

# Research on Success Ratio of Chinese College Students' Initial Entrepreneurship in the Vision of the Product Value Chain\*

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**Abstract**—Dislike the traditional enterprise value chain theory which focused on enterprise internal operation activities to find out its biggest interest point, the product value chain theory put forward in this thesis focuses on the long process of products formation and movement so as to define which product value links to engage in, which is the most important and the first step to start a new business. Perfect combination of these two theories is necessary as to the medium and small enterprises because the combination can help enterprises correctly define their business scope first and direct enterprises to operate efficiently. According to college students' features, they must make such four correct choices as chain product, chain link, chain entrance time, chain partner so as to enhance initial entrepreneurship success ratio.

**Keywords**—the Enterprise Value Chain; the Product Value Chain; College Student; Initial Entrepreneurship

## I. INTRODUCTION

In the era of mass entrepreneurship and innovation, entrepreneurship has become one of the hottest words in China. However, for a college student, entrepreneurship is a severe test for them, and whether they can withstand this test has multiple meanings. For college students, the initial entrepreneurial success not only embodies that they successfully take the first step to the society, and can realize their entrepreneurial dreams and self value, but more importantly will directly boost their confidence in engaging in entrepreneurship in the future. For universities, students' initial entrepreneurial success has become an unwritten standard of measuring the effectiveness of entrepreneurship education and educational quality, which directly affects universities' social reputation and core competitiveness of universities. For countries, college students' initial entrepreneurial success will affect the situation of national economic construction, affect the development potential of national "entrepreneurship" strategy, and affect the degree of realization of the national "mass entrepreneurship and innovation" strategy, which ultimately affects the process of enhancing the core competitiveness of the country and

realizing the great China dream".

## II. THE VALUE CHAIN AND THE PRODUCT VALUE CHAIN

### A. The Value Chain

The concept of the value chain is put forward for the first time by Professor Michael Porter of Harvard University in 1985. He divided an enterprise's business activities into a series of ones, including design, production, sales, and other ancillary activities, each increasing utility or value of an enterprise's product or service. He divided these activities into basic activities and auxiliary activities by categories. The basic activities include internal logistics, production operation, external logistics, marketing and sales, customer services, and the supporting activities include purchasing, technology development, human resource management and enterprise infrastructure etc.. These different but interrelated production and operation activities constitute a dynamic process of creating value for customers. [1]

The basic viewpoint of Potter's "value chain" theory is, of a large number of enterprise "value activities", not every link of activities can create value. The value created by the enterprise, in fact, comes from some specific links' business activities of the enterprise value chain, and these links are "strategic links" of the enterprise value chain. The advantage of the enterprise in the competition, especially the sustainable advantage, depends finally on these "strategic links" of the enterprise value chain. The strategic links which decide the enterprise success and benefit can be the product research and development, process design, marketing, information technology, or organization management and so on, which are changeable according to the industry category. If an enterprise holds the key links, it will seize the entire value chain. For example, in the high-end fashion industry, the strategic link is generally clothing design ability. In the cigarette industry, the strategic link is mainly public relationship strategy (that is, how to deal with smoking cessation efforts of various government and consumer groups). In the catering industry, the strategic link is mainly restaurant location selection, etc.

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## B. The Product Value Chain

1) *Limitations of the value chain theory:* Potter's theory of "the value chain" reveals that the competition between enterprises is not only the competition of a certain link, but of the whole value chain. In the words of Potter: "in the minds of consumers, value consists of a series of the enterprise's activities, including its internal activities of material and technology. When your enterprise competes with other enterprise, in fact, the competition will focus on a number of enterprise's internal activities, no more than one certain activity." For example, if there are defects or other problems in the link of production process, then even if the sale force in the sale link is very strong, it may be difficult to sell the product. Similarly if the reason for defects or other problems in the link of production process is further explored, the radical problems may be foreshadowed in the product design stage or other former link, therefore, the integrated marketing of value chain theory has high significance of practical guidance.

Potter's "value chain" theory is an analysis of the existing business activities of the enterprise. However, are so-called "existing business activities" reasonable? Can they be changed? There is no analysis of these important questions. Therefore, the research perspective of Potter's value chain theory is introverted and static, not from the perspective of industrial chain or the social labor division. It doesn't answer such questions as whether the enterprise's "existing business activities" can be changed, what industry link the enterprise should engage in, which are of vital importance to the weak strength of small and medium-sized enterprises. Certainly, if a small and medium-sized enterprise engages in a not appropriate link of an industry value chain, then, no matter how hard effort they make, they can't do businesses well finally, because the internal resource of a small and medium-sized enterprise cannot be mentioned in the same breath to a large one. So a small and medium-sized enterprise must do certain things that they are good at doing and meanwhile refrain from doing other things that they are not good at doing. They may outsource the business that they cannot control or drive up, and they must focus their resources on key business matching to their ability abandoning or outsourcing the business that are not critical or profitable.

2) *The product value chain:* It can be seen from above that the value chain theory researches on the enterprise's internal overall business, it has the characteristics of introversion, static, complexity and generality, and it may be called "the enterprise value chain" entirely. In reality, no matter large enterprise, small and medium enterprises, they should all turn to an external and dynamic perspective. Only after they position themselves correctly and define their business scope from the strategic perspective of industry chain, can they deal with the problem about how to improve the competition ability of the enterprise internal value chain.

With respect to the enterprise value chain theory focusing on the internal activities, the product value chain theory turns its research perspective to the outside of the enterprises researching on production and product flow process through

decomposing every link of production or operation process and helping enterprises find the key profit product value links, therefore, the product value chain is more of target or guidance for small and medium-sized enterprises, and it is to guarantee the accurate definition of the business contents of small and medium-sized enterprises.

The so-called product value chain refers to the countless valuable activities from the initial raw materials input to the final delivery of products to the hands of customers. It can be roughly divided into the following product value links: raw material supply → product design → product production → product wholesale → retail → customer. When an enterprise operate a product, it can either choose the whole product value chain to operate, or choose parts of the product value chain or even just one certain link, for example, a large garment enterprise may own a complete product value chain which is from the cloth production to clothing sales, while a small and medium-sized clothing enterprise may be only a cloth manufacturer, a distributor, a dealer, a clothing design, a clothing manufacturer, a clothing wholesaler, a clothing retailer or other service sector.

The product value chain theory and the enterprise value chain theory are a complementary relationship. Both theories' perfect combination can make the enterprise correctly define and efficiently operate its business activities. If there is no guidance of the product value chain theory, the enterprise may engage in business activities beyond its capabilities, similarly, if there is no guidance of the enterprise value chain theory, the operation efficiency of the enterprise may be relatively low. The enterprise value chain theory reveals that the competitiveness of enterprises depends on the competitive products created by the enterprise's internal value chain, while the product value chain theory reveals that the enterprises do not necessarily engage in the entire product value chain, and it should select some certain product value links to engage in according to the product value chain length, the enterprise's own resources, business ability, and so on. It seems to have a lot of profit to pursue the long and complicated product value chain, but in fact it is not suitable for small and medium-sized enterprises generally.

### III. PRESENT SITUATION OF COLLEGE STUDENTS' INITIAL ENTREPRENEURSHIP

According to the data that Mycos Company has collected for many years, Chinese college students' entrepreneurship presents the following characteristics:

First, the ratio of the initial Entrepreneurship of higher vocational students has been higher than that of the undergraduates, which indicates that it is not the more knowledge, the higher degree of entrepreneurial motivation, and knowledge or education degree is not a necessary condition for entrepreneurship motivation. The reason for the deviation of ratio of entrepreneurship to knowledge is that there are too many factors to promote entrepreneurship, but among these factors few is related directly to knowledge, such as desire for achievement, the independence of preference, desire for controlling, desire for changing the

family and personal economic conditions, etc.. If entrepreneurship and knowledge are supposed to have certain relevance, then it is likely the more knowledge or the higher education, the easier to find an ideal job. Maybe this is the reason for the low ratio of entrepreneurship with higher degree of education. Thus, our country is advocating the "mass entrepreneurship and innovation" strategy, which has a certain theoretical and practical basis and is entirely feasible.

Second, compared to about 20% ratio of university graduates' initial Entrepreneurship in the United States and other western developed countries,<sup>[2]</sup> Chinese graduates' initial entrepreneurship rate is currently less than 3%, Chinese students have a great pioneering development space of entrepreneurship, and China universities have a long way to go in entrepreneurship education.

Third, after three years of Entrepreneurship the ratio of Chinese students to quit Entrepreneurship and choose full-time employment decreases year by year, but still keeps relatively high. At present, the number of graduate students who choose to quit Entrepreneurship is near to five-tenths number of students who started Entrepreneurship three years ago. The number of Higher Vocational College students who choose to quit Entrepreneurship is near to four-tenths number of students who started Entrepreneurship three years ago. It can be concluded that the high ratio to quit Entrepreneurship indicates the first Entrepreneurship is not ideal, although governments continue to make efforts to support entrepreneurship under the current serious employment situation, which reflects how much trauma that initial Entrepreneurship brings to the first business starters, and also reflects the fact that the college students' initial success ratio is relatively low.

Fourth, most entrepreneurial industries that college students start with for the first time are neither the high-tech industry or the lower threshold of the "Taobao store" that governments, experts and entrepreneurship educators advocate and support, nor product design, product manufacturing process, and so on, which are in front-end or intermediate links of the product value chain. On the contrary, they are mainly product sales or other services which seem to be back-end links of the product value chain and often looked down upon by many people because of low technology involved.

#### IV. METHODS TO ENHANCE THE SUCCESS RATIO OF COLLEGE STUDENTS' INITIAL ENTREPRENEURSHIP

It is a very important research topic for entrepreneurship education to solve the problem of low success ratio of college students' initial entrepreneurship, otherwise, the ratio of college students' initial entrepreneurship and lifetime entrepreneurial can't be enhanced, students' entrepreneurial enthusiasm can't be lighted, and the strategic goal of promoting employment ratio by entrepreneurship can't be achieved. [3] Then, how to enhance the initial success ratio of College Students' initial entrepreneurship?

##### *A. To Find the Right Industry and Products*

There is a good saying that among three hundred and sixty industries, each of which may produce the champion. Anyone who is confident and determined to start the entrepreneurship, as long as he works hard, indomitable and never gives up, will be successful no matter what he is doing. On the contrary, if some people try to start a business but can't keep to it for long every time and just taste a business for a while, they will be not able to escape the fortune of failing finally, blaming of their bad luck or missing the good opportunity.

In choosing initial entrepreneurship industries, the key points are to choose those industries that can generate profit and are most interesting to business starters, because entrepreneurship needs business starters make a effort for a long time, so if the chosen industries or products, including the involved work, customer, even the work location, are not liked by entrepreneurs, the possibility of failure in the end is rather high.

##### *B. To Choose Reasonable Product Value Chain*

According to the theory of the product value chain, a product has to experience a relatively long product value chain before being sent to consumers. An enterprise can choose either a part of the product value chain or the whole product value chain, which is determined by the enterprise's own resource condition and its ability size. Every link of the product value chain is with different operating characteristics, different capital investment requirement, and different risk. In the front or rear end of links, such as raw material supply and product distribution, enterprises need more marketing ability, because they have to directly face the market to purchase raw material and sell products, while in the intermediate links of the product value chain, such as production, enterprises need more capital investment and management capabilities, such as investing large capital to purchase equipment, workshop and human resources, and so on. Generally speaking, the greater the investment, the bigger the risk, and the higher the income, but there are exceptions. In the product value chain, profit is not necessarily proportional to the investment. For example, the manufacturer's investment is greater than the seller or other services who are often super dealers, such as WAL-MART, Carrefour, but the manufacturers are often kidnapped and deprived of profit by the latter. Profit distribution of the product value chain depends entirely on the competence or strength of participants who engage in the product value chain.

When graduating, most of college students are so poor that if they start initial entrepreneurship, they are completely empty-handed or with little money. Therefore, college graduates starting initial entrepreneurship are generally not suitable to select intermediate links in the product value chain, so that they can not only avoid the huge investment risk, but also accelerate the return of funds, reduce business risk. For example, if the end link of distribution of products is chosen, then the products can be quickly sold according to market demand bringing in real large income. But if the intermediate link of production of products is chosen,

because the producer is far away from the market and the products have certain production cycle, the products after produced may be not suitable for the market demand, and once forming overstocking of products, the initial entrepreneurship tends to be stillborn.

So, it should be a wise choice that college students mainly focus on those low-end of product value links which are of low cost, fast turnover, high yield, low content of science and technology. This is also a basic principle to choose specific product value links, and enterprises must adhere to this principle and follow it.

As for the high-tech projects and manufacturing projects that governments, experts and researchers advocate and vigorously support to start with, because they are intermediate links of the product value chain which need large investment, exist high risk and have long period of production, they are not suitable for many college students to choose as initial entrepreneurship projects, but these projects may be selected as the second entrepreneurship content when college students succeed in initial entrepreneurship, and need extend their product value chain on the basis of a certain accumulation of capital and experience.

#### *C. To Select the Appropriate Time to Cut in the Product Value Chain*

The time to cut in the product value chain can be judged by the product life cycle. Any kind of product has four periods which are born, growth, maturity and decline. In view of the fact that college students can only bear weak risk at the beginning of initial entrepreneurship, they had better start initial entrepreneurship in the growth stage or mature stage of the product life cycle, because when a product is at birth stage, the product market size is very small and it is easy to collapse. [4] Similarly, when a product is at recession stage, the product market has been shrinking and can't last long.

In short, an initial entrepreneur must cut in product value chain in time when the market is flourishing. An initial entrepreneur must make good use of market opportunity. Time and tide wait for no man.

#### *D. To Choose A Reliable Product Value Chain Partner*

According to above analysis of the product value chain, college students' business philosophy in starting initial entrepreneurship should be the "dumbbell" mode, namely, R & D and sales of products should be their own main business, and the production link should be outsourced, therefore, it is a prerequisite for students' initial entrepreneurship to choose a powerful product value chain partner, establish good relations of cooperation, and establish a strong network of product value chain.<sup>[5]</sup> For example, it is more likely to succeed by the way of franchising, agency or distribution of superior brand products than of production or sale of unknown products.

### V. CONCLUSION

The enterprise value chain theory takes enterprise's internal activities as the research content, the enterprise activities being divided into basic activities and auxiliary

activities, and among these activities, not every link of activities creates value and real creating-value link for the enterprise is the strategic link in the value chain. For example, compared with the competitor, some enterprises' low production cost is the main source of profit, while some enterprises' customer service brand is its capital advantage to base market, so the production link and the customer service link are respectively the two companies' "strategic links". Each enterprise needs to distinguish their "strategic link", and try to keep its competitive advantage in the market.

The product value chain theory takes the production and flow of products as the research content, dividing the course of the product operation into a series of valuable activities from the initial raw materials input to conveying to the final customers. The product value chain theory regards that among these countless valuable activities, enterprises should choose the whole product value chain, or just chooses a part of the product value chain. As to a specific enterprise, it needs to make decision according to their conditions and characteristics of enterprise product value chain. Every link of the product value chain is changeable in its operating characteristics, capital investment and the risk. In the front-end or the back-end of the product value chain, enterprises need more marketing ability, and in the intermediate links of the product value chain, enterprises need more capital investment and management ability.

The perfect combination of the theory of the enterprise value chain and the theory of the product value chain can help the enterprise accurately choose its specific links of the enterprise value chain or define its business scope, and operate its business efficiently.

Most of college graduates, when graduated soon, are relative short of much capital, therefore, generally it is not suitable for them to choose the intermediate links of the product value, but the front-end or back-end links are more suitable for them. In order to enhance the success ratio of initial entrepreneurship, college students must choose the proper product value chain, find suitable industries and products, select the appropriate time to cut in the product value chain and choose reliable product value chain partners.

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