THE DEVELOPMENT OF BEST PRACTICE GUIDELINES THAT WILL ASSIST SMALL BUSINESSES PLANNING

By

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Submitted in partial fulfilment of the requirements for the degree of Master in Business Administration at the Nelson Mandela Metropolitan University

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Date of submission: December 2009
DECLARATION

This work has not been previously accepted in substance for any degree and is not been concurrently submitted in candidature for any degree.

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This dissertation is been submitted in partial fulfilment of the requirements of the degree in Masters in Business Administration.

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This dissertation is the result of my own independent work/investigation, except where otherwise stated.
Other sources are acknowledged by footnotes giving explicit references, a bibliography is appended.

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ABSTRACT

The research problem addressed in this study was to provide a planning guideline for Small, Medium and Micro Enterprises (SMME’s) to assist them to plan more effectively and be sustainable in their businesses.

A guideline for planning is needed, as planning is one of the most difficult activities a business owner needs to undertake. Yet it is essential to do because, before taking action, you must know where you are going and how to get there.

Well-developed plans can assist the business owner to interest banks and/or investors to invest in the business, guide the owner in operating the business, give direction to and motivate employees, and provide an environment to attract customers and prospective employees.

To become an effective business owner, one must look ahead. Planning, which is the process of setting objectives and devising actions to achieve those objectives are imperative to be sustainable in business.

The findings of the literature survey clearly highlights the reasons why a business owner needs to plan and provide a guideline how to plan.

It was found in the empirical study that Standard Bank rate the SMME market as a very valuable part of their business. The SMME market has a benefit to various departments within the bank, not only the SMME business market. The empirical study also found that not every entrepreneur that holds a business plan is successful. Many reasons for this exist. One aspect that was identified, is that the wrong idea was implemented.

The empirical study revealed that in all respondents agreed that planning forms an integral part of the entrepreneurs business. The empirical study found that a
business plan will assist the entrepreneur to be sustainable in their business, only if a thorough feasibility study was conducted. The respondents agreed that the feasibility study, will either support or contradict the assumptions made in the business plan, this will assist the entrepreneur to decide to either continue or end the business activity.

It was found that the entrepreneur, with especially a financial expert should be involved when a business planning is undertaken. Other experts in the various business arenas should also be requested to assist with the setting up of the business plan.
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CHAPTER 1
INTRODUCTION, PROBLEM STATEMENT AND DEFINITION OF CONCEPTS

1.1 INTRODUCTION

It has been stated that a society with a vibrant entrepreneurial spirit is an economically healthy society. This spirit is seen in the economy through the input that the small, medium and micro enterprises (SMME's) bring to the economy, through new job creation and the innovative ideas that lead to the growth in the gross domestic product of South Africa (State of Small Business in South Africa 2000: 23).

According to Herrington, Kew and Kew (Global Entrepreneurship Monitor (GEM) 2008: 4, 48) the formal and public sector is not able to absorb the increasing number of job seekers entering the South African market place. According to them the focus should be on entrepreneurship and the potential the industry holds for contributing to economic growth and increasing job creation. The GEM report further states that South Africa’s TEA (early stage entrepreneurship) is at 7.8 percent, with the average being much lower than countries with an efficient driven economy, being at 11.4 percent. The report states that with South Africa’s stage of their economic development, the TEA would be expected to 13 percent (Herrington, et al 2008: 4). Clearly much potential does exist in the entrepreneurial field. This will assist the country to achieve the economic challenges faced when it comes to unemployment and economic growth. This has also been documented by Hendricks (State of Small Business in South Africa, 2000: 5), a former Deputy Minister of Trade and Industry, the challenge for South Africa is to ensure economic growth and to increase job creation. Hendricks (State of Small Business in South Africa 2000: 5) has stressed the view point that SMMEs are integrated in the growth potential of the economy, their increasing role in innovation, new product development and ability to spread the benefit and impact of growth, will assist the country to achieve the economic growth that is so needed.
The latest unemployment figures show that 23.5 percent of the economically active population are unemployed (http://www.statssa.gov.za/keyindicators/keyindicators.asp [May 31 2009]).

The inability of the formal sector to absorb the new entrants into the labour market shifts the focus back to the informal sector and the growth of SMME's. SMME's are normally labour intensive and are the obvious sector to expand and accommodate the shortfall that is in evidence in the exciting labour market. Furthermore, statistics show that for the period October 2008 to March 2009, 280 000 jobs were lost in all industries. The most losses reflected year on year in the report was recorded in the trade industry (135 000), followed by manufacturing (106 000) and agriculture (61 000) (http://www.statssa.gov.za/keyindicators/keyindicators.asp [May 31 2009]).

The GEM report (2008: 16) states that self employment is a risky venture. Poor and unemployed individuals who are already under financial strain do not want to take on the risk associated with working for one self. The report further states that entrepreneurs are further hampered due to a poor skills base, poverty, a lack of an active market and poor access to resources.

As documented in the GEM report, the South African nascent entrepreneurial rate is 5.7 percent. The GEM average nascent percentage is 6.2 percent and that of effective driven economies, 6.7 percent. The new firm/business prevalence rate is at 2.1 percent, significant lower than the 4.6 percent for all GEM countries and the 4.9 percent of efficiency driven countries. Established business owners unfortunately follow the same trend. The established business rate in this sector is at 2.3 percent, with all GEM countries being 7.7 percent and all efficiency driven countries at 6.9 percent. (GEM 2008:16). The economic implications of the before mentioned is in evidence in the South African economy as stated in unemployment’s figures.

Further reasons for the disappointing entrepreneurship levels can also be attributed to the inability of small business owners to run their business effectively and successfully, capitalise on potential growth opportunities,
failing to see the warning signs, concentrating on the wrong market or product or service, not knowing their competitors and finding new customers (D&B Small Business Solutions.2001, 20\textsuperscript{th} Annual Small Business Survey. [Online]. Available: http://www.dnd.com/smallbusiness.html [November 4, 2001]). With the above facts, it is imperative to realise that the SMME’s in South Africa are the largest employment contributors to the economy of the country. The SMME sector becomes more important, if one looks at the state of job losses in the formal sector. For this reason the study will provide guidelines to SMME’s that will assist them to be sustainable and assist government to reach their aim, to provide a better life for all.

1.2 THE PROBLEM

1.2.1 Main Problem

This leads to the following problem, which will be addressed by this research: What do existing and new SMME’s need to do to be sustainable?

1.2.2 Sub-Problems

In order to develop a research strategy to deal with the main problem, the following sub-problems have been identified:
- What practical business criteria does literature say are required by SMME’s to be sustainable in their business?
- What recommendations can be made to SMME owners, to assist them to become more competitive and grow their business?
1.3 DEMARCACTION OF THE RESEARCH

The reason for the demarcation of the research is to ensure that topics will be manageable from a research point of view. The omission of certain topics does not imply that there is no need to research them.

1.3.1 Business professionals

The study will focus on business professionals, who have been involved in a SMME’s relationship and who understanding the impact of various factors on the competitiveness and survival of SMME’s. The spread of participants will be: business consultants, accounts and Standard Bank.

1.3.2 Size of the Business

A business with an annual turnover up to R50 million and employees up to 120 will be targeted (Definition of Small business in South Africa. [Online], Available: http://www.beesknees.co.za/startup/smallbusiness.htm. [May 16 2009]).

1.3.3 Geographic Demarcation

The empirical study will be limited to the area of the Nelson Mandela Metropole.

1.3.4 Practical Business Criteria

The research will be focused on the practical thinking and practise on the day to day operation of the business that will enable the entrepreneur, to follow new ideas, procedures, knowledge and practical insight into doing business to obtain competitive advantage. The research will also aim to assist entrepreneurs in their business, to ultimately be more successful.
1.3.5 Identification of Current Incorrect Strategies According to Literature

The business will be annualised, to identify incorrect practises, with emphasis on the following:
- lack of planning;
- poor and non creativity in obtaining business ideas; and
- inadequate evaluation of the business idea through feasibility studies.

1.3.6 Recommendations for SMME owners to be more sustainable

Literature and successful practical experience will be collected to assist the small business owner, to be more effective, with focus on:
- business planning;
- idea generation; and
- idea evaluation by conducting feasibility studies.

1.3.7 Basis of the strategy

It is the intention of the research to provide the entrepreneur with practical assistance to improve their business. The ultimate aim will be to allow the SMME’s to benefit by using the guidelines, to ensure that the entrepreneurs will be more effective and lead to the growth of the SMME’s market that will assist South Africa in reducing the low unemployment and improving economic growth situation.

1.4 DEFINITION OF SELECTED CONCEPTS

1.4.1 Small Medium and Micro Enterprises (SMME’s)

According to Megginson, Byrd, Scott and Megginson (1997: 12) the definition of a small business is no easy task. The following statement was decided on
“a small business is one that is independently owned and operated and is not dominant in its field of operation.”

With reference to the National Small Business Act (23 March 2003), Parliament decided on the following definition of a Small Business in South Africa: “Small” business is defined to include establishments that employ ten to forty-nine employees. “Very small” and “micro” enterprises employ less than ten and five employees respectively. Medium size enterprises are defined to have between fifty to two hundred people employed (The State of Small Business in South Africa. Department Trade and Industry 1997: 177). The income of a small business has been defined to be in the income stream between R500 000 to R24million per annum (State of Small Business in South Africa 2000: 52).

Although the above guidelines according to the act are provided, there is no single, clear and widely accepted definition of a small business, this is due to the different purposes such as policy application, taxation or legislation and what the business does, that are used to define the term. Individuals use specific criteria for the definition, from turnover base to number of employees, thus different individuals will interpret the definition of a SMME differently, depending on the person. To base a definition on only one of the aforementioned criteria would be incorrect, certain small business would be in the danger of being excluded, due to a person’s assumption of a small business definition criterion (Bridge, O’Niell and Cromie, 1998: 102 - 104).

For the purpose of the study a SMME will be defined as:
A business with an employee complement of 120 and an annual turnover of R50million or less.

1.4.2 Business Plan

A business plan is a formal document of a set of goals, the reason why they are believed attainable, and the plan for reaching those goals. The plan may also contain background information about the organisation or team
attempting to reach those goals. Business plan can be internally or externally focused (http://wikipedia.org/wiki/business_plan, [May 31 2009]).

1.4.3 Feasibility Study

The feasibility study is a general examination of the potential of an idea to be converted into a business. This study focuses largely on the ability of the entrepreneur to convert the idea into a business enterprise (http://upload.wikimedia.org/wikipedia/en/c/c4/Faded_globe.PNG. [May 31 2009]).

1.5 ASSUMPTION

It is assumed that the research will focus on assisting entrepreneurs, to identify what their current business strategy is what might be going wrong and recommend practical steps to overcome the identified problems. The aim will be to focus on the wrong, which includes the lack of planning, idea generation and the evaluation of the generated ideas.

It is further assumed that for the businesses to be successful in what they do, the practical guidelines of the research need to be put in place in the business. With the high failure rate of small business, it has become imperative for business to survive, to ensure that people will back the business and become loyal to the product or service provided (Bridge, et al 1998: 121). It is assumed that the research will assist the SMME’s to obtain a level of practical basic knowledge that will ensure that their business is a viable concern.
1.6 THE SIGNIFICANCE OF THE RESEARCH

According to Stryker, Cassim, Rajaratnam, Bhorat, Leibbrandt, and Plunkett (2008) and also echoed in the GEM report; “many observers see small business as the main employment generator in South Africa. This notion is based on the perception that the employment opportunities in the SMME market are higher than that of the large firms”. They further do believe that there is an inability of the formal economy to absorb new entrants into the labour market that implies that many potential workers must fall back on the informal sector, including self-employment as a viable option. This is due to the high level of poor skills base of many of the potential workforce, as well as the higher skilled requirements needed by the formal sector (Stryker, et al 2001: 7, Herrington, 2008: 48).

In view of the afore mentioned, it is important to ensure the success of small business and to provide a climate for small business to grow, to insure the improved standard of living of all in South Africa, by insuring job opportunities for workers. According to Barnett and Graham (1992: 11 - 13), the world is ever changing and businesses, big and small need to keep up with the change, and also initiate change if they want to stay ahead of the competitors. Change is the one half of the story, consciously seeking new opportunities is the other half. Change is an opportunity, if new ideas and strategies can be found to exploit future trends and challenges.

To ensure growth in an ever changing world, business needs to be in touch with new objectives: thinking creatively, using imagination to see possibilities and possessing the vision to see what might be through planning. The results of the research would assist small business owners with guidelines how to achieve the new way of thinking, to ensure survival in a changing world.
1.7 AN OVERVIEW OF RELATED LITERATURE

The literature survey will firstly be introduced, to examine what is needed to have a successful business and the identification of what planning processes need to be undertaken when the entrepreneur ventures into a new business or expands his current business. Lastly it will look at recommendations that can be made to be more sustainable.

1.7.1 Introduction

According to Megginson et al (1997: 28 - 31) owning your own small business provides the opportunity to satisfy personal objectives to have your own business, whilst achieving the companies business objectives. The primary objectives of any small business owner are to achieve independence, obtain additional income, help their family and provide products not available elsewhere. Megginson, et al (1997) comes to the conclusion that the personal objective of small business owners tends to be achievement orientated, as opposed to those of managers of large firms, who tend to be power and prestige oriented. The achievement of these personal goals will depend on the individual’s knowledge, skills and personal traits.

Karlson (1994: 61) stresses that the owner of the small business plays the single most critical role in a business, the individual sets the direction and the goals for the business. This person leads and directs the employees, making the owner directly responsible for the entire operation of the business, leading to the success or failure of the business being the responsibility of the owner. It is further stated that the demands of running and growing a small business will soon expose the Achilles heel of the owner.

1.7.2 Business Successes

Bekker (1988: 476) states that the secret of their business success, was due to their belief in themselves. The author believed in planning with a pen and paper, she states “it is like making a promise to yourself”. The author further
states: “a person needs to visualise what the person wants to achieve, not to procrastinate and do what is needed”. It is further stated: “that one needs to act, as a winner, a winner never quits and quitters never win. To achieve success the small business owners need to try and continue to try, with a positive mental attitude” (Bekker 1988: 476 - 477).

According to van Aardt and van Aardt (1997: 193 - 197), it needs to be made clear from the outset that there are no formulae or recipes for business success, they provide the certain skill requirements for success:

Management skills, with emphasis placed on the fact that small business owners need to constantly expand and improve their management skills. The authors emphasise the fact that if the small business owners do not have these skills, the owner needs to ensure that he obtains the necessary training, or take in a partner who has these skills, or outsource this function to consultants.

Record keeping, is the second essential lesson to be learned. Records must be detailed, but yet simple and easy to read and find, the information it holds, should only be to assist the small business owner to run the business more effectively. The recommendation is made that the owner needs to see the success in the business from this report, without difficulty. The record keeping function will vary from business appointments, invoices, sales, customer records to stock records.

Cash-flow management, is the third important factor, according to van Aardt, et al (1997; 195 – 197). The argument is that this is the most important guideline for any small business owner, due to the fact that many small business owners fail because cash was unavailable when it was urgently required. Some of the reasons small businesses do experience cash-flow problems include: slow moving stock or excessive stock, which reduces cash availability, credit terms that are too generous and the collection of creditors that are not prioritised, cash might be spent on unprofitable products and
services and too much money is spend on the owner, for example high salary, luxury cars or new expensive houses.

Marketing strategy, the products and services the small business will provide, will depend on the need that exists in the market. For this reason it is imperative that market research and market analyses are conducted, with the service continuously be evaluated.

Planning will include the setting of business objectives, the resources needed to operate the business, the way the objectives will be reached, the setting of target dates and ways to ensure that the success of the operation can be measured.

Accurate costing, the costing of the selling price. The consideration of the cost of the product needs to be carefully and accurately measured, to ensure that the businesses cost price does not exceed its selling price, leading to the business not generating profits.

Workforce management, an unproductive or de-motivated employee, usually results due to inadequate human resource management. To reverse the process, small business owners should, place emphasis on recruitment, training, fairness, fair rewards and an involvement in the business to ensure the full commitment of the workers to the business operation.

Changing roles, the small business owner must be able to change with the demand as required by the market. The owner needs to be able to transform from a small business owner to an executive manager, for this to be successful, the owner needs to ensure the continuing of managerial skills training, to insure his growth in the business Aardt and van Aardt (1997: 197).

According to Godin (1998: 18 - 30), there are mainly five reasons for companies that are successful: a company that has a wide range of products that they sell, a business needs to have access to capital from banks or investors. Godin (1998: 20) feels that brand equity is a competitive advantage, as clients will rather buy a well known branded product, than an unknown
product. Customer relationship, with reference to the accessibility and the relationship to your customers and lastly Godin (1998: 27) states that great employees are the biggest asset in any business that will stand by you to be successful.

1.7.3 Business Failures

According to Cook (1994: 7 - 9), failure means different things to different people, for some to work long hours is a failure. For others not succeeding in achieving profits or growth in the business, will be seen as a failure. Cook (1994: 8) states that the important lesson in avoiding failures, is knowing what is needed for success.

According to Karlson (1994: 4 - 5), there are only a few reasons why small business fails. The author’s biggest concern is that businesses are doomed when they repeat the same mistake. Karlson (1994) further states that in every failing situation, there is at least one alternative that could have saved the business, if the owner had known about them beforehand.

Financial setbacks are sometimes triggered by causes outside the business owner’s grasp. Inflation, industry dislocations, changes in demographics, style and fashion trends and depression, can all contribute to small business failure, yet the individual can do little about them (Berle, 1990: 76 - 77).

According to Bekker (1988: 503 - 504) the following are some of the reasons why owners get into trouble:

- Mismanagement of stock, that leads to over- or under-stocking, which leads to either overspending that results to a shortage of working capital or under-spending that results in loss of sales;
- Over-investment in fixed assets, that leads to a shortage in working capital;
- Owner takes too much out for himself, buying unneeded expensive goods that will also lead to a working capital shortfall;
• Starting off without enough capital, poor planning lead to the owner underestimating the business needs;
• Lack of adequate information and expense control and how to analyse this information;
• Improper mark-up, leading to either goods being sold at a price that does not cover the expenses thereof or too expensive, that the product is not affordable;
• Inadequate sales;
• Employees that do not provide a good standard of work;
• Business owners are easily discouraged when business conditions get tough;
• Business owners are too busy with the survival of the business that they cannot fully analyse the problem on hand. The owners of a business, are also proud and do not want to ask for help;
• Over-extension of credit, lead to outstanding money not being collected that leads to working capital shortages.

Most businesses fail due to internal factors, for example poor planning and incompetent management/ownership (Bowler and Dawood 1995: 8). Incompetent management can lead to the incorrect business idea been explored, with for example the location, the timing or the target market not correctly identified. They continue by saying that lack of experience in the field the entrepreneur wants to enter, poor financial planning and control and shortage of start up capital are the other main reasons why businesses fail.

The before mentioned is also confirmed in the Small Capital: A Practical Guide for Small Business Owners booklet (2005). The document states that researchers indicate that many business failures could have been avoided through better planning. Good organisation of financials, inventory, schedules and production is the oil that keeps any business engine running smoothly (Small Capital: A Practical Guide for Small Business Owners. 2005: 2).
1.7.4 Recommendations

Godin (1998: 95 - 97) states that business owners need to be sales-focused, a business with high sales can almost always get finance when needed and almost always fix its other problems that might exist.

If a business owner sees that his customers are shopping around him, how can product or service be highlighted to encourage the purchase of your goods? Ten practical tips that will assist the business owner to ensure that the clients will see the business as the place of choice to do business with:

- Begin by differentiating your services or products by which you and your company are, for example better training, quality or experience;
- Be ready to overcome the obstacle, customers might be able to buy the similar product for less, tell customers that they can buy for less, but that they are comparing apples to peers;
- Sell based on the value of your product or service;
- Talk about dependability, tell them how long you have been in business, your experience and expertise;
- Have some advantage that differentiates you, provide something special of exclusive;
- Give outstanding follow-up service, provide a unique service that will be a refreshing change to customers;
- Offer a money back guarantee, this is good differentiation;
- Take credit cards if most competitors do not;
- Target a niche that the competitors do not sell to, complete the need research to be undertaken, that might be expensive but the monetary reward will be good;
- Stress the quality of your product or service.


For the before mentioned to be successful, it would be imperative for the entrepreneur to have undertaken a thorough planning exercise. The
document needs to be a living document that would assist the entrepreneur to use the planning process to adapt to the changes that might be required in a competitive and ever changing business world.

According to Berle (1990:194 - 195) some steps can be considered to ensure success in the small business: be a jack of all trade, from a managers, sweeper to creditor control clerk. It is imperative to know the business of your competitors, as well as the market and the products in the target market of the business. The owner needs to ensure that the strengths and weakness of the business are known, needs to ensure that the owner is sensitive to the needs and wants of the customers and staff. The small business owner needs to be ahead of the competition, for this reason it is needed for the owner to be aware of change, keep on reading newspapers, trade publications and business magazines, to stay informed and be one step ahead of the competitors.

1.8 RESEARCH DESIGN

The broad methodology that will be used in the research will be described.

1.8.1 Research Methodology

For the researcher to obtain a real understanding of the research a qualitative study was done. Collis and Hussey (2003: 13) add that qualitative research is a more subjective method, which focuses more on examining and reflecting on perceptions to obtain an understanding about the study from the identified sample. Riley, Wood, Clark, Wilkie and Szivas (2000: 129) agrees, stating that the qualitative approach provides a more detailed data supply those other methods.

The following procedures will be adopted to solve the main and sub-problems:
1.8.1.1 Literature Study

Practical guidelines which will assist small business owners in the running of their day to day business, with assistance in the planning process, idea generation and the evaluation of the business idea, to ensure that a well tested idea can be implemented in the business.

1.8.1.2 Empirical Study

**Questionnaire**

A questionnaire will be drafted by the researcher to establish what business owners would need to do to assist them to be sustainable. To determine if planning is an integral part of the business process and a reason for being successful. Further to establish if a business plan alone will ensure success for the entrepreneur. To ascertain who should be involved in the planning process. The end result is to identify what is needed by the entrepreneur to be successful and to determine if a comprehensive planning process will assist the entrepreneur to be a better entrepreneur.

Business professionals will be targeted, as they have a hands on position and intellectual knowledge of planning and financial processes/requirements needed for day to day business operations. An interview will be arranged with the identified interviewees, the questionnaire will be send to them via electronic mail or fax to assist them to provide a meaningful contribution. On contact being made with the interviewee, they will be provided with the background and the reason for the research. Time and venues will be set up that suite both parties, to conduct the interviews.

**Sample**

Snowball sampling will be utilised to obtain candidates to be interviewed. An accountant known to the researcher will be interviewed and be requested to provide a colleague or associate details as a reference. The identified individual would need to have the required knowledge and know how to assist the researcher by providing a meaningful contribution to the research topic.
On behalf of Standard Bank, two senior managers responsible for the bank's strategic focus on SMME's will be interviewed.

**Statistical Analysis of Data**

The statistical procedure to be used in interpreting and analysing the data will be determined in consultation with a statistician at the time the questionnaire is drawn up.

**1.8.2 Development of an Integrated Strategy**

The results of the literature survey and the empirical survey will be integrated to develop a practical guideline for small business, to assist them to be more sustainable.

**1.9 PROPOSED PROGRAMME OF STUDY**

The research has provisionally been planned to include the following chapters:

- **Chapter 1**: Problem statement and definition of concepts.
- **Chapter 2**: Importance of SMME’S for Standard Bank.
- **Chapter 3**: Planning for Success.
- **Chapter 4**: Empirical study design and results.
- **Chapter 5**: Integration of the findings from the literature study and the formulation of an integrated practical guideline for small business owners.
- **Chapter 6**: Conclusion and recommendations.
1.10 SUMMARY

This chapter was used to determine the main and the sub problems. Key terms were defined that will form part of the research, the demarcation process to ensure that the study would be manageable was also undertaken. The proposed program of the study was included to assist the reader to understand the structure of the study.

Chapter two will discuss the important’s of SMME’s to Standard Bank. Aspects concerning trends in the segment and the involvement of Standard Bank will be discussed.
CHAPTER 2

IMPORTANCE OF SMME’S FOR STANDARD BANK

2.1 INTRODUCTION

Not only are the small medium and micro enterprises (SMME’s) important for Standard Bank as a financial institution, but for South Africa’s economy as a whole. The previous Minister of the Trade and Industry (DTI), Mandisi Mpahlwa (March, 2005) stated that the promotion of entrepreneurship and small business remains an important priority for the South African government. Since 1994 the government has taken measures ensuring that SMME’s become a key focus area, the commitment being; to ensure that SMME’s progressively increase their contribution to the growth and performance of the South African economy. The report also states that government will continue to lead efforts to increase the level of entrepreneurship, via support to small business creation. The DTI is however mindful that this important task cannot and will not be successfully undertaken by one player alone. Partnerships with other stakeholders and role players remain imperative to the success of the required focus (Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises, http://www.dti.gov.za/smme/strategy, May 31 2009).

2.2 ECONOMIC TRENDS LINKED TO SMME ACTIVITY

Trends in the South African economy have seen the large enterprises being restructured and downsized. Small, medium and micro enterprises (SMMEs) have come to play an increasingly important role in South Africa’s economy and development. The sector has grown significantly. As mentioned above the government has therefore targeted the SMME sector as an economic empowerment vehicle for previously disadvantaged people (New business development. Boosting Small business,
An Industrial Development Corporation (IDC) news letter (May 2008) states that at a national level, South Africa is estimated to have approximately two million small businesses, representing 98 percent of the total number of firms in the country. SMME’s employ about 55 percent of the country’s labour force and further contribute approximately 42 percent to the country’s wage bill. This being said the problem with SMME’s is that 87 percent of these small enterprises are survivalist. As mentioned above, the IDC news letter also comments that the South African government has long recognised the vital contribution that entrepreneurs can play in economic development and the social upliftment of its people. The article states that for many developing countries, private sector development has been a powerful engine of economic growth. This ultimately leads to wealth creation, and is crucial for improving the quality, number and variety of employment opportunities for the poor. From an economic point of view, entrepreneurship invigorates markets. The formation of new business leads to job creation and has a multiplying effect on the economy. Socially, entrepreneurship empowers citizens, generates innovation and changes mindsets (Industrial Development Corporation. The Importance of Entrepreneurship for South Africa’s Economic Development, http://www.idc.co.za/IDC_newsletter/2008/May/pdf/entrepreneur. May 31 2009).

A study by the African Development Bank (March 2009) provides five reasons why the contribution by SMME’s to the economic development of a developing country is very important:

- SMME’s make up over 90 percent of businesses in the world, and account for between 50 percent and 60 percent of total employment;
- SMME’s are the main generators of employment opportunities to the poor and hence the main contributors to poverty alleviation;
• SMEs contribute to a more equitable distribution of income. Remuneration opportunities are provided to a large group of very poor unskilled and semi-skilled workers;
• SMEs stimulate local and regional development, because they use labor intensive methods;
• SMEs promote and entrepreneurship culture and other business-related skills due to their low entry barriers (SMME Market in South Africa 2009: 43 - 44).

A study (September 2008) concluded by a United Nations Industrial Development Organisation has similar findings concerning the makeup of SMME’s:
• Are labour-intensive, providing more opportunities for low-skilled workers;
• Are associated with lower income distribution equality;
• Are an important part of the supply chain for large (often multinational) companies;
• Are necessary for agriculture-dependant nations transforming to an industrial- and service-orientated economy;
• Are excellent catalysts for innovation and sustainable initiatives due to their inherent flexibility and risk-taking ability; (SMME Market in South Africa 2009: 44).

According to Berry, vow Blotnitz, Cassim, Kesper, Rajaratman and van Seventer (2002: 4 – 5) the primary responsibility of SMME’s is to fulfil certain economic roles. This contribution is either through manufacturing goods of value, or the provision of services to both consumers and/or other businesses. The main focus at the end of the day is in the provision of products and services. The authors further state that from an economic perspective SMME’s are not only suppliers, but also consumers. The demand for industrial or consumer goods will stimulate the activity to their suppliers, similar to their own business activity which is, stimulated by the demands of their clients. The demand of investment plays a dual role, both from a
demand-side (referring to the suppliers of industrial goods) and on the supply-
side (the potential for new production or services due to the potential of upgraded and new services and products). The demand for services and products is important for the income-generation potential of SMME’s. This stimulation of demand has the potential to generate employment and upgrade human capital. Joubert, Schoeman and Blignaut (1999: 26) agrees stating that the SMME businesses are usually labour intensive, need relatively little capital and use local resources. By channelling these scarce resources to the sector, employment opportunities can be maximised and the unemployment rate reduced. Joubert, et al (1999) state that SMME’s would have a positive effect on employment. Given the fact that SMMEs are highly labour intensive, increasing numbers of SMMEs would mean that increasing amounts of labour would be employed.

The South Africa economic situation has lead to an abundant pool of skilled and unskilled work force which SMME’s can employ and up skill. As stated above government focuses on the importance of SMME’s in the in the South African economy. Berry, et al (2002: 10, 11, 94) found that SMME’s generate the bulk of employment. They found that the correlation between firm size, labour intensity and labour productivity varies from country to country and industry to industry. This being noted the potential and necessity of the SMME sector in the South African economy is in evidence. The overall economic success of the economy in South Africa depends on the nature and effective implementation and support to SMME’s.

Berry, et al (2002: 65) state that access to finance is critically important, specifically for firms that show entrepreneurial talent and skills to grow. The question is asked how conducive is South Africa’s financial institutions to the SMME growth. The question can be asked is there a benefit to financial institutions and is it important to financial institutions to partake in SMME growth?
2.3 STANDARD BANK AND SMME's

2.3.1 Importance of SMME'S to Financial Institutions

As for all financial institutions from the before mentioned it is imperative to assist SMME’s to foster and grow as per governments drive (SMME Market in South Africa, 2009: 83). Financial Institutions (FI’s) are obliged to assist government in their drive to grow the South African economy and in so doing reducing unemployment. Developing and expanding the SMME sector remains a prerequisite for higher and sustainable economic growth. Consequently the World Bank and other international aid agencies are providing financial support aimed at supporting SMME’s in developing countries (SMME Market in South Africa, 2009: 42).

For FI’s there are financial gains to be obtained from this market. The FI are able to untap a potentially big business market.

The SMME sector is economically viable in its own right, especially if the focus and drive of government, with reference to procurement to SMME’s, is been taken into consideration. High level volumes are evident in this segment to substantiate the focus on the sector. Due to a greater none complex need for business solutions, FI’s are able to deliver a mass product offering and a mass marketing approach. The philosophy of one shoe fits all can be adopted. FI’s have realized that the SMME business of today can grow to become the next listed company. By not supporting these businesses when they are small and not creating long term loyalty will lead to the loss of greater opportunities in the future. Many SMME operators conduct their businesses via their personal accounts. With focus from FI’s on the benefits and support in the SMME market, additional valuable revenue streams will be untapped for the bank. More and more SMME’s form a critical part of the supply chain and/or customer base of larger businesses.

The relationship between the parties is valuable source of potential income to FI’s. Not only does the potential for great revenue opportunities exist but the
FI’s will also be able to build and foster relationship with the total business environment. Banking the total relationship, Corporate and SMME’s, will in themselves provide new opportunities for FI’s. Large corporates in South Africa also provides an accelerated revenue stream via collaboration. Enterprise development spending and procurement policies are creating new business opportunities. Focus of many of these spending is focused on assisting previously informal businesses to grow and flourish. Getting involved with corporate cliental to provide financial services to their business partners will generate increased revenue in the short term and become a sustainable revenue stream in the long term (SMME Market in South Africa, 2009: 44 - 47).

As per the above focus on increasing the activity of SMME’s, the spinoff will be the employment of more people. This job creation and potential to generate increased income level will have a positive effect on the personal market segment within the FI’s. FI’s will be able to optimize the potential that will be forthcoming from increasingly employed now generating an income. The potential in the personal market covers from the youth segment to high income earner. The SMME market can also be a high growth segment in economic downturns. More retrenchments take place and individuals start businesses to generate income due to loss of salary. In such a case the FI’s might lose the personal relationship, the opportunity does however arise that the individual will open a business account. Income will then be obtained from this source (SMME Market in South Africa, 2009: 47 - 50).

2.3.2 Standard Banks involvement with SMME’s

For some time Standard Bank have understood the importance of the SMME segment. The bank knows that this is a changing environment and continues and improved focus needs to be top of mind. The bank has established special departments to cater for the various different needs associated with the SMME segment. These special departments can cater in the lending, transaction, cash flow management and investment requirements of SMME cliental. The bank focuses on viable business opportunities and will guide the
SMMEs in assessing the feasible ventures. Standard Bank has also entered into various support programs, clearly demonstrating their involvement with SMME’s. Co-operation agreements have been established with Government, Public Sector, and Private Sector etc. Public sector entry with a strong relationship with Standard Bank is for example the City of Tshwane is doing. NGO’s have a strong role. Private Sector – Chambers of Commerce, Banks, hence Standard Bank joining hands with City of Tshwane in this critical partnership. Mentorship programmes have also been enter into with various organizations (Key Pillar to Invigorate, develop, Grow and Sustain SME’s with focus on: FINANCING SME’s – A Standard Bank Perspective (http://www.unzippedtshwane.gov.za/des/hdi_dbdocuments.download?p_file=F8765/LincolnPresentation-StandardBank-24May07, May 31 2009).

In the current economic conditions all business can expect a slowdown in consumer spending and a reduction in sales. This will have an impact on business, additional pressures on cash flow thus lead to enterprise failures and reduction in business growth. Standard Bank supports the development and sustainable growth of the small business market. Through their understanding of the small business market, the bank is able to offer expertise and specialist solutions to support development of the SMME market. The bank for example has entered into various partnerships including the SME Survey, spanning many years. This partnership enabled the bank to obtain an in depth view of the business market. The bank is now in a better position to address issues raised in the survey through their business banking offering (http://www.smesurvey.co.za/sponsors-current. May 31 2009). Other partnerships entered into also have monetary values attached to them. One of these is for example the recent Standard Bank and FABCOS (Foundation for African Business and Consumer Services) which could see SMME’s accessing an estimated R400 million in loan funding. FABCOS was formed in 1988 to promote and develop black business and assist with economic empowerment. Fabcos President Mxolisi Zwane stated: “We are delighted with this arrangement; access to capital is one of the major hurdles preventing those at the bottom of the Wealth Pyramid from joining the mainstream
economy, and we hope that this type of arrangement will become a common feature of the SA Economy” (Gauteng Business Day (http://www.gbn.co.za/articles/dailynews/256. May 31 2009).

Various other areas of involvement exist. To mention one other topical aspect: the strategic objective of the Land Reform programme is to transform the agricultural sector to reflect the demographics of South Africa. Standard Bank views the redistribution of land as a process and has developed partnerships with current and new landowners and with government through the Department of Land Affairs and the Department of Agriculture. This partnership does not only have monetary aspects attached to it, but the importance of mentorship and skills transfer in supporting emerging black farmers. For this Standard Bank partnered with Buhle Farmers Academy. Standard Bank supports the academy through funding part of its training costs and by providing finance to new farmers upon completion of their training, thereby supporting the sustainability of new black commercial farmers. The bank has also engaged with the University of the Free State on mentoring black emerging farmers. This relationship will give black farmers access to professional advice on how best to do business and access the latest economic and market indicators to help them make informed decisions (Pillar 2 Access to finance (https://sustainability.standardbank.com. May 31 2009).

2.4 CONCLUSION

It is clear that for Standard Bank and other financial institutions to remain relative, they need to adapt to focus on the ever developing and growing SMME market. Government focus and the potential for future growth via procurement focus in the market, makes focusing on the segment imperative. The SMME market will provide Standard Bank with an excellent opportunity to demonstrate business and social relevance. This will be achieved by being pro-active in transformation, black economic empowerment, youth and women activities, also including providing funding to the different segments.
For Standard bank there are many reasons why SMME owners fail and are unsuccessful in their application for finance. One of the main reasons: bad knowledge on the side of SMME entrepreneurs. Ignorance in the application procedures or inability to write a business plan. This includes a lack of information and inability to determine credit risk (SMME Market in South Africa 2009: 68). Also documented is the lack of evidence for the business potential growth in the future, in other words lack of a business plan with evidence of potential viability for the business to succeed. This includes lack of the strength of projected cash flow clearly stating that the entrepreneurs do not understand the business they are in. Standard bank has found that entrepreneurs often invest in business plans, which are not bankable for a number of reasons:

- Lack of feasibility or pre screening;
- Poor quality of business plans (often drawn up by consultants with little input from client);
- Unsustainable margins.


From before mentioned it is clear that proper planning will assist the entrepreneur to be able to gain access to finance and ensure that they plan for more success in their business. If this is done, it will enable the bank to assist with finance, with the end result, a win win for all.

In the next chapter planning for SMME’s will be discussed. The need to plan and reasons why entrepreneurs do not plan will be discussed. A format and requirements for a business plan, as well as idea generation and testing of the idea will be discussed.
CHAPTER 3
PLANNING FOR SUCCESS

3.1 INTRODUCTION

Megginson, Byrd Scott and Megginson (1997: 116) state that to become a successful entrepreneur, the business owner needs to look ahead. By going through a planning process, the entrepreneur is engaged in that precise activity of looking ahead. They inform that planning is the process of setting goals and determining actions that will assist the entrepreneur to reach those goals. Certain questions like, what business am I in? What product or service do I want to sell? Who is my target market? And how much profit do I want to make? Should be covered.

Timmons (1994: 375) adds, stating that planning is the vehicle used to think about the future of the business, the tool to decide where the business wants to go to and how fast to get there. Planning also stipulates what the business needs to do on the way to ensure that the risk is managed and the uncertainty reduced. Planning is the process of setting goals and developing a strategy to achieve these goals.

3.1.1 Benefits of planning

According to Yegge (2002: 97 – 99) the most obvious benefit of planning is the avoidance of failure. Research has consistently shown that 50 to 70 per cent of small businesses fail within the first five years of operation. So while many small businesses do not plan, many of these also do not survive. But this is a negative reason. The benefits of planning should be viewed in terms of the positive benefits it can have on your business.

Planning can benefit the business by:

- keeping you future-oriented;
• helping you make rational decisions;
• giving you a focus on results.

It is easy for the entrepreneur to become overly optimistic about the future of the business. Yet if the entrepreneur properly assessed the future of the economy, his industry and his business, the entrepreneur may find that there are not many rational reasons for their optimism. Yegge (2002: 97) states that a ‘future orientation’ means keeping an unbiased eye on the future of your business.

Planning also helps the entrepreneur to make rational decisions. Many small business owners make decisions that ‘feel right’, or they only make decisions when these decisions are forced upon them. This ‘fire fighting’ approach to decision making may ignore the long-term effects of the decision, or may involve hasty decisions being made with no input from advisers who could help.

Nieuwenhuizen, Le Roux and Jacobs (1996: 15 –16) agree, stating that planning is part of the general management function with the drawing up of a business plan being imperative for success. A well considered planning exercise ensures the business owner that the necessary research required to be successful has been undertaken. According to them the planning and drawing of a business plan are beneficial and for the following reasons:

• Fewer mistakes are evident, as the business owner can make judicious decisions, seen as he would have identified problems;
• The business owner has to take all the factors into consideration that might affect his type of industry, and therefore the process are more detailed, with the business owner being less dependent on instinctive or crises decisions;
• Assist the business owner to take decisions for the future.

Indeed, unplanned decisions rarely assess the decisions impact upon all aspects of the business. A decision made to solve one problem may cause
numerous others. For example, a decision to begin discounting in order to solve a downturn in sales may have a severe effect upon profitability. By planning, the entrepreneur can test his ideas on paper before putting them into practice. He would be forced to justify his presumptions and possible future actions.

Planning will also provide him with a result orientation. Many entrepreneurs believe that results are merely ‘what happens’. They do not see that results can be planned for and that a business can be guided toward some desired results (Yegge, 2002: 99).

Meggison, et al (1997: 119 – 120) state that the planning process is one of the most difficult activities the entrepreneur needs to undertake, but a thorough business plan will assist him to know where he wants to get to and how he will get there.

3.1.2 Reasons why entrepreneurs neglects to plan

According to Meggison, et al (1997: 117) entrepreneurs are so occupied with the daily running of the business that they often neglect the planning side of the business. They also believe that the entrepreneur often fears the problems and weaknesses that the planning exercise will uncover. Furthermore they often lack the knowledge of how to plan and feel that planning will not assist them to predict the future. They state that attempting to predict the future, which is risky, is better than not to plan at all. Not to plan at all can be disastrous for the business.

Wickham (1998: 137) agrees in that entrepreneurs do not see the need to plan formally, as they feel that their time will be better spent in being active to grow the business and that they know what they want to achieve.

Some entrepreneurs do not feel the need to plan, as they believe in an ever changing world, a business plan can be out dated even before the document is completed. As the future cannot be predicted and planning requires the
setting of goals, making choices and the setting of milestones, that might lead to the business not focusing on future opportunities motivates some not to plan. Other entrepreneurs are afraid of planning, as they are unable to complete the planning process (Timmons: 1994: 379).

Surprisingly, many entrepreneurs drag their feet when it comes to preparing a written document. They argue that they don’t have enough time, or that the market changes too fast for a business plan to be useful. But just as a builder won’t begin construction without a blueprint, eager business owners shouldn’t rush into new ventures without a business plan. A business plan is your roadmap to success (Small Capital: A Practical Guide for Small Business Owners, 2005: 7).

3.2 THE BUSINESS PLAN

According to Yegge (1995: 2) matching a company’s objective with its resources is an important task, to ensure that these objectives are realistically achieved is an even greater challenge. The purpose of a business plan is to guide the business owner to accomplish these tasks and further to serve as a vehicle to assist the business owner to apply for financing if it is required.

3.2.1 Does the entrepreneur need a Business Plan?

The Harvard Business review (1999: 49 – 51) asks the question whether an entrepreneur needs a business plan or not. Their answer is an emphatic YES. They further state that an existing or new business should be fully analysed in terms of the opportunities and content. According to them, going through the process forces discipline that will assist the entrepreneur to identify the strengths and weaknesses early in the planning process. The business plan will also assist the entrepreneur to see how the business is doing compared to the original indications, the business will also have a framework to learn from mistakes made.
Patsula (2000: 3) states that starting and running a business in today’s changing world is a considerable challenge. He emphasizes the fact that it is imperative to have adequate planning and control measures that will assist entrepreneurs to stay in business and keep the business under his control. To ensure that the business owner stays in business, it is necessary to put together a well thought out, well researched business plan, which is used as his small business blueprint for survival.

He further states that the process of writing a business plan is the fundamental starting point for all entrepreneurial efforts. It has been proven time and time again, to be the one controllable factor relevant to the success or failure of any business (Patsula, 2000: 3 - 4).

According to Bowler and Dawood (1995: 9) there are many ways to ensure that a business will be successful, with the main focus being on sound planning. They state that without a detailed business plan the entrepreneur should not expect to be successful in his business. The planning should be based on market research with focus on customers, products or services, promotions, location, etc. It is important for the entrepreneur to know his business, be clear what the strengths, weaknesses in his business are, as well as the opportunities and threats that exist in his focused market. He needs to ensure that he knows his limitations, in not to over promise and under deliver to customers.

Without a viable, complete, credible business plan the entrepreneur will not be focused on his goal of business success. He states that an entrepreneur who holds a business plan becomes a professional, the plan assists him to become rich, or it can reveal pitfalls, that may have been ignored previously. This identification process will assist the entrepreneur to do more research, learn more, and do more checking, to ensure that all areas of the business are covered (Berle, 1990: 27). According to Henricks (1999: 38) the process of writing a business plan will teach you more about your business, than any other process.
3.2.2 Developing and advantages of a Business Plan

The development of a business plan according to Pickle and Abrahamson (1986: 16-17) will provide a business owner with an understanding, of where they want to be and how to get there. The business plan is thus a plan of action for the business and by putting the plan in writing, the business owner is forced to consider all areas of the business operation, and through the plan the owner can conceptualise the functional areas of the business.

Meggison, Byrd, Scott and Megginson (1997: 166-167) further state that a well developed and presented business plan can provide the entrepreneur with a much greater chance of success and assist them to reduce the chances of failure. With the plan assisting the entrepreneur in the day-to-day demands of the business, to be focused on their targets, keep their creativity on track and concentrate their efforts and inputs on reaching their goals. A well presented plan will also assist the business owner to raise funds, through either venture capital or a conventional bank loan, as the detailed approach will increase confidence in the business owner, assuring the potential investors that the business idea is a sound proposition and reflecting management’s ability to view a task realistically, and as such be a significant aid in any and all projects in the future.

Henricks (1999: 1-2) agrees; “a business plan describes the future of the entrepreneurs plans for his business”. The business plan informs the owner of what he plans to do and how he plans to get there. He states that the business plan has a number of uses for the business owner. It can be used to attract investors to the business by conveying the business owners vision to them and can also be used to attract new employees to the business, also attract new business and suppliers or simply assist the business owner to manage the companies better.

A business plan is defined by Patsula (2000: 4), as a primary organisation tool used to simplify and clarify business goals and strategies, that otherwise might appear complex and intimidating. The business plan must not only be
clear and simple, but also be persuasive, to insure that others will believe in the entrepreneurs product or service that you want to present. He emphasizes the fact the business plan needs to be well written, factual, concise and organised in a logical sequence and should include all the relative information that pertains to the business.

Meyers (1984: 118) defines a business plan to have three major purposes:

• Set forth the objectives of a business in a way that permits owners to be able to measure the progress towards their achievements;
• Provide a vehicle for the communication of goals and strategies;
• The business prospectus for funding resources.

Meyers (1984) further states that regardless of the use of the plan, the effort to draw up the plan, encourages a detached view of the owners’ aims. This alone, will justify the process of drawing up a plan.

The advantages of formulating a business plan according to Yegge (1995: 2-3) are as follows:

• The process forces the planner to think carefully, be disciplined and focused;
• The process helps to identify which factors success depends on. It highlights the critical elements that are needed to achieve the set out goals;
• The plan provides a clear idea of what the business owner is attempting to do and how, why and when they wants to implement the plan;
• The plan can assist the business owner to track the progress of the business towards achieving the set goals.

The plan must be a living document, with the plan ultimately being a business road map that guides the business owner to ultimate successful growth and increased profits in his business (Yegge, 1995: 3). Dollinger (1995: 200) states that in today’s complex economical world, only the most recalcitrant
entrepreneur with the most straightforward business, would not write a business plan.

3.2.3 Essential Elements of a Business Plan

A successful business (David, 1994: 55) begins with an effective business plan that will have the following characteristics included in the plan:

- clearly goals and objectives for the business and on the personal level;
- contains strategic and tactical elements;
- document the strategic direction of the business;
- focus on the tactical elements needed to implement the plan.

He states that the document must be thorough and complete, be succinct and credible.

According to David (1994:55), the expression; “the harder you work the luckier you get’ is probably true, but he adds that a thorough plan can help the entrepreneur’s luck along the way.

Yegge (1995: 70 – 72) states that there are many different ideas of what needs to be included in a business plan, the format that needs to be used and what the different sections need to be named. One person may call a section one thing, another person calls the same section a completely something else, this is also applicable to the order of sections in the plan.

Wickham (1998: 140) concurs, stating that there are no hard and fast rules about what a business plan should include. He states that the business plan must be shaped to reflect the requirements and needs as set out by the entrepreneur for his or her business.

Patsula (2000: 6-70) however stipulates five essential elements in all business plans. These five essential elements; **Introductory Section, Company Plan, Marketing Plan, Financial Plan and Supporting Documents**, will assist the planner to draw up the plan. Keeping in mind what the entrepreneur put into
his business plan, and how he organised it, depends on what the entrepreneur actually needs it for. Patsula (2000) explains that the purpose of the plan and this five section business plan format is meant to guide you in your completion of a business plan.

According to Dollinger (1995: 221) the major sections of the business plan need to be as detailed as possible and internally consistent, describing the business strategies, operations, marketing, management, ownership structure and financial plan. The later sections provide information on timing, milestones, schedules, summary section and an appendix sections end the document of that will include reference material for included documents.

Dollinger (1995: 200) states that the writing of a business plan is the move from the collecting of information about the product or service, or the market they want to enter into. It also includes analysing the market and strategising how the product or service will be implemented in the market. He states that the business plan is a formal document that expresses the entrepreneur's vision detailing the strategy and operational requirements for the business.

For the purpose of this study Wickham's (1998) format as below, will be discussed as an example of a business plan.

- **Mission**
  This section will cover the mission statement of the business that clearly defines the business and what it sells or manufactures.

- **Overview of key objectives**
  **Financial objectives:** the turnover or sales, the required profit and the excepted growth for the following years are noted.
  **Strategic objectives:** what the entrepreneur wants to achieve in the market and what the estimated market share will be.
• Market environment

**History of the current market:** market definition, market size, main sectors and niches in the market, current and potential growth rate, the historical and current trends and changes in customers buying behaviour and buying patterns, changes in the product or service and any operations will be covered in this section.

**Competition:** current main competitors with their strengths and weaknesses are listed, their possible reaction and strategy to a new entrant into the market are to be documented.

**Competitive conditions:** the current basis of competition in the market, with focus on the impotents of price, product or service different ion and the advantage of placing your product or service where the target market has been identified.

**Competitive advantage of the business:** listing the strengths and competitive advantages of the entrepreneur’s product or service compared to others in the market.

**Product or service offering definition:** a clear description of what product or service the business will offer to the market.

**Target market definition:** a classification of how the market is split up into the different sectors, the dimensions of the market is import, as it will assist the entrepreneur to characterise the sectors. Also important to state which sectors the first focus will be on.

• Strategy

**Product or service strategy:** stating the features, price, quality, acts. That will differentiate your product or service from those of your competitors and be appealing to the market.

**Pricing strategy:** how competitive the product or price will be compared to those of the competitors. The methods that will be used to determine establishing, promotional pricing, what discounts will be allowed and the pricing policy to be used in the business.

**Distribution strategy:** What routes or transport type will be used to get the product or service to the clients? Need to specify how will the transport be done, from within or will the function be outsourced, if outsourced what
conditions will have to be adhered to by the transport company. If the product or service is exported, what exporting requirements international marketing requirement needs to be changed?

**Promotional strategy:** how the product or service will be exposed to potential clients, in other words the advertising process, e.g. advertising message, means and medium, approach to selling, promotions and the visibility and public relations function of the business.

**Networking:** the way that the entrepreneur will work closely with others in the business world to create and support a competitive advantage.

- **Financial forecast**
  
  **Income:** the sales that will be generated from selling the product or service, as well as the funds provided by investors.
  
  **Monthly expenditure:** the normal monthly expenses including salaries, consumables, raw material purchases, and act. That will be incurred on a monthly basis.
  
  **Capital expenditure:** the assets that need to be bought to assist the business in the manufacture of a product or the supply of the service, with a description of how the asset will assist the business.
  
  **Cash flow:** the difference between the sales generated and the expenses incurred on a monthly base, normally stated over a twelve month period. The cash flow reflects the income potential of the business and if the business is able to meet its payment and repayment obligations. For the business to be successful the sales needs to exceed the expenses, which will lead to a positive cash flow.

- **Activity**
  
  **Major projects:** the main activity the entrepreneur will focus on that will assist the business to be successful, i.e. sales incentives, new product development, advertising, act.
  
  **People:** the most important people that will ensure the success of the business, their skills, experience and achievements. What their contribution will be, with the personal history included in the way of a CV.
The information included in the business plan will vary as the requirements change and who the document is aimed at. Wickham ends by stating that holding different formats of the plan can be advantageous in that the business will not be limited to one structured approach (Wickham. 1998: 140 – 142).

Dollinger (1995: 221) states that the purpose of a business plan is to allow an entrepreneur to think about his business in a comprehensive manner and to be in a position to communicate to others that might have a vested interest in the business. Further to have all the information of the business at hand to ease the decision making process and to facilitate any further or additional planning. He states that it is imperative to make the first impression a professional one, to be concise and to provide accurate descriptive information, as the reader might have limited time to read the plan. Dollinger concludes in saying that the entrepreneur will not be able to answer all possible questions in the business plan, it is therefore imperative that the entrepreneur knows all the details and facts, as to be able to answer all potential unanswered questions, as well as questions from critics.

Planning and the development of a business plan assists the entrepreneur by testing the sensibility of the approaches followed and ideas generated (Timmons, 1994: 378).

3.3 IDEA GENERATION

Dollinger (1995: 65) states that when Einstein said, “Imagination is more than knowledge,” he was without knowing it talking about economics and entrepreneurship. All businesses begin with an idea, being creative is the key advantage, as it will lead to new or improved products or services.

Nieuwenhuizen, et al (2001: 51) agrees in that it is required of the business owner to be deliberate in his quest to find a new business idea. They state that good ideas seldom come out of the blue. Bowler, et al (1995: 11 - 12) states that the lack of business ideas is one of the main reasons why people
do not start their own business. They inform that one needs to differentiate between a **business opportunity**, that is ideas that work, and **business ideas**, that first need to be tested against various criteria, before they becomes an opportunity. According to them, it is important that the entrepreneur generates as many ideas as possible, and goes through the process of assessing which of these ideas are actually opportunities. In generating ideas, the entrepreneur needs to concentrate on the opportunities this idea offers and not on the problems or threats that might be experienced.

An entrepreneur needs to be creative, to enable him to obtain a feasible business idea. Not any idea will do. The idea should be new and not copy competitors in the market. The business owner should try to provide a specialised or exceptional product or service. It is imperative that the business owner will think of an idea that will distinguish him from other competitors in the market (Nieuwenhuizen, et al 1996: 47).

According to Wickham (1998: 8) opportunities or business ideas exist all the time, but they do not always represent themselves. To find them, the entrepreneur needs to actively seek after them and be proactive in this approach, constantly scanning the business environment to identify gaps in the market left by existing players.

Proper planning does not ensure success. It does improve the chance of succeeding. The planning process starts with the search for a product or service to sell, a business idea. According to William A. Sahlman: “Being bright-eyed and bushy-tailed isn’t necessarily a barometer for success. If people succeed, it’s because they really understand an industry and perceive some need or service that no one else has seen” (cited in Yegge 1995: 59).

### 3.3.1 Idea generating methods

Various methods exist to obtain new business ideas, for Nieuwenhuizen, et al (2001: 51 - 61) five approaches have been tested with positive results:
• Generating ideas from the entrepreneur’s skills, expertise and aptitude.

They state that formal training and qualifications do not guarantee that one would be successful in a business, but through the studies the entrepreneur can obtain knowledge that might later lead to business ideas.

Working experience can also lead to ideas, the personal knowledge of activities required in the workplace, can lead to a person starting his own business using these ideas.

The skills one develops through non-career activities or hobbies can also lead to new business ideas. The entrepreneur’s skills, expertise and aptitude can assist him to identify this new idea. For example if you have a skill to be a cook, this will enable you to provide a product or service to companies or individuals. With the entrepreneur thinking of the company or individual needs and products or service that can be provided for, he or she has identified to “whom” and “what” they can sell or provide a service. This process has lead to a new business idea being established, with only one skill being focused on. This process can be illustrated as below:
Figure 3.1 Establishment of a new business idea.

**WHICH SERVICE?**
Cook relief service  
Special diet recipe service  
Conference meals

**WHICH SERVICE?**
“Cook for one” recipes  
Cooking lessons  
Wedding catering

**FOR WHOM?**
Restaurants  
Guest houses  
Companies

**FOR WHOM?**
Old and single people  
People who can’t cook well  
Engaged couples

**FOR ORGANISATIONS**  
**FOR INDIVIDUALS**

**PROVIDE A SERVICE**

**START HERE:**
**SKILL:**
Cook

**MANUFACTURE A PRODUCT**

**FOR ORGANISATIONS**  
**FOR INDIVIDUALS**

**FOR WHOM?**
Restaurants  
Guest houses  
Companies

**FOR WHOM?**
Restaurants  
Guest houses  
Companies

**WHICH SERVICE?**
Cook relief service  
Special diet recipe service  
Conference meals

**WHICH SERVICE?**
Cook relief service  
Special diet recipe service  
Conference meals

Source: Entrepreneurship and How to Establish Your Own Business (2001: 5)
• **Ideas from general needs.**

All people have needs, but all our needs are different. It is imperative for the entrepreneur to identify the common/general need, due to the fact that people’s needs are so different. Individuals for example can be grouped together, all rugby players have specific needs. Organisations can be grouped in the same manner, for example businesses with the need for full maintenance contracts will be grouped. It is also possible that when the entrepreneur concentrates on the needs of one group, many business ideas might come about. This process is illustrated in Figure 3.2 below.
When generating product or services ideas, the entrepreneur needs to keep in mind that customers will buy things they want, the ideas must not evolve around what the entrepreneur thinks the customer wants, this is immaterial Bowler (1995:13).

- **Ideas from exciting problems**

Nieuwenhuizen, et al (1996) further state that at times not only to focus on unfulfilled needs, but rather thinking of exciting unsolved problems can also lead to new ideas. For example thinking of things that irritate you and other people and then thinking of a way to remove these irritations.
The entrepreneur’s knowledge of these problems, would enable him to find the initial idea for a business that would be based on solving the identified problem. To explain how the process works, see illustration below (Fig 3.3) that uses traffic flows as the general problem:

Figure 3.3 Solving of identified business need.

Source: Entrepreneurship and How to Establish Your Own Business (2001: 55)
• **Ideas from everyday activities**
To be alert and focused on activities that the entrepreneur performs daily, many business ideas can be created. Some vehicles that can be used to create these ideas are:

• **Utilising print or electronic media**: by focusing on products that are advertised in magazines, newspaper and on television. To determine whether there is a better way to either packaging, market or distribute this product.

• **Looking in other places**: business ideas are sometimes found by looking in unusual places, the following questions can assist the obtaining of ideas:
  - Exploring a suburb of the town you do not normally visit, asking what do you notice in the area?
  - Taking note of novelties and different ways people do things where for example you go on holiday.
  - Looking at different ideas that can be obtained from movie theatre’s, fun fair or sports meetings, act.

• **Talk to other people**: the entrepreneur can also speak to colleagues, family and friends, to determine if they have not come up with a new business idea. Their experiences or problems that they have experienced might also lead to a new idea.

• **At work**: looking at your working environment and processes to determine if there is not a better way to do things.

• **Going shopping**: by observing some of the products or services on your visit to a shop, questions can be asked how to improve the current product or service. Asking questions like:
  - Are their problems with these products or services?
  - How can one improve the current product or service delivery?
  - Is it possible to improve on the current packaging of the product?
  - Is it possible to diversify and improve the current product delivery and focus?
  - Is it possible to expand the current market appeal to a wider customer base?
• **Changes in immediate area:** focusing on changes or important events in your immediate area. For example the latest legislation passed on the banning of plastic shopping bags, assist some entrepreneurs to manufacture larger material bags (Nieuwenhuizen, et al 1996: 47 – 51).

Bowler, et al (1995:13) agree stating that concentrating on exciting products can lead to business ideas, as no product or service is perfect. Pointing out that “What if” questions can be used to examine exciting products or service, for example:

- What if the quality of the product or service is improved?
- What if the frills are cut out?

• **Ideas from other sources**
  - **Yellow pages:** the pages cover a vast range of products and or services that are offered by businesses currently. Reading through the adverts the entrepreneur will be able to see what other business owners offer and assist to identify a new idea.
  - **Referring to business publications:** obtaining magazines like “Financial Mail” and “Business Link” that cover successful business stories can be obtained.
  - **Contacting an “investors” association:** this can be a valuable source of information and ideas. Can for example come in contact with an investor and join forces to develop and market his idea.
  - **Examine overseas products:** the process of identifying products or services that are not yet available in South Africa. These products or services can be imitated or adapted to suite the local market requirements.
  - **Patents that have expired:** if a patent has expired it becomes available for all to use. It might have been that the original timing of launching the patent was not accurate and that now might be a better time. This might be due to growth experienced in the market, it can be added to new products in the market and
upgraded technology now assist for the manufacturing of the product to be feasible.

- **Visiting trade shows:** these shows are good sources of ideas, as the entrepreneur are provided with the opportunity to see the product and ask questions about it to the exhibitor.

- **Advertisement for business opportunities:** newspapers and magazines can carefully be explored for good business opportunities. One has however to tread carefully when exploring these options as some of the businesses might be marginal business opportunities.

Bowler, et al (1995:13 - 14) state that when looking at other sources, the entrepreneur’s focus needs to be on the constant improvement of exciting products or services, through improved packaging, distribution, price, production process, etc.

According to Bowler, et al (1995: 14 – 16) other methods that can be used to generate ideas are:

- **Manipulation of existing products or services**
  
  The process to take an existing product or service, determining if it causes any dissatisfaction from current customers and if any exist, to make improvements to the existing offering. The improved product or service will be seen as a new offering by the customers. An example of this strategy would be to use different packaging for a product, changing the shape, texture or size, adding extra benefits, etc.

- **Problem redefinition**

  If a current product or service does not meet your needs, the shortcoming needs to be written down. A solution to this problem now needs to be found, by either using a new product or service or a re-aligning of the current offering. If a solution cannot be found, it is important to start over and redefine the problem, obtaining assistance from others at this stage might help. The process can assist the entrepreneur to find a different problem/solution to focus the product or service on. For example: problem definition, waiting in long queues at a popular restaurant. Possible solution: installing a ladies bar,
**Problem redefinition:** long queues outside at the restaurant, **possible solution:** increase the size of the restaurant.

- **Brainstorming**
  Gather as many ideas as possible from a group format. All ideas are given during the process, wild and crazy ideas are to be allowed and no idea’s are to be criticized. All ideas are then listed and evaluated with the most feasible idea chosen for further viability testing.

- **Metaphorical analogy**
  This process uses solutions of a similar problem to solve a problem. For example if an entrepreneur wants to develop a self defence devise, he might look at animals to see in what way they protect themselves. These methods can then be utilised to develop a new product.

A good idea is needed to make a business succeed and that when the entrepreneur generates ideas, he must not think of a specific idea, but rather focus on ideas in general. The focus, he states, needs to be on the idea that has sufficient potential to form the basis for the new business that will succeed (Macleod, 1988: 16).

Other areas to source ideas like, patent attorneys or brokers who are able to suggest a manufacturing process or invention, various franchisee options exist that are available to be explored. Professional contacts like attorneys, bankers, accountants and government agencies like the Department of Trade and Industry, CSIR are also valuable sources of leads (Macleod 1988: 16 - 17).

The Harvard Business Review (1999: 60 – 61) states that in a study they undertook, the majority of ideas generated either came through replication or modifying of an idea encountered through the entrepreneur’s previous employment. They further state that for a profitable business to survive a combination of a creative idea and superior capacity for execution is required.
Once the idea has been obtained by using one of the above mentioned methods, the entrepreneur needs to choose the one that will best fit his requirements and evaluate the idea to select the one that would be most likely to succeed.

Timmons (1999: 103) agrees, stating that it is important for the business owner to insure that his business idea, suites his skills, experience and interest, to ensure that the owner will have full commitment to the plan and see it through to the end. He further states that the owner needs to ensure that the idea will have the needed return and profitability, to ensure that own funds and those of investors can be recuperated.

The Harvard Business Review on Entrepreneurship (1999: 36 – 37) states that the first step the entrepreneur needs to undertake is to ensure that the business area they want to enter into is large enough or still growing and is structurally attractive. They further state that the planning process needs to ensure that the sustainability and the potential in the market are clearly described. If the answers obtained in the feasibility reveal a fatal flaw the entrepreneur must not explore the idea further.

### 3.4 EVALUATING THE GENERATED IDEA

Timmons (1994: 20) warns that not all ideas are necessarily opportunities, stating that an opportunity is attractive, timely and durable. The opportunity will exist due to its link to a product or service, which will add or create value for the potential client or buyer. He further states that this opportunity must be rewarding, durable with good margins and profits to be generated.

It is Nieuwenhuizen, et al’s (2001: 62) view that the entrepreneur should have no limits to their creativity when they obtain new business ideas. They further state that most of the generated ideas will not work. The initial sifting of all the ideas gathered, starts off by trusting your “gut feel” and using your personal
judgement. It is important to evaluate all your business ideas to determine which one is the right one to go with.

According to Timmons (1994: 418 – 419) there is a great difference between obtaining and developing an idea and the process of evaluating the idea and finally writing the business plan. Some of the differences stated by Timmons are that the business plan needs to be unambiguous, well thought out with more detail required. The entrepreneur needs to spend more time gathering data, interpreting it and ultimately presenting it clearly.

Feasibility that identifies the product or service that the entrepreneur is planning to sell, will emphasize what human need it satisfies, it needs to be as detailed and correct as possible (Nieuwenhuizen, et al 1996: 47).

It is required, to ascertain whether this need is presently unfulfilled, whether the demand for the product or service can be easily influenced by advertising, and to what extent your product or service will be entering a market in which demand already exceeds supply (Nieuwenhuizen, et al 1996: 47). Wickham (1998: 41) further states that the entrepreneur must not only identify the opportunity, but also understand it in great depth. This to ensure that the opportunity that has been identified is fitted with the correct product or service that will be applied to the customer and to satisfy their needs and requirements. The entrepreneur further needs to know how to inform the customer about the product or service and how to deliver it to them.

According to Nieuwenhuizen, et al (2001: 62) ideas are evaluated by way of two studies, namely feasibility and viability.

The feasibility study is the assessment of the potential of the idea to be converted in a business. The focus is mainly on the ability of the entrepreneur to take the idea he has developed and make a business of that idea. Bowler, et al (1995:16) agrees stating that feasibility evaluates if the entrepreneurs holds the required skills and resources to develop the product or service.
The **viability study** on the other hand is a thorough assessment of the potential of the idea and the converting of the idea into a business. The focus is mainly on the market the entrepreneur wants to service or supply and the potential to make profits from your business idea in the market. Bowler, et al (1995:16) concur in asking will the customer like the product or service and will the business be able to generate a profit from the business idea?

According to Nieuwenhuizen, Le Roux and Jacobs (1996: 25), entrepreneurs at times make the mistake of developing services or products that do not meet their target market’s needs. It is therefore important to determine what the clients want and not to assume that the business owner knows what his clients want.

Macleod (1988: 17 – 18) states that the entrepreneur should obtain as many ideas as possible, brainstorm the ideas generated and examine all the possibilities in finding the new business idea. It is also important that the entrepreneur look at alternatives that will meet his personal preferences and interest when evaluating the possible business idea. The following needs to be kept in mind:

- **Location**: the community, cultural environment and geographic area that will suit the entrepreneur and where his product or service will be required;
- **Working style**: what plans does the entrepreneur have with the business, will the operation only be local or will it be expanded to a national representation at a later stage?
- **Standard of living**: is the aim of the business to get rich quick? Or is the entrepreneur content to live a more subdued life and insure that the capital in the business is retained to grow the business;
- **Personal development**: will the entrepreneur be able to use his current skills, education and expertise gained. Does the idea provide the entrepreneur with the opportunity for personal growth and does he have the social conscience that will be satisfied to adding to the economy of the country?
- **Capital requirements**: how much money is required to start the business and does the entrepreneur have adequate money, if not where will be money come from?

There is no use in finding a business idea and setting goals until the idea has been thoroughly investigated and thought through (Macleod 1988:18).

Before evaluating the business idea, Nieuwenhuizen, et al (2001: 62 - 63) indicate that the entrepreneur needs to be clear on the following two aspects:

- What is the business main activity? The activity will consist of two or more of manufacturing of a product, provision of a service and/or the sale of other businesses products and/or services.
- Who is your customer base? It will either be individuals and/or organisations.

According to Nieuwenhuizen, et al (2001) the “bow – tie” diagram illustrates all the alternative business activities and consumer base, as discussed in figure 3.4.

Figure 3.4 Evaluating the business idea.

![Diagram of business activities and consumer base](source: Entrepreneurship and How to Establish Your Own Business (2001: 62))
The alternatives available to the business idea are:

• Manufacture of products for individuals;
• Providing services to individuals;
• Sale of other businesses products and/or services to individuals;
• Manufacture of products for organisations;
• Providing services to organisations;
• Sale of other businesses products and/or services to organisations (Nieuwenhuizen, et al 2001: 62 - 63).

Nieuwenhuizen, et al (2001: 66 - 69) state that to determine if the entrepreneur’s business idea is feasible the following four questions need to be answered:

• **Do you want to do what the idea suggests?**
  Is the idea the one you really want to pursue?
  Do you want to do business with the types of people who will be your customers?
  Do you possess the energy, personality to pursue your business idea?
  Would you be required to sacrifice the important things to you, to enable you to be successful in your business idea?
  Do your family understand the implications of you starting your own business?
  Are your family willing to help in the business and can you count on their support?
  Is this idea more important to you, than any others you have had?

If the entrepreneur puts a question mark next to any of the mentioned questions, they need to ask themselves if they really want to enter into this business. The end result is that the entrepreneur needs to determine if he has the motivation to achieve success in the business.

• **Is there a market for the idea?**
  Do you know who your consumers will be?
  Will they pay for your product or service?
Do you think that the target market for your idea is big enough?
Will consumers choice your product or service before they choose those of your competitor?
Will it be possible for you to gain more customers in the future?
Is it possible to prevent other competitors from copying your idea?
Name three things that provide your product or service with the competitive.

If questions arise from the above mentioned, the entrepreneur needs to determine if he really has a market for his product or service.

- **Can you meet the needs of your consumers?**
  Can you get the idea to the consumers?
  Are you able to provide the quality and quantity of products or provide the level of service our customers would want?
  Has the selling price of your product or service been determined?
  Has the start-up cost been determined?
  Has the required amount for the first years of running cost been determined?
  Does the entrepreneur have the money required to start the business and if he does not, where will he obtain the money from?

  Not being clear on these questions, the entrepreneur needs to ask himself if he goes ahead with the business idea.

- **Will you be able to sell your idea to the clients?**
  Has the buying preferences of the clients been determined?
  What reading material does your clients prefer?
  Have the current competition and their location been determined?
  Will the competition or associate company promote your idea?
  Have a potential client base been identified and have they show an interest in the product or service?

  If the entrepreneur is not clear on these questions, he needs to re-think his client identification process and how he wants to focus/advertise to his clients.
A rating scale as seen below in table 3.1 needs to be completed, with the number that represents your choice to be circled.

Table 3.1 Rating scale for evaluating a business idea.

<table>
<thead>
<tr>
<th>LEVEL OF CONVICTION</th>
<th>Very high</th>
<th>High</th>
<th>Average</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Do you want to do what the idea suggests?</em></td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td><em>Is there a market for your idea?</em></td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td><em>Can you meet your consumers’ needs?</em></td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td><em>Can you get the idea to the consumers?</em></td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Entrepreneurship and How to Establish Your Own Business (2001:67)

The numbers that you have circled are then added, with the following alternatives available:

- 5 or less: the result means that the identified idea does not meet your requirements. The idea identification process needs to be restarted from the beginning.
- 6 to 12: the entrepreneur is still undecided and needs to go back to his option for business ideas.
- 12 and above: the idea identified is feasible and further actions can be taken to implement the idea, via the viability study.

Macleod (1988: 18 – 20) agrees, stating that once the idea has been defined, the next step is to determine if the idea will be successful. This needs to be undertaken before money is spent, through a feasibility study. He states that a successful business does not depend on “luck”, but rather on the estimation of likely success. He also states certain questions the entrepreneur needs to ask:
• **What are the critical success factors?** The question is focused on what does the entrepreneur needs to do to insure that the business will be successful. The entrepreneur needs to determine what makes one business more successful than the other, issues like barriers to entry, market share and capital required.

• **Where will the entrepreneur be placed in the market compared to his competitors?** The entrepreneur needs to focus on his strengths, weaknesses compared to his competitors and opportunities, threats that will affect him in the market he trades in. topics like the nature of the product or service and the distribution network needs to be addressed.

• **Who are and what does any competitor currently have that makes them the leader in the market?** The focus must be on the one thing that assists the current leader in the market to be ahead, for example first mover advantage or certain features that makes his product or service to be more desirable for consumers than other offerings. It is important that when this one thing is analysed the entrepreneur needs to ensure that it is definable and measurable. The entrepreneur needs to predict what the estimation of the future advantages and disadvantages of the product or service will be with the current opportunities and threats that are present in the market. This is done by identifying the competitors strengths and the entrepreneur will be able to build on these to be successful in the business. Leading to the following question:

• **How can the entrepreneur use his advantage effectively?** The entrepreneur needs to ask himself how he will counter his competitors competitive advantage and how he will develop his own. To compete from a position of strength, having a strong position in the market and running the business effectively, leads to a successful business and the competitive advantage. The entrepreneur needs to ensure that he has identified his segment of the market, his service or supply chain is clearly defined and his product manufacturing or service delivery are clear, he then needs to focus on these areas to ensure that he stays ahead of the competition. The competitive advantage can be achieved
by focusing on the uniqueness or difference of your product or service compared to your competitors, for example packaging, delivery channel and pricing. He can protect his business idea, to insure success through patent protection or trade restraints. The entrepreneur can also place all his focus on one specific sector of the market, be aggressive in this marketing to this group and be willing to take risk to gain the competitive edge.

Nieuwenhuizen, et al (2001: 73) state that the first step in any viability study is to identify whom your customers are and what needs they have as customers. In the end the entrepreneur wants to determine what the customer wants to buy what entrepreneur wants to sell.

Once the customer’s needs are identified, the entrepreneur needs to ensure that the product or service he wants to supply to the market will satisfy the customers identified need. Identifying the need and providing the solution leads to the business idea, the entrepreneur however needs to ensure that he makes a profit whilst satisfying the need and that is the concern according to Nieuwenhuizen, et al (1996: 73 - 75).

In determining the need for a product or service Nieuwenhuizen, et al (1996: 73) lists the following steps in the process:

- **List the features of the product**: all the features of the product need to be highlighted, to show that the customers needs will be satisfied;

- **Highlight the importance of the features for the customer**: this can be done by saying “this means that…” For example: this means that syrup can be used for desert. This means it can also be used in other dishes;

- **Identify the current competitors in the market, the market leader and other experts in your intended market**: for this step information can be obtained from other peoples opinion, magazines and newspapers. By testing the product or service in the market, the entrepreneur can determine if there really exist a market for his
product, as well as what changes needs to be make, if any, to the product to better meet the customers needs;

- **Identify the possible customer base and arrange group meetings:** a process whereby the entrepreneur arranges with a phase group of people that assists him questions around his customer age. Covering from their ages, where they stay to how much will they spend and for what will the product or service be used. The reason for buying the product or service and if any alternatives exist and who the current competitors are needs to be stated clearly;

- **A final list of features of the product or service is drawn up, the customers needs that will be satisfied are clearly stated and the potential customer is profiled.**

The above mentioned information will assist the entrepreneur in determining what kind of business he wants to establish, with the business being defined and the objectives determined.

The Harvard Business Review (1999: 40 – 41) agrees, but emphasizes that a lot of focus needs to be placed on current competitors in the market during this process. They believe the following questions needs to be asked:

- Who are the current competitors?
- What resources do they control and what are their strengths and weaknesses?
- What will the response be to a new entrant into the market?
- What can the new business do to respond to the current competitors reaction, to his entry into the market?
- Are there any other business competitors that would be able to enter into the same market space?

They further state that a good business plan does not whitewash the opportunities and competition, but rather focuses on this point to be clear on the good the bad and the ugly of the business opportunity.
Dollinger (1995: 125) agrees, stating if the entrepreneur enters a market, they have to perform a detailed analysis of the current competitors. The first step in determining whom the competitors are. The entrepreneur needs to ask himself what business he is in? Further what needs the product or service will fulfil and if there are current competitors that are filling this need. To identify competitors Dollinger (1995) states two methods:

- **Direct method** of asking current customers or potential new customers if there is any other supplier or manufacturer that they consider to buy their product or service from?
- **Indirect method** will require the entrepreneur to for example study the yellow pages to determine how many competitors exist.

Dollinger (1995: 126 - 127) goes a step further stating that it is important to fully evaluate the current competitors in view of the quality of their resources. This process will assist the entrepreneur to identify the competitor’s strengths and weaknesses, as well as to assist the entrepreneur to have a model to benchmark his business. Strategies need to be adopted for the current players in the market, where competitors with lower resources can be taken head on, those with stronger resources might be seen as alliance partners that will strengthen both parties or re-focus the business structure not to take a strong competitor head on. The resource grid below is an example that can be used, with a rating of one meaning the competitor has little resources and five being a strong resource base. Theses scores are compared against the score given for the entrepreneur’s own business.

Table 3.2 Measuring of competitors resources.

<table>
<thead>
<tr>
<th>Competitors</th>
<th>Own firm</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Resources</td>
<td></td>
<td></td>
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Physical Resources
- Rare
- Valuable
- Imperfectly imitable
- No substitutable

Human resources
- Rare
- Valuable
- Imperfectly imitable
- No substitutable

Technical resources
- Rare
- Valuable
- Imperfectly imitable
- No substitutable

Reputational resources
- Rare
- Valuable
- Imperfectly imitable
- No substitutable

Organisational resources
- Rare
- Valuable
- Imperfectly imitable
- No substitutable


The information obtained will then assist the entrepreneur to rank his competitors on each resource. The strong resources are then examined to determine how the competitors use their resources to obtain their position in the market. Possible opportunities and entry strategies can be identified from this process.

The Harvard Business Review (1999: 117) authors argue that planning for a new business differs fundamentally from planning for an existing business. To work through the many unknowns associated with a new business, is to set milestones in the planning process that will assist the entrepreneur to learn from experience about the business’s viability and make any adjustments in the strategy and goals, if it might be required.
Milestone planning has three advantages for the entrepreneur:

- Assists the entrepreneur to avoid costly errors;
- Provides logical and practical milestones for learning and evaluating the business;
- Assist with re-planning based on continues new information obtained from the planning process.

They state that the business plan must state event completion, to assist the entrepreneur to test their assumptions to insure maximum learning value. As each milestone is achieved, the entrepreneur can compare these to the notes made to ascertain if the original idea are still viable, the experience gained in this milestone will assist them to move to the next one, in a structured sequence of events. The authors further state that entrepreneurs are different and a milestone that seems crucial for one might not be important to another (The Harvard Business Review 1999: 119 - 121).

David (1994: 57) agrees that setting milestones are a positive action, as the entrepreneur may procrastinate if activities needs to be concluded over a longer period, that might lead to the entrepreneur missing or not addressing issues that are critical to the success of the business. He further states that it is imperative to evaluate the milestones to determine if the entrepreneur has reached the objectives set and if not what can be done to rectify the situation? David states that the milestones set must be realistic and achievable and the entrepreneur needs to insure that the assumptions with the milestones are reasonable.

The authors of the Harvard Business Review (1999: 120 – 133) describe the following milestones as important in the planning process:

- **Milestone 1. Completion of the concept and product testing**

  This stage has low capital expense and is the start of the product development, the aim is to determine if the entrepreneur will proceed further with any other development. The market size and the market description the entrepreneur wants to focus on for his product or service is also defined. Also determines if an adequate potential and need does exist in the identified
market for the product or service. Other information obtained in this stage is product characteristics and pricing range. Questions the entrepreneur needs to ask: has the entrepreneur confirmed that the opportunity does exist, to justify the product or service cost outlay and what has the test taught us, are there any changes the entrepreneur has to make from the original plan?

- **Milestone 2. Completion of prototype**
  When the entrepreneur analyses the prototype, he needs to insure that roadblocks and disappointments are identified and how they will be overcome. It might be possible that other opportunities are identified, by creating solutions to possible problems. To obtain lessons from prototype completion, some of the question the entrepreneur can ask:
  What assumption has been made about development time and how and why would they change? What impact has the changes has on the original plans?
  Does the assumption about the target market still stay the same, if not how have they changed and how will the changes effects the plans, when it comes to objectives, recourses, act?

- **Milestone 3. First financing**
  At this stage the entrepreneur needs to understand and plan for their needs to set up the business or grow and continue with their existing business. They need to understand how outside investors and financiers will see their business, as one that is worthwhile investing in. He also needs to determine if he would be in a position to obtain the required finance. The business’s acceptable financial and expense structure in view of the high competitive financial market also needs to be determined. For example, if the budget does not make sufficient provision for repayment of new equipment, the entrepreneur can either enter into a leasing agreement and request the supplier to provide the equipment for no payment for the first six months until the business shows more growth or purchase second hand equipment. In this way the entrepreneur used the obstacle as another opportunity that suited the business better.
**Milestone 4. Completion of initial plant test**
The plant test or pilot operations should be used by the entrepreneur to test their plans and to obtain information about the following aspects:

- Material suitability and the cost pertaining to it;
- Processing costs and skills;
- Investment prerequisites;
- Training needs for staff and quality control requirements;
- Processing specifications and maintenance;
- Material supply from suppliers.

Obtaining information about these aspects will improve the performance and cost estimation when the business will be fully operational. By testing the product the entrepreneur might identify ways to diversify their product delivery or market set off.

**Milestone 5. Market testing**
At this stage the first truly challenging stage occurs for the entrepreneur. Questions that need to be asked at this stage are:

- Has the target market shown interest in buying the product or service?
- Why are they buying it or why are they not buying it?
- Is the product or service really superior to that of the competition?
- Are the original cost analyses still applicable, if raising cost is taken into consideration?
- What changes will need to be made to assist the business in achieving realistic market share and obtained the required target market?
- Is the customer service proposition still suited for the market?
- Does the information now obtained have any influence on the original plans and time frames decided on?

An entrepreneur can for example test his idea in the market, by outsourcing the manufacturing function, not to incur the capital expenses that might be needed to by the machines. In such a way limit their own cost exposure and if the idea does not work, can end it off without much less losses than if they bought the machines themselves.
• **Milestone 6. Production start up**
At this milestone the assumptions obtained in the pilot operation are implemented and tested. The entrepreneur will be able to determine the true cost of their product or service and assisting them to meet the required standards and quality requirements. The system flow will also be able to be experienced in a practical way.

It is important for the entrepreneur, when the actual start up of the production or service delivery starts that that commitments to clients are not made in anticipation of how the product manufacturing or service delivery will happen. This will place the business under undue pressure to get the product to the clients that might be of an inferior quality and standard due to the additional pressure to produce.

The writers of the Harvard review suggest that the entrepreneur, when it comes to a start up business, develop a separate “critical path milestone” to provide inventory accumulation before product delivery commences.

• **Milestone 7. Bellwether sale**
In the commercial market, this would be the first sale to an expected large client, on the manufacture and supply side it will be the first sale large disturbing agent or client. Being successful with these sales will assist the business greatly to be successful, failing could have the inverse effect.

The entrepreneur would be able to learn the following from this stage:

- How their product or service compares to those of his competitors in a real competitive environment and not in a limited testing space;
- Whether the product is functional;
- To either continue with the planned selling method, or to alter the way they planned on selling;
- The service requirements and standards that are expected by their customers;
• The potential client for the first sale should be someone who has been in contact with the entrepreneur during the development stages and whose needs were considered during the development of the product or service.

• **Milestone 8. First competitive action**
  It would be impossible for the entrepreneur to accurately predict the reaction of competitors to their entrance into the market. It is however important to plan alternative response by competitors in response to the new entrant and to study these moves to learn what a competitors true competitive position might be.

• **Milestone 9. First redesign or redirection**
  The entrepreneur might come to a point in the business cycle when they learn that there is now a difference between what the market wants and what they are offering. It might be required that the entrepreneur might have to redesign the product or service or change the target market.

  The redesigning or redirectioning of the business is a time to re-examine all the assumptions about the product or service fit in the identified market, this include the pricing, size, focus areas, investment requirements and so forth.

• **Milestone 10. First significant price change**
  A new venture or a new product or service delivery are normally based on assumptions regarding the prices, costs, target market and competition. The real costs however will only be accurately documented once the business has entered the competitive market. There might also be changes in technology, competition or additional costs that might lead to the decision to either abandon the product or service, or redirect it.

  In this stage the entrepreneurs needs to ask themselves the following questions:
  • Will the price change be permanent or temporary?
- Will the business still be viable if the price change becomes permanent?
- If the answer is no, what changes can be made to the cost structure to make the business viable?
- Will the whole market absorb the price change or will it only affect a certain percentage of the current market?

The authors of the Harvard review (1999) end by stating that the milestone reviews are pointless, unless the entrepreneurs use them to make decisions, these decisions assist them to determine what they can do to ensure success or reduce the cost of failure. Drawing up of milestones, should be detailed and prescriptive including statements of the significant questions the entrepreneur needs to ask, and to test their assumptions at each stage. The aim of the planner is for the entrepreneur to learn as well as to re-plan from what they have learned.

The milestone process satisfies a dual need, to plan and be flexible in the process and to highlight the hazards of neglecting linking certain events in the planning and development process.

The decisions taken after each milestone do not mean that more money must be injected into the project, it might mean that the project should rather be abandoned. The end result of milestone planning is to assist the entrepreneur in the most cost effect manner to plan from one stage of development to the next. Being able to make informed decisions, not sticking to a fixed plan from the beginning to end that might have been based on incorrect information.
3.5 MISSION AND BUSINESS OBJECTIVES

Once the entrepreneur knows what business he wants to be in, it is important that he defines the mission of the business to ensure that the entrepreneur is focused on the exact intent of his business. Nieuwenhuizen, et al (1996: 75 - 77) state that one way of defining the business, is by product or service that the entrepreneur wants to sell, as well as identifying similar customers. The business definition needs to be all incumbent and ensure that it is not too narrow that can lead to certain opportunities being excluded or too broad that can lead to a lack of focus on the business. To assist the entrepreneur with this process the following questions can be asked:

- **Who** are the customers of the business?
- **Which need** will the business fulfil of the identified customer base?
- **How** will the business satisfy this need?

Bowler, et al (1995:12) agree, saying that once the entrepreneur has a business idea and wants to determine how viable idea is, he needs to complete a detailed plan (business plan). According to them questions that needs to be answered are:

- Who uses the product or service?
- What is the size of the potential market?
- Does the entrepreneur have the skills required to make a success of the business?
- If the entrepreneur wants to copy an existing product or service, his he able to improve on the current offerings in the market?

Yende (2001: 118 - 120) further states that the mission is the long-range vision of what the entrepreneur wants the business to become. The mission is concerned with aspects like the image of the business, their services delivery, product description and customer definition, and the focus according to him is long-term financial success. The writer further states that a clear definition of your mission enables the entrepreneur to design results-oriented objectives and strategies. The objectives of the business are the goals that give shorter-
term direction to the business and serve as benchmarks for measuring performance. Some examples of objectives might be, to increase turnover by ten percent per annum, or within the next six months reward customer loyalty by having a reduced price sale. The objectives are more specific than the mission referred to beforehand, the missions and are also revised more frequently.

People are living in an ever changing world, with creative actions being essential to ensure that the entrepreneur stays ahead of his competitors. They highlight, that customers will support those businesses that offers their customers better value for their money (Bowler and Dawood, 1995: 11).

Yende (2001: 102) states that after selecting the product or service the entrepreneur has identified as having potential in the market, the entrepreneur needs to focus on this product or service niche, since they normally do not have sufficient resources to accommodate the whole market. On the other hand if the entrepreneur finds that the market or need does not exist for his product or service he must not pursue the proposed product or service delivery any further.

The planning and development of a business plan neither quick nor easy. It requires hard work, dedication, discipline, practise and time. But the end result according to Timmons is rewarding, stimulating and fun, as the entrepreneur finds innovative solutions and strategies, to solve current or future problems. Timmons concludes in stating that the entrepreneur needs to insure that the plan serves the purpose for which it was designed (Timmons, 1994: 383 – 384).

3.6 CONCLUSION

From the literature it is clear that planning is a logical starting point for any entrepreneur. The planning process will assist the entrepreneur to be future focused to ensure the continuation of the business life cycle. The planning
document/business plan needs to be a living document that the entrepreneur can use to track the actual performance against the original budgets set.

A creative business idea is required by the entrepreneur to be successful. When searching for ideas, it is important that the entrepreneur places no restrictions on his creativity and generates as many ideas to choose from as what is possible.

When the process of evaluation of the business idea starts, it is important that the entrepreneur would choose an idea that meets his requirements and liking. This would ensure that the idea receives all the entrepreneurs focus and effort to increase the possibility of success. It is further important that the idea be positioned in a market with adequate potential for growth. Of utmost importance is that the idea will generate adequate levels of profits/money.

Chapter four documents the description of the empirical study. The methods used to obtain the research information, the questionnaire and the research validity.
CHAPTER 4
THE EMPIRICAL STUDY, METHODS USED AND ANALYSIS OF DATA

4.1 INTRODUCTION

This chapter will document and discuss the method used to implement the empirical study. The main and sub problems will be reviewed. The way these problems can be solved will be documented. The method of how the questionnaire was compiled and the reason for using this method will also be discussed.

The researcher had to obtain permission from the contributing individuals, to interview them at a venue of convenience to both parties. The questionnaire was discussed in a personal interview with business consultants and financial professionals. The reason for the document and the indicated format of the interview, was clearly discussed with all participants concerned.

On the completion of the interviews, the information was collated and analysed, the results were tabulated for each set of questions posed to the respondents and conclusions were drawn up accordingly to the results.

4.2 RESEARCH DESIGN

Welman and Kruger (1999: 189-190) state that what needs to be determined needs to be identified, before the research design is decided on. This means that the problem needs to be clearly identified, in the case of this study:

What do SMME’s need to do to be sustainable?

In order to assist with the resolution of the main problem, two sub-problems were identified:
• What practical business criteria does literature say are required by SMME’s to be successful in their business?
• What practical business criteria does literature say is required by SMME’s to be successful in their business?
• What recommendations can be made to SMME owners, to assist them to become more competitive and grow their business?

The procedures used to solve the main and sub problems were as follows:
Chapter Two – a literature study was conducted to determine why SMME’s are important to Standard Bank. The chapter also highlighted the involvement of Standard Bank in the SMME segment.
Chapter Three – a literature study was conducted to determine why a business plan is needed in business and the format thereof. The chapter focused on a practical example that can assist the business the business owner to plan in his business.
Chapter Four – a description of the empirical study, the methods used and the research results.
Chapter Five – brings the theoretical information obtained through the literature study, together with the information from the empirical study, similarities and differences will be documented.

4.3 PLANNING THE EMPIRICAL STUDY

The empirical study was expedited via personal interviews. Before the interviews could be concluded, permission had to obtained from participants. This was done by contacting the individuals, explaining the reason for the document and the instructions of how the interview was to be conducted, was clearly stipulated to all the concerned participants. A meeting was scheduled that suited the participant, for the researcher to conduct the interview.

Riley, Wood, Clark, Wilkie and Szivas (2000: 40) makes a clear distinction between qualitative techniques which rely on the researcher’s ability as an
interviewer or observer to gather data, compared to quantitative methods which focus on the researcher’s instruments (for example questionnaires) to obtain and analyse the data of the required topic. They state that the qualitative approach provides a more detailed data supply than those other methods (2000: 129).

Collins and Hussey (2003: 13) add that qualitative research is a more subjective method, which focuses more on examining and reflecting on perceptions to obtain an understanding about the study from the identified sample.

The research problem was well suited to a qualitative design, as the researcher had to obtain insight from the interviewee’s position. Qualitative research allows the interviewee to provide information as they see it, learned from their experience.

The interviewees were informed before hand on what kind of questions would be asked to assist them to prepare and insure that they make a meaningful contribution to the study.

The researcher requested permission from the participants that the interviews could be recorded via tape recorder, to insure that the facts would be accurately documented. A suitable time and place was agreed upon for the interview to be undertaken.

4.3.1 Research Design: Case Study

The case study method used, as the researcher aimed to obtain the interviewees in depth practical opinions on the relevant questions. The researcher aimed not to place any restrictions on the possible data provided.

A case study is often described as an exploratory research. It is used when little theory or a deficient body of knowledge is available. The theory that is held is used to explain and understand what is happening in the focused area.
Methods used to obtain data in case studies includes, interviews and observations (Collins, et al 2003: 68 – 69).

According to Remenyi, Williams, Money and Swartz (1998: 50 – 51), the purpose of a case study is to establish valid and reliable evidence for the research process, as well as presenting findings which resulted from the research. They state that the case study allows the researcher to concentrate on specific instances in an attempt to identify interactive processes, which are crucial to the study. The case study assists to provide a multi dimensional picture of the topic being research. Due to the flexibility of a case study, it can be used in most forms of study.

Collins, et al (2003: 69) states that according to Yin (1994) a case study has the following characteristics:

- The aim of the research is not only to understand the phenomena under study, but also to understand it in a certain context;
- The research does not start off with a set of questions and notions, that will limit the study;
- Data methods used to collect data could be both qualitative and tentative.

Collins, et al (2003) state that these characteristics are open for debate.

### 4.3.1.1 Case Study: main stages

Generelation was used, with the proposal that the theory can be applied in one set circumstances to the other (Collins, et al 2003: 69).

Data was collected via archive research and interviews. The resulting data was provided in words, i.e. qualitative.

According to Collins, et al (2003: 70) when analysing data the choice is between with-in case analysis or cross-case analysis. Cross-case analysis will
require the researcher to be totally familiar with the theory and topic, that will enable the researcher to build up separate descriptions opinions and events. For the purpose of this study, case analysis will be utilised, that according to Collins (2003:70) will assist the researcher to identify similarities and difference, with the end result that the common patterns can be identified.

Riley, et al (2000: 40 – 41) states that any research method will be dependent on what extent the researcher is able to implement the method and how easy it will be to obtain access to the respondents. They state that once the respondents have been identified, the researcher needs to ensure that he approaches and obtains permission from the respondent to ensure that he buys into the process and his total commitment to the process is achieved.

A process to be followed during the process is to identify the person to be interviewed, to make contact with the person, clearly specifying your needs what the reason for the research is and what the interviewee can obtain from this process. Ask permission to conclude the interview. According to Riley, et al (2000: 41) the researcher needs to adopt a suitable courteous manner in dealing with the interviewees needs to adopt the role of a willing apprentice and be eager to listen.

4.3.1.2 Population

Riley, et al (2000:76) states that it is important to state how the population was defined. In a qualitative study, it is important to determine the limits of inclusions and exclusions as the study is focused. As the research was exploratory in nature to determine what an entrepreneur needs to do, to ensure that he remains sustainable in his business. For this reason fewer referrals were used to obtain a common middle ground.
4.3.1.3 Sampling

Non-probability sampling is defined by Riley, et al (2000: 76 –77) as where the change of selection for each element of the population is unknown and in some instants they are nil. They further state (Riley, et al 2000: 85) that this type of sampling items are not selected randomly but rather on a purposeful basis. They include that the most general form of non-probability sampling is Quota sampling, but other formats include Convenience and Snowball sampling.

For the purpose of this study, snowball sampling was used.

Riley, et al (2000: 87 – 88) states that snowball sampling is one of the most useful and interesting methods to be used when the researcher focuses on small groups and/or the group will need to require rare or unusual characteristics. The research objectives are essentially qualitative of nature. Snowball sampling starts with the identification of a person with the required characteristics, this person is then asked for other people they know with the equivalent characteristics. These individuals, if appropriate, are then contacted and so the process continues, until the required sample is achieved.

Snowball sampling is associated with research where it will be essential to include people with experience in the field being studied (Collins, et al 2003: 158).

Riley, et al (2000:155) further state that the interviewees are normally hand picked. This is done to ensure that they represent a cross section of views and would be able to identify with the views of the study and ultimately making a meaningful contribution.
4.3.1.4 Sample Size

According to Riley, et al (2000: 88 – 89) both students and experienced researchers find the determinations of the sample size a complex one. They state that the sample size is a situation of balancing cost and time against the desired accuracy and purpose of the study, the nature of the population the researcher is exploring also plays a part in the decision. In determining the sample size it is important to know or have some indication of the variance among the target population in respect to its key characteristics or opinions that will be explored. The wider the variances the greater the sample required, the smaller the variance the smaller the sample.

Another important consideration is the accuracy that will be required for the research, if a highly accurate result is required a smaller sample is required. The opposite is also true. They conclude by stating that the researcher must be careful, due to the time implication with interviews. Not to choose a too large sample as might be inappropriate and difficult to administer. If uncertain about the sample size, it is better to “err on the side of conservatism”, as an adequate sample size will minimize the change of a disaster when the sample might be too big.

Riley, et al (2000: 155) further state that transcribing the information obtained from, for example an one-hour interview can involve several hours of data to be analysed. For this reason a smaller number of respondents may be selected. Collins, et al (2003: 56) agrees stating that with qualitative methods the researcher attempts to obtain in-depth understanding and due to this reason, it is possible to conduct this research with a sample of one.

For this reason a smaller sample size was used, as the opinions from experts in the field of finance and business advisory was used.
4.3.2 Collecting evidence

The researcher conducted interviews and documentation as the sources of evidence for the study. The data was collected with the researchers focus on all data collected. The decision was taken that all data was to be collected, with no wrong or right would be decided on. This strategy was followed to ensure that the researcher obtained a holistic view of all the diverse data collected. This approach allowed the researcher to obtain the viewpoints from all interviewees on what they consider the entrepreneur needs to do, to be successful. The data was collected in a case study database, by conducting interviews.

4.3.2.1 Interviewing

Interviews were used to enable the researcher to obtain data from the interviewees practical experience gained in the business world.

According to Riley, et al (2000: 129) an interview using a questionnaire is the most popular manner of collecting data. This process can be utilised for both a qualitative and quantitative research approach. Collins, et al (2003:167) adds stating that by using this instrument the interviewer can obtain the interviewees personal thought and feelings about the research topic.

4.3.2.1.1 Subjectivity

Riley, et al (2000: 130) state that the interviewer will only be successful in his attempt if he, has a degree of control over the process. This will only be possible if the interviewer has a thought out set of objectives for the interview, as well as a good idea of the range of answers possible and having a good understanding of the topic discussed.

It is important for the interviewer to obtain a subjective opinion when he undertakes the interview and the coinciding data collection. Three questions can be asked to determine the subjectivity:
• What comparisons are been made directly or by inference?
In the statements the interviewee made, have certain judgements been made, that have influenced his response.

• From what point of view is the interviewee speaking?
What role or experience has the interviewee obtained? Does he possess the knowledge and is he speaking from a level of having the required expertise to make a meaningful contribution?

• What background or context has been implied?
From what position or personal influence is the interviewee answering questions? Is he for example bias towards the topic (Riley, et al 2000: 130 – 132)?

4.3.2.2 Planning the interview

The researcher utilised a guided discussion to obtain the data via the interview. Riley, et al (2000:132) states that a guided discussion is similar to a structured interview, but simpler in concept and execution. The structured interview is structured in such a way that the interviewer takes the interviewee through a plan of sequenced questions.

4.3.2.3 Guidelines and administration of the interview

According to Riley, et al (2000: 133) the end result of any interview is to obtain information that the interviewer will be able to use. They state that the interviewer needs to be aware and alert to a wide range of possibilities and contingencies during the interviewing process.

Riley, et al (2000: 133 –135) provides certain guidelines that will assist the interviewer are the interview process:

• They state that it is important to inform the interviewee of approximately how long the interview will last, what the broad objectives is and be flexible to the time and place the interview can be undertaken;
• It is important to arrange for a location where the process will be free from interruptions;
• The interview needs to be as relaxed as possible, with the flow of the conversation sticking to the objectives set and the time frames allocated;
• The interviewer needs to be alert to determine if the interviewee is losing interest or becoming impatient, if this occurs the interviewer needs to ensure that he brings the interview back to the focus points;
• Obtain permission to tape the interview, although notes should still be taken of the key points of the conversation;
• The interviewer should not be bias in his methods, with the end result that he leads the interviewee and puts words in his mouth. This can be overcome, using open questions and probing the person who is being interviewed;
• Be clear when asking the questions, it is a good idea to repeat the questions to make certain that the interviewee understands the questions;
• When obtaining an answer the interviewer can repeat and confirm the interviewee’s response to assure that the interviewer is correct on his understanding of the interviewee’s response.

Collins, et al (2003: 168 – 169) adds that it is important that all the interviews are conducted in the same way. This does not merely mean that the same questions needs to be asked, but that they will be posed in the same manner each time they are asked. The interviewee also needs to ensure that each interviewer understands the question in the same way.

The interviewee was contacted and informed on the broad objectives of the study. A suitable time and venue was agreed upon, with the interviewee being informed on the indicated length of the interview.
4.3.2.4 Questionnaire

A questionnaire using the literature study was developed to assist with the empirical study and the solving of the main and sub problems. The process followed during the empirical study was as follows:

According to Leedy (1997: 192) the questionnaire is a common instrument used to observe data in any study. The questionnaire was developed to assist the researcher to collect data that would help to solve the problem and sub-problems, the information obtained in the literature study was used to develop the questionnaire.

Types of questions asked: According to Welman and Kruger (1999: 171-174), some respondents might be irritated, as multiple-choice questions, restrict them to a certain response, which might not provide for their unique situation. To this end, some respondents prefer open-ended questions, which provide them with the freedom to express themselves. The advantage of open-ended questions, is that the respondent can better express himself, that leads to greater levels of interpretation and appropriate answers.

Multiple-choice however does not rely on the respondent to express themselves verbally, to some peoples liking, but they tend to be superficial. A combination of both styles can be used, with multiple-choice might be used to determine certain biographical details and open-ended questions used to formulate opinions that cannot be reduced to multiple alternatives. The multiple-choice assist the respondent to more conveniently choose alternatives which best applies to them.

As Welman and Kruger (1999: 173-174) mention to speed up the process of answering the questionnaire, to ease ability of respondents to express themselves and ensure that all levels of education of respondents, could answer the questions, multiple-choice questions and open-ended questions were chosen. Open-ended questions would allow the interviewee to provide richer and deeper responses with no restrictions imposed as to the possible
answers provided (Riley, et al 2000: 93 – 94). Collins, et al (2003: 168) agrees stating that open-ended questions will allow the researcher to ask more providing questions until more in-depth answers are recorded.

The questions were drawn up in such a way to assist the researcher to determine what factors the business owners deem to be needed to be successful.

4.3.2.4.1 Length of the Questionnaire

The researcher tried to keep the questionnaire as short as possible, ensuring however that no pertinent information was left out. The aim with the structure and wording of the questionnaire was to assist the respondent to answer the questions easily, knowing exactly what each question asked of them.

The final questionnaire was checked by a senior lecture who is a member of staff as the Nelson Mandela Metropolitan University's, MBA unit, as well as the senior statistician at the Nelson Mandela Metropolitan University. On the completion of the needed changes, the questionnaires were discussed during interviews arranged with the selected individuals.

4.3.3 Data Analysis of the obtained data

The questionnaire was designed to measure the participants perception on the value of a business plan and ultimately to determine if they feel that a business plan is needed in their business to help them to be successful. Due to the wide field that a business plan covers, it was decided to concentrate (in the questionnaire) on those aspects that people normally do not see, as a part of a business plan. The questionnaire was summarized in the last question by determining whether the participants felt that a business plan was needed for them to be successful.
Riley, et al (2000: 100) states that qualitative research can add new dimensions to the question under study. Depending on the object of the study, qualitative methods might be the most appropriate or even the only technique that can be used to analyse the required data. They state that this method of study assist the researcher to understand what both individuals and groups say about the research.

With qualitative data the collection method used can also assist the researcher and be a base on which the analysis is based. For this reason the clear distinguishing of the methods used to collecting and analysing data, are often confusing. This being said, there are now no clear and accepted rules for analysing qualitative data (Collins, et al 2003: 252 – 253).

For the purpose of this study the quasi-judicial method to analyse the data was used.

**4.3.3.1 Quasi – judicial method**

The quasi-judicial method involves a rational argument that will interpret the empirical evidence. The method is concerned with the nature, source and quality of the evidence, as well as the argument it supports. Bromley provides six rules that a researcher must use when this method of analysing data is used:

- The researcher must portray the data truthfully;
- The aims and objectives of the researchers need to be clearly stated;
- An assessment of the aims and objectives of the research;
- The researcher needs to trained and know the topic been research red;
- The interviewee is placed in his ecological context;
- The findings are written in good plain, understandable English (Collins, et al 2003: 276).

Collins, et al (2003: 276 – 277) state that Brown and Canter provide rules and guidelines that can be used when the quasi – judicial method is used to analyse data. The researcher is required to construct a multi-perspective
account of the topic he or she is investigating, as determined from the data provided from the interviews. It is important for the researcher to examine and re-examine the collected data, with the researcher needing to find explanations that will fit the required data. They state that for a detailed study the indicated procedures might be difficult to follow, but it would assist the researcher to reflect on the data collected during the process. Asking the four questions set by Bromley, documented below, will assist the researcher to stick to the point of the research and evaluate data that might not fit the research:

- What is the issue?
- What other relative evidence might there be?
- How else might the researcher make sense of the data?
- How were the data obtained?

Rules and procedures that provide a framework for the analysing of qualitative data:

- The initial problems and sub problems need to be stated as clearly as possible;
- Background information needs to be collected in context in terms of a clear understanding of the problems and sub problems;
- Problems and sub problems needs to be explained;
- The above explanations must guide the researcher to obtain additional evidence;
- The researcher needs to continue to search for sufficient evidence, to ensure that the suggested explanations can be eliminated, in the hope that one explanation will account for all the available evidence. The evidence obtained can be direct or indirect, but must be admissible, relevant and obtained from competent and credible sources;
- The sources of evidence and the evidence/data provided needs to be closely examined. All relevant data and people should be checked for consistency and accuracy;
- The researcher needs to ensure that the information gathered are relevant and in totality assists the researcher to solve the research
problem. The information obtained needs to be coherent, logical and valid;

- The most likely interpretation that is compatible with the evidence needs to be chosen;
- To formulate an acceptable explanation would require an action that has been worked out;
- The results need to be documented in the form of a report, the process should attempt to contribute to “case law”, by adhering to the general principles used in explaining the specific problem/topic.

4.3.4 Validity and Reliability

Leedy (1993:32) emphasizes the fact that the integrity of the research is based on its validity and reliability of the work and as such the study should meet the required standards set out.

4.3.4.1 Validity

Validity is described, as the extent the researcher documents the obtained data and portrays this info compared to what really happened in the situation. Events like inaccurate or misleading measurement or poor samples can negatively affect the validity of the study (Collins, et al 2003: 58 – 59).

Leedy (1993: 40-43) agrees stating that validity is concerned with the soundness and the effectiveness of the measuring instrument. He informs that validity would raise the following questions: What does the test measure? Does it measure what is supposed to measure and how accurately does it measure it? This being the main question that validity asks. It is the author’s opinion that the study revealed an accurate outcome, as per the requirements for a valid research document.
4.3.4.2 Reliability

According to Leedy (1993: 42) reliability deals with the accuracy aspect of the study. Questions like, "How accurate is the instrument that is used in making the measurements?" Leedy further states that the data collection process would be fruitless, as one must find some way of correlating data by submitting it to the process of measurement, to ensure that similar results would constantly be achieved. According to Emory (1976: 124-125) it is possible to improve reliability if one can assure that external sources of variation can be minimized.

Collins, et al (2003: 58) states that the one question the researcher has to ask is; “will the evidence and the conclusion stand up to any scrutiny?” They state that if researchers findings can be repeated, it can be seen as been reliable.

It is the opinion of the researcher that reliability has been achieved, as the questionnaire was understandable and the reason for the document clearly explained to the participants.

4.4 SUMMARY

The chapter outlined the research methodology used by the researcher to obtain the relevant data. The method of study, qualitative, was defined and the reason for this method explained.

Furthermore an outlay of the data collection method, interviewing, was explained and practical guidelines provided on how the interview was undertaken. The methodology of drawing up a questionnaire as the vehicle used to guide the interviewer to obtain the relevant required data was explained.
Lastly the method used to analyse the data, quasi – judicial, was defined and practical guidelines provided of how the method can be implemented.

Chapter five will document the interviewing process. The interviewees will be discussed and documented, as well as the key findings from the interviews conducted.
CHAPTER 5
DATA ANALYSIS AND FINDINGS

5.1 INTRODUCTION

To answer the research question on what the entrepreneur needs to do to be successful, this chapter presents the findings obtained. The researcher presents the findings from the interviews conducted, the researcher quotes the interviewee to attempt to document their views as accurate as possible. The findings are documented in a comparative discussion.

5.2 ANALYSING OF THE CONDUCTED INTERVIEWS

According to Riley, et al (2000: 110 - 111) it is important to have a systematically approach of recording the obtained data. They state that it is advisable to document the data obtained soonest to ensure that the facts gathered are retained accurately. They do state that there is no one standard way to analyse data when it comes to qualitative research. Creativity and imagination will determine which patterns are used when the findings of the research are related to the concepts and theories used in the empirical study.

The handling of retained data requires self-discipline, perseverance and an organised mind. Qualitative data needs to fit and have significance for the theory or model. The researcher needs to be proactive in finding a match for the concluded study in a more general framework, only then will the study be complete (Riley, et al 2000: 111).

5.2.1 Description of interviewees

Below follows a description and background on the interviewees that assisted the researcher to solve the problem stated in this study.
Interviewee no. 1
Ian Collet – Moores Rowland
Ian has vast knowledge in the financial world being exposed to accounting, with various firms for 20 years. He joined the PE Medical Group in 1991, with responsibility for the overall management, planning and feasibility responsibilities for the opening of new hospitals.
Afrox bought PE Medical Group in 1998, with Ian being retrenched. He started his own business in 1998, GRQ, focus on general accounting and administration.
In 2001 he rejoined Moores Rowland, with responsibilities being financial modelling and feasibility studies.

Interviewee no. 2
Hadley Peterson – Business Finance Promotion Agencies (BFPA)
Hadley joined BFPA six years ago, for filling the role of chief business advisor. Hadley on a daily basis is involved with entrepreneurs, with assistance in the field of credit control, general administration and business feasibility.
BFPA is an organisation affiliated to Khula Guarantee Scheme with assistance to business. The service offering includes the process of assessing business proposals and the provision of smaller loan facilities.
Before joining BFPA, Hadley was employed as an accountant at a wholesaler.

Interviewee no. 3
Fanie Strydom – Strydom & Partners
Fanie has involved in the accounting business, all of his working life. Fanie completed his articles with Wessel Greeff and Strydom, he become a partner in the business in 1999. The firm subsequently went on their own in 2004 and being remained to Strydom and Partners.
They assist clients with accounting services, but also assist existing clients to explore the feasibility of business ventures.
Interviewee no. 4
Petrus van der Watt – Van der Watt Accountants
Petrus started of his employment with Wessell Greeff and Strydom where he concluded his articles.
Petrus joined an accounting partnership for a few years and in 1999 opened his own business.
They assist clients with accounting services, with Petrus being a mentor with Business Partners. He is exposed to a wide range of new and existing customers, with one of their focuses being existing clients to explore the feasibility of new and expanding business ventures.

Interviewee no. 5
Danie Botha – Trevor Wait and Partners Port Elizabeth.
Danie completed his articles with Steven Swart, Wait and Company Accountants in 1981.
He when joined Sanlam and was appointed as head of Internal Audit in their head office in Johannesburg.
He rejoined Trevor Wait Accountants in 1984 as a partner that managed the Port Elizabeth office.
In 2000 Danie bought the Port Elizabeth branch of Trevor Wait and Partners, where he to date still owns the business.
They assist clients with accounting services, but also assist existing clients to explore the feasibility of business ventures.

Interviewee no. 6
Johan van der Ryst - Trevor Wait and Partners Uitenhage.
Johan completed his articles with Wolmarans Kruger 1979.
He joined Steven Swart, Wait and Partners in 1980 and 1983 became a partner in Trevor Wait and Partners in the Uitenhage/Humansdorp offices.
In 2000 Johan bought the Uitenhage branch of Trevor Wait and Partners, where he to date still owns the business.
They assist clients with accounting services, but also assist existing clients to explore the feasibility of business ventures.
Interviewee no. 7
Zwai Mahlulo - Comsec
Zwai joined Comsec in 1994, currently being employed as their property manager. Zwai is involved with Comsec’s property division, he is however still involved with entrepreneurs, with assistance in the field of planning. This includes financial, marketing and general business planning.
Comsec is an organisation that assists entrepreneurs with business development services; accounting services, financial and business planning, facilitating, act. They further assist the entrepreneur with consulting services, with facilitation of Umsobomvu Youth Fund and SETA contracts.
Zwai was involved in various business activities before he joined Comsec.

Interviewee no. 8
Amrei Botha – Standard Bank of South Africa
Amrei completed a B Comm Management Accounting Degree at the University of Stellenbosch as well as a course in SMME Management at UNISA and a course in Entrepreneurship at WITS. Amrei joined Standard Bank’s Business Banking division six years ago. Since joining the bank, she has undertaken various roles within the Business Banking division. These various positions have also seen her play a key role in positioning Standard Bank as an organisation that understands the challenges facing entrepreneurs. She was appointed in 2006 as the Head of Small and Medium Enterprises for Standard Bank South Africa. Over recent years Amrei has been approached to speak on various matters relating to entrepreneurship and small businesses in South Africa by the media, SMEs and interest forums. She was also invited as a speaker to at the third annual European SME Financing Conference in London, United Kingdom.

Interviewee no. 9
Louis van Ryvenstein – Standard Bank of South Africa
Louis joined Standard Bank in 1994, in the SMME departments. He has moved through the ranks, his current role being: Head SME and Channel Distribution.
Within his various responsibilities within the SMME market, Louis has been involved in various projects to ensure a closer working relationship between the bank and SMME’s. Certain of these projects exposed Louis to closer practical working relationships with SMME’s.

5.3 KEY FINDINGS FROM INTERVIEWS

In the following section the key findings as provided by the interviewees on the questions provided by the researcher are documented.

The questions asked by the researcher and the interviewees response to these questions are documented below:

Table 5.3.1 Do you believe that it is important for any entrepreneur to plan? Why?

<table>
<thead>
<tr>
<th>Interviewee no.</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interviewee no. 1</td>
<td>Yes. It keeps the entrepreneur focused.</td>
</tr>
<tr>
<td>Interviewee no. 2</td>
<td>Yes. Need to plan for the future. To determine what the potential for the business is in the future. Financial planning (cash flow statements) is of utmost importance in the planning stage. It is important for the entrepreneur to step outside himself and plan.</td>
</tr>
<tr>
<td>Interviewee no. 3</td>
<td>Yes. The plan will assist the entrepreneur to have greater chance for success, as the business plan will identify potential obstacles along the way.</td>
</tr>
<tr>
<td>Interviewee no. 4</td>
<td>Yes. One needs to know where you have come from and where you are going. Planning will assist the entrepreneur to determine what is required to operate his business is.</td>
</tr>
<tr>
<td>Interviewee no. 5</td>
<td>Yes. It is imperative for the entrepreneur to know where he or she is going. They need to be clear on what market they are in and what the potential of the specific market</td>
</tr>
</tbody>
</table>
is. They need to plan to see what new products or services can be introduced to the market, the only way this can be established is through thorough research and planning. Financial planning is imperative to the success of the business, aspects like staffing, income potential, cost controls, act needs to be planned.

| Interviewee no. 6 | Yes. Planning is the most important activity the entrepreneur needs to undertake. Nobody should attempt anything in business without going through a planning exercise. People state that planning is a waste of money. Do believe that if planning was conducted thoroughly, when entrepreneur starts his business all aspects of the business will fall in place as the planning process has been followed and completed. |
| Interviewee no. 7 | Yes. Planning to ensure that the entrepreneur knows where he wants to take the business. What he needs to achieve to get there. |
| Interviewee no. 8 | Yes. The blueprint of your business. A business plan serves as a tangible representation to prospective stakeholders of who you are, what you are and what you want to achieve. It gives an explanation of your complete business strategy. An entrepreneur’s planning document has to be the result of a lot of research, planning, thinking and seeking of advice from experts. But at the same time it needs to be a working document to be consulted frequently to ensure you are still on track. |
| Interviewee no. 9 | Yes. By doing the planning themselves the entrepreneur can determine the strengths, weaknesses, opportunities and threats associated to their business. Can also plan for what can and cannot happen in the business. The process will assist the entrepreneur to determine what to expect. |
All the respondents were in agreement that it is important for the entrepreneur to plan.

The respondents were of the opinion that the planning process will assist the entrepreneur to be focused in his business. Strongly believed that the entrepreneur needs to plan for the future to ensure that he stays competitive and in business. With the future in mind, when planning, the entrepreneur would be able to step outside of the business, see where he wants to take the business and plan accordingly.

In conclusion interviewee no. 6 stated that no entrepreneur should attempt entering or expanding a business, without completing a thorough planning exercise. The planning process goes hand in hand of the business operation, the one cannot be successful without the other.

5.3.2 Why do you believe entrepreneurs do not plan?

<table>
<thead>
<tr>
<th>Interviewee no. 1</th>
<th>Do not believe that entrepreneurs do not plan, but believe that they do not do place focus on it. Believes that entrepreneurs do planning on a daily basis, informally.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interviewee no 2</td>
<td>Entrepreneurs are too busy just trying to survive, all their focus and time goes to just getting the job done. Do however believe that they do plan, in a non-formal manner.</td>
</tr>
<tr>
<td>Interviewee no 3</td>
<td>Everybody definitely does not plan, it might be due to the fact that some entrepreneurs believe that they already know enough about their specific business. Those that do plan tend to do a rushed job, with not even close to enough research been undertaken in the process.</td>
</tr>
<tr>
<td>Interviewee no 4</td>
<td>Do believe that they do plan, but does this in an informal manner, with the effect that they do not focus on it.</td>
</tr>
</tbody>
</table>
Interviewee no 5  Not that they do not plan. But believe that they plan, by doing what is needed on a daily basis. Think that they plan, but do not put their plans to paper. Their intellectual capacity allows them to take the business were they want it to be. Also think that due to the requirements and hectic pace of the business world, the entrepreneur does not always have time to plan.

Interviewee no 6  Some entrepreneurs are over enthusiastic to start or expand their business. With the effect that the hast of opening the business, does not leave sufficient time to plan.

Interviewee no 7  The entrepreneur is too busy to plan, the main focus and time is spend on running the business. Their efforts is focused on survival by being involved in the business.

Interviewee no 8  Many entrepreneurs and small business owners claim that they don’t have time to plan or that their business is too small to justify the effort and cost involved in creating a plan. However this leads to business failure as owners neglect to put the correct foundations in place on which to build their business. Often by not planning there is also no “plan B” to fall back on when things don’t go as well as one hoped.

Interviewee no 9  Entrepreneurs believe that they do not have the time to plan. The reality however is that if you plan, more time will actually be available. Many also believe that it is not that important to plan.

It is important to note that the respondents were of the opinion that they believe that entrepreneurs do plan, however in an informal manner. The respondents stated that this informal process of planning is not adequate. Due to the hectic passé of the business world and for the reason that the entrepreneur is involved is most of the business requirements, the respondents was of the opinion that the entrepreneur did not have enough
time to plan. Interviewee no. 2 responded in stating “they are just trying to survive”.

They further stated that the entrepreneur at times believe that he knows his business and the environment he conducts business in and for this do not have to plan. This is a dangerous assumption.

5.3.3 Does the position of a business plan ensure that the entrepreneur will be successful?

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
<th>MAYBE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interviewee no 1</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Interviewee no 2</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Interviewee no 3</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Interviewee no 4</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Interviewee no 5</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Interviewee no 6</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Interviewee no 7</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Interviewee no 8</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Interviewee no 9</td>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

All respondents were in agreement that a business plan alone, will not ensure success to the entrepreneur.

5.3.4 If NO or MAYBE what do you believe is the main reason for business failure although a business plan is held? Why?

| Interviewee no 1 | Done in an informal manner, not enough attention to detail spend when a business plan is drawn up. The entrepreneur needs to focus on the strength and weaknesses when the planning of a business plan is undertaken, do not believe that this is the case with many business plans. |
| Interviewee no 2 | The forecasting process is normally not tested, with the |
entrepreneur being over optimistic about the potential they can achieve. Many times also no contingency build into the plan, with the effect that if changes do occur, the entrepreneur is unable to adopt/change his business to meet the new requirements and market trends.

Interviewee no 3  It often happens that the incorrect idea has been taken and converted into a business. Entrepreneurs want to make a business idea work on paper, although there might be little chance for success in practise.

Interviewee no 4  The business plan is the starting point of the business. The reality is that the theory and practice is different, entrepreneurs are at times over optimistic and believes that everything they write in a business plan will realize. Often the business plan portrays a rosy picture with goals that in practise is unattainable. The business plan needs to grow with the business and changes/additions made as the business environment changes. This does not happen regularly.

Interviewee no 5  The business plan does assist the entrepreneur to reduce the risk in his business, due to formal planning. The business plan is however based on assumptions and not tested actual events. It is possible that the business plan could have been based on none accurate and achievable predictions. It is also possible that the business plan did not take any variable situations in consideration that might affect the business activities, variables like PESTI influences.

Interviewee no 6  What works on paper does not always work in practice. There are certain elements that need to be tested before they can be documented in a business plan to ensure the entrepreneurs success. Elements like testing the market potential and determining what the real possibility of making money in the chosen business is. What
requirements/characteristics the entrepreneur requires to be successful, to name a few needs to be explored in more detail.

**Interviewee no 7**
The business plan is only that, a plan on paper. Many entrepreneurs do not have the knowhow to execute the plan they have put on paper.

**Interviewee no 8**
There are numerous reasons although poor financial management leading to cash flow problems would be number one:

- Too many one-man bands: Very few successful businesses are started by just one person. Businesses with multiple owners have access to more resources and tend to have greater ideas and are better motivated.
- Too little learning: Very few business owners take time away from the business to develop their own skills often when the skill is required it’s too late to start learning.
- No buy and sell agreements: Most businesses are very informal and at inception few lay down the rules for when things turn sour. Often the business falls apart when the relationship between the owners deteriorates and no mechanism exists to handle these differences.
- No reflection: Very few business owners and entrepreneurs take time out to reflect on the performance of the business. Performance need to be evaluated objectively and regularly.
- No plan B: By nature entrepreneurs are extremely positive beings. Too seldom a plan is put in place for when things turn for the worst and when it happens, it’s most often crisis management and damage control.
- Severe unplanned situations can lead to business failure.
- Too much money: Businesses who have too much cash available tend to become complacent, lose sight of their
customers (and competitors) and incur exorbitant costs.

Too much equity, too much debt: Finding the balance between equity and debt funding is difficult for most business owners. Equity gives away control but debt comes with many obligations and if things go wrong it not only affects the business but also the owner.

Poor management structures: Management is critical and so is accountability. Many small businesses adopt flat management structures where it is unclear who is the ultimate decision maker and person accountable at an operational level.

It's lonely at the top: Entrepreneurs and business owners struggle with loneliness and find it difficult to bounce ideas off others, improve their pitches and find business mentors/advisors.

One big client: Too many businesses start-up and grow due to one big client or one big contract. Often when the client finds a better supplier or the contract is awarded to someone else the business falls apart, unable to sustain its salary bill and overheads.

Too little and too few sales: Without a strong stream of current sales and a pipeline of future sales opportunities a business is doomed. In too many instances the business owner is a technical or management expert but very uncomfortable with marketing.

Not reinventing: SMMEs operate in a changing environment and continuously need to innovate and improve its offerings, image in the market and business processes. Failing to reinvent the business could lead to the business becoming uncompetitive and failing.

Team spirit: The business team can make or break the business over time. It is critical that all involved in the business understands its strategy and is committed to
achieving the goals of the business. Business owners have to carefully appoint the right people in their businesses. Bookkeepers, support staff and receptionists are critical resources.

Seduced by success: Unfortunately some business owners become engrossed in their business success and become arrogant, loose focus and extract too much cash and other assets from the business which can cause the business to fail.

| Interviewee no 9 | The execution of the plan is many times lagging. Management capability, mainly the lack of understanding financial management with the business is lacking. The entrepreneur does not focus enough effort on the cash flow management in the business. Cash flow is the most important aspect of the business. Many times and aspects like, economic or market changes, the entrepreneur did not plan for will be to their detriment. |

The common thread to why businesses fail although a business plan is held, can be summarise as: the idea seems attractive in theory, but does not always have the required result in practise. The respondents stated that the entrepreneur at times is over optimistic with their assumptions/projections documented in the business plan. This often “rosy picture” portrays unattainable goals, with the forecasts provided none tested in practise.

Other reasons posed: the planning process is done informally, with not enough research done to support the facts stated. Most business plans is a once off activity. The entrepreneur does no use the document to assist in an ever-changing business world. The reason being the document is not change with the business, inadaptable. Interviewee’s 8 and 9 believes that poor cash flow management is one of the main reasons for business failure.
5.3.5 Do you believe that having a business idea or opportunity that will be successful, the entrepreneur needs to ensure that it meets the market requirements?

| Interviewee no 1 | It is easier for an idea to meet the current market requirements/gap. It would however be possible to take a new idea and place it in a market, which does not know that they need the product or service. The reality however is that this process will require a lot of time and money. |
| Interviewee no 2 | If the opportunity cost is low and potential for success, for a new idea that does not fit the market requirements, is good it might well be worth the entrepreneurs effort to place the product or service in the market. Do however believe that the entrepreneur needs to ensure that when an idea is developed or the business is diversified, that the entrepreneur needs to stick to what he knows. |
| Interviewee no 3 | Believe that it is imperative that the idea meets the potential in the market. It would be too costly to “buy” the market. |
| Interviewee no 4 | It is important for a business idea to fit the market requirements. A new idea, with no market, can be introduced but this will require a great amount of money to get into the market. Seems to be better for the development of an idea, to either improve of an existing idea or add on to an existing idea. |
| Interviewee no 5 | Yes it is important, for the simple reason that it would be too costly to “buy” a new market. It is however possible for great success if a new product is placed in the market that would satisfy a previously untapped opportunity. The entrepreneur would however have to ensure that the new product or service needs to be of the highest quality and standard. |
Careful planning will be required as he would enter into a market with existing competition. To be successful, it might be required that services level needs to exceed the current offering or the entrepreneur would need to enter into a price war, that might be dangerous.

<table>
<thead>
<tr>
<th>Interviewee no 6</th>
<th>Yes. It makes a lot more sense to start a business where adequate set off already exists. It is difficult to obtain the required number of feet to ensure that a new product will be sold as planned.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interviewee no 7</td>
<td>Meeting the need in the market, will ensure greater success for the entrepreneur. A lot of work, money and different strategies will be required with the need is not met.</td>
</tr>
<tr>
<td>Interviewee no 8</td>
<td>Of course. Without a market to purchase the entrepreneur’s goods/services there will be no sales, and no income and hence not a real business. Too often people only consult friends and family when starting a business and although well-intended relatives and friends don’t always give truthful but harsh answers. Many businesses are built on “my mates think it’s a great idea”, often forgetting about what potential clients think.</td>
</tr>
<tr>
<td>Interviewee no 9</td>
<td>Yes. It is important for the entrepreneur to ensure that they encapsulate the needs of their customers. Their solution or products must satisfy a need.</td>
</tr>
</tbody>
</table>

All respondents agree that it would be more beneficial from a time and cost aspects for the entrepreneur to develop a product or service that would meet the existing market requirements.

They however do state that it would be possible to bring a new product or service into the market, where a possible market does not exist. The comments is however that although this is possible, the entrepreneur would have to be patient in such a strategy, as this process for one, will take a lot of time to settle in the market, and two be costly to position.
Interviewee’s no. 2, 4 and 5 especially agrees that a new product or service in the market might be very advantages to the entrepreneur. They state that ways this can be achieved; either improving on or adding to an existing idea. When this strategy is followed, the entrepreneur needs to be careful in his approach, as he will enter into a market with existing competition. For this reason, needs to ensure that the product or service is of the highest standard and quality, this will assist the potential client to choose his product or service. Or to identify an untapped market, to place the product or service.

**5.3.6 Do you believe that a detailed feasibility study will assist the entrepreneur to have a greater chance of succeeding? Why?**

<table>
<thead>
<tr>
<th>Interviewee no 1</th>
<th>It is imperative to have a detailed feasibility. The process will assist the entrepreneur to identify potential pitfalls, trends and ideas that would more likely work.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interviewee no 2</td>
<td>A detailed feasibility study, will assist the entrepreneur to be successful, but will not guarantee success. The feasibility study assists the entrepreneur to test the idea and what potential exists for it in the market. The process insures that the entrepreneur allocates a lot of resources, time and focus to the idea to assist with the determination of the possibility of success.</td>
</tr>
<tr>
<td>Interviewee no 3</td>
<td>Yes, however a business plan and feasibility does not guarantee success to the entrepreneur. The only way the real potential of an idea can be determined is by conducting a feasibility study. The process will identify potential pitfalls, it will also allow the entrepreneur to rather stop the process/role out with the minimal monetary implication, it the potential does not exists.</td>
</tr>
<tr>
<td>Interviewee no 4</td>
<td>Yes. The entrepreneur will be forced to research all the options and issues that will affect his business. The market research will also confirm the potential of the business in the market.</td>
</tr>
<tr>
<td>Interviewee no 5</td>
<td>Yes. The entrepreneur will start to scratch and research</td>
</tr>
<tr>
<td>Interviewee</td>
<td>Response</td>
</tr>
<tr>
<td>-------------</td>
<td>----------</td>
</tr>
<tr>
<td>6</td>
<td>Yes. The planning process that are more thorough when a feasibility study is conducted, forces that the entrepreneur to thinks of all possibilities and variables that might affect his business. This should ensure that no surprise catches the entrepreneur unawares. Will ultimately be the answer if he goes ahead with the business or not.</td>
</tr>
<tr>
<td>7</td>
<td>Yes. The entrepreneur should test all possible outcomes. This process will assist to see potential threats and opportunities. When they come the entrepreneur will be prepared.</td>
</tr>
<tr>
<td>8</td>
<td>Yes. A well-conducted feasibility study requires you to look carefully at your industry, operating environment, customers and competition to determine what your real opportunities are and what threats or limitations you face. It helps you to take a good look at your business in order to objectively recognise its capabilities and resources, its strengths and weaknesses. A feasibility study also prepares you for an uncertain future by encouraging you to come up with business strategies and a contingency plan to increase your chances of success further down the road.</td>
</tr>
<tr>
<td>9</td>
<td>Yes. It will assist the entrepreneur to foresee possible opportunities and dangers in the future. Will be able to plan and address for the possible problem that might occur in the future.</td>
</tr>
</tbody>
</table>

Respondents agreed that a feasibility study would assist the entrepreneur to be more successful and identify additional possible successful business ideas. It was however stated by some respondents that the process would not guarantee success.
It was found that most respondents agree that the feasibility study assists the entrepreneur, to identify potential pitfalls of the business idea. The process also forces the entrepreneur to be thorough in his research, this process can assist him to obtain other ideas and make him to think of all aspects that will affect his business. Ideas are tested in the market, via research.

Interviewee no. 3 stated that the feasibility study would assist the entrepreneur to identify an unviable idea, without spending phased amounts of money or entering into the business at high cost and failing. Interviewee no. 6 summarizes in stating that the feasibility assist the entrepreneur to think of all variables that might affect his business. The end result will be that no “surprises” catches him unawares when he starts the business.

### 5.3.7 Who do you believe should undertake the feasibility study? Why?

<table>
<thead>
<tr>
<th>Interviewee no</th>
<th>Suggestions</th>
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<tbody>
<tr>
<td>1</td>
<td>The entrepreneur should undertake the process, as he knows his industry and his business. Would have to say that for them to be effective the entrepreneur needs to consult with experts in the field. For example accounts to assist with the number crunching and marketing expert looking at the potential in the market. Other aspects like legal and labour requirements the entrepreneur needs to obtain full details. Some entrepreneurs are at times not even aware of all the requirements set and which they are required to at hear to.</td>
</tr>
<tr>
<td>2</td>
<td>The entrepreneur, in close assistance with professionals in the field of accounting, product development specialists, market analysts, acts.</td>
</tr>
<tr>
<td>3</td>
<td>The entrepreneur with his accountant.</td>
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<tr>
<td>4</td>
<td>Outside financial experts and the entrepreneur. The entrepreneur will have a close relationship with his accountants, it is sometimes better to request an unknown party to complete this task. Mainly for the reason that the independent person or company will not</td>
</tr>
<tr>
<td>Interviewee no 5</td>
<td>It is important for the entrepreneur to take charge of the process, at the end of the day it is his business. It is however important for experts to assist the entrepreneur in the process. Especially a financial expert/accountant that knows the entrepreneur. To determine the viability of the business, the accountant is of utmost importance to assist with the costing and the setting of budgets. Other exports, like the Nelson Mandela Metropolitan University can also be used, it for example market research is required. It would also be possible advantages to consult the banks, as they hold the required expertise and experience to assist the entrepreneur to estimate the feasibility of the business idea.</td>
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<tr>
<td>Interviewee no 6</td>
<td>The process should not be undertaken by one person on his own. The entrepreneur plays an integral part in the process, as he has the knowledge and vision for the business. They however do not have the knowhow and skills to put the whole process together. For this task a person with a financial background would be the best suite person. It is required that experts be consulted, the selected expert will be determined in what kind of business the entrepreneur wants to entered into.</td>
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<tr>
<td>Interviewee no 7</td>
<td>Yes. The entrepreneur should be involved in the process from the outset. They should however test their ideas with their accountant and other professional business people. For example CEO's for corporate companies.</td>
</tr>
<tr>
<td>Interviewee no 8</td>
<td>The most appropriate entity of conducting the feasibility study should depend on the age of the business, the</td>
</tr>
</tbody>
</table>
industry and reasons for conducting the feasibility study. Sometimes it will require an accountant, other times an environmental specialist, in other instances an industry expert.

| Interviewee no 9 | Yes. Depending on the size of the business, the varsity of involvement will be determined. In smaller businesses, the entrepreneur does not always have the financial resources to outsource the task. The smaller entrepreneur should test the ideas with professionals, for example accountants and mentors. In larger businesses with more financial resources available and a higher risk of failure, external resources should be used. Business consultants, accountants and others can be used to complete the process on behalf of the entrepreneur. |

All respondents are in agreement that one person on his own cannot undertake the process. They are once that the entrepreneur should take the role in the process, but professionals in the field of business should assist him. Besides the entrepreneur, it is clear that the respondents felt that a financial person (accountant) should assist the entrepreneur in the feasibility study.

It was felt that the entrepreneur takes the lead, as at the end of the day it is his business and he knows it better than anybody else. Depending on what field of business, the entrepreneur is required to be assisted by experts in the relevant fields, i.e. marketing.

Interviewee no. 4 stated that an outside financial person needs to complete the study with the entrepreneur. Reason being that a totally independent view of the real possibility of the business idea will be obtained.
5.3.8 **Do you believe that by conducting the planning and feasibility process, a person can become a better entrepreneur? Why?**

<table>
<thead>
<tr>
<th>Interviewee no</th>
<th>Response</th>
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<tbody>
<tr>
<td>1</td>
<td>Yes. Formal planning will assist the entrepreneur to identify the possibility for success in the future. A thorough process will also assist the entrepreneur, if needed, to come back to earth and be more realistic about his intended plans. With a formal structure in place the entrepreneur will have a bigger chance of success, as hopefully all scenarios would have been planned for. The process forces them to look to the future.</td>
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<tr>
<td>2</td>
<td>Yes. It is important for management/entrepreneurs to look into the future. This process will assist the entrepreneur to determine what he does not know about the new idea, as well as the potential of this idea in the market.</td>
</tr>
<tr>
<td>3</td>
<td>Yes. The entrepreneur has a good opportunity to learn more about the industry they want to enter or expand into. This knowledge will assist him to plan more accurately and realistically. Conducting a detailed exercise on paper and testing the idea, is much less costly than being unsuccessful in the business world when the idea has been take and made into a business.</td>
</tr>
<tr>
<td>4</td>
<td>Yes. As mentioned previously, a business plan can portray an attractive picture of how well the business can do. Practise has proven that some of these estimations are over realistic. The function of a feasibility study is to test the assumptions and accuracy of the information reflected in the business plan. With the end result that the entrepreneur would have thought of all the pitfalls and know that the idea for fills his requirements.</td>
</tr>
<tr>
<td>5</td>
<td>Yes. Goals will be set through this process. The entrepreneur will have a guide to assist him to plan for the future. The business plan will provide the</td>
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entrepreneur with an accurate guideline which cab is used to compare the everyday achievement against.

<table>
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<tr>
<th>Interviewee no 6</th>
<th>Not a better entrepreneur. But it will definitely increase the entrepreneur’s changes of succeeding in his business. As the all-incomprehensive study has been undertaken that will be able to assist entrepreneur to measure his actual performance against the planned budgets set. If there is a deviation the entrepreneur can identify this early and instigate rectifying steps to correct the process.</th>
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<tr>
<th>Interviewee no 7</th>
<th>Yes. The entrepreneur has a plan to assist him into the future. By completing a comprehensive document who should be able to overcome the changes in the future. Even better he would be prepared for them when they come.</th>
</tr>
</thead>
</table>

<table>
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<tr>
<th>Interviewee no 8</th>
<th>Yes. Not only does business planning and feasibility studies assist you to understand and manage the risks associated with being an entrepreneur, putting your plan together will help you come to grips with the day-to-day running of your business by highlighting the kind of operational management that will be needed. In this way, ad hoc decision-making will be kept to a minimum. A business plan also provides clear direction to management and staff and assists to motivate staff.</th>
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</table>

| Interviewee no 9 | Yes. The process forces the entrepreneur to think things through. Brainstorming with others might also lead to new ideas. The SWOT analysis will provide enough structure and timelines to achieve the required objects set out in the plan. The process should improve the entrepreneur as they will look at all the variables for the business in the future. |
The respondents agreed that a formal process would have a positive effect on the entrepreneur. All but interviewee no.6 answered YES, the mentioned respondents opinion was that it would not make a person a better entrepreneur, but rather increase the chances of success.

By conducting the study, the respondents agreed that the entrepreneur would be able to succeed in the future. The study will assist the identification of potential pitfalls that the entrepreneur might previously not been aware of, as well identifying potential opportunities. The planned ideas would also be tested in the industry.

The knowledge obtained through this process, will assist the entrepreneur to know his market and industry better. A formal well researched plan will be of assistance to the entrepreneur as a guide to measure actual performance against those budgeted for.

5.4 SUMMARY

The chapter assisted the researcher to collate the collected data. The data was tabulated, to document the interviewees responses to the researcher’s questions.

It is apparent from the findings that the respondents do believe that formal planning is required to assist the entrepreneur to be successful. It is interesting to note that the respondents all agreed that a business plan alone would not assist the entrepreneur to be successful. The main reason being, business plans are normally done without detailed research, time is not spend on testing assumptions and inadequate consultation of experts in the field.
In conclusion, it was found that a fully comprehensive business planning process would assist the entrepreneur to be more successful and be a better business person. Reason being that the entrepreneur would be consulting with experts in various fields of business, from whom he would learn. The idea would be tested in the market and all variables for the present and the future would have been taken into consideration.

Chapter six will integrate the results obtained from the literature study to that of the empirical study. The feedback from the respondents will be analysed and recommendations will be made to address identified problems.
CHAPTER 6
RECOMMENDATIONS AND CONCLUSIONS

6.1 INTRODUCTION

This chapter presents the studies conclusion. The purpose of the chapter is to integrate the results obtained from the literature study to that of the empirical study. Analysing the results provided by the respondents, to determine if there are any areas that need attention. If any areas are identified, recommendations will be made on how to improve these identified problems. This will be followed by an integration of the results from the theoretical study and the results that were obtained from the literature study, on completion of this step the planning process will be explained with focus on the key areas of concern. Lastly recommendations will be made to assist the entrepreneur with problem areas raised. A final conclusion will be made.

6.2 INTEGRATION OF THE RESULTS OF THE THEORETICAL STUDY WITH THE FINDINGS OF THE EMPIRICAL STUDY

The theoretical component conducted to determine whether the SMME market is valuable to Standard Bank was undertaken. It was found that Standard Bank rate the SMME market as a very valuable part of their business (Chapter 2: page 23 – 24). The SMME market has a positive spin off to diverse departments within the bank, not only the SMME business market (Chapter 2: page 24). It was found that the personal as well as the corporate market also has benefits in the long run. By participating in the SMME market, Standard Bank also adheres to the Governments drive to build the economy of South Africa (Chapter 2: page 23).

The theoretical components of a Business Plan were developed, obtaining information for the reasons why the development and writing of a business plan was required (Chapter 3: page 28 – 30). And if there is a need to plan
(Chapter 3: page 31 - 34). An example was developed to guide the business owner through the process of developing a business plan (Chapter 3: page 35 - 39).

Not every entrepreneur that holds a business plan is successful (Chapter 3: page 30 – 31, Chapter 5: 96). Many reasons for this exist. One aspect that can be identified is that the wrong idea was implemented (Chapter 3: page 31 – 34). The theoretical study incorporates methods of generating ideas, as well as methods to evaluate these ideas (Chapter 3: page 39 - 50). The method used to evaluate these ideas, feasibility study, was explored and practical guidelines provided that can assist the entrepreneur with this process (Chapter 3: page 50 - 67).

The information gathered was used to answer the main problem, What can be done to assist Small, Medium and Micro Enterprises (SMME’s) to be more successful (Chapter 3: page 31)? To assist with the answering of the sub problems a questionnaire was drawn up and one on one interviews arranged, to determine with the assistance from the respondents, financial experts and business advisors in the Nelson Mandela Metropole, what practical guidelines and recommendations, could be made to assist entrepreneur to be more successful (Chapter 5: 88 – 110).

6.2.1 A review of the Empirical Study with a view to the planning process, a business plan and feasibility study, as discussed with the interviewees.

A survey of the results of the empirical study revealed that in all respondents agreed that planning forms an integral part of the entrepreneurs business (Chapter 5: 92 - 94). A business plan will assist the entrepreneur to be successful in their business, only if a thorough feasibility study was conducted (Chapter 5: 101 - 105). The respondents agreed that the feasibility study, will either support or contradict the assumptions made in the business plan, this will assist the entrepreneur to decide to either continue or end the business activity (Chapter 5: 103 - 105).
There were various opinions evident, in stating if it is required that a business idea must meet an existing market requirements/gap. The respondents agreed that for this to be successful, the entrepreneur would require more time and money to settle his product or service in the market. But to meet a current requirement will the ideal situation (Chapter 5: 101 - 103).

Lastly all respondents agreed that the entrepreneur, with especially a financial expert should be involved when a business planning is undertaken. Other experts in the various business arenas should also be requested to assist with the setting up of the business plan (Chapter 5: 105 - 107).

It may therefore be concluded that there are support for a detailed planning process through a Business Plan, that will assist the entrepreneur to be more successful in his business.

6.2.2 The Business Plan

The objective of this study was to identify an effective planning strategy that would assist Small, Medium and Micro Enterprises (SMME’s) to be more successful (Chapter 1: 3). The result of the study made it clear that an all inclusive (feasibility study included) and detailed business plan would assist entrepreneur to be guided to be more successful and be focused to insure that they remain competitive (Chapter 3: 28 – 39, Chapter 5: 103 – 105, 108 – 110). This objective was achieved by way of the following process:

- The study of the literature was undertaken (Chapter 3).
- A sample of financial experts and business advisors was identified and surveyed to determine their level of exposure to the proposed process (Chapter 5).
- The results obtained from the theoretical study were integrated with the results of the empirical study in order to arrive at the final proposal (Chapter 6).

The process of business planning used an exciting situation in the business, by following a systematic sale process that guides the entrepreneur to ensure
that all aspects that can affect the business are incorporated in a comprehensive plan. The aim is to provide the entrepreneur with a business plan, able to guideline him in the day to day running of the business (Chapter 3: 28 – 35, Chapter 5: 103 – 105, 108 – 110).

6.2.3 Summary

The objective of this section was to integrate the findings of the theoretical study with the findings of the empirical study. Determining that the respondents are in agreement that there is a great need to ensure that a detailed business plan are held, to assist the entrepreneur to achieve success in their businesses (Chapter 5: 92 – 94, 103 – 110).

6.3 RESEARCH METHOD

The main problem that was identified in this study, what do Small, Medium and Micro Enterprises (SMME’s) need to do to be successful (Chapter 1: 3)? The reason for this question and the study is that SMME’s are the vehicle that will enable the economy of South Africa to achieve the growth needed to address the unemployment and negative economic activity in the country (Chapter 1: 1 – 2, 8 Chapter 2: 19 – 22, 24). There is high level of business failures in the country, with people mainly blaming the financial institutions for the shortage, provision and availability of funds to run their businesses (Chapter 1: 1 – 3, 12 – 13 Chapter 2: 22).

It is the authors opinion however that the main reasons for business failures is that entrepreneurs do not start off correctly. A thorough planning process that will enable the entrepreneur to clearly identify the potential and the obstacles in the market that will affect his business needs to be developed (Chapter 3: 28 – 30, 33 – 35). This document needs to act as the entrepreneurs “bible” in their business to guide them on a day-to-day basis, to ensure that they stay focused on their goals and not be distracted when changes occur (Chapter 3: 33 – 39).
The research was done firstly based on a literature study. Attempting to obtain an answer to what the reason and the need for a business plan are (Chapter 3: 31 – 38)? Once these items were identified a practical guideline was provided that would assist the business owner to start and complete a detailed business plan (Chapter 3: 31 – 35). There are wide thought by different authors on the format and body of a business plan, it is however the authors opinion that Wickham’s format are easy to interpret, systematically, thorough and all in comprehensive (Chapter 3: 33 – 39).

The literature study was expanded to assist the researcher to identify ways to generate business ideas, as well as providing guidelines for the entrepreneur to evaluate these ideas (Chapter 3: 39 – 67). It is the researcher’s opinion that a successful business begins with a viable idea.

The literature study was used to develop a questionnaire that was discussed with the identified respondents in a one on one recorded interview (Chapter 4: 78 – 81). On completion of an interview, the provided data was analysed and the support for the suggestions was noted (Chapter 5: 92 – 110). The information gathered from the empirical study was integrated into suggestions of what SMME’s could do to be more successful (Chapter 6: 116 – 119).

6.4 RECOMMENDATIONS

To conclude the study certain points were identified that would need more attention, the following pertains:

6.4.1 The Necessity to Plan

It was apparent from the responses obtained from the financial experts and business advisors, that detailed planning in certain instances is not the most important and focused activity for entrepreneurs (Chapter 5: 92 – 96). Entrepreneurs tend to be impulsive when it comes to a business idea or new venture, rushing into the activity without thinking through the process and
requirements pertaining to the new or expanding business. The entrepreneurs experience gained and knowledge of the business, provides them with a false assurance that they do not have to plan as they know enough (Chapter 5: 96 – 100).

It was found that the entrepreneurs, being involved in most of the daily business activities, do not have the time to plan (Chapter 5: 94 – 96). The respondents, however agreed that it is imperative for the entrepreneur takes time out to plan formally (Chapter 5: 92 – 94). This process will assist them to step away from the business, be realistic about its potential and current achievements. To be future focused, which is a requirement if the entrepreneur wants to stay in business, would require a thorough plan (Chapter 3: 28 – 30, 31 – 39).

The respondents agreed that the entrepreneur should lead the planning process, but not be the only one involved. The reason being that at the end of the day, he is the owner of the business and knows it better than anybody else. He knows where he is and where he wants to take the business. It was apparent that experts need to be consulted when the planning is undertaken (Chapter 5: 103 – 105). The financial expert/accountant with the entrepreneur plays an integral part in the process, other expert, for example marketers or engineers needs to be consulted, depending on the nature and requirements of the specific business (Chapter 5: 105 – 107).

The recommendation is thus that the SMME’s engage in a thorough planning process that removes them from the idea/business, to ensure that all aspects that will have an effect on the business be scrutinised and think through. In the process the entrepreneur needs to be realistic about the potential of the business, identifying potential obstacles and finding solutions for these obstacles. Through the process new opportunities and ideas might be developed.

It is further recommended that in the planning process, the entrepreneur needs to take a leading role. However he cannot be the only person involved
in the process, a financial expert needs to be closely involved, with main responsibility being the setting of and testing of realistic financial projections and the satisfying of other requirements pertaining to the business, i.e. UIF, skills levy, act. Entrepreneurs should not be mislead and think that they know everything about everything, this can lead to over optimistic assumptions. Therefore a further recommendation, the entrepreneur needs to consult experts in their fields in the planning process, for example market researchers when it comes to the potential of a business idea. This will enable realistic, unbiased, expert information to be provided on the topic being planned.

6.4.2 The Business Plan and its use

A further observation from the respondents was that a business plan alone would not increase the potential of success for the entrepreneur (Chapter 5: 96 – 100). The reason being that the facts documented on paper are often not achievable in practise. Some entrepreneurs sketches a “rosy” unrealistic picture to ensure that the idea portrayed appears likely to succeed. It is recommended, that the entrepreneur with other experts test the set ideas and assumptions to obtain the true realistic potential of the idea. By providing an independent view (Chapter 3: 50 – 67).

For this reason it is imperative for the entrepreneur to understand that the feasibility study forms an integral part of the business plan and should not be seen as a separate document. The feasibility study, tests the idea in the “real world”, the entrepreneur in consultation with the experts needs to be realistic when this study is undertaken.

Entrepreneurs see a business plan as purely a separate entity only pertaining to aspects like the SWOT analysis, business and financial risk that are associated to the business. The majority believe that it is a document that only needs to be established once, when the entrepreneurs starts his business. This however is dangerous and untrue, as the business plan needs to be the entrepreneurs guide to change with the business, a “living” document (Chapter 1: 12 – 13, Chapter 3: 28 – 31).
The recommendation is thus that entrepreneurs need to understand that the business plan is a very comprehensive document that incorporates the whole aspects of business. It is imperative for the entrepreneur to ensure that the facts stated in the plan are achievable, for this reason more time should be spend on the feasibility study. The aim being to determine what the true and realistic potential of the business is.

Business changes, for this reason it is recommended that the entrepreneur, when required, be able flexible to adopt the business plan to the changing circumstances. The document needs to be a living document and the entrepreneurs guide to how he planned to operate his business. The business plan will assist him to measure his actual performance to that of the budgeted performance. This will assist him to identify potential shortfalls or problem earlier and put measures in place to rectify the situation. This one all-inclusive document is an integral requirement to guide the entrepreneur, in his business to ensure that they keep to their goals and ensure business success (Chapter 3: 31 – 36).

6.4.3 Recommendations for future research

Insight from the exploration study, provided other areas of research that needs to be addressed:

The role and importance of planning as seen by entrepreneurs.

What position should the feasibility study fill in the business plan, and what value does it add to the business plan? As seen from the entrepreneurs point of view.

6.5 SIGNIFICANCE OF THE STUDY

It was anticipated that the study would not be representative of all financial experts and business advisors in the Nelson Mandela Metropole. The findings cannot be generalized beyond the nine interviewees, as the sample was
small. The method of sampling could also have had a limiting influence on the study.

6.6 CONCLUSIONS

It was concluded that financial experts and business advisors were in agreement that a detailed planned business plan would assist the entrepreneur to be more successful.

The planning process would however mean that business owners would have to ensure that additional valuable time and money needs to be spend, to provide a business plan that is comprehensive and detailed with all of the required sections studied and correct data are documented pertaining to each section. A business plan must be completed accurately and not completed for the sake of completing a business plan. A detailed feasibility study that will test the assumptions documented in the business plan is imperative to the success of the plan.

The benefit of this action would be, that the entrepreneur would be certain that when he start or expands the business, the obstacles have been identified. The true potential has been tested and he knows what profits are to be made. Ultimately assisting him, through planning to be more successful.
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National Small Business Act (23 March 2003).


The State of Small Business in South Africa. (Department Trade and Industry 1997).


APPENDIX A

QUESTIONNAIRE

1. Do you believe that it is important for any entrepreneur to plan? Why?
   1.1 Will the planning process have a benefit for the future endeavours of the business?
   1.2 Do you believe the planning process will identify new potential opportunities?

2. Why do you believe entrepreneurs do not plan?
   2.1 Is planning an ongoing process?
   2.2 What do you believe is the reason for this?

3. Does the position of a business plan ensure that the entrepreneur will be successful?

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<thead>
<tr>
<th>YES</th>
<th>NO</th>
<th>MAYBE</th>
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4. If NO or MAYBE what do you believe is the main reason for business failure although a business plan is held? Why?
   4.1 Do you believe it is important to have a plan “B”?
   4.2 Do all entrepreneurs succeed in bringing the theory in the business plan, into practise?
   4.3 Is it important for the plan to be tested, prior to documenting in the business plan?

5. Do you believe that having a business idea or opportunity that will be successful, the entrepreneur needs to ensure that it meets the market requirements?
   5.1 Can a new idea be successful?
   5.2 What will be needed to implement a new idea?

6. Do you believe that a detailed feasibility study will assist the entrepreneur to have a greater chance of succeeding? Why?
   6.1 What aspects should the feasibility study highlight to the entrepreneur?
   6.2 Is a feasibility study a guarantee to succeed?
6.3 Can the process of the feasibility study identify possible new/other opportunities?

7. Who do you believe should undertake the feasibility study? Why?

7.1 If any other person, besides the entrepreneur must be involved, who should this be?

7.2 Will there be a benefit for an independent person to assist with the process?

8. Do you believe that by conducting the planning and feasibility process, a person can become a better entrepreneur? Why?

8.1 Should the planning process focus on here and now? Or is it also important to focus on the future?

8.2 Is it important during the planning process that the idea is tested?
APPENDIX B

FEEDBACK FROM INTERVIEWEES

Interviewee no 1

1) Yes. Keeps the entrepreneur focused on the business.

2) Do not believe that entrepreneurs do not plan, but believe that they do not do place focus on it. Believes that entrepreneurs do planning on a daily basis, informally.

3) No

4) Done in an informal manner, not enough attention to detail spend when a business plan is drawn up. The entrepreneur needs to focus on the strength and weaknesses when the planning of a business plan is undertaken, do not believe that this is the case with many business plans.

5) It is easier for an idea to meet the current market requirements/gap. It would however be possible to take a new idea and place it in a market, which does not know that they need the product or service. The reality however is that this process will require a lot of time and money.

6) It is imperative to have a detailed feasibility. The process will assist the entrepreneur to identify potential pitfalls, trends and ideas that would more likely work.

7) The entrepreneur should undertake the process, as he knows his industry and his business. Would have to say that for them to be effective the entrepreneur needs to consult with experts in the field. For example accounts to assist with the number crunching and marketing expert looking at the potential in the market. Other aspects like legal and labour requirements the entrepreneur needs to obtain full details. Some entrepreneurs are at times not even aware of all the requirements set and which they are required to at hear to.

8) Yes. Formal planning will assist the entrepreneur to identify the possibility for success in the future. A thorough process will also assist
the entrepreneur, if needed, to come back to earth and be more realistic about his intended plans. With a formal structure in place the entrepreneur will have a bigger change of success, as hopefully all scenarios would have been planned for. The process forces them to look to the future.

Interviewee no 2

1) Yes. Need to plan for the future. To determine what the potential for the business is in the future. Financial planning (cash flow statements) is of utmost importance in the planning stage. It is important for the entrepreneur to step outside himself and plan.

2) Entrepreneurs is too busy just trying to survive, all their focus and time goes to just getting the job done. Do however believe that they do plan, in a non-formal manner.

3) No

4) The forecasting process is normally not tested, with the entrepreneur being over optimistic about the potential they can achieve. Many times also no contingency build into the plan, with the effect that if changes do occur, the entrepreneur is unable to adopt/change his business to meet the new requirements and market trends.

5) If the opportunity cost is low and potential for success, for a new idea that does not fit the market requirements, is good it might well be worth the entrepreneurs effort to place the product or service in the market. Do however believe that the entrepreneur needs to ensure that when an idea is developed or the business is diversified, that the entrepreneur needs to stick to what he knows.

6) A detailed feasibility study, will assist the entrepreneur to be successful, but will not guarantee success. The feasibility study assists the entrepreneur to test the idea and what potential exists for it in the market. The process insures that the entrepreneur allocates a lot of resources, time and focus to the idea to assist with the determination of the possibility of success.
7) The entrepreneur, in close assistance with professionals in the field of accounting, product development specialists, market analysts, acts.

8) Yes. It is important for management/entrepreneurs to look into the future. This process will assist the entrepreneur to determine what he does not know about the new idea, as well as the potential of this idea in the market.

**Interviewee no 3**

1) Yes. The plan will assist the entrepreneur to have greater chance for success, as the business plan will identify potential obstacles along the way.

2) Everybody definitely do not plan, it might be due to the fact that some entrepreneurs believe that they already know enough about their specific business. Those that do plan tend to do a rushed job, with not even close to enough research been undertaken in the process.

3) No

4) It often happens that the incorrect idea has been taken and converted into a business. Entrepreneurs want to make a business idea work on paper, although there might be little chance for success in practise.

5) Believe that it is imperative that the idea meets the potential in the market. It would be too costly to “buy” the market.

6) Yes, however a business plan and feasibility does not guarantee success to the entrepreneur. The only way the real potential of an idea can be determined is by conducting a feasibility study. The process will identify potential pitfalls, it will also allow the entrepreneur to rather stop the process/role out with the minimal monetary implication, it the potential does not exists.

7) The entrepreneur with his accountant.

8) Yes. The entrepreneur has a good opportunity to learn more about the industry they want to enter or expand into. This knowledge will assist him to plan more accurately and realistically. Conducting a detailed exercise on paper and testing the idea, is much less costly than being
unsuccessful in the business world when the idea has been take and made into a business.

**Interviewee no 4**

1) Yes. One needs to know where you have come from and where you are going. Planning will assist the entrepreneur to determine what is required to operate his business is.

2) Do believe that they do plan, but does this in an informal manner, with the effect that they do not focus on it.

3) No

4) The business plan is the starting point of the business. The reality is that the theory and practice is different, entrepreneurs are at times over optimistic and believes that everything they write in a business plan will realize. Often the business plan portrays a rosy picture with goals that in practise is unattainable. The business plan needs to grow with the business and changes/additions made as the business environment changes. This does not happen regularly.

5) It is important for a business idea to fit the market requirements. A new idea, with no market, can be introduced but this will require a great amount of money to get into the market. Seems to be better for the development of an idea, to either improve of an existing idea or add on to an existing idea.

6) Yes. The entrepreneur will be forced to research all the options and issues that will affect his business. The market research will also confirm the potential of the business in the market.

7) Outside financial experts and the entrepreneur. The entrepreneur will have a close relationship with his accountants, it is sometimes better to request an unknown party to complete this task. Mainly for the reason that the independent person or company will not know the client and base his decisions as an outsider on purely factual business decisions. The entrepreneur will assist and contribute to the process by reflecting his reasons and vision for the new idea.
8) Yes. As mentioned previously, a business plan can portray an attractive picture of how well the business can do. Practice has proven that some of these estimations are over realistic. The function of a feasibility study is to test the assumptions and accuracy of the information reflected in the business plan. With the end result that the entrepreneur would have thought of all the pitfalls and know that the idea for fills his requirements.

Interviewee no 5

1) Yes. It is imperative for the entrepreneur to know where he or she is going. They need to be clear on what market they are in and what the potential of the specific market is. They need to plan to see what new products or services can be introduced to the market, the only way this can be established is through thorough research and planning. Financial planning is imperative to the success of the business, aspects like staffing, income potential, cost controls, act needs to be planned.

At the end of the day, the planning exercise will assist the entrepreneur to determine if he has what is required to operate the business successfully.

2) Not that they do not plan. But believe that they plan, by doing what is needed on a daily basis. Think that they plan, but do not put their plans to paper. Their intellectual capacity allows them to take the business were they want it to be. Also think that due to the requirements and hectic pace of the business world, the entrepreneur does not always have time to plan.

3) No

4) The business plan does assist the entrepreneur to reduce the risk in his business, due to formal planning. The business plan is however based on assumptions and not tested actual events. It is possible that the business plan could have been based on none accurate and achievable predictions. It is also possible that the business plan did not
take any variable situations in consideration that might affect the business activities, variables like PESTI influences.

5) Yes it is important, for the simple reason that it would be too costly to “buy” a new market. It is however possible for great success if a new product is placed in the market that would satisfy a previously untapped opportunity. The entrepreneur would however have to ensure that the new product or service needs to be of the highest quality and standard.

Careful planning will be required as he would enter into a market with existing competition. To be successful, it might be required that services level needs to exceed the current offering or the entrepreneur would need to enter into a price war, that might be dangerous.

6) Yes. The entrepreneur will start to scratch and research more in-depth to determine the real potential for successes of the business.

7) It is important for the entrepreneur to take charge of the process, at the end of the day it is his business. It is however important for experts to assist the entrepreneur in the process. Especially a financial experts/accountant that knows the entrepreneur. To determine the viability of the business, the accountant is of utmost importance to assist with the costing and the setting of budgets.

Other exports, like the Nelson Mandela Metropolitan University can also be used, it for example market research is required.

It would also be possible advantages to consult the banks, as they hold the required expertise and experience to assist the entrepreneur to estimate the feasibility of the business idea.

8) Yes. Goals will be set through this process. The entrepreneur will have a guide to assist him to plan for the future. The business plan will provide the entrepreneur with an accurate guideline which cab is used to compare the everyday achievement against.

Interviewee no 6

9. Yes. Planning is the most important activity the entrepreneur needs to
undertake. Nobody should attempt anything in business without going through a planning exercise. People state that planning is a waste of money. Do believe that if planning was conducted thoroughly, when entrepreneur starts his business all aspects of the business will fall in place as the planning process has been followed and completed.

10. Some entrepreneurs are over enthusiastic to start or expand their business. With the effect that the hast of opening the business, does not leave sufficient time to plan.

11. No

12. What works on paper does not always work in practice. There are certain elements that need to be tested before they can be documented in a business plan to ensure the entrepreneurs success. Elements like testing the market potential and determining what the real possibility of making money in the chosen business is. What requirements/characteristics the entrepreneur requires to be successful, to name a few needs to be explored in more detail.

13. Yes. It makes a lot more sense to start a business where adequate set off already exists. It is difficult to obtain the required number of feet to ensure that a new product will be sold as planned.

14. Yes. The planning process that are more thorough when a feasibility study is conducted, forces that the entrepreneur to thinks of all possibilities and variables that might affect his business. This should ensure that no surprise catches the entrepreneur unawares. Will ultimately be the answer if he goes ahead with the business or not.

15. The process should not be undertaken by one person on his own. The entrepreneur plays an integral part in the process, as he has the knowledge and vision for the business. They however do not have the knowhow and skills to put the whole process together. For this task a person with a financial background would be the best suite person. It is required that experts be consulted, the selected expert will be determined in what kind of business the entrepreneur wants to entered into.

16. Not a better entrepreneur. But it will definitely increase the entrepreneurs changes of succeeding in his business. As the all-
incomprehensive study has been undertaken that will be able to assist entrepreneur to measure his actual performance against the planned budgets set. If there is a deviation the entrepreneur can identify this early and instigate rectifying steps to correct the process.

**Interviewee no 7**

1) Yes. Planning to ensure that the entrepreneur knows where he wants to take the business. What he needs to achieve to get there.

2)

**Interviewee no 8**

1) Yes. The blueprint of your business. A business plan serves as a tangible representation to prospective stakeholders of who you are, what you are and what you want to achieve. It gives an explanation of your complete business strategy. An entrepreneur’s planning document has to be the result of a lot of research, planning, thinking and seeking of advice from experts. But at the same time it needs to be a working document to be consulted frequently to ensure you are still on track.

2)

**Interviewee no 9**

1) Yes. By doing the planning themselves the entrepreneur can determine the strengths, weaknesses, opportunities and threats associated to their business. Can also plan for what can and cannot happen in the business. The process will assist the entrepreneur to determine what to expect.

2)

Yes. Planning to ensure that the entrepreneur knows where he wants to take
the business. What he needs to achieve to get there.

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