

Now coming towards market, it says that **Market** is “the set of all actual and potential buyers of a product or service” (*Kotler and Armstrong*).

Markets and Marketing Strategies

There can be many types of markets like business markets, customer markets and online markets.

Business markets: when selling to the business

Customer markets: when selling to customer

Online markets: when selling through digital media and not through physical markets

Marketing Strategy will be briefly discussed here and detail will be given in later modules. While designing a marketing strategy, following steps are involved.

1. Identify the customer need
2. Choose your value proposition
3. Design a consistent brand and message
4. Select your target audience
5. Select the marketing/social channel for your startup
6. Build your referral network
7. Assemble smart marketing team
8. Become your product's loyal user
9. Be vigilant to customer's feedback
10. Relationship marketing

Coming to the next topic, we will be discussing customer relationship management. You will have to develop a relationship between your customer and your business.

Customer Relationship Management (CRM)

“The overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction” (*Kotler and Armstrong*)

The building blocks of CRM include **deliver customer value** and **delight your customer**.

Customer value is very important. While purchasing a product, whatever benefit or value I attach to your product, I will be comparing it to alternate products by the competitors. If the value or promise you are offering is better as compared to the competitors, then I will be buying your product.

There to understand Customer-perceived value, let's have a look at its definition,

"The customer's evaluation of the difference between all the benefits and all the costs of a marketing offer relative to those of competing offers." (Kotler and Armstrong)

Delighting customer relates to satisfying the customer. So, how to delight the customer? Customer will be delighted if you exceed his or her expectations and how will you do it? You can do it by exceeding his or her expectations through customer experience, customization and personalize communication, feedback mechanism, and relationship marketing and build/join communities.

Customers

A very important framework is available to select the kind of customer that you are interested to maintain your relationship with. Philip Kotler has given a framework for customer classification on two bases; one is potential profitability and second is projected loyalty. Based on which there are following classifications of customers.

- Strangers
- Butterflies
- True friends
- Barnacles

Strangers: These have low potential profitability and little projected loyalty. They have just once purchased your product and might not purchase in future again.

There is little fit between the company's offerings and their needs. So the strategy for such customers should be not to invest anything in them.

Butterflies: They are potentially profitable but not loyal. They need the product and might buy your product and then again when the need arises they might buy the product of some other brands. They will not wait for your brand to offer discount, they will avail the discounts of any brand to fulfill the needs. There is good fit between the company's offerings and their needs. Therefore, the **strategy** should be to capture as much of their business as possible in the short time during.

True friends: They are profitable as well as loyal. They are your true friends. They need your product and they have strong fit between their needs and the company's offerings. **Strategy** for them should be to build continuous relationship and investments should be made to delight these customers and nurture, retain, and grow.

Barnacles: They are highly loyal but not very profitable. They will show interest in your product but will eventually not buy your product. They have limited fit between their needs and the company's offerings. They are very problematic also. They might be demanding a lot from your

product. You may be providing them customized service to fulfill their demands but they will later on tell that they are not interested in your product. So for them strategy is to fire them

Moving on we will discuss different marketing tactics used by businesses to gain customer attention like buzz marketing and guerrilla marketing. Firstly let's see what buzz marketing is.

“Creating a word of mouth or talk around product service or experience that consumers view as authentic”

Marketing Techniques/Methods

Buzz marketing is done by using any entertaining way or news to draw people's attention towards the brand instantaneously. Which means you read a news or saw a Facebook teaser that got your attention instantly and started talking about it. That is buzz marketing. What companies do in buzz marketing is that they hire celebrities, opinion leaders and influencers (like you tubers) who start talking about the product and show that they are using this newly launched product or they talk about a product about to be launched. This is how buzz marketing is done.

Viral marketing, undercover marketing, diffusion marketing and product seeding are certain other names for Buzz marketing. Buzz marketing is used under various situations:

Buzz marketing can be used under following circumstances:

When you have to enter the market, you need to sensitize your market and your customer at that time you can use it.

- When you are launching a new product, service or any experience, you may be using buzz marketing.
- When you are opening a new outlet. You might have seen in big malls that on certain shops it is written Coming Soon.
- While expanding business.
- When you are entering a new market segment.

Buzz marketing can be used as a promotional campaign. In today's era of digital marketing, the widely used technique is buzz marketing. After buzz marketing, check out another tactic that is

Guerrilla marketing.

Guerrilla marketing is the strategy that involves unconventional and low cost marketing tactics that produce maximum results. It has two main features; its low cost and it brings maximum customer engagement. It may involve any unconventional design or unconventional event in a market place that grabs your attention and you are involved in it and enjoys it, its guerilla marketing.

Jay Conrad levinson coined the term guerilla marketing in his book named guerrilla marketing in 1984. This word was inspired from guerrilla warfare. In this warfare different small tactics are used to surprise the enemy like ambush, sabotage, raid and surprise. So the basic purpose of guerrilla marketing is to surprise the customer to such an extent that the customer enjoys the experience. Now we will see when guerrilla marketing can be used. In Pakistan the use of guerilla marketing is very limited as compared to other parts of the world. What you do in this marketing, you engage the customers and customer starts enjoying your aesthetics sense. This kind of marketing was basically for small firm but large companies use this marketing to a wider extent. There are different types of guerrilla marketing.

- Outdoor guerrilla marketing
- Indoor guerrilla marketing
- Event ambush guerrilla marketing
- Experiential guerrilla marketing

Targeting your customers is a critical part of marketing function. There are certain Market targeting strategies. First thing to do is to see how to choose the right customers to serve? After dividing the market into various segments of distinct customers which may be based on psychology, age, income. Then the next step is targeting the market. Targeting means once you have divided the market into various segments now you will be choosing one or multiple segments to offer your product or service. So, in short targeting it that segment/segments that you are going to serve. Before targeting the segment we have to evaluate the segments. There are two options for this evaluation. Philip Kotler has given two yard sticks for evaluation first being segment's attractiveness and second is firm's objective and resources.

Segment's attractiveness:

For evaluating the segments attractiveness, once you have divided the market into segments based on any element like income age, psychographics etc, you must have the important information about size and growth, profitability, economies of scale are available and competition. By measuring these you can know how attractive the segment is that you plan to target.

After this you will check what the objectives of your firm are and what are the resources of your business and determine that will these be enough and fit to fulfill the needs of the segment you are selecting.

How to target the market. There are multiple strategies:

For young and upcoming entrepreneurs the one leading area of weakness is **Marketing Research and marketing intelligence**. Information and knowledge is an important resource in this era. For information market research is critical. So let's see what market research is.

Marketing research is systematic design, collection, analysis, and reporting of data and findings relevant to specific marketing situation faced by a company (*Philip Kotler*).

Now let's have a look at the situations where information is required. It could be a Business opportunity for which information is required. It may be market growth for which information is gathered. It may be competition about which data is collected. Moving on let's see why Marketing Research is required. Marketing research is needed for the following reasons. It is conducted for any of the following situations arise to identify problem, to evaluate segment attractiveness, to evaluate a business opportunity, market survey for customers' preference, product preference test, sales forecasting, integrated marketing communication strategies evaluation, evaluation competition, product and/or market expansion and price change.

Marketing Research Process

Now let's study the **Marketing Research Process**. This process is very simple:

Step1: Define the problem/opportunity

Step2: Define the objectives of marketing research

Step3: Develop a complete research plan

Step4: Identify data sources

Step5: Selecting of sampling method and data collection

Step6: Analyze the collected data

Step7: Present the findings

Step8: Make an informed decision

Marketing Intelligence is a great success factor for entrepreneur. According to business dictionary marketing intelligence is:

“Primarily external data collected and analyzed by a business about markets that it anticipates participating in with the intention of using it in making decisions”.
(<http://www.businessdictionary.com/definition/marketing-intelligence.html>)

Considering the importance of Marketing Intelligence big firms develop Marketing Intelligence System. *Philip Kotler* defines it as:

“A set of procedures and sources used by the management to obtain everyday information about development in the marketing environment”. (*Philip Kotler*)

Moving on we will be discussing design your market offering(s) or how your product or service is designed. Let's see how Philips Kotler defined product and service.

“Product is anything that can be offered to market for attention, acquisition, use or consumption that might satisfy a need or want”. (*Kotler and Armstrong*) and secondly what service is;

“Service is anything or benefit that one party can offer to another that is essentially intangible and does not result in any ownership of anything”.

Classification of Product and Services

There are certain levels of product and services which include core benefit, actual product and augmented product. Mostly firm stay at the core level while designing the product or service but many of them add certain additional flavors to their product like brand name, level of quality and packaging etc. If you want to reach augmented level then according to Kotler you may offer delivery at the door step, credit facility cash on delivery, installation, after sales service etc. Deciding about all these levels is important because it will have impact on the pricing of the final product. When we talk about product and Service Classification, we see that whatever business is going on it can broadly be divided into two categories i.e. **consumer products** and **industrial product**.

Consumer products are offered to end consumer including convenience, shopping and specialty product while **industrial products** are offered to firms for further processing or for use in conducting the business. There are certain attributes of **product and services**. Product and service comprises of product Quality, Product Features, product style and design. Along with all these another important aspect is Unique Selling Proposition (USP). Entrepreneurship.com defines it as: “The factors or consideration presented by a seller as the reason that one product or service is different from better than that of the competitors”.

<https://www.entrepreneur.com/encyclopedia/unique-selling-proposition-usp>

Product Design and Quality

Product design and **product quality** are other significant areas to be discussed. Product quality seems to be a simple concept yet it is very deep and complex. Let's have a very simple definition of Product quality. Product quality is defined as zero defect product or service. The American Society for Quality defines “quality as characteristics of product or service that bear on its ability to satisfy stated or implied customer needs”. Product quality is:

- The leading positioning tool
- Directly related to performance of product or service
- Directly linked with value for customer
- Directly related to customer satisfaction
- Ensure long term relationship with customer

Dimensions of product quality include level of quality and consistency and commitment with quality.

What does it mean by quality? Quality revolves around these eight dimensions.

Design of product and service is also important and is a little more complex and detailed than style. It is directly linked with customer value and satisfaction, ensure long term relationship with customers.

While designing the product or service, its specifications are considered crucial at this stage. So an entrepreneur must write these specifications. Consider yourself as a customer now. Whenever you go to buy an expensive product, you check all its specifications before making the purchase decision. The business dictionary.com defines product specifications as:

“Written statement of an item's required characteristics documented in a manner that facilitate its procurement or production and acceptance”.

<http://www.businessdictionary.com/definition/product-specification.html>

Another definition given by Kotler says that product specification is: “The stage of the business buying process in which the buying organization decides on and specifies the best technical product characteristics for a needed item”.

Buying Preferences

In business buying, if your written specifications for the product, you may be involved in three different business buying situations; straight rebuy, modified rebuy and new task rebuy. Now looking at each concept one by one. Kotler has defined these three concepts in his book *Principles of Marketing*.

“A business buying situation in which the buyer routinely reorders something without any modifications called **straight rebuy**”. (Kotler and Armstrong)

“Business buying situation in which the buyer wants to modify product specifications, prices, terms, or suppliers called **modified rebuy**”. (Kotler and Armstrong)

“A business buying situation in which the buyer purchases a product or service for the first time called **new task**”. (Kotler and Armstrong)

Product: Packaging and Labelling

Packaging and labeling defines your product. It is very important because it involves cost and grabs the customer's attention. Packaging helps to keep the product safe. Your packaging should be convenient and safe for the customer and customer should be happy to carry the product without

hassle. Labeling is also very important in certain products because legal issues may be involved like medicine.

What is packaging? Lets' have a look at two different definitions of packaging.

"The wrapping material around a consumer item that serves to contain, identify, describe, protect, display, promote and otherwise make the product marketable and keep it clean."

<https://www.entrepreneur.com/encyclopedia/packaging>

"Packaging involves designing and producing the container or wrapper for a product."

(Kotler and Armstrong)

While designing a product, it might have multiple layers of packaging. It may involve primary package, secondary package and shipping or third package. Packaging is known as the product's face. So, there are certain **packaging concerns** as given below:

- ✓ Product container
- ✓ Packaging design and functionality
- ✓ Packaging color and quality
- ✓ Packaging size
- ✓ Packaging durability
- ✓ Packaging cost

Packaging also attracts the attention. For example the Candy packaging ideas grabs the attention of the kids. Therefore, packaging is important because it results in influencing consumer, assurance of the product quality, brand recognition and brand reinforcement.

Labeling is very critical for certain industries especially where regulatory authority is monitoring it. Lets' see a simple definition of labeling: "Display of information about a product on its container, packaging or the product itself" Businessdictionary.com also gives a very good definition of labeling as:

"For several types of consumer and industrial products, the type and extent of information that must be imparted by a label is governed by the relevant safety and labeling is a part of the packaging. Labeling ranges from shipping laws." You may further explore it on <http://www.businessdictionary.co>

Labeling is has broad meaning it includes simple tags to complex graphics.

Placement

After packaging and labeling let's move on towards placement of product and/or service. So, for an entrepreneur an important question is where to sell the product? What will be your market, customers and how to access them? Placement is related to accessing the customer. You may be selling the business product or consumer products but how will your customer access your product is important. Therefore, placement is the distribution options available to you to access your customer to deliver the customer value. It may be online, physical outlet or door to door selling. Given below is the simple definition of **Place/Access**. "What new distribution options are there for customers to experience our product e.g. online, in-store, mobile etc." **Placement** includes all the matters related to supply chain management, geographical locations, distribution channels and display of the product.

For placement, it matters a lot in which market are you dealing. Is it consumer markets, industrial markets, government markets, global markets or virtual market?

There are some important questions related to display like:

How to get dominating shelf space? Where to display the product e.g. own display center or shopping mart, departmental store or convenience shop? What are shelf plan to maintain the inventory? What is the shelf life of the product?

Price and Pricing Strategies

After place, next P that is going to be discussed is price. Price is a really sensitive area whether you are planning to start the business; you are designing the product or already doing business which you want to expand. Price is the only p that is source of revenue while remaining P's involve / incur cost. A general definition of Price is: "The amount of money which is required and given in payment for buying something including product, service or experience". Another definition by businessdictionary.com is:

"A value that will purchase a finite quantity, weight, or other measure of a good or service".
(<http://www.businessdictionary.com/definition/price.html>)

Consumer psychology and pricing are linked to each other as pricing may be the first factor a price conscious consumer is considering while making a purchase decision. While checking the pricing, the consumer may be considering and comparing all the following areas like consumers process the price information, previous purchases (last paid price), market survey, formal communication, informal communication, online sources, competitors' price, expected future price and price sensitive customers.

Before studying the pricing strategies, first we will see what pricing objective is because pricing strategies are designed based on your pricing objectives. So, there could be different objectives on which pricing is based like survival, maximum current profit, maximum market share (market penetration), new product pricing, product quality leadership and partial cost recovery.

Price strategies usually depends on what product, service or experience you are offering to the customer, what is your competitors' price of similar and alternate products and who you're your customers/ what is your target market? While selecting any of the price strategies, it depends upon business life cycle stage your business is in. You may choose any pricing strategies from new product pricing strategies, psychological pricing and product-line pricing strategies. Let's see one by one what these pricing strategies are.

1. New Product Pricing Strategies

When a company is bringing in new product into the market, it usually charges market-skimming pricing which means they charge high price in the start and then with the passage of time lowers the price. Another option is market-penetration pricing. In this pricing strategy, you want that when your new product is being launched, it sells in bulk as compare to your competitors so you offer a price which is competitively low and at the same time offering some additional features in comparison to your competitors.

2. Psychological Pricing

It is based on the psyche of the customer and it may include reference pricing, bundle pricing, multiple unit pricing and everyday low pricing.

3. Product-Line Pricing Strategies

This strategy is important for those entrepreneurs who are on the growth stage and wants to increase their product line. It is based on product line for which two different pricing are used named as captive and premium.

Captive pricing is for products that must be used along with the main product. Main product in a product line priced at low while related product and/or line of product price higher. For example, shaver with replaceable blades which is the main product is priced low but the replaceable blades are priced a little higher. You may charge **Premium pricing** which is pricing different model at different prices depending on their quality and features.

Price is the factor that brings revenue. While discussing price, one thing that is very important is price change and price wars. Being an entrepreneur, if you have decided to change the price of your product then you have to consider how your competitor will respond to it. There could be multiple reasons for price change like cost inflation, over/less demand, price competition, nature of product and product life and promotional campaign.

When prices are changed, there are certain reactions to price change. Both customer and competitors will respond to change in price.

- **Reaction by customers:** He will be happy if price decreases while he will be annoyed if prices increase.
- **Reaction by competitors:** They will also react towards your change in price for that they may respond in any of the following ways:
 1. Maintain the price
 2. Maintain the price with some value addition
 3. Reduce the price
 4. Increase the price and improve the quality
 5. Launch a low price line

Price war is a very critical moment and entrepreneur should be able to survive the war. Investopedia defines price war as:

“A price war is a competitive exchange among rival companies who lower the price points on their products, in a strategic attempt to undercut one another and capture greater market share. A price war may be used to increase revenue in the short term, or it may be employed as a longer-term strategy.” (<https://www.investopedia.com/terms/p/price-war.as>)

While businessdictionary.com defines it as:

“Market situation in which (usually two) powerful competitors try to suppress each other's market share by progressively reducing prices until one of them retreats, at least temporarily”. (<http://www.businessdictionary.com/definition/price-war.html>)

Marketing Communications Mix

After seeing price, price changes and price war, marketing communication mix is going to be discussed. Communication mix is significant because if you are launching a product in the market then you have to communicate with your customers to inform them about your product. The way you inform them is called communication strategies or marketing communication strategies or mix.

Kotler defines **Marketing Communications Mix** as: “The specific blend of promotion tools that the company uses to persuasively communicate customer value and build customer relationships” (*Kotler and Armstrong*)

Marketing Communications Mix includes advertising, sales promotion, personal selling, public relations, direct marketing and digital marketing. Looking at their definition one by one, as given by Philip Kotler, are:

Advertising: Any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor *Source: (Kotler and Armstrong)*

Sales promotion: “Short-term incentives to encourage the purchase or sale of a product or service” *(Kotler and Armstrong)*

Personal selling: “Personal presentation by the firm’s sales force for the purpose of making sales and building customer relationships.” *(Kotler and Armstrong)*

Public relations (PR): “Building good relations with the company’s various publics by obtaining favorable publicity, building up a good corporate image, and handling or heading off unfavorable rumors, stories, and events.” *(Kotler and Armstrong)*

Direct Marketing: “Direct connections with carefully targeted individual consumers to both obtain an immediate response and cultivate lasting customer relationships” *(Kotler and Armstrong)*

Therefore, all these tools are available to communicate with the customers, you may use any of these tools individually or in combination. When you are using multiple tools, it is called **integrated marketing communication**. Integrated marketing communications (IMC) as defined by Kotler is: “Sensibly integrating and coordinating the company’s multiple communications channels to communicate a clear, reliable, and convincing and persuasive message about the product, service and/or organization”. *(Kotler and Armstrong)*

In integrated marketing communications, there are different strategies like social media, SMS marketing, blogs and influencers, news channels, vlogs, website and website banners, search engine optimization and local cable advertising. It is the decision of the entrepreneur to pick and choose any of these communication tools either individually or in combination. But the essence of using these tools is to inform the customer about their offerings.

Brand and Branding

Another important concept of marketing is brand. Brand is your business identity. Pakistani entrepreneurs are lacking the brand development skills. Therefore, this area needs special attention of the entrepreneurs. There are various definitions of brand. One discussed below if taken from Investopedia.com: “A brand is an identifying symbol, mark, logo, name, word and/or sentence that companies use to distinguish their product from others”.
<https://www.investopedia.com/terms/b/brand.asp>

While brand building, it is important to get legal protection for your brand so that no one else can use or copy your brand name. Such kind of protection is called trademark. Investopedia.com defines trademark as: “Legal protection given to a brand name is called a trademark”. (<https://www.investopedia.com/terms/b/brand.asp>)

While discussing brand, another important concept is **brand identity**. Let’s see how Investopedia.com defines it. “Brand identity is the visible elements of a brand, such as color, design, and logo that identify and distinguish the brand in consumers’ minds.”(<https://www.investopedia.com/terms/b/brand-identity.asp>)

Branding is important for the business and there are numerous reasons for its importance as it provides business Identity, helps in building recognition and customer relationship, being an implicit quality promise, leads to customer loyalty, generates new customers, wins customer and market place trust and provides edge on competitors.

Brand development is a complex process. There are some brand development strategies but these are critical for those businesses that are planning to expand. For these strategies, there are two things: either you are dealing with existing or new **product category** or you are using existing or new **brand name**. Therefore, ultimately it generates four strategies to select from.

Kotler defines these strategies in the following way.

Line extension: “Extending an existing brand name to new forms, colors, sizes, ingredients, or flavors of an existing product category” (*Kotler and Armstrong*)

Multi brand: “Multi Brand Companies often market many different brands in a given product category” (*Kotler and Armstrong*)

Brand extension: “Companies extend a current brand name to new or modified products in a new category.” (*Kotler and Armstrong*)

New Brands: “If the power of existing brand name is fading, a new brand name is needed.” (*Kotler and Armstrong*)

It is up to the entrepreneur that which brand development strategies he will use but brand building is very crucial in today’s era. At the end, it is again emphasized that Pakistani entrepreneurs should make utmost efforts towards brand development to reap maximum benefits of their business struggle.

Note: Please watch the video lectures uploaded on VULMS for the topics related to explicit and implicit promises of brands and businesses and brand building.

Video lecture 135: Explicit and implicit promises of brands and businesses

Video lecture 145: Brand building

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Technical Articles Theme 12

Title: The Management Aspects of an Entrepreneurial Venture

Videos: 146-151

Topics Covered

- 146. The management aspects for entrepreneurial venture
- 147. Organizational Structure: How it is different from a large setup?
- 148. Legal form of business (Part 1)
- 149. Legal form of business (Part 2)
- 150. Discussion Group with a lawyer: how to register a firm in Pakistan?
- 151. Discussion Group: with a lawyer (How to approach ombudsman)

Management Aspects of Business Ventures

To become a successful entrepreneur, one must be good at managing the venture. The management related considerations for an entrepreneur include decision making, leadership behavior, organizational structures and processes, clusters & networks, creating resilience, technological systems, departmentalization, and HR policies.

Decision-Making is an important aspect of any business venture as entrepreneur makes decision every single hour of every single day. These decisions can be minor decisions to major strategic decisions. How these decisions are made vary from one entrepreneur to another entrepreneur? Some entrepreneurs make decisions on their own while others take the opinion of employees or other friends and family. Some entrepreneurs also rely on expert opinion to make decisions especially in case of strategic decisions. Being an entrepreneur, which decision making style you opt is an important thing which he/she should consider while operating a business venture. **Leadership behavior** is another important aspect of management of a business venture. Which leadership style you opt for, decides the loyalty of your employees or team. It has been observed that employees are most loyal to the organization that they stick to the same organization for 30 years if the leader is good. **Organizational structure and processes** are the important things to operate the firm in an organized way. In the beginning of a new venture development, the organization structures are usually blur and every employee reports to the owner. But as the firm grows, the structures must have to be clear in terms of reporting and teams. On the other hand, processes should be clear even in the beginning.

Another important aspect of a firm's management is the **Clusters & networks** of an entrepreneur. Before starting a business venture, an entrepreneur must decide the industry he/she will enter. He must see if he has any networks and associations in that industry. Networking and associations with other businessmen and entrepreneurs are of utmost importance for an entrepreneur especially in the initial stages of new venture development. Being resilient and **creating resilience** in teams is the key to the success of any firm. Whether it is the development stage of a business venture or the growth stage, an entrepreneur can face setbacks or any uncertainties which should be faced by being resilient. In those times, it is the entrepreneur who must manage resources and make decisions which are in the favor of the firm. These setbacks can be the result of entrepreneur's bad decisions or competitors but there are certain uncontrollable factors (like COVID 19) which can be the reason of these setbacks.

Entrepreneur must also see which **Technological systems** are needed by the firm. As this is the era of technology and a lot of tasks have been digitized. For these tasks, you do not need any human resource. Some business models are based on technology, so they need more technological systems than others where human capital is more important. In the initial stages of new business development, there are no separate departments for each business function. Usually, one team

performs several functions. But in the growth stage of business venture, **departmentalization** can be a major concern for an entrepreneur. On the other hand, whether it is the initial stage or growth stage, an entrepreneur must devise the **HR policies**. It should be clearly decided which financial or non-financial rewards would be given to employees and when. Which type of contracts would be built with the employees and which actions would be taken against the employees who are involved in any fraudulent activities.

What is Organizational Structure?

An organizational structure is defined as “a visual presentation of a company’s structure showing what employees do, decision making style, span of control, and chain of command”. In the initial stages of venture development, organizational structures are blurred and usually all employees report to the entrepreneur or CEO. But as the organization grows, it becomes important to define the organization structures and chain of command. Organizational structures are classified in terms of functions, products, markets, and geographical location.

Functional Organizational Structure departmentalizes an organization based on the common job functions e.g., marketing, finance, human resource, management, operations and IT. It is the most common structure organizations adopt. In small scale firms, if you want to make teams, you can give responsibility to some people of marketing function and some of finance function. Usually, one team is handling two or multiple tasks. Following is the pictorial representation of functional organization structure.



Product-Based Structure divides an organizational structure based on products. It is ideal for organizations with multiple specialized products. If an organization is dealing with multiple specialized products, it can make separate teams for each product each performing all the functions of marketing, finance, research, and operations independently. For example, an entrepreneur dealing with clothing as well as beauty products can make two separate teams. Each team will do the marketing separately. Similarly, all other functions (finance, HR, research, and operations) would be performed separately by each team.

Market-Based Structure divides an organizational structure based on industries, markets, or customers. Some entrepreneurs deal with different markets like government market, consumer market, and B2B market. For those entrepreneurs, the organization structure would be market based. There will be separate teams for each market served by the firm. If a firm deals with local

market and international market, there will be two separate teams for both markets who will perform each organizational function independently.

Geographical Structure deals with division of an organizational structure on the basis of geography. This is mostly adopted by the entrepreneurs who deal with import and export business. For example, if the firm deals with Canadian market and UAE market, there will be two separate teams for both the markets.

Flat Structure deals with an organizational structure where employees are only a few steps away from senior leadership and decision making is centralized. In the beginning of the start-up, organizational structures are usually flat where employees report directly to the owner or CEO.

Tall Structure deals with multiple layers of reporting and decentralized decision making. In the growth stage of business venture, when an entrepreneur has a big team, there are multiple layers of employees. Each layer of employees' report to the upper layer. For example, labors report to the line managers and the line manager reports to the senior manager. Further, senior manager reports to the middle manager who reports to the manager operations.

How the structure of small setup is different from large firms.

1. Blur organizational structures
2. Centralized decision making
3. Multiple roles of managers
4. Need for growing firms
5. Lack of R&D and human resource development (we don't see it in small business)
6. Flexibility of organizational structure (you can change the structure easily in small firm not in the large firms.)

Legal Forms of the Business

There are four basic legal forms of business which are: sole proprietorship, partnership, joint stock Company, and nonprofit organization.

Sole proprietorship is a business owned and operated by a single person who enjoys the whole profit and bears all the loss. This form of business has unlimited liability which means in case of non-payment of debt, the proprietor's business property as well as personal property will be taken to pay off the debt.

Some of the characteristics of sole proprietorship business are:

- Single ownership
- No need of registration of business
- No documentation required (except for some businesses like pharmacy where documentation is needed)
- No separate legal entity from the proprietor
- Small scale business
- Tax on owner's income (No double taxation)
- Unlimited liability
- Sue and can be sued in the name of the owner
- Sole manager
- Business commencement and closure is on the will of the single owner

Another legal form of business is **partnership** which is a legal entity formed by two or more people. The partners are personally responsible for all the losses and debts and partnership has unlimited liability. A partnership can be a partnership at will when it is open-ended. A partnership at will is formed to carry out a general business without specifying the time of termination of partnership business or without specifying the duration of partnership. On the other hand, a partnership can also be a particular partnership which is formed for a particular project and terminated as soon as the project is completed.

Usually, it is not mandatory for firms to register a partnership, but it is recommended to register a partnership to get the legal protection. A Partnership deed is usually prepared in order to get a partnership registered.

Some of the characteristics of partnership are:

- At least two individuals are required to form a partnership
- Unlimited liability of all partners collectively and individually
- Profit is shared equally or in agreed ratio
- Voluntary registration
- No perpetual succession/continuity
- For transfer of share, mutual consent of all partners is needed

SECP has introduced a relatively new concept in partnership business in May 2018, that is limited liability partnership (LLP) where the liability of all partners will be limited to the extent of their investment except for one partner whose liability would be unlimited. LLP is form of business which is near to the corporate form of business in terms of some of its characteristics. The two main characteristics which distinguishes the LLP from general partnership is:

- Separate legal entity (it is the main characteristic of corporate form of business where the firm is separate from the owners. It can sue and be sued in its own name.)
- Perpetual succession (in general partnership, in case of death of a partner, partnership gets dissolved but in the case LLP it will continue. The death or insanity of any partner will not affect the existence of partnership).

Partnership Act 1932 explains the detailed procedure of registering and dissolution of partnership, right and duties of partners.

Another legal form of business is non-profit organization. A nonprofit organization is a business that has been granted tax-exempt status because it serves a special cause and provides public benefit. This type of organizations supports the government. Some of the characteristics of nonprofit organizations are:

- They are formed for the public service or benefiting the society.
- Donations which are given to NGOs are tax deductible. If you show it in your tax return, you will get the tax rebate or exemption.
- NGOs itself pay no tax on the received donations or on any other income earned through fundraising activity.

Entrepreneur can also start a nonprofit organization. Abdul Sattar Edhi is the example of NGO entrepreneur who started a nonprofit organization which has all the systems and processes, but it works for public service instead of profit making. A nonprofit organization can be started at local level, district level, divisional level, or provincial level in Pakistan whereas it can be registered under Punjab government welfare department if any individual wants to start it in the vicinity of province Punjab.

Another basic and most common form of business is corporation. There are four types of corporations which are:

1. **SMC or single member company** is a limited liability private company owned by a single director/member. This type of company was introduced by SECP in Companies Act 2017. The purpose of introducing SMC was to facilitate the sole proprietor. It gives the sole proprietor the benefit of limited liability.
2. **Limited liability partnership:** SECP has introduced a relatively new concept in partnership business in May 2018 that is limited liability partnership (LLP) where the liability of all partners will be limited to the extent of their investment except for one partner whose liability would be unlimited. LLP is form of business which is near to corporate form of business in terms of some of its two characteristics perpetual succession and limited liability.
3. **Private limited company:** it is the form of corporation started by two or more people. It is registered with SECP. The liability of members of a private company is limited to the

extent of their investment. The shares of private limited company are not offered to the public for purchase. All the profit is divided among the shareholders. Private limited company is not listed on the stock exchange for trading.

4. **Public limited company:** a public limited company is owned by the shareholders and managed by the directors who are selected by the shareholders. Shareholders get the profit in form of dividend. The shares of a public limited company are offered to the public for purchase hence public limited company is listed on stock exchange. It is registered with SECP under the Companies Ordinance 1984. The liability of the shareholders is limited in public limited company. For a public limited company, it is mandatory to show all the financial statements publicly hence it is more open to public as compared to the private company.

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Technical Articles Theme 13

Title: The Financial Aspects of an Entrepreneurial Venture

Videos: 152-165

Topics Covered

- 152. Introduction to Financial Management
- 153. Financial objectives of the firm
- 154. Financial Management Process
- 155. Need for financing
- 156. Sources of Personal Financing
- 157. Raising Debt or Equity Financing
- 158. Creative Sources of financing
- 159. Financial Statements
- 160. Historical Financial Statement
- 161. Historical Balance Sheet
- 162. Historical Statement of Cash flow
- 163. Proforma of financial statement
- 164. Ratio Analysis
- 165. Break even analysis

Introduction to Financial Management

Financial management means managing finances effectively. Every business needs to manage the finances. For entrepreneurs, arranging the funds and managing those funds and earning maximum profit is a must. Profitability, liquidity, efficiency and stability are the major financial objectives of a firm. Finances that are needed for a business are considered as cash inflows and expenses are cash outflows. Capital expenditures are usually fixed expenses. Finances required for entrepreneurs are usually from their own or from family or friends. Loans and other finances are the other sources of funds for entrepreneurs. Forecasting helps in having idea about financial requirements. If entrepreneurs decide to have debt, they need to forecast whether they will be able to pay interest rate or not. Banks are an important source of finance. Other financial institutions and debt financing organizations can also finance startups. There is no specific guaranteed source of financing for a particular type of business. Business with weak cash flows and low growth rate must go for personal funds or from family/friends. Businesses with low risk, healthy balance sheet and good management can go for debt financing. Businesses having unique idea and high growth rate can go for equity financing.

When we discuss about financial management in context of entrepreneurship, preparation of financial statements is an important element. Financial statements of a business can be either **historical financial statements** or **proforma financial statements**. Historical financial statements are required by SECP and are based on past performance. These are usually made on quarterly, half yearly or yearly basis. Pro forma statements are made on the basis of projections and are of equal importance. Income statement is one of the historical statements and is prepared over a period of time whereas balance sheet is prepared for point in time. Statement of cash flows deals with cash inflows and cash outflows. **Income statement** is created by stating net sales and adding any sales returns and subtracting direct expenses which gives income before interest and taxes. After adjusting interest and taxes we get net income/profit/loss. The basic accounting equation is **Assets=Liabilities + Owner's Equity**. Assets can be either current assets or fixed assets. Current assets fall within period of 1 year. Fixed assets are for more than a year. Current assets are liquid which means that can be easily converted into cash. Fixed assets are usually land and machinery. For balance sheet their depreciation amount is deducted to get proper value. As far as liabilities are concerned, they are also long and short term. The sequence of making financial statements is a must. Firstly, income statement is prepared then balance sheet and after that cash flow statements are prepared. Most of the information in **cash flow statement** is taken from income statement and cash flow statement. There are three sections of cash flows, Cash flows from operating activities, cash flows from investing activities and cash flows from financing activities. For cash flows from operating expenses, sources of cash are added and uses of cash are subtracted. Figures in this statement that might be increased or decreased can be taken from balance sheet or income statement. Net cash flows from operating, investing and financing activities are adjusted and then we can get the figure of cash flows at the end of the year which can be easily compared with the amount at the start of the year.

Proforma financial statements are similar to historical statements but they show projected figures rather than actual amounts. These can be used as a planning tool as well and can be a source to control the expenses. These statements can be used if the firm requires funding. There are three proforma financial statements, Proforma income statement, proforma balance sheet, proforma statement of cash flows. For proforma income statement, sales are projected for upcoming years as compared to actual figure of current year. Cost of sales is considered as percentage of sales so the same is projected for upcoming years. Some facts and figures are known for example depreciation expenses. Taxes and interest are also certain percentages so these can also be calculated. When starting new venture and actual figures from current and previous years is not present, statements of competitors or industry's average figures and can used. For proforma balance sheet, assets and liabilities are projected and this way the statement is prepared. Similarly, proforma statement of cash flows is prepared.

Ratio analysis is a tool to determine financial health or operational efficiency of a company. Actual sales figures cannot be compared so ratios are used. Ratio analysis is done to compare company performance with others and to compare performance of company departments with each other. It is also done to analyze future trends. Some ratios measure profitability, liquidity and some overall financial stability of a company. Return on assets, return on equity, and net profit margin are part of profitability ratios. Liquidity ratios include current ratios and quick ratios. Financial stability ratios include Total debt ratios and debt as equity. By performing ratio analysis, it becomes quite evident where the company actually stands.

Break-even is the point when total revenue is equal to total cost. At this point cost is covered but still profits are not earned. There are two types of costs, fixed costs and variable costs. *Variable costs* are costs that change with changes in production levels. These can be costs of materials used in production. *Fixed costs* remain the same regardless of sales. These can be rent, insurance and wages. Breakeven analysis helps businesses make decisions about prices, costs and level of sales. This analysis is used to predict future results. *Total cost* is fixed cost plus variable cost. So, total cost changes with change in variable cost. After covering variable cost the amount that is left to cover fixed cost is called unit contribution. Breakeven analysis is an important planning tool.

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Technical Articles Theme 14

Title: Growth of Entrepreneurial Firms and Globalization

Videos: 166-177

Topics Covered

- 166. Business growth Model (Part 1)
- 167. Greiner Growth model of business (Part 2)
- 168. Preparing for growth (part 1)
- 169. Preparing for growth through Acquisition and mergers (part 2)
- 170. Preparing for growth (part 3)
- 171. Issues and challenges of growing firms
- 172. How to close a venture?
- 173. Discussion: The link between entrepreneur's personality and firm growth pace & style
- 174. Globalization and entrepreneurship
- 175. Opportunities and challenges in the globalized world
- 176. Strategies for going global
- 177. The digital age and its issues

Handling Business Growth

It's important that an entrepreneur should not only be able to start the business but he should be able to handle the challenges of business growth. Some of the models and strategies commonly taught in entrepreneurship are following:

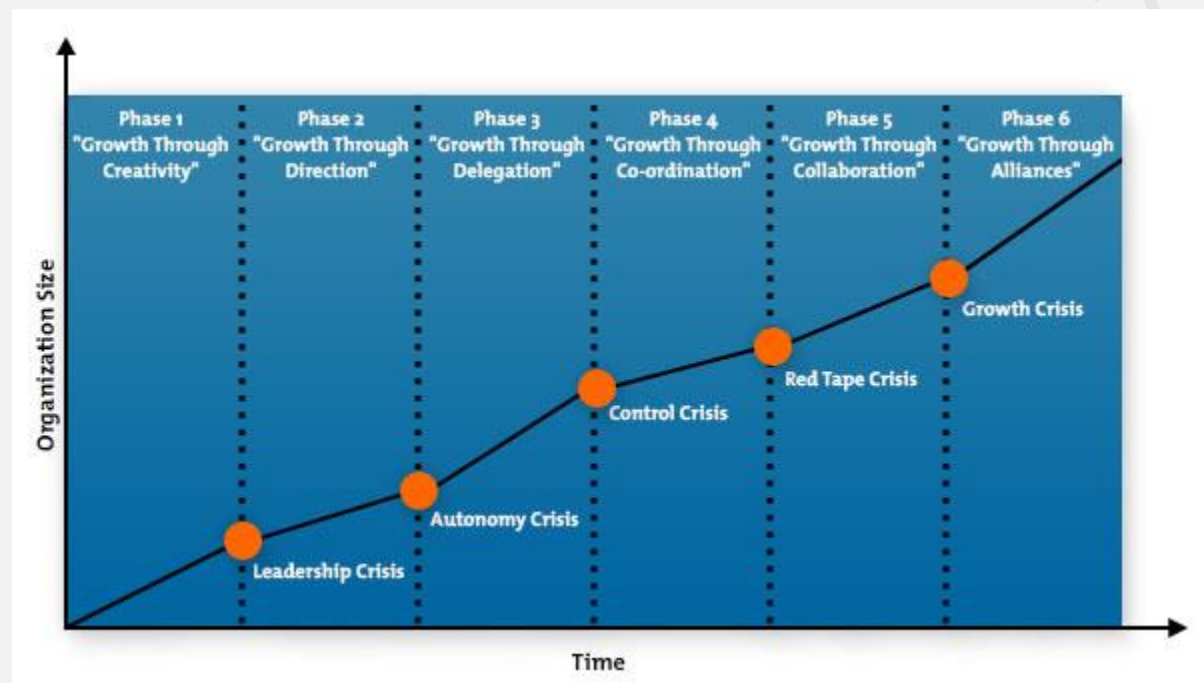
1.1. Business Growth Model (Part 1)

Once a business is started, it is important to understand the dynamics associated with the growth of a business. Therefore, understanding different business-growth models is also important for an entrepreneur. Such models and frameworks give a better thinking pattern to an entrepreneur. There are two famous models for the business growth. The first is "business growth model" that emphasizes existence, survival, success, growth/takeoff and resource maturity. The very first phase of the business growth model is existence in which the entrepreneur starts the process of acquiring and retaining the customers. Products and services are delivered and showcased to the new and existing customers. The next phase of the business growth model is survival. Young entrepreneurs often confuse this stage of survival with success. However, it is a stage between the existence and success of a business.

In the survival phase, the entrepreneur realizes that the business idea is workable for further progress of the business or not. At this stage, often, a slight increase in the product sales and revenue is observed for which the entrepreneur starts getting encouragement. Hence, often the business achieves a breakeven point at this stage or at least gets closer to it. The third stage is success at which the company becomes able to maintain good customers. Business starts having profit as its income exceeds the breakeven point. At this stage, the entrepreneur carefully needs to differentiate between the sales and the profit. Often, the entrepreneurs get excited that increased sale is a source of income and that might be confusing because it is necessary to exclude all expenditures from income to determine the actual profit of a venture. At this stage, the entrepreneur starts developing brand rapport. The business also becomes capable of facing the competition in the market at the success stage. The fourth phase after success is the take-off. At this stage, the entrepreneur starts thinking about the further growth of the business. The fifth stage of the business growth model is resource maturity. At this stage, the entrepreneur tries for better financial management, product and service diversification and hence all specialized activities are performed separately at this stage at the departmental level within the organizational unit. Research has shown that at this stage, the entrepreneur often starts compromising further growth and tends to maintain a steady stream of income.

1.2. Greiner Growth model of business (Part 2)

This model was presented in the Harvard Business Review and presents the detail of potential challenges for entrepreneurs while having business growth. In this model, each growth phase is made up of a period of relatively stable growth, followed by a crisis. This model can be elaborated clearly through a graph which is given below.



This graph of the Greiner Growth model of business shows that over time, as the organizational size and business keeps growing, then a business has to face six phases and five challenges. As per this model, the business initially grows through creativity, then through proper direction, delegation, coordination, collaboration and alliances. However, each stage of such business growth is met with a crisis that a business has to deal with.

In this model, creativity is the very **first phase** of business growth. Cost reduction, existence and survival remain the focus of this phase. Usually, when an entrepreneur comes out of an incubation centre then he/she enters this phase of creativity. Usually, informal communication takes place at this stage between entrepreneurs and other stakeholders such as customers.

Phase 2 in this model is direction. You have to give proper direction to the people working with and under you. However, this stage also brings this crisis of leadership. A leader has to be able to work for the venture himself and has to provide an enabling environment to the people working under him.

Phase 3 is the delegation stage. In different functions, the entrepreneur has to delegate the work as he cannot perform every task himself. Leaders are often used to of keeping the work under their own supervision for every activity. Therefore, this stage of delegation comes with the crisis of autonomy. For example, the person dealing with sales should have the autonomy to provide a discount on product or service up to a certain limit etc. At this stage, employees also start demanding autonomy for their work.

Phase 4 of business growth is coordination. At this stage, businesses are often having significant growth. All the departments coordinate with each other under a defined hierarchy. However, in the coordination phase, an entrepreneur has to deal with the crisis of control.

Phase 5 in this business growth model is collaboration. At this stage business often has a significant growth with separate departments. Often rules and policies get so mature at this stage that they slow down the decision making. Such issues create red tape barriers in the organizations.

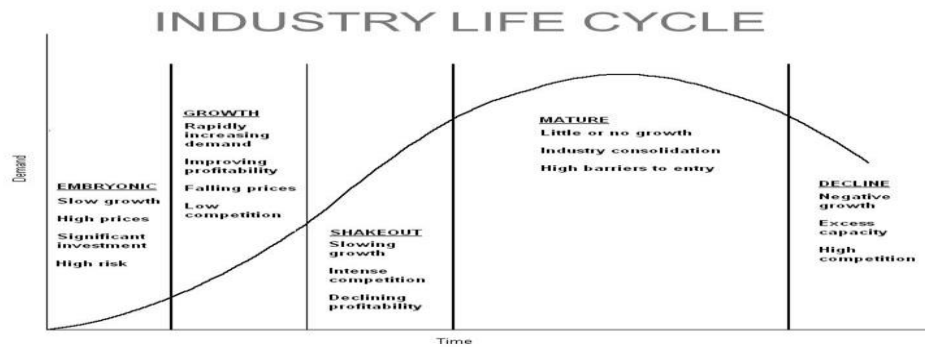
Phase 6 of this business growth model is growth through alliances. Sometimes, when a business reaches the stage of maturity and it is difficult for the business to grow on its own then alliances with other strategic partners are formed. But such alliances should be carefully made. Entrepreneurs often face such difficult crises in the business. It can be concluded that business growth is not easy. Entrepreneurs have to face a crisis in the business such as those related to marketing, finance or leadership. It is also important to maintain the structure of the business.

1.3. Preparing for growth (part 1)

For expanding the business, preparation is the key. Once the brand name establishes, then the business needs expansion. It is important to understand a few concepts concerning preparation for growth. The first concept is the industrial life cycle. The industrial life cycle refers to the gradual development of an industry through five common stages. Those five stages are:

1. Introduction (Embryonic stage)
2. Growth
3. Shakeout
4. Maturity
5. Decline

Many industries evolve and then decline very soon. Like reel camera and Symbian phone technology market has declined now. Therefore, an entrepreneur should not enter an industry that is at the decline stage. Consumer demands also change from time to time.

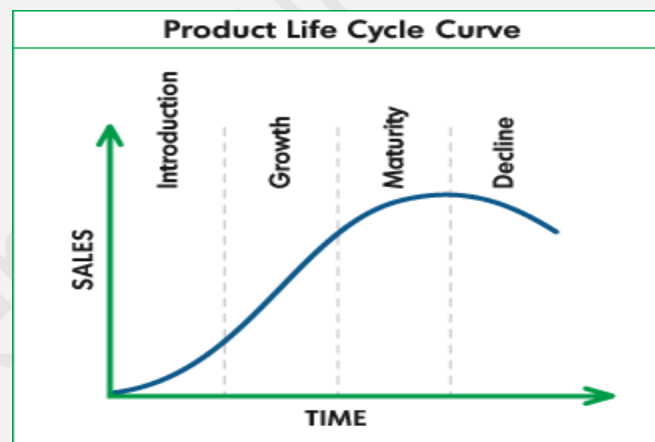


Source: Based on Figure 2.4 in Hill and Jones (2008).

CFA Institute

IT revolution, environmental factors and machine revolution have also caused a decline in many industries. If an industry is at an evolution phase, then it is better to enter in that industry for a new business. After the initial phase, the growth phase starts. For example, if the online business was a success in the recent past then many new entrants came into it. Home-based banking is another example. At the maturity phase, the environment for a new entrant is very tough. An entrepreneur should not opt for an industry that is at the decline phase.

Then there is another concept which is the product life cycle as the products can also be categorized with respect to their life cycle stages. The stages of the product life cycle are 1. Introduction 2. Growth 3. Maturity 4. Decline.



For example, initially, the mobile phone was used only for making a call or SMS. Then, the simple mobile phone market nearly declined and smartphones entered the market initially with Symbian technology and then with the Android technology. Now, even more experiments are being conducted for even greater evolution in the smartphone industry, so that, they could hold their maturity stage. Companies try to sustain this stage through research and development. Initially, products consume greater expenses such as for advertisement. In America, companies often launch their products at the decline phase in another region or country where that product was not earlier available.

For business growth, different factors are the source of entrepreneurial resources. For example, entrepreneurial intuition, knowledge and information, brand/business identity, team, finance, technology, customers and network are the resources for an entrepreneur to have business growth. These resources, if utilized effectively then they help the business at different stages.

Preparing for growth through Acquisition and mergers (part 2)

As discussed earlier, for business growth, three decisions are very important which are given below:

1. Life cycle stage of the industry
2. Product life cycle stage
3. Available entrepreneurial resources

Other than those three factors, there are strategic measures for the growth of a business such as acquisition and merger. In small businesses, mergers and acquisitions are not that difficult but they are not easy in large businesses as many factors have to be kept in mind. In a merger, two companies combine their business and form one company that represents both entities. However, in the acquisition, one company takes over another company by purchasing it and the company that is acquired remains in the total control of the acquirer. The basis of merger and acquisition are often following:

1. Financial
2. Tender-based
3. Management team based
4. Product-based

There have been acquisitions in the recent past in the telecom and banking sector of Pakistan. In merger, there are a few types of it which are following:

1. **Horizontal Merger:** In this kind of merger, two businesses that are direct competitors having the same product line and market combine to form a new business.
2. **Vertical Merger:** In this kind of merger, a company merges with the supplier for a new business and for value addition in their product offering. For example, a supplier of a cone can merge with an ice cream producing company to provide cone ice cream units. Similarly, supplier of cotton yarn can combine the business with a textile company to establish their textile unit with a value addition and cost reduction for both the businesses.

3. **Congeneric Merger:** In such mergers, two businesses that serve the same customer differently combine for a joint venture. For example, a TV manufacturer and a cable company can combine their business. Similarly, sometimes sellers of TV provide free subscriptions of Netflix for a month or two.
4. **Market Extension Merger:** In this merger, two businesses that are selling the same product in different markets share their markets. It is also called the market extension merger.
5. **Product Extension Merger:** In such a merger, two businesses selling different but related products are combined for a joint venture.
6. **Conglomeration:** In such a merger, two businesses that have different products, different market and different nature of business combine to form a new business. For example, in a furniture shop, the name of the product brand may of a bakery. That brand might be dealing in both of those two entirely different businesses.

1.1. Preparing for growth: Strategy tools (part 3)

For better understanding and decision making in business growth, two strategic tools are often used which are the following:

1. BCG Matrix
2. Ansoff Matrix

BCG matrix was developed by the Boston Consulting Group. It is also called as Growth-Share Matrix. This strategic tool can help an entrepreneur in deciding that in which product or market he/she has the best scope for the business growth. In the BCG matrix, one assesses how much is the market growth rate and the relative market share, i.e., the market share of the company.



At the Star phase, a company is often in a monopolistic type of situation in the market and generates a lot of revenue. Product is advertised more and the investor often needs more investment to maintain this position; however, the product often remains the market leader at this stage. Question Mark stage means that the product has a low market share but a high market growth rate. Hence, more investment in advertisement and marketing is needed to further penetrate and increase the market share. A Cash Cow stage means that the product has a high relative market share but low market growth. These products generate enough revenue and not much investment is needed for them. That's why, it is called Cash Cow stage. Dog category means neither growth nor market share for the product in the market. At this stage, the business of that product hardly meets even the breakeven point. If it is the one product business, then often business closure decision is taken while the product is in this Dog category. However, options such as product redesigning or change of market etc., might rejuvenate the product even at this stage. Hence, this tool helps a lot in the strategic decision making.

Ansoff matrix is also a very good tool for analysing product or market expansion. It was developed by Igor Ansoff and was published in 1957 in Harvard Business Review with the article title, "Strategies for Diversification". Even in the present era, this model is still very popular.



It explains different options of business expansion like market development, diversification, market penetration and product development etc. In market development, the same product is introduced in another market. It involves risk as well because a brand might not be successful in a new market. So, the risk factor remains moderate to high. In market penetration, product or market remains the same but increased marketing effort for growth is made to have a large market share in the same market. It involves low to moderate risk. The next choice may be product development which involves a little higher risk. You introduce a new product in the same market. In

diversification, a company introduces a new business often in another market. Hence, this tool gives all these options for better decision making.

1. Globalization and entrepreneurship

Globalization has connected people of the world in a way that never happened in the past. Communication channels have made the world a global village and it has reshaped the dynamics of businesses as well. A new entrepreneur also has to consider the factor of globalization and that how it can impact the new business in his/her domain. Globalization is the shared integration of resources in the world. Knowledge is now more accessible and cultural boundaries are shrinking. Free trade is taking place in many countries and people are more connected through shared culture and values. People of different countries also need the products and services of each other which globalization has made possible. There are different drivers of fast globalization and some of them are following:

1. **Natural resource endowment:** Sometimes, the natural resources of a country are also the source of competitive advantage for the people of that country. Michael Porter in his theory of “Competitive Advantage for Nations” suggested that every nation has a unique competitive advantage of its resources. Therefore, a nation would like to sell its natural resources to other nations for which globalization is a factor that has fostered this process. A single country cannot fulfil all its requirements and has to rely on other countries for its needs.
2. **Improved transportation:** Better means of transportation have also added an advantage compared to the past and it has facilitated the exchange of commodities across the world.
3. **Technological breakthrough:** Communication and connection have become easy. Emails, the internet, phones etc., have made this process very easy and increased the pace of globalization.
4. **Free trade policies and international politics:** Nations are developing their trade blocks for mutual international trade such as America, Canada and Mexico in the American continent have their trade agreement. In Asia, ASEAN and in Europe, EU etc., have increased the globalization process through mutual trade.
5. **Skill and knowledge:** Now nations are also categorized based on their skill and knowledge-based economy. Due to this, skilled people of a nation work in other countries for their jobs and hence culture of a nation is also transmitted from one country to another country. Values are also exchanged and hence, the globalization process gets the strength.
6. **Growth strategies of the large corporation:** Many large multinational companies (MNCs) working in different countries also play a role in the globalization process.

Therefore, globalization also impacts the business of a new entrepreneur just like it impacts an established business. It also creates challenges for small and medium enterprises (SMEs). For example, the entry of Chinese products in Pakistan also decreases the business value of the local businesses. Similarly, the textile industry of Pakistan had a relatively bad impact due to globalization as the other regional competitors grabbed the bulk of market share in the international market. Therefore, an entrepreneur needs to observe the industry, capital requirement and other success factors before entering into a new business.

1.1. Opportunities and challenges in the globalized world

There are many challenges and opportunities for new businesses due to globalization. Global entrepreneurship is the process of business competition at the global level. Hence, understanding the culture and values of the other country is important for the entrepreneur if he/she is to sell the products there. The cultural, economic, legal and political forces of that country need to be understood for better compliance. The global entrepreneurs are more risk-takers and they have to adapt to the culture of the other country where their business is to operate. Some people think that globalization has increased opportunities as well problems for small businesses. New concepts of business are emerging along with globalization phenomenon. Some of the opportunities presented by globalization process for business are following:

1. **Born-Global Firm:** The concept of “born global firm” is emerging where “small firms launch their business in an international market right from the beginning of their business”.
2. **Service Outsourcing:** Large firms want to reduce costs and they outsource services such as call centre services to the workforce of less developed countries. Therefore, a businessman in a developing or under-developed country can be a service provider for a large firm present in a developed country.
3. **Offshoring:** In this process, companies initiate their operations in other countries where the cost of business is less for hiring knowledge workers. For example, there is a trend for offshore businesses in the IT industry of many countries.
4. **Information technology:** Social media, and vlogging has become very popular and they are also the sources of globalization. Websites, blogs, online bookings etc., are strongly emerging now compared to the past.
5. **Skill industry:** Offshoring and outsourcing happen due to the skills of people of other countries.

However, along with the opportunities, there are also the challenges of globalization. Therefore, an entrepreneur has to understand both the opportunities and challenges of globalization. Some of them are given below:

1. Culture, demographics and values
2. Legal system
3. Economic risk
4. International politics
5. Financial issues
6. Managerial and skill limitation
7. Quality standards
8. Product design
9. Operation alteration

1.2. Strategies for going global

Primarily, there are six strategies for going global with respect to a business which are following:

1. Exporting
2. Importing
3. Foreign licensing
4. International franchising
5. International strategic alliance
6. Cross-border acquisition

The easiest way of going global is to export a product or service to the international market. In exports, products and services of the home country are sold in another country where they are needed. For example, sports goods, surgical instruments, textile products etc., are exported from Pakistan. Another strategy for a global business is importing in which products of another country are sold to the customers of the home country. For example, many companies nowadays have online stores where they import products from China, Malaysia, Japan etc., and customers in Pakistan buy those goods online from them in Pakistan. This model of business by those online stores is import oriented. This model can be B2B and B2C as well. Foreign licensing is another option that needs a lot of legal consideration. In this process, an entrepreneur gets the license of selling a foreign company's product/services in their country. The one who buys the license of a foreign company is called the licensee and the one who sells that license is called the licensor.

International franchising is another option in which franchise of a foreign company sells its products/services in the home country. For example, in the fast-food industry, franchises of many foreign companies are operating. An international strategic alliance is another option in which risk gets minimized as a local partner in the foreign country is found for joint collaboration. Both partners share the resources and foreigner plays the role of insider. Another option is cross-border acquisition in which a local company purchases the business of a foreign company. It involves the use of a large capital. All these options provide range of business choices for the entrepreneur in this globalized world.

2. The digital age and its issues

Globalization has brought the revolution of digitalization that has its opportunities and challenges as well. Many companies are born global companies with export orientation and they need the use of digital means of communication for worldwide customers. It has reduced cost of business but businesses have to be vigilant for it. E-commerce has become more popular due to the digitalization. It brings new opportunities for the firms. Now transportation and payment methods along with other facilities are available for international customers and hence, it has increased the customer base for businesses. For example, Daraz.pk, AliExpress, Bareeze.com are the Pakistan companies that have started an international business through their online presence. However, for born global businesses of digital nature, serious considerations are also required. Some of them are given below:

1. Privacy policy
2. Exchange policy
3. International policy
4. Payment policy and methods
5. Logistics
6. Order tracking
7. FAQs
8. Consumer-generated content

All these considerations need to be kept in mind before starting a digital business. However, there are also some issues and challenges of e-business, e-commerce and some of them are following:

1. Competition is brutal
2. It takes time to build a positive profile online
3. Government can ban/restrict the product
4. Generating online targeted traffic
5. Converting shoppers into paying customers

6. Choosing the right technology and partners
7. Product display and content development

3. How to close a venture?

It is important to understand the closure strategy for a business as well. Sometimes, people even don't know about the closure of a business and find themselves in the risk of legal consequences. There are multiple options for business closure and a few commonly used options are following:

1. Complete closure
2. Selling of business
3. Declaration of bankruptcy for liquidation

One must have a file having the business dissolution documents. Brand registration and licenses must be cancelled in case the business is closed to avoid the legal consequences. Finances and debt must be cleared along with having record for all the payments that were made. All business accounts in the banks must be closed to avoid the issues such as money laundering allegations etc., at the later stages. Business conflicts must be resolved and entrepreneurs should announce in the market about business closure so that, no one else should use the brand name later on. Tax returns/sales returns must be paid. Creditors must be notified. Keep the files/documents of the business with you even after the business is closed for at least five years. Serial entrepreneurs should evaluate the value of financial and non-financial assets very well. An entrepreneur should know what to sell and what not. Sometimes, companies declare bankruptcy and announce the assets that are ready for liquidation. Evaluators of banks assess the value of the asset. Overall, the financial and legal aspects must be considered carefully before the business closure.

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Technical Articles Theme 15

Title: Entrepreneurship Ecosystem and Ethical Considerations

Videos: 178-194

Topics Covered

178. Entrepreneurship ecosystem (Part 1)
179. Entrepreneurship ecosystem (Part 2)
180. Business Markets and business buying behavior
181. Institutional and Government markets
182. Business Ethics for entrepreneurs (part 1)
183. Business Ethics for entrepreneurs (part 2)
184. How ethical behavior and practices in business bring economic benefits?
185. Visit to Lahore chamber of commerce
186. Interview with Dr. Amjad Saqib: Social entrepreneurship and its impact on society
187. Discussion with Lawyer: Intellectual property
188. Discussion with Lawyer: Trademarks and property rights
189. Discussion with Lawyer: Patents
190. Discussion with Lawyer: Copy Rights
191. Discussion with Lawyer: Design protection
192. All you need to know about CPEC-Part I
193. All you need to know about CPEC-Part II
194. Expert Opinion about Incubation centers

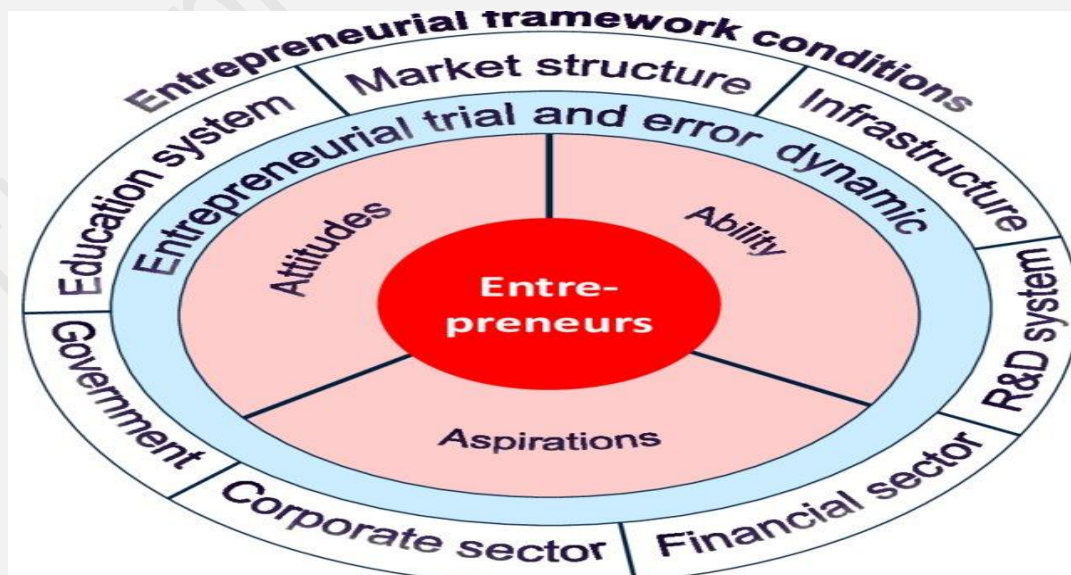
Entrepreneurship Ecosystem and Ethical Considerations

Entrepreneurship ecosystem is an important concept and it is critical to see it in detail understand it. In the beginning of this course we shared some development stats (i.e. 14 pillars of entrepreneurial ecosystem by GEI) with you and discussed our position as a country in an entrepreneurial ecosystem region wise and worldwide.

All the details we have been through during the whole of this course will be discussed under the umbrella of the concept of ecosystem. An entrepreneurial ecosystem discusses the tasks an entrepreneur performs, the resources and planning he needs to do so and the environmental factors which he comes across. An ecosystem is defined in multiple ways like “it is a community of living organism in conjunction with the non-living components of their environment (things like air, water and mineral soil), interacting as a system.” The Global Entrepreneurship and Development Institute (GEDI) defines the ecosystem as “**A system** which is organized in a set of interacting and interdependent subsystems that function together as a whole to achieve a purpose” *source: GEDI*

The integration of resources, economic activities among the contributors of a system, subsystems is called as ecosystem. Our university, faculty members, students, campuses, cities, courses, content, degrees are all the part of an ecosystem. Actually we are all working in an ecosystem, means you are not working in isolation and secondly you are an integral part of the system just like other parts you too have the equal importance. “**An ecosystem** is a purposeful collaborating network of dynamic interacting systems and subsystems that has an ever changing set of dependencies within a given context” *source: GEDI*

“**An entrepreneurial ecosystem** at socioeconomic level having properties of self-organization scalability and sustainability as dynamic institutionally embedded interaction between entrepreneurial attitudes abilities and aspirations by individuals which drive the allocation of resources through the creation and operation of new ventures” *source: GEDI*



In order to understand this complex definition in simple way let us divide it into further layers.

Consider yourself as an entrepreneur who have basic entrepreneurial motivation with attitude, ability and aspirations. (Inner layer)

You interact with the dynamic environment (changing needs and behaviors of customers, markets, resources and organizations) around you. (Mid layer)

Furthermore you interact with the subsystems i.e. corporate sector (competitors), financial sector (investors, capital sources), research and development (innovations in the market), government (regulators, policy makers), market structure, and the education sector within your geographic vicinity. These all subsystems are interlinked and connected as a system which creates and enabling environment for you to conduct an entrepreneurial activity. (Outer layer)

GEI defines **14 Pillars of an entrepreneurial ecosystem**, explained in the following table.

Sub-indexes	Pillars	Variables (individual / institutional)
ATTITUDES SUB-INDEX	OPPORTUNITY PERCEPTION	OPPORTUNITY RECOGNITION
		FREEDOM (ECONOMIC FREEDOM *PROPERTY RIGHTS)
		SKILL PERCEPTION
	STARTUP SKILLS	EDUCATION (TERTIARY EDUCATION*QUALITY OF EDUCATION)
		RISK PERCEPTION
	RISK ACCEPTANCE	COUNTRY RISK
		KNOW ENTREPRENEURS
	NETWORKING	AGGLOMERATION (URBANIZATION*INFRASTRUCTURE)
		CAREER STATUS
		CORRUPTION
ASPIRATION SUB-INDEX	PRODUCT INNOVATION	NEW PRODUCT
		TECH TRANSFER
	PROCESS INNOVATION	NEW TECHNOLOGY
		SCIENCE (GERD*(AVERAGEQUALITY OF SCIENTIFICAL INSTITUTIONS +AVAILABILITY OF SCIENTISTS AND ENGINEERS))
	HIGH GROWTH	GAZELLE
		FINANCE AND STRATEGY (VENTURE CAPITAL*BUSINESS SOPHISTICATION)
	INTERNATIONALIZATION	EXPORT
		ECONOMIC COMPLEXITY
ABILITIES SUB-INDEX	RISK CAPITAL	INFORMAL INVESTMENT
		DEPTH OF CAPITAL MARKET
	OPPORTUNITY STARTUP	OPPORTUNITY MOTIVATION
		GOVERNANCE (TAXATION*GOOD GOVERNANCE)
	TECHNOLOGY ABSORPTION	TECHNOLOGY LEVEL
		TECHNOLOGY ABSORPTION
	HUMAN CAPITAL	EDUCATIONAL LEVEL
		LABOR MARKET (STAFF TRAINING*LABOUR FREEDOM)
	COMPETITION	COMPETITORS
		COMPETITIVENESS (MARKET DOMINANCE*REGULATION)

Entrepreneurship doesn't take place in a vacuum — a whole host of factors determine how easy (or difficult) it is to start up. Our National Expert Survey (NES) looks at the national context in which individuals start businesses

Source: Global Entrepreneurship Monitor

1. Financing for Entrepreneurs
2. Governmental Support and Policies
3. Taxes and Bureaucracy
4. Governmental Programs
5. Basic School Entrepreneurial Education and Training
6. Post School Entrepreneurial Education and Training
7. R&D Transfer
8. Commercial and Professional Infrastructure
9. Internal Market Dynamics
10. Internal Market Openness
11. Physical and Services Infrastructure
12. Cultural and Social Norms

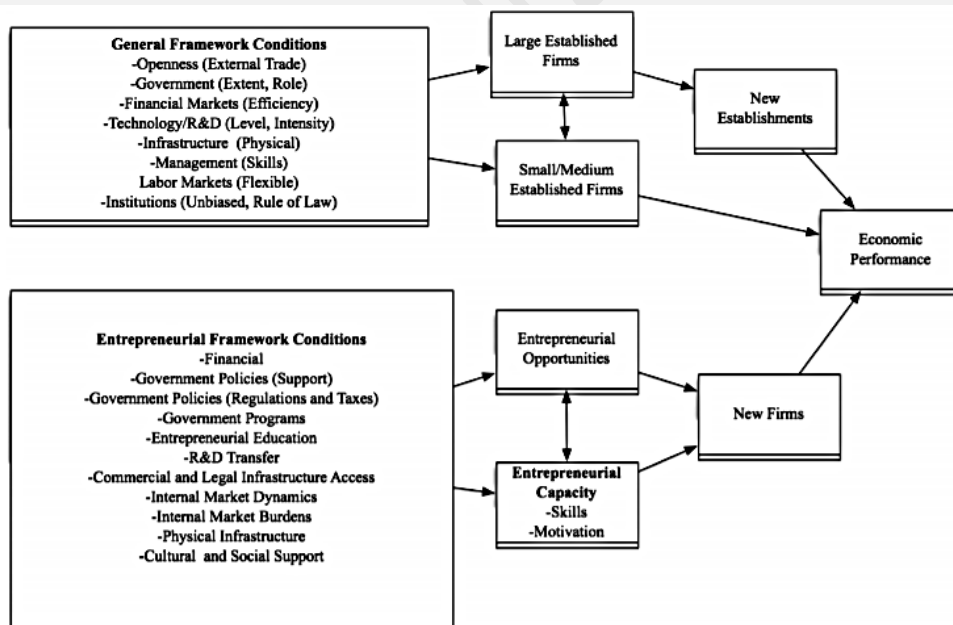


Fig. 1 GEM conceptual model of business ecosystem and economic performance

Taking discussion on entrepreneurial ecosystem to further step let us have a look on entrepreneurial ecosystem from another angle. “Entrepreneurial ecosystem is a set of interdependent actors and factors coordinated in such a way that they enable productive entrepreneurship in a particular territory. ”

Source: F.C. Stam & Ben Spigel, 2016. "[Entrepreneurial Ecosystems](#)," [Working Papers](#) 16-13, Utrecht School of Economics.

Similarly, *Isenberg’s model of an entrepreneurship ecosystem* has 6 indicators.

- 1- Conducive culture
- 2- Enabling policies
- 3- Availability of appropriate finance
- 4- Quality of human capital
- 5- Venture friendly markets for products
- 6- Institutional and infrastructure support

