

# 6

## Introduction to business start-up



This chapter discusses the following facts.

- 6.1 Important decisions that should be taken before starting a business
- 6.2 Alternative methods to enter the market when starting a new business
  - Offering an existing product or a service to the existing market
  - Offering an existing product or a service to the a new market
  - Offering a new product or a service to the existing market
  - Offering a new product or a service to a new market
- 6.3 Successful entry strategies for a new business
  - Offering an unique new product or a service
  - Offering products through product differentiation
  - Innovations

## 6.1 Important decisions that should be taken before starting a business

A business can be generally defined as any economic activity carried out for the purpose of fulfilling human needs and wants. Accordingly businesses produce goods and services to fulfill the needs and wants of people or organizations using the limited resources available in the environment. This ensures that businesses exist based on the needs and wants of the people or organizations.

Anyone has the opportunity to start a business to offer products or services to the market. This should be done wisely and very carefully. Resources including money, own labour, time, self image have to be deployed when starting businesses. In order to make the businesses initiated as above successful, there are few decisions that should be taken in to consideration.

### Decisions that should be taken when starting a business

01. To which extent the person can dedicate for the business?
02. On which product or service the business is based?
03. Who is the target consumer?
04. What is the nature of the competition?
05. Are earnings adequate?
06. How to find the required capital?
07. How to start the business, individually or with partners?
08. What is the nature of the business location?
09. What will be the benefits the business generates to the society?

Let's discuss each of these decisions further.

#### 01. To which extent the person can dedicate for the business?

When running the initiated business ,entrepreneur has to engage in activities relating to different roles.

##### *Examples:-*

- \* Acquiring raw materials
- \* Finding employees and directing them
- \* Acquiring and maintaining machineries and equipments
- \* Obtaining and the required money and managing it
- \* Tasks relating to procurement and selling
- \* Production
- \* Fulfilling legal requirements

If such activities are to be carried out fruitfully, entrepreneur should entirely dedicate his effort and time to the business. Similarly the entrepreneur has to engage in the daily affairs and social relationship activities. Hence, whether the entrepreneur is capable of balancing his effort and time to make the business a success should be decided.

## 02. On which product or service the business is based?

One of the key factors which affect the success of the business is the product or the service offered to the market. That should,

### *Example :-*

Satisfy the needs and wants of the consumers

Have unique/distinctive features compared to other products and services

## 03. Who is the target consumer?

This emphasizes the target group of consumers to whom the product or the service of the entrepreneur is offered. In other words this is the total of current consumers (who are currently consuming the product) and the potential consumers (who may consume the product in the future). Products and services can be offered targeting different consumer groups and their likes/ dislikes and the purchasing power should be inquired.

### *Example :-*

- \* Children ,youth and adults
- \* Women and men
- \* Low income earners and high income earners
- \* Internationally dispersed Sri lankan consumer groups



Figure 6.1

## 04. What is the nature of the competition?

Competition is an essential feature of the today's market. Sum of individuals or organizations who offer different products and services to the market to satisfy a certain need or a want are considered as competitors. It is important to get an understanding of the current competitors and the potential competitors who may enter the market in the future when assessing the competition.

### *Example :-*

- \* There are many organizations which offer different products and services mentioned below to satisfy the need of cleaning clothes.
  - \* Washing soaps
  - \* Washing powder
  - \* Washing liquids
  - \* Laundry service

## 05. Are earnings adequate?

The entrepreneur starts the business expecting a return. It should be sufficient to cover all the expenses of the business.

That is,

- \* Earnings should be capable of settling the expenses like,
  - \* cost of purchasing
  - \* taxes
  - \* rentals and
  - \* salaries

Similarly

- \* Earnings should be adequate enough to,
  - \* provide a sufficient profit to the owners
  - \* reinvest in the business for future improvements

## 06. How to find the required capital?

Generally, an initial capital is required to start a business. The capital requirement differs depending on the nature of the business. Some businesses can be initiated with a less capital while some require a considerable investment even at the beginning. There can be different alternatives to fulfil that capital requirement.

Sources of capital for a new entrepreneur

- \* Own savings
- \* Deploying own assets or selling them
- \* Relatives and friends
- \* Bank loans and leasing
- \* Getting advances from customers

Even though there are alternative sources of capital, attention should be paid to their advantages and disadvantages

*Example :-*

When a bank loan is obtained, interest should be paid for that

## **07. How to start the business, individually or with partners?**

The entrepreneur can start the business individually or he/she can get the involvement of a member of the family or other external party. The most appropriate method should be selected after considering the advantages and disadvantages to the entrepreneur of starting a business individually or as a partnership. You will get the opportunity to further study this later.

## **08. What is the nature of the business location**

The critical factor which affects the success of certain businesses is the business location. The location of the business has to be decided by considering the following factors.

- \* Number of customers and their dispersion
- \* Ease of getting resources
- \* Convenience of acquiring labour
- \* Convenience of getting the infrastructure facilities like electricity, water, and communication
- \* Facilities which can be provided to the consumers (e.g.: parking and sanitary facilities)
- \* Cost of land/ premises( price/rental)

Depending on the nature of the product or the service offered by the entrepreneur, the nature of the location which suits the business differs. Some examples relating to this are given in the following table.

Business activity	Suitable location
Textile shop	A populous / congested place having enough space to display
Reception hall	An attractive place with transportation facilities in a peaceful environment
Store	A location in a suburban area with parking and transportation facilities
An outlet selling school equipments and stationeries	A location near schools
Conducting online or correspondence courses	A separate business location is not required. Can be run even at home.
Foreign tourist agency	Capital city

Table 6.1



### Activity 01

Isira Abenayake conducts a business which produces bags. He produces bags targeting different consumer groups.

**Example :-**

Children	school bags
Working women	women's hand bags
Tourists	Tourists' bags

Imagine you get a chance to produce the following products. Show how these products are produced and offered to the market based on different consumer groups.

01. Educational newspapers
02. Foot wear



### Activity 02

Prepare a list of few businesses that you are aware. Give reasons as to why the locations of those businesses are suitable or unsuitable. Use a table like following for that.

Business	Business location	Reasons why the location is suitable	Reasons why the location is unsuitable

## 6.2 Market Entry of the new entrepreneur

A business should enter the market with a good plan if it is to be successful irrespective of whether it is a small scale or large scale business. Four alternative methods are available for a new entrepreneur to enter the market.

1. Offering an existing product or a service to the existing market
2. Offering an existing product or a service to the a new market
3. Offering a new product or a service to the existing market
4. Offering a new product or a service to a new market

Since there are advantages and disadvantages of these alternative entry methods, it is necessary to evaluate them.

### 01. Offering an existing product or a service to the existing market

Many entrepreneurs follow this method. But the risk of this option is high. The reasons are that there are lots of competitors who offer the products to the market and consumers are used to the products of them. As a result the new entrepreneur has to incur a greater cost and put a considerable effort to attract the consumers for his/her product. Hence the cost of attracting consumers increases while earning profits becomes uncertain.

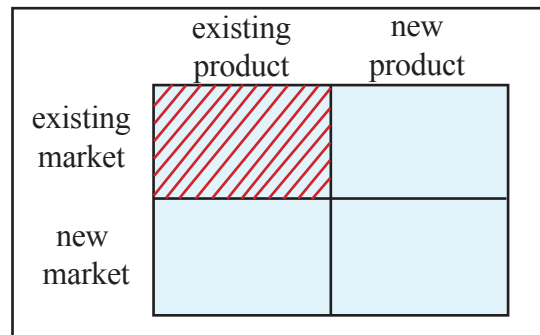


Figure 6.2

#### **Example :-**

People need detergents. Already they are using soap. Hence many laundry soaps are available in the market. The new entrepreneur too enters the market offering a washing soap to the market.

Starting a beauty saloon which is exactly similar to an existing one

## 02. Offering an existing product or a service to the a new market

There can be a group of consumers who are not used to consume an existing product or a service in the market. By offering an existing product or a service to them, the entrepreneur can enter the market. In other words, under this method a new customer base is created by offering the product to non-consumers, non consuming region or a country.

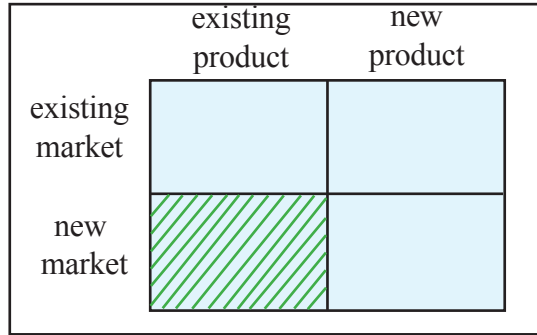


Figure 6.3

### *Example :-*

Accepting orders and delivering products and services to residences and offices

Offering the product during a period or at a time when the competitors do not sell the products (fruit cultivation during off season)

Though there are benefits under this method due to less number of competitors, certain risks prevail. Out of them, unfamiliarity of the new consumers with the product is a prominent risk.

## 03. Offering a new product or a service to the existing market

Many entrepreneurs enter the market through this method. It is possible to enter the market by making a certain change to an existing product or a service and adding a new kind of utility. Even though there is a risk due to the large number of competitors, acting strategically will help to win the market since there is a substantial customer base.

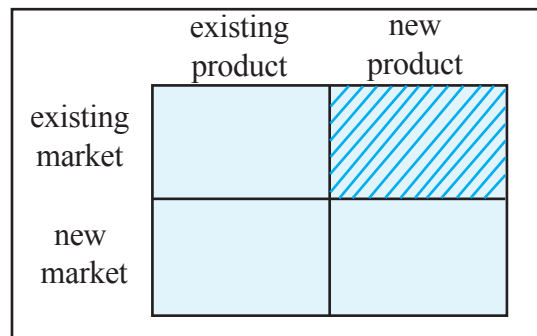


Figure 6.4

### *Example :-*

Introducing Smart phones to the mobile phone market

Withdrawing money from the ATM machine without the ATM card

Special footwear, foods and beverages for diabetic patients



## 04. Offering a new product or a service to a new market

The main advantage for the entrepreneur who enters the business under this method is having no competitors. Hence, the entrepreneur can achieve greater success by acquiring 100% of the market share within a definite future. Yet there is a high risk since the consumer is totally unaware of the product. Further the target consumers are not precisely identified. Success can be achieved by accurately studying the market, working according to a plan and increasing the consumer awareness.

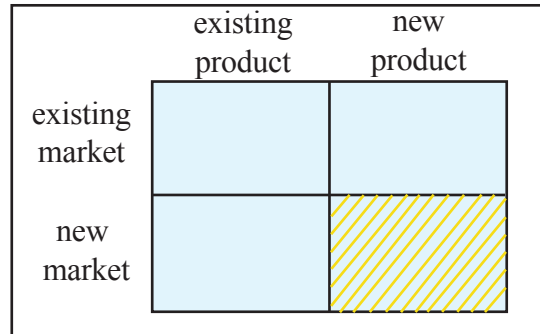


Figure 6.5

### ***Example :-***

Starting space tourism

Different products to reduce the elderly look

Producing a motor vehicle which runs using wind-power

## SCAMPER framework

To introduce a new product, an entrepreneur can use different methods. Among them, let's discuss how **SCAMPER** framework help to innovate existing products.

<b>S</b>	Substitute	Using an alternative input in place of the used inputs <i>Example :-</i> Substituting plastic door-frames for wooden frames
<b>C</b>	Combine	Combining several benefits together <i>Example :-</i> Adding the facilities of camera, radio, television and internet to a mobile phone
<b>A</b>	Amplify/Add	Enlarging a small thing <i>Example :-</i> Enlarging the TV screen, Mega soft drink bottle
<b>M</b>	Minimize	Reducing the size of a big object <i>Example :-</i> Introducing small shampoo packets (sachet), mini computers, mini cameras, soft drink buddy bottles
<b>P</b>	Put to other use	Producing a product which is produced for a specific function in a way that it can be used for another function <i>Example :-</i> Making a chair in a way that it can also be used as a bed
<b>E</b>	Eliminate	Removing certain parts <i>Example :-</i> Non-fat milk
<b>R</b>	Rearrange	Making changes in the arrangement or components <i>Example :-</i> Producing old textile fashions in a new way

Table 6.2 - SCAMPER framework



### Activity 03

Taking a product familiar to you as an example, explain how SCAMPER framework can be used to add innovations to that product using the following table.

Factor Example		Product	Present condition	New condition	Benefits
<b>S</b> ubstitute	<i>Example :-</i> Altering the inputs				
<b>C</b> ombine	<i>Example :-</i> Combining new utilities and new components				
<b>A</b> mplify(Add)	<i>Example :-</i> Increasing the size, weight, range and color				
<b>M</b> inimise	<i>Example :-</i> Reducing the weight, size of a product				
<b>P</b> ut to other use	<i>Example :-</i> Producing a product in a way it can be used for other function than the original function				
<b>E</b> liminate	<i>Example :-</i> Removing unnecessary elements				
<b>R</b> e arrange	<i>Example :-</i> Changing the appearance by altering the arrangement, colour Renewal				

## 6.3 Successful entry strategies for a new business

Among the above mentioned alternatives, whatever the approach followed to enter the market, the entrepreneur falls back amidst severe competition if appropriate strategies are not practised. As mentioned earlier, though many new businesses are initiated, only a few of them become stable, long lasting businesses. The reason is the imperfections of the strategies followed.

A person who starts a business should pay attention to suitable strategies for attracting the consumers to his/her products. Some such suitable strategies are discussed below.

01. Being a distinctive/unique new product or a service
02. Product differentiation
03. Market gap/space
04. Innovation



Figure 6.6

### 01. Offering a distinctive/unique new product or a service

If the product of the entrepreneur is unique and different in quality, size, packaging and other utilities compared to the competitive products available in the market , that can be considered as a successful entry strategy.

#### *Example :-*

- ★ A pen with ink on one end and correction fluid on the other end.
- ★ A soap having a packaging which can be used as a soap box

### 02. Offering the product using differentiation

Product differentiation is an attempt to differentiate the own product from that of the competitors.

Price of certain goods does not affect for a change in the demand of that product. In such a situation, the most appropriate mode of attracting customers is to make changes to the product. Hence product differentiation is a good entry strategy for an entrepreneur.

***Example :-***

Milk powder is offered to the market under different packages like;  
jambo pack  
budget pack  
economy pack  
sachet pack

### **03. Offering products to the market gap**

Market gap indicates that there is a group of customers in the market whose needs and wants are not satisfied.

Though large firms offer products targeting a large consumer base, they ignore the small group of consumers having distinctive needs. Hence entrepreneurs can effectively focus on such special markets which emerge due to the changes in the environment.

***Example :-***

There is a group of people in the society who have retired from government and private sectors. They have their own characteristics which are unique to them. Entrepreneurs can capture this market by satisfying their needs through the specifically designed offerings including radio channels, television channels, caring homes, senior citizen accounts and tours to Dhambadiva.

### **04. Innovation**

Innovation simply means doing something new. A product or a service can be innovated from the beginning of the production process till it reaches the hands of the consumer and even when providing after sales services. Through that the utility of a product is changed.

A skillful entrepreneur can introduce innovations for the following opportunities.

**Example :-**

- Using plastic instead of wood
- Cultivating in green houses instead of lands
- Creating kids' story books in different shapes
- New easy payment methods
- Twenty-four hours delivery
- Promotion through Short Message Service (SMS)



**Activity 04**

Suggest ways to innovatively introduce each of the following businesses.

- Individual teaching
- Selling used cars
- Printing stationeries
- Selling lands
- Showing films
- Repairing mobile phones



**Let us write answers.**

01. Give four reasons as to why being an entrepreneur is beneficial than doing a job.
02. Name a good or a service and show the bundle of goods and services which are competitive to it.
03. Explain the importance of adequate earnings to an entrepreneur.
04. Name five sources of capital available for a small scale entrepreneur.
05. Name alternative ways an entrepreneur can use to enter the market and write an advantage and a disadvantage of each of those alternatives.
06. Explain product differentiation. Name a product and show how it has been differentiated.
07. Explain the concept of “market gap”.