Your road to success

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LEVEL 4
INTRODUCTION TO ENTREPRENEURSHIP

ABE • OFFICIAL STUDY GUIDE

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Contents

Using your study guide

Welcome to the study guide **Level 4 Introduction to Entrepreneurship,** designed to support those completing an ABE Level 4 Diploma.

Below is an overview of the elements of learning and related key capabilities (taken from the published syllabus), designed to support learners in assessing their own skillsets in terms of employability, and in creating their own personal development plans.

Element of learning	Key capabilities
Element 1 – Introduction to entrepreneurship	• Ability to raise reasoned arguments on the importance of entrepreneurship to the economy and differences with other business structures. • Ability to identify the impact that innovation has on an economy *Business acumen, use of business models, enterprising culture*
Element 2 – Entrepreneurs	• Ability to identify successful entrepreneurs and develop an appreciation of the impact they have had • Ability to assess personal capability against the needs of an enterprise • Understanding of the role creativity and innovation in developing a successful business idea *Entrepreneurial characteristics and thinking, innovation, creativity*
Element 3 – Developing an innovative enterprise	• Ability to identify the resources needed for an enterprise • Ability to demonstrate the use of key decision making tools for business development • Ability to demonstrate an understanding of monitoring business and setting targets *Commercial awareness, using data and information, assessing resource requirements, gap analysis*
Element 4 – Creating a business plan and pitch	• Ability to identify the requirements and contents of business plan • Ability to use tools to plan the enterprise • Ability to develop a business plan that incorporates key attributes from Elements 1, 2 and 3 • Ability to develop an effective pitch to communicate the plan and requirements from investors/customers *Writing a business plan, communication, presenting information for persuasive purposes, planning, pitching*

This study guide follows the order of the syllabus, which is the basis for your studies. Each chapter starts by listing the syllabus learning outcome covered and the assessment criteria.

L4 descriptor

Knowledge descriptor (the holder…)	Skills descriptor (the holder can…)
• Has practical, theoretical or technical knowledge and understanding of a subject or field of work to address problems that are well defined but complex and non-routine. • Can analyse, interpret and evaluate relevant information and ideas. • Is aware of the nature of approximate scope of the area of study or work. • Has an informed awareness of different perspectives or approaches within the area of study or work.	• Identify, adapt and use appropriate cognitive and practical skills to inform actions and address problems that are complex and non-routine while normally fairly well-defined. • Review the effectiveness and appropriateness of methods, actions and results.

Contained within the chapters of the study guide are a number of features which we hope will enhance your studies:

'Over to you': activities for you to complete, using the space provided.

Case studies: realistic business scenarios to reinforce and test your understanding of what you have read.

'Revision on the go': use your phone camera to capture these key pieces of learning, then save them on your phone to use as revision notes.

'Need to know': key pieces of information that are highlighted in the text.

Examples: illustrating points made in the text to show how it works in practice.

Tables, graphs and charts: to bring data to life.

Reading list: identifying resources for further study, including Emerald articles (which will be available in your online student resources).

Source/quotation information to cast further light on the subject from industry sources.

Highlighted words throughout and **glossary terms** at the end of the book.

Note

Website addresses current as of June 2017.

Chapter 1

Entrepreneurship and Innovation

Introduction

The entrepreneurial process can be broken into four stages:

1. Identifying the opportunity
2. Planning the enterprise
3. Launching the enterprise
4. Managing the enterprise.

Over the four chapters in this study guide, the entrepreneurial process will be developed so that you understand the key factors of entrepreneurship and how to apply them when writing and presenting a business plan.

To support your studies, it is recommended that you study two entrepreneurs – one local to your region and one who has had international success. Learning about their background and enterprise will help you see how others have applied their entrepreneurial skills.

Learning outcome

On completing this chapter, you will be able to:

1. **Explain the characteristics and value of entrepreneurship and innovation to an economy and how new businesses can impact communities.**

Assessment criteria

1. **Explain the characteristics and value of entrepreneurship and innovation to an economy and how new businesses can impact communities.**

   1.1 Explain the terms entrepreneurship, enterprise, social enterprise, intrapreneurship and innovation

   1.2 Explain the key characteristics of micro, small and medium-sized businesses

   1.3 Discuss business models that an enterprise can use

   1.4 Discuss types and process of innovation

   1.5 Evaluate how organisations can create their own enterprising culture.

Level 4 Introduction to Entrepreneurship

1.1 The benefit of entrepreneurship and innovation to an economy

This chapter focuses on building an enterprise and how it can be of benefit to a local and global economy. Different types of business are discussed, together with an insight into business structures and models.

As innovation is vital to the growth of a business, the areas of creativity and **intrapreneurship** are also covered.

As the chapter progresses, you will develop an ability to make reasoned arguments on the importance of entrepreneurship to the economy and assess differences in business structures.

Further reading on social enterprises and how organisations use entrepreneurship to gain market advantage will support your understanding of these issues.

Typically, an **enterprise** can be at any stage of development – from start-up to maturity. It may be in a low-growth sector or have potential to become a large corporation. Its focus may be on profit-making, either for a lifestyle or longer term. Alternatively, it may aim to help the community in which it is working, such as a **social enterprise**.

To understand the nature of an enterprise, it is helpful to classify it into micro, small and medium-sized (referred to collectively as **SMEs**). In this chapter the nature and structure of SMEs will be explored.

Key terms for Chapter 1

Entrepreneurship	Entrepreneur
This is a business concept that has been growing in importance as the world's economies have changed. The term refers to the starting and sustaining of a business with the aim of making a profit. It can be associated with the use of innovation but can equally be applied to a simple lifestyle business.	This is the individual who starts an enterprise despite risks and uncertain outcomes. They typically spot opportunities in the market and can use innovative methods, either in the production, process or market, to gain competitive advantage.

Intrapreneurship/corporate entrepreneurship	Innovation
This is where an enterprise aims to gain competitive advantage by applying principles of entrepreneurship to their business process. This is usually by working in a small team, in pursuit of an innovative product or service. Intrapreneurship is more commonly found in larger corporations that can bear the cost of establishing these teams.	Innovations bring new ideas to market – either an invention, new goods and services or new channels of sales or distribution. Innovation can be measured in terms of both financial and social benefit. For example, the development of a new method of vaccination may generate revenue and could save thousands of lives.
Social enterprise	**Not-for-profit**
This form of business has a core mission to improve society. This is a similar aim to a charity – however, the key difference is that a social enterprise is run using business methods, with competitive pay and commercial strategies to maximise profits that are then used for social aims.	A not-for-profit does not earn profit for its owners, directors or shareholders. All the money earned is used for running costs and achieving objectives. In most areas, not-for-profits do not pay taxes. Not-for-profit organisations fall into two categories: charities and social enterprises.

How entrepreneurship has changed local and global businesses and economies

SMEs benefit national economies by providing income, foreign currency and employment. The key areas include:

- the corporate tax revenue paid by private limited companies (Ltd in UK, LLC in USA) and public limited companies (PLCs)
- taxes paid on wages (supporting employee welfare such as social security)
- sales tax paid on supplies and charges on goods sold
- tax paid on premises – either to local or national governments
- employment and increasing skills in local areas
- export trade, which brings in foreign currency and supports the balance of trade
- possible investment in the community as expansion occurs.

SMEs may be centred on the tourism industry, which may contribute to further improvements in the balance of trade.

SMEs support other businesses by:

- providing a key link in the supply chain
- bringing innovative ideas to market that may improve their sales process
- lowering unemployment, therefore stimulating aggregate demand in an economy.

Taxes paid by SMEs support the government in developing infrastructures within a country, which support all businesses.

SMEs may provide subcontracting opportunities for large organisations, possibly saving money and improving efficiency.

OVER TO YOU

Activity 1: SMEs in your economy

In your region, consider the value of SMEs to the economy. You may be able to obtain data via the internet to help you.

SMEs in the community

While SMEs may provide a financial benefit to the economy, some also provide a social benefit. Recent years have seen the growth in charities and social enterprises that work to support social issues. This, however, is not limited to SMEs – most large national and international companies now have key policies around Corporate Social Responsibility (CSR). Other words for this are corporate conscience and corporate citizenship. These policies include giving profits to charities, setting up foundations within supplier countries and improving their environmental impacts. The focus on the need for greater community engagement has increased over recent years for most businesses and is beneficial for the business and the local area.

CASE STUDY

Corporations with a conscience: Kenco Coffee and Belu Water

Kenco Coffee has set up an initiative to fully fund the training of young people at risk of joining gangs in Honduras, to become coffee growers, and supply Kenco. Other organisations fund their own social enterprises to support community projects.

UK-based Belu trades as a social enterprise and 100% of its profits are donated to the charity WaterAid. In addition, as part of its CSR policy, it does not export its product, aiming to maintain its policy of limited environmental impact. By February 2017, they had donated £1.5 million to WaterAid.

NEED TO KNOW

Social enterprises

There are several types of social enterprise:

- **community interest company**
- charity
- **co-operative**
- **mutual organisation**

Here are some examples of social enterprises:

- **Grameen Bank** provides small loans to businesses to enable families to escape poverty throughout the world.
- **d.light** designs solar-powered lights to help families and businesses that do not have access to reliable energy.
- **Dispensary of Hope** distributes medicines that are nearing expiration dates to free clinics in low-income communities.

All these businesses work using commercial strategies but their aims are aiding communities – they are social enterprises.

OVER TO YOU

Activity 2: Local and global enterprises

List three local enterprises and three global enterprises.
What benefits does each one bring to your community?

Ideas – how many businesses start

Business ideas come from many sources. For an entrepreneur, there are lots of ways of identifying a business opportunity. There might be a 'lightbulb' moment when an entrepreneur sees the product or process to solve a problem or fill a gap. You may be working with a friend who has a great idea but does not know how to apply it. A well-known example is the partnership of Wozniak and Jobs: Steve Wozniak was the computing genius; Steve Jobs saw the business potential for his friend's talents.

Other business ideas develop from hobbies, from copying business success in other parts of the world and from innovating products that are used daily. Sharing information about hobbies is how Pinterest started.

CASE STUDY

Innovation in vacuum cleaner design

A good example of innovating products is the vacuum cleaner that James Dyson invented. He took the original idea of the vacuum cleaner and innovated it by using a different method of suction: a cyclonic, spinning action that improved suction by preventing dirt and dust clogging the waste bags.

This improved cleaning efficiency, led to the development of cyclonic-action, bagless cleaners, and was a great success for James Dyson and his company.

CASE STUDY

The Anywayup® Cup – innovating to solve an everyday problem

The Anywayup® Cup was developed by Mandy Haberman (see www.mandyhaberman.com).

By designing a non-leak infant drinking cup, she solved the problem of spilled drinks and parents having to sit and hold beakers for young children. This idea was borne from her frustration that there wasn't an alternative product, so she designed her own.

Seven sources of opportunity

In 2006, Peter Drucker identified seven sources of opportunity. These sources give a good understanding of where ideas can come from.

1. **The unexpected** – this might be an unexpected failure of a product or a service, or an unexpected event. These cannot be predicted but there is a need to react quickly.
2. **The incongruity** – there is a discrepancy between what is and what ought to be within a market place. This produces opportunities for firms that can spot them.
3. **The inadequacy in underlying processes** – this is essentially about improving the process. This might be by improving the benefits of what is currently available or by reducing the costs of manufacture.
4. **The change in industry or market structure** – perhaps arising from technology, legislation or other outside events.

5 **Demographic changes** – for example, the needs of the aging population in the world are providing many opportunities for the entrepreneur.

6 **Changes in perception, mood and meaning** – changes in the economy, fashion, culture, etc. These may be identified through market research, which can give an insight into future trends.

7 **New knowledge** – this could be scientific or non-scientific knowledge. It might be a new discovery or perhaps an invention that presents opportunities.

OVER TO YOU

Activity 3: Seven sources of opportunity

Table 1 gives the seven sources of opportunity and an example of each.

Add an example of your own to each row in the table.

Source	Example	Your example
The unexpected	Sticky notes by 3M	
The incongruity	Smart car	
Inadequacy in underlying processes	Peripheral products (or add-ons) for smart phone	
Change in industry or market structure	Online shopping	
Demographic changes	Holiday companies for senior citizens	
Changes in perception, mood and meaning	Organic vegetables	
New knowledge	Vaccines	

Table 1: Seven sources of opportunity – examples

REVISION on the go

Alternative areas of innovation – scanning the external environment

The areas of idea generation for a business may have come from a business need that was identified during the innovation process. It is helpful for an enterprise to look at both the internal and external environment to see if there are opportunities for innovation.

Figure 1 summarises four further sources of business ideas. These come about by businesses scanning the environment they are in, looking at competitors, suppliers and macroeconomic factors.

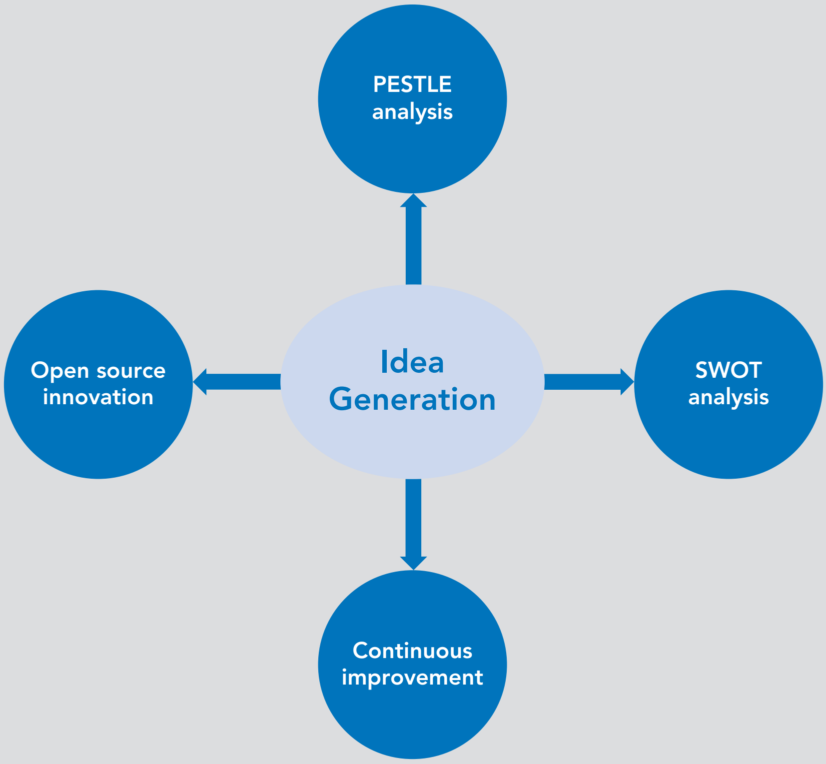

Figure 1: Four sources of business ideas

SWOT analysis

SWOT analysis identifies internal strengths and weaknesses and external opportunities and threats. It is a simple and effective method of considering a business proposition and for newly established enterprises, it helps to assess the current position of an SME.

PESTLE analysis

PESTLE analysis assesses the external (or macroeconomic) forces acting on all markets. It looks at political, economic, sociological, technological, legal and environmental impacts on a business.

SWOT and PESTLE analysis can be used to innovate within a business by considering the 'What if?' principle. For example: 'What if' imports increase in price? Can supplies be sourced locally or changed in any way to reduce cost? Innovating in the supply chain is often a result of external influences. By scanning the external environment, these innovations can be planned and introduced.

PESTLE analysis

For each category, examples are listed below.

Political

Government policies that change, changes of government and their political beliefs (such as market intervention), government support for SMEs

Economic

Strengths (and weaknesses) of local and national economy, inflation, exchange rate, labour costs

Social

Changes in demography and cultural focus, consumer preferences, educational levels

Technological

Access to technology, support and funding for research, internet connectivity

Legal

Legislation affecting employment, health and safety and incorporating businesses

Environmental

Impact of environmental changes such as climate change, pollution and recycling

REVISION on the go

Open source innovation

Open source innovation is a business concept attributed to Henry Chesbrough. It promotes the sharing of innovative ideas and technology between organisations. This includes organisations sharing ideas that they have not progressed and that have been put on hold. These ideas may be useful to other businesses, but without sharing they will never be used. Some organisations are discouraged from open source innovation as they do not want to see competitors gain success and competitive advantage from their original work.

Internal processes

Within an organisation, there may be internal processes to identify new business ideas. Examples include staff suggestion schemes where ideas from staff are encouraged, occasionally in internal competitions. Some organisations have schemes where staff vote on the best idea or there is financial benefit for accepted ideas.

CASE STUDY

Staff suggestion schemes within the UAE

This article researches staff suggestion schemes and provides interesting results on their use.

Ahmed, A.M. M.B. (2009) 'Staff suggestion scheme (3Ss) within the UAE context: Implementation and critical success factors', *Education, Business and Society: Contemporary Middle Eastern Issues*, 2 (2), pp. 153–167. (This article will be available in your online student resources.)

Continuous improvement is a process that aims to improve all areas of a business – from production methods to sales methods. These improvements can be minor or significant (or both).

Continuous improvement can be led by employees in groups such as quality circles, or by external consultants when they review business processes. Continuous improvement is discussed further in section 1.4.

CASE STUDY

DreamWorks

DreamWorks Studio encourage employees to develop new ideas for movies – this includes free training for skills such as script development.

They have sessions where, regardless of the type of job you do, you have the chance to pitch your idea to senior executives.

1.2 Micro, small and medium-sized enterprises

National definitions

There are many differences between the three categories of enterprise. Table 2 shows the differences between each size of business.

Size	Staff headcount	Turnover	Balance sheet total
Micro	<10	<€2 million	<€2 million
Small	<50	<€10 million	<€10 million
Medium	<250	<€50 million	<€43 million

https://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en

Table 2: Differences between each size of business

Structures of management within enterprises

There are two key structures to consider for an enterprise – legal and internal. Throughout the life of a business, both structures may change as the organisation grows or alters direction.

In terms of the legal structure, many small enterprises may start as a sole trader and move to a limited company. Eventually they may be big enough to become a public limited company with their shares traded on stock markets.

Internally, organisations can be structured in many ways. The most common is a **hierarchical structure**, where there are different levels of management with each level reporting to a higher level, and the **CEO** at the top. Organisations with this form of management can have a tall structure with many levels of hierarchy. Often these companies are unresponsive to change, as lines of communication up and down are very long. This type of structure is common in large multinational organisations.

Other companies have a **flatter structure** – by removing middle management (usually as a cost saving) and increasing responsibilities of workers. The lines of communication are shorter and these organisations are highly responsive to change.

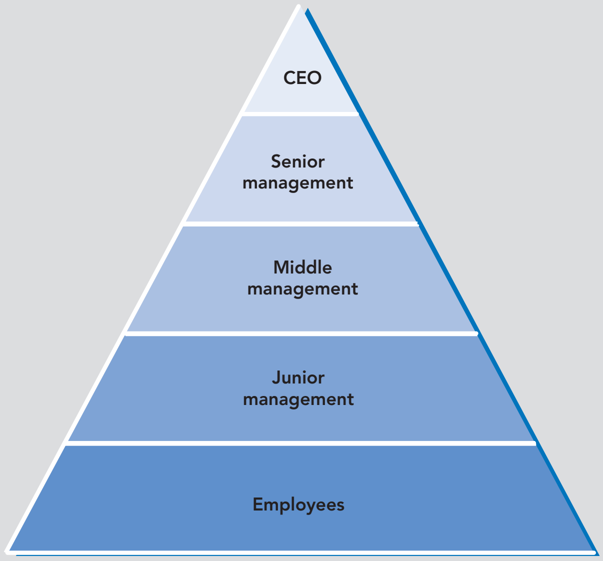

Figure 2: Hierarchical structure

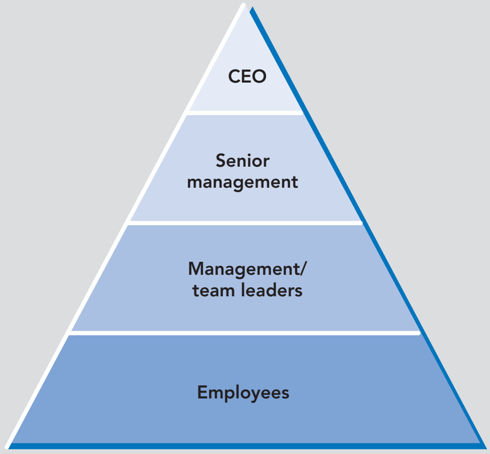

Figure 3: Flatter structure

When an enterprise starts, staff numbers may be low, so a simple flat structure is likely to be in place.

A **matrix management** system combines functions and management. For example, the finance officer for a factory might work for both the finance manager and the operations manager. This structure is common where there are multidisciplinary teams involved in a project team.

Access to funding for SMEs

Funding for a new micro enterprise with no track record is difficult. Often the investment is made due to the abilities and past performances of the entrepreneurs themselves.

If sources of funding are available, interest rates and other terms may be too high for the enterprise to sustain, such as loans secured on personal property, loans from family and friends, and extensive reliance on overdrafts and credit cards. There may be the possibility of **angel investors** and **venture capital** to support a business through start-up but often the price is part-ownership of the company, and an entrepreneur may be unwilling to agree to this. This is discussed further in section 3.2, where the issue of funding by debt or equity is highlighted.

Once an enterprise grows to small or medium size, it can be possible to negotiate favourable interest rates from banks and other financial institutions to stakeholders. Section 3.2 focuses on funding in more detail.

Stakeholders

Stakeholders are individuals, groups of people or organisations who have an interest or concern in a business, or who might be impacted by the decisions made by the business. They can affect, or be affected by, an organisation.

- Internal stakeholders are groups within a business such as employees, managers and owners (shareholders)
- External stakeholders are outside the organisation, including customers, suppliers, the community and pressure groups (such as environmental groups).

Figure 4: Common internal and external stakeholders for an enterprise

Stakeholders can have considerable influence on an enterprise, particularly when financial decisions are taken such as further investment. If you have an investor who has provided finance, their involvement and expectations can be dominant. This can have a positive effect, where it is supportive, but if the influence is getting in the way of development, it can lead to conflict.

Customers can influence an enterprise by demanding that the supply chain is ethically managed so that all producers work in fair and safe conditions. Therefore, the pressure for enterprises to prove their ethical credentials is increasing and contracts may stipulate these requirements.

CASE STUDY

Ethically managing the supply chain: The Rana Plaza 2013

In 2013, the Rana Plaza in Dhaka, Bangladesh, collapsed. Over 1000 workers, mainly women, died and many more were injured. Most were working for clothing companies supplying well-known retail brands. Workers were employed on low wages and in unsafe conditions. Incidents like these have led to pressure on organisations to prove ethical sourcing of goods.

One company, Primark Ltd, paid long-term compensation payments to workers (or dependants) employed by their supplier New Wave Bottoms. It provided weekly food aid for a month after the collapse, followed by short-term financial aid to 3600 workers, many of whom did not work in the Primark supply chain but for rival companies. It also supported programmes for rescuers, including those injured in rescue attempts.

By September 2015, the total funds available for payments to victims and their dependants was approximately US$ 30 million.

Mendelow – the influence of stakeholders

A common method used to understand how stakeholders can influence the objectives of an organisation is the **Mendelow matrix.** It looks at the impact a stakeholder can have on the objectives of an organisation. This is a form of stakeholder mapping.

Often there are conflicts between stakeholders. For example, in a business many shareholders want to receive payment from profits in the form of **dividends**, but others may want to influence the Corporate Social Responsibility of an organisation.

By owning just one voting share of an organisation, a shareholder has the right to attend the Annual General Meeting **(AGM)**. Many environmental pressure groups buy shares simply to attend AGMs. Their vote has little impact but their attendance can create negative publicity.

Mendelow's stakeholder mapping looks at two areas:

- the likelihood of stakeholders exercising power
- the strength of a stakeholder to impose its power.

Low level of interest **Low level of power**	**High level of interest** **Low level of power**
Low level of interest **High level of power**	**High level of interest** **High level of power**

Figure 5: Mendelow matrix

Low power

- **High level of interest:** stakeholders are interested but have no power. If not convinced with the plans for the enterprise, they may join with those with high power
- **Low level of interest:** this group of stakeholders usually follows instructions and accepts the plan.

High power

- **High level of power:** this group of stakeholders needs to be fully communicated with and listened to, as they have the power to alter the course of the business if it is not in line with their wishes

- **Low level of power**: by keeping this group of stakeholders satisfied and not involved, they will not affect or influence the business.

So, for SMEs, it is important to assess not only stakeholders but their power and interest.

Influences and power include a financial stake in the business, or reliance on the business as a supplier or customer or reputational association.

OVER TO YOU

Activity 4: Stakeholders

Think about one local and one global company that you know.
For each one, list their stakeholders and categorise them in a Mendelow matrix. Briefly explain your answers.

1.3 Common business models

Business models

A business model describes the way a company operates to make sales and profit. It encompasses the **factors of production** (land, labour, enterprise and raw materials), the way of selling to customers and all activities in between. The customers may be B2B, B2C or C2C, as defined below:

- Business to business (B2B): a business sells to another business (e.g. raw materials are sold to a processor)
- Business to customer (B2C): a business sells to end-user customers (e.g. clothes are sold by a retailer to a customer)
- Customer to customer (C2C): a customer sells goods to other customers (e.g. private auctions such as eBay transactions).

OVER TO YOU

Activity 5: A new coffee shop

You are looking to open a new coffee shop on a university campus. Describe two business models that you could use.

Technological developments now mean many enterprises do not follow the traditional business model. Many large and recognisable organisations have a model that is far different to the one used 10 years ago. Technology has allowed them to exploit virtual markets, reduce costs and become market leaders in their field.

Table 3 shows some common business models.

Model	Detail	Example
Affiliate	A business model where a business typically generates revenue by paying commission for the sale of products on their behalf. This is usually a web-based model and provides purchasing opportunities at many points due to the network of affiliates developed by the main seller.	Amazon uses affiliates to promote their books and pays commission for each one that is sold.
Freemium	A business model which offers free basic products and the opportunity to upgrade to a better premium good. The premium goods have many value-added services.	Mailchimp – an email marketing company which offers a basic, free service that can be upgraded.

Model	Detail	Example
Auction	The most common auction model is a forward auction where an item is for sale with several bidders – this is common for the sale of artwork.	eBay – online auctions of products from cars to clothes.
Subscription	Mainly used by magazines, where a regular or upfront fee is paid for access to the product.	Glossybox – upfront payment for monthly delivery of beauty products.
Bait and hook	A business model where two or more products are tied together – a low-cost product (the bait) is sold but repeat purchases are needed for refills or associated products.	Printer (bait) with printer cartridges (the hook).
Franchising	This uses a set brand and model and the franchisee pays royalties. It can be a good way to enter a market as you have a recognised brand and often there is strong support and training.	Subway – a chain of fast-food restaurants.
Direct sales	This model involves selling directly to consumers but not through an established retail format. Examples are selling parties and demonstrations – such as dieting groups. Companies might employ both methods – e.g. The Body Shop has a sales party division, as well as online and retail methods.	Herbalife health foods.

Table 3: Common business models

REVISION on the go

CASE STUDY

Nespresso™

The introduction of Nespresso coffee – a bait and hook business model – is a good example of how a new market has been found in the competitive world of coffee.

You may find it useful to have a look at this case study:

Matzler, K., Bailom, F., von den Eichen, S.F., Kohler, T. (2013) 'Business model innovation: coffee triumphs for Nespresso', *Journal of Business Strategy,* 34 (2), pp. 30–37. (This article will be available in your online student resources.)

OVER TO YOU

Activity 6: Business models

Look back at Table 3. Identify the advantages and disadvantages of each business model. Include other examples of enterprises for each model.

1.4 Innovating within an enterprise

Creativity and innovation are often linked. Creativity is the process of generating ideas and solutions; innovation is how they are commercialised.

Schumpeter's five types of innovation

In section 1.1, we looked at Drucker's seven sources of opportunity – at where ideas can come from. Schumpeter (1934) looked at five types of innovation:

- New products and services that did not exist in any form – such as smartphones
- New methods of production or delivery of services – such as electronic banking
- The development of new markets – such as the 'apps' for smartphones
- Identifying new sources of supply – such as affiliate selling
- New forms of organisational structure or operations – such as **virtual companies**.

OVER TO YOU

Activity 7: Business models

List the innovations and markets that have developed from the smartphone.

Innovation and continuous improvement

In section 1.1, sources of ideas and scanning the environment were introduced, together with sources of innovation. The area of continuous improvement in an enterprise continues this theme and, as we touched on earlier, can lead to significant changes in working processes and products.

To recap, continuous improvement is a process to improve all areas of a business – from production methods to sales methods. These can be minor or significant (or both).

It can be led by employees in groups such as quality circles, or when external consultants review business processes.

Early developments in continuous improvement were led by Deming, who led the concept of Plan, Do, Check, Act. This was a key driver in the movement for quality management, which looks at:

- quality planning
- quality assurance
- quality control
- quality improvement.

There are many systems and tools to support continuous improvement. Key ones are Kaizen, Six Sigma and Toyota Production System (TPS) (or lean manufacturing).

Kaizen (translated as change for good) is a well-known system of continuous improvement using the principle that everything can be improved. Change is therefore incremental, not sudden.

Six Sigma is another well-known quality programme which was developed by Motorola (1986). The aim is to focus on the reduction of manufacturing defects using statistical analysis to drive process improvement. If a process is Six Sigma, then statistically it should be free of defects.

CASE STUDY

Continuous improvement in manufacturing: Toyota Production System

Continuous improvement is common in improving manufacturing processes. The most well-known is the Toyota Production System (TPS) development by Taiichi Ohno and Eiji Toyoda. This is now more commonly referred to as lean manufacturing, where the key focus is to eliminate waste – reducing costs and increasing production efficiency. Lean manufacturing is discussed in more detail later in this section.

Making ideas a commercial success

Ideas may be generated in a business through the techniques already discussed. However, a business needs to commercialise them to make or save money on processes or the sales of goods and services.

This process can be costly and risky, with notable failures in business. However, an organisation needs to maintain the pace of innovation to prevent it being left behind, or not servicing customers' needs or changes in their preferences.

Philip Kotler discusses the seven steps to commercialisation:

1. **Idea generation –** as discussed in this chapter.
2. **Idea screening –** an idea's feasibility is discussed, or management sift out ideas to reduce suggestions to a manageable number.
3. **Product analysis –** the cost and saleability of a product or service is reviewed.
4. **Development and testing –** samples are produced for feedback from a select group of customers.
5. **Product and marketing mix development –** the product is produced or service developed.
6. **Market testing** – the live product is released to a small market.
7. **Commercialisation –** the product is fully rolled out to its desired market.

This is a practical and methodical method to move from an idea to releasing goods or services onto the commercial market. If the product is successful, the costs will be recouped. More importantly, it could move the enterprise into a new and profitable area that had not been considered prior to the innovation process.

This textbook has an interesting chapter on new product development:

Ul Haque, E. and Hasan, K. (2016) 'New product development', in Andaleeb, S. S. and Hasan, K. (eds), Strategic Marketing Management in Asia: Case Studies and Lessons across Industries, pp.225–260. Bingley: Emerald Group Publishing Limited.

Ohno's seven sources of waste

The founding principles of lean manufacturing are included in these seven sources of waste. As mentioned in the case study on TPS, the aim is to reduce waste in production to zero – ideas for each source are shown.

1 **Defects**: ensure all products meet the specification. Reduce defects by looking at the process all the way through.
2 **Overproduction**: make only the quantity required each time.
3 **Waiting**: ineffective use of time is waste. This includes machines, staff and therefore fixed costs (lighting, rent, etc.).
4 **Transporting**: every time an item is moved there is a cost, so reduce movement within the process.
5 **Movement**: improve the layout to reduce the movement of people.
6 **Inappropriate processing**: do only what is required and nothing more.
7 **Inventory**: holding stock costs money – in storage, tied-up finance, security risk, and cost and risk of spoilage. So produce to 'just-in-time' methods.

REVISION on the go

Innovation and finding new markets

Through different activities, such as continuous improvement, ideas can improve a product or extend the life of a product or service, create a new product, or lower production costs – in other words, breathe life into a product that may be losing **market share**.

This can be done by creating a new market – such as the health drink Lucozade being marketed as a sports and energy drink.

However, without sufficient testing an innovation can be a costly mistake. The launch of a new tasting Coke in the 1980s is a well-known case study. Their rivals at Pepsi Co launched a breakfast cola drink called Pepsi AM in 1989. Like Coca-Cola's tasting product, this suffered a costly withdrawal from the market.

CASE STUDY

Using innovation to develop new markets – Google in India

In 2016, Google rolled out its plan to increase usage by Indian users by developing its Wi-Fi network. By using the fibre optic network that runs along tracks owned by India's RailTel, Google started its programme to provide a Wi-Fi service to over 400 railway stations nationwide and thereby increase connectivity throughout the country. Though initially it is a free service, Google will provide a free and paid-for service once the system is established.

By using s system that is well-established, Google's partnership with RailTel has increased its market share in a country where internet connectivity is relatively low compared to the demand.

1.5 Creativity, innovation and intrapreneurship

As you have seen, for enterprises to develop they need to generate ideas to create commercial opportunities. Many ideas will never make it to market.

An enterprise also needs to create the conditions where idea generation, then innovation is encouraged. This is called creating an enterprise culture. This can further be enhanced by developing intrapreneurship within an organisation.

An enterprise culture within a larger enterprise is where imaginative and creative employees are encouraged to develop new ideas and processes.

> *"Innovative companies have an entrepreneurial culture driven by inspirational leaders, skilled management, and informed and engaged employees. In such a culture both businesses and individuals can reach their full potential. Businesses can also improve their capacity for innovation by fostering organisational flexibility, raising skills and employee engagement."*
>
> *DTI Innovation Report (2003).*[1]

Creativity – the four-stage process

Wallas (1926)[2] outlined the four stages of the creative process that can be applied to idea generation within an enterprise: preparation, incubation, illumination and verification.

Preparation →	Incubation →	Illumination →	Verification
• Formulates problems • Collects data	• No specific activity • Ideas are forming	• Sudden ideas form • The 'lightbulb' moment	• Evaluation of solution • Minor changes • Solution accepted or start again

Figure 6: Wallas' four stages of the creative process

Enterprises can encourage creativity by giving employees space and time to consider, incubate and experiment with new ideas. However, in an enterprise many people may be threatened by trying to bring out new ideas.

1 Department of Trade and Industry (2003) *Competing in the global economy: the innovation challenge*, p.34: www.insme.org/files/617/view
2 Creative thinking: 4 stages of creativity thinking: www.pPsychologydiscussion.net/mind/creative-thinking-4-stages-creativity-thinking/610

Von Oech (1998) suggested 10 critical factors that can block individual creativity:

1 The fallacy (mistaken idea) that there is only one correct solution to a problem.
2 The fallacy (mistaken idea) that logic is important in creativity.
3 The tendency to be practical.
4 The tendency to follow established rules unquestioningly.
5 The tendency to avoid ambiguity in viewing a situation.
6 The tendency to assign blame and failure.
7 The unwillingness to recognise the creative power of play.
8 The tendency to think too narrowly and with too much focus.
9 The unwillingness to think unconventionally because of the fear of appearing foolish.
10 The lack of belief that you can be creative.

Being aware of these factors can be an important step in overcoming barriers to creativity.

To create an enterprising culture, organisations can look at Von Oech's theory and make the workplace somewhere that creativity is encouraged. This can be achieved by:

- building creativity into performance targets for each review period
- training in creative thinking
- benchmarking with other organisations who have developed a creative and enterprising culture
- involving staff in idea-generating sessions, and encouraging the development of quality circles for continuous improvement
- tolerating failure to avoid a blame culture and discouraging staff
- allocating time for developing ideas
- involving stakeholders in sessions to develop solutions to problems
- rewarding creativity and innovation by celebrating success, either with money or events
- removing functional boundaries to involve employees from all areas of the business in idea generation.

A company may go further than encouraging creativity and improve their ways of working to encourage an enterprising culture throughout the organisation.

CASE STUDY

Being paid to think

An example of an enterprising culture allowing creativity is W.L. Gore – makers of Gore-Tex®. Employees have 'dabble time' to develop ideas and personal projects. One successful product was the development of guitar strings (Elixir®) from an existing product used for coating cables.

However, there can be disadvantages associated with this form of culture. These include the following:

- The cost – many companies cannot afford the investment of 10% 'dabble time' (as in Gore-Tex®) without the guarantee of clear results
- Loss of control of employees, with costs spiralling
- Once implemented, it is hard to remove time spent on creativity, even when there is poor performance or results
- Employees' actions can lead to poor decision-making
- Many employees like structure and order, and a clear line of sight to senior management.

The close links between intrapreneurship (corporate entrepreneurship) and an enterprising culture

An intrapreneur applies the principles of entrepreneurship, usually by working in a small team in pursuit of an innovative product or service. Benefits of this approach to innovation are that the company bears the cost and the risk, and it can lead to the subsequent development of an enterprising culture within the organisation as they see the benefit of team working rather than micro-management.

Organisations may be encouraged to develop an enterprising culture when seeing the success stories of organisations such as Gore-Tex®. Or if they remove layers of management to become a flatter structure, team working may be a more efficient method of working.

A good example of intrapreneurship is Lockheed Martin, where a small team in the firm – the Skunk Works® project – creates new aircraft models for the organisation.

CASE STUDY

3M – a model of innovation: looking at how motivating staff can reap results

This article on innovation in 3M (famous for the 'unexpected' invention of the Post-it®) provides an interesting insight into working practices in this German company:

Brand, A. (1998) 'Knowledge management and innovation at 3M', *Journal of Knowledge Management*, 2 (1), pp. 17–22. (This article will be available in your online student resources.)

READING LIST

- Adams, J. L. (2001) *Conceptual blockbusting: a guide to better ideas* (4th ed.). Massachusetts: Perseus Publishing.
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- Govindarajan, Vijay and Srikanth Srinivas, 'The Innovation Mindset in Action: 3M Corporation' www.hbr.org/2013/08/the-innovation-mindset-in-acti-3

- Jones, R. (2015) *Women: how to create, set up and run your own business – business start-up your own way* (2nd ed.). Red Shoe Business Press.
- Osterwalder, A. (2010) *Business model generation – a handbook for visionaries, game changers and challengers*. New Jersey: John Wiley & Sons.
- Waite, R. (2015) *Online business startup: The entrepreneur's guide to launching a fast, lean and profitable online venture*. Rethink Press.
- von Oech, R. (2008) *A whack on the side of the head: How you can be more creative* (3rd ed.). New York: Warner Books, Inc.

USEFUL RESOURCES

- Belu: www.belu.org/
- Coffee vs gangs: www.coffeevsgangs.com
- www.entrepreneurship.org/
- 'The Discipline of Innovation' by Drucker: https://hbr.org/2002/08/the-discipline-of-innovation
- Kritikos – 'Entrepreneurs and their impact on jobs and economic growth': https://wol.iza.org/uploads/articles/8/pdfs/entrepreneurs-and-their-impact-on-jobs-and-economic-growth.pdf
- What is entrepreneurship?: www.businessnewsdaily.com/2642-entrepreneurship.html

Chapter 2

Building a Successful Business

Introduction

In this chapter you will discuss characteristics of entrepreneurs such as self-confidence, vision, risk-taking, innovation, opportunism and resilience. You will be able to explain common mistakes made by entrepreneurs including delegation and poor forecasting. You will learn about push versus pull motives, and lifestyle and community needs. You will be able to confidently explain strategies for converting an idea into a successful business.

Learning outcome

On completing this chapter, you will be able to:

2 Discuss the characteristics and motivation of entrepreneurs and how an entrepreneur builds and converts an idea into a successful business.

Assessment criteria

2 Discuss the characteristics and motivation of entrepreneurs and how an entrepreneur builds and converts an idea into a successful business.

2.1 Explain the personal qualities required when starting a business.

2.2 Explain common mistakes that entrepreneurs make in their first year of business.

2.3 Evaluate the motives for starting an enterprise.

2.4 Explain strategies for growth and exit strategies in an enterprise.

2.1 Personal qualities

In a small business, an entrepreneur needs to be multi-skilled. They typically handle all activities of management, customer service, financial management and product development. Even as the business grows there may not be sufficient funds for employing staff and the entrepreneur needs to balance their time wisely.

To start and run an enterprise, there are common characteristics that many entrepreneurs have:

- **Self-confidence**. To convince others of future success, there must be strong personal belief in yourself. An entrepreneur must be able to convey this to others and have a need for achievement. They should also be **self-motivated**.
- **Resilience**. Developing an enterprise involves long hours and commitment, often leading to personal sacrifice. Resilience and determination are key to personal success. This is not only needed at the start but through the life of the business.
- **Visionary**. Spotting opportunities and visualising how and where they could develop.
- **Innovative**. New businesses are often associated with the use of new technologies but this is not always the case. To be able to compete, an entrepreneur must offer something different to customers. Innovating methods or products are essential through the life of a business and the entrepreneur must lead this.
- **Risk appetite**. An entrepreneur is risking money and reputation on a new business, and decisions taken throughout the life of the business could result in success or failure. Therefore, the entrepreneur needs to have a locus of control, believing they are responsible for their own success and be comfortable taking risks.
- **Excellent ability to network**. Connections are vital for a new business and an entrepreneur needs to be able to build networks. These can be used in all aspects of the business – development, funding, marketing and accessing resources.
- **Management skills**. When developing a business, the entrepreneur needs to manage all the processes until more resources become available. This includes leveraging the scarce resources (including financial) and having an in-depth knowledge of other markets too. This requires the ability to think strategically and plan not simply for the short term.

OVER TO YOU

Activity 1: Entrepreneurs – what makes them different?

For two entrepreneurs you have studied, write about four of their personal qualities and link these to their success.

Emotional intelligence and the intelligence quotient

The intelligence quotient (IQ) is a standardised score for an intelligence test. Most are based on a score in comparison to scores in a similar age group. Prior to an awareness of emotional intelligence, IQ was a key success factor for an individual. A high IQ meant high intelligence, which could lead to success. This is true to some extent, with examples of highly intelligent people being successful in academic and business spheres.

Although in business a high IQ may contribute to success, many other attributes are required. It is similar when describing the qualities of an entrepreneur. A single attribute will not bring success on its own.

In recent years, there has been a growing interest in emotional intelligence (EI), also sometimes known as emotional quotient (EQ). Emotional intelligence is the ability to understand your emotions and recognise the impact you have on others. It is often seen in leaders who are excellent at managing their emotions, making clear decisions and reacting calmly in stressful situations. People displaying these characteristics are described as having a high level of emotional intelligence. The result of having a high EI is that you manage relationships effectively.

Daniel Goleman (1995) developed a framework of five elements of EI:

1. **Self-awareness**: you understand your feelings and trust your intuition. You accept feedback and understand your strengths and weaknesses.
2. **Self-regulation**: you think before you act and control your emotions.
3. **Motivation**: you are productive and effective, looking at long-term success rather than quick wins.
4. **Empathy**: a person with a high EI understands the needs of those around them and they are excellent at managing people.
5. **Social skills**: you can manage relationships and build teams because of your good communication skills.

Why is emotional intelligence important for an entrepreneur?

Entrepreneurs are often linked with high EI, or elements of it. EI skills can be developed and many entrepreneurs who see gaps in their personal skills actively work to improve them so they can manage people in a more productive way.

For example, being intuitive is a useful skill when developing ideas and pursuing them. Often decisions need to be made on many factors, including personalities, and there is not a clear answer, so feelings and intuition need to be included in the factors of decision-making.

OVER TO YOU

Activity 2: Emotional intelligence

Describe the importance of each of the five elements of EI when an entrepreneur is business planning. (Remember, the elements are self-awareness, self-regulation, motivation, empathy, social skills.)

2.2 Common mistakes made by entrepreneurs

There are many uncertainties during the early months of trading. At start-up, the concerns for an entrepreneur include:

- funding
- skills
- efficient production methods
- whether the product or service meets the needs of customers and whether the right distribution channels are being used
- whether they have understood the market
- whether the product or service will be copied
- whether the market is changing – and if so, how?

All these concerns are answered during the first 12 months of trading, which is a key time.

Common mistakes are made by entrepreneurs in the first year of trading. By understanding these it is possible to improve planning and avoid these issues, thereby increasing the chances of success.

Financial exposure

Issues with cash flow, funding and debt repayment are prevalent throughout the life of a business, but during the first 12 months the new enterprise is unlikely to get further financial support as they have no track record of performance. Most new businesses cease trading because they run out of cash and have limited access to credit.

A key mistake is not managing the **working capital cycle**.

Working capital is defined as the difference between current assets and current liabilities. There are three components of the working capital cycle:

- credit control
- cash flow management
- **inventory/stock control**.

An entrepreneur needs to review the working capital cycle regularly (at least monthly) to ensure the rate of expenditure is monitored and controlled.

- Credit control includes the process for receiving payment and methods of recovering outstanding debt. This includes decision-making on debtor analysis, offering credit and the terms. This ensures the entrepreneur is in control of money owed. Without controlling credit the entrepreneur can rapidly run out of cash.
- Cash flow management allows real-time estimates of the cash on hand at any point. It allows entrepreneurs to forecast when there will be a shortfall and, importantly, when a surplus is expected, as this can be used to fund short-term expenditure. The entrepreneur can exploit the use of payment on credit for invoices to maintain cash holdings for the short term.
- Inventory/stock control involves balancing the quantity of goods required while not tying up cash in unused or unsold stock. The re-order point is important in the working capital cycle to ensure that a good balance of stock is achieved. Early in the development of a business, setting the re-order point is difficult as forecasts for demand may not be accurate and relationships with suppliers may not be developed. So if the market demand is high, you may not be a priority customer. It is important to correctly set the re-order point to avoid tying up cash. This is particularly important for fast-moving consumer goods where control of stock is vital.

If the enterprise is running out of financial resources during the early trading period, attracting investment will need to be based on early sales and orders. Investors, however, may be wary of poor financial management and may be deterred.

Delegation

Developing an enterprise can be a testing and tiring process. Many problems that develop may occur simply because the enterprise is overwhelmed with tasks, e.g. key issues such as working capital concerns may be overlooked.

Once the enterprise is established, the workload becomes greater. The planning stage has moved to reality and the key for the business is to reach profitability. However, planning still needs to occur and real-time issues with customer satisfaction add to the workload.

As you have seen, an entrepreneur needs to be resilient and focused. This can mean that controlling every activity is important to them. However, with increasing tasks, it becomes difficult for one person to drive them all.

This is where delegation becomes important. There are always tasks that can be performed by others to free up the time of key individuals. It is, however, important to determine the cost of doing this versus the benefits of **outsourcing**.

Occasionally it can cost more in time and effort to delegate tasks. For instance, the time taken to train an assistant may reap longer-term benefits but it may be that the entrepreneur has no available time in the short term. There may be an unwillingness to delegate tasks, which can result in overwork and possibly stress. Entrepreneurs need to consider the value of their time. Are there tasks that can be delegated which leave them available for the key tasks they need to address?

There are many online systems to support entrepreneurs in everyday tasks. Often these are run as small businesses too, for example:

- book-keeping
- managing receipts for expense accounts
- simple staff payment systems
- simple **customer relationship management (CRM)** systems.

Some outsourcing systems are 'freemium' (section 1.3), so the basic model may be free, with premium features costing more.

Virtual assistants are an area of growth. Tasks are outsourced online using a web service. This can be particularly helpful in areas of research. Contributors may have access to excellent primary resources that are too expensive for an entrepreneur to buy, so using these services can be cost-effective.

The burden of leadership

All entrepreneurs should ask themselves: 'Who is relying on me to succeed?' While failure is not the first consideration at start-up, an entrepreneur needs to have a clear understanding of what is at risk. The character of entrepreneurs indicates risk-taking behaviour but the consequences of this must be evaluated.

Problems with expectations usually stem from the motive for starting an enterprise. For example, there may be pressure on families reliant on the income from the enterprise, or facing high debts that have been invested in the business. Alternatively, the fear of failure can lead an entrepreneur to make rushed or poor decisions because of the pressure from workload and external forces.

So, key decisions when starting a business can have a significant impact on actions taken in the growth phase of an enterprise.

Forecasting

Forecasting is not an exact science and results may be very different to predictions in the early stages of an enterprise. However, over-ambitious forecasting at start-up is not helpful and sets a path for failure.

For projections in the business plan, it is useful to have both conservative and optimistic forecasts so planning is realistic and can survive changing market conditions. It is not always possible to foresee events that are out of your control and enterprises should consider insurance against events such as power cuts, strikes or transport issues.

CASE STUDY

When weather stops people getting to you

In February 2014, a storm destroyed the only railway link in a region of south-west England. It was closed for three weeks, affecting employees travelling to work and tourists who contribute to the local economy.

The effect on jobs, local businesses, the economy and local people was significant.

Though the destruction of the line could not have been foreseen, plans are in place to prevent it reoccurring by re-routing the line.

CASE STUDY

Unexpected changes to your business: the temporary closure of Nnamdi Azikiwe Airport, Abuja, Nigeria

In March 2017, the main airport of Nigeria, in Abuja, was closed for six weeks for urgent repairs to the runway.

Although these repairs had been considered necessary for the past 10 years, many businesses were not prepared for the closures. To prevent loss of income to the Nigerian economy, the alternative designated airport was Kaduna, which is a two-hour drive from Abuja.

However, many international airlines refused to fly to Kaduna because of concerns for safety of their passengers. (There had been previous incidents on the road from Kaduna to Abuja, which designate it as a high risk to safety.)

The country is now suffering losses from the airport at Abuja and reduced revenue from incoming air traffic (business and tourism) to Kaduna. Abuja airport handles three million passengers a year but with major airlines refusing to fly to Kaduna, the income would have dropped significantly.

- Imagine if you ran a small retail outlet at Abuja airport. The effects of the closure would have been catastrophic on your business. No flights mean no customers, with only construction traffic on the site. There would also be far fewer staff available to make purchases.
- It is unlikely that you would have had insurance to cover this situation, nor would you be likely to be paid compensation for the closure. This is your livelihood and your family are reliant on the success of your enterprise. Your problems would also have been felt by your suppliers, as you would not have ordered the same levels of stock from them.

www.bloomberg.com/politics/articles/2017-02-28/airport-shutdown-brigands-leave-nigerian-capital-isolated

Sunk costs

Sunk costs are those previously spent within the business. They can be on significant purchases (e.g. vehicles) or day-to-day items such as a laptop.

Occasionally, financial decisions that seemed appropriate at the time of investment do not achieve the desired result such as the purchase of an IT system. Sometimes entrepreneurs do not change direction because of these sunk costs, which can be a mistake. The best decisions are made on current facts rather than previous spend, so the best approach is to accept a cost and move on, and try to recoup it as fast as possible.

One way of avoiding significant costs during the start-up phase is not to purchase goods outright, e.g. by hiring, renting or leasing in other ways. This is discussed further in section 3.2.

Asking for help – coaching and mentoring

The characteristics of an entrepreneur include self-reliance, so they may not be comfortable asking for help. However, the support of those who have experience (a mentor) or someone who can guide and train them (a coach) could have significant and positive effects on an entrepreneur.

A mentor is a guide to help an entrepreneur find the right direction and assist them in finding solutions to business issues. Usually they will have experienced similar situations so understand the problems faced by the entrepreneur. The support of mentors, who have no direct interest in the enterprise so can be unbiased, can make a significant difference. An objective viewpoint can help with decision-making, discussing barriers and can help entrepreneurs to set personal goals.

OVER TO YOU

Activity 3: Give something back!

Do remember, when you are established, to look for opportunities to volunteer as a mentor, so you can help entrepreneurs who are in the position you were once in. Write an email to a new entrepreneur telling them about the time you were in the same position as them. Think about the advice you would give them.

READING

This article shows barriers – and concerns for barriers – to entrepreneurship in Qatar.

Kebaili, B., Al-Subyae. S.S., Al-Qahtani, F., Belkhamza, Z. (2015) 'An exploratory study of entrepreneurship barriers: the case of Qatar', *World Journal of Entrepreneurship, Management and Sustainable Development*, 11 (3), pp.210–219. (This article will be available in your online student resources.)

2.3 Why entrepreneurs start a business

There are many motives for starting an enterprise. The motivation might be personal, for instance the desire to change lifestyles; professional, for example a lack of career development in a current role; or the desire to turn a creative idea into a business idea.

A review paper by Stephen, Hart and Drews[1] indicated seven main motivations for starting an enterprise:

1. Achievement, challenging and learning
2. Independence and autonomy
3. Income security and financial success
4. Recognition and status
5. Family and roles
6. Dissatisfaction
7. Community and social motivations

Push/pull motives

The push/pull theory differentiates motives (push) from incentives or desires (pull).

In terms of the 'push' motives for starting a business, the entrepreneur may be unemployed or dissatisfied with work, career or pay. Their motives are not linked directly with a wish to be an entrepreneur: circumstances are 'pushing' them in this direction. This group includes those who are unable to find work due to lack of skills or criminal backgrounds.

'Pull' motives are where the entrepreneur is attracted to the idea of business.[2] These motives can be broken down into three groups: opportunity, social status and profit.

Figure 1: Push and pull motives for starting a business

1 Review of recent research evidence paper – Feb 2015 Enterprise Research Centre
2 Verheul, Thurik, Hessels, van der Zwan 2010

Lifestyle

Another motive for starting an enterprise is the desire for a different lifestyle. An enterprise may be formed to fit around family life, or there may be a desire to work fewer hours and spend more time on other activities. One motivation for many women who start a business is the difficulty and cost of arranging out-of-school childcare, which pushes them into finding alternatives.

Community needs

Community and social needs can also be a strong motivating factor. Co-operative markets often form from the need for a community to get improved prices for goods and services, or if a business closes, a group may form an enterprise to run it.

Another motive for starting an enterprise is the need to support community issues, or to recognise the difference a product may make to a region. Often community needs are associated with social enterprises, but not always. A community need can lead to great commercial success. When scanning markets, an entrepreneur can see what is missing from a community and what would make the life of residents far better; something for which they are willing to pay.

In the 1990s, internet cafés were established to provide web access for those that could not afford the technology. The simple hubs, usually offering refreshments in addition to computer access, serviced communities and became success enterprises.

USEFUL RESOURCES

An article which examines the history, mechanisms, interconnectedness and effectiveness of the jasmine-growing enterprise in coastal Karnataka: 'You reap what you pick': Longstanding community economic development among jasmine growers of coastal Karnataka

Cnaan. R. A., Bhat, G., Meijs. L., Handy, F. (2014) '"You reap what you pick": longstanding community economic development among jasmine growers of coastal Karnataka', *Journal of Enterprising Communities: People and Places in the Global Economy*, 8 (2), pp. 86–102. (This article will be available in your online student resources.)

CASE STUDY

A motive to help – the wind-up radio

Trevor Baylis developed the wind-up radio in 1991, after hearing about the spread of AIDS in Africa. He wanted to create a radio that operated without batteries so communities could have access to both radio entertainment and health messages. His radio is used throughout the world – for 20 seconds of winding, the radio runs without external power for over 60 minutes.

www.trevorbaylisbrands.com

OVER TO YOU

Activity 4: Push/pull motives

Which of the motives below are 'push' and which are 'pull' for local social enterprises?	
Need for financial independence	Lifestyle requirements
Control	Desire for recognition
Flexibility	Community needs
Unemployment	

2.4 Strategies for growth and exit strategies in an enterprise

The classical 'hockey stick' model of the business lifecycle (see Figure 2) does not always apply to entrepreneurship. This is because of the nature of the business and the growth aims. Because the start-up motives may be different, the traditional lifecycle model does not always apply.

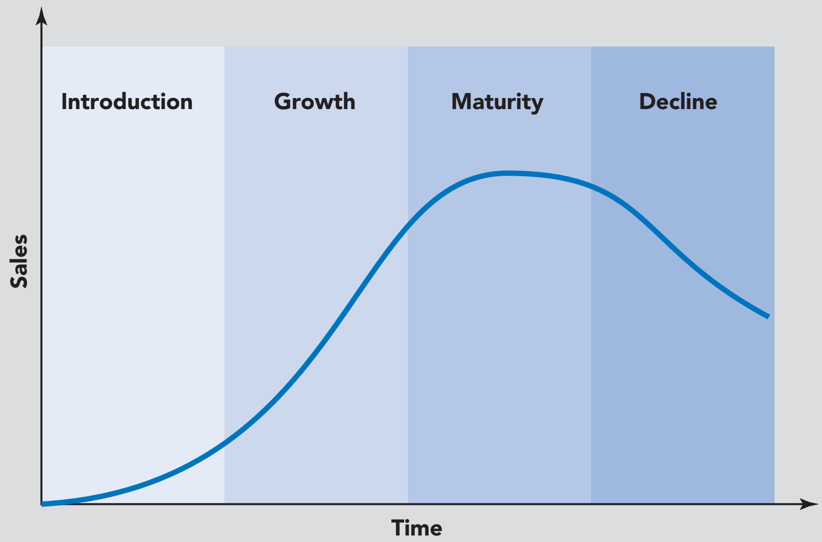

Figure 2: Typical product lifecycle

REVISION on the go

For example, if a lifestyle business is developed to suit family life, there may not be scope for fast growth and development. If the business is 'high tech', there may be rapid growth and the need for innovation and investment. Some lifestyle businesses may aim for maturity only; others may have a planned exit strategy during the growth stage to capitalise on future profitability.

Stability and confidence of stakeholders

Section 1.2 refers to the power of some stakeholders. Throughout the growth period of a business, the confidence of stakeholders is key for successful growth. The Mendelow matrix helps an enterprise categorise stakeholders, and understand where to involve and focus key communications.

For each stage of growth, new decisions on product and investment will be made and it is crucial to maintain the support of key stakeholders. This may affect the growth strategy.

OVER TO YOU

Activity 5: Growth strategies

What do you see as the common growth strategies for lifestyle, high-tech and small enterprises? Give examples.

Training and development within an enterprise

When a business starts, often training is on the job and less formal, as there are limited funds. As a business travels through its lifecycle, the needs and abilities of the entrepreneur and their team change. The reasons for this are as follows:

- The market itself changes, and employees need to understand the market and external influences
- The nature of trade changes – there are likely to be different suppliers and customers
- With a growing business, the challenges from administration increases, with more stakeholders, legal requirements and financial management
- The legal structure may change, which again changes some of the administrative function.

Stages of training and development

There are usually four stages of training and development:

Stage 1 When the business is starting out, there is limited job training for a role and no further development for the entrepreneurial team.

Stage 2 As the business grows, training is dependent on size but usually limited to job role only.

Stage 3 As the business reaches maturity, training and development depends on the plan for the business. If the business is going to continue to grow and expand, the enterprise will develop training programmes, possibly a training and development department, and internal programmes for staff such as induction training for all new staff. There may also be development programmes for promoted and potential managers.

Stage 4 If there is an exit strategy for the entrepreneur, succession planning becomes important, with potential leaders being trained in how to lead the business when the entrepreneur departs.

The entrepreneur's training and background

Many business leaders have degrees in business. It is not a pre-requisite – however, within the business plan, information is required on the proposers. Potential investors want to know about the experience of the entrepreneur, as investment decisions are made on both the idea and the person driving the business.

If the proposer has qualifications in business or entrepreneurship, then it adds credibility to the business. Any experience or business-related qualifications should be included in the personal section of the business plan.

The changing skills required by an entrepreneur

Table 1 shows the types of skills an entrepreneur needs as a business grows.

Stage	Description	Skills required
Stage 1	Running a market stall selling home-dried herbs	Understanding of cash flow, customer service, food hygiene, basic banking
Stage 2	Market expands and a shop is leased, greater product range	Understanding leases, cash flow, loan management, more customers, expanding market and product development, employment law
Stage 3	Small production facility opens	Understanding health and safety, union and employment law, access to finance
Stage 4	Products are distributed through supermarkets	Negotiation, supply chain management, distribution knowledge, understanding of any changes in legal structure

Table 1: Examples of the skills an entrepreneur needs as a business grows

REVISION on the go

Therefore, as a business develops, the skills required of the entrepreneur change significantly, with simple selling skills moving to management and leadership skills. To cope with these requirements, the entrepreneur needs to employ staff with different skills but also undertake training to equip them for their management and leadership role.

OVER TO YOU

Activity 6: Changing skills in a growing business

Consider Table 1: Example of the skills an entrepreneur needs as a business grows. What training would you recommend at each stage of business growth?

Decline and exit strategies for an enterprise

There are many reasons why a business may cease to trade. Reasons can include a flawed business model, the product has entered decline, competition is too great, or productivity cannot be maintained. Often it is because effective action was not taken at maturity to prevent decline and profits are not exceeding cost. It is also possible for the exit from a business to be planned.

It may seem odd to start a business with a view about how to exit the market but this is an important consideration. The exit strategy influences investment, growth and management, and if the exit strategy is to sell, then forming partnerships will be a key issue. A well-planned exit strategy allows effective implementation, the potential for efficient tax planning and a smooth transition.

Table 2 shows examples of good and unsuccessful succession planning.

Strategy	Activity	Issues
Family succession	Transfer of business to an appointed family member or trusted colleague.	Allows time for training and development for new leader. Reassures investors/banks that the business is in safe hands.
Sale of business	This can be to a competitor who aims to gain market share, or to a venture capital investor/financial institution.	This usually needs the backing of investors and can lead to changes in directors and/or staff reductions.

Strategy	Activity	Issues
Management buy-out	Sale to staff and managers within the business.	Sale prices are often under-valued as managers understand the business too well.
Stock market flotation (initial public offering)	The sale of ownership in the form of shares can give access to capital for investment or realising the investment of original investors/owners.	The cost is high and there can be no guarantees of the income from the opening share price, as it varies under differing market conditions.
Closure – voluntary or forced	This may be due to age, changes in lifestyle or significant changes in the market (e.g. the decline in the need for typewriters forced the closure of many manufacturers).	Debts may be paid or unpaid depending on the type of closure.

Table 2: Examples of succession planning

REVISION on the go

OVER TO YOU

Activity 7: SME survival

Think about the SME survival rate in your region. Are there any specific reasons for business failures in your area?

Ask colleagues, other students or family members for their understanding of this issue and make notes.

READING LIST

- Adams, R. (2002) *A good hard kick in the ass: basic training for entrepreneurs*. Crown Business.
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- Kotler, P. and Keller, K.L. (2015) *Marketing management*. Pearson.
- Lourenço, F., Sappleton, N., Dardaine-Edwards, A., McElwee, G., Cheng, R., Taylor, D.W., Taylor, A.G., (2014) 'Experience of entrepreneurial training for female farmers to stimulate entrepreneurship in Uganda', *Gender in Management: An International Journal*, 29 (7), pp.382–401. (This article will be available in your online student resources.)
- Pais, M.A. and Gama, P.M. (2015) 'Working capital management and SMEs profitability: Portuguese evidence', *International Journal of Managerial Finance,* 11 (3), pp.341–358. (This article will be available in your online student resources.)
- Singhania, M. and Mehta, P. (2017) 'Working capital management and firms' profitability: evidence from emerging Asian countries', *South Asian Journal of Business Studies,* 6 (1), pp. 80–97. (This article will be available in your online student resources.)

USEFUL RESOURCES

- An online resource for starting and growing a business: www.entrepreneurship.org
- Resources from the SA Institute for Entrepreneurship: www.entrepreneurship.co.za/
- How Bill Gates became a leadership legend: www.entrepreneur.com/article/250607

Chapter 3

Developing an Innovative Enterprise

Introduction

In this chapter you will learn about the key factors for developing an innovative enterprise. You will evaluate market share and competitors. You will learn about unique selling propositions and identify and understand local and seasonal factors. It is important that you can evaluate the personal and commercial sources of finance available to a new business. In this chapter, you will learn about the physical resource requirements of an enterprise including intellectual property rights, stock and raw materials, buildings, transport and enterprise. You will be able to assess and explain the HR, legal and insurance requirements that an enterprise needs to address.

Learning outcome

On completing this chapter, you will be able to:

3 Explain the key factors for developing an innovative enterprise

Assessment criteria

3 Explain the key factors for developing an innovative enterprise

3.1 Assess market-research intelligence to develop an enterprise

3.2 Evaluate the sources of finance available to a new business

3.3 Explain the physical resource requirements of an enterprise

3.4 Assess the human resources requirements for an organisation

3.5 Explain common legal and insurance requirements that an enterprise needs to address

3.1 Researching potential markets

There are so many questions a business must ask when looking at the market it is entering. It adds to the workload of an entrepreneur who already has many tasks.

However, there needs to be a market for the product being developed, so research is required to confirm that ongoing plans are right.

This chapter focuses on three key areas: understanding customers, competition and the market.

Evaluating market share

Understanding the size of a market is vital for identifying the viability of a market. This includes:

- understanding the value of the market
- asking who the key players are and why
- understanding the size of their share of the market
- finding out whether the market is local, national or international.

Entrepreneurs need to find out:

- how to enter the market – are there barriers to entry?
- other factors that affect success – e.g. seasonality or geographical constraints.

Market share looks at the proportion of a market that an enterprise 'owns'. It is calculated over a given period (usually a year) and is specific to a region – either a state, country or economic area such as the European Union. The calculation of an enterprise's market share can be seen below.

Calculating market share

$$\text{Market share (\%)} = \frac{\text{Total sales by an enterprise} \times 100}{\text{Total sales in the market}}$$

For example, total sales of cooking oil for A1Oil, a cooking oil production company, is INR 3 million. The total market for cooking oil in India is INR 60 million.

Therefore, the market share of A1Oil in India is $\frac{\text{3 million} \times 100}{\text{60 million}}$

So the market share that A1Oil has for cooking oil in India is 5%.

REVISION on the go

Calculating market share is important for both enterprises and stakeholders as it shows over time if the company is becoming more competitive or if it is losing out to others.

It can be hard to calculate market share, as the first question is how the market itself will be defined. It is important that credible data is used – often trade organisations produce annual figures for companies to compare themselves against. When looking at market share, an entrepreneur must consider the detail in the figures produced and any assumptions that have been made, so that there is a clear understanding of the market share figures on which decisions will be based.

Information needed by a business

An enterprise needs information and this can be sourced in a variety of ways. Key data is needed about:

- the market – size, numbers sold, coverage prices and the key players
- competitors – their name, size, location, **unique selling points (USPs)**, customer engagement and retention
- customers – who and where they are located, their purchase patterns and demographic information that affects purchases. Are they B2B, B2C or C2C (discussed in section 1.3)?

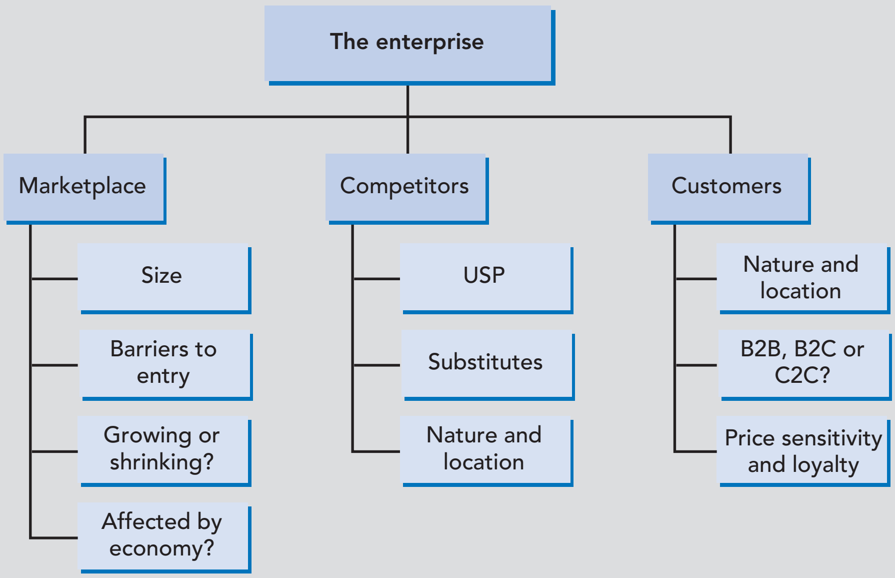

Figure 1: Information needed by a business – about customers, competitors and the marketplace

REVISION on the go

Research

Research can be found in many areas and in many forms. Without research, a business will not know how to develop. The first step is to define what kind of research the business needs. There are two forms of data – primary and secondary.

Using primary data sources (for example, a specifically commissioned survey) gives direct evidence but it may be too expensive for a new business. Some data may be available on a subscription basis or via an academic library or enterprise club, but usually it is outside the budget for an enterprise.

Gathering data is usually more cost-effective if it is from secondary sources (this is data which is already available, for example on the internet or through articles in books, journals and textbooks). However, directly relevant secondary data may not always be available.

Research can be time-consuming and costly. This may be a task to outsource to a research company or virtual assistant (see section 2.2) to save time for the entrepreneur.

Primary research	Secondary research
• Questionnaires • Surveys • Focus groups	• Desk research • Using others' findings

Figure 2: Examples of primary and secondary research

REVISION on the go

OVER TO YOU

Activity 1: What questions would you ask?

You are planning to start a motor repair business in your home town. There is another repair shop four kilometres away run by a national chain of car repairers and tyre fitters.

What research would you undertake to establish if it is a good plan to start your proposed enterprise? Consider customers and competitors in your planning.

Evaluating competitors

Porter (1998) designed a model to identify the five forces that exist in a competitive market. It is well known and can be helpful for entrepreneurs when planning and developing a business to ensure they understand their competitors.

Figure 3: Porter's five forces that exist in a competitive market

REVISION on the go

Here is a summary of each of the five forces in Porter's model.

Threat from new entrants – this looks at barriers to entry

- Capital costs of entering the market can be a restriction if too high.
- Legal and regulatory issues to overcome – complex industries deter new entrants.
- Brand loyalty and cost of switching.
- Economies of scale, which cannot be realised by smaller enterprises.
- Access to input and distribution channels.

Threat from substitute products

- Can the product match possible substitutes which may be cheaper?
- How loyal are customers to existing products?

The bargaining power of buyers

- This is the power customers can have to improve series, lower prices and provide better quality goods.
- Buyers increase competition by forcing down prices.

The bargaining power of suppliers

- If there is a scarce supply in the market and many buyers, this makes the power of suppliers considerable and may make it impossible for a new entrant
- It's beneficial to a new enterprise if there are many suppliers in the marketplace, to give a ready supply at the lowest costs.

The intensity of rivalry between businesses in the industry

- This looks at the number and capability of competitors. If there are many, then a new entrant will have little power within the market as buyers and suppliers have alternatives. In a low-competition market, entrepreneurs have greater power.

Why will your enterprise be a success? Overcoming barriers faced by an enterprise

An enterprise needs to have a product that is different and that stands out – a unique selling point (USP). This does not have to be the product itself – it could be the price, the channel of distribution, the location of the product. It could also be the pricing strategy (see Revision on the go below).

Competition

So a business has to develop ways of competing. Porter (2004) developed a model that demonstrated four ways of competing – Porter's generic competitive strategies.[1]

1 **Cost leadership:** by managing the cost structure of goods and services, lower prices can be charged.

2 **Differentiation:** by focusing on the USP of a product (in terms of product choice, quality, service and value), the customer can be persuaded to purchase a good. The USP is the aspect of a good or service that differentiates it from all others – this could be its price, the material, or that it is the first of its kind.

3 **Focus:** by marketing to a niche market, where there is little competition, advantage may be gained as larger organisations may not be interested in small markets.

4 **Best-cost provider:** this is a combination of cost leadership and differentiation to offer a good-quality product at a mid-price range.

OVER TO YOU

Activity 2: Competitive strategies

Provide an example of a global business and a business local to your region for each of Porter's generic competitive strategies. Explain why they fall into each category.

1 Porter, M. (1985) *The competitive advantage: creating and sustaining superior performance*. New York: The Free Press (republished with a new introduction, 1998).

Pricing strategies

There are many different pricing strategies for an entrepreneur to choose. The strategy will have a significant effect on the success of a business, so it is important to assess the value of each one carefully, considering the market you wish to enter and the size of the customer base and competitors.

Penetration pricing – low price to gain market share, which is then increased.

Economy pricing – 'no-frills' low price.

Price skimming – prices are significantly higher because of a competitive advantage.

Psychological pricing – using 0.99 cents rather than $1, as it seems less.

Geographic pricing – prices vary depending on location.

Value pricing – where customers are made to think they are getting extra benefits; often used as a bundled package of multiple items with a perceived saving.

Premium pricing – a high price for a premium brand, despite production and marketing costs.

REVISION on the go

OVER TO YOU

Activity 3: Pricing strategies

You are setting up a jewellery business with low-value costume and fashion jewellery.

Give three examples of pricing strategies you could use and say why this will help you gain a competitive advantage.

Other barriers to entry

Competitive advantages are key to getting a foothold in the market but there are other common barriers to entry for a new enterprise in addition to competition:

- finance
- expertise
- legal and regulatory requirements
- seasonal changes in demand.

Let's look at these in turn.

Finance

Some service industries have relatively low start-up costs. If the business is based in the owner's own home there are limited premises costs, but in areas such as high-tech or manufacturing, initial costs can be prohibitive. There may be the need to undertake research and development, or the cost of intellectual property rights to protect the business may also be a barrier to entry.

Expertise

Often, employees in small businesses have to be multi-taskers and pay may be lower than in larger businesses. This can make it difficult to attract talent, particularly where employees can't see a natural progression 'through the ranks'. Recruitment may be based on future company earnings such as share capital, but if there are limited funds workers will be hired who may not have the skills required. The use of trainees, interns and apprentices can help but they still need to be supported and trained, which takes time and development.

Legal requirements and security

When establishing an enterprise, legal costs and requirements, regulations, intellectual property rights (IPR) – if applicable – and security of goods need to be considered. The costs can be very high and may be a barrier to entry or cause delays while legal issues are approved, such as planning permission for buildings. These costs are considered in Chapters 3.3, 4 and 5.

Seasonal changes in demand

When developing a business, an area often overlooked is seasonal factors. This is relevant in industries such as tourism and food supply.

With prescriptive work and school holidays, most people travel during specific periods. There may be full occupancy then but staff and other fixed costs are constant. Therefore, planning in the early stages of an enterprise is crucial to maintain a constant cash flow. In the tourism industry, it is important to try to increase business in low season.

Similarly, in the agriculture and food industries there are cycles of food growth and production, which despite globalisation affects the price of food and animal feed.

A business needs to promote goods in the low season and food producers need to look at import options out of season.

OVER TO YOU

Activity 4: Levelling demand and supply

You work as a recruitment consultant in London, placing candidates into job vacancies throughout Europe. You are finding that you are very busy in September as people return from holiday. During December, as many people take extended leave for the end-of-year holiday season, you have fewer applicants.

What actions could you take to develop a more constant flow of business all year round?

3.2 Finance for a start-up

Throughout the life of an enterprise, financial management is key to ongoing success. At the start-up phase, sources of finance can have a significant effect on how the business is run, as the burden of debt may slow development, or the interference of investors, who have a financial stake in the company, may stifle innovation. Therefore, entrepreneurs need to carefully consider where to seek funding. There may not always be options available to the entrepreneur but the impacts of chosen methods must be thought about from the start.

Start-up costs

Entrepreneurs may have plans for long-term funding requirements but the start-up costs must be identified so that purchase decisions can be planned.

Start-up costs include legal costs, stationery, domain name and website, transport, bank charges, office equipment, marketing, and tools and equipment.

The list can be long and the total cost expensive. By listing everything, an enterprise can plan:

- priority of purchase
- which items are essential and which are desirable
- dependencies – i.e. a domain name is needed prior to printing business cards/leaflets, etc.

Personal survival budget

When the extent of start-up costs is reviewed, the entrepreneur will be considering how much personal capital will need to be invested. It is unlikely that investment funds become available right at the start of a business. Therefore, the impact of personal investment needs to be assessed.

A personal survival budget is usually set for six months, based on the premise that the entrepreneur receives no income during this time.

By looking at weekly costs, an entrepreneur should be able to see whether personal savings or other income will be sufficient. If not, plans need to be changed, as it is not possible to sustain a start-up period with limited funds.

Interest rates and their impact on an entrepreneur

Interest rates set by commercial institutions are either fixed or variable/flexible.

Calculating interest payments

$$\text{Monthly interest payments} = \frac{\text{Principal sum borrowed} \times \text{Agreed annual interest rate}}{12}$$

REVISION on the go

Fixed rates are constant for the life of the loan period. This is helpful for a business as they know the exact cost of finance over the period of the loan.

Variable or flexible rates are linked to a base rate of interest, which is the interest rate of the region set by the regional or state bank. The variable rate is set with the base rate plus extra interest. When the base rate moves up, the interest payments increase. When the base rate falls, interest rates are lowered. The interest rate charged is dependent on the risk of the business, so new enterprises are likely to have a higher rate because they have no record of success.

The benefit of this rate is that in periods of low interest rates, the enterprise has lower repayments than they would have under a fixed regime. If they can repay the capital, then in periods of low interest rates, some of the principal payment can be repaid, meaning the loan is paid off earlier.

However, in periods of high interest, the repayments could be much higher than if using a fixed rate regime, creating financial uncertainly.

Example

$$\text{Flexible loan monthly payments} = \frac{\text{Principal sum borrowed} \times (\text{Base rate} + 3\%)}{12}$$

The five main sources of funding for an enterprise

Funding a business can be via debt (borrowing money that is repaid with interest) or equity (receiving money by selling interests in the company (such as shares/stocks).

Many entrepreneurs prefer to borrow money as they wish to control the full ownership of the company. By selling equity, there is a long-term claim on future profits and an involvement of many potential shareholders.

However, funding a business via debt has disadvantages. Firstly, the money must be repaid with interest and servicing the debt may become unmanageable for the business. The repayments also affect cash flow, which is a critical success factor for a business. Some debt may require security, e.g. the business's assets, or a personal guarantee by the entrepreneur. This may cause problems later in the life of the business.

The five main sources of funding for an enterprise are shown in Figure 4. With the exception of equity, which is mentioned above, further details about each source are given in Tables 1, 2, 3 and 4.

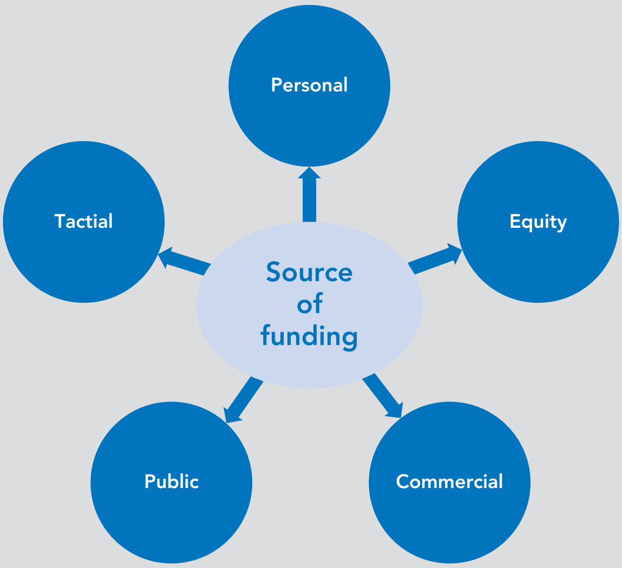

Figure 4: The five main sources of funding for an enterprise

REVISION on the go

Personal funding

Funding source	Issues	Advantages
Own capital – savings or mortgage of home	Can create pressure and stress within family relationships. Funds invested may never be returned.	There is no interest payable, therefore cheaper than borrowing. No security is required and full ownership is retained.
Retained profit	This is the profit kept in a company rather than paid to the owners. While good for business, the entrepreneur may need cash for daily life. Also, if there is external investment, it may not be the entrepreneur who makes the decision to retain profit.	This is an important source of long-term finance for a company and is interest-free.
Informal investors – friends, fools and family (the 3Fs)	Often lenient credit terms, but expectations of repayment may cause problems and there may be lack of documentation. The 3Fs may want involvement and may not be the best advisors or workers.	Usually cheaper interest rates than commercial banks. May require a small ownership of the business rather than repayment.
Internal capital networks	These are common in less-developed economic systems or expatriate communities that are closely linked. They encourage investment within a local community. Though informal, there are rules and expectations within the community.	These networks are available to certain groups who actively support their members with financing at low interest rates. They have the added benefit of advice and support in other areas such as networking.

Table 1: Summary of the personal sources of funding

REVISION on the go

Commercial funding

Funding source	Issues	Advantages
Share capital	Ownership of the business is diluted and shareholder rights are introduced, such as the provision of financial information, voting rights, etc.	Capital is raised by issuing shares by private limited and public limited companies.

Funding source	Issues	Advantages
Long-term loans – including debentures	These are often only given if there is security given on the business assets, and there are often covenants (conditions which must be met), along with regular reporting on the status of these covenants.	For private limited and public limited companies, there is a regular interest payment throughout the life of the long-term loan.
Mortgage	This can be on the business premises or land, which act as security. If the enterprise defaults on the loan, then the property is at risk.	The repayment period is long – between 15–25 years. In some regions, there are tax benefits from a business having a mortgage.
Loans from financial institution	These can be short or long term but without credit history, interest rates are usually higher due to the risky nature of the start-up. Loans may be secured on assets belonging to the owner or business, or unsecured.	There is usually more scope for funding from banks and other financial institutions who want to build a long-term relationship. Often support, such as low-cost banking, comes with the loan.
Overdraft	This should be a short-term loan as rates are higher, but it is easy to receive and is flexible. Only suitable if there is confidence that the overdraft can be paid off within a relatively short period of time.	An overdraft is usually simple to arrange and can be flexible, with a maximum amount of loan agreed so the enterprise pays only for what it borrows.
Hire purchase	This is for the purchase of fixed assets (and becomes an asset of the company with tax benefits). Interest is usually higher and the repayment period is usually less than five years.	It saves the business tying up large amounts of capital when they purchase large goods.
Crowdfunding	There are certain up-front requirements to register for some of the more common crowdfunding sourcing companies.	Often lots of investors, so interference in the business is usually low.
Angel investment	Not always readily available, and they may be looking for a significant return (reward) for the funding risk, often a stake in the company.	Often accompanied with advice from a successful entrepreneur.

Table 2: Summary of the commercial sources of funding

REVISION on the go

Crowdfunding is a growing method of funding enterprises and projects. By using web-based platforms, funds can be raised by advertising the aims and mission of an enterprise, and what contributors will get in return for their investment. Since 2007 the crowdfunding site 'Kickstarter' has provided access to 13 million backers, $3 billion of funds and over 123,000 successfully funded projects.

CASE STUDY

BrewDog beer – success through crowdfunding

In 2013, BrewDog beer reached its target £4.25 million from over 8,000 investors holding 42,000 shares in its record-breaking crowdfunding scheme called 'Equity for Punks'.

Ownership includes benefits such as free birthday beer and discounts at their bar. Through their use of crowdfunding and extraordinary publicity stunts, they have created a brand that does not follow the norms of business and is highly successful.

Public funding

Funding source	Issues	Advantages
Local development schemes	Usually sponsored by regional governments who are developing SMEs with grants and support.	These are focused on an area and often exploit the potential of local industry, such as raw material extraction.
'In-kind' finance	Companies offer free use of office space or a mentor as part of their support for local business (see CSR).	These supported programmes provide a great deal of experience to help a business.
Start-up grants	Provided by governments and charities to support SMEs – usually at commercial rates but less restrictive than banks in the application process.	These schemes provide support and are lower than commercial rates.
Guaranteed loans	Governments can guarantee loans in certain sectors (e.g. high-tech industries) to stimulate more start-ups.	This allows riskier businesses and ones which need a high level of interest to start, as other institutions would not support them.

Table 3: Summary of the public sources of funding

REVISION on the go

Tactical funding

Though funding may be available, an entrepreneur needs to spend money wisely and ensure there is working capital available throughout the start-up period and beyond. Using overdrafts, credit cards and managing the payments and receipt of funds can all contribute to maintaining a positive cash flow.

The management of physical and human resources can also support working capital. By hiring equipment and staff on short-term contracts, large payments can be avoided. This may not be a long-term solution but it will assist the enterprise in its push for maturity.

Funding source	Issues and advantages
Overdraft	As mentioned above, these are high-interest loans that are usually easy to arrange on your bank account but are a flexible way to bridge short-term financial gaps.
Use of credit cards	Despite high interest rates, the use of credit cards delays repayment for purchases and can be a short-term tactical measure.
Working capital management	By delaying payment of suppliers to maximise funds in a short period, you can improve working capital. However, it is important not to lose relationships with suppliers.

Table 4: Summary of the tactical sources of funding

REVISION on the go

3.3 The physical resources required for an enterprise

All enterprises have physical resources – the types depend on the organisation.

For example, a **virtual company** will have a workplace, with a computer, phone and printer. Even the garage of Steve Jobs and Steve Wozniak, where Apple Corp was founded, had physical resources during the start-up phase. They were basic but they suited the needs of the business at the planning stage.

Physical resources are often the assets such as vehicles, plant and machinery that are required to run a business. These are called tangible assets. Intangible assets have a value but are not a physical entity – for example, a music download or an app. Both intangible and tangible goods are assets, as they have commercial value.

This section discusses the physical resources and assets an enterprise needs to start and continue in business, and how cash flow affects purchasing decisions.

Intellectual property rights (IPR)

Intellectual property rights are an example of an intangible asset owned by a business. IPR is not a good, but it has a value to the enterprise. It includes patents, copyrights, trademarks and business methodologies. IPR provides a legal protection for the business by stopping other individuals or organisations stealing or copying the holder's ideas, products or process. The ownership of IPR is enforced in local courts.

However, despite the protection it brings, some enterprises do not use IPR. Many entrepreneurs do not consider this route or actively decide to go straight to market. This is for the following reasons:

- In the case of a patent, you need to disclose the exact detail of your product. This has led to competitors being able to produce a similar product or process that does not contravene the original product.
- If it is an innovative approach, first to market means you can get dominance and competitive advantage, though this may not be long-lasting.
- The cost and administrative time for applications is great and perhaps beyond the reach of an entrepreneur. This process can be outsourced but is still costly.
- For some enterprises, there may be considerable investment in research and the protection of a patent may not be long enough so enterprises feel it is not worth the investment.
- It is hard, time-consuming and expensive to defend your IPR in overseas courts.
- With the high speed of change of technology, the patent process occasionally doesn't keep up with the rate of change of products, so it is not worth the cost.

OVER TO YOU

Activity 5: Copyrights and patents

Give two examples of a copyright and a patent. Evaluate their success.

In your opinion, would a 'straight to market' strategy be better?

Stock and raw materials

There are four key **factors of production** – the resources used to produce goods and services. These are raw materials (natural resources), labour, capital and enterprise.

Raw materials are often a key factor for a business, whether in the form of stock ready to be sold, or resources that need to be altered and then sold.

When planning an enterprise, the source of the stock needs to be carefully planned and the continuity of supply must be ensured so that the business does not run out. Entrepreneurs should consider these factors:

- Continuity of supply. If there is a reliance on one supplier, what happens if they cease trading or decide to supply a competitor? What alternatives are there?
- Price changes. If the raw material becomes scarce, prices will increase and this may affect the viability of an enterprise.
- What are the storage needs (e.g. refrigeration) of the material and does the enterprise need to invest in these requirements?
- Is there a shelf life for the goods? In other words, do they need to be sold within a certain time, such as perishable food goods?
- Are there security needs for the stock if they are high value, or they are a controlled substance such as pharmaceuticals that need certain security features to prevent theft?
- How much does it cost to transport the raw materials and stock? Do they need specialist transport and transit insurance or are they bulky, heavy and costly to move?

Financial considerations of buying raw material and holding stock

As a factor of production, raw materials and stock are vital for an enterprise. However, purchase costs money and the working capital of an enterprise is a key issue, particularly in the early stages of trading. Therefore, ordering the right amount is key.

For inventory/stock control, this involves balancing the quantity of goods required while not tying up cash in unused or unsold stock.

The re-order point is important in the working capital cycle to ensure a good balance of stock is achieved. Early in the development of a business, setting the re-order point is difficult, as forecasts for demand may not be accurate and relationships with suppliers may not be developed. So if the market demand is high, you may not be a priority customer. It is important to correctly set the re-order point as far as possible though to avoid tying up cash. This is particularly important for fast-moving consumer goods where control of stock is vital. The re-order point should consider delivery costs and bulk discounts, but the most important consideration is not ordering too much and tying up capital.

Five key rules for stock control

1. Do not tie up excess capital in stock.
2. Store well, so that no stock is spoiled while in storage.
3. Set a re-order point.
4. Build relationships with suppliers so they are reliable.
5. Have a back-up plan in case your usual supply becomes limited.

REVISION on the go

Buildings

The premises for an enterprise can be a significant investment and once established, it is difficult and costly to change. Therefore, the decision about where to base a business can be crucial. Small enterprises can be based at home but there are issues to consider:

- Will customers come to the house?
- What does it say about the image of the business?
- Will there be interruptions from family members or is there a clear space for working?
- Is it safe to produce or hold raw materials in the home?
- If there is no separation from home and work life, this may add to the burden of the entrepreneur.

During the start-up phase a small area may be sufficient, but as the business develops more formal arrangements may be needed.

Location of premises

There are four main considerations when considering premises for an enterprise:

1. **Availability of capital.** Purchasing premises is costly. The preferred option might be to rent with a fixed lease so there is certainty for the business. The enterprise could rent some space which they fit out to their requirements, or rent on a turnkey basis, where the space is already set up and the business simply walks in and starts trading. There are many hidden costs of turnkey provision that need to be considered:
    - The premises must be in the same state on departure, so installing machines and signs may incur a penalty.
    - Legal costs can be high but will save on any surprises later in the contract.
    - The business must be prepared to move at the end of the contract period if the owner does not wish to renew.
2. **Access to customers**. This depends on the nature of the business – an e-commerce firm does not need its customers to be nearby but they do need high-speed internet access and power sources. Access therefore can be direct or indirect, and an enterprise needs to ensure the premises meets all their needs.
3. **Access to supplies.** If delivery costs are high, then the location of premises is key. Some production plants are based near railway and motorway interchanges to reduce the costs of onward travel. Being based in a rural location adds time to deliveries, which become a hidden but significant cost.
4. **Access to utilities.** Internet access can be a key requirement for business. For some areas, constant access to electricity for refrigeration can be a concern. For start-ups in agriculture, a nearby and accessible water supply is vital to ensure the enterprise is viable.

Transport

Transport can be an important and costly factor for an enterprise. Decisions on how to receive and sell goods will affect location and working capital in a business.

If goods are imported or exported, exchange rates and custom duties need to be considered. Additional storage of goods is important to consider in case of delays at borders or breakdown of vehicles.

The reliability of the transport network is a key factor. An entrepreneur needs to ask: Are goods safe in transit? Does insurance need to be bought? Do the road/rail conditions mean that there are likely to be delays in transport?

If goods are transported by a third party, their reliability and delivery specification needs to be reviewed before a contract is signed.

Often firms use a mix of transportation systems and costs can be overlooked. If an enterprise purchases vehicles, the following points need to be considered:

- renting or purchasing?
- road tax and toll charges
- insurance for the driver and eligibility of staff who can drive
- branding of vehicle(s)
- repairs and maintenance
- cost of fuel and oil.

Security (including IT security)

A business must ensure the security of its goods and its people. Too often this is not considered in start-ups due to cost. As entrepreneurs are often risk-takers, many see the chances of breaches in security being low-risk.

A risk analysis of events occurring needs to be made at start-up and reviewed as the business grows. For example, premises can be alarmed and staff can be given protection – such as glass barriers in service centres.

A growing area of concern is internet security, ensuring that an enterprise's systems are safe from hacking and that customers' details are protected. If a start-up is storing data on their system, they need to invest in professional protection systems so customers are confident when buying from them or using their e-commerce systems.

CASE STUDY

TalkTalk

In 2016, the telecoms company TalkTalk was issued a £400,000 fine from the Information Commissioner's Office (the regulator for personal information protection in the UK). The fine was given for poor website security and other failings that allowed easy access for a cyber attacker. The personal data, including bank details, of over 156,000 customers was accessed and stolen. It was embarrassing and costly for the organisation.

The Information Commissioner's Office upholds the information rights in the public interest for England and Wales and has legal powers.

https://ico.org.uk/

Monitoring the cost of physical resources

Businesses closely monitor their capital expenditure. Every purchase of a physical resource therefore needs to have a direct benefit on managing or growing the business. The financing of physical resources may be a key issue. There may be an extensive list of requirements but funds are not available.

The entrepreneur needs to match needs and priorities to available funds to make sound business decisions. One way to reduce the financial burden is to lease physical resources (see Figure 5).

Lease	• Contract for the use of an asset in return for agreed and regular payments • Examples: premises, tools, car
Hire purchase (HP)	• Goods are bought by paying instalments over time. Goods are owned at the end of the payment period, which may be 2–5 years • Examples: tools, machines

Figure 5: The lease or hire purchase of physical resources can reduce the financial burden on entrepreneurs

3.4 Human resources requirements for an organisation

When looking at the factors needed for business success, a key area is human resources (HR). As we have already mentioned, not having a skilled team in place can be a barrier to success. However, before hiring, an entrepreneur needs to assess skills requirements to avoid costly recruitment mistakes.

Planning for human resources requirements – or workforce planning – aligns the requirements of the organisation with employees to ensure it meets its objectives and identifies gaps that need to be filled by recruitment.

In practical terms, however, an enterprise might not have the funds to recruit highly qualified staff. Yet future growth and development of the enterprise may pivot on the need for skilled staff, so a balanced decision needs to be made. Therefore, a workforce assessment can help an entrepreneur to consider and plan immediate and future business requirements.

A standard skills assessment consists of listing all the tasks. Then the decision maker – usually the entrepreneur – considers whether they are 'desirable' or 'necessary'.

Self-assessment of the entrepreneur

Before seeing the gaps in the organisation's needs, it may be worthwhile for the entrepreneur to undergo a skills self-assessment.

A simple rating system can assess strengths and weaknesses to see what skills the entrepreneur personally needs support and development in.

OVER TO YOU

Activity 6: Entrepreneurial self-assessment

The resources list at the end of this chapter contains two online self-assessments.
Work through them to evaluate the skill gaps you have. Consider what development needs you have and how you are going to address these. Make notes.

Workforce planning

As we mentioned above, for workforce planning the first task is to list the requirements. This needs to include skills that the entrepreneur may be lacking, or skills required for a task that the entrepreneur needs to delegate so that they have more time for other key tasks.

At first glance the list may be long, so it is important to group activities and then assess the professional skills required.

Firstly, functional requirements need to be assessed. Will the role need marketing, technical, sales, organisational, managerial, financial and customer service skills? For each task, a decision should be made on:

- level of knowledge required
- whether practical experience is required
- whether qualifications in this area are required
- whether the skills required to complete the task can be learned on the job.

Finally, the entrepreneur should consider if a permanent role is required, or whether it can be interim/temporary. The issue of part-time, remote and job share working could be appropriate for most jobs, so should be considered if it means getting the best candidate for the enterprise.

Once skill levels are assessed, the entrepreneur can start to recruit or train themselves or team members.

Contracts that a business can use

In the early stages of an enterprise, more staff may be needed, but the cost can be a significant addition to a stretched budget. In most areas, because there are additional costs of employment, the hourly cost can be over 30% higher than the amount paid to an employee.

However, if resources are needed for specific skills or for simple tasks to support the entrepreneur, there is a variety of options that a business can use (see Table 5).

Contracts can be **permanent** with full employment rights, usually after a **trial period**, where both employee and employer work under normal conditions and at the end both assess if the employee is right for the job. Alternatively, a contract can be **temporary** or **contingent**, where either a fixed number of hours or days of work is given for an agreed period. Sometimes temporary contracts become permanent, but this is not always the case.

Employment options are listed in Table 5 – these can be permanent or temporary depending on the needs of the employer and employee.

Option	Features
Full time	Fixed hours on given days, usually around 35 hours a week. The employee has full legal employment rights of the region and access to company benefits (if available).
Part time	Fixed hours on given days, often around 10–20 hours per week. The employee has full legal employment rights of the region and access to company benefits (if available). This type of employment can be suitable for people who can only work a certain number of hours due to caring responsibilities, or for employers who have limited or very long opening hours which can't be fully covered by staff on a standard full-time contract (e.g. a hotel).
Home or telecommut-ing worker	Fixed hours, either full or part time, on given days. The employee has full legal employment rights of the region and access to company benefits (if available). These types of job are applicable to writing reports, accounting or creative roles where the job can be completed anywhere (usually with the benefit of a PC and internet connection). Often the employer will pay for equipment and internet connection. These roles may be suitable for people who can only work a certain number of hours due to caring responsibilities or have transportation difficulties.
Job share	Fixed hours on given days, often around 10–20 hours per week. The employee has full legal employment rights of the region and access to company benefits (if available). The job is shared between two people of similar skills; where one finishes the other starts.
Zero-hours contract	This is where a contract is offered but the number of hours required is uncertain and changes. This is common in the retail and tourism industry, particularly restaurants, where there may be many bookings on one day and few the next. The employee is contacted, possibly on the day of work, and offered hours. Usually there is an agreed minimum number of hours to be worked over a month to give some security to the employee and retain their loyalty.

Option	Features
Seasonal	This is common in the tourism industry where contracts are for fixed periods with high demand. Usually students find this work suitable as it fits in with their holidays. There are limited employment rights and little chance of permanent employment at the end of the season.
Term time	Fixed hours, either full or part time, but only during the school term. Core work finishes when the school day ends (say at 3pm) and employees do not work during school holidays. These contracts are attractive to parents with school-age children but can be difficult for employers to manage, particularly during long holiday periods.
Flexible working	Fixed hours are set, either on a part-time or full-time basis, but the employee is free to complete the work within the working day at any time – i.e. to start and finish whenever they wish. This is beneficial to those with caring responsibilities, and to those who wish to avoid busy traffic or take advantage of cheaper travel costs later in the morning.
Contract workers	These workers (e.g. consultants) are employed for a fixed task and rate. No employment rights are given and the services cease on completion of the contract.

Table 5: Summary of different employment options

REVISION on the go

Cost of employment – hidden costs

When employing staff there are additional costs to think about, which can be considerable. Some costs are applicable to certain regions only.

- **Recruitment costs** – the costs of using an employment agency and the time taken to advertise, interview and select an applicant.
- **Social security** – in some regions, employers pay a contribution to social security funds. Social security is the term given to cover government benefits such as pensions or other social payments (such as unemployment benefit). Often, both the employer and employee pay towards social security charges, but for the employer this can cost a further 5–10% on top of wages. There is also a hidden staff cost of administering the payment of social security.
- **Pension** – in some countries, in addition to the payment of social security, there is a compulsory pension scheme for all permanent staff. In the UK, between 2016 and 2018, by law all staff need to be enrolled in a company employment pension scheme, adding considerable costs and administrative time to the wages bill.
- **Holiday/annual leave** – there may be holiday pay for employees regardless of their contract. So not only is the employee paid and not working, cover staff may be needed to complete the tasks required (although in some roles, the employee catches up on their return from holiday).
- **Statutory holidays** – for national holidays, staff receive pay for not working.
- **Overtime and unsociable hours** – a higher wage rate may be paid for work done outside contracted hours or during unsociable hours – such as night work.

- **Maternity pay, paternity pay and adoption leave** – some regions have laws regarding time off for new parents at set levels of pay. Some of these costs may be refunded by the state.
- **Benefits** – an enterprise may offer staff benefits, such as health insurance, travel loans (to buy season tickets for travel to work), bonuses (these may be contractual) or food vouchers.

The additional costs of hiring a member of staff can accumulate and need to be costed carefully prior to engagement.

Other human resources requirements

Once an enterprise starts to employ staff, there are other considerations:

- health and safety of staff
- unionisation of workforce
- training and development
- performance reviews
- fair employment practices
- managing a diverse workforce.

An enterprise may seek specialist human resources advice or start a small human resources function to cope with the demands to manage staff.

3.5 Making your enterprise legal

Laws and regulations

An entrepreneur needs to know the legal and regulatory requirements for their business and the industry it is working within. It is not expected that detailed knowledge is required but the owner of a business is responsible for anything happening within it. Ensuring that a business is following all the relevant laws makes good business sense.

An organisation may also need to be insured against damage to goods and property, and injury to employees and the public. This may be a legal requirement or optional for trading.

Table 6 lists some of the laws and regulations that enterprises need to comply with. It is not exhaustive but highlights key areas to be covered.

Areas where regulations are required	Details	Laws in your region
Health and safety	This ensures all staff, contractors and visitors work in a safe environment, with plans and equipment in place to reduce all possible risk.	
Employment law	This regulates the relationship between employers and employees, and covers areas such as minimum-wage levels, hours to work and rights in the workplace.	
Anti-competitive or anti-trust law	This ensures companies behave in a competitive way so customers have a fair choice in the marketplace (e.g. no price fixing).	

Areas where regulations are required	Details	Laws in your region
Trading laws	The rules for trade, which include issues such as when to trade and consumer rights.	
Insurance		
Public liability	This covers the costs of legal action if someone is injured while on your business premises – visitors and customers rather than employees.	
Employee liability	This insurance protects you if an employee suffers an injury or illness because of working in your organisation. It covers the cost of compensation.	
Business premises	This usually insures your business premises (whether owned or rented) against damage, theft or fire.	
Vehicle	This insures your business vehicle from damage or theft or if it damages another driver's vehicle.	
Goods-in-transit	This protects the business, particularly if they distribute goods – they are insured against damage or delays in delivery.	

Table 6: Some of the laws and regulations that enterprises need to comply with

REVISION on the go

OVER TO YOU

Activity 7: Laws and insurance requirements for an enterprise

It is important that a business understands its legal responsibilities. While it is not expected that this knowledge is in-depth, organisations need to have an overview of regulations and be able to communicate these to employees.

Laws and insurance requirements are different depending on where your business operates. Using Table 6, list the appropriate regulations and laws required by an enterprise in your region.

Other regulatory requirements

Other regulatory requirements

Figure 6 summarises other regulatory requirements that enterprises may encounter.

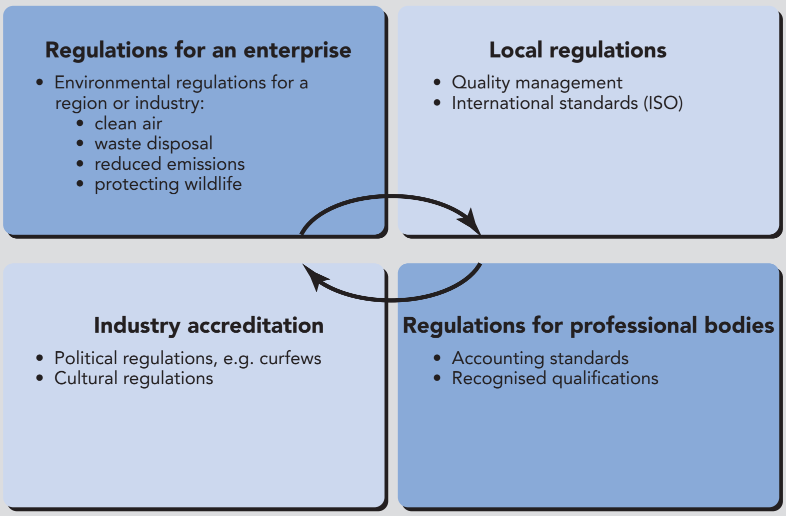

Figure 6: Other regulatory requirements

Taxation

There are a variety of taxes that an enterprise needs to account for:

- corporation tax (or similar), which is the tax on company profits
- employees pay tax on earnings
- sales tax on the purchase of goods (some may be reclaimable).

There may also be costs for accounting services and hidden costs for administering taxes.

An enterprise needs to take these charges into account when preparing forecasts.

OVER TO YOU

Activity 8: Business taxation

What are the types and rates of business taxation in your region?

READING LIST

- Burns, P. (2016) *Entrepreneurship and small business: start-up, growth and maturity* (4th edition). Palgrave Macmillan.
- Porter, M. (1985) *The competitive advantage: creating and sustaining superior performance.* New York: The Free Press (republished with a new introduction, 1998).
- Porter. M. (2004) *The competitive strategy: techniques for analyzing industries and competitors.* Free Press (export edition).
- Porter. M. (2008) 'The five competitive forces that shape strategy', *Harvard Business Review*, 86 (1), 78–93, 137.

USEFUL RESOURCES

- Global Entrepreneurship Monitor (GEM): www.gemconsortium.org/
- Funding options for enterprises: https://core.ac.uk/download/pdf/6502301.pdf
- How ten African entrepreneurs raised money to start their businesses: www.smallstarter.com/get-inspired/10-super-success-african-entrepreneurs-and-how-they-raised-money-to-start-their-businesses/

Chapter 4

Creating and Pitching a Business Plan

Introduction

In this chapter, you will learn the importance of providing enough detail for investors, lenders, stakeholders in order for them to make informed decisions about your business plan. You will be able to develop a business plan for a new business idea and develop a structured pitch and presentation that is designed to fulfil the expectations of your audience.

Learning outcome

On completing this chapter, you will be able to:

4 Create a business plan and pitch for a business

Assessment criteria

4 Create a business plan and pitch for a business

4.1 Explain the content expected and developed in the plan.

4.2 Develop a business plan for a new business idea.

4.3 Develop a pitch that delivers key information to stakeholders.

4.1 The content expected and developed in the business plan

The business plan is the key document for an enterprise. It summarises what your business will be, your objectives and how you will reach them.

It serves two main purposes: to assess the viability of your product and to promote your idea to investors.

Who reads the business plan?

Figure 1 summarises who might read your business plan.

Figure 1: Who is likely to read the business plan?

Reasons for writing a business plan

The purpose of a business plan is to set direction, and in its construction set out your ideas for success. It should cover the next 1–5 years.

Just because something is written down it does not mean it will automatically be a success, but a written plan allows you to see flaws, over-ambitious calculations and can assist in prioritising tasks.

The production of a plan may also stimulate creative ideas and help you consider alternative markets.

A detailed plan allows investors and other stakeholders to make informed decisions about the presented facts and forecasts. The business plan should give an overview of your vision for the company and how you intend to achieve success.

Figure 2 summarises the different reasons for writing a business plan.

Figure 2: Reasons for writing a business plan

REVISION on the go

The structure of a plan

The structure of a business plan can be developed around the most important factors in the enterprise. However, most plans should contain the following or similar sections.

Outline of a business plan

Introduction

Business name

Business and owner details

Business address and contact details

Email and website address

Section 1: Executive summary

Business summary

Business aims

Financial summary

Section 2: Owner(s) and background

Why you are setting up a business

Previous work experience

Qualifications and education

Training, including qualifications

Additional information

Section 3: Products and services

The product/service to be sold

Any variations to the product/service

When the service will start

Additional information

Section 4: The market

Who are the customers?

Where are they based?

Why will they buy the product/service?

Have any products been sold already?

Are any customers ready to purchase from you?

Additional information

Section 5: Market research

Key findings from research

Product testing and results

Additional information

Section 6: Marketing strategy

Price – and why it is set

Promotion – why and cost

Place – where and cost

Product – refer to Section 3

Section 7: Competitor analysis

Names

Location

Business size

Product

Price

Strengths and weaknesses

USP

Section 8: Operations and logistics

Production

Suppliers, margins and payment

Delivery, payments and terms

Premises and equipment

Transport

Legal and insurance requirements

HR requirements

Additional information

Section 9: Costs and pricing strategy

Cost and price per unit

Profit margin per unit

Section 10: Sales forecasting

Twelve-month forecasts for sales and profit

Personal survival budget

Cash flow forecast

Section 11: Measurement and KPIs

Financial and non-financial KPIs

Section 12: Appendices

4.2 Developing a business plan for a new business idea

The business plan includes all the information on the enterprise and its product, and how the business will be developed over the next 1–5 years.

The layout can be tailored to your preference and the nature of your business but there are common requirements, as shown above.

Once you have agreed the layout of your plan, ensure the following topics are included.

Section 1 Executive summary

This section should summarise the whole plan and be 1–2 pages long. It needs to convey the key facts about the business. It is important to consider who will be reading the executive summary. The key points to include are as follows:

1. What your business idea is and why it is a good idea
2. Who the lead players are, ownership, and why they will make the business a success
3. How the business has been developed
4. How much financing the business needs
5. How the finance gap is to be filled
6. The returns expected and timeframes for returns
7. Why your business is better than the competition – your key success factors and USP
8. How you will sell the market and who your customers are

An optional point to add relates to your exit strategy – is this by means of IPO (Initial Public Offering) or sale of the business?

All these factors allow you to assess the viability of your plan and potential investors to decide if they want to pursue investment.

The legal structure

The legal structure should normally be stated within the executive summary. Although you should consider all the issues around legal status, the background of why you did not choose other structures is not needed.

Figure 3: Different types of business structure

Section 2 Ownership and background of key players

Though some detail is required, this section should be short. However, details of key personnel can be included.

It might be useful to include a biography of directors, their successes and reasons why they will make a positive contribution to the business. CVs can be added to the appendices if needed, but not in the main body of the plan.

Personal parameters of proposers

In a new enterprise, great weight will be placed on the skills and experience of the proposer(s). If there is a strong track record of success, this will produce good evidence of reliability and confidence.

Section 3 Range of services or products to be provided

Section 3 of the plan should detail the product or service and its USP (discussed in section 3.1). Background information will be important: information on research and development is key, as is any information on intellectual property rights – whether planned or registered.

The business model is key here, so investors can see what methods you are using to sell the product or service (e.g. freemium or direct sales, discussed in section 1.3). This section can also include the geographical location of the business.

You should include all aspects of products, future variations and when you will start selling.

Section 4 The market

This section focuses on the customers. It is important to demonstrate knowledge (based on research) of the nature and location of customers and their motivation to purchase from you rather than a competitor.

If you have an established customer base, it is important to make this clear in order to demonstrate a greater confidence in your ability to sell, particularly during the tricky first months.

Section 5 Market research

This will look at your key research – primary and secondary – and any product testing you have conducted (discussed in section 3.1).

It's important that you can back up any sales claims by producing evidence of testing/tasting and production.

Anyone interested in investing or financing will expect market research to have been conducted.

Section 6 Marketing strategy

This section should focus on the classic four aspects of marketing – price, promotion, place and product – and will be detailed. As with section 5, market research is important for deciding price and promotion. It will look at the channels used to sell and the expected impact.

The sales channel is a key strategy and should be linked directly to the business model outlined in the early stage of the business plan.

If there are samples of the product, include photographs for visual impact.

Section 7 Competitor analysis

This should be clearly defined, together with an explanation of their market share and the level of competitiveness it will pose to your product or service.

Include details about your competitors' strengths, weaknesses, USPs and other business details.

Use what you learned in section 3.1 to develop your understanding about competitor analysis.

Section 8 Operations and logistics

Section 8 of the business plan covers operations, logistics, human and physical resources (including tangible and intangible assets, which were discussed in sections 3.4 and 3.5).

For physical assets, there should be details about the costs, the priorities for purchase and the methods of acquisition (lease or hire purchase). For human resources, there should be details about required staff and methods of recruitment, along with estimated costs and timeframes.

Information on suppliers should cover your reliance (see Chapter 3) and any supplier audits you intend to conduct to ensure ethical supply chains.

Section 9 Costs and pricing strategy

Section 9 of the plan will include the pricing strategy, how much will be charged and why. It should include all costs – variable and fixed – and details of how the prices are expected to change over time.

The profit margin must be detailed, including any variables that will impact on financial receipts.

The pricing method (discussed in section 3.1) will be explained, including any planned changes in strategy.

Section 10 Sales forecasting and Plan B

Leading on from data produced for sections 6 and 9, this section details the forecast for sales and profit and how cash is to be managed.

The personal survival budget will provide reassurance to investors and financiers that there is an ability for you to survive personally until the business is thriving, so personal finances are important.

If there is an alternative plan if expectations are not met, Plan B should be discussed at this point.

Section 11 Measurement and key performance indicators

Management of the business is very important to stakeholders and potential investors. The business plan needs to build confidence in the minds of those looking to provide finance for the business.

You need to set out the targets for achievement and ensure the audience knows what success looks like. Key performance Indicators (KPIs) should be financial and non-financial.

- For financial areas: sales, costs, profits, tax levels and monthly cash flows are good measures.
- For non-financial areas: targets should relate to staff turnover, customer complaints and other feedback methods, and the production to sales timeline.

Section 12 Appendices

Appendices can include any statistical data and research to support claims made in the business plan. They can be extensive but the information must be relevant and clearly marked so it is easy to locate.

You should ask yourself: is the information in the appendices relevant and useful to a potential investor?

4.3 Developing a business pitch

Who is listening?

A business plan can be communicated to a variety of interested parties. As a minimum, you need to develop two pitches that are well-rehearsed:

- the elevator pitch
- the full pitch.

The elevator pitch

The elevator pitch should be about 30 seconds long – the time taken to ride in an elevator with a possible investor. It answers the questions:

- What do you do?
- What is your business about?
- Why are you starting a business?

You need to write your short pitch and learn it, so that in any situation you can answer the questions without hesitation and look confident when talking about your business.

OVER TO YOU

Activity 1: Elevator statement

Imagine you are Mark Zuckerberg meeting a potential investor. Write his elevator pitch for when he started Facebook.

The main business pitch

A full pitch can be between 10 and 30 minutes long – it will depend on the audience and purpose. It needs to include the key points from the business plan but you will not have time to go through your plan in detail in the usual time given for a pitch.

You should try to structure a pitch along the following lines.

Introduction

- Tell the story of the product – give the problem that is being addressed or the moment you had the creative idea to fill a gap in the market.
- Give the solution – it may be technical and there may be audience members who do not understand, so be clear and use slides/infographs that present it with clarity.

- Build credibility – once the problem and product has been discussed, it is important to present the credentials: history, qualifications, experience in the field and why you are the best person to run the enterprise.

The main body

Timescales, market, customers and competition

- For an investor the timeframe may be 1–5 years, so the pitch must include the timeline for what is going to happen and, if appropriate, the exit strategy.
- For this period, you should demonstrate how you understand:
  - the market – with details about research, forecasts and analysis
  - customers – their requirements, disposable income (if appropriate) and buying habits
  - competition, relating to products, substitutes and the power of suppliers.

Finance

- You should cover income, expenditure, investment and financial management.
- The finance itself is key but you must also demonstrate how you will earn and manage your income, which is just as important. This will show competence and good planning.

Other needs

The pitch may not allow time for this, but any other relevant issues should be included if possible, such as intellectual property rights, premises and future product development.

Summary

This section reviews what is on offer and what is needed. It is also useful for you to ask the investors for advice and feedback, and to ask: "Who else should I talk to?" This should make future pitches far better.

Personal performance

When making an elevator or full pitch, it is important to demonstrate competence so that investors are confident in your personal brand. Make sure the audience knows about your motivation and drive.

Find out the backgrounds of your potential investors so you can gain an insight into their behaviour and business preferences. Practise as much as possible – video your presentation and use friends and family to give you constructive feedback.

Time your presentation so that you do not go over your allotted time. Show good planning skills and present effectively.

If you are not confident at producing slides, outsource this task to a colleague or online assistant to make sure you have a stand-out presentation for maximum impact.

Top tips for pitches

- Do not exceed your time limit – leave time for questions.
- Have a copy of your full business plan.
- Avoid acronyms and abbreviations – make the pitch clear and simple.
- Present your executive summary and then hand out copies – don't allow distractions during the key opening.
- Have as many financial detail as you can. Investors will want to know this information.

- Do not be shy – if you have a track record of success, tell your audience. They are investing in you as well as the idea.
- As with all presentations, something may go wrong – have a back-up plan (including a hard copy of the presentation for yourself and each attendee).
- Rehearse – record yourself and get friends to comment on your performance.
- Understand the audience – who is going to be present and their backgrounds. Have a summary handout, including the slides. If you have products, give these out too.
- Manage the questions – have a facilitator if there are lots of attendees.
- Seek feedback so that future pitches are better.

REVISION on the go

CASE STUDY: AIRBNB

The famous 10-slide pitch

This pitch is a good example of using clear slides to engage viewers and clearly state the aims of the presentation.

Instead of detailing lots of information, the simple layout – showing the problem, the solution, the market and the growth – allow the slides to form the overview, with more detailed discussion further on.

The slides titles could therefore be:

1. Welcome
2. Problem
3. Solution
4. Market validation
5. Market size
6. Product
7. Business model
8. Market adoption
9. Competition
10. Competitive advantages

These slides demonstrate that it is the product or process you are selling that is key. The visual aids are there to support your presentation, not replace it.

Summary

This chapter has drawn together the key learning elements from Chapters 1–3 to explain how to develop a business plan and pitch.

The business plan outline is not prescriptive but the example given provides all the detail an investor needs. It is possible to reduce or reformat it, but by taking each step and including your business information, with the support of Chapters 1–3, a good and clear plan will develop.

By using the content in the four chapters, together with the business plan outline, you should have all you need to develop a winning business plan and pitch.

USEFUL RESOURCES

- Information about how to write a business plan: www.gov.uk/write-business-plan
- Information about business plans from Prince's Trust: www.princes-trust.org.uk/help-for-young-people/tools-resources/business-tools/business-plans

Glossary

Adoption leave When an employee takes time off to adopt a child, they may be eligible for paid leave, subject to regional and company arrangements.

Angel investor Informal investor who provides finance for a start-up in exchange for equity or repayment at a later stage. The focus is on helping the early phase of a business.

CEO Chief Executive Officer – the most senior corporate officer of an organisation.

Community interest company A company that uses their profits and assets for public good but their management processes are commercially focused.

Continuous improvement Process to improve all areas of a business on a regular basis.

Co-operative A business owned and run by its members, who share in its profits.

CRM Customer relationship management – a strategy for managing all relationships with current and potential customers. This may be at the point of sale, or services to engage and retain customers. It becomes strategic when businesses analyse data about customers – their purchasing history – in order to improve relationships with them and therefore drive improved sales.

Factors of production Resources used to produce goods and services – raw materials, labour, capital and enterprise.

Inventory Goods held by a business including raw materials, work in progress and finished goods.

Market share Proportion of a market that an enterprise owns. Calculated over a period – usually a year – and can be specific to a region.

Maternity pay The pay is received by a pregnant and new mother for a set period before and after the birth of a child, while she is absent from work, subject to regional and company arrangements.

Mutual organisation A private business that is owned by clients or policy holders, who in turn receive profits or income.

Outsourcing Contracting of business processes to an external supplier, either a company or individual, e.g. legal work, training.

Open source innovation A business concept that promotes the use of innovation from outside of an organisation in order to benefit the organisation. This includes businesses making internal inventions available that no longer have a use. This benefits business by reducing research and development time and cost, and also involves stakeholders early in the development process. However, it does reveal information and could impact upon the competitive model of an idea.

Pitch A brief presentation designed to provide an overview of a business or to persuade someone to buy your product or service.

SME Small or medium-sized enterprise. This term now incorporates micro enterprises.

Stakeholders funding by debt or equity

Stock control Process of ensuring stock levels are maintained in line with minimising costs and meeting consumer demand.

Unique selling point (USP) Aspect of a good or service that differentiates it from all others.

Venture capital Also known as risk capital, this investment finances start-up or growth. Investors usually have a say in how the company is run and investment is on a commercial basis.

Virtual assistant An independent contractor providing computer-based administrative services through shared systems.

Virtual company A company that uses technology to conduct business rather than face-to-face transactions.

Working capital cycle The amount of time it takes to turn current assets and current liabilities to cash. The longer the cycle, the longer capital is tied up for a business, which may cause cash-flow difficulties.