ENTREPRENEURSHIP DEVELOPMENT

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INTRODUCTION

What is Entrepreneurship?

- Common Themes in Definitions of Entrepreneurship
  - The role of the entrepreneur
  - Innovation
  - Organization creation
  - Creating value
  - Profit or Not-for-Profit
  - Growth
  - Uniqueness
  - Process

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What is Entrepreneurship?

- Entrepreneurship
  - The process whereby an individual or group of individuals use organized efforts to pursue opportunities
    - To create value and grow by fulfilling wants and needs through innovation and uniqueness
      - regardless of personal resource situation.

Misconceptions About Entrepreneurship

- Five Misconceptions
  1. Successful entrepreneurship needs only a great idea
  2. Entrepreneurship is easy
  3. Entrepreneurship is a risky gamble
  4. Entrepreneurship is found only in small businesses
  5. Entrepreneurial ventures and small businesses are the same thing

Small Business and Entrepreneurial Ventures – The Differences

- Small Business
  - Independently owned, operated, and financed
  - has fewer than 100 employees
  - doesn’t engage in new or innovative practices
  - Has relatively little impact on its industry
- Entrepreneurial Ventures
  - An organization pursuing opportunities
  - Characterized by innovative practices
  - Main goals are profitability and growth

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Importance of Entrepreneurship

- Three areas of importance
  1. Innovation
     - Process of creating, changing, experimenting, transforming, and revolutionizing
  2. Number of New Start-ups
     - Important because new firms contribute to economic development through benefits such as product-process innovation
  3. Job Creation
     - Vital to the overall long-term economic health of communities, regions, and nations

The Entrepreneurial Process

1. Exploring the Entrepreneurial Context
2. Identifying Opportunities and Possible Competitive Advantage
   – Opportunities are positive external trends or changes that provide unique and distinct possibilities for innovating and creating value
   – Competitive advantage is what sets an organization apart; it’s competitive edge
3. Starting the Venture
4. Managing the Venture

Types of Entrepreneurs

- Novice Entrepreneur
  - Has no prior business ownership experiences as a business founder, inheritor, or purchaser
- Habitual Entrepreneur
  - Has prior business ownership experience
- Nascent Entrepreneur
  - In the process of starting a new business
  - Can be either a novice or a habitual entrepreneur

Types of Entrepreneurs (cont'd)

- Serial Entrepreneur
  - Has sold or closed an original business and establishes another new business
  - Continues the cycle of selling/closing and establishing
- Portfolio Entrepreneur
  - Retains an original business and builds a portfolio of additional businesses
    - Through inheriting, establishing, and purchasing the businesses

Demographic Profile of Entrepreneurs

- Family birth order and gender
  - Tend to be "first born" and men more likely to start businesses than women
- Work experience
  - Prior entrepreneurial experience positively correlated to being an entrepreneur
- Education
  - Having a high school diploma sharply raises odds of trying to start a business
- Entrepreneurial family
  - Tend to have parents who were entrepreneurial

Personality Profile of Entrepreneurs

- Personality Characteristics Include:
  - High level of motivation
  - Abundance of self-confidence
  - Ability to be involved for the long term
  - High energy level
  - Persistent problem solver
  - High degree of initiative
  - Ability to set goals
  - Moderate risk taker

What Entrepreneurs Do

1. Initially, an entrepreneur is engaged in assessing the potential for the entrepreneurial venture,
   – Then dealing with start-up issues
2. Once the entrepreneurial venture is up and running,
   – The entrepreneur's attention switches to managing the venture

CHARACTERISTICS OF AN ENTREPRENEUR

1. Calculated Risk-taker
2. Innovator
3. Organiser
4. Creative
5. Achievement Motivated
6. Technically Competent
7. Self-confident
8. Socially Responsible
9. Optimistic
10. Equipped with Capability to drive

Difference between Entrepreneur and Intrapreneur

1. An entrepreneur is an independence person who starts his venture and bears full risk of his failure and enjoys the fruit of his success whereas intrapreneur is partially independent and is sponsored by the corporation in which he is working. He is also not liable to bear the losses in case of his failure.
2. An entrepreneur raises the finance from various sources and also guarantees their return whereas an intrapreneur does not own responsibility to raise the capital or to return it.
3. An entrepreneur has no relation with any organisation whereas an intrapreneur operates within the organisation where he is working.

TIPS TO BECOME A SUCCESSFUL ENTREPRENEUR

1. Acquire sufficient and all-round knowledge about an enterprise you intend to start.
2. Be conservative in calculating income and lavish in calculating expenditure.
3. Don’t expect quick and easy returns from your venture.
4. Be prepared for delegation of work when needed.
5. Take moderate risks; neither too high nor too low.
6. Plan systematically and march ahead step by step according to the plan to achieve your goal.
7. Time management is necessary to maximum utilisation of your resources.
8. Collect maximum information about your competitor on continuous basis.
9. Don’t avoid or run away from problems.
10. Take the help of experts and experienced persons or rntrepreneur,when in doubt.

FUNCTIONS OF AN ENTREPRENEUR

1. **Innovations**: J.Schumpeter has made substantial contribution to the literature of entrepreneurship. The process of innovations may be in the form of:

a) Introduction of a new product.

b) Use of new methods of production.

c) Opening of a new market.

d) The conquest of new source of supply of raw material.

e) A new form of organization.

FUNCTIONS OF AN ENTREPRENEUR (Contd.)

2. Risk-taking: Richard cantillon states that entrepreneur is an agent who buys means of production at certain prices and sells them at uncertain prices.

- The entrepreneur performs the function of reducing uncertainty in his plan of investment and expansion of the enterprise.
- J.b. Say also stresses risk-taking as the specific function of an entrepreneur.
- **3. Decision Maker:** Entrepreneur as a decision maker describes the following functions of an entrepreneur.

a) The determination of objectives of an enterprise and the change of those objectives as conditions required or made advantageous,

b) The development of an organisation including efficient relations with subordinates and all employees,

FUNCTIONS OF AN ENTREPRENEUR (Contd.)

- **c)** Securing adequate financial resources,the relations with existing and potential
- Investors,
- d) The acquisition of efficient technological equipment and the revision of it as new machinery appears,
- e)The development of a market for the products and the devising of new products to meet or anticipate consumer’s demand,
- f) The maintenance of good relations with public authorities and with society at large.
- **4. Organisation and Management:** Marshall recognised organisation and management of the enterprise as the important functions of an entrepreneur.
- When the organisation grows bigger, the entrepreneur effectively delegates authority and finds responsibility at various levels of management. The network of decision making becomes more complex.
- The functions of organisation and management includes:

a) Planning of an enterprise,
b) Co-ordination, administration and control,
c) Routine type of supervision.

FEASIBILITY STUDIES AND BUSINESS PLANS

What is a Feasibility Study?

- A feasibility study is an analysis of the viability of an idea through a disciplined and documented process of thinking through the idea from its logical beginning to its logical end.

- A feasibility study provides an ***Investigating*** function that helps answer *“Should we proceed with the proposed project idea? Is it a viable business venture?”*

- A feasibility study should be conducted to determine the viability of an idea BEFORE proceeding with the development of a business.

Levels of Feasibility Assessment

- A feasibility study of an idea is conducted at three levels
  - Operational Feasibility
    - "Will it work?"
  - Technical Feasibility
    - "Can it be built?"
  - Economic Feasibility
    - "Will it make economic sense if it works and is built?"
    - " Will it generate PROFITS?"

Why do a Feasibility Study?

- Provide a thorough examination of all issues and assessment of probability of business success
- Give focus to the project and outline alternatives
- Narrow business alternatives
- Surface new opportunities through the investigative process
- Identify reasons NOT to proceed
- Enhance the probability of success by addressing and mitigating factors early on that could affect the project
- Provide quality information for decision making
- Help to increase investment in the company
- Provide documentation that the business venture was thoroughly investigated
- Help in securing funding from lending institutions and other monetary sources

Data Sources for a Feasibility Assessment

- Data required for a feasibility study can come from primary or secondary sources
  - Primary data can include formal interviews and surveys
    - Collection of primary data can be expensive and time consuming
  - Secondary data can include industry and trade publications, statistics of industry associations, and government agency reports.

Steps for an Economic Feasibility Study

- Identify and Estimate all Capital Expenditures
- Identify and Estimate all Variable Costs related to the Proposed Business Venture
  - Identify People and Skills required to operate
    - Determine Wages, Salaries, and Benefits
- Identify and Estimate Project Related Costs
  - Infrastructure development or improvements
  - Advertising and Promotion
  - Legal Fees
  - Municipal & State Development taxes
- Identify and Estimate all Fixed Costs

Estimating Total Capital Requirements

- Assess the “seed capital” needs of the business project and how these needs will be met
- Estimate capital requirements for facilities, equipment and inventories
- Replacement capital requirements and timing for facilities and equipment
- Estimate working capital needs
- Estimate start-up capital needs until revenues are realized at full capacity
- Estimate contingency capital needs (constructions delays, technology malfunction, market access delays, etc.)
- Estimate other capital needs

Equity and Credit

- Estimate Equity and Credit Needs
  - Identify alternative equity sources and capital availability
    - Producers, Local Investors, Angel Investors, Venture Capitalists
  - Identify and assess alternative credit sources
    - Banks, Government (direct loans or loan guarantees), Grants, Local and State Economic Development Incentives
  - Assess expected financing needs and alternative sources
    - Interest Rates, Terms, Conditions, Covenants, Liens, Etc.
  - Debt to Equity Levels

Cost-Benefit Analysis

Utilize data collected to determine economic feasibility:

- Estimate Expected Costs and Revenue
- Estimate the Profit Margin and Expected Net Profit
- Estimate the sales or usage needed to break-even
- Estimate the returns under various production, price and sales levels to create a “sensitivity analysis”
- Assess the reliability of the underlying assumptions of the financial analysis
- Benchmark against industry averages and/or competitors
- Identify limitations or constraints of the economic analysis
- Project expected cash flow during the start-up period
- Project income statement, balance sheet when reaching full operation

What Defines Feasibility?

- A feasible business venture is one where
  - the business will generate adequate cash flow and profits,
  - the business will withstand the risks it will encounter,
  - the business will remain viable in the long-term, and
  - the business will meet the goals of the founders.

What Next?

- After the feasibility study has been completed and presented to the leaders of the project, they should carefully study and analyze the conclusions and underlying assumptions
- Next they will decide which course of action to pursue
  - Potential Courses of action include
    - **Choosing the most viable business model, developing a business plan and proceeding with creating and operating a business**
    - **Identifying additional scenarios for further study**
    - **Deciding that a viable business opportunity is not available and moving to end the business assessment process**
    - **Following another course of action**

What is a Business Plan?

- A Business Plan summarizes the plan of action after a course of action has been determined through the Feasibility Study
- A Business Plan provides a ***Planning*** function
- A Business Plan outlines the actions needed to take the proposal from “idea” to “reality”
- A Business Plan tells *How* your business will be created and *Why* it will be successful
- A Business Plan provides a road map for strategic planning

Why Write a Business Plan?

- Put the Pieces Together—Do the pieces fit together in a logical manner?
- Create a Blueprint for Action
- Focus Founders and/or Management Team
- Obtain Financing
- Attract Equity Investment
- Attract Key Managers and Employees
- Obtain Contracts
- Create Joint Ventures, Mergers, Acquisitions

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What is included in a Business Plan?

- A Business Plan should be brief, concise & straight to the point
- Main Requirements May Include
  - Industry Description
  - Market Size
  - Customer Base
  - Competitive Advantage
  - Business Location
  - Three years of Financial Projections
  - Monthly Tracking of First Year Financials
  - Management Experience and Profile
  - Personal Statement of Affairs
  - Other Sources of Cash, if any

How Effective Is the Business Plan?

- How effective a Business Plan is depends on how well the following questions are answered:
  - Who are we?
  - What do we do?
  - What do we have to offer?
  - Why will someone pay for our products/service?
  - What resources do we have?
  - Where are we going?
  - What do we need to get there?
  - Why will we be successful?
  - Why should someone participate or invest?
  - How will we measure performance?

What resources are available to help develop each?

- Hired Business Consultants
  - Make sure an accurate assessment is given
  - Make sure someone is not paid to give the answer the group wants to hear
  - Can be costly
- Third Party Unbiased
  - Universities
    - Center for Agribusiness & Economic Development
- Small Business Development Center

PROJECT PLANNING

Steps in Planning

Specification

Global Structure

Project Breakdown

Task Delegation

Time Estimation

Identification of needed resources

Integration of Time/Personnel

Setting Controls/Gates

Specification

A statement of the problem, not the solution.

Normally contains errors, ambiguities, & misunderstandings

Need a *written* definition of requirements and deadlines

Should be clear, complete and rigorous to eliminate misunderstandings, contradictions, oversight of technical difficulties

Sources of Problems

The work duplicates or negates work already done

The deliverable is not appropriate

The time frame is unrealistic

The work depends on work of others

The resources are not available

The cost is prohibitive

Structure

Tasks that must be accomplished

Relationship of each task to the specifications

Who will do what?

When will it be done?

Project Breakdown

Break project down into a series of task.

Break each task down into subtasks.

Continue until all items are doable and understandable.

Skills/processes that must be learned

Equipment/supplies that must be ordered

Preliminary tests

Sample collection

Sample preparation

Measurements

- Experimental setup
- Protocol

Data analysis

Statistical Analysis

Sample Collection

- Contact supplier (at Tech Farm)
- Prepare collection materials
  - Sample container
  - Preservative (e.g. Sodium Citrate)
- Collect sample
- Perform preliminary quality control
- Transport sample
- Store sample

Task Allocation

Assign tasks to specific people (or teams)

Order tasks so that they occur in a logical sequence

Match tasks to abilities of the team

Allow for flexibilities – the team can do sub-planning

Match task with personalities and goals

- Person 1 needs more responsibility
- Person 2 needs more detail
- Person 3 needs to learn how to use the fluorescent microscope

One person (or team) may do multiple tasks (e.g. to reduce boredom).

Do not overspecify

Project Controls

Include

- milestones (clear, unambiguous targets of what, by when)
- established means of communication

Provide job satisfaction

Indicate progress to your supervisors

Allow for quality control checkponts

Provide points of communication

You should distinguish milestones from mill-stones

Planning Strategy

- Formulate an initial plan
- Check with team members for
  - Input on timing
  - Review of tasks and feasibility
- Revise the plan
- Check with your supervisor
- Revise the plan
- Get consensus of team members
- Get supervisor approval

Quality Controls

Establish gates for transition to the next phase (gate/stage processes)

Must examine critical parameters

Should not be overly burdensome

- With respect to time requirements
- With respect to cost
- With respect to what is measured

Leave specifics toward the end

Planning for Unknowns

Identify risky tasks

- Have not been done before
- Rely on new equipment
- Depend on training of personnel

Allow extra margins for risky tasks

Rehearse risky (and expensive) tasks prior to the real thing

- E.g. run the experiment with an inexpensive peptide before using that $2,000/mg designer peptide.

BUSINESS ETHICS

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What is Ethics?

- Ethics may be defined as the set of moral principles that distinguish what is right from what is wrong.

- Ethics has a twofold objective: it evaluates human practices by calling upon moral standards.

- It may give prescriptive advice on how to act morally in a given situation.

How is Ethics Related to Economics

- Philosophers and writers viewed ethics as a matter of choice.

- Individuals must make choices in their lives. This is important to note—businesses don't make choices. Choices are made or implemented by individuals within the economic enterprise.

- People in government make choices, people in educational institutions make choices, people in businesses make choices, people with churches make choices; everyone is forced to make choices, and even the choice not to choose is a decision.

Factors Influencing the Ethical Behavior

Ethical problems may vary from one person to another according to the factors influencing the Ethical Behavior:

- **Legal Interpretations**: In secular societies, legal interpretations are based upon contemporary values and standards according to time, country or situation.

- **Organizational Factors**: The organization too can affect or influence participant’s behavior based on the degree of commitment of the organization's leader conduct

- **Individual Factors**: Individuals come to work with different values based on the personal values and morals, family influences, peer influence and life experiences.

Examples of Ethical Issues

Ethical issues may vary from one organization to another according to the factors influencing the Ethical Behavior:

- conflicts of interest,
- quality control issues,
- discrimination in hiring and promotion,
- misuse of proprietary information,
- abuse of company expense accounts,
- misuse of company assets,
- drug and alcohol abuse,
- environmental pollution, environmental destruction,
- etc.

Ethics at Workplace Business Ethics

- There is increased interaction between the board of directors, audit committees, internal auditors, external auditors, executives, and employees in general regarding ethical conduct in the workplace.

- Business ethics are most simply described as: a process of promoting moral principles and standards that guide business behavior.

Code of Ethics

All organizations, regardless of their mission (e.g., profit oriented, nonprofit) and size (large vs. small), should establish an "Organizational Ethical Culture." that means:

(1) Organization, which is defined as a group of individuals or entities bound to achieve a shared goal;
(2) Ethics, which is honorable behavior conforming to the norm of the group;
(3) Culture, which is a pattern of shared beliefs adopted by the group in dealing with its internal and external affairs.

Business Ethics

Four different levels of business ethics have been identified based on what type of business and how their actions are evaluated.

1. The society level, which defines ethical behavior and assesses the effect of business on society.

2. **The industry level**, which suggests that different industries have their own set of ethical standards (e.g., chemical industry vs. pharmaceutical industry)

3. The company level, under which different companies have their own set of ethical standards

4. The individual manager level, at which each manager and other corporate participants are responsible for their own ethical behavior

CONSEQUENTLY, one feasible way to judge ethical behavior is to focus on determinants of business ethics and behavior such as corporate culture, incentives, opportunities, and choices.

What are the attributes of an ethical culture?

- Sense of employee responsibility.
- Freedom to raise concerns without fear of retaliation.
- Managers modeling ethical behavior and expressing the importance of integrity.
- An understanding by leadership of the pressure points that drive unethical behavior.
- Processes to find and fix these areas of pressure.

Six Principles of Business Ethics and Conduct

- Comply with a written code of business conduct.
- Provide sufficient training to all personnel within their organization regarding personal responsibility under the code.
- Encourage internal reporting of violations of the code with the promise of no retaliation for such reporting.
- Self-govern their activities by implementing controls to monitor compliance with all applicable laws and regulations.
- Share their best practices in implementing the DII principles through participation in an annual Best Practices Forum.
- Be accountable to the public, particularly through the completion of an annual Public Accountability Questionnaire.

NEW PRODUCT DEVELOPMENT

New-Product Development Strategy

- New product development:
  - The development of original products, product improvements, product modifications, and new brands through the firm's own product development efforts.
- New product innovation is very expensive and very risky.
  - $20 - $30 billion is lost on failed food products annually.

New-Product Failures

- Why do new products fail?
  - Overestimation of market size.
  - Product design problems.
  - Incorrectly positioned, priced, or advertised.
  - Pushed by high level executives despite poor marketing research findings.
  - Excessive development costs.
  - Competitive reaction.

New-Product Development Process

- Idea generation
- Idea screening
- Concept development and testing
- Marketing strategy development
- Business analysis
- Product development
- Test marketing
- Commercialization

New-Product Development Process (Contd.)

- Idea generation:
  - Internal sources:
    - Company employees at all levels.
  - External sources:
    - Customers
    - Competitors
    - Distributors
    - Suppliers
    - Outsourcing (design firms, product consultancies, online collaborative communities)
- Idea screening:
  - Process used to spot good ideas and drop poor ones.
  - Executives provide a description of the product along with estimates of market size, product price, development time and costs, manufacturing costs, and rate of return.
  - Evaluated against a set of company criteria for new products.

New-Product Development Process (Contd.)

- Concept development and testing:
  - Product idea:
    - Idea for a possible product that the company can see itself offering to the market.
  - Product concept:
    - Detailed version of the new-product idea stated in meaningful consumer terms.
  - Concept testing:
    - Testing new-product concepts with groups of target consumers to find out if the concepts have strong consumer appeal.
- Marketing strategy development:
  - Part One:
    - Describes the target market, planned value proposition, sales, market share, and profit goals.
  - Part Two:
    - Outlines the product's planned price, distribution, and marketing budget.
  - Part Three:
    - Describes the planned long-run sales and profit goals, marketing mix strategy.

New-Product Development Process (Contd.)

- Business analysis:
  - Involves a review of the sales, costs, and profit projections to assess fit with company objectives.
  - If results are positive, project moves to the product development phase
- Product development:
  - Develops concept into a physical product.
  - Calls for a large jump in investment.
  - Prototypes are made.
  - Prototypes must have correct physical features and convey psychological characteristics.
  - Prototypes are subjected to physical tests.
- Testing marketing:
  - Product and marketing program are introduced in a more realistic market setting.
  - Not needed for all products.
  - Can be expensive and time consuming, but better than making a major marketing mistake.

New-Product Development Process (Contd.)

- Commercialization:
  - Must decide on **timing** (i.e., when to introduce the product).
  - Must decide on **where** to introduce the product (e.g., single location, state, region, nationally, internationally).
  - Must develop a **market rollout** plan.

Managing New-Product Development

- Customer centered new-product development:
  - Focuses on finding new ways to solve customer problems and create more customer-satisfying experiences.
- Team-based new-product development:
  - Various company departments work closely together, overlapping the steps in the product development process to save time and increase effectiveness.
- Systematic new-product development:
  - Innovation management systems collect, review, evaluate, and manage new-product ideas.

The Product Life Cycle

- Product life cycle: The course of a product's sales and profits in its lifetime. It involves five distinct stages:
  - Product development
  - Introduction
  - Growth
  - Maturity
  - Decline

Applying the Product Life Cycle

- Product class has the longest life cycle.
- Product form tends to have the standard PLC shape.
- Brand can change quickly because of changing competitive attacks and responses.
- Style is a basic and distinctive mode of expression.
- Fashion is a popular style in a given field.
- Fads result in a temporary period of unusually high sales driven by consumer enthusiasm. Fads decline quickly.

Practical Problems of PLC

- When used carefully, the PLC may help develop good marketing strategies.
- However, in practice, it is difficult to:
  - Forecast sales level, length of each stage, and shape of PLC.
  - Develop marketing strategy because strategy is both a cause and result of the PLC.
- Marketers should avoid blindly pushing products to next stage and instead seek ways to rescue products and growth sales.