**FINANCIAL AND BUSINESS MANAGEMENT FOR ROAD CONTRACTORS**

**MODULE FOUR SESSION ONE PARTICIPANTS’ NOTES**

**STARTING UP A BUSINESS**

**1.0 The objective of this session is:**

1. To explain why people start up businesses
2. To explain to participants why some businesses fail
3. To demonstrate some business survival strategies
4. To enable the participants understand the turnaround strategies for a declining business

**1.1 Find out whether you can work for yourself**

When you start up a new business, you need to consider a number of factors to ensure the best chance of success.

As well as your product or service, you will need to think about what you will call your business, what sort of structure it will have and how you are going to run it. You should also think about how you are going to attract customers and where the money will come from for setting up while the business finds its feet. Working for yourself can be very rewarding and, in some cases, highly profitable too.

Starting your own business can offer several advantages over working for someone else. For a start, it's a chance to do something that really interests you. And you can often be more flexible with your working hours too.

**1.1 What is a Business?**

**A business** is an [organization](http://en.wikipedia.org/wiki/Organization) engaged in the [trade](http://en.wikipedia.org/wiki/Trade) of [goods](http://en.wikipedia.org/wiki/Good_%28economics%29), [services](http://en.wikipedia.org/wiki/Service_%28economics%29), or both to [consumers](http://en.wikipedia.org/wiki/Consumer) and other businesses for a profit. Businesses in [capitalist](http://en.wikipedia.org/wiki/Capitalism) [economies](http://en.wikipedia.org/wiki/Economy) are mostly [privately owned](http://en.wikipedia.org/wiki/Private_property) but some may be state owned. The main purpose of a business is to increase the [wealth](http://en.wikipedia.org/wiki/Wealth) of the owners.

How an organization is structured affects how a business is run, how it is taxed, and how profits are distributed. The actual business structure can also affect the personal liability of any owners of the business.

# 1.2 Purpose of Starting a Business

The primary purpose for starting up a business is usually financial. Many people who are dissatisfied when working for someone else, or who have been involuntarily laid off, start their own businesses to support themselves. A business can also be a way to become more involved in something you are passionate about, whether it is woodworking or outdoor adventure. There are a number of reasons for starting your own business. When you start a business it's a good idea to have a business plan that outlines your goals and objectives for the short term and long term. A business plan serves as a blueprint designed to help you grow and develop your business, and ultimately helps shield it from failure. Reasons for going into own business include:

1. **Money**: Businesspeople have the opportunity to earn far more money than they would if they were working for someone else. Ambitious individuals often become frustrated with the limitations that are imposed on them within the confines of someone else's business. Starting your own business means that your income is dependent, not on what someone else is willing to pay you, but on your own ability to succeed and excel in the marketplace. Once your business has broken through to the big time, your income is limited only by market conditions and your own management.
2. **Control:** While it is certainly risky to start your own business, it also allows you to be more personally in control of your financial future. When working for someone else, you may be subject to a layoff through no fault of your own. People who are confident in their ability to handle their own affairs are often happier when running their own business, even with the increased risks, responsibilities and stresses.
3. **Adventure:** Many jobs, even well-paying ones, are quite boring for a person who enjoys adventure. What feels like security to one employee may feel like imprisonment to another. The excitement of the marketplace is irresistible to a certain type of entrepreneur, and these people will pursue their own businesses simply for the adventure, regardless of how much profit might be likely. The fact that you are in charge of your success or failure when you are running things can be very exhilarating to a person who values innovation over security.
4. Service: Some businesses are founded primarily for the purpose of serving the local community or the world at large. A local construction firm can provide a decent living for its owner, while also making good money from other surrounding private individuals or companies apart from providing construction services to government. This is an example of a healthy interaction between self-interest and community serviceMelvin J. Richardson has been a freelance writer for two years with Associated Content, and writes about topics such as banking, credit and collections, goal setting, financial services, management, health and fitness. Richardson has worked for several banks and financial institutions and gained invaluable experience and knowledge. Richardson holds a Master of Business Administration in Executive Management from Ashland University in Ashland Ohio. .
5. Economy: A lot of individuals will start a business when they cannot find a regular 9-to-5 job. When the economy is bad, many people take the opportunity to build a business and develop a clientele.
6. Freedom: If you are looking for freedom, you may want to start your own business. Many people like the idea of not being restricted by the rules and regulations of a job. When you have your own business, you set your own hours and come and go as you please.
7. Passion: If you are unhappy or you don't feel fulfilled with your current job, self-employment may be a good avenue to pursue. You can start a business doing something that you are passionate about and enjoy. Work from Home; With your own business, you may be able to work from home and not worry about commuting, saving money on travel-related expenditures.

# 1.3 Why is it so hard to raise capital when starting a new business?

**Capital is the lifeline of a new business:** Capital provides the fuel to grow, expand and make a budding business idea into a profitable enterprise. However, many small business owners underestimate how difficult it is to obtain financing for a business venture and get frustrated by this step of the business start up process. However, investors and banks have plenty of reasons to be wary of financing your new small business venture.

**Most Small Businesses Fail:** More than 50 percent of businesses fail within the first five years of operation, according to the Uganda National Chamber of Commerce. The high risk of small business failure is the single biggest reason that it is difficult to raise capital. There is a higher probability of the business being worth zero versus providing a return to the investor. The sheer fear of this alone is enough to stop most investors when it comes to financing your effort.

**Unproven Business Model:** Investors feel safe when they can see historical operating results-that is, sales and profits. New businesses show no evidence that they can be self-sustaining. If you have no real operating results to show investors or a bank, you cannot guarantee that the business has the ability to repay the loan or enhance the value of the investor's equity. Usually even the proprietors of new businesses have no prior track record and are considered novices at the game.

**Lack of coherent business plan:** Many business owners think their passion for their new idea is enough to convince a bank to sign off on a loan or an investor to write a cheque. Not having a coherent, logical business plan may be the biggest roadblock business owners face when trying to obtain financing. A business plan should not only include an overview of the business, but also a financial forecast for a number of years, market research and knowledge of competitors. Investors like to see the actual financial results you are expecting and determine if they are realistic based on the amount of capital you are requesting and your business model.

## Inability to effectively communicate: Nobody likely understands your business and the opportunity it offers, as well as you do. Unfortunately, this means that the rest of the world, which includes investors, is unable to share your vision of your business without some education. Most people who actively invest are innovators and enjoy hearing about new concepts and business opportunities. People invest in what they know and understand. If you can illustrate your business concept in a simple fashion that anyone can understand, you will stand a much better chance of obtaining the financing you are seeking.

# 1.4 The reasons why most small business fail

When a business is started without adequate research or with unrealistic expectations, the entrepreneur is entering dangerous territory. The world of business is competitive, and has little leeway for people who don't do their homework. Proper prior planning can avoid many pitfalls of business and increases the chances of success.

**Poor Planning:** The success of a new business is dependent on the entrepreneur knowing what to expect through adequate research and planning. Poor planning can lead to insufficient resources, inappropriate staff, bad location and any other number of fatal consequences for a new and vulnerable business. Anyone planning a new business should learn to be patient and do as much research and planning as is necessary before undertaking the start-up.

**Poor Management:** Once the business is under way, the potential problems are not over. Even with proper planning, poor management can quickly ruin a business. Particularly at the beginning, business owners need to be extremely aware of trends in their business, and respond to them early and productively. For a business of any size, this requires hiring competent and intelligent staff. There are simply too many aspects to a business for one person to handle them alone: advertising, supplying, transportation, employee management, union relations and quality control are only a few of many variables that need to be maintained.

**Lack of Cash Flow:** Mismanagement of cash is the single most important factor why businesses fail. Lack of cash can be caused by many factors such as low sales or excessively rapid expansion. New business owners need to keep a keen eye on cash flow, do cash flow projections and carefully control it, maintain financial discipline and avoid excessive expansion.

**Bad Idea:** Sometimes, even if a business is planned properly, well managed and in possession of sufficient cash flow, it just doesn't work. This can be because it is the right idea at the wrong time, a good business in a bad place, or because it is just a victim of circumstances: economic downturn, unexpected competition or being made obsolete by some new development. Chances of success can be improved through caution and intelligence, but in the end there is always a substantial element of risk in starting a new business. *Difficult to attract customers: Small-scale businesses typically have a more* difficult time attracting customers than larger companies. They have smaller marketing and advertising budgets. Also, some potential customers are reluctant to do business with small businesses, especially new businesses without a loyal following, since they believe that these businesses may not be around for a long time or that they will not be able to provide the appropriate level of service. A challenge for small-scale businesses is to make sure that they provide excellent customer service and instil confidence in their customers.

**Hard to attract employees:** Small-scale businesses also face challenges when hiring employees. It is difficult for many small businesses to compete with the salaries and benefits that larger corporations provide. Many potential employees are also hesitant to work for a small-scale business because they feel that there is not the opportunity for advancement.

## Difficult to Grow: Due to their size, many small-scale businesses find it difficult to grow. They have limited budgets to use for expansion and marketing campaigns. They also have limited human resources to work on growing the company. Small business owners must find creative ways to use their limited resources to grow the business while running the day-to-day operations of the company.

**Ignoring risks in their assessment of alternatives and opportunities**: Many entrepreneurs ignore risk in their assessment of alternatives and opportunities. A business is about taking managed risks and one cannot insure for or avoid risk if one is in business. However in my experience few, once they have chosen a course of action, pause to consciously think of ways to manage the risk and determine procedures or steps that can be taken to reduce the risk and increase the chances of success.

**1.5 Strategies for improving a small scale business enterprise**

**Technology:** Use any technology that you can to improve your business and to market yourself and get the word out. The more technology you are able to buy to streamline your operations, the more business you'll be able to do and the more people you'll be able to reach in marketing.

## Staff: Obtain staff with core all round competence and willingness to work. Offer flexible schedules, health insurance and other benefits and good training. Settle disputes quickly and fairly. The idea is to make up for what you may not be able to pay in hourly wages so your employees are not tempted to quit and work for a larger company.

As you do what you can to help your employees, make your expectations clear--put everything in writing from the get-go. Since you probably don't have many employees, task management is essential in sales and service. Make sure the standards you set for employees are reasonable, however; as a small business, you will not have the manpower to do the work of a larger corporation, so you need to assess success based on the size of your business.

## Analysis: When you run a small business, there often is little time to analyze what you are doing. But because every sale is important in a small business, taking time for analysis can mean the difference between just surviving and actually profiting. Look at whether you are up to date on technology, value delivery, legal requirements, how much money is being spent on each division and on equipment, and which marketing strategies you can use.

Since you may not have the money to have a professional analysis done, rely on your customer base to tell you what is bad or terrific about your small business.

# 1.6 Turnaround strategies for a declining small business

Small businesses can face significant challenges because of market changes, increased competition, economic difficulties and limited cash flow. These challenges can quickly turn a thriving company into a declining business because of the limited scope and resources that are common in a small business. The most successful turnaround strategies for small businesses refocus the business on money-generating activities while decreasing overall costs.

**Organizational Change:** Changes in management structure, key employees or business operations can bring needed renewal to a struggling small business. Fresh ideas from new management can bring new concepts, new methods of conducting business and potentially new customers. It can be difficult for a small business with limited or long-term employees to see industry changes, product shifts or technological improvements that are obvious to a new employee or outside perspective. An evaluation of the productivity of employees and managers should also be conducted. At times, changing employee functions and responsibilities can make significant improvements in company performance. Employees working in poorly performing areas should be changed to higher revenue generating pursuits.

## Small business repositioning: Data analysis can help pinpoint weak areas in the business. Evaluations should review profit margins, areas of financial loss, and the cost structure and expenses of the business. Any areas that are losing money should be modified or closed; costs should be minimized or eliminated. Overall, declining small companies should find what areas are losing money and change them, while increasing support for areas that are creating wealth.

## Decrease Overhead: In times of financial stress, small companies should look to slash costs and recoup sunken expenses. Companies should sell assets that are unused or unneeded for revenue-producing activities. Small businesses should consider selling physical assets such as buildings, equipment or furniture, or even under-performing portions of the business. Another area where cost reductions can occur is in employee-related costs. Companies should let go of unnecessary employees and consider outsourcing or contracting services to reduce overhead and decrease the cost of benefits. To survive, a small business should evaluate the savings of moving to a less expensive location and trimming all but the most necessary functions.

# 1.7 Why is it Important for Business owners to comply with regulatory requirements?

# Entrepreneurs must take care to ensure that they are compliant with the laws regarding the operation of small businesses in their community. Your business may fall under various regulatory categories, depending upon the kind of business you're running, the people you employ and its location.

# Types: All new businesses need to comply with registration laws, which alert the government that you are starting a new business. Most business-registration offices also circulate information about what other kinds of regulation exist, which you need to understand and to which you need to adhere. Common regulatory categories include Social security registration, Value Added Tax registration; trading incenses; PPDA registration and special fees and taxes administered by the state and local government authorities.

# Significance: Compliance with local law is crucial to a small business. Deliberate evasion of the law, especially in regard to taxation and employee relations, can result in criminal prosecution for the business owners and operators. More commonly, however, fees and taxes will be applied with penalties and interest, which can cost a great deal of money for the small-business owner looking to cut corners.

## Discrimination: There are numerous laws regarding discrimination during hiring, termination, or in regard to pay. It is illegal to discriminate basing on age, sex, national origin or religion. It is also illegal to discriminate against a pregnant person or a person with a disability.

**Wages and Overtime:** If you are a manager in any business environment, it is very important that you know the basic laws surrounding employment. Chances are you'll have to deal with a situation that is covered by the major laws, so a familiarity with the law is an absolute must in order to avoid in potentially damaging legal issues. You need to be familiar with the Employment Act, Trade Unions Act and the Workers Compensation Act.

## Safety: The Occupational Safety and Health Act require that you provide a safe, healthy environment for your workers. This law also says that you must inform labour officers of any potential safety issues as soon as they are discovered. The employers especially in manufacturing companies and construction firms should put more emphasis on occupational safety and health for their employees.

# 1.8 Business survival strategies

Owning a business is about using the good times to plan for the bad times because every business owner should plan as though there will be a downturn in business at some point. Getting your business to survive the bad times takes planning, and it takes a clear-headed execution of those plans when the bad times do show themselves.

**Watch Your Revenue:** it is essential to be monitoring company revenue at all times. Know how much money is coming in, and how much needs to go out. Understand how much capital you have in the bank at all times, and realize when you will need to borrow to stay in business. Pay your vendors as late as you can without going over your time limit because you will need those credit terms when times are really bad. Encourage your customers to pay their bills as soon as possible. Examine every aspect of your business to make sure it is running as efficiently as possible, and do not be afraid to institute changes that can make your company more efficient. These all sound like the actions of a company desperate for money, but if you take this approach during the good times, then you will be much better prepared to handle the bad times.

## Stay updated on the competition: If you are a small business that competes with larger companies, then a downturn in the economy could be your most profitable time if you stay up on what your competition is doing. Many companies drop product segments, and customers, that are not proven to be very profitable during lean economic times. When your competition drops a product line that your company specializes in, then be prepared to move in and take the business they have left behind. Make sure you know what your competition is up to, and be ready to move in when they move out.

## Stay in shape: This may seem off-topic, but it is actually a very sound piece of advice. When your company hits tough times, you will be working more hours and trying to do more with less rest. If you exercise regularly and stay in good physical shape, your health is less likely to suffer when a financial crisis forces you to put in long hours every week. The last thing you need when you are trying to keep your company in business is to spend time nursing ill health. Take care of yourself so that you can take care of your company.

**Group discussions;**

1. Explain what a business is and suggest reasons for starting up a business.
2. Discuss the common challenges faced in raising capital for a new business.
3. Explain the common reasons why most businesses fail and why you preferred or decided to join road construction business.
4. Identify key financial challenges you have faced and Suggest strategies to address them.
5. Discuss the reasons why it is important for new business entrepreneur to understand and comply with different regulatory requirements in Uganda.