It is important to note that a combination of all businesses, namely small, micro and medium-size enterprises (SMME) as well as large national and international businesses, determines the state of the economy.

The South African economy has declined over the past 20 years.

Employment is closely linked to the state of the economy. When there is no growth in the economy, fewer employment opportunities are available.

Entrepreneurs play an important role. They are responsible for the formation of new businesses.
The progress in entrepreneurship research and our understanding of entrepreneurs can be divided into five periods:

1. Economic perspective
2. Behaviourist perspective
3. From a management science perspective (Finance, marketing, operations, and human resources)
4. Social perspective
5. From an entrepreneurship perspective

The development of entrepreneurship theory
Defining entrepreneurship, the entrepreneur, small businesses and entrepreneurial ventures

Entrepreneurship: it is the emergence and growth of new businesses.

The motivation is to make profit.

The entrepreneur is someone who create something new by devoting time and effort.

Entrepreneurship is the process of creating an opportunity and pursuing it, regardless of the resources currently controlled.

The distinguishing factors of entrepreneurs on most strongly innovation and then opportunity recognition and then growth in the business.

And entrepreneur: is an individual who establishes and manages a business for the main purpose of profit and growth.
Some important aspects of entrepreneurship and the entrepreneur

Identifying an opportunity
- This means that there must be a real business opportunity

Innovation and creativity
- Something new and different is required

Getting resources
- Capital and labour and operating equipment must be found

Creating and growing a venture
- This refers to the starting of a new business venture or the conversion of an existing business

Taking a risk
- This means that there will be personal and financial risk involved for the person who embarks on the entrepreneurial process

Being rewarded
- Reward is an essential element of the free market system. It can be in the form of profit or an increase in the value of the business

In managing the business
- This means that there must be planning, organisation, leadership and control of all the functions in a business venture
It is important to distinguish between entrepreneurial ventures and small businesses. Both are critical to the performance of the economy but serve different economic functions.

Both pursue and create new opportunities differently, therefore for the ambitions of the founders and managers in different ways. The present different challenges to economic policymakers, both need entrepreneurial action for start up. The small business venture or tend to stabilise at a certain stage and only grow with inflation. Small business owners are individuals who establish and manage their businesses for the principal purpose of furthering personal goals and ensuring security. Therefore, a small business is any business that is independently owned and operated, but is not dominant in its field and does not engage in any new marketing or innovative practices.
Entrepreneurial ventures

They are businesses in which the principal objectives of profitability and growth. Three characteristics distinguish the entrepreneurial venture from the small business.

Innovation potential for growth strategic objectives

The small business really cares about these aspects. Its objectives seldom go beyond survival, sales and profit targets.

Entrepreneurial ventures are the ones create employment
Name the four distinct phases of the entrepreneurial process:

1. Identify and evaluate opportunity
2. Develop the business plan
3. Determine the resources required
4. Start and manage the enterprise
Entrepreneurial orientation is fostering by unique blend of factors such as culture family and role models, education and work experience and personal orientation.

- Culture
- Family and role models
- Education
- Work experience
- Creativity and innovation
- Autonomy (Independence)
- Risk taking
- Proactiveness (taking initiative, pursuing and anticipating opportunities)
- Competitive aggressiveness (achievement oriented)

Infrastructure such as roads, electricity, water, telecommunication networks must exist before they can be any economic activity at an advanced level.

Restrictions of free trade areas, other trading restrictions, an overabundance of legal regulations and rules may discourage entrepreneurs from exploiting business opportunities.

Finance is an important resource in new venture creation. Financing must be available and is mostly supplied by normal financial institutions such as banks.

Criticism is sometimes expressed that education and training system in South Africa prepares people to be jobseekers instead of job providers.

Universities, School and education programmes need to encourage and develop entrepreneurs and entrepreneurial orientation.

Large firms and non-governmental organisations.

Besides the support and approval of society in general, this should be institutions that are actively involved in promoting entrepreneurship.

Through their social responsibility programmes and funds they should help to tertiary and other institutions to develop programs and encourage research.

It is critical to the survival and growth of firms, as well as the economic prosperity of nations.
Distinguish between the entrepreneurial and managerial success factors of entrepreneurs.

**Entrepreneurial success factors**
- Creativity and innovation
- This orientation
- Leadership
- The human relations
- Positive attitude
- Perseverance
- Commitment

**Managerial success factors**
- Planning
- Knowledge of competitors
- Mainly market-oriented
- Client service
- High quality work enjoys priority
- Financial insight and management
- Knowledge and skills with regard to the business
- The use of experts
List the various reasons why entrepreneurship can be seen as a catalyst for economic activity

Name the various levels of entrepreneurial sophistication

Name the dominant characteristics that are found in successful entrepreneurs

Briefly discuss the types of networks and support systems available to entrepreneurs

Indicate the difference between the push and pull factors of entrepreneurship by referring to the definitions

Briefly discuss the challenges facing entrepreneurs and is SMME's in South Africa

List and discuss the of woman entrepreneurs

Name the most significant barriers or problems that woman entrepreneurs face

Explain the characteristics of the informal and survivalist environment

Briefly explain how student entrepreneurship can be encouraged
List the various reasons why entrepreneurship can be seen as a catalyst for economic activity:

- Creates and drives new businesses
- Survival and growth of the economy
- Creates employment
- Reduces the level of poverty
- Direct link between the entrepreneur and the customer
- Sustains economic growth and development
- Career option for woman and youth
Name the various levels of entrepreneurial sophistication:

- **Basic survivalist**: No economic independence, isolated from markets, is a direct, few income generating activities. Example, street vendors.

- **Pre entrepreneur**: Welfare oriented approach, not expected to be self-sustaining. Example street vendors selling exactly the same product at exactly the same prices.

- **Subsistence entrepreneur**: Self employed, independent income generation, temporary market stall or stand. In experience in business management and still need general support and training in technical and management skills.

- **Micro entrepreneur**: 0 to 9 employees, operating licence from local authority, fixed workshop. Cannot get loans from banks. Projects focus on credit rather than training and technical assistance. The person who runs a home based business.

- **Small-scale entrepreneur**: 10 to 49 employees. Qualifies for loan from a bank. Well educated and has adequate collateral to supply for loan.
Name the dominant characteristics that are found in successful entrepreneurs.

- Passion
- Locus of control
- Need for independence
- Need for achievement
- Risk taking and uncertainty
- Creativity and innovation
- Determination and persistence

Individuals like to be in charge of their own lives, and one way of ensuring this is by being in control of one's own venture and business activities. Entrepreneurs are typically people like to be in control and have good delegating skills. They do not want to be told what to do by somebody else.
Briefly discuss the types of networks and support systems available to entrepreneurs.

Social networks
- These include communication and exchange of information, for example, two entrepreneurs exchange business cards at a social event.

Personal networks
- This includes those people with whom the entrepreneur has day-to-day direct contact.

Extended networks
- Focused a network of organisations rather than on individuals. SAWEN, FABCOS, NAFCOC, AHI etc.

Other networks, including the Internet, suppliers and investors
- Includes bankers, attorneys, government policy, competitors etc.

Benefits
- Group or joint marketing of products; buying of input materials and services; tendering or budding on contracts; sharing of information on new markets and opportunities; sharing of containers when exporting; getting advice and information from members of the network.
Indicate the difference between the push and pull factors of entrepreneurship by referring to the definitions.

**Push factors**
Are those factors that encourage entrepreneurship due to traditional jobs being less attractive or because an individual does not have any other career choice or option.

- Unemployment
- Job insecurity
- Disagreement with management
- Does not fit in with the organisation
- No other alternatives

**Pull factors**
Are those of factors that encourage people in traditional jobs to leave their current positions to become entrepreneurs.

- Independence
- Achievement
- Recognition
- Personal development
- Personal wealth
Access to start up an expansion finance

Entrepreneurs often launch the businesses using their own money or occasionally their family’s money.

Access to appropriate finance is a major constraint on the successful development of small business in South Africa.

Over the past few years the government through the Department of trade and industry and Khula Enterprise Finance, has designed and put in place incentives, subsidies and schemes that have improved small business access to finance.

Some businesses are still not able to access affordable start-up or expansion finance.

Reasons:
- Small businesses are high risk borrowers
- There has been a decline in strong alternative financial institutions
- Inadequate funding proposals and business plans

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Another major challenge is the lack of sustainable markets for their products and services. They tend to produce an offer services they do not have a ready market.

Entrepreneurs tend to follow the group, hoping that whatever has worked for the others in the past will work for them as well.

The lack of technology is another constraint facing small businesses.

Human resources are acknowledged as being the most precious asset of a business.

It is necessary for entrepreneurs to have both managerial and leadership skills.

- Building team spirit among the employees
- Initiating an entrepreneurial climate within the organisation to allow employees more freedom of choice
- Being a role model for their employees
- Practising a code of ethics to ensure an ethical foundation in the business

Ensuring that the employees regard meeting customer needs is the responsibility.
Name the most significant barriers or problems that woman entrepreneurs face

- There is limited networking for woman in specific industries
- Woman entrepreneurs lack start-up funds
- Banks/financial institutions regularly criticise business plans without giving directions or guidance
- Exposure to the media is very expensive
- No database of woman entrepreneurs by sector is available
- There is replication and duplication of too many craft centres or groups in an area
- Courses offered by training institutions focus on training the traditional manager and not entrepreneur
Explain the characteristics of the informal and survivalist environment.

- It is mostly in a rural area.
- There is no domestic running water or electricity.
- The level of formal education is low.
- Economic activity is low.
- These entrepreneurs live in shacks.
Briefly explain how student entrepreneurship can be encouraged

- Innovative educational programs
- Business development
- Special projects
- Student businesses
Chapter 3 - creativity and business opportunity

The theory of creativity

A few models exist that explain the creative process and simplistic way the nature of creativity, it's rolling entrepreneurship and its benefits in the growth of a successful business still being debated.

This model, the 4P model of creativity, serves as a basis for entrepreneurial creativity. This model includes the person; the process; the product; and the environment.

this is an interactive model, which implies that creativity can be improved by giving special attention to each available individually and in and interdependent context.

The creativity model

The creativity model - the person

The creativity model - The process

The creativity model - the product
The theory of creativity

- It is a result of brain driven actions
  - The brain is a powerful weapon
  - one's brain is a tool that can transform their complex problems into attractive opportunities
  - it is estimated that 80% of problems in life are solved by creative thinking skills
  - they are more than 450 definitions of creativity

- The generally accepted definition contains the following conditions
  - The product of creativity is first the product or result of thinking process
  - this product should have novelty and should create value
  - This thinking process is usually unconventional, meaning that previously accepted ideas or concepts are normally rejected or modified
  - the thinking processes supported by performance motivation and is mostly time and energy consuming
  - the initial problem is normally they are not structured. The problem definition is thus integrated in the thinking process
  - Furthermore, creativity is unusual, uncommon, unique, something with surprise value, practical, functional, feasible, understandable and also able to be used by others
  - keep an open mind and see new perspectives
  - generate many ideas
  - generate a variety of really different ideas
  - develop ideas
  - generate infrequent and common ideas
  - Hang in there and be persistent in the face of criticism

- Glassman expands this view and sees creativity as the ability to:
  - The word creativity is derived from the Latin word with means to produce, meaning to create something new
  - it is important to assess the entrepreneurial process and see that or entrepreneurs with a successful or unsuccessful, into the business environment with the creative intervention
  - creativity is the catalyst for all new creations, from the invention until the final innovation and implementation process
The most important variable in the creativity model is the person, in this case the entrepreneur.

Creativity is a fundamental entrepreneurial skill and more importantly a learnable or acquired skill.

The brain is the main factory in the creative result.

The left hemisphere of the brain
- Factual, logical, rational, theoretical, mathematical, ordered, detailed, sequential, controlled and conservative matters

The right side of the brain
- Musical, spiritual, talkative, emotional, empathetic, artist, holistic, flexible, imaginative, synthesising matters

Creativity is a predominantly right brain activity, but in the entrepreneurship environment, the prices of the whole brain activity is utilised

Amabile analysed three components of creativity as seen in the context of the person

Expertise
- Includes all knowledge, experience and talent.
- This expertise could be acquired through the person's educational background, training interventions, experience and he's or her daily interaction with others

Motivation
- The motivation component of creative people determines what they will do and also whether they will do it.
- It doesn't matter in what position or it won't work they find themselves.
- The level of motivation could determine your performance or success in the long run.

Creative thinking skills
- Creative thinking plays an enormous role in the way a personal duel with a problem or idea.
- They could associate unrelated components and combined them in a new or unique way.
The creativity myth (Blocks to creativity)

Environmental barriers
- Is a lack of understanding of and support for new ideas and community among friends and family
- Risk taking is not allowed
- Many families have an autocratic decision-making structure
- Culture and values form part of the social environment

Economic environment
- The economy is not conducive to the development of new ideas and products
- There are no growth prospects in the economy
- No financial support is available
- Risk taking is seen as a negative element
- No rewards from new and feasible ideas exist

Physical environment
- Lack of energy
- Routine (you have to work, study and sleep)
- Work routine

Cultural barriers
- There are more than 12 different cultural groups in South Africa
- Each one of them has characteristics that will at some point influence creative development negatively

Perceptual barriers
- It is the way we see objects or abstract things clearly and correctly
- Using a narrow mindset to analyse problems
- Making assumptions without giving the bigger picture
- Assuming that something will work with and improper marketing research or feasibility studies
- Different perceptions of the characteristics of the new product
There are various misconceptions surrounding creativity:

- Creativity is an innate skill and cannot be acquired by means of training.
- You need to be a rebel to be seen as creative.
- Artists are the only creative beings.
- You need to be crazy before creativity will kick in.
- Intelligence and creativity.
- Group is individual.
- All new products were accidental discoveries.
Creativity forms part of a continuous process.

Creative thinking is a fundamental basis for the development of new initiatives, products, or services.

Creativity is the fuel for the first three steps of the process.

The first step in the creativity process is idea generation.

The second step leads to the development of the most suitable or feasible idea (this is a process of invention).

The most suitable idea or invention is then transformed into an innovation, thus a new product, service, or process.

The stages of the creative process:
- Awareness and interest
  - preparation
  - incubation
  - illumination
  - verification

Creative techniques:
- Random input
- Problem reversal
- 5W’s and H technique
- Association technique
- Discontinuity principal
The new innovation products a direct result of the process described above.

We have generated a multitude of ideas that are in line with a problem to be solved.

The ideas are result of the creative thinking process.

All the ideas are then evaluated in the most suitable one is subjected to the product development process.

The creative thinking process, the are many examples that illustrate this process:
- Fundamental changes
- Incremental changes
- New products
- New services
- New production techniques
- New operating practices
- New ways of delivering the product or service to the customer
- New means of informing the customer about the product
- New ways of managing relationships within the organisation

The legal protection of the product:
- Any new product can easily be copied. A legal form of protection is therefore needed.
- The following options are available to protect a new product or intellectual property:
  - Patents
  - Know-how
  - Trademarks
  - Registered designs
  - Unlawful competition
  - Copyright
  - Plants
  - Licenses
Chapter 4

Background

An opportunity: has qualities of being attractive, durable and timely

A good idea is not necessary the feasible and viable opportunity. From idea to be lucrative it must create value for the purchaser or end user

There is no sense in your reinventing the wheel, among other characteristics, entrepreneurs should therefore be creative and innovative

The role of ideas

Opportunity valuation

The pursuit of opportunities

Establish businesses have a stronger position than smaller entrepreneurs in terms of market entry and share

Why bigger businesses leave gaps in the business

The window of opportunity

Conclusion

The aim of this chapter was to introduce entrepreneur to the concept of the window of opportunity and to draw a distinction between an idea and viable business opportunity
The role of ideas

A good idea does not always automatically translate into an opportunity. Potential entrepreneurs put too much emphasis on the ideas.

When is an idea an opportunity

An idea must have the power to please the consumer's mind or a high and eyebrows he's or her interest, thus drawing the consumer to purchase the goods or service.

For the idea to be durable it must have the ability to continue in a particular condition and not wear out soon.

For the idea to be timely it must be presented to the market at an opportunity time, a time when the market is ready for it.

Sources and drivers of ideas and opportunities

Can be divided into five broad approaches:

- Generation of ideas from skills
- Expertise and aptitude from common needs
- From existing problems
- From everyday problems
- Example, things that irritate, and annoy the general public, can become the source of a thriving business opportunity.
Why bigger businesses leave gaps in the business

- Failure to see new opportunities
- Underestimation of new opportunities
- Technology inertia
- Cultural inertia
- Politics and internal fighting
- Government intervention to support new and smaller entrants

It makes it very easy for small organisations to spot the opportunity
The window of opportunity refers to the time period available for creating new ventures.

As the market grows, more opportunities are revealed, in other words the window opens.

As the market matures, the winner begins to close and the available opportunities in the market begin to dwindle and eventual peter out.

Seeing, locating, measuring and opening the window of opportunity.
Once the entrepreneur has identified a viable opportunity, they should pursue it. To be effective, the entrepreneur must plan how he or she will go about doing this.

**Background**

The business plan is a written document that spells out what a business is leading, explains in detail and how it is going to reach its destination. It helps a business to focus all its activities in an organized manner on reaching their destination or objective.

**Definition**

It is a written presentation that carefully explains the business, its management team, its products or services and its goals, together strategies for reaching the goals.

Business plan involves a process of planning the strategies and action plans for achieving the goals.

**Reasons for drawing up business plans**

- To plan a new business
- To transform or expand an existing business
- To create a strategic document for an existing or new business
- To obtain a loan
- To attract shareholders or partners
- To sell the business
- To provide direction for management and staff in a new or existing business
- To prepare the business for merger with another business
- To prepare the business for the takeover (acquisition) of another business
- To help position of business in the market
Reasons for drawing up business plans

To obtain the funding

to serve an internal purpose

Business plan has a potential to provide the entrepreneur with

A focus
an objective
a tool for measuring performance
a marketing tool for obtaining finance or selling the business
a roadmap to direct the business
a systematic evaluation of the chances of success in the market
a method for determining the risks facing the business, product or idea

to be used as a tool for reducing the risk
Standard format and layout of a business plan

Coversheet

Table of contents

Summary: set at the contents of the business plan

Products and or services plan

Marketing plan: focuses on customers, industry, competition

Operation plan: focuses on facilities, manufacturing capability and equipment

Management plan: list of all directors consultants and advisors and other key professionals

Financial plan

Establishment costs: product development, legal costs, product testing costs, market research costs, costs of machinery and equipment, office equipment, et cetera

People: salaries, compensation, registration of workers, bonuses, medical fund contributions, secretarial services, auditors fees, et cetera

Facilities: rental of buildings, machinery and equipment, water and electricity services, insurance, maintenance

Money: interest on loans, bank charges

Promotions: advertisements, pamphlet, demonstrations, and advertising, sponsorships, competitions, free samples, et cetera

Administration: postage, telephone, stationery and printing, taxes, trade licences, legal expenses and collection costs et cetera

Replacement costs: depreciation on furniture and equipment, manufacturing, machinery and vehicles

Sundry costs: entails all costs not included under one of the above subsections

Appendix: includes all essential pieces of evidence such as Cvs, product brochures, customer listings, this manual is a news articles

Break even analysis break even analysis
Order to pursue business opportunities, entrepreneurs need resources. Resources on the fuel needed to start and operate a business. If a business has insufficient resources we cannot start or operate just as poor.

Businesses rely on four major kinds of resources:
- Financial-
- Human-
- Physical-
- Information resources

Entrepreneurs have to comply with many regulations when starting and operating their own businesses.

Legal requirements for establishing a business:
- Public company
- Business trust
- Cooperative
- Non-profit organisation
- Incorporate a professional practice
- Partnership
- Private company

Intellectual property rights

Taxation

Legal aspects in the normal course of business

Labour legislation governing employment in South Africa
Intellectual property rights

Refers to all creations all products of the human mind that can be used for commercial gain

to ensure that these entrepreneurs all derive the full commercial benefit, it is essential that legal protection be obtained

intellectual property can be protected by means of copyright, the registering of a patent, trademark or design
Taxation

Direct tax
- Individual income tax
- Company tax
- Secondary tax on companies
- A tax on dividends from foreign registered or incorporated companies

Indirect tax
- Value added tax
- Excise and Customs duties
- Stamp duties

SARS
- Ensure tax laws complied with and clicks from each taxpayer the correct amount of the text you

Registration with the Department of labour
- Unemployment insurance fund
- Compensation fund

Trading licences
Many small business owners may have to conclude several contracts throughout the starting running of the business. To arrange finance from a bank, repay loans for assets bought, check the following:

- Check small print contains many stipulations in terms of an agreement
- Make sure that the other contracting party is indeed a contracting party
- Make sure that the arrangement contains all the pages in the liturgy completed in full before signing it
- Always request a copy of the signed agreement and keep it in a safe place
- Get legal advice in the arrangement is difficult or contains many incomprehensible terms

Legal aspects in the normal course of business:

- Product liability
  - Standards
  - Fair trade, competition and consumer protection
  - Environmental legislation
  - Promotion of access to information act
  - Usury act
Labour legislation governing employment in South Africa

- Labour relations act
- Basic conditions of employment act
- Occupational Health & Safety act
- Skill development act
- Skills development levies act
- Employment Equity act
- Black economic empowerment
Chapter 7 - Getting Started

Introduction
- This chapter will focus on things that need to be done before starting up and it also focuses on the management of the new venture and important aspects that must be in place from the start to ensure a successful venture.

Count down to start up and gradual start-up
- Most new businesses started out as small businesses.
- Most new businesses are very vulnerable at the beginning of the venture life-cycle.
- The process of starting up is based on the fundamentals of management: planning, organizing, leading and control.

Locating the business

Risk management

Why have the quality system

Ethics
- Ethics involve questions of right and wrong.
- Clients who are not clear about the ethics that govern the business will generally become mistrustful of the owners.
- An ethical behaviour includes the following:
  - Skimming: the section of consumers through advertisements or claims.
  - Inaccurate reporting financial information and state of affairs.

Record keeping and internal control
- Entrepreneurs must have accurate, meaningful and timely information in order to manage the business well and to make good decisions.
- The ability to maintain records will be in the long term an advantage from the small business owner.
- Recordkeeping begins before the start up, the systems mechanisms been put in place to ensure proper functioning and accounting and maintenance of all records.
- The quality of the firm's accounting system is dependent on the effectiveness of the control that exist within the firm.
Locating the business

Location is one of the aspects that must be investigated as part of the business plan.

Location is not the one of decision, and entrepreneur must occasionally consider relocating the business to reduce costs, it closer to customers or going other advantages.

Location plays an important role in the establishment of the business.

Formal businesses that rent office, trade or manufacture space required to pay close attention to location factors then informal businesses because of the permanency of the decisions.

Factors to consider in the physical establishment of a business:
- Access to the target market
- Availability of raw materials
- Support and technical infrastructure
- Transport infrastructure
- Availability of labour and skill
- Climatic conditions
- Political and social stability

Home based businesses:
- This business is located in the residence of the entrepreneur.
- Other considerations include the following: it must be accessible to clients; zoning ordinances of the local authority monopoly of the business to operate from a residence; space restriction phases of rapid growth may have a negative impact on the business.

Shopping centres:
- Businesses dealing in fast moving consumer goods media find shopping centres in which open a shop.
- Take note of the space most of the centres is rented out you were long before they start balding.
- Landlords prefer national chains and franchises.
- In general they do not like the mom-and-pop stores as they believe these businesses do not contribute to the image of the Centre.
- Most landlords police smaller businesses in shopping centres into accepting a one-sided lease agreement.

In selecting a shopping centre, the following factors must be considered:
- Feet count
- Parking
- Maintenance
- Conditions of use agreement
- Security
- Attitude of centre management
- Location within the Centre
Factors to consider in the physical establishment of a business:

- Access to the target market
- Availability of raw materials
- Support and technical infrastructure
- Transport infrastructure
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In selecting a shopping centre, the following factors must be considered

- Feet count
- parking
- maintenance
- conditions of use agreement
- Security
- attitude of centre management
- location within the Centre
Risk management consists of all efforts to prepare the assets and earning power of a business.

Figure 7.1 illustrates a number of risk in the microeconomic environment which came befall any enterprise. Examples:

- Property risk
  - Fire
  - natural disasters
  - burglary
  - shoplifting
- Personnel risk
  - Employee dishonesty
  - loss of key executives
  - competition from former employees
- Customer risk
  - On premise injury
  - product liability
  - bad debt

Management of risk:

- Retention
  - In certain circumstances it might be strategy to be the risk or to accepted as part of the business normally happens with a potential losses small or insignificant
- Reduction
  - This strategy is considered the possibility of a loss, be eliminated completely but its impact can be reduced
- Avoidance
  - To avoid risk may mean that nothing will be done or explored
  - risk avoidance may mean not investing in new venture in the first instance
  - the chances of loss and severity high, avoidance of risk is the best strategy
- Transfer
  - The transfer of risk or part of it to another party is one of the most popular strategy by business people
  - this can be done through underwriting and insurance
Why have a quality system?

Some cases in both the private and public sectors are looking for the conference can be given by business having a quality system

- Improvement of performance, coordination and productivity
- greater focus on the business objectives and on customers expectations
- achievement and maintenance of the quality of the product to meet a customer stated an implied needs
- management confidence
- evidence to customers and potential customers of the organisations capabilities
- opening up new market opportunities
- certification/registration
- the opportunity to compete on the same basis as large organisations
Finding finance or gaining financial support for any new venture is one of the difficulties experienced by entrepreneurs. It is important to know what sort of finance are available and what is required for the various financial institutions.

**The steps in predicting the financial needs of an adventure**

**The sources of short-term finance available**

**The sources of medium-term finance available**

**The sources of long-term finance available**

- Debentures
- Equity capital
- Long-term loans
- Retained earnings

**What do venture capitalists look for in an investment**

**The five key factors in the process of attracting an investment**

- Making contact
- Deal screening
- Deal evaluation
- The deal structuring
- Posts investment activity

**Institutions that support small and new business ventures**

- Commercial banks
- Merchant banks
- Business partners
- IDC
- Khula enterprise finance agency (mostly through commercial bank)
The steps in predicting the financial needs of adventure

Step one: project the firm's sales, revenues and expenses over the planning period

Step two: estimate the levels of investment in current and fixed assets that are necessary to support the projected sales

Step three: determine the firm's financing needs throughout the planning period
The sources of short-term finance available

Acceptance credits

Bank credit in the form of an overdraft facility is a very common method of short-term finance.

Bank credit

Bills of exchange

Customer advance payments

Factoring

This is a term referring to the raising of funds by the sale or assignment of updates to a third person, a factor. Factoring is a very convenient method of financing increases in working capital.

Shippers finance

Trade credit

It is common practice in South Africa the business and by the stock on credit from other firms.

Means of the buyer is not expected to pay cash for the goods or services.

When buying on credit, the Seller will invoice the goods the buyer and becomes a creditor in the financial statements.

This means that one has 30 days after the date of the statement to pay the credit.
The sources of medium-term finance available

Instalment sale
- the most popular methods of financing fixed assets such as machineries, equipment, furniture and motor vehicles
- this form of financing is available from most commercial banks
- although the buyer takes possession of the item, the ownership of the items sold will not pass the buyer until the last instalment has been paid

lease finance

medium-term loans
What do venture capitalists look for in an investment:

- An attractive business opportunity
  - Feasible business concept
  - large operating margins
  - large, sustainable growing markets
  - profitability

- competitive business venture
  - Experience and balance management team
  - unique and competitive product or service

- feasible exit options
  - Global growth potential; harvest potential within 3 to 5 years

- strategic fit with fund or portfolio
  - Industry sector
  - size in terms of investment
  - skills and experience required for the industry sector
  - stage of the firm in the venture life-cycle
Chapter 8 - Financing an Entrepreneurial Venture

Introduction
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- It is important to know what sort of finance are available and what is required for the various financial institutions.

The steps in predicting the financial needs of a venture

The sources of short-term finance available

The sources of medium-term finance available

The sources of long-term finance available

- Debentures
- Equity capital
- Long-term loans
- Retained earnings

What do venture capitalists look for in an investment

The five key factors in the process of attracting an investment

- Making contact
- Deal screening
- Deal evaluation
- Deal structuring
- Post investment activity

Institutions that support small and new business ventures

- Commercial banks
- Merchant banks
- Business partners
- IDC
- Khula Enterprise Finance Agency (mostly through commercial bank)
The sources of medium-term finance available

- **Instalment sale**
  - the most popular methods of financing fixed assets such as machineries, equipment, furniture and motor vehicles
  - this form of financing is available from most commercial banks
  - although the buyer takes possession of the item, the ownership of the items sold will not pass the buyer until the last instalment has been paid

- **Lease finance**

- **Medium-term loans**
The sources of short-term finance available

- Acceptance credits
- Bank credit
- Bills of exchange
- Customer advance payments
- Factoring
- Shippers finance
- Trade credit

Bank credit in the form of an overdraft facility is a very common method of short-term finance.

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The steps in predicting the financial needs of adventure.

Step one: project the firm's sales, revenues and expenses over the planning period.

Step two: estimate the levels of investment in current and fixed assets that are necessary to support the projected sales.

Step three: determine the firm's financing needs throughout the planning period.
What do venture capitalists look for in an investment:

- An attractive business opportunity
  - Feasible business concept
  - Large operating margins
  - Large, sustainable growing markets
  - Profitability

- Competitive business venture
  - Experience and balance management team
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  - Industry sector
  - Size in terms of investment
  - Skills and experience required for the industry sector
  - Stage of the firm in the venture life-cycle
Networking For Entrepreneurs

Useful tool "know-how" and "know-who" = Information, knowledge and data = sources
Critical external relationships contribute to success = research
Cannot know everything
Important to know about networking and to develop networking skills

What Are Networks?
They are patterned, beneficial, relationships between individuals, groups or organisations and are used to secure critical economic and non-economic resources needed to start and manage the business

Personal networks
Those persons with whom you have a direct relationship and focuses on the individual
Direct ties linking the entrepreneur and those with whom he / she does direct business
Areas in which an entrepreneur would need to develop contacts are called a role set.
Role sets might include: partners, customers, suppliers, bankers, distributors, professional associations and family members
A direct tie is someone you know or whom you may have face-to-face communication it can be strong or weak

Quick Development of an Effective Network
Identify people and organisations among existing connections who are close to potential stakeholders
Seek criticism, advice, and suggestions on the new venture from these people
Ask them for advice about contacts
Ask them what preparations are necessary
Tell existing contacts later how they have helped

Networking Principles
Reciprocity = give and take
Built on friendship, good humour and sharing interests and activities
Need to be constantly maintained and are very hard to repair if broken by confrontation or neglect

Internal networks = formal & informal structures.
The Internet (Facebook, Twitter, Mxit)
Using outside people resources
Board of Directors
Attorneys
Bankers and other lenders
Accountants
Consultants and advisors

Other Networks

Chapter 9 - Networking and Support.mmap - 10/15/2014 - Mindjet
Briefly discuss the types of networks and support systems available to entrepreneurs.

- **Social networks**: These include communication and exchange of information, for example, two entrepreneurs exchange business cards at a social event.
- **Personal networks**: This includes those people with whom the entrepreneur has day-to-day direct contact.
- **Extended networks**: Focused a network of organisations rather than on individuals. SAWEN, FABCOS, NAFCOC, AHI etc.
- **Other networks, including the Internet, suppliers and investors**: Includes bankers, attorneys, government policy, competitors etc.
- **Benefits**: Group or joint marketing of products; buying of input materials and services; tendering or budding on contracts; sharing of information on new markets and opportunities; sharing of containers when exporting; getting advice and information from members of the network.
Business counselling is a process whereby a business problem is diagnosed in such a way that the client learns not only how to overcome the current difficulties, or exploit opportunities, but also how to tackle similar situations in the future.

**Aim**

The aim is to boost individual and firm performance, and this is an ongoing process for development. One-on-one meeting should take place between the new venture owner and experienced entrepreneur.

**Objectives**

- To identify problems in their source
- To evaluate actual performance against expected performance
- To develop action plans to bring performance up to minimum expectations

**Business mentoring**

Business mentoring is an ongoing, long-term business counselling relationship between an experienced business adviser and a client throughout the various stages of a business ventures growth.

**Aim**

To develop both managerial and entrepreneurial skills of an individual so that an emerging entrepreneur near King drove into a long-term sustainable entrepreneur.

**Objectives**

- To cover a diverse range of topics as a business develops over time towards an agreed set of objectives
- To provide guidance and skills transfer to emerging entrepreneurs and supportive environment

**Business incubation**

It is a new and innovative system of support designed to nurture start-up and early stage enterprises in a managed workspace.

**Aim**

A business incubator is a facility and set of activities through which entrepreneurs can receive the following essential information and assistance:

- Value added shared services and equipment

**Objectives**

- To provide an entrepreneurial and learning environment
- To provide ready access to mentors and investors
- To provide visibility in the marketplace
The role of national government in developing and enabling small business environment

The key objectives of the White Paper, the basis of SMME are to:
- Create an enabling environment for small enterprises
- Facilitate greater equalisation of income, wealth and earning opportunities
- Strengthen the cohesion between small enterprises
- Prepare small businesses to comply with the challenges of an internationally competitive economy
- Address the apartheid-based legacy of disempowerment of black businesses
- Support the advancement of women in all business sectors
- Create long-term jobs
- Stimulate sector focused economy growth
- Level the playing field between big and small businesses, as well as between rural and urban businesses

Background of an enabling small business environment

Refers to a supportive environment in which emerging entrepreneurs can function.
- The government should help to establish this environment by means of legislation and policies.
- The environment should create a climate favourable to the entry of one company is by means of the following:
- Financing by ordinary financial institutions such as banks
- Venture capital access
- Training and development programmes to encourage entrepreneurship
- Infrastructural development
- Deregulation with regard economic activities as well as legal regulations.
Chapter 10 - Entering the family business

- Introduction
- Defining family businesses
- What constitutes a family business?
- Systems in family businesses
- Problems in family businesses
- Some positive aspects of a family business
- Succession
- Management styles
- Critical steps in order to help family businesses with succession
- Family Council

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The importance of family businesses is recognised throughout the world and enjoys growing support. Family business on many small to medium-sized and recorders the most important job creation mechanism. Family business is not a normal business because of the involvement of the family issues which are by nature more emotional.

A family business is one that is influenced by family ties in order to achieve the vision of the family over, potentially, several generations.

The family is actively involved in their particular business. Family members make a different input into the strategic direction of the business. Is more than one family member involved in the business intention is to continue the family business over time.

Define with the owners of family want to happen, now and in the future. Evaluate succession goals to confirm that they are feasible and comparable. Develop their preliminary succession plan, communicate, modify and improve the plan whilst striving for acceptance from all family members. Implement the plan.
the biggest challenge for the family Council is to draw up a family protocol or constitution. In order to facilitate a conversation around the creation of a family creed, the following need to be discussed

- management philosophy and objectives
- jobs for family members and remuneration
- leadership
- shareholding
- board of directors or advisory board
- communication
- employees
- changes in family constitution
Management styles

- **monarchs**: They do not leave office and although decisively forced out through death or internal palace revolt.

- **generals**: They are forced out of office by property return quickly come back out of retirement to save the business.

- **ambassadors**: They leave office gracefully frequently service post-retirement mentors.

- **Governor**: They rule for a limited term of office, then switched to other vocational outlets.
Problems in family businesses

- Only 30% of family businesses are successful into the second generation
- Only 10% of family businesses are successful into the third generation
- The average lifespan of family businesses is four years
- Family businesses become less entrepreneurial as the family system dominates

The following list of specific problems of family businesses:

- Failure to find capital for growth without diluting family equity
- Inability to balance the family's needs for liquidity and businesses need for cash
- Estate planning
- Lack of willingness of the older generation to let go of ownership
- Inability to attract and retain competent motivated family successors
- The inability to attract and retain competent senior non-family professional managers

Typical South African problems:

- Favouritism can result in nepotism
- Expectations were not clarified among members
- Family conflict before commencing with the family business
- Divorce can lead to the destruction of the family business
- Members of the family business emigrate to other countries thus destroying the team of the family business
Some positive aspects of a family business

- a strong family culture can ensure that the business will survive over generations
- they will be greater sensitivity to the business and its stakeholders
- it will be a better sense of community to between various members
- jobs are created and insured, which can lead to greater social stability
- specialist knowledge and experience of the business are created
- there’s more freedom to develop ones create a potential because family business of most small and medium-sized
it is a process through which the leadership of a business is transported from the existing leader who subsequent family member or non family member

there are obstacles to succession

founder autocratic and doesn’t want to transfer leadership

existing leader acts as though you will never die

there is a child stays a child scenario

existing leader misinterprets environmental trends and doesn’t implement changes in time

leader does not want to make a choice with regard to possible successor

the leader selects a successor who can be his slave
Systems in family businesses

- There are two broad systems in a family business:
  - A family system and a business system.
  - The family system is a social system that focuses on caring for its members and can therefore be regarded as more emotional.
  - The protection of the family's name and a petition could become more important than the exploitation of new ideas.
  - The main characteristic of business in general is that it is task-oriented.
  - Change is therefore a way of living.
  - Success in the family business can be insured only if the two broad systems are balanced in one system dominates the other, negative conflict can be expected, which could destroy the family business.
Chapter 11 - Buying a Franchise

Definition

The franchise concept gives an entrepreneur near the opportunity to start a business that has been proven in the marketplace.

Entrepreneur becomes a franchisee

Franchisor gives the franchisee the right to operate a business using the franchise company’s name, products and systems.

- a franchisor is a person who has developed a set of business system, uncertain intellectual property (trademarks, copyrights, patents) using connection with, gives the opportunity to make the system and use of intellectual property available to others in exchange for payment.

- important concepts of franchising

- advantages and limitations of franchising
Important concepts of franchising

- The franchisor is the firm that owns a business concept
- The franchisee is the entrepreneur who buys a franchise from the franchisor and operates the business in most cases
- Franchise contract, a.k.a. franchise agreement, specifies all the terms on which a relationship between the franchisee and the franchisor is based. It also specifies all the rights and obligations of the two parties and the other franchises to be operated.
- Royalties are generally known as management services fees in South Africa. Royalties are a monthly fee the franchisee has to pay the franchisor for the right to operate the franchise. This can be either a fixed amount or a percentage of the turnover.
- The advertising fee for the franchisee can also be a fixed amount or a percentage of turnover.
- The franchise fee is a lump sum payment that the franchisee pays to the franchisor or some franchise contract.
- The money is used to finance the opening of the franchisee's business.
Advantages and limitations of franchising

franchisee viewpoint
- advantages
  - a proven system
  - start-up assistance
  - ongoing assistance
  - advertising purchasing
  - easier to obtain finance
  - increased setup costs
  - rigid operating procedures
  - their decision by the franchisor

franchisor viewpoint
- advantages
  - rapid expansion
  - dedicated owner operators

- disadvantages
  - high operating costs
  - reduced income per unit
  - restrictions on freedom to act
the alternative option is to buy an existing business or franchise—this is known as a buyout.

the purchase of an existing business is often a disappointing experience.

that is why the entrepreneur has to make sure that his or her decision to buy an existing business, instead of starting one from scratch, is a sound one.

- Buying a business
  - businesses on the market
  - businesses not to the market
  - evaluating available businesses
- Information to be studied before purchasing a business
- Methods for determining the value of a business
  - competition
  - future community developments
  - legal commitments
  - employee contracts
- Non-quantitative factors in valuing a business
  - legal circumference
  - attraction to status and signs
  - unknown territory
  - opportunity cost
  - under estimation of other costs
  - greed
  - being too anxious and impatient
- The negotiation process
- traps to avoid when buying an existing business
Buying a business

the advantage of buying a business

- there is less risk involved
- it is in many ways easier and there is a chance to get a business at a bargain price
- the business is an ongoing concern
- a successful existing business may have a better chance of continuing to be successful
- location is of utmost importance and critical to the success of a business
- experienced and reliable employees or you’re already on the payroll of the business and can continue the services
- the suppliers are established and the owner is if you are building new relationships with suppliers
- the inventory is in place
- equipment has been installed and the production capacity is known
- it is possible to buy and existing business at a bargain price

the business was never profitable, but owner disguising by employing a creative accounting technique
- a business can have an inadequate sales volume
- a business may have a poor reputation or image
- some of the employees inherited with a business may not be suitable for the job
- the business location may be not at all the more favourable
- the equipment, facilities and inventory may be obsolete
- the business may be overpriced
- trust and confidence was established between the previous owner and his clients; these elements are not easily transferred to the new owner
Advantages of buying a business:
- There is less risk involved.
- It is in many ways easier and there is a chance to get a business at a bargain price.
- The business is an ongoing concern.
- A successful existing business may have a better chance of continuing to be successful.
- Location is of utmost importance and critical to the success of a business.
- Experienced and reliable employees or you’re already on the payroll of the business and can continue the services.
- The suppliers are established and the owner is if you are building new relationships with suppliers.
- The inventory is in place.
- Equipment has been installed and the production capacity is known.
- It is possible to buy and existing business at a bargain price.

Disadvantages of buying a business:
- The business was never profitable, but owner disguising by employing a creative accounting technique.
- A business can have an inadequate sales volume.
- A business may have a poor reputation or image.
- Some of the employees inherited with a business may not be suitable for the job.
- The business location may be not at all the more favourable.
- The equipment, facilities and inventory may be obsolete.
- The business may be overpriced.
- Trust and confidence was established between the previous owner and his clients; these elements are not easily transferred to the new owner.
Evaluating available businesses

- Why is a business for sale?
- Is a business profitable?
- What skills and competencies do I need for managing the business?
- What is the history of the business in terms of its previous owners, reputation and public image?
- When is a physical condition of the business, facilities and all other assets?
- What are the degree and scope of competition?
- What is existing and potential market size?
- What important legal aspects must be considered?

Further questions:
- What is a marketing strategy of the business?
- What is the situation regarding the employees?
- What is the type of ownership of the business you want to buy?
Evaluating available businesses

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Information to be studied before purchasing a business

Accounting
- income statement
- balance sheet
- cash flow statements
- records of accounts payable
- records of accounts receivable
- bank account information regarding deposits and withdrawals

SARS
- income tax returns
- value added tax statements
- approval all payments of tax, employee salaries, to SARS

- all contracts with suppliers, example leases on property, equipment and vehicles
- service contracts with employees
- records of maintenance on fixed assets
- short-term and employee insurance policies
Methods for determining the value of a business

- **the asset based method (balance sheets method)**: this is where the worth of value of the business is determined by equity-total assets minus liabilities
- **The market based method**: this technique relies on the financial markets to estimate the value of the business
- **the earnings-based approach**
- **the excess earnings method**: a combination of the value of existing assets of the business and an estimation of future earnings is used

Additional calculations:
- determine the adjusted tangible net worth of the business
- calculate the opportunity cost of investing in the business (the interest of person who would have received if he had invested the money in an investment or similar risk. The greater the risk, the higher the rate of return will be)
- estimating the net earnings of the business for the coming year
- computer extra earning power (difference between estimated net earnings for the coming year and a total opportunity costs)
- determine the value of good will
- determine the value of the business
The negotiation process

- the final purchase price of the business is determined through negotiation between buyer and seller
- complete negotiation process will include the following steps
  - business for sale must be identified and approached
  - what is a buyer and seller are satisfied with their preliminary research, ready to begin serious negotiations
    - before the buyer makes it illegal offered to buy the business, they will sign a letter of intent (this is a non-binding document that use other party the right to walk away from the deal); addresses to such as price payment, categories of assets to be sold, deadline for close and final deal
  - the next step is a buyers due diligence investigation (the buyer is doing his or her homework to make sure that the business is good value for money)
- once everything has been done the party drop the purchase agreement
- when the purchase agreement has been drafted, buyer and seller) will by signing the necessary documents
- your challenge begins for the buyer, is to make the transition to being a successful business owner
Buying a business

Finding a business to buy
- businesses on the market
- businesses not to the market

Evaluating available businesses

Information to be studied before purchasing a business

Methods for determining the value of a business

Non-quantitative factors in valuing a business

The negotiation process

Traps to avoid when buying an existing business
- legal circumference
- attraction to status and signs
- unknown territory
- opportunity cost
- under estimation of other costs
- greed
- being too anxious and impatient

Buying a business or franchise - this is known as a buyout. The purchase of an existing business is often a disappointing experience, which is why the entrepreneur must be sure that his or her decision to buy an existing business, instead of starting one from scratch, is a sound one.