

THE IMPORTANCE OF ENTREPRENEURSHIP IN SMALL BUSINESSES

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Most people are familiar with the names of large businesses such as Marks & Spencer and Heinz. Although some may not realize many of today's famous large companies were initially very small. They were started by either one person or a small group of people. This case study demonstrates the vital role performed by small businesses and is sponsored by The Network For Teaching Entrepreneurship (NFTE).

NFTE is an international nonprofit organization introducing young people to the world of business and entrepreneurship. It teaches them how to develop and operate their own legitimate small business. This is done by involvement in a practical "hands-on" entrepreneurship, teaching curriculum supported with quality materials and resources for both teachers and students. NFTE has been particularly successful in motivating under-achieving young people to develop business skills through experiential learning many businesses start as one person's idea.

The creator is often an entrepreneur who spots a gap in the market or a commercial opportunity. S/he turns the idea into a marketable product or service. There are four main types of business: manufacturing, wholesale, retail and service. Some characteristics found in successful entrepreneurs, show they are:

- Prepared to take risks
- Driven by achievement
- Not put off by failure
- Self-motivated
- Determined to stay ahead of the competition.

For example, Simon Woodruff opened up his first Yon Sushi restaurant by copying an idea he saw in Japan. The business grew into a chain of successful restaurants with a novel approach to serving Japanese food and drink.

Henry John Heinz's first product in 1869 was horse-radish, followed by pickles, sauerkraut, and vinegar. All were delivered by horse-drawn wagons to grocers in and around Pittsburgh. Heinz developed many of the world's best known branded products e.g. tomato ketchup, baked beans, and baby foods. Today's small business sector creates many of the new ideas and innovations future generations will take for granted e.g. ingenious website designs, clockwork radios.

Small businesses are vital to the success of the economy. Not only as they provide the success stories of the future, but also because they meet local needs (e.g. hairdresser, financial consultant, and emergency plumber). They serve the requirements of larger businesses e.g. for photography services, printed stationery, catering and routine maintenance. Of course, you don't have to set up your own enterprise to be enterprising. Being entrepreneurial simply means developing the right skills, attitudes and initiatives to make an innovative contribution to an organization. This case study gives you some idea of what is involved and how exciting it can be.

Most UK businesses today are small. Two thirds are owned and run by one person. Nearly 90% employ less than 6 people. They are also an important source of employment. Just over 2.5 million UK workers are self-employed; one in eight of all workers. It is from these small companies that tomorrow's big names will probably arise.

Small businesses survive and prosper for many different reasons:

- Developing personal relationships - small businesses are well placed to build personal relationships with customers, employees, and suppliers. With a small business you know who you are dealing with; you can 'put a face' to the person you are in contact with. Person-to-person interaction is as important as ever in building strong relationships.
- Responding flexibly to problems and challenges - in a small business there is little hierarchy or chain of command. Large businesses may have set ways of operating and establish procedures that are hard to change. Small businesses are often far more flexible. It can also reach a quick decision on whether or not it can do what is required.
- Inventiveness and innovation - small businesses are well positioned to introduce and develop new ideas. This is due to their owners not

having to report or seek approval from anyone else. For example, when Anita Roddick set up The Body Shop, she developed a range of environmentally friendly cosmetics in unsophisticated packaging. This would have been frowned on in a conventional cosmetics company.

- Low overheads - due to the small scale of operation, small businesses have lower overhead costs. They operate in small premises with low heating and lighting costs, and limited rent and rates to pay. Low costs result in lower prices for consumers.

- Catering for limited or niche markets - large firms with high overheads must produce high levels of output to spread costs. By contrast, small firms are able to make a profit on much lower sales figures. They can therefore sell into much smaller markets: e.g. a local window cleaner serving a few hundred houses, a specialist jeweler maker with personal clients.

- The main reason many people choose to set up a small business, is because it gives them independence. They also reap the rewards for themselves; these are two powerful incentives.

Small businesses do have some disadvantages. Running an enterprise on your own involves hard work and making most decisions on your own. Initially there is little time for holidays and considerable risks involved. Also, as the business is small, it is harder to find the economies of scale from which big firms are able to benefit. For example, because small businesses tend to buy relatively small quantities of raw materials and other supplies, they receive lower discounts than larger firms. The small firm cannot afford to employ a range of specialists and also find it more costly to raise finance.

Setting up and running a business is something to be tackled by people who are energetic and enthusiastic. These people like hard work, enjoy challenges, are adaptable and are not put off by failure. Perhaps you are like that! Starting up on your own is a big step. It is vital to carry out careful research and think things through thoroughly, rather than rushing into it.

Planning is one of the most important steps at the start. Not only is the plan useful to the person setting up the business; it is also very important

to anyone wanting to invest in it, or lend the business money. It needs to be based on detailed research e.g. market research. Market research is the process of systematically gathering and recording information about the market for a product or service. This can be carried out by using questionnaires, or bringing together people in small groups to discuss their views on the goods or services being offered. Alternatively, market research can draw on information already published e.g. surveys. One purpose of market research is to identify and provide evidence of market opportunities and challenges. It helps someone starting a new business to get to know the environment they will be trading and competing in.

Other key ingredients of the business plan include:

- Details of the business idea
- Where the business will be run from the expected sales
- Costs of running the business

One of the first decisions to be made in starting a business is how the business will be owned. The main choices are between settings up:

- On your own (as a sole trader)
- With a small number of partners (partnership)
- As a private company, with shareholders (limited company).

The advantage of sole ownership is that you make all the decisions and take all the profits. However, the sole trader has a lot of responsibility and will need to work extremely hard. Forming a partnership makes it possible to share the workload, but profits have to be shared and there may be disagreements between partners.

Forming a private company makes it possible to raise extra capital for the business by selling shares, but setting up a company requires time and paperwork. Also, shareholders take a share of the profits. When Michael Marks started trading he was a sole trader. Later he took on a partner, Tom Spencer. When the business expanded nationally, it became a public company, with its shares traded on the Stock Exchange.

New businesses need money to:

- Get started: e.g. buy fixtures and fittings, machinery and equipment, often referred to as ‘initial one-off costs’

- Pay the costs of operating the business e.g. wages, rent, rates, heating and lighting.

Startup finance includes:

- The owner's (or owners') own funds (including share capital in the case of a private company)

- Bank loans, or loans from individuals

- A bank overdraft

- A mortgage to buy property

- Trade credit, where suppliers offer a set period (usually between one and three months) to pay for supplies

- Hire purchase and leasing agreements, under which firms rent items such as photocopiers and vehicles.

- Sources of finance need to be matched to the time period of the finance e.g. mortgages can be for up to 25 years whereas overdrafts and trade credit are for much shorter periods. Entrepreneurs must always make sure that they have enough cash coming into the business to pay back money they have borrowed both in the short and long term.

An effective marketing plan usually covers 4 key elements known as the 4 Ps:

- Price

- Product

- Place and

- Promotion

Making a profit is always important in running a business. Without profits, a business is not able to expand, and cannot take on more employees, or make contributions to the community. Eventually it will cease to exist. Michael Marks made a profit from selling small items at a penny each, therefore he was able to expand. He would have worked out what is called gross profit by deducting the overall cost of all of the stock he bought from the income he generated from sales. So his gross profit was:

$$\text{Gross Profit} = \text{Sales} - \text{Cost of Sales}$$

However, the gross profit is not the final profit. It is simply the profit from trading before all the operating costs of running the business have been taken away. To get a figure for net profit we must deduct these oper-

ating costs from gross profit. Examples of operating costs would include the cost of lighting, heating, salaries, and advertising, rents and business rates.

New businesses have to be promoted. Promotion is a cost to the business, but without promotion most people will not know of its existence. The best form of promotion is recommendation from a satisfied customer. Other forms include local newspaper and cinema advertising, flyers through people's doors and signs in a shop window. To promote your business effectively you need to be continually aware of your customers' needs, your market place and your competitors' activities. These factors are all important in maintaining, developing and expanding your business.

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რეზიუმე

ზურაბ გრიგორაშვილი

“მეწარმეობის მნიშვნელობა მცირე ბიზნესში”

თანამედროვე სამყაროში ადამიანებს აღარ შეუძლიათ ელოდონ დიდ ცვლილებებს მრეწველობაში, რათა მათთვის გარანტირებული იყოს სამუშაო ადგილები სიცოცხლის ბოლომდე. ამიტომაც ხალხი თვითონ ცდილობს შექნან და იპოვონ სამუშაო ადგილები, დაიწყონ მცირე ბიზნესი. ახალგაზრდა მეწარმეებს მართებთ უფრო კონცენტრირებულნი და სერიოზულად დაინტერესებულნი იყვნენ სამეწარმეო საქმიანობით, რაც მათ ხელს შეუწყობს მცირე ბიზნესის წარმატებით განხორციელებაში. სტატიაში გაანალიზებულია თანამედროვე სამეწარმეო საქმიანობა, მათი სპეციფიკა სხვადასხვა მცირე საწარმოებში.