



Entrepreneurship, New Ventures and Business Ownership

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Chapter (3)

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Harvard dropout turned Billionair

- 175 million people facebook and half of them are college students.
- Mark Zuckerberg started this social network in February 2004 in Harvard.
- By November 2004, the site boasted 1 million users.
- 18 months later, membership had ballooned to 7 million members.
- In October 2006, when it began to accept nonstudents, memberships were 24 millions.

- It is now one of the most visited sites with Google among U.S students.
- In 2011, Facebook users were estimated by 700 million.
- Facebook began as noncommercial enterprise.
- Zukerberg realized that he could convert it into a business.
- PayPal cofounder Peter Thiel invested \$ 500.000 in 2004.
- The new company lost \$ 3.6 in 2005.
- Revenues were \$ 150 in 2007.
- Facebook stock can't be purchased on the open market.

What is a “Small Business”

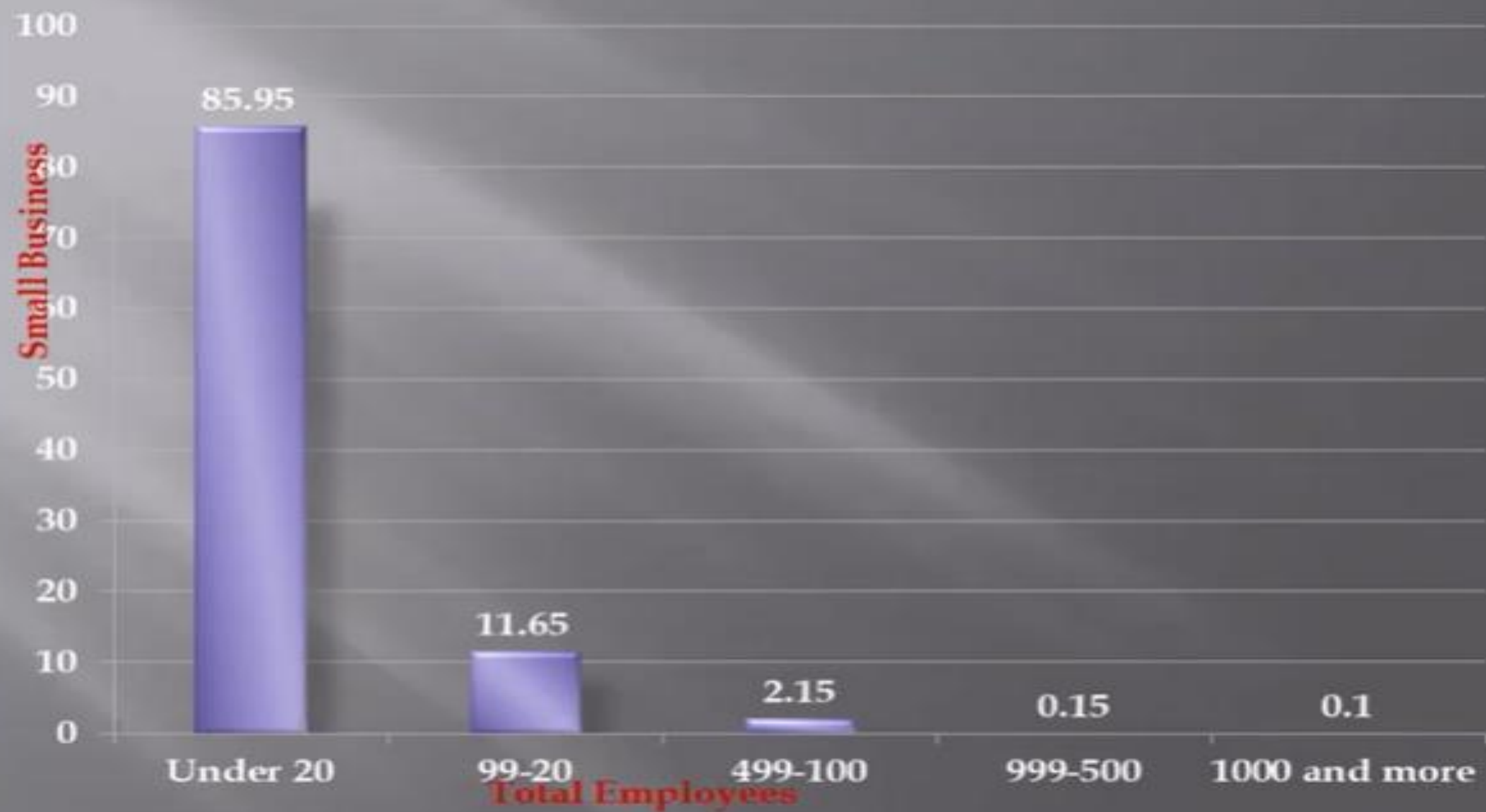
- Local restaurants, Dry cleaners and Hair salons are defined as Small Businesses.
- Dell, Starbucks, Apple and Samsung are defined as Big Businesses.
- The U.S. Department of Commerce considers a business “Small” if it has fewer than 500 employees.
- The U.S. Small Business Administration (SBA) regards some small business with 1500 employees.
- They are recognized as “Small” due to their influence in the market.

The importance of Small Business in the U.S. Economy

- Most U.S. businesses employ fewer than 100 people.
- Most U.S. workers are employed by small business.
- This trend exists in most free market economies.
- See Next Figure.

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Impact of Small Business on U.S. Economy System

1- Job Creation

- Small businesses in certain industries are an important source of new jobs.
- In the recent years, small businesses offered about 40% of all new jobs in high technology sectors.
- Small businesses hire and fire in a high rate reverse big firms.
- Small business may grow to be a big business.
- Dell company began with 1 employee in 1984 (Michael Dell himself).
- 100 employees in 1986, 2000 in 1992, 94.300 in 2010.

2- Innovation

- Major innovations come from small businesses as from big businesses.
- Small firms invented the personal computer, photocopier machine and the jet engine.
- Today small businesses produce 13 times of patents compared to big firms.

3- Contributions to big business

- **Most** of products made by big business are sold to consumers by small ones.
- **For** example: most dealerships that sell Ford, Toyota and Volvos.
- **Small** business provide big firms with raw materials.
- **Microsoft** relies on hundreds of small firms for different services.

Popular Areas of Small- Business Enterprise

1 - Service

- About 50.74% of businesses with fewer than 20 employees are involved in service industry.
- Examples: marriage counseling , computer software and management consulting.
- Service providers are the fastest-growing segment of small business.

2- Retailing

- Retailers account for 13% of these firms.
- Usually, people who start small retail business favor specialty shops (big men's clothing, for example).
- This kind of business let them focus limited resources on small market segments.

3- Construction

- About 14.7 % of all U.S. business are involved in construction.
- Many construction jobs are small local projects.
- For example: a homeowner adding a garage or remodeling a room.

4- wholesaling

- Small-business owners often do well in wholesaling.
- It accounts 5.6% of businesses with fewer than 20 employees.
- Wholesalers buy products in bulk from producers and store it to sell to retailers.

5- Finance and Insurance

- Financial and insurance firms account of 6.83%.
- Such as Local State Farm Insurance offices which are agents to large national firms.

6- Manufacturing

- It represents 3.46% of the small business.
- Electronics, equipment and machine parts, and computer software.

7- Transportation

- It accounts 2.75% of the small business.
- Taxi and limousine companies, charter airplane services, and tour operators.

8- Other

- 4.76% represents other industries.
- Independent media companies, small-town newspapers, and radio broadcasters.

Starting and operating a new business

- The Internet has changed the rules for starting and operating a small business.
- Easier setting up, more opportunities, and easy of collecting information.
- Many retailers buy and sell through internet.

Crafting a Business Plan

1- Setting Goals and objectives

- A business plan describes the match between the owner's abilities and experience and the requirements for producing and/or marketing a product.
- It also defines strategies for production, marketing, legal elements and financial affairs.
- Business plan must answer three questions:
 - (1) **What** are the owner's goals and objectives?
 - (2) **What** strategies will be used?
 - (3) **How** will strategies be implemented?

2- Sales Forecasting

- **Business** must account opportunities of success.
- **Forecasting** must be done in a logic and research.
- **Forecasting** sales revenues.....
- **Forecasting** for new outlets.....

3- Financing Planning

- **It** means owner's planning for all operation of the business which need money.
- **Cash** budget shows how much money the business needs to be started.
- **Start** business , keep it running , and then expand the business.

Reasons of Failure of a Business

1- Managerial incompetence or experience:

- Put too much faith in common sense.
- Overestimate its managerial skills.
- Believe that hard work is enough.

2- Neglect

- Try to establish business in spare time.
- Devote limited time to your business.

3- Weak control systems:

- Effective control systems alert managers to potential troubles.
- Lack of policies, procedures, and work instructions.
- much credit to customers.

4- Insufficient capital:

- Start fast, over optimistic,
- Amazon.com didn't earn profits for 10 years.
- Experts say that “ you need enough capital to operate at least 6 months without profits”