HANDONG UNITWIN FELLOWSHIP

JIU JAKARTA INTERNATIONAL UNIVERSITY

ENTREPRENEURSHIP FOR ENGLISH MAJOR

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Business Project Evaluation | Week 12

Business Project Evaluation

1. **Pitfalls in Selecting New Ventures**
2. **Critical Factors for New-Venture Development**
3. **Why New Ventures Fail**
4. **Pitfalls to Avoid in Planning**

Pitfalls in Selecting New Ventures

Six of the most important pitfalls commonly encountered in the process of selecting a new venture:

1. Lack of Objective Evaluation
2. No Real Insight into the Market
3. Inadequate Understanding of Technical Requirements
4. Poor Financial Understanding
5. Lack of Venture Uniqueness
6. Ignorance of Legal Issues

(Kuratko D. F., 2014, pp. 126-127)

Critical Factors for New-Venture Development

A new venture goes through three specific phases: **prestart-up, start-up, and post-start-up**. The pre-start-up phase begins with an idea for the venture and ends when the doors are opened for business. The start-up phase commences with the initiation of sales activity and the delivery of products and services and ends when the business is firmly established and beyond short-term threats to survival. The post-start-up phase lasts until the venture is terminated or the surviving organizational entity is no longer controlled by an entrepreneur.

(Kuratko D. D., 2007, p. 227)

Critical Factors for New-Venture Development

Critical factors for a new development of Entrepreneur:

1. Uniqueness
2. Investment
3. Growth of Sales
4. Product Availability
5. Customer Availability

(Kuratko D. D., 2007, pp. 127-129)

1. Uniqueness

A new venture's range of uniqueness can be considerable, extending from fairly routine to highly nonroutine. What separates the routine from the nonroutine venture is the amount of innovation required during prestart-up. This distinction is based on the need for new process technology to produce services or products and on the need to service new market segments. Venture uniqueness is further characterized by the length of time a nonroutine venture will remain nonroutine.

(Kuratko D. D., 2007, p. 127)

2. Investment

The capital investment required to start a new venture can vary considerably.

Another finance-related critical issue is the **extent and timing of funds** needed to move through the venture process.

Related questions:

a. Will industry growth be sufficient to maintain break even sales to cover a high fixed - cost structure during the start-up period?

b. Do the principal entrepreneurs have access to substantial financial reserves to protect a large initial investment?

c. Do the entrepreneurs have the appropriate contacts to take advantage of various environmental opportunities?

d. Do the entrepreneurs have both industry and entrepreneurial track records that justify the financial risk of a large - scale start - up?

(Kuratko D. D., 2007, pp. 127, 129)

3. Growth of Sales

The **growth of sales** through the start - up phase is another critical factor.

Ventures classification:

a. Lifestyle ventures
b. Small profitable ventures
c. High-growth ventures

(Kuratko D. D., 2007, p. 129)

4. Product Availability

The essential point to the success of any venture is **product availability.**

Some ventures have problems in this regard because the product or service is still in development and needs further modification or testing. Other ventures find that, because they bring their product to market too soon, it must be recalled for further work.

Lack of product availability in finished form can affect the company's image and its bottom line.

(Kuratko D. D., 2007, p. 129)

5. Customer Availability

Venture risk is affected by **customer availability** for start-up.

At one end of the risk continuum is the situation where customers are willing to pay cash for products or services before delivery. At the other end of the continuum is the enterprise that gets started without knowing exactly who will buy its product. A critical consideration is how long it will take to determine who the customers are, as well as their buying habits.

(Kuratko D. D., 2007, p. 129)

Why New Ventures Fail

Three major categories of causes for failure:

1. Product/market problems
2. Financial difficulties
3. Managerial problems

(Kuratko D. D., 2007, pp. 233-234)

1. Product or Market Problem

a. Poor timing
b. Product design problems
c. Inappropriate distribution strategy
d. Unclear business definition
e. Overreliance on one customer

(Kuratko D. D., 2007, pp. 233-234)

2. Financial Difficulties

a. Initial undercapitalization. Undercapitalization contributed to the failure in 30 percent of the case studies.
b. Assuming debt too early. Some of the firms attempted to obtain debt financing too soon and in too large an amount. This led to debt service problems.
c. Venture capital relationship problems. Differing goals, visions, and motivations of the entrepreneur and the venture capitalist resulted in problems for the enterprise.

(Kuratko D. D., 2007, pp. 233-234)

3. Managerial Problems

a. Concept of a team approach.
   (1) hirings and promotions on the basis of nepotism rather than qualifications,
   (2) poor relationships with parent companies and venture capitalists,
   (3) founders who focused on their weaknesses rather than on their strengths, and
   (4) incompetent support professionals.

b. Human resource problems
   (1) kickbacks and subsequent firings that resulted in an almost total loss of customers,
   (2) deceit on the part of a venture capitalist in one case and on the part of a company president in another,
   (3) verbal agreements between the entrepreneur and the venture capitalists that were not honoured, and
   (4) protracted lawsuits around the time of discontinuance.

(Kuratko D. D., 2007, pp. 233-234)

Internal New Venture Problem

a. Facilities/equipment
b. Inventory control
c. Cashflow
d. Adequate capital
e. Accounting systems
f. Organizational structure
g. Leadership
h. Human resources

(Kuratko D. D., 2007, pp. 235-236)

External New Venture Problem

a. Pricing
b. Expansion
c. Market knowledge
d. Customer contract
e. Competitors
f. Market planning
g. Product issues
h. Location

(Kuratko D. D., 2007, pp. 235-236)

Specific Model Application to Develop Venture

Specific applications of the model of the entrepreneur and manager that can help you in developing your new venture included the following:

a. Role of profitability and cash flows
b. Role of debt
c. Combination of both
d. Role of the initial size
e. Role of the velocity of capital
f. Role of control

(Kuratko D. D., 2007, p. 236)

Pitfalls to Avoid in Planning

a. Pitfall 1: No Realistic Goals

One way to avoid this pitfall is to set up a timetable of specific steps to be accomplished during a specific period.

b. Pitfall 2: Failure to Anticipate Roadblocks

The best way to avoid this pitfall is to list (1) the possible obstacles that may arise and (2) the alternatives that state what might have to be done to overcome the obstacles.

c. Pitfall 3: No Commitment or Dedication

The easiest way to avoid this pitfall is to act quickly and to be sure to follow up all professional appointments. Also, be ready and willing to demonstrate a financial commitment to the venture.

(Kuratko D. D., 2007, pp. 316-317)

Pitfalls to Avoid in Planning

d. Pitfall 4: Lack of Demonstrated Experience (Business or Technical)

   To avoid this pitfall, entrepreneurs need to give evidence of personal experience and back ground for the venture. If they lack specific knowledge or skills, they should obtain assistance from those who possess this knowledge or these skills. Demonstrating a team concept about those who help out also may be useful.

e. Pitfall 5: No Market Niche (Segment)

   The best possible way to avoid this pitfall is to have a market segment specifically targeted and to demonstrate why and how the specific product or service will meet the needs or desires of this target group.

(Kuratko D. D., 2007, pp. 316-317)

THANK YOU

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Kuratko, D. D. (2007). Introduction to Entrepreneurship. Canada: South-Western Cengage Learning.

Kuratko, D. F. (2014). Entrepreneurship Theory, Process, Practice. Singapore: Cengage Learning.