Chapter 3

Researching the venture’s feasibility

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Contents

Sources of Entrepreneurial ideas

1. Changes in the environment
2. Technological discovery and advancement
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4. People's interests
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Changes in the Environment

External environment refers

- Physical environment
- Societal environment
- Industry environment

Physical environment includes the ff.:

1. Climate
2. Natural resources
3. Wild life

Societal environment includes the various forces like the ff.:

1. Economic forces
2. Sociocultural forces
3. Political forces
4. Technological environment

Industry environment of the business will include the ff.:

1. Government
2. Competitors
3. Suppliers
4. Customers
5. Creditors
6. Employees


Physical Environment
Climate
Societal Environment
Industry Environment
Political forces
Economic forces
The new business venture
Technological environment
government
Socio-cultural forces
Natural resources
Wild life
EXTERNAL ENVIRONMENT OF A BUSINESS VENTURE

Physical environment

The first layer of the environment, it is composed of the natural elements that are inherent in the earth. It is divided into climate, natural resources, and wildlife.

1. Climate: The entrepreneur needs to consider the prevalent climatic condition of the area where he/she intends to open the business to determine whether it can withstand or is fit to the climatic condition in the local area.

2. Natural resources: The availability of the raw material is another major factor that influences the success or failure of the business venture. Its availability or lack will determine the cost of the products.

3. Wildlife: The entrepreneur must not open a business that will destroy the wildlife reserve. After all, it is also an entrepreneur’s task to become a model of social responsibility and environmental awareness.

The societal environment

➢ It is generally composed of social, political, cultural, economic, legal and technological forces.

1. Social forces: These are the elements in the society resulting from human interactions that can influence the thoughts, behaviour, attitude , actions and even the beliefs and customs of the people. It incudes the following.

- Values
- Traditions
- Literacy level
- Consumer psychology
- Lifestyle patterns
- Time orientation
- Professional career roles

Social forces are basically the products of the actions of the people on the importance events that happen at any given time.

2. Political forces

These are the various elements usually comprising of the political parties, political systems, and other related political groups that influence the political stability of a country. They include the following:

- ❖Trade regulations
- ❖Taxation
- ❖Government stability
- ❖Unemployment
- ❖Workers benefits
- ❖Election practices

3. Cultural forces

Culture basically refers to the interchanged characteristics of a group of people or ethnic group in a particular society.

- ❖Religion
- ❖Language
- ❖Beliefs
- ❖Customs
- ❖Education

The entrepreneur must evaluate the prevailing culture of the local community where the proposed venture will be established.

4.Economic forces

These are the factors which are primarily caused by changes or movements in the philipine economy that have direct or indirect effects on the entrepreneurial venture. These factors include the following:

- ❖Interest rates
- ❖Monetary policies
- ❖Income
- ❖Exchange rates
- ❖Employment
- ❖Consumer confidence
- ❖Inflation rates

5. Technological forces

These are basically refers to the trends and developments in computer and information technology that have impact on business which occur almost every day. These forces may include the following:

- ❖Internet
- ❖Social media
- ❖E-commerce
- ❖Technological advancement
- ❖Technological infrastructure

Industry environment

It is the external environmental layer where the trends and changes are easily and immediately felt by the business.

- Government: It refers to the system or institution that handles the affairs of a particular country.
- Suppliers: Refers to the individual persons or companies that provide required materials, parts or services to the business.
- Customers: The customers are the buyer of goods or services produced or rendered by the business.
- Competitors: These are the forces existing in the industry environment that produce, sell or render products or services which are similar to those of the business.
- Employees: They are the workers of the business who are highly responsible for the production of goods or delivery of services to the customers.
- Creditors: The creditors refers to banks, financial institutions, and financial intermediators engaged in the lending of money to the borrower usually for a fee or change in the form of interest.

Technological Discovery and Advancement

- The use of technology are another good source of entrepreneurial ideas and opportunities.

- *For example*: a person with sufficient knowledge in the repair and installation of a mechanical engine discovered that the additional engine parts he installed during the repair had reduced considerably the fuel consumption of such mechanical engine. – **business opportunity**

Government's Thrust, Programs, and Policies

- **Priorities, projects, programs,** and **policies** of the government are also good sources of entrepreneurial ideas.
- Government in this lesson refers to the local government (municipal, city, or provincial) or the national government and its branches.
- Whenever there are **changes in the policies** and **programs** of the government, new entrepreneurial ideas are likely born.

People's Interest

- **Interests, hobbies,** and **preferences** of people are a rich source of entrepreneurial ideas.
- Internet cafes, amusement parks, night spots and nature farms could be a response to the need of people for **fun** and **relaxation**.
- As an entrepreneur your business venture **should be adaptive to the interests and hobbies of the people** ***to protect and sustain your business***.

Past Experiences

- **Past experiences** and **exposures**
- Expertise and skills developed by a person for having worked in a particular field may lead to the opening of a business enterprise.

For example:

An **auditor** who has learned the appropriate auditing and management advisory skills and techniques in a prominent auditing firm can start his/her entrepreneurial venture by opening his/her own **auditing office**.

Generating business ideas

- In this section, we're going to describe four different structured approaches. They are as follows

1. Environmental scanning
2. Creativity and creative problem-solving
3. Brainstorming
4. Focus groups

Environmental scanning

- The screening of large amounts of information to detect emerging trends. Here are some "ideas" to stimulate your own idea creation by scanning the world around you:
- Read your local and other major metropolitan newspapers(the New York Times, the Washington post, USA Today, and others);
- Read business publications(Business week, Fast company, financial Times and others);
- Read popular consumer and news magazines;

Creativity and creative problem-solving

- The ability to combine ideas in a unique way or to make unusual associations between ideas.
- Creative thinking means linking new concepts in unusual ways.
- For instance here are a few specific techniques the checklist method, in which an entrepreneur uses a list of questions or statements to develop new ideas:
- Free association- whereby an entrepreneur develops a new idea through a chain of word associations;
- Attribute listing- in which an entrepreneur develops a new idea by looking at the positive and negative attributes of a product or service

Brainstorming

- Is an idea-generating process for developing creative solutions that encourages as many alternatives as possible. Is a relatively simple technique that is typically done with a group of people.
- In a brainstorming session, a group of people gets together in a room, preferably one with a relaxed environment, where everyone would be free to stretch their minds and think beyond the ordinary.
- A group leader states the issue or problem to be addressed and ensures that all participants understand it. Then members contribute as many ideas as they can in a given time by describing them verbally.

Focus groups

- These groups of individuals provide information about proposed products or services in a structured setting.
- In a typical focus group, a moderator focuses group discussion on whatever issues are being examined.
- For instance, a focus group might look at a proposed product and answer specific questions asked by the moderator.
- In other instances, the focus group might be given a more general issue to discuss and the moderator simply leads the discussion based

  on comments made by the group.
- A focus group can provide an excellent way to generate new ideas and to screen proposed ideas and concepts

Evaluating Ideas

- When you're in the market for a new computer or maybe a new car, do you take the first one that you see? Most of us wouldn't. We shop around, we look at each possibility in order to determine which is going to best meet our needs and fit within our available budget. This process is just as important in evaluating entrepreneurial ideas.
- After all, we want to pursue the option that's going to allow us to meet our goals given the resources we have available. In this section, we discuss why evaluation is important and then look at some different ways to evaluate ideas.

Why is Evaluation Important?

- When the environment is changing rapidly, it may seem that evaluating ideas is a big waste of time. However, there are four reasons why idea evaluation is an important step in researching the venture's feasibility.

Evaluating entrepreneurial ideas

- Minimize Risk while maximizing return
- Decide what is important
- Make best use of limited resources
- Identify Strengths and weaknesses of ideas

There are four reasons why evaluation is important

1. Decide what is important.

- Here it forces the entrepreneur to decide what's important in the entrepreneurial venture. What are the goals of the entrepreneur in pursuing this venture?

2. All ideas are not created equal.

- Some ideas that an entrepreneur comes up with will have better chances of success than others.
- By evaluating the strengths and weaknesses of each idea, the entrepreneur is forced to identify and assess the strong and weak points.

3. Making use of limited resources.

- Many entrepreneurs have limited amounts of money, time, people, or other resources that will be needed to peruse their ideas.
- By evaluating your entrepreneurial ideas, you can make sure your choice make the best use of those limited resources.

4. Minimize Risk while maximizing return.

- **Risk-** It's the uncertainty surrounding decisions and actions about what will happen.
- **Return-** On the other hand, is the payback that an entrepreneur hopes to gain.

How to evaluate ideas

- Evaluating entrepreneurial ideas revolves around personal and marketplace considerations. In an entrepreneurial venture, the entrepreneur is the pivotal point around which all other decisions and actions happen. Therefore in evaluating potential ideas, it’s important to measure them against the personal considerations of the entrepreneur.
- Some questions to be considered are
    - Do we have the capabilities for what you have selected?
    - Are you ready to be an entrepreneur?
    - Do you have a passion for what you have considered?
    - Are you prepared emotionally to deal with problems?
    - Are you ready to work hard?
    - Are you prepared to deal with failure and rejection?

- Some questions for market place considerations are
  - Who are potential customers for your ideas?
  - How & where will potential customers purchase your products?
  - What familiar or unique product features does your proposed idea have?
  - Have you considered how will you price your proposed idea? have you calculated your break-even point?
  - How will you promote or advertise your proposed entrepreneurial venture?

Break-even point

- Determines the feasibility of a venture.
- When a business is breaking even, it is earning enough revenue to cover its cost.
- Any level of revenue below the break-even point and the business will experience a loss and level above the break-even point and the business will earn a profit.
- Break-even point is calculated as follows:

BE = TFC / (P-VC)

BE – The break-even point

P – unit price of the product being sold

VC – variable cost per unit

TFC – Total fixed cost

- Break-even point is important in evaluating entrepreneurial ideas to find if the venture is giving a profit or loss. It can also help in increasing the profits.

- The final things we want to see in this section on evaluating entrepreneurial ideas are two specific evaluation techniques an entrepreneur might use.
- One is the four questions approach and the other is a feasibility study

Four questions approach- It suggests that evaluating entrepreneurial ideas revolves around four basic questions:

1. Do you love the business?
2. Are you skilled at the business?
3. Do you have experience at the business?
4. Is the business simply a fad or trend?

- Each of these questions forces the potential entrepreneur to get beyond dreaming and to focus on specific issues. By answering these questions, the entrepreneur must examine whether or not he or she really has the personal characteristics(desires, skills, abilities)

Feasibility study

- Feasibility study is a structured and systematic analysis of various aspects of a proposed entrepreneurial venture designed to determine its workability.
- A well-prepared feasibility study can be an effective evaluation tool to determine if an entrepreneurial idea is a potentially successful one.
- It can serve as a basis for the all-important business plan.
- Feasibility study includes the most important elements of the venture and the entrepreneur’s analysis of the viability of these elements.

Researching competitors

- Researching your competition through competitor intelligence can be a powerful tool for entrepreneurs.
- Competitor intelligence is a process of gathering information on who competitors are, what they are doing, and how their actions will affect your organization.
- In this section, we're going to discuss these competitor intelligence issues: what competition is, how to determine who your competitors are, and competitive information-what information to get about your competitors and how to get it.

What is Competition?

- Competition is defined as organizations battling with each other for some desired outcome- customers, market share, survey ranking, or needed resources.
- Although individuals also compete for desired objects or outcomes the highest grade in class, winning a race, or getting a desired job- our focus is on competition as it relates to organizations

Who are the Competitors?

There are three ways to define possible competitors:

- The first approach, the industry perspective, identifies competitors as organizations making the same product or providing the same service.
- Ex: the oil industry, the supermarket industry.
- Using this approach, an entrepreneur could assess the intensity of competition by looking at how many organizations are in the industry and how they differ from each other.
- Competition would be highest when there are numerous, similar competitors. These competitors are all using the same approaches in fighting for the same desired outcome.
- Ex: Getting a customer to purchase their product or service and not another organization.

- Another approach, to defining who competitors are is the marketing perspective, which says that competitors are organizations that satisfy the same customer need.
- For Ex. If the customer need is entertainment, potential competitors might range all the way from video game producers to theme parks to movie theatres to the local community symphony orchestra.
- Under this perspective, The intensity of competition depends on how well the customer's needs are understood or defined and how well different organizations are able to meet those needs.

- The final approach to defining who competitors are is the strategic groups perspective.
- **Strategic groups** are groups of competitors following essentially the same strategy in a particular market or industry.
- Two strategic factors often used in grouping competitors are price (low to high) and quality (low to high).
- Strategic factors used to determine an organization's competitors are different for every industry and be different even for various industry groups.

Getting competitor information

Where to get competitive information -

- Once after gathering information on competitors, and might want to organize it in some type of competitor analysis matrix.
- Fill in the actual information for each competitor in the appropriate cell. In this way would be able to compare potential competitors easily.
- The final part of researching the venture's feasibility is to look at the various financing options.

Researching financing options

Possible financing options:-

- Entrepreneur's personal resources.
- Financial institutions.
- The small business administrations (SBA).
- Venture capitalists.
- Angel investors.
- Public offering.
- Business developing programs.

Entrepreneur’s personal resources

- The entrepreneur’s personal resources can be a good source financing . The most common are personal savings, cash proceeds from the sale of personal assets, life insurance policy loans, credit cards etc.,
- Of these possibilities, the credit card option has become a popular choice for entrepreneurs. Today, almost half(48%) of all entrepreneurs use credit cards as a financing options.
- Credit cards are easy to obtain , quick to use, and widely available. they also offer a way to track expenses efficiently .
- However, you need to be cautious in using credits cards to finance your entrepreneurial venture .

- Each of these personal sources of funds allows the entrepreneur to maintain more control over the entrepreneurial venture but also exposes the entrepreneur to more personal risk .
- You need to decide if you can live with this risking your personal financial assets, your credit records and personal relationship with family and friends.
- However, that some entrepreneurs have no other options . They can’t get a loan, provide sufficient equity ownership or qualify for other types of assistance .
- Under these circumstances , the entrepreneur’s personal resources are the only choices.

Financial Institutions

- Financial institutions provide loans, financial resources made available by a financial institution that are paid back, including the principal amount plus interest, by the borrower over a certain period of time.
- Financial institutions that provide loans includes

  1. Banks & Credit unions
  2. Savings and loan institutions & finance companies
  3. Life insurance firms
  4. Other commercial lenders

  - Getting a loan could be tricky for new start-ups.
  - Usually the loan will have to be secured(backed) by either business or personal assets. If the loan is not repaid, these assets become the property of the financial institution and can be sold to pay off the loan.

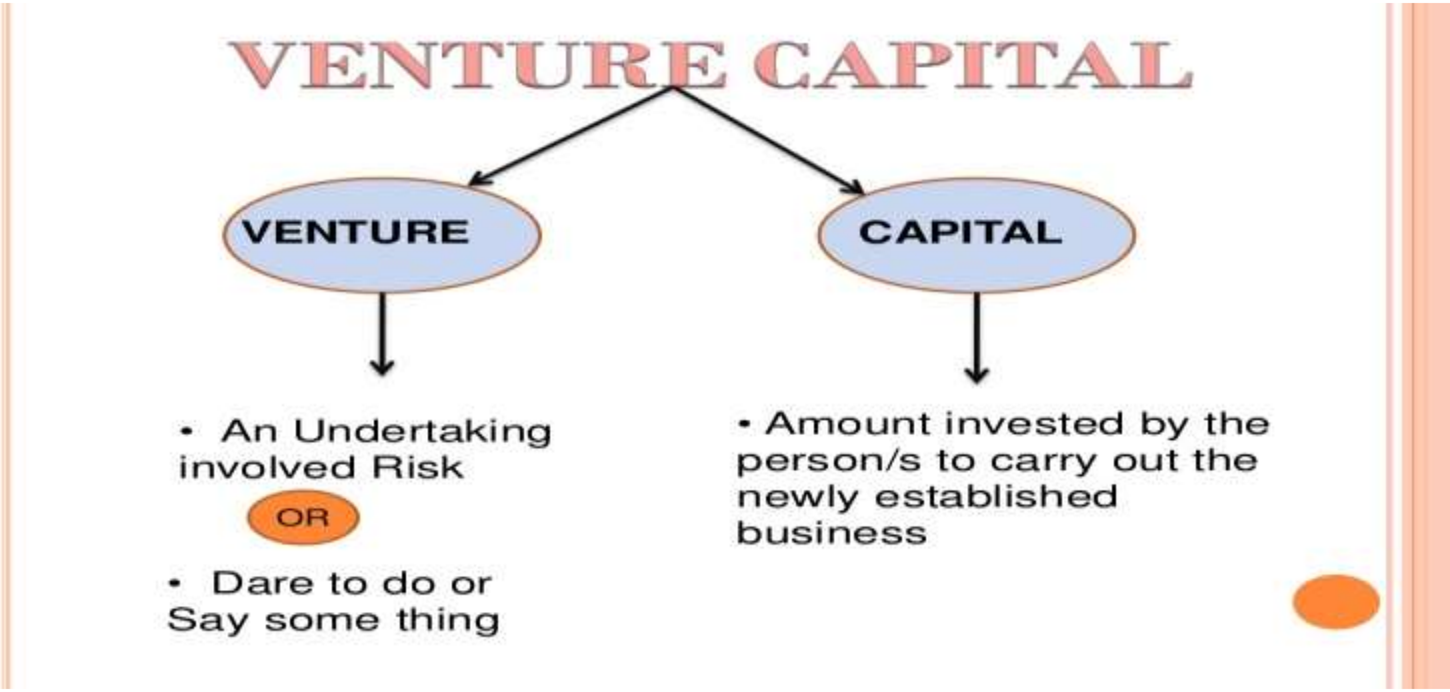
- Loan decisions are made only after a careful review of the borrower and the financial track record of the entrepreneurial venture. Often these decisions are based on both quantifiable information and subjective information.
- The entrepreneur has to make a good impression and provide supporting documentation that justifies why the loan is a good idea.
- This is where the feasibility study and the business plan will be useful.
- If you do not have the necessary track record, assets or other factors necessary to get a loan from a bank or financial institution, this is where a U.S. Small Business Administration(SBA) guaranteed loan might be an appropriate alternative.

Small Business Administration (SBA)

- SBA is a government agency devoted to the enhancement, support, and education of entrepreneurs and small business owners-managers.
- The SBA enables its lending partners to provide financing to small businesses when funding is otherwise unavailable by guaranteeing major portions of loans made to small businesses.
- The SBA has a number of loan guarantee programs. The procedure to obtain an SBA loan is similar to that of a regular bank loan in that the entrepreneur has to complete loan application forms. But in addition, government forms and documentation are required.

Venture Capitalists

- A venture capitalist (VC) is a private equity investor that provides capital to companies with high growth potential in exchange for an equity stake. A VC investment could involve funding startup ventures or supporting small companies that wish to expand but have no access to the equities markets.



- Banks and other financial institutions provide loan financing that is paid back, but venture capitalists provide equity(ownership) financing.
- In other words, the entrepreneur gives up some amount of ownership in the entrepreneurial venture in return for financing from the venture capitalist. Venture capitalists get their funds and additional financial returns back if and when their equity stake in the entrepreneurial venture rises in value.
- External equity(ownership) funding
- Provide Equity (ownership) financing
- Make profits when stakes are high
- Also provide Consulting services to Entrepreneurs
- Entrepreneur needs to be well prepared

Angel Investors

- An angel investor is a private investor, a wealthy individual, who offers financial backing usually in high-risk/ high-reward opportunities in return for an equity stake in the business.
- The angel is looking to invest in entrepreneurial ventures that have the potential to provide high rates of return but also have the risk of failing without any chance of earning back the investment. But the angel is willing to take that risk because of the potentially high reward.
- As with venture capital financing, an angel investor is an equity investor. The angel provides funds in return for some ownership stake in the entrepreneurial venture.
- If the venture is profitable and its market value rises, the angel's investment increases in value.

- Private investor – A wealthy individual
- Offers financial banking
- Look to invest in ventures that gives good returns
- High risks
- If the venture is profitable – Market value increases which in turn increases angel's investment in value
- Can tolerate the loss of entire investments

Angel's are investors who :

- Expect a financial return
- Believe in giving back to their communities
- Invest locally and regionally
- Participate in the investment process
- Show interest in companies and employees
- Guidance to Entrepreneurs

Public offering

- Here an entrepreneur may choose to do a public offering of ownership stakes in the entrepreneurial venture. This is done through an initial public offering(IPO)
- An **initial public offering** (**IPO**) or **stock launch** is a public offering in which shares of a company are sold to institutional investors and usually also to retail (individual) investors. An IPO is typically underwritten by one or more investment banks, who also arrange for the shares to be listed on one or more stock exchanges. Through this process a privately held company is transformed into a public company.
- IPO is referred as “Going Public”.

Business Development Programs

- Business development program that cherish new entrepreneurial ventures in a controlled environment to ensure that they get off to a strong start.
- Business development program may be defined as a program designed to help individual in strengthen the entrepreneurial motive and in acquiring skills and capabilities necessary for playing his entrepreneurial role effectively.

Functions of BDP:

- Learning strategies & methodology
- Developing training aids, Manuals, and other tools
- Formulating scientific selection procedure
- Conducting programs
- Maximizing their benefits
- Accelerating the process of Entrepreneurship Development

There are four different programs that they offer :

1. Small business investment companies
2. Small company offering registrations
3. Business incubators
4. Angel capital electronic network

Small business investment companies

- The U.S. Congress authorized the creation of SBICs in 1958. Since then, SBICs have invested over $30 billion in entrepreneurial businesses. Some of those businesses-such as FedEx, America online, Apple Computer-have gone on to become huge market success.
- The Small Business Administration licenses private investment firms as SBICs. These SBICs get their money from their owners and from individual investors. To become an SBIC, a firm must have $5 million of its own capital and obtain a special license from the government.

- The SBIC can then sell certain government-guaranteed bonds and borrow money at attractive rates from the SBA to put into entrepreneurial ventures. An SBIC generally will take more risk than a bank will.
- The funds are repaid through a regular stream of payments, but the SBIC also may reserve the right to purchase stock in the new venture if it succeeds. However, SBICs are barred by federal law from buying a controlling interest in the entrepreneurial venture.
- A specialized type of SBIC called an SSBIC(Specialized Small business investment companies) offers financing to businesses owned by socially or economically disadvantaged individuals. These programs offer help to entrepreneurial ventures that might have no other financial options to pursue.

Small company offering registrations

- A SCOR is a do-it-yourself public offering. The concept was created by the North American securities Administrators Association and the American Bar Association to encourage entrepreneurs and other small business owners to take advantage of the U.S. Securities and Exchange Commission Rule 504.
- Rule 504 permits the sale of Securities worth up to $1 million in a 12-month period without being subject to SEC reporting requirements. (The Securities and Exchange Commission (SEC) is a U.S. government oversight agency responsible for regulating the securities markets and protecting investors.)
- The registration form is called U-7 and was designed to be completed by business owners rather than by securities, lawyers, and investment banking firms.
- Because of the lack of publicity about it and the lack of standardization among states, the SCOR program hasn’t been as popular as first envisioned. However, it does provide another financing option for an entrepreneur.

Business Incubators

- Business Incubators serve much the same purpose they cherish new entrepreneurial ventures in a controlled environment and ensure that they got off to a strong start.
- Most incubators provide their start-up companies with common office space, equipment, professional services, managerial advice, and encouragement.
- We are including this as a financing option because it is a way for an entrepreneur to minimize his or her initial financial investment.

Angel Capital Electronic network

- The ACE-Net is sponsored by the Small Business Administrations Office of Advocacy. Its simply a listing service that provides information to private investors on promising entrepreneurial ventures seeking to raise $250,000.
- Investors must have a net worth of at least $1 million or an annual income of more than $200,000. Entrepreneurs pay $450 annually to be listed and must meet certain qualifications.
- You can access the site at www.ace-net.org. Entrepreneurs and investors wishing to have access to this service must first enroll in the system. An application may be downloaded from the ACE-Net Web site.

Evaluating financial options

- Evaluating financial options boils down to 3 words:
  - Control
  - Risk and
  - Reward
- One issue in evaluating the financing options is the amount of control the entrepreneur wants. It is important to keep the highest level of personal control means financing entrepreneurial venture through personal resources.

- Using personal resources to finance the entrepreneurial venture exposes the entrepreneur to personal risk. But this doesn’t mean that there are no risks involved with other sources of financing either.

- Debt financing and equity financing also carry high degree of risk. What the entrepreneur has to do is weigh the risk he or she is willing to live with. Another important consideration in weighing the risk is the potential reward. If the entrepreneur hopes to maximize personal rewards from the entrepreneurial venture, personal resources would be the best choice.

Guidelines for Seeking Financing

1. Write a feasibility study and then a business plan-

These two documents show potential financing sources that you have thought through your idea, you've researched the competition and marketplace, and you've identified the key elements of getting this proposed entrepreneurial venture up and running.

2. Get professional help and advice.-

Advice of accountant, attorney, or other professional consultant will reduce loss of time and make sure all small details are covered.

3. Get references

- Reference of entrepreneurs – someone who is willing to attest their character, skills, experiences, etc.

4. Go do it,

- Preparation of supporting documents and information.
- If proposed entrepreneurial venture is feasible, it is time to “just do it

THANK YOU