

MANAGEMENT PRACTICES FOR SUCCESSFUL ENTREPRENEURS

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Abstract. In the last twenty years, Romania was in a process of profound transformation of its social and economic life. Moreover, the actual dynamic and difficult environment forced the organizations to restructure radically their objectives and strategies.

The paper presents a method for analyzing business ideas – the *Opportunity Assessment*.

1. INTRODUCTION

The present economical and social situation imposed as necessary the reestablishment of the role of the small and medium enterprises in Romania. One of the most important requirements for revitalization and development of this particular sector consists of the existence of an adequate and coherent legislation. Nevertheless, in the same time important companies' efforts are also necessary.

The management of an industrial organization can be based on the contingency approach based on the idea that between the components of an industrial system and between the system and its environment are interactions that must be take into account. The decision taking process including those related to the evolution strategy of the organization is a result of the combination between environmental forces and the management practice.

This is the chase with the *Business Opportunity Assessment*, a way to evaluate the business ideas in order to gain competitiveness.

2. SHORT PRESENTATION OF THE METHOD

Opportunity Assessment is the starting point on a proven path to provide the entrepreneur with the real-time information needed to reduce costs, drive, growth, and better manage the business (see figure 1). Focusing on the business strategy and existing financial operating environment, one must identify areas that will improve the company's performance and increase profitability, which is:

- identify improvement opportunities for such areas as financial reporting, collections, billing, and asset and inventory management
- quantify the value generated by each improvement opportunity
- map current operational systems to a data warehouse to provide real-time, detailed, enterprise-wide information
- define a detailed solution implementation strategy.

The ability to identify and prioritize all efforts is critical to the success of any business opportunity. A business opportunity, in general, involves the sale or lease of any product, service, equipment, etc. that will enable the purchaser-licensee to begin a business. Eventually, a licensor or seller of a business opportunity usually declares that it will secure or assist the buyer in finding a suitable location or provide the product to the purchaser-licensee.

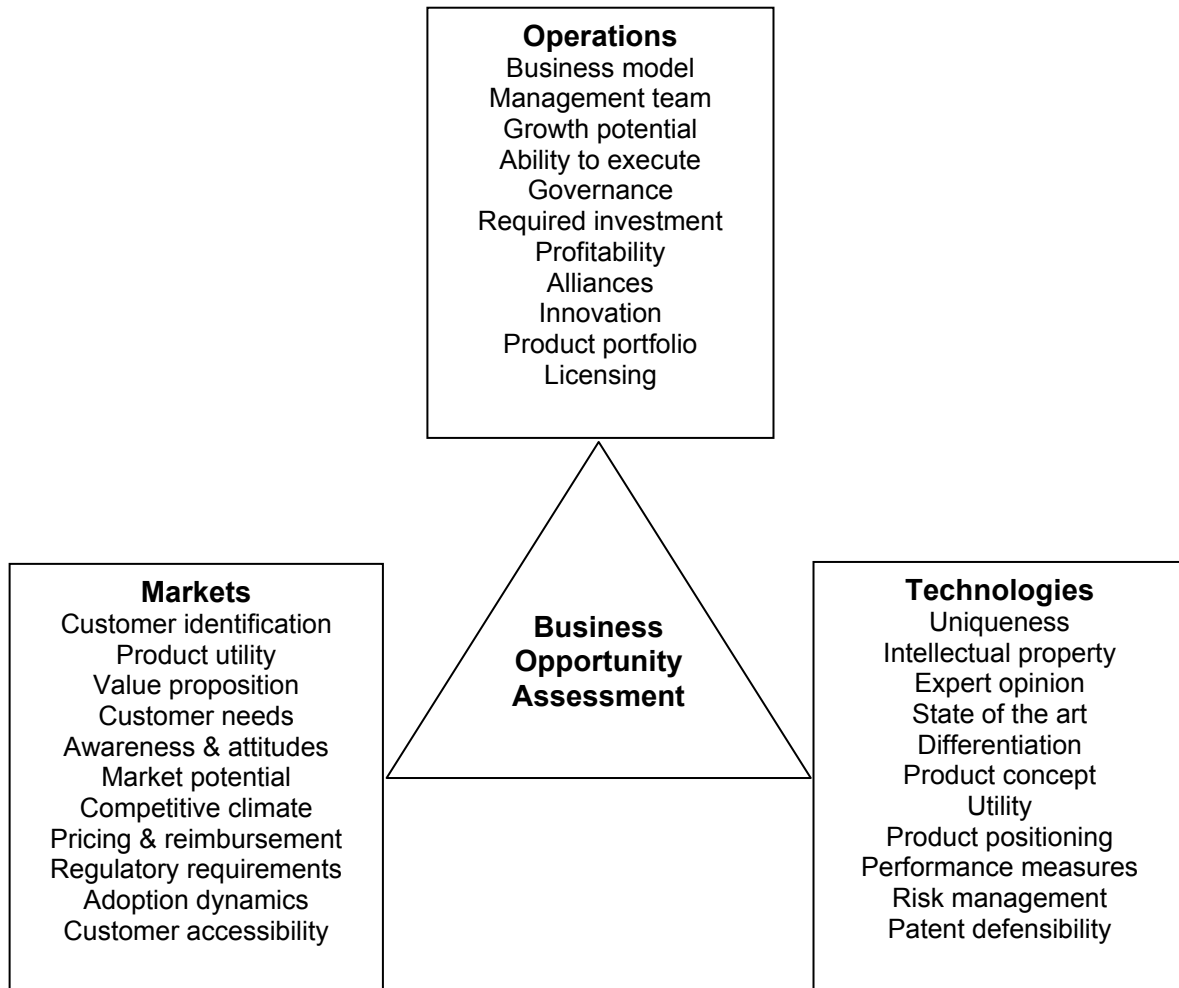


Figure 1. The triangle of business opportunity assessment

A Business Opportunity Assessment methodology is designed to help organizations implement a data-driven approach to sales and marketing, delivering customer insight to identify and quantify business opportunities and market effectively and efficiently - it suppose to follow the following sequence:

- identify the highest and lowest performing customers
- quantify current customers and the long-term value to the company
- build informative Customer Segmentation
- know which combinations of products are purchased: understanding customer purchasing habits will deliver the "Amazon effect" to the business and increase cross-sell revenues - Market Basket Analysis
- reduce costs by identification of redundant products (those that are not essential to best customers)
- understand and quantify discount effects on purchases providing a sound basis for future promotions whilst ensuring margins are not eroded!
- grow new business through incorporation of relevant external data and thereby increase market potential.

The Opportunity Evaluation consists of a process and protocols to identify and evaluate innovative ideas in organizations. The process of opportunity evaluation [3] goes through four stages:

- setting innovation and entrepreneurial mindset (Entrepreneurial mindset, Entrepreneurial style of management) Increasing corporate innovation; Opportunity recognition and trend spotting
- selecting the business models: Product/service development; Building the venture team; Business valuation and exit strategies; Recognizing and rewarding innovation
- analysis of marketing and money - Traditional and alternative money sources; Pricing strategies, Market research; Market analysis; Market penetration
- writing feasibility plan.

3. SOME TOOLS TO USE IN THE BUSINESS OPORUNITY ASSESSMENT

Opportunity-focused entrepreneurs start with the customer and the market in mind. They analyze the market to determine industry issues, market structure, market size, growth rate, market capacity, attainable market share, cost structure, the core economics, exit strategy issues, time to breakeven, opportunity costs, and barriers to entry. The opportunity evaluation process can be excellent in helping to focus on key issues in developing an invention and will challenge the thinking of how to develop it further. There are no right or wrong answers in opportunity evaluation, only informed evidence that an invention will succeed or fail.

By using the fourteen questions - table 1 and the RAMP model [1] illustrated in table 2, one should be able to analyze the business ideas and opportunities associated.

Table 1. Fourteen questions listed

| No. | Question | Meaning |
|-----|--|---|
| 1 | What is the need you fill or problem you solve? | Value Proposition |
| 2 | Whom are you selling to? | Target Market |
| 3 | How would you make money? | Revenue Model |
| 4 | How will you differentiate your company from what is already out there? | Unique selling proposition |
| 5 | What are the barriers to entry? | |
| 6 | How many competitors do you have and of what quality are they? | Competitive Analysis |
| 7 | How big is your market (in money)? | Market Size |
| 8 | How fast is the market growing or shrinking? | Market Growth |
| 9 | What percent of the market do you believe you could gain? | Market Share |
| 10 | What type of company would this be? | Lifestyle or High Potential, Sole Proprietorship or Corporation |
| 11 | How much would it cost to get started? | Start-up Costs |
| 12 | Do you plan to use debt capital or raise investment? If so, how much and what type? | Investment needs |
| 13 | Do you plan to sell your company or go public (list the company on the stock markets) one day? | Exit Strategy |
| 14 | If you take on investment, how much money do you think your investors will get back in return? | Return on investment |

Table 2. The RAMP Model

| Component | Description |
|------------------------------------|---|
| Return (Return really is return on | Discuss the Exit Strategy (acquisition or IPO - initial public offering?) Is it profitable? Will your revenues be higher than your expenses? Time to breakeven (how long before cash flow positive? How long until the company begins to have an aggregate net income) Investment Needed. How much money will it take to start-up the venture? |
| Advantages | Cost structure (suppliers, what each element will cost to source or manufacture?) Barriers to entry (large competitors, regulations, patents, large capital requirements etc.). If there are many barriers to entry, it will be difficult to enter a market. The higher the barriers to entry, the more disadvantaged the business will be. Intellectual Property. Do you have a proprietary advantage such as a patents or exclusive licenses on what you will be selling? Distribution Channel. How will you be selling the products - direct to the consumer via the Internet, or to wholesales, or to businesses, or to retail stores? If can develop a unique distribution channel this can surely be an advantage. |
| Market | The Need. Is there a big need for this product or service? Make sure your product or service fills and need or solves a problem. Target market (who are you selling to? businesses? consumers? what demographics?) Analyze target market (who are you selling to? businesses? consumers? what demographics?) Pricing (what you they charge, what will be the price, will there be a high enough mark-up) Analyze market size |
| Potential | Risk vs. Reward. How risky is the opportunity? If it is very risky, it there a chance for the business to do very well. Will there be a high reward for the founders and investors if the company succeeds? The Team. Is the team right for the business? Do you have knowledge in this area? Timing. Is the market ready for your product? You may have a great idea about a product, but if consumers are not ready for your product, you may not be able to turn your idea into a successful business. Goal Fit. Does the business concept fit the goals of the team to create a high potential or lifestyle business? |

A powerful business unit strategy focuses on creating value by:

- producing products and services whose value exceeds the cost of providing them;
- capturing value from competitors, customers, and suppliers;
- competing successfully against others for market share;
- cooperating selectively to enlarge the potential market.

Many organizations are analyzing their value chain [2] to help unlock value to enhance business results and stakeholder benefits. Value chains address business processes for planning, design, production, marketing and delivery of enterprise products and services - figure 2. Improving these processes and choosing the right technologies to implement can help you optimize your value chain performance and increase your productivity and profitability. At the same time, a volatile economy puts more pressure on information technology (IT) investments to demonstrate quick, predictable return on investment (ROI) and clearly improve business efficiencies and productivity. The challenge is determining the right mixes of initiatives that quickly and effectively deliver the results your customers and shareholders expect.

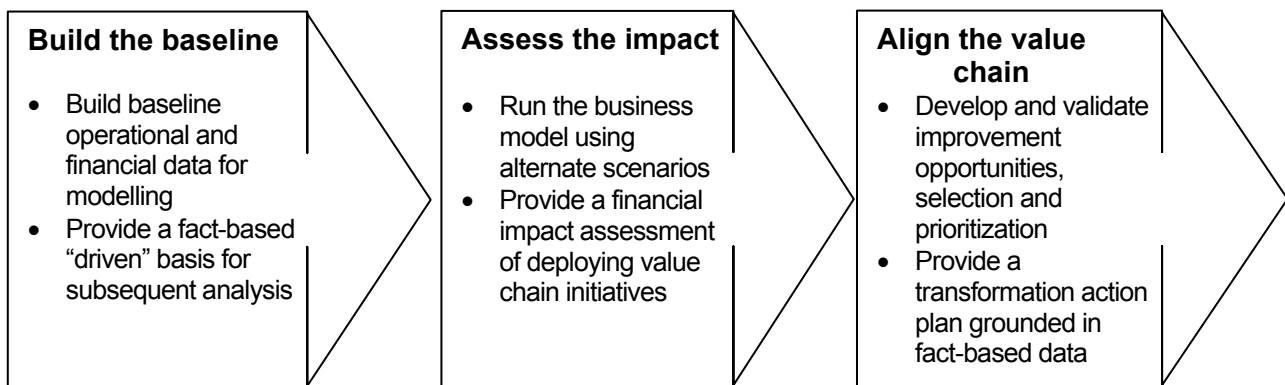


Figure 2. The value chain model

To combine strategic data with financial data to achieve better results in formulating strategy, monitoring and forecasting performance, measuring profitability, assessing competitiveness, and analyzing restructuring opportunities. With financial statements serving as a tool, senior managers learn to leverage in-depth knowledge about a firm – its business model, value-creation process, performance indicators and drivers, means of financing, and competitive positioning - as well as to analyze and value the economics of organizations.

Designed to provide the knowledge and tools for analyzing the economics of companies and for valuing them by using financial statement data, it includes the following aspects:

- What are the key performance indicators and risks of a company, in light of its competitive strategy?
- How can a company's financial statements be used to assess how well the key success factors and business risks are being managed?
- What is driving the company's current performance and is it sustainable?
- How does the company finance itself and does this method fit its business model and risks?
- What is driving the company's valuation in the stock market and, given its fundamentals, is the company's stock-price multiple reasonable?
- How do the company's performance and valuation compare with those of its industry peers?

Central to these decisions are the challenges of selecting how and when to compete. The establishing of the Business Strategy is the process of specifying an organization's objectives, developing policies and plans to achieve these objectives, and allocating resources to implement the plans. It provides overall direction to the whole enterprise. An organization's strategy must be appropriate for its resources, circumstances, and objectives. The process involves matching the companies' strategic advantages to the

business environment the organization faces. One objective of an overall corporate strategy is to put the organization into a position to carry out its mission effectively and efficiently. A good corporate strategy should integrate an organization's goals, policies, and action sequences (tactics) into a cohesive whole (see Table 3).

Table 3. Specific processes in opportunity assessment - competitive analysis

| Component | Activities |
|-----------------------|---|
| Technology Assessment | <ul style="list-style-type: none"> • Definition of key technology features and patentability (where applicable) • Identification of emerging and/or impacting technologies and patents • Identification of advantages and disadvantages of current vs. new technology • Determination of technical drivers and key challenges. |
| Products and Markets | <ul style="list-style-type: none"> • Identification of existing and potential applications • Identification of existing and potential markets • Identification of influencing consumer, political, regulatory, and social factors • Determination of products and services suitable for the technology • Analysis of products in the market environment. |
| Industry Overview | <ul style="list-style-type: none"> • Economic value: identification of value chain, margins, projected returns, cost drivers • Identification of alliances, joint ventures, and general business environment • Identification of trends and key industry success factors • Compilation of relevant industry participants |
| Competitive Factors | <ul style="list-style-type: none"> • Identification and profiling of primary competitors • Overview of the competitive environment • Determination of major competitive barriers and opportunities |

For studying the alliance strategy, one should go through the following steps:

- identification of key success factors (partner attributes);
- summarization of SWOT issues;
- product positioning;
- identification of potential alliance partners;
- comparison of attributes of potential alliance partners;
- strategic plan and recommendations.

This consists of a thorough and systematic model to appraise the viability and commercialization feasibility of technology-based businesses. Critical to the success of these ventures are factors such as:

- detailed knowledge of competing patents, technologies, and products.
- advance knowledge of any potential threats, e.g. infringements, necessary licenses, etc.
- identification and assessment of appropriate potential alliance partners.
- use of this knowledge to define a realistic business model.

One should address these critical factors by performing a comprehensive competitive analysis to identify strengths, threats, and opportunities and then using this information to

form a strategy to align your company with the most appropriate business/technology partners. After understanding the intended goals and objectives, one should prepare business plans to help reaching the stated goals.

Table 4 presents a general checklist for a good business plan.

Table 4. Business plans checklist

| Item | Content |
|-----------------------|--|
| Executive Summary | Several pages summarizing the entire plan. It serves as a quick reference for employees, investors and other key constituencies. |
| Overview and Mission | Describes the business the company is in, including corporate structure. Outlines where your company is headed (mission and strategy) versus where it is today (situation analysis). |
| Products and Services | Describes what the companies sell today and planned future products; it assesses the current technology and infrastructure. |
| Market Analysis | Analyzes the actual market and customers, and the potential opportunity size. |
| Competitive Analysis | Examines your competition and how you stack up. Identifies how you differentiate yourself from the competition (competitive advantage). |
| Sales and Marketing | Outlines how the company plans to market the products and achieve sales; includes the revenue model, pricing structure, and sales forecast, identifies key strategic partnerships. |
| Personnel | Describes management team and gives personnel overview. Includes hiring plan. |
| Financials | P&L includes revenue forecasts and detailed expense budgets for 1 to 5 years; it compares historical performance |
| Capital Request | If for the purpose of raising capital, the plan should discuss how much funding is requested, what the company uses the funds for and an exit strategy (when and how investors will be paid off) |

4. CONCLUSIONS

The starting point for an entrepreneur for obtaining real-time information needed to reduce costs, drive, growth, and better manage the business is the Business Opportunity Assessment method.

Starting from the most important factors used in describing the business opportunities (markets, technologies, business models), the paper presents two models for analysing the business ideas and the opportunities associated (RAMP model and Value Chain). Starting from them, two methods that may be used in establishing business strategies are presented: competitiveness analysis and business plan checklist.

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