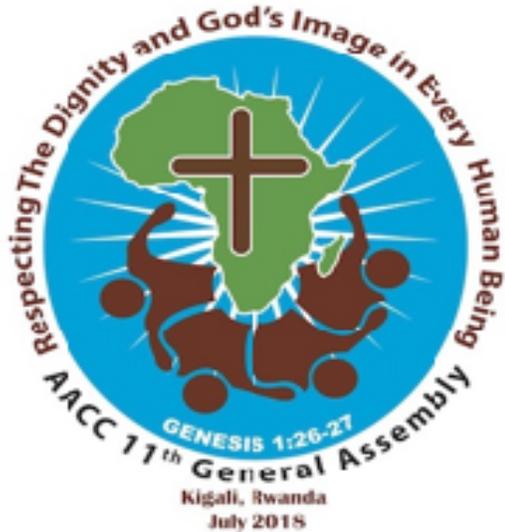


# Entrepreneurship

Introduction to the Basic Principles of Entrepreneurship



**CC- YOUTH PRE-ASSEMBLY, July 2<sup>nd</sup>, 2018,  
Kigali Rwanda**

## Introduction to the Basic Principles of Entrepreneurship

### **Content**

- 1) **What Is Entrepreneurship?**
- 2) **Decisions and Challenges.**
- 3) **Choosing a Product and a Market**
- 4) **Entry Strategies for New Ventures**
- 5) **Marketing Is Selling**
- 6) **Choosing a Form of Business**
- 7) **Creating a Business Plan**
- 8) **The Entrepreneur's Need for Capital**
- 9) **Intellectual Property**
- 10) **The Strengths of Small Business**
- 11) **Entrepreneurship Aids the Economy**
- 12) **The Importance of Government Policies**
- 13) **Questions & Answers!**

## 1. What Is Entrepreneurship?

### Introduction

Many simply equate it with starting one's own business. Most economists believe it is more than that.

- ✓ To some economists, the entrepreneur is one who is willing to bear the risk of a new venture if there is a significant chance for profit. Others emphasize the entrepreneur's role as an innovator who markets his innovation. Still other economists say that entrepreneurs develop new goods or processes that the market demands and are not currently being supplied.
- ✓ Most economists today agree that entrepreneurship is a necessary ingredient for stimulating economic growth and employment opportunities in all societies. In the developing world, successful small businesses are the primary engines of job creation, income growth, and poverty reduction. Therefore, government support for entrepreneurship is a crucial strategy for economic development

### Who is an Entrepreneur?

Who can become an entrepreneur? There is no one definitive profile. Successful entrepreneurs come in various ages, income levels, gender, and race. They differ in education and experience. But research indicates that most successful entrepreneurs share certain personal attributes, including: creativity, dedication, determination, flexibility, leadership, passion, self-confidence, and “smarts.”

## ❑ Why Become an Entrepreneur?

What leads a person to strike out on his own and start a business? Perhaps a person has been laid off once or more. Sometimes a person is frustrated with his or her current job and doesn't see any better career prospects on the horizon. Sometimes a person realizes that his or her job is in jeopardy. In contrast, some people are attracted to entrepreneurship by the advantages of starting a business.

- ✓ Entrepreneurs are their own bosses. They make the decisions. They choose whom to do business with and what work they will do. They decide what hours to work, as well as what to pay and whether to take vacations. Entrepreneurship offers a greater possibility of achieving significant financial rewards than working for someone else.
- ✓ It provides the ability to be involved in the total operation of the business, from concept to design and creation, from sales to business operations and customer response.
- ✓ It offers the prestige of being the person in charge.
- ✓ It gives an individual the opportunity to build equity, which can be kept, sold, or passed on to the next generation.
- ✓ Entrepreneurship creates an opportunity for a person to make a contribution. Most new entrepreneurs help the local economy. A few—through their innovations—contribute to society as a whole. One example is entrepreneur Steve Jobs, who co-founded Apple in 1976, and the subsequent revolution in desktop computers.

- ❑ Entrepreneurship is an attractive career choice. But many decisions have to be made before launching and managing a new business, no matter its size. Among the questions that need to be answered are:
  - ✓ Does the individual truly want to be responsible for a business? What product or service should be the basis of the business?
  - ✓ What is the market, and where should it be located? Is the potential of the business enough to provide a living wage for its employees and the owner?
  - ✓ How can a person raise the capital to get started? Should an individual work full or part time to start a new business? Should the person start alone or with partners?
- ❑ Through careful analysis of entrepreneurs' successes and failures, economists have identified key factors for up-and-coming business owners to consider closely as can reduce risk.
  - ✓ Motivation: What is the incentive for starting a business? Is it money alone? However, money is almost always tight in the startup and early phases of a new business. Many entrepreneurs do not even take a salary until they can do so and still leave the firm with a positive cash flow.
  - ✓ Strategy: What is the strategy for distinguishing the product or service? Is the plan to compete solely on the basis of selling price? Price is important, but it is extremely risky to compete on price alone. Large firms that produce huge quantities have the advantage in lowering costs.
  - ✓ Realistic Vision: Is there a realistic vision of the enterprise's potential? Insufficient operating funds are the cause of many failed businesses. Entrepreneurs often underestimate start-up costs and overestimate sales revenues in their business plans.

## ❑ Go It Alone/Team Up?

There are many advantages to starting a firm with other entrepreneurs. Team members share decision making and management responsibilities. They can also give each other emotional support, which can help reduce individual stress.

- ✓ Studies show that investors and banks seem to prefer financing new businesses started by more than one entrepreneur. This alone may justify forming a team.
- ✓ Other important benefits of teaming come from combining monetary resources and expertise. In the best situations, team members have complementary skills. One may be experienced in engineering, for example, and the other may be an expert in promotion. In general, strong teams have a better chance at success.
- ✓ Entrepreneurs of different ages can create complementary teams also. Optimism and a “can-do” spirit characterize youth, while age brings experience and realism.

However, entrepreneurial teams may have potential disadvantages as well:

- ✓ Teams share control in making decisions. This may create a problem if a team member has poor judgment or work habits.
- ✓ Serious conflict may stem from an unequal commitment of time or a personality clash.

It is important for a new entrepreneur to be aware of potential problems while considering the advantages of working with other entrepreneurs. In general, the benefits of teaming outweigh the risks.

- ❑ A prospective entrepreneur needs to come up with a good idea. This will serve as the foundation of the new venture; has an idea for a product or service to fill it. Other times an entrepreneur gets an idea for a product or service and tries to find a market for it
- ✓ There are many ways to look for ideas. Read a lot, talk to people, and consider such questions as: What limitations exist in current products and services? What would you like that is not available? Are there other uses for new technology? What are innovative ways to use or to provide existing products?

Business ideas usually fit into one of four categories that were described by H. Igor Ansoff:

- ✓ An existing good or service for an existing market. This is a difficult approach for a start-up operation. Entry costs are high, and profit is uncertain.
- ✓ A new good or service for a new market. This is the riskiest strategy for a new firm because both the product and the market are unknown. If successful, however, it has the most potential for new business and can be extremely profitable.
- ✓ A new good or service for an existing market. (Often this is expanded to include modified goods/ services.)
- ✓ An existing good or service for a new market. The new market could be a different country, region, or market niche.

The last two categories have moderate risk, but product and market research can reduce it. They also offer opportunities for utilizing effective start-up strategies—innovation, differentiation, and market specification.

#### 4. Entry Strategies for New Ventures

It is easy to be captivated by the promise of entrepreneurship-becoming one's own boss. More often it is difficult for a prospective entrepreneur to determine what product or service to provide. Many factors need to be considered, including: an idea's market potential, the competition, financial resources, and one's skills and interests. Then it is important to ask: Why would a consumer choose to buy goods or services from this new firm?

Successful entrepreneurs often distinguish their ventures through differentiation, niche specification, and innovation.

- ✓ Differentiation is an attempt to separate the new company's product or service from that of its competitors. If successful, the new product or service is relatively less sensitive to price fluctuations because customers value the quality that makes the product unique.
- ✓ Niche specification is an attempt to provide a product or service that fulfills the needs of a specific subset of consumers. The product/service may satisfy customer needs better than larger competitors can.
- ✓ Innovation is perhaps the defining characteristic of entrepreneurship. Visionary business expert Peter F. Drucker explained innovation as "change that creates a new dimension of performance." Innovation occurs in all aspects of businesses, from manufacturing processes, technology, marketing strategy to pricing policy

Innovation, differentiation, and niche or market specification are effective strategies to help a new venture to attract customers and start making sales.

- ❑ Marketing is often defined as all the activities involved in the transfer of goods from the producer to the consumer, including advertising, shipping, storing, and selling. For a new business, however, marketing means selling.
- ✓ How does a new business get orders? Before launching the business, the entrepreneur should research the target market and analyze competitive products.
- ✓ An entrepreneur can also develop a file of potential customers, for example, by collecting names or mailing lists from local churches, schools, and community groups or other organizations. This file can be used later for invitations to the opening of the new business.
- ✓ The most effective salesperson in a new venture is often the head of the business. People will almost always take a call from the “president” of a firm. This is the person with the vision, the one who knows the advantages of the new venture and who can make quick decisions.
- ✓ Advertising and promotion are essential marketing tools. Newspaper, magazine, television, and radio advertisements are effective for reaching large numbers of consumers. A less expensive option is printing fliers, which can be mailed to potential customers, handed out door to door, or displayed in businesses that permit it.
- ✓ Publicity is also an extremely valuable way to promote a new product or service. A local newspaper might publish a feature about the startup. A TV or radio station might interview its owners. This can be very effective in generating sales, and it’s free.

- ❑ The Entrepreneur and the Internet: The Internet -has revolutionized commerce by bringing together people from all over the globe. Many of its features can be used to shape a new business.
- ✓ Communications: An entrepreneur must communicate with many people—suppliers, distributors, and customers, for example: A quick and relatively inexpensive way to send letters, reports, photographs, etc. “e-mail.” E-mail can be used even for marketing.
- ✓ Research: Starting a business takes lots of research. An entrepreneur can find information on almost any subject very rapidly by using the Internet.
- ✓ Promotion: Web sites, pages of print and visual information that are linked together electronically, offer an opportunity for entrepreneurs to introduce a new business and its products and/or services to a huge audience. In general, Web sites can be created and updated more quickly and inexpensively than printed promotional materials.
- ✓ Safe Use: Just as shopkeepers lock their storefronts, entrepreneurs who use the Internet need to take steps to keep their computer systems safe from the potential hazards of security breaches and viruses.

For creative entrepreneurs with limited resources, the Internet offers significant opportunities to build new businesses.

- ❑ Selling Online: Many entrepreneurs sell goods or services on the Internet. Why? The Internet provides access to a large and growing market. Approximately In 2017, an estimated 1.66 billion people worldwide purchase goods online, according to Online-Shopping and E-Commerce worldwide.
- ✓ By selling on the Internet, a neighborhood shop or home-based firm can reach a national or even international group of potential customers. When entrepreneurs sell online, they are on a more level playing field with larger competitors.

To start an online business, an entrepreneur must:

- ✓ Register a domain name – an Internet name and address.
- ✓ Purchase a server or contract with an Internet service provider to host the Web site. Design an attractive and easy-to-navigate online store.
- ✓ Create an online catalog. Provide clearly written information. Use lots of photos to encourage potential customers to buy.
- ✓ Establish a payment method. Example- have customers use credit or debit cards online.
- ✓ Make the Web site secure, especially to protect customers' financial information. Hiring a technology expert is time and money well spent as compared to the potential risk of security violations.
- ✓ Establish a policy for shipping. Customers should never be surprised at the end of a transaction with shipping costs. Customers may cancel the sale.
- ✓ Offer customers an e-mail address or phone number for complaints, suggestions, or compliments, and respond to them. This can boost customer loyalty.

- ❑ An entrepreneurs must select a form of organization when they start a small business. The basic forms of organization are sole proprietorships, partnerships, and corporations. Each has advantages and disadvantages. Moreover, the laws and regulations that apply to business owners vary from country to country and by local jurisdiction. Entrepreneurs should consult an attorney or other expert to make sure that they have all the necessary licenses and permits, and are aware of all their legal obligations.
- ✓ Sole Proprietorship: In a sole proprietorship, the individual entrepreneur owns the business and is fully responsible for all its debts and legal liabilities. However, this is the easiest and least expensive form of business to start. In general, an entrepreneur files all required documents and opens a shop. The disadvantage is that there is unlimited personal liability – all personal and business assets owned by the entrepreneur may be at risk if the business goes into debt.
- ✓ Partnership: A partnership consists of two or more people who share the assets, liabilities, and profits of a business. The greatest advantage comes from shared responsibilities. Partnerships also benefit by having more investors and a greater range of knowledge and skills. The largest disadvantage of any partnership is the potential for disagreements, regardless of how well or how long the partners have known each other.
- ✓ Corporations: Corporations are recommended for entrepreneurs who plan to conduct a large-scale enterprise. As a legal entity that has a life separate from its owners, a corporation can sue or be sued, acquire and sell property, and lend money. Corporations are divided into shares or stocks, which are owned by one, a few, or many people. A shareholder's investment is the limit of her liability. Corporations can more easily obtain investment, raise capital by selling stock. They provide more protection from liability than other forms of business. Their potential for growth is unlimited. However, corporations are more complex and expensive to set up than other forms of business and are usually subject to a higher level of government regulation.

- ❑ A comprehensive business plan is crucial for a startup business. It defines the entrepreneur's vision and serves as the firm's resume. There are many reasons for writing a business plan:
  - ✓ To convince oneself that the new venture is worthwhile before making a significant financial and personal commitment. To assist management in goal-setting and long-range planning. To attract investors and get financing. To explain the business to other companies with which it would be useful to create an alliance or contract and to attract new employees.
  - ✓ A standard business plan is usually about 30-40 pages in length. The language should be free of jargon and easy to understand. The tone should be business-like and enthusiastic. It should be strong on facts in order to convince people to invest money or time in the new venture.

❑ The basic elements of a standard business plan include:

Title Page; Table of Contents; Executive Summary; Company Description; Product/Service; Market and Competition; Marketing and Selling Strategy; Operating Plan; Management/Organization; Financing; Supporting Documents.

- ✓ The executive summary is the cornerstone of a good plan. This is the section that people read in order to decide whether to read the rest. More importantly, it needs to convince the reader that the new venture is a worthy investment. The company description highlights the entrepreneur's dream, strategy, and goals. The product/service section should stress the characteristics and benefits of the new venture. What differentiates it from its competition? Is it innovative? The financial components of a new venture's business plan typically include three projections: a balance sheet, an income statement, and a cash-flow analysis. These require detailed estimates of expenses and sales.

- ❑ New businesses rarely show a profit in the early months of operation. Generating sales takes time, and receipts are not usually sufficient to offset startup costs and monthly expenses. Therefore, entrepreneurs need to estimate how much money they need and then raise that amount to transform their dream into a reality.
- ✓ All entrepreneurs need to forecast/estimate how much cash they need to cover expenses until the business begins to make a profit. For this task, the best financial tools are the income statement and cash flow statement.
  - An income statement sets out all of the entrepreneur's projected revenues and expenses to determine a venture's profits per month and year.
  - A cash flow statement estimates anticipated cash sales as well as anticipated cash payments of bills. This estimate can be done on a weekly, monthly, or quarterly basis, By calculating this forecast on a cumulative basis, the entrepreneur can forecast his company's overall capital needs at start up.
- ✓ A critical point for a new business occurs when monthly sales receipts are enough to cover monthly expenses. The cumulative cash flow amount reached just before it reverses direction indicates approximately how much capital the new business will need.
- ✓ Financial projections are inevitably somewhat inaccurate simply because every contingency cannot be predicted.
- ✓ With these estimates, the entrepreneur can seek funding and concentrate more clearly on launching the new business.

- ❑ Many entrepreneurs struggle to find the capital to start a new business. There are many sources to consider, so it is important for an entrepreneur to fully explore all financing options. He/She also should apply for funds from a wide variety of sources.
- ✓ Personal savings: Experts agree that the best source of capital for any new business is the entrepreneur's own money.
- ✓ Friends and family: These people believe in the entrepreneur, and they are the second easiest source of funds to access.
- ✓ Banks: Banks are very conservative lenders. Most of the time commercial banks do not make loans to start-up businesses unless have assets to pledge against borrowing. Many entrepreneurs simply do not have enough assets to get a secured loan from a lending institution.
- ✓ Venture investors: This is a major source of funding for start-ups that have a strong potential for growth. However, venture investors insist on retaining part ownership in new businesses that they fund.
  - Formal institutional venture funds ( limited partnerships/such as retirement funds)
  - Corporate venture funds are large corporations with funds for investing in new ventures. Also, they often seek to gain control of new businesses.
  - Angel investors tend to be successful entrepreneurs who have capital that they are willing to risk. They often insist on being active advisers to businesses they support.
- ✓ Government programs: A number of governments may offer programs to encourage small and medium-sized businesses, by acting as a guarantor of loans made by private institutions for borrowers who may not otherwise qualify for a commercial loan.

- ❑ Intellectual property is a valuable asset for an entrepreneur. It consists of certain intellectual creations by entrepreneurs or their staffs that have commercial value and are given legal property rights. Examples of such creations are a new product and its name, a new method, a new process, a new promotional scheme, and a new design.
- ✓ Protecting intellectual property is a practical business decision. The time and money invested in perfecting an idea might be wasted if others could copy it.
- ✓ Competitors could charge a lower price because they did not incur the startup costs.
- ✓ The purpose of intellectual property law is to encourage innovation by giving creators time to profit from their new ideas and to recover development costs.

Every entrepreneur should be aware of intellectual property rights in order to protect these assets in a world of global markets. An intellectual property lawyer can provide information and advice.

The main forms of intellectual property rights are:

- ✓ Patents: A patent grants an inventor the right to exclude others from making, using, offering for sale, or selling an invention for a fixed period of time (20yrs).
- ✓ Copyright: Copyrights protect original creative works of authors, composers, and others.
- ✓ Trade Secrets: Trade secrets consist of knowledge that is kept secret in order to gain an advantage in business. “Certainly, secret processes, formulas, techniques, manufacturing know-how, advertising schemes, marketing programs, and business plans are all protectable.”
- ✓ Trademarks: A trademark protects a symbol, word, or design, used individually or in combination, to indicate the source of goods and to distinguish them from goods produced by others.

- ❑ Any entrepreneur who is contemplating a new venture should examine the strengths of small businesses as compared to large ones and make the most of those competitive advantages.
- ✓ In general, small start-up firms have greater flexibility than larger firms and the capacity to respond promptly to industry or community developments. They are able to innovate and create new products and services more rapidly and creatively than larger companies that are mired in bureaucracy.
- ✓ A small firm has the ability to modify its products or services in response to unique customer needs. The average entrepreneur or manager of a small business knows his customer base far better than one in a large company.
- ✓ Another strength comes from the involvement of highly skilled personnel in all aspects of a startup business. In particular, start-ups benefit from having senior partners or managers working on tasks below their highest skill level.
- ✓ Another strength of a start-up is that the people involved – the entrepreneur, any partners, advisers, employees, or even family members – have a passionate, almost compulsive, desire to succeed. This makes them work harder and better.
- ✓ Finally, many small businesses and start-up ventures have an intangible quality that comes from people who are fully engaged and doing what they want to do. This is “the entrepreneurial spirit,”

Entrepreneurs create new businesses, generating jobs for themselves and those they employ. In many cases, entrepreneurial activity increases competition and, with technological or operational changes, it can increase productivity as well.

- ✓ Entrepreneurs give security to other people; they are the generators of social welfare
- ✓ It is agreed that the benefits of small businesses go beyond income; Small businesses broaden the base of participation in society, create jobs, decentralize economic power, and give people a stake in the future.
- ✓ Entrepreneurs innovate and innovation is a central ingredient in economic growth
- ✓ Entrepreneurs are responsible for the commercial introduction of many new products and services, and for opening new markets. Entrepreneurs provide consumers with goods and services for needs they didn't even know they had.
- ✓ Innovations improve the quality of life by multiplying consumers' choices. They enrich people's lives in numerous ways - making life easier, improving communications, providing new forms of entertainment.
- ✓ International and regional institutions, such as the United Nations and the Organization for Economic Cooperation and Development, agree that entrepreneurs can play a crucial role in mobilizing resources and promoting economic growth and socio-economic development. This is particularly true in the developing world, where successful small businesses are primary engines of job creation and poverty reduction.

- ❑ Entrepreneurial activity leads to economic growth and helps to reduce poverty, create a middle class, and foster stability. It is in the interest of all governments to implement policies to foster entrepreneurship and reap the benefits of its activity.
- ✓ Government policies can be categorized as “active” or “passive”.
- ✓ Active policies, such as targeted tax breaks, help specific forms of businesses, while passive policies help create an environment that is friendly to entrepreneurs without regard to specific firms.
- ✓ It is this entrepreneurial-friendly environment that will allow any individual or business—regardless of size, location or mission—to expand and to thrive,”
- ✓ Among the most successful strategies for encouraging entrepreneurship and small business are changes in tax policy, regulatory policy, access to capital, and the legal protection of property rights.
  - ❖ Tax Policy: Governments use taxes to raise money. But taxes increase the cost of the activity taxed, discouraging it somewhat.
  - ❖ Regulatory Policy: The simpler and more expedited the regulatory process, the greater the likelihood of small business expansion ( Rwanda Policy)
  - ❖ Access to Capital: Starting a business needs money. Therefore, the most important activity a government can undertake is to assist potential entrepreneurs with finding money for start-ups.
  - ❖ Creating a Business Culture: Governments can also show that they value private enterprise by making it easier for individuals to learn business skills and by honoring entrepreneurs and small business owners.

Thank you

END

- 1) U.S. Department of State/Bureau of International Information Programs ( accessed June 26,2018)
- 2) Why Young Entrepreneurs Fail ([www.entrepreneur.com/article/207582](http://www.entrepreneur.com/article/207582)) accessed June 26,2018
- 3) Bygrave.W, Zacharakis.A (2011): “Entrepreneurship” 2nd, Edition. John Wiley & Sons, Inc.