

# **CHAPTER 2**

## **The context of entrepreneurship**

# Contents

- Factors affecting entrepreneurship in action
- Identifying business opportunities in the environment
- Identifying opportunities in the market
- Understanding Competitive advantage
- Building a competitive advantage
- Comparative advantage
- Differential advantage
- Factors of competitive advantage
- Sustainable competitive advantage
- Why competitive advantage?

# Factors affecting entrepreneurship in action

Entrepreneurship is a human skill, which can be developed. Due to entrepreneurship development, living standards of society can tend to rise, new opportunities for employment can be created and rapid economic and industrial development become possible. There are a number of factors affecting entrepreneurship or motivating entrepreneurs as follows.

## ➤ **Individual**

An entrepreneur is an individual having specific knowledge, skills, and efficiency. Any new enterprise is created by an individual or group of individuals. The creativity of an individual encourages him to establish a new enterprise.

## ➤ **Industrial development**

More suitable the industrial environment in a nation, more rapid development of entrepreneurship. More favorable industrial environment is one, where transportation, communication, electricity, labor, water, raw materials, etc are easily available.

➤ **Social environment:**

The social system plays a vital role in the social environment. As an individual is born and developed in a family and society, social values, ethical standards, family structure, caste, and religious attitudes of the social environment affect entrepreneurship development.

➤ **Economic environment:**

An economy in which enough fund is available for establishing an enterprise and market incentives are also available, encourages entrepreneurship development. Factors of the economic environment affect entrepreneurship development.

➤ **Technological environment:**

Technology is the art of converting natural resources into goods and services more beneficial to society. Due to technological development new products, new production processes new raw materials, and new research are encouraged for modernization.

## ➤ **Political environment**

Government also plays an important role in entrepreneurship development. Due to Globalization, the Indian economy has adopted a free industrial policy, and restrictions on industries have been minimized which has motivated many entrepreneurs to establish and develop industries in Indian economy.

## ➤ **Incentives**

Incentives are also one of the important factors affecting entrepreneurship. If motivating loans, policies, organizations are developed, it leads to rapid entrepreneurship development.

## ➤ **Profit making**

Profit is a factor that induces the entrepreneur to engage and utilize production and development factors. Therefore profit making also plays a very important role in entrepreneurship development.

# Identifying business opportunities in the environment

Business idea: It is a business concept that results in profits if it is turned into a tangible (physical and measurable assets) product or service.

## Opportunities:

- Usually related to the entrepreneur's work experience, hobbies, or social environment
- Can be found in many ways and in many places.
- Many people see opportunities but only entrepreneur acts upon them.

## Sources of Product Ideas:

1. Start a new Business: An Entrepreneur starts a business that he thinks has a lot of potential for profit.
2. Buy an existing Business: Entrepreneurs are sometimes attracted to buying existing businesses.
3. Take over a family Business: An entrepreneur may be a member of the family
4. Buy a Franchise: Operating a franchise can also be an attractive business venture considering that the name of a franchisor is already well established.

## Spotting Opportunities

### ❖ Ways of Going into Business

- Interview: Field research covers interviews with customers, suppliers, competitors, and industry experts.
- Observation: Data is gathered by observing and recording the respondent's actions.
- Experiments: Experiments or product sampling is another option activity
- Surveys: Refers to the development of a short questionnaire with respect to the targeted product
- Market need: Be observant in determining the needs of the people in the community
- Location: Your place is near a school with many students

# Identifying opportunities in the market

- Speak to prospect (potential customer) you've lost
- Analyse foreign markets
- Investigate other industries
- Talk to current customers
- Competitor analysis
- Understand the market
- Explore indirect opportunities
- Look at environmental factors
  1. Technological developments
  2. Scientific advancements
  3. Government regulations
  4. Trade Policies
  5. Social and cultural norms
  6. Economic shifts

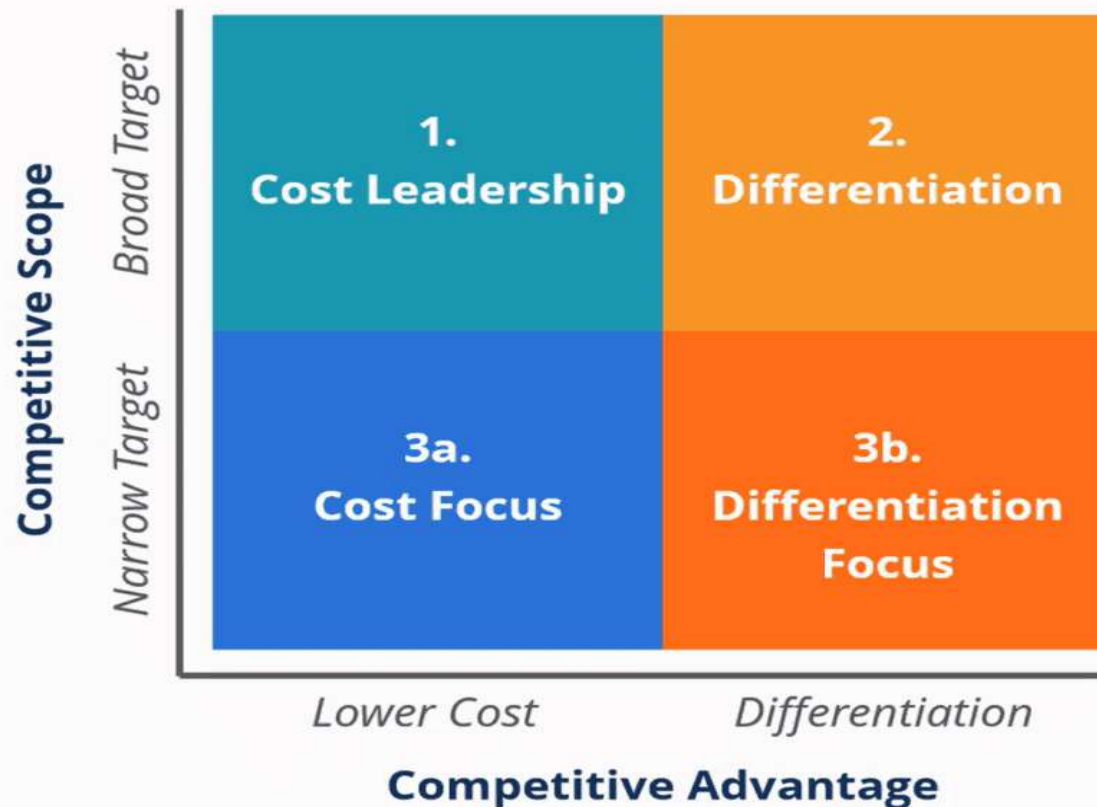


# Understanding competitive advantage

- Competitive advantage refers to factors that **allow a company to produce goods or services better or more cheaply.**
- Competitive advantages are attributed to a variety of factors including cost structure, branding, the quality of product offerings, the distribution network, intellectual property, and customer service.
- Generate greater value for a firm and its shareholders because of certain strengths or conditions. The more sustainable the competitive advantage, the more difficult it is for competitors to neutralize the advantage. The two main types of competitive advantages are **comparative advantage** and **differential advantage.**

# Building a competitive advantage

- Michael Porter, the famous Harvard Business School professor, identified three strategies for establishing a competitive advantage: cost leadership, differentiation, and focus (which includes both cost focus and differentiation focus)



## 1. Cost leadership

- The goal of a cost leadership strategy is to become the lowest-cost manufacturer or provider of a good or service. This is achieved by producing goods that are of standard quality for consumers, at a price that is lower and more competitive than other comparable product(s).

## 2. Differentiation

- A differentiation strategy is one that involves developing unique goods or services that are significantly different from competitors. Companies that employ this strategy must consistently invest in R&D to maintain or improve the key product or service features.

## 3. Focus

- A focus strategy uses an approach to identifying the needs of a market and then developing products to align with the specific need area. The focus strategy has two variants:
  - **Cost focus:** Lowest-cost producer in a concentrated market segment
  - **Differentiation focus:** Customized or specific value-add products in a narrow-targeted market segment

# Comparative advantage

- A firm's ability to produce a good or service more efficiently than its competitors, which leads to greater profit margins, creates a comparative advantage.
- Rational consumers will choose the cheaper of any two perfect substitutes offered.
- Economies of scale, efficient internal systems, and geographic location can also create a comparative advantage.
- Comparative advantage does not imply a better product or service.
- It only shows the firm can offer a product or service of the same value at a lower price.

# Differential advantage

- A differential advantage is when a firm's products or services differ from its competitors' offerings and are seen as superior.
- Advanced technology, patent-protected products or Processes, superior personnel, and strong brand identity are all drivers of differential advantage.
- These factors support wide margins and large market shares.

# Factors of Competitive Advantage

- Quality
- Price
- Location
- Selection
- Service
- Speed/turnaround

# Sustainable competitive advantage

Sustainable competitive advantages are a set of assets, characteristics, or capabilities that allow an organization to meet its customer needs better than its competition can.

- Offering reasonable value at a lower rate than competitor's Differentiation
- Delivering better (or unique) products and services than others Focus
- Recognizing, understanding, and committing to a target market in a way no other company is.

# Why competitive advantage?

- A competitive advantage is what sets a business apart from its competitors. It is essential in order for a business to succeed, whether it's by ensuring higher margins, attracting more customers, or achieving greater brand loyalty among existing customers.



**THANK YOU**

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