

CHAPTER 15

OPTION

Running a small business

Owning and operating your own small business can be challenging, rewarding and stimulating, as well as hard work. It requires a great deal of planning, an understanding of customers and their needs and constantly staying ahead of your competition. For those prepared to take the risk and who finally make it, the sense of achievement and satisfaction is well worth the effort.

Focus

On completion of this chapter, you will have become actively engaged in planning, organising and running a small business, and developed strategies to address problems as they arise.





Glossary

assets items of value owned by a business

business opportunity something an entrepreneur can see as an avenue to success

competitive advantage the ability of a business to develop strategies that ensure it has an 'edge' over its competitors

demographic factors population characteristics that affect customer spending and include: age, ethnicity, gender, marital status, family size and income

entrepreneur someone who starts, operates and assumes the risk of a business venture in the hope of making a profit

expenses the costs incurred in running a business

franchise the rights from a manufacturer to distribute its products under its name

goodwill the monetary value of a business's reputation, location, customer base and other factors that make a business a profitable concern

gross profit/loss amount remaining when the cost of goods sold is deducted from revenue

incorporation the company has become a separate legal entity from its owners (shareholders)

liabilities the debts owed by a business to others

limited liability if the business cannot pay its debts, a shareholder generally loses only the money he or she invested in the business

liquidity the ability of a business to pay its debts on time

management the coordination of the human, physical, financial and information resources to achieve the goals of the business

market research collecting and analysing information about customers and the business opportunities available

net profit/loss amount remaining when operating expenses are deducted from gross profit

owner's equity the value of the business to the owner(s)

promotion methods used by a business to inform, persuade and remind customers about its products

revenue the income earned by a business

risk management the process of identifying and minimising the risks faced by a business

target market the group of customers to whom the business intends to sell its products

unlimited liability when a business owner is personally responsible for all the debts of his or her business

word-of-mouth communication when people influence each other during conversations

Being an entrepreneur

Most of us have seen something advertised and thought, 'that is just what I need'. Someone had the original idea for this product and went on to start, operate and assume the risk of a business venture — that someone is an **entrepreneur**. The motivating force behind them doing this is the hope of making a profit.

Reason for being self-employed

The desire to be your own boss is a major reason for people starting their own business. They desire the freedom to choose when and where they work, with whom they work and whether to work from home. The great attraction is the belief that they will have more control over their life. Of course, they are also motivated by the financial rewards they believe can be gained from establishing a business.

The simplest but most significant question a prospective business owner must ask is: 'why do I want to go into business?' The business owner's personality, skills and ambitions need to be analysed because the future success of the business rests largely with the owner. For this reason, people should carefully consider the advantages and disadvantages of being self-employed.

Advantages and disadvantages of being self-employed

Advantages	Disadvantages
<ul style="list-style-type: none"> • Be your own boss — independence • Possibility of making a profit • Challenge, reward and satisfaction • Increase personal wealth • Contribute to society • Develop own creative ideas • Overcome unemployment • Achieve a better lifestyle • Employ family members • Possible tax advantages 	<ul style="list-style-type: none"> • Hard work and long hours • Other 'bosses' — customers, suppliers, financiers • Income may fluctuate and be uncertain • Risk of failure • Stress and worry • High levels of responsibility • Constantly solving problems • Difficulty in selling the business

Skills required and personal characteristics needed

Bill Gates, co-founder of Microsoft Corporation, is a classic example of an entrepreneur. While a teenager, he decided to take the risk of establishing his own business and launched Microsoft. Today Microsoft software is used to operate millions of computers worldwide.

However, entrepreneurial qualities are not confined to the world's famous people. At a recent swimming carnival, Yolanda Zurack, a Year 10 student, arranged to take along an Esky filled with cold drinks. During the very hot day, she sold all the drinks and made a reasonable profit. Yolanda Zurack and Bill Gates are both entrepreneurs. They organised their business, undertook the necessary arrangements for it to operate, and were prepared to take a risk. The size of the profits may differ, but they possess identical entrepreneurial qualities: courage, motivation, determination and energy.

Flair and creativity are also essential for an entrepreneur. They allow the entrepreneur to create or seize new opportunities for business or new goods and/or services.

Finally, the most important quality for an entrepreneur is the ability to set objectives and have a vision for the business's future. Having achieved his or her objectives, the entrepreneur must set new objectives, continually adjusting to changing business, economic and customer markets.

Personal characteristics

- Self-motivated
- Self-disciplined
- Moderate risk taker
- Logical decision maker
- Good communicator
- Sets goals
- Accepts responsibility
- Takes advice
- Willing to learn
- Deals with failure
- Gets on well with people
- Leadership qualities
- Good health
- Desire to succeed

The personal characteristics of a successful small business owner



Case study

Jesse Hancock — entrepreneur

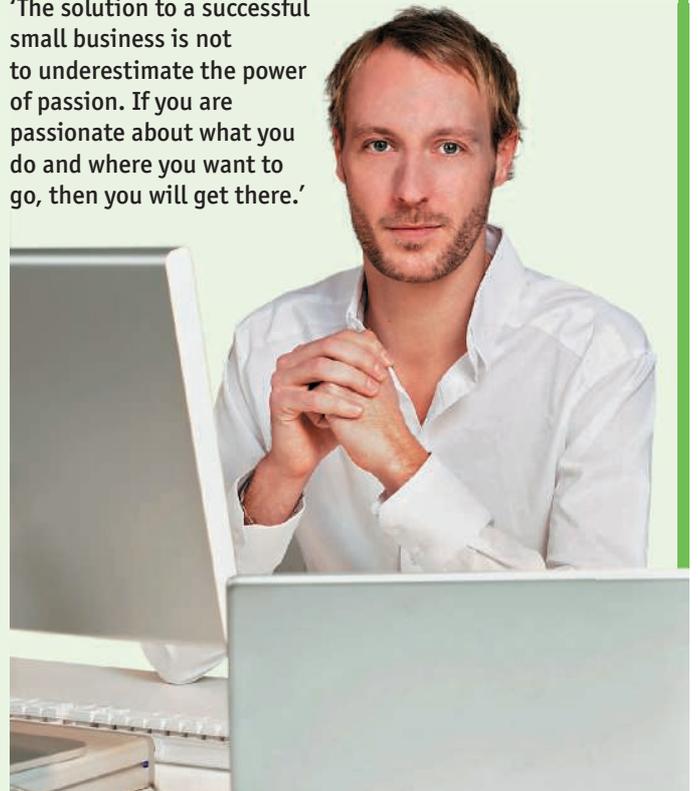
Still in his mid 20s, Jesse Hancock is the driving force behind NueVue Graphics, a graphic design business specialising in 3D holograms. When Jesse started the business in 2005, he had no idea it would eventually employ ten people and have 12 overseas clients. 'The business is successful because we offer a diverse range of designs not available from many other graphic design businesses.'

In the early days, money was tight and Jesse had little experience in operating a business. However, he was highly motivated and had a firm belief in his product. 'I understood there would be risks, but good entrepreneurs should take only moderate risks, which is what I did. Any poor decision would result in the business suffering. But, I believed there was an untapped market for the hologram designs I had been developing over three years. In Year 12 I decided I wanted to run my own business. However, I realised I needed to gain more experience in graphic design as well as business management.'

Consequently, while undertaking his graphic design course, Jesse also completed a Business Management course at the local TAFE. 'During this time I met with people in the graphic design industry and talked to potential clients. I knew that commencing a business would require hard work and long hours, but I was totally committed to the idea. My faith in the potential success of the designs could not be shaken. I was determined to succeed.'

Jesse is now 26 years old. His venture into the business world has been financially and personally rewarding.

'The solution to a successful small business is not to underestimate the power of passion. If you are passionate about what you do and where you want to go, then you will get there.'



Jesse Hancock — entrepreneur

Activities

Understand

- 1 What is the role of an entrepreneur in our economic system?
- 2 Identify the entrepreneurial characteristics that Yolanda Zurack and Bill Gates have in common.
- 3 What is the major reason for a person wanting to start up his or her own business? Would you be motivated by this desire? Give reasons for your answer.

Think

- 4 Examine the figure outlining the advantages and disadvantages of being self-employed. Select two advantages and two disadvantages and elaborate on each of them.
- 5 Read the case study on Jesse Hancock and then answer the following questions.
 - (a) What entrepreneurial characteristics does Jesse Hancock possess?
 - (b) Identify the reasons for the success of NueVue Graphics.
 - (c) Are you surprised that an entrepreneur should take only moderate rather than high risks? Why do you think this might be the case?

- 6 Choose a business you would like to own. What personal qualities do you think are needed to be successful in this business? Share your response with a classmate and discuss the main differences in your answers.

Communicate

- 7 In small groups, identify someone who successfully runs a small business. List the personal qualities the person possesses that contribute to the success of the business.

eBook plus

- 8 Using the **Enterprise Network for Young Australians (ENYA)** weblink in your eBookPLUS, outline the role of ENYA.

Worksheet 15.1 Discover if you have what it takes to start a new small business.

Glossary

entrepreneur someone who starts, operates and assumes the risk of a business venture in the hope of making a profit