

---

---

## Entrepreneurship and Small-Business Ownership

BA291

---

---

### Learning Objectives

1. Highlight the 10 commandments in keeping family business
2. Explain the characteristics of small businesses and financial options for small businesses

2

## The Big World of Small Business

### Small Business

A company that is independently owned and operated, is not dominant in its field, and employs fewer than 500 people (although this number varies by industry)

### Economic Roles of Small Business

- Provide jobs
- Introduce new products
- Meet the needs of larger organizations
- Inject a considerable amount of money into the economy
- They take risks that larger companies sometimes avoid
- They provide specialized goods and services

3

## Characteristics of Small Businesses

- Most small firms have a *narrow focus*
- Small businesses have to get by with *limited resources*
- Small businesses often have *more freedom* to innovate
- Entrepreneurial firms find it easier to *make decisions quickly* and *react to changes* in the marketplace

4

## Business Start-Up Options

Start-Up Strategy	Financial Outlay at Start-Up	Possibilities for Borrowing Start-Up Capital or Getting Investors	Owner's Freedom and Flexibility	Business Processes and Systems	Support Networks	Workforce	Customer Base, Brand Recognition, and Sales
<b>Create a new, independent business</b>	Some businesses can be started with very little cash; others, particularly in manufacturing, may require a lot of capital	Usually very limited; most lenders and many investors want evidence that the business can generate revenue before they'll offer funds; venture capitalists invest in new firms, but only in a few industries	Very high, particularly during early phases, although low capital can severely restrict the owner's ability to maneuver	Must be designed and created from scratch, which can be time-consuming and expensive	Suppliers, bankers, and other elements of the network must be selected; the good news is that the owner can select and recruit ones that he or she specifically wants	Must be hired and trained at the owner's expense	None; must be built from the ground up, which can put serious strain on company finances until sales volume builds
<b>Buy an existing independent business</b>	Can be considerable; some companies sell for multiples of their annual revenue, for example	Banks are more willing to lend to "going concerns," and investors are more likely to invest in them	Less than when creating a new business because facilities, workforce, and other assets are already in place—more than when buying a franchise	Already in place, which can be a plus or minus, depending on how well they work	Already in place; may need to be upgraded	Already in place, which could be a positive or a negative, but at least there are staff to operate the business	Assuming that the business is at least somewhat successful, it has a customer base with ongoing sales and some brand reputation (which could be positive or negative)
<b>Buy into a franchise system</b>	Varies widely, from a few thousand to several hundred thousand dollars	Varies, but many franchisors do not allow franchisees to buy a franchise with borrowed funds, so they must have their own capital	Low to very low; most franchisors require rigid adherence to company policies and processes	One of the key advantages of buying a franchise is that it comes with an established business system	Varies; some franchise companies specify which suppliers a franchisee can use	Must be hired and trained, but a franchisor usually provides training or training support	Customer base and repeat sales must be built up, but one of the major advantages of a franchise is established brand recognition

## Financing Options for Small Businesses

### Seed Money

The first infusion of capital used to get a business started

### Micro Lenders

Organizations, often not-for-profit, that lend smaller amounts of money to business owners who might not qualify for conventional bank loans

### Venture Capitalists (VCs)

Investors who provide money to finance new businesses or turnarounds in exchange for a portion of ownership, with the objective of reselling the business at a profit

### Angel investors

Private individuals who invest money in start-ups, usually earlier in a business's life and in smaller amounts than VCs are willing to invest or banks are willing to lend

### Initial public offering (IPO)

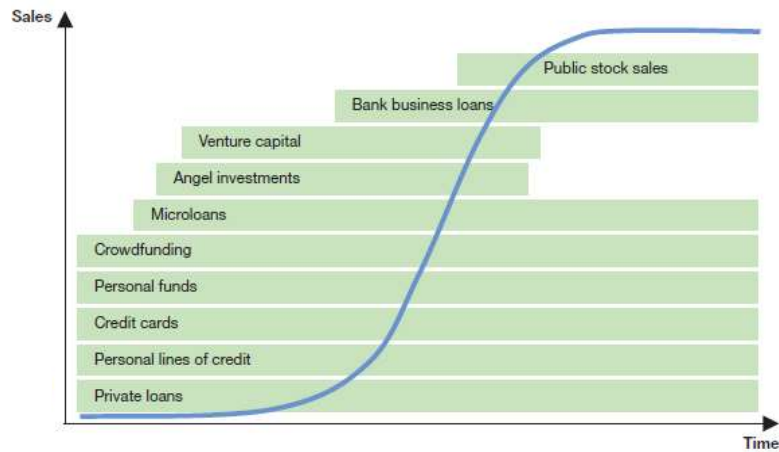
A corporation's first offering of shares to the public

### Crowdfunding

Soliciting project funds, business investment, or business loans from members of the public.

6

## Financing Possibilities over the Life of a Small Business



7

## 10 Commandments to Sustain Family Business

1. Do not overly expand your business
2. Do not leave your area of expertise
3. Do keep your liquidity
4. Adapt fast enough to competition
5. Do not speculate products or raw materials
6. Do not use your business money for other purposes
7. Do not let your business rely on one person or a few partners/suppliers
8. Do not trust easily
9. Do know when to quit
10. Have virtue and honesty when doing business

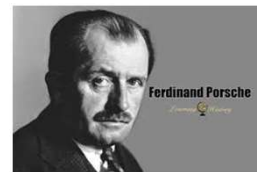
8

## Three reasons why...

Statistically family business will end in the hand of the next generation (90%).

Many books teach you how to get 'rich' but not so many books teach how to 'survive'.

Many heirs of the family business who are graduated with higher degree often get lost.



## Over Investment Risk

### Rule#1 Do not overly expand your business

#### Success Trap

1. Market does not have high demand as expected
2. Competitors also expand their businesses
3. Customers are gone
4. Over capacity

#### Case 1

Electronic parts and auto parts during the Subprime crisis (p.32)

#### Case 2

Hotel businesses in Samui after the Tsunami in 2004 (p.33)

#### Case 3

Condominium in Bangkok during 2009-2010 and new housing loan rules (p.35)

#### Case 4

Trading business to suburban area (p.38)

#### Tips

Expand when you are ready..

- financially ready
- market ready
- personnel ready

## Over Diversification Risk

### Rule#2 Do not leave your area of expertise



#### Success Trap

1. See others getting good profit
2. Personally like it
3. Think that we have competitive advantage (latex)



#### Case 1

1997 real estate, housing estate boom (p.44)

#### Case 2

Dormitory business (p.45)

#### Case 3

Boutique hotel business - cost over-run, occupancy rate, room rate (p.46)



#### TIPS

1. leave when ready
2. if not successful, it must not impact your main business

## Liquidity Risk

### Rule#3 Do keep your liquidity



#### Success Trap

1. Have excess cash or O/D credit
2. Easy to get loans
3. Invest in fixed asset, esp. no liquidity and do not generate income

#### Case 1

Banking business and financial institutes in 1997(p.52)

#### Case 2

Condominium business vs housing estate (p.53)

*The scariest creditors are not banks or accounts payable...  
but are electricity company and waged labors*

#### Tips

- Always have reserve
- manage liquidity better than before
  - account receivable
  - account payable
  - inventory

## Market/ Competitive Risk

### Rule#4 Adapt fast enough to competition

#### Tips

- Greater vision
- Adapt fast enough

#### Success Trap

1. Higher cost than others
2. Your products are obsolete or substituted by others

#### Case 1

Postal service (p.57)

#### Case 2

Nanyang shoes (p.57)

*Offshoring or production moves to other countries*

#### Case 3

Wholsaling and retailing business (p.61)



13

## Speculative Risk

### Rule#5 Do not speculate products or raw materials



#### Success Trap

1. Use loans to speculate price
2. Too greedy

#### TIPS

1. separate this apart from your business
2. do not speculate currency exchange rate

14

## Rule#6 Do not use your business money for other purposes

### Success Trap

1. Money is easy to generate
2. mix up personal money, business money, and family fund

*even worse than over diversification risk*



### TIPS

1. careful financial management, separate business money from personal life
2. always have reserves



Assets that are not liquidating and not bringing in income



## Concentration Risk

## Keyman Risk

**Rule#7** Do not let your business rely on one person or a few partners/suppliers

### Case 1

stainless steel kitchen utensils (p.80)  
Flood in Thailand affects Supply chain in auto industry

### Case 2

Exporter of wooden doors to UK (p.53)

### Tips

- Have a succession plan
- Do not have more than 50% of your order from one buyer/ have purchase contract

## Rule#8 Do not trust easily

## Credit Risk

### Trap

1. Borrow money
2. Invest together
3. Guarantor
4. Clients

(p.88)

### Tips

- Are you willing to forgive?

## Rule#9 Know when to quit

## Emotional Risk

### Success Trap

1. Fame from the past (p.90)

### Case

1. Daimler & Chrysler
2. GE
3. gave in to JV

### Tip

No emotion when making decision

17

## Rule#10 Have virtue and honesty when doing business

## Reputation Risk

### Tips

- Word-of-mouth
- Fight in the family



### SAFETY RECALL

EXCESS LEVELS OF LEAD AFFECTING SURFACE PAINT ON SPECIFIC VEHICLES AND SET COMPONENTS FROM THE THOMAS & FRIENDS WOODEN RAILWAY PRODUCT LINE



18