

# **The Entrepreneurial Mind**

## **Lecture 3: Creating an Enterprise**

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## Lecture Learning Objectives:

At the end of the lecture, you will be able to:

1. Identify the three basic forms of business ownership: sole proprietorship, partnership, and corporation
2. Discuss the advantages and disadvantages of each of the three basic patterns of business ownership
3. Gain competence in making a business legal
4. Generate a set of opportunities that respond to the needs of the environment in terms of key needs, resources, and trends
5. Identify several opportunities that he can choose from in thinking of a business idea
6. Decide on a business opportunity to work on
7. Realize the importance of environmental scanning
8. Apply the knowledge acquired in managing a simple business

## Identifying Business Opportunities in the Environment

Entrepreneurs usually start from scratch. The term **start-up** means creating a new business from scratch or from zero. Start-ups could be a business that provides customers with products that do not exist or a business that provides customers with improvements on existing products.

## Sources of Product Ideas

Ideas for new products or services may come from any of the following:

1. **Chance happening.** While strolling in the park, you saw an old couple who, after a long walk, were looking for a vacant bench to sit down on. Unfortunately, all benches were occupied. Thus, you come upon the idea of producing a cane that could open into a small chair.
2. **Personal interest or hobby.** Hobbies like tinkering with machines could develop into a machine repair shop business combined with a barber shop so that one can have his hair trimmed while waiting for the repair of his car to be finished.
3. **Friends and relatives.** A family of five girls who are conscious of how they look and meticulous about the products they use, could start a beauty salon business with their own brand of beauty products.
4. **Family business.** The eldest son of a couple operating a hotel or resort, for example, could establish a liquor store in one corner of the hotel lobby.

5. **Suggestions.** A cellphone repair center could be a suggestion of someone for you to open one considering that there is none in the area where a lot of cellphones are being sold.
6. **Education or courses.** Short courses like tour guiding, international cooking, landscaping and others are offered by entrepreneurial individuals because they realize that there are people who are not financially capable of going to college but need to have a means of earning a living.
7. **Prior work experience.** Working in a bank, you realize that very small business owners or market vendors cannot avail of the lending services of the bank because of the absence of collateral. A lending business can therefore be put up with very easy terms like no collateral and paying daily or weekly as soon as sales are affected.
8. **Research and Development.** With the use of a questionnaire, customers are requested to say what they want about a product or service. Through interviews or informal discussions, middlemen or distributors may give suggestions about a product or service based on their contact with customers.
9. **Creative problem solving** is a method for obtaining new ideas focusing on certain parameters. Creativity can be unlocked, and creative ideas and innovation can be generated by using creative problem-solving techniques. The most common creative problem-solving technique is **brainstorming**. It is also a popular method of generating company ideas. At this point, it is important to brainstorm on
  - a. The product to introduce, and
  - b. The form of business organization.

Ten people may be organized for this activity. The brainstorming output will be the starting point in demonstrating ability to apply trading, manufacturing, and service as an entrepreneurial activity.

10. **Focus Group Discussions.** A group of individuals provides information in a structured format.
11. **Brainstorming.** A group of individuals meet, and they stimulate each other through freewheeling discussions. This is an unstructured process of generating all possible ideas about a problem within a limited timeframe through the spontaneous contributions of participants.
12. **Problem Inventory Analysis.** The consumers are given a list of problems with a general product category. The consumers are asked to identify and discuss products in this category with particular problems. A new products idea may come out from this approach.
13. **Other means.** New product ideas could also come from other means like need. The copying machine was invented because of the need to produce several copies of documents that look exactly the same as the original, especially the signature.

New ideas may come from consumers, existing companies, distribution channels and government through research and development with the use of a questionnaire.

The consumers are requested to say what they want. The entrepreneur looks at the competitors and thinks of how to improve what is already available in the market. Through interviews, the middleman or distributors may give suggestions based on their contact with consumers or complaints from customers. The middlemen or distributors may relay to the manufacturers the problems with existing products in the market.

The government regulations may lead to a new product demand for example: the national identification system or an ID for every Filipino. The research and development of a company may come up with a new product idea.

### **Improvements on Existing Products**

**Improving an existing product or service renders it new.** For example, instead of producing only a hair brush, you put a small mirror on the handle of the hair brush. Thus, the product gives dual function.

**Changing the presentation of the product also makes it new.** Pharmaceutical products, for instance, may originally be produced in liquid form. But because it can be messy or inconvenient to take outside the home, those products are now made into tablet and capsule form.

**Changing the package is another way of introducing a new product.** Products in bottles made of glass could be presented in plastic bottles or perhaps the same bottle but different shape.

### **Spotting Opportunities**

Below are some factors that will help you spot opportunities:

- **Market need.** Be observant and be keen in determining the needs of the people in the community. For example, you observe that the children in the community are left with their nannies while their parents go to their respective offices. Thus, perhaps a daycare center would be a good business.
- **Location.** Your place is near a school with many students. Thus, opportunities would be for a store of school supplies, a snack bar or a shop for sewing uniforms.
- **Hobby of the people.** The hobby of the women in the community is needlework. Therefore, your opportunity would be for a store for threads or framing services.
- **Available materials in the community.** Your community, for instance, is near the sea with an abundance of shells. Such resources can be made into decorative articles that can be sold outside of the community.
- **Your interest and know-how.** Your interest and know-how are an opportunity. You love plants, for example, and you are well-versed in taking care of them. Your opportunity is rent a plant business or plants for sale.

### **Ways of Going into Business**

An entrepreneur starts a business that he thinks has a lot of potential for profit. His family may have been in business for a long time, and he may take a part or department in that business. Another way is to duplicate his family business in another place. He may also pick up an idea from his family business, modify it or apply it to another product. For example, one who grew up with a family-owned restaurant chain may go into the business of ready-to-eat packaged meals.

One who grew up in a bookstore business may now deal with special-interest books. Specifically, going into business could be any of the following:

1. **Start a new business.** A bakeshop may be opened in a place where no bakeshop exists. A laundry shop may be put up in a new subdivision. A transportation service may be extended to a barrio. The first is an example of an existing business which is not yet available in a certain place. The second business is providing a new product. The third business is about providing improved products. Examples are food products in plastic containers. Starting a new business is the whole concept of this course.
2. **Buy an existing business.** Would-be entrepreneurs are sometimes attracted to buying existing businesses. The reason for this is that existing businesses eliminate the uncertainties encountered by a new business; the cost of starting is also eliminated; the business has already gained a foothold in the industry, it has established its name; and finally, there is already an established relationship between customers and the business and between the business and the suppliers.

The price could also be a bargain because the owners are migrating to another country, or the owners are already old and would like to retire.

Of course, no investor would buy at first glance. Customers of the business, bankers, employees, suppliers, the industry and professionals like accountants and lawyers are good sources of information to determine whether the business is worth buying or not. Examine its business papers, tax returns, receipts, invoices, and most of all, its financial statements. It is also good to inspect the premises of the business, the building, machines, tools, equipment, materials, and other assets that are included in the sale.

The potential entrepreneur is also cautioned to be aware with unreported company debt or obligation that might come out after the sale. The contract of sale should specify that debts or other obligations after the sale are for the account of the seller.

3. **Take over the family business.** An entrepreneur may be a member of the family. He has been exposed to the business as he was growing. The business is ongoing. Capital may not even be needed because the parents are ready to give the business to the children. If the parents are not yet ready to leave the whole business with the children, they may meanwhile share it with the children.
4. **Buy a franchise.** Operating a franchise can also be an attractive business venture considering that the name of the franchisor is already well-established. Furthermore, franchisors offer free training to the employees of the franchisee, free advertising, financial assistance, technical assistance, and the continuing supply of materials. The franchisor provides all assistance to make sure the business is successful because their name is at stake. Given these benefits, the worry of the franchisee is only the daily operation of the business.

In spite of its advantages, franchising has its own set of drawbacks. There are:

1. The **franchise fee** could run into millions of pesos.
2. The **investment cost** that includes the renovation of the place of operation to jibe with the concept of the franchisor, furniture, fixtures, equipment, insurance, inventory, etc.

3. **Royalty payments** for the use of the name of the franchisor. These could be a certain percentage of sale or gross income.
4. **Advertising/promotion fee** – sometimes franchisees are asked to share in the advertising expense of the franchise.

Moreover, there are certain restrictions that must be observed by the franchisee such as only the products of the franchisor are to be offered for sale by the franchisee, employee uniform should be the same as that of the concept of the franchisor and other restrictions.

Ways numbers 2, 3 and 4 are shortcuts to being an entrepreneur. These businesses have very short start-up time. Some young, would-be entrepreneurs would prefer to gain experience through employment before going into their own business. Some go to full-time employment and at the same time have a business as a sideline with a plan that eventually they would go full time in their business. Some become entrepreneurs because of unusual opportunities, loss of job, migration, change in family structure like death, marriage, health, and other events.

### **Opportunities for Business**

In the Philippine free enterprise system, any person is free to go into business. In every corner within the country, there are opportunities for doing business. You start small with the hope of making it big soon. Look around and it may not take you long to see more of the likes of your favorite fast-food or your relative or friend who is making good money from his service, trading or manufacturing venture. This person may even be your parent or your own brother or sister.

Entrepreneurs are called **energizers** of small business. They speak about economic growth. They provide jobs. They introduce products. They provide goods and services. In a broad sense, services are also called **products**.

Entrepreneurs are in the following businesses:

1. Grocery stores
2. Drug stores
3. Gasoline stations
4. Fast food outlets
5. Hardware stores
6. Constructions
7. Repair shops
8. Laundry shops
9. Restaurants
10. Travel agencies
11. Insurance agencies
12. Transportations services
13. Real estate brokerages
14. Bakeshops
15. Machine shops
16. Preschools
17. Beauty parlors
18. Spas
19. Barber shops
20. Importers
21. Exporters
22. Professional services like medical and dental chair
23. Producers of crafts
24. Boutiques
25. Computer shops
26. Dress shops
27. Courier deliveries
28. Food catering
29. Boarding houses
30. Internet cafes
31. Resorts
32. Sports venues
33. Coffee shops

There are some more not listed here. Some of those listed are in retailing or trading, some in manufacturing and others in services

The government through the Department of Trade and Industry (DTI) has come up with a list of provinces per region and the products/raw materials coming from that province/region. The objective is to inform potential buyers and sellers where to buy or sell what products.

### Environmental Scanning

An analysis of the environment is done to determine what approach to use in the conduct of business. This is called strategy. **Strategy** is the way by which goals are attained. To determine what strategy to use, a **SWOT analysis** is made. The strength and the weakness (SW) refer to the internal characteristics of the business, while the opportunity and threat (OT) are external characteristics. For example:

Assume that you would want to go into the business of broiled chicken with rice and vegetable salad. You arrive at this decision because you have a special recipe that your friends like very much because of its very good taste and appearance. You analyze the environment. You observe high volume pedestrian traffic in your intended location at Lopez entrance to B.F. Homes in Sucat, Parañaque City. You have noticed that there are food sellers within the 100-meter radius of the Lopez entrance. There are Jollibee outlet, Baliwag Chicken, Manok ni San Pedro, Julie's Bakery, Lots-a-Pizza, wet market, 24-hour grocery store, Mercury Drug Store and sidewalk vendors of fruits, vegetables, and native snack foods. You see the heavy pedestrian as an opportunity and the existing businesses as threats. You made an assessment of yourself and concluded that among your strengths are you being an owner of a commercial unit in the place, your tasty chicken recipe, and the fact that you have a poultry farm in Silang, Cavite. Of course, you realize that the competition is a threat. You also see your lack of experience in the broiled chicken business as a weakness. After a month of being in business, you review the financial results and continue monitoring results not only monthly but practically every day.

Below is a table that shows the SWOT of the proposed business:

Strengths (S)	Weakness (W)
<ul style="list-style-type: none"> <li>• Owner of commercial unit</li> <li>• Tasty Chicken recipe</li> <li>• Poultry farm owner</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of experience in business</li> </ul>
Opportunity (O)	Threat (T)
<ul style="list-style-type: none"> <li>• Heavy pedestrian traffic</li> </ul>	<ul style="list-style-type: none"> <li>• Strong competition</li> </ul>

(Banastao & Frias, 2022)

Clearly, the strengths are more than the weaknesses. Your best strategy would be to make your broiled chicken aromatic and visibly mouth watering to attract the pedestrians to buy. Your day-to-day operation will give you the experience you need and get adjusted into the business.

In an ongoing business, planning should include planning for the functional areas of business, such as:

1. Operations
  - a. Buying and selling

- b. Manufacturing
  - c. Service
2. Marketing
  3. Finance
  4. Human resource management
  5. Accounting
  6. Computer information system

### **The Blue Ocean Strategy**

In recent years we have seen many business entities in one particular type of business. Most common is the food business. Of the food business, the favorite is the fast-food type. In not a too distant past, hot pan de sal was hot business, then there was lechon manok, then food franchising. Now we have cakes and cupcakes. Where we see a lot of crowding is referred to as “**red ocean**”.

In 2005, two friends identified a business strategy which they called “**blue ocean**”. The collaboration of these two friends is also a form of enterprise. **Enterprise** being defined as a venture characterized by innovation, creativity, dynamism, and risk. The two friends believed passionately in their idea of the “blue ocean” they ventured into the study. **Blue ocean** is breaking away from what is ordinary. It may be breaking away from the hot pan de sal to the specialty cupcake. It may be breaking away from the handicraft to the more expensive wallets for the exclusive department stores or from a popular resort to a very exclusive unknown vacation place.

You may also plan first to be in the “red ocean” before going into the “blue ocean”.

### **DTI Province Focus Sectors - Plus Ones**

The different regions, provinces and cities in the Philippines have their own product specializations. (The following data are sourced from Department of Trade and Industry (DTI) Bureau of Small and Medium Enterprise Development (BSMED), printed July 2004.)

#### ***Cordillera Administrative Region (CAR)***

- Abra -- bamboo-based industry (furniture, processed bamboo pole, bamboo shoots as food item)
- Benguet -- vegetable industry (canned vegetables/production and selling of fresh vegetables)
- Ifugao -- houseware and holiday décor
- Kalinga -- coffee industry (raw beans)
- Apayao -- Banana industry
- Mountain Province -- loom weaving

**Region I**

Ilocos Norte	-- meat processing
Ilocos Sur	-- furniture
La Union	-- antique furniture
Pangasinan	-- processed milk fish

**Region II**

Batanes	-- wine fermentation
Cagayan	-- wood furniture
Nueva Vizcaya	-- fruit processing and fresh vegetables
Quirino	-- wood furniture
Isabela	-- wood furniture

**Region III**

Aurora	-- coffee
Bataan	-- fresh and processed food
Bulacan	-- sweets and delicacies
Nueva Ecija	-- fresh fruits and vegetables
Pampanga	-- meat processing
Tarlac	-- mango industry
Zambales	-- fresh mango

**Region IV**

Laguna	-- processed fruits
Quezon	-- lambanog
Rizal	-- native delicacies
Batangas	-- cocoa tablets
Cavite	-- coffee

**Region IV-B**

Oriental Mindoro	-- ethnic craft
Occidental Mindoro	-- seaweeds and bangus
Marinduque	-- buntal handloom weaving
Romblon	-- marble
Palawan	-- fish processing

### ***Region V***

Albay	-- gifts and housewares (abaca)
Camarines Norte	-- pineapple processing
Camarines Sur	-- bamboo industry
Sorsogon	-- pili processing
Catanduanes	-- lasa/tiger grass; abaca rugs and crafts
Masbate	-- aqua-marine processing

### ***Region VI***

Aklan	-- loom weaving (piña industry and abaca sub-sector)
Antique	-- muscovado industry
Capiz	-- horticulture
Guimaras	-- lime processing (industrial grade)
Iloilo	-- bamboo-based products (furniture and furnishings)
Negros Occidental	-- gifts and holiday décor (ceramics, woven items, mixed medium)

### ***Region VII***

Bohol	-- loom weaving (raffia, mats, tablecloth/linen products)
Negros Oriental	-- home furnishings
Siquijor	-- ceramics
Cebu	-- furniture

### ***Region VIII***

Leyte	-- food processing
Southern Leyte	-- sinamay industry
Samar	-- mussel industry development (fresh mussels/ vacuum fried/ shell craft)
Eastern Samar	-- seaweeds
Northern Samar	-- coconut coir industry development (planters, geotextiles, cocopeat and holiday decors)
Biliran	-- pandan

### ***Region IX***

Zamboanga City	-- fish processing (canned tuna/bottled sardines)
Zamboanga del Sur	-- seaweeds
Zamboanga del Norte	-- fresh mango

Isabela City -- rubber industry

Sibugay -- rubber sector

(industry rubber product: latex, cuplump, crumb rubber, air-dried rubber)

### **Region X**

Bukidnon -- high-value vegetable production (project: packing shed with cold chain capability)

Camiguin -- tourism support service: restaurant, transpo, resorts

Misamis Occidental -- aqua-marine industry

Misamis Oriental -- fiber-base (silk, abaca and hand-made)

Lanao del Norte -- seaweed industry (Carageenan)

### **Region XI**

Davao City -- fresh and processed fruits (banana, mango, papaya, durian)

Davao del Norte -- fresh and processed mango (fresh, puree, jam)

Davao del Sur -- fresh and processed food (fresh mango, cassava chips, banana chips)

Davao Oriental -- coconut-based items (coco-milk, fiber board, coco peat)

Compostella Valley -- wood products

(resource-based: gamelina, furniture, furnishings, construction materials)

### **Region XII**

North Cotabato -- palm oil

Sultan Kudarat -- palm oil

Saranggani -- processed fish (dried fish, bangus)

South Cotabato -- processed fish (tuna)

### **CARAGA**

Agusan del Norte -- cavendish banana(fresh)/food processing: banana chips

Agusan del Sur -- palm oil processing

Surigao del Norte -- citronella oil processing

Surigao del sur -- coffee production (raw beans)

**Words to Ponder:** *Nothing ventured, nothing gained.*

-English Proverb

## **Global Opportunities**

Technology and communication has shrunk the world. It is no longer uncommon to buy chocolates from the USA or biscuits from Japan in the local retailer. Given the super malls in the area, local competition has become tougher than ever. Spaces in the malls are expensive. So that the entrepreneurs have to seek markets elsewhere around the globe.

### **Ways of Going Global:**

1. Franchising
2. Opening branches
3. Partnership
4. Exporting

### **Reference:**

**Entrepreneurship, Cristina B. Banastao and Solita A. Frias, Unlimited Books Library  
Services & Publishing Inc.  
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