

# Chapter 7

# Business start-up

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# Entrepreneurship & NEW VENTURE MANAGEMENT



## Learning outcomes

- Identify and discuss the aspects determining the capacity for survival of a new venture
- Discuss the necessity for a market strategy for the entrepreneur when starting a venture
- Discuss how competitors can influence the entrepreneur in his decision to start a venture
- Identify and discuss the resource needs of the entrepreneur and how the size of the prospective enterprise could influence the entrepreneur

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## Learning outcomes (cont.)

- Identify and discuss the location factors to be considered when starting a venture
- Discuss the factors affecting the entrepreneur's choice of the form of ownership of the new venture
- Identify and discuss the business support systems available to entrepreneurs
- Identify and discuss the challenges the entrepreneurs face during start-up

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## Determinants of capacity for survival

- Characteristics, traits and abilities of entrepreneur
- Market and marketing strategy
- Evidence of competitors
- Specific resource needs of venture
- Size of proposed enterprise
- Where venture will be located
- What business form the venture will take

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## Characteristics, traits and abilities of entrepreneur

- Refer to Chapter 2:
  - Mindset
  - Typical characteristics

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## Market and market strategy

- Is the product the first of its kind?
- Does similar or same products exist?
- Should demand be stimulated from scratch (new concept)?
- Characteristics of potential customers

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## Market and market strategy (cont.)

- Extent of potential market and market share
- Growth pattern and potential of market
- Nature and extent of existing and potential competition
- Potential to capture and retain share of market

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## Presence of competitors

- Existing competitors – or possibility for them to emerge
- Substitute product or service
- Competitor's share of market
- Pricing policy of competitors
- Effect on suppliers



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## Resource needs

- **Operating resources:** facilities which allow people to do their jobs
- **Human resources:** direct and indirect resources
- **Financial resources:** to obtain operating and human resources
- **Technology resources:** support production process, IT, recipes and patents

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## Size of prospective enterprise

- Availability of raw materials, equipment, labour, capital and managerial skills
- Current size of the market
- Optimum level of production
- Minimum volume required (break-even-point)

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## Geographic location

- Sources of raw materials
- Availability of human resources
- Proximity of and access to market
- Availability of transport, power and water, and capital
- Availability of site and buildings
- Attitude, regulations and tariffs of local authority
- Existing business environment
- Social environment
- Climate
- Central government policy
- Personal preferences

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## Choosing the best location

1. Establish location factors
2. Assign weighting (1-5) to each factor
3. Calculate possible cost or rating per factor for each location
4. List information in a table
5. Calculate disadvantages connected to each location
6. Decide on the best location

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## Factors influencing type of ownership

- Legal juristic personality
- Liability of owner
- Extent of direct control by owner
- Ability to acquire capital
- Possibilities to change ownership
- Legal requirements

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## Sole proprietorship

- Only one individual owner
- Assets belong to owner
- Remains personally liable for debts and claims against business
- May lose personal possessions if the business fails
- Has full control and authority over activities

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## Sole proprietorship(cont.)

- Owner is responsible for all management decisions
- limited possibilities to acquire capital
- Few problems with transfer of ownership – can sell at any time.
- No formalities or legal requirements
- Individual simply decides to start a business and run it in his own name
- Special permits or licences must be obtained

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## Sole proprietorship (cont.)

- Profit belongs to owner and pays income tax
- Business does not pay income tax
- Owner is the legal entity and not the business
- Business cease to exist when owner dies



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## Sole proprietorship (cont.)

### **Need to register with following institutions:**

- South African Revenue Service (SARS) – for tax matters
- Department of Labour (DoL) – for staff matters
- Local municipality – matters about business premises
- Companies and Intellectual Property Commission (CIPC) – registration of business name, trade mark, patents and other intellectual property matters

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## Partnership

- Where 2 or more people run a business
- Maximum of 20 members
- Partnership no legal personality
- Partners sign contracts in their names
- Partners are liable for the debts of the partnership
- Partners have joint control over business and assets

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## Partnership (cont.)

- Easier to acquire capital than sole proprietor
- When a new partner joins or retires the partnership automatically dissolves
- Established by partnership agreement
- Agreement must make provision for every partner's contribution
- Contribution can take form of money, assets or services

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## Partnership (cont.)

- Must be stipulated that each partner must share in profits or losses
- Partners may be individuals or legal persons such as companies
- Profit-sharing ratio between partners is usually regulated in the partnership agreement
- Partners taxed on profits not partnership
- Insolvency of partnership can result in the sequestration of the private estates of the partners
- Partnership dissolves at death of a partner or when a new partner joins

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## Partnership (cont.)

### Two types of partnership:

- Ordinary
- Extraordinary – two types
  - Anonymous
  - *Commanditaire*/sleeping partner

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## Company

**New Companies Act identifies two types:**

- **For-profit company:** incorporated for the purpose of financial gain
- **Non-profit company:** incorporated for public benefit and income is not distributable to incorporators/members or persons related to them

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## Types of profit companies

- **State owned:** owned by state/municipality with SOC Ltd as part of name
- **Private company:** not state owned and
- **Personal liability company**
- **Public company**

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	State owned	Private company	Personal liability company	Public company
<b>Shareholders</b>	State or municipality	1 – 50 members	1 – 50 members	No limit
<b>Directors</b>	Not indicated	At least one	At least one	At least three
<b>Extended accountability requirements</b>	Required to comply	Not required to comply	Not required to comply	Required to comply
<b>Shares</b>	Not offered to public	At least 7 shareholders	Not offered to public	Offered to public – annual general meetings
<b>Transferability of shares</b>	None	Limited transferability	Limited transferability	Freely transferable
<b>Name of company</b>	Ends with SOC Ltd	Must end with Pty (Ltd)	Must end with Inc.	Ends with Ltd or limited
<b>Liability</b>	To state	Company only	Directors jointly & severally liable with the company	Company only
<b>Sharing of information</b>	Not to public	Not to public	Not to public	Must make it known to public



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## Company (cont.)

- Company is a legal entity
- Assets and liabilities divorced from shareholder
- Personal assets of shareholders not involved in claims against company
- Liability of shareholder limited to share capital

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## Company (cont.)

- Shares of public company can be sold to a third party without consent of other shareholders or company
- Company does not dissolve at death of a shareholder or directors (perpetual succession)
- Control and authority rest with board of directors and general meeting of members

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## Other forms of ownership

- Co-operatives: established to achieve certain economic advantages for members through joint action
- Trusts: offers members limited liability and reduced costs while looking to make a profit and further objectives of trustees. May not exceed 20 members.

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## Business industries

- The total economy consists of industrial sectors that produce products and services and have been grouped together in the Standard Industry Classification (SIC).
- An industry consists of establishments engaged in the same or a closely related kind of economic activity based mainly on the principal class of goods produced or services rendered.

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## Industry

The term "industry" cover all economic activity from the primary industries of agriculture, forestry, fishing and mining to the rendering of social, recreational, cultural and personal services

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## Industry sectors

- Manufacturing
- Service
- Retail
- IT Industry
- Internet / e-business

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## Manufacturing industry

- Agri-processing
- Automotive
- Chemicals
- ICT and electronics
- Metals
- Textiles, clothing and footwear

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## Services industry

- Advertising including print, radio, television, outdoor advertising and the Internet.
- Professional bodies
- Marketing and market research organizations
- The South African legal system
- Financial and insurance services
- Accounting service
- Hospitality and tourism
- Consulting, office administration, hairdressing, cleaning



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## Retail

- A retailer is defined as an enterprise deriving more than 50 per cent of its turnover from sales of goods to the general public for household use
- The retail industry is divided into four size groups namely large and medium enterprises and small and very small enterprises

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## IT industry

- Telecommunications services
- Telecommunication equipment manufacture
- Computer hardware manufacture
- Packaged software development
- IT professional services (consulting)

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## Internet or e-business industry

- Growth in e-commerce in South Africa is fuelled by the realisation that online procurement and supply-chain management can trim costs and improve customer relationships
- Financial institutions facilitate e-business transactions

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## Business support systems

- Ideas and information usually come from different sources
- By obtaining contributions from different sources, the entrepreneur can improve his/her decision-making abilities
- After the entrepreneur has made use of these, he/she will be more likely to use such sources in future with positive effect
- The entrepreneur will learn that he/she does not have all the right answers - sources of support can function as a social and institutional safety net for entrepreneurs

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## Sources of support

- Personal sources
- Institutional sources
- Professional sources

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## Personal sources of support

- Personal knowledge and skills
- Friends and relatives
- Other entrepreneurs
- Suppliers
- Employees
- Customers

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## Institutional sources of support Department of Trade and Industry

- Incentive Administration Business Unit
  - SMEDP in manufacturing and tourism
  - Skills support programme
  - Competitiveness fund
  - Black Business Supplier Development Programme

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## Institutional sources of support Department of Trade and Industry (cont.)

- Black Business Supplier Development Programme
- New Incentive Development Unit
  - Review and development of incentives
- Business Development and Aftercare Business Unit
  - Accessibility of incentive offerings of DTI



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## Institutional sources of support: Government-related institutions

- Industrial Development Corporation (IDC)
- Small Enterprise Finance Agency (SEFA)
- Khula Finance
- National Youth Development Agency (NYDA)
- National Manufacturing Advisory Centre Coordinating Body (NAMAC)
- National Empowerment Fund (NEF)
- National Enterprise Promotion Agency (Ntsika)
- Small Enterprise Development Agency (Seda)
- Companies and Intellectual Property Commission (CIPC)

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## Institutional sources of support associations

- Black Management Forum (BMF)
- Business Unity South Africa (BUSA)
- Minara Chamber of Commerce
- National African Federated Chamber of Commerce (NAFCOC)
- Afrikaanse Handels Instituut (AHI)
- SA Chamber of Commerce (SACOB)
- Foundation for African Business and Consumer Services (FABCOS)
- Chamber of Commerce and Industry in SA (CHAMSA)

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## Other institutional sources of support

- Small Claims Court
- Educational Institutions
  - Higher Education
  - Further Education and Training

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## Professional sources of support

- Consultants
- Lawyers
- Accountants
- Agents
- Franchisors
- Franchising Association of SA (FASA)

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## Challenges during start-up

- Might not enjoy it
- Survival is difficult
- Not enough knowledge about the business
- Misuse of funds
- Losing control of work and personal time management
- Inability to manage people
- Growth creates new challenges
- Lack of customer focus
- Poor controls