

# TRANSFORMING INNOVATIVE IDEAS INTO PROFITABLE BUSINESSES

Prof. Ivan Štefanić, Ph.D.

Complete manual for  
the participants of the  
**BE THE  
ROLE MODEL™**  
competition

Based on the concept of  
**INNOVATIVE<sup>3</sup>  
ENTREPRENEURSHIP**

Manual of the I-DARE project  
An EU Cross Border Cooperation program Hungary-Croatia 2014-2020  
Osijek, 2018.

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Transforming innovative ideas into profitable business

Prof.dr.sc. Ivan Štefanić

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Dear Readers,

I-DARE is a project within the Cross-border Co-operation between Hungary and Croatia for the period 2014-2010, Interreg V-A, financed by the European Regional Development Fund. The project objective is to reduce general unemployment and unemployment among young people by promoting entrepreneurship through training courses so that they could develop relevant skills for starting up their own business in the field of mechanical and electrotechnical engineering.

The methodology used in education proved to be extremely successful in practice since over 1500 students created their business plans with the Innovative<sup>3</sup> entrepreneurship concept and participated in the writing of BUDI UZOR<sup>\*</sup> business plans. After 13 years of implementation, BUDI UZOR<sup>\*</sup> is a national winner of the # EEPA2017 European competition in the “Promoting Entrepreneurship” category.

The project consortium recognizes small and medium-sized entrepreneurship as the best opportunity for achieving economic prosperity in the region. With the aim of ensuring project sustainability after the implementation period, we embedded strong mechanisms into the project structure, trained a large group of dedicated tutors in Croatia and Hungary, equipped them with strong tools such as applications for writing business plans with supporting handbooks and presentations, and prepared a comprehensive base of business cases and examples from the practice in order to educate future generations.

Entrepreneurs do not have time for acquiring formal education which might not even be necessary for their business. However, it can be extremely dangerous to underestimate entrepreneurial education because specialist training enables an intricate assessment of current and future businesses from various angles. Therefore, the Handbook's contents follow the training programme, which I often implemented in practice. Experiential learning and innovative problem solving are extremely important components of entrepreneurial education. Just like learning how to ride a bike makes no sense without a bike, entrepreneurial training makes no sense without writing at least one fully developed business plan. In the preparation process of a business plan, we collect necessary data, define technology and business Organisation, prepare marketing and financial plans, and embed them into the business plan. Using business games and simulations in training, together with preparing individual and team tasks, makes the acquisition of knowledge and experience required for a successful start-up and business management more efficient and fun. In practice, this means a faster transformation of an entrepreneurial idea into a project. However, have in mind, this is a long and interdisciplinary process in which certain factors can move on and transform the project into a profitable, competitive and sustainable company.



Innovation in creating new projects is important, but it will not automatically ensure business success per se. By applying innovative business models and innovative solutions in project implementation, such as innovative management, marketing and financial management, we increase the chances for achieving significant business success.

Whether or not you would like to start a business project during your education or immediately following its completion, make sure you pay attention to what you have learnt during the training. Use the opportunity but be cautious at the same time. My intention was to encourage self-employment among young and ambitious people, but not at any cost. I am deeply convinced that I have even helped those who gave up on their idea having read the Handbook because their start-up might have been underprepared or inappropriate for the existing environment. I recommend such entrepreneurs preparing additionally and starting their business only after they have acquired all necessary prerequisites.

A special thanks to Mr David Sörös from the Chamber of Commerce and Industry of Pécs-Baranya County for his help in collecting data on doing business in Hungary. The book was finished in January 2018. Therefore, the readers who consult the book after a considerable period of time should definitely check the data accuracy due to possible changes in legal and sublegal provisions which regulate the economic system.

Your business success, innovative products and satisfied clients make me extremely happy. If you would like to share your experience with others, please write about it at [tehnostart@hotmail.com](mailto:tehnostart@hotmail.com).

Finished in Osijek, 10<sup>th</sup> January 2018

Prof.dr.sc. Ivan Štefanić

## 1. BEING AN ENTREPRENEUR

### WHAT WE WILL LEARN

- Which motivation factors are involved in deciding on starting a business.
- Which knowledge, skills and traits entrepreneurs need to possess for being successful.
- factors determine a rational area for selecting an entrepreneurial idea.

An entrepreneur is a person, such as Henry Ford or Steven Jobs, who organizes a business venture, carries it out and takes on responsibility and risk.

An entrepreneurial idea is the foundation of a future business, and it can significantly depend on motivation and the way we set the business up. To some people, a business venture is a replacement for an existing or lost job, and to others, it is a way of changing their lifestyle or earning more money. A powerful motive for starting up can be a change of residence or family situation, a health condition, reaching a breaking point in an existing job, the desire for change or a combination of several reasons.

The decision on starting one's own entrepreneurial project or with a partner is extremely important, and it can have a significant and long-lasting effect on the entrepreneur's life. For making the right decision, it is necessary to answer three fundamental questions:

1. Why be an entrepreneur in the first place?
2. What to deal with?
3. In what way to earn money, i.e. what is my business model?

Answers to these questions have a significant influence on making a decision with regard to starting up. However, their interconnectivity is also important. The product or service type affects the business model, business model risks and entrance barriers affect the motivation for starting up, and the motivation for starting up affects the search for the appropriate product, service and business model. This is exactly the reason why this part of the book, together with defining strategic decisions which include writing the mission, vision, objectives and tasks, represents an extremely important part which many entrepreneurs and consultants neglect. Firstly, let us analyse the reasons why somebody would want to become an entrepreneur.

There are many reasons why somebody would want to become an entrepreneur. Some of them may seem less important, even trivial, but for some people, they may be crucial. With regard to motivation, the reasons for starting up an entrepreneurial project can be divided

into proactive and reactive. Proactive motivation aims to achieve, and reactive to avoid. The overview of reasons for starting up an entrepreneurial project is shown in Table 1.

Table 1. Reasons for starting up an entrepreneurial project

PROACTIVE	REACTIVE
Achieving financial independence and security.	I have difficulty dealing with authority.
Earning more money.	They consider me a bad worker. They often fire me. I am bad at carrying out tasks I don't like. I or members of my family do not like my business travels.
Asserting oneself.	Workforce turnover rate at my job is high, and I feel insecure.
Working with a flexible schedule of work hours and obligations.	Interpersonal relationships are bad in my workplace.
Becoming an expert.	....
Having job security.	
Achieving subsidies and tax reliefs.	
Networking.	
...	

It is quite obvious that future entrepreneurs who start up their business due to a recognized opportunity will not have any problems with selecting the entrepreneurial idea. They have a characteristic system for spotting opportunities: where others see issues, they see solutions and opportunities. After that, everything is simple; they just need to draw up a business plan where they define the way in which they will carry out the project, find associates and start their own business.

An independent entrepreneurial project can be a continuation of a current career, and it can be carried out in numerous ways. It is possible to provide unmodified services to individuals or companies which can also be former clients of a previous employer. In this case, special attention should be paid to the provisions of the employment agreement regarding the non-competition with the employer since their breach may financially harm or ruin their business. The development of a new or significant enhancement of the existing product or providing services in a perfected way are much better paths for starting up. Each of these ways essentially includes selling one's own expertise. Therefore, the better the entrepreneurs' education and training, the higher their chances for business success. This group of entrepreneurial ideas for beginners includes turning hobbies into businesses.

The next group of entrepreneurial ideas includes certain restrictions, but it requires less creativity. This is acquiring an existing business (with or without restructuring), commercialising someone else's innovation and acquiring a license or a franchise.

Existing entrepreneurs can reach a business idea in a completely different way. Using equipment they already own in a new business and developing a new product for the existing or new customers are an excellent choice.

Future entrepreneurs who start up their business out of necessity have a lot more issues with selecting the entrepreneurial idea. I believe that they are more concerned with the question “Is my business idea good enough?” than the lack of ideas. Good news for such entrepreneurs is that there is help which is available to them. What finding the entrepreneurial idea looks like in practice is shown in Table 2.

Table 2. Sources of entrepreneurial ideas, USA 1987

SOURCE OF AN ENTREPRENEURIAL IDEA	%
Previous job	42
Personal interest	18
Opportunity for asserting oneself	10
Suggestions for the environment	8
Relatives	6
Family business	6
Education	6
Other	4

*Source: Krzysztof Zasiadly, 1999*

In addition, there are many other sources of business ideas. It is only necessary to look carefully. If the idea you have solves one of your problems, it is quite likely that it will be interesting to other people with the same or a similar problem. The larger the group is, the better the chances for business success. The sources of reliable information on a business idea can be: your (future) customers, existing entrepreneurs (competitors), national intellectual property institutes, legal and sublegal acts, economic trends, lifestyle, demographic situation, technology, daily press, fairs, numerous seminars, etc.

Entrepreneurs can create, test and implement a new ideal independently or with the help of others, but they must take into account confidentiality, i.e. intellectual property protection relevant for their project. In Organisations which enable a higher level of freedom and entrepreneurial activities to their employees, individuals can achieve their entrepreneurial aspirations even without leaving the system by acting on behalf and for the account of their employer. There is no corresponding term for such a person in the Croatian language. In English, this is an intrapreneur, unlike the entrepreneur who undertakes entrepreneurial activities on their behalf and for their account.

### 1.1. ENTREPRENEUR'S CHARACTERISTICS AND MOTIVATION

If we tried to list everything an entrepreneur needs to know and what he should be like in order to be successful, the list of virtues and skills would be extremely long. It is noticeable that many successful entrepreneurs from our environment lack important characteristics from that list. To avoid discouraging new entrepreneurs by profiling successful ones, it is important to highlight only the most important characteristics.

- a) Innovation. This does not imply only technical innovation of products or services. Innovation in application of existing things, marketing etc. is common and functions extremely well.
- b) Risk taking. It should not be confused with risk seeking. Entrepreneurs are people who will try to avoid risk at any cost. If it is not possible to avoid it, they will seek a way to offset it.
- c) Confidence.
- d) Hard work. The grand truth is that entrepreneurs work hard and long hours. Figure 1 shows what this looks like in the USA. It is extremely important to point out the importance of good planning. Reaching goals during the first year should be planned out since it is not possible to keep up with this pace in the long-run.
- e) Goal-orientation. Entrepreneurs usually know very well what they want and what they do not want. They have a clear vision of their entrepreneurial venture and have worked-out strategic goals and a pragmatic approach.
- f) Responsibility.

If you are now wondering: „Why would anyone want to be an entrepreneur?“, the answer is quite clear: the main reason is the need for self-assertion.

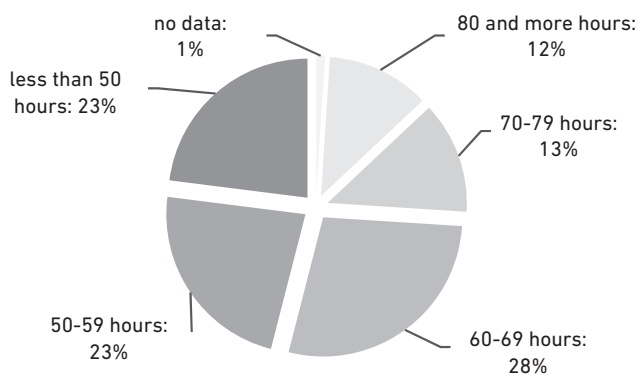


Figure 1. American entrepreneurs-beginners' weekly consumption of working time during the first year of business

*Source: NFBI Foundation, 1998*

It is extremely important that the list of the main characteristics includes observing the highest benchmarks in the field of quality control, environmental protection, as well as obeying the strictest ethical norms and rules of socially responsible entrepreneurship.

## WHERE ENTREPRENEURS ACTUALLY COME FROM

As a university professor, I am involved in education of students who, upon the completion of their studies, need to solve existential issues which depend on employment or self-employment. The results of the research<sup>1</sup> which I conducted in 2000 are surprising: a significant number of agriculture students study according to a programme which is not their first choice and have no plans of pursuing a career in the profession which is the subject of their studies. The biggest surprise is a large number of students who, after 8 years of vocational education in agriculture (finished Secondary School of Agriculture and Faculty of Agriculture) have no plans of working in their profession. With each generation of my students, I analyse the way they plan their first employment. The number of students who plan to start up their own business at this life stage is quite small. The results are not surprising if we take into account the fact that the majority of students had no entrepreneurial education in secondary school or before that. The decision to be self-employed is a serious decision with a far-reaching influence, and generally, it is not made having taken only one entrepreneurial module at university.

The discussion on how one becomes an entrepreneur often ends up in a philosophical dilemma: are entrepreneurs born as entrepreneurs or are they made? Regardless of which answer is correct, it is entirely clear that appropriate entrepreneurial education, as early as possible, can only help.

## OVERVIEW OF ECONOMIC COMPETENCES REQUIRED FOR A SUCCESSFUL BUSINESS OF A NON-ECONOMIST ENTREPRENEUR

Entrepreneurial competences and skills which entrepreneurs need are numerous. This Handbook will not examine in depth technological, social and other types of competences, but the competences linked to the business aspect of entrepreneurship. Economic competences can be divided into five groups: entrepreneurship, microeconomics, macroeconomics, marketing and management (Figure 2.).

<sup>1</sup> Štefanić I. et al. (2000) Students' motivations and attitudes regarding agriculture studies and agriculture as a profession" Challenges to the Croatian Agriculture at the Verge of the 21st Century. Poreč, Croatia, pg. 153-154.

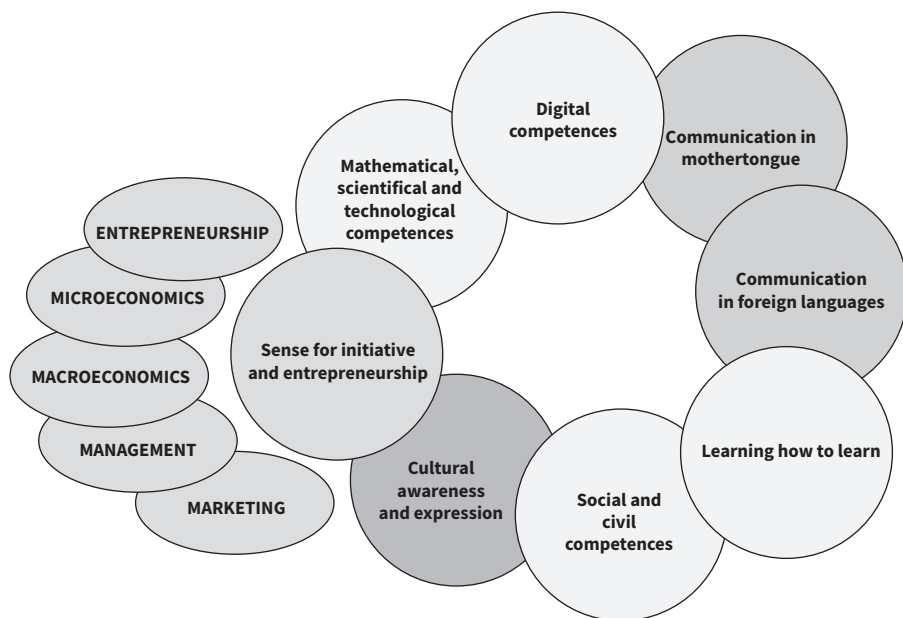


Figure 2. Overview of key competences for lifelong learning  
(*The European Union Recommendation 2006/962/EC*)

It is important to point out two things here. This knowledge differs from student knowledge. It is not enough just to get a passing grade, one needs as much knowledge and experience as the successful business requires on a daily basis. The other difference is the way of acquiring these competences. Entrepreneurs like to learn from people who are similar to them, they are oriented at solving problems they struggle with, and not acquiring knowledge in order to gain a degree.

## 1.2. PARADIGMS OF SMALL AND MEDIUM-SIZED ENTREPRENEURSHIP

The main factors<sup>2</sup> which should be taken into account when talking about entrepreneurship were extremely well defined by Dr. Jerome Katz from the Management Department of Saint Louis University.

### 1. One great thing

Entrepreneurs often start their venture because of one big idea for a product, service or solution of a problem which satisfies the customers. And that is sufficient for the begin-

<sup>2</sup> Source: personal communication with Dr. Jerome Katz during his visit to entrepreneurship studies in Osijek.

ning. However, there are too many enterprises with an outstanding product, top sales-force and bad accounting due to which they keep failing. The professor's task is to ensure a minimum standard for all business functions. Good enough for mere survival is literally "good enough".

An example of this rule is family agriculture. New generations often do not start their own business because of one great thing regarding the product, service or problem solution, but rather, this one great thing is continuing the tradition which has been preserved in the family for generations.

## **2. One person show**

Entrepreneurs often claim they have no time, and this is true. An enterprise with a single employed person has no spare workers.

## **3. One mistake from death**

A small enterprise is more sensitive to mistakes than a large one. The loss of a key client can mean 90% loss of the turnover in one day. In order to avoid mistakes, entrepreneurs often avoid innovations, many of them up until the moment when it is too late.

## **4. Short-term thinking**

Small entrepreneurs are focused on short-term goals, cash flow before profit, surviving before market shares. In conditions with limited resources, the next salary or paying suppliers is much more critical than long-term goals.

## **5. Secure simplicity and loose procedures**

Small entrepreneurs start and keep most things simple. They give advantage to single-entry bookkeeping over double-entry bookkeeping. It is important to emphasise that owners have no time for complex things. Besides, small entrepreneurs are often imprecise. Much like chefs, they would rather taste the dish than strictly adhere to the recipe. Students of economic faculties or business schools have an advantage as they adhere to sound accounting principles in their business as simple procedures in bookkeeping can have severe consequences.

## **6. Passion rules**

For a majority of small entrepreneurs, working hours are too long for the salary they earn, they work harder, and the responsibility and price for failure is higher. So why do they do it? Because of passion. People who start their own venture without passion are often doomed to failure which usually ensues after the first business mistake or difficulty.

## **7. Customers first, competitors second**



Customers are a critical factor outside the enterprise, not the industry or competitors. Competitors are beaten by making customers happy.

### **8. Sales make cash**

In schools, marketing is often learnt at the expense of sales. However, a sale is what generates cash for a small entrepreneur. When starting a venture, one should go out on the market and sell or ensure contracts for future sales.

### **9. Cash is king!**

A small enterprise depends much more on cash than on profit. It can survive quite a long time without profit, but without cash, the enterprise is “dead”.

Even though all paradigms are important, in certain cases their importance varies. It should be highlighted that the last three paradigms are extremely important in all cases.

#### **1. Developing an innovative product lasts for a long time**

Developing a new, high-tech product is an extremely long-lasting, complex, risky and expensive job. Only few people can finance research of such kind on their own.

#### **2. Industrial property protection (and why it is difficult)**

One of the main qualities of a globalized high-tech economy is intellectual property protection on which extremely large amounts of money are spent. Some patents are difficult to be commercialised, and some are not even planned to be economically exploited. Their primary intention, from the very beginning, is to prevent others from registering such a patent. A huge issue is the fact that success is quite rare (5-10% based on 9000 cases according to the experience from the USA), and huge success is even more rare (1% out of the previously mentioned 5-10%).

#### **3. Innovation is a vital component in success, but constant innovations can be a cause of failure.**

Innovations are indeed expensive, but the lack of innovations can be even more expensive in the long run because it can put entrepreneurs out of business. Small entrepreneurs continuously perfect their products by applying the rule of passion. This is good because it leads to a better and more efficient product and meeting customer needs. However, at the same time, it is not good because it means that entrepreneurs are focused too little on achieving their financial goals. The continuous perfection scenario is especially dangerous if it takes place before market penetration or if it postpones product commercialisation on many occasions. While the MARK 1 model is being designed, one should start with commercialisation, listening to what customers and competitors are saying, and further

developing the product, parallel with the commercialisation of the MARK 1 model. Upon completion of the new project, the MARK 2 model can be launched. Before making this decision, it is essential to learn more about the product lifecycle and marketing. It is important to point out that an innovation is not necessarily just a product or a service, an innovation can be a business model, marketing or something else.

#### 4. Teamwork

It was previously stated that one of the paradigms of traditional entrepreneurship is independent and individual work. Modern, globalised and high-tech business is diametrically opposite to the old paradigm for several reasons. The highlighted interdisciplinarity requires versatile expertise which can rarely be found in one person. A significant growth is also noticeable in the volume of business carried out on different continents. The diversity of geographic locations introduces a new variable, knowing local regulations, business customs and contacts which arguably emphasise the benefits of engaging local associates. Once selected, the strategy for intellectual property protection leads to engaging protection specialists taking into account the selected territories where the protection will be registered. Forming a team capable of carrying out the assigned task is a necessary, but not a sufficient condition. It is extremely important to manage the team efficiently, and to draw up their contracts accordingly.

#### 5. Prophylactic Jurisprudence – Precise contracts should be drawn up

This paradigm includes all preventive legal actions which aim at avoiding or mitigating potential misunderstandings and complications in business, as well as in private life (Campbell, 2010). According to the applicable Croatian legislation, written and oral agreements have the same value. However, the advantage is given to a written agreement as it can be proved more easily than an oral agreement. It is important to emphasise that agreements are not prepared only in cases of events which are positive and favourable for us, but also for cases when the agreed has not been fulfilled. This is the very reason why it is important to have contracts in written form. For writing contracts, template collections of ready-made contracts drawn up by experts for various cases can be used, entrepreneurs can compile them on their own, or they can assign that task to an attorney or a notary public. A good contract can mean the difference between incredible business success and bankruptcy, so this task should be approached highly seriously. Material agreements are notarised at the notary public's who, according to the entrepreneur's needs, certifies only the signature validation (a cheaper variant which confirms that the person who has signed the agreement is actually the person in question) or the document contents (a more expensive variant calculated as a percentage value of the agreement value which is called solemnisation).

## 6. Customers are saturated with advertising

The paradigm of small and medium-sized entrepreneurship according to which customers come before the competition is also valid for high-tech global projects with a note that combating competition is more demanding here. Remarkable products and spectacular promotional activities are created, but customers are saturated, and they simply show no signs of reaction. A possible solution to this problem is extending Porter's concept of "being different" from the product to marketing. Offer a purple cow and read Seth Godin, 2005.

## 7. NT + OO = EOO or systematic solutions

In many cases, new technology is treated as a miracle medicine which will solve all problems of an ailing business. However, in a wider context, new technology is only one of partial solutions which cannot entirely overcome all business issues. As a rule, the new technology itself is not enough; it is necessary to improve other aspects as well in order to have a complete and efficient solution. The heading of this section humorously describes a likely outcome if one insists only on new technology: New Technology + Old Organisation = Expensive Old Organisation.

## 8. $98\% + 2\% = 100\%$ or life is a presentation

In the way that it is written, it seems the heading is trying to say that 2% is more proportionally important in this equation, and actually, it is done this way on purpose. Developing an innovative idea as a rule involves 98% of boring work and 2% of key moments which are decisive for success. It is extremely important to be well prepared in these phases. Not only is it crucial to write a good business plan, but also to learn how to present your idea or business proposal. Nowadays, students and entrepreneurs-beginners have a chance to compete in presenting their entrepreneurial ideas and plans. These competitions are called an elevator pitch in English, which comes from the following situation: the person who manages to raise the interest of the company CEO for their idea or a project during the ride from the ground to their floor, which usually does not last longer than 2 minutes, will probably have a chance to present their plan in more detail at a specifically scheduled time.

## 9. Learn from others – learn in an appropriate way

Entrepreneurs get educated when they have an issue they need to solve. This is the very reason why traditional lectures are not the best way of learning for them. Entrepreneurial education can be acquired in diverse ways, with the same quality and effect. The best way for students to learn about business planning through writing a business plan with a mentor's help is if they enter a competition in business plan writing, and if they have to publicly present or defend that plan. After that, it is efficient to enrol into an entrepreneurship acceleration camp in which they can learn from entrepreneurs. This is a remarkable way of learning; students and other attendants of entrepreneurship acceleration camps learn

extremely quickly and efficiently by imitating<sup>3</sup> the existing entrepreneurs. It is important to emphasise here that this kind of learning does not always have that positive context in which one learns how to do something well, quickly, accurately, creatively and cheaply. In some cases, it is even more efficient to learn from unsuccessful entrepreneurs, i.e. how not to do something. Entrepreneurs learn rather well both from the competition and the customers, and they can even buy relevant knowledge and experience. It is possible to commercialise completed research or to buy a franchise which, apart from the product, also has a fully defined business model.

#### 10. The only thing one can be certain of is uncertainty

Not everything we do will end in success, which is why everyone, including entrepreneurs, is under constant pressure to do something which is more than necessary for ensuring personal and family needs. This is additionally complicated by the fact that all important strategic decisions cannot be made based on the current state, but based on a future state which is highly difficult to forecast.

#### 1.3.1. HARMONIZING THE ENTREPRENEURIAL PROJECT WITH THE FAMILY LIFE STAGE

It is important to point out that the decision-making factors for starting an entrepreneurial venture significantly depend on the life stage of every individual and his family, as well as on the general economic state. The start-up project must be well-harmonized with the family life stage (see Figure 3.).

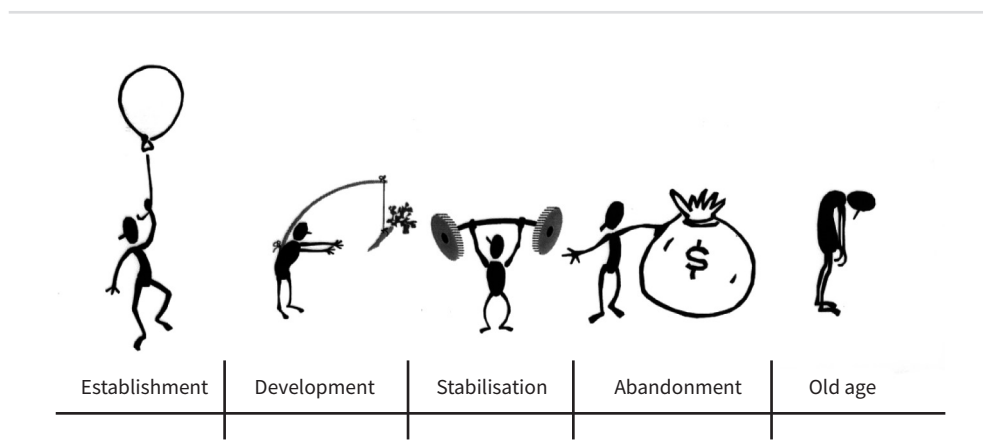


Figure 3. Stages of building a family business

<sup>3</sup> Learning through imitation is the least strenuous way of learning. Baldwin (1973) distinguishes between two types of imitation learning, incidental and intentional.

This means that a profitable and liquid project with an acceptable risk is not good enough for a family in their late fifties if the period for the return on the investment is 30 years, e.g. a walnut plantation for producing walnut wood.

This is not acceptable from a very simple reason according to which even the best business plan will not become successful if it is not properly embedded into the family situation and the wider context of its holders. The significance of management for a successful business is also best seen in the experience of top professionals from the sector. According to UBS Capital, five most influential factors for a project success are: 1. Management, 2. Management, 3. Management, 4. Market and 5. Product.

## **1.4. BUSINESS PLAN AND ENTREPRENEURIAL ENVIRONMENT**

A business plan is a written document which answers all important questions: what, how, why, until when, with which funds, where, etc. It serves as a map and compass for carrying out the entrepreneurial project, as well as the main means of communication with the entrepreneurial environment.

The main parts of a business plan are:

1. Description and analysis of the existing situation which includes business technology and Organisation
2. Marketing plan
3. Financial plan

A business plan is often focused only on a part of an added value chain to which the planned concretely refers. However, at this stage of planning, it is advisable to consider the entire added value chain from a very simple reason: an extremely favourable entrepreneurial opportunity might be hidden in the added value chain before or after a certain product.

### **1.4.1. IDENTIFICATION AND MANAGEMENT OF THE RISK RELATED TO THE ENTREPRENEURIAL IDEA**

An entrepreneurial venture brings along a certain risk as the entrepreneur often needs to leave their current job, work long hours, invest private funds, borrow money, and all that without any guarantee of the return on the investment. Entrepreneurship and risk are interconnected terms. When entrepreneurs decide to embark into the business world, they consciously or unconsciously take on the risk of success or failure of their entrepreneurial venture.

### **1.4.2. IMPORTANT NOTES ON A BUSINESS PLAN**

- Upon its completion, a fully developed business plan is an author's work, and this should be taken into consideration during its use. If ordered from a consultant or a specialised institution, it is necessary to regulate copyrights.

- A fully developed business plan contains information which potentially has significant financial value. During the use and distribution of printed and electronic variants of the plan, attention should be paid to information confidentiality. There are several important instruments for protecting confidential information:
  - Keeping a business secret.
  - Signing a non-disclosure agreement.
  - Signing an agreement which regulates information confidentiality. If the existing employment agreements have no non-disclosure and non-compete provisions, information confidentiality is potentially at risk.
- A fully developed business plan is as accurate as much as the information on which it is based. In addition, a business plan is reliable in conditions which were applicable at the time of writing. In case of a change in internal and/or external influential factors, it is necessary to update the business plan.

Prior to any search for a business idea, we will list mandatory and desirable characteristics each idea should have in order to be qualified as a backbone for a business plan and future business.

- A) It **MUST** be: profitable and liquid, competitive, sustainable, feasible, eco-friendly and legal.
- B) It **SHOULD** be: innovative, have the WOW factor, branded, difficult for copying, socially responsible, support a decent family existence.

#### 1.4.3. SELECTING A BUSINESS IDEA

Introductory chapters deal with the selection and assessment of the entrepreneurial idea. For those who prefer visual communication, it is entirely clear that the chosen idea must be within the area determined by three pivotal things: goals, available resources and market opportunities (Figure 4.).



Figure 4. Guidelines for the rational area for selecting an entrepreneurial idea

This is the right place for the discussion on economic environment which significantly defines the entrepreneurial venture. It is entirely clear that it is easier to be successful in a successful economy. Therefore, all future entrepreneurs should set aside some time to analyse the macro-economic framework within which they are developing their project (see Figure 5.).

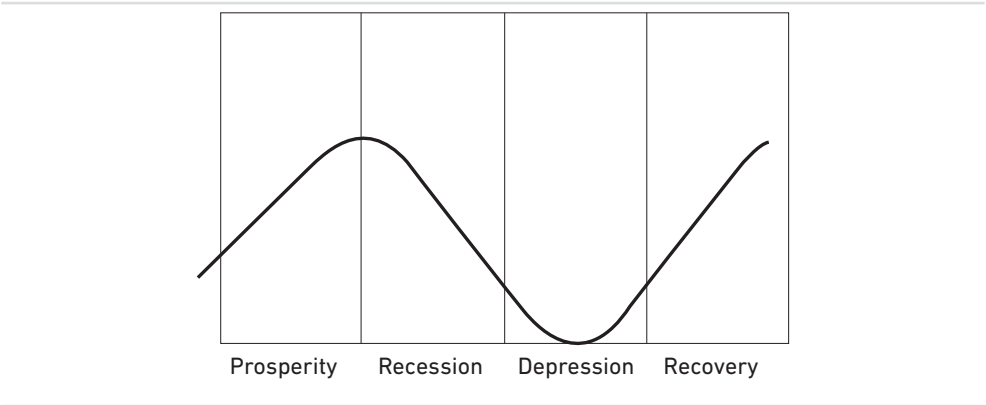


Figure 5. Economic cycle stages

Many small and medium-sized entrepreneurs are patient people, but rules of profession should not be ignored. Even though the decrease in GDP for two consecutive quarters does not seem horrible, the science of economics calls such a state of national economy a recession. Depression lasts longer than recession, and along with a decrease in GDP, demand and prices, it is also characterised by unemployment growth. In addition, market conditions are also important when it comes to competition. The market position matrix<sup>4</sup> according to Stackelberg provides a good insight. (Table 3.).

Table 3. Market position matrix

DEMAND SUPPLY	HIGH	LOW	INDIVIDUAL
HIGH	PERFECT COMPETITION	OLIGOPSONY	MONOPSONY
LOW	OLIGOPOLY	BILATERAL OLIGOPOLY	QUASY MONOPSONY
INDIVIDUAL	MONOPOLY	QUASI MONOPOLY	BILATERAL MONOPOLY

Even though all producers strive for some sort of monopoly or oligopoly, it is much more difficult to achieve this in practice. A legitimate means of achieving a monopoly situation for a limited period available to everyone is intellectual property protection. Complete competition is an area where the competition is extremely intensive, there are no competitive advantages, and profit rates are low as competitors compete with the price up until the moment when none of them makes more than a marginal profit.

<sup>4</sup> Source: von Stackelberg, H. (2011) Market Structure and Equilibrium. Springer. Original work published in 1934.

It can be concluded that it is not enough just to bear in mind oneself, direct competitors and the fact who was first to market when considering the market situation. It is necessary to take into account possible strategic partners and setting new standards in the industry.

#### **1.4.5. SPECIFICS OF A SECTOR**

Each economic branch has certain advantages which can be caused by geographic position, climate specifics, natural resources or a particular number of experts in certain businesses. These assumptions should be respected because all advantages should be used in order to succeed in business. While taking into consideration one's own advantages in comparison with others, one should not focus on considering comparative advantages, but mostly on competitive advantages. The difference between these two concepts is extremely big; comparative advantages are at a level of potential which either may or may not be used. The concept of competitive advantage is much more appropriate. It refers to the ability of using comparative advantages, and it is defined as the ability to meet customer needs more efficiently than the competition.

#### **1.5. SOCIALLY RESPONSIBLE ENTREPRENEURSHIP**

Socially responsible entrepreneurship is a concept in which a business entity willingly decides to contribute to a better society and cleaner environment through interaction with other stakeholders<sup>5</sup>. Being socially responsible does not only mean complying with legal requirements, but also willingly setting internal standards higher than the legal minimum. Increased environmental care is probably the mostly exploited activity of a socially responsible entrepreneurs. Taking care of minorities, persons with disabilities and gender equality are also often emphasised. However, the contribution of a socially responsible entrepreneur is also seen in a responsible practice which involves employees and refers to areas such as investing into human capital, health and safety, and change management. Human resources management is a huge challenge for today's entrepreneurs, and applying social responsibility principles can significantly help with attracting and retaining employees with appropriate knowledge and skills. In this context, corresponding measures can include lifelong learning and employee empowerment, better information flow within the company, better life-work balance, equal salaries and conditions for women's advancement, job security, etc.

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<sup>5</sup> Stakeholders – individuals, organisations and informal groups which affect the company or are affected by the company activities. They can be internal (e.g. employees) or external (e.g. consumers, suppliers, shareholders, local communities).



### CONCLUSION ON THE SELECTION OF THE ENTREPRENEURIAL IDEA

Not everything we do will end in success. This is the very reason why everyone, including entrepreneurs, is under constant pressure to do more than necessary in order to ensure personal and family needs. Regardless of whether the person is starting their own business due to a spotted opportunity or out of necessity, a business idea represents a necessary, but not a sufficient condition of success. There is no success without a good idea, yet a good idea carried out in a bad way does not represent a significantly better option.

The perception of entrepreneurs as people who look for risky projects in order to gain huge profits is entirely incorrect. Entrepreneurs are people who genuinely do not like risk and are ready to do whatever is necessary to identify, quantify and compensate the risk, which is why the business planning process is extremely important for them. Drawing up a fully developed business plan provides them with an insight into the future project from various angles (Figure 6.). In addition, it reminds them of all necessary actions much like a check list reminds a pilot of all the things to be done before take-off.

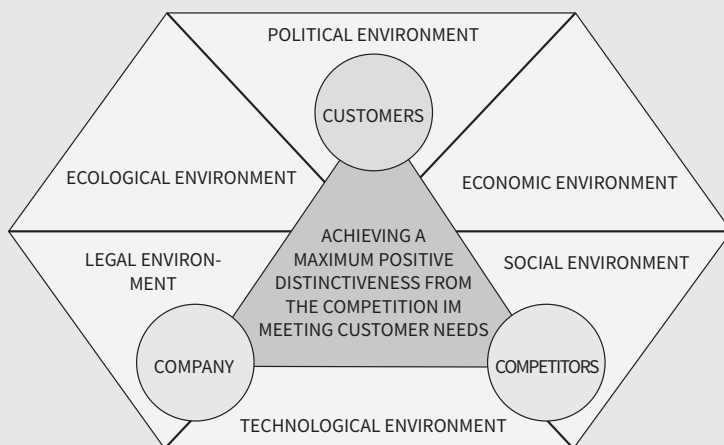


Figure 6. Environment and factors affecting the selection of the entrepreneurial idea

Environmental conditions are often unfavourable for developing an entrepreneurial idea, and this should be accepted as a fact. The power of an entrepreneur is not only recognised in ideal conditions, but also in the ability to adapt to unfavourable conditions. Taking into consideration “old” and “new” entrepreneurial paradigms and by focusing on solving important tasks, it is possible to develop a successful project in unfavourable conditions.

It is extremely important to start the project with a positive, moreover, winning attitude since the passion which the entrepreneur feels toward the project encourages him to endure difficult moments. Creating top products and services, carrying out the business plan and acknowledgement by the environment for socially responsible entrepreneurship provide entrepreneurs with the things they most commonly seek, i.e. the opportunity for self-assertion and the confirmation that the planned can be achieved.

## 2. GENERATING AN INNOVATIVE AND COMPETITIVE BUSINESS IDEA

### WHAT WE WILL LEARN

- To create a product or a service on which the entrepreneurial venture is based.
- To find an available or buy a protected idea on which the entrepreneurial venture is based.
- To find appropriate support.

The selection of the product or the service which will represent the foundation of the business is extremely important for every entrepreneur. Some people have an acceptable idea on starting their own business, but the selection of the product or the service is problematic. On the other hand, others have no ideas at all. Table 4 which provides an overview of possible sources for entrepreneurial ideas can significantly help to introduce a systematic approach to this area.

Table 4. Possible sources of entrepreneurial ideas

The source of entrepreneurial ideas	Refers to:
Previous job, student practice, training.	For people with appropriate work experience, and practice and training attendants.
Personal interests, personal expertise, hobby.	For people who dominate a particular field extremely well and have unique knowledge and skills.
Customer complaints, i.e. buyers of specific products or services, market research, competition research, media, exhibitions, fairs.	For people with well-developed technical knowledge and experience, as well as with a gift of perception.
Partnership, franchise, license acquisition, expired patent or patent which does not cover a specific territory.	For people with limited technical knowledge and certain capital.
Regular or lifelong learning, recommendations from mentors, friends or family, brainstorming.	For attendants of corresponding educational programmes or brainstorming participants.
Use of existing equipment or another resource in new business.	For existing entrepreneurs.

Regardless of where and how an entrepreneur has found the idea for starting the business, an important part of business planning is also recognizing and defining problems for which the entrepreneur's product or service represents a solution. The bigger the number of people with that problem, the more sense it makes to start with the business.

It can be concluded from Table 4 that all sources are not available to all future entrepreneurs, and that owning or controlling certain resources facilitates gaining a competitive edge. It is important to point out that the lack of these prerequisites can mean a barrier too large for entering the sector. For instance, taking over a family business, in a more or less altered form, is a first-class source of an entrepreneurial idea, but due to the restricted number of individuals who have such an opportunity, it cannot be considered as an equally valid source of entrepreneurial ideas. Many entrepreneurs consider the moment of market penetration as a factor of crucial importance for achieving business success. Being first to market is an absolute imperative for them. They assume that they will gain a sufficient advantage over competitors with the appropriate market entrance. However, this approach has a serious flaw because the customers decide on the success of the innovative product in a very simple way, by buying the product in question or not. The truth is that customers are mostly conservative, and that the share of those who are ready to buy innovative products is quite small. (Figure 7.).

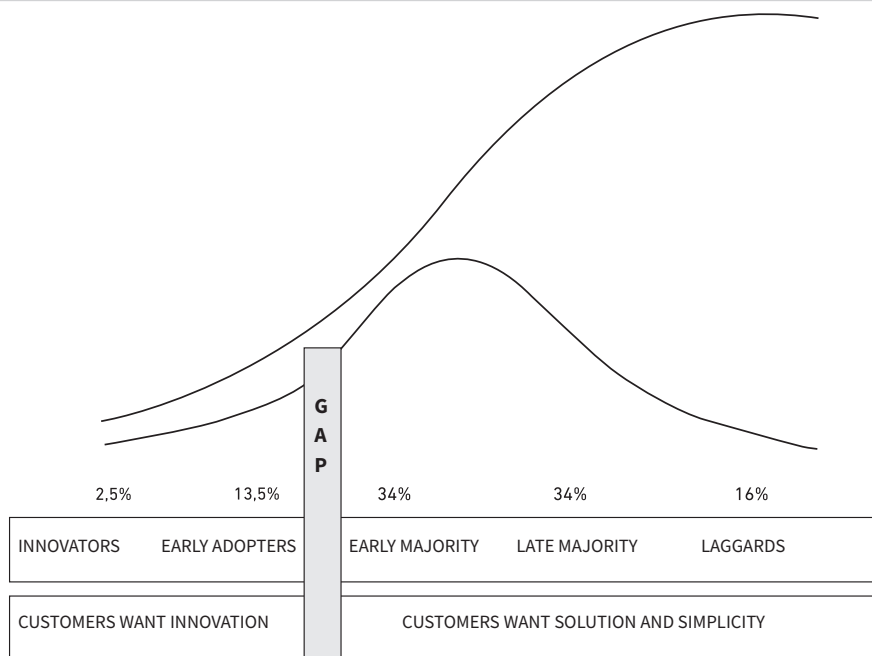


Figure 7. Dynamics of market adoption of innovations according to Rogers

Source: Modified according to Autorizirana predavanja, Štefanić, 2007a.

Many innovations came into existence because the authors were bored. It is very likely that much more innovations came into existence because the authors had a problem for which there were no available solutions. Perhaps innovating in the first case is more fun, but innovating in the second case does not necessarily have to be arduous and frustrating. Innovation does not exclusively refer to the product itself, it can also be stated in a

business model or another segment. Ultimately, the final scope of the innovation or the creativity level does not depend on the motives for its creation. Moreover, the motive for creating the product which achieved a commercial success at the global market and which is measured in billions of dollars can be basic just like the wounded vanity and spite of the master chef who made the first potato chips.

Innovators are people similar to entrepreneurs; they look at the same things as everyone else, but see them differently. They make the life more comfortable, luxurious, and sometimes even more problematic with their creations. However, not all innovations are the same. Furthermore, the innovation term includes four groups:

- Incremental innovations
- Modular innovations
- Architectural innovations
- Radical innovations

Much like for entrepreneurs, we can raise a question for innovators as to whether they have learnt to be innovative or they were born innovative. In order to get the answer to this question, we can seek help in the work of Genrich Saulovitsch Altshuller<sup>6</sup>, a seasoned employee of the Russian Patent Office who came to the conclusion, by studying thousands of patent applications, that all patents were created on the basis of a limited number of innovation principles. On the grounds of his research, he defined a series of rules which help to create innovative and patentable ideas he called the TRIZ<sup>7</sup> system. This system enables an efficient innovative education because you can learn how to create an innovative product with its application.

Innovative principles systemised by Altshuller serve as a catalogue which is very much similar to Line's biological classification or Mendel's periodic table. Based on the original TRIZ model, Karen Tate and Ellen Domb<sup>8</sup> prepared visual examples for each processed principle which can serve as brief innovation school.

Innovators often make mistakes because they neglect fundamental laws of physics and chemistry. They usually overestimate the effect of their innovation, underestimate or neglect losses such as friction, air resistance, rolling resistance, etc. Innovators often define innovations which function in practice, but their effect is not good enough in comparison with

<sup>6</sup> Генрих Саулович Альтшуллер, (15th October 1926, Tashkent, Uzbekistan; † 24th September 1998, Petrozavodsk, Karelia, Russian Federation) engineer and scientist. Source: [https://en.wikipedia.org/wiki/Genrich\\_Altshuller](https://en.wikipedia.org/wiki/Genrich_Altshuller), online [8th April 2015]

<sup>7</sup> Acronym of the Russian title Теория Решения Изобретательских Задач – The Theory of Inventive Problem Solving. Source: [https://en.wikipedia.org/wiki/TRIZ#ARIZ\\_-\\_algorithm\\_of\\_inventive\\_problems\\_solving](https://en.wikipedia.org/wiki/TRIZ#ARIZ_-_algorithm_of_inventive_problems_solving), online [ 14th April 2015]

<sup>8</sup> Source: The TRIZ Journal, <http://www.triz-journal.com/40-inventive-principles-examples>, online [ 14th April 2015]

the existing state of technics. With the aim to ensure as much quality work as possible for creating and perfecting innovations, it is necessary to take into account scientific approach to innovative work because certain areas attract innovators almost fanatically. In order to avoid a cardinal mistake in the innovation design, it is recommended to use a mechanical engineering handbook such as any edition of Krauts' Mechanical Engineering Handbook. It contains information on measure units and applicable standards, information necessary for dimensioning mechanic, pneumatic, hydraulic and heat machines, basic information of electrical engineering, acoustics and optics, information on materials, constructive element and machine elements, as well as basic information on production technologies.

## **2.1 PROTECTED INTELLECTUAL PROPERTY AS A SOURCE OF AN ENTREPRENEURIAL IDEA**

Intellectual property is a topic that deeply prevails in the entire book. It is very difficult to describe all aspects of intellectual property in a single chapter. Therefore, relevant information is shown where it is most appropriate. Protected intellectual property as a possible source of an entrepreneurial idea is explained further on.

Protected intellectual property can quite legally become the business backbone in several ways:

1. For free – if the protection period expired regularly, or if the rights holder stopped paying the maintenance fee earlier.
2. For free – if the rights holder did not mark the territory you are interested in and does not pay a maintenance fee for it.
3. For free – if the rights holder put the valid protection in the public domain.
4. With a fee – if the rights holder is interested in licencing, franchise or another kind of business cooperation.

Regardless of the way of obtaining intellectual property, the key step is the state of technics inspection which provides an insight into the state of technics and intellectual property protection. Quality and updated databases which are paid and publicly available services which are free can be used for that purpose.

### **2.1.1. ESP@CENET<sup>9</sup>**

The European Patent Office – EPO launched a patent base in 1998 which today contains c. 60 million of patented documents from all over the world. 81 national and regional offices are involved, and the documents go back as far as the 19<sup>th</sup> century. The oldest document is US1 from 1836. The database enables the following to entrepreneurs, innovators, students and scientists:

<sup>9</sup> The word and logo of esp@cenet are trademarks of the European Patent Office.

- Finding what already exists, i.e. inspecting the existing state of technics. When faced with a technical issue, it is advisable to review which solutions already exist.
- Following the work of others. Following patented documents quite reliably reveals what the competition is doing. Likewise, it is possible to identify potential partners.
- Identification of free technology.
- Spotting development trends in a certain field.
- Prevention of breaching somebody else's rights.

Esp@cenet is a free tool, but it is not designed as a professional tool (it shows a maximum of 500 search results), or as a replacement for professional assistance of patent representatives, especially with regard to making decisions on patenting. The database can be accessed in three official languages (English, French and German), but the search can be done only in English. It is important to note that not all patents in the database have a title, summary and international classification.



Figure 8. Patent search in the esp@cenet system

Source: IP4INNO module 3B\_Part3

Documents viewed in the database have several tabs with the following information (Figure 8.):

- Bibliographic information (numbers, dates, names)

- Descriptions (information on how the innovation is constructed, how it is used and what advantages it has with regard to the existing state of technics)
- Patent requirements (clear and concise definition of what the patent actually protects)
- Drawings taken from the original documents
- Original document
- INPADOC legal status (information on legal steps related to the patent application)

The nature of patent protection is always national, and there is no such thing as a unique global patent protection. If we find mutually connected patents based on a unique filing date (e.g. GB 2169759 as of 3rd January 1986, FR 2576156 as of 13th January 1986, US 4588244 as of 14th January 1985 and JP 61-198582 as of 30th November 1985), we use the term “Patent Family”.

In case of any uncertainties regarding the state of technics search, it is possible to use The Assistant which contains 36 short electronic teaching modules. It is also possible to ask for help on the forum, or to contact the administrator via email.

## 2.2. ENTREPRENEURIAL NETWORKS, FAIRS AND INNOVATION EXHIBITIONS

### 2.2.1. ENTERPRISE EUROPE NETWORK

Product and service commercialisation and the EU market access is a demanding job for every entrepreneur. A useful tool which can facilitate and accelerate this activity, available to everyone, is the Enterprise European Network– EEN. The Network connects 600 partner organisations in over 60 countries with more than 3000 associates engaged in carrying out the Network’s activities (Figure 9.).



Figure 9. EEN results and distribution at the global level

Source: Modified according to <http://een.ec.europa.eu>

Seven partners oversee the implementation of this project in Croatia: HAMAG- BICRO is in charge of the City of Zagreb and Central Croatia, The Science and Technology Park of the University of Rijeka – STePRi for Istria and Kvarner, Technology Transfer Office in Split - UTT for the southern part of Croatia, Technology Park Varaždin - TPV for the northern part, and TERA TEHNOPOLIS in Osijek for Eastern Croatia. The project is coordinated by the Croatian Chamber of Economy – CCE. Depending on the region you are from, you can contact the listed institutions and become involved in this project with the help of their associates<sup>10</sup> (Figure 10.).

A consortium of eight partners oversees the implementation of the EEN project in Hungary: the Chamber of Commerce and Industry – CCI Csongrád county, CCI Fejér county, CCI Győr-Moson-Sopron county, CCI Hajdú-Bihar county, CCI Pécs-Baranya county, PRIMOM Foundation for Enterprise Promotion of Szabolcs-Szatmár-Bereg county and the Foundation for Enterprise Promotion of Zala county led by Hungarian Trade Development and Promotion LLC.



Figure 10. Hungarian and Croatian EEN consortium

Source: Modified according to <http://een.ec.europa.eu>

<sup>10</sup> More information on the project and contact details can be found at [www.een.hr](http://www.een.hr) or [www.enterprise-europenetwork.ec.europa.eu](http://www.enterprise-europenetwork.ec.europa.eu).



Entrepreneurs' networking and cooperation is carried out with the assistance of integrated database on cooperation opportunities – Partnership Opportunity Database - POD. With the help of prescribed forms and the network's associates, entrepreneurs prepare an offer for their technology, product or service, and publish it in the base. This is followed by networking activities assisted by EEN associates. In addition to offers, entrepreneurs can send requests for procuring technology and equipment, or show an interest for finding a partner for joint research and development with which they will participate in EU competitions. This is a very simple procedure for which the required information on the product/service offered or the technology sought must be ensured.

For establishing cooperation with partners abroad, which is based on already existing products/services, a Business Offer – BO or a Business Request – BR must be written. For this type of cooperation, it is possible to arrange a franchise, find market intermediaries, distributors or representatives.

In the case of innovative technology, it is necessary to write a Technology Offer – TO. With the help of the mentioned database, entrepreneurs can seek partners from whom they will take over the technology or know-how for their business. It is necessary to make a Technology Request – TR for this purpose.

The Enterprise Europe Network's services are available to users free of charge with the help of the EU. Once the profiles are entered into the EEN database, they are available to all Network partners.

#### **2.2.1.1. EEN SECTOR GROUPS**

In order to have as available and efficient support of the Enterprise European Network as possible, the experts from 17 key sectors have been gathered into the EEN sector groups<sup>11</sup>. They organise brokerage events with the aim of increasing the volume of successful business cooperation and consulting on finding partners for research cooperation financed by EU funds.

#### **2.2.1.2. SPECIAL SERVICES**

##### **A) European IPR Helpdesk**



Following Croatia's accession to the EU, a need for additional development of businesses related to intellectual property protection emerged. Trademark protection on the entire territory of the EU is possible through the EUTM – EU Trademark, and the design protection through the Registered Design. EUIPO registered over 1 436 835 community trademarks and 851 661 designs by July 2015.

<sup>11</sup> Within the EEN there are following sector groups: Aeronautics and Space, Agrofood, Automotive, Transport and Logistics, BioChemTech, Creative industries, Environment, Healthcare, ICT Industry and Services, Intelligent Energy, Maritime Industry and Services, Materials, Nano- and Microtechnologies, Services and Retail, Sustainable Construction, Textile & Fashion, Tourism and Cultural Heritage, Woman Entrepreneurship.

In order to additionally improve the intellectual property protection service, a special team of experts (European IPR Helpdesk Ambassadors) was gathered, and a special programme in the field of intellectual property protection was launched, which enables quality and reliable consulting and education in the field of intellectual property protection in the clients' mother tongue.

#### B) EEN Key Account Management

In the period from 2014 to 2020, small and medium-sized entrepreneurs based in the EU or countries qualified for the Horizon 2020 programme can obtain a grant for developing radical and new ideas related to products, services and processes ready to compete at the global market. Funds in the amount of €3 bn have been secured for this purpose. The grants are approved for:

- Feasibility study
- Innovation development and demonstration
- Access to a wide service range related to innovation development and access to financing
- Business consulting aimed at improving innovation capacity of entrepreneurs

The assessment procedure and the improvement of the entrepreneur's innovation capacity are carried out according to a precisely worked out scheme. Certified consultants participate in the procedure, and the entire procedure is organized and implemented by the Enterprise European Network.

#### 2.2.2. ERASMUS FOR YOUNG ENTREPRENEURS

Erasmus za mlade  
poduzetnike

ERASMUS for young entrepreneurs is a two-way exchange programme with the capacity of significant enhancement of entrepreneurial activities and success level increase, especially in less developed EU regions. Even though a new entrepreneur should have an entrepreneurial idea before entering the programme, the idea can be significantly improved or entirely changed during the stay in the institution of the entrepreneur's mentor. The programme has a remarkable capacity to generate new ideas on both sides; the new entrepreneur learns from a person experienced in the market which is of its specific interest (the market of EU member states and countries involved in the programme), and the mentor gets in touch with new ideas and information on other markets with the help of the exchange entrepreneur. In addition, the programme provides the new entrepreneur with the development of business contacts abroad, finding a business partner and establishing cooperation, and the mentor with the implementation of innovative solutions for improving the existing business and facilitated business expansion to other countries.

#### 2.2.3. TRADE FAIRS

Trade fairs are a first-class place for collecting ideas which might serve as the backbone of the future entrepreneurial venture. The fairs are organised as general or topical fairs spe-

cialised in a narrow field of work. As a rule, fully developed products which are branded and have after-sales support are exhibited. An extremely efficient approach to collecting business ideas are: reverse engineering for products which are not protected, radical redesign of products which are protected and the application of existing products in new fields.

Prior to participation in a trade fair, it is necessary to identify intellectual property and conduct protection procedures. This does not refer only to protection by patenting, designing and topography of semiconductors, but also to protection by trademarks and labels of geographic origin and authenticity.

#### **2.2.4. INNOVATION EXHIBITIONS**

Innovation exhibitions are an excellent place for collecting ideas for starting a new business and finding potential partners. In addition to the exhibition, organisers can arrange specialist education, business talks and consultations with specialists of various profiles. Exhibitions can be organised independently or in parallel with large economy fairs where the synergy effect in promotion and attracting visitors is evident. During the exhibition, exhibitors have a chance to exchange experiences and learn from each other. This is virtually a perfect place and time where many people become inspired to take on additional training or radically redesign an existing innovation or develop an entirely new innovation.

Innovation exhibition organisers gather a team of specialists of various profiles who, as exhibition judges, individually or as a team, assess innovations and according to the already achieved success, give out special awards and medals. For many exhibitors, obtaining a medal or a reward constitutes the fulfilment of the exhibition purpose, and this is where further work on innovation commercialisation stops. However, the purpose of participating in an innovation exhibition is actually quite the opposite. To many people, an exhibition is the first unbiased assessment of innovation, technological feasibility and market capacity, and it should be accepted as such. This is also a first-class market research activity. Potentially won medals and awards should serve as a guerrilla event and should be used in the promotion of the new product as such. Some exhibitions also have a financial award fund for the best innovation. Financial awards are an excellent source for financing further innovation development and commercialisation stage.

However, creative encouragement is just one face of the exhibition medal. Each exhibitor loses confidentiality with their participation in the innovation exhibition. The very act of exhibiting puts innovations into the state of technics, and special attention should be paid to this. Exhibitors should attend the exhibition with the already initiated intellectual property protection procedure appropriate to the innovation nature, or otherwise opt out of the exhibition. An additional protection element is available to exhibitors at

large international exhibitions, a priority right which is extended to 6 months from the moment of the exhibition<sup>12</sup>. If the protection procedure is not initiated in that period, the patentability of the stated innovation is irretrievably lost. Some exhibitions declaratively promote a photography ban, but it is extremely difficult to enforce this ban into practice.

Due to the mentioned reasons, it is highly important to carefully consider exhibiting at an economy fair or innovation exhibition. It is important to note that there are two ways of participating in such events: as an exhibitor or a visitor.

### **2.2.5. INTERNET SERVICES FOR 3D PRINTING**

Rapid prototyping has an important place in developing new products as it significantly reduces the development period and enables testing relevant assumptions and features of the future product. However, the prototype making itself represents an entrepreneurial opportunity, and should be properly assessed as such. To a significant extent, the way of making prototypes, i.e. equipment selection, depends on the target market, i.e. customer needs. If there is no clearly defined market segment and satisfactory number of customers in the immediate environment, we still do not have to abandon the idea. It is possible to get involved in the network of 3D printing equipment owners with the help of a service, such as [www.likefigures.com](http://www.likefigures.com), and make prototypes for intermediaries.

## **2.3. LEGISLATION CHANGES AS A SOURCE OF ENTREPRENEURIAL IDEAS**

Changes in legal and sublegal regulations have a strong impact on generating new entrepreneurial ideas. Reducing fossil fuel consumption and the subsequent reduction in greenhouse gas emissions have so far encouraged many innovators and entrepreneurs to create new products and technologies which have enabled meeting legally prescribed objectives<sup>13</sup>. Many of these solutions can be found in various parts of the added value chain, and they produce extraordinary results only if put together. For instance, the requirement to add a prescribed share of fuels from renewable sources (biodiesel or bioethanol) together with manufacturing more efficient engines with internal combustion or manufacturing hybrid cars increases energy efficiency and reduces greenhouse gas emissions.

Changes in the regional EU policies definitely present a myriad of entrepreneurial opportunities, especially if smart specialisation of regions is taken into consideration. The new concept of smart regional specialisation introduces setting up innovative regions through

<sup>12</sup> If you would like to use the priority right option after participating in an exhibition, check in advance whether the exhibition you are planning to participate in is on the list of exhibitions to which this right applies.

<sup>13</sup> The original Kyoto protocol is a treaty among the UN member states governments signed in 1997 which aims at reducing 6 greenhouse gas emissions by 5% in the next 5 years.

networking all stakeholders of development and specialisation, instead of redistribution from developed to undeveloped regions. In the field of research and development, instead of individual sector research, multi-sector research focused on innovation commercialisation is financed. Industrial and entrepreneurial policies are also changing; instead of supporting companies – national champions, the support for cluster development and horizontal support for SMEs are introduced. The priority areas in the S3 specialisation are:

For Croatia		For Hungary
Health		Healthy society and wellbeing
Sustainable environment and energy		Advanced technologies in the vehicle and other machine industries
Engineering		Clean and renewable energies
Biotechnology and biochemistry		Sustainable environment
		Healthy local food
		Agricultural innovation
Horizontally overlapping sectors		
KET & ICT	ICT (infocommunication technologies) & Services Inclusive	
Tourism	and sustainable society, viable environment	
Creative and culture industries		
Green growth		
Social challenges		

Having in mind that financing in the EU takes place in 7-year budget cycles, it is necessary to take into account the moment at which the project is launched. Starting at the beginning of the budget cycle enables planning with higher probability of retaining external conditions unchanged. In any case, one should be very careful with legislation changes taken as a source of an entrepreneurial opportunity.

**CONCLUSION ON GENERATING AN INNOVATIVE AND COMPETITIVE BUSINESS IDEA**

There are two basic principles on which innovative products are made: „technology push“, i.e. making innovative products based on research and development results because we have necessary technological competences, and „marketing pull“, i.e. making innovative ideas because customers have asked for them. Regardless of the way in which the entrepreneur has arrived at the idea on which the entrepreneurial project is based, it is extremely important to research customer preferences and competition offer.

Being first to market is an imperative for many entrepreneurs. They assume that they will gain sufficient advantage over competitors with the appropriate market entrance. The truth is that top specialists of a narrow field can determine all functions extremely well and in which way the future product should be completed, but the ultimate success evaluation is not on them. At the end of the day, customers are the ones who decide on the success of an innovative product, and in a very simple way, they either buy the product or not. The truth is that customers are mostly conservative, and that the share of those who are ready to buy innovative products is quite small.

Some entrepreneurs have a fully developed strategy; they want to be completely sure what kind of a product customers want. They are ready to spend more time for adjusting their product to customer needs, and they are not burdened with the imperative to “be first to market”. In that way, they learn from their competitors and achieve better business results. The process of developing an innovative product (Table 5) has more stages whose execution order is extremely important. If the process is not followed properly, an irreversible mistake can be made in the intellectual property protection procedure related to the project which results in significant profit losses or being left with no entrance barriers to the sector. Sources of ideas for creating innovative products are numerous, but it is extremely important to take into consideration observing someone else’s intellectual property rights with all sources.

Existing procedure	Proper procedure
Big idea	Big idea
Intellectual property protection	Market segmentation and positioning
Prototype making	Prototype making
Prototype perfection	Prototype perfection
Prototype perfection	Intellectual property protection
Prototype perfection	Partnership and cooperation arrangements
Sales	Sales
Intellectual property protection	New big idea.

Just the fact whether you are first or second to the market is not sufficient for gaining a competitive edge on the market. Being oriented on sales, and not only on perfecting prototype, is also important. In addition, it is extremely important that the product properties are well-adjusted to customers’ needs, and that the cooperation agreements are well-written.



### 3. DEFINING THE BUSINESS MODEL

#### WHAT WE WILL LEARN

- Which factors determine the rational area for selecting a business model.
- To define an appropriate and efficient business model.
- To select the most appropriate organisational form for business.

New products per se are simply not enough for market success. Many companies have technologically outstanding products, significant innovation capacity, and they constantly innovate products and production processes. However, many of them are not successful in the long run, and they decrease their competitive edge on the market or vanish from the market. Not only does this happen to small and unknown companies, but also to large and well-known companies such as Nokia, AEG, Grundig, Nixdorf Computers, Triumph, Agfa, Kodak, Quelle and Otto. Customers feel as if the manufacturer of their favourite brand has fallen asleep when, in fact, it has lost the ability to sell innovations on the market. Even though this is a painful experience for manufacturers, it is a result of an oversight in the adjustment of the business model to environmental changes. It is becoming more and more evident that in the future, apart from products and technology, business models will also have a more significant influence on competition. Naturally, business models in that context must not be static; they must develop and adjust to new requirements. For a successful adjustment, it is necessary to carefully interpret the wounds and perhaps incomprehensible signals which lead to the right direction. Innovative customers inform us on their requirements and preferences, but there are few of them, and the question is how well we have understood them. The same goes for comprehensive and long discussions on new regulations and industry standards which can radically change the sector. It is also important to direct the attention to possible new entrants to the sector as their entrance has been preceded by a long-lasting discussion on strategic alliances. Those who do not take into account what is happening in their environment, especially with the competitors, could be surprised when an immediate market competitor launches a revolutionary technology after 20 years of research in the field. Oversights in adjusting to the changed market conditions do not depend on the sector, size, market share, image, and they are all universally fatal. Anyone can “fall asleep”, and in order to avoid that, one should carefully listen to market changes and adjust the business model accordingly.

#### 3.1. BUSINESS MODEL SELECTION

A business model, i.e. the way in which an entrepreneur earns money, includes a lot of enigmas. Entrepreneurs often confuse it with the Organisational form of business. Even though the selection of the organisational form is very important, it is not the essence of the business model discussion. For the selection of the business model and its adjustment



to specifics of every individual project, it is extremely important to take into consideration the main influential factors. (Figure 11.).

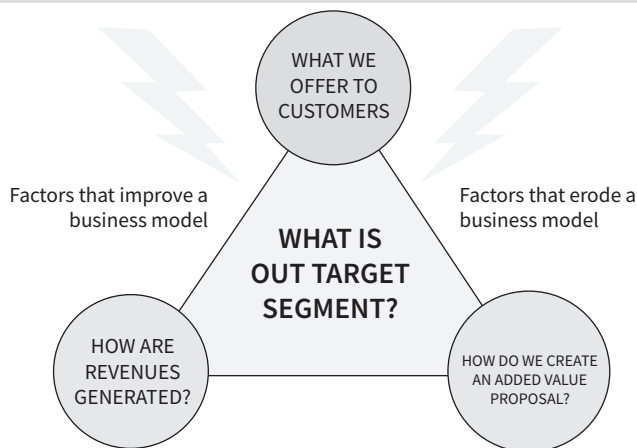


Figure 11. Guidelines for the rational area for selecting a business model

*Source: Modified according to „The St. Gallen Business Model Navigator“*

It is possible that the entrepreneur's needs are met by a really simple business model. However, one should be open for a different approach; introducing new elements and an efficient combination of the existing solutions. In practice, many things actually come down to a recombination of existing solutions with very few radical innovations.

An excellent business model classification was prepared by Peter Weill et al. (2005) in which business models are divided into fundamental and original. It is advisable to include a third group in this classification which includes all variants of previous two business model groups:

1. Fundamental business models (4) differ based on the type of rights sold to customers.
2. Original business models (16) are shown in a matrix in which fundamental business models are further classified based on the types of funds involved in business.
3. Modified business models ( $\infty$ ) include all innovations and variants of previously stated business models carried out in order to meet the needs of certain economic sectors, national or regional market, market segment or an individual entrepreneur.

Business model classification is concisely shown in the Table 6.

Table 6. Fundamental and original business models

FUNDAMENTAL BUSINESS MODELS FINANCIAL		Types of funds involved in business			
		PHYSICAL	INTANGIBLE	H U M A N RESOURCES	
Types of rights which are sold	<b>CREATOR</b> (ownership with a significant transformation of funds)	Entrepreneur	Producer	Inventor	Human resources creator
	<b>DISTRIBUTOR/RETAILER</b> (ownership with a limited transformation of funds)	Financial distributor	Retailer/Wholesaler	Intellectual property distributor	Human resources distributor
	<b>OWNER</b> (funds usage)	Financial owner/ lessor	Owner/ physical means lessor	Owner/ intellectual property lessor	Contractor
	<b>INTERMEDIARY</b> (connecting buyers and sellers)	Financial intermediary	Physical means intermediary	Intellectual property intermediary	Human resources intermediary

Source: Weill, P. et al., 2005

Comprehensive systematisation of business models is set out in the book „The St. Gallen Business Model Navigator“ by Oliver Gassmann, Karolin Frankenberger and Michael Csik which identifies analyses and systemises business models. The authors analyse over 250 ways of doing business in various sectors and summarise them in 55 models (Table 7.).

Table 7. 55 original business models

1. Add-on	12. Direct selling	23. Integrator	34. Orchestrator	45. Self-service
2. Affiliation	13. E-commerce	24. Layer player	35. Pay per use	46. Shop-in-shop
3. Aikido	14. Experience selling	25. Leverage customer data	36. Pay what you want	47. Solution provider
4. Auction	15. Flat rate	26. License	37. Peer-to-Peer	48. Subscription
5. Barter	16. Fractional ownership	27. Lock-in	38. Performance-based contracting	49. Supermarket
6. Cash machine	17. Franchise	28. Long tail	39. Razor and blade	50. Target the poor
7. Cross selling	18. Freemium	29. Make more of it	40. Rent instead of buy	51. Trash-to-cash
8. Crowd funding	19. From push-to-pull	30. Mass customisation	41. Revenue sharing	52. Two-sided market
9. Crowd sourcing	20. Guaranteed availability	31. No frills	42. Reverse engineering	53. Ultimate luxury
10. Customer loyalty	21. Hidden revenue	32. Open source	43. Reverse innovation	54. User designed
11. Digitalisation	22. Ingredient branding	33. Open source	44. Robin Hood	55. White label

*Source: Gassmann et al. 2014*

Business models set out in the previous table might seem too abstract for future entrepreneurs. The numeration is in accordance with the Business Model Navigator's, so you can additionally learn more about the models you are interested in.

The discussion on finding a product or a service cannot end here. Actually, this is where the entrepreneurial story on selecting the product or service which represents the business foundation starts, and it will be explained on a concrete example which includes a discussion on all three questions and leads to concrete conclusions. In order to make it as simple as possible, the discussion is shown in the form of a picture book (Table 8.).

Table 8. Picture book on starting an entrepreneurial project: Squeezing the lemon

Problem:  
How to efficiently squeeze the  
lemon



Standard solution:  
Lemon squeezer with two parts



Entrepreneur's basic selection is to be cheaper of different. Being cheaper may seem as simpler choice, but this is not necessarily the case.

Be different!

Improve the design.

Simplify the structure.



Design by Ivana Potočník

Make it out of a different  
material.



Choose a clearly defined  
market segment. Hospitality  
professionals often lemons, but  
only halves, and sometimes they  
need squeezers with a bigger  
capacity.



Change the operating principle radically while using new materials, art, add new functions, etc.



Get out of the box completely, invent a new way of application, such as a lemon juice spray

or

facilitate squeezing and increase the capacity.



Order the design for the wow lemon squeezer from a renowned designer.

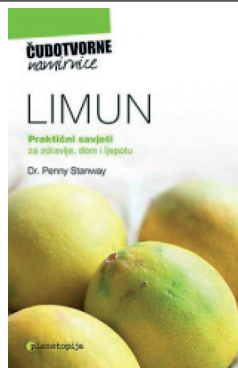
Don't forget to brand it!

Do it like this:

Alessi Juicy Salif Citrus-Squeezer  
by Philippe Starck



Sponsor the publishing of a book which educates your customers and boosts sales.



In cases when customers are unexpectedly faced with a new issue, such as imazalil overdose in conserving citruses, be the first to solve the problems of your customers.

Be the first to design a silicone pressure for lemons.



Regardless of the squeezer type which entrepreneurs make, they generally neglect the existence of a generic competitor who enables performing the task in hand.



*Izvor: Štefanić, 2015*  
*Source: Štefanić, 2015*

Following the selection of the business model, entrepreneurs should decide on how to make money with the lemon squeezer. We will list and describe several options:

1. Manufacturing and selling squeezers, with a note that we can sell the squeezers:
  - a. Independently – in our own (internet) store or at fairs
  - b. Through an intermediary, chain stores, (someone else's) internet store, etc.
2. Licencing is possible and successful if the product is protected with some sort of intellectual property protection (patent, design, trademark). In this case, the revenue is the licence fee paid by the licence receiver on account of the right for using the protected design of the squeezer in production, and not the sales revenues.
3. The entrepreneur's own „Juicy & Smoothie Bar“ means that money is earned by selling juices that the entrepreneur squeezed with his own squeezer.

Other business models based on the entrepreneur's lemon squeezer are less likely, but theoretically possible. They are: „Juicy & Smoothie Bar“ franchise, leasing equipment for squeezing lemons, and juice squeezing service. It is important to emphasise previously stated influence of the individual's or family's life stage which has a strong influence on business model selection.

For some strange reason, innovators really like designing lemon squeezing devices, so lemon squeezing is pretty well covered as an entrepreneurial idea. This is an important reason why it is relatively difficult to stand out and achieve business success. In the field

where customers are used to continuous and revolutionary innovations, there is probably a place for another lemon squeezer. If an entrepreneur wants to increase the chances of success, he can change his field and design a pomegranate squeezer. A pomegranate is as equally healthy as a lemon, but the squeezer selection is really modest.

### 3.2. BUSINESS ORGANISATION FORM

At the beginning, business organisation forms significantly depend on the entrepreneur's activity. If the entrepreneur wants to deal with agricultural production or rural tourism, the simplest organisation form is a family farm (Croatian: OPG – obiteljsko poljoprivredno gospodarstvo). The registration is performed in a way that the OPG holder fills in required forms in the competent office which assigns the identification number. The family farm should also be registered with the tax office to enter the VAT system which is a prerequisite for using state subsidies. The registration procedure is fast and simple, and the accounting made as simple as possible.

A crafts business as an organisation form is suitable for natural persons who perform activities independently. The application is performed by registering with the crafts register. A crafts business can be free if it does not require any specific qualification, or associated when the founder needs to meet the requirements on professional qualifications, work experience in the profession and a master craftsman's exam. A privileged crafts business is possible to be operated only with a special privilege certificate issued by the competent ministry depending on the activity. A crafts business can only conduct activities listed in the crafts license, and crafts business is regulated by the Crafts Act (National Gazette 143/13). In Hungary, this is the Act CXV of 2009 on Private Entrepreneurs and Sole Proprietorships.

A limited liability company is an organisation form in which one or more natural or legal persons invests founding stakes with which they participate in the previously arranged share capital. The company is founded based on the Articles of Association signed by the founders with the signature notarisation by a notary public. It is mandatory to appoint company management. In small companies, this can be only one person, a director, whereas in large trade companies the management can have more members. In Croatia, the company business is regulated by the Companies Act (National Gazette 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13), and in Hungary, the Act V of 2013 on the Civil Code.

Cooperative societies, corporations, clusters and associations are organisation forms<sup>14</sup> which entrepreneurs can also use. The competent bodies and company set-up costs in Croatia and Hungary are shown in the Table 9.

<sup>14</sup> In Croatia, cooperative society business is regulated by the Cooperative Societies Act (National Gazette 34/11, 125/13, 76/14), and in Hungary, by the Act V from 2013 on the Civil Code, whereas family farm business is

Table 9. Competent bodies and company set-up costs

	Croatia	Hungary
<b>Competent body</b>	Commercial Court	Hungarian Court of Registry
<b>Registration costs</b>	5,500.00 HRK	100,000.00 HUF
<b>Additional registration costs</b>	Depending on the selection of the notary public, lawyer, bank, etc.	
<b>Mandatory share capital</b>	20,000.00 HRK	3,000,000.00 HUF
<b>Business liability</b>	Share capital	Share capital

In cases when for performing a certain activity requires a specific approval of the competent ministry, starting up can be much slower and more demanding. It is possible to apply for obtaining corresponding permits, equipment certificates, staff screening, Environmental Impact Assessment etc. before starting up. In such cases, the business plan is more complex, and it is advisable to draw it up with the help of specialised consultants.

It is possible to overcome most initial difficulties by buying a franchise. This is a business form in which the franchise provider gives all documents and instructions required for quality work. However, in this case, it is also necessary to take care of customers and market conditions.

In order to have the grants obtained by the very entrepreneurs whom they were intended for, the EU has defined the difference among various company types: independent, partnership and affiliated companies. .

### 3.3. DE MINIMIS AID

Small-value aid (so-called de minimis aid) is exempt from the Commission's registration and control because they do not affect the market competition and internal EU market trade. Therefore, de minimis aid up to 200,000 € per entrepreneur in the period of three years does not represent state aid in the sense of EU regulations. Even the conditions for obtaining the aid have been simplified, and entrepreneurs in difficulties are no longer exempt from the ordinance implementation. The definition of an entrepreneur has also been simplified, and aid in a form of subsidised interest rates for loans up to €1 m can also be awarded under certain conditions. Since most beneficiaries receive quite small amounts of the aid which do not reach the prescribed threshold, the Commission has decided to keep the maximum aid amount unchanged because a threshold increase might have significant risks for market competition and trading at the single EU market, especially due to total exemption effect in conditions of economic and financial crisis, and significant differences in the budgets of individual member states.

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regulated by the Agriculture Act (National Gazette 30/15) in Croatia, and in Hungary, by the Government Decree 326/2001 (XII. 30.) on founding, registering, managing and special subsidies for family farms.



The system of monitoring the awarded de minimis aid has also been retained where a member state can choose between the obligation to inform beneficiaries on the awarded de minimis aid or the central register of the awarded aid. Even though the aid register can ensure better monitoring and transparency, it represents a significant administrative burden, especially during the set-up stage.

At the end of contemplation on the company size and ownership, it is important to point out that ownership can be: private, cooperative, public and mixed.

### **CONCLUSION ON DEFINING THE BUSINESS MODEL**

Sometimes innovative products are just not sufficient for market success. Many companies have technologically outstanding products and significant innovation capacity. However, many of them are not successful in the long run, and they decrease their competitive edge on the market or even completely vanish from the market. Not only does this happen to small and unknown companies, but also to large and well-known companies. This results in two completely different things; for a particular producer, this is a painful experience and a possible cause of failure, whereas for new innovative entrepreneurs, this is a unique entrepreneurial opportunity.

An innovative business model can represent the most valuable part of the future project. The business model must be adjusted to a concrete environment, and it should not be static in any case. Early, and perhaps incomprehensible signals directed by innovative customers, discussions on new regulations and industry standards which can radically change the sector, as well as information on potential new entrants to the sector are extremely important for product and business model customisation.

Even though entrepreneurs learn very well through negative experience, such kind of learning can be expensive and painful experience, and it should be, whenever possible, avoided. A proactive approach is more appropriate, i.e. learning on the experience of others, using services of specialised consultants, transferring good practises from other sectors and applying them in your own sector adjusted to your own needs.

The selection of an organisation form significantly depends on the sector and project type. Small entrepreneurs, oriented exclusively at the local market and with no intention of expansion, can find everything they need in a crafts business. On the other hand, ambitious entrepreneurs who make high-tech products for the global market, and who are ready to reduce the owner's stake due to the entrance of strategic investors in companies of various types, can find a more appropriate alternative.

## 4. PROJECT FEASIBILITY ASSESSMENT

### WHAT WE WILL LEARN

- To understand the concept of a competitive edge and generic strategies.
- To select the most efficient way of making prototypes.
- To make the company strategic plan, to define mission and vision.
- To define company goals and objectives.
- To conduct SWOT analysis.

Doing business at the beginning of the 21<sup>st</sup> century is under a strong globalisation influence. Innovation and flexibility are key success indicators. Having in mind everything that was previously stated, being an entrepreneur is definitely not easy. Business imperative is to gain competitiveness, i.e. higher efficiency than competitors, and to retain such competitiveness over a longer period, i.e. sustainability. And all that in a globalised environment in which profit margins per product unit are continuously decreasing, while products are becoming more and more complex. An important response to this “growing” challenge is accepting a continuous development and perfection system. This is a long, demanding and expensive process, but it is extremely risky to consider the influence of giving up through the “we are fine without it” scenario. Many have, by abandoning their work, “paid for” neglecting their competitiveness. The core of the entire chapter on feasibility comes down to seeking answers to two questions; is the business opportunity attractive enough for the entrepreneur, and if so, under which conditions. Feasibility assessment of an entrepreneurial project is significantly based on the market research results (especially on the analysis of the competition and the company’s current position), and it depends on the plan for achieving competitiveness.

### 4.1. TECHNICAL AND TECHNOLOGICAL FEASIBILITY

Well-thought-out products can have considerable flaws in certain aspects (they have insufficient capacity, they overheat or wear out, they are not robust enough, and they are simply not pretty so customers do not accept them well). The stated reasons are exactly why technical and technological feasibility assessment must be made quite early. This means to determine beyond any doubt the ability to manufacture products with the planned quality and quantity according to the given specification while observing applicable standards for people and environment protection.

#### 4.1.1. MAKING PROTOTYPES

The more an entrepreneurial project is developed, the higher the probability of its realisation, and subsequently, the higher the probability of business success. In addition, the implementation risk is reduced, and the level of project control increased. Concept checking by making a prototype is a common stage in entrepreneurial project development.

Prototype making should be approached seriously as the prototype made does not only serve to check technical and aesthetic feasibility, but also as the key means of presenting and selling the project or the product. There are several important decisions related to prototype making: the selection of the prototype quality (low- or high-quality prototype), the selection of the testing (internal, external or both), and the selection of certifications (according to the product type and the target market, CE, UL, TÜV, or something else).

Designing new products is a complex and iterative procedure. It is extremely important for entrepreneurs-beginners who make huge mistakes in that area at the very start of doing business. Professor Burton Lee at the 5<sup>th</sup> Brown Forum in Osijek in 2015 states that the most common mistakes of entrepreneurs-beginners in designing products are the following:

- They generate too few ideas, only 1-2 instead of several dozens
- They have too few contacts with end users, 2-3 instead of hundreds in order to develop a feeling for market segmentation
- They make too few prototypes, only 1-2 instead of dozens or hundreds
- They test the prototypes with too few real users
- They ask wrong questions regarding the needs of their users

It is extremely important to distinguish an industrial design from a product design as the product design includes additional properties which the physical product itself does not. Design thinking<sup>15</sup> is carried out in 5 stages, as shown in the Figure 12.

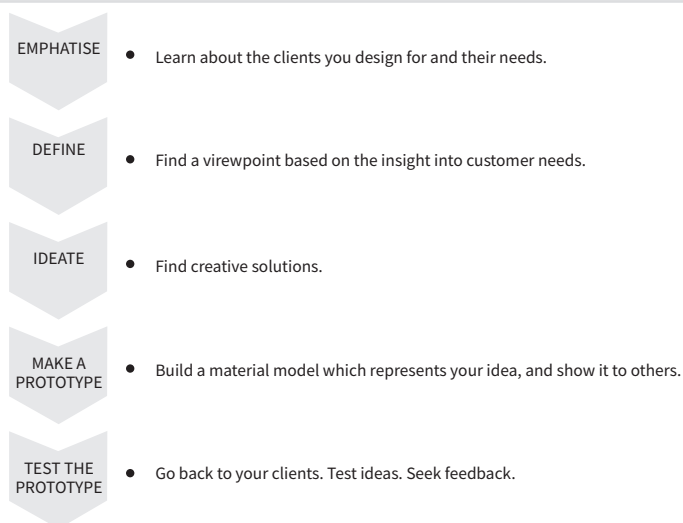


Figure 12. Design thinking stages

*Source: Burton Lee, 2015*

<sup>15</sup> Design Thinking as a method was developed at the Stanford University, California, and it involves a series of processes carried out with the aim to develop highly creative products inspired by the sequence: understand -create - deliver.

Today's pace of new product development and global market requirements demand fast adjustments to new conditions and constant acquisitions of new technologies by the entrepreneur. Every company, regardless of whether it makes its own products or produces parts as a supplier of a bigger company, must base its quality and success on using adequate materials, processes and equipment.

#### 4.1.2. RAPID PROTOTYPING

Over the last several years, the technology of Rapid Prototyping – RP with Computer Aided Design – CAD, Computer Aided Manufacturing – CAM, and Computer Aided Engineering – CAE has become an indispensable engineering tool. Reducing the time for product development, encouraged by constant innovations and market competition, higher product complexity, the need for real models aimed at better assessment of the shape, dimensions, functionality control and ergonomic features of the product, have affected fast development of this technology and its implementation in various fields of engineering practice (Cukor, G., 2007). Generally, the term rapid prototyping technology implies a series of techniques used for direct making of three-dimensional models based on 3D CAD data.

### 4.2. ENTREPRENEURIAL FEASIBILITY

#### 4.2.1 COMPETITIVE EDGE AND GENERIC STRATEGIES

Competitive edge is most simply defined as meeting customer needs in a more efficient way than the competition. According to Porter (1979), there are only two original ways for achieving this goal, i.e. to be cheaper or to be different (Figure 13.). The other two options basically represent further development of basic scenarios in only one part of the entire market, market segment or niche.

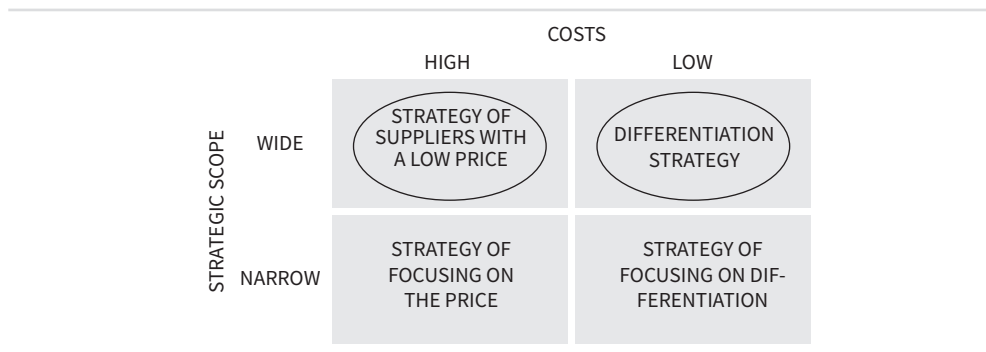


Figure 13. Porter's generic strategies

Source: according to Farese et al. (2006)

#### 4.2.2. STRATEGY OF A SUPPLIER WITH A LOW (THE LOWEST) PRICE

Suppliers with a low price base their competitive edge on lower total costs than competitors' as the price leader efficiently finds a way to reduce costs. The cost advantage should be achieved through methods which competitors will not be able to copy easily. The most commonly used ways for companies to gain a cost advantage are:

- switching to a simpler, capital-wise less intensive, more modern or flexible technological process
- simplifying the product design
- eliminating redundant things
- avoiding the use of highly expensive raw materials or constituent parts
- relocating facilities
- using "direct to the end-user" sales and marketing approach
- abandoning the "something for anyone" principle
- more internet usage

#### 4.2.3. DIFFERENTIATION STRATEGY

The basis of this strategy is offering products or services whose properties considerably differ from the competitors' offer, and which give value to consumers that competitors do not provide. There are four approaches for achieving a competitive edge with differentiation:

1. Incorporating product properties and user features which reduce the customer's total costs of using the product (timely deliveries, lower repair and maintenance costs, on-system use, free technical support, etc.).
2. Incorporating features which enhance the product's success (features which are more reliable, convenient or easier to use for the customer).
3. Incorporating features which satisfy the customer through an increased social status, image, prestige or represent top fashion.
4. Giving value to customers through competitive abilities which rivals do not have.

Differentiation increases profitability when the specific price dictated by the product surpasses additional costs for achieving differentiation. Companies can achieve differentiation on numerous bases, e.g. top service (FedEx), availability of spare parts (Caterpillar guarantees a spare part delivery within 48 hours to any customer in any part of the world, otherwise the service is free of charge), technical design and performance (Mercedes,

BMW), prestige and recognition (Rolls-Royce), product reliability (Toyota, Lexus), technical leadership (3M Corporation – bonding and coating products), and top reputation and image (Armani, Versace). A good approach to differentiation cannot be too expensive or too complex nor copied too easily.

#### 4.2.4. PORTER'S FIVE FORCES MODEL<sup>16</sup>

Porter's Five Forces model is a simple and robust tool for understanding the environment and force relationships in a business situation, both the one in which the company currently is, and the one in which it plans to be involved. Generally, through a sound understanding of force relationships on the market, the tool enables using one's own strengths better and compensating for weaknesses better while avoiding mistakes. Specifically, with its help, we can check the capacity of future products and services for making profits. The model assumes that competitive power in a business situation is defined by five important forces: supplier power, buyer power, competitive rivalry, threat of substitution, and threat of new entrants to the sector. (Figure 14.).

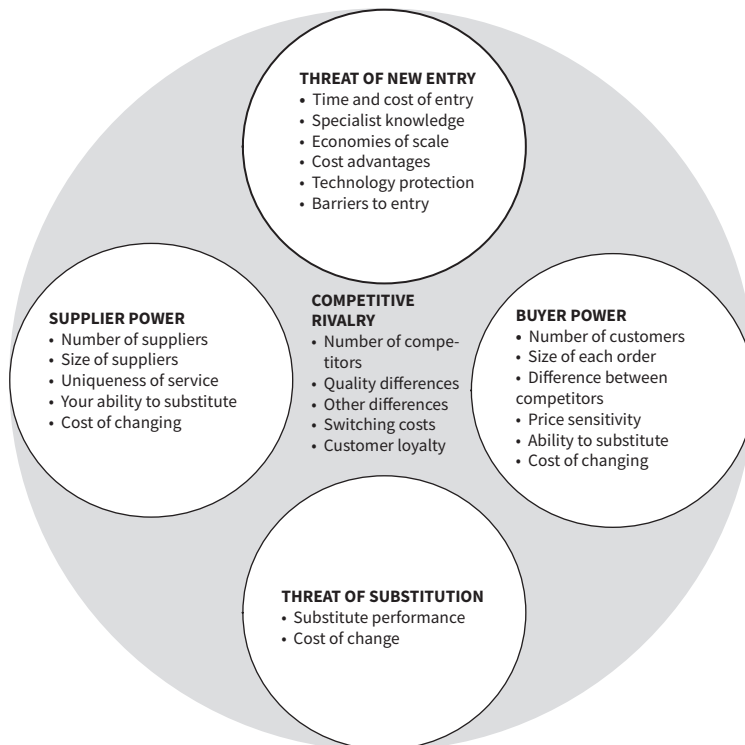


Figure 14. Porter's Five Forces Model

<sup>16</sup> It is the Five Forces model described in the article "How Competitive Forces Shape Strategy" published in Harvard Business Review 57, March – April 1979, pages 86-93, that drew attention to Michael Porter, a Harvard Business School professor.

After analysing existing and future market conditions, in the next step, entrepreneurs should research the ways in which they can influence the five forces so that they act in the interest of their company. The following examples are not universally applicable, and they require adjustments to specifics of each company. Possible options are not only defined on the basis of market environment, but also on internally available resources, competences and objectives.

Reducing the competitive power of suppliers:

- Partnership
- Supply chain management
- Supply chain training
- Increasing dependency
- Additional learning on suppliers' costs and methods
- Taking over suppliers

Reducing threats of new entrants' appearance:

- Achieving maximum economics of scale
- Developing brand and product loyalty or marketing as a whole
- Patents, intellectual property protection
- Affiliating with related products or services
- Connecting with suppliers
- Connecting with distributors
- Tactical revenge

Reducing competitive rivalry among existing competitors:

- Avoiding competing on prices
- Developing product differentiation
- Taking over competitors
- Reducing industry overcapacity
- Focusing on various segments
- Communicating with competitors

Reducing competitive power of buyers:

- Partnership
- Supply chain management
- Developing loyalty
- Increasing encouragement and added value
- Deflecting the decision to purchase from the price
- Eliminating powerful intermediaries

Reducing threats from new entrants' appearance:

- Legal actions – increasing substitution costs
- Affiliations
- Researching customers to learn more about their preferences
- Entering the substitute market
- Emphasising differences (real or perceptive)

Porter's Five Forces Model can be applied independently at the level of an independent department, a strategic business unit or the entire company, but it also provides extremely good results if applied together with the SWOT and PESTLE analyses. In combination with the PESTLE analysis which reveals influential factors for the change of the entire industry, the Five Forces model can provide an insight into the potential of the future industry attractiveness. Anticipated political, economic, social, technological, legal and ecological changes can affect the five forces and thus affect the industry structure. Determining potential changes in the five forces can be really well defined by making similar scenarios which may result in a new strategic development direction, market repositioning, creating new strategic partnerships, or something else.

### **4.3. STRATEGIC PLAN**

A strategic plan is a fundamental document which describes company operations in the future period. It is further developed into action plans, depending on activities and usual professional customs. A strategic plan comprises the following units:

- Achieved accomplishments from the previous period. The contents and scope of this part should provide a complete picture of operations and achievements from the previous period.
- Environment analysis describes conditions in which the company business is conducted and challenges which appear. Environmental influences relevant for company life should be taken into consideration as realistically as possible.
- Description of stakeholders and partners who will affect the strategy realisation shows the ones which affect it, both positively and negatively.
- Resources and capacities for meeting the objectives must be clearly defined.
- Way of meeting the set objectives.
- Selection of key performance indicators
- Monitoring and reporting system.

The entirety of the state and concrete realisation possibilities should be considered in devising the strategy as the strategy drafting itself will not make any changes. Positive shifts and results can only be expected through its implementation.



#### 4.3.1. SETTING THE COMPANY MISSION, VISION, GOALS AND OBJECTIVES

Defining a clear mission and vision efficiently communicates the entrepreneur's intentions and motivates the team or the organisation. The mission defines the purpose and the organisation's goal, and it is more present-oriented. The vision focuses on the future, and not only on the future of the company, but also on the future of the sector or the society as a whole, which the company wishes to improve with its operations. An efficient mission comprises:

- The organisation's purpose and values.
- What the organisation wants to be (product, service or market), who the main stakeholders and key accounts are.
- The organisation's responsibilities towards the clients.
- Main goals which support the organisation in implementing the mission.

For entrepreneurs-beginners and the existing entrepreneurs who are starting with a thorough business redesigning which includes new products and services, the forming of the mission precedes the defining of the vision since the vision is the driving force which leads the entrepreneur. In well-developed companies with a clearly defined business, it is quite the opposite; the mission leads the entrepreneur towards developing the vision and making a strategic plan for the future. The mission and vision definitions are essentially an iterative procedure which should be applied until the entrepreneur has documents which are sufficiently clear and encouraging for people within and outside the organisation. In many cases, it is advisable to create a document which can be framed and put on a wall as a permanent reminder on what the entrepreneur does. Good starting points for defining the mission and the vision are results of the SWOT analysis, the USP – Unique Selling Propositions analysis and the Core Competences Analysis.

Having successfully written the mission and the vision, the entrepreneur is moving on to the next level, i.e. defining goals and objectives. It is extremely important to distinguish between the two here. Goals and Objectives are tested with the SMART model after they have been defined.

**S**pecific – **M**easurable – **A**ttainable – **R**ealistic/**R**ewarding – **T**imed.

**S** – specific

A specific objective is well-defined, sufficiently detailed and aimed at direct goal solving. Basic questions for testing the specifics are:

- What do we want to achieve?

- Why is this important?
- Timeframe in which we want to achieve it?
- How do we want to achieve it?

### M - measurable

An objective is measurable when it can be expressed numerically, quantitatively in relation to the reference value or time period. In this way, we keep track of its realisation. If it cannot be measured, the entrepreneur cannot know whether it has been carried out.

Key questions for assessing measurability are:

- How will we know that progress has been made?
- Are there indicators which quantify the performance level of its attainment?

### A - attainable

An objective is attainable if it can be carried out in the time period and with available resources. Key questions for measuring attainability are:

- Can we attain it in the planned period and measure the results?
- Are we aware of the restrictions and obstacles for its attainment?
- Are the available resources sufficient for its attainment?
- Is there anyone who managed to attain the same or a similar objective?

### R - realistic / rewarding

An objective is realistic if the entrepreneur has at his disposal or can obtain resources necessary for realisation, and if its realisation ensures satisfaction with the attained. Key questions to test if an objective is realistic are:

- Do we have at our disposal all satisfactory resources for the attainment?
- Is it necessary to redefine priorities in order to attain the objective?
- Does the objective attainment meet our mission and vision?
- Are we satisfied with the attained?

### T -timed

An objective is timed if it can be carried out in the planned, i.e. available time period. Key questions for testing the time limitation are:

- When will the objective be carried out?
- Can the deadlines be defined realistically?

Table 10 shows how set goals and objectives look like in real life.

GOALS	OBJECTIVES
<div>Climbing Mt. Everest<ul style="list-style-type: none"><li>- General</li><li>- Visible</li><li>- Challenging</li><li>- Untimed</li></ul></div>	<div>Consulting Sir Edmund Percival Hillary by 11<sup>th</sup> January 2008<ul style="list-style-type: none"><li>- Specific</li><li>- Measurable</li><li>- Attainable</li><li>- Rewarding</li><li>- Timed</li></ul></div>

Table 10. Main characteristics of business goals and objectives  
*Source: Štefanić, 2007a*

The strategic part of planning is finished after the mission and the vision, goals and objectives have been defined. Next is tactical planning and operationalization of the planned. If you compare a business venture and a military operation, you will be absolutely right. Both require a comprehensive and quality preparation which facilitates the implementation and increases the certainty of the goal attainment. Tools for feasibility assessment of an entrepreneurial idea are extremely important for the procedure of the entrepreneurial project development. With their help, project strengths and weaknesses, as well as the entrepreneur as the holder are reviewed, potential issues are identified, and alternatives are generated. The most common tools are: the SWOT, TOWS and PEST analyses.

4.3.2. SWOT ANALYSIS

The SWOT analysis is a primary tool used for checking acceptability and feasibility by testing internal strengths and weaknesses, and external opportunities and threats in the realisation of an idea, project, organisation or strategy. In order to avoid bias or excessive optimism, the SWOT analysis should be conducted in a team environment, which should be interdisciplinary as a rule, with the inclusion of various stakeholders. It should be mentioned that the same factor can both be an opportunity and a threat depending on the context, analysis scope or general strategic direction. The SWOT analysis is an excellent tool for assessing the entrepreneurial idea in all development stages of the entrepreneurial project.

SWOT<sup>17</sup> is an English acronym which marks four matrix fields, and consists of Strengths, Weaknesses, Opportunities and Threats. The influential factors' character and domain are illustrated in Table 11, and questions we ask during the process in Table 12. It is advisable to show the SWOT analysis results in the matrix form in order to have a better overview.

<sup>17</sup> Source: [https://en.wikipedia.org/wiki/SWOT\\_analysis](https://en.wikipedia.org/wiki/SWOT_analysis), online [17th April 2015]

Table 11. SWOT analysis logics

		Influence character	
		Positive	Negative
Influence domain	Internal	STRENGTHS	WEAKNESSES
	External	OPPORTUNITIES	THREATS

The SWOT analysis results can be used for making the development strategy, writing the company mission and vision, determining future strategic moves, etc.

Table 12. Questions each entrepreneur should ask during the SWOT analysis

<b>Strengths</b> <ul style="list-style-type: none"><li>•What are our advantages / leading competences?</li><li>•What do we do well?</li><li>•What do others see as our strengths?</li><li>•Are we able to be faster than our competitors?</li></ul>	<b>Weaknesses</b> <ul style="list-style-type: none"><li>•Are there any physical, technical, organisational or other limitations which put us into an inferior position?</li><li>•What do we do badly?</li><li>•What do others see as out weakness?</li><li>•What should be avoided?</li></ul>
<b>Opportunities</b> <ul style="list-style-type: none"><li>•Which are relevant sector trends?</li><li>•Which opportunities arise from changes in:<ul style="list-style-type: none"><li>- technology?</li><li>- markets?</li><li>- social patterns?</li><li>- demographic profiles?</li><li>- lifestyles?</li><li>- local events?</li></ul></li><li>•Are there market niches where we have the advantage over competitors?</li><li>•Are there market niches in which a slow entry of new competitors is expected, or it is possible to prevent this entry altogether?</li></ul>	<b>Threats</b> <ul style="list-style-type: none"><li>•Is the project under a significant influence of factors which are out of our control (climate conditions, market changes, spreading of diseases or vermin, etc.)?</li><li>•Does the project require various concessions or permissions without which it cannot be carried out, and what is the possibility of their early annulment?</li><li>•Are there changes in technology which endanger our position?</li><li>•What hinders the improvement of achieving the goal?</li><li>•Are there possible/likely harmful moves from competitors?</li><li>•(Too) easy barriers for new sector entrants?</li></ul>

The SWOT analysis is an extremely robust tool which, with quality preparation, provides a reliable insight into strengths and weaknesses of the future project. If each of the statements is assigned with a numeric grade, an even more precise tool for feasibility assessment, the weighted SWOT analysis, is obtained. It is important to point out that

the SWOT analysis is not relevant only to the entrepreneur, but it is also a tool with extremely high quality which enables a precise insight into the entrepreneurial project to other stakeholders. The SWOT analysis prepared in such a way still does not provide information on how the entrepreneur can leverage his strengths with the aim to leverage opportunities and avoid threats, and how to compensate the influence of the weaknesses.

## **CONCLUSION ON PROJECT FEASIBILITY ASSESSMENT**

Project feasibility assessment ensues after the product and the business model have been defined. This stage answers the questions whether the project is technically and technologically feasible, and if so, under which conditions. Prototype making is extremely important for several reasons as it sometimes impossible to continue with the project development without it. It is possible to check various functionality and design aspects on a high-quality product, to convince key stakeholders in the project, or to win customers over at an early product stage.

The next step examines the entrepreneurial project feasibility where positive and negative factors affecting the product development are analysed. The strategic plan for the development is prepared. The mission, vision, goals and objectives are set, and the SWOT analysis is carried out. If the entrepreneur opts for the weighted SWOT analysis, each observed factor will be given a quantity grade. After the SWOT analysis which identifies the strengths, weaknesses, opportunities and threats, it is advisable to conduct the TOWS and PESTLE analyses for more complex projects. If a more reliable foundation for making the decision on investing is required, a multicriteria analysis can be carried out, which can be made by a specialist agency or an institution for science and research.

## 5. INNOVATIVE PROJECT MANAGEMENT

### WHAT WE WILL LEARN

- To organise business and select production technology.
- What is quality and how to manage it.
- Getting familiar with supporting institutions and learning how they can help.
- To make a fully developed production and business organisation plan.

Nowadays, company success mostly depends on how fast we react to market changes. Products which are present at the market are becoming more and more complex. Their use is becoming simpler and simpler, but their construction and production more and more complicated. Conditions for eco-friendly, energy-efficient, functional and aesthetic products are more and more demanding. Customers demand better design, better quality control, the time for developing new products is constantly being decreased, and the competition at the open market is constantly increasing. These are all characteristics and circumstances which companies have to deal with in almost all industry sectors. There are many demands, but the resources are scarce, therefore, resource management is extremely important for the success of all entrepreneurs.

Management is a business function which achieves planned goals with the efficient use of available resources by coordinating the work of all stakeholders. It is best defined through the performed company activities, which are:

- Planning
- Organising
- Managing
- HR
- Control

The previous chapters discussed the planning of an entrepreneurial venture. What follows is the physical realisation of the project. Entrepreneurs must find an appropriate location for business premises and procure all machinery and equipment which should be allocated in a way that it enables efficient business operation. Of course, this is all done by workers with the corresponding knowledge, skills and motivation. They duly purchase all necessary materials and deliver finished products in the contracted quality and quantity. In addition, it is necessary to carry out a huge number of concrete tasks of various urgency and importance. Since management duties are numerous, it is advisable to work in a systematic way. The significance of a systematic approach is also additionally increased by the interdependency of objectives within the management, as well as by the interdependency of objectives with other business functions in the company.

### 5.1. ORGANISATION OF THE PROJECT OR THE ENTIRE BUSINESS

Business organisation is also extremely important in practice. Work results used to depend entirely on knowledge and skills of each individual worker as he was in charge of production from start to finish. Significant results have been achieved in the business organisation with the introduction of labour division and a scientific approach. Many champions of scientific work organisation were practitioners who significantly improved both science and economy by solving problems in their business. Business organisation, i.e. its part which refers to industrial engineering, has made a remarkable progress over the last 250 years (Figure 15.).

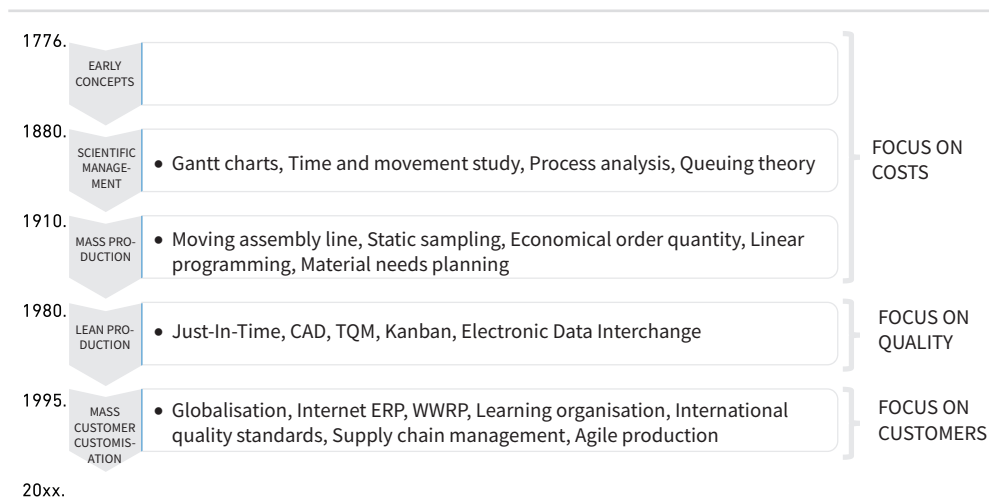


Figure 15. Industrial engineering development stages

Note: CAD=Computer Aided Design, ERP=Enterprise Resource Planning, EERP=Extended Enterprise Resource Planning

Source: Modified according to Štefanić, N., 2013

Industrial engineering is further developed according to the development of the state of technics and the global situation on the market. Big wars, prices of energy sources, climate conditions, growing market globalisation, ever-increasing use of computers and robots in production, and higher environment pollution force us to continuously perfect products, production processes and improve taking care of customer interests. It is necessary to be innovative, not only in the production technology, but also in defining the business model, business organisation, customer communication and in many other things. Learning from others and transferring good practices from other sectors into our own production are efficient ways to gain competitiveness and business sustainability.

The business organisation issue has many layers. A business system has a formal business organisation which depends on external and internal factors, and it can be identical to some of the standard organisation types, or it can be very unique due to adjustments

to concrete project specifics. Formal organisation can be permanent or temporary (project-related). In larger systems, permanent organisation can coexist with one or more project organisations. In addition to the previously mentioned, various forms of informal organisation can also exist in larger business systems (Figure 16.).

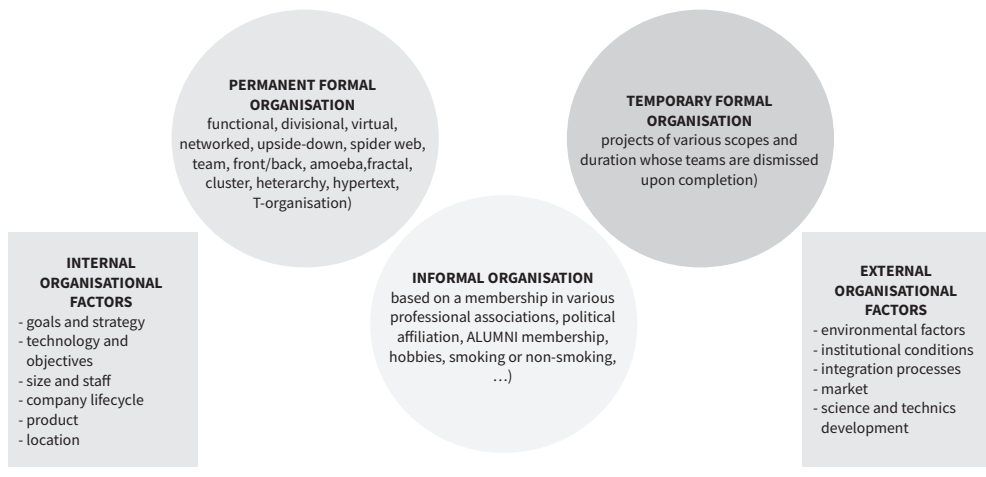


Figure 16. Types of organisational structures and factors which affect them

Company organisation at the turn of the 21<sup>st</sup> century directs the company toward decentralised, flexible and innovative organisation. The following is also required: fluidity, flexibility and dynamics of the organisation, as well as its constant restructuring, intelligence, informality, deinstitutionalisation and fast response.

#### 5.1.1. TEAM MANAGEMENT ACCORDING TO THE LEAN PRODUCTION CONCEPT

LEAN production in production systems is based on designing production work processes which are applicable, flexible, consistent and sustainable in space and time. LEAN creates a production system established on actual customer needs and continuous improvement in all work processes, which subsequently develops and trains workforce for using LEAN tools and methods vital for meeting the functional goal of the production system. The LEAN approach essence is defined with five key principles which illustrate how the productivity and performance concept can be extended beyond the mass production possibilities in any organisation and any country in a way which eliminates all unnecessary activities and activities which do not increase value.

Five key principles of LEAN production are:

1. Define value.
2. Identify the value stream.



3. Create value flow.
4. Establish pull.
5. Seek perfection.

### 5.1.2. GANTT CHART

A Gantt Chart is a chart which illustrates the schedule of project activities (Figure 13.). If a Gantt Chart is observed in the coordinate system, termination objects are located at the ordinate, and time units at the abscissa. Two categories must be distinguished when determining the time, the project time (actual time needed for the completion of a specific project activity) and the planned time reserve (additional time for completing a specific project activity). Time reserves are possible only for activities which are not on a critical path. Latency or non-completion of activities on a critical path causes a delay in carrying out other activities. It is important to point out that there can be several critical paths within a project. If there are really more of them, special attention should be paid to their overlapping. Important elements in a Gantt Chart are milestones which mark important events related to project activities (most commonly denoting the beginning and the end). If a Gantt Chart is shown as a bar chart, critical time points can be shown as markers on bars.

Table 13. Gantt Chart of the project xxxxxx

[illegible]

Even though the first Gantt Chart was created more than 100 years ago, it is still a huge help in project management. It is an obligatory part of a large number of project applications financed by the EU. Therefore, it is advisable to master the methodology for its creation.

## 5.2. PRODUCTION TECHNOLOGY

The company production strategy means defining various production procedures that will bring to the market a product which is enhanced in comparison with the competition's offer. The production strategy is an important part of the business strategy which also defines other business aspects such as finances, marketing, product development, etc. The most important decision refers to the very way in which the production will be organised at the strategic level. The basic selection is a production in one's own organisation or entrusted to subcontractors. Regardless of the option selected, it is important to determine the level at which it will be carried out. In the last century, Ford cars were famous for the fact that they themselves produced all parts for their cars in their own factories. Car manufacturers nowadays mostly prefer just-in-time production (JIT) and components made by suppliers according to strictly arranged standards.

Creating of the production strategy provides the entrepreneur with a relatively limited choice. Just by the width of its product mix and the selection of a leader or follower position in the sector, the entrepreneur has four basic options (Little, 1981, according to Knapić Salamon and Salamon, 2009):

- technological leader with a full product line
- niche player
- technological follower
- technological rationalist

The next major decision is the selection of production technology. Choosing the production technology significantly depends on the product type and quantity, by which it is extremely important that the same product (potato chips) can be produced in large quantities (continuous process technology) in a completely different way than in small quantities (frying small amounts in a cauldron). The selection of production technology is additionally affected by: availability of energy sources, regulations in the field of environment protection, availability of equipment and raw materials, as well as other factors. The following characteristics should be taken into consideration when defining the production technology:

- production costs

- product quality
- product features
- delivery deadline
- production flexibility
- product type and characteristics

The production strategy should take into account user requirements, what the competition is doing, and what the production possibilities of the company and the competitors are. It is important to consider two options currently available in production. Following the analysis and collecting information with regard to these questions, it is recommended to determine a list of changes in one's own production which will ensure market competitiveness. This makes the list of changes a part of the production strategy.

Nowadays, various strategic approaches are applied in production. Table 14. provides an overview of production strategies with their main characteristics, and it can be used to define one's own production strategy more easily.

Table 14. Strategic approaches to production in production and operations management

Strategy	Main characteristics
Kaizen	Continuous improvement of a business process.
Just in time (JIT)	Production with a tendency to decrease stocks, generally without a large warehouse.
Lean production	Production system is organised in a way that eliminates all activities which are unnecessary and do not increase the value.
Total Quality Management (TQM)	Quality management is based on KAIZEN principles of total quality control in all production stages.
Core Process Reengineering (CPR)	Management tool for achieving lean production, meeting market requirements and increasing efficiency.
Computer Integrated Manufacturing (CIM)	Connects all operating and surveillance systems in the company.
Biological Manufacturing System (BMS)	Self-organisation strategy with a dynamic structure and natural hierarchy.
Agile manufacturing	Production model characterised by teamwork, top education of employees, state-of-the-art technology and continuous perfection, orientation toward customers and quality improvement.
Mass customization	Continuous customisation to customer desires, production standardisation, decreasing costs with the condition to maintain quality.
Virtual company	Strategy of building a system adaptable to the global economic environment.
Fractal company	Complex business system with the ability of self-organisation, self-regulation and self-optimisation.

### 5.2.1 LOCATION

The selection of the location at which the business is organised is an extremely important question for every entrepreneur-beginner. Transport connection with the supply and sales market, availability of energy resources and workforce, as well as meeting specific location conditions, e.g. special ecological requirements, have the utmost significance for production-oriented entrepreneurs. In specific cases, the entrepreneur might have to make an environmental impact assessment and obtain certain permits for building a new business facility.

The algorithm for selecting a future location for entrepreneurs who base their business on providing services is generally simpler, whereby the current location of the future business bears no less importance. A flower shop located next to a large business and residential complex or computer equipment service at a location from which any part of the city can be reached within 15 minutes, can provide their owners with a significant competitive edge.

Many entrepreneurs will start their business in their own basement or an inadequate business space in their ownership with the intention to save money. Even though such a move provides short-term financial savings, it can be harmful in the long run. In such a way, the entrepreneur is isolated and has more difficult access to business contacts and consulting support which might be achieved in an entrepreneurial incubator or a business zone.

## 5.3. QUALITY AND QUALITY MANAGEMENT SYSTEMS

Developing a quality management system is a complex and demanding job. Reaching the desired quality level means managing the organisation with the aim to achieve consistent product or service quality which completely meets customer needs, i.e. user needs. The system is based on including all organisation members in order to ensure benefits for them all and secure added value to society as a whole. Approach to quality may differ, i.e. only some or all production stages can be controlled, and only a statistic sample or all produced units can be controlled.

### 5.3.1. TRUST IS GOOD. CONTROL IS BETTER.

TQM stands for Total Quality Management. Used most often is the definition of total quality control management according to Stahl (1995). According to it, total quality management is a systematic approach to management whose aim is a continuous value increase for customers by shaping and continuously improving organisational processes and systems. Total quality management includes all employees, and it is spread forward and backward thus including both the supply chain and the customer chain.

Introducing and implementing a total quality management system is a long-term process and a permanent activity which continuously improves the activities of the entire company. Establishing the system requires a corresponding work organisation which will enable a continuous efficiency increase of each and all processes within the company. In this way, the improvement of all activities the entrepreneur undertakes is encouraged in a continuous way, and business cultures which comprise activities, norms and notions, according to which all employees work, are developed.

Introducing a total quality management system does not necessarily mean introducing radical changes in the work of the entire company. Continuous improvement can also be achieved with small positive steps in the area of costs, delivery deadlines, relationships with consumers, suppliers and business partners, by improving the safety of work conditions for employees, etc.

### **5.3.2. QUALITY SYSTEMS AND MAIN STANDARDS**

#### **A) ISO 9000ff**

ISO 9000ff is a fundamental generic quality system. The ISO 9000ff standard group comprises the following norms:

- ISO 9000 which describes the basics of quality management system and determines the nomenclature for quality management systems.
- ISO 9001 which determines the quality management system requirements.
- ISO 9004 which provides guidelines for efficacy and efficiency of the quality management system with the aim to improve the organisation efficiency.
- ISO 19011 which provides directions for conducting a management system audit.

Quality management within the ISO 9000ff standard group is based on eight basic principles:

- customer orientation
- leadership
- people inclusion
- process approach
- systematic management approach
- continuous improvement
- factual approach to decision making
- mutually beneficial relationships with suppliers

Every additional implementation of another standard comes down to upgrading and extending this basic quality system by embedding regulations which make the standard

stricter in the domain of process monitoring. The introduction of the stated standard represents a prerequisite for a competitive product at a foreign market and a step forward toward the total quality management system. The total quality management system implies constant innovations and fast reactions regarding the improvements in performance, quality, lifespan, adjustments to market requirements.

#### B) ISO 14000ff

This quality management system establishes regulations and work procedures in the field of environment protection. Its aims are: reducing a negative impact on the environment, harmonising the business with relevant legal and sublegal acts, and continuously improving the previous two aims. The ISO 14001 requirements are an integral part of the EU EMAS standard – Eco-Management and Audit Scheme.

#### C) EMAS (ECO MANAGEMENT AND AUDIT SCHEME)



By entering the EU, entrepreneurs of member states have received new possibilities and obligations when it comes to quality management and environmental impact systems. The EMAS regulation was introduced by the European Commission in 1993. The regulation defines an efficient and usable tool for managing the organisation's environmental impact. It requires annual improvements, as well as the influence on suppliers and subcontractors.

### 5.3.3. CONTINUOUS IMPROVEMENT

Continuous improvement means constant enhancement of a certain production process (equipment, methods, materials, human resources) and the production as a whole. It does not necessarily always have to mean a radical development, but these can also be little positive changes.

Continuous improvement can be carried out with the help of the Deming Wheel through four steps (Figure 17):

- a. Plan – it is necessary to research production and business processes which are carried out in order to be standardised. In such an established system, it is necessary to identify possible problems, develop the improvement plan, i.e. the way of eliminating problem causes. At this stage, it is also important to define criteria for plan assessment.
- b. Do – means to carry out a plan as an implementation test in a smaller business segment.
- c. Check – it is necessary to compare the results obtained by the plan implementation in a smaller segment with the goals defined in the plan.

- d. Act – if the planned results have been achieved, the applied method can be extended to the entire business, i.e. all segments where applicable. It is necessary to familiarise all employees with the new method, i.e. the ways of solving a certain problem, and train them for its implementation.

If the results are not satisfactory, it is necessary to revise the plan or to abandon it completely.

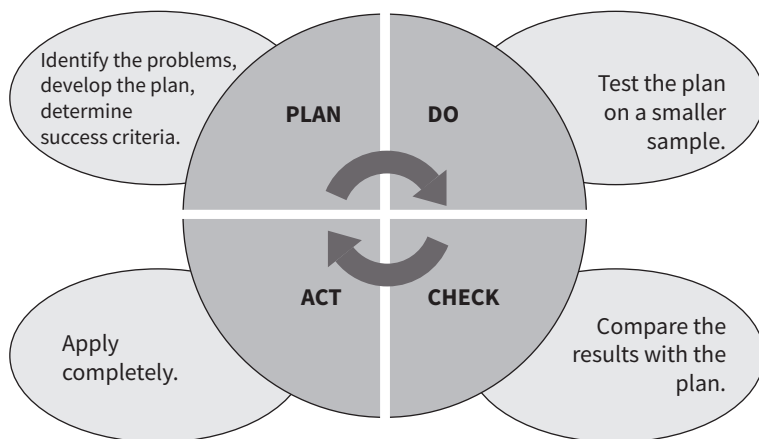


Figure 17. Continuous improvement in four steps

Source: <https://en.wikipedia.org/wiki/PDCA>, online, [11<sup>th</sup> July 2015]

Dedication to quality is extremely important for realisation success. The management must accept and demonstrate quality dedication with their own exemplary conduct, but this is not enough. The entire business system which includes all workers, the person responsible for quality and external associates must work on the quality system implementation and be continually equipped and educated for it.

The notion of quality can be observed from various viewpoints:

- Product quality (through guarantee, duration, added value, etc.)
- Service quality while using the product (through servicing, spare parts supply and availability in providing additional information on the product)
- Developing a long-term company status as a reliable and fair business partner
- Developing a long-term company status as a secure and fair employer who takes care of material satisfaction of employees, quality and safety of work conditions through occupational health and safety practices
- Observing legal norms and regulations, and building business policies based on moral norms
- Environment protection through the entire business process

- Defining business culture

Product or service quality development does not necessarily mean an increase in production costs. The quality is not only developed in the immediate production, but it can also be developed in marketing, purchase, research and development, business organisation, finance, human resources and other departments. Achieving quality enables the elimination of various causes of production process flaws with the aim to make quality products from the first attempt. In other words, it is necessary to eliminate all causes of potential mistakes before they come into existence since the product quality depends on the quality of the process in which it is made.

Kaizen<sup>18</sup> is a Japanese philosophy focused on continuous improvement in economic activities and real life. Improvements refer to all levels, and they should be applied everywhere. Kaizen methodology enables monitoring changes and customising. The Kaizen activity is based on the Deming Wheel through four steps. Multidisciplinary teams are defined for solving certain problems which also include workers from the workplaces where the problem has been spotted, company specialists and external consultants who can help in problem solving.

#### 5.3.5. BENCHMARKING

Benchmarking is a comparison of company performance with the performance of others, generally the best. The selected company does not necessarily have to be from the sector the entrepreneur deals with. There are three types of benchmarking:

1. Performance benchmarking where the price, quality as a whole, certain quality characteristics etc. are compared and modelled.
2. Process benchmarking for the comparison of business processes such as sales methods, invoicing, receipt of goods, staff education, etc.
3. Strategic benchmarking which models the way of competing among companies. This method researches the winning strategy which leads to gaining a competitive edge and market domination.

#### 5.4. ASSISTED TECHNOLOGY TRANSFER AND SUPPORTING INSTITUTIONS

Challenges which the globalised high-tech economy sets to all entrepreneurs can be expressed with two questions:

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<sup>18</sup> By applying the Kaizen tools, it is necessary to: start from the facts, implement temporary solutions in order to protect the users, find the original cause of the problem, check whether the solution you have found can be applied only temporarily or whether it is a permanent solution, standardise and extend improvements to the whole company.



- Will the enterprise be able to defend its markets from the growing competition of foreign global brands?
- Can the enterprise develop into a strong regional or global brand?

In order to resolve these challenges, i.e. answer the questions, entrepreneurs have five strategies at their disposal:

- Cost cutting (IKEA, Lidl)
- Improved customer experience (Starbucks, Harley Davidson)
- Top product quality (P&G, Toyota)
- Niches (Bio Bio)
- Innovative business models (Barnes & Noble, FedEx)

No matter which of the stated strategies has been selected, most small and medium sized entrepreneurs cannot apply them independently, but rather require help from a strategic partner or an appropriate supporting institution for their implementation. During the process of obtaining and acquiring new key technologies, it is advisable to cooperate with universities or other research institutions and supporting entrepreneurial institutions which will provide consulting assistance, a business networking service and project financing.

## CONCLUSION ON MANAGING AN INNOVATIVE PROJECT

Nowadays, business success mostly depends on the speed of the response to market changes. The products which are present on the market are more and more complex whereas the production is more and more demanding. Customers seek better design, functionality, quality, energy efficiency and many other things. Product lifespan is constantly being decreased, and resources are limited. Therefore, resource management is extremely important for the success of all entrepreneurs.

The way in which the entrepreneur organises production and chooses production technology can represent critical indicators for competitiveness and business sustainability. When selecting a business organisation, the entrepreneur must take into consideration the organisation layerness as it comprises formal organisation which can be identical to some of the standard organisation structures, or it can be very unique due to adjustments to the specifics of a concrete project. In larger systems, permanent organisation generally coexists with one or more temporary/project organisations, and the question of organisation is additionally complicated by the existence of less visible, but under no circumstances negligible informal organisations.

The selection of production technology significantly depends on the product type and quantity, whereby it is important to point out that the same product can be produced in a completely different way in large quantities than in smaller quantities. The selection of production technology is additionally influenced by the availability of energy resources, regulations in the field of environment protection, equipment and raw material availability, and other factors.

Quality and quality consistency of a product or a service is extremely important for all business entities. As a rule, quality should represent a strategic goal, and introducing a quality management system is crucial for its ensurance. Such a system generally brings along a series of advantages regarding business cost reductions, productivity increase and profit growth.

A faster and more effective process of innovation is becoming a key factor in national economy development. Technology transfer efficiency significantly depends on networking, especially when it comes to small and medium sized enterprises which have a considerable economic and social contribution. Since new technologies are generally acquired from external sources, connecting with universities and their constituents specialised for transferring knowledge into the economy is extremely important



## 6. MARKETING PLAN

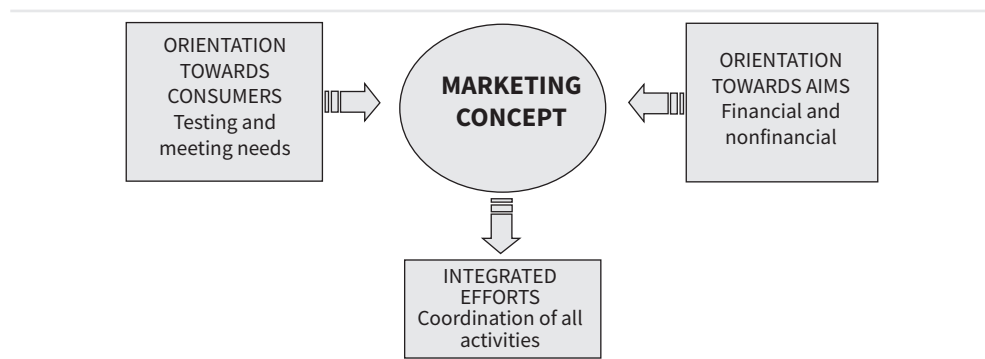
### WHAT WE WILL LEARN

- What is a marketing concept and what affects it?
- To define product mix and marketing mix.
- To segment the market and position the product.
- What is guerrilla marketing?
- To make a fully developed marketing plan.

### 6.1. MARKETING CONCEPT

Marketing presents the way of communication that a company has with its environment. Through marketing there are plenty of business opportunities that do not necessarily mean investing large amounts of money. Marketing involves corporate image, whether good or bad, company name, determination regarding product or service sales, ways of production, colour, size or shape of the product, packaging, company location, advertising, public relations, web-sites, answering the phone, problem solving, plan for acquiring new customers, etc. Every little thing an entrepreneur makes or says, not just advertising, will have an impact on how people perceive him. Marketing is a process rather than an event. There's no end to it. (Levinson, 2008.).

Marketing concept means an integrated effort and coordination of all the activities that the entrepreneur pursues in order to meet the needs of his customers more effectively than the competition while achieving its financial and nonfinancial goals (Figure 18).



Grafički prikaz 18. Konceptcija marketinga

Izvor: Štefanić, 2007a.

The marketing concept has developed and changed according to the development of production and customers' needs. Marketing development took place under the influence of relations, supply and demand, competition, globalization, increasingly difficult sales conditions and more intense changes in the environment.

Marketing focuses on customers' needs with an emphasis on satisfying their needs as consumers. In creating access to customers, an entrepreneur must take into account the instrumentation available to create a product, its transfer to customers, and all related aspects (Figure 19.). Contrary to this, there are circumstances on which an entrepreneur cannot influence and must adapt to them (Figure 20.)

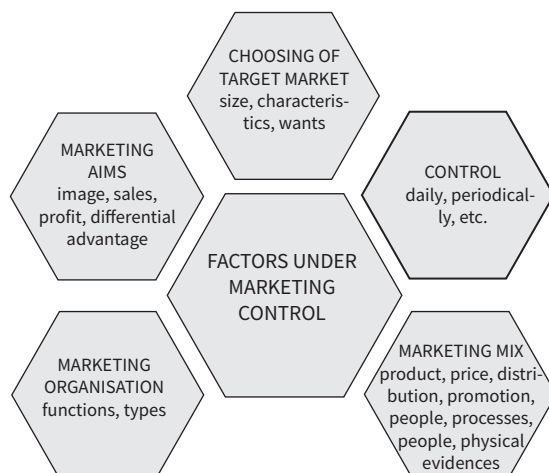


Figure 19. Factors under marketing control

Source: Štefanić, 2007a.

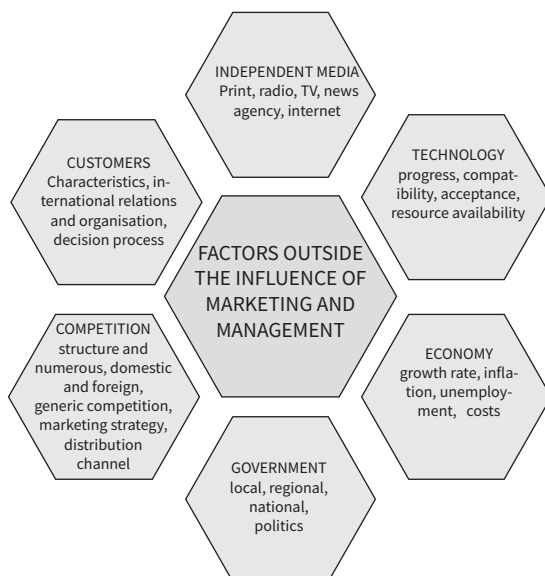


Figure 20. Factors outside marketing and management control

Source: Štefanić, 2007a.

A marketing mix consists of 4 basic elements (4P) that an entrepreneur has an influence on and therefore it is extremely important for achieving business success. These are:

1. **PRODUCT** which represents what is offered to the customers in material and immaterial form, or the combination of both.
2. **PRICE** which is paid for the product directly by the customers.
3. **DISTRIBUTION** by which the products are delivered to the final customers.
4. **PROMOTION** by which the product is promoted to the customers.

Recently, three more elements have been added to these elements of marketing mix:

5. **PEOPLE** involved in marketing activities.
6. **PROCESSES** that are a key to creating the products, services and their distribution.
7. **PHYSICAL EVIDENCE** about achieving or failing of planned goals.

Elements of 7P marketing are shown by Figure 21.



Figure 21: 7P Marketing mix

### 6.2.1. PRODUCT

The most important element of a marketing mix is the product. According to Kotler (2010), the product is everything that can be offered on the market, and attracts attention, buying, the use or consumption in order to satisfy some demands or needs. This includes physical

objects, services, people, distribution, organisation, and ideas. Specifically, if the product is bad, a successful market placement will probably not help either a good distribution or a successful promotion. On the other hand, an excellent product will achieve success more easily with smaller financial investments in distribution and promotion. The service is defined as an activity or benefit that one party can offer to another, mostly intangible and does not result in ownership. Its delivery can, but does not have to be tied to a physical product.

The product can be viewed as a means that links the interests and goals of consumers and manufacturers. For this purpose, the company can base its business on individual products or product lines. The product line is a set of products that are closely related because they work in a similar way, are sold to the same customer groups, are distributed in the same types of stores, or are similar in price. In addition, the products of the same line are mainly produced with the same technology or the same equipment and machines. All products of all lines make a product assortment or product mix.

#### 6.2.1.1. PRODUCT CHARACTERISTICS

A competitive product with its characteristics needs to meet the customers' needs. When it comes to product characteristics, it is primarily about their physical characteristics, quality, features, style and design (Figure 22.). Quality is often the basic criterion for positioning products on the market. It can increase product value and customers' satisfaction. Apart from product quality, different features can be upgraded to enable the manufacturer to build a distinctive character over the competition.



Figure 22. Products components

Source: Štefanić, 2007a.

A new feature of a product that has been recognized by customers can be an effective way of gaining competitive advantage. The next important component of the product, that can give the consumer additional value, is design. Marketing experts often point out design as one of the most powerful tools to achieve competitive advantage. When it comes to design, not only the appearance of a product that will attract the attention of the customer is taken into consideration, but also the achievement of the product's efficiency. Design can attract attention, improve efficiency, reduce costs, and give a competitive advantage. Ergonomic design can significantly improve customers' experience which is connected with product usage. If the design of the product is original, intellectual property protection is recommended.

Packing includes the design and production of products' packaging or wrapping. It is also an important marketing tool that significantly affects customers and can be a tool to achieve competitive advantage on the market. Packing is not just a means of storing products during transport and sales, but also a means of attracting customers' attention. In packing it is important to pay attention to the shape, images and structure to achieve product differentiation in the saturated market. If the packaging is unique in the market, intellectual property protection is also recommended.

In everyday business and consumer environment, we meet different brands of products. The brand name is a name, a sign, a three-dimensional shape or their combination that unambiguously determines the manufacturer or seller of the product or services. Manufacturers decide on creating a brand because on that way they give information to the consumers on the constant quality of the product and, moreover, draw attention to new products from the product line that could be used. Building a product brand encourages manufacturers to look for new product features, and at the same time gives them the ability to protect product brands, thus providing legal protection against copying. Products that do not have an unprotected or protected brand of products fall into the category of generic products and are characterized by lower market prices that may be the result of lower quality, cheaper packaging, or lower advertising costs.

There are several purposes of labels and declarations: they define the product or brand, describe the product (who produced it, where and when), point to the content of the product, the way of use, etc. The label can also have a promotional function using attractive visual solutions. If there is a one's own solution for the product label, intellectual property protection is also recommended.

The marketed product often requires the provision of various services to complement customers' satisfaction. The services that accompany the product can be a means of achieving competitive advantage. Nowadays, the services that accompany a product are often provided with modern technology such as the internet and phone lines opened round the clock. Such services range from technical support by phone for solving prob-



lems independently, to fully independent monitoring of key parameters and support in problem solving in real-time, as Rolls-Royce offers to their jet engine users for aeroplanes in TotalCare® programme, which can be supplemented with optional services adapted to the specific needs of each individual customer.

#### 6.2.1.2. PRODUCT LIFE CYCLE

The life cycle of the product typically includes four different stages: introduction, growth, maturity and decline. It is extremely important to know in which stage of the life cycle a specific product is in order to adapt the business to the specifics of the stage in which is positioned. The product life cycle curve in addition to its standard shape may have special forms that can have a very strong impact on entrepreneurs (Figure 23.).

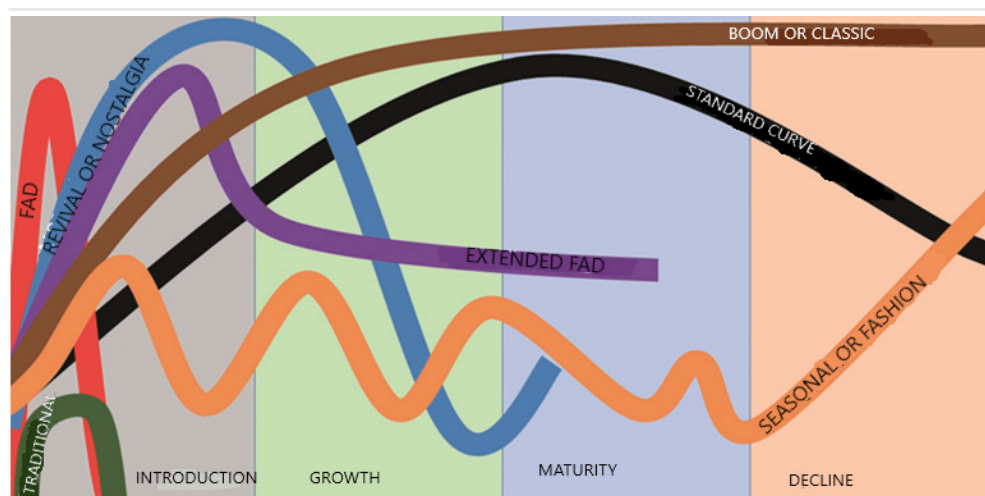


Figure 23. Product lifecycle

*Important note :The mutual position of curves is relative. Each can have big or small sales.*

Flash is a special case of the life cycle of the product which has its peak very early, usually thanks to the unusual and intense publicity that can, but does not have to be based on its exaggerated emphasis on its features and benefits. Such a product reaches large amounts of sales and then disappears as quickly as it conquered the market. A special shape of the life cycle, which has significantly smaller sales after its peak, but manages to survive on the market, is called a prolonged flash. The product, that attracts interest appears periodically, possibly influenced by seasonal impact has a life cycle of style or season. It is important to point out that seasons can last differently and have different sales intensity. The lifecycle curve of such a product looks like a wave that can last or vanish and can be replaced by other, similar waves. Products whose life cycle is described by the curve called fashion or nostalgia can achieve different success on the market for a different duration, and some

may become timeless classics. Modification of the fashion life cycle, which, after maturity, does not reduce the size of the sale, is called boom or classic. Some products never achieve large amounts of sales nor does the interest for them last long. Their curve is failure, but this does not necessarily mean the end of the company. The best examples of the impact that the life cycle can have on a product and company in reality, are seen in practice.

### 6.2.2. PRICE

Pricing is an extremely important task for every entrepreneur. Price formation is especially important when we determine it for the first time or for the new products and services. Factors influencing pricing are shown in Figure 24.



Figure 24. Factors affecting pricing

*Source: Štefanić, 2015.*

Pricing and charging conditions are important in day-to-day business, but they are even more important in terms of inflation, devaluation and non-payment. The same is true for the period in which a start-up entrepreneur develops his business. Bringing a quick decision on a discount on the price or postponing payments that are not financially viable can have far-reaching consequences on the company's growth success and speed.

### 6.2.3. DISTRIBUTION

A great product at an attractive price is a great opportunity that still needs to find a way to customers. Manufacturers oriented to the local-market often place products directly

to buyers. Such a strategy is feasible at the local level, but at a national or global level it is much harder to carry it out. In addition, the need for capital is significantly increasing, and the focus of business is shifting from production to distribution. In such cases sales of products and services are often organized with the help of distributors. Their basic function is to direct products from manufacturers to consumers, but in some cases distributors, in addition to physical distribution, may also be involved in other important activities such as market research, promotion, communication with potential buyers, adjustment of products and services to specific customer requirements, negotiation, financing and taking over the risks associated with the operation of the distribution channel.

#### **6.2.4. PROMOTION**

In order to successfully market their products and services on the market, entrepreneurs must communicate with their customers and their wider environment. Promotion is a very creative and adaptable marketing mix element, and involves various activities through which an entrepreneur informs, assures and reminds customers of their ideas, products, services, and social inclusion. Promotion includes the following activities:

- a) Advertisement is a non-personal and paid communication about products and services intended for customers.
- b) Sales enhancement means the use of various types of incentives that stimulate the purchase or sale of a product or service.
- c) Publicity is a non-personal communication related to an idea, product, service or business that is not directly funded by the project owner. It is not always under the control of a company so it is not always positive. It requires smaller financial resources and achieves greater credibility than other forms of promotion. Publicity also includes public relations that involve monitoring and interacting with the external environment and evaluating the effectiveness of implemented programs.
- d) Direct marketing is, according to the Direct Marketing Association, an interactive marketing system that uses one or more advertising media to trigger a measurable response and / or transaction at any location.
- e) Internet marketing means the use of information and communication technology, primarily the internet, in the process of creating, delivering and communicating value for consumers and managing consumer relations.
- f) Personal sale is a personal communication in which the seller cooperates with potential buyers and tries to focus their intention to the products or services they represent. The advantages of these techniques are high levels of consumer attention and rapid feedback, the possibility to pass on a greater amount of information and adapt to the specific needs of individual customers that generally develop

long-term relationships. Compared to other forms of promotion, this technique has higher costs.

Table 15. gives an overview of the most common activities involved in different types of promotions on the market.

Table 15. Promotion instruments

A) ADVERT	B) SALES PROMOTION	C) PUBLICITY
Radio and TV adverts Print adverts Billboards Packaging Magazines and brochures Posters and flyers Guidebooks Adverts in movies Audio-visual materials	A) Customer-focused coupons, discounts, samples and demonstrations, prize games, refunds B) Focused on salespersons financial stimulation, sellers' competition, bundle purchase gifts, joint advertising, fairs and sales exhibitions, awards	News articles Interviews Seminars Scientific and professional meetings Annual reports Charity auctions Public relations
D) DIRECT MARKETING	E) INTERNET MARKETING	F) PERSONAL SALES
Direct mail Catalogues Telesales Direct sales	Making own websites and theirs search engine optimization Banners Social networks and blogs Use of special services (Google maps, Google AddWords, etc.)	Sales meetings Sales presentations Fairs and markets

In the context of contemporary marketing, the importance of promotion is extremely high. Developing of products, formation of attractive prices and achieving product availability to target groups is no longer enough. In modern business conditions, the imperative of successful communication with the company’s internal and external environment is promotion. In creating an effective marketing mix, it is imperative to take into account two extremely important things: the noise in the communication channel that may cause distortion of the message and the oversupply of the customers with marketing messages.

6.3. MARKET RESEARCH AND BUSINESS INTELLIGENCE

According to the American Marketing Association (AMA), market research is a standardized procedure based on the principles of scientific methods that collect, analyse and interpret data for the purpose of obtaining the information necessary for decision-making and solving problems in the field of market business.

Although market research results are most commonly used in advertising, their application is much wider.

Qualitative market research results can enable the following:

- reducing financial risk
- defining consumer attitudes
- monitoring the environment
- coordinating the strategy
- improving the credibility of the advertisements
- obtaining support for decision making
- confirming intuition
- increasing efficiency
- realizing the competitive advantage
- measuring the impact.

Market research pays in companies of different sizes. The difference is that small business owners are more likely to carry out market research by themselves, while in large companies the marketing departments are involved in this business. In addition to direct competition checks, they frequently engage external associates or specialized agencies and the Internet is used often. A schematic view of the market research process is shown in Figure 25.

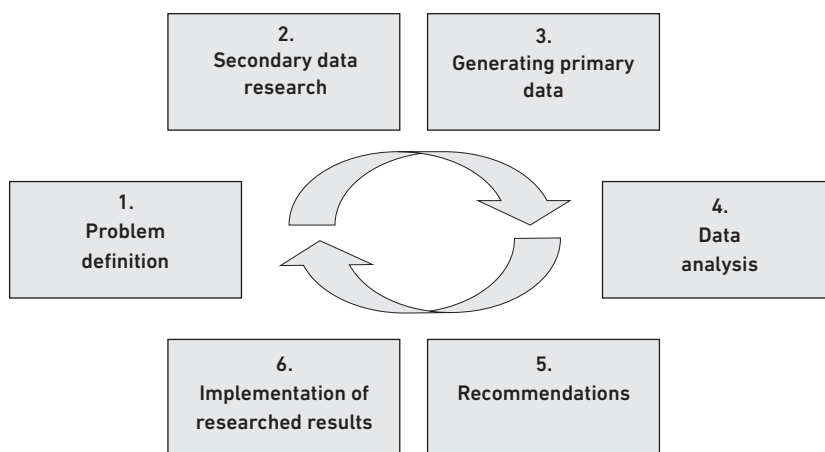


Figure 25. Market research process

Source: Štefanić, 2007a.

### 6.3.1. DEFINING PROBLEMS AND OBJECTIVES

The most difficult but most important step in market research is defining the problem. This is the moment when an entrepreneur clearly defines which decisions must be made and what information is needed to make those decisions. For example, a new entrepreneur has to decide how to place a product on the market, who are its potential buyers, where do they live, how do they buy and who are the competitors. The research is carried out in the following steps:

- a) customer segmentation - the total number of customers in one area can be classified into more or less homogenous groups whose specifics, needs and motivations should be examined and also whose potentially unsatisfied needs should be identified.
- b) market and environment analysis - it is most important to determine the possible scope of sales, the ability to make profit, track trends, offer credit lines, and economic factors. The environment is also made up of other factors: technological development, government actions, economy, cultural and demographic element.
- c) competition analysis - determine the competitors, potential sources of information on the competition, i.e. the strategy used by the competitors, their strengths and weaknesses.
- d) analysis of financial factors of own business - evaluation of financial performance, the analysis of the impact of strategic changes, identification of the most important factors (prioritization). This analysis also includes an analysis of the current business, i.e. all the current analyses related to this research.

Defining the purpose of research depends on what an entrepreneur actually wants to achieve: entering a new market, achieving a certain level of profit, expanding the market, increasing sales or something else.

In the next step of the process there is the collection of primary and secondary data for analysis. Primary data is collected for the first time and used to address specific problems within the research, and secondary data has already been collected for some other purposes and are located inside or outside of our business system. Therefore, it would be advisable to begin collecting secondary data before the primary. Since market analysis is almost always carried out on a specific statistical sample, it is necessary to select an appropriate statistical analysis. Because of the interconnectedness of different variables and the simultaneous influence of several factors on the observed variable, it is advisable to use multivariate analysis instead of a series of univariate, partial analyses. The knowledge and skills required for this job are rarely available within the company and it is advisable to hire a specialist agency or a scientific research institution.

### 6.3.3 BUSINESS INTELLIGENCE<sup>19</sup>

Activities that involve collecting, classifying and analysing information on competitors, customers, suppliers or other stakeholders are collectively referred to as business intelligence. Such data is usually collected from open and all available sources, such as print media, cor-

<sup>19</sup> One of the pioneers of business intelligence was Stevan Dedijer (Sarajevo, 25th June 1911 - Dubrovnik, 13th June 2004), a physicist, scientist, US Army officer and one of the co-founders of the Swedish intelligence network BISNES.

porate publications, the Internet and other publicly available databases. Business intelligence includes a number of other methods for collecting and analysing information, and most often relies on IT technology. An effective business intelligence system within an organisation enables its leadership to make punctual and timely decisions that can improve business.

#### **6.4. MARKET SEGMENTATION AND POSITIONING**

No company is able to cope with all the requirements of each individual customer but focuses only on selected groups of users or target markets. In order to meet the needs of selected customers, it is important to identify variables that affect customer differentiation and profile market segments. Segmenting the market is the basis for positioning the company in relation to the selected target market segment. Since segmentation and positioning are probably the most important individual business decisions that an entrepreneur brings, special attention should be given to market segmentation and positioning in the target segment.

Market segmenting is based on customer diversity, i.e. on the distinction of less or more clearly defined customer groups that have similar needs, desires, purchasing power, geographical location, attitudes and habits. As a rule, different segments look for products and services of different characteristics according to the specifics of their segment. Market segmentation by behaviour is a very useful market analysis whose criteria are for segmenting usage frequencies, customer loyalty, consumer status, and willingness to buy. Some entrepreneurs can use the segmentation results of their competitors, and some have to segment the market independently.

The next important goal to which marketing experts aim is loyalty, or a repeated buying of a branded product. According to loyalty we can distinguish several categories of customers: they buy only one brand (hard loyalists), buy two or three brands (shared loyalists), transfer loyalty from one brand to another (loyal loyalists) and have no loyalty to any brand (indefinite). It is important to point out that loyalty does not only depend on customers, but also depends to a great extent on the type of product. There are products that customers poorly distinguish, products that differ well, but do not develop loyalty to branded products and products where loyalty can be expressed. When theory is translated into practice, everything becomes clearer. Branded bulbs are not noticed, toilet paper brands may be noticed, but they do not have too much preference. On the contrary, a brand of coffee, a shaver or a cell phone is extremely important.

The degree of customer satisfaction with the purchased product or service depends on many factors and it is quite certain that all customers will not be equally satisfied. The range of their responses is wide and includes enthusiasm, positive reaction, indifference, negative reaction, or hostile attitude. Each of these reactions requires a different approach from a

person or a department dealing with public relations. But in no case should the influence of customers on business be underestimated because as product and service advocates can significantly improve the business, buyers with a hostile attitude can significantly reverse it.

## 6.5. SOCIOECONOMIC CHARACTERISTICS OF CUSTOMERS

Even before business start-up, but at the stage of business plan making, it is useful to determine the target group targeted at your product or service. It is necessary to analyse the socioeconomic data more closely, as this is the only way of understanding your customers. You need to know in which area they live, their age, if there are enough customers in the area for your job to pay off. Entrepreneurs must also understand how buyers decide to buy a product, what their needs, wishes, and opportunities are.

### 6.5.1. CUSTOMER'S DEMOGRAPHIC PROFILE

Demographic data collection (Figure 26.) helps define business in a particular market segment. It is also important for determining the relationship of supply with wishes and customers' needs.

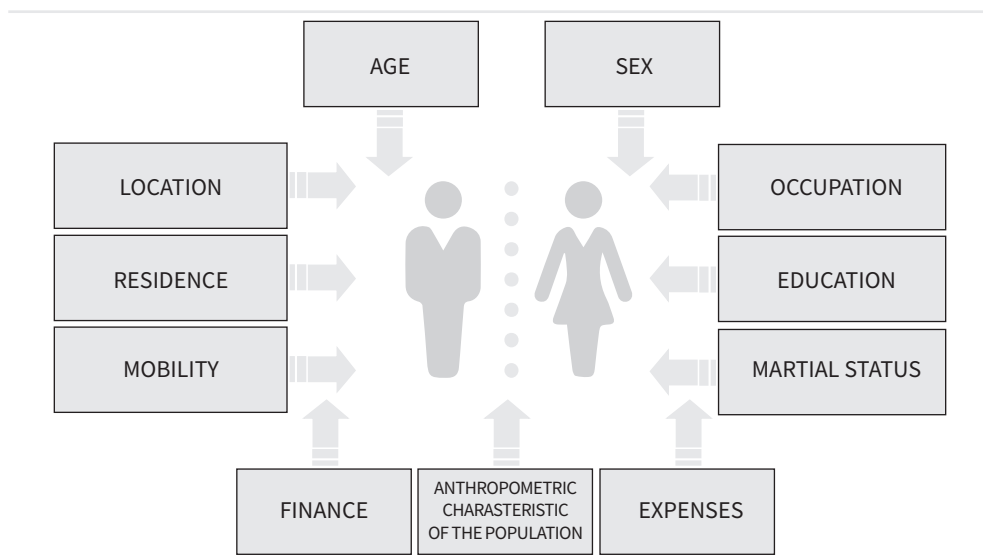


Figure 26. Customer's demographic profile

Source: Štefanić, 2007a

While at first glance it appears to be easy to access the data, it is important to take into account the adequacy, reliability and age of available data. In data analysis, data interconnection (autocorrelation) and multivariate analysis should be taken into account.



### 6.5.2. CUSTOMER'S SOCIAL PROFILE

For the customer's social profile, it is necessary to study purchasing habits and the impact of certain target groups. It's a good idea to study how people spend their time and money. Variables that define the customer's social profile are shown in Figure 27.

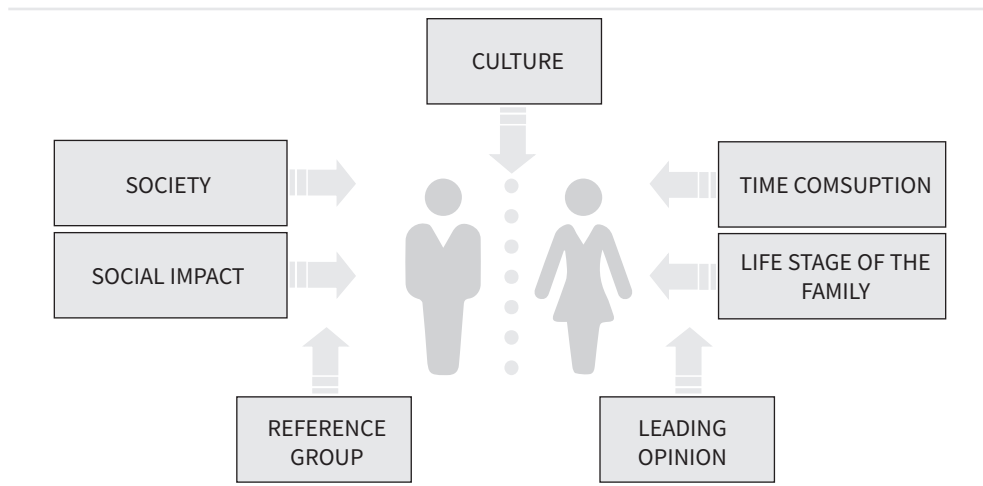


Figure 27. Customer's social profile

Source: Štefanić, 2007a

Culture, the groups around them, the family circle, and the activities that people deal with have a significant influence on making decisions about buying certain products. They are often correlated with the geographic origin of customers. In the United States the beauty, health, vitality and active lifestyle are appreciated. Far-east cultures are more turned to spirituality. But regardless of the geographic region, making a purchase decision depends on reference groups and leading opinion. It is important to point out that any purchase can also act as a recommendation of an individual or a group of potential buyers because not all customers make a buying decision based on careful exploration of competitive offers and multi-criteria selection. A certain percentage of customers simply is not sure and imitates the reference group or their role-models. In addition to different interests of different customers, it is also important to note the demand for products and services whose purchase represents a status symbol (business class seats, 5 or more-star hotels, exclusive cars, watches, etc.).

### 6.5.3. CUSTOMER'S PSYCHOLOGICAL PROFILE

In the psychological profile of the buyer, personality, motivation, attitudes and opinions, class consciousness, leading opinion and the degree of risk and importance of buying play the important role (Figure 28). Personality differentiates between two types of customers: those who decide by themselves regardless of the recommendation and those who

cannot decide on their own and involve others in the decision-making process. Making a purchase decision is the result of information and feelings that people already have about a particular product, company or institution, stemming from past experiences or experiences of others, in relation to a particular product. Whether the decision will be positive, neutral or negative depends solely on the individual itself.

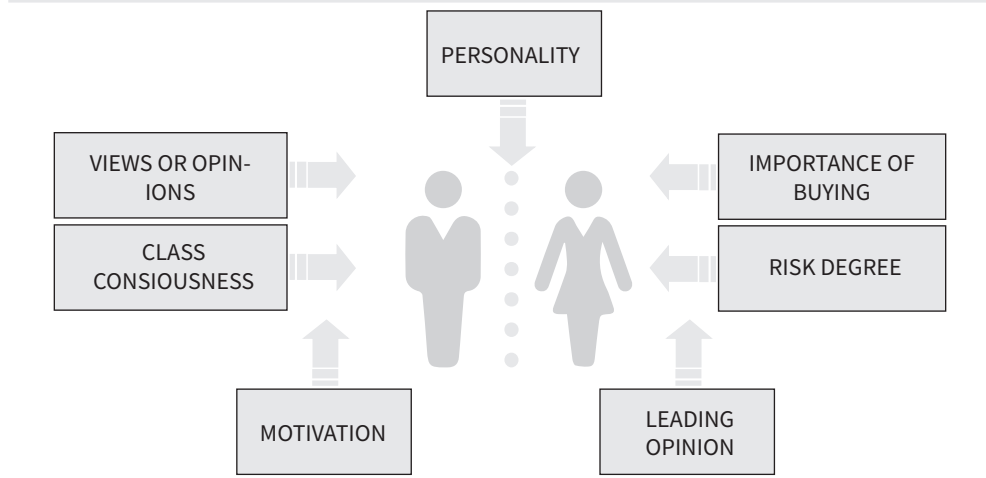


Figure 28. Customer's psychological profile

Source: Štefanić, 2007a

## 6.6. GUERRILLA MARKETING

The term “Guerrilla Marketing” was defined by Jay Conrad Levinson in 1984. as a set of unconventional advertising methods that are trying to achieve a maximum impact with small budgets. Such marketing is based on investments full of knowledge, experience, imagination and creativity in promotion with small amount of money, which is almost perfect for small and medium businesses. Such marketing is also suitable for large companies in financial difficulties. If you run a stand-alone business, marketing is a necessity because today's competition is more aggressive, more direct and intuitive than before. On the other hand, customers are saturated with ads and do not always respond to what we expect.

Everyone knows the example that Jay Conrad Levinson says when explaining guerrilla marketing. The small bookstore has two nasty neighbours, large, competitive bookstores that lower prices by 50% and 60%, and they are advertised on posters larger than the small bookshop. What can the owner of the shop in the middle do? As a marketing guerrilla, he prepares the inscription that he sets over the door. Only one thing should be written on it: “MAIN ENTRANCE” (according to Levinson, J.C., 2008). Guerrilla marketing campaigns are surprising, unconventional, often interactive, and the customer can be found in unexpected places.

### 6.6.1. CONCEPTS OF GUERRILLA MARKETING

Jay Conrad Levinson's calls concepts of geriatric marketing, the secrets of marketing guerilla. Regardless of what they call it, the following are the key elements for understanding and effective application in the marketing guerrilla plan:

1. Dedication - to make the plan work, the entrepreneur must be dedicated to it.
2. The investment - the plan should be considered as an investment.
3. Consistency - the plan must be consistent and consistently implemented.
4. Trust - potential clients must have confidence in entrepreneurs.
5. Patience - it is essential to keep the dedication.
6. Arsenal- guerrilla marketing should be seen as arsenal of weapons.
7. Order - the correct order is: first sale, then profit.
8. Benefits - the company should be guided by a way that benefits its clients.
9. Joy - it is necessary to enter the element of enthusiasm in marketing.
10. Measure - effectiveness should be measured in the application of all activities.
11. Involvement - you need to prove to clients that you care about them.
12. Dependency - it is necessary to learn to be dependent on others, just as others depend on you.
13. Armaments - it is necessary to be skilled with technology, weapons of guerrilla marketing.
14. Consent - marketing should be used to obtain customer consent, which should then be directed towards sales.
15. Content - try to sell the content of the offer before its style.
16. Increase -after development of the guerrilla marketing plan, it is necessary to work on its increase.

Guerrilla marketing plans are known for their brevity, which in extreme cases can mean a marketing plan of one-paragraph size. Though marketing campaigns are simple and concise, they should not be overdone. Each plan should address key questions:

1. The purpose of marketing. What does it really want from customers: going to a store, visiting an internet site, ordering via phone, testing a product, or something else?
2. The way this is achieved. What are the advantages over the competition?

3. What is the target market?
4. Marketing tools to be used?
5. The market position that is to be achieved?
6. Company identity?
7. Absolute and relative budget in relation to company revenue?

The extended guerrilla marketing plan should additionally include:

1. Risk analysis and contingency plan.
2. Media Plan.
3. The control mechanisms of the plan implementation.

After the plan you have to be well equipped with the guerrilla marketing tools. There are over 100 guerrilla marketing tools that are divided into eight groups.

## **CONCLUSION ON MARKETING PLAN**

Marketing is the way of company communication with the environment. It includes company image, whether it is good or bad, company name, colour, size or form of the product, packaging, location of the company, advertising, public relations, website, answering the telephone, problem solving, buyers and more.

Marketing concept means the integrated effort and coordination of all the activities the entrepreneur is doing in order to meet the needs of his customers more effectively than the competition while achieving their financial and non-financial goals. Marketing focuses on customer needs with an emphasis on satisfying their needs as consumers. In creating their customer access, an entrepreneur must take into account the instrumentation available to create a product, its transfer to customers, and all related aspects, as well as the circumstances that cannot be affected and must be adapted.

After collecting impressive amounts of data and calculating a lot of interesting indicators, it is possible to know a lot about their immediate environment or the national market in which they are planning their business. But it does not have to be hasty and superficial because life is rarely one-dimensional. Answers required by a successful entrepreneur are often multivariate because not all parents are athletes, like all fans of a particular club are not successful entrepreneurs or managers. Market research needs to be thorough, investigate customers and competitors, assess their chances, carefully segment and position their products and services.

Regardless of the size and market power of a company, it is advisable to use unconventional advertising methods that have little impact on small budgets. Guerrilla marketing is based on investing a lot of knowledge, experience, imagination and creativity in promotion with some money, which is especially important for beginner entrepreneurs. Such marketing is needed because today's competition is more aggressive, more direct and more intuitive than before, customers are saturated with advertising and do not always respond as we expect.

## 7. INTELLECTUAL PROPERTY PROTECTION AND MANAGEMENT

### WHAT WE WILL LEARN

- What is intellectual property and how is it structured?
- How to protect your own intellectual property?
- How to manage intellectual property?

Intellectual property is the more often term in everyday and business environment. Intellectual Property Rights holders have a time – limited monopoly on the economic exploitation of the mentioned work or objects and no one can use a protected piece of work on the market without the permission of the right holder. Intellectual property includes copyright and related rights, industrial property rights and other intellectual property rights.

### 7.1. COPYRIGHT AND RELATED RIGHTS

Copyright is exclusively the copyright of the author to dispose of his work in the field of literature, science and art. (Figure 29.) Authors are exclusively entitled to use their work and may approve or prohibit the use of work to others. After the death of the author, the copyright is transferred to the heirs. The author's work also carries a moral right that is not transferable. Copyright lasts throughout the life of the author and seventy years after his death.

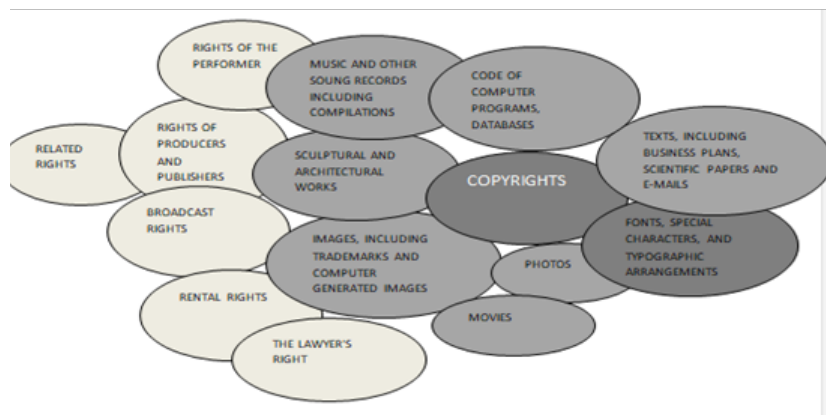


Figure 29. Systematic overview of copyright and related rights

The author, based on the copyright, is entitled to contract the conditions under which copying, publishing, recording, broadcasting, translation or adaptation of his work is subject to financial compensation depending on the use of the work. Copyright does not protect the idea of a piece of work that is an expression of ideas irrespective of the type or quality of expression. It is created by the act itself and unlike most other forms of intellectual property, it does not require a registration process. The author of the work is a natural person that created the work, or a person whose name, pseudonym or character is commonly referred to in copies of the work until it is proven to be the opposite.

Related rights with copyright are copyright based, they assume the existence of a copyright piece of work and include the following types of protection: performance artists on their performances, producers of phonograms on their phonograms, film producer and video game makers on their films and video games, broadcasting organisations on their broadcasts, their publishers and databases manufacturers on their databases.

If your product or service contains elements that protect the Copyright Act, remember to properly tag it with ©.

## 7.2. INDUSTRIAL PROPERTY

Industrial property includes the rights by which producers protect their business interests from competitors; market position and resources invested in research, development and promotion. Industrial property is a special category of intellectual property that includes: patents, industrial design, trademarks, semiconductor topography, geographic origin and label of origin and protection of new plant species<sup>20</sup> (Figure 30).

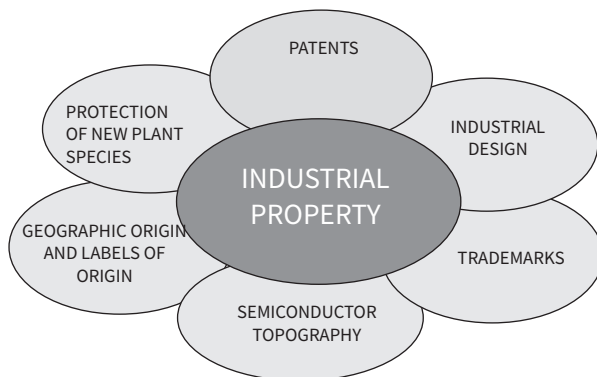


Figure 30. Systematic overview of industrial property

<sup>20</sup> The protection of new species is not handled in this manual.

### 7.2.1. PATENT

If an inventor wants to protect the invention that offers a new technical solution for a problem, and relates to a product, process or application, the appropriate form of intellectual property protection is patent. In the patent protection process, the inventor may be solely a natural person, and the patent holder is a natural person or legal entity. By acquiring the patent, its holders of rights, respectively owners, acquire the right of monopoly on the market based on a protected technical solution, during the term of patent protection that can be up to 20 years for full patent and up to 10 years for a consensual patent.

#### 7.2.1.1. PATENTABLE INVENTION

The patent is recognized for any invention in any of the technical fields having:

1. The novelty of the invention. The invention is novel if it is not contained in the state of the art. The state of the art considers everything that is made accessible to the public in the world, either in a written or oral way, by use or in any other way before the filing date of the patent application. A novel invention is considered an invention, which was in the state of the art up to six months prior to the date of submitting the patent application, due to, or as a result of obvious misuse in relation to the patent applicant, its legal predecessor or exposure at an official or officially recognized exhibition in accordance with the Convention relating to the International Exhibitions, signed in Paris on 22 November 1928 and last revised on 30 November 1972. This can only be done if the applicant indicates in the patent application submission that the invention was exhibited and submits the appropriate certificate on exhibiting of the invention four months from the application date at the latest.
2. Inventive level. The invention has an inventive level if it does not find a skilled person in appropriated field, in an obvious way, from state of the art.
3. Industrial applicability. The invention is industrially applicable if its object can be produced or used in any branch of the industry, including agriculture.

The patent is also recognized for the invention which refers to:

1. A product consisting of a biological material or which contains a biological material.
2. The method by which this biological material was produced, processed or used.
3. Biological material isolated from the natural environment or produced by a technical process, even if it was previously found in nature (discovery).

Inventions not considered and not patentable:



1. Discoveries, scientific theories and mathematical methods
2. Aesthetic creations
3. Rules, instructions and methods for performing mental activities, games or for doing business
4. Display information
5. Computer programs

Applicants who are interested in patent protection in several countries can do it in two ways. Citizens of a country that has adopted the Paris Convention for the Protection of Industrial Property and who are a member of the World Trade Organisation (WTO) may file a formal application to the State Intellectual Property Office with a claim for priority rights. Within 12 months, protection can be extended to other countries by the applicant's choice. Later patent application for other countries will be considered as the first application, and the original patent application can no longer serve as a basis for claiming the priority right. The patent application may also be filed by a PCT<sup>21</sup> route where the entry into the national phase is postponed to the 30th month from the filing date.

### **7.2.2. TRADEMARK**

The trademark is exclusively recognized as a trademark used to distinguish between products and / or services of a one person from other people in economic transactions. The trademark proprietor may be a natural or legal person who, through the acquisition of a trademark, is exclusively entitled to market the products and/or services covered by that stamp. It can protect the name, logo, emblem, label or other distinctive features of the product and/or service that can be verbally and figuratively expressed as a combination of words and graphic solutions.

The list of products or services for which the trademark is registered determines the scope of the trademark protection relating to the products and / or services listed. When filing a trademark registration application, products and services must be clearly identified and classified in accordance with "The International Classification of Goods and Services" better known as the Nice Classification. The Nice Classification classifies all products and services in 45 grades: 34 product classes and 11 grade services.

If you use trademarks in your marketplace, remember to properly label them with the trademark <sup>™</sup> for unregistered trademarks and the trademark <sup>®</sup> for registered trademarks.

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<sup>21</sup> Patent Cooperation Treaty enables simultaneous registration of patents in all 148 member states (on 10<sup>th</sup> May 2015).

### 7.2.3. INDUSTRIAL DESIGN

Industrial design protection includes the protection of an outer appearance of a product or object by protecting the shape and outline of objects and protecting the surface characteristics (lines, colours, textures, shapes, contours, materials, ornamentation). The basic conditions that some design must satisfy for recognition of protection are the novelty and individual character of the design, and that its features are not solely dependent on the technical function. Registered industrial design ensures that the owner is solely entitled to use, or to make, offer, put into circulation and to import or export a product in which the industrial design is contained or to which the industrial design is applied for a period of 5 years, with a possible extension up to a total of 25 years from the date of filing design.

There are legally defined conditions for the registration of industrial designs:

1. Industrial design protects design to the extent that it is new and in which it has an individual character. Design is considered new if no identical design has been made available to the public before the filing date for the application for industrial design registration or if the right of priority has been claimed before the date of the recognized priority.
2. The design applied to a product or contained in a product constituting an integral part of a complex product shall be considered to be of new and individual character only if the constituent part, after being incorporated in the composite product, remains visible at the normal use of that product to the extent that it is the visible features of the constituent part individually meet the conditions of novelty and individuality of character.

### 7.2.4. TOPOGRAPHY OF SEMICONDUCTOR PRODUCTS

Topography, as a representation of a three-dimensional distribution of conductive, insulating, and semiconductor material layers in semiconductor products intended for performing a particular electronic function, can be protected as intellectual property. In the case of commercial use of topography, the period of protection is 10 years.

### 7.2.5. MARKS OF THE GEOGRAPHIC ORIGIN AND DESIGNATION OF ORIGIN

Marks of the geographic origin and designation of origin represent additional forms of industrial property protection. They are used to designate traditional products in our environment. They increase the market value of the product by promoting their special features and encouraging rural development. A geographical indication indicates that a product or service originates from a particular geographical area and has a certain quality and features attributed to that origin. When designating originality, production, preparation and processing of products and services is required in the indicated area. Once registered, geographic origin or a designation of origin can be used by all producers of the indicated area that satisfy the prescribed conditions.

### 7.3. OTHER FORMS OF INTELLECTUAL PROPERTY

The category of other forms of intellectual property encompasses very different types of intellectual property that are registered (Internet domains, social network profiles, email addresses, blogs and forums, company names) or unregistered (business secret, product or service names and slogans that are not protected by a trademark) (Figure 31.)

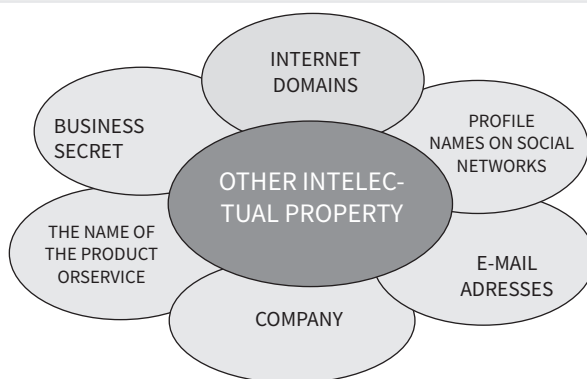


Figure 31. Other forms of intellectual property

#### 7.3.1. INTERNET DOMAINS

Internet domain names are especially important for entrepreneurs who make their business entirely or just in some parts based on the internet. The domain consists of the top-level domain that is for Croatia .hr, while the top-level domain for Hungary is .hu, and the secondary domain is selected and registered by the user. The organisation of the national domain of the Republic of Croatia and the management principles of the top-level national internet domain, secondary domains and domains of lower level are regulated by the Ordinance on the Organisation and management of the national top-level domain, and the Croatian Academic and Research Network and CARNet is responsible for management. The Council of Hungarian Internet Providers (ISZT) manages Hungary's top-level domain .hu. To register other domains, it is necessary to contact the commercial registrars.

#### 7.3.2. PROFILES ON SOCIAL NETWORKS

Classification of profiles on social networks is a very layered. A social network profile can be about a physical or legal person. The same network may be of a general type or specialized in a specific area. Membership in the social network can be free, with a fee or combined like LinkedIn which provides a basic membership free of charge, with additional services which may be charged. In addition, social networks can be categorized according to many additional criteria, but the rationale of social networks in the entrepreneurial

context is in their economic use. Social networks can be very effective in communicating with clients and directing them to the internet centre of their own business (web site).

### **7.3.3. BUSINESS BASES, INTERNET SEARCH ENGINES AND POINTING SOFTWARES**

Businesses databases are considered a copyright piece of work. But for entrepreneurs, a listing in well-chosen business databases can literally mean the difference between great success and total failure. This is particularly emphasized if there is a possibility of creative formatting of own input into a database that also includes multimedia content. Publishing in some databases is completely useless and it is just a cost. In case of doubt, consult before giving consent to the publication.

Registrations in the special services that internet browsers offer to its users also have a great economic potential. A good example of this is a flower shop's registration in Google Maps that enables all customers to get directions to find a specific location. The Google AdWords campaign, which can put your posting on the top of the internet search results, is a great example of creative and effective marketing approach.

Search engine optimization (SEO) website is extremely important. In the business sense of the one who offers such a service it represents an entrepreneurial project. To someone who orders such a service, it is a remarkable tool that enables a significant improvement in the rank that is made in the search according to key words.

### **7.3.4. BUSINESS SECRET**

The significance of business secrets in business comes from a very simple fact: no matter what kind of industrial property protection you choose (with the exception of a trademark), the duration of protection is limited. In addition, what they want to protect must fit into the format that a certain type of protection prescribes. The business secret has no such restrictions as long as it is kept carefully. But the business secret has its own reverse. There is no longer any repair, knowledge and experience that can be used by anyone who has been exposed for one of the disclosed business secrets.

To keep the business secret safe, entrepreneurs must know that they own something that is a business secret because business secrets cannot be called anything. Business secrets are defined as any information with the potential of commercial use and the creation of a competitive advantage that is not accessible to the public or competitors and is carefully preserved. If you are not sure if you have a business secret, test yourself by asking the question: Is this something the competitors would want to know, or would it give them a competitive advantage? Business secrets include: new product types, innovative business models, knowledge and experience in manufacturing and design, a recipe, organisation system, quality control methods, new product launch dates and their technical specifica-

tions, customer and supplier lists, contract terms, all types of business plans, customer creditworthiness, and all other information that can enhance business decision making. In addition to the knowledge of “how to do something”, knowledge is also “what is not to be done”. In each case, it is advisable to catalog and regularly update business secret lists with a degree of confidentiality.

Business secrets are not kept only from external offenders but from their own workers too. “CONFIDENTIAL” tags on documents will not be enough. In some cases they are even counterproductive. The most important documents should be kept in a limited-access cash register and copy right. The combination of anti-theft and fire protection with video surveillance and guard service should be sufficient for most cases. Technical protection includes information security measures such as effective protection against malicious software, correct access to user accounts and password management, encryption of important data, backup of important business information, and destruction of print media and confidential file carriers.

Business secrets should be regulated by an employment contract. It is advisable to add a non-competition clause to an employment contract which prevents employees from being hired by a direct competitor. It is extremely important to sign a confidentiality agreement with business associates with whom entrepreneurs are negotiating on possible business cooperation

Creating a system solution in which a company, protected and unprotected trademarks and marketing slogans used in the sale of products and services, internet domains, email addresses, social networking profiles are mutually identical or very similar, will put you in a more favorable position if you are in an eventual dispute over intellectual property rights. Of course, this is only true if you are properly solving copyrights and keeping important documents.

#### **7.4. INTELLECTUAL PROPERTY PROTECTION AND MANAGEMENT**

Knowledge and innovation have an important role in today’s fast-growing economy. Quality intellectual property management can bring an increase of the company value, easier financing, faster return on investment, easier planning, and better quality and more complete business information and avoidance of legal disputes with the competitors. Commercialization of innovations can be carried out on its own, as well as by giving or taking the right to others to use through licensing. A license, i.e. a license agreement is a tool that enables revenue generation during the contract period to transfer knowledge and experience to use in a precisely defined territory and scope. The license agreement includes, besides the principle of the work of the subject, all accompanying documentation and knowledge about the start of production or service. By licencing, proprietary rights of certain technology are transferred from the seller to the buyer, which means that the buy-

er is entitled to the technology developed by someone else. The subject of the license may be any form of intellectual property: patent, trademark, industrial design or copyright and related rights, but also a business secret.

Intellectual property protection is needed for a simple reason: people often do not respect the rights of others, whether it is illegal copying of home-based copyrights or corporate criminal acts (for example, counterfeiting of medicines). The holder of the right has the exclusive right to use the protection object, and every other person must obtain the approval of the holder for the use of the protection object. Unauthorized use or duplication of intellectual property is a violation of the law, and the right of the owner to have access to, use and gain of the benefit is protected by the means and institutions of the legal system at the request of an intellectual property right, not *ex officio*.

Certain aspects or features of a product can be protected by one or more forms of intellectual property protection that complement each other. The patent protects the new solution of some technical problem, the industrial design protects the new exterior shape or appearance of a product, and trademark protects sign that serves to distinguish from similar products and / or services on the market. As protection is more complex, violations of intellectual property rights are less likely to happen. A practical example of complex and effective product protection is shown in Figure 32.



Figure 32. Layered protection of intellectual property

Defensive publication or defensive disclosure is a strategy in intellectual property management in which we prevent others from obtaining a patent for the invention, process or application. The strategy consists in disclosure of detailed instructions or graphical views of a patentable invention, method or application that in this way enter the state of the art. Therefore, any subsequent patent application cannot be resolved positively because it does not meet the criterion of novelty. The main reason for this practice is the cost of the protection procedure.

## **CONCLUSION ON INTELLECTUAL PROPERTY PROTECTION AND MANAGEMENT**

Intellectual property is an important term in everyday and business environment. It is important to entrepreneurs because holders of intellectual property rights have a time-limited monopoly on the economic exploitation of the referred work or subject matter. Intellectual property includes: copyright and related rights, industrial property and other forms of intellectual property.

Copyright is exclusively the copyright of the author to dispose of his authors work in the field of literature, science and art. Related rights with copyright are copyright based and include the following types of protection: performance artists on their performances, producers of phonograms on their phonograms, film producer and video game makers on their films and video games, broadcasting organisations on their broadcasts, their publishers and databases manufacturers on their databases.

Industrial property is probably the most important for entrepreneurs, and includes patents, industrial design, trademarks, semiconductor topography, geographic origin and designations of origin and protection of new plant species. Industrial property rights enable entrepreneurs to protect their business interests, market positions, and resources invested in research, development and promotion.

Other forms of intellectual property include registered (internet domains, names of social network profiles, email addresses, names of blogs and forums, company names) and unregistered (business secret, product or service names and slogans not protected by trademark). This category of intellectual property is often linked to the internet and has a global character, and defining the relevant territory is problematic.

In entrepreneurship, the emphasis regarding intellectual property rights is placed on their economic use. Protection often involves multiple layers and, as a rule, is entrusted to specialist institutions, and if there is a violation of the law, various protection measures are available.

## 8. FINANCIAL PLAN

### WHAT WE WILL LEARN

- To define financial management and its goals.
- To calculate performance indicators.
- To select an appropriate financing structure for the default business conditions.
- To make a fully-developed financial plan.

Entrepreneurs start a business to make money. Therefore, the most important skill that must be possessed is the ability of quality money management. This includes the rational use of limited capital available for starting a new job, spending money only when it is necessary, dealing with the equipment and inventories that are currently available. They must also determine the best pricing policy for their job to get the best return on their business. If the start-up entrepreneur is in business alone, knowledge of accounting is essential. He must be able to manage the budget and keep track of his business. One of the most important things for small businesses is determining and scheduling the time when it will only work on finances. Although formal education in the field of accounting is useful, it is not necessary.

### 8.1. FINANCIAL MANAGEMENT

Financial management is a scientific discipline that studies the obtaining and using of business resources and the protection of business assets from various business and financial risks. In addition, it is important to evaluate new investment projects, financial planning, liquidity and financial environment relations.

Production can be very complex. It is almost a universal rule for most entrepreneurs that the technological “picture” of business is generally well known and much more complete than the one that shows the economic side of business. But, as a result of technological decisions, economic parameters are also being changed. Deciding on production and placement can be done in many ways: based on personal or other experiences, relying on “feelings” or based on calculated economic indicators. Many relying on “feelings” succeeded in the job, evaluated the opportunity as favourable, took action and did well.

Unfortunately, many have fallen in the completely same way. Therefore, decision-making based on “feelings” is unacceptable to many because it poses a potential danger to family existence. The upcoming time certainly does not bring about substantial improvement in production conditions. It is more likely that they will bring more competition and the



need to rationalize production, to break it down or give it up. Experience-based decision-making can be problematic because in the market economy, the constant pressure of competition forces manufacturers to re-examine the validity of their decisions. Even those with great experience often make mistakes in deciding. As a significant factor in decision-making some moments of subjective nature are also emerging. For example, prestige can affect the decision to purchase equipment that is currently not economically justified or unnecessary. Using standard performance indicators when analysing business operations, facilitates decision making and increases probability of success. After all, drivers who while driving use information from their vehicle's instruments are safer and pay less of traffic offenses than drivers driving on their "feelings" alone.

### **8.1.2. FINANCIAL MANAGEMENT AIMS**

Before calculating performance indicators and business analysis, it is necessary to define goals you want to achieve by business activity. The degree of fulfilment of these goals will lead to the evaluation of the effects and will serve as a basis for business decision-making.

Probably the most commonly mentioned financial target for a market-oriented entrepreneur is profitability. Profitability is the ability of a company or a specific business venture to return invested money to the investor after finishing the job, increased for a certain amount, entrepreneurial gain or profit. The risk concept is probably most easily explained by using the concept of probability. It is hard to talk about non-risky investments, but the example of a rather risky investment is buying US Treasury Bills. The probability that treasury bills will be cashed at the end of the contract period is very large, tentatively speaking, is complete. This will probably result in a contracted refund. In addition to this investment, an entrepreneur can decide on fattening pigs, but because of the danger of animal flaws and price changes, the probability of successful completion of work is only 75%. The answer to the question: "Why does anyone deal with pigs when they can buy treasury bills?" lays at a higher rate of expected return. Of course, the reasons for choosing fattening pigs can be entirely different, such as tradition, personal preference, knowledge or ignorance, excessive distance from a bank, etc. Thus, the risk can be defined as a likelihood that a particular business event will or will not happen. The two most commonly used risk measures are the standard deviation and the coefficient of variation.

Liquidity means the ability to generate the money needed for payables but also unforeseen expenses. Failure to meet financial obligations due to illiquidity can seriously endanger business survival and creditworthiness. The term liquidity is closely related to the concept of risk. The occurrence of an undesirable risky event causes the need for increased liquidity. Generally, liquidity can be ensured by keeping inventories of products that can be easily sold or open lines of credit. However, one should be cautious because by

the appearance of a risky event the market value of the things the entrepreneur possesses can be significantly reduced and the borrowing of additional means is difficult.

Some authors do not differentiate the term liquidity from the solvency term, while some insist just on that. These others define solvency as the ability of companies to pay all debts after the sale of the entire property. This means that it is possible, in the short term, to be liquid and at the same time barely or not solvent at all. Maintaining solvency is a very important, especially if there is an urgent need to sell property at a lower price. Bankers bet a lot on solvency. Solvency generally demonstrates the ability to collect claims in the case of a business failure. The lower the contingency reserves (the stock of assets), the greater the financial risk.

Successful entrepreneurial business is characterized by a balanced relationship between all three components of financial management: profitability, liquidity and risk. These components are mutually dependent and are in the opposite proportional relationship. This means that changes in only one of the components of financial management are not possible without induced changes in the other two. Forcing profitability will certainly aggravate liquidity and / or business risk. Likewise, borrowing improves liquidity but at the same time affects profitability and risk. The financial objectives of the business and their relationship are shown in Figure 33.

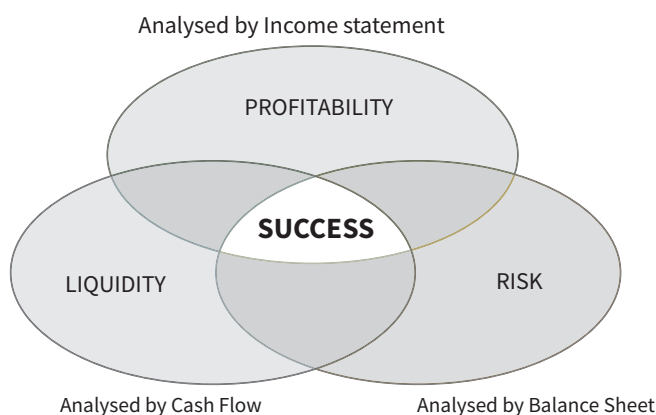


Figure 33. Basic financial business objectives

*Source: Modified according to Štefanić, 1996.*

### 8.1.3. BASIC FINANCIAL DOCUMENTS AND HOW TO START A FINANCIAL ANALYSIS

The set of basic financial documents includes: balance sheet, income statement, cash flow and related notes, and all documents must be prepared for each fiscal year. In order to

fully understand the financial condition of a company all three documents are required. The easiest way to start a financial analysis is by making a balance sheet.

After making the initial balance sheet, all business operations are monitored throughout the fiscal year and a new balance sheet is prepared every year. The income statement and cash flow for the year explain all changes in the new balance sheet. After that year, a serious approach to financial planning is possible. First projections of the balance sheet, income statement and cash flow can be prepared. In the second year, it is possible to control the implementation of the plan, and after two years of financial analysis, bankers look at entrepreneurs as much more serious clients for loans.

The balance sheet is a static financial, i.e. accounting report that shows the exact balance of assets and equity on a specific date. These double entries in the balance sheet, the first time in the real form and function (assets), and the second time according to the ownership and maturity (liabilities), is what represents the foundation of dual or double-entry bookkeeping.

The income statement is the total statement of income and expenses of the company in the reporting period, usually one fiscal year. It faces opposite economic categories, income and expenses, in order to determine the financial performance of the business.

A cash flow statement shows cash inflows and outflows during the reporting period, typically one fiscal year. The statement includes inflows and outflows of capital from business, investment and financial activities. This document is crucial for assessing the company's status regarding the ability to generate sufficient cash to settle overdue liabilities, pay dividends and obtain external financing.

The cash flow, just as the business risk, significantly differs in the different phases of the company's life development:

- Beginners have a tremendous need for money to buy basic and working assets and salaries and do not have enough income. The risk of external dependency on external financing is extremely high.
- Initial growth is a phase in which growth is aggressive and precisely because of that, the need for money is greater than the ability to generate revenue. Risks and dependence on external financing are still very high.
- Established growth is the phase in which depreciation has become significant. There is also a significant market share, and the need to build additional capacity has been reduced. The risks and dependence on external financing have been significantly reduced and the company has the ability to generate approximately enough money for sustainable internal financing.
- The maturity phase means a company whose capital needs are moderate, the demand for their products and services is growing slowly and the capacity increase is very limited. Possible business interests are modernization in order to reduce

costs and acquisitions in order to increase market share. Dependence on external financing is very small, and poorly planned or carried out diversification is a significant risk factor.

- The reduction phase is very similar to the initial phase. Business does not generate enough money, so dependence on external financing is high.

Cash is for entrepreneurs just as oxygen is for divers and astronauts. One has to have enough in the beginning to endure till the end. A major problem in practice is when a planned deadline for the completion of a certain activity is unexpectedly postponed, what brings an entrepreneur to the stressful situation and the project in difficulties.

For small business owners, liquidity is the most vulnerable component, the failure will occur much earlier due to illiquidity rather than profitability and risk problems. That is why cash flow projections can not only be made on an annual basis, but should be prepared on a monthly basis. This is especially important for the first year of business.

## 8.2. KEY PERFORMANCE INDICATORS

Business performance indicators are defined as quotients of business results and inputs and serve as a measure of compliance or respect of the principle of rational work and business. It is customary that a financial analysis contains multiple forms, each of which “covers” a certain area. Standard forms are balance sheets, cash flow, and income statement. These forms provide basic information about the current business position as well as business trends in the past period. But, more importantly, this information can be used to predict future business events.

There are three groups of possible users of performance indicators and each has a different viewpoint. For investors, the most important thing in analysing financial performance indicators is to predict future events. For bankers, this is an estimation of the ability to return borrowed money. For financial entrepreneurs, financial indicators are used to predict future events, but also as a starting point for action planning that will have a significant impact on future events.

### 8.2.1. PROFITABILITY INDICATORS

The most common profitability indicators are: the net profit margin on sales, the rate of return on assets, the rate of return on equity and the rate of return on unpaid labour and management. Since the financial indicators are generally calculated for a period of one year, the amount of funds invested used in the calculation, represent the average value for the year under review (for example, total assets = (total assets at the beginning of the year + total assets at end of the year) / 2). These indicators are calculated according to the following formulas:

$$\text{NET PROFIT MARGIN ON SALE} = \frac{\text{PROFIT}}{\text{TOTAL SALES}}$$

$$\text{RATE OF RETURN ON ASSETS (ROA)} = \frac{\text{PROFIT} + \text{INTEREST PAID}}{\text{TOTAL ASSETS}}$$

$$\text{RATE OF RETURN ON EQUITY (ROE)} = \frac{\text{PROFIT}}{\text{EQUITY}}$$

$$\text{RATE OF RETURN ON UNPAID LABOR AND MANAGEMENT} = \frac{\text{RETURN ON UNPAID LABOR AND MANAGEMENT}}{\text{TOTAL ASSETS}}$$

The next important thing is the mutual relationship between these measures of profitability and their correlation with other indicators.

$$\text{SPUI} = \text{SPUS} + (\text{SPUS} - \text{TROŠAK DUGA}) \times \frac{\text{DUG}}{\text{IMOVINA}}$$

Knowing this relationship is very useful because it allows consideration of the influence of borrowed money on assets increasing and checking the accuracy and consistency of the analysis.

### 8.2.2. LIQUIDITY INDICATORS

The three most commonly used liquidity indicators are: cash ratio, quick ratio and current ratio. These indicators are calculated according to the following formulas:

$$\text{CASH RATIO} = \frac{\text{MEDIUM TERM ASSETS}}{\text{MEDIUM TERM LIABILITIES}}$$

$$\text{QUICK RATIO} = \frac{\text{SHORT TERM ASSETS} - \text{INVENTORY}}{\text{SHORT TERM LIABILITIES}}$$

$$\text{CURRENT RATIO} = \frac{\text{SHORT TERM ASSETS}}{\text{SHORT TERM LIABILITIES}}$$

Cash relationship is the strictest measure of liquidity. The following is a quick relationship that takes into account other short term assets other than inventories. Current ratio is the quotient of total short term assets, i.e. working capital and short term liabilities. The synonym used is the current liquidity coefficient.

For making good decisions, entrepreneurs need to know where the break-even of their business is. A break-even model is an analytical model for finding that amount of product

or sales in which a company earns just as much revenue as it needs to cover fixed and variable costs without gaining or generating losses.

### 8.2.3. RISK AND SOLVENCY INDICATORS (DEBT)

The most commonly used solvency indicators are: gearing ratio (leverage ratio US), debt / assets ratio, per cent equity (US equity /assets ratio) and net capital ratio.

$$\text{GEARING RATIO} = \frac{\text{TOTAL DEBT}}{\text{OWN ASSETS}}$$

$$\text{DEBT RATIO} = \frac{\text{TOTAL DEBT}}{\text{TOTAL ASSETS}}$$

$$\text{PER CENT EQUITY} = \frac{\text{OWN ASSETS}}{\text{TOTAL ASSETS}}$$

$$\text{NET CAPITAL RATIO} = \frac{\text{TOTAL ASSETS}}{\text{TOTAL DEBT}}$$

### 8.2.4. EFFICIENCY INDICATORS IN ASSETS USE

Usual efficiency indicators in assets use are: inventory turnover ratio, days' sales outstanding - (DSO), fixed assets turnover ratio, total assets turnover ratio.

$$\text{INVENTORY TURNOVER RATIO} = \frac{\text{COST OF GOODS SOLD}}{\text{INVENTORY}}$$

$$\text{DAYS SALES OUTSTANDING} = \frac{\text{VRIJEDNOST NENAPLAĆENIH POTRAŽIVANJA}}{\text{AVERAGE SALES PER DAY}}$$

$$\text{FIXED ASSETS TURNOVER RATIO} = \frac{\text{TOTAL SALES}}{\text{NET FIXED ASSETS}}$$

$$\text{TOTAL ASSETS TURNOVER RATIO} = \frac{\text{TOTAL SALES}}{\text{TOTAL ASSETS}}$$

### 8.2.5. HOW TO IMPROVE THE FINANCIAL RESULT

For economic analysis, besides the current state of the business results, it is also important how it changes over time. In addition, there is no product marketed only by one entrepreneur, so based on the use of standardized indicators, it is possible to compare with others (inter-regional, international or cross-sectoral comparison). Very important things can be concluded from such comparisons: should production be increased, diversified, rationalized or eventually abandoned. If the information is of satisfactory quality or accuracy in time, corrective actions can be taken on time. Insisting on “absolute” precision, which usually comes too late, can be too expensive and counterproductive. In addition, it should not be forgotten that bookkeeping represents for VAT taxpayers the fulfilment of their legal obligation.

Entrepreneurs, in order to improve their business results may apply only a limited number of financial instruments (Figure 34.). This includes cost reduction, which includes lowering of external financing costs, increasing the coefficient of turnover in business, less profit withdrawing for personal use, and increasing total debt and production volume quotients. All the instruments are relatively simple with the indication that only the increase in the total volume of debt and volume of production requires further clarification. Under conditions where an entrepreneur is effectively using external financing, it may be purposeful to go into additional debt in order to increase the volume of production and thus increase the financial result.

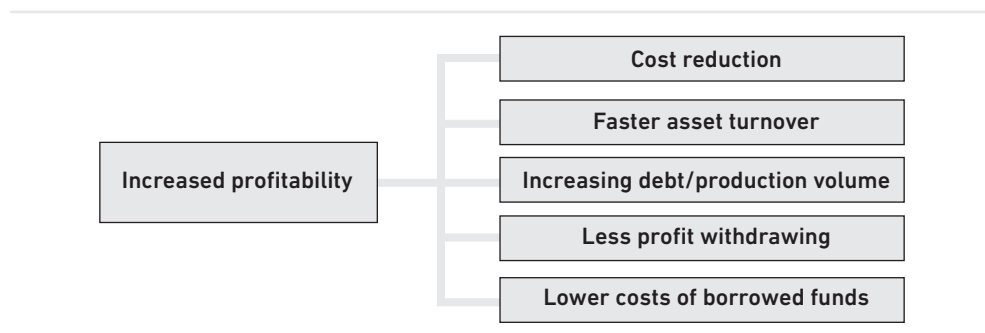


Figure 34. Possible ways of increasing production profitability with financial instruments

*Source: Štefanić, 1996.*

Cost cutting is a fairly popular measure for many entrepreneurs and managers when it comes to improving financial performance. It is extremely important to point out that cost cutting is only a good thing if it is applied to discretionary costs. They are defined as costs that can be reduced without long-term consequences for the company. Cutting discretionary costs is necessary and justified because it saves money. Cutting the cost of

research, development and advertising saves money in the short term, but reduces future revenue in the long run. In this way, the short-term problem becomes long-term.

### 8.3. FINANCING SOURCES FOR ENTREPRENEURIAL PROJECTS

Savings for small entrepreneurs is the basis for the financial construction of an entrepreneurial project. It covers regular and unplanned costs. In addition, it demonstrates to others, the ability of entrepreneurs to earn and accumulate profits and as such is “key” for obtaining other sources of funds.

Where it is possible, other external financing options should be utilized before taking out loans, as they are generally less risky and cheaper. This applies in particular to a lease because with a lease only the usage fee, i.e. the equivalent of interest on the loan, is repaid. When other funding sources are exhausted and capital needs are out of the question, a loan is the right solution. By taking a loan, we enable payment of current needs by future earnings. Of course, if the financial indicators of the business support that decision. The comparison of the interest rate and the rate of return on equity and the rate of return on assets is the basic criterion for taking, i.e. not taking a loan. But, this cannot be the only criterion because, although the investment is profitable, it can cause liquidity problems in the business. Potential sources of funding are shown in Figure 35.

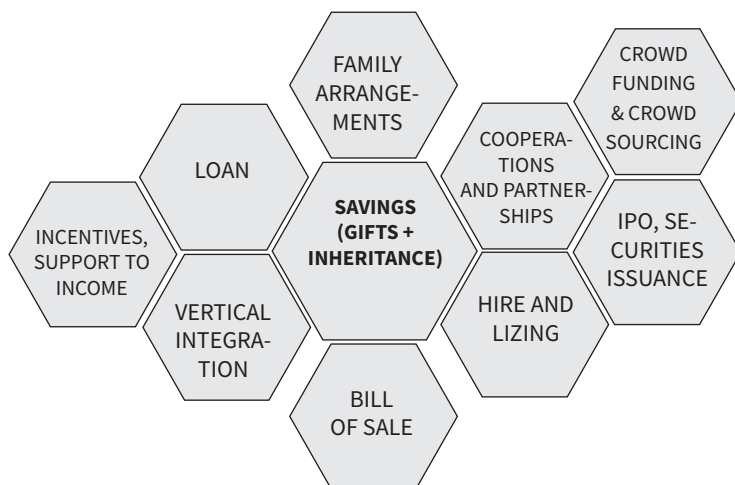


Figure 35. Sources of financial funds for entrepreneurial projects

Source: Modified according to Štefanić, 1996.



Many of these sources are not available in everyday situations. In fact, gifts and inheritances cannot be counted as a valuable source of financial resources because they do not have a lasting character. In many cases it is difficult to talk about some sort of choice. Entrepreneurs use what is available. In addition to the availability of financial resources, it is an extremely important way by which business decisions are made. The question that follows is very common: "How to finance the purchase of a new machine?". If it is assumed that technical characteristics are well-defined and aligned with current production and placement needs, possible approaches are choices based on experience, habits, personal preference, economic indicators or a combination of multiple criteria. Whatever approaches the entrepreneur chooses, he should not in any case ignore the economic analysis and the values of the calculated indicators.

External financing is extremely important for entrepreneurs. To successful entrepreneurs a loan will enable to start a business, faster growth and gain more market share. When a loan is taken by entrepreneurs with business difficulties and low profitability, taking a loan can mean faster and bigger trouble. In the worst cases it may mean the loss of a majority stake in the company or even the loss of the whole company.

A loan (lat. creditum- credit, debt, from credere – confide in) is defined as a property right between a creditor (lender, creditor) and a debtor (borrower, debtor) in which the creditor lends money, goods or other things and services to the debtor over certain period of time and under certain conditions, and the debtor is obliged to fulfill the obligations stated in the contract, and to return i.e. payback, the borrowed amount of money or goods after expiration of due days (Dragičević, A.1995). A loan is not a unique category, but includes a lot of division according to quite different criteria. The following is the most common division of loans:

**According to repayment period:**

- short term loan
- medium term loan
- long term loan

**According to purpose:**

- investment loan
- production loan
- consumer credit

**According to loan security:**

- A) unsecured
- B) secured
  1. mortgage
  2. lombard
  3. others

**According to loan subject:**

- commodity loan
- cash loan

**According to type of institution that provides loan:**

- loan of commercial banks
- loan of insurance companies
- loan of savings and credit cooperatives
- money and merchandise loans of integrators, traders, processors and input producers.

The loan is fully defined by its elements that determine all the essential parameters of this property relationship. The main elements of the loan are:

- principal amount
- interest rate
- repayment term
- repayment method
- guarantee
- grace period
- additional administrative costs
- investing of own resources into the project
- formal conditions (citizenship, impunity, assets, etc.)

Loan expense and repayment methods are extremely important for entrepreneurs. The largest part of the loan expense is the interest, the charge for the use of the loan. For bankers, the interest is the same as profit is for entrepreneurs, the main source of income. However, the interest rate is a composite rate determined by several different parameters.

The interest rate depends on the following parameters:

- inflation rate
- repayment term
- purpose of loan
- operation risk
- calculation of interest rates, flat or variable

In any case, before signing the loan agreement, check the following:

- Does the profit rate support the taking of a loan with such an interest rate?
- What are the hidden costs of the loan? (It is necessary for the banker to request information about EIR -an effective interest rate that includes all “hidden” costs)
- Can the business enterprise that took out the loan repay it?
- How can the loan affect the financial result of a single product, product line, or entire business?
- Can the risk be managed and is it known what to do when an unwanted event really happens?
- Is it acceptable to repay the loan over a long period of time?

The bank keeps the savings and pays a passive interest on it. Part of the total money savings is placed to citizens for consumer, housing and other loans, and part for business

creditors. Creditors pay active interest on them. However, banks do not have at all times sufficient own capital for credit placement, so they lend it on the interbank market and pay interbank interest thereafter. Despite the regulations which regulate bank operations, banks, like all other entrepreneurs, may collapse. In the case of a collapse, it is unlikely that the entrepreneurs' debt towards the bank will disappear. The probability of failure of bank savings is much greater. The State Deposit Insurance and Bank Rehabilitation Agencies, with the purpose of protecting the savings of citizens in banks and savings banks in Croatia and Hungary, in the case of their bankruptcy, provides savings up to the amount of € 100,000 in Kuna equivalent.

### **8.3.1. FINANCING OF INNOVATIVE AND HIGH-TECH PROJECTS**

Funding of innovative and high-tech projects takes place in several successive phases. In the early stages of project development (read pre-commercial), no money is borrowed. This is mainly about foundational investments and grants, which include: investments of angel investors, pre-seed capital, seed financing and venture capital. Banks, as a source of funding, appear only at the end of the pre-commercial phase, roughly at the same time as the initial listing on the stock exchange (IPO).

For the innovative entrepreneurs, the following two points are extremely important; exploitation of protected intellectual property enables the acquisition of income, but it is also an intangible asset in the balance sheet and possible guarantee for the repayment of the loan. In addition, two extremely powerful sources of funding, crowd funding and crowdsourcing, are available.

### **8.4. FINANCIAL RISK**

In considering the risk, it is not so important to know all aspects of the risk as to how important it is to know what to do when this particular risk arises. So not just risk analysis, but a contingency plan. In practice an entrepreneur selects those options that are available, options that he can afford or the options he used in the past. Incurable optimists rely on good fortune. The most commonly used strategies for reducing and classifying risks in agricultural production are shown in Figure 36.

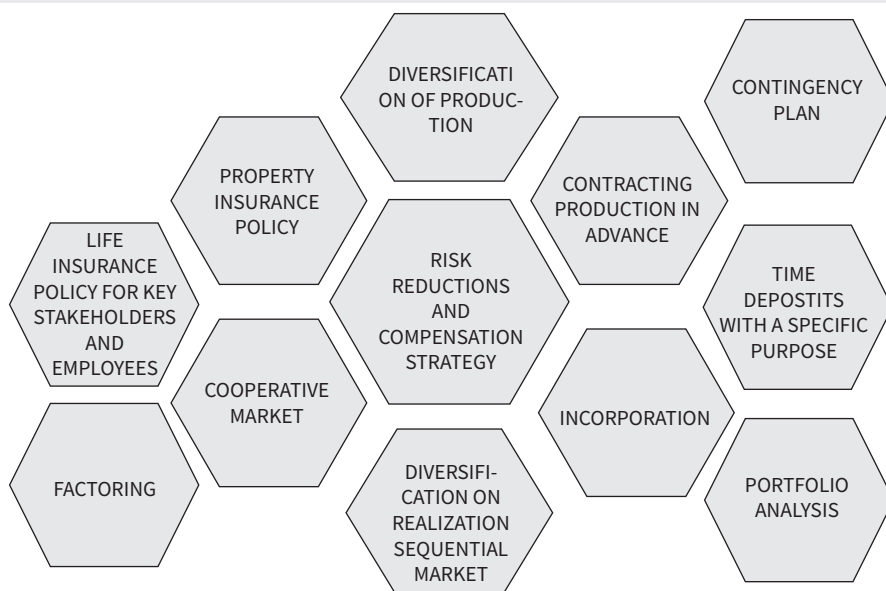


Figure 36. Strategies for reducing and offsetting risks in entrepreneurship

*Source: Modified according to Štefanić, 1996.*

Since the purchase of insurance policies is quite expensive and insurance conditions can be strict, many give up such a way of risk control. Taught by numerous negative experiences, many give up in advance of incorporation, contract manufacturing and co-operative markets. Since there are not much liquid assets, the only thing left is the diversification of production and placement and the sequential market. In order to make the result of diversification effective, the first and foremost it is necessary to quantify the risk. This for many is an insurmountable obstacle. Term depositing intended for risk compensation is a very good option. Instead of buying an insurance policy, the equivalent amount is deposited on a separate account. If an adverse event really happens, we will defray this damage from that position. If no adverse event occurs, the next year's available cash in the account (principal and interest) is increased for the equivalent amount of the insurance policy and re-deposited. With a little extra attention to possible sources of risk and financial discipline, this can be a financially viable risk control option.

#### 8.4.1. POSITION RELATING TO THE VAT SYSTEM

Entrepreneurs in the VAT system pay taxes on inputs they buy and add to their products and services<sup>22</sup>. Taxes are only paid for the difference between the purchase and sell-

<sup>22</sup> Producers and retailers in the VAT system actually operate as tax collectors.

ing price, and the full amount is paid by the end users. This actually means that VAT is price-neutral for manufacturers. However, many have decided not to enter VAT system, for several other reasons.

Currently, in the Republic of Croatia<sup>23</sup> three VAT rates have been applied, a general of 25%, two reduced of 5% (for deliveries of all types of bread, all types of milk, books, textbooks and scientific journals, medicines from the drug list of HZZO (Croatian Institute for Health Insurance), medical equipment and supplies) and of 13% (for accommodation or accommodation with breakfast services, half board or full board, renting premises in camps, accommodation in nautical tourism facilities, food preparation services and food service, newspapers and magazines printed on paper, edible oils and fats, herbal and animal origin, baby food, water delivery, white crystal sugar, concert tickets).

From 1<sup>st</sup> January, 2018, the threshold for entering the VAT system in Croatia amounts to 300,000.00 HRK. Companies have to pay the VAT due until the end of the billing period of 30 days (or 90 days if their annual turnover is less than 800,000.00 HRK), regardless of whether or not receivables were collected. The craftsmen have to pay only when they collect the receivables. This option is also available to companies with a turnover of less than 3 million HRK if they are timely registered with the competent tax authorities.

From this is clear that the Organisational form of business and the position towards VAT system are of great importance for the businesses of small and medium entrepreneurs. A successful entrepreneur with a large business growth rate can come to financial difficulties if he has organized a business within a trading company. For billed goods and services in the amount of over 3.000.000 HRK, VAT must be paid by the end of the next billing period, regardless of whether the customer paid the bill. The impact is further boosted by small and medium-sized businesses operating in the conditions of economic recession and crises of paying.<sup>24</sup>

If most customers are not in the VAT system, the decision to stay out of the system does not have to be incorrect. However, if buyers have to pay VAT, they lose significant advantage by purchasing, which is the right to a tax prepayment refund. This means they will probably prefer a vendor that is in the VAT system.

<sup>23</sup> VAT in Croatia is regulated by the VAT Act (NN 73/13, 99/13, 148/13, 153/13, 143/14, 115/16).

<sup>24</sup> More information on the VAT system of the Republic of Croatia can be found in the brochure of the Tax Administration of the Ministry of Finance of the Republic of Croatia: VAT for beginners and a consolidated text of the Law and the Ordinance on VAT. Information on the tax system of the Republic of Croatia can be found in the brochure: Croatian tax system. A good source of information is also provided with consolidated texts of relevant laws and regulations and other manuals and brochures of the Ministry of Finance. In the search of the mentioned materials, attention should be paid to the date of issue as the Ministry of Finance periodically updates brochures and leaves the title unchanged.

In Hungary, VAT is regulated by the Act CXXXVII of 2007 on Value Added Tax. The threshold for entering the VAT system is 8,000,000 forints (or equivalent in any currency). At present, three VAT rates are in force in Hungary, a general one of 27% and two reduced of 18% and of 5%. In addition, some products and services in Hungary are exempt from paying VAT. Most of the products sold on the market, fairs and exhibitions are applied at a general rate of 27%. Certain dairy and bakery products, commercial accommodation services have a rate of 5%, which is applicable to certain medicines, medical supplies, printed and electronic books, internet services, food services (non-alcoholic beverages), periodicals and municipal heating. In Hungary, only activities of particular public interest are exempt from VAT paying.<sup>25</sup> In the case that the amount of VAT on one invoice reaches the amount of 100.000,00 forints, the seller is obligated to write the tax number of the buyer on the invoice.

As a rule, VAT taxpayers apply and pay quarterly. Start-up entrepreneurs are exempt from this obligation during the first year of business, as well as entrepreneurs whose cumulative amount of VAT during the calendar year exceeds 1.000.000, 00 forints. They pay VAT monthly. In addition, annual VAT calculation is possible in Hungary, but only for entrepreneurs where the total amount of VAT is less than 250.000,00 forints annually or the total turnover of entrepreneurs without EU tax number<sup>26</sup> is less than 50 million forints.

In Croatia and Hungary, it is also necessary to pay VAT on time because otherwise interest is charged. In the case of VAT prepayment, the overpayment may be claimed, or the overpayment may be left as a tax credit for the next period.

<sup>25</sup> The list of such services is attached in sections 85 -87 of the Act CXXXVII on VAT.

<sup>26</sup> The EU tax number is mandatory for entrepreneurs planning to establish a business relationship with an entrepreneur who is registered in another EU country.

## CONCLUSION ON FINANCIAL PLAN

You start a business to make money. Therefore, the most important skill that must be possessed is the ability of quality money management. This includes the rational use of limited capital available for starting a new job, spending money only when it is necessary and dealing with the equipment and inventories that are currently available. Also, determining the best pricing policy for the job to get the best return on the product or service that you offer. Of course, quality financial management will certainly be of benefit. It will enable obtaining and use of resources required for business operations and protection of business assets from various business and financial risks. In addition, through the evaluation of new investment projects, financial planning, liquidity and financial environment, relationships will provide a reliable basis for making important business decisions.

Business performance indicators provide information on the success of individual production or overall business operations. According to the need and available data, an entrepreneur can choose one or more static or dynamic performance indicators. In addition, the financial analysis contains multiple forms, each of which “covers” a certain area. Standard forms are the balance sheet, income statement and cash flow. In addition to past or present business information, financial analysis allows predicting future business events.

Funding an investment is extremely important for all entrepreneurs. Securing a secure source of financial resources appropriate to the specific need is the vital interest of every entrepreneur. In addition, financial management skills are crucial in the normal course of business, but also in crisis situations. A quality financial analysis makes it easy to answer questions: should production be increased, diversified, rationalized or eventually abandoned. If an entrepreneur succeeds in obtaining information of satisfactory quality, i.e. accuracy on time, he may take corrective actions on time. Insisting on the “absolute” precision that usually comes too late, can be too expensive and counterproductive.

For innovative entrepreneurs, proper assessment of intellectual property is very important for a number of reasons: protection is an entry barrier to potential newcomers in the sector; it can also be intangible assets in the balance sheet and a possible guarantee for loan repayment. But first of all, its exploitation allows income to be earned.

## 9. RISK MANAGEMENT

### WHAT WE WILL LEARN

To consider the negative aspects of starting a business venture.

- To assess the importance of business communication for an entrepreneur.
- To assess the importance of time and stress management for an entrepreneur.
- To consider the importance of business security and personal safety for an entrepreneur.

### 9.1. EXTERNAL INFLUENCES AFFECTING A BUSINESS AND AN ENTREPRENEUR

#### 9.1.1. EXTERNALIZATION

It is so human to attribute all success to our effective and sacrificial work, and all the troubles and failures to external influences. In some people the externalization skill is probably the best-developed skill. Incompetent politicians are to blame for everything, incorrect business partners, lazy and incompetent workers, the global world crisis, unpredictable and bad climatic conditions, bad luck or something quite different. Questions such as: who has chosen and trained these workers, who has chosen these business partners and who has negotiated specific terms of a business relationship and all the other issues that look at the same problem from a completely different angle, are completely ignored. A quality analysis is possible if an entrepreneur focuses primarily on the facts, not on the circumstances.

By over-emphasized externalization entrepreneurs can find themselves in a very delicate position. They find justification for a weaker realisation exclusively in the activities of others and this paralyzes them. In some cases, externalization becomes a universal excuse and accordingly they do not take any action to address the actual problems, which also include those that have partially or entirely been caused by entrepreneurs themselves.

#### 9.1.2. GREY ECONOMY

A quality business plan and an experienced entrepreneur implement a systematic process of checking business ideas from different angles. The probability of oversight or mistake is thus significantly reduced. The scope of preparation represents a big trap, as most start-up entrepreneurs in the analysis of competition focus only on registered crafts and companies and neglects the grey economy. The impact of grey economy is highly dependent on the activity and if the project is in a sector with a developed grey sector, far-reaching negative consequences are possible.

In a society that tolerates grey economy, has a high tax burden and does not consistently conduct legislative and sublegal regulations, it is extremely difficult to compete with



entrepreneurs that act outside the system. It is a big mistake to evaluate a person, who does not have a registered craft or a trade association, as an uninitiated, incompetent, uncompetitive or irrelevant for their own business. Many of them are, in the business sense, more dangerous competitors than registered entrepreneurs. After all, they work in much more difficult conditions. Conrad Jay Levinson, names entrepreneurs who implement guerrilla marketing, marketing guerrillas. All those who work in the grey zone can fully be entitled to be named entrepreneurial illegals. They must deliver their marketing message to the buyers and at the same time remain invisible to inspection services. In the end, the degree of satisfaction of their customers must be extremely high; otherwise they could report them to the competent inspection.

### **9.1.3. NON-PAYMENT, CRISIS OF NON-PAYMENT AND CULTURE OF NON-PAYMENT**

The main determinants of this problem have been partly dealt with in the first chapter in the paradigms of small and medium entrepreneurship. Efficient marketing is good, but sales are better. The only thing more important than that is billing. The importance of billing is particularly expressed in the fast-paced business where cash needs are extremely large, where any delay in billing can cause major problems. The problem of non-payment is further complicated in cases where the customer, after having repeatedly extended the payment date, insists on compensation under unfavourable conditions.

If non-payment from individual cases grows into widespread practice, we talk about non-payment crisis. Regardless of the causes of such a situation, it is advisable to incorporate, into the routine procedures of own business, a reporting and control mechanism for the collection of receivables, and instead of mere externalization, take responsibility for own business and turn to paying customers. It is also the best way to avoid deadly mistakes.

### **9.1.4. PRE-BANKRUPTCY SETTLEMENT AND BANKRUPTCY OF KEY PARTNERS, CUSTOMERS AND SUPPLIERS**

The vast majority of entrepreneurs in their business activities are only focused on their own business. The business of key partners often represents an unknown term. And that's fine as long as a key partner, buyer or supplier does not come into business difficulties that will affect your business. According to the Croatian Pre-bankruptcy Settlement Agreement Act, the borrower is in a more favourable position than the creditor. In addition to debt forgiveness by the state to the name of the country's tax and other obligations, he can also count with considerable forgiveness of debt imposed on creditors. Although there was a good intention of the legislator behind the Croatian Pre-bankruptcy Settlement Agreement Act<sup>27</sup>, it is difficult to recognize this in practice. After all, after a "successfully" executed pre-bankruptcy settlement, creditors have no assurances that the debtor will not go bankrupt.

<sup>27</sup> The discussion is based on the Law on pre-bankruptcy, which was effective in the Republic of Croatia in May 2015.

An unpleasant situation is represented by cases when you are in a business relationship with a company whose owner owns several other companies, some of which are in pre-bankruptcy settlement or bankruptcy, and their difficult financial position indirectly affects your business.

#### **9.1.5. THERE IS NO EXCUSE FOR IGNORANCE**

Throughout the whole book an extremely important aspect of entrepreneurship is seen. Entrepreneurship is a very complex and in a way very similar to foreign language learning. It is simply not enough to theoretically know all about a foreign language such as word types, tenses, declinations, sentence formulae, phrases, and much more. Without exercise and applications in real life situations, the language will not have the practical value you might expect from it, and you simply cannot order the dish you like, get directions to find the address you are looking for or something quite different but extremely important to you. The complexity of entrepreneurship arises from the various technological and economic aspects we have to pay attention to, but lack of knowledge does not justify nor does it exempt us from the punishment for the established irregularities in business.

#### **9.1.6. BUT**

There are exceptions for everything. In practice this means that an entrepreneur can trust his associates, but he has to check important things, he can hire a right consultant, he can ask a lot of right questions, he can take care of the success metrics, but he must be focused on the right indicators. It is very important to keep in mind who you do business with. An entrepreneur with several trading companies that have been removed from the commercial court register after the bankruptcy settlement may not be the best choice of a strategic partner.

### **9.2. PERSONAL MISTAKES IN BUSINESS**

#### **9.2.1. FORGIVENESS INSTEAD OF PERMISSION**

Entrepreneurs see the opportunity right there where others see a problem. Thereby, many of them express incredible self-confidence and perseverance. Equally, large numbers of entrepreneurs in such situations are hasty. In practice this is expressed in a variety of ways, many of my clients have given up on de minimis aid because they could not get it fast enough, and many released the information about the new product into the media or sold the same, before they started the process of appropriate industrial property protection. For the vast majority of them there is one thing in common: because of such a procedure they feel sorry later on. Still, they do not seek advice or permission, but are more inclined to seek forgiveness after the original plan has failed to achieve the planned and desired effect.

### 9.2.2. ENTREPRENEURS WHO ARE DRIVEN BY INCENTIVES

The recognized opportunity is a good assumption for a successful project, but many entrepreneurs replace the recognition of entrepreneurial opportunity in which they efficiently meet the clearly recognized needs of customers, by the recognition of opportunities to finance the project. During the Croatian preparation for EU accession, SAPARD<sup>28</sup> program and the national programs of capital support for the development of certain sectors of agriculture were on-going. Capital support programs for the development of cattle-breeding also included a financial support of 500.000 HRK (~ 70.000 €) for entrepreneurs who start such a project. In the period in which tenders are open, many offices of supporting institutions and consulting companies are faced with the increased interest of potential entrepreneurs on the realization of such a project. In case of the capital support program, queries for development of dairy farming were coming from clients who did not know anything at all about milk and cows. Their only motive was to achieve the 500.000 HRK support. Milk production is a demanding production, cows are beings of habit, habits are heavily built in them, they wake up early, and they look for the same routines as well as continuous attention throughout the day all year round. In addition, profit margins per unit of the product are relatively low, so the size of the operation is a critical variable for achieving parity income. If you still do not like it, despite the all above, it is extremely difficult to achieve long-term competitiveness and longevity while achieving personal satisfaction. After all, granting support to the capital development of a sector has strong reasons in difficult business conditions, which should not be forgotten at any time.

### 9.2.3. WRONG JUDGEMENTS

Entrepreneurs make their decisions based on environmental observations that are processed in accordance with their knowledge and experience. There are many different aspects and layers in which a wrong decision can be made. It is quite clear that choosing a wrong employee and supplier has certain consequences on the business. Strategic mistakes are much more dangerous. Choosing the wrong segment of the market has even greater consequences. Mistakes on the level of missions and visions are definitely the most difficult.

To establish a company is an extremely important moment for every entrepreneur. At that point, few people think about bankruptcy. However, not everyone will succeed in the business sense, and a significant proportion of those who are not successful in business will have to start bankruptcy in different situations. The bankruptcy conditions and procedures are regulated at the national level by a relevant law. In Croatia, this is the Bankruptcy Act and its subsequent amendments (OG 44/96, 29/99, 129/00, 123/03, 82/06, 116/10, 25/12, 133/12). In Hungary, the bankruptcy procedure is governed by the Act XLIX of 1991 on the Procedure of Bankruptcy and Liquidation.

<sup>28</sup> Special Accession Programme for Agriculture and Rural Development

Bankruptcy is a court procedure of settling creditors' collectively by cashing in the debtors assets and allocating collected funds to creditors. During bankruptcy it is possible to execute a bankruptcy plan for reorganisation and business continuation. Bankruptcy proceedings in Croatia can be carried out on the companies or the property of the craftsmen and individual traders, and are conducted by commercial courts.

There are two main reasons why a bankruptcy procedure must start: 1. Inability to pay for more than 60 days and 2. Over-indebtedness, i.e. when debtor's assets do not cover existing obligations. The bankruptcy may end by the termination of a company or craft and by removal from the register or the continuation of the production of a restructured business entity that may even be affiliate to another legal person. In that case, creditors postpone their settlement and they are later settled with a larger percentage or convert their receivables into shares or credits. In this way, bankruptcy can achieve its full meaning and potential, be an effective therapy for all the wrong estimations and procedures that enables the continuation of business after the catharsis.

The pre-bankruptcy settlement is a specificity of the Croatian legal and economic system. The pre-bankruptcy settlement procedure is governed by the Act on financial operations and pre-bankruptcy settlement (OG 108/12 and 144/12) with the aim to enable the debtor, who has become illiquid and / or insolvent, a financial restructuring on the basis of which he will become liquid and solvent, and enable creditors more favourable conditions for settling their claims against creditors' conditions if bankruptcy proceedings were initiated against the debtor. In addition to the Act on pre-bankruptcy settlement proceedings, the Regulation on conditions procedure, methods and procedures for disposal of tax debts in the pre-bankruptcy settlement proceedings (Official Gazette 3/13), is important. The procedure itself may, depending on the size of the debt and the number of employees, take place on a shortened and regular basis, and the entrepreneur implementing it, may count on the forgiveness of a substantial part of the debt and reprogramming the repayment of the rest of the debt.

### **9.3. INTERDEPENDENCE AND BUSINESS COMMUNICATIONS**

Owning a company that has successfully developed and operates quite well can be a great personal pleasure. But it is also a great burden and obligation. Business management, by definition, refers to cooperation with others, i.e. with customers, suppliers, workers, bankers, inspection services, media and other shareholders, and communication requires time and skills that often lack.

#### **9.3.1. COMMUNICATION WITH CUSTOMERS**

Satisfied customers are an essential assumption for solving problems with competitors. But customers are really hard to find. A better or cheaper product or service does not

automatically mean customer rush. There is a need for systematic and consistent communication with customers. It is extremely dangerous if the job is neglected, irrespective of the reasons that the entrepreneur does. If the entrepreneur's communication with the customers does not go well or he does not like it or has no time for it, does not mean that this business needs to be neglected. Possible solutions are self-education or engaging associates for such jobs.

### **9.3.2. COMMUNICATION WITHIN ONE'S OWN BUSINESS SYSTEM**

When an entrepreneur is alone in his own company, he can hardly have a problem of this type. But by employing additional employees, this part of communication becomes more and more important. It is important to point out that the kind of business that is being developed, has an extremely important impact on communication within its own business system. The activity in which all the workers are at one location is much easier to manage than a business that includes the headquarters and ten retail outlets at different locations.

Communication within its own business system is extremely important for business efficiency and customer satisfaction. That is why it is extremely important to adjust to market changes and growth in business operations because it is quite different to manage a business that has 5 employees than a business that has 50 or 500 employees. When looking at the structure of the basic manual for managers written by Heller and Hindle (1998), it can be noticed that most of the chapters are intended for these kinds of jobs: clear communication, time management, decision making, successful delegation, motivation, team management, successful presentation, successful negotiation, interviewing, managing change, minimizing stress.

Regardless of successful communication within their own business, the harsh reality is that the entrepreneur ultimately remains alone. All difficult and crucial decisions will not be made by anyone else but the entrepreneur himself. Laying off incompetent relative, taking out loans necessary for growth at a national level, closing down a non-profitable subsidiary or something completely different, represents a difficult decision with the consequences of which the entrepreneur must primarily face on his own. In moments like these, advice and support is crucial, and the role of entrepreneurial clubs, where entrepreneurs can discuss their problems with their counterparts who are in a very similar situation, is invaluable.

### **9.3.3. COMMUNICATION WITH THE INSTITUTIONS OF THE ECONOMIC SYSTEM AND LEGAL STATE**

The number and range of regulations which regulate different aspects of business is extremely large and this is a problem, especially for small and medium-sized businesses. Not only does he has to know a lot, but must remain up to date with the changes in these same

regulations. A major problem is the perception of entrepreneurs that a significant number of these regulations do not actually apply to them.

Communication with institutions of the economic system and the legal state with entrepreneurs often cause anxiety, but in no case does it mean that communication can be ignored. In the first place, their business must be adjusted with valid regulations in order not to completely undermine its competitiveness and sustainability.

#### **9.3.4. MEDIA RELATIONS**

Media relations are extremely important for entrepreneurs of all sizes. They can generate a guerrilla moment which can help the business develop to incredible proportions. Likewise, they may be the reason for the company to fail. As a rule, small businesses cannot afford PR specialists and such jobs are within the sole responsibility of the entrepreneur. Large systems can afford such specialist or even the entire public relations department, but this does not automatically mean better quality of the accomplished task. Small business media relations primarily include giving interviews, preparing articles for print media, broadcasting on a radio or TV show, and organizing a press conference.

#### **9.4. NEURO-LINGUISTIC PROGRAMMING AND STRESS MANAGEMENT**

At the very beginning, it seems that for starting a business only an innovative product or service is important. As the business develops over time, it is quite clear that success also depends on some other factors that the entrepreneur may not be aware of initially. Of course, it is still true that the product or service must meet the customer needs more efficiently than the competition, although this is generally accepted. Mathematically speaking, this is a necessary but not a sufficient condition for achieving business success. Despite the inferior product, competitors can still achieve greater business success thanks to better marketing, customer relations, financial management, human resource management, or something quite different. It is extremely important to awaken your weaknesses and find people who can help build a successful business, not just excellent products and services.

Whether the new entrepreneur had a huge previous experience as an employee or has no work experience at all, his role in his own company is very complex. For a successful performance he needs a lot of different hats because he is a product designer, a salesman, a bookkeeper, a project manager, a translator, and everything else that is needed at the time. The only problem is the fact that there is not enough time for all those roles in one day, because private life and sleep cannot permanently be postponed.

Paradoxically, it is often the case that entrepreneurs are thought not to work at all. Their flexible time schedule allows them to take children to or from school at any time of the day. But their schedule is still full of obligations and decisions that have to be made. And

that is exactly where entrepreneurs are excellent, in decision-making. As a rule, they have many good ideas from which only some can go to realization. Determining priorities with regard to urgency and importance and focusing on what is prioritized is extremely important for business success. It is also the only way to overcome a chaotic situation that requires switching the action from one into another direction. Otherwise, entrepreneurs are threatened with the development of Attention Deficit Disorder - ADD, ADHD.

Neuro-linguistic Programming-NLP<sup>29</sup> is an approach in communication, personal development and psychotherapy created by Richard Bandler and John Grinder of California, USA, in the seventies of the 20th century. The hypothesis underlying their concept is the claim that there is a connection between neurological processes (“neuro”), language (“linguistic”) and behavioural patterns learned through experience (“programming”) and that they can be changed to achieve certain goals in life. The next hypothesis is that the skills of people who are effective in communication can be copied by using the NLP methodology and that these skills can be acquired by everyone.

Besides, as in everything, NLP depends on how well an entrepreneur has mastered his knowledge and skills. Well-applied, not only can it help raise the tolerance threshold for all the bad things that are experienced in communicating with others, but in the next stage it can help by influencing the other side and gaining more from one's own communication. NLP levels that support excellence in any activity are as follows:

- Well-formed outcomes
- Rapor
- Flexibility
- Sharpness of senses

The meaning of communication is essentially the answer you get. NLP can also work in an excellent way on honest people who, for various reasons, react inappropriately and inadvertently. NLP has limited effects with individuals who plan criminal activities independently or in a team. No matter who is on the other side of the communication channel, one should be very careful because the mind and body are part of one system. Dissatisfaction with the results of communication can have consequences for health. Entrepreneurs not only have long working hours, they often work without interruption, many things at the same time (multitasking) and all that without sleeping enough. During that little time, they check e-mails on their smartphones and tablets, check recordings of surveillance cameras, and constantly think about their business. When this is accompanied by irregular and inadequate meals and lack of movement, all the major parts of the catastrophe are present. Only a detonator is missing. Burnout syndrome occurs<sup>30</sup>, and chronic diseases, heart- and brain-stroke can also develop.

<sup>29</sup> Source: [https://en.wikipedia.org/wiki/Neuro-linguistic\\_programming](https://en.wikipedia.org/wiki/Neuro-linguistic_programming), online [23<sup>rd</sup> June 2015.]

<sup>30</sup> Burnout syndrome is the state of psychic, emotional and physical exhaustion caused by excessive and long-lasting stress and dissatisfaction at work



It is important to point out that “bad guys” also use guerrilla marketing and NLP. Creating guerrilla events they draw our attention away which makes it easier for them to pursue their criminal plan. If the entrepreneur is not willing to give up the offer that looks too good to be true, he harms himself.

### **9.5. BUSINESS SECURITY AND PERSONAL SAFETY**

When considering business and personal security at the very beginning, several special cases need to be distinguished. Competition or any other interested party can obtain sensitive information about a business, in various ways, legal and illegal:

1. The main financial performance indicators are part of the GFI-POD reports in Croatia, ownership shares in companies are publicly available in the Court register and can be legally obtained, and you may not be aware of it. Additional data source are databases with an access fee.
2. Part of the sensitive information is revealed by its own naiveness and mistake. Either you have lost your mobile phone or laptop or important documents and things or they were stolen. The worst case in this category is one's own intentional act that still works against you. This category includes, among other things, bad deals, premature and inadequate disclosure of industrial property, excessive tiredness and making wrong decisions.
3. You are a victim of a criminal offense, extortion, theft, robbery, that may be worsened by physical injury or death.

#### **9.5.1. BUSINESS SECURITY**

Business security can be jeopardized in various ways, some of which have already been explained. The competition has got a hold of sensitive information regarding a business secret. A once trusted partner has become unreliable and no longer pays overdue receivables. He has entered into a pre-bankruptcy settlement or even gone bankrupt. But this might not nearly be the end of potential predicaments. A once reliable, trusted business partner has disappeared in an unknown direction, and his company has been removed from the court registry for failing to publish statistical reports for three years in a row. An entrepreneur can buy real estate which has been built illegally or has not been segmented into condominiums, invest too much money into a new entrepreneurial project that constantly keeps failing, buy shares that have fallen significantly, lend money that is not being returned, or simply, become a victim of fraud.

#### **9.5.2. PERSONAL SAFETY**

Successful entrepreneurs in a number of cases become victims of criminals or disturbed persons. It is possible that they were completely unaware of initially having some kind



of personal or business relationship with these people that later went into a completely wrong direction. Therefore, take care of physical protection (security services in the business space) and technical protection (encryption and data protection, anti-burglary protection, fire alarm, video surveillance).

## 9.6. UNFAIR COMPETITION AND MARKET COMPETITION PROTECTION

So far, marketing has been studied from the angle “what to do”. Below, you will find examined activities that should be avoided as they may trigger a reaction from regulatory bodies such as the Competition agencies. In the worst cases, the result may be the initiation of court disputes. The chapter on unfair competition is important for one more reason. If we are familiar with it, we can take protective measures when our competitors apply unfair practices in their marketing.

The primary source of market competition rights in its narrow sense are the EU provisions of the EC Treaty which are fully incorporated in the new Croatian Act on Protection of Competition (NN122 / 2003), which explicitly cites cases of distorted market competitions which involve prohibited agreements, abuse of dominant position and prohibited concentrations. In Hungary, market competition is governed by the Act XLVII of 2008 on the Prohibition of Inhumane Trademark Examination and the Government Decree 45/2014 (II.26) on Detailed Contract Rules between Entrepreneurs and Consumers.

Article 81. of the Treaty on establishing the European Community reads as follows: „The following will be prohibited as incompatible with the common market, all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between member states and which have as their aim or consequence: prevention, restriction or distortion of competition within the common market, and in particular those which:

- (a) directly or indirectly fix purchase or selling prices or any other trading conditions;
- (b) limit or control production, markets, technical development, or investment;
- (c) share markets or sources of supply;
- (d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
- (e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

Although all agreements or decisions prohibited under this Article are automatically null, in cases where joint action contributes to improving the production or distribution of

goods, promoting technical or economic progress, allowing consumers a fair share of benefits arising therefrom, the prohibition need not be applied.

Article 82. (Ex Article 86.) Of the EC Treaty establishes abuse of a dominant position and reads: “Any abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it will be prohibited as incompatible with the common market insofar as it may affect trade between Member States.

Such abuse may, in particular, consist of:

- (a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;
- (b) limiting production, markets or technical development to the prejudice of consumers;
- (c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
- (d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.”

Concentrations which create a new or stronger dominant position of one or more entrepreneurs, individually or in group, are prohibited if they can significantly affect the prevention, restriction or distortion of market competition, unless concentration participants demonstrate that this concentration will lead to the strengthening of market competition which will be more significant than the negative effects of creating or strengthening their dominant position. Concentration involves the merger or acquisition of entrepreneurs, gaining control, which involves gaining the majority of shares or majority of voting rights and creation of a joint venture that more permanently acts as an independent economic entity.

Creating a joint venture with the aim of coordinating market competition among independent entrepreneurs is not considered a concentration. Gaining of a shares or stakes that results in restructuring of entrepreneurs under the control of other entrepreneurs (merger, transfer of assets and the similar) is also not considered a concentration.

Unfair competition or unfair market competition (Fra. *comcurrence déloyale*; Ger. *unlauterer Wettbewerb*) is an activity of entrepreneurs by which good business practices are disturbed. The most common are the procedures that mislead consumers with regard to their origin and product features and practices that distort the reputation and business relationships between traders.

Some authors as a category of unfair competition cite copyright infringement and embezzlement in the sense of unauthorized use of unprotected intellectual property and stealing of business secrets. These categories are considered here as criminal acts that are prosecuted according to the type of offense and the extent of damage to misdemeanour or criminal law.

### **9.6.1. MAIN CATEGORIES OF UNFAIR COMPETITION**

Categories of unfair competition include the following activities:

- Misguidance
- False representation of products and services.
- Bait-and-switch.
- Replacement due to insufficient discrepancy, especially in terms of origin and appearance, most often using stamps of insufficient distinction.
- Unauthorized replacement of one-brand products and services with other brand products and services.
- Discredit competitors and defamation.
- Disclosing confidential information.
- Free riding.
- Comparative advertising (positive and negative).
- Violation of restrictive agreements.
- Abuse of confidential information from former employees in order to recapture customers.
- Unpleasant / inappropriate advertising - exploiting fear to sell.
- The use of non-transparent promotional techniques, such as lotteries, gifts, bonuses.
- Hindering market activities, such as destruction of competitors' return packaging.

#### **9.6.1.1. MISLEADING**

When it comes to misleading, this is an extremely layered category. The simplest case in which we claim that the slice of one type of bread has fewer calories than the slice of another type is that this difference comes exclusively from the fact that this slice of bread is thin. This is a classic example of unfair competition. The technique of tempting in which we attract buyers by advertising for a cheap product. In a store the buyer cannot find this product and is offered a similar one but more expensive. The case in which we sell dried canned sulphuric nuts, produced in Africa under the term "CALIFORNIAN SUNSHINE"

and labelled “ecological product” is much more difficult because it can cause an allergic reaction to sulphur preservatives in some customers. The case when a company is used differently from the one entered in the court register, business paper or website, performing the activity without consent in cases where it is prescribed by law is an offense defined by the Croatian Companies Act (Article 630., paragraph 2.). The giving of inaccurate data and incorrect presentation of the property status in commercials is a criminal offense defined by the same Law (Articles 624. and 625.).

#### **9.6.1.2. DISCRETION OF COMPETITIONS AND DEFAMATION**

A classic example of unfair competition caused by discrimination is the following:

1. Statement that competitive yoghurt is produced from stale milk.
2. Statement that a competitive product identical to ours is dangerous for the health of consumers.

#### **9.6.1.3. DISCLOSURE OF CONFIDENTIAL INFORMATION**

Disclosure of confidential information is defined as unfair competition by the 1994. TRIPS Agreement. It obliges members of the World Trade Organisation - WTO to provide protection for confidential information. It is important to point out that the information contained in a valid or expired patent does not constitute confidential information.

#### **9.6.1.4. ACCOMPLISHMENT EXPLOITATION OF OTHERS**

- In the broadest sense, it is interpreted as competing with imitation.
- Replacement due to insufficient discrepancy and deliberate misrepresentation often lead to exploitation of other achievements.
- A typical example is the use of a similar trademark for different goods and services (often inferior quality) and “diluting” the distinctive value and the quality of the competitor.

#### **9.6.1.5. COMPERATIVE ADVERTISING**

- Positive: The product is as good as the competitor’s
- Negative: The product is better than the competitor’s
- The rule: “A respected entrepreneur has the right not to be mentioned, even if the truth is declared”
- Legality depends on national legislation, but the view is changing and fair comparison of prices is more permitted.

### **9.6.2. UNFAIR BUSINESS PRACTICE**

Croatian Consumer Protection Act in part IV. Unfair business practice defines unacceptable forms of behaviour. The provisions of this shall apply to unfair business practices

involving fraudulent business practices and aggressive business practices. Business practice is unfair if, in the sense of a particular product, significantly affects or is likely to have an important effect on the economic behaviour of an average consumer to whom such practice is intended or to which it reaches, i.e. the average member of a particular consumer group to which that practice is directed. Consumers with physical or mental handicaps, older or reckless consumers are particularly sensitive to unfair business practices. Accordingly, the trader has to assess the situation from the perspective of an average member of that group of consumers.

#### **9.6.2.1. MISLEADING BUSINESS PRACTICE**

Business practice is considered misleading if it contains inaccurate information, which is why it is untrue, or otherwise, including its overall presentation, and even if the information is factually accurate, is misleading or likely to mislead an average consumer and likely to make him buy things which he would not have decided to buy otherwise. Misleading business practices include misleading activities and misleading leaks.

The following is considered to be misleading business practice:

1. A trader's claim that he is a signatory to a specific policy of dealing with traders, despite this not being the case.
2. Highlighting trademarks, quality marks, or similar characters without the need for approval.
3. The claim that the dealer's trading rules applied by the trader has been approved by an authorized body, despite this not being the case.
4. The trader's claim that his business, his business practice or his product has been approved, recommended or permitted by an authorized body or private body despite this not being the case or the same claim in cases where his business practice or product does not meet the requirements for issuing that approval, or permissions.
5. Calling for a purchase at a certain price without emphasizing the fact that the merchant has reasonable grounds to believe that he will not be able to offer the delivery of that or similar product at the stated price, at the time and in the amount that are reasonable with regard to the product, the range of advertising the product and the offered price, i.e. that it will not be able to ensure that another trader will deliver this or similar product at the stated price, in the time and in the amount that is reasonable in view of the circumstances mentioned.

6. Calling for a purchase at a certain price, then refusing to show the advertised product to the consumer, or refusing to accept a consumer's order, or delivering the product within a reasonable time, or displaying an improper copy of the product, with the intention of promoting another product.
7. A false claim that the product will only be available for a very limited period or that it will only be available under special conditions for a very limited period, for the purpose of providing consumers with immediate decision making on purchase, denying him the opportunity or time needed to make a decision based on finding out about all relevant circumstances.
8. Committing to the consumer on providing some post-sale services by communicating prior to the purchase decision with the consumer in a language other than the official language of the EU Member State where the trader is located, and then providing those services only in another language, to which the consumer was not clearly warned before the contract was concluded.
9. Claiming or otherwise creating the impression that a product may legally be sold when it is not the case.
10. Introducing the rights to the consumer to which they are otherwise entitled to as a specialty of the merchant's offer.
11. Using editorial content in the media for paid advertising of products, and that these contents are not clearly expressed in words, signs or sounds that the consumer can clearly recognize as being a promotion.
12. Including inaccurate claims about the nature and extent of the risk that could be exposed to the personal safety of consumers or members of their family in the event that the consumer does not buy the product.
13. Advertising a product similar to a product manufactured by another manufacturer so that the consumer is deliberately misleading that the advertised product was manufactured by that other manufacturer.
14. Establishing, guiding or promoting a pyramid-based advertising system whereby the consumer has to give a certain amount of action in order to receive a certain remuneration, primarily because he introduced it into the new consumer system and not because he bought or consumed the product.
15. Claiming that a trader will soon cease his activity or move to other business premises, although this is not the case.
16. Claiming that a product can provide a prize in games of chance.

17. It is incorrect to claim that a product can cure disease, disfunction or malformation.
18. Transmission of incorrect information regarding the market situation or the availability of products with the intent to adduce the consumer to buy a product under conditions which are less favourable than the normal market conditions.
19. Claiming within a business practice that a contest or promotion is taking place, without awarding the prize or its reasonable equivalent.
20. Labelling the products with “gratis”, “free”, “free of charge” or similar marks if the consumer has to pay any amount for that product other than the necessary costs of replying to the business practice, or delivery costs.
21. Incorporation of a bill or any other payment request into promotional material that gives consumers the impression that they have already ordered the advertised product being offered although this is not the case.
22. It is incorrect to argue or to create the impression that a trader does not act within his business activities, that is, a freelance profession or misrepresentation of a trader as a consumer.
23. Creating a false impression that post-sale services related to a product are also available in a Member State of the European Union is different from the one in which the product was sold.

Business practice is considered misleading if, in the specific case, taking into account all the features and circumstances of the case, as well as the limitations of the specific means of communication, does not contain important notices that, depending on the context, require the average consumer to make a purchase decision based on a complete notice. Misleading omission means that a merchant hides information or provides it in an ambiguous, incomprehensible or untimely way.

#### **9.6.2.2. AGGRESSIVE BUSINESS PRACTICE**

Business practice is considered to be aggressive if it in specific case uses harassment, including physical force or threat and inadmissible influence, and is substantially lessened or likely to lessen the freedom of choice or treatment of an average consumers regarding the product, and in doing so, to force or possibly force him to make a decision about the purchase he would not otherwise have made.

Aggressive business practices are considered to be the following:

1. Creating an impression that the consumer cannot leave the business premises until the contract is concluded.

2. Visiting the consumer at his home, ignoring the consumer's request to leave his home or not to visit him, unless it is justified by the regulations forcing the contractual obligation to be enforced.
3. Persistent and unwanted communication with the consumer by telephone, fax, electronic mail or other means of distant communication, except in the cases and to the extent that it is justified by the foreseen compulsory fulfilment of the contractual obligation.
4. Asking the consumer who sets the claim for damages based on an insurance policy to submit certain documents that are not reasonably relevant to assess the justification of that claim or to systematically avoid giving a response to a consistent correspondence of consumers with the intention of repudiating him from exercising his rights based on the contract.
5. Advertising by which children are directly made to buy an advertised product or to persuade their parents or other adult persons to buy the advertised product.
6. Demanding payment of the product immediately or with delay or return or custody of the product delivered by the trader, while the consumer has not ordered it at all.
7. 7. Directly informing consumers that a business or a trader's survival will be jeopardized if a consumer does not buy a product.
8. 8. Creating a false impression that a consumer has won or will win, unconditionally or in the performance of a certain act, a certain award, or any other appropriate benefit when in reality no award or other appropriate benefit is anticipated or when in reality any action is directed at making such a prize or other benefit subject to a specific payment by the consumer or it causes costs to the consumer.

Unfair business practice is banned, but the provisions of the Law on unfair business practices do not relate to the use of common and legitimate advertising practices of exaggeration or providing statements that are not expected to be literally understood.

In Hungary, consumer protection is governed by the Act CLV of 1997. on Consumer Protection. Additionally, the Act CLXIV of 2005 on Trade, Government Decree No 210/2009 (IX. 29.) on the Conditions governing commercial activities and the Act XLVIII of 2008 on Essential Conditions of and Certain Limitations to Business Advertising Activity, are important.



## CONCLUSION ON RISK MANAGEMENT

The process of transforming an entrepreneurial idea into a project and transforming the project into a competitive and viable enterprise is neither quick nor easy and has not only positive impact on the entrepreneur and his family. In a chronological sense, the dangers that threaten entrepreneurs and the consequent mistakes they make are classified in the pre-business and the business period.

External influence on business and entrepreneur involves many factors, but externalism, grey economy and business in the unpaid conditions are particularly prominent. One's own mistakes in business include three distinct patterns of entrepreneurial behaviour: forgiveness instead of permission, entrepreneurship triggering incentives and false estimates.

Owning a company that has successfully developed and operates quite well can be a great personal pleasure. But that is also a great burden and obligation. Business management, by definition, refers to cooperation with others, customers, suppliers to workers, banking, inspection services, media and other stakeholders, and communication requires time and skills that are often missing. The communication with customers, communication within their own business system, and communication with institutions of the economic system and the legal state and relations with the media are of a particular importance.

When considering business security and personal safety at the very beginning, a few special cases must be distinguished. Competition or other interested parties can obtain sensitive business information in various ways, legally and illegally. An entrepreneur can be a victim of natural disasters or war destruction. Parts of sensitive information can be disclosed due to own naivetés or mistake. The toughest cases in this category are own intentional actions that still work against entrepreneurs themselves. The hardest cases by far are other intentional acts involving violations of intellectual property rights, offenses such as extortion, theft, robberies which may be worsened by physical injury or death.

Entrepreneurs are not psychic and cannot foresee all possible sources of danger for themselves and their business. But they can be prepared for an appropriate response when such a situation occurs. By sacrificing parts of profitability and liquidity, it is possible to significantly improve their own risk management capacity. In addition, quality business planning enables the preparation of various "crisis" scenarios that speed up our reaction to an unwanted event and at the same time make it more effective.

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UBS Capital Najutjecajniji činitelji na uspjeh projekta, str 11

## APPENDIX 1. USEFUL LINKS AND SUPPORTING INSTITUTIONS LIST

Registered patents <https://worldwide.espacenet.com>

EU registered trademarks and designs [www.tmdn.org](http://www.tmdn.org)

European IPR Helpdesk [www.iprhelpdesk.eu](http://www.iprhelpdesk.eu)

### CROATIA

Free of charge

Official Gazette of Republic of Croatia (only in Croatian language)  
[www.nn.hr](http://www.nn.hr)

Consolidated text of Croatian law (only in Croatian language)  
[www.zakon.hr](http://www.zakon.hr)

Register of Commercial Courts of Republic of Croatia  
[www.sudreg.pravosudje.hr](http://www.sudreg.pravosudje.hr)

Register of Croatian craftsman  
<http://or.minpo.hr/pretraga.htm>

Entrepreneurial supporting institutions in Republic of Croatia  
<http://reg.mingo.hr/pi/public/#>

Financial Statements of Companies in the Republic of Croatia (GFI-POD)  
[www.fina.hr](http://www.fina.hr)

Commercials

Credit worthiness of companies registered in Republic of Croatia  
[www.bisnode.hr](http://www.bisnode.hr)

### HUNGARY

Free of charge

Official Gazette of the Republic of Hungary (only in Hungarian language)  
<http://www.njt.hu/njt.php?kereses>

Register of Commercial Courts of Republic of Hungary  
<https://www.e-cegjegyzek.hu/>

Register of Hungarian Craftsman

<https://www.nyilvantarto.hu/evny-lekerdezo/>

#### Entrepreneurial supporting institutions in Republic of Hungary

FIVOSZ, Young entrepreneurs supporting association

<http://vallalkozz2016.hu/>

Gender entrepreneurs supporting, CCI Pécs-Baranya

[http://www.pbkik.hu/hu/uzletasszony-klub/cikkek/noi-vallalkozok-tamogata-sa-az-europai-unioban\\_2-90692](http://www.pbkik.hu/hu/uzletasszony-klub/cikkek/noi-vallalkozok-tamogata-sa-az-europai-unioban_2-90692) RECITY, social enterprise

<http://recity.hu/maskent-vallalkozni-tarsadalmi-vallalkozasok-magyarorszagon/>  
Gyerehaza!, Come home work in Hungary

<http://www.gyerehaza.org/>

IVSZ, Alliance for the digital economy

<http://ivsz.hu/export/tamogato-intezmenyek/> Company Information in Hungary

<https://helpers.hu/services/business/company-formation/>

Doing Business in Hungary

<http://doing-business-in-hungary.com/eng/foundation-of-business-associations/>  
Enterprise Hungary <https://wagate.eu/enterprise-hungary-hungary>

Financial statements of Hungarian entrepreneurs

<http://e-beszamolo.im.gov.hu>

Credit worthiness of companies registered in Republic of Hungary

[http://www.bisz.hu/en/service\\_business](http://www.bisz.hu/en/service_business)

Ministry of internal affairs

<http://vallalkozoiportal.gov.hu/>

#### Commercial

Credit worthiness of companies registered in Republic of Hungary

[www.bisnode.hru](http://www.bisnode.hru)

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