

International Entrepreneurship Educator's Programme

Entrepreneurial Learning - Pedagogical Note Series

32. Surviving in the Early Years of the Venture

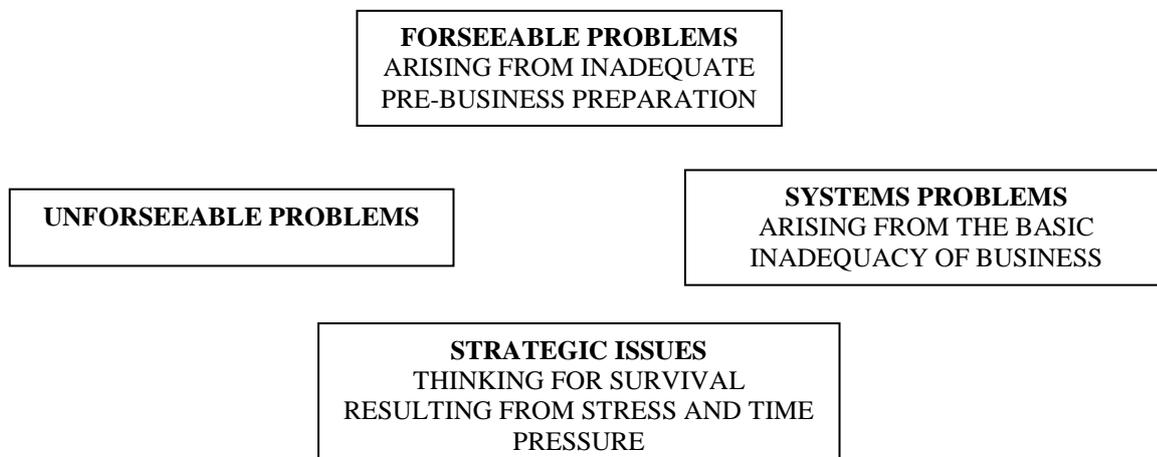
1. What is surviving in the early years?

It has been commented upon extensively in earlier notes that much of entrepreneurial learning takes place during the first few years of the venture. This is often via a process of solving problems and responding to the unanticipated demands placed on the venture by the task environment. It can be argued that the capacity of the venture to survive and even develop will be function of the capacity to learn from the experience but also to anticipate problems. The Annex to the Pedagogical Note 25 on Immersion listed a range of such problems that are known to occur in the early years of the venture. The challenge to the educator is to organise knowledge around these issues so that they can be either 'solved' before they occur or adequately prepared for. This demands a problem solving action learning approach where the knowledge is organised around the problem solution.

2. How is an exercise developed?

Participants are asked to brainstorm on the kinds of problems that might occur in early years of the venture. The facilitator takes the feedback and can organise it under various headings as in Exhibit 1 below.

Exhibit 1



'Foreseeable' Problems

These largely reflect the failure of the start-up business to think through sufficiently each of the stages of the start-up process. Common problems that will emerge as below.

Idea

- The idea (product or service) does not meet customers' needs
- Customer feedback shows a different set of needs or different combination of needs.
- There are insufficient customers to make a living.
- The product is indistinguishable from that of established competitors.
- Inconsistency in quality and service (delivery).
- The product cuts across existing patents, designs or copyrights.
- Reaching the market proves difficult.

Resources

Resources have been under-estimated in particular:

- adequate stocking levels have not been catered for.
- supplier reliability has not been sounded out carefully enough.
- working capital requirements and terms of payment have not been calculated carefully enough.
- work in progress is excessive.
- there is excessive wastage.
- quality production and distribution has not been maintained at an even level.
- outputs have been over estimated because of failure to plan for realistic levels of utilisation.

Finance

Financial resources are inadequate as a result of:

- inadequate projection of cash flow particularly negative cash flows
 - resultant failure to negotiate sufficient overdraft facility
 - taking too much out of the business too early
 - failure to control debtor/creditor relationships
 - under pricing from the beginning
 - insufficient equity
 - failure to understand how quickly things happen once a business is started
-

Management

Professional/management problems including:

- problems with partners covering a wide range of issues such as: disparity of effort; different attitudes to growth; job demarcation; decision making; rewards from the business; personal guarantees; management style
 - family problems relating to support of the spouse and adequate devotion of time to domestic life
 - weaknesses in personal or technical managerial skills critical to success (for example personal presentation, negotiation skills)
 - basic inadequacy of systems or appropriate management control
-

Unforeseen Problems

These problems will involve the development of survival strategies and could involve major unforeseen problems as below:

- Downturns in the economy
 - Changes in key personnel in the external environment (bank managers, buyers, suppliers)
 - Failure of key customers or suppliers
 - Changes in the regulatory environment
 - Fundamental shifts in customer needs
 - Illness, ill health or changes in family circumstances
-

Systems Consolidation problems

These broadly relate to the development of basic systems for survival. The role of the counsellor will therefore be in analysing basic systems/problems, creating awareness of appropriate systems and, importantly, demonstrating how these will work. Key problem areas to look for are shown below.

- Cash flow management
 - Planning cash flows
 - Basic production/service management systems allowing adequate control of utilisation, efficiency, wastage and quality standards
 - Development of appropriate trading, profit and loss forecasts and budget systems
 - Making adequate provision for tax
 - Ensuring basic office systems
 - Basic sales analysis and customer feedback systems
 - Selecting (and using adequately) professional advisers
-

Strategic Thinking for Survival

Formal business planning is not within the capability of many small businesses. Educators who place too great an emphasis upon this may be in danger of overloading a management that has little time to spare. Planning ahead does not, however, have to be highly formalised. It is, above all, an attitude of mind. The educator can make a major contribution to the small firm in this respect by focusing participant attention on the longer-term impact of the problems or opportunities that are being discussed. Strategic issues that are likely to be important to the survival of the business are listed below.

- Over dependence on single customers and suppliers
- Strategic gearing of the business and ability to service external debt
- Thinking about new ideas and new personnel
- Ways of coping with inexperience
- Finding new resources
- Methods of monitoring the environment 'appropriate' to limited resources for example: reading the right journals; visiting exhibitions; harvesting information from suppliers and customers; personal networking at local, regional and national levels
- Being unafraid to talk the business through with advisers, the bank manager and other key persons (even customers) upon

whom the business depends for survival

- Overall, developing recognition that it is not what the owner feels about the business that is important to survival but what customers, suppliers, advisers and workers feel.

The above issues form the basis for programme development. It will be important for the educator, in addressing any of the four problem areas in Exhibit 1 to focus programme content not only on solving the immediate problems but also exploring the nature of the other issues identified above and the management's strategic thinking about the business. A sound programme will help to: shape strategic thinking, consolidate the basic systems upon which the organisation depends (in an appropriate fashion); and facilitate the re-casting of the business plan to cope with problems that might have been foreseen or indeed are random and largely unforeseeable.

The importance of this approach to the educator is that it provides the focus for the organization of knowledge. For example, cash flow management can be approached by analysis of the reasons what it presents problems resulting from:

- excess working capital accumulation
- inadequate debtor creditor management
- overtrading
- negligence in invoicing
- inadequate bank arrangements
- poor margins
- excessive personal withdrawals
- inadequate volumes
- undercapitalization
- over-gearing

3. Relevance to Entrepreneurial Learning

The approach is essentially focused upon entrepreneurial problem solving.

4. Outcome

Participants are equipped to anticipate problems that might occur in the early years of the venture.