

CHAPTER TWO

BUSINESS OPPORTUNITIES AND IDEAS

2.1. Recognizing opportunities and generating business ideas

1. Business Idea

- Some one's opinion regarding what may or may not be a good business
- Three types of business ideas:
 - a) Old ideas; copying an existing business idea from some one
 - b) Old idea with modification (modified idea): Old idea from someone plus minor or major modification(s) in some or another way.
 - c) New idea involves the invention of something new idea for the time.

2. Business Opportunity

Opportunities are Positive external trends or changes that provide unique and distinct possibilities for innovating and creating value. They represent the gap in the market, which presents the possibility of new value creation. It is also the chance of doing things both differently from and better how they are being undertaken at the moment.

3. Innovation

It is a way of doing something differently and better. It is a means of exploiting a business opportunity. Innovation involves invention (act of creating something) plus commercialization (putting the new creativity in to the market place).

Remark:

- Only new and modified ideas are innovative.
- Old idea is not innovative because it is an imitation of existing business (idea).

2.2. Creativity and Innovation

Creativity: is the thinking of novel and appropriate ideas. Creativity is characterized by the ability to perceive the world in new ways, to find hidden patterns, to make connections between seemingly unrelated phenomena, and to generate solutions. Creativity requires passion and commitment. It brings to our awareness what was previously hidden and points to new life. While Creativity is related to imagination, but innovation is related to implementation.

Creativity is the generation of ideas that result in the improved efficiency or effectiveness of a system. Two important aspects of creativity exist: process and people. The process is goal-

oriented; it is designed to attain a solution to a problem. The people are the resources that determine the solution. The process remains the same, but the approach that the people use will vary.

Innovation: is the implementation of a new or significantly improved product, service or process that creates value for business, government or society. It is not just the conception of a new idea, nor the invention of a new device, nor the development of a new market. The process is all these things acting in an integrated fashion.

Innovation is concerned with the *commercial and practical application* of ideas or inventions. Invention, then, is the conception of the idea, whereas innovation is the subsequent translation of the invention into the economy.

Innovation = theoretical conception + technical invention+ commercial exploitation.

Innovation is the process by which entrepreneurs convert opportunities into marketable ideas. It is a means by which they become catalyst for change. It is important to recognize the role of creativity in the innovative process.

The *conception* of new ideas is the starting point for innovation. A new idea by itself, while interesting, is neither an invention nor an innovation, it is merely a concept or a thought or collection of thoughts. The process of converting intellectual thoughts into a tangible new artifact (usually a product or process) is an *invention*. This is where science and technology usually play a significant role. At this stage inventions need to be combined with hard work by many different people to convert them into products that will improve company performance. These later activities represent *exploitation*.

2.3 . Sources of new Business ideas

There are many possible sources of ideas for an entrepreneur to start a business. Some of the more useful sources is consumers, existing companies, distribution channels, and internal research and development.

1. Existing companies

Entrepreneurs should also establish a formal method for monitoring and evaluating the products and services that an existing companies or new companies offer. Frequently this analysis uncovers ways to improve on these present offering, resulting in the formation of new venture.

2. Distribution channel

Members of the distribution channels are also excellent sources for new ideas. Because of their familiarity with the needs of the market, channel members frequently have suggestions for completely new products. These channel members also be a source of help in marketing the entrepreneurs newly developed products.

3. Consumers

Entrepreneurs are playing increasing attention to what should be the focal point of the ideas for a new product or service-the consumer. This can take the form of monitoring potential ideas mentioned on an informal basis or formally arranging for consumers to have an opportunity to express their opinions.

4. Government

The government can be helpful in finding new product ideas in two ways.

First, the file of patent office (science and technology commission in the case of our country) contains numerous new product possibilities. They can frequently suggest other, more marketable, new product ideas.

Second, new product idea can come in response to government regulations.

5. Research and Development

The largest source for new ideas is the entrepreneur own "research and development department" whether this is a more formal endeavor connected with current employment or an informal lab in the basement or garage. The more formal research and development department is often better equipped to product successful new product ideas

2.4 . Techniques for generating ideas

Regardless of all the above and other sources, there is frequently a problem in coming up with a new idea. The entrepreneur can use several methods to help generate and test new ideas. These include focus group, brainstorming, problem inventory analysis, and creative problem solving techniques.

1. Focus group: This method consists of a moderator leading a group of people through an open-in depth discussion rather than simply asking questions to solicit participant response. The moderator focuses the discussion of the group on the new product area in either a directive or a non-directive manner. In addition to generating new ideas, the focus group is an excellent

method for initially screening ideas and concepts. There are several procedures available to analyze and interpret the results more quantitatively. With the availability of such procedures, the focus group is becoming increasingly useful method for generating new product ideas for an entrepreneur.

2. Brainstorming: The brain storming method is based on the fact that people can be stimulated to greater creativity by meeting with others and participating in an organized group experiences. The entrepreneur can gather a group of people to discuss and generate new ideas. While of course, many of the ideas generated are absurd and have no basis for further development, frequently one or two good ideas emerge. This occurs more often when the brain storming effort focuses on a specific area. When using this method, the following four over all rules need to be followed.

- Criticism is not allowed by anyone in the group (i.e. no negative comment).
- Freewheeling is encouraged-wilder the idea the better.
- Quantity of idea is desired- the greater the number of ideas, the more the likelihood of useful ideas emerging.
- Combination and improvements of ideas are encouraged-idea of others can be used to produce still other new ideas.

The brain storming method should be fun and playful, not work-oriented, with no expert in the field present.

3. Problem inventory analysis: Problem inventory analysis uses individuals in a manner analogous to focus group. However, instead of generating new ideas themselves, consumers are providing with a list of problems from a general product category. They are asked to identify and discuss products in this category that have the particular problem. This method is often very effective as it is easier to relate known products to suggested problems and arrive at a new product idea by itself. The approach is also an excellent way to test a new product idea.

2.5. Ways of opportunities identification

There are three approaches entrepreneurs use to identify an opportunity their new venture can choose to pursue. Once an entrepreneur understands the importance of each approach, s/he will be much more likely to look for opportunities and ideas that fit each profile.

1. Observing trends

The first approach to identifying opportunities is to observe trends and study how they create opportunities for entrepreneurs to pursue. The most important trends to follow are economic trends, social trends, technological advances, and political action and regulatory changes. As an entrepreneur or potential entrepreneur, it's important to remain aware of changes in these areas. Keen observation skills and a willingness to stay on top of changing environmental trends are key attributes of successful entrepreneurs:

One of the most important attributes of a good entrepreneur is having keen observation ability. Basically seeing what's needed in people's everyday lives and coming up with innovative new ideas and services that meet those needs ... I always believe the entrepreneurs that anticipate trends and maintain observations of what's needed ... to solve those needs will have a higher chance of succeeding in the marketplace.

When looking at environmental trends to discern new business ideas, there are two caveats to keep in mind. First, it's important to distinguish between trends and fads. New businesses typically do not have the resources to ramp up fast enough to take advantage of a fad. Second, even though we discuss each trend individually, they are interconnected and should be considered simultaneously when brainstorming new business ideas.



Figure 2.1: Three Ways to Identify an Opportunity

For example, one reason that smart phones are so popular is because they benefit from several trends converging at the same time, including an increasingly mobile population (social trend), the continual miniaturization of electronics (technological trend), and their ability to help users better manage their money via online banking and comparison shopping (economic trend). If any of these trends weren't present, smart phones wouldn't be as successful as they are and wouldn't hold as much continuing promise to be even more successful in the future.

Figure 2.2 provides a summary of the relationship between the environmental factors just mentioned and identifying opportunity gaps. Next, let's look at how entrepreneurs can study each of these factors to help them spot business, product, and service opportunity gaps.

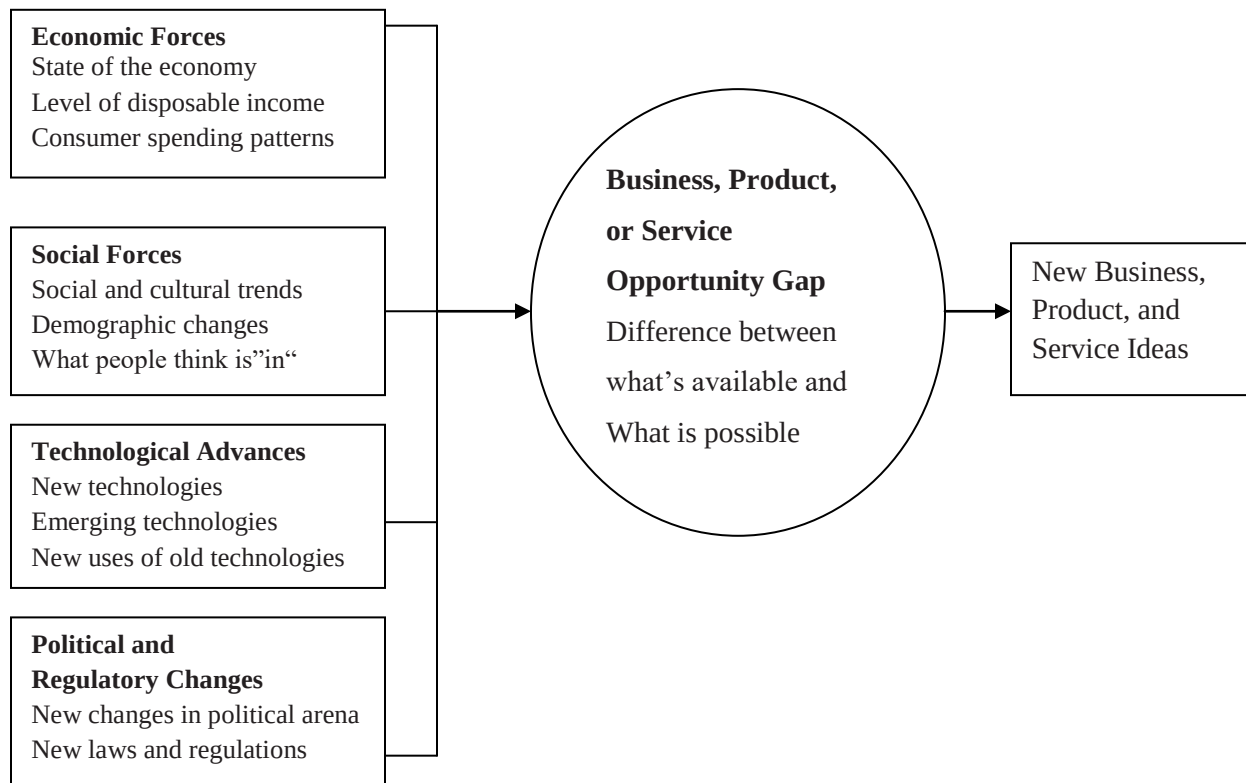


Figure 2.2: Environmental Trends Suggesting Business or Product Opportunity gaps

i. Economic Forces

Understanding economic trends is helpful in determining areas that are ripe for new business ideas, as well as areas to avoid. When the economy is strong, people have more money to spend and are willing to buy discretionary products and services that enhance their lives. In contrast, when the economy is weak, not only do people have less money to spend, they are typically more reluctant to spend the money they have, fearing the economy may become even worse, and that in turn, they might lose their jobs because of a weakening economy. Paradoxically, a weak economy provides business opportunities for start-ups that help consumers and businesses save money.

A typical example is Water Smart Software, a 2009 start-up. Water Smart Software sells software to water utilities that makes it easier for their customers to save water and money.

When studying how economic forces affect business opportunities, it is important to evaluate who has money to spend and what they spend it on.

For example, an increase in the number of women in the workforce and their related increase in disposable income is largely responsible for the number of online retailers and boutique clothing stores targeting professional women that have opened the past several years. Similarly, the increased buying power of minority populations has resulted in an upswing of ethnic restaurants and ethnic supermarkets in the United States. Baby boomers are another potential group to examine. These individuals, who were born between 1946 and 1964, are retiring in large numbers and will be retiring in even larger numbers over the next five years or so. The expectation is that these people will redirect a sizeable portion of their assets to products and services that facilitate their retirement. This trend will invariably spawn new businesses in many areas, largely because baby boomers have greater disposable income relative to previous generations.

An understanding of economic trends also helps identify areas to avoid. For example, a decision to launch a company that sells products or services to public schools was not a wise one during the recent economic downturn. In the United States—and other countries, as well—public schools have been hit hard by budget cuts from governmental funding agencies. The cuts have significantly reduced the ability of schools to purchase new products and services.

ii. Social Forces

An understanding of the impact of social forces on trends and how they affect new product, service, and business ideas is a fundamental piece of the opportunity recognition puzzle. Often, the reason that a product or service exists has more to do with satisfying a social need than the more transparent need the product fills. The proliferation of fast-food restaurants, for example, isn't primarily because of people's love of fast food, but rather because of the fact that people are busy and often don't have time to cook their own meals.

Similarly, social networking sites like Face book, Twitter, and Instagram aren't popular because they can be used to post information and photos on a website. They're popular because they allow people to connect and communicate with each other, which is a natural human tendency. Changes in social trends alter how people and businesses behave and how they set their priorities. These changes affect how products and services are

Changes in social trends alter how people and businesses behave and how they set their priorities. These changes affect how products and services are built and sold. Here is a sample of the social trends that are currently affecting how individuals behave and set their priorities:

- ✎ Aging of the population
- ✎ The increasing diversity of the workforce
- ✎ Increased participation in social networks
- ✎ Growth in the use of mobile devices
- ✎ An increasing focus on health and wellness
- ✎ Emphasis on clean forms of energy, including wind, solar, bio-fuels, and others
- ✎ Continual migration of people from small towns and rural areas to cities
- ✎ Desire for personalization (which creates a need for products and services that people can tailor to their own tastes and needs)

Each of these trends is providing the impetus for new business ideas. The continual migration of people from small towns and rural areas to cities, for example, is creating more congestion in cities and will in turn create ample business opportunities. Similarly, the aging of the population is creating business opportunities from vision care to home health care to senior dating sites.

iii. Technological Advances

Advances in technology frequently dovetail with economic and social changes to create opportunities. For example, there are many overlaps between an increased focus on health and wellness and technology.

There are a growing number of mobile apps and activity trackers that beam the data they collect to their health care providers so they can keep tabs on their activities and inform treatments. Insurance companies and corporations are increasingly partnering with technology companies to establish programs to help encourage healthy lifestyles.

Technological advances also provide opportunities to help people perform everyday tasks in better or more convenient ways. For example, OpenTable. com is a website that allows users to make restaurant reservations online and now covers most of the United States. If you're planning a trip to Boston, for example, you can access OpenTable.com, select the area of the city you'll be visiting, and view descriptions, reviews, customer ratings, and in most cases the menus of the restaurants in the area. You can then make a reservation at the restaurant and print a map and the directions to it. The basic tasks that OpenTable.com helps people perform have always been done: looking for a restaurant, comparing prices and menus, soliciting advice from people who are familiar with competing restaurants, and getting directions. What OpenTable. com does is help people perform these tasks in a more convenient and expedient manner.

Another aspect of technological advances is that once a technology is created, products often emerge to advance it. For example, the creation of the Apple iPod, iPhone, iPad, and similar devices has turned spawned entire industries that produce compatible devices. For example, Rokit is a high-end mobile accessories company that makes Smartphone cases, headphones, portable USB device chargers and Bluetooth speakers. Rokit wouldn't exist if it weren't for the advent of the Smartphone industry.

iv. Political Action and regulatory Changes

Political and regulatory changes also provide the basis for business ideas. For example, new laws often spur start-ups that are launched to take advantage of their specifications. This is currently happening as a result of the passage of the Affordable Care Act (Obamacare). The combination of new regulations, incentives for doctors and hospitals to shift to electronic records, and the release of mountains of data held by the Department of Health and Human Services (on topics such as hospital quality and nursing home patient satisfaction), is motivating entrepreneurs to launch electronic medical records start-ups, apps to help patients monitor their medications, and similar companies.

On some occasions, entire industries hinge on whether certain government regulations evolve in a manner that is favorable to the industry. For instance, when a government permits to commercialize the use of drones, it can be used for a number of domestic purposes, such as helping farmers determine the optimal level of fertilizer to place on crops or helping filmmakers

shoot overhead scenes. Amazon.com created quite a bit of buzz in late 2013 when it suggested it would like to use drones for package delivery.

Political change also engenders new business and product opportunities. For example, global political instability and the threat of terrorism have resulted in many firms becoming more security-conscious. These companies need new products and services to protect their physical assets and intellectual property, as well as to protect their customers and employees.

The backup data storage industry, for example, is expanding because of this new trend in the tendency to feel the need for data to be more protected than in the past.

2. Solving a problem

The second approach to identifying opportunities is to recognize problems and find ways to solve them. Problems can be recognized by observing the challenges that people encounter in their daily lives and through more simple means, such as intuition, serendipity, or chance. There are many problems that have yet to be solved. Commenting on this issue and how noticing problems can lead to recognizing business ideas. Philip Kotler, a marketing expert, said:

*“Look for problems. People complain about it being hard to sleep through the night, get rid of clutter in their homes, find an affordable vacation, trace their family origins, get rid of garden weeds, and so on. As the late John Gardner, founder of Common Cause, observed: **“Every problem is a brilliantly disguised opportunity”**.*

Consistent with this observation, many companies have been started by people who have experienced a problem in their own lives, and then realized that the solution to the problem represented a business opportunity. For example, in 1991, Jay Sorensen dropped a cup of coffee in his lap because the paper cup was too hot. This experience led Sorensen to invent an insulating cup sleeve and to start a company to sell it. Since launching his venture, the company, Java Jacket, has sold over four billion cup sleeves. Similarly, after watching countless women walk home barefoot after a long night in heels,

New York University finance students Katie Shea and Susie Levitt started a company named CitySlips to make easily portable, comfortable shoes. They created a pair of flats that fold up to fit into a pocket-size zip pouch, which easily fits into most women’s purses.

Advances in technology often result in problems for people who can’t use the technology in the way it is sold to the masses. For example, some older people find traditional cell phones hard to

use: the buttons are small, the text is hard to read, and it's often difficult to hear someone on a cell phone in a noisy room. To solve these problems, GreatCall, Inc. is producing a cell phone called the Jitterbug, which is designed specifically for older users. The Jitterbug features a large keypad that makes dialing easy, powerful speakers that deliver clear sound, easy-to-read text, and simple text-messaging capability.

Another company, Firefly Mobile, has created a cell phone designed specifically for kids. The phone weighs only 2 ounces, and is designed to fit in a kid's hand. The phone includes a full-color screen, built-in games, built-in parental controls that allow parents to restrict incoming and outgoing calls as well as limit or restrict texting, and special speed dials for mom and dad.

If you're having difficulty solving a particular problem, one technique that is useful is to find an instance where a similar problem was solved and then apply that solution to your problem.

Some business ideas are gleaned by recognizing problems that are associated with emerging trends.

For example, SafetyWeb has created a Web-based service that helps parents protect their children's online reputation, privacy, and safety.

The social trend toward more online activity by children resulted in the need for this service. Similarly, the proliferation of Smartphone enables people to stay better connected, but results in problems when people aren't able to access electricity to recharge their phones for a period of time. A number of companies have solved this problem in innovative ways. Examples include BioLite, which is a stove for campers that uses wood to create energy to recharge smart phones, and BikeCharge, which is a set of devices that are placed near the rear wheels of your bike and on your handlebars that charges your Smartphone while you ride.

3. Finds Gaps in the Market place

Gaps in the marketplace are the third source of business opportunities. There are many examples of products that consumers need or want that aren't available in a particular location or aren't available at all. Part of the problem is created by large retailers, like Wal-Mart and Costco that compete primarily on price and offer the most popular items targeted toward mainstream consumers. While this approach allows the large retailers to achieve economies of scale, it leaves gaps in the marketplace. This is the reason that clothing boutiques, specialty shops, and e-

commerce web sites exist. These businesses are willing to carry merchandise that doesn't sell in large enough quantities for Wal-Mart and Costco to carry.

Product gaps in the marketplace represent potentially viable business opportunities. For example, Tish Cirovolo realized that there were no guitars on the market made specifically for women. To fill this gap, she started Daisy Rock guitars, a company that makes guitars just for women. Daisy Rock guitars are stylish, come in feminine colors, and incorporate design features that accommodate a woman's smaller hand and build. In a related manner, Southpaw Guitars located in Houston, Texas, carries only guitars that are designed and produced for left-handed players.

A start-up in a completely different industry is GreenJob Spider. GreenJob Spider fills a gap in the online recruiting industry by supporting a job site for employers and prospective employees in "green" industries such as solar, wind, recycling, green buildings, and LED lighting.

A common way that gaps in the marketplace are recognized is when people become frustrated because they can't find a product or service that they need and recognize that other people feel the same way.

A related technique for generating new business opportunities is to take an existing product or service and create a new category by targeting a completely different target market. This approach essentially involves creating a gap and filling it. An example is PopCap Games, a company that was started to create a new category in the electronic games industry called "casual games." The games are casual and relaxing rather than flashy and action-packed, and are made for people who want to wind down after a busy day.

One thing that entrepreneurs must remain mindful of in pursuing business opportunities, regardless of whether the opportunity results from changing environmental trends, solving a problem, or finding gaps in the marketplace, is that the opportunity must ultimately be fashioned into a successful business.

2.6 Avenues to Business Opportunities

In this section, we shall discuss the different avenues to change the ideas in to real business or indirectly to mean the different options that may channel a business to be owner having the idea. Some entrepreneurs may launch an entirely new venture to change their idea in to a business. Others may prefer to purchase an existing firm. Still others may join the entrepreneurs by establishing a franchise firm. People become also a businessman; not because of their effort

rather by fortune, which is the case of inheriting family or relative owned venture. It is difficult to categorize these people with entrepreneurs because they are not creative as well as risk takers. In this section, we shall discuss the first three avenues to have a firm.

2.6.1. Creating an Entirely New Business (Starting from Scratch)

Building businesses from scratch (a start up) is the route most often thought of when discussing new-venture creation. This requires the entrepreneur to identify a genuine business opportunity, secure the necessary financial resource to create the venture, acquire labor, material and capital resources, create an organizational structure by defining the authority and responsibility of each person and position in the enterprise, and launch the business with the intention of creating an enterprise which has its own public image and reputation.

The first impression most people have about this alternative is that it is difficult and involves a whole lot of hard work. But in spite of its difficulty, it is preferable in certain situations:

- ✎ When the entrepreneur wants to avoid undesirable precedents, policies, procedures, and legal commitments of existing firms
- ✎ When the entrepreneur wants to make the decision concerning the ideal location, equipment, products or services, employees, suppliers, and bankers by him/herself
- ✎ When the entrepreneur has developed a new product or service that necessitates new type of business.

Starting a business from scratch has various advantages, and many entrepreneurs prefer building their businesses from the ground up rather than buying existing businesses. The reasons they cite include:

- Greater way in deciding, where your product or service will be marketed? Where your business will be located? And which individuals you will hire?
- Credit connections are new, and relationship with the lenders can be developed from the beginning.
- No pre-existing equipments or inventory: you choose only equipment and inventory that needed according to the particular needs of the business.
- Customer contacts and relationships are new, which permits you to establish your own reputation and unique image.

- Suppliers are not predetermined, which means they can be evaluated and chosen according to your choice.
- You can create a business that reflects your personality.
- There is no previous ill will to contend with previous business owner.
- It gives you the opportunity to provide a unique service or product to the market.

Just as there are advantages in starting from scratch, there are also disadvantages you should be aware of:

- Obtaining credit or investors for your business may be more difficult because the business established may not be profitable.
- Starting and organizing your business will take more time and energy than buying an existing business.
- You may have to supplement your income until the business begins to show a profit.
- A customer that has confidence in your product or service will have to be established, which may take time.
- You may attempt to bring something to the market that is needed.

Costs may be difficult to estimate because the business is not established.

2.6.2. Buying an Existing Business (Acquisition)

Another way to start an entrepreneurial career is by acquiring an existing business. It provides the entrepreneur with excellent way to get into a business. An acquisition is the purchase of a company or part of it so that the acquired company is completely absorbed and longer exists as a business entity.

Advantages of buying an existing business:

- A successful business may continue to be successful.
- The business may already have the best location
- Employees and suppliers are already established
- Equipment is installed and its productive capacity known.
- The buyer can use the expertise of the previous owner
- The business may be a bargain.

Disadvantages of buying an existing business:

- An existing business may be for sale because it is deteriorated

- The previous owner may have created ill will
- Employees inherited with the business may not be suitable
- Its location may have become unsuitable
- Equipment and facilities may be obsolete
- Change and innovation are hard to implement
- Inventory may be out dated
- Account receivable may be worthless than face value
- The business may be overpriced

The steps in acquiring a business:

Buying an existing business can be risky if approached haphazardly. To avoid costly mistakes, an entrepreneur should follow a logical methodical approach.

Step 1: Analyze your skill, abilities, and interest to determine what kinds of business you should consider: The first step in buying a business is conducting a self-audit to determine the deal business for you. Your primarily focus is to identify the type of business you will be happiest and most successful owning.

- What business activates do you enjoy most?
- Which industries interest you most?
- What kind of business do you want to buy?
- Is there a particular geographic location you desire?
- How much risk are you willing to take?
- What size company do you want to buy?
- What do you expect to get out of the business
- How much can you put into the business-in both time and effort?
- What business skills and experience do you have? Which ones do you lack?

Step 2: Develop a list of criteria

Based on the answers to the self-inventory questions, the next step is to develop a list of criteria that a potential business acquisition must meet. The goal is to identify the characteristics of the “ideal business.”

Step 3: Prepare a list potential of candidates:

Once an entrepreneur knows the criteria and parameters for the ideal candidate, the search begins. Do not limit yourself to only those businesses that are advertised as being “for sale”. In fact, the hidden market of companies that might be for sale but are not advertised as such is one of the richest sources of the top quality business.

Step 4: Investigate the potential acquisition targets and select the most acceptable candidate(s)**Due Diligence Process**

- It involves studying, reviewing, and verifying all of the relevant information concerning the top acquisition candidates.
- It is investigating the most attractive business candidates in detail.
- The Objective of the process is to discover exactly what the buyer is purchasing and to avoid unpleasant surprises after the deal closes.
- It calls for a team of advisers.

Criteria

The due diligence process involves investigating five critical areas of the business:

- a) Motivation: why does the owner want to sell?
- b) Asset valuation: what is the true value of the company’s assets?
- c) Market potential: what is the market potential for the company’s products?
- d) Legal issues: what legal aspects of the business represent business risks?
- e) Financial state: is the business financially sound?

Step 5: Negotiating the Deal

Placing a value on existing business represents a major hurdle for many would be entrepreneur. The terms and conditions of payment are more important than the actual price the buyer agrees to pay.

Step 6: Ensure a smooth transition:

To avoid a bumpy transition, a business buyer should do the following.

- Concentrating on communicating with employees, business sales are fraught with uncertainty, anxiety, and employees needed reassurance.
- Be honest with employees. Avoid telling them only they want to hear.

- Listen to employees. They have intimate knowledge of the business and its strength and weakness and, can usually offer valuable suggestions.
- Consider asking the seller to serve as a consultant until the transition is complete. The previous owner can be valuable resources.

2.6.3 Franchising

A franchising is an arrangement in which the owner of trademark, trade name, copy right, has licensed others to use it selling goods and services. A franchisee (a purchaser of franchise) is generally legally independent but economically dependent on the integrated business system of franchiser (the seller of franchise). In other words, a franchisee can operate as an independent businessperson but still obtain the advantages of regional or national organization.

Types of Franchising

Franchising includes three types of systems.

a. Trade name Franchising

It involves being associated with a brand name. It facilitates purchasing the right to become identified with the franchisor's trade name without distributing particular products exclusively under the manufacture's name.

b. Product distribution Franchising

It involves licensing the franchisee to sell specific products under the manufacturer's brand name and trademark through a selective limited distribution channel. This system is commonly used to market autos, gasoline products, soft drinks, bicycles, appliances, cosmetics.

c. Pure Franchising /comprehensive/ business format franchising

- It includes providing the franchise a line for trade name, products /services to be sold, the physical plant, the methods of operation, a marketing plan, quality-control processes, two –way communication system, the necessary business services
- The franchisee purchases the right to use all the elements of a fully integrated business operation.
- It is common among restaurants, hotels, car rental agencies, educational institutions, beauty aid retailers and many others.

Advantages of Franchising

- ***Training and guidance:*** Incompetent management is the leading causes of business failure. Franchisers are well aware of this and, in attempt to reduce the number of franchise causalities, offer managerial training program to franchises prior to opening a new outlet. It also provides follow-up training and consulting service.
- ***Brand apple:*** A licensed franchisee purchases the right to use a nationally known and advertised brand name for a product or service.
- ***Proven record of accomplishment:*** The franchiser has already proved the operation can be successful.
- ***Financial assistance:*** a franchising organization frequently extends a helping hand financially. Besides franchisers usually are willing to assist the qualified franchisee in establishing relationships with bank, private investors, and other sources of fund.
- ***Centralizing buying power:*** The independent business owner can participate in the franchisers centralized and large volume buying power. Franchisees save cost from quantity discount.
- ***Territorial protection:*** A proper location is critical to the success of any small business, and franchises are no exception. Some franchisers offer franchisees territorial protection, which gives existing franchisees the right to exclusive distribution to brand name goods/ services within a particular geographic area.
- ***Proven products and business formats:*** What a franchisee essentially purchasing is the franchisers experience, expertise, and products. Instead of being forced to rely solely on personal ability to establish a business and attract a clientele, the franchisee can depend on the methods and techniques of an established business. These standardized procedures and operations greatly enhance the franchisees chance of success and avoid the most inefficient type of learning trial and error.

The drawback of buying franchise

Franchising is like a two –side coin –it does have limitations that counterbalance the positive factors.

- ***Franchise fees and profit sharing:*** Virtually all franchisors impose some type of fees and demand a share of a franchisees sales revenue in return for the use of the franchisers name, product/service and business system.

- **Strict adherence to standardized operations:** Although the franchisee owns the business, she or he does not have the autonomy of an independent power. To protect its public image, the franchiser requires that the franchisee maintain certain operating steps.
- **Restriction on purchasing:** In the interest of maintain quality standards, franchisees may be required to purchase products, special equipment, or other items from the franchiser/ approved supplier
- **Limited product line:** In most cases, the franchise agreement stipulates that the franchisee can sell only those products approved by franchiser. The franchisee does surrender a certain amount of independence in signing a franchising agreement. The franchiser usually imposes controls to ensure success but these are not always best for the local operations. Sometimes franchisees referred as happy prisoners.
- **Unsatisfactory training programs:** every would franchisee must be worry of the dishonest franchiser who promises extensive services, advises and assistance but deliver nothing.

2.7. Feasibility Analysis

Feasibility analysis is the process of determining if a business idea is viable. If a business idea falls short on one or more of the four components of feasibility analysis, it should be dropped or rethought.

Many entrepreneurs make the mistake of identifying a business idea and then jumping directly to developing a business model to describe and gain support for the idea. This sequence often omits or provides little time for the important step of testing the feasibility of a business idea.

A mental transition must be made when completing a feasibility analysis from thinking of a business idea as just an idea to thinking of it as a business.

A feasibility analysis is an assessment of a potential business rather than strictly a product or service idea. It is investigative in nature and is designed to critique the merits of a proposed business. A business plan is more focused on planning and selling. The reason it's important to complete the entire process. Failure to properly investigate the merits of a business idea before developing a business model and a business plan is written runs the risk of blinding an entrepreneur to inherent risks associated with the potential business and results in too positive of a plan.

A feasibility analysis includes: product/service feasibility, industry/target market feasibility, organizational feasibility, and financial feasibility.

Completing a feasibility analysis requires both primary and secondary research. **Primary research** is research that is collected by the person or persons completing the analysis. It normally includes talking to prospective customers, getting feedback from industry experts, conducting focus groups, and administering surveys. **Secondary research** probes data that is already collected. The data generally includes industry studies, Census Bureau data, analyst forecasts, and other pertinent information gleaned through library and Internet research.

It should be emphasized that while a feasibility analysis tests the merits of a specific idea, it allows ample opportunity for the idea to be revised, altered, and changed as a result of the feedback that is obtained and the analysis that is conducted. The key objective behind feasibility analysis is to put an idea to the test—by eliciting feedback from potential customers, talking to industry experts, studying industry trends, thinking through the financials, and scrutinizing it in other ways. These types of activities not only help determine whether an idea is feasible but also help shape and mold the idea.

Now let's turn our attention to the four areas of feasibility analysis.

Importance of feasibility study

- ✓ Explore the viability of alternative business concepts
 - ✓ Assess the likelihood of transforming an idea into successful business venture
 - ✓ Helps avoid unnecessary waste of resources.
 - ✓ Avoid launching a business that is likely to fail
- A feasibility analysis consists of three interrelated components:
- ✓ Industry and market feasibility analysis
 - ✓ Product /service feasibility analysis
 - ✓ Financial feasibility analysis

1. Industry or Market Feasibility Analysis

When evaluating the feasibility of a business idea, an entrepreneur finds a basic analysis of the industry and target market segments essential. The focus in this phase is twofold.

- a) To determine how attractive an industry is overall as 'a home' for a new business

b) To identify possible niches a small business can occupy profitably

a. Assessing industry attractiveness: the first step in assessing industry attractiveness is to paint a picture of the industry from a macro level. The points of analysis would include:

- ✎ Size of the industry
- ✎ Growth rate of industry
- ✎ Profitability industry
- ✎ Essentiality of products /services to customers
- ✎ Industry threats
- ✎ competitions in the industry
- ✎ Level of competition

Addressing these issues helps to determine whether the potential for sufficient demand for their products and services exist.

The useful tool for analyzing an industry's attractiveness is the ***five forces model*** of Michael porter.

i. Rivalry among existing companies: when a company creates an innovation, competing companies must adopt or run the risk of being forced out of the business. This force makes market a dynamic and highly competitive place. An industry is more attractive when:

- ✓ The number of competitors is large, or quit small.
- ✓ Competitors are not similar in size or capacity.
- ✓ The industry is growing at a fast pace.
- ✓ The opportunity to sell a differentiated product is present.

ii. Bargaining power of suppliers: the greatest the leverage suppliers of key raw materials or components have, the less attractive is the industry. The industry is more attractive when:

- ✓ Many suppliers sell a commodity product to the companies in it
- ✓ Substitute products are available
- ✓ Companies in the industry find it easy to switch from one supplier to another
- ✓ The item suppliers provide the industry account for relatively small portion of the cost of the industry's finished products.

iii. Bargaining power of buyers: when the number of customers is small and the cost of switching to competitors' product is low, buyers' influence on a company is high. Industry is more attractive when:

- ✓ The number of customers in the industry is large
- ✓ Customers demand products that are differentiated
- ✓ Customers find it difficult to gather information on suppliers' cost, prices, and product features.

iv. Threat of new entrants: the larger the pool of potential new entrants to the industry, the greater is the threat to existing companies in it. An industry is more attractive to new entrants when:

- ✓ The advantages of economies of scale are absent
- ✓ Capital requirements to enter the industry are low
- ✓ Cost advantages are not related to company size
- ✓ Governments, through their regulatory and international trade policies, do not restrict new entrants.

v. Threat of substitute products: substitute products can turn an entire industry on its head. An industry is more attractive when:

Quality substitute products are not readily available

- ✓ The price of substitute products are not significantly lower than those of industry's products
- ✓ Customers' cost of switching to substitute product is high

b. Assessing niche /market attractiveness: the next step in assessing an industry is to identify potentially attractive niches that exist in the industry. Occupying an industry niche enables a business to shield itself, to one extent, from the power of the five forces.

Basic investigations to be analyzed are:

- ✓ Specific niche /market to occupy
- ✓ Size and growth rate of the niche /market
- ✓ Product differentiation
- ✓ Competitive advantage/edge

2. Product /service Feasibility Analysis

It determines the degree to which a product /service idea appeals to potential customers. It also identifies the resources necessary to produce a product or provide a service. This portion addresses two questions:

- ✎ Are customers willing to purchase our goods/services?
- ✎ Can we provide the product /service to customers at a profit?

Entrepreneurs need feedback from potential customers to successfully answer these questions. Acquiring that feedback might involve engaging in primary research as as customer surveys, focus group, gathering secondary customer research, building prototypes, and conducting in-home trials.

3. Financial feasibility Analysis

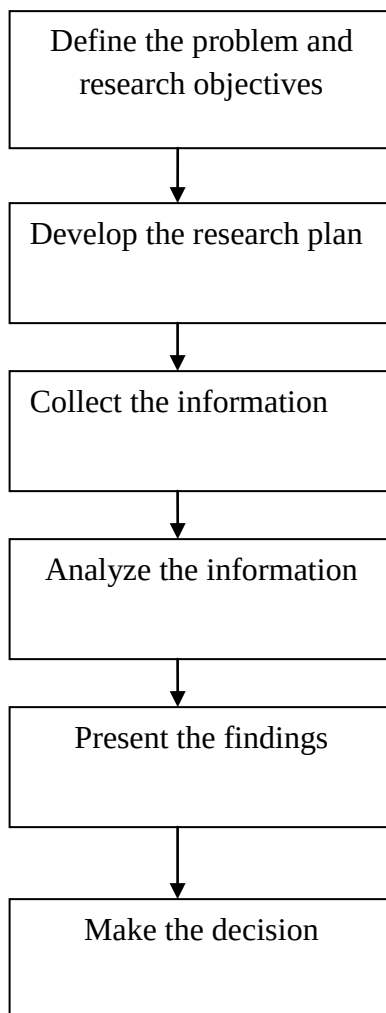
It involves assessing the financial feasibility of a proposed business venture. If the business concept passes the overall feasibility analysis, an entrepreneur should conduct a more thorough financial analysis when creating a full-blown business plan. The major elements in a financial feasibility analysis include:

- ✎ **Capital requirements:** is an estimate of the amount of start –up capital and running the business.
- ✎ **Estimated earnings.** Forecast the earning potential of the proposed business.
- ✎ **Return on investments.** Combine the estimated earnings, the capital requirements to determine the rate of return the venture is expected to produce.

2.8. Marketing Research Overview

Marketing research is the systematic design, collection, analysis, and reporting of data and findings relevant to a specific marketing situation facing the company. It involves the gathering of information about a particular market, followed by analysis of that information. Companies normally budget marketing research at one to two percent of company sales. A large percentage is spent on the services of outside firms.

The Marketing Research Process



Step 1: Defining the problem and the research objectives

It is the process of determining the problem in terms that can be researched. The marketing manager and the researcher must work together to define the problem carefully, and they must agree on research objectives. The manager best understands the decision for which the information needed; the researcher best understands marketing research and how to obtain the information.

Managers should know enough about marketing research to help the planning and interpretation of research results. If they know little about marketing research, they may obtain the wrong information, accept wrong conclusions, or ask for information that costs too much.

After the problem has been identified carefully, the manager and researcher must set the research objectives. The statement of the problem and research objectives guides the entire research process. The manager and the researcher should put the statement in writing to be certain that they agree on the purpose and expected results of the research.

Step 2: Develop the research plan

The second step of the marketing research process calls for determining the information needed, developing a plan for gathering it efficiently, and presenting the plan to marketing management. The plan outlines the sources of existing data and spells out the specific research approaches, contact methods, sampling plans, and instruments that researchers will use to gather new data.

To meet the manager's information needs, the researcher can gather secondary data, primary data, or both. *Secondary data* consists of information that already exists somewhere, having been collected for another purpose. *Primary data* consists of information, collected for the specific purpose at hand.

Researchers usually start by gathering secondary data. The company's internal data base provides a good starting point. However, the company can also tap a wide assortment of external information sources, ranging from company, public, and university libraries to government and business publications.

Good decisions require good data. Just as researchers must carefully evaluate the quality of secondary information, they also must take great care when collecting primary data to assure that it will be relevant, accurate, current and unbiased. Designing a plan for primary data collection calls for a number of decisions on *research approaches, contact methods, sampling plans, and research instruments*

Steps 3: Collecting the Information

Data collection can be carried out by the company's marketing research staff or by outside firms. The company keeps more control over the collection process and data quality by using its own staff. However, outside firms that specialize in data collection often can do the job more quickly and at a lower cost.

The data collection phase of the marketing research process is generally the most expensive and the most subject to error. The researcher should watch field work closely to make sure that the plan is implemented correctly and to guard against problems with contacting respondents, with

respondents who refuse to cooperate or who give biased or dishonest answers, and with interviewers who make mistakes or take short cuts.

Step 4: Analyzing the Information

Researchers must process and analyze the collected data to isolate important information and findings. They need to check data from questionnaires for accuracy and completeness and code it for computer analysis. The researchers then tabulate the results and compute averages and other statistical measures. The researcher will also apply some advanced statistical techniques and decision models in the hope of discovering additional findings.

Step 5: Present the Findings

The researcher must now interpret the findings, draw conclusions, and report them to management. The researcher should not try to overwhelm managers with numbers and fancy statistical techniques. Rather, the researcher should present important findings that are useful in the major decisions faced by management.

However, interpretation should not be left only to the researchers. They are often experts in research design and statistics, but the marketing manager knows more about the problem and the decisions that must be made. In many cases, findings can be interpreted in different ways, and discussions between researchers and managers will help point to the best interpretations. The manager will also want to check that the research project was carried properly and that all the necessary analysis was completed. Or, after seeing the findings; the manager may have additional questions that can be answered through further sifting of the data.

Interpretation is an important phase of the marketing process. The best research is meaningless if the manager blindly accepts faulty interpretations from the researcher. Similarly, managers may have biased interpretations – they tend to accept research results that show what they expected and to reject those that did not expect or hope for. Thus, managers and researchers must work together closely when interpreting research results

Step 6: Make the Decision

Finally the manager is the one who ultimately must decide what action the research suggests. The researchers may even make the data directly available to marketing managers so that they can perform new analyses and test new relationships.

Market research in the pre-start-up phase

Before entrepreneurs actually commit themselves to opening a business they have to answer the following;

➤ **Who is the customer?** A clear profile of potential customers is a basic element of market research. Customers may be young or old, married or single, teachers or students, homeowners or renters, poor or wealthy.

✓ **Sex and age:** These are two essential characteristics to identify in the customer scenario.

✓ **Income status:** The ability to buy and the amount of money will influence the product or service concept, price, nature of promotions, and method of distribution.

✓ **Occupation and education:** Both of these factors can significantly influence an entrepreneur's decisions.

✓ **Other customer characteristics:** These include family profiles, such as being married, single, or divorced; teenage children away at college, one of both parents working etc. Customers can also be identified by ethnic group, religion and domicile.

➤ **Where is the market?**

Part of the customer scenario will involve locating the potential customer base-large metropolitan areas, suburban communities, small cities, and rural towns.

✓ **Market size and changes.** It is important to determine the potential for current and future sales.

✓ **Local market characteristics:** differ significantly because of population size, economic development, industrial profile, ethnic groups, weather, legislation and culture.

✓ **Segmenting the market:** A market segment is one distinct customer group on which a business will concentrate its efforts. It keenly focuses an entrepreneur's efforts on product characteristics, pricing, promotions and channels of distribution related to a specific customer group.

➤ **Competition: Who are the market players?**

Existing competitors should be identified and finding out the products or substitutes.

➤ **Distribution: How will customers be reached?** A distribution system is the physical process of getting products to market or providing services.