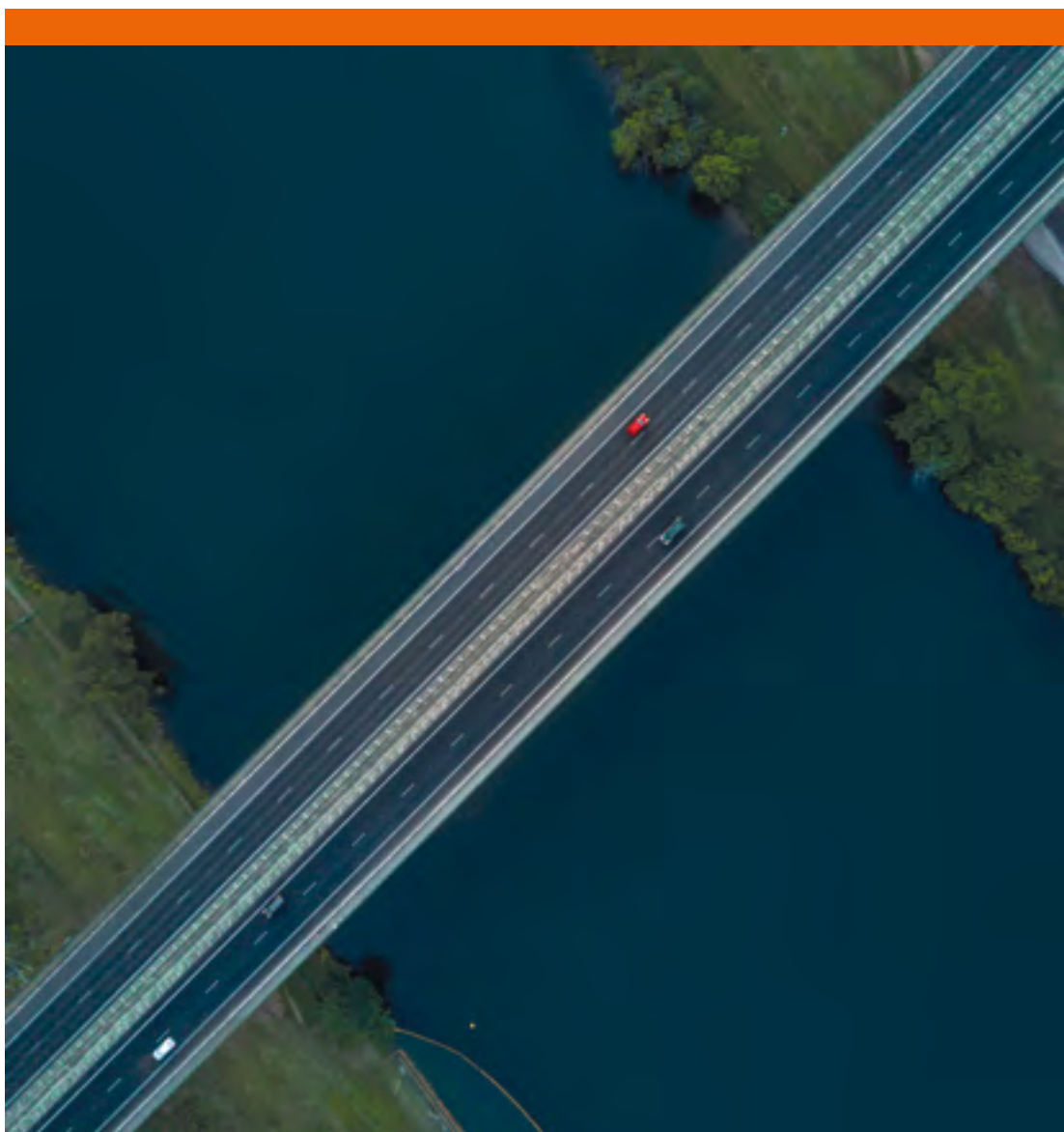


# DOING BUSINESS

*Practical guide for migrant entrepreneurs*



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# DOING BUSINESS

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*Practical guide for migrant entrepreneurs*



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## PREFACE

When it comes to dynamic relationships between migration and development, integration is crucial for migration flows and movement of people to lead to circulation of information, knowledge and human capital. Integration, considered as an opportunity to develop and apply one's own skills, is a prerequisite for cultural diversity to represent a social benefit. The inclusion of several different cultures within a company is the clearest example of the added value that migration brings in terms of productivity, creativity and innovation, as long as it is well integrated into the socioeconomic fabric.

The relationship between the private sector and integration, namely leveraging on cultural diversity, is becoming increasingly evident and is playing an increasingly central role in international development agendas: in this context, IOM supports migrant entrepreneurship as an effective driver of development resulting from conscious integration.

Collaboration with the private sector is also fundamental to ensure the sustainability of migration and development initiatives: multicultural enterprises that manage to leverage on diversity and their privileged access to transcultural and transnational information and networks are like ecosystems that are able to survive independently and, in turn, to foster positive integration. In this way, migration can reveal itself

as a movement of knowledge, resources and skills, while recognizing its role as a catalyst for development.

This manual is intended as a useful tool for those who want to do business and thus contribute to the development of both their home and target communities. Collaboration with the private sector is essential for migration to be seen as an opportunity and for the potential arising from it to be fully exploited.

We would like to express our gratitude to the Ministry of Foreign Affairs and International Cooperation for believing in this approach and for consistently supporting the process over the years. An example is set by the added value that cultural plurality brings to corporate environments, if it is well integrated. In this way, policies that focus on the social and labour inclusion of migrants contribute to productive growth, creativity and innovation.

A handwritten signature in black ink, appearing to read 'Federico Soda', with a stylized, cursive script.

Federico Soda  
*Director, Coordination Office for the Mediterranean  
Chief of Mission for Italy and Malta  
Representative to the Holy See*

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## TABLE OF CONTENTS

### DOING BUSINESS

INTRODUCTION	1
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### INTRODUCTION TO ENTREPRENEURSHIP

1	DESCRIPTION OF THIS MODULE	5
2	THE COMPANY AND ITS OBJECTIVES	6
3	CHALLENGES FOR ENTREPRENEURS	8
4	WHERE VALUE IS CREATED	12
5	THE COMPETITIVENESS OF A COMPANY	15
6	ENTREPRENEURS AND MANAGEMENT SKILLS	18
7	THE CORPORATE AND ORGANIZATIONAL STRUCTURE OF A COMPANY	20
8	MULTICULTURALISM AND ENTERPRISE	26
9	DOING BUSINESS IN DEVELOPING COUNTRIES	29
10	CONCLUSIONS AND TRENDS	31
	BIBLIOGRAPHY	33

## ELEMENTS OF MARKETING

1	DESCRIPTION OF THIS MODULE	5
2	MARKETING AND ITS ORIGINS	7
3	THE MARKET: A BROAD AND COMPLEX SCENARIO	10
4	CUSTOMERS	13
	4.a The hierarchy of needs and motivations	13
	4.b The human being as an information processor with many relations	15
5	SEGMENTATION, TARGETING AND POSITIONING	18
6	THE MARKETING INFORMATION SYSTEM AND MARKET RESEARCH	23
7	THE MARKETING MIX	26
8	THE COMPANY-TO-CONSUMER RELATIONSHIP: TRENDS	31
9	INTERNET MARKETING	35
10	CONCLUSIONS AND TRENDS	37
	BIBLIOGRAPHY	39

## HOW TO DEVELOP A BUSINESS PLAN

<b>1</b>	DESCRIPTION OF THIS MODULE	5
<b>2</b>	INTRODUCTION TO THE BUSINESS MODEL CANVAS	6
<b>3</b>	THE VALUE PROPOSITION	8
<b>4</b>	CUSTOMER SEGMENTS	11
<b>5</b>	CHANNELS	14
<b>6</b>	CUSTOMER RELATIONS	18
<b>7</b>	KEY ACTIVITIES	22
<b>8</b>	KEY RESOURCES	24
<b>9</b>	KEY PARTNERSHIPS	25
<b>10</b>	COST STRUCTURE	28
<b>11</b>	SOURCES OF PROFIT	31
<b>12</b>	THE BREAK-EVEN POINT	34
<b>13</b>	THE BUSINESS PLAN	40
<b>14</b>	CONCLUSIONS	45
	ANNEX I - BUSINESS PLAN	47
	BIBLIOGRAPHY	58



## ACCESS TO CREDIT

1	DESCRIPTION OF THIS MODULE	5
2	HOW CAN A COMPANY RECEIVE FUNDING OR FINANCING?	6
3	ASSESSMENT BY POTENTIAL LENDERS	8
4	SUBMITTING FINANCING APPLICATIONS	10
5	ASSESSMENT OF THE COMPANY'S CREDITWORTHINESS	13
6	GUARANTEES	19
7	ALTERNATIVE FINANCE	21
8	KEY CONCEPTS FOR ACCESSING CREDIT	23

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## INTRODUCTION

**F**oreign entrepreneurship in Italy is an ever-growing phenomenon, with an upward trend that in 2017 led foreign companies to account for almost 10 per cent of the total number of companies in the country.<sup>1</sup> Foreign companies have proven to be more resilient to recession than Italian companies; in fact, not only did they survive the crisis, but they grew in numbers.

Cultural diversity is a source of strength and competitiveness to companies able to leverage it: large multinationals are already adopting a strategy of having board members who represent the different cultures that exist in the markets in which they operate.

Multicultural companies in Italy have interesting characteristics, such as a more complex and well-developed structure, a stronger export propensity and a higher number of employees, who are generally more qualified and earn higher wages than employees of Italian companies or foreign single-culture companies.

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1 Chamber of Commerce of Rome, *Focus on foreign companies in Italy* (2018).

Inclusive companies are not only a successful economic model, but also a micro-environment that promotes inclusion and where trust between people is enhanced every day, thus allowing people to improve their knowledge and gain a new perception of cultures they previously did not know. At a macrolevel, trade partnerships between countries not yet linked by historical or economic relations, foster and strengthen new diplomatic relations.

Decent work, economic and inclusive growth, and increased productivity through diversification are part of the Sustainable Development Goals of the Agenda 2030: the Migration and Development Unit of the IOM Coordination Office for the Mediterranean, with the funding from the Italian Government, supports migrant entrepreneurship, which is emblematic of the added value that migration can bring to societies by bridging countries.

This guide, the contents of which are taken from the “Doing Business” training course of the MigraVenture project, has been designed as an accessible online and offline tool to provide basic business management knowledge to new entrepreneurs with a migratory background.

We hope that this text will support multicultural business initiatives, in particular such initiatives that are able to combine skills from different backgrounds and leverage the particular advantage that can only be achieved through integration of diversity, both in the micro-environment of businesses and in the macro-environment of those societies bridged by migrants.

# Introduction to **entrepreneurship**



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## TABLE OF CONTENTS

1	DESCRIPTION OF THIS MODULE	5
2	THE COMPANY AND ITS OBJECTIVES	6
3	CHALLENGES FOR ENTREPRENEURS	8
4	WHERE VALUE IS CREATED	12
5	THE COMPETITIVENESS OF A COMPANY	15
6	ENTREPRENEURS AND MANAGEMENT SKILLS	18
7	THE CORPORATE AND ORGANIZATIONAL STRUCTURE OF A COMPANY	20
8	MULTICULTURALISM AND ENTERPRISE	26
9	DOING BUSINESS IN DEVELOPING COUNTRIES	29
10	CONCLUSIONS AND TRENDS	31
	BIBLIOGRAPHY	33

# 1

## DESCRIPTION OF THIS MODULE

In this module, we are going to look at the company, its characteristics and the environment where it operates. We are going to deal with the concepts of market and price competition and look at which organizational structures are best suitable for achieving the company objectives and at how to ensure that the staff is motivated and committed. We are going to learn what basic characteristics and skills an entrepreneur needs to have and what the best formulas are that should be adopted to ensure the sustainability of the company. We are going to deal with multicultural and foreign companies, which have the advantage of offering different points of view and reaching larger market areas through a system of transnational networks.

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# 2

## THE COMPANY AND ITS OBJECTIVES

Doing business requires a clear vision of the company objectives and strong market orientation skills.

As Richard Cantillon said in the first half of the eighteenth century, an entrepreneur is someone who “*defines the mission of their company and constantly makes choices to ensure its long-term survival, by adopting strategies to improve production, carefully choosing markets, taking care of the corporate image and implementing a structured production and distribution organization*” (Cantillon, 1955).

This means that entrepreneurs create and coordinate the structure of the company and organize the production and sale of products or services. In particular, entrepreneurs assume the risk of profit or loss and are committed to guaranteeing work for and the well-being of their community.

In the most classical sense, a **company** is a complex organization intended to create products or services through the investment of human, material and financial resources, by transforming such resources into production processes **to make a profit, which is the difference between revenues and costs**. Alongside the for-profit business model, the concept of non-profit business has gradually become widespread. A social company, or non-profit company, has been defined by Professor Muhammad Yunus, Nobel Peace Prize

ENTREPRENEURS  
ASSUME THE RISK  
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LOSS AND ARE  
COMMITTED TO  
GUARANTEEING  
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COMMUNITY

winner in 2006 and founder of the microfinance bank Grameen Bank, as “a company created to solve a social problem, where the declared and pursued objective is **maximizing the produced social value**, bound by economic self-sufficiency” (Yunus and Anelli, 2012). This alternative definition of a company is also reflected in the Italian legal system, where a **social company** is defined as: “a company that pursues a social purpose, that is not for profit and that uses profits to carry out statutory activities or to increase its assets”.<sup>1</sup> Unlike for-profit companies, social companies must invest profits in philanthropic activities and cannot distribute them to their shareholders. The principle of financial sustainability applies in both cases, as both for-profit and not-for-profit companies need to have enough revenue to ensure their ongoing operation.

SOCIAL  
COMPANIES MUST  
INVEST PROFITS IN  
PHILANTHROPIC  
ACTIVITIES  
AND CANNOT  
DISTRIBUTE  
THEM TO THEIR  
SHAREHOLDERS

When defining their business strategies, entrepreneurs need to identify two important factors in addition to the business goals: the vision and the mission of their companies. The vision and the mission express the founding values and the identity of the company.

The vision represents the future the entrepreneur wishes to create and that their business is intended to help them achieve. The mission, on the other hand, is to do with the present and represents the means and tools that a company provides itself with in order to achieve its objectives.

The vision of a social company is different from that of other companies, as it is connected with social, environmental or philanthropic purposes, while its mission is similar to the mission of non-social companies.

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1 Legislative Decree no. 112 of 3 July 2017, Revision of the regulations governing social enterprises.



# 3

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## CHALLENGES FOR ENTREPRENEURS

**T**oday, entrepreneurs need to look at the whole world. Thanks to new communication technologies and modern means of transport, places that once were far away in time and space have now become accessible. There are therefore some key aspects that entrepreneurs need to deal with, which may create opportunities or pose limits:

- ▶ **The global market:** thanks to modern means of transport and virtual transactions, the customers and suppliers of a company can be located all over the world. Today, entrepreneurs can – and have to – choose where to get the best equipment at the lowest price. Companies also need to pay close attention to consumer trends and possibly move to sectors or markets that offer higher margins.
- ▶ **Social responsibility:** entrepreneurs have a great responsibility towards their staff, the society they live in and the environment they operate in. It is therefore very important that they commit themselves to ensuring that their company is sustainable from a financial and social point of view, and that they consider environmental resources as something to take care of and not as something to exploit. In recent years, the concept of circular economy has emerged, namely an economic production model without waste, where everything that is consumed is reused: a circle where waste becomes raw material and therefore a resource. Entrepreneurs

are also responsible for the health of their consumers, to whom they sell goods or services, as well as for the health of their staff. Currently, a company can obtain many different certifications (in the fields of farming, food, fashion, technical equipment and many others) to certify that they have created and apply a work management and organization system in compliance with certain specific standards of reference. In Europe, there are safety regulations in all sectors, which already have had an impact on so-called developing countries, which cannot trade with economically stronger countries unless they provide such guarantees to consumers and workers.

—  
IN EUROPE  
THERE ARE  
SAFETY  
REGULATIONS  
IN ALL  
SECTORS

- ▶ The importance of **human capital**: a company is made up of machines and tools, but above all it is made up of people. Staff is critical for the success of a company, and it is therefore important that it be well trained and up to date. Employees provide the first impression of a company and help to build its reputation. It is therefore very important that they be motivated to help achieve the company objectives and that they benefit from good corporate welfare programmes (for example, by giving employees incentives or production bonuses, by sharing profits with employees and the like).
- ▶ The **speed of market change**: companies nowadays need to act quickly in a fast-changing and competitive environment.

“ Of course, also back then it was necessary to produce typewriters and to sell them, but it wasn't done for its own sake nor was it done to grow the business; the purpose was something different, something that Adriano Olivetti called a 'community', which improved its culture, its communication and its sense of brotherhood through the company; in fact, it was a cultural and social project, and this, in my opinion, was a major positive aspect of economy.

Tiziano Terzani

Information technologies on the web (the Internet) have led to fast transitions between companies and consumers and therefore supply chains have become shorter, with a reduced number of transitions between producers and consumers (for example through e-commerce) and between producers and suppliers.

- ▶ The difficult relationship between **venture capital** and external **financing**: venture capital is the entrepreneur's own capital, the capital they have and invest in their own company to start and run it. External financing, on the other hand, is capital that is not owned by the entrepreneur and that comes from loans (investors, banks, interests, debts, non-productive fixed assets). The rules for receiving external financing have become increasingly stricter, which is a serious problem for those who do business. Entrepreneurs should be able to immobilize as little capital as possible and therefore make an effort to change the costs for the purchase of productive assets (fixed capital immobilization costs) into rental costs for the use of productive assets (variable operating costs). For example, by leasing a car, a company does not need to immobilize capital to purchase one (investment) and therefore it has more liquidity to invest in strategic assets.
- ▶ The **central role of the core business and the business know-how**: a company should focus on its core business, namely what it does best and what makes it successful and sustainable with as little capital as possible. Entrepreneurs can benefit from outsourcing everything except their core business, by hiring external services or professionals in the relevant fields (for example administrative management, marketing and communication). Outsourcing is of strategic importance, because it allows a company to focus on its core business and at the same time to enjoy high-quality up-to-date services at lower costs and to improve corporate relations by promoting connections and the exchange of skills and knowledge with other companies.

---

EMPLOYEES  
PROVIDE  
THE FIRST  
IMPRESSION OF A  
COMPANY AND  
HELP TO BUILD  
ITS REPUTATION

- ▶ **Innovation:** innovation comes from the combination of culture and invention. Innovating products, services, the offering and production methods is very important to ensure the sustainability of the company. To invest in innovation means to always be up to date on how to do business more efficiently, easily, captivatingly or at lower costs.
- ▶ **Fair profit:** profit achieved only to increase profit does not bring well-being to the community but only to one single or a few individuals, and only for a limited period of time. On the other hand, profit that creates value for the community creates well-being for the society and therefore, in strategic terms, for consumers, as it increases their purchasing power. Some Western business models aimed only at maximizing profit have led to the impoverishment of the social fabric where they operate and have therefore failed.

---

OUTSOURCING  
IS OF STRATEGIC  
IMPORTANCE  
BECAUSE IT  
ALLOWS A  
COMPANY TO  
FOCUS ON ITS  
CORE BUSINESS

In conclusion, the ideal environment for the growth of a company should include: a **market** at maximum efficiency and minimum costs; a competitive **company** that has a positive image, aims for fair profit and is innovative; a trained and motivated **staff**, with adequate safeguards and fair remuneration; finally, a **State** that guarantees compliance with the law and abiding respect for justice, as well as the appropriate safeguards and the necessary requirements in terms of taxation, and consumer safety and health.

# 4

## WHERE VALUE IS CREATED

The market is the physical, but also virtual, place where companies meet to offer customers a product, service, idea or lifestyle.

Why should a customer choose a particular company? What does it offer that no other company does or can? The answer is: special value created by a combination of ideas, solutions, services and care. Talking about the value that a company creates for its customers is of strategic importance in a market with strong and fierce competition. A company's margin is the difference between the **value created and the cost incurred** to create it.

TALKING ABOUT THE VALUE THAT A COMPANY CREATES FOR ITS CUSTOMERS IS OF STRATEGIC IMPORTANCE IN A MARKET WITH STRONG AND FIERCE COMPETITION

Michael Porter, a lecturer at Harvard Business School, is one of the most influential experts in business strategy. Porter has focused on the theme of company competitiveness by illustrating how to create competitive advantage. One of Porter's most well-known models is the **value chain** model (Porter, 2011). Today, it is a widespread method of understanding how value is created in a company and how it can be improved.

Think of a company as a system composed of several functions or segments, each of which is a link in the chain. These links represent all the steps that are necessary to transform raw materials into the final product (or service). Porter's value chain model (Fig. 1) de-

scribes a chain made of nine processes, divided into five primary activities and four support activities.

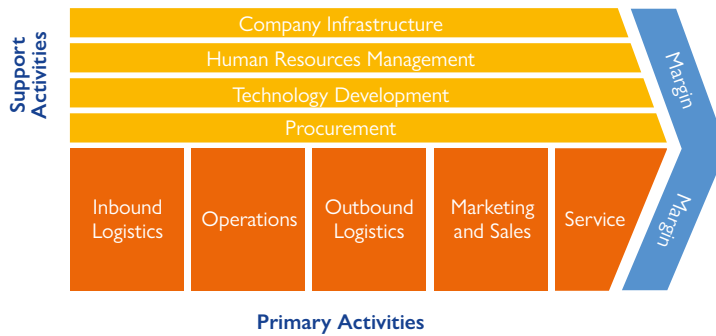


Fig. 1 - Value chain activities

The **primary activities** in the model are:

- ▶ **Inbound logistics:** the set of activities for purchasing the resources necessary for the production of outputs and the functioning of the organization;
- ▶ **Operations:** these are activities directly connected with the production of goods or services;
- ▶ **Outbound logistics:** outbound logistics include activities connected with managing the flow of goods or services outside the company;
- ▶ **Marketing and sales:** promotion activities and sales process management;
- ▶ **Post-sales service:** all after-sales activities connected with customer support.

The **support activities** are:

- ▶ **Procurement:** the purchase department that manages the purchase of the resources necessary to produce the products and services that allow the company to operate;
- ▶ **Human resource management:** activities aimed at looking for, hiring, training and managing the staff;
- ▶ **Technology development:** the department in charge of updating information processing and of knowledge management, which is the management of the history and know-how of the company;
- ▶ **Company infrastructure:** all activities connected with planning and with financial, administrative and legal accounting.

The value chain model allows entrepreneurs to consider their company's processes individually, so as to strengthen connections between different departments and understand where and how the company can improve and generate value more efficiently. Departments should be lean and able to communicate quickly with each other, so as to find useful solutions to problems arising both from outside and inside the company. Analysing the communication flow between different departments is important, as it gives entrepreneurs the opportunity to prioritize some departments and some processes over others, so as to improve the company's competitiveness in the market. In some departments, the value chain can be extended to outsourced services by considering such services as additional links in the chain.

# 5

## THE COMPETITIVENESS OF A COMPANY

We have looked at the value chain model, which is based on knowledge and awareness processes carried out within a company to respond to market demands. But how can a company protect itself from competition in the market? How can an entrepreneur decide whether or not to enter a market? Porter answers both questions with his extended competition or five forces model (Porter, 2011) (Fig. 2). This model highlights how competition within a sector is not only the result of rivalry between competitors. There are other factors (forces) that affect competition more or less directly:

HOW CAN AN ENTREPRENEUR DECIDE WHETHER OR NOT TO ENTER A MARKET?

- ▶ The first force is **competitive rivalry**. In any market, competitors offering similar services at similar prices pose a threat to the profitability of a company. It is important to be aware of the competitors that operate in the market, and to know their business model and strategy. In markets characterized by high competition, the most effective strategy could be to offer a better price, or to present a company with a different corporate identity through high-impact marketing campaigns.
- ▶ The second force is the **bargaining power of suppliers**. The bargaining power of suppliers varies with demand. In markets with a limited number of suppliers, transaction prices are determined by suppliers, thus negatively affecting the margins of the company. It is very important to maintain a strong bar-





Fig. 2 - Porter's five competitive forces model

gaining power with suppliers by looking for alternatives, where possible, and by considering the possibility of looking for suppliers outside the geographical area in which the company is located. The market has become global, which allows companies to access a broader range of offers and to increase their bargaining power with local suppliers.

- ▶ The third force is the **bargaining power of customers**. Customers are also one of the forces acting on the market, as customers can have a strong bargaining power in certain circumstances. Regular customers that make large orders can easily bargain a better price. However, they could join a consortium and purchase from other companies. Companies should have a broad diversified customer portfolio: never depend on few customers who can dictate prices.
- ▶ The fourth force is the **threat of substitutes**. Markets where there are companies offering substitute products or services pose a threat, as substitute products set a ceiling on the margin the company can achieve. In this case, customer demand is very elastic in terms of prices and it is therefore necessary to offer

lower prices, if possible, or to offer additional services and aim at innovating the products or services offered.

- ▶ The fifth force is the **threat of new entrants**. When an industry is considered to be growing, namely because the return on capital is higher than its cost, it becomes very attractive for new businesses. This happens very often, unless there is some sort of barrier preventing new businesses from entering the market, such as agreements between companies already operating in the industry. For example, the hydrocarbon industry is strictly regulated by agreements between the parties and by the legislation, and therefore it is not easy for new companies to enter the market.

These forces need to be constantly faced in order to adopt strategies for a successful outcome and growth of the company.

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# 6

## ENTREPRENEURS AND MANAGEMENT SKILLS

**T**he roles of the company manager and of the entrepreneur are not exactly the same, although they do overlap to a wide extent.

As we have seen before, an entrepreneur is someone who starts a company through their own ingenuity and venture capital, while personally assuming the risk of profit or loss. In fact, entrepreneurs risk their own capital. Managers manage companies or parts thereof by assuming responsibility for profit or loss, however without putting their own capital at risk. It is quite common for entrepreneurs to manage their own companies, in particular if they are small. What management skills should therefore an entrepreneur have?

Entrepreneurs need to have the ability to **identify opportunities** and turn them to their advantage. They need to have a clear and well-defined long-term vision. Successful entrepreneurs are often people who have a different vision, a dream they devote themselves to and they invest their time and money in. Steve Jobs and Steve Wozniak, the founders of Apple Computer, are said to have begun designing their first MAC in a closet, after selling and pawning their cars to raise some money. Today, Apple's success over the years is well known to everyone.

An entrepreneur is a leader and is perceived as leader: someone who knows how to inspire others and lead them towards the vi-

sion they have. Entrepreneurs also need to have management skills and knowledge of the technical and executive activities, so as to be able to coordinate, and, if necessary, perform the various functions of their company, so that such functions achieve the objectives set. Entrepreneurs need to have technical knowledge of the industry, the products and the production methods. They also need to have a clear vision of the market in which they operate: they need to know their customers and competitors, and study the system of laws and regulations that apply to the industry where they operate. A good entrepreneur should also have basic financial knowledge, so that they can decide how and under what conditions to invest, as well as computer skills and knowledge of modern communication technologies. Finally, entrepreneurs need to have good relational skills, they need to know how to hire and motivate human resources, and they should be able to assign work to others and monitor their activity. There are advantages to working on your own but working in a team allows entrepreneurs to increase the potential of their company.

The most important ability an entrepreneur needs to have is in-depth knowledge of their industry and their company, and to know how to make decisions and who assign work to. It has also been shown that a good dose of optimism, proactivity and a tendency to simplify processes positively affect the success of a company.

“ *Your time is limited, so don't waste it living someone else's life. Stay hungry, stay foolish, because the people who are crazy enough to think they can change the world are the ones who do.*

*Steve Jobs, Stanford University Speech, 2005*

---

A GOOD ENTREPRENEUR SHOULD HAVE BASIC FINANCIAL KNOWLEDGE SO THAT THEY CAN DECIDE HOW AND UNDER WHAT CONDITIONS TO INVEST

# 7

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## THE CORPORATE AND ORGANIZATIONAL STRUCTURE OF A COMPANY

The corporate structure of a company is made up of all the units that are useful to achieve the production and sales goals. As an example, as we have already mentioned while discussing the value chain model, the “typical” functions of a company are the following:

- ▶ General management (the board of directors, the managing director, the general manager)
- ▶ Production
- ▶ Logistics (purchasing, warehousing and distribution)
- ▶ Marketing and sales
- ▶ Administration and finance (planning and management control)
- ▶ Human resources (staff management and motivation, employment contracts, and so forth)
- ▶ Internal communication (information technology, data storage, processed information on processes and functions)

Managing a business involves defining an **organizational structure**, or **business model**, with tasks and roles and a vertical management (chain of responsibilities and command) and/or a horizontal management (functional relations between the different units). The organizational structure of a company is the hierarchical framework that defines how tasks are distributed within a company. It is usually represented by an organizational chart. This structure can be pictured as the “spine” that supports the “body” of the company and that controls all parts of the body by responding to impulses from the brain. The organizational structure is therefore the matrix used to distribute work, which is arranged and coordinated within an organizational system. There are no set rules; each organization can adopt the structure that best meets the market needs.

---

THE ORGANIZATIONAL STRUCTURE OF A COMPANY IS THE HIERARCHICAL FRAMEWORK THAT DEFINES HOW TASKS ARE DISTRIBUTED WITHIN A COMPANY

Even individual craftspeople who start a sole proprietorship need to define their organizational structure, as they need to deal with production, the purchase of raw materials to be processed, order management and their company’s tax management, and they need to consider how to best promote their business through communication. Even a single craftsperson is an organizational structure where all functions are carried out by one single person. If the number of orders increases, the craftsperson will have to start looking for someone to hire to work for them. They could hire other craftspeople, salespeople who manage customers and a firm to manage the accounts. This way, the organization structure becomes more evident, while more and more people are included in it to carry out the various functions, and, at the same time, the need for coordination between the various units increases. On the one hand, the organizational structure expands as its complexity increases, on the other hand, there may be particular cases where the hierarchical structure is so large that single employees are no longer able to have an overview of the company and its goals, and therefore they are only aware of their own operations. Taking this aspect into account is very important, because staff involvement in the overall business can be a key factor for the success of the company.

We have already mentioned that the various models of organizational structure are not suitable for all situations. Now we are going to look at some models that have been examined over time. Many companies use hybrid models based on the following:

- ▶ The **functional organizational structure** (Fig. 3) is the most classic and widespread type of organizational structure. A functional organizational structure divides a company into general functions or departments, each of which corresponds to a function (sales department, marketing department and so forth). Adopting such structure has some advantages: employees specialize and therefore the various departments become more efficient; the skills and responsibilities of each employee are clear; the hierarchical structure allows decisions to be taken quickly, since each area is under the responsibility of a single manager, who acts as an intermediary between their department and the management. However, this model also comes with some disadvantages: barriers may be created between different areas because of the rigidity of the departmental structure. If a department works independently, it

THE FUNCTIONAL ORGANIZATIONAL STRUCTURE IS PARTICULARLY SUITED FOR SMALL COMPANIES

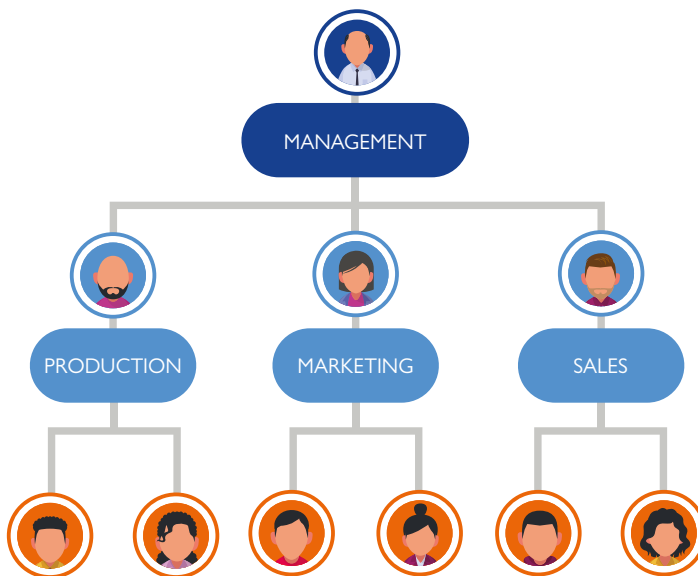


Fig. 3 - Functional organizational structure chart

has no way of knowing what other departments are doing or of communicating with them, and limited communication between departments can result in a low level of innovation. The functional organizational structure is therefore particularly suited for small companies that produce a limited range of products in large quantities and at low costs.

- ▶ The **divisional organizational structure** (Fig. 4) is typically used when a company is growing and it therefore requires a more differentiated and specialized structure for products/services, targets/markets and sales regions/areas. Each division is specialized in a product/service and has different functional areas, namely its own production, and sales and marketing departments (unlike the functional organizational structure, where the marketing department deals with all products/services). This type of structure has its ad-

THE DIVISIONAL ORGANIZATIONAL STRUCTURE IS TYPICALLY USED WHEN A COMPANY IS GROWING

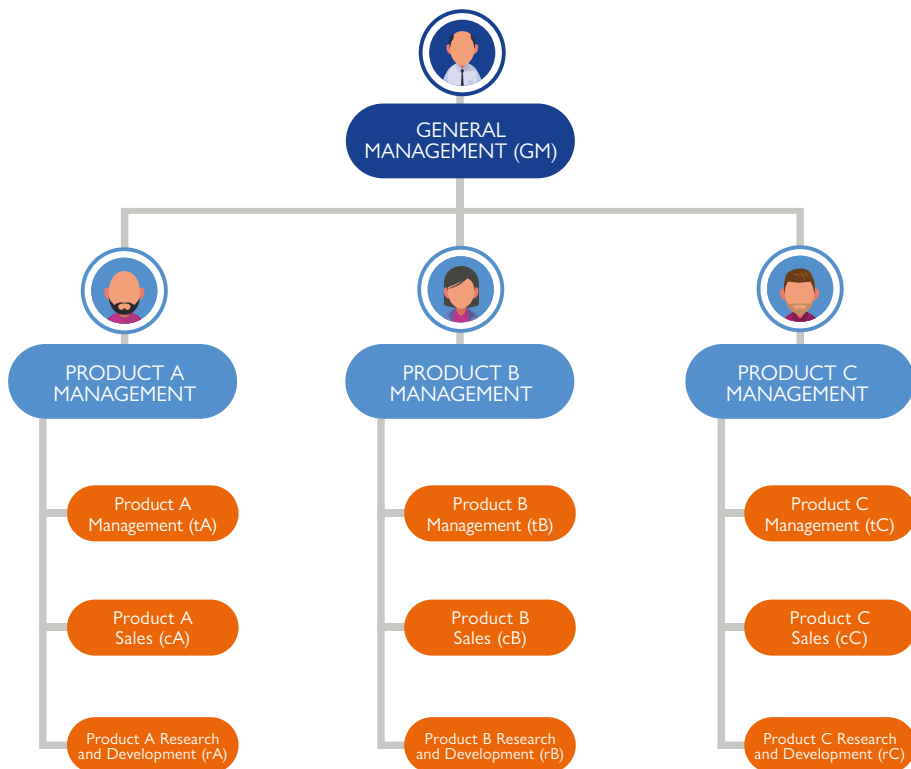


Fig. 4 - Divisional organizational structure chart



THE DISADVANTAGES OF THIS TYPE OF ORGANIZATIONAL STRUCTURE ARE MAINLY DUE TO THE DIFFICULTY IN COORDINATING THE DIVISIONS AND COMMUNICATING BETWEEN DIVISIONS

advantages: each division has all the elements necessary to monitor the life cycle of a product/service and its market; a good level of coordination can be achieved within each division; employees are more motivated. The disadvantages of this type of organizational structure are mainly due to the difficulty in coordinating the divisions and communicating between divisions, to the high structural costs arising from the fact that there are more departments of the same type, and to the fact that more technical and specialized employees are required for each single division. The divisional organizational structure is suited for large companies offering a wide range of specialized products and services in different sales markets that often cover wide geographical areas (for example international companies).

- ▶ The **matrix organizational structure** (Fig. 5) combines the advantages of the functional and the divisional structure, by di-

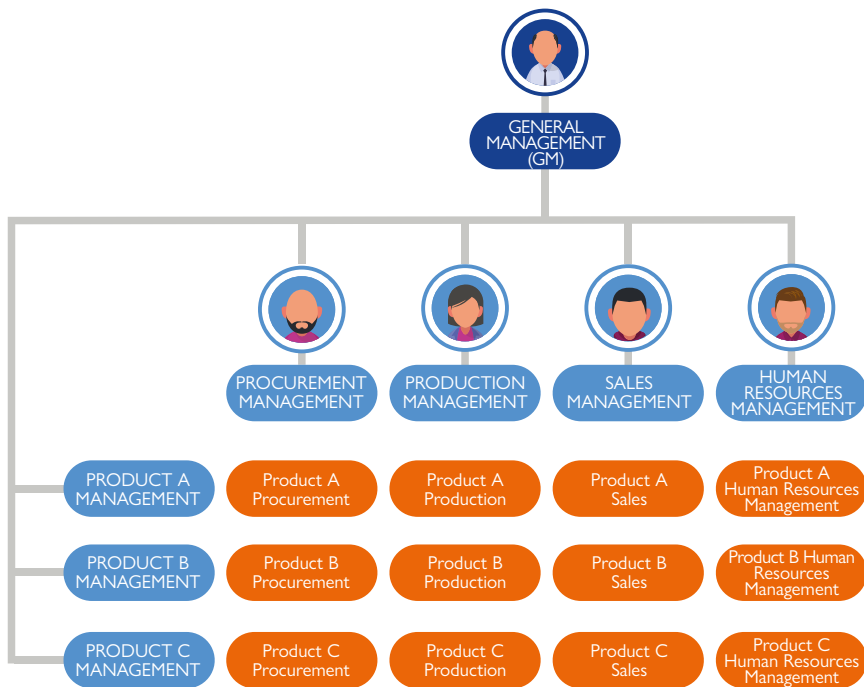


Fig. 5 - Matrix organizational structure chart



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viding the positions and departments first by function and then by division. In this case, resources are used at the same time for a single function (such as marketing) and for a product manager. This structure is rather complex, but it makes the company highly flexible when it comes to using and sharing expertise. Human resources do not have a fixed role in the company and different projects are assigned to them from time to time, depending on the product/service on which they need to work. The main advantages of this model are: flexibility, the possibility of involving and motivating the staff and continuous innovation. The disadvantages, on the other hand, are mainly due to the high planning and implementation costs. As an example, this type of structure is adopted by consulting firms or construction companies.

HUMAN RESOURCES DO NOT HAVE A FIXED ROLE IN THE COMPANY AND DIFFERENT PROJECTS ARE ASSIGNED TO THEM FROM TIME TO TIME

Finally, recent trends in organization and corporate culture are worth mentioning. A **learning organization** is a horizontal way of comparing functions, while assuming that nowadays human resources are becoming increasingly skilled and trained, and that therefore it is not always necessary to implement a vertical hierarchical organization. A horizontal management structure allows the company to adapt to changes more quickly: by its very nature, a learning organization requires that human resources be continuously trained and updated. This type of organization is useful for small companies, especially in the consulting sector, where a high level of innovation is required.

# 8

## MULTICULTURALISM AND ENTERPRISE

MULTICULTURAL DIVERSITY IS AN INCREASINGLY IMPORTANT ASPECT OF THE STRUCTURE OF OUR SOCIETY

People have a rich store of stories, experience, knowledge and culture. The global dimensions of the markets and the new technologies that have made the world smaller have considerably increased opportunities for physical and non-physical contact between different cultures.

Migration is a great resource for entrepreneurship. Migrants can maintain transnational relationships with their home countries, somehow becoming special bridges between two or more worlds. Transnational networks between different geographic areas allow entrepreneurs to create business activities, access new markets, transfer money, be socially committed in the involved communities and therefore to bring great advantages to their home countries. At the same time, transnational networks promote exchanges with host countries, thus stimulating the circulation of new products, ideas and services, or new combinations of existing ones (Ambrosini, 2017). Multicultural diversity is an increasingly important aspect of the structure of our society and it is also changing the way people do business. This change has already affected English-speaking markets, which are characterized by many different cultures, and it is also starting to affect the Italian market, where first and second-generation migrants are increasingly well educated, skilled, motivated and included.

Recent research on diversity management supported by the McKinsey group has studied the American, British, German and South



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American markets (Hunt, Layton and Prince, 2015) and shown very interesting results regarding the value of multiculturalism in companies, finding that multicultural companies achieve better results in terms of organization and profitability. In line with other studies, this research shows that multicultural companies have a higher **level of creativity and innovation**. Often, cultural paradigms and response to problems are standardized in homogeneous groups; in multicultural groups, on the contrary, it is easier for people with different visions, experiences and cultural models to exchange ideas with each other, to offer different points of view and therefore to think of better and alternative solutions to problems. **Multicultural companies** have a strong **customer orientation** and they can better collect and use information about the market thanks to their varied cultural composition. Multicultural companies also have a broader **knowledge** of the habits, customs and consumers in an ever-increasing share of the market. This allows the company to expand its cultural and experiential know-how. Finally, the **level of satisfaction and motivation of human resources is higher** in multicultural companies: the staff can experience different cultures by coming into direct contact with diversity and thus getting an opportunity to mitigate prejudice due to stereotypes.

Many migrant entrepreneurs or entrepreneurs with a migratory background (such as second-generation migrants) have started com-

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panies together with natives of host countries in various industries and have launched new types of products and services on the local and foreign markets. Many companies founded by migrants are moving from markets based on the needs of cultural niches to a mainstream market also aimed at natives. Such companies are changing the organizational and market structures, while new participatory models are emerging where entrepreneurs from different cultural backgrounds become business partners thus creating business multiculturalism. It should be noted that this phenomenon can be an advantage in terms of profitability and productivity, also due to a wider access to information and to the above-mentioned transnational networks (Arrighetti, Bolzani, Lasagni, 2014).

**In Italy, companies are beginning to seize the strategic opportunity of hiring multicultural teams.**

IKEA in Sesto Fiorentino is a good example of management practices aimed at enhancing the cultural identity of human resources. Taking into account the high percentage of foreign residents in the area, IKEA has hired human resources based on the criterion that its staff should reflect the demographic composition of the area. This strategy has allowed IKEA to reach a new niche market (communities of foreign residents), thus increasing and strengthening its brand reputation as a company that cares for diversity and social responsibility. Multiculturalism is therefore a growing phenomenon that offers great opportunities for companies.

# 9

## DOING BUSINESS IN DEVELOPING COUNTRIES

The development of a country is mainly measured by economic indicators, such as GDP (Gross Domestic Product) per capita, combined with other indicators, such as literacy rate or life expectancy.

In economics and finance, developing countries are defined as those countries whose growth indicators (such as living standards, income levels and industrial development) are still relatively low.

These countries can provide strategic and interesting opportunities to start a company or an import-export business. Investing in a developing country is undoubtedly a major challenge: often, working in a developing country means working in a country with poor infrastructure and services (roads, electricity, telecommunications, health systems and so on).

While these elements affect the possibilities for business development, they are also potential opportunities. Entrepreneurs with a migratory background, who have knowledge of the local context and have acquired skills and know-how in a more developed country, certainly have an advantage in this regard.

Doing business in (or with) developing countries requires knowledge of the social, cultural and political environment, as well as of the customs and needs of the local population, which makes it necessary

INVESTING IN  
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AVAILABLE FROM  
INTERNATIONAL  
INSTITUTIONS

to carefully examine the industrial development and the availability of natural resources, and to know the framework agreements that the relevant country has undertaken with other countries or institutions. It is also useful to know whether economic incentives (including donations) are available from international institutions in developing countries; such incentives are often given to businesses that support disadvantaged people or invest in priority industries. In this case, help can be sought from networks of local or foreign NGOs, which often receive structural funds sent to the relevant country through the ministries involved. Various useful information about development programmes is available on the website of the European Union and of the Italian Agency for Development Cooperation (AICS).

Access to bank credit can be extremely complex and expensive, because of the high risk of failure to repay loans or the very long repayment periods involved. It is therefore advisable to also consider starting a business with transnational networks of people, institutions or partners. For detailed information about the business potential of individual countries, reference should be made to the foreign markets portal of the Italian Ministry of Foreign Affairs.<sup>2</sup>

“ *It doesn't make sense to hire smart people and tell them what to do; we hire smart people so they can tell us what to do.*

*Steve Jobs*

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<sup>2</sup> [www.infomercatiesteri.it](http://www.infomercatiesteri.it)

# 10

## CONCLUSIONS AND TRENDS

Doing business can be very challenging, creative and profitable, but it requires vision, training, perseverance, motivation, capital and access to knowledge networks.

Nowadays, companies no longer operate in their local market only, but they are in fact global, with access to large markets, both physical and virtual.

In conclusion, some of the most important aspects of starting a company are summarized below:

- ▶ **Innovation:** in highly competitive markets, having a focus on innovation is of critical importance. Investing in research and development can prove decisive in offering innovative solutions at competitive costs in the market.
- ▶ **Market vision:** it is essential to keep an eye on what happens in the physical or virtual markets the company operates in, and to listen to people and to communicate with customers, so as to know their needs and be able to anticipate them.
- ▶ **Cost and process optimization:** sometimes, it can be of strategic importance and more economical to outsource services or production. In this view, it may be advisable to hire vehicles, goods



and equipment instead of purchasing them, so as to maintain the liquidity necessary for possible investments and to reduce the need for external funds.

- ▶ **The value of communities and fair-profit economy:** doing business involves responsibilities. Creating value for the community makes it possible to improve consumer welfare, to encourage the development of the society where the company is located and, ultimately, to foster the growth of the social fabric and economic well-being. The concept of fair profit refers to all social equity practices that enrich companies and at the same time encourage models for the virtuous and sustainable development of the society.
- ▶ **Green economy:** in the light of the above, it is essential to consider economic models that safeguard the environment by reducing the environmental impact of production processes. Reducing the environmental impact and creating a sustainable company should be the first goal of any business activity.

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# Elements of **marketing**



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## TABLE OF CONTENTS

1	DESCRIPTION OF THIS MODULE	5
2	MARKETING AND ITS ORIGINS	7
3	THE MARKET: A BROAD AND COMPLEX SCENARIO	10
4	CUSTOMERS	13
	4.a The hierarchy of needs and motivations	13
	4.b The human being as an information processor with many relations	15
5	SEGMENTATION, TARGETING AND POSITIONING	18
6	THE MARKETING INFORMATION SYSTEM AND MARKET RESEARCH	23
7	THE MARKETING MIX	26
8	THE COMPANY-TO-CONSUMER RELATIONSHIP: TRENDS	31
9	INTERNET MARKETING	35
10	CONCLUSIONS AND TRENDS	37
	BIBLIOGRAPHY	39

# 1

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## DESCRIPTION OF THIS MODULE

In this module, we are going to talk about marketing and the relationship between the company and its customers.<sup>1</sup> Nowadays, companies are increasingly focusing on customers, which in fact can be considered as long-term partners. We are going to look at the challenges that the company faces in its own environment, which is made up of many different parties, including competitors, and political and social systems. We are going to discuss theories that describe people's buying behaviour and how needs become motivation to buy. We are going to look at market research, which helps companies identify their target consumers, and at the strategies that can be adopted to achieve the objectives set. Finally, we are going to look at new trends in the field and at how the web is changing interactions and offering great opportunities for companies.

Before moving on to the next sections, a few preliminary remarks are worth making. First, this module focuses mainly on Business-2Consumer (B2C) marketing, that is final consumer marketing. Although the operational mechanisms of Business2Business (B2B) marketing are not much different from those of B2C marketing, they require further examination, for which reference should be made to the bibliography. Secondly, this module addresses mechanisms of

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1 Recommended reading: *Fondamenti di Marketing*, Blythe, Cedrola and Pearson, 2013.

traditional companies, but they can also be applied to companies with a social impact, although the terminology may slightly vary in some cases. Finally, the term “product” also includes services: marketing theorists consider products as a “set of benefits”, without distinguishing between products and services.

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# 2

## MARKETING AND ITS ORIGINS

In the last century, mass production became very popular: for the first time in human history, the production of goods had an industrial nature. For example, the first car manufacturing companies were created, such as Ford in the United States, which in 1908 produced the first car model for sale to the public. The production targets of the few companies existing at that time were based almost only on the quantity of the goods produced. In fact, given the low supply, consumers bought whatever product was available on the market. Subsequently, companies began producing all types of goods and focusing no longer on quantity but on product quality, while keeping costs affordable.

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This change in the corporate philosophy, which became oriented to the interests of consumers, that is **sales oriented**, occurred when supply, namely production, exceeded demand, that is the ability of the market to buy and pay for the goods offered.

At the beginning, the role of the sales department was connected with the ability to sell the highest number of goods to achieve the business objectives set. However, as production, and the well-being and purchasing power of customers increased, the focus was shifted to individuals and their needs.

The so-called **relational marketing** emerged, which focused on the **customer** and not the sale. Moreover, social responsibility issues

are becoming increasingly important today, and company marketing needs to show to the large network of consumers the environmental and sustainability choices that the company makes.

Marketing was born in the 1950s in the United States. In fact, people have always used it informally and unconsciously: ever since people have exchanged goods, they have used marketing techniques.

Philip Kotler, the father of modern marketing, defines marketing as the “social process through which individuals and groups fulfil their needs by creating, offering and exchanging valuable products and services” (Kotler, Keller and Ancarani, 2017). This definition highlights a key element of marketing: **the exchange of goods and services must fulfil a need** and it must lead to a win-win strategy (Fig. 1), where both the manufacturer and the consumer win. It is no coincidence that nowadays the concept of **prosumer** has emerged. This term comes from the combination of the words **producer** and **consumer**.

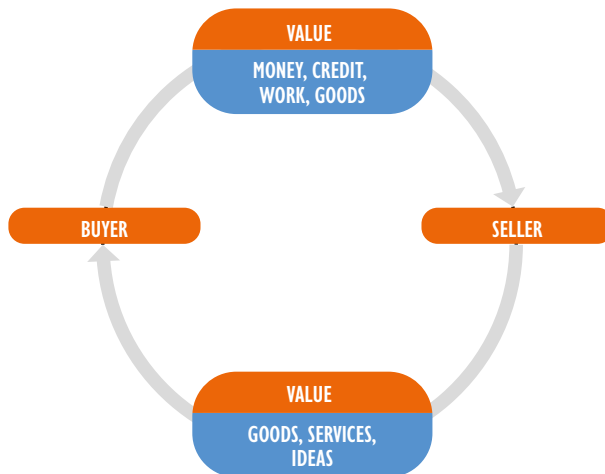


Fig. 1 - The buyer-seller exchange



The word **prosumer** is used to highlight the fact that consumers play an active role and are more aware when making purchasing decisions, and, above all, they are increasingly involved in the production. An example can be found in the renewable energy industry, where consumers generate electricity through photovoltaic panels and are therefore producers and consumers at the same time.

For a company to be able to trade goods and services, it must be able to identify the right target customers, for whom it can create value and stand out from competitors. This is **the purpose of marketing: to know the needs of customers** and to understand how best to meet them. Obviously, in order to create value, it is first necessary to look for information about the reference market and about the potential competitors and partners in this market.

“ *Every company's greatest assets are its customers, because without customers there is no company.*

*Michael Leboeuf*

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# 3

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## THE MARKET: A BROAD AND COMPLEX SCENARIO

The word marketing come from the Latin word *mercatus*, which means market. In a physical or virtual market, there are, work and operate many different players. The health of a market depends on the balance conditions between all the parties operating in it.

As shown in figure 2 (Fig. 2), the **micro-environment** around a company includes the parties with which the company interacts most directly and frequently: first, there are **customers**, then **suppliers**, that is those from whom the entrepreneur buys strategic services or products for their company. In addition to these players, there are **competitors**, and finally **intermediaries**, such as wholesalers and retailers, who can play a key role in distribution channels.

The **macro-environment** is made up of factors (the so-called **systems**) that have a long-term influence on the market and the development of the company.

The **economic system** includes all the factors that influence consumer purchasing power and spending patterns. It allows the entrepreneur to understand how people live, whether they are based on a subsistence economy or are ready to spend money to purchase more advanced services.

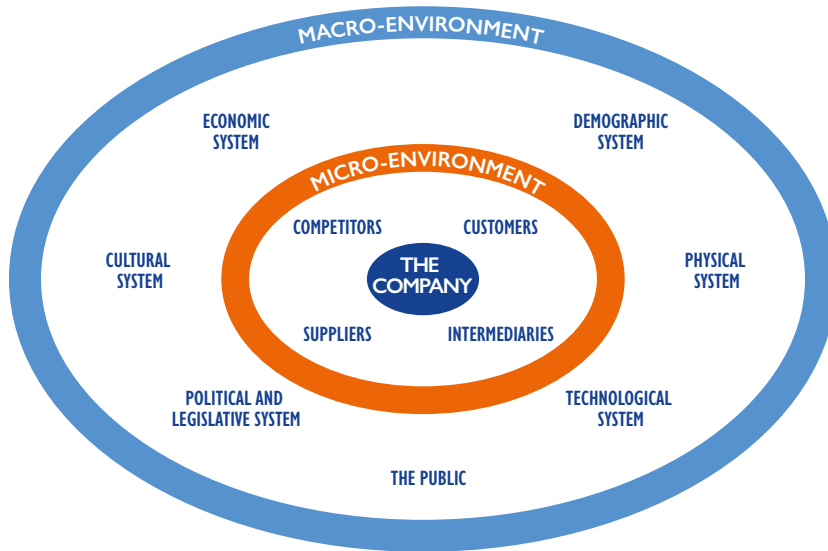


Fig. 2 - The company in the market macro- and micro-environment

The **demographic system** provides information about the demographic trend of the population: age, housing and family choices, migration, employment rates, level of education and so on.

The **physical system** includes the set of natural and environmental resources available in the market environment, while the **technological system** allows the entrepreneur to understand whether an environment is rapidly changing and whether innovation is possible. For example, the Internet, which is a particular channel for promoting products, is an important opportunity for companies.

THE INTERNET IS A PARTICULAR CHANNEL FOR PROMOTING PRODUCTS

Another important macro-dimension is the **political and legislative system**, which can encourage business by passing laws that foster the markets or hamper the development of individuals. Social and political dynamics affect the market either positively, when certain stable conditions create expectations of economic growth, or negatively, when political instability leads to a sharp fall in people's purchasing power.

CULTURAL  
DIFFERENCES  
REQUIRE AN  
ADJUSTMENT  
OF MARKETING  
POLICIES

The **cultural system** of reference is the set of basic values that influence the purchasing decisions of a community. Companies wishing to operate in transnational markets should carefully consider intercultural variables. In fact, cultural differences require an adjustment of marketing policies, which often affect aspects of a religious or linguistic nature and are connected with the system of values and beliefs of the community, its expectations and its behaviour.

It is therefore important to seek help from intermediaries who can offer the key to understanding such intercultural variables, and, above all, to be aware that an **ethnocentric interpretation of the culture of the area where the company intends to sell its products** can lead the entrepreneur to make risky investments and to offend other cultures thus damaging the image of the company. There is a lot of literature on this subject; the works by Trompenaars and Turner (2004) and Hofstede, who developed multidimensional models of understanding cultures, are particularly important and worth mentioning (Hofstede, Hofstede and Minkow, 2014).

Finally, the macro-environment also includes the **public sector**, which is represented by transnational institutions and agencies, such as financing institutions, banks and sector agencies that can affect the conditions the company operates in. It also includes the **mass media**, which can affect business and markets development conditions through news coverage, and **citizens' movements**, which are represented by pressure groups, such as Green Peace or consumer associations, and which can reach a wide audience and influence the purchasing decisions of the public thanks to new network technologies.

The environment and the nearby and remote forces that act on it are to all intents and purposes the humus where the company grows, operates and gets stronger. It is therefore very important to take these aspects into account.

# 4

## CUSTOMERS

As mentioned above, consumers, which have increasingly become potential long-term partners, play a central role in the success of a company. It is therefore essential to know the needs of customers, to understand how customers make purchasing decisions and how to establish a relationship of trust with them. Much of the information about purchasing decisions and consumer needs is based on social science findings, in particular on psychology findings.

### 4.a The hierarchy of needs and motivations

In the 1950s, American psychologist Abraham Maslow published his work on the motivation of people (Maslow, 1954). In Maslow's pyramid (Fig. 3), the author theorizes about a hierarchy of needs. Although the pyramid may vary depending on culture, historical period and individual differences, it is an important reference model that has proven useful in understanding the needs of human beings.

At the base of the pyramid are the **primary needs**: physiological needs connected with self-preservation, such as food, sleep and clothes, and safety needs: safety, employment, family, health and property. The next step of the pyramid are **psychological** needs, such as intimacy, friendship, self-esteem and respect. The last set in the hierarchy is the **need for self-realization**, which is the realization of the self, like utilizing and developing literary, creative and artistic talents and abilities. It is important to highlight that Maslow's

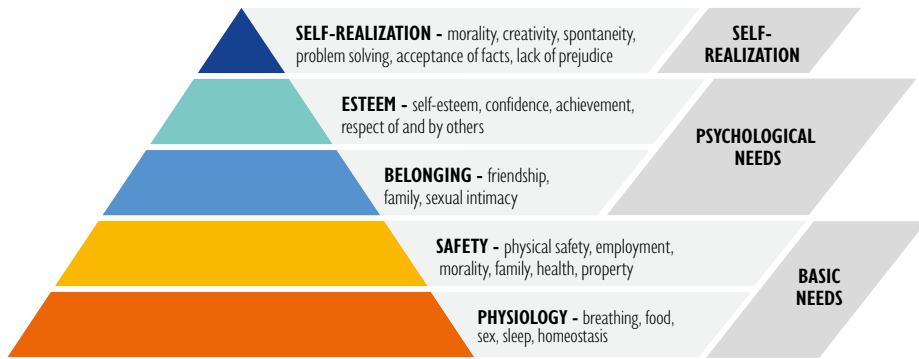


Fig. 3 - Maslow's pyramid of needs (1954)

theory proposes a hierarchy of satisfaction of needs, which means that primary needs are satisfied before secondary needs. According to his theory, it would make little sense to offer services and products that aim to satisfy secondary needs, such as the need for self-esteem (like wearing brand clothing, which gives an individual a status in a social group), in markets where the primary need for shelter from cold has not yet been satisfied. Although the world has changed and globalization nowadays has slightly altered the perception of the hierarchy of needs, Maslow's model remains a valuable contribution in that it has been able to grasp the aspects that regulate human needs and to link them to the motivation to act to satisfy such needs.

However, human beings do not live in isolation: they live in physical – and, thanks to the web, recently also virtual – communities where they interact with each other. What, then, are the psychological and social mechanisms that influence purchasing decisions?

## 4.b The human being as an information processor with many relations

Models on purchasing decision making are based on important research on the rationality and relational behaviour of individuals.

The impulse to buy goods can come from a need, for example the need for shelter (which is a **functional need**), or from the pleasure of owning something, for example an expensive piece of clothing (in this case, to meet a **hedonistic need**, as it is connected to aesthetic features of the product). An internal stimulus, or drive, arises because there is a gap between the actual state and the desired state. For example, hunger creates an urge to look for food. People working in marketing do not affect the actual state, namely hunger, but the desired state, thus influencing customers to buy specific products.

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AN INTERNAL  
STIMULUS ARISES  
BECAUSE THERE IS  
A GAP BETWEEN  
THE ACTUAL  
STATE AND THE  
DESIRED STATE

Before a consumer decides to buy a product, they must need it. This need will eventually lead the consumer to compare their own experience with the experience of other consumers and to look for information on the web, thus acting as shown in Fig. 4. The purchasing decision process is affected by several personal, social and cultural factors, which are listed below:

- ▶ **Psychological factors:** human beings tend to reduce complexity. The world around us is full of countless stimuli, which our brain tends to reduce by **dividing** them into categories that are easier to organize. **Perception and memory** play a key role in this information processing mechanism.
- ▶ **Social factors:** the human being is a highly social animal who lives in actual social reference groups, such as primary groups, like family or peer groups. Social belonging has a strong influence on people, as it can affect the decision-making of individuals, who tend to adhere to group values. The need for **social approval** from the group is often so strong that it affects the decision-making of individuals also when they interact with certain categories,

### Feedback stages

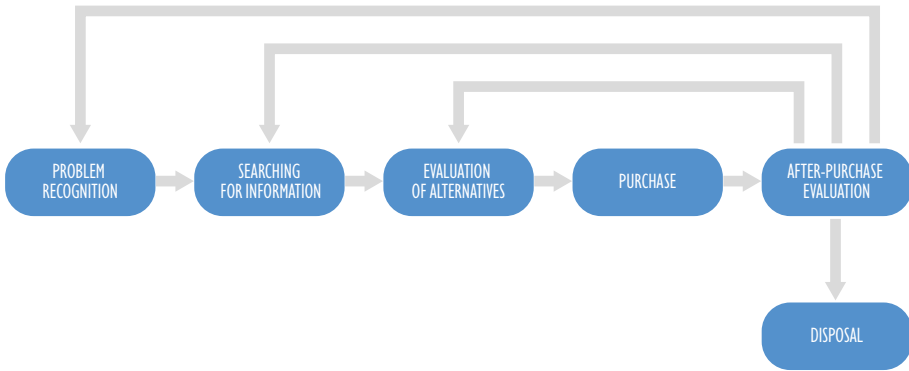


Fig. 4 - The purchasing decision process

SOCIAL BELONGING HAS A STRONG INFLUENCE ON PEOPLE, AS IT CAN AFFECT THE DECISION-MAKING OF INDIVIDUALS

such as online communities,<sup>2</sup> where members do not know each other personally. The role played by individuals within a group is also of fundamental importance for buying decisions: the roles played by mothers, children and teachers somehow affect their respective decision-making.

- **Cultural factors:** cultural factors deeply influence the decision-making of individuals. Such factors include the values, beliefs, languages and customs of a certain culture or subculture. For example, belonging to a **social class** or just the desire to belong to it defines the series of choices an individual will make in their life (for example, being born to a given caste in a certain culture influences the choice of education, housing and so on).

As mentioned above, **the importance of marketing lies in establishing a relationship with customers**, not only in knowing their characteristics and buying decisions. Therefore, taking utmost care

2 The difference between group and category lies in the type of interaction: while members of a group build direct relations with each other, members of a category do not know each other. For example, a woman can be part of a volleyball team and at the same time belong to different categories, such as the category of mothers, workers, housewives, and the like.

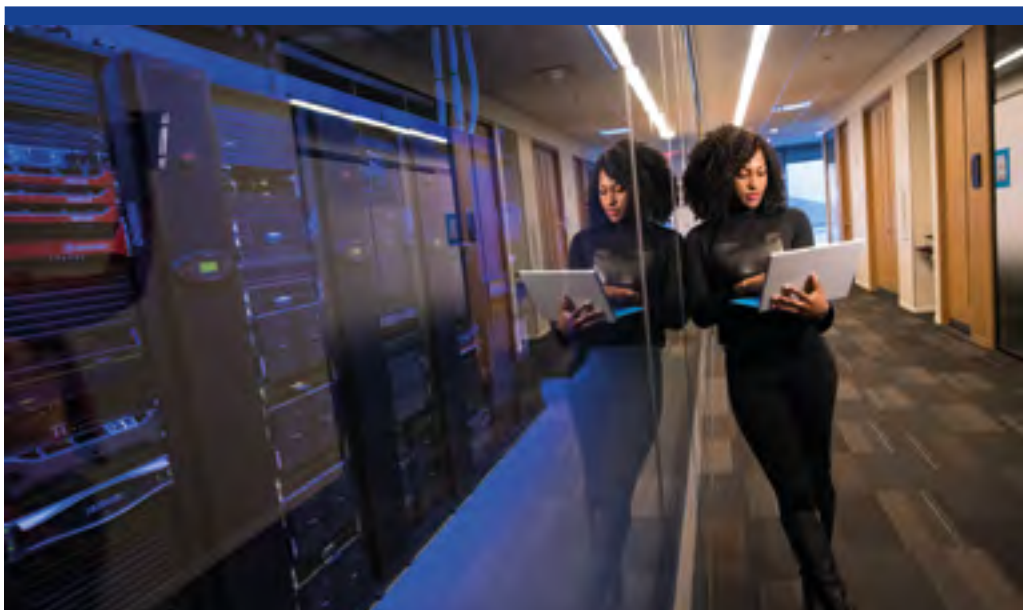


of customers during all the stages of purchase is very important (fig. 4). In particular, the importance of post-purchase evaluation should never be underestimated, and customers should be carefully listened to (for example, via email or chat). At this stage, customers give their feedback on a product or a problem and it can be of strategic importance for the company to know its strengths and weaknesses and to support the relationship with customers as long as possible. In the following sections, we are going to look at which strategies, or mix of strategies, the entrepreneur should follow to strengthen relationships with customers. At this stage, communication, channels, product, price and other variables come into play. Let's focus now on one important aspect: what does the entrepreneur know about customers before they make a purchasing decision, and how can the entrepreneur invest their energy and resources in the right customer segment?

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THE IMPORTANCE  
OF POST-PURCHASE  
EVALUATION  
SHOULD NEVER BE  
UNDERESTIMATED

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# 5

## SEGMENTATION, TARGETING AND POSITIONING

To obtain accurate data on the market, an entrepreneur should know their customers, their needs, and the products and services offered by their competitors. Hence the need to segment the markets, identify the target customers and position the company among its competitors, as shown in Fig. 5.

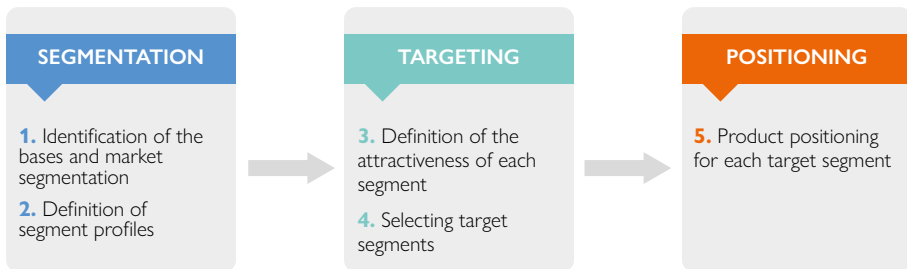


Fig. 5 - Target market orientation: the stage

Through **segmentation**, the company divides consumers into groups according to their needs. Segmentation is extremely useful, as it allows the company to know consumers and to represent them through groups, called market segments. The most common variables used are:

- ▶ **Demographic variables:** for example, age, gender, level of education, size of family, economic conditions, employment, religion and nationality. In the real estate market, for example, this data can be useful to define the segment “purchasing first home” or “purchasing holiday home”.
- ▶ **Geographical variables:** in this type of segmentation, the market is subdivided by areas of residence, such as countries, provinces, cities, districts or rural areas. The company can decide to operate in one or more of such areas by identifying their needs.
- ▶ **Psychographic variables:** psychographic variables are based on social class, lifestyle and psychological, social and cultural variables, such as being a member of opinion groups, sports groups and the like.
- ▶ **Behavioural variables:** behavioural variables tell the company how people know and use certain tools or products, for example, how they do their shopping: online or in a brick-and-mortar shop, how many times a month and where.

Once the market has been segmented, **targeting** allows the entrepreneur or the marketing manager, depending on the company, to choose the most appropriate strategies to select the target segment(s). The following are the three basic strategy options (Fig. 6):

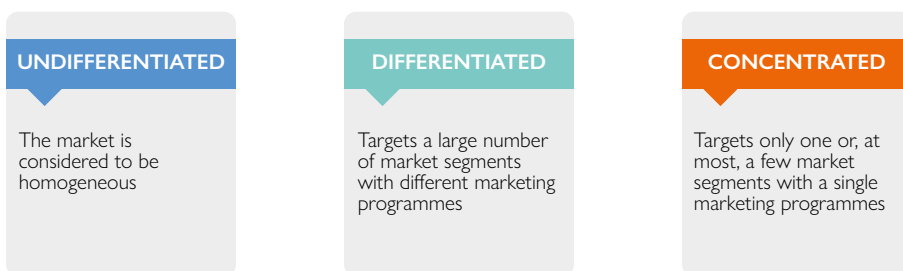


Fig. 6 - Marketing strategies

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MASS MARKETING  
IS A STRATEGY TO  
BE USED WHEN  
THE PRODUCTS  
REQUIRES FEW  
ADAPTATIONS  
OVER TIME

- ▶ **Undifferentiated marketing:** this strategy is generally applied to **mass markets** with little segmentation. Customers use the relevant product or service regardless of whether they belong to a certain segment. This type of approach is typical of consumer goods, for example Coca-Cola, which uses one single recipe for the entire global market. Mass marketing is a strategy to be used when the product requires few adaptations over time and when the company is sure that it is highly competitive and able to communicate with a few key messages, given that the desire for the relevant product is based on universal values.
- ▶ The second strategy is **differentiated marketing**, according to which different market targets are selected that are important to the company and the most appropriate marketing strategy is then developed for each segment. In this scenario, it is essential to differentiate the product, which needs to meet the specific requirements of the relevant targets. A good example of this case are car companies that produce different vehicles for different consumer groups and targets, such as small cars, minivans, vans and high-end cars. Differentiated marketing often involves high costs, which are necessary to differentiate the product and innovate it, and to differentiate communication for each target segment.
- ▶ With **concentrated marketing**, the company targets only one single market segment. The company specializes in a single product and concentrates its communication and distribution strategy on a single segment. Concentrated marketing can be rewarding when the company manages to meet exactly the required need, but it can also be risky if the entrepreneur specializes for the wrong target or fails to predict the purchasing trends in the target segment. A good example of a concentrated marketing strategy is that of the company Lamborghini, which produces luxury cars, therefore targeting only a particular segment of buyers.

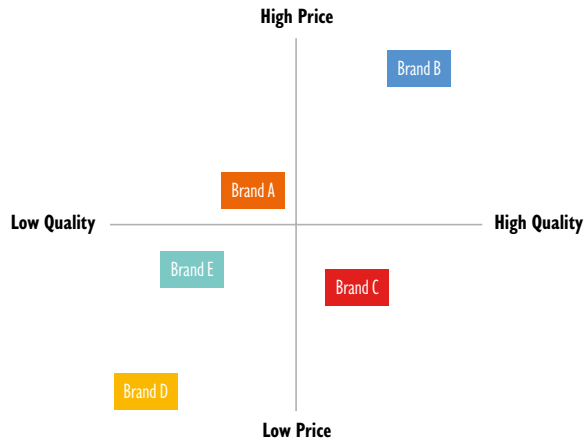


Fig. 7 - Example of a positioning map

Finally, through **positioning**, the company can assess how consumers perceive a product by creating a sort of perceptual map where several factors are taken into account for each product offered, including products offered by competitors, as shown in Fig. 7. In this case, the map only shows two factors: price and quality, but it could take into account several further aspects, such as the distribution or the ease of availability of a product. The positioning map is useful, because it clearly shows which areas are uncovered and therefore should be invested in.

THE POSITIONING MAP IS USEFUL, BECAUSE IT CLEARLY SHOWS WHICH AREAS ARE UNCOVERED

After segmenting the market, choosing the target and deciding which positioning strategy to pursue, the company is in a better position to make sales forecasts. To do so, two approaches can be used: break-down and build-up.

The break-down approach considers the market of a specific product category (for example, the consumption of pasta in Romania) and estimates the market share that the company can acquire. The build-up approach starts by analysing individual market segments, so as to obtain the total market share of the product (for example, how much pasta the individual segments consume over a year). Estimates give entrepreneurs the opportunity to make sales forecasts and then decide whether to invest in the relevant market or not.

We have looked at which strategies can be applied to target markets, but another important aspect should be taken into account: how can an entrepreneur learn about the use and consumption habits of potential customers? The answer is easy: by systematically examining industry research and historical consumption and sales data, which allow the entrepreneur to collect a lot of information. Let's see how this can be done in the next section.

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# 6

## THE MARKETING INFORMATION SYSTEM AND MARKET RESEARCH

**M**arketing requires constant information on the environment where the company operates and the target market. Kotler and Keller define the **marketing information system** as an “integrated structure of people, equipment and procedures to gather, analyse and evaluate accurate information to guide market decisions” (Kotler and Keller, 2007). Both company-internal data, such as the consumption and sales history, and external data can be collected and analysed, by using data collected by different information providers or through market research (Tab. 1) shows a list of some information providers). It is very important to collect information about the entire environment where the company operates, such as consumers, competitors, the social, political and cultural system and so forth, in order to have as many elements as possible to carry out a cost/benefit analysis.

Once the area of interest has been identified, when searching for information, the data that has been already collected or that can be easily obtained from providers should be analysed first. Only after doing so and only if more detailed analyses are necessary, should market research be carried out, as it usually involves high costs and it would be reasonable only if important benefits can be derived from it.

IT IS VERY  
IMPORTANT  
TO COLLECT  
INFORMATION  
ABOUT  
THE ENTIRE  
ENVIRONMENT  
WHERE THE  
COMPANY  
OPERATES

<b>Company's internal sources</b>	Profit and loss account, statement of assets and liabilities, sales statistics and reports, stock movements, research carried out in the past, etc.
<b>Istat and Eurostat</b>	Population and industrial trends, household consumption and business investment, sector studies, general economic indicators, etc.
<b>European Union</b>	Sector studies
<b>Ministries</b>	Sector studies
<b>Bank of Italy to European Central Bank</b>	Sector studies and studies on general economic trends
<b>ICE (Italian governmental agency for the support of the business development of Italian companies abroad and for the internationalization of Italian companies)</b>	Country sheets and sector analysis
<b>OECD (Organization of the most developed countries)</b>	Sector studies and studies on general economic trends
<b>CNEL (National Council of Economy and Labor) and Eurispes</b>	Studies of social and economic interest
<b>Local authorities (regions, provinces, municipalities)</b>	Sector studies of local interest
<b>Trade associations (Assindustria, Confindustria, Confartigianato, Chambers of Commerce, etc.)</b>	Sector studies
<b>Books and periodicals</b>	Articles, reports, analyses in the fields of economics, finance, technology, political relations, negotiation, etc.

Tab. 1 - Some data sources

**Market research** is a survey aimed at analysing consumer preferences and needs. It usually analyses specific aspects, such as product testing, studies on the effectiveness of advertising messages or the like. As mentioned above, market research takes into account the environment where the company operates, as well as competitor offerings in the relevant field (products, distribution, sales and so on).

There is qualitative and quantitative market research. **Qualitative** market research allows entrepreneurs to deeply analyse a subject matter, for example, the reasons why a certain product is preferred over others, finding out the most widely used buying channels or the like. Qualitative techniques are based on **individual interviews** or working



groups, such as **focus groups**,<sup>3</sup> which are methods that allow direct interaction with individuals and in-depth study of the subject matter.

**Quantitative** market research, on the other hand, is useful when it is necessary to collect numerical data about a specific subject.

For example, some questions that can be addressed when doing quantitative research are how many people drink tea in the morning within a certain population, or how many people have pets in their homes. These quantitative research methods, however, do not investigate the reasons why the study sample prefers a specific brand of tea or why it has decided to keep a pet, which is information of a qualitative nature.

The most commonly used quantitative techniques are **surveys**, which are carried out through questionnaires and interviews, **observation** and **experimentation**. Observation, one particular case of which is in-store observation, allows the observer to study consumer purchasing behaviour without influencing consumer decision-making. It is particularly useful with children, as they often may use non-verbal communication. A good information marketing system therefore needs to be integrated with data analysis carried out with a good mix of research. Once the necessary information has been collected, the company can analyse the best strategies to enter new markets or expand its markets.

The strategy that should be adopted is therefore to create a good marketing mix that allows the company to reach customers through all available means, that is with the right product, through the most appropriate channels and with a carefully planned promotion that reaches and intrigues consumers with the right price. We are going to look at these aspects in detail in the next section.

---

3 The focus group, also known as discussion group, is a method created by K. Lewin and R. K. Merton in the forties. A facilitator leads the discussion of target issues within the group.

A GOOD  
INFORMATION  
MARKETING  
SYSTEM NEEDS TO  
BE INTEGRATED  
WITH DATA  
ANALYSIS

# 7

---

## THE MARKETING MIX

**T**he marketing mix model was created by Mc Carthy in the 1960s. It comprises four main elements also known as the **four P's of marketing** which need to be combined together in order to achieve the target market objectives, that is the market segment objectives that have been previously identified. It is important to bear in mind that the elements overlap with each other and that they cannot be used individually to create the right recipe for marketing.

In addition to the four P's proposed by McCarthy, a fifth **P, People** (Fig. 8), has been added more recently. But what do the five P's stand for?

1. **Product**
2. **Price**
3. **Place**
4. **Promotion**
5. **People**

The element **product** includes everything connected with the product or service that the company intends to offer its customers (design, innovation, packaging and so on).



Fig. 8 - The five P's of the marketing mix

Marketing experts consider products as “sets of benefits”, because in addition to the most traditional benefit, which is use, products have several secondary benefits that increase their appeal, such as brand and packaging. For simplicity’s sake, we are going to consider products as consumer goods.<sup>4</sup> Every product has **primary features** – connected with their functionality – and **secondary features**, connected with a broader range of benefits. For example, the main function of water, which is a commodity or a common good, is to quench thirst. However, if it is promoted by creating a brand (we are going to look at the concept of branding, that is creating a brand image, in section 8), water can represent a healthy lifestyle for its users and thus become an elite product (this is the case with some types of mineral water that have been “branded” and offered on the market at very high prices).

IN ADDITION TO THE MOST TRADITIONAL BENEFIT, WHICH IS USE, PRODUCTS HAVE SEVERAL SECONDARY BENEFITS THAT INCREASE THEIR APPEAL

Each product has its own **life cycle**. Products are born, grow to maturity, and then gradually decline, as shown by the Boston Con-

<sup>4</sup> Consumer goods are aimed at the final consumer; that is the Business2Consumer market, while industrial goods are defined as those intended for processing, therefore for the Business2Business market. For any further information on Business2Business, reference should be made to the bibliography.

sulting Group matrix<sup>5</sup> in Fig. 9 about the market growth rate and the market share acquired by the company. The success of the company depends on predicting such life cycles and constantly innovating its offer.



Fig. 9 - The Boston Consulting Group matrix

When a product is launched on the market, it can be classified as a “question mark”, that is as a new product that has not yet gained any market share and the future demand for which is difficult to predict. After some time, the product can become a “star”, that is a good that has gained a certain market share and demand for which is expected to continue to grow. When demand for the product stops growing, it will be described as a “cash cow”, that is a good that has gained market share, but demand for which is not expected to grow. Finally, when demand for the product begins to decrease, it can be represented by the “dog” icon, which stands for goods that have a low market share and poor growth prospects. When the product reaches this stage of the life cycle, the company will decide to disinvest from it and focus on another good.

5 Boston Consulting Group - [www.bcg.com](http://www.bcg.com)

The success of the company lies in predicting cycles and constantly innovating its offer.

The second P stands for **price**. Pricing policy is a complex issue. Companies need to identify a price that is fair for the target also when compared to competitor offerings and that does not reduce the value of the product.

The third P stands for **place**. The place is the **distribution channel** that the company chooses to use to reach its target segment. Normally, the place depends on the product or service offered. For example, if the company is a workshop that makes electric bicycles, it may need a display window to show its bicycles to the public.

Distribution channels should also be chosen according to the consumption habits in the target segment of the company. For example, some consumers prefer to shop in brick-and-mortar locations, such as shops or markets, while others prefer virtual spaces, such as Amazon and Alibaba. Selling on the most well-known online stores not only can make it easier for the company to sell its goods to consumers, but it also allows the company to reach a larger pool of potential customers; well-known online stores therefore also act as a means of promotion.

The last **P** of the model stands for **Promotion**. Promotion is the set of organizational, creative and economic activities aimed at launching and promoting a product or service on the market. A company can choose to use multiple channels and media simultaneously for promotion. Other promotion channels include word of mouth from loyal customers, traditional radio campaigns, TV, printed advertising or billboards, and combinations thereof with the potential offered by today's media, such as social network marketing, mobile advertising, direct mailing and so on.

A fifth **P**, which stands for **People**, has more recently been added to the original four P's. As already mentioned, the active role of today's

customers has become an important factor in corporate strategy. People are part of the success of a company and it is important to maintain direct communication with them. An example is lead nurturing, where potential customers are sent personalized messages to inform them about the company, thus making them feel part of the company's success story.

How can a good mix of elements be created to reach target customers? The data necessary to reply to this question are not always available at the beginning. Often the combination of the five P's needs to be fine-tuned during the launch of products on the market. Many large companies do so before they can find the right formula.

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# 8

## THE COMPANY-TO-CONSUMER RELATIONSHIP: TRENDS

The company-to-customer relationship has changed radically over time. Today, we live in the era where companies maintain **direct relations with consumers**. This is also possible thanks to the Internet, which allows to widely disseminate information and to establish important relationships between users. While the **traditional marketing** approach involved maintaining relationships with “consumers” considered as parts of a market segment, new trends in marketing aim to know consumers personally, making them share in the success of the company.

In this sense, the relationship that is established with individuals and their desires and needs throughout their lives plays a fundamental role. New trends therefore aim at a “two-way brand” formula, which focuses on the relationship with customers considered as long-term partners throughout their lives. This is how the concept of **relational marketing** was born, which focuses on the customer as a person whose needs change over time and who plays a broader role and has a broader identity, like a mother or father, a teacher, a worker and so on.

As shown in Tab. 2, the two approaches of traditional and relational marketing are different in some respects. **Relational marketing aims at customer retention** and therefore shifts the focus of the relationship to the lifetime value, while **traditional market-**

NEW TRENDS AIM AT A FORMULA WHICH FOCUSES ON THE RELATIONSHIP WITH CUSTOMERS THROUGHOUT THEIR LIVES

**ing aims at a single transaction or sale.** Furthermore, the approach based on building mutual relationships leads to closer intimacy with consumers. This approach requires constant dialogue, which can be achieved through increasingly accurate personalized communication.

TRADITIONAL MARKETING	RELATIONAL MARKETING
Focused on single sale	<b>Focused on customer retention</b>
Feature-oriented	<b>Benefit-oriented</b>
Narrow time horizon	<b>Wide time horizon</b>
Poor focus on customer service	<b>Strong focus on customer service</b>
Limited commitment to the customer	<b>High commitment to the customer</b>
Very little contact with customers	<b>Frequent contact with customers</b>
The production department is responsible for quality	<b>All departments are responsible for quality</b>

Tab 2. - Comparison between traditional and relational marketing

The growing interest in the branding process is also worth mentioning.

**Branding, or brand identity, is the process by which value is added to the product** by using a particular type of promotion, packaging, brand name and positioning in the minds of consumers. This process deserves attention, as it is increasingly used by company wishing to offer consumers not only a solution to their needs, but an actual lifestyle with which they can identify. In modern welfare societies, consumers are targeted every day by alternative ways of living. In this regard, tribal marketing is increasingly used. Tribal marketing encourages consumers to identify with particular virtual reference categories, for example the community of “those who wear a particular brand”, or “believe in a certain medical approach”. Such categories did not exist in the consumers’



minds before they were created by the brand through the positioning of a particular product.

In addition to relational marketing, **customer relationship marketing**, also known as CRM, has become increasingly widely used in recent years (Pepper and Rogers, 2004). Although this is a non-exhaustive definition, customer relationship marketing can be defined as the creation, development, maintenance and optimization of long-term, mutually beneficial relationships between the company and consumers. Successful CRM is therefore based on understanding the needs and desires of consumers, by putting them at the heart of the business and addressing such needs with business strategy, people and technology. Through CRM, people take part in the creation of the value of the company and are therefore at the heart of its strategy. Therefore, CRM focuses on acquiring, maintaining and increasing the number of customers, as shown in Tab. 3.

THROUGH CRM,  
PEOPLE TAKE  
PART IN THE  
CREATION OF THE  
VALUE OF THE  
COMPANY AND  
ARE THEREFORE  
AT THE HEART OF  
ITS STRATEGY

<b>Acquisition</b>	<ul style="list-style-type: none"> <li>• acquire profitable customers</li> </ul>
<b>Retention</b>	<ul style="list-style-type: none"> <li>• retain profitable customers for as long as possible</li> <li>• strengthen relationships with profitable customers</li> <li>• drop unprofitable customers</li> </ul>
<b>Growth</b>	<ul style="list-style-type: none"> <li>• promote cross-selling (sale of other products)</li> <li>• promote up-selling (sale of higher-end products)</li> <li>• encourage word of mouth</li> <li>• reduce operational and service costs</li> </ul>

Tab. 3 - Increasing the value of the customer base

Source: Adaptation from Peppers and Rogers, 2004, p. 5.

Focus is shifted definitively from gaining market shares to learning relationship, where the company learns how to offer customized products and services to its customers, while customers, in return, trust the company. An example of CRM is today's experience with supermarkets, which use loyalty programmes to learn about the consumption habits and frequency of customers or their house-

hold composition, while customers receive a series of benefits, such as discounts and gifts (Fig.10 shows the CRM strategy of a supermarket). For the relationship between the company and the consumer, or prosumer as mentioned before, to be lasting, the company needs to offer a series of consumer guarantees, such as credibility, transparency and reliability.

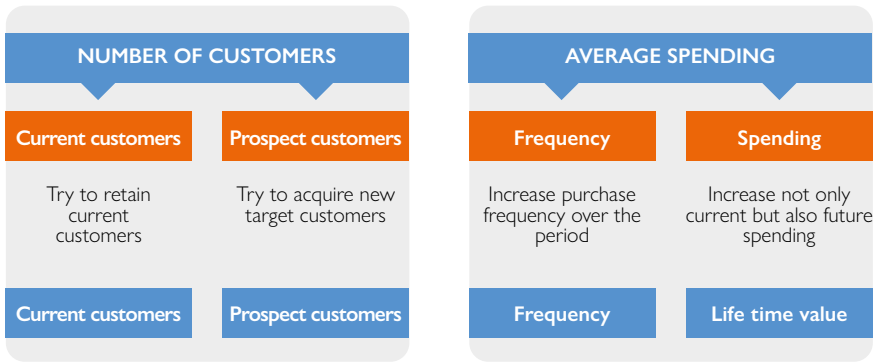


Fig. 10 - CRM objectives for a supermarket

# 9

## INTERNET MARKETING

**F**inally, in this section, we are going to look at marketing 2.0, which is the way in which most consumers and companies meet on the web nowadays. There are many benefits to using new technologies and the web and of course these benefits come with some risks that companies need to protect themselves from. The web has made it possible for both large and small companies to forge relationships with consumers all over the world, which is undoubtedly a great advantage. It has also made it possible for consumer groups to make their voices heard and to inform communities of unsustainable practices by governments, institutions or companies. Companies should therefore always pay particular attention to the communication they prepare and news concerning them.

Being on the web is undoubtedly an advantage for companies, as the web is a less expensive channel compared to more traditional ones, such as print advertising and television. The web, however, requires particular resources and the ability to constantly convey consistent messages through a well-defined plan.

**Marketing communication based on digital technologies has the advantage of targeting a very broad audience** and of offering the possibility of studying very creative tools that can touch people's hearts. It also allows companies to establish deep and strong relationships and to contact consumers more frequently. Websites

THE WEB HAS  
MADE IT POSSIBLE  
FOR BOTH LARGE  
AND SMALL  
COMPANIES  
TO FORGE  
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WITH  
CONSUMERS  
ALL OVER THE  
WORLD

offer companies increasingly better opportunities to tell their stories through the CRM strategy and to foster e-commerce.

Search engines now offer search marketing solutions, with which brands are shown to consumers directly in their virtual environment.

**E-advertising** allows companies to use banners, rich media (push-based advertising formats with various video, photo and audio content) and keyword advertising (links or banners associated with the company's keywords) to display their advertising messages on digital platforms.

By using **email marketing**, companies directly contact customers through newsletters and direct emails. Social media and blogs are playing an increasingly important role on the web. **Social media** are virtual environments where user communities have their own online personal pages and share information about the community by expressing personal opinions on various issues. **Blogs** are personal or thematic pages managed by people or by companies/associations. In particular, blogs have a significant influence on people's decision-making and buying-decision processes. Opinion influencers play a particular role among bloggers and often companies contact them to work with them, so that they can access their network and promote a positive perception of the products they offer.

Giving an exhaustive overview of the new marketing 2.0 tools is not possible, as web technologies change very quickly and every day new tools are created to enhance communication and interaction possibilities between people. Nevertheless, the web is considered as a valuable tool that allows even small companies to promote and meet partners, prosumers and consumers all over the world at low costs.

---

BLOGS HAVE A  
SIGNIFICANT  
INFLUENCE  
ON PEOPLE'S  
DECISION-  
MAKING AND  
BUYING-DECISION  
PROCESSES

# 10

## CONCLUSION AND TRENDS

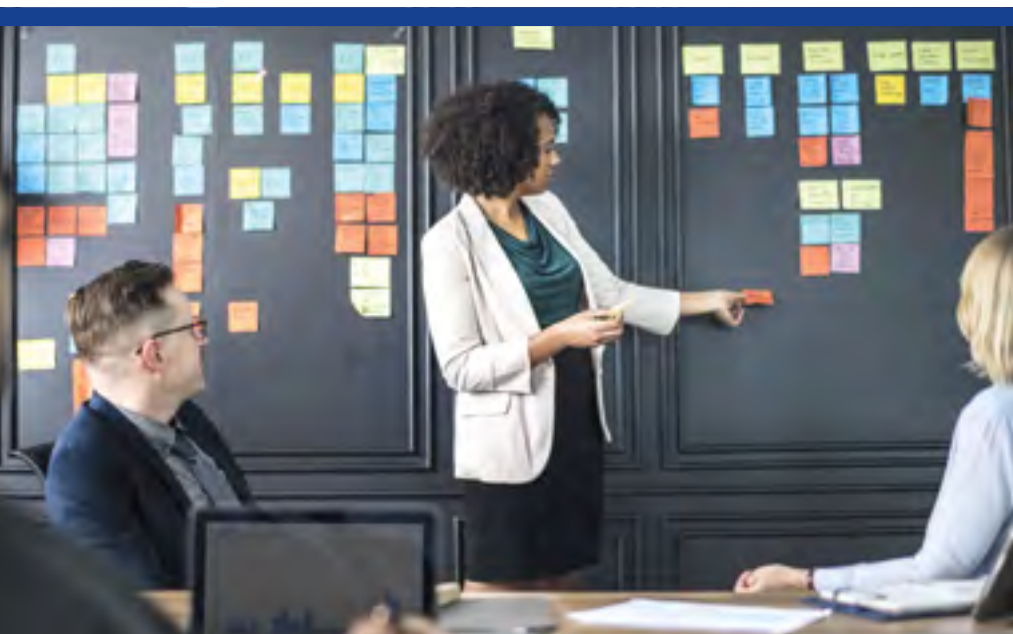
**M**arketing is a fascinating subject that has developed over the last century as a result of the need for companies to sell their products. Today, marketing offers fundamental ideas for cultivating relationships with consumers, thus helping companies to achieve success.

In conclusion, some of the most important tools available to companies that are covered in this module are summarized below:

- ▶ **The main objective of marketing is to know consumers and their needs** by establishing a long-term relationship with them.
- ▶ **Marketing is an exchange process between the company and its customers** within a system of values where both the company and its customers win.
- ▶ There are many different factors that **motivate people to buy and they vary from individual to individual**. Maslow's pyramid highlights a hierarchy of satisfaction of needs. There are many variables that affect purchasing behaviour, such as psychological, social, cultural factors and so on.
- ▶ **Segmentation allows markets to be prioritized according to the factors that are most important to companies**. By using targeting and positioning, companies can develop marketing strategies to reach the target segments.

- ▶ The **marketing information system combines information from inside and outside the company** through market research and consulting from available consultancy firms.
- ▶ The **marketing mix is the combination of elements that a company needs to use in order to reach customers** through promotion, channels, price and product.
- ▶ Today, more and more emphasis is placed on the company-to-consumer relationship. **The relational marketing paradigm is gradually replacing the vision of traditional marketing.**
- ▶ Finally, today the **web offers companies the great opportunity to reach consumers** on large technology platforms, which have the advantage of being inexpensive.

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# How to develop a **business plan**





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## TABLE OF CONTENTS

1	DESCRIPTION OF THIS MODULE	5
2	INTRODUCTION TO THE BUSINESS MODEL CANVAS	6
3	THE VALUE PROPOSITION	8
4	CUSTOMER SEGMENTS	11
5	CHANNELS	14
6	CUSTOMER RELATIONS	18
7	KEY ACTIVITIES	22
8	KEY RESOURCES	24
9	KEY PARTNERSHIPS	25
10	COST STRUCTURE	28
11	SOURCES OF PROFIT	31
12	THE BREAK-EVEN POINT	34
13	THE BUSINESS PLAN	40
14	CONCLUSIONS	45
	ANNEX I - BUSINESS PLAN	47
	BIBLIOGRAPHY	58

# 1

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## DESCRIPTION OF THIS MODULE

In this module, we are going to provide useful information to build a business plan. A business plan is a working document that presents the company to potential investors and lenders. The business plan defines, in a programmatic manner, the objectives, strategies and actions that the entrepreneur aims to achieve in order to conquer the market in a defined time frame and with the necessary financial resources. To help readers develop a business plan, we are going to introduce a simple method, the **business model canvas** by Alexander Osterwalder, which helps understand how a company operates. The advantages of the business model canvas lie in the simplicity of the visual language and its adaptability to any market sector (Osterwalder and Pigneur, 2012).

This module also includes the stories of some entrepreneurs, whose choices are going to help readers understand the strategies introduced.

---

THE BUSINESS PLAN DEFINES, IN A PROGRAMMATIC MANNER, THE ENTREPRENEUR'S OBJECTIVES, STRATEGIES AND ACTIONS

# 2

## INTRODUCTION TO THE BUSINESS MODEL CANVAS

The business model canvas is composed of nine blocks or sectors that help entrepreneurs to build their own business models (Fig. 1). The sectors presented are not clearly separated, and the themes and factors that make up the blocks may often overlap.

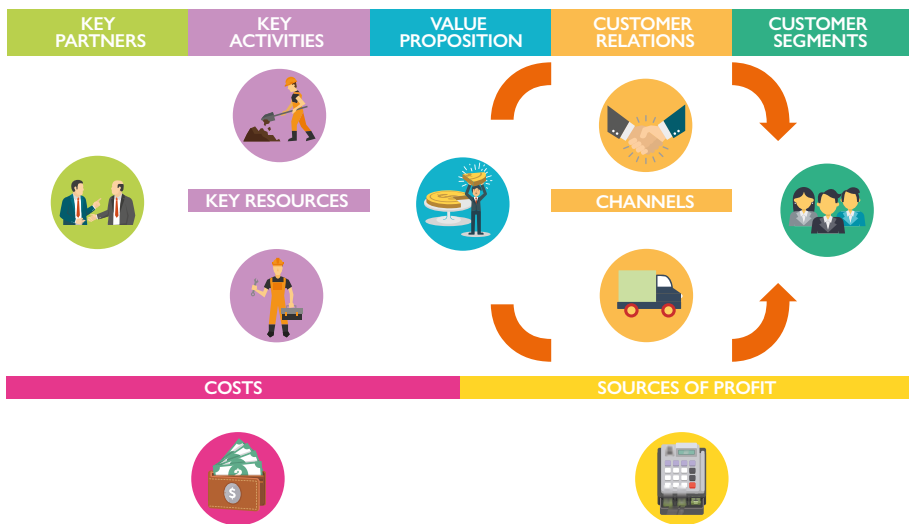


Fig. 1 - The business model canvas

To begin with, entrepreneurs should ask themselves what their **value proposition** is and what products and services they are going to offer their customers. In order to create a value proposition, entrepreneurs need to have good knowledge of the **customer segments** they intend to target and of their main characteristics, needs and problems. We are going to look at how to use **channels** to reach customers and how to build preferential relationships with them. Then, we are going to discuss the issue of **revenues and costs**, while raising the question “What value are customers willing to pay for?” Afterwards, we are going to analyze the **resources** necessary to ensure adequate sustainability of the company, the **key activities** and **partners** to involve and how to involve them. Finally, we are going to look at the **break-even point**, that is how and when a company achieves sustainability.

---

TO BEGIN WITH, ENTREPRENEURS SHOULD ASK THEMSELVES WHAT THEIR VALUE PROPOSITION IS

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# 3



## THE VALUE PROPOSITION

The value proposition describes the set of products and services that create value for customers by adequately addressing their needs or problems. It is a promise to customers that must never be broken; it creates the identity of the company and differentiates it from all other companies.

Companies can create value through products, services or a combination of both.

THE VALUE OF  
THE PROPOSAL  
IS ALSO MADE  
UP OF ANY  
ADDITIONAL  
SERVICES OFFERED

The value of a product is composed of **tangible and intangible aspects**: a watch, for example, is a useful object that tells the time (tangible aspect), but it can also give its wearer a sense of prestige (intangible aspect).

The value of the proposal is also made up of any additional services offered, such as speed of delivery, regular maintenance or favorable payment conditions. Services can also be divided into basic and advanced services, such as premium paid services available on some information or job search portals. Portals provide access to basic information free of charge and offer advanced services for a fee, according to customers' needs.

Whether an enterprise sells products or services, to be successful it needs to be able to understand the needs and problems of customers and to offer an appropriate solution, which is the right



Fig. 2 - The product-market fit

product-market fit (Fig. 2). The product-market fit is the degree to which customer needs or problems are satisfied by the service or product offered by the company. The more the solution offered is able to satisfy customer needs, the more the idea will create value. In order to offer adequate solutions, first and foremost entrepreneurs need to know the problems and needs of their customers and to listen to them.

A value proposition is a detailed statement of the offerings of the company. It should be clear and brief, talk to a well-defined group of customers, capture their attention, show the offer and explain how it is unique and different from the offerings of other companies.

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## Business MiCasa TuCasa Perù

Irven lives in Italy, but his family has a large house in the Central Andes, in Cuzco. Cuzco is the gateway to Machu Pichu and so it is visited by many tourists throughout the year. In addition to being the ancient capital of the Inca empire, Cuzco is rich in history, architecture and nature. Irven has decided to renovate the house, so that he can rent it to tourists. The house is quite large and consists of six rooms, each with its own bathroom. Irven would like to start a bed and breakfast, so as to help his family in Peru by making it economically independent.

### The value statement of MiCasa TuCasa

*MiCasa TuCasa is a Bed and Breakfast that offers a comfortable, natural and hospitable environment for visitors to the beautiful city of Cuzco. MiCasaTuCasa's hospitality is very special, as you will be welcomed by Mama Mercedes, who will pamper you with traditional Andean dishes, and by Papa José, who is ready to take you on a tour of the city. If you enjoy nature, our friends will help you to organize hikes in the mountains and show you the species that live there, such as the beautiful llamas. You can take the Inca Rail train to go on a day trip to Machu Pichu and be back just in time to enjoy a delicious dish made by Mama Mercedes. Unlike any other hotel, MiCasaTuCasa is your home.*

With this simple statement, Irven has chosen to address some specific target customers: couples, families or individual travellers who are looking to rent a room. The offer also attracts different types of travellers: those interested in nature, architecture or cuisine. Irven knows that there are very expensive hotels and restaurants in Cuzco and by offering a package that includes home-made dishes he has a competitive advantage.

# 4



## CUSTOMER SEGMENTS

**W**hat customers does the company target? Customers always play a central role in creating an offer, because ultimately customers are those willing to spend their money to have their need fulfilled or problem solved.

It is therefore necessary to study customer profiles as well as the needs or problems they want to satisfy or solve. The offer is the more successful the more it is able to fulfil the needs it addresses. However, knowing the needs of customers is not always easy. It requires good observation and analysis skills and the ability to address people's needs where there is demand or a niche not served by competitors. Above all, it requires the ability to listen to people and sometimes to offer solutions by anticipating their problems.

Since it is not possible to offer a product or service that suits everyone, the market is generally divided into the **mass market** and **niche markets**. The mass market is a market where goods are consumed on a large scale. There are many different types of mass market consumers and they can have very different expectations. In this case, therefore, no particular customer targeting is required.

Niche markets, on the other hand, are small “subsets” of customers, niches in fact, which are more homogeneous than the mass market and require specialized solutions.

KNOWING THE NEEDS OF CUSTOMERS IS NOT ALWAYS EASY. IT REQUIRES GOOD OBSERVATION AND ANALYSIS SKILL



Usually, competition between companies is very strong on the mass market, and this is why new companies generally target market niches at the beginning.

In addition, entrepreneurs need to decide whether their company should target other companies, as is the case with Business-to-Business or B2B commerce, or final consumers, as happens in Business-to-Consumer or B2C commerce.

The success of a company, especially at the start-up stage, depends on its ability to meet the needs of customers with an appropriate solution, which is the solution defined with the product-market fit. In the early stages of a new company, or when new products are launched on the market, it is of strategic importance to test the proposals on early adopters, namely a group of users the company has access to, such as neighbours, friends or alpha consumers, who can give immediate feedback on the use of the relevant product or service. Based on such feedback, entrepreneurs may decide to expand the offer, or, if necessary, offer a different product or service altogether. Not all ideas work out successfully and it is very important not to find out too late. Finally, it is necessary to analyse what direct competitors do, to study their target segments, prices, strategies and channels, and to identify their strengths and weaknesses.

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NOT ALL IDEAS  
WORK OUT  
SUCCESSFULLY  
AND IT IS VERY  
IMPORTANT  
NOT TO FIND  
OUT TOO LATE

## Business Poulet mon amour Côte d'Ivoire

Rufin's family lives in Côte d'Ivoire and owns enough land to grow rice and manioc. They sell produce directly to final consumers and currently their production meets the needs of the village. Rufin has decided to invest in chicken farming to diversify income. Since a major swine epidemic is ongoing in the country, demand for poultry meat is expected to increase.

Rufin chooses to raise free-range chickens on his farm and to survey whether the inhabitants of the village, with whom Rufin has built a long-standing relationship while distributing rice and cassava and therefore know and trust him, like poultry meat.

Choosing to raise a large number of chickens in a market where consumers tend to consume pork can be very risky, therefore Rufin needs to test his offer right away.

After the first positive feedback from early adopters, some of the inhabitants of the village who have agreed to try the meat, Rufin decides to invest and expand the farm to sell poultry meat directly to consumers in a shop, where he can work with his family.

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# 5



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## CHANNELS

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CHANNELS ARE  
PART OF THE  
MARKETING  
STRATEGIES

Channels are the means by which the product or service reaches customers. They are the point of contact between the company and consumers. The channels chosen are involved in creating the image and reputation of the company. It is not by chance that channels are part of the marketing mix strategies. For example, IKEA outlet stores are not only places where products are sold. IKEA aims to make its customers' stay in its stores an occasion for families to enjoy themselves and socialize, thus encouraging a positive customer experience.<sup>1</sup>

Choosing the right distribution channels is of strategic importance. There are physical channels, which have their own physical locations, such as outlets, shops and supermarkets, and virtual channels, which have their own online shop windows in the online shopping section of the company website and/or third-party sites, such as Amazon, or other virtual shop windows (Fig. 3).

There are **direct** channels, which connect the company directly to final customers, and **indirect** channels, which involve a series of steps managed by intermediaries (Fig. 4).

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1 Customer experience is defined as “the inner and subjective reaction of the customer in front of any direct or indirect contact with a company” Meyer and Schwager, 2007, Understanding customer experience, Harvard Business Review.



Fig. 3 - Some types of channels

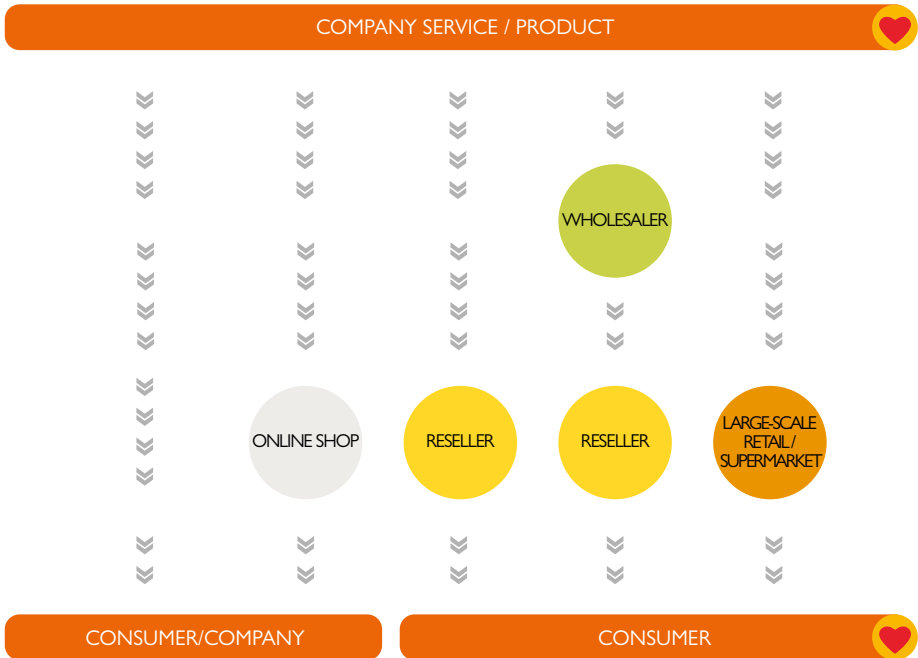


Fig. 4 - Direct and indirect channels

AN ARTISAN BAKERY CAN SELL ITS PRODUCTS DIRECTLY TO CONSUMERS IN ITS OWN WORKSHOP, THUS USING A DIRECT CHANNEL

Where indirect channels are used, the company should pay particular attention to profit margins, which need to be negotiated from time to time with intermediaries and which may vary according to the number of steps required to reach final customers (Fig. 5). An artisan bakery can sell its products directly to consumers in its own workshop, thus using a direct channel. The same bakery may wish to expand production and reach a wider market. In this case, it could work with resellers, which cover a larger area. To do so, the bakery would have to give up a part of its margin on the individual product, but it would reach a greater number of customers. If its business continues growing, the bakery could decide to produce for mass consumption and work with a wholesaler, who buys large quantities of products and resells them to mass retailers or individual retailers. In this case, the margin on the single product is even lower, but trading off another part of the margin allows the bakery to reach an even wider market.



Fig. 5 - Profit margins

The sales channel(s) can be chosen according to several criteria:

- ▶ **Efficiency:** it is important to choose a channel that allows the company to sell its products at the lowest price possible;
- ▶ **Effectiveness:** the company should choose a channel through which as many customers as possible can be reached;

- ▶ **Quality:** it is important to ensure that the characteristics of the product are maintained until it reaches the final customer;
- ▶ **Control over distribution times and methods;**
- ▶ **Convenience:** the channel should make it easy for the customer to access the product or service.

Irven has chosen to promote his bed and breakfast **MiCasa Tu-Casa** on the Airbnb channel, which is an online shop window. This is a strategic choice, as it allows him to reach a wide audience interested in visiting Cuzco and Machu Pichu. In addition, Irven has decided to work with local travel agencies and pay them a commission for each customer obtained.

Rufin has opened a **Poulet Mon Amour** shop in the village. Demand has increased in a short time and Rufin has decided to increase his livestock population by using natural breeding methods, while selling inspected, guaranteed fresh meat. Rufin has found a good positioning for his Pulet Mon Amour brand and has chosen to promote it in some large-scale retail supermarkets, to which he starts selling small quantities. To guarantee the quality of his product, Rufin controls the entire supply chain: he prefers eco-sustainable breeding practices and ensures the cold chain is never broken by using two second-hand refrigerated vans from Europe.

# 6



## CUSTOMER RELATIONS

The type of relationship that is established and cultivated determines the customer's experience with the company. This section of the business model canvas is about the strategies that the entrepreneur can adopt in order to acquire, maintain and grow their customer portfolio and offer their customers a high-level consumer experience.

At the **acquisition stage**, customers are not yet familiar with the company's services or products. Demand could be stimulated by **advertising the company**, for example through **radio, TV, newspapers and social media**, or by taking part in fairs and events, which is more expensive but allows entrepreneurs to get in direct contact with their customers. Online communities, such as blogs, Facebook and mailing lists, as well as word of mouth are useful means to establish relationships with customers and let them know the company. Finally, one of the latest brand positioning practices, namely positioning through influencers and privileged testimonials, is very expensive, but it ensures high returns.

At the customer **loyalty promotion stage**, a relationship has already been established and the entrepreneur aims to maintain it. Some of the most useful strategies include:

ONLINE COMMUNITIES, SUCH AS BLOGS, FACEBOOK AND MAILING LISTS, ARE USEFUL MEANS TO ESTABLISH RELATIONSHIPS WITH CUSTOMERS

“ *Make every customer feel you advance his interests as well as your own, your business will grow.*

*Wallace Delois Wattles*

- ▶ **Improving the product** or service: innovation is important to avoid being excluded from the market;
- ▶ **Creating loyalty programmes**, such as a loyalty points programme, a travel package or a discount system that gives the most loyal customers particular benefits;
- ▶ **Personalized support**, such as listening to customers or giving them advice on how to use a product, so as to improve their satisfaction.

In the **growth stage**, the main objective is to increase sales volume. The most useful strategies for this purpose include:

- ▶ **Up-selling**, which is a practice where the company induces customers to purchase a larger quantity of products than they initially intended by offering an incentive<sup>2</sup> (for example, a family-size pack of biscuits is better value than a standard-size pack);
- ▶ **Cross-selling**, which involves offering customers a complementary product for sale in addition to the products they intend to buy. For example, when purchasing a camera, a range of comple-

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2 [www.glossariomarketing.it](http://www.glossariomarketing.it)



mentary products, such as a tripod or rechargeable batteries, is offered for sale to the customer. Up-selling and cross-selling together account for 35 per cent of the sales experience on Amazon, making them very important and effective marketing strategies;

- ▶ Finally, **viral marketing** is a strategy that consists in offering a discount to those who bring new customers.

Pre-sales and after-sales strategies are also very important. Cultivating relationships with customers **through dedicated personal assistance**, that is by having an assistant support customer during their experience with the company, is an example of such strategies. Currently, the strategy of involving customers in the creation of the **corporate image** by letting them write public reviews is spreading widely. This strategy works very well if combined with influencers and, more in general, if it is supported by physical and virtual communities that may be interested in the services and products the company offers on the market. For example, on the Bla Bla Car channel, customers receive experience levels based on positive ratings received, starting as newcomers and moving up to ambassadors. Such social rewards involve and stimulate the users of the service.

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## Business Kolkata crafts India

Kakoli has founded an enterprise that helps craftsmen in the villages around Calcutta to produce and sell high-quality handicrafts. Having lived in Italy for many years, Kakoli is familiar with Europe's demand for craftsmanship and she believes that there is an opportunity for Indian craftsmanship. She therefore offers job opportunities to small producers living in her home country. Craftsmanship in the state of West Bengal in India includes woodworking, weaving, making beaded jewelry that women use to adorn themselves and leatherworking.

**Business Kolkata crafts BKc** differs from many other manufacturers in the local area. Kakoli has chosen to invest in avant-garde designers that are able to interpret Indian traditions and valuable local materials in contemporary designs, thus creating a chic and refined homeware product line. Kakoli wants to make **BKc** and its products known to an international audience and so she has chosen to take part in specialist B2B fairs, which is very expensive but allows her to meet well-known European buyers. After **BKc** ships the first orders received from the most important European markets, the public knows and appreciates the brand **BKc**. Kakoli can now expand her market by launching her own online shop. Kakoli's strategy aims at making her products known to the end customer by using intermediaries (shops) and also by selling them directly online. In order for online sales to be effective, **BKc** does not compete with its own intermediaries, which means that products online are sold at the same retail prices as in shops. Online sales are the most profitable channel for **BKc**, since it does not have to pay any commission to intermediaries. In addition, given the strategy chosen by Kakoli, **BKc** does not need to invest any money in opening single-brand shops in Europe.

Kakoli has also chosen to base the communication of **BKc** on the theme of social responsibility, thus giving visibility to her project aimed at supporting local artisan communities.

# 7



## KEY ACTIVITIES

**K**ey activities are activities necessary for the company to operate and achieve the objectives set out in the value proposition. These activities are directly connected with the company's human and financial resources and with the partners needed to carry them out.

**Start-up activities** depend on the sector where the company operates. For example, start-up activities may include purchasing land or production machinery, renting or purchasing warehouses, hiring staff, or acquiring licenses or patents. Estimates of start-up costs show the initial investment necessary.

On the other hand, **operating activities** are activities carried out by the company throughout its existence, such as procurement, sales, research and development, management and finance.

© Startup photos



Not all activities need to be carried out internally. Outsourcing to expert and qualified third parties can significantly reduce business costs. Whether it is better to carry out an activity internally or to outsource it to partners or suppliers depends on a series of factors. The first factor is the nature of the company. If innovative software is produced, there is a risk that suppliers may copy the ideas behind it and, therefore, such software should be developed internally. The same could happen with particular patents, such as Coca-Cola's recipe for the well-known drink, which is still a secret. The second factor is the varying market demand: if the entrepreneur needs to carry out market research, it is smart to outsource such research instead of incurring the relevant costs. In general, outsourcing services and parts of production is always advantageous, but it should not put the business at risk.

IT IS SMART TO  
OUTSOURCE  
SERVICES INSTEAD  
OF INCURRING  
THE RELEVANT  
COSTS

To start his breeding farm **Poulet Mon Amour**, Rufin does not need to buy the land, as it is family-owned. However, he has to buy chickens and to ensure the supply of healthy feed. He also needs to make sure that the chickens are taken care of. Therefore, he hires human resources, such as workers, transporters, veterinarians and administrative staff. He also needs to purchase the machinery for packaging and cold storage transport. To reduce costs, he would prefer to rent such machinery, but he cannot find any suppliers in Côte d'Ivoire. In the future, Rufin could work in a network with other breeders, buy the machinery together with them and share it with them. We are going to look into this concept later on.

Irven, on the other hand, has to bear the costs of renovating and furnishing the family house, for which he has managed to receive a high-interest loan. He estimates that his **MiCasaTuCasa** will be fully operational in about four years' time. He does not need to bear many other costs, as he has chosen to use channels that allow him to pay only if he manages to sell the service (Airbnb and local agencies). As administrative aspects are concerned, he has hired an accounting firm, which carries out tax management for him at a low cost.

# 8



## KEY RESOURCES

The resources a company needs depend directly on its activities and they allow the entrepreneur to identify the costs in the business plan. Such resources include:

- ▶ **Tangible resources**, namely buildings, such as warehouses, offices and workshops, and furniture and equipment, such as computers and machinery. Tangible resources also include resources that are useful for processing, namely raw materials;
- ▶ **Intangible resources**, such as technological knowledge, patents, the experience and know-how of the company and its reputation, brand, intellectual property, customer portfolio, relationships and corporate culture;
- ▶ **Human resources**, namely the human capital of the company, such as employees, engineers, salespeople and their expertise;
- ▶ **Financial resources**, namely the funds available to the company, which come from the entrepreneur's own capital, from crowd funding, banks and investors, or family and friends.

Once the key activities of the company have been identified, the entrepreneur can determine the resources they need and enter into partnerships with other organizations, where appropriate.

# 9



## KEY PARTNERSHIPS

Partnerships are of strategic importance for companies, as they can help to achieve economic results, visibility and impact with considerable economic effectiveness. Enterprises do not operate in an isolated world; they operate in a larger ecosystem full of many opportunities for connection. Where resources are limited, working in a partnership with other organizations and companies is of strategic importance, as it allows the entrepreneur to reduce their initial investment, to enter the market earlier, and possibly to enter new markets.

Partners are external organizations that can help the company be successful in different ways: they can be suppliers, complementary companies that are part of the same production chain, or competitors with whom the entrepreneur can establish a mutual support agreement. Partnerships need to have well-defined rules and should reflect the parties' formal and informal expectations (Fig. 6).

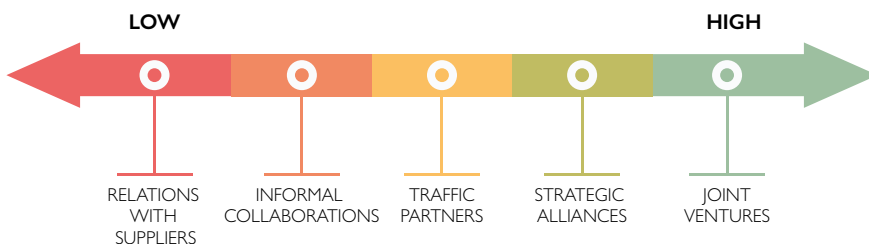


Fig. 6 - Level of formality of partner agreements

Agreements with **key suppliers** of goods or services are usually informal and are, in fact, finalized in ordinary supply contracts. The relationship becomes more formal if it involves a guarantee of exclusivity or any degree of protection of a company's know-how. For example, if the entrepreneur decides to outsource the construction of certain production lines to a supplier, they need to make sure that such supplier does not copy or disclose the relevant designs to any third parties.

**Informal unstructured partnerships** can be established with **complementary companies**. For example, if the company specializes in tourist accommodation, partnerships can be established with restaurants in the area by entering into the following agreement: customers of both the company and the restaurants receive certain benefits (such as personalized discounts) and, therefore, both the company and the restaurant increase their markets.

**Traffic partners** are partners who help each other through mutual communication, such as including links to partner companies on their websites. This type of agreement can vary greatly depending on the situation, but generally the parties can make an informal agreement.

Another type of partnership is **strategic alliances**. Strategic alliances can be entered into by complementary companies or competitors. In the latter case, such partnership is called a **coopetition**, which is a partnership between competing companies or institutions that decide to cooperate, thus ensuring the best possible result for both parties (Brandenburger and Nalebuff, 1997). For example, two competing manufacturing companies can join forces against a strong competitor entering their market. Together they can share the costs of managing shops and human resources, so as to face the large-scale retailer entering their manufacturing market. In this case, a more formal agreement is necessary, as clear rules and the parties' obligations need to be defined.

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COOPETITION IS  
A PARTNERSHIP  
BETWEEN  
COMPETING  
COMPANIES OR  
INSTITUTIONS  
THAT DECIDE TO  
COOPERATE, THUS  
ENSURING THE  
BEST POSSIBLE  
RESULT FOR BOTH  
PARTIES

Finally, another type of partnerships are **joint ventures**. In a joint venture, two complementary or competing companies decide to create a new jointly controlled organization. A joint venture involves a partnership with a high degree of formality, with an agreement that sets forth the parties' obligations and roles, the investment amount, and the methods of accessing the market and sharing profits. Partnership agreements at this level should involve third-party technical experts, in particular if they involve significant risks or large investments.

It should be highlighted that partnerships should always lead to a win-win strategy, namely a strategy that benefits all parties involved. This implies having an excellent knowledge of the macro-environment, of how other enterprises operate and of possible strategies for mutual reinforcement.

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PARTNERSHIPS  
SHOULD ALWAYS  
BENEFIT ALL PARTIES  
INVOLVED

Let's look at some examples of partnership strategies. Kakoli, in India, has entered into a common supply contract. She is aware that suppliers could copy the designs of **BKc's** homeware product line, but at the same time she needs to guarantee a certain quality of production. Kakoli does not work with structured suppliers, but with communities of artisans working from home or in small workshops. She provides them with training through a team of contracted designers who go to the communities and teach the artisans how to create products for BKc's product line, deliver them only the material necessary to create such products, and, within the set time, monitor production quality level.

Rufin's **Poulet Mon Amour** is doing well, and Rufin would like to expand his market. However, he realizes that the cost of purchasing additional refrigerated vans is too high for his company. He decides to contact other poultry farmers, in this case his competitors, to form a consortium and share the costs of buying vans in a strategic alliance. For example, the companies in such consortium could agree on using the vans in turn.

Finally, for her company **MiCasaTuCasa**, Irven can use an informal and unstructured strategy with Airbnb and local travel agencies. No exclusivity agreements or mutual commitments are necessary, although the parties can make mutual promotion agreements.



# 10

## COST STRUCTURE

In this section, we are going to look at the operating cost structure of the company. We have already dealt with the strategic stages for defining key activities, namely activities necessary to keep the promise made in the value proposition. Now, we are going to look at how to organize the company and its costs in order to draw up the business plan.

In order to operate, companies need to bear fixed and variable costs.

**Fixed costs are costs that do not vary according to the quantity of products produced or sold.** For example, in the start-up stage of the business, the manager of a restaurant may have to buy or rent premises for the kitchen and guest reception, as well as tables and chairs for guests, and they may hire a cook and a waiter. Regardless of the number of meals served, the fixed cost for making them does not change (Fig. 7). Examples of fixed costs include rents, salaries, administrative costs, insurance and telephone costs.

**Variable costs, on the other hand, are proportional to the quantity of products or goods produced and sold** (Fig. 8). In the previous example, variable costs include the raw materials necessary to make the meals, any additional waiting staff for special occasions or the additional consumption of electricity.

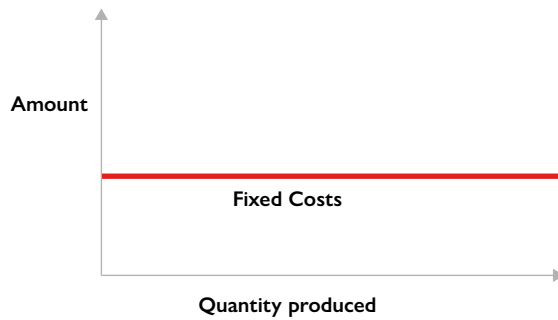


Fig. 7 - Fixed costs

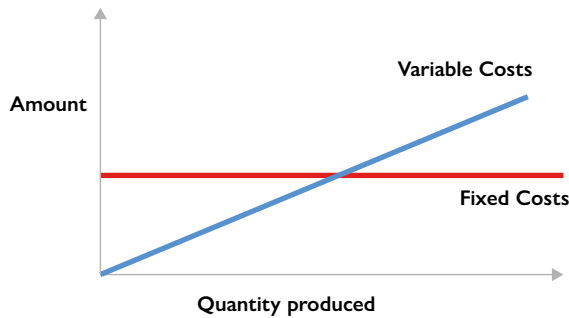


Fig. 8 - Variable costs

Especially in the start-up stage, it is **important to try to change fixed costs into variable costs** as far as possible, so as to allow the company to immobilize as little capital as possible and to easily adapt its production to demand, especially in uncertain market conditions. Even renting equipment instead of buying it is often of strategic importance.

Subsequently, when the company grows and expands, thus acquiring a larger market share, it may consider, based on sales volumes, having a higher proportion of fixed costs than variable costs, so as to generate more profit.

Total costs are the sum of fixed costs and variable costs (Fig. 9).

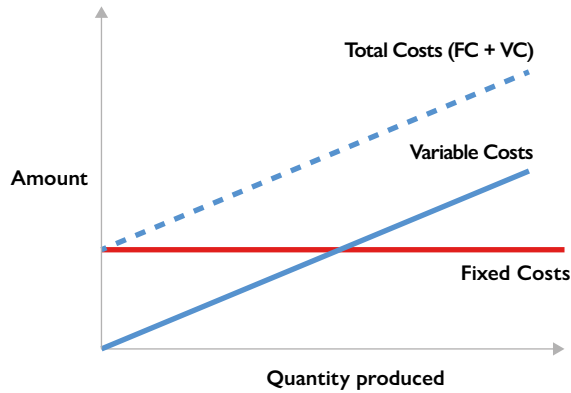


Fig. 9 - Total costs

THE VALUE OF ANY ASSET DECREASES OVER TIME AND ANY ASSET HAS A LIMITED LIFESPAN

When calculating the operating costs of the company, the concept of depreciation of an asset should also be taken into account, as each asset depreciates over a given period of time. Depreciation is the procedure by which the cost of an asset is allocated among different periods of time, thus allowing the entrepreneur not to allocate the entire cost in a single financial year. For example, when buying a delivery van, the company allocates the value of the asset divided by its useful life in years. In fact, the value of any asset decreases due to wear and tear and therefore any asset has a limited lifespan. This is the case with cars, for which there are tables showing their estimated useful life, as well as with land, which, over the years, may become less productive and may have to be regenerated.

For example, if a company purchases a delivery van for 10,000 EUR and its estimated lifespan is five years, its depreciation expense is 2,000 EUR per year. Depreciation may apply to tangible assets, such as tangible factors (like buildings, machinery, equipment, computers, office furniture and the like) or intangible assets (including patents, trademarks, intellectual property rights and advertising costs).

# 11



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## SOURCES OF PROFIT

**W**hat sources of profit can a company have? The profit of a company is the difference between its revenues and its costs.

The **profit model** is the strategy adopted by the company for generating revenue for each customer segment. The profit model is essential for identifying all possible sources of profit, which should be varied and preferably differentiated. For example, if the company is a farmhouse offering accommodation, the primary source of profit is connected with the overnight stay of guests. During the low tourist season, however, the farmhouse may have few bookings, and so it may decide to rent its premises for corporate conventions or to create packages for schools that organize nature camps. Or it could organize events, such as bike rides or hikes to the surrounding areas. These examples are three different sources of profit in addition to those closely linked to the company's core business.

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IT IS ESSENTIAL  
FOR IDENTIFYING  
ALL POSSIBLE  
SOURCES OF  
PROFIT

There are different types of sources of profit:

- ▶ **Physical sources of profit** are connected with the sale of assets, that is physical goods, commissions on services sold, registration fees to access a service and rentals;

- ▶ **Virtual sources**, such as the sale of online services, smart-phone applications, registrations for games and subscriptions;
- ▶ **Grants**: donations to enterprises from public or private sources.

How can the price of a good or service be set?

There are many different pricing strategies depending on market capacity, on the uniqueness of the value proposition and on how competitors operate. The best strategy to choose can also vary over time and the company may have to test whether its pricing strategy is appropriate from time to time.

A **cost-based** strategy is a strategy whereby the price is determined by multiplying the cost of production by a certain factor.

With a **value-pricing** strategy, the price is determined depending on how valuable the product is to the customer: this is the case with goods that are sold as status symbols.

According to the **competitive pricing** strategy, the price is determined based on positioning and what the competition is charging.

The **volume pricing** strategy involves setting a price that encourages multiple purchases and therefore the price is lower if larger volumes are purchased.

Finally, with an **affordable price** strategy the price is determined by taking into account that a part of the revenues comes from customers buying the product, while another part comes from public or private grants. This strategy is particularly suited to social-impact companies offering services and products for fair-trade and philanthropic purpose.

To understand what the right price is, the entrepreneur should ask themselves what customers are paying for and how much they are willing to spend. Wrong pricing policies can cause the business to fail.

The entrepreneurs in the above examples have applied different pricing strategies over time. As mentioned above, the price of a good or a service rarely remains unchanged; on the contrary, it changes according to a series of variables.

**Poulet Mon Amour's** customers are large-scale retailers. Rufin has an advantage in that he is one of the first entrepreneurs in the area who sell poultry meat, which, given the incidence of the swine flu epidemic in the country, he proposes as a viable alternative. Rufin can set the price of his meat until other competitors enter the market. At the same time, however, his large-scale retailers want Rufin to start promoting his products at a launch price, as there is still uncertainty as to how the public will perceive the new product. Therefore, Rufin and his retailers agree on a test period, in which his products are offered at a low price on the market, which will help him to launch poultry meat. The test is successful, and customers are interested in the new product. Only then Rufin can agree higher margins with the large-scale retailers, thus adopting a volume pricing strategy by offering discounts based on the quantities sold as orders increase.

As far as **BKc** is concerned, as mentioned above, Kakoli wants her homeware product line to be sold in the Western market. To make her products known, she is represented by prestigious single-brand shops. At the same time, she starts an online shop section on **BKc's** website. Her homeware product collection is designed for medium to high-range customers and therefore Kakoli has set a price suited for the niche of customers that care the most about social sustainability and can afford to buy fine products, thus adopting a value-pricing strategy. It is important to remember that while adopting such strategy, Kakoli will have to be careful not to compete with the shops selling her products. She therefore needs to apply similar prices in her online shop, otherwise she will lose her outlets in the most important European markets.

# 12

## THE BREAK-EVEN POINT

In this section, we are going to look at the **break-even point**. The analysis of the break-even point is useful for entrepreneurs to understand what **sales volume is necessary within a defined time to achieve economic sustainability** and to assess the profitability of a product. Revenues above the break-even point are the margin of the company.

Until now, we have identified the key activities, the resources needed and their price, the partners and suppliers to work with, the sources and methods of making profit, pricing strategies, and fixed and variable costs.

To understand the break-even point, two additional key concepts need to be introduced:

**The production unit** (Fig. 10). When calculating costs, it is necessary to have a concrete basis. For example: Georgette has founded a wellness centre that sells beauty treatments. She has rented a professional facial treatment machine and hired a specialist beautician. Since Georgette knows how many treatments the machine can provide per day, she can calculate the treatment costs per hour.

**The sales unit** is not the same as the production unit. The sales unit is the package that the company chooses to sell to its customers. In the case of Georgette's beauty centre, the sales unit is a thirty-minute facial cleansing treatment at a cost of 25 EUR.



Fig. 10 - Georgette's beauty centre's cost structure

To calculate the break-even point, Georgette needs to clearly know the fixed and variable costs per sales unit and the maximum production capacity, and she needs to have set a price for her sales unit. The break-even point is useful for understanding if the price set is correct or if any changes are needed. Let us look at an example.

Georgette pays 30 EUR per week for advertising, 50 EUR for insurance, 30 EUR for utilities and 250 EUR for wages. In addition, each treatment has a variable cost: 5 EUR for maintenance, 10 EUR for the rental of the treatment machine, and 1 EUR for calls made for making appointments for each session. Georgette's wellness centre sets the price for each thirty-minute facial treatment at 25 EUR and the maximum capacity is 60 treatments per week.



How many facial treatments does Georgette need to reach the break-even point?

Fixed costs add up to 360 EUR per week (Fig. 11), while variable costs add up to 16 EUR per session (Fig. 12). To find out how many facial treatments Georgette's wellness centre needs to sell to reach the break-even point, Georgette will have to calculate the unit contribution margin (Fig. 13), that is the portion of sales revenue that is not consumed by variable costs. In this case, it is  $25 - 16 = 9$  EUR per treatment. Now Georgette can calculate the break-even point, which is determined by the ratio between the total fixed costs (360 EUR) and the unit contribution margin (9 EUR). This means that Georgette needs to sell at least forty facial treatments per week to

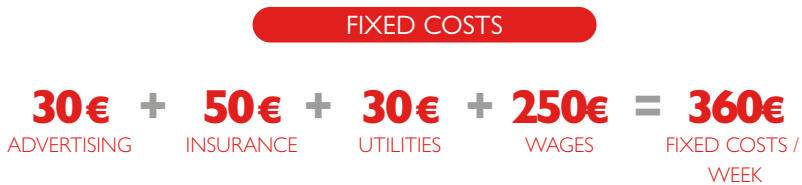


Fig. 11 - Total fixed costs



Fig. 12 - Total variable costs per treatment



$$(CM = \text{sale price} - \text{Unit Variable Cost})$$

Fig. 13 - Calculating the unit contribution margin

reach the break-even point (Fig. 14). If Georgette's maximum production capacity is 60 treatments per week, once 40 treatments have been sold to cover the costs, the remaining 20 treatments are the margin of the wellness centre.

Let us assume that Georgette's fixed costs increase because wages are increased to 440 EUR (Fig. 15). What is the new break-even point for the wellness centre? 61 treatments (Fig. 16), which is more than

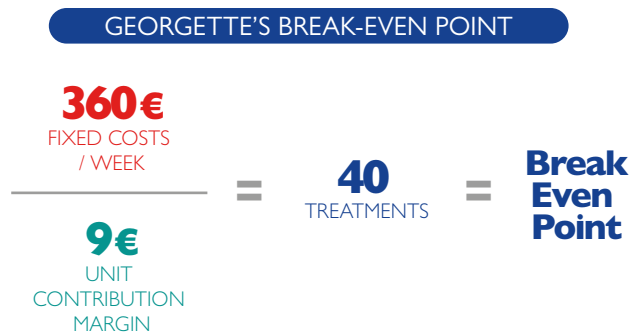


Fig. 14

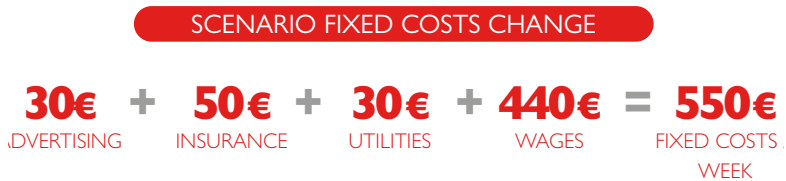


Fig. 15

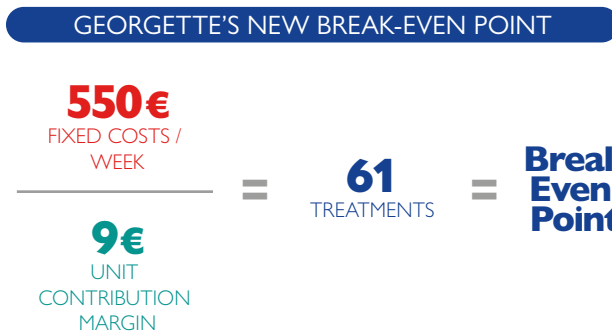


Fig. 16

the maximum capacity of the centre. This means that the wellness centre cannot reach the break-even point. Georgette can try and vary salary costs, for example by asking the beautician to work on an occasional basis. Now, let us assume that because of the competition Georgette is forced to decrease her prices from 25 to 22 EUR per treatment (Fig. 17). What happens to the break-even point? At the sale price of 22 EUR and with the same variable costs, the unit contribution margin is  $22 - 16 = 6$  EUR. To reach the break-even point, the wellness centre needs to sell 60 treatments, which is the maximum capacity, so no margin is left. Georgette needs to decrease her costs, otherwise her business is not sustainable.

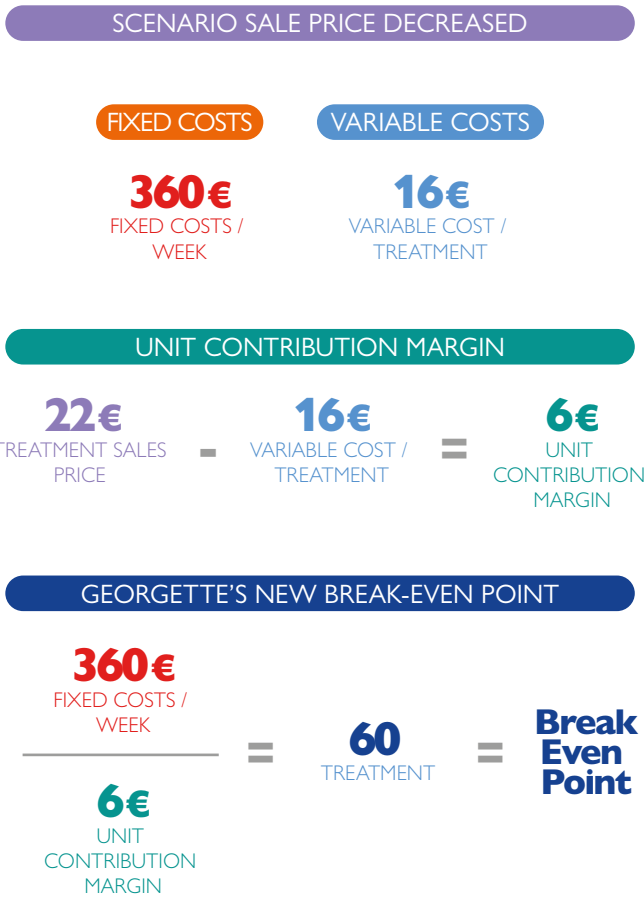


Fig. 17

In summary, the correct formula to calculate the break-even point (BEP) is:  $BEP = FC / p - VCu = FC / CM$ , where **FC** stands for **fixed costs**, **p** for unit **selling price**, **VCu** for **variable unit cost** and **CM** for **contribution margin** (Fig. 18). The BEP can also be calculated for each different production line, by estimating the sales percentage of each individual service or product line.

In summary, to calculate the BEP or break-even point, it is necessary to:

#### CALCULATING THE BREAK-EVEN POINT (BEP)

$$\text{Break Even Point} = \frac{FC}{p - VCu} = \frac{FC}{CM}$$

Fig. 18

- ▶ Identify all **fixed costs**
- ▶ Define the **sales unit** to offer on the market
- ▶ Set the **price** per unit of sale
- ▶ Identify all **variable costs** per sales unit
- ▶ Calculate the **unit contribution margin**.

# 13

## THE BUSINESS PLAN

We have looked at how to strategically build a business model and now we are ready to move on to the business plan.

THE PURPOSE OF THE BUSINESS PLAN IS MAINLY TO PRESENT THE PROJECT TO LENDERS, BANKS OR INDIVIDUALS TO SHOW ITS ECONOMIC ATTRACTIVENESS AND FINANCIAL FEASIBILITY

The business plan is a document that allows the entrepreneur to create the business project and define the strategies, the objectives, and the asset, economic and financial plan of the company. The purpose of the business plan is mainly to present the project to lenders, banks or individuals to show its economic attractiveness and financial feasibility. The business plan also serves an internal purpose for the company, which is to clearly and operationally describe the long-term business objectives, in particular if the launch of a new production line or service is planned. Normally, the business plan is drawn up for the next three to five years.

The business plan is made up of two main sections: a descriptive part and a second part with the economic and financial data.

The descriptive part introduces the company and the business project, provides an analysis of the market, the competition, the product or service offered, and the operational and strategic plan.

The economic and financial part provides a useful tool for interpreting the data, by arranging them in a series of tables that allow readers to evaluate the project.

There is no single standard business plan model, but it is important that some fundamental aspects be included, according to an international standard.

As a reference, a simplified business plan model is attached (see Annex 1 at the end of this module). However, the model can be adapted to the specific needs of the company.

Now, let us have a look at the sections that make up a business plan and at its contents:

- ▶ **Executive summary:** the executive summary provides an initial description of the project, including a summary outline of the objectives, strategies, cost structure and funding required. The purpose of the summary is to stimulate and attract readers by providing an initial overview of the project.
- ▶ **Company presentation:** this part of the business plan contains information about the company. It describes the corporate structure, the corporate objective, the field of business and future prospects. If the company is well established, the presenta-

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tion provides information on its history (for example, the date of incorporation, the current economic and financial situation) that allow readers to get an overall picture of the company. This section should also include information on the type of human resources assigned to the activities planned, their skills, roles and functions, and the internal and external coordination and control mechanisms used to ensure that the planned actions are carried out correctly.

- ▶ **Summary of the proposed programme:** this summary describes the programme to be implemented by outlining the location and a broad estimate of the costs involved. It defines the assumptions underlying the business idea and the production, commercial and economic reasons that led to the decision to make the investment. It also includes the definition of the effects and results that are expected to be achieved as a consequence of the investment.
- ▶ **The product / service:** this section includes information about the products and services that are intended to be launched on the market. It should describe the technical characteristics and the innovative elements of the product/service and show how the product/service is different from other products/services that are already available on the market. It should also mention the studies underlying the design of the product or service and the technologies used to create it.
- ▶ **The market:** the viability of a project can only be assessed after carefully analysing the reference market. The business plan therefore contains a section describing the target consumer group, the current characteristics of market demand, the marketing strategy for the product or service proposed and the pricing criteria. This section also defines the limits and opportunities of the reference macro-environment, while proposing solutions to mitigate risks. For example, entry barriers to the chosen market sector are a limit (legal barriers created by legal constraints, technological

---

THE BUSINESS  
PLAN CONTAINS  
A SECTION  
DESCRIBING  
THE TARGET  
CONSUMER  
GROUP

barriers consisting in the need for particular know-how and so forth). The analysis of the relevant market should also focus on the supply, by assessing the market presence and positioning of current and potential competitors. Finally, it is good practice to describe the supply and distribution channels by focusing on the relationships with potential suppliers and distributors. This information allows readers to clearly identify how the entrepreneur intends to position their company.

- ▶ **Organization of the factors of production and production cycle:** this section describes the ongoing production process and how the proposed investment will deliver future benefits by describing the production factors (work, capital and know-how) available or to be acquired. The **planned investments** are included in this section, by making a list divided into categories of expenditure (such as design and research costs, masonry work, company land, plants, equipment and machinery, software and so on). It is important to point out that the entrepreneur should always use the charts provided for in the call for proposals they wish to take part in, as there is no single business plan model.

---

IT IS IMPORTANT TO POINT OUT THAT THE ENTREPRENEUR SHOULD ALWAYS USE THE CHARTS PROVIDED FOR IN THE CALL FOR PROPOSALS THEY WISH TO TAKE PART IN

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Finally, this section specifies the **work organization** model, illustrating the structure of the staff employed by the company.

- ▶ **Information on expected profitability:** this section identifies the expected company profit projections over the project period, based on the products/services and the market described.
- ▶ **Environmental impact:** this is an increasingly important section as a result of the fact that green impact is attracting more and more attention. This section provides the necessary elements to explain the environmental obligations that are provided for by the regulations in force and are fulfilled by the company. If the company has already obtained any authorizations and/or certifications, details thereof should be provided in this section together with all the elements highlighting the company's attention to environmental impact (for example, by ensuring the company consumes as little water and/or energy resources as possible).
- ▶ **Financial resources:** finally, it is important to show readers the financial resources available and the capital required to undertake the business project.

# 14

## CONCLUSIONS

This module has looked at the business plan and shown a simplified way to create one by using the business model canvas method.

It is important to keep in mind that the techniques and strategies introduced herein are just a small part compared to the vast literature on the subject matter. It is therefore advisable to read the books mentioned in the bibliography and to look for information on online platforms, which is often very useful. Moreover, given the importance and purposes of the business plan, since there is no standard business plan model, it is advisable to use the model suggested by each individual potential investor.

In conclusion, a brief summary of the key elements of this module, in particular as regards the start-up stage, is provided below:

- ▶ It is very important to keep the **start-up costs** of the company under control and to be flexible when organizing activities. Enough liquidity should be available to cover expenses, services should be outsourced, and assets should be rented or leased instead of purchased, while the entrepreneur should focus on building a network of partners with whom to share costs.

IT IS ADVISABLE TO READ THE BOOKS MENTIONED IN THE BIBLIOGRAPHY AND TO LOOK FOR INFORMATION ON ONLINE PLATFORMS

- ▶ **Fixed costs should be reduced as much as possible**, especially in the initial stages of operation. Once the company is a going concern, there will be more opportunities for investing and expanding operations.
- ▶ The success of a company depends on its ability to **create value, to understand and listen to the needs** and problems of customers, and to provide adequate, effective and timely solutions.
- ▶ Finally, **diversifying the offer and the target customer segments as much as possible** is part the strategy that helps a company to survive. Regardless of the product or service a company offers, it should always enhance its offering and optimize profits.

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# Annex I

# BUSINESS PLAN TEMPLATE

[NAME OF THE COMPANY]  
NAME OF THE APPLICANT

---

# CONTENTS

<b>1</b>	<b>STRUCTURE OF THE PROPOSED COMPANY</b>	<b>49</b>
1.1	DESCRIPTION OF THE BUSINESS IDEA	49
1.2	THE COMPANY – ESTABLISHED OR TO BE ESTABLISHED	51
1.3	THE MARKET AND THE REFERENCE ECONOMIC SECTOR	52
<b>2</b>	<b>BUSINESS PLAN</b>	<b>53</b>
2.1	MARKETING PLAN	53
2.2	INVESTMENT PLAN	54
2.2.1	TANGIBLE ASSETS	54
2.2.2	OPERATING COSTS	55
2.2.3	REMUNERATION AND WAGES	55
2.2.4	INFORMATION ABOUT CONSISTENCY AND INFORMATION USEFUL TO UNDERSTAND THE CALCULATIONS IN THE BUSINESS PLAN	56
2.3	SALES PLAN AND FINANCIAL CONSISTENCY	56

# 1

## STRUCTURE OF THE PROPOSED COMPANY

### 1.1 DESCRIPTION OF THE BUSINESS IDEA [MAX 3 PAG.]

- 1.1a The idea
- 1.1b Advantages and opportunities
- 1.1c Market research, surveys
- 1.1d Marketing policy
- 1.1e Objectives

#### DESCRIPTION OF THE PRODUCTS OR SERVICES

Products / Services	Description
1. Product A:	
2. Product B:	
3. Service A:	
4. Service B:	

## CUSTOMER TYPES AND CUSTOMER NEEDS ANALYSIS

Customer types	Needs fulfilled

## GEOGRAPHIC SALES AREAS

Areas	Forecasts		
1.	Year 1	Year 2	Year 3
2.	Year 1	Year 2	Year 3
<b>Total</b>	<i>Comments</i>		
	Year 1	Year 2	Year 3

Exportation to other countries	Forecast		
	<i>Description:</i>		
1. Name of the country	Year 1	Year 2	Year 3
	€	€	€
<b>TOTAL</b>	Year 1	Year 2	Year 3
	€	€	€

## 1.2 THE COMPANY – ESTABLISHED OR TO BE ESTABLISHED (START-UP)

---

Name of the company

---

Date of establishment

---

Operational since

---

Legal form

---

Share capital

---

Registered office

---

*Fill in the details of the members and their positions in the company*

---

Name and surname	Position	Duties within the company

---



### 1.3 THE MARKET AND THE REFERENCE ECONOMIC SECTOR [MAX 2 PAGES]

#### COMPETITORS

Product/service	Competitor	Description	Quality level	Price

#### STRENGTHS AND WEAKNESSES

Strengths	Weaknesses

#### OPPORTUNITIES AND THREATS

Opportunities	Threats

# 2

## BUSINESS PLAN

### 2.1 MARKETING PLAN [MAX 3 PAGES]

#### PRODUCTS AND PRICES

Type of product/service	Quality	Price	After-sales services

#### DISTRIBUTION AND SALES METHODS


## COMMUNICATION

## PROMOTION


## 2.2 INVESTMENT PLAN

### 2.2.1 Tangible assets

#### ASSETS (EXAMPLES)

Necessary assets	Potential assets	Total cost
1. Office furniture		
2. Computers and office equipment		
3. Car		
4. Production machinery		
5. Office air conditioning		
6. Building renovation costs (painting, installations, connections to utilities, networks, wi-fi)		
7. Engine-generator set		
8. Landline and mobile phones		
<b>TOTAL ASSETS</b>		

## 2.2.2 Operating costs

OPERATING COSTS		
Operating costs (examples)	Per month	Per year
1. Rentals		
2. Cleaning services		
3. Insurance		
4. Telephone lines		
5. Stationery		
6. Transport, fuel, etc.		
7. Advertising, marketing		
8. Safety		
9. Accounting and payroll		
10. Travel expenses		
11. Bank costs		
<b>TOTAL OPERATING COSTS</b>		

## 2.2.3 Remuneration and wages

Name and surname	Net remuneration	Tax and social security contributions	Gross remuneration
		Ex. 35%	

## 2.2.4 Information about consistency and information useful to understand the calculations in the business plan

- Raw materials
- Staff

## 2.3 SALES PLAN AND FINANCIAL CONSISTENCY

### Year 1

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOT.
PURCHASE OF RAW MATERIALS													
PURCHASE VALUE OF RAW MATERIALS													
PRODUCT SALE (number of pieces)													
PRODUCT SALE (turnover in Euro)													

### Year 2

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOT.
PURCHASE OF RAW MATERIALS													
PURCHASE VALUE OF RAW MATERIALS													
PRODUCT SALE (number of pieces)													
PRODUCT SALE (turnover in Euro)													

### Year 3

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOT.
PURCHASE OF RAW MATERIALS													
PURCHASE VALUE OF RAW MATERIALS													
PRODUCT SALE (number of pieces)													
PRODUCT SALE (turnover in Euro)													



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# Access to **credit**





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## TABLE OF CONTENTS

1	DESCRIPTION OF THIS MODULE	5
2	HOW CAN A COMPANY RECEIVE FUNDING OR FINANCING?	6
3	ASSESSMENT BY POTENTIAL LENDERS	8
4	SUBMITTING FINANCING APPLICATIONS	10
5	ASSESSMENT OF THE COMPANY'S CREDITWORTHINESS	13
6	GUARANTEES	19
7	ALTERNATIVE FINANCE	21
8	KEY CONCEPTS FOR ACCESSING CREDIT	23

# 1

## DESCRIPTION OF THIS MODULE

Companies are often faced with the major problem of not knowing how to acquire financial resources to implement their ideas. This is a problem for going enterprises wishing to expand their operations, and even more so for young start-ups, which may have great ideas, but are often unknown to investors. In this module, we are going to look at some methods that both well-established companies and new innovative enterprises can use to access credit. For example, one possible way to access credit is crowdfunding, which is becoming increasingly popular in Italy, thanks to recent laws that have made participatory financing through the web easier.

We are also going to explore the concepts of business credibility and financial sustainability, while analysing the most important soundness indicator levels a company needs to achieve so it can be trusted by potential lenders.

Finally, we are going to look at a fundamental and more general requirement, which is that the company should be as transparent as possible and be committed to building alliances with its partners and potential lenders, regardless of whether state or private funds or funds from individuals through crowdfunding are being accessed.

IN THIS MODULE,  
WE ARE GOING  
TO LOOK AT SOME  
METHODS THAT  
COMPANIES CAN  
USE TO ACCESS  
CREDIT

# 2

## HOW CAN A COMPANY RECEIVE FUNDING OR FINANCING?

Companies are often looking for funds, so they can have the financial resources necessary to increase their potential or, in the case of start-ups, to implement successful business ideas.

Through what channels can a company receive funding or financing?

Some of them are:

- ▶ Loans from third parties
- ▶ Using the share capital
- ▶ Non-repayable grants

In the case of **loans from third parties**, the company, whether it is a start-up or a well-established company, seeks financing from external institutions, such as banks or other investment funds, which charge interest on the loan. The business risk remains with the entrepreneur, namely the person who provides the necessary guarantee and who negotiates and agrees on the loan repayment terms and conditions.



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If the company uses **share capital**, it invests funds made available by its founders or by new shareholders to whom company shares are transferred or with whom such transfer is under negotiation. The business risk is shared among all shareholders, as the money they invest in exchange for company ownership remains with the company until the company achieves certain operating results.

Finally, **non-repayable grants** are donations usually made by institutions, which do not need to be repaid and which are given for philanthropic purposes. In most cases, non-repayable grants are given to third-sector associations or to companies or institutions that guarantee that the grants are used for philanthropic purposes. Social or for-profit companies applying for grants must use transparent reporting so they can prove how such funds are used; otherwise they do not receive the grant.

Generally, the most common way for companies to receive financing is through third-party loans.

---

NON-REPAYABLE GRANTS ARE DONATIONS USUALLY MADE BY INSTITUTIONS, WHICH DO NOT NEED TO BE REPAYED AND WHICH ARE GIVEN FOR PHILANTHROPIC PURPOSES

# 3

---

## ASSESSMENT BY POTENTIAL LENDERS

**P**otential lenders, whether they are banks or investment funds, are responsible for assessing the company's financing application. The two main aspects that potential lenders take into account while assessing such application are:

- ▶ the **solvency of the company**, which is the company's ability to repay the loan.
- ▶ the **reliability** of the company, which can be inferred from its credibility and reputation, and therefore from the probability that, based on its debt repayment history, the company will repay the loan.

The solvency and credibility of the company are assessed through various information channels. First, as much qualitative and quantitative information as possible is collected. As far as quantitative information is concerned, the debt history of companies and individuals is traced through a well-established banking network mechanism, whereby various information is collected and disseminated. The most important tool available for the assessment is the Central Credit Register CRIF, an IT archive that contains data on loans requested

and granted to individuals and companies,<sup>1</sup> and the Italian Central Credit Register, an information system that monitors loans made to natural and legal persons by banks and financial companies.<sup>2</sup>

Potential lenders also take into account and assess other data. For example, they check whether any protests, or bankruptcy or insolvency proceedings have been filed against the company, and whether the company has applied for a settlement with creditors. Potential lenders also carry out chamber of commerce surveys, whereby they can check the company's data.

Financial institutions can also look for **qualitative** information, for example by examining the applicant's website or other databases showing the company's payment behaviour.

Nevertheless, the quantitative and qualitative information that potential lenders find on their own may not be sufficient to provide an accurate view of the company, as it is not always up to date. It is therefore essential to update one's debt history and to use a tool that collects quantitative and qualitative information on the company's performance and that communicates the development plans for which the company requires financial support.

---

IT IS ESSENTIAL  
TO UPDATE ONE'S  
DEBT HISTORY

In the next section, we are going to look at what financial institutions need to know about a company applying for financing.

---

1 [www.crif.it](http://www.crif.it)

2 [www.bancaditalia.it/statistiche/raccolta-dati/centrale-rischi/index.html](http://www.bancaditalia.it/statistiche/raccolta-dati/centrale-rischi/index.html)

# 4

---

## SUBMITTING FINANCING APPLICATIONS

**W**hen submitting any financing application, it is generally necessary to follow the instructions provided in the specific call for proposals which the entrepreneur wants to take part in. In fact, such instructions generally state and provide clear information about the preferred practices, the steps to follow and the documents required.

However, it is important to bear in mind that, regardless of the call for proposals, the entrepreneur needs to prove to potential lenders that their company is financially sound and reliable.

Typically, the steps involved in the preparation and submission of a financing application are standard steps, although some calls for proposals may have more specific requirements.

The applicant is generally required to submit a dossier describing their company and the business plan, and to submit their financing application together with key elements allowing potential lenders to

“ *The best we can do is size up the chances, calculate the risks involved, estimate our ability to deal with them and make our plans with confidence.*

*Henry Ford*

evaluate it. If the company applying is a start-up, it is obviously not required to submit its financial statements.

In general, the entrepreneur may be required to submit the following documents to apply for financing:

- ▶ **Corporate documents**, such as the company's deed of incorporation, registration certificates, identity documents, resolutions to appoint the legal representative, tax return forms, chamber of commerce survey and bank details.
- ▶ **Financial documents**, such as the business plan, annual financial statements, the cash flow analysis, details about financial exposure, the tax payment certificate, and an analysis and details of receivables and payables.
- ▶ **Any additional documents**, such as an analysis and details of fixed assets, risk exposure from the Italian Central Credit Reg-



ister, insurance contracts, contracts with external professionals, sales contracts and the entrepreneur's curriculum vitae.

The financial statement submitted to the potential lender is particularly important. The **financial statement** consists of:

- ▶ **The statement of assets and liabilities** (SAL), which shows the quantitative and qualitative composition of the company's assets.
- ▶ **The profit and loss account** (PLA), which shows the economic result, namely the costs and revenues, for the financial year.
- ▶ **The notes to the financial statement** (NFS), which explains the criteria applied when assessing the items of the financial statement.

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# 5

## ASSESSMENT OF THE COMPANY'S CREDITWORTHINESS

**T**he potential lender assessing a financing application uses specific parameters to assess the viability of a company.

The entrepreneur should know these criteria, so that they can self-assess their own financing application before submitting it to the potential lender.

The person assessing the financing application analyses the financial and economic stability of the company, so as to evaluate whether the company's financial plan can actually support cash flows.

It is not uncommon for banks to seek assistance from specialized agencies that examine and rate the company applying for financing.

When assessing the **financial stability** of the company, potential lenders take into account the sources and uses of financing, as shown in the statement of assets and liabilities.

When analysing the financial statement, the statement of assets and liabilities is divided into five macro-categories, as shown in Tab. 1: assets consist of fixed and current assets, while liabilities consist of equity, medium and long-term liabilities, and current liabilities.

## BALANCE SHEET

ASSETS	LIABILITIES
FIXED ASSETS	EQUITY
CURRENT ASSETS (LIQUIDITY, INVENTORIES, SHORT-TERM RECEIVABLES, OTHER CURRENT ASSETS)	MEDIUM/LONG-TERM LIABILITIES
TOTAL ASSETS	CURRENT LIABILITIES (SHORT-TERM LIABILITIES, FINANCIAL LIABILITIES, OTHER CURRENT LIABILITIES)
	TOTAL LIABILITIES

Tab. 1 - The macro-categories in the statement of assets and liabilities

The parameters that describe the financial stability of a company are the following:

- ▶ The **working capital** or WC, as shown in Fig. 1, shows the company's level of short-term financial and capital structure stability. The working capital is the difference between current assets and current liabilities and, when it is positive, it expresses the company's ability to meet short-term commitments.

$$WC = \text{IMMEDIATE LIQUIDITY + SHORT-TERM RECEIVABLES + INVENTORIES} - \text{FINANCIAL LIABILITIES + SHORT-TERM LIABILITIES}$$

Fig. 1 - Calculating the working capital

Fig. 2 shows the **ratio of equity to total liabilities in the statement of assets and liabilities**. This index should be at least 25 per cent meaning that at least 25 per cent of the investments made in the company is financed through the entrepreneur's own capital. The lower the index, the more undercapitalized the company and the lower its creditworthiness.

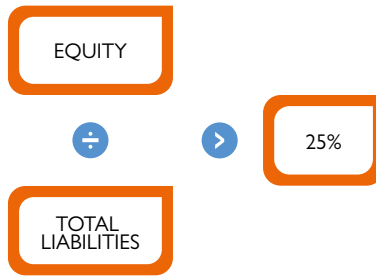


Fig. 2 - Calculating the ratio of equity to total liabilities in the statement of assets and liabilities

- ▶ The **leverage** or debt ratio, shown in Fig. 3, is the ratio of short, medium and long-term liabilities to equity. This index should be below four, as the higher the index, the higher the company's debt.



Fig. 3 – Calculating the debt ratio

- ▶ The **bank debt to turnover ratio**, shown in Fig. 4, should be less than one third of the profit. It can be higher only if the debt is mainly due to the disposal of receivables.



Fig. 4 - The bank debt to turnover ratio

- ▶ The **gross operating margin (GOM)** is one of the most important parameters, as it only takes into account the ordinary operations of the company. This parameter is obtained by subtracting the cost of production from the value of production, without taking into account any depreciation, amortization and write-downs.
- ▶ The **bank debt to GOM ratio**, shown in Fig. 5, measures the bank debt volume compared to the gross operating margin. If this ratio is three times higher than the GOM, the company lacks resources to repay loans.



Fig. 5 - The bank debt to gross operating margin (GOM) ratio

To assess the **economic stability** of the company, the costs and revenues for the financial year, as shown in the profit and loss account, are taken into account. This assessment shows the costs and



revenues connected with the company's operations and allows the profitability indicators to be analysed.

The most important parameters to assess the economic stability are the following:

- ▶ The **GOM to turnover ratio**, Fig. 6, shows the profit margin per unit turnover. Since profitability depends on the sector in which the company operates, there is no absolute optimum value. It is therefore good practice to keep track of this ratio over time and assess it compared to other competitors.

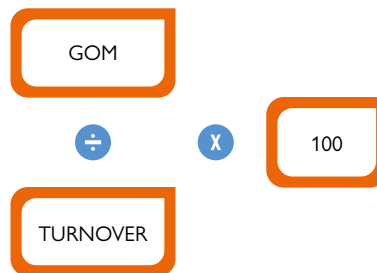


Fig. 6 - The gross operating margin (GOM) to turnover ratio

- ▶ The **return on equity (ROE)**, Fig. 7, is the ratio between the net profit for the financial year and the net capital invested in the company. It directly measures the profitability of the company and, although values vary greatly depending on the sector the company operates in, it should be positive and as high as possible.



Fig. 7 - Calculating the return on equity

- ▶ The **return on investment (ROI)**, Fig. 8, is a widely used profitability index that measures how well investments perform in percentage terms. While ROI varies by sector, it should be as high as possible.



Fig. 8 - Calculating the return on investment (ROI)

- ▶ The **ratio of net financial position (NFP) to gross operating margin (GOM)**, Fig. 9, where the net financial position shows the company's financial exposure to third parties, net of cash and cash equivalents. This index compares financial indebtedness with profitability and provides information on the company's ability to generate cash.

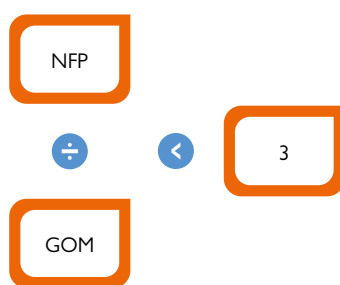


Fig. 9 - The ratio of net financial position (NFP) to gross operating margin (GOM)

In addition to the financial statement and financial documents, a clear and comprehensive business plan giving an accurate view of the expected return on investment should be submitted.

# 6

## GUARANTEES

When assessing the company's financing application, potential lenders may ask for **guarantees**.

It is important to bear in mind that providing guarantees can mitigate the risk borne by the potential lender that the borrower will default on the loan. Nevertheless, even if guarantees are provided, the financing application may be rejected. In fact, if the company is not sustainable or if it lacks the ability to repay the loan, its application will not be accepted.

EVEN IF  
GUARANTEES  
ARE PROVIDED,  
THE FINANCING  
APPLICATION  
MAY BE  
REJECTED

There are many different types of guarantees, such as collateral security, personal security, non-typical guarantees, government guarantees and consortium guarantees. Some of them are listed below:

- ▶ **Mortgages:** a mortgage is a secured loan in which the collateral is real estate, an asset, registered movable property or beneficial rights, such as usufruct rights or the right to live in the property the loan is secured on. Mortgages are generally used to secure large loans, such as loans for purchasing industrial sheds. The amount loaned covers at the most 80 per cent of the value of the mortgaged property. The mortgage is registered in the land registry and it allows the creditor to take ownership of the asset if the debt is not settled.
- ▶ In a **pledge**, only movable property, such as securities, credits or money, is provided as security. If the loan is not repaid, the



bank takes possession of such property, even if the property itself has not been registered in any public register.

- ▶ A **surety** is the most commonly used type of personal security that banks ask for. The guarantor assumes responsibility for the obligation of the borrower and if the loan is not repaid, the bank collects the debt from the guarantor.
- ▶ **Credit transfer** is an agreement whereby credit is transferred. If the corresponding loan is not repaid, credit transfer allows creditors to collect the debt from customers who have entered into a commitment with the company.
- ▶ An **order for collection allows** the debtor to repay the loan with receivables.

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CONSORTIUM  
GUARANTEES  
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THE PRINCIPLE  
OF MUTUALITY  
TO HELP SME'S  
ACCESS CREDIT

In addition to these guarantees, there are also **government and consortium guarantees**.

One of the main tools to have easier access to credit is the **Guarantee Fund for SMEs,<sup>3</sup> or Small and Medium Enterprises**, which provides a public guarantee for loans from banks or other intermediaries. Such guarantee can be provided in addition to or it may replace the collateral provided by the company. Help can also be sought from **credit guarantee consortia (in Italian *Confidi*)**. Companies belonging to such consortia raise funds, so that they can provide guarantees based on the principle of mutuality to help SMEs access credit.

It is important to note that neither the Guarantee Fund nor *Confidi* provide financing, but they can endorse the company's financing application through their guarantees. To find out whether a company can benefit from such guarantees, entrepreneurs should contact their bank.

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3 [www.fondidigaranzia.it](http://www.fondidigaranzia.it)

# 7

## ALTERNATIVE FINANCE

**T**hanks to legislative and technological innovation, more sources of credit are available today and it is easier to access financing instruments, including from organizations other than banks, and to diversify sources of credit.

One of the main innovative tools currently available is **crowdfunding**<sup>4</sup> which allows individuals and companies to share projects through online platforms operated by specialized intermediaries. Today, there are about thirty crowdfunding operators and intermediaries available online in Italy. One of Italy's most popular sites is economyup.it, while the U.S. platform Kickstarter is very popular at an international level; it is, in fact, one of the first organizations that has put companies in contact with potential private backers through the network.

There are many types of crowdfunding currently available.

- ▶ Equity crowdfunding involves raising venture capital funds to enable backers to become partners in a company.
- ▶ Reward crowdfunding is used for fundraising campaigns created

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4 The law on crowdfunding in Italy is regulated by decree 179/2012, converted and amended by law 221/2012 and subsequent amendments. See [www.consob.it](http://www.consob.it)

to finance a specific project. Backers receive prizes, a gadget or a share of the revenue earned from the project.

- ▶ Lending crowdfunding is based on a mechanism whereby private individuals lend their money, which is then paid back through the platform in the time and at the interest rates agreed with the operator. The operator, just like any other potential backer, uses the usual channels to assess the creditworthiness of the company, so as to protect the investment from the public.

One of the financial instruments available that is worth mentioning are **mini-bonds**, instruments that allow companies not listed on the market to issue bonds with a low nominal value, although only institutional investors can purchase such bonds. **Mini-bonds** and **financing bills**, namely credit instruments to collect savings from the public, are structured instruments that are highly expensive and can be issued only by companies that have audited financial statements and that meet a series of requirements to protect the public.

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MINI-BONDS ARE INSTRUMENTS THAT ALLOW COMPANIES NOT LISTED ON THE MARKET TO ISSUE BONDS WITH A LOW NOMINAL VALUE

While the transparency and credibility of the company are important for banks, they are even more important for private investors, namely the crowd. It is therefore crucial to clearly present the elements that allow users of crowdfunding platforms to know the company and its history and to assess the transparency and credibility of the project.

In conclusion, crowdfunding is a tool that uses online platforms, so the entrepreneur should formulate an appropriate message and complete it with images that show the project and the company's development.

# 8

## KEY CONCEPTS FOR ACCESSING CREDIT

We have reached the end of this module. As we have seen, obtaining credit is not easy and requires a good knowledge of the tools available, as well as very clear ideas of what the company offers its potential lenders. It is very important to build a **positive reputation with the public and with the financing circuits**, which allows the company to win its potential lenders' trust.

Some of the elements covered in this module are summarized below:

- ▶ When preparing the **financing application**, it is important to study the potential lender's requirements very carefully. Not all calls for proposals are alike, and especially as regards the content of the business plan, the financing application should meet the guidelines of the call for proposals.
- ▶ It is very important that the entrepreneur be the first to **self-assess their own company**. The indicators provided in this module, combined with good preparation work, will help the entrepreneur to understand if their financing application has good chances of being approved.
- ▶ Bank and potential lenders need to have guarantees on the entrepreneur's ability to **repay the loan**. It is important to take care of the financing application and of the personal relation-

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IS NOT EASY AND  
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ship with the potential lender in a transparent and clear manner, and to show what the company will gain through the financing.

- ▶ **The importance of cash flows** should never be underestimated. Showing that the company is able to predict income and expenditure – including the management of suppliers and customers – proves the potential lender that the entrepreneur will be able to repay the loan.
- ▶ The tools offered by fintech operators, such as online platforms, focus on **corporate reputation and credibility**, because the relational dynamics underlying reputation and credibility allow private users and companies to replace banks.
- ▶ Last but not least, the potential lender assesses the **business risk to which the entrepreneur is willing to expose themselves**. If the entrepreneur is not willing to risk their own capital for their idea in the first place, why should someone else do it?





**BUSINESS**

**IDEA**

**CREATIVE**