EUROPEAN COLLEGE OF ECONOMICS AND MANAGEMENT Project BG 2004/016-711.11.01 – 2.012 "Entrepreneurship among young women –

for a prosperous and dynamic Plovdiv"

GUIDE OF THE PROSPECTIVE ENTREPRENEUR

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INTRODUCTION:

This guide is designed for the participants in the course of entrepreneurship which are trained during the project BG 2004/016-711.11.01 – 2.012 "Entrepreneurship among young women - for a prosperous and dynamic Plovdiv" under the PHARE program "Development of human resources". Its purposes are:

- 1) Giving the notion for the trainees of business, entrepreneurship, politics, conditions and prerequisites of their development in the European Union and in Bulgaria.
- 2) Outlining the working profile of the business entrepreneur, his most important qualities ensuring a successful business. On this basis the trainees will gain the ability to make a critical estimation and analysis of their own qualities and capabilities for independent business.
- 3) Suggesting guidelines and methodological approach for choosing the fields of work, the sector (branch), the products or services, and also of the alternatives for beginning an independent business.
- 4) Providing the participants in the course with an original methodological procedure of creating business ideas, preliminary estimation and choice of a rational business idea.
- 5) Assisting the trainees for the development of a business conception through which the chosen business idea can be developed and objectified, the necessary preliminary researches and estimations can be done and, if effectiveness and a formed thrust in success have been formed the development of a business plan can be launched.

We hope that the participants in the courses of entrepreneurship will welcome with attention and interest the following practical guide and will use it fully through their first steps towards a successful business of their own.

The authors

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1. ENTREPRENEURSHIP IN THE FIELD OF SMALL BUSINESS

1.1 What is entrepreneurship? Who are the entrepreneurs?

In the search of an answer to thins questions from the beginning of 18 c up until now, various opinions, theories and definitions have been brought out. It is believed that the beginnings have been laid from the French economist and entrepreneur, an Irish descendant - Richard Cantillon (1697-1734), who being only 20-years old was already a famous banker in Paris. In his "Essay on the Nature of Trade in General" he proclaims the formula "sell at a high price, buy at a low one" and calls the people who are driven from such formula **entrepreneurs**.

Entrepreneurship* is a term with rich content which is interpreted from different points of view and has multiple manifestations. This is the reason why until today we do not have any definition - profound and widely accepted from science and practice – about this term. But many authors suggest different essential characteristics of the entrepreneurship, which in combination can produce one general idea for this complicated social phenomenon.

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^{*}The terms "entrepreneurship" and "entrepreneur" are derived from the French "entrepreneur" the literal translation of which means "mediator or explorer of opportunities"

In the first conception for the entrepreneurship, developed by R. Cantillon, the accent is put upon its risky essence. He defines the entrepreneur as a person acting in risky conditions, as a personality taking decisions and satisfying his needs in conditions of uncertainty and risks taken. Cantillon thinks of any individual possessing the abilities to foresee the events, ready to take risks, determined towards the future and hoping to profit, but also prepare to bear the losses from the risk taken¹.

The second conception is for the "innovative entrepreneur" and marks the accent on the innovative, artistic, groundbreaking, exploratory essence of the entrepreneurship.

A prominent representative of this conception is the Australian Joseph Schumpeter (1883-1950) who believes that the foundation of the entrepreneurship is the innovative activity, the exploring of new opportunities and the using of new combinations of the production factors, aimed at:

- **Producing new products** or new quality of already known goods on the market;
- Introducing new processes, new methods and technologies, both in the field of production and in the trade;
- Exploring and assimilation of new markets or new market segments
- Assimilation of new kinds of sources of raw materials and materials;
- Implementing new methods of organizing the working process etc.

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¹ Linder, J. "Entrepreneurship an management", "Dyonissus" press., Sofia, 2007, p. 20.

The third conception puts the mark on the dynamical and provocative role of the entrepreneurship in the development of the economy and the more effective use of the limited resources.

The famous economist Jean B. Say (1772-1823) sees the entrepreneur as a person who transfers the economic resources from a field with lower productivity into a field with higher productivity and higher income and organizes the process of production by blending the factors of production with information and experience acquired. (1, p. 21)

According to the Austrian scientist Friedrich Hayek (1899-1992) the entrepreneurs are persons which in the conditions of unlimitedness and competition are striving to reach the highest effectiveness, implementing their own knowledge and the situation of the market. He believes that the market relationships and the entrepreneurship activity are the basis of the development of the economy.

Numerous researches show that the entrepreneurs react more flexibly and adaptively towards the changes and challenges of the market and of the social-economic environment.

The modern stage of development of the theory of entrepreneurship is related mainly to the researches and work of the leading American scientist of Austrian origin Peter Drucker (1909-2005) who concludes that the entrepreneurship is rather a social-psychological than an economic phenomenon and raises the thesis of the so called "entrepreneurship management". He states that an

entrepreneur is someone that constantly searches for change and finds an adequate answer, making maximal use of the opportunities via innovations.

Analyzing the processes in the American economy which has turned from manager's (dominated by the big enterprises) into "entrepreneur's" economy (dominated by the newly created small and medium enterprises and the growing field of services and social work), Peter Drucker reaches a wider idea of entrepreneurship – "internal (corporative) entrepreneurship". Or, that the entrepreneurship process exists not only in the small and medium enterprises, but also in many adaptive, innovatively and market-orientated enterprises where specific structures function as internal entrepreneurs².

The internal entrepreneurship becomes the driving force of the revolutional changes in the corporative management. In order to find and realize new opportunities for growth, big corporations proceed towards the entrepreneurship form of organization by providing freedom of action and internal fund of their units for guaranteeing and realization of innovative ideas and enterprises.

In the situations when they do not find the conditions for expressing their entrepreneurial spirit, the managers and specialists from the enterprises search for additional opportunities outside of them for accomplishing their ideas, experience and competences – establishing their own firm, participating in project, management, research, consulting and other kinds of teams.

² Todorov. K. "Entrepreneurship and management", "Maryland" press., Sofia, 2004. chpt 13.

The modern entrepreneurship is connected with the necessity of applying a strategic approach and instrumentarium for exploring and maximizing the favorable opportunities and the strong sides of entrepreneurial initiatives, as well as for minimizing the risks related to their realization, the dangers and the weak sides.

In conclusion the following summarizing definitions for the entrepreneurship can be applied:

- Entrepreneurship is a specific form of economic activity of independent and self-organizing business individuals, which is aimed at new enterprises an investments in the public production in conditions of risk and uncertainty, with the purpose of profit;
- Entrepreneurship is a flexible an dynamic system, adequate to the free market economy, based on the private property, independent initiatives, innovative ideas and risky investments in the name of a profiting return of the invested money and efforts;
- In a macro economic sense the entrepreneurship is defined as a specific factor of the social reproduction, which ensures the necessary dynamics in the reproduction process by creating new, more effective combinations of the factors of production (land, labor, funds, ideas, information, and business network). (1, p.13)

Entrepreneurship demands:

- Motive profit, self-realization, freedom, independence;
- Initiative search an discovery of chances;
- Personal qualities energy, persistence, competitive spirit;
- Minimum personal funds;
- Capability of taking risks;
- Specific knowledge an skills;

Or:			

TEST

Think, evaluate and answer:

Which of the following activities can be assigned to entrepreneurship?

NG	Activities		Is this entrepreneurship?			Is this entrepreneurship	
№	Activities	Yes	No	Why?			
1.	Buying a car.						
2.	Buying shares from the stock.						
4.	Building residence.						
5.	Founding an own company.						
6.	Providing taxi transportations						
	with an own vehicle.						
7.	Providing carpentry service with						
	own labor.						
8.	Producing agricultural						
	production.						
9.	Opening a café, restaurant, shop.						
10.	Participating with capital in a						
	trade company						

1.2. What is the place and role of the small business in the European and Bulgarian economics?

Considered as a process of exploring and realization of new opportunities for enlarging and better satisfying the various necessities of people, the entrepreneurship finds a specific manifestation in all kinds and forms of social activities.

Practically the most widely spread opinion is the **link of the entrepreneurship with small business, whereby under** "**entrepreneurship**" we should mean creating or acquiring an own enterprise (firm).

These are assigned to the small and medium business: the micro enterprises, the small and medium enterprises (SME). In the European Union and after the changes of 2006 in our legislation³ are regulated with the following basic criteria for categorizing of SME:

Table 1

Criteria	Criteria of enterprises			
Ciliena	Micro enterprise	Small enterprise	Middle enterprise	
Number of staff < 10 < 50		< 50	< 250	
A manual as als turm arran	≤ 3.9 million BGN	≤19.5million BGN	≤97.5 million BGN	
Annual cash turnover	(2 million EURO)	(10 million EURO)	(50 million EURO)	
Overall value of assets	≤ 3.9 million BGN	≤19.5 million BGN	≤84 million BGN	
Overall value of assets	(2 million EURO)	(10 million EURO)	(43 million EURO)	

Table 1: Criteria for catalyzing small and medium enterprises

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³ Law for Small and Middle Enterprises (State Gazette, issue 59/21.07.2006)

1.2.1. Politics of European Union

Micro, small and medium enterprises (SME) play a significant role in the European economy. They are the main source of entrepreneurial skills, innovations and employment. At the current moment the EU-27 has 24 million SME, which provide 77 million of working positions and represent altogether 99% of all the enterprises. However, often they encounter some imperfections of the market. SME regularly experience difficulties with gathering funds or credit resources, especially in the first stage. Their limited resources restrict their access to new technologies and innovations. Because of this reason the support for SME is defined as one of the priorities of the European Commission on the road towards a raised economic growth and social rapprochement.

In June 2000 the Council of Ministers of European Union accepted the European Charter for Small Enterprises. In this charter it is said that the small enterprises are "the spine of the European economy", "the key source for creating new workplaces and new business ideas", and it is declared: "The efforts of Europe to introduce a new economy will be marked with success only if the small enterprises are always first in the agenda".

Along with this it is noted that the small enterprises are "the most sensitive ones towards the business environment", that they are the first ones to suffer from the burden of excessive bureaucracy.

This is why the charter insists that the best possible environment for developing of small enterprises and entrepreneurship must be created and in this respect defines the management principles and lines of action:

- Training in entrepreneurship;
- Better legislation and regulations;
- Better and cheaper start in business;

- Providing lifelong training and consultations for entrepreneurs;
- Improving the access of small business to Internet;
- Bigger benefits of small business from the Single European Market;
- Tax systems encouraging the small business to start and grow;
- Appropriate conditions and access of entrepreneurs to financial funds;
- Strengthening the technological capacity of small enterprises;
- Applying successful models for electronic business, systems for information and support of the business;
- Stronger and more effective representation of the interests of small enterprises on EU and national level;

On a common European level we can define the following **problems** affecting the small business:

- ✓ Insufficient social and tax regulations, stimulating the particular type of business a 31% of entrepreneurs define this as a significant obstacle to their business;
- ✓ Lack of qualified labor force 15%;
- ✓ Poor accessibility to financing 14%;
- ✓ Lack of protection against the competition coming from outside of the European Union 11%;
- ✓ Lack of sufficient production capacity 9%;
- ✓ Lack of sufficient specialized consultations for the development of business 6%;
- ✓ Other problems 14%.

The policy of European Union for stimulating the entrepreneurial activity and developing the small enterprises found its manifestation as well in the updated **Lisbon Strategy** (2005), which put the accent on the persistent economic growth and the creating of new work places.

In 2005 in response of the updated Lisbon Strategy, the European Commission accepted a release for a new integrated approach for the politics of EU towards the SME, which approach will lead the actions of the member countries in the next years. The main guidelines will be the following:

- encouraging the entrepreneurship and the skills of people;
- improving the access of the SME to the markets;
- decreasing the bureaucratic barriers for SME;
- improving the dialogue and consultations with the representatives of SME;

Following the Lisbon Strategy the European countries are observing few basic principles in regulating the business environment:

- accepting a program for reforms in the regulative sphere with clear purposes and schedule for their realization;
- systematic review of the regulative regimes for achieving continuity and effectiveness;
- ensuring transparency and equality among all subjects;
- encouraging the politics of competition by eliminating the unnecessary barriers.

1.2.2. The situation in Bulgaria

The small and medium enterprises have **an increasingly important role in the Bulgarian economy**. They make above 90% of all the enterprises in the country, realize more than 75% of the overall

turnover and create 61% of the value added in the private sector. In SME are concentrated about 60% of the long-term material actives of the private enterprises.

In Bulgaria the number of SME outreaches 221 thousand, which makes 99,3% of all the enterprises⁴. Among them the micro enterprises (having 1 to 9 employees) have the largest portion – 198 727 in number, or 89,8 % of SME. The small enterprises (10 to 49 employees) number 18,9 thousand or 8,5 % of SME. The group of the medium enterprises (50 to 249 employees) is the smallest in numbers – 3,6 thousand or 1,6 %. The big enterprises in our country are only 561 in number.

- More than 1180 persons are employed in SME, which provides more than ¾ of the employment in enterprises (77,9 %)
- SME create annually over 7,5 billion BGN or 58,4% of value added, of which the macro enterprises over 1,9 billion BGN, small enterprises over 2,5 billion BGN, and medium enterprises 3,1 billion BGN;
- The contribution of SME in the gross domestic product (GDP) of the country is significant 19,2%, of which the macro 4,9%, small 6,5%, medium enterprises 7,8%.

During the last years a favorable tendency of annual growth of the contribution of SME has been noted, both in the value added, and in the GDP.

The labor productivity in SME however is approximately 2 times lower than in the big enterprises, and in the micro enterprises it is 3,9 times lower. The proportions regarding the profitability are identical. The smaller the enterprises, the smaller the profitability.

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⁴ Annual report for the condition and development of SME in Bulgaria. Specialized edition. MIE, 2006 (The databases is from 2004)

The rate of return of SME which on average is 6,2% is two times lower than the one in the big enterprises. The profitability expressed in the profit of 1 employee for the micro enterprises is 2,5 thousand BGN, for the small enterprises – 3,6 thousand BGN, for the medium – 4,4 thousand BGN, and for the big enterprises – over 9,5 thousand BGN.

The staff employed in the small enterprises is comparatively less educated and qualified. The wage of an employee in SME is 58% of the average wage in the **big enterprises**.

In most cases in the small enterprises a primitive or outdated technology is used, energy consuming technologies and equipment are applied, for the renovation of which those enterprises do not have a finance resource of their own.

Bulgaria reaches out to apply the principles of the European Charter of Small Enterprises, but the opinion of the European Commission is that the small enterprises in the country are insufficiently developed.

More than half (54,4%) of SME are concentrated in the sector commerce; 12,7% in processing industry; 11,2% in operations with real estate and business services; 9,5% in hotels and restaurants; 64% in transportation, storage and communication.

The dynamic entry and exit of SME from the market is at a big extent influenced by the existence and opportunities of overcoming the barriers to business, the most typical of which are the license, registration and authorization regimes.

The strengths and weaknesses, the opportunities of development and the threats in front of Bulgarian SME are formulated by the SWOT* – the analysis of condition of the SME in Bulgaria.

^{*}SWOT – Strengths, Weakness, Opportunities, Threats

- The strengths of SME lay in their advantages, which give the opportunity to raise their role and contribution for the development of the Bulgarian economy. It is very important to be noted their flexibility, receptivity and capability of changing, their narrower orientation towards the needs of their clients;
- The weaknesses represent mostly the insufficient governmental initiative and influence for encouraging and assisting the development of small business. Too heavy, numerous and bureaucratic are the registration, licensing and authorizing regimes, the procedures for issuing various documents, the excesses of different control organs. A basic problem remains the access of the small enterprises to financing. Many of the weaknesses are due to the low entrepreneurial and managing culture, to the lack of specialized professional training for acquiring of entrepreneurial and managing knowledge and skills.
- Opportunities for development are embedded in the realization of the priorities of the European and National strategies for supporting and assisting the SME.
- The threats are relate to the insufficiently developed infrastructure, the strong dependency from imported energy resources, raw materials and products, the technological retardation and the disloyal competition from a third side of the main Bulgarian markets.

Questions for thought, discussion and forming own positions:

- 1. Why does the European Union imply a politic for support of small business?
- 2. What is the role of small business in the development of the Bulgarian economy?
- 3. Which are the main reasons why the wage in the small enterprises is significantly lower than the wage in the big enterprises?
- 4. What are the chances of small Bulgarian enterprises to survive and develop in the conditions of the European market?
- 5. Name the three most important advantages and three of the main dangers for the small business, which derive from the Bulgarian membership in the European Union.

1.3. What are the conditions and environment in Bulgaria for starting and developing small business?

The business environment, also called "business climate", can be defined as a combination of all the external factors, institutions and influences which can affect positively or negatively the processes and activities related to the starting and realizing of one business. It is not possible to examine here the numerous conditions and factors, so we will put an accent only on the **main problems** derived from the business practice:

Firstly: For the regulatory environment.

According to the European Charted for the Small enterprises and the Lisbon Strategy during the last years in our country a deeper attention is being given and more measures are being taken for decreasing, mitigation and improving of the regulatory regimes and for limiting the interference of the governmental and municipal administration over business. This process meets incompetence, resistance or tardiness among the concerned agencies, which creates numerous obstacles to the development and realization of the small business in Bulgaria.

A research of the World Bank of the business climate from 2006 puts Bulgaria on the 54-th place from 175 countries in total regarding the grade of difficulty of conducting business activities. (4, p. 91).

Regarding the degree of difficulty of starting a business, Bulgaria ranks at 85-th place. Regarding the number of steps, time and expenses for receiving the necessary licenses and authorizations, Bulgaria is at the 140-th place. Currently in our country there are more than 1300 license, registration, authorization, coordination and information regimes that are being applied for various specific activities of the firms.

According to the publication in the site of the Bulgarian Industrial Association from 16.02.2007, instead of the normally regulated 53 licensing regimes, there are 114, instead of 243 registration regimes, there are 613, and instead of 245 authorization regimes – there are 1012. Besides this, there are 197 coordination regimes, which are not legally regulated. The municipalities apply 767 regimes when only 11 are regulated by the legislation. These regimes in most of the cases are the source of corruption.

• The number of administrative acts, creating problems to the firms working in the field of agriculture and forestry, is big;

- The procedure for issuing authorizations for construction and commissioning of industrial and commerce sites is long, complicated and clumsy, and such is the change of purpose of the land from agricultural for industrial purposes;
- Many obstacles and difficulties to business create the regimes related to: the sanitary authorizations for introducing for exploitation of sites from the Hygienic Epidemiologic Inspection; documents from the specialized organs for the coordination of the sites with the regulatory requirements for Fire and Emergency Safety; the categorization of the tourist sites; the licenses for tour operators and tour agencies; gaining access to the communal services (electrification, water supply, heating and so on).

According to the cited research of the World Bank, the time needed for registering a new firm in Bulgaria is 32 days, and for this 9 procedures are required; the time for receiving the licensing authorizations is 22,6 days with 22 procedures.

The last researches among the entrepreneurs confirm that the bigger part of Bulgarian firms encounter problems related to the administrative acts which regulate their activities. The will and suggestions for change are connected mainly to the facilitation of the bureaucratic procedures, mostly by diminishing and unifying the requirements for issuing documents and by introducing an effective system for service at one counter.

For starting a new business, as well as for facilitating the business operations, it is recommendatory that a bigger number of the administrative services are realized online, i.e. that a completely electronic government is introduced, while a big part of the strategic barriers to the starting business must be taken away.

A certain improvement of the rules and administration environment for the business and entrepreneurship is expected from the introduction of the **new regime of commercial registration of the firms**, the creation of a central register of the juridical persons and the electronic registry center of the Republic of Bulgaria. It is also expected that a public Register of Regimes is created, which will contain information and will provide transparency for the regulation regimes.

The opportunities for realization of the small Bulgarian enterprises at the European Market are limited not only by the strong competition, but also by the extreme requirements of the European standards and the existing barriers. The traditional products which they offer (foods, clothing, furniture) are put under the most strict control for protecting the consumers. This control affects not only the end product, but also the whole production process, every single operation, the materials and packages used.

The majority of the small Bulgarian enterprises are not ready to work on the competitive European market. According to a research of ESTAT a total of 1/3 of the participants in the survey are not capable of defining their competitive advantages and even think that they do not have any. More than 27 % of SME continue to depend on the lower price as their main competitive advantage. In such situation the expectations of most entrepreneurs for favorable consequences from the Bulgarian membership in the European Union seem rather bizarre.

The necessary investments for putting the production in order with the demands of the European market not only regarding the quality and safety of the goods but also the environmental protection and the safety of labor are absolutely unsustainable for most of the small enterprises.

Second: About the access of small firms to financing

The small and especially the starting firms experience significant difficulties providing the financial resource both for starting the business and for the growth, the technologic and product renewal.

Most of the SME need additional funding. Only 22,5 % of the SME do not need additional funds, 35,4 % need financing up to 50 000 BGN, more than 19 % need additional $50 - 100\,000$ BGN, 9,8% - 100 to $250\,000$ BGN and 13 % - more than $250\,000$ BGN (4, p. 28)

During the next three years SME plan investments and need additional financing on the following priorities - technological of production (61,5%), innovations the for covering standards/requirements of the EU (50,0%), innovative projects for the development of new products, technologies, services (25,4%), projects for introducing energy saving technologies (23,5%), as well as for modernizing the management of the firm (22,1%), educating and qualification of the employees (15,6%), business cooperation and connecting with clusters (9,8%), consulting and information services (8,7%), popularizing and increasing the export of the firm (7,5%), other (3,9%). More than half of the SME haven't used any crediting during the last three years⁵. During this period 44% have had access to a bank credit. At least 10% of the owners have used their better credit experience for financing the activities of the firm by consumer credits. These credits are more expensive regarding the interest rate, but

⁵ National representative survey of the Ministry of Economy and Energy "The Bulgarian SME and their participation in the utilization of the Structure funds of the European Union" – June-July 2006, executed by Vitosha Research.

require considerably less formalities and do not demand collateral. 37% have used commercial credit during the last three years, while only 18% have used the investment credit. The main reason for loan denial is the lack of collateral – 67,2 %. Almost 14% of the applications have been refused due to the bad financial state of SME, and other 11% - due to uncertainties in the project or the business plan; 39% of the applications are refused due to other reasons.

The share of the financing of the SME through **leasing schemes** is even smaller -10%. The fact that the share of the consumer credits is comparable to the share of the leasing schemes testifies for the basic state of development of the financing for the SME.

The access of starting enterprises to financing is much worse, as they do not have a credit portfolio, a satisfactory long accounting history and considerable savings or actives.

The main barriers before the access of SME to **bank financing** are:

- ➤ The high price of the credits high interest rate (54% of the participants in the survey)
- ➤ High requirements for the collateral of the credits (40,3%)
- ➤ Burdening documentation and long procedure of approval (19,6%)

About 68% of the grounds for refusal of the banks to provide credits are the lack of satisfactory collateral.

Currently most of the trade banks and branches of foreign banks operating in Bulgaria have programs for SME (27 of 33) and offer microcrediting. The programs for SME have the following characteristics:

- ➤ More flexible conditions and faster processing;
- > Easier and sometimes reduced requirements for safety;
- ➤ Longer period for paying off the credit 16 banks have investment programs for terms of more than 5 years, most banks offer repayment schedule for up to 7 years;
- ➤ Additional service packages offered along with the credit;
- ➤ The interest rates mark a certain reducing and the banks constantly offer promotions for their programs for SME with lower interest rates for the first months/year from the repayment.

A few more nonbank institutions (JOBS (Job Opportunities through Business Support), Union of Popular Funds, Microfond Ltd., USTOI, Cooperation "Nachala", Association of the Popular Funds in Internet) provide programs for micro-financing in Bulgaria.

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<u>Third</u>: Consultant and information services for small enterprises

The access to quality information and consultant services has a key significance to the development of the business environment, due to the traditionally low level of management knowledge and skills in the small enterprises. Bulgaria is significantly left behind regarding the development of services for the business comparing to the other European countries, mainly because of the limited access, the poor commonness and the low quality of the services offered. On the other hand, the attitude of the firms towards the consultants is still relatively reserved – only 1/5 of the enterprises have used consultant services during the last year. The most common reason cited for this is the low quality of the provided consultations combined with the high prices of the service.

The sector of information and consultant business services is fragmented and uncoordinated which leads to the ineffective use of resources, expert potential and the available roofing and technological base. Big international consultant companies have opened their offices in Sofia, but only stable and big enterprises can afford their services. Eight centers, 6 of which are within the Bulgarian Chamber of Commerce and Industry (BCCI), are integrated in the Network of European Information Centers, which is part of the Initiative B2Europe aiming the improving of the cooperation between th networks for support of business in the countries form EU. The Bulgarian Industrial Association and BCCI have branches in the big regional centers and provide services mainly for their members. Thus their capacity remains unused. Mainly former governmental employees with specific knowledge work in the private consultant companies. Along with the fast change in the legislative base and market environment, the expertise of the services offered by them is aging rapidly and the quality remains below the necessary limits. This leads also to a discrepancy in the supply and the demand of consultant services⁶.

SME hardly find their way among the numerous consultant companies and the various prices. Enterprises from the small cities must travel to the regional offices in order to receive the service. Potential entrepreneurs and micro enterprises face even more complications when receiving the services or they cannot afford the prices offered.

The biggest coordinated governmental initiative in the field of business services is the project JOBS of the Ministry of Labor and Social Politics, supported by the United Nations Development Programme. The network consists of 42 business centers including 10 incubators and works since the end of 2000. These centers do not profit and will have to terminate their activity after the end of the subsidies for them. Additional efforts are needed for the reconstructing of the network and providing its long-term stability. The governmental financed projects develop niches of the business services unoccupied by the existing NGO. The purpose is that the business services become accessible also for the business outside the regional centers and the bigger cities, the range of services offered becomes more diverse and the quality improves.

As a general attitude, the firms prefer the accounting financial and marketing services which are related to their main and daily activities – 22% of the SME have used consultant services: of which, 49,5% are completely satisfied with the services provided, and 47,3% are partly satisfied with them.

As the prime reason for not using the consultant services the enterprises which took part in the survey point out the lack of necessity of consultations -63,2%. With almost the same number of

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⁶ Operational Programme "Development of the Competitiveness of the Bulgarian Economy", 2007-2013, p. 37-38

answers the lack of information for the consultant services and their high price are appointed as reasons, 31,5% and 30,5% accordingly. The lack of practical approach of the consultant services offered takes the fourth place with 19,6%.

The innovative services such as patent and intellectual property protection, are very underdeveloped -7.2% of the firms have used such services and 12,6% have used information for new technologies and opportunities for technological transfer. This type of services represents another market niche which will continue its development in future.

The approach towards the use of consultants for **preparing the project proposals for applying under the European funs and programs** is low. The expectations of the firms are connected with providing direct assistance with the preparation and the actual work on the accomplishing of the projects, and not with providing information materials and organizing events for explaining the conditions for applying.

The lack of information regarding the offered and the available consultant services can be explained through the responses given from the participants in the survey about the information sources which they use. The firms receive information mainly through their business partners, friends and colleagues -68,9%, i.e. they mainly depend on the recommendations of those who have already used the consultant services. Almost two times lower is the share of medias, commercials and PR agencies as an information source -33,8%. The third place as a source of information for consultant services is taken by the fairs and exhibitions -30,6%.

The **conclusion** which can be made, is that the consultant business in Bulgaria is still considered skeptically from the SME. On the other hand, the consultant business is a perspective field which is yet to develop. An important role of the consultant organizations is to

mediate – to forward the European experience, the information for the events in the EU regarding the business and the respective branches, and for the current processes in EU in an understandable and accessible for the SME manner. The free market niches in the field of consultant services are outlined mainly in the area of project preparation and management on different programs and funds, as well as for preparing business and investment plans.

<u>Fourth</u>: For the strategic developments of the small firms and their participation in the Operational programmes of the EU.

The adequate preparation of SME for the competition in the conditions of the membership in the European Union without a doubt includes the widening of the horizon of planning and the accenting on the strategic management and stable growth instead of the outgoing focus only on the operational management and the surviving. It is necessary to focus on the mechanisms and methods of creating strategies, the internal organizational structure and the partnership between the firms in developing strategies and long term plans.

One of the indicators which give an estimation of the strategic management in the firms is the **existence of a business plan**. Nearly 60% of the firms do not have a business plan, but approximately 10% of them have the will to develop such if they have subsidies for attracting foreign consultants for this through a program. Of course, not always the existence of a business plans means that in the firm there is strategic thinking – often the business plan is being developed for outside reasons - for example receiving a bank credit. Nearly 60% of the business plans of the firms have a horizon of one year, and only 17% have a horizon above 4 years, while only 2% have a horizon from 6 to 10 years.

The absence of strategic business plans, as well as their short term character, is a serious obstacle for the participation of the small firms with own projects in the operational programs and structure funds of EU.

Until present day, the small enterprises nearly do not participate in the auctions on European programs. Only 1,4% of the firms have received financial support through the PHARE programme; 1,6% have received financing through the SAPARD programme; 0,7% have received financial support from ISPA; 5,2% of the companies have applied, but haven't received financing from any of the European and international funds and programs.

The main obstacles are rated by priority by the firms in the following order: complicated and bureaucratic procedures for applying, insufficient information, additional payment to intermediaries (consultants), complicated procedures of financial accounting, big expenses for applying etc. This inertia can be explained with the fact that most of the enterprises are with a short horizon of planning their activities, which cannot be suited with the time frame of preparation and executing of projects.

The European programs and the opportunities offered by them are not well known due to insufficient internal firm capacity (staff trained in foreign languages, with good computer skills and knowledge of using the Internet, as well as with skills for developing and managing projects) for participation in contests.

During the next 5 years 35,4% of the enterprises will finance their investment projects with funds from the Structure funds for technological renewal of the production for covering the standards/requirements of EU, for introducing energy saving technologies and for innovative projects.

TEST

Please mark which of the following factors of the environment are the most important for the success of small business, by ranking them from 1 (most important) to 10.

$N_{\underline{0}}$	Factors of the business environment	Degree of importance
1.	Simplified registration procedures	
2.	Access to consultant services	
3.	Minimum authorization procedures	
4.	Specialized training in business	
	entrepreneurship	
5.	Access to outside financing	
6.	Removing of bureaucratic procedures of	
0.	issuing documents	
7.	Granted help for business from governmental	
7.	institutions	
8.	Simplified and clear procedures for	
0.	participating in auctions	
9.	Access to information	
10.	Lessening the taxes for administrative	
10.	services	

1.4. What are the priorities and the courses of action of the Small Business Act (2007-2013)

Following the policy of the EU towards the small business in Bulgaria, the National strategy of promoting the development of SME (the Small Business Act) was adopted for the period 2002-2006, after which it was inherited and additionally developed by the National Strategy for the period 2007-2013*.

• Strategic purpose:

Increasing and effective use of the potential of Bulgarian enterprises

^{*} This document is published on the site of the Ministry of Economy and Energetics www.mi.government.bg

• Priorities:

- 1. Education in entrepreneurship and encouraging the entrepreneurial spirit and skills.
- 2. Improving the business environment.
- 3. Facilitating the access to financing.
- 4. Competitiveness and innovations.
- 5. Developing of cluster structures.
- 6. Improving the access to the single and external markets.
- 7. Protection of the intellectual property.

These priorities are illustrated on Fig. 1

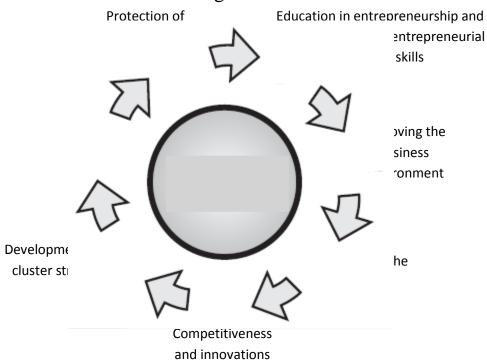


Fig. 1. Priorities of the Small Business Act 2007-2013

These priorities have different degree of importance. **The first level** includes fundamental fields in which it should be accented and it should be worked in long terms until 2013 and further. These are education in: "entrepreneurship and encouraging of the entrepreneurial spirit", "facilitating the access to financing" and "improving the business environment". These three areas are the basis and the prerequisite for the emergence and the existence of competitive enterprises (Fig. 2).

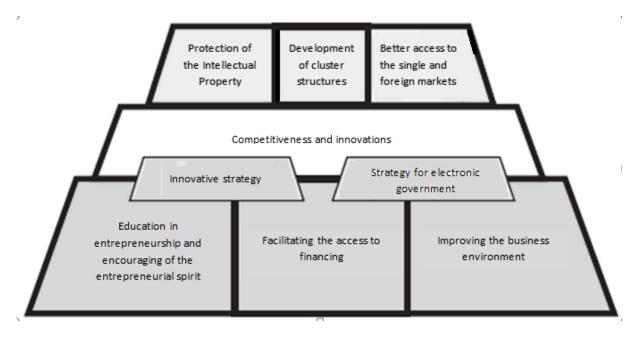


Fig. 2

At the second level the additional guidelines come in, in which guidelines it is provided that the government helps the development of enterprises – technological renewal, energy effectiveness, introducing systems for quality and environmental control etc. Here takes place the impact of two other strategies – the Innovation strategy which influences with scientific developments, their fixing and incorporating in the production process, and the Strategy for Electronic Government, which influences on creating a more effective business environment without significant administrative barriers, fast access to financial resources and fast start of a competitive business. At this stage other strategic documents can also find their place, the priority of which at certain extend will match and will complete those of the

National Strategy, especially the strategic documents in the field of development of human resources.

The third level of priorities represents the actions of the government in support of those enterprises which have already succeeded to reach such a phase of development, which allows them to consider decisions for going out on external markets. This is inseparably linked to the protection of their intellectual property on those markets (without excluding the internal market) and to their striving to increase their competitiveness through joining cluster structures, which can contribute both for achieving better effectiveness, and for gaining new market positions.

In the described look over the Strategy, it is shaped in specific pyramidal structure which distributes the priority fields on three levels, as the main distinction between them is the duration between the activation of the measures and the final results, for the monitoring and accounting of which the appropriate indicators have been set.

Inseparable part of this Strategy is the annual programs for its realization. The Operational programme "Development of the Competitiveness of the Bulgarian Economy" 2007-2013 which formulates short-term, middle-term and long-term initiatives and will be realized from the Bulgarian Small and Medium Enterprises Promotion Agency (BSMEPA). and the other competent governmental institutions.

Questions for thought and discussion:

1. If you found a firm of your own, which of the priorities of the National Strategy would be of interest for you?
a/
b/
c/
2. Examine closely the guidelines for action on priority 2: "Improving the business environment" and give your opinion about:
a/ Do you believe that the unnecessary administrative barriers when founding a firm would be removed?
b/ Would you take advantage of the eventual opportunities for making an online registration of the firm and why?
c/ How do you estimate the role of the business incubators in the support of small business?
d/ When and how do you expect that the fight against the disloyal competition would be lead?
3. Formulate your expectations towards the facilitation of the acces to financing on priority 3, guidelines for action 1 and 6:
On guideline 1:
On guideline 6:
4. Do you estimate as important to improve the innovation culture of the entrepreneurs and how should this be done? (priority 4, guideline 4)?

educatio	n and how do you expect to support the foreign language n of entrepreneurs, the improving and enlarging the marked nal market knowledge and skills?
•••••	
6. Which	questions and recommendations would you suggest to th
•	of Economy and Energetics regarding the realization of th Strategy of promoting the SME (Small Business Act) 2007
2013?	Strategy of promoting the SME (Small Business Act) 2007

II. PROFILE AND MOTIVATION OF THE ENTREPRENEUR. ESTIMATION OF THE PERSONAL ENTREPRENEURIAL QUALITIES

2.1. What is the profile of the Bulgarian entrepreneur?							

^{*} Source: Alphabet of SME, <u>www.mi.government.bg</u>

The sociologic surveys made during the last few years allow us to outline the profile of the Bulgarian entrepreneur in the field of small business.

Here are some more detailed data⁷:

- **Gender** Male entrepreneurs are approximately 60%, and female 40% of the number of entrepreneurs. It is clear the tendency of increasing the relative share of female entrepreneurship for 5 years it has grown from 30 to 40%. What differences can be outlined between the male and female entrepreneurship?
 - ➤ Women entrepreneurs are less occupied with production and more with trade, in the field of services they are almost as much as men;
 - ➤ The woman-entrepreneur registers more often her firm as a sole proprietorship and her firm is relatively smaller than those owned by men. This indicates the less ambitious goals and the more restricted scale of the female entrepreneurship;
 - ➤ Women entrepreneurs are significantly more cautious when taking business risks;
 - Men entrepreneurs apply at a bigger extent an authoritarian (instructive) style of management, while the women entrepreneurs prefer the democratic (consultative) style;
 - A high level of resemblance can be noted between men and women in the self-esteem for their personal entrepreneurial qualities and skills and individual training for business.

-

⁷ Davidkov, Ts., "Passport of the Contemporary Bulgarian Entrepreneur", m. "Economy", 3/2004

• **Age** – The most numerous is the age group of entrepreneurship between 31 and 50 years – 61%. Next in ranking is the age group between 51 and 60 years – 25%. Relatively poorly represented is the youth entrepreneurship (15-29 year old) – 9%, although this age group has the strongest wish and inclination for developing a business of their own (60% of the willing are youths). This is mainly due to the circumstance that the young people do not have the basic factors which the starting entrepreneurs have stepped on – own funds, real estates, professional experience, social contacts and other prerequisites.

A tendency can be marked out for the increasing of the average age of private entrepreneurs, which is due to: the average aging of the population, the big number of people emigrated from the country – more than a million, mainly young people; the redundancies in the enterprises and the increasing unemployment among the older workers and employees.

• **Education** – In the education structure of the entrepreneurs the groups with university education dominate – 54%; those with secondary and college education are 45%.

The entrepreneurs with higher education enter the private business mainly from the numbers of the humanitarian and engineer intellectuals, the employees and the unemployed. They more often head towards the production, they offer higher culture of service, and create relatively bigger firms and hire external parties.

The education rate is marked out as a very important factor for success in business. The researches show that the entrepreneurs with high education:

• Have a more objective and higher esteem of their own qualities and business training;

- They are better trained to organize production, for the accounting and estimation of the price cost, the expenses, the profit, the control over the quality, the trade in and outside the country, the marketing, the advertising, the negotiating, the relationships with the banks;
- They think in a bigger scale and in a wider perspective;
- They show more the quality "enterprise" (ambitiousness) and have better skills for working with people;
- They deal better with the management and the business risk;
- They know and use foreign languages.

Among the successful entrepreneurs we can find also people with lower education. Their success is mainly due to their natural "sense", "intuition", "instincts", "attitude", "combination skills" and other genetically predetermined qualities. Sometimes they are more decisive, more ambitious, more inclined towards risk, because the educated generally think about more, consider and hesitate; they respect the interests of others, and sometimes at the expense of their own interests.

The good education is a very important prerequisite for the entrepreneurial success. The prove of this are the facts that the entrepreneurs with higher education:

- ➤ More often establish fruitful business partnerships;
- ➤ More often develop and realize plans for expansion and/or renewal of their business;
- ➤ They reach higher profitability from business and better standard of living.

According to the **social-professional indications** in the profile of the entrepreneurs we can outline the following characteristics:

➤ The biggest share is the one of entrepreneurs which have been employees in the governmental administration and in enterprises and firms before starting private business – 45%. Entrepreneurs with history as workers are former employees in trade, in the field of services (13%) and in industry (10%). From the fields of technical intellectuals there are 9% of entrepreneurs, and from humanitarian and artistic-creative intellectuals – 8%.

The group of farmers, craftsmen and mainly unemployed is estimated as 15% of the number of entrepreneurs.

TEST
Outline your own profile as a prospective entreperneur:

Gender:	Age:
•••••	•••••
Education:	Specialty:
•••••	•••••
Qualifications:	Work experience:
•••••	•••••
Professional experience:	Knowledge of foreign languages:
Computer skills:	Access to information:
What funds do you have?	What real estate do you have?
•••••	•••••
Additional skills:	Motives for stating private business:
•••••	•••••

2.3. What are the motives for starting an private business?

The orientation towards an private business usually is a consequence of three life situations. The first one – dissatisfaction from the wage and the opportunities for carrier development at the work place: approximately 52% of the present entrepreneurs, before starting, have been hired. The second – lack of job: 13% have been unemployed for short or long term. And the third reason – as a natural step after finishing school and university (for 15%). And while with the first and second step the business is an alternative and a way of improving the material state of the individual and his family, the third reason can be defined as a purposeful choice.

Regardless the difficulties which the Bulgarian business encounters, the general esteem of the results from the activity of the firms in personal plan are favorable -52% of entrepreneurs share that their condition has significantly improved, and 29% - that it has improved, but poorly*.

The idea to create an own firm is attractive for 37% of Bulgarians. 42% of men and one of every three women consider this. The wish for developing a business of their own is the strongest with them. With the increasing age, the esteem of the possibilities and intentions becomes more realistic and due to this the share of

^{*}Source: Research of Agency ESAT, 2006.

potential entrepreneurs decreases drastically (fig. 3).

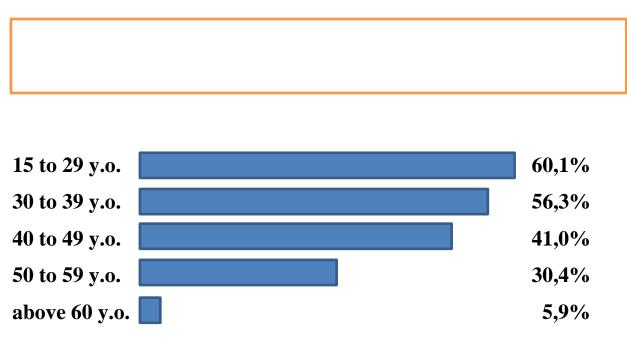


Fig. 3. Distribution of the prone to develop their private business by age groups

There are **two life alternatives** standing in front of every efficient person: to be an employee or to realize their private business. This choice is crucial, as it radically changes the way of life.

➤ The employee sells his "work power", i.e. his ability to execute certain tasks, to an employer, for which he receives a working wage, additional payments, social and health insurance and eventually bonuses. For this the employee hired is made available to his employer, he obeys his will and executes the tasks posed and takes responsibility for their timely and quality execution.

The value of incomes from wage labor depends on the conjuncture on the labor market. As a rule, relatively better payment is provided to people with better education and professional qualifications, with adequate to the profession personal qualities and skills, those who occupy a higher or

deficit positions, and often those who execute hard, unattractive or unhealthy labor.

It must be noted that the taxes and insurances over the wages are paid simultaneously with the salary payment and fix their net value. In corporate business taxes are paid at the end of the year and after the expenses have been made and the result has been formed.

In most cases the employed labor is performed by compulsion, it is a kind of abuse against the person which makes this sacrifice in the name of the necessity of incomes for existing. Many skilled and capable people put themselves in this unenviable role of "novices" of newly created "businessmen" with power and money and they invest intellect and diligence for their enrichment.

The **cost of labor** in Bulgaria is scandalously low, it can even be called miserable comparing to the one in the developed countries. In our country the expenses on the working force are only about 25% of the operational expenses of the enterprise, while the average value in the European Union is 41%, and in some countries as the Netherlands it is 64%, Denmark and Canada – 59%, USA – 53%. The minimum wage in Bulgaria is 17 times lower than the one in Luxembourg, and over 13 times lower than the one in France, Belgium, the Netherlands, Great Britain, Ireland.

➤ On the other pole is the road to an private business.

This road is extremely difficult, there is no guide for it to show the right way and to protect you from dangers and catastrophes. This road map must be drawn by yourselves, as you acquire the necessary skills for this and as you make various preliminary researches. A business of your own is an attractive perspective, as it gives the full personal freedom, the chance to take your own decisions, to do what you want, to work and profit for yourselves and your families. No other sphere of human labor provides more unlimited opportunities for showing initiative, for discovering the creative potential of the individual, as the private entrepreneurship does.

But not everyone has the conditions and opportunities to start and develop a successful private business. The reasons and obstacles for this can be various, such as:

- Lack of personal qualities, of motivation, unwillingness for living in risks and uncertainty;
- Lack of the necessary knowledge, skills and experience for creating, organizing and managing a business of their own;
- Lack of personal funds/property and inability to borrow such for starting a business;
- Fruitless search of appropriate and successful business idea and so on.

Before taking the final decision to create a business of your own, note and analyze: the pros and cons of entrepreneurship; the tasks and responsibilities of entrepreneurs; the chances, barriers and risks which you will eventually face. This will help you make an objective esteem of your personal strong and weak sides and on this base it will help you taking the crucial decision – "yes!" or "no!" to starting a business of your own.

2.3. How to evaluate the personal entrepreneurial qualities?

The personality of the entrepreneur is the first from the four posts of successful business – personality, product, market and finances. The future entrepreneur must objectively evaluate himself, to know his strong and weak sides.

Each person has unique qualities which make him capable of performing a certain work in the best way. For doing business, a set of qualities is also necessary; these qualities can be divided conditionally in **two groups**:

- **Inborn qualities**, which are genetically predetermined and change very little. For example an introvert cannot become an open and communicative person, and a person with slow reactions cannot become dexterous!
- Acquired qualities, which form from the person's surrounding, from his way of life, from his education, qualification and work experience.

Viewed through the prism of private business, the qualities of the entrepreneur can be evaluated in two aspects:

First – those are "**the universal qualities**" which form the general capability to realize a private business, i.e. which are necessary for every type of business;

Second – these are **the specific qualities**, which are necessary for the successful realization of a certain type of business. For example, the

qualities needed for retail trade are very different from the ones needed for shoe repair, dairy production, accounting, marketing research etc.

This circumstance requires the evaluation of the personal qualities for successful business to be made firstly through the prism of the universal entrepreneurial qualities, and then when choosing a particular business idea — through the prism of the specific requirements of the concrete business activity.

Here we will examine the general entrepreneurial qualities and we will suggest techniques for their evaluation.

Undoubtedly, the entrepreneur is an individual with unique personal characteristics and capabilities, among which the crucial role and significance belongs to:

- → Being ready to take risks and responsibility: every business is more or less a risky enterprise, because resources are being invested in conditions of uncertainty and ambiguity for getting the expected results. The entrepreneur has the personal responsibility for the consequences of any mistakes or misfortunes.
- → Creativity and innovativeness: entrepreneurship is in the highest level, it always brings something new and different a new or modified product, new technology, new or enhanced system of service, new organization of production and labor, new market niche etc.

By definition the entrepreneur is the discoverer of business opportunities and opportunities for profit.

→ Stability, flexibility, combinative thinking and adaptability: the entrepreneurship activity and the entrepreneur are exposed to a multilateral pressure from outside factors – municipality, tax

authorities, control organs, competitors, banks, partners, clients and other outside factors which create extreme pressures and crisis situations. The entrepreneur must have the strength to stand against, but at the same time he should be able to tack and adjust himself to the dynamically changing business environment.

- → Enterprise, initiative and ambitiousness: the authentic entrepreneur cannot be satisfied with what he has achieved, but he always puts higher and higher goals for himself and he takes new initiatives. But every new initiative meets various obstacles and resistances which require ambitiousness, intransigence, will of overcoming difficulties and barriers.
- → Honesty, conscientiousness, accuracy and good manners: these are the main laws in business which ensure a good image and thrust towards the entrepreneur and his firm, a stable range of clients and a stable moral ground for development and prosperity.

The list of social-psychological and business qualities can be extended, for example: sense of possession, creativity, independence, emotional stability, good health, ability for self-evaluation and learning from mistakes, communicativeness, self-discipline, virility, responsiveness, accuracy and precision, tolerance, persistence, vision, intuition, watchfulness, analytics and so on. But in fact there is no person which has all these qualities. Each personality, to one extent or another, has its weak sides, its flaws and underdeveloped virtues. It is important that they are known and that their importance and role for the success or failure of business is well estimated.

Entrepreneurship is a **specific type of professional activity**, the performing of which requires a set of knowledge, skill and attitude which we could call entrepreneurial competences. They can be acquired through education and practice, and when they are insufficient, someone else's competences could be bought, i.e. services from specialized firms can be used – accounting, planning, finances, researches and analyses, information service etc.

Of important significance for the entrepreneur are his competences related to:

- ➤ The commercial (firm) and labor law, tax and insurance legislation;
- > The economy, organization and management of the firm;
- ➤ The strategic business planning;
- ➤ The marketing, market forces and competition, the advertising and PR (public relations);
- ➤ The firm accounting and finances;
- ➤ Work with personal computer, information and communication technologies;
- > Preparation and decision making;
- > Staff management;
- ➤ Time management;
- ➤ Negotiations;
- > Evaluation and control;
- ➤ Solving conflicts etc.

III. BUSINESS ORIENTANTION AND ALTERNATIVES FOR STARTING A PRIVATE BUSINESS



3.1. Choosing the field of activity, the branch (sector) and the products/services.

The answer to this question can include the following stages of the business orientation:

First: Overview and evaluation of the potential which we have and the conditions for starting a business.

Second: Choosing the field of activity.

Third: Choosing the branch (sector) in which we will do our business.

Fourth: Choosing the products/services which we will produce and provide to the market.

3.1.1. First stage – in order to make an evaluation of the potential which you have and of the conditions for starting a business of your own, we suggest you to search for an answer to the following questions: (8, p.8-10)*

What can I do?

➤ Think of what you can do best. Are you experienced in any crafts or arts? For example, wood carving, painting, pottery, shoemaking, hairdressing etc.

^{*} How to start and develop a business of my own. AMPS- Varna, Sofia, 2003, p. 8-10

- Do you have any particularly prominent abilities and skills?
 are you a good driver, can you sew, cook, fix gear, are you are good seller etc.
- ➤ Do not neglect the experience and qualification which you already have. They can serve you as a good basis to start a business of your own with which you can provide for your family and profit.

It is important that you evaluate honestly your capabilities, so that you find out what from the qualities you possess will be of the biggest use for you. If for example you have worked in a pizzeria, this might guide you to finding your own restaurant in another region, because you have gained enough experience, you have learned all the secrets in making pizza and you have met the providers of beverages, flour, cheese and so on.

What do I have?

A great advantage when starting a small business is the property which you possess. This can be:

- > Free rooms (residence, outbuildings etc.);
- ➤ Land:
- ➤ Animals;
- ➤ Machines and technical gear;
- > Transport vehicles;
- > Other property;
- ➤ Personal and family savings;

A very important factor which you can count on is your family, your relatives or friends, which you could make business with. Their qualification, skills, ideas, and experience can supply yours in one successful cooperation.

Think about all the contacts which you have with people from various professions. Can they be of any use for you, to help you in the beginning or to give you ideas?

What opportunities does the region where I live give me?

After you evaluate everything you have and the things which can help you, find out about the opportunities which the place you live in can provide you. For example:

- ➤ The traditionally developed activities for the region the industrial activity, agriculture, crafts, services etc.;
- ➤ Favorable natural and climate conditions and resources fertile soil, climate which is suitable for growing a certain crop etc.;
- ➤ The infrastructure of the settlement the development of the commercial network, the transport services, the bank services in the region;
- ➤ Local programs for development of small and middle business. Search in your community or local employment office for programs on local level which are designed for the starting firms. A great number of them could offer you free consultations, low-interest loans, education;
- ➤ Opportunities for hiring labor explore if there is enough qualified employable people in your region, who you could hire or whose services you could use in your business;
- ➤ Development of the private business according to the particular region are there many private firms in the region and what are their activities? The presence of well-developed private business means that there are conditions and potential for the development of the region. This is an advantage when starting a small business;

➤ The traditions of the local people – in order to orientate yourself better and to protect yourself from mistakes, pay attention also to what people from your region traditionally like, what they oppose to and what they wouldn't undertake.

3.1.2. Choosing the field of action

A starting point in the business orientation is the choice of a field of activity – production, services or trade.

- → Production means processing (transformation) of the input supplies and materials in order to produce from them material products goods, by using labor, machines, instruments and energy. It is believed that the production is the post risky field for business. It requires a significant starting capital for buying or renting land, buildings, machines, equipment, technological documentation, supply of raw materials and products.
- → Services are extremely various activities which products do not have a stock (material) form, but a satisfaction of certain needs of people or firms is being carried out. Very often the services accompany the trade of goods in the form of different kinds of serving repair, education, installation, loading etc. A pure service is considered such during which the client does not gain a substantial product. It is usually produced and consumed at the same time.

Every service is strictly specific, which required **individual approach**. Services are characterized with higher labor absorption comparing to production and trade. The human factor (the professional and personal qualities) has a very important significance for the success in this business. In most cases the services do not demand high preliminary expenses for creating a production base. The materials can be bought after the order has been received. The main

problem with services is the long period of time until you become known, until there is a circle of regular customers which cherish and prefer the quality of your services and the culture of attendance.

- → Trade is a process of purchase and sale of consumer or industrial goods by the formula: "Buy cheaper sell more expensive and realize profit!". The merchants gain the right of property over the products and resell them. Trade is being made under two main forms:
 - ➤ Wholesale, when goods are bought from the manufacturer and are resold to other merchants;
 - **Retail**, when goods are sold to consumers.

In the field of trade the expenses are seen and the turnover of the capital and results are relatively the fastest and the clearest. The investments here are in commerce and warehouse premises, stock of supplies, transport and advertisement.

The trade intermediary connects the salesman with the buyer and, if a deal (trade) has been carried out, he receives a commission fee, usually as a percent of the value of the deal. The trade agents and brokers assist for the accelerating of the trade between producers and salesmen, for which they receive fees and commissions.

Considering the specific characteristics of business in these three fields, evaluate the pros and cons of each one of them through the prism of your intention, capabilities and conditions and **make your choice**. For this purpose we suggest you:

3.1.3. An important stage in the business orientation is choosing the branch* (sector) in which you will develop your business.

- ? Which branch of production would you aim at: production of plastic materials, household electronic, household machinery, horticulture, production of flowers, production of building materials, furniture production etc.?
- ? In which branch (sector) of services: education, consultant, finance, computer, television and radio repair services, repair of household equipment, mechanic and garage services, laundry and dry cleaning, transportation, catering and hotel management etc.?
- ? I which branch (sector) of trade: groceries, industrial goods, household goods, computers, beverage, clothing etc.?

When making this choice you should mainly have in mind your professional experience and knowledge, your observations of life, your personal qualities, the motives for starting a private business, the present and potential resources which you could imply in your business.

^{*}From here on the word "branch" will be used which defines a type of homogenous activity according to its purpose and object, its feedstock and/or product. More precisely we mean the type of economic activity.

3.1.4. The most substantial stage in the business orientation is the choice of products/services which we will produce and provide to the market!

This choice is based mainly on the necessities of the people which you would like to satisfy and the products/services which you could provide them.

In the basis of every business there is always implied a specific type of product or service, in which a potential client on the market might be interested.

When the great industrial Henry Ford was asked "What is business?", her responded: "Business is to find what people need and to try to provide it to them." They asked him: "Is that all?" – "This and so much more" – he answered.

At this point it would be good if you search for an answer to the following questions:

- ? Is your product absolutely new or it is an updated version of something that already exists?
- ? Why would people look for your product/service? Because it would be cheaper than others; because you would provide better delivery and repair service; because it would be more accessible to local clients; because it would have better consumer qualities or something else?
- ? Which products or services are missing or are not enough on your market, but people would use them?
- ? What could you do in order to improve the quality of a product or a service which is already present on the market?

? What better conditions of serving the clients could you provide?					

3.2. What are the alternatives for starting a private business?

A private business can be started through **three main ways**:

- → through founding a new firm;
- → through purchasing an existing firm;
- → through franchising joining a franchise chain.

Each of those possibilities forms specific starting positions of business, it is characterized with various entrepreneurial activities, and it predefines different levels of risk, competitiveness and profit.

3.2.1. Starting a new firm.

This is the most widely used way of starting a private business. It is usually preferred and it supposes success when the entrepreneur:

- → has an **original (own) business idea**, which he passionately protects, wants and can realize by himself;
- → has a strong **sense of possession**, business approach and leadership qualities which he would like to realize;
- → he is expressing himself as a **creative**, **innovative personality** which prefers to walk on his own path, to

experiment, to take risks, to search and apply something new and different in office.

Exactly this opportunity provides **freedom of actions**, it provides unlimited field for creativity and innovativeness, but at the same time it contains **the biggest risks** of failure. It's necessary that you walk all the complicated and full with surprises and obstacles way to business – from the creation of the idea until the production and sale of the products and services. In the following exposition (chapters IV and V) we will examine the start stages of this process – the creation, the preliminary evaluation and the choice of a winning business idea, its development and specifying under the form of a business conception.

3.2.2. Purchasing an existing firm.

Substantially this is an acquisition of another business system, of an established business, which has its **pros and cons**:

Advantages:

- Opportunities for choosing a business "of your taste";
- You could acquire a developed business with ensured suppliers and customers and a created organizing of the business;
- Relatively smaller risks, since there is information concerning the results from the previous activity of the firm.

Disadvantages:

- The business system of another has established principles, traditions and rules which are hardly changeable;
- You have to pay right at the concluding of the deal the whole agreed price of the company, and in some cases you will need to face its current liabilities:

• At the moment of purchase some of the risk factors related to the ownership, unpaid debts, signed unfavorable contracts etc. could be hidden.

Recommendations:

When thinking to purchase an existing company, we recommend you the following:

- Find out why the previous owners are selling their company!
- Before concluding the deal, **make an auditor check** of the company, gather trustworthy information regarding its previous activity sales and clients, financial state, qualification of the staff, technologies applied, condition of the equipment, image etc.
- Research and analyze **the economic and market conjuncture** in the branch (sector) where the company operates in order to clarify the tendencies and the according economic activity profitability, dynamics of the economic development, business climate, competitive environment etc.
- It is extremely important that you define in which stage of the life cycle of the product are the articles, the shares of the company. The purchase is inexpedient if the products/services have reached the phase "maturity", and even more if they have already reached the phase "decline".

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^{*} Each product or service is characterized with its own "life cycle" and for a different period of time it passes through the phases "introduction", "growth", "maturity", and "aging (decline)". They are defined through the tendencies in the volume and the sales of this product.

3.3.3. Franchising

When you do not have a particular business idea, deeper knowledge, clear strategy, unique know-how or a solid capital, but you would like at all costs to start a successful business – search for opportunities for joining a franchise chain!

What is franchising**?

Franchising is a commerce deal, providing exclusive rights from a corporation (firm), producing and providing on the market branded products (goods or services) with proven qualities, called "franchiser", to an independent entrepreneur, called "franchisee", for use of the intellectual and industrial property – trademark, firm marks, protected technologies, know-how and other protected nonmaterial actives. According to the definition of the International Franchise Association, the franchising is a form of continuous cooperation during which the licensing privilege for business is mandatory provided along with assistance with organizing the production and management of business, and also with organizing the placement of products, goods and services (1, p.147-149).

In return of the franchising rights and services, the franchisee pays when concluding the contract an initial fee which gives the right of using the name, the logo, the technology and organization of work and recompenses the help given from the franchisor for preparing and starting the business. After this periodic payments are executed (current deductions and "reality"), established according to the object of the services provided through the franchising package or according to the value of profit.

Three main forms of franchising** are being used in practice:

- **Stock franchising:** the franchisor provides to the franchisee exclusive rights to sell its branded products on a certain territory. A more refined form of franchise is when the franchisor provides not only the rights for selling a final product, but also the potential for its dissembling, packing, bottling and other presale operations for example Coca Cola, Pepsi etc.
- **Production franchising:** The franchisee has the right to organize the production and sale of the product by using the trademark of the franchisor, as well as his supplies and materials. The franchisee is obliged strictly to follow the technology and the technological documentation of the franchisor, the quality standards, the marketing communications, the market segment and other specific requirements. This type of franchising is applied mainly in the field of catering, hotel management, communications and administrative services.
- License (business format) franchising: This form represents acquiring of license from the licensee for executing commerce activities under the trademark and the trade name of the franchisor and for using the whole franchising package containing all the elements needed for someone to successfully manage even without having the appropriate experience. The purpose is not only to reproduce the business of the franchisor, but also to

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^{**} Pinder, J. et al. "Entrepreneurship and management", "Dionysus", Sofia, 2007, p. 149-149

apply wholly his business conception, called in practice also "business format".

The risk with franchising is minimal and the success is guaranteed, since the entrepreneur receives:

- A developed and established on the market trade, business model, reliable experience, specific know-how, established rules for work and effectiveness, corporative culture, strategic help in marketing and training of personnel;
- Opportunity for a quick start in business, applying the common trade and marketing politics of the franchise chain;
- Provided markets and clients, common advertisement and PR campaigns.

The negative sides of franchising from the side of the entrepreneur are generally the following:

- The business is executed under **dictate and strict control** from the franchisor, which leads to a certain loss of autonomy of the entrepreneur;
- Strict compliance with the requirements, rules and standards of the corporation by the smallest details;
- **Payment** of initial and current taxes of the franchisor as compensations for the expenses which he has made when creating the franchise system and its maintenance. The price of the franchising varies widely from several hundred to several hundred thousand BGN depending on the type of business and the expenses made.

The observations show that with the standard scheme – creating a new firm, only 15% of entrepreneurs survive after the fifth year, and with the franchising the survivors are above 85%. This is why every 8 minutes of each working day around the world a new franchising object is being opened. The quick start, the predictable success, the

guaranteed clients, the minimal risk of failure make and the higher profit make the franchising one of the most successful business conceptions of all times.⁸

According to the International Franchise Association this business model is adopted by 760 000 companies and provides 18 million of workplaces. The volume of the European franchising market is estimated to 35 million dollars. France is the European leader in franchising. There over 750 chains and 34 thousand objects work mainly in the field of trade with shoes and clothing, furniture, toys, cosmetics, and hairdressing.

During the last few years **the franchising in Bulgaria** spreads widely in all fields of economics – from public catering and hotel management to real estate, to distribution of medicines and fashion.

In 2007 in Bulgaria there are over 40 existing franchising chains, as most of the foreign brands are bought from USA, Greece, Italy, France, Germany, and Russia.

The biggest and the fastest spreading chain in our country is the "Office 1 superstore" (USA) which was first introduced in Bulgaria in 1997, and now has 84 stores for office supplies, equipment and accessories. The most popular is the chain "McDonald's" which is introduced in 1994 and today more than 29 of its fast food restaurants are in operation.

The first Bulgarian franchising chain is created in 199 from the patisserie house "Nedelya" which has now 29 patisseries, 14 of which are developed using this principle.

The following franchising chains are developing and are gaining popularity: "Canuta franchising" with 33 objects, "Lukoil" (15 objects), "KFC" (6 objects), "Mr. Bricolage" (5 objects), "Neoset" (5 objects), "Pizza Hut" (3 object), "Happy Bar and Grill" – 20 objects,

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⁸ "Manager". 7. 2007. 163-174.

"ERA" – 50 objects, the Bulgarian franchising chains "Familia" – 17 objects, "Address" – 13 partnerships etc.

Recommendations

If you wish to start a business by joining a franchise chain, please pay attention to the following circumstances:

- Search through the Bulgarian Franchise Association or in Internet the actual information about the franchising chains in your business sector (branch) which are interested to attract Bulgarian partners!
- Connect with the designated and preferred by you franchisors, present your intentions and ask for detailed information regarding the functionality of the chain and the strategy for its development (business plan), the subject and the conditions of the franchising agreement!
- Review and analyze carefully these documents through the prism of the market conjuncture in the corresponding business sector. Make accounts for the expected incomes, expenses and profit, and take your own decision for or against concluding the franchising contract.

IV. CREATING, EVALUATING AND CHOOSING A BUSINESS IDEA

4.1. How do you create business ideas?

The motives which put you to the decision to change your life, to walk in the world of private business, can be quite different. For some this is a matter of independence – freeing oneself from "the slavery of the employed labor". For others this is a matter of prestige, self-fulfillment, professional realization, and security. For many people in Bulgaria today this decision is prompted by the unemployment or by the low wage.

Because of these or various other reasons you have decided to start your own business, to become a private entrepreneur.

Do not go straight to the Registry Agency to register a firm with an uncertain or too wide scope of activity, which unfortunately is the common practice. Before making a registration, you should necessarily walk the way step by step from the creation and shaping of the business idea, through the checking of its livability and rationality, until the forming of a belief, justified well enough, that the chances for successful business are optimistic. Then, make the necessary additional researches, estimates, and forecasts and develop your own conception for starting your own business. After this conception also confirms the hypothesis that the business chosen in realizable and profitable – you can advance to the further development and

concretizing the business conception under the form of a business plan – the guideline of your business. This approach is illustrated by Fig. 4.

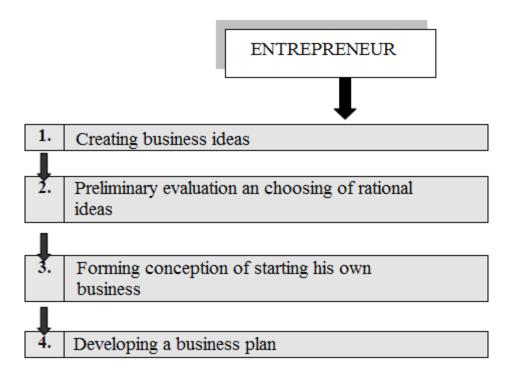


Fig. 4. The procedure of creating, evaluating, and concretizing the business idea

The fruitful idea for successful business sometimes can come to you suddenly and accidentally. But usually this does not happen and you must search persistently and make targeted efforts in order to reach it.

The idea for the world's first conveyor line occurred to Henry Ford when he was observing how the meat in a Chicago slaughterhouse is being cut and packed. There are countless examples of how from a simple and primitive business, which have started in garages, booths, and basements, huge companies and the wealthiest businessmen in the world have emerged.

When asked whether he has founded "Marriott Corporation" in order to win million dollars or to create an empire, J. Willard Marriott responded: "No, not at all. I just had three general ideas in my head, and all of them were equally important. One was to provide friendly service to our guests. The other was to ensure high quality food for a reasonable price. The third one was to work as much as I can, day and night, so that I could have any profit".

The direction and the approach of searching business ideas depend on many circumstances, for example:

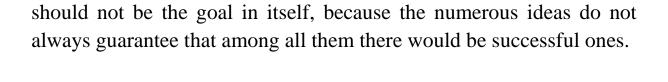
- → If you or members of your family are unemployed and you have the chance to launch yourself at the labor market, it is logical that you first search out an **idea for a small family business** which would provide you at least your previous incomes and life standard which you are used with;
- → If you have acquired property through restitution, inheritance, return of lands, compensations, and other sources, the direction for your search probably would be connected with the character and the alternatives for development of a business **based on this property**;
- → If you are an ambitious and effective manager, who, for one reason or another, does not want to work for other proprietors, but for your own account, you might want to strive for founding your own firm based on acquiring the know-how (product, technological, informational, management), franchising, license, and other forms of use of **intellectual property**.

^{*} The world famous corporation "Marriott" is founded in 127 in Washington from the two brothers Willard (26 year old) and Ally (22 year old) Marriot, which start their own business with a small booth for beer.

- → If you have made any artistic activity, it is logical to orientate yourself to an innovative business, i.e. to creating and using a new product, new technology, new organization, new marketing, to rationalizations or inventions, which you can base your business on;
- → If you have done any international activity, if you speak and use foreign languages, it is logical that you go for **export orientated business** or to creating joint ventures with foreign participation, based on high technologies and risk capitals;
- → If you have deep knowledge, professional experience, authority, and intuition in a certain field, you could prefer the development of your own **consultant business**;
- → If you are the gambling type of a prospective entrepreneur and your mail purpose is the "financial strike", the fast and big profit, your attention will be inevitably be dragged by the **depths** of the "shadow economy" by the criminal business, corruption, frauds, violence, the fake and the scam.

It is not possible, nor it is necessary that we enumerate more of the countless examples in order to advocate the thesis that **there are no universal rules or recommendations** as to from where you should start and where you should go when searching for a favorable business idea. The world of business is extremely diverse and colorful, slippery and dynamic, unpredictable and risky. This is why in this world you should advance **cautiously and thoughtfully, with will and persistency, but also with temperate enthusiasm**.

It is desirable that you first gather as much as possible ideas in order to make comparison and choice between them. Of course, this



Making business ideas is undoubtedly a creative process, so the prospective entrepreneur must have talents of a thinking, innovative personality with imagination and intuition. The fruitful ideas are a result of inspiration, hard work and skilled use of creative techniques.

The practice shows that the "unusual", unconventional business ideas which contain some sort of innovation in their field – either in the product or service, the technology, in the organization or marketing, or in repair, have the biggest chance for success.

You should never go for theft, copying or transformation of someone else's ideas, or for a simple repeating of an existing practice, as this guarantees your failure.

Do not forget that the entrepreneur always creates something new and different! This doesn't mean that you should always produce genial findings and technologic innovations, but often the business idea is a result of the merest thoughtfulness, of realizing the favorable opportunity, of finding the market niche. Sometimes an ordinary idea could lead to revolutionary changes. For example, the idea of the company "Tetra-pack" for applying a new kind of cardboard and paper packaging for milk and milk products, juice etc., resulted in leaving the glass and plastic packs. Out of simple thoughtfulness, the chains of fast food restaurants, the online sales, the network marketing etc. have emerged.

4.2. Which are the sources of business ideas?

The first source of business ideas is your own professional and social experience – what you have learned, what you have done, what you have observed or looked for as consumers. Thus we reach to necessities and activities which we know or to solving problems which we or our relatives and friends have encountered.

The second source is the various information which comes from: the internet, radio and television; books, newspapers and magazines; patents and standards; science congresses, conferences, symposiums, report papers, offers, promotions of new products and services, consumer's opinions, market analyzes, overviews, and forecasts.

The third source are the targeted researches, conversations, and surveys, "focus groups"* with consumers, salesmen, experts in the corresponding fields, personal observations over certain business objects etc.

One of the most popular methods called "modification of qualities" consists in enumerating the main qualities of the existing product, after which through the modification of each quality, an improved product is being pursued. Let's take as an example a screwdriver. Its attributes are: round steel stem, wooden handle, manual operation, screwing and unscrewing through a twisting motion.

^{*} The focus group includes few people who participate in a targeted group interview in a nice and casual environment. The host must be an expert in the corresponding field, to have the ability to encourage the exchange of opinions about the discussed business idea and to "focus" them on the desired key issues. The recorded conversation afterwards is being analyzed and the respective conclusions, appropriate proposals, and business ideas are drawn out.

In this case, a group of specialist is discussing how to improve the effect or the attractiveness. The round stem could become hexagonal, so that it enhances the twist when applying a strong turn; the manual force could be replaced by electrical; the twist could be done with pressing etc.

Useful ideas can occur when we ask ourselves the following questions regarding the product and his characteristic qualities: "Could they be used in another way?"; "Could they be accommodated?"; "Could they be increased?"; "Could they be decreased?"; "Could they be exchanged?"; "Could they be rearranged"; "Could they be turned around?", "Could they be combined?" etc.

The fourth source are the so called creative methods and techniques for generating ideas as: brain storming (in different modifications, for example method 635), method "thought map", "morphologic models", "analysis of the existing niches", "monitoring over the working environment", method "Delphi", "scenarios method", method "three of purposes", "commission method", method "Ringy", "exposition method" etc.

4.3. How can we make a preliminary evaluation and choice of rational ideas?

Substantially an expert evaluation is being made of the gathered business ideas in order to sift out and reject the unfit ones and to shape the portfolio of rational, vial and promising ideas, on which additional researches, concretizing, comparative analysis and final choice of the best idea is to be made, so that we know which one is worth our efforts to realize it.

For the preliminary evaluation it is recommended that you choose a small amount of criteria which do not require gathering vast specialized information or applying complicated and burdensome methods.

For this purpose we suggest the following procedure for a preliminary evaluation of business ideas:

Every business idea passes successively (is being sifted out) through seven **evaluation criteria:** (Fig.5)

A. "Conformity"; B. "Admissibility"; C. "Market chance"; D. "Practicability"; E. "Financial security"; F. "Profitability" and G. "Risk".

- → When a positive review "Yes" is given on a certain criterion, the business idea is put to evaluation on the next criterion. If this answer is "No", further evaluation is stopped and the business idea is rejected, "frozen" or modified until the reasons for the disapproval is eliminated.
- →At the starting position "Business ideas" a new or modified (changed, supplemented, enriched) idea is presented and the procedure for its evaluation is carried out again.
- → The business ideas which got positive review on all criteria form the portfolio of corresponding, admissible ideas with market chances, financial secured, with good profitability and a tolerable risk.
- → If we have only one idea and it passes all the criteria (sieves) with "Yes" we continue the further development of it and the preparation for realization.
- → If we have a portfolio of approved ideas, we make a comparative analysis and we chose the one which provides us the highest profitability with equal or comparatively lower risk

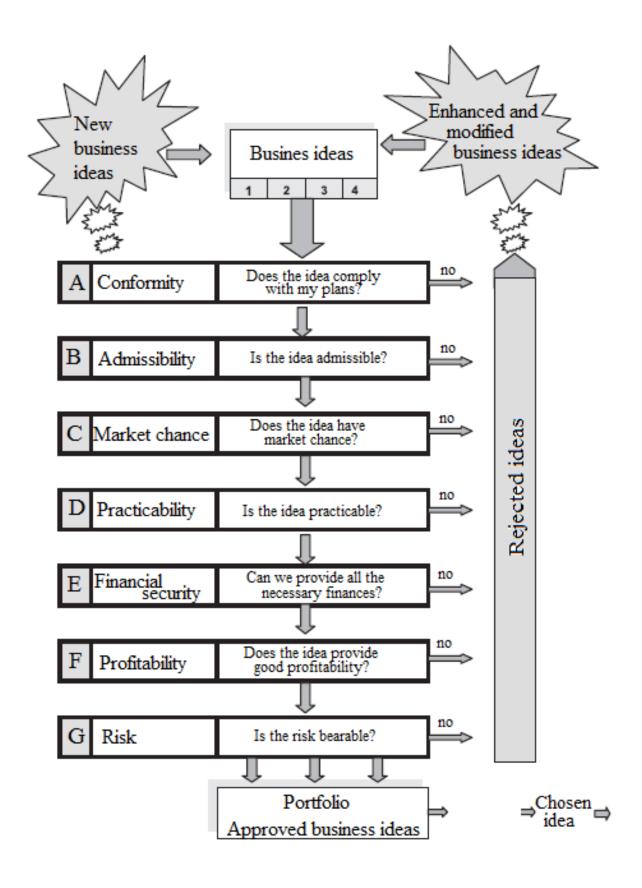


Fig. 5. Procedure of evaluation and choosing of business ideas

For the evaluations on the corresponding criteria the following explications and recommendations could be useful:

The idea and me?

A. Conformity

On this first criterion the idea is primarily evaluated through the prism of the personality of the entrepreneur and an answer to the following question is sought: "Does this idea comply with my qualities?"

During the first stage of the self-analysis which was discussed in the previous exposition, the prospective entrepreneur makes analysis and evaluation of his own motivation, work, professional, and personal qualities, in order to answer the question: "Am I fit to be an entrepreneur?"

Here the evaluation is concentrated on the degree of conformity between the requirements of the specific type of business, of the character of the activity and the personal qualities, skills, and abilities.

It is proved that every person can execute successfully only activities which comply (are conforming) with his character and temperament, build stereotype, value system, knowledge, professional experience, beliefs.

In order to determine the presence or absence of such conformity, we must make a **self-evaluation**.

First, make **a list of the dominating qualities** of the entrepreneur which would ensure the success of the activity, for example: ability to take decisions, communicativeness, virility, integrity, innovativeness, accuracy, self-control, observation, analytic thinking, ambition, flexibility, concentration, education, special knowledge and qualification, experience, etc.

Afterwards through this prism make your evaluation which of your personal qualities correspond to the requirements of this kind of business and which don't. If it turns out that the inconsistencies are predominant and irresolvable – give up right there of the realization of your business idea and orientate yourself towards another type of business which better suits your qualities.

If you, for example, are a closed and incommunicative person – do not start trade or activities which require constant communication and a welcoming attitude towards the customers, because this would be a torture both for you and for them. Aim for example towards design or consultant business, towards repair of household equipment, towards different types of production activity. If you like to sleep at night or you don't like to work in the morning – do not start a business which requires necessarily that you are fresh and reactive during this period of the day. Finally for each business idea make the concluding evaluation: **am I suitable for such business?**

The idea and the society

B. Admissibility

By this criterion the idea is evaluated from the perspective of the social norms and requirements and more precisely – its legality, safety and ecology.

- **<u>B 1.</u>** Legality is the idea admissible regarding the existing legislation?:
 - Are there explicit prohibitions or other legal restrictions?
 - Does the activity comply with the existing standards?
 - Is the activity inconsistent with the established social regulations or with the ethic norms?

Ask first in the municipality, where you are planning to establish your business, if the activity is compliant with the license, authorization, registration or agreements regime, and if yes – what are the requirements to receive the corresponding document. Ask also through the competent authorities or through the Internet if your business activity is within any regulations or standards of the European Union. If your idea is for a business in your home – you must receive the approval of your neighbors.

B 2. Safety – Does the activity provide safety for the life and health of men, fire and emergency safety, security under natural disasters etc.?

Gather information from the appropriate regional Labor inspection for the prohibitions, restrictions and the allowed limit values for activities with harmful radiation, dustiness, exposure to gas, electrical and mechanical safety, humidity, vibrations, temperature, hazardous materials etc., according to the National, International (conventions of the International Labour Organization - ILO) and the European legislation.

B 3. Ecology.

- Is there a danger of violating the environmental norms and requirements?
- Does your business activity pollute the soil, the air or the water?
- Is your business activity allowed regarding the conservation of the natural resources?

Since Bulgaria joined the European Union, the ecological criteria and requirements to business have increased immensely, and the "Green business" is being stimulated. This business is very perspective for the small enterprises. The demand of ecologically clean foods, cans, herbs, nutrition supplements, cosmetics, household products, recyclable packages etc. is also growing

The majority of the existing firms today wok under the motto "PROFIT WITHOUT DAMAGE!".

With the application of these criteria the activities which for one reason or another are not corresponding to the legislative and social rules, norms and requirements, are being rejected.

The idea and the consumers (the market)

C. Market chance

The purpose here is to check the business idea through the prism of the market conjuncture. The question is whether there is any reason to believe that the realization of the business idea will find its place on

the market. Is there such demand among people and can they afford its satisfying? Right there you must imagine the profile of your potential clients, what would motivate their decision to buy what you would offer them.

Besides this, it is very important that you evaluate the competitiveness of your business product – who are the main competitors and which will be your competitive advantages?

In order to reach the conviction that your business idea has chance on the market, you must first form a preliminary conception of the main characteristics of your market.

- → What type is the market where you will sell your products with free or restricted concurrency?
- → What kind is the market goods, industrial or consumer, capital market, market of real estate, labour market, market of services etc?

- → What are the territorial boundaries of your market is it local, regional, national, international, i.e. where do your potential clients live or are settled?
- → What is the market segment, i.e. which is your consumers group and what are its characteristics age, gender, solvency, education, profession, religion, social standard, hobby, or another feature?
- → What market share do you expect, i.e. what is the relative share of sales of your products from the whole volume of sales of these products on the territory of your market?

The detailed market researches and forecasts are quite complicated, prolonged, and expensive. This is why you will have to settle for more elementary methods for evaluation of the potential consumer demand of your product or service, for example:

- ➤ Establishing contacts with potential consumers through individual enquettes and conversations or focus groups for gathering opinions about the realizability of the product/service;
- ➤ Gathering and analyzing the statistic information for the sales of an analogic product or service with similar consumer qualities;
- > Studying the opinions of the salesmen, of your friends, colleagues, relatives etc.;
- ➤ Market tests, demonstrations of prototypes etc.;
- ➤ Your own acquired experience and intuition;
- Expert evaluations of specialist in the corresponding activity etc.:

If you do not reach the conclusion that the market will show interest towards your product that it is competitive, the business idea should be rejected and other variants should be sought after.

The idea and the reality

D. Practicability

You should get a real conception of how practically the production of the product or service would be done:

- ➤ Is there a suitable and accessible technology, and how could we provide it?
- ➤ What is the main equipment, from where and how could we deliver it?
- ➤ Could we find the necessary materials, supplies, and qualified workforce?
- ➤ Is there the necessary infrastructure at the place where the activity will be executed roads, electricity, water supply and sanitation, heating, communication etc.?
- ➤ Could you realize your plan regarding the placement of the final production?

The presence of any negative answer to any of these questions threatens the realization of the business idea, although the idea might have seemed very attractive in the beginning.

The idea and the investition

E. Financial security

The realization of every business idea is connected with various in size investments through which the material and technological conditions for the production of the product or the service can be created.

First you have to make a realistic esteem: how much money would you have to invest?

The total demand of capital for starting business contents three basic components:

 $\underline{\mathbf{A}}$. The main funds: for buying or renting (leasing) the so called long term material actives – land, building or rooms, machines and installations, inventory, transport, office inventory etc., and also – for acquiring the product of intellectual property (patents, licenses, knowhow, program products, technologies, systems etc.), as well as for introductory training of the personnel.

 $\underline{\mathbf{B}}$. Floating funds – for buying the initial supply of goods and materials for realizing the first production-sale cycle.

<u>C.</u> Expl	loration, incorpo	oration, advertis	sing, insurance	and other
expenses.				

After you already know approximately how much money you would need, the next question is:

Can I provide this starting capital?

The sources of financing are:

- ➤ Your personal and family savings, including the property, which will be used for the business;
- ➤ Bank credit, which is granted from the bank against a business plan and guaranty (collateral);
- ➤ Credit from a programme for support of small business, including the guaranty fund of the MLSP, Operational other programmes of the European Union, National programmes;
- ➤ **Leasing** a form of renting material actives through payment extended in time with lease payments.

It would be very good if you have your own funds and property to start your business, including loans from family or friends. But in most cases, as the worldwide practice is, the business is made mainly with borrowed funds. The bank crediting of the starting business in Bulgaria creates significant difficulties for the entrepreneurs, because the banks define those credits as high-risk and hence with the highest interest and very big values of collaterals (from 130 to 200%) of the amount requested. This is why the entrepreneurs in most case are forced to draw consumer loans with extremely unfavorable conditions.

In this situation consider – in which way do you hope to ensure **even the approximately calculated financial resources**? You cannot count only on loans for starting a business. The main rule with small business is that you (including your family, close people and friends) gather at least half of the money which has to be put into the business, and the other half should be sought through outside sources.

You cannot make business without money. Even the most attractive business idea does not have any chances of realization without the financial coverage. Save this idea for better times or give it up while it's time!

The idea and the profit

F. Profitability

This is one of the **most important criteria** for evaluating your business idea. The minimal requirement is that your business provides a profit higher than the annual expenses for the support of your family in the life

standard which you are accustomed to.

How much money do you expect to get from your idea?

The answer to this question is very difficult because it's a consequence of the right answer to a number of other issues, beginning with a prediction of the sales, incomes and expenses which

are to be done for starting and maintenance of the activity, the power of competition, the taxes which you are to pay etc.

As a reference for evaluation of the profitability of ideas you could use the so called **average norm of profit in the corresponding branch**. Usually all ideas from which a lower average norm is expected than the one in the branch should be rejected.

For evaluating the income of business we recommend you using the following two references:

a) **Profitability**, presented through the invested capital:

$$R = \frac{P}{I}.100$$
, where: $\frac{P}{I}$ - expected annual average - invested capital in business

b) **Return**, i.e. for how many ears the investments made will be returned:

$$B = \frac{I}{P}$$
, years

The idea should be rejected if:

- The profitability is lower than the interest in the bank credits, which means that with this business activity you cannot repay your bank credit;
- The return term is longer than 3 years, which increases the entrepreneurial risk over the acceptable limits in small business;

The idea and the risk

G. Risk

The risk with the realization of the entrepreneurial idea is connected mainly with the insecurity for receiving the expected income in exchange for the money invested in the business. There are different

kinds of risk which here should be put under preliminary expert evaluation:

- → Production risk related to the possible negative factors in the practical realization of the production;
- → Trade risk related to the insecurity when making the process of realization (sales) of the product or there service;
- → Financial risk which arises in the field of relations between the entrepreneur and the financial institutions and is connected to the dangers of rejecting the credit requested or of terminating the open financing;
- → Risks of emergency situations natural disasters, thefts, fires etc.

When in accordance with the expert preliminary evaluation the degree of the risk borders with danger of failure or total loss of the money invested in the business, these business ideas should be rejected.

The business ideas which have passed through the sieve of the 7 criteria of preliminary evaluation should be compared by the criteria profitability and risk, and the one which provides relatively higher norm of profit and lower risk should be chosen.

The screening can be done also when you have just one idea – if you pass with answers "Yes" through all the criteria, then you can know that it's worth to continue further with it.

V. DEVELOPING A CONCEPTION FOR STARTING YOUR OWN BUSINESS

The conception is a development and concretization of the business idea which has passed through the sieve of the preliminary evaluation. For this purpose some additional researches must be done, and guidance decisions for the structure and organization of the firm's activity must be taken.

Which **fundamental parameters** of business can be presented in the conception?

5.1. Scope of activity

The definition of the scope of activity of the firm has a **strategically important significance**, because it is inscribed in the trade registration of the firm and becomes its business card in front of partners, clients, governmental and municipality organs. When the scope of activity is marked out with exact and clear parameters, this means that the entrepreneur knows exactly what he will do and what he will promote to the market. When in the formulation of the scope of activity there is a too wide range of activities, this means that the entrepreneur does not really know what exactly he would do and that he perceives the business as a sort of gambling – he would bet on one or another card and he would expect profits. However, this doesn't happen and instead of profits, losses and disappointments come.

The scope of activity should also define **the name of the firm**, its **logo***, and afterwards also the **motto** under which it will realize its activity and will win trust among the society, its partners and clients.

• Exercise:

^{*} The **logo** is the firm sign – the visual icon of your business, the image of the firm. Often this is a symbol which reflects its identity.

Mark out as specified as possible what would be the activity which you get involved with – in which sector (production, trade, services, mediation), in which branch, and what product/service you would suggest on the market.

5.2. Characteristic of the products/services

This is made mainly regarding their use, benefit and advantage for consumers. The qualities and competitiveness of the product (the service) are evaluated, and more precisely:

→ Nomenclature (assortment) of the products and services by types and modifications, content, form, aesthetic appearance etc.

If you offer a specter of products and services, imagine your assortment list with marking the average share of each type in the total turnover. This data could be expressed with a table in the following way:

- → Intended purpose and area of use of the product (service), their functional characteristics. If it's necessary, this could be presented in a sketch, picture, draw;
- → Basic features (unique characteristics) and most of all the operational characteristics of the products and the market advantages of the service.

No	Product/Service	Name	Characteristic	Share in % of the turnover						
1.										
2.										
3.										
4.										
5.										
	Total: 100%									

- → Competitiveness an evaluation of discovering the advantages of your product or service comparing to other analogic models which are best accepted on the market. Why would clients prefer your product (service)?:
 - because it is a new product (service);
 - because the product (service) is enhanced, advanced, modernized;
 - because it has better consumer qualities and usefulness;
 - because it's cheaper;
 - because it provides higher security of the delivery and service maintenance;
 - because it is more accessible for the local consumers etc.

Based on these characteristics of the product/service, try to formulate your own **product strategy** – to create and offer such products/services which the clients would want, including your concepts for the product differentiation, the package, the warranty, the use for the consumers, the competitive advantages etc.

When presenting the products of the business you have to use a differentiated approach – for the products (goods) and for the services, since their characteristics are too different.

5.3. Place of work (localization)

The choice of location, i.e. the settlement and the service area where your business will be based, is **one of the crucial factors for the success of the entrepreneur.** After founding the firm, the location hardly changes, and the translocation requires many expenses. This is why when taking the decision about the location of the firm, the entrepreneur must **analyze the pros and cons of all factors which**

this choice is depending on. On this basis you should answer the questions:

- ? Why are you choosing this region?
- ? What are the advantages and the favorable factors for client service and development of successful business?

Firstly the choice of location depends on **the scope of activity of the firm**. If it would execute production – the location could be outside the populated area or in its periphery, but if would execute services or trade – a place with a lively pedestrian circulation should be sought.

When choosing the location for the activity, we recommend you to:

- Determine the main factors which connect the location with the opportunities for better results from executing the activity (being close to consumers and suppliers); comfort of transport networks and lower transport expenses; solvent demand; competition intensity; degree of completion of the infrastructure roads, water and canalization, electricity, heating etc.; presence of the necessary workforce; favorable natural climate conditions; level of local taxes and rents; having your own land, buildings, rooms, inventory, etc.
- Make the comparative analysis between possible variants and choose the best location providing comparatively the biggest sales and the lowest investment and exploitation expenses.

A specific question is the execution of business at home, in your own buildings and rooms, which would be reconstructed and repaired, hired or rented. **The business at home has numerous advantages:**

- Lower expenses for starting the activity;
- A more flexible way of life and work;

• Economy of time and funds for travelling from the place you live to the place you work and vice versa.

For starting and developing a home business you must choose an activity which is suitable to be done in home conditions, for example:

- Family hotel management and/or catering;
- Tour agency activities in small settlements;
- **Food** pizzerias, patisseries, production of bread and bakery;
- **Personal service:** house cleaning, babysitting at home, private educational services; delivery of products; post and transport services etc.;
- Crafts: embroidery, ceramics, jewelry, upholstery, etc.;
- **Repairs:** household electronics, furniture, computer technics, radio and television, automobile service etc.;
- **Education:** languages, music, dances, mathematics, "do-it-yourself", etc.;
- Organizing congresses, seminars, excursions, celebrations, etc.

Choosing the home business requires a full evaluation of the conditions for quality execution of the activity regarding the comfort and demands of the clients. Apart from this, you must necessarily search out the eventual normative restrictions and rules for executing business activities in home conditions, for example existence of an approval from the fellow tenants.

5.4. Choosing the legal form for executing the business

When founding a business of their own, each entrepreneur should choose the legal and organizational form of its execution. Our legislation gives the opportunity of choosing different legal forms. In the small business the following legal forms are the most widely applied:

- Sole proprietor (SP) by the Commercial law;
- Commercial companies: Limited Liability Company (Llc.) and General Partnership under the Commercial law;
- Cooperative by the Cooperative law;
- Craft enterprise by the Law on Crafts
- Private agriculture producers by the Agricultural Producers Assistance Act.

Each one of these legal firms has its advantages and disadvantages. When choosing, you must approach analytically and responsibly by taking under consideration the scope of activity, the resources which the entrepreneur has and his personal qualities and competences.

The main question here is: Alone or in partnership will you realize the activity? What you have to have in mind when making such choice, is the correct evaluation of the advantages and disadvantages of the partnership – what would you loose and what would you win?

Advantages – resources and skills are combined, the opportunities for financing grow, and hence the scale of operation. More people would think and create with one purpose, and everybody would do what he is best at.

Disadvantages – the profit would be distributed regarding the rate of the participation in the capital of the company, and regardless your personal contribution, the right of sole initiative and control is

lost, there is danger of disagreement and lack of consensus. The successful partnership is unfortunately a very rare phenomenon. The cases of unsuccessful partnership are prevalent.

When starting a partnership it is very important that you evaluate correctly the material, volitional, professional and managing **qualities of the partners**, and also that you pay attention with the preparation and signing of the incorporation acts.

In this part of the conception you can point out:

- Which legal organization form of realizing your business did you choose?
- What are your motives for this choice?
- What advantages does the chosen legal organization form has regarding the specifics of your business activity?
- How do you plan to neutralize or diminish the disadvantages of the chosen legal organization form?
- If you have chosen a partnership form, you can give a short and professional characteristic of your partners and the distribution of activities and responsibilities between you in the company.

5.5. Market and clients

Every business enterprise starts with finding the potential consumers, with searching for the right approach towards the clients, because **if there are no clients – there is no business**. This is why in your concept point out:

• Which is your market or service area (where is it, how big is it, is it permanent or variable, seasonality);

- Who are your clients wholesale traders, retail traders, producers, individual consumers (age, social, professional group), location, solvency, specific interests;
- Are there already any agreements or commitments undertaken by your clients?

• Have you studied the consumption of your product/service and how (through conversations and consultations with retail salesmen and consumers, questionnaires, information from medias, guides, brochures etc.)?

Go back to the evaluation of your business idea by the **criterion** "market chance", examine the information gathered, the characteristics of the market and the clients, note where the deficiencies are, fill in the information, the projections and the conclusions, in order to outline more clearly your market and market segment!

5.6. Competitors

The business is executed in the conditions of competitive struggle, in which the one who better knows and uses the progress factors in his field, who catches the market conjuncture and satisfies better the demands of clients, wins.

With your competitors you will struggle for attracting customers, and for expanding the sales. In order to have success, you must know them. In this part of your business conception, write what you know about them:

- Who are your main competitors?
- At what prices do they sell and what discounts do they make?
- Where do they sell the goods or provide the service?

- What advantage do you lay on in the competitive struggle in order to attract customers from the contingent of your competitors?
- How do you predict your future competitive environment would new firms invade your sector, would there be a danger of substitute products appearing?

The most important here is to form a clear and well-grounded idea of **your competitive advantages**, which are the winning weapons in the competition battle. Also – which are the weak, vulnerable spots of your competitors, which could be attacked?

5.7. Prices and sales

Prices

The price is an attribute of the market and of the product. If there is anything different and better in your product/service, this should be reflected also as a plus in the price. If you offer the same qualities as those of your competitors', mind the market prices. In all cases the price of the product/service cannot be lower than its expenses. In order to be confident in yourself and in what you point out in your business conception, make a rough calculation of the production price of one product or service, include your profit, add the trade discount and you will get the approximate price.

The price of the product can be determined also through comparing the price of similar products/services and choosing the "competitive" price, i.e. a price equal or lower to the one existing on the market. When you compare it with the expenses for a product unit, you will see how profitable it is for you.

Sales

A serious business cannot be started for its own sake, i.e. "let's produce and then go searching for sales". The market rule is – **first determine how much you can sell and THEN produce!**

In searching the answer of the question "how much could I sell", you can use the procedure shown in Fig.6.

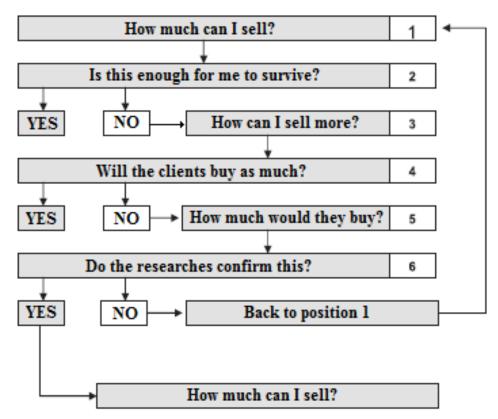


Fig. 6. Determining the sales

Based on a preliminary research, make a prognosis for the sales which should include:

- Quantity of the alleged monthly sales;
- Expected income from the sales in 12 months.

5.8. Production process

This part of the business conception has a significant importance for you, because it will help you see **where, how and with what** you will realize your activity.

Production premises and offices

Depending on the type and character of business here you must point out the conditions in which you will conduct the activity:

- > Trade, service, production and warehouse premises;
- ➤ Office inventory computer, fax, telephone, furniture etc.
- ➤ Electricity, water supply, heating, light, ventilation.

It is important to note whose property is the land, the building, the premises, and, if they would be rented – what are the conditions for this.

If you will use **your own property for starting a business**, you must point out what enlargements, reconstructions, modernizations and repairs you plan to make, in order to fully adapt the property for the successful conduct of the business activity.

If you will **buy material base** for conducting the business, you must carefully consider your motives for purchase, and also the criteria when choosing the place. The main factors for the purchase decision usually are:

- The price of the property and the financial opportunities of the entrepreneur;
- The location of the property regarding the specifics of the business activity;
- Conformity of the characteristics of the property with the technological and organizational requirements for conducting the business activity.

When proceeding with purchase, the entrepreneur should examine all the favorable conditions of the deal for him and try to accomplish them in the process of negotiating and concluding the deal.

The most advantageous are the installment purchases, where the first installment varies between 10% and 40% of the sale price, and for the rest – a repayment term, interest rate and warranties are negotiated. In the business practice numerous variants for purchase are applied: in exchange of a partnership share or shares of the seller in the new firm, in exchange of participation in the profit, different forms of installment payment etc.

The **leasing**, which is becoming more and more wide-spread, lowers the starting capital and gives the opportunity that the leasing installments are made using the incomes of the sales after the business has started.

Technology, machines and instruments

If the character the activity demands it, here you could provide a technological scheme of the stages/phases of the production/service. You could make a short description in free text of the technology of the activity.

It is required that you make a list with the necessary machines, instruments, transport, security systems etc. and to determine what would you have to pay for them.

It's good if besides this you point out your existing machines, instruments, equipment and transport which will be used in the business.

Supplies and materials

In order for your business to start, you will need to buy **fist** a certain amount of supplies and materials and afterwards during the production to fill in the missing quantities.

Usually the basic supplies and materials are planned on an annual basis, and their purchase – monthly. Of course, some activities might require daily purchases.

The plan for buying the necessary supplies and materials should correspond directly to the production plan, based on the expenses for supplies and materials for a unit of the product/service.

Personnel

If you intend to hire personnel, learn from the Labour code how to conduct an employment contact. Determine the way of choosing the personnel, the system of payment, insurance etc.

5.9. Pr	ognosis	of	the	expected	main	financial	economic	result	of
the bus	siness								

5.9.1. Prognosis of the incomes, expenses and profit

Business is made for profit. This is why the main result which we aim is the profit.

The profit is the positive difference between the incomes from the activity and the expenses for it. (For a higher precision you must add also the financial and the extraordinary incomes and expenses). For reflecting these indices you can use the exemplary form shown in Table 2

Prognosis of the incomes and expenses

It would be good if this prognosis is developed for the first 12 months of starting the activity. For this purpose you can use the following table:

➤ The incomes from the activity are mainly incomes from sales and are determined based on the prognosis of the sales. Their financial value is determined by the scheme

➤ The expenses from the activity (exploitation expenses) are the financial dimension of the resources incorporated in the manufacturing of production or services. These are:

Types of incomes/expenses	I	II	III	IV	•••	Total for the year
I. TOTAL INCOMES						
incl. 1. Incomes from sales/services						
2. Stock of finished production (at the end of the period)						
3. Other incomes						
II. TOTAL DIRECT EXPENSES						
incl. 1. Input supplies and materials						
2. Labor expenses (incl. social security of the proprietor)						
III. TOTAL INDIRECT (CONSTANT) EXPENSES						
incl. 1. Transport						
2. Electricity						
3. Heating						
4. Water						
5. Rented areas and premises						
6. Repair of machines, premises						
7. Total annual amortization						
8. Post, phone						
9. Supplies, replacement parts etc.						
10. Propriety insurances						
11. Local taxes and fees						
12. Advertisement						
13. External services						
14. Interest on loans						
15. Other expenses						
Basic earning I – (II + III)						
Profit after tax assessment						

a) Expenses for supplies, basic and auxiliary materials, fuel and energy, replacement parts etc. These are evaluated through the method of calculation in the following exemplary form:

No	Goods and materials	Quantity	Price	Sum					
1.									
2.									
3.									
4.									
Total:									

The quantity of each material is determined as the multiplication of the number of products (from the prognosis of the sales in a quantity section) and the expenses norm per item, or:

- b) Expenses for external services these include all the external services which the firm pays for: transport, electricity, heating, water, rents, repairs, insurances, local taxes and fees, advertisement and other expenses. The total sum of these expenses is once again distributed through calculation, as every single expense depends on the annual consumption of the corresponding external service and its price per unit. Some of these expenses are normally determined, and other could be determined approximately through experimental statistics, by taking into account the temp of inflation.
- c) **Expenses for wages and other payments** these include all expenses on employment and civil contracts, the additional payments by the Labour code and other normative acts.

These expenses are defined as a multiplication of the number of personnel hired and the average wage:

- d) **Expenses on social and health insurance** they are defined based on the normative payment of the employer as a percent on the basic working wage.
- e) **Other expenses** these include all the rest of the expenses, for example travel assignments, exhibitions, representation expenses, bonuses, etc.

The total sum of expenses is defined as a sum of the expenses
mentioned from a) to d) including. On this basis we can determine:

Now that we know the size of the investment expenses and the profit, we can calculate the profitability of the investment and the payback term (return), as it was shown in the previous exposition – ch. 4.3.

5.9.2. Prognosis for the cash flow and the solvency

In order to see the condition of your cash – how much money goes in and how much goes out, how much the eventual deficit is or how much your own money is, you could use **a prognosis for the cash flow**, which will show you the movement of the money during the first 12 months. For this purpose you can use the following table:

Table №3

		Months												
№	Incomes and expenses	I	II	III	IV	v	VI	VII	VIII	IX	X	XI	XII	Total for 12 months
I.	Incomes, total													
1.	Credit													
2.	Personal funds in action													
3.	Loans													
4.	Incomes from sales/ services													
5.	Other incomes													
II.	Payments, total													
1.	Purchase of machines and instruments													
2.	Purchase of supplies, materials													
3.	Expenses for labor + insurance*													
4.	Indirect (constant) expenses**													
III.	Monthly balance													
IV.	Balance with accumulation													

The prognosis for the market motion shows the amount which you expect to receive from sales, loans and personal funds, the expenses which you would do for goods, materials, overheads, as well as the money which you would have to win from the business for your personal existence needs.

^{*} Here is included the payment of your own wage + VAT, and also of the members of family which participate in the business.

^{**} The elements of the indirect constant expenses are shown in the previous exposition of expenses for external services and other expenses

Hence, if with a bigger realism you have succeeded to foresee the quantity of sales, you could determine when you would be done with building the business and you would exhaust your funds, when you would cover your expenses and from which moment on your business will start providing you profit.

At a first glance these calculations could seem complicated to you, impossible or unnecessary, but after you have decided to conduct business, you should learn how to make them, so that you know the most important thing in business – **the money**. There are needed not only because are present in the business conception, and afterwards in the business plan, but also because they could give you higher security and to protect you from unreasonable expectations and surprises.

This could be the exemplary content of the conception for presenting your business idea. Why do you need it and how it would serve you?

Firstly – so that you consider, develop and concretize your business idea, so that it gains a realistic form. Developing the conception, you pass through the main check points for the practicability and the effectiveness of the chosen business idea. If you give up right there, you are still not losing too much – only time and efforts.

Secondly – in essence you have developed a detailed and persuasive description of your business idea which might serve you as an offer for attracting associates and business partners, as well as for

testing the situation for an eventual crediting of the start of your business.

Thirdly – practically you have developed a conceptual project, you have laid the foundations of your business plan. This simplified scheme could be used for developing business plans for small business with a small size of investments – for example within the limits of the allocated from the labor offices funds for starting a small private business from unemployed or within the limits of the small credits from the micro crediting fund within the Ministry of Labour and Social Politics.

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