

15.4

Going into business (1)

There are two main ways of going into business:

- setting up a new business, including a **franchise**
- purchasing an existing business.

Choosing between the two main options is sometimes quite difficult; each has advantages and disadvantages.

Setting up a new business

Usually it is better to start a new business than purchase an existing one when:

- a new product or service is developed
- an existing small business does not satisfy the needs of customers
- the market has grown and existing businesses cannot support additional customers.

Roberto and Anna Tonin, owners of Pasta Classica, display the commitment needed to start a new business.



Anna and Roberto Tonin

Casestudy

Pasta Classica — an example of setting up a new business

Roberto Tonin worked as a chartered accountant by day and, with his wife Anna, helped in his parents' Italian restaurant at night. In 1994, he decided that he would prefer to make pasta full-time and stopped working as an accountant. His parents used his pasta in their restaurant. Soon, Roberto and Anna were selling their pasta to 16 Coles stores — the first fresh pasta to be sold at Coles.

Roberto and Anna's first major opportunity was to purchase pasta machines. Previously, Roberto had been making pasta by hand or with the aid of a small domestic pasta machine. By chance, he met up with someone who was willing to sell him some pasta machines at a very reasonable price, with only a small deposit. Roberto arranged for his bank to lend him the amount for the deposit, and he paid back the outstanding amount over time. The fact that the machines, although second-hand, were in such good condition and so cheap, along with the vendor's willingness to accept only a deposit at first, provided a large stepping stone for Roberto and Anna's business.

The couple set up their machines in a small shop. Roberto made pasta for his parents' restaurant, as well as

for his own shop. Anna soon left her job and worked with Roberto in the shop, making antipasti.

Roberto and Anna's philosophy has always been to start small and focus on the quality of their pasta. They made 'a clear decision' not to be a 'me too' business — that is, not copying other business ideas or following what competitors do. They wanted to focus on their own plan.

Roberto and Anna are not 'big gamblers' and have never had 'the money to lose'. Their biggest asset is their 'faith in their own ability and their willingness to make sacrifices'. This helped them, particularly in the days when a large contract fell through and the debt collectors started calling. They decided to allow the previous owner of their new pasta machine to take back the machine, and Roberto and Anna were repaid the money they had originally paid for it.

This repayment helped them to pay for the lease on new premises in a different area. The advantage of this location was that the business could build on the solid foundation and success of neighbouring businesses, such as cafés, a boutique supermarket and grocers.

Roberto and Anna reinvested some of the money generated by this store into the manufacturing plant. Having two stores also offered them an opportunity to provide more variety.

Roberto and Anna do not advertise the business; they enjoy a reputation by **word-of-mouth communication**. They focus on goodwill, not money. They are 'patient and believe the product should

sell itself'. They believe in 'personalised service, knowledge and creativity'. They 'would like to support the customer through choosing the pasta, advising on the best type of sauce to accompany the pasta as well as the cooking times'. They now sell to some leading hotels.

Anna and Roberto are here for the long term. They 'need to have passion and believe in' what they sell. They hand 'custody' of their pasta to their customers. Goodwill is their primary objective. Eventually, their aim is to have six stores. The time frame will depend on whether they establish these businesses by themselves or with someone else. Roberto and Anna maintain their focus on 'uniqueness, service, product range and quality'.



Advantages and disadvantages

Starting a business from scratch has a number of advantages:

- The owner has the freedom to set up the business exactly as he or she wishes.
- The owner's objectives can be matched more closely to the business.
- The owner is able to determine the pace of growth and change.
- The owner has more flexibility to select the location, target market, range of products and level of customer service.
- There is no goodwill for which the owner has to pay.
- If funds are limited, it is possible to begin on a smaller scale.

However, there are also disadvantages:

- There is a high risk and a measure of uncertainty. Without a previous business reputation, it may prove difficult to secure finance.
- Time is needed to develop a customer base, employ staff and develop lines of credit from suppliers.
- If the start-up period is slow, then profits may not be generated for some time.
- Potential customers may be more difficult to attract than initially expected or unforeseen competition may appear, especially if the level of planning was inadequate.

Activities

Understand

- 1 One advantage of setting up a new business is not having to pay for goodwill. Explain this advantage and in your answer include an example.
- 2 List the conditions that need to exist to make starting a new business a better alternative than buying an existing business.

Think

- 3 Starting a new business can mean low cost and high risk. Not everyone is suited to this type of work environment. Decide if you would rather set up a business from scratch or buy an existing one. As part of your answer, describe the type of business and give reasons for your choice.
- 4 Read the case study and then answer the following questions.
 - (a) How did Roberto and Anna finance the purchase of their first pasta machines?
 - (b) Outline Roberto and Anna's business philosophy.

- (c) What was the advantage of commencing a new business in a new location?
- (d) Explain the meaning of the phrase 'The product should sell itself'.
- (e) Identify the personal qualities of Roberto and Anna that help make their business a success. Share your answer with other class members.

Communicate

- 5 What advice would you give to a small business owner who has set up a business but has not made a profit in the first two months? The business is a bookstore with a coffee shop attached. In small groups, use the list of advantages and disadvantages to construct what you would say.

Glossary

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

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