

Small Business Management

4th year business

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What is small business ?

One who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying opportunities and assembling the necessary resources to capitalize on them.

The SBA definition of a small business has evolved over time and is dependent on the particular industry. In the 1950s, the SBA defined a **small business**² firm as “independently owned and operated...and not dominant in its field of operation.

It is possible that small size might pose an advantage with respect to being more innovative. The reasons for this have been attributed to several factors:

- **Passion.** Small-business owners are interested in making businesses successful and are more open to new concepts and ideas to achieve that end.
- **Customer connection.** Being small, these firms better know their customers' needs and therefore are better positioned to meet them.

Agility. Being small, these firms can adapt more readily to changing environment.

- **Willingness to experiment.** Small-business owners are willing to risk failure on some experiments.
- **Resource limitation.** Having fewer resources, small businesses become adept at doing more with less.
- **Information sharing.** Smaller size may mean that there is a tighter social network for sharing Ideas

What Is a Successful Small Business?

- Ask the average person what the purpose of a business is or how he or she would define a successful business, and the most likely response would be “one that makes a profit.” A more sophisticated reply might extend that to “one that makes an acceptable profit now and in the future

Three types of small business operators can be identified based on what they see as constituting success:

1. An artisan whose intrinsic satisfaction comes from performing the business activity
2. The entrepreneur who seeks growth
3. The owner who seeks independence

Entrepreneurship

- Learning organizations encourage entrepreneurship.
- Organizations want to form:
 1. Product Champions: people who take ownership of a product from concept to market.
 2. Skunk works: a group of entrepreneurs kept separate from the rest of the organization.
 3. New Venture Division: allows a division to act as its own smaller company.
 4. Rewards for Innovation: link innovation by workers to valued rewards.

Entrepreneurs V. Entrepreneurs

- Entrepreneurs are people that notice opportunities and take the initiative to mobilize resources to make new goods and services.
- Entrepreneurs also notice opportunities and take initiative to mobilize resources, however they work in large companies and contribute to the innovation of the firm.
- Entrepreneurs often become entrepreneurs.

Characteristics of Entrepreneurs

1. Desire for responsibility
2. Preference for moderate levels of risk – risk eliminators
3. Confidence in their ability to succeed
4. Desire for immediate feedback
5. High level of energy
6. Future orientation – serial entrepreneurs
7. Skilled at organizing
8. Value achievement over money

Entrepreneurship

- One characteristic of entrepreneurs stands out:

Diversity!

- Anyone – regardless of age, race, gender, color, national origin, or any other characteristic – can become an entrepreneur (although not everyone should).

Benefits of Entrepreneurship

The opportunity to:

1. Create your own destiny
2. Make a difference
3. Reach your full potential
4. Reap impressive profits
5. Contribute to society and to be recognized for your efforts
6. Do what you enjoy and to have fun at it

Drawbacks of Entrepreneurship

1. Uncertainty of income
2. Risk of losing your entire investment
3. Long hours and hard work
4. Lower quality of life until the business gets established
5. High levels of stress
6. Complete responsibility
7. Discouragement

Small Business Owners

- Small business owners are people who own a major equity stake in a company with fewer than 500 employees.
- In 1997 there were 22.56 million small business in the United States.
- 47% of people are employed by a small business.

Employee Satisfaction

- In companies with less than 50 employees, 44% were satisfied.
- In companies with 50-999 employees, 31% are satisfied.
- Business with more than 1000, only 28% are satisfied.

Global Entrepreneurship and Small Business Management



Entrepreneurial Enterprises

- Explain the importance of entrepreneurs in the development of an economy.
- Differentiate between the types of entrepreneurial businesses.
- Describe telecommuting and the effect of technology on home-based businesses.

The Economic Importance of Entrepreneurs

- Innovation and the entrepreneurial spirit
- Economic and social benefits of small business
 - Major creators of new products
 - Major source of jobs
 - Often provide personal service
- Entrepreneurs and exporting

Types of Entrepreneurial Businesses

1. Agricultural, mining, and extracting companies
2. Manufacturing companies
3. Wholesalers
4. Retailers
5. Service companies

Future Growth for Small Business

1. Health-care services
2. Retailing and food service companies
3. Environmental businesses
4. Training and education enterprises
5. Personal services
6. Commercial services

Home-Based Businesses

- Traditional home-based businesses
- Internet businesses
- Telecommuting

The Business Plan and Self-Employment

- Evaluate self-employment as a career option.
- Describe the first three sections of a business plan.

Self-Employment as a Career

- Advantages of self-employment
- Disadvantages of self-employment
- Qualities of successful entrepreneurs

Creating a Business Plan

- A **business plan** is a guide used to start and operate a business.
- Two main uses:
 - Attract new investors or convince a bank to lend money to the company.
 - Provide a blueprint for company **activities**.

Business Plan

Parts of a Business Plan

Part 1: Business description

Part 2: Organizational structure

Part 3: Marketing activities

Part 4: Financial planning

Part 5: Production activities

Part 6: Human resource activities

Part 7: Information needs

The first three sections are all related to setting up a business

BUSINESS PLAN

Part 1: Business Description

- Legal name and location
- Background and experience of owners and main employees
- Overview of product or service, potential customers, and competition

BUSINESS PLAN

Part 2: Organizational Structure

- Form of ownership
- Foreign business partners
- Explanation of any of the following:
 - Joint ventures
 - Licensing agreements
 - Distributor contracts
 - Supplier relationships

BUSINESS PLAN

Part 3: Marketing Activities

- **Marketing** includes the business activities necessary to move goods and services from the producer to the consumer.
- A **marketing plan** is a document that details the marketing activities of an organization.

Operating an Entrepreneurial Enterprise

- Outline the process of financing a small business.
- Identify the major business activities of a small business manager.

Business Plan

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The fourth section of the business plan focuses on financial planning.

Financing a Small Business

- Money is needed for many purposes when starting and running a business.
- A **budget** is a financial tool that estimates a company's funds and its plan for spending those funds.
- The process of financing a business starts with calculating operating costs and determining how to acquire the funds to pay those costs.

Analyzing Costs

- Start-up costs
- Continuing expenses
 - **Variable costs** are business expenses that change in proportion to the level of production.
 - **Fixed costs** are expenses that do not change as the level of production changes.

Breakeven Point

- The **breakeven point** is the number of units a business must sell to make a profit of zero.
 - Sales below the breakeven point will result in a loss for a business.
 - Sales above the breakeven point will result in a profit for a business.

Calculating Breakeven Point

- Find the gross profit
 - The **gross profit**, or gross margin, is the difference between the cost of an item for a business and the price for which the business can sell that item.

$$\text{Cost} - \text{Selling price} = \text{Gross profit per unit}$$

- Calculate breakeven

$$\text{Total fixed costs} \div \text{Profit per unit} = \text{Breakeven units}$$

Sources of Funds

- **Equity funds** are business funds obtained from the owners of the business.
- **Debt funds** are business funds obtained by borrowing.

Financial Records of Small Businesses

- Balance sheet
- Income statement
- Cash flow statement

Balance Sheet

- A **balance sheet** is the document that reports a company's *assets* (items of value), *liabilities* (amounts owed to others), and *owner's equity* (net worth).
- The relationship among the items on a balance sheet can be expressed as an equation.

$$\text{Assets} - \text{Liabilities} = \text{Owner's equity}$$

Income Statement

- An **income statement** is a document that summarizes a company's revenue from sales and its expenses over a period of time, usually one year.
 - On the income statement, a business will total all of the revenues it brings in as well as all of its expenses.
 - It will then subtract the expenses from the revenues to find its profit or loss.

Business Plan

Parts of a Business Plan

Part 1: Business description

Part 2: Organizational structure

Part 3: Marketing activities

Part 4: Financial planning

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Part 6: Human resource activities

Part 7: Information needs

The final sections of a business plan relate to managing a business.

Managing the Small Business

- Production management
- Human resources management
- Information management

Employee Satisfaction



Advantages of a Small Business

1. Greater Opportunity to get rich through stock options
2. Feel more important
3. Feel more secure
4. Comfort Level

Disadvantages of a Small Business

- Lower guaranteed pay
- Fewer benefits
- Expected to have many skills
- Too much cohesion
- Hard to move to a big company
- Large fluctuations in income possible

Who are entrepreneurs?

- Common traits
 - Original thinkers
 - Risk takers
 - Take responsibility for own actions
 - Feel competent and capable
 - Set high goals and enjoy working toward them
- Common traits
 - Self employed parents
 - Firstborns
 - Between 30-50 years old
 - Well educated – 80% have college degree and 1/3 have a graduate level degree

Successful and Unsuccessful Entrepreneurs

- **Successful**

- Creative and Innovative
- Position themselves in shifting or new markets
- Create new products
- Create new processes
- Create new delivery

- **Unsuccessful**

- Poor Managers
- Low work ethic
- Inefficient
- Failure to plan and prepare
- Poor money managers

Characteristics of Entrepreneurs

Key Personal attributes

Strong Managerial Competencies

Good Technical Skills



Successful
Entrepreneurs

Key Personal Attributes

- Entrepreneurs are Made, Not Born!
 - Many of these key attributes are developed early in life, with the family environment playing an important role
 - Entrepreneurs tend to have had self employed parents who tend to support and encourage independence, achievement, and responsibility
 - Firstborns tend to have more entrepreneurial attributes because they receive more attention, have to forge their own way, thus creating higher self-confidence

Key Personal Attributes (cont.)

- Entrepreneurial Careers
 - The idea that entrepreneurial success leads to more entrepreneurial activity may explain why many entrepreneurs start multiple companies over the course of their career
 - Corridor Principle- Using one business to start or acquire others and then repeating the process
 - Serial Entrepreneurs- A person who founds and operates multiple companies during one career

Key Personal Attributes (cont.)

- Need for Achievement
 - A person's desire either for excellence or to succeed in competitive situations
 - High achievers take responsibility for attaining their goals, set moderately difficult goals, and want immediate feedback on their performance
 - Success is measured in terms of what those efforts have accomplished
 - McClelland's research

Key Personal Attributes (cont.)

- **Desire for Independence**
 - Entrepreneurs often seek independence from others
 - As a result, they generally aren't motivated to perform well in large, bureaucratic organizations
 - Entrepreneurs have internal drive, are confident in their own abilities, and possess a great deal of self-respect

Key Personal Attributes (cont.)

- Self-Confidence
 - Because of the high risks involved in running an entrepreneurial organization, having an “upbeat” and self-confident attitude is essential
 - A successful track record leads to improved self-confidence and self-esteem
 - Self-confidence enables that person to be optimistic in representing the firm to employees and customers alike

Key Personal Attributes (cont.)

- **Self-Sacrifice**
 - Essential
 - Nothing worth having is free
 - Success has a high price, and entrepreneurs have to be willing to sacrifice certain things

Technical Proficiency

- Many entrepreneurs demonstrate strong technical skills, typically bringing some related experience to their business ventures
- For example, successful car dealers usually have lots of technical knowledge about selling and servicing automobiles before opening their dealerships
- Especially important in the computer industry
- NOT ALWAYS NECESSARY

Planning

- Business Plan – A step-by-step outline of how an entrepreneur or the owner of an enterprise expects to turn ideas into reality.

Questions To Keep In Mind

- What are my motivations for owning a business?
- Should I start or buy a business?
- What and where is the market for what I want to sell?
- How much will all this cost me?
- Should my company be domestic or global?

Motivations

Deciding what your motivations are will direct you toward what type of business fits you best.

Types:

1. Lifestyle Venture
2. Smaller Profit Venture
3. High Growth Venture

1. Lifestyle Venture

- Small company that provides its owner independence, autonomy, and control.
- Is often run out of household
- Provides flexibility (hours, meeting places, attire)
- Aligns your personal interests and hobbies with your desire to make a profit.

2. Smaller Profit Venture

- Small company not concentrated on pushing the envelope and growing inordinately large.
- Making millions of dollars not important.
- Content with making a decent living.
- Ex. Mom and Pop Stores

3. High Growth Ventures

- Goal is maximum profit and growth.
- Concentrated on pushing envelope and growing as large as possible.
- Focus on innovation

Start or Buy?

- Start – cheapest, but very difficult
 - requires most planning/research
- Buy – expensive – may be out of reach
 - requires less planning and research
- Franchise (middle ground) – a business run by an individual (the franchisee) to whom a franchiser grants the right to market a certain good or service.

The Market???

- Planning & Research essential
- Extensive market surveys (family, friends, neighbors...)
- Magazines and Polls offer some information on the market
-Businessweek,
Harris Poll

What about the cost?

- **Plan realistically, not optimistically**
 - Don't overestimate your profits
 - Don't underestimate your costs
- **Sources of Funds**
 - Banks
 - Venture Capitalists – filthy rich, high risk investors looking for a many-times-over yield
 - Angels – seem to have altruistic motives and less stringent demands than venture capitalists

Domestic or Global?

- Drawbacks to Global – more research and less accessible connections in startup phase, more travel time required, more considerations.
- Advantages to Global – more human resources, more demand, more financing, easier to start global than go from domestic to global.

Entrepreneurship: Growth Pressures

Entrepreneurs often find that as their business **grows**, they feel more pressure to use **formal** methods to lead their organizations.

Although this **formalization** process may compromise some entrepreneurs spirit, it often leads to more **focus, organization,** and greater **financial returns**.

Basically, it's a movement from a "seat-of-the-pants" operation to a more structured, legitimate and recognizable business.

Entrepreneurship: Growth Pressures

Entrepreneurial and Formal Organizations differ in six business dimensions:

- Strategic orientation
- Commitment to opportunity
- Commitment to resources
- Control of resources
- Management structure
- Compensation policy

Entrepreneurship: Growth Pressures

Business Dimension	Entrepreneurial Organization	Formal Organization
Strategic orientation	Seeks opportunity	Controls resources
Commitment to opportunity	Revolutionary Short duration	Evolutionary Long duration
Commitment to resources (capital, people, and equipment)	Lack of stable needs and resource bases	Systematic planning systems
Control of resources	Lack of commitment to permanent ventures	Power, status, financial rewards for maintaining status quo
Management Structure	Flat Many informal networks	Clearly defined authority and responsibility
Compensation policy	Unlimited; based on team's accomplishments	Short-term driven; limited by investors

Entrepreneurship: Growth Pressures

Going Global....

From domestic to worldwide expansion, globalization can be extremely rewarding for entrepreneurs.

THINK: Money and Business Exposure

However, it is a huge undertaking. Adapting your business to operate in the global market can lead to a decrease in ownership, and a forced focus on raising money to keep your business alive.

THINK: Selling out, Private to Public (Initial Public Offering, IPO)

Entrepreneurship: Managing a Family Business

- Over 50% of the U.S. Gross Domestic Product (GDP) is generated from family business.
- 12% of CEOs on the *Inc. 500 list* describe their company as a family business.

So, why not dream up a plan and go into business with your family or friends?

Entrepreneurship: Managing a Family Business

Two reasons not to go into business with your family or friends...

**Families fight
Friends fight.**

Often, it involves money. So a business environment could potentially breed arguments, disagreements, and feuds.

Fighting can occur during early developmental stages when hours are long and pay is low. Or, after success has been achieved.

Entrepreneurship: Managing a Family Business

Six steps to help lead you to a successful Family Business:

- Clear job responsibilities
- Clear hiring criteria
- Clear plan for management transition
- Agreement on whether and when to sell business
- Commitment to resolving conflicts quickly
- Outside advisors are used to mediate conflicts.

Clarity is key.... but NO GUARANTEE.

Entrepreneurship: Managing a Family Business

Operational vs. Survival Issues....

Operational = Decisions about the economics of the business and how to balance that with rational and family obligation criteria.

THINK: Day-to-day grind.

Survival = Develop out of a lack of attention on the operational issues within the business.

THINK: Festering problems; ultimately compromise livelihood.

Entrepreneurship: Managing a Family Business

FAMILY FEUD:

Severed relationships	Divorce	Poor business performance	Low morale, motivation
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Entrepreneurship: Corporate INTRA-preneurs

Intrapreneur = someone in an existing organization who turns new ideas into profitable realities.

Not every employee has the ability to become a successful intrapreneur. It takes well-developed strategic action, teamwork and communication abilities.

Entrepreneurship: Corporate INTRA-preneurs

Organizations that redirect themselves through innovation have the following characteristics:

- Commitment from senior management
- Flexible organization design
- Autonomy of the venture team
- Competent/Talented people with entrepreneurial attitudes
- Incentives and rewards for risk taking
- Appropriately designed control system

Entrepreneurship: Corporate INTRA-preneurs

In order to for this type of forward thinking to reap long-term benefits, top management must allow it to flourish in the day-to-day operations of the business....

This is known as “skunkworks”

Skunkworks = Islands of intrapreneurial activity within an organization.

REMEMBER: On the island, formal rules and policies of the organization often DO NOT apply.

One More Time

- What is an entrepreneur?
- Characteristics of an entrepreneur
- Planning to be an entrepreneur
- Growth pressures, managing a family business, and corporate intrapreneurship

Knowledge Skills and Small Business

A decorative graphic consisting of a solid teal horizontal bar at the top, followed by a white horizontal bar, and then three thin, parallel teal horizontal lines on the right side of the white bar.

Learning objectives

After finishing this lesson ,you should be able to:

1. Define knowledge ,skills
2. Distinguish between knowledge skills attitudes
3. Describe Critical Thinking and Problem solving

Knowledge Skills:

- Are knowledge, skills, and abilities that a person must possess in order to perform the duties of his or her position.
- KSAs are *listed on each position's job description* and serve as a guide for applicants, employees, and departments to evaluate and assess a person's likelihood for success in a job

Knowledge:

The subjects, topics, and items of information that an employee should know at the time he or she is hired or moved into the job. Knowledge represents bodies of information that are applied directly to the performance of work functions

KNOWLEDGE

1. Thinking skills
2. Communication
3. Teamwork and leadership
4. Technology use
5. Ethics and professionalism
6. Personal management



Skills:

Technical or manual proficiencies, which are usually learned or acquired through training. Skills should be measurable and observable

SKILLS

Ability

Growth

Advance training

Knowledge

Learning

Competence

Training

Experience



Abilities:

The present demonstrable capacity to apply several knowledge and skills in order to complete a task or perform an observable behavior. Abilities may also relate to personal and social attributes which tend to be innate or acquired without formal instructions. Abilities are enduring talents that can help a person do a job

Examples-

Clerical:

- 1. Knowledge of management functions , procedures and policies forecasting**
- 2. Knowledge of records administration and maintenance techniques and procedures.**
- 3. Knowledge of inventory control principles and methods.**
- 4. Skill in data entry with minimal errors.**
- 5. Ability to accurately prepare and maintain records, files, and reports.**
- 6. Ability to maintain records of materials, supplies, time, and work performed**

Communications:

1. Knowledge of the interacting and communicating with others .
2. Skill in managing **risks** .
3. Skill in communicating effectively in interacting with customers and satisfy them at all time
4. Skill in talking to others to convey information effectively.
5. Ability to communicate effectively with internal and external environment .
6. Ability to forecast the future chance .
7. Ability to maintain effective interpersonal relationships.
8. Ability to understand the partners needs

Critical Thinking and Problem solving:

1. Skill in collecting and analyzing complex data.
2. Skill in analyzing and organizing technical data.
3. Skill in using logic and reasoning to identify the strengths and weaknesses of alternative solutions, conclusions, or approaches to problems.
4. Ability to process information logically.
5. Ability to recognize, analyze, and solve a variety of problems.
6. Ability to exercise sound judgment in making critical decisions

Financial/Accounting and Budget:

1. Knowledge of generally accepted accounting procedures and principles.
2. Knowledge of budget control methods, policies, and procedures.
3. Ability to prepare financial and accounting records.
4. Ability to analyze, consolidate, and interpret accounting data.
5. Ability to compile, organize, interpret, and communicate accounting data and results concisely.
6. Ability to manage a budget and work within the constraints of that budget.

Managerial or Supervisory:

- Knowledge of business and management principles involved in strategic planning, resource allocation, human resources modeling, leadership technique, production methods, and coordination of people and resources.
- Skill in monitoring/assessing the performance of self, other individuals, or organizations to make improvements or take corrective action.
- Ability to plan, implement, and evaluate programs.
- Ability to direct and organize program activities.
- Ability to establish goals and objectives.
- Ability to establish program goals and objectives that support the strategic plan.
- Ability to effectively plan and delegate the work of others.
- Ability to plan, assign, and/or supervise the work of others.
- Ability to train others.

General:

- Skill in managing one's own time and the time of others.
- Skill in completing assignments accurately and with attention to detail.
- Ability to work under pressure and meet close deadlines.
- Ability to analyze, organize and prioritize work while meeting multiple deadlines.
- Ability to analyze and prepare documents, reports, and correspondence

Questions for discussion

- How to develop the right skills
- Link between knowledge and small business .
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Conclusion:

- The above knowledge skills are essential for any small business owner. Integrating those skills within your organization will help it grow in terms of efficiency, profit, and size. It will ensure that you and your employees are working with maximum knowledge of what is happening within the company as well as being part of all operations.