



Entrepreneurship &
Innovation
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ENT 611
Entrepreneurship & Innovation

Lecture 4



PRODUCT OR SERVICE FEASIBILITY ANALYSIS

- An analysis that determines the degree to which a product or service idea appeals to potential customers and identifies the resources necessary to produce it.
- Two questions:
 1. Are customers willing to purchase our product or service?
 2. Can we provide the product or service to customers at a profit?



PRODUCT OR SERVICE FEASIBILITY ANALYSIS

- **Primary research:** Information that an entrepreneur collects firsthand and analyze it.
- **Primary research techniques include the following:**
 - Customer surveys and questionnaires
 - Focus groups



FOCUS GROUP

- A market research technique that involves enlisting a small number of potential customers (usually 8 to 12) to give feedback on specific issues about a product or service (or the business idea itself).

SECONDARY RESEARCH

- Information that has already been compiled and is available for use.
- Usually less expensive to collect than primary data.
- It includes the following sources:
 - ❖ Demographic data (CAPMAS),
 - ❖ Market research that someone already compiled it, studies and surveys available for purchase.
 - ❖ Articles
 - ❖ World Wide web.
 - ❖ Local data

PROTOTYPE

- An original, functional model of a new product that entrepreneurs can put into the hands of potential customers so they can see it, test it, and use it.

FINANCIAL FEASIBILITY ANALYSIS

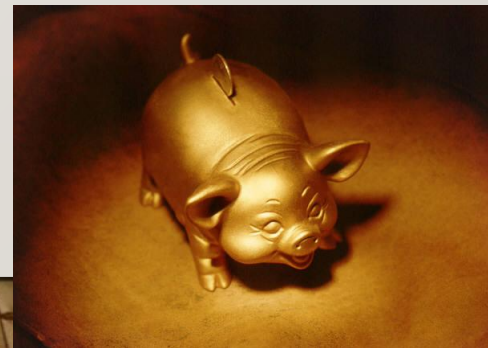
- **Capital requirements** –an estimate of how much start-up capital is required to launch the business.
- **Estimated earnings** – forecasted income statements
- **Return on investment** – Combining the previous two estimates to determine how much investors can expect their investments to return.

THE BUSINESS PLAN

- A written summary of:
 - An entrepreneur's proposed business venture
 - The operational and financial details
 - The marketing opportunities and strategy
 - The managers' skills and abilities.
- A business plan is the best insurance against launching a business destined to fail or mismanaging a potentially successful company.

THE BUSINESS PLAN: TWO ESSENTIAL FUNCTIONS

1. Guiding the company by charting its future course and defining its strategy for following it.
2. Attracting lenders and investors who will provide needed capital.



A PLAN MUST PASS THREE TESTS

1. The Reality Test – proving that:

- A market really does exist for your product or service.
- You can actually build or provide it for the cost estimates in the plan.

2. The Competitive Test – evaluates:

- A company's position relative to its competitors.
- Management's ability to create a company that will gain an edge over its rivals.

3. The Value Test – proving that:

- A venture offers investors or lenders an attractive rate of return or a high probability of repayment.

WHY TAKE THE TIME TO BUILD A BUSINESS PLAN?

- Although building a plan does not guarantee your chances of succeeding in business, it does increase.
- A plan is like a road map that serves as a guide on a journey through unfamiliar, harsh, and dangerous territory. Don't attempt the trip without a map!



KEY ELEMENTS OF A BUSINESS PLAN

- Title Page and Table of Contents
- Executive Summary
- Vision and Mission Statement
- Company History
- Business and Industry Profile



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- Mission Statement
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- Business and Industry Profile
- Business Strategy
- Description of Products/Services



FEATURES VS. BENEFITS

- **Feature** — a descriptive fact about a product or service.
- **Benefit** — what a customer gains from the product or service feature.

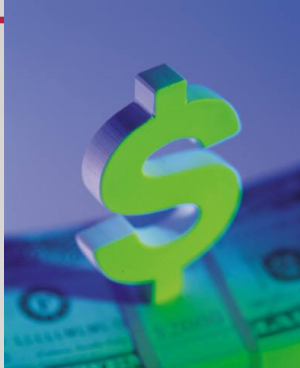
KEY ELEMENTS OF A BUSINESS PLAN

(continued)

- Marketing Strategy
 - Document market claims
 - Show customer interest
- Competitor Analysis
- Description of Management Team
- Plan of Operation
- Projected Financial Statements
- Loan or Investment Proposal



THE “5 CS” OF CREDIT



- Capital
- Capacity
- Collateral
- Character
- Conditions



THE “5 CS” OF CREDIT

- Small business owners need to be aware of the criteria bankers use in evaluating the credit-worthiness of loan applicants-the five Cs of credit: capital, capacity, collateral, character, and conditions.
- I. **Capital-** Lenders expect small businesses to have an equity base of investment by the owner(s) that will help support the venture during times of financial strain.

THE “5 CS” OF CREDIT (CONT'D)

2. **Capacity-** A synonym for capacity is cash flow. The bank must be convinced of the firm's ability to meet its regular financial obligations and to repay the bank loan, and that takes cash.
3. **Collateral-** It includes any assets the owner pledges to the bank as security for repayment of the loan.

THE “5 CS” OF CREDIT (CONT'D)

- 4. **Character-** Before approving a loan to a small business, the banker must be satisfied with the owner's character.
- 5. **Conditions-** The conditions-interest rates, the health of the nation's economy, industry growth rates, etc.-surrounding a loan request also affect the owner's chance of receiving funds.

CONCLUSION

- There are no guarantees for success.
- Creating a business plan will be valuable primarily because of the process itself.
- The business planning process may provide insight to increase the chances for success.
- The business plan: Entrepreneurs benefit; lenders and investors demand it!