Entrepreneurship

Starting and Operating a Business

Gabe Burton

Entrepreneurship: Starting and Operating a Business

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Published by The English Press,
5 Penn Plaza,
19th Floor,
New York, NY 10001, USA

ISBN: 978-1-9789-7378-7

Cataloging-in-Publication Data

Entrepreneurship : starting and operating a business / Gabe Burton.
p. cm.
Includes bibliographical references and index.
ISBN 978-1-9789-7378-7
1. Entrepreneurship. 2. Business incubators. 3. Business. I. Burton, Gabe.
HB615 .E58 2021
338.04--dc23

Contents

Preface

The process of designing, launching and running a new business is referred to as entrepreneurship. It involves the capacity and willingness to develop, organize and manage a business. Some of the other roles which fall under the umbrella of entrepreneurship are developing a business plan, providing leadership, hiring human resources and averting risk. Entrepreneurship is broadly divided into a few categories such as ethnic entrepreneurship, institutional entrepreneurship, cultural entrepreneurship, feminist entrepreneurship, project-based entrepreneurship and nascent entrepreneurship. There are various strategies which are used by different entrepreneurs such as use of technology, use of business intelligence and innovation of new products, services or processes. This book is a valuable compilation of topics, ranging from the basic to the most complex theories and principles in the field of entrepreneurship. Some of the diverse topics covered in this book address the varied branches that fall under this category. Coherent flow of topics, student-friendly language and extensive use of examples make this book an invaluable source of knowledge.

Given below is the chapter wise description of the book:

Chapter 1- Entrepreneurship refers to the capacity and willingness to organize, develop and manage a business venture with the risks involved in order to make a profit. There are a number of different types of entrepreneurships such as private entrepreneurships and joint entrepreneurship. The chapter briefly examines these types of entrepreneurships to provide a broad understanding of the subject.

Chapter 2- There are different types of entrepreneurs such as trading entrepreneurs, manufacturing entrepreneurs and agricultural entrepreneurs. The chapter closely examines the key concepts related to these types of entrepreneurs as well as their functions and challenges to provide an extensive understanding of the subject.

Chapter 3- The steps which are taken for establishing a new enterprise comprise the entrepreneurial process. It involves a number of steps such as evaluating opportunities, acquiring new customers and arranging the resources which are needed to start the business. This chapter discusses in detail these stages related to the entrepreneurial process.

Chapter 4- The conceptual structure which supports the feasibility of a product or company and explains how the company operates, makes profit, and how it plans to achieve its goals is called a business model. The topics elaborated in this chapter will help in gaining a better perspective about different types of business models such as franchise business model and affiliate business model.

Chapter 5- The proactive identification and utilization of opportunities in order to acquire and retain profitable customers is known as entrepreneurial marketing. It is accomplished through innovative approaches for resource leveraging, risk management and value creation. This chapter discusses in detail the different techniques used in entrepreneurial marketing.

Chapter 6- The process of preparing a plan which contains the goals for the business, the methods to be used for achieving them as well as the time frame to accomplish them is called business planning. There are a number of different types of business analyses such as SWOT analysis and broad factors analysis. This chapter discusses business planning and types of business analyses in detail.

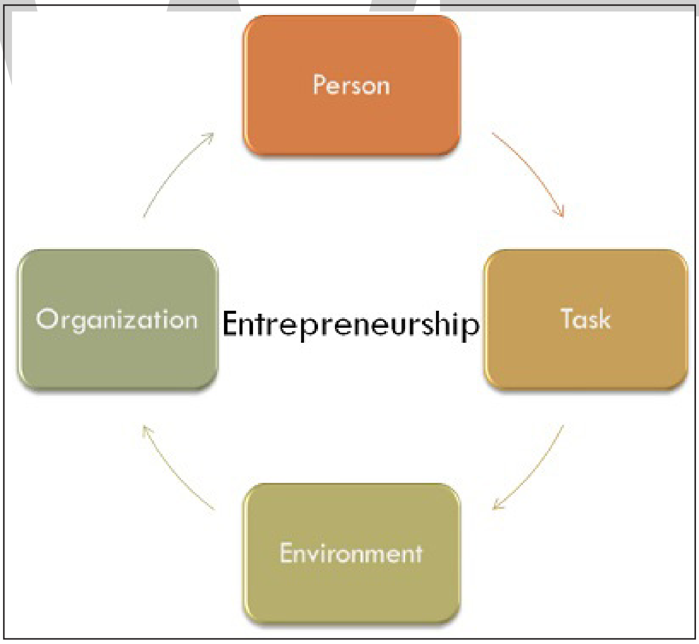
Indeed, my job was extremely crucial and challenging as I had to ensure that every chapter is informative and structured in a student-friendly manner. I am thankful for the support provided by my family and colleagues during the completion of this book.

Gabe Burton

Entrepreneurship: An Introduction

Entrepreneurship refers to the capacity and willingness to organize, develop and manage a business venture with the risks involved in order to make a profit. There are a number of different types of entrepreneurships such as private entrepreneurships and joint entrepreneurship. The chapter briefly examines these types of entrepreneurships to provide a broad understanding of the subject.

Entrepreneurship refers to the process of creating a new enterprise and bearing any of its risks, with the view of making the profit. It is an act of seeking investment and production opportunity, developing and managing a business venture, so as to undertake production function, arranging inputs like land, labour, material and capital, introducing new techniques and products, identifying new sources for the enterprise.



Conceptual Model of Entrepreneurship.

The person who creates a new enterprise and embraces every challenge for its development and operation is known as an entrepreneur. And the undertaking or organisation, typically a startup company, set up by the entrepreneur is called enterprise.

Characteristics of Entrepreneurship

- Economic Activity: Entrepreneurship is an economic activity, as it involves designing, launching and running a new business enterprises in order to earn the profit, by ensuring best possible use of resources.

- Creativity and innovation: It involves discovering new ideas and implementing it in business. The entrepreneur continuously evaluates current modes of running a business and identifies new methods and techniques for operating the business more efficiently and effectively.
- Profit: The activity of entrepreneurship is undertaken with the sole objective of making the profit. It is also the reward of the efforts made and risk taken by the entrepreneur.
- Risk Bearing: “Willingness to assume the risk” is the essence of entrepreneurship without which he/she cannot succeed. It occurs due to the creation and implementation of new ideas. Such ideas are often uncertain, and so the result may or may not be positive and instant.

Skills Required in Entrepreneurship

- Technical Skills: Oral Communication, ability to organise, productive ability, technical business management, coaching, network building, monitoring environment, ability to spot new trends, active listening, writing and interpersonal skills.
- Business Management Skills: Forecasting, planning, budgeting, decision making, negotiation, goal setting, human relations, marketing, finance, etc.
- Personal Skills: Ability to manage change, leadership, persistence, self-reliance, foresightedness, innovativeness, risk taking, self-reflection, discipline, self-confidence, honesty, patience, intelligence, tactfulness, emotional stability, etc.

Entrepreneurship Ecosystem

Entrepreneurship operates under an ecosystem called as entrepreneurship ecosystem. The ecosystem comprises of government programs and schemes which encourage entrepreneurship, non-governmental organisations that provide advisory services to entrepreneurs, and other organisations which promote and support entrepreneurship directly or indirectly.

Entrepreneurship is not confined to starting a new business but it about facing challenges at each step. It is an important tool for bridging the gap between science and marketplace, wherein a new enterprise is formed and new products and services are brought to the market.

Types of Entrepreneurships

Private Entrepreneurship

When an individual or group of individuals start a business, takes risks and initiates innovations in the private sector it is called private entrepreneurship.

The main object of such entrepreneurs is the earn profits. Development of such entrepreneurs has been possible, due to private enterprise. Private Entrepreneurship is popular in England, America, Germany, Japan and France etc.

Government or Public Entrepreneurship

When the government starts business enterprises in government or public sector for public welfare and takes risks related to them, it is known as government or public entrepreneurship.

Such types of entrepreneurship are visible in socialist and Communist countries, like Russia, China and Yugoslavia etc.

Joint Entrepreneurship

When private and government ownership is jointly involved in any Enterprises or business, it is called joint Entrepreneurship.

Following are the salient features of such Entrepreneurship:

- This is the mixed form of private and government ownership.
- This system provides opportunities for investment to the entrepreneurs of the private sector, but the main role is of the governments, meaning thereby that the government makes an investment, jointly with private entrepreneurs and public in certain preparation.

Cooperative Entrepreneurship

When several people collectively establish enterprises, bear risks and carry out innovations on the Cooperative basis, it is known as Cooperative entrepreneurship. Then the main object of such Entrepreneurship is to encourage spirit of self-independence and mutual welfare among the citizens.

Traditional or Evolutionary Entrepreneurship

When the production in any enterprise is on the basis of traditional methods, the pace of changes is very slow and attention is not paid on research and development activities, it is known as traditional entrepreneurship.

The main features of such types of entrepreneurship are as follows:

1. The traditional entrepreneurs believe in the natural pace of development.
2. They do not like to take excessive risks.
3. They pay attention to innovations.
4. Such entrepreneurs do not prefer having any new thing or installing new machinery etc.
5. Such entrepreneurs have the tendency to enter only into existing industries.

Modern or Revolutionary Entrepreneurship

In contrast to traditional entrepreneurship, when the entrepreneurs formulate schemes involving high risks, take brave decisions and use new techniques of production and expand the enterprise with fast speed, such entrepreneurship is called Revolutionary entrepreneurship.

Some countries like Russia, China, and Eastern Europe etc. have the highest level of their Industrial development only through revolutionary entrepreneurship.

Centralized Entrepreneurship

When most of the Enterprises tend to be established in one place or area. Due to the availability of basic infrastructure facilities, like water, electricity, roads, means of transportation, communication. Favorable location and due to the establishment of earlier units at the place etc. Such Entrepreneurship is called centralized entrepreneurship.

In other words, when even the new entrepreneurs also prefer to establish the industries or doing some other works in the industrially developed areas, to take advantages of available facilities, this is known as centralized entrepreneurship.

From the viewpoint of economics, the profitability of centralized entrepreneurship is only up to a certain extent. Thereafter, several problems and obstacles arise.

Decentralized Entrepreneurship

When the entrepreneurs establish enterprises at various places, parts, and areas of the country, that is known as decentralized entrepreneurship.

Such types of entrepreneurship aim at planned development, development of backward areas, Employment generation and equitable distribution of income and wealth.

The governments provide various facilities, subsidies, and motivations for encouraging decentralized entrepreneurship. As a result, overall development of the society is facilitated.

Small Entrepreneurship

The enterprise in which the production system is simple, capital investment, number of workers and the size of the enterprise is small, that is known as the small entrepreneurship.

Following are the features of small entrepreneurship:

- Small entrepreneurship is labour intensive.
- This is the important base of decentralization of economic power, self-reliance, employment, balanced regional development and proper use of local resources.

- Small entrepreneurship is used for the operation of rural and small industries. Development of rural and cottage industries in the country is facilitated by small Entrepreneurship and local people are the benefit of better employment opportunities.

Large Entrepreneurship

As against small entrepreneurship, when the production system is complicated, a higher amount of capital is invested, the number of workers is more, size of the enterprise is big, production is in large quantity, modern and machinery and techniques are used and Enterprises is operated by professional manager, that is called large entrepreneurship.

Large entrepreneurship, on the one side, provides employment to a large number of people, but on the other side, it also encourages monopolies and other evils, which are not conducive for the society and economy.

Routine Entrepreneurship

Routine entrepreneurship implies managerial functions, like planning, organization, direction, motivation, and control etc. Which are essential parts of the day to day activities?

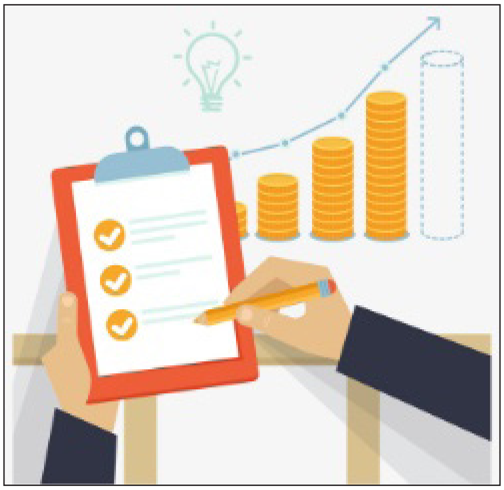
In other words, it includes successful management of the enterprise, through suitable planning, decisions, and programmes, as the main functions. Routine Entrepreneurship aims at the operation of the enterprise at the lowest cost and with the lowest risks.

New Type Entrepreneurship

The new types of entrepreneurship mean innovative or creative entrepreneurship. Such types of entrepreneurship include creation and implementations of new ideas, a search for new opportunities, use of new techniques and machinery, and production of new commodities etc.

Individual Entrepreneurship

When all functions of Management and operation of any business are performed only by one single individual, it is called as individual entrepreneurship.



In other words, the entrepreneur who performs the following functions is called individual leadership:

1. Taking all decisions regarding production and distribution of commodities.
2. Leadership and control of the enterprise are only in the hands of an individual.

Such types of entrepreneurship are only possible in small industries and not in large industries.

Group Entrepreneurship

Such entrepreneurs are called 'promoters' also. In such entrepreneurship, leadership is transferred from one individual to the organized group of experts. So it is called group entrepreneurship.

Following are the salient features of group entrepreneurship:

- Entrepreneurship is based on 'technical composition' of society.
- This entrepreneurship has emerged, due to various reasons, like production in high volume, the division of labour, mechanization, modernization, etc.
- The person to whom leadership is transferred is usually not the owners of the enterprise.

Group leadership contributes to the fast pace of industrial development. But, such entrepreneurs do not invest capital in backward areas, because they do not visualize any prospects of returns in such areas, due to lack of infrastructural facilities.

Innovative Entrepreneurship

Innovative entrepreneurship implies quick testing of innovations and making efforts to give practical shape to attractive possibilities.

Innovations are of various types:

1. Innovations reducing costs, like the presentation of new production methods, use of new sources of raw material, and adopting new patterns of organization.
2. Innovation generating demand, like the presentation of the new commodity or improved variety of the commodity and entry into new markets.

The entrepreneur adopting aforesaid types of innovations for the first time is called as the entrepreneur with 'innovative entrepreneurship'.

Imitative Entrepreneurship

Imitative entrepreneurship is that in which the innovations adopted by successful entrepreneurs are followed.

Fabian Entrepreneurship

This is entrepreneurship, which waits for favorable and opportunities for implementing the innovations. The person implements them only when he is sure that there is no loss in implementing them.

Drone Entrepreneurship

This is the entrepreneurship which shows no interest in changing any production techniques, etc. and in deducting any profitable innovation, etc. although other entrepreneurs might be subsequently gaining by adopting the innovations and changes.

Urban and Rural Entrepreneurship

When development of entrepreneurship is limited only to cities, it is known as urban entrepreneurship. Such types of entrepreneurship cause various problems, like pollution, overcrowding, slum areas, social offenses, and housing problems, etc.

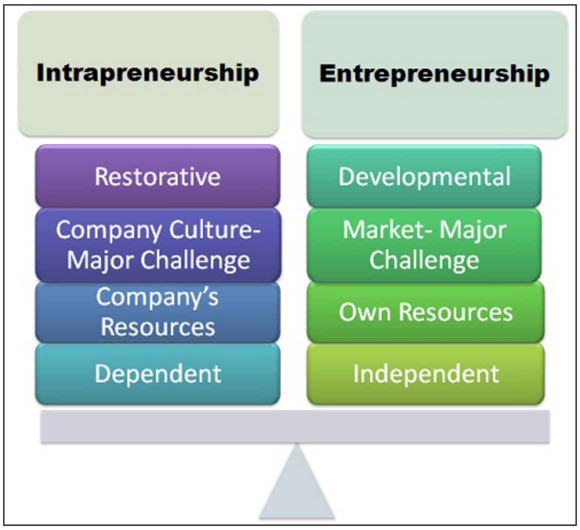
When the Entrepreneurship is developed in small villages and towns, it is known as rural entrepreneurship, which has several advantages, like poverty eradication, economic development of villages and equitable distribution of wealth, etc.

Systematic Entrepreneurship

Systematic entrepreneurship means such entrepreneurship where the innovative system is carried out by the Entrepreneurs and they perform the following functions:

- The search for new customers, new markets and new opportunities.
- They comply with systematic principles.
- They use systematic research technologies.

Intrapreneurship



An Intrapreneurship is the system wherein the principles of entrepreneurship are practiced within the boundaries of the firm. An intrapreneur is a person who takes on the responsibility to innovate new ideas, products and processes or any new invention within the organization.

An intrapreneur is the individual who thinks out of the box and possesses the leadership skills and does not fear from risk. Thus, an intrapreneur possesses the same traits as that of an entrepreneur.

The concept of an Intrapreneurship can be well understood in contrast to the entrepreneurship. Following are the points of distinction between these two terms:

1. Intrapreneurship is restorative in nature, i.e. an organization encourages the employees to practice the entrepreneurial principles to counter stagnation within the firm or transform the slow growth of the company into a high-growth. Whereas the entrepreneurship is developmental in nature, i.e. an individual creates something that has never existed before, such as a new product, process or a new venture itself.
2. In intrapreneurship, the major challenge that individual faces are from the company's culture itself. Sometimes, the corporate relationships and the mindsets of employees acts as a hurdle in the path of an intrapreneur. Whereas, in the case of entrepreneurship, the market is the only enemy. An entrepreneur has to scrutinize the market conditions thoroughly to cross the hurdles coming in his way.
3. An intrapreneur has an access to firm's resources such as funds, manufacturing setups, marketing facilities, and other supporting activities to give shape to his dreams. Whereas an entrepreneur has to arrange his own resources such as own funds or the borrowed funds, manufacturing facilities, marketing facilities, etc.
4. An intrapreneur does not have the ownership of a new venture and is not even independent to take decisions, whereas an entrepreneur is the whole sole owner of the new venture established by him. Also, he is independent to take any decisions with respect to his setup.

Thus, an Intrapreneurship is a practice of creating the entrepreneurial environment within the organization, thereby enabling the employees to apply their entrepreneurial skills in the job roles; they are assigned to.

Startup Business

A startup is a business venture founded by one or more entrepreneurs to develop a unique product or service and bring it to market. By its nature, the typical startup tends to be a shoestring operation, with initial funding from the founders or their families.

One of the startup's first tasks is raising a substantial amount of money to further develop the product. In order to do that, they have to make a strong argument, if not a prototype, that supports their claim that their idea is truly new or better than anything else on the market.

In the early stages, startup companies have little or no revenue coming in. They have an idea, and they have to develop it, test it, and market it. That takes considerable money, and startup owners have several potential sources to tap.

- Traditional funding sources include small business loans from banks or credit unions, government-sponsored Small Business Administration loans from local banks, and grants made by nonprofit organizations and state governments.
- So-called incubators, often associated with business schools and other nonprofits, provide mentoring, office space, and seed funding to startups.
- Venture capitalists and angel investors actively seek out promising startups to bankroll in return for a stake in the company once it gets off the ground.

Valuing the Startup

Startups have no history and less profit to show. That makes investing in them risky. If an idea seems to have merit, potential investors may use any of several approaches to estimate how much money it could take to get it off the ground.

- The cost to duplicate approach looks at the expenses the company has already incurred to develop its product or service and purchase physical assets. This valuation method doesn't consider the company's future potential or intangible assets.
- The market approach considers the acquisition costs of similar companies in the recent past. This approach may be stymied if the startup idea really is unique.
- The discounted cash flow approach looks at the company's expected future cash flow. This approach is highly subjective.
- The development stage approach assigns a higher range of potential value to a startup that is more fully developed. Even if it's not profitable, a startup that has a website and can show some sales and traffic would get a higher valuation than one that merely has an interesting idea.

Because startups have a high failure rate, would-be investors consider the management team's experience as well as the idea. Even angel investors don't invest money they cannot afford to lose.

Characteristics for Successful Startups

Product-Market Fit

Selling a product or service customers actually want is important. The market must be willing and able to pay for what you're selling. Seems straightforward, and obvious, yet many startups struggle with defining their product-market fit.

42 percent of failed startups surveyed attributed their failure to bad market fit. It's safe to assume most of these companies did some kind of research before launching. Unfortunately, that research probably did not cover a wide enough target market base to ascertain an accurate picture of demand.

You may have a product or service that is initially well-received, only to later find out it doesn't have the level of support you need to be successful. Successful startups know that an initial idea or product concept may need to be adjusted as it rolls out. They continuously test their assumptions and change course as needed. The sooner you nail down product-market fit, the better your foundation for success will be.

Small Test Markets

Conversely, just because you've found that your product or service is appealing to a large market, doesn't mean you should tackle it all. At least, not to begin with.

It's counterintuitive: you need a product that covers a large market share, or you'll never be able to scale into a large company. However, start small to fine-tune your process and ultimately get there.

A classic tech example of starting with a small market is Facebook. Mark Zuckerberg infamously launched the site at Harvard, followed by a handful of other Ivy League universities. Later the platform opened its doors to anyone in the country with a. edu email address. Long before Facebook took over the world, the company was constantly innovating and adjusting to feedback.

Passionate about Disruption

Successful startups are based on disruptive ideas. More than a buzzword, disruption is changing the status quo in an existing marketplace.The phrase "disruptive technologies" was coined by Harvard Business School professor Clayton Christensen.

Disruptive technology creates new market and value networks that eventually displace more established ones. Thus, the driving factor of a successful startup is more than someone wanting to be their own boss—it's someone envisioning "a new normal" for their target market. It's that passion that pulls them forward in the face of existing competitors, industry standards, and norms.

Of course, what actually makes an idea disruptive is debatable. Generally, it's something that is simultaneously irritating someone (your competitors), while delighting someone else (your customers).

Company Cultures

Within a company's first two years, 50-to-60 percent of their employees will probably quit, according to Forbes contributor Candida Brush.

It usually comes down to poor management, which directly correlates with culture. Traditionally speaking, a culture is nothing more than a set of beliefs shared by a community. Therefore, an office culture is essentially made up of the assumptions held by management about how (and why) work is done.

Determine the culture of your startup. With the constant pressure to speed up product development and customer acquisition, it's no wonder so many founders neglect culture. Cultivating a strong culture ultimately begins with clarifying your values as a company, and then infusing those values into everything from office policies to work environment. It's for this reason many founders choose shared tech workspaces over traditional office settings. With limited time and resources, infusing yourself within the kind of culture you want to replicate is a smart move.

Feedback

Another quality of successful startups is their ability to adjust to feedback. Whether the feedback comes from investors, advisors, mentors, or customers, successful startups extract value from feedback to help improve their product, service, or business model. Ultimately, it's a balancing act of knowing when to pivot and when to hold your ground.

Savvy founders form connections with mentors and advisors early on, developing relationships with those who came before them to learn from their mistakes and success. One of the best ways to make those connections is via coworking. Set up shop in a tech-centric workspace, and you'll be connected with individuals who understand the challenges you face.

Focus

When starting from the ground up, especially with a small team, it's easy to take on too many projects at once. Unfortunately, this can kill your startup.

As Y Combinator co-founder Paul Graham writes, "Though the immediate cause of death in a startup tends to be running out of money, the underlying cause is usually lack of focus."

One startup who has done a great job staying on track is BlaBlaCar. Unlike Uber, this French startup is meeting a more niche transportation need: carpooling for long distance travel. BlaBlaCar connects drivers with others who are traveling in the same direction—kinda like modern-day hitchhiking. By focusing on their specific niche, the startup raised a $100 million round in 2014, and has now expanded to 20 million users in 18 different countries. By staying focused on their target audience and product, the organization was able to clearly communicate what makes them unique to investors. Translation: rapid growth.

Engaged Communities

Finally, the most successful startups think beyond customer acquisition and work toward community building. Unable to rely on decades of brand loyalty, like their established counterparts, they roll-up their sleeves and engage their target markets.

A great example of community building can be found at Product Hunt. The startup's massive online following came from the company's founder personally engaging with their users on Twitter, and inviting them to join the Product Hunt community when their products appeared on the site.

Starting a New Business

Starting a new business and securing startup capital isn't an easy task. These tips should help encourage you in founding your business the right way:

1. Get experience: Before starting your own company, work for someone else for a short period of time to learn the business that you're interested in before founding your own. This not only gives you more experience as a founder, but will make future investors more confident in your skills.

2. Make a business plan: There are many online forums and websites that offer help and resources for creating business plans. Those resources can be found on angel investor websites and also from SCORE, the Service Corps of Retired Executives.

3. Get sound advice: The first few stages of creating and starting a new business can the most difficult, and good professional advice is key. Advice will cost money, but it will pay off.

4. Build relationships with an attorney, a CPA, and a bank: These are the people who will protect you from mistakes and ensure a long business life. These professional advisors help you to get your business started in the right way.

5. Spend cash: Venture capital backing is very tempting to new companies, but it often means that owners lose their ownership rights and future profits. Venture capital funding is quick money but it may not be worth it long term.

6. Take your time: There's no need to rush the founding of your business. Take your time and work hard. Things will eventually start happening.

7. Stay focused: When starting a new business, it's all about hard work and persistence.

8. Study your loan options: As with the founding of your business, there's no hurry in taking loans or funding. The Small Business Administration can be a great resource when looking for loans and making decisions for the best of your business.

Startup Capital

You need to know many terms when you're seeking startup capital.

Pre-money vs. Post-money Valuation

Valuation is the value of your company. This number is often agreed upon by the company shareholders, but when you're a startup looking for capital, your valuation is whatever you can convince investors it is.

Pre-money valuation is the value of the company prior to your company receiving funding. Post-money valuation is the pre-money valuation plus the new funding you've received.

A company's valuation is important because it determines the equity stake that is given up to the investors.

Convertible Debt

Convertible debt, also known as convertible notes, is a way for a new company to raise funding while avoiding valuation until the company is more mature.

Because valuation allows an investor to own a portion of the company, a young company that needs funding can quickly lose too high a percentage of their stake in the company to investors. Convertible debt often converts from debt into equity during a series a round of funding.

Investors who invest in convertible debt often are rewarded with a discount for investing during the earliest and riskiest stage of business.

Capped Notes vs. Uncapped Notes

A capped round of funding means that there is a ceiling on the valuation that an investor's notes can convert to equity. In an uncapped round of funding, the investor has no guarantee as to how much equity their investment in convertible debt will purchase.

An uncapped note is better for the entrepreneur. An uncapped note helps the entrepreneur maintain more ownership of the company.

Term Sheets

This is part of the investment proposal that an entrepreneur would receive from a venture capital fund. A term sheet is the summary of the terms and desires under which the venture capital fund wants to invest in the entrepreneur's business.

There are some important terms to look for on the term sheet: valuation, option pool size, liquidation preferences, founder revesting, veto rights, preferred type of stock, and the number of board seats.

The terms set out by the venture capital fund are very important to help the entrepreneur decide whether to accept the deal.

Many entrepreneurs consider the valuation to be the most important number on the term sheet. They believe that the higher the valuation, the better the deal. This isn't always the case and shouldn't be the only factor in the decision.

Theories of Entrepreneurship

Schumpeter's Theory of Innovation

Joseph Schumpeter propounded the well-known innovative theory of entrepreneurship. Schumpeter takes the case of a capitalist closed economy which is in stationary equilibrium. He believed that entrepreneurs disturb the stationary circular flow of the economy by introducing an innovation and takes the economy to a new level of development. The activities of the entrepreneurs represent a situation of disequilibrium as their activities break the routine circular flow.

Innovations of entrepreneurs are responsible for the rapid economic development of any country.

Talking about innovation, he referred to new combinations of the factors of production, Schumpeter had assigned the role of innovator to the entrepreneur, who is not a man of ordinary managerial ability, but one who introduces something entirely new.

Innovation could involve any of the following:

- Innovation of new products.
- Innovation in novel methods or processes of production.
- The opening up of a new market.

- Entrepreneurs might find new source of supply of raw materials
- Innovation in management. This means reorganization of an industry.

Let us to understand the meaning of different facets of the term innovation. The introduction of new product means the product which the consumers have not seen and is of a new and better quality and utility. A new method of production refers to a novel process not yet been used in manufacturing and commercial production. This may increase the productivity and lower cost of production.

The discovery of a new market means a new market which may have existed before but was not entered by the enterprise for commercial purposes. A new source of raw material similarly refers to a source or a place which has not been commercially exploited by the enterprises before. Innovation in management refers to reorganization and reconciliation of the position of the enterprise in the industry by building a monopoly like control or dismantling existing monopoly of others in the industry.

Schumpeter was very explicit about the economic function of the entrepreneur, whom he considered as the prime mover in economic development and the entrepreneur's task is to innovate or carry out new combinations.

Schumpeter had differentiated between invention and innovation. We should understand that invention refers to creation of new materials and innovation refers to application of new materials into practical use in industry. Similarly, there is a distinction between an innovator and an inventor. The inventor is the one who invents new materials and new methods. On the other hand, the innovator is the one who utilizes these inventions and discoveries in order to make new combinations.

Bringing about innovations is the main task of the entrepreneur and not the maintenance of the enterprise. Entrepreneurs dream and have a willingness to establish a private kingdom. They enjoy creating and getting things done. These "innovating entrepreneur" has played an important role in the rise of modem capitalism.

Criticisms

Schumpeter's theory has been subjected to the following criticisms:

- Critics feel that the theory over emphasized on innovative functions of the entrepreneur. It ignored the organizing aspects of entrepreneurship.
- Schumpeter had completely ignored the risk-taking function of the entrepreneur, which cannot be ignored. Whenever an entrepreneur develops a new combination of factors of production, there is enough risk involved.
- The theory is more applicable in developed countries only. In developing countries there is a paucity of innovative entrepreneurs.
- The theory does not provide the explanation as to why few countries have more entrepreneurship talent than others.

Despite of all the above criticisms Schumpeter's theory is considered as a landmark in the expansion of entrepreneurship theories.

Max Weber's Theory of Social Change

Max Weber advocated a sociological explanation for the growth of entrepreneurship in his theory of social change. He felt that religion had a profound influence on the growth of entrepreneurship. The religious belief and ethical value associated with the society plays a vital role in determining the entrepreneurial culture.

Max Weber opined that the entrepreneurial energies of a society are exogenously generated and supplied by religious believes. Some religions profess the basic values to earn and acquire money whereas some religions put less emphasis on it. In order to understand the gist of Max Weber's theory we need to understand few fundamental points of the theory.

In his theory spirit of capitalism is a fundamental concept. Capitalism refers to the economic system where market forces of demand and supply are allowed to play freely. As economic freedom and private enterprises are promoted in capitalism, the entrepreneurism is eulogized and entrepreneurial pursuits are encouraged. Spirit of capitalism promotes the entrepreneurs to engage in entrepreneurial pursuits and earn more and more profits.

The urge to acquire money and profits drives the individuals to become entrepreneurs. The spirit of capitalism will be widespread in the society that favours capitalism. Another associated concept was that of adventurous spirit which refers to the impulsive force that influences and promotes entrepreneurism.

The rate of industrial growth depends upon the values professed by the religion of the society. The Protestants had advanced at a faster rate in establishing capitalism in Europe owing to the value system professed by Protestant ethic. Protestant ethic granted them the rational economic attitude, accumulating assets, and permitted them to take pleasure in the material life.

Criticisms

Max Weber had tried and made a commendable contribution in explaining the growth of entrepreneurship.

But, his theory has been challenged and criticized by many researchers and scholars on the following grounds:

- The theory is based on unrealistic and invalid assumptions.
- The theory has been found empirically invalid.
- Max Weber has been criticized by many sociologists on his view on Hinduism and entrepreneurship.
- The views on Protestant ethic were also not completely correct. Capitalism has flourished in regions where Protestant ethic is not present.

Uncertainty-Bearing Theory of Knight

Frank H. Knight (1957) in his book Risk, Uncertainty and Profit regards profit of the entrepreneur as the reward of bearing non-insurable risks and uncertainties. Entrepreneurship is genuinely associated with risk bearing. Knight had distinguished risk into insurable risks and non-insurable risks.

The Underling Concept of Risks: There are certain risks that are measurable and the probability of such risk can be statistically estimated and hence such risks can be insured. Example of insurable risks include theft of commodities, fire in the enterprise, accidental death etc. On the other hand, there are certain risks which cannot be calculated.

The probability of their occurrence cannot be statistically ascertained. Such risks include risks associated to changes in prices, demand and supply. These risks are non-insurable. Prof. Knight opined that the profit is the reward for bearing the non-insurable risks and uncertainties.

Uncertainty-bearing is one of the most vital functions in a dynamic economy. The entrepreneur bears the uncertainty involved in the enterprise. The expectation of profit is the supply price of the entrepreneurial uncertainty bearing exercise. In a state of economy (competitive) where there is no risk, every entrepreneur will have a minimum supply price.

If the reward allocated to the entrepreneur is below it, the entrepreneurs will abstain from providing their entrepreneurial services. The existence of uncertainty tends to raise the minimum supply price. The entrepreneurs expect a level of profit for bearing the uncertainty.

The salient points of Knight's theory include:

- According to the theory, the entrepreneur earns pure profits for bearing the uncertainty.
- The probability of uncertainty or non-insurable risks cannot be statistically estimated.
- Entrepreneurs undertake risks of varying degrees according to their ability ad inclination. The theory suggests that the more risky the nature of enterprise, the higher level of profit earned by the entrepreneurs.
- Profit is the reward of the entrepreneur for bearing uncertainties and risks. Hence, it should be a part of the normal cost.
- The reward of the entrepreneur is uncertain. Entrepreneur guarantees interest to lender of capital, wages to workers and rent to the landlord.
- The level of uncertainty in business can be reduced by applying the technique of consolidation. The total level of uncertainty can be reduced by pooling individual instances.

Criticisms

F.H. Knight's theory is one of the most sophisticated theories to explain supply of entrepreneurship based on profit. But, the theory suffers from certain drawbacks as pointed by the critics:

- The role of an entrepreneur has not been elaborately provided by the theory. The entrepreneur's activity has been restricted to uncertainty bearing. Modern business activities are different. Often, there is a dichotomy between ownership and management. These factors have not been taken into consideration.
- The uncertainty-bearing theory discussed the concept of profit in a vague way. The exact estimation of profit for the entrepreneur has not been provided in the theory.

- Profit as a residual income of the entrepreneur has been criticized.
- Critics feel that uncertainty-bearing should not be treated like other factors of production like land, labour and capital. It is a psychological concept and should be treated in a different manner.

Theory of Frank Young

A Micro-sociological interpretation of entrepreneurship as coined for the theory propounded by Frank Young emphasizes that the entrepreneurial initiatives are conditioned by group level pattern. Young rejected the psychogenic interpretations of entrepreneurship. He considered the solidarity groups responsible for building entrepreneurship.

We shall try to understand his theory by studying the various specific elements attached to this theory.

Frank Young opined that the entrepreneurial characteristics are observed in clusters, ethnic groups, occupational groups and groups with political orientation. Entrepreneurism at the individual level is the manifestation of the group level pattern. Young disapproves the notion of an entrepreneur working individually. The entrepreneur functions as a member of a group.

The entrepreneurial initiatives and actions are the outcome of the experiences and exposures of an individual entrepreneur as a member of a particular group, the family background of the entrepreneur and the manifestation of the general values of the group. The economic problems faced by the individual entrepreneurs are mitigated by the solidarity of entrepreneurial groups. The individual entrepreneurs enjoy the confidence of their association with the solidarity groups which help the individual entrepreneurs to overcome any sort of economic problems.

Frank Young deduced the group level pattern behaviour exhibited by the entrepreneurs on the basis of his test known as Thematic Appreciation Test (TAT) on groups of entrepreneurs.

The Young's theory includes the idea of reactive subgroups. These reactive sub-groups play an important role in enterprise creation. The reactive groups crop up whenever a group experiences low status recognition, limited or no access to social networks and have better institutional resources as compared to other groups in the society at the same level.

Economic Theory of Entrepreneurship

G.F. Papanek and J.R. Harris were of the view that economic incentive is the main factor that influences entrepreneurial activities. Economic gains spontaneously develop the willingness among the entrepreneurs to undertake diverse entrepreneurial initiatives. The relationship between an individual's inner urge and the desired economic gains has a profound influence in the development of entrepreneurial competencies. Entrepreneurship development and economic growth takes place whenever certain economic conditions are favourable.

Mark Casson Theory

Mark Casson's theory is an original synthesis of other approaches. Mark Casson in his book 'The entrepreneur- An Economic Theory', published in 1982, talks about the entrepreneur. According to Mark Casson the Entrepreneur might be a property developer, a small businessman or just someone who knows how to 'turn a fast buck'. His book as expressed by Mark Casson endeavoured to provide a balanced view on the topic of entrepreneur.

Mark Casson felt that there was no established economic theory of the entrepreneur. Except for the discipline of Economics, all the social sciences had a definition of entrepreneur. He felt that there were two main reasons for the non-existence of an economic theory of the entrepreneur. These reasons were related to the limitations of the two main schools of economic thought prevalent at that point of time. First reason was that the neoclassical school of economics made extreme assumptions regarding the access to information.

The second reason was that the Austrian school of economics was committed to extreme level of subjectivism. This made the formulation of predictive theory of the entrepreneur impossible. The Mark Casson's book the theoretical reconstruction proceeds on two fronts. The first is to recognize that individuals differ not only in their tastes but in their access to information.

Individuals with similar taste but with different information may take different decisions. The entrepreneur exhibits this phenomenon. The entrepreneur will decide in one way which would be very different from what everyone else would decide. The entrepreneur considers that the totality of the information available to him/her with respect to some decision is unique. The entrepreneur's perception of the situation has a profound influence on the allocation of resources. The entrepreneur expects to earn profit from the difference in perception by 'taking a position' vis-a-vis other people.

Many of the predictions of the economic theory of entrepreneurship come from considering the tactical aspects of the strategy of the entrepreneur. The second area of reconstruction stems from recognition of the difficulty that is inherent in organizing a market. Mark Casson suggested that unlike neoclassical assumptions in reality transaction involves a significant resource cost. It is important for the entrepreneur's success that the entrepreneur minimizes the transaction cost incurred in establishing any given volume of trade.

Mark Casson has presented his book on Entrepreneur- An economic theory in fifteen chapters. Mark Casson had attempted to converge the two different approaches associated with the entrepreneurship theory. The functional approach was adopted by the economists and the indicative approach adopted by economic historians. The entrepreneur is defined as someone who specializes in taking judgmental decisions about the coordination of scarce resources.

Kunkel's Theory

John H. Kunkel had built up his theory on the edifice of entrepreneurship supply. He was of the opinion that the sociological and psychological factors influence the emergence of entrepreneurs.

Supply of entrepreneurs has a functional relationship with the social, political and economic structure. In order to understand Kunkel's theory, let us understand few concepts associated with his theory.

In an economy, the supply of entrepreneurship depends on the following structures existing in the economy:

Demand Structure: This refers to the demand situation prevailing in the economy. The entrepreneurs expect rewards for their contributions and their behaviour is influenced by the rewards. The demand structure of an economy can be enlarged by rewarding the entrepreneurs with material rewards for their entrepreneurial activities.

Limitation Structure: This structure influences the entrepreneurs and other members of a society. The society in this structure restricts specific activities. The entrepreneurs and the other members come within the ambit of this structure.

Opportunity Structure: This structure is regarded as one of the most significant structure that influences the supply of entrepreneurs in an economy. This structure includes the existing market structure, the available managerial and technical skills, information about production techniques, supply of labour and capital.

Labour Structure: This structure relates to the availability of skilled labour willing to work. The labour structure in influenced by number of factors like the mobility of labour, available alternatives of employment, level of traditionalism and prevailing work culture.

In Kunkel's theory, the conditioning procedure is a major determinant of the activities of the individuals. The behaviour of the individuals is highly subjected to the conditioning procedure surrounding the environment of the individuals. To influence and alter the individuals' activities there is a need to change certain factors of situation that influences the conditioning.

Criticisms

Kunkel's theory despite of great recognition is criticized on the following grounds:

- The theory is based on unrealistic postulates.
- The different structures that influence supply of entrepreneurship are not that simple.
- The theory of Kunkel tried not consider the ambiguous concepts like values, personality etc.

Hoselitz's Theory

Hoselitz's theory emphasized that the cultural factors and the role of culturally marginal groups in entrepreneurial development. In his theory, Hoselitz had highlighted the importance of the culturally marginal groups in development of entrepreneurship and their contribution to economic development of the economy. The marginal groups are the minorities in the society and they yearn to elevate their conditions and in the process promote economic development.

In several countries the entrepreneurial aptitude are associated to persons of particular socio-economic classes. The importance and contribution of the culturally marginal groups like Lebanese in West Africa; Jews in Europe towards the economic development of those regions reflect the gist of the theory.

Hoselitz opined that the marginal men placed in an ambiguous position and therefore they are best suited to make creative adjustments in situations of change. They bring about genuine adaptations in their behaviours. They become entrepreneurs and promote economic development.

Cochoran's Theory

Thomas Cochran in his theory had tried to discuss the supply of entrepreneurship from the sociological point of view.

We can understand the crux of his theory by discussing some of the principle elements of his theory. Cochran had suggested that the cultural values of a society, social expectations and role expectations play an important role in determining the supply of entrepreneurs. The basic problems associated with economic development include non-economic issues. The social factors are responsible in determining the entrepreneurial dynamism and the supply of entrepreneurs.

As far as the entrepreneur is concerned, Cochran opined that the entrepreneurs are not extraordinary persons or super normal persons and they are not abnormal individuals deviant from the society. Rather the entrepreneurs represented role models of the society. An entrepreneur represents a society's model personality.

The entrepreneur plays an important social role. The role played by the entrepreneur is highly influenced by the model personality that crops up depending on the social conditioning. The role of an entrepreneur is defined by the defining group in corporate world which include the members of board of directors and other top officials.

Cochran was of the opinion that the intrinsic character and behaviour of the executive is highly dependent and conditioned by the type of childbearing and schooling. Thus all social and cultural factors play an important role in influencing the expectation levels, personality, behaviour of everyone in the society and entrepreneur's role specially.

The level of dynamics associated with entrepreneurial depends on social factors. These factors result in major changes. The model of Cochran was built on American experience of entrepreneurial dynamism. In the nineteenth century, American economy had experienced major changes as a result of the dynamism exhibited by the entrepreneurs.

Thomas Cochran held the view that the factors having a profound influence on the performance of the entrepreneurs include- First, the attitude of a person towards his/her own occupation. Second, the role expectations conceived and expected by the sanctioning group. And third, the operational requirements of the concerned job.

Criticisms

Cochran's theory despite having earned high appreciations has been criticized on the following counts:

- The theory doesn't provide a satisfactory explanation of the supply of entrepreneurs in an economy.
- The theory concentrates only on the social factors and their impact.

- The theory ignores the influence of important elements like risk, profit and innovation.
- The multiple roles associated with the entrepreneur have not been focused in the theory.

E. E. Hagen's Theory

E. Hagen in his theory had accredited the withdrawal of status respect of a group as the starting point for entrepreneurship development process. Before we discuss the concept of withdrawal of status respect let us try to consider the various crucial facets of the theory.

The theory is based on a general model of the society. His theory viewed the entrepreneur as a trouble shooter who contributes to economic development. The creativity of the entrepreneur brings about social transformation and economic development. Economic growth is associated with the social and political changes. He didn't encourage the entrepreneurs to imitate other's technology.

Hagen had ascribed the genesis of entrepreneurship to withdrawal of status respect of a group. The social group that experiences the withdrawal of status respect engulfs itself into aggressive entrepreneurism. In such a situation the status loosing group and the members of status loosing group endeavour to regain their status by undertaking rigorous entrepreneurial drive.

Hagen had suggested the events that could create as well as indicate withdrawal of status respect of a social group. First, dislodgment of a traditional elite group from its prior status, Second, defamation of valued symbols through some change in the attitude of the superior group. Third, Unpredictability of status symbols in the changed allocation of economic power. Fourth, when social group doesn't enjoy the expected status when it migrates to a new society.

There four possible reactions to the withdrawal of status respect which relates to four different personality types:

- The retreatist – An individual who works in the society but is indifferent to the work and position.
- The ritualist – An individual who works in the manner accepted and approved by the society but has no hopes of improving his/her position.
- The reformist – An individual who fights against the injustice and tries to rebels against the established society in order to form a new society.
- The innovator – An individual who endeavours to bring about new changes and utilizes all opportunities. This personality reflects the personality of an entrepreneur.

Criticisms

- The theory lacks general application. It is not always true that all the social groups have behaved in the manner as advocated in the theory.
- The theory ignores the various other factors accountable for development of entrepreneurship.

Leibenstein's Theory

The concept of X-efficiency was introduced by Harvey Leibenstein a noted economist in1966 in his article titled "Allocative efficiency vs. X-efficiency". This is also referred to as X-inefficiency. In general X-inefficiency refers to the difference between the optimal efficient behaviour of business in theory and the observed behaviour is practice which occurs owing to different factors.

X-efficiency refers to the effectiveness with which a given set of inputs are used to produce outputs. If a particular firm is producing the maximum output it can, given the resources it employs with the best available technology, it is said to be technical-efficient. X-inefficiency occurs when technical-efficiency is not achieved. Whenever an input is not used effectively the difference between the actual output and the maximum output attributable to that input is a measure of the degree of X-efficiency.

Harvey Leibenstein had mentioned that for allocative efficiency the whole economy was considered whereas in case of X-efficiency just specific companies and industries are to be considered.

X-efficiency arises either because the firm's resources are used in the wrong way or because they are wasted, that is, not used at all.

The entrepreneur has been entrusted two roles; first the role of a gap filler and second an input completer. The production function usually has certain deficiencies. These deficiencies and gap arise because all the factors of production function cannot be marketed. The entrepreneur has been entrusted the job to fill the gaps in the market. The second role of the entrepreneur is input completion. The entrepreneur has to mobilize all the available inputs in order to improve the efficiency of existing production methods.

Leibenstein advocated two types of entrepreneurship. First type is the 'Routine entrepreneurship' which involves the important functions of management of business. Second type is that of the 'New entrepreneurship' which involves innovative entrepreneurship.

Criticisms

The Leibenstein's theory has been often compared with the neoclassical views.

The theory has many novel contributions but has been criticized on following counts:

- The exact influence which the X-efficiency has on output of an organisation cannot be determined.
- The theory is less predictable as compared to normal theories.

M. Kirzrier's View on Entrepreneurship

Israel Meir Kirzner, an American economist has made remarkable contributions towards entrepreneurship. He has contributed many books. His ideas and theory on entrepreneurship can be understood by the going through his book 'Competition and entrepreneurship' published in 1973. There are six chapters. The second chapter is devoted to discuss the topics like nature of entrepreneurship, the different facets of entrepreneurs, entrepreneurial profits.

The basis of Kirzner's idea of entrepreneurship is spontaneous learning. The simplest situation in which spontaneous learning can occur is a Crusoe situation. Further, Kirzner calls the state of mind that enables spontaneous learning to occur alertness.

Kirzner introduces the notion of the pure entrepreneur by saying that there are two distinct ways in which this notion enters the analysis of the market process: First, by means of contrast with Robbinsian economizers, and Second, through the alertness.

According to Kirzner, the pure entrepreneur is "a market participant whose decisions are entirely incapable of being subsumed under the category of Robbinsian economizing." And the pure entrepreneur is "a decision-maker whose entire role arises out of his alertness to hitherto unnoticed opportunities."

Kirzner's notion of entrepreneurship as equilibrating combines three ideas. The first is that subconscious learning is equilibrating to the isolated actor. The second is that subconscious learning about arbitrage opportunities is equilibrating in markets. The third is that subconscious learning would lead to a general equilibrium if there were no changes in the non-entrepreneurial determinants of demand and supply.

Baumol's View on Entrepreneurship

William J. Baumol a noted economist had made significant contributions towards the theory of entrepreneurship. He has many articles like 'Entrepreneurship in Economic Theory', 'Entrepreneurship: Productive, Unproductive, and Destructive' to his credit that reflects his notion on entrepreneurship.

Baumol discussed role of entrepreneur. He felt that the role of the entrepreneur is vital to economic growth. Baumol's approach to entrepreneurship within the economy shows that the entrepreneur is basically nonexistent in the models of economics. He stated that the entrepreneur has been read out of the model because the economic models are based on well-defined variables like output and price. There is no scope for analyzing the issues related to like inventiveness, cleverness, ambition of the entrepreneur in the models. He opined that theories won't be able to portray the function of entrepreneurial activity.

Again in an article Baumol laid out a simple hypothesis. He stated that the total supply of entrepreneurs varies across the societies. Moreover, the productive contribution of the society's entrepreneurial activities also varies due to allocation of their activities into productive and unproductive activities.

Peter Drucker's View on Entrepreneurship

Peter Ferinand Drucker was an Austrian born American multifaceted management consultant, author, professor who described himself as a social ecologist. Drucker's book Innovation and Entrepreneurship published in 1985 is a great contribution. Peter Drucker regards the definition of J. B. Say on entrepreneur. J.B. Say was of the opinion that the "entrepreneur shifts economic resources out of an area of lower and into area of higher productivity and greater yield."

Peter Drucker viewed the entrepreneur as a unique agent of change. Drucker writes that "the entrepreneur always searches for change, responds to it, and exploits it as an opportunity."

In his book "Innovation and Entrepreneurship", Peter Drucker offers guidelines on how entrepreneurs can become innovative. Drucker opined that successful innovation practices are result of systematic hard work. Drucker introduces systematic innovation as a framework for exploiting innovative opportunities.

He also considered that the entrepreneurial society is the outcome of innovative entrepreneurship combined with government facilitation.

Drucker takes the instance of the United States of America as a successful entrepreneurial economy. He has separately dealt with three branches- existing business, public service institutions, and new ventures.

Challenges of Entrepreneurship

Growth of the Enterprise

With the growth of a business and increase, in its size and complexity, there is need to delegate authority, provide thorough, personalised training to employees and focus on coordinating their efforts. Over time, it is observed that in a changed situation, the very skills that brought the company early success are no longer effective. The company requires a new set of abilities from its CEO.

Most entrepreneurs find it difficult to manage and run a much larger and more complex company. Many face particular problems while delegating authority. As the creator of the business, they feel a strong need to control its operations and they suffer psychological setback whether they are required to share responsibility with others or relinquish any decision-making.

Others gradually discover that they simply lack the professional management skills needed to run a complex business.

Some tiny entrepreneurs feel uncomfortable with the environment of a big business. However, most entrepreneurs learn to delegate, often being careful in selecting those whom they delegate and by delegating gradually. Some, unable to delegate, sell their firms and start all over again, launching a new venture. Still others avoid the dilemma, entirely by deliberately restricting the size of their companies.

Entrepreneurial Stress

All CEOs experience stress largely because they have to shoulder the burden of responsibility for managing a business. High levels of stress are usually experienced by entrepreneurs running small businesses. The root cause of such stress is the risks the entrepreneur assumes in launching a business and his sense of total accountability for its success or failure.

Another important source of stress is loneliness. In most small firms, entrepreneurs cannot speak out their minds or discuss business problems with friends and relatives and seek advice, especially in the early days of the company (when things are not in good shape). No one else is experiencing the same set of problems and is thus reluctant to share the sorrows and anxieties of the entrepreneur.

Three other sources of entrepreneurial stress are: total immersion in the business, frustration with employee problems and an overly high need for achievement. Most entrepreneurs kill themselves though stress when they set unreasonable goals, push themselves too hard and experience great frustration when they fall short of their expectations.

There is no proper cause for entrepreneurial stress because it is an inherent part of entrepreneurial venture. So some try to cope with it, others thrive on it.

However, the incidence of such stress can be reduced to some extent, by adopting various strategies such as making changes in their business routine (e.g., scheduling more time between meeting appointments and taking time-off for exercise), setting time aside for social activities, and creating more opportunities for interacting with employees as much as possible.

Often small entrepreneurs participate in local business organisations (such as the Rotary Club) that provide an opportunity to communicate with other CEOs of non- rival firms and discuss business problems.

Selling the Company

Often for various reasons entrepreneurs sell their business — such as the desire to retire and enjoy the financial returns the sale proceeds provides them and to use the profits to start yet another venture. Sometimes entrepreneurs are constrained to sell their firms because, at the time of retirement, no qualified successor is available to assume leadership.

This type of problem normally arises among family-owned and managed entrepreneurs.

Advantages of Entrepreneurship

Being your own Boss

One of the most common reasons people start a business is because of the independence it creates. As the founder and CEO of a business, you answer to no higher authority, except maybe the customers you serve.

Choosing own Team

Playing well with other team members can be difficult, especially if you have conflicting personalities or philosophies. When you start your own business, you get the privilege of choosing the team members that you get to work with, and that best represent the brand.

Creative Expression

Brands are really just the personality, the creative expression of a business, and as an entrepreneur, you get to call the shots. That doesn't just refer to the colors and imagery, but the core values and tone of the company's messaging.

Learning Experience

Nothing prepares you for the business world better than real-life experience. Even if you studied business in college, the lessons in a work setting are more memorable and better understood. For example, while you may have learned about writing up business plans for startups, reality may be slightly messier and less structured. Your startup will likely evolve several times and look totally different to the original concept.

Flexible Schedule

As the manager of your business, you also have more control over your time. If you want to work earlier in the morning and rest in the afternoon or work late at night, you have the power to do so.

Following a Vision/Cause

Entrepreneurs don't just undertake the risk of starting a business for fun. Something usually inspires them to action, whether it's a perceived lack of options, or an unfulfilled customer need. The drive to innovate and compete is one of the major differences between an entrepreneur and a small business.

Greater Potential Profit

Since entrepreneurs have the ability to allocate resources, they have the opportunity to save money in certain places, such as expensive marketing initiatives or costly office maintenance.

Own Office

Forget about stuffy cubicles and small offices. Depending on the size of your business, you can choose to work from home, or in a coworking space. Some entrepreneurs even enjoy their privilege of traveling the world as they work.

No Professional Ceiling

Don't wait years hoping for a promotion. As an entrepreneur, traditional hierarchies are meaningless. You automatically become the CEO of your company, so there's no need to worry about vertical mobility. You just need to make sure you're running the business smoothly.

Work Culture

Many entrepreneurs were once entry-level workers stuck in someone else's concept of a work environment. Dreams of more inclusive policies and team-centered values can finally be realized. Entrepreneurs get to set the standard for how team members treat customers and one another.

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2

Entrepreneurs: Types, Functions and Challenges

There are different types of entrepreneurs such as trading entrepreneurs, manufacturing entrepreneurs and agricultural entrepreneurs. The chapter closely examines the key concepts related to these types of entrepreneurs as well as their functions and challenges to provide an extensive understanding of the subject.

Entrepreneurs

An entrepreneur is an individual who creates a new business, bearing most of the risks and enjoying most of the rewards. The entrepreneur is commonly seen as an innovator, a source of new ideas, goods, services, and business/or procedures.

Entrepreneurs play a key role in any economy, using the skills and initiative necessary to anticipate needs and bring good new ideas to market. Entrepreneurs who prove to be successful in taking on the risks of a startup are rewarded with profits, fame, and continued growth opportunities. Those who fail, suffer losses and become less prevalent in the markets.

How Entrepreneurs Work

Entrepreneurship is one of the resources economists categorize as integral to production, the other three being land/natural resources, labor and capital. An entrepreneur combines the first three of these to manufacture goods or provide services. They typically create a business plan, hire labor, acquire resources and financing, and provide leadership and management for the business.

Entrepreneurs commonly face many obstacles when building their companies. The three that many of them cite as the most challenging are as follows:

1. Overcoming bureaucracy;
2. Hiring talent;
3. Obtaining financing.

Entrepreneur and Financing

Given the riskiness of a new venture, the acquisition of capital funding is particularly challenging, and many entrepreneurs deal with it via bootstrapping: financing a business using methods such as using their own money, providing sweat equity to reduce labor costs, minimizing inventory, and factoring receivables.

While some entrepreneurs are lone players struggling to get small businesses off the ground on a shoestring, others take on partners armed with greater access to capital and other resources. In these situations, new firms may acquire financing from venture capitalists, angel investors, hedge funds, crowdsourcing, or through more traditional sources such as bank loans.

Impact of Entrepreneurs on Economy

In economist-speak, an entrepreneur acts as a coordinating agent in a capitalist economy. This coordination takes the form of resources being diverted toward new potential profit opportunities. The entrepreneur moves various resources, both tangible and intangible, promoting capital formation.

In a market full of uncertainty, it is the entrepreneur who can actually help clear up uncertainty, as he makes judgments or assumes the risk. To the extent that capitalism is a dynamic profit-and-loss system, entrepreneurs drive efficient discovery and consistently reveal knowledge. Established firms face increased competition and challenges from entrepreneurs, which often spurs them toward research and development efforts as well. In technical economic terms, the entrepreneur disrupts course toward steady-state equilibrium.

Role of Entrepreneurs in Economy

Nurturing entrepreneurship can have a positive impact on an economy and a society in several ways. For starters, entrepreneurs create new business. They invent goods and services, resulting in employment, and often create a ripple effect, resulting in more and more development.

Entrepreneurs add to the gross national income. Existing businesses may remain confined to their markets and eventually hit an income ceiling. But new products or technologies create new markets and new wealth. And increased employment and higher earnings contribute to a nation's tax base, enabling greater government spending on public projects.

Entrepreneurs create social change. They break tradition with unique inventions that reduce dependence on existing methods and systems, sometimes rendering them obsolete. Smartphones and their apps, for example, have revolutionized work and play across the globe.

Entrepreneurs invest in community projects and help charities and other non-profit organizations, supporting causes beyond their own. Bill Gates, for example, has used his considerable wealth for education and public health initiatives.

Skills of an Entrepreneur

Personal characteristics and attitudes—which can often be hard or impossible to change—entrepreneurs can acquire skills if they are willing to learn them. Additionally, they can hire people to work for them who have the needed skills. Either way, the following skills are important if the entrepreneur's business is to succeed:

- Ability to Plan: The ability to plan is a key skill for entrepreneurs. They must be able to develop plans to meet goals in a variety of areas, including finance, marketing, production, sales and personnel (hiring and maintaining productive and satisfied employees).

- Communication Skills: Entrepreneurs should be able to explain, discuss, sell and market their good or service. It is important to be able to interact effectively with your business team. Additionally, entrepreneurs need to be able to express themselves clearly both verbally and in writing. They also should have strong reading comprehension skills to understand contracts and other forms of written business communication.

- Marketing Skills: A business's success or failure is very dependent on whether the business reaches the market (its potential customers), interests the market and results in those in the market deciding to buy. Many entrepreneurs who failed started with an innovative good or service that with proper marketing could have been very successful. Good marketing skills—that results in people wanting to buy your good or service—are critical for entrepreneurial success.

- Interpersonal Skills: Entrepreneurs constantly interact with people, including customers and clients, employees, financial lenders, investors, lawyers and accountants, to name a few. The ability to establish and maintain positive relationships is crucial to the success of the entrepreneur's business venture.

- Basic Management Skills: The entrepreneur must be able to manage every component of a business. Even if entrepreneurs hire managers to attend to daily details, they must understand if their business has the right resources and if those resources are being used effectively. They must ensure that all the positions in their business are occupied by effective people.

- Personal Effectiveness: In order to handle the pressures of their busy lifestyles, entrepreneurs must have the ability to manage time well and to take care of personal business efficiently. Because first impressions are so important, entrepreneurs must also pay attention to such things as personal appearance and telephone skills. For example, think of the difference in the impression made by someone who answers the phone by saying, "Yeah?" versus saying, "Computer Support Services, this is Alex. How may I help you?" Additionally, entrepreneurs benefit a great deal by being aware of their own strengths and weaknesses.

- Team Building Skills: Because entrepreneurs usually assemble a team of skilled people who help them achieve business success, they must be able to effectively develop and manage the team.
- Leadership Skills: One of the most important leadership skills an entrepreneur must have is the ability to develop a vision for the company and to inspire the company employees to pursue that vision as a team. The expression "people would rather be led than managed" applies especially well to an entrepreneurial venture.

Types of Entrepreneurs

Type of Business

Trading Entrepreneur: As the name itself suggests, the trading entrepreneur undertake the trading activities. They procure the finished products from the manufacturers and sell these to the customers directly or through a retailer. These serve as the middlemen as wholesalers, dealers, and retailers between the manufacturers and customers.

Manufacturing Entrepreneur: The manufacturing entrepreneurs manufacture products. They identify the needs of the customers and, then, explore the resources and technology to be used to manufacture the products to satisfy the customers' needs. In other words, the manufacturing entrepreneurs convert raw materials into finished products.

Agricultural Entrepreneur: The entrepreneurs who undertake agricultural pursuits are called agricultural entrepreneurs. They cover a wide spectrum of agricultural activities like cultivation, marketing of agricultural produce, irrigation, mechanization, and technology.

Use of Technology

Technical Entrepreneur: The entrepreneurs who establish and run science and technology-based industries are called 'technical entrepreneurs.' Speaking alternatively, these are the entrepreneurs who make use of science and technology in their enterprises. Expectedly, they use new and innovative methods of production in their enterprises.

Non-Technical Entrepreneur: Based on the use of technology, the entrepreneurs who are not technical entrepreneurs are non-technical entrepreneurs. The forte of their enterprises is not science and technology. They are concerned with the use of alternative and imitative methods of marketing and distribution strategies to make their business survive and thrive in the competitive market.

Ownership

Private Entrepreneur: A private entrepreneur is one who as an individual sets up a business enterprise. He / she it's the sole owner of the enterprise and bears the entire risk involved in it.

State Entrepreneur: When the trading or industrial venture is undertaken by the State or the Government, it is called 'state entrepreneur.'

Joint Entrepreneurs: When a private entrepreneur and the Government jointly run a business enterprise, it is called 'joint entrepreneurs.'

Gender

Men Entrepreneurs: When business enterprises are owned, managed, and controlled by men, these are called 'men entrepreneurs'.

Women Entrepreneurs: Women entrepreneurs are defined as the enterprises owned and controlled by a woman or women having a minimum financial interest of 51 per cent of the capital and giving at least 51 per cent of employment generated in the enterprises to women.

Size of Enterprise

Small-Scale Entrepreneur: An entrepreneur who has made investment in plant and machinery up to Rs 1.00 crore is called 'small-scale entrepreneur'.

Medium-Scale Entrepreneur: The entrepreneur who has made investment in plant and machinery above Rs 1.00 crore but below Rs 5.00 crore is called 'medium-scale entrepreneur'.

Large-Scale entrepreneur: The entrepreneur who has made investment in plant and machinery more than Rs 5.00 crore is called 'large-scale entrepreneur'.

Clarence Danhof Classification

Clarence Danhof, on the basis of his study of the American Agriculture, classified entrepreneurs in the manner that at the initial stage of economic development, entrepreneurs have less initiative and drive and as economic development proceeds, they become more innovating and enthusiastic.

Based on this, he classified entrepreneurs into four types:

Innovating Entrepreneurs: Innovating entrepreneurs are one who introduce new goods, inaugurate new method of production, discover new market and reorganise the enterprise. It is important to note that such entrepreneurs can work only when a certain level of development is already achieved, and people look forward to change and improvement.

Imitative Entrepreneurs: These are characterised by readiness to adopt successful innovations inaugurated by innovating entrepreneurs. Imitative entrepreneurs do not innovate the changes themselves, they only imitate techniques and technology innovated by others. Such types of entrepreneurs are particularly suitable for the underdeveloped regions for bringing a mushroom drive of imitation of new combinations of factors of production already available in developed regions.

Fabian Entrepreneurs: Fabian entrepreneurs are characterised by very great caution and skepticism in experimenting any change in their enterprises. They imitate only when it becomes perfectly clear that failure to do so would result in a loss of the relative position in the enterprise.

Drone Entrepreneurs: These are characterised by a refusal to adopt opportunities to make changes in production formulae even at the cost of severely reduced returns relative to other like producers. Such entrepreneurs may even suffer from losses but they are not ready to make changes in their existing production methods.

Following are some more types of entrepreneurs listed by some other behavioural scientists:

- Solo Operators: These are the entrepreneurs who essentially work alone and, if needed at all, employ a few employees. In the beginning, most of the entrepreneurs start their enterprises like them.
- Active Partners: Active partners are those entrepreneurs who start/ carry on an enterprise as a joint venture. It is important that all of them actively participate in the operations of the business. Entrepreneurs who only contribute funds to the enterprise but do not actively participate in business activity are called simply 'partners'.
- Inventors: Such entrepreneurs with their competence and inventiveness invent new products. Their basic interest lies in research and innovative activities.
- Challengers: These are the entrepreneurs who plunge into industry because of the challenges it presents. When one challenge seems to be met, they begin to look for new challenges.
- Buyers: These are those entrepreneurs who do not like to bear much risk. Hence, in order to reduce risk involved in setting up a new enterprise, they like to buy the ongoing one.
- Life-Timers: These entrepreneurs take business as an integral part to their life. Usually, the family enterprise and businesses which mainly depend on exercise of personal skill fall in this type/category of entrepreneurs.

Functions of an Entrepreneur

Promotional Functions

Following are the functions of an entrepreneur, related to promotion of the Enterprise:

1. To conceive business thoughts and ideas.
2. To collect the required facts and information related to the idea and to test the viability and profitability of the idea.
3. To forecast the economic analysis.
4. To select suitable ownership (leadership, partnership, company, and joint ownership, organizations, etc.).
5. Determination of the size of the Enterprise.
6. To determine the objectives of the Enterprise.
7. To determine the location of the Enterprise.
8. To prepare plant layout.
9. To make financial planning by estimating the requirements of capital.
10. Registration and completion of other legal formalities.

11. To arrange the required resources and infrastructural facilities.
12. To take a decision regarding internal organizational structure.
13. Selection of equipment and production production process.
14. To carry out market research.
15. To start business activities.

Risk Bearing Functions

Another main functions of an entrepreneur are to bear risks. In all types of businesses small or large, risks are quite inherent. Without bearing risk, the operation of the business cannot be even imagined. The risk is related to capital.

In modern business, various types of risks and uncertainties always persist. Among these, some risks are such from which one can feel secured by getting insurance against these, like fire accidents, thefts, dacoity, earthquakes, labour accidents, floods, Storms, tsunamis etc.

However, some unknown risks are such which may neither be predicted nor may be insured and are to be borne only by the entrepreneur like:

- Risk relating to fluctuations in demand and changes.
- Risks arising due to competition (changes in tastes, fashion, and demand).
- Risks of changes in the prices and various resources.
- Risks of changes in government policies.
- Risks arising from trade cycles.
- Risks arising from large changes in the business environment.
- Risks of large changes in the technology.
- Risks of human relations and inefficiency.

An entrepreneur is required to take various types of decisions, on the basis of predictions and foresightedness. If any decision or prediction of the entrepreneur goes wrong, then he may have to bear excessive losses.

Contributing to Social Development

The entrepreneur should also contribute towards the composition of battery society, should make efficient use of social resources, should create more employment and should also fulfill his social responsibilities towards various sections of the society.

Function Relating to Management, Organisation and Control

An entrepreneur has to perform various functions relating to management, organization, and control, along with the functions of promotion of the enterprise.

The efficient operation of the undertaking, in sole ownership, business, the entrepreneur is often, both the owner and the manager.

Hence, he has to perform various managerial functions. But, in other patterns of business ownership, like Company, State Enterprises, and joint Sector Enterprises, etc., ownership and management are separate.

Hence, the entrepreneur has to take the services of professional managers for managerial functions.

This is the reason that he has to perform various Functions of an Entrepreneur, as follows:

1. To decide the objectives, goals, and policies of the Enterprise.
2. To prepare plans and sub-plans for each department and at each level.
3. Selection of suitable pattern of the organization, according to the nature and size of the undertaking.
4. To entrust right work to the right person and to distribute all related work to various specialists and group of persons.
5. To determine the relationship between various persons working within that department and outside.
6. To establish coordination between the functions and activities of various departments and sub-departments to maintain uniformity formality in the working of all departments.
7. To awaken the feelings of owning towards work, among the employees working in the organization.
8. To provide situations for development of the employees.
9. To improve the communication between the employees and the officers and to perform the function of leadership and directions.
10. To develop a suitable control system to ensure that the work performed is in accordance with the plans.

Financial Functions

The Fourth main function of the entrepreneur is to manage the required finances for the undertaking, according to the nature and size of the undertaking.

Although all the factors of production have their own importance, what among this capital is the most important source, because if the capital is insufficient, then the arrangements for various other factors also become futile.

Hence, the entrepreneur should perform the following Functions of an Entrepreneur:

- To do rational financial planning.
- To determine the financial sources to raise the funds in desired Quantum, according to financial planning.

- To arrange fixed capital and working capital, by keeping in view the short term and long term financial requirements of the undertaking.
- To determine the suitable sources of finances, like shares, and debenture, bank loans, and loans from other Financial Institutions, etc. by keeping financial requirements in view.
- To select the most economical financial resources by making a comparative study of various financial resources.

Presently, the government also provides subsidies and loans with easy terms for the establishment of enterprises.

Functions Relating Innovations

In the context of a developed economy, by the term entrepreneur, we mean 'innovator'. Innovations are major functions of an entrepreneur innovations means enforcing new methods in the business.

Innovations can be made in only of the following spheres:

1. Discovering new commodities.
2. Producing new commodities.
3. Making use of new methods, techniques, implements, and machinery in production.
4. Bringing improvements in quality, size, color, designs, and packaging etc.
5. Searching for new uses of commodities.
6. Searching for the new markets.
7. Improving the existing products.
8. Locating new sources of raw materials and semi-finished goods.
9. Developing innovations and adapt them to improve the position in the competition, to improve Customer services, quality and economy in various fields.

10. Introducing product diversification in high stages of economic development.
11. Implementing new ideas in the field of Human Resource Management.

Functions Relating to Distribution

An entrepreneur is the owner of the business. He deploys various factors of production (land, labour, capital, and Organisation, etc.) in the business. Thus, this is the important function of the entrepreneur, which relates to the distribution of income from the industry between various sources of production.

Functions Relating Efficient Marketing

In present-day competitive economy, the similar commodities and services are being manufactured by several produces, who are also distributing them. Competition is on an international basis.

The fact is that today competition has become the base of Business.

In such a business environment, management of effective marketing of commodities and services has also become an important function of an entrepreneur, which is as follows:

- To make advance estimations of the demand and sale of various commodities and services.
- Selection of the best suitable medium by studying all existing distribution sources in the markets.
- To create demand for commodities and services and to keep it maintained.
- To manage an effective sale force.
- To use advertisements to stimulate the intermediate and to make use of sale promotion sources to increase the demand for commodities and services.

Thus, an entrepreneur should undertake aforesaid and other functions also fore efficient marketing. But, all should not be left only in the hands of manager and employees of the marketing division.

Searching for New Opportunities

Establishment and operating are not the only functions of the entrepreneur. He should go on continuously searching new opportunities of profit so that while functioning as producer or distributor, he feels newness and my work with greater interest. This is the most essential function of an entrepreneur.

Participating and Development Programmes

One of the functions of an entrepreneur is also to participate in entrepreneurial development programmes, organized by the government or Non-Government organizations. Though such participation, the entrepreneurs will gain important knowledge about various new opportunities for development.

Functions Relating to Project

The entrepreneur should prepare project reports and feasibility reports and should also review them, so that these may be quickly approved.

Future of the Business

The entrepreneur should also ensure the bright future of his undertaking, by way of successful operation of the business through rational and untiring efforts.

Challenges Faced by Entrepreneurs

Cash Flow Management

Cash flow is essential to small business survival, yet many entrepreneurs struggle to pay the bills (let alone themselves) while they're waiting for checks to arrive. Part of the problem stems from delayed invoicing, which is common in the entrepreneurial world. You perform a job, send an invoice, then get paid (hopefully) 30 days later. In the meantime, you have to pay everything from your employees or contractors to your mortgage to your grocery bill. Waiting to get paid can make it difficult to get by — and when a customer doesn't pay, you can risk everything.

Proper budgeting and planning are critical to maintaining cash flow, but even these won't always save you from stressing over bills. One way to improve cash flow is to require a down payment for your products and services. Your down payment should cover all expenses associated with a given project or sale as well as some profit for you. By requiring a down payment, you can at least rest assured you won't be left paying others' bills; by padding the down payment with some profit, you can pay your own.

Another strategy for improving cash flow is to require faster invoice payments. Invoice clients within 15 days, which is half the typical invoice period. This means if a customer is late with a payment, you have two weeks to address it and get paid before the next month's bills are due. In addition, more and more companies are requiring immediate payment upon project completion — and in our digital age when customers can pay invoices right from their mobile phones, it's not a stretch to request immediate payment.

You can also address cash flow management from the other side of the equation by asking your own vendors to invoice you at 45, 60 or even 90 days to allow ample time for your payments to arrive and checks to clear. If you can establish a good relationship with vendors and are a good customer, they'll be willing to work with you once you explain your strategy.

Hiring Employees

Do you know who dreads job interviews the most? It's not prospective candidates — it's entrepreneurs. The hiring process can take several days of your time: reviewing resumes, sitting through interviews, sifting through so many unqualified candidates to find the diamonds in the rough. Then, you only hope you can offer an attractive package to get the best people on board and retain them.

Be exclusive. Far too many help wanted ads are incredibly vague in terms of what qualifications candidates must have, what the job duties are, what days and hours will be worked, and what wages and benefits will be paid. You can save yourself a ton of time by pre-qualifying candidates through exclusive help wanted ads that are ultra-specific in what it takes to be hired at your firm, as well as what the day-to-day work entails. Approach your employee hunt the same way you would approach a customer-centric marketing campaign: through excellent targeting.

Once you have a pool of prospects, arrange for a "walking interview" in which you take candidates on a tour of their working environments. Ask questions relevant to the job and to candidates' experiences, expectations, dedication, and long-term goals. Don't act like an overlord determining which minion gets to live another day; rather, behave as though you're seeking a partner to help you operate and grow your business.

Take the time to seek real references: not the neighbor lady your candidates grew up with, but people who can honestly attest to their work ethic and potential. Once you've picked a candidate and before you've made a job offer, ask them specifically what it will take to keep them employed with you for the long haul. Tell them to be honest with their expectations. Provided they do a good job for you, you'll know what kind of rewards they're seeking, and you can make adjustments accordingly: Do they want more vacation? The opportunity for advancement? More pay? Freedom from micromanagement?

This isn't to say you have to bend backwards for your employees; however, it stands to reason that if you make expectations clear for both parties you can lay the foundation for a long-term, mutually-rewarding client-boss relationship.

Time Management

Time management might be the biggest problem faced by entrepreneurs, who wear many (and all) hats. If you only had more time, you could accomplish so much more.

Make time. Like money, it doesn't grow on trees, of course, so you have to be smart about how you're spending it. Here's how:

- Create goal lists: You should have a list of lifetime goals, broken down into annual goals, broken down into monthly goals, then broken down into weekly goals. Your weekly goals, then will be broken down into specific tasks by day. In this manner, what is on your task list in any given day is all you need to do to stay on track with your lifetime goals.
- If any tasks do not mesh with your goals, eliminate them.
- If any tasks do not absolutely have to be completed by you, delegate them.
- Consistently ask yourself: "Is this the absolute best use of our time?"

Delegating Tasks

You know you need to delegate or outsource tasks, but it seems every time you do something gets messed up and you have to redo it anyway.

Find good employees and good outsourced contract help, for starters. You might have to pay a little more for it, but the savings in time (and the resulting earning potential) more than make up for it.

Next, be ultra-specific as to what you want done. It will take a little more time at first, but write down detailed steps listing exactly what you want your help to do. Don't make assumptions, and don't assume your help will be able to think for themselves (they can, but they will complete the job verbatim because that's what they're trained to do). So, don't say "list stats in a spreadsheet" when you can say "alphabetically list XYZ in the right spreadsheet column, then list statistic A in the next column." It might seem like overkill, but take the time to be specific once, and your help will get it right every time thereafter.

Choosing what to Sell

You know you could make a mint if you just knew what products and services to sell. You're just unsure how to pick a niche.

Admit that you're weak in identifying prosperous niches, and delegate the task to someone who is strong in this area. You don't have to hire a huge, expensive marketing firm; rather, recruit a freelance researcher who has experience in whatever type of field you're considering entering (retail e-commerce, service industry, publishing, etc.). Have them conduct market research and create a report with suggested niches, backed by potential profit margins and a complete SWOT analysis: Strengths, Weaknesses, Opportunities and Threats.

This isn't to say you should have someone else decide for you; however, if you're not good at identifying niches it's a good idea to have someone who is make suggestions. You can then analyze the suggestions for yourself to determine if you agree. Taking this step now can save you a lot of time, money and hassles later — and it can save your entire business and livelihood.

Marketing Strategy

You don't know the best way to market your products and services: print, online, mobile, advertising, etc. You want to maximize your return on investment with efficient, targeted marketing that gets results.

Again, if you're not adept at creating marketing plans and placing ads, it's a good idea to outsource your marketing strategy to someone who is. At this point, all you need is a core marketing plan: what marketing activities will you undertake to motivate purchases? Give your planner a budget and tell them to craft a plan that efficiently uses that budget to produce profits.

This is not the time for experimentation. You can do that later, on your own or with the advice of your marketing strategist, after you've established a baseline that works.

Capital

You want to start or grow your business, but you have little capital to do it with.

There are many ways to earn funding, from traditional bank loans to family and friends to Kickstarter campaigns. You can choose these routes, certainly, but we suggest the self-fueled growth model in which you fund your own business endeavors.

Instead of trying to launch a multi-million dollar corporation overnight, focus on your initial core customers. Continually work to find new customers, of course, but consistently strive to be remarkable to those customers you already serve. Word-of-mouth will spread, and more customers will come looking for you. As they do, develop systems and business processes that allow you to delegate tasks without sacrificing quality. Your business will grow slow and steady, and you'll be able to solve problems while they're small.

Think about where you want to be five years from now. Can you get there without help, even if you have to delay growth a bit while you're doing it? This is the best strategy to adopt for small business entrepreneurs. If you do feel you need funding, however, be sure to consult an attorney to make sure you're not giving up too much of your business to get it.

Strapped Budget

Even though cash flow is fine, it seems you never have enough in your budget to market your company to its full potential.

Unless you're one of the Fortune 500 (and even if you are), every entrepreneur struggles with their budget. The key is to prioritize your marketing efforts with efficiency in mind — spend your money where it works — and reserve the rest for operating expenses and experimenting with other marketing methods.

Keep a close eye on your money, too: chances are, there are areas you can skim to free up more funds. Unless an expense is absolutely critical to your business and/or represents an investment with an expected return, cut it. In fact, do this exercise: See how lean you can run your business. You don't have to actually do it, but cut everything you can and see if you still feel you can run your business (save for what you have to delegate and market with). Somewhere in between your leanest figure and your current budget is a sweet spot that will allow you to be just as effective and leave funds leftover to fuel growth.

Business Growth

We're assuming you are growing, not that you can't grow, and you've come to the point at which you can't take on any more work in your current structure.

Create new processes that focus on task delegation. Many entrepreneurs, used to wearing all the hats, find themselves in this position once they've achieved a modicum of success. Because you're doing everything, your growth halts to a stop when it hits a self-imposed ceiling. The only way to break through is to delegate tasks to others to take yourself out of the production end, and segue into management and, finally, pure ownership.

Self-doubt

An entrepreneur's life is not enviable, at least in the beginning. It's extremely easy to get discouraged when something goes wrong or when you're not growing as fast as you'd like. Self-doubt creeps in, and you feel like giving up.

Being able to overcome self-doubt is a necessary trait for entrepreneurs. Having a good support system will help: family and friends who know your goals and support your plight, as well as an advisory board of other entrepreneurs who can objectively opine as to the direction of your business.

One of the best ways to deal with self-doubt is to work on your goals and tasks lists. When you're down and lack motivation, look at your lists and know that the tasks you do today are contributing to your lifetime goals. By doing them, you're one step closer, and you can rest assured that you are, indeed, on the path to business success.

Entrepreneurs face many challenges, and volumes have been written about how to overcome them. Perseverance and intelligence are your allies; use them to your advantage to keep working toward your goals. Understand that you're not the first to struggle. Because of that, there are many resources available to help you get through your darkest days as an entrepreneur, so you can reap the immeasurable rewards that come with building your own successful business.

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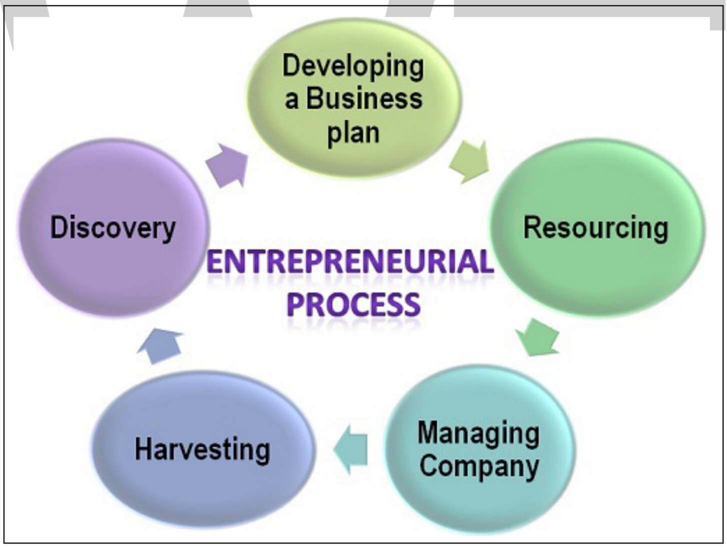
3

Entrepreneurial Process

The steps which are taken for establishing a new enterprise comprise the entrepreneurial process. It involves a number of steps such as evaluating opportunities, acquiring new customers and arranging the resources which are needed to start the business. This chapter discusses in detail these stages related to the entrepreneurial process.

The Entrepreneur is a change agent that acts as an industrialist and undertakes the risk associated with forming the business for commercial use. An entrepreneur has an unusual foresight to identify the potential demand for the goods and services.

The entrepreneurship is a continuous process that needs to be followed by an entrepreneur to plan and launch the new ventures more efficiently.



Entrepreneurial Process

1. Discovery: An entrepreneurial process begins with the idea generation, wherein the entrepreneur identifies and evaluates the business opportunities. The identification and the evaluation of opportunities is a difficult task; an entrepreneur seeks inputs from all the persons including employees, consumers, channel partners, technical people, etc. to reach to an optimum business opportunity. Once the opportunity has been decided upon, the next step is to evaluate it.

   An entrepreneur can evaluate the efficiency of an opportunity by continuously asking certain questions to himself, such as, whether the opportunity is worth investing in, is it sufficiently attractive, are the proposed solutions feasible, is there any competitive advantage, what are the risk associated with it. Above all, an entrepreneur must analyze his personal skills and hobbies, whether these coincides with the entrepreneurial goals or not.

2. Developing a Business Plan: Once the opportunity is identified, an entrepreneur needs to create a comprehensive business plan. A business plan is critical to the success of any new venture since it acts as a benchmark and the evaluation criteria to see if the organization is moving towards its set goals.

3. An entrepreneur must dedicate his sufficient time towards its creation, the major components of a business plan are mission and vision statement, goals and objectives, capital requirement, a description of products and services, etc.

4. Resourcing: The third step in the entrepreneurial process is resourcing, wherein the entrepreneur identifies the sources from where the finance and the human resource can be arranged. Here, the entrepreneur finds the investors for its new venture and the personnel to carry out the business activities.

5. Managing the company: Once the funds are raised and the employees are hired, the next step is to initiate the business operations to achieve the set goals. First of all, an entrepreneur must decide the management structure or the hierarchy that is required to solve the operational problems when they arise.

6. Harvesting: The final step in the entrepreneurial process is harvesting wherein, an entrepreneur decides on the future prospects of the business, i.e. its growth and development. Here, the actual growth is compared against the planned growth and then the decision regarding the stability or the expansion of business operations is undertaken accordingly, by an entrepreneur.

The entrepreneurial process is to be followed, again and again, whenever any new venture is taken up by an entrepreneur, therefore, its an ever ending process.

Attributes for Startups

A good idea does not necessarily result in a good product. A good product does not necessarily result in a successful company.

To succeed, a company needs more than a good idea. Its success is largely due to how the idea is executed and whether it addresses a real market need. A talented staff and management team can ensure that the right decisions are made along the way. Capital is also essential to make everything come together and push the venture ahead. In order for a business to succeed in the long term, it should be able to scale up. One way to scale is to design not one but a pipeline of products. Some of the essential criteria that lead to a successful business are listed.

Innovative Products and Innovative Services

Startups should be based on innovative services or products that bring unique value to the customer. Academic discoveries, however, are usually embryonic concepts and not fully developed products, often making it difficult to determine the real value of such discoveries in the marketplace right away. Nonetheless, startups should take steps to secure intellectual property rights associated with core technology associated with services or products as soon as possible, to help create and preserve value in the company.

Intellectual Property

There is no requirement to have intellectual property rights to start a company, but protecting intellectual property that is key to the business is an essential element of the commercialization process. Holding intellectual property rights in technology serves as a barrier to entry against competing companies that might want to replicate a startup's product. For this reason, the majority of investors usually prefer that the core technology is protected. For example, in the case of a patent, technology that is protected can help give the startup an edge over competitors because once a patent issues, the startup can prevent others from making, using, or selling a product that is claimed in their issued patent.

Some academic companies are founded on intellectual material that lies within the public domain and for which no intellectual property protection is available. If this is the case, there may not be a need to secure a license from the academic employer. Companies without intellectual property assets ordinarily do not attract large amounts of outside investment capital, however.

Modest-investment companies do not need intellectual property in order to get off the ground. Most often, the importance of intellectual property to becomes apparent later on, when the company sells the product or service and knock-off competitors arise. Strong intellectual property protection helps a young company to put its stake in the ground and gives the company a way to defend their market position against those who may try and copy their products.

The management team will have to decide what sort of intellectual property protection is needed based on the market for their product and relative cost to secure the rights compared with the ability to recoup those costs. Some intellectual property rights are expensive to secure, like patents, and others are relatively inexpensive, like copyrights. Trademarks are another way a company can begin to create value when customers associate the trademark or 'brand' with their products or services. Where a company may have know-how or information that would be better kept behind closed doors, maintaining trade secrets is another way to build value for the company in the form of intellectual property. Many times, there are opportunities to use different protection strategies at the same time. For example, a product brand name might be protected by a registered trademark, and the product itself may also be protected by securing patent rights in the underlying technology.

Product Pipeline

Discoveries that could lead to multiple products or product lines, or "platform technologies," are what many investors look for when funding a startup. One can certainly start a new business around a single product, but it is unlikely that the company will be attractive to institutional investors unless the product represents a very large market opportunity. For these cases, the inventor might want to consider licensing the product for further development to one or more established companies, rather than creating a startup.

Market Need

Deciding on the company's first product is often very difficult—especially for platform technologies, which may have many different applications. An important criterion is that it serve real-world needs.

Individuals starting companies must provide compelling answers to questions such as: What market does this product serve? What products are already in this market? How is this product different from those? Who are the competitors, and how are their products better or weaker than yours?

Specialized Personnel

Perhaps the most common reason for a startup to fail is lack of adequate management and governance structure. Early stage technologies will invariably encounter many hurdles before they reach commercialization. Being able to manage the hurdles and raise capital while building a motivated team requires experience, a sophisticated network and unique business talents.

Capital

A startup's demand for cash depends on the costs to take the product to market. The faculty member creating a modest-investment company in his or her garage, funded by personal savings, does not need to seek investment capital from business "angels" (wealthy private investors) and venture capitalists. In contrast, the researcher who plans to start a new pharmaceutical company will spend countless hours trying to secure large amounts of investment capital. Once the company is started and the initial capital is secured, founders will immediately start planning when and how to secure the next "round" of financing. Such firms are voracious in their appetite for cash, so raising money is a never-ending process, they are at the mercy of the investment community. The decision on how much money to raise is largely dependent on the timeline to launch and the nature of the product. While the desire to preserve ownership and control of the venture through modest-investment is understandable, many commercial opportunities require extensive partnering, both in investment and strategy, if they are to be successful.

Evaluating Opportunities for New Business

Like many small-business owners, you may have a finely tuned gut instinct that you trust to steer you right. If that is the case, when a new business opportunity presents itself, your instinct may be to jump at the chance. Fortunately, you're also tuned in to rational deliberation, and that's a good thing. The business opportunity evaluation process includes five logical steps in the identification of business opportunites. You and your gut instinct may need all the useful information you gather to make the best decision.

States Regulate Business Opportunities

If it's been a while since you assessed a business opportunity, you may have forgotten that it's a serious business unto itself. Twenty-four states have business opportunity laws on the books, and these laws both define and regulate the sale of businesses in their jurisdiction.

If curiosity is getting the better of you, the list includes: Alabama, Alaska, California, Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maine, Maryland, Michigan, Nebraska, New Hampshire, North Carolina, Ohio, South Carolina, South Dakota, Texas, Utah, Virginia and Washington.

Each of these states defines business opportunity somewhat differently, but they agree in general with an umbrella definition supplied by Entrepreneur.com: It's a "packaged business investment that allows the buyer to begin a business".

Business Opportunities Criteria

Business opportunities are sometimes defined by their qualities. The states agree that the steps in the identification of business opportunities are simple to follow if:

- The sale or lease of products or services – or anything that allows the purchaser to launch a business – is at stake.
- The buyer must pay the seller a fee of at least $500 to start the business.
- The seller agrees to either provide a plausible business location or help the buyer find one.
- The seller makes two guarantees: that a market for the product or service exists and that the income generated from sales of that product or service will generate an income either equal to or greater than the cost of the business.

Forms of Business Opportunities

What type of business opportunities fit these criteria? The three most common types are:

- Distributorships, in which someone acts as an independent agent selling a product or service. As he does so, he must retain an all-important "six degrees of separation" by not commingling the manufacturer's trade name with his own.
- Rack jobbing is a peculiar term that refers to products sold on racks, usually in more than one store. A parent company often secures space in several stores in which to place racks on a consignment basis. An independent agent – fittingly called a rack jobber – takes it from there. As it is said: "It's up to the agent to maintain the inventory, move the merchandise around to attract the customer and do the bookkeeping. The agent presents the store manager with a copy of the inventory control sheet, which indicates how much merchandise was sold, and then the distributor is paid by the store or location that has the rack, less the store's commission."
- Vending machine route is similar to rack jobbing, except that the vending machine operator often pays the building or location owner a percentage of the sales.

Other Business Opportunity Terms may Surface

Some other terms may surface as your evaluation of a business opportunity unfolds:

- Cooperative is a business that forms a network of similar businesses that operate under the same name, often to save money on advertising costs.
- Dealer is similar to a distributor except that the business often sells products directly to a retailer or consumer.

- Network marketing includes both direct sales and multilevel marketing. In the latter case, selling products is one part of the business, and recruiting sellers constitutes the other part.
- Trademark license or product license is an arrangement in which a buyer uses the seller's trade name, technology, equipment and products.

Two questions set the tone for evaluation. With the basics well in hand, you should be in a good position to move through the five stages necessary to evaluate a new business idea.

Like many entrepreneurs, your fiery gut instinct may be pointing you in the direction of two fundamental questions: How badly do I want this opportunity? and Can I make it work? Once again, this instinct is serving you well; you may return to these questions time and again as you move through the business opportunity evaluation process, beginning with identifying a market need.

Identify a Market Need

Your line of questioning could recast this step in terms of a want, but either way, the business should fill a gap in the marketplace that is currently unmet. Smartphones and extravagant coffee drinks are good examples of wants that have morphed into consumer needs. At this juncture, your job is to:

- Validate assumptions or research provided to you.
- Insist on evidence and details.
- Identify potential customers.

Pinpoint the Solution

It's easy to be carried away with a concept, and sometimes, the more creative or offbeat it is, the more powerfully it takes hold of the imagination. These first two steps in the business opportunity evaluation process should be in lockstep to ensure that a need and solution exist in almost-perfect harmony. To ensure you hear that "click-click" sound, you should:

- Explain with specificity how the solution will work.
- Ensure that the systems or processes exist to support the solution.
- Anticipate weaknesses in the solution.

Assess the Competition

For many would-be business owners, assessing the competition results in a moment of truth: Even if a similar competitor exists, you should be able to seize upon a key differentiator, such as a quality difference in your product, how you will bring it in front of consumers, or how you will give customer service new meaning.

You may want to consult potential customers to help you:

- Understand the strengths and weaknesses of your competition.
- Describe your competitive advantage and the anticipated reaction to it.
- Ensure there are ways to sustain it and build upon your competetive advantage.

Picture your Team

No small business is an island, although sometimes it may feel that way. Even with outsourced, contractual help, you probably need a team of people to ensure the business opportunity succeeds. You may not have all the answers yet, but you can start nailing them down by probing:

- The professional skills you lack but that will be vital to the new venture.
- Whether the team will be part-time or full-time employees or contractual workers.
- The culture you hope to create at the new business and where you might find like-minded people.

Crunch the Numbers

If your team includes an accountant, put him to work right away on studying the financials of the business opportunity. The weight of the assignment belies the fact that the exercise comes down to two questions:

- Can you afford to invest in the opportunity?
- Will it ultimately pay off?

Work with an Attorney

The business opportunity evaluation process isn't necessarily a risky business, but it can be fraught with overwhelming details. For this reason, you'd be wise to follow another probable gut instinct: Consult an experienced business attorney who can comb over all the details and ensure that your hands are firmly on the wheel as you steer your instincts to a smart destination.

Types of Business Opportunities

- Distributorship: Refers to an independent agent that has entered into an agreement to offer and sell the product of another but is not entitled to use the manufacturer's trade name as part of its trade name. Depending on the agreement, the distributor may be limited to selling only that company's goods or it may have the freedom to market several different product lines or services from various firms.
- Rack jobber: Involves the selling of another company's products through a distribution system of racks in a variety of stores that are serviced by the rack jobber. Typically, the agent or buyer enters into an agreement with the parent company to market their goods to various stores by means of strategically located store racks. The parent company obtains a number of locations in which the racks are placed on a consignment basis. It's up to the agent to maintain the inventory, move the merchandise around to attract the customer, and do the bookkeeping. The agent presents the store manager with a copy of the inventory control sheet which indicates how much merchandise was sold, and then the distributor is paid by the store or location which has the rack-less the store's commission.
- Vending machine routes: Very similar to rack jobbing. The investment is usually greater for this type of business opportunity venture since the businessperson must buy the machines

as well as the merchandise being vended, but here the situation is reversed in terms of the pay procedure. The vending machine operator must pay the location owner a percentage based on sales. The big secret to any route deal is to get locations in high-foot-traffic areas, and of course, as close to one another as possible. If your locations are spread far apart, you waste time and traveling expenses servicing them.

In addition to the three types of business opportunities listed above, there are four other categories:

- Dealer: Similar to a distributor but while a distributor may sell to a number of dealers, a dealer will usually sell only to a retailer or the consumer.
- Trademark/product licenses: Under this type of arrangement, the licensee obtains the right to use the seller's trade name as well as specific methods, equipment, technology or products. Use of the trade name is purely optional.
- Network marketing: This is a generic term that covers the realm of direct sales and multilevel marketing. As a network marketing agent, you would sell products through your own network of friends, neighbors, co-workers and so on. In some instances, you may gain additional commissions by recruiting other agents.
- Cooperatives: This business is similar to a licensee arrangement in which an existing business, such as a hotel or hardware store, can affiliate with a larger network of similar businesses, often for the sole purpose of advertising and promoting through a common identity.

Advantages of a Business Opportunity

Requires a lower initial fee than a franchise: Although the number of low-investment franchises has increased, the fee to get into a business opportunity is still considerably lower.

A proven system of operation or product: Existing systems serve to maximize efficiency and returns and minimize problems. It's simply a matter of passing on experience, still the best teacher. Whether they admit it or not, most people like having their hands held once in a while. During crises, the parent company is there to help the licensee over the bumps. Many people like this idea of safety in numbers.

Intensive training programs: In any new business, a lot of time and money are consumed during the learning period. A good business opportunity venture can eliminate the majority of ineffective moves through an intensive training program.

Better financing options: Because of its financial size, credit line and contractual agreements, the parent company offering the business opportunity can often arrange better financing than an individual could obtain. Financial leverage is an important consideration in any investment situation.

Professional advertising and promotion: Most small businesspeople don't spend sufficient money on advertising. When they do, their efforts are often poorly conceived and inconsistent. Many business opportunity ventures supply the buyer with print advertising slicks, radio ads, TV storyboards, etc., in order to provide a better marketing effort. Some business opportunity ventures will even have a cooperative advertising agreement under which they will split the cost of print, radio or TV ads. This type of marketing help is especially beneficial in large metropolitan areas where the cost of media is prohibitive to the one-shop owner.

Ongoing counselling: Most business opportunity ventures offer support not only through training but also through counseling from a staff of experts who offer assistance that no independent could afford. Legal advice is available to a certain degree. The most efficient accounting systems-perfect for that particular business-have been designed by experts in the field. Some licensors offer free computer analysis of records, and through comparison with other units can pinpoint areas of inefficiency or loss as well as profitable aspects of the business that are being neglected.

Site selection assistance: Experts in site selection and marketing choose locations using all the scientific tools available. Professional negotiators arrange leases and contracts to the best advantage, using the power of a large organization to influence landlords and other important figures.

Purchasing power: Many times, the parent company's tremendous buying power and special buying techniques can bring products, equipment and outside services to the licensee at a much lower cost than an independent could ever get.

No ongoing royalties: In a business opportunity, unlike in a franchise, there are no ongoing royalties to pay to the seller. The profits are all yours.

Disadvantages of a Business Opportunity

Under ideal conditions, business opportunities are a good, low-investment way to get into business with minimum risk and a good chance for success. But nothing in this world is perfect, so here are some problems that can be expected:

- Poor site selection: The majority of business opportunities are consumer-oriented retail operations which rely on good location, visibility and easy access to the establishment. Most buyers of business opportunities casually accept the locations chosen for them.
- Lack of ongoing support: There is usually no requirement for the business opportunity seller to offer ongoing support of any kind. If the seller decides not to supply information or guidelines that could help you once you're in operation, you may not have much recourse available to you.
- Exclusivity clauses: Are you restricted to selling only the manufacturer's merchandise? If this is the case and you deviate for any reason whatsoever, you run the risk of the licensor canceling the agreement. If you do buy from other sources, it will be very hard to hide-most parent companies will require you to open your books for examination at predesignated periods of time. Any irregularities will be spotted at these times. Most smart buyers of business opportunities will negotiate the point in the agreement stipulating sources of supply in case product quality is inconsistent.
- Parent-company bankruptcy: Another pitfall is the possibility of the parent company overextending itself and going bankrupt. While this is not as serious in a business opportunity as it would be in a franchise, you still run the risk of losing the business because your property contracts may have been financed through the parent company.

Disclosure Statement

A disclosure statement is a document that contains everything there is to know about the business opportunity and the seller's company. It includes the promoter's financial strength, how many operating units there are, and exactly what you're going to be required to pay in total so there are no hidden fees. The purpose of the disclosure statement is to protect the licensee as well as the licensor and to eliminate some unscrupulous licensors.

As already mentioned, some 26 states have legal requirements for disclosure statements and registration. In addition, there are also federal laws regarding business opportunities. The most significant is the Federal Trade Commission rule requiring full disclosure of the business opportunity on a national level. The rule doesn't require a registration, but it does require a disclosure that follows a specific format.

Most states that have disclosure requirements parallel the federal standards of information that must be supplied to the buyer. In addition, state-required disclosure statements often include information stating that the buyer has three to seven days referred to as a "cooling off" period so the purchaser/investor can reconsider the subject after being bombarded by sales pitches from slick salespeople.

When reviewing a disclosure statement, be aware of the following items:

- The licensor: The history of the parent company needs to be detailed. It should include the identity and business experience of any persons affiliated with the licensor, whether the company has been involved in any litigation, whether it or any of the officials in the company have ever declared bankruptcy, any other initial payment or any payment in total, and any other fees.
- Obligations of the licensee: If there are any financing arrangements, they have to be stated. If you are going to be required to buy from any supplier, that should be stated up front. The disclosure statement also states what the parent company will have to provide in terms of equipment, training, ongoing services and a training manual.
- What the licensor promises to deliver: This should include whether you're getting an exclusive area or territory as a licensee. Any trademarks, service marks, trade names, logo types and commercial symbols as well as any patents or copyrights which you're going to be able to use as a licensee need to be identified in here.
- Obligation of the licensee: This is how you will participate in the actual operation of the business opportunity. If this is an absentee business, it must be stated. If the licensor indicates that you must personally operate the business, that should also be stated. Restrictions on goods and services offered by the licensee are covered. It has some provisions for renewal and termination, repurchase and modification. It also has to list the current licensees and their addresses so you have the opportunity to contact these people.
- Public-figure relationships: If this is a business opportunity that is identified with a given public figure like a celebrity or athlete, it should indicate what arrangements have been made with that person.

- Financial statements of the company: This is required in almost every state. It is an audited financial statement prepared by a CPA. There is usually a letter from the accountant indicating that the books have been audited and are available for people to study. Any estimates or projections of earnings would have to be part of the disclosure statement.

Acquiring a New Customer

A customer is a person or organization that a marketer believes will benefit from the goods and services offered by the marketer's organization. As this definition suggests, a customer is not necessarily someone who is currently purchasing from the marketer. In fact, customers may fall into one of three customer groups.

Existing Customers

Consists of customers who have purchased or otherwise used an organization's goods or services, typically within a designated period of time. For some organizations the time frame may be short, for instance, a coffee shop may only consider someone to be an Existing Customer if they have purchased within the last three months. Other organizations may view someone as an Existing Customer even though they have not purchased in the last few years (e.g., automobile manufacturer). Existing Customers are by far the most important of the three customer groups since they have a current relationship with an organization and, consequently, they give an organization a reason to remain in contact with them. Additionally, Existing Customers also represent the best market for future sales, especially if they are satisfied with the relationship they presently have with the marketer. Getting these Existing Customers to purchase more is significantly less expensive and time consuming than finding new customers mainly because they know and hopefully trust the marketer and, if managed correctly, are easy to reach with promotional appeals (i.e., emailing a special discount for new product).

Former Customers

This group consists of those who have formerly had relations with the marketing organization typically through a previous purchase. However, the marketer no longer feels the customer is an Existing Customer either because they have not purchased from the marketer within a certain time frame or through other indications (e.g., a Former Customer just purchased a similar product from the marketer's competitor). The value of this group to a marketer will depend on whether the customer's previous relationship was considered satisfactory to the customer or the marketer. For instance, a Former Customer who felt they were not treated well by the marketer will be more difficult to persuade to buy again compared to a Former Customer who liked the marketer but decided to buy from someone else who had a similar product that was priced lower.

Ways to get New Customers

1. Ask for referrals: Referrals are one of the best ways to get new customers—but if you sit back and wait for your current customers to refer their friends and family members

to you, you could be waiting a long time. Take charge by implementing a system for actively soliciting referrals from your satisfied customers. Build referral-generating activity into the sales process. For example, send a follow-up email asking for a referral after a customer has received their order from your e-commerce site. Have your B2B salespeople ask for referrals when they follow up with customers to answer questions after the sale.

2. Network: Generate good old-fashioned word-of-mouth by participating in networking organizations and events relevant to your industry and your customers. Be sure to approach networking with the attitude, “How can I help others?” rather than “What’s in it for me?” By thinking about how you be of service, you’ll build relationships that lead to new customers.

3. Offer discounts and incentives for new customers only: Introductory offers, such as a two-week course at your karate studio for $100, can lure curious customers in your door by providing a low-risk way to try your products or services. Track which customers redeem the special offer, then target them with marketing message encouraging and enticing them to keep buying from you.

4. Re-contact old customers: Everything old can be new again—including old customers who haven’t done business with you in a while. Go through your customer contacts on a regular basis and, after six months or a year without an interaction or purchase, reach out to dormant customers with a special offer via email, direct mail or phone. They’ll be glad you remembered them and want to win them back.

5. Improve your website: These days, consumers and B2B buyers alike find new businesses primarily by searching online. That means your website has to do some heavy lifting to attract new customers. Give your website an once-over to make sure that the design, content, graphics and SEO are up-to-date. If this isn’t your strong suit, it’s worth enlisting the services of a website design company and/or SEO expert to help.

6. Partner with complementary businesses: Team up with businesses that have a similar customer base, but aren’t directly competitive, and strategize how you can target each other’s customers to drive new business to each other. For example, a maternity clothing website and a baby products website could pair up to offer discounts and deals to each other’s customers.

7. Promote your expertise: Generate interest—and new customers—by publicizing your expertise in your industry. Participating in industry panel discussions or online webinars, speaking at industry events or to groups your target customers belong to, or holding educational sessions or workshops will impress potential new customers with your subject expertise.

8. Use online reviews to your advantage: Does your business get online reviews from customers? Cultivate your reviews and make the most of them. Link to reviews on your website and post signage in your location urging customers to check you out on Yelp (or wherever the reviews are). Social proof is powerful, and new customers are more likely to give your business a try if they see others praising it.

9. Participate in community events: All else being equal, most people like to support independent businesses in their communities. Raise your profile in your community by taking part in charity events and organizations. Sponsor a local fun run, organize a holiday "toys for kids" donation, or supply a Little League team in your city with equipment. It gets your name out there, which helps bring in new customers.

10. Bring a friend: Offer 2-for-1, "buy one, get one free" or "bring a friend" deals to get your "regulars" to introduce new customers to your business. For instance, a restaurant could offer a "buy one entrée, get a second for free" special to attract more customers. You can even get specific: "Invite a friend to try our new happy hour specials!" to let customers know you're looking to introduce your business to a wider customer base.

Steps to Attract New Customers to your Start up

Word-of-mouth Advertising

This is definitely the oldest form of marketing and advertising used by businesses since the world began. While it may bring slower results than radio or television, it still works very well.

When a customer is happy and satisfied with a product or service, there's a natural human tendency that they are likely to share this experience with people in their circle of trust and influence – family, friends, colleagues, neighbours and sometimes, strangers.

Satisfied customer is one of the most effective marketing and advertising tools a small business can ever have. Satisfied customers become foot soldiers, evangelists and advocates for your business. It is amazing how many of your satisfied customers will go to great lengths to promote, convince, protect and defend your business outside.

Word-of-mouth is so effective and powerful that many successful business rely solely on this method to advertise and market their products and services. Network marketing businesses are a good example.

So, how exactly can your small business grow an army of passionate customers who will use word-of-mouth advertising to your advantage?

- The first and most important step is to sell a product or service that really works and provides great value to anybody who uses them. If a product or service delivers on its promise and does more than what it says, it's a winner. Most people buy products or services to solve a problem or satisfy a need. Nothing will make a customer happier and more satisfied than getting a product that makes a very challenging problem go away. They'll scream your name from the mountain tops!

- Great customer experience. Most times, it doesn't really matter how large or deep-pocketed your competition is. You can grow a successful business on great customer service. People like to buy products and services from businesses that treat them with respect. People love to be given attention and treated well and will always return to enjoy that beautiful experience again. Don't forget, customers spend their hard-earned money on your products. Don't you think they deserve a big "Thank you' with a wide smile on your face? People hardly forget a great customer experience and will happily tell other people about it.

- Give your customers a reason to advertise and market your business. Sometimes, word-of-mouth advertising doesn't come automatically; you have to encourage, motivate or incentivize your customers to do it for you. Start a referral or reward program for your existing customers. The more people they refer to you, the more free products, services and discounts they will enjoy. The reward should be large enough to trigger their interest and make them take action. It's a win-win method that always works.

The way it works is simple. All existing customers were registered and given a unique code. Whenever they spend money in the shop, it increases the total amount they have spent to date. If this total reaches a certain level, they are awarded certain discounts for all the services they pay for.

There were four levels (Bronze, Silver, Gold and Platinum) with increasing rewards. The results were amazing. Almost every customer was referring their family, friends, neighbours and total strangers to the salon to spend money under their code thereby increasing their totals and making them reach the Gold and Platinum levels faster.

Free Stuff Approach

Giving away some of your products and services for free does three very positive and interesting things for your small business:

- First, it lets people out there know that you exist.
- Second, it gives you a chance to prove the value of your product or service and show that it really works.
- Third, it provides your future customers with a risk-free way to try out your products or service without spending any money. And if customers find value in your products or services, they will be willing to pay money for it.

Customers love 'free' because they have nothing to lose; they just sit back, relax and enjoy the service or product without any risk. By drawing them into your business, you give them a chance to see and experience something that would have been totally hidden from them if you didn't open your door.

However, you must make sure that the free stuff WILL NOT last forever. From the outset, determine the number of people who will enjoy the free stuff or how many days the promo will last. Not everybody should get free stuff; it's the scarcity element that makes it very appealing.

Offer Discounts and Deals

Just like free stuff, discounts and deals work well too. They are another creative and low cost way to attract more customers to your business. People often see discounts and deals as a huge opportunity to save money and enjoy a product or service for a whole lot less.

In fact, discounts and deals usually influence customers to buy more products or services than they initially planned. They love to 'take the opportunity' because the same products may not be so cheap tomorrow.

Offering deals and discounts are also a powerful way to publicise your brand. There are now a couple of deal websites in Africa that advertise great deals to deal-hungry customers on a daily basis.

Take Nigeria's DealDey for example. Every day, it advertises mouthwatering deals from several small businesses in several cities across Nigeria. For a small fee, small businesses can reach thousands of potential customers through the good discounts and deals they offer and websites like DealDey offer a great platform to do this.

Start a Contest

Everybody loves to win. It's not just always about the prize you win, it's the thrill of getting lucky or beating other people. Call it 'ego' or whatever you like, but it always works. Let's say you're in the wedding business and sell wedding gowns, bridal accessories and other stuff to young people who are planning a wedding.

Let's also say you start an interesting contest and the prizes include a designer wedding dress or a fully-sponsored honeymoon trip to a local resort. To enter for this contest, all the couples will have to do is submit a romantic poem about how they met each other.

To spread the word about the contest, you could use word of mouth and social media like Facebook (we'll talk about this a little later). Potential couples will start to talk about the contest and create free attention and buzz for you.

Even though many of them will not win the grand prize, they will still be interested in finding out more about your products and services.

A word of caution though. Make sure you can comfortably afford the prize(s) you plan to give out. Draw out a reasonable budget and stick to it. It makes no sense if the money you make from selling your products during the contest cannot cover the cost of running it.

Create a Website

Small businesses need websites too, even if it has just a single page. As a result of the huge influence of the internet, our world is now more connected than ever before. Most people simply use the internet nowadays when they want to find a product or service.

With the spread of mobile phones across many parts of Africa, it is easier and more effective to search Google for information rather than ask the nearest human being. Let's say you run a small laundry and dry cleaning business in Tema (a small city in Ghana). Will your business come up among the search results when a desperate customer searches Google for 'Laundry Businesses in Tema'?

Owning your own website is no longer a luxury that only big companies enjoy. The internet has now made it possible for everybody to enjoy the opportunity of getting found. You can get a website for free nowadays and www.blogger.com is a good place to start. With a Google email account, you can set up a single web page with a brief description of your business, products and services.

More importantly, you should include your contact information (physical address, telephone and email). A website is like your own billboard or newspaper advert. Get your small business represented on the internet. It often costs nothing and will benefit you a lot.

Get Listed

In the old days, long before we had mobile telephones, there were these very large books known as 'the Yellow Pages'. Every person and business usually had their telephone numbers (and sometimes addresses) listed in the Yellow Pages.

Because there were fewer telephones back then (known as landlines) it was easy to get everybody's names and numbers in one book. Today, with more than 800 million people with mobile telephones across Africa and personal privacy concerns, it would be impossible to do that.

Thanks to the internet, small businesses can be listed for free on local directories.

When a small business is registered on a local directory, people around the world can find it on the map and view its contact information. The best part is, you don't have to pay anything to become registered on these directories. Some of the most popular ones out there are Google Places, Yahoo Local and Bing Places.

Social Media

Social media is changing the way business is done in today's world. Although there are now several social media platforms across the world, Facebook leads the pack as the world's largest social community with over 1.1 billion registered users worldwide. That's more than 15 percent of the world's total population.

Popular social media networks like Facebook are some of the top places where your potential customers hang out and it makes perfect sense that you register your business on Facebook too.

In Africa, Facebook has proven to be popular with over 50 million regular Facebook users on the continent (as at December 2012) registered on the website.

Social media like Facebook and Twitter make it very easy for people (both customers and non-customers) to talk about your business. They can share or tweet about your products and services and this allows you to easily engage with them.

Online Advertising

More people now depend on the internet for information nowadays. More people are watching YouTube than they watch television. More people read news websites and online magazines instead of the paper versions. Even big companies have recognized this shift and are now investing more in online advertising over the traditional ones.

Since more people now spend more time on the internet, it only makes sense that you follow them there. There are different forms of online advertising but one of the most popular remains Google's Adwords Program.

Google is by far the largest search engine on the internet and millions of people around the world depend on it everyday for information. It made more than $30 billion dollars from online advertising (in 2012) and this figure is expected to grow in the future.

With a small daily budget of $10 to $20 per day, small businesses can attract thousands of potential customers to buy products and services. However, it is important you know that online advertising will work best for your business if you have a website for your business.

Print and Distribute Flyers

Flyers remain a simple but very effective way to publicise and advertise your business. They usually work best for small businesses that target customers within a particular area (such as university campuses, residential estates, offices and industrial areas).

To try out this method of advertising, you don't need to invest in very expensive flyers. If you have limited funds, it's best you focus more on the message you want to deliver and not on the pictures, graphics or colours.

In fact, you can design a simple one for yourself using any of the free templates in PowerPoint on your computer. Flyers worked well for Colin Thornton, one of the inspiring entrepreneurs we profiled here on Small starter.

When he started his computer repair business from his parents' garage, he printed some flyers and shared them to people in his neighbourhood. That's how he attracted his first set of customers and today, he has grown that small businesss into a successful multi-million dollar company. You can read his success story here to inspire yourself.

Volunteer Work

Doing volunteer work is often an overlooked opportunity to enjoy free publicity. Get involved in volunteer work in your community, church or mosque. Sponsor an event or offer your services for free.

Have you ever wondered why big companies invented 'CSR', the common acronym for Corporate Social Responsibility? For some reason, customers love to support businesses that give something back to the society in some way.

Most times, all that is required may be your time, effort and encouragement. If you plan to use this method of advertising, remember to make sure that all donations, sponsorships and support are done in the name of your business and not yours.

Resources

When you start your small business, you need certain resources to ensure its success. Careful planning will make certain that you begin your business with all of the tools you need to achieve your goals. These are given here.

Idea

Your business idea will drive the entire company. It is your idea that sets you apart from competitors, attracts customers and is your reason for existing. You may have your own idea, decide to buy an existing business or buy into a franchise.

Business Plan

Create a business plan to serve as your guide. A well-written plan will also provide you with benchmarks so you can check your progress throughout the year. It is best to reference your plan every month or every quarter so you can make adjustments, as needed.

Structure

You will want to decide the legal structure for your business. Will you be a sole proprietor, have a partnership or choose to incorporate as a C- or S-corporation? Investigate your options with professional resources, such as your attorney and accountant. Financing decisions will be affected by the type of structure you choose.

Once your business structure is finalized, you will be able to apply for the appropriate local and state licenses, federal tax identification numbers and other legal requirements. With those documents, you will be able to open a business checking account.

Capital

Capital is money in the bank or money you can access. You will need sufficient capital to pay expenses until your business becomes profitable. These funds may come from your own savings, friends and relatives, loans or private investor financing. For the majority of entrepreneurs, this money comes from themselves or friends and relatives.

Workspace

An important resource for your small business is space. Depending on the type of business you choose, you may work out of your home, share space with an existing business or lease an office or storefront. Be sure to learn about zoning requirements and sign permits so you stay within legal restrictions.

Customers

To be successful, every business needs customers. The lifeblood of your business, customers and their purchases will determine your ability to meet financial projections. If you are just getting started in business, know who will buy your product, where you can find them and how you will reach them. This market research will enable you to analyze the markets to target with your marketing and advertising tactics.

Startup Capital

Startup capital is the money needed to start a new business. Startup capital might be needed to pay for office space, permits, licenses, inventory, product development, manufacturing, marketing, or any other expense that results from starting a new business.

Types of Startup Capital

For each stage of its life, a company has different financial needs. Each level of funding plays a unique role in that stage of your business:

- Seed capital is used for initial research and planning before starting the business.
- Startup capital pays for rent and supplies during the first year or so of your business.
- Mezzanine capital helps your company grow bigger, move to a better facility, or purchase higher-quality equipment. This is also known as expansion capital.
- Bridge capital bridges the gap between your current level of funding and the next level.

Debt Capital versus Equity Capital

Debt capital is when your business takes out a loan for its startup capital. The loan is given for a set amount of time and then it must be paid back with interest and possibly other fees.

The benefit of debt capital is that the owner retains full control of the company. The drawback is hefty repayment. Equity capital is funding that's provided by people or companies who want to own a piece of your company. Those people fund your business in the initial stages in trade for ownership of a portion of your company. They benefit when your company is successful, goes public, or is bought by a larger company.

The benefit of equity capital is that there's no loan repayment. The drawback is that the owner loses control over a percentage of his company.

Sources of Startup Capital

A business can choose to obtain startup capital in any of these ways, but some may be more beneficial than others, depending on the type of business.

Friends and Family

It's very common that new businesses receive startup capital from their friends and family. This is a very easy way to receive funds, but there can be many drawbacks.

For example, if your company fails and you lose everything, you may lose your friends who loaned you money.

It's important when borrowing money from friends and family to have a contract that describes how startups work and all the risks that are involved. Be clear in your agreement with friends and family. For instance, if the company fails, do they still expect repayment?

This contract is also important when seeking funding later on. Future funders should be able to examine documents proving where your initial funding came from.

Personal Funds

Many startups use personal funds as their startup capital. If your business doesn't need to produce a product, it's possible to keep costs low in the beginning by using only personal funds.

Personal funds may come from your savings account, taking out a second mortgage or home equity loan, a personal loan, or any other finances you have at hand. Personal funds may also be obtained by borrowing money from a bank or taking on credit card debt.

Government Programs

Some government programs, including the U.S. Small Business Administration, offer loans of startup capital for new businesses.

Angel Investors

An angel investor is a high net worth individual who will invest in your company in exchange for partial ownership. Angel investors typically give startup capital to businesses in ranges of $10,000 to $100,000. They participate in priced or debt rounds.

It's important to determine whether an angel investor is an active professional or merely an occasional investor. A professional is one who does at least six deals a year. You can also look them up on AngelList. A new business should be able to close a deal with a professional within the first three meetings. It's appropriate to ask their interest level at the end of the first meeting.

Target carefully when seeking out an angel investor. Make sure that your business or product is something that they're interested in.

Angel Groups

This is a group of angel investors who pool their money to share deal flow. Angel groups can do priced rounds, and if a high enough percentage of the group is interested in your business, they can lead your deal.

A check from an angel group will range from $50,000 to $500,000. These angel groups aren't syndicates and therefore don't carry syndicate fees.

The angel group will meet regularly and likely has a pitch process that they prefer. Some angel groups do a lot of due diligence and others don't.

Angel List Syndicates

The most effective way to raise money on AngelList is through AngelList syndicates. The syndicates are formed by influential angel investors. The investment of an AngelList syndicate can range from a $200,000 to more than a million.

The best way to get a syndicate's interest is to spark the interest of one of the AngelList syndicate investors. If you can do that, then that angel investor will get the rest of the syndicate interested.

Micro VCs

Think of a micro venture capitalist (VC) as an angel investor with more money to invest. It might be an individual investing $100,000 or a firm that has $10 to $50 million to invest. The micro VCs will commit or decline within three meetings. This type of investor may be comfortable with debt or equity capital.

A micro VC is very similar to the VC in that they're interested in ownership, but with a lesser stake. The micro VC will be interested in 8 or 10 percent ownership, while a VC would want 20 percent ownership of your company.

As you would with an angel investor, be sure to research micro VCs before targeting them. Research their portfolio and make sure that your business or product is something that they might be interested in. You should not only target a specific fund within the micro VC, but a specific partner.

VCs

A traditional VC will have available investment funds of between $100 million and $500 million. For seed money, a VC might invest as little as $250,000 or up to $2 million. The sweet spot is typically between $500,000 and $1 million. A VC is very interested in the percentage of ownership of the business. They might insist on doing a series A (preferred stock) round as well.

It's important to do a little research when meeting with a VC. The VC might still meet with you even if they are between funds and this would be a waste of your time. With larger firms, try to find out how many companies they typically manage and how many they're currently involved in. This could give you a good idea of their current funding level.

You should also try to determine the partner who is managing the deal. This isn't always obvious with larger VC firms. Ask the VC firm what their pitch process is and how they would like for you to follow up. Make sure that the next steps are clear and ask the VC directly if they're interested.

Mega VCs

A mega VC is a firm that has more than $1 billion under their management for investment. Mega VCs include these companies:

- Andreessen,
- Khosla,
- Kleiner Perkins,
- Sequoia,
- Bessemer.

Find out if the Mega VC has a seed program and try to determine who runs it. The seed capital process is compressed compared to the process of raising more capital. There's also likely one partner who is in charge of seed capital.

For some companies, it doesn't make sense to seek out a mega VC during the seed round as the mega VC must invest large amounts of money to make their return. Instead of trying to get the attention of a mega VC during the seed round, get their attention for a series A or series B round.

Online Sources for Startup Capital

There are many places online where business owners can request startup capital from investors. An online platform is sometimes the simplest and safest way to gain funding. It may be safest because these platforms are approved under the rules set out by the U.S. Securities and Exchange Commission.

Angel List

Mentioned above, this minimalist website allows startups and investors to search for opportunities that are interesting or relevant to them.

Investors will pay five percent of their investment value to AngelList, while startups pay nothing to the website.

Fundable

This website works in a similar way to Kickstarter. Investors can give money to a company in exchange for gifts and rewards or for stock in the company. The option to solicit investors is new to the website, but some companies have been very successful at it. Fundable charges startups $99 per month to be listed and a 3.5 percent processing fee for all credit card transactions.

Gust

This website focuses solely on matching entrepreneurs to vetted investors. The website was formerly known as AngelSoft.

Gust offers startups many tools to help them develop effective VC pitches. The website has the option to create both public and private business profiles, to search for investors, put together a video pitch, or to track investors' activity on the site.

The fee for investors isn't publicly disclosed, and the website is free for entrepreneurs. Gust has more than 1000 investment groups that have invested in over 1800 startups in the last year.

Startups.co

This is one of the largest websites where entrepreneurs can meet with investors. There are over 300,000 companies and 20,000 investors on the website.

The website focuses on entrepreneurs, offering tools and expert consultants to help a business create effective pitches and find investors.

Entrepreneurs pay $59 per month to access the network of investors and $300 or more for consulting services. There's an opportunity for large and small investments.

Profit Potential

Profit potential is also known as earning potential. Profit potential is the potential for a product to generate revenue which, after expenses, leads to net income. It's important to highlight the importance of the word 'potential.'

Let's say a business owner decides to place a sale on widgets. Prior to beginning the sale, the inventory count is 100 units. The sale price is $5 per widget, and expenses amount to $3 per unit.

Profit potential is then:

100 units in inventory x (sale price of $5 per unit - expenses of $3 per unit) = $200 profit potential

Put another way: I x (P-E) = PP, where:

- I = inventory or potential demand, in units
- P = sale price per unit
- E = expenses per unit
- PP = profit potential.

It should also be noted that inventory (or potential demand) multiplied by sale price per unit equates to expected revenue. Expected revenue less expenses, therefore, equals profit potential.

Calculating Profit Potential for Multiple Products

Let's dig a bit deeper into the concept but using an example with the fictitious transportation company, ABC Industries. ABC is the maker of planes, trains, and automobiles. Unfortunately for the consumer, ABC Industries only produces a standard version of each product. ABC Industries accounts for the expenses of each product separately.

- Planes
    - Sale price of $350,000 per plane.
    - Projected demand of 100 units this year.
    - Expenses are projected to be 50% of the sales price.
- Trains
    - Sale price of $200,000 per box car.
    - Projected demand of 50 units this year.
    - Expenses are projected to be $150,000 per unit.
- Automobiles
    - Sale price of $15,000 per car.
    - Projected demand of 1,000 units this year.
    - Expenses are projected to be 75% of the sales price.

In the next year, ABC Industries expects sales of planes to double, while sales of trains to decline by 50%. Automobile sales are expected to remain constant. ABC does not intend to alter the price of the products, nor do they expect expenses per unit to change. Let's calculate next year's profit potential for the owners of ABC Industries.

Revenue Calculation			
Product	Demand	Sales Price	Revenue
Planes	200	$350,000	$70,000,000
Trains	25	$200,000	$5,000,000
Automobiles	1000	$15,000	$15,000,000
Revenue			$90,000,000

Expenses Calculation			
Product	Demand	Expenses	Total Expenses
Planes	200	$175,000	$35,000,000
Trains	25	$150,000	$3,750,000
Automobiles	1000	$11,250	$11,250,000
Expenses			$50,000,000

Profit Protential Calculation			
Product	Demand	Profit Protential	Total Profit Protential
Planes	200	$175,000	$35,000,000
Trains	25	$50,000	$1,250,000
Automobiles	1000	$3,750	$3,750,000
Profit Protential			$40,000,000

ABC Industries can review the gross margin percentage on each of their products. Gross margin percentage is the percentage of profit to revenue. Gross margin can be calculated as:

- Planes: $35,000,000 / $70,000,000 = 50% gross margin percentage.
- Trains: $1,250,000 / $5,000,000 = 25% gross margin percentage.
- Automobiles: $3,750,000 / $15,000,000 = 25% gross margin percentage.
- Overall: $40,000,000 / $90,000,000 = 44.44% gross margin percentage.

Need of Profit Potential

Earning potential is really an indication of the possibility of dividends or stock price increases. After all, when a company has greater earning potential, it essentially has a pot of untapped money. Investors who realize this can often pick up shares of the company cheaply -- and then ride the stock up and/or collect bigger dividends as the company taps into that earning potential. In turn, earning potential heavily influences the expected growth rate variable found in so many financial calculations. The risk, of course, is that the company does not realize the expected earning potential.

Working Principle of Profit Potential

In addition to scrutinizing earnings growth potential, analysts, investors, portfolio managers, and potential acquirers usually look at a stock or industry sector's earning potential in relation to other factors such as price, by calculating the price to earnings (P/E) ratio. Generally, the higher the ratio, the greater the earnings potential. The perception that a given stock has higher earning potential relative to other securities tends to drive up the price of that stock.

Although earning growth potential can cause a stock's price to rise, this will not necessarily translate into higher current dividends as company management might choose to instead reinvest its earnings in the business. A company that comes out with an innovative new product may have higher earning potential in the future as a result, but the projected revenue may not translate into actual profit for some time.

A company's market value can and does fluctuate for reasons unrelated to its earning potential. For instance, during "risk-off" periods in markets when a change in risk perception makes investors reluctant to bet on any but the safest assets. The same dynamic can operate in reverse during times of bullish sentiment.

Analyzing Earning Potential

Several factors need to be taken into account when valuing a stock's earning potential. The value of intangibles such as intellectual property and brand equity, share buyback plans, revenue forecasts, and market share in addition to management acumen, regulatory risk, and general investor sentiment—all come into play when analyzing or deciding whether or not to invest in a stock or acquire a company.

Earning potential varies by industry, so it's important to consider where a stock trades relative to its industry peers by analyzing comps, or comparables. And comparing a company's earning potential to its past performance can show you how its growth potential has changed over time.

Fundamental analysis using financial ratios obtained from a firm's financial statements is the basis for understanding earning potential.

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4

Understanding The Business Model

The conceptual structure which supports the feasibility of a product or company and explains how the company operates, makes profit, and how it plans to achieve its goals is called a business model. The topics elaborated in this chapter will help in gaining a better perspective about different types of business models such as franchise business model and affiliate business model.

A Business Model is a conceptual structure that supports the viability of a product or company and explains how the company operates, makes money, and how it intends to achieve its goals. All the business processes and policies that a company adopts and follows are part of the business model.

The widespread use of business models came into existence with the advent of the personal computer which let people test and model the different components of a business. Successful business models before that were mostly created by accident and not by design. It's different for business plans and business strategies though.

Every business model intrinsically has three parts:

- Everything related to designing and manufacturing the product.
- Everything related to selling the product, from finding the right customers to distributing the product.
- Everything related to how the customer will pay and how the company will make money.

Working Principle of a Business Model

A business model is a high-level plan for profitably operating a particular business in a specific marketplace. A primary component of the business model is the value proposition. This is a description of the goods or services that a company offers and why they are desirable to customers or clients, ideally stated in a way that differentiates the product or service from its competitors.

A business model for a new enterprise should also cover projected startup costs and sources of financing, the target customer base for the business, marketing strategy, a review of the competition, and projections of revenues and expenses.

A common mistake in creating a business model is underestimating the costs of funding the business until it becomes profitable. Counting costs to the introduction of a product is not enough. A company has to keep the business running until revenues exceed expenses.

A business model may also define opportunities for partnering with other established businesses. An example would be an advertising business that could benefit from an arrangement for referrals to and from a printing company.

Types of Business Models

There are as many types of business models as there are types of business. Direct sales, franchising, advertising-based, and brick-and-mortar stores are all examples of traditional business models. There are hybrids as well, such as businesses that combine internet retail with brick-and-mortar stores.

Within these broad categories, each business plan is unique. Consider the shaving industry. Gillette is happy to sell its Mach3 razor handle at cost or lower in order to get steady customers for its more profitable razor blades. The business model rests on giving away the handle to get those blade sales. This type of business model is actually called the razor-razorblade model, but it can apply to companies in any business that sells a product at a deep discount in order to supply a dependent good at a considerably higher price.

Advantages of a Business Model

Successful businesses have adopted business models that allow them to fulfill client needs at a competitive price and a sustainable cost. Over time, many businesses revise their business models from time to time to reflect changing business environments and market demands.

One way analysts and investors evaluate the success of a business model is by looking at the company's gross profit. Gross profit is a company's total revenue minus the cost of goods sold. Comparing a company's gross profit to that of its main competitor or its industry sheds light on the efficiency and effectiveness of its business model.

Gross profit alone can be misleading, however. Analysts also want to see cash flow or net income. That is gross profit minus operating expenses and is an indication of just how much real profit the business is generating.

The two primary levers of a company's business model are pricing and costs. A company can raise prices, and it can find inventory at reduced costs. Both actions increase gross profit.

Nevertheless, many analysts consider gross profit to be more important in evaluating a business plan. A good gross profit suggests a sound business plan. If expenses are out of control, the management could be at fault, and the problems are correctable. As this suggests, many analysts believe that companies that run on the best business models can run themselves.

Examples of Business Plans

Consider a comparison of two competing business plans. Both companies rent and sell movies. Before the advent of the Internet, both companies made $5 million in revenues after spending $4 million on their inventories of movies.

That means that each company makes a gross profit calculated as $5 million minus $4 million, or $1 million. They also have the same gross profit margin, calculated as gross profit divided by revenues, or 20%.

After the advent of the Internet, Company B decides to offer streaming movies online instead of renting or selling physical copies of movies. This change disrupts the business model in a positive way. The licensing fees do not change, but the cost of holding inventory is down considerably. In fact, the change reduces storage and distribution costs by $2 million. The new gross profit for the company is $5 million minus $2 million, or $3 million. The new gross profit margin is 60%.

Meanwhile, Company A is stuck with its lower gross profit margin, and its sales will soon begin sliding downwards. It failed to update its business plan. Company B isn't even making more in sales, but it has revolutionized its business model, and that has greatly reduced its costs.

Disadvantages of Business Models

Joan Magretta, the former editor at the Harvard Business Review, suggests there are two critical factors in sizing up business models. When business models don't work, she states, it's because the story doesn't make sense and/or the numbers just don't add up to profits.

The airline industry is a good place to look to find a business model that stopped making sense. It includes companies that have suffered heavy losses and even bankruptcy.

For years, major carriers such as American Airlines, Delta, and Continental built their businesses around a "hub-and-spoke" structure, in which all flights were routed through a handful of major airports. By ensuring that most seats were filled most of the time, the business model produced big profits.

But a competing business model arose that made the strength of the major carriers a burden. Carriers like Southwest and JetBlue shuttled planes between smaller airports at a lower cost. They avoided some of the operational inefficiencies of the hub-and-spoke model while forcing labor costs down. That allowed them to cut prices, increasing demand for short flights between cities.

As these newer competitors drew away more customers, the old carriers were left to support their large, extended networks with fewer passengers. The problem was made worse when traffic fell sharply in 2001. To fill seats, the airlines had to offer more and deeper discounts. The hub-and-spoke business model no longer made sense.

Investor's View

What does this mean to an investor? When evaluating a company as a possible investment, the investor should find out exactly how it makes its money. That's the company's business model. Admittedly, the business model doesn't tell you everything about a company's prospects. But the investor who understands the business model can make better sense of the financial data.

Franchise Business Model

Franchise business model is a distribution model. A franchise is a type of business that is operated by an individuals known as a franchisee using the trademark, branding and business model of a franchisor. In this business model, there is a legal and commercial relationship between the owner of the company the franchisor and the individual the franchisee. In other words, the franchisee is licensed to use the franchisor's trade name and operating systems.

In exchange for the rights to use the franchisor's business model — to sell the product or service and be provided with training, support and operational instructions — the franchisee pays a franchisee fee (known as a royalty) to the franchisor. The franchisee must also sign a contract (franchise agreement) agreeing to operate in accordance with the terms specified in the contract. A franchise essentially acts as an individual branch of the franchise company.

Franchisor and Franchisee Relationship

The Franchisor is the parent company that sells the rights to franchise their brand to prospective franchisees. The franchisor is the one who has developed the company, brand and operating systems. Upon the decision to franchise their business, the franchisor offers franchisees the rights to their proven business model, recognizable trademark, established business systems, and their training and support.

The Franchisee is the individual who buys the rights to sell the products or services and utilize the proven and established business systems mentioned. Although the franchisee is, in essence, buying a pre-established business, franchisees must work hard in order to gain loyalty in their market, attract talent and grow their franchise business. After all, it is the franchisee that runs the day to day business.

The franchisor/franchisee relationship should be one built upon mutual respect, understanding, and support. Of course, as with all relationships, no two are the same. Although relationships between franchisee and franchisor will differ from brand to brand, one thing always remains the same: the franchisee/franchisor relationship matters.

Types of Franchising

There are two primary franchise business models that exist today: The Product Distribution Franchise Model and The Business Format Franchise Model.

Product Distribution Franchise - In the product distribution franchise model the franchisor manufacturers the product and the franchisee sells the product. This relationship is similar to the supplier-dealer relationship with a few differences. One major difference is that in the franchise relationship the franchisee may distribute the products on an exclusive or semi-exclusive basis whereas a supplier-dealer relationship may allow the dealer to sell several different brands at once. Examples of product distribution franchises include Coca-Cola, John Deere, and Ford Motor Company.

Business Format Franchise - The Business Format Franchise is the most common franchise model. In this model, the franchise is allowed to use the brand and trade name of the franchisor, like in the product distribution model, but they are also granted access to the product distribution model. Most of the franchises that immediately come to mind, like Wendy's, Dunkin Donuts, or McDonald's are business format franchises.

Different Types of Franchise Ownership

Single Unit Franchisee - When a franchisee purchases their first franchise they are considered a single-unit franchisee. This is the most common form of franchise ownership.

Multi-Unit Franchisee - If a franchisee finds success with their first franchise venture they may choose to open up a second, third or even fourth franchise from the same franchisor. When a franchisee owns more than one franchise unit they are considered to be a multi-unit owner.

Multi-Unit Area Developers - Multi-unit area developers are similar to multi-unit franchisees except that they agree, up front, to develop a certain number of franchise locations within a specified time period and area. This approach is best for franchisees who are looking for market exclusivity and have the resources to secure that exclusivity with the franchisor.

Master Franchisee - A master franchisee is very similar to a multi-unit area developer in that they are obligated to open a certain number of locations in a specified time period and area. The difference is that the master franchisee is also able, and sometimes obligated, to sell franchises to other prospective franchisees. The master franchisee then acts as a middleman for the franchisee and the franchise company.

Licensing vs. Franchising

One common area of confusion for prospective franchisees understands the difference between franchising and licensing.

Licensing is a broad term that businesses use for contracting purposes. Licensing gives the licensee a right to operate in cooperation with a brand, gaining access to the brand's intellectual property, brand, design, and business programs. In exchange, the licensee pays royalty fees to the licensor. The licensor may have a say in how the intellectual property is used but not how the licensee operates their business. A licensor will grant a licensee the right to use their intellectual property but the licensor will not provide support or training or exert any control over how the licensee uses that intellectual property.

A franchise, on the other hand, is a legal and commercial relationship between the owner of a company (the franchisor) and an individual (the franchisee) who is starting a branch of that business using the business' trademark logos and business model. Essentially, a franchise is an independent branch of the franchise company. The franchisee sells the product or service that the franchisor supplies.

Franchise Opportunity vs. Business Opportunity

Another common area of confusion is franchise opportunity versus business opportunity. While at first glance they may sound very similar, there are some major differences. For instance, a franchise opportunity includes the licensing of trademark rights, offers robust training and operational assistance throughout the life of the contract, and can often cost more than a business opportunity due to the ongoing required fees.

While all business opportunities are different and can be hard to define, the main difference is that typically when someone pursues a business opportunity they are unlikely to receive the same level of support, training or guidance that a franchisee receives from their franchisor.

Benefits of the Franchise Model

Franchising provides benefits for both seller and buyer. For franchisors, the primary benefit is the ability to use other people's money to expand the brand more rapidly than they could either on their own or through investors or lenders. The initial franchise fee and ongoing royalties they collect allow franchisors to build their brand without sacrificing control to outsiders or the pressure of repaying lenders. The fees and royalties are used to fund operations at corporate headquarters, train and support franchisees, market and advertise the brand, improve the quality of goods or services, and build the brand in the marketplace.

For franchisees, benefits include: a higher chance of success than in a sole proprietorship; shorter time to opening; initial training and ongoing support; assistance in finding an optimal site; the selling power of a known brand; lower costs through group purchasing; use of an established business model; national and regional advertising campaigns; customer lead generation through websites and centralized call centers; and a network of peers (fellow franchisees) to provide advice and moral support through a company intranet, annual conferences, and franchisee associations; and, increasingly, assistance with securing funding.

Potential downsides for franchisees include: lack of independence, from the goods and services they sell to the color of the paint on their walls; mandatory company-wide promotions that may not work in their market (price cuts, new products or services), yet cost money to implement; costly required redesign of their unit(s); and, after signing a 10- or 15-year contract, a change in management or ownership that takes the brand in a new, unwanted direction.

As with any business opportunity, there is no guarantee of success, and there are trade-offs to be made. In some ways, franchising is like paying condo fees instead of owning a home. In a condo association, monthly fees are pooled for common external maintenance (mowing, snow removal, roof repairs, etc.) – a tradeoff many are willing to make to free themselves to concentrate on their "core business" of living their lives (or business) within the walls of their condo (or franchise) unit. And unlike renters, who can be evicted (or corporate employees who can be fired or "downsized") franchisees have some power of their own: a franchisor cannot "fire" a franchisee who is operating in compliance with the franchise agreement.

"Follow the system" is a mantra in franchising and critical to a franchisee's success. Franchisees buy into the franchisor's operating system believing that if they follow it to the letter they will succeed and be profitable. Smart franchisors are always open to suggestions from their franchisees for change (as well as local or regional variations), but any franchisee departing from the "system" without franchisor approval risks violating the terms of the franchise agreement, which can result in revocation of the franchisee's right to do business under the franchisor's name. Franchisees also must agree to keep the franchisor's proprietary system and trade secrets confidential, as well as sign some type of noncompete agreement.

Not everyone is cut out for franchising. Some need total independence to succeed or fail on their own, while others prefer the tradeoffs found in working for a larger organization. For the franchise partnership to succeed, the buyer must be comfortable not only with the franchise model, but also with the culture, values, and goals of the franchisor — and vice versa.

In this light, many view franchising as a commitment much like a marriage. A good match between franchisor and franchisee, sharing mutual goals over the long term, is essential to the success of each franchise unit, and thus the brand as a whole — an essential factor that must be considered seriously by both parties before any contract is signed.

Affiliate Business Model

Affiliate marketing business model is a commission-based model where the affiliate builds its business around promoting a partner's product and directs all its efforts to convince its followers and users to buy the same. In return, the affiliate gets a commission for every sale referred.

Mostly the affiliate business model involves the interaction of 3 or 4 parties depending upon the type of partnership between the affiliate and the company which owns the product. These parties are:

Affiliate (Publisher): the party which dedicates its time and resources to promote a third party product to its target audience in return for commissions on every successful sale referred by it. Affiliate consists of bloggers, vloggers, social media influencers, etc.

Merchant (Advertiser): the actual seller of the product. It partners with the affiliates to increase the sales of his products. A merchant can be an individual selling a small course to a big company like Amazon selling millions of products.

Network: Most of the times, there's a middleman which connects the merchant and the affiliate and also takes care of the payments and the product delivery of the merchant. In such cases, the affiliate is in the direct contact with the network and not the merchant.

Customer: The customer is the actual person who ends up buying the product after being referred by the affiliate. He might or might not know about the partnership between the affiliate and the merchant.

Working Principle of Affiliate Business Model

The affiliate business model works on the principle of commission. Merchants advertise and sell their products through partner (affiliate) websites and other mediums but don't usually pay anything for just the placements of the ads and links. They pay commissions for the actual sales or measurable success like leads collected.

The way affiliate marketing works is very easy to understand. It is a pay-for-performance model. Affiliates are provided with a unique link which includes their unique identity code. Every click, lead, and sale coming from this link is tracked by the merchant or the network and the affiliates are paid according to the contract (per visitor referred, per lead collected, or per sale).

This model is a win-win situation where the affiliates receive the benefit in a similar proportion to what they help merchants make.

Some merchants even pay a commission every time the referred customer renews his subscription or buys the product again. This is known as rebill.

Pros of an Affiliate Marketing Model

There are many benefits of an affiliate marketing model. For one, it is a fairly passive model if you go the SEO route with your website. Unlike Amazon affiliates, there is a bit more of link management to do, which we will get into.

Affiliate marketing can be incredibly lucrative with just one website and a bit of content. This is different than the Amazon affiliate model, which often takes several sites to create a great income with their sliding tier of commissions. In addition, there is an incredible variety of products to promote and sell. Almost every business has an affiliate program of some kind, you just scroll down to the bottom of their site and their affiliate program will be hyperlinked right next to their Contact Us link.

While every affiliate program is different, you are less likely to be hit by a ban hammer in the affiliate space than in the Adsense space. In general, affiliate networks can be a bit more lenient with their terms of services. You also have the benefit that many networks are hosting the same offers, so if one does ban you, you can usually replace that income with the new network offer.

Or you can do what many affiliates do and go direct to the company. The vast majority of affiliate offers come direct from the company rather than affiliate networks.

In addition to all of this, you don't really have a store to look after. You have zero products to ship or are held responsible for. You are literally just the marketing arm, unlike the ecommerce business model where you are sourcing the products that you are selling and dealing with the customer service portions of the business, along with logistics.

With affiliate marketing, you have next-to-zero need to do any kind of customer service. That is taken care of by the company that created the offer in the first place.

Unlike an Amazon affiliate business model, affiliate marketing tends to be more lucrative in terms of the profit margins you can earn per sale. This makes paid advertising easily profitable, so it can be a valid choice to grow your website. Many affiliate marketers focus almost 100% on paid traffic. They create a landing page, a sales letter, and off they go with Facebook ads or Google Adword campaigns.

While you should not invest in paid traffic without knowing a little bit about it first, having this opportunity can really boost your sales quickly, and almost overnight, versus having to wait around for rankings like you do with SEO.

Finally, one of the major benefits of affiliate marketing is that you can get paid a commission, even if you don't sell a single thing.

This is usually called Cost-Per-Action or CPA offers. CPA offers typically require the visitor to take some kind of action, and if that visitor takes that action, then the affiliate network pays you. Often this action is submitting an email to become an email lead for a company, or filling out an entire form, whether a lead form or a survey data collection form. While CPAs pay lower than offers that pay you per sale, they often convert at a much higher rate, since there is no money that the visitor has to put down for the conversion to be complete. This higher conversion can often more than make up for the lower profits earned on an individual basis.

Cons of an Affiliate Marketing Model

Affiliate marketing done right can be ethical, extremely helpful to the end consumer and an overall good thing for both the company that created the offer and the affiliate promoting it (and, of course, the customer). Even still, there are drawbacks to the business model you should know about.

In fact, affiliate marketing often has a reputation for being sleazy, cheesy, or scammy in nature. This is something that affects the industry, mainly because of the low barrier to entry. Anyone can become an affiliate marketer, you just need to sign up for an offer and start promoting.

As you might imagine, this attracts a lot of unsavory characters to the field. Because of this low barrier, affiliate marketing can also be incredibly competitive. After all, you are all selling the exact same product or service using the exact same sales letter and checkout process. If you don't find a way to differentiate yourself, it is unlikely you are going to be able to succeed.

First thing to pay attention to, once you decide to go ahead with "good" affiliate marketing, is the affiliate offers themselves. Affiliate offers can come and go. There is more link management involved with affiliate marketing versus Amazon affiliate sites because of this. If your affiliate link is pointing towards an offer that an affiliate network is no longer offering, you're missing out on all the commissions you could be earning.

Secondly, while an offer might not disappear, you might be earning far less than you should be, because that offer suddenly has a max cap. In other words, the company that set up the offer only wants to spend a certain amount to get a certain number of customers or leads. The network limits how many paid leads/sales count towards the affiliate marketer in this case. You might end up giving away free leads or sales by accident in this case, so it is something to watch out for.

That ultimately means there is less growth ability. For example you can't just go in and change a checkout process to split test which one will perform better. You only really control the front or what is also known as "top of" marketing funnel. This makes your options more limited than if you were running a full blown business where you sourced the product yourself and controlled the logistics and check out processes.

Brokerage Model

One Internet business model is the brokerage model. At the heart of this model are third parties known as brokers, who bring sellers and buyers of products and services together to engage in transactions. Normally, the broker charges a fee to at least one party involved in a transaction. While many brokers are involved in connecting consumers with retailers, they also may connect businesses with other businesses or consumers with other consumers. A wide variety of different scenarios or business configurations fall under the banner of a brokerage model. These include everything from Web sites posting simple online classified ads and Internet shopping malls (Web sites that sell products from a variety of different companies) to online marketplaces, online auctions, aggregators, and shopping bots.

Some brokers simply focus on fulfillment between buyers and sellers. Travel agents like Travelocity.com are one example of this approach. According to the company, Travelocity.com was the third largest e-commerce site in the early 2000s. Along with a large database of information on different travel destinations, Travelocity.com was able to provide reservations "for 95 percent of all airline seats sold, more than 49,000 hotels, more than 50 car rental companies and more than 5,000 vacation and cruise packages."

Online marketplaces are example of brokers with a business-to-business focus. These entities bring large groups of commercial buyers and sellers together online. In the early 2000s, third-party companies like Commerce One Inc. and Ariba Inc. offered software and services that were used to operate different online marketplaces. Numerous other companies provided similar kinds of services and applications. Online marketplaces existed for many different industries, ranging from the food and beverage industries to consumer packaged goods and interior design. The costs for participating in an online marketplace varied. In some cases, participating companies (sup-pliers, purchasers, or both) were required to purchase special software from a third party. Third parties also levied different charges for making transactions, joining the network, updating catalogs of available products, and so on.

Aggregators are brokers that bring business owners or consumers together to get better rates on things like long-distance telephone service. The key concept is group purchasing, which enables individual businesses or consumers to get better rates than they could obtain on their own.

Metamediaries are another kind of broker. These entities, which include online shopping malls, not only bring interested parties together, they also provide different services related to the actual transaction, such as billing or order tracking. HotDispatch was one such broker. It provided services involving technical communities (groups of technical professionals with specific interests). These professionals used HotDispatch to market and purchase knowledge services, including bids for different technical projects, software, and even questions and answers. According to the company, members of this service were able to "post a question or project and assign a dollar value for either the resolution of the question, or the compensation fees associated with the outsourced project. Once the question or project is posted, it is visible to members in all of the technical communities that subscribe to the service".

Intelligent agents such as shopping bots are essentially software programs that operate unattended on the Internet. Consumers use them to search for product and pricing information on the Web. Each shopping bot operates differently, depending on the business model used by its operator. In one scenario, shopping bots direct users to retailers who, by subscribing for a fee, are part of a closed system. Shop-ping.Yahoo and Shop@AOL were examples of this model in the early 2000s. Open systems are a more common arrangement and involve agents that include the entire Web in their searches. Shopping bots were very popular with consumers in the 1990s and early 2000s. International Data Corp. revealed that about 4 million shoppers took advantage of the technology in October 2000 alone. However, shopping bots weren't popular with some companies because of their ability to initiate bidding wars and eat away profits in the process.

In addition to searching for durable goods, electronics, and other items, consumers also were expected to use bots more frequently in the area of personal finance. In Bank Systems and Technology, Andersen Consulting reported that personal financial bots (PFBs) would reshape this industry by becoming "virtual financial intermediaries" that carry out transactions and searches for financial products via ATMs, wireless phones, and televisions. While this concept had not been widely adopted in the early 2000s, it posed a possible threat to the umbrella model used by many traditional banks, in which several products and services—including loans, credit cards, and insurance—were offered to customers by one provider.

Freemium Business Model

Freemium is a type of business model that involves offering customers both complementary and extra-cost services. A company provides simple and basic services for free for the user to try; it also offers more advanced services or additional features at a premium.

Under a freemium model, a business gives away a service at no cost to the consumer as a way to establish the foundation for future transactions. By offering basic-level services for free, companies build relationships with customers, eventually offering them advanced services, add-ons, enhanced storage or usage limits, or an ad-free user experience for an extra cost.

The freemium model tends to work well for Internet-based businesses with small customer acquisition costs, but high lifetime value. The freemium business model allows users to utilize basic features of a software, game or service free, then charges for "upgrades" to the basic package. It is a popular tactic for companies just starting out as they try to lure users to their software or service.

Since the 1980s, freemium has been common practice with many computer software companies. They offer basic programs to consumers that are free to try but have limited capabilities; to get the full package, you have to upgrade and pay a charge. It is a popular model for game companies as well. All people are welcome to play the game for free, but special features and more advanced levels are only unlocked when the user pays for them.

Freemium games and services can catch users off guard, as they may not be aware of how much they (or their kids) are spending on the game, as payments are made in small increments.

Examples of Freemiums

An example of a company that uses the freemium business model is Skype, the firm that allows you to make video or voice calls over the Internet. There's no cost to set up a Skype account, the software can be downloaded for free, and there's no charge for their basic service—calling from a computer (or a cell phone or tablet) to another computer.

But for more advanced services, such as placing a call to a landline or mobile phone, you do have to pay, albeit a small amount compared to conventional phone company charges. Text messages and video conferencing among as many as 10 users are other premium services.

Another popular employer of freemium—one of the earliest to do so—is King, the developer of the highly popular Internet game Candy Crush Saga. The addictive activity, available on the king.com site, on Facebook, and on apps, is free to play. It allows users an allotted number of lives within a certain timeframe, but charges for extra lives if one wanted to play more during that window. Users also can pay for "boosters" or extra moves to help win the levels and advance through the game more easily.

Dropshipping Business Model

Dropshipping is an online business model based on an order fulfilment strategy where the merchant lists products on his website, markets it and takes the orders under his own brand but doesn't keep an inventory or handle the shipping and fulfilment of the product. Rather, it purchases the product from the third party as soon as a customer makes a purchase and makes them ship directly to the customer.

An example of a drop shipping website could be an eCommerce store dealing in drones and drone accessories. The store takes the orders under its own brand but the actual shipping is carried by Aliexpress. The dropshipping business model can be divided into two segments:

The front-end: the front-end is how the things look to the customer. He sees your store as any other niche ecommerce store and orders the products he likes at a price set by you. After a few hours or days, he receives a notification that his order has been shipped. The notification also includes the tracking information which lets him track the order just like with any other ecommerce website.

The back-end: As soon as the customer orders the product, you purchase the same from the supplier and ask him to ship directly to the customer. The customer never gets to know about the fulfilment process as he gets the same experience as that with a traditional ecommerce store.

Benefits of Dropshipping Business Model

Less Capital is Required – Probably the biggest advantage to dropshipping is that it's possible to launch an ecommerce store without having to invest thousands of dollars in inventory up front. Traditionally, retailers have had to tie up huge amounts of capital purchasing inventory.

With the dropshipping model, you don't have to purchase a product unless you already made the sale and have been paid by the customer. Without major up-front inventory investments, it's possible to start a successful dropshipping business with very little money.

Easy to get started: Running an ecommerce business is much easier when you don't have to deal with physical products. With dropshipping, you don't have to worry about:

- Managing or paying for a warehouse.
- Packing and shipping your orders.
- Tracking inventory for accounting reasons.
- Handling returns and inbound shipments.
- Continually ordering products and managing stock level.

Low Overhead: Because you don't have to deal with purchasing inventory or managing a warehouse, your overhead expenses are quite low. In fact, many successful dropshipping businesses are run from a home office with a laptop for less than $100 per month. As you grow, these expenses will likely increase but will still be low compared to those of traditional brick-and-mortar businesses.

Flexible Location: A dropshipping business can be run from just about anywhere with an internet connection. As long as you can communicate with suppliers and customers easily, you can run and manage your business.

Wide Selection of Products: Because you don't have to pre-purchase the items you sell, you can offer an array of products to your potential customers. If suppliers stock an item, you can list if for sale on your website at no additional cost.

Easy to Scale: With a traditional business, if you receive three times as much business you'll usually need to do three times as much work. By leveraging dropshipping suppliers, most of the work to process additional orders will be borne by the suppliers, allowing you to expand with fewer growing pains and less incremental work. Sales growth will always bring additional work – especially related to customer service – but business that utilize dropshipping scale particularly well relative to traditional ecommerce businesses.

Disadvantages

Low Margins: Low margins are the biggest disadvantage to operating in a highly competitive dropshipping niche. Because it's so easy to get started – and the overhead costs are so minimal – many merchants will set up shop and sell items at rock-bottom prices in an attempt to grow revenue. They've invested so little in getting the business started so they can afford to operate on minuscule margins.

True, these merchants often have low-quality websites and poor customer service. But that won't stop customers from comparing their prices to yours. This increase in cutthroat competition will quickly destroy the profit margin in a niche. Fortunately, you can do a lot to mitigate this problem by selecting a niche that's well suited for dropshipping.

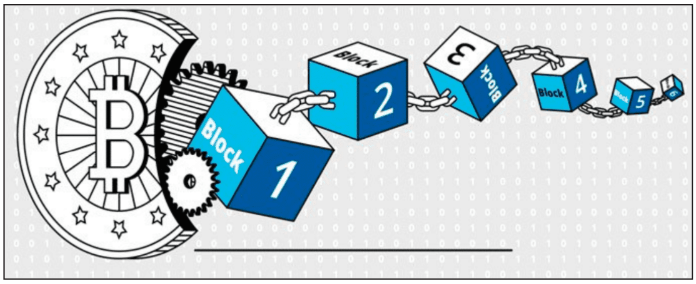
Inventory Issues: If you stock all your own items, it's relatively simple to keep track of which items are in and out of stock. But when you're sourcing from multiple warehouses, which are also fulfilling orders for other merchants, inventory changes on a daily basis. While there are ways you can better sync your store's inventory with your suppliers', these solutions don't always work seamlessly, and suppliers don't always support the technology required.

Shipping Complexities: If you work with multiple suppliers – as most drop shippers do – the products on your website will be sourced through a number of different drop shippers. This complicates your shipping costs.

Let's say a customer places an order for three items, all of which are available only from separate suppliers. You'll incur three separate shipping charges for sending each item to the customer, but it's probably not wise to pass this charge along to the customer, as they'll think you're grossly overcharging for shipping. And even if you did want to pass these charges along, automating these calculations can be difficult.

Blockchain Business Model

A blockchain is, in the simplest of terms, a time-stamped series of immutable record of data that is managed by a cluster of computers not owned by any single entity. Each of these blocks of data (i.e. block) are secured and bound to each other using cryptographic principles (i.e. chain).



The three properties of the blockchain technology that is going to help disrupt the supply chain management system are:

- Decentralization,
- Immutable,
- Transparency.

Decentralization

The idea of decentralization is at the very core of blockchain technology. What it means is that any data that is stored inside the blockchain is not owned by one centralized entity but shared by everyone who is part of that blockchain's network.

Immutability

Immutability means non-tamperable. Any data that you put inside the blockchain cannot be tampered with. Can you imagine how valuable this for modern industries and companies which needs to be constantly on the lookout for cybersecurity? Blockchain attains immutability via cryptographic hash functions.

Transparency

One of the most exciting and misunderstood concepts in blockchain technology is "transparency." Some people say that blockchain gives you privacy while some say that it is transparent. Why do you think that happens?

Well a person's identity is hidden via complex cryptography and represented only by their public address. So, if you were to look up a person's transaction history, you will not see "Bob sent 1 BTC" instead you will see "1MF1bhsFLkBzzz9vpFYEmvwT2TbyCt7NZJ sent 1 BTC".

The following snapshot of Ethereum transactions will show you what we mean:

TxHash	Block	Age	From		To	Value	[TxFee]
0x2d055e4585ae2a...	5629306	16 secs ago	0x003e3655090890...	➡	0x2bdc9191de5c1b...	0.004741591554641 Ether	0.000294
0xb4d37c791ff4cde...	5629306	16 secs ago	0x6c3b4faf413e0e4...	➡	0xf14cb3acac7b230...	0.744767225 Ether	0.000294
0x9979410dcb5f4c...	5629306	16 secs ago	0x99bcd75abbac05...	➡	0x2d42ee86390c59...	0.016294 Ether	0.000294
0x189c4d4aae09be...	5629306	16 secs ago	0x175cd602b2a1e7...	➡	0xd39681bb0586fb...	0.01 Ether	0.000294
0xda0e9bbb11fb77...	5629306	16 secs ago	0x73a065367d111c...	➡	0x01995786f14357...	0 Ether	0.00150007
0x6be498fafad9acb...	5629306	16 secs ago	0xa3eb206871124a...	➡	0x8a91cac422e55e...	0.029594 Ether	0.000294

So, while the person's real identity is secure, you will still see all the transactions that were done by their public address. This level of transparency has never existed before within a financial system. It adds that extra, and much needed, level of accountability which is required by some of these big institutions.

Speaking purely from the point of view of cryptocurrencies, if you know the public address of one of these big companies, you can pop it inside an explorer and look at all the transactions that they have engaged in. This forces them to be honest, something that they have never had to deal with before.

Need for Blockchain Business Models

With blockchain, organizations can turn their business into decentralization platform which can alter how their business works. It changes the individual elements, the flow of transactions, profits, and also ensures growth. To succeed properly, these models should make sure that they are benefitting both the company's employees and end users.

Now the question to ask here is, how exactly can one use the blockchain in their business?

- You can store data inside the blockchain which can't be tampered with.
- Many companies have leveraged the blockchain's transparency to boost the functionality of their supply chains.
- Many have integrated the blockchain with artificial intelligence to create their own decentralized AI model.

Blockchain Business Model Examples

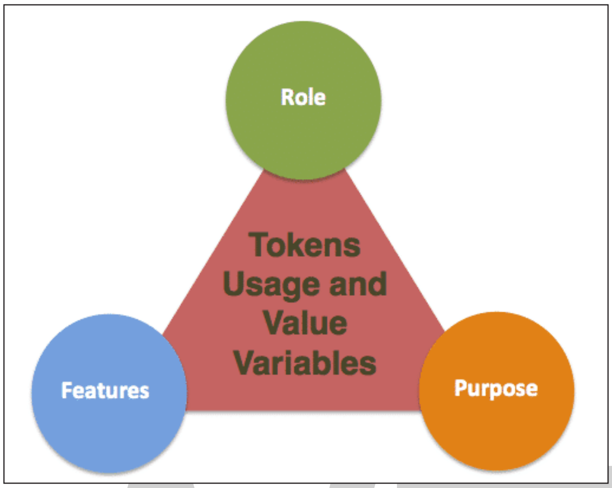
Utility Token Model

Utility means the total satisfaction that is received by the consumption of the goods or services. The utility token model drives the functionality in their business via the use of the tokens. Ripple and Stellar are great examples of these kinds of models. The banks who are part of their network can facilitate fund transfer via the use of the XRP or XLM tokens. As per William Mougayar, token utility has three important properties:

- Role,

- Features,
- Purpose.

These three are locked up in a triangle and they look like this:



Each token role has its own set of features and purpose.

Let's examine each of the roles that a token can take up:

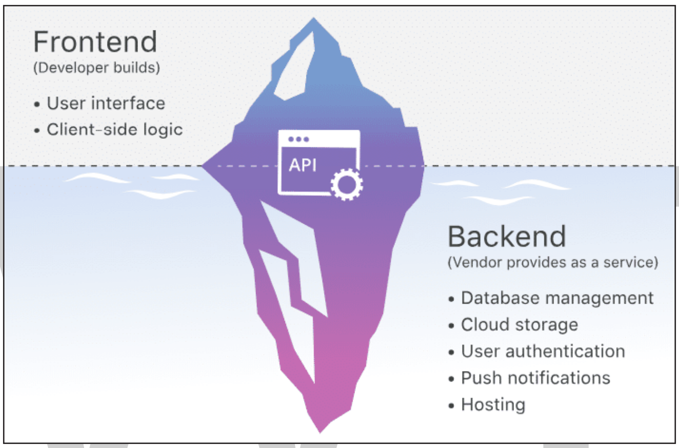
- Right: By taking possession of a particular token, the holder gets a certain amount of rights within the ecosystem. Eg. by having DAO coins in your possession, you could have had voting rights inside the DAO to decide which projects get funding and which don't.
- Value Exchange: The tokens create an internal economic system within the confines of the project itself. The tokens can help the buyers and sellers trade value within the ecosystem. This allows users to gain rewards upon completion of particular tasks. This creation and maintenance of individual, internal economies are one of the most critical functions of tokens.
- Toll: It can also act as a toll gateway for you to use specific functionalities of a particular system. Eg. in Golem, you need to have GNT (golem tokens) to gain access to the benefits of the Golem supercomputer.
- Function: The token can also enable the holders to enrich the user experience inside the confines of the particular environment. Eg. In Brave (a web browser), holders of BAT (tokens used in Brave) will get the rights to enrich customer experience by using their tokens to add advertisements or other attention based services on the Brave platform.
- Currency: Can be used as a store of value which can be used to conduct transactions both inside and outside the given ecosystem.

- Earnings: Helps in an equitable distribution of profits or other related financial benefits among investors in a particular project. Think of staking pools in Cardano.

For this model to effectively the work, the native token must take up as many roles as possible. The more properties the token can tick off, the more utility and value it will bring into the ecosystem.

Blockchain as a Service

The blockchain and the decentralized ecosystem, in general, can be incredibly intimidating for a newcomer. The Blockchain-as-a-Service (BaaS) model provides a service where a business' clients can outsource all the scary backend stuff while focussing only on the frontend. BaaS vendors provide services like user authentication, database management, remote updating, and push notifications (for mobile apps), cloud storage, and hosting.



Google Firebase and Microsoft Azure are examples of BaaS providers.

Looking Deeper into BaaS

Blockchain Business Models.

Suppose you have an online business and have created a brilliant website which is bound to get a lot of hits. If you choose to host it from your computer or server, then you will either have to do all the maintenance work yourself (which can be time-consuming) or hire a staff to take of it for you (which can be expensive).

Instead of taking so much stress, you can simply procure the services of an external web hosting provider like Amazon Web Services or HostGator. In exchange for a fee, they will take care of all the infrastructure and maintenance issues.

BaaS works similar to the second option and allows you to focus on your core website functionality. Their service includes support activities like bandwidth management, proper allocation of resources, hosting requirements, and security features like the prevention of hacking attempts.

Importance of BaaS

It won't be a stretch to call BaaS a necessary catalyst that will lead to broader and deeper penetration of blockchain technology across various industry sectors and businesses. Think about it, an entrepreneur, whose business requires blockchain integration, had only the following options before BaaS:

- Hire blockchain experts. Who are very rare and expensive.
- Train your existing staff on blockchain technology, which is going to take a lot of time and money.

Even if you somehow still manage to get your blockchain up, you are going to have to deal with all the maintenance. So, why not simply delegate it to the experts?

Many large-scale credible firms have already started offering their BaaS services:

- Microsoft has a BaaS module on its Azure platform.
- IBM has its own BaaS which is focused on private consortium blockchains.
- Amazon offers BaaS services.
- Oracle offers blockchain cloud hosting as well.

Securities

This is a business model that is a comparatively recent one. Recently, many companies have taken up the securities or "security token offering" business model. A token is classified as security when there is an expectation of profit from the effort of others. If the ICO doesn't follow specific regulations, then they could be subject to penalties. However, if all the rules are properly met, then these tokens have immensely powerful use-cases.

Utility Tokens vs. Security Tokens

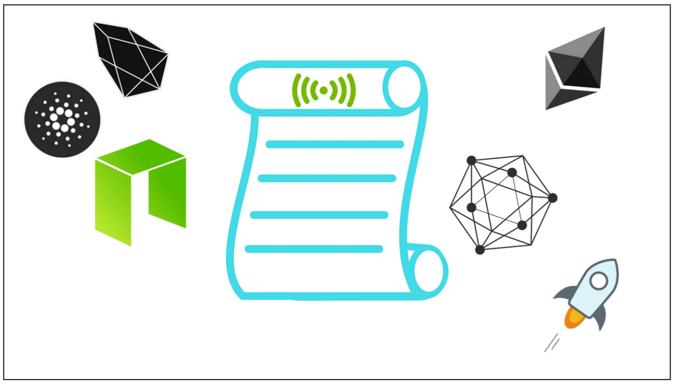
Security Token = Investment Contract. At its very essence, a security token is an investment contract which represents legal ownership of a physical or digital asset like real estate, ETFs, etc. This ownership must be verified within the blockchain.

After the ownership is verified, security token holders can:

- Trade away their tokens for other assets
- Use them as collateral for a loan
- Store them in different wallets.

Having said that, the true value in security tokens lies in how they can completely redefine the meaning of "ownership." They can democratize assets and distribute them among people all over the world. To give a very crude example, instead of owning a gold coin, which may be out of a lot of people's budget, it is now possible for 100 people to hold fractions of that gold coin.

Development Platforms



The blockchain ecosystem is still in its infancy, and the only way it can grow is if more and more developers enter the space. A lot of development and research goes into blockchain as startups are trying to solve problems uniquely. A vast majority of these startups are creating Dapps (decentralized applications) on top of development platforms.

Developers bother dabbling with the blockchain technology because:

- Improves security through decentralization and cryptographic functions.
- Removes immutability via cryptographic hash functions.
- Improves documentation, traceability, and auditability.
- Helps you build an efficient and traceable database.
- Increases trust through transparency.

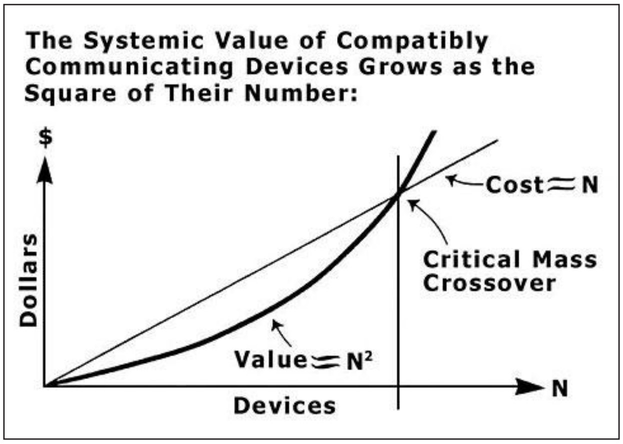
Importance of Development Platforms

According to Binance CEO CZ, "For our industry to grow we need more entrepreneurs to build real projects." He is not alone in thinking this way. Both Ethereum founder Vitalik Buterin and Tron founder Justin Sun have been encouraging their communities to build real projects on their respective blockchains.

Alright, so some of the smartest people in the blockchain space want there to be more Dapp creation on blockchain platforms. To know the relationship between creating more credible projects on a network and the value of that network itself, we will need to look into the Metcalfe's Law.

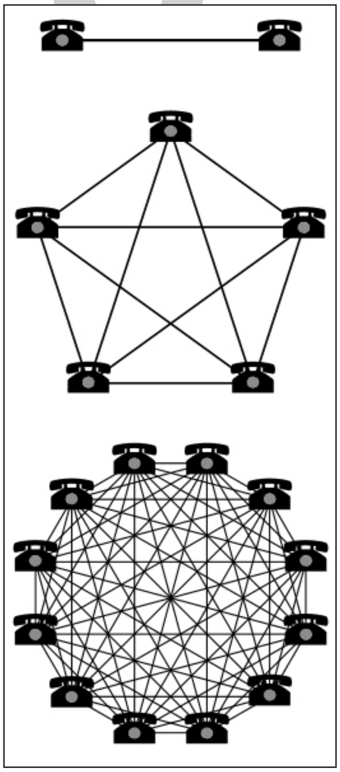
Metcalfe's Law

Metcalfe's Law is a theory of network effect. "Metcalfe's law states the effect of a telecommunications network is proportional to the square of the number of connected users of the system (n^2)". It was formulated by Bob Metcalfe, the inventor of Ethernet and co-founder of 3Com.



In simple terms, Metcalfe's Law states that more the people involved in a network, the more valuable it will be. If only one person owned a telephone, then it won't be valuable at all. However, if two or more people own a phone, then it is instantly more valuable since they can now connect and share information.

In fact, we can check this out via the following diagram:



As the diagram shows:

- If you have two telephones in the network, then you can only make one connection.

- If there are 5 phones, then you can make 10 connections.
- However, if there are 12 phones in the network then you can make 66 connections.

Plus, one more thing that you shouldn't forget about networks is that they tend to have a life of their own. Meaning, as more and more people use them, they manage to attract more and more users. This is the reason why most successful networks tend to enjoy extreme exponential growth.

Ok, so we know how vital Dapps are and what they can do to the blockchain ecosystem. However, when it comes to purely business models, how can they bring value into the crypto space? There are three specific models that we want to focus on:

- Network Fees,
- Auditing,
- Other Services.

Network Fee

This is a fundamental business model that these development platforms use. Eg. When you create a Dapp on Ethereum, you will need to pay "gas fees" which is like a toll tax that allows you to use the platform. Similarly, in NEO you need to pay for your Dapp with GAS tokens. This is not just applicable to the platforms, even Dapps can charge a nominal network fee. In Golem, you need to have GNT (golem tokens) to gain access to the benefits of the Golem supercomputer. These little nuances help in boosting the strength of the native tokens.

Auditing

Smart contract auditing is one of the more critical services that one can provide within the ecosystem. Since these Dapps deal with a lot of money, it is imperative for their code to work correctly. Any slight error or bug can lead to a complete catastrophe. Eg. A simple bug in the DAO smart contract caused Ethereum's community to split up into Ethereum and Ethereum Classic. There are two ways that this model can work:

- The developers hire an auditing company to look over the smart contract for them.
- The developers put up a bounty on their contract and several independent auditors and developers can look up the code and search for flaws.

Other Services

A blockchain startup requires a ton of work. They need a good website, good content, good frameworks, etc. To save up on time and money, these startups either hire freelancers or agencies to take care of these services for them.

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5

Entrepreneurial Marketing

The proactive identification and utilization of opportunities in order to acquire and retain profitable customers is known as entrepreneurial marketing. It is accomplished through innovative approaches for resource leveraging, risk management and value creation. This chapter discusses in detail the different techniques used in entrepreneurial marketing.

Entrepreneurial Marketing is the combination of two discrete management areas. Existing as distinct disciplines, entrepreneurship and marketing have emerged to capture the several facets of marketing that are often not explained by existing traditional marketing theories and concepts. Definitions of both marketing and entrepreneurship differ considerably.

A contemporary definition that meets the present scope in which entrepreneurial marketing is defined as: "the proactive identification and exploitation of opportunities for acquiring and retaining profitable customers through innovative approaches to risk management, resource leveraging and value creation".

Recently, entrepreneurial marketing has gained popularity in the marketing and entrepreneurship disciplines. The success of business activities pursuing non-traditional marketing approaches can be attributed to entrepreneurial marketing practices. Despite the large numbers of marketing models and concepts, there are notable successes that deviate from these and are labeled "entrepreneurial".

Economic growth has become a necessity in many countries which has led to a growing need for entrepreneurship in society. When large companies' follows economies of scale by downsizing and reducing staff, the small and medium sized enterprise sector (SMEs) becomes more important.

Till recently, entrepreneurship and marketing existed as two independent, intellectual domains. In the past few years, the growing number of entrepreneurship research has resulted in to a number of findings which led to the improvement of the marketing knowledge.

In general, marketing has always aimed on understanding the processes and practices within big companies. However, in parallel with a growth in entrepreneurial behavior and small to medium enterprise sector worldwide, the marketing aspects of small and medium sized companies and entrepreneurship have also increased in importance.

Entrepreneurial behavior has been traditionally rooted to the small to medium sized enterprise sector, but entrepreneurial marketing also has a definite impact on large companies. Today, many companies operate in a very turbulent environment where there are increased risks and a diminishing ability to forecast and project. In this environment of sudden changes organizational boundaries have become very unclear.

In business environments like this, business managers has to forget traditional management policies and replace them with new thinking and new behavior that will not only incorporate changes but also create the necessary changes in the marketplace. Entrepreneurship may well be the vehicle for this and entrepreneurial marketing behavior may be of the utmost importance for many large firms and SMEs alike.

SME Marketing and Entrepreneurial Marketing

The roots of entrepreneurial marketing are considered to be grounded within the SME (Small to Medium Enterprise) sector to the some extent. Indeed, there is a strong argument among the marketing gurus that entrepreneurial marketing is really about SME marketing. Within the generic marketing management literature also is a stratum of thought that suggests entrepreneurial marketing is somewhat like "textbook" marketing, but undertaken either with some flair or just simply doing something completely different across all aspects of the normative marketing mix. This is more visible in the execution and implementation of creative promotion strategies. Some argue that this approach is perhaps, on the one hand, what marketers should be doing anyway and on the other, it may overlook the complex subtleties that underpin an entrepreneurial approach to market development. Being entrepreneurial however is not a necessary prerequisite as they argue that not all small to medium sized firms are entrepreneurial, but these firms will need entrepreneurship in order to grow and expand and such growth can be achieved from the small firm's advantage in marketing. In smaller firms decision making tends to originate from entrepreneur and they are able to act on opportunities and implement strategies faster than larger firms could. The stagnation of innovation in large firms is due to theoretical and traditional marketing practices where the focus is on meeting explicitly expressed needs of the customers.

Here, the concept of customer value must be introduced to further develop the argument. Entrepreneurial marketing, like marketing in general, can be seen in terms of value creation processes. The ultimate purpose of marketing is to create something that buyers can use to produce own customer value, the offer to the market. In all stable markets, certain levels of perceived customer value, or the differentiation of customer value between sellers, have become established; the value balance. Customers have expectations, and if these expectations are met, repeated buys will occur which will help the sellers to maintain their market positions. A traditional market strategy is to become a market leader and a dominant player and to establish a level of expected customer value which will help the firm to exploit with profit. Another way to express this is that the dominant firm should set the rules of the game between sellers and buyers. One of the main strategies in maintaining competitive advantage is to take actions that stabilize the market as much as possible and exploit the economies of scale in one's own production.

The argument here revolves around the notion that size affects the firms approach towards marketing decisions. In this era of dramatic social and technological change, one approach for firms to establish and sustain long-term customer relationship is through entrepreneurial marketing facilitated by a four-pillar framework comprising of entrepreneurship, resources, processes, and actors (entrepreneur, coordinating firm, and network).

Marketing is a challenging process for any organization. In a survey of entrepreneurs around the world its found that finance and marketing to be the leading problem areas for entrepreneurs. It is true that a model that works for one firm may not work for another firm. Many marketing gurus have been engaged in an ongoing argument within literature as to the very nature of marketing and the fit between theory and practice. Indeed there has been a growing and focused literature that the SME conducts a different type of marketing to that of the large firm. For example, large firms are likely to follow set procedures of marketing (e.g. outsource marketing efforts, etc.). Smaller firms more often conduct their own marketing campaigns in house. The main reason behind conducting in house marketing is capital and cash constraints.

There are also thoughts that suggest that such marketing activity represents marketing in its purest form “its marketing but not as we know it”. SME’s do not conform to the conventional marketing characteristics of the marketing theories. However they are not the only one in that view, nowadays it is increasingly seen that marketing as perceived and undertaken by entrepreneurs is very different to the concepts that are presented in conventional textbooks and other theories. The stage of the small enterprise moving to medium enterprise (SME) lifecycle and the prevailing industry norms are two ‘fundamental pre-requisites’ this will show the approach to marketing taken by the SME. However these things must be placed against the backdrop of the personal characteristics of the owner/manager/entrepreneur as ‘the rationale of the small firm is the rationale of the owner’ and the two cannot be separated from each other in order to ease conceptual formation.

The first of these life cycle stage – suggests that as the small and medium sized firm maturates so does their approach to marketing. The second: conformity with industry norms – focuses on the industry norms in which the small and medium sized (SME) firm exists. Small firms usually conform to the norms that are firmly established within the industry to which the firms belongs, as a small firm will not have enough resources or to the matter of fact even the motivation to challenge industrial rules. Historically it is evident that industrial convention can be challenged by those outside the industry and increasingly it is the small firm with exceptional market sensing and policies that can make such a challenge. For example, customers pay little interest in industries but pay a lot of interest to having their needs met.

The personality of the entrepreneur and the industry in which the entrepreneurial oriented firm operates is likely to exhibit a market development orientation and that both are related to the overall organizational culture. The “personality” of the firm is connected to the personality of the entrepreneur.

Overall, it is strongly argued that marketing is performed differently in Small to Medium sized Enterprises (SMEs) than in large firms based on distinct dimensions. The way that small and large firms approach marketing decision-making is different. Decision-making in large organizations tends to be made within ordered framework and in highly structured manner. Decision making in large companies often follows a clear hierarchy. Often the processes are based on sound theories and accepted practices. In small firms the decision making process is different and tend to originate from and flow through the entrepreneur or owner and it is their personality and style that shape the nature of the decisions.

Finally, it is important to state that, entrepreneurial marketing must be regarded as a supplementary to the existing general marketing theories. The area is not revolutionary in the sense that existing marketing perspectives are regarded as being obsolete. But entrepreneurial firms, large as well as Small to Medium sized Enterprises, represent a substantial part of the economy. The marketing behaviour of such firms needs to be considered within marketing boundaries; such research has a lot to contribute to the development of modern marketing theory.

Characteristics of Entrepreneurial Marketing

Proactive Orientation

Entrepreneurial firms are continually searching for new ways to achieve competitive advantage through changes in established methods in marketing or productions.

Innovativeness

Innovative firms have the ability to maintain a flow of new ideas that can translate into new products or services.

Focus on the Customer

An entrepreneurial firm is focused on the need for creative approaches to acquire, retain, and develop customers. Paying attention to the consumer equips the entrepreneurial firm with a knowledge base of customer's requirements.

Utilizing an Opportunity

The recognition and pursuit of opportunity is a core dimension of entrepreneurial marketing. Entrepreneurship has been termed as the process of discovery, evaluation, and exploitation of opportunities. Entrepreneurial opportunities are situations in which new goods, services, raw materials, and organizing methods can be introduced through the formation of new means, ends, or means-ends relationships.

Risk Management

Entrepreneurship is associated with calculated risk taking. This implies an effort to identify the risk factors and subsequent attempt to control or mitigate those risk factors. Entrepreneurial marketing has an important role in managing risk in the entrepreneurial firm.

Value Creation

Innovative value creation is an important facet of entrepreneurial marketing, as value creation is a prerequisite for transactions and relationships.

Entrepreneurial Marketing vs. Traditional Marketing

- Business Orientation: While traditional marketing is defined by customer orientation, entrepreneurial marketing is defined by entrepreneurial and innovation orientation. The former typically requires an assessment of market needs before developing a product, but the latter often starts with an idea and then trying to find a market for it.
- Strategic Level: A top-down approach is used in traditional marketing, where a clearly defined sequence of activities, such as segmenting, targeting and positioning, takes place. "Successful entrepreneurs practice a reverse process from the bottom up: once identified a possible market opportunity, an entrepreneur tests it through a trial-and-error process," Management and Marketing "After that, the company begins to serve the needs of some clients, and then expands as the entrepreneur, in direct contact with clients, finds out their preferences and needs. Later, new customers with a similar profile to those who have purchased the product are added."
- Tactical Level: Entrepreneurial marketing doesn't fit in with the "four Ps of (traditional) marketing" — product, price, place and promotion — because entrepreneurs adopt an interactive marketing approach that's driven by their preference for direct and personal contact with customers. Entrepreneurs interact with customers with activities like personal selling and relationship marketing activities. From word-of-mouth marketing to online audience engagement methods, entrepreneurs are trying to connect with customers in a personal way. Even when, for instance, entrepreneurs create a nonprofit marketing plan, they are looking for messaging, tactics and more that abide by the key idea of interacting with and connecting to customers.
- Market Information Gathering: Entrepreneurs understand the importance of monitoring the marketing environment, but they use informal methods like personal observation or collecting information through their networks of contacts.

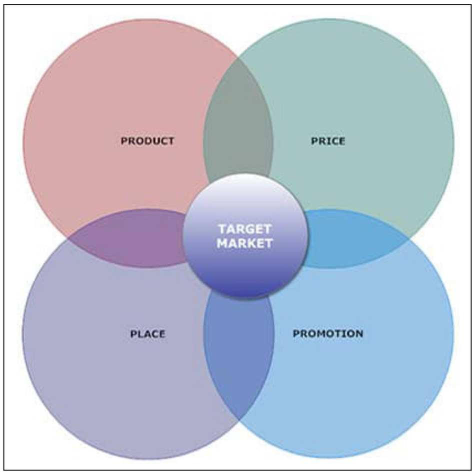
Marketing Mix

The marketing mix definition is simple. It is about putting the right product or a combination thereof in the place, at the right time, and at the right price. The difficult part is doing this well, as you need to know every aspect of your business plan.

The marketing mix is predominately associated with the 4P's of marketing, the 7P's of service marketing, and the 4 Cs theories developed in the 1990s.

Marketing Mix 4P's

A marketing expert named E. Jerome McCarthy created the Marketing 4Ps in the 1960s. This classification has been used throughout the world. Business schools teach this concept in basic marketing classes. The marketing 4Ps are also the foundation of the idea of marketing mix.



Marketing Mix – Product

A product is an item that is built or produced to satisfy the needs of a certain group of people. The product can be intangible or tangible as it can be in the form of services or goods.

You must ensure to have the right type of product that is in demand for your market. So during the product development phase, the marketer must do an extensive research on the life cycle of the product that they are creating.

A product has a certain life cycle that includes the growth phase, the maturity phase, and the sales decline phase. It is important for marketers to reinvent their products to stimulate more demand once it reaches the sales decline phase.

Marketers must also create the right product mix. It may be wise to expand your current product mix by diversifying and increasing the depth of your product line.

In developing the right product, you have to answer the following questions:

- What does the client want from the service or product?
- How will the customer use it?
- Where will the client use it?

- What features must the product have to meet the client's needs?
- Are there any necessary features that you missed out?
- Are you creating features that are not needed by the client?
- What's the name of the product?
- Does it have a catchy name?
- What are the sizes or colors available?
- How is the product different from the products of your competitors?
- What does the product look like?

Marketing Mix – Price

The price of the product is basically the amount that a customer pays for to enjoy it. Price is a very important component of the marketing mix definition.

It is also a very important component of a marketing plan as it determines your firm's profit and survival. Adjusting the price of the product has a big impact on the entire marketing strategy as well as greatly affecting the sales and demand of the product.

This is inherently a touchy area though. If a company is new to the market and has not made a name for themselves yet, it is unlikely that your target market will be willing to pay a high price.

Although they may be willing in the future to hand over large sums of money, it is inevitably harder to get them to do so during the birth of a business. Pricing always help shape the perception of your product in consumers eyes. Always remember that a low price usually means an inferior good in the consumer's eyes as they compare your good to a competitor.

Consequently, prices too high will make the costs outweigh the benefits in customer's eyes, and they will therefore value their money over your product. Be sure to examine competitors pricing and price accordingly.

When setting the product price, marketers should consider the perceived value that the product offers. There are three major pricing strategies, and these are:

- Market penetration pricing
- Market skimming pricing
- Neutral pricing.

Here are some of the important questions that you should ask yourself when you are setting the product price:

- How much did it cost you to produce the product?
- What is the customers' perceived product value?
- Do you think that the slight price decrease could significantly increase your market share?
- Can the current price of the product keep up with the price of the product's competitors?

Marketing Mix – Place

Placement or distribution is a very important part of the product mix definition. You have to position and distribute the product in a place that is accessible to potential buyers.

This comes with a deep understanding of your target market. Understand them inside out and you will discover the most efficient positioning and distribution channels that directly speak with your market.

There are many distribution strategies, including:

- Intensive distribution.
- Exclusive distribution.
- Selective distribution.
- Franchising.

- For developing the distribution strategy, the following questions will be answered.
- Where do your clients look for your service or product?
- What kind of stores do potential clients go to? Do they shop in a mall, in a regular brick and mortar store, in the supermarket, or online?
- How do you access the different distribution channels?
- How is your distribution strategy different from your competitors?
- Do you need a strong sales force?
- Do you need to attend trade fairs?
- Do you need to sell in an online store?

Marketing Mix – Promotion

Promotion is a very important component of marketing as it can boost brand recognition and sales. Promotion is comprised of various elements like:

- Sales Organization,
- Public Relations,
- Advertising,
- Sales Promotion.

Advertising typically covers communication methods that are paid for like television advertisements, radio commercials, print media, and internet advertisements. In contemporary times, there seems to be a shift in focus offline to the online world.

Public relations, on the other hand, are communications that are typically not paid for. This includes press releases, exhibitions, sponsorship deals, seminars, conferences and events.

Word of mouth is also a type of product promotion. Word of mouth is an informal communication about the benefits of the product by satisfied customers and ordinary individuals. The sales staff plays a very important role in public relations and word of mouth.

It is important to not take this literally. Word of mouth can also circulate on the internet. Harnessed effectively and it has the potential to be one of the most valuable assets you have in boosting your profits online. An extremely good example of this is online social media and managing a firm's online social media presence.

In creating an effective product promotion strategy, you need to answer the following questions:

- How can you send marketing messages to your potential buyers?
- When is the best time to promote your product?
- Will you reach your potential audience and buyers through television ads?
- Is it best to use the social media in promoting the product?
- What is the promotion strategy of your competitors?

Marketing Mix 7P's

The 7Ps model is a marketing model that modifies the 4Ps model. The 7Ps is generally used in the service industries. Here is the expansion from the 4Ps to the 7Ps marketing model:

Marketing Mix – People

Of both target market and people directly related to the business. Thorough research is important to discover whether there are enough people in your target market that is in demand for certain types of products and services.

The company's employees are important in marketing because they are the ones who deliver the service. It is important to hire and train the right people to deliver superior service to the clients, whether they run a support desk, customer service, copywriters, programmers etc.

When a business finds people who genuinely believe in the products or services that the particular business creates, it's is highly likely that the employees will perform the best they can.

Additionally, they'll be more open to honest feedback about the business and input their own thoughts and passions which can scale and grow the business.

This is a secret, "internal" competitive advantage a business can have over other competitors which can inherently affect a business's position in the marketplace.

Marketing Mix – Process

The 7 Ps of Services Marketing

The systems and processes of the organization affect the execution of the service. So, you have to make sure that you have a well-tailored process in place to minimize costs.

It could be your entire sales funnel, a pay system, distribution system and other systematic procedures and steps to ensure a working business that is running effectively.

Tweaking and enhancements can come later to "tighten up" a business to minimize costs and maximise profits.

Marketing Mix – Physical Evidence

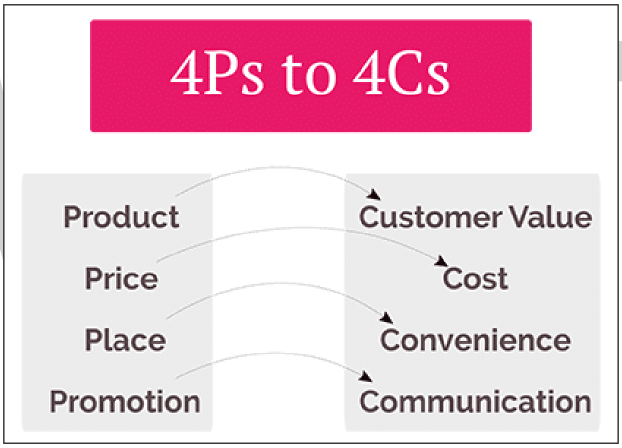
In the service industries, there should be physical evidence that the service was delivered. Additionally, physical evidence pertains also to how a business and it's products are perceived in the marketplace.

It is the physical evidence of a business' presence and establishment. A concept of this is branding. For example, when you think of "fast food", you think of McDonalds.

When you think of sports, the names Nike and Adidas come to mind. You immediately know exactly what their presence is in the marketplace, as they are generally market leaders and have established a physical evidence as well as psychological evidence in their marketing.

They have manipulated their consumer perception so well to the point where their brands appear first in line when an individual is asked to broadly "name a brand" in their niche or industry.

Marketing Mix 4C's



The 4Cs marketing model was developed by Robert F. Lauterborn in 1990. It is a modification of the 4Ps model. It is not a basic part of the marketing mix definition, but rather an extension. Here are the components of this marketing model:

- Cost – According to Lauterborn, price is not the only cost incurred when purchasing a product. Cost of conscience or opportunity cost is also part of the cost of product ownership.
- Consumer Wants and Needs – A company should only sell a product that addresses consumer demand. So, marketers and business researchers should carefully study the consumer wants and needs.
- Communication – According to Lauterborn, "promotion" is manipulative while communication is "cooperative". Marketers should aim to create an open dialogue with potential clients based on their needs and wants.
- Convenience – The product should be readily available to the consumers. Marketers should strategically place the products in several visible distribution points.

Purpose of Marketing Mix

The 4P's were formalized and developed over the years by experts to ensure the creation and execution of a successful marketing strategy. Through the use of this tool, the attempt is to satisfy both the customer and the seller. When properly understood and utilized, this mix has proven to a key factor in a product's success.

Features of Marketing Mix

Interdependent variables: The marketing mix is made up of four unique variables. These four variables are interdependent and need to be planned in conjunction with one another to ensure that the action plans within all four are complimentary and aligned.

Help Achieve Marketing Targets: Through the use of this set of variables, the company can achieve its marketing targets such as sales, profits, and customer retention and satisfaction.

Flexible Concept: The marketing mix is a fluid and flexible concept and the focus on any one variable may be increased or decreased given unique marketing conditions and customer requirements.

Constant Monitoring: It is vital to keep an eye on changing trends and requirements, within the company as well as in the market to ensure that the elements in marketing mix stays relevant and updated.

Role of Marketing Manager: A mature, intelligent and innovative marketing manager needs to be at the helm of the marketing mix. This pivotal role means that this manager is responsible for achieving desired results through the skill manipulation of these variables.

Customer as a focal point: A vital feature of the marketing mix is that the customer is the focal point of the activity. The value of the product is determined by customer perceptions and the goal is to achieve a satisfied and loyal customer.

Developing a Marketing Mix

Intuition and creative thinking are essential job requirements for a marketing manager. But relying on just these can lead to inaccurate assumptions that may not end up delivering results. To ensure a marketing mix that is based in research and combines facts with innovation, a manager should go through the following systematic process:

Defining Unique Selling Proposition

The first item on the marketing manager's agenda should be to define what the product has to offer or its unique selling proposition (USP). Through customer surveys or focus groups, there needs to be an identification of how important this USP is to the consumer and whether they are intrigued by the offering. It needs to be clearly understood what the key features and benefits of the product are and whether they will help ensure sales.

Understanding the Consumer

The second step is to understand the consumer. The product can be focused by identifying who will purchase it. All other elements of the marketing mix follow from this understanding. Who is the customer? What do they need? What is the value of the product to them? This understanding will ensure that the product offering is relevant and targeted.

Understanding the Competition

The next step is to understand the competition. The prices and related benefits such as discounts, warranties and special offers need to be assessed. An understanding of the subjective value of the product and a comparison with its actual manufacturing distribution cost will help set a realistic price point.

Evaluating Placement Options

At this point the marketing manager needs to evaluate placement options to understand where the customer is most likely to make a purchase and what are the costs associated with using this channel. Multiple channels may help target a wider customer base and ensure east of access. On the other hand, if the product serves a niche market then it may make good business sense to concentrate distribution to a specific area or channel. The perceived value of the product is closely tied in with how it is made available.

Developing Communication/Promotion Strategy

Based on the audience identified and the price points established, the marketing communication strategy can now be developed. Whatever promotional methods are finalized need to appeal to the intended customers and ensure that the key features and benefits of the product are clearly understood and highlighted.

Cross-check of the Marketing Mix

A step back needs to be taken at this point to see how all the elements identified and planned for relate to each other. All marketing mix variables are interdependent and rely on each other for a strong strategy. Do the proposed selling channels reinforce the perceived value of the product? Is the promotional material in keeping with the distribution channels proposed? The marketing plan can be finalized once it is ensured that all four elements are in harmony and there are no conflicting messages, either implicit or explicit.

Key Challenges

Over the years, marketing managers have felt that the traditional marketing mix has its limitations in how it is structured. Several important elements have been grouped within four larger categories thereby belittling their true importance amid several factors. Two main criticisms and their solutions:

Lack of Focus on Services

The conventional marketing mix tends to be applicable to tangible goods i.e. the traditional definition of products. Services or intangible goods are also a vital customer offering and can be planned for in much the same way as physical products. To cater to the unique challenges of services, the 4P model has been supplemented with 3 additional categories which are:

- Physical Evidence is proof and a reassurance that a service was performed.
- People are the employees who deliver the service.
- Processes are the methods through which a service is executed and delivered to the customer.

Lack of True Customer Focus

Though a total focus on the customer and what they desire is a vital element of the 4P model, this truth is often in danger of being overlooked by enthusiastic marketing teams. To counter this, Robert F. Lauterborn put forward his customer centric four Cs classification in 1990. This model converts the four P's into more customer oriented four C's:

- Product to Customer Solution.
- Price to Customer Cost.
- Promotion to Customer Communication.
- Place to Customer Convenience.

Marketing Mix Example – Nivea

Company

NIVEA is a well-known company that is in the high quality skin and beauty care product market. NIVEA is one the brands manufactured and sold by Beiersdorf, which was established in 1882. In UK, the company has always focused on ensuring availability of their products to as many people as possible. In addition, the company has always strived to understand the varied needs of its vast consumer base and bring as many specific products to market as possible.

Marketing Mix for New Product Line

Market research revealed an opportunity in the market for a younger customer base. This led to the launch of Nivea Visage Young in 2005. This product was developed for girls in the 13 to 19 year age range.

For the eventual launch of the product, the company needed to develop a balanced and relevant marketing mix to appeal to its young audience. Through its initial launch in 2005 to a subsequent re launch in 2007, the company focused closely on the marketing mix balance to help ensure that all elements of the product appeal to the target audience to achieve success.

Product

The company put significant importance in ongoing research to understand the constantly evolving market and consumer dynamics. This knowledge has helped the company develop more innovative new products that fulfill consumer needs. Through this research, it became clear that younger consumers wished for a more specific product that addressed the skin needs of their age category. The need was for a product that offered a beautifying regime for daily use rather than a medicated product that targeted specific skin problems. The latter were abundantly being offered by competition. The product was subsequently redesigned to meet these specialized requirements.

From the company's perspective, some of the changes helped meet its commitment to the environment which included more efficient packaging to reduce waste, the use of more natural products and the use of recyclable plastic.

Price

An effective pricing strategy takes into account the product's perceived and actual values. The final price should be based on both these in order to make the product attractive to both buyer and seller. After its relaunch, Nivea Visage Young was priced a little higher than before to account for the new formula, better packaging and extended range of products. Since the product as being bought by mothers for their daughters, it remained low enough to remain good value for money. Effective pricing means that sales from this product account for nearly 7 percent of all Nivea Visage sales.

Place

As mentioned, Nivea aims to have a wide reach for its products to ensure that it is easily available wherever needed by the extensive target market. The primary channels used are retail stores. High Street stores such as Boots and Superdrug account for nearly 65 percent of all sales. Another portion comes from grocery chain stores such as ASDA or Tesco. This covers young people making their own purchases (mostly high street), as well as their mothers buying for them (mostly grocery stores). These stores ensure a cost effective distribution channel that has a wide reach. The company manages its own cost by selling to wholesalers rather than directly to smaller stores. It also does not sell online directly, but the product is sold through stockists.

Promotion

Nivea's has always tried to base its promotions on the actual lifestyle of its target market. The company does not find above the line promotions to be very effective as these are one way communications through TV for example. Instead, the promotion is more consumer led through different below the line solutions. Sample sales are a key activity that allows consumers to try out the actual product. There is also an interactive online magazine FYI (fun, young, independent) to increase product visibility and association. The company has also maintained a strong social media presence on popular social media networks. This used of new media has ensured a better brand awareness and association among target audience.

Guerrilla Marketing

Guerrilla marketing is a marketing tactic in which a company uses surprise and/or unconventional interactions in order to promote a product or service. Guerrilla marketing is different than traditional marketing in that it often relies on personal interaction, has a smaller budget, and focuses on smaller groups of promoters that are responsible for getting the word out in a particular location rather than through widespread media campaigns.

Companies using guerrilla marketing rely on its in-your-face promotions to be spread through viral marketing or word-of-mouth, thus reaching a broader audience for free. Connection to the emotions of a consumer is key to guerrilla marketing. The use of this tactic is not designed for all types of goods and services, and it is often used for more “edgy” products and to target younger consumers who are more likely to respond positively. Guerrilla marketing takes place in public places that offer as big an audience as possible, such as streets, concerts, public parks, sporting events, festivals, beaches, and shopping centers. One key element of guerrilla marketing is choosing the right time and place to conduct a campaign so as to avoid potential legal issues. Guerrilla marketing can be indoor, outdoor, an “event ambush,” or experiential, meant to get the public to interact with a brand.

Guerrilla Marketing Mistakes

With the risks inherent to guerrilla marketing, and the sometimes uncharted territory it travels in, there are a number of examples of campaigns gone awry:

- In 2007, the Cartoon Network promoted a show by placing LED signs resembling a character from the show all over Boston. The signs created a bomb scare and cost Turner Broadcasting (the network’s parent) $2 million in fines.
- In a 2005 Guinness World Record attempt, Snapple promoted its new frozen treats by erecting a 25-foot popsicle in a New York City park. It melted faster than expected, covering the park in sticky goo requiring the fire department to come to hose it down.

Types of Guerrilla Marketing

- Outdoor Guerrilla Marketing: Adds something to preexisting urban environments, like putting something removable onto a statue, or putting temporary artwork on sidewalks and streets.
- Indoor Guerilla Marketing: Similar to outdoor guerrilla marketing, only it takes place in indoor locations like train stations, shops, and university campus buildings.
- Event Ambush Guerilla Marketing: Leveraging the audience of an in-progress event -- like a concert or a sporting game - to promote a product or service in a noticeable way, usually without permission from the event sponsors.
- Experiential Guerilla Marketing: The entire above, but executed in a way that requires the public to interact with the brand.

Effectiveness of Guerrilla Marketing

Most buyers are inured to conventional methods of advertisement like segments on television, radio channel snippets, hoardings, banner ads and pop-ups.

Since these promotional messages are often discordant, that is they are not delivered at the right time or in the right context, viewers have trained themselves to tune out the interruptions. It is almost impossible to get or hold their attention.

Guerrilla campaigns do not fixate on process, rules or structure. They do not follow best practices. The only focus is on ensuring that buyers feel special, privileged, positively surprised, intrigued or thrilled by the interaction with the brand.

It is because the emotions of the target audience are involved that Guerrilla marketing manages to reach more people, elicit more responses and generate more word of mouth publicity than conventional promotions.

- Guerrilla marketing is unexpected: That makes it memorable. Since it moves away from tried and tested channels like the ads after the 9 PM segment or the predictable "thank you email", prospects do not have "filters" to tune out Guerrilla promotions. They cut through the clutter and leave an impact. This is also known as "disrupt and reframe" where the norm is purposely disrupted and marketing messages are presented in a way that is out of the ordinary.
- Guerrilla marketing flips the edutainment switch: According to Bushra Azhar of the Persuasion Revolution when content or promotional messages flip the edutainment switch – that is they entertain while advertising, the ROI of the campaigns increases manifolds. Guerrilla marketers always give priority to an enjoyable experience and stand apart from their more "corporate" competitors.
- Guerrilla marketing associates a brand with innovation and authenticity: Coca Cola isn't a small company. It is a multi-billion dollar conglomerate. However it too has benefited from guerrilla marketing. Remember the Coke Happiness Machine? What made the campaign go viral is the sheer genuineness of the students' reactions. The brand embraced guerrilla with élan.
- Guerrilla marketing is cost effective: There is a formula to determine the ROI of a Guerrilla campaign. It is (Return – Marketing Investment)/ (Marketing Investment). Guerrilla marketers from around the world have seen reductions of up to 90% in their ad spend thanks to the unconventional approach of going Guerrilla.

Common Guerrilla Marketing Strategies

Guerrilla marketing encompasses a large number of strategies that utilize closer, more human connections with prospects, the element of surprise and innovation to leave a mark on buyers.

- Ambush Marketing: It is also referred to as stealth marketing. In this set-up the publicity generated by a global or national event is used by a brand to further its own interests. The 1996 summer Olympics was actually sponsored by Toyota but General Motors scored over its competitor by promising a Golden Holden car to all gold medal winners. The vast majority of people still believe that General Motors had sponsored the event.
- Undercover Marketing: In this approach "plants" or undercover agents mingle with prospects and extend the marketing message of the brand under the pretext of regular interactions. Sony Ericsson's "Fake Tourist" campaign had actors requesting passers-by to click photos of them using their cell phone.
- Ambient Marketing: It is the most visually entertaining form of guerrilla marketing. Here signage and brand logos are placed against (or on) unusual items that aren't accepted

backdrops for advertisements. But leaving the definition here doesn't do justice to the ingenuity of ambient marketing. The placement is clever and creative ensuring that it utilizing the item itself and the objects around the item to actually reinforce a core benefit of using the company's offerings.

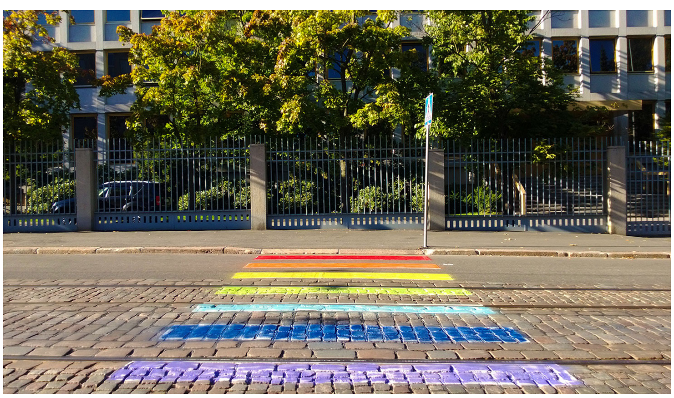
- Experiential Marketing: This is the hardest to define. Experiential marketing is meant to create a close bond between the buyer and the brand by allowing the user to immerse himself in an altered reality that drives home the features and benefits of a particular product. This abstract concept is best described through an example. Doc McStuffin is a television show about a young girl who treats toys in her imaginary clinic. Disney promoted this program through a number of "McStuffin Clinics" that were set up in stores. Kids were invited to play with special merchandise and watch television clips, taking turns to diagnose an adorable teddy bear named "Big Ted".

Examples of Guerrilla Marketing

Marketing guerrilla in a Zebra Crossing:

One of the usual places to create guerilla marketing actions are the zebra crossings. The lines painted on the ground give you a lot to play with if you have the necessary creativity. For example, McDonald's simulates that the lines are French fries coming out of the typical package of the hamburger brand.

What is interesting about this action is that, besides of being part of a real zebra crossing, which still has the same function, it has achieved that the image is one of the company's products. And besides, with the image type of the M in the sight of all pedestrians.



The use of an element so striking and crowded in cities helps the message to better suit the potential client since he will necessarily have to pass through it. The more people see the advertisement, the better it is for the campaign, especially if it is about an industrial action like this one in which a rainbow was painted in a zebra crossing beside the Russian Embassy in Helsinki. With this action the laws they criticized the laws approved in 2018 against homosexuals.

This gesture of Finnish LGTB collective was imitated in many parts around the world, including the Gran Vía of Madrid or the streets of New York, in an element that usually accompanies a good guerilla marketing campaign: its imitation.

For its part, another exciting element is from this office supply company that uses white lines with a can like Tipex, to play with disappearing text on the road.

Take Advantage of Urban Benches

Following the same logic that the zebra crossings uses, the actions that guerilla marketing seeks in urban benches is to capture the client in his or her commonplace. KitKat has made famous its benches in shape of chocolate bars. The brand of sweets takes advantage of the famous design of its products, in form of bars, incorporating the famous red paper.

On their behalf, Ikea has gone a step further and has decorated all the space around a bench in the middle of the street with cushions, coffee tables, and rugs, promoting the comfort of their products. This example shows one of the great possibilities of guerilla marketing in the middle of the street, and it brings their products closer to the users. In this case not only the user is surprised to see their regular space customized, but also, they use specific products of the brand.

Bus Stops

Bus stops are fascinating places for this type of campaign because:

1. There is a usual influx of people.
2. It is not a transit area, but the users spend a long time there that's why the brand can gain their attention.
3. There are elements with which you can play: bus shelter, benches.

Some curious examples are this Coca-Cola refrigerator that looks like it gives a break to users who are suffering from the heat or the opposite case that shows a hamburger company simulating that it is an oven.

Besides, many brands are taking advantage of advertising in the bus shelters to go further. For example, to promote the movie Up, not only was the marquee used to show the two-dimensional poster but, playing in addition to the concept of the film, real balloons were included. This is another feature of effective guerrilla marketing campaigns: they mix two-dimensional and three-dimensional elements to reinforce the message.

Guerrilla Marketing in Public Transport

The public transport is another place where the imagination of guerrilla marketing surprises you. It is not uncommon to find buses wrapped with movies, companies, restaurants, malls advertisements but the ad for this zoo in the local buses of their city was original. A snake wrapped around the bus and squishing the vehicle, something striking and unique.

The watch brand IWC used the handles of buses as their advertising element. The user of the bus that uses it will see how the watch fits in their wrist and get an idea of whether the product interests him or her or not. A plan with excellent creativity strength because it is very related to the product.

Did you know that in Seoul's metro there's a beach? This was the very original marketing campaign that was used in the subway of the South Korean city. The goal of the advertisement was to promote ecology, so the reasons chosen were about nature, as in this case, a beach.

In other Public Spaces

The street marketing guerilla it is not only focused on public transport, but pedestrian crossing or bus stops. It goes much further, and it reaches common elements that we find on the street: to paper bins, lanterns, traffic lights or buildings. Everything is useful to create guerilla marketing.

Por example, this action that Miele simulates the entry to a road tunnel as if it were the pipe of one of its vacuum cleaners.

The advantage of guerilla marketing over other marketing forms is that it stimulates the imagination because of all the artistic expression that it takes place in these types of strategies. A painted advertisement can become a disaster if the paint is spilled, just like it is shown in the picture above.

Ambush Marketing

Ambush literally means a surprise attack by someone lying in wait in a concealed position. Ambush Marketing is a marketing strategy where a company ambushes its competitor's marketing efforts to gain an upper hand in terms of exposure by stealing the spotlight from him. These activities usually capitalize on the resources and efforts of other (competitor) brands.

The definition of ambush marketing has changed over time. Originally it was a brand's attempt to associate itself with a team or event without buying the rights so as to steal the spotlight from the rival that paid to be an official sponsor. This was done either to capitalize on a huge audience or just to attack the rivals.

However, these days, the platform has included advertisements in addition to just sponsorship. Ambush marketing strategies is a key tool used in brand wars.

Ambushing occurs when the event is hijacked by any party who hasn't sponsored it. It can be a brand's competitors or any other unrelated brand too. For instance, if company A and B are sponsoring an event, and A goes on an advertising blitzkrieg making it seem like the sole sponsor for the event, then B would be said to have been ambushed by A.

To make it more clear – when a company capitalize on the resources bought by some other company, who is not aware of it, to promote itself (or any of its products), it's said to be using ambush marketing strategies.

Types of Ambush Marketing

Direct Ambush Marketing Activities

The activities intentionally performed by a company so as to make itself seem associated with an event/property for which it has purchased no rights or when it uses clever advertising to attack a competitor and steal its spotlight.

Predatory Ambushing

A predator is an animal that lives by preying on other animals. A similar case is seen in predatory ambushing where a brand intentionally attacks a rival's sponsorship/advertising efforts to gain the market share and to confuse the consumers. An instance of predatory ambushing can be seen during the 1997 Pepsi Asia Cup (cricket) which had Pepsi as its official sponsor. Coca Cola bagged the television sponsorship rights for it and Pepsi, in spite of having branded the event, got its audience confused about who the official sponsor was.

Predatory ambushing

Coattail Ambushing

Coattail ambushing

A coattail is the loose back flap of a coat that hangs below the waist. Coattail ambushing is an attempt by a brand directly associate itself with an event or a property by using a link other than becoming an official sponsor of the same. For example, Adidas may sponsor a football player participating in the football cup sponsored by Nike.

Property or Trademark Infringement

A brand may use properties, logos, symbols, taglines words, or phrases belonging to a competitor which can dilute the communication efforts of the competitor brand and confuse the customers. For instance, Red Cross is used throughout the world to represent hospitals and other medical services. This actually is a property Infringement of the Red Cross Organisation.

Self-Ambushing

When an official sponsor performs activities above and beyond what was decided in the sponsorship contract, self-ambushing is said to take place. Self-Ambushing may result in the brand performing activities which were earlier agreed upon to be performed by other official sponsors, like offering freebies to the audience, etc.

Indirect Ambush Marketing Activities

When a brand associate itself with an event or a program indirectly – either through creating an allusion by using similar images, symbols, etc, or setting up a promotional presence at or near the event without making specific reference to the event, or by using certain theme as that of the concerned event, in order to gain more exposure and publicize their products with no intention of attacking or stealing spotlight from their competitors, the brand is said to use Indirect Ambush Marketing Activities.

Intent and Techniques

Typically, ambush marketing is used to "ride off" the prominence and draw of a major event, aligning promotional activities and publicity around it, without having to pay fees to the event's organizer to be designated as an "official" sponsor in a certain product category. Ambush marketing techniques can be classified into two categories: "direct" forms of ambush marketing involve advertisers promoting themselves as being a part of or associated with an event, diluting the exposure of official sponsors and their respective campaigns—especially if they are the product of the non-sponsor's competitors, while indirect forms of ambush marketing use imagery relating to an event in advertising to evoke a mental connection with it, without specifically mentioning it.

"Predatory" forms of direct ambush marketing involve fraudulent claims by a non-sponsor that pass themselves off as being an "official" sponsor, usually by making direct references to trademarks relating to an event, but without having any official authorization from the event's organizers to identify itself as an official sponsor or use its trademarks. An advertiser may attempt to perform a publicity stunt inside the venue itself to attract attention to their brand, such as having attendees wear attire that is associated with the company. An official sponsor can also be involved in direct ambush marketing if they perform more extensive promotional activities at an event than they were originally authorized, such as distributing branded merchandise when they were only granted advertising on signage—especially if these activities compete with those of another sponsor authorized to do so.

A company may also perform direct ambush marketing by riding coattails—factually marketing their role in connection to an event or its participants. For example, a company which produces sporting equipment may advertise that they are the official supplier for a specific athlete or team. Similarly, a non-sponsor may choose to solely sponsor the event's telecast by a broadcaster, but not the event itself. The factual acknowledgment of a non-sponsor's involvement with the participants in an event by, for example, a television host or commentator, can also be considered an incidental form of coattail marketing, as it provides additional unpaid publicity to the brand.

Most forms of indirect ambush marketing involve a non-sponsor making use of imagery, themes, and values similar to what the event and campaigns from official sponsors express, either positively or negatively, and without making specific references to the event itself or its trademarks. In essence, the advertiser markets itself using content that evokes a mental association with the event, and as a result, appeals to those who are aware of the event. Advertisers may use a well-known nickname for the event that is not a trademark, such as "the big game".

Similarly, a non-sponsor may use “distractive” techniques to divert consumers’ attention away from the actual event and its official sponsors using similarly indirect means; for example, a non-sponsor may saturate the area at or around its venue (including street vendors, billboards, and public transport) with a competing marketing presence. Such “saturation marketing” may either be indirectly related to the event, or be incidental and make no references at all. In some cases, a company may sponsor or create a similar “parallel property,” designed to compete directly with a major property by evoking similar thematics.

Regulation

In response to the threats of ambush marketing and other forms of trademark infringement, organizers of major sporting events have sometimes required host countries or cities to implement special laws that, going beyond standard trademark law, provide regulations and penalties for advertisers who disseminate marketing materials that create unauthorized associations with an event by making references to specific words, concepts, and symbols. Organizers may also require a city to set up “clean zones” in and around venues, in which advertising and commerce is restricted to those that are authorized by the event’s organizer—specifically, the event’s official sponsors.

In some cases, a venue may be required to suspend its naming rights for the duration of the event if the venue is named for a concern that is not an official sponsor, during which it is referred to under a generic name by all event-related materials and telecasts, and all signage referring to the sponsored name may be obscured or removed. For example, 2010 Winter Olympics hockey venue General Motors Place (since renamed to Rogers Arena) was renamed “Canada Hockey Place” for the duration of the Games.

Broadcasters of events may be contractually required to give the official sponsors right of first refusal to purchase advertising time during their telecasts. Some events may require all advertising time to be controlled and allocated by the organizer itself, such as the UEFA Champions League.

Examples

The earliest example of general anti-ambush advertising legislation were passed in South Africa in 2001 in preparation for the 2003 Cricket World Cup. The law gave the Minister of Trade and Industry the ability to designate specific events as “protected,” making it illegal to use the event’s trademarks visually, audibly, and “in promotional activities, which in any way, directly or indirectly, is intended to be brought into association with or to allude to an event,” to “derive special promotional benefit from the event,” without the consent of the organizer. Prior to the 2011 Rugby World Cup, New Zealand passed the similar “Major Events Management Act,” which prohibits any promotional use of words, emblems, and concepts implying association with events specifically designated as “major” by the national government, without permission from the event’s organizers. The law also provides the ability for clean zones to be established around event sites for the purposes of enforcing advertising rules and providing crowd control.

Rule 40 of the Olympic Charter forbids all Olympic athletes from participating in marketing activities for companies that are not official sponsors of the Olympics, even if they have official relationships with the advertiser, during a timeframe that begins 9 days before the opening ceremony, and ends 3 days after the Games’ conclusion.

The United Kingdom passed the London Olympic Games and Paralympic Games Act 2006 prior to the 2012 Summer Olympics: on top of existing laws providing special protection for Olympic symbols, the act banned the use of the words "2012" and "Games" by non-sponsors, either together, or with words or concepts relating to the event, such as "Gold," "Silver," "Bronze," "Medals," "Summer," "Sponsors," or "London," to imply an association with the Games. LOCOG also announced plans to enforce these rules in the internet keyword advertising market.

Examples

"Credit Card Wars"

The first notable instances of ambush marketing occurred between the 1984 Summer Olympics in Los Angeles, and the 1988 Summer Olympics in Seoul. Earlier Games allowed any number of companies to be official sponsors, and there were a record 628 sponsors for the 1976 Summer Olympics in Montreal. Despite the revenue it provided for the Games, the ability for sponsors to promote awareness of themselves within the context of the Games were diluted by the sheer number. In order to improve the value of these sponsorships, the International Olympic Committee implemented a system of exclusive sponsorship rights within specific market categories for the 1984 Summer Olympics.

In 1986, credit card company American Express (Amex)—rival to official sponsor Visa Inc., began a marketing campaign in Asia promoting merchandise from a fictitious "Olympic Heritage Committee," supposedly based in Switzerland. American Express halted the campaign following complaints by the IOC, who threatened to denounce the company's actions with ads and media events in which sports ministers and Olympic athletes from the countries involved in the campaign would cut American Express credit cards into pieces, if they did not withdraw the ads. In a follow-up, American Express released ads featuring a photo from the opening ceremony of the 1986 Asian Games held in the same city, captioned "Amex welcomes you to Seoul." The ad was intended to mislead readers into thinking that it was a photo of the Olympics' opening ceremony. These campaigns resulted in retaliatory advertising from Visa; in a continuation of an ongoing campaign promoting its exclusivity at certain venues and events, Visa ran advertising promoting that it was the only credit card accepted at Olympic venues and for purchasing tickets.

American Express felt that Visa's advertisements were misleading, citing viewers who interpreted the ads as to believe that no other credit cards were accepted anywhere in the host city during the Olympics (such as at shops and restaurants), rather than applying only for Olympic ticket sales and at venues. Prior to the 1992 Winter Olympics and Summer Olympics, American Express aired advertisements acknowledging these facts, explained with the slogan "You'll need a passport, but you don't need a Visa." Prior to the 1992 Summer Olympics, the company also promoted a partnership with Iberia and Turespana that made American Express "the official credit card of tourism in Spain"—a campaign which factored the Olympics, as well as Seville Expo '92. The IOC negotiated a truce between Amex and Visa to tone down their advertisements, but encouraged Visa once Amex returned to its ambush marketing in 1994, and Amex finally conceded defeat by 1996. Jerry Welsh, who was the manager of global marketing efforts for American Express in the 1980s, would coin the term "ambush marketing" to refer to these activities. Welsh defended Amex's practices as a corporation's duty to its shareholders after they lost out on the official Olympic sponsorship rights to Visa.

Nike

In the mid 1990s, Nike became known for several major ambush marketing schemes at the Olympics and association football tournaments.

At the 1996 Summer Olympics, Nike engaged in a marketing campaign to compete with official sponsor Reebok, including magazine ads and billboards. Consistent with its aggressively-toned marketing of the time, its campaign featured slogans parodying those of the Olympics and attacking its values, including "Faster, Higher, Stronger, Badder", "You don't win Silver, you lose Gold", and "If you're not here to win, you're a tourist." Nike set up a prominent pop-up store near the athletes' village, and was also attempting to have fans to display signs with the aforementioned slogans inside venues. IOC marketing director Michael Payne noted that the campaign was being widely criticized, as athletes were "likely to be uncomfortable when their shoe sponsor says they have failed unless they win a gold medal", and that Nike was "crossing the very fine line between having an impact and biting the hand that creates tomorrow's heroes."

Payne and the United States Olympic Committee's marketing director John Krimsky held a meeting over the campaign with Howard Slusher, a subordinate of Nike co-founder Phil Knight. The meeting quickly turned aggressive; Payne threatened IOC counter-measures, including pulling accreditation for Nike employees, banning the display of its logos on equipment, and organizing a press conference where silver medallists from the Games, as well as prominent Nike-sponsored athlete Michael Johnson, would denounce the company. Faced with these threats, Nike agreed to retract most of its negative advertising and PR stunts. After Reebok unexpectedly pulled out on short notice, Nike eventually served as the official sportswear supplier of the 2000 Summer Olympics in Sydney, Australia—using them to launch the company's first-ever global marketing campaign.

Nike also performed saturation ambushes at UEFA Euro 1996 and the 1998 FIFA World Cup, by buying advertising space in the vicinity of the host venues in order to prevent the official sponsors (Umbro and Adidas respectively) from being able to promote themselves. Nike's actions influenced the eventual adoption of "safe zone" rules, requiring official sponsors to have exclusive use of all advertising locations within a certain radius of an event's venue.

FIFA World Cup

During the 2006 FIFA World Cup, Bavaria Brewery distributed "Leeuwenhosen"—branded overalls with lion tails, colored in the orange of the Netherlands national football team. Officials at games directed fans to take off the Leeuwenhosen and put on orange-colored shorts instead, as the clothing infringed on the exclusive beer sponsorship rights owned by Anheuser-Busch. Bavaria Brewery was again accused of ambush marketing at the 2010 FIFA World Cup, when 36 female fans were ejected from a game (along with the arrest of two, later released, accused of violating the Contravention of Merchandise Marks Act) for wearing unbranded orange miniskirts that were provided by Bavaria; Sylvie van der Vaart, wife of Dutch player Rafael van der Vaart, had modeled one of the miniskirts in an advertising campaign for the brewery. Robbie Earle was also fired from his roles as ITV Sport pundit and ambassador for England's bid for the 2018 World Cup, when it was claimed by FIFA that he had sold tickets meant for family and friends on to Bavaria.

Prior to the 2010 FIFA World Cup, South African budget airline Kulula ran an advertisement that played upon the fact that they were not an official sponsor of the tournament: it described themselves as “Unofficial National Carrier of the You-Know-What,” and contained images of stadiums, balls, vuvuzelas and national flags. The ad was pulled following a complaint by FIFA, who claimed that the ads contained symbols that constituted an unauthorized association with the event when used together. Kulula mocked FIFA’s objections in subsequent advertising: a follow-up ad deliberately replaced the items from the first ad with similarly-shaped items (such as disco balls and golf tees), and explained that there were other reasons to travel South Africa “than just for that thing we wouldn’t dare mention.” The airline also announced that it would give away free flights to anyone named “Sepp Blatter”; the offer was redeemed for a dog named after the then-FIFA president.

Olympic Games

Li Ning carrying the torch at the opening ceremony of the 2008 Summer Olympics.

The International Olympic Committee has required host cities to enact measures to restrict commerce around venues, ensure official sponsors have access to public advertising space, “reduce and sanction” ambush marketing, and keep venues “clean” of any references to non-sponsors.

At the 2008 Summer Olympics in Beijing, the IOC worked with the local organizing committee to develop a “robust brand-protection program”; logos of non-sponsors were covered with tape on equipment at Games facilities—a restriction that applied even to appliances, bathroom fixtures, elevators, and fire extinguishers. However, there was a high-profile ambush during the opening ceremony; former Olympic gymnast Li Ning, who founded an eponymous Chinese shoe company, lit the Olympic cauldron. The Li-Ning company was not an official sponsor of the Games (but did act as an equipment supplier for some of China’s teams), and Li wore Adidas apparel for the sequence per its official sponsorship. On the first trading day following the ceremony, Li-Ning’s share price increased by 3.52%.

Prior to the 2012 Summer Olympics in London, England, bookmaker Paddy Power placed ads promoting itself as the “official sponsor” of “the largest athletics event in London this year”—an egg-and-spoon race in the French village of London, Burgundy, with a prize of €100 in Paddy Power credit. LOCOG threatened Paddy Power over the campaign, but backtracked after the bookmaker threatened to take them to court. When announcing the planned lawsuit, a Paddy Power spokesmen quipped that "It's a pity they didn't put the same energy in to the ticketing and security arrangements for the Games that they put into protecting their sponsorship revenue streams." Nike released a television advert tying into the Games with a similar concept, featuring footage of athletes training in other places named "London", and the tagline "Greatness doesn't only exist in SW19". Following the Games, a study by the Global Language Monitor found that several non-sponsors, including Centrica, Ericsson, Philips, and Subway, were among the brands with the highest perceived relationship between themselves and the Games.

In January 2014, prior to the 2014 Winter Olympics, clothing company The North Face was sued by the Canadian Olympic Committee (COC) for marketing a line of "villagewear" apparel that it felt implied an unauthorized association with the Games. The apparel had designs featuring the colors and symbols of countries (such as red and white with a maple leaf for Canada) and patches reading "RU 14," were described in a catalog as "[capturing] the international spirit of the Olympic Games," and several items in the catalog contained references to Sochi in their names. The COC also felt that the name "villagewear" implied a reference to Olympic Villages, accused a retailer of the line of using the Olympic rings on a store sign, and accused the company of running a contest that purported to offer tickets to the Games as prizes (in violation of terms and conditions restricting redistribution of tickets without permission). The North Face disputed the COC's claims, arguing that it did not imply it was an official supporter of the COC, did not use any of the official branding elements of the Games, that the COC had no right to restrict usage of national symbols that are in the public domain, and that the COC did not hold rights to the "alleged Olympic trademarks" at all since they were owned by the IOC. The suit went to trial in December 2014, and was settled in October 2016, after The North Face parent company VF Corporation agreed to make a donation to the Canadian Olympic Foundation.

Prior to the 2016 Summer Olympics, Rule 40 was loosened by the IOC to allow some campaigns by non-sponsors involving athletes to occur during the Games, as long as the campaign had begun within a certain timeframe prior to the Games, and do not imply an association with the Olympics; this includes advertising material containing "Olympic-related terms" such as the current year, the host city's name, "Games," "Olympians," "Sponsors," "Medal," "Gold," "Silver," "Bronze," "Challenge," "Effort," "Performance," and "Victory". It also requires the submission of waivers to the IOC and the country's National Olympic Committee that describe the extent of the marketing involving athletes. Prior to these Games, the United States Olympic Committee (USOC) also issued a warning asserting that non-sponsors could not create or disseminate any content related to the Olympics on social media, including posts referencing the Games or its results, posts sourced from official accounts, or posts using official hashtags (which the USOC has claimed as trademarks).

In July 2016, the Australian Olympic Committee sued mobile provider Telstra over adverts promoting its partnership with the Seven Network to offer subscribers free premium access to its digital coverage of the 2016 Summer Olympics, as the broadcaster's "official technology partner". The ad was set to a version of Peter Allen's song "I Go to Rio"—a phrase which was also used as the tagline of the campaign. The AOC argued that the promotion was deceiving and could imply that

Telstra was an official sponsor of the Australian Olympic team (Telstra was previously an official sponsor, but ended its relationship in 2015). Telstra defended the ads, stating that they were intended to promote its relationship with the official broadcaster, and that it would amend the ads to disclaim that the company is not an official sponsor of the AOC or any related entities. On 29 July 2016, a federal court ruled in favor of Telstra, stating that there was "no doubt" the campaign was relating to the Games without using its trademarks, but that it was "not enough for the AOC to prove that the advertisements were Olympic-themed."

The IOC's restrictive ambush marketing rules were one factor in the National Hockey League's decision to ban its players from the 2018 Olympics; for the previous five Olympics, the NHL scheduled an extended break in the regular season to allow players to participate, and placed its All-Star Game on hiatus. The NHL noted that the rules disallowed teams from promoting their players' participation in the tournament.

NFL

The National Football League has historically been protective over unauthorized uses of its intellectual property, such as the game telecasts themselves, and most notably, its trademark for the Super Bowl—the league's championship game. To protect these properties and its official sponsors, the league has historically sent reminders and cease and desist notices to advertisers and businesses—including establishments that may be showing the game—that use references to "Super Bowl," "Super Sunday," or team names in promotional activities related to the Super Bowl. Although using part of a trademark for descriptive purposes, without implying official association, can be considered a nominative use under United States trademark law, non-sponsors typically use euphemisms such as "the Big Game" to refer to the Super Bowl in advertising to protect themselves from liability. In 2006, the NFL submitted an application to register "The Big Game" as a trademark as well, but withdrew following opposition by students of Stanford University and UC Berkeley, who play in a long-running college football rivalry game also known as "the Big Game"—an event which pre-dates the Super Bowl by several decades. The NFL has also partaken in clean zone policies around Super Bowl sites to protect against saturation ambush marketing.

The XFL—a forthcoming rival league, floated a large blimp branded with the logos of the league and its equipment supplier Spalding, over the Oakland Coliseum during an Oakland Raiders playoff game on January 6, 2000. The league intended to do so again on January 14 for the AFC championship game, but on the 9th, the blimp was let loose unmanned after a failed attempt to land it at Oakland International Airport, and it crashed over a waterfront restaurant on the Oakland Estuary after getting caught on a sailboat mast. The blimp sustained US$2.5 million worth of damage, and the incident was later considered to be an omen for the XFL's eventual failure.

In 2009 and 2010, Avid Life Media produced advertisements for its extramarital and homosexual online dating services Ashley Madison and ManCrunch, that it aimed to have aired during the Super Bowl. The Ashley Madison ad featured the tagline "Who Are You Doing After the Game?," while the ManCrunch ad culminated with two male football fans kissing and dry humping each other. Both ads were rejected by the game's respective broadcasters; the Ashley Madison ad for objectionable content, and the ManCrunch ad for its unauthorized use of NFL trademarks. An Avid Life Media spokesperson, as well as the media, initially reported that the ManCrunch ad had actually been rejected because of its homosexual themes. Critics felt that the company was engaging in ambush marketing by intentionally submitting ads that would be rejected by broadcasters, and thus earn free publicity from the resulting "controversy" without having to pay for the ad time itself. The company denied this was the case, and stated that it had serious intentions to purchase the ad time if the commercials were approved.

In October 2014, the NFL fined player Colin Kaepernick for wearing pink-colored Beats headphones (in observance of National Breast Cancer Awareness Month) during a post-game press conference, violating rules that prohibit players from displaying the logos of non-sponsors during games, practices, and pre/post-game media appearances. His actions infringed the exclusive sponsorship rights of Bose Corporation, who had become an official sponsor of the NFL as of the 2014 season. In response to the fine, Kaepernick covered the Beats logo on the headphones with athletic tape during a subsequent press conference.

Prior to Super Bowl XLIX in Glendale, Arizona, the NFL filed an opposition to a trademark application for "Superb Owl", filed by the organizers of a local running event known as The Night Run. They had planned to hold a "Superb Owl Shuffle 5K" event on the morning of the game, in reference to the "Superb Owl" awards given out during The Night Run. The NFL felt that the trademark was likely to cause confusion with its Super Bowl trademarks, also noting that the event's website, superbowlshuffle.org, was confusingly similar to "Super Bowl Shuffle". The euphemism "Superb Owl" had also appeared as the result of user typos on search queries for the game, on the television series The Colbert Report as a satire of the NFL's trademark rules, and during the vandalism of commemorative statues that were put up in San Francisco during the lead-up to Super Bowl 50.

Minneapolis Sports Venues

In September 2010, the Minnesota Timberwolves basketball team announced that they would install a large billboard sign for Sanford Health on the exterior of Target Center. The sign was placed so that it would be visible from within Target Field, home stadium of the Minnesota Twins baseball team. The Twins have a competing healthcare sponsorship with the Mayo Clinic. Although it is a city-owned venue, the Timberwolves had the right to sell advertising on the exterior of the arena. Twins president Dave St. Peter stated that the size of the sign was "shocking", while the timing of the change was criticized for occurring right before the start of the 2010 Major League Baseball postseason, which would bring national exposure to the venue and the sign. In October 2011, per an extension of Target Corporation's naming rights for the arena, the company was given control over its exterior. The Sanford Health sign was replaced by a new display featuring Target's dog mascot Bullseye, which animates after Twins home runs.

The Minnesota Vikings' U.S. Bank Stadium faced a similar controversy. As the Minneapolis offices of Wells Fargo, a rival to the new stadium's naming rights sponsor U.S. Bank, are located within the vicinity of the stadium, Wells Fargo agreed to only install "non-mounted," non-illuminated signage on its building, such as letters painted directly onto the roof. After the original agreement was reached, Wells Fargo had asked the team to allow the installation of "raised, illuminated lettering. mounted on beams more than a foot above the roof rather than painted on the roof as agreed upon". Such signage would be visible in overhead views of U.S. Bank Stadium (such as camera shots during event telecasts). Wells Fargo threatened to light the entire rooftops of its offices if the Vikings chose to deny the requested change. In December 2015, the Vikings sued Wells Fargo for violating the agreement, after they began to construct an illuminated sign on their rooftop. On

June 23, 2016, Judge Donovan W. Frank ruled in favor of the Vikings, and ordered Wells Fargo to remove the raised, illuminated signage.

Ambushes of Apple

In October 2011, Samsung ambushed the Australian launch of Apple's iPhone 4S smartphone by setting up a pop-up store near Sydney's Apple Store. At the store, the company sold its competing Galaxy S II to the first 10 people in line daily at a discount price of $2 AUD. Samsung similarly piggybacked the launch of its successor, the iPhone 5, to promote the Galaxy S III and Galaxy Note II; the company purchased keyword advertisements for the devices on major search engines, as well as Twitter and YouTube, thus causing ads for them to appear on searches relating to iPhone 5.

The Quebec-based home improvement chain Rona ambushed a billboard sign advertising another Apple product, the iPod Nano, by placing a banner for its paint recycling services that showed the paint from the devices in the Apple billboard above it falling into cans.

Cricket World Cup

Although the International Cricket Council does enforce trademark and ambush marketing rules surrounding events such as the Cricket World Cup, Quartz observed that the policies themselves were not as strict as those associated with other major sports bodies. The ICC does not ban the use of cricket-related imagery or the phrase "World Cup" to create associations with the event, although it still restricts the use of official ICC logos and trademarks.

During the 1996 Cricket World Cup, Pepsi aired a promotional campaign with the slogan "Nothing official about it", alluding to its long-time rival Coca-Cola being the official beverage sponsor. A writer for India's Economic Times considered the ads "perhaps one of the greatest examples of ambush marketing".

Prior to the 2019 Cricket World Cup, a hashtag campaign emerged on Twitter, "#GermanyCheers-ForIndia", which purported to feature German athletes and celebrities pledging support for the Indian cricket team by wearing blue jerseys. However, it was later revealed that these posts were actually orchestrated by Volkswagen India—a competitor to the ICC's automotive sponsor Nissan—to promote "Cup Edition" models for several of its vehicles. Prior to the tournament's semi-final, Pepsi (who, as before, is not an ICC sponsor) signed Charulata Patel—an 87 year-old Londoner of Indian descent who had achieved viral notoriety earlier in the tournament for her presence at the India-Bangladesh match—to appear in an extension of its Har Ghoont Mein Swag (Swag in Every Sip) campaign. She was featured in marketing (including television and digital platforms, also including the service TikTok) promoting her as Pepsi's new "swag star", and its "fan anthem".

Premier Soccer League

In September 2018, the South African Premier Soccer League issued a complaint against the South African Football Association (SAFA) over a sponsorship it had reached with OUTsurance Holdings, under which it serves as a kit sponsor for all referees overseen by the association. The advertising deal is with SAFA itself, and was deemed conflicting with the PSL's sponsorships with ABSA Group and Nedbank. SAFA defended the practice, stating that under FIFA statutes as the governing body of football in South Africa, it had the right to appoint the officials used for any match, and that the sponsorship deal would "serve the best interests of our referees in our country so that the game of football is not only protected and developed but that it also grows from strength to strength."

The PSL withdrew a planned court action against SAFA the following month after a meeting with the governing body. A point of contention was a PSL referee's refusal to wear the sponsored kit during a Bloemfontein Celtic match, as he felt their green and purple colour scheme was too similar to the club's kit.

Pros and Cons of Ambush Marketing

Pros

1. For the company running the Ambush Marketing campaign, it is a much cheaper option to get your brand noticed and in some cases with the same amount of impact if not more.
2. Ambush Marketing is a great way to jump-start your business in the beginning because most start-ups don't have the financial capability to sponsor something as large as the Olympics or Super Bowl.
3. Ambush Marketing creates more competition among companies jockeying for market share which is good for consumers; more competition usually means lower prices.

Cons

1. Successful Ambush Marketing diminishes the value of the actual sponsorships and brands who invest.
2. Some say that Ambush Marketing is a sneaky and less honest way to market and therefore, in a smaller, more local approach, it may not be a good solution. A smaller local business may not be able to handle the negative media and brand impact surrounding it.
3. The word "Ambush" itself carries a negative connotation with it.
4. The actual sponsors of events get certain advantages and privileges that the "Ambush" company will never have.

Ambush Marketing Strategies

A few commonly employed ambush marketing strategies including – sponsoring media coverage of an event, a sub-category within the event, or contributing to a "players' pool". Its also noted that advertising coinciding with a sponsored event or other promotion, or deflecting attention away from the event, could also be considered ambushing.

Sponsoring Media Coverage of an Event

In some events, sponsorship rights to the event itself do not include associated media coverage rights. So, some non-sponsors obtain broadcasting rights and, in some cases, higher profiles than they themselves obtain, despite their official status.

The most famous example of this is Kodak's sponsorship of the ABC broadcasts of the 1984 Olympics, mentioned earlier. Payne, an IOC representative, viewed Kodak's behavior with concern as he considered it attacked Fuji's rights as an official IOC sponsor. He described ambush marketers as "thieves knowingly stealing something that does not belong to them" and later argued that ambush marketing breaches one of the fundamental tenets of business activity, namely truth in advertising and business communications. As Fuji had purchased the exclusive category rights to this event from the IOC, Payne considered they had a legitimate right to publicity that might be generated by the event. Kodak infringed upon this right when it purchased the broadcasting sponsorship rights, thereby gaining an association with the event and access to its audience.

However, Jerry C. Welsh, a former marketing executive at American Express, criticized the weak-minded view that competitors have a moral obligation to step back and allow an official sponsor to reap all the benefits from a special event. He further stated that competitors had not only a right, but an obligation to shareholders to take advantage of such events and that all this talk about unethical ambushing is intellectual rubbish and posturing by people who are sloppy marketers. Kodak's behavior, when viewed from Welsh's perspective, would place more responsibility on the event owner's behavior. The category exclusivity introduced in 1984 by the IOC prevented Kodak from obtaining any exposure opportunities once Fuji had secured the Games sponsorship. Worse, because the Games drew such a large audience, many of the other promotional options open to Kodak would have afforded a reduced reach over the period of the Games. Kodak simply chose to capitalize on an ancillary promotional opportunity that was legitimately available for purchase.

From a legal point of view, it is clear that Kodak's behavior did not breach the contract Fuji held with the IOC. Rather, the IOC, in its eagerness to maximize its revenue from both sponsors and broadcasters, failed to protect its sponsors sufficiently. If Fuji believed they had purchased an entitlement to broadcast rights as part of its contract with the IOC, the dispute was a matter between Fuji and the IOC. If Fuji had not expected to obtain broadcast rights as part of the sponsorship contract, they were either remiss in not obtaining these or naive in believing that a competitor would not take advantage of opportunities legitimately open to it.

Sponsoring a Sub-Category within an Event

In 1988, the roles were reversed: Kodak secured the worldwide category sponsorship for the 1988 Olympic Games, while Fuji obtained sub-sponsorship of the U.S. swimming team, which it promoted aggressively. In this instance, the IOC had conferred official sponsor status on Kodak and viewed Fuji as usurping this arrangement. However, from Fuji's point of view, they had not retained their official sponsor rights and so took advantage of other opportunities that remained available. It is possible that Kodak did not foresee this possibility, though this would be surprising, given their own behavior in 1984. Alternatively, the costs of Kodak's sponsorship may have reflected the fact that competitors could purchase sub-category rights. In this case, the IOC arguably placed more emphasis on ensuring its own revenue streams than it did on safeguarding sponsors' interests.

Making a Sponsorship-Related Contribution to a Players' Pool

As well as purchasing mass media sponsorship rights, rivals of official sponsors can also sponsor teams or individuals competing within specific events. Examples of this form of sponsorship include Adidas' sponsorship of Ian Thorpe when Nike was the official clothing supplier for the Australian Olympic team. Thorpe was photographed with his towel draped over Nike's logo at a medal presentation ceremony, a gesture they suggest was necessary to protect his personal contract with Adidas. Also Cathy Freeman's appearance in advertisements for Telstra, an official Olympics sponsor, and Optus, a rival of Telstra who held no official sponsorship rights. They ask "Should Cathy Freeman have been prohibited from appearing in advertisements for non-official sponsors for a period before the Sydney 2000 Games? While the IOC Charter (binding all athletes) restricts athletes from engaging in marketing activities during the Games period, would it have been fair, even ethical, to limit her activities prior to the Games? Equally, should Optus, the sponsor of athletics in Australia for over 5 years, have been prevented from sponsoring her?"

These questions focus attention on the difficulty of defining ambush marketing, and the need to consider where and when an activity breaches relevant statutes. Although the appearance of an individual wearing apparel from a rival would undoubtedly have irked official apparel suppliers, engaging in sub-category sponsorship may be a legal activity.

Payments to individuals or teams raise the question of whose rights should prevail – those of individual athletes or teams, or those of sporting associations and event owners? The brand endorsement contracts held by members of the Indian cricket team clearly illustrate the potential for conflict between event sponsors and individual sponsors. Team members' lucrative endorsement contracts generate considerable personal revenue and run counter to the International Cricket Council (ICC) ruling that bars players from endorsing the products of companies who are the rivals of ICC sponsors for 30 days either side of ICC events. These examples suggest that companies involved in sub-category sponsorship have not necessarily engaged in illegal behavior. Although official sponsors may see the appearance of rivals' insignia at an event as likely to create confusion, this argument overlooks the fact that rivals have the right to promote their sponsorship associations.

Disputes between Reebok, who was official apparel supplier to the US team at the 1992 Olympics, and Nike, who contracted the US track and field team to wear Nike clothing when competing, illustrate this problem. Reebok considered Nike guilty of stealing exposure and publicity they believe they had purchased when they obtained the apparel sponsorship for the entire U.S. team. However, Nike argued they simply exploited a legitimate sponsorship opportunity open to them. Moreover, Nike's contracts with some of the athletes, for example Michael Johnson, existed well before the 1992 Olympics. Overall, Reebok's involvement with the U.S. Olympic team did not prevent Nike from finding ways to publicize its relationships with athletes and athletics. The ability to exploit these relationships was constrained only by the legally binding agreements that existed between individual athletes, teams, associations, governing bodies and event owners.

The existence of earlier sponsorship contracts questions the level of exclusivity that event owners can offer prospective sponsors and may require a reconsideration of the benefits "exclusive" sponsorship can actually deliver. In particular, the fact the event owners do not own media, venues, or competitors, means they cannot exert full control over all other contracts that may exist. Contracts that specify the contingencies within and outside the control of event owners would clarify sponsors' expectations and make them more alert to their competitors' likely behavior. This, in turn, could provide a stronger basis from which to take any legal action, should a rival's actions breach the contract.

Engaging in Advertising that Coincides with a Sponsored Event

Rivals of official sponsors can also purchase normal advertising time and space. Intense advertising by a competitor during or around a sponsored event is also viewed as another form of ambush marketing. Large international sporting events, such as the Olympic Games or Football or Rugby World Cups attract very large audiences, at least some of whom will see or hear advertising that screens during interval periods.

Official sponsors have expressed even more concern about themed advertising that features competitors from sponsored events. For example, during the 1992 Winter Olympics, McDonald's were the official sponsors of the U.S. team, yet Wendy's featured Kristi Yamaguchi, an Olympic champion figure skater, in its advertising. Yet while McDonald's viewed Wendy's behavior as ambushing, Wendy's argued they had a right to maintain the saliency of their brand during the Olympic Games, using airtime available to all advertisers.

During the 1992 Barcelona Olympics, Nike held press conferences for Olympic athletes it sponsored and displayed large murals of members of the US basketball team on buildings in Barcelona, even though they were not the official sponsors. Nike manager, Mark Pilkenton rationalized these actions by stating: "we feel like in any major sporting event, we have the right to come in and give our message as long as we don't interfere with the official proceedings". Pilkenton's comments suggest that ethical considerations do not form part of Nike's decision criteria; instead, they focus on the legality of their actions to ensure they do not breach relevant statutes.

Qantas' campaign in the period preceding the 2002 Sydney Olympics, which involved a series of advertisements featuring famous Australian athletes and posters with slogans such as "Australia Wide Olympic Sale". Although Ansett sued Qantas, the issue settled, though not before nearly 60% of the public believed Qantas was the official Olympic airline (compared with the 38% who correctly identified Ansett as the official sponsor). While the Australian public appeared confused, it is difficult to attribute their confusion to the advertising campaign alone, which did not appear either to breach any trademarks or imply official associations that did not exist.

Development of Other Imaginative Ambush Strategies

As marketers make greater use of new media such as text messaging and event merchandising, so ambush marketing strategies have also become more creative. Fosters allegedly ambushed the official England sponsors, Steinlager, when they ran a campaign in Britain during the 1992 Rugby World Cup with the tag line "Swing low sweet carry-out". This was an obvious play on the words of the English rugby anthem "Swing low sweet chariot" and an alleged attempt to obtain benefits that an association with the English team might bring. A range of other possible promotions. non-sponsors handing out coupons and caps to spectators, hanging banners from tall buildings, running 'good luck' and 'congratulations' ads, purchasing billboards around the venue, using World Cup tickets in consumer sweepstakes etc. The use of temporary tattoos, or "body billboards" on athletes as presenting another challenge to event owners wishing to preserve the exclusivity of official sponsorship rights. Increasing awareness of the use of merchandise to promote a rival's brand has seen event officials screen spectators and prohibit entry to those who wear apparel that bears a rival's logo. A South African newspaper reports that schoolchildren with Coca Cola in their lunch boxes had to peel off the can labels and scrape off Coca Cola logos from bottle tops and lids before they could enter a World Cup cricket match.

Viral Marketing

Viral marketing is any marketing technique that induces websites or users to pass on a marketing message to other sites or users, creating a potentially exponential growth in the message's visibility and effect. A popular example of successful viral marketing is Hotmail, a company now owned by Microsoft, that promoted its services and its own advertisers' messages in every user's email notes.

Types of Viral Marketing Techniques

There are three criteria for basic viral marketing; the messenger, the message and the environment. All three must be effectively executed in order for a viral message to be successful.

Some techniques for effective marketing include targeting the appropriate audience and channels, creating videos, offering a valuable service or product for free, creating an emotional appeal, social outreach and enabling easy sharing and downloading.

Viral marketing can be effective as a stand-alone tool or as part of a larger marketing campaign. It can be used by both large and small companies, but can be especially attractive to smaller business, as it can be more cost-effective than traditional marketing efforts.

Viral marketing has been used by energy drink companies, movies and even political campaigns to generate marketing buzz.

Role of Social Media

The expansion of various social networks, such as Facebook, Instagram, and Snapchat, has contributed to the effectiveness of viral marketing. As users grow, and as the time they spend on social media sites exceeds their time spent emailing, more users are viewing news and forwarding it through their preferred social networks. This requires marketing campaigns to shift focus from more traditional email campaigns to more creative social campaigns.

Importance of Viral Marketing in Launching a New Product

Viral marketing is the goal of many companies looking to leverage the social media space to promote their products. Defined as piece of content generated by a person or business that inspires consumers to eagerly share it with their expanded social circle, viral marketing can help build brand recognition instantly — but is easier said than done.

Instant Awareness

Viral marketing can be important in launching a new product by getting your brand in front of a large potential market quickly. A YouTube video costs a fraction as much as a TV commercial, but if it inspires people to share your message it can have a major impact on brand recognition. Kraft, for example, used viral marketing to successfully launch its MiO brand of liquid water enhancer. Twitter and Facebook are among the other social media tools that allow users to share content, and are useful in attracting attention.

Make it Easy

A viral campaign isn't the place to tell your audience every single detail of your product or service, even if it's their first exposure to what you're selling. Instead, it should generate a reaction quickly and easily, such as laughter, surprise or shock. If you already have a strong online presence, seed it with your biggest fans first to get them to spread the word for you. It's not an ideal marketing strategy to just post your product's viral marketing video on YouTube and hope for the best. Consider placing ads linking to the video on search engines, with the ads appearing when users search terms relating to your product, such as "stain removal" for a dry-cleaning service.

Get their Attention

Companies can be tempted to make the new product's attributes the centerpiece of a viral marketing effort, but if that's the star of the show it usually falls flat. Before you design your campaign, assess what causes you to click on a video or forward a link, and ask those in your company or social circle with experience in social media for their thoughts. Would you click on a video because it promised to be the best tongue cleaner on the market? Probably not. But Orabrush found success with viral marketing by making the star of the show a giant human tongue that did things like compete against little league football players on YouTube.

Measuring Effectiveness

It's important to build in metrics to let you know if your campaign is going viral, and if it's having the desired effect on brand awareness. Views, likes, re-tweets and other basic measures are a start, but find ways to expand that to something more meaningful to your campaign goals. Perhaps offer a free sample of your product as part of the campaign, and measure how many fill out the form to request the free sample. Or have the clicks take users to a landing page on your own site and measure how many engage there as well.

Control Factor

The biggest risk isn't the possibility that a campaign will fall flat, but the loss of control that a viral marketing campaign necessitates. When customers pass along your viral marketing efforts, they do so on their terms, not yours. You might turn off customers as well as win them -- but you also may find your users see selling points that you never thought of.

Viral Marketing Techniques

Methods and Metrics

According to marketing professors Andreas Kaplan and Michael Haenlein, to make viral marketing work, three basic criteria must be met, i.e., giving the right message to the right messengers in the right environment:

1. Messenger: Three specific types of messengers are required to ensure the transformation of an ordinary message into a viral one: market mavens, social hubs, and salespeople. Market mavens are individuals who are continuously 'on the pulse' of things (information specialists); they are usually among the first to get exposed to the message and who transmit it to their immediate social network. Social hubs are people with an exceptionally large number of social connections; they often know hundreds of different people and have the ability to serve as connectors or bridges between different subcultures. Salespeople might be needed who receive the message from the market maven, amplify it by making it more relevant and persuasive, and then transmit it to the social hub for further distribution. Market mavens may not be particularly convincing in transmitting the information.

2. Message: Only messages that are both memorable and sufficiently interesting to be passed on to others have the potential to spur a viral marketing phenomenon. Making a message more memorable and interesting or simply more infectious, is often not a matter of major changes but minor adjustments. It should be unique and engaging with a main idea that motivates the recipient to share it widely with friends – a "must-see" element.

3. Environment: The environment is crucial in the rise of successful viral marketing – small changes in the environment lead to huge results, and people are much more sensitive to environment. The timing and context of the campaign launch must be right.

Whereas Kaplan, Haenlein and others reduce the role of marketers to crafting the initial viral message and seeding it, futurist and sales and marketing analyst Marc Feldman, who conducted IMT Strategies' viral marketing study in 2001, carves a different role for marketers which pushes the 'art' of viral marketing much closer to 'science'.

Metrics

To clarify and organize the information related to potential measures of viral campaigns, the key measurement possibilities should be considered in relation to the objectives formulated for the viral campaign. In this sense, some of the key cognitive outcomes of viral marketing activities can include measures such as the number of views, clicks, and hits for specific content, as well as the number of shares in social media, such as likes on Facebook or retweets on Twitter, which demonstrate that consumers processed the information received through the marketing message. Measures such as the number of reviews for a product or the number of members for a campaign web page quantify the number of individuals who have acknowledged the information provided by marketers. Besides statistics that are related to online traffic, surveys can assess the degree of product or brand knowledge, though this type of measurement is more complicated and requires more resources.

Related to consumers' attitudes toward a brand or even toward the marketing communication, different online and social media statistics, including the number of likes and shares within a social network, can be used. The number of reviews for a certain brand or product and the quality assessed by users are indicators of attitudes. Classical measures of consumer attitude toward the brand can be gathered through surveys of consumers. Behavioral measures are very important because changes in consumers' behavior and buying decisions are what marketers hope to see through viral campaigns. There are numerous indicators that can be used in this context as a function of marketers' objectives. Some of them include the most known online and social media statistics such as number and quality of shares, views, product reviews, and comments. Consumers' brand engagement can be measured through the K-factor, the number of followers, friends, registered users, and time spent on the website. Indicators that are more bottom-line oriented focus on consumers' actions after acknowledging the marketing content, including the number of requests for information, samples, or test-drives. Nevertheless, responses to actual call-to-action messages are important, including the conversion rate. Consumers' behavior is expected to lead to contributions to the bottom line of the company, meaning increase in sales, both in quantity and financial amount. However, when quantifying changes in sales, managers need to consider other factors that could potentially affect sales besides the viral marketing activities. Besides positive effects on sales, the use of viral marketing is expected to bring significant reductions in marketing costs and expenses.

Methods

Viral marketing often involves and utilizes:

- Customer participation and polling services.
- Industry-specific organization contributions.
- Web search engines and blogs.
- Mobile smartphone integration.
- Multiple forms of print and direct marketing.
- Target marketing web services.
- Search engine optimization (SEO).
- Social media optimization (SMO).
- Television and radio.
- Influencer marketing.

Viral target marketing is based on three important principles:

1. Social profile gathering.
2. Proximity market analysis.
3. Real-time key word density analysis.

By applying these three important disciplines to an advertising model, a VMS company is able to match a client with their targeted customers at a cost effective advantage.

The Internet makes it possible for a campaign to go viral very fast; it can, so to speak, make a brand famous overnight. However, the Internet and social media technologies themselves do not make a brand viral; they just enable people to share content to other people faster. Therefore, it is generally agreed that a campaign must typically follow a certain set of guidelines in order to potentially be successful:

- It must be appealing to most of the audience.
- It must be worth sharing with friends and family.
- A large platform, e.g. YouTube or Facebook must be used.
- An initial boost to gain attention is used, e.g. seeding, buying views, or sharing to Facebook fans.
- The content is of good quality.

Advantages of Viral Marketing

Lower Advertising Costs

While initially your campaign may need a little push (perhaps paid promotion on social media), as it begins to get picked up by your audience, they will do the sharing for you and you can pull back on your advertising expense.

Furthermore, your future initiatives are more likely to naturally reach larger audience thanks to the brand awareness established during your viral campaign.

Fast Growth

Success in business rarely happens quickly. Even the cases that look like overnight successes usually turn out to be a 10-year struggles where the founders hustled through many failed attempts until finally getting it right. That said, viral marketing is one of very few tactics that has the potential to create explosive growth in very little time.

This is obviously the most appealing advantage to business owners, but it's also the most difficult one to accomplish. Fortunately, you don't need overnight success to be successful with viral marketing. If you can get even steady, consistent growth at a relatively low cost, you're already ahead of the game.

Mainstream Media Exposure

As inbound markters, we'll usually say that you don't need mainstream media to build awareness, but no one can deny the power and audience is still holds. Viral marketing, when done correctly, gives media outlets a reason to cover your brand without you paying or petitioning for it.

The beautiful part about getting mainstream media coverage is that in itself creates virality as smaller media outlets follow the stories pushed by the big names. Just imagine what a feature on NBC or ABC could do for your product.

Increased Credibility

The simple fact of the matter is usually with recognition, comes trust and acceptance. When your brand “goes viral” and grabs the attention of a new audience, more people are willing to give it a chance. Think of Dollar Shave Club and how many people were suddenly willing to give new razors a try after its viral video.

Rapid Lead Generation

Although we usually focus on the sales that result from viral marketing, we can’t ignore the fact that going viral has a tremendous impact on lead generation. People always gravitate to trending topics. Everyone might not be ready to purchase from you just yet, but when you attract enough attention, they certainly want to keep you in mind for when they are ready. Realistically, you’re likely to generate more leads than customers from viral marketing if you’re a B2B brand or you’re a service-based business, but it is well worth the effort.

Disadvantages of Viral Marketing

In addition to the advantages, there are also a number of disadvantages:

- Designing and creating a successful marketing campaign is not child’s play and requires specific skills that must be employed by professionals. If not, the chance of failure is very real.
- Once the campaign has been launched, the people that started it have no control over it anymore.
- If the campaign isn’t well-received by the target audience, it’s practically impossible to get the campaign completely off the internet. That’s different for, for instance, a television ad campaign that backfires. In that case, it only takes a few hours to take it down.
- Once it’s clear to the target audience that the message is commercial, attention will waver considerably.
- Techniques of previous, successful campaigns, often don’t work again in the future. That means people have to keep coming up with new ideas; not always easy and sometimes costly.

Buzz Marketing

The Buzz Marketing is the practice of creating an excitement among the users and the consumers about a particular product, service, brand or the company. It is one of the forms of Word- of-Mouth, wherein the users give a buzz i.e. create a hype among the consumers about a product or service they have recently experienced.

The Buzz can be both online and off- line, i.e. face to face communication without any medium. Friends meeting in a marketplace and discussing the latest movie can be the example of off-line buzz marketing.

The social media marketing plays a dominant role in creating a buzz worldwide. The social media sites viz. Facebook, Twitter, Google+, etc. provides a platform for the companies and the users to meet and discuss the company's whereabouts. Generally, the buzz is created for Movies, Gadgets, Sports, Events, Cars, Bikes, cosmetics, etc.

The buzz created in the market can be:

1. The Controversial Buzz called as the Taboo.
2. The Unique Buzz i.e. something unheard or unthought called as the Unusual.
3. The Buzz that creates a favorable brand impression called as the Outrageous**.**
4. The Hilarious Buzz that can keep the brand in talks for its comic side.
5. The Remarkable Buzz, to give remarks to the brand.
6. The Secret Buzz to create a sense of suspicion.

The "Buzz" is the sound created by the "Bees" and similarly in buzz marketing, the group of people is considered as "vectors" who create the buzz about the brand or a company.

Following are the Types of Vectors in Buzz Marketing:

1. The Lunatic Fringe: Also called as "Innovators," who are open-minded and always ready to try the new products and services launched in the market.
2. Alphas: These users lie between the innovators and the early adopters, who search in for the novice products and ready to bear the risk.
3. Bees: These users give birth to the buzz marketing, who regularly share their experiences about the goods and services with the other consumers.
4. Large public: It includes those users who buy the goods and services only when it has been used by the majority of the population and is well tried and tested.There more than 150 users who share their experiences with the consumers, but it has a Snowball Effect i.e. less information fades naturally.
5. Laggards: These users are traditionally bound with the conservative mindsets. They do not resort to the new goods and services immediately and wait for a long time till it becomes a tradition.

Typically, the buzz marketing is triggered by the “Influencers”, i.e. Early Adopters, who wait eagerly for any new things to come into the market so that they can share their views about it with their friends, family, peers, and colleagues.

Advantages of Buzz Marketing

- Cost-effective – as a marketing solution, it is possibly one of the most cost-effective with a high return on investment. With a strategy in place, you can better inform Envisage PR of what you need our staff to do, who you are targeting and the goals of the campaign. And all this costs far less than you think.
- Fun marketing with the potential to go viral – customers saturated with marketing messages and so when something different comes along, it connects more people to your product.
- Small or big campaigns – buzz marketing is also ideal for testing a campaign on smaller groups to see what works and what needs improvement. Some marketing promotions rely on reaching a large audience to be successful but with the versatility of buzz marketing, it can be as big or as small as you want or need it to be.
- Links offline and online marketing – offline and online marketing are powerful forces for your business, but they become even more powerful when combined. Buzz marketing is the tool that links offline marketing – word-of-mouth, the human face of your brand etc. – to your online presence.
- See the results instantly – not every marketing campaign will deliver results but when it does, you want to see the effects quickly. Buzz marketing can be an instant hit (or flop, more so if there is not a robust strategy behind it) because people will connect via social media channels. Even better, the ripple effect of this marketing means that it could come crashing in and remain active for your brand for some time.

Disadvantages of Buzz Marketing

- Negative buzz- Like the positive news spread fast if there are any negative news about the product it will spread faster than positive news as humans tend to spread bad news fast. (Bad news has wings).
- Human error- By nature humans make errors in communication. They edit the original message of a product to a message which will favor them. Original buzz reaches the audience in as different message. (Selective Distortion).
- Selective attention- Humans listen to messages only of their interest and this will delay the buzz spreading process.
- Over buzz created will result in loss of control where there may be situations such as stock outs resulting in customer disatisfaction.
- When the company wishes to stop the buzz campaign it will be impossible to stop as people will not stop talking about the products.
- Buzz marketing campaigns can be easily imitated by competitors or they can spread negative buzz to destroy the buzz marketing effort.

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Business Planning and Analysis

The process of preparing a plan which contains the goals for the business, the methods to be used for achieving them as well as the time frame to accomplish them is called business planning. There are a number of different types of business analyses such as SWOT analysis and broad factors analysis. This chapter discusses business planning and types of business analyses in detail.

Planning Process

The planning process is the development of goals, strategies, task lists and schedules required to achieve the objectives of a business. The planning process is a fundamental function of management and should result in the best possible degree of need satisfaction given the resources available.

Planning provides a systematic way of viewing problems and developing short- and long-term solutions. It can also be viewed as a decision-making process used to help guide decisions concerning future needs.

Stages of the Planning Process
Use as a guide to develop 5-10 year program plans, or to revise existing plans
Stage 1: Identify problems and needs
Stage 2: Develop goals and objectives
Stage 3: Develop alternative strategies
Stage 4: Select strategies and develop a detailed plan
Stage 5: Design a monitoring and evaluation plan

The advantages of using this sequence of decision-making steps include:

- Clarification — Serves as a communication tool to inform the community, village or town about future activities.
- Control — Minimizes uncertainties since the planner must carefully weigh alternative courses of action.
- Management — A useful method of allocating limited resources.
- Evaluation — Encourages periodical assessments of progress in meeting intended objectives.

Identification of the Problem

At this stage, the planner(s) and community leaders collect information to assess problems and needs. A variety of techniques may be used:

- Conduct surveys — Using a complete census of a given area, or sample surveys that focus on problems/concerns.
- Hold community, village or town meetings — Identify key problems and issues.
- Conduct interviews — With others who are involved or concerned such as other government agencies, non-government organizations, and community groups.
- Use secondary data — Census or prior survey data to identify problems and needs.

The planner and team see that many problems exist. The planner must work with staff and residents to select problems requiring attention. The planner needs to ask a number of questions at this stage to clarify the problem(s):

- What is the main problem of concern?
- Why is it a problem?
- Are existing resources available to eliminate the problem?
- Is another agency or organization trying to solve the problem?
- How severe is the problem?

It is important to realize that problems are not always what they seem to be at first glance. Detailed investigations, in addition to a consensus with community members, are needed prior to proceeding to the next stage. Always remember: The way the problem is stated directs attention to the solutions.

Objectives

Once the problems have been identified and agreed upon, the planner develops goals and objectives to alleviate the problem or needs. Goals are usually accompanied by detailed and specific objectives.

Definition: Goals are broad statements of desired accomplishments. Goals are usually accompanied by detailed and specific objectives.

In general, objectives can be defined as specific, measurable accomplishments to be achieved within a given time period. Developing clear objectives provides the guidelines for measuring progress and achievements. Objectives are written best if they are S.M.A.R.T.

S.M.A.R.T. Objectives:

- Specific — Indicates the target population for given services.

- Measurable — Indicates how many will be targeted.
- Area-specific — Indicates the geographic location of the target population or community.
- Realistic — Takes into account existing resources, and has the support of the target population or community involved.
- Time-Bound — Should indicate the time period when accomplishments will be achieved.

Examples of goals and objectives:

- Goal — Improve the quality of housing in the Nkoranza District.
- Objective — Build homes for 30 citizens in the Nkoranza District by January, 2005.
- Specific — Build new homes for citizens.
- Measurable — 30 citizens.
- Area-specific — Nkoranza District.
    - Realistic.
    - Household surveys have been conducted.
    - Citizen meetings have taken place.
    - Resident interest has been determined.
    - Funding has been obtained from the government and a non-profit organization such as Habitat for Humanity.
- Time-boundary — Achieve in a set number of years.

Development of Alternative Solutions

There are several ways to achieve goals and objectives. At this stage the planner working with staff and community leaders, comes up with a list of alternative strategies to achieve the goals and objectives. There are 3 basic ways to collect information for this activity:

1. Investigate ways that other agencies and communities are achieving similar objectives.
2. Have staff and others generate ideas based on their personal experience.
3. Use knowledge gained from demonstration or pilot projects that offer possibilities in achieving the intended goals and objectives.

Once alternative strategies have been identified, evaluate each to determine which is the most appropriate for achieving goals and objectives. There are a number of ways to evaluate each alternative strategy:

- Financial considerations: How much would it cost to implement?
- Available resources: Are staff, money, and time to implement available?

- Target population: Will the target population accept the given strategy?
- Social costs: What are the long term positive and negative consequences of the strategy to the target population?
- Intended objectives: Will it achieve the intended objectives?

Selection of Strategies and Development of Detail Plan

Once a strategy (or group of strategies) has been selected, a detail plan to implement the strategy is developed. The development of the plan requires four types of activities:

1. Programming: Identify the activities or tasks that need to be completed in order to reach the desired objectives. In many cases, several major tasks or activities are required to achieve each objective. Activities then need to be put into the order in which they should be completed.
2. Allocating resources: Determine and assign the resources needed to implement the activities. Resources are normally divided into three general categories: human, physical (materials, facilities and equipment) and financial. In planning, both internal as well as external resources are identified. While it is important to identify resources within the organization to carry out specified activities, other public and private sector agencies can also play major roles in implementing the plan. Community members can also contribute to planning and implementation activities.
3. Scheduling: Establish the required time needed to complete each activity. This will involve an assessment of how long each task takes to be completed.
4. Fixing accountability: Determine specific individual and/or agencies/institutions responsible for the accomplishment of activities. Simple devices can be used to indicate tasks and planned completion time such as Gantt charts, which indicate tasks vertically (Y-axis) and time horizontally (X-axis).

Monitoring and Evaluation

Monitoring and evaluation help guide the following kinds of decisions:

- Continue or discontinue a program or component of a plan.
- Improve existing programs/plans.
- Add or drop a component or an entire program.
- Institute a similar program elsewhere.
- Reallocate resources among competing programs or program components.

There are two types of evaluations:

1. Process evaluation: Helps program managers and policy makers redirect program activities to achieve desired goals. Process evaluation is concerned with the efficient use of resources such as personnel and equipment, and focuses on reducing waste and making more productive use of scarce resources. It is primarily concerned with finding better ways of implementing the plan.

2. Impact evaluations: Measure whether or not the plan is having an impact on the target population or environment. It is concerned with program effectiveness, that is, whether or not the plan is achieving its objectives.

Some people also refer to monitoring programs as a form of evaluation. Monitoring simply tracks the progress of program implementation and operation. It usually entails the development of an information system that is updated periodically to meet reporting requirements of certain activities, such as the expenditure of funds, the number of participants, allocation of staff to given tasks, and the completion of given tasks. Evaluation, however, is more concerned with addressing specific decisions concerning program success.

Program evaluations are successful if the following three conditions are met:

1. Program objectives are well defined in terms of specific measures of program performance.
2. Intended uses of evaluations are well-defined, and
3. Monitoring and evaluation plans are developed.

Include an evaluation strategy in the plan to determine if goals and objectives are being achieved. The plan should include a time frame and budget for monitoring and evaluation.

Developing a Simple Monitoring and Evaluation Plan

1. Time Frame: Develop a schedule for monitoring and evaluating the plan. Determine how often it is necessary to monitor and evaluate progress in achieving each objective. For example, should it be quarterly, at the end of each year, or every 3 years?
2. Indicators: Develop indicators to measure progress in achieving each S.M.A.R.T. objective. If one of the objectives is to build 30 homes for residents, an indicator or measure of success could be the number of homes built.
3. Data sources: Indicate the types of information needed to measure indicators. How will the information be collected? Are service statistics, census data, sample surveys, and/or community focus group meetings.
4. Means of analysis: Once data are collected, identify ways to analyse it and produce reports.
5. Reporting: Identify ways to present the findings to different audiences within the community, village and/or regional office. Which method will be used to report findings? In addition verbal reports in meetings? Written reports? In addition, determine who will receive the reports.
6. Assigning responsible person(s): Identify and train, if necessary, individuals to implement the monitoring and evaluation strategy.

The planning process is a continuous cycle. The outcome of monitoring and evaluation efforts can provide new information to revise plans and programs.

Nature of Planning

Planning is a rational approach, open system, flexibility and pervasiveness. It clarifies where one stands, where one wants to go in future and how accomplishes goal. Rationalist denotes a manager chooses suitable way to achieve the stated objectives and rational approach fills the gap between the current status and future status. Planning is an open System approach in which firm is an open system because it accepts inputs from the environment and exports output to environment. Planning accepts an open system approach. Open system approach designates that the gap between current and desired status and the action required overpassing this gap which is influenced by array of environmental economic, legal, political, technological, socio-cultural and competitive factors. These factors are vibrant and change with time. Therefore managers have to take into account the dynamic features of environment while using open system approach.

Another aspect of planning is the flexibility of Planning: it means plan has ability to change direction to take on to changing situations without excessive cost. Many scholars said that the plans must be stretchy to become accustomed to changes in technology, market, finance, personal and organizational factors. However flexibility is possible only within limits, because it involves extra cost. Another feature is pervasiveness of Planning. Planning is persistent and it broadens throughout the organization. Planning is the primary management function and every manager at different level has to do planning within his particular area of activities. Top management is responsible for general objectives and action of the organization. Therefore it must plan what these objectives should be and how to achieve them. Similarly a departmental head has to develop the objectives of his department within the organizational objectives and also the methods to accomplish them.

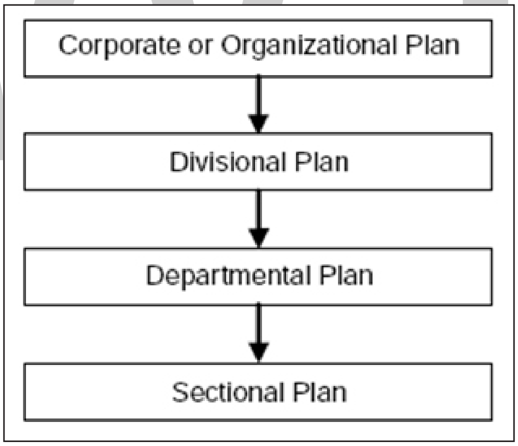


Figure: Planning at various levels.

Significance of Planning Process

Planning has core value in all organization whether business or non-business, private or public, small or large. The organization which has mindset for future is likely to succeed as compared to one which fails to do so. Planning establishes the objectives and all other functions are performed to achieve the objectives set by the planning process. The company constantly interacts with the external dynamic environment where there is high risk and ambiguity. In this changing dynamic environment where social and economic conditions change quickly, planning assists the manager to adjust with and prepare for altering environment. Through rational and fact based process for making decisions, manager can lessen market risk and uncertainty. Planning focuses on organizational objectives and course of action to accomplish targeted goal. It facilitates managers to apply and organize all resources of the organization successfully in achieving the objectives. The whole organization is required to embrace identical goals and work together in achieving them. Planning establishes the goal and develops plan to attain them. These goals and plans become the standards against which the actual performance can be measured. Control involves the dimension of actual performance, comparing it with the standards and taking remedial action if there is divergence. Control makes certain that the activity confirms to plans. Hence control can be exercised if there are plans. Planning also enhances organizational effectiveness.

Obstacles in Planning Process

It is observed that many executives involve in implementing plans instead of spending time to develop effectively. It is founds that there are many barriers that inhibit planning process. In order for plans to be effective and to get the desired results, managers must recognize any potential barriers and make efforts to reduce them. Common barriers that hinder successful planning are as under.

The first barrier is incapability to plan or it can be said as inadequate planning. Managers do not have inherent quality to devise effective plan. Some managers are not successful planners because they do not have ability, education to develop planning for particular situation. Such incapability creates hindrance in planning process.

Another barrier is lack of commitment to the planning process. Planning process require hard work. Another cause for lack of commitment can be fear of failure. As a result, managers may choose to do little or nothing to help in the planning process.

Inferior information also creates hindrance in planning process. It is observed that poor information or of inadequate quantity can be major barriers to planning. Even though managers are proficient in planning but if they do not have latest information their plans will possibly fail.

Another barrier to planning process is failure to consider the long-term effects of a plan because more emphasis is given to short term issues. This may result in preparing for the future.

If managers excessively depend on the organization's planning department, their plans may not be successful. Many companies have a planning department or a planning and development team. These departments conduct studies, do research, build models, and project probable results, but they do not implement plans.

In order to make effective plan, keep the planning process simple. It is advised to discuss the objectives of organization with top level team before preparing for plans and use participative approach in developing plan.

It can be concluded that management planning is the process to evaluate an organization's goals and create a realistic, detailed plan of action for meeting those goals. Planning is the continuous process of systematically making plans with the knowledge of the future, organizing the activities needed to carry out the plans and monitoring the results of the plans through comments. Planers must communicate plan to other staff members as why specific action is taken.

Planning Process of an Organisation

Need for Planning

Managers realise the need for planning as a first step to planning. The need sets the climate for planning. The need can be identified through environmental analysis where the organisation identifies its strengths and weaknesses vis-a-vis environmental opportunities and threats.

If the environment offers opportunities (for example, demand for a new product) or threats (entry of competitor with a similar product), the organisation has to deal with the situations according to its strengths or by converting its weaknesses into strengths.

For instance, if sales of the company are declining, the need for planning arises in the sales department. Organisational resources are identified and allocated to the specified area. A structural arrangement for planning is made with a well designed communication system, decision-making centers etc.

Identification of Goals

After the need is determined, planners identify what they want to achieve through planning. If, for example, sales are declining because of poor promotion policies of the company, the goal of planning is advertising and promotion management.

Clear identification of goals helps in optimum allocation of resources and effective implementation of plans. Objectives must be framed for the organisation as a whole, for different departments and for different levels of each department.

This creates a hierarchy of objectives in the organisation. The objectives must be clearly communicated to all the organisational members so that plans can be effectively implemented. If objectives are clearly identified, managers will be able to allocate scarce organisational resources over different functional areas effectively.

Analysis of Present Situation

Being clear of what to achieve, the planners must know how equipped they are to achieve the targets. They analyse the organisation's present resource position (physical, financial, information, human etc.) and its internal and external environment. The internal environment represents its strengths and weaknesses and the external environment identifies the opportunities and threats.

Information about economic, political, legal, technological forces is provided through external environment. Appraisal of external environment enables the organisation to prepare plans and strategies for the internal functioning of the enterprise. Planning is effective if organisation is well informed about its internal and external environment.

Information about internal environment (departments and their sub-units) can be collected from past records, statistical data and financial statements. Information about external environment (competitors, customers, government) can be collected through financial journals, economic surveys, RBI bulletins, research reports etc.

Identify Barriers to Planning

Planning cannot be effective if members (those who plan and those who implement) are unwilling to set goals, lack planning skills and are unwilling to accept change. Managers identify barriers to achievement of goals.

It helps in identifying areas in which existing objectives can be continued, modified or abandoned and the areas in which new objectives can be framed together with plans to achieve them. It helps to exploit potential areas of growth and withdraw from non-profitable areas.

Develop Planning Premises

Planning process is based on estimates of future as plans are made to achieve goals in future. The estimates about future markets, consumer preferences, political and economic environment are the planning premises on which business plans are developed.

The process of planning is based upon estimates of future events. Though past provides guide for making plans in present, plans are made to achieve goals in future. The forecast or assumptions about future which provide basis for planning in present are known as planning premises.

Since planning premises forecast environmental factors which directly affect organisational plans, they reduce the chances of failure of plans under different sets of assumptions about future. Future events cannot disturb the plans if planning premises are rationally developed. A premise that new technology will be cost-effective and result in low prices and high sales will promote the company to adopt that technology. There can be different types of planning premises.

Develop Alternative Courses of Action

After managers are clear of goals to be achieved, they think of ways to achieve them. They should make alternative plans of action since there can be no best way of doing things. All possible alternatives to achieve the objectives should be considered by managers.

For example, a firm that wants to grow its operations should make alternative plans for entering into new lines of business, expanding the same line of business in new markets, cater to existing customers by offering them discounts etc.

Though a large number of alternatives can be generated at this stage, managers use some criteria for limiting the number of alternatives that can be generated. For instance, in order to enter into a new line of business, managers may develop alternatives where the new business is similar to the existing business like add consumer goods only or only garments for males or females etc.

Evaluate Courses of Action

When the alternative courses of action are developed, managers select the most appropriate plan that will adjust to the internal and external environmental conditions and can be achieved with the available resources.

Each course of action has costs and benefits. Managers should carry out cost-benefit analysis (comparison between costs and revenues) in terms of risk and return associated with each alternative. The alternative which gives higher returns may be risky and vice versa. Various techniques of decision making help in carrying out this analysis. The plan which gives maximum return should be accepted by managers.

Select a Course of Action

When the best course of action is determined, it should be finally selected by managers. Each plan should be supported by sub-plans known as derivative plans. The main plan of marketing engineering goods may be supported by sub-plans for marketing heavy and light engineering goods. Derivative plans help in effective implementation of main plans.

A production plan for example, has derivative plans to manage purchasing, production planning and control, manufacturing etc. A personnel plan can have derivative plans to look after appointment, training, placement and promotion of workers. The plan should be flexible (which can be changed according to situation), acceptable (to organisational members who have to implement it) and cost effective.

Feedback

Feedback means response. When plans are selected and implemented, managers receive information about how effectively they are implemented. If there are deviations in actual performance against planned performance, managers remove these deviations or make fresh plans. Plans must be continuously reviewed as the environment in which they operate is a set of changing, dynamic factors.

Planning is complete if its implementation is effective. It should be able to achieve the goals within the constraints of budgetary resources. The planning process must allow leverage in the achievement of organisational goals. Deviations beyond the acceptable limit should be remedied. It may require changes in any of the steps, changes in the implementation process or re-planning altogether.

Strategic Planning

Strategic planning is an organization's process of defining its strategy and making decisions on how to allocate resources to pursue that strategy. To determine the direction of the organization, it is necessary to understand its current position and the possible avenues through which it can pursue a particular course of action. Strategic planning generally deals with at least one of three key questions:

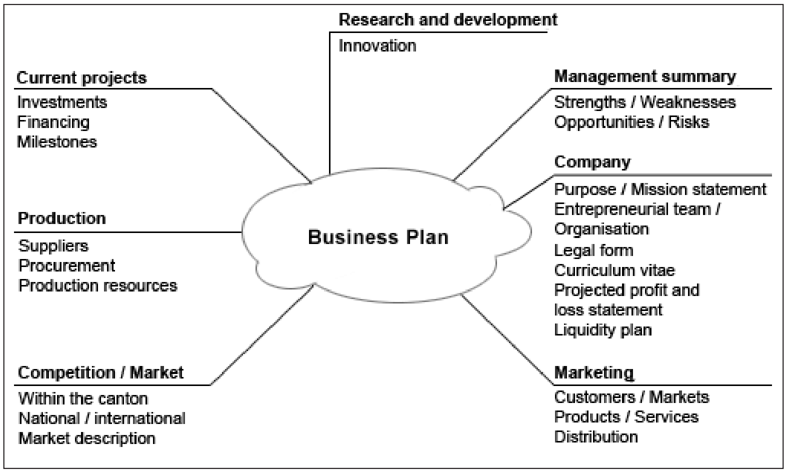
- What do we do?
- For whom do we do it?
- How do we excel?

In many organizations, this is viewed as a process for determining where the organization is going over the next year or, more typically, three to five years, although some extend their vision to 20 years. The last question—how do we excel?—is critical to achieving competitive advantage, and it should be answered clearly and practically in the planning process prior to extensive investment in resources.

Components of a Strategic Plan

Planning is concerned with defining goals for a company's future direction and determining the resources required to achieve those goals. To meet the goals, managers will develop marketing and operational plans inclusive of key organizational values (vision, mission, culture, etc.).

Common components of a business plan include external and internal analyses, marketing and branding, investments, debt, resource allocation, suppliers, production processes, competition, and research and development. While different business models include different components in their planning, based on unique organizational or industry needs, the central theme is that all aspects of the strategy should be researched and discussed prior to incurring the costs of operations.



Business plan: This image summarizes some of the factors that should be considered in the creation of a business plan, such as a company's mission and purpose, personnel, financial resources, market and customer base, competition, and strengths and weaknesses.

Planning Process

There are many approaches to strategic planning, but typically one of the following approaches is used.

Situation-Target-Proposal

This method involves the following steps:

- Situation: Evaluate the current situation and how it came about.
- Target: Define goals and objectives (sometimes called ideal state).
- Proposal: Map a possible route to the goals and objectives.

Draw-See-Think-Plan

This method involves addressing the following questions:

- Draw: What is the ideal state or the desired end state?
- See: What is today's situation? What is the gap between today's situation and the ideal state, and why?
- Think: What specific actions must be taken to close the gap between today's situation and the ideal state?
- Plan: What resources are required to execute these specific actions?

Benefits of Strategic Planning

Planning enables companies to achieve efficiency and accuracy by coordinating efforts and managing time effectively.

The planning process is concerned with defining a company's goals and determining the resources necessary to achieve those goals. Achieving a vision requires coordinated efforts that adhere to a broader organizational plan. This is enabled through consistent strategies that are supported by staff at all levels. To meet business goals, managers develop business plans not only to reach targets but also to strengthen and change public perception of the company's brand.

Area	Traditional S and OP	Integrated Business Planning
Business Objective	Supply/demand balancing	Not simply about matching demand and meeting customer needs. Considers several plan alternatives and chooses one that best represents the business drivers. Objective is revenue and profit
Process	Rigid and prescriptive	Process is more rules and exception based
Technology	Weak and non-integrated	Technology enables the processes through workflows
Frequancy	Monthly or quaterly	Still monthly in lot of cases but with ability to rapidly handle exception situations
Focus	Inward focused	Collaborative and outward focused

Integrated business plan: This business plan takes aspects of a business and identifies clear goals for each: e.g., for the technology to move from being weak and non-integrated to enabling workflows, and for the business's focus to transition from being inwardly to outwardly focused.

Since they have achieved defined goals through the planning process, managers and employees can focus and control their efforts and their resources, follow determined plans of action, coordinate activities between divisions, and use time management to meet specific goals. Planning helps to achieve these goals or targets by efficiently and effectively using available time and resources. In short, planning, if executed properly, should lead to the following benefits:

Focus

There are a wide variety of activities an organization (or the individuals within the organization) might viably pursue. While there is value in the pursuit of many activities, understanding which ones the organization should focus on to leverage organizational competencies and align with market research requires careful planning and delegation. This is how planning achieves focus.

Coordinated Action

If department A is reliant on inputs from department B, department A cannot utilize department B's work without coordination. If department B has too much work and department A too little, there is poor interdepartmental coordination. This is alleviated through detail-oriented planning processes.

Control

The control process is based on benchmarks, which is to say that controlling requires a standard of comparison when viewing the actual operational results. Control relies on the planning process to set viable objectives, which can then be worked towards through controlling operations.

Time Management

Time management underlines the importance of maximizing the use of time to minimize the cost of production. If a full-time employee can accomplish their work within 32 hours, the planning process can find meaningful use for their remaining time. Costs can be lowered and productivity increased by ensuring that each element in the operational process functions according to ideal time constraints.

Process Itself

Perhaps the most important benefit of developing business and marketing plans is the nature of the planning process itself. This typically offers a unique opportunity, a forum, for information-rich and productively focused discussions between the various managers involved. The plan and the discussions that arise from it provide an agreed context for subsequent management activities, even those not described in the plan itself.

Inputs to Strategic Planning

Strategic plans can take the form of business or marketing plans, and consultants and industry experts are used in their development.

Strategy Hierarchy

In most corporations, there are several levels of management. Strategic management is the highest of these levels in the sense that it is the broadest—it applies to all parts of the firm and incorporates the longest time horizon. It gives direction to corporate values, corporate culture, corporate goals, and corporate missions. Under the broad corporate strategy are business-level competitive strategies and functional unit strategies.

- Corporate strategy refers to the overarching strategy of the diversified firm.

- Business strategy refers to the aggregated strategies of a single business firm or a strategic business unit (SBU) in a diversified corporation.
- Functional strategies include marketing strategies, new-product development strategies, human resource strategies, financial strategies, legal strategies, supply-chain strategies, and information-technology management strategies. The emphasis is on short-term and medium-term plans and is limited to the domain of each department's functional responsibility. Each functional department attempts to do its part to meet overall corporate objectives, so to some extent their strategies are derived from broader corporate strategies.

Many companies feel that a functional organizational structure is not an efficient way to organize activities, so they often re-engineer according to processes or SBUs. A strategic business unit is a semi-autonomous unit that is usually responsible for its own budgeting, new product decisions, hiring decisions, and price setting. An SBU is treated as an internal profit center by corporate headquarters.

Business Plans

A business plan is a formal statement of a set of business goals, the reasons they are attainable, and the plan for reaching them. It may also contain background information about the organization or team attempting to reach those goals.

For example, a business plan for a nonprofit might discuss the fit between the business plan and the organization's mission. Banks are quite concerned about defaults, so a business plan for a bank loan will build a convincing case for the organization's ability to repay the loan. Venture capitalists are primarily concerned about initial investment, feasibility, and exit valuation. A business plan for a project requiring equity financing will need to explain why current resources, upcoming growth opportunities, and sustainable competitive advantage will lead to a high exit valuation.

Preparing a business plan draws on a wide range of knowledge from many different business disciplines: finance, human resource management, intellectual-property management, supply-chain management, operations management, and marketing. It can be helpful to view the business plan as a collection of subplans, one for each of the main business disciplines.

Marketing Plans

A marketing plan is a written document that details the actions necessary to achieve one or more marketing objectives. It can be for a product, a service, a brand, or a product line. Marketing plans span between one and five years.

A marketing plan may be part of an overall business plan. Solid strategy is the foundation of a well-written marketing plan, and one way to achieve this is by using a method known as the seven Ps (product, place, price, promotion, physical environment, people, and process). A product-oriented company may use the seven Ps to develop a plan for each of its products. A market-oriented company will concentrate on each market. Each will base its plans on the detailed needs of its customers and on the strategies chosen to satisfy those needs.

The seven Ps: In marketing, the general process of identifying and approaching a target market is captured through the seven Ps: Place, Price, Promotion, People, Process, Physical Evidence, and Product.

Tools for Planning

Often discussed in tools for planning are models that measure the internal and external environments (e.g. Porter's Five Forces, SWOT, Value Chain, etc.). These models create forward-looking projections based on past and present data; therefore, they are useful only once enough data have been collected. Because of this, tools for planning largely focus on generating enough data to construct valid recommendations. These tools can include:

- Industry experts: Whether internal employees or external consultants, a few individuals with extensive experience in a given industry are valuable resources in the planning process. These industry experts can move beyond the PESTEL and Porter's Five Forces frameworks, making intuitive leaps as to the trajectory of the industry.
- Consultants: Consultants are commonly brought in during strategy formulation and for a variety of other reasons. Most important of these would be providing an objective lens for internal affairs. It is difficult to see the whole house from inside the house, and upper management can utilize an external opinion to ensure they are seeing operations clearly and objectively.
- Inclusion of stakeholders: Upper management will want as much information as possible from everyone involved. Some examples include consumer surveys on satisfaction, supplier projections for costs over a given time frame, consumer inputs on needs still unfilled, and shareholder views. The inclusion of stakeholders offers a variety of tools, each of which may or may not be a useful input depending on the context of the plan.

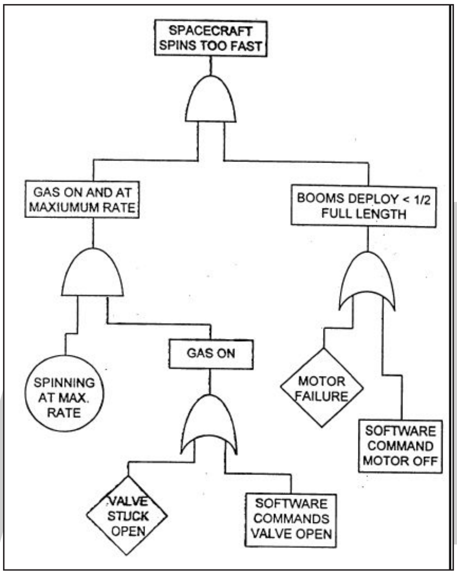
Responding to Uncertainty in Strategic Planning

Uncertainty exists when there is more than one possible outcome; it is best managed using scenario-planning tools.

Uncertainty

Management specialists define uncertainty as a state of having limited knowledge such that it is impossible to exactly describe an existing state or future outcomes or to determine which of several possible outcomes will happen. It is still possible, however, to measure uncertainty—by assigning a probability to each possible state or outcome to estimate its likelihood.

In the past, strategic plans have often considered only the "official future," which was usually a straight-line graph of current trends carried into the future. Often the trend lines were generated by the accounting department and lacked discussions of demographics or qualitative differences in social conditions. These simplistic guesses can be good in some ways, but they fail to consider qualitative social changes that can affect an organization.



Fault tree: Fault trees can help outline possible outcomes. This fault tree visually lays out all the different steps at which something could go wrong in a spacecraft's flight, from the spacecraft itself spinning too fast to motor failure to a valve being stuck open.

Instead of just following trend lines, scenarios focus on the collective impact of many factors. Scenario planning helps to understand how the various strands of a complex tapestry move if one or more threads are pulled. A list of possible causes, like a fault-tree analysis, tends to downplay the impact of isolated factors. When factors are explored together, certain combinations magnify the impact or likelihood of other factors. For instance, an increased trade deficit may trigger an economic recession, which in turn creates unemployment and reduces domestic production.

Responding to Uncertainty

Organizations need to cope with issues that are too complex to be fully understood, yet significant decisions need to be made that are based on a limited understanding or limited information. There are several ways of dealing with this.

Be Iterative

The process of developing organizational strategy must be iterative. That is, it should involve toggling back and forth between questions about objectives, implementation planning, and resources. For example, an initial plan for a project may have to be adjusted if the budget changes.

Use Scenario Planning

Scenario planning starts by separating things believed to be known, at least to some degree, from those considered uncertain or unknowable. The first component, knowledge, includes trends, which cast the past forward, recognizing that the world possesses considerable momentum and continuity. The second component, uncertainties, involves indeterminable factors such as future interest rates, outcomes of political elections, rates of innovation, fads in markets, and so on. The art of scenario planning lies in blending the known and the unknown into a limited number of internally consistent views of the future that span a very wide range of possibilities.

Numerous organizations have applied scenario planning to a broad range of issues, from relatively simple, tactical decisions to the complex process of strategic planning and vision building. Scenario planning for business was originally established by Royal Dutch/Shell, which has used scenarios since the early 1970s as part of its process for generating and evaluating strategic options. Shell has been consistently better in its oil forecasts than other major oil companies, and predicted the overcapacity in the tanker business and Europe's petrochemicals earlier than its competitors.

Accept Uncertainty

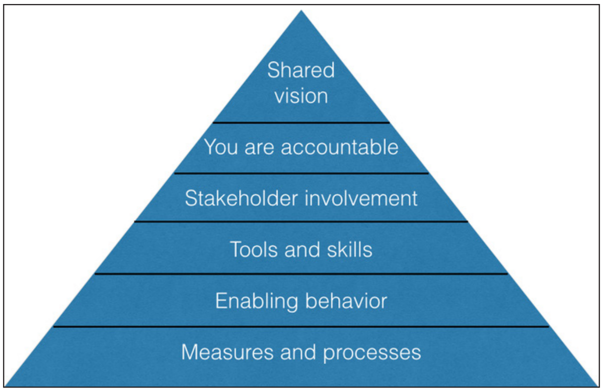
It serves little purpose to pretend to anticipate every possible consequence of a corporate decision, every possible constraining or enabling factor, and every possible point of view. What matters for the purposes of strategic management is having a clear view, based on the best available evidence and on defensible assumptions, of what is possible to accomplish within the constraints of a given set of circumstances. As the situation changes, some opportunities for pursuing objectives will disappear and others will arise. Some implementation approaches will become impossible, while others, previously impossible or unimagined, will become viable. Strategic management adds little value, and may do harm, if organizational strategies are designed to be used as detailed and infallible blueprints for managers.

Types of Strategic Plans

The broader overview of strategic plans, as well as the five subgroups within strategic planning, provide businesses with direction.

Strategic management is primarily concerned with the planning and execution processes that lead to the effective operations of a business. Strategic management leverages strategic planning in order to design and execute a variety of plans specifically created to approach various facets of the business and competitive environment. It is worth analyzing the broader overview of strategic plans, as well as the five subgroups within strategic planning that provide businesses with an outline of their strategic direction.

Strategic plans are what communicate the corporate strategy, direction, and resource allocation.



Factors of a strategic plan: This illustration summarizes the various factors that must be considered in constructing a corporation's strategic plan. At the pinnacle of the pyramid is the most important element of any strategic plan—the vision. Under that, in descending order, are accountability, stakeholder involvement, tools and skills, enabling behavior, and measures and processes.

Specific Types of Plans

Following the generation of a vision and mission statement, and the subsequent operations that will allow these to be achieved, smaller facets of the planning process begin to come into play. These include five general planning frames, which can be applied to different aspects of the operational process:

- Short-range plans: Short-range plans generally apply to a specific time frame in which a specific series of operations will be carried out, assessed, and measured. The standard short-range plan will represent annual or semiannual operations with a short-term deliverable. These short-term plans cover the specifics of each day-to-day operation.
- Long-range plans: Long-range plans are arguably the most crucial to the continued success of a business, ultimately highlighting the way in which operations interact to achieve long-term profitability and returns on investment. As corporations grow in size and complexity, so do the long-range plans that constitute the interaction of individual processes. Long-range plans are those most closely related to the overall strategic-planning process.
- Operational plans: Operational plans are the most specific subset of strategic planning, describing the specific objectives and milestones a business should consider in executing each particular operation. Operational plans establish both the budgetary resources necessary for execution and the tangible and easily assessed objectives that can define the success of any given project.
- Standing plans: Standing plans are based on the operations that must be repeated indefinitely within a business or corporation. Standing plans govern the processes that occur regularly, providing an overview for consistent activities.
- Single-use plans: As opposed to standing plans, single-use plans cover a specific operation or process that is an outlier to normal operations. In all likelihood, a single-use plan will never need to be repeated and will simply cover the content involved in one circumstance.

By combining all of these plans—often a few of each subgroup, depending on the scale and complexity of a business—a general strategic overview can be obtained. The interaction of all of these plans constitute the overall strategic trajectory of a business, measuring profitability and efficiency as the company executes operations.

Strategic Planning Tools

Strategists have developed a large array of tools useful in the assessment of strategic planning, all of which provide unique insights into the feasibility and profitability of a given operational project. Identifying these tools, and selecting which are most appropriate for determining the effectiveness or efficiency of a project, is a central responsibility of a strategic-management team.

Listed below are the main tools available for consideration along with a brief description of how each tool is useful.

Forecasting

Forecasting is the the most common strategic tool and it should be considered whenever projects are being designed. Forecasting, simply put, is projecting the future of a project by leveraging all of the available knowledge to generate a likelihood of success. It is useful to construct pro forma financial statements, which illustrate expected costs and revenues.

Scenario Planning

Scenario planning is an interesting tool with which strategists construct various scenarios to test out the potential trajectories of specific operational plans. One popular scenario application is called the zero-sum game, where the costs and revenues are equated to see at what level of cost or what level of revenue a zero-sum bottom line can be achieved. By benchmarking this situation against reality, strategists can see in which situations value can be captured.

Benchmarking

Benchmarking can be done qualitatively or quantitatively, and it is a comparative approach to strategy. Benchmarking usually requires the identification of a close competitor with similar strategic prerogatives so that the strategist can compare and contrast the two companies' strengths and weaknesses, identifying strategies for improvements or competitive advantages.

Participatory and Contingency Planning

Contingency planning can be simply described as the back-up plan, while participatory planning is the primary plan. An excellent tool for strategists pursuing a particularly risky venture is to develop the primary objectives and strategy while simultaneously constructing a contingency plan that will limit the negative effects of failure. This offsets risk through finding various ways to achieve value regardless of the success of the overall venture. This requires creativity and a degree of adaptability.

Goal Setting

Goal setting, similar to MBO and SMART, is a simple method for strategists to establish and enforce specific goals within the organization or strategic business unit (SBU). Goal setting creates incentives for employees by identifying achievable end results, which drives the direction of the company towards commonly established goals. This theory was developed by Edwin A. Locke in the 1960s and is considered an "open" theory, which implies that new thoughts and developments may be layered on top of the original goal-setting framework.

Management by Objectives

MBO is the process of defining, disseminating, and implementing the objectives that an organization has identified as strategic. Objectives provide factual and achievable strategies that align with employee and manager goals in order to ensure that all participants are on the same page. It is also useful to set goals and a timeline to assess progress and ensure that each individual is achieving their segment of the plan.

SMART Goals

The SMART model aims to design goals that are specific, measurable, achievable, realistic, and time-targeted (SMART).

The SMART model identifies specific goals, measures inputs and outputs, ensures that the goals are attainable and relevant to the mission of the company, and constructs a timeline.

Though there are many other potential tools for strategists, these seven provide a strong framework for further development of strategic methodologies. Incorporating concepts such as forecasting and benchmarking in conjunction with larger corporate strategy frameworks such as SMART goals and MBO will equip strategists with a strong short-term and long-term approach.

Business Plan

A business plan is a written document that describes in detail how a business—usually a new one—is going to achieve its goals. A business plan lays out a written plan from a marketing, financial and operational viewpoint.

Business plans are important to allow a company to lay out its goals and attract investment. They are also a way for companies to keep themselves on track going forward.

Although they're especially useful for new companies, every company should have a business plan. Ideally, a company would revisit the plan periodically to see if goals have been met or have changed and evolved. Sometimes, a new business plan is prepared for an established business that is moving in a new direction.

A business plan is a fundamental tool any startup business needs to have in place prior to beginning its operations. Usually, banks and venture capital firms make a viable business plan a prerequisite to the investment of funds in a business.

Even though it may work, operating without a business plan is not a good idea. In fact, very few companies are able to last without one. There are definitely more benefits to creating and sticking to a business plan including being able to think through ideas without putting too much money into them—and, ultimately, losing in the end.

A good business plan should outline all the costs and the downfalls of each decision a company makes. Business plans, even among competitors in the same industry, are rarely identical. But they all tend to have the same elements, including an executive summary of the business and a detailed description of the business, its services and/or products. It also states how the business intends to achieve its goals.

The plan should include at least an overview of the industry of which the business will be a part, and how it will distinguish itself from its potential competitors.

Elements of a Business Plan

As mentioned above, no two business plans are the same. But they all have the same elements. Below are some of the common and most important parts of a business plan:

- Executive summary: This outlines the company and includes the mission statement along with any information about the company's leadership, employees, operations, and location.
- Products and services: Here, the company can outline the products and services it will offer, and may also include pricing, product lifespan, and benefits to the consumer. Other factors that may go into this section include production and manufacturing processes, any patents the company may have, as well as proprietary technology. Any information about research and development (R&D) can also be included here.
- Market analysis: A firm needs a good handle of the industry as well as its target market. It will outline the competition and how it factors in the industry, along with its strengths and weaknesses.
- Marketing strategy: This area describes how the company will attract and keep its customer base and how it intends to reach the consumer. This means a clear distribution channel must be outlined.
- Financial planning: In order to attract the party reading the business plan, the company should include any financial planning and/or projections. Financial statements, balance sheets, and other financial information may be included for already-established businesses. New businesses may include targets for the first few years of the business and any potential investors.
- Budget: Any good company needs to have a budget in place. This includes costs related to staffing, development, manufacturing, marketing, and any other expenses related to the business.

Types of Business Plans

Business plans help companies identify their objectives and remain on track. They can help companies start and manage themselves, and to help grow after they're up and running. They also act as a means to get people to work with and invest in the business.

Although there are no right or wrong business plans, they can fall into two different categories—traditional or lean startup. According to the Small Business Administration, the traditional business plan is the most common. They are standard, with much more detail in each section. These tend to be much longer and require a lot more work.

Lean startup business plans, on the other hand, use a standard structure even though they aren't as common in the business world. These business plans are short—as short as one page—and have very little detail. If a company uses this kind of plan, they should expect to provide more detail if an investor or lender requests it.

Special Considerations

Financial Projections

A complete business plan must include a set of financial projections for the business. These forward-looking projected financial statements are often called pro-forma financial statements or simply the "pro-formas." They include the overall budget, current and projected financing, a market analysis, and its marketing strategy approach.

In a business plan, a business owner projects revenues and expenses for a certain period of time and describes the operational activity and costs related to the business.

Other Considerations for a Business Plan

The idea behind putting together a business plan is to enable owners to have a more defined picture of potential costs and drawbacks to certain business decisions and to help them modify their structures accordingly before implementing these ideas. It also allows owners to project what type of financing is required to get their businesses up and running.

The length of the business plan varies greatly from business-to-business. All of the information should fit into a 15- to 20-page document. If there are crucial elements of the business plan that take up a lot of space—such as applications for patents—they should be referenced in the main plan and included as appendices.

If there are any especially interesting aspects of the business, they should be highlighted and used to attract financing. For example, Tesla Motors's electric car business essentially began only as a business plan.

A business plan is not meant to be a static document. As the business grows and evolves, so too should the business plan. An annual review of the plan allows an entrepreneur to update it when taking markets into consideration. It also provides an opportunity to look back and see what has been achieved and what has not. Think of it as a living document that grows and evolves with your business.

Business Plans for Different Businesses

Startup Businesses

The most classic business planning scenario is for a startup, for which the plan helps the founders break uncertainty down into meaningful pieces, like the sales projection, expense budget, milestones, and tasks.

The need becomes obvious as soon as you recognize that you don't know how much money you need, and when you need it, without laying out projected sales, costs, expenses, and timing of payments. And that's for all startups, whether or not they need to convince investors, banks, or friends and family to part with their money and fund the new venture.

In this case, the business plan is focused on explaining what the new company is going to do, how it is going to accomplish its goals, and—most importantly—why the founders are the right people to do the job. A startup business plan also details the amount of money needed to get the business off the ground, and through the initial growth phases that will lead (hopefully) to protability.

Existing Businesses

Not all business plans are for startups that are launching the next big thing. Existing businesses use business plans to strategically manage and steer the business, not just to address changes in their markets and to take advantage of new opportunities. They use a plan to reinforce strategy, establish metrics manage responsibilities and goals, track result and manage and plan resources including critical cash flow. And of course they use a plan to set the schedule for regular review and revision.

For existing businesses, a robust business planning process can be a competitive advantage that drives faster growth and greater innovation. Instead of a static document, business plans in existing businesses become dynamic tools that are used to track growth and spot potential problems before they derail the business.

Types of Plan

Planning is a pervasive function of management, it is extensive in its scope. So all managers across all levels participate in planning. However, the plans made by the top level manager will differ from the ones that lower managers make.

Plans also differ from what they seek to achieve and what methods will be used to achieve them. So let us look at the types of plans that managers deal with.

Objectives

This is the first step in planning the action plan of the organization. Objectives are the basics of every company and the desired objective/result that the company plans on achieving, so they are the endpoint of every planning activity.

For example one of the objectives of an organization could be to increase sales by 20%. So the manager will plan all activities of the organization with this end objective in mind. While framing the objectives of the organization some points should be kept in mind.

- Objectives should be framed for a single activity in mind.
- They should be result oriented. The objective must not frame any actions.

- Objectives should not be vague, they should be quantitative and measurable.
- They should not be unrealistic. Objectives must be achievable.

Strategy

This obviously is the next type of plan, the next step that follows objectives. A strategy is a complete and all-inclusive plan for achieving said objectives. A strategy is a plan that has three specific dimensions:

1. Establishing long-term objectives.
2. Selecting a specific course of action.
3. Allocating the necessary resources needed for the plan.

Forming strategy is generally reserved for the top level of management. It actually defines all future decisions and the company's long-term scope and general direction.

Policy

Policies are generic statements, which are basically a guide to channelize energies towards a particular strategy. It is an organization's general way of understanding, interpreting and implementing strategies. Like for example, most companies have a return policy or recruitment policy or pricing policy etc.

Policies are made across all levels of management, from major policies at the top-most level to minor policies. The managers need to form policies to help the employees navigate a situation with predetermined decisions. They also help employees to make decisions in unexpected situations.

Procedure

Procedures are the next types of plan. They are a stepwise guide for the routine to carry out the activities. These stepwise sequences are to be followed by all the employees so the activities can be fulfilled in an organized manner.

The procedures are described in a chronological order. So when the employees follow the instructions in the order and completely, the success of the activity is pretty much guaranteed.

Take for example the procedure of admission of a student in a college. The procedure starts with filling out an application form. It will be followed by a collection of documents and sorting the applications accordingly.

Rules

Rules are very specific statements that define an action or non-action. Also, rules allow for no flexibility at all, they are final. All employees of the organization must compulsorily follow and implement the rules. Not following rules can have severe consequences. Rules create an environment of discipline in the organization. They guide the actions and the behaviour of all the employees of the organization. The rule of "no smoking" is one such example.

Program

Programmes are an in-depth statement that outlines a company's policies, rules, objectives, procedures etc. These programmes are important in the implementation of all types of plan. They create a link between the company's objectives, procedures and rules.

Primary programmes are made at the top level of management. To support the primary program all managers will make other programs at the middle and lower levels of management.

Methods

Methods prescribe the ways in which in which specific tasks of a procedure must be performed. Also, methods are very specific and detailed instructions on how the employees must perform every task of the planned procedure. So managers form methods to formalize routine jobs.

Methods are very important types of plan for an organization. They help in the following ways:

- Give clear instructions to the employees, removes any confusion.
- Ensures uniformity in the actions of the employees.
- Standardizes the routine jobs.
- Acts as an overall guide for the employees and the managers.

Budget

A budget is a statement of expected results the managers expect from the company. Budgets are also a quantitative statement, so they are expressed in numerical terms. A budget quantifies the forecast or future of the organization.

There are many types of budgets that managers make. There is the obvious financial budget, that forecasts the profit of the company. Then there are operational budgets generally prepared by lower-level managers. Cash budgets monitor the cash inflows and outflows of the company.

Components of Planning

The entire process of planning consists of many aspects. These basically include missions, objectives, policies, procedures, programmes, budgets and strategies.

Mission

This is one of the first components of planning. The mission of an organization basically dictates its fundamental purposes. It describes what exactly it wants to achieve. The mission may be either written or implicit from the organization's functioning. A mission statement describes who the products and customers of a business are. It shows the direction in which the business intends to move and what it aims to achieve. Even the basic values and beliefs of the organization are a part of this. One can also understand its attitude towards its employees from the mission statement.

Many stakeholders of a business use its mission statement. Managers use it to evaluate their success and set goals. On the other hand, employees use it to foster a sense of unity and purpose. Even customers and investors use it to understand how the business intends to work in the future.

Objectives

Objectives represent the end results which an organization aims to reach. We can also refer to it as goals or targets. Not just planning but all factions of business management begin with the setting of objectives.

In terms of the types of objectives, they may be either individualistic or collective. They can even be long-term and short-term depending on their duration. They can also be general or specific in terms of their scope.

Managers of a business should lay down their objectives clearly and precisely. They must consider their mission and values before setting their goals. Furthermore, they must ensure that their objects for each activity are in consonance with each other.

Policies

Policies are basically statements of understanding or course of action. They guide the decision-making process for all activities of the organization. Consequently, they impose limits on the scope of decisions.

For example, a company might have a policy of always paying a minimum dividend of 5% of profits. So, when it decides to pay a dividend, the amount cannot be below 5%.

Just like the mission statement, even policies of an organization may be expressly written or implied. Managers make policies for all activities of a business, including sales, production, human resource, etc.

Policies should never be too rigid because that excessively limits functioning. Policy-makers must also ensure they explain policies to employees clearly. This will prevent any ambiguities that may arise. Policies must also change with time to suit new challenges and circumstances.

Procedures

Procedures are some of the most important components of planning. They describe the exact manner in which something has to be done. They basically guide actions for activities that managers and employees perform.

Procedures also include step-by-step methods. Even rules regulating actions come within the ambit of procedures. The planning process must ensure that procedures are always practical. They should not be rigid and difficult to implement.

Budget

Budgets are plans that express expected results in numerical terms. Whenever an organization expects to do something, it can make a budget to decide on its target. Most activities, targets, and decisions require budgeting. For example, an income budget shows expected financial results and profits.

Programme

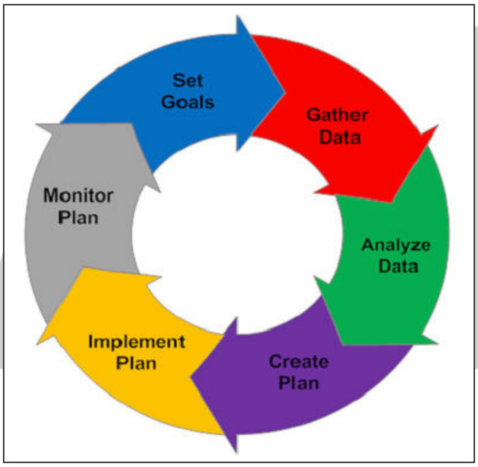
A programme is nothing but the outline of a broad objective. It contains a series of methods, procedures, and policies that the organization needs to implement. In other words, it includes many other components of planning.

For example, a business may have a diversification programme. Consequently, it will make budgets and policies accordingly for this purpose. Planners and managers can implement programmes like these at various levels.

Strategies

A strategy in simple words refers to minute plans of action that aim to achieve specific requirements. Proper implementation of strategies leads to the achievement of the requisite goals. The nature of an organization's values and missions will determine how it will strategize.

Planning Process



The planning function of management is one of the most crucial ones. It involves setting the goals of the company and then managing the resources to achieve such goals. As you can imagine it is a systematic process involving eight well thought out steps.

Recognizing Need for Action

An important part of the planning process is to be aware of the business opportunities in the firm's external environment as well as within the firm. Once such opportunities get recognized the managers can recognize the actions that need to be taken to realize them. A realistic look must be taken at the prospect of these new opportunities and SWOT analysis should be done.

Say for example the government plans on promoting cottage industries in semi-urban areas. A firm can look to explore this opportunity.

Setting Objectives

This is the second and perhaps the most important step of the planning process. Here we establish the objectives for the whole organization and also individual departments. Organizational objectives provide a general direction, objectives of departments will be more planned and detailed.

Objectives can be long term and short term as well. They indicate the end result the company wishes to achieve. So objectives will percolate down from the managers and will also guide and push the employees in the correct direction.

Developing Premises

Planning is always done keeping the future in mind, however, the future is always uncertain. So in the function of management certain assumptions will have to be made. These assumptions are the premises. Such assumptions are made in the form of forecasts, existing plans, past policies, etc.

These planning premises are also of two types – internal and external. External assumptions deal with factors such as political environment, social environment, the advancement of technology, competition, government policies, etc. Internal assumptions deal with policies, availability of resources, quality of management, etc.

These assumptions being made should be uniform across the organization. All managers should be aware of these premises and should agree with them.

Identifying Alternatives

The fourth step of the planning process is to identify the alternatives available to the managers. There is no one way to achieve the objectives of the firm, there is a multitude of choices. All of these alternative courses should be identified. There must be options available to the manager.

Maybe he chooses an innovative alternative hoping for more efficient results. If he does not want to experiment he will stick to the more routine course of action. The problem with this step is not finding the alternatives but narrowing them down to a reasonable amount of choices so all of them can be thoroughly evaluated.

Examining Alternate Course of Action

The next step of the planning process is to evaluate and closely examine each of the alternative plans. Every option will go through an examination where all there pros and cons will be weighed. The alternative plans need to be evaluated in light of the organizational objectives.

For example, if it is a financial plan. Then it that case its risk-return evaluation will be done. Detailed calculation and analysis are done to ensure that the plan is capable of achieving the objectives in the best and most efficient manner possible.

Selecting the Alternative

Finally, we reach the decision making stage of the planning process. Now the best and most feasible plan will be chosen to be implemented. The ideal plan is the most profitable one with the least amount of negative consequences and is also adaptable to dynamic situations.

The choice is obviously based on scientific analysis and mathematical equations. But a managers intuition and experience should also play a big part in this decision. Sometimes a few different aspects of different plans are combined to come up with the one ideal plan.

Formulating Supporting Plan

Once you have chosen the plan to be implemented, managers will have to come up with one or more supporting plans. These secondary plans help with the implementation of the main plan. For example plans to hire more people, train personnel, expand the office etc are supporting plans for the main plan of launching a new product. So all these secondary plans are in fact part of the main plan.

Implementation of the Plan

And finally, we come to the last step of the planning process, implementation of the plan. This is when all the other functions of management come into play and the plan is put into action to achieve the objectives of the organization. The tools required for such implementation involve the types of plans- procedures, policies, budgets, rules, standards etc.

Importance of Business Planning

Planning is an important function of management, it tells the manager where the organization should be headed. It also helps the organization reduce uncertainty.

Planning Provides a Sense of Direction

Planning means coming up with a predetermined action plan for the organization. It actually states in advance what and how the work is to be done. This helps provide the workers and the managers with a sense of direction, a guidance in a way. Without planning their actions would be uncoordinated and unorganized.

Planning Reduces Uncertainty

Planning not only sets objectives but also anticipates any future changes in the industry or the organization. So it allows the managers to prepare for these changes, and allow them to deal with the uncertainties. Planning takes into consideration past events and trends and prepares the managers to deal with any uncertain events.

Planning Reduces Wastefulness

The detailed plans made keep in mind the needs of all the departments. This ensures that all the departments are on the same page about the plan and that all their activities are coordinated. There is clarity in thought which leads to clarity in action. All work is carried out without interruptions or waste of time or resources.

Planning Invokes Innovation

Planning actually involves a lot of innovation on the part of the managers. Being the first function of management it is a very difficult activity. It encourages the manager to broaden their horizons and forces them to think differently. So the managers have to be creative, perceptive and innovative.

Easier Decision Making

In business planning the goals of the organization have been set, an action plan developed and even predictions have been made for future events. This makes it easier for all managers across all levels to make decisions with some ease. The decision-making process also becomes faster.

Establishes Standards

Once the business planning is done, the managers now have set goals and standards. This provides the manager's standards against which they can measure actual performances. This will help the organization measure if the goals have been met or not. So planning is a prerequisite to controlling.

Limitations of Planning

While business planning is important and a requisite for every organization, it does have some limitations. Let us take a look at some limitations of business planning.

Rigidity

Once the planning function is complete and the action plan is set, then the manager tends to only follow the plan. The manager may not be in a position to change the plan according to circumstances. Or the manager may be unwilling to change the plan. This sort of rigidity is not ideal for an organization.

Not ideal in Dynamic Conditions

In an economic environment rarely anything is stagnant or static. Economic, political, environmental, legal conditions keep changing. In such a dynamic environment it becomes challenging to predict future changes. And if a manager cannot forecast accurately, the plan may fail.

Planning can also Reduce Creativity

While making a plan takes creativity after that managers blindly follow the plan. They do not change the plan according to the dynamic nature of the business. Sometimes they do not even make the appropriate suggestions to upper management. The work becomes routine.

Planning is Expensive

Planning is a cost-consuming process. Since it is an intellectual and creative process, specialized professionals must be hired for the job. Also, it involves a lot of research and facts collection and number crunching. At certain times the cost of the planning process can outweigh its benefits.

Not Completely Accurate

When planning we have to forecast the future and predict certain upcoming events in the organization and the industry. So, of course, there cannot be hundred per cent certainty in such cases. So it can be said that business planning lacks accuracy.

Marketing Plan

A marketing plan is an operational document that outlines an advertising strategy that an organization will implement to generate leads and reach its target market. A marketing plan details the outreach and PR campaigns to be undertaken over a period, including how the company will measure the effect of these initiatives. The functions and components of a marketing plan include the following:

- Market research to support pricing decisions and new market entries.
- Tailored messaging that targets certain demographics and geographic areas.
- Platform selection for product and service promotion—digital, radio, Internet, trade. magazines, and the mix of those platforms for each campaign.
- Metrics that measure the results of marketing efforts and their reporting timelines.

A marketing plan is based on a company's overall marketing strategy.

The terms marketing plan and marketing strategy are often used interchangeably because a marketing plan is developed based on an overarching strategy framework. In some cases, the strategy and the plan may be incorporated into one document, particularly for smaller companies that may only run one or two major campaigns in a year. The plan outlines marketing activities on a monthly, quarterly, or annual basis while the marketing strategy outlines the overall value proposition.

Creating a Marketing Plan

A marketing plan considers the value proposition of a business. The value proposition is the overall promise of value to be delivered to the customer and is a statement that appears front and center of the company website or any branding materials.

The value proposition should state how a product or brand solves the customer's problem, the benefits of the product or brand, and why the customer should buy from this company and not another. The marketing plan is based on this value proposition to the customer.

The marketing plan identifies the target market for a product or brand. Market research is often the basis for a target market and marketing channel decisions. For example, whether the company will advertise on the radio, social media, through online ads, or on regional TV.

The marketing plan includes the rationale for these decisions. The plan should focus on the creation, timing, and placement of specific campaigns and include the metrics that will measure the outcomes of marketing efforts.

Executing a Marketing Plan

A marketing plan can be adjusted at any point based on the results from the metrics. If digital ads are performing better than expected, for example, the budget for a campaign can be adjusted to fund a higher performing platform or the company can initiate a new budget. The challenge for marketing leaders is to ensure that every platform has sufficient time to show results.

Digital marketing shows results in near real-time, whereas TV ads require rotation to realize any level of market penetration. In the traditional marketing mix model, a marketing plan would fall under the category of "promotion," which is one of the four Ps, a term coined by Neil Borden to describe the marketing mix of product, price, promotion, and place.

Purpose of a Marketing Plan

Many business owners create a marketing plan and then set it aside. However, your marketing plan is a road map providing you with direction toward reaching your business objectives. It needs to be referred to and assessed for results frequently.

While some small business owners include their marketing plan as part of their overall business plan, because marketing is crucial to success, having a comprehensive, detailed marketing plan on its own is recommended. If you don't want to make a mini-plan as part of your business plan, you can attach your full marketing plan to the business plan as an appendix to the business plan.

Benefits to a Marketing Plan

The importance of a detailed marketing plan can't be overstated. A marketing plan:

- Gives clarity about who your market is: It's easier to find clients and customers if you know who they are.
- Helps you craft marketing messages that will generate results: Marketing is about knowing what your product or service can do to help a target market. Your marketing messages need to speak directly your market.
- Provides focus and direction: Your choices for marketing are vast including email, social media, advertising, guest blogging, direct mail, publicity, and on and on. With so many marketing choices, you need a plan for determining the best course of action for your business.

Operational Plan

An operational plan can be defined as a plan prepared by a component of an organization that clearly defines actions it will take to support the strategic objectives and plans of upper management. However, to fully understand operational plans, we should first look at the overall planning process within a business.

Table: This shows three levels of planning.

Type of Plan	Created By	Scope	Includes	Level of Detail
Strategic plan	Top management	Entire organization	Mission of the company, future goals and ambitions	Very broad and general

Tactical plan	Mid-level management	Single area of the business as a whole (e.g. a division of the company)	Specific actions to support or work towards the strategic plan	Specific actions and ideas, but not very detailed
Operational plan	Low-level management	A unit within a single area of the business (e.g. a department within a division)	Specific plans for low level and day-to-day activities and processes that will support and enable the tactical plan	Extremely detailed (who, what, where and when)

First, it assumes that upper management has prepared both a strategic plan and a tactical plan. This means that lower management should have a clear sense of what they are trying to achieve. They just have to come up with a detailed plan to make it happen!

Second, the operational plan is limited to only one part of the organization. For example, a large corporation (strategic plan) has a manufacturing division (tactical plan) that produces products A, B and C. Each product is manufactured in a separate plant run by a plant manager who prepares a separate operational plan.

Operational plans can be subdivided into two categories:

- Single-use plans address only the current period or a specific problem.
    - An example would be a plan to cut costs during the next year.
- Ongoing plans carry forward to future periods and are changed as necessary.
    - An example would be a long-term plan to retain workers instead of layoffs.

Financial Plan

A financial plan is a comprehensive statement of an individual's long-term objectives for security and well-being and a detailed savings and investing strategy for achieving those objectives. A financial plan may be created independently or with the help of a certified financial planner.

In either case, it begins with a thorough evaluation of the individual's current financial state and future expectations.

Whether you're going it alone or with a financial planner, the first step in the creation of a financial plan involves getting together a lot of bits of paper or, more likely these days, cutting and pasting numbers from various web-based accounts into a document or spread sheet. The following steps in creating a financial plan may, of course, be completed by an individual or a couple.

Calculating Net Worth

You're about to learn your current net worth. List all of the following:

- Your assets: This may include a home and a car, some cash in the bank, money invested in a 401(k) plan, and anything else you own of value.

- Your liabilities: These may include credit card debt, student debt, an outstanding mortgage, and a car loan.

Your total assets, minus your total liabilities, equals your current net worth.

Determining Cash Flow

You can't create a financial plan without knowing where your money is going every month now. Documenting it will help you see how much you need every month for necessities, how much might be left for saving and investing, and even where you can cut back a little (or a lot).

One way to get this done is to skim through your checking account and credit card statements. Collectively, they should be a fairly complete history of your spending. If your expenses vary a lot seasonally, it's best to go through an entire year, count up all the expenditures in each category, and then divide by 12 to get an average monthly estimate of your spending. This way, you won't underestimate or overestimate what you spend on utilities, or forget to account for holiday gifts or a vacation.

Document how much you've paid over a year in basic housing expenses like rent or mortgage payments, utilities, credit card interest, and even home furnishings. Add categories for food, clothing, transportation, medical insurance, and non-covered medical expenses. Document your real spending on entertainment, dining out, and vacation travel. Don't overlook cash withdrawals that may be used on sundries from shampoo to sodas.

As you look over your own financial records, your personal spending categories will stand out. You may have an expensive hobby or a pampered pet. Document the costs.

Once you add up all these numbers for a year and then divide by 12, you'll know exactly what your cash flow has been.

Considering your Priorities

The core of a financial plan is a person's clearly defined goals. They may include funding a college education for the children, buying a larger home, starting a business, retiring on time, or leaving a legacy.

No one can tell you how to prioritize these goals. However, a professional financial planner may be able to help you choose a detailed savings plan and specific investments that will help you tick them off, one by one.

Special Considerations of a Financial Plan

Financial plans don't have a set template. A licensed financial planner will be able to create one that fits you and your expectations. It may prompt you to make changes in the short-term that will help ensure a smooth transition through life's financial phases.

The following elements should be addressed, and revised as necessary:

- Retirement strategy: No matter what your priorities are, the plan should include a strategy for accumulating the retirement income you need.

- Comprehensive risk management plan: That includes a review of life and disability insurance, personal liability coverage, property and casualty coverage, and catastrophic coverage.
- Long-term investment plan: A customized plan based on specific investment objectives and a personal risk tolerance profile.
- Tax reduction strategy: A strategy for minimizing taxes on personal income to the extent allowed by the tax code.
- Estate plan: Arrangements for the benefit and protection of your heirs.

Decision Making

Decision Making is an important function in management, since decision-making is related to problem, an effective decision-making helps to achieve the desired goals or objectives by solving such problems. Thus the decision-making lies all over the enterprise and covers all the areas of the enterprise.

Scientific decision-making is well-tried process of arriving at the best possible choice for a solution with a reasonable period of time.

Characteristics of Decision Making

1. It is a process of making a choice from alternative course of action.
2. Decision is the end process preceded by deliberation and reasoning.
3. Decision-making is a focal point at which plans, policies, and objectives are translated into concrete actions.
4. Rationality is another characteristic of decision-making. The human brain with its ability to learn to remember and to relate many complex factors makes this rationality possible.
5. Decision-making involves commitment. The management is committed to decision for two reasons. Firstly it leads to the stability of the concern and secondly, every decision taken becomes part of the expectations of the people involved in the organization.
6. The purpose of decision-making is to select the best alternative, which can significantly contribute towards organizational aims.

Process of Decision Making

A manager should follow the series of systematically related steps while making decision.

Investigate the Situation

A detailed investigation is made on three aspects: define problem identification of objectives and diagnosis.

The first step in the decision process is determining the precise problem to be solved. At this stage, time and effort should be expanded only in gathering data and information that is relevant to an identification of the real problem. Defining the problem in terms of the organizational objectives that are being blocked helps to avoid confusing symptoms and problems.

Once the problem has been defined, the next step is to decide what would constitute and effective solution. As part of this process, managers should begin to determine which parts of the problem they must solve and which they should solve. Most problems consist of several elements and a manager is unlikely to find one solution that will work for all of them.

When managers have found a satisfactory solution, they must determine the actions that will achieve it. But first, they must obtain a solid understanding of all the sources of the problem so they can formulate hypotheses about the causes.

Develop Alternatives

The search for alternatives forces the manager to see things from many viewpoints, to study cases from their proper perspectives and to unearth the troubled spots of the problem. To be more meaningful, only viable and realistic alternatives should be included in the listing.

Brainstorming may be effective at this stage. This is a group approach to developing creating potential solutions to management problems several persons with a similar interest sit down at one place and give concentrated thought to what might be done. The objective is to generate as many ideas as possible.

Criticism must be prohibited. The leader must keep the discussion moving by asking questions and making statements, which refocus attention on the problem at hand without proper guidance, discussion can degenerate into an aimless bull session.

Evaluate Alternatives and Select the Best One

The third step in decision making is that of analyzing and evaluating each alternative in terms of its possible consequences and since managers can never be sure of the actual outcome of each alternative, uncertainty always exists, consequently, this step is a real challenge requiring managers to call on present knowledge, past experience, foresight and scientific acumen.

Factors Influencing Decision Making

Time Pressures

An important influence on the quality of decisions is how much time the decision maker has in which to make the decisions. Unfortunately, managers must make most of their decisions in time frames established by others. Lack of time can force a manager to decide without gathering important facts or exploring possible solutions thoroughly.

Manager's Values

Manager's values have a significant influence on the quality of decisions. Values are the likes, dislikes, should, ought, judgments and prejudices that determine how we shall act. The value orientations of management underlie much of their behaviour. The decisions managers make in identifying their mission, objectives and strategies, and how managers interpret society's expectations also reflect their values.

Some specific influences which have value on the decision-making process are:

- Value judgments are necessary in the development of objectives and the assignment of priorities.
- In developing alternatives, it is necessary to make value judgments about the various possibilities and,
- In selecting an alternative, value judgments will be reflected in the alternative chosen.

Organizational Policy

Decisions are limited by the policies that higher managers develop to guide the actions of the organization. Decisions that clearly violated policies will be rejected automatically. Some managers argue, of course to change the policy to fit the decision if the decision seems sound.

This is good thinking, except that policies cannot be changed overnight. It is usually an easier and more practical course to alter the proposed decision.

Principles of Decision Making

So ultimately the skill and effectiveness of a manager are judged on the basis of the decision he makes. The entire process of decision making is heavily reliant on judgment, professional observations, and skills. However, there are a few principles the manager can follow to help him take correct decisions.

Principle of Definition

For the correct decision to be made, the manager must be aware of the exact problem. So the first principle is to exactly pinpoint the exact problem that seems to be the issue.

Once the real problem has been correctly identified and defined, the manager can work towards solving it. Too often time and energy are wasted on solving the wrong problem.

Principle of Evidence

Decisions should depend on some judgement which is backed by evidence. Hastily taken decisions that are not backed by proper evidence often turn out to be inaccurate. Every decision the manager takes must be well thought out and backed by evidence.

Principle of Identity

Every person has a different outlook and viewpoint about the same thing. So the same fact appears different to different people due to their varied thinking.

While taking a decision it is important to accommodate the viewpoints of all the people involved. Every person should be heard and their opinions weighed carefully before arriving at a decision.

Importance of Decision Making Process

- None of the managerial functions of planning, directing, controlling, coordinating etc. can be conducted without the process of decision making. It is a vital part of management.
- Decision making is also a pervasive function. All the staff and employees must make decisions to carry out their jobs.
- Decisions also help us evaluate the management and the managers of a firm. If the decisions taken were correct and yielded positive results, we can attest to the skill and knowledge of a manager. And the opposite is also true.
- The process of decision making evaluated every alternative before selecting the best one. No alternative is unexamined. This ensures that we are taking the best possible step for the firm.
- It also helps with better utilization of resources. The manager has to decide the best way to allocate all available resources and factors of production.
- Decision making process follows rational thought and logic. It is not an unscientific random process. Hence it will also help increase the efficiency of the firm.

Decision Making in Groups decision making basically involves choosing a course action after carefully considering it. It requires decision makers to evaluate all alternatives at their disposal and select one.

Each step of the management process includes decision making. Firstly, planners have to choose one plan from an array of alternatives after evaluating them individually.

Secondly, managers have to constantly take small decisions to implement these plans. Next, they have to take more decisions while evaluating the success of these plans. Other processes like budgeting also require decisions.

Involvement of Groups

It is always relatively simple to take decisions when only one person has to do it. This is because this person does not need to consult with others for his decisions. This way he can take decisions quickly. This also enables fixation of accountability on the decision maker. One single person is responsible for decisions this way. A sole proprietorship form of business is a great example of this.

That, however, rarely happens in larger business organizations. For example, consider partnership firms or companies. Decision making by groups is very common in these business structures. Since partners of a firm are jointly and severally liable for their activities, they often take decisions together. Similarly, decisions of the board of directors of companies also involve many people.

Even managers and employees of companies often make decisions collectively. Departmental activities are also good examples of this.

Decision Making by Groups

The way in which groups of people make decisions is different from individuals doing the same.

Whenever a group of people makes decisions, accountability rests on all of them collectively. Furthermore, the involvement of many people also makes the process more comprehensive. It is always up to the senior level managers (like directors) to decide when groups will make decisions. All organizations generally have a policy in place for such matters.

For example, a company may have a policy stating that only the board of directors can unanimously take decisions regarding the hiring of senior managers instead of allowing a single director to do so. This policy should lay down the exact scope of the group's authority to make decisions. Unfettered and unbridled powers can lead to exploitation. Decisions made this way may be arbitrary and impractical.

Furthermore, the policy must clearly define which exact persons will make decisions collectively. People without authority must never make decisions.

Advantages of Group Decisions

Decision making by groups can offer many advantages and benefits:

- Firstly, the involvement of more people ensures that the decision is evaluated thoroughly. This is because many people offer their viewpoints and opinions. This further ensures that the decisions will be good and practical.
- Secondly, it becomes easier to implement decisions made this way. Departments and managers can coordinate with each other fluently and achieve their targets.
- Finally, group decisions create a sense of unity of purpose amongst members of an organization. Since they make decisions collectively, they feel motivated to see them through together.

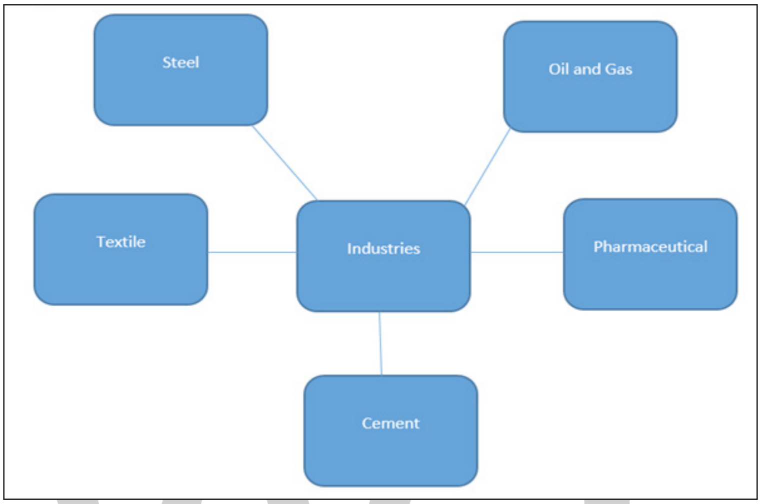
Disadvantages of Group Decisions

- One drawback of group decisions is that they require a lot of time. More than one person has to be consulted in such cases.
- Sometimes, formalities like meetings and voting may also become necessary in group decisions. Hence, prompt decisions may not be possible under groups.
- Indecision is also a big problem under groups. Each person may have her own point of view and unanimity may become difficult to achieve. Members may even evade accountability and blame others if their decisions lead to failure.

Industry Analysis

An industry analysis is significant business function which is performed by business proprietors and other management experts to evaluate the present business environment. This is considered as effective market assessment tool designed to provide a business with an idea of the intricacy of a particular industry. Industry analysis reviews the economic, political and market factors that influence the way the industry develops. Major factors can include the power manipulated by suppliers and buyers, the condition of competitors, and the possibility of new market entrants.

In management literature, an Industry is defined as a homogenous group of companies or group of firms that manufacture similar products which serves the same requirements of common set of purchasers. Industry analysis is explained as an evaluation of the relative strengths and imperfections of specific industries. Industries are conventionally categorised on the basis of products like steel, pharmaceutical oil and gas industries, textile, and cement.



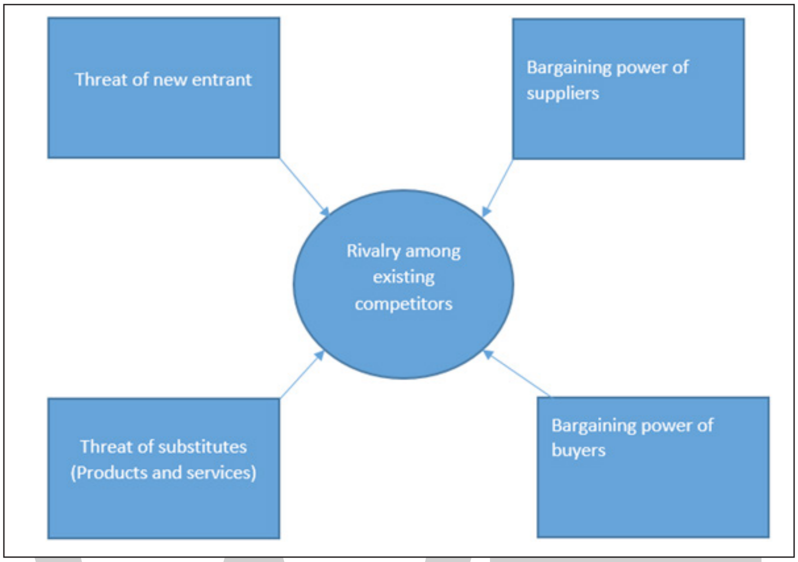
Industry analysis assists businesses to comprehend many economic factors of the marketplace and how these factors may be tactfully used to gain a competitive advantage. Although business possessors may conduct an industry analysis according to their particular needs, a few basic standards exist to perform this important business function. Small business owners often conduct industry analysis before starting their business. This analysis is included in the entrepreneur's business plan that summaries specific components of the economic marketplace. Elements may include the number of competitors, availability of substitute goods, target markets and demographic groups or various other pieces of essential business information. This information is usually used to secure external financing from banks or lenders for starting a new business venture. According to management theorists, an industry analysis consists of three major elements:

1. The underlying forces at work in the industry.
2. The overall attractiveness of the industry.
3. The critical factors that determine a company's success within the industry.

Porter's Five Forces Analysis

The primary model to assess the structure of industries was developed by famous management theorist, Michael E. Porter Techniques for Analyzing Industries and Competitors. Porter's model demonstrations that rivalry among firms in industry depends upon five forces: the potential for new competitors to enter the market; the bargaining power of buyers and suppliers; the availability of substitute goods; and the competitors and nature of competition. Main purpose of Five

Forces is to determine the attractiveness of an industry. However, the analysis also provides basis for articulating strategy and understanding the competitive scene in which a company operates.



Porter's Five Forces for industry analysis.

The framework for the Five Forces Analysis consists of these competitive forces:

1. Industry rivalry (degree of competition among existing firms): Tough competition leads to reduced profit potential for companies in the same industry. In competitive industry, firms have to compete fiercely for a market share, which results in low profits. Rivalry among competitors is tough when:

    - There are many competitors;
    - Exit barriers are high;
    - Industry of growth is slow or negative;
    - Products are not differentiated and can be easily substituted;
    - Competitors are of equal size;
    - Low customer loyalty.

2. Threat of substitutes (products or services): Availability of substitute products will limit company's ability to increase prices. This force in Porter's model is especially threatening when buyers can easily find substitute products with attractive prices or better quality and when buyers can switch from one product or service to another with low price.

3. Bargaining power of buyers: Powerful consumers have a substantial impact on prices. Consumers have power to demand high quality or low priced products. If the price of the product is low, it directly impact in the revenue of producers. While higher quality products usually raise production costs. In both situations, there is less profit for producers. Buyers exert strong bargaining power when:

- Buying in large quantities or control many access points to the final customer;
- Only few buyers exist;
- Switching costs to other supplier are low;
- They threaten to backward integrate;
- There are many substitutes;
- Buyers are price sensitive.

4. Bargaining power of suppliers: powerful suppliers can demand premium prices and limit profit of company. Porter stated that strong bargaining power permits suppliers to sell higher priced or low quality raw materials to their consumers. This directly affects profit of the buying firms because it has to invest more for materials. Suppliers have strong bargaining power in following conditions: There are few suppliers but many buyers;
   - Suppliers are large and threaten to forward integrate;
   - Few substitute raw materials exist;
   - Suppliers hold scarce resources;
   - Cost of switching raw materials is especially high.
5. Barriers to entry (threat of new entrants): It acts as a deterrent against new competitors. This force decides how easy (or not) it is to enter a particular industry. If an industry is lucrative and there are few barriers to enter, rivalry soon deepens. When more organizations compete for the same market share, there is less profit. It is crucial for existing organizations to generate high barriers to enter to prevent new entrants. Threat of new entrants is high when:
   - Low amount of capital is required to enter a market;
   - Existing companies can do little to retaliate;
   - Existing firms do not possess patents, trademarks or do not have established brand reputation;
   - There is no government regulation;
   - Customer switching costs are low (it doesn't cost a lot of money for a firm to switch to other industries);
   - There is low customer loyalty;
   - Products are nearly identical;
   - Economies of scale can be easily achieved.

Steps in Industry Analysis

1. Identify industry and provide a brief overview. Management team may need to explore industry from a variety of geographical considerations: locally, regionally, provincially,

nationally, and globally. It is necessary to define relevant industry codes. Provide statistics and historical data about the nature of the industry and growth potential for business, based on economic factors and conditions.

2. Secondly, evaluators must summarize the nature of the industry. This process include specific information and statistics about growth patterns, fluctuations related to the economy, and income projections made about the industry. It is important to document recent developments, news, and innovations. Evaluators must discuss the marketing strategies, and the operational and management trends that are predominant within the industry.
3. Third step is to provide a forecast for industry. Managers must compile economic data and industry predictions at different time intervals. It is necessary to cite all of sources. Note: the type and size of the industry will determine how much information company will be able to find about a particular industry.
4. Industry analysts needs to identify government regulations that affect the industry. They must include any recent laws pertaining to industry, and any licenses or authorizations company would need to conduct business in target market.
5. Industry analysts have to explain unique position within the industry. After completing competitive Analysis, analysts can list the leading companies in the industry, and compile an overview of data of direct and indirect competition. This will support them communicate unique value plan.
6. Industry analysts must list potential limitations and risks. They should write about factors that might negatively impact their business and they predict in the short-term and long-term future. They must outline what they know about the driving forces such as new regulations, technology, globalization, competitors, changing customer needs.
7. Industry analysts needs to talk to people by visiting to tradeshows and go to business events. Industry analysis allows firms to develop a competitive policy that best protects against the competitive forces or influences them in its favour. The key to developing a competitive strategy is to understand the sources of the competitive forces. By developing an understanding of these competitive forces, firm can:
    - Highlight the company's critical strengths and weaknesses (SWOT analysis).
    - Animate its position in the industry.
    - Explain areas where strategic changes will result in the greatest payoffs.
    - Highlight areas where industry trends designate the greatest importance as either opportunities or threats.

Importance of Industry Analysis

A broad industry analysis necessitates a small business owner to take an impartial view of the primary forces, attractiveness, and success factors that define the structure of the industry. Firms must comprehend its operating environment to formulate an effective strategy, position the company for success, and make effective use of the limited resources of the small business. According to Porter, “Once the forces affecting competition in an industry and their fundamental causes have been identified, the firm is in a position to recognise its strengths and weaknesses relative to the industry”.

An effective competitive strategy takes offensive or defensive action in order to produce a secure position against the five competitive forces. Some strategies include positioning the firm to use its unique capabilities as defence, influencing the balance of outside forces in the firm’s favour, or anticipating shifts in the underlying industry factors and adapting before competitors do in order to gain a competitive advantage. In nutshell, industry analysis provides a basis upon which analysts evaluate and decide about their corporate goals and it helps them develop insight into developing appropriate strategies.

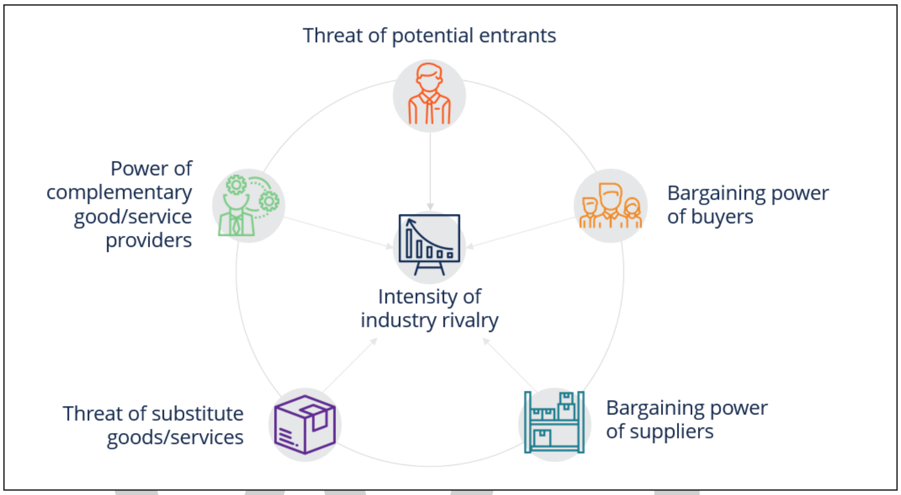
Major success factors for industry analysis:

1. Ability to appeal new customers.
2. Ability to hold existing customers.
3. Ability to attract and retain good employees.
4. Successful advertising campaigns (success is measured on the increase in sales).
5. Managing service or product.
6. Managing human resources.
7. Managing cash flow.
8. Managing revenue growth and profit.
9. Utilization of operating capacity.
10. Strong distribution channels.
11. Low cost production structure.
12. Strong technology capability.
13. Location to customers.
14. Sustainability of the business.

Industry analysis is a feasible procedure that enables company to understand its status relative to other companies that produce alike products or services. It is a systematic process of gathering and analysing, information about industry on a global and domestic basis. Factors include economics, trends, social and political factors, and changes in technology, and the rate of change. If company understand the forces at work in the overall industry, then it will help to formulate strategies, and do strategic planning. Industry analysis empowers small business owners to recognise the threats and opportunities facing their businesses, and to focus their resources on developing unique capabilities that could lead to a competitive advantage. There are five forces developed by popular theorist Porter which help to conduct efficient industry analysis and enable company to gain competitive advantage.

Types of Industry Analysis

Competitive Forces Model



Competitive forces model is an important tool used in a strategic analysis to analyze the competitiveness in an industry. This model is more commonly referred to as Porter's Five Forces Model, which includes five forces — intensity of rivalry, threat of potential new entrants, bargaining power of buyers, bargaining power of suppliers, and threat of substitute goods and/or services. In our competitive forces model, we include a sixth force, power of complementary goods and/or services providers. This model helps company understand the risks in the industry it is operating in and decide how it wants to execute its strategies in response to competition.

Intensity of Industry Rivalry

There are multiple factors which can impact the intensity of rivalry within an industry:

- Concentration of rivals – the more competitors, the more intense the rivalry.
- Product homogeneity – industries selling very similar products are likely to be more competitive.
- Consumer switching costs – if it costs consumers a lot to switch from one company's product to its competitor's, the company is likely to face less competition.
- Excess production capacity – when there is excess production capacity available in an industry, there is a higher chance of increased rivalry as companies find the industry more attractive to enter.
- Brand loyalty – rivalry is high when customers have low brand loyalty.

- Network effects – refers to the positive effect on the value of a product when there is an additional user of the product. When a network effect exists, the value of a product or service increases as more people are using it.

Threat of Potential Entrants

Threat of potential entrants are impacted by things such as:

- Brand loyalty.
- Cost advantage or economies of scale – threat of potential entrants tends to be higher when companies can realize economies of scale by mass production.
- Switching costs.
- Network effects.
- Excess production capacity.
- Government regulation – industries with strict government regulation pose higher barrier to potential entrants.
- Barriers to exit – when exiting an industry requires a high costs, companies are less likely to enter the industry in the first place.
- Investment in specialist equipment – companies also consider the amount of capital need to be invested in specialist equipment when entering an industry.
- High fixed costs – things like specialist equipment, properties and land are examples of high fixed costs.
- Specialized skills – when entering an industry required specialized skills or techniques, there is a higher barrier to entry for potential entrants.

Bargaining Power of Buyers

The bargaining power of buyers is high when:

- Buyers are large or concentrated, so their decisions to purchase a product/service have bigger impacts on the company.
- Buyers purchase a large percentage of volume.
- Buyers have good information about the product, such as product pricing and demand.

Buyers are price sensitive when:

- There are many industry competitors, giving the buyers more choices with lower prices and better product attributes.
- There are many substitutes available.

- Switching costs are low, so buyers are indifferent between purchasing products from the company or its rivals.
- Product homogeneity is high.

Bargaining Power of Suppliers

The bargaining power of suppliers is high when:

- Suppliers are large or concentrated.
- Suppliers can credibly threaten forward integration in the industry.
- Rivals purchase small percentage of the suppliers' products.

Purchasers' price elasticity is high when:

- There are few alternative suppliers available.
- There are few substitute inputs available.
- Switching costs are high for purchasers.

Threat of Substitute Goods/Services

High threat of substitute goods or services are harmful to businesses because they limit profit potential. Companies are likely to experience high threat of substitute goods/services when:

- Switching costs are low for customers.
- Substitutes have superior pricing relative to the current products.
- Substitutes have better attributes or performance characteristics.

Power of Complementary Good/Service Providers

Complimentary goods or services can add value to the existing products in an industry. However, when complements have unattractive features or do not provide any value to consumers, they can actually become an issue for the industry by slowing growth and limiting profitability. When developing strategies for a business, decision makers should consider how they can potentially encourage complement providers to integrate and become a part of the business. Successful integration with complement providers is likely to expand market opportunities and bring profit-enhancing benefits to the business.

SWOT Analysis

SWOT analysis (or SWOT matrix) is a strategic planning technique used to help a person or organization identify strengths, weaknesses, opportunities, and threats related to business competition or project planning. It is intended to specify the objectives of the business venture or project and identify the internal and external factors that are favorable and unfavorable to achieving those objectives. Users of a SWOT analysis often ask and answer questions to generate meaningful information for each category to make the tool useful and identify their competitive advantage. SWOT has been described as the tried-and-true tool of strategic analysis, but has also been criticized for its limitations.

Strengths and weakness are frequently internally-related, while opportunities and threats commonly focus on the external environment. The name is an acronym for the four parameters the technique examines:

- Strengths: characteristics of the business or project that give it an advantage over others.
- Weaknesses: characteristics of the business that place the business or project at a disadvantage relative to others.
- Opportunities: elements in the environment that the business or project could exploit to its advantage.
- Threats: elements in the environment that could cause trouble for the business or project.

The degree to which the internal environment of the firm matches with the external environment is expressed by the concept of strategic fit. Identification of SWOTs is important because they can inform later steps in planning to achieve the objective. First, decision-makers should consider whether the objective is attainable, given the SWOTs. If the objective is not attainable, they must select a different objective and repeat the process.

Some authors credit SWOT to Albert Humphrey, who led a convention at the Stanford Research Institute (now SRI International) in the 1960s and 1970s using data from Fortune 500 companies. However, Humphrey himself did not claim the creation of SWOT, and the origins remain obscure.

Internal and External Factors

SWOT analysis aims to identify the key internal and external factors seen as important to achieving an objective. SWOT analysis groups key pieces of information into two main categories:

1. Internal factors — the strengths and weaknesses internal to the organization
2. External factors — the opportunities and threats presented by the environment external to the organization

Analysis may view the internal factors as strengths or as weaknesses depending upon their effect on the organization's objectives. What may represent strengths with respect to one objective may be weaknesses (distractions, competition) for another objective. The factors may include all of the 4Ps as well as personnel, finance, manufacturing capabilities, and so on.

The external factors may include macroeconomic matters, technological change, legislation, and sociocultural changes, as well as changes in the marketplace or in competitive position. The results are often presented in the form of a matrix.

SWOT analysis is just one method of categorization and has its own weaknesses. For example, it may tend to persuade its users to compile lists rather than to think about actual important factors in achieving objectives. It also presents the resulting lists uncritically and without clear prioritization so that, for example, weak opportunities may appear to balance strong threats.

It is prudent not to eliminate any candidate SWOT entry too quickly. The importance of individual SWOTs will be revealed by the value of the strategies they generate. A SWOT item that produces valuable strategies is important. A SWOT item that generates no strategies is not important.

Use

The usefulness of SWOT analysis is not limited to profit-seeking organizations. SWOT analysis may be used in any decision-making situation when a desired end-state (objective) is defined. Examples include non-profit organizations, governmental units, and individuals. SWOT analysis may also be used in pre-crisis planning and preventive crisis management. SWOT analysis may also be used in creating a recommendation during a viability study/survey.

Strategy Building

SWOT analysis can be used effectively to build organizational or personal strategy. Steps necessary to execute strategy-oriented analysis involve identification of internal and external factors (using the popular 2x2 matrix), selection and evaluation of the most important factors, and identification of relations existing between internal and external features.

For instance, strong relations between strengths and opportunities can suggest good conditions in the company and allow using an *aggressive* strategy. On the other hand, strong interactions between weaknesses and threats could be analyzed as a potential warning and advice for using a *defensive* strategy.

Matching and Converting

One way of using SWOT is matching and converting. Matching is used to find competitive advantage by matching the strengths to opportunities. Another tactic is to convert weaknesses or threats into strengths or opportunities. An example of a conversion strategy is to find new markets. If the threats or weaknesses cannot be converted, a company should try to minimize or avoid them.

Corporate Planning

As part of the development of strategies and plans to enable the organization to achieve its objectives, that organization will use a systematic/rigorous process known as corporate planning. SWOT alongside PEST/PESTLE can be used as a basis for the analysis of business and environmental factors.

- Set objectives — defining what the organization is going to do.
- Environmental scanning.
    - Internal appraisals of the organization's SWOT — this needs to include an assessment of the present situation as well as a portfolio of products/services and an analysis of the product/service lifecycle.
- Analysis of existing strategies — this should determine relevance from the results of an internal/external appraisal. This may include gap analysis of environmental factors.
- Strategic Issues defined — key factors in the development of a corporate plan that the organization must address.

- Develop new/revised strategies — revised analysis of strategic issues may mean the objectives need to change.
- Establish critical success factors — the achievement of objectives and strategy implementation.
- Preparation of operational, resource, projects plans for strategy implementation.
- Monitoring all results — mapping against plans, taking corrective action, which may mean amending objectives/strategies.

Marketing

In many competitor analysis, marketers build detailed profiles of each competitor in the market, focusing especially on their relative competitive strengths and weaknesses using SWOT analysis. Marketing managers will examine each competitor's cost structure, sources of profits, resources and competencies, competitive positioning and product differentiation, degree of vertical integration, historical responses to industry developments, and other factors.

Marketing management often finds it necessary to invest in research to collect the data required to perform accurate marketing analysis. Accordingly, management often conducts market research (alternately marketing research) to obtain this information. Marketers employ a variety of techniques to conduct market research, but some of the more common include:

- Qualitative marketing research such as focus groups.
- Quantitative marketing research such as statistical surveys.
- Experimental techniques such as test markets.
- Observational techniques such as ethnographic (on-site) observation.
- Marketing managers may also design and oversee various environmental scanning and competitive intelligence processes to help identify trends and inform the company's marketing analysis.

Below is an example SWOT analysis of a market position of a small management consultancy with specialism in HRM.

Strengths	Weaknesses	Opportunities	Threats
Reputation in marketplace	Shortage of consultants at operating level rather than partner level	Well established position with a well-defined market niche	Large consultancies operating at a minor level
Expertise at partner level in HRM consultancy	Unable to deal with multi-disciplinary assignments because of size or lack of ability	Identified market for consultancy in areas other than HRM	Other small consultancies looking to invade the marketplace

Community Organization

The SWOT analysis has been used in community work as a tool to identify positive and negative factors within organizations, communities, and the broader society that promote or inhibit successful implementation of social services and social change efforts. It is used as a preliminary resource, assessing strengths, weaknesses, opportunities, and threats in a community served by a nonprofit or community organization. This organizing tool is best used in collaboration with community workers and/or community members before developing goals and objectives for a program design or implementing an organizing strategy. The SWOT analysis is a part of the planning for social change process and will not provide a strategic plan if used by itself. After a SWOT analysis is completed, a social change organization can turn the SWOT list into a series of recommendations to consider before developing a strategic plan.

SWOT ANALYSIS		
	Strengths 1. 2. 3. 4.	Weaknesses 1. 2. 3. 4.
Opportunities 1. 2. 3. 4.	Opportunity-Strength strategies *Use strengths to take advantage of opportunities* 1. 2.	Opportunity-Weakness strategies *Overcome weaknesses by taking advantage of opportunities* 1. 2.
Threats 1. 2. 3. 4.	Threat-Strength strategies *Use strengths to avoid threats* 1. 2.	Threat-Weakness Strategies *Minimize weaknesses and avoid threats* 1. 2.

One example of a SWOT Analysis used in community organizing.

SWOT ANALYSIS			
Internal		External	
Strengths	Weaknesses	Opportunities	Threats

A simple SWOT Analysis used in Community Organizing.

Strengths and weaknesses (internal factors within an organization):

- Human resources — staff, volunteers, board members, target population.
- Physical resources — your location, building, equipment.
- Financial — grants, funding agencies, other sources of income.

- Activities and processes — programs you run, systems you employ.
- Past experiences — building blocks for learning and success, your reputation in the community.

Opportunities and threats (external factors stemming from community or societal forces):

- Future trends in your field or the culture
- The economy — local, national, or international
- Funding sources — foundations, donors, legislatures
- Demographics — changes in the age, race, gender, culture of those you serve or in your area
- The physical environment —is your building in a growing part of town? Is the bus company cutting routes?
- Legislation — do new federal requirements make your job harder or easier?
- Local, national, or international events.

Although the SWOT analysis was originally designed as an organizational method for business and industries, it has been replicated in various community work as a tool for identifying external and internal support to combat internal and external opposition. The SWOT analysis is necessary to provide direction to the next stages of the change process. It has been used by community organizers and community members to further social justice in the context of Social Work practice.

Application in Community Organization

As mentioned above, SWOT can be crucial to determining the success of a project, while factoring in funding, as well as accessibility and logic. Often, a city will spend a year weighing the Risk-benefits of a project before they even vote on it.

Elements to Consider

Elements to consider in a SWOT analysis include understanding the community that a particular organization is working with. This can be done via public forums, listening campaigns, and informational interviews. Data collection will help inform the community members and workers when developing the SWOT analysis. A needs and assets assessment is tooling that can be used to identify the needs and existing resources of the community. When these assessments are done and data has been collected, an analysis of the community can be made that informs the SWOT analysis.

Steps for Implementation

A SWOT analysis is best developed in a group setting such as a work or community meeting. A facilitator can conduct the meeting by first explaining what a SWOT analysis is as well as identifying the meaning of each term.

One way of facilitating the development of a SWOT analysis includes developing an example SWOT with the larger group then separating each group into smaller teams to present to the larger group after set amount of time. This allows for individuals, who may be silenced in a larger group setting, to contribute. Once the allotted time is up, the facilitator may record all the factors of each group onto a large document such as a poster board, and then the large group, as a collective, can go work through each of the threats and weaknesses to explore options that may be used to combat negative forces with the strengths and opportunities present within the organization and community. A SWOT meeting allows participants to creatively brainstorm, identify obstacles, and possibly strategize solutions/way forward to these limitations.

When to use SWOT Analysis

The uses of a SWOT analysis by a community organization are as follows: to organize information, provide insight into barriers that may be present while engaging in social change processes, and identify strengths available that can be activated to counteract these barriers.

A SWOT analysis can be used to:

- Explore new solutions to problems.
- Identify barriers that will limit goals/objectives.
- Decide on direction that will be most effective.
- Reveal possibilities and limitations for change.
- To revise plans to best navigate systems, communities, and organizations.
- As a brainstorming and recording device as a means of communication.
- To enhance "credibility of interpretation" to be used in presentation to leaders or key supporters.

Benefits and Advantages

The SWOT analysis in social work practice framework is beneficial because it helps organizations decide whether or not an objective is obtainable and therefore enables organizations to set achievable goals, objectives, and steps to further the social change or community development effort. It enables organizers to take visions and produce practical and efficient outcomes that effect long-lasting change, and it helps organizations gather meaningful information to maximize their potential. Completing a SWOT analysis is a useful process regarding the consideration of key organizational priorities, such as gender and cultural diversity and fundraising objectives.

Limitations

SWOT is intended as a starting point for discussion and cannot, in itself, show managers how to achieve a competitive advantage. Because the SWOT analysis is a snapshot of the firm at a particular moment in time, the analysis might obscure the fact that both the internal and external environment are rapidly changing.

Some findings from Menon et al. and Hill and Westbrook have suggested that SWOT may harm performance and that "no-one subsequently used the outputs within the later stages of the strategy".

Others have critiqued the misuse of the SWOT analysis as a technique that can be quickly designed without critical thought leading to a misrepresentation of strengths, weaknesses, opportunities, and threats within an organization's internal and external surroundings. If a firm becomes preoccupied with a single strength, such as cost control, they can neglect their weaknesses, such as product quality.

Another limitation includes the development of a SWOT analysis simply to defend previously decided goals and objectives. This misuse leads to limitations on brainstorming possibilities and "real" identification of barriers. This misuse also places the organization's interest above the well-being of the community. Further, a SWOT analysis should be developed as a collaborative with a variety of contributions made by participants including community members. The design of a SWOT analysis by one or two community workers is limiting to the realities of the forces, specifically external factors, and devalues the possible contributions of community members.

Michael Porter developed the five forces framework as a reaction to SWOT, which he found lacking in rigor and ad hoc.

SVOR Alternative

In project management, the alternative to SWOT known by the acronym SVOR (Strengths, Vulnerabilities, Opportunities, and Risks) compares the project elements along two axes: internal and external, and positive and negative. It takes into account the mathematical link that exists between these various elements, considering also the role of infrastructures. The SVOR table provides an intricate understanding of the elements at play in a given project:

Forces	Internal	Mathematical link	External
Positive	Total Forces	Total Forces given constraints = Infrastructures / Opportunities	Opportunities
Mathematical link	Vulnerabilities given constraints = 1 / Total Forces	constant *k*	Opportunities given constraints = 1 / Risks
Negative	Vulnerabilities	Risks given constraints = *k* / Vulnerabilities	Risks

Constraints consist of: calendar of tasks and activities, costs, and norms of quality. The "*k*" constant varies with each project (for example, it may be valued at 1.3).

SWOT Analysis in Popular Culture

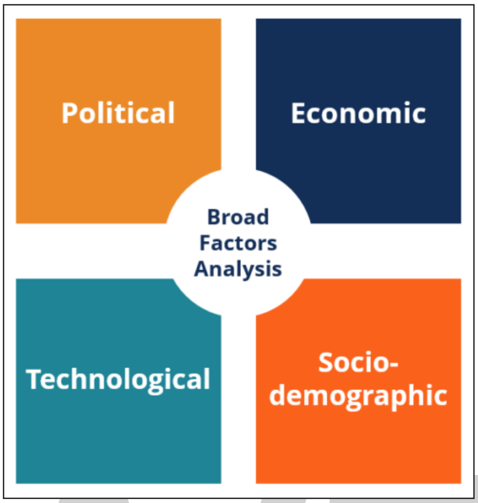
Ads

Many reports have been published about the use of SWOT by real life companies, and how the idea is spreading. Coca-Cola has used this in their television ads in order to effectively target a customer, such as appeal to senses.

Television Shows

In the Silicon Valley episode "Homicide" (Season 2, Episode 6), Jared Dunn (Zach Woods) introduces the Pied Piper team to SWOT analysis. Later in that episode Dinesh (Kumail Nanjiani) and Gilfoyle (Martin Starr) employ the method when deciding whether or not to inform a stunt driver that the calculations for his upcoming jump were performed incorrectly.

Broad Factors Analysis



Broad Factors Analysis, commonly called the PEST Analysis, is a key component of external analysis. A Broad Factors Analysis assesses and summarizes the four macro-environmental factors — political, economic, socio-demographic (social) and technological. These factors have significant impacts on a business's operating environment, posing opportunities and threats to the company and all of its competitors. Broad Factors Analysis is widely used in strategic analysis and planning because it helps companies determine the risks and opportunities in the market, and that in turn becomes an important consideration when companies are developing corporate and business strategies.

Political Factors

Political factors are factors within the regulatory environment of a particular industry or business.

Examples of political factors include:

- Barriers to international trade,
- Changes in government regulation,
- Tax policy,
- Employment laws,
- Country-specific political risk.

Political factors in the macro-environment can constraint the operations of organizations and introduce opportunities and threats to the companies. When a company chooses which industries to enter or which countries to expand its operations into, it might want to consider the complication of government regulatory policies in that specific industry or country and other risks associated.

Economic Factors

Economic factors are things that influence the macro economy such as:

- Interest rates,
- Foreign exchange rates,
- Inflation,
- Gross Domestic Product (GDP) growth rates.

Each of these factors can have various impacts on businesses. For example, interest rates affect the cost of capital and a company's ability to raise funds or invest in new assets. Low exchange rates reduce threats from foreign competitors and create overseas opportunities. When inflation happens it destabilizes the economy and makes the future less predictable for companies. Lastly, high growth rate of an economy increases customer expenditures and eases competitive pressures.

Socio-Demographic (Social) Factors

Socio-demographic factors is short for social and demographic factors, which look at the population demographics and the characteristics of a company's target customers.

Examples of social-demographic factors include:

- Population growth,
- Education level,
- Health consciousness and trends,
- Nature and the environment,
- Age cohort changes.

Changing social mores and values can impact the business of an entire industry, because it shifts consumer preferences and demand for products/services. For example, if majority of the popularity perceives smoking as activity that is harmful for physical health, demand for cigarettes and tobaccos could significantly decline and thus impact the profitability of those businesses.

Technological Factors

Technological factors have become increasingly important for many businesses in recent years due to prevalence of information technology and mobile devices.

Some examples of technological factors include:

- Research & development (R&D) investment,
- Scientific advances,
- Emerging technologies,
- Diffusion of technologies.

These technological factors affects the height of barrier to entry of an industry and reshapes the industry structure.

The Broad Factors Analysis helps company summarize the PEST factors and arrive at an understanding of the net impact of these factors on the business, as well as the overall attractiveness, opportunities and threats that exist for the company.

Importance of Industry Analysis

Industry analysis and the relevant skills are critical for any business to understand the industry in which they are operating and ensure uninterrupted success. Here are some underlying reasons for why it is so important to having a successful business:

- Predicts performance: The performance of an industry is a major indicator of how well the companies operating within that industry will perform. Therefore, by predicting the changes within an overall industry, the performance of a firm within that industry can be well predicted. For instance, with a significant drop in the prices of steel, manufacturers of steel products can enjoy higher profit margins. Predicting such changes enables companies to react strategically.
- Allows positioning: During the business planning process, if an individual is able to understand the industry and competitors well enough, it helps him position his products/services in the most profitable market. In a market that is already saturated with similar products/services or is too competitive, a thorough industry analysis is especially helpful for differentiating purposes.
- Identifies threats and opportunities: The most obvious contribution of an industry analysis to the success of a business is the identification of future opportunities that may serve as the growth catalysts or threats that may impede company growth in the future.

Steps to Improve Industry Analysis

Following are some useful tips that can help in the improvement of industry analysis skills:

- Level of analysis must be decided beforehand:Every industry has several sub-parts. Before beginning to work on your analysis report, you must decide whether you wish to look at the entire industry or some of its sub-parts. For instance, paint and varnishes, fertilizers, and organic chemicals etc. are all sub-industries of the overall chemical industry. It is always better to choose one or more sub-industries that are most relevant to the company's purpose.
- Know the level of competition: The most important tip to follow is to study the competitive landscape in the concerned industry. The extensively used Porter's Five Forces Model is the most suitable for this purpose. Using the parameters this model suggests, you can very well evaluate the level of difficulty that is expected to be faced for survival purposes.
- Know the industry dynamics: Since industry analysis is supposed to be specific, you must do an in-depth analysis and focus on all industry dynamics as well as any recent developments that make a difference. For instance, you must be aware of the per capita consumption in a particular country as well as any industrial developments or innovation. All these things help you predict the future of your intended business.

Customer Analysis

A customer analysis (or customer profile) is a critical section of a company's business plan or marketing plan. It identifies target customers, ascertains the needs of these customers, and then specifies how the product satisfies these needs. A customer analysis can be broken down into a behavioral profile (why your product matches a customer's lifestyle) and a demographic profile (describing a customer's demographic attributes).

A customer profile is a simple tool that can help business better understand current and potential customers, so they can increase sales and grow their business. Customer profiles are a collection of information about customers that help determine why people buy or don't buy a product. Customer profiles can also help develop targeted marketing plans and help ensure that products meet the needs of their intended audience.

Behavioral Analysis (Customer Buying Criteria)

A behavioral analysis of customers (or psychographic profile) seeks to identify and weigh the relative importance of factors consumers use to choose one product over another. These factors, sometimes called buying criteria, are key to understanding the reasons that customers choose to buy your product (or service) versus the products offered by your competitors. The four major criteria that customers use to distinguish competing products are: price, quality, convenience and prestige.

In consumer transactions, price and quality tend to be the dominant factors. However with business-to-business (B2B) transactions (also called industrial marketing), service issues such as reliability, payment terms, and delivery schedule become much more important. The sales transaction in an industrial marketing scenario also differs from consumer marketing in that the purchase decision is typically made by a group of people instead of one person, and the selling process can be much more complex (including stages such as: request for bid, proposal preparation and contract negotiations).

By identifying customer needs through market research and analysis, companies can develop a clear and concise value proposition which reflects the tangible benefits that customers can expect from the company's products. And once the primary buying criteria have been identified, marketing efforts can influence the customer's perception of the product along the four main dimensions (price, quality, convenience and prestige), relative to the competition's product.

Customer Demographics

The second major component in customer analysis is identifying target market segments that are predisposed to preferring your products over those of your competitors. A market segment is a sub-set of a market made up of people or organizations with one or more characteristics that cause them to demand similar product and/or services based on qualities of those products such as price or function. A marketing program aimed at individual segments needs to understand and capitalize on the group's differences and use them strategically in all advertising campaigns.

Gender, age, ethnicity, geography and income are all market-segmenting criteria based on demographics. The target market segments are specified by demographic factors: age, income, education, ethnicity, geography, etc. Then by having a well defined set of demographic factors, marketing will be able to identify the best channels to reach these specific demographic segments.

Customer Analysis Example

There is an example of a customer analysis written through the Yahoo! Contributor Network: "Example of Customer Analysis for a Marketing Plan" by Chloe Thorn, Yahoo! Contributor Network.

This is not an exceptionally well written analysis; it has some grammatical and spelling errors, and at least one illogical conclusion. But, it covers most of the elements key to a customer analysis (e.g. buying criteria, customer demographics, etc.)

New vs. Returning Customers

One of the most important analysis for your organization which depicts your quantitative success is the new vs returning customers matrix. If your customers don't return to your business, you have got a problem in your hand my friend. Thus over here the above two points will be on to help you the most. This is the final straw in the customer analysis profile as it helps you decide what is the affect of the above two points on your customer and whether or not they are inducing action. If they are, then which programs are to be followed and which are to be discarded.

Uses of Customer Analysis

- Identifying who your best customer is – Customer analysis can help you identify who your customer is and thereby improve the segmentation targeting and positioning process. Remember – 80% of your business will come from 20% of your customers. It is important you know who those customers can be.
- Planning out retention plans for your new customers – New customers are important but so are returning customers. Thus customer analysis can help convert your first time customers to returning customers.
- Inducing further buying from your existing customers – Cross selling, impulse purchases are some of the methods which increase purchasing by your existing customers. Example – if you know customers who have bought jogging equipment, you can cross promote other jogging related fashion to them.
- Improving customer service – Once you know who your customer is, you can know what kind of services will they demand. Thus customer analysis will also help in service deliverability.
- Effective campaign planning – The demography and purchasing habits of your customers will help you with planning a highly effective campaign thereby improving your target.
- Increasing market share – What if while doing customer analysis you recognize a set of customers that haven't been targeted by you? At the same time, you also establish procedures better then the competitors. The effect – Increase in market share.

- Increasing overall profitability – Businesses are established for profits. And overall profitability as well as well being of the organization increases once its customers are satisfied. And customer satisfaction will happen only through customer analysis.

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We would like to thank the editorial team for lending their expertise to make the book truly unique. They have played a crucial role in the development of this book. Without their invaluable contributions this book wouldn't have been possible. They have made vital efforts to compile up to date information on the varied aspects of this subject to make this book a valuable addition to the collection of many professionals and students.

This book was conceptualized with the vision of imparting up-to-date and integrated information in this field. To ensure the same, a matchless editorial board was set up. Every individual on the board went through rigorous rounds of assessment to prove their worth. After which they invested a large part of their time researching and compiling the most relevant data for our readers.

The editorial board has been involved in producing this book since its inception. They have spent rigorous hours researching and exploring the diverse topics which have resulted in the successful publishing of this book. They have passed on their knowledge of decades through this book. To expedite this challenging task, the publisher supported the team at every step. A small team of assistant editors was also appointed to further simplify the editing procedure and attain best results for the readers.

Apart from the editorial board, the designing team has also invested a significant amount of their time in understanding the subject and creating the most relevant covers. They scrutinized every image to scout for the most suitable representation of the subject and create an appropriate cover for the book.

The publishing team has been an ardent support to the editorial, designing and production team. Their endless efforts to recruit the best for this project, has resulted in the accomplishment of this book. They are a veteran in the field of academics and their pool of knowledge is as vast as their experience in printing. Their expertise and guidance has proved useful at every step. Their uncompromising quality standards have made this book an exceptional effort. Their encouragement from time to time has been an inspiration for everyone.

The publisher and the editorial board hope that this book will prove to be a valuable piece of knowledge for students, practitioners and scholars across the globe.

Index