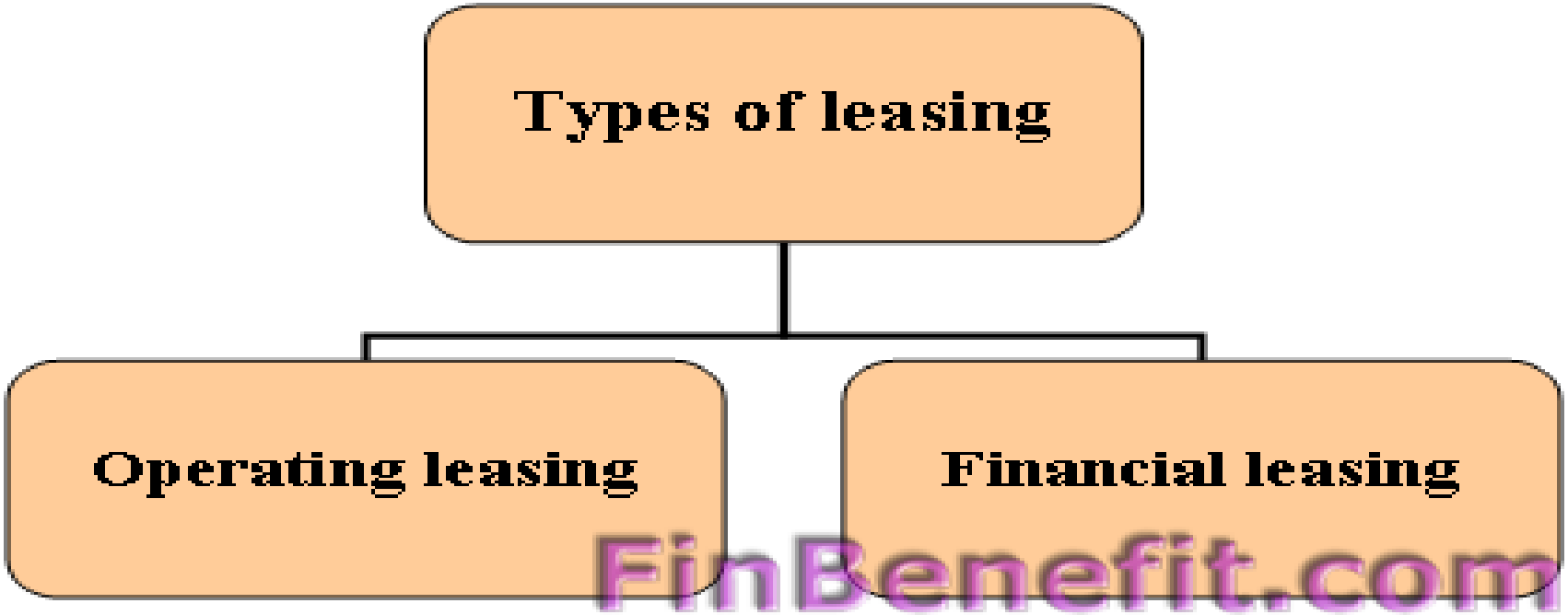
# 6.4 Lease Financing

- It is medium- and long-term financing.
- Here owner of an asset gives another person, the right to use that asset against periodical payments.
- The owner of the asset is known as lesser and the user is called lessee.

# 6.4.1 Types of Lease

- Classified into two categories:

1. Finance lease and
2. Operating lease.




FinBenefit.com

# 1. Finance Lease

1. A finance lease is a device that gives the lessee a right to use an asset.
2. The lease rental charged by the lesser during the primary period of lease is sufficient to recover his/her investment.
3. The lease rental for the secondary period is much smaller. This is often known as peppercorn rental.
4. Lessee is responsible for the maintenance of asset.
5. No asset-based risk and rewards are taken by lessor.
6. Such type of lease is non-cancellable; the lessor's investment is assured.

# Operating Lease

1. Ownership of asset are not transferred by the lessor to the lessee
2. The lease term is much lower than the economic life of the asset.
3. The lessee has the right to terminate the lease by giving a short notice and no penalty is charged for that.
4. The lessor provides the technical knowhow of the leased asset to the lessee.
5. Risks and rewards incidental to the ownership of asset are borne by the lessor.
6. Lessor has to depend on leasing of an asset to different lessee for recovery of his/her investment.

| | Finance lease | Operating lease |
|---|---|---|
| Who owns the asset | Leasing company | Leasing company |
| Who takes residual value risk | Not Applicable | Leasing company |
| Who is responsible for maintenance and repairs | Lessee | Leasing company if a maintenance contract is taken otherwise it is the lessee |
| Length of lease | Most of economic life | Part of economic life |
| Balance sheet treatment | On balance sheet | Off balance sheet |

## Advantages and Disadvantages of Lease Financing

1. Assured Regular Income
2. Preservation of Ownership
3. Benefit of Tax
4. High Profitability
5. High Potentiality of Growth
6. Recovery of Investment

# Lesser suffers from certain limitations

1. Unprofitable in Case of Inflation
2. Double Taxation
3. Greater Chance of Damage of Asset

# 6.5 Traditional Financing in Ethiopian (Equib/Idir, Etc.)

1. Iqub is a traditional means of saving in Ethiopia and exists completely outside the formal financial system.
2. People voluntarily join a group and make a mandatory contribution (every week, pay period or month or example).
3. The "pot" is distributed on a rotating basis determined by a drawing at the beginning of the iqub.
4. Amounts contributed vary according to the ability of the participants.
5. Iqub is widespread, especially in urban areas.
6. Iqub offers a savings mechanism for the "unbanked" group in Ethiopia, both urban dwellers who do not have access to a traditional bank within a reasonable distance from their dwelling.

# Idir

1. "Idirs" are burial societies that provide a traditional form of insurance.
2. Idir contributions are used to pay for expenses in the event of the death of a family member.
3. Idir is the only means, other than personal savings, to pay for these expenses.
4. Idir contributions are generally small compared to Iqub, usually around Br.10-25 per month.
5. Some idirs provide additional coverage, for example, in cases of illness, destruction of a member's house or death of livestock.
6. Due to their ubiquity and influence in their communities, Idir associations are also forming the basis for some foreign assistance programs, particularly those focused on HIV/AIDS treatment and prevention.

# 6.6 Crowd Funding

- Crowd funding is a method of raising capital through the collective effort of friends, family, customers, and individual investors or even from the general public.

# 6.6.1 How is Crowd Funding Different?

## Crowdfunding vs. Traditional Methods of Funding

| | Bank Loans | Venture Capitalists | Crowdfunding |
|---|---|---|---|
| Collateral | Needed | Not needed | Not needed |
| Time Required | Long | Long | Relatively Fast 8.2 Weeks |
| Relationship | Previous relationship with the bank helpful | Have to know the right person | Can gain support from many people |
| Success Rate | Varies, unlikely to secure a large loan | 0.07% | Varies by platform Ourcrowd accepts 7-8%, followed by a success rate of at least 33% |
| Management Control | No | Large Influence | No |

# 6.6.2 The Benefits of Crowd funding

❖Many possible advantages:

1. Reach
2. Presentation
3. PR & Marketing
4. Validation of Concept
5. Efficiency: *Its ability to centralize and streamline your fund raising efforts.*

# 6.6.3 Types of Crowd Funding



# Types of Crowdfunding

## Reward-Based Crowdfunding



It involves individuals contributing comparatively small amounts of money to projects in return for some kind of reward.

EXAMPLE

KICKSTARTER

## Donation-Based Crowdfunding




It is a way to source money for a project by asking a large number of contributors to individually donate a small amount to it.

EXAMPLE

gofundme

## Peer-to-Peer Lending



It is the practice of lending money to individuals or businesses through online services that match lenders with borrowers.

EXAMPLE

LendingClub

the balance

# 6.7.1 What is Micro Finance?

- Microfinance term used to describe financial services,
- Loans
- Savings
- Credit
- Insurance and fund transfers to entrepreneurs, small businesses and individuals who lack access to banking services with high collateral requirements.

# What is Microfinance?

- Microfinance is a term that describes the provision of lending services by poverty-focused institutions (MFIs) to small enterprises, startups, or rural populations that are not served by mainstream financial services providers. **These are usually not banks**.

- The importance of microfinance lies in the fact that it provides a model of development that **promotes entrepreneurship and gives people the means to fight poverty**.

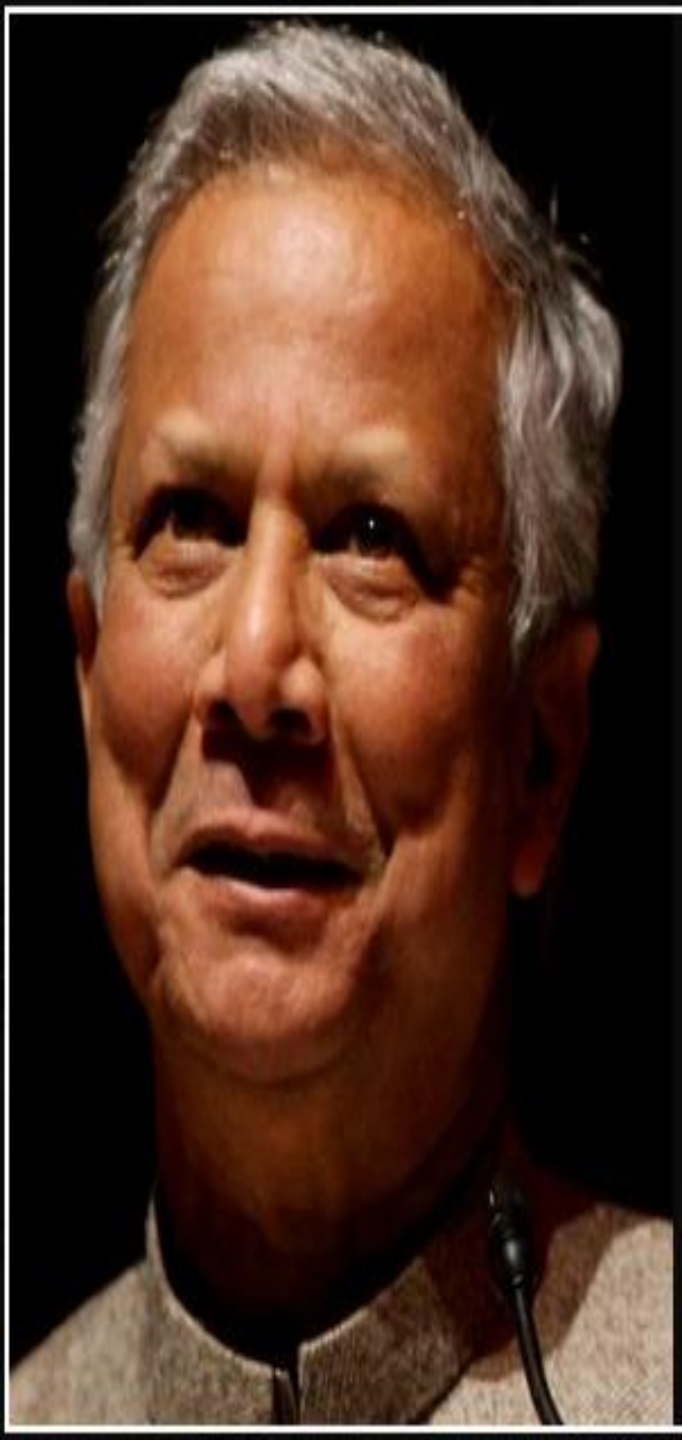
- In many countries, non-bank microfinance is provided under a separate regulatory framework than banks. In Serbia, there is not such a framework and so MFI's must lend through banks.

# What is Microfinance?

- "Microfinance is banking to the poor (Dr. Muhammad Yunus)."
- "Microfinance is the supply of loans, savings, and other financial services to the poor (Kiva)."
- 97% repayment rate



2006 Nobel Peace Prize recipient
Dr. Muhammad Yunus



People should wake up in the morning and say 'I am not a job seeker, I am a job-creator.

— Muhammad Yunus —

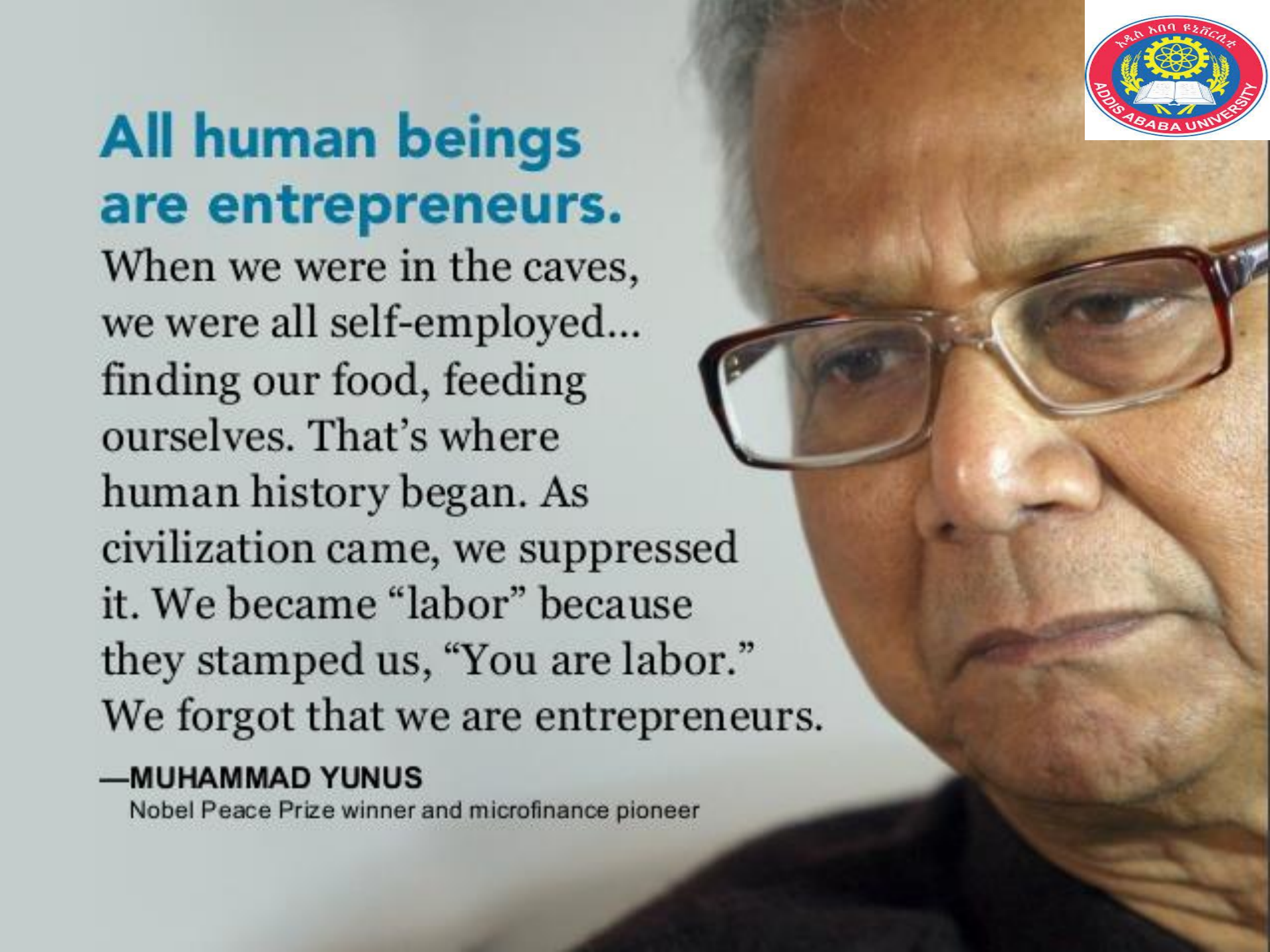
AZ QUOTES



My greatest challenge has been to change the mindset of people. Mindsets play strange tricks on us. We see things the way our minds have instructed our eyes to see.

(Muhammad Yunus)

izquotes.com


All human beings are entrepreneurs.
When we were in the caves, we were all self-employed... finding our food, feeding ourselves. That's where human history began. As civilization came, we suppressed it. We became "labor" because they stamped us, "You are labor." We forgot that we are entrepreneurs.
—MUHAMMAD YUNUS
Nobel Peace Prize winner and microfinance pioneer

# Dr. Muhammad Yunus



- Won the Nobel Peace Prize in 2006
  - Established the Grameen Bank in Bangladesh in 1976 (with $27).
    - Microfinance – also called "banking for the poor" means providing poor families with very small loans (i.e. to buy cows, chickens or a cell phone) to help them start and grow businesses.
      - The loans are typically less than 200 US dollars.
      - No collateral is needed and repayment is based on an honor system.
      - Anyone can qualify for a loan - the average is about $200 - but recipients are put in groups of 5. Once 2 members of the group have borrowed money, the other 3 must wait for the funds to be repaid before they get a loan.
      - This helps people emerge from poverty and encourages sustainable peace.
    - Thirty years later, the bank has 6.6 million borrowers, of which 97% are women.

http://news.bbc.co.uk/1/hi/world/europe/6047020.stm
http://www.un.org/apps/news/story.asp?NewsID=20649&Cr=nobel&Cr1=prize
http://www.npr.org/templates/story/story.php?storyId=6262679

# Importance of Microfinance

- Less than 4% of African population have access to finance
- Only through Microfinance is it possible for the poor and low income households to save, invest and cope with various shocks.
- Until recently it was not possible for the poor and low income households to safeguard their families against death, disability, or other risks e.g. theft, fire but this is now possible through microinsurance

# Importance of Microfinance

- As poverty reduction strategy:
  - Improve access, provide services to enable the poor for consumption needs, risk mgt., assets, income generation, improve quality of life
  - Improve resource allocation, markets, technology, promote economy and development

# 6.7.3 Micro Finances in Ethiopia

- Ethiopia has also **more 38 MFIs** (in 2018)
- The first groups of few MFIs were established in **early 1997** following the issuance of **Proclamation No. 40/1996 in July 1996.**

- ✓ **The known micro finance institutions in different regions of Ethiopia with more than 90% market share are**

1. Amhara Credit and Savings Ins. (ACSI) S.C.
2. Dedebit Credit and Savings Ins. (DECSI) S.C.
3. Oromiya Credit and Savings Ins. S.C (OCSCO).
4. Omo Credit and Savings Ins. S.C.
5. Addis Credit and Savings Institution S.C.(ADCSI)

# 6.7.3.1 Types of Activities Carried Out by Ethiopian MFIs

- According to **Article 3(2)** of the aforementioned proclamation, MFIs are allowed to carry out the following activities:

1. Accepting both voluntary and compulsory savings as well as demand and time deposits.
2. Extending credit to rural and urban farmers and people engaged in other similar activities as well as micro and small scale rural and urban entrepreneurs.
3. Drawing and accepting drafts payable within Ethiopia Micro-insurance business as prescribed by NBE,

# 6.7.3.1 Types of Activities Carried Out by Ethiopian MFIs Cont..

4. Purchasing such income generating financial instruments as treasury bill and other income generating activities,
5. Acquiring, maintaining and transferring any movable and immovable property including premises for carrying out its business,
6. Supporting income generating projects of urban and rural micro and small scale operators,
7. Rendering managerial, marketing, technical and administrative advice to customers and assisting them to obtain services in those fields,

# 6.7.3.1 Types of Activities Carried Out by Ethiopian MFIs Cont..

8. Managing funds for micro and small scale business,
9. Providing money transfer services,
10. Providing financial leasing services,

# CHAPTER 7
# Managing Growth and Transition

**Dr. Jagadish Brahma Goulap**

**Associate Professor**

**Academic Year 2019-2020.**

**Department of Management,**

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# Chapter 7
# Managing Growth and Transition

7.1. Managing business growth

7.2. New venture expansion strategies

7.3. Business Ethics and Social Responsibility

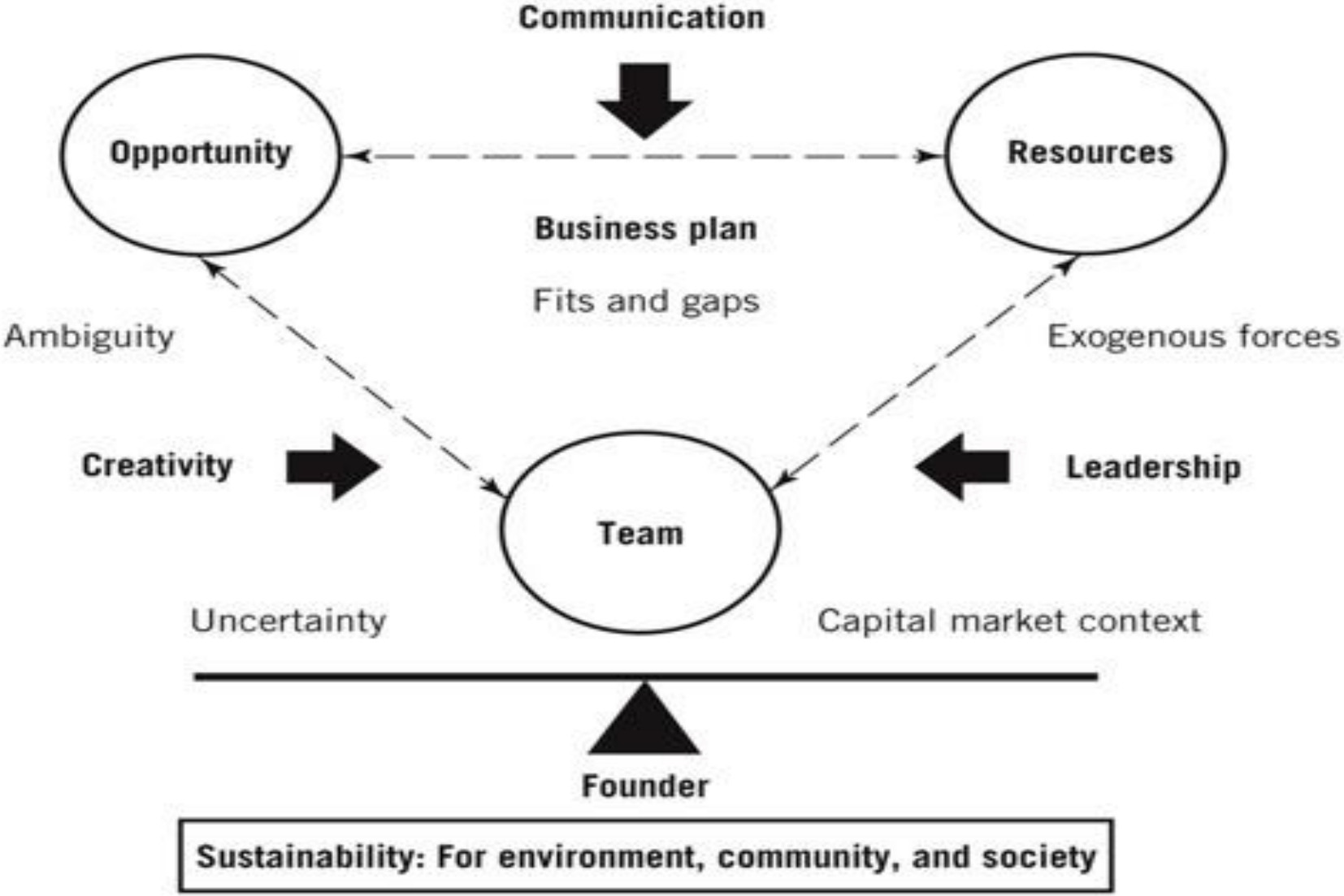
# Learning Outcome

- ✓ After completing this chapter, students will be able to:

1. Know how to manage business growth
2. Understand business expansion strategies
3. Know & Internalize business ethics & social responsibilities

**What key aspects does an entrepreneur need to manage to start and grow a business?**

# Timmons Model of Entrepreneurship



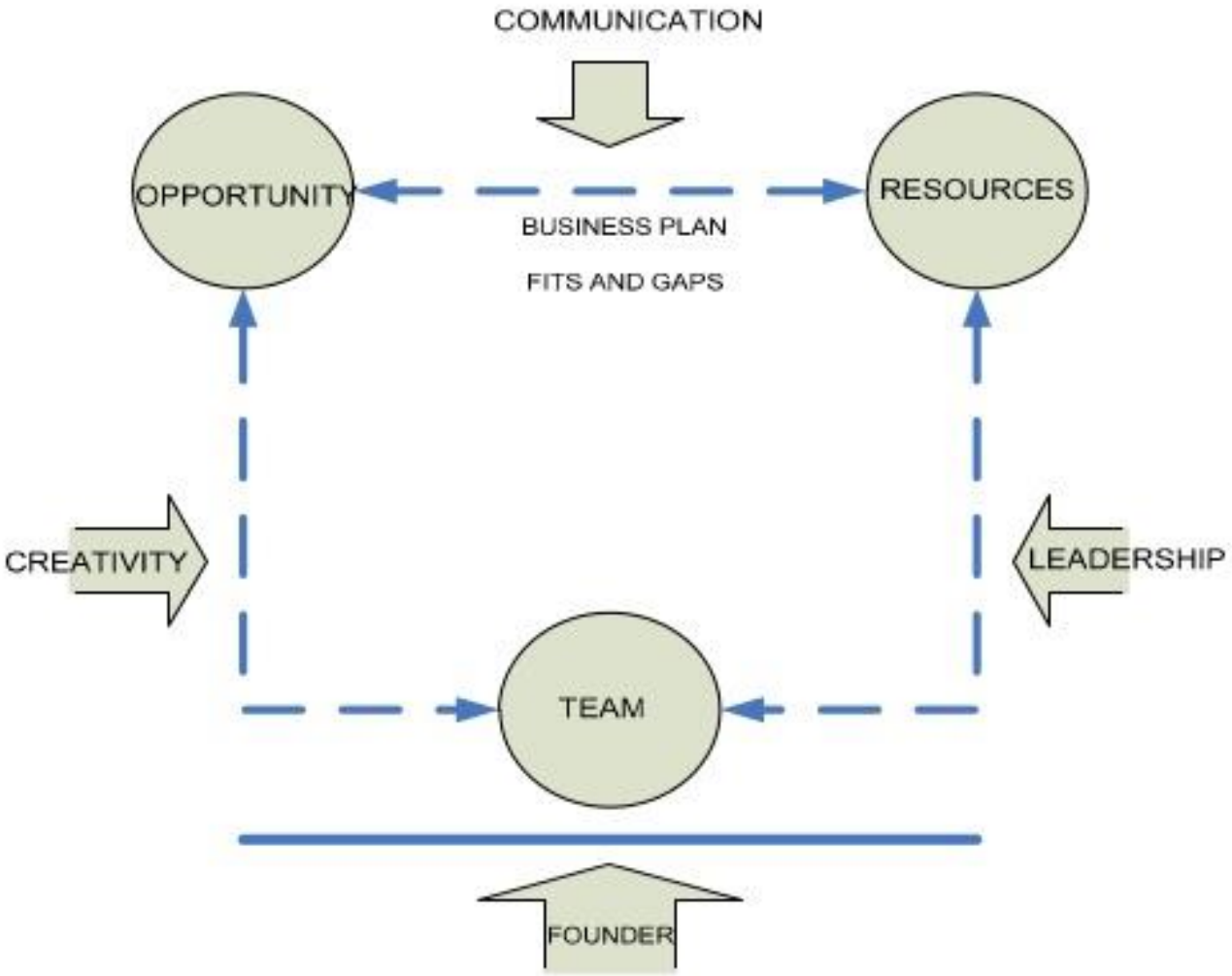
# VALUE CREATION

- DRIVING FORCES
  - OPPORTUNITY DRIVEN
  - DRIVEN BY LEAD ENTREPRENEUR AND AN ENTREPRENEURIAL TEAM
  - RESOURCE CONSTRAINED AND CREATIVE
  - FIT AND BALANCE AMONG FORCES
  - INTEGRATED AND HOLISTIC
- FOCUS ON THESE FORCES TO IMPROVE CHANCES OF SUCCESS



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# THE TIMMONS MODEL OF THE ENTREPRENEURIAL PROCESS






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# TIMMONS MODEL

- STARTS WITH OPPORTUNITY
  - NOT MONEY, STRATEGY, NETWORKS, TEAM OR BUSINESS PLAN
  - SHAPE, SIZE AND DEPTH OF OPPORTUNITY ESTABLISHES REQUIRED SHAPE, SIZE AND DEPTH OF RESOURCES AND TEAM
- FOUNDER (ENTREPRENEUR) TAKES CHARGE
  - IMPROVE FIT AND FILL GAPS
  - ATTRACTS KEY PLAYERS TO THE TEAM
  - MANAGE AND REDEFINE THE RISK-REWARD EQUATION



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# THE OPPORTUNITY

- HEART OF THE PROCESS
  - 100 IDEAS REVIEWED; <10% MERIT DUE DILIGENCE
- CHARACTERISTICS OF GOOD OPPORTUNITIES
  - MARKET DEMAND
    - BASIS OF VALUE
      - NEW FUNCTIONAL NEEDS OR EXISTING NEED AT SUBSTANTIALLY LOWER COST
    - MAGNITUDE OF VALUE
      - ECONOMIC OR EMOTIONAL VALUE
      - WHAT SIZE AND FUTURE SUPPLY-DEMAND PATTERNS
  - MARKET STRUCTURE AND SIZE
    - DEMAND DRIVERS AND GROWTH POTENTIAL
    - BARRIERS OF ENTRY AND COMPETITIVE ADVANTAGES
  - MARGIN AND OPERATING STRUCTURE
    - HIGH OPERATING LEVERAGE
    - CAPITAL REQUIREMENTS
      - TECHNICAL, MANUFACTURING, MARKETING AND DISTRIBUTION RESOURCES TO CAPTURE VALUE



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# RESOURCES

- SHORTAGE OF QUALITY ENTREPRENEURS AND OPPORTUNITIES
  - "TOO MUCH MONEY CHASING TOO FEW DEALS"
- CREATIVE AND STINGY STRATEGIES TO GAIN CONTROL OF RESOURCES
  - DISCIPLINE OF LEANNESS
    - CAPITAL EFFICIENCY
  - CONSERVE YOUR EQUITY
    - MAXIMISE SHAREHOLDER VALUE
  - LIQUIDITY IS YOUR FRIEND



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# THE TEAM

- ENTREPRENEURIAL TEAM IS KEY
  - SHORT SUPPLY OF GREAT TEAMS
    - GRADE A ENTREPRENEUR AND TEAM WITH GRADE B IDEA OVER A GRADE B TEAM WITH GRADE A IDEA
  - NEED A TEAM TO GROW BEYOND 20 EMPLOYEES AND $2-3M IN SALES
- ENTREPRENEUR LEADERSHIP
  - LEARNS AND TEACHES
  - RESILIENT, DEALS WITH ADVERSITY
  - EXHIBITS INTEGRITY, DEPENDABILITY, HONESTY
  - BUILDS CULTURE AND ORGANIZATION



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# THE ENTREPRENEURIAL TEAM

- QUALITY OF THE TEAM
  - RELEVANT EXPERIENCE AND TRACK RECORD
  - MOTIVATION TO EXCEL
  - COMMITMENT, DETERMINATION AND PERSISTENCE
  - TOLERANCE OF RISK, AMBIQUITY AND UNCERTAINTY
  - CREATIVITY
  - TEAM FOCUS
  - ADADTABILITY
  - OPPORTUNITY OBSESSION
  - COMMUNICATION
  - LEADERSHIP



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# FALLACY OF THE ONE-MAN CHIEF EXECUTIVE OFFICER

- ACTIVITIES TOO DIVERSE TO BE PERFORMED BY ONE MAN
- THREE DISTINCT CHARACTERS REQUIRED
  - THE THOUGHT MAN
  - THE MAN OF ACTION
  - THE FRONT MAN
- CHIEF EXECUTIVE JOB TO BE A TEAM OF SEVERAL MEN/WOMEN ACTING TOGETHER
  - BASEBALL, DOUBLE TENNIS TEAMS OR THE SYMPHONY ORCHESTRA



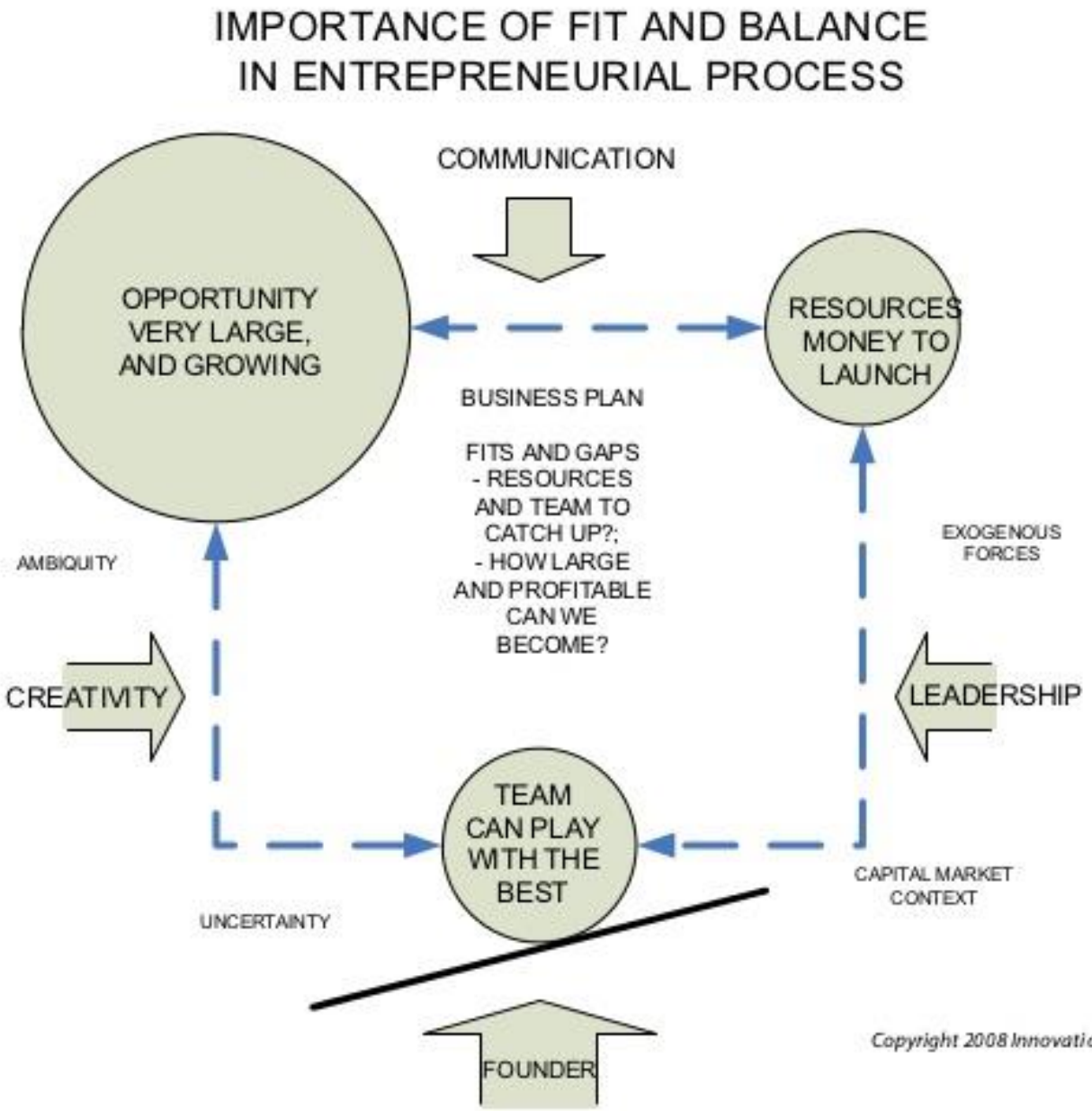
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# FIT AND BALANCE

- CONCEPT OF FIT AND BALANCE IS IMPORTANT
  - BETWEEN OPPORTUNITY, RESOURCES AND TEAM
    - ENTREPRENEURIAL LEADER CONTINUALLY ASSESS, REVISE STRATEGIES AND TACTICS
    - WHEN OPPORTUNITIES GROW, FILL RESOURCES GAP AND BUILD TEAM TO MAINTAIN FIT AND BALANCE
  - BETWEEN OPPORTUNITY AND INVESTORS
    - FUNDING SOURCES
    - STRATEGIC PARTNERSHIPS
    - TIMING
- DYNAMIC PROCESS BASED ON LOGIC AND TRIAL AND ERROR



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# CONCLUSION

- ENTREPRENEURSHIP
  - CREATION AND REALIZATION OF VALUE
  - NOT JUST FOR OWNERS, BUT ALL PARTICIPANTS AND STAKEHOLDERS
  - CREATION/RECOGNITION OF OPPORTUNITIES
  - WILL AND INITIATIVE TO SEIZE THEM
  - WILLINGNESS TO TAKE CALCULATED RISK; PERSONAL AND FINANCIAL



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# 7.3 New Venture Expansion Strategies

- Growth brings with it a variety of changes in the company's **structure, needs, and objectives.**

# 7.3.2 Methods of Growth

- Common routes of small business expansion include the following common options:

1. Growth through acquisition of another existing business (almost always smaller in size),
2. Offering franchise ownership to other entrepreneurs,
3. Licensing of intellectual property to third parties, (license for the use of certain innovative models on fee basis may be given to certain companies). This is very common for Software products.
4. Establishment of business agreements with distributorships and/or dealerships,

# 7.3.2 Methods of Growth

5. Pursuing new marketing routes (such as catalogs),
6. Joining industry cooperatives to achieve savings in certain common areas of operation, including advertising and purchasing,
7. public stock offerings (selling shares to investors and to the general public),
8. Employee stock ownership plans (entrepreneurs may give/sell shares to employees as incentive for motivation. Through this process, employee owned companies may be established. This is very common for social enterprises and among Chinese firms.

# Ansoff Matrix

**A marketing planning model that helps a business determine its product and market strategy**

tutor2u

# Ansoff Matrix

- Ansoff Matrix or “Product/Market Opportunity Matrix” is a matrix that focused on present and new products and markets, which has 4 combinations.
- Named after its inventor, the father of strategic management, Igor Ansoff, and first published in 1957 in Harvard business review

# Ansoff Matrix

| | | Market | |
|---|---|---|---|
| | | Present | New |
| Product | Present | Market Penetration Strategy | Market Development Strategy |
| | New | Product Development Strategy | Diversification Strategy |

# Market Penetration Strategy

- Market Penetration Strategy is when we sell an present product to our present market.
- Competition could be in pricing, promotion, or distribution.

# Market Penetration Strategy

- Example :




Coca-cola helps people to fight obesity in the US, and diet constantly offer people cola.

**Since being introduced in 1982 as a result of a growing trend towards dieting and healthier living, Diet Coke has been a highly successful product for the Coca Cola company, selling millions of units per year. Throughout this time, Coca Cola has constantly adapted aspects of the marketing mix for Diet Coke in order to continually match customer trends and fashions.**

# Market Development Strategy

- Market Development Strategy is a strategy where we sell our present product and sell them in new markets and gain new range of customers to get more sales.

# Market Development Strategy

- Example :




Coca-Cola expands its Vanilla version in UK market after ed in the US.

**After having a successful launch in America, Coca Cola decided to launch it's new Vanilla flavored version in Great Britain. Prior to doing so, Coca Cola carried out taste tests and developed the graphical 'look' of the Diet Coke brand. When they did this, they took great care to incorporate aspects of the Coca Cola brand, but still differentiating it so consumers would see it as an alternative to Coke.**

# Product Development Strategy

- Product Development Strategy is a Strategy where we develop new product(s) and selling them in our present market.

# Product Development Strategy

- Example :




Coca-Cola created new product as fanta and sell the to sent market to increase sales.

**The development of a new flavor sparkling drink by Coca Cola was as a direct result of listening to consumers who called the company's Careline telephone service. The business conducted taste tests prior to the 2001 launch.**

# Diversification Strategy

- Diversification Strategy is the strategy where we Develop a new product and target them in a new market.

# Diversification Strategy

- Example :



Coca-cola create 1.5 liter bottle to target households that only
1-2 people.

**Desk research showed Coca Cola that a growing number of households contained 1-2 people, which led them to believe that a smaller version of the 2 litre family sized bottle would sell well to these groups. In launching this product (simply sell existing brands such as Coca Cola, Diet Coke etc), Coke did need to alter the product itself, merely different aspects of the**

# 7.3.3 The Ansoff Matrix – Growth Strategy

**What is our business growth strategy in relation to new or existing markets and products?**

## *Ansoff Matrix*

- *The Ansoff Matrix classifies and explains different growth strategies for a company.*
- *This matrix is used by companies which have a growth target or a strategy of specialization.*




- *GOLDEN RULES*

# The Coca-Cola Company: An Overview




- founded in 1886
- non-alcoholic beverage concentrates and syrups
- operates in over 200 countries
- 230 different brands
- headquarters Atlanta, Georgia
- 30,000 people around the world
- 70% of the company volume and 80% of the company profit come from outside the USA

**Table 1: Global Carbonated Market Share**

| % value | |
|---|---|
| Coca Cola | 47% |
| Pepsi Cola | 21% |
| Cadbury Schweppes | 8% |
| Cott | 2% |
| AmBev | 1% |
| Others | 21% |
| **Total** | **100%** |

Source: Adapted from *www.foodlineweb.co.uk*



# Ansoff Matrix applied to Coca Cola



# Some examples of Coca Cola Products

*Diet Coke*




*Coca Cola Share Size 1.5l Bottle*




| | *Current products* | *New Products* |
|---|---|---|
| *Current markets* | **Market Penetration Strategies**<br><br>•Increase market share<br>•Increase product usage:<br>- increase frequency of use<br>- increase quantity used<br>- new application | **Product Development Strategies**<br><br>•Product improvement<br>•Product line extensions<br>•New products for same markets |
| *New markets* | **Market Development Strategies**<br><br>•Expand markets for existing products<br>- geographic expansion<br>- target new segments | **Diversification Strategies**<br><br>•Vertical Integration:<br>- forward integration<br>- backward integration<br><br>•Diversification into related businesses (concentric diversification)<br><br>•Diversification into unrelated businesses (conglomerate diversification) |

*Powerade*




*Winnie the Pooh Roo Juice*



# CONCLUSION




- Coca-Cola is using a number of strategies:

✓ Market Penetration Strategy
✓ Market Development Strategy
✓ Product Development
✓ Diversification Strategy

- Coca-Cola has a comprehensive product portfolio in each market which is well managed and enables the best fit

- Coca-Cola has strong competitive position of the firm in a highly attractive market

- Coca-Cola should maintain its marketing not only in its strategic approach but also in its tactical day-to-day operations.

# 7.3.4 Expansion Issues

- Effective research and long range planning can do a lot to relieve the problems often associated with rapid business expansion.
- **Recordkeeping and Other Infrastructure Needs**
- **Expansion Capital**
- **Personnel Issues**
- **Customer Service**
- **Disagreements among Ownership**
- **Family Issues**
- **Transformation of Company Culture**
- **Changing Role of Owner At The Initial State**
- **Choosing not to Grow**

# 7.4 Business Ethics and Social Responsibility

❖Three Approaches to Corporate Responsibility

1. Corporate social responsibility (CSR)
2. The triple bottom line
3. Stakeholder theory



# Corporate Social Responsibility (CSR)



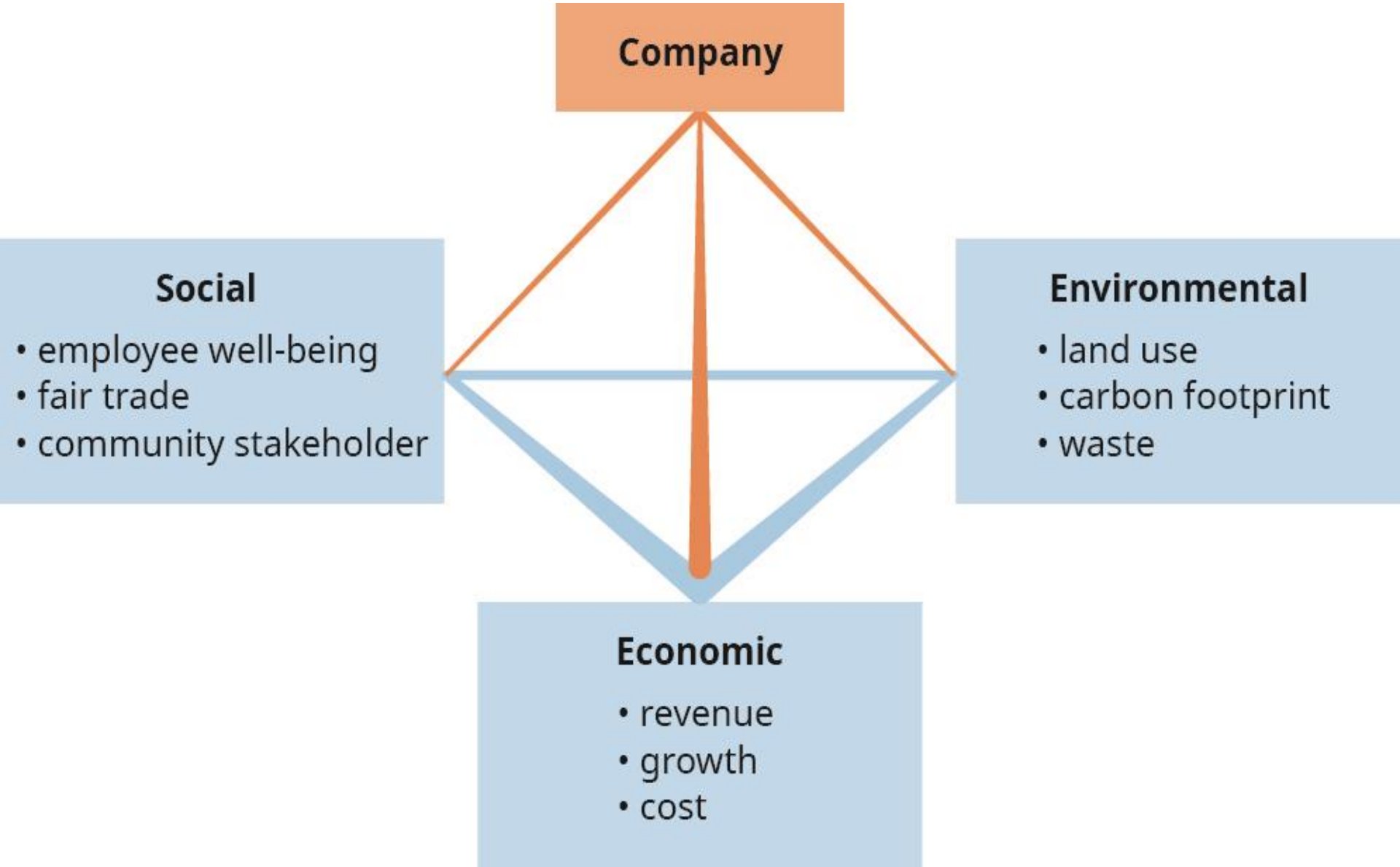
# Corporate Social Responsibility (CSR)

- ✓ Both the responsibility to make money and the responsibility to interact ethically with the surrounding community.
- ✓ Responsibility to profit while playing a role in broader questions of community welfare.

# CSR is composed of four obligations:

1. **The economic responsibility to make money**
2. **The legal responsibility** : *Accept the rules as a social good and make good faith efforts to obey.*
3. **The ethical responsibility**
4. **The philanthropic responsibility** : *To contribute to society's projects (have some obligation to support the general welfare in ways determined by the needs of the surrounding community.)*

# The Triple Bottom Line



# Economic sustainability

- ✓Sustainability as a virtue means valuing business plans that may not lead to quick riches but that also avoid disastrous losses.



# Social sustainability

- ✓A business to be stable over the long term, opportunities and subsequently wealth need to be spread out to cover as many people as possible.



# Fair trade movement

- Social sustainability requires that corporations as citizens in a specific community of people maintain a healthy relationship with those people.
- ✓ Ex: Ethiopian coffee farmers, through specialty coffee as certified, get more than 30% than the prices of normal coffee.
- ✓ *Corporations should not affect the health of community negatively.*

# What is fair trade?

- Fair trade is international non-governmental, non-profit organisation .
- It is trying to secure a better future for farmers and workers of developing countries.

FAIRTRADE

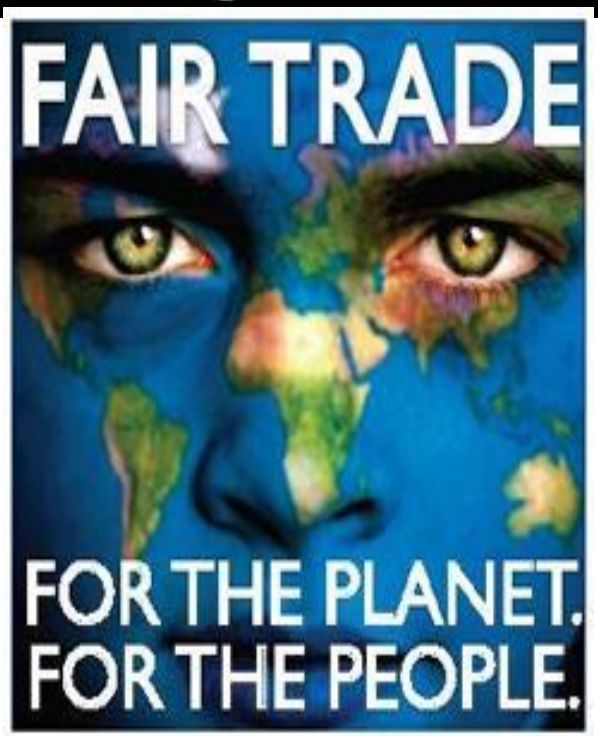
WORLD FAIR TRADE ORGANIZATION

- Fair trade is also a social movement
- Fair trade is an alternative approach to conventional trade based on a partnership between producers and consumers
- Fair trade is trying to fight poverty and the injustices of conventional trade.

FAIRTRADE

Guarantee
a **better deal**
for Third World
Producers

FAIR TRADE
CERTIFIED™



# Environmental sustainability




Climate Resilience
Water Conservation
Ecosystem Management
Waste Minimization and Pollution Prevention
Electronics Stewardship
EMS
Vehicle and Fuel Use
Energy
Sustainable Buildings
Sustainable Acquisition

# Stakeholder Theory

- Has been described by **Edward Freeman** and others.
- ✓ Stakeholder theory affirms that those whose lives are touched by a corporation hold a right and obligation to participate in directing it.

# STAKEHOLDER THEORY

## DEFINITION:

- Stakeholder theory is a

" A conceptual framework of business ethics and organizational management which addresses moral and ethical values in the management of a business or other organization. "

# Stakeholder Theory Development

- Edward Freeman
  - Believed that stakeholders were any individuals or groups that can impact or be impacted by the actions of the firm
  - Broadened definition of stakeholder to encompass any individuals or groups that have a vested interest in the operations of the firm

# Stakeholder theory of the firm

- Theory developed by Edward Freeman (1984)
- A **stakeholder** of an organization is:
  - …any group or individual who can affect, or is affected by, the achievement of the organization's objectives (Freeman 1984:46)
- More precise definition of 'affects' and 'affected by' (Evan and Freeman 1993)
  - **Principle of corporate rights** - the corporation has the obligation not to violate the rights of others
  - **Principle of corporate effect** – companies are responsible for the effects of their actions on others

# Ed Freeman & Stakeholder The

## Definition of stakeholder

**"In a narrow sense, the stakeholders are all those identifiable groups or individuals on which the organisation depends for its survival, sometimes referred to as primary stakeholders:** stockholders, employees, customers, suppliers and key government agencies.

**On a broader level, however, a stakeholder is any identifiable groups or individual who can affect or is affected by organisational performance in terms of its products, policies and work processes. In this sense,** public interests groups, protest groups, local communities, government agencies, trade associations, competitors, unions, and the press **are organisational stakeholders".**

**(R.E. Freeman,1984)**

# Stakeholder Theory

- A strict stakeholder theory—one insistently bestowing the power to make ethical claims on anyone affected by a company's action—would be inoperable.
- Once a discrete set of stakeholders surrounding an enterprise has been located, **stakeholder ethics may begin**

# Business Ethics Principles

1. Honesty
2. Integrity
3. Promise-Keeping & Trustworthiness
4. Loyalty
5. Fairness
6. Concern for Others
7. Respect for Others
8. Law Abiding
9. Commitment to Excellence
10. Leadership
11. Reputation and Morale
12. Accountability

# Thank You.

**With best wishes**

**Jagadish Brahma Goulap (PhD),**
**Associate Professor,**
**Department of Management,**
**Addis Ababa University.**