Entrepreneurial Opportunity

Lesson 1

ASSIGNMENT 1

Read this assignment. Then read pages 2–22 in your textbook.

Welcome to your *Small Business Management* study guide! In this guide, you'll read about Canadians who used their ingenuity, drive, and business acumen to realize their dream of growing a successful enterprise. You'll discover many important concepts and techniques that you can apply to making your dream a reality. So let's get started!

Chapter one introduces you to "entrepreneurial opportunities." The textbook defines an *entrepreneurial opportunity* as "an economically attractive and timely opportunity that creates value." Opportunities aren't equally attractive to everyone. They exist for the individual who has the interest, resources, and capabilities to succeed and who seeks to create value for customers first and the entrepreneur second.

Note that *entrepreneurs* and *small business managers* aren't synonymous since many small businesses grow into large ones—Bombardier, for example. As such, not all entrepreneurs confine their goals to small business. The term "entrepreneur" also describes second-generation operators of family-owned firms, as well as franchisees and owner-managers who have bought out founders of existing businesses.

Your textbook uses the following criteria to define a small business:

- Financing is supplied by one individual or small group.
- Operations are geographically localized.
- The business is small in comparison to the biggest firms in that particular sector/industry.
- The number of employees is less than 100.

Small business is an important aspect of the Canadian economy. As your textbook points out, 56% of Canadians work for small and medium-sized businesses, and there are 2.5 million self-employed individuals in this country.

Starting a small business has pros and cons. On the plus side, there are the rewards of profit, independence, and a satisfying lifestyle. On the downside, starting a business can involve hard work, frustration, and risk.

Your textbook discusses the causes of business failure. Chief among them are

- Inadequate research and development
- Poor cost control
- Poor market strategies and timing for market-entry

As such, it's not enough to have a "good idea." Much research must be done before launching the enterprise to determine market demand and market competition in relation to the good or service that your prospective business might provide.

Note the varieties of entrepreneurship mentioned in the textbook. Be aware of the distinction between *founders, general managers,* and *franchisees*. Also, be aware of the difference between the *artisan entrepreneur* and the *opportunistic entrepreneur.*

Your *Small Business Management* textbook lists four routes to entrepreneurship. They are

- Entering a family business
- Opening a franchised business
- Starting a family business
- Buying an existing business

Consider which route would be best for you, and why. Also, note the prevalent characteristics of successful entrepreneurs:

- Passion
- Willingness to take risks
- Self-confidence

To emulate these successful individuals doesn't mean throwing caution to the wind and approaching the venture with a complete absence of fear. On the contrary, it involves taking an opportunity that presents itself once one has the best knowledge possible about the opportunity's prospects of success. It means having a healthy respect for potential problems and anticipating them with calm logic rather than panicking at an unforeseen event.

Self-Check 1

At the end of each section of *Small Business Management,* you'll be asked to pause and check your understanding of what you've just read by completing a "Self-Check" exercise. Answering these questions will help you review what you've studied so far. Please complete *Self-Check 1* now.

1. What is meant by the term "entrepreneur"?

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2. Distinguish between an *artisan entrepreneur* and an *opportunistic entrepreneur.*

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3. Why is the period from the mid-20s to mid-30s considered to be the best time of life for becoming an entrepreneur?

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4. What is a *precipitating event?* Give some examples.

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Check your answers with those on page 65.

ASSIGNMENT 2

Read this assignment. Then read pages 26–49 in your textbook.

A *start-up* enterprise is a business that's created rather than acquired. The three main reasons why would-be entrepreneurs start businesses from scratch rather than buying existing businesses or entering into franchise agreements are to

- Begin a new type of business based on a recently invented or newly-developed product or service.
- Take advantage of an ideal location, equipment, products or services, employees, suppliers, and bankers. An example of a business falling into this category would be a start-up transport service flying workers to and from the oil-sands projects in Alberta.
- Avoid undesirable precedents, policies, procedures, and legal commitments of existing firms. A start-up company that seeks to avoid these undesirable attributes could be exemplified by a mobile phone rental service that supplies pre-paid phones for specific periods of time.

When evaluating a start-up business idea, it's critical to be methodical rather than simply enamored with the potential of the proposed venture. The would-be entrepreneur should assess the venture based on the following criteria presented in Exhibit 2-1. These criteria are

- Market factors
- Competitive advantage
- Economics
- Management capability
- Fatal flaws

Your textbook discusses the types of start-up ideas, which fall into three categories:

- *Type A ideas:* provide customers with a product or service that isn't in their market but already exists somewhere else

- *Type B ideas:* use a technically new process that provides the basis for new product or service idea

- *Type C ideas:* perform an old function for customers but in a new and improved way

These ideas derive from a variety of sources discussed on pages 31–33 of your textbook. They fall into four categories:

- Personal experience
- Hobbies
- Accidental discovery
- Deliberate search

When contemplating the possibilities for a successful start-up firm, it's essential to assess what would be its *competitive advantage* over existing businesses. Your textbook defines competitive advantage on page 33. "A competitive advantage exists when a firm offers a product or service that is perceived to be superior to those of competitors, thereby promoting firm profitability." Only when a competitive advantage has been identified, will the start-up firm have a reasonable chance to succeed. To identify whether a competitive advantage exists, the entrepreneur must determine what business potentials exist and what the firm is able to do.

A further crucial task is assessing the business environment. The environment can be divided into two categories—the *macroenvironment* and the *industry environment.* The important segments in the macroenvironment can be remembered by using the acronym "STEP," which stands for Sociocultural, Technological, Economic, and Political/legal.

The industry environment encompasses the "five forces" concept of Michael Porter, discussed on pages 36–37 of your textbook. The "five forces" are

- Threat of new competitors
- Threat of substitutes
- Bargaining power of buyers
- Bargaining power of suppliers
- Rivalry among existing competitors

A potential start-up owner needs to assess what the business is capable of achieving. This is a process known as "assessing the organization" and is discussed on pages 37–40 of your textbook. When reading this section, make sure you have a thorough understanding of

- *Organizational resources*—which may be either tangible or intangible

- *Organizational capabilities* which bundle the resources of the firm into a comprehensive package to give it a competitive advantage

A potential venture is screened by using a "go/no-go" feasibility model—see Exhibit 2-5 for an illustration of this scheme. Note the stages involved and their requirements before taking the "leap of faith."

Your textbook discusses the various factors contributing to competitive advantage on pages 38–40. Any one of these attributes or combination of one or more of them can lead to success.

A *strategy* is "an action plan that guides resource investments to capitalize on potential business opportunities." Strategies can be divided into two main types:

- *Cost-advantage strategy,* which requires that the firm be the lowest-cost producer in the market

- *Market-advantage strategy,* which enables the firm to differentiate its product from others on the market by an attribute other than cost

A *competitive advantage*—though vital to the success of a new venture—can lull the entrepreneur into a false sense of security, resulting in a failure to sustain the advantage. This can prove fatal as bigger, established businesses attempt to offer the same good or service, using their large-volume sales to undercut the smaller competitor and eventually force him out of his "home turf" in the marketplace. The solution is to sustain the advantage—akin to the "swimming shark" scenario. It's said that a shark must keep moving—even as it sleeps—to maintain oxygen circulation through its system. If it stops for a prolonged period of time, it dies. Much the same scenario applies to the start-up business. This is why sustaining the competitive advantage is so important.

The competitive advantage can be sustained in two main ways. The start-up business could *capture the market*—making it unfeasible for other businesses to try to unseat it as the dominant force. This could be done through a combination of optimal process and optimal location, as exemplified by the Pearl Seaproducts "oyster-condominiums" discussed on page 43 of your textbook. The quality of the product resulting from the process can't be readily duplicated by would-be competitors in other locations. Another example of optimal location is the maple-syrup industry in Quebec, which exports its products throughout the European Union. The natural resource aided by beneficial climatic conditions makes attempting to duplicate the product's quality untenable for aspiring entrepreneurs in other areas.

The other means to sustain competitive advantage requires *constant innovation*—keeping one step ahead of competitors. This is exemplified by the Dyson Company, which constantly developed innovative products, allowing it to prosper even after competitors began using a variation of its vacuum' s "cyclonic action."

Your textbook discusses the importance of *niche marketing* to small businesses. However, the existence of a niche can only be revealed from a proper study of market segmentation. It's necessary to categorize the various segments available to the company's products/services and then determine if the company should attempt to exploit several or only one of the possible market segments available.

There are four important strategies to consider when selecting a niche market. They are

- Restricting focus to a single market segment
- Limiting sales to a single geographical region
- Emphasizing a single product or service
- Concentrating on the superiority of the product or service

Each strategy is equally viable.

Once a niche has been exploited successfully, it's not necessarily the permanent domain of the company that first identified it. Competitors can try to encroach upon the "territory," or the niche itself may prove unstable. As a result, the niche may deteriorate if it's not actively defended or reinforced. According to Michael Porter, this erosion of the protected niche can occur in four ways (see page 47 of your textbook):

- The focus strategy is imitated.
- The target segment becomes structurally unattractive because the erosion of the structure or demand simply disappears.
- The target segment's differences from other segments, narrow.
- New firms subsegment the industry.

Subsegmentation can be exemplified by a wholesale furniture and bedroom store that loses part of its niche to a wholesale store specializing in mattresses only.

Self-Check 2

1. What are the five general platforms for achieving competitive advantage?

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2. Why would an entrepreneur prefer to launch an entirely new venture rather than buy an existing firm?

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(Continued)

Self-Check 2

3. What is meant by the term *niche marketing?*

4. What are the two basic strategy options for creating a competitive advantage?

5. What are four challenges a firm might face if using a niche marketing strategy?

Check your answers with those on page 65.

ASSIGNMENT 3

Read this assignment. Then read pages 52–76 in your textbook.

"Family businesses are vital to the Canadian economy!" So say the authors of your textbook on page 54 as they remind you of the importance of this time-honoured tradition. Family businesses can be small operations or huge enterprises—one only has to think of the immense S. C. Johnson Company to realize how a family business can grow into an industry giant. But what exactly is a "family business"?

Your textbook characterizes a *family business* as an entity in which two or more family members are involved in some way. However, the nature of the involvement may vary amongst businesses. For example, several family members might presently work in the business; whereas in other companies, the ownership of the business has passed to a second or third generation. In yet another variation, the children of the owner might not presently have management duties but are being groomed for eventual leadership.

There are both advantages and disadvantages to the family firm. The chief advantages are

- Firm-specific knowledge passed from generation to generation
- Shared social networks
- A focus on the long run
- Preservation of the firm's reputation—potentially higher standards
- Reduced cost of control
- Ability to use family theme in marketing
- Strong motivation of family members for business success

The disadvantages stem from the fact that the business and family spheres overlap, and it can be difficult to leave the business at the door when family members stop work for the day. In addition, it can be difficult—if not impossible—to compartmentalize family relationships and work relationships. This is particularly acute in conflict situations as work-related conflicts tend to spill over into the home and vice-versa. One other disadvantage is the possibility that the talent pool might not be optimum when one is forced to choose only from among family members. If the father—as business-owner—has only his son—the village idiot—to turn to for support or help with decision making, then the firm's prospects for long-term success will be grim.

The shared values and business methodology of a business comprise its *organizational culture.* These customary ways of doing business are established by the founder—for good or for bad. In terms of business values, the family methodology is generally a good thing consisting of hard work, integrity, pride, and sacrifice. However, it can be negative if its users refuse to adapt to a changing environment or constrain the business to outmoded technology and operating procedures. To guard against the tendency for the business to atrophy, your textbook advocates that successors to the family firm be *change agents.* These change agents can power the business forward by replacing outdated managerial practices and by introducing appropriate new technical innovations to the company's operations.

As a preventative to the family business becoming stale, your textbook lists the best practices for good management. Family members should strive to

- Promote a learning culture
- Solicit input from relevant outsiders
- Establish constructive communications channels
- Build a continuous change culture
- Promote family members according to skill levels
- Attract and retain excellent nonfamily managers
- Ensure fair compensation
- Establish a leadership succession plan

In addition to these points, it's vital to design a "family business constitution" covering the duties of each member in each position, how advancement can be determined, how conflict becomes arbitrated, and how new business procedures get integrated into the firm.

Self-Check 3

1. List the five stages in the process of succession.

2. An owner's son who reluctantly enters the family business because he feels he is expected to do so is operating under a/an ________ commitment.

3. What is a firm's "organizational culture"?

4. What does the acronym CAFE stand for?

Check your answers with those on page 66.

ASSIGNMENT 4

Read this assignment. Then read pages 78–98 in your textbook.

Franchise operations are distinct from start-ups and family businesses in that a franchise involves a two-party agreement in which the conditions for running the business are stipulated by the party offering the franchise. The franchise can be likened to a club membership in which members get to wear the club's colours as long as they abide by the dictates of the club leaders.

A franchise consists of a *franchisee* and *franchisor*. Learn the responsibilities of each of these two parties as discussed on page 80 of your textbook. Also, note the definition on page 80: "Franchising is a marketing system revolving around a two-party legal agreement whereby one party (the franchisee) is granted the privilege to conduct business as an individual owner but is required to operate according to methods and terms specified by the other party (the franchisor)."

Take a look at the start-up costs for some popular Canadian franchises listed on page 81. How do feel about the initial fee and investment required? Would you feel comfortable in a franchising arrangement? It's interesting to note that 86 percent of all franchises opened in Canada within the last five years are still under the same ownership and 97 percent are still in business.

Your textbook discusses the pros and cons of franchising on pages 82–88 but for a good synopsis of the advantages and disadvantages of this business model, see Exhibit 4-2 on page 82. However, the decision to enter into a franchise agreement will depend more on the personality of the entrepreneur than on any other consideration. If the entrepreneur is cautious and feels that he or she could use additional support and management training, the franchise arrangement would be a good one. On the other hand, an independently minded owner wanting to chart his or her own course and introduce his or her own ideas, would probably feel stifled under a franchise agreement.

If an individual is interested in becoming a franchisee, it's a good idea to find out as much information about the business arrangement, using the checklist on pages 92–93 of your textbook. Note as well that provincial and federal governments are good sources of information as are the franchise associations and media organizations discussed on pages 93–94 of your textbook. Also, be wary of the franchising frauds discussed on pages 96–97.

Self-Check 4

1. What makes franchising different from other forms of business?

2. What forms of payment are required of franchisees?

3. What is *piggyback franchising?*

Questions 4–5: Indicate whether the following statements are True or False.

_______ 4. Generally, most well-known franchises enjoy a proven marketing concept.

_______ 5. If a prospective entrepreneur is in need of financial assistance to start operations, franchising wouldn't be a viable solution.

Check your answers with those on page 66.