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Assessment of Value Proposition Drivers for a Micro Enterprise

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Abstract: *The passion, vigor and enthusiasm with which a micro enterprise is started, many a times die an untimely death due to the visionary limitation. This is more pronounced in case of first generation entrepreneurs who face constraints of experience, finance, support and chivalry. Micro Enterprise entrepreneurs born out of textbook knowledge are more susceptible to external failures. This paper investigates the relevance of entrepreneurial attributes and challenges that are prerequisite for the success of micro entity. The main aim of the paper is to analyze the theoretical framework of sustainability measures for the small business and to propose a conceptual model for assessing the attributes that are core success factors for making micro ventures sustainable. The paper also examines the extent of which the performance of the small business is associated with the business constraints using Porter's Five Forces Model. The study analyses the various phases of a small business and identifies the varied dilemma faced by the entrepreneur at different life cycle stages of the venture.*
Keywords: *Micro enterprises, Sustainable, Entrepreneur, Small Business*.

I. Introduction

Micro Enterprise as a form of business set up is in subsistence since historic ages across the world. Recognized as heart centers for growth, innovation, employment generation and engagement, skill development, poverty alleviation and a better life condition, the role of micro enterprises span across spectrum of operations.

The vision of these enterprises which are initially informal but gradually become formal businesses, thereby provide the foundation of modern private companies is worth striving for. (Mkandawire, 1999; Cook and Nixon, 2005). Large economies like USA and UK have been boosted by the presence of Micro Enterprises and Entrepreneurship. (Agyapong, 2010). MSEs are managed by their own owners and are family businesses, and therefore their success depends primarily on the entrepreneurial and managerial capabilities of the owners (Tarmidi, 1999: p. A4-2). However micro enterprises have been facing array of challenges - lack of access to finance at right time, lack of information, limited access to technology, low ability to acquire managerial and technical competence and inadequate market knowledge due to which they dissolve after a short period of time of their establishment. Dissolution of micro enterprises may lead to increased unemployment, poverty and weak economic growth thus need arises to gauge the determinants for sustenance of these enterprises. The role of micro enterprises especially in developing economies has garnered substantial interest amongst academic and policy researchers in recent times.

For a largely populous country like India, the impetus to sustain an entrepreneur is more significant as they are the harbinger of employment prospect and quality products/services at affordable prices. International Finance Corporation (2012) report states that there are 29.8 million enterprises in various industries in India, employing 69 million people. The sector includes 7.4% women-led enterprises and 51.8% rural enterprises. In all, the MSME sector accounts for 45 percent of Indian industrial output and 40 percent of exports. Although 94 percent of MSMEs are unregistered however the contribution of the sector to India's GDP has been growing consistently at 11.5 percent a year, which is higher than the overall GDP growth of 8 percent.

II. Previous Research

The European Commission defines MSEs using a combination of employee numbers, annual turnover or balance sheet total and ownership, authors have divergent views on the definition and enumerates that these factors are influenced to a great extent by population and the stage of country's economic development and also the industry of which the micro entity is a competing part. Zewde and Associates (2002) study characterized Micro and small enterprises by a number of highly diversified activities. Further it has been described as easy entrant and which is financed mainly from personal and family resources requiring lower initial investment capital and uses labor-intensive techniques.

Mkandawire (1999) Majority of the micro enterprises are in the informal sector, these enterprises are initially informal but gradually over a time span some of them survive and become formal businesses thereby providing the foundation for establishment of modern private companies, Cook and Nixson, (2005) thus growth of this sector become a part of the dynamic growth of the economy. Cook and Nixson (2005) study indicates that growth and development of MSEs in developing countries were mainly subdued by access to finance, poor managerial skills, lack of training opportunities and high cost of inputs. Further studies conducted in 1999 suggested that finance was the most important constraint for the micro enterprises.

Knorringa & Schmitz (2000) study enumerates that presence of strong producer groups and quality driven value chains allow product differentiation and branding at producer level as they are able to control quality on behalf of the member entities. Barnir and Smith (2002) research indicates that participation in networks is important for micro enterprises which has limited resources and market presence which facilitates them in innovation, reduced transaction cost and increased market access. Acceptance of differentiation strategies by micro enterprise will yield higher returns by creating brand loyalty and customer retention in the long run.

Galbraith (1982) and Kazanjian (1988) suggest that assessment of life cycle models offers a valuable framework for systematically understanding the lifespan of a micro business enterprise. The life cycle of a micro enterprise maybe assessed on the basis of organizational structure, maturity of the firm, expansion and diversification. Stage models enable in understanding the transit of an entity from one phase to another phase which maybe challenging at times. Schlange (2006) opines that the main characteristic of sustainable entrepreneurs is a strong emphasis on ecological aspects in their business vision as opposed to the traditional entrepreneurial aspiration to grow and create profits. Bacanu (2010), tried to find a reference framework for the competition that includes Porters competence strategy to achieve the goal of the competitive advantage through cost and differentiation strategy.

III. Objectives And Methodology

The paper aims to analyze the following aspects related to micro enterprise selected for the study:

1. To assess the socio economic and psychological attributes of the entrepreneur
2. To analyze the major constraints faced by the entity.
3. To assess the essential value drivers of the micro enterprise for sustainability.

The study will be restricted to micro entity, a partnership firm located in the suburban region of Maharashtra. The business transition phase has been observed during previous two years' time frame.

Methodology for the study

Qualitative research method was employed for the study. The authors gathered the information related to the startup through observation method at different transition phase of the startup venture. Secondary data was also used for the study for understanding the theoretical and conceptual framework of the venture life cycle and the innovation model.

Section I of the paper discusses the background of the case and focuses on the entrepreneur's psychological attributes and behavior.

Section II examines the business constraints of the micro enterprise firm

Section III indicates the value proposition drivers of the enterprise based on Porter's Five Forces Analysis.

The research majorly intends to identify the behavioral traits of the entrepreneur at different stages of the venture further it also enables in measuring the drivers that essential for making the business model viable and sustainable.

Context of the Case:

The firm "Galactic Hobby Square" was setup in 2013 looking at the scarcity of quality products while participating in Tech Fests organized by IIT. Arvind's aim was always to make the best machine for the competition be it hardware or software. This led the protagonist to import few spares from out of India. At the time of graduating from one of the esteemed institutions for one such Tech Fest event, the college authorities used substandard parts procured locally for assembling a machine leading to poor performance which ranked down the score and low morale of the protagonist but this failure did not step him back from ideating further in the field of Electronics.

Progressing further, upon using imported parts in bots gave him consistent winning streak in various competitions at national level. After overcoming his own problem, Arvind realized that such type of shortcomings are also a nightmare for other students and overall quality of competition does not meets expectations due to the use of substandard parts restricting the creativity and entrepreneurial ability of the students. This failure and zeal to excel made him venture into an enterprise in 2013 along with his three friends on imported electronic spare parts ranging from sensors, complete programmable platforms, etc. The micro enterprise "Galactic Hobby Square" specializes in Unmanned Aerial Vehicles and supply complete systems to military and other organizations meeting their customized requirements. Currently the firm has an annual turnover over 2 lakh rupees and is earning adequate profits.

IV. Discussion And Analysis

1. Section I- Psychological and Socio Economic Barriers

The partners of the firm are post graduates and first generation entrepreneurs. One of the partner's had ventured into multiple businesses prior to starting "Galactic Hobby Square" where he was surmounted with innumerable obstacles. Unable to derive financial benefits from the business, he also lacked support and trust from family. This psychological barrier buried the fervor of a budding entrepreneur for some time till he met likeminded friends turned partners to set up "Galactic Hobby Square". . The passion to perform, financial independence and nurturing quality entrepreneurship were the motivational drivers for commencement of this venture "Galactic Hobby Square". The industry of Unmanned Ariel vehicles is complex and completely reliant on import of material parts from China, Taiwan and Hong Kong.

2. Section II- Business Constraints

The entrepreneurs were imprecise on their mission or vision but had a defined set of business plan which served as the guiding principle for the execution of the business entity. The observations of the study are based on descriptive results which are unable to show how the stated business constraints affect the performance of the business entity.

Financing

Past studies by Schiffer and Weder (2001) and by Beck et. al. (2005) show that financing is a greater obstacle for micro enterprises than it is for large firms, particularly in the developing world, and that access to finance adversely affect the growth of the micro and small enterprises more than that of large companies. Abor and Biekpe (2006)study indicates that commercial banks tend to assign a high risk to small enterprises and are therefore reluctant to extend credit to them. Small size of the firm and vulnerability to market fluctuations are the prime reasons for the mortality of small enterprises.

"Galactic Hobby Square" did not have any pre-defined set of financial objectives. The business at all times was dependent on the income and expenditure budget for their forecasted financial needs, predetermined budget and the actual expenditures and incomes were compared at frequent interval of time for assessing the deviations. However these statements were prepared by the accountant though the entrepreneurs were reliant on the accounting personnel for financial decision making.

Stutely (2003) argues that the borrower should be able to put the cost of all financing on the same basis, comparing them and come up with the one that gives the lowest cost financing option. The initial capital of the entity was raised from banks however imperative financial necessities of the business were addressed by the informal sector; the reliance on informal sector was preferred as against the formal channels for financing. Firm-level data indicates that access to finance is perceived as one of the main obstacles to doing business. First impediment to accessibility of credit was procedural and documentation delay and second major obstacle was the high cost of credit due to processing fees, negotiation fees, interest rates insurance, legal fees and collaterals restricting the freedom of financial choice of the entrepreneur and was primarily a discouraging factor for raising funds from formal sector. The firm in very nature is relatively young and lacks a history and track record of administrative capabilities, profitable ventures in addition there exists certain organization and accounting deficiencies which are compromising factors on credibility of the repayment capacity of the enterprise.

Financial Market Knowledge

Question 18 aimed to assess the financial knowledge about the different products and services offered by the banks and NBFCs. The generic product range of savings, loans and factoring were known facts however financial knowledge related to products as asset based lending, lease financing and hire purchase were the area unexplored by the entrepreneurs. The firm level data indicates that there is financial information asymmetry as communicating the quality of their investments and their credibility to the provider of finance is a challenge which has been persistently faced by the entrepreneur since the inception.

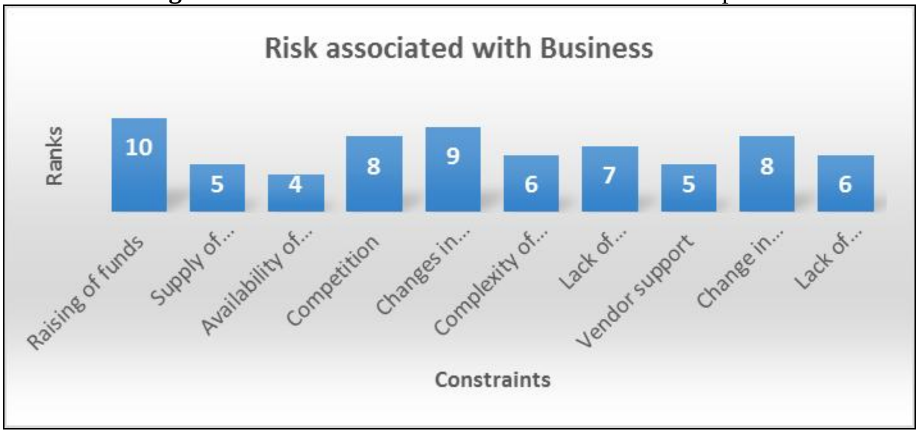
Reliance on cash flows

Material cost was major constituent of the cost, fly time quality determined the pricing structure of the product. Enterprise was fully reliant on imports and 80% of the business was dependent on select customers. Focus of the firm was on increasing cash sales however credit was extended to specific customers for period of 15 days, the firm had lacked standardized credit policy. The cash flows of the firm was driven by the payment of customers on time, reserves and profits very less reliance was on borrowings for financing its short term commitments. The major problem faced by the company was cash management and addressing liquidity issues.

Major risk associated with the business

Risk are the probability of an event either expected or unexpected which may create an unfavorable impact on the business enterprise. The risks parameters of the enterprise were evaluated on a 10 point scale which yielded the following results:

Figure 1: Risk factors associated with the micro enterprise



The enterprise was subject to external risks mainly on account of policy changes and exchange rate fluctuations as most of the parts of the equipment was imported. Raising finance was from formal institutions was a challenge and firm was dependent on informal source of lending for meeting contingencies. Procedural and compliance requirements by banks hinders the dependency on banks. Frequent changes in technology resulted product becoming obsolete as the time lag in procurement period was high further change in the regulatory environment or government policies restricted the scale of operations as the unit was dependent on imports for assembling of the product.

3. Section III- Value proposition drivers of the Business

Entrepreneurship is all about finding innovative ways to create value. Strategic alliances also seem to be critical to the success of emerging innovative business strategies with low income sectors at the "base of the pyramid" (Prahalad 2005; Hart 2005; Rangan, Quelch et al. 2007; Marquez, Reficco, and Berger forthcoming). A value driver is any variable that affects the value of the company. These value drivers have to be organized as they have great impact on the overall performance of the firm. For the study of the given enterprise value drivers have been assessed at three phases.

Various strategic analysis tools for analyzing the competitive environment such as Porters Five Model, Value chain Model, PESTEL analysis and Strategic Group analysis however for the study According to Porter, the origin of profitability is identical regardless of industry. Industry structure is what ultimately drives competition and profitability not whether an industry produces a product or service, is emerging or mature, high-tech or low-tech, regulated or unregulated. The paper investigates the application of Porter's five forces model to the micro enterprise under study for gauging its sustainability in the rapidly changing competitive environment.

Table1: Porter's Five Forces Model

Industry Forces	Assessment of key variables based on Porter's Five Forces Model.
Entry Barriers	• High capital expenditure due to specialized machinery and investment in technology. • Dependence on imports for raw material • Utilization of unused capacity through diversification - new product in safety equipment's in ready markets.
Buyer Power	• Limited number of buyers • Lesser market share of the product leading to more bargaining power to the customers. • Quality products leading to higher customer retention • Existence of informal market
Supplier Power	• Limited number of suppliers • Higher volumes and assured sales. • Lack of substitute raw material • Forward integration with the firm

	• High Switching cost from one supplier to another
Threats of Substitutes	• Less competition • New entrants from local markets. • Redundancy due to change in technology • Change in regulatory norms
Rivalry	• Pricing of products by the competitors • Not much product differentiation. • Barriers to exit are high due to specialized machinery and high investment.

Porter's model of Five Competitive Forces allows a systematic and structured analysis of market structure and competitive situation however it has been applied to the micro enterprise under study to determine the elements of competitive forces that will have an impact on the sustainability of the enterprise.

Table 2: Value Propositions parameters for the Micro Enterprise

Industry Forces	Value propositions influencing the Entity based on Porter's Five Forces Model
Reducing entry barriers	• Creating brand loyalty • Tie up with suppliers and distributors • Crowd funding
Reducing Buyer Power	• Value added services • Provision of service on lease • Forward integration/ partnering with the customer
Reducing Supplier Power	• Partnering • Good Supply chain management and training • Bidding for competitive suppliers • Identifying suppliers in the local markets without comprising quality of products.
Reducing Threats of Substitutes	• Market research • Identifying customer preferences • Investment in new technologies • Strategic collaborations
Reducing Rivalry	• Product differentiation • Rendering value for money • Expansion into new markets

V. Conclusion

There has been a growing emphases on sustainable entrepreneurship, however there exists innumerable challenges at the micro level complicating the sustainability issue of such entities. There need for structured financial products and services for these segments for making them economically viable in the long run.

To satisfy the various customers' needs, the firm should ideate innovation in service delivery channels and efficiency to respond the changing customer's specification which assures elevation, prosperity and stability. Furthermore, a more in-depth analysis of the different factors which underlie the emergence of sustainable ecosystems of the enterprise would be recommended. For addressing liquidity crisis the firm should opt for leasing its services which will ensure them with fixed cash inflows. Strategic alliances with government, event management companies and educational institutions will enable in penetrating the market. The firm service delivery is restricted to limited number of customers thus reliability and consistency of the services plays a predominant role in enhancing the advertising through word of mouth. Competition from large scale units also creates difficulty for the survival of new ventures. The traditionally bounded nature, cultural backwardness and cultural barriers add to the difficulty of communication. Entrepreneurs rely on internal linkages that encourage the flow of goods, services, information and ideas. The intensity of family and personal relationships that can be helpful but may also present obstacles to effective business relationships.

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