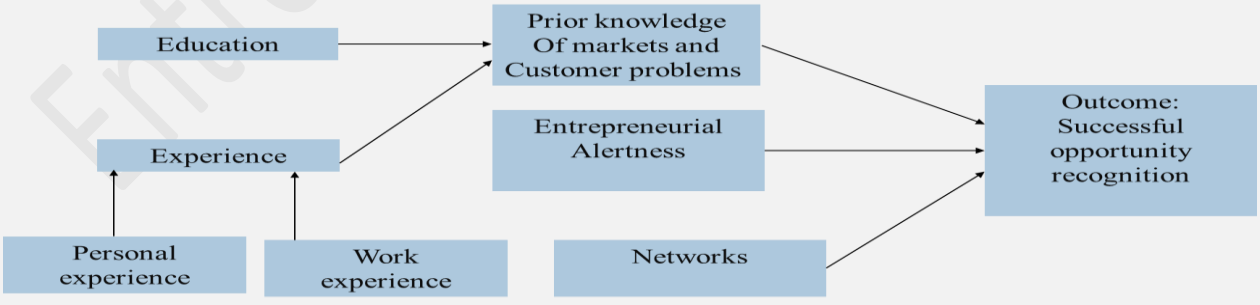
The difficult task in opportunity recognition is to identify that the business or product idea is not merely a different version of something that already exists. A major mistake entrepreneurs usually make is to pick an existing product about which they are excited and passionate and build a business around that model or a slightly different version of it. The important thing to remember is to identify and recognize an opportunity and build a product which is the demand of customers. In other words, make a product that the customer is willing to buy rather than the one which entrepreneur wants to make and sell. A good opportunity should have four qualities which are: attractiveness (personal choice, preference, attractive with respect to market, financially viable), durability (not be short term, pop up opportunity, sustainable), timeliness (right time, develop product within time before others), and value proposition (product or service adds value for the buyer or end user, value for entrepreneur, overall environment, value anchored in product/service/business)

For an entrepreneur, to take advantage of an opportunity, the window of opportunity must be opened. Window of opportunity means the time duration during which a company can enter into a new market. The window of opportunity for a new product opens when the market for that new product is established. When the market established and grows, a firm may enter and establish a profitable position. When the saturation point comes and market matures, the window of opportunity closes. For example in 1995, the first search engine Yahoo appeared in the market. After that the market grew and Excite, Lycos, AltaVista and others came in the market. In 1998, Google entered the market with advanced search technology after which the search engine market matured and window for opportunity closed or is less prominent unless some company comes with very advanced technology.

Difference between an Idea and an Opportunity

We define idea as "Something imagined or pictured in the mind". Idea is in your mind (it's a thought, an impression, or a notion). It may or may not meet the criteria of opportunity. On the other hand, an opportunity must possess all four qualities i.e. attractiveness, durability, timely and value addition.



Model of opportunity recognition process

Source: adopted from Entrepreneurship by Dean A. Shepherd, Michael P. Peters, and Robert D. Hisrich

The Opportunity Sources

An entrepreneur **observes the recent trends** and tries to find the opportunity in order to get maximum benefit. Though there are unlimited trends, following are the few of those recent trends where an opportunity can be spotted these days.

- Green trend (sustainable fashion, recycling, zero-waste practices, eating a plant-based diet, and reducing the use of plastics)
- Clean energy trend and global warming (clean energy technologies like solar, geothermal, wind, biofuels, and fuel cells)
- Organic orientation trend (organic vegetables with no fertilizers and pesticides used, chemical free food products, home grown vegetables and fruits,, organic cosmetics with ingredients that are human friendly, organic farming)
- Fitness and health trend (connection of mind and body, at-home workouts, outdoor fitness, yoga, meditation)
- Social networking trend (you can be an opinion maker, you can launch business idea on social media, marketing on social media)
- Traveling and adventure (small traveling and tourist firms)
- Bloggers, vloggers and virtual communicates

Entrepreneur can see the opportunity in any problem of the society. Sometimes, a problem exists in the market which entrepreneur visualizes as an opportunity. He thinks of **solving that problem** with creative and innovative product or service.

Demography means the statistical structure of populations. It includes the age, gender, income, ethnicity, religion, profession and level of education of a population. Age is a very important factor for an entrepreneur with marketing perspective as people with different age brackets have different demands, needs and wants. The age of humans is usually divided in the following groups: baby boomers (born 1946-1964), generation x (1965-1980), millennial (1980-2000 or 1978-1999), post millennial (people born after 2000). Millennial are also known as generation y (or gen y). some of the traits of millennial or generation y are: buying power and influence on older generation, support cause, global shared values, social media lovers, part of virtual communities, early adopter of technology, travel and adventure, adopt new trends. Other important demographics to be considered by entrepreneurs are: working couples, single parents, region and ethnic groups, and the diversity of workforce.

Your presence on social media is your **digital identity**. In this technological era, the business must have its digital presence and identity where consumers can always reach it. The social media platforms where an entrepreneur can create its digital presence are: Facebook, Twitter, Instagram, Whatsapp, Pinterest, Snapchat, and LinkedIn. Digital identity at social media helps entrepreneur in networking and sharing.

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Economic forces play an important role in identification of a good opportunity. It is important for an entrepreneur to understand the types of economies in which he/she might have to start and operate his/her business. One of the types of an economic system is *Command Economic System* or planned economic system. Command economic system is a system controlled and directed by a central authority which is usually the government of the relative country. The central authority or government decides on the organization and distribution of resources and sets prices. This system is rarely followed by countries in the current era. Another type of economic systems is *Market Economic System* or Free market. In free market system, demand and supply regulates the market instead of the government. Market forces (supply and demand) decide what to produce, at what price and quantity. Resources are owned by private individuals who are free to do business with each other which makes the market more competitive. This competition to acquire resources and give the quality product in market, leads towards the most effective and efficient use of scarce resources. There is a little intervention of government in free market economy. Market economic system is the extreme opposite of command economic system. While countries rarely employ any of these economic systems, another type of economic system was introduced that has been widely employed by countries. *Mixed economic system* (mix of command and market economy) is a combination of other economic systems. In mixed economy, although market is free but the government is still involved in certain regulations. The intervention of government is minimal except for a few key areas where government may intervene. It is also called modern economic system. Most of the economies are based on the mechanism of mixed economic system. Characteristics of mixed economy are: co-existence of public and private sector, existence of economic planning, role of price system and government directives, government regulation and control over private sector, reduction of economic inequalities, government protection of labor and protection of consumer sovereignty.

The economic indicators which an entrepreneur must have information about are: GDP annual growth rate, GDP per capita, GDP per capita PPP, unemployment rate, inflation rate, consumer price index CPI, food inflation, foreign exchange reserves, balance of trade, corporate tax rate, personal income tax rate, and sales tax rate. These indicators tell entrepreneur about the economic situation and help him to make timely decisions. For example, an entrepreneur will not offer a luxury product in a region where the purchasing power of consumers is very low.

Technological forces also play an important role in identification of a good opportunity. Key technology areas of which an entrepreneur must have knowledge these days are: big data (ways to analyze big volumes of data sets which cannot be analyzed with traditional analysis software. This data can be used by companies to know customers' preferences), cloud computing, artificial intelligence, machine learning, robotic process automation (using robots and automation technologies to reduce the labor work), 5g & 6g, blockchain, digital privacy, e-governance, virtual space and networking.

World Economic Forum defines **social innovation** as "the application of innovative, practical, sustainable, market-based approaches to benefit society in general, and low-income or underserved

populations in particular". In general, NGOs are responsible for the welfare of society and businesses are established to make profit. As NGOs run on donations of big organizations, the idea of social innovation emerged. It illustrates that businesses instead of giving donations to NGOs, should come up with a business idea which can solve a societal problem and also generate profit for the firm. For example, medicine to cure a disease can be a profit making business for a pharmaceutical company but also solves a societal issue i-e to cure that disease. Features of social innovation are: tangible business with profit is established in result of a societal issue, part of firm's business strategy and innovation agenda, managed from company's core operations, sustainable development of society and business, enhancing long-term competitiveness and business growth, and new product development with environmental concerns.

With the emergence of social innovation, social entrepreneurship has been becoming popular. *Social entrepreneurs* are defined as "individuals who recognize a social problem and use their entrepreneurial skills to create a program, business or process to find a solution." Another definition states that "a social entrepreneur is a person who pursues novel applications that have the potential to solve community-based problems. These individuals are willing to take on the risk and effort to create positive changes in society through their initiatives." For example, the development of a mobile application which serves the needs of deaf and dumb through which they would be able to communicate with people is social entrepreneurship.

Gap is important to bring new product in market. A 'gap in the market' idea can have one or more of three attributes which are: it is something new and original, it improves on something that already exists, and it takes something that exists and finds it a new market. To find a gap in market, it is important for an entrepreneur to conduct market research. To conduct a *market research* and measure the characteristics of the market and its size, a specific market is identified. Market research also involved market intelligence and industry analysis. The integral part of doing any business is to keep track of the competitors and the industry which is termed as *market intelligence.* Companies get valuable insight into how to expand and grow their firms by collecting and analyzing the data of their target market. *Industry analysis* is related to reviewing the political, economic and market factors that influence the industry and the way it develops. It is a market assessment tool which gives firms an idea of how a particular industry works and how complex it is. According to Porter, five forces that impact the industry are: the condition of competition, the power of suppliers, the likelihood of new entrants, threat of substitute products and power of customers.

Techniques of Idea Generation

As we have already discussed that an idea is a thought, an impression, or a notion. Idea generation is a fundamental or basic part of a business venture. There are certain techniques of idea generation which are: brain storming, problem inventory analysis, and mind mapping. **Brainstorming** is a group technique to generate ideas or solve a problem. Usually one facilitator or moderator controls the discussion. Participants are typically asked to discuss about a product or a problem (or

anything) in detail and from every angle. The more the ideas are generated in brainstorming, the more the discussion is considered healthy. The members of the discussion can be the heads of the organization, consumers or industry experts. Sometimes there are some rules to be followed while doing brainstorming that are: no criticism or no negative comments in the beginning, all types of wild ideas are welcome, quantity of ideas is desired, think out of the box, and combination of ideas brings improvement and may produce new ideas. Sometimes reverse brainstorming is done in which every participant is provided with a paper where they can write all the generated ideas and then give their opinion on each idea, called brain writing. In brain writing, the members can also criticize the ideas so that a refined version of best ideas can come on the table. Another technique of idea generation is **problem inventory analysis** is "a method for obtaining new ideas and solutions by focusing on existing problems". In this method, a list of problems related to market, product or service is provided to the participant in the beginning of the discussion. **Mind mapping** is another approach that can be used to generate ideas. In this technique, a central idea is written and then participants are asked to come up with associated ideas that branch out from the central idea. It's a graphical/visual representation for organization of ideas and concepts.

Libraries are the most underutilized resource. Ideas can also be generated in libraries using industry specific magazines, trade journals, industry reports, databases, and market research reports. Such reports and magazines are also available online but it is quite a task to ensure their authenticity. As unauthentic information can lead the entrepreneur to make wrong decisions, he/she must go for authentic sources of information even if he/she uses internet. Government reports (which are usually paid) can also be found in libraries and you can get information by using them free of cost. **Internet** is also a rich and most used source of information. There are pages and official accounts of thousands of businesses on social networking sites (Facebook, Instagram, Twitter, YouTube, and LinkedIn) where an entrepreneur can see them. It can also help him find the gap, generate new idea and mature it. One thing must be kept in mind while using internet to get information is checking the source of that information. Most of the information on internet is unauthentic. Entrepreneur must ensure the authenticity of the source. Entrepreneurs also use **search engines** to get new ideas. He/she can find the authentic magazines and journals and get their subscription. Subscription allows these websites to send email alerts to the subscriber about every new publication and events. **Incubation centers** can also be a good source of new idea generation. Potential entrepreneurs must visit all local incubation centers and also visit the websites of all international incubation centers. This can give them an idea of: the industry trends, which ideas are popular these days, and which product or service is in demand. Potential entrepreneurs must also keep an eye on the business plan competitions and see which business plan ideas are winning these competitions internationally and locally.

Friends and family can also be a source of generating and maturing an idea. If you have identified an opportunity, have an idea in mind and you are sure that you can design a product on that idea; the first thing that comes in mind is to discuss it with your friends and family. Friends and family members are good listeners and honest advisers. Moreover, if they are senior, they can give you

an honest advice based on their experience. Another benefit of sharing your business idea with friends and family is that they may invest in your business if they really like your idea. They may be interested in becoming your partner too. Friends and family are the people who are close enough to know your capacity. They can tell you that though the idea is good but you might not have capacity to mature it. Potential entrepreneurs must listen to this kind of advises as a number of business startups fail because of inconsistency and incapacity/incapability of the entrepreneur. Potential entrepreneurs can get most benefit from family or friends if they have business/entrepreneurial background. They can give him/her advice based on their experience of business and market dynamics. On the other hand, family can discourage potential entrepreneurs too. They might influence him/her to do job instead of business as in case of loss, they will be the major financial sufferers.

Another source of good idea is experts of the industry potential entrepreneurs are interested in. **Expert opinion** can help an entrepreneur take the right decision at right time. Potential entrepreneurs must attend the live sessions and leaders' talk shows where industry leaders share their life stories and experiences. Entrepreneurs should try to make networks with these experts to get benefit from their lifetime experience. Potential entrepreneurs can share their business idea with these experts to get a feedback on how realistic and workable the business idea is.

Intuition is defined as "the ability to understand something instinctively, without the need for conscious reasoning." It's an ability to know something without any information or proof. Some people rely more on their intuition or gut feeling while others rely more on strategic reasoning and thinking over things before making any decision. As far as entrepreneurs are concerned, they are more of the intuitive type of people. Although they make decisions based on strategic thinking and reasoning, they also make decisions solely based on their gut feeling. Interviews with different entrepreneurs showed that the decision they took based on the gut feeling or intuition were right most of the times. It doesn't mean that intuition is never wrong as some of the decisions were found to be wrong too, which were taken intuitively according to the expert entrepreneurs. Taking decision based on intuition alone is a risk for business venture. Although entrepreneurs are risk takers but taking blind risk can affect the business venture. Entrepreneurs should consider the gut feeling or intuition but also collect information and do market research before taking any decision.

----------The End----------

Entrepreneurship MGT602

Technical Articles Theme 07

Title: Entrepreneurship and Creativity

Videos: 70-86

Topics Covered

70. What is innovation?
71. What is creativity?
72. Barriers to innovation and creativity
73. Creativity, innovation, opportunity and entrepreneurship: the link
74. Protecting your business idea: what is Intellectual property (IP) and what is intellectual property rights (IPRs)?
75. Protecting your business idea (Patent, Trademarks, and Copyrights etc.)
76. The interview with an entrepreneur: How to open third eye for opportunity hunting?
77. What makes entrepreneurs entrepreneurial?
78. The effectual reasoning: (The problem, The process)
79. Effectual reasoning: the principles
80. Bird-in-hand
81. The affordable loss principle
82. The crazy quilt principle
83. The lemonade principle
84. Pilot-in-the-plane
85. Effectuation: The workshop activity
86. The interview with an entrepreneur: How entrepreneurs can use their available resources for quick start?

Entrepreneurship MGT602

Author: Marriyam Bukhari, Instructor Business Administration, Virtual University of Pakistan

What is innovation?

Innovation, creativity and entrepreneurship are closely related. Innovation is defined as "the process of translating an idea or invention into a good or service that creates value for which customer will pay." In large organizations, it is a complex process to bring innovation because of certain limitations. On the other hand, small firms are more prone to innovation and every small startup is thought to be innovative. The reason is; less complex structure of small firms, quick decision making, easy resource pulling, and easier product testing.

Innovation is also defined as: "Making a product or service better, faster, cheaper, greater satisfaction and/or greater value." Another comprehensive definition of innovation is "the company's capability to implement a range of coordinated actions and strategies for the purpose of developing and delivering new products and/or new services to the new or existing market in a manner that outperforms competitors." Two critical components of innovation are: invention and commercialization. Commercialization adds social and economic value to the invention through the creation of a business, or/and licensing/intellectual property protection. You need to commercialize the new idea to solve the society's problem. Without commercialization, no matter how unique the idea is, it won't be converted into a product and offered in the market. The most common types of innovation are: incremental innovation, disruptive innovation, architectural innovation and radical innovation.

Most of the firms go for **incremental innovation** with existing market and existing technology. Incremental innovation is referred to the series of improvements a company make in its existing products and services with time. For example, Apple or Samsung mobile companies launch a new model of their smartphones every year with a slight improvement in certain features. Incremental innovation is not risky. **Disruptive Innovation** is related with implementing new processes, technologies (disruptive business models) in existing markets. In the beginning, new models look inferior as compared to the current solutions, but with the passage of time, they surpass the old technology due to their efficiency and efficacy. Amazon was the first online book store which disrupted the old business model of conventional book stores. There was an existing market of books and they changed the way books are sold. **Architectural innovation** is what the giant companies like Google and Amazon do. They take their domain related technology, expertise and skills and then implement it to a different market. This is the way they increase their customer base by expanding the market. **Radical innovation** is the type of innovation which people actually think as innovation stereotypically. It is the rarest type of innovation. It involves innovating new technologies, business models or services which create new markets. The examples of radical innovations are invention of microwave, airplane etc.

In Harvard business review, the types of innovation are defined in terms of how well the problem is defined and how well the domain is identified and defined. Innovation types are (according to HBR): sustaining innovation, breakthrough innovation, disruptive innovation, and basic research. **Sustaining innovation** involves improving the existing capabilities. Organization tries to get better

at what it has. Entrepreneur has a clear idea of what problems will come and which skill domains are needed to solve them. On the other hand, **breakthrough innovation** involves getting into a well-defined problem for which it is hard to get the solution. In this case, entrepreneur has to explore the skill domains which will be able to solve the problem. Researchers have discovered that with the changes in competition and shifts in technology and marketplace, companies improve and become better and better at the things (product/services) which customers want less. At this point, innovation in products or services won't help rather the companies have to innovate their business models. This type of innovation is called **disruptive innovation**. **Basic research** involves doing research on something you don't know. Every invention must have had a background research when the inventor did not even know what he is exploring.

Other most common types of innovation are: product innovation, business model innovation, process/technology innovation, social innovation, market-pull innovation and technology-push innovation. **Product innovation** involves innovation in products and intangible services such as services that meet customer needs. The business model is the way a company functions and earns money. **The business model innovation** encompasses innovations in strategy, marketing, supply chains, value creation, pricing or cost structures. The major examples of business model innovation are Food panda Uber, Careem, and Foodpanda. **Process and technology innovation** involves creating the process efficient or cost effective in order to improve quality or production. **Social innovations** are innovations where the benefit lies with society and the purpose is not primarily profit. Examples include innovation in education, poverty reduction, equal opportunities, health, pollution reduction, plastic use reduction, and green trends. **Market pull innovation** originates from the market and initiates by a specific customer request. Lastly, **technology-push innovation** is the result of new technologies for which suitable application possibilities are sought and implemented.

What is creativity?

As we know, creativity is what distinguishes humans from other creatures. Business managers and entrepreneurs are more interested in creativity as they think it as a linkage to innovation which ultimately leads to new product, process, firm growth, or stronger competitive advantage (Ko & Butler, 2007). Different academics define creativity as a process which results in novel or new products or ideas which are appropriate and valuable to the society as a whole. The traditional approach to creativity was person-centered which assumed that creativity is innate in individuals. Contrary to the traditional approach, the contemporary approach to creativity believes that all humans having normal capabilities can produce at least moderate creative work, for some time, and in some domain. Research showed that creativity is not only innate quality of an individual, but it is also the function of environmental factors and individual characteristics which can be developed (Amabile, 1996; Sternburg, 2006). Creativity is about seeing the things same as everyone else is seeing but making the connections between them which no one else has made. It's an ability to produce or use original, unusual and unique ideas. Business dictionary defines creativity as "mental

characteristics that allows a person to think outside of the box, which results in innovative or different approaches to particular task. There are the five stages of an Individual's creative process. Each stage of creative process flows logically into the next stage. The stages of creative process are: preparation, incubation, insight, evaluation, and elaboration.

As an individual starts the creative journey, the first phase involves **preparation** work and generation of idea. It's the stage when individual conducts the research work and gathers information and materials that could ignite a unique idea. In this first stage of the creative process, the brain is using its memory to get knowledge and information on past experiences to generate the novel idea. When an individual is done with actively thinking about the creative idea giving it upfront time, it is the stage when he/she must let it go for a while. This stage is called **incubation**. It is the part of creative thinking to get yourself away from your idea before sitting down again to add more details to it. At this stage an entrepreneur might start working on other project or take a break from creative thinking altogether in a sense that he/she is not actively or consciously working on his/her creative idea. Throughout this stage, the idea is incubating in the back of the mind. After incubation, entrepreneur enters into the **insight** stage which is sometimes called illumination stage, a stage when "aha" moment happens, and individual gets eureka experience (feeling of joy and satisfaction). It is when he is able to form new connections and gather all the material he has collected to present the solution to the problem. It is the stage when the real unique idea is emerged. At this stage, entrepreneur is sure about the target market, customers, the product, the sources of finance and resources. Once the idea is emerged, it enters in **evaluation** stage. It is the stage to validate the idea and weighing it against the alternatives. An individual can go back and see if the current version of his idea is what he initially imagined. Another important thing at this stage is testing the viability of the idea. The entrepreneur will have to scrutinize the idea (whether it is viable or not) and conduct market assessment. An important thing at this stage is to check the financial viability of the idea. **Elaboration** is the final stage of creative process, and is sometimes called verification stage. It is the stage when hard work is needed to transform your idea into a physical product or service. At this stage an entrepreneur finalizes the design, transform the idea into a physical product or service and share it with the world. Entrepreneur at this stage will launch the marketing campaigns, keep the financial records, take the customers' feedback and will try to improve based on the suggestions of the customers.

Barriers to Creativity and Innovation

Why an entrepreneur cannot innovate or bring creative product ideas into the market. There are certain barriers to innovation and creativity.

Personal barriers involves personality and behavior barriers, social pressure, lack of passion, lack of direction, fear of failure and making prior assumptions. *Personality and behavior* can be a major barrier to creativity and innovation. Some people are not the risk takers and want to enter in a market

with a casual or simple (already existed) product. They might not have the capability to think out of the box. Thinking creatively or wanting to innovate is a personality trait too so the people who do not have that trait of doing something different, do not go for creativity. *Social pressure* is another barrier to a creative idea. An entrepreneur comes under the social pressure when he/she tells his/her idea to someone (family or friends) and gets a negative response (when they call your idea weird and strange). This is normal for friends, family and even customers to have innovation barriers in their minds which form a wall against creative things. Our brain spontaneously prefers the known things as compared to the unknown things. This is the reason why society first rejects your idea. Under this social pressure, even if the entrepreneur is creative, he/she will curtail his/her creativity and try to build a simple product which will have market acceptance. *Lack of passion* is a personal barrier which comes from demotivation. May be in the beginning, entrepreneur is excited about the new idea but after getting discouraged by the family and friends, he becomes less passionate about his creative idea. *Lack of direction* can also hinder an entrepreneur's creativity and innovation. If an entrepreneur's personality is inconsistent and he doesn't have a proper direction, it will lead him to astray. Only a focused person can think creatively. *Fear of failure* is the foremost barrier to innovation and creativity in entrepreneurship. It happens when an entrepreneur is already under the social pressure and people around him have already rejected his idea. It makes entrepreneur feel demotivated thinking that his product/service model will not work or be rejected by the customers too. This fear also disturbs the entrepreneur at market testing stage which can lead him/her to take wrong decisions. This fear of failure leads the entrepreneur to *make prior assumptions* about the product acceptability in the market. He assumes that he will not get the investment, resources, customers, or the team to work on the idea.

Cultural barriers involve lack of training, misguiding instructions, lack of motivation, lack of basic ability, and access to resources. Culture is defined as "the shared values, beliefs, and practices of the people". Some organizations do not have a creative culture. May be the business of the firm doesn't need creativity and innovation. Leg pulling and politics in organizations can also hinder creativity. In other firms (for example, advertising agencies or IT firms) creativity and innovation is the essential part of firm's culture. Such organizations (like Google) give upfront time to their employees to think creatively encouraging creative ideas and promoting innovation. An organization which needs creative ideas should train its employees to think creatively. *Lack of training* can be a barrier to creativity as the individual would not know what to think and what actually the organization needs him/her to think. Instructions on which type of idea is needed would be communicated clearly as *misguided instructions* can result in a totally different idea and wastage of time. Another barrier to creativity is *lack of motivation*. Even if the entrepreneur himself is creative but if he is unable to motivate others in the team, it will curb the creativity. If an entrepreneur doesn't have the *basic ability to think creatively* he/she won't be able to produce any unique ideas. Moreover, in order to execute a creative idea, entrepreneur needs resources. If he/she doesn't have *access to resources*, the creative idea will remain in the mind of the entrepreneur but will never be executed and offered in the market.

Feasibility barriers involve blur ideas, financial feasibility, and business model feasibility. Idea should be clear as the *blur idea* will not result in creative product or service. It should be practical and can be converted into a physical product or service. *Financial viability* is an important factor. The road from idea generation to a physical product/successful innovation is really expensive. An entrepreneur faces the situations like "we don't have the right staff", "too expensive", "this is practically impossible" etc. Most of the creative ideas die because the entrepreneur fails to meet the finances of the journey from idea generation to innovative product development.

The knowledge and experience barrier involves lack of prior knowledge, lack of prior experience, and lack of access to information. Prior knowledge of the domain and experience in the domain can enhance the creativity. According to Amabile (1996), one of the components of creativity is domain related experience. *Lack of prior knowledge and experience* of the domain can hinder the creativity. The more you have knowledge of the field, the more you think creatively. An entrepreneur should have updated information on new trends and business models. Inability to *access the right information* can curb the innovativeness and creativity.

The regulatory and procedural barrier involves laws and policies, registration process, access to raw materials and government policies. An entrepreneur has to execute his/her idea according to the rules, regulations, *laws and policies* of the country. He/she has to register the business as per the *registration process* of the relative country. Another major barrier can be the *access to raw material*. May be the idea is so unique that it needs raw materials which are hard to access or need governmental approval to access them. An entrepreneur also needs to get the patents for the creative idea and see the government policies regarding that. The idea must be acceptable in terms of *government laws and policies*. The product should not be something which is not allowed in a country where you want to offer it.

What makes entrepreneurs entrepreneurial? Another perspective on entrepreneurship

Effectuation: The problem

In entrepreneurship, the general question which comes in mind while thinking of starting a business startup is "How should we start a business?" Entrepreneurship experts state that the more important question is "How does a business start?" instead of "How should a business be started?" Another most discussed question in entrepreneurship is "**What makes entrepreneurs entrepreneurial?**" This debate led the researchers to give the concepts of causation and effectuation approach to entrepreneurship. Sara Sarasvathy is a researcher and expert in the field of entrepreneurship who gave the theory of effectuation in 2001. Before discussing theory of effectuation, it is important to understand the difference between causation approach to entrepreneurship and effectuation approach to entrepreneurship. A **causation approach** infers that "entrepreneurs focus on a predefined goal and then aim to find the means to reach this goal". Causal rationality arises when a pre-defined goals is set by the entrepreneur with a given set of means or resources. Entrepreneur

seeks to find the fastest, ideal, efficient and cheap means/alternatives to achieve that goal. The examples of causal reasoning are: choosing a high return market or choosing to serve the niche market. On the other hand, **an effectuation approach** infers that "entrepreneurs focus on the means at hand, which they aim to materialize into one or more goals that were not necessarily predefined." It does not start with a specific goal. Instead, effectuation starts with the given means that entrepreneur has at the moment. It allows goals to develop over time with the aspirations and imagination of the entrepreneur.

Difference between causation and effectuation process

Categories of differentiation	Causation process	Effectuation process
Practice	Start with goals	Start with their means: Who I am, what I know, whom I know
Logic	Predictive	Control
Money	Expected return	Affordable loss
Strategy	Competition	Partnerships
Perception	Exploitation of preexisting knowledge	Leveraging of contingencies

Source: Based on Sarasvathy (2001a, 2001b, 2003).

Effectuation: The Process

As we know, effectuation does not start with a specific goal. Instead, effectuation starts with the given means that entrepreneur has at the moment. All entrepreneurs begin with three categories of means:

(1) **Who they are** – their traits, tastes and abilities; (some people have certain special skills or qualities, natural skills and abilities which are actually the resources. Resources are not only the financial resources rather a special skill or ability can also be a resource).

(2) **What they know** – their education, training, expertise, and experience; (for example, if you have education in data sciences, you can start your own IT firm based on your education and expertise as this education and expertise are your resources/means)

(3) **Whom they know** – their social and professional networks (networking with resourceful and useful people can also be a resource/mean for an entrepreneur)

These three things are the core of an entrepreneur as entrepreneurs use these things (traits, education, skills, expertise and experience) to generate business ideas and start their businesses.

Effectuation: The Principles

There are five principles of effectuation given by Dr. Sarasvathy which are:

1. Bird in hand principle (create solutions to the problem with the means/resources available at the moment)
2. Lemonade principle (surprises and mistakes are unavoidable. An entrepreneur should use the mistakes and surprises to find new opportunities.)
3. Crazy quilt principle (focus on co-creation and partnership instead of competition. It can bring new directions and funds for your project.)
4. Affordable loss principle (you should see how to cover the negative side. The best approach is to invest only the amount which you can afford to lose.)
5. Pilot-in-the-plane principle (you are yourself responsible for everything. Your future can be influenced by your own actions.)

Bird in Hand Principle

When successful entrepreneurs start a new business, they first start with the available resources or means. The bird in hand principle infers that the business should be started with the means/resources currently available. These resources are categorized as follows:

- Who I am- what skills, abilities and tastes an entrepreneurs has
- What I know- his/her education, experience and expertise
- Who I know- his/her professional and social network

Using the mixture of these means, an entrepreneur can start imagining the new possibilities. Usually, he/she starts a business at a small scale with closest available resources or means and directly implements it without any detailed planning. With each decision, possible results are re-aligned. Ultimately, certain emerging things result in clearly achievable goals. The end goals are the result of aspirations, abilities, skills, and imagination of the entrepreneur and the people he/she has interacted with.

Affordable Loss Principle

In business world, the general practice is to choose the market with highest return. It is a natural impulse which comes from the years long training which we get in business schools and business world. Business world tells us to maximize the returns by choosing optimal strategy and high return market segment. As far as effectual entrepreneurs are concerned, they go for affordable loss instead of maximizing profits. They make decisions on what they can afford to lose not what they can expect to make. This is what affordable principle infers. Instead of calculating what money is needed upfront and investing his/her time, energy and effort in raising that money, an expert entrepreneur tries to assess the negative side or downside and examines what he/she is willing to lose. The entrepreneur then starts the process of building the venture and brings other partners or stakeholders on board in order to estimate what they can afford to lose. An estimation of affordable

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loss does not depend on what type of venture an entrepreneur is going to start rather it depends on the entrepreneur himself. It varies from one person to the other and even across the life stage of the entrepreneur and circumstances he/she is in. By estimating affordable loss and making decision which business to start (based on estimation of affordable loss), entrepreneurs stop relying on prediction. As an alternative, they cultivate the opportunities that have a low cost of failure.

Crazy Quilt Principle

While causation relies on detailed competitive analysis, effectuation focuses on co-creation and partnership. The crazy quilt principle focuses on building partnerships instead of beating competition. Since effectual entrepreneurs start their business without a predetermined target market, the detailed competitors' analysis becomes less useful for them as they do not have an idea of who will be their competitors. Instead, they take their product to nearest possible potential customers. Some of the individuals or firms they interact with make commitments with the entrepreneurs by investing their means/resources in terms of time, efforts and money. This partnership principle or crazy quilt principle merges best with affordable loss principle to bring entrepreneur's product into the market with little expenditure. In the initial stages of venture development, these partnerships with suppliers, customers and other stakeholders help reduce the uncertainty and fear of failure. Lastly, since in the beginning entrepreneur doesn't not know which market to serve, these strategic partnerships and network, to a great extent, determine which market/markets the entrepreneur will eventually target.

Lemonade Principle

There is a famous proverb "If life deals you lemons, make lemonade!" The lemonade principle (leverage contingences) of effectuation infers that an entrepreneur should embrace surprises that arise from uncertain circumstances by being flexible instead of being tied to the set goals. This principle is at the heart of entrepreneurial expertise that is the ability to turn the surprises or unexpected things into profitable opportunities. Effectual entrepreneurs learn to work with uncertainties and take advantage from them. In most businesses, the contingency plans are prepared where surprises are considered worst case scenarios. On the contrary, because effectual entrepreneurs do not bind their idea to any preconceived or specific market, so everything and anything is a surprise for them which can be turned into a valuable opportunity.

Pilot-in-the-Plane Principle

The desire of self-control is as old as human itself is. Research shows that humans have been struggling to control everything in their lives ever since the history began. In today's world, the mechanism, processes and instruments for control-striving are different than they were in the past but the issue remains the same. Psychological research studies show that human behavior of control-striving is directly related to his/her functioning/performance. For example, if a person has self-control or control over things around him, he or she will be less stressed. On the other hand, loss of control is linked with helplessness and depression. Effectual entrepreneurs consider the desire of control as healthy and normal. Entrepreneurs usually chose entrepreneurship to become their own boss and control his/her business. Control makes them able to work independently, and on their own schedule. Effectual entrepreneurs take right actions, at the right time to control the things. They focus on the things in their own control and know that their decisions will result in the outcome they want. Though every entrepreneur has the desire to control but the intensity of it varies among people and also depends on the life stage of the entrepreneur. This principle suggests that entrepreneur is similar to a pilot who is responsible for the plane and passengers just like the entrepreneur is responsible for his venture.

----------The End----------

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Technical Articles Theme 08

Title: Strategic Management in Entrepreneurship and E-Commerce

Videos: 87-104

Topics Covered

87. Strategic management in entrepreneurship
88. Strategic Management Process
89. Clear Vision and mission of business venture
90. Assessment of strength and weakness of yourself and venture
91. Scan environment for potential opportunities and threats
92. Create short term and long term long
93. Select appropriate strategies
94. Building competitive advantage for new venture
95. analysis competition
96. Strategy review, evaluation and control
97. Innovation logic: the blue ocean strategy (Part 1)
98. Innovation logic: the blue ocean strategy (Part 2)
99. Innovation logic: the blue ocean strategy (Part 3)
100. The interview with an entrepreneur 1: How to lead the competition or making competition irrelevant?
101. E-commerce and the entrepreneur
102. Myths of E-commerce and challenges
103. Tech entrepreneurship and academia linkage
104. The interview with an entrepreneur 2: What are the challenges of online businesses?

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Author: Sara Hussain, Lecturer Business Administration, Virtual University of Pakistan

Strategic Management and its Role in Entrepreneurship

Strategic management and entrepreneurship are somehow related to each other. **Strategy** is an action plan that synchronizes the tangible and intangible resources and for achieving a set target for superior performance. A person might have a unique business idea but he cannot grow properly if he is unable to execute it with proper strategy. **Strategic management** is a branch of management. It is essential for managing organizational tangible and intangible resources to achieve its long term and short term goals and objective for sustainable competitive advantage in industry. There are three main phases of strategic management namely *Strategy formulation*, *strategy implementation*, *Strategy evaluation and control*. The main areas covered under strategic management are business vision and mission, internal and external environmental scanning, strategies formulation, analyzing the multiple strategies, sustainable competitive advantage for sustainable growth, implementation and operational execution of strategies, Strategies review, measures and control.

Strategic management can be divided in three broad categories i.e. strategy formulation, implementation and evaluation. Vision, mission, long term and short term goals and objectives, environmental scanning, strategies analysis and choices, business models and competitive advantage are all part of strategy formulation. Structures, designs and polices development, managing and allocating resources, functional areas e.g. marketing, finance, R&D and HR along with putting strategies into real time operations are part of strategy implementation. Strategy review, quality and control, corrective measures and revisiting strategies are all part of strategy evaluation. Creation and growth, diversification, performance of firms, industry dynamics, competitive advantage Mergers, acquisitions, alliances innovation and product ecosystems are some overlapping areas of strategic management and entrepreneurship.

Strategic management process is a method by which entrepreneurs assess their idea's viability and implement an appropriate strategy that can ensure to a sustainable competitive advantage of venture. This process starts with initial assessment which includes vision and mission. Next comes situation analysis which includes SWOT analysis i.e. analysis of strengths, weaknesses, opportunities and threats. When it comes to strategy formulation there is need to have a look at objectives, business level, corporate level, and global strategy selection. At the phase of strategy implementation policies, resource allocation, change management, organizational chart and structure are designed and redesigned. After design and implementation strategic monitoring comes in action through which performance is measured.

Vision statement defines the anticipated future orientation of the business venture whereas ***mission statement*** outlines the company's business, objectives and its approach to reach those objectives.

A good mission and vision statement must have a philosophy. Vision and mission statement must be aligned with each other. These must be customer and market oriented. Technology must be reflected. Competitive advantage, concern for society, concern for employees and future

orientation must also be reflected in vision or mission statement. Main questions to be asked while planning for a business are:

- *What is your general business description?*
- *What is your business model?*
- *Is it sustainable viable business idea?*

There are a lot of benefits of defining vision and mission statement. Clear vision and mission statement brings unanimity of purpose and direction among strategic partners. It provides standards and procedures for execution plan. Brings focus in allocation of resources. Establish a culture and tone of your venture. Serve as a direction and quality standard. Set rule to deter those strategic partners who cannot from participate for further growth. Facilitate in translating the long-term and short-term goals and objectives into a work structure. It also motivates for future growth.

For starting a new venture **SWOT analysis** of the business and individual himself must be done. SWOT stands for strengths, weaknesses, opportunities and threats.

Strengths are the positive internal factors that a business venture can use to achieve its vision, mission, goals and objectives. **Weaknesses** are the negative internal factors that inhibit the business venture's capability to achieve its vision, mission, goals and objectives. It adversely affect the sustainable competitive advantage of a venture. Following is the checklist of own/individual assessment:

- ✓ *Am I clear about my destination?*
- ✓ *Are my skills sufficient for kick start or growth?*
- ✓ *What are my limitations?*
- ✓ *In which area I am lacking that could adversely/positively affect my venture establishment or growth?*
- ✓ *Is my network worthy for establishment/growth?*
- ✓ *What level of commitment I can bring in my venture?*

Following is the checklist of venture assessment:

- ✓ *Is venture's objectives and goals measurable?*
- ✓ *Is venture's objectives and goals well communicated to strategic partners?*
- ✓ *Is product/service design competitive?*
- ✓ *Is selected target market is well thought and planned?*
- ✓ *Is my pricing strategy competitive?*
- ✓ *Are my unique selling proposition well communicated to target market?*
- ✓ *Is customer orientation well crafted?*
- ✓ *Is the venture's structure appropriate?*
- ✓ *Are jobs and requirements clear to all strategic partners?*
- ✓ *Is strategic partners' morale high?*
- ✓ *Are employee's absenteeism and/or turnover low?*

- ✓ *Are reward and control mechanisms effective*?

There are several tools that can be used to assess strengths and weaknesses. These are usually cost benefit analysis, financial ratios, and production and operation assessment. Business operates under an ecosystem that affects its activities. Internal factors like its customers, organizational environment and suppliers might be affecting the business. Similarly competitors, technological change, political environment, economy, social factors and several other factors also positively and negatively affect the business. So, **Opportunities** are potential options available in the external environment that a venture/entrepreneur can exploit to achieve its vision, mission, goals and objectives. **Threats** are negative forces available in the external environment that inhibit the business venture's capability to achieve its vision, mission, goals and objectives. Economic forces, social cultural and demographic forces, natural environment forces, political and governmental forces, legal forces, technological forces and competitive forces all can be considered as broad categories of external forces. Marketing intelligence, scenario planning, PEST Analysis (political, economic, social and technological analysis), Porter's five forces model (Competition in the industry, new entrants, Power of suppliers, Power of customers, substitute products) are several tools for external environment audit.

Keeping in view the SWOT analysis businesses define their goals and objectives. **Goals** are the broad long-range attributes that a business seeks to accomplish; Goals tend to be general and sometimes even abstract. **Objectives** are more specific, precise and quantifiable plan of performance addressing areas such as profitability, productivity, growth and other key aspects of a business. Objectives are defined on the basis of areas like product design, innovation, market development/diversification/penetration, productivity, cost efficiency, profitability, financial resources, growth, physical infrastructure development, team/venture restructuring and venture/employees performance. Objectives should be specific, measurable, assignable, realistic, attainable, time bound, written. These same characteristics are also defined by **SMART** model. Short term objectives suggest yearly plan of action whereas long term objectives are defined to be achieved within time frame of 5 to 10 years.

Strategy is an action plan that synchronizes the tangible and intangible resources and for achieving a set target for superior performance. It is road of action an entrepreneur draws up to attain the venture vision, mission, goals and objectives. It must be based on entrepreneur and company's core competencies while considering strengths and weaknesses. A successful strategy must be comprehensive, well thought and well integrated ensuring the key success factors to win the market share. Cost leadership strategy, differentiation strategy and focus strategy are three possible strategy options.

According to Porter Generic strategic positioning model, ***Cost leadership strategy*** is a strategy in which an entrepreneur strives to be low-cost producer relative to its competitors in the industry. It involves mass production, quality compromise, or technological breakthrough. It may trigger price war in the industry. Cost leadership strategy is applied if owner is selling similar product/services

and customers are not brand conscious. If customers are price conscious and ready to compromise on quality and the industry is price focused.

Differentiation strategy is strategy in which the entrepreneur seeks to build customer base by positioning its product or service in a unique or different fashion and where the customers also value its differentiation. Differentiation strategy is applied if customers value and demand for differentiation. They are brand conscious not price conscious and are not ready to compromise on quality.

Focus strategy is where an entrepreneur selects one or more narrow (niche) market segment to serve. He/she identifies the market segment's special need, wants, interest and approaches them with customized product or service. In focus strategy itself an entrepreneur can be low cost or he/she can differentiate.

Competitive advantage is defined as unique advantage over the competitors an entrepreneur gained by offering consumers greater value either in terms of cost or differentiation of product or services. By competitive advantage an entrepreneur is offering superior cost/production efficiency, superior good and/or service quality, superior innovation and up-gradation and/or superior customers' engagement. According to competitive advantage model, resources and core competencies lead to competitive advantage that gives cost or differentiation advantage which ultimately leads to value creation. Companies can achieve global competitive advantage through Local market adaptation, economies of scale, common global culture, tapping the optimal location for activities and resources, knowledge management and sharing, technology transfer, cost efficiency and technological efficiency. Competitive positions can be achieved being market leader, market follower, market challenger and market nicher. Market leader is the one having larger portion of market share. Market challengers are those who are innovating through technology cost efficiency or any other way. Market followers are those are always following market trends. Market nicher are those who are dealing in highly competitive market which is smaller in size. Competitive advantage should be valuable, rare, inimitable, non-substitutable and sustainable.

Competition is analyzed through many tools one of which is Porter's five forces model. Industry rivalry has to be analyzed. Threats of entry, bargaining power of suppliers, bargaining power of customers and threats of substitutes are remaining forces. Number of competitors, rate of industry growth, and intermittent industry overcapacity, and exit barriers, diversity of competitors, informational complexity, brand equity and level of advertising expense are some of the indicators of industry rivalry. Barriers to entry, economies of scales, brand equity, switching costs, access to distribution, absolute cost advantages, learning curve advantages and government policies are indicators to be analyzed while looking for threats of new entrants. Supplier switching costs relative to firm switching costs, degree of differentiation of inputs, price of inputs, uninterrupted supplies of input are to be analyzed to check supplier power. To check buyer power, bargaining leverage and volume, buyer switching costs, trends and preferences and buyer information

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availability are to be analyzed. Buyer propensity to substitute and relative performance of substitutes are the indicators for analyzing substitutes.

Strategies once made must be continuously evaluated. A strategy should be ***consistent*** with goals and policies. ***Consonance*** refers to the need for strategists to examine sets of trends adaptive response to the external environment. Strategies must be ***feasible*** i.e. one must have all resources i.e. physical, human and financial resources. Must have ***competitive advantage***. Checklist for evaluation of strategies includes the following:

- ✓ *Competitors reaction to strategies*
- ✓ *Competitors' strategies change*
- ✓ *Competitors' strengths and weaknesses change*
- ✓ *Competitors strategic changes and success*
- ✓ *Competitors satisfaction with their present market positions and profitability*

When entrepreneurs want to do financial review, they must have know how about financial review tools like return on investment (ROI), return on equity (ROE), profit margin, market share, debt to equity, earnings per share, sales and asset growth. Balanced scorecard is a document through which areas of objectives can be measured according to set targets and timelines and responsibilities. Similarly for review and evaluation *policy audit*, *human audit* are done. Along with that *corporate social responsibility and ethical responsibility* are also analyzed.

Blue Ocean Strategy suggests how to create uncontested market space and make the competition irrelevant. The book regarding the strategy was written by W. Chan Kim and Renée Mauborgne. According to this strategy, market is an ocean and the ocean is divided into two parts one with more sharks means high competition with limited capacity and other with less competition and survival is not that difficult. Earlier is considered as Red Ocean and later being considered as Blue Ocean. In Red Ocean strategy competitors have to compete in existing market, they have to beat the competition and exploit existing demand. After that value cost tradeoff is done and whole system of a strategic firm's activities are aligned with its choice *of* differentiation or low cost. According to blue ocean strategy uncontested market space is created. Competition is to be made irrelevant, new demand is captured. After which there would be no need to tradeoff between value and cost rather value innovation can be created. According to Blue ocean theory, supply exceeds demand, more options are available as customers globally, and price war has increased. Profit margins are shrinking. Brands are becoming more similar and selection is based on price. 3 core **principles** of BOS are:

1. Reconstruct Market Boundaries
2. Reach beyond existing Demand
3. Get the strategic sequence right

1. Reconstruct market boundaries

Following table suggests boundaries of competition relevant to market where head to head competition is there.

Industry	Looks across alternative industries
Strategic Group	Looks across strategic groups within its industry
Buyer Group	Redefines the buyer group of the industry
Scope of Product and Service Offerings	Looks across to complementary product and service offerings that go beyond the bounds of its industry
Functional-emotional Orientation of an Industry	Rethinks the functional-emotional orientation of its industry
Time/Trends	Participation in shaping external trends over time

Industry	Focuses on rivals within its industry
Strategic Group	Focuses on competitive position within strategic group
Buyer Group	Focuses on better serving the buyer group
Scope of Product and Service Offerings	Focuses on maximizing the value of product and service offerings within the bounds of its industry
Functional-emotional Orientation of an Industry	Focuses on improving price-performance with the functional or emotional orientation of this industry
Time/Trends	Focuses on adapting to external trends as they occur

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As compared to the above table following table suggests boundaries of competition relevant to Blue ocean strategies.

2. Reach Beyond Existing Demand

Through this logic two basic conventional strategies are challenged i.e. focus is not limited to existing customers only. In addition to that, these strategies drive for finer segmentation to accommodate buyer differences. Mobile phone applications are perfect example of this new demand creation. Non customers are to be targeted.

3. Get the Strategic Sequence right

If the supplier/ buyer utility for the business is going right there is a need to check whether price is easily accessible to mass of buyers. After that, there is need to assess whether you need to attain cost target to profit at strategic price. If yes, there is need to have knowledge about adoption hurdles for the business idea.

Strategy canvas can be used in Blue Ocean Strategy where multiple factors that the industry competes in are to be kept in mind and performance is measured. Through this strategy one has to operate beyond the usual industry performers/operators. Four actions are there to create Blue Ocean strategies which are *Reduce, Create, Raise, and Eliminate.*

----------The End----------

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Technical Articles Theme 09

Title: Business Idea and Business Plan

Videos: 105-114

Topics Covered

105. Preparing a powerful business plan: The significance
106. Users of Business Plan
107. Extent of a Business Plan
108. Features of a Business Plan
109. Arrangements of Business Plan
110. Table of Contents and General Business Description
111. Management Plan
112. Product, Services, and Marketing Plan
113. Operations and Production Plan
114. Financial Plan and Appendix

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Author: Jawad Hassan, Instructor Business Administration, Virtual University of Pakistan

Business Idea and Business Plan

Business plan is considered as the backbone of an entrepreneurial venture. Business plan helps entrepreneurs the most, to start a business. Irrelevant to a business success, it is obvious that every entrepreneur has some kind of business plan whether formal or informal business plan. Although a business plan does not guarantee the success of a business venture but it is good to have one. Different attributes of a business plan provide exclusive support to help manage and sustain a business unit. Therefore, it is critical to understand the basics of a business plan. For this one needs to know that any business activity is based on an idea (a business idea/a thought to start a business). A business idea is considered as a thought in someone's mind. Moreover, it could be in the written form, but still it is has no physical existence until it is transformed into a physical business activity. A business plan is that tool which assists the connectivity between a business idea and a physical business. Or a business plan is that ladder through which a business idea travels from space (thoughts in mid) to the earth (physical presence of a business unit). Hence, it is clarified that a business idea itself has no relevance to an entrepreneurial venture in the absence of a business plan.

Why business plan is prepared?

It is a dream for an entrepreneur to convert his/her dream (a business idea) into a practice. The business plan is prepared to transform a business idea into a practical business. For example: your business idea is to open an automobile workshop or to setup an advertising agency for digital marketing services. In any of these cases you will definitely need a written business plan to convert your thoughts into a physical business.

For whom business plan is prepared?

The essence of this question is to identify the potential users/beneficiaries of a business plan. Broadly a business plan has two types of users: internal and external users.

Internal users are *entrepreneurs themselves* who get immediate guidelines to start a business through a step by step approach. *Potential employees* are also the beneficiaries of a business plan document i.e. skill full employees of a business setup can become the part of a newly hired team by an entrepreneur (a new business being established on the basis of a business idea). In this case the entrepreneur must have a business plan to attract, guide and retain the newly employed human resources.

External users are *customers* who can pre order or initiate a transaction in advance with the entrepreneur. Customers deem to analyze an entrepreneur's plan to conduct a business, its inputs and outputs in detail and then decide whether to collaborate with the startup or not. In the same way, *suppliers* and *investors* identify the potential benefits of being the part of a business startup.

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What is the extent of a business plan?

It is very important to know the depth of a business plan. The length and the depth of a business plan depends upon the following factors.

1. **The entrepreneur itself:** Orientation of the entrepreneur decides the depth of a business plan. An entrepreneur with a deep orientation to a business will enlist more attributes, requirements and details of a business setting within the business plan document. *Ability/Education* of an entrepreneur will also affect the length and details of a business plan. A more educated entrepreneur will be able to know even minor details of a business startup and hence such an input will deepen the content of a business plan. An entrepreneur's choice, *preference* and ability to understand the importance of a business plan also affects its depth directly. It is quite possible that an entrepreneur may consider the business plan a mere formality while the other one may take it very seriously.

2. **The complexity of the business:** The nature of a business decides the extent of a business plan. The level of complexity is different for different businesses. The business plan requirements for a cement factory would be different (much complex) from fast food restaurant or a barber shop (less complex). It is critical to understand that, the more complex a business is, lengthier its business plan will be. The complexity and depth of a business plan will help to reduce business risk and avoid unwanted mistakes. Thus it is recommended to write an in-depth business plan in case of a complex business. It is not a healthy notion to avoid writing an in-depth business plan due to its complexity and robust technical requirements.

3. **The level of competition:** The magnitude of competition will decide the details of a business plan. The science of competition acts just like complexity factor. More competition will require more information and knowledge based input to help devise a business plan.

4. **The level of uncertainty:** Being uncertain is a characteristic of a human's life. Similarly it applies to the business planning process. The increasing level of uncertainty demands an increase in the rigor of a business plan.

5. **Availability of time and monetary resources:** It is the luxury of time and available resources which decide the length of planning a business idea and writing it in the form of a business plan document. Time, the length of the window opportunity and the financial resources will guide you in deciding the ingredients of a business plan.

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What are the features of a business plan?

Comprehensiveness: A business plan must be comprehensive enough to cover all the aspects of a new business startup. A comprehensive business plan must tell you about the entry, survival, growth and exit of a business startup. In this context a business plan document must answer the questions: How to start a business? How to run a business? How to close a business? What is the plan B?

Communication: The foremost feature of a business plan is the quality of communication. A business plan is that prime document which serves as an ambassador of your business idea to all the stakeholders i.e. formal and informal investors. Therefore, a business plan must be taken care with the basics of communication i.e. The message should be complete, coherent, correct, concrete, concise, clear and courteous. The communication factor has so much impact on the health of a message that it can blur the importance of a quality content if not communicated properly.

Guidance: A business plan must be comprehensive enough and well communicated that it can guide its internal and external users.

Formal planning process: A business plan must include the formal procedural steps in order to make it comprehensive, duly communicated and a subtle source of guidance for its stakeholders.

What is strategic arrangement/contents of a business plan?

It is very necessary to understand the strategic arrangement, sequence and the content of a business plan and its sequence. Usually a business plan has the following parts.

A. Title/cover page

Title page is usually prepared after the completion of a business plan document. Title page is not just a formality rather it is a first impression of your business idea. A title page must have *Name of the business*, *Logo of the firm*, *Nature of the business* (retail, manufacturing, services etc.), *Legal status* (sole proprietor, partnership or corporate), *Name of the key entrepreneurs*, *Investment* (finances), *Statement of confidentiality* (confidentiality of the document and its rightful ownership), *Email and Location address of the business* (mobile number, office address, social media ID etc.)

B. Table of contents

Table of contents is a gateway for the readers about the information inside a business plan. It guides the reader about how to explore a business plan. The reader will lose interest in case any misguidance found in the table of contents. Thus it is very crucial to align the inside content with the table of contents.

C. Executive summary

The executive summary gives a summarized view of the whole business plan. Executive summary is crucial in the sense that it can make or break the interest of the reader or the potential stakeholder of your business plan. An executive summary of a business plan usually contains 2-3 pages and have small paragraphs. It must be originally written (must not be a replica of any other document) after the completion of whole business plan document and later it needs a careful review before making it part of the business plan document.

D. Management plan

Management plan has the following particulars.

1. The introduction of the management team: name and address of the proprietors/entrepreneurs, qualification of the entrepreneurs (degree, skills, diploma etc.), experience of the entrepreneurs (internships, projects, volunteer work, formal business experience) and current responsibilities (role played by each resource).
2. Hierarchy of the management team describes about the team structure and reporting structure.
3. Total number of jobs: number of employees, the job description (job responsibilities and roles) for each employee and skill requirements for each job.
4. Human resource Policy: Hiring process, training and development evaluation and reward system are the part of human resource policy statement. An entrepreneur must adhere to the government regulations for small businesses and minimum wage rates etc.

E. Total product and service plan

It is very useful to clarify and write the product or service being offered by the business startup at this stage. It exclusively helps the reader to know that what a particular business will offer i.e. manufacturing, distribution, trading, servicing, consultancy, sales or retail. It gives the reader a detailed note about the product mix (a mineral water product will have its packaging and sizing details) or a service mix (a college/education services will have details of its degree programs).

F. Operations and production plan

Usually a business plan's scope is wide enough to cater the products and services both. A business plan is equally valuable and indispensable for both manufacturing concerns and services businesses. More often a business startup may offer a blend of both: services and products. A services business has an operations plan only, whereas a manufacturing business has both: an operation plan and a production plan. Operations and business plan is a very technical section of the business plan because your investors, suppliers, contractors and potential stakeholders observe, read and analyze the details of this technical information given in this section, precisely to check

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the soundness of the business plan. Collectively, operations and production plan has the following particulars.

1. Input/supply/purchase plan: It lists down the raw material requirements for the manufacturing process. It includes the list of suppliers and also mentions the potential reasons to select those suppliers. Supply schedule and payment plan is also a part of this section. Storage facility and transportation system information is also a part of it.
2. Production plan: It includes the detail about production plant (layout, covered area and design etc.). It includes the description of tools, machinery, equipment, technology, facilities (different types of technologies and variety in production options) and total capacity (ability to produce certain number of unites in a day or in a month) of the production unit.
3. Total quality management system: The description of quality management system is very critical part of a business plan. It is very tactical to write the total quality management system in detail. Usually an entrepreneur has not much understanding of these details so it is advised to consult a professional quality manager in order to complete this section of a business plan.
4. Outbound logistics plan: This section contains the detail about how the manufactured goods will travel/reach to the market and become accessible to market players i.e. wholesalers, distributers, retailers etc.

G. Financial plan

Formally, financial plan is the last section of a business plan document. The financial plan is considered as the heart and soul of a business plan along with the marketing plan. A financial plan must answer these three questions.

1. How much finance is required?

It is foremost important to exactly calculate, know and write the total amount of capital (financial resources) required to start a business. This information is valuable to be made part of the title page as well.

2. Where to get finance from?

Financial plan should also tell you the sources of finance. It mentions different avenues of financial resources e.g. banks, microfinance institutions, NGOs or other informal sources e.g. personal savings, borrowing from friends and family members.

3. Utilization and recording of financial results?

The details regarding the utilization of resources is very much necessary to mention here. This section comprises details of how, when and for which function of a business, money is required. This section is prerequisite with the information extracted from sales forecasting documents and requirement sheets. Pro-forma financial statements (estimated statements) are prepared to depict

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the projections of output of future business processes. Pro-forma income statement, balance sheet and cash flow statement are prepared on monthly, quarterly, bi annually or annually basis.

H. Appendix

An appendix or annexure is another important and informal part of a business plan document. It includes supporting documents i.e. resumes/CVs of entrepreneurs, legal documents (registration, agreements, contracts etc.), pictorial information (location map, animated visuals, cite graphics etc.). You may also attach information about the advance order from the customers if any or any other related information which you consider valuable to attract potential stakeholders of the business plan.

Note: It is recommended to draw a raw business plan according to your dream business idea and keep practicing alongside the learning about different sections of a business plan. Hopefully this exercise will be helpful you to finalize your business plan.

----------The End----------

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Technical Articles Theme 10

Title: NABC and Business Model Canvas: Presenting a business idea

Videos: 115-124

Topics Covered

115. NABC: Presenting business idea
116. NABC: The Need
117. NABC-The Approach
118. NABC-The Benefit
119. NABC-The Competition
120. Business Model Canvas
121. NABC-Example
122. Business Model Canvas-Example
123. Discussion Group : angle investor and venture capitalist (Part 1)
124. Discussion Group : the investors' perspective on loan applications (Part 2)

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Author: Jawad Hassan, Instructor Business Administration, Virtual University of Pakistan

NABC and Business Model Canvas: Presenting a Business Idea

It is important to know that a business idea whether it is sourced from your daily routine, the problems you see in the society or from the unmet needs of the people around you (i.e. water resources, health issues, energy issues, travelling, food and so many other problems) is initially in a raw form. Once you have identified a business opportunity and have prepared a rough business idea sketch in your mind, the very next critical phase it refine that business idea. You need some resources to start that business and it is not necessary that you have all the resources with you to start that business at once. You need others' help in order to materialize your thoughts. You may find help from your immediate family members, other investors or from the open market sources. In each condition you need to present your business idea in a meaningful, structured and organized way. There are numerous ways to present a business idea but we need to find one which is convenient, easy to understand and smoothly presentable.

Here we present the ***Need Approach Benefits Competition (NABC) approach***, a framework to better structure and present your business idea. NABC is originally presented by Stanford University. As we all know that the effective pitching of your business idea to the potential investors and other stakeholders is very critical. So a very smart presentation of the business idea is an ideal approach to reach potential stakeholders of a business idea.

Stanford Research Institute defined NABC approach as *"An important client or market need addressed by a unique approach with compelling benefits when compared against the competition or alternatives"*

Let's understand NABC importance with the help of an example.

Suppose feel hungry and sitting in you Virtual University Campus at the lunch time. After a little ponder you have decide to go to a nearest tuck shop, a place that is trusted by you for good quality food with economical price. You avoid to go farther and other market places to avoid unnecessary fatigue and wastage of time.

You need to do a little activity here; that is to attribute this moment of thinking, analysis and decision making (finding a suitable, quick and affordable food option) to NABC components. This activity will enable you to find insights to NABC components from an entrepreneur's perspective. An entrepreneur actually needs to exactly refine and structure his business idea by considering the Need, Approach, Benefits and Competition factors of the services or goods being offered to the market. NABC components are collectively considered as the backbone of a business idea pitching sequence and content. It elaborates the **Need** you are addressing (the actual problem in consideration), the **Approach** you are using to address the issue/need (tools, strategies, plans etc.), the **Benefits** this business idea will provide (financials, profits, needs fulfillment etc.) and finally the details about the market **Competition** (competitors, industry dynamics etc.).

Need

It is indeed important to know the individual components of NABC one by one. First component is Need. Need must identify the customer and the market you are offering product to. It is important to remember here that any service or good can sustain, grow and survive whose market exists with its customers and their demands. You need to be very clear with what need of the market or the customers your aim to fulfill. And also need to identify needs with large enough market which can offer sustainable market opportunity. An entrepreneur answers the following question at this stage of NABC preparation.

- ***What is the need?***
- ***What is its market size?***
- ***Is it sufficient enough to be a potential investment opportunity?***

Another thing to be remembered during need identification is that you need to build a solid case on an authentic facts based evidence (either through a survey, a statistical report, a market research or a concrete observation) which argues that a particular need/opportunity exists in the market. Clearly pinpointing the need, its market size, sustainability potential and its scientific evidence are the basic parameters to build a convincing argument in front of potential stakeholders of your business idea.

Approach

After clearly pinpointing the need, the next phase is to finalize the approach through which that need will be fulfilled. ***Approach discusses the tool, resources, mechanism, plan and strategy to fulfill the needs of the target customers.*** It is most important to keep your approach simple, smooth, updated and state of the art to meet the dynamic market demands.

Benefits

After identifying the need and devising a sound approach to serve that need now it is the time to list the benefits of the idea being presented to the stakeholders. The benefits package must be unique or sometimes it could be closer to other people's offering in the same target market. This will be your point of difference to other players in the market. At this stage you have to precisely list down the details about the benefits you are offering to the unserved market and customers. ***Usually market or customers demand three types of products or services. Customers need low cost, economical, high quality, better quality products and services simultaneously and so you need to give them a reason to switch to your offer and leave the previous one if any.*** Your benefit must be substantial enough to conquer the market battle. It is to remember here that this portion of a business idea presentation can become a reason to win or lose for you.

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Competition

After refining the need, approach, benefits of a business idea now this is the time work on the competition factor. It is the dilemma of the startups or the novel entrepreneurs that the focus too much on their approach to do the business. They are very much product centered and thus ignore the marketing forces i.e. competition. Thus they are more tilted towards thinking about approach factor and least bother about the market competition. We develop an exaggerated view of our product and contrarily we underestimate others products and services. ***We must be rightly critical to our own approach and must lookup that how competition can affect our business idea. It is equally important to precisely present the details about your current and potential competitors.*** You also need to elaborate how competition can affect your business proposition and how you are better than your competitors. All you need to do is answer what you will do? How will you do it? What are its benefits? Who are your competitors? You identified the need with some research based evidence, devised a fascinating approach, and described well versed benefits but you have half-heartedly analyzed your competition. This notions say that you have incomplete information about your business idea and it will be difficult for you to pitch your business idea effectively. Important need, with unique approach, compelling benefits and smooth competition description is the output of NABC framework.

Example of Uber (Car riding service)

Let's take the example of how Uber (Ride sharing services) has successfully identified and addressed the customers' **need** of travelling. Uber has successfully identified a market (a set of customers) who do not have their own vehicles and those customers also find public transport a low quality option. Uber aims to serve the market by offering an affordable, reliable and quality transportation service. Uber has used a unique, state of the art **approach** to fix the travelling needs of the customers. Uber has used android based application platform to connect the different market forces. Uber application is being used as a technology driven modern tool to connect customers (people with travelling needs), captains/drivers (people who have their own vehicles and they choose to earn livelihood through ride sharing services) and a third party (Uber as an entrepreneur itself). It is easy to understand that Uber application simply inputs the customer call in form of travel destination and fetch that call to the interested drives on board. Once the ride service offer is accepted and the ride has been completed the driver collects the payment directly from the passenger. In this way need of the customers is fulfilled using a dedicated technological tool. Uber has offered low cost/economical, affordable and simultaneously high/better quality ride sharing services. The mentioned service package when compared to ordinary riding service (conventional cab services high cost and low quality) or public transport (low cost low quality) prompts numerous **benefits** to the customers. Uber services are affordable and it's fair calculating and fair collecting mechanism is transparent and standardized thus offers a much contended and mutually agreed transaction of services between the two parties. Uber has outperformed its **competitors** by offering reliable, better, cheaper and faster services.

Business Model Canvas

Once business idea is refined through NABC and you have a presentable, articulated and nourished NABC framework of your business idea. The next step is to develop a business model canvas to further elaborate your business idea. Just like an artist uses a canvas or a blank paper two draw his thoughts and craft a master piece of art with symbols, gestures, lines and colors, the entrepreneur draws his business model canvas in the same way. The basic difference between NABC and business model canvas is that the purpose of NABC framework is to structure your business idea whereas the business model canvas draws a detailed picture of your business idea.

Wikipedia defines the business model canvas as "The Business Model Canvas is a strategic management template used for developing new business models and documenting existing ones. It offers a visual chart with elements describing a firm's or product's value proposition, infrastructure, customers, and finances assisting businesses to align their activities by illustrating potential trade-offs"
Source: https://en.wikipedia.org/wiki/Business_Model_Canvas

By looking at the definition you will be able to understand the individual segments of business model canvas and their utility. Business model canvas answers the following questions to the readers or the viewers.

1. How do you acquire customers?
2. How do you plan and manage the relationship with the new customers?
3. How do you charge your customers?
4. What is your revenue model?
5. How much do you charge your customers?
6. Can you calculate your revenues for the next month, quarter and year?
7. What assets are available to you or under your control?
8. Who are your key partners?
9. What key activities do you need to engage in to deliver your value proposition?
10. What are your fixed, variable costs and how you calculate your future costs?
11. Does your revenue forecast demonstrates increase profitability towards the end of the forecast period?

The detailed general framework of a business model canvas is shown in table1.

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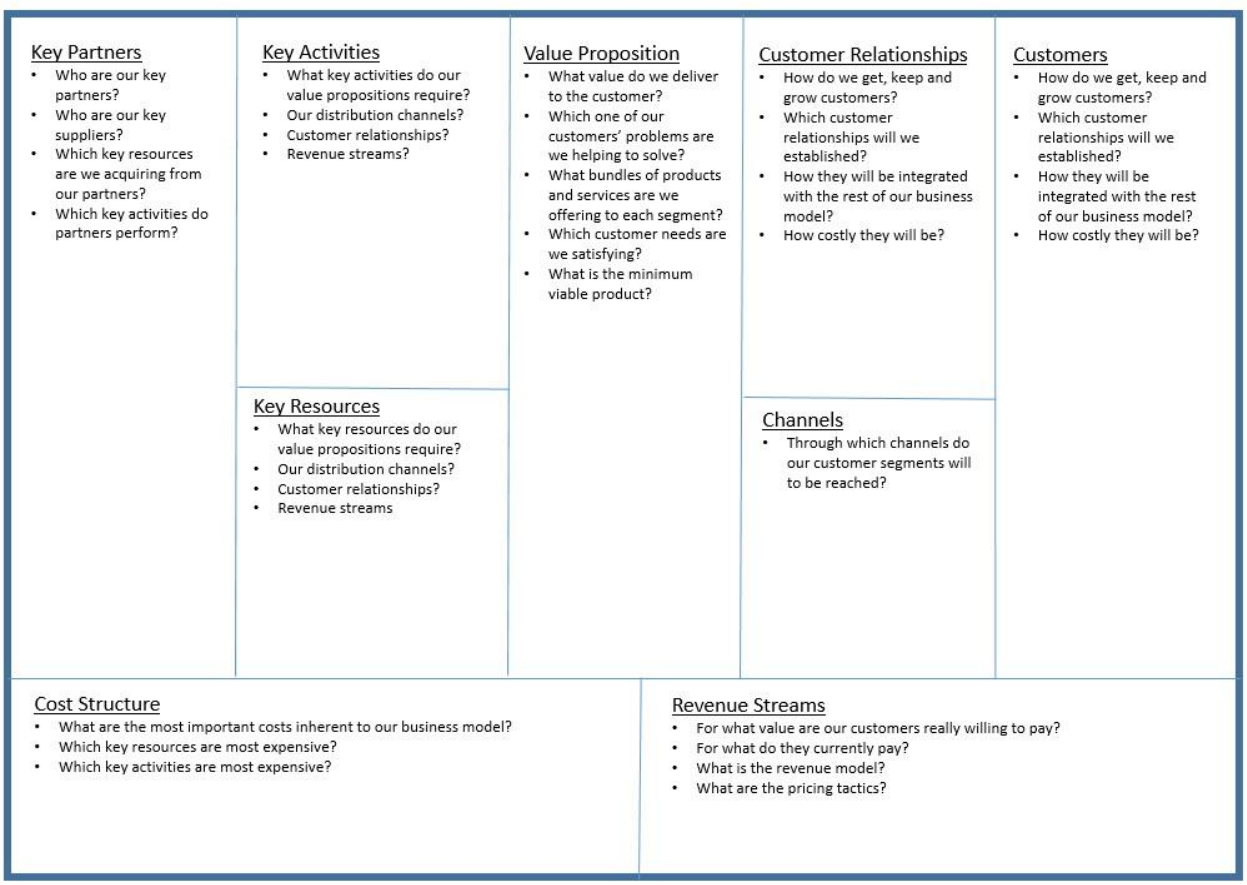
Table 1: Business Model Canvas with general questions



Vagi-Fresh (Example of a business Idea)

A novel entrepreneur dreams to convert his business idea into a business empire. In fact he wants to materialize his business idea into a workable physical business. Let's take an example of a business idea. **"The idea is to offer everyday fresh vegetables on a bicycle based mobile outlet to the households"**

Q-What is the important customer and market need? (*The Need*)

Answer: Unavailability of fresh and cut vegetable at competitive rates at the door step is a problem for the households. Issue of managing buying of fresh vegetable and cutting it for meal preparation as faced by the working women (As reported by working women) is an addressable problem. This need analysis is based on the facts: Total population of Pakistan has exceeded 200 million with women about 49%. There are 32 million households in Pakistan. About 24% of women are the part of the workforce.

Q-What is the unique approach to addressing this need? *(The Approach)*

Answer: Bicycle based mobile outlet of vegetables having cool box installed in it for keeping the vegetable fresh throughout the day, offering fresh whole vegetables, fresh cut vegetables and fresh

boiled vegetables ready to be cooked. Outlet will work under the brand name Vagi-fresh and be supported by a website where customers, working women, may order fresh vegetables of choice 24 hours before the delivery to be made at the door steps. Vagi-Fresh will start as one outlet aiming at the chain of outlets.

Q-What are the specific benefits resulting from the approach? *(The Benefit)*
Answer: Availability of fresh and hygienic vegetables to working women throughout the day **(Quality/Standard Product)**. Availability at the door step in desired form, whole/cut/boiled **(Convenience).** At competitive prices **(Affordability/Low Cost for Customer)**
Q-Why must we win?
Answer: Because we are offering what the target market exactly wants.

Q-How/Why are the offered benefits superior to the competition/alternatives?*(The Competition)*
Answer: Standardized quality, availability at the door step, in the desired form and at affordable prices make our offering superior to the competition. Everyone has alternatives. We must be able to tell our client or partner why our solution represents the best value. Conventional vegetable shops offer heterogeneous quality and usually do not suit to the working women owing to their work-life schedule. Our solution offers utmost convenience with quality and affordability.

Our Pitch (Standardized Quality at your door step within an affordable price. What else one can desire.)

Just like NABC framework for Vagi-fresh we also need to build its business model canvas.

Table 2: Business Model Canvas with Vegi-Fresh example

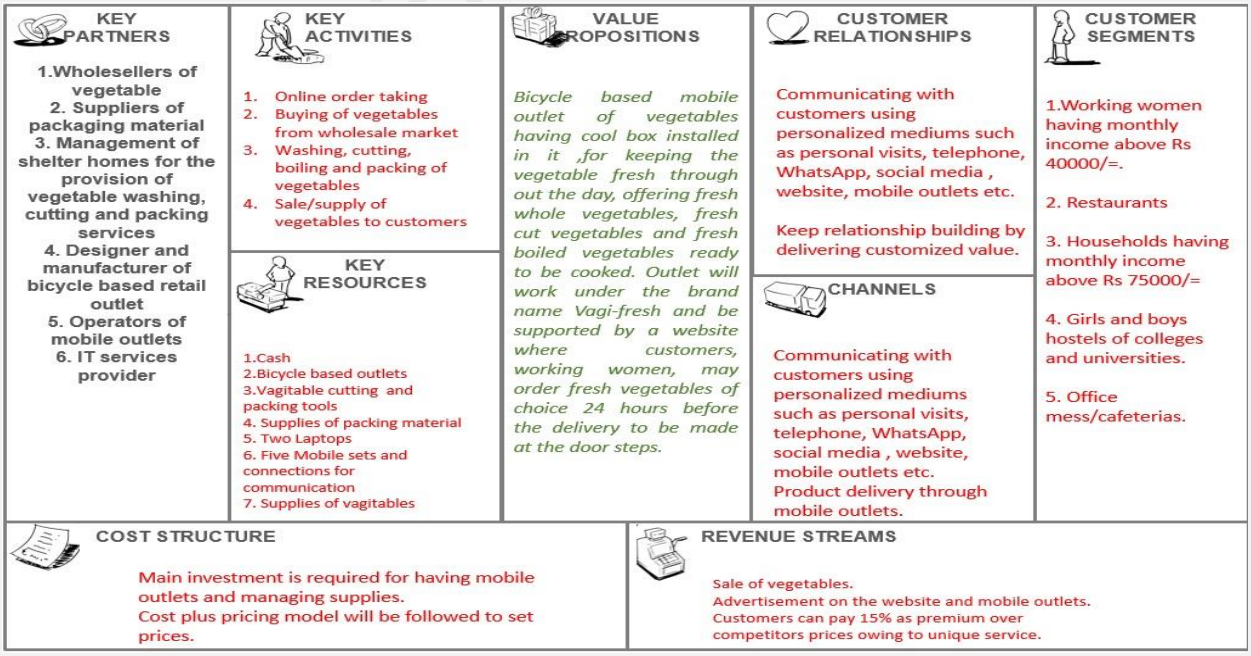


Table 2 answers all the questions of basic concern in a business model canvas.

Please watch the video lectures uploaded on VULMS for the topics related to interview based discussion on angel investment, venture capitalist and loan applications

- Video lecture 123: Angel investors and venture capitalist
- Video lecture 124: the investors' perspective on loan applications

Note: *It is advised to form NABC framework and business model canvas according to your dream business idea and keep practicing alongside the learning about different particulars of both approaches. Hopefully this exercise will be helpful you to form an effective NABC framework and a presentable business model canvas of your business idea. Never forget that perfection is hidden behind the iteration (practicing and rethinking and again practicing the content you are producing).*

----------The End----------

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Technical Articles Theme 11

Title: The marketing and legal aspects for an entrepreneurial venture

Videos: 125-145

Topics Covered

125. The marketing aspects for entrepreneurial venture
126. Relationship marketing
127. Buzz marketing
128. Guerrilla marketing
129. Choosing the right segment and target market
130. Choosing the right customer to serve : Identify the needs and wants of your customers
131. How to conduct a market research? Turning data into knowledge
132. Design your market offering(s)
133. Product Design and quality
134. Product or service specifications
135. Explicit and implicit promises (interview)
136. Packaging and labelling
137. Where to sell and what? The Display matters
138. Smart choice for selling product/services and The virtual markets
139. What is price?
140. Pricing strategies (new product pricing)
141. Price Adjustment strategies
142. Price Change and Price war
143. What is Advertising Mix? And Integrated marketing communication strategies
144. Brand : Business identity
145. Interview: Brand building and selling tactics : Issues and challenges

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Author: Sara Hussain, Lecturer Business Administration, Virtual University of Pakistan

The Marketing and Legal Aspects of an Entrepreneurial Venture

Now we will be discussing marketing and different aspects of marketing. First we will start with the definition of marketing given by Philip Kotler. According to Kotler and Armstrong, Marketing is *"the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return"*. This definition has some components that are process, value for customer, customer relationship, goodwill and profit.

Moving on we will be talking about need. We have earlier talked about NABC (Need approach benefit and competition). Whenever you discuss or talk about a business idea, the first thing that is considered with the business idea is the need. So, need is identified at the first place whenever you are designing any product or service. So what is need?

Need, Want, and Demand

Need is a *state of felt deprivation*. (*Kotler and Armstrong*) Anything that you feel is lacking in you is called need. Let's see when this need is converted into want. According to Philip Kotler and Armstrong, **want** is **"**The form human needs take as they are shaped by culture and individual personality". Your need becomes you want based on the culture, weather and belief system of the area you are living in. This want finally takes the shape of demand. What is demand?

Demand is ***"****Human wants that are backed by buying power"*. (*Kotler and Armstrong*)

Market offerings

How this need, want or demand is fulfilled? It is fulfilled through market offering.

For fulfilling need, want and demand of customers, businesses make market offerings. Kotler and Armstrong define **Market offerings** as "some combination of products, services, information, or experiences offered to a market to satisfy a need or want".

In marketing, you would have heard about 4 P's or 7 P's. This is an important and main framework of marketing which explains which aspect to keep in mind during the marketing process. What are 4 P's of Marketing?

- Product: what are the design, quality and attribute of the product?
- Price: what will be the price of the product?
- Place: what will be your market place?
- Promotion: how will you inform your customer about your product service or experience?

In case you are offering a service, there mostly 7 P's of service marketing are considered. Along with the 4 Ps three more Ps are added making it product, price, place, promotion, process, people and physical evidence.

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