

Theme 1 – Investigating Small Business

1.1 Enterprise and entrepreneurship

Topic overview

Although this is a separate topic, students need to relate these concepts to the contexts in which an enterprise and an entrepreneur will be operating. They must be aware of the local and national business environment and how this might impact on a small business. Students must be aware of this sections relationship with the other areas in this theme and how these areas may impact on business decision-making.

Section	Key things to learn
The dynamic nature of business	New business ideas and their sources Adapting existing ideas Changes in technology Changes in customer requirements
Risk and reward	Types and impact of business risks Types and impact of business rewards
The role of business enterprise	The role of enterprise in business activity Production of goods and services Meeting customer needs Adding value The role of the entrepreneur

Dynamic nature of business

Where do business ideas come from? In practice, there are many ways in which a business opportunity and idea is first spotted.

Firstly, the world in which we live in is always rapidly changing and therefore businesses are constantly faced with change. These changes include new **legislation**, changes in the **economy**, new **technology**, which may result in some goods and services becoming obsolete, **political** events and even the weather. **Consumer tastes** will change as new fashions arise and as new ideas and developments come along.

Successful businesses will come up with new ideas, adapt existing products and change their location and their staff as different circumstances arise. Change is a massive opportunity! However, it is also a considerable **threat** to those businesses that ignore the changes that are taking place in the market. Businesses should avoid standing still, as those that try to will generally end up failing!

Some of the key changes that give rise to new ideas are summarised below:

Type of change:	Explanation:
New technology	Ideas for new products might come about due to advances in technology. Computers, smartphones, digital cameras and so on, are all examples of products where new technology is constantly allowing new products to be developed and launched for sale.
Change in consumer wants	Fashions and consumer tastes are always changing. As well as the more obvious areas of clothing, designs will also change in areas such as cars, furniture, buildings and many more consumer goods. There are also new trends in terms of healthy eating, fitness and specialist types of holidays.
Products and services becoming obsolete	Over time products become outdated as new products are developed, which is often linked to changes in technology. Other reasons for products becoming obsolete are changes in the economy, for example increased wealth will decrease demand for inferior products , such as supermarket value products and bus travel.

Original ideas

One of the key characteristics of many entrepreneurs is their creativity. Entrepreneurs will often produce many original ideas for new goods and services. In many cases, these will not prove practical or profitable to develop on a larger scale and take to market! Some ideas however, will be worth pursuing. At this point, the entrepreneur will undertake research and development of the idea.

Adapting existing products

Many new products are developed from existing goods or services, whereby the entrepreneur thinks of a way of improving them. Consider any technology based product, such as the computer or the mobile phone, and it is clear how much and how quickly the product has been adapted and developed in recent years.

Business experience

Many ideas for successful businesses come from people who have **experience** of working in a particular market or industry. For a start-up business, there are several advantages of applying this experience to a new business idea:

- ☒ Better and more detailed understanding of what customers want
- ☒ Knowledge of competitors, pricing, suppliers etc.
- ☒ Less need for start-up market research
- ☒ Entrepreneur is able to make more realistic assumptions in the business plan about sales, costs etc.
- ☒ The entrepreneur may have contacts in the industry, who might then become the first customers of the start-up!

All of the above help the business planning process and it can be argued that they reduce the risk of starting up a business.

On the other hand, it can be argued that “familiarity breeds contempt”. In other words, detailed experience of an industry means that the budding entrepreneur does not have a fresh view. Someone who is new to a market may be able to exploit approaches that have worked in other industries, to make an impact with their idea.

Personal experience

Many ideas come to entrepreneurs from their day-to-day dealings in life or from their hobbies and interests.

For some of us, frustrating or bad experiences are a source of irritation. For the entrepreneur, they might suggest a business opportunity.

It is often said that one of the best ways to spot a business opportunity is to look for examples of poor customer service (complaints, product returns, persistent queues etc). Such examples suggest that there is an opportunity to do something better, quicker or cheaper than the existing offer!

Hobbies and interests are also a rich source of business ideas, although an entrepreneur would have to be careful to avoid assuming that, just because they may have a passion for collecting “rare can openers”, there is a ready market from people with similar interests! Many people have tried to turn their hobby into a business and found that it generates only a small contribution to household income and therefore it would not prove to be a sustainable future business for the entrepreneur.

Observation

Simply observing what happens on a day to day basis can be a good way of spotting an idea. Often an idea will be launched in another country that has not yet been tried in other similar economies. For example, successful entrepreneur Stephen Waring, fortunately attended a wedding in the USA and by luck sat next to someone who ran a household service business, treating lawns. After some brief market research, Stephen found out that there was no similar business in the UK, so he launched one in 1986. Green Thumb has since become a hugely successful franchise business providing lawn care and grass maintenance for nearly 500,000 houses in the UK.

It is worth looking at other examples of successful business start-ups, in order to appreciate the wide and diverse range of sources of ideas that these firms are built upon. Here are some good ones:

Business	Entrepreneur	Where the Idea Came From
Propercorn	Casa Stavrou and Ryan Kohn	Casa, recognised that consumers tastes were changing. Consumers were looking for healthier alternatives to their favourite snack foods. Demand for organic, low sugar, low fat snacks, crisps and biscuits was rising. With the help of her best friend, Ryan, they decided to create a snack that they felt was satisfying, delicious and healthy. Propercorn, was born and is now sold in 11 countries and stocked in major supermarkets
King of Shaves	Will King	Will found traditional wet-shaving painful, due to his sensitive skin. His girlfriend suggested using oil to smooth the process. An oil-based solution to shaving was developed and is now a world leader.

<u>Mallzee</u>	Cally Russell	Cally was frustrated with the process of shopping online for clothes. He felt it was time consuming having to visit different sites to source his favourite brands. He create an app – Mallzee. The personalised shopping app allows shoppers to access their favourite stores within one app, making it simpler and easier to buy clothes online.
<u>Superjam</u>	Fraser Doherty	Fraser turned his grandmother's recipe for sugar-free jams into a best-selling grocery brand.

What makes a good business idea?

Having an idea for a business is the easy bit! It is much harder to work out whether the idea has potential and can be turned into a viable business idea.

Good business ideas therefore, tend to have one or more of the following characteristics:

- ☒ They solve a problem
- ☒ Offer a cheaper or better way of doing something than existing goods or services
- ☒ Are simple and practicable
- ☒ Can be developed and delivered to the market quickly
- ☒ Have a clear focus on meeting the needs of the target customer
- ☒ Anticipate market trends and exploit growth opportunities

Risk and reward

Risk can mean several things:

- the chance of loss or damage
- the probability that something goes wrong, leading to a loss
- when a hoped-for outcome does not happen

If setting up a new business was risk-free i.e. guaranteed to succeed, then we would all do it! The bad news for entrepreneurs is that investing in a start-up business is highly **risky**.

What is the risk? The main risk is that the **business will fail** and that the entrepreneur will **lose his/her investment**. In the case of a sole trader or partnership, the entrepreneur may also end up **personally liable** for the debts of the failed business (an important reason why many start-ups select private limited companies as their chosen form of business organisation).

Prior to complete failure, the business may also struggle for customers and to generate sufficient revenue to cover costs initially or on an ongoing basis. This may leave the entrepreneur with **a lack of security** – will he/she have enough funds to continue to trade successfully in the future, without being reliant on other sources of finance to keep the firm going? Will the entrepreneur have enough money to pay themselves a decent wage, to maintain his/her desired standard of living?

Another risk is that a failed business may leave the entrepreneur struggling to finance another business or successfully be appointed for a job in someone else's firm. This may be the result of the entrepreneur finding it difficult to face and accept the overall failure itself. There is no reason why people should be ashamed of failing in business, but in reality many are.

Taken together, it can be seen why these risks are often the reason why an entrepreneur continues to keep a business going, even when the business is struggling badly. When you are “risking it all” then you put all your effort into making the business a success!

Learning the lessons of failure

A good way of thinking about the risks being taken, is to consider why start-up and small businesses fail. If an entrepreneur can learn from and avoid these mistakes, then any new business that is set up has a greater chance of survival and success.

Here are the main reasons why businesses fail:

Poor management	Plain and simple. Planning is inadequate leading to poor decision-making, costs are not kept under control, business owners or management do not understand their market and customers well enough and/or a poor quality product is provided
Poor market research	In starting a business or keeping an existing business successful, there is a need to undertake market research. This will need to be reliable enough to predict future sales. It is often not carried out as it is too expensive or, if it is completed, the data is frequently out of date or not fully relevant
Sales lower than expected	It is very easy to over-estimate the sales that will be achieved by a start-up. The business plan can be over-optimistic about the price that customers will accept and the volumes they will buy
Start-up costs too high	Another common weakness of start-up business planning. Sometimes costs are simply missed out altogether or alternatively the amounts are under-estimated. This is a big concern at the start-up stage, where finance is limited. A delayed product launch or store opening may be the cause of start-up costs being higher than expected
Unexpected shocks	These can come in various forms, for example flash floods that hit different places in the UK from time to time, a new competitor entering the market, a global recession, a change in government and the UK leaving the EU (BREXIT)
Too reliant on a small number of customers	A start-up that is too reliant on one or a few customers is at greater risk of failure than one which has a broader, more diverse customer base. If the customer relationship breaks down and/or the customer stops buying products from the business, then it puts the business at risk
Poor quality	This is linked to poor management. Persistent poor quality goods or services will ultimately kill a business, as rival businesses will produce superior products that customers will undoubtedly prefer

By identifying the cause of failure, this allows a business owner to come up with solutions. Better still it allows a business to improve its planning, so that in the future it can minimise its risk and prevent it happening again – if it is not too late!

Reducing risk

There are many ways of reducing risk in a new or small business. Some of the key ones are as follows:

- **Plan** – for example prepare a realistic business plan
- **Research** – market research should be valid, up to date and specific to the business’s needs
- **Be cautious** – the business should avoid growing too fast

- **Finance with care** – shares and retained profits are safer than loans, as these sources of finance do not need to be paid back
- **Avoid costs** – premises and staff are expensive
- **Protect** – a company with **limited liability** will protect investors
- **Monitor and review** – look back and look forward, ensure the business is on track to where it should be; this can be achieved by monitoring finances and reviewing regularly the aims and the objectives of the business to assess progress

Rewards from enterprise

As well as risks, there are also many rewards for being in business. For some entrepreneurs, many of these arise from achieving their own personal objectives. These include:

- a personal sense of satisfaction of opening and running a **successful business**
- building something from scratch i.e. their own enterprise
- being in full control and therefore having the **independence** and ability to make all the decisions
- making that first sale!
- opening in a new location
- employing more people
- getting an industry award or receiving some good publicity
- getting great feedback from customers
- having social objectives for society as a whole e.g. helping others and attempting to meet a social need

These are the kind of **non-financial rewards** that give entrepreneurs a “buzz”.

However, ultimately, it is the financial rewards of making **profit** that justify the effort and make taking the risk worthwhile. Famous entrepreneurs, such as Sir Richard Branson (Virgin), Sir Alan Sugar (Amstrad), James Dyson and Charles Dunstone (Carphone Warehouse), have all built very **successful businesses** that are either worth or have been sold for millions of pounds.

Sarah Willingham, who has appeared as one of the “Dragons” on Dragons Den, is another example of a successful entrepreneur. Sarah worked in the restaurant industry from the age of 13 and has now managed some of the world’s most successful restaurants, including launching Pizza Express in Asia and Planet Hollywood in Paris.

In 2004, she saw the opportunity to turn a failing chain of six Indian restaurants into a successful investment. Sarah raised enough finance to buy “The Bombay Bicycle Club” which she sold three years later for well over a million pounds, having made it into the largest and most successful Indian restaurant chain in the UK.

There is a strong tradition of entrepreneurs who have built and sold one business for a substantial amount of money, to go on to build other successful businesses. They never lose the entrepreneurial buzz!

Role of Business Enterprise

The term “enterprise” has two common meanings.

Firstly, **an enterprise** is simply another name for a business. You will often come across the use of the word when reading about start-ups and other businesses...“Richard Branson’s enterprise” or “Julie set up her successful enterprise after leaving teaching”.

Secondly, and perhaps more importantly, the word **enterprise** describes the actions of someone who takes a **risk** by setting up, investing in and running a business.

Someone who shows enterprise by setting up a business is called an “**entrepreneur**”.

Purposes of enterprise

The role of the enterprise will normally revolve around making a profit for the **entrepreneur**. There are a variety of ways that the enterprise can achieve this:

Purpose of enterprise activity	Explanation
Producing goods and services	An entrepreneur will organise the business operation and bring together the resources that are required to ensure that goods or services are produced efficiently and will reach the customer so that a profit can be made
Meeting customer needs	An enterprise should sell goods or services that meet a specific customer need. If an enterprise just produces a product because the entrepreneur knows how to make it, without demand being present in the market, the business will end up with unsold stock
Adding value	In order to make a profit, the enterprise will need to sell at a price that is higher than its costs. This is known as value added and can be increased in different ways such as: ☑ Convenience: customers may be prepared to pay more for a service at home rather than having to go to the shops ☑ Branding: if an enterprise can establish itself as being a good quality or reliable brand, then the business can charge more ☑ Design: the use, appearance and cost of a product are all important factors and can add value to its production ☑ Quality: customers will have an expectation of the quality of a product and the more a product meets or exceeds this, the more value will be added in its production ☑ Unique selling point (USP): if a product is different to that of its competitors in some good way, then the enterprise has the possibility of charging a higher price because of this difference. This might be the name of the product or a particular feature that it possesses

What is an entrepreneur?

There are many definitions of what is meant by an entrepreneur, but they tend to say the same thing, which is that an entrepreneur is...

“someone who takes a calculated risk through starting a business.”

An entrepreneur is someone who is enterprising. In other words they:

- take the initiative and can organise resources to try and exploit a business opportunity
- take time to understand and calculate the risks involved
- make an investment, often of their own money, to set up the business
- go ahead, despite the risk that the business venture might fail
- are capable of making accurate business decisions

An entrepreneur will have many different reasons for starting a business and these will vary between different entrepreneurs:

Financial objectives	Making a profit – this is achieved through creating more revenue than the costs involved in running the business. Alternatively a profit could be made from selling the business or business idea to another business for a lot of money. Investing money – some entrepreneurs have a sum of money, which they have gained through redundancy or inheritance, and they want it to provide a return to them i.e. they would like to use the money to make more money in the future.
Non-financial objectives	Work-life balance – entrepreneurs can have more choice over what work they do and when they do it. They can often run their business from home, giving them more freedom and flexibility. Skills and interests – entrepreneurs often have business ideas that are linked to their own skills or interests. This can be very motivating for the entrepreneur, as they will have a genuine passion for the business idea and therefore will be highly motivated to make the business succeed. Being their own boss – many entrepreneurs want to be independent to make their own decisions and not be part of a large organisation. Their current job might also be boring, causing them to be unhappy with their existing situation.

In recent years the media has glamourised the challenge of starting and growing a business. A quick search on Amazon.co.uk will display many books by entrepreneurs and other “business experts” describing “how I made my first million” etc. Television shows, such as Dragons Den and The Apprentice, have proved hugely popular by showing the challenges faced in setting up a business or gaining investment for a business idea. Entrepreneurs such as Lord Sugar, Sir Richard Branson and Sir James Dyson have earned enormous fortunes and provide inspiration for the next generation of budding business leaders.

It is important, however, to realise that starting a business is rarely glamorous. In fact it is nearly always very **hard work**. For every success story, there are almost certainly many more business failures or businesses that do not meet the expectations of the people who set them up.

Not surprisingly, much research has been done to examine the personality and other characteristics of successful entrepreneurs, to see if there is a guaranteed method or route to success. You will find many

lists of “what it takes to be an entrepreneur”, but they tend to cover the same points. The following is a summary of the key findings:

What makes a good entrepreneur?

Successful entrepreneurs tend to have many of the following characteristics and skills:

- **Innovative** – entrepreneurs have lots of ideas and are passionate about their product or service.
- **Risk-takers** – they are prepared to take a calculated risk in order to maximise their rewards.
- **Hard working** – they are prepared to work long hours, especially in the early stages of the business.
- **Organised** – running a business can be very time consuming. They will know how to use their time, so that the business runs efficiently and effectively.
- **Determined** – they are able to handle problems and overcome hurdles. Setting up a business is difficult, as well as time-consuming.
- **Persuasive** – entrepreneurs are good at convincing other people and businesses about their idea, for example, persuading suppliers to supply their new business or convincing a potential employee to leave a current job and join the start-up, which could be seen as a very risky move. They are also good at persuading customers to buy their product or service.
- **Leadership** – an entrepreneur must be able to lead his or her own business. They must be willing and able to effectively perform more than one role.
- **Lucky** – every business needs some good luck e.g. being in the right place at the right time; however the more research, planning and preparation that goes into the business start-up, the more likely the business is to succeed.

The important thing to remember about this list is that an entrepreneur is unlikely to possess all these characteristics! Anyone who starts a business has strengths and weaknesses. However, a successful entrepreneur would recognise where their weaknesses lie and take steps to address them, for example recruit someone with the right skills to support the entrepreneur in the business in this area.