MECHANICS

LEVEL-III

Learning Guide-70

Unit of Competence: Improve Business Practice

Module Title: Improving Business Practice

Module Code: XXXXX

LG Code: XXXXX

TTLM Code: XXXXX

LO1*: Diagnose the business*

Instruction Sheet	Learning Guide #70

This learning guide is developed to provide trainees the necessary information regarding the following **content coverage** and topics:

- Identifying Sources data
- Determining and acquiring data required for diagnosis.
- Conducting Value chain analysis.
- Undertaking SWOT analysis of the data.
- Determining Competitive advantage of the business.

This guide will also assist you to attain the learning outcome stated in the cover page. Specifically, **upon completion of this Learning Guide, you will be able to**:

- Identify Sources data
- Determine and acquire data required for diagnosis.
- Conduct Value chain analysis.
- Undertake SWOT analysis of the data.
- Determine Competitive advantage of the business

Learning Instructions:

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described below 1 to 3.
3. Read the information written in the information "Sheet 1

1. Introduction

As a small business owner, you're constantly presented with opportunities to get better. To increase your company's productivity, try different method to improve business operations.

The business diagnosis is a methodology of company valuation that allows an in-depth analysis of the main areas of management of a business. With a deeper understanding of the organization, it is possible to solve problems in a practical way and directed to what really matters and without spending time on little relevant items.

1.1. Determine and acquire *data* for diagnosis (analysis)

- Organizational diagnosis is a very important issue in the field of Organizational Development and Change.
- It is often the case in studies that organizational change management comes down to answering three questions:
  - Why (the causes of change),
  - Wow (the process of change) and
  - What (the content of change) (Pettigrew, 1987).
- Organizational diagnosis should provide the answer to the first and third questions, and answer the following:
  - Why should the organization be changed?
  - What should the content of change include, i.e. what should be changed in the organization?

    Therefore, the diagnosis is given great importance in published writings in the sphere of organizational change.
- Organizational diagnosis is a method used for analyzing the organization in order to identify organizational shortcomings so they would be neutralized through organizational change.
- Organizational diagnosis is a concept related to the concept of organizational analysis, and it is necessary to make a distinction between them at the very beginning.
- Organizational analysis is in many ways similar to organizational diagnosis, but there are some important differences.
- The main resemblance between organizational analysis and organizational diagnosis lies in the fact that both methods are focused on understanding the organizational content,

- i.e. on identifying the elements of organization and their nature, as well as the relations between them.
- Both methods start with certain organizational models and use very similar, or exactly the same,
- Techniques for data collection and processing.

- The key difference between organizational analysis and organizational diagnosis is their aim: the aim of organizational analysis understands **the organization for the purpose of its exploration (investigation)**, **while** the aim of organizational diagnosis understands **the organization for the purpose of changing and improving it (action).**
- It could be said that organizational diagnosis is a specific form of organizational analysis – a form focused on the performing of organizational change for the purpose of improving organizational performance.
- When it comes to organizational diagnosis, studies in the area of Organizational Development and Change are preoccupied with three main issues:
  1. Development of organizational diagnostic models;
  2. The choice of procedures and methods for data collecting in diagnosis; and
  3. Methods and techniques of data processing and making conclusions.
- Let deal with the first issue – development of diagnostic models. The diagnostic model is a model of an organization that identifies its main components and relations between them for the purpose of understanding the organization as an object of change.
- The main role of diagnostic models is to provide understanding of the organization and the effective action within it by simplifying the reality. Hence, the main distinctive (unique) feature and main advantage of diagnostic models is **one-sidedness and simplicity**.
- However, the main advantage of diagnostic models is, at the same time, also their main disadvantage. **By overlooking other important dimensions of the organization, except the one addressed by the specific diagnostic models, we become "prisoners" of our own model, and thereby of just one perspective.**
- There is an old saying among the consultants: "**If you hold a hammer in your hand, every problem will look like a nail.**" The content, the scope and the character of organizational changes are, therefore, always determined by the diagnostic model used by the agent of change. If the model is focused on the wrong dimension of the reality, then the action, i.e. the change, will also be wrong.

- The two main areas of organizational sciences are
    - Organizational Design, which explores structures and systems, and
    - Organizational Behavior, which explores the behavior of people in organizations.
- All the organizational components into two categories: static and dynamic components.
    - **The static components** of an organization are those elements that are, in their nature, states, while dynamic components of an organization are those elements that are, in their nature, processes.
    - Static components of an organization involve all the states of organizational elements, regardless of whether they refer to hard, or formal, elements of an organization (structure, systems) or to soft, or informal, elements of an organization (organizational culture as a system of shared values, informal groups, power structure).
    - **Dynamic components** of an organization involve all the processes within the organization, regardless of whether they refer to the processes that are a part of the formal, or hard, elements of an organization (business processes) or of the soft, or informal, elements (leadership, conflicts, motivation).
    - The diagnostic organizational models, well-known and used both in studies and in practice of organizational change, are dominated by static elements, while dynamic elements are less present and mainly in case when it comes to the soft components of an organization.
    - Motivation and leadership are present in a vast number of diagnostic models, while in a smaller number of models, informal processes, such as conflict management, etc., can also be found.

	FORMAL - HARD COMPONENTS	INFORMAL – SOFT COMPONENTS
STATIC COMPONENTS	DESIGN: Organizational structure, systems	BEHAVIOR: Culture, informal groups, power structure
DYNAMIC COMPONENTS	BUSINESS PROCESSES	INTERPERSONAL PROCESES: group processes, leadership, conflicts, political processes, communication

Figure 1. Organizational components

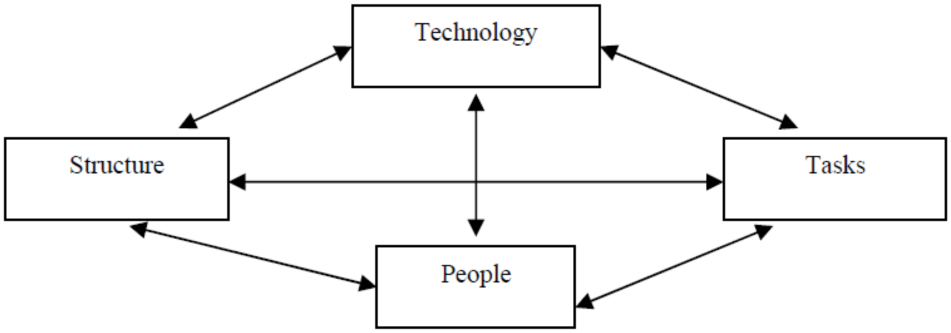


Figure 2. Leavitt's diagnostic organizational model

Source: Leavitt (1965).

- The successive important diagnostic model is known as model 7S, and was created by Peters and Waterman, who are the authors of a once very popular and influential book *In Search of Excellence* (Waterman et al., 1980).
- Model 7S, are the following:
    1. **S**trategy;
    2. **S**tructure;
    3. **S**ystems;
    4. **S**taff;
    5. **S**tyle;
    6. **S**hared Values;
    7. **S**kills.

- Most models include the following elements into organizational diagnosis:
    1. Environment: including market, technological, social;
    2. Purpose (mission): organization and its strategy;
    3. Organizational arrangements: organizational structure, systems, procedures, policies;
    4. Social relations: human relations, culture, informal communication;
    5. Technology;
    6. Physical conditions: location, floor plan, working conditions;
    7. Results: productivity, profit, sales.
- The following diagnostic model is the most complex of all that have been shown here and it is also the most comprehensive one. It seems that its complexity is so huge that it makes it impossible to practically use this model for managing the organizational change. Still, this is a very interesting model since, besides balancing of the hard and the soft organizational elements; it also includes organizational differentiation on three levels:
    - organizational,

- group and
- Individual

- In order to include business processes in organizational diagnosis, it is necessary to complete two tasks.
  - **The first one** is relatively simple and consists of including the business processes into the diagnostic model together with other organizational components. One of the possible ways of including business processes into the diagnostic model, shown in Figure 5. This diagnostic model contains basic organizational components that, more or less, appear in all other diagnostic models: environment, mission, strategy, structure, systems, culture, etc.
  - In this model, an organization consists of four basic components – **two static** and **dynamic**, and **two formal** and **informal components**.
  - **Static components** are organizational design (formal component) and organizational behavior (informal component).
  - **Dynamic components** are **business processes** (formal component) and **interpersonal processes** (informal component).
  - Organizational design and organizational behavior is the framework within which business and interpersonal processes that lead to performance take place.
  - The organization, with all its components, emerges from the mission, vision, goals and corporate strategy that create a balance between the requirements of the environment and company resources.

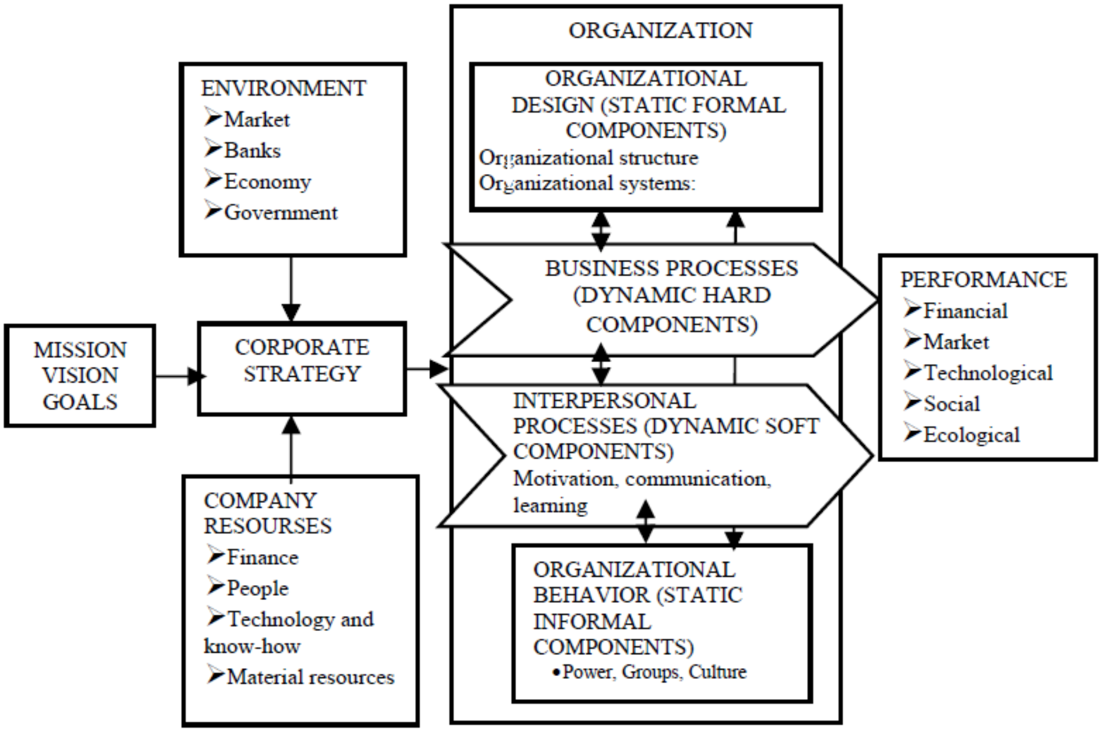


Figure 3.Diagnostic model of an organization (including business processes)

- **The other task** that needs to be completed, in order for business processes to be really incorporated in the process of organizational diagnosis and organizational change, is showing how business processes are identified, classified, analyzed, evaluated and improved.

BUSINESS PROCESSES AS A PART OF ORGANIZATIONAL DIAGNOSIS

In order for business processes to be included into the organizational change diagnosis and management, it is necessary to first define, identify, and classify the business processes.

Defining, Identifying and Classification of Business Processes

- **Business processes** are a set of interrelated activities, initiated by a certain event, which achieves a specific output for the consumer (Oakland, 1995). This definition contains several key guidelines for business process understanding.
- The processes achieve a certain *result*, or *output*. Therefore, in order for a set of activities to be treated as a process, it must have a clearly defined result. Each **business process has its *user*, or *consumer*.**
- It is important to notice that a user, or consumer, of a business process may be internal as well as external. Besides the end result, or output, every business process also has its *beginning*.

- It is always caused by some event.
- Business processes consist of a range of
- *Activities*,
- *tasks*,
- *steps* and
- *Phases*.
- Activity is the basic component of a process. It represents a unique, completed working task conducted by **one person, a team, or a machine**.
- Business processes represent a set of *interrelated activities*. Therefore, activities that make the process cannot be just any activities.
- **The first step** of business processes diagnosis is
  - To identify and classify business processes in a company. In order to analyze the business processes and their performance, we must first identify and group them into certain categories. Hence, business processes must first be recognized in a specific organization and classified into certain categories.
  - **Michael Porter** was the first author who provided a conceptual framework for identification and classification of business processes, and practically conceived the idea of business processes with his value chain concept (Porter, 1985).
  - Porter distinguished between primary processes and support processes. **Primary processes** are those that directly transform inputs into outputs (procurement, logistic, production, sale), **while support processes** are those that provide support to primary processes (finance, information technology, research and development).
  - **John Galbraith** gave a somewhat different picture of the value chain (Galbraith, 1998). He divided all processes into three groups. Processes at the back of the value chain include all the processes that are related to production, technology, product development, etc.
  - Processes at the front of the value chain are those that have a direct user – external consumer.
    - Processes in the middle of the value chain are the so-called infrastructure processes that have internal users, and that serve as a support to processes at the back and at the front of the value chain.

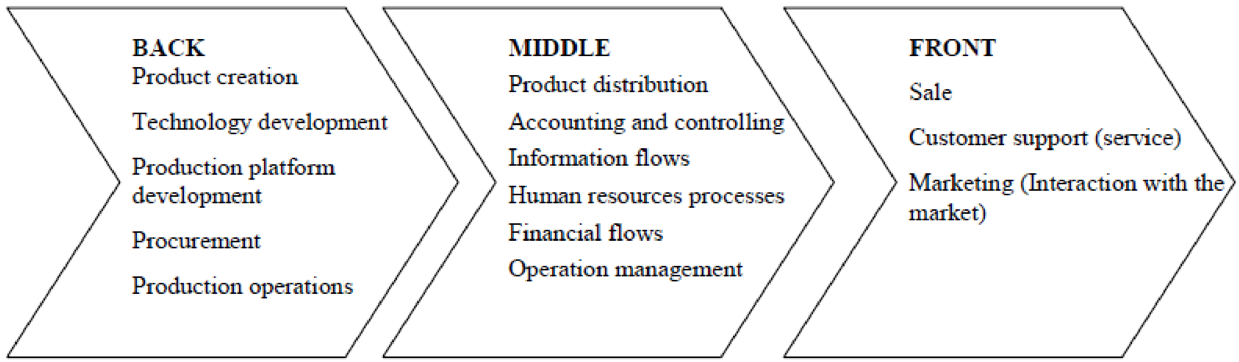


Figure 4.Business processes classification

- The first step in process analysis is to clearly identify and determine the business processes in a specific organization, as well as to classify those processes, i.e. to group them into **back, middle** and **front** parts of the value chain, or into primary and supporting processes.
- The identification and classification of business processes, as the first step of the process of their diagnosis and improvement, should be conducted by a team of experts that will include the, division or department managers, as well as some experts from different divisions or departments.

Analysis and Evaluation of Business Processes

- Once business processes are identified and classified, it must be determined by which criteria they will be analyzed and evaluated.
- What do we need to know about a business process in order to be able, from an organizational performance improvement standpoint, to evaluate it and, in accordance with this evaluation, determine the necessary change within the process?
- According to our diagnostic model, for each business process, the following parameters should be identified and analyzed:
    - the owner and the participants in the process,
    - criteria for process structuring,
    - key performance indicators of the process,
    - organizational competence for conducting the process,
    - contribution of the process to the value added for the consumer,
    - weaknesses and problems in the process,
    - directions for the business process improvement, and
    - Priorities for business process improvement.

A. *The owner and the participants in the process.*

- This is a position in an organization that to the largest extent controls the functioning of the process and influences its result the most. Logically, in most cases, this is the manager of the organizational unit where most activities of the process are taking place, although it is not necessarily so. It may be the case that the real influence on a business process comes from an organizational position which is not scheduled by organizational structure.

B. *Criteria for process structuring*

- Business process structuring indicates the way in which its activities are arranged within the structure, i.e. the principle according to which the positions and units that perform these activities are structured, or grouped within the structure.
- Each business process may be structured in three ways.
  - Leverage
  - Focus
  - import process
- **Leverage** is a structuring principle according to which a business process is organized in such a way that all its activities occur in one place in the organization, i.e. on one organizational position or in one organizational unit. By the incorporated completion of all business process activities, the economy of scale and the most rational usage of company resources are achieved.
- **Focus** is a process structuring principle where the process activities are conducted separately for each product or each customer (user). This means that all or individual activities of the process are conducted parallelly on several organizational positions, or in several organizational units whereby each unit performs process activities for a specific product or a specific user. This contributes to achieving a better adaptation of the process to the particularities of a product, or a user, and thus increases the value that the process creates for the user. Finally, a process may also be structured by a combination of focus and leverage, whereby a part of the process is structured according to the leverage principle, and the other part according to the focus principle. The import process is structured according to the leverage principle because it is performed uniquely for all collections of the imported floor finishing.

C. *Key performance indicators (KPIs)*

- For each business process, a parameter according to which it is possible to measure its performance must be identified. It must be a measure that can be quantified in order for us to be able to monitor and control the movement of process performance.
- It is not always easy to identify process performance indicators, especially when they must be quantifiable. It is easy, for example, to find performance indicators for the retail process in our example:
  - Amount of sale,
  - conversion rate,
  - price difference,
  - average invoice value,
  - customer satisfaction index,
  - Professional buyers' evaluation, etc.
- It is much more difficult to find the parameter to evaluate the successfulness of the candidate selection process or staff education and training process.
- In that case, evaluations given on subjective ground are often used, but they are still quantifiable: evaluations of the work performance of a new employee may be the indicator of successfulness of the candidate selection process, and professional buyers' evaluation may be the indicator of successfulness of retail staff training and education.

D. Performance indicators are, above all, necessary for the monitoring and evaluation of the successfulness of an organization in process improvement.

E. *Competence for performing the process*

- For each business process, it is useful to evaluate to what extent the organization is competent to perform it. Simply put, in business processes diagnosis, each organization should, for each process separately, ask the following question:
- Do we know how to do it, or not? For the purpose of business processes analysis, it is useful to evaluate the competence for each process and thus provide some quantification. The evaluation score can range from 1 to 5, or be expressed as –1, 0, or +1, where mark –1 is given if the company has estimated that its competence is lower in comparison with the competence of its rivals or below industry average, mark 0 is given if its competence is on the same level as the competence of its rivals or equal to

industry average, and mark +1 is given if it is above the competence of its rivals or above industry average.

- Once the competence for each process is evaluated, it becomes clear which processes need to be worked on and in what area efforts need to be invested to improve the competitive position of the company.

F. *Contribution of the process to the value added for the consumer (buyer).*

- Not all the processes are equally important for the success of the company because not all of them participate equally in creating the value for the end consumer or buyer.
- By evaluating the contribution that a process gives to creating value added for the consumer, business processes are actually being classified according to their importance, and those that are critical for the success of the company are being identified.

G. *Shortcomings and problems in functioning of the process*

- This is the most important step in business process diagnosis because it needs to show why the business process performances are not optimal. In this part of the diagnosis, all barriers, shortcomings or problems that interfere with business process functioning need to be identified.
- These problems or barriers can be internal or external in nature. The organization should focus on the **internally caused problems** and thus work on solving them. The nature of the problems in processes may be very different.
- This can be reflected in the following:
    - lack of resources needed for business processes performing (e.g., lack of personal computers, trucks, warehouse space),
    - inadequate information system (inadequate software for controlling),
    - lack of competence of managers or employees (poor work performance of sales personnel in retail shops),
    - inadequate human resources and human resources management (insufficient number of employees, inadequate training and education, poor motivation and dissatisfaction of employees, poor performance appraisal, inadequate reward system),
    - poor organization (low process formalization, inadequate unit structuring that raises barriers in process functioning, inadequate or unnecessarily high

specialization in work tasks, inadequate distribution of decision-making authority within the process, poor coordination of participants in the process), and

- Process problems (non-transparency of the process, poor discipline of participants in handling of activities within the business process).

- It is very important to identify all the weaknesses and barriers in the functioning of business processes, regardless of the fact that they will all be resolved.

H. *Directions for business process improvement*

- ➢ The natural ending of business process diagnosis is identifying the basic directions for the improvement of its performance. If the previous step in diagnosis has been completed in a good quality manner, this step should be very simple.
- ➢ It is necessary only to establish the way in which the shortcomings and barriers in business process functioning, identified in the previous step, will be solved or neutralized.

I. *Establishing priorities for business process improvement*

- Finally, for each process, it is necessary to establish priorities in the improvement plan. Since company resources are always limited, and this above all concerns time and top management's attention, it is almost never possible to engage in the improvement of all processes at once.
- In reality, it is necessary to choose processes that will be improved before all others.
- The criteria for setting the priorities would be the contribution of the process to creating value added for the consumer (the significance of the process), as well as the difference between the existing and the target competences within the business process functioning (difficulty of the process).

ELABORATION OF ACTION PLANS FOR PROCESS IMPROVEMENT

- Even though it is not a part of the organizational diagnosis, elaboration of the action plan will be presented in short here because it is a natural step further toward effective organizational change management.
- Once drawbacks and barriers to efficient improvement of all business processes are identified, it is necessary to draft a plan of changes for each individual process.
- Since the main directions of business processes improvement were identified in the preceding steps, these plans need to set in concrete detail the necessary changes in each individual process.
- As opposed to the previous step which was performed by the leading expert team for all business processes, this step has to be taken for each individual process separately and by a separate work team.
- The team leader should certainly be the person/position marked as the owner of the process undergoing enhancement, and the team should be made up of his closest associates since they are most likely to be responsible for the implementation of the action plan.
- The most important part of the action plan is the concrete measures and activities to be undertaken for the enhancement of the business process and its performance.
- The process approach assumes planning any kind of changes for the purpose of process enhancement. Hence, the activities in the business process improvement must not be limited to redesigning organizational structure only, but can and often do comprise:
    - Changes in systems (system of wages, information system, planning system),
    - procedures (goods ordering procedures, customer complaints resolution procedures, procedure for damage reports of the premises),
    - Resources (filling job positions, refurbishment of premises),
    - strategies and
    - Policies (price policy, purchasing policy).

Finally, the action plan of business process enhancement can be summarized by the following figure.

BUSINESS PROCESS ____________________

Business process	
Drawbacks	
Directions of improvement	
Key performance indicators	
Process owner	
Priority	

Activity	**Responsible position or position in charge**	**Realization due date**	**Performance indicators**	
			Current	**Target**

Process improvement action plan

- Finally, it should be noted that organizational diagnosis and action planning are just the first phase within the process of organizational change management. Further steps would include an implementation of the action plan for business processes improvement as well as monitoring and control of business processes improvement.
-

1.2. Undertake *SWOT analysis* of the data

- ***SWOT analysis*** an examination of an organization's internal strengths and weaknesses, its opportunities for growth and improvement, and the threats the external environment presents to its survival.
- SWOT analysis is a precursor (originator) to strategic planning and is performed by a panel ofexperts who can assess the organization from a critical perspective.
- This panel could comprise(consists of):
  - Senior leaders,
  - board members,
  - employees,
  - medical staff,
  - patients,
  - community leaders, and
  - Technical experts.

Steps in SWOT Analysis

- The primary aim of strategic planning is to bring an organization into balance with theexternal environment and to maintain that balance over time (Sackett, Jones, and Erdley2005). Organizations accomplish this balance by evaluating new programs and serviceswith the intent of maximizing organizational performance.
- SWOT analysis is a preliminary decision-making tool that sets the stage for this work.

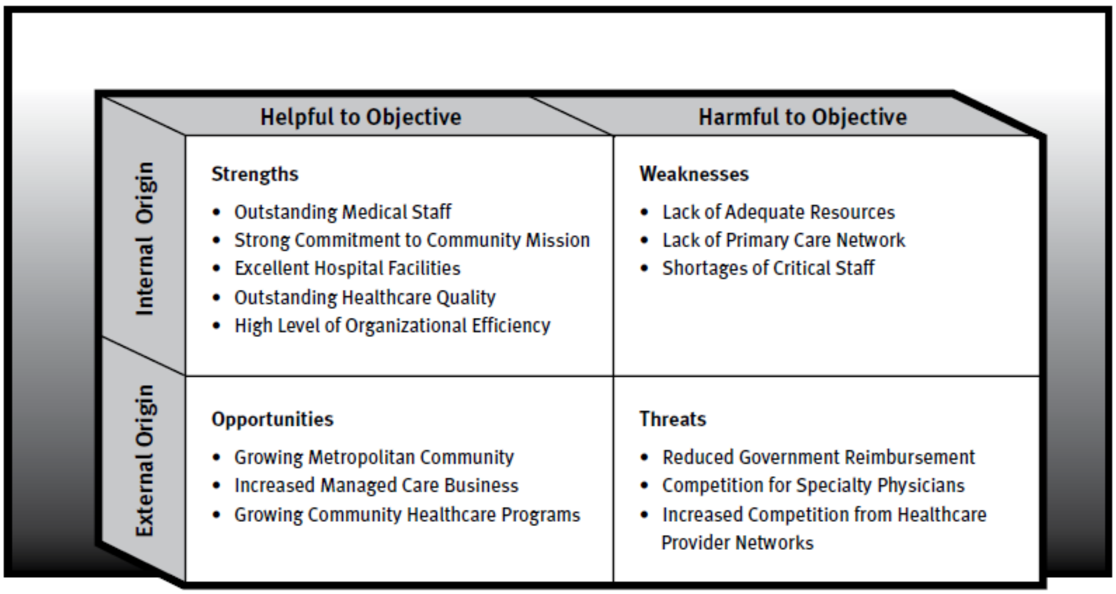
Strengths	Weaknesses
• **Consistent quality:** We consistently produce plants with high active botanical percentages. • **Saleable plants:** We produce a high ratio of healthy (saleable) plants. • **Experience:** Co-owners have a strong combination of business development and horticulture experience.	• **Lack of funding:** We will need to borrow $100,000 in funds for the first year. • **No reputation yet:** We haven't established ourselves as a reputable grower in the botanicals market yet.
Opportunities	**Threats**
• **Customer loyalty:** Customers are looking for an ongoing relationship with one botanicals vendor. • **Growing market:** The market for supplements is huge and growing.	• **Weather:** A poor growing season due to changes in weather can seriously affect production. • **Pests:** Pests are a threat to our ability to provide healthy plants. • **Similar-sized farms:** Some similar-sized farms have been in business longer.

Step 1

- Of SWOT analysis involves the collection and evaluation of key data. Depending on the organization, these data might include population demographics, community health status, sources of healthcare funding, and/or the current status of medical technology. Once the data have been collected and analyzed, the organization’s capabilities in these areas are assessed.

Step 2

- Of SWOT analysis, data on the organization are collected and sorted intofour categories:
    - Strengths,
    - weaknesses,
    - opportunities, and
    - Threats.
- **Strengths and weaknesses** generally stem from factors within the organization, whereas **opportunities and threats** usually arise from external factors. Organizational surveys are an effective means of gathering some of this information, such as data on an organization's finances, operations, and processes.



Step 3

- Involves the development of a SWOT matrix for each business alternative under consideration.

Step 4

- Involves incorporating the SWOT analysis into the decision-making process to determine which business alternative best meets the organization's overall strategic plan.

Strengths

- Traditional SWOT analysis views **strengths** as current factors that have prompted outstanding organizational performance.

Weaknesses

- **Weaknesses** are organizational factors that will increase healthcare costs or reduce health care quality.
- Other common weaknesses include:
    - poor use of healthcare informatics,
    - insufficient management training,
    - a lack of financial resources, and
    - an organizational structure that limits collaboration with other organizations.

Opportunities

- Traditional SWOT analysis views **opportunities** as significant new business initiatives available to an organization. Examples include collaboration among organizations through the development of technology delivery networks.

Threats

- **Threats** are factors that could negatively affect organizational performance.

  Examples include
    - political or economic instability;
    - Increasing demand by patients and physicians for expensivemedical technology that is not cost-effective;
    - increasing state and federal budget deficits; agrowing uninsured population; and
    - Increasing pressure to reduce technology costs.

1.3. Determine *Competitive advantage* of the business from the data

- Panel members base their assessments on utilization rates, outcome measures, patient satisfaction statistics, organizational performance measures, and financial status. While based on data and facts, the conclusions drawn from SWOT analysis are an expert opinion of the panel.

To have a successful business enterprise you must Entrepreneur

Entrepreneur

- A person who sets up a business or businesses
- Anyone who exhibits the characteristics of self-development, creativity, self-decision making and risk taking.
- Entrepreneurs are people that observe opportunities and take the initiative to mobilize resources to make new goods and services.

What is Entrepreneurship?

- Refers to an individual's ability to turn ideas into action.
- Enables people to think creatively and to be an effective problem solver.

Five elements of entrepreneurship

- observing the environment,/ Identifying Gaps.
- identifying opportunities,
- gathering the necessary resources,
- implementing the activity
- receiving rewards for engaging in the activity.

Entrepreneurial Functions in Business

- **Identify gaps in the market** and turn these gaps into business opportunities.
- **Finances and mobilizes resources** for the business
- **Organize and manage** the business
- **Tolerate the doubts and risks** of the business.
- **Encourage competition**, which is critical in sustaining a free market system and promotes economic growth, social progress and the spread of prosperity among a country's population.

Roles of Entrepreneurship in Business

Improve the business environment by:

- Creating jobs

- Promoting free enterprise
- Promoting healthy competition
- Generating wealth
- Spreading prosperity (financial success)
- Ensuring innovation and creativity
- Encouraging grass roots development (the most basic level of an activity or organization. ordinary people regarded as the main body of an organization's membership)
- Improving social and community conditions
- Promoting economic growth

Personal efforts to be an entrepreneur

- Working long hours
- High energy
- Sacrificing other important aspects of life
- Limited social life
- Less time with family and friends
- Large financial investment

Importance of Entrepreneurship

- Employment creation
- To use Local resources (which is import substitution)
- Decentralization and diversification (enlarge or vary its range of products) of business
- Promotion of technology
- Capital formation
- Promotion of an entrepreneurial culture
- protect natural resources

Characteristics of an enterprising (creative) Society

- Useful goods and services constantly produced/provided
- Wide distribution of needed goods and services throughout the population
- New ideas continuously infused for revitalization (renewal) and growth of the economy
- Continuous discovery of unidentified needs of society.
- Constant solving of problems experienced in society

- Avoids stagnation through giving individuals a chance to be innovative and creative
- The present and future availability of natural resources and conservation of nature are guaranteed

Ten Deadly Mistakes of Entrepreneurship Business entrepreneurship fail because:-

- Management Mistake
- Lack of Experience
- Poor financial control
- Weak marketing efforts
- Failure to develop a strategic and effective plan
- Uncontrolled Growth
- Poor location
- Improper inventory control
- Incorrect or unsuitable pricing
- The inability of to move into entrepreneurial thinking (mindset)

How to avoid failure in a Entrepreneurial business?

- Know your business in depth.
- Manage your financial resources effectively.
- Have a systematic and complete financial statement.
- Learn hire and manage people effectively.
- Keep physically fit, consume healthy foods, and avoid addictive consumption cigarettes and alcohol.
- Develop a good, effective and solid Business Plan.

Entrepreneurial skills

- communication skills, especially persuasion;
- creativity skills;
- critical thinking and assessment skills;
- leadership skills;
- negotiation skills;
- problem-solving skills;
- social networking skills; and
- time-management skills

Sources data is identified; data required for diagnosis is determined and acquired based on the business diagnosis toolkit

ASSESSING AND SELECTING BUSINESS OPPORTUNITY

What is a Business Opportunity?

- A business opportunity may be defined simply as an attractive investment idea or proposition (intention) that provides the possibility of a monetary return for the person taking the risk.
- Such opportunities are represented by customer requirements and lead to the condition of a product or service which creates or adds value for the buyers or end-users.

Characteristics of a good Business Opportunity

- Real demand
- Return on investment
- Availability of resources and skills
- Meet objectives
- Be competitive (strongly desiring to be more successful than others).

Distinction between ideas and opportunities A good idea is not necessarily a good business opportunity. Consider, for example, that over 80% of all new products fail.

So, what turns an idea into a business opportunity?

- To put it simply in economic terms, Income must exceed Costs to earn a Profit.
- The characteristics of a good business opportunity need to be carefully examined.

Assessing Business Opportunity?

- Ideas and opportunities need to be screened and assessed for feasibility once they have been identified.
- Identifying and assessing business opportunities involves, determining risks and returns reflecting the following factors:
- Industry and market
- Length of the 'window of opportunity'(opportunity to do something that will only be available to you for a short time)
- Personal goals and competencies of the entrepreneur
- Management team
- Competition

- Business environment
- Capital, technology and other resource requirements

Opportunity seeking exercise

1.In your respective group take one location/community and list a number of problems in that specific area.

2. In the same location list unutilized/ underutilized resource.

3. Just by looking these problems and unutilized/ underutilized resource try to find out any business opportunity.

Stimulating Creative Thinking

Meaning of Creativity

- Creativity is the ability to design, form, make or do something in a new or different way.
- Creativity is the ability to come up with innovative solutions to problems and to market them
- Creative imagination is the key factor here, not necessarily logical thinking.
- An entrepreneur's creativity is often the difference between success and failure in business.
- To be creative, entrepreneurs need to keep their mind and eyes open to their environment

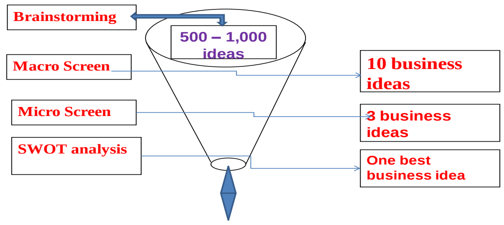
Four rules for brainstorming

- Don't criticize or judge the ideas of others Freewheeling is encouraged
- Ideas that seem to be wild or crazy are welcome.
- Quantity is desirable – the greater the number of ideas, the better Try to combine and improve upon the ideas of others.
- Combine and improve upon the ideas of others

Brain storming exercise Instruction Generate 500 -1000 Business Ideas

Screening Business Ideas

Funnel model



- **Macro Screening Criteria**
    - ❖ First stage screening of product ideas
    - ❖ Marketability /demand/,
    - ❖ Know-how,
    - ❖ Financial ability of the entrepreneur, (at least 20% of the estimated project cost)
    - ❖ competition

Micro Screening Criteria

No	Project idea	Availability of demand	Availability of raw materials	Availability of technology	Availability of qualified personnel	Total	Competitors	Corrected total	Critical success
		+	+	+	+	=	-	=	
1									
2									
3									
4									
5									
6									
7									
10									

SWOT Analysis framework

Strength	Weakness
Opportunity	Threats

Strength

- Managerial Experience
- Low cost production
- Good customer handling
- Availability of assistance
- Sufficient capital
- Unique Production

Opportunity

- Few and weak compotators
- Favorable Government policy
- Availability of chip raw materials
- Increasing income of targeted market
- Low interest loan
- Availability of technical support

Weakness

- High cost of production
- Shortage of inventory
- Poor customer handling
- Shortage of capital
- Poor production quality

Threats

- Natural disaster
- Change Government policy
- Shortage of raw materials
- Change In customers test

Money needed to start an Enterprise and its sources

Estimating the Start-up Capital

- If someone wants to start a business he/she must be aware that a certain amount of money is needed during the start-up process of a business for making payments before the business begins to generate enough sales income.
- This money is called start-up capital. It serves two purposes

1. Pre-operation payments or investment capital

- This is money that a person starting a business will have to pay before the business starts operating.
- It includes buying land, constructing a workshop, purchasing machinery, tools, equipment, office furniture, legal fees, utility connections for water, electricity and telephone, publicity and advertising, etc.

2. Initial operation payments or working capital

- It will occur when a new business starts to operate, to cover immediate expenses until revenues from sales flow back into the business.
- This time span depends on the nature of the business.
- Working capital should also include additional funds for unforeseen expenses.(expenses that was not expected to happen)

Sources of Business Financing

- There are two primary sources of financing to establish a business.

Equity financing

- It is the money that the owner puts into the business.
- It is the owner's investment in the business.
- The main sources of equity financing for most entrepreneurs are:
  - personal savings
  - Family and friends
  - Partners
  - corporation

Debt financing

- Credit or debt financing obtained from: Banks, finance companies, governments agencies (with loan schemes), trade credit and microfinance institutions
- The lender must sense that the business owner has a personal commitment and involvement in the business.
- This personal commitment includes the time, energy and money the owner is willing to contribute to the business.
- Lenders will usually review a business plan very carefully to lend money.

Criteria for evaluating loan sources

To determine the best source for raising capital needed in a particular situation, the following five questions should be considered.

1. Cost: What are the benefits of a loan in relation to its costs?
2. Risk: Which loan source exposes the business to the lowest degree of risk?

3. Flexibility: Will conditions imposed by a loan source reduce flexibility in seeking additional capital, or in using capital generated through operations according to the owner's best judgment?

4. Control: Could the owner's control of the business be adversely affected? Could the loss of control prevent the entrepreneur from making operating decisions that are in the best interests of the business?

5. Availability: Which financial sources are available to the business?

Selecting a Suitable Market

What is a market?

- An area in which commercial dealings are conducted to purchase and sale of commodities.
- The market for a business is all the people within a specific geographical area who need a specific product (goods or service) and are willing and able to buy it.
- Every business sells some type of product (goods or service) to people. Potential customers can be described as: (People who need or want, are able to buy and willing to buy the product)
- Competition must be considered.
- It should also be determined how the product or service is unique and different from that of the competitors

What should entrepreneurs know about potential customers?

- Know the customers: the market can be segmented either by dividing it into significant buyer groups.
- Know different customer groups wants: decide what products or services each group wants or needs.
- Know where the customer buys: Entrepreneurs need to find out where the customers in their market are now buying, & verify what factors will cause them to switch and buy from their new businesses.

- Know when the customer buys: by knowing when customers buy (daily, weekly, monthly, yearly, seasonally), entrepreneurs will be able to determine when to advertise and quantity of merchandise to have on hand at specific times of the year.
- Know how the customer pays: knowing how the customer pays for products and services can help the entrepreneur to determine a credit policy for the business.

Customer information can be obtained from:-

- Trade associations
- Publications
- Chambers of commerce
- Government agencies
- Newspapers and magazines, and
- Individual research by conducting a market survey in the community**.**

What is market research?

- ❑ It is the systematic design, collection, analysis and reporting of data and findings relevant to a specific marketing situation facing the organisation.
- ❑ Market research should also identify trends that may affect sales and profitability levels like population shifts, legal developments, local economic situation, competitors activity, etc,

Definition of 'Four Ps'

The categories that can be controlled in the marketing of a good or service: **product, price, place and promotion.** The four Ps, often referred to as the marketing mix, are all constrained (controlled) by internal and external factors in the overall environment.

Designs made in the "product" component determine the name, design and packaging of the good.

"Price" involves the cost of the good and if volume or seasonal discounts will be offered.

"Place" decisions outline where the product will be sold and how it will be delivered to the market. "Promotion" involves advertising, public relations and promotional strategy.

Product mix

- anything that satisfies the need and wants of customers.
- a bundle of tangible and intangible attributes which satisfy the needs and wants of customers.

- in today market, a product can be an, organization, ideas, objects, services, place, or mixes of these elements.

Price mix

- is the amount of money consumers have to pay to obtain the product.
- determining price levels and/or pricing policies (including credit policy) is the major factor affecting total revenue.
- generally, higher prices mean lower volume and vice-versa; however, small businesses can often command higher prices because of the personalized service they can offer.

Place/distribution mix

- includes enterprise activities that make the product available to target consumers.
- the purpose of distribution is to move the right amount of the right product using the right channel to the right place at the right time.
- manufacturers and wholesalers must decide how to distribute their products.
- the nature of the service is also important in location decisions.

Promotion mix

- enterprise activities that communicate the merits of the product and persuade target customers to buy it.
- this marketing decision area includes advertising, sales promotion , public relation and salesmanship.

Know Your Competitors

Competition must be expected when initiating a business, but having too much competition is an unnecessary risk. It would be better to select a different type of business if there is too much competition.

You must know your competitors as well as you know your customers. Business rewards come from being better than your competition.

The best way to do that is to know who your competitors are and how they operate.

Selecting a Business Location

- Selecting the business location is one of several factors which is vitally important to the success or failure of a small business
- To increase the chances of success, it is important that considerable thought and research be given to selecting a location.
- It should be emphasized that although a good location may allow an average business to survive, a bad location may spell failure for even the best planned business.
- Such factors as changing population, changes in customer buying habits, proximity to transportation facilities, proximity to customers, size of the community, and availability of facilities can adversely affect the suitability of the business location.

Two basic aspects of selecting a location for a business are:

  - deciding on a particular community, and
  - selecting a particular site within that community.

- Location is more important for some types of businesses than for others.
- The right location is very important for retail stores/facilities and service businesses.
- Manufacturing, construction and some of the other services are not interested in attracting customers on the basis of the firm's location.

Factors to be considered when selecting a business location are:

1. ECONOMICS

- Why do people live in the area?
- What is their standard of living?
- Why are other businesses located in the area?
- What is the average family income?
- What are the income levels (low, medium, high) in the area?
- What are the employment/unemployment trends?

2. POPULATION

- Entrepreneurs should identify the groups of people who will be their customers.
  - How stable is the area?
  - Do people move in and out regularly?
  - Is the population growing or declining?

If the area is rapidly growing, there will probably be a large number of young families.

- Are there sufficient potential employees available who have the skills needed to operate the business?

3. COMPETITION

- Entrepreneur must study his/her competitors by gathering info on their strengths and weaknesses.
- He should know how many competitors he has and where they are located.

There are three favorable conditions for opening a new firm.

- No competitors are located in the area.
- Competitors' businesses are poorly managed.
- Customer demand for your product is growing.

Managing Sales

- **Characteristics of Successful Salespersons**:
  - Results Oriented
  - Highly Motivated
  - Self-Confident
  - Professional Appearance
  - Honest
  - Knowledge of Products
  - Good Listener
  - Enthusiastic (eager)
  - Pleasing Personality
  - Communicator
  - Sociable
  - Courteous (well mannered)
  - Qualities of Potential Customers

Successful selling depends on the entrepreneur's ability to:

- Attract the buyer's attention.
- Determine customers' needs, wants, problems and goals.
- Show how the product or service will satisfy those needs.
- Work out the problems that prevent customers from buying.
- Ask for the customers' business.

The Product Life Cycle

- The concept of the product life cycle describes the stages (or courses) a new product goes through in the market place.
- In other terms, product life is the course of product's sales and profits over its lifetime.
- A new product progresses through five distinct stages: introduction, growth, maturity, decline and recycling.
- This sequence is known as the product life cycle and is associated with changes in the marketing situation. This has an impact on the marketing strategy and the marketing mix.

1. Introduction stage

- In the introduction stage, the entrepreneur seeks to build product awareness and develops a market for the product. The impact on the marketing mix is as follows:
  - Product branding is established
  - Pricing may be low to build up market share rapidly
  - Distribution (Place) is selective until consumers show acceptance of the product
  - Promotion is aimed at product awareness and to inform potential consumers about the product.

2. Growth stage

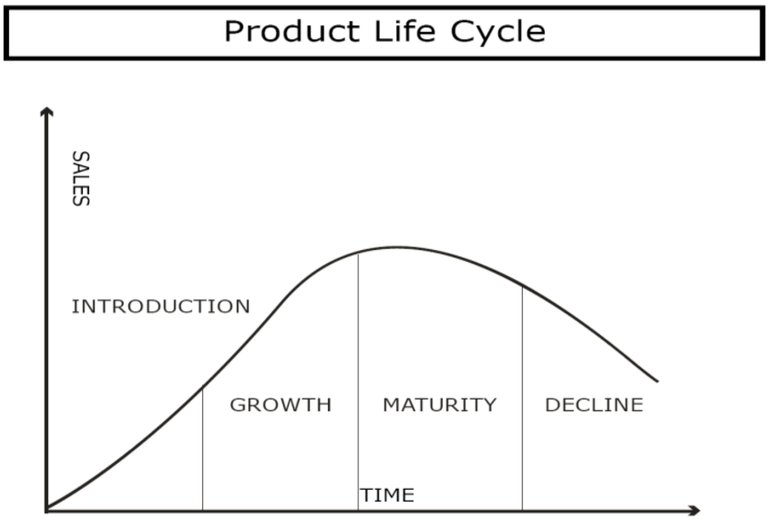
- In the growth stage, the firm seeks to build brand preference and increase market share.
  - Product quality is maintained and additional features may be added.
  - Pricing is maintained or increased when the demand is high
  - Distribution is diversified
  - Promotion is aimed at a broader audience
  - Promotion is extended to broader public

3. Maturity stage

- At maturity stage, the strong growth in sales diminishes. There may be competition with similar products. The primary objective is to defend the market share and to maximize profit
  - Product features may be enhanced to make the difference with competitors
  - Pricing may be decreased due to competitors
  - Distribution needs to be extended and incentives offered
  - Promotion will emphasize product features

4. Decline stage

- As sales decline the entrepreneur has different options
  - Maintain demand for the product by adding new features
  - Reduce costs and prices and continue to offer the product
  - Stop producing the product.



Preparing a Business Plan (What Is a Business Plan?)

- A document which spells out the goals and objective of a business and clearly outlines how and when they will be achieved.
- A structured guideline to achieve a business goal.
- A road map to owning and operating a business.
- A proposal that describes a business opportunity for financing agencies or investors.
- A detailed action program outlining every conceivable aspect of the proposed business venture.
- Why we prepare a Business Plan?

A business plan is written to assist in:

- Keeping you focused on your goals and strategies
- Obtaining financing from outside sources
- Guiding the opening of a business
- Guiding the managing of a business
- Communicating clearly with interested parties

- Showing your business has chances of success
- Showing you have the ability to manage the business
- Showing there is a good market for your product or service
- Comparing how the actual business performance differs from the forecasted performance

When is a Business Plan Written?

- Before starting the business
- When updating the business is required
- When new information is obtained
- When new experiences are gained

How is a Business Plan Written?

- By identifying all the questions that might be asked relating to the business
- By determining what further information needs to be gathered to answer all the questions
- By obtaining all the necessary information
- By comparing various alternatives
- By making a decision on each question

Business Plan

Executive summary

- Brief description of the business
- Name of business
- The legal form of the business will be:
- □ Sole proprietorship √ partnership □ limited company □ Corporation
- Reason for choosing this legal form

Contact address

Tel. ___________________

E-mail_________________

Fax.___________________

- **Type of business**

Manufacturer Service provider

Retailer Wholesaler

- Brief description of the business idea

  Products or services

  Target Market

- Projects contribution to the economy

MARKETING PLAN

- **Description of the market**

(Geographical area, town, type of customers, size of total market, description of competitors, market share for the new business, etc)

Marketing Plan Product

- Detailed description of the product or product range or service Product/service type
- What is special about the product/ the unique characteristics of the product?
- Specification of the product

- After sales service

Marketing Plan Price

- How much are customers willing to pay?

Highest _____ Average _____ Lowest _____

- How much are competitors' price?
- How much is your price?

Highest _____ **Average** _____ Lowest _____

What are the reasons for setting your price?

Marketing Plan Place

- Location of the business (description of the planned location of the business)
- Reason for choosing the location the business
- How to distribute the product to customers?

Directly to customers

Through retailers or wholesalers'

- Reason for choosing this way of distribution
- Marketing Plan Promotion

Advertisement, Personal selling, etc

2. PRODUCTION PLAN

Production process

- **List of production steps. Eg.**
- Prepare working drawing
- Select raw materials
- Transferring the dimension to the work piece
- Cut and develop the pattern
- Join the pattern accordingly
- Assemble the parts according to the drawing
- Apply coating and polishing

List fixed assets needed and their cost

No.	Item	Quantity	Amount
1			
2			
3			

- Brief description of production capacity of the project per month:
- Factory/plant location and layout

List of raw materials needed

No	Raw materials needed per month	DIMENSION/Specification/	QUANTITY	unit cost	total cost
1					
2					

No	Position	Qualification	Salary per month	Remark

Staff cost (Factory overhead expenses)

No	Overhead expenses	Amount per month
1	Indirect labor	
2	Electricity	
3	Maintenance	

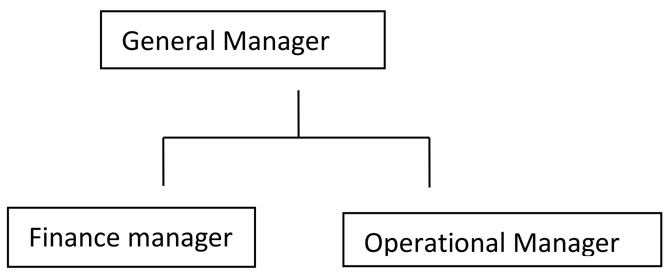
4	Depreciation of fixed capital	
	Total	

Production costs of each item to be produced

- Raw materials per month
- Direct labor per month
- Factory overhead expenses per month

3. ORGANIZATION AND MANAGEMENT PLAN

Forms of business/Organizational structure



4. FINANCIAL PLAN Capital requirement

Capital requirement/project cost?	Amount
Fixed Assets	
Land	
Building	
Equipment	
Others	
Total Fixed assets	
Pre-operating expense	
Working capital /Operational costs of one months	

Month		1	2	3	4	5	6	7	8	9	10	11	12
Product 1	Price												
	Quantity												
	Revenue												
Product 2	Pr,Qu,Rev												
All products	Revenue												

- Raw materials costs	
- Administrative expenses	
- Staff cost of one month	
Total working capital	
Total capital requirement	

Monthly sales plan

Operational cost

Cash flow **Projected monthly cash flow statement**

Particulars	Pre-operating period	**Month**											
		1	2	3	4	5	6	7	8	9	10	11	12
Cash at the beginning of the month		10 700	20 850	37 550									
Cash inflow													
Equity	38 700												
Borrowings													
Cash sales		42 000	63 000	88 000									
Collection of A/R													
Other income													

Total cash inflow	38 700	52 700	83 850	125 550								
Cash outflow												
Pre- operating expense												
operating expense		31 850	46 300	60 750								
Purchase of fixed assets	28 000											
Taxes payable				11 275								
Total Cash outflow	28 000	31 850	46 300	72 025								
Cash at the end of the month	10 700	20 850	37 550	53 525								

Profit & loss statement (for manufacturing business)

Gross sales	
Less: Returns	
Net Sales	
Less: Cost of goods sold	
Gross profit	
Less: Operating & administrative expenses	
Operating profit	
Less: Interest Expense	
Net profit Before Tax	
Less: Estimated Income Tax	
Net profit After Tax	

Annual projected profit& loss statement

Assets	**Amount**	**Liabilities**	**Amount**
Current Assets		Current Liabilities	
Cash at hand and bank	10 700	Accounts payable	
Accounts receivable		Taxes payable	
RM inventory		Others payable	
WIP inventory		Total Current Liabilities	
FG inventory		Long-Term Liabilities	
Total Current Assets	10 700	Loans	
Fixed Assets		Total liabilities	
Building	10 000	Owners Equity	
Equipment	18 000	Capital	38 700
Total Fixed Assets	28 000		
Total Assets	38 700	Total liabilities & capital	38 700

Balance sheet

Break-even point

Breakeven Quantity = <u>Total fixed cost</u>

(price per unit - variable cost per unit)

Breakeven point = <u>Total fixed cost x</u> price per unit

(price per unit - variable cost per unit)

MECHANICS

LEVEL-III

Learning Guide-71

Unit of Competence: Improve Business Practice

Module Title: Improving Business Practice

Module Code: XXXXX

LG Code: XXXXX

TTLM Code: XXXXX

LO2: *Benchmark the business*

Instruction Sheet	Learning Guide #71

This learning guide is developed to provide trainees the necessary information regarding the following **content coverage** and topics:

- Identifying and selecting product or service to be benchmarked
- Identifying sources of relevant benchmarking data
- Selecting Key indicators for benchmarking
- Comparing key indicators of own practice with benchmark indicators
- Identifying areas of improvements

This guide will also assist you to attain the learning outcome stated in the cover page. Specifically, **upon completion of this Learning Guide, you will be able to**:

- Identify and selecting product or service to be benchmarked.
- Identify sources of relevant benchmarking data.
- Select Key indicators for benchmarking.
- Compare key indicators of own practice with benchmark indicators.
- Identify areas of improvements.

Learning Instructions:

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described below 1 to3.
3. Read the information written in the information “Sheet 1

Information Sheet 1	Benchmark the business

2. Benchmark the business

2.1. Identify Sources of relevant benchmarking data

“Benchmarking is simply the process of measuring the performance of one's company against the best in the same or another industry”(Stevenson, 1996). Benchmarking is not a complex concept but it should not be taken too lightly.

Benchmarking is basically learning from others. It is using the knowledge and the experience of others to improve the organization.

It is analyzing the performance and noting the strengths and weaknesses of the organization and assessing what must be done to improve.

There are three reasons that benchmarking is becoming more commonly used in industry

(Boxwell, 1994). They are:

- ✓ Benchmarking is a more efficient way to make improvements. Managers can eliminate trial and error process improvements. Practicing benchmarking focuses on tailoring existing processes to fit within the organization.
- ✓ Benchmarking speeds up organization’s ability to make improvements.
- ✓ Benchmarking has the ability to bring corporate performance up as a whole significantly.

If every organization has excellent production and total quality management skills then every company will have world class standards.

Benchmarking is not just making changes and improvements for the sake of making changes, benchmarking are about adding value. No organization should make changes to their products, processes, or their organization if the changes do not bring benefits. When using benchmarking techniques, an organization must look at how processes in the value chain are performed (Stevenson,1996):

1. Identifying a critical process that needs improvement.
2. Identify an organization that excels in the process, preferably the best.
3. Contact the organization that you are benchmarking; visit them, and study the process or activity.
4. Analyze the data
5. Improve the critical process at your own organization.

- All of these things lead to successful benchmarking a product, process, or area within an organization

TYPES OF BENCHMARKING

- There are primary types of benchmarking that are in use today. These are:
    - Process benchmarking,
    - Performance benchmarking and
    - Strategic benchmarking (Bogan, 1994).
    - competitive benchmarking
    - cooperative benchmarking,
    - collaborative and internal
- **Process benchmarking** focuses on the day-to-day operations of the organization. It is the task of improving the way processes performed every day.
    - Some examples of work processes that could utilize process benchmarking are
        - The customer complaint process,
        - the billing process,
        - the order fulfillment process, and
        - The recruitment process (Bogan, 1994).
    - This type of benchmarking results in quick improvements to the organization.

- **Performance benchmarking:**

Focuses on assessing competitive positions through comparing the products and services of other competitors.

- When dealing with performance benchmarking, organizations want to look at where their product or services are in relation to competitors on the basis of things such as **reliability, quality, speed**, and **other product or service characteristics**.

- **Strategic benchmarking:**

Deals with top management. It deals with long term results.

- Strategic benchmarking focuses on how companies compete. This form of benchmarking looks at what strategies the organizations are using to make them successful.
- This is the type of benchmarking technique that most Japanese firms use (Bogan, 1994). This is due to the fact that the Japanese focus on long term results.

- **Competitive benchmarking-** is the most difficult type of benchmarking to practice. For obvious reasons, organizations are not interested in helping a competit or by sharing information. This form of benchmarking is measuring the performance, products, and services of an organization against its direct or indirect competitors in its own industry.
- **Competitive benchmarking-** starts as basic reverse engineering and then expands into benchmarking. Reverse engineering is a competitive tool used in each marking. It looks at all aspects of the competition's strategy. This does not just include the disassembly and examination of the product but it analyzes the entire customers' path of the organization's competitor. This is a difficult thing to do because this information is not easily obtained. Therefore, it requires extensive research.

- It is also important to remember when using competitive benchmarking that the goal is to focus on your direct competitors and not the industry as a whole.

- “Cooperative and collaborative benchmarking are the most widely used types of bench marking because they are relatively easy to practice” (Boxwell, 1994).
  - These forms of benchmarking are a more accommodating way of getting information.
  - In cooperative benchmarking, organizations invite best in class organizations to meet with their benchmarking team to share knowledge. This is usually done without much controversy because these organizations are **not direct competitors**.
  - During this process information flows one way. From the "**best in class**" organization to **the benchmarking team organizations**.
  - Collaborative benchmarking does the opposite, information flows many ways. With collaborative benchmarking, information is shared between groups of firms.
  - It is a brainstorming session among organizations. It is important to realize that not all collaborative efforts are considered benchmarking. It is sometimes called “data sharing.

2.2. Select *Key indicators* for benchmarking in consultation with key stakeholders

- Key indicatorsfor benchmarking are***TYPES OF BENCHMARKING*.**Some of primary
- types of benchmarking that are in use today are:
  - Process benchmarking,
  - Performance benchmarking
  - Strategic benchmarking (Bogan, 1994)
  - competitive benchmarking
  - cooperative benchmarking and
  - collaborative benchmarking

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