Abstract: - Time after time starting small businesses has become too attractive. In Georgia a company with less or equal than 50 workers is granted as small business. The statistical data and our thorough research have shown that a huge portion of Georgian population stands on small/medium businesses that has remarkably leading role on overall welfare.

In the last 5-7 years by small business contribution to the whole economy has dramatically increased economical indicators, particularly effecting on GDP by 10-12 percent. Official released data (2008 y. I quarter) showed the overall turnover of 436, 1 and overall production of 241, 6 million GEL. The number of employees made up to 72 500 men, that is more than 20 % of people employed in Business Sector.

The following reasons for developing this model for small businesses in Georgia were essential for us:

- A small business can be started at a very low cost and on a part-time basis;
- Many niches exist in Georgia;
- Employment Problems can be resoled by contributing to small business success;
- Most suitable form of income for Georgian economic conditions;
- Dominating and very popular alternate for making money in all parts of Georgia.

The abovementioned points have lead us into investigation and development of solutions for contributing to the success of small business.

The main area of our thesis refers to financial indicators, supply chain and some part of marketing.

We focused the foremost interest of creating the calculation model for small businesses that would be flexible, easy to use and reliable.

Key topics discussed in our theme:

- The importance of Small Businesses in Georgian reality;
- Overview of Georgian changing business environment;
- Supply Chain structuring for Georgian small businesses;
- Best marketing techniques for Georgian small businesses;
- Development of Computer model for small businesses;
- Description of usage of the model;
- Focusing on relationships among sales, expenses, and investments;
- Evaluation of the effect of implementation of a particular decision on all the financial, marketing and operating measures, and in the final effect on ROI;
- Encouragement of managers focusing on cost efficiency by eliminating non-value-added activities;
- Encouragement of managers focusing on operating asset efficiency by introducing JIT system.

We have developed the computer model that suites all kinds of small businesses in Georgian current socio-economic environment, that is flexible, uncomplicated for usage, and consistent with its measured values. Although, the managers of businesses can not fully operate using only this model, but this serves as a high-quality complement together with other well-known business evaluation methods.

Key-Words: - Small Business, Indicators, Performance, Measurement, KPIs, ROI, EVA.

1. Introduction

The development of small and medium businesses in Georgia plays a huge role in socio-economic development of the country. The prosperous and well-developed business sector serves as a solution for many problems, like unemployment, economic indexes, export-import problems, etc.

The business is classified to be small according to number of criteria, the most widely spread is the number of employees, however, other methods are also used to classify small companies, such us annual sales (turnover), assets value, or net profit (balance sheet), alone or in a mixed definition. This criteria is followed by the European Union, for instance (headcount, turnover, and balance sheet totals). Small businesses are common in many countries, depending on the economic system in operation. Typical examples include: small shops, hairdressers, tradesmen, solicitors, lawyers, accountants, cafes, guest houses, photographers, small-scale manufacturing etc. Small businesses are usually independent.

In Georgia, on 1st January 2005, the law about the classification of businesses was legitimated. The law was thoroughly developed by European Commission. According to it the classification states in the following: 1. Medium Business is regarded the organization, where the range of employees are from 50-249. The turnover is up to 50 ml. Euro. 2. Small Business is regarded organization, where the limit of range of employees fluctuates from 10-49, turnover is up to 10 ml. Euro. 3. Micro Business employees up to 10, turnover up to 2 ml. Euro.

2. Overview of Small Business in Georgia

The statistical data and our thorough research have shown that a huge portion of Georgian population stands on small/medium businesses that has remarkably leading role on overall welfare. In the last 5-7 years by small business contribution to the whole economy has dramatically increased economical indicators, particularly effecting on GDP by 10-12 percent.

Time after time starting small businesses has become too attractive. Official released data (2008 y. I quarter) showed the overall turnover of 436, 1 and overall production of 241, 6 million GEL. The number of employees made up to 72 500 men, that is more than 20 % of people employed in Business Sector.

Our aim was to give some recommendations to Georgian small business owners in 3 major issues: Management, Marketing and Logistics, based on the computer based model that will suit any kind of firm.

As we all know, in any developed countries according to the business size, there are many privileges given by the Government referring the taxes, e.g. Germany freed small businesses from Turnover tax, UK developed progressive system for income tax payment. This indicates the progressive vision of the countries that wish to promote economic welfare. In the case of Georgia, the situation does not seem very promising. Businesses are not classified according to taxes. That was second reason why we wanted to assist this sector.

There are a lot of small business forms, from which the most common, particularly in Georgia is franchise, also cooperation, social and religious organizations, commercial and noncommercial funds, establishments: social-cultural, educational and juridical.

As for the types of small businesses the percentages in total turnover is shared according to the following:
- Commerce_Autos, consumables, and repair of personal objects of consumption_53,6 %
- Property, lease, and service_12,4 %,
- Manufacturing industry_12 %
- Transportation and communication_6,5 %
- Construction_4,5 %
2.1 Pros and Cons of Small Business in Georgia

In Georgia the easiest way to form a business is to establish ltd., by only registering in the industrial registry with the only min starting capital of 200 GEL. The request is that at least 5 employees should not be relatives of the Chief Executive.

The main trends in small business industry are towards trade and food consumption (catering). Before getting to business analyzing of pros and cons is vital. The advantages of small business are the following:
- A small business can be started at a very low cost and on a part-time basis; The form of Ltd or sole proprietorship is very flexible in Georgia, also small firms overate from 1 to maximum 5 years on average, part-time base is also very suitable;
- Small business is also well-matched for internet marketing; This is very easy, speedy and comfortable way for marketing, as for in most of the cases small businesses are created to serve very peculiar customers, (small number), that close contact with them are the forerunner of close and firm partnership;
- Small business can perfectly suit a niche; Especially in Georgia, where we do not have such a huge variety of products as in Europe, niches are vast, exigent customers are a number, high class society as for luxury consumers, _ best solution for small business to choose some special place for affirming its place.

The disadvantages of small business that are more common for Georgian reality is listed below:
- Taxes;
- Inflation;
- Economic Situation as a whole;
- Supplier Deficit;
- High interest rates on credits;
- Political situation;
- Corruption;
- Lobbying;
- Competition;
- Strong brand names;
- Distrust from the side of foreign partners;
- Imperfect market;
- Equal access to information;
- Financial system of Government;
- Law on small business;
- High costs for raw materials.

2.2 Changing Environment and Financing

Changing environment is familiar to Georgia, continuous revolutionizing, this all produces altering laws, investors attitudes to our country, need for different product mixes. That is why small business owners have to be very adaptive to environment, the crucial issue is to be as flexible as the resources give ability. Adapting to change is crucial in business and small business, lacking bureaucratic inertia, can often respond to the marketplace quickly. Small businesses operators tend to be intimate with their customers and clients resulting in greater accountability andresponsiveness. That is why close contacts with customers guarantee firm relationships, and ensures business more safety.

To start the business, the first problem the founder faces is getting the starting capital. Sources for the fist installment can be acquired by different ways:
- Self-financing by the owner through cash, equity, loan on his or her home, and or other assets;
- Loans from friends or relatives;
- Private stock issue;
- Forming partnerships;
- Venture capital, given sufficiently sound business venture plans;
- Angel Investors.

Some small businesses are further financed through credit card debt - usually a poor choice, given that the interest rate on credit cards is often several times the rate that would be paid on a line of credit or bank loan.

The most common form of small businesses is franchises, this is buying license from the mother company that gives you exclusive right to run the business with the same name and production in your country or region. Some companies, e.g. Starbucks don't give franchises; they have their own plan for the development. But as for McDonalds, Benetton, Sisley, King Burger chain, etc. Also it is very successful and less risky to buy a franchise, however, some franchisees conclude that they suffer the "worst of both worlds" feeling they are too restricted by corporate mandates and lack true independence. McDonald's has even been sued by franchisee's who feel they have been exploited with unreasonable costs for materials (cups, condiments etc.) they are required to purchase from the parent company.

In small businesses owner can freely address to form of franchise, that is very easy to establish, as for the corporate law, brand awareness, quality is ensured by the mother company.

3. Measurement Model of Marketing performance
To market the small business, you can use a lot of forms: networking, word of mouth, customer referrals, yellow pages directories, television, radio, outdoor (roadside billboards), print, and internet. Electronic media like TV can be quite expensive and is normally intended to create awareness of a product or service. Many small business owners find internet marketing more affordable. Google AdWords and Yahoo! Search Marketing are two popular options of getting small business products or services in front of motivated Web searchers. In Georgia the popular search Georgian search engines, video and audio web-sites are very popular among the population. Advertising on niche sites can also be effective, but with the long tail of the internet, it can be time intensive to advertise on enough sites to gather an effective reach of +2 or +3.

The most effective marketing tool in Georgian conditions is the word of mouth. The population is small, the culture of relations is very close, people trust each other and the opinions is very important for each of them, they also like to show off, as for if one client is satisfied, then it means to have min 15 clients more.

After performing marketing activities the company needs to be assuring that the action was successful. Below is the formal model, that can be computerized, for evaluation of Marketing performance:

Among a number of marketing Key Performance Indicators (KPIs) we have listed below the most important that can be linked with each other and can give the total picture of marketing performance:

- New customers acquired; (During the period of 1 Ms, 3 Ms, Half Y., 1 Y, etc)
- Customer related numbers; (Total number, lost, acquired, % difference during the periods)
- Status of customers; Differing and numbering 5 well-know types of customers listed below:
  - Loyal Customers: They usually represent no more than 20 percent of the customer base, but make up more than 50 percent of our sales. They are people who the employees of the company know on faces, or even personally, have close relationships with them;
  - Discount Customers: They shop stores frequently, but make their decisions based on the size of the markdowns.
  - Impulse Customers: They do not have buying a particular item at the top of their “To Do” list, but come into the store on a whim. They will purchase what seems good at the time.
  - Need-Based Customers: They have a specific intention to buy a particular type of item.
  - Wandering Customers: They have no specific need or desire in mind when they come into the store. Rather, they want a sense of experience and community.
- Customer erosion; This is very good indicator how different factors causes the firm to loose customers, when the % of erosion comes below the accepted level, it is better for the company to make some actions, renovations, new products, active marketing, etc.
- Turnover generated by segments of the customers - these could be demographic filters; Demography plays a huge attention, as for each product has its target group, this measurement indicates in which group is the product/service popular and in how much;
- Customer terms of payment; This is very important to look through, as for to find out who is a good payer, who has many delays, and find out the cause, or close the contract with “bad” customers;
- Demographic analysis of potential customers, to this the firm may also add the number of approval, rejections and pending numbers; this indicates the progress of the firm in case of customers;
- Profit generated according to customer groups; This will show which segment is most profitable, who are cash cows, stars, dogs or question marks.

This huge analysis is usually done by the marketing department, in some cases there is also special department for customer relationship management (CRM), or a firm can once a year hire the advertising agency and ask for the marketing analysis, ordering the above mentioned indicators. The last alternative is probably the best for small businesses, as for many of them have no marketing departments or 1-2 men are responsible for this issue.

The fast analysis can be conducted by using IT, for putting all the date, for more visibility showing where the company has undo.

4. Measurement Model of Logistics Performance

In order to form and build a successful small business, its essential to control all parts of external and internal value chain, this includes the
upstream and downstream suppliers, the producers itself, employees within a company, and market intermediaries, customers and downstream customers, so they form the whole value chain. However, for the business to be successful it is important to regulate and make success from each of the chain’s division, also they must act in favor of one another, together, simultaneously and in harmony. It starts from the supplier of raw materials, then continues to design, developing, producing, marketing, distributing, and at last after and during sale services. Also managers must induce the good total quality management. This is an external service that can be achieved by accrediting the firm with ISO/IEC 9001 or for more vulnerable firms to the environment with ISO/IEC 14000.

Small Businesses can exploit the KPIs in order to make progress monitoring toward a variety of goals, like lean manufacturing objectives, diversity spending, environmental "green" initiatives, cost avoidance programs and low-cost country sourcing targets.

We advise small businesses to use the following KPIs for logistics activities:

- On-demand, real-time scorecard measures; this is for monitoring automated process of where the firm lacks the products, when to give orders;
- Single data warehouse to eliminate inefficiencies and maintain consistency; In case of small businesses they usually have one warehouse, or a room serving as a warehouse, indicators for the level of products in warehouses is very significant measure;
- Workflow process; This indicates the turnover number in any division of supply chain, if critical, can be justified in early times in order to have continuous process flow;

Most of the firms do not make the analysis of cost on logistics, we advise all small businesses to monitor every time, how much is spent on transportation and delivery. Sometimes if the supplier offers you price including the transportation, the firm can reach lower cost if it transports the goods itself. Here are some of the indicators for these issues:

- Logistics Internal Costs; The costs encompass all logistics activities that occur within a firm. It excludes all outsourced logistics activities and all production processes.
- Logistics Outsourcing Costs; The costs encompass activities assigned to a logistics service provider. Using the purchases that originate from the manufacturers as part of logistics activities is appropriate, instead of using the sales, because it avoids multiple counting.

- Inventory Costs; The Costs include keeping of the goods in warehouses, insurance, taxes, rent of the place, obsolescence;

In many cases it is good if suppliers and their customers exchange vital supply chain performance data while gaining visibility to the exact status of cost improvement projects and cost savings documentation.

Like the marketing analysis, for the fast analysis we advise to use IT, to put all the date in different types of indicators: Quantitative, Qualitative, Directional (Showing if the firm is in progress or not), Actionable (These indicators can be directly changed from the firm’s actions and totally controlled by the firm); Also for more visibility the program can be very helpful showing where the company has undo.

5. Measurement Model of Management Performance

Small businesses often face a variety of problems related to their size. A frequent cause of bankruptcy is undercapitalization. This is often a result of poor planning rather than economic conditions. So to eliminate the problems, first of all we have to realize the real cause of it, evaluate how our business is going.

The first good measure for business evaluation, that is perfectly suitable for small businesses is ROI (return on investment), this refers to compute the profit earned per dollar of investment. This means, if we invest 1 $, how much will be turned into profit. To formulize it, it will look like the following:

\[ \text{ROI} = \frac{\text{Operating income}}{\text{Average operating assets}} \]

Operating income refers to earnings before interest and taxes, and Operating assets are all assets acquired to generate operating income, includes cash, receivables, land, building, equipment. To compute average Operating assets:

\[ \text{Average Operating Assets} = \frac{(\text{beginning net book value} + \text{ending net book value})}{2} \]

Only looking at ROI won’t be the perfect measure of company performance, in order to have the full view of performance, we offer to decompose it into 2 more measures, Margin and Turnover.

\[ \text{Margin} = \frac{\text{Operating income}}{\text{sales}} \]
\[ \text{Turnover} = \frac{\text{sales}}{\text{Average Operating Assets}} \]
ROI = margin X turnover

Looking at the change in Margin shows us the portion of sales that is available for interest, taxes, and profit. As for turnover, it shows how productively assets are being used to generate sales.

If we saw that margin is declining, we must look whether the expenses are increased, or selling price is decreased, or both, and then try to stop this process and vice versa return them to the previous conditions or even ameliorate the state.

If there is a decrease in turnover, it may be caused by the sale decrease, as for company performs worse, so we should look at our sales department. But if we have a fact of turnover increase it is not enough to say that performance of company is improved, in addition we must look at the cause of it. Turnover can be increased because of reducing assets. This is also not good.

Using the ROI has 3 advantages:

- Encourages managers to focus on the relationship among sales, expenses, and investments, so by evaluating how the implementation of a particular decision will effect all these measures, and in the end effect on ROI.
- Encourages managers to focus on cost efficiency. When managers focus on costs, they can eliminate some non-value added activities within a company that generates only costs, by this way rise ROI.
- Encourages managers to focus on operating asset efficiency. When there is no way to reduce costs, then managers turn to reduce inventory, and installing just-in-time system; However, overemphasis on ROI can produce myopic behavior. There are 2 disadvantages to this fact:
  - It produces narrow focus on divisional profitability at the expense of profitability of the overall firm, but this disadvantage can be eliminated when we have case with small businesses, having no divisions at all.
  - Another disadvantage is focusing only on the short run at the expense of the long run. So it says that only for increasing the ROI managers mustn’t do such things, that later might cause terrible costs to the firm.

Not to be so too concentrated on ROI measure, as for some managers (mostly in small businesses) discourage casting investments showing reduction in ROI, but in some cases does not affect the firm performance, another measure EVA, economic value added can be suitable. This measure is indicator of firms’ progress, represents the economic value of the firm and is computed by subtracting the firm's cost of capital (in monetary terms) from the firm's adjusted operating profit (NOPAT). Positive levels of EVA indicate that the management has been adding value through previous investments.

EVA = After-tax operating income – (Weighted average cost of capital X Total capital employed) = NOPAT – (WACC)(CAPITAL)

where NOPAT = EBIT (1-tax rate)

6. Conclusion

We have developed the computer model for marketing, logistics and management activities that suites all kinds of small businesses in Georgian current socio-economic environment, that is flexible, uncomplicated for usage, and consistent with its measured values. Although, the managers of businesses can not fully operate using only this model, but this serves as a high-quality complement together with other well-known business evaluation methods.

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