Examples of Barriers to Entry

An Entrepreneur is someone who perceives an opportunity and creates an organization to pursue it. Entrepreneurs create value – it is the direct outcome of their entrepreneurial activity. Entrepreneur don't generally set out to create value – but that is what happens – the entrepreneur creates value because s/he creates a new business, new jobs, new taxes, new spending, etc.

Entrepreneurs start businesses for many reasons: As a refuge: - Foreign refugee - Educational refugee - Feminist/housewife refugee - Corporate refugee - Society refugee - Parental refugee A cold, rational decision A "moment of truth" - the "safe" option is rejected for the "risk" An impulsive act An intuitive move Or the result of a "precipitating event" such as losing a job

Visionaries ▪ Generally dissatisfied with status quo
2. Strivers ▪ Never satisfied with their own achievements ▪ Fiercely competitive – always trying to win
3. Wheeler Dealers ▪ Most dispassionate/calculating type ▪ Looks for opportunity to act ▪ "Take-over" is their game
4. The Innovator – cont'd
True innovation occurs when the venture/product/idea is strikingly different from all before - Restaurant/garage/pet shop are not innovative – can still be a good business ▪ Innovators look for a "better fit" – what is a "better fit?" - Mismatch between the way something is being done and how it could be done (TV, Sony Walkman, digital watch) enabled by new technology - A poorly satisfied user demand - Opportunity arising from change in the economic, legal or business climate - A recognition of an incipient (emerging) user demand

There is a fundamental difference in how failure is seen in North America and Europe. ▪ In Europe it is considered a major set-back ▪ In the U.S. - expected (required even!) ▪ In Canada - in between but tending to U.S. There are no "rules" that ensure success. However, universally, successful entrepreneurs are able to shake off failure – some, many times in a row!

 Entrepreneurs must continue to learn to survive. ▪ Organise formal communications with direct reports ▪ More trust and "look before jumping" in case of individuals, build the team ▪ Make a clear distinction between unethical issues and your special decision making processes ▪ Realise that the dominant and intimidating personality you posses must be tempered ▪ Use time wisely, it's an unrecoverable resource ▪ Practice true delegation

The Customer Development process assumed that many of the initial assumptions about your business model would probably be wrong, so it built in a iteration loop to fix them.

The amazing agility of small enterprises gives them the ability to "turn on a dime" - allows them to survive when larger firms would opt for bankruptcy

. Problem Statement "fundamentally everyone is in search of progress (outcomes) and it helps to think of problems in terms of the obstacles that keep them from achieving this progress. This is true whether you are describing a problem-led or desired-led product/service."

Your Problem Statement is your hypothesis/guess of the problem that you are solving Think about what the impact of the problem is on your customers/users How severe/serious is the problem, what are the implications if not addressed (metrics) How is the problem currently solved – or is it? Remember, you can't define a compelling value proposition unless you understand your customers and their problems.

Customer Segment: ▪ Your Target Market/Customer Segment is the "who" your product/service is targeted at ▪ Often it is the customer (business/consumer) who will pay for your product or service - but not always ▪ Sometimes the user is not the one who pays - Parents pay for goods/services for their children. - Organizations such as NGOs will pay while their clients benefit ▪ Customer segment is usually stated in terms of demographics (gender, location, income, education etc.)

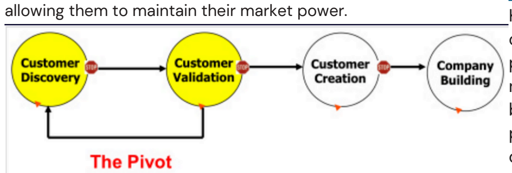
The Value Proposition The Value Proposition defines the benefits that fulfills the customer need - It could represent improvements or added features to existing solutions - It could be a new or disruptive product/service offering ▪ It is the value you bring to your clients that is unique. ▪ It is the reason why customers will choose you over your competition. It is how you differentiate yourself. It is NOT about lowest price

Barriers to Entry: Is there a solution that is currently being offered to the problem you are solving, what is it? ▪ What is the best solution today ▪ How is that solution being differentiated ▪ How is your solution unique / different ▪ How is that uniqueness protected

Examples of Barriers to Entry

- Barriers to entry are factors that make it difficult for new firms to enter a market and compete with existing firms. These barriers can take various forms, including:
- **Economies of Scale:** Existing firms may benefit from economies of scale, where as they produce more, their average cost per unit decreases. New entrants often cannot achieve the same level of efficiency, making it hard to compete on price.
- **Capital Requirements:** Some industries require significant initial investment in equipment, infrastructure, or technology. High capital requirements can deter new entrants from entering the market.
- **Government Regulations:** Regulations and government policies can create barriers to entry by imposing licensing requirements, safety standards, or environmental regulations that new firms must comply with before entering the market.
- **Patents and Intellectual Property:** Existing firms may hold patents or proprietary technology that give them a competitive advantage and prevent others from entering the market with similar products or services.
- **Brand Loyalty and Reputation:** Established brands often enjoy strong customer loyalty and trust, making it difficult for new entrants to gain market share and compete effectively.
- **Access to Distribution Channels:** Existing firms may have exclusive contracts or established relationships with distributors, retailers, or suppliers, limiting the access of new entrants to these distribution channels.
- **Network Effects:** In industries where the value of a product or service increases as more people use it (network effects), established firms with large customer bases have a significant advantage over new entrants.
- **Switching Costs:** Customers may incur costs, both financial and non-financial, when switching from one product or service provider to another. High switching costs can discourage customers from trying new entrants, giving established firms a competitive advantage.
- **Regulatory Barriers:** Government regulations can create high entry barriers, particularly in industries such as healthcare, finance, and telecommunications, where regulatory compliance is complex and costly.
- **Geographical Barriers:** In some cases, geographical factors such as location, access to resources, or transportation costs can create barriers to entry, particularly for industries that rely on physical infrastructure or natural resources.

These barriers to entry can vary in intensity and combination depending on the industry and market conditions, effectively protecting incumbent firms from new competition and allowing them to maintain their market power.



Business Canvas

- The Channel - Describes how your product/service gets to your customers. (it does not mean physical transportation)
- How will you distribute and sell your product/service?
- Sales force, door-to-door, in store/retail, on-line, multi-level marketing (Avon), TV infomercial, telemarketing
- Chosen Channel will define the customer experience:
- ▪ How they will purchase the product or service
- ▪ How you will raise awareness of your value proposition
- ▪ How will you provide post-sale customer support

Customer Relationship Customer relationship refers to the means by which you are going to connect or stay connected with your customer. This can range from email, online, direct mail, phone, face to face, etc… dependant on cost and type of client Align the best customer relationship category to the specific customer segment you have selected. Customer relationships will be driven by: ▪ How they integrate with the overall business model ▪ How costly and efficient the relationships are ▪ Is it needed for customer acquisition, retention or boosting sales (hint: self service, dedicated presales and after sales assistance, automated services, community building)

Revenue Streams Important because if the revenue model does not work, it may be time to pivot. This is how your business makes money, generates cash, how the money comes in What each sale/transaction is worth. What each sale looks like – are you selling packages, wholesale, one on one? There can be multiple revenue streams with different pricing mechanisms. The Revenue Stream data will go into the Financial Model of your Business Plan, so it is very important.

Week 12 - RISK MANAGEMENT AND EXIT SUCCESSION:

It is the third option "succession" we will look at here.

- Working together with relatives and intergenerational issues are very difficult and can cause some disastrous family problems
- To succeed, lots of well thought out planning is required

Family Business Definition – A family business is a business in which two or more members of the same family are directly involved in the ownership and/or functioning.

Reasons for ownership to pass from one generation to the next:

- External - Customer dissatisfaction, loss of market share
- Internal - Low morale, high staff turnover, personal issues, no profits
- Eternal - Feuds, addictions, emotional problems, divorces, illnesses,

Succession - A Model:

- <u>*Stage I (Pre-Business) –*</u> Child becomes aware of facets of firm and/or industry. Orientation of child by family member is informal.
- <u>*Stage II (Introductory) –*</u> Child is exposed to business jargon, employees, and the business environment.
- <u>*Stage III (Intro-Functional) –*</u> Child works as part-time employee. Work becomes more difficult. Includes education and work for other firms. <Successor enters>
- <u>*Stage IV (Functional) –*</u> Potential successor begins work as full-time employee. Includes all non-managerial positions.
- <u>*Stage V (Advanced Functional) –*</u> Potential successor assumes managerial position. Includes all management positions prior to becoming president.

<Leadership Transfer>

- <u>*Stage VI (Early Succession) –*</u> Successor assumes presidency. Includes period in which he successor becomes dejure (buy the right of) head of company.
- <u>*Stage VII (Mature Succession) –*</u> Successor becomes defacto head of company.

Succession Considerations:

Family succession is less likely today than in the past.
▪ Life-time of business is short
▪ "Blue collar" businesses shunned by highly educated children
Many difficult issues to deal with
▪ Some owners may want to stay – shutting out the "kids."
▪ Others may retire early – before the "kids" ready to take over.
▪ Some shareholders may want to cash out.
▪ Who should succeed
▪ Knowing when to start and getting agreement by all

Business Canvas Continued:

Key Resources Key Resources are everything you need in terms of people and or equipment to make/delivery your product/solution. Resources can include: ▪ Financial – money needed ▪ Talent (Human) – staffing ▪ Physical – equipment, building, manufacturing facilities, materials ▪ Know-how – people/intellectual property ▪ Relationships – existing contacts, connections

.Key Activities This is basically your to-do list. These are the actions that you must undertake in order for your business model to work. Essentially a list of everything you have to do to deliver your promise/value proposition/product/service to your customer. You will need to factor in your Key Partners, Customers, Channels etc.

 Marketing Strategy: ▪ identifies the firm's marketing goals, and explains how they will be achieved, ▪ includes Product development, Promotion, distribution, Pricing, relationship management ▪ determines the choice of target market segments, positioning, marketing mix, and allocation of resources

Most companies have a key component that drives their strategies, here are some: ▪ Product driven - Companies that have only one product (Cow Brand) ▪ User driven - Companies tied to a customer type such as health-care (Johnson & Johnson) ▪ Market type - Companies appealing to one type of market (Caterpillar) ▪ Sales & Marketing method - (Direct Approach)

Elements to consider: The Product 2. The demographic – need someone to sell it to 3. A Unique Value Proposition 4. Pricing – (Positioning) Revenue Stream 5. Formulated to make money 6. Production / manufacturing Key Activities 7. Promotion – Advertising 8. Place – Distribution Channels 9. Sales
Sales Promotions can be used at different levels For manufacturers ▪ To stimulate channel members, retailers and wholesalers, to market a firm's products For wholesalers ▪ To induce retailers to buy inventories earlier than they normally would. For retailers/companies ▪ To persuade customers to make a purchase

Variable Pricing • Setting more than one price for a good or service in order to offer price concessions to certain customers (seniors) ▪ Flexible Pricing • Offer different prices to reflect differences in customer demand (Tuesday cinema discounts) ▪ Follow-the-Leader Pricing • Using a particular competitor as a model in setting prices

Employment Equity & Non Disclosure Agreement

Positive net worth - more assets than liabilities

▪ Negative net worth - more liabilities than assets

Examination Aid Sheet
Faculty of Applied Science & Engineering

Both sides of the sheet may be used; must be printed on 8.5" x 11" paper.

Subject:______________________________

Candidate's name:______________________

Candidate's signature:___________________

ASSETS = LIABILITIES + OWNER'S EQUITY

Assets	Debit	Credit
Cash	+	-
Accounts Receivable	+	-
Allowance for Doubtful Accounts	+	-
Inventory	+	-
Supplies	+	-
Equipment	+	-
Prepaid Advertising	+	-
Prepaid Insurance	+	-
Prepaid Rent	+	-
Notes Receivable	+	-
Land	+	-
PPE	+	-
Patents, Copyrights	+	-
Goodwill	+	-

Liabilities	Debit	Credit
Accounts Payable	-	+
Salaries & Wages Payable	-	+
Taxes Payable	-	+
Dividends Payable	-	+
Interest Payable	-	+
Unearned Sales Revenues	-	+
Utilities Payable	-	+
Notes Payable	-	+
Morgages Payable	-	+
Bonds Payable	-	+

Owner's Equity/Revenue/Gain	Debit	Credit
Name, Capital	-	+
Common Stock	-	+
Preferred Stock	-	+
Retained Earnings	-	+
Revenues (Sales, Service, Fees, Rent, Interest)	-	+
Gains	-	+
Income	-	+
Withdrawals	+	-
Dividends	+	-
Capital Distributions	+	-

Contra Asset Accounts	Debit	Credit
Allowance for Doubtful Accounts	-	+
Accumulated Depreciation	-	+
Purchases, Returns & Allowances	-	+

Financial Statements

Balance Sheet = reports assets, liabilities & stockholders' (owner's) equity. These accts. are permanent accts. – they are not closed at the end of an accting. year.

Profit & Loss or Income Statement = reports revenues/sales, expenses, gains, losses, & net income. These accts. are temporary accts. – they will be closed to an equity acct. at the end of the accting. year.

Statement of Cash Flow = The cash flow statement reports the *cash* generated & used during the time interval specified in its heading.

Expense & Loss Accounts & Contra Revenue	Debit	Credit
Cost of Goods Sold	+	-
Freight In & Postage Expense	+	-
Purchases	+	-
Advertising Expense	+	-
Delivery Expense	+	-
Depreciation Expense	+	-
Salaries & Wages Expense	+	-
Rent Expense	+	-
Utilities Expense	+	-
Supplies Expense	+	-
Bad Debt Expense	+	-
Insurance Expense		
Interest Expense	+	-
Income Tax Expense	+	-
Loss on Sale	+	-
Contra Revenue - Sale Returns, Allowances, Discounts	+	-

Pizza Planet Cash Flow Projection

Period: 4 Months	March	April	March	April
Opening Balance	$50,000	$70,000	$100,000	$70,000
Cash Inflow				
Sales Revenue	$30,000	$15,000	$20,000	$30,000
Investments (Dividends, Interest, Capital Gains)	$10,000	NA	NA	$10,000
Loans Received	$5,000	$5,000	$5,000	$5,000
Accounts Receivable (Collection of Outstanding Payments)	$20,000	$80,000	$15,000	$25,000
Government Grants or Subsidies	$15,000	NA	NA	$10,000
Licensing or Royalty Fees	NA	NA	$10,000	NA
Total Inflow	$80,000	$100,000	$50,000	$80,000
Cash Outflow				
Operating Expenses	$45,000	$45,000	$45,000	$45,000
Loan Repayments	NA	NA	$10,000	NA
Inventory Purchases	NA	NA	NA	$10,000
Salaries and Wages	$15,000	$15,000	$15,000	$15,000
Capital Expenditures	NA	$10,000	NA	NA
Taxes	NA	NA		$10,000
Cash Reserves	NA	NA	$10,000	$10,000
Total Outflow	$60,000	$70,000	$80,000	$90,000
Net Cash Flow	$20,000	$30,000	$30,000	$5,000
Closing Balance	$70,000	$100,000	$70,000	$65,000

Assumptions in Cash Flow Projections:

Sales Estimates:

- Avoid overly generous sales forecasts that can undermine projection accuracy.
- Maintain a realistic approach to sales projections to ensure reliable cash flow projections.

Accounts Receivable:

- Reflect the payment behavior of your customers accurately in projections, especially if they tend to pay on the last possible day despite a 30-day payment schedule.
- Adjust the projection cycle to align with the actual payment patterns.

Accounts Payable:

- Factor in annual and quarterly bills on the payables side of your projections.
- Consider potential changes in tax rates if your business is expected to reach a new tax level.

Cyclical Trends:

- Account for seasonal fluctuations and cyclical trends specific to your industry.
- Analyze historical data to identify patterns and adjust projections accordingly to reflect these variations.

Contingencies and Unexpected Events:

- Incorporate contingencies in your projections to prepare for unforeseen circumstances such as economic downturns, natural disasters, or changes in market conditions.
- Build buffers to mitigate the impact of unexpected events on your cash flow.

Scenario Planning:

- Failing to create multiple scenarios can leave you unprepared for different business outcomes.
- Develop projections for best-case, worst-case, and moderate scenarios to assess the impact of various circumstances on cash flow.

Markup pricing is: the cost plus pricing system that adds a markup percentage to cover:

- Operating expenses
- Subsequent price reductions
- Desired profit

Gross Margin

$$\frac{\textbf{Markup}}{\textbf{Selling Price}} \times \textbf{100} = \textbf{Markup as a percentage of selling price}$$

$$\frac{\textbf{Markup}}{\textbf{Cost}} \times \textbf{100} = \textbf{Markup as a percentage of cost}$$

 Factors that affect selling on credit: ▪ The type of business - Durable goods retailers offer more credit than service providers ▪ Credit policies of competitors - Competitors are expected to match other competitors' credit offerings ▪ Income level of customers - Their potential ability to pay ▪ Availability of working capital ▪ Credit card sales can be a huge source of revenue in the long term

 Consumer Credit ▪ Financing granted by retailers to individuals who purchase for personal or family use Trade Credit ▪ Financing provided by a supplier to a company which then goes into their accounts payable ledger for payment Terms of sale may be: ▪ 2/10, net 30 - Means, two percent discount on the invoiced amount if paid in full within 10 days of the invoice date otherwise the full amount of the invoice is due in 30 days ▪ COD (cash on delivery) if required for poor credit risk customers