

asset
business
business function
business model
demand
economics
good
liability
market research
need
net worth
product
profit
service
supply
tax
want

Chapter 2

Idea Generation

Entrepreneurship is a complex landscape filled with business, economic, and marketing concepts. By understanding foundational business concepts, entrepreneurs are better prepared to generate ideas that fulfill consumer wants and needs.

Objectives

After reading this chapter, you will be able to:

- ☑ Understand connections between entrepreneurship and business
- ☑ Apply the entrepreneurial discovery process
- ☑ Identify steps to launching a business

Entrepreneurship and Business

Consider the day you have experienced so far. Are you sitting in a building or a park? Did you grab fast food or make yourself a lunch? Did you ride in a car, on a bike, or walk on a sidewalk? No matter what you answered, you've been impacted by entrepreneurship in some way today. Entrepreneurship plays an important role in life. The car or bike you rode was likely made by a business specializing in transportation. The sidewalk, building, or park you used was built by an organization likely containing a mix of employees, intrapreneurs, and entrepreneurs.

The concept of **business** refers to the aspects of making, selling, and providing products in exchange for money. A **product** is anything that can be bought or sold. The term business is also used to describe a specific company or organization, such as Amazon or Walmart.



Many entrepreneurs aim to launch an idea into a small business. The US Small Business Administration defines a business as small based on either the number of employees over the past 12 months or the average annual receipts over the past three years. The two most widely used standards to qualify a business as small are 500 employees for most manufacturing and mining industries and \$7.5 million in average annual receipts for many nonmanufacturing industries. There are many exceptions to these standards because size standards vary by industry.

Entrepreneurial ventures function within an economic system, an organized way in which a state or nation distributes its resources and provides goods and services to the community. A **good** is a tangible item that is produced and sold to consumers, and a **service** is the performance of a particular task in exchange for money. To fully understand the nature of business, it is important to have an understanding of economics. **Economics** is the science of how individuals, businesses, and governments make decisions about satisfying unlimited wants with limited resources. It is a science that examines the production, consumption, and transfer of wealth.

Daily spending decisions are influenced by the combination of business and economics. For example, when you earn money, you make specific choices about how to spend it. Do you spend your earnings at restaurants or purchase food from a grocery store? Do you spend money at a local retail store or on an international website? Understanding fundamental economic and business concepts can help you make the best entrepreneurial choices.

Business Functions

Before launching an entrepreneurial venture, it is important to learn foundational business concepts, including the functions of business. The goal of a business is to earn money by making a profit. A **profit** is the financial gain calculated by the difference between amount earned and amount spent by a business. For instance, you may be familiar with the company Microsoft, which created the popular computer program Windows. Microsoft has created many programs that have changed the way we use computers, but its chief purpose is to make money so it can continue to stay in business and pay its employees.

Businesses need to profit in order to function. Each action a business takes to help it generate a profit is called a business activity. There are three types of business activities detailed below and in *Figure 2.1*.

Operational Activities

Operational activities make up the majority of daily activities conducted by a business. They include operations that contribute to the net worth of a company. **Net worth** refers to the total value of a business determined by assets minus liabilities. **Assets** are what a business owns, while **liabilities** are what a business owes. Items such as bank accounts, land, and equipment are considered assets. An entrepreneur's loans and debts are liabilities. Operational activities may include production of products, research into improving products, and hiring employees.

Entrepreneurs categorize operational activities into business functions. **Business functions** are four forms of operational activities that play necessary roles in running a business. They include finance, production, marketing, and management.

Production

Production functions involve all activities concerning the creation of products. Recalling the example of Microsoft, some of its production functions may include developing new software, hiring new software engineers, or fixing bugs within current software.

Marketing

The marketing functions serve to ensure the business is meeting the demand of its customers and able to compete with other companies. Research into competitors, analyzing trends, and social media marketing are important marketing functions.



Management

Daily choices about the direction of business activities are part of the management function of operational activities. They can include leading employees, supervising work, or planning for the future.

Finance

Financial functions, also known as financial activities, are any daily activities that involve money. Financial functions might include paying employees, collecting money from sales of products and programs, or performing accounting procedures.

As a company expands or shrinks, its net worth is affected. For example, think back to the company Microsoft. It started as a small company that interpreted codes. With few employees and limited technology, it had minimal assets and many liabilities, which meant that fewer operational activities were performed.

As it grew into the household name of computer software it is today, Microsoft gained many more assets, funds to pay off its debts, and thousands of employees working to ensure the organization competes with other software companies. Computer programmers, information technology professionals, graphic designers, and other employees perform daily operational activities to help Microsoft continue to expand.

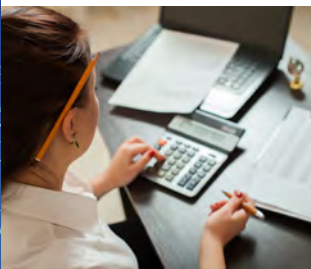
Investing Activities

Investing activities refer to investments a business makes. Making an investment means using money to create wealth over time and is achieved through investment tools such as stocks, bonds, mutual funds, and real estate, among others. For example, entrepreneurs can conduct investing activities by purchasing a building or placing money into investment vehicles.

Entrepreneurs may also make investments into updating premises or materials. A small computer programming company, for example, might invest in technology updates to complete tasks with greater efficiency. The company may make this investment with the understanding that over a period of time its employees would be able to complete additional operational activities more accurately.

Financial Activities

Financial activities involve the input and output of money into a business. Activities include paying suppliers and employees for the work or products they have provided. Financial activities also involve collecting money from sales and investments a business makes.



Consider the financial activities of a company like Microsoft. For every program or device Microsoft sells, money flows into the company. Those funds have a variety of uses. They can be used to pay employee salaries, maintain premises, or advertise new products. Because there are numerous inputs and outputs of money for a corporation as large as Microsoft, accountants monitor the company's expenses closely.

FIGURE 2.1

Operational	Investing	Financial
Production of products	Maintenance	Collecting money from sales
Providing services	Purchase of buildings	Repaying debt
Research	Providing loans to providers or customers	Selling stock
Administrative duties	Buying stock	
Customer service		
Hiring employees		

Business Models

When an entrepreneur opens doors on a new business, it's not enough to have great ideas or lofty intentions; businesses also have to be set up efficiently to make a profit. Successful businesses have a detailed, specific way in which they operate to deliver goods and services.

Many companies rely on a **business model**—a plan for making a profit—in order to operate. Business models describe a precise course of action for how a company will secure customers and generate income. Common types of business models are outlined in *Figure 2.2*.

FIGURE 2.2

Type of Business Models	Description	Example
Direct Sales	Employees of a business sell a product directly to a consumer.	Social media and online sales
Franchise	Owner of a company grants another business owner the right to use the owner company's name.	Chain restaurants
Freemium	Company provides goods or services for free but later charges for extra features.	Games, tablet applications
Subscription	Customers pay an up-front subscription price for a product or service	Magazines, websites

Direct Sales Model

In a direct sales model, employees of a business sell a product directly to a consumer. Businesses that use the direct sales model rely on customer service and relationships to ensure customers will return to purchase goods and services. Companies that utilize the direct sales model typically sell their products outside of a traditional retail shop and often use interactive question-and-answer sessions or demonstrations either in-person or online.

Direct sales companies such as Young Living Essential Oils and Discovery Toys employ people to sell their products within their social networks. Social media has changed how businesses use the direct sales model. The ability to post “live” videos and host virtual “parties” online have made it easier for salespeople to interact directly with their customer base without having to leave their homes.



Franchise Model

In a franchise model, the owner of a company grants another business owner the right to use the owner company’s name. The owner of the franchise gets to grow his or her company by selling the company’s rights. This saves franchisors time and money since they do not have to spend the money to open more stores alone. Common franchises include chain stores and restaurants.

Hotels are also popular franchises. Hotels and resorts, such as Hilton or the Holiday Inn, rely on people’s previous experiences with the franchise. If you’ve had a positive experience at one of their hotels while you traveled, it is likely you will look for another in the same franchise to ensure you get a comparable price and quality experience.



Freemium Model

In a freemium model, a company provides goods or services for free but later charges for extra features. Free games that only allow you access to a few levels or “Lite” smartphone apps are examples of the freemium model at work. When using this model, businesses give their customers a sample of their good or service with the hopes that the customer will like it so much that they will return and pay for the full product.

Spotify is a prominent freemium-modeled business. Anyone can access songs from the application’s enormous song and video library. But if you’d like to download songs, listen ad-free, or skip songs indefinitely, you must purchase a premium account. By offering a sampling of music for free to listeners, Spotify aims to bring in more subscribers who enjoy the service.

Subscription Model

In a subscription model, customers pay an upfront subscription price for a product. Companies that employ this business model provide their customers with lengthy access to goods and services for an annual, monthly, or weekly fee. Netflix and Amazon Prime are large companies that have gained tremendous success with subscription models.

One popular type of subscription model that has gained popularity is the “box” subscription. Customers pay a set price for a box containing specialty items to be delivered to them regularly, usually on a monthly basis. Companies such as Ipsy for makeup, Blue Apron for gourmet food ingredients, or Dollar Shave Club for personal grooming supplies have made it easier than ever for people to access products.

Business Organization

Whichever business model a company uses, the success of a company will rely on how well it is organized. Companies rely on organizational design to analyze the organization of a business by reviewing a company’s size, goals, and budget. Organizational design refers to the way a company’s mission relates to its structure. For example, defining the type of business, ownership parameters, and the roles employees play within the business are all features of organizational design that should be considered prior to launching a business.

An effective organizational design is critical in order to avoid losing time, money, and valuable resources. A business that does not have a clear organizational design in place risks running inefficiently without a clear chain of command. The structure of a business begins with the business model and the type of business, which is explored below.

Business Ties to Technology

A common tool used by entrepreneurs to plan a new venture is the business model canvas, a visual chart created by Alex Osterwalder in 2008. Gaining such popularity in entrepreneurship circles, the canvas has expanded and entrepreneurs can find online templates for niche specific businesses. The original business model canvas can be downloaded for free from Strategyzer.com, an online resource for entrepreneurs co-developed by Osterwalder.

Source: strategyzer.com



CareerConnections

Internal Auditor

Companies set budgets and create financial plans. However, it's not enough to simply create a budget. Budgets also need to be followed and maintained. Internal auditors review a company's revenue and spending to ensure funds are properly allocated. They help businesses identify where they may be losing revenue, as well as analyze the allocation of expense funds. Other responsibilities of an internal auditor include:

- Detecting employee or owner fraud
- Ensuring a business is saving proper tax funds
- Analyzing business financial records and calculating financial ratios
- Compiling charts and graphs of financial data
- Communicating progress or shortcomings to owners and stakeholders



Types of Businesses Entrepreneurs Launch

There are two types of businesses: for-profit and not-for-profit organizations. The difference between for-profit and not-for-profit businesses is the way the organization handles its income. The aims of the business determine whether it should operate as for-profit or not-for-profit.

A for-profit business is an organization that generates income for its owners. For-profit companies have the goal to make more money than they spend on producing products. Not-for-profit businesses are companies created to benefit a public interest. The money made by not-for-profit businesses must go directly towards accomplishing their goals and staying in business.

Examples of For-Profit Organizations

- Walmart
- Amazon
- Instagram
- McDonald's
- H&M

Examples of Not-for-Profit Organizations

- American Red Cross
- Make-A-Wish Foundation
- Teach for America
- National Public Radio
- The Humane Society

For-profit and not-for-profit companies have contrasting organizational designs because the aims of the companies are different. For example, consider the not-for-profit organization The Humane Society, whose objective is to protect and rescue animals. Their income is based on donations, and is used only to pay employees

and maintain shelters and facilities while providing humane care to animals. The Humane Society stands in contrast to a for-profit organization such as PetSmart, which sells products intended for animal care. While PetSmart's income goes to employees and maintaining facilities, any leftover funds benefit the owners of the company. The owners decide how to allocate the extra income.

Entrepreneurial Discovery

Understanding basic business functions and models is an important first step in exploring entrepreneurship. However, entrepreneurs must also analyze individual goals and interests by asking themselves the following questions:

- What am I passionate about?
- What skills do I have that would make me a good business owner?
- Why do I want to start my own business?
- How does my business idea align with my goals?
- What do I hope to accomplish by starting a business?

Entrepreneurs don't just start a business so they can get weekends off. If they do, they aren't very likely to be successful. In most cases, the reality is the opposite—entrepreneurs have to work hard upon the commencement of a company, often sacrificing resources such as time and money to launch their idea.

There are certain attributes that set entrepreneurs apart from general business owners. There are five entrepreneurial concepts that differentiate entrepreneurs.

1. Passion

Entrepreneurs have a purpose and passion for their field of business. They analyze their goals and interests and use them to design an optimal business. Successful entrepreneurs find a way to make money by doing activities they care about. For example, an animal lover might start a pet-sitting business or a book enthusiast might start a book exchange program. Following a passion gives business owners ideas that enable them to make a profit doing what they enjoy the most.

2. Problem

Entrepreneurs identify a problem consumers have. A clever solution to a problem is the basis for the foundation of any business that aims to profit. For instance, an entrepreneur might notice that people miss their dogs during the day while they are away at work and develop a smart webcam that enables them to check in with their pet. Another small business owner might organize an app that helps teachers send live updates to parents about their child's school progress. When consumers have a problem, entrepreneurs often have a fresh solution.





In 1978, Ben Cohen and Jerry Greenfield borrowed \$4,000 to invest in starting their own ice cream company. Their first shop opened in an abandoned gas station in Vermont and rapidly grew into the extremely popular ice cream company Ben & Jerry's.

Source:
instantprint.co.uk

3. Perseverance

Starting a business is full of highs and lows that entrepreneurs must endure. Because there are so many components at play, drawbacks and failures are inevitable for entrepreneurs. The ability to persevere, or continue on when challenged with obstacles, is a key characteristic of an entrepreneur. Accomplished entrepreneurs persist even when their business has setbacks.

4. People

Entrepreneurs know they cannot start and manage a business completely alone. The ability to work with others in a team is vital to successful business ventures. Making connections, convincing investors, and managing a team are all important parts of a start-up. Entrepreneurs with lasting businesses make an effort to connect with their partners and customers every chance they can.

5. Profit

A business must make a profit to remain operational. Entrepreneurs know that no matter how much they love what they are doing, they must think ahead about how to sustain their business. Developing a functional strategy for profit is a key characteristic of an effective entrepreneur.

Entrepreneurs must also have a sound understanding of economic concepts to form a profitable business. For example, entrepreneurs often consider supply and demand when brainstorming business ideas. **Demand** refers to the amount of goods that consumers want, and **supply** is the amount of goods that are available to consumers. Consumer demand influences how much product should be supplied.

Entrepreneurs pay close attention to consumer demand when starting a business. To make a profit, an entrepreneur must conduct **market research**, which is research into consumer preferences, to see if there is a demand for products and what prices people will pay. Understanding economic and marketing concepts can give any entrepreneur an edge to analyzing what consumers will buy and how much consumers are willing to spend.

When an entrepreneur conducts market research using the understanding of economic concepts, a process called entrepreneurial discovery begins. Entrepreneurial discovery is when an entrepreneur searches for opportunities to deliver new products. Entrepreneurs look for problems to solve for their consumers in entrepreneurial discovery.

Entrepreneurs should engage in entrepreneurial discovery to find ways to enter and become competitive in the market. For example, a person who wants to start a gym will analyze gyms in the area to see what is currently offered to consumers. If the entrepreneur doesn't examine the market, he or she misses out on a chance to stand out among competitors. An overview of the process of entrepreneurial discovery can be found in *Figure 2.3*.

FIGURE 2.3

Entrepreneurial Discovery Process	Example
1. Research Entrepreneurs collect data through observations, internet searches, and market analysis of their interests.	An entrepreneur searches for information related to light exercising.
2. Discovery Entrepreneurs identify a problem or area where a consumer want or need is not being met.	The entrepreneur discovers that people would like to walk more each day, but are too busy to remember to commit to exercise.
3. Innovation Entrepreneurs devise a way to meet the want or need in the market.	The entrepreneur designs an app that treats exercise like social media and allows friends to remind one another to get up and take walks.
4. Implementation Entrepreneurs review their competitive advantage—what sets them apart from their competition—to produce a good or service and find a way to profit from it. Competitive advantages include items such as lower prices and better products than competitors.	The entrepreneur determines that the competitive advantages are the social media aspect and the business model because other competitors in this niche were not yet using a freemium model. The entrepreneur uses a freemium model to let people try the app for free first and then pay for premium features.

Get Involved

Small Business Administration

The Small Business Administration (SBA) is a federal agency designed to assist small businesses. The SBA supports new business ventures by offering a spectrum of resources to entrepreneurs, including assistance with start-up capital, networking opportunities, small business counseling, advice in technology and budgeting, and support for women and minority entrepreneurs.

To explore resources offered by the SBA, visit www.sba.gov



Starting a Business Venture

When a person makes the decision to become an entrepreneur, he or she starts a quest known as a venture, which is starting a business that involves risks. A business venture takes considerable time, talent, and capital to pursue, but entrepreneurs who are driven and motivated will find a way to make their business happen. Starting a venture requires self-examination and research to find the business and market that is right for the entrepreneur. Should the venture be for-profit or non-profit? Does the entrepreneur understand the characteristics needed to start a venture? To find out where the entrepreneur “fits in” to the market, the entrepreneurial discovery process, detailed on the previous page in *Figure 2.3*, should be taken into account. Within the discovery process, an entrepreneur should also apply the following steps.



1. Assess global trends and opportunities for business.

Businesses exist in a global market. Entrepreneurs should consider local, state, national, and international opportunities. It can be challenging to think globally when brainstorming an idea for a business venture. However, to effectively assess opportunities, potential business owners should focus on one area of the market and search for global trends within it. *Figure 2.4* identifies trends in entrepreneurship.

FIGURE 2.4

Trend	Description
Emerging technologies	Identifying and utilizing new technologies that can enhance product development.
Social entrepreneurship	Business development with a social cause, such as solving social or cultural problems.
Green entrepreneurship	Business development with an environmental cause.

2. Determine opportunities for venture.

Effective entrepreneurs solve a problem for consumers by asking themselves the following questions.

- Where is the problem?
- What is the problem?
- How can I solve the problem?

Entrepreneurs should analyze market trends in search of a problem. For example, consider the following scenario that demonstrates an entrepreneur’s ability to recognize a business opportunity.

Joy Mangano's entrepreneurial invention sprung from her work as a mother to three young children. Frustrated with the lack of durable and functional cleaning products available, Mangano designed a prototype of a more efficient mop than anything on the market.

The product became known as the Miracle Mop and landed her on QVC, where the product sold out in less than a half hour. Mangano became a self-made millionaire, going on to invent and sell numerous household products. Her story eventually became a Golden Globe nominated film about her rise to entrepreneurial status and the risk and rewards she faced along the way.

Stories like Mangano's illustrate how innovative and creative problem solving helps entrepreneurs recognize business opportunities.

3. Assess opportunities for venture creation.

At this point, entrepreneurs ask themselves, "Will this work?" They look at the problem they are trying to solve for their customers and decide if the problem is relevant enough that people will purchase their product to alleviate the problem.

4. Generate venture ideas.

This is where entrepreneurs get creative. They spend time, research, and energy creating and optimizing a product that solves a problem for customers. Entrepreneurs come up with many ideas for products, but only a few of those ideas will last long enough to grow into a business. One strategy entrepreneurs employ in this stage of idea generation is creating a minimally viable product. This development technique allows businesses to release a product to early users with basic features to gather feedback for future development. Releasing a minimally viable product helps entrepreneurs "fail fast," which means to identify the weaknesses in their product and pivot ideas in new directions—all before significant time and money are invested.

5. Determine feasibility of venture ideas.

After they have determined a problem and a realistic solution, entrepreneurs must weigh the risks of starting their business. Do they have the resources to start their venture? Can they make a profit selling their products? After evaluating the risk of the venture, entrepreneurs decide whether or not it is worth the investment or if they should pursue a different venture.



The Role of Entrepreneurship in Society



Profiting is essential to a business, but that does not mean that companies only exist to benefit the entrepreneurs who launch them. Businesses play critical roles in the advancement and progression of our world. Reflect on the earlier example of Microsoft and its goal to earn a profit. The computers and software created by Microsoft, including word processing and spreadsheet programs, have given people tools to grow, connect, and prosper. Thanks to Microsoft's technology and pioneering in the field of computer science, a generation of children have grown up learning to type and connect on the computer. Microsoft isn't alone in advancing society. Countless businesses have innovated, improved, and played a vital role in local, state, national, and international communities and economies. Businesses have three crucial roles in society: (1) providing products to customers, (2) creating markets, and (3) increasing economic benefits.

1. Providing Products

Recall that a product is anything that can be bought or sold to meet a customer's want or need. A **need** is something essential to survival, whereas a **want** is something we desire but could ultimately live without. Needs include food, shelter, and clothing. A smartphone and the internet are wants—it's hard to imagine, but we could live without them.

Products provided by a business are either goods or services. The differentiation between goods and services is that goods refer to tangible items that are produced and sold to consumers, such as clothing or groceries. A service refers to the performance of a particular task in exchange for money. For example, a painter provides a service of visiting a customer's home to paint the walls. Entrepreneurs sell products to customers, people who purchase the goods and services businesses offer.

2. Creating Markets

Entrepreneurship plays an important role in society by enabling goods and services to be bought and sold. Places where goods and services are exchanged are called markets. By creating markets, new businesses provide people with the opportunity to get what they want or need. For instance, think about the last purchase you made. Whatever product or service you purchased, the transaction was made possible through a marketplace.

There are many different types of marketplaces. Marketplaces can be physical places, such as the grocery store, or they can be virtual, like a website or phone app. There are also specialty markets, or places where the goods and services being sold are industry specific. For instance, a butcher specializes

in selling meats—you would not likely find paper goods like toilet paper or paper towel for sale within this specialty market. This is in contrast to a broader marketplace, such as a grocery store, that would likely sell meat alongside paper goods.

3. Increasing Economic Benefits

Entrepreneurship greatly impacts local, state, and national economies. One of the most significant contributions a business makes in the economy is offering employment. Businesses hire employees to execute tasks and, in turn, pay them wages—money earned in exchange for work. When people have employment, they can use their wages to purchase goods and services from other businesses, and the economy thrives.

Businesses also pay a large portion of taxes. A business's profits is subject to **tax**, or mandatory payments to the local, state, and national government for public services. Taxes provide funds to upkeep many public spaces and services, as well as support social welfare programs. The more money a business makes, the more they contribute through taxes to support items such as the improvement of schools, infrastructure development and road improvements, and other public services.

When employment is high, people have larger amounts of money to spend on goods and services. Thriving businesses contribute to an elevated standard of living for their community by making more goods and services available to customers. The standard of living enjoyed by populations varies within each city, state, and country, and the definition of having “enough” varies among different populations. However, consumer spending is linked to entrepreneurial ventures in that businesses provide consumers with valuable goods and services to meet wants and needs.

Case Study

Ethics in Entrepreneurship

Trevor is launching a new mobile app that easily uploads users photos from their phones and social media accounts and prints them in small albums. He advertises that the first photo book is free for all new users. However, what he doesn't advertise to potential customers is that they will automatically be enrolled into a monthly subscription that requires 30 days notice to cancel.



Do you agree or disagree with Trevor's business model? Why? What other business model concepts might Trevor consider? If you were Trevor, how would you structure the business?

**Name**

d'Arcy Lunn & Serafina Tané

Company

Teaspoons of Change

Location

Adelaide, South Australia

"You will not solve all the world's problems on your own by yourself, tomorrow. But the journey is rewarding, fun, challenging, and very enriching."

- d'Arcy Lunn

Social Entrepreneurship Leads to Big Changes

d'Arcy Lunn and **Serafina Tané** are the faces behind the global movement **Teaspoons of Change**. Their organization is built on the foundation that small actions (teaspoons) completed by many people produce big changes and a positive impact on the planet—the ultimate goal being to see a world without extreme poverty for everyone, everywhere.

To accomplish this mission, the Teaspoons of Change team has traveled to more than 90 countries, given almost 850 presentations to more than 80,000 people, and collaborated with leading development, environmental, social justice, and global education organizations.

d'Arcy believes the key to a successful social entrepreneurship movement is not to complain about the way things are, but to provide solutions in both thought and action. "We constantly ask ourselves are we a part of the pollution or part of the solution, and aim to be active and effective global citizens—acting locally, impacting globally," says d'Arcy.

Serafina echoes his sentiments, adding that "when you start something new you believe in it with all your heart and that it will be successful straight away." Serafina cautions, however, that it's not always easy to get people to see the value in a project. "It's easy to inspire people but it's harder to get their engagement and buy-in when you put a cost on it," she says. "To bring people on the journey with you means understanding what they want and how your 'product' can meet their needs. It's important to adapt your language and offering to reach your target audience whilst still maintaining the integrity and spirit of what you are doing and believe in."

d'Arcy and Serafina encourage social entrepreneurs not to give up on following their passions to help solve the world's problems. "Keep planting those seeds, keep watering them, and don't give up knowing it will likely take longer than you hope," says Serafina.

In Chapter 1, you weighed your interests and abilities for the business ventures you are considering. However, there are other components you should think about before selecting a business. They include start-up costs, profit potential, consumer needs, business type and model, and business ownership.

Getting Started With Your Business

Start-up costs require you to consider how much money you will need to start your business and how you will go about acquiring that money. Your market will determine your profit potential: will your customers be interested in what you have to sell? When considering consumer needs, you should be aware of your customers' demands for certain products or services and then brainstorm how you can meet those demands. Lastly, assessing your options for business type and model will help you determine the most feasible business to start.

1. Start-up Costs

Every business, no matter how large or small, requires money, known as capital, and other resources and equipment in order to get started. Before choosing a business, you will need to answer these questions

- ☒ Do I have enough money to start the business? If not, where will I get the money?
- ☒ Do I possess the resources and equipment required to start the business? If not, where will they come from?

Imagine that you are considering starting a website design business, for which you will need a computer, internet access, the appropriate software, and various office equipment. These items cost money and you have to acquire them before you can perform your first job. If you cannot afford the required items to get started, it would not be a good business choice. Instead, you may consider selecting a business that doesn't require as much equipment to start.

2. Profit Potential

Since businesses operate to make a profit, one of the most important factors to consider is your potential market. In other words, will consumers buy what you are selling? For instance, imagine that you decide to start a company that sells snow cones. If you live in an area that is cold for most of the year, chances are you will have a difficult time securing year-round customers for your services.

3. Consumer Needs

Entrepreneurs analyze consumer needs before selecting a business. If there is demand for a service or product, profit is more likely to increase. For example, the founders of Netflix, Inc., a leader in internet video-streaming services, recognized consumer needs when they realized that many people were unhappy with their video rental services.

The founders' idea to send DVDs through the mail, and later adding internet streaming, fulfilled consumer needs for convenient and instant access to media. When selecting your own business, think about what needs your service will fulfill and how they can create a benefit for your customers.

4. Business Type and Model

Every new business must establish the most appropriate type and model in order to best serve consumer needs. For instance, if you are interested in making and selling homemade soap and bath products, a direct sales model would enable you to sell directly to consumers. However, because soap is a consumable product, you could also consider establishing your business as a subscription model where you deliver a new batch of soap to your customers monthly. Analyzing profit potential and consumer needs will help you determine the best model to select.

Selecting Your Business

Analyzing the variables listed above is an essential piece to preparing a sound business plan for a business that will prosper. Review and contemplate the following questions to help you reach a final conclusion of which business idea to pursue for your entrepreneurial simulation.

- ☒ What resources and equipment do you need for your business ideas?
- ☒ What is the potential profit for your business ideas? Which idea will provide the most profit and why?
- ☒ What problem are you solving for consumers?
- ☒ What business type and model would make sense for each of your ideas?

Chapter Review

Idea Generation

In this chapter, you learned about fundamental business concepts that support entrepreneurship, including business functions, models, and economics. The entrepreneurial discovery process plays a vital role in launching a successful business and entrepreneurs consider trends when assessing ideas.

Instructions

Demonstrate your knowledge of this chapter by completing the following review activities.

Note: If you do not have access to the eText of this book, Chapter Review worksheets will be provided by your instructor.

Define Key Terms

Apply your knowledge of the chapter reading by defining key vocabulary terms.

Test Your Knowledge

Test your knowledge of the chapter reading by answering short answer questions.

Read and Write

Review Ethics in Entrepreneurship about a mobile app developer. Apply what you have learned by writing an essay about business model choices.

Listen and Speak

Apply your knowledge of the chapter by reviewing business opportunity scenarios and identifying the most appropriate business model.

Create and Design

Use what you have learned in this chapter by creating a poster about the four functions of small business.

Build It

Review the Build It section from this chapter about narrowing down a business idea. Apply what you have learned by selecting a final business idea for your business plan in the Build It activity.