

MBA

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Abstract

The aim of the report is to elaborate on the first time venture of “Freshy Outlet” which is an entrepreneurship operated by a first time entrepreneur. The business model is justified with referring to the trends in the macroeconomic environments such as the demographic changes such as change in life styles and health concerns and is elaborated using the value chain analysis. The common mistakes made by first time entrepreneurs are being identified in the report and the report recommends some of the precautions that could be taken in order to avoid such mistakes. For example, the choice of the best partners and the financial management, collective decision making would enable the entrepreneurs to be successful. The importance of planning the venture is highlighted along with the planning tools. Finally, the risk identification and assessment had been elaborated along with the methods that could be implemented for the same purpose.

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Introduction

Freshness of food is a key concern among the customers in modern era. Considering this demographic characteristic, the idea is built up into a new venture where fresh vegetables and fruits would be sold. The business venture will be named as “Freshy Outlet” with the aim of indicating the nourishing freshness of the vegetables and fruits. The important feature is that the cut slices of vegetables and fruits would also be available that are ready to eat and cook. Therefore the customers could chose according to their needs. Additionally, there would be a separate cabin for selling fruit juice. The customers would be able to select the fruits as they want and include into their juice. And the preparation would also be manipulated according to customer needs. For example, the amount of sugar that needs to be included in a juice could be stated. The vision of the venture would be “to provide health and wellness with good food” and the mission would be “to provide the best quality food that are good for health according to the needs of customers”.



01. Feasibility study and the opportunity gap

The opportunities that had been identified to serve through this venture could be justified along with the trends in the macroeconomic environment. In the ancient times, man ate raw food and the development of civilizations made changes to the food patterns. And the most important fact is that there were fewer amounts of artificial ingredients in food content. The resulting impact on the humans was less health threats. With the passage of time, people

moved to consume more and more artificial food and the result was high amount of health threats and diseases. Therefore in the modern world, people are more concerned of the freshness and natural quality of food they eat. Even the findings in medical research have proved that one reason behind a healthy lifestyle is natural food. These demographic features and research findings have created an opportunity for the “Freshy Outlet” to emerge as a novel concept.

Since people have adapted to a busy lifestyle mostly due to the increased women participation in work, there is a trend for spreading fast food outlets in town areas. But the modern health experts point out that fast food is one reason behind non communicable diseases such as choletrol, sugar, heart attacks. Therefore clearly, there is a need for fresh and natural food that is good for health. This opportunity gap is pursued by the proposed business venture and the expectation is to bridge this gap not only with the content but also with the nutritiousness. (George, Morrisey, 2002)

1.1 Key Drivers

- **Increase in disposable income**

The increasing trend of the disposable income due to the factors like increased salaries, increase in the per capita national income and reduction in the interest cost could be supposed to have a structural change in the demographics with the increased demand for healthy food products due to increased purchasing power. Whatever the prices would be, the customers are willing to pay high for good food. This has created better prospects for fruit juice business.

- **Urbanization**

Due to the urbanization, people have no space in their home gardens to plant fruits and vegetables. And the busy lifestyles too have resulted in lack of time for engaging in such activities. Therefore they tend to obtain fresh food from outside stalls thus creating an opportunity for ventures like “Freshy Outlet”. This encourages innovations and non-price competition in order to capture the market and hence it is expected to bring structural changes to the industry.

- **Climatic Conditions**

Since Sri Lanka is located close to the equator and also since there are effects of greenhouse effect, the damaging of the ozone layer, there is a high heat existing during the day time. This leads the consumers to consume more and more drinks that would cool down the body. Since “Freshy Outlet” is selling such kinds of juices, this key driver in the macro environment has created an opportunity. (Gary & Prahalad, 2010)

- **Greater affordability**

As the economy is boosting with high GDP, the national income per head is too increasing thus giving more disposable income and enhancing the purchasing power. This could have a greater change in the purchasing power.

Feasibility of the proposed venture could be examined with considering various factors and with identifying and referring to the risks.

Risks are the uncertainties that could disturb the ongoing operations of the business venture.

Operational risk is where the entrepreneur has to manage all the operations while giving his leadership to the entire team. Therefore the entrepreneur plays a major role. His death or disability could bring the business to its end. And there should be proper leadership suitable for different situations and different kinds of people who work with the entrepreneur. Therefore there should be more people skills for the entrepreneur in order to minimize the operations risk. (George, Morrissey, 2002)

Considering the technical feasibility related to operations risk, the only requirement needed technically is the knowhow and labor for preparing the fruit juices and other facts related to protecting the nutritious quality of vegetables and fruits. The method of cutting fruits and extracting juices should be done in a manner to protect the nutrition's. These would not be highly technical knowledge and hence this would not be in feasible.

Financial risk is another risk that would have to be managed effectively. Entrepreneur has to be conservative in expenses. Unnecessary expenses have to be avoided and the funds are to be managed properly. Since entrepreneurs have no business guarantee, financial institutions

are reluctant to offer credit facilities to the entrepreneurs. Hence there should be proper financial management.

When considering the finances that need to be raised for funding this venture, the initial investments would basically be for the equipment's needed such as blenders, glasses, spoons, refrigerator etc. Those would be the fixed assets whereas the fruits and vegetables in stocks would be the current assets. There would be no very high costs on these assets and a bank loan of two hundred thousand would serve the requirement.

Commodity risk is one such risk that could affect the venture. It refers to the threat that a change in the price of a production input will adversely impact a producer who uses that input. Unexpected changes in commodity prices can reduce the profits of the entrepreneur's venture, and make budgeting difficult. Fortunately, producers can protect themselves from fluctuations in commodity prices by implementing financial strategies whereby the entrepreneur could enter into agreements with suppliers for supplying inputs at fixed prices for definite periods.

Market risk is another threat. It is very important to manage the customer base by applying the know your customer basis. So that the changing needs and preferences of customers would be able to capture. This would be helpful to create loyal customers. Loyal customers would ensure existence of the venture. Therefore this would be a good investment towards the competitive market conditions too. Since the market is very narrowly defined, there is a high chance for competitors to enter into the market and thus there is a risk of losing customers.

Social desirability of the products would be at its best because of the tastes and preferences of the general public for fresh vegetables, fruits and fruit juices. There would be no resistance from the public as well as from the pressure groups that seek for the desirability of products. Legally, this is an accepted business model because the products contain no harmful components or illegal selling strategies. All the provisions under the consumer protection act and shop and office employees act would be adhered to because it would yield back good results for the business too. Hence there would be very minimum amount of regulatory risks and thus the business would be feasible in this aspect too.

The desirability could also be assessed with referring to the market conditions.



Figure 1 - porter's five forces analysis

- **Threat of entrants-** The establishment of the juice outlet requires substantial capital investments for the rented space, new equipment's and tools, marketing efforts etc. The gaining of the space within Gampaha Railway Station is an opportunity because no other sellers of the same content would not be allowed during the rental period as well as the customer base is stable since the commuter trains arrive day and night.
- **Bargaining power of buyers-** According to Michael Porter, differentiated products bring more switching costs to the customers and therefore result in low bargaining power to customers. Customers could be made loyal for the reliable and quality goods, affordable prices, customer care etc. that stands to be differentiated factors for the company. This threat has a positive influence.
- **Bargaining power of suppliers-** The provision of quality goods is dependent on the supplier quality. Since the venture has identified the best

vendors and made contracts with them, there is a positive impact since the business has some control over the suppliers.

- **Threat of substitute products-** The highest substitutability is raised from the mini supermarkets that sell canned fruit juices and sliced packets of vegetables and fruits. This is somewhat moderated by the switching costs imposed through differentiated products and level of customer service. (Harrison, John, 2013) This threat has a negative influence.
- **Rivalry among existing competitors-**The industry players share the market in more or less equal proportions and hence there is a great rivalry to grab customers which is evident from the existence of constant marketing campaigns, product promotions, innovative store layouts etc. This threat has a negative influence.

02. Strategies to be found to find success and what should it embody

The planning of the business venture should be importantly looked at where the entire strategy making process should be set in line with the overall corporate strategy. The direction of the company has to be set by describing the vision, mission, goals and objectives. Vision would be describing the overall dream of the organization whereas the mission would be aimed at the things that the organization pursues to achieve in the long run. Goals would be quantified long term targets and objectives would be the short term measurable targets. And also all other objectives need to be set in line with the mission of the organization.

Entrepreneurs need to understand their potentials and have self-confidence for pursuing the venture. It is important that without depending on others, entrepreneurs have to be independent in decision making too. They have to use their ability to foresee the future and predict the future possible outcomes and then come up with decisions under logical argument.

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Courage and endurance are other self-qualities that would defend the venture as strategies. In any circumstance, the entrepreneur has to be ready to accept any challenge and be equipped with never ending motivation.

It is also important to understand the risks that could harm the venture in any of the fields like economic threats such as increase in input costs, energy costs, the political influences due to changes in government, demographic changes due to change in tastes and preferences of people.

With being in a very competitive environment, “Freshy Outlet” should consider diversifying into related areas. As each sector will have its own risks, the overall credit profile of the company will depend on the size of its investment into other areas, as well as the general credit profile of the sector to be invested in.

The management of the venture should be done with conservative criteria should be principally based on values. This would be a key concern to the customers. Hence in addition to the mission and vision development, essentially there should be a set of values developed and declared. (George, Morrisey, 2002)

The operations strategy should be defined with ensuring capacity cushion for meeting the demand changes. This would need to have excess employees who could be hired at need, equipment and tools which could be hired or obtained on requirement etc.

There should be strategies for financial management too. A good person should be assigned for managing finances. The expenses and incomes should have to be budgeted prior and the extra and deficit funds would have to be planned for financing or investing options. This would result in making the best possible returns out of funds.

The entrepreneurs need to take a conservative approach in balancing the risks where they may not compromise its high business risk in order to take a very low financial risk. But the level of financial risk is assumed to generate a fair level of returns which is neither very low nor high. The financial strategies are fair enough to be not so aggressive but to earn sufficient returns.

03. Proposed business model

The proposed business model could be explained with referring to the Value Chain Analysis.

3.1 Primary Activities

- Inbound Logistics – This refers to the activities related to the obtaining of supplies of external suppliers into the organization. Fresh vegetables and fruits would be obtained from external vendors. A helper would bring these collected fruits and vegetables into the business place through the transport vehicle of the entrepreneur. The food items would then be stored in the refrigerators and boxes suitably and then used for production. Transportation plans are being used for minimizing transportation costs and also agreements are signed with suppliers for ensuring constant supplies.
- Operations – The preparation of fruit juices and the vegetable and fruits pieces is done with ensuring maximum quality and nutritiousness. The operations strategy is flexible in order to suit the changing demands of customers and also to cater to the needs of customers. Extra capacity is kept with storing extra blenders, glasses and spoons within the business premises. When the demand is high, the person who is cleaning would also join in helping the juice makers. And also, the fruits and vegetable selling would be stopped when the demand for fruit juice increase. Additionally, the entrepreneur's mother would accompany the business during peak hours. Therefore the capacity cushion is provided through these measures.
- Outbound Logistics – The distribution of the prepared fruit juices and the sliced food packets is done on a self-service basis where the customers could ask for what they need and then collect from the sellers after paying for them. Customers are given the opportunity to physically see the contents, compare and make their purchase decision. In this also, customers would be ensured of a timely service showing the effectiveness and efficiency of the work of employees. Time cost incurred by customers for the purchase of food products would be minimized through being efficient in outbound logistics.

3.2 Secondary Activities

- **Human Resources Management** – The entrepreneur would be the leader of the business venture and he would be managing all other humans engaged in operations. A favourable policy would be extended towards the people working for the business and their welfare and profit distribution would be special concerns. Employees would be considered as a part of the venture rather than just having an employment contract. All of the human resource activities would be aimed at improving employee motivation. Employees are trained on the health practices in preparing juices and cutting and packaging the fruits and vegetable slices. Therefore they would be able to deliver the products with concern on the nutritious quality.
- **Technology Management** – Basic technology would be utilized for preparing fruit juices such as the blender and mixer. But in the future, with the developed technologies, the use of automated technologies could have been considered. For example, machines that could squeeze the fruits and automatically add sugar and other ingredients and then stir and serve could be considered. These machines could be used for serving juices that need generic requirements and thus the efficiency could be improved. And also technologies related to preserving vegetables and fruits without destroying their freshness and nutritious quality could be considered. Rather than using artificial chemicals, the natural methods would be considered.
- **Firm Infrastructure** – The physical resources owned by the business venture are of high quality and are well managed. The business premises which is a rented building within the Gampaha Railway Station is furnished newly and painted and the floor is tiled. Therefore there is more beauty for selling food items. The equipments used for juice preparation, arrangement of vegetable and fruits slices are well clean and tidy. The floor is cleaned every five minutes and the glasses and spoons used by customers too are being washed hygienically. Therefore the physical infrastructure serves well for the success of the business.

Infrastructure also comprise of the organizational hierarchy that shows the sequential order to employees. This is a very flat structure because all other

employees are in one layer below the entrepreneur indicating the high level of communication, integrity and low power distance.

- Procurement – The procurement or the purchase of fresh fruits and vegetables from external vendors is done by a separate employee in the business. The agreed amounts would be obtained from the vendors with whom the business has developed contracts while the procurement of other suitable fruits and vegetables is done in a free manner in order to treat the seasonal needs. For example, Dragon Fruit, Mango etc. would be available only in seasons of the year and these would be taken from non-contractual vendors too when they become available. Hence there is no fixed policy for procurement. (George, Morrissey, 2002)
- Marketing and Sales – The business would utilize some marketing tools such as bill boards for making customers aware of the products available in the “Freshy Outlet”. Since the business targets at the customers who are health conscious, the marketing messages need to contain these special features of the food offered by the business. One other possibility is to promote the business through online tools such as social media. Business could maintain social media accounts and allow the customers to state about their preferences, their experience and then allow others also to know about these services.
- Services – The clean environment provided within the outlet allowing the customers to witness the taste of good food would be one service provided with the products. Customers are also allowed to specify the amount of sugar content and other requirements in preparing the juices. Therefore the customers are provided with the service required and desired by them.

3.3 Pricing Strategy

The pricing strategy used by the business would be a discriminatory pricing strategy where the customers who could afford to pay more could obtain more content in the juice. The standards juice glass would be priced according to the “cost plus margin basis”. Fruit juice would be available at multiple sizes measured with equivalent

glasses so that the school children who often spend very less may also access the product.

Expected monthly cost and revenue statement

	2017	2018	2019
Revenue	10,623,420	11,154,591	11,768,094
Cost of Sales	-5,120,000	-5,273,600	-5,471,360
Gross Profit	5,503,420	5,880,991	6,296,734
Other operating income	925,000	943,500	969,446
Selling & Distribution	-1,600,505	-1,664,525	-1,772,719
Administrative	-1,250,012	-1,262,512	-1,268,825
Other operating expense	-925,000	-943,500	-948,218
Result from operating income	2,652,903	2,953,954	3,276,418
Finance Expense	-51,000	-51,000	-
Finance Income	-	-	-
Profit Before Tax	2,601,903	2,902,954	3,276,418
Tax Expense	-128,152	-152,236	-182,113

Figure 2 - cost and revenue statement

04. Common mistakes that first time entrepreneurs make

The choice of the business partner could be a critical decision. The partner should be a perfect match to the entrepreneur with endless courage, motivation and passion for business success. If the partner is a lethargic person and de-motivates the entrepreneur, it would be a disaster. And the partner should be a conservative person so that the lavish spending by the entrepreneur also could be prevented with his guidance.

Carelessness in financial management is one common mistake done by entrepreneurs. First time entrepreneurs are not aware of the expenses that would occur when operations

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commence. Although he starts the venture after careful research on financials, the expected situations could differ from the actual situations. Most of the financial institutions are reluctant to offer credit facilities to entrepreneurs because the business has no guarantee and the entire business is dependent on the existence and ability of the entrepreneur. At the inception, they tend to spend lavishly in order to protect their business and thus they run short of funds no sooner.

Individual decision making is another common mistake. The ego within entrepreneurs result in individual decision making in which case, they could disregard certain essential aspects. Therefore group decision making could be recommended where the views and ideas of different people would be incorporated into the decisions.

Lack of knowledge about the market conditions is another fact that led to make mistakes. The failure to select the right market segment would result in business failure. The changes in input costs, energy costs, and the inflation could have impacts on the business. Therefore the inability to understand these changes could lead to business failure.

Lack of knowledge about the marketing and selling strategies could result in business failure too. First the target market needs to be defined rather than selecting to serve the entire market. Most of the entrepreneurs have no professional knowledge and experience on identifying customers, treating them and skills to make customers aware of the products. This could result in competitors overriding the venture and losing market share to them.

Feedback from customers would be very important for success. But most of the entrepreneurs do not think of this aspect because they believe mostly about their labor they extend towards the business. In this case, the lack of incorporation of customer ideas into business could lead to failure of venture.

Entrepreneur would be the chairperson of the venture. Hence he should have the skills and qualities suited for a good CEO. The leadership extended should be an example to the lower level employees and there should be constant motivation and courage from him.

Emotional attachment to business could lead to failure of venture. Since entrepreneurs extend their personal resources, labor, skills solely to his venture, they believe in their dedication,

courage and skills. But there are certain things that are obvious for non-performance. These things have to be understood by the entrepreneur and avoid them. Blindly taking risks with believing on himself could lead to failure.

05. Planning tools that entrepreneurs could use to understand or assess their risks.

The tools that could be used for identifying and assessing the risks could be elaborated as below.

Risk identification is the process by which an organization systematically and continuously identifies risks and uncertainties

It is intended to develop information on;

- Sources of risk: sources of factors or hazards that may cause positive or negative outcomes
- Hazards: are situations that create or increase the chance of loss or its severity
- Risk factors: are speculative risks similar to hazards which influence the risks in financial instruments
- Perils: are causes of loss
- Exposures to loss: are the objects or situations facing possible loss or gain

A formal procedure is essential for risk identification and assessment. There is a need to identify all the potential losses and gains faced by the organisation. Undiscovered risk will remain unmanaged and unconsciously retained. It is not a one-time activity or episodic but an ongoing process and involves a vigilant scanning of the organisation and its environments. In here, the entrepreneur should view existing risks, new risks and detect changes in the organisation's risk profile.

☰ Checklist Method is one method. An example of a checklist is given below.

ASSETS

A. PHYSICAL ASSETS

1. Real Property – *buildings, lands*
2. Personal Property – *equipment, machinery*
3. Miscellaneous Property – *vehicles, outdoor items*

B. INTANGIBLE ASSETS

1. External Assets – *supplies, transport*
2. Internal Assets – *goodwill, reputation*

EXPOSURES TO LOSS

A. DIRECT EXPOSURES

1. Generally uncontrollable and unpredictable
2. Generally controllable and predictable
3. Primarily financial in nature

B. INDIRECT OR CONSEQUENTIAL EXPOSURES

1. All direct exposures as they affect
2. Extra Expense
3. Concentration of assets
4. Change in style
5. Bankruptcy

C. THIRD PARTY LIABILITIES

1. Aviation Liability
2. Automobile Liability
3. Director's and officer's Liability

Figure 3 - Checklist Method

- ☐ The Flow-Chart Method – by analysing flow charts of the activities and operations of the organization



Figure 4 - Flow-Chart Method

- ☐ On-site Inspections – it is a must, by observing organization's facilities and operations and the way they are conducted
- ☐ Planned interactions with other departments – through systematic and continuous interactions with other departments in the organization Interactions with External suppliers and professional bodies – by interaction with outsiders rendering services to the organization, involvement with professional organisations/publications
- ☐ Contract Analysis – by reviewing and studying contracts the organization has entered into
- ☐ Statistical analysis of loss records – reviewing statistical records of actual losses, trends, cause/time and locations
- ☐ Incident Reports – reviewing statistical records of actual accidents and near accidents, incidents that could have resulted in accidents
- ☐ Hazard Analysis – concerned with conditions that might lead to losses, analytical and focussed on hazardous activities. Relies on experience of other organisations, insurers, guidelines, research. Would require a professional.
- ☐ Accident Causation

Two areas of concern are (1) Engineering aspect and (2) Human aspect. According to the Domino Theory (*H W Heinrich 1959*) – a preventable accident is one of five factors in a sequence that results in injury.

- Ancestry and social environment
 - Fault of the person (committing unsafe acts or for the existence of mechanical or physical hazards)
 - Unsafe act and/or mechanical or physical hazard
 - Accident
 - Injury
- ☞ Fault Tree Analysis – identifies the preconditions (all or some) leading to an accident.
It's a method for preventing the accident
- ☞ Risk Chain – analyses the relationship between hazard and losses; process leading to a loss as a link in a chain of events

The hazard → the environment → the interaction → the outcome → the consequence

- ☞ Risk measurement requires the risk manager to:-
- Develop yardsticks for measuring the importance of risk to the organization and
 - Apply these yardsticks to the types of risk that have been identified
- ☞ Information would be generated on:
- ☞ DIRECT COST: direct consequence of the peril operating on the object or person; damage to roof
 - ☞ INDIRECT COST: consequential damage directly related to the peril (known as hidden costs) ; loss of turnover
- ☞ Risk Mapping or Risk Profiling could be used to measure risks. This would concern risks of loss from a particular peril, considering the following.
- Frequency
 - The Maximum PROBABLE loss: is an estimate of the likely severity of losses that occur

- The Maximum POSSIBLE loss: is an estimate of the catastrophe potential associated with a particular exposure to risk

☰ Probability Distribution: is a mutually exclusive and collectively exhaustive list of all events that can result and contains probability associated with it. (To calculate the probability of event – the number of times a given event occurs, divided by all possible events of that type.

Conclusion

The report has elaborated on the newly started business venture, “Freshy Outlet”. The report has indicated that entrepreneurs may fail because of some problems such as the Lack of knowledge about the market conditions, Lack of knowledge about the marketing and selling strategies, Individual decision making, Carelessness in financial management etc. The proposed business model is justified by referring to the market opportunity existing in the market place and with referring to the risks. Further the feasibility study indicates that the venture is feasible considering the financial, technical, regulatory and social aspects. The report has elaborated on the tools for identification and measurement of risks that could cause the business threats. Identifying the risks and uncertainties faced by the organization includes hazard identification (activities or conditions that create or increase the likelihood of loss) and exposure identification (the situation, object or individual). And then proceed with analysing the nature of such hazards and exposures including perceptions of risks and uncertainties. This would leads to Risk Measurement (evaluates the likelihood of loss or gain and the value of loss or gain including frequency and severity. Among them, the flow chart method, decision tree analysis, incident reporting etc. are examples.

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