

Entrepreneurship and Enterprise Development

By: Department of Management

Objectives

- ☑ Define entrepreneurship within the context of society
- ☑ Identify business opportunities
- ☑ Prepare business plan
- ☑ Distinguish forms of business ownership
- ☑ Comprehend intellectual property rights in business practices





Objectives

- ☑ Define basic marketing concepts
- ☑ Formulate context-based marketing strategies
- ☑ Identify and evaluate sources of financing new ventures
- ☑ Manage business growth and transition
- ☑ Practice ethical business with all stakeholders



Contents

- ☑ Chapter 1: Nature of Entrepreneurship
- ☑ Chapter 2: Business Planning
- ☑ Chapter 3: Business Formation
- ☑ Chapter 4: Product Development
- ☑ Chapter 5: Marketing
- ☑ Chapter 6: Business Financing
- ☑ Chapter 7: Managing Growth And Transition



Chapter One

Nature of Entrepreneurship

Chapter Objectives

- ☑ Define the term entrepreneurship and entrepreneur
- ☑ Identify types of entrepreneur
- ☑ Recognize the role of entrepreneurship in the economy
- ☑ Analyze the entrepreneurial competences
- ☑ Understand creativity and innovation



Historical Origin of Entrepreneurship

- ☑ Ancient period - entrepreneur was a person managing large commercial projects.
- ☑ 17th Century - a person who has signed a contractual agreement with the government to provide stipulated products or to perform service.
- ☑ 18th Century - an entrepreneur is a risk taker.
  - ☑ Differentiation of the entrepreneurial role from capital providing role.
- ☑ Late 19th and early 20th Century - the entrepreneur organizes and operates an enterprise for personal gain.
- ☑ Middle of the 20th Century - entrepreneur is an inventor.





Definitions of Entrepreneurship

- ☑ 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 is the processes through which individuals become aware of business ownership then develop ideas for, and initiate a business.





Definitions of Entrepreneurship…

- ☑ It is 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.
- ☑ It 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.





Definitions of Entrepreneurship…

- ☑ In general, the process of entrepreneurship includes five critical elements.
  - ☑ The ability to perceive an opportunity.
  - ☑ The ability to commercialize the perceived opportunity i.e. innovation
  - ☑ The ability to pursue it on a sustainable basis.
  - ☑ The ability to pursue it through systematic means.
  - ☑ The acceptance of risk or failure.



Definitions of Entrepreneur

- ☑ 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.
- ☑ Who discovers a business opportunity to produce improved or new goods and services and identifies a way in which resources required can be mobilized.
- ☑ Who has the ability to identify and pursue a business opportunity; undertakes a business venture; raises the capital to finance it; gathers the resources needed to operate the business venture; sets goa[illegible] on



Definitions of Entrepreneur…

- ☑ To an economist - who brings resource, labor, materials, and other assets into combination that makes their value greater than before and also one who introduces changes and innovations.
- ☑ To a psychologist - 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.
- ☑ For the capitalist philosopher - who creates wealth for others as well, who finds better way to utilize resources and reduce waste and who produce job others are glad to get.





Types of Entrepreneurs

- ☑ Individual entrepreneur: who started; acquired or franchised his/her own independent organization.
- ☑ Intrapreneur: who does entrepreneurial work within large organization.
- ☑ Entrepreneurial Organization: the entrepreneurial function need not be embodied in a physical person. Every social environment has its own way of filling the entrepreneurial function.





Role of Entrepreneurs in Economic Development

- ☑ Improvement in per capita income/wealth generation and balanced regional development
- ☑ Generation of employment opportunities
- ☑ Inspire others towards entrepreneurship
- ☑ Enhance the number of enterprise
- ☑ Provide diversity in firms
- ☑ Economic independence
- ☑ Combine economic factors
- ☑ Provide Market efficiency



Entrepreneurial Competence and Environment

Entrepreneurial Mindset

- ☑ Who Becomes an Entrepreneur?
  - ☑ Young professionals
  - ☑ The Inventor
  - ☑ The Excluded

Qualities of an Entrepreneur

- ☑ Opportunity-seeking: An entrepreneur always seeks out and identifies opportunities. He/she seizes an opportunity and converts it into a realistic and achiev



Qualities of an Entrepreneur…

- ☑ Persevering: An entrepreneur always makes concerted efforts towards the successful completion of a goal.



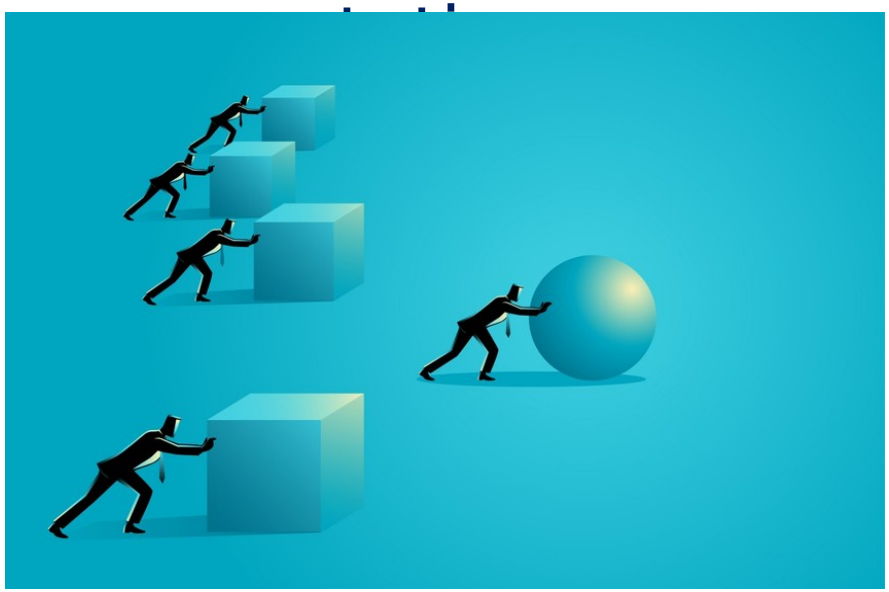
Qualities of an Entrepreneur…

- ☑ Risk taking: set their own objectives where there is moderate risk of failure and take calculated risks



Qualities of an Entrepreneur…

- ☑ Demanding for Efficiency and Quality:
  - ☑ Efficiency - producing results with little wasted effort.
  - ☑ Quality - the ability of a product or service to meet a customer's





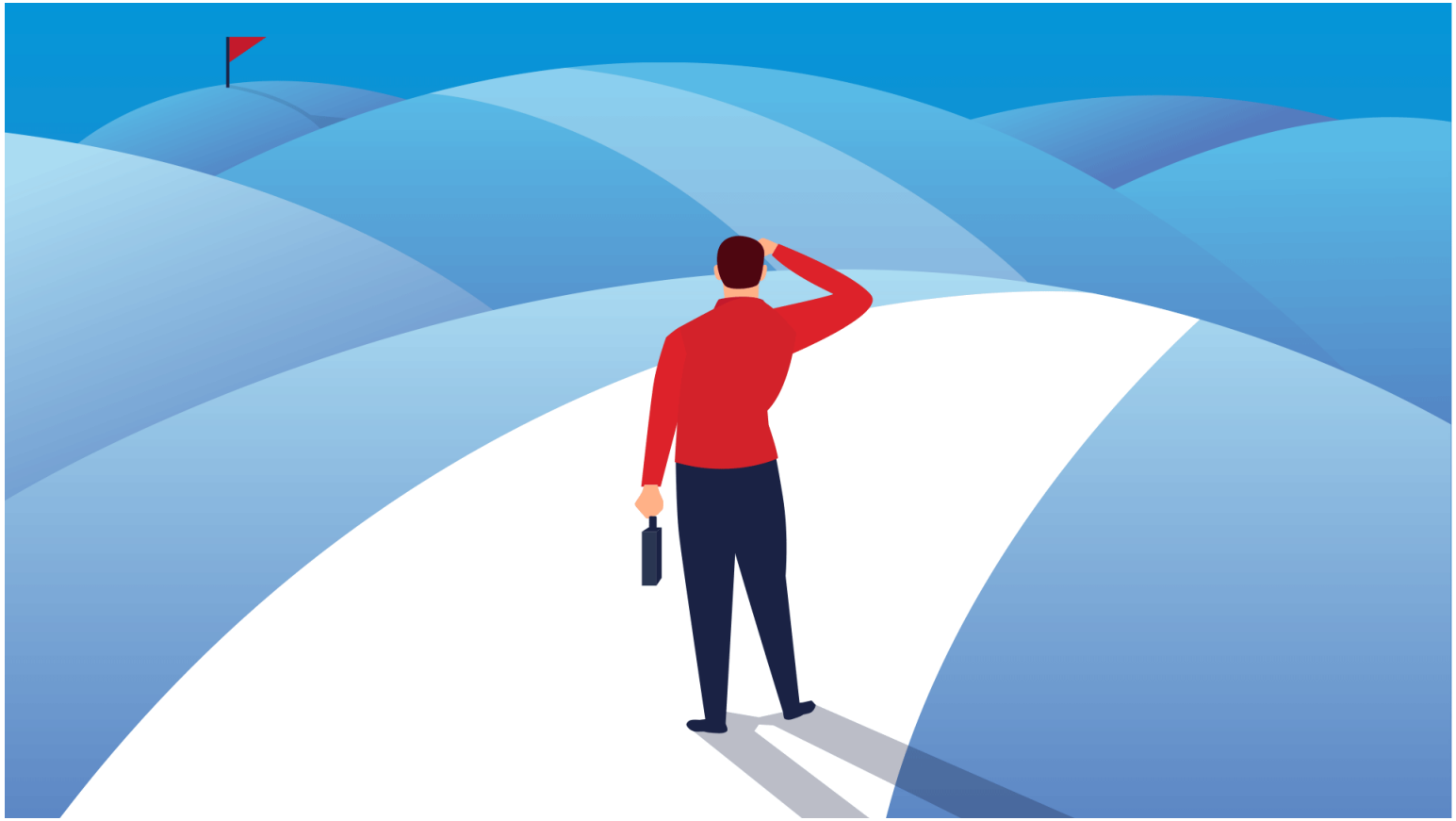
Qualities of an Entrepreneur…

- ☑ Information-seeking: they spend time collecting information about their customers, competitors, suppliers, rele



Qualities of an Entrepreneur…

- ☑ Goal setting - a general direction, or long-term aim that you want to accomplish.



Qualities of an Entrepreneur…

- ☑ Planning: an effective entrepreneur usually plans his/her activities and accounts as best as they can for unexpe



Qualities of an Entrepreneur…

- ☑ Persuasion and Networking:
  - ☑ Persuasion - way of convincing someone to get something or make a decision in your favor.
  - ☑ Networking - network with customers, suppliers, competitors, various firms, different organizations, government





Qualities of an Entrepreneur…

- ☑ Self-confidence: the state of being certain that a chosen course of action is the best or most effective given the circumstances.



Qualities of an Entrepreneur…

- ☑ Listening to others: an entrepreneur listens to other people in their sphere of influence, analyses their input in line with his/her own thinking and makes an informed dec



Qualities of an Entrepreneur…

- ☑ Leadership: entrepreneurs inspire, encourage and lead others to undertake the given duties in time



Entrepreneurial Skills

- ☑ General management skills
  - ☑ Strategy Skills
  - ☑ Planning Skills
  - ☑ Marketing Skills
  - ☑ Financial Skills
  - ☑ Project Management Skills
  - ☑ Time Management Skills





Entrepreneurial Skills…

- ☑ People management skills
  - ☑ Communication Skills
  - ☑ Leadership Skills
  - ☑ Motivation Skills
  - ☑ Delegation Skills
  - ☑ Negotiation Skills





The Entrepreneurial Tasks

- ☑ Owning Organizations
- ☑ Founding New Organizations
- ☑ Bringing Innovations to Market
- ☑ Identification of Market Opportunity
- ☑ Application of Expertise
- ☑ Provision of leadership
- ☑ The entrepreneur as manager

Entrepreneurship and Environment

- A study of business environment offers the following benefits:
  - It provides information about environment.
  - It opens up fresh avenues for the expansion of new entrepreneurial operations.
  - Knowledge about changing environment .
  - By studying the environment entrepreneurs can make it hospitable to the growth of business and thereby earn popular support.





External Environment

- ☑ Economic environment - structure of the economy, industrial, agricultural, trade and transport policies of the country, national income and its distribution, balance of trade and balance of payments etc.
- ☑ Legal environment - adequate knowledge of laws and rules is necessary for efficient managerial performance.
- ☑ Political environment - understanding and concern for national problems will help them in the long run in discharging their responsibilities to the satisfaction of the public.





External Environment…

- ☑ Socio-cultural environment - values, beliefs, norms, fashions and fads of a particular society. It can help in understanding the level of rigidity/flexibility of a given society towards a new product concept.
- ☑ Demographic environment - age profile and distribution, sex, education profile, income distribution etc.





Internal Environment

- ☑ Raw Material: availability of raw material now and in the near future.
- ☑ Production/Operation: availability of various machineries, equipment, tools and techniques.
- ☑ Finance: total requirements of finance in terms start-up expenses, fixed expenses and running expenses, and sources of finance that can be approached for funding.
- ☑ Human Resource: kind of human resources required, its demand and supply in the market, and cost and level of competition in hiring and retaining the human resources.





- ☑ It is the tendency to generate or recognize ideas, alternatives, or possibilities that may be useful in solving problems, communicating with others, and entertaining ourselves and others.
- ☑ It is the ability to come up with new idea and to identify new and different ways of looking at a problem and opportunities.
- ☑ It is a process of assembling ideas by recombining elements already known but wrongly assumed to be unrelated to each other.





Steps in Creativity

- ☑ Opportunity or problem recognition: A person discovers that a new opportunity exists or a problem needs resolution.
- ☑ Immersion: recall and collect information that seems relevant, dreaming up alternatives without refining or evaluating them.
- ☑ Incubation: the information is simmering it is being arranged into meaningful new patterns.
- ☑ Insight: the problem-conquering solution flashes into the person's mind at an unexpected time.
- ☑ Verification and application: gathering supporting evidence, using logical persuasion, and experimenting with new ideas.





Innovation

- Innovation is a process of intentional change made to rate value by meeting opportunity and seeking advantage. There are four types:
  - Invention - described as the creation of a new product, service or process.
  - Extension - the expansion of a product, service or process.
  - Duplication - defined as replication of an already existing product, service or process.
  - Synthesis - the combination of existing concepts and factors into a new formulation.





The Innovation Process

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





Areas of Innovation

- ☑ New product: offers new way of doing something or it may be an improvement on an existing item.
- ☑ New services: offered to undertake a particular task or solve a particular problem.
- ☑ New production techniques: allow the end user to obtain the product at a lower cost, higher quality or/and better service.
- ☑ New way of delivering the product or service to the customer: a common innovation is to take a more direct routine by cutting out distributors or middlemen.





Areas of Innovation…

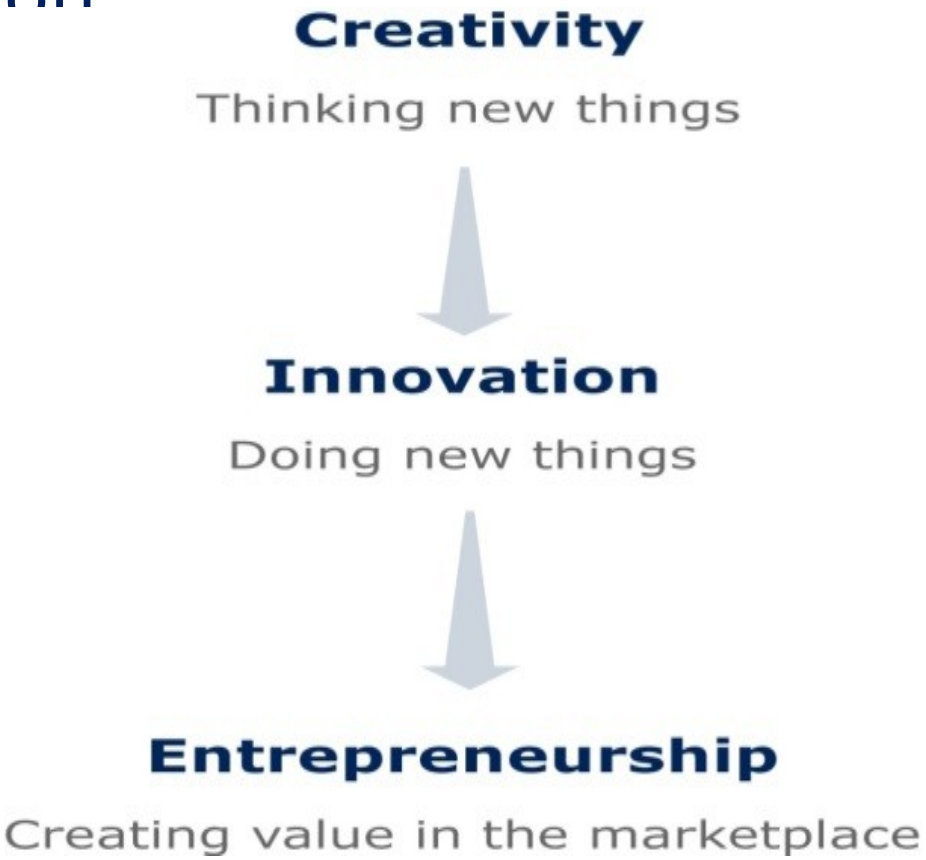
- ☑ New operating practices: easier access, a higher quality, a more consistent and a faster service.
- ☑ New means of informing the customer about the product: create demand through well designed message and means of transmitting it.
- ☑ New means of managing relationship within the organization: effectiveness of its internal communication channels.
- ☑ New ways of managing relationships between organizations: organizations sit in a complex web of relationships to each other. The way they communicate and relate to each other is very important.





From Creativity to Entrepreneurship

- ☑ Entrepreneurship = creativity + innovation





Chapter Two

Business Planning

Chapter Objectives

- ☑ Identify opportunity in the environment
- ☑ Evaluate the opportunities in the environment
- ☑ Generate business idea
- ☑ Explain the concept of business planning
- ☑ Identify components of business plan
- ☑ Develop business plan





Opportunity Identification and Evaluation

- ☑ The initial stage in the entrepreneurial process is the identification and refinement of a viable economic opportunity that exists in the market.
- ☑ The opportunity identification and evaluation stage can be divided into five main steps namely;
  - ☑ Scanning the environment
  - ☑ Identifying the opportunity
  - ☑ Developing the opportunity
  - ☑ Evaluating the opportunity
  - ☑ Evaluating the team





Scanning the Environment

- ☑ While scanning the environment it may be provide you with idea and business opportunities.
- ☑ 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

Opportunity Identification

- ☑ It is ability to see, to discover and exploit opportunities that others miss.
- ☑ It is the process of seeking out better ways of competing
- ☑ It being able to capture, recognize and make effective use of abstract and implicit information from the changing external environments.
- ☑ It is important to understand the cause of the opportunity is it technological change, market shift, government regulation, or competition.





Opportunity Development

- ☑ Having recognized the opportunity, timely adaptation of that opportunity to suit actual market need is key to new venture success.
- ☑ Opportunity development is the process of combining resources to pursue a market opportunity identified.
- ☑ This involves systematic research to refine the idea to the most promising high potential opportunity that can be transformed into marketable items.





Opportunity Evaluation

- ☑ This evaluation process involves 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.





Assessment of the Entrepreneurial Team

- ☑ Once the opportunity has been evaluated, the next step is to ask pertinent questions about the people who would run the company. Such questions related to:
  - ☑ Focuses of founders
  - ☑ Their selling experiences and skills
  - ☑ Management skills
  - ☑ Issues related to ownership





Business Idea Development

- A business idea is a short and precise description of the basic operation of an intended business. There are three types of business ideas.
  - Old idea – copy an existing business idea from someone.
  - Old idea with modification – accepts an old idea from someone and then modifies it in some way to fit a potential customer's demand.
  - New idea – involve in the invention of something new for the first time.





Business Idea Identification

- ☑ Before you start a business, you need to have a clear idea of the sort of business you want to run, about:
  - ☑ Which need will your business fulfill for the customers and what kind of customers will you attract?
  - ☑ What good or service will your business sell?
  - ☑ Who will your business sell to?
  - ☑ How is your business going to sell its goods or services?
  - ☑ How much will your business depend upon and impact the environment?





The Need will Your Business Fulfill for the Customers

- ☑ Your business idea should always have customers and their needs in mind.



- ☑ It might be a good idea to start a day care center in the commercial area as many other parents may have the same need.

The Need will Your Business Fulfill for the Customers



☑ It might be a good idea to start a waste collection and recycling service in this area.

Good or Service will your Business Sell

- ☑ Depending on your skills and the needs of the customers, you should decide which good or service your business will sell.
- ☑ They must be goods or services that people are willing to pay for and at a price that will allow you to make a profit.

Identifies Potential Customer

- ☑ It is essential that you know who your customers will be.
- ☑ Will you sell to a specific type of customer
- ☑



Strategy for Selling Goods 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.





Relation Between Business and Environment

- Your business can only be sustainable in the long run if it works in harmony with the social and natural environment.
  - How much does your business depend on the environment?
  - Does it rely on the weather, soil or other natural resources?
  - Does it need any specific type of labor from the local community?

Relation Between Business and Environment…

- ☑ Does it need the local community to support it?
- ☑ What should you do to make sure that your business nurtures the natural environment and helps the local community?
- ☑ Will your business nurture the natural environment or will it have a detrimental impact?
- ☑ How would you minimize or reverse any negative effect that your business might have?

Methods for Generating Business Ideas

- Learn from successful business owners: try to get the following information from them:
  - What kind of idea did these businesses start with?
  - Where did the ideas come from?
  - How did they develop their ideas into successful businesses?
  - How does the business profit and fit into the local environment?
  - Where did they get the money to start their business?





Methods for Generating Business Ideas…

- ☑ Draw From Experience - Your own experience:
  - ☑ Look at the list of your interests, your experiences and your networks.
  - ☑ Are there any possible business ideas that you can derive from your own past experience?
  - ☑ What has your experience been as a customer in the market place?
  - ☑ Have you ever searched all day for some items that you could not find in any store in your area?
  - ☑ Think about the products you have wanted at different times and that you have had difficulty finding.

Methods for Generating Business Ideas…

- ☑ Draw From Experience - other people's experience:
  - ☑ The people around you are potential customers.
  - ☑ It is important to understand their experience to find goods and services that are unavailable or not exactly what they need.
  - ☑ Listen carefully to what these people say about their shopping experience.
  - ☑ Ask your family and friends about the things they would like to find that are not locally available.
  - ☑ Expand your social knowledge by talking to people from different age groups, social classes, etc.

Methods for Generating Business Ideas…

- ☑ Survey your local business area:
  - ☑ Find out what type of businesses are already operating in your area and see if you can identify any gaps in the market.
  - ☑ Try to identify all the fields of business in the whole town.
  - ☑ Focus on the preferred business fields and business types that you identified.
  - ☑ Visit the closest industrial area, markets and shopping centers in your area.





Methods for Generating Business Ideas…

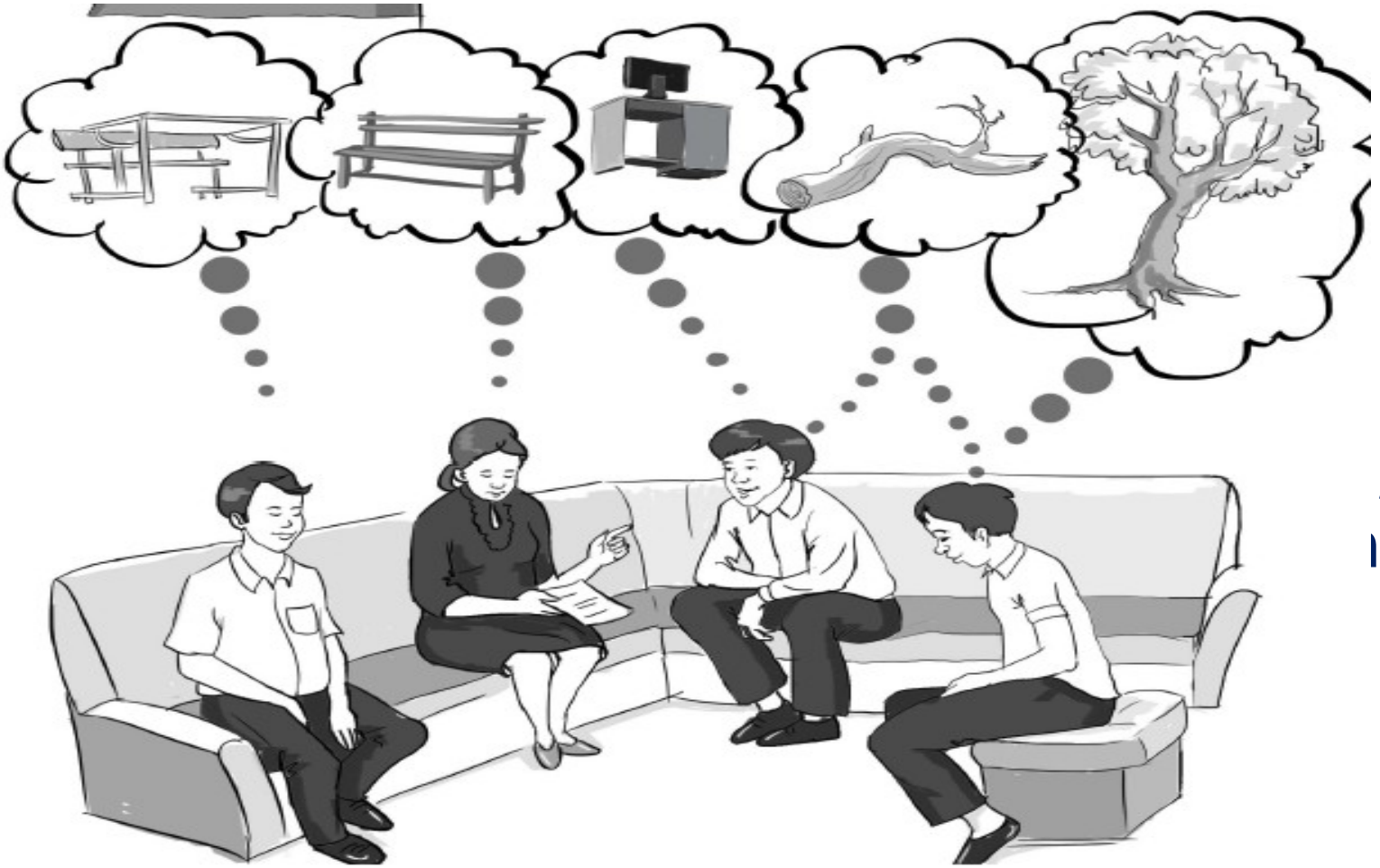
- Scanning Your Environment:
  - Natural resources,
  - Characteristics and skills of people in the local community,
  - Import substitution,
  - Waste products,
  - Publications and
  - Trade fairs and exhibitions





Methods for Generating Business Ideas…

☑ Brainstorming:



Methods for Generating Business Ideas…

- ☑ Structured Brainstorming: 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) and
  - ☑ Those involved in servicing,





Methods for Generating Business Ideas…

☑ Structured Brainstorming: T-shirts



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

Methods for Generating Business Ideas…

- Focus group:
  - It 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.
  - 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.





Methods for Generating Business Ideas…

- 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.





Methods for Generating Business Ideas…

- 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 Business Ideas…

- Forced relationships:
  - It 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.





Methods for Generating Business Ideas…

- Attribute Listing:
  - It 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.





Business Idea Screening

- ☑ Idea screening is the process to spot good ideas and eliminate poor one.
- ☑ Macro screening: is aimed screening down ideas to 10. And the common criteria are:
  - ☑ Are my own competencies (see strength detector) sufficient?
  - ☑ Can I finance it to a large extent with my own equity?
  - ☑ Will people buy my product/service (i.e. is it needed and can people afford it)?





Business Idea Screening…

- ☑ Micro screening: is aimed screening down ideas into 3. The common criteria used for screening are:
  - ☑ Solvent demand
  - ☑ Availability of raw materials
  - ☑ Availability of personal skills
  - ☑ Availability of financial resources





Business Idea Screening…

- Scoring the suitability of business idea:
  - 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.
  - After we score the ideas we sum the total and select the idea with the highest score.





Business Idea Screening…

- Scoring the suitability of business idea: While to answer the above questions, there are four important groups that you should talk to:
  - Potential customers
  - Competitors, suppliers and entities with financial resources
  - Financial institutions
  - Key informants and opinion leaders





Concept of Business Plan

- ☑ A business plan is a road map for starting and running a business.
- ☑ It is the blueprint of the step-by-step procedure that would be followed to convert a business idea into a successful business venture.
- ☑ A well-crafted business plan identifies opportunities, scans the external and internal environment to assess the feasibility of business and allocates resources in the best possible way.
- ☑ It provides information to all concerned people about marketing, finance and operations issues.





Concept of Business Plan…

- ☑ The objectives of a business plan are to:
  - ☑ Give directions to the vision formulated by entrepreneur.
  - ☑ Objectively evaluate the prospects of business.
  - ☑ Monitor the progress after implementing the plan.
  - ☑ Persuade others to join the business.
  - ☑ Seek loans from financial institutions
  - ☑ Visualize the concept in terms of market availability, organizational, operational and financial feasibility.
  - ☑ Guide the entrepreneur in the actual implementation of the plan.





Concept of Business Plan…

- ☑ The objectives of a business plan are to:
  - ☑ Identify the strengths and weakness of the plan.
  - ☑ Identify challenges in terms of opportunities and threats
  - ☑ Clarify ideas and identify gaps in management information about their business, competitors and the market.
  - ☑ Identify the resources that would be required to implement the plan.
  - ☑ Document ownership arrangements, future prospects and projected growths of the business venture.





- ☑ Preliminary Investigation
  - ☑ Review available business plans (if any).
  - ☑ Draw key business assumptions on which the plans will be based (e.g. inflation, exchange rates, market growth, competitive pressures, etc.).
  - ☑ Scan the external and internal environment to assess the strengths, weakness, opportunities and threats.
  - ☑ Seek professional advice from a a person who is already into similar business (if any).





Business Planning Process…

- Opportunity Identification and Idea Generation
  - This is the first stage of business planning process. It involves generation of new concepts, ideas, products or services to satisfy demand.
  - Generation of an entirely new concept, product or service, and incremental value addition to the concept/product/ services offered to the consumer, shareholder and employee).





Business Planning Process…

- Environmental Scanning
  - Analyze the prospective strengths, weakness, opportunities and threats of the business enterprise.
- Feasibility Analysis
  - It is to be done to find whether the proposed project would be feasible or not.
  - It is carried out to assess the feasibility of the project itself in a particular environment in greater detail.





Business Planning Process…

- Report Preparation
  - It is a written document that describes step-by- step, the strategies involved in starting and running a business.





Essential Components of Business Plan

- ☑ Cover Sheet:
  - ☑ It is like the cover page of the book.
  - ☑ It mentions the name of the project, address of the headquarters (if any) and name and address of the promoters.





Essential Components of Business Plan…

- Executive Summary:
  - It is the first impression about the business proposal.
  - A careful presentation of information should be done to attract the attention of the evaluators.
  - It should be in brief (not more than two or three pages) yet it should have all the factual details about the project that can improve its marketability.
  - It should briefly describe the company; mention some financial figures and some salient features of the project.





Essential Components of Business Plan…

- The Business:
  - This will give details a bout the business concept.
  - It will discuss the objective of the business, a brief history about the past performance of the company (if it is an old company), what would be the form of ownership (whether it would be a single proprietor, partnership, cooperative society or a company under company law).
  - It would also label the address of the proposed headquarters.





Essential Components of Business Plan…

- Funding Requirement:
  - Since the investors and financial institutions are one of the key bodies examining the business plan report and it is one of the primary objectives of preparing the business plan report, a careful, well-planned funding requirement should be documented.
  - It is also necessary to project how these requirements would be fulfilled.
  - Debt equity ratio should be prepared, which can give an indication about how much finance would the company require and how it would like to fund the project.





Essential Components of Business Plan…

- The Plan: now the functional plans for marketing, finance, human resources and operations are to be drawn.
  - Marketing plan: marketing mix strategies are to be drawn, based on the market research.
  - Operational Plan: plant location, plan for material requirements, inventory management and quality control.
  - Organizational Plan: the pattern of flow of responsibilities and duties, the manpower plan, and the laws that would be governed in managing the employees of the organization.





Essential Components of Business Plan…

- ☑ Financial Plan: The financial plan is usually drawn for two to five years for an existing company. Projected Sales
  - ☑ Projected Income and Expenditure Statement
  - ☑ Projected Break Even Point
  - ☑ Projected Profit and Loss Statement
  - ☑ Projected Balance Sheet
  - ☑ Projected Cash Flows
  - ☑ Projected Funds Flow
  - ☑ Projected Ratios





Essential Components of Business Plan…

- Critical Risks:
  - The investors are interested in knowing the tentative risks to evaluate the viability of the business and to measure the risks involved in the business.
  - This can further give confidence to the investors as they can calculate the risks involved in the business from their perspectives as well.





Essential Components of Business Plan…

- Exit Strategy:
  - The exit strategies would provide details about how the organization would be dissolved, what would be the share of each stakeholder in case of winding-up of the organization.
  - It further helps in measuring the risks involved in investing.
- Appendix:
  - The appendix can provide information about the Curriculum Vitae of the owners, Ownership Agreement and the like.





Essential Components of Business Plan…

- Critical Risks:
  - The investors are interested in knowing the tentative risks to evaluate the viability of the business and to measure the risks involved in the business.
  - This can further give confidence to the investors as they can calculate the risks involved in the business from their perspectives as well.







Chapter Three

Business Formation

Chapter Objectives

- ☑ Explain the concept of business development;
- ☑ Identify the forms of business ownership;
- ☑ Analyze the importance/role of MSEs;
- ☑ Set up small scale business;
- ☑ Distinguish the failure and success factors of MSEs;
- ☑ Identify the problems of small scale business in Ethiopia
- ☑ Develop organizational culture.





The Concept of Small Business Development

- ☑ Size and economic criteria are base to define small business.
- ☑ Qualitative characteristics are used to differentiate small business from other business.
- ☑ The economic/control definition covers market share, independence and personalized management.
- ☑ MSEs cover a wider spectrum of industries and play an important role in both developed and developing economies including Ethiopia.





Forms of Businesses

- Three basic legal forms of businesses:
  - Proprietorship - a business with single owner who has unlimited liability, controls all decisions, and receives all profits.
  - Partnership - two or more individuals having unlimited liability who have pooled resources to own a business.
  - Corporation - separate legal entity that is run by stockholders having limited liability.





Definition of MSEs

- There are two approaches to define small business such as size and economic/control criteria.
- Size criteria: size refers to the scale of operation.
  - 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 can be included under this criteria.

Definition of MSEs…

- ☑ Criteria of Small Business Administration (SBA):
  - ☑ Financing of the business is supplied by one individual or a small group (more than 15 or 20 owners).
  - ☑ Except for its marketing function, the firm's operations are geographically localized.
  - ☑ Compared to the biggest firms in the industry, the business is small.
  - ☑ The number of employe ess



Definition of MSEs…

- ☑ Economic/control criteria: the economic/control definition covers:-
  - ☑ Market Share: share of the market is that it is not large enough to enable it to influence the prices of national quantities of goods sold to any significant extent.
  - ☑ Independence: the owner has control of the business himself/herself.
  - ☑ Personalized management: the owner actively participates in all aspects of the management and all major decision making.





Definition of MSEs…

- ☑ Technology:- Small business is generally labor intensive and only few are technology intensive.
- ☑ Geographical area of operation: - the area of operation of a small firm is often local.





Role of MSEs in Developing Countries

- ☑ Large employment opportunities: since MSEs are labor-intensive, for every fixed amount of investment, they provide employment for more persons as against few persons in the large scale sector.
- ☑ Economical use of capital: MSEs need relatively small amount of capital. Hence it is suitable to a country like Ethiopia where capital is deficient.
- ☑ Balanced Regional Development: since many MSEs are located in village and small towns, it is possible to have a balanced regional growth of industries.





Role of MSEs in Developing Countries…

- ☑ Equitable distribution of wealth and decentralization of economic power: it removes the drawbacks of capitalism, abnormal profiteering, concentration of wealth and economic power in the hands of few etc.
- ☑ Balance unregulated growth of large scale industries: income generated in a large number of small enterprises is dispersed more widely and its benefit is derived by the large segments of the society.
- ☑ Dispersal over wide areas: MSEs has a tendency to disperse over wider areas and they play a key role in the industrialization of a developing country.





Role of MSEs in Developing Countries…

- ☑ Higher Standard of Living: MSEs bring higher national income, higher purchasing power of people in rural and semi-urban areas.
- ☑ Mobilization of Locals Resources: the spreading of industries even in small towns and villages would encourage the habit of thrift and investment among the people of rural areas.
- ☑ Innovative and productive technology: new but simple techniques of production can be adopted more easily by MSEs without much investment.





Role of MSEs in Developing Countries…

- ☑ Less dependence on foreign capital: MSEs use relatively low proportion of imported equipment and materials.
- ☑ Promotion of self employment: MSEs foster individual skill and initiative, and promote self-employment particularly among the educated and professional class.
- ☑ Protection of environment: MSEs help to protect the environment by reducing the problem of pollution.
- ☑ Shorter gestation period: In MSEs the time-lag between the execution of the investment project and the start of flow of consumable goods is relatively short.





Role of MSEs in Developing Countries…

- ☑ Facilitate development of large scale enterprises: MSEs support the development of large enterprises by meeting their requirements of inputs of raw materials, intermediate goods, spare parts etc. and by utilizing their output for further production.
- ☑ Individual tastes, fashions, and personalized services: they have the flexibility to adapt quickly to changes in the business or technological environment.





Classification of Micro and Small Enterprises

- Manufacturing Enterprise (Manufacturing, Construction and Mining):
  - Micro enterprise: total asset does not exceed Birr 100,000; and operates with 5 people including the owner.
  - Small enterprises: total asset of Birr and not more than Birr 1.5 million; and operates with 6-30 persons.





Classification of Micro and Small Enterprises…

- Service Enterprise (Retailing, Transport, Hotel and Tourism, ICT and Maintenance):
  - Micro enterprise: total asset is not exceeding Birr 50,000; and operates with 5 persons including the owner of the enterprise.
  - Small Enterprises: total asset of Birr 100,000 and not more than Birr 1.5 million; and operates with 6-30 persons.



Classification of Micro and Small Enterprises…

Level of the Enterprise	Sector	Human Power	Total Asset
Micro	Industry	≤ 5	≤ Br. 100,000 ($6,000)
	Service	≤ 5	≤ Br. 50,000 ($3,000)
Small	Industry	6 - 30	≤ Br. 1.5 million ($9,000)
	Service	6 - 30	≤ Br. 500,000 ($30,000)





Priority Sectors for MSEs Engagement In Ethiopia

- ☑ Manufacturing : textile and garment; leather and leather products; food processing and beverage; metal works and engineering; wood works including furniture and ornaments service; and agro-processing.
- ☑ Construction: sub-contracting; building materials; traditional mining works; cobble stone; infrastructure sub-contract; and prestigious goods.
- ☑ Trade: whole sale of domestic products; retail sale of domestic products and raw materials supply.

Priority Sectors for MSEs Engagement In Ethiopia…

- ☑ Service: small and rural transport service; café and restaurants; store service; tourism service; canning/packing service; management service; municipality service; project engineering service; product design and development service; maintenance service; beauty salon; and electronics software development; decoration and internet café.
- ☑ Urban agriculture: modern livestock raring; bee production; poultry; modern forest development; vegetables and fruits; modern irrigation; and animal food processing.





Levels of MSEs in Ethiopia

- ☑ Start-up: incorporating interested and skillful diversified people; innovated by legally either in the form of association or private; and beginning of production and service under legal entity.
- ☑ Growth: competent in price, quality and supply, profitable using the support provided, the enterprise man power and total asset is larger than at startup level; and use book keeping system.
- ☑ Maturity: the enterprise able to be profitable and invest further by fulfilling the definition given to the sector and using the support provided.





Levels of MSEs in Ethiopia…

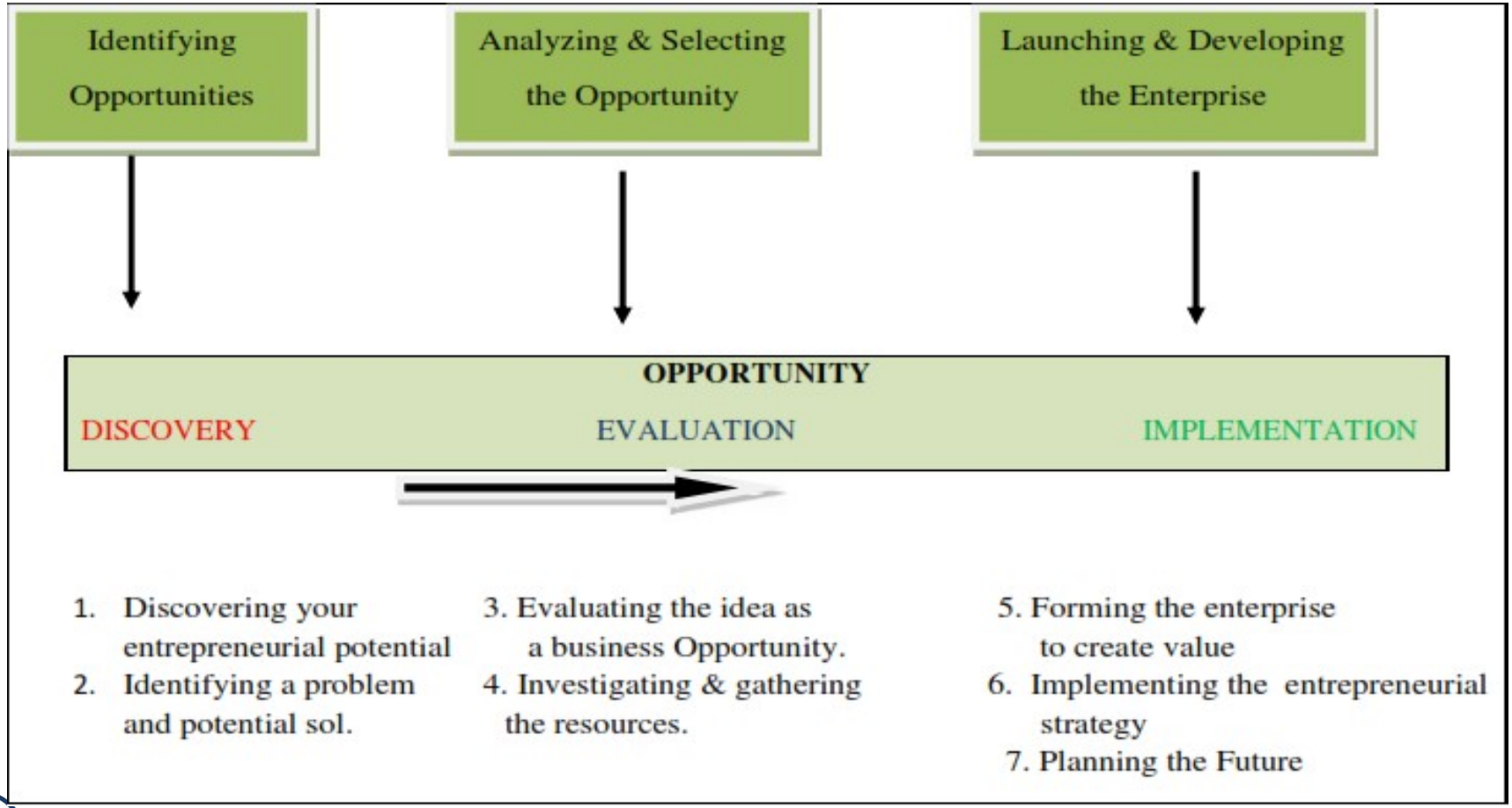
- ☑ Growth: an enterprise is said to be transformed from small to medium level of growth is when it enabled to be competent in price, quality and supply using the support given to the level.





Steps for Setting up the Entrepreneurial Venture

☑ The entrepreneurial process of launching a new venture can be divided into three



Steps for Setting up the Entrepreneurial Venture…

- ☑ Discovery: with creative thinking identify opportunities that may form the basis of an entrepreneurial venture.
  - ☑ Step 1: discovering your entrepreneurial potential, and know your personal resources and attributes through some self-evaluation:
    - ☑ What will you bring to the venture?
    - ☑ What are your strengths and challenges?
  - ☑ Step 2: Identify a problem and potential solution.





Steps for Setting up the Entrepreneurial Venture…

- Evaluation: evaluates if the selected ideas up to a feasible business.
  - Step 3: evaluating the idea as a business opportunity.
    - Find out information about the market need.
    - Is the solution to this problem really wanted by enough customers?
    - Investigate the feasibility of the proposed solution (technically, economically, socially, and legally).





Steps for Setting up the Entrepreneurial Venture…

- ☑ Step 4: Investigating and gathering the resources.
  - ☑ How will the product/service get to market?
  - ☑ How will it make money?
  - ☑ What resources are required?
- ☑ Exploitation: make the final preparations and launch it into the market.
- ☑ Step 5: forming the enterprise to create value.
  - ☑ Set up a business entity with minimized risk and maximized returns and protect intellectual property.





Steps for Setting up the Entrepreneurial Venture…

- ☑ Step 6: implementing the entrepreneurial strategy – activate the marketing, operating, and financial plans.
- ☑ Step 7: Planning the future – look ahead and visualize where you want to go.





Small Business Failure Factors

- ☑ Inadequate management: related to adequate capital, cash flow, facilities/equipment inventory control, human resources, leadership, organizational structure, and accounting systems.
- ☑ Financing: inadequate financing can be caused by improper managerial control as well as shortage of capital.
- ☑ Neglect: not pay a due attention to the enterprise.
- ☑ Fraud: intentional misrepresentation or deception.
- ☑ Disaster: some unforeseen happening.





Small Business Success Factors

- ☑ Conducive environment: political, economic, technological and socio-cultural factors.
- ☑ Adequate credit assistance: adequate and timely supply of credit is critical for new entrepreneurs to emerge especially from a wide base.
- ☑ Markets and marketing support: take an active part in marketing specific products or assisting small groups of entrepreneurs in selling their products.





Main Supporting Packages for MSEs Development in Ethiopia

- ☑ Providing awareness creation about the sector;
- ☑ Provision of legal services to form legal business enterprises;
- ☑ Providing Technical and business management training;
- ☑ Financial support based on personal saving, 20/80.
- ☑ Facilitate working premises; industry extinction, BDS provision; bookkeeping and audit services.

Problems of Small Scale Business in Ethiopia

- ☑ Lack of adequate finance and credit has always been a major problem.
- ☑ Difficult to get raw materials of good quality at reasonable prices in the field of production.
- ☑ The techniques of production, which the enterprises have adopted, are usually outdated.





- Designing the Organization:
  - Organization structure: this defines members' jobs and the communication and relationship these jobs have with each other. These relationships are depicted in an organization chart.
  - Planning, measurement, and evaluation schemes: reflect the goals and objectives that underlie the venture's existence, and spell out how these goals will be achieved, how they will be measured, and how they will be evaluated.





Designing the Organization…

- ☑ Rewards: rewards in the form of promotions, bonuses, praise, and so on. The entrepreneur or other key managers will need to be responsible for these rewards.
- ☑ Selection criteria: the entrepreneur will need to determine a set of guidelines for selecting individuals for each position.
- ☑ Training: training, on or off the job, must be specified. This training may be in the form of formal education or learning skills.





Building the Management Team

- ☑ The entrepreneur's desired culture must match the business strategy outlined in the business plan.
- ☑ The leader of the organization must create a workplace where employees are motivated and rewarded for good work.
- ☑ The entrepreneur should be flexible enough to try different things.
- ☑ It is necessary to spend extra time in hiring process.
- ☑ The entrepreneur needs to understand the significance of leadership in the organization.

