

N4

Entrepreneurship and Business Management

**RICHELLE BRINK-CARLSE
RODWIN DE KLERK
LINDA DOKE**

4th Floor, Auto Atlantic, Corner Hertzog Boulevard and Heerengracht Boulevard,
Cape Town, South Africa

za.pearson.com

Copyright © Pearson South Africa (Pty) Ltd 2021

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system,
or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or
otherwise, without the prior written permission of the copyright holder.

First published 2021

ISBN: 9781485720676

ePDF ISBN: 9781485720881

Publisher: Lloyd Stuurman

Managing Editor: Monique Maartens

Editor: Miranda Cilliers

Proofreader: Kim van Besouw

Artwork: Ben Latham

Book design: Pearson Media Hub

Cover design: Pearson Media Hub

Cover artwork: Shutterstock

Typesetting: Stacey Gibson

Printed by

Acknowledgements:

Photographs:

p. 3: Africa Rising / Shutterstock; p. 6: Linda Doke; p. 20: Atstock Productions / Shutterstock,
Daniel M. Ernst / Shutterstock; p. 21: WAYHOME studio / Shutterstock, Peter Titmus / Alamy; p. 24:
Vectorlib.com / Shutterstock; p. 48 Shutterstock; p. 53: M_Agency / Shutterstock; p. 55: Apidech
Ninkhlai / 123rf.com; p. 57: Rainer Plendl / 123rf.com; p. 87: MrGarry / Shutterstock, Africa studio /
Shutterstock, Coleman Yuen / Pearson Education Asia LTD, Oksancia / Shutterstock, mdbildes /
Shutterstock, Juri82 / Shutterstock; p. 88: George Tsartsianidis. 123rf.com; p. 100: 2117717 /
Shutterstock; p. 106: Vereshchagin Dmitry / 123rf.com, Lek Changply / Shutterstock, You can
more / Shutterstock; p. 107: Satina / 123rf.com; p. 112: WAYHOME studio / Shutterstock; p. 113:
Shutterstock; p. 116: Dan Callister / Alamy; p. 119: Nirat Makjantuk / 123rf.com; p. 128: Atstock
Productions / Shutterstock

Text:

(To follow)

Contents

| | |
|---|-----------|
| Module 1: The contemporary challenges of entrepreneurship..... | 1 |
| Lessons from an entrepreneur | 2 |
| Unit What is entrepreneurship? | 3 |
| An entrepreneur..... | 3 |
| The role of entrepreneurs vs intrapreneurs..... | 4 |
| Personal qualities of an entrepreneur..... | 4 |
| Personal resources of the successful entrepreneur..... | 8 |
| Economic importance of the entrepreneur..... | 10 |
| The advantages and opportunities of entrepreneurship | 10 |
| Why businesses fail | 11 |
| Why businesses succeed..... | 12 |
| | |
| Module 2: Creativity and idea generation | 16 |
| Lessons from an entrepreneur | 17 |
| Unit Creativity in business | 18 |
| What is creativity? | 19 |
| Business ideas and opportunities | 19 |
| Importance of innovation and creativity..... | 19 |
| Ways to generate ideas | 19 |
| Creativity methods | 22 |
| Protecting your business idea | 24 |
| Turning ideas into business opportunities | 25 |
| | |
| Module 3: Market feasibility study | 30 |
| Lessons from an entrepreneur | 31 |
| Unit What is a market feasibility study? | 32 |
| Importance of the feasibility study..... | 32 |
| Product description | 33 |
| Nature of products..... | 33 |
| Identify the market position | 34 |
| The need for market research | 36 |
| Types of data..... | 36 |
| Methods of collecting primary data | 37 |

| | |
|--|----|
| Developing a questionnaire | 38 |
| Collecting secondary data | 40 |
| Doing a SWOT analysis..... | 40 |
| Identification of competitive advantage..... | 40 |

Module 4: Financial feasibility study..... 44

| | |
|---|-----------|
| Lessons from an entrepreneur | 45 |
| Unit The financial feasibility study | 46 |
| Importance of the financial feasibility study | 47 |
| Start-up costs | 48 |
| Fixed assets required | 48 |
| Pre-operating costs..... | 50 |
| Total costs | 50 |
| Sales scenarios | 51 |
| Best and worst sales scenario | 52 |
| Turnover for a specific goal..... | 53 |
| Calculating break-even points in units or turnover..... | 54 |
| Contribution per unit or gross profit or profit mark-up | 54 |

Module 5: Introduction to the business plan 63

| | |
|---|-----------|
| Lessons from an entrepreneur | 64 |
| Unit The business plan | 65 |
| Reasons for doing a business plan | 66 |
| Elements of a business plan..... | 66 |
| Where to find assistance | 73 |
| Naming your business | 75 |
| Oral presentation of your business plan | 76 |
| Evaluation of the business plan | 76 |

Module 6: Marketing plan..... 81

| | |
|---|-----------|
| Lessons from an entrepreneur | 83 |
| Unit The marketing plan..... | 84 |
| Elements of the marketing mix..... | 85 |
| Product description | 86 |
| Packaging | 87 |
| Pricing for profit..... | 89 |
| Pricing techniques..... | 89 |
| Pricing concepts | 90 |
| Promotion | 92 |
| Business promotion..... | 94 |
| Selecting advertising media | 94 |

| | |
|--|-----|
| Developing an advertising plan..... | 95 |
| Preparing an advertising budget..... | 97 |
| Sales promotion | 98 |
| Personal selling | 98 |
| Turning slow-moving inventory into cash..... | 100 |
| After-sales service..... | 101 |
| Place | 101 |

Module 7: Management plan..... 109

| | |
|--|------------|
| Lessons from an entrepreneur | 110 |
| Unit The management plan..... | 111 |
| Types of business..... | 112 |
| Forms of ownership | 113 |
| Legal formalities in establishing a business | 114 |
| Own involvement..... | 115 |
| Personnel and responsibilities | 116 |
| Operating plan..... | 117 |
| Equipment and machinery analysis | 119 |
| Supplier analysis..... | 119 |
| Office administration..... | 121 |

Module 8: Financial plan 123

| | |
|---|------------|
| Lessons from an entrepreneur | 124 |
| Unit The financial plan..... | 125 |
| Sources of financing..... | 126 |
| Financial management | 129 |
| Creating projected financial statements | 131 |
| Determine loan requirements | 133 |

Assessment task..... 136

Multilingual glossary..... 139

The contemporary challenges of entrepreneurship

What is covered?

In this module, you will learn what it means to be an entrepreneur and what qualities and skills you will need to run a successful business. You will learn about the personal resources needed to be a successful entrepreneur and how to calculate your net worth. You will also look at the reasons why some businesses succeed and some fail. Finally, you will take a self-analysis test in which you list your strengths and weaknesses. This test will contribute to your practical mark for the semester.

Learning outcomes

After studying this module, you should be able to:

- define the concept 'entrepreneurship'
- distinguish between the role of entrepreneurs and intrapreneurs
- name and briefly describe the qualities of the entrepreneur and apply to case studies of successful entrepreneurs; complete a self-analysis
- name and describe their personal resources; list their strengths and weaknesses, possible assistance to their businesses and calculate their net worth (assessing their investment capabilities)
- briefly discuss the economic importance of the entrepreneur, especially with reference to the South African situation
- name and explain the advantages and opportunities of entrepreneurship
- name and explain the reasons why businesses fail; discuss how they as future entrepreneurs can overcome these problems
- name and describe the reasons why businesses succeed
- obtain a mark for this task which will contribute to the practical mark for the semester.

Lessons from an entrepreneur

MBALI MNCWABE, ENTREPRENEUR AND OWNER OF KIDDIES KORNER HAIR SALON

I have an Economics degree and worked in corporate for a few years. I was successful but felt unfulfilled. I got fired from my job and decided to start my own business. 'What's the worst that could happen?' I thought.

What motivated you to start your own business?

Growing up, I always wanted to start a salon. The TV show *Jerseylicious* inspired me. I told my mom that I always had horrible experiences at the salon when I was a child and wanted to change that for kids today. The stylists always struggled with my hair.

Which of your qualities do you believe help you with being a business owner?

The 3 Ps – Passion

I'm passionate about what I do. You will end up very frustrated if you just do it for the money. When challenges come, it will be terrible but the passion will keep you going. I used to roll my eyes when people spoke about loving what you do. I thought that was so 'Oprah touchy-feely' and that it couldn't really be that simple. When you can get up in the morning looking forward to what you do as a job, you can learn to deal with the challenges.

People-orientated

This business is formed around kids. It includes physically touching their heads and hair. You need to care and be conscious of others, their body language, their likes and dislikes. You need to smile every day with your customers even when you are struggling with something. You will receive negative and positive feedback so you need to know how to deal with unhappy customers.

Patient

Working with kids is not easy. People ask 'How do you do this?' I work hard to create a warm environment in the business. I learned that it takes time to build a solid business. There are no quick ways to it. In the beginning you wear all the hats because you have to do everything yourself.

Describe a typical business day for Mbali Mncwabe?

I have two salon premises in JHB. I get to set my own hours now that the business is established and this gives me some freedom most days. I go to the salon and check the number of customers for the previous day and the amount of money made. I also check stock and can order stock if we are running low. I can check in with the employees and find out if they need anything or have any concerns.

Describe a time when you wanted to give up but didn't. What did you do instead?

People thought the business was a daycare centre. We had a nice concept but the first hairstyles were bad. I did not have skilled staff yet. I owed R10k in rent but only made R3k income. The numbers were growing but not fast enough. I was pregnant, the business had been operating for about seven months and I owed centre management a total of R42 000 in rent. I didn't have a cent in my account. I was about to give birth and didn't have money for my own child's basics. WHEN YOU'RE BROKE, YOU'RE BROKE, WHEN YOU'RE POOR, YOU'RE POOR. I was living off family members and I used to be an independent woman. I applied for jobs because I needed to work to earn money, and then my husband invested some money into the business so I could pay off the debt and keep going until business was better.

Facebook: Kiddies Korner Salon
Website: kiddieskornerhair.com

Physical address: Shop A14 First Floor, Northview Centre, Cnr Malibongwe & Olievenhout Avenue, Randburg, Gauteng

Unit: What is entrepreneurship?

LEARNING OUTCOMES

- Define the concept 'entrepreneurship'.
- Distinguish between the role of entrepreneurs and intrapreneurs.
- Name and briefly describe the qualities of the entrepreneur and apply to case studies of successful entrepreneurs; complete a self-analysis.
- Name and describe their personal resources; list their strengths and weaknesses, possible assistance to their businesses and calculate their net worth (assessing their investment capabilities).
- Briefly discuss the economic importance of the entrepreneur, especially with reference to the South African situation.
- Name and explain the advantages and opportunities of entrepreneurship.
- Name and explain the reasons why businesses fail; discuss how they as future entrepreneurs can overcome these problems.
- Name and describe the reasons why businesses succeed.
- Obtain a mark for this task which will contribute to the practical mark for the semester.

Introduction

Entrepreneurs play a very important role in the South African economy. It is estimated that there were already more than 5 million entrepreneurs in our country before the Covid-19 pandemic. This number has increased significantly and is likely to increase even more as companies downscale and people lose their jobs.

Entrepreneurship is the way forward for our country's economic growth. If South Africa is to encourage the founding of new businesses, it is important that budding entrepreneurs be identified and equipped with the right skills and that the resources required for their success be available.



Figure 1.1 An entrepreneur

1. An entrepreneur

Being an **entrepreneur** involves starting a business using available resources with the aim of making a profit and contributing to the country's economy.

Keywords

entrepreneur:
someone who starts a new business or arranges new business deals

2. The role of entrepreneurs vs intrapreneurs

Keywords

risk: the margin of chance that the outcomes of decision-making and practice are subject to

innovation: generation of new ideas that could be turned into new products or services, or could improve existing products

The entrepreneur's role is to establish a business, to satisfy needs, make decisions with the aim of making a profit and take on all the **risks** that may occur within the business. Entrepreneurs are characterised by their creativity and **innovation**. They are constantly looking for opportunities to make money and are not afraid to take risks.

Intrapreneurs are leaders in their own right, but they do not set up businesses or make primary decisions within the business. They may contribute to the decision-making process by providing input when necessary. They play an active role within an existing business and therefore do not take responsibility for any risks or losses that may occur.

| Entrepreneur | Intrapreneur |
|---|--|
| All activities in the business are done by the entrepreneur | The risk-taking and business decisions are made by relevant managers and employees |
| All rewards go to the entrepreneur | Most rewards go to the company |
| All risk is carried by the entrepreneur | All risk is carried by the company |

3. Personal qualities of an entrepreneur

If you are thinking of starting up your own business, you should possess certain qualities that will set you apart from other individuals, and that will help to motivate you to ensure a successful business.

Entrepreneurs should possess the following qualities.

3.1 Confidence in their ability to succeed

As an entrepreneur you must believe in your own skills and abilities. You must be confident in your brand as this will help you sell your **product** or **service** and convince your customers it is the best on the market. Entrepreneurs start businesses because they believe they can offer a better product or service for a better value than already exists. **Competition** between businesses is often a good thing. An element of competitiveness is a quality that will help set your business apart from other businesses by offering a better, more affordable product or service. Good interpersonal skills (strong people skills) will help you interact confidently with different types of people at different levels, such as convince investors to invest in your brand, buy your product or service, and become influential as a manager to your employees. Entrepreneurs also have a 'never-quit' attitude that drives them to succeed even when they are not successful the first time.

3.2 Preference for moderate to high levels of risk

Successful entrepreneurship involves taking risks. However, taking risks does not mean going into business blindly and expecting to be successful. When starting a business, an entrepreneur needs to consider the risks involved and think carefully how to manage those risks. A business owner cannot avoid all risks involved in running a business, and you should take steps to reduce the effects these challenges might have on the success of your venture. Taking business risks involves careful planning and hard work so that your business has a better chance to succeed.

Keywords

product: items bought and sold in the market, such as food, clothing and computers

service: a kind of help or work offered by an individual, business or organisation

competition: when businesses compete with each other for customers. They may, for example, compete by charging lower prices or offering better products so that customers will support them and not their competitors.

3.3 Desire for responsibility

To ensure that tasks are completed, you should go beyond what is expected of you by having a vision for your business, revising plans, thinking of new ways to do things and ensuring that these are done to the best of your ability. Be prepared to sacrifice lots of time as there is no such thing as working hours when you are working for yourself. You are the person in charge and in the beginning, you may be the only employee. You need to be open to learning new skills. Making sure that the business is insured against any loss, such as theft or damage from fire or water, is also part of an entrepreneur's responsibility.

3.4 Energetic

Being energetic about the business idea shows that the entrepreneur is passionate about what they are doing – their business idea, product and brand. Because of this, they will work harder and longer hours to ensure the business's success. This also requires a physical commitment. Keep as healthy as possible and find ways to reduce stress levels.

3.5 Ability to identify opportunities

Entrepreneurs should have the ability to recognise potential business ideas in every situation. For example, a social conversation about poor customer service may lead to an entrepreneur providing specialised training for his or her staff members. Being creative and thinking of different ways to deal with situations and customers, yet still reaching their goals and objectives, is important.

Equally important is the ability to recognise when you need to make changes to a process or do something differently before it's too late. This will ensure that your business evolves as it needs to.

3.6 Organisational skills

Entrepreneurs should be focused on making a success of the business and therefore need to spend most of their time making plans and **business strategies** to ensure that the business reaches its goals. So, short-, medium- and long-term **planning** is important. You need to have systems in place so that you know where things (equipment, documentation) are at all times. This will make your business operate smoother.

3.7 Urge to achieve

Entrepreneurs are often driven by challenges and use this as motivation to think and execute plans and ideas to improve the business. This is important to be successful and will set you apart from your competitors. For every entrepreneur there is a personal motivation behind their desire to achieve business success – a reason why they are starting their business. For some it becomes a personal goal.

Keywords

business strategy: a planned method to help the organisation achieve its overall objectives

planning: a management task that involves deciding on the organisation's objectives and putting in place plans on how to achieve these objectives

3.8 Resilience

Entrepreneurs face many obstacles and challenges in their journey to success. Resilience is the ability to bounce back from difficulties, to stand strong and adapt when facing challenging circumstances and to explore new opportunities in a creative way. For example, the Covid-19 pandemic affects all businesses, also the start-ups. The resilient entrepreneur will be the one that picks up the pieces and tries again, seeing new opportunities in changing circumstances.

3.9 Desire for immediate feedback

In order to measure the success of your business, you should be open to receiving feedback from all the role-players that interact with the organisation, such as management, employees and customers. This will help you to see which areas of the business need improvement, which helps develop the organisation further and ensures that it is sustainable and is making a profit.

Feedback gives you information on which to base your next decisions, but be aware that it will not always be constructive. You need to be open to the criticism and be able to deal with it.

CASE STUDY FROM GARAGE TO BAKERY

In December 2019, siblings Amber and Brode Gleeson were eager for a new work experience. Both in their mid-twenties and having trained and worked as chefs overseas, they decided to return to their hometown Hout Bay to offer the local community something special: home-baked sourdough bread.

Little did they know that just two months after returning to South Africa, the world would be in the grips of a global pandemic that would squeeze conventional businesses, large and small, and make Amber and Brode question their decision to launch their new business.

How South Yeaster Bakery was born

We wanted to offer Hout Bay a sourdough bakery focused on fresh and locally sourced ingredients where possible. We did a tremendous amount of market research and experimented a lot (on family!) before finalising our products. Fortunately, the months of hard lockdown during April and May 2020 provided ample opportunity for this and we decided to take a leap of faith.

We started small, which was the best advice given to us by many mentors. Quite by chance we had managed to acquire an industrial oven the day before lockdown started in the final week of March. We slowly started the sourdough baking process in our garage and offered baked goods to our neighbours. Word spread fast through the neighbourhood and orders started coming in steadily.



Figure 1.2 Even in times of Covid-19 having certain qualities can make entrepreneurs succeed.

Saturdays became our busiest day of the week and we started selling the fresh loaves at the bottom of our driveway. Our bread was a hit and, before long, the queues started creating traffic jams! We realised we needed an outlet to retail from. Over the next few months we saved money for a deposit on a small premises. It was literally only one bare room, so we took out a private loan to fit the shop with basic equipment and wooden display shelves.

Work background

We had no formal training or personal experience as entrepreneurs, and all our learning has been along the way and from advice given to us by a few small business owners. Also, our father had run a few of his own businesses throughout his life and so I guess we have always been exposed to the idea of entrepreneurship.

Step by step

Our first formal step in the formation of our business was to register the name South Yeaster. Next came the tax side of things, putting everything in place to ensure we were compliant, so we signed up an accounting officer. Everyone we sought advice from told us that from the day a business starts trading, everything should be documented and accounted for.

The three 'advice gems' we were given were:

1. Keep everything legitimate.
2. Cutting corners never pays off.
3. Do things right first time.

We were fortunate to be able to start our business from our own home so we didn't have many overheads. That said, electricity has been a huge cost.

Progress

We realised that we needed help and hired an assistant, starting with just the cleaning of the bakery and slowly training her to scale bread doughs, stamp packets with our logo and fold croissant boxes. We have basic stock management sheets and order forms and delivery notes. This was something we learned to do by error, as we had no previous knowledge about this.

Acquiring second-hand machinery and appliances does come with an implied maintenance cost. But we weighed the prices of previously used against new items and decided we were willing to pay for the maintenance and replacement of parts rather than buy totally new equipment as that tends to be very steep.

Greatest challenges

We have found our biggest challenges with our business has been communication and living and working with each other in the same space. But we both have a lot of respect for each other and we tend to complement each other's weaknesses and strengths. Cash flow can also be tricky, but if you accept to be mentored by people that did the same thing and is willing to listen to criticism and advice, challenges are easier to work through and overcome. A positive outlook and working from the heart with passion have definitely worked in our favour.

4. Personal resources of the successful entrepreneur

To manage a business, you require knowledge and skills that will help you to ensure your business runs smoothly. Before starting a business you need to evaluate whether you have the necessary resources to ensure that your business is successful. These are personal resources required by an entrepreneur.

4.1 Knowledge and skills

Knowledge and skills refers to the training or experience that the entrepreneur has in a particular subject or area. These may include the following:

- **Qualifications** – A degree in commerce or business, in the field your business is in, is always an advantage.
- **Business skills** – You have to know the product or service you are offering, how to promote the product, as well as how to manage the business. Business skills also include any training you have completed: online degrees, diplomas, certificates and workshops.
- **Specialisation** – For example, using specialised machinery in areas that are specific to your product and service – a cabinetmaker/carpenter will need to know how to take measurements and use certain machinery such as a saw, drills, jigsaw, etc.
- **Work experience** – Gaining experience and knowledge within an organisation can help you in your own business.
- **Good management of staff** – being able to interact with people and executing plans by communicating well and delegating the duties with their employees or investors are all important skills.

4.2 Contacts and friends

Interpersonal skills are one of the important qualities an entrepreneur should have – how else can you gain access to investors or customers? It is not a requirement that every entrepreneur be an extrovert. These skills make it easy for entrepreneurs to meet and enquire about information that is relevant to the product or service that is being offered. For example, when deciding on starting a business, you need to do research on the products, on financing and on what demand there is for the product. You may be able to reach out to individuals you have met at conferences and gather contacts and information from them to enhance your business and to gain access to investors and capital or people with specialised skills.

4.3 Finance – personal assets and liabilities

When planning your business, you have to establish the amount of funding required when it comes to capital and operational costs. Financing is often a deterrent unless you are able to access funds from various stakeholders. These stakeholders include:

- Personal savings – This can be physical money or **assets** (possessions with monetary value), such as a house or vehicle. The advantage of using your personal savings is that you do not have to pay it back. The disadvantage is that if the business fails, you will not have funds available.
- Family as investors – Often family are more likely to be willing to invest in your business idea and act as motivators as they believe in your business being successful. The advantage of family as investors is that they are willing to wait on the repayments of these loans, but when the business becomes successful, they often put pressure on you to repay the loan.
- Financial institutions – Banks will approve a business loan with the requirements of repaying this loan in monthly instalments, with interest and within a given time frame. The advantage is that their funds are available immediately. The disadvantage is that the interest rate may be costly and if you are unable to repay the loan, the bank may repossess items in the business, auction the assets or may even use your personal assets, like your house, to repay the loan.

It is always good to research other means of gaining access to money. The government has also made funds available for certain programs, such as SETA (Sector Education and Training Authority) funding for educational or skills training.

Keywords

asset: anything that the company owns and makes use of to produce goods and services. These may include land, buildings, motor vehicles, cash, stock, etc.

Worked example

Net worth

As an entrepreneur, you would need to determine the value of your business. This is done using a simple calculation – add up the value of your assets and then subtract the business **liabilities** (expenses) from the total value of assets. The result will be your net worth. In the example shown on the next page, the entrepreneur's net worth is R200 000.

| Assets | R |
|--------------------------------------|-----------------------|
| Personal finances | 20 000 |
| House | 300 000 |
| Vehicle | 30 000 |
| Total of assets | 350 000 |
| Liabilities | |
| Credit card | 50 000 |
| Bank finance | 100 000 |
| Total liabilities | (150 000) |
| Net worth (350 000 – 150 000) | <u>200 000</u> |

Keywords

liabilities: anything that is going to cost the business money, is known as a liability

5. Economic importance of the entrepreneur

Entrepreneurs tend to take risks in order to create jobs as they bring to life new products and services. In this way, they make a very important contribution to the South African economy. Many of these entrepreneurs are young people who started their own businesses because they could not find employment. They are affecting the economy in a positive way and are encouraged by the government for the following reasons.

5.1 Develop natural resources

Skilled entrepreneurs, such as farmers, in the primary sector have the ability to enhance our natural resources. This can affect the import and export market and in this way create more wealth for South Africa.

5.2 Create employment opportunities

Entrepreneurs are able to assist Government in creating employment. This allows Government to access more tax-payers in order to redistribute funds to service the citizens of South Africa.

5.3 Improve production

An increase in employment leads to an increase in productivity by producing more goods and satisfying the customer needs, which ultimately affects the wealth of the country.

5.4 Encourage a free market system

Entrepreneurship encourages the free market economy by identifying consumer needs and satisfying those needs.

6. The advantages and opportunities of entrepreneurship

There are many reasons why entrepreneurs start their own businesses. Some of them are listed here.

6.1 To gain control over your own destiny

When you choose to start your own business, as the owner you will take on full responsibility for your decisions. You will decide what product or service you would like to offer, how you will manage your business and employees, and decide your own working hours. Many entrepreneurs prefer to have unlimited decision-making possibilities within their own business rather than working for a boss and not have control over their own destiny.

6.2 To reach your full potential

Entrepreneurs are able to reach their full potential and to reap profits from their businesses. They are able to identify and satisfy society's needs so they are recognised for their work and efforts by the community.

6.3 To reap unlimited profits

The advantage of starting your own business is that you will be able to decide on your own and your employees' salaries. As the owner of the business, whatever profits the business makes will result in a higher income for you. If the business runs at a financial loss, it will affect your income and personal sustainability.

6.4 To give to society and be rewarded for your efforts

Business contributes to society by satisfying community needs through the products and services they offer. As an entrepreneur, you will also contribute to creating jobs in society. You will be contributing to the household income of people in the community and will be respected for that. Corporate Social Responsibility (CSR) is also favourable to the community, as in this way businesses offer additional support like bursaries or funding of projects, without seeking profits from these efforts.

7. Why businesses fail

Sometimes it is easy to identify a need within a community and the idea of starting a business seems simple. However research shows that in South Africa 70 to 80% of businesses fail. It is therefore important that we ask why this happens. What factors influence the failure of businesses and the role entrepreneurs play in this failure?

7.1 Incompetent managers

Sometimes managers may not possess the qualities and skills required to produce the product or service. They may lack **leadership** and management skills or they may be demotivated by the rate of profits, or they may have poor planning and executing abilities. If you want to be a competent manager in all areas of your business, it is important to keep the following four skills (POLC) in mind:

- plan
- **organise**
- lead
- control.

Along with these four qualities, planning how tasks will be done, employing competent staff and ensuring that tasks have been completed according to instructions, as well as being an example to your staff, such as being on time, will all contribute to the success of your business.

7.2 Lack of experience

Entrepreneurs may work in a sector where they have never worked before or they may not have been exposed to various functions within that area of the business. If entrepreneurs are unwilling to attend training workshops or conferences that will help them keep up to date with the latest developments, it may result in the business's failure.

Keywords

leadership: a management task that focuses on implementing the overall vision of the organisation

organise: a management task that involves setting up a structure of how plans can be carried out to achieve the organisation's objectives in the best way

7.3 Poor financial control

Finances in the business affect all functions within the business, from income and expenses of goods and services to purchasing goods (procurement), production, marketing and salaries. If you are not aware of which funds enter and leave the business, you will be unable to track your progress and will not know if the business will be sustainable in the long run. For example, what funding do you have available and will it be enough if the business requires additional funding? Will your customers buy with cash or on credit and how will credit purchases be tracked and paid? Who will manage the bookkeeping and how will budgeting be done?

8. Why businesses succeed

With proper preparation, all businesses have the potential to succeed. Starting a business can be very challenging. There are several common pitfalls that entrepreneurs should avoid in order for their business to succeed. Some of these include working long hours, not having enough starting capital (money), and not coping well with stress. In order to be successful and avoid such pitfalls, you can focus on the following areas.

8.1 Prepare a business plan

The purpose of a **business plan** is to guide the entrepreneur. It contains the details of the business, stating your business objectives, and covers all the departments within an organisation, such as productions, marketing and finances. As a reference document for the entrepreneur, it helps you to clarify your thoughts about your business objectives, and it will guide you and keep you on track with future plans.

A business plan is also an important document to be used outside your business, because banks and financial institutions will want to read it before agreeing to give you a loan. They need to know that you have planned ahead and will be able to pay back the money they lend you.

8.2 Know your business

It is important to know the basic concepts of business in order to carry out tasks. The entrepreneur must keep up to date with what is going on in the industry and know the trends in the market in order to stay a step ahead of competitors.

8.3 Understand financial statements

The success of a business is often measured on the income and profits of the business. It is important that you understand your **financial statements** and keep good records of your finances as this will help the business **budget** for future planning, ensure that expenses are paid and that your stock is accounted for.

Keywords

business plan: an outline of all aspects of a planned business opportunity that is set at the very beginning. The plan shows when, where and how a business is going to be set up, and why and how the business should be successful.

financial statements: documents that give business owners a picture of the overall financial situation of their business over a specific period

budget: a statement of how money will be spent and on what over a certain period of time. The statement also shows how much money the business will need to cover its costs and how much money it has available.

8.4 Learn to manage people effectively

'Lead by example' is a popular saying that you would do well to remember when dealing with employees in the business. The entrepreneur should display certain qualities and skills that inspire employees to perform to the best of their abilities. This can result in an increase in sales because of good interpersonal communication with the customers. Managing product trends and being involved in decisions about pricing or marketing has a positive effect on goods and service to customers and ultimately on the profits.

8.5 Entrepreneurial transition

It may take time to get used to running your own business. Here are a few tips for the entrepreneur to help make the transition to entrepreneurship easier:

- Save up for a few months before you start up your business. Having some savings behind you will help you to focus on your new business instead of worrying about your upcoming expenses.
- Do not be afraid working long hours. You might find that at first you will need to put in more hours a day than you did in your previous job, but you are building your own dream, so the long hours will pay off in the future when your business becomes profitable.
- Save all your receipts. This will help you to account for all your expenses and in the end will help you to know if you are making a profit or not.
- Make and follow a schedule. This will help the entrepreneur to allocate time correctly to each activity and help the day to run smoothly.

Module summary

- Entrepreneurs play an important role in South Africa's economy and contribute a great deal to the wealth of the country.
- The entrepreneur's role is to establish a business, to satisfy needs, make decisions with the aim of making a profit, and take on all the risks that may occur within the business. Entrepreneurs are characterised by their creativity and innovation. They are constantly looking for opportunities to make money and are not afraid to take risks.
- Entrepreneurs should have certain qualities that contribute towards the success of their businesses. They should:
 - know that they can be successful
 - prefer to take average risks
 - want to be responsible
 - be energetic
 - be resilient
 - identify opportunities
 - have organisational skills
 - want to achieve
 - want immediate feedback.
- The entrepreneur needs these qualities to run a successful business:
 - training and experience
 - interpersonal skills with friends and business contacts
 - funding, such as savings, investors and banking institutions.
- To calculate net worth, add up the value of your assets and then subtract the business liabilities (expenses) from the total value of assets.
- The entrepreneur valuably contributes to the economy by:
 - developing natural resources
 - creating employment opportunities
 - leading in production
 - supporting the free market system.
- The advantages of entrepreneurship are:
 - you have control over your future
 - you can be as successful as you are able
 - you can make as much profit as possible
 - you can give to society and be rewarded for your efforts.
- Entrepreneurs fail because of:
 - poor business management
 - a lack of experience
 - insufficient market research
 - little control over finances.
- Some ways to avoid failure are:
 - to have a good business plan
 - to make sure you know your business well
 - to understand your financial statements and keep good records
 - to inspire employees to perform well
 - to try to create a smooth transition into starting your business.

ACTIVITY 1.1

TASK 1.1

1. Complete the following self-analysis to discover your entrepreneurial potential.

| Question | Yes | No |
|---|-----|----|
| 1. Would you like to be your own boss? | | |
| 2. Are you determined? | | |
| 3. Do you believe that you can achieve your goals? | | |
| 4. Will you work longer hours to ensure your business succeeds? | | |
| 5. Are you prepared to take risks? | | |

2. List your strengths and weaknesses.

| Strengths | Weaknesses |
|-----------|------------|
| 1. | |
| 2. | |
| 3. | |
| 4. | |
| 5. | |

3. Name possible contacts and their investment capabilities.

| Contacts | Investment capabilities |
|----------|-------------------------|
| 1. | |
| 2. | |
| 3. | |

ACTIVITY 1.2

TASK 1.2

- List FIVE personal qualities that help entrepreneurs make a success of their business. (5)
- List THREE possible sources of funding for an entrepreneur. (3)
- How do you calculate the value of a business and an entrepreneur's net worth? (1)
- Identify FIVE ways in which an entrepreneur can make a business prosper. (5)
- Describe the role of the owner of a business in terms of responsibilities and management. Give TWO examples of each of these two aspects. (8)
- Give THREE factors that can cause businesses to fail. (3)

[25]