

## BBM210/05 Entrepreneurship Development course guide (Revised)

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## *Unit 2*

BBM 210/05

# Entrepreneurship Development

## Starting a New Business



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## Unit Overview

The main aim of this unit is to give you an outline of the preparations that you should make to start a business as an entrepreneur. From this unit, you will come to recognise the skills needed to become an entrepreneur or a self-employed person. You will learn to do business planning and to write business plans. You will also examine the various types of business entities that an entrepreneur can start.

## Unit Objectives

By the end of Unit 2, you should be able to:

1. Explain the need to develop the skills required for self-employment or entrepreneurship.
2. Explain what a business plan is and write an effective business plan.
3. Describe the importance of a business plan and explain why they may fail.
4. Describe the various types of business entities and their basic legal requirements.
5. Explain what a traditional brick and mortar business, an online business and a hybrid business are.



## 2.1 Preparing to be an Entrepreneur

### Objectives

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

1. Identify certain skill sets that you will need as an entrepreneur who is starting a business.
2. Describe the entrepreneurship activities that are needed for drawing up the starting strategies for your business.

### Introduction

Before venturing into the world of entrepreneurship, you have to make orderly physical and mental preparations besides choosing the product or service to offer, the location of the business, the nature of the business, employees, marketing strategy and strategy to handle competition. All these aspects need to be considered carefully so that you can select them appropriately based on your experience, knowledge and the capabilities. An entrepreneur needs to be cautious in making decisions on these aspects because trial and error methods are not encouraged in the field of entrepreneurship. Therefore, every action that is to be taken should be analysed based on the costs involved and the benefits that can be obtained. All relevant matters should be considered before a decision is made to venture into the world of entrepreneurship.

### Entrepreneurial skills

Entrepreneurs need to have certain skills to manage entrepreneurship activities. They must have skills in communicating effectively; listening actively, working with people and helping others work together. They must also be able to honour their promises. An entrepreneur's consistency in words and actions is related to his or her reliability, predictability and good judgement in handling a business. Inconsistencies between words and actions will decrease the level of trust that stakeholders such as business partners and investors have in an entrepreneur. In other words, entrepreneurs must have integrity and honesty. To increase their chances of success in business, entrepreneurs need to develop the following skills.



## Technical skills

Technical skills involve the ability to use specific and technical knowledge in fields such as engineering, finance, accounting and marketing. This knowledge is usually obtained through formal education. However, entrepreneurs may gain technical skills through working experience before venturing into business. Technical skills are essential, especially in handling daily business issues such as how to market a product, how to prepare a budget and how to prepare a profit-loss statement. Entrepreneurs should have proficiency in the use of quantitative and qualitative methods, processes, tools and equipment related to their area of business.

Entrepreneurs must ensure that they have sufficient knowledge of the field that they plan to venture into. Technical skills are important to entrepreneurs because they influence the policies and strategies of the business enterprise. At the same time, by having these skills, entrepreneurs have the ability to temporarily take over a task in the event that a key employee leaves the business.

## Human skills

Entrepreneurs must have the ability to work in teams. They must be aware that they cannot manage the business by themselves. Therefore, they have to understand the ways and feelings of others. They must have the ability to motivate their employees and at the same time be able to empathise them. These skills enable them to choose an appropriate entrepreneurship style when facing certain types of employees. Entrepreneurs should thus have emotional expressivity, sensitivity, social expressivity, political sensitivity, effective communication skills and persuasiveness.

Having these skills allows an entrepreneur to delegate tasks to knowledgeable employees. They will be more sensitive to employees' problems, better prepared to accept diversity, more generous in expressing their appreciation of employees' efforts and more flexible.

## Conceptual skills

Conceptual skills enable entrepreneurs to make consistent decisions and to integrate business activities in order to achieve their company's major aspirations. In other words, these skills involve the ability of entrepreneurs to see their business activities as a complete and related set of activities. They should have the ability to anticipate changing trends and opportunities, analyse and diagnose problems, and carry out continuous improvement and/or problem resolution. They should also be proficient in the conceptualisation of complex and ambiguous relationships, creative in idea generation and articulation, and exhibit sound logical reasoning.

These skills involve the ability to analyse, forecast and identify problems; to sort out situations; to make decisions and to monitor efforts to grow the business. They allow the entrepreneur to have a complete picture of his or her business and understand how each part of it is merged into a unique combination that contributes towards achieving objectives. In this context, the entrepreneur has an advantage if he or she knows how changes in any part affect the business as a whole.

## Administrative skills

Administrative skills involve the ability to organise work effectively, prioritise operational obligations, be efficient and timely in the processing of information, provide rapid routine decision making, monitor performance constantly, have solid control of financial resources and have sharp attention to detail. In many situations, entrepreneurs have to work according to rules and procedures; therefore, they require strong administrative skills.

## Psychological skills

The psychological factors like need for achievement, determination of unique accomplishment, self-confidence, creativity, vision and leadership are among the psychological factors that promotes entrepreneurship among individuals. On the other hand, psychological factors like security, conformity and compliance, need for affiliation may restrict promotion of entrepreneurship.



### Activity 2.1

1. Provide five practical examples of each of the skills an entrepreneur should have.
2. Divide your tutorial class into four groups and debate on which is “the most important one” of the skills stated in the preceding subsection, with each group representing one skill.

## Strategies to start a business

Before starting a business, entrepreneurs should make orderly preparations so that they are able to select an appropriate entrepreneurship activity based on their strengths. The preparations should include the following:

### 1. Entrepreneurship activity planning

Entrepreneurs must make plans before venturing into the field of entrepreneurship. They must know the proper time to venture into a particular business. They should plan to start a business when they can gain profits from day one. They should also attempt to find out whether it is possible for them to survive in the field. To do this, they must gather facts relating to their target markets such as market size, competitors’ strengths and the restrictions that they might face. They should also assess whether incoming competitors may offer something new and interesting that will disrupt their plans.

## 2. **Identifying the market**

Entrepreneurs must research their target market's size and determine the percentage of the market that they want to capture. They should be able to identify the target market in terms of the age, gender, location, education level and the buying power of their future customers. Successful entrepreneurs have said that the only way to see opportunities is to really know customers and their problems. This knowledge provides entrepreneurs with opportunities to create new products. The assessment of the market should help entrepreneurs identify where potential business lies.

## 3. **Price setting strategy**

The price of a product will influence customers' acceptance of the product. Price will also determine the amount of profit that entrepreneurs gain. Entrepreneurs can set prices based on those of their competitors, or act bravely and implement a price differentiation strategy. When setting prices, entrepreneurs should also take into consideration that customers also consider other factors when making a purchase. These factors include:

- a. The time involved in selecting a product to purchase.
- b. The physical effort involved in selecting a product to purchase.
- c. Sensory and psychological costs.

## 4. **Marketing strategy**

After deciding the price of the product or service and considering all the costs involved, an entrepreneur must create a strategy to ensure that the product or service is known to everyone, especially to the target groups.

The strategy must first create an interest among potential customers to purchase the product, assure them that the product is the best that they can find and inspire in them the confidence to continuously buy the product. A marketing strategy includes specifications of how the product is to be presented through packaging, usage and storage. The second part of the strategy concerns the identification of suitable marketing locations (urban or rural) and the place of manufacture. The third part of the strategy focuses on the selection of distribution channels; that is, whether the product will be distributed through sales agents or by the company itself.

## 5. **Developing skilled manpower**

Possessing skilled manpower that has enthusiasm and commitment is an essential factor for the success of a company. Therefore, it is the responsibility of an entrepreneur to select suitable employees, provide a competitive salary,

upgrade workers' skills by providing them with training and prepare an effective performance evaluation system. Efforts must be made to avoid a high absenteeism rate, retrenchment, creating conflicts with employees and taking measures that might cause dissatisfaction and depression among employees.

#### 6. Total project cost

Entrepreneurs must look at the assets that they own, which can be used to fund the business that they are about to venture into. They must consider total fixed property in hand that can be mortgaged and cash that can be used as capital. They must look into their financial resources, whether from their own savings or loans from their family and financial institutions. If entrepreneurs obtain a loan from a financial institution, they must look at the terms and conditions of the loan, the payment methods and the payment period.



#### Activity 2. 2

Using as many resources (such as books, magazines and the Internet) as you can find, describe at least four methods that can be used to identify markets.



#### Summary

Entrepreneurs need to be fully prepared for all kinds of competition and risks before engaging in entrepreneurship. They should have effective management skills. They must always be sharpening their technical, human, conceptual and administrative skills to ensure the success of their business. It is also crucial that entrepreneurs know the strategic preparations necessary for starting a business. In this section, you have learnt the basic strategies of starting a business and the factors to be mindful of.



### Self-test 2.1

1. Briefly describe the four skill sets an entrepreneur should develop for managing entrepreneurship activities and discuss in detail the technical skills development for twenty-first century entrepreneurs.
2. What is meant by “entrepreneurship activity planning”? Briefly explain the steps involved in entrepreneurship activity planning and describe how it can support the starting of an entrepreneurial business.

## 2.2 Business Plan

### Objectives

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

1. Describe the functions of a business plan.
2. Describe the main elements of a good business plan.
3. Prepare a good business plan on your own.

### Introduction

Today's business environment is dynamic and complex. In order to gain and retain a sustainable competitive advantage in this kind of environment, how a business aims to achieve its stated objectives and how it is to be efficient has to be communicated through a business plan.

Business planning is one of the management tools that are used to achieve the objectives of a business. Investors are more likely to invest in a business if they believe that the business planning is realistic and accurately forecasts business viability. Therefore, an entrepreneur should prepare a convincing business plan in order to attract investors. The business plan is prepared based on information that the entrepreneur believes to be correct about the market and the product or service that is to be produced or provided. The accuracy of the business plan will reflect the entrepreneur's ability, experience and record in running his or her business.

### What is a business plan?

A business plan is a written document that describes in detail the overall plans of the business in which an entrepreneur wants to get involved. Even if entrepreneurs have been in business for a number of years, committing their plans to paper allows them to re-examine their business as well as to consider new business opportunities. A business plan is the blueprint of a company, presented in a standard format that is logical and realistic. It must clearly communicate the ideas of an entrepreneur and what he or she wants to achieve. To accomplish this, a business plan should include:

1. Evidence of focus, which shows the entrepreneur's expertise or that he or she has done exceptionally well in the business that he or she is involved in.
2. A description of who the entrepreneur's target customers are.
3. A description of how the entrepreneur plans to fulfil investors' or lenders' requirements.

According to Utton (2001), a business plan is a detailed programme or roadmap outlining every conceivable aspect of an entrepreneur's proposed business venture. It is a comprehensive, self-explanatory plan of what an entrepreneur intends to do; and how, when, and where he or she intends to do it. The business plan also explains why the entrepreneur believes the idea is viable and profitable. It is, in essence, a structured guideline to achieving the entrepreneur's goals in operating the business.

Besides all that, a business plan is the ideal tool with which to check the facts about a business and comprehensively examine the practicality of the business idea before taking action on it. It gives the entrepreneur an opportunity to make a realistic forecast of the business' prospects and list the actions for taking the business into operation. In addition, it also helps the entrepreneur to identify areas of strength and weakness, pinpoint needs and details that the entrepreneur may overlook, and describe the opportunities to be gained and the threats to be faced. All these aspects will determine how entrepreneurs achieve their business goals.

A business plan needs to be written against a framework of the following three questions:

1. Where am I now?

This is an assessment of an entrepreneur's current position; the people, resources, assets and cash that he or she has to assist him or her in the business.

2. Where am I going?

This is the "visioning" part of the process. What are the entrepreneur's personal objectives, why does he or she want to run a business? Where does he or she want to be in five years' time?

3. How am I going there? What are the milestones?

In general, entrepreneurs need to prepare a business plan for the following purposes:

1. It encourages them to arrange their thoughts in a logical and structured manner.
2. It helps them to create a business framework by defining the activities to be undertaken, the responsibilities of the various stakeholders and the objectives to be achieved.
3. It encourages entrepreneurs to simulate reality and anticipate problems before they actually occur.
4. It helps entrepreneurs to develop strategies to meet their objectives.

5. It serves as an action plan or guideline in operating the business.
6. It enables them to identify constraints that they may face when running the business.

For your business plan, you will need to find the answers to the following questions:

1. Who wants your product or service?
2. What characterises them — what is their market segment?
3. What is the anticipated value of the market?
4. Is the market likely to grow?
5. What are your competitors doing?
6. What are their strengths and weaknesses?
7. How are we positioning our product or service offering?

## The importance of a business plan

A business plan is very important to an entrepreneur for the following reasons:

### 1. It increases the chances of success

Comprehensive business planning can define the level of performance that is supposed to be achieved by the business. A business plan will determine the actions that need to be taken to ensure the success of a business venture. It takes into consideration the structure of the business, the introduction of new technology and new manufacturing techniques, and the development of employee training programmes. Careful consideration of all these aspects will increase the entrepreneur's chances of success.

### 2. It describes the mission and vision of the business

A business plan clearly sets out the mission and vision of the business. It guides an entrepreneur to take the right decisions and actions in the future. The mission and vision statements will together act as a “lighthouse” that enables the entrepreneur to know exactly where he or she is going. In addition, the business plan allows the entrepreneur to communicate the mission and vision to all stakeholders in order to gain their confidence.



**3. It helps to determine the main competitor/s**

Frequently, entrepreneurs ignore the reality of competition in their new venture, believing that their product has no close substitutes and that their success will not attract other entrepreneurs. Business planning will enable entrepreneurs to determine who their main competitors are, as well as the strengths and weaknesses of these competitors. This knowledge can be obtained by performing competitive analyses to identify potential competitors' product lines or services as well as their market segments. The entrepreneur should identify all key competitors for each of their products or services and try to estimate how long it will take new competitors to enter the marketplace. This knowledge will help entrepreneurs to determine the strategy needed to counter their competitors.

**4. It helps to determine the right way of managing the business**

A business plan provides a space for entrepreneurs and their employees to develop effective strategies to run a business. In a business plan they can define the knowledge, skills and abilities that are required to implement a business.

**5. Increases stakeholder confidence**

Every stakeholder in a business is eager to know the company's strengths in terms of its finances, resources and viability. This information is very important as it enables them to determine their return on investment. For example, before a financial institution agrees to provide a loan needed by an entrepreneur, either to start or to expand a business, the institution would want to know the prospects of the business and its ability to repay the loan. Suppliers would also want to know an entrepreneur's financial position before they are prepared to extend credit for the purchase of goods or services. In addition, government agencies would also want to know the background and the nature of the business before they allow the company to be operated.

**6. It helps to determine the barriers to the business**

In implementing a business, the entrepreneur will no doubt face many barriers. These barriers will cause failure or slow down an entrepreneur's progress if they are not properly overcome. Therefore, entrepreneurs should know the barriers they may have to face before implementing a business and take the necessary action to overcome these barriers. The entrepreneur should know how far these barriers will affect them and their business. The entrepreneur should also ensure that products and services are in line with customers' tastes, government policies and changes in the business environment. All of this should be stated in the business plan.

## 7. It serves as a performance tool

A business plan is a performance tool, which if properly prepared will help an entrepreneur to work effectively towards success. A business plan allows an entrepreneur to set realistic performance targets. The business plan will provide the basis for evaluating and controlling the company's future performance in terms of profit, cost and quality.

## Who needs a business plan?

Among those who need a business plan are:

### 1. The entrepreneurs

The formulation of a business plan enables entrepreneurs to consider the time, effort, resources and support needed to achieve their goals. It will provide them with analyses of critical situations that may hinder business progress. In addition, it will help them to forecast changes. In a business plan, entrepreneurs must also analyse the factors that may lead to the success or failure of the company, as well as the threats and opportunities that may be faced in the future. Entrepreneurs must develop and examine the strategies and priorities needed to ensure the company's growth and these strategies and priorities should be clearly described and communicated. Entrepreneurs are responsible for setting reasonable benchmarks as measures of the company's success and these benchmarks should be stated in the business plan. In addition, the business plan will enable entrepreneurs to identify the difficulties and constraints faced by employees in achieving set targets.

### 2. The shareholders

A business plan is also important to shareholders. They have a responsibility to know how the business will be or is being operated and their approval must be sought if changes in targets and strategies need to be made. Therefore, shareholders need to know about a new decision before it is executed. A business plan should be considered as an essential document for shareholders because they can play a role in critically reviewing the draft plan. The business plan enables entrepreneurs to inform shareholders about future markets for their products or services, key employees, business operations, financial projections and future plans.

### 3. The bankers or creditors

A business plan is also needed by bankers when they are considering whether to extend a loan to an entrepreneur. Banks want to see the return that they can make from their loan by analysing the strategies and priorities of the company, which are stated in the business plan. Banks look at overall departmental strategy and policy, functional objectives and reporting

requirements. They also look at the availability of government grants and tax incentives.

#### 4. **The customers**

The customer is a person, business or agency that purchases and uses the goods and services produced by an entrepreneur. All customers have a limited amount of money and thus must decide how it will be spent. The business plan provides them with information about the company that they can use in making a purchasing decision. In effect, customers are the people who will determine what products and services a company will produce.

The business plan also provides customers with information about the quality and safety of the products that the company produces. To gain customers' confidence, entrepreneurs need to include information such as the price, product durability, ease of operation and maintenance, and after sales service and support. The customer will be more confident if a product or service uses new technologies and is endorsed or certified by organisations such as SIRIM, CAP and JAKIM, and is in line with customers' values and culture.

## **The essential elements of a good business plan**

The following are the essential elements of a good business plan:

### 1. **Executive summary**

The executive summary is the most important section of a business plan. It is the first thing the readers see and read. About 10% of readers will only read this part and the rest of the business plan will be neglected. This section needs to briefly tell readers where the company is and where it wants to be. Among the elements included in the executive summary are: the mission statement, the date the business started, the names of the founders and the roles played by them, the number of employees, the location of the business and the branches or subsidiaries if any, the description of plants or facilities, a list of the products manufactured and/or services provided, name of bankers, the progress of the company, the company's financial status and a summary of management's future plans.

### 2. **Market analysis**

The market analysis section should provide information about the industry the company is involved in. It should also present general highlights and conclusions of any marketing research that has been conducted. However, the details of any marketing research study should be moved to the appendix section of the business plan. This section should include an industry description and outlook, target market information such as the size of the market in terms of overall sales expected per annum for each product/service, a list of the major players and their sales for each product/service,

total potential sales for each product/service, and the desired market share for your organisation. The drivers and trends of demand in the target market should also be stated in this section.

### 3. **Firm and management organisational structure**

This section should describe the company's organisational structure and provide details about the ownership of the company, a profile of the entrepreneur(s) and the qualifications of the members of the board of directors and key management personnel.

### 4. **Marketing and sales strategies**

Marketing is the process of creating and attracting customers to the business. In this section, the first thing to do is to define the marketing strategy. The marketing strategy should be part of an ongoing self-evaluation process and is unique to the company. An overall marketing strategy would include a market penetration strategy, a strategy for growing the business, a strategy for the channels of distribution and a communications strategy. The section should also describe the sales strategy, including sales force strategy and sales activities.

### 5. **Service or product line**

This section will describe the uniqueness of the company's services or products, emphasising their benefits to potential and current customers. The entrepreneur should focus on the areas where distinct advantages exist. The problem in the target market for which the service or product provides a solution should be identified.

### 6. **Funding request**

This section focuses on the amount of funding needed to start or expand the business. If necessary, it can include different funding scenarios, such as the situation for the firm with and without funding, and the implications of each situation to the business. Funding may come from the following sources:

- a. Self, family and friends
- b. Shareholders and directors
- c. Internal company sources
- d. Banks
- e. Second-tier finance

- f. Special financial institutions
- g. Venture capitalists
- h. Mergers and acquisitions
- i. Grants

Therefore, this section will include funding requirements, future funding requirements (e.g., over the next five years), details of how the company will use the funds received and any long-term financial strategies the company is planning that would have an impact on its financial status.

## 7. Financial situation

The financial situation section should be developed after the market is analysed and clear objectives are set. In this section, the entrepreneur clearly shows the financial situation of the company by providing profit and loss forecasts, a cost flow forecast and a capital expenditure plan.

## 8. Appendices

Appendices should be provided to readers on an as-needed basis. Appendices may include a credit history, detailed resume(s) of the entrepreneur(s), pictures of products, letters of reference, details of market studies, relevant magazine articles, copies of licenses, permits, legal documents, leases and contracts, and a list of business consultants, including lawyers and accountants.



### Activity 2.3

1. Describe in no more than 250 words what a business plan is, what should be incorporated in it and why it is important.
  2. Find some entrepreneurial business plans from the Internet and identify the elements you see in them.
-

## Guidelines for preparing business plans

To enable a business plan to be prepared as effectively as possible, the following guidelines should be followed:

### 1. **Keep the business plan short**

Keep the business plan as short as possible without compromising the description of the venture and its potential. Cover the key issues that will interest an investor and leave secondary details for a meeting with the investor.

### 2. **Be focused**

The entrepreneur should not over-diversify the venture. This means that attention must be focused on one or two services or product lines and markets, because a new or young business usually does not have the management depth to pursue many opportunities all at once.

### 3. **Reveal the people involved and describe their roles**

The entrepreneur cannot have unnamed or mysterious people in the company's business plan. For example, the plan cannot simply mention that a Mr. Ahmad will join the company later as the vice-president of finance. Investors will want to know early on exactly who Mr. Ahmad is and his commitment to the business.

### 4. **Avoid the use of jargon**

The entrepreneur should not describe products or manufacturing processes using jargon that only an expert can understand. Most venture capitalists do not like to invest in what they do not understand or think the planners themselves do not understand.

### 5. **Information should be based on studies**

The entrepreneur cannot just provide an estimate in the business plan that has no logical basis. For example, the sales forecast must not be made on the basis of the production capacity available. Therefore, the entrepreneur must carefully estimate potential sales on the basis of a marketing study and from these estimates determine the production capacity required. Ambiguous, vague or unsubstantiated statements should not be made in the business plan because it makes the planner look like a shallow and fuzzy thinker. For instance, if the entrepreneur wants to substantiate the sales forecast, he or she must analyse past, present and projected future growth rates, and market size.

## 6. Be realistic and objective

The entrepreneur must be rigorously realistic and objective in making estimates and discussing risks in the business plan.

### Why business plans fail

Business plans may fail due to mistakes made by entrepreneurs when they write the business plan. All entrepreneurs need to have some type of plan; however, there are generally two problems with their plans. The first is that the **plan is generally in their minds only and is not adequately stated**. Secondly, the **plan has not been adequately thought out**. The entrepreneur needs to think through and plan strategy in time horizons of one year, three years and five years. A good plan anticipates the next stage of business growth and plans for it.

The entrepreneur should realise that the plan will help them to evaluate the goals and objectives of the business as well as the desired financial targets. Entrepreneurs must think about their goals for the business when they write the business plan. It should be possible for the entrepreneur to implement the business plan successfully. Business plans should have realistic goals. The business plan could be difficult to implement because the goals are not balanced with the resources that the business has. Entrepreneurs must make sure that the plan that they write is realistic. The goals of the company must be written clearly and be realistic. Each plan that is framed must be analysed to ensure that what is written in it can be successfully carried out. When entrepreneurs frame plans for the business, they must determine the steps that need be undertaken in each specific period to achieve the goals.

Another possible error in business plans is that entrepreneurs often **fail to expect barriers** that could arise and these unexpected barriers may cause the business to fail. When entrepreneurs write a business plan, they must think about problems that they may face. They must include contingency steps in their business plan. They must describe expected problems and provide possible solutions to these problems. These problems usually include financial issues, marketing analysis issues and the actions of competitors. Problems may also occur because of the economic environment that the business may face. The seriousness of the problems must also be considered.

The **entrepreneur may not have given sufficient consideration** to the task of selecting members of the planning team. Entrepreneurs sometimes select people with too little thought about their potential contribution to building a viable business when framing the business plan. Also, they sometimes do not consider whether each team member is positioned to drive the successful implementation of the resultant strategies. They may be unwilling to work hard or are not optimistic that the businesses goals stated in the business plan can be achieved. Some employees may not even understand what the business wants to achieve.

The **business may also fail to gather sufficient information for strategy planning**. At times, the planning team may meet to develop the business plan without having gathered the information necessary for proper strategic thinking. Naturally, their strategy will then be inadequate. The entrepreneur and the planning team must

decide in advance on the information that they will need for preparing the strategy and take the necessary action to obtain this information.

The **business plan must involve market analysis**. When the business does not analyse the market, it cannot determine the business environment and this may cause the business to be unsuccessful. Market analysis must be as specific as possible, focusing on believable and verifiable data. It must include a thorough analysis of the company's industry and potential customers. It must also include information on the size of the market, growth rates, recent technical advances, government regulations and market trends; that is, whether the market as a whole is developing, growing, matured and or in decline.



### Activity 2.4

Prepare a draft of your own entrepreneurial business plan. Let your friends evaluate your plan.



### Summary

Business planning is a management tool that is used to help achieve business objectives. It integrates the management functions of planning, organising, implementing and controlling. The business planning process provides management with the basic tools and information that describe the management and resource environment, and contributes to establishing the accountability framework needed to manage in a dynamic environment. The proper execution of a business plan is very important in ensuring the success of the business.



### Self-test 2.2

1. Discuss the importance of business planning in the world of entrepreneurship. Explain, with examples, the elements that make up a good business plan.
2. Briefly discuss why and how business plans fail, and suggest how to overcome or prevent such failures.





## 2.3 Start-up Platforms

### Objectives

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

1. Describe different types of business entities.
2. State the basic legal requirements of starting a business.
3. Explain the opportunities of online work.
4. Describe the possibilities of offline and online business presence.

### Introduction

The business start-up process is one of the most critical activities and attention must be paid to issues associated with the process. We will initially look at the various types of business entities, from sole traders to private limited companies. Then we will discuss where your business will be located, that is, either online or offline. We will also discuss the importance of Web presence.

### Different types of business entities

A business entity is a voluntary association formed and organised to carry on a business in the legal name of the association. In Malaysia, the most common types of businesses are sole proprietorships, partnerships and private limited companies. In this section, we will discuss the types of business entity that an entrepreneur can start.

#### Sole proprietorship

Sole proprietorships have only one business owner and only Malaysian citizens or permanent residents can register this type of business in this country. Personal names or trade names can be used as business names. Some names, such as those associated with government agencies or royalty or the name of another person who is not the owner of the business, cannot be registered. The *Application of Business Name* form must be completed for a sole proprietorship to be registered.

### *Advantages*

1. Easy to manage because the owner or proprietor can make decisions by himself.
2. The owner enjoys a certain degree of flexibility since as a sole owner he can react quickly and positively regarding necessary changes.
3. Easy to form and dissolve with minimum formalities.
4. All profits will go to the owner.
5. Not subjected much to government rules and regulations. For instance, the yearly financial statement that a sole proprietorship needs to submit to the Inland Revenue Board does not require validation by a qualified auditor.
6. The owner pays income tax based on his total individual income.

### *Disadvantages*

1. A sole proprietorship usually has a limited source of capital that could limit its business activities.
2. The liability of a sole proprietorship is unlimited. If the business incurs debts for which the business assets are not sufficient to cover, the owner must be prepared to settle the debts with his or her personal assets.
3. The future development of the business is limited and depends on the management capability and health of the owner.
4. The owner is solely responsible for carrying out all tasks; therefore, a lot of time and effort needs to be spent in managing the business.
5. The lifespan of the business depends on the age of the owner and how efficiently he or she manages the business. The business will be dissolved if the owner passes away. If someone wishes to continue the business, it will have to be re-registered.
6. As a sole proprietorship becomes bigger, it might want to raise more capital, diversify its functions and share risks. Therefore, the entrepreneur may find it necessary to choose another form of business entity.

## Partnership

Partnerships consist of two or more business partners combining their resources in a business. Only Malaysian citizens or permanent residents can register partnerships. A partnership agreement is usually drawn up by legal counsel and it outlines the responsibilities of each partner, the conditions by which the partnership can be terminated and the means of resolving intra-partner disputes. Personal names or trade names can be used as the business name. The *Application of Business Name* form must be completed before such a business can be registered. Some names, such as those associated with government agencies or royalty or the name of a person who is not the owner, cannot be registered.

### *Advantages*

1. Easy to set up with few formalities.
2. It is easier for a partnership to secure financial assistance from financial institutions compared to a sole proprietorship.
3. Equity can be increased by enlisting additional partners.
4. Business risks can be reduced and distributed among partners. In cases of losses, each partner will share the burden.
5. The responsibilities of managing and handling the business can be divided equally among the partners.
6. A lot of ideas, talents and skills can be pooled for better management.
7. As in a sole proprietorship, income tax is not imposed on the partnership itself but on the owners as individuals.

### *Disadvantages*

1. Business liabilities are unlimited and may involve the personal assets of all partners of the company.
2. The lifespan of the partnership depends on the lifespan of each partner. If any of the partners passes away or is declared bankrupt the business is automatically dissolved, unless there is an agreement otherwise.
3. If no agreement was made, unethical behaviour or misconduct may happen.
4. There are risks of personality clashes among the partners.

### Private limited company

A private limited company is a registered legal entity formed by several persons. Private limited companies can own property, enter into contracts and employ people. The most common type of company in Malaysia is a company limited by shares (public limited and private limited companies). Private limited companies cannot sell shares to the public and are distinguished by the appellation “Sendirian Berhad”, shortened to “Sdn Bhd” or “S/B”. Public limited companies source their capital by selling shares to the public and are distinguished by the appellation “Berhad”, shortened to “Bhd”. Companies in Malaysia are governed by the Companies Act 1965, which protects the rights and interests of shareholders and investors, and provides regulations for the incorporation of companies, the formulation of company constitutions, management and closures. A company must have a minimum of two members, but a private limited company is limited to 50 members (public limited companies have no member limit). A minimum paid-up capital of only RM2 is needed to start a private limited company, while public limited companies need a paid-up capital of not less than RM60mil (if it seeks to be listed on the Kuala Lumpur Stock Exchange Main Board) or not less than RM40mil (if it seeks to be listed on the KLSE Second Board).

#### *Advantages*

1. Funds are easy to acquire through the exchange of share ownership or loans from a financial institution.
2. All shareholders are legally protected by law.
3. Shareholders are not burdened with the management of the business because the responsibility to manage and run the business is held by the Board of Directors, which is appointed by the company's shareholders.
4. The liabilities of the company's members are limited to the amount of capital that they contribute to the company. Shareholders' personal assets are not affected.
5. The lifespan of the business is not dependent upon the age or resignation of its members.
6. It has a greater potential for expansion.
7. Legally, the company is a business entity by itself.

#### *Disadvantages*

1. A private limited company is subjected to more rules and regulations compared to the types of businesses described earlier. It must always abide by the rules and fulfil the terms set by the Companies Commission of Malaysia.

2. The company's shares cannot be transacted in the share market.
3. The company must pay corporate tax.
4. Qualified auditors must audit the company's yearly financial statement and the statement must be complete and regularly updated.
5. The financial affairs of the company must be made transparent to the general public.
6. The cost of setting up the company is high. The costs include the payment charged according to the authorised capital, professional fees, filing charges, and the printing of the company's *Memorandum of Association*, *Articles of Association*, share certificates and the company's seal.

## Location of your start-up: Physical, non-physical and hybrid

In this subsection, we will explore the possibilities of a traditional brick and mortar business, an online business and a hybrid business. For online businesses, we will also explore the importance of location (i.e., the domain name) and interface style in brief.

The questions you should ask when considering the location of your business are:

1. Do I need an office for customers and potential clients to visit?
2. If the business is production oriented, can the business be located in a garage or industrial estate where the rent may be low?
3. If you are going to use your house, which part of the house are you going to use? Will customers be visiting your premises?

We will next discuss where you can “locate” your business, bearing in mind the three questions you asked yourself.

### 1. Traditional brick and mortar business

Certain start-ups may require face-to-face interaction with customers, in which case you will need a physical presence. A purely physical (i.e., brick and mortar) business will conduct most of its operations offline. The business may have a website just to display information about it.

## 2. **Online business**

Running a business from home is a long-standing practice of entrepreneurs starting their fledgling business. The World Wide Web provides a convenient and cost-effective way of running an online business from your home. Some of the advantages of an online business are as follows:

- a. Lower start-up cost. Without having to spend on physical offices, you can save a lot of money.
- b. Takes less time to start.
- c. Work on your own time.
- d. Round-the-clock and/or international operations are possible.

The disadvantages of having a 24/7 online business is:

- a. The inability to close shop.
- b. Full dependence on technology — if the web server is out of service, so is your business.

## 3. **The hybrid model**

In the hybrid model, you have both Web and offline operations. The business will function in a way similar to that of Barnes and Nobles, which has a chain of bookstores in addition to their online store (as opposed to the pure online operations of Amazon.com).

## **E-commerce**

The role of e-commerce needs to be assessed in the start-up stage as both business-to-business (B2B) and business-to-consumer (B2C) e-commerce sales continue to increase throughout the world. Factors that are facilitating the growth of e-commerce are:

1. The widespread use of personal computers.
2. The adoption of intranets in companies.
3. The acceptance of the Internet as a business communications platform.
4. Faster, more secure systems.

## Using e-commerce

The Internet is especially important for small- and medium-sized companies as it lets them minimise marketing costs while at the same time reach broader markets. An entrepreneur starting an Internet venture needs to address many of the same strategic and tactical questions as other types of company plus some specific online issues.

One decision is whether to run the Internet operations within the company or to outsource these operations. If handled in-house, expensive equipment, software and support services have to be maintained. Two possible ways to outsource an Internet business are to:

1. Hire Web developers to design a website.
2. Use packages for e-commerce available from various software companies.

The two major components of Internet commerce are front-end and back-end operations. Front-end operations enable the website's functionality, such as its search capabilities, a shopping cart and secure payment methods. Back-end operations involve integrating customer orders with distribution channels and manufacturing capabilities.

## Websites

The use of websites by entrepreneurial firms is increasing yet the majority of small businesses do not feel they have the capability to build their own website. However, as mentioned above, the rise of e-commerce means that the setting up of a website may be unavoidable for an entrepreneur who wants to establish a business. So, let us now briefly examine the features of a good website.

One of the keys to a good website is its ease of use. The entrepreneur needs to structure the website to effectively engage the target market and the contents of the website must be fresh and updated regularly. There are several important features that every website should have:

1. Search capabilities.
2. Functions such as a shopping cart, secure server connection and credit card payment.
3. Orders and other sensitive customer information should be transferred only through secure servers.
4. An e-mail response system for customer feedback.



A successful website has three characteristics: speed, speed and speed. It should be easy to use, customised for specific target market groups and compatible with different browsers. If the company is targeting international markets, then language translation and cultural adaptation need to be considered.



### Web Reference

Additional reading on starting a business may be browsed through the below listed web addresses:

- a. <http://www.ssm.com.my>
- b. <http://www.smecorp.gov.my>
- c. <http://www.mavcap.com>
- d. <http://www.mfa.org.my>



### Summary

In this section, we discussed the various types of business entity, namely the sole proprietorship, partnership and private limited company. We also looked at where you can locate a business; that is, whether you want to establish a brick and mortar business, an online business or a hybrid business. In addition, we briefly examined the impact of the Internet on entrepreneurship and described how a website may be used to an entrepreneur's advantage.



### Self-test 2.3

1. What types of business are most ideal for online operations?
2. How can an online business be grown?

## Summary of Unit 2



### Summary

In this unit, you have 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.



# Suggested Answers to Self-tests



## Feedback

### Self-test 2.1

1. The four skills are: technical skills, human skills, conceptual skills and administrative skills. The description of each skill can be found in this unit.
2. Step-by-step planning in allocating time and resources during and after the start-up process.

### Self-test 2.2

1. Having a business plan is equivalent to having a road map; without one, a traveller is at risk of getting lost. If an entrepreneur does not have a good business plan, the chances are that the business will not do well. In addition, the preparation of a business plan provides an entrepreneur with insight, pragmatism and strategic vision. The elements that make up a good business plan can be found in the text of this unit.
2. Business plans may fail due to mistakes made by entrepreneurs when they write the business plan. All entrepreneurs need to have some type of plan; however, there are generally two problems with their plans. The first is that the plan is generally in their minds only and is not adequately stated. Secondly, the plan has not been adequately thought out. The entrepreneur needs to think through and plan strategy in time horizons of one year, three years and five years. A good plan anticipates the next stage of business growth and plans for it. The entrepreneur should realise that the plan will help them to evaluate the goals and objectives of the business as well as the desired financial targets. Entrepreneurs must think about their goals for the business when they write the business plan. It should be possible for the entrepreneur to implement the business plan successfully. Business plans are frequently unrealistic and have unachievable goals. The business plan could be difficult to implement because the goals are not balanced with the resources that the business has. Entrepreneurs must make sure that the plan that they write is realistic. The goals of the company must be written clearly and be realistic. Each plan that is framed must be analysed to ensure that what is written in it can be successfully carried out. When entrepreneurs frame plans for the business, they

must determine the steps that need be undertaken in each specific period to achieve the goals. Another possible error in business plans is that entrepreneurs often fail to expect barriers that could arise and these unexpected barriers may cause the business to fail. When entrepreneurs write a business plan, they must think about problems that they may face. They must include contingency steps in their business plan. They must describe expected problems and provide possible solutions to these problems. These problems usually include financial issues, marketing analysis issues and the actions of competitors. Problems may also occur because of the economic environment that the business may face. The seriousness of the problems must also be considered.

### **Self-test 2.3**

1. The answers to both questions in this self-test are subjective. You are required to discuss your answers with your course mates and tutor.
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## References

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Hisrich, D R and Peters, P M (2002) *Entrepreneurship*, London: McGraw-Hill Irwin.

Kuratko, D (2007) *Introduction to Entrepreneurship*, 8<sup>th</sup> edn, Mason, Ohio: South-Western Cengage Learning.

Utton, P (2001) *The Importance of a Business Plan*, <http://allafrica.com/stories/200109180286.html> (Accessed 21 March 2011)