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Why start a business?

It's tough out there – but it's worth it!

Running a successful business is hard work. Starting a new successful business is even harder work.

People know about the success stories and the well-known names like Richard Branson and Bill Gates in the present day and Walt Disney and Henry Ford from the past. But nobody knows or cares about the failures and also-rans.

In Business Studies we need to investigate what makes business 'tick' and what enables business leaders to create wealth for themselves and for others as well. This is a very human story.

We need to know what a person starting a business is up against – what their goals are and how they achieve them.

In order to do this we have had the help of Julian Richer, founder and Chairman of the 'Richer Sounds chain of hi-fi stores. This chapter tells his story and also features Stelios Haji-Iannou, who founded the airline easyJet.

This first chapter sets the concept of 'business' in perspective - a concept we will develop over the chapters that follow.

a point to think about . .

People who start businesses need to know where they are going – what they are aiming at and what their targets are.

They can either swim or sink!



entrepreneurs

People who start new businesses are often known as **entrepreneurs**.

An entrepreneur is a person who has the idea and energy for starting a business and who is willing to take the risk.

Businesses are certainly risky. Here are some facts:

- 342,000 new businesses started up in the UK in 2001
- 410,000 businesses closed down in the UK in 2001
- 4 out of 10 businesses started in London do not survive for more than three years

We will now look at a Case Study of a success story of a business started in London. We will finish the Chapter by examining what exactly is involved in a running a business.



Case Study – Richer Sounds



Julian Richer

In 1978 an unknown nineteen year old, Julian Richer, began piling hi-fi stock into a small unit at London Bridge which he started selling with the philosophy that customer service meant organising the business for the benefit of the customer, not for the benefit of the managers.

Richer Sounds has now grown to become the UK's largest and most profitable retailer of hi-fi equipment. 47 of its 49 stores are in the United Kingdom, with two in the Republic of Ireland (Cork and Dublin).

The company employs some 350 people and describes itself as 'a big fish in a small pond – we are very good at what we do and we stick to that.'

Richer Sounds has featured in the Guinness Book of Records for the past six years as the company

with the highest

sales per square foot of any retailer in the world.

Its product range has grown to include budget audio, high quality reference products, audio-visual home cinema and semi-professional studio equipment and Richer Sounds serves in excess of one million customers per year.

All UK shops are wholly owned by Richer Sounds Plc but shops in Ireland, commencing with the company's Dublin shop in 1993, have so far been organised on a franchise basis.

The company has intentionally positioned its British Isles outlets so that 'every city with a catchment population of over 250,000, within half an hour's drive, has access to a Richer Sounds outlet.'

Julian Richer has made the transition from poor school performer to the building from scratch of a £100 million plus group of businesses.



weblink: www.richersounds.com



Activity 1.1 – Richer Sounds

Read through the Case Study on the previous page and then answer the questions below.

- 1 How old was Julian Richer when he set up his first store? How many stores does Richer Sounds now have?
- 2 What achievement of the Richer Sounds chain of stores features in the Guinness Book of Records?
- 3 How many customers does Richer Sounds serve each year?
- 4 What was Julian Richer's business philosophy when he first started – customers first or managers first? Do you agree with this way of thinking?
- 5 Richer Sounds is set up as a company but its stores in Ireland are 'organised on a franchise basis'. What does this mean? Can you think of any other organisations that run franchises?
- 5 What do you think are the main business aims of Richer Sounds?

internal decisions made by a business

Entrepreneurs who start businesses must have energy and ideas. In reading and thinking about Richer Sounds you will already have an idea of how it has become a successful business:



it has decided on an area of activity ...

It is a hi-fi retailer – it piles its merchandise high and sells it at very competitive prices.

it knows where it is going to operate ...

It has stores in the UK and the European Union (The Republic of Ireland).

it has defined aims ...

The business knows where it is going:

- it wants to be profitable
- it wants to expand its sales
- it wants to increase the number of its stores
- it wants to benefit its customers

It is important to note that the company also exists for the benefit of its staff, providing them with many perks including the use of holiday homes free of charge.

it has decided on its ownership . . .

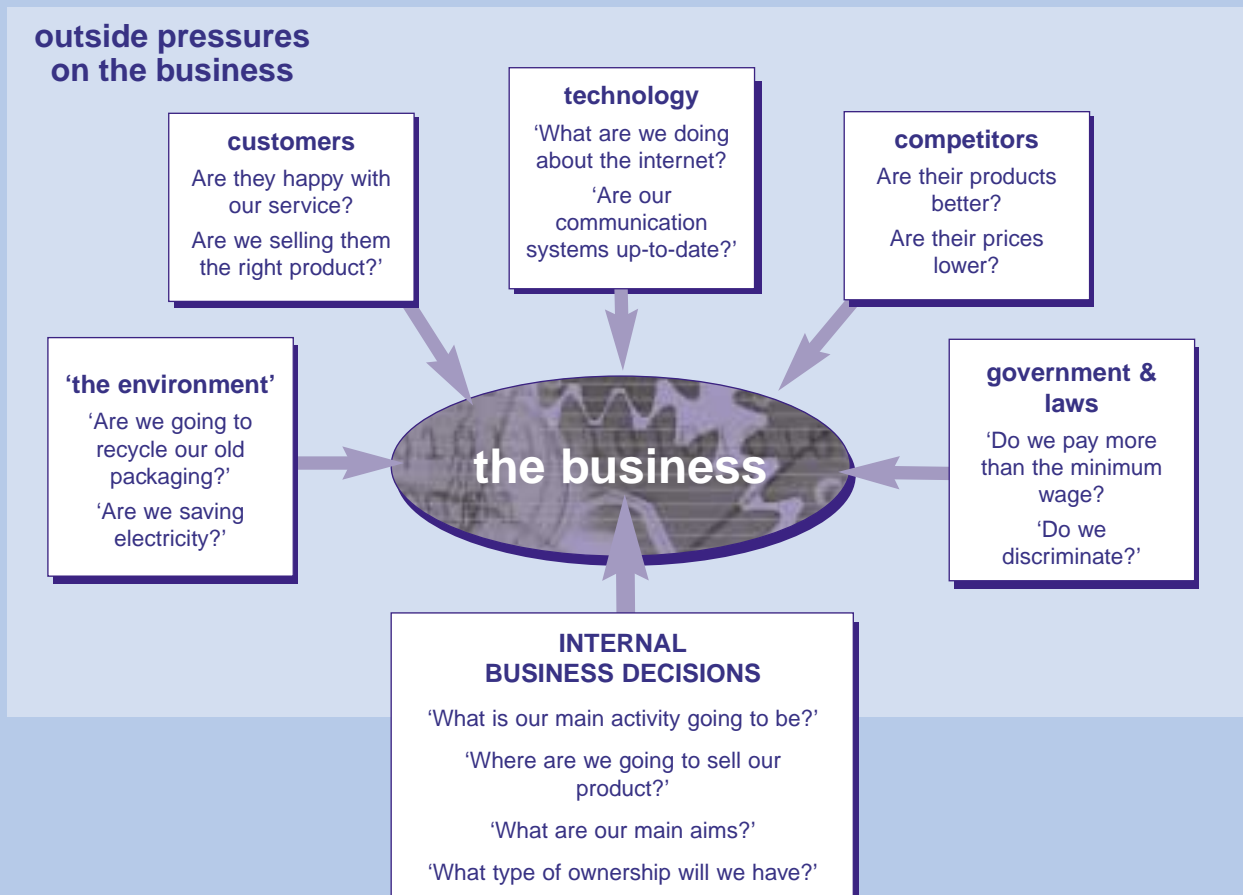
Richer Sounds Plc trades as a company – its owners are shareholders (there is more on this on page 51). Some of its stores are franchises. This means (as you will know if you have done the question) that some stores are operated by individuals as independent businesses, but using the Richer Sounds name (and paying for it).

outside pressures on the business

Businesses do not exist in a vacuum – they have to deal with individuals, organisations, and the Government.

Many of these ‘outside pressures’ can get in the way of what businesses are trying to achieve. Businesses have to react to them. Study the diagram below. It shows what drives a business forward – its internal decisions – but it also explains some of the outside pressures it has to deal with. These outside pressures are also illustrated in the Case Study on the next page.

questions a business has to ask





Case Study – Stelios and easyJet



easyJet is one of Europe's leading low-cost airlines.

easyJet was founded in 1995 by the entrepreneur Stelios Haji-Iannou, who has also founded other 'easy' businesses such as easyCar (car hire) and easyinternetCafé. Stelios will remain Group Chairman until 2003.

The airline started with a fleet of two Boeing 737s flying from Luton to Glasgow and Edinburgh. The airline now offers over 40 routes from 16 European destinations with a fleet of 30 Boeing 737s.

easyJet's profits in 2001 were £40m, its sales were £357 million, and it carried 7.7 million passengers. easyJet shares are now quoted on the London Stock Exchange

easyJet has managed to keep its fares low through the use of modern technology – particularly the internet. The airline sold its first online ticket in April 1998 and now sells 90% of its tickets through the internet. easyJet does not issue tickets – passengers receive an email with travel details and a confirmation number when they book. The management and administration of the company is carried out using the concept of the 'paperless office' - using central servers (computers) which can be accessed from the organisation from all over the world.

easyJet faces competition from other low-cost operators such as Buzz and Ryanair, but there is plenty of room for expansion as more and more travellers choose the low-cost option at the expense of full-price carriers.

What about airlines and the environment? Concerns such as the effect of jet engines on the atmosphere and noise levels of aircraft are being addressed in part by the introduction of cleaner and quieter engines.

Customers are certainly happy with easyJet. Their only gripe is with the Government's tax on air flight departures which makes travelling more expensive!



weblinks: www.easyjet.com www.stelios.com



Activity 1.2 – outside pressures on easyJet

Read the Case Study on the previous page and answer these questions.

- 1 What do you think is the main benefit to easyJet's customers of flying with the airline?
- 2 Who are easyJet's main competitors?
- 3 Do you think easyJet sees these competitors as a major threat? If not, why not?
- 4 How has easyJet made the most of information technology?
- 5 What are the main benefits to easyJet customers of its use of information technology?
- 6 In what way has the Government intervened with airlines to make travelling more expensive? Can airlines such as easyJet do anything about this?
- 7 Discuss the ways in which air travel can affect the environment way way of atmospheric and noise pollution. What is being done about it?
- 8 Discuss the benefits to the business of Stelios starting up other 'easy' companies in the Group such as car hire and internet cafés.



Nutshell summary

- Businesses are normally started by entrepreneurs who are the driving force behind what the business.
- Entrepreneurs understand the nature of the risks they are taking. Many businesses do not succeed.
- Businesses have to take a number of internal decisions:
 - what its main activities are going to be
 - what its aims are
 - where it is going to operate
 - what form of ownership it is going to adopt
- Businesses are also affected by a number of external pressures which have an effect on the way it develops and operates. These include:
 - the views and attitudes of its customers
 - the strength of its competitors
 - its reaction to the challenges of technology
 - Government regulations and laws
 - the need to protect the environment



Key terms

Entrepreneur

A person who has the idea and energy for starting a business and who is willing to take risks.

Company

A business owned by shareholders.

Franchise

A business run by one or more individuals, but paying to trade under a well-known name.

Internal decisions

Decisions made by the entrepreneur which decide the way the business will operate.

External pressures

Outside factors which decide how the business will operate.