

CHAPTER 2 - ENTREPRENEURSHIP

Small Business, New Venture Creation & Entrepreneurship

Small Business

- **small business:** an independently owned and managed business that does not dominate its market.

ex: industry canada is the main federal government agency responsible for small business.

- owner-managed business with less than 100 employees.
- a goods-producing business in the register is considered small if it has fewer than 100 employees, while service-producing business is considered small if it has fewer than 50 employees.
- there is no way to calculate how much of an overlap there is in the 2 categories but an unincorporated business operated by a self-employed person (with no employees) would not be counted among the 2.3 million businesses in the register.
 - important point because the majority of businesses in Canada have no employees (just the owner) nor are they incorporated.
- **nascent entrepreneurs:** people who are trying to start a business from scratch.

The New Venture/Firm

- a business is considered new if it has become operational within the previous 12 months, if it adopts to any of the main organizational forms (proprietorship, partnership, corporation or co-operative) and if it sells goods or services.
- **new venture:** a recently formed commercial organization that provides goods and/or services for sale.

Entrepreneurship

- the process of identifying an opportunity in the marketplace and accessing the resources needed to capitalize on that opportunity.
- ex: Mark Zuckerberg created Facebook and in 2010 it had 500 million active users.
- often provides an environment to use personal attributes such as creativity.
- entrepreneurship also occurs in a wide range of contexts, not just in small or new commercial firms, but also in old firms, large firms etc.
- **intrapreneurs:** people who exhibit entrepreneurial characteristics and create something new within an existing firm/organization
 - ex: proctor & gamble focuses on creating different products for different markets such as Swiffer.

The Role of Small & New Businesses in the Canadian Economy

- **private sector:** the part of the economy that is made up of companies & organizations that are not owned or controlled by the government.
- there are more small businesses than big businesses.

New Ventures

- women now account for half of the new businesses that are formed.
- female entrepreneurs are honoured each year at the Canadian Woman Entrepreneur Awards.
- **mompreneurs**: women who run businesses from their homes

The Entrepreneurial Process

- entrepreneurial process is influenced by social, economic, political & technological factors in the broader environment
- 3 elements in the process
 - 1) the entrepreneur 2) the opportunity & resources 3) how they interact
- as these elements come together, they will either become mismatched or be well matched (either becomes a success or failure)
- in this process there is considerable attention being paid to identify the personal characteristics of entrepreneurs.
- some are behavioural (taking initiative) others are personality traits (independence) or skills (problem solving)
- entrepreneurs must: 1) identify an opportunity 2) access resources

Identifying Opportunities

- involves generating ideas for new/improved products

Idea Generation

- if the prospective new/improved product, process or service can be profitably produced and is attractive relative to other potential venture ideas, it might present an opportunity.
- work experience is the most common source of ideas, accounting for 45-85% of those generated.
- this is because prospective entrepreneurs are familiar with the product or service, the customers, the suppliers and the competitors. they are also aware of marketplace needs
- other frequent sources of new venture ideas include a personal/interest hobby or a chance happening.
 - a chance happening refers to a situation in which a new venture idea comes about unexpectedly.
- **screening** - a process where you can weed out the “dead-end” venture ideas in order to focus on the time and effort towards the good ideas.

The Idea Creates or Adds Value for the Customer

- idea that can solve a significant problem or meets a significant need in new or different ways. ex: Foxfibre, an environmentally friendly new cotton fibre that is naturally grown in several colours.

The Idea Provides a Competitive Advantage That Can Be Sustained

- competitive advantage exists when potential customers see the produce or service as better than that of competitors.

- sustaining a competitive advantage involves maintaining it in the face of competitors' actions or changes in the industry.
- the longer the markets are in a state of stability, the greater the likelihood of being able to sustain in a competitive advantage.

The Idea Is Marketable and Financially Viable

- it is important to determine whether sales will lead to profits.
- est. the market demand requires an initial understanding of who the customers are.
 - what their needs are, how the product/service will satisfy their needs better than competitors.
- ex: 10 years ago few people thought that manufacturers of cellphones would be the competitors of camera manufacturers.
- customers define the competition in terms of who can best satisfy their needs.
- **sales forecast:** an estimate of how much a product or service will be purchased by prospective customers for a specific period of time, typically one year.
 - forms the foundation for determining the financial viability of the ventures as well as the resources to start it.
- financial viability involves an estimate of startup costs, a cash budget, an income statement & a balance sheet.

The Idea Has Low Exist Costs

- exit costs are low if a venture can be shut down without a significant loss of time, money or reputation.
- if a venture is not expect to make a profit, its exit costs are high since the project cannot be abandoned in the short term.
- if a venture is expected to make a profit quickly, its exit costs will be lower, making the idea more attractive.

Developing the Opportunity

- some new ventures develop entirely new markets, products & sources of competitive advantage once the needs of the marketplace and the economies of the business are better understood.
- it is important to be responsive of brand new information.
 - ex: if customers are not placing orders it is important to find out why & make adjustments.
- new ventures use 1 or more of 3 main entry strategies:
 - 1) they introduce a totally new product or service
 - 2) they introduce a product or service that will compete directly with existing competitive offerings but add a new twist.
 - 3) they **franchise:** an arrangement in which a buyers (franchisee) purchases the right to sell the product or service of the seller (franchiser).
- when capital requirements are high there is need for considerable research and planning.
- if operations become fairly complex, a business plan is required.
- **business plan:** a document that describes the entrepreneur's business venture.
 - explains why it is an opportunity, outlines its marketing plan, operation & financial

details, managers skills & abilities.

- if the product is high innovative, market research is of less value since the development of entirely new products involves creating needs and wants rather than simply responding to existing needs.
- planning does not have to be completed before action is taken.

Accessing Resources

- **bootstrapping:** doing more with less.
 - entrepreneurs make do with as few resources as possible & use other's resources when they can - people, space, equipment, materials that are loaned by customers/suppliers.

Financial Resources

- **2 main types of financial resources: debt & equity**
- at the starting phase, the business is at its riskiest point = equity is more accessible than debt.
- most new entrepreneurs prefer debt bc they are reluctant to give up any control to outsiders.
- **collateral:** items owned by the business (assets) that the borrower uses to secure a loan or other credit.

most common sources of equity financing:

- 1) *personal savings: own finances in order to help start-up business.*
- 2) *love money: investments given on the basis of the relationship... from friends, relatives & business associates.*
- 3) *private investors: successful individuals who wish to recycle their wealth by investing in new businesses.*
- 3) *venture capitalists: investments come from professionally managed pools of investor money.*

most common sources of debt financing:

- 1) *financial institutions: personal loans. ex: borrowing against cash value of a life insurance policy.*
- 2) *suppliers: those who provide goods/services with an agreement to bill them later. can be referred to as trade credit.*