Ethiopian TVET-System

Furniture Making L-I

Based on Sept. 2012G.C. Occupational standard

Module Title: Developing Understanding of Entrepreneurship

TTLM Code: IND FMK1 TTLM 0919V1

This module includes the following Learning Guides

LG40: Describe and explain the principles, concept and scope of entrepreneurship

LG Code: IND FMK1M13 L01-40

LG41: Discuss how to become entrepreneur

LG Code: IND FMK1M13 L02-41

LG42: Discuss how to organize an enterprise

LG Code: IND FMK1M13 L03-42

LG43: Discuss how to operate an enterprise

LG Code: IND FMK1M13 L04-43

LG44: Develop one's own business plan

LG Code: IND FMK1M13 L05-44

Instruction Sheet	LG40: Describe and explain the principles, concept and scope of entrepreneurship

This learning guide is developed to provide you the necessary information regarding the following learning outcome and contents coverage

LO1: Describe and explain the principles, concept and scope of entrepreneurship

1.1 Meaning and Scope of enterprising
1.2 Defining entrepreneurship and entrepreneurs
1.3 Functions of entrepreneurship
1.4 Principles of entrepreneurship
1.5 Entrepreneurial motivation

This guide will also assist you to attain the learning outcome and contents stated in the cover page. Specifically, upon completion of this Learning Guide, you will be able to: –

Meaning and Scope of enterprising
Defining entrepreneurship and entrepreneurs
Functions of entrepreneurship
Principles of entrepreneurship
Entrepreneurial motivation

Learning Instructions:

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described in number 3 to 7
3. Read the information written in the "Information Sheets 1". Try to understand what are being discussed. Ask you teacher for assistance if you have hard time understanding them.
4. Accomplish the "Self-check 1" in page _13_.
5. Ask from your teacher the key to correction (key answers) or you can request your teacher to correct your work. (You are to get the key answer only after you finished answering the Self-check 1).
6. If you earned a satisfactory evaluation proceed to "Information Sheet 2". However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Learning Activity #2.
7. Submit your accomplished Self-check. This will form part of your training portfolio.

Introduction

Entrepreneurship can be described as a process of action an entrepreneur undertakes to establish his enterprise. Entrepreneurship is a creative activity. It is the ability to create and build something from practically nothing. It is a knack of sensing opportunity where others see chaos, contradiction and confusion. Entrepreneurship is the attitude of mind to seek opportunities, take calculated risks and derive benefits by setting up a venture. It comprises of numerous activities involved in conception, creation and running an enterprise. According to Peter Dracker Entrepreneurship is defined as 'a systematic innovation, which consists in the purposeful and organized search for changes, and it is the systematic analysis of the opportunities such changes might offer for economic and social innovation.

1.1 Meaning and Scope of enterprising

➢ **Meaning of Enterprising**

- On a personal level/in its wider sense, enterprising can be any identified idea that a person can translate into a planned and satisfactorily implemented activity.
- In the business sense/in its narrower sense, enterprising refers to a business venturing or undertaking.
- **An enterprise** is **c**onsidered to be any entity engaged in an economic activity, irrespective of its legal form.
- Practically all undertakings can be referred to as enterprising it fulfills the followings. i.e.
    - Idea identification,
    - Planning,
    - Implementation,
    - Successful completion of an activity and
    - Receiving the rewards.
    - By understanding the enterprising concept, all people have the potential to be enterprising.
    - Some people are enterprising when they own a business.
    - Enterprising society are able to deal positively with the challenges and problems they face in their daily lives.

- Being enterprising can bring benefits to you and also help you to become a valued member of your society.
- Enterprising approach can be applied to different circumstances.

This kind of approach will enable you to appreciate the challenges of life

Enterprising men and women exhibit the following characteristics

• E: Energy	R: Risk-taking
• N: Need to achieve	I: Innovation
• T: Task oriented	S: Skills
• E: Empathy	I: Independence
• R: Resourcefulness	N: Networking
• P: Planning	G:Goal oriented

- **Characteristics of an Enterprising Society**
  - Useful goods and services constantly produced/provided
  - Wide distribution of needed goods and services throughout the population
  - New ideas continuously infused for revitalization and growth of the economy
  - Continuous discovery of unidentified needs of society
- **Characteristics of an Enterprising Society**
  - Useful goods and services constantly produced/provided
  - Wide distribution of needed goods and services throughout the population
  - New ideas continuously infused for revitalization and growth of economy
  - Continuous discovery of unidentified needs of society
  - Constant solving of problems experienced in society
  - Avoids stagnation through giving individuals a chance to be innovative and creative

Information Sheet-2	Defining entrepreneurship and entrepreneurs

Defining entrepreneurship and entrepreneurs

What is Entrepreneurship?

- Entrepreneurship is the dynamic process of creating incremental wealth.
- Entrepreneurship is the process of creating and building something of value from practically nothing.
- Entrepreneurship refers to an individual's ability to turn ideas into action. It enables people to think creatively and to be an effective problem solver.
- Entrepreneurship is an organizational and management approach that enables persons to respond to change and solve problems in whatever situation (either business or non-business) they may find themselves.
- Entrepreneurship is the act of being an entrepreneur, who starts any economic activity for being self-employed.
- Entrepreneurship is strategic thinking and risk-taking behavior that results in the creation of new opportunities for individuals and/or organizations.
- Entrepreneurship is the process of creating something different, with value, by devoting necessary time and effort, by assuming the accompanying financial, psychological, and social risks, and receiving the resulting rewards of monetary and personal satisfaction.
- Entrepreneurship is the pursuit of opportunity through creativity, innovation and hard work without regard for the resources currently controlled.

- **There are five elements of entrepreneurship:**
  - Observing the environment/identifying gaps,
  - Identifying opportunities,
  - Gathering the necessary resources,
  - Implementing the activity and
  - Receiving rewards for engaging in the activity.

Roles of Entrepreneurship in Business

- **Improve the Business Environment by:**
  - Creating jobs
  - Promoting free enterprise

- Promoting healthy competition
- Generating wealth
- Spreading prosperity
- Ensuring innovation and creativity
- Encouraging grassroots development
- Improving social and community conditions
- Promoting economic growth

Why Entrepreneurship?

Delivering Entrepreneurship Education into technical and vocational education and training programs:

- Create awareness of enterprise and self-employment as a career option.
- Develop positive attitudes towards enterprise creation and self-employment.

Delivering Entrepreneurship Education into technical and vocational education and training programs:

- Provide knowledge, skills and practice of the required attributes and challenges for starting and operating a successful enterprise, particularly aMSEs.
- Prepare young women and men to work productively in MSEs and, more generally, for an environment in which formal, full-time wage employment may be scarce or unavailable.
- Therefore, Entrepreneurship contributes a lot to decrease the number of unemployed people as it stimulates more people to create jobs for themselves and others.
- Job creation depends in large part upon the initiation and expansion of MSEs by Entrepreneurs.
- Entrepreneurs have the ability to generate new ideas and develop new products/services that create new MSEs, which in turn create the need for new jobs.
- Entrepreneurs are key individuals who promote & exploit change and initiate regional and local development because the activities of most entrepreneurs are oriented toward the immediate environment in which they live (community) and work (either as employees or employers).

✖ WHAT IS ENREPRENEUR?

Entrepreneur is a person who makes judgmental decisions under condition of uncertainty and who creatively turns the uncertainty into an advantage for the business he/she runs.

Entrepreneurs are peoples who are action oriented, highly motivated individuals who can take risks to achieve their goals

Entrepreneurial Functions in Business

❖ Entrepreneurial Function in Business

- ✓ **The entrepreneur** is the prime mover in the businessenterprise. Without the entrepreneur there would be no business in the first place**.**
- ✓ He/she is the one who identifies gaps in the market and then turns these gaps into business opportunities. One of the functions of the entrepreneur is, therefore, to initiate the business.
- ✓ It is the entrepreneur who finances the business**.** After identifying a business opportunity**,** the entrepreneur raises and mobilizes the necessary resourcesto exploit the opportunity**.**
- ✓ By so doing the entrepreneur becomes the financier of the enterprise.The entrepreneur does not of course have to finance the business from personal savings alone.
- ✓ The necessary finances and other resources could be borrowed**.** It is therefore a function of the entrepreneur to **finance the business**.
- ✓ Another function of the entrepreneur is to **manage the business.** This is also a function that he/she can easily delegate to other people. But, even where other people are employed to manage the business, the ultimate responsibility for management remains with the entrepreneur.
- ✓ Management functions involve a wide range of activities such as :
- ✓ Organizing, coordinating, leading, recruiting, rewarding, evaluating, etc.
- ✓ The entrepreneur does not only manage production, but also marketing, personnel and all other aspects of the business.
- ✓ The entrepreneur also has the function of **bearing the uncertainties** of the risks of the business. This arises because it is the entrepreneur who provides the finances of the business. This is so even where other people may have lent the necessary finances, as is the case when one borrows from financial institutions.
- ✓ Through the entrepreneurial function, **many jobs are created in the economy.** In addition, wealth is made available to the individual, the community and society in general through the actions of entrepreneurs.
- ✓ Entrepreneurs also **encourage competition,** which is critical in sustaining free enterprise, and support a market economy system which has proved to be ideal for economic growth, social progress and the spread of prosperity among a country's population.

- Identify gaps in the market and turn these gaps into business opportunities.
- Finances and mobilizes resources for the business
- Organize and manage the business.
- Bear the uncertainties and risks of the business.

- Encourage competition
- Self-employed and applying entrepreneurship

Personal efforts to be an Entrepreneur

- Works long hours
- Always concerned about the business
- Needs high energy
- Sacrifices other important aspects of life
- Limited social life
- Not much time with family and friends
- Financial investment

Information Sheet-3	Functions of entrepreneurship

Functions of entrepreneurship

1. **Employment Creation:** Entrepreneurs create employment for themselves and other people. They are employers and assist in solving the unemployment problem.
2. **Local Resources:** When entrepreneurs utilize local resources, the value of these resources increases.
3. **Decentralization and Diversification of Business:** Entrepreneurs are able to identify business opportunities, and locate these businesses in suitable areas, including rural areas.
4. **Promotion of Technology:** By being creative, entrepreneurs are able to contribute to the utilization and development of appropriate technology.
5. **Capital Formation:** Entrepreneurship increases capital formation and investment in new and expanding businesses.
6. **Promotion of An Entrepreneurial Culture:** By projecting successful images, entrepreneurs become role models for other people.

Principles of entrepreneurship

- It has been said "if a man/woman builds a better mousetrap, the world will beat a path to his/her door". In a market economy there is an opportunity for profit, recognition and service for those with the imagination, energy and drive to do a job better, or provide a better service than others. The essence of the free enterprise system is competition. It is competition that makes those doing a good job try harder. Competition provides a better standard of living for consumers by offering choices. Consumers "shop" to get the best value and quality goods and services. When a purchase is made, the money paid is "votes" in favor of the product or the service chosen. Those products or stores or services which do not receive sufficient support (sales) in the way of "dollar-votes" from customers will fail. Entrepreneurs who want to be successful provide a little extra service or a little better product than their competition. Many businesses fail each year, but many succeed. Those that succeed perform services or offer merchandise in such a way to satisfy their customers. As the population expands, there develops a need for more businesses. Every year several million babies are born and these "babies are big business". When these babies grow they become the children, the learners, the workers, the managers and the customers of tomorrow. An entrepreneur does not have to be the best manager, or have the biggest store, to compete successfully. If entrepreneurs see a need for a new store in a growing community and begin operating before others, they can get a head start on their competition. Anyone with imagination and a little courage to take a chance on his/her own ability and ambition can generally be successful in business provided the individual has progressed to the point of being a good business risk. One must have the basic education, skills, knowledge and maturity to reduce the chances of failure. Any business is a risk. The chances of failure can be greatly reduced by education, experience and the exercise of good judgment.
- The main principles of entrepreneurship
- Works best in an open market economy
- Promotes private enterprise
- Adds value to products and services (creates wealth)
- Providing needed products/service
- Developing new markets

- **Entrepreneurial motivation**

- Highly motivated entrepreneurs control their environment. A positive mental attitude helps motivate them to focus on desired activities and events and the results they hope to achieve. Motivation comes from having a positive mental attitude. Entrepreneurs learn and try to get benefits from every experience they have. Motivation and having a positive mental attitude takes a long time to develop. Consider the following factors that help entrepreneurs to develop a positive mental attitude:
    - Focus on opportunities to learn from each experience.
    - Being involved in positive activities.
    - Choose work objectives that are achievable and have an impact.
    - Make friends with other entrepreneurs.
    - Acquire the thinking, mannerisms, and characteristics of successful entrepreneurs.
    - Have successful entrepreneurs serve as role models and mentors.
    - Avoid negative thoughts and ideas.
    - Take advantage of opportunities to improve your situation, whether it be your personal life, work life or life in the community.
    - The environment affects your performance. If your environment is not appropriate to your needs, change the environment or move to another environment which is more positive and conducive to achieving desirable goals.
    - Believe in yourself. Success comes to those who use their talents and abilities to the fullest extent.
    - Be action oriented and results oriented. Focus on specific problems; once you have reached a decision, take action to solve the problem.
    - Having a positive mental attitude is essential for achieving success.
- How entrepreneurs act is a reflection of how they view themselves and their environment.

Setting entrepreneurial goals

WHAT IS GOAL?

- The fundamental assumption is that people with a clearer vision of their goals and equipped with the skills to achieve them are far more likely to become productive individuals in society.

Goal Setting Process

1. Describe long and short-term goals!
2. Relate to what you want to achieve in life!
3. Action plan is outlined including activities, responsibilities and time frame.
4. Performance standards, measurement criteria are defined!
5. Consider environmental and personal obstacles!
6. Identify resources!

GOAL MUST BE:

- **S**: Specific
- **M**:Measurable
- **A**: Achievable
- **R**: Realistic
- **T**: Time-bound

Setting Entrepreneurial Goals

- **Meaning of Goal**

- The end result or achievement in which organizational and individual effort is directed, is a goal.
- When you engage in true goal setting, you define your objectives in pragmatic or realistic, measurable terms. You also need to identify the resources, time and funds you'll need to invest to attain them.
- Goals are essential starting points in planning because they provide direction for all other managerial activities.

Setting Entrepreneurial Goals

- Your goals should be your own. They should be set for things you really want to achieve.
- Goals should be specific. They should be clear, concrete and written.
- Goals should be measurable and can be quantified. You need to be able to know when you have reached a goal.
- Review goals periodically to measure the extent your goals have been achieved.
- Goals should be set for a definite time period. Setting deadlines can be an aid in attaining goals.
- Goals should include both short-range and long-range goals.

Self-Check 1	Written Test

1. What is the difference between entrepreneurship and entrepreneur?
2. Write the Principles of entrepreneurship?
3. Write elements of entrepreneurship?
4. What Is Entrepreneur?
5. What is enterprise?

Instructions: Answer all the questions listed below. Illustrations may be necessary to aid some explanations/answers. Write your answers in the sheet provided in the next page.

1.
2.
3.
4.
5.

Note: Satisfactory rating - 25 points Unsatisfactory - below 25 points

You can ask you teacher for the copy of the correct answers.

Instruction Sheet	LG41:- Discuss how to become an entrepreneur

This learning guide is developed to provide you the necessary information regarding the following learning outcome and contents coverage

LO2 Discuss how to become an entrepreneur

2.1 Assessing own potential to be future entrepreneur
2.2 Basic competencies of successful entrepreneurship
2.3 Entrepreneurial characteristics/traits
2.4 Risk assessment and their management
2.5 Meaning of self-employment
2.6 Self-employment versus paid employment

This guide will also assist you to attain the learning outcome and contents stated in the cover page. Specifically, upon completion of this Learning Guide, you will be able to: –

Assessing own potential to be future entrepreneur

Basic competencies of successful entrepreneurship

Entrepreneurial characteristics/traits

Risk assessment and their management

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Self-employment versus paid employment

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Assessing own potential to be future entrepreneur

1. Allow learners approximately 15 minutes to respond to the 50 questions on WORKSHEET 1. Learner responses should be made on a separate sheet of paper. Use TRANSPARENCY 1 to show how an entrepreneur would probably respond: specific entrepreneurial characteristics are highlighted in parentheses. Please note that this information represents "entrepreneurial tendencies", not universal truths applicable to all entrepreneurs. Have the class discuss their responses to each question. The responses to the 50 questions have been grouped into three categories: Personal Background, Behavior Patterns and Lifestyle. Ask the learners to add up the number of responses they gave which were similar to the responses commonly given by entrepreneurs in each of the three categories: • Personal Background (10 questions) • Behaviour Patterns (30 questions) • Lifestyle (10 questions)

The learners with scores closest to fifty would be considered to be the most entrepreneurial. Again, learners should be reminded that these scores only represent "tendencies", and that these tendencies can change over time. Collect the learners' responses to WORKSHEET 1 for later use. At the end of the course, the learners may be asked to take the test again. Learners would then be able to compare their responses and discuss reasons for any changes in them. The question is: "Will learners be more or less entrepreneurial by the end of the course?" In some instances, learners may decide against becoming an entrepreneur. These decisions would be considered good decisions because they would be informed decisions based on the contents of the course.

Based on the results of the entrepreneurial assessment instrument, ask the learners the following questions:

- What personal weaknesses did you discover?
- Do you think you can be an entrepreneur with these weaknesses?
- What can you do to improve your weak areas?
- What are your strengths?
- Do your strengths make up for your weaknesses?
- Is your lifestyle compatible with the demands placed upon an entrepreneur?

How to Become an Entrepreneur

If you want to run your own business, you've come to the right page. Being an entrepreneur is a high-risk, high-reward position. It's full of stressful situations, sure, but it's also chock full of rewards and a sense of accomplishment. It's not as hard as it seems -- as long as you have some diligence, patience, and, of course, a good idea, you'll be your own boss sooner than you think!

Steps

1. **Think of a great idea.** Most businesses start with one compelling idea — whether it's a service people need, a product that would make life easier, or something that combines both. Remember that ideas don't matter, it's what you do with them that counts!
    - If a great idea comes to you, evaluate if it is realistic. Think of cost, manufacturing time, and popularity.
    - Always be open to different ideas. Ask and record if people would actually buy the product.
    - If you don't have an idea yet, it is a good start to think of your target market first. Then brainstorm a list of things like places they shop, and things they might really like. Narrow the list down to about three items, keeping cost, manufacturing time, and popularity in mind. Find the easiest, most realistic product you can offer.
2. **Write a business plan.** Include details and descriptions, and plan everything out realistically. Take your time and evaluate your product at each section. The sections of a good business plan include:
    - Product description: develop your product. What will it look like? What materials will you need? Make your product eye-catching.
    - Market Analysis: Who is your market? Where do they shop? Where are they located?
    - Competition: Who is your competition? What are their strengths? How will you beat them?
    - Marketing: How will you market your product? What kind of image do you want to display? Where will you advertise? What is your tagline? What is your packaging like?
    - Sales: Where will you sell? How will you get your customers to buy? When will you sell? What is your estimated sales forecast?
    - Manufacturing: How do you make your product? Explain this in detailed steps. What materials do you need to make your product? When and where will you manufacture? What is your COGS (cost of goods sold)?

- Finance: how much money do you need to start your business? What is your gross profit?

3. **Or, don't write a business plan.** A business plan is a work of fiction, anyway. If you don't have much experience in business, or the market is new and unknown, a business plan might be a waste of time, or, worse, a path to self-delusion. Plan just enough to make your first sale.
   - The main thing is to make at least one customer happy, and complete the entire cycle of "make product, sell product" as quickly as possible. Then you will have a business, and then you might be in a position to understand some problems of the sort that extensive planning can help solve.
4. **Get investors.** Pitch your idea to any potential investor to get money to start your company. If you have a good idea, they will love to invest their money in your company.
   - Make a PowerPoint presentation (or something of the sort) explaining why your product is the best, including each part of your business plan in the presentation.
   - Tell them how much your estimated gross profit is and how much percentage of that they will earn in interest. Many VCs (venture capitalists are not set up to make you successful. A wonderful success for you might be to earn $80,000 a year doing work you love.
   - Starting small and pleasing a small number of customers at first is a high-probability way to get there. A VC will not allow such a success to happen, because a VC's strategy is to become a billionaire by rolling the dice on many low-probability but potentially gigantic-returning businesses. The price you pay for taking on a VC is control: control of your dream. If you *can* get the business started without spending a lot of money, that might be your best route.
5. **Sell.** Sell and distribute your product. If you're getting revenue, then you're in business. You're testing your theories about the market, you're finding out what really works and what doesn't, and you're getting fuel for more ideas and improvements. If you're not getting revenue, then it's all in your head.
6. **Network.** Hang out with entrepreneurs. By meeting entrepreneurs socially, you gain contacts and hear about opportunities.

More importantly, you learn how entrepreneurs think. You pick up their attitudes, theinose for opportunity, their willingness to explore every idea and its opposite (they know that often both work), the great diversity in their styles.

Information Sheet-2	Basic competencies of successful entrepreneurship

Basic competencies of successful entrepreneurship

- There are three major competencies for successful entrepreneurship. These may be defined as:
- a body of knowledge
- a set of skills
- a cluster of traits.

A. Knowledge has been defined as a set or body of information stored, which may be recalled at an appropriate time. Knowledge in the context of business may be manifested by information on, or familiarity with aspects such as:

- a business opportunity
- the market
- customers
- competitors
- production processes
- technical matters
- business management
- sources of assistance

Knowledge of business or entrepreneurship, however, is not enough for success in setting up and operating a business – in the same way as, for example, reading or learning about flying, driving or swimming will not on its own enable you to fly a plane, drive a car or swim in a pool.

B. Skill has been defined as the ability to apply knowledge and can be acquired or developed through practice, e.g. flying, driving or swimming. In the context of business, it is possible to distinguish between skills of a technical and managerial nature. Some examples are listed below:

Technical	**Managerial**
• Engineering	• Marketing (including selling)
• Computing	• Financial management
• Carpentry	• Organization
• Mechanics	• Planning
• Catering	• Leadership

Knowledge and skills are relatively easy to acquire or develop. However, traits take time to develop and are not easily changed or acquired.

C. Traits have been defined as the aggregate of peculiar qualities or characteristics which constitutes personal individuality. In a cross-cultural study of India, Malawi and Ecuador, 14 personal entrepreneurial characteristics (PECs) that appear to depict the behaviour of successful entrepreneurs were identified. The research was funded by USAID and undertaken by McBer& Company and Management Systems International. The 14 PECs can be summarized as follows:

A successful entrepreneur:

• Takes initiative	Sees and acts on opportunities
• Is persistent	personally seeks information
• Is concerned for high quality is committed to fulfilling contracts	
• Is oriented to efficiency	Plans systematically
• Solves problems in original ways	Demonstrates self-confidence
• Takes calculated risks	Is assertive
• Is persuasive	Uses influential strategies

It is more likely than not that a person who does not have all 3 competencies in his/her business will encounter difficulties in operating the venture successfully.

Knowledge and skills only?

An individual with only knowledge and skills is unlikely to survive for long, even if he/she manages to start at all. For example, without the traits, he/she might exhibit little persistence when faced with major obstacles; or the person may neither see nor act on opportunities; or he/she might simply be unwilling to take the calculated risk of venturing into business in the first place.

• Knowledge and traits only?

A person with only knowledge and personal traits might find nothing of value to which these might be applied, without technical skills. Or they may find that they are too dependent on outsiders and, therefore, possibly too vulnerable. The solution might be to find a partner or employ people with the requisite skills.

• Skills and traits only?

A potential entrepreneur with skills and entrepreneurial traits, but lacking in knowledge, might be able to start a business. In a competitive environment, however, the lack of knowledge or familiarity with, for example, customers, or the market (including trends) could lead to failure. Information is essential for any business to succeed.

Information Sheet-3	Risk assessment and their management

Risk assessment and their management

Most entrepreneurs take calculated and moderate risks. Entrepreneurs avoid low-risk situations because there is lack of challenge, but they also avoid high-risk situations because they want to succeed. They set high goals and enjoy the excitement of a challenge, but they do not gamble. Hence, low-risk situations and high-risk situations are avoided because these risks do no satisfy the entrepreneur. In short, the entrepreneur likes a difficult but achievable challenge.

Defining a Risk Situation

A risk situation occurs when a choice is required between two or more alternatives whose potential outcomes are not known and must be subjectively evaluated. A risk situation involves potential success and potential loss. The greater the possible loss or gain, the greater the risk involved. Risk-takers make decisions in conditions of uncertainty, and they balance potential success against potential loss. Choosing a risky alternative depends on: a. how attractive the alternative is, b. the extent to which the risk taker is prepared to accept the potential loss, c. the relative probabilities of success and failure, and d. the degree to which one's own efforts increase the likelihood of success and decrease the likelihood of failure.

Assessing Risk Situations The entrepreneur's assessment of the situation is very different from that of both the above types of people, although the entrepreneur shares certain characteristics with them.

Most entrepreneurial traits are interrelated. Risk-taking behavior is related to:

• creativity and innovation, and it is an essential part of turning ideas into reality.

• self-confidence: the more confidence you have in your own abilities, the more able you will be in affecting the outcome of your decisions and the greater your willingness will be to take risks. Another factor is the entrepreneurial excitement regarding uncertainty, and the drive and enthusiasm to ensure that the consequences are successful.

Meaning of self-employment

"Self-Employment is An Activity Where Individuals Create Their Own Employment Opportunities By Creating A Business." Have Each Group Interpret Their Understanding Of The Statement. Have A Member Of Each Group Report Their Findings To The Class.

✓ **Reasons for Wage Employment or Going into Business**

1. **Critical Incident (Economic, Psychological, Sociological)**
   - Inheriting family wealth.
   - Being fired/sacked/made redundant/retired.
   - Transferred to different job or location.
   - Challenged by people you know/emulating others.
   - Unhappy with your boss or colleagues.
   - No job opportunity after leaving school or vocational training
2. **Practical Reasons (Economic, Psychological, Sociological)**
   - To make a living and/or get rich.
   - To prepare for retirement.
   - To use as a tax shelter or business write-off.
   - To have something to occupy spare time.
   - To create a common cause for the whole family, thereby building togetherness
3. **Abstract Personal Reasons (Economic, Psychological, Sociological)**

✓ Some of the abstract, personal reasons include:

- For emotional rewards, a realization of self-worth, self-image, seeing your creativity develops and expands.
- To escape working for someone else.
- To have flexible working hours – the freedom to do what you please, when you please.
- To stop having to take orders

2.1.1 Advantages and disadvantages of self-employment

- **Advantages**

1. Personal satisfaction

- ✓ Personal satisfaction means doing what you want with your life

2. Independence

- ✓ Independence is freedom from control of others

3. Profit and income

- ✓ Profit is the amount of income left after all expenses have been paid.

4. Job security

- ✓ Job security is the assurance of continued employment and income.

5. Status

- ✓ Status is a term used to describe a person's social rank or position.
- ✓ Closely related to social status is pride in ownership; most people enjoy seeing their names on buildings, vehicles, stationery and advertisements.

6. Flexibility

- ✓ Individuals who become self-employed have options to start enterprises in all categories and sizes depending on their capabilities.

❖ **Disadvantages**

1. Possible loss of invested capital
   - ✓ The term invested capital refers to the money the entrepreneur put into starting the enterprise. As a general rule, the riskier the business, greater the profit potential.
2. Uncertain or low income
   - ✓ Unlike the salaries of employed workers, profits usually vary from one month to another. This is true even in well-established businesses.
   - ✓ When income is available, there still may not be enough to meet personal and family needs. This is often the case during the first six to twelve months of operation.
3. Long business hours
   - ✓ For example, many market shops are open from 8:00 a.m. to 9:00 p.m. Some entrepreneurs feel they cannot leave their businesses for more than one or two days at a time.
4. Routine chores
   - ✓ Running your own business may involve routine chores you do like to do.
5. Risks:
   - ✓ Calculated risks allow you to estimate the chances of failure or success without taking a gamble.
   - ✓ Very low risk ventures have less reward in terms of profits and may lead to limiting your ideas and their follow-up.
6. Time involvement

- ✓ Starting a small business takes a lot of hard work. In fact, it may consume most of your waking hours in the first few years. But in the long run, work effort and personal involvement on the part of a small business owner can vary greatly.

Entrepreneurial Self-Management

1. **Complete High Priority Tasks First.** Most people do the easy tasks first. What often happens, however, is that difficult tasks don't get done because too much time is spent doing the easy tasks. You may run out of time to do the difficult tasks.
2. **Use of Time.** Ask yourself, "What is the most important use of my time right now?" Asking this question will help focus on "important tasks."
3. **Delegate Tasks to Subordinates.** This is an essential task for entrepreneurs. Entrepreneurs must be able to delegate work to staff. Delegating tasks is a good way to build staff morale and allows the entrepreneur to focus on other essential tasks.
4. **Group Tasks.** This step will minimize interruptions and economize on the utilization of resources and efforts. For example, instead of making calls sporadically throughout the day, make out-going calls at specific times each day.
5. **Maintain a Clean Office.**

Try to clear your desk of everything except the work you intend to do immediately. Effective entrepreneurs are organized and work from clear desks.

6. **Be Ready to Say "no!"** If staff can have you do their work, they will do it. Most stress comes from the entrepreneur's lack of the skill to "just say no" for fear of upsetting people. People are always asking for of an entrepreneur's time.
7. **Have Daily Objectives.** Those entrepreneurs who accomplish the most during the day know exactly what they want to accomplish. However, many people think that goals and objectives should only be prepared on a monthly or yearly basis. Define objectives as clearly as possible. One factor that marks successful entrepreneurs is their ability to work out what they want to achieve and have written objectives that they can review constantly. Long- term objectives should impact on daily activities and be included on a daily "to do" list.
8. **Don't Try to do too much.** Many entrepreneurs feel that they have not accomplished enough and don't give themselves enough time to do important tasks properly.
9. **Control Paper Flow.** Deal with each piece of paper just once. Being a paper shuffler wastes time. Keep important papers and throw away the rest.
10. **Plan Effectively.** Some people say they don't have time to plan. These individuals may be very busy, but they probably are not very effective.

11. **Be Proactive.** Don't avoid making decisions. Reducing the amount of time you use to make a decision can substantially increase the amount of time available to you.

Self-employment versus paid employment

Self-Employment

ADVANTAGESCHALLENGES

ADVANTAGES	CHALLENGES
1. Leads rather than follows	1. Long, irregular hours of work
2. Can implement ideas	2. Broad responsibility
3. Can be creative	3. Must take risks
4. Potential income unlimited	4. Income not stable nor guaranteed
5. Independence	5. No fringe benefits
6. Can take initiative	6. Always involved in finances
7. Controls work environment	7. Time constraint
8. Gives orders	8. Uncertain future
	9. Learning never ends
	10. Hard to delegate work
	11. Too much paperwork
	12. Dependent on employee actions

Paid Employment

ADVANTAGES	CHALLENGES
1. Specific (or fixed) responsibilities	1. Follows orders
2. Steady income	2. Ability not easily recognized
3. Fringe benefits	3. Set income
4. Fixed hours of work	4. Limited responsibility
5. More certain future	5. Difficulty to implement ideas
6. Set span of control	6. Dependent on the employer
7. Minimal risks	

Self-Check 2	Written Test

Instructions: Answer all the questions listed below. Illustrations may be necessary to aid some explanations/answers. Write your answers in the sheet provided in the next page.

1. Explain the basic competencies of successful entrepreneurship?
2. What is the difference between Self-employment and paid employment?
3. What is the use of risk assessment?
4. Explain the Meaning of self-employment?

Note: Satisfactory rating -4 points Unsatisfactory - below3 points

You can ask you teacher for the copy of the correct answers.

Score = ____________
Rating: _____________

Instruction Sheet	LG42: Discuss how to organize an enterprise

This learning guide is developed to provide you the necessary information regarding the following learning outcome and contents coverage

LO3 Discuss how to organize an enterprise

3.1 Importance of entrepreneurship in the society
3.2 Meaning of small and medium enterprises
3.3 The importance and role of small and medium enterprises
3.4 Key success factors in setting up small and medium enterprises
3.5 Generating business ideas using appropriate tools and techniques
3.6 Identifying and selecting suitable market for a business
3.7 Money needed to start an enterprise
3.8 Obtaining money to start an enterprises

This guide will also assist you to attain the learning outcome and contents stated in the cover page. Specifically, upon completion of this Learning Guide, you will be able to: –

- Importance of entrepreneurship in the society
- Meaning of small and medium enterprises
- The importance and role of small and medium enterprises
- Key success factors in setting up small and medium enterprises
- Generating business ideas using appropriate tools and techniques
- Identifying and selecting suitable market for a business
- Money needed to start an enterprise
- Obtaining money to start an enterprises

Learning Instructions:

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described in number 3 to 7
3. Read the information written in the "Information Sheets 1". Try to understand what are being discussed. Ask you teacher for assistance if you have hard time understanding them.
4. Accomplish the "Self-check 1" in page _13_.

5. Ask from your teacher the key to correction (key answers) or you can request your teacher to correct your work. (You are to get the key answer only after you finished answering the Self-check 1).
6. If you earned a satisfactory evaluation proceed to “Information Sheet 2”. However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Learning Activity #2.
7. Submit your accomplished Self-check. This will form part of your training portfolio.

Information Sheet-1	Elaborate how to organize an enterprise

3.1Importance of entrepreneurship in the society

- Products and Services
- Employment
- Income (wages, salaries and profits)
- Taxes
- Disposable income
- Investment in productive assets
- National well-being
- Environmental sustainability

Meaning of small and medium enterprises

"Small businesses are not critical for the country's economic development. All small businesses should be closed down for the sake of economic growth and competitiveness."

Meaning of Small Business

Elements constituting the meaning of small business:

• Independent management

• Owner supplied capital

• Mainly local area of operation

• Relatively small size within an industry

Definitions of small businesses

• "A business is small if the owner has direct lines of communication with the operating managers and has personal contact with a large proportion of the work force, including key personnel."

• "Individually owned and operated business"

• "A business employing not more than fifty people" (this number may differ from one country to another)

Effect of new Technology in Small Business

➢ The use of technology is important because it increases labour productivity, and this in turn increases local competitiveness of both consumer and capital goods locally produced.

➢ The use of appropriate technology favours locally produced tools and equipment as well as local resources; this facilitates forward and backward linkages among local businesses.

➢ Introducing new technology, such as a computer or cell phone, into a business helps to improve productivity and product innovation.

➢ In small businesses, simple technological innovations help to improve product quality and product design, as well as reducing production costs.

Entrepreneurs should be made aware of new technologies by attending trade exhibitions, contacting small business development agencies, and visiting other areas of their own country as well as neighboring countries to gain ideas regarding technologies which would be appropriate to their local conditions.

Reasons for Interest in Small Business

Small business operators constitute a large political pressure group whose voice and concerns cannot be ignored.

There are large numbers of people involved in small enterprise. ƒ

Employees and sometimes owners of small enterprises tend to be underprivileged. ƒ

Small enterprises offer many job opportunities, especially for women. ƒ Small enterprises alleviate poverty and contribute to development.

Weaknesses and Strengths of Small Enterprises

Small Enterprise Weaknesses:

Financial limitations: Balancing "cash in" and "cash out" is a struggle, especially when trying to expand. Instead of receiving the red carpet treatment by financiers when asking for a loan, the small businessperson is often made to feel like a second-class citizen. Small enterprises can't use credit as a selling tool as readily as companies with large financial reserves.

Staffing problems: Small companies cannot pay top salaries and provide the opportunities and status normally associated with a big company job. Small enterprise owners must also concentrate on the day-to-day problems of running the business and generally have little time left to think about objectives.

Higher direct costs: A small enterprise cannot buy raw materials, machinery or supplies as cheaply as a large company, or obtain a large producer's economies of scale. So per unit production costs are usually higher for a small enterprise, but overhead costs are generally somewhat lower.

Too many eggs in one basket: A large diversified company can take a licking in one sector of its business and still remain strong. This is not so for the small business with only a few product lines.

Lack of credibility: The public accepts a large company's products because its name is well known and usually respected. A small enterprise must struggle to prove itself each time it offers a new product or enters a new market.

Small Enterprise Strengths:

Personal touch: Customers will often pay a premium for personalized attention. In fact, in many industries where product and price differences are minimal, the human factor emerges as a prime competitive advantage.

Greater motivation: Key management of a small enterprise normally consists of the owner(s). Consequently, they work harder, longer and with more personal involvement. Profits and losses have more meaning to them than salaries and bonuses have to the employees of a larger company.

Greater flexibility: A small enterprise has the prime competitive advantage of flexibility. A big business cannot close a plant without opposition from organized labour, or even raise prices without possible intervention from the government, but a small enterprise can react quickly to competitive changes. A small enterprise also has shorter lines of communication. Its product lines are narrow, its markets limited and its factories and warehouses close by. It can quickly spot trouble or opportunity and take appropriate action.

Less bureaucracy: Grasping the big picture is difficult for executives of large companies. This "management myopia" leads to redundant actions and bureaucratic inefficiencies.

Unobtrusive (less conspicuous): Because it is not quite as noticeable, the small company can try new sales tactics or introduce new products without attracting undue attention or opposition.

The importance and role of small and medium enterprises

3.3.1 Characteristics & use of appropriate technology insmall and medium business

- ✓ The appropriateness of technology for use in a small business is determined by a number of characteristics.
- ✓ For the following seven characteristics, explain how the purchase of a cell phone will increase the efficiency and effectiveness of an accounting firm that serves 60 local businesses.

1. **SIMPLE:**

- ✓ For technology to be considered appropriate, it must be simple to operate. The user of such technology must be able to apply it without encountering problems.

2. **EFFECTIVENESS:**

- ✓ Effectiveness of technology is judged by how well it fits in with the objectives of the user.

3. **AVAILABILITY:**

- ✓ Some technology may be appropriate for certain purposes but not available locally. Information technology, for example, may be the most appropriate for certain tasks, but it may not be readily available locally.

4. **FLEXIBILITY:**

- ✓ As time changes so do the requirements of technology. Appropriate technology must be flexible enough to adapt to changing times in the future.

5. **DURABLE:**

- ✓ Technology that is durable requires less maintenance and repairs.

6. **EFFICIENT:**

- ✓ Technology should be efficient in its utilization of local resources.

7. **COST EFFECTIVE:**

- ✓ The cost of technology should be justified by the benefits achieved. The overall benefits should be greater than the cost of the technology.

❖ **Knowing the Costs of an Enterprise**

- An entrepreneur who runs a business has to pay a lot of bills for goods and services she/he needs for the business, example for:

- raw materials,

- office furniture,
- telephone bills,
- Salaries for the workers, etc.
- These expenditures are called costs.
- A business owner must know exactly the costs for the products or services she/he will sell.
- If the costs are higher than what the customer is willing to pay for a product or higher than the prices of the competitors, then she/he will not be able to sell her/his products. In such a situation an entrepreneur has to manage the costs.

Information Sheet-4	Key success factors in setting up small and medium enterprises

Key success factors in setting up small and medium enterprises

The entrepreneur's ability to do this successfully depends on 4 factors, namely: Motivation, Ability, Idea and Resources. The acronym – MAIR – may help you remember these factors more easily. These are explained in turn.

Idea and Market: - The important issue to be determined here is the viability of the idea, project, product or service to be offered.

Motivation and Determination: - It is widely acknowledged that, to be successful, the individual or group needs to be highly motivated and determined to set up the business to make it succeed.

Ability:- Another important question is whether the individual or others involved have particular abilities – these may be knowledge, technical or managerial skills of relevance to the business or project.

Resources:- Finally, the extent to which the person(s) involved can acquire or organize resources in adequate measure will not only influence performance but also, in some cases, whether they start at all.

Business plan:- In order to turn the above 4 components into reality, a plan would be required. In business, this is normally referred to as a Business Plan.

Organization and Management:- The business then needs to actually start operating and, once this is done, it would need to be managed.

Generating business ideas using appropriate tools and techniques

- **Meaning of Business Idea**
  - A business idea is the response of a person or persons, or an organization to solve an identified problem or to meet perceived needs in the environment (markets, community, etc.).
  - A good business idea is essential for starting a successful venture and to stay ahead of competition.
  - Finding a good idea is the first step in transforming the entrepreneur's desire and creativity into a business opportunity.
  - Good business ideas, however, do not usually just occur to an entrepreneur.
- **Why Generate Business Ideas**

✓ There are many reasons why entrepreneurs or would-be entrepreneurs need to generate business ideas. Here are just a few:

- You need a great idea to start a new business
- Business ideas need to respond to market needs
- Business ideas need to respond to changing consumer wants and needs
- Business ideas help entrepreneurs to stay ahead of the competition.
- Business ideas help entrepreneurs to stay ahead of the competition.
- Business ideas are needed to exploit technology and do things better
- Business ideas are needed because the life cycles of products are limited.
- Business ideas help to ensure that businesses operate effectively and efficiently.
- Business ideas help to solve natural resource scarcity, pollution and depletion.
- **Sources of Business Idea**
- Hobbies/Personal Interests
- Personal Skills and Experience
- Mass Media (newspapers, magazines, TV, Internet)
- Business Exhibitions
- Surveys
- Customer Complaints
- Natural scarcities and pollution
- Changes in Society
- Brainstorming

- Being Creative

- **Meaning of Creativity**
  - Creativity is the ability to **design, form, make or do** something in a new or different way or it is the ability to come up with innovative solutions to needs/problems and to market them.
  - An entrepreneur's creativity is often the difference between success and failure in business.
  - It often distinguishes high-growth or dynamic businesses from ordinary/average firms.
  - To be creative, entrepreneurs need to keep their mind and eyes open to their environment.
  - Creative ideas are needed anywhere there are problems with unknown solutions.
  - In the business world, entrepreneurs use creativity to solve everyday problems, promote products and services, update products and services, and make use of limited resources.
  - Some people believe that they are not creative. They may overlook situations in which they have odd ideas, or they may avoid sharing their ideas with others.
  - People can develop their creative potential through learning and practice.
- **Brainstorming**
  - Is a technique for creative problem-solving as well as for generating ideas.
  - Its objective is to come up with as many ideas as possible.

There are **FOUR RULES for BRAINSTORMING:**

- Don't criticize or judge the ideas of others
- Freewheeling is encouraged-ideas that seem to be wild or crazy are welcome.
- Quantity is desirable – the greater the number of ideas, the better
- Combine and improve upon the ideas of others.

- **What is a Business Opportunity?**
  - A business opportunity may be defined simply as an attractive investment idea or proposition that provides the possibility of a monetary return for the person taking the risk.
  - A good idea is not necessarily a good business opportunity.
  - So, what turns an idea into a business opportunity?
- To be a good business opportunity, it must fulfill the following criteria:
  - Real demand
  - Return on investment
  - Availability of resources and skills
  - Meet objectives
  - Be competitive

Macro Screening Criteria (1st Stage Screening)

- Marketability
- Availability of raw materials & other inputs
- Ease of implementation
- Financial ability of the entrepreneur
- Consistency with government priorities

➢ **Micro Screening Criteria**

- Marketing Viability
- Technical Viability
- Organizational and Management Viability
- Financial Viability
- Environmental Viability
- Ecological Viability

Marketing Viability

Target market for the products and why would customers buy the product

- Size and growth rate of target market
- The level of actual market demand and anticipated future market potential
- Demand and supply situation, factors and trends
- Direct and indirect competition
- Marketing Practices

Technical Viability

- Technology & its source
- Machines and equipment's
- Production process
- Raw Materials, power & other inputs
- Infrastructure and Facilities
- Location & layout of site, building & plant

- **Organizational and Management Viability**
    - Abilities, competencies, skills, experience, values and motivations of management/key officers as per the Good network with customers
    - Managerial experience
    - Superior technology
    - Distribution system

- Product requirements of project.

Sketch personnel requirements: what people will be needed now, in a year, in the long term? What skills and qualifications are required and what financial implication results?

Financial Viability

- Project startup capital
- Sources of financing/capital
- Balance sheet projections
- Cash flow projections
- Profitability/Income projections
- Break even analysis (BEA)
- Expected return on investment (ROI) & its viability for the entrepreneur (Cost benefit analysis

- **Environmental Viability**
  - •What are the types of effluents and emission generated?
  - •What needs to be done for proper disposal of effluents and treatment of emissions?
  - •Will the project be able to secure all environmental clearance and comply with all statuary requirements?
- **Ecological Viability**
  - •What is likely damaged caused by the project to the environment?
  - •What is the cost of restoration measures required to ensure that the damage to the environment is contained within acceptable limits?

Micro screening

No	Project idea	Availability of demand	Availability of raw materials	Availability of technology	Availability of qualified manpower	Total	Competitors	Corrected total
		4	3	5	5			
1								
2								
3								
	5=very high	4= high	3= average	2= low	1= Very low			

3. SWOT analysis

- **Strengths**: Strengths are within the control of the entrepreneur and they occur at present. Strengths should be capitalized and harnessed to make weaknesses redundant.
- **Example:**
  - Technical expertise
  - New improvements of product
- **Strengths (Cont'd)**
- features (utility durability, etc.)
- **Weaknesses:** Weaknesses are within the control of the entrepreneur; they occur at present. They are "lack of...", "missing...", or weak points. As far as possible, weaknesses should be eliminated**!**
- **Example:**
  - Weak selling effort
  - Lack of working capital

- ❖ Inexperienced managers or employees
- ❖ Technological obsolescence
- ❖ Poor design of product

➢ **Opportunities:** Opportunities are positive or favorable factors in the environment which the entrepreneur. They are, however, mostly beyond the control of the entrepreneur. They are different from strengths in the sense that strengths are positive internal factors of the business.

- **Example:**
  - Few and weak competitors
  - No such products in the market
  - Rising income of target market
  - Scarcity of product in the locality
  - Growing demand for the product
  - Favorable government policy/programs
  - Availability of technical assistance
  - Low interest rate on loans
  - Access to cheap raw material
  - Adequate training opportunities

➢ **Threats:** Threats are negative or unfavorable external factors in the environment and normally beyond the control of the entrepreneur. They adversely affect the business, if not eliminated or overcome. Threats differ from weaknesses in as much as they are beyond the control of the entrepreneur. Both have a negative impact on the business.

Example:

- Hanging government regulations
- Smuggling
- Raw materials shortages
- Insufficient power
- Corruption
- Poor infrastructure
- Rising costs of raw materials
- Too much/Unhealthy competition
- Government bureaucracy

SWOT Analysis Framework

Strength	**Weakness**
- Managerial expertise	- High cost of production
- Low cost of production	- Shortage of inventory
- Good customer handling	- Poor customer handling
- Availability of assistance	- Shortage of capital
- Sufficient capital	- Poor quality product
- Unique product	

Opportunity	**Threats**
- Few and weak competitors	- Natural disaster
- Favorable government policy	- Changing government policy
- Availability of cheap raw materials	- Shortage of raw materials
- Increasing income of target market	- Change in consumer taste
- Availability of low interest loan	
- Availability of technical support	

Identifying and selecting suitable market for a business

1) What is a market? The market for a business is all the people within a specific geographical area who need a specific product or service and are willing and able to buy it. Every business sells some type of product or service to people. Potential customers can be described as:

- People who need or want the product or service.
- People who are able to buy the product or service.
- People who are willing to buy the product or service.

2) What should entrepreneurs know about potential customers?

A. Know the customers: The market can be segmented either by dividing it into meaningful buyer groups or dividing it according to characteristics such as age, sex, marital and family status, employment, income and trends regarding any of these characteristics.

B. Know what different customer groups wants: By segmenting the marketing into groups, it is easier for entrepreneurs to determine what products or services each group wants or needs.

C. Know where the customer buys: Entrepreneurs need to find out where the customers in their market are presently buying, and determine what factors will cause them to switch and buy from their new businesses.

D. Know when the customer buys: By knowing when customers buy (daily, weekly, monthly, yearly, seasonally), entrepreneurs will be able to determine such things as possible hours of operation, when to advertise and quantity of merchandise to have on hand at specific times of the year.

E. Know how the customer buys: Knowing how the customer pays for products and services can help the entrepreneur to determine a credit policy as well as a pricing policy for the business.

3) Where can customer information be located?

Customer information can be obtained from trade associations (publications), chambers of commerce, government agencies (including local government), newspapers and magazines, and individual research by conducting a market survey in the community.

One of the greatest needs of the owners of small businesses is to understand and develop marketing programs for their products and services. Modern marketing programs are built around the "marketing concept" and performance, which directs the owners to focus their efforts on identifying, satisfying and following up the customer's needs, but at a cost that will bring a profit. Marketing is based on the fact that:

- business policies and activities should be focused on satisfying customer needs, and
- Profitable sales volume is a primary goal.

When applying the marketing concept, a small business should:

- Determine the needs of their customers (market research);
- Analyze their competitive advantages (marketing strategy);
- Select specific markets to serve (target marketing); and
- Determine how to best satisfy those needs (marketing mix).

What factors affect the consumer market?

The consumer market is constantly changing. Many of the following factors have contributed to consumer changes in the last few years.

- Population changes, such as shift in age, distribution of income, including increases in total purchasing power and the amount spent for "luxuries".
- Changes in life-style and attitudes.
- A greater percentage of women in the workforce.
- More leisure time.
- More credit purchases.
- An increase in the number of white-collar and skilled workers.
- Higher overall educational level of the population.
- High rate of inflation.
- Changes in technology (mobile phones).

Money needed to start an enterprise

Basic Concepts

- Setting up a business requires a certain amount of money that has to be spent before the business activities can start to generate income through sales.
- Most of the time potential entrepreneurs underestimate the amount needed because they only take into account the expenditures for investment items such as premises, machinery, equipment, vehicles, inventory and so on.
- The amount needed as start-up capital is generally much higher than the money available to the entrepreneur.
- Business starters are generally aware that they need money for machines, tools and equipment, etc...
- They may not realize that other payments have to be made before they can really start their business.
- The need for working capital is also often underestimated. People think they will be paid immediately.

Estimating the Start-up Capital

- A person who wants to start a business must be aware that a certain amount of money is needed during the start-up process of a business for making payments before the business begins to generate enough sales income.
- This money is called start-up capital.
- Start-up capital serves two purposes.

1. **Pre-operation payments**
2. **Initial operation payments**

1. Pre-operation payments or investment capital

- This is money that a person starting a business will have to pay before the business starts operating.
- The money needed for these payments is **invested in** the business as long as the business is operating.
- It includes buying land, constructing a workshop, purchasing machineries, tools, equipment and office furniture, utility connections for water, electricity and telephone, legal fees, publicity and advertising, etc.

- People very often do not realize that a number of other payments have to be made before they can really start their business. For example:
- Cost of installing machines,
- Training expenses to train workers to use machines
- Fees for licenses and insurance
- Costs related to renovation of facilities

2. Initial operation payments or working capital

It will occur after a new business started to operate, to cover immediate expenses until revenues from sales flow back into the business.

It is invested permanently in the business and is called **working capital.**

When the business expands the working capital needs to be increased

- The need for working capital is also often underestimated. Business starters think they will be paid immediately.
- Even if the working capital is underestimated, an entrepreneur may have a flourishing business, but may run out of money to pay salaries, buy additional merchandise for sale, etc.
- It is recommended that a certain percentage is included in the investment capital for unforeseen items.
- Working capital should also include additional funds for unforeseen expenses.

Estimating the Start-up Capital

- The start-up capital for a new business is the sum of the expenditures for the investment items and the working capital.
- The future entrepreneur needs to have this amount of money available through using his/her own savings, finding partners and negotiating loans with banks.
- As a general rule, 30% of the start-up capital should be from the entrepreneur’s own resources.

Obtaining money to start an enterprises

Basic Concepts

- Many prospective entrepreneurs have good business ideas and plans but they may discover that the capital necessary to initiate their business is not readily available.
- Entrepreneurs will almost certainly have to invest their personal money in the business.
- Some of the capital needed to begin business operations can be obtained through credit.

Sources of Business Financing

- There are two common primary sources of business financing:

1) Equity capital/equity financing or
2) Borrowing capital/credit or debt financing.

Equity financing

- It is the money the owner puts or invests into the business.
- The main sources of equity financing are:
- Personal savings
- Family, relatives and friends
- Partners
- Corporation (sell stock to raise equity capital)
- Financial experts state that 30% of the money needed to start a small business should come from the owner.
- Potential/future entrepreneurs must work and save to have enough money to start a business.

Credit or debt financing

- Borrowing needed capital for the business.
- Lending institutions must sense that the business owner has a personal commitment and involvement in the business in terms of the time, energy and money the owner is willing to contribute to the business.
- The main sources of credit or debt financing are:
- Banks,
- Finance companies,
- Governments agencies (with loan schemes),

- Trade credit and
- Microfinance institutions

Factors to be considered by a banker when evaluating a loan applicant

- The five C's of credit:

1. Character
2. Capital
3. Collateral
4. Capacity
5. Conditions

- A well-researched and realistic business plan that shows viability of the business
- Business strategy or plan of action which clearly describe how the business will be operated, how much money will be needed and how it will be used, and at what point the business will be profitable.
- Experience or knowledge of perspective business owner in the area of the proposed business.

Self-Check 3	Written Test

Instructions: Answer all the questions listed below. Illustrations may be necessary to aid some explanations/answers. Write your answers in the sheet provided in the next page.

1. What factors affect the consumer market?
2. What do you mean potential customers?
3. Explain the importance of entrepreneurship in the society?
4. How did you identify your business idea?

Note: Satisfactory rating - 4 points **Unsatisfactory - below 3 points**

You can ask you teacher for the copy of the correct answers.

Answer Sheet

Score = ____________

Rating: _____________

This learning guide is developed to provide you the necessary information regarding the following learning outcome and contents coverage

LO4 Discuss how to operate an enterprise

4.1 Identifying ways of getting into business
4.2 Managing time
4.3 Managing sales
4.4 Selecting suppliers
4.5 Using technology in small and medium enterprises
4.6 Knowing business costs and their management
4.7 Financial record keeping and preparing financial statement

This guide will also assist you to attain the learning outcome and contents stated in the cover page. Specifically, upon completion of this Learning Guide, you will be able to: –

- Identifying ways of getting into business
- Managing time
- Managing sales
- Selecting suppliers
- Using technology in small and medium enterprises
- Knowing business costs and their management
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6. If you earned a satisfactory evaluation proceed to “Information Sheet 2”. However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Learning Activity #2.
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Identifying ways of getting into business

1. Buying an existing business

If someone has never owned a business, buying and operating an existing business offers many advantages such as established customers and business procedures, trained employees, inventory and premises which are in place and a business which already has a name in the market. There are many questions which the potential entrepreneur needs to ask about any business which is for sale:

- Why do I want to buy this business?
- Why does the owner want to sell?
- Does the business have a future where it is and the way it is operating?
- Will I be happy operating this business?
- Do I have the skills?

The question of price is a difficult one. Consider what you are getting for the price you are paying.

- Are you getting land and buildings?
- Are you buying the stock, furniture and appliances?
- Are you buying the name of the business and the rights to use that name forever?
- Are you paying for the present owner of the business not to set up another business nearby?

There are several ways of putting a price on a business. By comparing several similar businesses you will get a "feel" for a reasonable price. However, no matter how much you pay, that amount is your investment in the new business.

2. Starting a new business

Most people who want to be entrepreneurs think that the best approach is to start their own new business and not to buy one that already exists. Starting a new business means allocating a great deal of time to planning and investigating the potential market for the products or services to be sold by the new business.

3. Becoming a franchisee

Franchising is a system where a franchiser has developed and implemented a business that he offers for replication to a franchisee. The franchisee opens a business by using the business idea of the franchiser against a fee. In return, the franchisee gets training, the marketing concept, the brand name and the product or service. He also has the guarantee that no other franchisee from the same franchiser will have the right to do business in the same area. All these elements are fixed in a franchising contact that is binding for both parties. Franchising lowers the risk as the product is usually well known in the market. On the other hand it limits entrepreneurial decision-making and shrinks the profit margin as a fee or a percentage of the turnover has to be paid to the franchiser.

Managing time

Time Management Techniques

Time management is similar to having good work habits. Making the best use of time simply means achieving the maximum output in the time available. There are several ways in which this can be done.

Identify specific daily goals. Make sure you understand what you want to accomplish each day. Before arriving, or as soon as you get to work, list your work goals in order of importance. Start working on your most important goal first, setting aside all other work until this has been achieved. Don't let outside influences stop you from accomplishing your goal.

Major goals may require total concentration: try to work on your own until the goal is achieved. Avoid interruptions and distractions. Your office routine should be established so that it can operate without you.

Self-motivation. Entrepreneurs are usually highly motivated individuals who seem to enjoy work regardless of what they do. Most people are able to accomplish goals which are similar to what they want to do.

Establish deadlines. More work can be done if you set specific deadlines to achieve certain tasks. But make sure that the deadlines are realistic.

Use the telephone. The telephone/cell phone is the main communication link between you and your working world. Letters are sometimes necessary, but keep them to a minimum. Problems can be solved more quickly by using the telephone/cell phone. A letter provides only one-way communication while a telephone conversation is two-way communication. **Take notes.** Keep a note pad handy at all times. Writing down key points provides a permanent record of committee meetings, telephone conversations, discussions with staff or business clients, or simply your own thoughts.

Don't do everything. An old saying is: "If you want something done, have a busy person do it." Entrepreneurs are busy, but their actions are purposeful. They concentrate only on important activities..

Work in blocks of time. Try to do major tasks in blocks of time (three or four hours) during the period of the day when you feel most effective. Schedule other activities around these blocks of time. If the block of time goes through lunch, eat a good breakfast and miss lunch.

Ask questions before beginning work. Almost any kind of work can be done more efficiently. Before you start, make sure to answer such questions as: What? Where? When? Who? Why? The answers to these questions will help you to identify more efficient ways of accomplishing the work.

Be action-oriented. Once you have decided to solve a problem, outline your specific course of action and then begin. Once you have begun, try to complete as much as you can. This action orientation should help you to stop worrying about a problem.

Be reflective. Reflective thinking is the act of learning from one's past, present and potential future activities. Most people do not think very much about what they do, and finding time to be reflective is very difficult.

Plan in detail for tomorrow. At the end of each day's work, prepare a time schedule for the following day's activities. You might even be able to begin one activity, thus providing you with a good start to the next day. The end of the day is also a good time to examine ways in which you wasted time or used it inefficiently.

Learn from your experiences. Reviewing your past experiences helps you to determine which were interesting and productive and which were dull, time-consuming and unproductive. **Question your use of time.** To manage time properly, ask the following questions:

- What activities am I doing that I should not be doing or should delegate to others?
- Do I set priorities when I am deciding which activities to do?
- Are my activities scheduled so that they can be accomplished within a reasonable amount of time?
- Am I able to concentrate on one activity at a time? Try to remember good techniques of time management.

Managing sales

Successful selling depends on the entrepreneur's ability to:

- Attract the buyer's attention.
- Determine customers' needs, wants, problems and goals.
- Show how the product or service will satisfy those needs.
- Work out the problems that prevent customers from buying.
- Ask for the customers' business.

The success of a business depends on the art of selling. If entrepreneurs take advantage of the opportunity to serve people, to satisfy their needs and to solve their problems, there will be satisfied customers. Satisfied customers continue doing business with an entrepreneur and recommend the products and services to others. No matter what type of business, the entrepreneur must focus not only on producing the product or service, but on selling the product or service as well. Entrepreneurs are salespersons in the sense that they are always selling their products/services to the public. They must maintain their sales image wherever they go and whatever they do in the community.

Characteristics of Successful Salespersons:

- Results Oriented
- Highly Motivated
- Self-Confident
- Professional Appearance
- Honest
- Dependable
- Knowledge of Products
- Good Listener
- Enthusiastic
- Pleasing Personality
- Communicator
- Sociable
- Courteous

Qualities of Potential Customers:

- To a business, a potential customer is the most important "Very Important Person".

- A potential customer is not dependent on any business.
- Potential customers do not interrupt business activity they are the purpose of business.
- Customers are doing business a favor by allowing it to serve them.
- Potential customers are not statistics: they are human beings who have feelings and emotions like everyone else.
- Businesses never win an argument with a potential customer.
- The job of business is to cater/furnish to the potential customers' wants and needs.
- When selling, you communicate to prospective clients something about yourself and the product or service you are selling. This process can be viewed as a series of steps, and each step involves a higher level of communication.

  Step 1: approach the prospective customer and introduce yourself and your company

  Step 2: specify your reason for approaching the prospective customer

  Step 3: show or describe the product/service you are selling

  Step 4: demonstrate how the product/service will benefit the prospective customer

  Step 5: negotiate terms and conditions of the sale

  Step 6: ask the prospective customer to make a decision regarding the purchase of the product/service.

  Step 7: once customers do start to buy your product or service, develop strategies to help you to keep your customers. One research study has indicated that it costs 10 times as much to attract a new customer than it does to keep an old customer.

- Like effective communication, selling is a two-way process.
- Selling is more of **<u>an art than a skill because</u>**:
  - You have to be good at asking questions and being an active listener to understand customer needs and interests.
  - You have to adapt your message and communication style to the personality and buying motives of the prospective customer.
- Through effective communication, you build a relationship with the customer based on trust and confidence; this forms the foundation for the present sale transaction and for future sales as well.
- Successful selling depends on the entrepreneur's ability to:
- Attract the buyer's attention.
- Determine customers' needs, wants, problems and goals.
- Show how the product or service will satisfy those needs.
- Work out the problems that prevent customers from buying.

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The Product Life Cycle

- The concept of the product life cycle describes the stages (or courses) a new product goes through in the market place. In other terms, product life is the course of product's sales and profits over its lifetime.
- A new product progresses through five distinct stages: introduction, growth, maturity, decline and recycling.
- This sequence is known as the product life cycle and is associated with changes in the marketing situation. This has an impact on the marketing strategy and the marketing mix.

1. **Introduction stage**

- In the introduction stage, the entrepreneur seeks to build product awareness and develops a market for the product. The impact on the marketing mix is as follows:
  - Product branding is established
  - Pricing may be low to build up market share rapidly
  - Distribution (Place) is selective until consumers show acceptance of the product
  - Promotion is aimed at product awareness and to inform potential consumers about the product.

2. Growth stage

- In the growth stage, the firm seeks to build brand preference and increase market share.
  - Product quality is maintained and additional features may be added.
  - Pricing is maintained or increased when the demand is high
  - Distribution is diversified
  - Promotion is aimed at a broader audience
  - Promotion is extended to broader public

3. Maturity stage

- At maturity stage, the strong growth in sales diminishes. There may be competition with similar products. The primary objective is to defend the market share and to maximize profit
- Product features may be enhanced to make the difference with competitors
- Pricing may be decreased due to competitors
- Distribution needs to be extended and incentives offered
- Promotion will emphasize product features

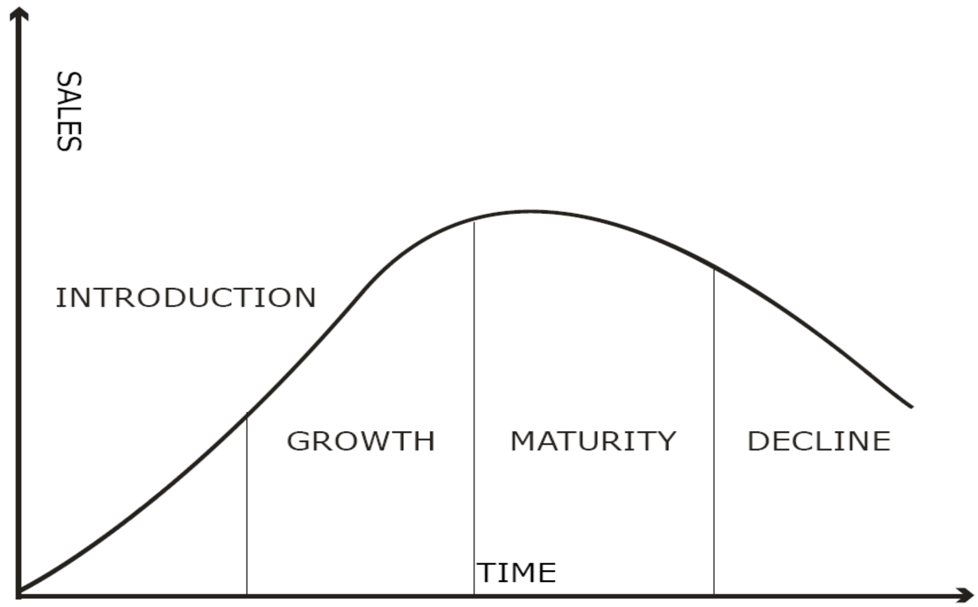
4. Decline stage

- As sales decline the entrepreneur has different options
- Maintain demand for the product by adding new features
- Reduce costs and prices and continue to offer the product
- Stop producing the product.

5. Recycling

- At the end of the lifetime of any product the product or part of it can be recycled.
- At any time in the life cycle once the product reaches the end of its lifetime the product might be collected back by the producer.
- The entire product or part of it can be reused in the production process as recycled raw material
- Recycling can reduce costs and prices and helps to continue to offer the product

Product Life Cycle



Selecting suppliers

Doing Business with Suppliers Entrepreneurs should follow specific procedures when purchasing goods, materials and equipment from suppliers.

Step 1: Determine your business needs. By conducting market surveys you will know who your customers are and what products they want. These customer needs will determine:

- materials and equipment your business will need to produce goods for sale to customers.
- finished goods to buy from suppliers for resale to customers.
- amount of each product to buy as inventory.
- price to pay for quantities of goods purchased from suppliers.
- specific times goods and materials need to be received from suppliers.

Step 2: Identifying potential suppliers. Determine which suppliers sell the goods, materials or equipment you need by:

- Asking people who work with you, your business friends and others. Try to find out where your competitors buy.
- Contacting organizations that support small businesses, for example, the local chamber of commerce may be able to identify honest and reliable suppliers.
- Reviewing newspapers, magazines, trade journals and businesses in the telephone directory for names and addresses of potential suppliers.
- Determining what goods, materials or equipment each supplier has to sell and the prices, discounts, credit and delivery service they provide.
- Determining with the help of other entrepreneurs the reliability of each supplier.

Step 3: Contact a supplier either by visiting the supplier's office personally, telephoning the supplier, or writing a letter to the supplier. Each potential supplier should provide written information to you regarding the kinds of goods, materials or equipment each supplier can provide. Specific questions include:

Does the supplier have what you need in the qualities and quantities you need?

- What is the smallest quantity you can purchase?
- Do you need to pay cash or can you get credit?
- How much credit can you get and how soon do you need to pay it back?
- Can you get discounts if you buy large quantities or pay quickly?

- How much discount can you get?
- Will the supplier deliver to your business?
- How soon after the order is placed will they deliver?
- Do you have to pay for transport or is delivery free?

Step 4:Select the best suppliers. Compare the quotations received from various suppliers to determine what each of the different suppliers can offer. A quotation is awritten response to your enquiry to the supplier. In a quotation, the supplier provides you with detailed information about the goods, materials or equipment, prices, payment, delivery and any other conditions related to your order. The entrepreneur must decide what conditions and priorities are most important in selecting suppliers. Is it credit, reliability, prices, discounts or other considerations?

When a decision has been made regarding the suppliers who best match the needs of the business:

- Try to negotiate with the suppliers to receive even better conditions.
- Choose the best suppliers for your business.

Step 5:Order goods, but make sure your order is in writing. Think carefully about the quantities you need:

- What is the smallest quantity you can order?
- How much is there in each bulk package?
- Can you order less than one bulk package?

Step 6: Check the goods as soon as they are received. The supplier usually sends a delivery note with the goods or materials. The delivery note lists details of the goods. The supplier will want you to sign the delivery note as proof that you have received the goods listed.

Step 7: Check the invoice because the invoice lists what you have bought and when and how the supplier is to be paid. Make sure that the invoice is correct. If you are buying on credit, compare the invoice with the delivery note.

Step 8: Make the payment to the supplier by cash or check. Make sure to get a receipt so there is proof of payment.

Using technology in small and medium enterprises

Technology is constantly changing the demands of consumers. Businesses use new technologies to produce new products and services. Entrepreneurs should realize that new technological developments such as the internet and cell phones increase the exchange of information and may have an effect on the operations of their business. Entrepreneurs may not be aware of the nature and effects of all new technologies, yet, they must try to determine technical developments which are likely to have the greatest impact on their business operations. Small businesses are flexible and can innovate and introduce new products. Conversely, small businesses may not have the expertise, time or capital to develop and market a new product. A small business must be realistic in judging: the demand for a new product, the financial aspects of developing a new market and the time required to introduce the new technology. Through planning and forecasting, it may be possible to predict some technological changes that might affect sales of current products and the potential for developing new products.

Characteristics of Appropriate Technologies

The appropriateness of technology for use in a small business is determined by a number of characteristics. For the following seven characteristics, explain how the purchase of a cell phone will increase the efficiency and effectiveness of an accounting firm that serves 60 local businesses.

1. **SIMPLE:** For technology to be considered appropriate, it must be simple to operate. The user of such technology must be able to apply it without encountering problems.
2. **EFFECTIVENESS**: Effectiveness of technology is judged by how well it fits in with the objectives of the user.
3. **AVAILABILITY:** Some technology may be appropriate for certain purposes but not available locally. Information technology, for example, may be the most appropriate for certain tasks, but it may not be readily available locally.
4. **FLEXIBILITY:** As time changes so do the requirements of technology. Appropriate technology must be flexible enough to adapt to changing times in the future.
5. **DURABLE**: Technology that is durable requires less maintenance and repairs.
6. **EFFICIENT:** Technology should be efficient in its utilization of local resources.
7. **COST EFFECTIVE:** The cost of technology should be justified by the benefits achieved. The overall benefits should be greater than the cost of the technology.

Knowing business costs and their management

Costs of starting an enterprise

- **Costs**
- Costs are resources consumed or used to produce a unit of product or service
- Every business generates costs, even if there is no ongoing production, service or trading activities.
- To understand this, it is essential to know that there are direct costs and indirect costs.
- **Direct and Indirect Costs**

A. Direct costs:

- are those that only arise when an enterprise is manufacturing goods or producing a service or buying goods to resell. These costs depend directly on the number of products, services or goods produced.
- are composed of two cost sub-groups:
- **Direct material costs:**
- Expenditures for all items that become part of a product, or are used to produce a service, or are bought for resale, enter into the category of direct material costs.
- Costs linked to the acquisition of raw materials, such as transport, are included in the direct costs

Direct labor costs:

- All wages for workers and helpers that are directly involved in the production or the delivery of services.
- This also includes costs for social security.
- Staff wages for the retailer and wholesaler are not considered as direct costs because one person generally sells many different items.

B. Indirect costs:

- are all other costs generated from business activities that are not direct costs.
- are costs that cannot directly be attributed to a specific product or service. for example rent for the office premises, salary for the bookkeeper, interest on the bank loan, telephone costs, fire and car insurance, etc…
- are also called overhead costs.
- In wholesale or retail business, all staff costs are indirect costs.

Total cost of a product or service:

Sum of Direct Material Costs

+ Sum of Direct Labor Costs

+ Proportion of Indirect Costs

= Total cost per product or service

- Classification of Costs by Categories

- Entrepreneurs also have to know the total amount of costs their business generates during a month and during a year.
- This information is of importance because it shows the cost structure of the enterprise, and also gives an indication of when particular costs are unnecessarily high.
- With this information an entrepreneur can try to reduce costs and become more competitive.
- A business starter has to forecast the total costs of his/her business for at least one year in order to find out whether the planned sales cover the costs or not.

- **Classification of Costs by Categories (Cont'd)**

- All costs that the business' activity creates for the community are called externality costs.
- All costs that occur in a business can be put into the following categories:
- Staff costs
- Material costs
- Other costs
- Capital costs

1. Staff Costs

- An entrepreneur who employs staff becomes an employer and he/she will have legal and social responsibility for his/her employees.
- This responsibility means that he/she has to fulfill a number of requirements that are imposed by laws and regulations, or by collective bargaining agreements such as:
- Minimum wages
- Legal duration of working hours
- Overtime payment
- Annual leave
- Sick leave
- Social security
- Workplace accommodations for employees with disabilities
- This enumeration shows that staff costs are not only salaries or wages.
- The additional costs that come on top of the salaries are often calculated as a percentage of the salary.

2. Material costs

- All materials that are used for the manufacturing of a product, or to provide a service, fall under the category "materials".
- Materials that are not used for a product, but are necessary for the functioning of the business, such as office supplies or detergents for office cleaning, are also counted as material costs.
- In production, a distinction is made among different kinds of materials:
- **Raw materials**, e.g. plywood, metal bars, metal sheets, leather, wool, woven fabrics, plastics, fluor, butter, etc.
- **Standard materials**, e.g. nails, screws, bolts, nuts, fittings, electrical appliances, spare parts, buttons, zippers, etc.
- **Auxiliary materials**, e.g. glue, paint, welding electrodes, welding gas, saw blades, grinding paper, yarn, threads, etc.
- In wholesale and retail business the costs for acquiring finished goods for reselling are classed as material costs.

3. Other costs

- All expenditures for items and services that do not fall under the above-mentioned categories are put into the category "other costs".
- These costs are mainly for electricity, water, telephone, internet, insurance, rent, publicity, administrative fees, etc.

4. Capital costs

- A businessperson, who contracts a loan, has to pay interest for the duration of the loan.
- Interest is also due for an overdraft on the entrepreneur's current account.
- These payments are called capital costs.
- There is a very particular kind of capital cost that is called depreciation.

Depreciation is the loss of value of machines, equipment or cars that are operating in an enterprise

- This loss of value is a process that can last several years.
- The duration of this process depends on the type of machine.
- At the end of this process the machine, truck or vehicle needs to be replaced.
- The annual loss is considered as capital cost that allows the money that was paid for the new machine to be recuperated in order to replace it.
- How is depreciation calculated?
- Quite simply, the price of the newly bought machine, car or whatever it may be is divided by the expected lifespan of the machine.

- For example, a new delivery pick-up is purchased for 12,000 Birr and its calculated lifespan is five years.
- Its annual depreciation = 12,000 Birr / 5 = 2,400 Birr/year.

Financial record keeping and preparing financial statement

BASIC FINANCIAL STATEMENTS

- A written report which quantitatively describes the financial health of a company.
- help to determine the financial performance/ financial health of a particular business.
- quantify the financial strength, performance and liquidity of a company.
- Help to compare current performance with performance in previous years.
- reflect the financial effects of business transactions
- How well did the business do in terms of total sales?
- What were its expenses?

The Balance Sheet (Position Statement)

- The balance sheet is a financial statement which indicates what you own and what you owe on any given day in the life of a business.
- It can be calculated at any time and is designed to give a "snapshot" of the financial condition of the business.
- The financial figures on the balance sheet change from day to day because money is always coming in and going out of the business.

Basic Balance Sheet Equation:

Elements of the Balance Sheet

- **Assets:**
- Probable future economic benefits obtained or controlled by a company as a result of past transactions or events.
- Can be everything a business owns, such as cash, equipment, machineries, buildings and inventory.
- are divided into two:
- ✓ Tangible assets **(current and fixed assets)**
- ✓ Intangible assets

Elements of the Balance Sheet

1. Current assets:

- Those that will be realized in (converted into) cash, sold or consumed in the current operating cycle or one year, whichever is longer.

- Include cash and cash equivalents (bank accounts, accounts receivable (money owed to a business entity by its customers for products and services provided on credit), inventory, prepaid expenses, etc…
- Total current assets are an important item since it indicates how much money the company has to run its business.

Cash and Cash Equivalents

- Cash is all the cash the business entity has, be it in bank accounts or in the cash box.
- Cash Equivalents are short term investments that can be converted to cash with no or very little delay. Examples of cash equivalents are: Money Market Investments like treasury bills

Accounts Receivable

- Most businesses do not immediately receive payment for (some or all) of the goods or services they sell.
- Assuming that payment will indeed be made in the near future, a receivable account is an asset.

2. Fixed assets:

- Are things that cannot be changed into cash easily within current operating cycle or one year.
- are items that the business acquired for long-term use and meet the following criteria:
- Economic life > 1 year;
- Acquired for use in operation;
- Not for resale to customers;
- Depreciation will be applied except for land

Fixed assets include land, buildings, machinery, equipment, vehicles, securities (i.e., bonds, long-term notes), special funds (i.e., pension fund), etc….

- **Plant and Equipment**

In order to run a business one usually will need to buy some equipment (even when one is in the service business) like e.g. machines and computers. The total cost price of the bought equipment is listed in this item (note, the fact that equipment becomes worthless is accounted for in the next item).

- **Accumulated Depreciation**

Naturally, when one uses equipment it will get old and thus become worthless. It is therefore necessary to subtract a certain amount from the original equipment value every year. Since one would like to keep the original value listed above, one needs to 'accumulate'

I.e. sum up all the previous year's depreciations.

Why is there no depreciation for land?

- It is assumed to have an unlimited useful life and can be used for a range of purposes.
- It is not considered to ever be able to be destroyed, so it can't lose value and go down to zero value like other assets. All assets wear out and eventually cease to exist, except land.
- It retains or increases in value over the long term, that is, land will go up in value over because the demand is always increasing.

3. Intangible assets:

- They lack physical existence but derive their value from the rights (claim) and privileges granted to the company using them (i.e., goodwill, patents, franchises, computer software, trademarks,…).
- They are not financial instruments. Assets such as bank deposits, accounts receivable and long-term investments in bonds and stocks lack physical substance, but are not classified as intangible assets. These assets are financial instruments and derive their value from the right (claim) to receive cash or cash equivalents in the future.
- In most cases, intangible assets provide services over a period of years. As a result, they are normally classified as long-term assets.
- The most common types of intangibles are patents, copyrights, franchises or licenses, computer software, trademarks or trade names, and goodwill.

Valuation of Intangible Assets

- **Internally created intangibles**: Cost associated with the creation of intangibles, legal fees and filing costs are carried as an asset on the balance sheet of the business entity.
- **Purchased intangibles:** Cost includes all costs of acquisition and expenditures necessary to make the intangible asset ready for its intended use (example- purchase price, legal fees, and other incidental expenses) is recorded as an intangible asset on the balance sheet of the purchasing business entity.

Note: While total assets in a sense represent the current value of the business, they do not necessarily represent the resale value or the liquidation value of the business.

- **Liabilities:**

- are anything that the business owes and eventually needs to pay.
- legal obligations required future payments of assets or services as a result of a business entity's past transactions or events.
- are probable future sacrifices of economic benefits arising from present obligations...
- they are two types:

1. **Current liabilities**
2. **Long-term liabilities**

- **Current liabilities:**
- Those that will be paid/discharged by use of current assets or creation of additional current liabilities in the current operating cycle.
- Include account payable, notes payable, tax payable, outstanding rent, goods bought on credit.
- The total current liabilities are an important indicator of how much money a company will need in the near future.
- If the total current liabilities are much bigger than the total current assets great caution is warranted.
- **Long-term liabilities:**
- Are those liabilities which will not be paid during the current accounting year?
- Are those obligations of a company whose liquidation is not expected to require the use of current assets or not expected to create current liabilities within one year or the normal operating cycle (whichever is longer).
- include bonds payable, pension liability,
- ✓ Note: If the Total Liabilities exceed the Total Assets, the company is almost certainly in some sort of danger. But there are exceptions to this! (Especially companies in new hot industries like e.g. dotcoms or genetics).
- **Net Worth:**
- residual claims (assets-liabilities) to the business entity from business
- This is what is actually owned by the business.
- Represents the initial investment (contributed capital) and retained earnings.
- **Contributed Capital** is the money that the owners invested in the company.
- **Retained earnings** are the total amount of corporate net income that has not been distributed to stockholders as dividends.

➢ **Balance sheet has two formats:**

- **Account Form:** the traditional arrangement of assets on the left-hand side of the balance sheet, with the liabilities and owner's equity on the right-hand side
- **Report Form:** the entire statement is presented on a single page, it is customary to present the three sections in a downward sequence, with the total of the assets section equaling the combined totals of the other two sections.
- **Income/profit and Loss Statement**
- Revenues less Expenses = Net Income
- Also called the Statement of Earnings

- It helps to determine whether a business is operating at a profit or a loss for a given time period of one month to one year.
- It is calculated for a specific time period, such as a month, three months, six months or a year.
- The more frequently you calculate your profits and losses, the sooner you will know the financial position of the business.

Comparative financial statements enable users to analyze performance over multiple periods and identify significant trends.

- Income reported on income statement is based on **Accrual Accounting**, all revenues earned in the year & all expenses incurred in that year (**NOT** on the cash generated or cash paid during accounting period)
- Income Statement may be presented in the multi-step or single step form.
- **Single-step**
- All operating revenues and gains are reported first, followed by all operating expenses and other losses.
- No separate section is prepared for COGS and gross profit.
- **Multiple-step**
- Divided into separate sections, various subtotals are reported.
- It has more detail and is more useful
- Involves separate sections for gross profit, operating income, other income/losses, income before income taxes, and net income.

➢ **Multi-step form or Multi-step Income Statement**

- **Revenue from Sales:** the total of all charges to customers for merchandise sold, both for cash and on account.
- the major source of revenue for most enterprises

Net Sales: A firm's Net Sales are usually reported as sales less sales returns and allowances and sales discounts.

- **Net Sales**
- **Less: Cost of Goods Sold (COGS):** COGS is the price paid by the business for merchandise sold; it can be computed by adding the value of the goods purchased during the period to the initial stock and then subtracting the value of the stock on hand at the end of the period.

- If purchased, then price plus freight-in.
- If manufactured, then DM, DL, Manufacturing Overhead.
- The relationship between COGS and sales is an important one.

- **= Gross Profit/gross profit on sales/gross margin**
  - The excess of the net sales over the COGS.
  - Calculated by subtracting the cost of goods sold from sales.
  - It is called **gross** because operating expenses must be deducted from it.
  - Key analytical tool in analyzing firm's

operating performance.

  - Gross profit percentage equals

Gross profit/Sales

Gross Profit = Net Sales - COGS

- **Less: Operating Expenses**: Operating expenses of a business may be grouped into two categories: selling and administrative
  - **Selling Expenses:** expenses that are incurred directly and entirely in connection with the sale of merchandise.

    Example: Advertising expenses, Salesmen' salaries, store supplies used, etc..
  - **General and Administrative Expenses:** expenses incurred in the administration or general operations of the business.

Office and officer salaries	Payroll taxes
Depreciation expense	Repairs &maintain.
Insurance expense	Rent expense
Lease expense	Bad debt expense
Research and Development Supplies	

  - Expenses that are partly connected with selling and partly connected with the administrative operations of the business may divided between the two categories.
  - In MSEs such expenses as rent, insurance, and taxes are commonly reported as administrative expenses.
- **= Operating Income (or Operating Profit or Income from Operations)**
  - The excess of gross profit over total operating expenses.
  - Measures overall efficiency of management and the degree of profitability of an enterprise.
  - If operating expenses are greater than the gross profit, the excess is **loss from operations**.

Operation Income = Gross Profit – Operating Expenses

- **Operating Income**
- **+/- Other Income/Expense**

- **Other income:** Revenue from sources other than the principal activity of a business is classified as other income or non-operating income.
- **Example:** In small business this category includes income from interest, rent, dividends, and gains resulting from the sale of plant assets.
- **Other expenses:** expenses that cannot be associated definitely with operations are identified as other expenses, or non-operating expense
- **Example:** interest expense that results from financing activities and losses incurred in the disposal of plant assets

- **+ Other Income**

  Interest income

  Gain from sale of equipment

  Gain from sale of investments

- **- Other Expense**

  Interest expense

  Loss from sale of equipment

  Loss from sale of investments

  Loss from write-down of inventory

- If the total of other income exceeds the total of other expenses, the difference is added to income from operations.
- If the reverse is true, the difference is subtracted from operations.

EBIT = Operating Income + Other Income – Other Expenses

- = **Earnings Before Income Taxes (EBIT)**
- **Less:** Income Taxes
- = **Net Earnings or Net Income**

- The final figure on the income statement is labeled net income (or net loss).
- It is the net increase (or net decrease) in owner's equity as a result of profit making activities.

Net Income = EBIT – Income Taxes

ABC Company	
Income Statement	
For the Year Ended Dec 31,2013	
Net Sales (or revenue)	$XXX
Cost of goods sold	XXX
Gross profit	XXX
Operating expenses	XXX
Operating income	XXX
Other income	XXX
Other expenses	XXX
Income before income tax	XXX
Income tax	XXX
Net income	XXX

Cash Flow Statement

Basic Concepts

- Reports the entity's cash flows (cash receipts and cash payments) during the period.
- Money is either coming into the business as a debit (+) in the cash book or is going out of the business as a credit (-). The current balance represents how much money the business has on hand.
- Cash that flows into a business is in most cases cash from sales of products, goods or services.

There are also other inflows of cash that could come from bank credits or overdrafts, or selling of old equipment, and so on.

- Cash that flows out of the business is mainly payment of salaries, operational costs, capital costs and so on.
- Cash flow plan is an instrument that allows the entrepreneur to estimate how much cash is expected to enter the business and how much has to be paid out every period of time.
- Cash flow plan helps a businessperson to avoid her/his business running out of cash.

What is Cash?

- Cash on hand
- Cash in the bank
- Cash equivalents - highly liquid, short-term investments that can be converted into cash with little delay

- Money-market investments
- Ethiopian Government Treasury bills

Purposes of the Statement of Cash Flows

1. Predict future cash flows based on the cash that flows into the business and the cash that flows out of the business.
2. Shows where cash came from and how it was spent
3. Evaluate management decisions
4. Reports why cash increased or decreased during the period
5. Determine the ability to pay dividends to stockholders' and payments to creditors
6. Communicating link between the Income Statement and cash reported on the Balance Sheet

Basic Form of Cash Flow Statement

- Cash Flow From Operating Activities
- Cash Flow from investing activities
- Cash Flow from financing activities

Total (positive or negative) cash flow is added to beginning cash balance and should result in ending cash balance

Flow from Operating Activities

- The cash flow from operating activities section includes cash transactions that enter into the determination of net income.
- **Includes:**
- Current assets
- except marketable securities and short term notes receivable which are investing
- Current Liabilities
- except short term notes payable which are financing
- Revenue and Expenses (includes interest expense and revenue, and dividends received)
- The cash flows from investing activities section reports the cash transactions for the acquisition and sale of relatively long term or permanent type assets.
- **Includes:**
- Long-term investments; example acquisition of land.
- Short-term and long term notes receivable
- Property, Plant and Equipment (depreciation affects operating activities)
- Intangible Assets

- The cash flows from financing activities section reports the cash transactions related to cash investments by the owner, and borrowings and cash withdrawals of the owner.
- **Includes:**

- Short-term and long-term loans
- Sale of capital stock and paid in capital in excess of par
- Retained earnings (net income aspect is operating)
- Dividends paid (cash withdrawal by owner)

Increasing or Decreasing Flow of cash

- **Increasing cash inflow through:**

- increasing sales
- giving less customer credit
- using a bank overdraft
- selling an investment item
- asking a friend for money

- **Decreasing cash outflow though:**

- reducing operational costs
- identifying a cheaper supplier
- negotiating supplier credit
- negotiating an extension of the loan period
- making a planned investment later

Cash Flow Statement format

Items	Starting	Operating Months												
		1	2	3	4	5	6	7	8	9	10	11	12	
Cash Receipts														
Beginning Cash Balance														
Saving														
loan														
Cash sales														
Total cash receipts														
Cash Payments														
Pre operation expenses														
Machines														
Equipment’s														
Operating expenses														
Tax expenses														
Total cash payments														
End Cash Balance														

Self-Check LO 4	Written Test

Instructions: Answer all the questions listed below. Illustrations may be necessary to aid some explanations/answers. Write your answers in the sheet provided in the next page.

1. Explain time management techniques?
2. What is net worth?
3. Write the characteristics of successful sale persons?
4. What is the difference between direct and indirect cost?
5. How to calculate depreciation cost?
6. What do you mean intangible asset?
7. What is the difference between current asset and fixed asset?
8. How to use appropriate technology in medium and small enterprise?
9. Explain current liability and long term liability?
10. How to select a good suppliers?

Note: Satisfactory rating -10 points Unsatisfactory - below 9points

You can ask you teacher for the copy of the correct answers.

Score = ___________

Rating: ____________

This learning guide is developed to provide you the necessary information regarding the following learning outcome and contents coverage

LO5 Develop one's own business plan

5.1 Meaning and concepts of business plan
5.2 The reason for preparing a business plan
5.3 Process of preparing/ writing a business plan
5.4 Standard structure and format of a business plan

5.5 Interpreting, assessing and analyzing findings of the business plan /optional This guide will also assist you to attain the learning outcome and contents stated in the cover page. Specifically, upon completion of this Learning Guide, you will be able to: –

Meaning and concepts of business plan
The reason for preparing a business plan
Process of preparing/ writing a business plan
Standard structure and format of a business plan
Interpreting, assessing and analyzing findings of the business plan /optional

Learning Instructions:

1 Read the specific objectives of this Learning Guide.

2 Follow the instructions described in number 3 to 7

3 Read the information written in the "Information Sheets 1". Try to understand what are being discussed. Ask you teacher for assistance if you have hard time understanding them.

4 Accomplish the "Self-check 1" in page _13_.

5 Ask from your teacher the key to correction (key answers) or you can request your teacher to correct your work. (You are to get the key answer only after you finished answering the Self-check 1).

6 If you earned a satisfactory evaluation proceed to "Information Sheet 2". However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Learning Activity #2.

7 Submit your accomplished Self-check. This will form part of your training portfolio.

Information Sheet-1	Meaning and concepts of business plan

.1 Meaning and concepts of business plan

A document which spells out the goals and objective of a business and clearly outlines how and when they will be achieved.

A structured guideline to achieve a business goal.

A road map to owning and operating a business.

A proposal that describes a business opportunity for financing agencies or investors.

A detailed action programmed outlining every conceivable aspect of the proposed business venture.

5.2 The reason for preparing a business plan

- A business plan is written to assist in:
- Keeping you focused on your goals and strategies
- Obtaining financing from outside sources
- Guiding the opening of a business
- Guiding the managing of a business
- Communicating clearly with interested parties
- Showing your business has chances of success
- Showing you have the ability to manage the business
- Showing there is a good market for your product or service
- Comparing how the actual business performance differs from the forecasted performance
- When thinking of going into business
- Before starting the business
- When updating the business is required
- When new information is obtained
- When new experiences are gained

5.3 Process of preparing/ writing a business plan

❖ **How to Write a Business Plan**

✓ The preparation of a written business plan is not the end-result of the planning process. The **realization** of that plan is the ultimate goal. However, the writing of the plan is an important intermediate stage - fail to plan can mean plan to fail. For an established business it demonstrates that careful consideration has been given to the business's development, and for a startup it shows that the entrepreneur has done his or her homework

❖ **Purpose of the Business Plan**

✓ A formal business plan is just as important for an established business, irrespective of its size, as it is for a startup. It serves four critical functions as follows:

❖ Helps management or an entrepreneur to clarify, focus and research their business's or project's development and prospects.

❖ Provides a considered and logical framework within which a business can develop and pursue business strategies over the next three to five years.

❖ Serves as a basis for discussion with third parties such as shareholders, agencies, banks, investors etc.

❖ Offers a benchmark against which actual performance can be measured and reviewed.

❖ Just as no two businesses are alike, so also with business plans. As some issues in a plan will be more relevant to some businesses than to others, it is important to tailor a plan's contents to suit individual circumstances. Nonetheless, most plans follow a well-tried and tested structure and general advice on preparing a plan is universally applicable.

❖ A business plan should be a realistic view of the expectations and long-term objectives for an established business or new venture. It provides the framework within which it must operate and, ultimately, succeed or fail. For management or entrepreneurs seeking external support, the plan is the most important sales document that they are ever likely to produce as it could be the key to raising finance etc. Preparation of a comprehensive plan will not guarantee success in raising funds or mobilizing support, but lack of a sound plan will, almost certainly, ensure failure.

❖ Importance of the Business Planning Process

- ✓ Preparing a satisfactory business plan is a painful but essential exercise. The planning process forces managers or entrepreneurs to understand more clearly what they want to achieve, and how and when they can do it.
- ✓ Even if no external support is needed, a business plan can play a vital role in helping to avoid mistakes or recognize hidden opportunities. It is much easier to fold a sheet of paper than a business.
- ✓ For many, many entrepreneurs and planners, the process of planning (thinking, discussing, researching and analyzing) is just as, or even more, useful than the final plan. So, even if you don't need a formal plan, think carefully about going through the planning process. It could be enormously beneficial to your business.
- ✓ Anticipate many weeks of hard work and several drafts of the emerging plan to get the job right.
- ✓ A clearly written and attractively packaged business plan will make it easier to interest possible supporters, investors etc.
- ✓ A well-prepared business plan will demonstrate that the managers or entrepreneurs know the business and that they have thought through its development in terms of products, management, finances, and most importantly, markets and competition.

❖ Start with a Business Strategy

- ✓ A short strategic plan (2-3 pages) can provide a very useful foundation on which to base a much more detailed and comprehensive business plan.
- ✓ If you don't have a sensible strategic plan, how can you realistically write a sensible business plan? Use a short strategic plan as the foundation for a more comprehensive business plan.
- ✓ As the prelude to developing a strategic plan, it is desirable to clearly identify the current status, objectives and strategies of an existing business or the latest thinking in respect of a new venture.
- ✓ Correctly defined, these can be used as the basis for a critical examination to probe existing or perceived **strengths**, **weaknesses**, **threats** and **opportunities**.
- ✓ This then leads to strategy development covering the following issues which are discussed in more detail immediately below:

A. Vision

- ✓ The first step is to develop a realistic **Vision** for the business. This should be presented as a pen picture of the business in three or more year's time in terms of its likely physical appearance, size, activities etc.
- ✓ Answer the question: "if someone from Mars visited the business, what would they see or sense?"

B. Mission

- ✓ The nature of a business is often expressed in terms of its **Mission** which indicates the purposes of the business, for example, "to design, develop, manufacture and market specific product lines for sale on the basis of certain features to meet the identified needs of specified customer groups via certain distribution channels in particular geographic areas".
- ✓ A statement along these lines indicates what the business is about and is infinitely clearer than saying, for instance, "we're in electronics" or worse still, "we are in business to make money" (assuming that the business is not a mint !). Also, some people confuse mission statements with value statements (see below) - the former should be very hard-nosed while the latter can deal with 'softer' issues surrounding the business.

C. Objectives

- ✓ The third key element is to explicitly state the business's **Objectives** in terms of the results it needs/wants to achieve in the medium/long term.
- ✓ Aside from presumably indicating a necessity to achieve regular profits (expressed as return on shareholders' funds), objectives should relate to the expectations and requirements of all the major stakeholders, including employees, and should reflect the underlying reasons for running the business.

B. Values

- ✓ The next element is to address the **Values** governing the operation of the business and its conduct or relationships with society, customers, employees etc.

C. Strategies

- ✓ Next are the **Strategies** - the rules and guidelines by which the mission, objectives etc. may be achieved.

- ✓ They can cover the business as a whole including such matters as diversification, organic growth, or acquisition plans, or they can relate to primary matters in key functional areas, for example:

- ○ The company's internal cash flow will fund all future growth.
- ○ New products will progressively replace existing ones over the next 3 years.
- ○ All assembly work will be contracted out to lower the company's break-even point.

D. Goals

- ✓ Next are **Goals**. These are specific interim or ultimate time-based measurements to be achieved by implementing strategies in pursuit of the company's objectives, for example, to achieve sales of $3m in three years time.

E. Programs

- ✓ The final elements are the **Programs** which set out the implementation plans for the key strategies.
- ✓ It goes without saying that the mission, objectives, values, strategies and goals must be inter-linked and consistent with each other. This is much easier said than done because many businesses which are set up with the clear objective of making their owners wealthy often lack strategies, realistic goals or concise missions.
- ✓ For more information on strategic planning, refer to other papers in this series entitled Developing a Strategic Business Plan (and its accompanying worksheet) and Devising Business Strategies, and consider utilizing the *free* Online. See also a sample strategic plan - you may wish to print it for reference purposes.

❖ **Planning the Business Plan**

A. Develop an Outline Business Plan

- ✓ Start by defining an outline (i.e. a table of contents) of your plan. This will allow you to concentrate on the essentials of planning the business rather than becoming too absorbed in the detailed drafting of your plan. It will allow you to see the wood from the trees.
- ✓ Having devised the basic outline for your business plan, the next task is to expand this to include subheadings and appendix titles (see the Business Plan Guide for detailed suggestions). This extended structure should be critically reviewed to ensure that all the salient elements of the plan

are included and that it has a logical flow. This approach should also ensure that the plan has appropriate levels of detail and is correctly targeted at its audience - investors, directors/shareholders, financial institutions etc. For example, a structure which is mainly devoted to detailed technical descriptions of products would be completely unsuited to a plan being used to raise bank finance.

B. Prepare a Business Planning Work Program

- ✓ Once the plan's structure has been defined, it can be used as a checklist and basis for a work program and timetable to complete the plan. This work program will often entail extensive research and thought prior to the commencement of writing.
- ✓ For example, formal market research may be needed before sales volumes and prices can be determined. Another example: professional advice may be required to assess capital expenditures in relation to the acquisition of premises and so on.

❖ Outline the Business Plan

- ✓ The next section presents an outline structure for a business plan. Feel free to change this outline to suit your project and its state of development.
- ✓ It can be readily expanded to become a 'full-blown' business plan by extending the level of detail as explained in the Business Plan Guide.
- ✓ **Note: A free 150-page** Business Plan Guide **and** Template **(Word format) incorporating a** similar outline structure and additional detail is available for downloading here.
- ✓ The suggested page lengths for a comprehensive plan are given in parenthesis after each section's heading within the outline.
- ✓ A small, straightforward business should work within the minimum page lengths whereas a large, complex business seeking a substantial external investment might hit the ***maximum*** page lengths. Note the importance of marketing and sales in terms of the suggested number of pages for these sections. For more guidance on the length of business plans, have a look at insights into Business Planning.
- ✓ Avoid going into too much detail within the plan's body by placing detailed or supplementary material in accompanying appendices. Bear in mind that most investors, bankers etc. dislike having to read overlong business plans just as much as entrepreneurs and managers dislike writing the plans in the first instance!

- ✓ Work on the assumption that whoever reads your plan will be completely unfamiliar with your business or project and will be seeking answers to relatively basic questions and key issues, for example, what will the business do, will it make money etc.

5.4 Standard structure and format of a business plan

Executive Summary

Name of business ____

Legal form____

Contact address____

Tel. ______________________E-mail_________________________

Fax.______________________

Type of business

☐ **Manufacturer** ☐ **Service provider**

☐ **Retailer** ☐ **Wholesaler**

Brief description of the business idea

Products or services____

____

____

Customers / target group ____

____

Owner(s)

(Name, Address, Qualification, Function in the business, relevant experience)

1.____

2.____

3.____

4.____

Business Idea and Market

Description of the business idea

(e.g. identified needs (market gap), who are the customers, type of products or services to satisfy the needs, how to reach the customers, etc.)

Description of the market

(e.g. geographical area, town, type of customers, size of total market,

description of competitors, market share for the new business, etc.)

Marketing Plan Product

Detailed description of the product or product range or service

Product/service type

____

____

____

What is special about the product/ the unique characteristics of the product?

____

____

____

____

Specification of the product (e.g. size, color, quality, Packaging etc)

____

____

____

____

After sales service

____

____

____

____

Marketing Plan Price

How much are customers willing to pay?

- Highest _____
- Average ____
- Lowest _____

How much are competitors' price?

- Highest _____
- Average ____
- Lowest _____

How much is your price?

- Highest _____
- Average ____
- Lowest _____

What are the reasons for setting your price?

Product/service	Type(1)	Type(2)
		Highest ; Average; Lowest
	Highest ; Average; Lowest	Highest ; Average; Lowest
	Highest ; Average; Lowest	Highest ; Average; Lowest
Margin for discount?	No Yes(_____ %)	No Yes(____%)

Marketing Plan Place

Location of the business

Description of the planned location for the business

Reason for choosing this location

Reaching the customers by selling to

☐ Individuals ☐ Retailers ☐ Wholesalers ☐ Others

Reason for choosing this way of distribution

Marketing Plan Promotion

Description of the planned actions to inform customers about the opening of the new business (e.g. printed information, brochures, posters, newspaper articles, radio advertisements, opening ceremony, etc. Also make inquiries about the costs for the different types of promotion)

Legal Form

The legal form of the business will be:-

□ Sole proprietorship □ partnership □ limited company □ Corporation

Reason for choosing this legal form

Start-Up Capital

Estimation of start-up capital		Amount
INVESTMENT		
Land		
Building		
Equipment		
Total Investment		
WORKING CAPITAL		
____ months of staff costs		
____ months of operational costs		
Total working capital		
TOTAL START-UP CAPITAL		

Sources of Start-Up Capital

Sources of funding

Type	Source	Conditions (duration/interest)	Amount
Equity capital	☐ Own savings ☐ Partner		
Loan 1	☐ Family ☐ Friends ☐ Money lender		
Loan 2	☐ Credit cooperative ☐ Government scheme ☐ Bank loan		
TOTAL FUNDING			

Information about funding sources

Loan 1

Name and address of creditor or credit institution

Credit agreement ☐ under discussion ☐ finalized

☐ Money available on (date) ________

Loan 2

Name and address of creditor or credit institution

Credit agreement ☐ under discussion ☐ finalized

☐ Money available on (date) ________

Debt Service

Repayment period	1 Amount	2 Amount	3 Amount	4 Amount	5 Amount	6 Amount
Loan 1						
Installment/principal						
Interest						
Loan 2						
Installment/ principal						
Interest						
Debt service Sum of Installments						

Organization and Staff

Staff costs

Position	Qualifications	Salary Per month	Social security	Total staff cost
1. ___	___	___	___	___
2. ___	___	___	___	___
3. ___	___	___	___	___
4. ___	___	___	___	___
5. ___	___	___	___	___

Sketch of planned shop, office or workshop)

Monthly Sales Plan

All products, product range or services

Month											0	1	2
Product 1	**Price**												
	Quantity												
	Turnover												
Product 2	**Price**												
	Quantity												
	Turnover												
All products	**Turnover**												

Monthly Operational Cost Plan

Planning is based on the monthly sales plan

Month											0	1	2
Product 1	Quantity												
Materials	All costs												
Product 2	Quantity												
Materials	All costs												
Materials	Total costs												
+ Staff	Total costs												
+ Others	Total costs												
Operation	**Total costs**												
+ Capital cost	Interest												
	Depreciation												
	Grand Total costs												

Cash Flow Plan

Monthly Cash Flow Plan

Month	**Pre operation**										0	1	2
Cash beginning of the month													
+ Equity													
+ Loans													
+ Sales													
+ Any other													
I: Total cash in													
+ Investment													
+ Operational cost													
+ Interest													
+ Any other													
II: Total cash out													
I – II Cash at the end of the month													

Profit Margin

Monthly Estimation of Net Profit

Month											0	1	2
Product 1	Quantity												
	Turnover												
Product 2	Quantity												
	Turnover												
I. Total Sales													

- Operation	Total costs												
II. Total Costs													
I – II Profit (before tax)													
- Income tax	_____%												
Net profit (after tax)													

Opening Balance

Opening Balance of My Business (Date)

Assets	Value	Liabilities	Value
Fixed Assets		**Equity**	
Land		**Long-Term Liabilities**	
Building		Mortgage	
Equipment		Loans	
Others		Others	
Total Fixed Assets		**Total Long-Term Liabilities**	
Current Assets		**Current Liabilities**	
		Accounts payable	
Cash and bank		Taxes payable	
Accounts receivable		Others payable	
Inventory		**Total Current Liabilities**	
Total Current			
Total Assets		**Total Liabilities and Net Worth**	

5.5 Interpreting, assessing and analyzing findings of the business plan /optional/

How can the consumer acceptance of a product or service be analysed?

Consumers buy products or services for their own use, but do not buy products for the purpose of making a profit from them. Consumers buy to satisfy their own or their family's wants and needs. When they buy any product or service, they do so because of what they expect the product or service to do for them. People are motivated to buy for two basic reasons:

- Emotional reasons: pride in personal appearance, social achievement, ambition, cleanliness, pleasure, increased leisure time.
- Rational needs: durability, economy in use, economy in purchase, handiness, efficiency in operation, dependability in use. Psychologists have determined that consumer buying behavior is primarily directed toward satisfying certain basic needs. These very basic needs include food, shelter and clothing. An individual attempting to fulfill the most basic needs is led by rational motives. Persons with few resources need the best products and services for their money in terms of quantity, quality and dependability. Many consumers won't admit they purchase goods and services to satisfy emotional needs. However, most psychologists believe that pride in personal appearance is an emotional buying motive. Certain motives generally seem to be more rational than others. Because people think of themselves as rational individuals, they tend to express their reasons for buying in very logical ways. To market a product or service successfully, entrepreneurs need to be aware of what motivates consumers to buy a specific product/service.

Self-Check 5	Written Test

Instructions*:* Answer all the questions listed below. Illustrations may be necessary to aid some explanations/answers. Write your answers in the sheet provided in the next page.

1. When is a Business Plan Written?
2. How to prepare business plan?
3. What are the advantages of business plan?
4. What Is a Business Plan?
5. How Is a Business Plan Written?

Note: Satisfactory rating - 25 points **Unsatisfactory - below 25 points**

You can ask you teacher for the copy of the correct answers.

Score = ___________

Rating: ____________