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Promote and Strengthen Business Development Skills in Rural Communities

Module 2
Management of micro or SMEs

Developed by Biognosis

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Learning Outcomes

Level according to the Competence Framework (IO1): Limited Level

Upon completion of this learning module, you will be able to:

- ✓ Recognize the main parameters of Success and Failure in Small Businesses
- ✓ Understand the basic steps in Business Developing
- ✓ Distinguish the main aspects of E-Business and E-Commerce
- ✓ Realize the Necessity for a Business Plan
- ✓ Detect the need for a marketing plan in business development
- ✓ Realize the importance of correct Financial Decision Making, and Financial Control
- ✓ Comprehend the main Principles of Management and Organisation

1. Fundamentals of Small Business

1.1. Small Business Definitions

An **enterprise** is ‘any entity engaged in an economic activity, irrespective of its legal form. This means that the self-employed, family firms, partnerships and associations or any other entity that is regularly engaged in an economic activity may be considered as enterprises. An **economic activity** is usually seen as ‘the sale of products or services at a given price, on a given/direct market’.

What is an SME?

Small and Medium-sized Enterprises (SMEs) represent 99% of all businesses in the EU, while the average European enterprise employs no more than six people. Small and medium-sized enterprises (SMEs) are defined in the EU recommendation 2003/361.

The main factors determining whether an enterprise is an SME are:

Company category	Staff headcount	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

The definition of an SME is important for access to finance and EU support programmes targeted specifically at these enterprises. See more information in https://ec.europa.eu/growth/smes/sme-definition_en.

1.2. Small Business in European Economy

SMEs are the engine of the European economy.
They drive job creation and economic growth and ensure social stability.
Nine out of every 10 enterprises is an SME, and SMEs generate two out of every three jobs.
SMEs also stimulate an entrepreneurial spirit and innovation throughout the EU and are thus crucial for fostering competitiveness and employment.

Given their importance to Europe's economy, SMEs are a major focus of EU policy.
The European Commission aims to promote entrepreneurship and improve the business environment for SMEs, thereby allowing them to realize their full potential in today's global economy.

The Juncker plan
A new boost for jobs, growth and investment is the first priority of the ex President of the European Commission Jean-Claude Juncker, enforcing his ambitious investment plan for Europe has transformed the economic fortunes of thousands of small businesses across the continent. He said << jobs, growth and investment will only return to Europe if we create the right regulatory environment and promote a climate of entrepreneurship and job creation. SMEs are the backbone of our economy, creating more than 85 % of new jobs in Europe and we have to free them from burdensome regulation.'

The Juncker plan, which supported more than 1 million SMEs, will continue during the next term with additional resources, is estimated to add an additional 1.8% to European growth by 2022, while the total sum of jobs created will increase to 1.7 million.

1.3. Success and Failure in Small Businesses

Small business is universally recognized as the engine of the world economy. It is praised for adding substantially to every country's gross domestic product (GDP), employment, innovative ability, and tax base. However, the survival rate of small businesses in their first ten years of operation is not high. Only about 20 percent of new business enterprises survive beyond their first ten years.

Strengths and weaknesses of small business enterprises.

Strengths	Weaknesses
Ability to react fast to external challenges	Inability to attract highly experienced managers
Flexibility and capacity to make fast change in direction	Inability to take advantage of economies of scale
Willingness to customize products and services	Low employee-pay and benefits
Informality in relationships	Difficulty in raising capital
Short lines of communication	Low access to credit
Ability to make fast decisions	Limited capacity to diversify product lines
Easy to establish and control	

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1.3. Success and Failure in Small Businesses

6 Reasons Small Businesses Succeed

- ✓ They have a well-defined vision.
- ✓ Getting things done is top priority.
- ✓ They master their budgets.
- ✓ Networking is important to them.
- ✓ Leaders keep high standards and push positivity.
- ✓ They invest in the right processes and systems.

Reasons why small businesses fail

- ✓ No business plan or poor planning
- ✓ Failure to understand customer behavior today
- ✓ Inventory mismanagement
- ✓ Unsustainable growth
- ✓ Lack of sales
- ✓ Trying to do it all
- ✓ Underestimating administrative tasks
- ✓ Refusal to adapt
- ✓ Lack of data

2. Business Developing

2.1. Business Idea: Defining the Customer's Concept of Value, Knowing Your Customers

✓ In order to become successful, a business must correctly identify customer value.

✓ **Customer value** = the difference between a customer's perceived benefits and the perceived costs

✓ **Perceived benefits** can be derived from five value sources: **functional, social, emotional, epistemic** and **conditional**.

✓ **Perceived costs** have three components: **monetary, time and psychic**.

✓ To offer better customer value, the market must be **segmented** – this can be done on the basis of geography, demographics psychographics or purchasing behaviour.

✓ In order to provide customer value, a business must listen to the **voice of the customer (VOC)**.
- This means that businesses must attempt to meet the **customers' needs** that are not being met by competitors.
- This can be achieved by **segmenting** the customers and considering the **lifetime value** of these segments.

✓ **Quality function deployment (QFD)** is an approach that takes the desires of customers and assists in designing new products and services or improve existing ones.
→ **Intuition** can play an important role in this process.
→ **Innovation** and **creativity** are also needed to create competitive advantage

✓ Small businesses should identify new social and consumer **trends** by using readily available technology.

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2.2. Family Business: Issues and Conflicts - An Overview

- A **family business** can be defined as a business that is actively owned and/or managed by more than one member of the same family.

- Family businesses are the most common form of business structure. Some of their **advantages** are:
  → **Entrepreneurial spirit, flexibility and opportunism**.
  → That they **outperform** public companies.
  → That they tend to be **stable and optimistic**.

- Important family **issues** may arise, including communication, employing family and nonfamily members, professional management, employment qualifications, salaries and compensation and success.
  → These issues may, in turn, lead to **conflict**.

- Another challenging issue is that of **succession**, which can be solved a succession plan outlining how the succession will occur and what criteria will be used to judge when the successor is ready to take on the task.

- Regarding **conflict**, this can either be:
  a) **positive**, when it results in high-quality decisions, promotes growth, strengthens groups and individuals, or
  b) **negative**, when it disrupts the harmony and relationships of family members, causes ongoing harm to groups and individuals, and produces poor-quality decisions

- Many factors can cause negative **conflict**. The fundamental psychological conflict in family businesses is **rivalry**.

- Negative conflict must be avoided at all costs due its damaging consequences. Conflict should always be kept **constructive** and be based on a **fair decision-making process**.

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2.3. Supply Chain Management

Supply chain management = the planning and management of all activities related to sourcing and procurement, conversion and all logistics management activities.

Supply chain management has been **revolutionised** by many factors, including:

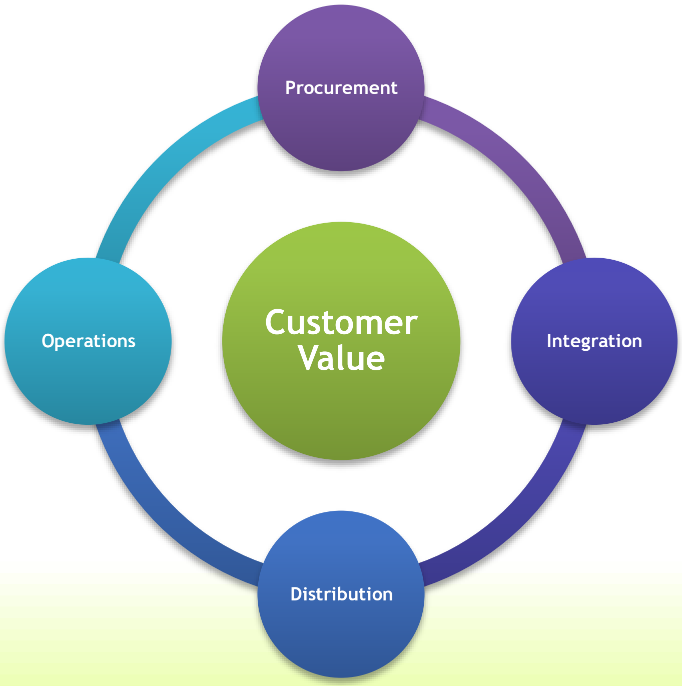
- globalization
- changes in consumer demand
- organizations that recognize the need for changing ways of doing business
- technical innovations

<u>**Core elements of a supply chain**</u>

1. **Procurement**: purchasing of parts, components or services; formation of strategic alliances
2. **Operations**: demand management; inventory control; adoption of lean methodologies
3. **Distribution**: transportation (logistics); warehousing; customer relationship management (CRM)
4. **Integration**: coordination; management; control

   An **enterprise resource planning (ERP)** system can successfully integrate information across the entire supply chain.

The Supply Chain Management System



2.4. E-Business and E-Commerce: The Difference, E-Commerce Operations, E-Commerce Technology

The Difference

- E-commerce generates revenue, however, e-business does not.
- **E-commerce** is a part of e-business. **E-business** involves using the Internet and online technologies to create operational efficiencies, which increase customer value.
- Every Internet business is either **pure-play** (internet presence only) or **brick-and-click** (physical and online presence).
- The seven major types of e-commerce are **B2B, B2C, C2C, B2G, C2B, m-commerce**, and **P2P**.

E-Commerce Operations

- Companies that engage in e-commerce must be aware of the legal issues, including **jurisdiction, electronic transactions** and **intellectual property**.
- Ethical issues, including security, privacy and trust, are also very important because they influence consumer purchases.
- The website of any business must ensure the security and privacy of e-consumers, in order to avoid cybercrime and maintain the confidence of consumers in the e-market.

E-Commerce Technology

- **E-commerce platform** = the software that makes it possible for a business to sell products/services online
- The **all-in-one e-commerce platform solution** has become more popular with online merchants. It provides everything: the core e-commerce platform plus hosting, accounting, analytics, and marketing tools.
- Small businesses should focus on **CRM** and consider incorporating **mobile e-commerce (m-commerce)** in their e-commerce strategy.
- **Web 2.0** promotes growth by enabling the interaction and engagement of visitors with a business and its owner and offers value and opportunities to small businesses.

2.5. Going Global: Key Management Decisions and Considerations

Key Management Decisions and Considerations					
Organisation of the global project	Selecting the best market to enter	Level of involvement	How to get paid	Global etiquette and travel	Export plan

- If a business decides to start operating globally, it must have some kind of **structure or team** responsible for dealing with the global side of the business.
- Before going global, it is important to: i) **get internal buy-in**; ii) ensure that the full costs of overseas hiring are understood; and that iii) think about the management of overseas employees' expectations.
- A business must select countries that are considered **the best markets** for the specific products/services they want to export.
- The way of entering a foreign market must be decided. The choices include **direct and indirect exporting, strategic alliances, JV, and direct foreign investment**.
- Payments must be made in full and on time. **Cash in advance** is the most secure method of payment, in contrast to open account, which is the least secure.
- Being aware of the **business etiquette** of the country/countries in which a business is trying to expand is an essential part of building business relationships.
- An **export plan** helps a business act on—rather than react to—the challenges and risks encountered in global business. It also helps to obtain financial assistance.

3. The Business Plan

3.1. The Necessity for a Business Plan

A business plan:

- Is essential for the **survival and success** of any business.
- Is an **annual activity** that determines the future direction of a business.
- Allows the evaluation of opportunities and risks related to changes that may be made.
- Clarifies and organises your ideas, formalises financial plans and maps out how a business will be marketed and managed.
- Serves as a **business card** introducing the company.
- Is both a **communication and a sales tool** necessary to obtain funding.
- Helps to **track progress** by setting clear goals and objectives that can be evaluated in the future.

3.2. Creating a Business Plan

The creation of a business plan is required for any of the following **events**:

- Opening a new business.
- Expanding your current business.
- Introducing a new product.
- Entering a new market.
- Creating a new distribution channel.
- Acquiring a new business or franchise.

When writing a business plan, you should take into consideration the following **guidelines**:

- **Make it Easy to Read** – well formatted, easy to understand, comprehensive, concise.
- **Design it for specific parties** – create different versions depending on the requirements of each reader.
- **Emphasise key issues** and avoid unnecessary details.
- Demonstrate that you **clearly understand** investor's **needs and interests**.
- **Openly** refer to potential **risks and problems**, explaining how you will handle them.

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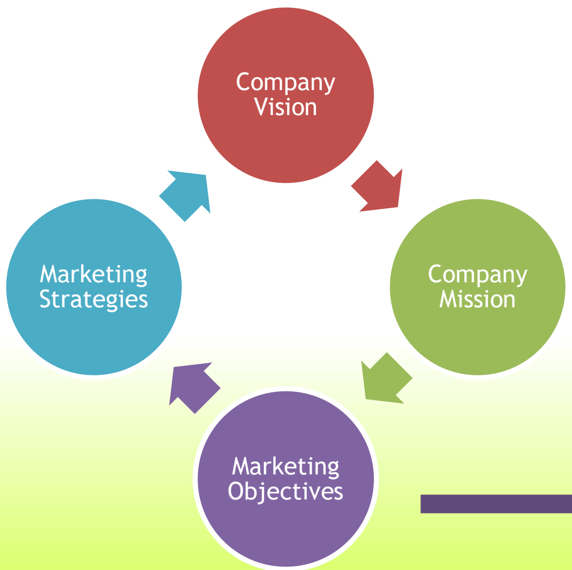
4. Marketing: The Need for Strategy and Plan

4.1. The Importance of a Marketing Strategy

A marketing strategy:

- Is a brief explanation of how a business plans to accomplish its objectives.
- Helps businesses become more knowledgeable about their **competition**, the most significant risk factor.
- Establishes the goals of a business and requirements.
- May attract more consumers by effectively identifying the needs of the audience.
- Encourages businesses to wisely utilise their resources, including time, money, talent and other essentials.



4.2. The Marketing Strategy Process consists of several components:

- **Company vision** = What does a business hope to become?
- **Company mission** = Why does the business exist?
- **Marketing objectives** = What does a business want to achieve with their marketing strategy?
- **Marketing strategies** = How will the marketing objectives be accomplished?

Marketing objectives should be **SMART: specific, measurable, achievable, realistic, and time-based.**

Segmentation and the Target Market

- **Segmentation** = the division of a *target market* into relatively homogeneous **segments**-subgroups that have similar behaviour in the marketplace.
  - Segments have to be **measurable, substantial, stable, accessible, actionable, and easily distinguishable** from other segments.

Differentiation and Positioning

- **Differentiation** = setting yourself apart from other competitors
  - one of the most effective marketing tools for small business owners

- **Positioning** = clearly placing a company or brand in the mind of the consumer relatively to the competition.

Marketing Strategy and Product

- Product → most important component of the marketing mix.
- Every product has three layers: **core, augmented and symbolic.**
- Product mix = a selection of products or services offered to the marketplace.
- Product design helps to differentiate and position a product/service.

Marketing Strategy and Place

- Products/services are available to customers onground or online or both.
- The final product/service must have a reasonable cost and become available at the right time.
- Products/services can be distributed through **direct, retail, wholesale, service,** or **hybrid** channels.
- Physical distribution (logistics) involves **warehousing, transportation, inventory control and order processing**
- Websites are essential for placing products/services in the hands of the customer

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Marketing Strategy and Price

- Marketing is associated with profit and the pricing of products/services
- Closely related to the perception of quality in the mind of the customer
- **Discount pricing, cost-based pricing, prestige pricing, even-odd pricing, and geographic pricing** are the main pricing strategies.

Marketing Strategy and Promotion

- More commonly referred to as marketing communications
- Used to inform, persuade and remind customers about the products offered by a business
- **Integrated marketing communications (IMC)** = the integration of all marketing communication resources in order to maximise the communication impact on consumers, businesses, and other constituencies of an organization.
- The **marketing communication mix** for SMEs is a combination of advertising, sales promotion, events and experiences, PR and publicity, direct marketing, interactive marketing, and personal selling.
- Blogs and social media can be utilized as an effective method of promotion.

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4.3. Developing a Marketing Plan

The first step in developing a marketing plan should be to conduct **market research**, which:

- Helps to identify challenges and take advantage of opportunities.
- Involves a **situation analysis** – an overview study of the industry a business is planning to enter – providing information on the size, growth rate, sales, major players and other components of an industry.

A simple marketing plan should:

1. Mention the marketing objectives of a business
2. Identify the demographics of the target market
3. Identify the competition
4. Describe the product/service
5. Define the place (distribution strategy)
6. State the chosen promotion strategy
7. Develop a pricing strategy
8. Create a marketing budget

The Marketing Planning Process

5. Financial Management

5.1. The Importance of Financial Management in Small Business

Finance = the science of money management

→ consists of: financial planning, financial control and financial decision making

- Owners must be aware of the consequences of financing their firms.
- Based on tax purposes, the business organisations most likely to be adopted by small businesses are:

    1. **Sole proprietorship**
    2. **Partnership**
    3. **C-corporation**
    4. **S-corporation (US) or Limited Liability Company (LLC)**

- A business can be financed through **equity, debt, internally generated funds and trade credits**, which are all sources of **capital**.
- Every business must determine its **financial leverage** → the extent to which it will be financed by debt and equity.
- For many small businesses, the optimal method of financing business growth is through the **generation of internal funds**.

5.2. Financial Decision Making, and Financial Control

- **Breakeven analysis** is a method used to determine the sales level required to start making a profit.
- It is critical to make a decision regarding the extent of financial leverage a business should acquire.
  - this can improve economic performance
- Excessive financial leverage—too much debt—can reduce the overall value of a business.
- The point at which the valuation of a business is the highest determines the **optimal capital structure**.
- Regarding **financial control**, a business owner should be aware:
  - That bankers take into account various factors when considering a loan decision
  - Of their own and their business's **creditworthiness**
  - That bankers value their own **trustworthiness** and **integrity**
  - That bankers appreciate **precision**, particularly when it comes to the exact size of the loan, its **purpose** and how it will be repaid

5.3. Accounting Management and Accounting Software for Businesses

- **Accounting capabilities** are a critical component of every small business.
  - These must be done either in-house or through an external service

- When selecting an **accounting service**, the following parameters should be considered:
  - expertise in a particular type of business or industry
  - Rapport
  - availability of additional consulting services
  - ability to support computerized accounting systems

- **Accounting systems** can be classified into:
  - **Cash basis** systems: count a transaction when the cash is received
    - smaller businesses with no appreciable inventory
  - **Accrual basis** systems: count transactions when they occur
    - provide a more accurate measure of profitability

Computer-based accounting systems can offer a number of benefits to small businesses, including:

- Accuracy
- Speed
- Report generation
- Cost reduction
- Backup

They are also affordable and easy to use.

Small businesses should consider **cloud computing options**.

- allow the storage of programs and data off- site at another location
- accounting transactions can be entered from any computer, or even a smartphone

6. People and Organisation

6.1. Principles of Management and Organisation

Managerial Functions

1. Planning
2. Organising
3. Staffing
4. Directing
5. Controlling

Management = setting and achieving goals through the execution of the five basic ***managerial functions*** that utilise human, financial and material resources.

- Based on group efforts
- Accomplished through the efforts of others
- Purposeful → achievement of something definite, expressed as a goal or objective
- Action-oriented
- Intangible → its presence is evidenced by the results of its efforts
- Indispensable → cannot be replaced/substituted

Organisation = the collection, preservation and coordination of the components of an enterprise in an integrated manner.

- Includes the **arrangement and distribution** of work, authority and resources among the members of the organisation in order to accomplish goals best.

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Managerial Skills

Technical skills

→ The ability to understand and use the techniques, knowledge, and tools and equipment of a specific discipline or department.

→ Important to *first-line managers*

Interpersonal skills

→ The ability to communicate with, motivate, and lead employees to complete assigned activities.

→ Important to *middle managers*

Conceptual skills

→ Determine a manager's ability to see the organisation as a unified whole and how each part of the overall organisation interacts with other parts.

→ Important to *middle managers*

Decision making skills

→ The ability to identify a problem or an opportunity, creatively develop alternative solutions, select an alternative, delegate authority to implement a solution, and evaluate the solution.

Levels of Management

Top Managers

- Provide the overall direction of the organisation
- Tasks include: planning, maintaining relations with other agencies, policy making, standardisation, control, evaluation

Middle Managers

- Develop implementation strategies for the concepts determined by top management.
- Tasks include: execution, supervision and monitoring

Supervisory / First-line Managers

- Directly oversee the efforts of those who actually perform the work
- Perform various routine tasks to obtain desired outputs of every unit, as well as associated activities

6.2. Organisational Design

Key Organisational Structure Principles

Exception Principle: Someone must be in charge of providing assistance when a problem arises

Decentralisation: Workers are given training allowing them to handle decisions within their job descriptions confidently.

- Decisions are pushed down to the lowest level possible

Parity Principle: Authority should be delegated along with responsibility.

Span of Control: The number of people a manager supervises – typically no more than five to six.

Unity Principle: No subordinate has more than one supervisor.

Formal organisation

- Shows who is in charge of what
- Helps employees feel safe and secure
- Results in a slower decision-making process

Informal organisation

- Comprises all the connections and relationships associated with how employees network to get a job done
- Fills gaps created by formal organization

Organisation Chart

- Visual representation of the ***formal organization*** of a business
- Shows the structure of the organization and relationships and associated ranks of its positions
- Outlines the direction of management control

Centralisation

- Related to the flows of resources and information in an organization
- In a highly centralized organization, resources are *concentrated* in only one or very few locations OR only a few individuals are authorized to make decisions about the use of resources

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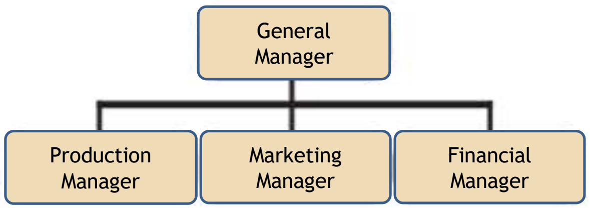
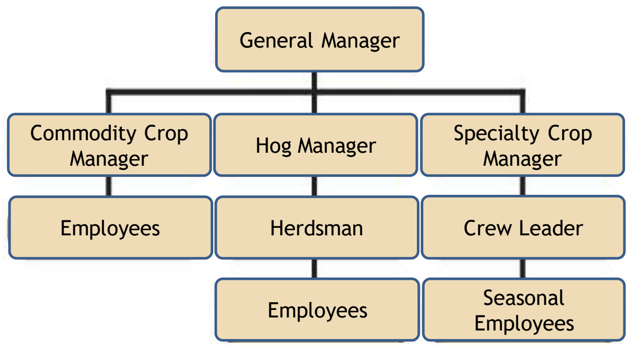
Types of Organisation Structures

Functional Structure



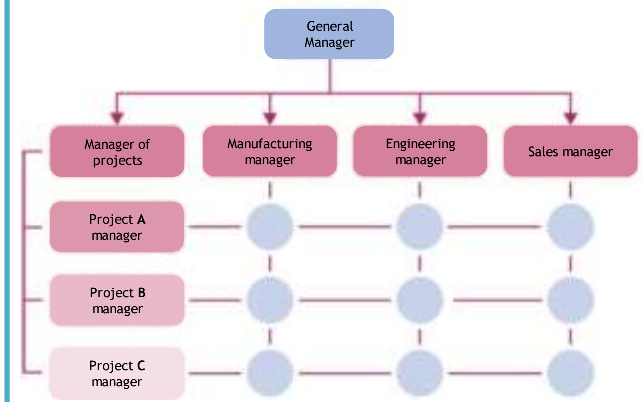
- Activities organised around common functions
- Managers are able to ***specialise*** and, thus, become more efficient
- Decreases duplication of managerial efforts

Divisional Structure



- **Decentralised** version of functional structure
- Functions based on *product*, *geographic area* or *territory*, *or customer*
- Each division has its own functional department
- Greater efficiencies – higher morale – better knowledge of division's portfolio

Matrix Structure



- Suitable for an organisation with **multiple reporting lines of authority**
- Combines elements of the functional and divisional structures
- An employee may be accountable to *two or more* managers – reporting to both the line manager and project manager

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