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CHAPTER 3

ENTERPRISE, BUSINESS GROWTH AND SIZE

ENTREPRENEURSHIP

ENTREPRENEUR

An individual who has an idea for a new business and takes the financial risk of starting up and managing it.



CHARACTERISTICS OF SUCCESSFUL ENTREPRENEURS:

- ★ Innovative
(good at thinking up new ideas)
- ★ Self-motivated and determined
- ★ Self confident
- ★ Multiskilled
- ★ Strong leadership qualities
- ★ Initiative
(able to develop a good plan)
- ★ Results driven
- ★ Risk-taker
- ★ Good at networking
(prepared to learn from others)

BUSINESS PLAN

BUSINESS PLAN

A detailed written document outlining the purpose and aims of business which is often used to persuade lenders or investors to finance a business proposal.

BUSINESS PLAN CONTAINS:

- The business
(Information about the entrepreneur, managers and workers and idea of the business)
- The business opportunity
(About the products and market research)
- The market
- The objectives of the business
- Financial forecast



WHY GOVERNMENT SUPPORTS BUSINESS START-UPS

BUSINESS START_UP

A newly formed business. They usually start small, but some might grow to become much bigger.



WHY?

- Job creation
- Increase the variety of product available.
- Greater competition (lowers prices and increases quality)
- Provides specialist goods and services which larger businesses are less interested in
- Some small business will grow and become the larger businesses in future. Country can benefit from the larger businesses bring to the economy.
- tax

HOW GOVERNMENTS SUPPORT START-UPS



- Grants and interest-free or low-interest loans
- Lower taxation rates on early years
- Rent-free premises for a certain periods of time
- Free or subsidies training scheme for employees
- Information, advice and support

MEASURING BUSINESS SIZE

→ Capital employed

Small businesses will invest less capital than a large business in the same industry. But it can be a problem when the businesses in different industries are compared,

→ Value of output

A small businesses have much lower revenue - earnings from sales - than a larger businesses. However, it is not a good measure when comparing businesses in different industries.

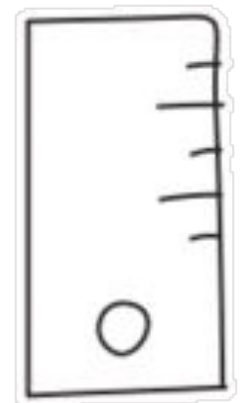
→ Market share

The larger the share of a total market, the larger the business. (not a good measure when comparing businesses in different industries)

→ Number of employees

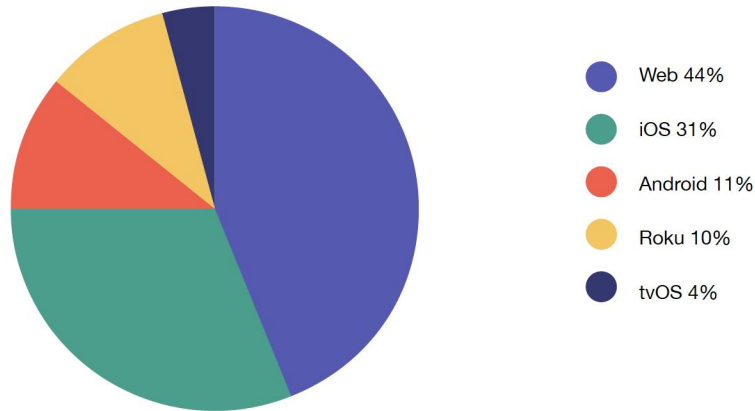
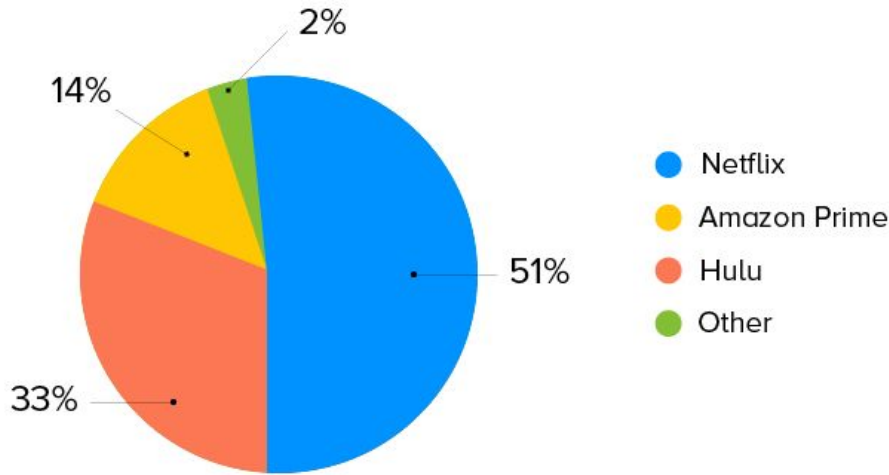
Large businesses usually employ many more employees than smaller businesses. But machinery use can reduce number of employees.

* Profit is not acceptable measure of the business.



WHY OWNERS MAY WANT TO EXPAND THEIR BUSINESSES

US Streaming Market Share



Market share is the percent of total sales in an industry generated by a particular company.

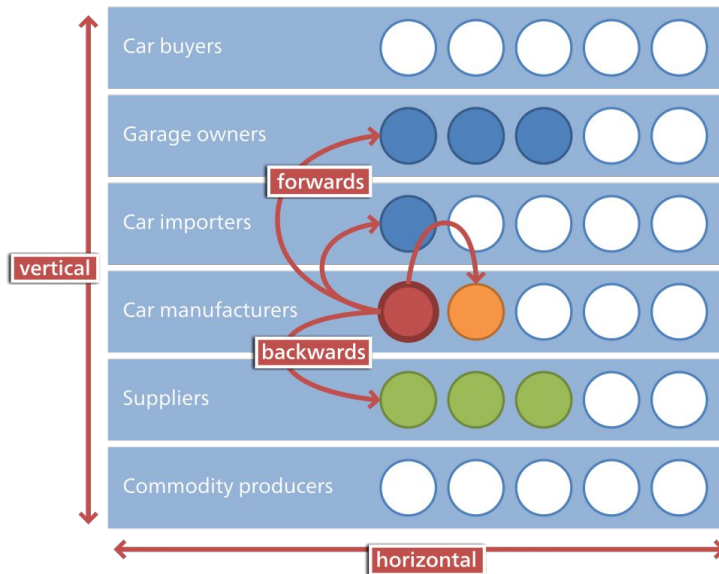
WHY?

- Increase in market share
- Increase in profits
- Economies of scale (reduces average cost, increases profits)
- Greater power to control the market
- Protection from the risk takeover

DIFFERENT WAYS TO BUSINESS CAN GROW

INTERNAL GROWTH

- Increasing number of goods it can produce (buying better machineries)
- Developing new products
- Finding new markets for its products

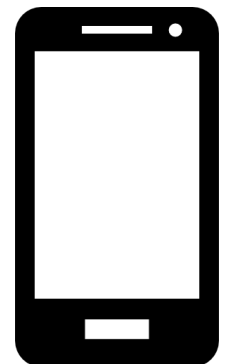


EXTERNAL GROWTH

- Horizontal integration
Two firms in the same industry and the same sector of business activity (two chocolate manufacturers)
- Forward integration
Two firms in the same industry but one is a customer of other (shoe manufacturer and shoe retailer)
- Backward integration
Two firms in the same industry but one is a supplier to the other (chocolate manufacturer and a cocoa producer)
- Conglomerate integration
Two firms in completely different industries (cosmetics manufacturer and a soft drinks manufacturer)

WHY SOME BUSINESSES REMAIN SMALL

- Owner's choice
 - Owners does not want the responsibility
 - Owners wants to maintain a close relationship with customers and provide personal services
 - Owner does not want to take the risk
- Market size
 - Businesses that serve a local market - hairdressers, taxi firms or dentists
- Access and availability of capital
- Market domination (difficult to compete)



WHY SOME BUSINESSES FAIL

- ❑ Economic influences
- ❑ Poor planning
- ❑ Liquidity problems
(does not have enough money to run the business or debts)
- ❑ Poor management skills
- ❑ Lack of objectives
- ❑ Failure to invest in new technologies
- ❑ Lack of finance
- ❑ Poor choice of location
- ❑ Poor marketing
- ❑ Competition

