

Module 2

“Starting a Business”



Contents

CONTENTS	1
COPYRIGHT STATEMENT OF THE TRAINING MATERIAL.....	2
INTRODUCTION	2
2.1. THE BUSINESS IDEA	4
2.2. A BUSINESS IDEA AND THE MAIN QUESTIONS	4
2.3. DEVELOPING THE BUSINESS IDEA	5
2.4. WHO DO I SELL MY PRODUCTS / SERVICES TO?	7
2.4.1. Customer focused from the very beginning.....	7
2.4.2. Segmentation	7
2.5. ADDRESS THE CUSTOMER'S / SEGMENT'S NEEDS	8
2.6. WHAT CAN I OFFER MY FUTURE CLIENTS?	10
2.7. WHY WOULD CUSTOMERS BUY YOUR PRODUCT/SERVICE?.....	11
2.8. HOW TO ORGANIZE YOUR BUSINESS?	12
2.9. SUMMARIZING THE BUSINESS IDEA	13
2.9.1. Business Idea Matrix	13
2.9.2. Starting a business.....	13
2.9.3. The steps of establishing a company	14
2.10. PARTNERSHIPS.....	14
LEARNING ACTIVITIES.....	15
SUMMARY	16



Copyright Statement of the training material

This training material was developed within the framework of the project “New Entrance – Entrepreneurship for Roma”. The training material is open and available through the project’s e-learning platform for all learners that will register in the platform and are interested in it.

Introduction

The second educational unit is the unit «Starting A Business» and will help you understand what a business idea is and how it is developed.



Purpose

This training module aims to introduce the trainee into the development of a business idea, indicating the steps to start a new enterprise and how to implement it.



Learning Outcomes

- In terms of knowledge:

After finishing the module, the participants will know

- *The entrepreneurial idea and the development stages*
- *The entrepreneurial idea business matrix*
- *The steps to start a new enterprise*
- *The factors that affect a start-up*
- *The different business legal types*
- *How to organize a business*
- *How to summarize the business idea*
- *Basic principles and rules of starting up a new business*
- *Basic principles of start-up capital and financing a new business*



➤ In terms of skills

After finishing the module, the participants will understand

- *The procedure of implementing an entrepreneurial idea*
- *The factors affecting the form/type of a business*

➤ In terms of competences

After finishing the module, the participants will be able to

- *recognize and develop a business idea*
- *select the appropriate legal status of a new business*
- *demonstrate understanding on how to launch a new business*
- *demonstrate the ability to find an attractive market that can be reached economically*

Keywords

- ❖ Business Idea
- ❖ Customers
- ❖ Start-up
- ❖ Segmentation
- ❖ Business Environment





2.1. The business idea

“The business idea is the starting point of all entrepreneurship. The business and the entrepreneur’s work is built around the business idea“. The business idea is a concrete practical description of how the company plans to conduct profitable business activities. It concisely presents the key elements of the business:



- ✓ who is sold to,
- ✓ what is sold,
- ✓ what the business does and
- ✓ what kind of image does the business project to its stakeholders?

In addition to this, it is important to remember the business’ protective measures such as patents and copyrights. All parts of the business idea must be compatible with each other. The business idea is formed out of all of these elements and should be based upon the company’s strengths.

A promising business idea must fulfil the customer’s needs, be innovative and unique. It should have a clear concept and it must be profitable in the long run (McKinsey & Company 2000).

2.2. A business idea and the main questions

The most important thing is to clearly define the **main subjects of the business**. Already during the planning phase, it is important to learn to separate that which is relevant to the business from the irrelevant. Looking at the business idea from many different perspectives allows for an objective assessment and increases the probability of success. Therefore, it would be necessary to wonder if your business idea answer at some respect, the following questions.¹

¹ <https://www.venture.ch/sites/default/files/business-idea-checklist.pdf>



1. What exactly is **new and creative** about your business idea?
2. How unique is the business idea?
3. Can it be protected by **patent**?
4. Who is the customer?
5. Why should the customer buy the product?
6. What need does it meet?
7. Why is the product better than comparable alternatives?
8. What are the competitive advantages of the new product, and why can a competitor not simply copy them?
9. How does the product reach the customer?
10. Can you make money out of the product? What are the costs involved, and what price can be asked?

Do not give up even if all these elements do not fit together perfectly in the very beginning!

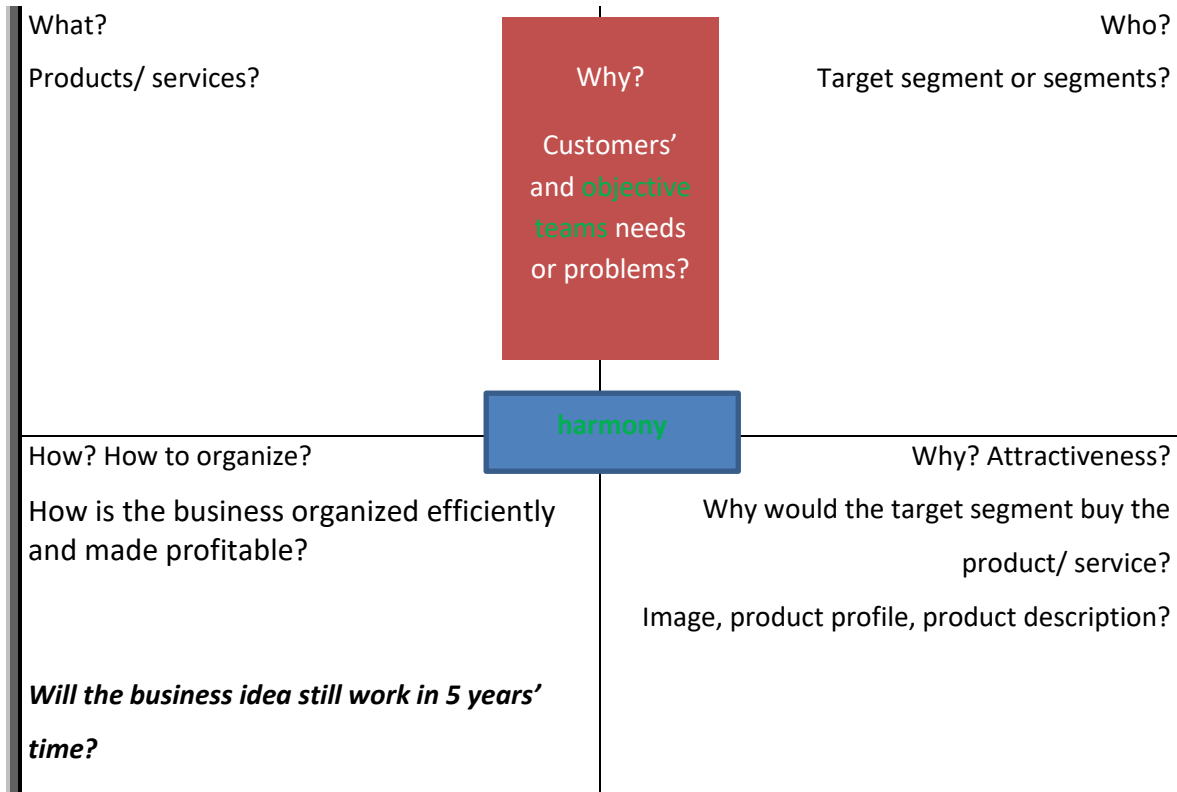
2.3. Developing the business idea

A business idea can often be condensed into a single sentence. For example, “I will establish a company **that offers translation services to companies**”. This sentence describes the basis for a business but does not answer some fundamental questions, for example, “What kind of companies will be served?”, “What kind of translation services?”, “Why you specifically?”, “How will you organize an effective business?” and so on.

In order to plan the business in more detail it is important to address the basic questions more specifically. A **useful tool is the following origin** where you can map your choices and business ideas according to a number of basic questions. The business idea is the most utilized tool for describing a business based on a single product or product area. The tool addresses many of the entrepreneur’s fundamental strategic decisions.



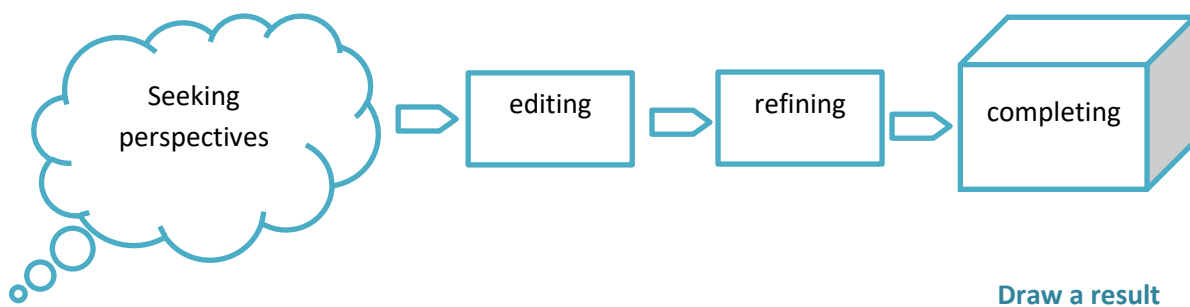
BUSINESS IDEA MATRIX



Another simple shape that explains the process of the developing of a business idea is addressed below.

Shape 1. Developing a Business Idea

See an opportunity





2.4. Who do I sell my products / services to?

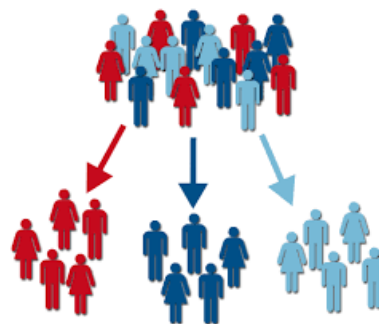
2.4.1. Customer focused from the very beginning

The development of the business idea can be done in stages by addressing each question one by one. While it may seem logical to start with the “What?” question in many cases it is more productive to narrow down the customer segment the business aims to serve. Identifying the potential customer base’s needs will then help with the development of the product or service offering.

2.4.2. Intersection

In order to further answer the question more planning tools are needed.

“Segmentation is the categorization of potential customers in a market into groups by common needs or demands”.



The founder of a new business would like as many clients as possible and market the company’s products or services to as many types of customers as possible. However, this usually leads to unfocused activities and ineffective marketing. The business is unable to build its reputation amongst potential customers and develop a competitive edge. On the other hand, specializing within a specific target segment may be a better starting point for the business. In the translation service example, the potential customers could be “law firms in the Helsinki/Larnaca/Kaunas area”. Having defined the segment, the marketing can be focused according to specific customer demands, the market potential can be estimated, pricing can be determined more easily, etc.

Examples for segmentation criteria can be:

- ❖ **Consumers:** Customer information such as age, gender, income, profession, marital status, education, location, etc.
- ❖ **Businesses and groups:** Size of the organization, industry, location, stage of development, etc.
- ❖ **Within a business:** professional group, position within the organization, etc.
- ❖ **Customer / user values and attitudes:** lifestyle, hobbies, etc.

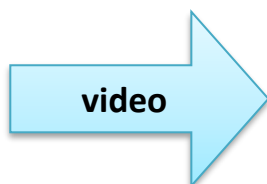


- ❖ **Other criteria** such as the intensity of use of the product or service: heavy-light user, mass-occasional consumer, potential consumer.

By gaining a deep **understanding of the customer's or user's needs**, problems and expectations of the product and its purchase or use the entrepreneur can plan a sustainable business. The segmentation can also be drawn out. In the below example a gardening contractor could consider if his or her business should market its offering to all potential customers or if it is wiser to start by selling to local building companies as a sub-contractor.

The following video could help you to obtain an even more holistic view about the understanding of the customer's or user's needs. Click to follow the link.

Brown

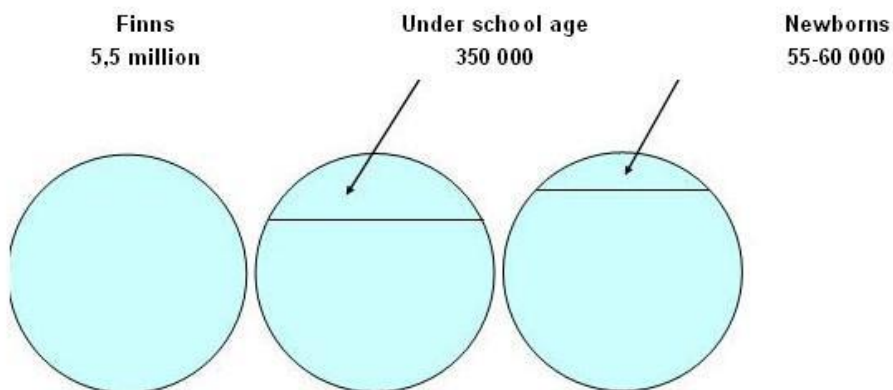


2.5. Address the customer's / segment's needs

Creativity and brainstorming are often associated with product or service development phase of business development. However, in many cases, the critical idea and the idea for the company's product comes from defining the market **segment**. The below example **symbolizes** this point and refers to a product targeted to the below groups:



Yellow



For example, limiting the market to new-borns and their parents helps to understand the customer needs.

Sleeping	Cribs, beds, carriages...
Outdoors	Sleeping bag, raincoats...
Clothing	Overalls, shirts...
Hygiene	Diapers, skin care...
Parties	Baptism dresses...
Gifts	Rattles...
Food	Baby foods, juices...
Dining	Cups, plates...
Childcare	Babysitter, changing table... etc. etc.

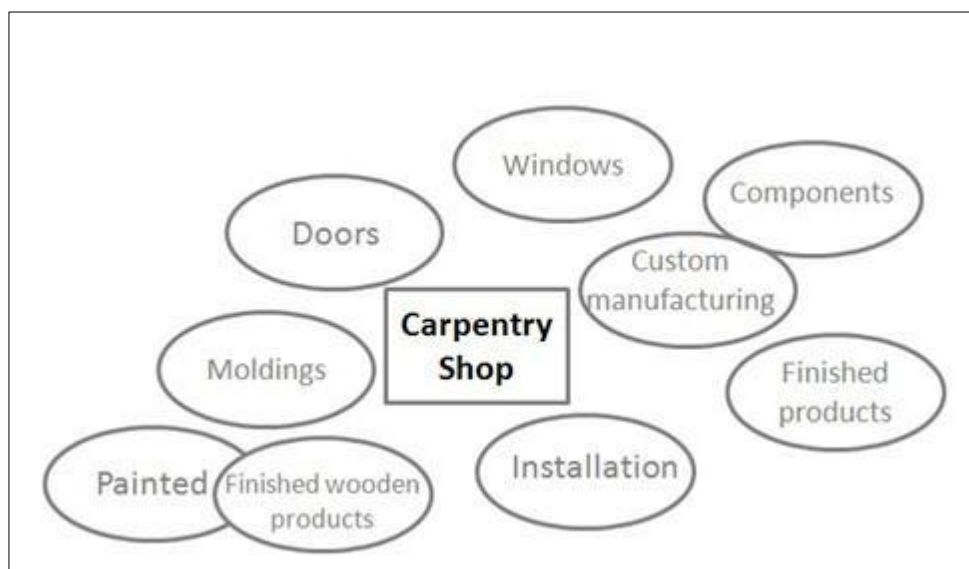
The customer needs can be expanded upon endlessly. Even if needs are further limited by focusing on, for example needs served solely by plastic products, there are still countless products to choose from! In particular, a customer would like:





2.6. What can I offer my future clients?

When you have gained an understanding of your future customer base, you can move onto developing the product / service. The previous customer need based brainstorming can be a useful exercise, however it is easy to spend too much time or resources on this stage. It is important to maintain a focus of what is relevant to your business. An assessment of your own skills is also a good starting point in terms of developing a business idea. In the translation services example the entrepreneur would need to specify whether the offered service involves the translation of documents or oral simultaneous translator services. Similarly, an area of further specialization could range from EU legislation to local environmental regulations. This kind of analysis again would lead the entrepreneur to an assessment of the target segment. This means revisiting the matrix presented earlier. When the answers to the basic questions start to emerge your business, idea is closer to becoming reality. The product or service offering can also be defined in the following manner. The example illustrates the options available to a carpenter.



Carpentry shop

Painted, Doors, Moldings, finished wooden products, Windows, Installation, Custom manufacturing, Components, Finished products

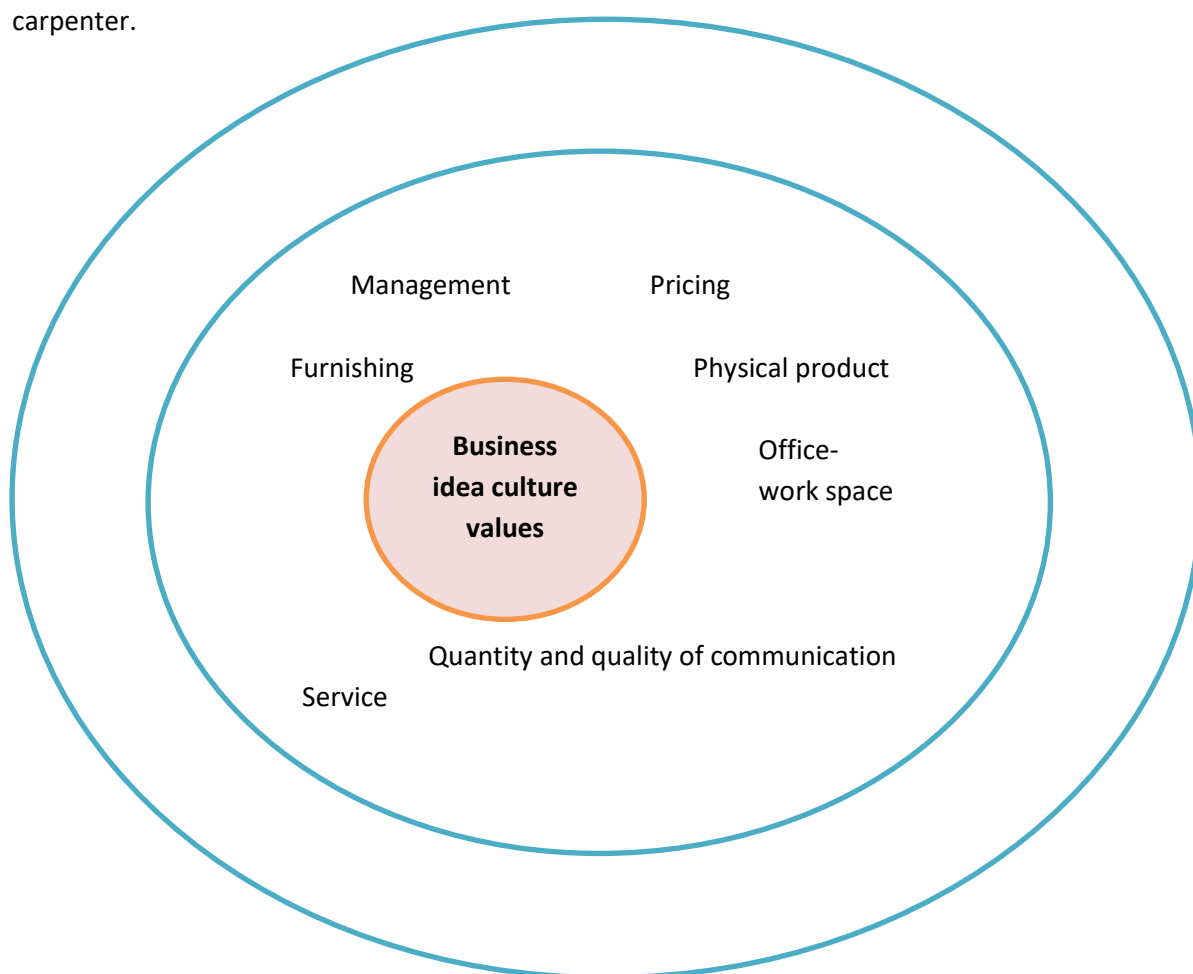


2.7. Why would customers buy your product/service?

In order for the above to become reality, your product or service has to be positively differentiated from the competition's offering. A useful approach by which to ensure this is to address the issue from the perspective of the target segment. In choosing a product or service, a customer is faced with actual differences between product / service offerings. However, the customer is also influenced by perceptions. You should not underestimate the impact of image and it should be accounted for when planning the business's activities. It is even claimed that image can be more important than the objective rationale in choosing one product over another. "Choices are made based on perceptions, which are then rationalised," says Timo Rope, a marketing professional.

Think about the basis by which your customers decide upon the product or service and include this in the business idea matrix. Note the factors that lead a customer to decide whether a business has a positive or negative image and plan your business accordingly.

Below is Timo Rope's diagram of these diverse factors. Add to this diagram the factors that are relevant to your industry. The diagram is not complete but it will get you started. The example of the image of a translation services business will be based upon very different factors than that of a carpenter.





2.8. How to organize your business?

There is one more square remaining in the **origin**. You should imagine the basic decisions that need to be made in terms of the activities that describe your business. How to organize your company's activities so that the selected target segments can access your products or services, how they are produced, with what kind of personnel, etc. The answers to these questions often are dependent on the specific industry and the individual company. An entrepreneur can look at the best practices of successful established firms to gauge the available options. The solutions do not need to be replicated exactly as each entrepreneur has the opportunity to innovate. However, learning from successful competitors is never a bad idea.

Think about:

- ❖ How do you market your product / service? How do you make your company known among potential customers? What is the role of sales and how are they carried out? What do you do yourself? What services do you outsource?
- ❖ How do you develop your products?
- ❖ How are your products or services produced? With what equipment? With which technology? What do you do yourself and what do you sub-contract? If you have physical products you need to consider the manufacturing process, logistics, etc.
- ❖ What kind of personnel is needed? What skills do you need? What is a suitable division of labour for your company? How is the staff motivated to perform?
- ❖ What kinds of systems support your activities and make you more efficient?
- ❖ What sort of network would enhance your profitability?



2.9. Summarizing the business idea

2.9.1. Business Idea Matrix

The business idea **origin** is the most utilized tool for describing a business based on a single product or product area. The tool addresses many of the entrepreneur's fundamental strategic decisions.

What?	Products/Services?	Why?
Customers" and target segments" needs or problems?	Target segment or segments?	Image, product profile, product description?
Who?	Why? Attractiveness?	Will the business idea still work in 5 years time?
How? How to organize?	How is the business organized efficiently and made profitable?	Why would the target segment buy the product/service?

2.9.2. Starting a business

Watch the video below. You can find the link into the image below by clicking and following the link. Watching the video, you can learn shortly how to start a business.

Brown

video

First time

Where DO you start?

At the beginning

YouTube

0:19 / 4:14



2.9.3. The steps of establishing a company

1. Forming a business idea and drafting a preliminary business plan
2. Assessing the business' **benefit** and organizing financing
3. Selecting a business form
4. Choosing a business name
5. Relevance of business licenses or notifications
6. Basic notification to the Trade Register
7. Obtaining a Business Identity Code
8. Start-up notification to the Tax Administration
9. Assessing risks and insurance
10. Accounting arrangements
11. Selecting the location for the business

2.10. Partnerships

Within the following image, you can find a link, by clicking on it you can watch a video related to the meaning of a partnership.

Brown





Some of the kinds of partnership are presented below.

1. Private entrepreneur (private business name)
2. Partnership and limited partnership
3. General Partnership
4. Limited partnership
5. Limited company
6. Establishing a limited liability company

Learning activities

TASK 1

Develop the business idea for a hypothetical enterprise based on Business Idea Matrix. In order to do that, keep in mind the following:

Describe the products or services you intend to make/sell. Why do customers need your product/service? How will the product or service be priced and how it will make you a profit? How are you different to the competition? Tell us a little about you and what inspired you to think of this idea? Who will your customers be and how/where will they buy your product/service? Are they in a specific age range, are they mostly male or female, do they have specific interests, do they live in certain places, or are they a very mixed group? In addition, where will they buy your product /service will it be at the market, on the internet, local shops? What are the main challenges you face and how will you make your business idea a reality?



Summary

A business idea is a concept that can be used for financial gain that is usually centred on a product or service that can be offered for money. An idea is the first milestone in the process of building a successful business. One of the most important characteristics of a promising business idea is to be innovative.

A business idea is a starting point for any current or future entrepreneurs. It is important because present the beginning of a new life, in particular, a life of a business and a life of an entrepreneur.

However, an idea is important only in the initial stage of a start-up. The results from a good business ideas will feel in all phases of the development of a company, but also in large part will depend on other entrepreneurial activities.

Entrepreneurial activity, especially the creation of new companies in the growing information and communication technology sector, is of high importance to foster an economy's growth.