

Entrepreneurship exercises

1 Evaluating your entrepreneurial potential

Write a report on whether or not you are the right sort of person to set up and run your own business, based on the information you obtain from the three steps process below. Make certain you are as objective as possible. You should append the results of the GET test to your report. Remember to make certain that you give examples to support any character traits or behaviours you claim to have – otherwise it is just your opinion.

Whether or not you might be entrepreneurial, do you want to start your own business now or at some time in the future?

- Step 1** Go to the electronic version of the GET test which is available elsewhere on this website. Answer the questions and review the analysis provided. Do you have the character traits of an entrepreneur? Append a print-out of the analysis provided and outline why you agree or disagree with it giving concrete examples of your behaviour to support your views.
- Step 2** List the advantages and disadvantages of:
- ▷ Employment
 - ▷ Self-employment
- Step 3** List the reasons why you want to set up your own business. Are they good enough to motivate you to succeed? List the reasons why you should not set up your own business. Can they be overcome or, if not, are you prepared to live with the risk?

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2 Finding a business idea

Generate ten business ideas and evaluate them using the three-step process below. Write a report justifying your selected final business idea.

Step 1 Follow this four-stage guide to generating ideas for a start-up, adapted from Timmons (2003). The aim is to generate as many ideas as possible so while generating ideas it is important not to evaluate them or get bogged down in the detail of how they may or may not work.

- 1 *List ideas.* Think of unmet market needs, changes in technology or legislation or demographics, ideas you have seen in other regions or countries that you have not seen here, knowledge and information gaps.
- 2 *Expand the list.* Think about your personal interests, experiences, desired lifestyle, values and what you feel you are likely to do well or would like to do.
- 3 *Get feedback on the list from at least three people who know you.* Knowing you, they might be able to add to the list by interpreting it slightly differently.
- 4 *Jot down insights, observations and conclusions about your ideas and personal preferences.*

Step 2 Using the list generated from this exercise, evaluate each idea against the following eight criteria, using a score of 1 (very poor or very unattractive) to 5 (very high or very attractive).

- ▷ Attractiveness of idea – Would you enjoy doing it?
- ▷ Ability to undertake – Do you have the skills needed to do it?
- ▷ Practicality – Is it something that really can be done?
- ▷ Potential market demand – Will customers buy it?
- ▷ Ability to combat competition – Is there competition and can you combat it in some way?
- ▷ Ability to differentiate – Can you differentiate it in some way that can be sustained over a long period?
- ▷ Price potential – Can you avoid competing simply on price?
- ▷ Resource availability – Do you think you have, or can get, the resources you need to start up this business?

The top scoring three or four ideas might be worth exploring further.

Step 3 List the critical factors that you would need to make certain were right in taking the top-scoring three or four ideas from the previous exercise further. Evaluate the ideas and select the one you want to take further. Be aware that the one you select may still prove not to be commercially viable and you may have to return to this list to research another idea.

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3 Developing the business plan

Write a business plan for your selected business idea using the pro forma which can be downloaded and printed off from the website.) Some points to remember are:

- ▷ Stress the benefits of your product or service to the chosen target market(s).
- ▷ Undertake the necessary market research. Estimate the size and growth of the market.
- ▷ Name your major competitors and evaluate their strengths and weaknesses. Evaluate the degree of competition in the market, using Porter's Five Forces.
- ▷ Evaluate the strengths and weaknesses of your business.
- ▷ Be clear about the basis for your competitive advantage over these competitors.
- ▷ Be clear about the marketing strategy you aim to adopt, giving details of any basis for differentiating your product or service and the marketing mix you aim to adopt.
- ▷ Be clear about your channels of distribution, if appropriate.
- ▷ Be clear about the selling price you have decided to set for your product or service and how you have arrived at it.
- ▷ Be clear about any particular launch strategy.
- ▷ Be clear about the implications for the business of the cost structure. What is the contribution margin? What are the fixed costs? What, therefore, are the business imperatives?
- ▷ Are you certain you can at least make your break-even point? How many units do you have to sell each day to achieve this?
- ▷ Are you certain you can survive on the cash flow generated by your business? Have you included necessary drawings?
- ▷ Keep your fixed costs and capital investment as low as possible. Can you borrow, rent or lease equipment, rather than buy it?
- ▷ What are the critical success factors and how will you make sure that you achieve them?
- ▷ Show the funding you will need for the business and where it might come from – remember the business plan you prepare for yourself could look very different from one you prepare to raise finance.

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4 Small business growth audit

Select a local small firm that you are familiar with and, using the eight-step process below and the checklists on the following pages, evaluate its potential for growth. Write up your findings in the form of a report.

- Step 1** Using Growth Audit Checklist 1 as a guide, evaluate the personal qualities of the owner-manager and their ability to handle growth and take the firm forward.
- Step 2** Using Growth Audit Checklist 2 as a guide, evaluate the management team and their ability to handle growth and take the firm forward.
- Step 3** Using Growth Audit Checklist 3 as a guide, evaluate the product/market offerings of the firm and the opportunities for growth. Use the checklist for each product/market offering. Represent the product/market portfolio in a Boston matrix.
- Step 4** Using Growth Audit Checklist 4 as a guide, evaluate the competitive environment and competitors facing the firm and evaluate how it might develop sustainable competitive advantage.
- Step 5** Using Growth Audit Checklist 5 as a guide, undertake a financial analysis of the firm and draw up your conclusions about how it is performing. If you are able to obtain projected or budgeted financial statements, repeat the analysis.
- Step 6** Analyse the results from steps 1 to 5 and summarise in the form of a SWOT analysis.
- Step 7** If the firm has projected or budgeted sales for next year, break them down into the four categories of the product/market matrix shown below and critically analyse how the firm proposes to achieve this increase.

% sales from existing products/customers:	% sales from product development:
% sales from market development:	% sales from diversification:

- ▷ List the ways the company intends to achieve greater market penetration.
 - ▷ Detail why the company is going into new markets and how it is going to do so.
 - ▷ Give details of any new product(s) it intends to sell and why existing customers are expected to buy.
 - ▷ Give details of and the rationale for any diversification. Explain how it will go about diversifying.
 - ▷ Give details of and the rationale for any mergers and acquisitions. Explain how it would go about making the acquisition or merger.
- Step 8** In the light of the SWOT analysis, and after discussion with management, critically evaluate the risks associated with these four strategies and the safeguards put in place to provide early warning signs and deal with them. If the organisation has a number of different product/service offerings, repeat the exercise for each one, bearing in mind where it lies in its product life cycle and the generic marketing strategy being followed. Evaluate its overall portfolio strategy.

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Small Business Audit Checklist 1

Personal qualities of the owner-manager

- ▷ Why is the owner-manager in business?
 - are they push or pull factors?
- ▷ Is the owner-manager entrepreneurial?
 - are they opportunistic, innovative, self-confident and self-motivated, proactive with vision and flair and a willingness to take risks?
 - are they willing to make, and emotionally strong enough to endure, sacrifices and personal hardship for the sake of the business?
- ▷ What are the entrepreneurs long-term objectives? i
 - s it capital gain, regular income, need for achievement, contribution to society, provide employment, produce something that is needed, build something that will outlive them, achieve status, have fun?
- ▷ Does the entrepreneur really want the firm to grow?
- ▷ Does the entrepreneur have the ability to change the way they manage the firm as it grows?
 - will they be able to delegate but control and coordinate?
- ▷ Does the entrepreneur have the ability to become a leader?
- ▷ Do they have vision and ideas, have the ability to undertake long-term strategic planning, communicate effectively, have the potential to create the right culture in the firm and will they be able to monitor and control performance effectively?
- ▷ What style of leadership will they adopt?
 - is it appropriate for the group they manage, the tasks they undertake and the situation they are in?
- ▷ Are they able to cope with crises effectively?
- ▷ Can they build a management team?
- ▷ Can they build an effective board of directors?

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Small Business Audit Checklist 2

The management team

- ▷ Is there a management team in place?
- ▷ Does it have an adequate mix of outside experience?
- ▷ Do they have the right skills mix?
- ▷ Is there a proper organisation structure?
- ▷ Is it appropriate for the degree of task complexity?
- ▷ Are there any gaps in the structure?
- ▷ Is authority delegated to the management team?
- ▷ Are there proper controls in place to monitor their performance?
- ▷ Is there an appropriate culture in place?
- ▷ influenced by appropriate organisational and cognitive processes and behaviours?
- ▷ Are they a cohesive team?
- ▷ do they have the right mix of Belbin team roles?
- ▷ Are there any gaps in the team profile?
- ▷ How does this show itself in the way they operate?
- ▷ Do the team handle conflict in an effective manner?
- ▷ Is the management team cohesive?
- ▷ Is the management team motivated to succeed?
- ▷ are they personally motivated, are there appropriate incentives in place?
- ▷ Is there a concern for staff within the firm?
- ▷ Is staff turnover generally low?
- ▷ Is the level of absenteeism, for illness or accident, average for the industry?
- ▷ Do staff see themselves as part of the firm, with adequate remuneration and career paths?
- ▷ Are there skill gaps in the firm?
- ▷ Do staff generally receive adequate training?
- ▷ Do staff understand the vision or mission of the firm and do they 'buy into' it?
- ▷ Are management and staff motivated to succeed?

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Small Business Audit Checklist 3

The product/market offering

- ▷ Can the firm identify the target market segments they are selling to?
- ▷ Are customer needs understood?
- ▷ Are the benefits offered by the products/services understood?
- ▷ How loyal are customers?
- ▷ How frequent are customer complaints and are they properly followed up?
- ▷ Does the firm understand where each product/market offering is in its life cycle?
- ▷ Does the position for the firm mirror that of the industry?
- ▷ Is the portfolio of product/market offerings balanced?
- ▷ Are new product/market offerings planned to replace those coming to the end of their life?
- ▷ Does the firm understand the value chain for each of its product/market offerings?
- ▷ Does the firm have any benchmark information on how it compares or how its product/market offerings compare to those of competitors?
- ▷ Does the firm follow a definite generic marketing strategy for each product/market offering?
- ▷ Can it command leadership in this area?
- ▷ Does the firm understand its core competencies?
- ▷ Does the firm command operational excellence, product leadership or customer intimacy?
- ▷ Does strategy emphasise something that makes the firm as unique as possible and delivers as much value to the customer as possible?
- ▷ Does the strategy reflect the position of each product/market offering in its life cycle?
- ▷ If cost is important for any product/market offering, does the firm understand the economies of scale it faces and can it command cost leadership?
- ▷ If differentiation is important, does the product/market offering have a strong brand?
- ▷ If focus is important, does the firm undertake frequent and thorough market research, and does it have strong customer relations?

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Small Business Audit Checklist 4

The competitive environment

- ▷ Does the firm regularly undertake market research?
- ▷ Does the firm regularly monitor trends in the industry or sector?
- ▷ Are there any trends in the market or industry that are likely to particularly affect the firm?
- ▷ How competitive does Porter's Five Forces analysis show the firm's industry to be?
- ▷ Relative to this, how well is the firm performing?
- ▷ Does the firm have any views about future trends (SLEPT) that might affect it?
- ▷ Does it have a strategic response to these trends?
- ▷ Does the firm have information on competitors?
 - size, profitability and operating methods?
 - benchmark performance for efficiency, quality and so on?
 - marketing strategies of competitors?
- ▷ Can the firm identify which competitors are successful and why?
- ▷ Does the firm know of any important changes that competitors will be making in the future?
 - marketing mix?
 - new markets or market segments?
 - new or developed products?
- ▷ What is the basis for the firm's competitive advantage?
- ▷ How sustainable is this?

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Small Business Audit Checklist 5

Financial performance

Performance

Return on shareholders funds (%):	$\frac{\text{Net profit (after interest)}}{\text{Shareholders funds}}$
Return on total assets (%):	$\frac{\text{Net operating profit (before interest)}}{\text{Total assets}}$

Profitability

Net margin (%):	$\frac{\text{Net profit}}{\text{Sales}}$
Gross margin (%):	$\frac{\text{Gross profit}}{\text{Sales}}$
Cost of materials (%):	$\frac{\text{Cost of materials}}{\text{Sales}}$
Cost of labour (%):	$\frac{\text{Cost of labour}}{\text{Sales}}$
Overhead cost (%):	$\frac{\text{Overhead costs}}{\text{Sales}}$

Asset efficiency

Capital/Total asset turnover:	$\frac{\text{Sales}}{\text{Total assets}}$
Debtor turnover:	$\frac{\text{Sales}}{\text{Debtors}}$
Stock turnover:	$\frac{\text{Sales}}{\text{Stock}}$
Fixed asset turnover:	$\frac{\text{Sales}}{\text{Fixed assets}}$

Liquidity

Current ratio:	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Quick ratio:	$\frac{\text{Current assets excluding stock}}{\text{Current liabilities}}$

Gearing

Gearing ratio (%):	$\frac{\text{All loans + overdrafts}}{\text{Shareholders funds}}$
Short-term debt ratio (%):	$\frac{\text{Short-term loans + overdrafts}}{\text{All loans + overdraft}}$
Interest cover:	$\frac{\text{Trading profit}}{\text{Interest}}$

Risk

Margin of safety	$\frac{\text{Sales} - \text{Break-even sales}}{\text{Sales}}$
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