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„MARKETING INITIATIVE OF STUDENTS FOR PROFESSIONAL ORIENTATION AND PROGRESS“

INNOVATION, BUSINESS AND ENTREPRENEURSHIP

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INNOVATION, BUSINESS AND ENTEPRENEURSHIP



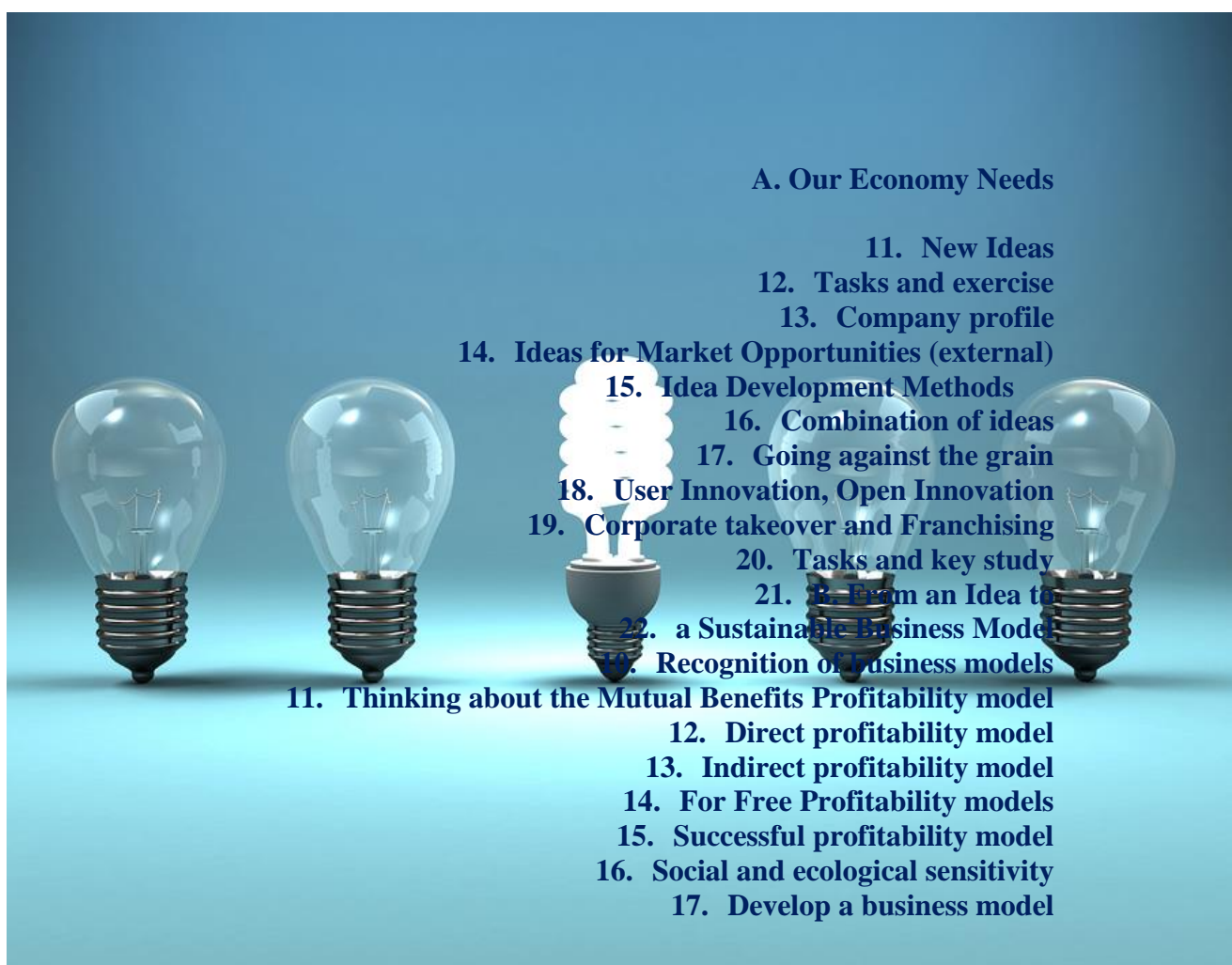
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PART I

INNOVATION



»In the future it is of great importance to be independent, not only as an entrepreneur, but also as a human being«

John Hormann, Futurologist

A. Our Economy Needs New Ideas

Competences

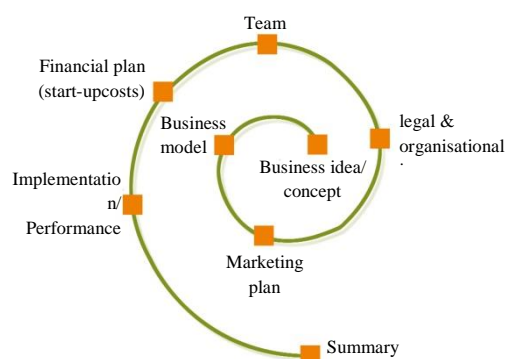
Work through this chapter and you will be able to

- analyse business ideas of entrepreneurs,
- distinguish a business idea from a market opportunity,
- develop your own business idea and assess it in regards to its future chances

Keep track

Each successful business idea starts out as a thought before being subject to entrepreneurial actions such as assessment, analysis and implementation. The first carriage without horses, was called *thecar*, and was ridiculed along with self-service shops. Both of which were not expected to survive long. Yet despite common beliefs at the time, both business ideas succeed. Each innovator had an idea of how the future might look and turned them into a reality.

A good idea is the basis of entrepreneurial success, both for a business which has just been founded and for other existing businesses. As ideas vary, there is no ideal situation suitable for all businesses. After all, each person has various skills and qualifications. Each business idea turns into something personal when put into action.



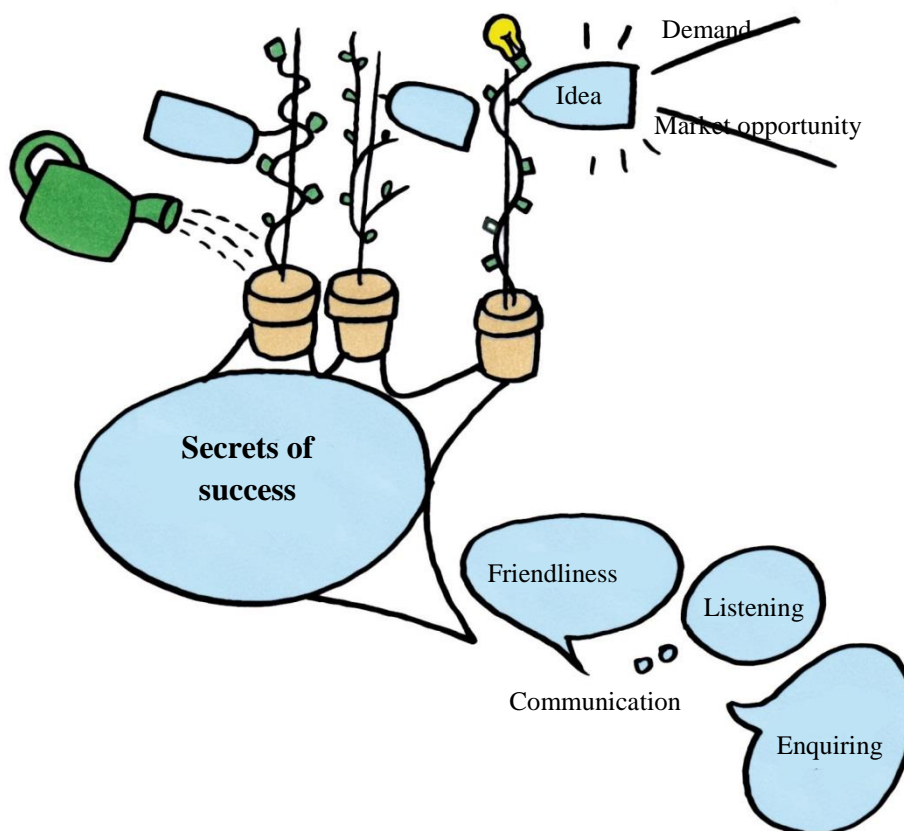
There are many kinds of business ideas such as a new product, a new manufacturing method or new resources that need processing. A business idea does not necessarily indicate a new invention. New ideas are the engine of our economy and our society.

People who implement new ideas are called entrepreneurs. This term is used more frequently and focuses on the functions of the creator, who:

- recognises market opportunities
- develops new business ideas and business models
- implements new business ideas and models

Task 1: Trading game *Secrets of Success*

On a normal day, you walk into a supermarket, stationery shop, or to the school cafeteria and you buy something. Please complete the following task and create a mindmap. Using your chosen idea/product, describe the *Secrets of Success* from your point of view. What characterises and influences a successful economy? How can you participate in successful economies?



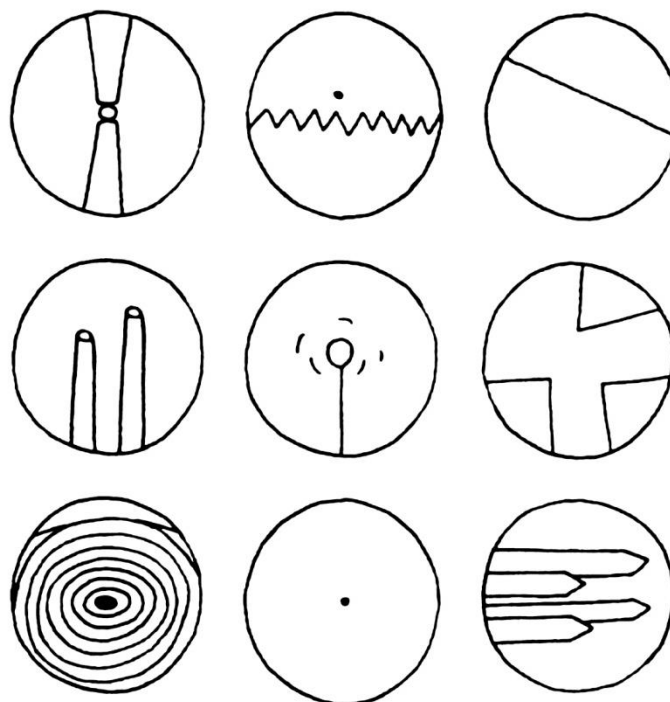
1 Using Creativity as a Catalyst for New Ideas

Task 2: Activity

Do you like you using your imagination? Look at the different image details in the circles.

Think about what those images might represent and share it with your classmates. You might be surprised with your friends' similar perceptions.

Let your ideas flow.



Creativity and persistence are key elements in your journey to creating your own business idea. You can learn to become creative and be a problem solver. Those who understand the rules and methods of creative thinking will come up with new ideas such as solutions for problems in school, the labour market, social issues, personal needs, and unique solutions for everyday challenges. You can benefit from using creative and systematic ways to generate ideas, which will be further elaborated on below.

Creativity is

- a way of thinking, looking for opportunities and alternatives (divergent thinking)
- a playful and flexible attitude towards traditional thought patterns and structures
- a remixing of known elements of an idea

Each person subconsciously thinks in acquired, familiar patterns, structures or templates (vertical thinking). Therefore, logical thinking seems like the only option for many people. Complete the following exercises to better understand this phenomenon. Only check the possible solutions once you have completed the exercise.



In order to develop ideas various creativity techniques can be used. Brainstorming is the mostwell-known technique. There are also other methods that allow you to think freely and also use multiple perspectives. Brain writing and mind mapping also allow you combine a variety of thoughts to generate new ideas.



An entrepreneur as *market-oriented artist*

Entrepreneurs can be seen as *market-oriented artists*. They achieve their ideas and start their business. The difference between an artist and an entrepreneur is not the amount of creativity but the purpose for which the creativity is being used. The practical creativity of an entrepreneur is demonstrated by how they find innovative solutions to solve common problems. Artistic creativity expresses itself in various ways such as extraordinary images, music or a particular design.

Task 3: Crossing your arms

Lean back and fold your arms. And now try it the other way around with the other hand on top...

Have you noticed something? There is another option, but you automatically chose your usual position without consciously thinking about it. Creativity also means doing the same thing, but in a different way.

Task 4: "12"

What's half of "12"?

Most of you would say "6" without hesitation, but there are even more ways of expressing the possibilities than you think. Here are possible answers: six, $\frac{1}{2}$, *Two-Ive*, *VI*, but also: ~~XII~~

Task 5: Everyday creativity

Think about different ways of using everyday objects and write down your ideas here below. Add other everyday objects that you come up with. Use some interesting ideas from your classmates as well.

	Your suggestions	Ideas of classmates
a) Water bottle		
b) Shopping cart		
c) Coffee pot		
d) Cylinder		



Task 6: Missing socks

We all know of the problem of socks disappearing into thin air. Often when you wash socks, some single socks seem to go missing, but never a pair. Based on this problem, what business idea could you develop?



New Ideas: Using a Systematic Approach

The search for new ideas is all about structure and systematisation. In order to develop ideas, certain structures can be utilised and then analysed by looking at them from different angles. Some known methods for doing this are the *Morphological Box* and the *Six-Hat-Method*.



The **Morphological Box** is a heuristic method and an analytical approach in which a good solution can be found with limited time and information. For example, you are working in the furniture industry and you would like to develop a new chair. The *Morphological Box* below uses the following steps and structure.

Step 1: First analytic phase: split problem into dimensions

Step 2: Second analytic phase: collect as many variations as possible for each dimension

Step 3: Synthetic phase: by combining variations (see line structure), a solution approach can be developed.

Dimension	Variations							
Number of legs	0	1	2	3	4	5	100	
Material	wood	glass	plastic	paper	metal	leather	stone	rattan (palms)
Height in cm	0	10	20	35	50	70	100	200
Form	round	square	rectangular	oval	ball			
Colour	white	blue	red	green	black	natural	pink	silver

Task 7: New pizza creations

As a loyal customer of Al Castello's Pizzeria, you have been invited to participate in a workshop to develop new pizza creations. Use the Morphological Box below and find as many variations possible for each dimension.

Dimension	Variations				
Basis	E.g. flat pizza	calzone			
Type of dough					
Kind of meat/sausage					
Fruits					
Vegetables					
Type of cheese					



Task 8: Vacation planning

A travel agent is searching for new specials to offer to individual travellers. Use the Morphological Box strategy to solve this issue. See the example from above.

Step 1: Which possible aspects (dimensions) of vacation planning exist?

Step 2: Which variations of the listed dimension can you think of?







Step 3: Which combination would you consider to be attractive?

Although **The Six-Hat-Method** is a structured approach, it can also be quite a lot of fun at the same time. The method assumes that looking at problems in different ways can solve every issue. The principle of this method is based on adopting various points of view to problem solve. Six-Hat-Thinking is suitable for complex problems that can be solved either individually or in groups. There are six hats available, each symbolising a different way of thinking. Choose one of the hats and try to think like it using the guiding questions below.



Task 9: Six-Hat-Method

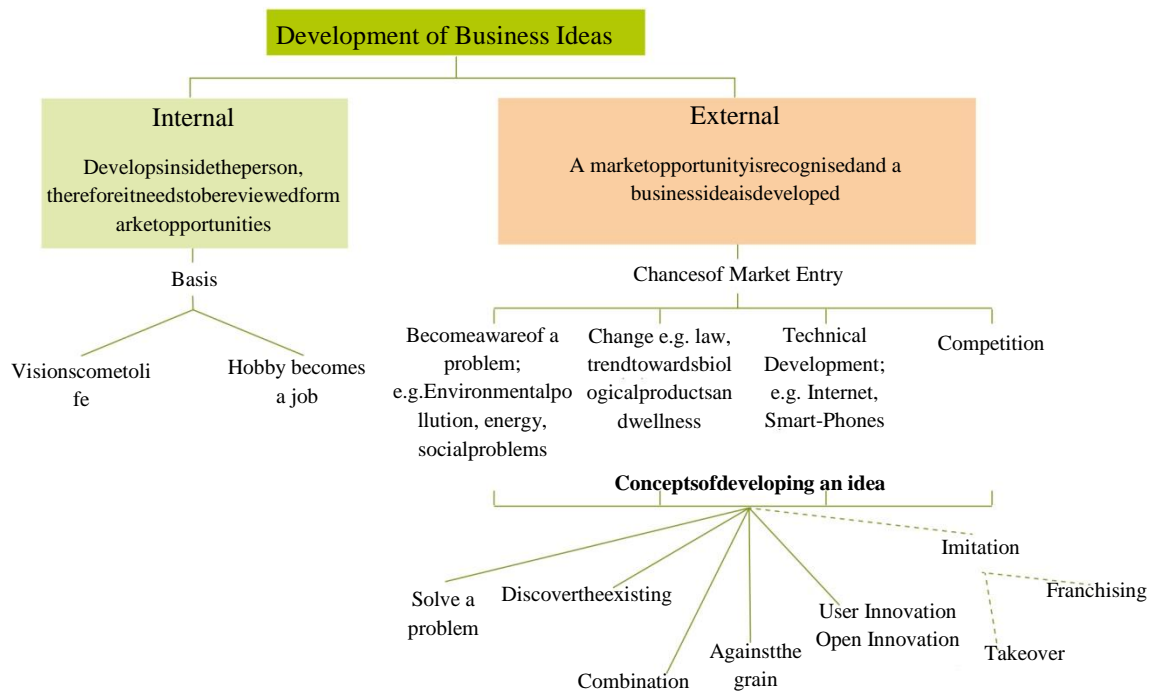
The *Six-Hat-Method* offers the opportunity to further develop your own idea using a systematic and creative approach. Each hat symbolises a different perspective.

a) Choose your role	b) Analyse your business idea or problem using the questions to guide you.	
White hat stands for objectivity 	<ul style="list-style-type: none"> What are the factors? Which information do we have? Which information do we need? Where can we find missing information? 	
Red hat stands for personal perception 	<ul style="list-style-type: none"> How do I feel at the moment? What does my gut feeling or my intuition tell me? What would my spontaneous reaction be? 	
Black hat stands for doubts, but not negative feelings 	<ul style="list-style-type: none"> What does not match with facts, our experiences, laws, our strategy and our values? What are possible mistakes? What are potential problems? What are risks and disadvantages? 	
Yellow hat stands for objectivity/positive – opposite to black hat 	<ul style="list-style-type: none"> What are positive aspects and values of this idea? How can we make the idea happen? What is the upside of this suggestion? What are the advantages? 	
Green hat stands for creativity/new ideas 	<ul style="list-style-type: none"> Which creative ideas do you have? Which new and old alternatives do we have in order to reach the goal? How can we solve the problems, which we faced under the black hat? 	
Blue hat stands for control/organisation of thinking process 	<ul style="list-style-type: none"> Where do we start? What is on the agenda? How do we sum up previous discussions? What needs to be done next? 	



3 Ideas in You (internal)

How do business ideas emerge? We can differentiate an idea by its influential source (internal or external factors). Internal business ideas come from persons themselves through a hobby or a dream and eventually become a reality (e.g. Max in the cartoon). External business ideas are developed by looking outwards, recognising potential market needs and providing innovative solutions to those needs. For example, a mechanic may see his/her chance when a garage becomes available in a certain region.



Task 10: Hobbies

Create a list of your hobbies and interests.

Task 11: A hobby turns into a career

Choose one of your above hobbies that could potentially develop into a business idea.



Company Profile

Together with one of your classmates, search for a company profile and present it as creatively as possible. Your presentation should be supported by a variety of visual material and should take no longer than five minutes. Use the interview guidelines below.



The following questions should be answered:

- ☐ What business idea does the company have?
- ☐ How was the business idea developed?
- ☐ Which person (or group of people) was responsible for developing the business idea?
Which personal background does the person have? Is there a connection to the business idea?
- ☐ Which events or developments have led their success? Which obstacles had to be overcome?
- ☐ What competitive advantage does the business idea have today?

Task 12: Internal business idea

You can use a variety of strategies when searching for suitable business ideas and concepts. On your own, find a business idea for each concept of an existing company.



Visions come to life. Like many other South American football players, Lionel Messi started out his career on the streets as a child calling it his second living room. Almost every day, he kicked his football together with his friends between their hand-made football goals. He soon realised that he had talent and took the risk to travel to Barcelona at the age of 13. Since childhood Lionel suffered from a rare growth disorder which greatly impacted his physical development. This did not discourage him from his dream to try out for FC Barcelona. Together with his trainers and hard work, he made the A-team at the age of 17.

Today, he is rated as one of the best players of the world. He has been awarded the FIFA World Football Player several times. He remains a world champion, a top goal scorer for Spain and in the Champions League. Regardless of his prestige, he is seen as a down-to-earth and helpful person.

Your example:

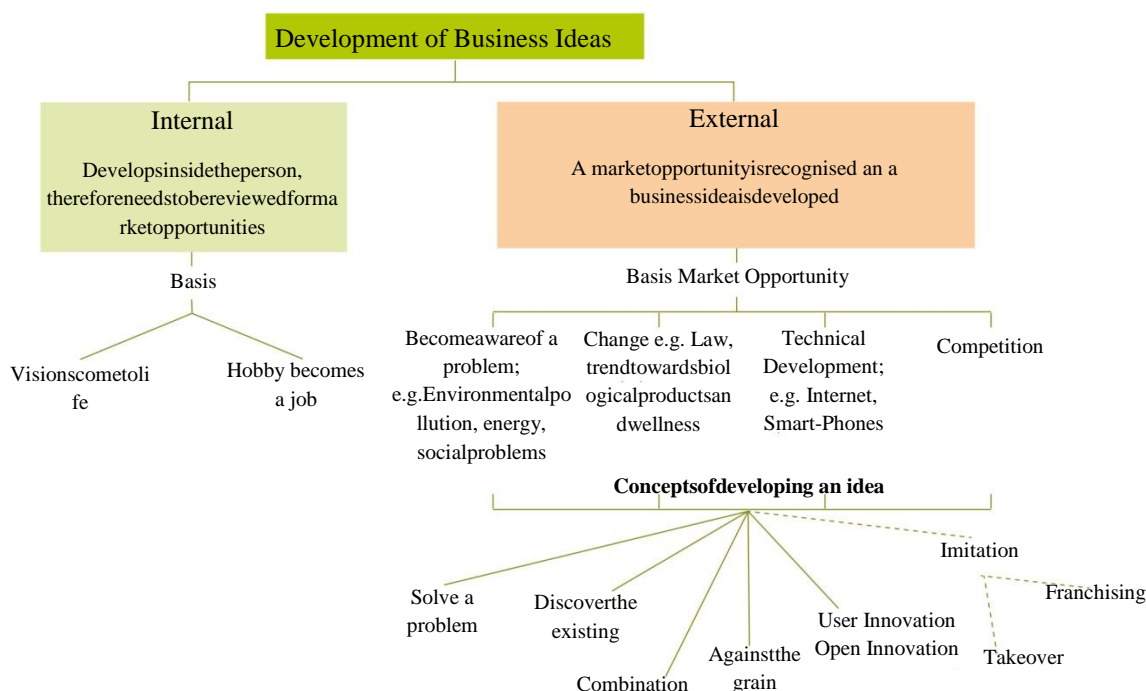
Turn a hobby into a career. This concept refers to turning a hobby into a business idea. Wolfgang Konrad from Tyrol, Austria believes that running improves the quality of life. Even during his apprenticeship at a young age, Konrad was running. He later became a top athlete and held the Austrian record in the 3000 m obstacle run for 17 years. His path led him from being a high-voltage installation technician to becoming a runner and running coach. With about



30,000 people taking part in the annual “Vienna City Marathon,” Konrad is the organiser of Austria’s biggest mass sporting events. Most of the participants run the classical 42.195 kilometres.

4 Ideas for Market Opportunities (external)

Many known companies were founded due to one entrepreneur creating new inventions, recognising a market opportunity, and developing a new idea.



Idea Development Methods



Solve a problem. Whether hanging a banner ad on Austria’s highest tower or performing welding work on a windmill, there are people who find their workplace where others would not dare to go. Industrial climbers work in extreme heights and depths; therefore, there is no need for companies to set up construction scaffolding. These companies provide support with installations, cleaning, and renovations. Industrial climbers combine manual dexterity with their comfort for heights and solve problems for construction businesses, farmers, and energy producers.

Transform an existing idea. Think outside the box. In other countries and sectors, there are a number of successful business ideas, which can be transferred into other new ideas. In the early 1980s, Dietrich Mateschitz frequently travelled to Asia for business and was introduced to an “Energy Drink.” Managers were drinking a syrupy liquid during meetings, which helped them stay awake and maintain concentration. Mateschitz developed his new business idea based on this drink. He brought the product to Austria, created a marketing concept, and introduced it to the market. The name of the products is now very well-known: Red Bull.





Combination of ideas. The combination of existing ideas is all it takes to develop new business ideas. The first internet cafes or even the PEZ-candy dispensers are such combinations, on the one hand - sweets and on the other hand - a toy. Today PEZ is a global brand with its origins in Upper Austria from the 1920s. The business idea was developed and implemented by industrialist Eduard Haas. Annually, millions of Euro are generated with PEZ candy dispensers.

Going against the grain. Until the end of the 80's, people from western countries known for being “three-clock-individuals.” The first clock was given at confirmation, the second was purchased with the first job and the third was a reward for a major accomplishment. Then came Mister Swatch, Nicolas Hayek, who decided to do it completely different than his competitors. For each event, a new plastic watch was presented: *Hokuspokus* for clubbing or *Mozart* for an evening at a concert. Today, after selling millions of Swatch watches, Nicolas Hayek is seen as the saviour of the Swiss watch industry. He also transferred his concept into other industrial sectors such as the development of hair dryers or transforming the vacuum cleaner concept using the motor of a blender.

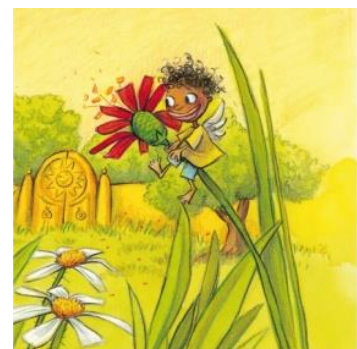


User Innovation, Open Innovation. Under the keyword *User Innovation*, new ideas come to life through new customers, employees and suppliers. Sport lovers who were not satisfied with the existing possibilities have created sports, such as mountain biking and the devices needed for it. Under *Open Innovation*, customers are also involved in the implementation of an idea. The most well-known example is Wikipedia. 85,000 author volunteers are working simultaneously on the encyclopaedia.



User Innovation, Open Innovation. An existing concept is copied with a similar or the exact same service. Numerous pizza restaurants or tutoring services for students are only a few examples of these types of business ideas. There is a lot of competition and their success depends on a big market.

Corporate takeover and Franchising. At the time of a corporate takeover, the business idea of a new company is further developed. The franchise concept is very similar. You do not takeover the existing company, but rather implement a ready-to-use concept. A franchisor makes a proven system available. A franchisee is responsible for the sales of products and services under the brand name of the franchisor. In Austria there are about 250 franchise-systems on the market. Some well known examples are the *Sonnenator* shops by the organic-pioneer Johannes Gutmann or *OMV* gas stations with the *Viva* shop.



Task 13: From market opportunity to business idea

You recognise the market opportunity and then come up with ideas. Brainstorm your ideas.

Situation	Business Idea
Gas doubles in price.	
A vegetable business in the neighbourhood closes.	
The percentage of employed women increases.	
A material made of solar cells is developed.	

5 Test Ideas for Business Opportunities

After a business idea is developed, its chance to be successful in the market remains still in question. Not every idea has the potential to become a successful company.

Use the following method to check your idea. If you know 10 people from your target group (your potential clientele) who are interested in buying your product or services, then there are probably even more people out there who would pay for it if they knew about it. Take, for example, a business that offers high school language trips. Your target group would be adolescents right before summer.

In general, an idea turns into a business opportunity if it meets the criteria of the checklist mentioned below. In this case, then the idea becomes exciting and worth developing further.



Checklist for potential ideas to become business opportunities

	Yes	No	Reason
Is it interesting for customers?			
Will it work in your business environment?			
Is the current market situation of importance for the implementation?			
Do you have the skills and resources to implement the idea?			
If you do not have the skills or the resources, do you know someone who does and with whom you would like to work?			
Do you believe that you can offer the product or the service at a price which customers would find interesting and you can still make profit?			

Task 14: From an idea to the business opportunity

- a) Develop two business ideas based on the following questions: Is there anything that discomforts you in your surrounding environment? Which product or service would get rid of the problem? Try to think about your last vacation. Which product or service did not exist there that you would normally see as a necessity? Think of an example of a change for the negative that has happened in your neighbourhood. Think about possible solutions as potential market ideas.



- b) Review the business idea with another person based on the checklist and support your evaluation with reasons. Is your business idea legitimate enough to continue to work on?

Checklist to check ideas for business opportunities

	Yes	No	Reason
Is it interesting for customers?			
Will it work in your business environment?			
Does the situation of the current market create an opportunity for implementation?			
Do you have the skills and resources to implement the idea?			
If you do not have the skills or the resources, do you know someone who does and with whom you would like to work?			
Can you offer the product or the service at an attractive price for customers and still make profit?			



Summary

Entrepreneurs	People who recognise market opportunities, develop new business ideas as well as create a business model and implement it. The functional entrepreneurial theory is based on a person who economically creates something new. Hence, even creative employees can be entrepreneurs.
Creativity	<ul style="list-style-type: none"> □ Requires thinking in the context of opportunities and alternatives □ A open minded approach to ways of thinking and its structures □ Creates a new solution by combining known elements of a problem
Morphological Box	A heuristic method is an analytical and highly structured approach most useful to create new ideas when information and time are limited.
Six-Hat-Method	A method that uses six hats each symbolising a different perspective. The purpose is to quickly view an idea from multiple perspectives (including personal feelings and doubts as well as positive thoughts).
Internal Business Idea	<p>The idea develops within the person. However, it needs to be reviewed and tested for market opportunities/analyses.</p> <p>Basis:</p> <ul style="list-style-type: none"> □ Visions come to life □ Hobby becomes a job
External Business Idea	<p>The idea develops by looking outwards and recognising a market opportunity</p> <p>Basis Market Opportunity:</p> <ul style="list-style-type: none"> □ Become aware of a problem; e.g. environmental pollution, energy, social problems □ Change e.g. law, trend towards biological products and wellness □ Technical Development; e.g. internet, smart-phones □ Competition <p>Concepts of developing an idea</p> <ul style="list-style-type: none"> □ Solve a problem □ Transform an existing idea □ Combination of ideas □ Going against the grain □ User Innovation/Open Innovation



In order for the idea to become a business opportunity, it has to...	<input type="checkbox"/> Be attractive to customers <input type="checkbox"/> Function in the environment of the entrepreneur <input type="checkbox"/> Be realistic and implementable.
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Check 1: Identifying market opportunities in printed media

Analyse a magazine or a newspaper for possible market opportunities and use the method of opportunity identification. Write down at least three market opportunities.

- ☐ Are there any problems that can be solved?
- ☐ Are there any amendments of laws, general conditions or are there any new trends presented?
- ☐ Are there any new technological trends shown?
- ☐ Can you think of ways that an existing company could improve?

Check 2: Analyse a business idea and its chances on the market

Using tasks A-C, analyse each of the following situations below.

- a) How do you assess the business idea and its market chances? Write down three considerations.
- b) Is the idea interesting for customers? For which customers in particular?
- c) Would it work in your business environment? Support your decision with reasons.

Situation 1: Solar powered water steriliser

After drinking contaminated water, Martin Wesian (from Austria) fell sick with Cholera during his trip to South America. The need to make clean drinking water available exists everywhere. Wesian developed the *Wadi*, a device equipped with a solar cell that when directly mounted on a plastic bottle will sterilise the water inside. The solar cell simply needs to be exposed to solar radiation to function. *Wadi* also lights up once the water becomes drinkable. One *Wadi* costs EUR 5,00.



Competence Check

Situation 2: Theatre atmosphere for kids and adults

Illustrator and graphic designer Helmut Pokornig discovered his love for theatre as a child and has been designing stage sets and costumes for years. In 2012, he rented a small location in Vienna's 8th district (Josefstadt) and converted it into a theatre. He founded a non-profit organisation together with his friends, and after a few months preparation he opened the puppet theatre *Marijeli*, named after his two daughters Marie and Jelena. The small theatre has a doll and puppet theatre for children and adults.



Situation 3: Fruit Smoothies

Once upon a time in England, three friends Richard, Jon, and Adam had an idea. They bought a bunch of fruit worth 750 EURO, made smoothies, and sold them at a small music festival in the West London. They hung a sign saying: Should we give up our jobs and make Smoothies? They put two rubbish bins in front of their stand for the empty bottles, one with the sign "Yes" and the other "No". Sunday evening the bin with Yes was full of empty bottles. All three of them quit their jobs on Monday and started innocent. It is a company which produces smoothies containing blended fruit filled in bottles.



Competence Check

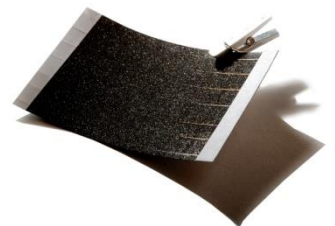
Situation 4: Tracking a product

You can print a sticker with tracking numbers on it from a web platform. Each sticker is placed onto a product, which is then sold or given to someone as a present. You can then create a product field under the tracking number to track the journey of various products. In the end the buyer has to add a product delivery date on the website.



Situation 5: Glass front as power plant

Crystal sol Ltd. with its headquarters in Vienna and Talin (Estonia) developed a completely new technology of a photovoltaic system on carrier foil for glass fronts or roofs. Buildings using too much energy will eventually turn to alternatives in the future to cover their own use and feed energy into the supply network. The new technology has many advantages. No rare metals such as indium or tellurium are used, and the production costs are lower than at existing solar cells.



Situation 6: Thank you, I'm fine

The fashion label *Goddess of Happiness/Luck* (Göttin des Glücks) stands for a cool unisex design. The designers provide a *feel fine* collection, which extends to employees and suppliers as well who benefit from the company's approach. A couple of years ago they decided to focus on ecological production. The entire production line has a *Fair Trade* seal. This guarantees that it is in accordance with international labour standards of the ILO. The cotton is organically grown by West Indian company.





Situation 7: Dog PooBag

Designer Nina Dautzenberg and Andrea Gaesmann from the agency *Jungeschachtel* have recognised how unpleasant it can be to pick up your doggie's poo. That is the why they developed the Dog Poo Bags, which are humorous, paper bags with a printed design to be exclusively used for disposing of dog poo. Each pack has 16 bags in eight different designs and are offered at a price of EUR 12,90.





B. From an Idea to a Sustainable Business Model

Competences

Work through this chapter and you will be able to...

develop a sustainable business model for an idea
reflect on various ways to implement your idea
analyse your idea from a stakeholder's perspective

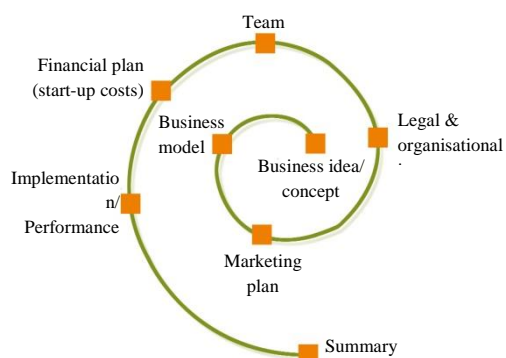
Keep track

An idea starts out with great potential before entering the constructive process of developing a business model.

A business model is the conceptual direction of an idea and the core element of a business plan.

Each business has its own business model and in order to gain perspective, two questions need to be answered:

- d) Who are our customers?
- e) Which services do our customers need?



Task 1: Recognition of business models

Analyse both questions

Who are our customers?

Based on three best practices, which services does our customer need?

Think about which information is missing.

Cloed Priscilla Baumgartner created her own designer label *Milch* for young men and women. She reuses old suit trousers and shirts to create a new fashionable line of clothing.

Upcycling fashion is the term best used to describe Baumgartner's work. During the production process, men's trousers are turned inside out, cut and sewn again, so that each piece has a fresh and unique style. The label's snazzy design makes it stand out as well. The material used is provided by the *Volkshilfe* (public clothing donation) boxes and washed at the *Green and Clean Laundromat*.

Volkshilfe Merit and the hat factory *Gaweinstal* are production partners. *Milch* sells their products in their own shop as well as in 30 additional partner shops across Europe.



Organic farmer Gerhard Zoubek from Adamah Organic Farms is located in

Marchfeld, a small town outside Vienna, Austria. Adamah's products are sold at nearly 15 farmers markets in and around Vienna and supplies about 6,000 customers directly with *Abo-Biokistin* (boxes filled with organic goods) on a weekly basis. The farm is seen as a showcase project with ecologically compatible and socially responsible agriculture offering 60 varieties of crops, various root vegetables, salads, tomatoes, bell peppers, potatoes,

onions and more such as bread, milk products, meat, and fruits of other producers from the region. Great importance is placed on knowing all suppliers personally.



Heini Staudinger was infected with enthusiasm about his shoe brand *Earth Shoes* and founded his own Viennese shoe store in 1980, which evolved into the business *GEA*. In 1984, the *Waldviertler Schuhwerkstatt* (shoe factory) in Schrems was founded. Currently there are 46 GEA shops which distribute shoes, bags, furniture, and mattresses in Austria, Germany, and Switzerland, that are mostly produced in the *Waldviertel* Facility (Forest Quarter - is the Northwestern region of the Austrian state of Lower Austria). The self-assured entrepreneur was known as someone who would borrow money from friends and customers to further develop his business.

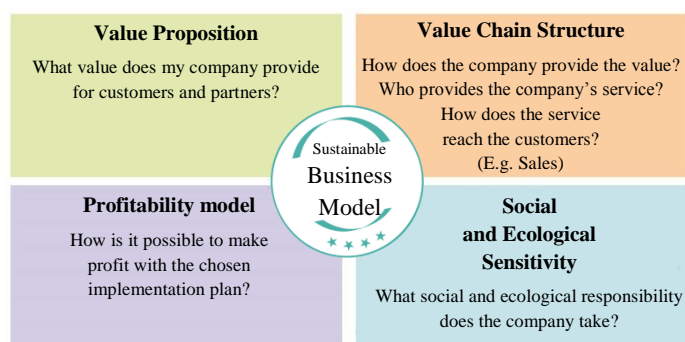


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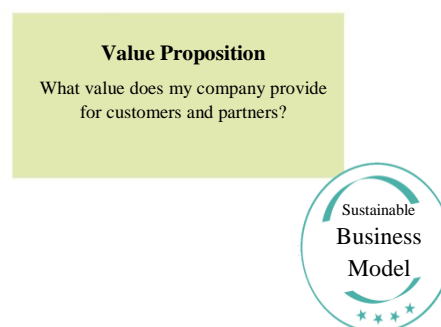
1. Thinking about the Mutual Benefits

The previous three examples focused on how services are provided to customers. There is more information you need to know about customers in order to define the target group. In the next four chapters, we will work on the development of a new business model. A **sustainable business model** focuses on at least 4 topics while answering the key questions (see illustration).



A business model describes a company or business and consists of three main components: Benefit (value proposition), Value Chain Structure (how services are provided), and the Profitability Model. A **sustainable business model** is developed by **integrating** one of these four components while also considering social and economical questions.

The first step is to look at value, and it all starts with the business idea. A business model describes the potential value that would benefit the founder. The result from defining this value/benefit relationship, will then define the business. Products are part of the value chain structure and fulfil a purpose in the market. The ability of a business to provide an extraordinary value through a product or service is a predictive factor for customer favouritism.



Some examples of various value propositions:



Design. Cloed Priscilla Baumgartner likes to combine, design and upcycle to develop new products with her fashion label *Milch*. In another context, the founders of *Apple* wish to combine computer design with user friendliness.

Love of Nature. The main idea of Johannes Gutmann, founder of the business *Sonnenator*, was to provide regional organic products. The business enjoys high credibility with customers for its chosen path.

Convenience. Gerhard Zoubek would like to take his organic products directly to his customers in order to make healthy food easily accessible.

Price. Often customers choose an offer because they want to save money. *Skype* manages to provide international calls at virtually no cost. In another context, the online company *Airbnb* offers the opportunity to make a trip without spending much money on lodging by connecting hosts to potential guests who would like to book their space.

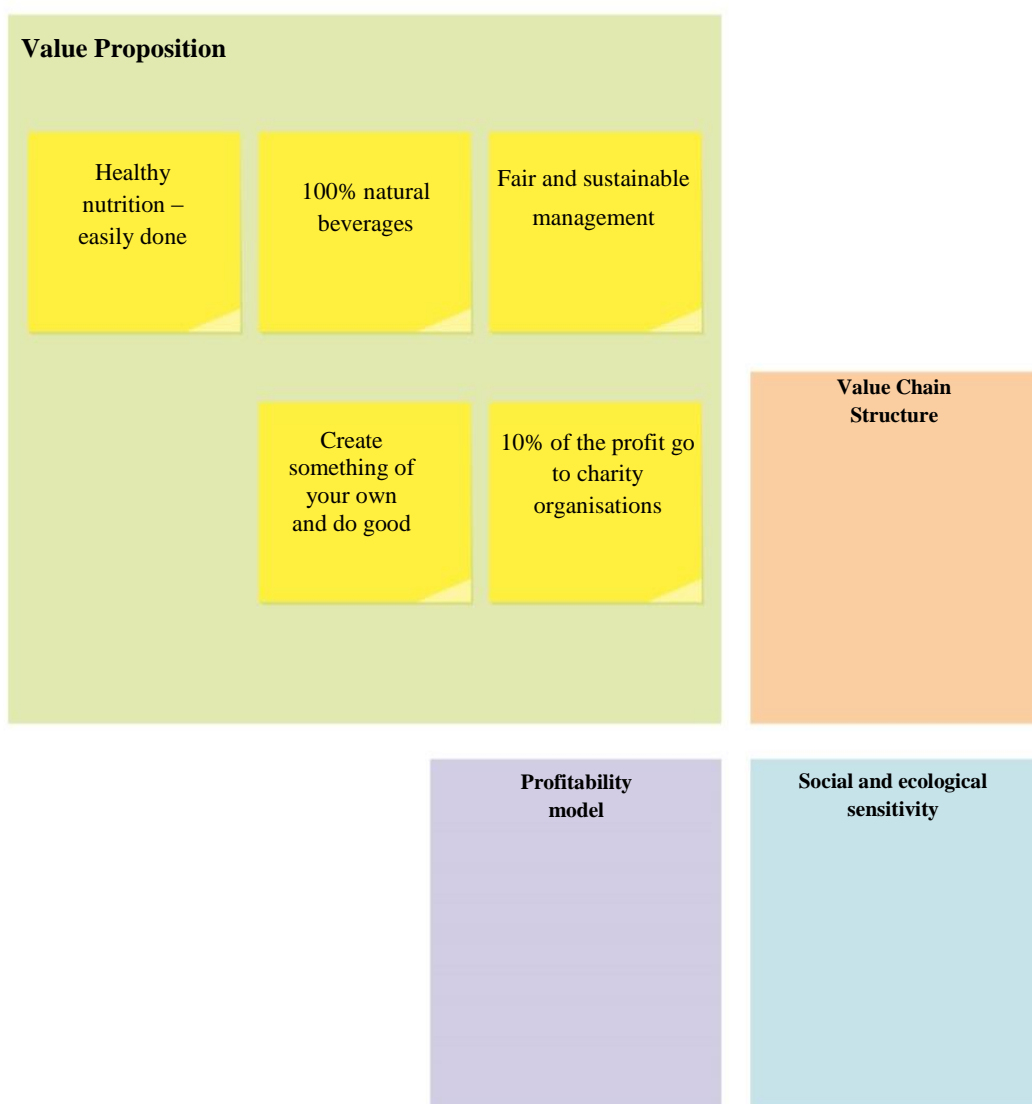
Brand or Status. Some businesses manage to convey prestige and *joie de vivre*.



Reduction of Costs. Businesses often support others to reduce costs. Specific businesses offer computer servers or even tax consultation.

Do something good

Let's take the example of *innocent* as a business model and look how they developed their idea. A group of friends, Richard, Jon and Adam felt the desire to create something of their own. After long considerations, they had an idea. They decided to make a drink from whole fruit that would not only taste good, but be healthy as well. The first step was to identify the value it would have for both the founders and the customers (working people in big cities).



Task 2: Birthday present

You would like to get your best friend a birthday present.

- f) Think about the value of the birthday present.
- g) Which value should the present have for your best friend?

2. Value Chain Structure

In the second step, the next question needs to be answered. How can values for the customers be identified? The Value Chain Structure consists of a task description listing the partners and their roles. It provides an answer to the question: **How and by who is the service provided and in which way?**

In order for the business model to work, the core competences must be carefully thought out as well as a company's key activities that will support these competences.

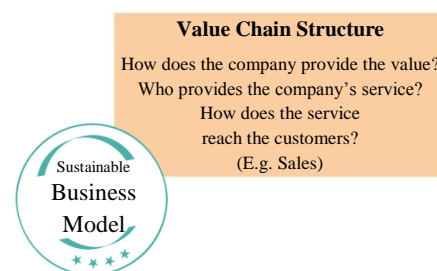
The Value Chain Structure includes the following recommendations:

Think in Alternatives. There are various ways to implement an idea. One example: Three friends have the idea to design a new young fashion line. They could establish a business and offer different fashion labels, or they could organise a fashion market that involve young designers once a month. They may design their own fashion, produce it themselves, have it produced, or offer a do-it-yourself app with cutting patterns, and contacts to textile merchants so that the customer can order their own customised fashion.

Furthermore, there are several ways for the initial idea to be implemented. Based on the ideas mutual value between founder and customer, a visual chart (axis) must be drawn out to illustrate the various possibilities. A possible visual axis (see Morphological Box) could answer the following questions: Which basic function does the idea pursue? Which materials could be used? How was the idea implemented in the past? Using your imagination, which creative implementation could be conceivable (science fiction)? Which approaches could be found using nature? Are there any existing trends?

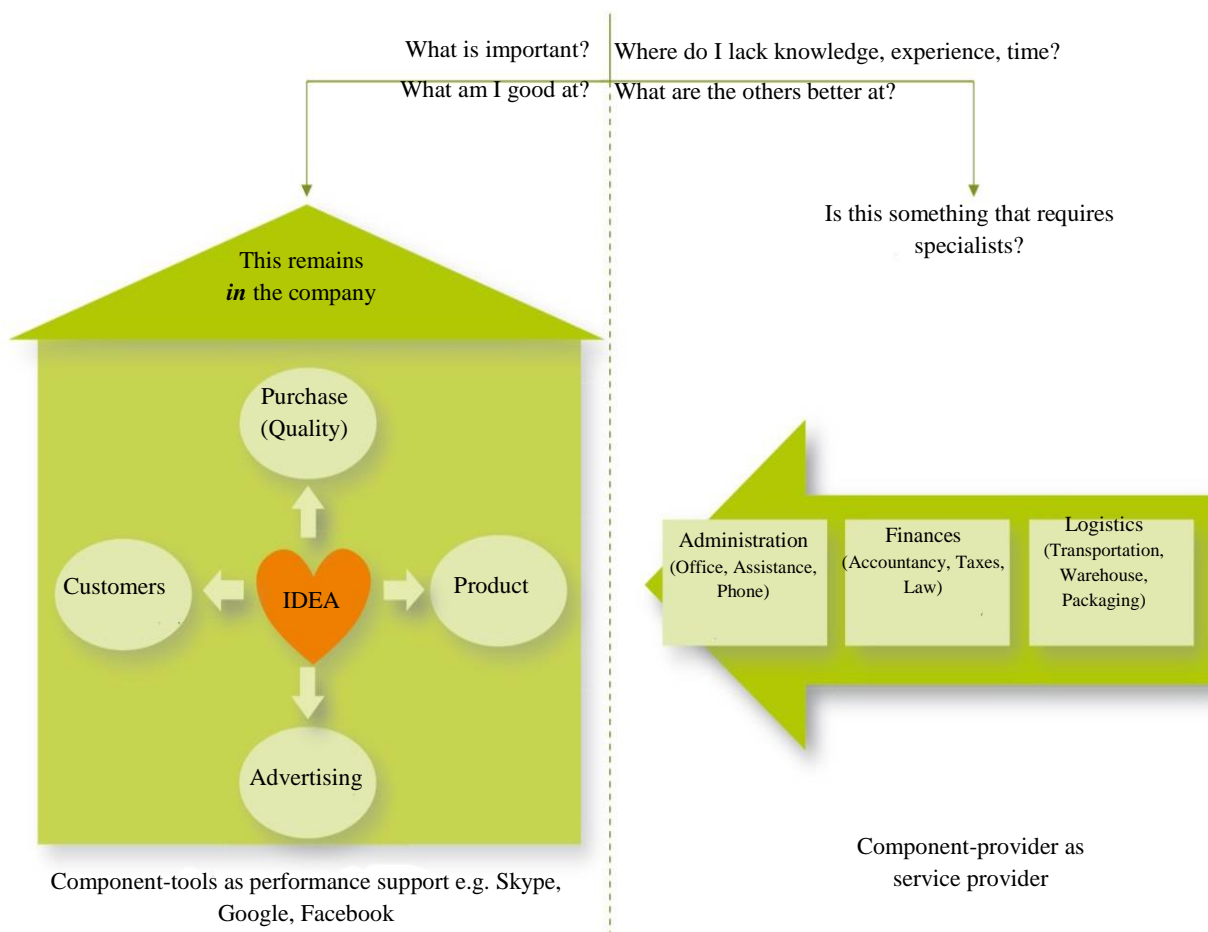
Strategic Dimension. Thinking in alternatives requires a strategic approach. Economically speaking, a strategy is a planned behaviour pattern in which a business can reach its a goal. Each business has its own unique business model since it describes the business. A *conscious* decision for a business model means that a strategy will be chosen.

Establish with Components. A modern, highly specialised economic system provides many components to be utilized during the development of the *value chain structure* for one's idea. It is essential to decide which key activity, with respect to core competences, needs to be completed within the business and which should be outsourced through other partners in order to maintain low costs and high quality.



Scalability is an option chosen to promote *growth*. Look at these two examples. To scale an online software program would mean to increase the availability of downloads due to high demand. This implementation is easily scalable. In contrast, to expand a hairdressing business additional costs would be required. Each scaling of a fulltime hairdresser who works 8 hour shifts, who would need to work overtime, or even employing an additional hairdresser would cost extra.

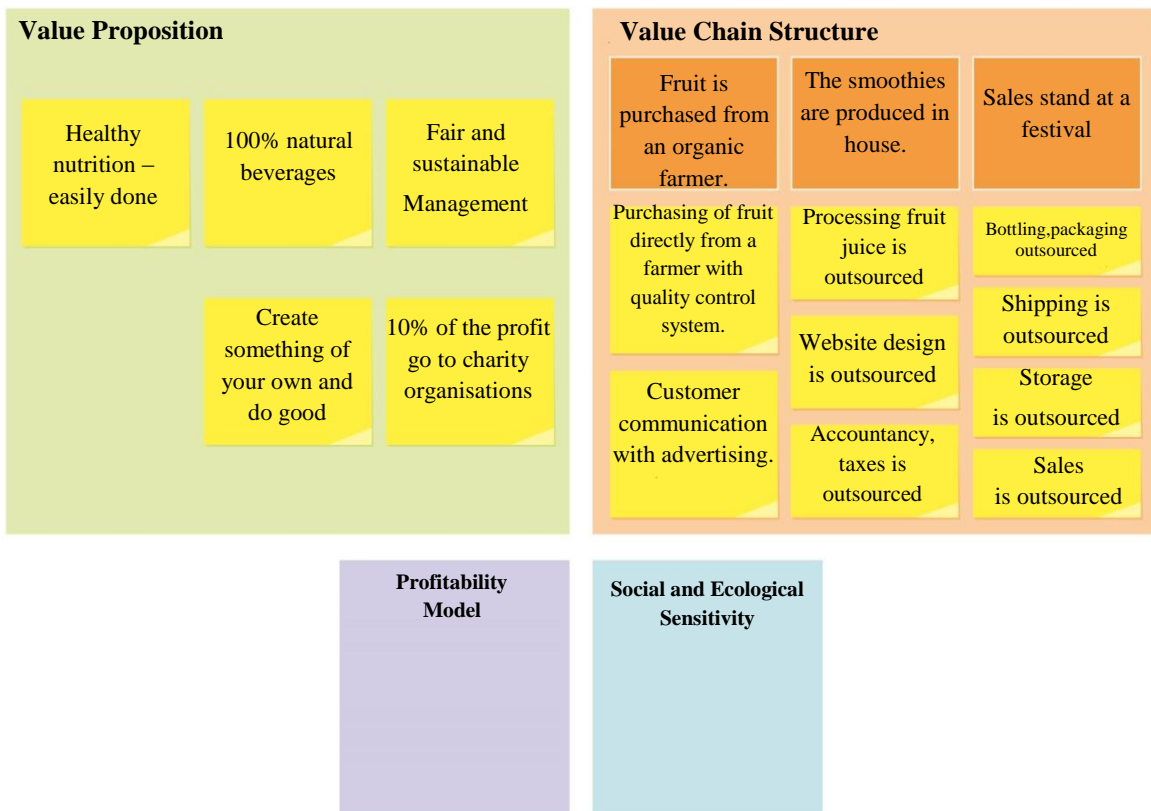
Establish with components





A scalable architecture

Three friends would like to implement their fruit juice idea. Their first attempt was to spend 750,00 EURO in fruit, produce the juice and sell it at a festival. What happened next? They established the components while taking into account a few key activities such as purchasing, customer contact, product development, and marketing. All other activities are outsourced with partners (see the following two pages).



Task 3: Birthday present

- You defined the value of a birthday present in task 2. Which possibilities of implementation do you see? List three alternatives.
- Think about further options where you could use components through outsourcing to partners?



www.simplewish.eu/

How do you make smoothies? Which are the implementation tasks? Which components are available?





Which components are essential for success? Which components are of great importance? What am I good at? What decisions did *innocent* make?



Which process components remain inside the company?

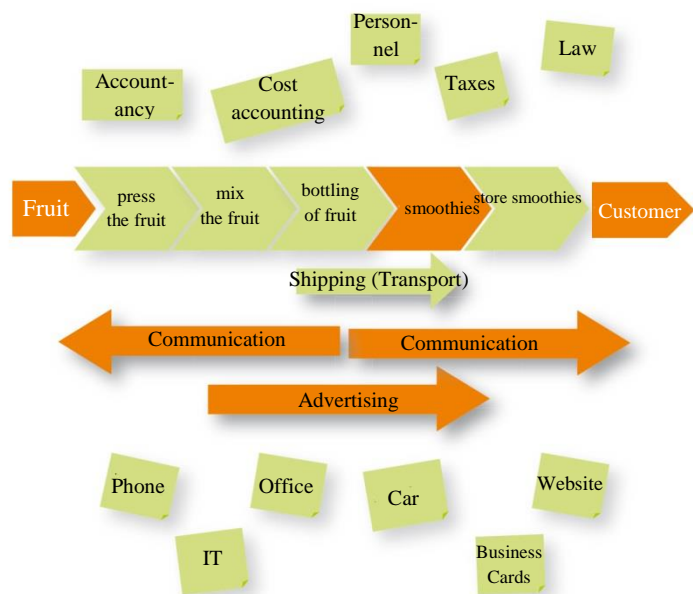


Three founders Richard, Jon and Adam



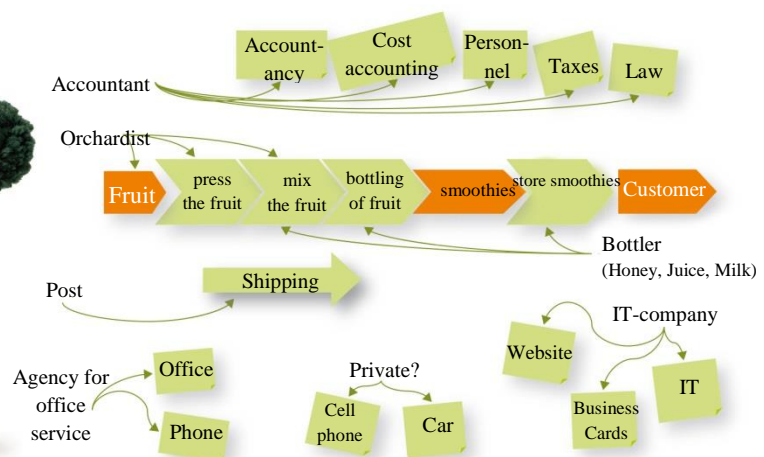
The big knitting

Charity campaign by Caritas



Others are being outsourced to specialists:

The company *innocent* currently has 250 employees and is the market leader in smoothies. *Innocent* smoothies consist of mixed fruit and pure juices. They are free of fruit juice concentrates, preservatives, stabilisers, added sugar, flavour enhancers, and any other unnatural ingredients. *Innocent* gets its fruit from farms that take care of the environment and their employees, and puts the smoothies into environmentally friendly packaging made of recycled and recyclable materials. Each year the company reduces its CO2 footprint and donates 10% of its profit to non-profit organisations.



This project is funded by the European Union

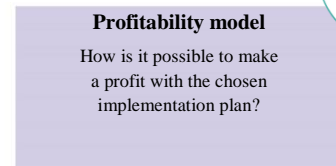


3. Profitability model

The third step deals with the profitability model. Apart from *what* and *how*, the business model additionally describes how high the return has to be in order for the business to be ecologically sustainable & economically successful. It provides answer to the question: **How does the business generate income?**

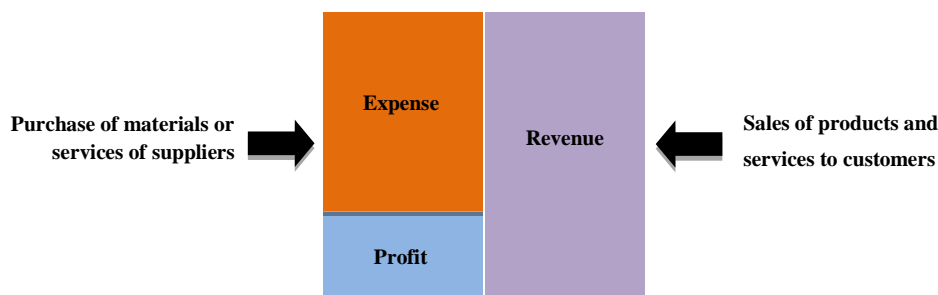
Each company, even if not profit-oriented, has to generate profit to cover costs. The profitability model determines the cost structure.

There are different forms of profitability models:



Direct profitability model: Is the income generated through sales from products and services to customers? (e.g. At the hairdresser you pay for getting a haircut, or you pay for a new digital camera at electronics retailers. This profitability model can work if potential target groups are big enough [see topic Marketing] and have sufficient financial resources.)

Innovations often result from the profitability model. For example, the telecommunication sector won new customers by offering prepaid cell phones instead of charging afterwards. Another example is that software is rented nowadays rather than being sold along with cars and skis. Products are getting cheaper and sales material is sold at high price (e.g. Printer cartridges or lift service).



Indirect profitability model. Mostly through advertising in recent years, there have been more and more businesses which generate profit indirectly. Some products or services of innovative profitability models are even free to their clientele.

Here are two examples: Newspapers or products of private TV channels are free for customers. The income is generated exclusively through advertising.





In particular, internet-related business ideas need indirect profitability models, since they offer free products to customers such as translation tools www.dict.cc or Facebook. Advertising finances both. Freemium is a pricing strategy, where the basic product is provided free of charge. The full version is subject to a charge and generates the entire profit for the product in its entirety. A special profitability model is called *gift economy*, where the integration of voluntary work is far more important than monetary payment. Voluntary projects such as Wikipedia are supported by donations of hardware, but mostly by participating volunteers. Around 2 million Austrians work in organisations without pay.

Indirect sources of income are not only advertisements, but also subscription fees, commission for redirecting customers to online-shop portals, sponsorships or donations at social institutions or sponsoring in the fields of sport and art.

4 For Free Profitability models

Free 1

Direct-cross-subsidies: one product is to be paid, the other one is free.

Free 2

One customer group subsidises another customer group e.g. free newspaper or free online offers through advertising revenue.

Free 3

Freemium: a basic product is offered free of charge, the full version needs to be paid (e.g. Skype, GMX, etc).

Free 4

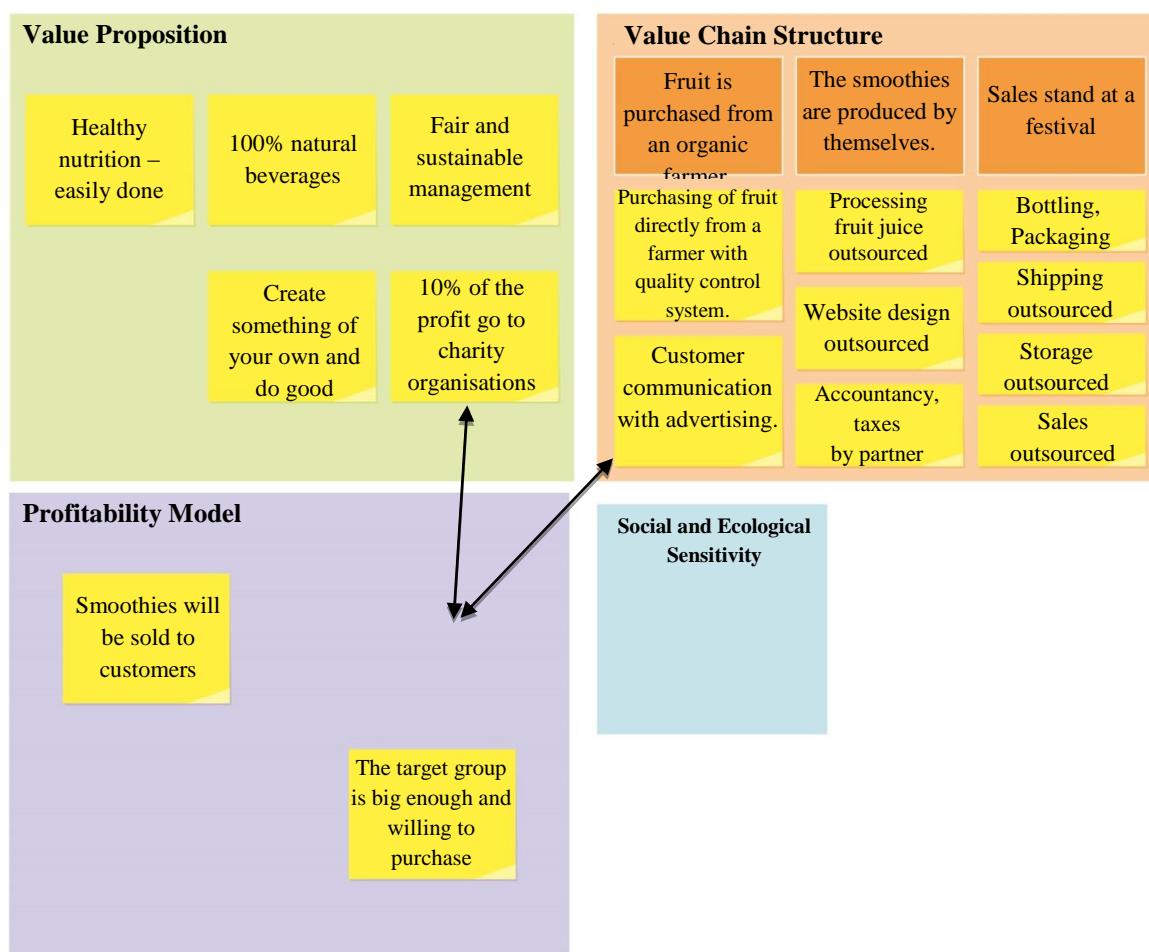
Gift economy: products and services are exchanged without a direct service in return (e.g. Wikipedia as part of an Open-Source movement, organ donation).



A successful profitability model

Innocent has developed a direct profitability model. The trend towards healthy food is ongoing and the target group (young employed people) is most likely to buy smoothies. This target group, so called *LOHAS*, are characterised by awareness of the context of modern day-to-day life and the desire to actively act sustainably.





4. Social and ecological sensitivity

The fourth step is about social and ecological sensitivity. A sustainable business model only emerges through integration of the fourth step. It provides an answer to the question: **How future-oriented is the business model?**

Sustainable management implies operating the business in a socially and ecologically responsible way while being economically successful.

There are sustainable business models that exist such as organic farming or innovative wind propulsion for cargo ships. Most models provide information about social and ecological sensitivity, which extends to customers, partners and employee relationships. In addition they provide information about which ecological resources are used. The model shows how the business also deals with environmental hazards or if the responsibility would be delegated to society.

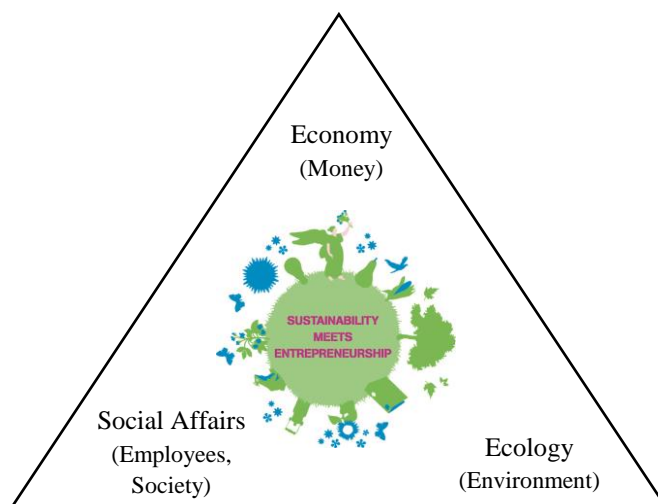


Social and ecological sensitivity

What social and ecological responsibility does the company take?



With a sustainable business model, a company can provide products and services to contribute to securing the livelihood of future generations and ensure social justice. Social sensitivity is about standing up for good working conditions and fair wages of the company's employees and suppliers. Ecological sensitivity refers to using natural resources efficiently and to avoid ingredients that are dangerous to health and environment.



There are many examples for sustainable business models. The spectrum ranges from construction companies building low-energy and passive energy houses to other construction companies that focus on solid wood houses. It includes the furniture manufacturer *Team 7* which produces natural wooden furniture as well as guided tours such as *Weltweitwandern* that strengthens eco-tourism.

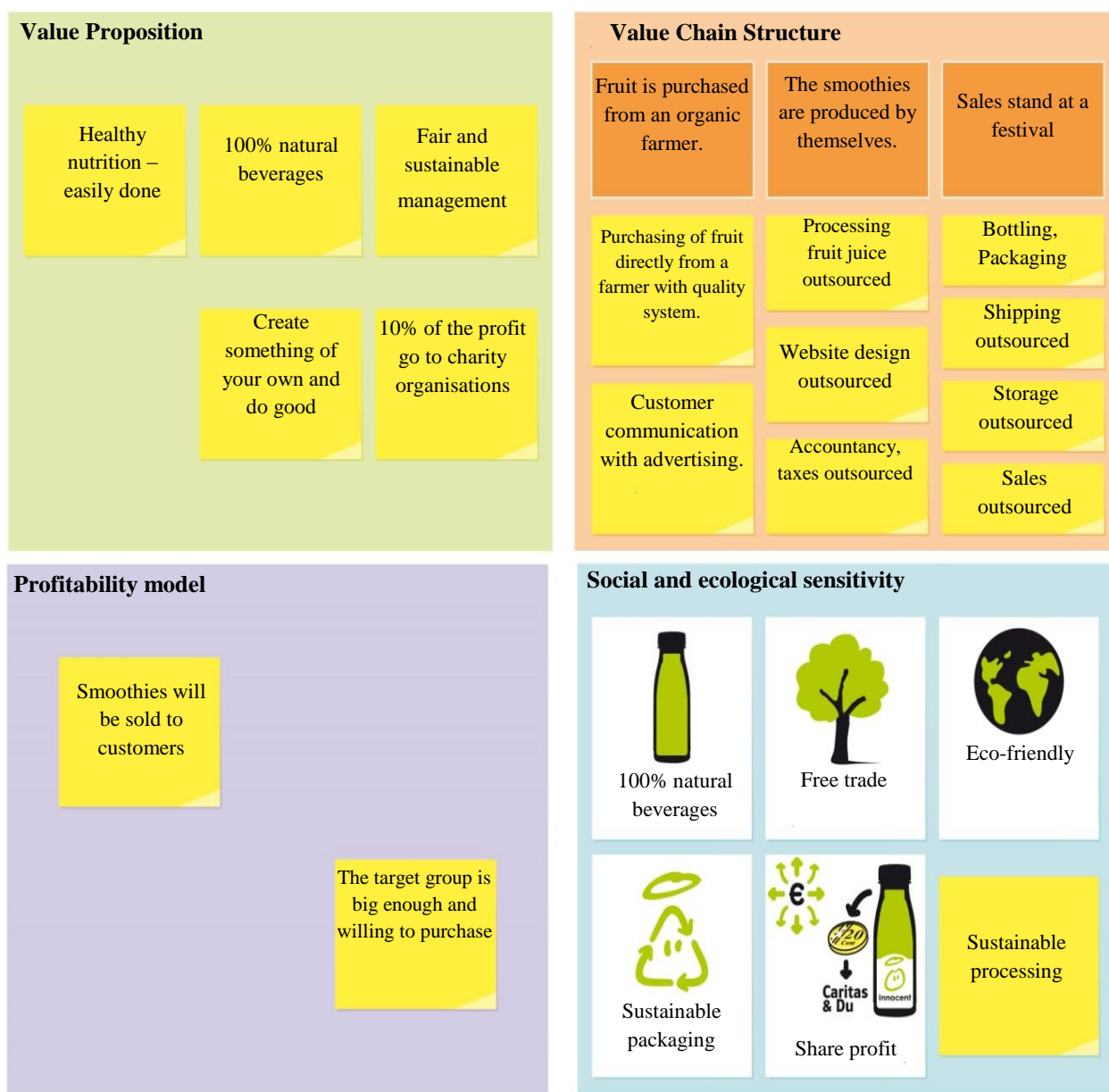
Innovative, sustainable business models are emerging. Industrial companies use the **Cradle-to-Cradle (C2C) approach**. The goal is to utilise all resources that are either compostable or remain in a closed industrial circuit. For example, a carpet manufacturer tries to find alternatives to the conventional harmful PVC production of carpets. Instead, it uses a material that can be continuously recycled. The manufacturer not only sell carpets, but leases them. In the case that they are worn down, they are recycled and processed to become new carpets.

We take responsibility



Even in our example of *innocent*, a socially and ecologically sensitive business model is achieved. Based on the business idea, the company ensures that the smoothie is free from concentrates and flavour enhancers, the packaging as well as the production is sustainable, and a portion of the profit is invested in social projects.





Task 4: Birthday present

- In Task 3 you developed variations for possible presents. Analyse them while taking into account the ecological and social sensitivity.
- Think about further options that are ecologically and socially sensitive.



Task 5: Cradle-to-cradle print products

What characterises a cradle-to-cradle print product from the media company *Gugler*?

Link: www.youtube.com/watch?v=UIrvWVcb4E8



Recognise conflict of interests

One does not create a new business model in a small room, but by communicating with partners, target groups, or stakeholders. The concerns and interests are controversial and are usually based on certain standards and values. On the basis of the analysis of target groups, the company decides which business activities have to be carried out and which need to be avoided, as well as which resources the company is able to reach for the *value chain structure*. Let's look at *innocent* as a practical example.

Concerns and interests. Concerns are generally applicable goals toward the environment (e.g. environmental protection, fair working conditions), whereas interests indicate the direct benefit / self-interest.

One example: The organisation *Fairtrade* expects *innocent* to use only fruit from *Fairtrade*. *Fairtrade* justifies it by pointing out that the working conditions for employees of suppliers are better. *Innocent* assesses the additional costs and finally decides to buy fruit primarily from *Fairtrade*.

Standards and values. Standards are the basic rules of etiquette. Values represent ideas of how a good life should look. Standards and values play a key role during a company's decision-making procedures.

One example: One part of the population believes that fair working conditions should apply internationally. The Austrian State does not impose minimum conditions on other countries; there are only rules within the Austrian borders.

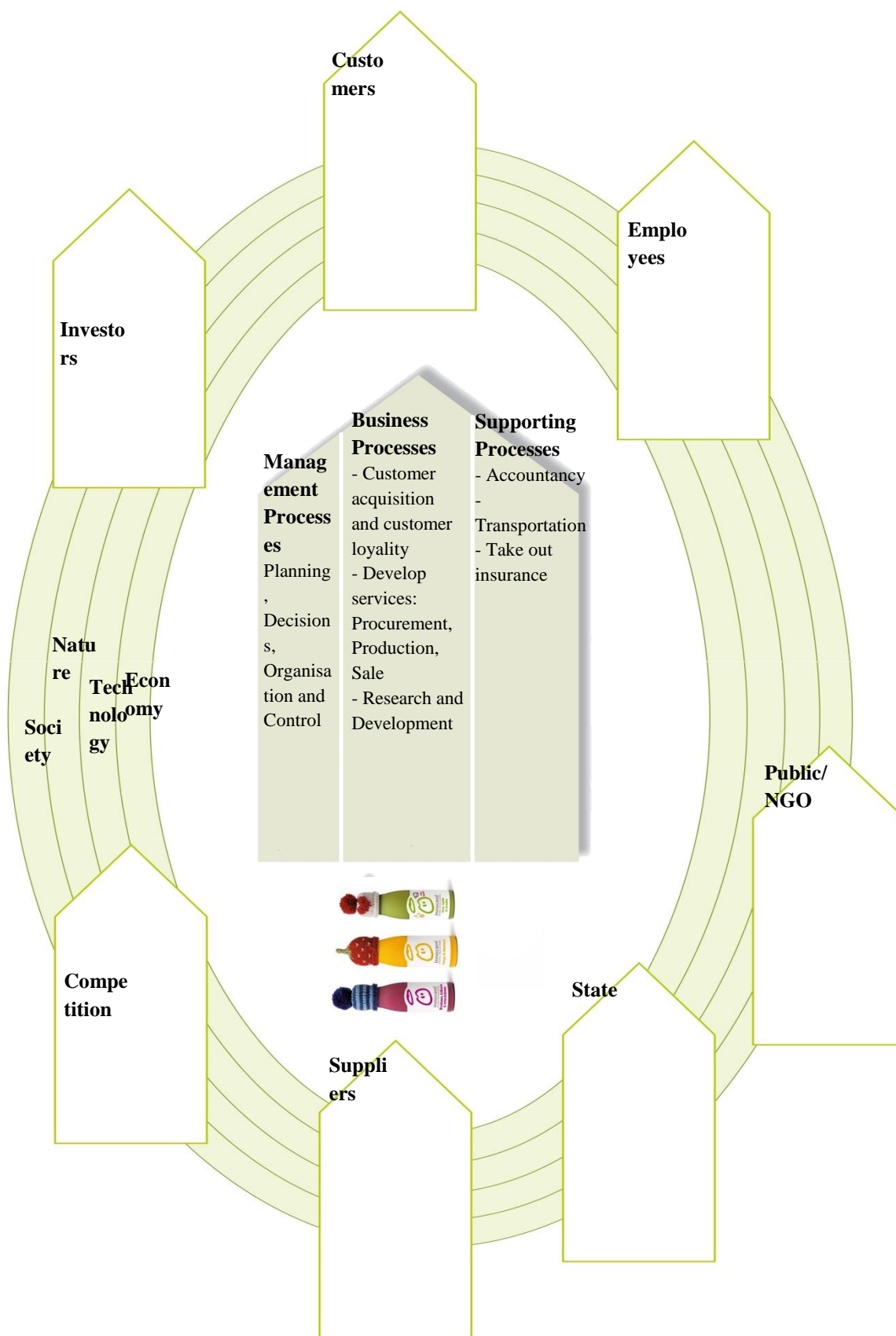
Resources are required for the *value chain structure* and could include raw materials, energy, a site, finances, information, or human labour force.

For example, *innocent* requires other items besides just fruit for the production of smoothies.

Task 6: Interaction issues

- a) Name two concerns with a stakeholder's perspective using *innocent* as an example. (Use the graph on the next page and write them down).
- b) Imagine that you are a consultant to *innocent*. You must point out where conflicts of interests/goals might occur and how you might solve them.





Task 7: Business model analysis



- 1) Watch the movie and read the articles about the fashion label *Goddess of Happiness/Luck* (Göttin des Glücks) and analyse the business model step by step. Write down your analysis in the graph.



Links: www.youtube.com/watch?v=mPPO132TFQE,
www.dropbox.com/sh/m5i0lgsiktjb38m/AAAY8VyVpdZCkljaY4arzRmma/english?dl=0

- b) Compare the analysis and add more points.

Value Proposal

What value does it have ...
... for the founder?
... for the customers?

...key questions for
better orientation

Profitability model

How is it possible to make profit with the chosen
implementation plan?



Value Chain Structure

How does the company provide the value?

How and who provides the service?

How does the service reach the customers?

(E.g. Sales)

Social and Ecological Sensitivity

What social and ecological responsibility does the business take?



Task 8: Develop a business model

Below are two possible ideas for a business model. Choose one and develop a business model from it.

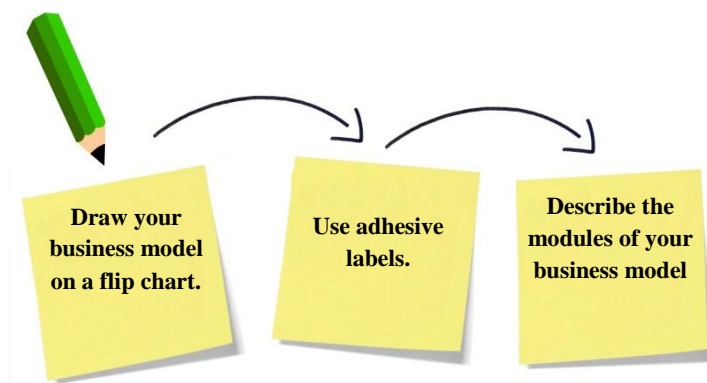
- c) You read in the newspaper that more and more bread is being mass produced (production line). Bread only needs to be baked. You love fresh bread made of high quality ingredients and the traditional art of baking and would like to make this business idea work. Which business model would you use?

If you develop your own business idea, use it and work on your first business model.

Value Proposal

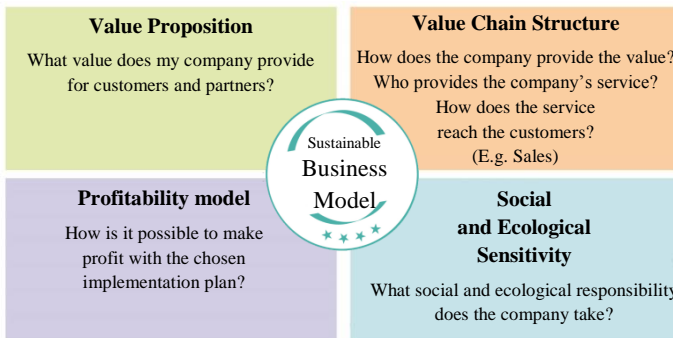
Profitability Model



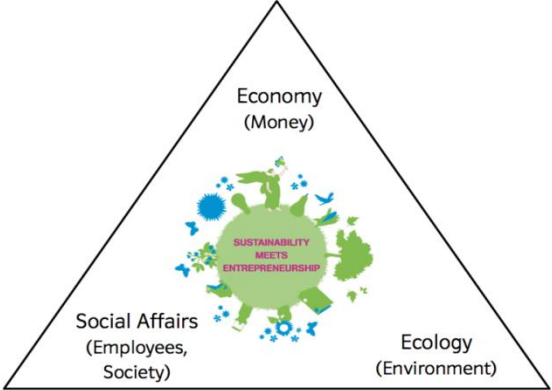


Value Chain Structure

Social and Ecological Sensitivity

Sustainable business model	<p>The description of a business. Such a model consists of four main components: Benefit (Value Proposition), Value Chain Structure (how the service is provided), Profitability Model and Social and Ecological Sensitivity</p>  <p>The diagram illustrates the Sustainable Business Model as a central concept surrounded by four key components:</p> <ul style="list-style-type: none"> Value Proposition (Green box): What value does my company provide for customers and partners? Value Chain Structure (Orange box): How does the company provide the value? Who provides the company's service? How does the service reach the customers? (E.g. Sales) Profitability model (Purple box): How is it possible to make profit with the chosen implementation plan? Social and Ecological Sensitivity (Blue box): What social and ecological responsibility does the company take? <p>The central circle is labeled 'Sustainable Business Model' and features a circular arrow and four stars.</p>
Strategic dimension of a business model	<p>Thinking of alternatives requires a strategic approach. Economically speaking, a strategy is a planned behaviour pattern in which a business can reach its goal. Each business has its own unique business model since it describes the business. A <i>conscious</i> decision for a business model means that a strategy will be chosen.</p>
Establish with components	<p>A modern, highly specialised economic system provides many components to be utilised during the development of the <i>value chain structure</i> for one's idea. It is essential to decide which key activity, with respect to core competences, needs to be completed within the business and which should be outsourced through other partners in order to maintain low costs and high quality.</p>
Scalability	<p>Describes the option to contribute to the growth of a business.</p>
Profitability model	<p>Contains the strategic dimension, which evaluates the sources of income. It does not include the detailed calculation that is carried out together with the financial plan.</p>
Direct profitability model	<p>Income is generated through sales of products and services to customers (e.g. You pay for a haircut at the hairdresser.)</p>
Indirect profitability model	<p>Mostly through advertising in recent years, there have been more businesses that generate profit indirectly. Some products or services of innovative profitability models are 'free' (e.g. free newspaper – only possible through sales of advertisements).</p>

Competence Check

'Free' profitability model	<p>Free 1 Direct-cross-subsidies: one product is paid for, the other one is free.</p> <p>Free 2 One customer group subsidises another customer group (e.g. free newspaper or free online offers through advertising revenue).</p> <p>Free 3 Freemium: a basic product is offered free of charge, the full version needs to be paid (e.g. Skype, GMX, etc).</p> <p>Free 4 Gift economy: products and services are exchanged without a direct service in return (e.g. Wikipedia as part of an Open-Source movement, organ donation).</p>
Sustainable management	 <p>Sustainable management implies operating a socially and ecologically responsible business that can also become economically successful.</p>
Cradle-to-Cradle (C2C)	<p>The goal is to utilise all resources that are either compostable or remain in a closed industrial circuit.</p>
Issues/topics of stakeholders (St. Galler Management Model)	<p>Concerns and Interests are generalised goals in the environment (e.g. environmental protection, fair working conditions), whereas interests indicate the direct benefit / self-interest.</p> <p>Standards and values: Standards are basic rules of etiquette. Values represent ideas of how a good life should look. Standards and values play a key role during the decision-making procedures of a company.</p> <p>Resources are required for the <i>value chain structure</i> and could include raw materials, energy, working site, finances, information, or human labour force.</p>

Work through the tasks. You can evaluate if you have mastered the content of the previous chapters.

Check 1: Develop a Sustainable Business Model

There are three ideas listed below. Choose one of them and develop a business model from the idea.

- d) You read in the newspaper that the average Austrian uses only three tooth brushes a year. You would like to change that and contribute to better dental hygiene.
- e) Your aunt raves about her trip via *Interrail* during her youth (with a cheap train ticket young people up to 26 years were able to travel through Europe for one month). You would like to develop an inexpensive way to enjoy holiday travel and to provide the cultural opportunity to get to know the locals.
- f) You love preparing dinner. What could this lead to?

For the development of a business model, it is advantageous not to choose a conventional way of implementation. You can use a visual axis in order to see different options for implementation.

Value Proposal

Value Chain Structure

Profitability Model

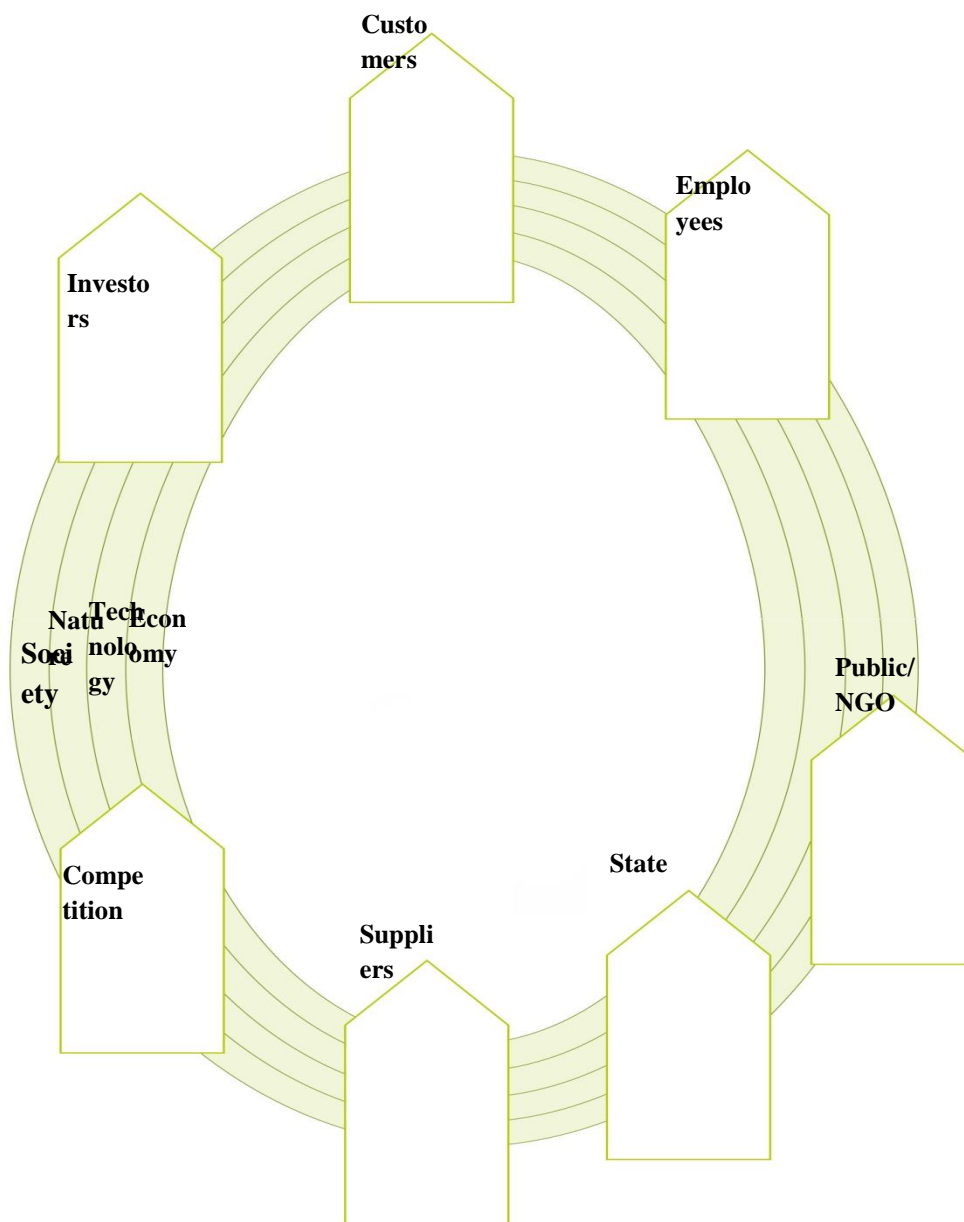
Social and Ecological Sensitivity



Competence Check

Check 2: Analyse Interaction Issues

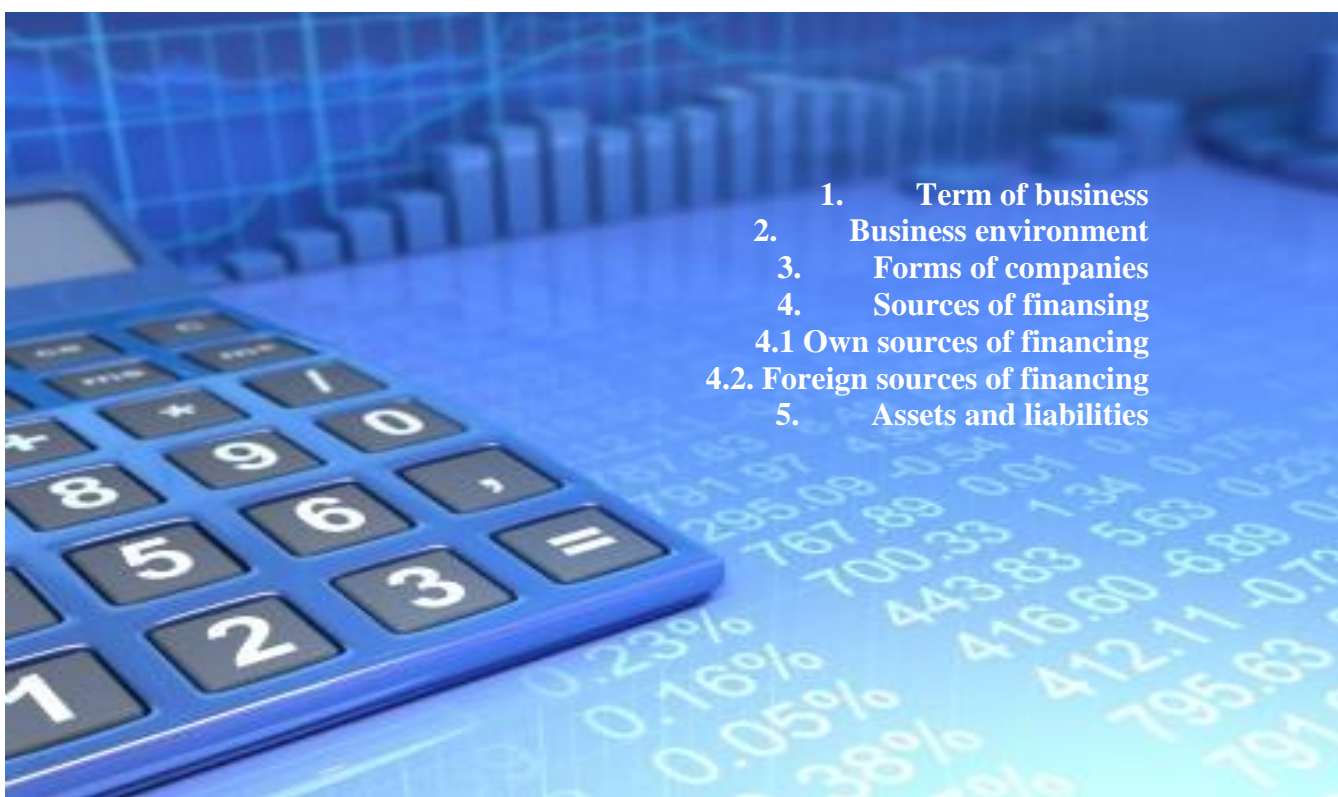
- g) Name two concerns, with respect to interests of each stakeholder group, for each of your chosen business ideas.
- h) Imagine that you are a consultant of your chosen business idea. Point out which interests and/or goals might lead to conflict and how you would solve them.





Part II

Business



1. Term of business
2. Business environment
3. Forms of companies
4. Sources of financing
 - 4.1 Own sources of financing
 - 4.2 Foreign sources of financing
5. Assets and liabilities

1. TERM OF BUSINESS

The Term of business has his origins from the English word “business” that describes working activity to gain economic interest. Business in general represents using of the available factors of production with an aim of achieving maximum economic effect. Therefore we can say that the native of business means organized effort of an individual or a group of people to produce or sale some goods or services, to satisfy certain foreign desire or need whilst creating profit. The definition of business is making up from the following three preconditions:

First, to realize the business the following basic factors of production need to be united: Labor, capital, Earth and entrepreneurship.

Labor, (*human resources*) covers the physical and mental abilities of the people which are used in production of goods and services.

Capital presented in different forms of capital goods whereby unfold the business activities as the facilities, machines, tools financial resources, equipment, transport vehicles etc.

Earth (natural resources) in an unchanged form “gift” of nature to which directed the actions of labor and capital.

Finally, in factors belongs the *entrepreneurship* as well, as a unique capability of the human capability to create, manage, to take decisions and to take risk.

The second precondition is concerning the purpose of the goods and services that need to be sold. The business produce and sel goods and services that need to satisfy certain foreign desire or need. However the existing of the business is a result of the opportunity to produce for somebody else, and as a kind of compensation for the sold good or the service to make profits. **The third** precondition in the definition is concerning the opportunity for gain profit true selling of goods and services. The business depends on the profit. If there is a possibility for profit it will be possible of doing business.



2. BUSINESS ENVIRONMENT

The Business environment presents the saroundnings where the company is doing its activities and is achieving their goals. The owner of the compnay should know all the time what is hapening with the surrounding, gathering information of the competitours, supliers, consumers, the economic, legal and political conditions. He makes it in order to take appropriate and timely measures and activities to change or adjust the operation of the business to the changes.

When it comes to the business environment, most often we think as of its internal and external environment.

The External environment can be divided on general and special environment.

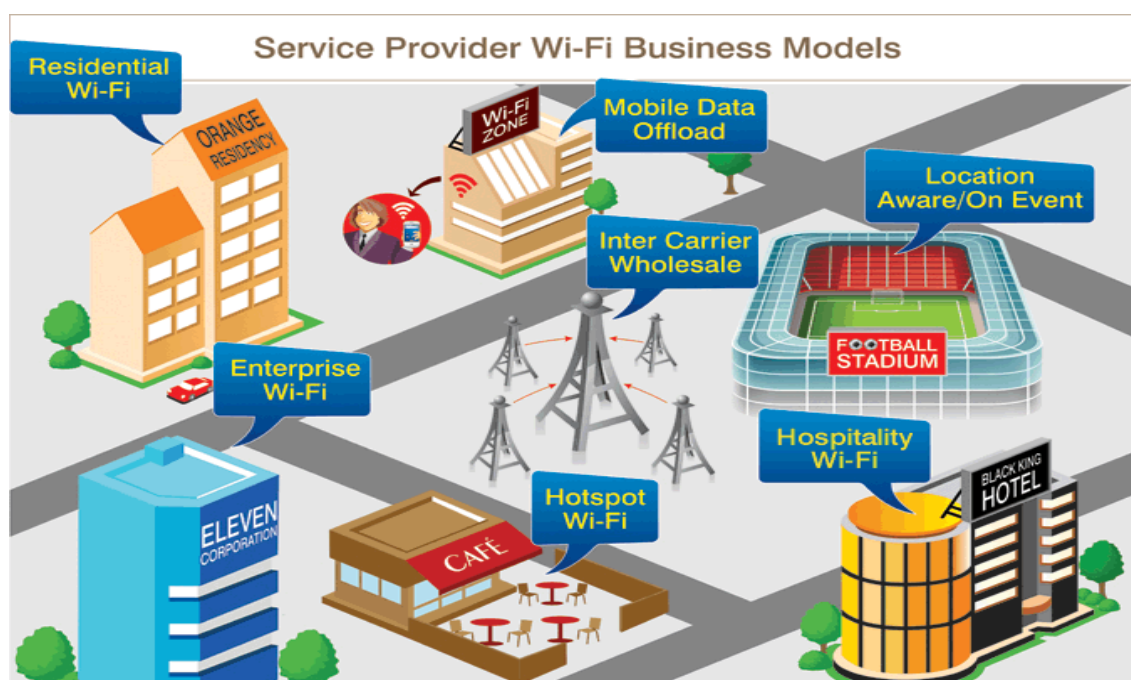
a) The general external environment includes the impact of all factors that are outside the company as an example the economic, political, social, technological, social-cultural conditions and even the act of the nature. These conditions (factors) are objectively given. The business can not affect to the but can only adapt to them.

b) The special environment has a direct affect for achieving the goals of the business. They can positively or negatively influent for the success of the company. The special environment of different for each business. In general terms it includes suppliers, consumers and competitors.

The internal environment includes the influences of the factors that are found in the company. This environment includes for example the way of managing the company, the skills and capabilities of the employees, the use of the technology for production, the location of the sales facilities etc. The managers can influent to the factors of the internal environment for improving the benefits or reduce the disadvantages of the enterprise in relation to competitors. Also, the environment of the business can be analyzed from aspect of the conditions where the employees operate in the company. This environment is called **operation environment**. This environment can be physical or mental.

a) The physical environment contains the conditions for operating as, temperature in the premises, noise, lightning, ventilation, the methods of operation etc.

b) The mental environment actually is the working atmosphere that the managers together with all of the employees are creating which is a invaluable asset for the success of the business.



3. FORMS OF COMPANIES

The majority of the business activities in any country are carried through companies that act as registered legal entities (companies). They constitute the formal part of the business economy.

In the company law in Macedonia the enterprise is defined as a set of rights, goods and factual relations concerned that have property values that belong to the trader. The term trader is defined by two criteria:

a) Trader according to activity. The Trader according to the activity is every person that independently permanently is doing his occupation with trading activity for achieving profit with production, trading or selling services. If any individual has craftsman capabilities and has skills and desire to work as craftsman in a small size, can register his own business organization as craftsman- unique trader.

The Business organization unique trader is a form of organization of a unique owner who as an individual is doing any economic activity. This form can be established by any businesslike capable individual with a permanent residency in the country, with exception toward an individual except the person to whom is open a bankruptcy and who intentionally fell into bankruptcy because creditors could not collect their claims.

b) Trader according to the form. Traders according to the form are all of the trade companies. Trade company is a legal entity in which one or more individuals invest finances, goods or property rights that make use of the joint operation and sharing the profit and loss operation.

According to company law are the following types of companies

1. Public company (PC);
2. Limited Liability Company (LTD)
3. Joint Stock Company (JSC);
4. Limited partnership (LP) and
5. Limited partnership by shares (LPS).

The majority of the companies are Limited Liability Companies (LTD), Joint Stock Companies (JSC) or companies with unique trader.

Public Company (PC) is an organization of two or more legal entities or individuals – shareholders, who in front of the creditors are responsible for the liabilities personally and solidarity with all of their property.

Limited Liability Company (LTD) is a company where the shareholders participate with one main deposit that can be in finance, things, or rights (licensees) in advance agreed main capital of the company. If the company is constituted by one individual (legal entity or person) instead of an agreement the constitution is based on a statement given to a notary. The Limited liability company (LTD) is a form of organizing of small businesses most common found by us, but also in most of the European countries. The main reason for this is the security that is provided by this form of company, first of all, for the responsibilities in front of the creditors is in an amount of the main capital of the company, meaning that the shareholders are not responsible with their property cannot be used for settlement of obligation toward the creditors.



Joint Stock Company (JSC) is a company in which the statute of the company has a certain and in equal parts (shares) divided capital called main capital, in which the shareholders participate with one or more shares of the company whose obligations are secured with the whole property of the company. The shareholders are not responsible for the liabilities of the Joint Stock Company. The constitution of a Joint Stock Company can be simultaneous and successive.

Simultaneous constitution of a Joint Stock Company is when the founders alone or with a group of other individuals, personally or through their representative, in one or more statements undertaken without a public announcement all of the shares in it provide a statement that they constitute the company (25.000 EUR in denar countervalue)

Successive constitution of a Joint Stock Company is done with enrollment of all of a certain number of shares based on a public offer that is prepared in accordance with the statute of constitution of the company. The smallest amount in this case is 10.000 euro in denar countervalue. The smallest nominal value of one share cannot be less than 1 euro. The share presents confirmation of ownership of a part of the Joint Stock Company.



Limited Partnership (LP) is a company where two or more individuals-shareholders where at least one shareholder is responsible for the liabilities limitless with all of his property and he is called complementary, and at least one of the shareholders is responsible with the amount of his subscribed equity and he is called komanditor.

Limited Partnership by Shares is a company constituted by one or more complementary's who are responsible limitless and solidarity for the obligations of the company with all of their property and komanditor's that are shareholders and have no responsibility for the obligations of the company. The main capital of this form of company is divided in shares and the number of komanditor's cannot be less than three.

4. SOURCES OF FINANCING

4.1. Own sources of financing

The financing with own sources of financing is based on finances of the owners of the company for which there is no obligation for returning of them.

The own sources of financing very often represents the main sources for operating the company. The Owners of the company (no matter are they one or more individuals or legal entities) through their own deposits are ensuring the volume of finances necessary for starting the business



There are more types of own sources of financing and they can be divided on two groups:

a) Resources in terms of deposits of the owners at constitution of the company: *The capital of the owner* of the company is the main source of financing of the business. For start-up of the business it is necessary to provide finance resources that match the activity and the size of the company. The initial finance resources can originate from different sources, savings, reserves, finance gain through selling property or shares, gift, inheritance etc.

Joint Venture. The companies that are constituted by more founders (as Limited Liability Companies, Public trade companies etc.) start with its operations using the deposits of the founders. This capital is formed according to an agreement between the investors, founders of the company. With the agreement it is clearly stated the amount of the share of the deposit of each of the founders of the company. The equity of each of the founders is on disposal to the company for achieving the activities of the company, and the effects of the operations belong to all of the founders depending of their invested funds.



Illustration by Chris Gash

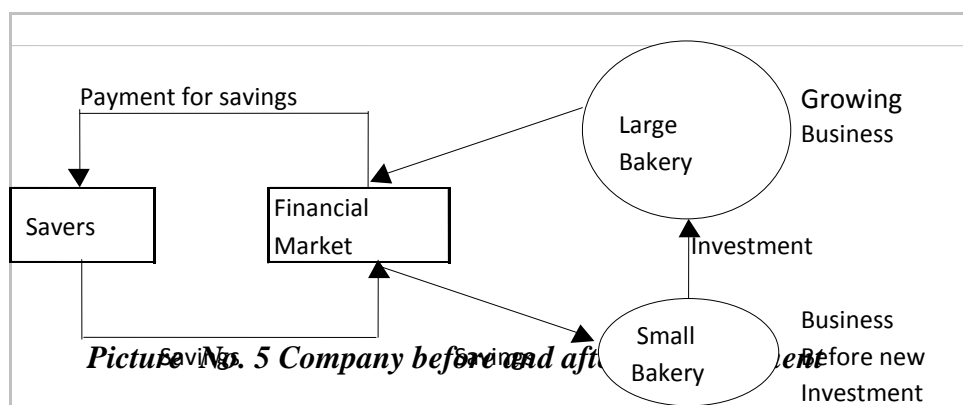
b) **Funds from savings** that are created with operation of the company. They include:

Profit presents the most important source of financing of the company. The possibility of financing the company is larger if the company creates profit.

Depreciation is one of the ways through the owner of the company can finance a part of the operations of the company. The depreciation as a form of financing comes to

expression in businesses where the fix assets have large value i feel the presure of the technical and technological development. This source of financing despite that it does not increase the capital of the company it represents a important sorce of financing due to the fact that is compenzating the lost value of the fix assets of the company.

If the own sources of financing are not suficient, in this case the business is forced to use additional (foreign) sources that are provided by the finance market.



Source: S. K. Velkova, Z. Zlatkovski - "Osnovi na biznisot 1", Prosvetno delo, Skopje 2006g

4.2. Foreign sources of financing

The operations of the company no matter of the activity need to be supported with a sufficient amount of finance funds. Despite the advantage that the own financis is providing, the practice shows that it is almost necessary of using funds from foreign sources of financing.

The own sources of financing are very often not sufficient for start-up investments or for investments for developing or expanding the activity of the company.

The most common form of financing of smal businesses from foreign sources of financing are short term loans and long term loans.

Short term loans (loans with period of return up to one year) are intended and designed for curent needs of the company as: suply of raw materials and materials, fuel suply, maintenance of machinery and equipment etc. They have a goal to secure the continium of the operations of the company.

With the short term loans actually are used for financing the everyday cost of operations. They are returned once per year. Sources of short term loans can be:

Trade Loan – are intended for suply of goods from the suplier and the debt is paid lather. Unpaid obligations toward the supliers represent short term loans for the company. For an example, Company producer of bread suply the flour from the mill and pays it with a agreement after 3 or 6 months.

Loans from financial institutions – occurs when the company takes a loan up to one year from a bank or other financial institutions. This loan is intended for securing the current operational resources (raw materials, materials, or finished products intended for selling).

Loans from other companies – As a source of financing (lending) of the company, other company can appear – business partner. The business partner is crediting the company with target to gain any economic advantage for itself, as for an example: supply of raw materials and materials, sales of finished products etc.

In this case, the processors of fruit and vegetables are crediting the agricultural companies, they to achieve larger production that is needed for processing.

Long term loans (credits with return period of more than 5 years) approved by the banks for investments have a target of expanding or improving the actual capacity of the companies. These are intended for supply of long term (fix) resources, supply of equipment, building facilities, building constructions, installations etc. The return of the long term loans is achieved through the achieved profit or resources intended for depreciation. Taking in consideration that the long term loans have investment character, for their approvals the banks ask from the companies business plan for the way this loans will be used.

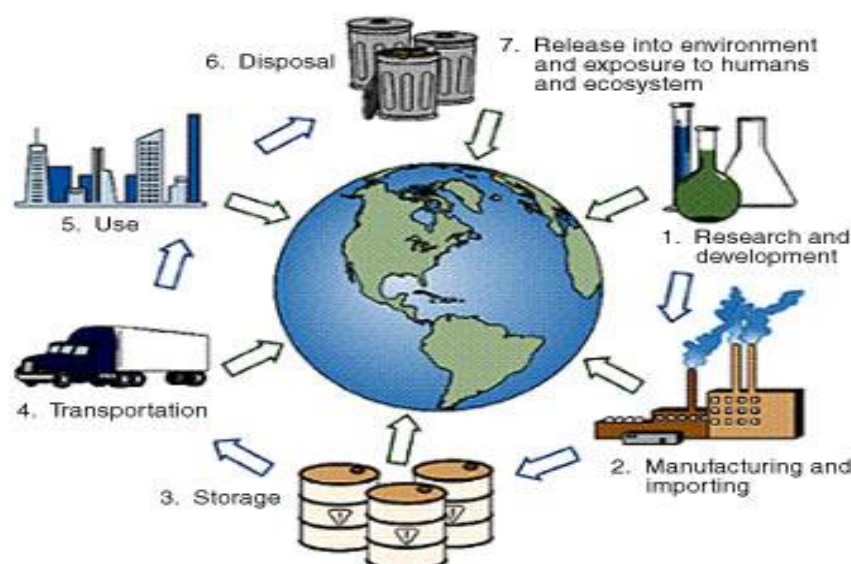
The financing through foreign sources is economic justified if the company allows decreasing the cost of production per unit. The loan will not have the economic justification for the owner of the company if the loan does not allow him increasing of the total volume of operations, increasing of the income from sales and increasing of the profit.



The usage of foreign sources of financing causes certain negative consequences for the operation of the company, first of all due to the obligation for returning the loan in a specific fix term, which reduces the stability of financing. Furthermore, the payment of the interest rates of the lent resources increases the dependence of the company from the loan and is limiting free decision making.

5. ASSETS AND LIABILITIES

Resources are rights, things and finances with whom the company is operating. These are the material ground in operation of the business and condition for their survival and development. The businesses have different types of resources. For an example, businesses have finance resources that serve for supply of materials, tools, equipment, salaries for the employees, for paying the cost of electric power, advertising etc. Also the companies have building, machines and machinery, transport vehicles etc, that served to achieving the targets of operation. The size and the structure of the needed resources always depends of the type and the character of the business.



The totality of the resources available to the business need quantitatively and qualitatively to match their tasks.

Permanent (fix) resources – Fix capital

Permanent (fix) resources are resources that after their buying they serve to the business

more than one year and the business is using them more times in the proces of **production**. These resources cannot be spend at once or fully, but partialy, transferring peace by peace his value during the proces of production to each new product. Spending of the fic resources is called depreciation. That means that the permanent (FIX) resources after certain period of time will treated as obolette and they need to be replaced with new ones. The permanenet (fix) resources in a production company are: plants, warehouse for keeping the raw materials and materials, instalations i constructions, the whole equipment, machines and mavhinery, tools, transportation vehicles etc.

The fix resources can be devided in tree groups:

Intagible assets

Property and equipment

Long-term financial investments

The Intagible assets are fomrs of resources that are used in longer time period as founding investments, patents, licensees, koncesions etc.

The founding investments as Intagible asset are not finance resources but the cost for crating the documentation for gaining the fix resources bfore they to start to be used. For an example, cost for creating the project oand other documentation, cost for profesional training and development of the employees and similar. The patents, licensees, koncesions present rights.



Patent is a registered inovation.

Licensee represents the purchased right of using or producing a foreign inovation.

Koncesion represents authorization of the business given from the state for using public and communal goods, to exploide mineral resources, to use the aero space or similar.

Property and equipment are the most important and most numerous group of permanent (fix) resources. The can be found as natural treasures, (building or agricultural land, forests, pastures and similar or as facilities, machines, equipment, transportation vehicles, longtime plantations herds of cattle or similar.

Long-term financial investments are financial resources that the business is investing in businesses collaborating, furthermore, funds invested in banks, securities, and lent funds in and out of the country.

Current (working) resources – working capital.

Current (working) resources are those assets that the company withheld shorter period in the company up to one year. These resources reusable, material and value are built in any new product.

For each company for operating within his activity must have available permanent (fix) resources and current (working) resources. Unlike the permanent (fix) resources that have long-term character, the current (working) resources have short-term character, because they are used at once or in short-term period.

For example, once used fabric becomes clothes, and cannot be used as fabric again. For new clothes a new fabric is needed. These resources have working character, meaning that at least once per year they change their form. For an example, finance funds can be used for supply of raw materials and materials, to pay the salaries of the employees etc. The supplied raw materials and materials are used in the process of production of goods and services. Next, the already produced goods and services a certain period exist in the company as supplies of final products until the moment of their sales or transferring them into financial resources. So, first the current (working) resources have monetary form, i.e. serve to purchasing of raw materials and materials. With purchasing raw materials and materials the working resources are given a material form. They keep the material form through the production process, transferring themselves into final products with on the end finally to take on again monetary form.

The current resources are divided to four groups:

- Monetary resources and securities,
- short-term receivables from operations ,
- Short-term financial investment
- Supplies

The Monetary resources are the money in the accounts, the cash, foreign currencies on accounts and similar, and the securities are Checks, promissory notes, bonds, shares and similar.

Short-term receivables from operations are concerning the claims from the customers due to the prolonged period of payment of the sold goods or from achieved sale in installments.

Short-term financial investments constitutes the investments in related companies, funds in banks, investments in short-term securities, lending short-term credits in or out of the country

Supplies (stocks) consist from raw materials and materials, spare parts, small inventory and similar kept in a warehouse as reserve.

6. COSTS

Every company no matter if it is a small, middle or large company, or company which main activity is production or trading, for achieving this activity hire factors of production (inputs) :Labor, Capital, Earth and Entrepreneurship. This from other side produces payments or more precisely, expenses that the company is creating in order to produce the final products or services intended for the market.

For example, a factory for production of shoes makes costs intended for salaries of the employees, usage of electric energy, supply of raw materials and materials (leather, rubber, fabric, glue, paint etc.).

It can be said that **the costs represent spendings expressed in finance of the machines, tools, equipment, raw materials, energy, given services from other businesses, labor of employees etc.** This is the total spending done for producing of certain volume of goods and services. According this, all costs done for production of goods and services, together with the costs done with the transportation is creating the cost of the product or service.

Costs according the volume of production

Fix costs are the ones that remain unchanged, no matter the volume of production. The main characteristic of the fix costs is that they are independent from the degree of engagement of the capacity, or they don't depend of the increasing or decreasing of the production. The fix costs exist even then when the company does not operate. Such costs are the rents of office space that need to be paid in advance as a fix monthly or annually compensation. The same is valid for renting machinery or transportation vehicles.

When the amount of the fix costs is divided with the amount of produced products, it gives the average fix costs, or cost per unit. The average fix costs are calculated with the following expression:

AFC - Average fix costs
TFC – Total fix costs
VP – Volume of production

$$AFC = \frac{TFC}{VP}$$

When the volume of production increases, that means that the fix costs are split to larger amount of produced products and the amount of fix costs per unit is decreasing. If the volume of production is decreasing, in this case the fix costs per unit is growing. The fix costs can be illustrate in tables through the following example: (See signboard No. 1)

Total and average fix costs		
Volume of products	Total fix costs	Average fix costs
0	12	---
1	12	12
2	12	6
3	12	4
4	12	3
5	12	2,4

Signboard No. 1

Variable costs are costs that depend completely of the change of the volume of production. They increase with increasing of the production and decrease with decreasing of the production. Such costs are intended for raw materials and materials, fuel and energy, salaries of employees and similar. For an example, if for the production of 1000 kg chocolate are needed 600kg cocoa, in this case for additional production of 500 kg chocolate are needed additional 300kg cocoa. Variable costs are directly connected with the production and as such they participate in the overall value of the new product.

When the variable costs are divided with the amount of production of goods and services we have average variable costs, or variable costs per unit. (See signboard No. 2)

$$AVC = \frac{TVC}{VP}$$

AVC - Average variable costs
TVC – Total variable costs
VP – Volume of production

Total and average variable costs		
Volume of products	Total variable costs	Average variable costs
0	0	---
1	150	150
2	240	120
3	300	100
4	380	95
5	550	110

Signboard No. 2

From the signboard No.2 we can recognize that the total variable costs grow with increasing of the volume of production, meaning from 150p for the first volume of products to 550p for the fifth volume of products, when the average variable costs in the beginning have downward trend and then they have tendency of growth (this phenomenon is called the law of declining)

Total costs represent collection of the fix and variable costs. The average total costs are created when the total costs are divided with the number of produced goods and services. On this way we come to the costs per unit, or how many total costs are distributed to one product.

$$AC = TFC + TVC$$

TC

$$AC = \frac{TC}{VP}$$

VP

AC Average costs; TC – Total costs; VP – Volume of product



PART III

ENTREPRENEURSHIP



4. Entrepreneurship
5. Fundamentals of entrepreneurship process
6. Defining the concept entrepreneurs and its characteristics

1. ENTREPRENEURSHIP

Development of the economy of each country can not be imagined without innovation spirit of the "Leaders" in the business who are called entrepreneurs, and the overall process of entrepreneurial office. They compete among themselves and react in the right time and place to changing conditions on the market.

Entrepreneurial Company may be understood as a free initiative of individuals, groups of people or business organizations that strive to realize the idea for a new product, to discover new opportunities in the market, to introduce a new way to manufacture, new organization of the operation, etc., when it enterprise and has the risk of failure.

Entrepreneurial humanity implies seeing the possibilities and reagirawe the right time, in order to introduce new products on the market or existing to improve.

Entrepreneurial Company is in the process of recognizing and exploiting the new possibilities offered by the market, or of finding awe and a new combination of assets that can be realized business idea in order to realize an economic benefit or advantage over competitors.



Entrepreneurs prove new methods for managing and organization, with the hope that s may more effectively they use the means by which possess, than their competitors.

Entrepreneurs by not only that initiated, it directs the organize work in the company, but that invest their own money and property in order to make a profit, soo concrete and be with the danger of failure in business .

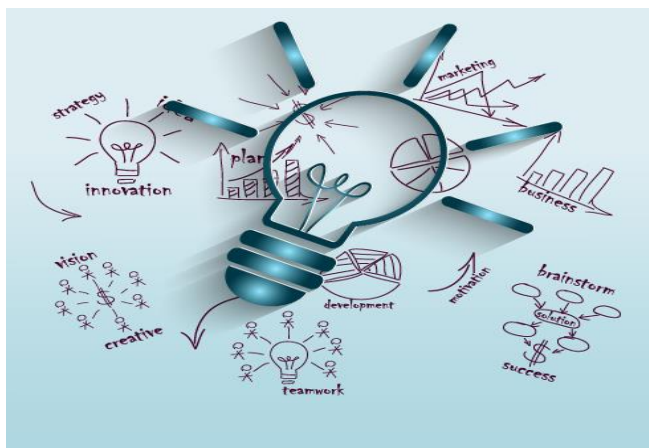
The creation of new businesses is a key element in the development of modern economies. New businesses withdraw "fresh resources", that they enable rapid growth. The fast growth of the new businesses they creates the opportunity to open a more significant number of new jobs in the economy. Furthermore, innovations which is characteristic term for entrepreneurs, especially in the high-technological enterprises, encourages the competitiveness of the economy. The growing competitiveness in economy is a source of new products and processes of production. The new products, contribute to the increase of production in the economy. Finally, the increase in the total production of the economy of each country leading to higher economic growth, that ultimately affect the living conditions or the standard of living of the population.

The social importance entrepreneurs is great. It is a direct creator of new businesses, new jobs and new products and production processes. Entrepreneurs is capable of in a



different way on the way to seize the resources available to them discovery opportunities there where it other businessmen may not be seen by and to create a new organization of work in entrepreneurs, necessary for the realization of the possibility that he stands at the disposal. With its ability to detect the opportunities, by entrepreneurs creates changes that the driving force on the op society. He is in constant search of change. Its ability for creation, ideas inventions and innovations is of great importance for the economic development of the country.

The company Sony is typical at innovation. She at the market offered many new products that buyers no one not required by nor have thought that are possible: walkman, video recorder, video camera, CD, etc. The Founder and President Akio Morita stated that the Sony not He serves on the market, but has creates. A good



example for this is walkman. At the end of seventy years of the last century the company were trying to make revolution in case birth of music, having legislated in the market portable recorder, under the name Walkman. While engineers at the beginning have been in confidence for success for the new product, however the 20 year existence of walkman, company SONY sold increase than 250 million coins were

minted in 100 models. Innovations driving force and prerequisite for the survival of every small or large enterprise. Large enterprises have at their disposal a vast capital that enables them to invest in scientific and research work for the development of innovation, in order that I should remain a market advantage over the other competitors. On the other hand, small enterprises their competitiveness provide localities with simple innovations to better meet the needs of consumers ,or finding new ones, more practical solutions in production processes or organizational processes.

Risk. Entrepreneurship is related to the risk. **The risk is an event which previously can not be planned or predicted, and if the case and causes loss or damage to the business venture.** There are a huge number of risks which endanger the successful accuracy of the business. Such may be the market risks arising from changes in the



needs and wishes of the buyers, the costs changes consumer raw materials and materials, changes in the behavior of competitors and similar. Accordingly, it is necessary for entrepreneurs to possess the capability to be kept in risk. They are unable to fully eliminate risk, but du evaluation estimate how large is the possibility for certain factors to contribute to the case and unwanted event that will cause aunt of the business.

The level of undertaken risk depends on the type of innovation that entrepreneurs from there intending to undertake, as well as by the level of its managerial abilities. The practice shows that entrepreneurs not only "blind" undertake and at risk, but that the degree of risk it undertakes by them.

2. FUNDAMENTALS OF ENTREPRENEURSHIP PROCESS

Entrepreneurship is a process, because it is united of a series of interrelated procedures and activities that need to be made, considering and has the time of their implementation.

Entrepreneurship process is realized through several consecutive stages which always repeated. Passing through the stages of the entrepreneurship process, the entrepreneur finds, evaluates and develops opportunity for the launch of a new business.

Entrepreneurship, the actual process is composed of four successive stages:

- 1/ Detection of the possibility of a business (business idea);
- 2/ Preparation of the business plan;
- 3/ Determining the necessary funds and
- 4/ Execution of the business idea.

Detection of the possibility of a business (business ideas). Detecting an opportunity for business entrepreneurs go by achieved through recognition of the needs to consumers preserve the power, application of new technologies, changes in the legal and others. For example, one of the entrepreneurs can come to an idea (possibility) for new business, following construction of new residential settlement in which the's live young couples with small children, to open shop for childrens clothing or a toy library.

Preparation of the business plan. The preparation of the business plan refers to the planning of the business and are basically connected with the reduction of the danger of failure of the business idea.

In the business plan entrepreneurs signed by a description of the business idea and its direction of development. Business plan shows that the objectives of the enterprise and that is the way of their realization.

Business plan them is required of all undertakings irrespective of their size, activity or property. Every new business venture carries a risk of failure, a business plan helps to be perceived need to fear and to decrease. Business plan of the owner allows him to and one that I check the feasibility of its business idea. In other words, a business plan for the enterprise owner represents written form of a business idea.

In view of the contents of the business plan can be said that there is no unified decision as to which elements should contain. However, generally each business plan, in which it plans to commence a new business should I have content next in line: basic notes for enterprise, mission and vision, analysis of the product and the production, marketing plan and analysis, organization and management, financial planning and analysis and others.

The overall data for the enterprise - In this day of the business plan and describe the lure kept the name, activity, history, size, ownership and other data related to the company.

Mission and Vision - In this section, shall be determined guidelines and long-term goals it's the management has placed in the business.

The products (goods and services) - This part describes {kept the characteristics of the product (the good or service) and the process of its manufacture.

Marketing Plan and Analysis - In this part should be given all the analysis of the market for bathtubs has come idea for a new product, as well as the analysis of

competitors. Furthermore, this part should also encompass the analysis of existing and potential clients, the market size and its orientation, as well as analysis of the potential competition. In the marketing plan also provides guidance on the policy of prices, improving the competitiveness, promotion etc. Also in this section should be analyzed possible ways of distribution of the product (net realizable networks, through specialized distributors, through retail, export, direct delivery etc.).

Organization and managerial team - This section is one of the most important in the business plan, since and ear describe the organization of the enterprise operation and management team which is responsible for business venture.

Financial planning and analysis - This section of the business plan should include analysis of the planned profit and possible losses; plan for the movement of cash; Review and analysis of the revenues and expenses and others.



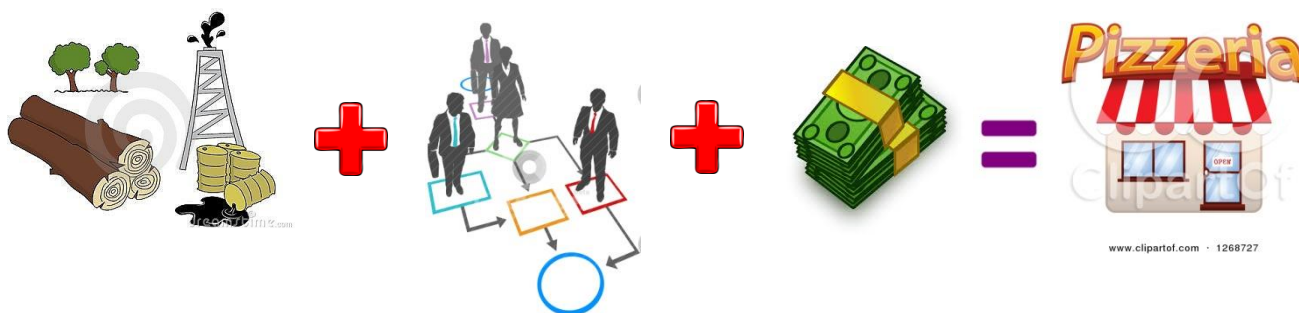
Accordingly, the business plan not only this is significant for development the possibility, this is a significant and successful management touch with the firm, as well as the efforts of entrepreneurs to be determined by the by and provide the necessary funds.

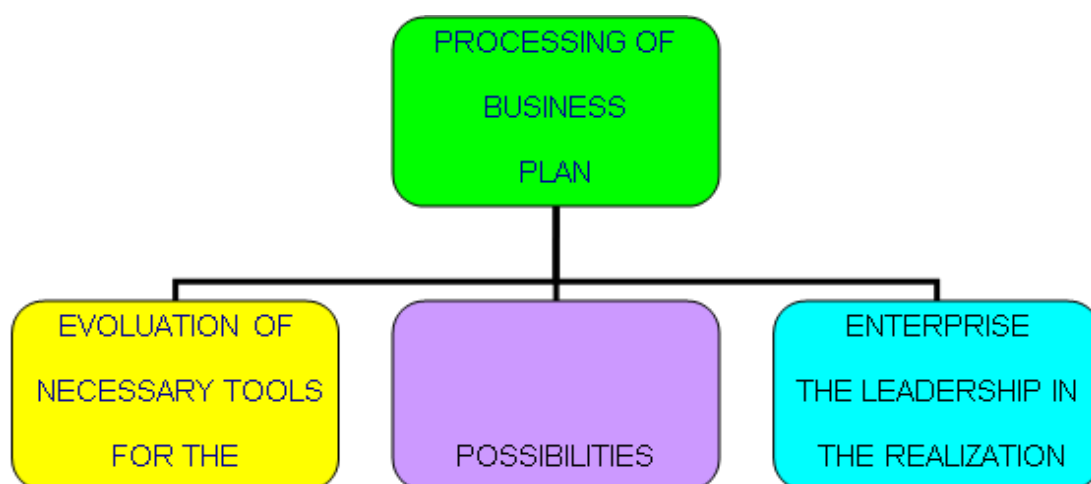
Determining the necessary funds. The third phase of the ,entrepreneurial process starts with an assessment of the resources that are at disposal entrepreneurs at a given moment and their comparison with the funds necessary that will he be necessary for conducting business.



Management of the company. The fourth and last phase of the entrepreneurial process, the actual refers to the management of the company. Ever since the business plan was made by entrepreneurs undertake activities to determine the manner of governance, and direct the activities towards achieving the goals. Then, entrepreneurs from the real organization of work so it organizes the

workers and funds in order to achieve the best result and the success of the enterprise. Also, at this stage entrepreneurs by admitting it to the establishment of control, so that provizes monitoring of all current and potential problems, as well as compared to those that's planned with the business plan and it this is achieved in practice.





3. DEFINING THE CONCEPT ENTREPRENEURS AND ITS CHARACTERISTICS

Entrepreneurs term ratings are from French word "entreprendre" meaning undertake or man who undertakes something (activity or project). Entrepreneurs are just people who want to keep all "thread" in their hands and control of the overall work. Have a great need for autonomy, has high valued individualism and freedom and their not rob of the rules, procedures and general socially norms.

Entrepreneurs will be defined as to man that is directed towards detecting opportunities and undertaking activities (risk) for their implementation, with reasonable use of resources.

When determining the characteristics of entrepreneurs by there are divided opinions and different opinions about it, which are the main features of the entrepreneurial behavior. However, there is, they were numerous and different, but following a few can meet in the large number of research dedicated in this area:

1/The desires for the first responsibility. Entrepreneurial by feels responsibility for the business potfatot which has permeated. He wants to control overall own resources and to use them to achieve the objectives.

2/ Undertake moderate risk. Entrepreneurs is not insued in the uncontrolled activities of business, but always be prepared for action in which a moderate and calculated risk.

3/Trust in their own ability to succeed. Entrepreneurial by possesses enormous confidence in their own skills and higher ability to succeed. It is striving to become optimistic and positively directed toward the work.

4/ Reacts the right time. Entrepreneurs correctly identify opportunities and react the right time and in a real way. Quickly and easily make decisions to adjust their con working conditions.

5/ Creativity and innovation. Without creativity and innovation can not imagine the character of entrepreneurs by. The ordinary affairs are looking at new and unusual in a certain way, Recognizing and a potential opportunity to develop the business. Inclusion

of the ability not to be able to perceive the in a different way, or that encourages creativity is a basic prerequisite for innovation to the process and innovation as its result in the form of new products, the mode of operation, organization, markets and other.

6/ Persistence. The business is connected to unforeseen and unplanned obstacles and limiting factors. Problems can be solved only with persistence. If entrepreneurs from is convinced in their own purpose with persistence and realize. If you experienced a failure, that the persistence he has maintained in the new attempt in finding out aware at the new, higher quality solutions.

7/ Vision. Entrepreneurial by always strives to see the result of the effort of Philosophy 'after a certain period, or to look his business for five or ten years. Vision how entrepreneurial traits presumed to involve keeping the good business opportunities, predicting the future aimed at monitoring the market conditions, the development of science and technology, general socially and political changes and the like.

On the other hand, there are also a few characteristics of entrepreneurs that can not be learned at, but constitute part of its congenital trait. These are: a huge energy to work and emotional stability; creativity and innovation; vision capabilities and high level of intelligence.

It should be emphasized that the personality of the entrepreneurs by is filled with character traits that were giving him vigor, resolve and safety at work and the decision-making. His courage in the conduct of the business and decision-making are dangers that jeopardize the success is the driving force of factors of the personality of entrepreneurs by.

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