

Enterprise

This chapter explains what is meant by the term 'enterprise' and the important contribution it makes to the development of a growing economy. It considers the motives for becoming an entrepreneur, the characteristics of successful entrepreneurs and the importance of their role in establishing new businesses. The importance of risk and rewards such as profit is examined, and the notion of opportunity cost is explained. Finally, government and other support for enterprise and entrepreneurs is identified.

Enterprise and entrepreneurs

Enterprise is an important concept that is being actively promoted by the UK government, through, for example, its support for start-up businesses and its curriculum requirements in schools. Reality television programmes, such as *The Apprentice*, *Dragons' Den*, *Mary Queen of Shops* and *Badger or Bust*, have encouraged a much wider interest in entrepreneurial activity. The fact that people have seen actual entrepreneurs succeed and make large amounts of money, often in quite short periods of time, has reinforced this interest.



Richard Branson

KEY TERMS

enterprise: almost any business or organisation can be called an enterprise but the term usually refers to the process by which new businesses are formed and new products and services created and brought to the market. Enterprises are usually led by an entrepreneur (see below).

enterprise skills: skills that allow an individual or organisation to respond effectively to changing market situations, including problem-solving skills, thinking and acting innovatively and creatively, and understanding the importance of risk and uncertainty. The definition of enterprise capability used by the Department for Children, Schools and Families includes innovation, creativity, risk management, risk taking and a 'can do' attitude.

entrepreneurs: individuals who have an idea that they develop by setting up a new business and encouraging it to grow. They take the risk and the subsequent profits that come with success or the losses that come with failure.

DID YOU KNOW?

The factors of production are the various elements (inputs) needed to produce goods or services (outputs). In economics, these are defined as land, labour, capital and enterprise. Land includes physical land on which to base the productive activity and also any necessary raw materials needed to produce the final product or service. Labour includes the contribution of all types of employee to the production of the finished product or service. Capital includes all machinery and buildings (i.e. factors made by people) that assist in the production of a finished product or service. Enterprise involves entrepreneurs identifying business projects to be undertaken and organising the other factors of production in order to produce goods and services.

FACT FILE

Social enterprises

In the private sector, there are both commercial or business enterprises and social enterprises. Social enterprises use business skills to solve social and environmental problems. They are usually charitable trusts, are founded for a social purpose, reinvest their profits in the company or the community, and attempt to change lives for the better. Examples are *The Big Issue* magazine and Jamie Oliver's 'Fifteen' restaurant. There are at least 55,000 social enterprises from the smallest community groups to larger businesses. Social enterprises operate in what has become known as the 'third sector' (i.e. neither the public nor the private sector). In May 2006, the prime minister announced a new Office of the Third Sector with a new minister for the third sector.

The characteristics of successful entrepreneurs include:

- determination and persistence
- passion
- the ability to spot and take advantage of opportunities
- relevant skills and expertise
- vision, creativity and innovation
- motivation to succeed and not be daunted by failure
- willingness to take risks — possibly the most important quality of an entrepreneur

The fact files in this and the next chapter illustrate all these characteristics. However, to be successful a business must have both a market and a comparative advantage (i.e. its product or service is in some way better or cheaper than what is already out there).

DID YOU KNOW?

Jordan Kensington, chief executive officer (CEO) of the Invincible Media Group, founder of the Urban Music Awards and promoter of British Music Week, suggests that 'there are two types of people in the world — doers and dreamers. The doers think of something and act now, which is what you have to do if you want to succeed' (www.invinciblemag.com).

DID YOU KNOW?

Bill Gates, founder of Microsoft, dropped out of Harvard University less than halfway through his IT degree. Despite this, his drive, imagination, business acumen and obsession for detail turned Microsoft into one of the world's most successful companies and him into the world's richest man.



TOP PHOTO

FACT FILE

How many entrepreneurs?

Figures released by Barclays Bank in 2006 showed a substantial increase in the number of entrepreneurs. Estimates show that 110,300 new businesses started up in the first quarter of 2006 — almost a quarter more than in the same period in 2005 (88,800).

FACT FILE

Innocent Drinks

Richard Reed co-founded Innocent Drinks, a smoothie and fruit drinks company, with two of his friends in 1999. Despite Reed having no experience of running his own business, no financial backing and a product with a very short shelf life, Innocent became an unexpected success story, with a turnover of over £10 million.

Reed took note of the advice of a colleague who said that in setting up a business he should make sure he knew the target audience. The only target audience he and his co-founders knew well was their friends and family, and what they identified was a need for something simple and healthy to consume, to combat the long working hours and relatively unhealthy lifestyles they led. Innocent was conceived from the idea of making it easy for people to consume something healthy.

In the summer of 1998, they developed their first smoothie recipes but were still nervous about giving

up their jobs. They bought £500 worth of fruit, turned it into smoothies and sold the smoothies from a stall at a music festival in London. They put up a large sign saying 'Do you think we should give up our jobs to make these smoothies?' Two bins were set out: one reading 'yes' and the other reading 'no', and people were asked to put all their empty bottles into one of them. At the end of the weekend, the 'yes' bin was full and they decided to resign from their jobs.

Reed suggests that anyone starting their own business needs to have a clear idea of what they are selling, along with determination and passion. They must be focused, single minded and never lose sight of what they are trying to achieve. Reed suggests that successful entrepreneurs do not wait for external factors to develop the business; they use their initiative, ensure that things keep improving, and learn from what they do. He says, 'If you're not the kind of person who'll make an idea happen, you're not an entrepreneur.'

Having an entrepreneurial attitude is vital in today's job market. Individuals change jobs more often, management structures have become less hierarchical, and working methods have become more network-orientated. All these factors require individuals and employees, in both small and large businesses, to be able to spot opportunities, take initiatives and adapt to changing circumstances. An understanding of what it means to be entrepreneurial is especially important for young people when they are weighing up decisions about their future.

The importance of risk and rewards such as profit

In the UK, people tend to be risk averse, with over one-third of those surveyed in the Global Entrepreneurship Monitor in 2006 saying that they are afraid of failure. As the majority of new businesses fail, such fears are well placed. Failure occurs for a number of reasons:

- lack of finance
- skills shortages
- poor infrastructure
- complexity of regulations or red tape

However, the ability to evaluate the risks and uncertainty that are an integral part of almost all business decisions is an important element of successful entrepreneurship. The fact files in this and the next chapter demonstrate that most entrepreneurs are happy to take risks if the potential rewards are great enough. Of course, this depends on them doing their research to ensure that all reasonable steps are taken to minimise the probability of failure. The outcome of successful risk-taking will be a profitable venture.

According to Andrew Davidson, author of *Smart Luck: The Seven Other Qualities of Great Entrepreneurs*, it is more than talent, ambition and drive that makes people like Richard Branson and Alan Sugar so successful: it is ‘smart luck’, which Davidson defines as taking a gamble when you know the odds. Many of the entrepreneurs he writes about, including Brent Hoberman of Lastminute.com, and Simon Woodroffe of Yo! Sushi, appeared to get started through coincidence and chance more than design or strategy. The fact file on Chris Carey’s Collections provides another example of how being in the right place at the right time can lead to business success — if the entrepreneur is prepared to take a risk.

FACT FILE

Chris Carey’s Collections

Chris Carey has built a £4 million business from scratch by buying the second-hand clothes that even charity shops cannot sell, washing and repairing them, and then sending them to places such as Africa, where they are sold in street markets. She even manages to make money from the clothes she cannot sell in this way — she passes them on to a company in Sweden that turns them into wadding for car seats and sofas.

On leaving school, Carey worked in a factory where she was taught how to use a sewing machine. She later ran stalls in London street markets, selling second-hand clothing that she had washed and repaired. After about 12 years of doing this, she was approached by a man who asked if she had enough

clothes to fill a container to export to Africa. She did and has not looked back since.

Carey and her husband invested in a machine that pressed clothes into small bales so that more could be exported in one container. This was a risk and they mortgaged their house in order to do it. But it paid off and the business grew from there. The business now employs 140 staff and deals with up to 80 tonnes of clothing and bedding every day. The secret of her success is determination. Her advice is simple: ‘If you have a dream, follow it. Don’t ever let anyone put you down.’

Source: adapted from Bridge, R. (2007) ‘Clothes recycling venture turned rags into riches. How I made it: Chris Carey, founder of Chris Carey’s Collections’, *Sunday Times*, 14 January.

The ‘dragons’ in the *Dragons’ Den* programme are prepared to risk their own money by investing in a business, but only if they feel that there is a good probability that the venture will succeed and they will reap a reward. In this case, the reward is an increase in the value of a business that they will partly own, as well as the annual return on their investment.

Of course, sometimes the ‘dragons’ get it wrong and a business that they see as too risky may prove to be otherwise. Andrew Gordon’s stabletable business is a case in point (see the fact file on p. 6).

A characteristic of most successful entrepreneurs is the ability to learn from their mistakes and try again. Simon Woodroffe, the founder of Yo! Sushi, said: ‘I looked at what every entrepreneur has in common and I found one thing: they all make mistakes, lots of them.’ The fact file on Tyrrells Crisps (p. 6) provides an example of risk-taking followed by failure, followed by further risk-taking that eventually resulted in success — a cycle that is common to many successful entrepreneurs.

FACT FILE

Stabletable

When Andrew Gordon unveiled his invention for propping up wobbly table legs on *Dragons' Den* in 2005, the panel of business experts dismissed it with howls of laughter. The plastic device, which can be adjusted according to the extent of the wobble, was branded 'the most ridiculous idea' she had ever heard of by Rachel Elnaugh, the founder of the failed Red Letter Days business. Despite this, the business is proving to be a success and sales of the stabletable product have passed the £1 million mark.

In the UK, the business has recently won an order from the Exam Officers' Association for 200,000 stabletables. It is also negotiating with Tesco, ASDA, IKEA and B&Q to get its device in their stores, and even Kensington Palace has bought some for its tearooms. Outside the UK, it has received orders for 300,000 devices from China, and Gordon has struck a deal with

The Dollar Chest, a discount chain in the USA, where the device will be renamed 'WobbleWizard'.

Gordon says he came up with the idea after seeing tables in a pub propped up with beer mats and napkins. He started collecting pieces of cardboard from cereal packets and seeing which shapes and thicknesses worked best. He then arranged a company in China to manufacture them.

The stabletable is a simple design with eight plastic leaves pinned together. It retails online for £1. Gordon said, 'I think I've got a 3-year window to do as well as I can.' Elnaugh, the *Dragons' Den* expert, said: 'I'm really glad Andrew's done well, but if you're investing, you want to be seeing a return in 6 months, not 3 years.'

Sources: www.stabletable.co.uk; Bale, J. (2007) "'Ridiculous' idea has last laugh in the Dragons' Den", *The Times*, 20 April; Hawkes, S. (2007) 'Inventor out to crack America with wobble-buster the dragons rejected', *The Times*, 22 August.

FACT FILE

Tyrrells Potato Chips

William Chase took on the family farm when he was 19 years old and ran it for 8 years before debt and badly judged deals with supermarkets took him under. After bankruptcy, he spent 10 years as a potato trader. At the age of 40, he had an inspirational idea to produce and market up-market, 'sustainable' crisps. It worked — so much so that Chase had to fight off Tesco, which wanted to sell Tyrrells' products under its own brand. Chase is the only UK crisp-maker to carry out the process from seed to bag. The crisps, made

from root vegetables as well as potatoes, are hand-fried in small batches. It was a hard decision saying no to Tesco, which has 31% of the UK grocery market. 'When you're offered the chance to expand a business that you've raised from nothing, your instinct is to say yes. But I knew going into the mass market would take the edge off the brand. I'd lose my major suppliers such as Selfridges. Going bankrupt...makes you braver. I know how failure tastes and it's not the end of the world.'

Source: adapted from Shephard, A. (2007) 'The Antipreneurs', *The Times magazine*, 3 February.

KEY TERM

Opportunity cost: the 'real cost' of taking a particular action or the next best alternative forgone, i.e. the next best thing that you could have chosen but did not.

The notion of opportunity cost

Resources, including time and money, are scarce, so choosing to pursue one thing inevitably results in forgoing something else. For example, the time you have available in the evenings and at weekends is limited and you may have to choose between going out with friends or, say, revising a business topic for a class test. The 'real cost', as opposed to the monetary cost, of spending an evening out with friends may thus be your failure to understand the business topic and your resulting low mark in the test. Alternatively, the 'real cost' of an evening spent revising could be the missed opportunity of attending a concert.

This 'real cost' is known as the **opportunity cost** and is the next best alternative forgone, i.e. the next best thing that you could have chosen but did not.

Opportunity cost is a vital concept in business because there are always alternative decisions that could be made. With a limited budget, a school may have to decide whether to refurbish the canteen or build an all-weather games pitch. The real cost of choosing to build the games pitch is the ongoing problems of the old, overcrowded canteen. If the founders of Innocent Drinks had decided to remain in their original jobs rather than pursuing the smoothie venture, the opportunity cost would have been the chance they had of developing a highly successful business and the large amount of wealth they have subsequently made (see fact file). The opportunity cost that William Chase of Tyrrells faced on taking the risk of deciding to remain independent was the guaranteed sales that he would have made if he had entered into a contract with Tesco (see fact file).

e EXAMINER'S VOICE

Ensure that you understand fully the concept of opportunity cost as it is relevant to most business decisions and therefore to most areas of the AS specification.

Motives for becoming an entrepreneur

The UK is becoming an increasingly entrepreneurial place and more people are interested in setting up businesses. Possible reasons for this include:

- long-term low interest rates that make it easier to borrow money to start a business
- a change in the political climate so that the government supports enterprise and the entrepreneurial spirit
- increasing affluence, which often means that people start to look for meaning in their lives — one way of doing this is to try to fulfil the dream of starting their own business

Entrepreneurs are extremely diverse: they include men and women, young and old, and those from differing ethnic, social and educational backgrounds. However, statistics suggest that most successful entrepreneurs start to build their businesses before the age of 44, and many start their entrepreneurial activities while still at school. All the fact files in this and the next chapter support this and most of the best-known entrepreneurs are renowned for starting young. While still at school, Sir Alan Sugar, the owner of Amstrad and star of *The Apprentice* made more money than his father through enterprising projects. Sir Richard Branson began his first Virgin project soon after leaving school.

Entrepreneurs engage in entrepreneurial activity for a variety of reasons. Most will want to make money. Some will want to gain more freedom at work, or sustain a going concern such as a family business. Others may be concerned with providing employment for the local community, sometimes in the form of social enterprises.



Alan Sugar

TOP PHOTO

FACT FILE

Rich list

The information in Table 1.1 illustrates just how successful many entrepreneurs have been. It is taken from the 2007 Times Rich List, which identifies, in order, the wealthiest 500 people in the UK.

Government research indicates that a typical entrepreneur in the UK is most likely to be a white man aged around 36 years, who has some form of vocational training or secondary-school qualification. He will probably be motivated by the freedom that running his own business offers him, or the desire to make money.

Position	Name	Business information
2	Roman Abramovich	Oil billionaire and owner of Chelsea football club. Started out in Moscow making cheap plastic products.
7	Sir Philip Green	Retailing. Owner of Bhs and the Arcadia group (including Burton, Dorothy Perkins, Topshop, Topman, Miss Selfridge, Outfit, Evans and Wallis). Entrepreneur of the Year in 2002. In 2007, employed Kate Moss to design and launch a collection for Topshop.
11	Sir Richard Branson	Virgin transport, mobile phones, internet and holidays.
49	Sir Stelios Haji-loannou	easyGroup, including aviation and shipping. Knighted for 'services to entrepreneurship' in 2006. Says his favourite business is 'the next one'.
59	Sir James Dyson	Household appliances, particularly the Dyson bagless vacuum cleaner.
74	Charles Dunstone	Carphone Warehouse – mobile phones.
84	Sir Alan Sugar	Amstrad electronics and property. Stars in the reality television show <i>The Apprentice</i> .
280	Toni Mascolo	Toni and Guy hairdressing salons.
343	Kirit and Meena Pathak	Food products. Their Lancashire business produces Patak's curry products that are sold in 75 countries.
351	Duncan Bannatyne	Nursing homes, children's nurseries and fitness clubs. One of the entrepreneur 'dragons' on <i>Dragons' Den</i> .
414	Bernard Matthews	Turkey farming. Business has been seriously affected by the discovery of the bird flu virus in some of its products in 2007, and by Jamie Oliver's campaign to get Turkey Twizzlers removed from school dinner menus.
438	Peter Jones	Mobile phones. Entrepreneur 'dragon' on <i>Dragons' Den</i> .

Table 1.1 Selected entrepreneurs on the Times Rich List 2007

Government support for enterprise and entrepreneurs

The government believes that an environment that encourages enterprise and supports people who take opportunities and risks is crucial for improving productivity. A strong entrepreneurial base is essential for encouraging growth and prosperity in a modern economy. New and more dynamic businesses increase competitive pressures in markets, and facilitate the introduction of new ideas and technologies and more efficient working practices.

A successful enterprise culture, in the form of small and medium-sized enterprises (SMEs), boosts an economy's productivity by increasing competitive pressure. This forces existing businesses to increase their efficiency in order to stay in the market. If existing businesses are unable to match the productivity of new or rapidly growing SMEs, either they are forced to leave the

market or their market share is reduced. This then increases the productivity of the market as a whole. In addition, any efficiency gains can be passed on to consumers through lower prices and greater choice.

Despite the rapid growth of the SME sector since the 1970s, rates of entrepreneurial activity in the UK remain moderate by international standards, particularly when compared with the USA. As a result, the government has introduced measures to make it easier to start up and run a business, and to support a growing business. It has done this by:

- reducing business taxes and trying to establish and maintain a modern and competitive business tax system
- reducing the regulatory burden on enterprises
- reducing barriers to raising finance for small businesses
- improving the support for small and new businesses
- promoting a change in the UK's enterprise culture (see the fact file on Enterprise Insight)
- encouraging business start-ups in economically deprived regions of the UK
- introducing legislation to promote competition
- funding projects to raise awareness of enterprise among under-represented groups of people
- reviewing how to encourage unemployed people to move into self-employment
- giving financial support to voluntary and not-for-profit organisations that are carrying out excellent work

FACT FILE

Enterprise Insight

The government supports a major national campaign by Enterprise Insight to create a significant shift in the enterprise culture of the UK, including national Enterprise Weeks. Enterprise Insight is a campaign coalition, founded by the UK's leading business organisations, education bodies and Regional Development Agencies. The campaigns focus on young people, providing inspirational role models and peer networks to encourage them to be enterprising.

The Enterprise Directorate (previously the Small Business Service) in the Department for Business, Enterprise and Regulatory Reform (BERR, formerly the Department of Trade and Industry) is the government's expert policy unit on small-business issues. In most regions, government support in terms of Regional Economic Development Agencies, Economic Development Units and Business Links is available. Other local and national organisations, such as local city councils and the Prince's Trust, exist to help entrepreneurs develop their ideas, by providing advice and funding. In addition, many university students have started their own businesses, benefiting from university enterprise centres, where they gain advice, help in developing entrepreneurial skills and business planning, and sometimes office accommodation.

WHAT DO YOU THINK?

The government believes that equipping young people with vital skills is a way of securing the future economic success of the UK. This is not just about developing the next generation of entrepreneurs, but about encouraging young people to develop valuable enterprise-related skills for their futures. Since September 2005, all Key Stage 4 students have had an entitlement to the equivalent of 5 days' activity each year to develop their enterprise capability. In the Budget of April 2007, the government announced further funding of £180 million over the next 3 years to encourage this development in schools.

How valuable has the enterprise education you have received been in developing your entrepreneurial skills?

DID YOU KNOW?

Young Enterprise is a national charity that runs a number of schemes to encourage enterprise in schools and colleges. The Young Enterprise mission is to 'inspire and equip young people to learn and succeed through enterprise'. Students involved in the Young Enterprise scheme set up their own companies, sell shares to raise finance, appoint directors and report to their investors at the end of the year. Many of you may get involved in this scheme and apply the business knowledge you gain during your course to making your enterprise a success.

FACT FILE**Enterprising Britain**

Enterprising Britain is a nationwide competition to find the most enterprising place in the UK – the city, town, place or area in the country that is best improving economic prospects and encouraging enterprise. It was introduced in 2004/05 and developed in partnership with Regional Development Agencies. It aims to:

- identify and recognise successful activities and initiatives undertaken to promote enterprise and entrepreneurship
- showcase and share examples of best practice in enterprise policy and implementation
- create more awareness of the importance of enterprise in society

WHAT DO YOU THINK?

Having worked through this chapter, you should now be more aware of the importance of enterprise. To what extent do you think student debt, pressures to get on the housing ladder and the necessity of saving for retirement stifle risk-taking? Could the government, whether in terms of taxation, funding or other measures, play a bigger role in encouraging youth enterprise?

FACT FILE**SMEs among underrepresented groups**

In terms of business ownership in the UK, two large sections of society are not represented to the extent that might be expected, given their numbers in the population: women and certain minority ethnic groups.

Source: *Annual Small Business Survey 2005*, BERR.

QUESTIONS FOR DISCUSSION

Having read the information and fact files in this chapter, try to answer the following questions. The questions can be used as written exercises or as the basis for discussion about important issues related to enterprise and entrepreneurs.

- 1 To what extent are passion and determination sufficient for business success?
- 2 Are there certain characteristics that all successful entrepreneurs have?
- 3 What appear to be the main reasons for becoming an entrepreneur?
- 4 Is the ability to cope with uncertainty, make mistakes and take risks an essential characteristic of a successful entrepreneur? Illustrate your answer with actual examples.
- 5 Should the government provide more money to support start-up businesses? If so, how might it judge which entrepreneurs or businesses to support?
- 6 Can government agencies ever be really effective in providing advice for entrepreneurs?

PRACTICE EXERCISE

Total: 40 marks (30 minutes)

- 1 Define the term 'enterprise'. (2 marks)
- 2 What is an entrepreneur? (3 marks)
- 3 Give three examples of successful entrepreneurs. (3 marks)
- 4 Identify four characteristics of successful entrepreneurs. (4 marks)
- 5 Explain why the ability to take risks is important in developing a successful business. (4 marks)
- 6 Define the term 'opportunity cost' and give examples of how it might apply to you as a student, to your school or college, and to a business. (8 marks)
- 7 Suggest three reasons why an individual might want to become an entrepreneur. (3 marks)
- 8 Why are an enterprising culture and people with entrepreneurial skills important for the UK economy? (5 marks)
- 9 Explain three ways in which the government supports enterprise and entrepreneurs. (6 marks)
- 10 State two organisations other than central government that provide support for new businesses. (2 marks)

CASE STUDY Creating an enterprise culture

The data in Table 1.2 are taken from the report, *Creating an Enterprise Culture*, by HM Treasury (January 2004). The table shows the percentage of 'yes' or

positive responses to questions about attitudes to enterprise. Study the table and answer the questions that follow.

Table 1.2
Attitudes to
enterprise

	Are there good start-up opportunities? (%)	Do you have the skills to start up? (%)	Do you fear failure? (%)	Is being an entrepreneur a good career? (%)	Do entrepreneurs have high status? (%)
UK	39.0	54.2	31.7	51.2	71.0
East Midlands	37.3	53.3	30.4	48.4	70.6
East of England	42.7	56.3	30.5	47.8	67.8
London	38.1	56.1	32.4	51.0	71.3
North East	33.3	50.0	33.8	53.5	76.5
North West	34.1	49.2	31.1	54.4	70.4
South East	46.5	56.7	31.5	47.7	64.0
South West	43.2	57.4	28.4	51.1	69.7
West Midlands	36.5	55.8	32.0	55.5	72.4
Yorkshire and Humberside	34.4	52.0	35.0	51.0	75.9
Northern Ireland	35.7	47.2	38.1	58.7	76.8
Scotland	39.3	53.2	30.3	50.3	73.4
Wales	37.0	53.4	32.3	52.0	73.8

Questions

Total: 35 marks (45 minutes)

- 1 a** Which area of the UK has the best start-up opportunities? (2 marks)
- b** In which area of the UK are people least likely to fear failure? (2 marks)
- c** Using the data, decide which area of the UK is likely to be the best place to start a business and explain the reasons for your answer. (6 marks)
- 2 a** Study the results for the area in which you live. Analyse the reasons for the survey results for that area. (10 marks)
- b** Identify reasons why some areas of the UK might be more favourable than others for starting a business. Evaluate which of these reasons might be the most important. (15 marks)