

Essentials of Entrepreneurship and Small Business Management

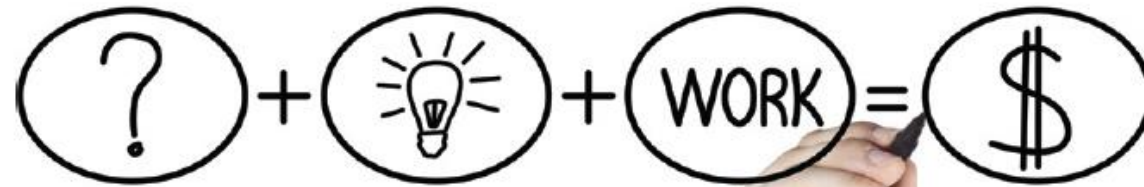
EIGHTH EDITION



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Section 2: The Entrepreneurial Journey Begins

BUSINESS PLAN



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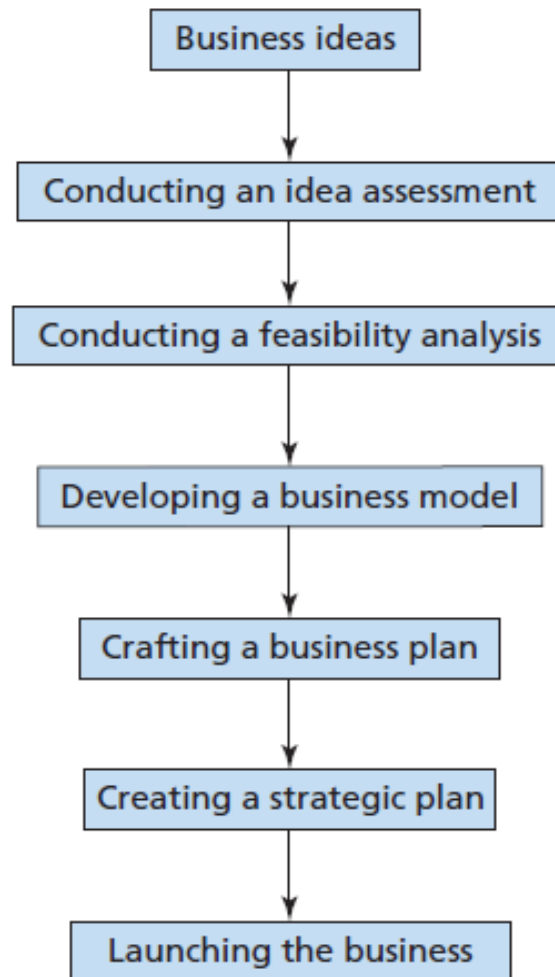
Conducting a
Feasibility Analysis and
Designing a Business
Model

Idea Assessment

❖ Idea assessment:

- ❖ The process of examining a particular need in the market, developing a solution for that need, and determining the entrepreneur's ability to successfully turn the idea into a business.

New Business Planning Process



Idea Assessment

(continued from 4-5)

- ❖ Use an **idea sketch pad** to ask key questions addressing:
 1. Customers
 2. Offering
 3. Value proposition
 4. Core competencies
 5. People

Idea Sketch Pad

The Really Big Idea Sketch Pad v2.

These are the parameters to change when creating or refining a venture or project idea. Think of it as sketching your idea.

name of this idea: _____

Who are the people involved in starting this venture?

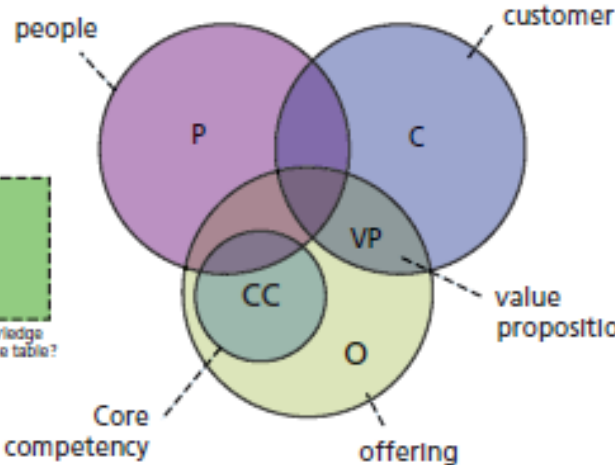
What relevant experience do they bring to the table?

What specific knowledge do they bring to the table?

people

Core competency

Do you have any core, differentiating competencies, such as a technology or science?



customer

value proposition

offering

Who is the user or beneficiary?

How does the user use your offering?

Who is the economic buyer or decision maker?

How many buyers are there?

Why is the offering important to the user?

Why is the offering important to the buyer?

directions

1. Write the answers to each question on Post-it Notes.
2. Put them on the sketchpad in the marked areas, e.g.
3. If you don't have enough room, then simplify.
4. Assess your idea using the "really big idea critique pad".
5. Repeat and replace Post-its liberally.

the innographer

To download and print copies of this sketch pad, visit: www.theinnographer.com/toolkit/really-big-idea

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What type of offering is envisioned? i.e. commodity, good, service, or experience?

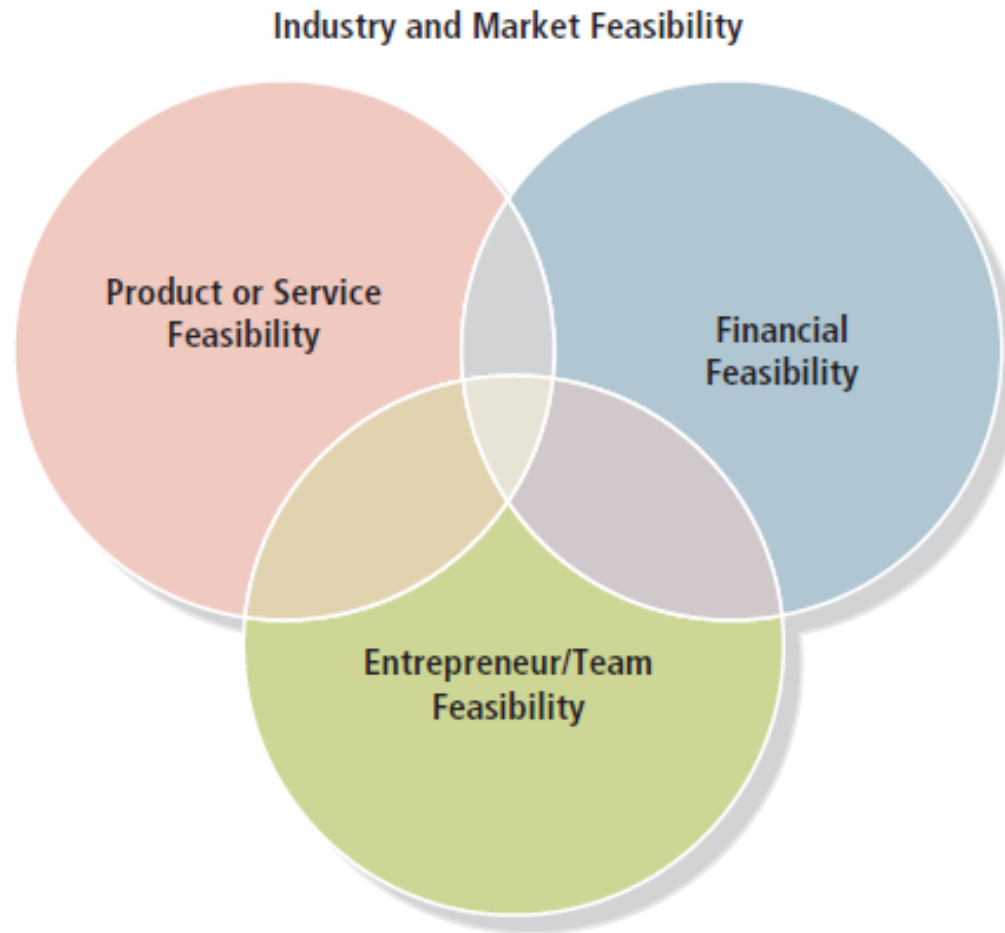
Name and describe it...

Sketch it or otherwise help people visualize it...

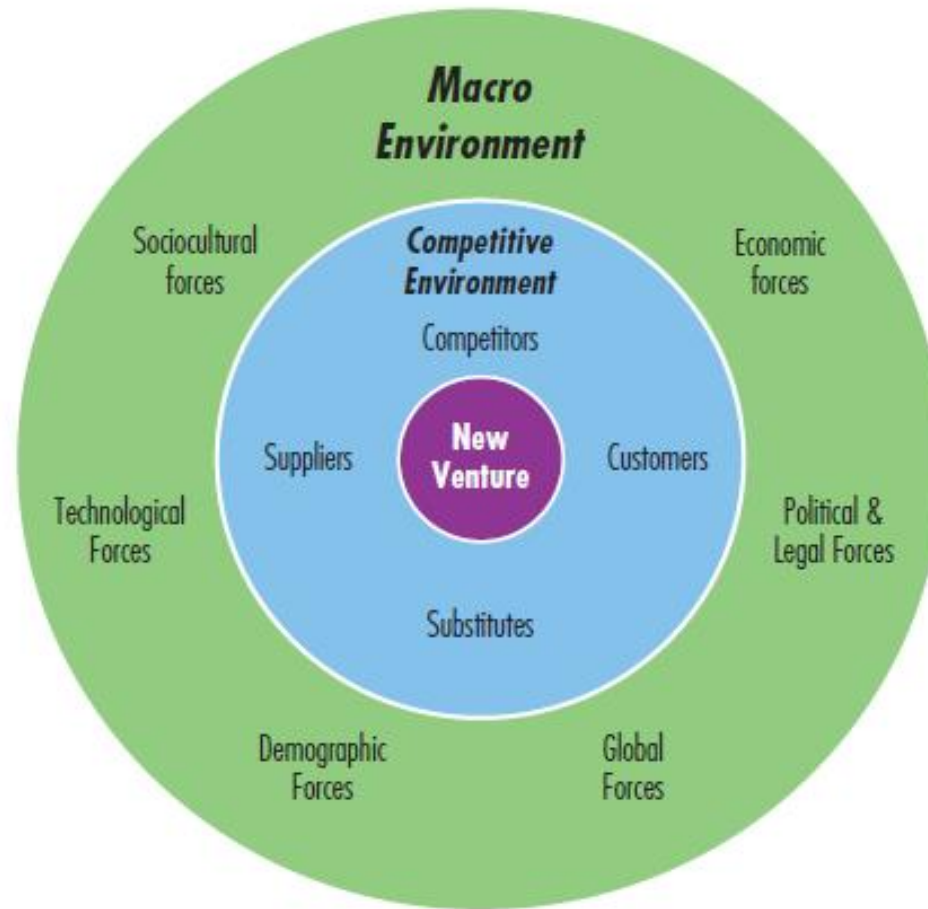
Feasibility Analysis

- ❖ Is a particular idea a viable foundation for creating a successful business?
- ❖ Feasibility study addresses the question: “Should we proceed with this business idea?”

Elements of a Feasibility Analysis



Environmental Forces and New Ventures



Industry and Market Feasibility Analysis

- ❖ Assess industry attractiveness using six macro forces:
 1. Sociocultural
 2. Technological
 3. Demographic
 4. Economic
 5. Political and legal
 6. Global

Industry and Market Feasibility Analysis

(continued)

❖ Ask:

- ❖ How large is the industry?
- ❖ How fast is it growing?
- ❖ Is the industry as a whole profitable?
- ❖ Is the industry characterized by high profit margins or razor-thin margins?
- ❖ How essential are its products or services to customers?

Industry and Market Feasibility Analysis

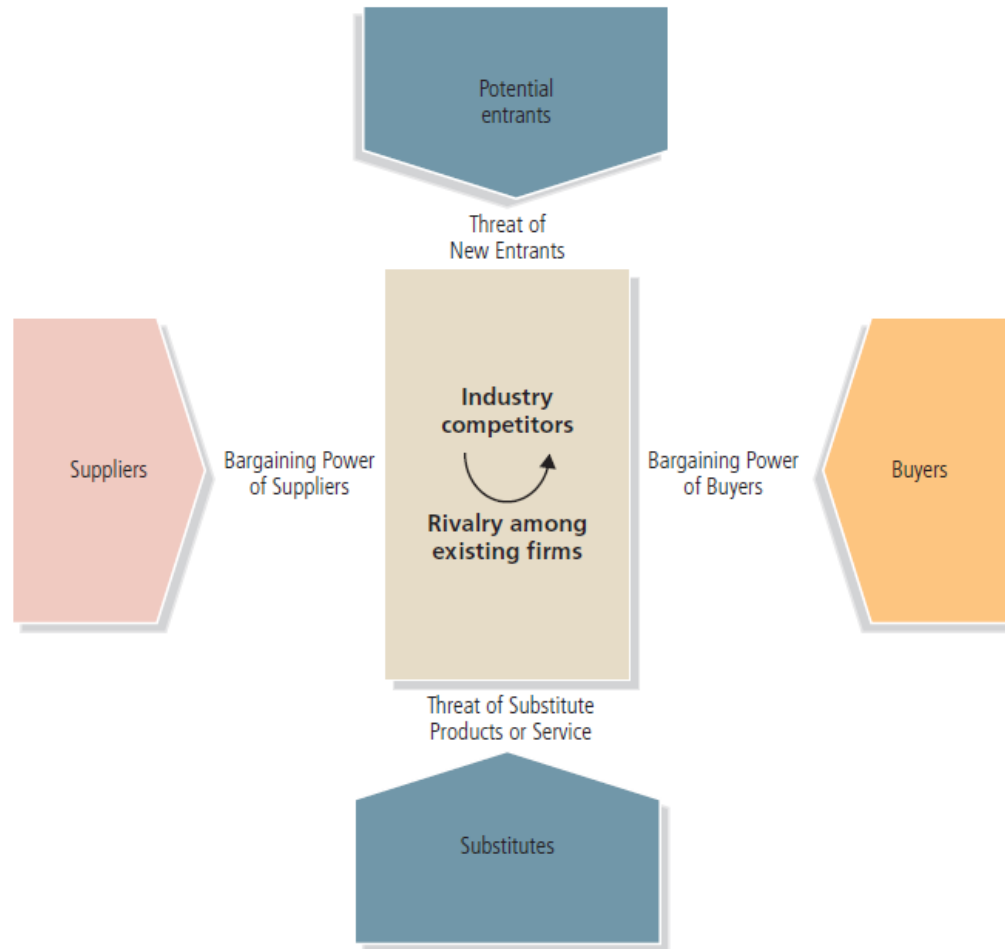
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- ❖ What trends are shaping the industry's future?
- ❖ What threats does the industry face?
- ❖ What opportunities does the industry face?
- ❖ How crowded is the industry?
- ❖ How intense is the level of competition in the industry?
- ❖ Is the industry young, mature, or somewhere in between?

Porter's Five Forces Model

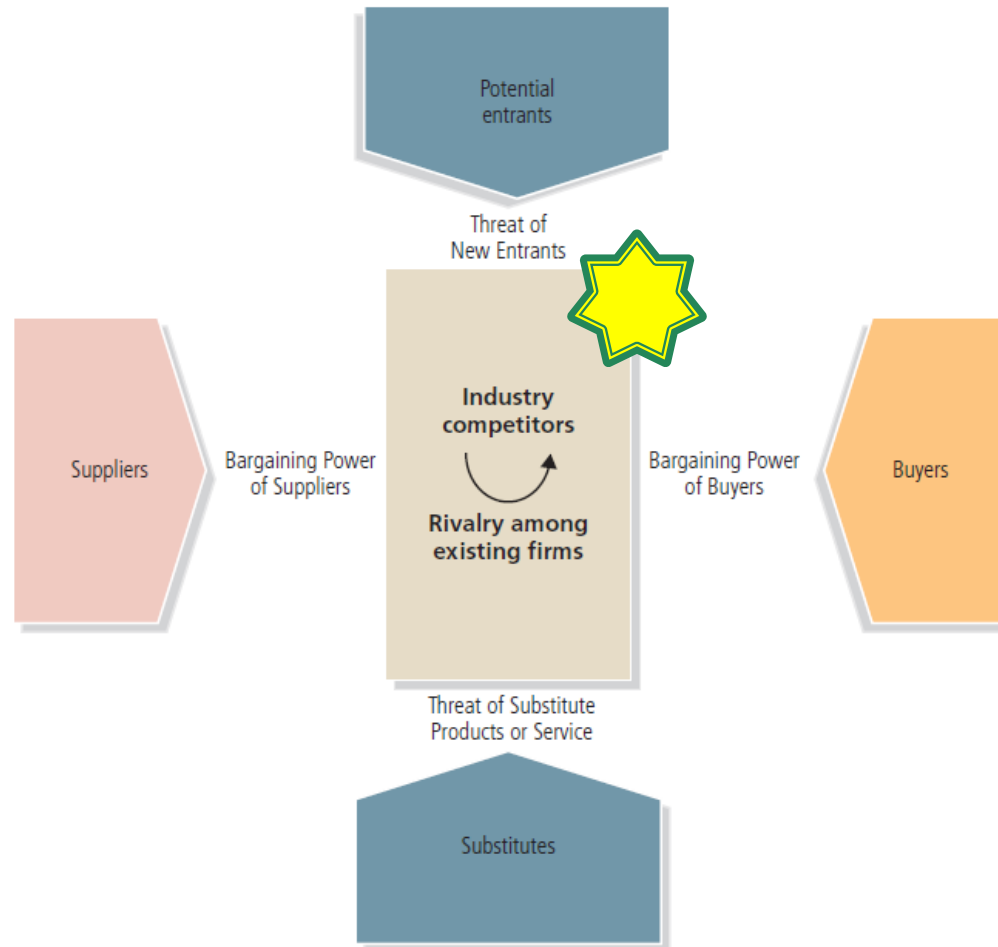
- ❖ Five forces interact with one another to determine the setting in which companies compete and, hence, the attractiveness of the industry:
 1. Rivalry among companies in the industry
 2. Bargaining power of suppliers
 3. Bargaining power of buyers
 4. Threat of new entrants
 5. Threat of substitute products or services

Five Forces Model



Five Forces Model

(continued)

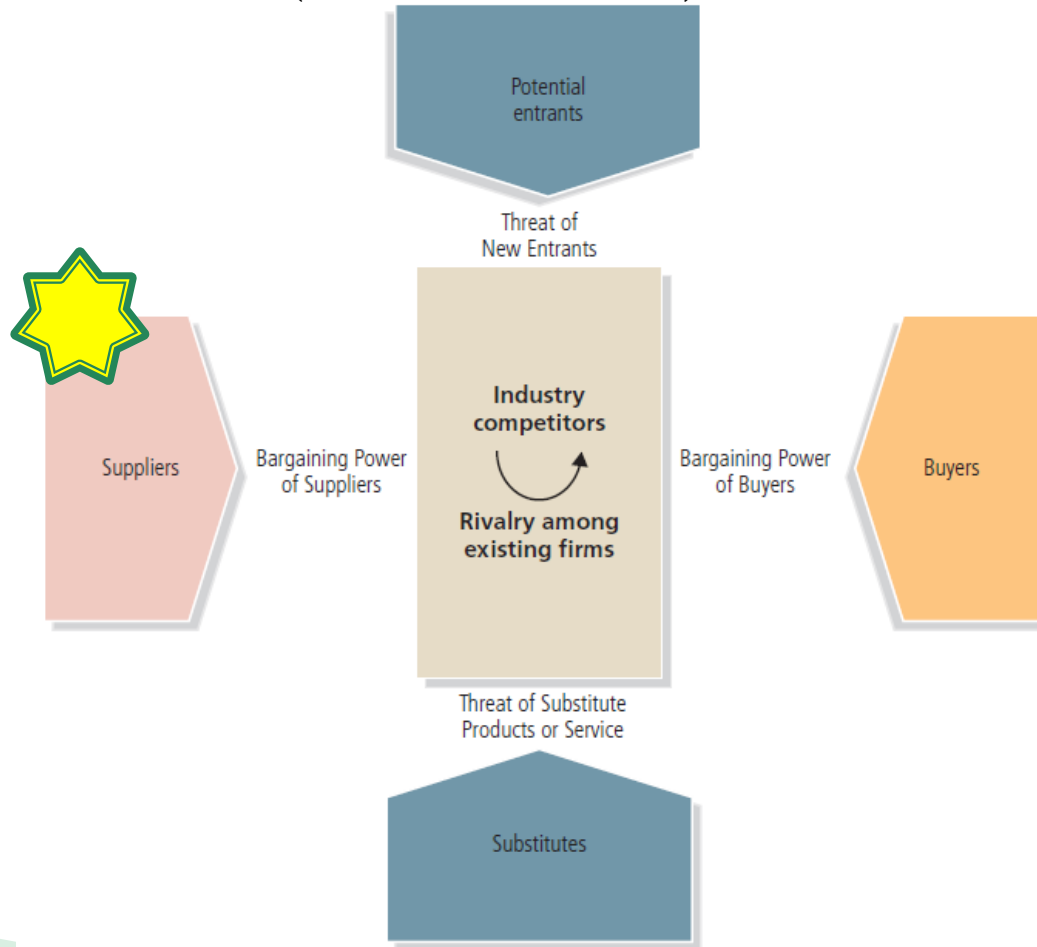


Rivalry Among Companies

- ❖ Strongest of the five forces
- ❖ Industry is more attractive when:
 - ❖ Number of competitors is large, or, at the other extreme, quite small
 - ❖ Competitors are not similar in size or capacity
 - ❖ Industry is growing fast
 - ❖ Opportunity to sell a differentiated product or service exists

Five Forces Model

(continued from 4-17)

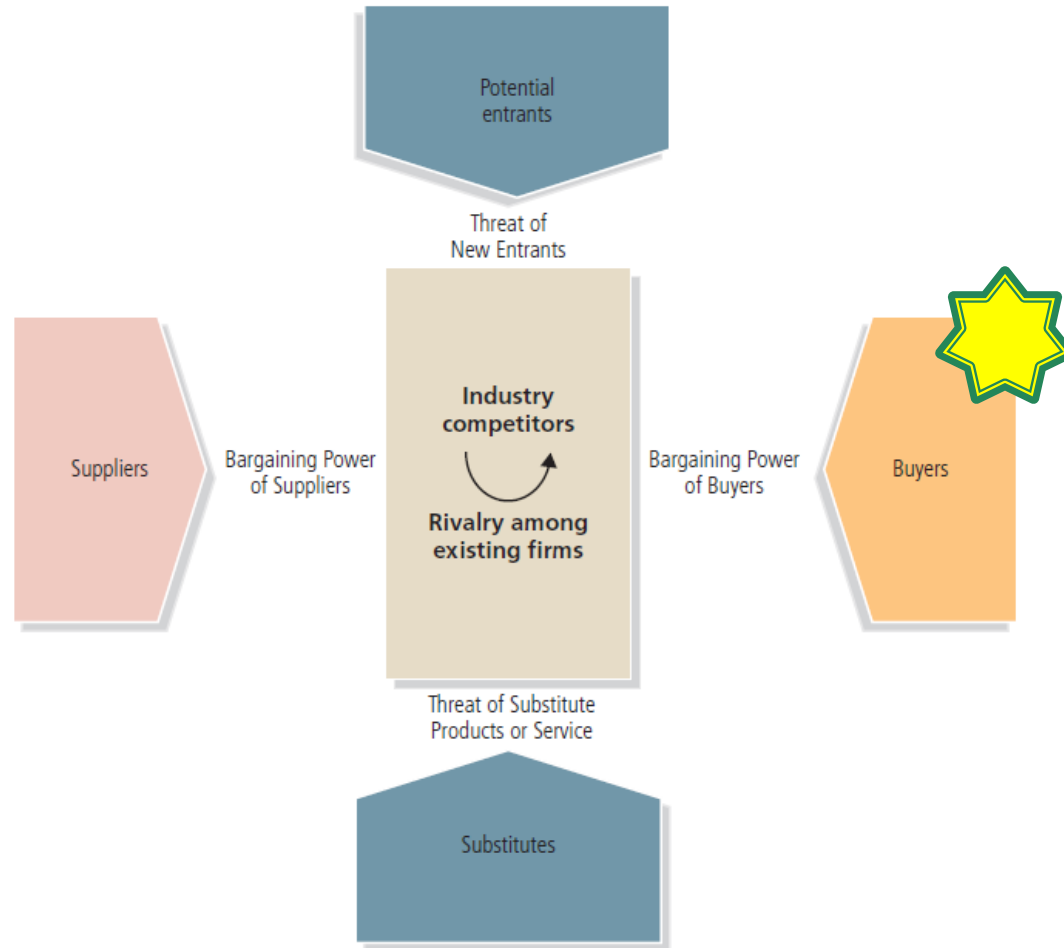


Bargaining Power of Suppliers

- ❖ The greater the leverage of suppliers, the less attractive the industry.
- ❖ Industry is more attractive when:
 - ❖ Many suppliers sell a commodity product
 - ❖ Substitutes are available
 - ❖ Switching costs are low
 - ❖ Items account for a small portion of the cost of finished products

Five Forces Model

(continued from 4-19)

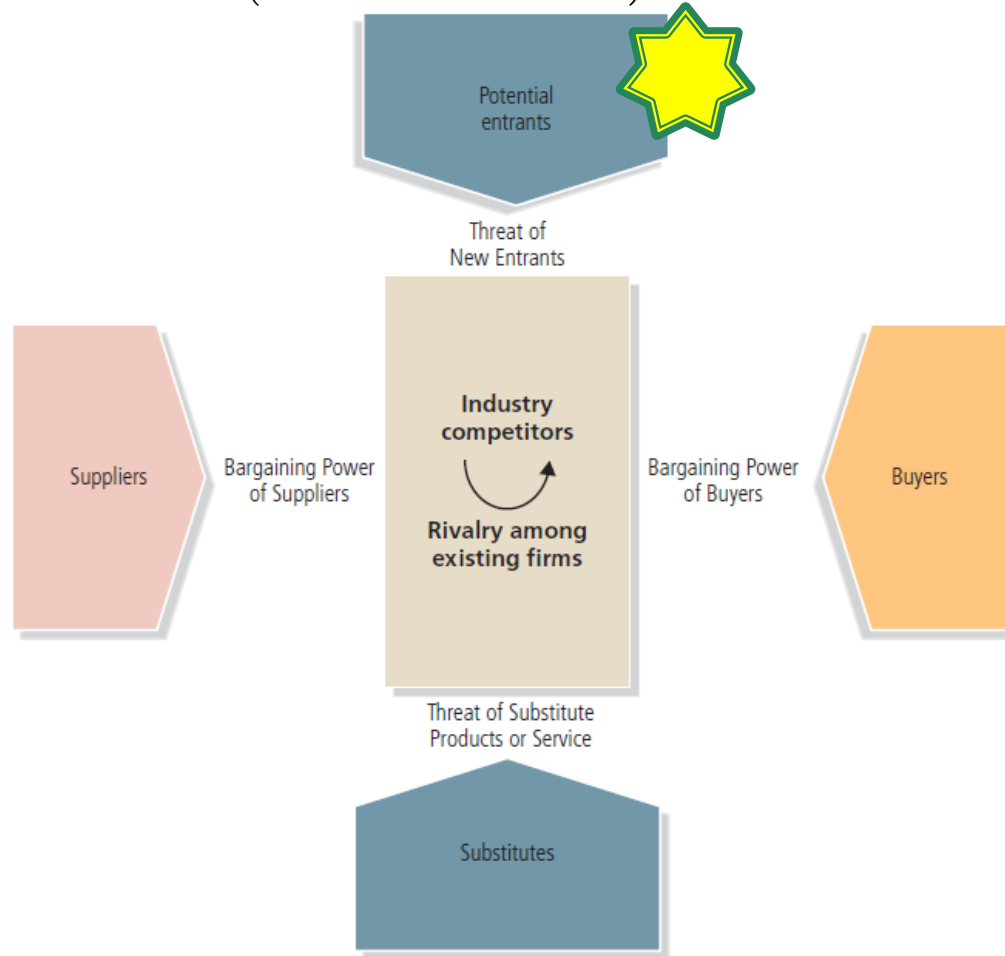


Bargaining Power of Buyers

- ❖ Buyers' influence is high when number of customers is small and cost of switching to a competitor's product is low.
- ❖ Industry is more attractive when:
 - ❖ Customers' switching costs are high
 - ❖ Number of buyers is large
 - ❖ Customers want differentiated products
 - ❖ Customers find it difficult to collect information for comparing suppliers
 - ❖ Items account for a small portion of customers' finished products

Five Forces Model

(continued from 4-21)

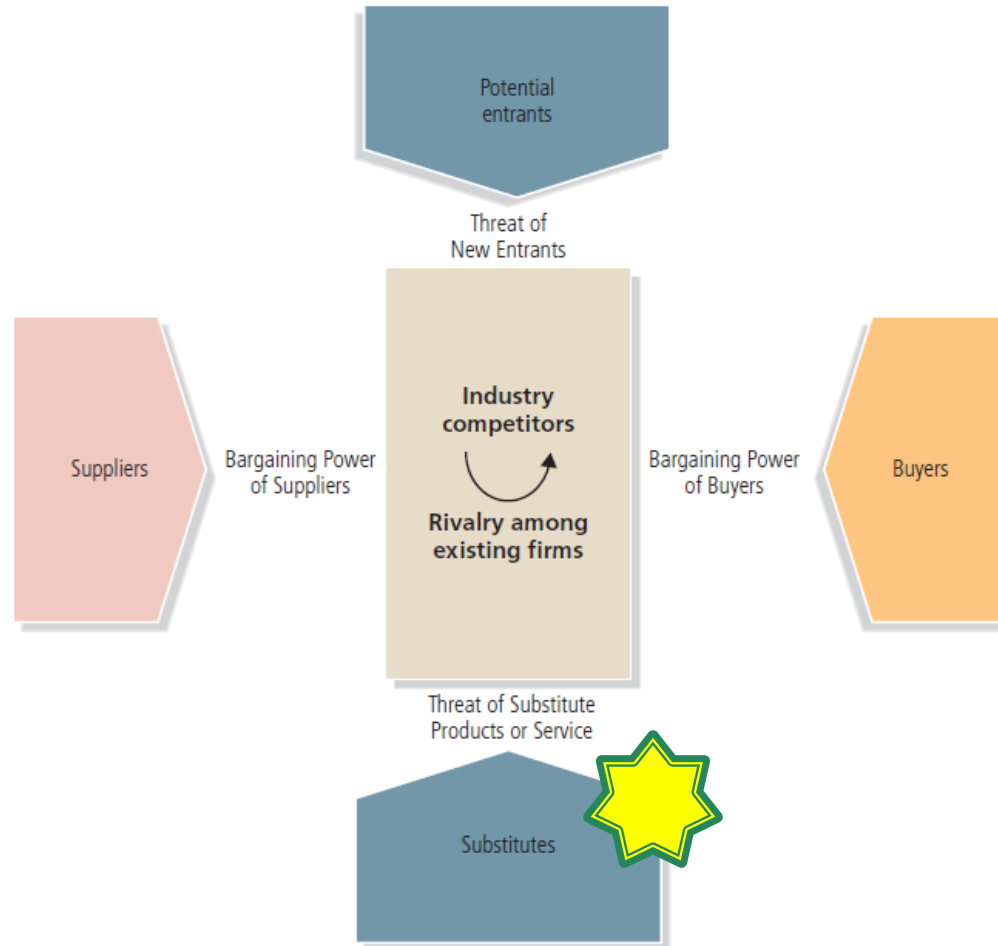


Threat of New Entrants

- ❖ The larger the pool of potential new entrants, the less attractive an industry is.
- ❖ Industry is more attractive to new entrants when:
 - ❖ Advantages of economies of scale are absent
 - ❖ Capital requirements to enter are low
 - ❖ Cost advantages are not related to company size
 - ❖ Buyers are not loyal to existing brands
 - ❖ Government does not restrict the entrance of new companies

Five Forces Model

(continued from 4-23)



Threat of Substitutes

- ❖ Substitute products or services can turn an industry on its head.
- ❖ Industry is more attractive to new entrants when:
 - ❖ Quality substitutes are not readily available
 - ❖ Prices of substitute products are not significantly lower than those of the industry's products
 - ❖ Buyers' switching costs are high

Five Forces Matrix

Assign a value to rate the importance of each of the five forces to the industry on a 1 (not important) to 5 (very important) scale. Then assign a value to reflect the threat that each force poses to the industry.

Multiply the importance rating in column 2 by the threat rating in column 3 to produce a weighted score.

Add the weighted scores in column 3 to get a total weighted score. This score measures the industry's attractiveness. The matrix is a useful tool for comparing the attractiveness of different industries.

Minimum Score = 5 (Very attractive)

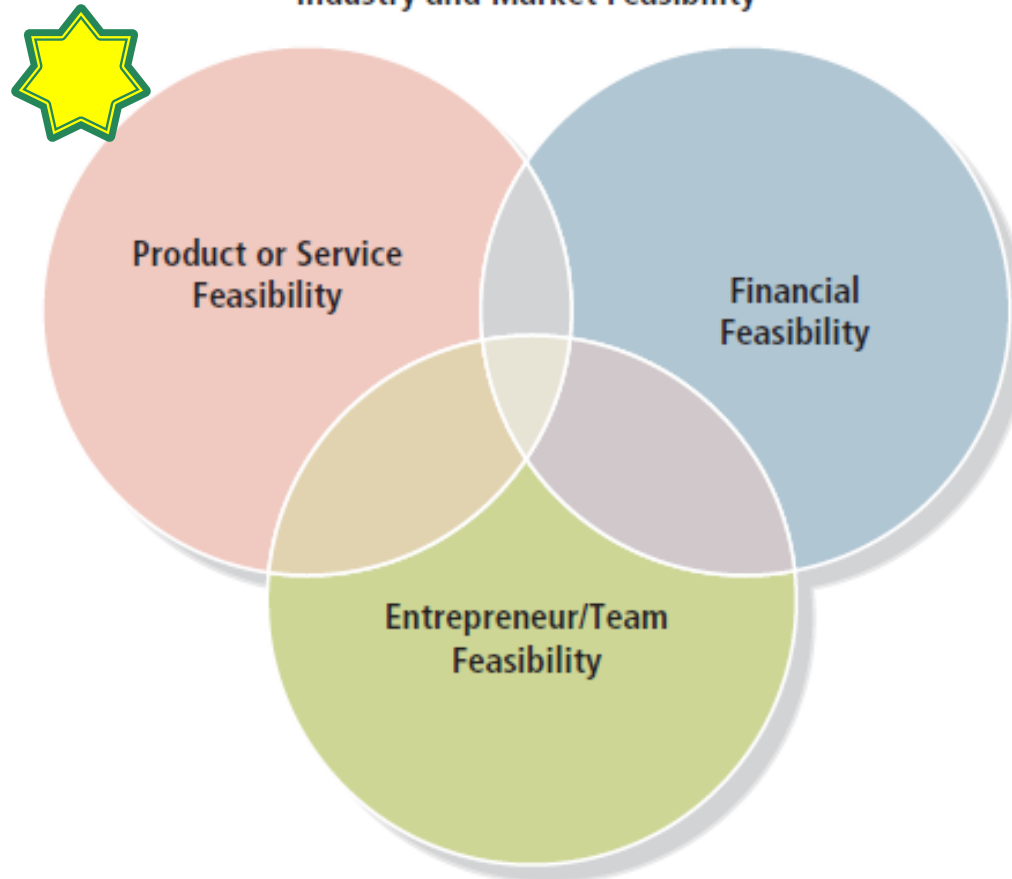
Maximum Score = 125 (Very unattractive)

Force	Importance (1 to 5) (1 = Not Important, 5 = Very Important)	Threat to Industry (1 to 5) (1 = Low 3 = Medium 5 = High)	Weighted Score Col 2 × Col 3
Rivalry among companies competing in the industry	5	2	10
Bargaining power of suppliers in the industry	2	2	4
Bargaining power of buyers	2	4	8
Threat of new entrants to the industry	3	4	12
Threat of substitute products or services	4	1	4
Total			38

Elements of a Feasibility Analysis

(continued from 4-10)

Industry and Market Feasibility



Product or Service Feasibility Analysis

- ❖ Determines the degree to which a product or service idea appeals to potential customers and identifies the resources necessary to produce it.
- ❖ Two questions:
 1. Are customers willing to purchase our product or service?
 2. Can we provide the product or service to customers at a profit?

Product or Service Feasibility Analysis

- ❖ **Primary research:**

- ❖ Collect data firsthand and analyze it.

- ❖ **Secondary research:**

- ❖ Gather data that already has been compiled and analyze it.

Primary Research Techniques

- ❖ Customer surveys and questionnaires
- ❖ Focus groups
- ❖ Prototypes
- ❖ In-home trials***
- ❖ “Windshield” research
- ❖ Trade associations and business directories

Primary Research Techniques

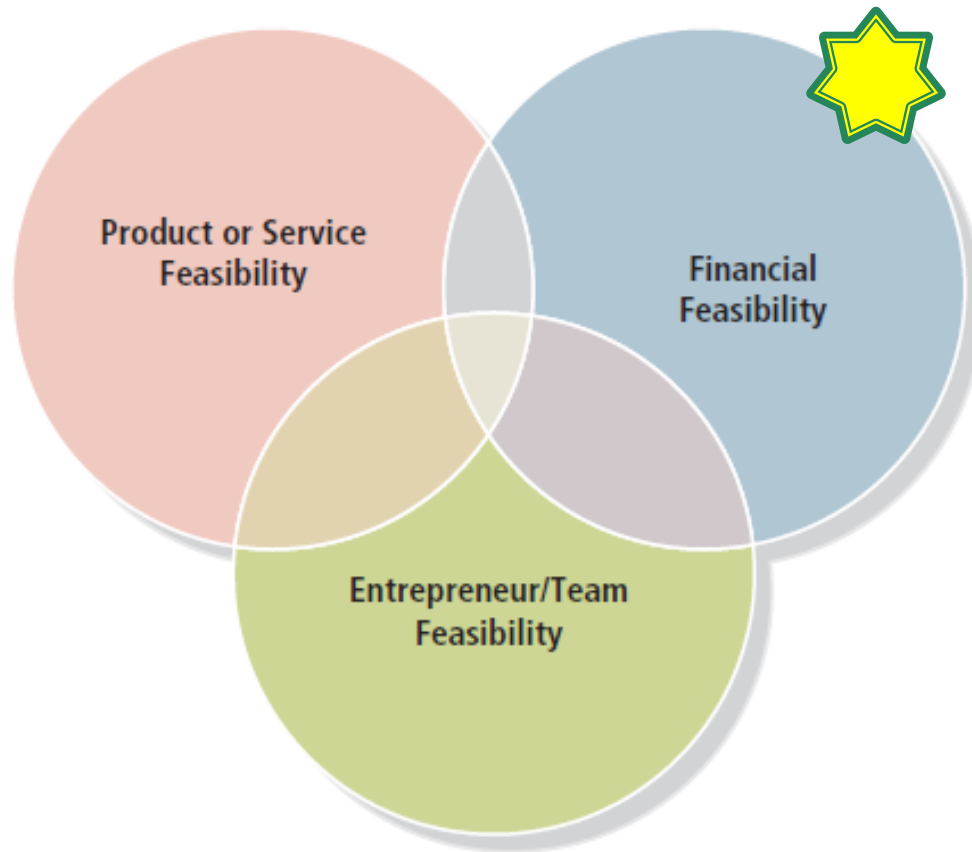
(continued)

- ❖ Industry databases
- ❖ Demographic data
- ❖ Forecasts
- ❖ Articles
- ❖ Local data
- ❖ Internet

Elements of a Feasibility Analysis

(continued from 4-28)

Industry and Market Feasibility



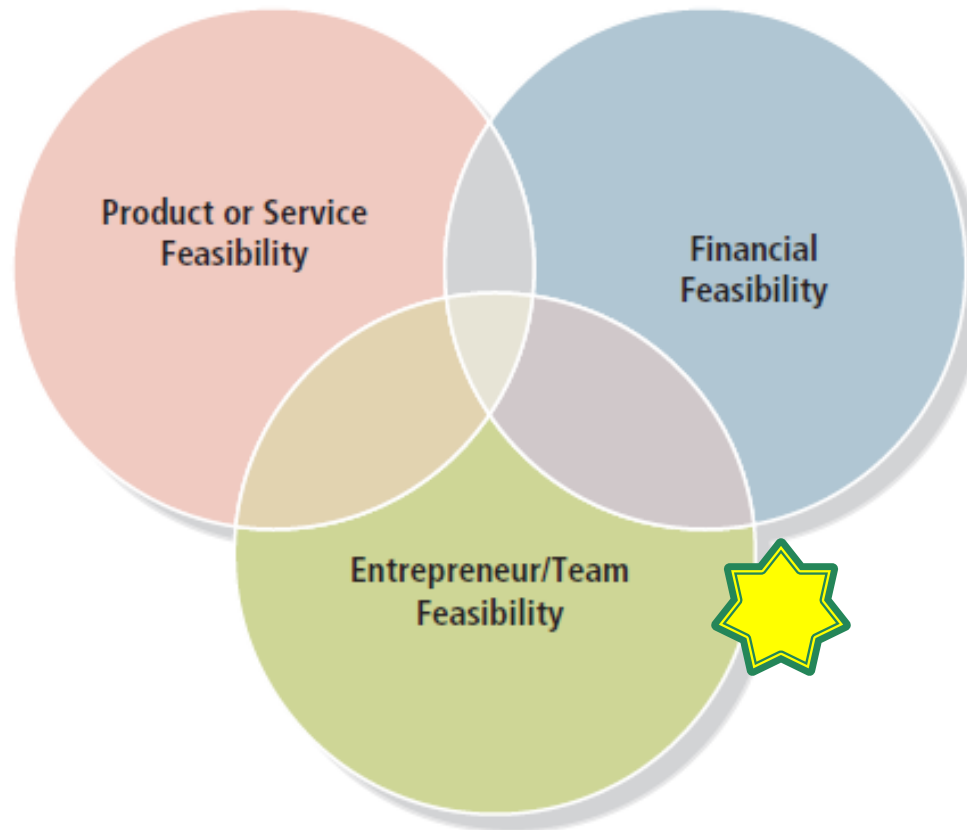
Financial Feasibility Analysis

- ❖ Capital requirements: an estimate of how much start-up capital is required to launch the business.
- ❖ Estimated earnings: forecasted income statements.
- ❖ Time out of cash: the total cash it will take to sustain the business until the business achieves break-even cash flow.
- ❖ Return on investment: combining the previous two estimates to determine how much investors can expect their investments to return.

Elements of a Feasibility Analysis

(continued from 4-33)

Industry and Market Feasibility



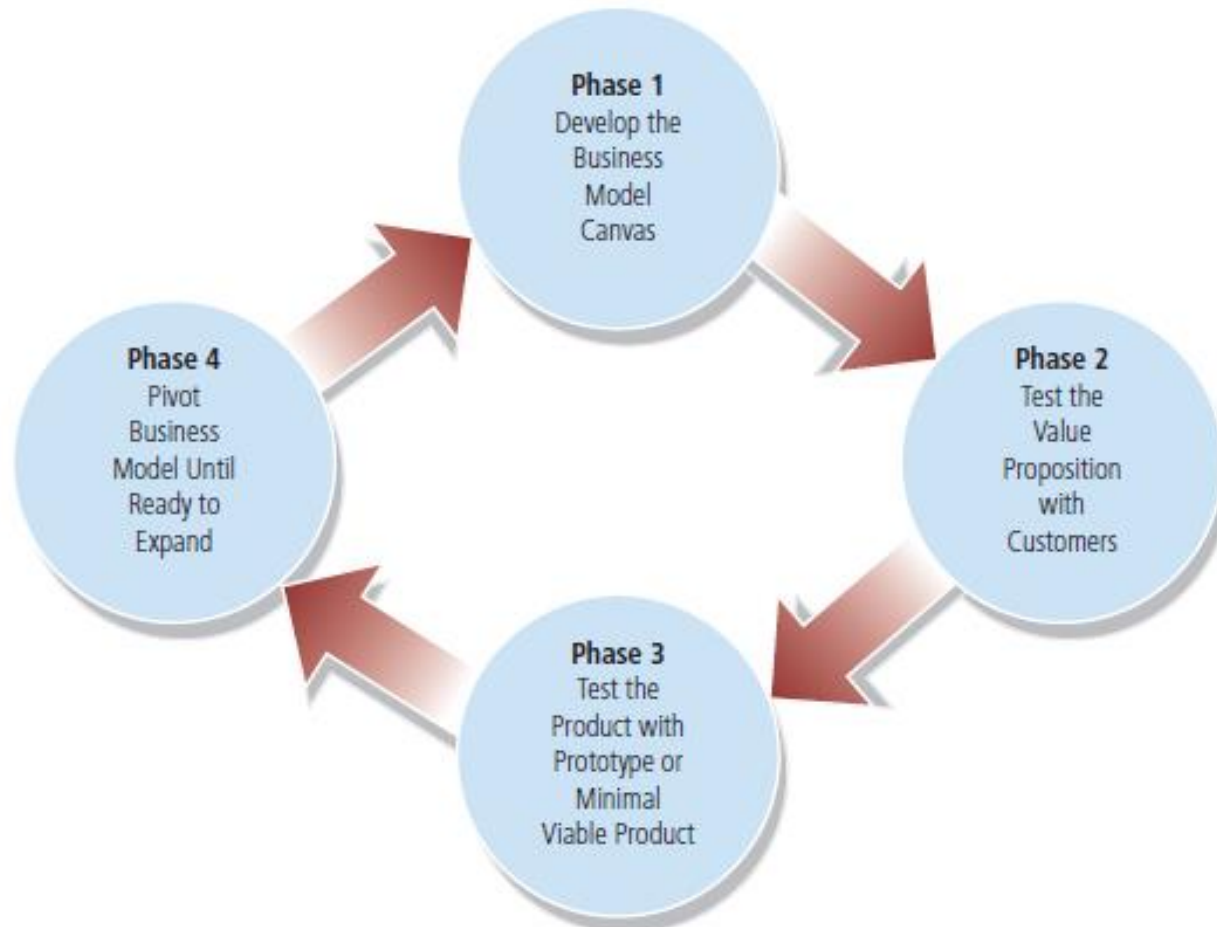
Entrepreneur Feasibility

- ❖ Is this idea right for me?
 - ❖ Assess entrepreneurial readiness: knowledge, experience, and skills necessary for entrepreneurs to be successful.
 - ❖ Assess whether the business will be able to generate enough profit to support everyone's income needs.

Developing and Testing a Business Model

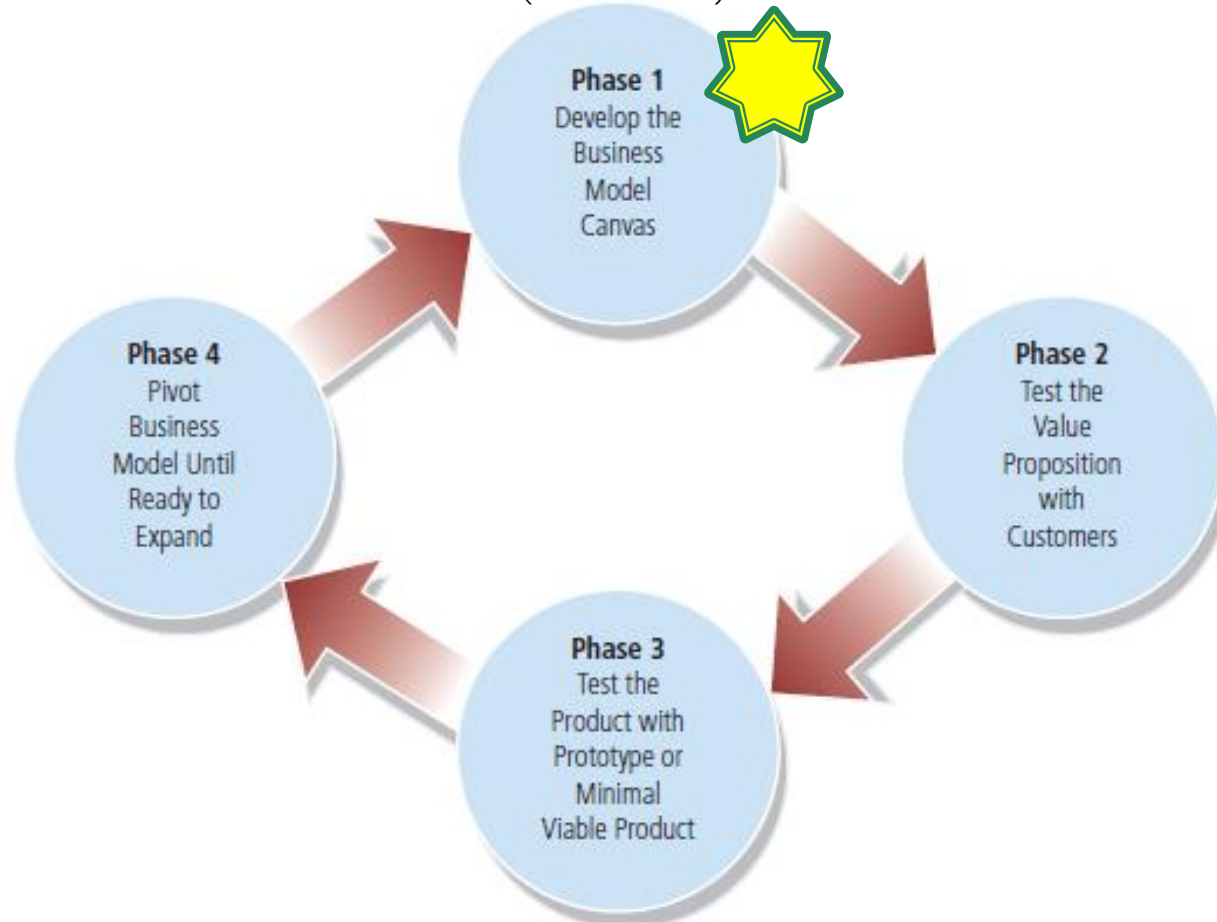
- ❖ Key questions to address:
 1. What value does the business offer customers?
 2. Who is my target market?
 3. What do they expect of me as my customers?
 4. How do I get information to them, and how do they want to get the product?
 5. What are the key activities to make all this come together, and what will they cost?
 6. What resources do I need to make this happen, including money?
 7. Who are the key partners I will need to attract to be successful?

The Business Modeling Process












The Business Modeling Process

(continued)

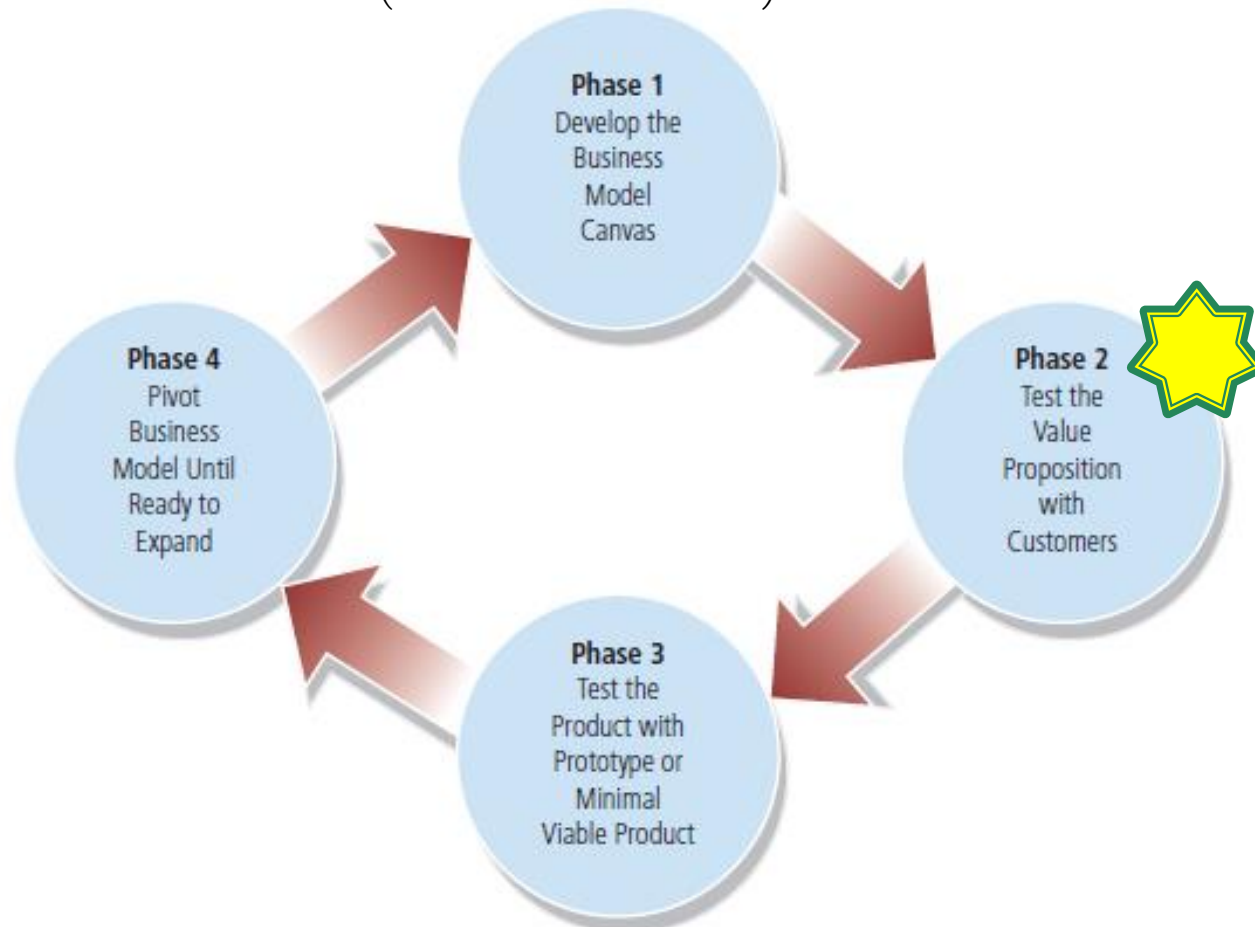


The Business Model Canvas

<i>Key partners</i> 	<i>Key activities</i> 	<i>Value proposition</i> 	<i>Customer relationships</i> 	<i>Customer segments</i> 
	<i>Key resources</i> 		<i>Channels</i> 	
<i>Cost structure</i> 			<i>Revenue streams</i> 	

The Business Modeling Process

(continued from 4-39)

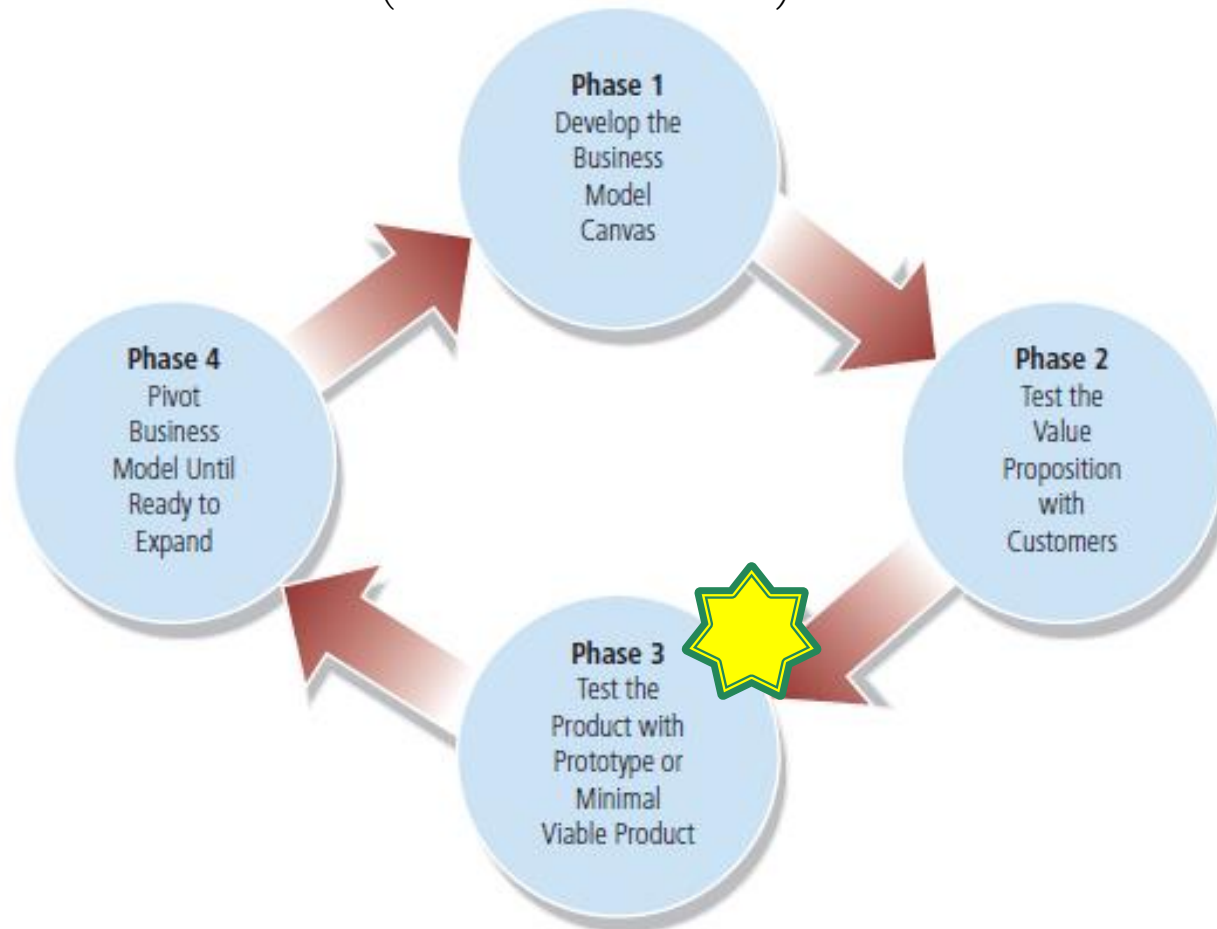


Test the Value Proposition

- ❖ Ask customers:
 - ❖ Do we really understand the customer problem the business model is trying to address?
 - ❖ Do these customers care enough about this problem to spend their hard-earned money on our product?
 - ❖ Do these customers care enough about our product to help us by telling others through word-of-mouth?

The Business Modeling Process

(continued from 4-41)



Business Prototyping

- ❖ Entrepreneurs test their business models on a small scale before committing serious resources to launch a business that might not work.
- ❖ Recognizes that a business idea is a hypothesis that needs to be tested before taking it full scale.

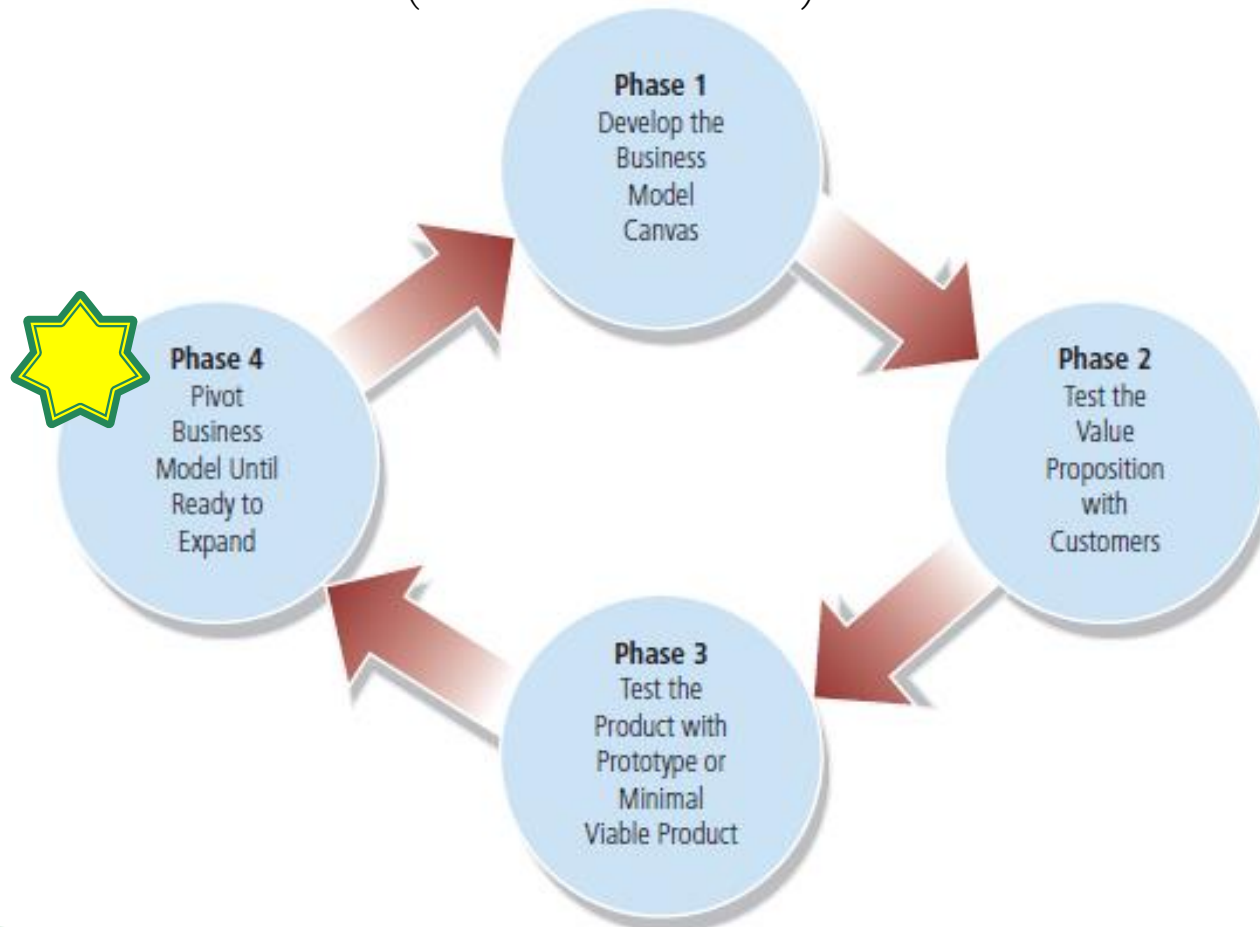
Business Prototyping

(continued)

- ❖ Test early versions of a product or service using a *lean start-up*: a process of rapidly developing simple prototypes to test key assumptions by engaging real customers
- ❖ Begin the lean start-up process using a **minimal viable product**: the simplest version of a product or service with which an entrepreneur can create a sustainable business

The Business Modeling Process

(continued from 4-43)



Pivots

❖ **Pivots:** the process of making changes and adjustments in the business model on the basis of the feedback a company receives from customers.

1. Product pivot
2. Customer pivot
3. Revenue model pivot

Conclusion

- ❖ The best business ideas start with a common problem or need.
- ❖ The ideas assessment process helps an entrepreneur more efficiently and effectively examine multiple ideas to identify the solution with the most potential.
- ❖ A feasibility analysis helps the entrepreneur determine whether an idea can be transformed into a viable business.

Conclusion

(continued)

- ❖ Developing a business model helps the entrepreneur better understand all that will be required to launch and build a business.
- ❖ Once the entrepreneur completes the idea assessment, feasibility study, and business model, he or she is ready to develop the business plan.



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