HOW TO START YOUR OWN BUSINESS

Educational module for adults without special economic education

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Structure of the module

- Basics of market economy
- Market research
- Business idea
- Business plan
- Team of your business
- Financial support for your business
- Administration of starting-up your business
Basics of Market Economy

Demand, Supply, Market equilibrium, Costs, Microeconomic laws
Market demand
Law of market demand

• A microeconomic law that states, all other factors being equal, as the price of a good or service increases, consumer demand for the good or service will decrease, and vice versa

• The law of demand says that the higher the price, the lower the quantity demanded, because consumers’ opportunity cost to acquire that good or service increases, and they must make more tradeoffs to acquire the more expensive product
Types of market goods

• Substitutes
• Complements
• Normal goods
• Inferior goods
Substitute goods

• A product or service that satisfies the need of a consumer that another product or service fulfills
• A substitute can be perfect or imperfect depending on whether the substitute completely or partially satisfies the consumer
Example of substitute goods: limonade and juice
Complementary goods

• A good or service that is used in conjunction with another good or service
• Usually, the complementary good has little to no value when consumed alone but, when combined with another good or service, it adds to the overall value of the offering
• Also, good tends to have more value when paired with a complement than it does by itself
Example of complementary goods: printers and ink cartridges
Normal goods

• An economic term used to describe the quantity demanded for a particular good or service as a result of a change in the given level of income

• A normal good is one that experiences an increase in demand as the real income of an individual or economy increases
Example of normal goods: private cars
Inferior goods

• Inferior goods can be viewed as anything a consumer would demand less of if they had a higher level of real income
• An example of an inferior good is public transportation
• When consumers have less wealth, they may forgo using their own forms of private transportation in order to cut down costs (car insurance, gas and other car upkeep costs) and instead opt to use a less expensive form of transportation (bus pass)
Example of inferior goods: public transport
What are „other factors‟ which can increase demand?

• Increase in price of a substitute
• Decrease in price of a complement
• Increase in income if good is normal good
• Decrease in income if good is inferior good
• Consumer's expectations
• Seasonal changes
• What else?
Market supply

Market Supply Curve

\[ P (\$) \]

\[ 2.50 \]
\[ 2.00 \]
\[ 1.50 \]

\[ Q \]

\[ 5 \]
\[ 10 \]
\[ 15 \]

(billions of bushels per year)
Law of market supply

• A microeconomic law that states, all other factors being equal, as the price of a good or service increases, the quantity of goods or services that suppliers offer will increase, and vice versa

• The law of supply says that as the price of an item goes up, suppliers will attempt to maximize their profits by increasing the quantity offered for sale
What are „other factors” which can increase supply?

• Decrease in price of inputs
• Optimization of production technology
• Producer's expectations
• Increase of number of producers in the market
• Seasonal changes
• Optimal weather circumstances (for agriculture)
• What else?
Market equilibrium
Definition of market equilibrium

• Market equilibrium is the point where supply equals demand for a product
• The equilibrium market price is where the hypothetical supply and demand curves intersect
Types of business costs

• Fixed and variable costs (FC and VC)
• Total and average costs (TC and AC)
• Marginal costs (MC)
• Direct and indirect costs
• Opportunity costs
Definition of fixed costs

• A costs that do not change with an increase or decrease in the amount of goods or services produced
• Fixed costs are expenses that have to be paid by a company, independent of any business activity
• It is one of the two components of the total costs of a good or service, along with variable costs
Example of fixed costs:
costs of building construction
Definition of variable costs

• A corporate expense that varies with production output
• Variable costs are those costs that vary depending on a company's production volume; they rise as production increases and fall as production decreases
• Variable costs differ from fixed costs such as rent, advertising, insurance and office supplies, which tend to remain the same regardless of production output
• Fixed costs and variable costs comprise total cost
Example of variable costs: material for producing clothes
Definition of total costs

• Total costs include variable costs, which vary according to the quantity of a good produced and include inputs such as labor and raw materials, and fixed costs, which are independent of the quantity of a good produced and include inputs (capital) that cannot be varied in the short term, such as buildings and machinery
Definition of average costs

• Production costs per unit of output, computed by dividing the total of fixed costs and variable costs by the number of total units produced (total output)

• Lower average costs are a potent competitive advantage

• Also called unit costs
Definition of marginal costs

• The change in total cost that comes from making or producing one additional item
• The purpose of analyzing marginal cost is to determine at what point an organization can achieve economies of scale
• The calculation is most often used among manufacturers as a means of isolating an optimum production level
Definition of direct and indirect costs

• Direct costs that can be completely attributed to the production of specific goods or services
• Direct costs refer to materials, labor and expenses related to the production of a product
• Other costs, such as depreciation or administrative expenses, are more difficult to assign to a specific product, and therefore are considered indirect costs
Definition of opportunity costs

• The opportunity cost of going to college is the money you would have earned if you worked instead. On the one hand, you lose four years of salary while getting your degree; on the other hand, you hope to earn more during your career, thanks to your education, to offset the lost wages.

• Here's another example: if a gardener decides to grow carrots, his or her opportunity cost is the alternative crop that might have been grown instead (potatoes, tomatoes, pumpkins, etc.).

• In both cases, a choice between two options must be made. It would be an easy decision if you knew the end outcome; however, the risk that you could achieve greater "benefits" (be they monetary or otherwise) with another option are the opportunity costs.
What we have to know about market where we want to start our business?

Things that have to be investigated through market research include:

• Market information
• Market segmentation
• Market trends
• Competitors
• Consumers
• Products
• Used technologies
• Risks
What is market information?

• Through market information one can know the prices of different commodities in the market, as well as the supply and demand situation

• Market information includes also social, technical, and even legal aspects of markets
What is market segmentation?

• Market segmentation is the division of the market or population into subgroups with similar motivations.
• It is widely used for segmenting on geographic differences, personality differences, demographic differences, technographic differences, use of product differences, psychographic differences and gender differences.
What are market trends?

• Market trends are the upward or downward movement of a market, during a period of time
• Determining the market size may be more difficult if one is starting with a new innovation
• In this case, you will have to derive the figures from the number of potential customers, or customer segments
Competitors

• Competitor analysis is an assessment of the strengths and weaknesses of current and potential competitors
• This analysis provides both an offensive and defensive strategic context to identify opportunities and threats
• Profiling coalesces all of the relevant sources of competitor analysis into one framework in the support of efficient and effective strategy formulation, implementation, monitoring and adjustment
Consumers

• Consumer analysis helps you to identify and collect information on the target market needs, profiles, and consumer behaviors in order to establish market segmentation
Products

• Product research lets you understand what customers really want, allowing you to tailor your product offering to meet their needs and giving you a real competitive edge
Used technologies

• This analysis helps you to know which technologies are used now at the market to produce the product of your business interest
• What are the technical content of these technologies, the costs, availability etc.
Risks

• Risk analysis is a technique used to identify and assess factors that may jeopardize the success of a business

• This technique also helps to define preventive measures to reduce the probability of these factors from occurring and identify countermeasures to successfully deal with these constraints when they develop to avert possible negative effects on the competitiveness of the company
Business Idea

Concept, Characteristics, Conditions, Examples
What is business idea?

• A business idea is a concept that can be used to make money
• Usually it centers on a product or service that can be offered for money
• An idea is the first milestone in the process of founding a business. Every successful business started as someone’s idea
Compulsory characteristics of business idea

• Relevant (must fulfill customers’ needs or solve their problems)
• Innovative
• Unique
• Clear focus
• Profitable in the long run
State of business idea

• Although a business idea has the potential to make money, it has no commercial value initially

• In fact, most business ideas exist in abstract form; usually in the mind of its creator or investor and not all business ideas, no matter how brilliant they may seem, would end up being profitable

• To find out about an idea’s chances in the market and check its innovative content and feasibility, you need to conduct a plausibility check
The acceptability and profitability of business idea

- The acceptability and profitability of a business idea hinges largely on how innovative the idea is.
- Being innovative means using conventional production or distribution methods that have rarely been adopted before.
- In fact, the entire business system could be innovated.
Three conditions which successful business idea must meet

• It must offer benefit to the customer by solving a problem or fulfilling a need. Every successful business idea must have a unique selling proposition.

• It must have a market that is willing to accept it. A promising business idea must offer a product or service that would be accepted by a large market.

• It must have a mechanism for making revenue. A successful business idea must show how much money can be earned from it and how the money will be earned.
Example of business idea: cleaning service

• If you want to work during hours when no one else does, you can focus on office clients. You can focus on retail businesses and keep your customers clumped into one or two blocks. Restaurants are in great need of daily thorough cleaning and can be a great source of steady clients. Perhaps you would be more interested in house cleaning. Many times with cleaning services you don't have to spend lots of money on advertising or marketing because your customers will come by word of mouth.
Example of business idea: bicycle repair

- In many parts of the country, this business tends to be seasonal, but you can find ways around that. Rent a storage unit and offer to store people's bicycles over the winter after you do a tune-up and any needed repairs on them. If you want to cater to the Lance Armstrong wannabes, you can have business all year round. These road race riders are training through snow, sleet and dark of night. Some of them work on their own bicycles, but many of them don't, so you can get their business all year. And if you keep Saturday shop hours, you can be sure you will have a group of enthusiasts coming by to talk all things cycling.
Example of business idea: dog breeder

- Pets are phenomenally popular in some countries. While many people are willing to adopt from animal shelters, others are looking for a specific breed. Purebred dogs are more popular than ever and can command large sums of money. But becoming a dog breeder is serious business catering to savvy consumers with high expectations of their pet purchases. You will need to establish yourself as a conscientious breeder who cares about the health and welfare of the animals you bring into the world.
Business Plan

Concept, Format, Structure, Typical questions
What is business plan?

• A business plan is a formal statement of a set of business goals, the reasons they are believed attainable, and the plan for reaching those goals. It may also contain background information about the organization or team attempting to reach those goals.

• Business plans may also target changes in perception and branding by the customer, client, taxpayer, or larger community. When the existing business is to assume a major change or when planning a new venture, a 3 to 5 year business plan is required, since investors will look for their annual return in that timeframe.
Format of business plan

• An "elevator pitch" - a three minute summary of the business plan's executive summary. This is often used as a teaser to awaken the interest of potential funders, customers, or strategic partners

• A pitch deck with oral narrative - a hopeful, entertaining slide show and oral narrative that is meant to trigger discussion and interest potential investors in reading the written presentation

• A written presentation for external stakeholders - a detailed, well written, and pleasingly formatted plan targeted at external stakeholders

• An internal operational plan - a detailed plan describing planning details that are needed by management but may not be of interest to external stakeholders
Typical content of business plan

- Cover page and table of contents
- Executive summary
- Mission statement
- Business description
- Business environment analysis
- SWOT analysis
- Industry background
- Competitors analysis
- Market analysis
- Marketing plan
- Operational plan
- Management summary
- Financial plan
- Attachments and milestones
Typical questions addressed by business plan

- What problem does the company's product or service solve? What niche will it fill?
- What is the company's solution to the problem?
- Who are the company's customers, and how will the company market and sell its products to them?
- What is the size of the market for this solution?
- What is the business model for the business (how will it make money)?
- Who are the competitors and how will the company maintain a competitive advantage?
- How does the company plan to manage its operations as it grows?
- Who will run the company and what makes them qualified to do so?
- What are the risks and threats confronting the business, and what can be done to mitigate them?
- What are the company's capital and resource requirements?
- What are the company's historical and projected financial statements?
Team of Your Business
The essence of building business team

• Building your team demands matching jobs to people's strengths

• That means giving people responsibilities according to skill level, not based on how close a friend they are, or how closely related they are to you, or whether you just like their sunny personality

• That includes you as well—don't give yourself an impressive title and job unless you're right for the job

• The fact is, many smart entrepreneurs hire their own boss when they realize their skills lie elsewhere in the company
Main roles in business team

- Chief Executive Officer (CEO)
- Chief Operating Officer (COO)
- President
- Chief Financial Officer (CFO)
- Chief Marketing Officer (CMO)
- Chief Technology Officer (CTO)
Chief Executive Officer (CEO)

- The CEO is the boss of everyone and is responsible for everything. He determines the company's strategy. He hires and builds the senior team. He makes the final decision on how resources (read: money) get divvied up.

- The CEO's skills must include strategic thinking, the ability to rise above the daily details and decide where the industry and business are headed. He must then be able to decide the company's best route for navigating the future market conditions. He has to be able to make good bets.

- The CEO's key skill, however, is in hiring and firing. The right management team can cover a CEO's shortcomings. A CEO may be able to set strategy, predict the future and control the budget, but if he doesn't hire the right team, he has to master it all himself.
Chief Operating Officer (COO)

• A COO handles a company's complex operational details. The company's COO insures the business can deliver day after day. He figures out just what needs to be measured so he can tell if things are going well. Then his team creates the systems to track the measurements and takes action when the company isn't delivering.

• In a one-location retail business, the store manager is effectively the COO. When you expand to multiple locations or when ensuring smooth operations becomes a big part of your business, it's time to hire someone who revels in measurements, operations and details.
President

• No one knows just what a president does. I've asked dozens of executives, and everyone's answer is different. Some say a president oversees staff functions--human resources, finance and strategy--while the COO oversees daily operations. Others proclaim that the president is a synonym for COO, especially in smaller companies. Yet sometimes, the president fills gaps left by the COO and CEO. Or sometimes, the title goes to someone you want at the strategy table but who doesn't have an obvious C-level title. In any case, you should think long and hard about whether you need someone to fill this title, or if your company is fully covered with a CEO and COO.
Chief Financial Officer (CFO)

• Plain and simple, your CFO handles the money. He creates budgets and financing strategies. He figures out if it's better for your business to lease or buy. Then he builds the control systems that monitor your company's financial health. The CFO is the "bad guy" who won't let you buy that really cool videoconferencing equipment and makes you pay down a commercial loan instead. While you mope about it in your office, the CFO will be busy figuring out which customers, business lines and products are profitable, so next year you can afford the really cool videoconferencing equipment.
Chief Marketing Officer (CMO)

• The CMO owns the marketing strategy--and that often includes the sales strategy--and oversees its implementation. The CMO will know (or learn) your industry inside out and helps you position your product, differentiate it from your competitors' products, enlist distributors, and make sure customers learn to crave your product.

• If your business's success depends mainly on marketing, you need a CMO. That might be you--but only if you have time to keep up with competitors, oversee the marketing implementation, and still do the rest of your job--and do it well. Otherwise, you need to look for the person with the sunny disposition, Blackberry in hand, keeping up on what's hot and what's not.
Chief Technology Officer (CTO)

• A CTO should keep up with technology trends, integrate those trends into the company's strategy, and make sure the company keeps current when it's necessary. They should not be buying new toys and leading-edge technology just because it's the latest, greatest thing out there.

• You need a CTO if technology impacts your business or industry strategically. (If you're in tech yourself, or your industry relies heavily on technology, that means you.)

• Here's a quick test to find out if your CTO can link technology and strategy: Ask your CTO how a company's chosen programming language choice affects strategy. If the answer sounds more sophisticated than "It makes it easier to find programmers," your CTO just might know how to think strategically.
Finding members of business team

• If you have the funds available, executive search firms are a good way to go. Although they charge through the nose to find candidates, they do due diligence and present you with pre-screened candidates, so when you're running around handling the emergency of the day, they can be a huge time-saver

• Networking is a time-honored way to find new hires. Let your professional and personal networks know what kind of person you're looking for. Then get one-on-one introductions, and take the candidate to lunch to test the chemistry
Financial Support for Your Business

Types, Sources, Actual calls, Details
Government-backed financial support for business

- grants
- finance and loans
- business support eg mentoring, consultancy
- funding for small and medium-sized businesses and start-ups
EU grants, funds and programmes

• Tenders
• Grants
• European Structural & Investment Funds
• Microfinance
Tenders

• The Commission uses public contracts to buy goods and services - studies, technical assistance and training; consultancy, conference and publicity services; books and IT equipment etc. The providers are selected via calls for tender which are issued by the Commission departments, offices and agencies around Europe

• Actual calls: http://ec.europa.eu/contracts_grants/contracts_en.htm
Grants

• The Commission makes direct financial contributions in the form of grants in support of projects or organisations which further the interests of the EU or contribute to the implementation of an EU programme or policy. Interested parties can apply by responding to calls for proposals

• Actual calls: http://ec.europa.eu/contracts_grants/grants_en.htm
European Structural & Investment Funds

- European Regional Development Fund (ERDF)
- European Social Fund (ESF)
- Cohesion Fund (CF)
- European Agricultural Fund for Rural Development (EAFRD)
- European Maritime & Fisheries Fund (EMFF)
Microfinance

• The European Union runs microfinance programmes (loans under €25 000) for self-employed people and businesses with fewer than 10 employees

• The EU does not directly provide microloans (loans up to €25 000) to individuals or businesses, but provides guarantees, loans and equity to intermediaries who can then lend to small businesses or make available equity finance

• Detailed information: http://ec.europa.eu/contracts_grants/microfinance_en.htm
Administration of Starting-Up Your Business

Main steps and activities
Main administrative steps to start-up your business

- To choose your business name
- To register your business name
- To register with state agencies
Choose your business name

• Choosing a business name is an important step in the business planning process
• Not only should you pick a name that reflects your brand identity, but you also need to ensure it is properly registered and protected for the long term
• You should also give a thought to whether it’s web-ready. Is the domain name even available?
Some points to consider as you choose your business name

• **How will your name look?** – On the web, as part of a logo, on social media.

• **What connotations does it evoke?** – Is your name too corporate or not corporate enough? Does it reflect your business philosophy and culture? Does it appeal to your market?

• **Is it unique?** – Pick a name that hasn’t been claimed by others, online or offline. A quick web search and domain name search (more on this below) will alert you to any existing use.
Check for trademarks

• Trademark infringement can carry a high cost for your business. Before you pick a name, use the U.S. Patent and Trademark Office’s trademark search tool to see if a similar name, or variations of it, is trademarked
If you intend to incorporate

• If you intend to incorporate your business, you’ll need to contact your state filing office to check whether your intended business name has already been claimed and is in use. If you find a business operating under your proposed name, you may still be able to use it, provided your business and the existing business offer different goods/services or are located in different regions.
Pick a name that is web-ready

• In order to claim a website address or URL, your business name needs to be unique and available. It should also be rich in key words that reflect what your business does. To find out if your business name has been claimed online, do a simple web search to see if anyone is already using that name.

• Next, check whether a domain name (or web address) is available. You can do this using the WHOIS database of domain names. If it is available, be sure to claim it right away. This guide explains how to register a domain name.
Claim your social media identity

• It’s a good idea to claim your social media name early in the naming process – even if you are not sure which sites you intend to use

• A name for your Facebook page can be set up and changed, but you can only claim a vanity URL or custom URL once you’ve got 25 fans or “likes”

• This custom URL name must be unique, or un-claimed
Apply for trademark protection

• A trademark protects words, names, symbols, and logos that distinguish goods and services

• Your name is one of your most valuable business assets, so it’s worth protecting.

• You can file for a trademark for less than $300
Register your business name

• After you have selected a name for your business, you will need to register it to comply with the law. Learn more about how to register your business name.

• Naming your business is an important branding exercise, but if you choose to name your business as anything other than your own personal name then you’ll need to register it with the appropriate authorities.
Register with state agencies

• For some businesses, you need to register your business name with state or local government agency
• Find out what the requirements are for your state
Some business types require registration

• A corporation
• A nonprofit organization
• A limited-liability company or partnership
Definitions of types of business

• A corporation - large company or group of companies authorized to act as a single entity and recognized as such in law

• A nonprofit organization - a business entity that is granted tax-exempt status by the Internal Revenue Service. Donations to a nonprofit organization are often tax deductible to the individuals and businesses making the contributions

• A limited-liability company or partnership - a business organization that allows limited partners to enjoy limited personal liability while general partners have unlimited personal liability
Changing your business type

- Your initial choice of a business type is not permanent. You can start out as a sole proprietorship, and if your business grows and your risk of personal liability increases, you can convert your business to an LLC.

- If you change your business structure, follow the Internal Revenue Service's instructions for Changes in Ownership or Organization.

- You will also need to file new documents with your state government, and depending on state and local laws, you may also need to obtain new business licenses.
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Questions and Discussion
References

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