BBM210/05 Entrepreneurship Development course guide (Revised)

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Unit 5

BBM 210/05

Entrepreneurship Development

Business Planning

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the people's university

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Unit Overview

In this unit, you will begin to develop a business model for your potential business idea based on the framework provided. This unit will also provide you the insight and creativity needed to build a solid foundation for your business. You will also learn about the importance of marketing in a small business entity. In addition, you will look briefly at the benefits created through the application of modern technology and gain an understanding of legal and ethical issues in business.

Unit Objectives

By the end of Unit 5, you should be able to:

1. Describe a typical business model.
2. Apply the marketing mix concept in a business model effectively.
3. Describe the use and benefits of modern business technology.
4. Explain the essence of compliance with the legal business regulations.
5. Discuss how government regulations may apply to your business model.
6. Explain the code of ethics in business.

5.1 The Business Model

Objectives

By the end of this section, you should be able to:

1. Describe the nine building blocks of a business model.
2. Assess your own business model to determine weaknesses, strengths, threats and opportunities of the business concept.

Introduction

After developing a business concept from the ideas generated through the opportunity recognition process, you are now ready to test its viability through the process of business modelling. This section will take you through the process of describing, assessing and improving your potential business model.

Business model definitions

The business logic of making money can be simply described as a business model. This is important as the developed business concept is still an idea that may or may not work. As an entrepreneur, you can use the process of developing a business model to better understand the customer in terms of the customer's wants, needs and willingness to pay. Therefore understanding what it will take to turn a business idea into a sustainable business opportunity is a fundamental knowledge that will benefit you in the process of starting or expanding your business venture. Designing a business model may sometimes be very complex as it involves various elements or ingredients that will makes the original business concept viable in the long run. However, for our purpose here, we utilise a very basic approach that will encompass all the elements needed to design a business model.

The nine building blocks of a business model

Business models will vary based on the type of products and services you provide and the type of industry/sector you are servicing. That being said, all business models have some common elements.

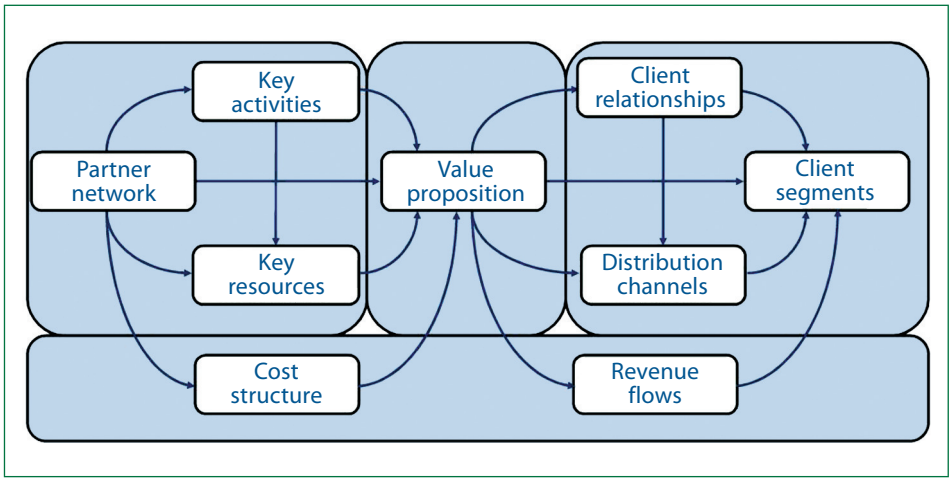

Figure 5.1 The nine building blocks of a business model by Alexander Osterwalder
Source: https://glennas.wordpress.com/tag/business-models/

The nine components of the Osterwalder business model represent the following:

1. The **value proposition** of what is offered to the market.
2. The **segment(s) of clients** that are addressed by the value proposition.
3. The communication and **distribution channels** to reach clients and offer them the value proposition.
4. The **relationships established with clients**.
5. The **key resources** needed to make the business model possible.
6. The **key activities** necessary to implement the business model.
7. The key **partners** and their motivations to participate in the business model.
8. The **revenue streams** generated by the business model (constituting the revenue model).
9. The **cost structure** resulting from the business model.

Activity 5.1

1. List any five critical questions that a business plan should answer.

Now let us explore each component.

1. **Value proposition**

   A customer value proposition is a business or marketing statement that describes why a customer should buy a product or use a service. It is a set of products and/or services that provide value for the customer. Your business can have more than one value proposition, each catering to different segments of your customers. Below are some of the questions that you will need to ask to identify the value proposition for each customer segment:

   a. What do you offer to the market?

   b. What specific products/services do you offer each customer segment?

   c. What customer needs does the value proposition cover?

   d. Are our service levels different for different customers?

   The customer segment and the value proposition are the heart and soul of any business model. So take some time out now to match each customer segment with each value proposition as you lay a solid foundation for your basic business model.

2. **Client segments**

   Something to remember when growing a business: NO CUSTOMERS, NO BUSINESS. According to Peter Drucker, the purpose of a business is to create a customer. The customer is the source of revenue for the business. An explicit understanding of the potential customers for your business is a fundamental ingredient for this building block of a business model.

   Some basic questions you need to ask when identifying who your customers or potential customers are:

   a. Who do we create value for?

   b. Can we group them according to:

      - What you offer?
      - The channels you communicate and distribute your offer?
      - By the relationships you keep with them?
      - By the profitability of each segment?

As you ask and answer these questions, you are well on your way to being able to explicitly describe your customer segment of the business model building block.

3. **Distribution channels**

Now that you know your customers and what you can offer them, explore how you distribute your products and services to the customer.

Various communication and distribution channels are available to reach your customer, but choosing the right fit is critical for you to have and maintain competitive advantage. This is all part of your marketing effort and plan. You must also take cognisance of the cost of distribution as that will affect the bottom-line (profit and profitability).

Key questions:

a. What do we offer to the market?

b. What is the specific bundle of products and services you offer each of your customer segments?

c. Which customer needs does each value proposition cover?

d. Do we offer different service levels to different customer segments?

e. What is the best way to distribute your products and services?

f. How should you communicate and engage your potential customers?

4. **Client relationships**

A good relationship with your clients is vital in meeting their expectations and ensuring they are return customers. Customers who pay premium prices will expect quality customer service and support. You can easily see these at play in the airline industry between first class and economy class passengers. You must have a clear strategy for customer relationship management for each customer segment in your business model.

Key questions:

- How do you develop and maintain different types of client relationships in your business model (e.g., more or less intense, more or less personal)?

- How resource intensive is each of these client relationship in terms of time consumption and other costs?

- For each client segment, which client relationship types and mechanisms do you develop and maintain?

- What type of customer service and support must I establish?

5. **Key resources**

Every business requires physical and human resources to accomplish its value proposition. Some of these resources include employees, contractors, suppliers, office space, infrastructure and other tangible assets. For the business model to work successfully, these key resources must be deployed efficiently and effectively to support your value proposition and your customer segment.

Key questions:

a. What are the key resources you rely on to run your business model?

b. How do these resources relate to your value propositions and their corresponding customer segments, channels and relationships?

c. What resources do not add value to the company?

6. **Key activities**

Your business must perform certain key activities in order to implement your business model and service your customers. These activities form the core processes that your business engage to produce the value proposition for the customer segments. The processes and activities will change based on the type of products or services you provide, the industry or sector you are serving and the type of business scenarios you are trying to work in. For example, if you are in the retail business, one key activity would be to break bulk purchases to miniature packages for your customer. Other businesses may require a delivery service or use of courier services to deliver products. Such an activity is crucial to fulfil your value proposition to the retail customer segment.

It must be noted however that your business may not be able to perform all the key activities within the organisation. It is also possible to get them done through a network of partners.

Key questions:

a. What are the main activities you operate to run your business model?

b. On which key resources do they rely?

c. To which value propositions, channels or relationships do they contribute?

7. **Key partners (Partner network)**

In some business ventures there may be a need for individual or corporate partners to perform different tasks. Some key activities may call for specialist knowledge or equipment and these can be provided through outsourcing. Access to certain national or international markets may require companies in situ of the target audience. So the question you must ask yourself is: How do we leverage our own business model by partnering with other businesses? What does your business want to do by itself and what does it want to do with partners?

Key questions:

a. Which partners and suppliers do we work with?

b. Which key resources do they relate to?

c. What is the cost/impact of partnering?

d. To which value propositions, channels or relationships do they contribute?

8. **Revenue flows**

Revenue from customers provides the backbone for any business. This is generated as result of value created for the customer through our value proposition. Revenues can come in various forms: selling, lending, commissions, licensing etc. from one or more of the customer segments.

Key questions:

a. What are your revenue streams?

b. What are the revenue streams from each customer segment and value proposition?

c. How much is each revenue stream's contribution to overall revenues in terms of percentages?

9. **Cost structure**

The business model incurs costs that can easily be traced back directly or indirectly to each component within each of the nine business building blocks. By simply listing the most important costs incurred, you will be able to easily link them to a building block.

Key questions:

a. What are the most important costs in your business model?

b. Can the cost requirements be easily connected to a business model building block?

c. Can costs be calculated for each customer segment?

Summary

As you can see, developing your business idea in depth requires that you analyse many aspects of your business environment and proposed business model in order to evaluate its potential success.

Self-test 5.1

1. Describe the process to create a comprehensive Business Model (BM).

5.2 Marketing and the Entrepreneur

Objectives

By the end of this section, you should be able to:

1. Apply the marketing concept in a business model.
2. Describe the 7Ps of marketing.
3. Discuss the importance of product classifications in a marketing plan.
4. Explain promotion mix and communication methods in marketing.

Introduction

In the previous unit, we have explored the concepts of marketing and sales and how it impacts your potential business. Entrepreneurs must become expert in marketing. Not only must they understand the concepts of marketing, they must be able to create and implement marketing strategies as well. This section will provide additional guidance on how to produce and implement an effective marketing plan.

Overview

Marketing includes a variety of disciplines like sales, pricing, packaging, distribution and public relations.

1. **Sales**: Total amount collected for goods and services provided.
2. **Pricing**: The process of determining what a company will receive in exchange for its Products.
3. **Packaging**: The wrapping material around a consumer item that serves to contain, identify, describe, protect, display, promote and otherwise make the product marketable and keep it clean.
4. **Distribution**: The process of moving a product from its manufacturing source to its customers.

You must understand that marketing does not just begin with a great idea or a unique product. Instead it begins with customers who want or need your product and will actually be prepared to buy it. Even good marketing strategies will not help an entrepreneur earn a profit or achieve his/her dreams if he/she does not build them around potential customers. Customers will not buy a product for the sake of buying it, but they buy the concept of what that product will do for them, or help them

do for themselves. An example would be buying healthy food because you want to live long and remain healthy. A marketing strategy that ignores the customer does not serve a purpose.

The 7Ps of the marketing mix

The 7Ps of marketing are **product, price, place, promotion, people, process and physical evidence** (http://www.learningmarketing.net/marketing.htm). Marketers of goods and services use various approaches to attract new customers and also retain their customer base. A marketing strategy is concerned with developing a good marketing mix.

Product

First, we will look at how products are classified. There are three major types of products:

1. **Durable products**

    a. Products that last for some time. They are usually actual products rather than services, e.g., a motor vehicle, a washing machine and machine tools.

    b. They are usually expensive and are relatively complex products.

2. **Non-durable products**

    a. These products are used up in the short term, e.g., food, drinks, vegetables, fruits and meat.

    b. They are bought fairly frequently and should be easily available to the customer.

    c. The pricing of these products is usually fairly competitive.

3. **Services**

    a. Services are products that offer immediate benefits as opposed to products that involve using, buying or owning.

    b. The problem here is that customers often cannot see a service, so the challenge for the small business is to show the value of the service.

    c. Examples of services include hairdressing, delivery, auditing and consultancy.

Examples of services	Service providers
Medical services	dentist, physiotherapist
Professional services	attorneys, accountants, consultants

Products can also be classified and identified according to the classes of target consumers.

1. **Consumer products**: These products are offered to individual customers. There are three major types of consumer products.

   a. **Convenience products** — These are products that appeal to a large market segment. They are generally consumed regularly and purchased frequently. Examples include most household items such as food, cleaning products, and personal care products. Because of the high purchase volume, pricing per item tends to be relatively low and consumers often see little value in shopping around since additional effort yields minimal savings.

   b. **Shopping products** — These are products consumers purchase and consume on a less frequent schedule compared to convenience products. Consumers are willing to spend more time locating these products since they are relatively more expensive than convenience products and because these may possess additional psychological benefits for the purchaser, such as raising their perceived status level within their social group. Examples include many clothing products, personal services, electronic products, and household furnishings.

   c. **Specialty products** — These are products that tend to carry a high price tag relative to convenience and shopping products. Consumption may occur at about the same rate as shopping products but consumers are much more selective. In fact, in many cases consumers know in advance which product they prefer and will not shop to compare products. Instead, they may shop at retailers that provide the best value. Examples include high-end luxury automobiles, expensive champagne, and celebrity hair care experts.

2. **Speciality products** are products that customers make a special effort to buy. A **specialty product** is a **product** that certain consumers will actively seek to purchase because of unique characteristics or loyalty to a specific brand. Consumers who seek **specialty products** know what they want and will spend the time and effort to get it. They typically will not easily accept substitute products. Examples of speciality products are exclusive designer clothing, and TV sets.

3. **Industrial or business products** are bought by a business for use in making other products or services, such as stocks used in construction and manufacturing. This sector includes companies involved with aerospace and defence, industrial machinery, tools, lumber production, construction, cement and metal fabrication. Industrial products include machinery, manufacturing plants, materials, and other goods or component parts for use or consumption by other or firms for industrial purposes. Demand for industrial goods is usually based on the demand for consumer goods they help produce. They are classified as (1) Production goods, that enter the production of a final product, such as the raw material and component parts, or (2) Support goods, that assist in the production process, such as fixed equipment and tools.

Activity 5.2

Briefly discuss the marketing mix differences between a service-oriented business and final product producers.

Well done! Now that you understand how products are classified, you can explore the other marketing Ps and how they relate to your marketing strategies.

Price

The price of your product(s) or service(s) should be based on the market research conducted during the data gathering stage (i.e., market analysis, competitor analysis). The aim or ultimate objective of pricing is to ensure that the business generates sufficient sales to achieve profitability and sustainability. Ensure that you keep your costs down as much as possible so that you will have room to vary your selling price(s) within an acceptable range. Understand that the selling price of your product must be competitive in the market and should be kept within an acceptable range to allow room for price variations in line with your competitors and your business profitability.

Place (Business location)

If you are in retail operation, you must select a business location that is easily accessible by your customers and supports walk-in/drive by/drop-in customers. A retail business is an essential linkage within the marketing channel and the location has to be chosen strategically. A small shop with an attractive set-up and front can be a good selling location.

When identifying a location for your business, you need to build upon your initial market research, a description of potential buyers and the nature of the product. When selecting a location, you should focus on the following:

1. Who are your potential buyers (i.e., where do they live, where do they go regularly, do they have access to transportation, etc.)?

2. The product requirements (i.e., do you need storage space, refrigerated space, how much room do you need for product display, etc.)?

3. The service requirements (i.e., do you need conference rooms, classroom space, private offices, etc.)?

4. Access (i.e., is there parking lots, is it on a busy street, can my suppliers access my work environment, do you need to be in the tourist area, etc.)?

5. Future requirements (does my location allows for growth, is the space flexible and can be used in a variety of different ways, etc.)?

Based on the above research, the location can be selected using some criteria as follows:

1. If the products are consumable such as food and beverages, the shop can be located in residential neighbourhoods which is close to the clients.

2. If the products are meant for student consumption, then the shop can be located near schools and universities.

3. If the product or service is aimed at tourists, it can be any busy location that tourists visit. For example, close to cruise ship terminals.

4. If your products are for high income customers, then you should locate your business in trendy shopping areas.

5. If many competitors are situated in the same area, then this may be an advantage or disadvantage, depending on your products and buyers — so please analyse this! For example, restaurants are located in the same area because this encourages potential customers to at least explore the area.

Promotion

Promotion concerns the range of methods used by a small business to communicate with its potential and current customers, employees and any other interested in your products and services. Informing potential customers about your product(s), its benefits and how to attract customers to buy from you is key.

Through promotion you can:

1. **Inform**: Provide information about a product.

2. **Persuade**: Try to build up a positive customer attitude to your business. Explain why customers should use you rather than the competitor. Convince them.

3. **Remind**: Support the customers who have already bought your product. Increase the loyalty of those who have bought before, making sure you have established the groundwork for possible future sales.

The main methods used to communicate with customers are explained here.

1. **Advertising** is a form of impersonal broadcasting through commercial mass media (e.g., newspaper, TV, radio, Internet). It should be a pervasive form of promotion. It must capture our attention.

2. **Sales promotion** is an activity that is specifically designed to induce sales by enhancing the value for the consumer. This value may be created through volume discounts, providing more for less, etc.

3. **Publicity** is the result of public service announcements or news generated through the media. Examples are newspaper or journal articles, recognition in public affairs, magazine stories and talk-show interviews.

4. **Personal selling** means personal contact between a salesperson and potential customers resulting from sales effort.

People

These are the customers, employees, suppliers, management, partners and all other stakeholders impacted by your business. It is how you treat them and how others see themselves being treated. It is reflected in the values that your company embraces and demonstrated in your day-to-day business operations and interactions with people.

Process

This will include the processes required to provide different services or products to the customers and understanding of the effectiveness of these processes is very crucial. For example, car delivery service, drive through window service, courier delivery, etc.

Physical (Evidence)

This refers to the experience of using a product or service. This can be demonstrated through the provision of information to customers, so that they can understand more about the product or service at hand. Expert testimonial, demonstrations and examples of successful implementation are ways to demonstrate the usefulness of the product or service. Such information can be provided in the form of brochures, pamphlets, webinars, YouTube demonstrations, etc.

Summary

We have now examined different marketing concepts and explained the marketing mix focusing on the 7Ps of marketing. By now you should realise that marketing is a complex and time consuming process. It is more than just advertising and making sales calls. It is about the image your company projects. It is about how you approach potential customers and how you support existing customers. It is about how you treat others and how you communicate with people. As you grow your business plan, the 7Ps of marketing should be considered when developing marketing strategies for your company.

Self-test 5.2

1. Discuss the marketing strategies that you would consider when starting your business.

5.3 Technology and the Entrepreneur

Objectives

By the end of this section, you should be able to:

1. Define technology in business.
2. Describe modern business machines used by entrepreneurs.
3. Explain the functions of the Internet and e-commerce in business.

Introduction

The growth in the speed of computing, the power of computers and the drop in costs is beneficial to business start-ups. The need to communicate, share and collaborate online is essential to most businesses these days. It is important for entrepreneurs to take advantage of the latest technologies to help them manage their business, sell their products and services and communicate with their customers and suppliers. In this section, we are also going to explain some common types of modern business machines generally used by small entrepreneurs.

Let us begin by looking at the definition of technology.

Business dictionary defines "technology" as the purposeful application of information in the design, production, and utilisation of goods and services goods and services and in the organisation of human activities. It is also a scientific knowledge applied to business by all kinds of people including entrepreneurs.

Modern business machines used by entrepreneurs

Today almost every business employs some form of technology to support their business operations and activities. During business start-ups the Internet and different online research tools are used to research the current and future market as well as the company's potential competition. Some of the technologies required by a start-up business include:

1. Cell phones and smart phones.
2. Desktop computer hardware (MAC or PC) and supporting printers, scanners, etc.
3. Laptop or Tablet hardware for mobile businesses.

4. Access to local area networks to connect business computers.

5. Access to the Internet and wide area networks to support external communications.

6. Access to a cloud network for file storage, sharing, collaboration and back-up.

7. Business software including:

   a. Word processing.

   b. Spreadsheet.

   c. Presentation software.

   d. Bookkeeping software.

   e. Database software.

   f. Web design software.

   Specialised software for specific industries:

   a. Retail hardware such as cash registers, scanners, inventory tracking contacts, etc.

   b. Presentation hardware (e.g., projectors, video walls, etc.)

   c. Security and monitoring hardware and software.

   d. Energy saving systems.

   e. Audio conferencing and video conferencing systems.

The Internet and e-commerce

The Internet is an essential part of any business. Some of the common business activities completed via the Internet include:

1. Company information site.

2. Customer education and awareness.

3. Marketing of products and services.

4. Receiving customer orders and shipping of products.

5. Online customer support and technical support.

6. Communications with potential and current customers.

7. Ordering supplies and other materials from other companies needed to support the business operation.

8. Communicate and work with virtual employees or contractors used to support the creation of your products or the delivery of your services.

9. Provides alternative revenue streams through the advertising of other products and services that is provided by similar businesses.

E-commerce operations are becoming common among start-up businesses. Before we explain the benefits of **e-commerce**, let us understand its definition:

> "E-commerce is the paperless exchange of business information via the internet". It simply means the buying and selling of products and services by businesses and consumers through an electronic medium, without using any paper documents. E-commerce is widely considered the buying and selling of products over the internet, but any transaction that is completed solely through electronic measures can be considered e-commerce. E-commerce is subdivided into three categories: business to business or B2B (Cisco), business to consumer or B2C (Amazon), and consumer to consumer or C2C (eBay). It is also called electronic commerce. (Longernecker et al. 2003)

Benefits of e-commerce:

1. It is another way of conducting business transactions that was traditionally carried out using telephone, mail or face-to-face.

2. It gives smaller companies opportunities to compete with bigger companies.

3. Small companies serve small geographic area and Internet blurs geographic boundaries.

4. E-commerce allows any business to access customers no matter where they live.

5. Helps small firms with cash flow problems by reducing their sales cycle.

6. It helps small companies to build stronger customer relationships.

Identifying technologies

You must identify how technology can benefit and support your business operation as part of your business planning and start-up process. You must select technologies that will deliver the services you need and helps grow your business. Remember to keep the customers and potential customers in mind. Ask yourself what type of technologies do my customers have access to? Do they use technologies to identify products and services?

Activity 5.3

Discuss the importance of Internet and e-commerce to an entrepreneur.

You must also consider the type of technologies your suppliers use. Will I need access to a specific type of technology or specialised software to facilitate communications with suppliers? What technologies do I need to help control my inventory or manage my cash flow?

All of these considerations should be included in your planning process. Selecting the correct technologies at the beginning of the business will ensure you do not need to change later on or waste time and energy converting from one technology to another. You also need to consider different options for procuring technologies. This would include purchasing the technologies, leasing technologies or paying others to support your technological needs.

Summary

This section emphasised the importance of technology to entrepreneurs. Connections to mobile and virtual worlds will not only expand entrepreneurs' business horizons but also afford them opportunities to understand the operations of global markets and the impact of international business standards to their businesses. Make sure that the selection of appropriate technologies is part of your initial planning process.

Self-test 5.3

1. Distinguish the types of technologies that you may need and how you would use these technologies to grow your business.

5.4 Legal and Ethical Consideration

Objectives

By the end of this section, you should be able to:

1. Explain legal issues impacting a small business.
2. Differentiate what is ethical and unethical in a business operation.
3. Develop a code of ethics for your business.

Introduction

In the previous unit, we discussed the regulatory framework that your business needs to work in. This means choosing to register your business as a sole proprietor, partnership, limited company or public limited liability company. But this is just the first decision that you must make. You must also learn to operate your company within the legal and ethical framework within your country or region.

Legal requirements for your business

As part of your business planning process, you must be familiar with the laws and regulations in your country or community that guides the start-up and operations of a small business. These may include:

1. Requirements for registering a business, including procedures for naming your business.
2. Local laws that govern business operations.
3. Guidelines that govern the health and care of employees and customers.
4. The tax code for small business operations.
5. Codes of conduct relevant to specific industries, sectors or professions.

Governments may offer certain facilities or incentives to entrepreneurs starting a new business. These may take the form of:

1. Grants to set up a small business.
2. Micro-finance opportunities.
3. Tax relief.

4. Recognition in the community, etc.

5. Legal aid.

Naming a business

The easiest way to name your business without any legal or regulatory hassle is to use your own name (e.g., Smith and Associates, or Smith Manufacturing). If you intend to use a name other than your own (e.g., Golden Globe Productions) then you must complete a legal name search to ensure that no other business entity is legally registered under the proposed name. Your country or regional business naming registrar must approve the name before you can use that name on your business cards, building signs, etc.

Your name can only include the terms "Incorporated' or "Limited" if you are registered as a limited company or corporation. Remember when selecting a name for your company, you must live with the selected name for a long time. The name reflects who you are and what you do. Make sure your company name:

1. Reflects the products and services you provide to clients.

2. Can be easily understood by potential clients.

3. Has marketing value.

4. Can potentially be employed as a registered trademark in the future.

As part of the process of starting a company you need to complete a name search before you register your company or produce any marketing materials. In most countries, a name search is built into the registration process, but it may take time for you to get approval. You may want to think of two or three names just in case the name you have chosen is already in use. Once you have approval to use the name of your choice, you can move on to register your business.

Government regulations and your business

As the owner of a small business/enterprise, you will have to deal with local and national government regulations and laws. Take the time to research the applicable regulations before you start your business is as important as knowing your market. It is important for you to be familiar with the laws that will govern your business so that you can plan ahead to ensure that your operations will be law abiding.The **Companies Commission of Malaysia** (*Suruhanjaya Syarikat Malaysia (SSM)*) is a statutory body formed under an Act of Parliament that regulates corporate and business affairs in Malaysia. The SSM was formed in 2002 under the *Companies Commission of Malaysia Act 2001*, assuming the functions of the Registrar of Companies and Registry of Business.

The main purpose of SSM is to serve as an agency to incorporate companies and register businesses as well as to provide company and business information to the public. The commission launched SSM e-Info Services to allow information on companies and businesses obtainable via its website.

As the leading authority for the improvement of corporate governance in Malaysia, the commission also handles monitoring and enforcement activities to ensure compliance with business registration and corporate legislation.

In 2003, the SSM began a review of the Companies Act 1965, with the aim of simplifying the process of incorporation in Malaysia and reducing businesses' costs of compliance with Malaysian corporate law.

Web Reference

Further information on its services, code of ethics and legal framework can be found in http://www.ssm.com.my/en

Licenses and registration

Depending on the type of business you start, you may need to apply for different types of business operating licenses. However, not all may be applicable to your type of business. Here are some examples of different licenses you may need to get once you register your business:

1. **Trader's license** gives individuals permission to operate businesses in specific areas and permit trading in specific types of business.

2. **Certificate of Occupancy/Permission** from the Planning Division in your country/area of operation must be sought if you intend to put up a building/stall or if you intend to change the use of an existing building or stall.

3. **Liquor licence** must be obtained if your business will be involved in the sale of alcoholic beverages.

4. **Tour Guiding Licence** that allows individuals to organise and conduct tours in the region.

5. **Vehicle Operating Licence** to operate special equipment, buses, tractor trailers, etc.

You may also be required by law to register your business for tax purposes. Some common forms of tax are:

1. **GST (Goods & Services Tax)**, which is also known as VAT or the value added tax in many countries is a multi-stage consumption tax on goods and services.

2. **Business/Corporate tax requirements**, in many countries, small businesses enterprises sole proprietor and partnerships are exempted from direct taxes. However, the business owners become liable. Most companies/corporations are required to pay corporate taxes. In some countries, the company corporation may be tax-exempted for a specified period of time or if their sales value does not reach a certain amount per year.

Activity 5.4

Explain the importance of applying for a business license and give examples of some of the licences that an entrepreneur may need to run his/her business legally.

Ethical consideration for entrepreneurs

Not only must a business be conducted in a legal way, it must also be conducted in an ethical manner. Before we start we need to understand what ethics means. Ethics refer to moral principles or a set of values held by an individual or group.

Ethical business practices include assuring that the highest legal and moral standards are observed in a company's relationships with the people in your business community. This includes the most important people in your business; your customer and your employees.

A business should make a list of values that will guide the ethical operation of the company. In some organisations, the business leaders may even decide to provide a list of ethical practices that the company will embrace and demonstrate. This list can be in the form of a code of conduct.

Code of conduct describes how to ethically deal with issues like:

- Compliance with laws, rules and regulations.
- Conflicts of interest.
- Dealings with the public.
- Health and safety within the workplace.

- Competition and fair dealings.
- Discrimination and harassment.
- Environmental management.
- Proper use of company assets.
- Payments to external providers or politicians.
- Confidentiality.
- Financial management and reporting.
- Trustworthiness.

Ethical business practices build trust in your organisation among business associates and suppliers. Strong supplier relationships are critical to a successful business. Consider the problems you might have if you cannot supply what the customer needs.

As an entrepreneur, you are a role model for your employees. If your behaviour includes lying to customers, taking money out of the cash register, or taking home some of the inventory or supplies, do not be surprised if your employees follow your lead. Your family members may see the business as their own and take things that belong to the business. Employees may see this as dishonesty, or as a conflict with their needs for a raise in pay.

The community expects your business to operate in an ethical manner that enhances the image of the community as a whole. If you are located in a mall, for example, your code of ethics will help or hinder customer traffic for the other businesses too. A reputation for telling customers anything they want to hear, regardless of the truth, eventually hurts your business and other businesses around you. It usually is not illegal to lie to customers, but it is not good business.

Ethical behaviour is merely making good business decisions based on an established "code of ethics". Entrepreneurs should establish a written code of ethics that can serve as a framework for decisions to be made by the entrepreneur as well as the employees.

Developing code of ethics/code of conduct

Malaysia is increasingly dependent on the private sector for sustainable growth in commercial and business activities as well as for overall economic growth, especially with the positive economic developments and the privatisation of national operations such as the postal service, telecommunications, power generation and sewerage system providing disclosure of company reports and accounts for in-depth review.

The business environment and laws will continue to become more complex and this has imposed a greater demand for reasonable competence amongst company directors. It is important to establish a standard of competence for corporate accountability which includes standards of professionalism and trustworthiness in order to uphold good corporate integrity.

The experience within the country has exposed a critical need for the formulation of corporate accountability standards in order to establish an ethical corporate environment.

The principle of this code is based on principles in relation to sincerity, integrity, responsibility and corporate social responsibility. The Code of Ethics is formulated to enhance the standard of corporate governance and corporate behaviour with the intention of achieving the following aims:

1. To establish a standard of ethical behaviour for directors based on trustworthiness and values that can be accepted, are held or upheld by any one person.

2. To uphold the spirit of responsibility and social responsibility in line with the legislation, regulations and guidelines for administrating a company.

In developing a code of ethics the entrepreneur should consider the following items:

1. Identify general principles that will lead to fair business practices.

2. Identify the values that will guide your interaction with customers and employees.

3. Check with your industry association for basic standards to follow.

4. Allow for the fact that ethical questions do not always have a unique, faultless answer.

5. Write out specific statements that will assist you and others in making day-to-day ethical decisions.

Apply your code of ethics to a written policy and procedure manual identifying the major rules for operating your business.

- Train your employees (and family members) to make ethical decisions about the business.

- Your code of ethics will apply to all types of business operations including the following.

- Handling cash and checks from customers.

- "Negotiating" special prices for a friend without permission.
- Accepting gifts from suppliers and business associates.
- Selling damaged merchandise.
- Warranties on products.
- Merchandise returns policies for customers.
- Returning merchandise to suppliers.
- Handling shoplifters.
- Accounting procedures for cash sales.
- Employee theft.
- Insurance coverage adequate to protect the business and employees.
- Supporting your advertising promises.
- Checking in merchandise when received from suppliers.
- Keeping the premises clean and free from harmful substances or germs.
- Handling employee performance problems.
- Telling customers the truth.

Summary

This section focused on the legal and ethical considerations when starting your own business. Factors considered cover the collection of information, deciding on the name of your business, compliance with government regulations and understanding business ethics.

Congratulations, you have completed the last section in this course. You have developed a detailed understanding of factors involved in starting your business. Following legal procedures and emphasizing ethical practices will give you personal satisfaction and help grow your business.

Self-test 5.4

1. Explain why ethics are important for your business operations.

Summary of Unit 5

Summary

The sections covered in this unit will give you a clearer understanding on how to craft a business model, marketing mix strategy and also consider the advantages of embracing the latest technologies in your business. You have also learnt about the legal requirements that you need to comply with as a business owner and you have considered how to develop a code of ethics to guide your business operations.

Course Summary

Summary

Congratulations on completing *BBM 210/05 Entrepreneurship Development* course. You should now have a basic understanding of entrepreneurship that will enable you to explore the subject to a deeper level if you wish to do so. We will now briefly look back what you have learnt in this course.

In the first unit, you were given the fundamentals of the field of entrepreneurship. Unit 1 explained the basic characteristics on entrepreneurs and how successful some entrepreneurs have evolved in Malaysian context. It has also provided a clear understanding on what motivates entrepreneurs and what makes them creative. The discussion on the history of entrepreneurship should have given you ample background on the origins of entrepreneurship and how the subject has evolved over time.

In Unit 2, you learnt the preparatory steps required to start a business and how to write business plans. By studying the necessary components of business plans, you now know the strategic importance of planning and how it can be beneficial in turning ideas into profitable businesses. You also learnt about the various types of business entity and their basic legal requirements. The possibilities of e-commerce were also briefly discussed.

In Unit 3, you explored various managerial issues in entrepreneurship and learnt about entrepreneurial communication and leadership. This unit discussed the culture of competition in entrepreneurship and touched on the process of managing change.

In Unit 4, you have explored the key elements of a business structure. You should be able to identify and distinguish between different types of businesses based on how they are organised and financed. You have learnt about the importance of understanding your competition and how to market your products and services.

In Unit 5, you have learnt how to craft a business model, marketing mix strategy and also consider the advantages of embracing the latest technologies in your business. You have also learnt about the legal requirements that you need to comply with as a business owner and you have considered how to develop a code of ethics to guide your business operations.

Suggested Answers to Self-tests

Feedback

Self-test 5.1

Before you star burning your cash, make sure you got the right Business Model (BM):

1. Start with a customer- your insight, idea, hidden need & etc.
2. Move from that and think of all the components of the business model.
3. Sketch out your BM by using a canvas and see how everything links together.
4. Co-create with other people, brainstorm and look for alternatives and improve your model.
5. Your BM is just a set of hypotheses, test it with clients.
6. Reiterate on their feedback until you are able to sell a minimum viable product (ideally).

Self-test 5.2

Before you open for business, make sure that all the elements of your business are in place. In order to do these we have provided a "Before you start" checklist for you to review and supplement with appropriate items? You will learn how to hire and train good employees, how to buy, and how to market, promote, and advertise your business.

Self-test 5.3

- Use the Internet to Finance Your Business
- Embrace Social Media and Expand Your Sales
- Adopt New Technologies to Streamline Your Business

- Take Your Business into the Cloud
- Spend the Money to Create a Mobile App

Self-test 5.4

When speaking of the importance of ethics in business, most people infer that the term ethics refers to the business as a whole. On the contrary, business ethics apply to the individuals working within businesses. Each individual's action within the company affects the entire company, not just the individual. When an employee acts ethically and responsibly, it helps the entire organisation. Business ethics are more than just words used to enhance the image of a corporation; they are the very foundation of success. Business ethics should be applied at the very moment a firm opens its doors.

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