1 CHAPTER: ONE

FUNDAMENTALS OF ENTREPRENEURSHIP

2 Introduction

Dear students, Entrepreneurship is an emerging multi-disciplinary course in the field of management. It is a way of thinking in the direction of socio – economic development. All the wonders of this contemporary world in the area of communication, Engineering, medicine and others that makes life easier are the result of entrepreneurship. Dear students, Chapter one of this module is organized in the manner that it conveys comprehensive understanding about entrepreneurship and enterprise development. The chapter organized into two sections. Section one details the basic nature of entrepreneurship, the entrepreneur, the function and characteristic of entrepreneur. Finally, section two provides information about the role of entrepreneurship for economic development.

Chapter objectives:

Upon completion of this chapter students are able to:

- Explain the essence of entrepreneurship from different scholar's points of view
- Differentiate the concept of entrepreneurship and entrepreneur
- List the characteristics of successful entrepreneur
- Jot down the rewards and penalties of becoming entrepreneur
- Briefly describe the role of entrepreneurship for an economy

Pre test questions

- **W**hat is entrepreneurship?
- What is the role of entrepreneurship for an economy?
- Who are entrepreneurs and what function they perform?

2.1 Entrepreneurship and the Entrepreneur

Dear students, you are well- come to section one of chapter. This section is going discusses evolution of entrepreneurship, the definition of entrepreneurship and the entrepreneur.

2.2 Evolution of Entrepreneurship

? Dear student**, when do you thing the idea of** entrepreneurship **commenced**

The word 'entrepreneurship' is derived from French word 'Entreprendre' which mean 'undertaking.' The word designates the process of organizing of musical or other entertainments. Later in 16th century, entrepreneurship extended to cover all activities of civil engineering. Therefore, at that time entrepreneurship was conceptualized as the all activities civil engineering. Then after in 17th century, Richard Cantillon, an Irishman living in France first coined term entrepreneurship to economic activities. According to Cantillon, the economic perspective view of entrepreneurship was the activity of buying a certain product at certain price with a view to sell it at uncertain price. Keeping on the evolution of the concept of entrepreneurship in such a manner, Schumpeter opine that entrepreneurship as the way of thinking that results rewarding change. Since entrepreneurship is conceptualized as the way of thinking and scholars will have different view of it, the evolution of entrepreneurship will go on.

2.3 Entrepreneurship Defined

Entrepreneurship is an elusive concept. The concept of entrepreneurship has been a subject of much debate and is defined differently by different authors. Some of the definitions given by different scholars are presented bellow.

- **A.H. Cole** has defined entrepreneurship as "The purposeful activity of an individual or group of associated individuals, undertaken to initiate, maintain or earn profit by production and distribution of economic goods and services".
- **According to Heggins** "Entrepreneurship is meant the function of seeking investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital, hiring labor, arranging the supply of raw materials and selecting top managers of day-to-day operations.
- **According to Joseph A Schempeter** entrepreneurship is essentially a creative activity that consists of doing things as are not generally done in ordinary course of business.
- **Entrepreneurship can also be defined as** the attempt to create value through recognition of business opportunity, the management of risk taking appropriate to the opportunity and through

the communicative and management skills to mobilize human, financial and material resources necessary to bring a project to fruition.

The various definitions of entrepreneurship carry two basic elements of entrepreneurship namely **innovation and risk-bearing**.

Innovation: Innovation is doing something new or something different. Entrepreneurs constantly look out to do something different and unique to meet the changing requirements of the customers. Entrepreneurs need not be necessarily inventors of new products or new methods of production or service, but may possess the ability of making use of the inventions for their enterprises. Hence entrepreneurship needs to apply inventions on a continuous basis to meet customers changing demands for products.

Risk bearing: Giving birth to a new enterprise involves risk. Doing something new and different is also risky. The enterprise may earn profit or incur loss, which depends on various factors like changing customer preferences, increased competition, shortage or raw materials etc. An entrepreneur needs to be bold enough to assume the risk involved and hence an entrepreneur is a risk-bearer not risk-avoider. This risk-bearing ability keeps one to try on and on which ultimately makes to succeed. The Japanese proverb **"fall seven times, stand up eight"** applied to entrepreneur.

✍ Self test Activity 1.1

1. Explain the evolution of entrepreneurship

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2. Define entrepreneurship from different scholar's points of view perspective

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2.4 Concept of the Entrepreneur

The above section dealt the essence of entrepreneurship and by now the essence of entrepreneurship seems clear. The following section describes what is meant Entrepreneur. So Who is an entrepreneur? The definitions given by various scholars are presented bellow.

- **P.H. Knight: Defined** Entrepreneurs are specialized group of persons who bear uncertainty. Here, uncertainty is defined as risk, which cannot be insured against and is incalculable.
- **According to J Baptis Say:** An entrepreneur is the one who combines the land of one, the labor of another and capital of yet another, and thus produces a product. By selling the product in the market, he pays interest on capital, rent on land and wages to laborers and what remains the profit- reward for the entrepreneur. This concept of entrepreneur is associated with the functions of coordination, organization and supervision.

Joseph A SchumPeter in 1934 Defined: An entrepreneur as a dynamic change agent who brought Economic development by instituting new combinations of factors of production. According to SchumPeter the introduction of new combination may occur in any of the following forms.

- Introduction of new product in the market.
- Use of new method of production, which is not yet tested.
- Opening of new market.
- Discovery of new source of raw materials.
- Bringing out of new form of organization.

SchumPeter also made distinction between inventor and innovator. An inventor is one who discovers new methods and new materials. An innovator utilizes inventions and discovers in order to make new combinations. Here the concept of entrepreneur is associated with three elements risk bearing, organizing and innovating. Hence an entrepreneur can be also defined as a person who tries to create something new, organizes production and undertakes risks and handles economic uncertainty involved in enterprise.

Some more important definitions of entrepreneur

- **According to F.A.Walker:** An Entrepreneur is one who is endowed with more than average capacities in the task of organizing and coordinating the factors of production, i.e. land, labour capital and enterprises.
- **Marx** regarded entrepreneur as social parasite.
- **Peter F. Drucker** defines an entrepreneur as one who always searches for change, responds to it and exploits it as an opportunity. According to Peter F. Drucker innovation is the basic tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business.
- **According to E.E.Hagen:** An entrepreneur is an economic man who tries to maximize profits by innovation
- **According to Mark Casson:** An entrepreneur is a person who specializes in taking judgmental decision about the coordination of scarce resources.
- **Frank Young*:*** defined entrepreneur as a change agent.
- **According to Max Weber:** Entrepreneurs are a product of particular social condition in which they are brought up and it is the society which shapes individuals as entrepreneurs.
- **International Labour Organization (ILO)*:*** defines entrepreneurs as those people who have the ability to see and evaluate business opportunities, together with the necessary resources to take advantage of them and to initiate appropriate action to ensure success.
- **Akhouri** describes entrepreneur as a character who combines innovativeness, readiness to take risk, sensing opportunities, identifying and mobilizing potential resources, concern for excellence, and who is persistent in achieving the goal.

So again, who is an entrepreneur? By synthesizing the above listed definitions one can define an entrepreneur is the one who translate an idea into action in the manner that brought rewarding economic, social and political change. Therefore, the definition is given by Frank Young entrepreneurs are change agents is a binding Definition of what is meant by an entrepreneur.

2.5 The Relationship between Entrepreneurship and Entrepreneur

Based on the above explanation, it is simple to understand the distinction between Entrepreneurship and Entrepreneur. Simply put, Entrepreneurship is the process of translating an idea into viable business, whereas an entrepreneur might be an individual, groups or an organization that can able to translate an idea into a viable business. Hence, an entrepreneur is the practitioner of entrepreneurship. Table1.1 bellow details the distinction between Entrepreneurship and Entrepreneur.

Table 1.1: Relationships between entrepreneur and entrepreneurship

Entrepreneur	Entrepreneurship
Person	Process
Organizer	Organization
Innovator	Innovation
Risk-bearer	Risk-bearing
Motivator	Motivation
Creator	Creation
Visualizes	Vision
Leader	Leading
Imitator	Imitation

Source: Partial adaptation of literature

Self test Activity 1.2

1. Define what it mean entrepreneur

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2. Differentiate the concept of entrepreneurship and entrepreneur.

2.6 CHARACTERISTICS OF ENTREPRENEUR

Entrepreneur is a person of telescopic faculty drive and talent who identify and examine business Opportunities and promptly seizes for exploitation. Successful Entrepreneurs possess the following Personal characteristics:

- **Initiative:** Does things before asked for or forced to by events and acts to extend the business to new areas, products or services.
- **Perceiving opportunities**: Identifies business opportunities and mobilizes necessary resources to make good an opportunity.
- **Persistence**: Takes repeated or different actions to overcome obstacles.
- **Information gathering**: Consults experts for business and technical advice, Seeks information of client or supplier's needs. Personally undertakes market research and make use of personal contacts or information networks to obtain useful information.
- **Concern for quality work**: States desire to produce or sell a better quality product or service.
- **Commitment**: Makes a personal sacrifice or expands extraordinary effort to complete a job, accepts full responsibility in completing a job contract on schedule, pitches in with workers or work in their place to get the job done and shows utmost concern to satisfy the customer.
- **Efficiency orientation**: Finds ways and means to do things faster, better and economically.
- **Planning**: Various inter-related jobs are synchronized according to plan.
- **Problem solving**: Conceives new ideas and finds innovative solutions.
- **Self-confidence**: Makes decisions on his/her own and stick to it in spite of initial setbacks.
- **Experience**: Possesses technical expertise in areas of business, finance, marketing and other related disciplines
- **Self- awareness**: Self-critical aware of personal limitations but tries to improve upon by learning from his past mistakes or experiences of others and is never complacent with success.
- **Persuasion**: Persuades customers and financiers to patronize his business.

- **Use of influence strategies**. Develops business contacts, retains influential people as agents and restricts dissemination of information in his possession.
- **Assertiveness Instructs**, reprimands or disciplines for failing to perform.
- **Monitoring**: Develops a reporting system to ensure that work is completed and quality norms.
- **Credibility**: Demonstrates honesty in dealing with employees, suppliers and customers even if it means a loss of business.
- **Concern for employee welfare**: Expresses concern for employees by responding promptly to their grievances.
- **Impersonal relationship**: Places long-term goodwill over short-term gain in a business relationship.
- **Expansion of capital base**: Reinvests a greater portion of profits to expand capital of the firm.
- **Building product image**: Concerned about the image of his products among consumers and does everything possible to establish a niche for his products in the market.

Self test Activity 1.3

List the unique personal characteristics of entrepreneurs

2.7 FUNCTIONS OF AN ENTREPRENEUR

An Entrepreneur performs a number of functions right from the generation of idea up to the establishment of an enterprise. An Entrepreneur also perceives business opportunities and mobilizes resources like man, money, machines, materials and methods while he/she carryout entrepreneurial functions. Anyway, the following are the main functions of an Entrepreneur.

- **Idea generation**: The first and the most important function of an Entrepreneur is idea generation. Idea generation implies product selection and project identification. Idea generation is possible through vision, insight, keen observation, education, experience and exposure. This needs scanning of business environment and market survey.

- **Determination of business objectives:** Entrepreneur has to state and lay down the business objectives. Objectives should be spelt out in clear terms. The Entrepreneur must be clear about the nature and type of business.
- **Rising of funds:** All the activities of the business depend upon the finance and hence financing is an important function of an Entrepreneur. An Entrepreneur can raise the fund from internal source as well as external source. He/she should be aware of different sources of funds. He should also have complete knowledge of government sponsored schemes in which he/she can get government assistance in the form of seed capital, fixed and working capital for his/her business.
- **Procurement of machines and materials**: Another important function of an
- Entrepreneur is to procure raw materials and machines. Entrepreneur has to identify cheap and regular sources of raw materials which will help him to reduce the cost of production and face competition boldly. While procuring machineries he should specify the technical details and the capacity. He should consider the warranty, after sales service facilities etc before procuring machineries.
- **Market research**: Market research is the systematic collection of data regarding the product which the Entrepreneur wants to manufacture. Entrepreneur has to undertake market research persistently to know the details of the intending product, i.e. the demand for the product, size of the market/customers, the supply of the product, competition, the price of the product etc.
- **Determining form of enterprise**: Entrepreneur has to determine form of enterprise depending upon the nature of the product, volume of investment etc. The forms of ownership are sole proprietorship, partnership, Joint Stock Company, co-operative society etc. Determination of ownership right is essential on the part of the entrepreneur to acquire legal title to assets.
- **Recruitment of manpower**: To carry out this function an Entrepreneur has to perform the following activities.

✓ Estimating man power requirement for short term and long term.
✓ Laying down the selection procedure.
✓ Designing scheme of compensation.
✓ Laying down the service rules.

- ✓ Designing mechanism for training and development.
- **Implementation of the project**: Entrepreneur has to develop schedule and action plan for the implementation of the project. The project must be implemented in a time bound manner. All the activities from the conception stage to the commissioning stage are to be accomplished by him in accordance with the implementation schedule to avoid cost and time overrun. He has to organize various resources and coordinate various activities. This implementation of the project is an important function of the Entrepreneur.

Self test Activity 1.4

Describe the functions of an entrepreneur

2.8 Reasons Of Being An Entrepreneur

The most exciting part of Entrepreneurship is that it make one own master. When you are an employee, you work for others according to their plans, whims and finances. In an Entrepreneurship, it is you who set the goal, plan the action and reap the satisfaction and rewards of having achieved the goal.

Why do people become an Entrepreneur?

- To be own boss and boss to other people and make decisions that are crucial to the business success or failure.
- To make money for one- self rather than for someone else.
- To participate in every aspect of running a business and learn and gain experience in a variety of disciplines.
- To have the chance to work directly with customers.
- To have the personal satisfaction of creating and running a successful business.
- To be able to work in a field of area that they really enjoy.
- To have the chance to build retirement value.

Rewards for an Entrepreneur

- Freedom to work.
- Satisfaction of being own boss.
- Power to do things as he likes.
- Rewards of ownership and retirement assurance.
- Respect of family and friends.

Penalties for an Entrepreneur

- Constraints of financiers, laborers, customers, suppliers, and debtors curtail Freedom.
- Frustration due to availability of limited capital and other resources.
- Social and family life is affected due to hard long hours of working.
- Frustration due to non-achievement of full objectives.
- Risk of failure.

Self test Activity 1.5

1. Explain why people become an Entrepreneur?

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2. List the Penalties of becoming an Entrepreneur

2.9 The Role of Entrepreneurship in Economic Development

Pre- test question

Dear students, what do you thing about the contribution of Entrepreneurship for an economy?

Dear students, you are well- come to section two of chapter one. This section is going discusses the role of entrepreneurship in economic development.

Economic development essentially means a process of upward change whereby the real per capita income of a country increases for a long period of time. The economic history of the presently developed countries, for example, USA and Japan tends to support the facts that the economy is an effect for which the entrepreneurship is the cause.

The crucial role played by the entrepreneurs in the western countries has made the people of underdeveloped countries conscious of the significance of entrepreneurship in economic development. Therefore, entrepreneurship is a necessary dynamic force for economic development. The important role that an entrepreneurship plays in the economic development of an economy can be put in a more systematic manner as follows:

- Entrepreneurship promotes capital formation by mobilizing the idle saving of the public.
- It provides immediate large-scale employment. Thus it helps to reduce unemployment in the country.
- It provides balanced regional development.
- It helps reduce the concentration of economic power.
- It stimulates the equitable redistribution of wealth, income and even political power in the interest of the country.
- It encourages effective resources mobilization of capital and skill which might otherwise remain unutilized and idle.
- It also induces backward and forward linkages which stimulated the process of economic development in the country.
- It promotes country’s export trade i.e. an important ingredient for economic development.

✍ **Self test Activity 1.6**

3 State the role of entrepreneurship for economic development.

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4 State the role of entrepreneurship for social development.

4.1 Creativity and Innovation

Dear students, you are well- come to section three of chapter three. This section discusses regarding to creativity and innovation. It in detail shows the difference between creativity and innovation

4.1.1 Creativity Defined

Creativity is the ability to design, form, make or do something in a new or different way. The ability to come up with creative solutions to needs/problems and to market them often marks the difference between success and failure in business. It also distinguishes high-growth or dynamic businesses from ordinary, average firms. Real, successful entrepreneurs are creative in identifying a new product, service or business idea and turning it into a business opportunity. To be creative, you need to keep your mind and eyes open as you work through the sources of business ideas explained below, and apply the techniques.

Most people can think of several occupations which require creativity - artist, musician, dancer, designer and scientist. However the need for creativity is not limited to these occupations.

Creative ideas are needed anywhere there are problems with unknown solutions. In the business world, entrepreneurs use creativity to solve everyday problems, promote products and services, update products and services, and make use of limited resources.

Some people believe that they are not creative. They may overlook situations in which they have good ideas, or they may avoid sharing their ideas with others. By recognizing and sharing their ideas, people can begin to develop their creative ability.

Because people become accustomed to thinking in certain ways, they may have difficulty thinking of original ideas. People can develop their creative potential through learning and practice. Several techniques can be used to develop more creative thinking habits. Some of these techniques are: increasing awareness of one's environment, brainstorming and changing existing ideas.

Increasing awareness of one's environment means learning to pay attention to sights and sounds we ordinarily ignore. Most people are in the habit of blocking out certain sights and sounds in order to concentrate on one thing at a time. By paying attention to what we usually ignore, we can open our minds to new ways of thinking.

Brainstorming is a technique in which persons generate a large number of ideas. Unusual ideas are encouraged. Ideas are never judged or criticized during brainstorming. Participants may combine and improve ideas during brainstorming.

New and original ideas can be developed by using existing ideas as a starting point. Parts of existing ideas can be changed in many ways. They can be: made bigger, made smaller, modified in color, taste or style, rearranged, reversed, substituted or combined. Products and services are often changed to make them more attractive by using this simple technique. This method could also be used to help entrepreneurs make their working situations more pleasant and efficient. By developing and using their creativity, entrepreneurs can increase their potential for success.

The appreciation of creativity has been more important for entrepreneurs in the past several years. It is increasingly accepted that intellect and credentials take a back seat to the ability to respond creatively to challenging situations.

Here are seven steps to expanding your creative potential:

1. Examine how you perceive creativity and creative people. Our results-oriented culture has tended to look at those whose creativity produces a product — a book, painting or cake — as

officially creative. We have been less able to recognize people who identify new ways of thinking and behaving, especially in everyday and business life, as just as creative.

2. Spend time with creative people. Observe how they act, think, relax and respond. Ask them to talk about what events in their lives influenced their creativity.
3. Learn your own warm-up process. This warm-up process increases your ability to ready yourself to develop a creative idea and take positive risks in making changes, even small ones. What events and settings seem to encourage your creative actions?
4. Move, dance, exercise, bicycle, walk and stretch. Try yoga or tai chi. These physical activities get us out of our thinking brain and allow us to truly inhabit all of our body. As the body moves, the right and left parts of the brain; both the imaginative side and the cognitive side are able to work together more efficiently.
5. Listen to music and experiment with improvisational exercises. Notice how different types of music promote various levels of energy within you. Theater and drama exercises will help you practice different ways of responding, apart from your habitual roles.
6. Keep a notebook of interesting or creative ideas and observations. Paste a few pictures from magazines that interest or intrigue you, even if you don't know why. Scribble and doodle. Whatever you do, don't censor yourself. See what happens.
7. Find a mentor or coach who can help you develop your creativity to a higher level.

4.1.2 Innovation

It is important to recognize that innovation implies action, not just conceiving new ideas. When people have passed through the illumination and verification stages of creativity, they may have become inventors, but they are not yet innovators.

Process innovations increase bottom-line profitability, reduce costs, improve efficiency, improve productivity, and increase employee job satisfaction. They also deliver enhanced product or service value to the customer.

Process innovations focus on building an adaptive business process management system (BPMS) that increases bottom-line profitability, reduces costs, improves efficiency, raises productivity, and increases employee job satisfaction. Process innovations also deliver enhanced product or service value to the customer. For manufacturing companies, process innovation include such things as integrating new production methods and technologies that lead to improved efficiency, quality, or time-to-market, and services that are sold with those products. For service companies, process innovations enable them to introduce "front office" customer service improvements and add new services.

The difference between invention and innovation is:

1. **Invention** - is the creation of new products, processes, and technologies not previously known to exist.
2. **Innovation** - is the transformation of creative ideas into useful applications by combining resources in new or unusual ways to provide value to society for or improved products, technology, or services.

Elements in the Innovation Process:

1. Analytical Planning - to identify: product design, market strategy, financial need

2. Organizing Resources - to obtain: materials, technology, human resources, capital

3. Implementation - to accomplish: organization, product design, manufacturing, services

4. Commercial Application - to provide: value to customers, reward of employees, revenues for investors, and satisfaction for founders

i. ***Business innovation:*** (Business innovation involves a wide spectrum of original concepts, including development of new ways of doing business, new business models, business application of technology and communications, new management techniques, environmental efficiency, new forms of stakeholder participation, telecommunication, transport and finance.

ii. ***Product innovation***: Product/service innovation is the result of bringing to life a new way to solve the customer's problem - through a new product or service development - that benefits both the customer and the sponsoring company.

iii. ***Marketing innovation:*** it a process of creating an innovative marketing strategy to be effective in the market.

iv. ***Technology innovation:*** (Technology innovation covers innovation derived from research and technology developments that are independent of product and service initiative. "The best companies maintain roadmaps that define the next technologies they will pursue and the requisite timing of each. These technology roadmaps are matched to their product roadmaps to ensure that the two are synchronized."[3] As core technology developments take longer than shorter product and service initiatives, by separating research and invention from product and service development, companies can achieve stretch without incurring too much risk.)

v. ***Process Innovation:*** (Process innovations increase bottom-line profitability, reduce costs, improve efficiency, raise productivity, and increase employee job satisfaction. They also deliver enhanced product or service value to the customer.)

vi. **Organizational innovation:**

vii. **Strategy innovation:** It is about challenging existing industry methods of creating customer value in order to meet newly emerging customer needs, add additional value, and create new markets and new customer groups for the sponsoring company

Different Forms of Innovation

Until recently innovation has been seen as the means to turn research results into commercially successful products or services. Today, while research keeps playing its critical role as a major contributor to innovation, many new forms of innovation are emerged. They include system's approach to integration of new technologies and processes from other fields, new business models and ways of doing business, and new ways of reaching and servicing customers.

Innovation can have different:

- **Focus**: technology, organization, or external relationships,
- **Types**: incremental or radical, and
- **Sources**: technology transfer or development of new business models/concepts.

Self- test activity 3.3

1. Discuss what it meant by creativity

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2. Differentiate innovation and invention

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5 CHAPTER SUMMARY

- The word ‘entrepreneurship’ is derived from French word ‘Entreprendre’ which mean ‘undertaking.
- The economic perspective view of entrepreneurship was given by Richard Cantillon, an Irishman in 17th century. According to Cantillon, entrepreneurship was the activity of buying a certain product at certain price with a view to sell it at uncertain price.
- Now day’s entrepreneurship is defined as the process of translating an idea into a viable business.
- The Entrepreneurship and Entrepreneur are different concepts. Simply put, Entrepreneurship is the process of translating an idea into viable business, whereas an entrepreneur might be an individual, groups or an organization that can able to translate an idea into a viable business.
- Entrepreneurship results an integrated positive economic, social and political change.
- Successful Entrepreneurs characteristics are by personal qualities like Imitativeness, opportunities identification, Persistency, Efficiency orientation**,** Self-confidence and many others that results success.
- An Entrepreneur performs a number of functions right from the generation of idea up to the establishment of an enterprise. Idea generation, Determination of business objectives, rising of funds, Procurement of machines and materials, Market research, determining form of enterprise, recruitment of manpower, and Implementation of the project are the major function of an Entrepreneur
- Becoming an Entrepreneur does have its own pluses and minuses. Yet, wise entrepreneur tempts exceeded the pluses from the minuses.
- Creativity the process is doing something in a new or different way. It is the ability of entrepreneurs that help to make different.
- Invention and innovation are different. Invention is the creation of new products, processes, and technologies not previously known to exist. Whereas Innovation is the transformation of creative ideas into useful applications by combining resources in new or unusual ways to provide value to society for or improved

- Innovation is an Engine for an Economic Growth. The speed and efficiency of the diffusion of innovation through the economy is critical to productivity and economic growth. It can be pictured as a cascade process.

Exercises of the Chapter

Instruction: The following subjective questions are raised to examine the overall students understanding of chapter one- fundamentals of Entrepreneurship. Therefore, students are expected to answer the questions after carefully studied the chapter.

Q1. Briefly explain the essence of entrepreneurship

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Q2. Discuss the Distinction between entrepreneurship and Enterprenuer

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Q3. Briefly describe the charms being an entrepreneur

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Q4. Enlist some functions performed by a successful Entrepreneur

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Q5 Write the difference between creativity and innovation

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6 CHAPTER TWO

7 MICRO AND SMALL ENTERPRISES

8 Introduction

Dear students, we hope that in chapter one you got the fundamentals concepts of entrepreneurship that stimulates your mind to be an entrepreneur. Now you are well-come to chapter two of this module. Chapter two provides well organized information regarding small and micro enterprises which are back bone of an economy and the host of entrepreneurship. Dear students, In order to make the chapter easier to understand, the chapter divided into three sections. Section one covers the basic natures of small and micro enterprises. In this section, definitions of micro and small enterprises, importance of micro and small enterprises, small business failure factors, characteristics of micro and small enterprises in Ethiopia, problems in the Ethiopian small business industry are included. Section two provides insight about the economic, social and political aspects of small and micro enterprises. Finally, section three conveys regarding about setting a small business and the procedures how to set small business.

Chapter Objectives

At the end of this chapter, students should be able to:

- State nature of Micro and Small Enterprises
- Describe the economic, social and political aspects of small business
- Describe the steps in setting a small business

Pre-test questions

What are small and micro enterprises?

What is the role of small and micro enterprises for socio- economic aspect of county?

8.1 Nature of Micro and Small Enterprises

Dear students**,** you are well- come to section one of chapter two. This section details about definition of micro and small scale enterprise, the importance of small business, micro and small business failure factors , the characteristics of micro and small enterprises in Ethiopia.

8.2 Definitions of Micro and Small Enterprises

Dear student, what do you think in your mind about small and micro enterprises?

Small business is a business that is privately owned and operated, with a small number of employees and relatively low volume of sales. Small businesses are normally privately owned corporations, partnerships, or sole proprietorships. The legal definition of "small" varies by country and by industry, ranging from fewer than 15 employees under the Australian *Fair Work Act 2009*, 50 employees in the European Union, and fewer than 500 employees to qualify for many U.S. Small Business Administration programs. Small businesses are common in many countries, depending on the economic system in operation.

“A 'small business' is a separate and distinct business entity, including cooperative enterprises and non-governmental organizations, which is managed by one or more owners and which predominantly carries on business in any sector or subsector of the economy.”

There is no universally accepted definition of MSEs both in Ethiopia and in the rest of the world. Most of the time even definitions in other countries lack uniformity and usually reflect the relative development of the respective economies (Beyene, 2000). And in the same way, the definition employed in Ethiopia is also quite different from others defined. Thus, as it is shown in the FeMSEDA (2011), the government of Ethiopia defined as:

MSE engaged in manufacturing Micro Enterprises are those business enterprises engaging up to 5 persons including self-employment and with total assets not exceeding Birr 200,000 and Small Enterprises are those business enterprises engaging between 6 and 30 persons and with total assets of above Birr 200,000 and not exceeding Birr 1.5million and MSE engaged in trade and service sector as Micro Enterprises are those business enterprises engaging up to 5 persons including self-employment and with total assets not exceeding Birr 50,000 and Small Enterprises are those business enterprises engaging between 6 and 30 persons and with total assets of above Birr 50,000 and not exceeding Birr 500,000.

Table 1: MSE Definitions Employed in Ethiopia--- defined both in terms of paid up capital and number of workers.

Enterprise scale	Sector	Human Resource	Total asset
Micro enterprise	Manufacturing	≤ 5	≤ Br. 100,000
	Service	≤ 5	≤ Br. 50,000
Small enterprise	Manufacturing	6-30	≤ Br. 1.5 million
	Service	6-30	≤ Br. 500,000
Medium enterprise	Manufacturing	Over 30	>1.5 million
	Service	Over 30	> Br. 500,000

Source: Micro and Small Enterprises Development Policy and Strategy of Ethiopia, (2011)

Here, the government of Ethiopia uses total assets and the number of employees and in both definitions if one of the criteria is not fulfilled the governing criteria will be total asset and the enterprise will be defined or categorized accordingly.

Self test activity 2.1

Define different Micro and Small Enterprises scales in terms of paid up capital and number of workers.

8.3 Importance of Micro and Small Enterprises

The role of small business is of decisive importance in any economy. Most countries define small business, as an enterprise in terms of employment levels. The small business sector is very important in most nations of the world as they offer the major economic advantages. Therefore entrepreneurship is needed to encourage small business for the following advantages;

- **Source of new goods and services**: The small businesses which owned and controlled by the innovative entrepreneurs offers a wide scope for new product development. The innovation of entrepreneurs to be competitive results in the improved goods and services availability for the public.
- **Self-empowerment:** The businessmen who engage themselves in the small businesses acquire increased status, improved lifestyle and the ability to control their own destiny. This gives the self empowerment for the entrepreneurs who even sometimes disabled persons, women, ex-convicts and unemployed etc.
- **Employment generation:** The small business sector can make significant contribution to employment generation and also to rural industrialization, because of its low capital intensity and high labor absorption nature.
- **Growth potential:** The small business industry is ideally suited to build on the strengths of our traditional skills and knowledge by infusion of the technologies, capital and innovative marketing practices. The opportunities for the small businesses are enormous due to various reasons like extensive promotion and support by the government and its need of low technical and managerial skills.
- **Export contribution:** Overall small business production contributes to the growth of export trade and related business to the country and improves the foreign trade which would result in foreign currency income.
- **Flexibility:** Small firms are better able to adapt to changing and sometimes disruptive economic circumstances. Due to its flexibility, the sector is hovering to attract both technology and funds to generate rapid growth and sustained process of technology up gradation and quality improvement.
- **Decentralization:** Large enterprises are most concentrated in grown and big cities. Since the small business units are located mostly in the rural belt these firms prevent the concentration of power in a few hands. In addition, they also help in ensuring equitable distribution of wealth.
- **Distribution of economic power:** the equality argument implies that the income generated from large number of small enterprises is distributed more widely in the community as

compared to income generated in a few large enterprises. The income benefit to small enterprises is derived by a large population, while large enterprises encounter more concentration of economic power.

- **Mobilization of resources:** The small enterprises are able to tap talent resources. In fact, the growth of an entrepreneurial class requires a congenial environment. Small enterprises provide that environment which encourages a growing network of feeder and complementary relations among plants and firms. It is in this environment that latent talents of individual entrepreneurs find self expression in localized innovations and cost saving measures.
- **Optimal utilization of local resources:** The wide spread dispersal of small businesses also contributes to an effective and optimal utilization of local resources. This is augmented by the fact that the use of traditional or conservative technologies by the small firms does not require superior inputs. The servicing of local demands and markets by small business units enables better utilization of local resources especially raw material which if transported outside, will lead to drain of material from the country. Independence is another advantage of owning a small business.

Self test activity 2.2

1. Explain how small and micro enterprises serve as optimal utilization of local resources

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2. Discuss how small and micro enterprises can decentralized an economy

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8.4 Small Business Failure Factors

As far as the causes for the failure in small business industry are concerned, it cannot be attributed to a single factor. In fact, it is an outcome of the cumulative effect of many factors working simultaneously which may not be closely inter-related. The important courses fo failure can be listed as given below;

- ✓ ***Mismanagement:*** Management must be intelligent, brilliantly capable, decisive, innovative, very efficient and assuring. Comparatively management in small businesses is inherently more difficult and complex duet to its nature of single management band. As a result of this all areas of small business are not effectively managed. In most of the failed small enterprises the management fails to take proper decisions on routine matters. Important decisions regarding site selection, production process, promotion avenues, marketing management etc are often ignored.
- ✓ ***Implementation delay:*** In cases of newly established small business, it often faces a delay in the implementation of its plans. For example, a delay in the construction of the building within the scheduled time, would lead to delay in the installation of plant and machinery and consequently the working capital could not be used in time. Inability to implement the contingency plan in time would in turn, delay the release of further installations. Side by side, costs also shoot up and the demand projections become obsolete. It is obvious that in such cases of sequential delays in implementation of plans, failure is anticipated from the very initial stage of a project.
- ✓ ***Poor information system:*** Extremely poor information and reporting system is a normal feature in small businesses where accounts, flow planning, costing, budget control, breakdowns, sales revenues, financial statements, statement of chargeable current assets etc, are not properly reported on a day-to-day basis. It shows the presence of intensely low level of communication and information system.
- ✓ ***Energy problem:*** Shortage and unavailability of power has done irreparable harm to most of the small businesses. Especially in country like Ethiopia where the power source is depend solely on the water resources the small business fail to flourish due to lack of enough power.

So a better managed power sector and energy policy is required to encourage small entrepreneurs and to save the small businesses from falling sick due to this power shortage.

- ✓ ***Improper technology:*** Obsolete technology has been one of the major causes of failure in small business units. Frequent breakdowns, inefficiency in machinery performances due to inadequate maintenance, and delays in renovating or replacing the machinery are a normal feature in these industries. The situation becomes worse when instead of using the funds for depreciation or development rebates are diverted towards new and unrelated activities.
- ✓ ***Marketing:*** Small business generally adopts a traditional way of marketing where 'more' is regarded as 'better'. If marketing places a continuous reliance on the promotion of material consumption, it would lead to a prosperous stage of industrial growth small enterprises fail mainly become sick mainly because of their inability to market their products for various reasons such as poor quality of products, lack of market information, poor advertising, obsolete technical back-ups, less competitive potentials, lack of professionalism, etc.
- ✓ ***Overtrading:*** The firms grow at a faster rate than they are able to finance from internally generated cash flow and bank borrowings. The firm focuses only on sales, regardless of whether or not, the same is profitable. Profit margins are reduced and unprofitable buyers are wooed just to increase the unprofitable sales growth. There is also shortage of cash because the unit's sale, stock levels and general sales grows faster than their capital allows. A business which tends to have such way of career is ensured of its failure.
- ✓ ***Competition:*** In the present liberalized atmosphere, the small units have to face intense competition in the market. Those having greater price inelasticity of the product suffer more; they generate fewer profits and have lower borrowing power. With scarce funds and lots of competitors, the firms will not be able to invest much in the development of new products, innovative marketing techniques, product promotions etc.
- ✓ ***Raw materials and cost of production:*** Cost of production depends on the availability of raw material used in production. But, mostly due to shortage or poor quantity of raw materials, cost acceleration makes the product less competitive. Further, shortage of raw material leads to waste of productive capacity, which is loss for the production unit. Entrepreneurs depend on intermediaries for arranging the required materials which further inflate the cost and also they may provide inferior quality of raw material on the other hand. These factors adversely affect the final product.

- ✓ ***Human resource:*** The availability of cheaper labor is abundant but the trained and skilled personnel are more mandatory for the organizations. The most efficient use of the resources largely depends upon the quality of the manpower employed. The business units established in remote and least developed areas are likely to face the problem of skilled manpower like qualified engineers, senior managers etc, who are at times not interested to work in such remote locations.

In addition to these factors the other factors which is responsible for failure of the small business firms are bad environmental conditions, pollutions, unreliable lighting system, etc. in most of the small units, worker's participation or consultation is not invited, there is a high degree of gap of communication, absolutely no reward or recognition system and poor delegation of authority and responsibility.

Self test activity 2.3

1. Identify small business failure factors

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2. Explain how mismanagement can be a cause for small business failure factors

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8.5 Characteristics of Micro and Small Enterprises in Ethiopia

Like other developing countries, in Ethiopia MSE are informal sectors are the main source of employment and income for vast number of people Solomon (2004). Many authors argued that the largest private sector constitutes the MSE and the medium industries and created the largest number of employment in the country Mulu (2007) and Rahael (2010).

The government of Ethiopia also gives greater emphasis for the development of MSE in its strategy and policy formulation. In developing countries, the informal sector is a large source of employment and income, particularly for the urban population. The informal employment, outside of agriculture, is defined as employment that comprises of both self-employment, in the informal enterprises, and wage employment, in the informal jobs, without secure contracts, worker benefits, or social protection and represents nearly half or more of the total non-agricultural employment in all regions of the developing world. In Ethiopia, about half of the urban workforce is engaged in the informal sector and Addis Ababa nearly accounts for about 40% of the total operators in micro enterprise activities (Rahael, 2010).

According to the 2003 CSA small scale manufacturing survey, over 89% of the informal sector operators are concentrated in manufacturing, trade, hotel and restaurant activities. Of the small scale manufacturing industries 85% are engaged in the manufacture of food, fabricated metal furniture and old traditional cloths. The survey also revealed that the number of people earning their livelihood from the informal sector activities and small scale manufacturing industries is eight times larger than those engaged in the medium and large scale industrial establishments. According to the FMSEDA (2010) the MSE sector is characterized by highly diversified activities which can create job opportunities for a substantial segment of the population. This indicates that the sector is a quick remedy for unemployment problem. To curb unemployment and facilitate the environment for new job seekers and self-employment a direct intervention and support of the government is crucial. Hence, in order to channel the support facilities to this diversified sector, a definition is needed to categorize the sector accordingly.

The MSE sector in Ethiopia appears to be fraught with a number of constraints that stifle its rapid growth and development as a means of overcoming poverty and unemployment (Zewde, 2002). According to Zewde, the main constraints that face MSE include inadequate empirical research on MSEs, limited responses by financial institutions to MSEs, lack of appropriate technology and related facilities, lack of strong organizations for entrepreneurs, lack of co-ordination among Business Development Service (BDS) providers, lack of access to land and premises, and lack of market access and market information. The Ethiopian government also identifies major constraining factors of the sector (MOTI, 1997). These include: inadequate marketing and production space; facilities, backward production technology; lack of innovation;

marketing problems; lack of information; poor input quality; absence of intra and inter enterprises networks; and lack of financial capital. Similarly Solomon (2004) identified the major constraints faced by small enterprises includes demand problems, paucity of capital, equipment and technology, human and material inputs, rules and regulations and institutional bottle necks.

Self test activity 2.4

Briefly discuss the characteristics of Ethiopian small business.

8.6 Problems in the Ethiopian Small Business Industry

Micro and small enterprises are faced with a myriad of constraints and challenges which can be attributed to: insensitive macroeconomic and development policies, insensitive policies objectives of government intervention programmes on MSE to enhance the upgrading of such industries, lack of well-coordinated science and technology policy, limited human resource development policies (HRD), lack of or limited governance policies at both MFI and micro finance clients (MFC) levels, lack of or inadequate operational policies at both MFI and MFC levels to enhance the credit facilities and eligibility criteria of MFI clients, lack of policy or its focus on technology as an essential tool for poverty, ineffective strategic plans to enhance the growth of micro and small scale enterprises, poor linkage between stakeholders; micro or small enterprises, research and training, government and MFI, size and terms of loan do not promote the acquisition of technology, cumbersome legal and regulatory framework, competition with poor quality and cheap imports.

The small businesses and their revenue are not stable sometime up and sometime down, also the needs of the Ethiopian people is very limited. Though there are considerable number of problems exists with the small businesses it depends on the type of business activities, market study and the feasibility study. Some of the identified problems of small businesses in Ethiopia are listed here;

- **Securing finance:** One of the primary problems that could be given priority is the difficulty in securing funds for the establishment and running of the small business enterprises. The availability of finance is not quite enough for people with interest on the small scale business industry. By lacking finance the economically poor people left with only passion are refrained from making their ideas into profitable businesses. And also the existing small businesses suffer from the non availability of enough finance to keep the business running.
- **Lack of management competence and exposure:** The business activities are to be guided and lead by competitive personnel to attain the desired financial and non financial goals. Lack of enough exposure to the technology and complicated situations make the available owners or managers incompetent for guiding the businesses towards the desired target.
- **Non availability of raw materials:** One of the serious problems facing today's small entrepreneurs in Ethiopia is the lack of suitable raw materials. Though the foreign investment and technology brings enough for the functioning of small businesses, the non availability of raw materials in the desired quantity and quality keeps the capital and efficiency of the workforce unused to the optimum level.
- **Markets and distribution networks:** Finding markets in the economy is another obstacle for the development and growth of small business entrepreneurs. Though the marketing activities are remaining in a vulnerable stage the distribution network is also not found satisfactory. The infrastructures like roads and related facilities in developing areas form a considerable hurdle for marketing and distribution activity.
- **Limited government support:** The amount of support provided to the small entrepreneurs and women business population is not reached the required level. So the encouragement for people to engage in small businesses remains to be challenging.
- **Absence of technological know-how:** One of the serious problem hinders the growth of small business in Ethiopia is lack of education and especially in the technical knowhow. Irrespective of the government steps in increasing the education and training in the entire needed fields like agriculture, information technology, health, etc the problem of poor

knowledge still persists to become a major factor responsible for the wastage of resources. This costs so much for the small businesses too, which operates with little capital.

- **Widespread corruption:** When the issue of corruption is raised in Ethiopia almost always we mean the involvement of a private party that pays, or is ready to pay, money to a public figure in order to gain advantage. This is generally referred to as private to public corruption. Because this type of corruption is said to impede the development of markets, drive away investment, increase the costs of doing business, and undermine the rule of law. But private to private corruption which is in an undisguised or disguised form also present in has not attracted the same interest or attention. Private to private corruption is as serious as the private to public corruption.

Self test activity 2.6

List Problems facing the Ethiopian small business industry

8.7 Economic, social and political aspects of small business

Dear students, you are well-come to section two of chapter two. This section provides information about economic, social and political aspects of small businesses

Economic indicators show that unemployment still continues to rise to its highest level. All major employment sectors continue to see the downfall in any industry as a result of global finance crisis. But the one industry which can boost up the economically in a slow and steady pace is small scale industry. It provides new jobs for the unemployed and educated, which in turn reflect in the per capita income and the general economic growth. Small businesses owners who have made it thus far through the economic downturn can rejoice with the numbers shown in small business economic indicators. Keeping a pulse on these economic indicators can help on adjusting and adapting the business strategy and make adjustments if needed. The small business also gets the income distribution equally to all the people and increases savings and debts. In the way around the credit availability and labor supply for the small business is determined by the economic situation of the country.

Laws are made by politicians, who enact these laws based on the likelihood they will get re-elected. The political environment is affected and effected by politicians who in turn are influenced by and challenges in the economy like currency exchange rates, corporate activity, and unemployment rates. The small business is often has a direct consequence with the political parties in power. If the citizens are, are very concerned about safety issues, for example, then there will be a lot of rules and regulations governing things such as transportation safety, which will make it more expensive for some companies on various costs. The rules and regulations created by the politicians have significant influence on the cost of running a business and the way it can market products and services - for example in Canada there are severe regulations about advertising for alcohol and tobacco.

The social norms vary from one community to other community. Anything that is all right for one particular society may be is not acceptable for the other society. Decision to invest in a certain location; community, region or state should consider to what degree the social environment at a particular location is conducive for business development. Stability in a community or state is a prerequisite for a good investment. The instability as created by friction amongst the component of society which lead to violence such as burning and looting of the assets is something to consider in making decision about investment. Therefore it is a must for businessman to scrutinize the quality of relationship among groups within a society. The issue of people's relationship to nature reflects how people in a society treat the nature and how they orient themselves. Businessmen who invest in the forestry industry should consider to what degree people would accept the logging of trees as something acceptable to their value.

The improvement of level of education and the availability of good job for people have given the opportunity to people to move to a higher level of social class. Since there is a positive correlation between the social class and the level of spending, the higher the social class, the higher the demand for consumer goods, then there will be more opportunity available for business. People's lifestyle may be the source of good business, especially if the purchasing power is high. The success of products in the market depend upon which target groups the products aims to. Therefore, understanding of the social class and its lifestyle would definitely help the success of business.

Self test activity 2.7

Describe the economic, social and political aspects of small businesses

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8.8 Setting a Small Business

Dear students, you are well-come to section three of chapter two. This section covers the basic nature of Business idea and the steps of setting small business.

Dear learners! What do you understand about a business idea?

8.8.1 The business idea

All new ventures begin with an idea. A business idea is a concept which can be used for commercial purposes. It typically centers on a commodity or service that can be sold for money, according to a unique model. There are several methods for developing and testing a business idea. The ability to come up with a business idea can be transformed into a viable business, where ideas supported by feasibility and a business plan can then be sold to interested investors, firms, and interested parties for a lump sum or a management contract, or as agreed. Business ideas, if introduced at the right time, when demand for such service or a product introduced by the idea is expected to surge, can lead to a very profitable business. Business ideas are always available through different sources; however, it is the application applied on these ideas, and timing makes all the difference in failure or success. There should be an idea to decide what business to go in with. Some entrepreneurs choose their field because they already have extensive experience with it. They have worked in a family business or held jobs with other employers. Other entrepreneurs choose their field by a more formal decision making process. They identify and weigh their options.

A business idea is the response of a person or an organization to solving an identified problem or to meeting perceived needs in the local environment (markets, community, etc.). Finding a good idea is the first step in transforming the entrepreneur’s desire and creativity into a business opportunity.

Two things should however be noted:

- Although it is a prerequisite, a business idea is only a tool;
- An idea by itself, however good, is not sufficient for success.

In other words, notwithstanding its importance, an idea is only a tool that needs to be developed and transformed into a viable business opportunity. Out of 30 business ideas, there may be only one good business opportunity.

Why Generate Business Ideas?

- You need a great idea to start a new business
- Business ideas need to respond to market needs
- Business ideas need to respond to changing consumer wants and needs
- Business ideas help entrepreneurs to stay ahead of the competition
- Business ideas use technology to do things better
- Business ideas are needed because the life cycles of products are limited

Sources of Business Ideas

There are millions of entrepreneurs throughout the world and their testimonies suggest that there are many potential sources of business ideas. Some of the more useful ones are outlined below.

- **Hobbies/Interests:**

A hobby is a favorite leisure-time activity or occupation. Many people, in pursuit of their hobbies or interests, have founded businesses. If, for example, you enjoy playing with computers, cooking, music, traveling, sport or performing (to name but a few), you may be able to develop this hobby/interest into a business. To illustrate this, if you enjoy traveling, performing and/or hospitality, you may consider going into tourism, which is one of the biggest industries in the world.

- **Personal Skills and Experience:**

Over half of the ideas for successful businesses come from experiences in the work place. For example, a mechanic with experience in working for a large garage who eventually sets up his/her own car repair or used car business. Thus, the background of potential entrepreneurs can play a crucial role in the decision to go into business as well as the type of venture to be created. Your skills and experience are probably your most important resource, not only in generating ideas but also in capitalizing on them to develop a good business opportunity.

- **Franchises:**

A franchise is an arrangement whereby the manufacturer or sole distributor of a trademark, product or service gives exclusive rights for local distribution to independent retailers in return for their payment of royalties and their willingness to conform to standardized operating procedures. Franchising may take several forms, but the ones of interest to potential entrepreneurs are the types that offer a name, image and method of doing business and operating procedures.

In the 1990s franchising experienced tremendous growth, becoming a much-used method of going into business for the millions of enterprises that were starting up in the USA and Europe. In the 1990s, there were over 2,000 types of franchise businesses, accounting for over US$300 billion in annual sales revenue and about a third of all retail sales in the United States. There are many directories and handbooks as well as associations, including the International Franchise Association, which can provide further information.

- **Mass Media:**

The mass media is a great source of information, ideas and often opportunity. Newspapers, magazines, television, and the Internet are all examples of mass media. Take a careful look, for example, at the commercial advertisements in a newspaper or magazine and you may well find businesses for sale. One way to become an entrepreneur is to buy an existing business.

Articles in the printed press or on the Internet or documentaries on television may report on changes in fashions or specific consumer needs. For example, you may read or hear that people are now increasingly interested in healthy eating or maintaining their physical fitness.

You may also find advertisements calling for the provision of certain services based on skills, for example accounting, catering or security. Or you may discover a new business concept, but investors would be needed.

- **Exhibitions:**

Another way to find ideas for a business is to attend exhibitions and trade fairs. These are usually advertised on the radio or in newspapers. By visiting such events regularly, you will not only discover new products and services, but you will also meet sales representatives, manufacturers, wholesalers, distributors and franchisers. These are often excellent sources of business ideas, information and help you in getting your business started. Some of them may also be looking for someone just like you to be a business partner.

- **Surveys:**

The focal point for a new business idea should be the customer. The needs and wants of the customer, which provide the rationale for a new product or service, can be ascertained through a survey. Such a survey might be conducted informally or formally by talking to people. Surveys may be conducted using a questionnaire, through interviews or through observation.

You may start by talking to your family and friends to find out what product or service they think is needed or wanted but is not available in the market. Or, for example, whether they are dissatisfied with an existing product or service and what improvements or changes they would like to see. You can then talk to people who are part of the distribution chain that is manufacturers, wholesalers, distributors, agents and retailers. It would be useful to prepare a set of questions which might be put on a questionnaire or used in an interview. Given their close contact with customers, these people have a good sense of what is required and what will sell and what will not sell. Finally, you should talk to as many customers as possible (both existing and potential customers). The more information you can get from them, the better.

Besides talking to people, you could also get information through observation. For example, in deciding whether to open a shop on a particular street, you can observe and count the number of people going past on given days and compare these numbers to other sites. Or, if you are interested in an area frequented by tourists, you might sell products from a craft business. Or you may have noticed that there is no decent restaurant or hotel on a tourist route or in a given town.

One way of ensuring that you are not negligent in identifying new business ideas is to be alert at all times to customer needs. One entrepreneur apparently went round at every cocktail party asking if anyone was using a product that did not adequately fulfill its intended purpose. Another monitored the toys of a relative's children looking for ideas for a market niche.

- **Complaints:**

Complaints and frustrations on the part of customers have led to many a new product or service. Whenever consumers or customers complain bitterly about a product or service, or when you hear someone say "I wish there was ....." or "If only there were a product/service that could ....", you have the potential for a business idea. The idea could be to set up a rival firm offering a better product or service, or it might be a new product or service which could be sold to the firm in question and/or to others.

❖ **Change:**

The world is constantly changing. Change can be a threat; however, most entrepreneurs consider change as a challenge and opportunity to trigger new needs for products and services. An innovative entrepreneur always responds to changes in a positive manner.

❖ **Brainstorming:**

Brainstorming is a technique for creative problem-solving as well as for generating ideas. The objective is to come up with as many ideas as possible.

Self- test activity 3.1

1 Explain how Personal Skills and Experience can be source of business idea

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2 Explain how mass media can be source of business idea

8.8.2 What project an entrepreneur should have?

Meaning of project

Project can be defined as a scientifically evolved work plan devised to obtain specific objectives within specified period of time. Taken in this perspective while project can differ in size, nature, objectives and complexity they must all partake of **three basic attributes** of **being a course of action**, of **having specific objectives** and of involving a **definite time perspective**.

Phases of Project Management

An entrepreneur may use the following steps to select the right project for his business.

1. **Project Identification**: It refers to identification of business/investment opportunities. It involves scanning of the environment to find out investment opportunities.
2. **Project Appraisal**: It involves searching, scrutiny, analysis and evaluation of market, technical, financial and economic variables. It examines the viability of the project.
3. **Project Selection**: It is the process of choosing a project rationally in the light of objectives and inherent constraints on the basis of appraisal.
4. **Project Implementation**: It is the stage of birth of an enterprise. At the end of this stage, the idea becomes a reality.
5. **Project Follow Up and Evaluation**: It is the process of assessing the performance of the project after it started functioning. Project evaluation simply means assessing the progress of the project.

8.8.3 Definition of industry and small scale industry

What is industry?

An industry is group of productive organizations that produce or supply goods or services. **In economics** industries are customarily classified as primary, secondary and tertiary. **Primary industry** includes agriculture, forestry, fishing, mining, and etc. **Secondary/manufacturing industry** processes the raw materials supplied by primary industry in to consumer goods or industrial goods or build capital goods used to manufacture consumer or non consumer goods. It also includes energy producing industry & construction industry. **Tertiary/service industry** includes banking, finance, insurance, investment & real estate service; wholesale, and retail trades; transportation, information & communication services;

professional consulting, legal, personal services; hotel, tourism, & entertainment; repair & maintenance services; education & teaching; health, social, welfare, administration, police, security, & defense services.

Small scale industry

For example, small scale industries have been defined as industrial units engaged in manufacturing activities or repairing servicing operations including such operations as quarrying with original investments in plant and machinery not exceeding Rs. 60lakhs(≈Br.1500000) in India.

Self test activity 2.8

1 Define a sound business idea

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2 Identify the sources of a business idea

8.9 Steps in Setting a Small Business

Starting a business means to share rewards and risks and so it is a serious endeavor and requires considerable preparation. Starting a small business requires determination, motivation, and know-how. If an entrepreneur is going to accept the challenge, then he/she must do everything he/she can to improve the chances for success. Though there is no standard rule for the process of starting a new business unit, the following steps are most common;

i. ***Identify Business Opportunity***: Choosing what kind of business to start can be an immobilizing task when confronted with the multitude of opportunities. It's important to determine where the entrepreneur’s passion lays and to understand his personality type. Yet, equally important is what skills he brings to the table for the selected business. Identifying the opportunity and catch holding is itself a predominant skill of an entrepreneur.

ii. ***Build a Business Plan:*** For any start-ups, a business plan allows to gain a better understanding of the industry structure, competitive landscape, and the capital requirements of starting a small business. New business success requires a combination of knowing is to be done and capitalizing on a good opportunity. Writing a business plan just makes good business sense, which will then serve as a road map. It will give a sense of direction and help to get on to the destination with a minimum of time, effort, and expense.

iii. **Funding the business plan:** To start a business, financing is more important in the business. The journey of finding start up funds will be different for each individual. Some start ups such as consulting, requires a few thousands to get a business card even, whereas a retail store could need more. Finding the money needed for the business may come from personal contacts, savings, bank loans, government agencies etc. but formally pooling the finance resources is quite important to have a physical start for a small business.

iv. **Business Structure selection:** The structure of a business is not simple activity to make decision. Whether to choose the partnership, or a sole proprietorship or any form of a corporation will have an impact on the business liability, fund-ability as well as taxes due.

v. **Legalization:** The business has to accomplish the legal requirements to have a smooth startup and for various aids and benefits from the government for the future. Starting a small business requires a routine, yet necessary, paperwork and regulations. That is like choosing the right name for the company, registering the business as per the prevailing rules and regulations etc. The right business name will helps to distinguish the business from a sea of bland competitors, providing the customers with a reason, and aid in the branding of the company.

vi. **Business Location:** One of the multitudes of tasks in starting a business is locating a site for the preferred business. A lot of variables should be taken into account if one should decide to do a business in a certain location. There are many steps in office set up including where to locate the office either in home or to hire a specific office space, buying the necessary office equipment, designing your work space and getting supplies.

vii. **Marketing:** One major task in setting a new business is to market the goods or services which is been produced or manufactured. Marketing the product or service of the business involves finding the right customers and getting the right way to reach them, obtaining feedback from the market, facing the available competition etc. Each step, executed in order, builds a solid foundation for the steps that follow. By progressing in this manner, rather than using the typical haphazard approach, you begin to gain the needed experience.

viii. **Manage business to achieve preset goals:** The last step in the process involves the ongoing management of the started business. Getting a company started is only half the battle. Once business is started, strong management tools and marketing skills are needed in order to stay in business.

Self test activity 2.9

Enlist the steps in setting a small business.

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9 CHAPTER SUMMARY

- There is no universally accepted definition of MSE in the world. Likewise definition employed in Ethiopia is also quite different from others defined.
- According to FeMSEDA (2011), the government of Ethiopia defined as: MSE engaged in manufacturing Micro Enterprises are those business enterprises engaging up to 5 persons including self-employment and with total assets not exceeding Birr 200,000 and Small Enterprises are those business enterprises engaging between 6 and 30 persons and with total

assets of above Birr 200,000 and not exceeding Birr 1.5million and MSE engaged in trade and service sector as Micro Enterprises are those business enterprises engaging up to 5 persons including self-employment and with total assets not exceeding Birr 50,000 and Small Enterprises are those business enterprises engaging between 6 and 30 persons and with total assets of above Birr 50,000 and not exceeding Birr 500,000.

- The role of small business is of decisive importance in any economy. The following are summary of the benefit of micro and small business for an economy**:**
  - ✓ Source of new goods and services
  - ✓ Self-empowerment
  - ✓ Employment generation
  - ✓ Growth potential
  - ✓ Export contribution
  - ✓ Decentralization
  - ✓ Distribution of economic power
  - ✓ Mobilization of resources
  - ✓ Optimal utilization of local resources
- Mismanagement, Implementation delay, Poor information system, Energy problem, improper technology, poor Marketing, Overtrading, Competition, poor Raw materials, cost of production, and unqualified Human resource are identified as the major causes of micro and small business failure.

Exercises of the Chapter

Instruction: The following subjective and objective questions are developed in order to assess student's internalization of the chapter. Hence students are requested to attempt all the questions presented bellow.

Part- I: <u>Choose the best answer among the alternatives</u>

8. What is the base for the definition of micro and small enterprises employed in Ethiopia?
   A. Total capital and number of employees
   B. Total revenue and number of employees
   C. Total capital, total revenue and number of employees
   D. Total capital and total revenues

A. None of the above

9. Which one of the following is not the constraint of micro and small enterprise growth in Ethiopia?
   A. Lack of adequate infrastructure
   B. Lack of working premises
   C. Lack of access to capital
   D. Lack of know how in the field of management and accounting
   E. All are not the constraints
10. Which one is the role of micro and small enterprises in the economy?
    A. Creating an employment for the large part of the society.
    B. Support in the GDP contribution of the country
    C. Contribute in supporting large enterprises
    D. They transform resources into useful goods and services, often creating the circumstances that lead to industrial growth.
    E. All of the above
11. _________ is attractive idea or proposition that provides the possibility of a return for the investor or the person taking the risk.
    A. Business strategy
    B. Business opportunity
    C. Market strategy
    D. Competitive analysis
    E. None
12. Which one is not a Source of Business Ideas?
    A. Hobbies/Interests
    B. Personal Skills and Experience
    C. Franchises
    D. Mass Media
    E. None

10CHAPTER TREE

11 PREPARING A BUSINESS PLAN

12 Introduction

Dear students, in chapter three you have learnt about idea generation and opportunity recognition. Yet, an idea is nothing unless it is communicated and translated into reality. Chapter four deals about how to prepare a sound business plan. Dear student, a business plan a blue-print that directs how a certain business is going to be launched and operated. It is also communication tool that informs business stalk-holders- financers, employees and concerned government bodies. The chapter organized into two sections. Section one detail the basic natures of business plan and its components. Section two provides information about the layouts of a business plan.

Chapter Objectives

At the end of this chapter students should be able to:

- ❖ Prepare a sound business plan
- ❖ List the components of a sound business plan
- ❖ Identify the sources of information for business plan preparation

Pre-test question

- What is a business plan?
- What are the components of a business plan?
- Who are the stalk-holders of a business plan?

12.1 Nature of a Business Plan

Dear students, you are well- come to section one of chapter four. This section covers nature of a business plan, components of business plan and layout of a business plan.

? Dear students, what do you thing about a business plan?

The business plan is a written document that sets out the basic idea underlying a business and related start-up considerations. It can be viewed as a entrepreneur’s game plan.

For the starting of a new venture, a business plan has four basic objectives that include:

- It identifies the nature and context of the business opportunity.
- It presents the approach the entrepreneur plans to take to exploit the opportunity.
- It identifies the factors that will most likely determine the success of the venture.

- It serves as a tool to raise financial capital.

A business plan has two primary functions:

- To provide a clearly articulated statement of goals and strategies for internal use and
- To serve as a selling document to be shared with outsiders.

Business Plans contain key elements that function to define the endeavors of a business enterprise. The preparation of a business plan must be completed by the entrepreneur.

Business plans are the difference between a business that succeeds and one that does not. While the entrepreneur must develop her own plan, it is essential to have the plan reviewed by professionals, and modified accordingly. It may also be advisable to employ a professional proposal writer, accountants, lawyers, and other key individuals in its preparation. If the entrepreneur is going to need financing, partners, or government approval of some kind, then the need for a professional business plan writer becomes vital. Often the difference between the well accepted and funded business, and the ones which fail, is in the presentation of the ideas and the packaging of the proposal.

Self- test activity 4.1

1. Describe what is a business plan?

What is the importance of a business plan?

12.2 A FEASIBILITY PLANNING

12.2.1 Definition of Feasibility Study

A feasibility study looks at the viability of an idea with an emphasis on identifying potential problems and attempts to answer one main question: Will the idea work and should you proceed with it?

It is an analysis and evaluation of a proposed project to determine if it (1) is technically feasible, (2) is feasible within the estimated cost, and (3) will be profitable. It can also be called feasibility analysis or cost benefit analysis.

Before you begin writing your business plan you need to identify how, where, and to whom you intend to sell a service or product. You also need to assess your competition and figure out how much money you need to start your business and keep it running until it is established. Feasibility studies address things like where and how the business will operate. They provide in-depth details about the business to determine if and how it can succeed, and serve as a valuable tool for developing a winning business plan.

12.2.2 The Components of a Feasibility Study

Introductory Parts

- Cover Page
- Table of Contents

Main Parts

i. **Description of the Business:**

The name of the company, its address, vision, mission, goals, and its objectives and the product or services it offers and how it will deliver them are discussed here.

ii. **Market Feasibility:**

Includes description of the industry, current market, anticipated future market potential, competition, sales projections, potential buyers, etc.Specifically, market feasibility study addresses the following:

- Describe the profile of your principal target customers.
- Indicate current market size, trends and seasonal patterns.

- Describe any market research or customer surveys you plan to conduct.
- Assess the nature of your competition.
- Estimate your expected sales and market share.
- Detail the marketing strategy you plan to use.
- Describe your marketing plan, including your sales strategy, advertising and promotion plans, pricing policy, and channels of distribution

iii. **Technical Feasibility**

- Indicate the degree of innovativeness of your venture idea and the risks associated with it.
- Does it need to be subjected to some form of technical evaluation or assessment?
- Details how you will deliver a product or service (i.e., materials, labor, transportation, where your business will be located, technology needed, etc.).

iv. **Managing the supply situation**

How do you plan to assure continuing access to critical supplies of raw materials and component parts at reasonable prices?

v. **Financial Feasibility:**

Projects how much start-up capital is needed, sources of capital, returns on investment, etc.

- **Sources of Capital** can be,
  - Sources from internal operations
  - Short-term sources of debt financing
  - Liquidation of assets
  - Long-term sources of debt financing
  - Sources of equity financing
- **Conduct cost and profitability assessment**
  - Determine the funds required to set up your business.
  - Develop short-term financial projections including:
    - Cash flow forecasts
    - Pro forma profit and loss statements
    - Pro forma balance sheet
  - **Breakeven analysis:**
- **Breakeven analysis**: The breakeven point is the level of operation at which a business neither earns a profit nor incurs a loss.

- It is a useful planning tool because it shows entrepreneurs minimum level of activity required to stay in business.
- With one change in the break even calculation, an entrepreneur can also determine the sales volume required to reach a particular profit target.

vi. **Organizational Feasibility:** Defines the legal and corporate structure of the business (may also include professional background information about the founders and what skills they can contribute to the business).

vii. **Feasibility study Conclusions:** Discusses how the business can succeed. Be honest in your assessment because investors won't just look at your conclusions they will also look at the data and will question your conclusions if they are unrealistic.

viii. End matters

- **Appendices** (statistics, graphs, examples, literature, contracts, samples, etc.)

12.3 Layouts of a Business Plan

A good business plan contains the following sections:

A. Cover page
B. Table of contents
C. Executive summary
D. Information about the owner or promoter of the business
E. Description of the business idea and market
F. Marketing plan
G. Legal form
H. Start-up capital and resources
I. Organization and staff
J. Business operation and costs
K. Financial plan
L. Expected risk analysis
M. Appendices

I. Introductory Contents

The cover page, executive summary, and table of contents will determine what kind of first impression one makes on readers. In many cases, the introductory elements, especially the executive summary, will influence whether readers read the rest of the plan at all. A poorly prepared or unattractive document may not even get a second look! Investors and venture capitalists may be presented with several proposals per day. They cannot, and do not, read them all. Getting your document looked at is a key step in the hunt for investment and support.

The Cover: The cover of the document is often the "First Impression" of a business for any interested parties or investors. The purpose of a cover is to tell the reader what the document is about. Your cover should say the words "Business Plan," and should include:

- Name and business name
- Company logo
- Address
- Telephone number
- Fax number
- E-mail address
- Other contact information

The cover should be attractive and professional looking. Fonts used should be easily read, and color contrasts should be pleasant to the eye.

Executive Summary: The executive summary is what most readers will read first. Lenders in particular read executive summaries before looking at the rest of a plan to determine whether or not they want to learn more about a business. An executive summary may also be used singularly to attract potential curiosity in your company and can be "followed up" with a complete plan if investors are interested. The executive summary is the first part of your plan, but it should be written last. It is an abstract of the pertinent essentials of your business plan. The wording should be chosen very carefully. The executive summary should be short, attention getting, and understandable.

Table of Contents: All pages of your business plan should be correctly numbered and the table of contents should include page numbers. Be sure to list headings for the major sections as well as for important subsections. Thumb tabs for the documents headings are a nice feature and indicate a professional document.

II. Business Description

The business description is the "Business Vision", and includes: who the company is, what it will offer, what market needs it will address, and why the idea will work. A business without vision is a business that will not know what it is doing! The description should include:

1) An overview of the industry the business will be in.

2) A description of the company.

3) The company's positioning.

4) Descriptions of the company's products or services.

5) The company's pricing strategy.

The Industry Overview: Begin the business description with a brief overview of the field the company will be competing in. This is not a discussion of your competition. One is providing an overview of the industry where it and other companies like it will vie. Describe trends in the industry, some history and projections. Do not rely on "best guesses," but use actual industry data from trade associations, government reports and trade journals to support the descriptions. Do not just report the positive side of the industry, include the negative too! For example a discussion of an Internet Services business may include problems anticipated with the number of telephone lines available, or other infrastructure problems with the phone companies involved. Show that all conceivable aspects have been considered.

The Company Description: Begin with your mission statement - a one or two sentence description of the purpose of the business and to whom the product or service is targeted. It is vital that an entrepreneur know what business they are in. Not being clear in the mission statement indicates that one is not clear about the purpose of one's company. It can also indicate that a business is not prepared for the market. When the railroads failed to recognize that they where in the transportation industry, and not the "train" business, they lost out to trucking and airlines for market share. A business person should pay very close attention to this statement, as all else hinges on it. If during the building of the rest of the plan one discovers that the plan is not correlating to the mission statement, then the mission statement or the plan must be modified.

Describe the business. Give a brief history and include information like whether it is a corporation, a retail, or service business. Be complete as to ownership status, location of operations and other pertinent information.

When discussing the company's principals, one doesn't need to provide a complete resume. The resumes are included in another section. You can however point out interesting qualities of the principals. For example, if one of the owners of a research firm has been recognized for discoveries in his field and it relates to the business, then one may include a statement like "Biochemist John Blow, who discovered the X factor in 1994, will head up the research team."

The company's Products or Services: Describe each of the products or services. Go into as much detail as necessary for the reader to get an understanding for what the enterprise will be. Make it interesting. It is important to point out how your particular enterprise is different from other similar businesses. Just saying "It is better" is not enough. You must tell how it is better. Every business claims to be "high quality, better service." While a business must have quality and good service, it is no real selling point, since the consumer is bombarded with that claim at every turn. One cannot bore a reader into buying their proposal! One must convince them about their product or service. If it cannot be done here, it won't be done in the market place when the business starts.

Positioning: Position is your place in the marketplace. How the customers and your competitors perceive your company's product or service refers to its position. This is based on your customers and competition, not your product or enterprise alone. It is the relationship to customers and competition that is emphasized. A business does not have to be the leader or potential leader to be profitable, it does however need to know where it stands or will stand in the industry. This understanding of positioning will aid in the promoting of the company. Avis car rental did quit well with "We're number two, we try harder."

Pricing: Describe what the charge for the product or service is, and how one calculated the price. Once the pricing and rationale are explained, discuss where this pricing strategy places the company in the spectrum of the other providers of this product or service. Also, explain how the price will affect getting the product or service accepted. Tell also how price will affect the company's market share. It is not necessary to assume that lower pricing increases market share.

Sometimes higher prices, as with prestige items, may have the effect of increasing the product's market share. Remember that lower prices require higher volume to achieve the same sales totals. A slightly higher price may not affect the total number of sales but may greatly influence gross profits.

III. The Market

This section is designed to provide enough facts to convince an investor, or potential partner that the business has enough customers to garner sales despite the competition. It is one of the most important parts of the plan, taking into account current market size and trends, and may require extensive professional level research. Having accurate and factual information about the market and presenting it in a cohesive and understandable way shows that the entrepreneur understands the business endeavor. The issues that the marketing section includes: Customers, Market Size and Trends, Competition and Estimated Sales.

Customers: It is important to be specific when describing the customers who will call for the product or service. This description defines the characteristics of the people the endeavor wants to sell to. An existing business should list their current key customers and any sales trends or patterns. A new business should look at the demographics of the potential customers.

Market Size/Trends: This section defines the total market size as well as the slice of the market the business will target. Use numbers as well as trend information to describe the current market and it’s potential. Growth, declines, and new markets opening up are key types information. Recognizing the significance of the statistics and explaining them may require a professional's assistance.

Competition: Present a short discussion of each of the businesses' primary competitors. If available, include annual sales and market share statistics. Each assessment should include the degree to which these companies meet their customers' needs. Explain how one can capture a share of their business.

Estimated Sales: This should include sales in units and dollars for the next three years, with the first year broken down by quarters or even months if appropriate to the endeavor. These numbers will also be used in other financial documents presented later in the plan. Justify the projections using “best case," "worst case “and” most likely" scenarios. Explain what would influence the different scenarios and how those influences effect sales.

IV. Development and Production

In this section describe the current state of the company's product or service and the plan for completing the development. This is also where one familiarizes the reader with how their product is created or services sold. New processes must be contrasted to the old ways, with emphasis on effectiveness and efficiency.

- Development Status
- Production Process
- Cost of Development
- Labor Requirements
- Expenses and Capital Requirements

Development Status: Describe the current status of the company's product or service and what remains to be done to make it ready to be marketed. Include a schedule detailing when this work will be completed. Also, detail the contingencies which must be met before the next phase is commenced.

Production Process: An investor will only provide money for a business he or she understands, so explain the stages of production from the inception of the idea to when it can be sold. With a service company, describe the process of delivering the service. Manufacturing processes and delivery methods also need to be detailed for those enterprises involved in making products.

Also discuss physical location for the production of your product or service. Justify this decision as well, by talking about savings in rent or lease, convenience to suppliers, labor, materials, or other factors important to your business. An investor wants to know that a business does not intend to sell "Ice to Eskimos," simply because the ice is cheaper to make in the Arctic regions!

Cost of Production and Development: Present and explain a design and development budget. This budget should include the cost of the design of a prototype as well as the expense to take it into production. Testing and evaluation expenses should also be included. Be sure to include labor, materials, consulting fees, and the cost of professionals such as patent attorneys. While the cost of production section may be more readily apparent to product companies, this section is important for all businesses. Service businesses have expenses such as consulting services, training for principals, and preparation of documentation materials, among many other things.

Labor Requirements: The management team is outlined in the management section. This section provides details of other labor one will need to start up and run the business. Address how many people are required and what skills they need to possess. Be sure to cover the important issues such as labor pool, recruitment, training, cost of labor, and future labor pool. Training and evaluation of employees, and having enough support personnel to accomplish the mission of the business must be planned for. While having all the other elements of a business are necessary, not having the employees to perform duties of the company can be the death of a company. Any cooperative agreements with colleges, training schools, and state departments of labor should be included in the plan. For example, a treatment center for emotionally disturbed children, located some distance from centers of education, would have a difficult time recruiting professional employees. This may drive salary requirements for recruitment out of range.

Expenses and Capital Requirements: One must also create at least three financial forms that will build a foundation for the financial section of your plan: operating expenses, capital requirements, and cost of goods. Generate spreadsheets for the year in which one establishes the business as well as projections for two years or more after.

Operating Expenses: By creating a financial form called Operating Expenses, you pull together the expenses incurred in running your business. The attention of a business consultant and an accountant is most needed in these preparations. All expenses, the obvious as well as the hidden, must be considered. An experienced consultant can ask the questions that a new entrepreneur would not think of.

Capital Requirements: This form details the amount of money you will need to procure the equipment and resources used to start up and continue operations of the enterprise. Capital Requirements also includes the depreciation details of all purchased equipment. To determine your capital requirements, think about anything in your business that will require money to procure.

Cost of Goods: For a manufacturing company, the cost of goods is the cost incurred in the manufacturing of the product. For a retail or wholesale business, the cost of goods (sometimes called the cost of sales) is the purchase of inventory. To generate a Cost of Goods table, you need to know the total number of units you will sell for a period as well as what other inventory may be on hand, and at what stage of production these units exist. For a manufacturing company, the cost of goods table will include materials, labor, and overhead related specifically to product manufacturing. Cost of waste and byproduct disposal must also be included. For example a company which makes picture frames would be mistaken to calculate the costs of the product based on it containing only 9/10ths of a board foot, if it requires 1 and ½ board feet trimmed down to obtain it.

V. Sales and Marketing

This section of a business plan describes both the strategy and tactics one will use to get customers to buy their products or services. The three components of the sales and marketing section include:

1) Sales and Marketing Strategy
2) Method of Sales
3) Advertising and Promotion

Sales and Marketing Strategy: Think of this statement as an action plan for how a business will get customers to buy their products. It will support the tactics described later on in this section. How will the customers be targeted for the company's products and services?

Method of Sales: Describe available distribution channels and how one will use them. In this section the writer demonstrate her ability and knowledge to get the company's products into the hands of the targeted customers. It also details transaction methods, such as terms for financing the sale, credit card acceptance, check handling, cash transactions, and method of product or service delivery.

Advertising and Promotion: This section should include a description of all advertising vehicles the enterprise plans to use. This includes flyers, newspapers, magazines, radio & TV, Yellow Pages, Internet, etc. It should also include the public relations program, sales/promotional materials (such as brochures and product sheets), package design, trade show efforts, videos, and any other methods.

VI. Management

A good management team can take even a mediocre idea and make it work. In fact, strong entrepreneurial teams have been known to move from business idea to business, repeatedly creating and running thriving companies. These same teams can even turn around a struggling company. When looking for capital to turn around a company, special attention should be paid to this area. Often the people make the difference!

- Description
- Ownership
- Board of Directors/Board of Advisors
- Support Services

Management Description: Use this section to describe company management including the responsibilities and expertise of each person. Many lenders and venture capitalists base their investment decisions on the strength of the company's principals. Include special skills and abilities, as well as complementary aspects of the team's relationship.

For positions that have yet to be filled, detailed job descriptions, and who needs to be hired to achieve success must be described. Describe the talents these persons need to possess and how the addition of that person will help the company meet its objectives. Methods of recruitment and hiring should also be detailed.

Ownership: A short section on who owns and controls the company will help readers derive a better understanding of who will be making decisions. Potential lenders, many of whom will require a significant stake in the company in exchange for funds, will also be interested in what portion of the company's equity is available.

Board of Directors/Board of Advisors: A strong board of directors or board of advisors is an asset to a business. If the board members have industry connections, good reputations, or potential to raise capital for your business, be sure to include these facts. A good board of advisors can also open doors for "networking" that would otherwise not be available. Attention to these details may be the difference between obtaining financial and other resources needed.

Support Services: Strong support services, including consultants, attorneys, accountants, advertising agencies, as well as industry-specific services also help to indicate other's faith in the business. This also shows the ability to attract needed talent to the company.

VII. Financial Documents

This is the section in which one makes the case in words, and backs up what one says with financial statements and forms that document the viability of the business and its soundness as an investment. If one is writing a plan for investors, be sure to include the following sections:

1) Risks
2) Cash Flow Statement
3) Balance Sheet
4) Income Statement
5) Funding Request and Return

Risks: No business is without risks. The ability to identify and discuss them demonstrates skills as a manager and increases a planner’s credibility with potential investors. Be realistic, not admitting risks is the surest way to failure. Knowing your risks helps one have ready-made solutions.

Cash Flow Statement: A cash flow statement shows readers of the business plan how much money will be needed, when it will be needed, and where the money will come from. In general terms, the cash flow statement looks at cash and sources of revenue minus expenses and capital requirements to derive a net cash flow figure. This is done with respect to a given time frame. Initial cash flow statements should reflect the time frames of operation, whether weekly, monthly, or quarterly. The time frame selected most often corresponds to a natural period of the businesses cycle.

Balance Sheet: Unlike other financial statements a balance sheet is created only once a year to calculate the net worth of a business. If your business plan is for a start-up business, you will need to include a personal balance sheet summarizing your personal assets and liabilities. A new business almost always requires the strength of personal financial commitments. Proving that the entrepreneur can keep commitments is important. If the business exists already, include several of the past years balance sheets. Analyze the results of the balance sheet briefly and include this analysis in the business plan. As with all financial documents, have the balance sheet prepared or at least reviewed by a reputable accountant. Decisions about assets and whether they should be classified as owner debt equity or capital investment will greatly influence the perceived strength of the balance sheet.

Income Statement: The income statement is where a planner makes a case for the business potential to generate cash. This document is where the writer records revenue, expenses, capital, and cost of goods. The outcome of the combination of these elements demonstrates how much money a business made or will make, or lost or will lose, during the year. An income statement and a cash flow statement differ in that an income statement does not include details of when revenue was collected or expenses paid. Accrual accounting and cash basis accounting methods will influence the "bottom line" shown.

An income statement projected for a business plan should be broken out by month the first year. The second year can be broken down quarterly, and annually for each year after. Analyze the results of the income statement briefly and include this analysis in the business plan. If the business already exists, include income statements for up to five previous years.

Funding Request and Return: State the amount of funding and the type (debt or partner equity) of investment sought. It is important to provide a breakdown of how the money will be applied. Discuss what effect the capital will have on the business potential to grow and profit, when the money is needed, and what investment has already been made in the company.

A common mistake in a business plan is to be unclear in this section, which turns potential investors away. If the company founders have invested in the company, include this in your plan. Most investors are encouraged by founders putting their own money on the line. Many will ask why a company's principals are not also investors.

Finally, create an exit plan that describes how investors will get their money out of your company. One common investor worry is that even if a business is profitable, it may be difficult for them to get a good price for their equity. A cash-out option in five years or assurance that the company will become a strong candidate for a purchase or an Initial Public Offering are what many venture capitalists and lenders will insist upon. A business owner also may want to be sure that she can "buy back" any equity put up to insure that an investment will be made.

VIII. The Appendix

The Appendix is where related documents and support materials are included. For example if the companies goods or services are featured in a magazine article or trade journal, a copy of the article may be provided. Any reports or other information that would make the Business Plan more complete should also be included here.

Self- test activity 4.2

Describe the lay outs of a business plan

13 CHAPTER SUMMARY

- The business plan is a written document that sets out the basic idea underlying a business and related start-up considerations. A good business plan is prepared for two primary functions: to provide a clearly articulated statement of goals and strategies for internal use and to serve as a selling document to be shared with outsiders.
- Before you begin writing your business plan you need to identify how, where, and to whom you intend to sell a service or product. You also need to assess your competition and figure out how much money you need to start your business and keep it running until it is established. Feasibility studies address things like where and how the business will operate. They provide in-depth details about the business to determine if and how it can succeed, and serve as a valuable tool for developing a winning business plan.
- Introductory section of business plan contains the cover page, executive summary, and table of contents. It determines what kind of first impression one makes on readers. In many cases, the introductory elements, especially the executive summary, will influence whether readers read the rest of the plan.
- The business description section of includes an overview of the industry the business, a description of the company, the company's positioning, Descriptions of the company's products or services and the company's pricing strategy. The business description section of a business plan address: who the company is, what it will offer, what market needs it will address, and why the idea will work.
- The Market section of business plan is designed to provide enough facts to convince an investor, or potential partner that the business has enough customers to garner sales despite the competition. It is one of the most important parts of the plan, taking into account current market size and trends, and may require extensive professional level research. Having accurate and factual information about the market and presenting it in a cohesive and understandable way shows that the entrepreneur understands the business endeavor.
- Development and Production section of a business plan describe the current state of the company's product or service and the plan for completing the development. This is also where one familiarizes the reader with how their product is created or services sold. Basically, this section addresses Development Status, Production Process, Cost of

development, Labor Requirements Expenses and Capital Requirements of the proposed plan.

- Sales and Marketing section of a business plan describes both the strategy and tactics one will use to get customers to buy their products or services. The section sales details the company Sales and Marketing Strategy, Method of Sales Advertising and Promotion
- The Management team section of a business plan details the quality of key employees, forms of business Ownership and the Board of Directors/Board of Advisors. A good management team develops mediocre idea and makes it work. In fact, strong entrepreneurial teams have been known to move from business idea to business, repeatedly creating and running thriving companies.
- Financial description section of a business plan describes financial Risks, Cash Flow Statement, Balance Sheet, Income Statement and Funding Request and Return regarding to the proposed new venture.
- The Appendix section of a business plan consists related documents and support materials. Any reports or other information that would make the Business Plan more complete should also be included here.

Exercises question of the chapter

1. Which one is a business plan basic objectives for new venture?

   A. It identifies the nature and context of the business opportunity.

   B. It presents the approach the entrepreneur plans to take to exploit the opportunity.

   C. It identifies the factors that will most likely determine the success of the venture.

   D. It serves as a tool to raise financial capital.

   E. All

2. Which one is not element of The Cover of a business plan?

   A. Name and business name

   B. Company logo

   C. Address

   D. Business description

   E. Telephone number

3. The Business description part of a business plan includes the following except:

   A. An overview of the industry

B. A description of the company.

C. A detail of marketing strategy

D. The company's positioning.

E. Descriptions of the company's products or services.

4. Which one is not sales and marketing section of a business plan?

A. Sales and Marketing Strategy

B. Method of Sales

C. Advertising and Promotion

D. Method of financing

E. None

14 CHAPTER FOUR

15 PRODUCT AND SERVICE CONCEPT

16 INTRODUCTION

Dear students, so far in chapter four you have learnt about how to prepare a sound business plan and how to communicate it to various stakeholders. Developing sound business plan by itself is nothing unless it is supported by good product and service concept. Products and services are two closely aligned concepts, and, in fact, most products have an element of service in them. For example, a car buyer now buys a comprehensive bundle of service benefits, in addition to the tangible components of the car.

Product is anything that can be offered to a market for attention, acquisition, use or consumption and that might satisfy a need or want. It can be physical good, persons, places, ideas or organization. More often, however, a company's offer to the market place includes physical (tangible product) and intangible attributes (services) with varied consequences for a consumer. For e.g. when Sony offers its television with repair and maintenance services it is not only delivering the physical aspect of the television to customers as a product but the accompanying service as well

16.1 PRODUCT DEVELOPMENT PROCESS

Pretest question

What is the difference between good and service

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The existence and the course of a business in the form of a company, enterprise or corporation are directly linked with the course of its products. A business unit exists to sell products and as far as the product sales go well so is the business unit. Products like everything else in life have a certain life cycle. Each product goes through this life cycle and eventually dies out. There were some products that were disappeared from the market as they entered the decline phase of their life cycle. So due to this fact the long-term operation of a business depends on the ongoing development of new products.

The rapid development of new technologies, the shift change in customer needs and attributes, and the gradual increase of the competition has forced all business to adopt New Product Development (NPD) as a necessary and unavoidable business practice.

However, all the developments of new product may not always succeed. To avoid development of a new product that will not be a success in a market and to minimize the costs of such a development, a NPD process must be well known and followed. Knowledge of such a process can help companies and organizations to successfully develop new products or upgrade existing ones through a series of logical steps, starting from idea generation and ending at the launch of the product into a market.

NPD Stage 1: Idea generation

The first step obviously is to get ideas with regard to possible new products. Think of the sources from which you can get such product ideas. Your answer shown; have been: Customers, Company Salesmen, Competitors, Company Executives, and Employees within the organization including technical people.

As marketing is aimed at satisfaction of consumer needs, an alert marketer can get some ideas from the **customers** for possible new products by keeping his eyes and ear open and more particularly the mind to perceive even needs which are so far unexpressed. Thus, new ideas can come from customer needs or problems requiring solution.

Company salesmen are in an excellent position to help. This is because they are in constant touch with the market, that is, both consumers and costumers. Watching competitors and what they introduce can also be useful for new ideas. Finally **company executives** and even the **lower staff** can be brought in for discussions.

The Interesting method here is what is known as **brain storming.** This is basically done to have a flow of ideas-good and bad. A number of people, say executives of the organization, are called together and asked a question for new ideas or ideas for new products. They are asked to mention it without evaluation. None is criticized. The answers are recorded on a tape recorder so that the flow is not interrupted. Thereafter, the answers generated are evaluated as will be explained in the next stage.

NPD Stage 2: Idea Screening

So far, from the first stage, we have received a number of ideas-good and bad. We have now to screen them to reduce their number to what is likely to be useful. This is known as the `evaluation' or `screening' of ideas stage in this process. Poor ideas must be dropped immediately because unnecessary cost should not be incurred to process them further. The ideas must be consistent with the company's philosophy, objectives, and strategies and be in terms of the resources available in the organization. In general, the ideas are screened in terms of:

- Possible Profitability
- Good Market Potential (Market size)
- Availability of Production Facility
- Availability of Raw Materials for such a product, if selected
- Availability of Finance
- Availability of Managerial Ability
- Uniqueness of Product

NPD Stage 3: Concept Development & Testing

As soon as a single product idea is selected through the process described in levels 1 and 2, a product concept has to be developed so that a complete product can emerge in later levels of the NPD steps. Therefore, the problem one is forced to face in this level is the product concept development and its evaluation. The product concept must be the best from many and this is accomplished by examining all **available concepts** for a single product idea.

Concept Development

A product concept is a printed or pictorial representation and description of a new product. The concept provides a device for communicating to both consumers and the development team the nature of the new product, how it will work, the product's features and characteristics, benefits, and what problems it will solve for the user.

Concept statements provide the basis for gaining feedback from consumers to help measure the strength, viability, and sales potential of a new product

Concept Testing

Concept testing is defined as a marketing research technique that is used to evaluate a concept's market potential and provide information useful in strengthening the concept and developing introductory marketing strategy. Testing a concept involves exposing a product idea to consumers and getting their reaction to it, using a predetermined series of questions designed to measure various reactions, feelings and opinions.

Elements of Concept Tests

- The concept's relevance to consumer needs
- Consumer reaction to product attributes and features
- Reasons consumers purchase concepts
- Major strengths and weaknesses of the concept
- Perceived advantages and disadvantages relative to competitive products
- **Uniqueness**
- **Believability**: the extent to which consumers feel that the concept can deliver the benefits promised
- **Perceived price-value**: consumers expect good value so they are not necessarily turned on by concepts which provide a good value, but a poor price-value relationship can dramatically depress overall appeal
- The expected frequency of purchase

Concept testing can use either qualitative or quantitative techniques. Qualitative techniques, such as in-depth interviews and focus groups, can provide a great deal of useful knowledge regarding consumer reaction to the concept, the concept's strengths and weaknesses, and recommendations for improvement.

NPD Stage 4: Product Development and Evaluation

If the product idea or the concept passes the test, we then proceed to the engineering or the production or the R&D stage. So far, what we had was only a description or an idea. Now this has to be converted into a product. Prototypes are developed and tested. The test can be done under laboratory or field conditions. At this stage of product development, the technical problems, if any, must be solved. This is because the product must not suffer from complaints regarding quality in use. Even a small defect might shorten the life cycle of the product as well as spoil the company's image.

Self- test activity 4.1

1. Briefly describe the elements of product concept development

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2. List the elements of concept test

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NPD Stage 5: Product Testing Stage

Apart from mechanical performance, customer acceptance is essential. In fact, the following can be stated as **requirements for the new product,** after it is designed:

1. Satisfactory performance
2. Customer acceptance
3. Economical production
4. Adequate distribution
5. Adequate servicing arrangements where required, and
6. Effective packaging and branding

A market test should, therefore, be conducted before launching the new product. This will help us find out whether the product can be launched successfully on a commercial scale or not.

If the product is accepted we can proceed. If it is not we can take corrective action. Hence, we can say that the introduction of a new product is not an easy decision. It has to be weighed very carefully in terms of possible markets, the costs involved and the potential profits.

NPD Stage 6: Product Commercialization

If a company decides to go ahead with the commercialization of a new product, it will face the largest costs to date. The company would have already spent much on product idea generation, product idea selection, product development, prototype development and product prototype testing and validation, but the amount of money that commercialization requires is far more. The company will have to built, rent a large full-scale manufacturing facility if it has none or outsource the manufacturing process, it will have to spend a bundle on promotion and advertising, it will have to decide upon and rent or contract a large distribution and delivery system, and it will have to take some very difficult and important decisions about the commercialization process in general.

16.2 PRODUCT LIFE CYCLE

A company which introduces a new product naturally hopes that the product will contribute to the profits and provide consumer satisfaction for a long period of time. This however, does not always happen in practice. So, progressive organizations try to remain aware of what is happening throughout the life of the product in terms of the sales and the resultant profits.

All products and services have certain life cycles. The life cycle refers to the period from the product's first launch into the market until its final withdrawal and it is split up in phases. During this period significant changes are made in the way that the product is behaving into the market i.e. its reflection in respect of sales to the company that introduced it into the market. Since an increase in profits is the major goal of a company that introduces a product into a market, the product's life cycle management is very important.

The product's life cycle - period usually consists of five major steps or phases: Product development, Product introduction, Product growth, Product maturity and finally Product decline. These phases exist and are applicable to all products or services.

Product Development Phase

Product development phase begins when a company finds and develops a new product idea. This involves translating various pieces of information and incorporating them into a new product. A product is usually undergoing several changes involving a lot of money and time during development, before it is exposed to target customers via test markets. Those products that survive the test market are then introduced into a real marketplace and the introduction phase of the product begins. During the product development phase, sales are zero and profit is negative. It is the time of spending with absolute no return.

The Introduction Phase

The introduction phase of a product includes the product launch with its requirements to getting it launch in such a way so that it will have maximum impact at the moment of sale. Large expenditure on promotion and advertising is common, well designed distribution efforts and quick but costly service requirements are introduced.

The Growth Phase

The growth phase offers the satisfaction of seeing the product take-off in the marketplace. This is the appropriate timing to focus on increasing the market share. If the product has been introduced first into the market, (introduction into a "virgin" market) then it is in a position to gain market share relatively easily. A new growing market alerts the competition's attention.

The Maturity Phase

When the market becomes saturated with variations of the basic product, and all competitors are represented in terms of an alternative product, the maturity phase arrives. In this phase market share growth is at the expense of someone else's business, rather than the growth of the market itself. This period is the period of the highest returns from the product. A company that has achieved its market share goal enjoys the most profitable period, while a company that falls behind its market share goal, must reconsider its marketing positioning into the marketplace.

The Decline Phase

The decision for withdrawing a product seems to be a complex task and there are a lot of issues to be resolved before decide to move it out of the market. Dilemmas such as maintenance, spare part availability, service competitions reaction in filling the market gap are some issues that increase the complexity of the decision process to withdraw a product from the market. Often companies retain a high price policy for the declining products that increase the profit margin and gradually discourage the "few" loyal remaining customers from buying it.

16.3 PRODUCT PROTECTION

What is IP?

The term intellectual property, or 'IP', refers to the various rights which the law accords for the protection of creative effort – and especially for the protection of economic value of creative efforts. IP is 'intangible' as opposed to 'physical' in character.

Intellectual property or 'IP' refers to the rights granted by law for the results of innovation and creativity. IP is the rights given to persons over the creations of their minds.

IP rights are rights to intangible things—to ideas, as expressed (copyrights), or as embodied in a practical implementation (patents).

All different forms of intellectual property establish property protection over intangible things such as: inventions, signs, music, knowledge/information etc. The most common forms of IP are patents, trademarks and copyright.

16.3.1 Patents

A patent is a contract between the government and an inventor. The government grants the inventor individuality for a specified amount of time.

At the end, the government publishes the invention, and it becomes part of the public domain. The patent gives the owners a negative right, preventing anyone from making, using, or selling the invention.

Types of Patent

A patent law may provide three categories of patents as: Utility patents, Design patents, and Plant patents.

- **Utility Patents**: Granted for new processes, machines, manufactures, and compositions of matters with a protection for specific period.
- **Design Patents**: Granted for invention of new, original, and ornamental designs for manufactured products with protected specific period.

- **Plant Patents**: Granted for botanical creations (new varieties of plants) that have been asexually reproduced and do not exist in nature with a protected for specific period.

16.3.2 Trademarks

A *trademark* may be a word, symbol, design, or some combination that identifies the source of certain goods.

Trademark rights may be used to prevent others from using a confusingly similar mark, but not to prevent others from making the same goods or from selling the same goods or services under a clearly different mark. Trademarks which are used in interstate or foreign commerce may be registered with the Patent and Trademark Office.

Types of Trademarks

Type	**Types of Marks Covered**	**Duration**
Trade mark	Any word, name, symbol, or device used to identify and distinguish one company's goods from another. **Examples:** *Dell, Nokia, Care Pages, Netflix, Dogster, Fitbit*	Renewable every 10 years, as long as the mark remains in use.
Service mark	Similar to trademarks; are used to identify the services or intangible activities of a business, rather than a business's physical products. **Examples:** *Amazon.com, Orbitz, eBay, Overstock.com*	Renewable every 10 years, as long as the mark remains in use.
Collective mark	Trademarks or service markets used by the members of a cooperative, association, or other collective group. **Examples:** *Rotary International, International Franchise Association*	Renewable every 10 years, as long as the mark remains in use

Certification mark	Marks, words, names, symbols, or devices used by a person other than the owner to certify a particular quality about a good or service. **Examples:** *Florida Oranges, ISO 9000, Underwriters Laboratories*	Renewable every 10 years, as long as the mark remains in use.

16.3.3 Copyright

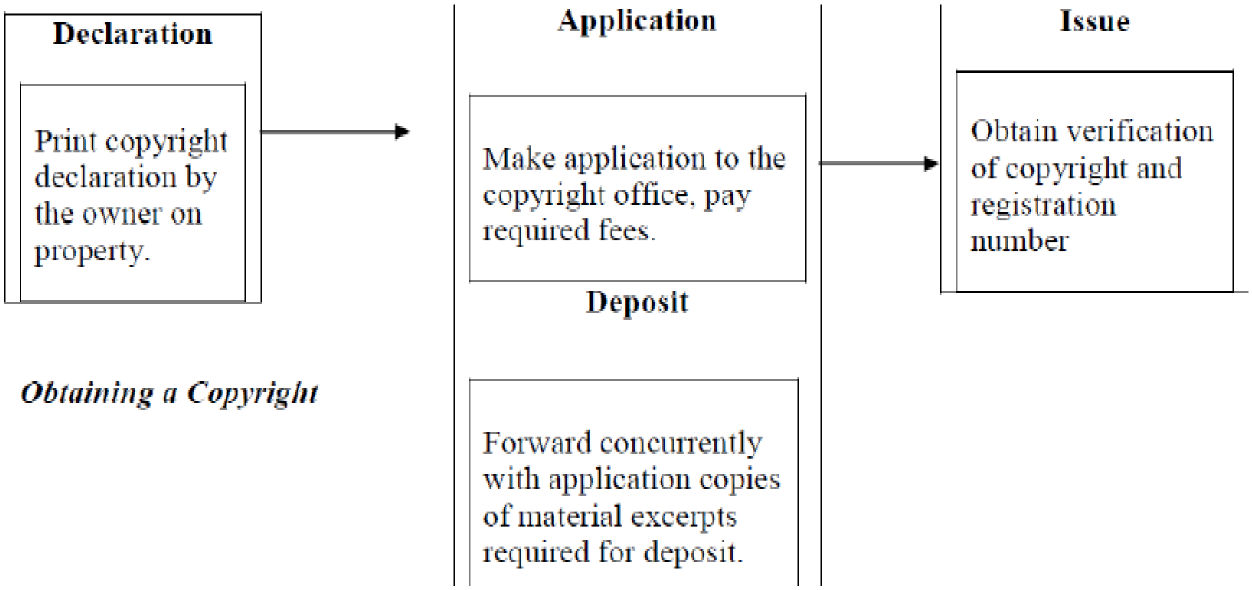
A **copyright** protects original works of authorship. The protection does not protect the idea itself. It allows someone else to use the idea in a different manner.

Copyright is a form of protection provided to the authors of "original works of authorship" including literary, dramatic, musical, artistic, and certain other intellectual works, both published and unpublished

The copyright protects the form of expression rather than the subject matter of the writing. For example, a description of a machine could be copyrighted, but this would only prevent others from copying the description; it would not prevent others from writing a description of their own or from making and using the machine. Copyrights are registered by the Copyright Office.

Obtaining a Copyright

Once a copyright declaration has been printed on material, a formal filing process may proceed as follows.



Obtaining a Copyright

Self- test activity 4.2.

Discus about the difference between trade mark, patent and copyright

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17 Chapter summery

- Products and services are two closely aligned concepts, and, in fact, most products have an element of service in them. For example, a car buyer now buys a comprehensive bundle of service benefits, in addition to the tangible components of the car.

- The rapid development of new technologies, the shift change in customer needs and attributes, and the gradual increase of the competition has forced all business to adopt New Product Development (NPD) as a necessary and unavoidable business practice.

- All products and services have certain life cycles. The life cycle refers to the period from the product's first launch into the market until its final withdrawal and it is split up in phases. During this period significant changes are made in the way that the product is behaving into the market i.e. its reflection in respect of sales to the company that introduced it into the market. Since an increase in profits is the major goal of a company that introduces a product into a market, the product's life cycle management is very important.
- The product's life cycle - period usually consists of five major steps or phases: Product development, Product introduction, Product growth, Product maturity and finally Product decline. These phases exist and are applicable to all products or services
- All different forms of intellectual property establish property protection over intangible things such as: inventions, signs, music, knowledge/information etc. The most common forms of IP are patents, trademarks and copyright.

Exercises question of the chapter

Q1. List the process of product development

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Q2. Discuses about the product life cycle

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Q3. What are the common types of intellectual prosperity right?

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18 CHAPTER: FIVE

19 MARKETING AND NEW VENTURE DEVELOPMENT

20 Introduction

Dear students, so far in chapter four you have learnt about how to prepare a sound business plan and how to communicate it to various stakeholders. Developing sound business plan by itself is nothing unless it is supported by good marketing strategy. As kottler quote it. “Marketing is Soul of any business”. It is the science and art of how to satisfy customer needs and wants though production and distribution of products. It is the most critical and dynamic element of business.

Therefore chapter five deals about unique marketing issues in entrepreneurship. It is organized into two sections. Section one describes Marketing, market and marketing Information. Finally, section two details about a business location election and the elements to be considered in location analysis.

Chapter objectives:

Upon completion of this chapter, students are able to:

- Define what it meant by marketing
- Identify target markets
- Conduct a sound market survey
- Develop a sound marketing strategy
- Set Strategic location for a suitable market

Pre-test questions

- What is marketing?
- What is the importance of market information?
- What are the elements of location analysis?

20.1 Marketing, market and marketing Information

Dear students, you are well- come to section one of chapter five. This section covers the concept of marketing and marketing information.

The concept of marketing

? **Dear students! What do you think about marketing and marketing information?**

One of the greatest needs of the owners of small businesses is to understand and develop marketing programs for their products and services. Modern marketing programs are built around the "marketing concept" and performance, which directs the owners to focus their efforts on identifying, satisfying and following up the customer's needs at a cost that will bring a profit.

20.2 MARKETING RESEARCH

Marketing research is defined as "the systematic and objective process of gathering, recording, and analyzing data for aid in making marketing decisions." The essence of marketing research is to provide information used in decision making, and for the entrepreneur, there are fundamental differences between market information needed prior to start-up and after a firm is established.

20.2.1 Need for Market Research

To determine what the customers want is not an easy task. The market is composed of a large variety of customers who differ in their education, employment, income, status, preferences, likes and dislikes, and opinions. Some may be located nearer you in your town or state, and the others in distant states or even in other countries. Depending upon several factors like the resources available, the scale of operations, and the impact on profitability, one has to decide which customer groups, called target segments, are of particular interest to the firm. The identification of the target segments helps in making a rough estimate of the market demand for the product.

Once an estimate of the market demand for the product is made, one has to look for the competitive situation prevailing in the market. A firm cannot just pursue its own policies without regard to what the competitors are doing. Competition may be from other small firms or even from large, well established companies. The nature and extent of competition will put several constraints on the marketing policies of a firm. For example, it may not be possible for it to charge a price that is higher than what the competition is charging, especially during the first one or two years. A detailed analysis of the competitive situation will also help in identifying the gaps and opportunities that may be available for exploitation.

One of the most disturbing thoughts that come to an entrepreneur's mind during the conception and implementation stages of setting up a small enterprise is how he would reach the numerous prospective customers. They may be scattered in a wide geographical area. Many products are such that they require the help of marketing intermediaries - wholesalers, distributors, retailers etc. - to reach the ultimate consumers. Through their contacts, experience, and specialization, these intermediaries make the product available and accessible to the target markets. Since intermediaries are independent organizations, they have their own ways of doing business. Their expectations and requirements regarding price, discount, credit, promotional support, and mode of delivery of the product may vary quite considerably. However, these usually conform to the trade practices that are prevalent in the market. Understanding the prevailing trade practices, therefore, forms an essential part of market assessment exercise.

These three things - namely, analysis of the market demand, the competitive situation, and the trade practices - are important for sound market research.

Self test activity 5.1.

What is the need of conducting marketing research?

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20.3 MARKETING INTELLIGENCE

Marketing intelligence is the systematic collection and analysis of publicly available information about competitors and developments in the marketplace.

Entrepreneurs will become deeply involved in more intense research questions after they have identified a particular commercial opportunity. The following are suggested categories of information sources.

Existing Competitors: existing competitors can be identified through telephone directories, associations, licensing agencies, advertisements and public documents. Gathering data from manufacturers' brochures, public relations, press releases, service catalogs, and other media is largely a matter of stepping into the role of a potential customer.

Trade Publications: Magazines, newsletters, catalogs, and brochures, available in a product line and service that exists are good sources of information.

Potential Customers: Perhaps the most important source of market information is developed by contacting potential customers. In fact, entrepreneurs must find a way to communicate with potential customers. Communication can take the form of informal discussions with selected end-users or sophisticated research efforts to reach significant numbers of potential customers. Informal chats are easy to arrange, and in some instances they result in very good information

20.4 COMPETITIVE ANALYSIS

For any business, the understanding of the competitive situation is extremely important. In fact, it may be a matter of business life and death. A typical small enterprise may face competition from other small firms, and from large companies having established and well known brand names. The exercise of demand analysis would have already given the entrepreneur a fairly good idea of the nature and extent of competition prevailing in the market. He would have got a rough assessment of the market share being enjoyed by each competitor: However, the true nature and extent of competition can hardly be judged from the market share being enjoyed by each competitor. In order to assess and understand the competitive situation, an entrepreneur should try to answer the following questions:

1. How many firms are in competition with him?
2. What are their market shares?
3. What are the strengths and weaknesses of their products?
4. What kind of consumer image does each product enjoy?
5. What trade practices do the competitors employ?
6. Who are the major customers of each brand?

There are competitive forces beyond direct rivals which shape up the competitive environment that can be better understood with the five forces framework discussed below.

PORTER’S FIVE FORCES FRAMEWORK

The five forces framework developed by **Michael Porter** is the most widely known tool for analyzing the competitive environment, which helps in explaining how forces in the competitive environment shape strategies and affect performance. The framework suggests that there are competitive forces other than direct rivals which shape up the competitive environment.

These competitive forces are as follows:

1) The potential entrants
2) The bargaining power of suppliers
3) The bargaining power of buyers
4) The substitute products
5) The rivalry among competitors in the industry

However, these five forces are not independent of each other. Pressures from one direction can trigger off changes in another which is capable of shifting sources of competition. In the following section each of these five forces are discussed in detail as to understand how each of these forces affect an Industry’s environment so that one can identify the most appropriate strategic position within the industry.

1) Threat of New Entrants

Entry of a firm in and operating in a market is seen as a threat to the established firms in that market. The competitive position of the established firms is affected because the entrants may add new production capacity or it may affect their market shares. They may also bring additional resources with them which may force the existing firms to invest more than what was not required before. Altogether the situation becomes difficult for the existing firms if not threatening always and therefore they resort to raising barriers to entry. These barriers are intended to discourage new entrants and this may be done by organizations, be in any one or more ways, of below:

- Economies of Scale
- Learning or Experience Effect
- Capital Requirements
- Switching Costs
- Cost Disadvantage Independent of Scale
- Brand benefits

2) Bargaining Power of Suppliers

Business organizations have a large dependency on suppliers and the latter influence their profit potential significantly. Suppliers' decisions on prices, quality of goods and services and other terms and conditions of delivery and payments have significant impact on the profit trends of an industry. However, suppliers' ability to do all these depends on the bargaining power over buyers.

Suppliers' bargaining power would normally depend on:

- Importance of the Buyer to the Supplier Group
- Importance of the Supplier's Product to Buyers
- Greater Concentration among Suppliers than among Buyers
- High Switching Costs for Buyers
- Credible Threat of Forward Integration by Suppliers

3) Bargaining Power of Customers

Customers with a stronger bargaining power relative to their suppliers may force supply prices down or demand better quality for the same price and may demand more favorable terms of business. For instance, there will always be a difference in the bargaining power between individuals buying different construction material like cement, steel or bricks and a real estate builder buying them for the number of properties he may have been building over so many years.

Few of the following facts attach greater power to buyers:

- Undifferentiated or Standard Supplies
- Customer's Price Sensitivity
- Accurate Information about the Cost Structure of Suppliers
- Greater Concentration in Buyer's Industry than in Supplier's Industry and Relatively large Volume Purchase
- Credible threat of Backward Integration by Buyers

4) Threat of Substitutes

Often firms in an industry face competition from outside industry products, which may be close substitutes of each other. For example, with the new technologies in place now the electronic publishing is the direct substitutes of the texts published in print. Similarly, newspapers find their closest substitutes in their online version, though it may be a smart strategic move to position them as complementary products. However, the competitive pressure, which any industry may face, depends primarily on three factors:

- Whether the substitutes available are attractively priced;
- Whether buyers view substitutes available as satisfactory in terms of their quality and performance;
- How easily buyers can switch to substitutes.

Generally, it is observed that the availability and acceptability of substitutes determine an upper price limit to a product. When relative prices of the product in question rises above that of the substitute products, customers tend to switch away from them.

5) **Competitive Rivalry**

Few of the following factors explain the level of rivalry:

- The market is growing slowly or shrinking. When the potential to sell products is stagnant or declining, existing firms are unable to grow their market without taking market away from competitors. In this situation rivalry is more likely.
- There are high fixed costs of production. When a large percentage of the cost to produce products is independent of the number of units produced, businesses are pressured to produce larger volumes. This may tempt company es to drastically cut prices when there is excess capacity in the industry in order to sell greater volumes of product.
- Products are perishable and need to be sold quickly. Sellers are more likely to price aggressively if they risk losing inventory due to spoilage or if storage costs are high.
- Products are not unique or homogenous. Undifferentiated products (commodities) compete mainly on price, because consumers receive the same value from the products of different firms. Because firms do not experience any insulation from price competition, there is more likely to be active rivalry.

In an overall assessment, two critical observations regarding rivalry can be made here. First, a powerful competitive strategy employed by one rival can greatly intensify the competitive pressure on other rivals. Second, the frequency and rigor with which rivals use any or all competitive weapons at their disposal can be a major determinant of whether the competitive pressures associated with rivalry are cutthroat, fierce, strong, moderate or weak.

20.5 5.6. Marketing strategy

Marketing strategy includes identifying target markets which a small business can serve well than its large competitors, and tailoring its product offers, prices, distribution, promotional efforts and services towards that particular market segment. Ideally the strategy should address customer needs which are not currently being met in the market and which represent adequate potential size and profitability. A small business cannot be all things to all people, so it must analyze its market and its own capabilities so as to focus on a specific target market.

Target market

Owners of small businesses have limited resources to spend on marketing activities. Concentrating their marketing efforts on one or two key market segments is the basis for their target marketing.

The marketing mix

The marketing mix is used to describe how entrepreneurs can combine the following four areas into an overall marketing program.

- **Products and services:** effective product strategies for a small business may include concentrating on a narrow product line, developing a highly specialized product or service, or providing a product/service package containing an unusually high amount of service.
- **Promotion:** this marketing decision area includes advertising, salesmanship and other promotional activities. In general, high quality salesmanship is a must for small businesses because of their limited ability to advertise heavily.
- **Place/distribution:** manufacturers and wholesalers must decide how to distribute their products. Working through established distributors or manufacturer's agents is generally more feasible for small manufacturers. Small retailers should consider cost and traffic flow as two major factors in location site selection. In other words, low-cost, low-traffic location means spending more on advertising to build traffic.

- **Price:** determining price levels and/or pricing policies (including credit policy) is the major factor affecting total revenue. Generally, higher prices mean lower volume and vice-versa; however, small businesses can often command higher prices because of the personalized service they can offer.

Evaluating marketing performance

After key marketing program decisions are made, entrepreneurs need to evaluate their decisions. Standards of performance need to be established so results can be evaluated against them. Sound data on industry norms and past performance provide a basis for comparing present performance. Owners should evaluate their marketing performance at least quarterly.

The key questions are:

a. Is the business doing all it can to be customer-oriented?
b. Do employees make sure customers' needs are satisfied and leave customers with the feeling that they would enjoy coming back?
c. Can customers find what they want and at a competitive price?
d. How can the consumer acceptance of a product or service be analyzed?

Consumers buy products or services for their own use, but do not buy products for the purpose of making a profit from them. Consumers buy to satisfy their own or their family's wants and needs. When they buy any product or service, they do so because of what they expect the product or service to do for them. People are motivated to buy for two basic reasons:

- **Emotional reasons:** pride in personal appearance, social achievement, ambition, cleanliness, pleasure, increased leisure time.
- **Rational needs:** durability, economy in use, economy in purchase, handiness, efficiency in operation, dependability in use.

Psychologists have determined that consumer buying behavior is primarily directed toward satisfying certain basic needs. These very basic needs include food, shelter and clothing. An individual attempting to fulfill the most basic needs is led by rational motives. Persons with few resources need the best products and services for their money in terms of quantity, quality and dependability.

Many consumers won't admit they purchase goods and services to satisfy emotional needs. However, most psychologists believe that pride in personal appearance is an emotional buying motive. Certain motives generally seem to be more rational than others. Because people think of themselves as rational individuals, they tend to express their reasons for buying in very logical ways. To market a product or service successfully, entrepreneurs need to be aware of what motivates consumers to buy a specific product/service.

Analyzing Competition:

Competition must be expected when initiating a business, but having too much competition is an unnecessary risk. It would be better to select a different type of business if there is too much competition. You must know your competitors as well as you know your customers. Business rewards come from being better than your competition. The best way to do that is to know who your competitors are and how they operate. Unfortunately, many entrepreneurs never bother to find out much about their competition until it is too late. The following steps should be taken by entrepreneurs to get to know their competitors.

Step 1: Identify your competitors

i. Direct Competitors: list each by name, address and type of business.
ii. Indirect Competitors: list the name, address and type of business of each firm that provides products and/or services that, while not the same as yours, can be a substitute for yours.

Step 2: Analyze businesses that have recently been set up and recently failed

i. List competitive businesses that have started within the past two years.
ii. List competitive businesses that have gone out of business within the past two years.
iii. Analyze the possible reasons for the businesses that have failed in the last two years. What factor or combination of factors explains the optimism of the new businesses that have succeeded? What factor or combination of factors was present in the businesses that failed?

Step 3: Analyze existing businesses

i. Estimate the sales and turnover of each of your primary competitors.
ii. Rate your competitors in terms of price, quality of product or services, facilities, advertising, promotion and sales.
    - What prices do they charge? What is the quality of their merchandise? How much do they advertise
    - What extra services do they offer?
    - Are their sales terms liberal?
    - Is their location expensive, moderate or cheap?

- Are their production processes and equipment modern? Are their employees well-trained? Are their employees well paid?

iii. Determine if there is a correlation between the firms that have high sales and their methods of operation. That is, do these firms have similar pricing, selling and/or production methods? A thorough analysis of the methods of operation based on the firm's sales should yield valuable information.

Step 4: Compare your proposed business operations against the competition

A. A. Indicate the advantages your products and/or services will have in terms of price, performance, quality, durability and visibility over the competition.

B. Be able to explain why your method of operating your business will be more successful than that of your competitors.

C. If you plan to operate in a manner similar to other businesses, you should be able to explain why:

1. Either the market is large enough to profitably support you and the other firms, or
2. The market cannot support all competitors but your business will be more efficient and/or more effective.

D. If you plan to operate in a manner completely different from the competition, you should be able to explain why no one else is operating that way. Are other not aware of the opportunity? Or, do they know something that you don't?

Important Point entrepreneurs to know about potential customers

- a. **Know the customers:** The market can be segmented either by dividing it into meaningful buyer groups or dividing it according to characteristics such as age, sex, marital and family status, employment, income and trends regarding any of these characteristics.
- **Know what different customer groups wants:** By segmenting the marketing into groups, it is easier for entrepreneurs to determine what products or services each group wants or needs.
- **Know where the customer buys:** Entrepreneurs need to find out where the customers in their market are presently buying, and determine what factors will cause them to switch and buy from their new businesses.

- **Know when the customer buys:** By knowing when customers buy (daily, weekly, monthly, yearly, and seasonally), entrepreneurs will be able to determine such things as possible hours of operation, when to advertise and quantity of merchandise to have on hand at specific times of the year.
- **Know how the customer buys:** Knowing how the customer pays for products and services can help the entrepreneur to determine a credit policy as well as a pricing policy for the business.

Where can customer information be located?

Customer information can be obtained from trade associations (publications), chambers of commerce, government agencies (including local government), newspapers and magazines, and individual research by conducting a market survey in the community.

Self- test activity 5.2.

1. Write the modern definition of marketing

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2. List the Important Point entrepreneurs to know about potential customers**.**

20.6 International markets

An organization can "go international" by crossing domestic borders as it employs any of the strategies discussed above. International expansion involves establishing significant market operations outside a company's home country. Foreign markets provide additional sales opportunities for a firm that may be constrained by the relatively small size of its domestic market and also reduces the firm's dependence on a single national market. Firms expand globally to seek opportunity to earn a return on large investments such as plant and capital equipment or research and development, or enhance market share and achieve scale economies, and also to enjoy advantages of locations. Other motives for international expansion include extending the product life cycle, securing key resources and using low-cost labor. However, to mold their firms into truly global companies, managers must develop global mind-sets. Traditional means of operating with little cultural diversity and without global competition are no longer effective firms.

Methods of Going in to International Market:

There are several methods for going international. Each method of entering an overseas market has its own advantages and disadvantages that must be carefully assessed. Different international entry modes involve a tradeoff between level of risk and the amount of foreign control the organization's managers are willing to allow. Expansion into foreign markets can be achieved through:

1) **Exporting:** It is marketing of domestically produced goods in a foreign country and is a traditional and well established method of entering foreign markets. It does not entail new investment since exporting does not require separate production facilities in the target country. Most of the costs incurred for exporting products are marketing expenses.
2) **Licensing:** It permits a company in the target country to use the property of the licensor. Such property usually is intangible, such as trademarks, patents, and production techniques. The licensee pays a fee in exchange for the rights to use the intangible property and possible for technical assistance.
3) **Joint Venture:** There are five common objectives in a joint venture: market entry, risk/reward sharing, technology sharing and joint product development, and conforming to government regulations. Other benefits include political connections and distribution channel access that may depend on relationships.
4) **Foreign Direct Investment (FDI):** FDI is the ownership of facilities in the target country. It involves the transfer of resources including capital, technology, and personnel. Direct investment may be made through the acquisition of an existing entity or the establishment of a new enterprise. Direct ownership provides a high degree of control in the operations and the ability to better know the consumers and competitive environment. However, it requires a high degree of commitment and substantial resources.

21 CHAPTER SUMMARY

- Marketing is the process identifying, satisfying and following up the customer’s needs at a cost that will bring a profit. In other expression, marketing is the process of delivering and capturing value.
- To determine what the customers want is not an easy task. The market is composed of a large variety of customers who differ in their education, employment, income, status, preferences, likes and dislikes, and opinions. Some may be located nearer you in your town or state, and the others in distant states or even in other countries
- Marketing intelligence is the systematic collection and analysis of publicly available information about competitors and developments in the marketplace .
- The five forces framework developed by **Michael Porter** is the most widely known tool for analyzing the competitive environment. These competitive forces are as follows:

1) The potential entrants
2) The bargaining power of suppliers
3) The bargaining power of buyers
4) The substitute products
5) The rivalry among competitors in the industry

- An organization can "go international" by crossing domestic borders as it employs any of the strategies discussed above. International expansion involves establishing significant market operations outside a company's home country of its domestic market and also reduces the firm's dependence on a single national market.
- Marketing strategy includes identifying target markets which a small business can serve well than its large competitors, and tailoring its product offers, prices, distribution, promotional efforts and services towards that particular market segment. Ideally the strategy should address customer needs which are not currently being met in the market and which represent adequate potential size and profitability.
- The marketing mix is the set of marketing program or all activities of marketing that consists of production, pricing, promotion and placement. A well integrated marketing mix result success.

CHAPTER END QUESTIONS

Instruction: The following subjective questions are formulated to examine students understanding of chapter-Five – Unique marketing issues in entrepreneurship. Therefore, students should attempt to address all questions after careful study the stated chapter.

1. Describe the marketing mix elements

2. List the Steps in Conducting a Market research.

3. Describe how business firms Going in to International Market

22 CHAPTER: SIX

23 LEGAL FORMS OF BUSINESS OWNERSHIP

24 Introduction

Dear students, we hope you get impressed on the information got from chapter five. By now you are going to move on an equally important chapter – chapter six which carries information about legal forms of business ownership. Dear students, one of the first decisions a small business owner must make is to determine the legal form of ownership of the enterprise. The vast majority of all legal business enterprises are organized in one of the following four legal forms: sole proprietorships, partnerships, limited companies or cooperatives. Hence, students should have a basic knowledge of all the legal forms of ownership available and be aware of the relative advantages and disadvantages of each form of ownership. In order to address the above stated issues in detail, chapter six decomposed into one major section and five sub- section s of section one. These sub- sections discuss legal costs and procedures for business ownership, business ownership liabilities**,** business ownership and business continuity and advantages and disadvantages of different forms of ownership

Chapter objectives:

Up on completion of this Chapter students are able to:

- Identify the types of business owner ship forms
- Know the advantages and disadvantages of the forms of business ownership

Pre-test question

- What are the forms of business ownership?
- Which form of business ownership more risky?
- What is the advantage and disadvantage each form of business ownership?

24.1 LEGAL COSTS AND PROCEDURES FOR BUSINESS OWNERSHIP

Dear students, you are well- come to section of one chapter six. This section covers business ownership and business continuity, business ownership liabilities, legal costs and procedures for each type of business ownership and advantages and disadvantages of different forms of ownership.

i. **Sole proprietorship**. The only requirements are to determine (a) if a license is required for the particular business, (b) if a tax or license fee must be paid. Because of the limited restrictions, the sole proprietorship is the easiest business to start and the initial costs are usually low.

ii. **Partnership**. The cost of organizing a partnership is usually low. In addition to any necessary licenses, it is recommended that a partnership agreement, called the Articles of Partnership, be prepared in writing by a competent attorney. The Articles of Partnership should contain at least the following provisions:

A. division of profit or loss
B. compensation to each partner
C. distribution of assets in the event of dissolution
D. duration of the partnership
E. duties of each partner

iii. **Limited company**. It is more difficult to form a limited company than the other two types of business given above, and it is usually more costly. This kind of business is usually in the best position to obtain additional capital. In addition to pledging corporate assets as collateral, a limited company may sell additional stock in the company to raise funds.

iv. **Cooperative**. The cost of registering a cooperative is low. A written cooperative agreement is required and must be filed with the appropriate government authorities.

Why consult a lawyer when starting a new business?

All forms of legal ownership should be discussed with a competent attorney before any decision regarding the form to select is made. The attorney will need to know as much about the business and its owner(s) as possible, including the personal financial position(s) of the owner(s), so that sound recommendation can be made.

24.2 Business Ownership Liability

? Dear students! Which form of business ownership do you think more risky?

i. **Sole proprietorship**. A sole proprietor is personally liable for all the debts of the business. If necessary, this liability includes all of the proprietor’s personal property and assets.

ii. **Partnership**. Each member of a general partnership is fully liable for all the debts owed by the business regardless of their personal investment in the business, and this liability includes all personal property and assets. Each partner is also responsible and liable for the acts of the other partners with regard to business obligations.

iii. **Limited company**. The stockholders, or owners, of a corporation are liable only for the amount corresponding to their investment. While stockholders may lose the money they have invested in the business, they cannot be forced to pay off company debts with additional money from their personal funds.

iv. **Cooperative**. Each member of the cooperative is fully liable for the debts of the cooperative.

24.3 Business Ownership Liability

? Dear student! Do you think there is a relationship between business ownership and business continuity?

- **Sole proprietorship**. The business is terminated upon the death or incapacity of the owner.
- **Partnership**. The partnership is terminated upon the death, incapacity or withdrawal of any one of the partners, unless the remaining business partners buy the deceased, incapacitated or withdrawn partner's interest.
- **Limited company**. This kind of company has a separate and continuous life of its own, and does not dissolve if a stockholder dies or the stock is sold to another person.
- **Cooperative**. The cooperative has a life of its own.

24.4 Business ownership and management

- **Sole proprietorship:** The sole proprietor may operate the business in any way he or she likes, as long as the law is not broken. When all management decisions are made by one person, it can be a disadvantage.
- **Partnership:** In a general partnership, each partner typically has an equal role in management with the various duties divided among them. Their combined abilities and knowledge may give the partnership an advantage over the sole proprietorship regarding management. The division of management duties may, however, lead to disagreements.

- **Limited company**: Legal procedures must be followed strictly according to company law. The officials of the limited company must file a special document, called the Articles of Incorporation, with the government, pay initial taxes and filing fees, and hold official meetings to deal with specific details of operation and organization.
- **Cooperative**: The management of a cooperative is elected by the members of the cooperative.

6.1. Advantages and Disadvantages of Different Forms of Business Ownership

Table 6.1**: advantages** and disadvantages of different forms of ownership

Ownership Form	Advantages	Disadvantages
Sole Proprietorship	1. Low costs to start 2. Minimum regulations 3. Direct control of business 4. Low working capital requirements 5. Tax advantages 6. Owner receives all Profits	1. Unlimited liability 2. Lack of continuity 3. Difficulty in raising capital 4. Responsible for all decisions
Partnership	1. Easy to form 2. Low costs to start 3. Added capital sources 4. Shared management 5.Possible tax advantages	1. Unlimited liability 2. Lack of continuity 3. Shared authority 4. Difficulty in raising additional capital 5. Difficulty in finding suitable partners
Limited Company	1. Limited liability 2. Management can specialize 3. Transferable ownership 4. Continuous existence 5. Legal entity 6. Potential tax advantages 7. Easier to raise capital	1. Closely regulated 2. Most expensive form to organize 3. Charter restrictions 4. Extensive record keeping required 5. Double taxation (company and stockholders)
Cooperative	1. Means to empower poor 2. Joint self-help 3. Organizational structure	1. Hard to keep qualified members 2. Members contributing to

	helps all members 4. Shared risk-taking 5. Easier to raise capital 6. Combines individual Skills	cooperative unequal 3. Shared authority 4. Gender issues

Self- test activity 6.1

1. Distinguish a sole proprietorship, a partnership, a limited company and a cooperative?

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2. What are the legal costs and procedures for starting all four types of business ownership?

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25 CHAPTER SUMMARY

- Generally, there are about four forms of legal business ownership practiced in Ethiopia. These are sole proprietorship, partnership, limited company and cooperatives. Each legal form of businesses ownership has its own characteristics regarding to easiness of formation, Liability of owners, Continuity of the business, Management of the business, Acquiring additional capital, and Taxation.

- **Sole proprietorship** is form of business ownership formed by sole proprietor. In this forms of business ownership the person who forms the business is personally liable for all the debts of the business. The liability may include all of the proprietor's personal property and assets.
- **A general partnership** is fully liable for all the debts owed by the business regardless of their personal investment in the business, and this liability includes all personal property and assets. Each partner is also responsible and liable for the acts of the other partners with regard to business obligations.
- **In Limited company** The stockholders, or owners, of a corporation are liable only for the amount corresponding to their investment. While stockholders may lose the money they have invested in the business, they cannot be forced to pay off company debts with additional money from their personal funds.
- **In a Cooperative** form of business ownership each member of the cooperative is fully liable for the debts of the cooperative.

Excurses of the chapter

Part one: choice

1. Which statement is true about Sole-Proprietorship and partnership?
   - **A.** In Sole-Proprietorship, the owners will be more than one person.
   - **B.** Partnership is more risky than Sole-Proprietorship
   - **C.** Partnership is difficult than Sole-Proprietorship to form
   - **D.** A&B
   - **E.** None
2. Which one is not the advantage of partnership?
   - **A.** Easy to form
   - **B.** Low costs to start
   - **C.** Unlimited liability
   - **D.** Added capital sources
   - **E.** Shared management
3. Which form of legal ownership is liable to double taxation?
   - **A.** Sole proprietorship
   - **B.** Limited company
   - **C.** Partnership

D. None

4. Unlimited liability is both the disadvantage of :

   A. Sole proprietorship and partnership

   B. Sole proprietorship and Limited company

   C. Limited company and partnership

   D. None

5. The Articles of Partnership provision contains:

   A. division of profit or loss

   B. compensation to each partner

   C. distribution of assets in the event of dissolution

   D. duration of the partnership

   E. All are possible answers

26 CHAPTER: SEVEN

27 ORGANIZING AND FINANCING THE NEW VENTURE

28 Introduction

Dear students, raising the money to launch a new business venture have always been a challenge for entrepreneurs. Choosing the right sources of capital for a business can be just as important as choosing the right form of ownership or the right location. It is a decision that will influence a company for a lifetime, so entrepreneurs must weigh their options carefully before committing to a particular funding source. This chapter emphasis on entrepreneurial firms sources of financing. Basically the chapter details the sources equity financing and debt financing.

Chapter Objective:

After studying this chapter, students are able to:

- Identify the various source of entrepreneurial firm financing
- Compare the advantages and disadvantages of using various sources of finance to start-ups

Pre-test questions

- What are the various source of entrepreneurial firm financing?
- What are the advantages and disadvantages of each sources of financing?

28.1 Common source of financing

28.1.1 Equity financing

? Dear students! What do you think about equity financing and source of equity financing? The main source of equity financing for most entrepreneurs is their personal savings. Financial experts say that one-half of the money needed to start a small business should come from the owner. This means future owners must work and save to have enough money to start a business.

Another popular source of equity financing is money from other sources such as family, friends, venture capitalists, or another business that is generating surpluses.

However, there are a few points to consider. For example, will such investors want to get involved with operating the business? What will happen if the business doesn't succeed? Will it ruin your relationship, especially with family and friends?

Equity financing can also be obtained by selling part of the business to one or more partners. With partners putting in money, it is usually easier to raise the total amount needed. However, partners must be able to get along and sometimes this is not easy. Since many people starting their own business want to make their own decisions, the partnership alternative may not be a good idea.

Self- test activity 7.1

1. What is equity financing?

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2. List the sources of equity financing

28.1.2 Debt financing

? Dear students! What do you think about debt financing and source of debt financing?

When equity sources are not enough, the entrepreneur has the option of borrowing from other sources. Lenders will usually lend money for starting a business to people they know and trust. Lenders are careful not to lend money if the risk is too great. Lenders do not want to lose money if the business fails. Most lenders will, therefore, review the business plan very carefully. This plan should describe how the business will be operated, how much money will be needed and how it will be used, and at what point the business will be profitable.

Most people think of banks when borrowing money. However, it is not always easy for small enterprises to borrow from banks. Banks only lend money when the risk of losing it is very low. Frequently, they will only lend to customers whom they have known for a long time. If someone is thinking of borrowing money at some time in the future, it might be a good idea to develop a good personal relationship with a local banker as soon as possible.

Considerations in applying for a business loan

Different lending institutions have different procedures which have to be followed by the loan applicant. While lending institutions want to help potential borrowers, these institutions have to be assured that repayment of the loan will take place as agreed by the borrower. It is necessary to understand the following factors that are taken into consideration when a banker is appraising a loan application.

- **Type of loan:** short-term (up to one year) or long-term (longer than one year).
- **Purpose of the loan:** it is essential to determine that the applicant will not invest the money in a business venture which is illegal, not favored by government policy, or is viewed unfavorably by the local community.
- **Credit worthiness and integrity of the borrower.** Can the borrower be trusted?
- **Capability:** the business profile of the applicant becomes an indicator of the entrepreneur’s capability to operate the project with professional expertise and effectiveness. Capability helps the lender to understand whether the borrower will be able to utilize the loan for the intended purpose.
- **Repayment period:** this is a very important requirement for both the borrower and the lender. The lender needs to know whether the offer of the borrower to repay is realistic. The lender can ascertain this through statistical and financial projections and advise the applicant regarding a realistic repayment period as well as other details such as the amount of monthly installments.

- **Security:** security or collateral for the loan must be acceptable to the lender. Even if all other conditions are fulfilled, the lender may not grant the loan if security conditions and terms required by the bank are not satisfied. This is especially true when applying for a business loan for the first time.
- **Guarantors:** some lenders call for security both in the form of property and tangible assets and guarantees from friends.
- **Business plan:** this is the major instrument used by any lending institution to decide whether a loan applicant deserves a loan. A business plan discloses whether the intended business is viable or not. A loan applicant may have his own expert prepare a business plan to prove that the loan he is applying for deserves due consideration by the lending organization. The lender always appraises the business plan presented by the applicant and comes to his own conclusions, or prepares his own feasibility study to assess and appraise the viability of the proposed business. A very significant aspect of the business plan is the cost involved and the cash flow. Cash flow, as well as financial and statistical projections, indicates whether the project can generate more money than the costs incurred. These results will indicate to the lender whether the loan is safe and the borrower can repay according to the agreed terms.

Equity and Debt financing comparison

Table 7.1: Equity and Debt financing comparison

TYPE OF FINANCING	**ADVANTAGES**	**DISADVANTAGES**
EQUITY FINANCING		
Using personal savings	1. All of the profit kept. 2. Reduces amount of debt. 3. Risk of loss provides motivation to succeed. 4. Shows good faith to any potential lenders.	1. Chance of loss. 2. May force personal sacrifices. 3. Loss of return from use of savings in other investments.
Involving friends and family	1. Brings in more cash. 2. May be possible to borrow more. 3. Financial risks shared.	1. Part of profits given up. 2. Part of the ownership given up.

Forming a partnership	1. Easy source of cash. 2. Less pressure and restrictions. 3. Informal arrangements.	1. Risk of destroying personal relations 2. May encourage unwanted involvement in business.
Forming a limited company	1. Larger amount of cash raised. 2. Financial risks shared. 3. Legal liability reduced. 4. Tax savings.	1. Part of profits given up. 2. Share of control and ownership given up.
Forming a cooperative	1. Poor people are able to combine financial resources. 2. Financial risks shared.	1. Profits shared. 2. Financial decision-making shared.
Working with financial Institutions	1. Set up to help small businesses. 2. Provides loans.	1. Favors expanding businesses.
DEBT FINANCING		
All forms of borrowing	1. Relatively easy to obtain. 2. Control and ownership of the business maintained. 3. Can be repaid at more advantageous time. 4. May save money. 5. Costs may be tax deductible. 6. Inflation allows repayment with cheaper money.	1. High interest costs. 2. Risk that future profits will not cover repayment. 3. Easy to abuse and overuse. 4. Financial and confidential information must be 5. Lender may impose Limitations or restrictions on borrower.

Self- test activity 7.2

1. Describe debt financing?

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2. Identify the sources of debt financing

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29 CHAPTER SUMMARY

- The primary sources of financing to establish a business may be the owner's equity or/ borrowing from lending institutions
- **Equity financing** is the main source of financing for most entrepreneurs. Financial experts say that one-half of the money needed to start a small business should come from the owner. Personal saving is primary source of equity financing. This means future owners must work and save to have enough money to start a business. Money from other sources such as family, friends, and venture capitalists are also the popular source of equity financing. Equity financing can also be obtained by selling part of the business to one or more partners.
- **Debt Financing is** the second option of financing entrepreneurial firms. When equity sources are not enough, the entrepreneur has the option of borrowing from other sources. Lenders or banks will usually lend money for starting a business to people they know and trust. Lenders are careful not to lend money if the risk is too great. This plan should describe how the business will be operated, how much money will be needed and how it will be used, and at what point the business will be profitable.
- Micro and small business grants provided by Micro and small business incubators are also considered as a source of finance.

Exercises of the chapter

1. What are the advantages and disadvantages of equity financing?

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2. What are the advantages and disadvantages of debt financing

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30 CHAPTER: EIGHT

31 ENTREPRENUERIAL FIRM GROWTH STRATEGIES

32 Introduction

Dear students, Globalization has increased the competition amongst firms. There are more and more companies which are motivated to conquer foreign markets and enlarge their presence on these markets. Choosing the right and appropriate growth strategy has a growing importance. Now days, Small, middle-sized and big companies are using different approaches to reach their target customers, increase profits or ensure the company's growth. Different strategies offer these companies various opportunities to adapt modes to enter foreign markets. Dear student's chapter eight is organized in that gives accurate knowledge about entrepreneurial firm growth strategies. In these chapter growth strategies; exporting, licensing, franchising, joint-venture, strategic alliance and merger and acquisition are included.

Chapter Objectives:

At the end of this chapter students should be able to:

- ❖ Identify entrepreneurial firm growth strategies
- ❖ Understand how each entrepreneurial firm growth strategies can be considered as external and internal growth strategy.

Pre-test question

- What are the common entrepreneurial firm growth strategies?
- What is the advantage and disadvantage of each type growth strategy?

32.1 Type of growth Strategies

Dear students, you are well-come to section one of chapter eight. This section details the entrepreneurial firm growth strategies. In these section growth strategies: exporting, licensing, franchising, joint- venture, strategic alliance and merger and acquisition are going to be discussed.

? Dear students! What do you know about entrepreneurial firm growth strategies?

32.2 Exporting

Exporting is characterized by the transportation of finished goods from one country to another. The distribution on site is done by an intermediary or by foreign based distributors or agents. Exporting represents the least commitment on the part of the firm entering a foreign market. Exporting to a foreign market is a strategy many companies follow for at least some of their markets. Since many countries do not offer a large enough opportunity to justify local production, exporting allows a company to centrally manufacture its products for several markets and therefore to obtain economies of scale. Furthermore, since exports add volume to an already existing production operation located elsewhere, the marginal profitability of such exports tends to be high.

A firm has two basic options for carrying out its export operations. The form of exporting can be directly under the firm`s control or indirect and outside the firm`s control. It can contact foreign markets through a domestically located (in the exporters country of operation) intermediary-an approach called indirect exporting. Alternatively, it can use an intermediary located in the foreign market-an approach termed direct exporting.

- **Indirect Exporting:** Indirect exporting includes dealing through export management companies of foreign agents, merchants or distributors. Several types of intermediaries located in the domestic market are ready to assist a manufacturer in contacting international markets or buyers. The major advantage for managers using a domestic intermediary lies in that individual`s knowledge of foreign market conditions. Particularly, for companies with little or no experience in exporting, the use of a domestic intermediary provides the exporter with readily available expertise. The most common types of intermediaries are brokers, combination export and manufacturers` export agents. Group selling activities can also help individual manufacturers in their export operations.

- **Direct Exporting:** Direct exporting includes setting up an export department within the firm or having the firm`s sales force sell directly to foreign customers or marketing intermediaries. A company engages in direct exporting when it exports through intermediaries located in the foreign markets. Under direct exporting, an exporter must deal with a large number of foreign contacts, possibly one or more for each country the company plans to enter. Although a direct exporting operation requires a larger degree of expertise, this method of market entry does provide the company with a greater degree of control over its distribution channels than would indirect exporting. The exporter may select from two major types of intermediaries: agents and merchants. Also, the exporting company may establish its own sales subsidiary as an alternative to independent intermediaries. Successful direct exporting depends on the viability of relationship built up between the exporting firm and the local distributor or importer. By building the relationship well, the exporter saves considerable investment costs.

Advantageous:

- Avoids the often substantial costs of establishing manufacturing operation the host country.
- Exporting may help a firm achieve experience curve and location economies.

Disadvantages:

- Exporting from the firm's home base may not be appropriate if lower-cost locations for manufacturing the product can be found abroad. Thus, particularly for firms pursuing global standardization or transnational strategies, it may be preferable to manufacture where is the mix of factor conditions is most favorable from a value creation perspective and to export to the rest of the world from that location.
- High transportation costs can make exporting uneconomical, particularly for bulk products. Managers need to manufacture products regionally. This strategy enables the firm to realize some economies from large-scale production and at the same time to limit its transportation costs.
- Tariff barriers can make exporting uneconomical. The threat of tariff barriers by the host-country government can make it very risky.
- A firm delegates its marketing, sales, and service in each country where it does business to another company. This is a common approach for manufacturing firms that are jut beginning to expand internationally. The other company may be local agents often carry the products

of competing firms and so have divided loyalties. In such cases, the local agent may not do as good a job as the firm would if it managed its marketing itself.

Self- test activity 8.1

1 Describe exporting as growth strategy

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2 Explain the advantage of direct exporting over indirect exporting

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32.3 Licensing

Licensing is a business agreement between a licenser and licensee. Licensing may offer the foreign firm access to brands, trademarks, trade secrets or patents associated with products manufactured. Under licensing, a company assigns the right to a patent which protects a product, technology or process or a trademark which protects a product name to another company for a fee or royalty. Using licensing as a method of market entry, a company can gain market presence without a capital investment. The foreign company or licensee gains the right to commercially exploit the patent or trademark on either an exclusive (the exclusive right to a certain geographic region) or an unrestricted basis. Due to advantages of low risk and low investment, licensing is a particularly attractive mode for small and medium-sized firms. Licensing also is an effective mode for testing the future viability of more active involvement with a foreign partner.

Licenses are signed for a variety of time periods. Depending on the investment needed to enter the market, the foreign licensee may insist on a longer licensing period to pay off the initial investment. Typically, the licensee will make all necessary capital investments (machinery, inventory and so forth) and market the products in the assigned sales territories, which may consist of one or several countries. Licensing agreements are subject to negotiation and tend to vary considerably from company to company and from industry to industry.

In some countries where the political or economic situation appears uncertain, a licensing agreement will avoid the potential risk associated with investments in fixed facilities. Representing an export of technology rather than goods (as in exporting) or capital, licensing is an attractive mode in markets where political and economic uncertainties make a greater involvement risky. Both commercial and political risks are absorbed by the licensee. In other countries governments favor the granting of licenses to independent local manufacturers as a means of building up an independent local industry. In such cases, a foreign manufacturer may prefer to team up with capable licensee despite a large market size, because other forms of entry may not be possible.

Advantages of Licensing

1. Firm does not have to bear the development costs and risks associated with opening a foreign market. Normally, the licensee puts up most of the capital necessary to get the overseas operation going. It is attractive for firms lacking the capital to develop operations overseas. For example: A fir ma use licensing when it wishes to participate in a foreign market but is prohibited from doing so by barriers to investment. This was one of the original reasons for the formation of the Fuji-Xerox joint venture in 192. Xerox wanted to participation the Japanese market but was prohibited setting up a wholly owned subsidiary by the Japanese government.
2. Licensing is frequently uses when affirm possess some intangible property that might have business applications, but it does not want to developed those application itself.

For example, Bell Laboratories at AT&T originally invented the transistor circuit in the 1950s, but AT&T decided it did not want to produce transistors, so it licensed the technology to a number of other companies. Similarly, Coca-Cola has licensed its famous trademark to clothing manufacturers, which have incorporated the design into clothing.

Disadvantages of Licensing

1. It does not give a firm the tight control over manufacturing, marketing, and strategy that is required for realizing experience curve and location economies. Licensing typically involves each licensee setting up its own production operation. Te severely limits the firm's ability to realize experience curve and location economies by producing its product in a centralized location.
2. Competing in a global market may require firm to coordinate strategic moves across countries by using profit earned in one country to support competitive attacks in another. By its very nature, licensing limits a firm's ability to utilize a coordinated strategy.
3. Technological know-how constitutes the basis of many multinational firms' competitive advantage. Most firms wish to maintain control over know-how to foreign companies. Most firms wish to maintain control over how their know-how is used, and a firm can quickly lose control over its technology by licensing it.

Self- test activity 8.2

1 Briefly Describe licensing

2 Discuss the advantages and disadvantages of licensing

32.4 Joint-venture

Under a joint venture (JV) arrangement, the foreign company invites an outside partner to share stock ownership in the new unit. The particular participation of the partners may vary, with some companies accepting either a minority or majority position. In most cases, international firms prefer wholly owned subsidiaries for reasons of control; once a joint venture partner secures part of the operation, the international firm can no longer function independently, which sometimes lead to inefficiencies and disputes over responsibility for the venture. If an international firm has strictly defined operating procedures, such as for budgeting, planning and marketing, getting the JV Company to accept the same methods of operation may be difficult.

Problems may also arise when the JV partner wants to maximize dividend payout instead of reinvestment or when the capital of the JV has to be increased and one side is unable to raise the required funds. Experience has shown that JVs can be successful if the partners share the same goals with one partner accepting primary responsibility for operations matters.

Despite the potential for problems, joint ventures are common because they offer important advantages to the foreign firm. By bringing in a partner the company can share the risk for a new venture. Furthermore, the JV partner may have important skills or contacts of value to the international firm. Sometimes, the partner may be an important customer who is willing to contract for a portion of the new unit`s output in return for an equity participation. In other cases, the partner may represent important local business interests with excellent contacts to the government.

A firm with advanced product technology may also gain market access through the JV route by teaming up with companies that are prepared to distribute its products. Many international firms have entered Japan, China and Eastern Europe with JVs. But, not all joint ventures are successful and fulfill their partners` expectations. Despite the difficulties involved, it is apparent that the future will bring many more joint ventures. Successful international and global firms will have to develop the skills and experience to manage JVs successfully often in different and difficult environmental circumstances. And in many markets, the only viable access to be gained will be through JVs.

There are five common objectives in a joint venture. These are:

- ❖ market entry,
- ❖ risk/reward sharing,
- ❖ technology sharing and joint product development, and
- ❖ Conforming to government regulations.

Other benefits of this entry strategy include political connections and distribution-channel access that may depend on relationships. Such alliances often are favorable when the partner's strategic objectives converge while the competitive objectives diverge, the partners' size, market power, and resources are small compared to the industry's leaders and when partners are able to learn from one another while limiting access to their own proprietary skills.

Advantages:

- A firm benefits from a local partner's knowledge of the host country's competitive conditions, culture, language, political systems, and business systems.
- When the development consists or risks of opening a foreign market are high, a firm might gain by sharing these costs and risks with a local partner.
- Many countries, political consideration make joint ventures the only feasible entry mode

Disadvantages:

- Lack of control over technology, For example: a proposed joint venture in 2002 between Boeing and Mitsubishi Heavy Industries to build a new wide-body jet raised fears that Boeing might unwittingly give away its commercial airline technology the Japanese.
- Inability to engage in Global strategic coordination, it does not give a firm the tight control over subsidiaries that it might need to realize experience curve or location economies. Nor does it give a firm the tight control over a foreign subsidiary that it might need for engaging in coordinated global attacks against its rival.

Self- test activity 8.3

List the common objectives of joint-venture

32.5 Franchising

Franchising is a special form of licensing in which the franchiser makes a total marketing program available including the brand name, logo, products and method of operation. Usually the franchise agreement is more comprehensive than a regular licensing agreement in as much as the total operation of the franchisee is prescribed. It differs from licensing principally in the depth and scope of quality controls placed on all phases of the franchisee`s operation. The franchise concept is expanding rapidly beyond its traditional businesses (such as service stations, restaurants and real-estate brokers) to include less traditional formats such as travel agencies, used car dealers, the video industry and professional and health improvement services. About 80 percent of all McDonald`s restaurants are franchised and as of 1999 the firm operated about 24,500 stores in 116 countries.

Advantages:

It similar with licensing, the firm is relived of many of the costs and risks of opening a foreign market on its own. Instead the franchisee typically assumes those costs and risks. This creates good incentives for the franchisee to build a profitable operation as quickly as possible. Thus, using a franchising strategy, a service firm can build a global presence quickly and at a relatively low cost and risk.

Disadvantages:

- Franchising may inhibit the firm's ability to take profits out of one country to support competitive attacks in another. Many service companies, such as hotels, sue franchising, in such instances; the firm has no reason to consider the need for coordination of manufacturing to achieve experience curve and location economies.
- The quality control, the foundation of franchising arrangements is that the firm's brand name conveys a message to consumers about the quality of the firm's product.

Self- test activity 8.4

Differentiate franchising from licensing.

32.6 Strategic Alliance

A more recent phenomenon is the development of a range of strategic alliances. Alliances are different from traditional joint ventures in which two partners contribute a fixed amount of resources and the venture develops on its own. In an alliance, two entire firms pool their resources directly in a collaboration that goes beyond the limits of a joint venture. Although a new entity may be formed, it is not a requirement. Sometimes, the alliance is supported by some equity acquisition of one or both of the partners. In an alliance, each partner brings a particular skill or resource-usually they are complementary-and by joining forces, each expects to profit from the other`s experience. Typically, alliances involve distribution access, technology transfers or production technology with each partner contributing a different element to the venture. Alliances can be in the forms of technology-based alliances, production-based alliances or distribution-based alliances.

Although many alliances have been forged in a large number of industries, the evidence is not yet in as to whether these alliances will actually become successful business ventures. Experience suggests that alliances with two equal partners are more difficult to manage than those with a dominant partner. In particular, it is important to recognize that the needs and aspirations of partners may change over the life of an alliance and do so in divergent ways. Predicting what the goals and incentives of the various parties will be under various circumstances is a critical part of effective planning? Furthermore, many observers question the value of entering alliances with technological competitors, such as between western and Japanese firms. The challenge in making an alliance work lies in the creation of multiple layers of connections or webs that reach across the partner organizations. Eventually such connections will result in the creation of new organizations out of the cooperating parts of the partners. In that sense, alliances may very well be just an intermediate stage until a new company can be formed or until the dominant partner assumes control.

Self- test activity 8.5

Explain the essence of strategic alliance as a growth strategy

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32.7 Mergers and Acquisition

Merger is the activity of unifying two or more independent firms into one business. Whereas acquisitions is the act of purchasing an all ready established firm. Although international firms have always made acquisitions, the need to enter markets more quickly than through building a base from scratch or entering some type of collaboration has made the acquisition route extremely attractive. This trend has probably been aided by the opening of many financial markets, making the acquisition of publicly traded companies much easier. Most recently even unfriendly takeovers in foreign markets are now possible. Nevertheless, international mergers and acquisitions are difficult to make work

Self- test activity 8.6

What is the difference between merger and acquisition?

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33 CHAPTER SUMMARY

- Globalization has increased the competition amongst firms and enlarged the company's willingness to enter foreign markets. Small, middle-sized and big companies are using different approaches to reach their target customers, increase profits or ensure the company's growth. This approaches/ strategies are Exporting, licensing, franchising, joint- venture, strategic alliance and mergers and acquisition.
- Exporting is characterized by the transportation of finished goods from one country to another. The distribution on site is done by an intermediary or by foreign based distributors or agents Exporting might be direct exporting or Indirect Exporting. Indirect exporting includes dealing through export management companies of foreign agents, merchants or distributors whereas direct exporting includes setting up an export department within the firm or having the firm`s sales force sell directly to foreign customers or marketing intermediaries. A company engages in direct exporting when it exports through intermediaries located in the foreign markets.
- Licensing is a business agreement between a licenser and licensee. Licensing may offer the foreign firm access to brands, trademarks, trade secrets or patents associated with products manufactured. Under licensing, a company assigns the right to a patent which protects a product, technology or process or a trademark which protects a product name to another company for a fee or royalty.
- In a joint venture arrangement a foreign company invites an outside partner to share stock ownership in the new unit. The five common objectives in a joint venture arrangement are: market entry, risk/reward sharing, technology sharing and joint product development, and Conforming to government regulations.
- Franchising is a special form of licensing in which the franchiser makes a total marketing program available including the brand name, logo, products and method of operation. Usually the franchise agreement is more comprehensive than a regular licensing agreement in as much as the total operation of the franchisee is prescribed. It differs from licensing principally in the depth and scope of quality controls placed on all phases of the franchisee`s operation.

Exercises of the chapter

Part one: Multiple choices

1 ---------- is setting up of an export department within the firm or having the firm`s sales force sell directly to foreign customers or marketing intermediaries.

- **A.** Direct exporting
- **B.** Licensing
- **C.** Indirect exporting
- **D.** Joint-venture
- **E.** None

2 Which statement is not true about franchising and licensing?

A. Franchising differs from licensing in the depth and scope of quality controls

B. Franchise agreement is more comprehensive than a regular licensing

C. Franchising is always effective growth strategy than licensing

D. A&B

3 Which one is not the advantage of exporting?

- **A.** It Avoid substantial costs of establishing manufacturing operation the host country.
- **B.** It may help a firm achieve experience curve and location economies.
- **C.** High transportation costs particularly for bulk products.
- **D.** None

4 Which one is an objective of a joint venture?

- **A.** market entry
- **B.** risk reward sharing,
- **C.** technology sharing and joint product development
- **D.** Conforming to government regulations.

5 Which statement is true about Strategic alliance?

- **A.** In strategic alliance ,two or more entire firms pool their resources directly in a collaboration
- **B.** In strategic alliance establishment of an independent is mandatory
- **C.** In strategic alliance establishment of an independent is not mandatory
- **D.** A&C

ANSWER SHEET FOR OBJECTIVE QUESTIONS FOR EACH CHAPTER

Chapter2

1. A
2. B
3. E

Chapter 3

1. E
2. B
3. E
4. C

Chapter 4

1. E
2. D
3. C
4. D

Chapter 6

1. C
2. C
3. B
4. A
5. E

Chapter 8

1. A
2. C
3. C
4. E
5. D

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