

1.3 Establishing a business

Owning and operating your own small business can be rewarding and satisfying, but there are many pitfalls to watch out for. About half of all small businesses fail within the first four years. The success of a small business depends largely on the owner's market awareness, resources, initiative and level of management expertise.

Although there is an infinite variety of businesses and business ideas, there are some golden rules that must be obeyed if the business is to have any real chance of success beyond the first 12 months.

GOLDEN RULE

Business knowledge

- You must have clear realistic goals for the business. That is, how much revenue does the business need to make to ensure that it can continue operating?
- Obtain accurate and up-to-date information to establish and run your business. For example, you may need advice from an accountant on profit and loss statements, and sales and **inventory** reports.
- Respond quickly and effectively to events that could have a major effect on your business — for example, the new smoke-free laws or a disease affecting agriculture.

GOLDEN RULE

Market awareness

- Define your target market and choose the right product and location to give your business the best chance of success.
- Learn as much as you can about your competitors and the ideas that they use to attract customers.

GOLDEN RULE

Hands-on management

- Employ the right mix of people for the business. Ensure that there are creative people as well as people who are good with logic and facts. Hire reliable staff with a strong work ethic.
- Train your staff. A **multiskilled** workforce is generally more efficient and happier than one in which people are stuck in the same roles.
- Motivate your employees and provide them with **incentives** if they perform above expectations. Improved career prospects, a pay rise, bonus or 'employee of the month' award is always welcome.

GOLDEN RULE

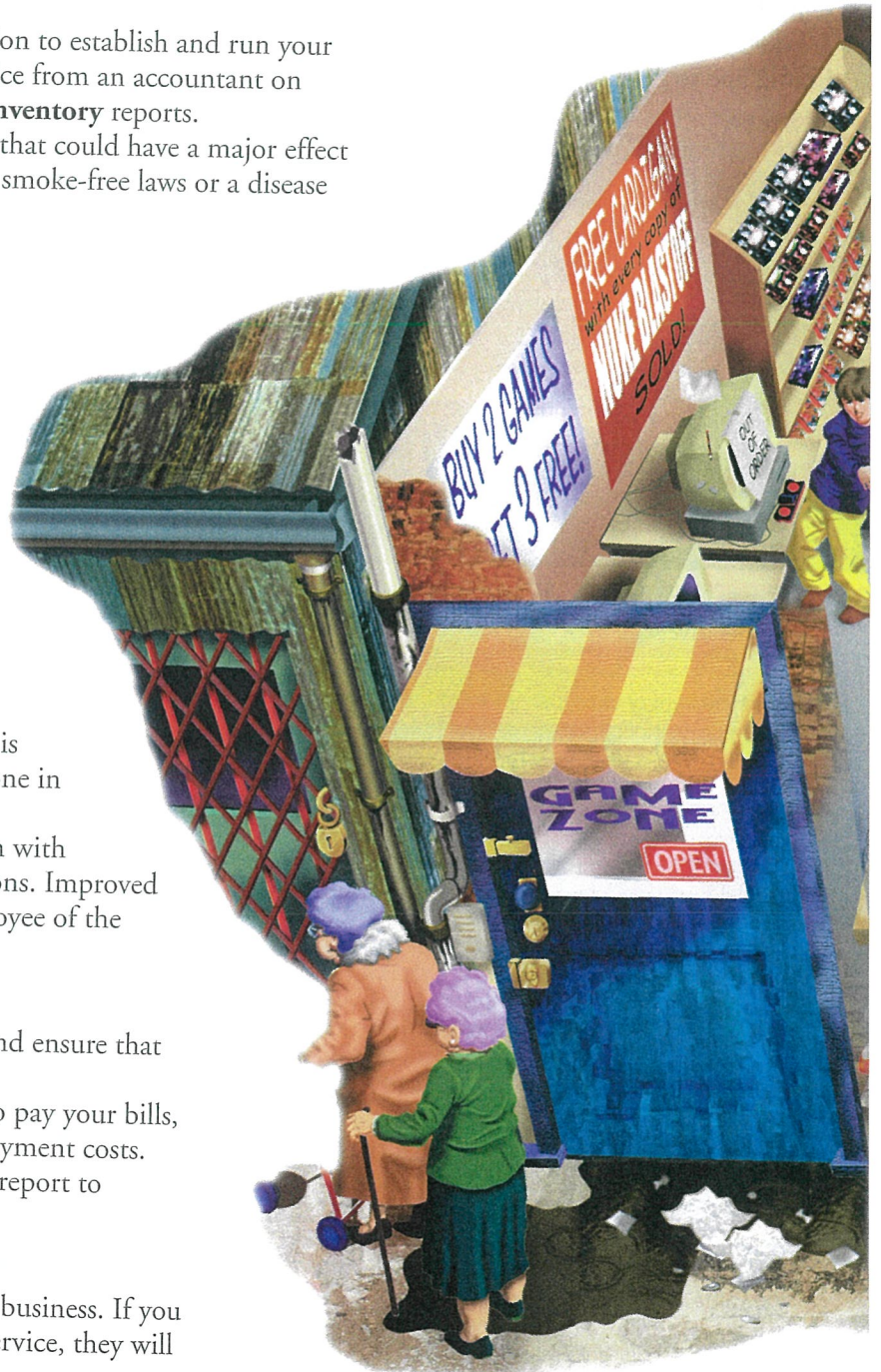
Ensuring sufficient capital

- Research the best available business loans and ensure that repayments can be met in the first year.
- Ensure that you have sufficient **cash flow** to pay your bills, including rent, power, stock, tax and employment costs.
- Keep accurate tax records and, if necessary, report to shareholders.

GOLDEN RULE

Customer service

- Make customer service a key aspect of your business. If you do not provide your customers with great service, they will soon find someone else who will.



Case Study

Two friends, Jake and Ashley, established their small business, GameZone, in 2006. They didn't have much money of their own and the banks were reluctant to lend them the sum they needed to set up business. They decided to borrow from a finance company although they charged a higher rate of interest. Still, they had their money.

Their next problem was the location. Rents were very high in the local shopping centre. They opted for a disused shop in a local street. Next door was an abandoned warehouse, and on the other side was the Pensioner World shop.

On the opening day, the stock had arrived and games were piled high on the shelves. One customer found a copy of Mario under a pile of Halo games and walked to the counter.

'I'll take this thanks. And I understand that you're giving away free copies of Gran Turismo if I buy Call of Duty,' said the customer. 'Dunno about that,' said Mez, the shop assistant. Jake emerged from the back office and stubbed out a cigarette on the counter. He told the customer that although this was meant to be a promotional offer, the shipment of PlayStations hadn't arrived in time. 'Well then, can I have you hold a copy for me?' asked the customer.

'Maybe, but until our internet is fixed, nothing's happening. Sorry,' replied Jake.

'No, you're the one that will be sorry,' cried the customer. 'I'm reporting you to Consumer Affairs for misleading advertising. Sorry, guys. Game over!'

◀ GameZone in action
— how *not* to play
the business game!

Activities



Student worksheet
1.3

REMEMBER

- 1 Define the following words:
 - (a) business
 - (b) incentives
 - (c) multiskilled
 - (d) cash flow.

THINK

- 2 Look carefully at the GameZone illustration and case study.
 - (a) How did Jake and Ashley raise the money to start the business?
 - (b) What evidence is there that Jake and Ashley did not spend enough time carefully locating their business for its target market?
 - (c) What stock problems do you think GameZone might face? How might this affect its performance?
 - (d) What special marketing plans are in place in the illustration of the store? How successful do you think they will be for the business?
 - (e) Give three examples of poor customer service at GameZone.
 - (f) The business has not enjoyed the start the owners wanted. If they called you in as a manager, what steps would you take to improve operations? Explain.

DESIGN AND CREATIVITY

- 3 Your task is to prepare a poster, leaflet or web page that informs employers of the keys to establishing a successful business. The information should be visually attractive and well designed, as well as providing details of successful business planning.

cash flow the amount of cash coming in and out of a business in a given period of time

incentives encouragement or motivation for employees to work more effectively and efficiently, given in the form of pay rises, bonuses or awards

inventory the stock of items available for sale

multiskilled the ability to perform a variety of tasks within the same organisation