New venture creation

Introduction of a New Venture Creation Our aim- to engage with SimVenture; a business simulation that allowed us to build and sell computers through our virtual company named ‘ Genesis’. The formation and running of our virtual company integrated us with new venture creation and about being an entrepreneur. It reinforced concepts previously presented in our course lectures and engaged us in a competitive and volatile businessenvironment. SimVenture ran for three virtual years with five members on its team- each with a different role in the company. [pic]

Home Screen for Genesis on SimVenture This report accounts for the working and performance of Genesis in financial and operational terms with the key decisions taken in running the organisation, and my involvement in the operation of the business. We needed to fully utilize the features that arose with new ventures, by making sound decisions. These features included innovation, fast growth, vision, employment creation andmoneymaking power, along with the ability to take greater risks for higher returns. (Stages in Planning for a New Business Venture)

The Operation of Genesis After conducting market research, we decided our target market to be the ‘ Corporations’ industry due to its characteristics of high order and market size. Selling points were decided after noting the requirements of Corporations, demonstrating that we used consumer driven marketing strategy where we researched the needs of the consumer before making our product. Competitor research was also carried out to see what products were offered at what prices so that we could decide the mix of attributes and price of our product.

In an article 'How Competitive Forces Shape Strategy' inHarvardBusiness Review (2008), Michael Porter discussed the factors that lead to changes in strategy due to competition. As per the needs of Corporations, our product design had vast features, good performance and style, and average quality. We purchased components for Genesis throughout the three years from a small wholesaler, Sourceline, who offered the best discounts relative to credit terms. From commencement, we decided to outsource all production since this would give us more time to invest somewhere else in the business.

This however, can affect the business negatively because of problems of relying on the producer in terms of delays. Even so, this saved us time, space and equipment. (Harvard Business Review, 2008) Genesis Product Mix Customer feedback research was carried out every quarter of the financial year till the end of the period, keeping us well informed of customer feedback on our product. Customer Feedback for Genesis [pic] Our goal for Genesis was to be a well known and highly publicized brand within these three years of operation.

As per our marketing strategy, rigorous advertising was carried out with the local newspaper. TV and radio adverts were included along with trade magazines. A network was joined where entrepreneurs would meet and increase their business circles and potential customer base. Leads were generated starting from 1000 going up to 9999. A premium website was also created for e-commerce and to provide online customer support. Lastly, we held annual exhibitions for three years at ‘ Meet the Corporate Buyer’ to promote our product to the corporate sector.

Competitive pricing was adopted, making the product relatively cheaper for the superior attributes Genesis offered as compared to the competitors. Sales channels were kept at various hours in personal selling (entrepreneurial marketing) and a contract with a distributor to sell our product from the second month of the operation of Genesis was concluded. In the third year, a major accomplishment of the business was the addition of another distributor which sufficiently expanded sales. (Establishing Competitive Prices)

The ‘ Organisation’ I started my role of the ‘ Organisation’ by the completing all legal requirements within the first month of the running of Genesis. This would give us an upper hand in the future, where legal requirements may need to be met. For example, if we urgently required another employee to increase the workforce, time would not be wasted, as our Employee Contract would already be prepared. Also, setting up a Limited Company would portray Genesis as a more professional and successful company, making it better for its image.

Furthermore, Healthand Safety Contracts and Distributor Contracts were created in order to avoid any problems later when employees needed to be hired or when we contracted with a distributor. [pic] The second step was of recruitment and selection. With the feedback of the team, we gradually increased the number of employees working for Genesis, ensuring that all of them were proficient in a variety of skills. Joseph Schumpeter states, “ Individuals with key experiences and expertise are key elements in the new venture creation”- Schumpeterian ?

Unternehmergeist' (Fiery souls). Therefore, all the employees, including the entrepreneur, received significant amounts of training so that they could work to the best of their potential. As numbers of employees grew, we shifted from external sources of training to on the job training. This decreased our costs since more employees could avail the training opportunity at the same cost. It was crucial to ensure thatstresslevels for the employees and entrepreneur was controlled, because if neglected, this would decrease efficiency and lead to obscuringtime management.

The entrepreneur was heavily trained in sales and marketing, fields he was not experienced in, since being an only employee at the start, it was up to him to suffice sales. Another key decision taken was that the entrepreneur was made to work full time and quit his previous job (as long as his income was not less than that at his previous job as this could be a dissatisfactory factor), so that he could concentrate more on Genesis and make it his primary source of income. (Wikipedia, Joseph Schumpeter) Workforce of Genesis [pic] The third limb of organisation was resources.

Before incurring any shortage of storage space, Genesis was relocated onto bigger and more favourable premises with 1000 square feet of space, gaining a better image within the first year coupled with enhancement of our customer pool. We continued to purchase tools, office equipment, furniture, and transport so that the employee to resource ratio was not distorted to lower productivity. Finally, maintenance, cleaning and IT support were also contracted out, creating a sound structural base for Genesis and saving time on trivial matters. pic] Relocated Premises of Genesis Financial Aspect of Genesis This section will critically evaluate the financial performance of

Genesis and will be an explanation of the available financial data on the business. [pic] First and foremost, we needed our monetary sources mapped out to overcome the financing gap many small firms face. The ? 10000 of savings of the entrepreneur was taken as the start-up capital tofinanceour new venture. We also acquired two grants of ? 500 each from the government for training and promotion of new ventures.

Being a new business, we could avail the option of taking a loan from friends andfamilyor from a bank, but opted not to do so as this would only raise our future costs in terms of interest payments. Lastly, selling equity to private investors was ruled out as we did not want to dilute the ownership of the business. We hired a bookkeeper in the first month of the business so that we could be updated with the accounts and forecasting of Profit and Loss, Cashflow, Balance Sheet, Ratios, Budgets and Targets. This is crucial for any business because it shows if the company is financially viable.

Moreover, we used ratios to analyze company figures. In the above figure, we see that the rate of capital employed is 34%, showing that the company is profitable. The current ratio is supposed to be around 1. 5 to be good in terms of liquidity. The current ratio of Genesis is at 10. 4, demonstrating that there is less risk for customers and stakeholders to lose their money. Since we took no loans, our gearing ratio is zero. The asset turnover ratio shows us that the company’s assets are being used efficiently to generate sales (greater than 1 shows that the company is operating efficiently).

As discussed earlier, we purchased components from Sourceline. Sourceline offered a 30 days payment term and provided 10% discount for purchases done for over 2000 components. This was favourable for us since by the end of three years, 18500 components were ordered, availing the 10% discount. The credit terms gave us time to pay our debts and that money could be utilized somewhere else in the business. From the profit forecast, and the last operational month's costs, we get the breakeven point of 83 units. This is considerably lower than the actual sales of 295 units and shows the success of the company by its large margin of safety.

Throughout the three years, we saw a steady increase in the bank balance from ? 207, 000 at the end of the first year to ? 1, 044, 500 by the end of the third year. This would show any viewer the success and growth of the company from its initial start up with ? 10, 000. In the first two months of the third financial year, another key decision was that we decided to give a promotional 10% discount for two months on sales, resulting in increased sales as we were incurring alladvertisementcosts together at the beginning of the year. (Pricing Strategy)

Bank Balance Increase in the 3rd Year of Operation | | Operational Year | | | 1st | 2nd | 3rd | | Bank Balance |? 20, 6951 |? 718, 807 |? 1, 044, 510 | | Profit |? 44, 837 |? 25, 805 |? 8, 310 | | Debtors |? 170, 600 |? 96, 080 |? 186, 180 | Conclusion Even though we had a faced a major problem after the first mentoring session, we succeeded. Our problem- we had lost the venture on the computer! We had to play it all over again and just hope that it kept going as smooth as it did in the previous game. And it did. That being said, there were still decisions that we could have taken differently to provide a different outcome for Genesis.

Perhaps we could have decided differently withrespectto costing strategies, for example by dividing the costs of the business (advertising etc) evenly throughout the year instead of incurring them together at the start of each year. Also since there were a lot of leads generated and not enough sales in comparison, advertising could have been decreased, allowing more resources to be available for the business. Furthermore, we could have not implemented just-in-time (JIT) stock and kept stocks so that the first two months could have been utilized for production even though there were no sales.

Another decision taken differently could have been that we could have started doing partial in-house production after the first year since significant idle time emerged. The product of Genesis could also have been altered to a different mix of attributes to show an innovating product which has reached its maturity period and now wants to sustain its growth. When we decided a 10% decrease in price for two months, our product was ‘ better than it needed to be’, showing that we were bordering the line of giving the customer too much for its price. Lastly, we neglected to conduct a SWOT and PEST analysis.

These could have provided us with a major competitive advantage if we were in the real world and in fact, would have been a necessity. Although spoken about in general, it was not officially conducted which I could say, was a mistake. PEST Analysis SWOT Analysis [pic] Every member of our group felt that our business was running like a well-oiled machine. The team worked well together and gave a professional and productive environment, as demonstrated by the outcome of Genesis. It was established that together we were going to gain much more than we could alone and that unity is what would get us ahead- be it a game or real life.

For this very reason, I can call myself a team player. References 1) All business, “ Establishing Competitive Prices”, Retrieved on 26th April 2010 from 2) New Venture Creation, Webct, “ SWOT Analysis” and “ Pest Analysis” Illustrations Porter, Michael E, Harvard Business Review (2008), “ The Five Competitive Forces That Shape Strategy”, Retrieved on 25th April 2010 from “ Pricing Strategy”, Retrieved on 26th April 2010 from 3) “ Stages in Planning for a New Business Venture”, Retrieved on 25th April 2010 from Wikipedia, “ Joseph Schumpeter”, Retrieved on 27th April 2010 from