

Entrepreneurship & Innovation
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ENT 611
Entrepreneurship & Innovation

Lecture 5



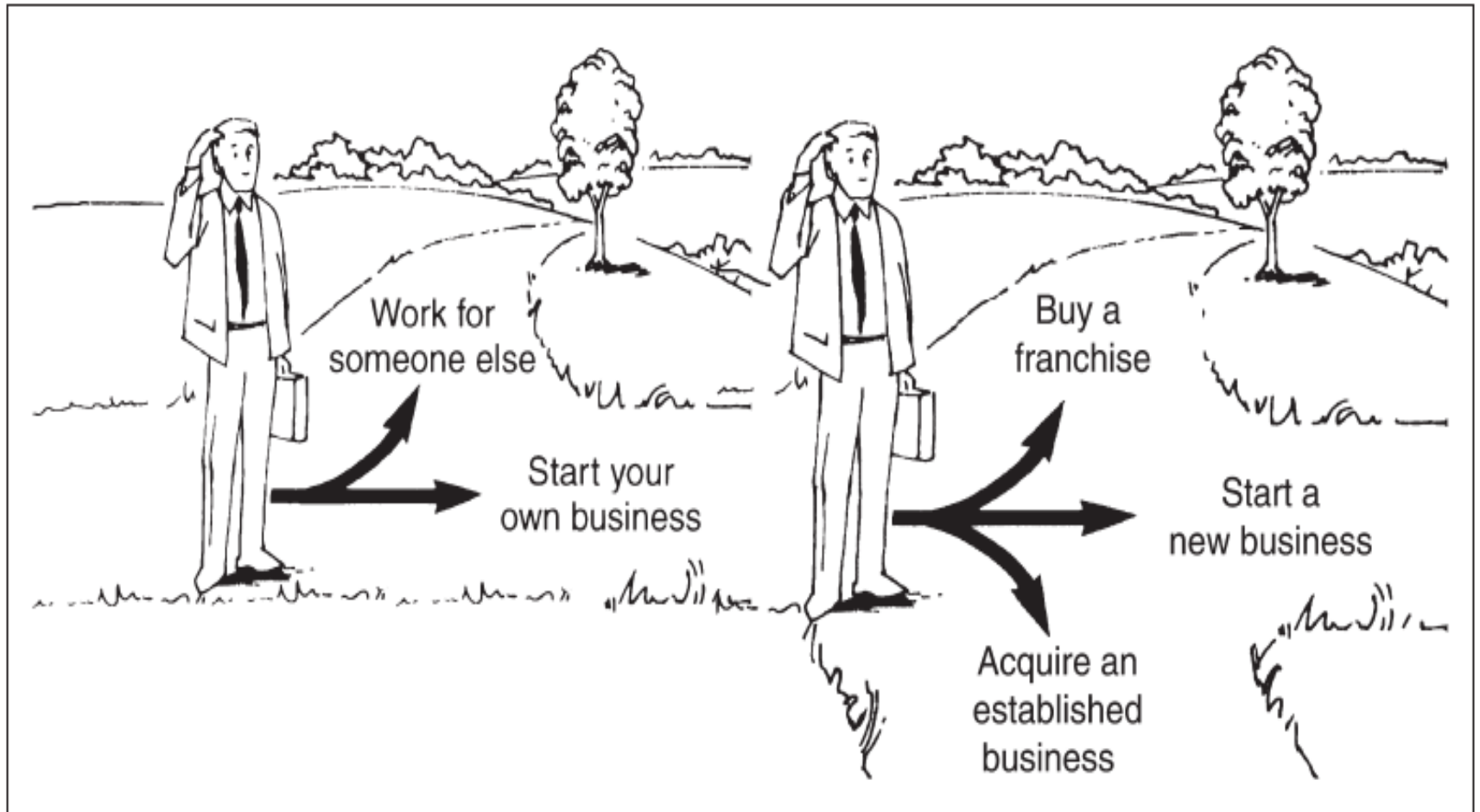
Chapter

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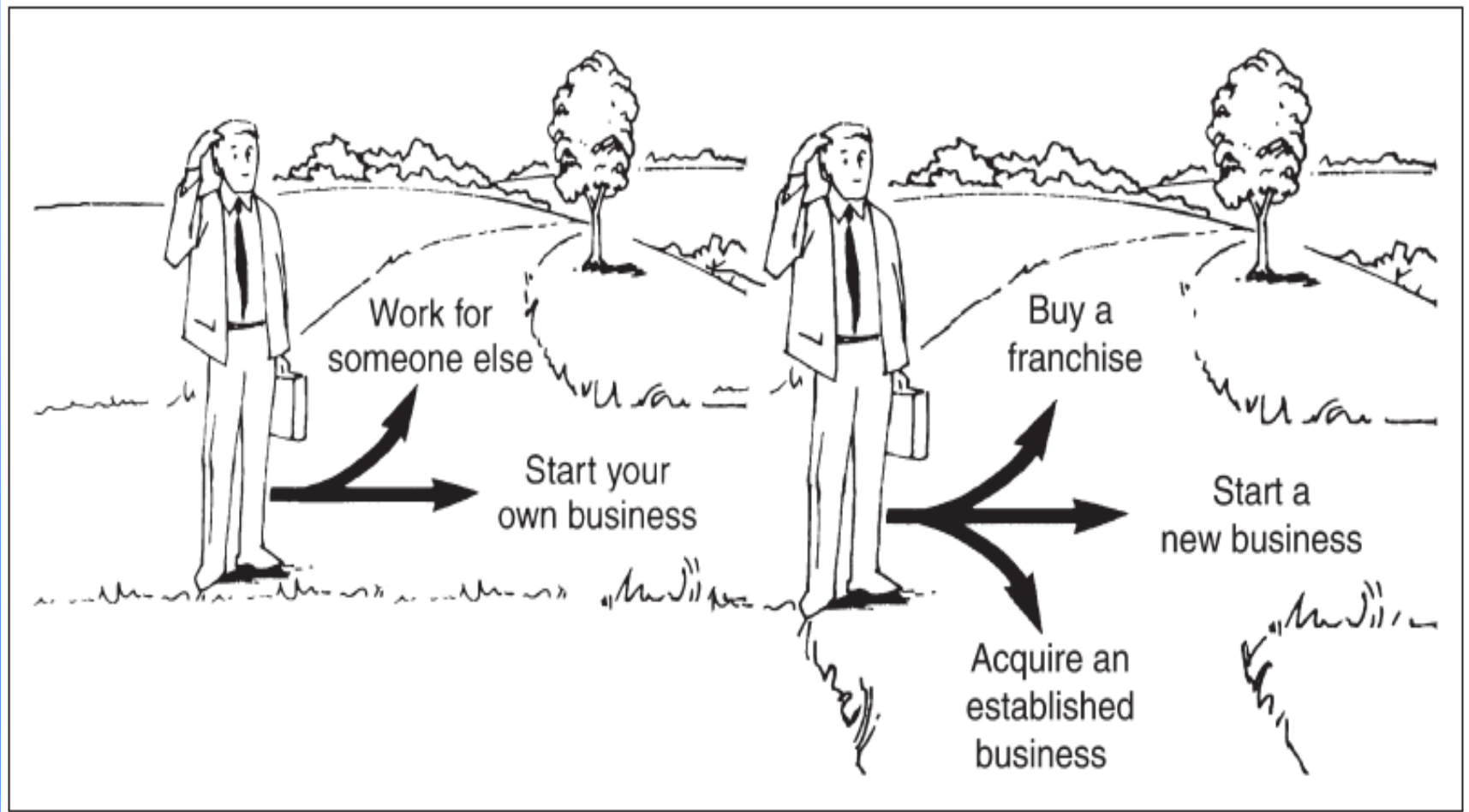
Franchising and the social Entrepreneur



Which Road to Take?



Which Road to Take?



Franchising

A system in which semi-independent business owners (**franchisees**) pay fees and royalties to a parent company (**franchiser**) in return for the right to become identified with its trademark, to sell its products or services, and often to use its business format and system.

MAC Franchising





KFC franchising



Franchising Basics

- Essence of what franchisees purchase from the franchisors: *Experience*.
- Key Question: “What can a franchise do for me that I cannot do for myself?”

Franchise Fee

- One-time fee paid by the franchisee to the franchiser for the business concept, rights to use of trademarks, management assistance, and other related services from the franchiser.

Royalty Fee

- Is a continuous fee paid by the franchisee to the franchiser usually based on a percentage of the franchisee's gross revenue.

The Franchising Relationship

Element

The Franchiser

The Franchisee

Site Selection

Oversees and approves; may choose site

Chooses site with franchiser's approval

Design

Provides prototype design

Pays for and implements design

Employees

Makes general recommendations and training suggestions

Hires, manages, and fires employees

Products and Services

Determines product or service line

Modifies only with franchiser's approval

Prices

Can only recommend prices

Sets final prices

Purchasing

Establishes quality standards and suppliers

Must meet quality standards and purchase only from approved suppliers

Quality Control

Sets quality standards and enforces them with inspections; trains franchisees

Maintains quality standards; trains employees to implement quality systems

Support

Provides support through an established business system

Operates business on a day-to-day basis with franchiser's support

Benefits of Franchising

- A business system.
- Management training and support.
- Brand name appeal.
- Standardized quality of goods and services.
- Proven products and business formats.
- Greater chance for success.

Drawbacks of Franchising

- Franchise fees and ongoing royalties.
- Strict commitment to standardized operations.
- Restrictions on purchasing.
 - Approved suppliers only
- Limited product line.
- Unsatisfactory training programs.
- Less freedom – “No independence”.

Pure (Business format)

- ❖ A system of franchising in which a franchisor sells a franchisee a complete business format and system.
- ❖ Business format franchising is the most common and the fastest growing of franchising. (Ex: Macdonald's , KFC, Pizza Hut.....)

Example of Franchising Type

Pure (Business format)



Franchising:

- Is a key part of the small business sector.
- Increases the chance of business success for the entrepreneur.



Social Entrepreneurship

Mainstreaming into Government Policy

The United Kingdom remains one of two countries to have a government department for social enterprise, and is also the first to introduce public policy to support the growth and development of these organisations.

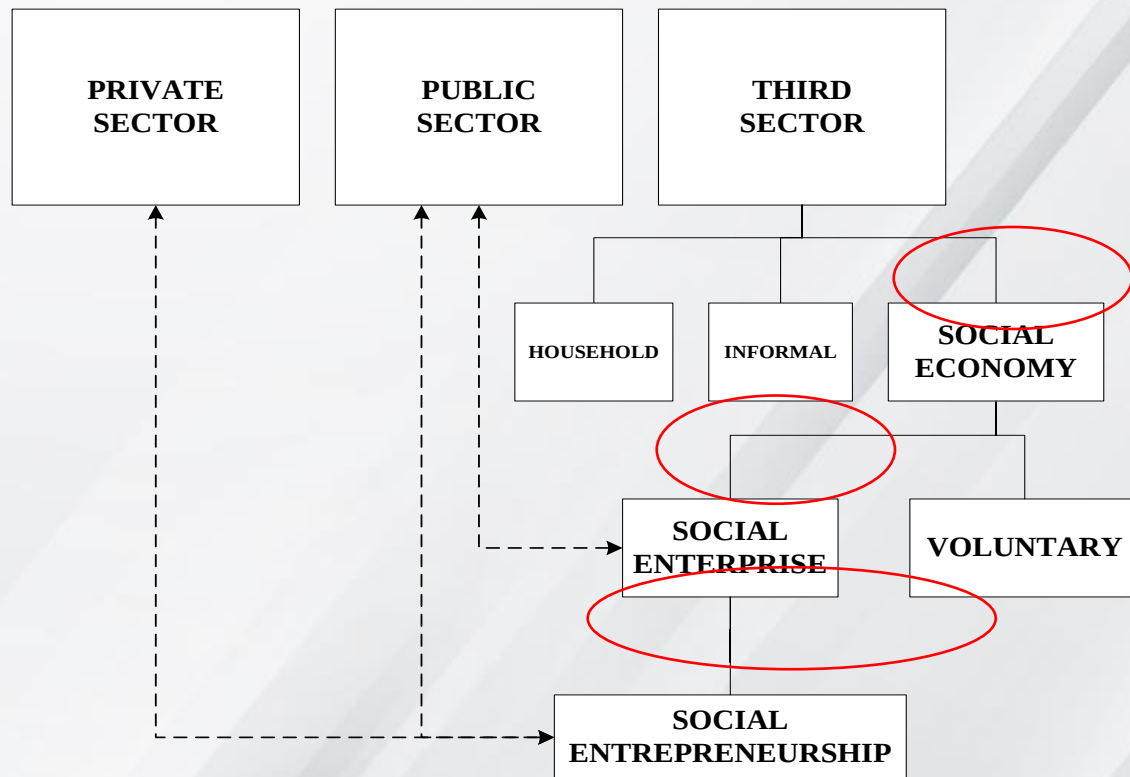
New Labour (1997-2010) sought to encourage social enterprise and social entrepreneurship:

- Launched its first social enterprise strategy, titled *Social Enterprise: a strategy for success* (2002)
- Social Enterprise Unit and launched a series of policies in an effort to establish what it described as an 'enabling environment'

Coalition government (2010-2015) sought to position social entrepreneurship at the centre of the 'Big Society' agenda championed by David Cameron.

The Conservative government's *Social Investment: A force for social change 2016* strategy publication, Minister for Civil Society Rob Wilson wrote: "We have ambitious plans for social investment over this Parliament and it remains a crucial element in the creation of a bigger, stronger society... Social investment can accelerate the growth of new businesses, transforming the impact of our public services, and support stronger communities to tackle the social challenges that they face."

Three Concepts

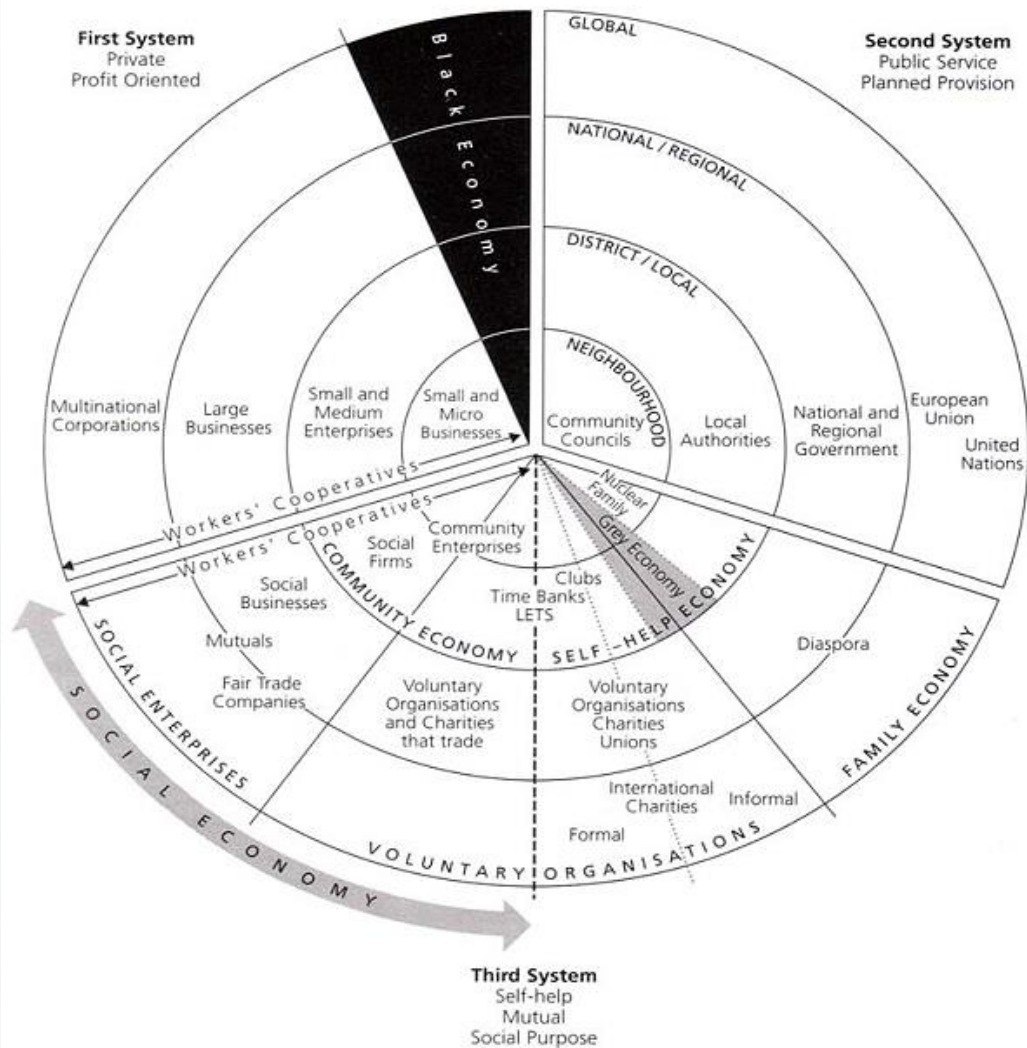


Social Economy

The social economy: represents the organisations that pursue social goals not undertaken by either government or commercial businesses



Social economy businesses generate income and employment, both paid and voluntary, and aim to address social problems and meet community needs rather than operate for pure profit.



Co-operatives

Worker
co-ops

Consumer
co-ops

Mutual insurance
societies

Agricultural co-ops

Community
co-ops

**Self-help
(for-profit)**

Mutuals

Building
Societies

Credit
Unions

Trade/professional
associations

**Self-help
(not-for-profit)**

Associations

Housing
co-ops

Charities

Selfhelp groups
(restricted membership)

Pressure/campaigning
groups

Self-help groups
(open membership)

Community
enterprises

Philanthropic

Figure 4.1 Traditional components of the social economy

Source: A. Molloy, C. McFeely, and E. Connolly, *Building a Social Economy for the New Millenium* (Derry: Guildhall Press, 1999), p. 12.

The Rise of the Social Economy

- First conceptualised in the 19th century – ‘associations’ were formed to organise and protect communities of interest (Egyptian, Greek and Roman times).
- 1929-1932 – economic collapse led to the formation of consumption co-operatives for food and housing.
- 1970s Europe - a reaction to the crises on mass production system and a response to the overburdening welfare state.

What is Social Enterprise?



**Combining income generating
activity with a social goal**

**Creating social change at a
community level**

According to the Social Enterprise Coalition, Social Enterprises are...

“...businesses trading for social and environmental purposes. Social enterprises are distinctive because their social and/or environmental purpose is absolutely central to what they do - their profits are reinvested to sustain and further their mission for positive change.”

“We have described and keep on describing organisations motivated by social objectives as non-profit organisations. We need to have another description: ‘non-loss’ organisations, because we don’t want to lose money and our objective is to address a particular problem. So we are non-loss businesses with social objectives.”

Muhammad Yunus, Founder of the Grameen Bank, Bangladesh

Part 1: Characteristics of Social Enterprises

- A combination of social, ethical and economic purposes and values.
- Benefits for members or community rather than to reward investment.
- ‘People centred’ rather than ;investment centred’
- Participative values.
- Independent and self-governing.
- Where trading takes place it is to address the aims of the organisations.

(Oatley, N. (1999). Developing the social economy, *Local Economy*, 14(4), 339-345).

Part 2: Characteristics of Social Enterprises

- Having a social purpose or purposes.
- Achieving the social purpose by, at least in part, engaging in trade in the market place.
- Not distributing profits to individuals.
- Holding assets and wealth in trust for community benefits.
- Democratically involving members of its constituency in the governance of the organisation.
- Being independent organisations accountable to a defined constituency and to the wider community.

Key Differences

Explicit Social Aims – ‘triple bottom line’:

Private sector business primarily focus is on trading; social enterprises too have a commercial focus but will also have an explicit social and/or environmental purpose.

Funding:

Social enterprises often have a complex composition of sales income, commercial contracts, service level agreements and grant support.

Risk:

Social enterprises are usually governed by a Board of volunteers, which may mean that they are more risk averse in terms of pursuing business ventures.

Scale:

Start up costs may be much higher because social enterprise usually has to operate on a scale that is large enough to sustain its social commitment from the beginning

Key Differences

Investment:

Social enterprises may have difficulty gaining access to traditional forms of investment such as loan finance.

Leadership / Entrepreneurship:

Leaders of social enterprises are usually driven by the social potential of the venture and will need to find support for the other areas of the enterprise

Stakeholders:

Social Enterprises usually have a wide range of stakeholders involved in their development, which can mean that there is a wide influence on the development process.

Sweat Equity:

“sweat equity” is invested to grow and build the enterprise but the purpose is not financial gain but social

Social Entrepreneurship

Author	Definition of Social Entrepreneurship
Leadbeater (1997)	Individuals whose social capital enables them to promote social value through innovation
Brinckerhoff (2000)	Individuals who take wishes on the behalf of other people.
Thompson et al. (2000)	Individual who combines vision, values and resources to address an unmet need.
Dees (2001)	Individuals who act as 'change agents' in society
Institute for Social Entrepreneurs (2002)	Obtaining both a financial and social return on investment.
Mort et al. (2003)	Individual whose leadership and personal credibility can generate commitment to a social goal in others.
Haugh (2005)	Activities connected to the creation of social value and organisations to pursue those social values.
Mair and Marti (2006)	Focus on creating social value over creating economic value.
Nicholls (2006)	Combination of accountability, effectiveness and impact.
Peredo and McLean (2006)	Aim to create social value; vision of an opportunity to create value; innovation; accept risks; and resourceful.

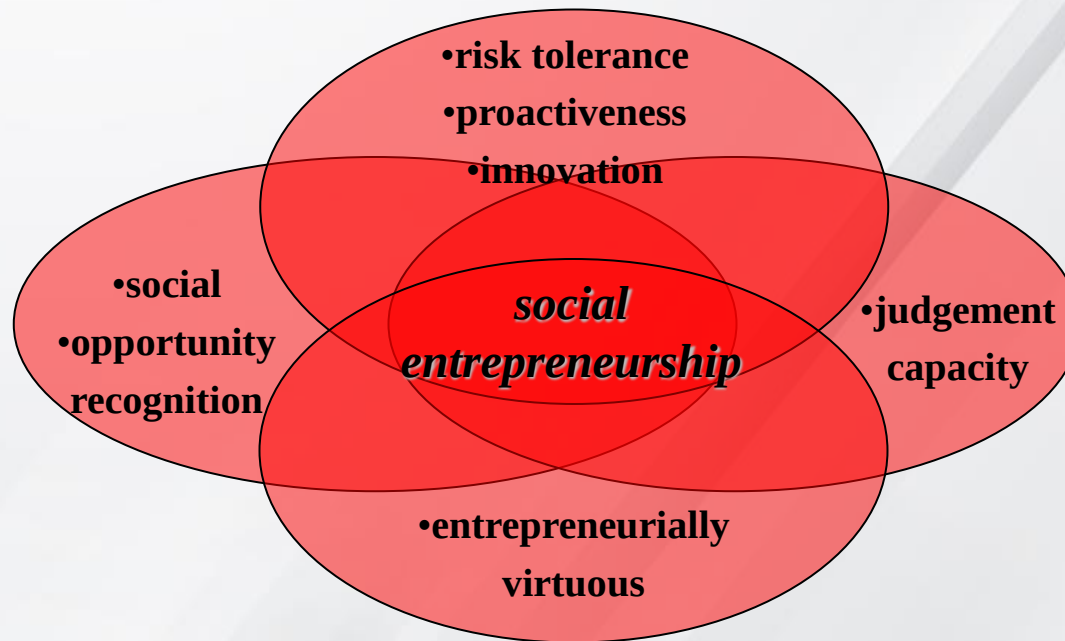
Social Entrepreneurs

- Socially **driven, ambitious** leaders, with great skills in **communicating a mission** and **inspiring** staff, users and partners. In all cases they have been capable of creating impressive schemes with virtually **no resources**.

Social Entrepreneurs

Create **flat and flexible organisations**, with a core of full-time paid staff, who work with **few resources** but a **culture of creativity**.

Social Entrepreneurship Construct



- Shaw, E. and Carter, E. (2007). Social entrepreneurship: Theoretical antecedents and empirical analysis of entrepreneurial processes and outcomes. *Journal of Small Business and Enterprise Development*, 14 (3), pp. 418-434.
- Special Issue on Social Entrepreneurs' Behavior, September (2012). *Entrepreneurship Theory and Practice*, Volume 36, Issue 5, Pages 889–1102



Chapter

5

Readings

What is Industry Analysis?

- Industry
 - An industry is a group of firms producing a similar product or service, such as music, Pilates and yoga studios, and solar panel manufacturing.
- Industry Analysis
 - Is business research that focuses on the potential of an industry.

Why is Industry Analysis Important?

- Once it is determined that a new venture is feasible in regard to the industry and market in which it will compete, a more in-depth analysis is needed to learn the ins and outs of the industry.
- The analysis helps a firm determine if the target market it identified during feasibility analysis is favorable for a new firm.

Three Key Questions

When studying an industry, an entrepreneur must answer three questions before pursuing the idea of starting a firm.

Question 1

Is the industry accessible—in other words, is it a realistic place for a new venture to enter?

Question 2

Does the industry contain markets that are ripe for innovation or are underserved?

Question 3

Are there positions in the industry that avoid some of the negative attributes of the industry as a whole?

How Industry and Firm-Level Factors Affect Performance

- Firm-Level Factors
 - Include a firm's assets, products, culture, teamwork among its employees, reputation, and other resources.
- Industry-Level Factors
 - Include threat of new entrants, rivalry among existing firms, bargaining power of buyers, and related factors.
- Conclusion
 - In various studies, researchers have found that from 8% to 30% of the variation in firm profitability is directly attributable to the industry in which a firm competes.

Techniques Available to Assess Industry Attractiveness

Assessing Industry Attractiveness

Study Environmental
and Business Trends

The Five Competitive
Forces Model

Studying Industry Trends

- Environmental Trends
 - Include economic trends, social trends, technological advances, and political and regulatory changes.
 - For example, industries that sell products to seniors are benefiting by the aging of the population.
- Business Trends
 - Other trends that impact an industry.
 - For example, are profit margins in the industry increasing or falling? Is innovation accelerating or waning? Are input costs going up or down?

The Five Competitive Forces Model

- Explanation of the Five Forces Model
 - The five competitive forces model is a framework for understanding the structure of an industry.
 - The model is composed of the forces that determine industry profitability.
 - They help determine the average rate of return for the firms in an industry.

The Five Competitive Forces Model

- Explanation of the Five Forces Model (continued)
 - Each of the five forces impacts the average rate of return for the firms in an industry by applying pressure on industry profitability.
 - Well managed firms try to position their firms in a way that avoids or diminishes these forces—in an attempt to beat the average rate of return of the industry.

The Five Competitive Forces Model

Threat of
Substitutes

Threat of
New Entrants

Rivalry Among
Existing Firms

Bargaining Power
of Suppliers

Bargaining Power
of Buyers



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Thank You

