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Small Business Entrepreneur Body of Knowledge



Starting your own business is an exciting prospect with the opportunity to be your own boss and shape your own destiny - and perhaps make a fortune in the process! The good news is, there are plenty of other people out there also setting up their own businesses and, therefore, information is widely available to guide you through the start up process and help you become established.

The experts advise that entrepreneurs setting up a small business for the first time should stick to the type of work they know best. This avoids having to learn a new trade plus small business management skills at the same time.

Entrepreneurs should also consider working in a field that interests them. This could include a hobby or interest that can be converted into a small business. This decision will pay dividends when having to work long hours to become established. It is reasonable to assume that the greater the enjoyment and passion in one's work, the greater the likelihood of success.

Budding entrepreneurs should discuss their intention to set up a small business with their immediate family as it is these close family members that are often negatively impacted by long working hours 24/7, tight cashflow (particularly during start up), and the emotional ups and downs as business is won and lost.

Entrepreneurs will benefit from discussing their small business proposals with other entrepreneurs and mentors who have already been through the start up process. The experienced entrepreneur (mentor) should be able to quickly highlight any obvious pitfalls and suggest how to navigate through the minefield of bureaucratic rules and regulations small businesses have to comply with.

If you have a secure well paid job, it is a brave decision to hand in your notice to start up your own small business with an unknown future. It is a bit like leaving home for the first time – you suddenly have to stand on your own two feet and fend for yourself. However, this challenge will enable you to grow much quicker as you gain real life experience at the coalface. Making mistakes is all part of the learning curve of life, particularly when your own money is on the line!

Setting up a business for the first time is one of the entrepreneur's most important decisions. There are many risks and uncertainties, but also big rewards - not just in terms of financial success, but also in sense of achievement and peer recognition.

1. Definition of SME

There is no single definition of a SME (Small and Medium sized Enterprise), mainly because of the wide diversity of small businesses. However, a small business is usually considered to be an independent business, managed by its owner or part-owners, with a small market share.

There are a number of definitions of SMEs produced by government departments around the world. The one thing they all seem to agree on is that size is best determined by the number of employees and turnover - see figure 1.1.

	Number of Employees	Turnover
Micro company	0-9 employees	Euro 2m
Small company	10-49 employees	Euro 10m
Medium company	50-249 employees	Euro 50m
Large company	over 250 employees	Euro <50m

Figure 1.1: SMEs

It should be noted that size is relevant to the sector of work. For instance, a firm of a given size could be small in relation to one sector (say in the oil industry where there are a number of extremely large corporations), whereas, a firm of similar proportions would be considered large in another sector (say in the fashion design industry where there are many small businesses).

SMEs are socially and economically important to society since they typically represent 99% of all enterprises in Europe and America, provide more than 50% of the employment and create most of the new jobs. Other interesting statistics include:

- small businesses create 3 out of every 4 new jobs in America
- small businesses typically produce more than 50% of the GDP
- small businesses typically invent 55% of all technical innovations.

Clearly, although SMEs do not feature in the Fortune 500 or FTSE 100 because individually they are too small, as a group, they are central to most economies, contributing to innovation, entrepreneurship, investment, employment and growth.

With deregulation and privatisation, the dominance of large nationalised industries is reducing. If free enterprise is allowed to develop, the future is with the smaller SMEs which are able to respond more quickly to technology changes and customer requirements (in their niche markets). In America 1 in 12 people have started a business, whereas in Britain, the figure is only 1 in 30 - Britain has some catching-up to do.

2. Small Business Entrepreneur BOK

Budding entrepreneurs thinking of starting their own business typically ask the following questions:

- What type of business should I set up?
- What does managing a small business involve?
- What business management skills do I need to learn?

These questions are best answered by first defining the Small Business Entrepreneur Body of Knowledge (BOK).

The body of knowledge of a profession is an inclusive term to describe the sum of knowledge within the profession. As with other professions, such as project management and accounting, the body of knowledge rests with the practitioners who use it. The small business entrepreneur body of knowledge identifies and describes the generally accepted practices for which there is widespread consensus of their value and usefulness, and also establishes a common lexicon of terms and expressions used within the profession.

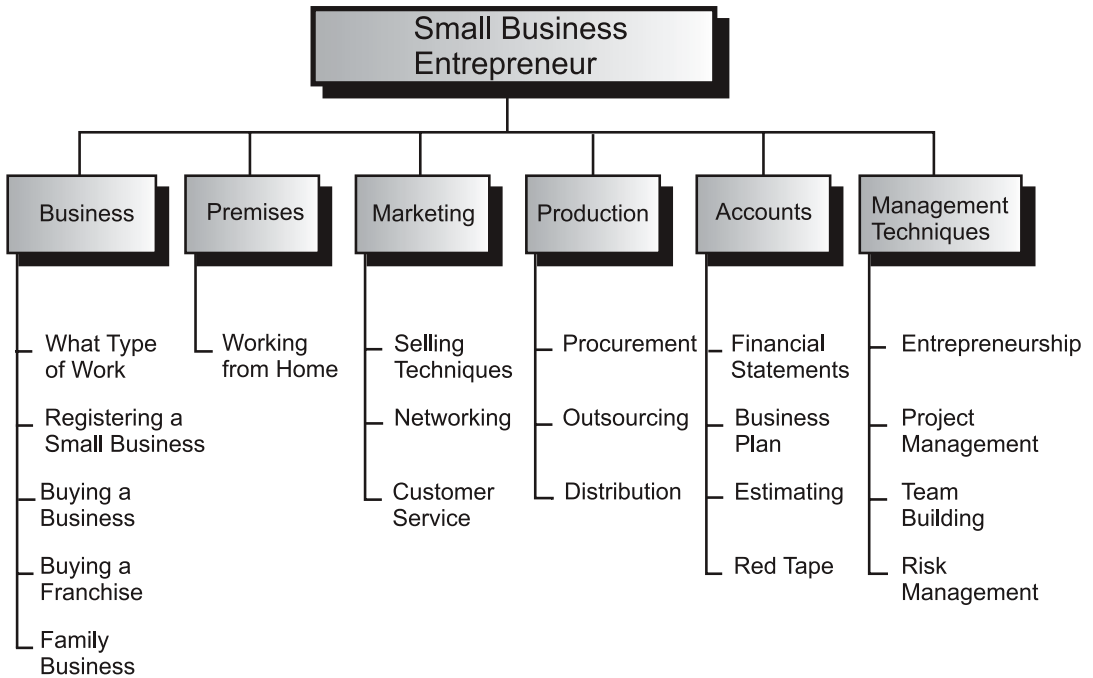


Figure 1.2: Small Business Entrepreneur Body of Knowledge

Although the small business entrepreneurial spirit has been a key feature in our evolution and industrial development, as a management profession it is still relatively new and has yet to formally define a small business entrepreneur body of knowledge. However, the many definitions of small business entrepreneur point to a number of knowledge areas or management topics which can be presented as a breakdown structure, see figure 1.2.

3. Business Knowledge Area

The business knowledge area covers the type of work the entrepreneur can pursue; whether they should buy an independent business, buy a franchise, stay in the family business or start from scratch.

What Type of Work? (Chapter 3): Statistically 80% of entrepreneurs start their first business in the field of their expertise, but there are also an increasing number of lifestyle entrepreneurs who try to develop their hobbies and interests into a business to provide an income.

Registering a Small Business (Chapter 4): There are a number of business structures suitable for SMEs, the chapter on *Registering a Business* discusses the three main options to consider:

- sole trader
- partnership
- limited company.

Each option has different implications with respect to liability, taxation, financial disclosure and administration. It is important to understand these different business structures so that you can make an informed decision.

Buying a Business (Chapter 5): Why go to all the trouble of setting up a business when you can buy an established business off the shelf? Buying a ready made business means you hit the ground running.

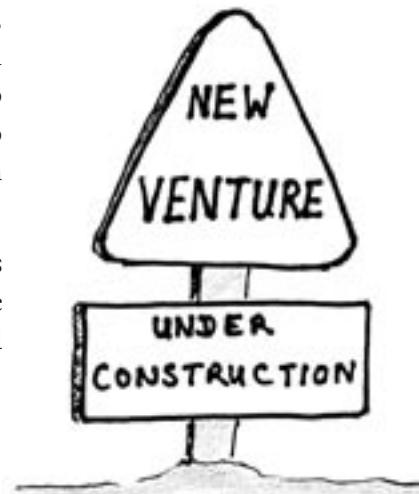
Buying a Franchise (Chapter 6): Buying a franchise business means you are buying the right to set up a business with a brand name and product which are already established in the market place. The big advantage of setting up a franchise is that it is usually a much faster way of expanding your business compared with starting from scratch and growing it on your own.

Family Business (Chapter 7): Many small businesses want to '*keep it in the family*', but keeping it in the family can be a double edged sword. On the one hand it appears to be a secure job on a plate, but on the other hand, the family business may limit the budding entrepreneur's scope for exploring new opportunities, investment and growth.

4. Premises Knowledge Area

The premises knowledge area discusses where you conduct your business - this could be an office, factory, warehouse, garage, shed, or spare room. This is a major consideration when setting up a new business. While you want to keep the costs down until the sales take-off, you do not want to dilute the opportunity you are pursuing by starting in an inappropriate type of premises.

Working from Home (Chapter 8): Working from home is becoming more popular, and increasingly becoming more feasible with new technology, new types of products and new ways to do business.



5. Sales and Marketing Knowledge Area

Selling Techniques (Chapter 9): The sales and marketing knowledge area covers the sales and marketing of a small business. The sales and marketing functions are two sides of the same coin, as one leads to the other. Marketing is the management function to make people aware of the company and its products and create an interest, while the sales function closes the deal and makes the sale.

Networking (*Entrepreneurs Toolkit*): Networking and negotiation fall under the marketing umbrella. Networking skills enable the entrepreneur to use the back door to gain access to ideas, information and resources, while negotiation skills enable the entrepreneur to get a better deal.

Customer Service (Chapter 10): As products become increasingly complicated and high tech, so companies need an effective customer service department to answer the customer's enquiries and respond to any problems.

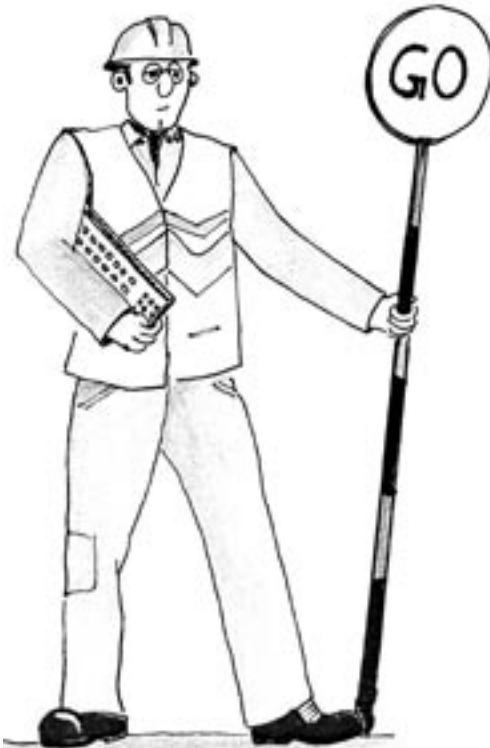
6. Production Knowledge Area

The production knowledge area covers the procurement, manufacture and distribution of the product. Many entrepreneurial projects start with making a prototype to test the product's performance and to confirm it can be built. This obviously relates to the technical content and scope of the new venture. It must be stressed that if the entrepreneur cannot produce a quality product that meets the clients needs, is competitive, reliable, and professionally supported by a willing customer service, then the whole entrepreneurial endeavour will be self-limited.

Procurement: Procurement is the buying-in of goods and services to manufacture the product and run the company. Procurement might also include outsourcing of work.

Outsourcing (Chapter 11): Look on the back of any product you have bought recently and you will almost certainly see that it is made offshore, probably in China. Outsourcing and offshoring of work is increasing due to the cost differentials, particularly labour costs, which are significantly less in the East compared to the West (America and Europe).

Distribution (Chapter 12): Distribution is the process of moving a product within the supply chain. This includes distribution channels (hub and spoke), direct (Internet), transportation and warehousing.



7. Accounts Knowledge Area

The accounts knowledge area covers the financial aspects of running a small business which includes a number of plans and statements to manage the accounts.

Financial Statements (Chapter 13): This chapter summarises a number of financial statements the small business entrepreneur needs to be able to produce to manage the business and plan and control new ventures.

Business Plan (Chapter 14): As creative ideas and opportunities evolve into marketable products, at some point entrepreneurs need to formalise their approach with a coherent business plan. The business plan discusses the feasibility of pursuing the proposed venture and confirms it is making the best use of the entrepreneur's time and resources.

Sources of Finance (*Entrepreneurs Toolkit*): Acquiring sufficient funding is a key component of any entrepreneurial venture. Without financial support and investment, innovative ideas and marketing opportunities cannot be developed, and may simply fall by the wayside as lost opportunities just waiting for another entrepreneur to pursue. Most entrepreneurial ventures need some form of financial support to oil the wheels of development.

Estimating (Chapter 15): For small business entrepreneurs to plan and control their work effectively, accurate estimating is essential. If you tender for work, then accurate estimating is even more important, because now you will be committing your business contractually, based on the estimate.

Cashflow (Chapter 16): The financial success of a new venture depends not only on the product making a profit, but also being able to finance the business through the start up and survival phases. Statistics clearly indicate that more companies go into liquidation because of cashflow problems than for any other reason. The small business entrepreneur must therefore closely plan and control the business' cashflow.

Breakeven Point (Chapter 17): The breakeven point analysis and the payback period are two important financial calculations which give the entrepreneur a feel for the venture's exposure to risk and uncertainty. The breakeven point calculates the number of units the company must sell to cover the set up costs (also called sunk costs), and the payback period calculates the time it will take to get there.

Cash Book (Chapter 18): The cash book method captures all the financial transactions within the company and logs them in a structured data base - it is from this data base that all the other accounting documents draw their raw data.

Red Tape (Chapter 19): Small business associations always complain about the amount of unnecessary red tape and the associated compliance costs which are disproportionately more onerous for the smaller businesses.

8. Small Business Management Techniques

The small business management techniques knowledge area covers all the key business management techniques entrepreneurs need in their portfolio of skills to manage a typical small business.

Entrepreneur: The small business entrepreneur and the small business manager are often thought of as being one and the same person. In some cases they are, but more often they are not. To distinguish between the two, it is important to clarify that entrepreneurship is essentially the management of change, particularly starting a new venture or introducing a new product or service. Whereas small business management is the management of the business on a day-to-day basis.

Entrepreneurship and small business management obviously go hand-in-hand. Small businesses swing in and out of periods of entrepreneurial change as the business introduces new products then consolidates its gains, before repeating the cycle at the next opportunity. For example, entrepreneurial change would include; the start up of the new business, the development of new products, the introduction of new management systems and the penetration of new markets. But, after each entrepreneurial change, the small business would typically consolidate the change and continue at the new level until there was a new need or opportunity to change again. This is shown graphically in figure 1.3.

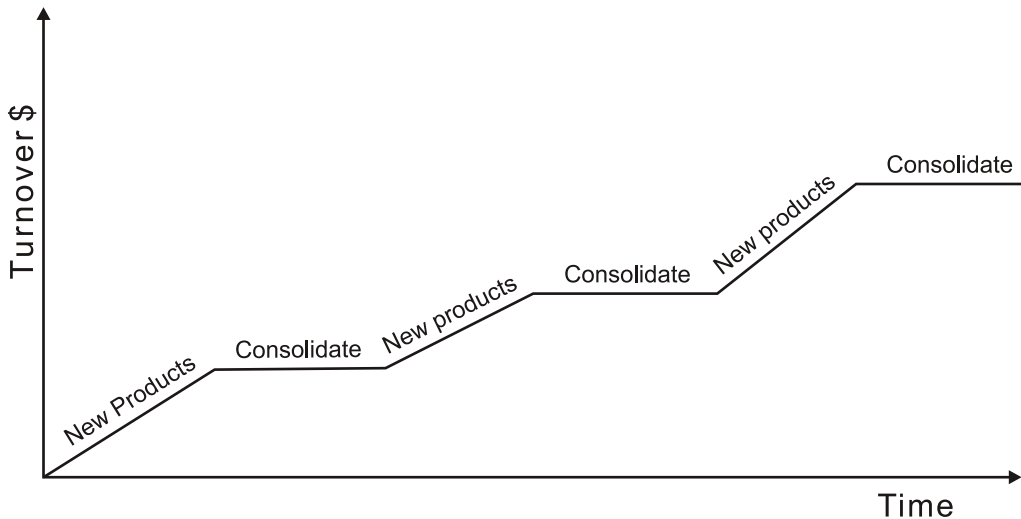


Figure 1.3: Entrepreneur / Small Business Manager Cycles - showing periods of entrepreneurship followed by periods of consolidation

Project Management: Setting up a new venture has all the characteristics of a small project which requires effective project management skills to plan and control the entrepreneurial process. For this reason project management is a core subject within entrepreneurship.

Team Building: The small business entrepreneur is the driving force behind new ventures - leading, co-ordinating, managing and organising the input of suppliers, contractors and team members.

Risk Management: Developing new ideas, seizing opportunities and starting new ventures will always involve an element of risk and uncertainty, and things inevitably will go wrong from time to time. Although entrepreneurs are usually stereotyped as foolhardy risk takers, how they manage their risks goes right to the heart of entrepreneurship.

9. Advantages of Setting up a Small Business

The small business environment is highly competitive and ruthless. This is supported by the statistics of small business survival which are not encouraging - up to 50% of start up businesses will cease trading within the first three years. It is therefore important to consider the pros and cons before embarking on this crusade so that you are aware of the risks and opportunities and can make an informed decision. Some of the advantages of setting up a small business are:

- you can be your own boss, work independently and increase the level of control you have on your life
- you can develop your hobbies and interests into a small business
- you will feel a great sense of achievement and receive recognition of your good work
- running a small business will give you the freedom and resources to pursue marketable opportunities
- you will be able to maximise the return of your financial investment
- you have a greater opportunity to make more money compared to earning a salary (see the chapter on *Staircase to Wealth*)
- you can increase your income security by offering a range of products to a wide client base (it is best not to have all your eggs in one basket)
- for the 50 plus, owning a small business enables them to overcome the age employment block and continue working
- although 50% of small businesses cease trading within three years, many of these companies cease for legitimate reasons which might have been as simple as a name change, moving to a different location, selling the business, or merging with another company.

10. Disadvantages of Setting up a Small Business

The exciting thoughts of setting up your own company could soon turn into a nightmare if you blindly march into a new venture. Consider the following disadvantages;

- your new venture and business could fail and you could lose all your investment, as well as any investment from your family and friends who you have persuaded to invest in your hare-brained scheme
- working long hours (24/7) may leave little time for your family and friends, and no time to live a life and pursue your hobbies and interests
- irregular supply of work will lead to uncertain income. In this feast or famine situation it is difficult to budget ahead
- you will be working on a tight budget as you try to cut costs while you are building up stock and business contacts. It could take a few years before you reach the breakeven point and positive cashflow kicks in
- working long hours with little time for relaxation and holidays increases your stress levels and could have a detrimental impact on your health
- you will be continually under pressure solving problems and making business decisions that you need to get right as your assets are on the line
- as you start your own business you will have to perform every job - from being the boss to cleaning up.

Setting up your own business is a major decision and commitment of your time and resources. Although the statistics of small business survival are a concern, the reason for failure is usually due to poor business management skills. But, as this Entrepreneurship Series shows, these small business management skills and techniques can be learnt.

Exercises:

1. The size of a SME is based on the number of employees and turnover - relate this to your business and the businesses you are familiar with.
2. Small businesses claim to be a big producer of new jobs. How has your business created new positions?
3. List the advantages of setting up your own small business.

Instructor's Manual: An Instructor's Manual is available with additional exercises and case studies, see <www.knowledgezone.net>.