

Entrepreneurship Manual

Don't just start a business...
Start a successful one!



Structural Funds Programme for Malta 2004-2006
Project part-financed by the European Union: European Social Fund
Co-financing rate: 75% European Union, 25% Malta Government



ETC



EMPLOYMENT & TRAINING CORPORATION

First published in November 2007
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ISBN-13: 978-99932-686-6-6

Production: Outlook Coop



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Entrepreneurship is the key

The Employment and Training Corporation (ETC) has during the past years been one of the forerunners in the promotion of an entrepreneurial culture. The Corporation was one of the first entities to start offering training opportunities to individuals who were inclined to set up their own business and to others who had already launched their business but who could also benefit through improved business management skills.

The Employment and Training Corporation then further developed this service by introducing an innovative business start-up scheme commonly known as the INT scheme or *Ibda Negozju Tiegħek* (Start Your Own business), which besides training also provides guidance, support, mentoring and a start-up grant to successful participants.

Following the success of the above initiatives, the Employment and Training Corporation embarked on a new venture, to promote an entrepreneurial culture among women. With the financial

backing of ESF funds, the project, in particular, aims at encouraging women to consider the option of setting up their own business and at the same time, create more and better jobs and promote entrepreneurship. Some of the outcomes of this ESF project were the provision of training to a number of female participants interested in starting their own business, the setting up of a resource centre, organisation of a marketing campaign promoting business start-ups as a route to employment and the development of a training manual as a guide to starting a business.

This manual illustrates the different steps one must take when entering the field of entrepreneurship. It was developed by Marika Fsadni on behalf of the Corporation with financial support from the European Social Fund. The aims and objectives of the project are in line with those portrayed by the European Social Funds in that it aims to promote economic and social cohesion in member states and as this manual illustrates, makes a real difference to the lives of persons benefiting from this fund.

I would like to thank the Project Leader, Philippe Vancell, and staff within the Corporation for their dedication to making this project a success, as well as the management team and the administrative staff for their equally important contributions. Last but by no means least, the successful outcome of this project is also due to the collaborative effort of a number of entities that enabled the Corporation to utilise these funds for the benefit of its clients. While an exhaustive list is not possible, the Corporation would like to thank in particular the various Ministries as well as the Managing Authority for its support in the application for and utilisation of these funds.

Michael Balzan
Chairperson
ETC

Foreword

Ten years ago, I was at a crossroad in my career. Armed with little more than my education and some work experience in the public and private sector; saddled with hefty monthly house loan repayments and with no regular income; my choices at the time were limited, so I decided to take the plunge and start my own business.

Today, ten years later, I run my own marketing and HR development consultancy firm, I have a sound client base, employ my own work team, have my own office with a 5-workstation LAN and about to move into larger offices very shortly... and, I am, above all, a woman entrepreneur!

Is this a unique experience? Not at all! Every successful entrepreneur relates his/her own experience on how it all started. From a survey I conducted with local male and

female entrepreneurs last year [a survey commissioned by Malta Enterprise in November 2006], 31% of the entrepreneur respondents claimed that the reason for setting up their own business was because they wanted to do something of their own and wanted to be their own 'boss,' while a close 28% indicated that it was always their ambition/dream to set up their own business. The rest of the entrepreneur respondents indicated that they either wanted a new challenge, sought a new business opportunity, had quarrelled with their previous boss and hence were out of a job, or simply because they set up their business by sheer chance and coincidence.

Whatever the initial reason for starting your own business, what is really important is not the 'why' or 'how' you start but what degree of

commitment you are prepared to take to not just starting a business, but to start a successful one!

It is not by chance that I chose the title of this business manual *"Don't just start a business... Start a successful one!"* - I chose this title with a purpose. Anyone can set up his/her own business. We hear of and see so many businesses, large and small, being set up but which, sadly, by their third or fourth year of operation, they simply either phase out, disappear or go bankrupt. From my own experience, I found that the real challenge is not actually starting a business but to, year after year of sheer hard work and dedication, manage to make it grow and render it successful!! This, I admit, is not an easy task! I distinctly remember some ten years ago when I had decided to give it a try, I had promised myself not to look back for a good three years but to evaluate my position at the close of the third year and then decide on whether to continue to grow or phase out. At the close of my third year of operation, there was no such decision to be taken as the

seeds I had sowed for three solid years were already bearing fruit!

What renders a business successful, be it large or small, a service-oriented operation, an importing house or a manufacturing concern, etc, is when the business manages to identify and sustain, what is known in management as a "competitive advantage" [Michael Porter, 1980] over its competitors. This "competitive advantage" is the aggregation of factors that sets a business apart from its competitors and gives it a unique position in the market, i.e. how successful the budding entrepreneur is in differentiating his/her business/product from the rest of his/her competitors within the industry.

How can an entrepreneur do this? By skilfully identifying his/her company's "core competences," which are a unique set of lasting capabilities that the entrepreneur develops in key operational areas, e.g. in customer service, product quality, product design, packaging, etc, which are perceived as essential by customers and which are difficult for competitors

to copy. When the entrepreneur manages to identify his/her business's core competences and match these with what are known as the "key success factors" [critical factors] of the industry sector the business is operating in, then the entrepreneur is guaranteed success!

However, one may argue, is all this relevant to an entrepreneur, who is typically characterised by a small operation, limited resources, limited liquidity, etc? Well, I ask: have you ever heard the saying "small is beautiful"? Do you agree with it? Do you recall the story of David and Goliath? Is this story still relevant in the light of today's increasingly fierce and cut-throat competition? Well, it all depends on whether you are the optimist who perceives a glass half full or the pessimist who perceives it half empty! The small size of the entrepreneur's business venture may be used as an 'advantage' because this smallness will allow him/her to do things which larger competitors, sometimes known as 'sleeping giants' cannot do,

eg. speed of delivery, closeness to customers, ability to innovate fast, etc. The key to success of these core competencies is for the entrepreneur to concentrate them on providing superior service and value for the entrepreneur's target customers. The entrepreneur would hence have identified the 'winning formula'!

'Small is beautiful', the 'young David', the 'sleeping giant,' the 'half-full glass', the 'smallness' advantage... All these become reality only if the entrepreneur truly believes in them and above all, adopts the right positive attitude coupled with sheer hard work.

When the Employment and Training Corporation asked me to write this business manual, I was pleased to be able to share my own personal experience as a local entrepreneur. In fact, I have tried to adopt a simple, structured approach to the subject. Moreover, I have purposely chosen to write this business manual in the 'first person,' i.e. 'I', to render the approach more personal, 'hands-on' and credible.

I wrote this business manual to encourage all those promising, up-and-coming would-be entrepreneurs, male or female, who are seriously thinking of setting up their own business. The suggestions, proposals and recommendations contained in this manual are largely based on my own ten-year experience as an entrepreneur operating in Malta, on my experience as consultant and trainer with local start-up businesses and entrepreneurs. I have also kept in mind the research findings of a qualitative market research survey I conducted in 2006 with local entrepreneurs and would-be entrepreneurs on behalf of the Malta Enterprise and the Euro-Info Centre [November 2006]. This research study focused on the identification of the needs, difficulties and challenges faced by the local entrepreneur in Malta.

I would like to thank the Employment and Training Corporation for granting me this opportunity of writing this Business Manual. I augur that this publication will be of assistance to all those budding entrepreneurs who are seriously thinking of setting up their own business.

I am also indebted to my family and close friends who have supported me throughout these last ten years. I would like to take this opportunity to express my appreciation for the love and affection that have been forthcoming for so many years. One last word goes to the people who have assisted me in compiling this business manual, namely Laurence Zerafa B.Pharm, M.Phil., Dip.L.I.S, Terence Portelli B.Ed.(Hons.), M.A., Carmen Mangion and Marilena Vella for their invaluable assistance with the Maltese translation.

Marika Fsadni

November 2007

How to use this business manual

This *Don't start a business... Start a successful one!* Business Manual has been written to assist all those enterprising, up-and-coming, would-be entrepreneurs who are seriously considering setting up their own business. But, in reality, who is an "entrepreneur"? Who qualifies to be called an "entrepreneur"?

As we shall see later on in this manual, an entrepreneur is an individual who:

- ▶ has the ability to identify and pursue a business opportunity,
- ▶ undertakes a business venture,
- ▶ raises the capital to finance it,
- ▶ gathers the necessary physical, financial and human resources needed to operate the business venture,

- ▶ sets goals for him/herself and others,
- ▶ initiates appropriate action to ensure success,
- ▶ and assumes all or a major portion of the risk!

This definition of an entrepreneur is clearly quite a mouthful. Does every entrepreneur need to possess all these qualities? My reply to this is a definite yes! Although management theory does provide us with an array of varied definitions of the term 'entrepreneur' and 'entrepreneurship,' the above definition encapsulates the essential actions to be performed by an entrepreneur and if he/she manages to perform each of these actions well, then this will undoubtedly lead him/her to manage a successful business.

As the name of this business manual suggests, the object of this manual is not simply to list the business start-up steps which should be taken by the would-be entrepreneur who wants to set up his/her business, but to clearly illustrate what goes into setting up a new business, ranging from the attitude, approach and personal preparation of the entrepreneur to the very development of an effective business plan to attain a successful business.

The Manual is divided into three essential Phases, namely:

- ▶ **Phase 1** - Identifying the Personal Strengths Characterising The Successful Entrepreneur.
- ▶ **Phase 2** - Turning Your Idea Into A Successful Business Idea!
- ▶ **Phase 3** - Writing A Business Plan For Your Successful Idea.

In my opinion, these are the three pillars which characterise the 'winning formula' of a successful business. **The First Phase** focuses on the 'entrepreneur' persona, i.e. who is an entrepreneur, what attitude should he/she adopt,

what leadership skills must he/she possess and what personal strengths characterise a successful entrepreneur.

The Second Phase focuses on how a skilled entrepreneur may turn his/her idea into a successful business idea. As we all know, NOT all ideas, as good as they may seem, may be turned into business opportunities. However, this Section illustrates how a would-be entrepreneur may assess whether his/her idea fills a need and whether it meets the criteria for a business opportunity. At this stage, it is essential that the entrepreneur conducts a feasibility analysis of the business idea to determine whether it is viable or not. The Section also illustrates how the effective use of outside sources and networking business relationships may assist the entrepreneur to solve existing problems as well as to avoid potential ones.

The Third Phase focuses on ensuring that the entrepreneur, notwithstanding adopting a positive attitude, possessing effective leadership skills and

strong personal strengths, may still be 'blinded' into venturing into a potential unsuccessful business. Writing a Business Plan for the business idea serves as a 'game plan' or 'road map' to guide the entrepreneur to accomplish the business venture's vision, mission, goals and objectives and even more importantly, keep him/her from straying off the desired course.

All three phases comprise 'Points To Remember' Checklists and 'Questions To Ask Yourself' Sections which assist the reader entrepreneur to assimilate the essential elements of these three phases.

As a conclusive re-cap, the two essential questions to be asked are:

- ▶ Are you personally prepared to become a promising entrepreneur?
- ▶ Have you conducted a good initial preparation for your new business?

If the would-be entrepreneur answers 'yes' to these two questions, then he/she has completed the first essential stage of setting up a business... successfully!

Getting started

Too much analysis brings paralysis!

At times, the most difficult phase of doing new things is to actually get started, i.e. to take the plunge and start operations. It is good for one to conduct a good thorough assessment of his/her situation before plunging into setting up a new business. However, one must also be careful not to analyse too much as this might hinder him/her from ever actually getting started. As the saying goes: "too much analysis brings paralysis!" So, once one feels that he/she has what it takes to run a business, the next step is "Getting started!"

Just a few pointers before you proceed with reading this Business Manual:

► Buy a notebook!

Buy a notebook and always keep it with you... in your pocket, beside your bed, when you are driving [obviously do make sure to park the car before you decide to jot something down!], when having a bath, etc. Ideas can strike at any time. Write them down immediately! Also, make use of forms and charts. These may help you organise information logically and systematically in order to assist you in your decision-making process.

► Enrol on a simple management training course

Don't be alarmed! I am not suggesting that you enrol for a PhD in business management. A simple short training programme in management can do the trick! There is an array of training programmes being offered in Malta both by the public and private sectors. The Employment and Training Corporation [ETC], the National Commission For

The Promotion of Equality [NCPE], Malta Enterprise [ME], all offer interesting short training programmes for business start-ups. Also, the Internet may act as an excellent source to identify good educational business start-up sites.

► And lastly... develop an observant eye and become a 24/7 entrepreneur!

All around us there are people running businesses. What do you think you can do better? You may not wish to open a restaurant, however thinking about how your favourite restaurant [which is very popular and always very busy] operates, will be a useful exercise for you. As Philip Kotler, a marketing guru, once said: "Behind every problem there exists a potential business opportunity," [Philip Kotler, 2006] and the real 24/7 entrepreneur is the one who identifies this 'potential business opportunity', while the rest see only the 'visible' problem!

Phase 1

Identifying the personal strengths characterising the successful entrepreneur

Should I set up my own business, or not?...
No pain, no gain!

Introduction

Many people go through life wishing they were someone else or they were doing another type of work. Most people have a desire to change their life situation. But few people take action to do so...

A small proportion of people are willing to take risks to change their lives for the better. These people are entrepreneurial because they take advantage of opportunities to improve their lives. The true entrepreneur is the person who is constantly changing and growing. Having positive attitudes and a healthy self-image is essential for all entrepreneurs.

Who is an entrepreneur?

An individual who:

- ▶ has the ability to identify and pursue a business opportunity;
- ▶ undertakes a business venture;
- ▶ raises the capital to finance it;
- ▶ gathers the necessary physical, financial and human resources needed to operate the business venture;
- ▶ sets goals for him/herself and others;
- ▶ initiates appropriate action to ensure success; and
- ▶ assumes all or a major portion of the risk!

The major personal strengths characterising a successful entrepreneur

In my opinion, based on my own experience, on the recent survey I conducted with local entrepreneurs and on contacts with my entrepreneur clients, **the five major personal strengths** characterising a successful entrepreneur are:

- a] Have a positive attitude.
- b] Possess strong leadership skills.
- c] Have a decision-making ability.
- d] Be a results-oriented problem-solver.
- e] Address the 'Am I good enough?' syndrome.

A positive attitude is essential

Accentuate the positive and eliminate the negative!

Paul Arden

The biggest asset to sustaining entrepreneurial ability is a positive attitude. In addition, determination, experience, persistence and just

sheer hard work are essential to being a successful entrepreneur.

The right mental attitude towards work is extremely important. A successful entrepreneur enjoys his/her work and is totally dedicated to what he/she is doing. His/her positive mental attitude turns the job into exciting, interesting and rewarding work.

Points to remember

To develop a positive attitude an entrepreneur must:

- ▶ Concentrate only on being involved in positive activities.
- ▶ Select positive objectives in his/her work.
- ▶ Associate with people who think and act in an entrepreneurial manner.
- ▶ Be constantly alert for opportunities to improve his/her situation, whether it is personal life, work life or life in the community.
- ▶ Not be afraid to give up an idea if it is not producing the right results. It is better to change direction than to pursue an idea that is not working out satisfactorily.
- ▶ Recognise that he/she controls his/her mind and must use it productively.
- ▶ Avoid negative thoughts and ideas.
- ▶ Believe in him/herself and his/her talents. Success comes to those who have faith in their own abilities and use their abilities to the fullest extent.
- ▶ Relieve mental stress by taking action, i.e. by focusing his/her thoughts on a specific problem. Once he/she has reached a decision, he/she must take action to solve the problem. The entrepreneur must try to solve mental conflicts as quickly as possible.

Many people go through life wishing that they were someone else or that they were doing another type of work. Most people have a desire to change their life situation. But few people take action to do so.

A small proportion of people are willing to take risks to change their lives for the better. These people are entrepreneurial because they take advantage of opportunities to improve their lives. The true entrepreneur is the person who is constantly changing and growing. Having a positive attitude and a healthy self-image is essential for all entrepreneurs.

Strong Leadership Skills

Your vision of where or who you want to be is the greatest asset you have! Without having a goal it's difficult to score!

Paul Arden

Successful entrepreneurs are successful leaders

The total performance of a business is mainly determined by the attitudes and actions of the entrepreneur. The effectiveness of the entrepreneur as a leader is determined by the results he/she achieves. A guideline for good leadership is to "treat others as you would like to be treated."

Task-oriented and Person-oriented leadership

Entrepreneurs are leaders by the very nature of their activities. There are, in fact, two types of leadership behaviour which the entrepreneur has to adopt: [a]. a goal-setting, goal-achievement, task-orientation leadership and [b]. a motivating, human relations, person-orientation leadership.

A **task-oriented leader entrepreneur** normally exhibits the following behaviour patterns:

- ▶ Clearly defines his/her role and those of his/her personnel.
- ▶ Sets difficult but achievable goals and lets the staff know what is expected of them.
- ▶ Sets procedures for measuring progress towards the goal and for measuring goal attainment, i.e. goals are clearly and specifically defined.
- ▶ Actively exercises a leadership role in planning, directing, guiding and controlling goal-oriented activities.
- ▶ Is interested in achieving productivity increases.

A **person-oriented leader entrepreneur** tends to exhibit the following behaviour patterns:

- ▶ Show concern for maintaining harmony in the organisation and easing tensions when they arise.
- ▶ Show concern for workers as people rather than as a means of production.
- ▶ Show understanding and respect for employees' needs, goals, desires, feelings and ideas.
- ▶ Establish good two-way communication with staff.
- ▶ Give positive reinforcement to improve worker performance.
- ▶ Delegate authority and responsibility and encourage initiative.
- ▶ Create an atmosphere of teamwork and co-operation in the organisation.

Questions to ask yourself

To assess whether you have the leadership qualities required of an entrepreneur, you may ask yourself these questions:

- ▶ Are you more a leader than a follower?
- ▶ Do people look to you for leadership and advice?
- ▶ Can you develop and implement new ideas?
- ▶ Do you take an active part in the life of the community?
- ▶ Do you continuously try to improve your strengths as well as eliminate your weaknesses?
- ▶ Do you organise your time and activities to be more efficient and effective?
- ▶ Do you have a specific plan or programme to improve your leadership capabilities?
- ▶ Do you allow other people to help you to achieve your goals?
- ▶ Do you learn from your mistakes?
- ▶ Are you result-oriented and do you finish something you start?
- ▶ Do you use your power as a leader to help others?
- ▶ Do other people have confidence in your abilities?
- ▶ Do the opinions of others help you to make your decisions?
- ▶ Are you able to deal with people effectively?
- ▶ Do you make changes in what you are doing to make your company better?
- ▶ Do you delegate authority and responsibility to your employees?
- ▶ Do you share your success with your employees?

The effective decision-maker

The one thing worse than making a wrong decision, is to avoid making a decision.

An entrepreneur must strongly believe in him/herself and his/her ability to make good decisions.

The typical entrepreneur is required to make some critical decisions very frequently and which are not easy to make. The one thing worse than making a wrong decision, is to avoid making a decision. One must keep in mind that 'decision-making' is an art: the more you practise it, the more expert you will become at it.

Questions to ask yourself

To assess whether you have the decision-making skills required of an entrepreneur, you may ask yourself these questions:

- ▶ How do you maintain self-confidence when making an important decision?
- ▶ What examples illustrate your ability to make realistic decisions?
- ▶ What fears or weaknesses do you have when making decisions?
- ▶ In what ways do you use creativity and/or intuition when making decisions?
- ▶ What have you learnt from mistakes you made in previous decisions?
- ▶ In what ways do you procrastinate and delay making decisions?
- ▶ Do you give up or avoid problems which appear difficult?
- ▶ How well do you adjust to changes which occur around you?
- ▶ What action do you take once you have reached a decision?
- ▶ How do you provide the leadership necessary to achieve the desired outcomes?
- ▶ How do you use resources in your environment to make decisions?
- ▶ In what ways do you use your personal and professional contacts to gain information which will help you to make a decision?

A results-oriented problem-solver

If you think you can, you can.
If you think you can't,
you're right!

George Bernard Shaw

For the entrepreneur to be a results-oriented problem-solver, he/she must be able to see every aspect of a problem, as well as understand it in its entirety. Most of the people within the company, involved in specific operations and activities, may see parts of the problem, however it is up to the entrepreneur to put all the parts together so that a complete understanding of the problem becomes possible.

One effective nine-step problem-solving approach includes the following steps:

1. Become acquainted with the problem in general.
2. Determine the key facts relating to it.
3. Identify major problem/s.
4. Identify related problems.
5. Search for possible causes of the problem.
6. Consider potential solutions to the problem.
7. Select the most feasible solution.
8. Implement the solution.
9. Verify that the solution is correct.

This nine-step approach is a logical and sensible way to solve most business problems however it does **NOT** guarantee that a particular solution will work. The entrepreneur's effective leadership and decision-making skills are needed to implement a solution successfully.

Points to remember

The ten key action roles associated with effective entrepreneurs. Effective entrepreneurs...

1. Are individuals who make a significant difference.
2. Are creative and innovative.
3. Spot and exploit opportunities.
4. Find the resources required to exploit opportunities.
5. Are good networkers.
6. Are determined in the face of adversity.
7. Manage risk.
8. Have control of the business.
9. Put the customer first.
10. Create Capital.

Addressing the 'am I good enough?' syndrome - the biggest killer of would-be entrepreneurs

It's not how good you are, it's how good you want to be!

Paul Arden

The thought of setting up your own business is very exciting and it is also very thrilling and gratifying informing others that you have set up your own company. Notwithstanding this, no one has ever said that setting up your own business is easy; one must find, what I call the "winning formula" to be able to succeed in business! Unfortunately, from my ten years of experience consulting small businesses I can very well say that I have seen many would-be entrepreneurs who had this "winning formula" potential but whose business never got off the ground because of their worst enemy, i.e. themselves! Why? Because of self-doubt!

Self-doubt is considered as one of the greatest killers of innovation and entrepreneurship. Invariably, whoever starts a small business is inflicted with self-doubt on whether he/she is able to see it through! These self-doubt feelings are normal [and at times, healthy], though one must learn how to manage them.

Some common self-doubts among would-be entrepreneurs:

- ▶ **I am not bright enough**
Well, sometimes you can be too bright to succeed. At times, innocence and naivety can actually protect you from fear.
- ▶ **I am not pushy enough**
If this is what you think than may I ask you a question: Do you like doing business with pushy people, or do you prefer to deal with pleasant and reasonable people like yourself?
- ▶ **I will fail!**
You might fail, it's true but equally you will not manage to build a successful business if you don't try! Also, building a business is a great learning experience in itself.
- ▶ **I am usually pessimistic and don't like taking risks**
I do not consider myself a high risk-taking person however in these last ten years I have taken several calculated risks, i.e. risks based on sound assessment. In business, as long as you don't make false assumptions and leap in the dark without taking a torch with you, you are fine. On the other hand, some degree of risk must be taken ... if entrepreneurship wasn't as risky then we would have a lot more small businesses being set up, right?
- ▶ **I know my limitations**
Incredible though it may seem, we all know what our limitations are and we underestimate the value of our strengths. No one is perfect and nor is any business. That is why there is room for you too!

► **I am not good with numbers!**

Number-crunching is always one of the biggest hurdles for would-be entrepreneurs to overcome! Relax! Spreadsheets and accounting software and a pocket calculator render the numbers easy to work out. Always take time to work it out before jumping into an opportunity! A little secret which works for me: I always carry a pocket calculator wherever I go!

► **Competitors will eat me alive!**

I used to think this too, however in fact, it resulted as quite the opposite. Whilst your business is small your rivals will not see you as a threat. It is once you start growing steadily that you must keep your competitors at bay.

► **I am not rich enough**

Looking back at my ten years of entrepreneurship, I sincerely believe that one of my biggest

strengths has been that I always strived to retain my overhead costs very low. In fact, one of the best ways to watch your costs is to have no money to waste and to take care of your pennies.

As the saying goes: "Take care of the pennies, and the pounds take care of themselves." Many wealthy people start businesses that lose money!

For the would-be entrepreneur, although not real, these feelings may seem very realistic to the extent that they stop him/her from taking the plunge and kick off the business. As the saying goes: "Practice makes perfect." Equally, self-confidence is built upon relevant knowledge and positive experience - the more you learn and practise, the better you will get. You will make many mistakes along the way which is fine, as long as you don't make the same mistake twice!

Remember

**It's not how good you are,
it's how good you want to be!**

Other Personal Strengths Characterising A Successful Entrepreneur

There are other just as important personal strengths which characterise a successful entrepreneur. These include:

► **A Vision**

"Your vision of where or who you want to be is the greatest asset you have! Without having a goal it's difficult to score." [Paul Arden, 2006]. Without a clear picture of what you want to do, it will be difficult to create. The entrepreneur must try and think about the finest details and bring the product/service to life.

► **Determination**

You must decide whether you really want to set up a business. As indicated earlier, the entrepreneur must deal with the doubts before starting. Once committed, there is no turning back.

► **Ethics**

Whether the entrepreneur decides to start a manufacturing, importing, consultancy or a service-oriented operation, he/she must be ready to

commit him/herself to adopting the 'code of business ethics' required of him/her and of the business. This is imperative if you want to grow and win the respect of customers, suppliers, competitors, intermediaries, alike.

► **Hard Work and Perseverance**

Setting up one's own business means hard work ... and also perseverance! As the saying goes: "No pain, no gain!"

► **Cash**

Inevitably, your business will take longer than you think to pay you a wage. The bigger your cash reserve, the longer you can wait before drawing income from your new business. In the first few months, you must get used to not receiving the usual paycheque at the end of the month, which you used to receive when you were employed.

► **Fit and healthy**

One of your major concerns will be: what happens if I get sick? Unfortunately, the entrepreneur cannot afford time off sick, particularly at the early stages of setting up the business.

► **Mental health**

Although many people around you will say that you are mad to start your own business, however you must not be!! Starting a business is stressful and one needs to be resilient.

► **Love and affection**

You are going to need a shoulder to cry on [whether you are a man or a woman]. If you have someone to share your thrills and spills with, you will enjoy it more.

► **Caution**

Sometimes it is easy to see the opportunities and difficult to spot the threats. You need to be cautious, without being too risk averse. My motto over these last ten years has always been: "Always take calculated risks!"

► **Flexibility**

Usually when you start a business, it is just YOU. That means that you must make the coffee, do the filing, take out the trashcan, and anything that is required.

► **A little bit of humour helps**

In the beginning you are definitely going to make mistakes - we all do! The ability to accept the fact that you have made a mistake and to also laugh it off is important. What is imperative is that you must learn quickly from your mistakes, assess what you did wrong and to never make the same mistake twice! You cannot afford it!

► **Generosity**

When you enjoy success, invest in those who made it possible. These can be your family members, your assistant, your clients by giving them your time, attention and positive feedback. Another motto of mine: "Always try and aim for a win-win situation!" This way all parties involved are encouraged to give more!



Phase 2

**Turning your idea
into a successful
business idea!**

**Don't look for the next opportunity.
The ONE you have in hand IS the opportunity!**

Paul Arden

Introduction

It is very unfortunate that so many new businesses, large and small, are set up and are simply 'non-starters' from the word 'go! Why does this happen? What could have gone wrong? Could this be the result of lack of good preparation and analysis prior to setting up the business? Was the product/service in question not such a good idea, after all?

For an entrepreneur to start not only a business, but a successful one, it is imperative that very early on in the initial preparation to assess whether his/her idea is a good one or not. At this stage, we must explain the difference between the terms **"opportunity"** and **"idea."**

Essentially, a good entrepreneur recognises an opportunity and turns it into a successful business. An 'opportunity' is a favourable set of circumstances that creates a need for a new product, service or business. An 'opportunity' has four essential qualities: it is [a] attractive, [b] durable, [c] timely

and [d] anchored in a product, service or business that creates or adds value for the customer or end-user. An 'idea' is a thought, impression or notion, which may or may not meet the criteria of an opportunity.

Most entrepreneurs start their businesses in two ways: [a] they decide to launch a company, search for and recognise an opportunity and then start a business or [b] they recognise a problem or an opportunity gap and create a business to fill it. Regardless of which of these two ways entrepreneurs start a new business, it is always difficult to identify a product, service or business opportunity that is not merely a different version of something already available.

This is why many businesses are set up but only a few are successful. Many businesses fail not because the entrepreneur did not work hard but rather because there was no real business opportunity in the market to begin with.

So, it is crucial for the entrepreneur that before getting excited about a new business idea, he/she must assess whether the idea fills a need and meets the criteria for an opportunity.

The steps to be taken by the entrepreneur to turn his/her idea into a successful business idea

1. Observe trends

The first approach to identifying opportunities in the market is to observe trends and study how they create opportunities for the entrepreneur to pursue. Economic factors, social factors, technological opportunities and political action and regulatory changes are the most important trends to follow.

2. Solving a problem

Does your 'idea' solve problems? Sometimes identifying opportunities simply involves noticing a problem and finding a way to solve it. In your business sector and market you wish to enter, do customers complain? Try and seek whether there are still any unresolved problems in the market you wish to enter? Think about this: "Every problem is a brilliantly disguised opportunity!"

3. Protect your idea

If your idea is an innovation of some sort, it might be opportune for you to assess whether you may 'protect' it by some 'intellectual property' tool such as a patent, trademark or copyright, etc.

4. Conduct marketing research

Many entrepreneurs often make the mistake of basing their decisions on their own feelings, intuition and opinions. However, to be valid, their decisions should be based on the best information available. Entrepreneurs have a constant need for information and knowledge about their markets. The would-be entrepreneur is no different. **Marketing research** is a very effective tool for the budding entrepreneur who has an idea and who wishes to assess its business potential! Market research assists

entrepreneurs to identify new markets and to find new customers in existing markets. It also assists them to know the reasons for their current products/services' success or failure, and to provide ideas about new products/services which have potential.

Marketing research is the systematic gathering, recording and analysing of information about matters relating to the marketing of products/services. Marketing research may assist the would-be entrepreneur to find some answers to the following questions:

- ▶ What are the present and potential needs of the customers?
- ▶ What additional markets may be explored?
- ▶ What are the special characteristics of the customers?
- ▶ What makes the entrepreneur's product/service different from those of competitors?

Marketing research attempts to evaluate markets in a scientific manner. However, it is also an art, because it involves the constantly changing attitudes of people. By collecting marketing data in an orderly, objective manner, the would-be entrepreneur will be able to know more about the market/s he/she is interested in. No matter what the size of business is, whether big or small, there is always a need to determine the attitudes, opinions and beliefs of customers.

Marketing research provides timely information and data the entrepreneur needs to:

- ▶ Reduce business risks.
- ▶ Identify problems and potential problems in the existing markets.
- ▶ Identify new market opportunities.
- ▶ Obtain basic information and facts about the markets to help him/her to make better decisions and set up effective action plans.

Large businesses have the funds to engage marketing consultants. Unfortunately, the would-be entrepreneur does not have the necessary funds to do so. However, this does not mean that a budding entrepreneur cannot conduct research. In fact, when I am approached by would-be entrepreneurs to conduct some marketing research for them, I always encourage them to conduct the research themselves.

When the would-be entrepreneur conducts the field work him/herself, it is a learning experience for him/her, in that while researching the market, he/she is getting more acquainted with the market forces at play, he/she will learn more about the attitudes, opinions, tastes and purchasing behaviour of potential customers, he/she will also learn more about competitors, their strategies, weaknesses and strengths, etc.

The entrepreneur can conduct **two types of market research**,

- a) **Desk research:** this entails conducting research on publications, past surveys, internet, official government statistics, etc, to collect secondary data.
- b) **Field research:** This entails conducting primary research and collecting fresh data specifically for the research objective. As field research is extremely time-consuming and expensive to conduct, the entrepreneur might need to opt for conducting qualitative market research by way of conducting focus group sessions, conducting few in-depth interviews with potential customers, etc.

Conducting quantitative research is not an option for the would-be entrepreneur as this proves too difficult to conduct, too expensive and time-consuming.

Questions to ask yourself

Evaluating the potential success of a new product/service is a difficult but necessary activity. The following questions will assist you to identify market opportunities for a particular product/service:

- ▶ Is the product/service in a growth industry?
- ▶ Will the future demand for the product/service increase, remain stable or decrease?
- ▶ What is the nature of competition for the product/service?
- ▶ Does the entrepreneur have sufficient finances to meet the expenses of introducing the new product/service for at least the first year?
- ▶ To what extent is the entrepreneur dependent on suppliers and other related businesses?
- ▶ What are the specific disadvantages of the new product/service?
- ▶ In what ways will the product/service be similar to and different from those of competitors?
- ▶ To what extent will marketing contribute towards the success of the product?

5. Conduct a feasibility analysis

Apart from conducting marketing research, it is also essential that the entrepreneur conducts a feasibility analysis of his/her business idea to determine whether it is viable or not, i.e. to assess whether the business idea is worth pursuing before spending resources on it. As painful as it may be, if the feasibility analysis shows that the business idea is deemed unworkable, it should be dropped completely or rethought afresh.

Conducting a feasibility analysis of your business idea will comprise the following steps:

a] Draw up a 'concept statement' for your business idea.

This concept statement is a preliminary description of your prospective business. It should include a description of the product/service being offered, your intended target market segment/s, the benefits of your product/service and a description of how your product/service will be sold and distributed.

b] Conduct a 'product/service' feasibility analysis

A product/service feasibility analysis is an assessment of the overall appeal of your product/service being proposed. This feasibility analysis involves conducting two primary tests, namely, '**concept testing**' and '**usability testing**.'

i. The '**concept test**' involves a representation of the product/service to prospective users to gauge customer interest, desirability and purchase intent. The three primary purposes for concept testing is to [a] validate the underlying premises behind a product or service idea, i.e. to test this idea the entrepreneur must ask prospective customers what they think about it, [b] to help develop the idea rather than just test it and [c] to estimate the potential market share the potential product/service might command.

ii. **Usability Testing** is a method by which users of a product/service are asked to perform certain tasks in order to measure the product/service's ease of use and the user's perception of and satisfaction with the experience.

c] Conduct an 'industry/market' feasibility analysis

An industry/market feasibility analysis is an assessment of the overall appeal of the market for the product/service being proposed. There are three primary issues that a proposed business should consider here:

i. The industry attractiveness

The entrepreneur must assess the profitability and growth of the industry he/she intends entering into. The competitive forces that determine an industry's growth and profitability are the threat of new entrants in the industry, the rivalry among existing firms, the bargaining power of suppliers, the bargaining

power of buyers and the threat of substitute products. These forces, better known as Michael Porter's five competitive forces [Michael Porter, 1980] determine the average rate of return for the companies engaged in an industry.

d] Conduct an 'organisational' feasibility analysis

This organisational analysis is conducted to determine whether the entrepreneur has sufficient management expertise and organisational competence and also whether the potential new venture has sufficient resources to move forward to successfully develop the 'product/service' idea.

e] Conduct a 'financial' feasibility analysis

This 'financial' analysis is a preliminary financial analysis of whether a business idea is prudent or not. The most important issues to be considered here are [a] the capital requirements to produce the product/service idea, [b] the financial rate of return and [c] the overall attractiveness of the investment *per se*.

It might be opportune for a would-be entrepreneur to seek the assistance of a professional consultant when conducting this feasibility analysis.

I always reiterate with my 'would-be entrepreneur' clients, who are assessing whether their business idea is worth pursuing or not that it is better to spend a few pennies at the start and proceed with the business idea if found viable rather than spend many pounds in setting

up the whole business venture and launching their product/service, only to find that their business is a complete flop!

Once this preliminary evaluation of the business idea is conducted and the above feasibility analyses show that the idea is worth pursuing, then this leads the entrepreneur into the next important stage of setting up his/her successful business... that of writing a business plan for his/her idea!

Points to remember

Characteristics of a successful product-service idea! A successful idea should have most, if not all, of the following characteristics:

1. This new idea [product/service] should have a relative advantage over existing products/services. For example, your product/service offers your customer something that the existing products/services do not.
2. This idea or the advantage it offers over existing products/services must be compatible with existing attitudes and beliefs of customers, in that it should not require a drastic change in the buyer's behaviour.
3. The idea should NOT be so complex that the buyer has a difficult time understanding how to use it.
4. The results or benefits of the idea must be easily communicable to customers and potential users.
5. It would be helpful if customers and potential users can try out this idea without incurring a large risk. e.g. the distribution of samples, or trial users, would allow potential buyers to use this new product/service without risking a purchase.
6. This idea [product/service] must be readily available for purchase once the buyer decides to make a purchase.
7. The buyer must also believe that this new idea [product/service] satisfies one of his/her needs by giving some immediate benefit.

Using outside resources

Entrepreneurs have limited human resources, limited time and limited money, yet their need for information and advice is continuous be it financial, taxation, management, legal, marketing, IT, insurance, production, etc. In such cases, entrepreneurs must resort to outside help. How? By using the services of professional consultants, the entrepreneur may focus on his/her core business and on what he/she does best and at the same time, obtain timely and professional advice on other matters. Using outside resources can assist the entrepreneur to solve existing problems as well as to avoid potential problems.

The crucial question arises **“how does one select the right outside resources?”** In my own business, whenever I need some professional assistance, say, I need a new legal advisor, accountant, insurance advisor or even some technical

specialist, e.g., an IT consultant, I always use the following procedure:

- a] First, I ask around amongst colleagues, friends and fellow entrepreneurs, to see if they can recommend the names of a few good consultants.
- b] Once I short-list two or three prospective consultants, I then meet up with them separately.
- c] I then ask each short-listed prospective consultant the following questions:
 - i. How long have you been practising?
 - ii. What are your areas of specialisation?
 - iii. How have you helped entrepreneurs in a similar business with similar problems to mine?
 - iv. Can you mention the name of some local businesses you have assisted to date?
 - v. What are your professional fees?

There is no way to be sure that you have selected the 'right' professional, advisor or consultant to serve your needs. However, what I do is first I appoint the professional on a project-basis, then if I feel that the professional has done a good job on the project, I will start working almost exclusively with that professional. However, I have learnt not to enter into exclusive contractual agreements with professionals unless I have worked with them for quite some time and they have invariably proven to offer a timely, reasonably-priced and useful advice which has assisted me in improving my business venture.

Engaging business consultants

Business consultants may range from management consultants, marketing consultants, marketing communications consultants [formerly known as advertising consultants], IT consultants, production consultants, trainers to health and safety consultants, etc. However, some entrepreneurs may be reluctant to engage business consultants largely because of the belief that consultant fees are too high or because they fear that consultants would give confidential information about their business to other people. Another reason could be due to a reluctance to gather information needed for the consultant to do the job properly.

Sadly, for these and other reasons, many entrepreneurs are not aware of the costs or benefits of business consultants. Business consultants should be viewed as another resource. Like all typical entrepreneurs, in my first year of operation, I tried to do everything myself under the presumptuous standpoint that 'no one does it better than me' and that 'if

you want something to be done right, do it yourself! On realising how wrong I was, after a mere 18 months of operation I had engaged a financial advisor and tax consultant, an insurance advisor, an IT specialist and a legal advisor for my business venture.

Another selection criterion which worked for me whether selecting and engaging professional

services advisors or consultants, was to engage relatively young professionals who run their own consultancy firm and are entrepreneurs themselves. Invariably, I found that these are more sensitive to my company's requirements and limitations, given that they themselves manage their own small operation and will empathize more with my position.

In the light of the above discussion, before you select a business consultant or advisor, you must ensure that:

- ▶ You know exactly what specific tasks you want the consultant to accomplish.
- ▶ Gather information on the services offered and the general reputation of various consultants from your business acquaintances.
- ▶ Ask each potential consultant to provide you with current references.
- ▶ Know the specific areas of business in which each consultant is especially competent.
- ▶ When you are considering a large consulting firm, ensure that you talk to the persons who will actually be assigned to work with you.
- ▶ Ask each consultant to prepare a written proposal that indicates the work tasks to be undertaken [the project deliverables], how these tasks will be accomplished, the proposed deadline/s and also an estimate of the total cost and terms of payment to complete the project.

Using services offered by Government Agencies/ Departments

During my ten years of operation, I have seen a concerted attempt from the part of the Malta Government to promote and assist local entrepreneurs via its Government agencies and departments, e.g. the Malta Enterprise [ME], the Euro-Information Centre [EIC], the Korradino Business Incubation Centre [KBIC], the ex-Institute for the Promotion of Small and Medium-sized Enterprises [IPSE], Government's Small Business and Crafts Directorate, the Employment and Training Corporation [ETC], etc. However, notwithstanding this, local entrepreneurs still believe that there is still much room for improvement vis-à-vis Government's small business assistance strategy. In fact, in the qualitative research survey I conducted with local entrepreneurs in 2006, [Entrepreneurship Base Document - Malta, ME-EIC, 2006] the major assistance/support schemes/incentives requested from the

public sector agencies/departments by local entrepreneurs comprised the following:

- More financial assistance;
- More training assistance;
- Assistance to obtain larger office/factory space;
- More marketing and management assistance;
- Various other specialised consultancy services;
- Less red tape/bureaucracy from Government departments.

For those would-be entrepreneurs who are interested in setting up their own company, I suggest that they approach and schedule meetings with representatives of these public sector entities and enquire on what services, schemes, incentives they may avail themselves of. Other private sector entities, like the local commercial banks, the Malta Chamber of Commerce and Enterprise [MCOC], the General Retailers and Traders' Union [GRTU] offer useful assistance/advice to prospective entrepreneurs and hence these entities are definitely worth contacting.

Phase 3

Writing a business plan for your successful idea

Failing to plan
means planning to fail!

Strategic management and developing a business plan

In today's highly competitive and fierce external environment, the would-be entrepreneur needs a powerful weapon to cope with such a hostile environment. This important powerful weapon is the process of '**strategic management**.'

Strategic management involves the development of a business plan, which is like a 'game plan' or 'road map' to guide the entrepreneur as he/she strives to accomplish his/her business venture's vision, mission, goals and objectives and to keep him/her from straying off the desired course.

The search for a competitive advantage

**There is no traffic jam
on the extra mile.**

The goal of developing a strategic plan is to create a '**competitive advantage**' for the entrepreneur. This competitive advantage is the aggregation of factors that sets a small business apart from its competitors and gives it a unique position in the market.

Every entrepreneur or small business must establish a plan for creating a unique image in the minds of its customers. NO business can be everything to everyone. In fact, one of the biggest pitfalls many entrepreneurs stumble into is failing to differentiate their business from the rest of the competitors within the industry.

Strategic management can increase an entrepreneur's effectiveness, however small businesses must have a procedure designed to meet their needs and their small company's special characteristics. It is a mistake to apply a big company's strategic development techniques to a small business because a small business is NOT a little big business. Because of their size and their particular characteristics, which are typically a flexible managerial style, an informal organisational structure and adaptability to change, small businesses need a different approach to the strategic management process.

The strategic management procedure for a small business must include the following features:

- ▶ Use a relatively short planning horizon - two years or less for most small companies.
- ▶ Be informal and not overly structured.
- ▶ Encourage the participation of employees and 'trusted' outside parties to improve the reliability and creativity of the resulting business plan.
- ▶ Focus on the customer. Rather than building your business strategies around your competitors' actions, focus your strategies around your customers.
- ▶ Do not begin with setting objectives because extensive objective setting early on may interfere with the creative process of strategic management.
- ▶ Focus on strategic thinking and not just planning, by linking long-term goals to day-to-day operations. Strategic thinking encourages creativity, innovation and employee involvement in the entire process.

Writing the business plan

Strategic planning is not a result or an outcome but an ongoing process. To be useful, the development of a business plan must become part of the very foundation of the entrepreneur's business venture. There is no substitute for a well-prepared business plan, and there are no shortcuts to creating one! The business plan may be the most important business document that he/she will ever prepare for his/her business venture and it will also probably be the most difficult.

A business plan has two essential functions:

a] First and more important, it guides the company's operations by charting its future course and devising a strategy for following it. As is indicated below, the plan provides a set of tools which the entrepreneur must use, namely, a mission statement, goals, objectives, budgets, financial forecasts, target markets, etc to assist him/her to lead the business venture successfully.

It gives the entrepreneur and his/her employees a sense of direction and as more team members are committed to making the plan work, it takes on a special meaning.

b] The second function of the business plan is to attract lenders and investors. A business plan must prove to potential lenders and investors that the entrepreneur's business venture will be able to repay loans and produce an attractive rate of return.

Although the elements comprised in a business plan are standard, every business plan is unique and must be tailor-made to the individual entrepreneur's business idea and industry environment. If this is a first attempt at writing a business plan, it might be opportune for the would-be entrepreneur to seek the advice of professionals with experience in this process. Although building a business plan does not guarantee success, it does raise an entrepreneur's chances of succeeding in business.

The Entrepreneur's business plan should include the following sections:

1. Executive Summary

The Executive Summary is a short overview of the entire business plan: it provides a busy reader with everything that needs to be known about the new venture's distinctive nature. It must capture the reader's attention. If it misses the mark, the chances of the remainder of the plan being read are minimal. A well-developed, coherent summary, including the financial proposal, establishes a favourable first impression of the entrepreneur and the business and can go a long way towards obtaining financing.

Although the executive summary appears at the beginning of the business plan, it should be written after the plan is finished. Only then can an accurate overview of the plan be written.

2. The Mission Statement

The Mission Statement addresses the first question of any business venture: **"What business am I in?"** Establishing the purpose of the business in writing must come

first in order to give the business venture a sense of direction.

Without a concise, meaningful mission statement, an entrepreneur risks wandering aimlessly in the marketplace, with no idea of where to go or how to get there! The mission statement 'anchors' a company in reality and sets the tone for the entire company.

3. The Company History

This section involves writing a brief summary, highlighting the significant financial and operational events of the business since its inception. This section should also describe when and why the company was formed, how it has evolved over time and what the entrepreneur envisions for the future.

4. The Business and Industry Profile

This section should begin with a statement of the company's business goals and a narrower definition of its immediate objectives. **Business Goals** are

broad, long-range statements of what the entrepreneur plans to achieve in the future. They express the business venture's *raison d'être*, that guide its overall direction, i.e. they address the question: "Why am I in business?"

Business objectives, on the other hand, are short-term, specific performance objects that are attainable, measurable and controllable. Every objective should reflect some general business goal and include a technique for measuring progress towards its accomplishment. To be meaningful, an objective must have a timeframe for achievement. Both goals and objectives should relate to the company's basic mission.

This section should also provide the reader with **an overview of the industry and the market segment** in which the new venture will operate. Industry data such as market size, growth trends and the relative economic and competitive strength of the major companies in the industry all set the stage

for a better understanding of the viability of the new product/service.

In this section, the entrepreneur must also turn his/her attention to assessing his/her company's strengths and weaknesses. Building a successful strategy demands a business to capitalise on its strengths and also overcome or compensate for its weaknesses. **Company strengths** are positive factors over which the entrepreneur has full control and that he/she can use to accomplish his/her mission, goals and objectives, while **company weaknesses** are negative factors [which are also controllable factors] that inhibit the accomplishment of a company's mission, goals and objectives. Typical weaknesses may be: lack of capital, a shortage of skilled workers, an inferior location site, etc.

The entrepreneur must also strive to identify any market opportunities or market threats that might have a significant

impact on the business. **Market opportunities** are, in fact, positive forces, over which the entrepreneur has no control, but that the firm can still exploit to accomplish its mission, goal and objectives. On the other hand, **market threats** are negative forces, over which the entrepreneur has no control, but that may inhibit his/her company's ability to achieve its mission, goals and objectives. Although the entrepreneur cannot control the opportunities and threats emanating from the market, it is essential that he/she tries, as much as possible, to capitalise on the positive market opportunities and also shield the business from market threats.

A very effective management tool which assists the entrepreneur in conducting this four-factor assessment is called the **SWOT Analysis** tool. The acronym 'SWOT' stands for strengths, weaknesses, opportunities and threats.

5. Business Strategy

This section is a very important part of the business plan because here the entrepreneur will indicate

his/her view of **the strategy** that is needed to beat the competition. In the previous section the entrepreneur defined **WHERE he wants to take the business** by establishing the goals and objectives. This section will address **HOW to get there**, i.e. the business strategy. How can this be done? There are a number of management tools available for the entrepreneur to assist him/her to develop an effective business strategy:

a] Identify the Company's Core Competencies

In this section of the business plan, the entrepreneur must explain how he/she plans to gain a **sustainable competitive edge** [which we explained on page 44] in the market and what sets the business apart from the competition. The entrepreneur should comment on how he/she plans to achieve the business goals and objectives in the face of competition and government regulation and should identify the image that the business will try to project. Here, the entrepreneur must define his/her company's **core competencies**.

Core competencies are a unique set of lasting capabilities that a company develops in key operational areas, such as quality, service, innovation, flexibility, responsiveness, etc which allow it to vault past competitors.

Normally, a company is likely to build core competencies in no more than four or five areas. These core competencies become the nucleus of a company's competitive advantage but to be effective these competencies should be difficult for competitors to copy and they must provide customers with some kind of perceived benefit. The small size of the entrepreneur's business venture may be used as an 'advantage' because this smallness will allow him/her to do things which larger competitors cannot do, e.g. speed of delivery, closeness to customers, ability to innovate fast, etc. The key to success of these core competencies is to concentrate them on providing superior service and value for the entrepreneur's target customers.

b) Identify the Key Factors for Success in the Business

[better known as the Key Success Factors].

Key success factors are relationships between a controllable variable and a critical factor influencing a company's ability to compete in the market. Let's give a typical example: everyone agrees that the key success factors of a typical restaurant include: maintaining the food quality, cleanliness, consistency, a good friendly and attentive service by a well trained waiting personnel, a right location, and a trained, dependable restaurant manager. Restaurants lacking these key success factors are not likely to survive but those restaurateurs who build their businesses with these factors in mind will prosper! So it is essential that when an entrepreneur is entering a new industry sector, he/she must identify the key success factors of this industry and then build a strategy on the foundation of these factors.

c] Formulating Strategic Options and Selecting an Appropriate Business Strategy

By now, the entrepreneur should have a clear picture of what his/her business does best and what its competitive advantages are. Similarly, he/she should know its business venture's weaknesses and limitations as well as those of its competitors. This next step involves **evaluating the strategic options available and then preparing a business strategy** designed to achieve the business's goals and objectives.

The entrepreneur has largely three strategic options to choose from. In his classic book, *Competitive Strategy*, 1980, Michael Porter defines these three strategies, as indicated below. Which strategy to select will largely depend on the entrepreneur's [a] core competencies and [b] the key success factors of the industry sector he/she is operating in.

i. A cost leadership strategy:

The entrepreneur pursuing a cost leadership strategy strives to be the lowest-cost producer relative to its competitors in the industry. Low-cost leaders have a competitive advantage in reaching buyers whose primary purchase criterion is 'price' and these companies have the power to set the industry's price floor.

ii. A differentiation strategy:

The entrepreneur pursuing a differentiation strategy seeks to build customer loyalty by positioning its products/services in a unique or different way. There are many ways to create a differentiation strategy, but the key concept is to be special at something that is important for the customer. In other words, the entrepreneur must strive to be better than his/her competitors at something that customers value, because not every product/service difference is a differentiator!

iii. A Focus Strategy:

A focus strategy recognises that not all markets are homogeneous [the same]. In fact, in a given market, there are a number of market segments, each segment having different needs, wants and characteristics. The principal idea of this strategy

is for the entrepreneur to select one or more market segments, identify the customers' special needs, wants and interests and approach them with a product/service designed to excel in meeting these needs, wants and interests. A focus strategy builds on differences among market segments.

The strategic options available to the entrepreneur

		Competitive Advantage	
		Uniqueness perceived by the customers	Low-cost position
Target Market	Industry	Differentiation	Low-cost
	Niche	Differentiation Focus	Cost Focus

d. Identify a Market Segmentation and Product Positioning Strategy

Here the entrepreneur must segment the whole market and **identify the market segment or segments** he/she would like to meet the requirements of. This requires the entrepreneur to know who his/her customers are, their characteristics, their likes and dislikes, etc. To segment a market successfully, the entrepreneur must first identify the characteristics of two or more groups of customers with similar needs and wants. The key is to develop a basis for segmenting the whole market, e.g., on benefits sought, product usage, brand preferences, purchase patterns, etc, and then use this basis to identify the various submarkets [market segments] to enter. The entrepreneur must then verify that the selected market segments are large enough and have enough purchasing power to generate a profit for the company. He must then assess whether these market segments are accessible, i.e. that they may be reached.

Once the entrepreneur has identified the market segments he/she wants to target, he/she must now **position its product offer to these market segments** in a way that the latter perceive the entrepreneur's product/service in a desired image for the business and its products/services. So product positioning involves the entrepreneur influencing the customers' perceptions to create the desired image for the business and its products/services. Proper product positioning gives the small business [entrepreneur] a way of setting itself apart from the competition, which may be its foundation for developing a competitive advantage. A typical way how an entrepreneur may establish a competitive advantage is to rely on a 'natural' advantage of being a small business, e.g. a small firm's ability to respond quickly to the target markets' needs; its ability to remain flexible and willing to change to reach the market segment in

question, its special knowledge of a particular product/service, etc.

The business strategy the entrepreneur will select, the market segments he/she decides

to compete in, will depend on the competitive advantages the company enjoys in each market segment. In some cases, an entrepreneur may be implementing different strategies across a number of market segments.

Questions to ask yourself

In a nutshell, the process of selecting a target market and positioning strategy can be summarised in three basic questions:

- a] When segmenting the market, the entrepreneur must ask: *What groups of customers in my market are similar enough that the same product/service will appeal to all of them?*
- b] When selecting a target market, the entrepreneur must ask: *Which specific group of customers do I want to target?*
- c] When developing a unique positioning strategy, the entrepreneur must ask: *What position will my company or product/service occupy in the minds of my customers and potential customers that will differentiate it from all my competitors?*

6. Translating the Business Strategy Plan into distinct Action Plans

No strategic plan is complete until it is put into action! The entrepreneur must now **convert his/her firm's business strategy plan into distinct operations plans** that will guide the company on a daily basis and become a visible and active part of the business. These action plans will

now turn the business plan into a real working document instead of letting it sit on an office shelf collecting dust!

At this stage, the entrepreneur will develop three essential Action Plans:

- ▶ **The Marketing Plan**
- ▶ **The Operations Plan**
- ▶ **The Financial Plan.**

The marketing plan

No Customers, No Business!

Don't wait for customers to come to you, go out and find them!

As we have already discussed, the first steps in developing an effective marketing strategy are: [a] conduct marketing research, [b] segment the market into distinct market segments, [c] identify the market segments the entrepreneur wishes to target and [d] develop an effective product positioning strategy. This means it

will position its product/service in a unique position as perceived by its customers or potential customers that will differentiate it from all of its competitors.

Having done this, the entrepreneur must now plan the details of his/her company's **marketing mix**. The firm's company mix is the set of

controllable, tactical marketing tools that it uses to produce the response it wants from each of its target markets. Every entrepreneur has 7 tools in his/her marketing tool box and these are usually referred to as the 7 Ps: the product, price, promotion, place, people, physical evidence and process.

i. The Product

The product/service is the entrepreneur's core product. The entrepreneur must decide on the main characteristics of his/her product/service, namely:

- ▶ The quality level of the product/service.
- ▶ The features of the product/service.
- ▶ The design of the product/service.
- ▶ A brand name for the new product/service.
- ▶ The packaging for the product/service.
- ▶ The after-sales service
- ▶ The warranty [where applicable].

ii. The Price

The entrepreneur must decide on the price of the product/service. Given the small size of the company of a would-be entrepreneur, the latter will normally be a price-taker and not a price-maker, which means that he/she must accept the price levels as dictated by the market in question.

However, from his/her end, when setting the price of the product/service, the entrepreneur must keep in mind that pricing plays a critical role in the company's overall strategy and the pricing strategy must be compatible with the company's total business [and marketing] plan. The entrepreneur must also keep the following issues in mind when establishing a price for the product/service:

- ▶ Assess the customer's perceived price value for the product/service in question.
- ▶ Assess the actual demand for the product/service.
- ▶ Calculate the total cost of producing the product/service, i.e. the variable costs and overhead costs.

- ▶ Calculate the break-even point of the company.
- ▶ Assess the pricing of competing products/services.
- ▶ Research the prices and discounts already available on the market.
- ▶ Keep in mind that the 'price' is only one of the many attributes of the product/service and hence he/she must assess the other elements of the marketing mix and that of competition, e.g. the product quality, delivery times, etc.
- ▶ Not to think that the new product/service has to be the cheapest on the market.

iii. Promotion

Given the limited financial resources of the would-be entrepreneur, more often than not, at the start of the business, the entrepreneur is the key person in any promotion effort and he/she has the main responsibility for developing position relationships between the business and the customers. The reputation of a small business is usually directly related to the personality and

actions of the owner - the entrepreneur! This is why the new entrepreneur must look professional and equip him/herself with professionally-produced business cards, office stationery, etc and also produce a corporate profile.

However, the entrepreneur may still make effective use of other promotional tools:

- ▶ Word-of-mouth promotion [most effective promotional tool] which is triggered by satisfied customers who would have used the entrepreneur's product/service.
- ▶ A professionally drawn up website of the company.
- ▶ Sales promotion, e.g. some special offers to increase sales, demonstrations, free samples, special introductory offers, etc.
- ▶ Participate in a local specialised trade fair/exhibition.
- ▶ Public relations, e.g. press releases, advertorials, etc.
- ▶ At a later stage, the entrepreneur might even consider some mass media advertising, e.g. advertising on local radio, newspapers, TV,

billboards, bus advertising, etc. This promotional tool, although very effective, is also relatively expensive.

iv. Place [distribution]

The entrepreneur must decide whether he/she wants to sell the product/service directly to consumers or through intermediaries [e.g. wholesalers and retailers]. If the entrepreneur is interested in opening a new retail outlet, e.g. a boutique, a hair and beauty salon, an antiques shop, etc, the choice of the business location for the retail outlet itself has to be made very carefully. To increase the chances of success, considerable thought should be given to the problem of selecting the right location of the business. A good location may allow a not-so-good business to survive, whereas a bad location may result in failure for even the best planned business.

The relative importance of the location differs according to the nature of the business of the retail outlet, however in general,

the entrepreneur must decide the location of the outlet, largely based on the following:

- ▶ Is the location close to the target customers?
- ▶ Is the location visible and easy to find by the customers?
- ▶ Is there a lot of road traffic to reach the site?
- ▶ Is there adequate parking?
- ▶ Is there room for future expansion?
- ▶ What is the reputation of the site?
- ▶ Where are competitors' retail outlets located?

v. People, Physical Evidence and Process

People, physical evidence and process are very important tools for the entrepreneur producing a 'service' product. 'People' refer to the entrepreneur's employees who will be interfacing with the customers. 'Physical evidence' refers to the entrepreneur's efforts to "tangibilise" the intangible aspects of the service product, e.g. produce promotional brochures, promotional CDs, etc. And the last

P stands for 'Process.' This tool assists the entrepreneur to, as much as possible, standardise the process of his service product, e.g. if the hair-styling salon has three employees who wash customers'

hair, then the entrepreneur will try and standardize the hair-washing process of all three employees so that the same quality service is given every time, irrespective of which employee is washing the customer's hair.

Questions to ask yourself

Many entrepreneurs start their business by working from home. I was, in fact, one of these as for the first 18 months, I operated by business from home. Although at first this may be a most suitable first base for the starting business, one must ask him/herself these questions to prevent expensive mistakes, whether emanating from a legal or practical matter.

Issue to address	Check with
Planning permission & building regulations	MEPA
Mortgage	Bank
Insurance	Insurance advisor
Tax consequences	Accountant
Business plan legislation	MEPA and legal advisor
Disturbance	Neighbours
Effect on family life and social life	Family
Your own work efficiency at home	Yourself

The operations plan

The Operations plan deals with **the day-to-day operations of the company**. For example, in the case of a manufacturing company, this section of the plan should begin by describing how the firm plans to manufacture its first product. The reader will want to know how much of the manufacturing the company will be doing itself, and how much, if any, will be sub-contracted out to others.

The **location** of the manufacturing facility should also be specified in the operations plan. Another important aspect is how much **inventory** will need to be carried in stock in order to meet the customer demand. If the firm is a service organisation, similar information should be provided.

The operations plan should also include a description **of the network of suppliers, business partners and service providers** that will be necessary to build the product or produce the service the firm will sell.

The operations plan should also include an explanation of the firm's **quality control procedures**. The plan should give an overview of what **monitoring or inspection processes** will be built into the manufacturing process to ensure high quality. **Customer-support strategies** should then be discussed. If the company is obliged to provide after-sales support to its customers through a call centre or other means, these obligations should also be clearly described.

For product-manufacturing companies, the operations plan must also indicate the **risks and regulations** pertaining to the operations of the firm, such as non-routine regulations regarding waste disposal and worker safety.

The financial plan

The financial plan must demonstrate the **financial viability** of the business.

Most entrepreneurs, whether they are at start-up stage or have been in business for several years, have four main financial objectives:

- ▶ **Profitability** - This refers to a company's ability to make a profit.
- ▶ **Liquidity** - This refers to a company's ability to meet its short-term obligations.
- ▶ **Efficiency** - This refers to how productively a company is utilizing its assets.
- ▶ **Stability** - This refers to the overall health of the financial structure of the company, particularly as it relates to its debt-to-equity ratio.

The financial plan should begin with an explanation of the funding that will be needed by the business during the next two to three years along with an explanation of how the funds will be used. This

Questions to ask yourself

A properly managed company [large or small] must also stay on top of the following questions:

- ▶ How are we doing? Are we making or losing money?
- ▶ How much cash do we have in hand?
- ▶ Do we have enough cash to meet our short-term obligations?
- ▶ How efficiently are we utilising our assets?
- ▶ How does our growth and net profits compare to those of our industry peers?
- ▶ Where will the funds we need for capital improvements come from?
- ▶ Are there ways we can partner with other firms to share risk and reduce the amount of cash we need?
- ▶ Overall, are we in good shape financially?

information is called **a sources and uses of fund statement.**

The next portion of this section should include the **financial projections**, which are intended to further demonstrate the financial viability of the business. The financial projects should include

two to three years of projected income statements, balance sheets and statements of cash flows. It is also crucial that an assumption sheet precedes the projections. This assumption sheet explains the basis for the numbers included in the projected financial statements.

Points to remember

The process of financial management involves the following 4 steps. A start-up company will obviously start at Step 2 as it would not have any historic financial statements.

Step 1 - The Preparation of Historic Financial Statements

- ▶ Income statement
- ▶ Balance sheet
- ▶ Statement of cash flows

Step 2 - Preparation of Forecasts

- ▶ Income
- ▶ Expenses
- ▶ Capital Expenditure

Step 3 - Preparation of Projected Financial Statements

- ▶ Income statement
- ▶ Balance sheet
- ▶ Statement of cash flows

Step 4 - Ongoing Analysis of Financial Results

- ▶ Ratio analysis
- ▶ Measuring results vs. plans
- ▶ Measuring results vs. industry norms.

7. Establish Accurate Controls for The Business Plan

Good planning includes controls necessary to implement the plan successfully. Although long-term plans may be changed, they provide direction for all business activities.

Planning without control has little operational value, and so a sound planning programme requires a **practical control process**. The proposed actions and activities indicated in the business plan become the standards against which actual performance is measured.

Controlling projects and keeping them on schedule means that the entrepreneur must **identify and track key performance indicators**. The source of these indicators is the operating data from the company's normal business activity; these are the guideposts for detecting deviations from established standards.

Accounting, production, sales, inventory and other operating records are primary sources of data the entrepreneur can use for controlling activities.

8. Critical Risks Factors

Although a variety of potential risks may exist, e.g. management risks, marketing risks, operating risks, financial risks, etc, the entrepreneur must tailor this section to depict its truly **critical risks**. By highlighting these critical risks, the entrepreneur is showing that he/she understands and is fully aware of the critical risks facing the business.

The critical risks a new business may face depend largely on its industry and its particular situation. At this stage, the entrepreneur must also highlight the **contingency plan or actions**, which he/she might need to take if the business plan does not materialise.

Points to remember

The ten important questions a business plan should answer:

1. Is the business just an idea, or is it a business opportunity with real potential?
2. Does the business venture have an exciting and sensible business model? Will other firms be able to copy its business model or will the firm be able to defend its position through patents, copyrights or some other intellectual property means?
3. Is the product/service viable? Does it add significant value to the customer? Has a feasibility analysis been completed? If so, what are the results?
4. Is the industry in which the product/service will compete growing, stable or declining?
5. Does the business venture have a well-defined target market?
6. How will the company's competitors react to its entrance into its markets?
7. Is the entrepreneur skilled and up to the task of launching the new business venture?
8. Is the business venture organised in an appropriate manner? Are its strategy and business practices legal and ethical?
9. Are the financial projections realistic, and do they project a bright future for the firm? What rate of return can investors expect?
10. What are the critical risks surrounding the business, and does the entrepreneur have contingency plans in place if risks become actual problems?



**Setting up my own
successful business
- a re-cap!**

Get it right, first time!

Now that you have read this manual, I have two questions to ask you:

1. Do you feel personally prepared to take the plunge and become a promising, budding entrepreneur?
2. Do you feel you have conducted a good initial preparation for your new business?

I have drawn up two checklists to assess [a] your personal preparation and [b] the initial preparation for your business venture. If you answer 'yes' to these checklist questions then this means you have completed the first essential stage of setting up a business ...successfully!

Checklist 1 - Personal preparation

Are you personally prepared to become a promising entrepreneur?

1. Are your physical health and age compatible with your proposed project?
2. Can you cope mentally with the new stresses and demands?
3. Do you welcome calculated risks and responsibility?
4. Have you demonstrated management ability?
5. Do you have the quality of endurance?
6. Can you work alone for a sustained period of time?
7. Can you accept a reduced income, at least, at the beginning?
8. Will you work without the usual financial security that a regular employee has?
9. Are you self-confident in the face of adversity and rejection?
10. Do you know how many hours per week you wish to work?
11. Do you know how supportive your family members will be?

from previous page...

12. Have you discussed the project with your family members?
13. Do you appreciate what effect the project can have on your family life and your family home?
14. Have you identified your personal skills?
15. Are you knowledgeable enough on the business sector you are going to enter into?
16. Can you identify what your business project will need from you?
17. Do you know why you want to start the project?
18. Have you set out truthfully what you want out of the business, and by when?
19. Will this project affect your personality?
20. Do you know what your attitude is towards: long working hours, selling, asking for money, asking for help, power, success and above all, failure?
21. Can you take decisions?
22. Do you get on well with people?
23. Have you realistically listed your personal attributes and shortcomings?
24. Have you discussed these attributes and shortcomings with an honest and respected friend?

Checklist 2 - Initial preparation for business

Have you conducted a good initial preparation for your new business?

1. Do you have a clear idea of the business opportunity now facing you?
2. Will your product sell?
3. Do you accurately understand your intended product/service?
4. Have you looked at the market for it and can answer the following questions:
 - a] What do people buy?
 - b] When do they buy it?
 - c] Where do they buy it?
 - d] Who does the buying?
 - e] Why should they choose your product/service?
 - f] How will you set about selling your product/service?
 - g] How big is the market for your product?
 - i] Do you think this market will grow or contract?
 - j] Once you start operating, what share of the market are you aiming at?
5. Have you checked the moral, legal and environmental objections to your project?
6. Do you know why your product/service is better than those of competitors?
7. Can you explain this clearly to customers?
8. Does it do what you say it does? Has it been tested?
9. Will you continue to improve your product?
10. Have you sold your product/service yet?
11. Are you familiar with what customers want, in terms of delivery and after-sales service requirements, quality levels and discount levels?
12. Do you know who your competitors are?
13. Do you know what they will do if you start doing well?
14. Can you keep up to date with changing techniques and technology?

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15. Have you spoken to any potential customers about the market?
16. Do you know what your product will cost to make?
17. Have you calculated your overhead costs, including selling and distribution?
18. Have you attempted to produce a simple cash flow projection?
19. At this stage do you have an idea of:
 - a] How much cash you will need in the next 12 months?
 - b] How much cash you can personally raise?
 - c] How much external cash you need?
 - d] When you can repay it?
20. Have you agreed within the family what security you can offer your financiers?
21. Do your business partners/ shareholders understand your project?
22. Do you know how much it will cost to promote your product?
23. Do you have:
 - a] A legal advisor?
 - b] An accountant or financial advisor?
 - c] A bank manager?
 - d] A management/marketing consultant?
 - e] Other technical specialists?
24. Have these advisors been properly briefed about the services you require from them and have they formally informed you about the cost of their services?

Author's final words

I trust that all those promising and up-and-coming entrepreneurs, male or female, have found this Manual useful in their quest to set up their own 'successful' business. I augur you all the best of luck for your new 'successful' business!

I am writing this manual while inaugurating the tenth year of operation of my own business... I am sure that in ten years' time, one of you readers will be writing a similar Business Manual for the budding entrepreneurs of the following decade!

I leave you with this interesting quotation:

- People fall into three categories:**
- **Those who make things happen.**
 - **Those who watch things happen.**
 - **Those who are left to ask what did happen.**

George Bernard Shaw

I ask: In which category of people would you like to be?

Good luck for your new business venture!

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Project Leader's Acknowledgements

The present project which I have had the honour to lead has given me the opportunity to work with a number of people whose important contribution has proved crucial to its success. It is with heartfelt gratitude that I am pleased to acknowledge the determination and commitment shown by everyone involved in achieving this common goal.

First and foremost, I am grateful to the Employment and Training Corporation (ETC), particularly the Chief Executive Officer, Dr. Sue Vella and Senior Manager - Training Services, Mr. Joe Cutajar, for their continuous and generous support throughout the various stages of the implementation of the project.

I would also like to thank Ms. Marika Fsadni B.A. (Hons) Bus. Mgt., M.B.A. (Brunel), who, in researching and writing this manual, has produced a remarkably professional work which is still user-friendly even for those clients of ours who are

approaching entrepreneurship for the first time. Users of this manual will be fortunate in benefiting from the experience of an expert who is not only fully qualified and well-published in her field of expertise but is also an entrepreneur in her own right. Writing also from her personal experience as an entrepreneur who has, in the past ten years, helped a large number of other entrepreneurs start and grow their own business, Ms Fsadni, has written a manual that will assist those starting on a new entrepreneurial career avoid many of the pitfalls awaiting the new entrepreneur.

Finally I would also like to thank the Corporation's EU Unit at ETC and the contractor, for their proficient approach to their work, and their support and patience in helping me administer such an interesting project.

Philippe Vancell
ESF 47 Project Leader