

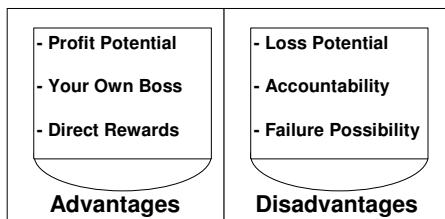
Chapter 6

Entrepreneurship and Business Planning

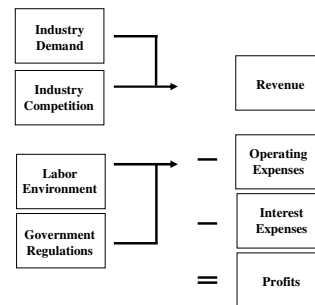
Learning Objectives

- ❶ Identify the advantages and disadvantages of being an entrepreneur and creating a business
- ❷ Identify the market conditions that should be assessed before entering a market
- ❸ Explain how a new business can develop a competitive advantage
- ❹ Explain how to develop a business plan
- ❺ Identify the risks to which a business is exposed, and explain how they can be managed

Entrepreneurship



Industry Effects on a Firm's Performance



Industry Effects on a Firm's Performance

Industry Demand is affected by:

- ❶ Economic Conditions
- ❷ Demographics
- ❸ Consumer Preferences

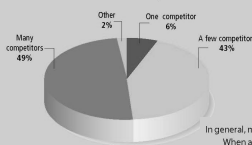
Industry Competition is affected by:

- ❶ Firm's Market Share
- ❷ Level of Competition
- ❸ Development of a Competitive Advantage

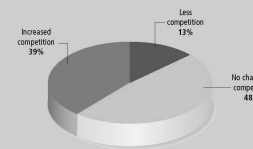
Industry Competition

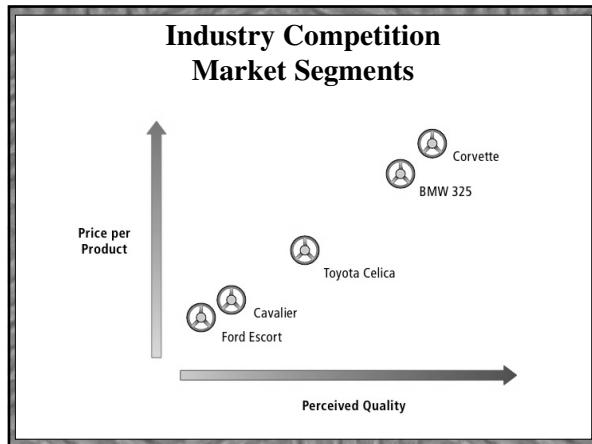
Competition

Based on a recent National Small Business poll conducted for the NFIB Research Foundation, small businesses see their main competition as shown below:



In general, most small businesses are concerned about more than one competitor. When asked how the number of competitors has changed in the last three years, the small businesses responded as follows:





Industry Effects on a Firm's Performance

Labor Environment is affected by:

- ❶ Cost of Labor
- ❷ Skills Needed
- ❸ Unions

Regulatory Environment is affected by:

- ❶ Government Regulation
- ❷ Industry Regulation

Characteristics Affecting Degree of Exposure to Industry Conditions

- ❶ Firm's market share.
- ❷ Firm's focus on its main industry.
 - Higher the focus, the higher the exposure to risk.
 - Diversification: reduces firm's exposure to one industry.
 - Westinghouse: electronics, real estate.
 - However, too much diversification loses focus.
 - Chrysler failed in corporate aircraft, military defense, and car rental.

Developing a Competitive Advantage

- ❶ Low-cost production
- ❷ Better quality
- ❸ Product differentiation

Creating a Business Idea

- Identify a competitive advantage.
- Differentiate the product or service from competitors.
- Determine necessary resources.
- Assess feasibility of the idea.

Business Plan

- **Who is it for?**
 - For the Entrepreneur.
 - For Investors and Creditors.
- **What does it provide?**
 - Detailed description of the proposed business, including types of customers, competition, and facilities needed for production.

Possible Business Plan Sections

Cover Letter
Section 1 Executive Summary
Section 2 Company Background
Section 3 Management Team
Section 4 Environment
Section 5 Management Plan
Section 6 Marketing Plan
Section 7 Financial Plan
Section 8 Appendix

Can be between 25 and 50 pages and take up to six months to complete.



Business Plan: Environment Section

The business environment must be assessed:

- **Economic Environment** – impacts demand for products
- **Industry Environment** – level of competition may impact product pricing strategy
- **Global Environment** – exchange rates may impact the cost of doing business

Business Plan: Management Section

- **Organizational structure**
Identifies roles and responsibilities of each employee in the firm.
- **Production**
Decisions about production process, location, and facilities.
- **Human resources**
Set up work environment that will motivate the employees to help the business succeed.

Business Plan: Marketing Section

- **Target Market**: Profile of the target customer.
- **Product Characteristics**: Detailed description of product.
- **Pricing**: Proposed price of the product(s).
- **Distribution**: How products will get to the customer.
- **Promotion**: How products will be communicated to the target market.

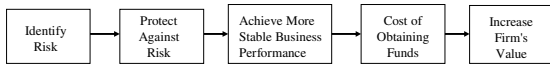
Business Plan: Financial Section

- **Feasibility**
Estimate costs and benefits of the business, including sales forecasts and all expenses.
- **Financing the Business**
Summary of the initial outlay needed to start the business.

Considerations in Assessing a Business Plan

- Potential revenue.
- Demand for product or service.
- Expense of production.
- Overall potential for profitability.

Risk Management



Risk Management

Business Risk: possibility that a firm's performance will be lower than expected because of its exposure to specific conditions.

Protecting against risk:

- Eliminate the risk
- Shift the risk
- Assume the risk

Firm Specific Risk Exposure

Characteristics that influence business risk include:

- Limited funding
- Reliance on one product
- Reliance on one customer
- Reliance on one supplier
- Reliance on a key employee
- Property losses
- Liability losses
- Employee compensation claims

Hedging Against Key Employee Death and Illness

Death of Key Employee

- Whole-life insurance
- Term insurance
- Decreasing term insurance
- Universal life insurance

Illness of Key Employee

- Health insurance
- Diversity of employees



Exposure to Lawsuits

- Firms have been bombarded in recent years by a variety of lawsuits
 - Consumer sues because of product defects.
 - Poorly performing employee who is fired.
 - Employee taking illegal drugs and performing poorly is fired.
 - Employee promoted as the most qualified - less qualified employees sue.
 - Employee is fired for walking into office with a loaded gun.

Exposure to Lawsuits

- Impact on business strategies
 - Compensating injured persons can force companies into bankruptcy.
 - Eliminating products from product line to avoid risk of lawsuits.
 - Withholding products from market to avoid risk of lawsuits.
 - Attempting to avoid unfavorable judgments by using procedures that are well documented and that demonstrate a firm's efforts to treat customers and employees properly