

Setting Up Businesses

Topic 1. Deciding whether or not to start a business: concept of viability



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Organisation of Business and Work, Administration
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What is the starting point for setting up a business?



1.1. Identifying ideas to set up a business.

1.2. Concept of viability.

1.3. Conclusion.

1.1. Identifying ideas to set up a business

- The starting point of all business projects occurs when a person with initiative picks up on an opportunity which is in most cases facilitated by an imperfection in the market.
- The Promoter of the company perceives a change in demand which is currently not being satisfied in the marketplace, thanks to their **professional experience**, **technical training** or simply **knowledge of the market**.

1.1. Identifying ideas to set up a business

ORIGIN OF THE IDEA

- Looking for inefficiencies (market failures).
- Where? How?
- Identification of problems not solved with current products or services.
- Work experience as a source of business ideas.
- Identification of new market niches.
- Changes that can lead to an opportunity.



1.1. Identifying ideas to set up a business

ORIGIN OF THE IDEA

- Looking for inefficiencies (market failures).



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1.1. Identifying ideas to set up a business



ORIGIN OF THE IDEA

- Identification of problems not solved with current products or services.



easyGroup

1.1. Identifying ideas to set up a business

ORIGIN OF THE IDEA

- Changes that can lead to an opportunity.



1.1. Identifying ideas to set up a business

Changes that can lead to an opportunity

- Changes in **technology**: increase in productivity, increase in flexibility.
- Changes in **environment**: shortening of product lifecycle, market globalization, changes in society.
- Changes in **contracts**: developing of new contractual forms: franchising, subcontracting. Business cooperation, disintegration of activities, organizational development.
- Changes in communications and information processing techniques.



1.1. Identifying ideas to set up a business

José Andrés Ocaña

3. Desarrollar las Ideas. Después de haber generado tantas ideas como le sea posible amplíelas, desarrollándolas. Para ello, aplique a sus ideas una lista de comprobación de seis principios de pensamiento creativo SCAMPER.

Sustituir (S). ¿Puedo sustituir algo?

Combinar (C). ¿Con qué puedo combinarlo?

Adaptar (A). ¿Qué otra cosa es como esto?

Magnificar, modificar (M). ¿Qué es lo que puede ser magnificado?, ¿qué cambios se pueden hacer para mejorarlo?

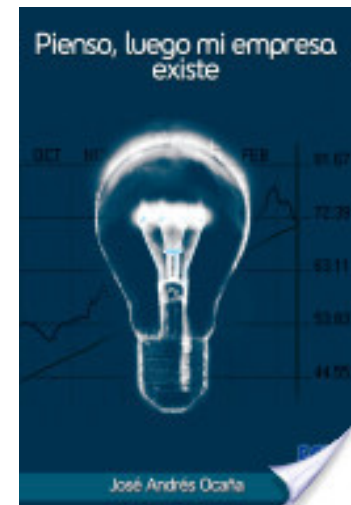
Utilidad (put P). ¿Se puede dedicar a algún otro uso?

Eliminar o reducir al mínimo (E). ¿Qué pasaría si fuera más pequeño?

Reordenar, invertir (R). ¿Qué otro arreglo o disposición podría ser mejor?

«Pienso, luego mi empresa existe».

José Andrés Ocaña



1.1. Identifying ideas to set up a business



Three Easy Exercises to Boost Your Creativity

1. Re-imagine a familiar situation.

RENT THE RUNWAY

BAG BORROW ∅ STEAL
BORROW, COLLECT & SHARE LUXURY.

2. Practice breaking the rules.

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3. Make a list of things that bother you.



Source: <http://www.entrepreneur.com/blog/224501>

1.1. Identifying ideas to set up a business

- The idea must be materialized in a transaction (product or service) which attracts resources from consumers to the new offer.

Testing the business idea

<http://testidea.barcelonanetactiva.com/>

<http://www.ildefe.es>



Profile of entrepreneur

- Am I viable for the idea?
- «Profile of the entrepreneur and the team is one of the factors that influence the success of a project».

Test your entrepreneurial skills

<http://servicios.ipyme.org/emprendedores/>

Test MIDE: www.infoautonomos.com



Reasons for starting a business and psychological characteristics (Veciana, 2005)

Reasons for starting a business and psychological characteristics	
Need for Independence	Tough childhood and difficult start
Opportunity to implement new ideas	Professional experience
Creating something on your own	Internal control
Being at the Forefront of an organization and / or leading a group	Risk-taker
Desire for economic Independence	Dissatisfaction
Obtaining personal assets	Intuition
Desire to earn more money than working for a salary	Tolerance of ambiguity and uncertainty
Unable to find work	Ability to learn from experience
Obtaining a fair remuneration	Level of education

1.2. Concept of viability

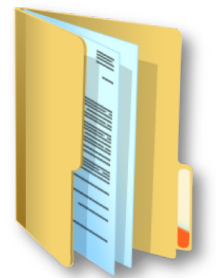
- When can you say that a business project is viable? What exactly does it mean to say that a project is viable? How is viability analyzed?
- Two basic needs of the promoter when deciding to start a business:
 - *How should the entrepreneur structure the information in order to decide whether or not to start a business?*
 - *How should the business potential be communicated?*

1.2. Concept of viability

A BUSINESS PROJECT IS **VIABLE** WHEN THE IDEA IS CONCRETIZED IN A TRANSACTION FOR WHICH A DEMAND HAS BEEN DETECTED IN A GIVEN MARKET. THERE MUST BE SUFFICIENT LONG-TERM DEMAND POTENTIAL FOR THE PRODUCT OR SERVICE TO MAKE THE **INVESTMENTS PROFITABLE.**

1.2. Concept of viability

- The **VIABILITY PROJECT** involves writing a formal report which contains the following information: all the information held by the promoter about the product or service into which the idea has materialized, the transaction and technology through which supply and expected market demand are embodied.



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Plan de negocio (Claver, 2013, p. 159):

- Datos.
- Estrategia:
 - Producto.
 - Producto sustitutivo.
 - Competencia.
 - Distribuidores.
 - Clientes.
 - Barreras de entrada.
- Estimación de futuro

A Standard Business Plan Outline (Bplans):

1. Executive Summary.
2. Company Summary.
3. Products and Services.
4. Market Analysis Summary.
5. Strategy and Implementation Summary.
6. Management Summary.
7. Financial Plan.
8. Appendixes.



Business Plan (Hisrich, Peters & Sheperd 2005, p. 124):

1. **Introduction**
 1. Name and address of the company and main partners.
 2. Nature of Business.
 3. Summary of necessary funding.
 4. Secrecy statement.
2. **Executive summary (3 or 4 pages)**
3. **Sectoral analysis**
 1. Trends and future prospects.
 2. Analysis of competitors.
 3. Market segmentation.
 4. Sector and market forecasting.
4. **Description of business**
 1. Product(s) / Service(s).
 2. Size of the company.
 3. Staff and equipment.
 4. Experience of entrepreneurs.
5. **Production plan**
 1. Production process (subcontract).
 2. Factories.
 3. Machinery and equipment.
 4. Names of suppliers of raw materials.
6. **Operating plan**
 1. Description of business operations.
 2. Goods and services equipment.
 3. Technology.
7. **Marketing plan**
 1. Price fixing.
 2. Placement.
 3. Sales forecasting.
 4. Controls.
8. **Plan of organization**
 1. Ownership and identification of partners.
 2. Authority.
 3. Experience of management team.
 4. Responsibilities.
9. **Risk assessment**
 1. Evaluating business weaknesses.
 2. New technologies.
 3. Contingency plans.
10. **Financial plan**
 1. Estimated income statement.
 2. Cash flow.
 3. Estimated balance sheet.
 4. Payback.
 5. Sources of funding.
11. **Appendix**

Letters, data from market research, licenses or contracts, Price list of suppliers.

Plan de empresa (Adán, 2014, p. 118):

1. **Presentación del proyecto**
 1. Resumen ejecutivo.
 2. Misión, visión, valores.
 3. Evolución del proyecto.
 4. Presentación de promotores.
2. **Análisis del entorno**
 1. Análisis del mercado.
 2. Definición de producto.
 3. Público objetivo.
 4. Análisis de la competencia.
 5. Análisis DAFO.
3. **Plan de marketing**
 1. Estrategia de precios.
 2. Estrategia de producto.
 3. Estrategia de distribución.
 4. Estrategia de promoción.
 5. Estrategia de posicionamiento.
 6. Objetivos iniciales de marketing.
4. **Plan de acción comercial**
 1. Previsión de ventas.
 2. Umbral de rentabilidad.
 3. Análisis de costes: fijos y variables.
 4. La fuerza de ventas.
5. **Plan de producción y compras**
 1. Lugar y local.
 2. Plan de compras.
 3. Plan de fabricación.
 4. Tecnología aplicada.
 5. Capacidad de producción.
 6. Gestión de proveedores.
6. **Área económico-financiera**
 1. Plan de inversiones iniciales.
 2. Plan de financiación.
 3. Sistema de cobro a clientes y pago a proveedores.
 4. Previsión de la cuenta de resultados.
 5. Balance de situación.
 6. Ratios de rentabilidad.
7. **Organización y recursos humanos**
 1. Socios.
 2. Organización.
 3. Recursos humanos propios.
 4. Asesores externos.
8. **Área jurídico-fiscal**
 1. Elección de la forma jurídica.
 2. Datos de identificación.
 3. Trámites de constitución y puesta en marcha.
9. **Anexos**
 1. Formas jurídicas de sociedades.
 2. Trámites necesarios para la constitución.

1.2. Concept of viability

- The **VIABILITY PROJECT** involves writing a formal report which contains the following information: all the information held by the promoter about the product or service into which the idea has materialized, the transaction and technology through which supply and expected market demand are embodied.
- The viability project is divided into four stages:



1.2. Concept of viability

HOW?

- Length / Style / Presentation.
- Structure: executive summary, business plan, annexes.



WHY?

1. It is a tool for obtaining funding.
2. It is an alert to know when to continue or when to stop.
3. It enhances your idea.
4. It improves the probability of success.
5. It helps you to know if you are on the right track.

1.2. Concept of viability

INFORMATION SOURCES:

- **Databases:** SABI, Amadeus, Global Market Information Database (GMID), Worldbank, Eurostat, etc.
- **Public institutions:** Instituto Cántabro de Estadística (ICANE), Instituto Nacional de Estadística (INE), Inland Revenue, Social Security, INEM, Bank of Spain, Government of Cantabria, Servicio Cántabro de Empleo (EMCAN), Sodercan, Ministry of Industry, etc.
- **Business organizations:** Chamber of Commerce of Cantabrería, *Guíame*, etc.
- **Banks and financial institutions:** interest rates, simulators, etc.
- **Others:** collective agreements, statutes, deeds, etc.

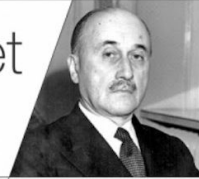
1.3. Conclusion

- It is easier to identify problems in familiar contexts: your daily routine, your job, your hobbies...
- Identify the problem:
 - What is the opportunity, failure or change that I have discovered in the market?
- Define the idea and communicate it.



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Promoting entrepreneurship in the UE

Europe's economic growth and jobs depend on its ability to support the growth of enterprises. Entrepreneurship creates new companies, opens up new markets, and nurtures new skills. The most important sources of employment in the EU are Small and Medium-sized Enterprises (SMEs).

The Commission's objective is to encourage people to become entrepreneurs and also make it easier for them to set up and grow their businesses.

Source: https://ec.europa.eu/growth/smes/promoting-entrepreneurship_en



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Promoting entrepreneurship in the UE

Challenges faced by entrepreneurs in Europe

Only 37% of Europeans would like to be self-employed, compared to 51% of people in the US and China. Some of the challenges to be tackled include:

- education should offer the right foundation for an entrepreneurial career;
- difficult access to finance and markets;
- difficulty in transferring businesses;
- the fear of 'punitive' sanctions in case of failure;
- burdensome administrative procedures.

Source: https://ec.europa.eu/growth/smes/promoting-entrepreneurship_en



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Promoting entrepreneurship in the UE

European Commission's actions:

The European Commission's initiatives promoting entrepreneurship are summarised in an [Entrepreneurship Action Plan](#) adopted in January 2013. They aim to reignite Europe's entrepreneurial spirit by:

- [educating](#) young people about entrepreneurship;
- highlighting opportunities for [women](#) and [other groups](#);
- easing administrative requirements;
- making it easier to attract investors.

Source: https://ec.europa.eu/growth/smes/promoting-entrepreneurship_en



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Promoting entrepreneurship in the UE

Who we work for

The Commission aims to encourage more people to set up their own business. Certain groups, such as female entrepreneurs, family businesses, liberal professions, migrants, seniors or social economy enterprises are particularly targeted.

Source: https://ec.europa.eu/growth/smes/promoting-entrepreneurship_en



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Current situation of female entrepreneurs in the EU:

- women constitute **52% of the total European** population but only **34.4% of the EU self-employed** and **30% of start-up** entrepreneurs
- female creativity and entrepreneurial potential are an **under-exploited source of economic growth and jobs** that should be further developed.

Family businesses make up more than 60% of all companies in Europe.

Who we work for

The Commission aims to encourage more people to set up their own business. Certain groups, such as female entrepreneurs, family businesses, liberal professions, migrants, seniors or social economy enterprises are particularly targeted.

What they are - there are 2 million social economy enterprises in Europe, representing 10% of all businesses in the EU. More than 11 million people – about 6% of the EU's employees – work for social economy enterprises. They have different legal forms and various objectives ranging from agriculture and banking to provision of employment and sheltered workshops.

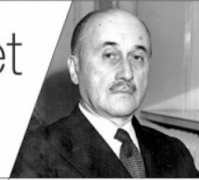


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Promoting entrepreneurship in the UE

The Entrepreneurship 2020 Action Plan

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The Commission's answer to challenges brought by the gravest economic crisis in the last 50 years.

It aims to ease the creation of new businesses and to create a much more supportive environment for existing entrepreneurs to thrive and grow

- Entrepreneurial education
- Removing existing administrative barriers and supporting entrepreneurs
- Reigniting the culture of entrepreneurship in Europe and nurturing the new generation of entrepreneurs



[Learn More](#)



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Interesting links:

- ❖ [A brief overview of women entrepreneurship in the EU and the USA](https://younginnovator.eu/2018/01/brief-overview-women-entrepreneurship-eu-usa/)

<https://younginnovator.eu/2018/01/brief-overview-women-entrepreneurship-eu-usa/>

- ❖ [Migrant Entrepreneurship](https://migrant-entrepreneurship.eu/)

<https://migrant-entrepreneurship.eu/>

- ❖ [Promoting ethnic entrepreneurship in European cities](https://www.coe.int/t/democracy/migration/Source/migration/congress_public_3.pdf)

https://www.coe.int/t/democracy/migration/Source/migration/congress_public_3.pdf

- ❖ [EU wants 'entrepreneurship' in education systems](https://euobserver.com/education/140591)

<https://euobserver.com/education/140591>

Keywords

Opportunity

Viability

Idea

Entrepreneur

Environment

«An idea that is not dangerous is unworthy of being called an idea at all».

Oscar Wilde


Tasks (Lesson 1)

Find 5 business plans and do the following tasks:



1. Identify common issues that are covered in the five plans.
2. What are the differences?
3. Choose the one that you think is best written and explain why you believe that it is better than the others.

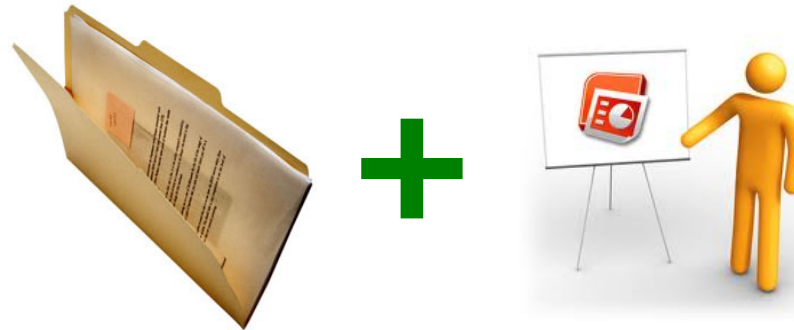
Talk to 5 entrepreneurs and ask them why they have (or haven't got) a business plan. For those who do have a business plan, find out:



1. When they wrote it
2. For what purpose they wrote it
3. If they have used it and
4. If the plan has been updated

Project guiding notes – Basic outline

1. General description of the idea. *How did I come up with the idea (opportunity, failure, inefficiency)?*



«I hear and I forget, I see and I remember, I do and I understand».

Confucius

Case studies (Lesson 1)

Lesson 1 The decision to set up a business
adapted from <http://businesscasestudies.co.uk>


Teaching youth to build businesses A NFTE-UK case study

Introduction

5 Many people dream of owning their own business and being their own boss, but most hesitate to take the plunge. Like them, you may worry that you don't have enough money, time, or experience to operate your own small business.

Michelle Araju insists there is always time, as a single mother and full-time college student. Michelle should know, because at 19 she started her own business while attending college and caring for Angela, 3, Erica, 18 months and newborn son, Kristian.

10 Before starting her clothing re-sale company, *A La Mode Fashions*, Michelle knew nothing about business and had little money. Today, she's a successful entrepreneur and a prime example of a young American who has benefited from the good work of NFTE.



15 NFTE (pronounced 'nifty') is the National Foundation for Teaching Entrepreneurship. It is an international, non-profit charitable organization which introduces low-income teenagers to entrepreneurship, teaching them to develop and run their own small businesses.

NFTE students learn to set up and run their own enterprises. They have role models like Michelle, Bill Gates of Microsoft who tried his first business at 13 and founded Microsoft at the age of 19 and Berry Gordy. Raised in a tough Detroit ghetto, Berry set up the Motown Record Company, which discovered artists such as Michael Jackson and Stevie Wonder. Michelle, Bill Gates and Berry Gordy are all entrepreneurs who have created successful businesses. Whether small businesses or harvest/fast growth enterprises - each is valuable to merging creative interests and passions with financial reward for the entrepreneur, co-workers and the community.

25 This case study shows how many young people in the United States have been encouraged to improve their numeracy, literacy and communication skills by learning through 'enterprises'. NFTE is a world leader in the field of youth entrepreneurship with its UK headquarters based at Regents College, Regents Park, London.

30 **Vision**

NFTE's vision is to foster economic self-sufficiency among children/teens in need worldwide. Its mission is to provide excellent curriculum, teacher certification and alumni/graduate support. Educational research shows people learn best when introduced to new ideas in a meaningful context. If they can see the value of what they are learning and relate it to their own interests, their motivation is far greater.

35 The driving force behind the US development of NFTE was Steve Mariotti. With experience of business and working with young people, he identified entrepreneurship as an opportunity to capture the imaginations of deprived young people. Steve studied economics before working at Ford Motor Company but found working for a large company restrictive and set up his own successful import/export business. During this period Steve had a life changing experience. He

40

Lesson 1 – Deciding whether or not to start a business. *Case Study 1* (PDF).

Lesson 1 The decision to set up a business
adapted from <http://businesscasestudies.co.uk>

Creating an entrepreneurial partnership. A Boots case study

Introduction

5 Cosmetics is a huge and fast growing industry comprising fragrances, traditional cosmetics, beauty and skin-care preparations as well as many different hair care and toiletry products.

Brands play a key role within this industry. Through names, terms, signs or symbols, brands provide a product with an identity. Though brands encourage loyalty and make repeat purchasing easy, educated and progressive consumers are increasingly seeking the latest innovations.

10 This case study focuses upon the Ruby & Millie brand. The unique positioning feature of this brand is the personal profile of the two gifted entrepreneurs, Ruby and Millie. Ruby is an experienced make-up artist to supermodels. Millie Kendall is a high-powered beauty publicist and has widespread experience of the beauty industry.

Developing the idea

15 One key feature of an entrepreneur is creativity and having good ideas. When you have a good idea and think that the goal is achievable, it is important to accept that challenge and have the confidence to follow it through.

Ruby and Millie have considerable creative energy and enthusiasm that complements their experience of the beauty industry. Knowing the industry well, they identified a gap in the market from which they developed an idea for a new range of personality-driven make-up products, but then they faced with the challenge of translating their creative and fashion skills into production.

20 Developing a business idea into reality requires considerable energy, planning and attention to detail. It also requires belief and commitment in all that you are doing. The husband of Ruby suggested that they approach Boots The Chemists with their idea. Neither Ruby nor Millie had previous experience of translating their creativity and fashion skills into mass production. Boots The Chemists and Boots Contract Manufacturing had no previous experience of dealing with make-up artists and beauty publicists.

25 It is unusual for large organisations to enter into entrepreneurial partnerships with enterprising individuals but, after considerable discussion, Boots The Chemists reached an agreement with 30 Gram for Boots Contract Manufacturing to develop and manufacture the make-up range and for Boots The Chemists to market and distribute it. The result was a steep learning curve for all! A business agreement had been reached between a corporate giant and two aspiring entrepreneurs.

30 **Creating a niche brand**

35 A niche brand is one that specialises in meeting the needs of customers in a particular market position. A niche brand only succeeds if the company has in-depth knowledge of the target group so its needs can be served more precisely.

Lesson 1 – Deciding whether or not to start a business. *Case Study 2* (PDF).