



LAUREA

# Managing fast growth in a small business Case company: Company Oy



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Managing fast growth in a small business  
Case company: Company Oy

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**Managing fast growth in a small business; Case company: Company Oy**

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This thesis examines the effects of fast growth on small company management. The company studied is an alcohol importer which was founded in 1998. The reason for selecting the topic was to acquire more information on small company growth and the affect this growth has on management. Another reason was the interest of the owner of **Company Oy** in how to manage fast growth. This research will help the authors to broaden their perspective on the affects of growth on management based on the collected theory and empirical evidence.

The method used for this thesis is the qualitative method. The information used for this thesis was collected from several interviews with the owner of the company and observational visits to the company. These interviews and visits were applied in the empirical part and compared to the theoretical findings. These results supporte the authors understanding on how the company operates and what are the problems occuring relating to fast growth in the company.

After comparing theory with practise the results show that small company growth is a cause of management problems, which are for example the involvement of the Small Business Owner or SBO in the employees' daily routines. This is because small companies are often managed by one person. It is because of this management structure that the amount of work can become unmanageable for one person. This shows that for a small company to grow, management has to have clear activities and should not be constantly involved in the daily routines of the company.

The conclusion is that growth can become an unexpected problem for the Small Business Owner or SBO. The problems an SBO has to manage are often easy to recognise, but because of the unexperienced SBO, managing a company and the amount of daily routines can be complicated. If the SBO is not able to distance himself from the daily working routines of the company the SBO will experience problems and so will the company growth. Work has to be enjoyable and fulfilling and boring routines will take the pleasure of the work and can make an Small Business Owner lose interest in running the company. The transformation from entrepreneur to business manager is a challenge that many SBO's fail to achieve, but is necessary at a certain point of the lifecycle of a growing company.

Key words fast growth, small company, management, activities, SBO

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### Managing Fast Growth in a Small Business; Case company: Company Oy

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Tämä opinnäytetyö tutkii nopean kasvun vaikutusta pienyrityksen johtoon. Tutkimuksen kohteena on vuonna 1998 perustettu alkoholijuomien maahantuontiyritys. Opinnäytetyö tehtiin tästä aiheesta sen vuoksi, että pienyrityksen kasvu ja kasvun vaikutus yrityksen johtoon on aihe, josta on vähän tietoa saatavissa. Lisäksi **Company Oy** yrityksen johtaja oli erittäin kiinnostunut kasvun vaikutuksesta yrittäjään. Tähän tutkimukseen kerätty teoria ja empiirinen havainnointi auttavat ymmärtämään miten kasvu vaikuttaa pienyrityksen johtohenkilöön.

Tutkimus on toteutettu kvalitatiivisella metodilla. Havainnot ja tiedot, joita tässä tutkimuksessa käytetään on kerätty **Company Oy** yrityksen johtajan haastatteluiden, sekä yritysvierailuiden kautta. Näitä tietoja ja havaintoja on verrattu teoriaan ja sitten käytetty opinnäytetyön empiirisessä osuudessa. Näiden tulosten pohjalta on lähdetty käsittelemään kuinka yritys toimii ja miten nopea kasvu vaikuttaa yrityksen johtoon.

Tutkimuksessa selvisi teorian ja käytännön vertailun avulla, että pienyrityksen liian nopea kasvu voi aiheuttaa ongelmia yrityksen johdossa. Näitä ongelmia ovat esimerkiksi toimitusjohtajan liiallinen osallistuminen työntekijöiden päivittäisiin työtehtäviin. Tämä ongelma johtuu usein siitä, että yrityksen perustamishetkellä johtaja on toiminut yksin ja hän on kantanut kaiken vastuun yrityksen kaikista osa-alueista. Myöhemmin kasvun yhteydessä yrittäjän on vaikeaa luovuttaa vastuuta muilla työntekijöille. Työmäärä kasvaa usein siis liian korkeaksi yhdelle henkilölle. Tämän ongelman välttämiseksi tulisi yritysten rakentaa tuloshakuisesti toimintaansa perustuen tehtävien jakoon ja johtajien irrottautumiseen päivittäisistä työrutiineista. Pienyrityksen johdon pitää pystyä irrottautumaan yrityksen arkirutiineista, muuten yrityksen kasvu kärsii johdon liiallisesta työkuormasta.

Avainsanat kasvu, pienitys, yritys, johtaminen, yrittäjä

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## 1 INTRODUCTION

The increasingly competitive market builds challenges for small business owners. Managing a successful small company is becoming more demanding. The reason for this is that most markets have already strong competition which makes it difficult for a small company to enter a market. To be able to make a market entry a small company has to have a niche to be able to be competitive and profitable.

For a company's longterm health it can be good or even necessary that there is growth. (Katsioloudes, Marios 2006, 136). Growth can be expected for a small company, but this growth can be faster than anticipated. This research has been conducted for the purpose to study the key factors which a small business has to focus on, when it is growing faster than expected.

### 1.1 Scope of the research

The scope of this research is Managing fast growth in a small business. The study is focusing on a single entrepreneur who has to manage fast growth in his company and the change from entrepreneur to manager. The reason for selecting this topic was the authors interest in small company growth and the affect of this growth on management. As was discovered, there is no literature available on this topic the research will help to get a better perspective on this topic based on the collected theory and empirical evidence. Another reason for the authors was that the owner of **Company Oy** had a strong interest in how to manage fast growth. This was concluded when an interview was conducted with the SBO of **Company Oy**.

### 1.2 Context of the research

This study is based on a small company situated in the Helsinki metropolitan region, with operations in Finland and in Estonia and has one owner of foreign origin. The company is a wholesaler, selling beer as a main product and as an extension to the product range the company also sells ciders, light alcohol drinks and whiskies. In addition to being a wholesaler the company brews own beers. These beers are brewed in Belgium and from there these beers are transported to and sold in Finland. The company was founded in 1998 two years after ending the monopoly of alcohol importing which was previously the right of Altia. Altia is a government controled wholesaler of alcohol products in Finland. The company started in 1998 with the owner as the employee and is now in 2008 employing six people permanently and two temporary employees. In ten years time the company's turnover has grown from €100,000 to €4694,000 (Company owner, interview 29 December 2008).

The decision to study the company **Company Oy** was made because during the authorts studies there has been a frequent contact with the SBO of **Company Oy**. This helped the authors with making the decision to use **Company Oy** as the case company. The authors decision was also based

on good contacts with the owner of the company and the authors inside view on how the business is conducted. During the studies at Laurea the authors have collected data that is useable for this research.

### 1.3 Objective of the research

The objective of this research is to obtain an answer to the question asked by many small business owners: The question is how to manage a small business which is growing faster than expected? The objective is reached by studying the theory behind small business management and growth management from many perspectives, both internally and externally from the company point of view.

To reach the objective it is necessary to investigate the case company's history which contains information about internal and external influences from the past 10 years. Internal information studied includes the turnover, yearly customer growth, the number of employees and their functions, product range growth, change of venue, the growth in the amount of work per person. The external influences studied are the effect of sales agreements with Customer 1, Customer 2 and Customer 3 and the AAA financial stability rating. Customer 1, Customer 2 and Customer 3 are the main retailers for **Company Oy**.

### 1.4 Structure of the research

There are five sections in this research. Each of these sections describes a specific area studied in this research. section one is the introduction where the scope, context, objective and structure of the research are described. Section two is the theoretical background of the research where the following topics are described. The first topic is how to manage a business and what management processes are needed. The section is continued with measuring performance which includes the following three topics: financial performance, organisational performance and measuring success. These are important tools for a company to monitor the business and therefore had to be included in the theoretical background of the research. The next subject is creating an effective finance plan, which is important when creating a new company. The next topics are market map, SWOT analysis and objectives of a company. To continue this section there will be a list of eleven reasons for a small business to fail. Other topics are characteristics of a small business and who is a small business owner, for this research these topics help to explain the small business and its owner. The second section is closed by a description of the industry.

In section three is described the qualitative research which is selected for this thesis. To finalise this section the methodological approach of the research is described. The fourth section is the empirical research. This section has a description of the case company and its organisation. It also



shows the growth of the company and the turnover. After these the research continues with the customer communication process and an analysis of the market. The empirical section is concluded with an analysis of the case company's research problem: managing fast growth in a small enterprise. The last section is the conclusion where the future challenges and opportunities are described. The thesis is completed with the conclusions section.

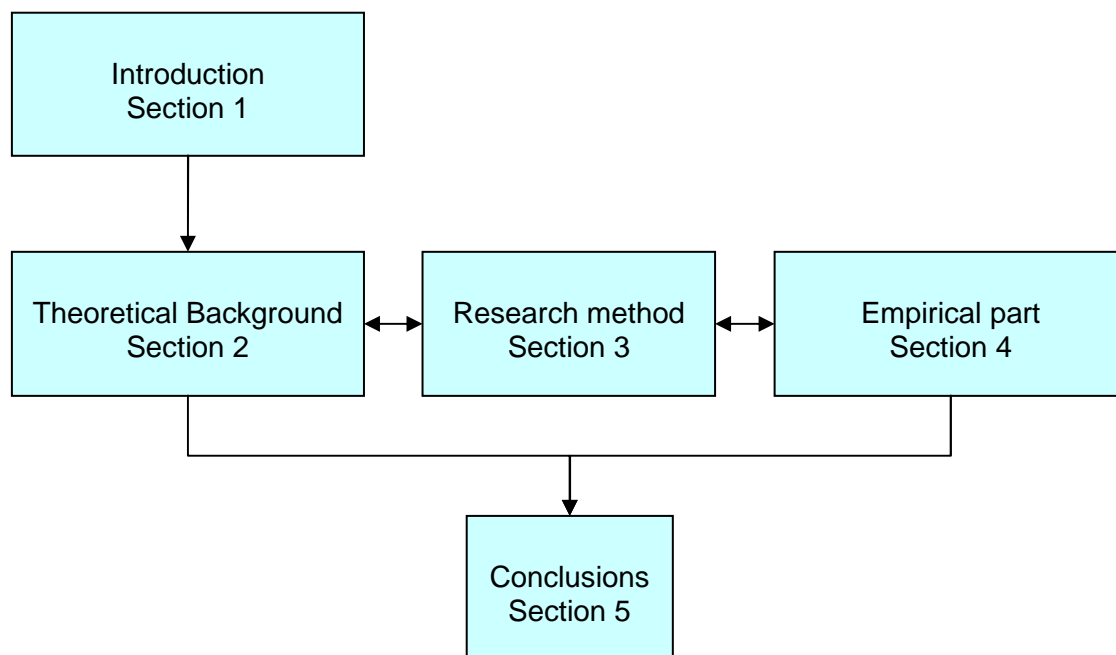


Figure 1: The Structure of the research

## 2 THEORETICAL BACKGROUND

In this section will be the general theory context which is relevant for this research. The theory studied is necessary for explaining the key elements which a small business has to focus on, when it is growing faster than expected.

### 2.1 Managing a business

An SBO, short for Small business owner, has to become a manager instead of a business owner, because of the growing number of activities that have to be managed. The SBO will feel that the work he is doing is not satisfying any more, to go to work will be stressful and irritating. When the SBO feels stressed and irritated the SBO should start to rethink the business and think if he is still capable of doing the work. There will also be other indicators which will tell the SBO that the business has outgrown him, for example the cash flow can be insufficient which could result in a shortcoming in the accounts receivables, or inventory overaging creating unsellable products.

Another reason would be because of sales shortfalls, expense overruns and bad acquisitions (Schell 1996, 214, 215).

Another indicator that shows that the business has outgrown the SBO is the balance sheet which will show through the key ratios that the performance of the SBO is decreasing. The loss of good employees and complaining customers which will affect the sales are also indicators that the business outgrows the SBO's abilities. The last indicator will be bankers and shareholders who will question the SBO about the performance of the company (Schell 1996, 214, 215). When the company outgrows the SBO's abilities the SBO should consider the alternative of developing management in the company.

### 2.1.1 Strategic management

For an organisation to change it is important for management to plan that change carefully, usually this planning is done by the following managerial activities which are: recruiting, selecting, leading, communicating, relating, problemsolving, decisionmaking, negotiating, conflict solving, training, controlling, rewarding, evaluating and innovating. Management has become more than these activities and it is continuously changing. There are basic activities which are important for managing a company. These activities are staffing, directing and controlling which will create functions of management. These management functions are leadership, administration and planning. All these activities and functions depend on the cultural background of the company and its people, because different cultures have different ways of working means that the activities and functions of management can be different from company to company, but they all have the same purpose to find people who can inspire people to reach the planned goals of the company (Katsiolouides & Marios 2006, 4, 5).

#### Managing reorganisation

To manage a reorganisation in a company Lean and Six Sigma would be advised to be used. Lean and Six Sigma are business management strategies which are used to improve performance. Companies who are not using Lean and Six Sigma to implement their reorganisations argue that this method is too complicated and timeconsuming for them. They prefer to use the time spent on Lean and Six Sigma to serve the customer's needs and demands. Those companies that argue they are most of the time not meeting the customers' needs and demands, because they do not have the right knowledge about their customer, would need a change to be able to improve their customer understanding. With this customer understanding a company would be able to improve profitability. Companies should have clear customer strategies, some companies do not have more than a planned budget for their sales which they convey with their mission and vision statements. The mission and

vision statement do not always show how much better the customer care is compared to the competition (Six Sigma Strategy 2007, 1).

### 2.1.2 From entrepreneur to business manager

When a small business starts to grow, an entrepreneur has to start to become a manager, because when the company starts growing the number of activities to manage the company will also grow. The increase in activities means that the SBO will have to hire employees to fulfil certain basic activities to create more time. For the SBO this free time will be filled with managerial work such as communicating, delegating and focusing. The SBO also has to start to manage problems, solve conflicts and attend meetings. All these managerial activities were not needed when the SBO was a single entrepreneur (Schell 1996, 210, 211).

A single entrepreneur who wants his business to grow has to become a small business manager. For the new small business manager there are five basic activities that are necessary for the growing company to operate.

- Organise
- Set objectives
- Measure performance
- Develop people
- Motivate and communicate

In a small business these activities are not the main problem; the main problem is that all these activities are managed by one person the owner of the business, which Barrow calls the owner-manager in his book *The Essence of Small Business*. Barrow wrote that according to the Cranfield model these owner managers can be divided into four groups interacting with their employees, in the Cranfield model these are called: Artisans, Heroes, Meddlers and Strategists (Barrow 1998, 128-137).

The Artisan is most of the time busy with producing the product or delivering a service. The business skills in the company are low because the employees in the company are most of the time hired to assist the artisan with the primary tasks like, selling, producing the products or bookkeeping. The Artisan's possibility to grow is relatively low in their market; they should be made aware that management is as important business task as producing or selling. (Barrow 1998, 139)

The Hero is a person who will give a task to the employees, for example sales or production; this gives the hero more time for managing the business. The business skills of these employees are low and to compensate that the hero will attend a course in one or more of the following: accounting,

business ratios, market segmentation sales management or staff appraisal which makes the employees see him as a Hero. This will change the situation for the Hero, because for the physical tasks there can be easily hired people who can manage those, and they are easy to be trained for the task. But to find a welltrained manager for routine management tasks is more complicated or even impossible. Most of the time the managers who are capable of doing these routine management tasks are not willing to work for a small company without possibilities for personal growth. This means that the Hero has to train the manager he needs by himself and that is not easy. The Hero is capable of improving the performance of the company, but the possibility to make the company grow is still low compared to the market potential. Another problem is that the Hero cannot manage the strategic thinking, and has difficulties in managing the effects of growing in the business. Because of these problems the Hero needs constant training and developing to improve management skills, which helps the Hero to motivate his employees and being a leader, it also helps them to improve their organization design and strategic management issues. If they fail in solving these problems they can become a Meddler (Barrow 1998, 139).

The Meddler is able to organise a good functioning management team either by hiring people with the required skills or by training his employees. This leaves the Meddler with a reduced amount of functional tasks and more time. The Meddler has taken the position of manager director and is using a part of the extra time to improve the management skills by following courses and reading books, but it is still difficult for the Meddler to leave routine management tasks to the employees which means that the Meddler will use the rest of the extra time for unnecessary work, such as redefining the employees tasks. Losing these routine management tasks gives the Meddler an feeling that he is wasting time since he had been used to work long days before. The Meddler should start to concentrate more on running the company than on running his managers, because when the Meddler continues interfering with the routine management tasks he will slow down the growing process of the company. There are two reasons for the Meddler not to interfere in routine management tasks, one is that the management team will not accept more responsibility which will be criticized and complained about, second is that the management team is too busy with work that there is for them no time to develop new strategies which would lead to growth (Barrow 1998, 140).

The last type described by Barrow is the Strategist who has the ability to improve his management team to the highest level suitable for the given tasks. The Strategist is capable of creating staff functions which support his managers in personnel and market research. This gives the Strategists key managers more time for strategic thinking, monitoring performance, coordinating activities, resolving conflicts and supporting. Because key managers support the Strategist, managing the business will take now one third of the Strategist's time. Another third will be spent on, motivating, counselling, developing and supporting the management team and also helping the management team to manage change. The Strategist will use the extra time to develop his strategic thinking so he could make a more clear vision of the future of the company's business. The Strategist is using

two thirds of the time for improving the business and one third for improving themselves. This means that the strategist will need constant training for example to be a good leader to his management teams the Strategist has to improve his core leadership and motivation skills. In addition to these skills he also needs more in-depth knowledge about strategic issues, such as acquisition and divestment activities and finally knowledge about financing sources (Barrow 1998, 140).

Amount of change needed (due to environmental instability, rapid growth.)	High growth	Considerable leadership but not much management required (start-up businesses)	Considerable leadership and management required (most big businesses and other organisations today)
	Low growth	Little management or leadership required (most very small businesses)	Considerable management but little leadership required (many successful corporations until lately)
		Low complex	High complex
The complexity of the operation (due to size, technology, geographical dispersion, the number of products or services, etc)			

Figure 2: Leadership and management compared to growth (Barrow 1998, 141)

For the SBO of a growing company it is important to have leadership skills. Figure 2 shows the amount of leadership and management a company would need at a certain time of the company's lifecycle.

In figure 2 the vertical axis shows the need for change at certain times of the company's life cycle. This change can be necessary because of outside influences such as more competition, more demanding customers or a changing economic climate. The change can be caused by inside needs. This can be when the company changes from a lowgrowth company into a highgrowth company. On the horizontal axis is shown the complexity of the company, for example a low complex company is recognisable by the small number of products or services it offers or the number of locations it operates (Barrow 1998, 141).

In figure 2 can be seen in the upper left box a normal profile of a company which recently started. In the beginning the business is not complex. To create something new the ability to manage many changes is needed, which means that a good leader is needed more than a good manager because there is at this stage of the company not much to manage. The box on the bottom left shows that a low leadership or management is needed for companies that grow very slowly without much change in the business, these companies can continue as long as there is business which generates profit (Barrow 1998, 142).

In figure 2 the box on the bottom right shows the characteristics of a more complex company which has a stable business. This company has the ability to expand, even when there is not much leadership available, because management is running the company. To support and secure these businesses, when the environment becomes more unstable, it will be necessary to create a stronger leadership in these companies. Otherwise this company will stop existing. The last box in the right upper corner of figure 2 shows companies with good leadership and management, which means that these companies can achieve fast growth. A competitive business needs a strong leader and a good management to succeed (Barrow 1998, 142).

For a small company it is often not possible to recruit good leaders and managers for running the business, because the company's business does not bring enough money to pay the salaries connected to these professions; this means that these skills have to be combined into one person (Barrow 1998, 142). Because of this problem it would be advisable for the SBO to search for a mentor, board of directors or advisors who could give advice on how to manage the business.

### 2.1.3 The need for a mentor

A mentor is for many SBO's an unknown subject because many SBO's are learning the business by doing and making mistakes. For improving the business every SBO should have a mentor who is able to give support and advice. In critical situations a mentor can show the right way by giving several options. A mentor will never tell the SBO what to do. A good mentor has experienced similar situations and knows what is necessary to solve the problems (Schell 1996, 189).

To find a mentor the SBO has to use networking, for example word-of-mouth is a good way of searching. The SBO could talk with the banker, accountant or any other people with or without their own business. When a mentor has been found it is good to organize regular meetings and follow-ups. A good mentor likes to hear that his advice has been used and been successful. An SBO should always be truthful towards a mentor because that mentor is there to help the business to improve and for that a mentor needs clear facts to work with and to be able to give the right advice (Schell 1996, 190, 191).

#### 2.1.4 Choice between board of directors or advisors

The board of directors are people who are not connected to the company, they give the SBO accountability and objective advice and they have a legal responsibility to represent the shareholders. Having a board of directors can be negative because they are empowered to replace or limit the power of an SBO and they are expensive to keep, because a board of directors need to be paid a regular salary and also need to have a D&O (Directors and Officers Liability) insurance, which protects them against law suits from the shareholders. These salary payments and insurance payments bring extra costs to the company (Schell 1996, 192-194,).

For a small-sized company it is more economical to have a board of advisors, because a board of advisors does not have any legal responsibilities towards the company and its owners. A board of advisors is not able to replace or limit the power of an SBO. The only function a board of advisors has is to give advice to the SBO. A board of advisors is easy to maintain, because it does not need to have D&O insurance, and will not demand a similar salary as a board of directors or the SBO. It is common for a board of advisors not to require a salary. The only requirement is that the company pays for the dinner and meeting expenses (Schell 1996 195, 196).

Another way of paying the board of advisors would be, as Marc Kramer mentioned in his book small business turnaround, that the company offers the board members stock options or a consultant fee, the company could also consider a combination of the two options (Kramer 2000, 270).

For the management of a company the selection of the members of the board of advisors is the second most important task after recruiting employees. The SBO wants his board to consist of friends and colleagues who support his ideas and decisions. The board should not put the needs of the SBO before the company's needs. A good functioning board of advisors can be very important for the success of the business. The approach the SBO is using for hiring new employees should be the same for selecting and evaluating members for the board of advisors. There are ten guidelines the SBO can use to identify the right board members (Kramer 2000, 271).

The first guideline is to evaluate the skills, contacts or experiences the members have so they can complete the missing skills, contacts or experiences from the management team because the board of advisors is an extension of the company. The second guideline is to evaluate if the board members can support management business growth, which means the members have the experience and knowledge to support growth. The third guideline is to establish the right mix of board members so they would be able to support management of the company. A functioning board would be a mix of older and younger people. because older people have experience and younger people technical knowledge and in addition to these differences younger people are more resilient for new ideas and change in the company which older people miss. The fourth guideline is that the SBO has

to locate the right board members. The SBO can for example talk with the company's banker, lawyer or accountant because they do not want the business to fail, and these people have large networks where suitable people for the board can be found. The SBO should also talk with the clients, look in business sections of newspapers and talk to people in trade associations and chambers of commerce. The fifth guideline is to decide on the number of members needed for the board of advisers. For a small company a board of seven members is sufficient. The sixth guideline is where the SBO ensures the board members know the company's business, because if they know everything about wood and the company is making and selling beers the board cannot have the right knowledge to have a positive impact on the business. The seventh guideline tells the SBO to ensure that the members have the financial possibility to invest in the company or the possibility to raise money if needed. When outside investors see that the company's board members have their own interests in the company this will give a positive message of confidence to them. The eighth guideline is that the board members could provide more business to the company. When board members have been active in the same field of business as the company is active in, these members will have contacts which can bring more sales. It can be said that board members are an extension of the salesforce and they also represent the company. The ninth guideline is the need for board members who are strategic thinkers, this skill is not needed for all the board members but it would be a valuable asset to the board to have at least one person with this ability. A strategic thinker can see opportunities, partnerships for creating relationships and product opportunities. The tenth guideline is to make sure that when the company has a well-thought-out idea with a high risk the board members will consider to support that idea and not reject it immediately (Kramer 2000, 271-275).

#### 2.1.5 Delegation as a management tool

When there is too much work for the small business owner (SBO) in his business, overtime will be the most common way to manage that business. To delegate responsibility is a difficult task for the SBO, because the company is his creation, he has been building it from the start and worked hard for it, which means that it is difficult to give certain task responsibilities to other people. Other reasons which prevent the SBO from delegating the work can be the work pressure and the growth of the company. These reasons could have prevented the SBO to review his work and the time spent on that work, it is for the SBO easier to do the routine work than work on a new business strategy. Delegating can make the work easier and more manageable; it also gives the SBO and his employees the possibility to improve their skills, which will help improving the effectiveness of the business (Barrow 1998, 143).

The purpose of delegation is that it gives the SBO the possibility to do more, and creates time for managerial tasks, and if the delegation is appointed properly the business will become more effective. The increase in effectiveness will be because the SBO will have more time after the



delegation for monitoring the business and the employees. There will also be more time for planning and developing. As a result the SBO will have time to solve problems which helps to improve the business. A good delegation of responsibilities will create a back-up for the SBO, so in time of need the company will be able to continue its business for an extended time period. As said previously, delegation helps the employees in their development. These employees will have the possibility to improve their skills and receive more responsibility, which will make the work more interesting and challenging for them. It also creates more involvement in the company which will help the employee increase the understanding, enthusiasm and creativity for the work. This also leads to a happier and steady workforce, and what is for the SBO a routine task, could be for the employee an opportunity to grow (Barrow 1998, 143, 144).

For the company, delegation means a maximized efficient output which means using the available human resources in the best possible way that will achieve a high level of productivity. It also provides an environment where the employees are able to express their ideas and improvements for their work place, which could help improving the business. Another benefit of delegation is the ability to produce faster and be at the same time more efficient in decisions. This is because employees with decision power who are close to a problem are able to solve that problem very quickly, which reduces the response time on a change in the environment. Delegation will be an improvement in the operation flexibility because employees will be trained to perform different tasks which will be a help in a crisis, then an employee is able to do or replace some other employee's task. Delegation also helps to prepare employees for more responsibility which will support promotions and task rotations, which could help when the SBO is absent because there will be an employee available to supervise the company (Barrow 1998, 144).

For managing delegation there are several guidelines to consider. The first is what and what not to delegate. To help answer this question ask if there is an employee available to do the work. Next, can this employee obtain all the information to make a decision concerning the work and the ability of the employee to control the work independently. The most suitable work to delegate is routine work, information collecting and more detailed work such as calculating. Work that is not suitable for delegating is forecasting, confidential work, complex situations, employee evaluations and delegating work (Barrow 1998, 144).

The second guideline is to select which employee to delegate. Has the employee involved the right skills, right interests and the right workload. guideline number three is that the information the employee needs for the work is communicated in the right way so the employee is able to do the work. It is important to be prepared that the person involved is not able to understand everything about the work after the first explanation, it is necessary to be available to assist when the employee needs assistance, or follow the employee the first time of executing the new work, so the problems can be located and solved (Barrow 1998, 145).

Managing and evaluating will be the fourth guideline which means setting up a meeting schedule with the employee to step by step explain the work with the employee to make it clear if everything works and everything is well understood. After delegation it is important to create follow-ups, these are very important for employer and employee to receive feedback on the new situation. These follow-ups will help the SBO in monitoring and motivating the employee (Barrow 1998, 145).

Delegating is carefully evaluating the employee's ability to manage a new task. When there is a need the employee can start with a smaller task to slowly familiarise with the demanding task. The SBO has to know that accountability cannot be delegated. With every work the employee is doing it is the SBO's reputation which benefits or suffers. If an SBO cannot tolerate mistakes the SBO should never delegate work because people make mistakes, but a well planned and executed delegation can save the SBO time and make the business more profitable and efficient (Barrow 1998, 145).

For solving business problems SBOs have different possibilities. They could use their instinct, experience and if that is not sufficient the SBO could ask for help. Asking for help is very difficult for many SBOs, because they think that they have found all the answers or they are too busy. What prevents an SBO from asking for help could be that the SBO's independence. The SBO needs a learning tool to help with solving problems. For the SBO there are two tools available, he can use the trial and error system or he can search for experienced help. Searching for experienced help is the best tool because all the problems in a small business have been solved by other people in the past. To avoid problems with solving problems the SBO can consider the following steps. The simplest step is subscribing to a business magazine or searching the internet for help. A more difficult step is taking a partner with more experience or finding a mentor, or appointing a board of advisors or directors with people outside of the company. The SBO can also hire a consultant or create a network with other SBOs, or join a small business or trade association (Schell 1996, 11, 12).

#### Organisational structure

A functional organization structure is also called the traditional organization structure. The concept of a functional organization structure is based on dividing functions into different departments with a vertical hierarchy. The hierarchical structure shows the relation between every level of control in the organisation (Katsioloudes & Marios 2006, 115).

As Katsioloudes writes, the strengths of a functional organisational structure are as listed below. In the functional areas it is possible to have economies of scale as focusing on one particular function it is possible to increase efficiency, which generates economies of scale. A functional organization structure enables in-depth skill development within each department. As a result the functional goal of the company can be accomplished more effectively and within a shorter timeframe. The

benefits of such a structure are most functional in small to medium-sized companies with one or few products (Katsioloudes & Marios 2006, 115).

In addition to the strengths there are also weaknesses in a functional organisational structure. These are for example a slow response time to environmental change and decisions can add more work to the organisation, for example, a functional organisational structure can prevent quick decisionmaking that would be necessary for reacting to a change in the market. Other problems could be the communication between the departments on the same level; they often have to communicate through the higher levels. A functional organisational structure can reduce innovation because the employees have a restricted view of the organisational goal because the functional goal becomes more important (Katsioloudes & Marios 2006, 115).

## 2.2 Management processes

Core processes of an organisation include procurement, logistics, customer and stakeholder expectation exceeding, resources management, design and development, production, marketing, service and human resources. These processes lead to creating value to the customers, employees and stakeholders of the company (Rainbird, Mark, Walters, David 2007, 241).

The role of procurement as a core process has grown beyond finding only the suitable suppliers that can meet the cost, availability and delivery requirements of the buying company. The management of cash flows has to be co-ordinated to optimise capital available for the company. Much in the same way as with procurement the role of production has evolved. Working together with suppliers to maintain visibility on material availability has become a vital part of effective production processes. The production manager has to be constantly aware of new production technology trends that can be utilised (Rainbird et al. 2007, 256).

Marketing's role changes as the company matures. Typically at the beginning of the company life marketing creates a high return on investment particularly in a growing market. However, when the market begins to saturate the return on investment starts to decline. This results in the need to invest increasing amounts of capital to maintain and improve the market share (Rainbird et al. 2007, 256-259).

Market segmentation shows the potential customers who are willing to buy the company's products or services. To identify these potential customers the company can conduct a market research. When the company has made a market segmentation it will be able to find many potential customers, but to continue with these customers the company has to ensure their needs and set the objectives and strategies for these customers. The company has to be very sure how this market operates so it is possible to be able to influence the buying process in the most profitable way and

to be able to create a satisfied customer. This segmentation helps the company also to create differentiation towards its competitors. A good marked segment should be of a sufficient size so it could give the company a good return on the work input. The customers sharing the same segment should have a close similarity to each other and should show a clear difference with the customers of other segments. A company should be able to reach a targeted market segment (McDonald 1998, 51-53).

The role of services has increased. It is now a major part of a successful corporate policy. There are new service-based organisations appearing in the market. These service companies' existence is based on their superior skills in managing one or more specific business processes that a company is willing to outsource to the service company. An example is to outsource the ICT - Information Communication Technology operations of an organisation to a technology focused service provider. The object is to reduce costs and to improve customer service towards customers. Another service that many companies outsource is logistics management. The growth of large retail chains such as Wal-Mart has ensured this. JIT - Just in time and VMI - Vendor managed inventory programmes ensure that time management and information flow are imperative to maintain competitiveness. Lack of inventory in sales situations will lead to lost sales and a damaged company image as a reliable supplier. (Rainbird et al. 2007, 263-265).

The microeconomic perspective of logistics observes the relationship of logistics and other areas of a company. These areas can include marketing, manufacturing, finance & accounting, but many other functional company operations exist that can have a correlation with logistics. Seasonal demand is a microeconomic dimension of logistics. Logistics managers will try to minimize the effects of seasonal demand. Predicting the correct level of stock so that the products are quickly available, but at the same time making sure that there is not an excessive quantity of products stored in the company's warehouse at a high storage cost is required. The general prediction of product demand is easier to analyse based on previous month's or year's demand but seasonal demand can be altered depending on the weather or trends. If the winter is too warm there will be a decline in the sales of winter sports equipment. Companies cannot affect the seasons of the year but they can increase their sales by marketing their products to the consumers. Her marketing and logistics have a common goal. The purpose of marketing is to generate sales by placing the products of a company in the minds of the consumers and creating a sense of need in the minds of the consumer. The role of logistics is to complete the delivery of the product to the end user (Coyle & John 2003, 42, 43).

The theory of supply chain management was first introduced in the 1990s. Supply chain management is a part of the change that shifted the stagnant US economy of the 1980s to the fast-growing US economy of the 1990s. Supply chain management has become increasingly important because of the increase in consumer awareness and expectations. Retail outlets are open the whole

year. This has brought problems to retailers trying to serve their customers who have a high demand on product variety and availability. These problems are transferred directly along the supply chain from the retailer to the distributor and finally to the manufacturer. What is necessary to understand is that a problem that occurs in any of the phases of the delivery from the manufacturer to the retailer causes a delay that creates dissatisfaction in the customer. The end user of the product is not the only customer. Other customers are the companies along the supply chain in charge of transportation, warehousing and other activities relating to the flow of the product along the supply chain (Coyle & John 2003, 4, 5).

The role of retailers has become more important as they are growing larger. Larger retailers are able to create attention in the manufacturers and distributors that are their source of products. Approximately 20% of manufacturers' customers generate 80% of sales. This is why it is difficult for small and medium-sized enterprises (SMEs) to demand personalised customer service, such as negotiated delivery terms or any other agreement that would be beneficial for the SME. Due to increased competition the level of customer service has improved along the supply chain. This has also made it possible for SMEs to demand customised services such as just-in-time delivery (JIT) or scheduled deliveries. The increase in customer expectations and demand level has created a reverse direction in the supply chain. This is because a greater number of products are being returned to the manufacturer because of damage or unsuitability to the customer. It is also important to control the reverse direction of supply chain management effectively (Coyle & John 2003, 6-18).

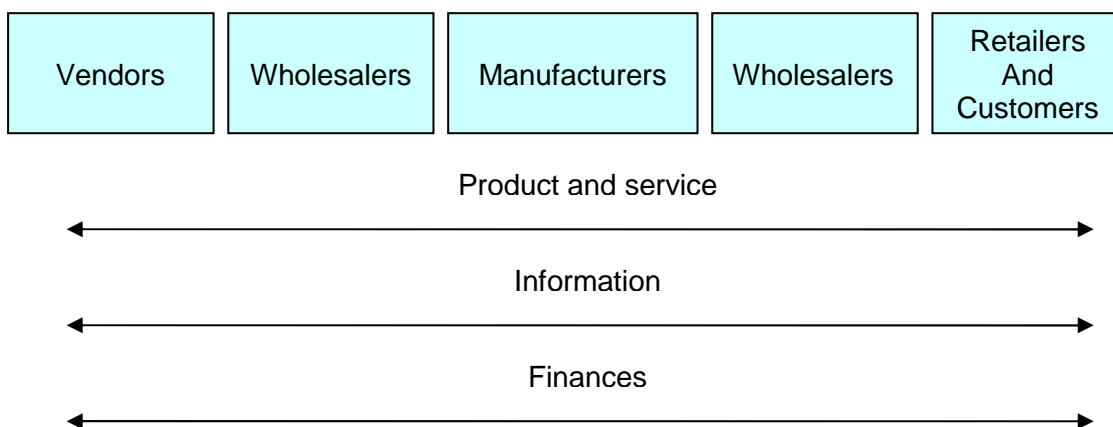


Figure 3: integrated supply chain (Coyle & John 2003, 18)

Figure 3 illustrates an integrated supply chain where can be seen that in addition to the flow of goods there is also the financial flow. The trend has been towards a quicker order-to-cash turnover which has increased profitability. Dell is a good example of this as the company often receives payment from the customer before payment for the products to their suppliers. This generates a

situation in which Dell gets money from the customer before the company has to pay for their order (Coyle & John 2003, 18).

Successful supply chain management is a result of managing the following concepts: inventory, cost, information, customer service and collaborative relationships. Managing the flow of inventory is an area that requires focusing on. The simplest definition of successful inventory management is that the level of inventory is sufficient to meet the customer acceptance but low enough to keep costs low. Inventory management is required to achieve a balance. The role of inventory management is to also ensure that there are no duplicated stock items moving along the supply chain. Managing the supply chain requires complete visibility of the movement and stock level of each product. Modern inventory control systems utilize bar coding and RFID tagging (radio frequency identification). This technology combined with effective stock control ensures the most effective supply chain management with minimal buffer stock (Coyle & John 2003, 22).

Effective inventory management is based on a pull strategy instead of a push strategy. The pull strategy is a result of customer demand which results in an order along the supply chain. The push strategy means that products are pushed to the shops in advance of demand. Push strategies can lead to inventory items becoming obsolete, especially in the case of items that have a slow inventory turnover rate. The pull strategy combined with JIT delivery results in the most effective supply chain. In certain types of business such as consumer food product stores the above-mentioned strategies have to be adapted and a postponement strategy has to be used (Coyle & John 2003, 23).

The focus of supply chain management is to reduce costs. The emphasis must be on the cost at the end of the supply chain. Focusing at the end ensures that the costs are kept low along the whole supply chain. To achieve low cost at the end requires all companies along the supply chain to understand how their actions affect the price at the next step of the supply chain and eventually at the end of the supply chain. Joint planning and co-ordination of strategies are required to manage the supply chain effectively. Companies are naturally reluctant to share information that they consider confidential. It is often the case that the cost of sharing this information is unrationalsed when compared to the benefits received. Managing information is important to achieve supply chain efficiency. Information must flow in both directions to achieve good results. In the most effective supply chains information is available in real-time. The benefits are transferred also to the customer in the form of better product availability and lowered prices (Coyle & John 2003, 23).

There are three levels of customer service from a supply chain and logistics point of view. The lowest level is reliable, on-time delivery and accurately managed orders. This basic level of service is required to maintain customers. To increase sales and customer profitability, it is essential to take into account the special needs of customers, especially the large customers. This level of

service can include for example scheduled deliveries, advanced shipment notices, tailored pallet packs. The third and highest level of customer service is adding value for important customers. This high level of co-operation could include vendor-managed inventory, collaborative planning and forecasting, supply chain inventory visibility or any other co-operation that is mutually beneficial. Prioritising the key customers or key accounts is important as often these customers are those that generate the most profit (Coyle & John 2003, 24).

The level of the relationship between supply chain partners is an important part of the success of a supply chain. Integration among the supply chain partners leads to improved results and directs the companies towards a greater level of co-operation that can be compared to the functioning of one organisation instead of two separate companies. At this level of co-operation it is easier to start negotiating about the total supply chain costs that should be minimised. The costs are also communicated among the integrated supply chain members. In addition to sharing the costs there is a need to share risks and rewards. Generally any organisation is concerned only with its own interest but in an integrated supply chain the risks of one company should be considered as a risk for any of the other companies and also the rewards should be shared in a similar manner. If all the companies try to achieve a minimal risk and high outcome result, the overall result will be better (Coyle & John 2003, 25).

The four P's of marketing: price, product, promotion and place are used to describe the marketing and logistics relation. In a logistics perspective price is an important feature of a product. Here the price is not the price that the product itself will cost but the price of transporting the product instead. In the end the costs of transporting the product will also affect the resale price of the product. Generally it is cheaper per unit to transport larger amount of products at one time. This is due to the transportation companies offering discounts for higher volumes. Product physical attributes include the size, shape, weight and packaging. These attributes can hinder the product's transportation and storage and it may be difficult to transport products that are packaged in an unusual shape. Consumer packaging also affects logistics. Consumer packaging is referred to as the silent salesman. On the shop floor the package may be the reason for selecting a specific product instead of a competitors product. The consumer package is used to increase sales but it is important to notice that the size and shape of the consumer package affects the industrial package stacking. Promotion or advertising often receives a large sum of money. The purpose is to improve the product's sales position. When a large-scale promotion campaign is being planned the logistics manager should be made aware of the estimated increase in sales so he can prepare the logistics to anticipate the increased pull from the market (Coyle & John 2003, 44, 45).

Human resources need to be considered when the company grows. The amount of work will grow with the company's growth, so at some period in the life cycle of the company the SBO needs to hire people for certain positions which will create free time for the SBO to concentrate on more

important aspects of the business. For an SBO to decide on the qualifications needed from an employee, the SBO has to identify which positions in the company are suitable for other people to fulfil, some examples of these positions are sales manager, marketing manager, operation/production manager and financial manager. Schell calls these positions gamebreaker positions. There are three to six gamebreaker positions in every company. It is for the SBO important to find and hire the right people for the team to fill these gamebreaker positions (Schell 1996, 73).

The culture of the company and the needs of the SBO will determine the type of employee who is suitable for joining the team in the company. An employee working for a small business should have certain characteristics. For example the employee should be loyal and share the company's ethics and principles, the employee should be also creative and able to work in a group of people. It is a long process for an SBO to hire new employees, because these new employees should be compatible with the existing team, the SBO has to manage four skills to be able to build a team. The SBO has to hire the person then train and motivate, and if the new person does not perform as should, the SBO has to be able to fire that person. This team building skills will take time and energy from the SBO. For example in a business where at least 25 people are working, the SBO will spend at least 50 % of the time on team building activities, if the company has about 200 employees this time will be 75% of the work time. These activities will affect the performance of the SBO because there will be less time for meeting old and new customers and other business related activities like R&D and marketing the products (Schell 1996, 73, 74).

### 2.3 Financial management

There are many ways to fund a company launch and first year operation. Raising the money for this new business is always a problem as stock markets fluctuate according to current economic situations. To have a better opportunity to acquire outside cash from investors there are certain things a small business manager needs to take into account. The most important thing to understand is how important it is to be prepared before approaching potential lenders and investors. The lenders are hard to find and those that are reached will not be impressed if the small business owner does not have enough data to back his plans up. Another important fact to understand is that the small business owner should try to find more than one investor as there are risks involved in the possibility of the investor withdrawing his or her funds. Finding multiple sources of finance is called layered financing (Scarborough, Norman, M. Zimmerer, Thomas 2003, 408, 409).

Fixed capital is capital that is needed to secure the fixed cost such as buildings, land, computers and other equipment. Any money invested in these assets is not available for daily use of the company as these assets cannot be used for any other purpose. Those who take loans to pay the high costs of fixed assets expect the fixed asset to improve the company's efficiency and because of



this to generate more profit. Working capital is the temporary funds of a company. Working capital is used to support the company's short-term operations. Working capital is defined as current assets minus current liabilities. Working capital is needed as there is an uneven flow of income and expenses within a company. The working capital acts as a buffer to allow the company to operate without a shortage of funds for operations. Paying bills, buying inventory, financing credit sales and paying wages are examples of costs that are paid from the working capital. Companies often have campaigns in which they allow their customers to pay for the products or services at a later period. The reason for such models is that there is a belief that the amount of sales will increase as people will buy products even if they cannot really afford them. Growth capital is not the same as working capital. Growth capital is needed when an existing business is expanding or redirecting its operations. During a time of quick growth companies will experience an even higher demand for capital. Those investors or lenders who share their money are expecting the company to use the growth capital in such a way that it improves the profitability and cash flow position (Scarborough et al. 2003, 409-411).

#### 2.4 Measuring performance

According to Carton and Hofer there are five main perspectives for measuring organisational performance. The five perspectives are: accounting, balanced scorecard, strategic management, entrepreneurship and microeconomics. None of the above is strong enough to give holistic results on the organisational performance of the company on its own. By using the five tools together the results are more accurate (Carton, Robert, B. Hofer, Charles 2006, 40-42).

#### 2.5 Financial performance

Starting with the financial performance, which is focusing on the financial statements that can be analysed, is the simplest way to measure performance of a company. It is important for company accounting to be consistent so that evaluation with the past and present is straightforward. Financial statements make it easy to compare company performance. For this purpose the following basic financial reports are used. These are the balance sheet, income statement and the statement of cash flows. They are used to measure a company's financial situation. The balance sheet is used to view a company's financial value at a given time. This document is usually created on a monthly basis at the end of each month. The income statement, sometimes called the profit and loss statement, is a comparison of expenses against revenues over a certain period of time; it is an indicator of a company's profitability over time. To calculate the net income it is necessary to add the sales revenues of the year. These include all income that comes into the company from selling goods or services. Also the income from rent, investment and interest must be calculated as income (Carton et al. 2006, 40-42).

The statement of cash flows is an indicator of a company's working capital. It shows the cash flow from the beginning of the year. This statement is created by listing the sources of funds and the usage of the funds. For many small businesses such a statement is not necessary as they may rely on a less formal cash budget (Scarborough et al. 2003, 222, 223).

On a micro-economic scale organisational performance is measured by the profit generated by any asset a shareholder has invested in a company. The asset can be tangible or intangible such as time invested in the company or tangible such as company shares. The fundamental purpose of assets is to generate wealth to the owner of the asset. An asset owner will not voluntarily keep funds in a company that is losing business constantly as this would affect the value of the shares of the company. At the minimum, assets have to maintain their value or if possible the asset owners will withdraw their assets. According to Carton and Hofer it can be argued that the objectives of the founder of an enterprise are consistent with the objectives of the organisation. However, there are also other perspectives to measuring the performance of an organisation. In addition to the founder's perspective it is necessary to view the roles of other stakeholders such as family business owners who might not ultimately be managing the business just to maximise profit (Carton et al. 2006, 40-42).

## 2.6 Organisational performance

Organisational performance can be measured with the balanced scorecard. The balanced scorecard is a tool for management to measure a company's performance in a non-financial way. These non-financial measures can include market share, changes in intangible assets such as patents or human resource skills and abilities, customer satisfaction, product innovation, productivity and stakeholder performance. The concept relies on the acknowledgement that not all organizational performance can be measured purely based on financial statements. For example accounting cannot value the investments that are made within a short period, as the results are only visible in the future. Accounting is based on the past results. The balanced scorecard measures include market change, changes in intangible assets such as human resources skills, customer satisfaction innovation, productivity, stakeholder behaviour. These measures are received from management based on employee feedback and therefore must be an objective view on the reliability of the results. One significant weakness of the balanced scorecard is that it is not valid for measuring performance between any two companies as the balanced scorecard will be unique for each company. Figure 4 shows an example of a balanced scorecard (Carton et al. 2006, 42).

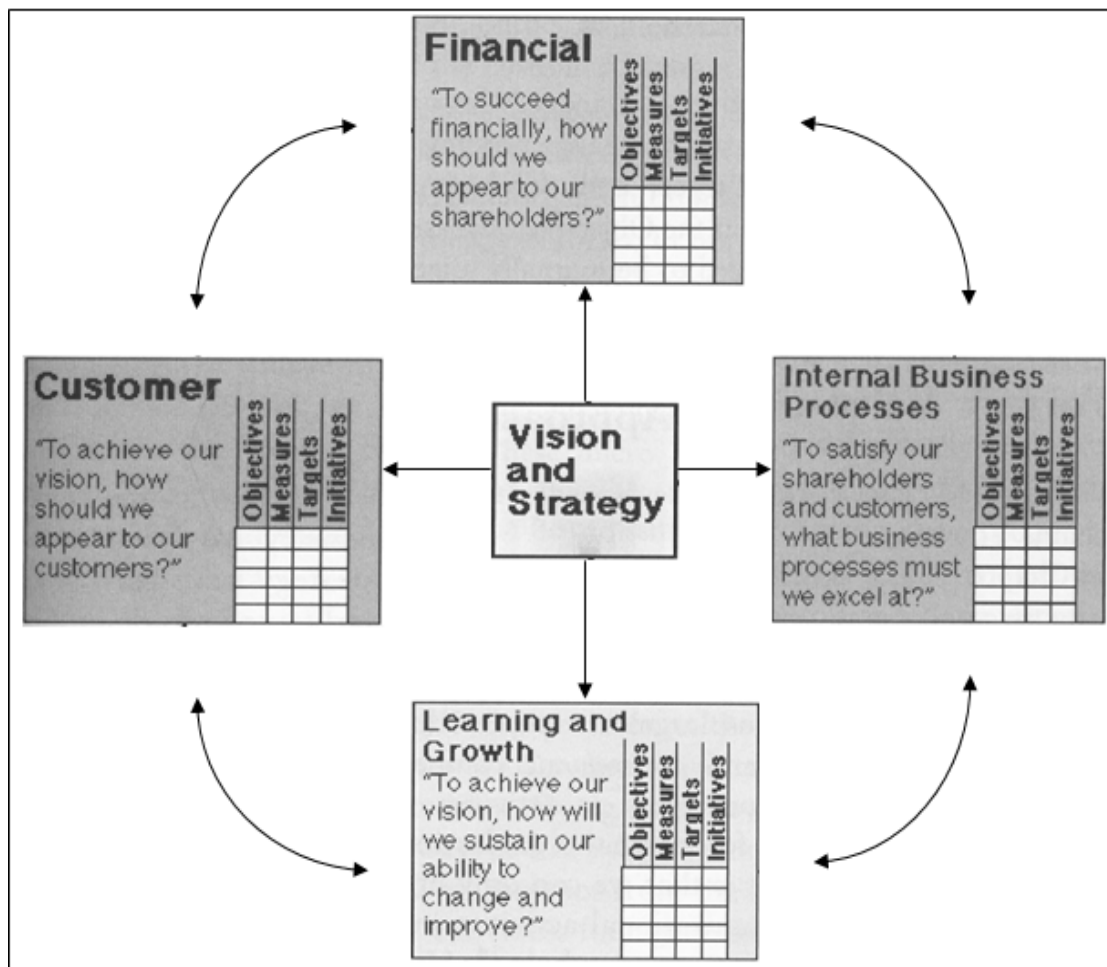


Figure 4: Balanced scorecard (Carton et al. 2006, 42)

## 2.7 Measuring success

Measuring the success of a small company is not very simple. In figure 5 is shown the result of a study about how SBO's measure the success of their small company. It shows that 82% of SBO's measure their success by the quality of their products and the services they provide. Compared with the 67% who measure their business success by the financial outcome. From this can be concluded that in a small business the quality and financial outcome are connected with a successful company. A well running company depends on its people who work there, because 98% of the SBO's answered the questionnaire that it is important to have an effective management team (Barrow 1998, 33).

The question for the study Barrow described was, how do you measure success? The answers in order of preference were, quality of the product and service, financial performance, development of an effective management team, ability to sleep at night, standing in the industry, balance of work and leisure, and as least important, standing in the business community (Barrow 1998, 33).

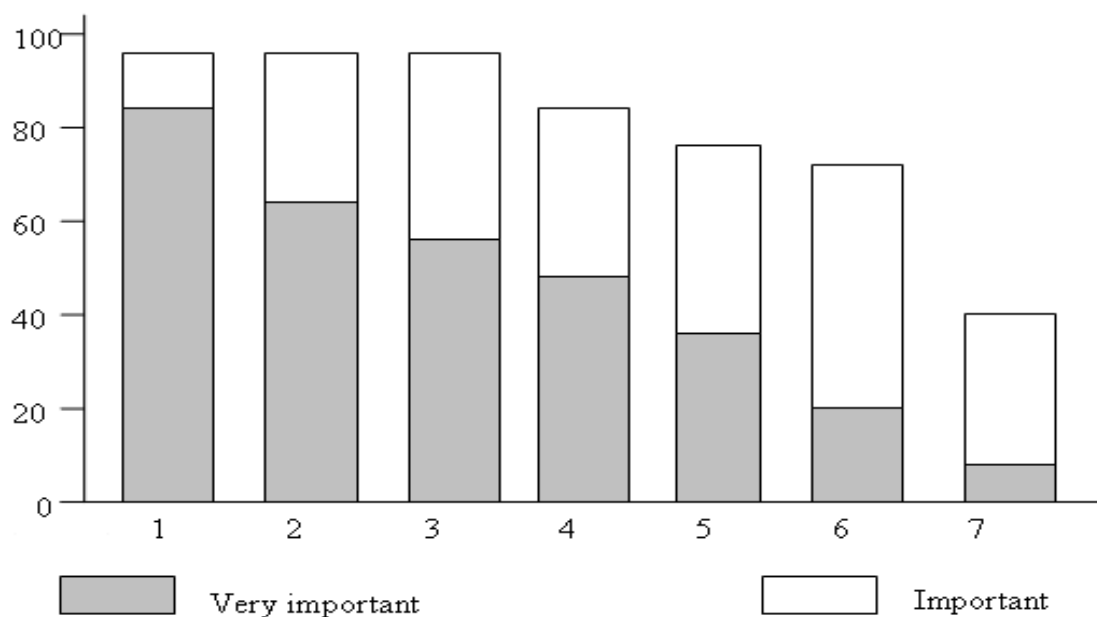


Figure 5: Results of SBO's measure of their company success (Barrow 1998, 33)

## 2.8 Creating an effective finance plan

When planning a new company it is important to create a financial plan that is realistic. The reason for developing a detailed financial plan is that the plan allows potential lenders and investors to see that the planned activities of the company are realistic. This is not the only reason for developing a concrete financial business plan. A well-designed plan will guide and help the small business manager pass the possible risk or problems relating to financial issues in the company. Entrepreneurs who do not have a financial plan are more likely to fail. Even so, according to Scarborough and Zimmerman research shows that one third of entrepreneurs manage their companies without any financial plan. Another study indicates that only 11% of small business owners connect their financial statements with the managerial planning and decision making. To be able to reach the profit levels that are planned entrepreneurs need to have a clear understanding of the firms overall financial situation in the past, present and in the future, as estimates forecast (Scarborough et al. 2003, 220).

The projected income statement is a created estimate or forecast. An entrepreneur has to have an estimate of the profit target that needs to be reached. There are two directions to calculate this target. The first way is to estimate a sales forecast and to lower the expenses. The other way is to calculate the expenses first to see how much profit must be made. Whichever approach is used the figures must be based on real estimates and not on overoptimistic estimates. If an entrepreneur earns less in his business than he would by working for someone else he must carefully weigh the reasons for continuing to operate his or her own company. The risks, sacrifices and hard work

involved in managing an own business with less income than could be achieved by working for another company with employment security are an important consideration that every entrepreneur should take. Also the entrepreneur needs to compare the amount of financial investments he has made in the company compared to the income that he receives from the company. If the small business owner invests 70 000 € in the company an acceptable return would be no less than 10 percent or 7 000 €. If the yield would be even less, 3 percent for example, the entrepreneur should not invest in the company at all (Scarborough et al. 2003, 224, 225).

The proforma balance sheet should be used in addition to projecting the small company's profit and loss. This balance sheet outlines the company's assets and liabilities. Most entrepreneur's focus is on the profitability of the business without giving enough thought to the asset requirements of the company. These assets such as computers, cars and equipment are the main tool for generating profit. New entrepreneurs should evaluate the need of assets of the company before starting a business (Scarborough et al. 2003, 227-229).

Cash is one of the most conventional assets. It is a liquid asset and can be transformed easily to another form of tangible assets. There are some general rules to determine how much cash a company needs to have. The guideline suggests that a company should have enough cash to cover the operating expenses for one inventory turnover period (Scarborough et al. 2003, 227-229).

Inventory is another tangible asset that a company will have in most cases. How much inventory should be carried depends on the inventory turnover rate. The value of inventory stored should be calculated by first dividing the total cost of goods sold by the level of inventory at present. If the cost of goods sold is divided by the inventory turn rate the result will give an estimate of how much inventory should be stocked (Scarborough et al. 2003, 227-229).

To finalize the projected balance sheet the owner needs to track all of the small company's liabilities, these are the claims against the company assets. Other companies could have claims on this company's unpaid inventory bill (Scarborough et al. 2003, 230).

## 2.9 Market map

A market map is defined as the distribution and value chain between manufacturer, supplier and the end market. This market map is responsible for differing buying procedures, structures and effectors presented in a market. With the help of a market map, market segmentation can be prepared which recognises and indicates those customer groups that have similar requirements that can be satisfied by a separate marketing mix (Market Mapping and Market Segmentation 2007).

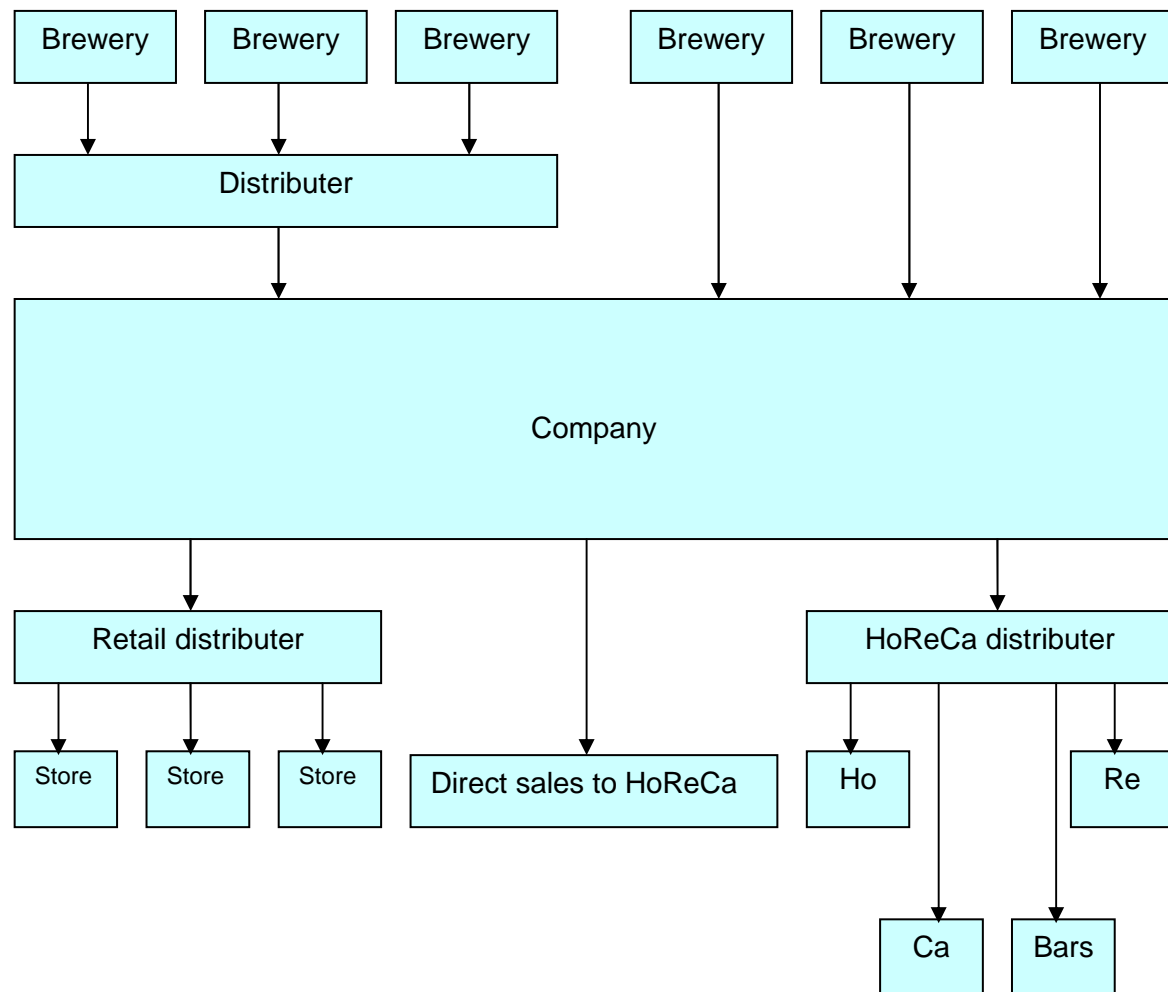


Figure 6: Example of a market map

Some companies will use a single market map as a guideline for their marketing efforts. This should only be the case if the company is managing a very small number of suppliers, and the customers of the company are relatively similar. If the case is that some of the products use a different distribution channel that cannot be integrated into the old market map, it is necessary to create more than one model (McDonald & Rogers 1998, 53). In figure 6 can be seen an example of a general market map. The word HoReCa is short for Hotels restaurants, catering, café and canteen.

## 2.10 Swot analysis

To research the best strategy for the company to follow, it is important that the SBO examines the company's organisation and its environment, which would make it easier to determine what would be the right strategy. A tool the SBO can use for examining the company's organisation and environment is the swot analysis; this is an analysis in four parts of the company's organisation and environment. An internal analysis is used for the organisational part that will determine the strengths and weaknesses of the company. For the environmental part is used an external analysis,

which will determine the opportunities and threats of the company. In the next sections the four parts of a swot analysis will be explained (Katsiolouides & Marios 2006, 69, 70).

The first part of the Swot analysis is the internal analysis of strengths and weaknesses. Strengths are the company's own unique internal characteristics and abilities which can support the company's ability to reach its objectives. These strengths could be for example the company's unique brand or product, or the company's cash surplus, which can support a competitive growth or new product development. Generally said, these company strengths can be anything that supports creating a strategic advantage. Failing to explore these strengths can lead to significant setbacks. The strength should be able to be controlled and maintained by a company. Strengths of a company can make a clear difference between the competitor and the company, and therefore within the company's strategy there is a constant need for awareness of that strength. A unique competence or strength is not for ever, a company has to clearly integrate it in its strategy to be able to maintain the strength. An example Katsiolouides gave in his book was Kellogg's, when the consumer preferences changed from branded cereals to low-priced supermarket brands, Kellogg's was trusting its strong brand which resulted in earnings growth for the company (Katsiolouides & Marios 2006, 100, 101).

Weaknesses are internal characteristics or inabilities of a company which can prevent the company from reaching its objectives. These weaknesses could be for example the managers, who are not able to create a work environment where employees are able to freely cooperate and communicate with each other, or these managers are lacking the company's vision. A more difficult weakness to identify is if the SBO is lacking strategic focus. The SBO's objective is creating a strategy which will not depend on the company's weaknesses but on the company's strengths. In addition to that objective the SBO has to locate the company's weaknesses and change them into strengths. This change can be a slow but a necessary process. It is for a company important to identify the weaknesses, because these can create difficulties for the company in the future (Katsiolouides & Marios 2006, 102).

The second part of the SWOT analysis is the external analysis of opportunities and threats. Opportunities belong to the external environment of the company. The SBO has to identify as many opportunities as possible to improve the company's business. As Marios I. Katsiolouides stated the definition for opportunities in his book *Strategic Management*, "Any factor or situation that might be expected to aid the organisation's efforts to achieve their objectives". To make this definition more clear, here are some examples. The SBO could create a complete new market for the company to, enter and controll. If the company is not capable of creating a new market the SBO could try other strategies, for example taking part in a joint venture or purchasing another existing company in that particular market. In addition to these two possibilities, the SBO could consider a merger or creating a whole new company which is able to enter the new-found or created market. An example given by Marios I. Katsiolouides in his book *Strategic Management* is about the brewing industry where big

brand sales are decreasing because of decreasing demand for their products. These brand companies have found out that the customers are more interested in microbrewery products, so they decided to create their own microbreweries with the help of their strengths of production, distribution and promotion which will help them enter this new market (Katsiolouides & Marios 2006, 70, 71).

Threats also belong to the external environment of the company. As Marios I. Katsiolouides stated the definition for threats in his book *Strategic Management*, "Any factor or situation that might be expected to hinder the organisation's efforts to achieve their objectives". For a company competition is mostly seen as a threat, in addition to competition there is also the government, labour unions and society. These can be also seen as a threat and these all belong to the external environment. A company should monitor the external environment for threats and transform these threats into a strategic challenge so they can become an opportunity. In that way the company is able to manage the threats and neutralise them. An example given by Katsiolouides is about a steel company which was producing high-margin armour plate for the army but because of defence cost reductions, the demand would be significantly lower which would bring the steel company into difficulties. To sustain growth the steel company had to start considering other manufacturing possibilities, the company could not change into non-steel manufacturing because of the missing knowledge in that field, so the company decided to start manufacturing stainless steel, and the company did that by acquiring another steel manufacturing industry which had the knowledge and the know-how to manufacture stainless steel. Here can be seen how the organisation saw the change in the environment and reacted to it and transformed it into an opportunity (Katsiolouides & Marios.2006, 71, 72).

## 2.11 Objectives of a company

One long-term objective of a company is to make a profit and to generate wealth to its owners. The future of the company is either secured or jeopardized according to the ability to complete the requirements to make a profit. If a company has share-holders they have to be satisfied by making a profit. Other stakeholders of the company are the employees, suppliers, directors and customers, each of which have specific needs that have to be fulfilled without compromising the company's financial objectives. If the needs of the shareholders are not fulfilled the shareholders will search for other companies to invest their capital to achieve a better profit. There are other considerations than just the profit of the shareholders. Companies cannot neglect their responsibilities to the environment and must adhere to domestic and international laws accordingly. Social pressure can lead to a situation in which maximising shareholder profit is not acceptable according to governing social expectations (Samuels, M, J, Wilkes, M, F & Breyslaw, E, R 1999, 2).



Managers of companies are to some extent liable to the shareholders in that the decisions that the manager makes are not harmful for the company. However, the decisions are not openly discussed with shareholders and the managers have to make decisions on their own without the consent of the shareholders. Managers are not willing to risk their own employment by making decisions that have a high risk of causing problems for the company. For a shareholder risks are a part of the investment portfolio but for a manager who makes wrong decisions the result can lead to the manager losing his employment. It is not always the truth that managers are always acting in the best interest of the shareholders ( Samuels et al. 1999, 3, 4).

#### Growth

For a company's longterm health it can be good or even necessary that there is growth, though the company's SBO should evaluate if growth should be the company's primary objective. When the SBO decides that growth will be the primary strategic direction, the SBO should take the company's, opportunities, threats, strengths and weaknesses into consideration, when the SBO is planning the company's growth strategy. There are many ways a company can grow, it is because of this that the SBO should ask the questions where and how to grow and use the answers for creating the strategy (Katsiolouides & Marios 2006, 136, 137).

A company can grow internally or externally, internal growth means that the company's know-how is expanding or the company is creating a new product line, it is also possible that the company is doing both at the same time. External growth is when the company is expanding into new markets or businesses. This external growth can be voluntary because of mergers, acquisitions, or joint ventures with other companies or it can be forced on the company for example because of a reducing market, which forces the company to explore new markets, or when there is a growing demand for the products or services the company is providing, then the company is forced to expand its business. (Katsiolouides & Marios 2006, 136-138)

#### 2.12 Eleven reasons for a small business to fail

Barrow mentioned in his book, the essence of small business, eleven reasons why a small business can fail:

- The first reason is a lack of expertise; many times the SBO has to be able to manage many tasks, in addition to selling, there is managing invoices, keeping the books, taking care of the warehouse and making the deliveries (Barrow 1998, 36-38).
- The second reason is having no product or marketing strategy, this can lead to difficulties with finding the right customers or providing the wrong service (Barrow 1998, 36-38).

- The third reason is over-optimism about the size of the market the SBO is trying to enter, which could mean that important competitors are not recognized, and potential customers will not be reached (Barrow 1998, 36-38).
- The fourth reason is not understanding the start-up time. As a starting SBO there is a lot of work to do before the SBO can even start to sell, for example finding office space and stocking the warehouse. This takes time that the SBO should calculate in advance. This gives the SBO the knowledge about the time needed to start the business (Barrow 1998, 36-38).
- Reason five is when there is not enough working capital; this means that the money is flowing only in one direction which can happen when a too small starting capital is calculated or the start up has taken too much of the available cash. It can take time before the sales start to bring profit (Barrow 1998, 36-38).
- Reason six is when the starting costs become too high. This can easily happen because people can set too high standards, for example equipping the office with high technology equipment, this would create high costs for the start up (Barrow 1998, 36-38).
- The seventh reason is the consequences of an early growth. An early growth could bring very quickly changes in the shape and size of the company. For supporting a growing company capital is needed. If there is not enough capital available to support growth there will be a risk of overtrading (Barrow 1998, 36-38).
- Reason number eight is making the mistake of confusing cash for profit. From the money that comes in from sales all the running costs of the company for example tax, suppliers, rent and equipment have to be still paid (Barrow 1998, 36-38).
- Reason nine is having chosen a wrong location for the company or business. One should not choose a cheap location, because it could be too remote for the customers, also it is not wise to choose an expensive location, because the costs could be too high for the company. Finding the right place should be supported by market research for the company (Barrow 1998, 36-38).
- The tenth reason is selecting and managing people. A small company cannot make the mistake of choosing the wrong person for the available employment; the company will lose money and time when making the wrong choice (Barrow 1998, 36-38).
- The last reason, number eleven, is having no management accounts. Often starting SBO's neglect regular accounting which means that they have not enough knowledge about what is

really happening in their company, and they will be at a certain point in the business cycle out of business (Barrow 1998, 36-38).

### 2.13 Characteristics of a small business

What is a small business is difficult to say because according to SBA, Small Business Administration, a small business is employing less than 500 employees. (Shell 1996, 11, 12). According to Greg Balanko-Dickson a company with more than 5 and less than 1000 employees is called a small-medium business. He also mentioned that any company with less than 5 employees is called a micro business or solo entrepreneur (Balanko-Dickson 2007, 271, 275).

Small businesses have certain characteristics; for example business activities are done as quickly as possible because the customer expects quick service. The small business sees the customer as a king, who has to be served according to their wishes and needs. Other characteristics are nonconformity, employees are able to be different but they have to support and work with the team, people are creative and risk-taking but careful with expenses. Small businesses are constantly changing which means that employers and employees have to be flexible and react quickly to new situations. The last characteristic Schell mentioned is that a small business is a reflection of the owner. This means that what the owner believes the small business believes and what the owner wants the small business wants. The owner's personality can be seen in the small business. A small business can be seen as a living organism, because the owner creates it, then it lives as long as the business allows it and then it ceases to exist. In this life cycle of the small business the owner is seen as the heart of the company and the employees as the blood (Schell 1996, 13, 14).

These characteristics have advantages towards multinationals but there are also several disadvantages, for example not enough cash flow to help solving every problem occurring. Another disadvantage is not enough employees to do all the work necessary. This means that small business owners have to work some extra hours to get a good result. As a result small businesses have less security, lower pay scales, fewer benefits, less structure and a higher failure rate than multinational companies (Schell 1996, 14, 15).

### 2.14 Characteristics of a smallbusiness owner

As Shell stated in his book, "the entrepreneur magazine small business answer book", the SBO has to have certain characteristics, for example the SBO has a clear knowledge on how the work has to be done. The SBO also needs intuition to make the right decision in a situation or at a certain moment, because there is no ready education available to give a ready answer. An SBO has to be able to bear failure and an SBO has to have an everlasting optimism for finding reasons to followup on new opportunities even if these opportunities are not very promising (Schell 1996, 205-207).

The SBO, smallbusiness owner, as Barrow supposed in his book, the essence of small businesses, has to be a certain type of person. These persons can be for example eccentric or correct conformists by appearance an SBO can be fat or lean. An SBO can appear like a worrier or be totally relaxed and then there are SBOs who drink rather much or the opposite do not drink at all, tn addition to all this an SBO can be very charming and understanding or be the opposite, have no personality and be a very calculative and emotionless. This will not mean that these persons as previously described will be automatically successful, it needs more, for example: total commitment, hard work and complete faith in the work the SBO is doing. This means that an average SBO spends more than eight hours on work in a day for his business and when possible involves the whole family, so the family would be able to support the SBO. Longworking days are a risk for the health. Because of the health the working week should be of reasonable length and effectiveness. It has been researched that for a working week to be effective, the week should not be longer than fifty hours. A working week longer than fifty hours will reduce productivity by 25 %, and after seventy hours the productivity will be zero, the impact on the SBO's family life can be very damaging. It is very difficult to achieve the right balance. Working hard is not unhealthy for a person but it is very important that there is enjoyment in the work (Barrow 1998, 15, 16).

The SBO has to have good health because he or she has to be always present to manage the business. This can be any work which the company cannot afford to hire people for or by doing the work of an employee, who has fallen ill; this makes it for an SBO impossible to be ill in the first years of a starting business. Another reason is that a new business can give an SBO the feel of wealth, because he or she has to manage money. This can be confusing for the SBO because it can be difficult to separate profit from cash, which means that the SBO has to have good self discipline to keep the business separated from the SBO's private life. In addition to good self discipline an SBO should have other characteristics which will support the SBO during the company's life cycle, for example as shown in figure 7 at the stage of initiation the SBO should have the ability of an originator or inventor because the SBO has to manage many decisionmaking situations to support the business in becoming successful. An SBO has to have the self confidence to produce the product, market the product and manage the financing of the business. In the development state the SBO has to be a planner and organizer which means that the SBO has to set objectives and work to achieve them and when an objective has been reached new objectives have to be set (Barrow 1998, 18-20).

According to Barrow, mentors and advisers are very important for the SBO in the starting years, in 70 % of cases these mentors or advisers are family members. Family members will always play an important role in the business, but when the company becomes more successful and complex the SBO will start to use their closer business relations for advice and assistance. Relations are for example accountants, bankers, customers and suppliers. When these relations cannot offer the right answer or solution, the SBO will ask for advice from a lawyer or business contact. The SBO has to

evaluate the usefulness of the assistance or advice offered, because the SBO is the only one who knows if the assistance or advice is correct for the company to improve (Barrow 1998, 23).

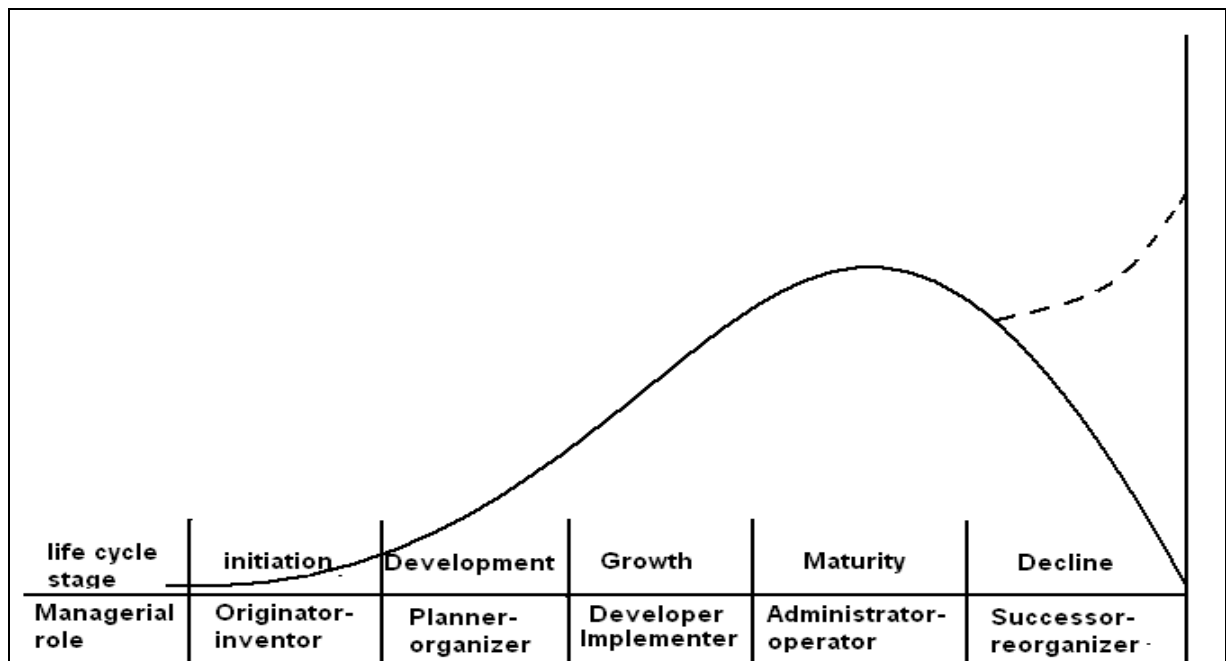


Figure 7: The SBO's role in a company life-cycle (Barrow 1998, 23)

## 2.15 Description of the industry

6000 years ago in Mesopotamia with the Sumerians, which is 3000 years before the Christian era, there are found records of brewing an intoxicating drink made from grains. This drink was providing nutrition to the people of that time. Caius Plinius Secundus, better known as Pliny the Elder, a Roman historian, has written that in the north of Europe a drink was regularly consumed which was made from corn and water. To make this drink was used yeast and sugar which produced ethanol and carbon dioxide. In ancient times beer has been like bread and was one of the essentials of life, it was safer than water to drink because it was boiled and it provided people with calories (Hampson 2008, 6).

Beer has a long history as an important drink for people. The modern consumer perceive wine still as a cultured drink. The consumers speak about the grapes used, colour, aroma and flavour of the wine. But for beers, people do not have the same opinion, although there are more than 100 different styles of beer which all have a large variety of flavours, colours and aromas. When people order wine they can ask if it is red or white, sweet or dry, still or sparkling, they can ask from which country it comes and about the grape variety, for example Chardonnay, Pinot Noir, Cabernet Sauvignon or Muscat. Beer is still a commodity drink but it is becoming increasingly equal appreciated with wines. When ordering a beer the customer can ask for an American or Belgian ale

or gueuze. The consumer can also consider the style of the beer, which can be pilsner, wheat or fruity. During the history of civilisation people have changed from hunters and gatherers into civilised people. During this period beer has been always available and in time improved from liquid bread into a sophisticated drink. During history beer has been an important drink and will be so in the future (Hampson 2008, 10, 11).

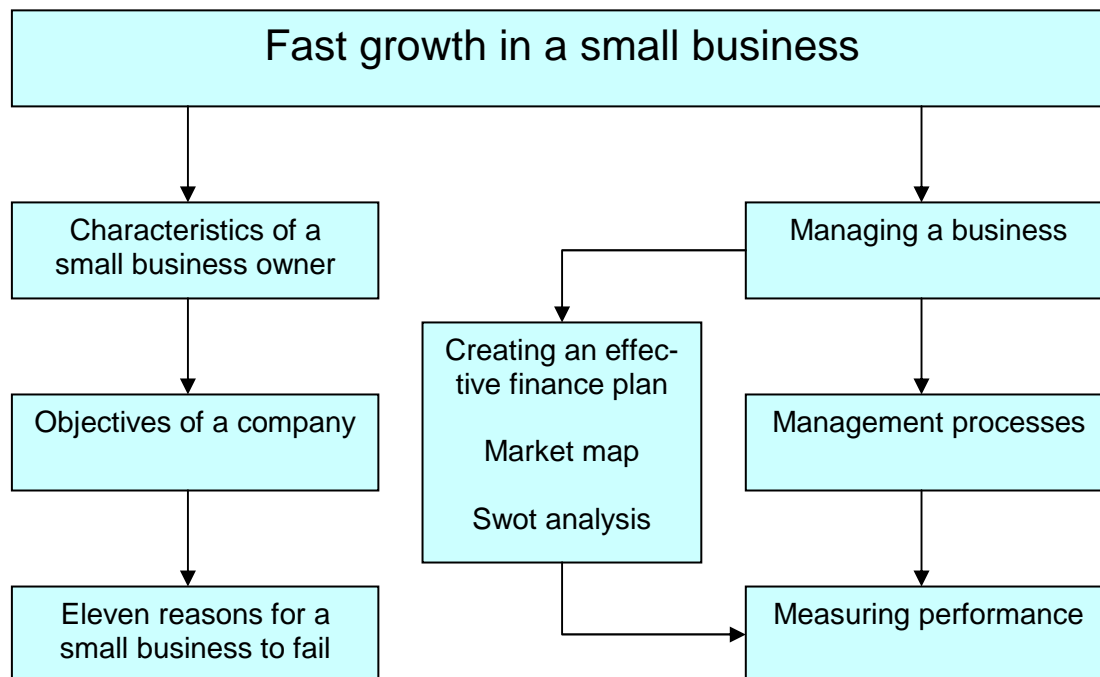


Figure 8: Theoretical framework

The beer industry is divided into two parts, the traditional part and the untraditional part from which the traditional part is the older industry. This industry introduced refrigeration, science and marketing, which helped companies like Carlsberg, Anheuser, Busch and Heineken become as they are. The untraditional part is making use of the experience of the old traditional part and in that way is able to create more product variety in the market (Hampson 2008, 6, 7).

#### 2.16 Explanation of the theoretical framework

There are two approaches to the theoretical section. One is the managing and monitoring approach. As shown on the right side of figure 8 and on the left side, the focus is on the owner and the company itself. The difference between these two approaches is the area where the problem relating to

growth occurs. The problem of managing fast growth in a small business depends on the business owner's abilities to connect the two approaches.

### 3 RESEARCH METHOD

There are several ways of conducting a research, for example by experimenting, surveys, analysis of archival information and the case study. The research method used for this research is the case study. Every research method has its advantages and disadvantages. These depend on three factors: what type of research question is presented, how much influence the researcher has over the studied behavioural events and the focus on the difference between the collected data from the research and the older observed facts. As Yin says "The distinctive need for case studies arises out of the desire to understand complex social phenomena". In addition to this distinctive need, a case study also helps the researcher to keep the characteristics of real life events such as organisational and managerial processes, maturation of industries and life cycles. When the "how and why" questions are involved, and the researcher is concentrated on a current happening within a real situation, and is not able to fully control the events, then the case study is a preferred way of conducting a research. It is for every researcher very important to be careful when designing a case study, so the researcher is able to answer the criticism about the used method (Yin 2003, 1, 2).

For a good case study the researcher has to collect new data which has to be analyzed in a correct way. Beside that the case study has to be reported in a written book or report to finalise the case study. To improve the knowledge about an individual, group, organisation, social or political phenomena it is important to have a good research strategy which for these cases is the case study (Yin 2003, 1, 2).

#### 3.1 Qualitative research

There are four methods used in qualitative research. These are: observation, analysing text and documents, interviews and recording and transcribing. In the research case these methods can be combined. For example observation is often connected together with interviewing. These methods are used in qualitative researches and in quantitative researches (Silverman 2001, 11, 12).

Observation is not seen as a reliable way of collecting information in quantitative research. The reason for this is that there can be a difference of opinion between the observers which can result in different outcomes for the research. This cannot be acceptable as the research should always have the same result even if conducted more than once. But in qualitative research observation is more used, mostly in the early stages of the research (Silverman 2001, 11, 12).

### 3.2 Methodological approach of the research

This research is a qualitative research where the general theory is studied and this theory is applied by comparing the past with the present of **Company Oy**. The time frame between the past and the present in this study is from 1998 to the end of 2008. The methodology used in this research is observation, analysing of the presented data and interviews with the SBO of **Company Oy**. The observation for this research has been conducted during the three years from 2006 to 2008. There were three meetings with the SBO and one with an office employee who has a bachelor's degree in business studies. These meetings have given an overview of **Company Oy** as a small business. The purpose of these meetings was to collect analytical data for Laurea University of Applied Sciences course assignments and later for the thesis research. The obtained analytical data which was gathered was then analysed and compared with the general theory. The end result of the research is a conclusion of the studied problem.

## 4 EMPIRICAL STUDY

In this section the company is analysed with the help of the interviews and the collected data. The first part of this section is an introduction of the case company. For a general overview of the company's functioning there is a "strengths, weakness, opportunities and threats" or SWOT analysis, followed by the corporate identity. Next the company growth is studied based on the turnover and employee statistics from 1998 to 2008. For an overview of the structure of **Company Oy** the organisation chart is drawn. This will be followed by the functions of the employees. To have a more in-depth understanding of the functioning of **Company Oy**, a customer process and a customer communication process are described and a description of **Company Oy's** market environment. In the last part of this section there is a growth analysis of **Company Oy**.

### 4.1 Case company

**Company Oy Brewing Company** is a privately owned company founded in 1998. **Company Oy** imports beers, ciders, mixed drinks, whiskies and other alcoholic beverages from 14 countries. **Company Oy** also produces and develops its own ciders and beers. During the company's history the company has built a range of more than 100 beers and over 50 other alcoholic products (**Company Oy Brewing Company, 2007**)

In 2004 **Company Oy** achieved an AAA rating - this status is only reached by 3.7% of Finnish companies. National cooperation with leading Finnish wholesalers guarantees that the products are available in the whole of Finland. **Company Oy's** customer base consists of approximately 10-15 wholesalers including Customer 1, Customer 3 and Customer 2. **Company Oy** supplies 60 to 70 bars, restaurants and 40 supermarkets (**Company Oy Brewing Company, 2007**)



Other customers of Company Oy are restaurants, bars and wholesalers. Company Oy is conducting its business in Finland and Estonia. The company has three lines of products: beers, ciders and whiskies, from which the beer category is 80% of the sales divided equally between on- and off-trade. In the industry on-trade means sales to hotels, restaurants and bars, and off-trade means sales to food retailers and wholesalers (Company owner, interview 12 November 2007).

The product range of Company Oy is exclusively sold by Company Oy. There are no other importers of the same products in Finland. According to the owner, there is an unwritten contract that no importers will compete over the products already imported by another company, a gentlemen's agreement as the owner said. Every alcohol importer in Finland has its own line of products. This created a niche for Company Oy that allows the company to have its own market share. Because of Company Oy's strong product range this agreement gives the company a strong position in the market (Company owner, interview 12 November 2007).

#### 4.2 SWOT analysis of Company Oy

As Katsioloudes writes, a tool the SBO can use for examining the company's organisation and environment is the SWOT analysis; this is an analysis in four sections of the company's organisation and environment. An internal analysis is used for the organisational section that will determine the strengths and weaknesses of the company. For the environmental section is used an external analysis, which determines the opportunities and threats of the company. The internal analysis of Company Oy starts with the strengths of Company Oy. The strengths are the broad product knowledge, which is the company's strongest competitive advantage. The SBO of Company Oy is an expert in beer brewing. The company's next strength is a low hierarchy as seen in figure 12 and is as Katsioloudes writes a functional organisation. Company Oy has an AAA financial rating that is only achieved by 3.7% of companies in Finland. The company also has a very loyal customer base. This is partly because the company is the only importers of the products, which creates a strong market position for Company Oy. The loyal customer base and strong market position makes Company Oy one of the largest importers in the Finnish beer industry. The company's small size has allowed a quick response to market changes.

The internal analysis of Company Oy will continue with the weaknesses. Company Oy is missing management expertise. As Shell writes, when a small business starts to grow, an entrepreneur has to start to become a manager. In the case of Company Oy the SBO himself admits that he had difficulties in becoming a manager. Because of the workload and the small number of employees the SBO did not have the time to make the change from entrepreneur to manager. A general weakness common to all companies in the food industry is the expiry date of the products.

The external analysis of Company Oy starts with the opportunities. These opportunities are the new products that are not yet on the Finnish market. The SBO has an important role in this new product searching. The SBO also has to acquire new customers. Another opportunity for Company Oy is becoming the largest importer since the company is already one of the largest. The company's challenge is to become the leading importer in the market. Expanding the company's small beer brand could be an alternative direction for growth of Company Oy.

INTERNAL FACTORS	
<p><b>STRENGTHS</b></p> <ul style="list-style-type: none"> <li>■ Product knowledge</li> <li>■ Low hierarchy</li> <li>■ AAA financial rating</li> <li>■ Customer loyalty</li> <li>■ Strong market position</li> <li>■ One of the largest importers in the industry</li> <li>■ Quick to respond to market change</li> </ul>	<p><b>WEAKNESSES</b></p> <ul style="list-style-type: none"> <li>■ Missing expertise</li> <li>■ Small amount of employees</li> <li>■ Existing workload too high</li> <li>■ Expire dates of products</li> </ul>
EXTERNAL FACTORS	
<p><b>OPPORTUNITIES</b></p> <ul style="list-style-type: none"> <li>■ New products</li> <li>■ New customers</li> <li>■ Becoming the largest importer</li> <li>■ Own small brands</li> </ul>	<p><b>THREATS</b></p> <ul style="list-style-type: none"> <li>■ Competition</li> <li>■ Recession</li> <li>■ Loss of employees</li> <li>■ Loss of major suppliers</li> <li>■ Loss of major customers</li> <li>■ Alcohol taxation &amp; legislation</li> </ul>

Figure 9: Company Oy SWOT analysis (Company owner, interview 29 December 2008)

The external analysis of Company Oy will continue with the threats. The main threat is the competition. According to the SBO it is common that smaller breweries are acquired by larger breweries or smaller breweries merge. These acquisitions and mergers can lead to a change in the exporting company. The end result is that Company Oy could lose the franchise for that particular product which was first sold by the exporting company that Company Oy was doing business with and is now sold by another exporting company which is doing business with the competition. One recent threat for Company Oy is the ongoing recession. This can lead to loss of major customers and major suppliers. A change in alcohol taxation and legislation can affect the sales of Company Oy's products which would reduce the company's turnover.

#### 4.3 Corporate identity

The image of Company Oy is unknown to the end user. The products the company sells to bars, restaurants and wholesalers are not branded by Company Oy. Therefore the end user will have no possibility to discover the corporate identity of Company Oy. The information the consumer sees on the label will be from example Beer, Beer or Beer. These products are sold with the original labels as the manufacturer has packed them. Company Oy's identity is therefore only known by its direct customers, the wholesalers, retailers, bars and restaurants, of which most are pubs. An exception to this is the company's own product line which has six bottled beers, three drafted beers and one cider. All of these products have on the label the Company Oy logo as seen in figure 10. The Company Oy logo is used in the company's communication plan and all letters/e-mails and other types of correspondences.

In section 2.3 theory suggests that one of the stakeholders of the company is its customers, who have specific needs that have to be fulfilled without compromising the company's performance. Company Oy is fulfilling these needs by focusing on effective communication with the company's customers. To reach this objective Company Oy is constantly improving the relationships by engaging the customers with a bonus system which is used as a customer loyalty strengthening tool. Company Oy is the only importer of all the products in the company's selection. This gives the company a strong position in the market and forces any customer who wants to buy these products to contact Company Oy. The only other option would be for a restaurant to buy directly from the manufacturer, which could become too expensive or impossible, due to the small order volumes and high transportation costs (Company owner, interview 12 November 2007).

#### 4.4 Growth of the company from 1998 to 2008

According to Katsioloudes it is for a company's longterm health good or even necessary that there is growth. A company can grow internally or externally, internal growth means that the company's know-how is expanding or the company is creating a new product line. It is also possible that the

company is doing both at the same time. External growth is when the company is expanding into new markets or businesses. In the case of Company Oy growth is happening both internally and externally. Company Oy was founded in 1998 by Company owner and his business partner who provided the funds for the start-up. The first year the company had a turnover of €100,000 generated by 15 different products plus seasonal products. This was a difficult period for the Small Business Owner because the company had loans to pay, and also because the beer business is concentrated on high volume sales with low profit margins which are less than 5%. For lower volume sales the profit margins are usually higher. During the first year no salary was taken from the company (Company owner, interview 29 December 2008).

Company logo removed

Figure 10: Company Oy logo (Company owner, interview 12 November 2007)

In 1999 the company's structure changed because the business partner left the business. The reason for this was that the partner was not interested in expanding the business and did not want to exploit new ideas. During this year the product range grew by 10 products to a total of 25 products and seasonal products. The turnover for this year was €328,000, the company was growing steadily. However, after the business partner had left, the company needed new funding to continue, which meant for the SBO that he had to arrange a bank loan (Company owner, interview 29 December 2008).

In 2000 the company had a turnover of €475,000, which meant more work for the SBO and the need for another employee, who was a close family member (Company owner, interview 29 December 2008).

In 2001 the turnover doubled from €475,000 to €963,000 because Company Oy started to import beer from the Beer Brewery. During 2001 Company Oy signed contracts with Inex partners and Customer 3 which helped Company Oy expand the company's market. Because of the growing business the company needed more warehouse space and another office employee who was the first paid employee on the company's payroll (Company owner, interview 29 December 2008).

In 2002 the turnover had reached €1270,000. During the year 2002 the company introduced a new computer system which helped to monitor the incoming and outgoing goods. In addition the company outsourced the company's logistics which gave the SBO more time to concentrate on preparing the deliveries and focus on managing the company (Company owner, interview 29 December 2008).

In 2003 the turnover had reached €1452,000. This meant that the warehouse work had increased and the first warehouse employee was hired. During 2003 Customer 2 signed a contract with Company Oy (Company owner, interview 29 December 2008).

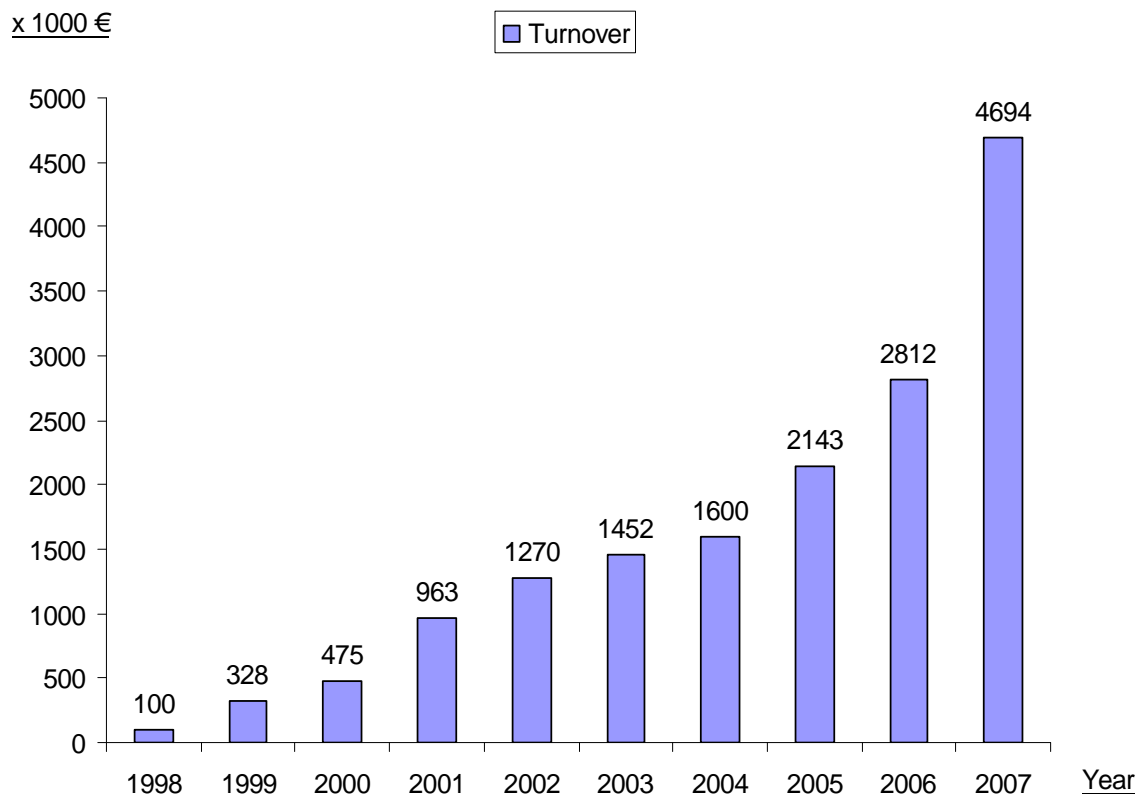
In 2005 the turnover had reached €2143,000. This meant that the company had to move to a new location to store the larger warehouse inventory. During 2005 the company had to employ a temporary warehouse employee (Company owner, interview 29 December 2008).

In 2006 the turnover had reached €2812,000. This meant that the company had to hire one more office employee. The increase in administrative work was the reason for hiring the second office employee (Company owner, interview 29 December 2008).

Figure 11: Company Oy turnover (Company owner, interview 29 December 2008)

In 2007 the turnover had reached €4694,000. At the end of this year one more office employee was hired and during the busy periods a temporary employee was employed for the warehouse (Company owner, interview 29 December 2008).

2008 was an important year because the SBO decide to sell the company. The reason was that he had become tired of managing such a big business. The management was too timeconsuming and in his own words: "the fun was missing from the work" (Company owner, interview 29 December 2008).



#### 4.5 Organisation of Company Oy

Company Oy has a functional organisational structure as shown in figure 12 which means that it is organised with organisational functions. These organisational functions are shown in figure 13 such as research and development, marketing and production. At Company Oy, research and development is managed by the SBO himself. This is because he has the knowledge and the skills to locate and understand new products. This function of the SBO enables him to develop his in-depth skills in this area. The objectives that Company Oy has achieved are the result of the small company size and low hierarchy that supports the company's functional organisation. Because the SBO of Company Oy is too involved with all the functions of the company, the response time to environmental changes has been slow. One example is that the SBO was too focused on his daily routines that the SBO was not aware that the company needed more storage space. This then led to an unnecessarily excessive workload that could have been avoided by moving to a bigger premise earlier.

The strengths of a functional organisational structure are as Katsioloudes writes.

- Enables in-depth skill development
- Allows functional objectives of the company to be accomplished
- Functions in small to medium-sized companies

- Functions best with one or few products

(Katsiolouides & Marios 2006, 115).

The weaknesses of a functional organisational structure are:

- Has a slow response time to environmental change
- Can make decisions increase in the organisation
- Can have a reduced innovation
- Involves a restricted view of organisational objectives because functional objectives become more important

(Katsiolouides & Marios 2006, 115).

Internal communication in Company Oy is manage on a personal basis. The company has only four people working in an openoffice environment and three in the warehouse. This is why communication is less restricted and without a bureaucratic structure interfering with internal communications (Company owner, interview 12 November 2007).

Functions of the employees

As Shell wrote, when a small business starts growing an entrepreneur has to become a manager. In the case of Company Oy after the business partner had left at the end of 1999 the first structural change happened in the company. The SBO was now working alone. He had to manage invoices, customer service, deliveries, warehousing, product development & research, restocking, supplier relations and general management. After the SBO's business partner had left the SBO's wife came to assist him with the company. During the years more employees were hired and at this time there are eight people working in the company (Company owner, interview 29 December 2008).

The SBO is generally supervising that everything is done according to the company's business culture. The SBO is making sure that all the products are ordered in time so the stock level will not reach minimum level. These products are ordered directly from the breweries and some products are ordered from suppliers. The SBO also manages logistics, which means that he is controlling the incoming and outgoing goods and their transportation to the customers. In addition to these activities he manages research and development, which means that he has to be aware of new products suitable for the market. Other tasks the SBO is responsible for are sales to key account customers such as Customer 1 and larger hotel, restaurant and bar chains (Company owner, interview 29 December 2008).

The Office Manager's main task is to communicate with the wholesale customers. This allows Company Oy to offer the best possible service to the wholesale customers and keep these customers updated with new products and discounts. In addition the Office Manager is supervising the office employees. Other tasks of the Office Manager are pricing, reporting to the government and establishing new products in the programme (Company owner, interview 29 December 2008).

Office employee #1 is managing sales to retail. This includes taking the orders for these customers and writing the invoices and small transport documents. Office employee #1 is also designing the material for sales promotion for the retail customers (Company owner, interview 29 December 2008).

Office employee #2 is managing sales to small hotels, restaurants and bars. This includes taking the orders from these customers and writing the invoices and small transport documents. Office employee #2 is also designing the material for sales promotion for small hotels, restaurants and bars (Company owner, interview 29 December 2008).

Office employee #3 is managing of the wholesale invoices and transport documents. In addition the office employee #3 is taking care that the Company Oy website stays up-to-date (Company owner, interview 29 December 2008).

To avoid the mistake of having collected the wrong products for an order, the warehouse is using a double check system. The double check system means that the employees are checking each other's collected orders, before these orders are finally packed (Company owner, interview 29 December 2008).

The permanent warehouse employee is collecting the orders and preparing them for transport. This warehouse employee has the responsibility of supervising the rented warehouse employees and checking the incoming goods for damage and correct amounts (Company owner, interview 29 December 2008).

The two temporary warehouse employees are collecting and packing orders. They are also checking each other's orders before final packing. The two temporary warehouse employees are warehousing the incoming goods (Company owner, interview 29 December 2008).

During this research the SBO had decided to sell the company. The new owner had decided to reorganise the tasks for the office employees. One employee is managing sales to small retail customers. The second employee is managing sales to small hotels, restaurants and bars. The third employee is paying invoices and accounts ledgers, making sales invoices. The fourth employee is managing logistics of Company Oy. The new owner is managing sales to the big hotels, restaurants



and bars as well as the big retail chains. He is in charge of new products. For the warehouse employees the situation has remained unchanged (Company owner, interview 29 December 2008).

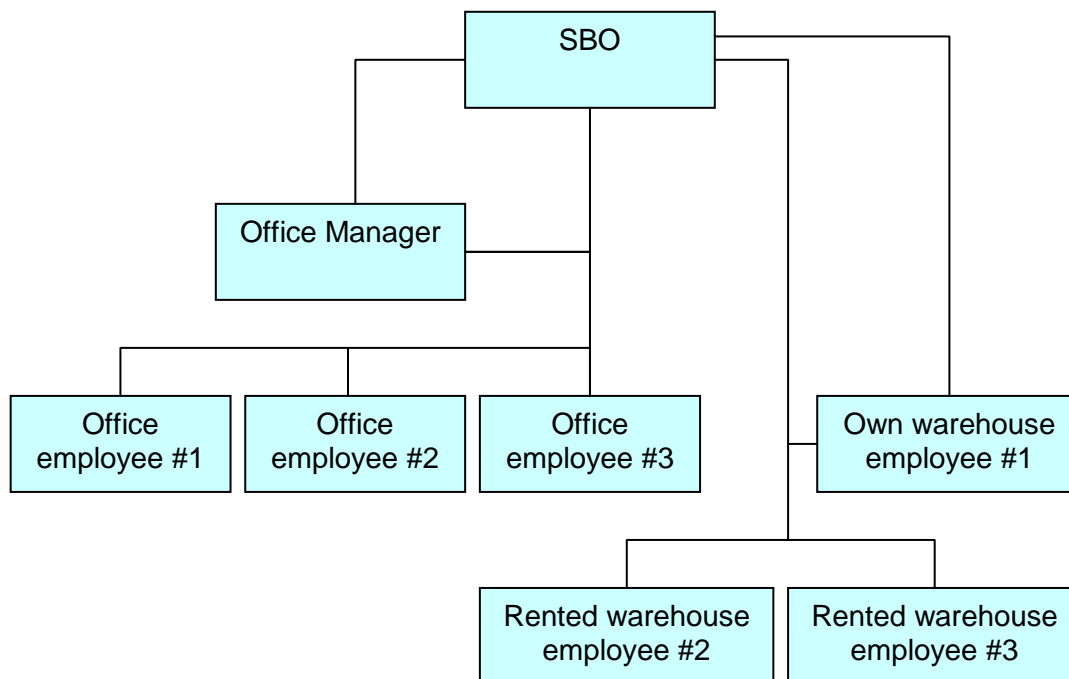


Figure 12: the company's organisation (Company owner, interview 29 December 2008)

#### 4.5.1 Customer process

Company Oy creates strong personal relationships to every company Company Oy has as a customer, and history has proven this to be efficient. To realise this the company have arranged their customer process in such a way that the same contact person of Company Oy communicates with the same company so it would be possible to create a stronger relationship. This improves quality and customer care, it also lowers the level of complaints about misunderstood information. This will improve the sales of the company. This process is important for Company Oy because customer relations help create satisfied customers, which allow the business to grow. The objectives of this process are directed to customer satisfaction and providing a perfect service to create a customer who will return and order again (Company owner, interview 12 November 2007).

Company Oy's customer process objectives are reached because of internal communication. This is at Company Oy simple due to the small organization size and low power distance. The manager's work is on the same level as the other employees, and every person who is communicating with customers is aware of the company's communication strategy. This results that everyone who works at the company's office is a key account manager. Another aspect of the company's structure is

that everyone can be positive, open, helpful and flexible towards each other (Company owner, interview 12 November 2007).

The main objective of Company Oy is to sell the company's products. Another important objective is to maintain a happy and loyal customer. Company Oy is able to adjust its services to fit the needs of many customers and being flexible with orders. These are the main principles that every employee obeys with great interest (Company owner, interview 12 November 2007).

#### 4.6 Customer communication process

Company Oy has a customerfriendly policy. Company Oy listens to the customers and tries to meet with the customer wishes. Even if Company Oy does not have the products that the customer wishes in the company's product line, The SBO will try to locate the products and when possible, order this product. This customer communication process is one of the reasons for the company's success during the past ten years (Company owner, interview 29 December 2008).

A typical customer relationship with Company Oy starts with making a contact between customer and Company Oy. This contact can either be initiated by the customer or Company Oy. The first contacts are usually made through phone or e-mail whichever is more convenient for the customer. The customer's contact and billing information will be added to the customer database. This information is used for processing the customer's orders so they will be delivered in time and to the correct address. This information will also help Company Oy to send the order invoices to the correct billing address (Company owner, interview 29 December 2008).

Company Oy can suggest suitable products that would suite with the customer's line of products and that are available within a short lead time. After the initial contact, the customer and Company Oy will agree on the way of ordering. There are two ways of ordering products from Company Oy. One is that Company Oy contacts the customer on a regular basis to check if the customer is low on stock. The other is that customers contact Company Oy to place an order (Company owner, interview 29 December 2008).

Some customers stay low sales customers through their entire customerrelation lifecycle. Some customers, for example restaurants which are specialised in imported beers and ciders, have to work together with Company Oy because Company Oy is the only importer of these products (Company owner, interview 29 December 2008).

The key account customers of Company Oy are introduced to the bonus system, which is a method Company Oy is using to increase the sales of the company's products. The bonus system encourages Company Oy's key account customers to promote Company Oy's products to the end-users. The size of the bonus depends on the volume purchased by the customer. The bonus system has been

popular among customers and after entering the bonus system the sales of Company Oy's products have grown in those restaurants and shops involved in the bonus system. At Company Oy customer relationships are long term commitments. When a customer relationship ends it is because the customer does not want the services of Company Oy or the customer has stopped his business (Company owner, interview 12 November 2007).

Figure 13 shows the process map of Company Oy which shows the purchasing, warehousing, sales and promotion processes. These four processes are the main functions of Company Oy.

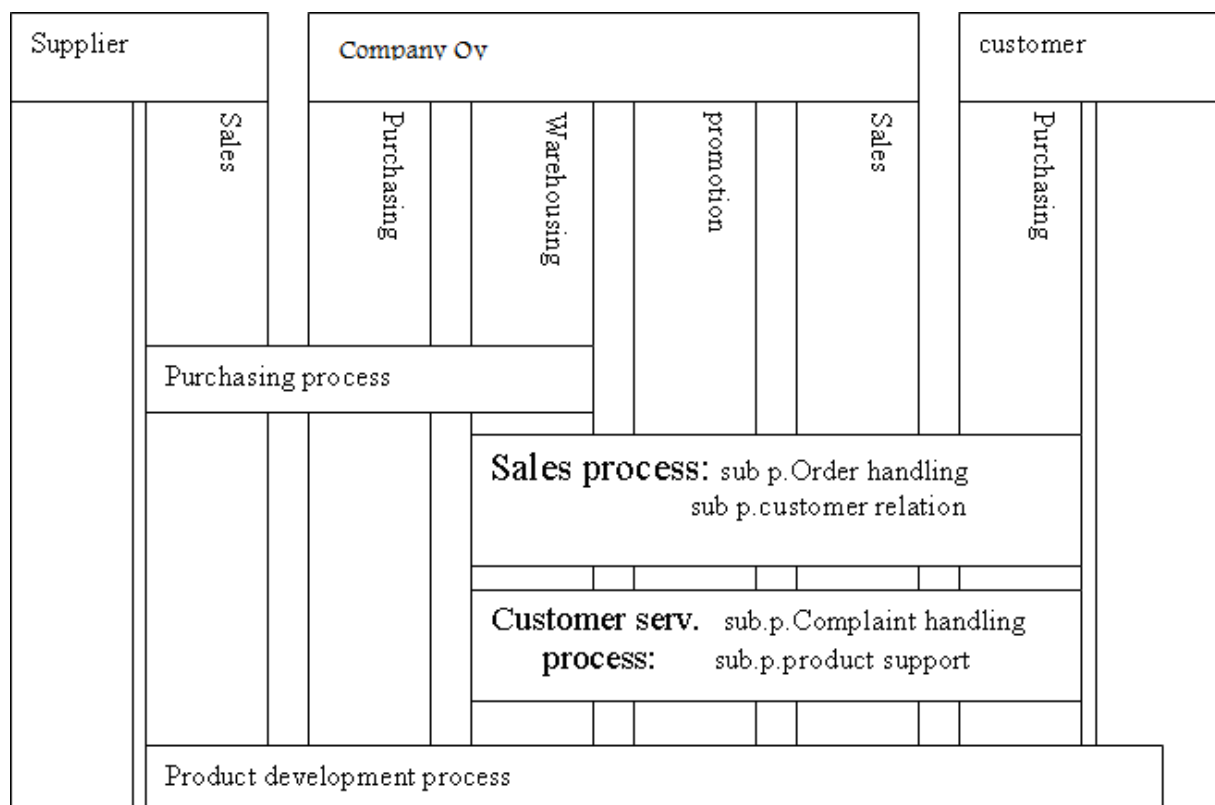


Figure 13: Process Map of Company Oy (Company owner, interview 12 November 2007)

The first process is ordering. The suppliers deliver the goods to the company's warehouse in one part of the city, where the goods are unpacked and stored. The goods are ordered from the supplier so that the company always has enough stock to keep deliveries on time. The company controls its inventory with a computer program which is a supporting process. This computer programme is automatically updated every time the inventory changes. The program can also automate orders to sustain the level of goods. The user can see from the program the level of use for certain products and how long they are usually stored.

The sales process is divided into two subprocesses: order processing and customer relations. The order processing usually happens by telephone or e-mail. The order is received from a customer and

is taken to the warehouse facilities. Customer relations are mostly managed when the customer phones to place an order. With some customers there is an agreement that Company Oy will phone them to check if there is anything that they would need from Company Oy. The customer service process is divided into complaint management and customer support which are sub-processes. The complaint management can be divided into two activities: complaint receiving and problem solving. An example of product support is when a customer needs support with storing and using drafted products that are not as easy to store as bottled products (Company owner, interview 12 November 2007).

Product development is mainly to improve the quality of service and increase sales with new products. The old products can be withdrawn from the market and new products have to be searched to replace the withdrawn products. These innovative ideas are collected by visiting trade fairs and exhibitions and from the customer's needs and feedback (Company owner, interview 12 November 2007).

#### 4.7 Description of Company Oy's market environment

When Company Oy started the business, on-trade was the main business. Here on-trade refers to business with hotels, bars and restaurants (HoReCa). During ten years the market has been changing. There has been a transition from bars to wholesalers. In the industry this is referred to as the transition from on-trade to off-trade business; here off-trade refers to sales to food retailers like supermarkets. The reason behind this transition from on-trade to off-trade is the change in drinking habits. As Hampson says in his book "The Beer Book" people are starting to appreciate special beers (Hampson 2008, 6).

Because of the changes in the market, Company Oy has renewed the company's distribution channel. The distribution channel figure is a tool for the company to create a clear understanding for the employees about the businesses. In section 4.7 there is an illustration and a description of the distribution channel of Company Oy.

As written in the book "Market mapping and Market Segmentation" a market map is defined as the distribution and value chain between manufacturer, supplier and the end market. In the case of Company Oy the market map only shows the distribution channels. In Figure 14 can be seen a simple drawing of the distribution channel that Company Oy has been using in the past. Company Oy has been aware of the company's shortcomings in the old market mapping and has further improved the model to suit the company's needs. As Company Oy has the only licence in Finland to import the products in the company's product line, Company Oy has a strong market position. It does not show the competition on the market. A distribution channel should show the flow of products to the end

user even if the company is not selling directly to them (Company owner, interview 12 November 2007).

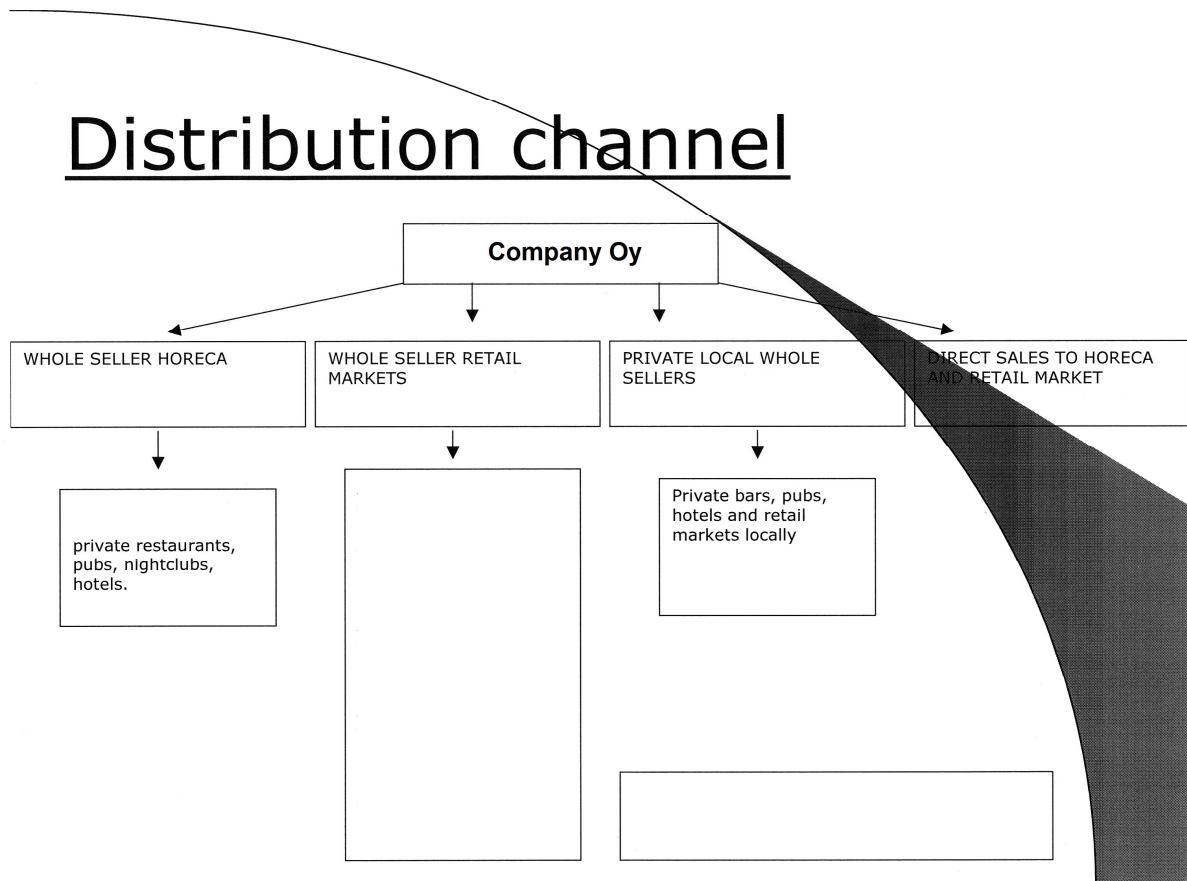


Figure 14: Distribution channels (Company owner, interview 12 November 2007)

#### 4.8 Growth analysis of Company Oy

As Katsioloudes writes in his book, a company can grow both internally and externally. Internal growth means that the company's know-how is expanding or the company's product range is growing. External growth is when the company is expanding into new markets or businesses. In the case of Company Oy internal growth was created by a growing product range and external growth was the result of the expanding business.

After meeting with the SBO of Company Oy it was concluded that the company's fast growth is a problem. During some years the company doubled the turnover. This created problems in warehousing as the existing storage space became too small. At a certain phase the warehouse was too full to be easily used. In the mornings the SBO had to first move out all the pallets that were in the way of the working space and in the evening the extra pallets had to be moved back in for the

night. This created the need for a larger warehouse. The fast growth created more unnecessary work in the warehouse and also in the office, which created a demand for more employees. The SBO was too involved in the actual warehouse work to have time to focus on the other important areas of the business such as new product and customer acquiring. This problem caused an increasing workload for the SBO. The problem of an increasing workload was solved by working longer days at the company. The SBO did not have the time to study what management tools are available for him to use to measure the company's performance. As Barrow mentioned in his book, 82% of SBOs think that the quality of their product and service is an important measure of the company's performance, another 67% said the financial outcome of the company's businesses important as a measure of their performance. The operations of the company demanded management to focus too much on the routine work, which meant that there was not enough time for leading the company. Focusing on the routine work can cause the company to lose focus on its mission and vision. It also affects the quality of serving the customer. Another effect of fast growth can also cause the company financial difficulties because the growth can require the entire extra cash available.

## 5 CONCLUSION

Management is required for an organisation to function. There are problems that need to be solved. According to Barrow, these problems relate to organizing the company's activities, objectives, performance measurement, developing people, motivating and communicating (Barrow 1998, 128).

In the case of Company Oy organising these activities is the main problem as they are managed by one person, the business owner. This amount of work is too much for one person and when the business is growing the amount of work will grow. Instead of trying to cope with this amount of work it would be advisable to delegate some responsibilities to the employees of the company, or if the workload of these employees is already high enough the company could hire new employees with the required skills (Barrow 1998, 128).

The SBO could also consider in this case using a management tool such as the balanced scorecard. With the balanced scorecard the SBO is able to measure the company's nonfinancial performance which would help the SBO to understand the activities of the company that need to be developed. This management tool will help the SBO to locate and recognise the problem quicker so he can have a faster response in solving the problem. As a result it is easier for the company to grow faster.

### 5.1 Future challenges and opportunities

We asked the SBO of Company Oy how he predicts the development of the company over the next 5 years and what he predicts as the most important challenges that he will face in managing the growth of the business.

The first challenge he mentioned was competition. There have been many competitors during the last ten years. Most of these competitors have either closed down or merged, it has been a great challenge for Company Oy to remain independent and still keep the company's share of the market.

The next challenge which was discussed was recruiting and retaining people. This recruiting of people created extra work for the SBO. The problem with hiring people is to find the right person for the right position with the right motivation. After hiring a person there were some cases in which the hired person did not meet the requirements. This leads to replacing the person and the hiring process had to be started again (Company owner, interview 12 November 2007).

Adding new products to the product line is essential for a growing business. The alcohol industry is driven by trends and this means that the same products do not sell forever. Products have to be constantly developed and the company has to search for new products to remain a market leader. In addition to finding new breweries to buy products from Company Oy has its own product range that the company can sell and develop in co-operation with a small Belgian brewery. (Company owner, interview 12 November 2007).

Investments in new premises and equipment are necessary for growth but can be very expensive. This is why Company Oy does not want to move to a bigger location until it is absolutely necessary. Company Oy is in a financially stable position as is shown by the company's AAA rating but the SBO does not want to take loans to finance growth (Company owner, interview 12 november 2007). When the SBO was interviewed in 2007 about selling the company his answer was that this has not been considered as an option. But in 2008 when the thesis research was conducted the SBO had decided to sell the business. The SBO said that this would not have been an option two or three years ago but in 2009 the company's turnover was higher and the business was growing fast but the work started to be too much for the SBO which helped in making the decision of selling the company at the end of 2008. (Company owner, interview 29 December 2007).

#### 5.1.1 Suggestions for changes

Company Oy is seeking new breweries to co-operate with. However, according to what the SBO has said, the only person in the company who is contacting new breweries is the company owner. This is in some way due to the fact that the owner has a keen interest in beers and as the company only employs 4 office employee's the company does not have more people with sufficient knowledge of good beverages to import to Finland. Since the company is growing it would be worth considering setting up a department or at least a small team responsible for the company's daily contacts and establish separate marketing and sales departments. Company Oy is missing a professional customer database programme and instead relies on a simple Excel-based customer segmentation system. Such methods are inadequate and do not support the company in its growth.

Even though Company Oy is very successful in Finland the company's role as a customer for an international brewery such as Beer is relatively small. If Company Oy would concentrate on smaller breweries the relationship would be much more important to both companies. If the smaller brewery and Company Oy are approximately the same size or Company Oy buys a high percentage of the brewery's products the relationship is likely to be more important for both of the companies. This will increase loyalty. A disadvantage is that the smaller order sizes, when buying from small breweries, means a lower margin of profit for Company Oy. It must be taken into consideration that there is a demand for those products that are brewed by big international breweries as mentioned before. Therefore it would be an unwise decision for Company Oy to cancel relations with the big industry leaders. To increase sales Company Oy should broaden the selection with products from small breweries. Company Oy also buys products from retailers. Because Company Oy processes orders always on a personal basis there is a considerable amount of time spent talking on the telephone with the customer. Time spent talking on the telephone could be inconvenient for the customer. To create a more satisfied customer and improve the relationship between the customer and Company Oy, Company Oy could develop an ordering web site which the customer can use 24 hours a day, this would reduce time spent on the telephone and it would be easier for the customer to order. The ordering channel would be only available for key account customers and regular customers. They could visit the site by using a password provided by Company Oy. The time saved could be used for managing the company. This time saved could be used for implementing a management tool such as the balanced scorecard which would help management to locate activity-based problems easier and quicker.

## 5.2 The SBO's conclusions

The past two and a half years of studying Company Oy showed an SBO building up a small company which started to grow rapidly. This growth became an unexpected problem for the SBO. The problems the SBO had to solve were easy to recognise for the SBO and from an outside point of view. For the SBO it was complicated to solve these problems, because of the amount of daily routines the SBO was involved in. As expected and based on research, the SBO sold the company because he concluded that the workload became too much for him and the pleasure of managing a small business that he used to feel was disappearing because of the growing amount of daily routines, these routines were uninteresting and were time consuming. As the SBO said "There was not enough time left for having fun". According to the SBO work has to be enjoyable and fulfilling. This growing amount of boring routines and losing the pleasure of the work can cause an SBO to lose his interest in managing his company. The capability of an SBO to transform himself to a manager is a challenge that many SBO's fail to achieve. This transformation from entrepreneur to business manager is necessary in a certain phase of the lifecycle of a growing company.



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