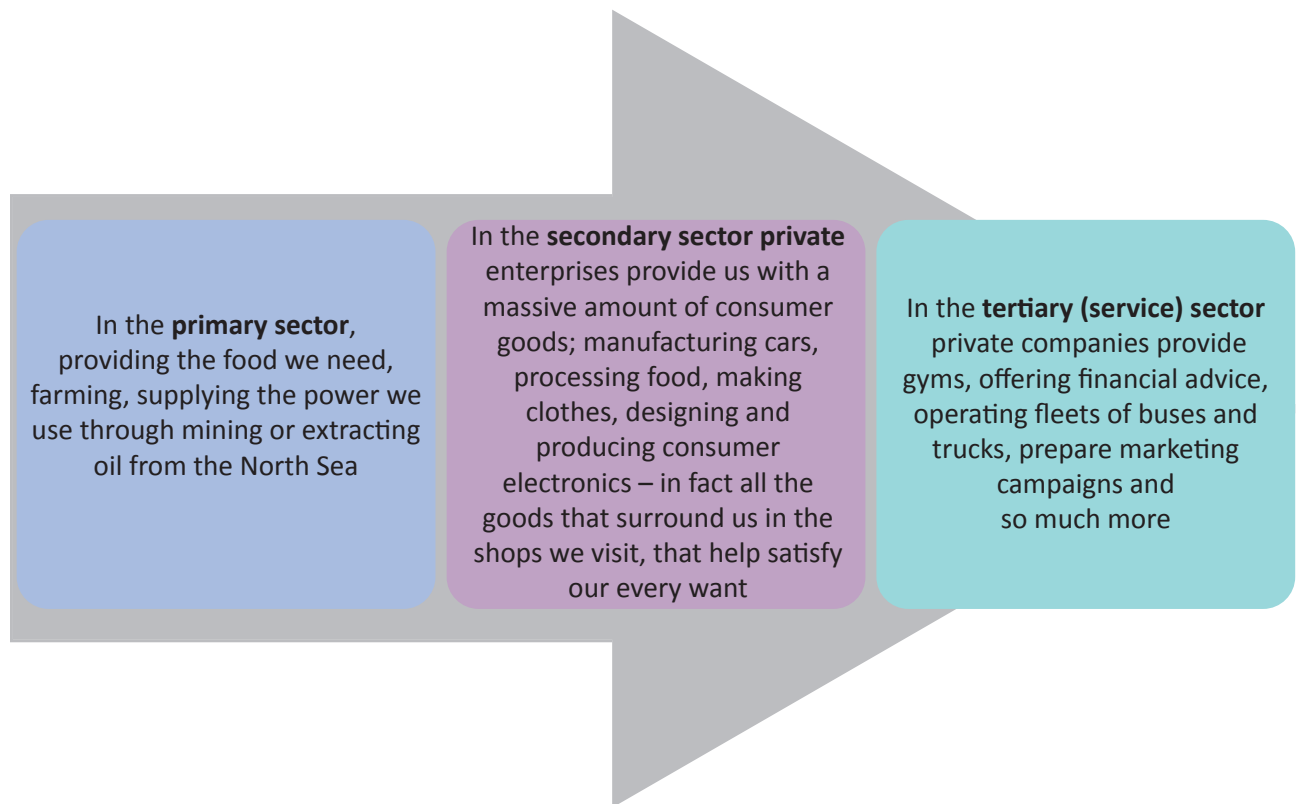


Chapter 1

Enterprise and business planning

Business activities have a major impact on our lives – both as consumers and employees. Business is in every sector of the economy:



- In the UK there are almost 5 million separate businesses, employing a total of 24 million people.
- Of these businesses, over 3.3 million are sole proprietors.
- There are around 500 000 businesses that are partnerships.
- There are also 1.2 million registered limited companies.
- SMEs (small and medium-sized enterprises) employ around 14.4 million people and have a combined turnover of £1,600 billion.

Why do people start their own business?

- **To gain a profit** – the motive for profit is generally thought of as the prime reason why people start businesses. For an entrepreneur who is starting a small business for the first time, it is rarely just about money – even so, earning a decent income in the form of profit will be a major focus.
- **To turn a hobby or a pastime into a business** – many new entrepreneurs are able to turn a hobby or a pastime into a business. For example, every surf school in the country is likely to be owned by a surfer and fantasy games shop is likely to be set up by a player. Being fully involved in your hobby and creating an income from it is probably as satisfying a business experience as the small business person is likely to find. Often these entrepreneurs do not try to fully maximise profits, instead they balance work, customer satisfaction, and their own freedom to live a lifestyle that they are content with. This is known as 'satisficing' – decision making that aims for a satisfactory result, and not using all energies trying to maximise income.

- **To use redundancy money** – some new business people are forced into setting up a business because of redundancy. Losing a job, with little chance of finding another one in the near future, is often reason enough to start a business. Most people who have been made redundant will receive a redundancy payment and this can be used as capital to start a business.
- **To be their own boss** – often people just want to be their own boss, in control of their own destiny, not being an underappreciated ‘cog’ in a huge corporate machine. These sort of potential entrepreneurs are often searching for an idea that they can turn into a successful business.

The following article is from the Company Bug website (dated 18 December 2013), which refers to figures from the enterprise website Startup Britain:

Record number of new businesses started in 2013

New business formation data shows that 2013 has been a record-breaking year for start-ups, with over 520 000 new businesses expected to have been formed by the end of the year.

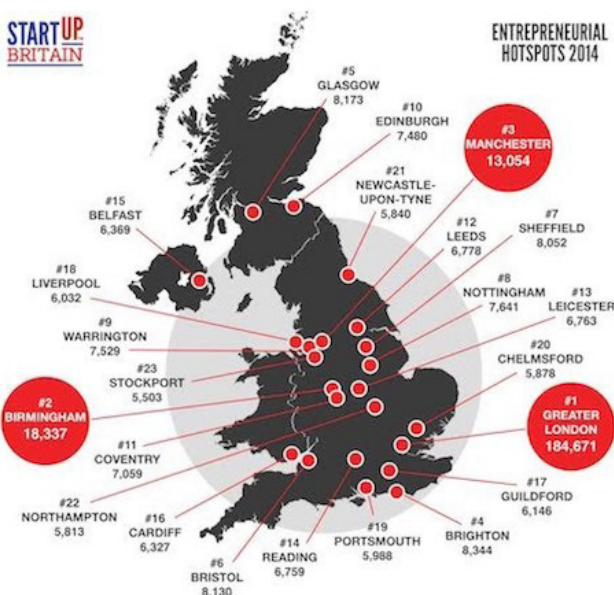
The Startup Britain figures, which are verified and subsequently audited by Companies House, are certainly impressive.

By mid-December 2013, 499 000 businesses had already been formed, so the 500 000 barrier is certain to be broken for the first time by December 31st.

The statistics also show a significant rise in start-up numbers compared to previous years; 440 000 were formed in 2011 and 484 224 last year.

Emma Jones, who co-founded the site, commented; “We’ve been looking at these figures for three years since the campaign began and it’s clear the UK’s start-up community is fit and healthy – and shows no sign of abating.”

Small businesses have often been referred to as the ‘life blood’ of the UK economy, especially by politicians. For good reasons too.



Source: startupbritain.org

According to the Department of BIS [*Business, Innovation and Skills*] data, 99.2% of all UK businesses are defined as 'small' (i.e. they have between 0 and 49 employees).

Interestingly, this 99.2% of businesses is responsible for 47% of all private sector employment in the UK, and around one third of all turnover created by private enterprise.

Surprisingly, the number of people deciding to start up businesses on their own has increased each year since 2000, despite the recession. The Government estimates that the total number of business entities increased from 3.5m to 4.9m between 2000 and 2013.

We can see from the article above that studying business is not just about looking at big businesses like BP, Apple, Sony and hundreds of others who are worldwide (multi-national) enterprises, with billions of £s in assets and profits. It is just as much the study of what makes a successful small business. The article tells us about the importance of small businesses to the economy. A huge number of separate enterprises are helping to innovate and drive economic growth – creating opportunities for employment and satisfying consumers' needs and wants.

Needs and wants are not fixed: they can change quickly as fashions and lifestyles change and also over the longer term as incomes increase and population changes. This means that markets are always changing. The business world does not stay still – new opportunities are constantly arising. An entrepreneur with an idea, commitment, funds and a little luck can succeed even in the most competitive of markets.

Needs and wants

Needs – economists say that needs are what people require to survive – for example, food, warmth, shelter and clothing. We could also include education, healthcare and security – being safe.

Wants – what we desire, what we would like to have. For example, nicer clothes, not just basic functional items, a new phone every year, a massive flat screen TV, a detached house with pool, holidays in the Maldives etc.

What is an entrepreneur?

An entrepreneur is someone who starts and runs a business. Perhaps he or she makes a product and then sells that product, or perhaps they provide a service. They quite possibly employ people and, of course, try to make a profit.

Many countries and governments place great value on entrepreneurs and how they create wealth in an economy. Many entrepreneurs are innovators. They bring new ideas to the market and drive the development of new technologies. James Dyson, of Dyson vacuum cleaner fame is a classic example of an entrepreneur, bringing a range of new products to the market.

The following article is a brief history of the development of the Dyson vacuum cleaner from the Idea Finder website:

Dyson vacuum cleaner

James Dyson was vacuuming his house when he realized his top-of-the-line machine was losing suction and getting clogged. An industrial designer by training, Dyson went to work re-engineering vacuum cleaner technology to fix this problem. But that wasn't his only challenge. Fifteen years and more than 5000 prototypes later, he launched Dyson Limited to produce his design when no other manufacturer would take it on.

Invention:	Dyson vacuum cleaner
Function:	Cyclone technology uses 150 000 g's of centrifugal force in the cyclones to filter dust and remove dirt from the airflow efficiently. Because there is nothing to obstruct the airflow, the Dyson doesn't clog and doesn't lose suction.
Patent:	4 377 880 issued 1983 for vacuum cleaning appliances 5 090 976 issued 1992 for Dual cyclonic vacuum cleaner
Inventor:	James Dyson
Birth:	1947 in Norfolk, Great Britain
Nationality:	British
Milestones:	
1974	Strikes out on his own to develop the Ballbarrow. Designs a water-filled plastic garden roller.
1977	The Ballbarrow wins the Building Design Innovation Award.
1978	James invents the Trolleyball – a boat launcher with ball wheels.
1978	James stumbles across the idea of a bagless cleaner while renovating his country house.
1979	Spends five years developing the cleaner, and builds 5127 prototypes of the Dual Cyclone™.
1981	Files U.S. Patent application.
1982	James Dyson spends two years trawling, looking for someone to license the product.
1983	Dyson produces his first prototype vacuum cleaner, a pink machine called the G-Force.
1985	Dyson takes his product to Japan where he begins to work with a company that imports Filofax.
1986	The Japanese start to sell the G-Force.
1995	The Dyson DC01 becomes the best-selling vacuum cleaner in the UK.
1995	The Dyson Dual Cyclone™ DC02 is launched, and becomes the second highest seller.
1996	Launches DC02 Absolute, the first with both HEPA filtration and a bacteria-killing screen.
1997	James Dyson's autobiography 'Against the Odds' is published.
2001	New Root ⁸ Cyclone technology is the most powerful upright vacuum cleaner on the market.
2002	Dyson brings Western Europe's top-selling vacuums to the United States.
2005	The Dyson DC15 (The Ball™) replaces conventional wheels with a ball.

The Story:

You know the feeling when some everyday product lets you down. You wish someone could solve the problem. James Dyson does that. He is a man who likes to make things work better. With his research team he has developed products that have achieved sales of over \$10 billion worldwide.

In 1978, while vacuuming his home, James Dyson realized his bag vacuum cleaner was constantly losing suction power. He noticed how dust quickly clogged the pores of the bag and blocked the airflow, so that suction dropped rapidly. He set to work to solve this problem. Five years and 5127 prototypes later, the world's first cyclonic bagless vacuum cleaner arrived.

James Dyson offered his invention to major manufacturers. One by one they turned him down, apparently not interested in new technology. They seemed determined to continue selling bags, worth \$500 million every year. Later, Hoover's vice president for Europe, Mike Rutter, said on U.K. national TV, "I do regret that Hoover as a company did not take the product technology off Dyson; it would have lain on the shelf and not been used."

What are the key characteristics of an entrepreneur?

- **Being a risk taker** – entrepreneurs are not always about new products or new ideas. They are often just doing things better than they were done before. However, they are all risk takers – they risk capital and their own time to try to create profits. They may remortgage the house, borrow from friends and family, or give up well-paid jobs to try to make a success out of their business idea.
- **Taking the initiative and being proactive** – successful entrepreneurs are able to take the initiative when required. They do not panic and allow events to overwhelm them – they are proactive and able to change as needed.
- **Being an effective organiser** – an ability to organise effectively is central to running a business effectively. The entrepreneur may need to undertake a wide range of activities; from hiring labour and buying inputs, such as raw materials, to producing the finished product for sale.
- **Having creativity and being innovative** – creativity in business means the ability to come up with innovative concepts and ideas, or developing a better way of doing things. Two American college students working in their college dorm in 2003 had the view that there had to be a more efficient way of gathering data for internet search engines – we now have Google, one of the biggest brands in the world!
- **Being hard working** – successful entrepreneurs are, generally, hard working. It is estimated that entrepreneurs in the UK work for around an average of 52 hours a week, plus another 40 hours thinking or worrying about their business venture. Compare this to the average working week of 38 hours for an employed person.
- **Being determined and having perseverance** – entrepreneurs also need to be determined, as new businesses have low success rates. Entrepreneurs must also have considerable perseverance, and be willing to keep trying if initial ideas fail.



Characteristics of a successful entrepreneur
<http://bit.ly/1T1eTOM>

Discussion themes

The website startups.co.uk has a section on young entrepreneurs (link below).

<http://startups.co.uk/being-a-young-entrepreneur/>

Choose two or three of the young business people described and list factors that are consistent in the reasons for their success.

Read the article 'Dylan Jones-Evans on why the backbone to the small firm sector is a 'family affair''. Then use notes and information in the article to answer the following question:

Big business benefits an economy much more than the activities of small businesses. Discuss.

WalesOnline Business

<http://www.walesonline.co.uk/business/business-opinion/dylan-jones-evans-backbone-small-firm-7101903>

'Big businesses make the headlines, so why bother about the growth of small businesses.' Do you think that this statement undervalues the importance of SMEs to the UK economy?

Discuss the following statement: 'All successful entrepreneurs are risk takers.'

To what extent do you agree with the following statement: 'Business success is down to having a good idea.'

Identifying business opportunities

Potential business opportunities occur when a **market need** exists. This market need is preferably one that has not yet been targeted or not yet been targeted effectively. Therefore, a new entrepreneur wanting to start and run a successful business will need to find a product or service that isn't already available, or one that can be improved on. A starting point might be to find out what is missing in the local area.

Another way of investigating opportunities might be to ask the question: 'What can be offered to other businesses that would help them increase their sales, improve their service, or reduce their costs?' A business can service other businesses. These other businesses have customers who are different businesses. They may supply office equipment, cleaning, marketing services, transport, IT services, financial services etc.

Sometimes identifying a potential business opportunity can occur through word of mouth. Are people complaining about lack of access to a product, or describing a need, or criticising a business? All of these could present an opportunity.

Many new businesses are based on accessing customers through new market places – products or services can be bought here. Moving away from bricks and mortar reduces costs and allows prices to be cut. Obviously the internet is the best example of this – Amazon and Ebay are prime examples of new businesses which are based on price, buying opportunities and convenience. However, it is not only big businesses who can succeed through this method. The example of Foulgers Dairy shows how a small firm targeting a specific market (raw milk) can take advantage of new ways of accessing customers nationwide.

Often new businesses are founded on the idea of how innovative methods could help meet a need. For example, is there a kind of website or app that would improve what is already available or make it a more efficient process? Comparison websites have changed the way people buy insurance, book holidays and hotels, choose electrical goods etc. MoneySavingExpert, which covers the whole range of financial services and shopping, was founded by a sole trader – Martin Lewis. The site is focussed on allowing consumers to access the best deals on everything from buying cars to the weekly shop. Martin Lewis founded MoneySavingExpert.com in 2003 for £100. It's now the UK's biggest money site, with over 14 million monthly users.

Finally, business opportunities can come from an entirely new product developed by the entrepreneur/ inventor. Fortunes used to be made by inventors working with limited resources, but times have changed, with most new consumer products now coming from mega corporations. However, exceptions still occur. Worldwide success and the rapid growth of small businesses (or even one-man bands) have come through using marketing platforms such as the iTunes Store and the Android Market to promote and sell apps.

We have seen then that there are a number of ways of identifying where the potential lies when establishing a business. But whatever the business and however the opportunity has arisen, the next stage for the budding entrepreneur is to prepare a business plan.

Developing a business plan

The business plan makes clear the objectives of the business and how the business intends to achieve these objectives. A business plan is often likened to a map. This road map analogy is important – business plans are not to be written and forgotten, they are ongoing. The objectives that are set – whether financial, sales, marketing or production – are there for future guidance and not to be ignored. Start-up businesses that develop and follow a business plan are more likely to survive than those who do not.

The overview or executive summary

When preparing a business plan the entrepreneur should first of all clearly describe the business idea. This overview of the business will briefly describe the business opportunity that is to be exploited. It should summarise the strategies that will be employed and how finance will be obtained. This overview is very important in setting out the overall aims and objectives of the business. There is no set pattern for a business plan but there are key elements that need to be included – the plan needs to be flexible and able to adapt to changing market circumstances.

The marketing plan

This is an important part of any business plan and it should be based on both field and desk research. The market **research** carried out needs to establish if possible the size of the market, the needs of the customers and the level of competition. Once market research findings have been examined then the marketing plan (strategy) can be prepared. If market research has identified weaknesses with the initial idea, this may be the time to adapt the product to more closely meet the needs of the customer or clearly differentiate it from the competition.

The operations plan

This will include details of where the business will be located, production methods and any equipment needed. In addition, information on the costs of production and where the business will buy supplies may also be included.

The human resources plan

The number of employees and the skills, experience and qualifications they require will be outlined. Any management team will also be identified.

The financial plan

A variety of forecasting will be necessary:

- a sales forecast indicating potential revenues;
- a cash flow forecast for the first 12 months;
- a profit and loss and balance forecast for the end of the first year;
- a break even analysis.

In addition, information should be provided on where the finance for starting and running the business will come from. This will indicate the available start-up capital as well as any potential borrowing.

What are the potential benefits of a business plan?

When complete the business plan presents the business owners with a clear set of instructions on how to run the business. A comprehensive business plan will allow business owners to check progress against objectives, monitor cash flow and take action when objectives are not being achieved. Business owners can clearly see when things are going wrong.

A business plan is also needed for potential investors or when seeking finance from banks. Without a business plan it is highly unlikely that capital could be attracted from people or institutions outside of the business.

What are the potential drawbacks of a business plan?

Even with all these positive factors for having a business plan, there are downsides. Market research costs time and money, resources which might be better spent elsewhere in the business. For many start-up businesses this will be the hardest part of preparing a business plan. How do you predict what your income will be? Market research should provide an idea, but how reliable is the data? The estimate of sales revenue, money flowing into the business, should be based on accurate market research, but the truth is that most new businesses will at best be making an educated guess on how much money will be generated. The need for this guesswork is a potential weakness of any business plan.

An inaccurate business plan with unachievable objectives can give entrepreneurs false hope, leading to failed investments. Some experienced entrepreneurs have enough market and business knowledge to move from year to year without reference to marketing plans, or financial forecasts, and they do happily survive. However, for such businesses growth is unlikely without forward planning. Identifying and adapting to change in the market may then result in crisis management.

Discussion themes

Business Wales Guide to Business Plans

<http://business.wales.gov.uk/starting-business/starting-business-0/preparing-business-plan>

Business plan templates and advice

www.gov.uk/write-business-plan

Why is it important to consider 'the audience' when preparing a business plan?

What financial aspects of the business should always be contained in a business plan?

Discuss the following statement: 'Most business plans are not worth the time spent in preparation.'

To be effective business plans need to be flexible. Explain why.